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**Virtuous Cycles or Vicious Circles?
The Need for an EU agenda on
Protection, Social Distribution
and Investment**

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GROWING INEQUALITIES' IMPACTS

Virtuous Cycles or Vicious Circles? The Need for an EU agenda on Protection, Social Distribution and Investment

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1 Introduction

In the decade leading to the present crisis – despite years of growing employment and increasing average incomes – Europe did not succeed in making any substantial progress in combating relative income poverty, particularly among the working age population. Certainly, Europeans became richer and material deprivation declined. Similarly, the number of Europeans living with an income below the EU-wide poverty line decreased. However, if we take the perspective of relative income poverty defined at the national level the proportion of individuals living with an income lower than 60 per cent of the median income in their country remained invariably at the level of approximately 16 per cent of European population. Of course, underneath the surface of a apparent stasis there were divergent national trends. Increases of at-risk-of-poverty were noticeable in the Nordic countries. There were clear and consistent decreases in many of the new Member States, while other countries displayed no significant change. On average, however, on the national escalators of income growth and employment rise the discrepancy between the rich and the poor did not decrease.

Taking this perspective we must of course be aware of the fact that the relative income measure has inherent conceptual and methodological shortcomings, that may lead to overlooking some failures and/or successes (Decancq *et al.* forthcoming). The premise here is that each household should have at its disposal the minimum income required for participation in his or her society. The value of these incomes – defined by the EU ‘at-risk-of-poverty’ thresholds – are given on the EUROSTAT website.² By way of example, for a single person they amounted in 2008 (in PPS per month) to 900 in Germany, 700 in Spain and 380 in Poland. Clearly, someone with less than 60 per cent of median income has a low income.³ ⁴ Therefore, reducing the number of people who must, for the duration of a whole year, come by on an income below these amounts – which, again by way of example, is the case for 16 per cent of the German population on working age, 21 per cent in Spain and 18 per cent in Poland – is prominently present as an objective in the European policy discourse. It implies that in each country the poor should have benefited most from expanding labour markets and increasing prosperity.

² http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_social_policy_equality/introduction

³ Issues on income measurement are dealt with in Marx and Nolan (forthcoming).

⁴ In his foreword to the report written for the conference in which the establishment of common European social indicators was discussed Frank Vandembroucke rightly stated that “it is the combination of low income with other factors that leads to poverty. These additional factors may differ from country to country... What a 60 per cent line indicates, therefore, is the number of people ‘at-risk-of-poverty’. Whether or not that risk materialize depends on other factors, such as the cost of chronic illness...” (Atkinson *et al.* 2001, V).

The reduction of relative income poverty requires macroeconomic and social policies. Unfortunately, this is not always well understood. The National Strategy Reports on Social Protection and Social Inclusion contain numerous references to social projects that are focused on very specific and often localized problems. Most of these projects are extremely important and necessary as complements to macro-policies. However, despite large and meritorious efforts, one should not expect them to have a significant impact on national at-risk-of-poverty rates. In order to achieve a better distribution of the fruits of economic growth and, in so doing, to reduce the number of relative poor, countries must develop sustainable growth strategies, effective employment policies and adequate social redistribution.

Against this background the overall poverty standstill in the ‘good years’ before the crisis is disquieting, because many social, economic and demographic circumstances were rather favourable for a successful drive to reduce poverty and social inequalities: employment and incomes were on the rise; demographic dependency rates were still rather favourable; social spending remained high; passive welfare states were progressively transformed into so-called ‘investment states’ while the fight against poverty was prominent on the political agenda’s of regional, national and international bodies. European aspirations in particular were very high: in 2000, the Lisbon European Council spoke of ‘the eradication of poverty’ as a strategic policy goal within the Union. In finding ways to combine employment growth, poverty reduction and budgetary discipline all stakes were placed on the so-called ‘Social Investment Strategy’ as part and parcel of the modernization of the European social model. Although it is still a matter of debate to what extent policies have effectively veered in the direction of ‘social investment’ (see Hemerijck forthcoming and Vandembroucke forthcoming), most European welfare states have clearly achieved a degree of success in creating jobs. Various other indicators of investment type outcome also make for positive reading: the number of early school leavers has dropped consistently and the number of working women and mothers has gone up. So, why did ‘at-risk-of-poverty’ in Europe not decline, despite growing unemployment, increasing incomes and the insistence in political rhetoric that poverty eradication remained a primary goal of policy? And what contributed to the success of many of the New Member States? What have we learned about employment, social protection and at-risk-of-poverty in Europe? And what can be said about the effectiveness of the underlying social investment strategies?

The present paper merely provides a broad outline and some general trends as a starting point for the more detailed and qualified analyses presented in subsequent chapters. It is hypothesized that the poverty standstill in the rich and developed welfare states during the

recent period of job and income growth may be explained – as a broad trend – by a skewed distribution of jobs and by a decline of social redistribution. In the poor new Member States jobless households may have benefited more from employment growth while the poverty alleviating capacity of social protection may have become.

This paper begins with a broad historical outline of the strongly changing interface between work, social redistribution and poverty. Subsequently it considers how contemporary European welfare states have responded to the aforementioned changes and with the questions of how, when and why the European social agenda and its underlying social investment paradigm came to the fore. The third section discusses observed outcomes in terms of work, social redistribution and poverty. Finally, it reflects on the adequacy of the concepts underlying the social investment paradigm.

2 Welfare States and Change in the 1970s and 1980s

The very moment nowadays rich European welfare states began to reach a high level of maturity coincided with a period of social and economic upheaval. Growth was slowing down, unemployment was rising and the post-war institutions of the welfare states seemed unable to cope with the consequences of demographic evolutions and changing family relations, globalisation, the tertiarisation of employment, the massive entry of women into the labour market and new migratory flows. Designed to cope with traditional social risks such as sickness, injury, unemployment, old-age and the burden of raising children, the welfare state now had to find adequate responses to a set of unfamiliar challenges and newly emerging social risks such as low skills, single parenthood, and combining care duties with paid work. Although welfare states have proven to be remarkably robust (Pierson 2011), they adapted – reluctantly at first – within the confines of the prevailing system, restricted by the laws of path dependence; subsequently, supported by European discourse and policy, they developed – as explained by Hemerijck (forthcoming) – a stronger common focus on work, social investment and cost containment.

In what follows, before moving to the first accommodations, we briefly consider the developments that have changed fundamentally the interface between growth, work and social redistribution.

2.1 Social, Economic and Demographic Transitions

The so-called post-industrial transition resulted in dramatic *shifts in the labour market*, from industry to services and from low-skilled to high-skilled jobs (Iversen and Wren 1998; Pierson 2001).

As a consequence, in the 1970s and the 1980s a substantial group of people lacking the skills and abilities to function in changing labour markets have become economically redundant, resulting in greater reliance on social benefits and thus higher dependency rates (and costs) in social security, an evolution that Pierre Rosanvallon (1995) termed *la nouvelle question sociale*, the new social question. Concurrently, job contents have changed dramatically: the proportion of routinizing and ‘alienating’ jobs – characteristic of the industrial era (i.e. the traditional working-class jobs) – has declined and generally made way for more knowledge-intensive and creative jobs (be they low-end service jobs or high-end creative jobs).⁵ Employment has therefore become more important for individual’s social status, self-confidence, self-esteem and social inclusion (this process has been significantly amplified by individualization and the changing women’s role discussed below).⁶

The post-war welfare settlement was firmly grounded on gendered assumptions (Orloff 2006; Lewis 2001). However, the male breadwinner model began to erode from the second half of the 1960s onwards, as the *emancipation of women* caused a massive influx of female workers into the labour market, a trend that was accompanied by changing patterns of family formation and rising divorce rates (Lewis 2009; Crompton and Lyonette 2006; Blossfeld 1995; Cantillon 1989). The consequences for the functioning of the welfare state were far-reaching. First and foremost, the emancipation of women meant that the working population grew quite strongly, which inevitably translated into great imbalances in a labour market already in full transition (Salverda 2011). As a result, the socio-economically weak (be they men or women) saw their position further deteriorate. In virtually all welfare states we observed multi-speed emancipation: highly educated women’s emancipation is reaching completion while poorly educated women still face major obstacles, especially when young children are involved (Gornick 1999; Cantillon *et al.* 2003).

⁵ Goos *et al.* (2009) convincingly showed that “... job polarization, that is, a disproportionate increase in high-paid and low-paid employment ... in line with the evidence that in advanced countries, technologies, are becoming more intense in the use of non-routine tasks concentrated in high-paid and low-paid services jobs, at the expense of routine tasks concentrated in manufacturing and clerical work” (p. 62).

⁶ This at once sheds light on the paradigm shift that has taken place in the social agenda, away from protecting people from the perils of the labour market towards the notion of ‘social inclusion through work’ and ‘investment in human capital’, which is now prevalent in European discourse on social policy (Lewis 2009; Gilbert 2002; Streeck 2001).

Second, the outsourcing of care work, previously performed unpaid by women, suddenly came at a cost. Although the commodification or collectivization of care work undeniably created new jobs – as the Scandinavian example already demonstrated very early – there was a price-tag to be met by the public authorities, who were henceforth required to supply and organize care provisions for children and frail elderly persons and/or to provide financial support for working families with children.

Third, marital instability led to growing numbers of lone-parent families, a trend that is often associated with an intensified poverty risk. As dual earnership became more generalized and double incomes increasingly became the norm one parent households (and, more generally, single earner families) increasingly slipped beneath the poverty line (Cantillon 1989; Esping-Andersen *et al.* 2002; Fritzell, Bäckman and Ritakallio 2012; European Commission 2010a).

The past forty years have seen a *large baby-boom generation* move slowly through the active age span. Its substantial inflow into the labour market from the 1970s onwards aggravated the disequilibria between supply and demand occasioned by the previously mentioned economic and social changes. Moreover, there has been the *increase in and changing nature of migratory movements*. Unlike with the organized labour migrations in the 1960s and despite many countries proclaiming a freeze on immigration in the early 1970s, the affluent West has since attracted a rapidly growing flow of Eastern European migrants and of unsolicited economic immigrants and asylum seekers (OECD 2006a; Hooghe *et al.* 2008; European Commission 2010b). These processes have unfolded quickly and concurrently with the problematic integration in education and the jobs market of the migratory flows of the 1960s. This has resulted in a high prevalence of poverty among immigrants, especially in the large urban centres, and in the emergence of a subclass of illegal immigrants in search of a better future (Corluy and Verbist 2010; Lelkes and Zólyomi 2011). Feeling compelled to attribute certain social rights to these groups (Corluy *et al.* 2011), governments have introduced policies that have fundamentally changed the nature of social security in general and social assistance safety nets in particular. Whereas minimum income guarantees were in most countries introduced as an ultimate safety net for those slipping through the social security system, they have increasingly become a ‘stepping stone’, so to speak, towards the societal inclusion of immigrants (Carpentier 2011). However, the inclusion of groups that in the perception ‘do not belong’ (Mau and Burkhardt 2009) in the social protection system affects public attitudes on deservingness (Roemer, Vanderstraeten 2005, 2006; Roemer *et al.* 2007; Finseraas 2012; van Oorschot 2000; Taylor-Gooby 2011). Indeed, there is clear evidence that individual approval of welfare state solidarity and redistribution is negatively

associated with migratory influx, certainly in situations where employment rates among immigrants are low (Mau and Burkhardt 2009; Finseraas 2012). Arguably, also the substantial increase of top incomes (Atkinson and Piketty 2006) and, more generally, rising inequalities has been detrimental to the willingness to pay for social redistribution (Rosanvallon 2011; OECD 2012).⁷

In sum, social, economic and demographic transitions occasioned a *strongly changed interface between growth, work and social redistribution*. Growth slowed down, structural disequilibria emerged in changing labour markets, while additional social and demographic transitions gave rise to new social risks and needs. As a consequence inequalities started to rise in many countries (OECD 2012).⁸ Those lacking the skills and abilities to function in the knowledge economy saw their position deteriorate and the reliance on social protection increased dramatically. The required investment in human capital, with a view to education and activation among other things, has additionally burdened public budgets, as have the ageing cost, the impressive but costly technological improvements in health care and new family support needs in the era of dual earnership. Moreover, in the knowledge economy, activation policies and the creation of adequately remunerated low-productive jobs has implied either tax reductions or public funding. At the same time, the inclusion of migrants has negatively affected public attitudes on deservingness and on the legitimacy of social redistribution. *Clearly, then, since the 1970s, in the era of ‘permanent austerity’ (Pierson 2001), there are reasons to believe that it has become more difficult for modern welfare states to successfully pursue their core objectives of growth, full employment and social inclusion.*

2.2 First Accommodations and the Social Service Trilemma

In a first time, welfare states accommodated – within the confines of the prevailing architectures – in different ways. The literature of the 1980s and 1990s points to three (or four)⁹ ‘path-dependent’ accommodations inherent in the three worlds of welfare capitalism (Esping-Andersen 1990, 191-229 and Esping-Andersen 1996; Hemerijck and Bakker 1994;

⁷ See on the relationship between wage inequality and social spending: Cantillon, B., I. Marx, and K. Van den Bosch. 2003. “The puzzle of egalitarianism. The relationship between employment, wage inequality, social expenditure and poverty.” *European Journal of Social Security* 5(2):108-127.

⁸ The OECD reports *Growing Unequal?* (2008) and *Divided We Stand* (2011) conclude, on the basis of empirical data concerning the evolution of the income redistribution and financial poverty, ‘that there has been an increase in income inequality that has gone on since at least the mid-1980s and probably since the mid-1970s. The widening has affected most (but not all) countries’ (OECD 2008, 17).

⁹ Ferrera (1996) rightly pointed to the specificities of the Southern welfare regimes with a high degree of familianism and less developed social redistribution.

see also Pierson 1994, 181 and Pierson 1995, 39; Mishra 1990; Schmidt 1983; Lessenich 1995, 77-84).

The '*market model*' (Ferrarini 2006), with barely regulated labour markets and weak social protection systems, was able to attain substantial overall job growth. Low-paid work in services (including in domestic care work, the hotel and catering industry, and the entertainment sector) expanded strongly, a trend that was enhanced by a further deregulation of the labour market combined with less social protection. The Anglo-Saxon countries saw a far-reaching individualization with relatively high proportions of lone-parent households and single persons, combined with a notably high female labour market participation rate. Demand for care work was mainly covered by the market. This way unemployment was kept relatively low, but at the cost of an unresolved redistribution issue, increasing in-work poverty and deteriorating earnings, income and social rights for the lower segments of the working population (or, in Esping-Andersen's words, the 'service proletariat', Esping-Andersen 1993). Particularly in the 1980s, liberal welfare states experienced rather spectacular increases in income inequality and relative poverty (Förster 1993; Hanratty and Blank 1992).

The '*social service model*', for its part, did simultaneously address the employment and the redistributive issues by, on the one hand, controlling wage development in sectors able to achieve strong productivity growth and, on the other, a far-reaching subsidization of social services. A substantial proportion of the job growth achieved consisted in services offered by local authorities geared to substituting social provisions for care and chores performed within households. In Lindbeck's terms, the family was "nationalized" (Freeman *et al.* 1997, 81). Poverty remained low while work intensity increased, albeit at the cost of high and increasing social expenditures. Apparently, the Scandinavian countries were best equipped against rising unemployment and they had also prepared most adequately for growing female labour market participation (Esping-Andersen 1996). As a result, poverty in the Scandinavian welfare states remained unchanged at comparatively low levels (Ritakallio 1994; Gustafsson and Uusitalo 1990).

The transition from industrial to post-industrial employment was more difficult in the Continental European welfare states, as the high cost of labour and more regulated labour markets stood in the way of an adequate creation of low-qualified jobs in the services industry. Moreover, these welfare states continued to be geared primarily to providing cash transfers, so that the burden of the unfolding employment transition was borne almost entirely by their social security systems, either through policy-induced reductions in the labour force

(early retirement schemes for over-50s, schemes encouraging women with children to exit the labour market,...; see Von Rhein-Kress 1993) or through (long-term) benefit systems for the unemployed. In this '*labour reduction*' model, the process of individualization proceeded more slowly and female employment rates remained comparatively low: care work continued to be performed primarily within the family (see among others Skocpol and Ritter 1991; Orloff 1993; Sainsbury 1994). The employment issue associated with the post-industrial transition remained unresolved, household work intensity remained low, whereas poverty was addressed through social transfers. In the welfare states of Continental Europe, the first line of defence consisted in the traditional social security systems. Here, too, poverty and income inequality remained remarkably stable (Förster 1993; Coder *et al.* 1993; Cantillon *et al.* 1997).

These courses may be summarized as the *Scandinavian route, combining high employment, high public expenditure and low poverty, the Anglo-Saxon route, with high employment, low public expenditure and high poverty, and the Continental European route, characterized by a constellation of low employment, high social expenditures and low poverty.*

[Figure 1 about here]

Based on these observations, *the prevailing view in the 1990s was that, in the new social and economic context, it was no longer possible to combine low poverty with high employment as well as budgetary discipline.* In a seminal article, Iversen and Wren considered the relationship between wage inequality, service employment and changes in public outlays for wages as a proportion of GDP in Germany, the Netherlands, the US, the UK, Sweden and Denmark, leading them to identify the three aforementioned policy routes. The authors argued that, as a consequence of the transition from an economy dominated by manufacturing production to one dominated by service production, modern welfare states are no longer able to successfully enhance both employment and equality within a tight budgetary framework: "... governments and nations confront a three-way choice, or 'trilemma', between budgetary restraint, income inequality and employment growth. While it is possible to pursue two of these goals simultaneously, it has so far proved impossible to achieve all three. Private employment growth can be accomplished only at the cost of wage inequality. Therefore, if wage equality is a priority, employment growth can be generated only through employment in the public sector – at the cost of higher taxes or borrowing" (Iversen and Wren 1998, 508).

Of course, Iversen and Wren's influential notion of a '*social service trilemma*' concerns just one aspect of the puzzle discussed in the present paper: they were referring to wage inequality and public outlay for wages only. Moreover, Iversen and Wren's claim has been challenged by many authors (see among others Kenworthy 2008). Yet, Iversen and Wren's notion is relevant to the context discussed here, because it is *illustrative of the predominant mindset in the 1990s*. In what follows, it will become clear that, the social investment discourse, the EU's virtuous cycle rhetoric and, more generally, the perceived need for a radical reorientation of social and economic policies may be regarded as voluntaristic alternatives offering a way out of the trilemma in which welfare states supposedly found themselves. In the second half of the 1990s, welfare states began to alter their policy approach in order to deal with rising budget deficits, high structural unemployment and/or rising poverty. In trying to overcome the perceived choice between budgetary restraint, income equality and employment growth, all hope was placed on the so-called 'social investment strategy'.

3 From Trilemmas to Virtuous Cycles?

After a period of divergence, there were signs from the second half of the 1990s of a degree of convergence in policy discourse and implementation towards employment, activation and social investment. This new era in the history of European welfare states was further coloured by the Economic and Monetary Union project and by the accession in 2004 of the transition countries of Central Europe after the fall of the Berlin Wall in 1989. Increasingly the EU presented itself as an important player, first in the fields of budgetary discipline and employment and subsequently (yet far more modestly) in the promotion of social inclusion.

3.1 *Enlargement, Coordination and the Cascade of EU Initiatives*

The EU launched the project of Economic and Monetary Union project in 1990. In preparation of the introduction of a common currency, an encompassing programme of macro-economic convergence was installed, with a number of criteria for entry into the Eurozone. Targets were set with regard to inflation, exchange rates, long-term interest rates and government finance (budgets deficits and government debt). No target was set for (un)employment rates, yet labour market policy became highly salient in this context.

With the possibility of fiscal transfers between Member States ruled out, and currency devaluations and deficit spending no longer an option, the common currency was expected to generate pressure for structural reform, in product and, importantly, labour markets.

Therefore, in 1994, the Heads of State or Government laid the foundations of a process of open coordination of employment policies, calling for a convergence of policies on best practices. In 1997, it was officially launched as the ‘*European Employment Strategy*’.

Concurrently, the Treaty of Amsterdam (1997) enshrined *a new coordinating role for the EU in the fields of employment and social policy*. With a view to supporting the convergence process, a number of common social objectives were agreed upon at the Lisbon Summit of March 2000. The conclusions of the 2000 Lisbon Council with regard to social inclusion were ambitious: “The number of people living below the poverty line and in social exclusion in the Union is unacceptable. Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets to be agreed by the Council by the end of the year”.¹⁰ To this end, a loose, open policy approach was developed that was supposed to enable the Member States to learn from one another’s experiences. The *Open Method of Coordination* (OMC) was extended to the domain of social inclusion at the Nice European Council of 2000. The following year, at the Laeken European Council, a set of social indicators was defined for the purpose of measuring the progress made towards the social objectives (Atkinson *et al.* 2002).¹¹

Because the social protection agenda remained “politically and institutionally fragile” (Vandenbroucke 2002, 1) adequate income support, inclusive labour markets and access to quality services was incorporated into the *Lisbon Treaty* (Verschueren 2012; Dawson and De Witte 2012). The so-called ‘*horizontal social clause*’ (Article 9 TFEU) stipulates that the Union must “take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health”.

The recent European story was further coloured by the experiences of the *transition countries of Central Europe*, a group that joined the EU in 2004. These countries, in addition to catching up with general globalisation trends, have undergone major structural adjustment processes, large volatility of GDP cycles and budgetary expansion and austerity cycles. This added to the effects of the speedy technological catching up process and the consequent shifts

¹⁰ Lisbon European Council 23 and 24 March 2000. Presidency Conclusions http://www.europarl.europa.eu/summits/lis1_en.htm

¹¹ Important in the present context is the agreement at the highest policymaking level on the setting of income poverty indicators, one of which is the *at-risk-of-poverty threshold at 60 per cent of median standardized income in any given country*. Various other indicators build on this notion, including those relating to poverty in jobless households, and to the depth and duration of poverty. These income indicators are prominently present within the portfolio of indicators. The indicators were subsequently refined and enhanced, not least thanks to the excellent work by the Indicators Sub-Group (See Decancq *et al.* forthcoming; Atkinson and Marlier 2010; Zeitlin 2010).

in demand and supply of skilled labour, as well as in household formation patterns and in changes of welfare state arrangements, all having substantial effect on poverty trends in this part of Europe (which is fairly heterogeneous in itself).

3.2 The Social Investment Strategy

The European focus on growth, work and social inclusion has been increasingly incorporated into the broader policy narrative on ‘Social Investment’, where investment in social policy plays a critical role as part of a virtuous circle combining adaptability, flexibility, security, and employability (European Commission 2004). According to the *virtuous cycle hypothesis*, *growth creates employment (and vice versa), and more jobs in turn lead to less poverty and lower social spending*.

[Figure 2 about here]

Obviously this is, to a large extent, political rhetoric, but the hope was nonetheless that higher employment can indeed reduce or reorient the level of social spending to more ‘productive’, activating and inclusive policies and lower poverty, directly through work or, indirectly, through more adequate, inclusive social spending. Recent literature refers to an ‘activating’, ‘enabling’ or ‘developmental’ welfare state, a ‘new’ social contract and a new social agenda behind which one can discern a policy shift towards what has been termed a ‘social investment’ agenda. In this volume Hemerijck elaborate on this new social policy approach, which focuses on investment rather than on direct provision of economic maintenance, and on equal opportunities rather than on equality of outcomes (see among others Esping-Andersen *et al.* 2002; Gilbert 2004; Morel *et al.* 2009 and 2012).¹² This approach was evident in the Social Policy Agenda adopted by the European Union in 2000, which identified as its guiding principle the need to strengthen the role of social policy as a productive factor.¹³

¹² This was influenced by the intellectual debates on the concept of inequality and the framework of ‘equality of opportunities’. According to influential philosophers such as Dworkin (1981a,b), Sen (1980, 1992), Arneson (1989), Cohen (1989) and Roemer (1993, 1998) policies should only try to promote equality of opportunity, that is to say to compensate for circumstances for which individuals are not responsible.

¹³ In 2001, during the Belgian Presidency of the EU, Frank Vandenbroucke – then Minister of Social Affairs – commissioned Esping-Andersen, Hemerijck and others to draft a report, later published with Oxford University Press under the title “Why We Need a New Welfare State” (2002). The book puts forward the idea of social investment to assist in the management of structural change while minimizing negative social consequences.

Although it is a matter of debate to what extent policies actually veered in that direction (Morel *et al.* 2012; Hemerijck forthcoming; De Deken forthcoming and Vandenbroucke forthcoming), most Member States have experienced to a greater or lesser extent a shift in focus from passive social protection to activation and investment in education, more and better jobs, flexicurity and family-oriented services with a view to enhancing people's ability to work and to balance work and family life (Taylor-Gooby 2004; Bonoli 2005; Hemerijck forthcoming and De Deken forthcoming).

In general terms, although the actual implementation differs greatly between welfare states, the policy ingredients have included the following: 1) *an all-encompassing focus on work*, e.g. by making work attractive, by acting against unemployment traps, by imposing restrictions on early retirement schemes, by activating benefit recipients, by providing in-work benefits, by subsidizing low-productive labour, and – more general – by making the labour market more flexible (Serrano Pascual 2004; Eichhorst *et al.* 2008; Clegg 2007; Grover and Stewart 1999); 2) *cost containment*, e.g. by making social benefits in social security and social assistance schemes less generous, by imposing greater selectivity, an increased dependence on activation programmes by introducing stricter eligibility requirements such as the obligation to accept 'suitable jobs' or community services, and by shifting responsibilities to other actors such as private bodies and local governments (Cantillon 2011; Weishaupt 2011; Van Mechelen *et al.* 2010; Van der Veen 2009; Kazepov 2010; Cantillon *et al.* forthcoming); 3) *family policy as a productive factor*, e.g. by implementing career break schemes, the expansion of parental leave schemes and pre-school services such as childcare, as well as long-term elderly care services (Esping-Andersen *et al.* 2002; Van Lancker and Ghysels forthcoming); and 4) *investment in human capital*, e.g. a move towards early childhood services, equal opportunities in education, encouraging lifelong learning and vocational training (Esping-Andersen 2008; OECD 2006b).

It is quite clear that the underlying rationale of these reforms is the belief in welfare through work, exemplified by investment in human capital and the enhancement of individual opportunities (Van der Veen 2009). Otherwise (and briefly) stated, social investment strategies put emphasis on "the ability of everybody to accumulate skills and to find one's way on the labour market" (Gazier 2009, 153). It is asserted that it is more opportune to affect income-generating attributes than to enhance transfers of income. In other words: "poverty alleviation will, in the longer term, be attained more sustainably through the

optimization of opportunities in education and training than through a system of progressive taxation and extensive social transfers.”¹⁴

4 Employment, Social Protection and at-risk-of-poverty in European Welfare States

So, how have employment, social spending and poverty evolved? *How successful has the European social agenda been in trying to strengthen national welfare states capable of creating more employment and greater social cohesion?* The reflections in this paper are based largely on an analytical reading of the common social indicators that were approved at the Laeken Summit during the Belgian Presidency of the EU in 2001.¹⁵ We will rely on them in assessing past poverty trends and in analysing the relationship between poverty, employment and social protection as a starting point for the more detailed and qualified analyses presented in the subsequent chapters.

4.1 European Diversity

Table 1 considers the stylized evolutions in employment, active-age social spending and poverty risk across EU Member States from 2004 to 2009. Let us scan the ‘good years’ prior to the crisis for substantial and consistent change (see Table 1). A number of findings stand out. *First, poverty thresholds* (60 per cent of median equivalized household income expressed in Euros, PPS) *increased* over the period of observation, *particularly so in Member States with the lowest incomes*.¹⁶ This reflects upward economic convergence and should be regarded as an area of major European progress: the political, cultural and societal recovery of ‘Mitteleuropa’¹⁷ and its insertion into the Union has clearly coincided with a significant upward economic convergence. Increasing poverty thresholds also mean that households below the relative income thresholds became richer.

Second, overall, employment rates increased substantially and rather consistently over the period of observation.¹⁸ For all the consensus and commitment to promoting employment, there remained considerable variation in employment rates across EU countries. In 2008,

¹⁴ This insight is of course by no means new. In fact, the above quotation is taken from Herman Deleeck’s PhD from 1966. Morel, Palier and Palme trace the origins of the social investment perspective back to the Great Depression when the Swedes Alva and Gunnar Myrdal developed a new conception of social policy (Morel *et al.* 2012, 3).

¹⁵ These indicators which underpin the Open Method of Coordination, are reported on the Eurostat website.

¹⁶ The UK being a notable exception.

¹⁷ The word is the German equal to Central Europe. Here, it is not used in its political meaning but in its geographic and cultural meaning (see f.i. by Claudio Magris in Danubio, 1986).

¹⁸ A number of Central and Eastern European countries experienced declines in employment rates prior to their entry into the EU (Baltic States, Poland, Slovakia and the Czech Republic).

Malta had the lowest employment rate (54 per cent), whereas Denmark topped the ranking with almost 76 per cent. Most EU countries made considerable progress towards the EU-wide target set in Lisbon in 2000 (70 per cent by 2010). From relatively low levels in the mid 1990s, Ireland (52,6 per cent in 1994) and Spain (45,9 per cent) showed impressive growth, but were also among the countries most strongly affected by the recent setback.

Third, in-kind social expenditure have tended to go up, with a few minor and mostly insubstantial exceptions. The Netherlands show notable growth, as, to a lesser extent, do Greece and Ireland.¹⁹ *Active-age social expenditure on cash benefits* evolved quite substantially in a number of Member States. There were strong and consistent *reductions* in Denmark, Finland and Sweden, as well as Germany, the Netherlands, Austria and Poland. Ireland and Lithuania showed quite considerable increases, from a relatively low level.

Fourth, total active age social spending decreased in many countries while Estonia, Greece, Hungary, Ireland, Italy, the Netherlands and Spain displayed increases.

Finally, applying the two percentage point rule of thumb proposed by Atkinson *et al.* (2010) and looking for consistent evolutions of *active-age poverty-risk* rates over the given timeframe, a rather limited set of countries stand out. According to SILC data a substantial and consistent increase is noticeable in Germany.²⁰ Sweden shows quite a strong increase in percentage points between 2004 and 2008 trend. Finland and Denmark, on the other hand, exhibit consistently upward trends, which do not however breach the 2 percentage points. In Ireland, Lithuania, Poland and Slovakia at-risk-of-poverty rates declined significantly and substantially. The UK, the Czech Republic, Slovenia and Estonia displayed declines, however below the 2 percentage points.

[Table 1 about here]

So, levels and trends in employment, social spending and at-risk-of-poverty show an impressive divergence throughout the Union. However, if we look in a more stylized manner at the trends, within this diversity, *two prevailing patterns can be discerned incorporating elements of upward convergence. With the exception of Ireland, the dominant pattern in the EU-15 was one of more work, stable or declining social spending and stationary or rising income poverty. In many of the post-communist countries, on the other hand, employment*

¹⁹ This was arguably also the case in Spain and Cyprus.

²⁰ According to the SOEP-data at-risk-of-poverty started to increase from the second half of the 1990s on (see Marx and Nolan, forthcoming).

growth (which tended to be stronger than in the UE-15) did coincide with declining at-risk-of-poverty rates.

4.2 Three Hindrances in the ‘Virtuous Circle’

The questions why most of the rich welfare states failed to make progress in the fight against relative income poverty and what contributed to the success of many of the new Member States are of course extremely difficult to answer unequivocally. After all, what was the counterfactual? The age and family structure of the population,²¹ migration movements,²² global competition and technological innovation are all potentially strong drivers of poverty growth. The empirical analyses will shed more light on whether, how and why these factors influenced overall at-risk-of-poverty rates (see Cantillon and Vandebroucke forthcoming). Here we start with a simple scan of the main determinants of at-risk-of-poverty: *changes in pre-transfer at-risk-of-poverty, changes in the distribution of employment across households and their work intensity and changes in the poverty alleviating capacity of social spending.*

First, as far as in-work poverty is concerned we discern substantive *decreases in some of the new Member States*, notably in Hungary, Poland and Slovakia and, to a lesser extent, Ireland and Portugal. Germany (according to SILC) displayed a significant increase. Somewhat surprisingly given the attention attracted by the issue of in-work poverty in political and academic circles alike (see f.i. European Union 2012), the indicators in Table 2 seem however to indicate that in *most other countries in-work poverty has remained largely unchanged*. So, at first glance, the social indicators do not support the often-discussed hypothesis that employment fails to reduce relative poverty because the employment rise encompasses too many ‘low-quality’ jobs (notably temporary and part-time jobs, associated with lower pay), resulting in higher pre-transfer poverty and more in-work-poverty.²³

[Table 2 about here]

²¹ Obviously, household structure has an important impact on income distribution and poverty. The dramatic change in household composition in the 1970s and 1980s was therefore an important explanatory variable for poverty trends observed at that time. Although those trends persist to the present, clearly the speed at which the change is occurring has slowed down considerably since the early 1990s (see OECD 2011).

²² The massive migration wave that has unfolded in the EU in the past decades has almost certainly had an impact. However, although poverty among immigrants is much higher than among non-immigrants, a simulation for Belgium provides no indications of a significant impact of immigration on overall poverty figures as measured by EU-SILC.

²³ It remains true, however, that in-work-poverty affects a substantial proportion of the relative income poor (see Marx and Nolan, forthcoming and Cantillon et al., forthcoming).

Yet, the indicators seems to support a second hypothesis, namely that the lack of correlation between employment growth and poverty *in some of the old European welfare states* may have been due to some extent to *job polarisation* (as suggested by de Beer 2007; Gregg *et al.* 2010 and discussed in great detail see Corluy and Vandenbroucke forthcoming). In many of these countries, the declining share of working-age persons living in jobless households has indeed been more moderate than might have been expected on the basis of rising employment figures. According to the EUROSTAT indicator in Germany, Ireland, Luxembourg and Portugal the number of job-poor households *increased* (see Corluy and Vandenbroucke forthcoming and Cantillon *et al.* forthcoming). *By contrast*, in the UK and *in most of the new Members States* (with the notable exceptions of Romania, Latvia, Slovenia and Hungary) *a better distribution of jobs* boosted the impact of employment growth on household joblessness and consequently on at-risk-of-poverty. As ‘old’ Europe is concerned, here we arguably touch upon a *first hindrance* in the expected ‘virtuous cycle’ of growth, jobs and social inclusion. The premise was that more jobs would decrease benefit dependency (and spending on cash transfer) as well as at-risk-of-poverty. However, the disparity between individual and household worklessness may explain part of the lack of correlation between employment growth and at-risk-of-poverty.²⁴

A third factor that impacts the relationship between job growth and relative income poverty relates to the adequacy of social transfers. Although the EU indicators do not point to clear-cut generic trends, while at-risk-of-poverty rates for the low work intensity households declined in a number of countries (mostly with the New and Southern Member States) *risks seemed to have been rising in a substantial number of countries, mostly within the EU-15 (with the notable exception of Ireland, France, Denmark, Italy and Spain) but also in some of the new Member States* (notably in Slovakia, Latvia and Lithuania). In Cantillon *et al.* (forthcoming) it will be shown that, where increases occurred, this points to a decline of the generosity and or at the efficiency of social protection. Here we touch on a *second major hindrance* in the ‘virtuous circle’ of employment growth and poverty alleviation. As unemployment mostly affects the low skilled in the low-productivity sectors of the labour-market, governments that want to reduce unemployment can rely on negative incentives (lower benefit levels, more conditionality, targeting) and/or positive incentive (subsidies, tax credits, child care). Depending on the policy mix and design, the first order effects of these

²⁴ Corluy and Vandenbroucke (forthcoming) will conclude that changes in the share of jobless households just explains a part of the diversity in the changes in national at-risk-of-poverty rates during the good years before the crisis.

policies are either higher public spending²⁵ or higher at-risk-of-poverty rates faced by those who remained outside the labour market. Given the budgetary constraints, it is likely that governments were forced to opt for the reduction of the level and coverage of social protection. The all encompassing focus on employment may thus have weakened traditional (passive) social protection. This issue will be dealt with extensively in Cantillon *et al.* (forthcoming) where we will show empirical evidence supporting a nuanced thesis of erosion of social transfers in some (but certainly not all) countries, with sometimes dramatic consequences for work-poor households in particular.

Most countries have seen significant changes insofar as the *structure* of public social expenditures is concerned. There has indeed been a notable decline in the ratio of ‘cash’ transfers to ‘in kind services’ (see Table 1). Verbist and Matsaganis show that “cash transfers turn out to be more pro-poor than in-kind benefits in most countries. In this perspective, cash transfers are on average in the EU the most pro-poor of the policy instruments considered (Verbist and Matsaganis forthcoming). Depending on the policy design and the social stratification of employment, one may similarly expect more or less adverse redistributive impacts of other ‘new’ work-related social expenditures, such as in-work benefits, subsidies, tax credits, parental leave, and so on. Using data from the Labour Force Survey, Ghysels and Van Lancker (2010) found that in most countries households with a low-educated mother use parental leave opportunities to a lesser extent than do other households. This would appear to be the cumulated outcome of unequal labour force participation and inequalities in the effective access to parental leave within the working population (Van Lancker and Ghysels forthcoming). Arguably, in the differential distributive outcomes of ‘old’ and ‘new’ social spending lies a *third possible hindrance* in the ‘virtuous circle’ of employment growth, social spending and poverty.

The underlying idea of the Lisbon strategy was that growth, jobs and social cohesion are complementary goals that would reinforce themselves in what was referred to as a ‘virtuous cycle’ between social cohesion and economic success. The indicators in Table 2 suggest that this was too optimistic, at least as ‘old’ Europe is concerned: the rough empirical data presented here point to Matthew effects in the benefits of job growth and of ‘new’ social spending as possible hindrances in the looping ‘work’ and ‘at-risk-of-poverty’. The economies of the New Member States on the other hand were clearly more successful: here it appears that in most countries the strong increase and the better distribution of jobs

²⁵ In Vandenbroucke (forthcoming) it will be shown that active labour market spending did not increase in most countries.

contributed to a decline in at-risk-of-poverty rates, although in some of these countries the gains were partially mitigated by less social redistribution.

5 Which Concepts for Social Policy Making in Europe?

Against the background of disappointing poverty outcomes and because the idea of social investment underlies very explicitly the EU social agenda, it is imperative to reflect upon the strength and the shortcomings and defects of the strategy as an encompassing directional concept for future social policy making in Europe.²⁶

Hemerijck considers the social investment state as the third phase of welfare state reconfiguration, “the more recent epoch since the mid-1990s in which social investment policy prescription took root” (Hemerijck 2012, 33). While education, healthcare and the emancipation of the working classes were obviously already concerns in the design of the post-war welfare state, it is clearly also the case that the addition of positive social protection on top of the traditionally ‘negative’ forms of protection has gained momentum since the 1990s, largely in response to the altered socio-economic and demographic conditions described at the beginning of this paper. Much as labour law slowly evolved in the early twentieth century from a merely ‘negative’ focus on protection against the forces of the free market (e.g. through a prohibition on child labour) to a ‘positive’ focus on improving the social status of individuals (e.g. by introducing compulsory education), so to the ‘old’ Welfare State (‘Etat Providence’ in French, ‘Verzorgingsstaat’ in Dutch, ‘Estado de Bienestar’ in Spanish, ‘Welsyn Staat’ in Afrikaans) with its emphasis on protection, care and welfare (in the sense of health and well-being) is complemented with ‘developmental’, ‘enabling’, ‘investment’ strategies where a new dimension is being added to that of protection from cradle to grave.

But has the further development of social investment strategies really the potential to increase social inclusion in European societies? And if so, under which conditions? Or are

²⁶ It should be pointed out that the concept of ‘social investment’ is essentially ambiguous. Both Giddens’s Third Way (Giddens 1998) and the example of the Nordic countries, with high employment levels, generous social benefits and low poverty rates, constituted an important source of inspiration for the social investment strategy underlying the EU social agenda. According to some proponents of the social investment approach, a radical shift in policy objective is required from equality of outcomes to equality of opportunities: “high rates of inequality, low wages, poor jobs or temporary deprivation are not a serious problem in and of themselves: they are so only if individuals become trapped in those circumstances or if they foster anti-social, exclusionary behaviours, such as criminality, dropping out, and so on” (Jenson and Saint-Martin 2003). In Giddens’s view, social investment strategies could come to replace traditional welfare strategies. However, in the aforementioned “Why we need a new welfare state” (2002) Frank Vandenbroucke unequivocally asserts that this notion is “unrealistic”, while according to Esping-Andersen it “may be regarded as naïve optimism, but, worse, it may also be counterproductive”.

there mechanisms at work intrinsic to the idea of ‘social investment’ which may hamper social progress?

The focus on investment in human capital, labour-market integration and equal opportunities is obviously extremely important. Ambitions cannot be too great. Again, the Scandinavian countries would appear to be leading the way: time and again, they succeed in outperforming the other welfare states in terms of poverty, inequality and employment. Yet, the figures presented in the previous section and in the subsequent chapters of this book suggest not only that the Nordic countries are losing ground but – more generally – that the shift from passive social protection to activation and investment has been much more problematic than anticipated. Arguably, although the notion of ‘social investment’ adds an important dimension to the ‘old’ focus on protection, care and social redistribution it would appear to be *major intrinsic shortcomings to the notion*’ as an encompassing directional concept for social policymaking in Europe.

5.1 Three Shortcomings of the Social Investment Paradigm

A *first* shortcoming relates to the fact that Social Investment offers very *little guidance in respect of care and protection for the most vulnerable* in society. The notion of investment implies a return, and hence one would expect there to be a tendency in social investment policy design first to help forward the relatively strong in the hope that the weaker will be carried along. That is why social investment – however important it may be – must not and cannot be the only, or even the principal, objective of social policy. After all, there is no denying that the notion loses much of its significance in the context of care for frail elderly, for disabled persons, or more generally for individuals seriously deprived by circumstances of life. Remarkably, and perhaps symptomatically, the most recent literature on social investment (see f.i. recently Morel *et al.* 2012) is almost mute on the adequacy of social protection of persons who cannot or will not be activated through disability, illness or old age, people who are vulnerable and require care. The focus is overwhelmingly on ‘active ageing’, ‘capacitating’ policies and ‘empowerment’. Obviously this is extremely important and investment strategies are therefore to be considered as a major progress in shaping adequate social policies. However, a one-dimensional perspective of an all too voluntaristic activation and investment discourse can be very threatening for some of the most vulnerable. The *second* shortcoming relates to the *one-sided focus on economic activity* as a means of attaining social inclusion, as if goals such as societal recognition, social belonging and the development of social capital – cf. the previously mentioned notions of ‘bienestar’, ‘welsyn’,

‘well-being’ – were achievable only through more paid labour and as if activities in the informal sphere were, by definition, devoid of economic and social utility.²⁷ It speaks for itself that more jobs should lead to lower benefit dependency, as previously mentioned in this paper. Against the backdrop of population ageing and Europe’s shrinking workforce, this is obviously an important socioeconomic objective. Moreover, in today’s welfare state more than ever before, labour participation is an important instrument for attaining social integration: in an individualised society, the absence of ‘work’ often holds a danger of social exclusion and detachment from the prevailing lifestyle and culture in a given society. This should however not lead to a situation where unpaid work disappears out of sight.

The *third* shortcoming of the social investment notion lies in the *exaggerated expectations* it may create *with regard to the possibilities of combating social inequalities through equal opportunities policy*. More than a century of historical, sociological, economic and psychological research leaves little doubt as to just how determining social, economic and cultural contextual factors are for one’s life chances (Erikson and Goldthorpe 1992). Some have called into question the structuring impact of social class in modern societies (e.g. Clark and Lipset 1991; Lee and Turner 1996; Pakulski and Waters 1996; Scott 1996). Beck (1992), for example, argues that we have evolved to a so-called ‘risk society’, characterized by greater as well as more diffuse social risks. However, ‘bad’ social risks such as unemployment, low work intensity and illness continue to be significantly socially stratified, including (though to a lesser extent) in countries that are considered good examples when it comes to effectuating great(er) social equality. The existence of strong social gradients for social risks that are statistically likely to induce poverty – particularly unemployment, low work intensity, ill-health and low pay – has been demonstrated elsewhere (e.g. O’Neill and Sweetman 1998; Feinstein 1993; Pintelon *et al.* 2011). Social class is also observed to influence the duration of poverty spells (Whelan *et al.* 2003; Dewilde 2008), while risky life events clearly do not trigger identical poverty effects for different social classes (Vandecasteele 2010). Modelling poverty persistence in Germany, Biewen (2009) found that ‘heterogeneity’ explains half of the variance. Although using other methodologies and for other countries, others tend to find an even stronger impact of earlier poverty experiences (see Cappellari and Jenkins 2002 and Nilsson 2012) it is clear that social background is an important factor. Moreover, compelling evidence is found to support the view that stratification patterns are by and large the same across welfare states, be it the Scandinavian,

²⁷ See for an important critical analysis Stiglitz *et al.* (2009). Report by the Commission on the measurement of economic performance and social progress. <http://www.stiglitz-sen-fitoussi.fr>

the Anglo-Saxon or the Continental European ones (Pintelon *et al.* 2011). The universal nature – in terms of both space and time – of the gravity of social class calls for moderation of expectations in respect of the impact of social investment, though, again, ambitions should be as great as possible.²⁸

5.2 *The Case of the Disabled*

In *Frontiers of Justice*, Martha Nussbaum (2006) takes the situation of Jamie, Arthur and Sessa, three seriously disabled children as a starting point for expounding her views on the ethical foundations of a fair society.²⁹ By analogy let us briefly consider the three aforementioned shortcomings of the social investment paradigm in relation to the *disability sector*.³⁰ On average the disabled as much as the parents of children with an impairment have *lower levels of education* (OECD 2010). Child's behavioural disorders are moreover positively correlated with *relational conflict* leading to high divorce risks in families with disabled children (Al Kremani 2011; Bennet and Hay 2007; Kersh *et al.* 2006; Ghysels and Van Vlasselaer 2008). Children's disabilities have also a clear *negative impact on mother's employment* (Gorden *et al.* 2007; Ghysels and Van Vlasselaer 2008). This raises many (normative) questions: what is the realistic and desirable work intensity norm for these households? Should domestic care work be rewarded? And if so, in which cases? Clearly, the low skilled, divorced non working mother of a severe disabled child who wants to take care of her own child is in great need of (financial) support, a care giving environment and adequate services.

In most countries the disabled face *very high poverty risks*. 3 per cent of the population on active age declare themselves as being permanently disabled. However they represent 9 per cent of the people at risk of poverty (European Union 2012). 6,5 million of the people in

²⁸ It is true that, in contemporary welfare states, social background effects are largely mediated by the individual's own educational attainment and 'achieved' social class (Pintelon *et al.* 2011). Not surprisingly, then, the focus is first and foremost on equal opportunities in education. However, this is an area where inequalities have proven to be persistent. Moreover, although PISA data suggest that the social gradient in education is much steeper in some countries than in others, it is not immediately apparent what is causing these differences. In 'Nonpersistent inequality in educational attainment' Breen *et al.* (2009) attribute changes (which occurred for the most part in the middle of the past century) to the general improvement of living conditions, changes within educational institutions (such as the development of full-day schooling), decreasing costs and the development of educational support to less wealthy families. This is why more and more attention and hope is focused on early childcare. Today, we do not know what the long-term impact will be, although empirical evidence seems to indicate that early investment mitigates social inequalities (Heckman 1974).

²⁹ See also Sen (2001, 258) who pays attention to the disabled in developing arguments in favour of his capability approach.

³⁰ In the disability sector this is referred to as the 'citizenship' model (Brett 2002; Van Genneep 2000; Dowling and Dolan 2001).

Europe at-risk-of-poverty or exclusion declare some form of disability (European Commission 2010b, 5). On the other hand, it appears that persons without employment and fulfilling domestic tasks such as caring for a disabled child or other dependent persons on the other hand are strongly overrepresented in the population at risk of poverty (European Union 2010). As has previously been argued, this is due to a number of factors. There is the *inadequacy of a single household income* in what is effectively a dual-earnership era,³¹ carers often face *more substantial costs* and they often have a *weaker socioeconomic and educational profile* which is indicative of the previously mentioned phenomenon of ‘emancipation at two paces’ (Cantillon *et al.* 2001; Gornick 1999). Clearly, *the disability risk is illustrative for the three aforementioned shortcomings entailed by a unidimensional use of the social investment concept*, the lack of guidance it offers for a social policy that provides care and protection for weaker individuals, the exaggerated expectations it can create in respect of equality of opportunities and the one sided focus on economic activities as way to social inclusion.

5.3 *New Matthew Effects*³²

Some have argued forcefully that social investment aims to move beyond redistributive, consumption-based social welfare centred around benefits and rights to a kind of social welfare whereby investment in human capital enhances people’s capacity to participate (see among others Jenson and Saint-Martin 2003). If, however, it is true that – due to the gravity of social stratification and given that more vulnerable segments tend to find it hard to navigate their way to the labour market and/or work-related benefits – ‘new’ spending is beneficial mainly to the socio-economically stronger groups, then it is *unintentionally resulting in an adverse redistribution of resources* and in new Matthew effects.

Generally speaking, there would appear to be *good reasons to assume that ‘new policies budgets’, less so than the traditional cash transfer, tend to flow to the lower income groups*.³³ Depending on the policy design and the social stratification of employment, one may indeed expect more or less adverse redistributive impacts of work-related social

³¹ In many households, a ‘medium work intensity’ no longer suffices to stay out of poverty (European Union 2010, 158).

³² The ‘Matthew effect’ refers to the phenomenon, widely observed across advanced welfare states, that the middle classes tend to be the main beneficiaries of social benefits and services (Deleeck *et al.* 1983; Merton 1968).

³³ The factors contributing to the redistributive capacity of cash transfers are discussed in Van Lander and Ghysels (forthcoming).

expenditures, such as in-work benefits, childcare or parental leave etc.³⁴ If one wishes to increase labour force participation, then a policy is required that facilitates the combination of work and family life and, more generally, makes work more attractive. Obviously such a policy will first benefit those already participating in the labour process, but the underlying rationale is that others will follow suit. As poverty is typically high in workless households, effective work-related spending is expected to be pro-poor at least in the long term. However, if job growth does only partially benefit work-poor households, as has been the case in some EU countries (see Corluy and Vandenbroucke forthcoming), work-related social spending will tend to accrue permanently to middle and higher income groups. This is especially true with regard to policies aiming to achieve a better work-family balance. So long as women's roles remain socially stratified and while there is no adequate support for those for whom the combination of work and family life is (temporarily) not an option (e.g. mothers and fathers of a child with an impairment), the new-risk policy is bound to generate adverse redistributive effects.³⁵ Verbist and Matsaganis (forthcoming) find that if relative efficiency of spending *per euro* is considered cash spending appears to be more redistributive. Arguably, this is even more so when work related spending is compared to transfers for those who remain outside the labour market. Of course, appropriate policy designs may no doubt help reduce or even neutralize such adverse effects. However, this requires both an adequate policy focus and sufficient insight into the direct and indirect pro-poorness of new policy measures (De Deken forthcoming). So the implication of the foregoing is that policy makers should be aware of possible *Matthew effects* in the distribution of jobs, of income and of social services and more generally – cf. the distributive aspect of social spending – as discussed in Julian Le Grand's classic book "The Strategy of Equality" (1982). Of course, Matthew effects have been widely observed throughout the history of the advanced welfare state (Goodin 1986, Deleeck *et al.* 1983; Merton 1968; X 2010), but today they seem to manifest themselves differently. The principal new social risk in the contemporary welfare state is undoubtedly joblessness. It is a risk that is complexly composed of different socio-economic factors, as will be explained in Corluy and Vandenbroucke (forthcoming). If the more vulnerable in society benefit less from expanding labour market or if they are hit more by economic crisis and – under strongly work-oriented policies – are therefore also less able to benefit from a variety of 'work-related' spending schemes, while seeing their income decline due to decommodification and anti-

³⁴ See Van Lancker and Ghysels forthcoming.

³⁵ Albeit to a much lesser degree, this is also a reason for concern in the Scandinavian countries, the undisputed forerunners of the active welfare state (Fritzell *et al.* 2012).

poverty trap measures, then the inevitable implication is that money tend to flow more to the higher and socio-economically stronger groups in society. Unless, that is, if the gamble of the social investment strategy pays off and education, as an important mediating factor, is able to smoothen intergenerational inequalities. However, the gravitational pull of social inequality in education is so strong³⁶ that any effects in this respect would only become apparent in the (very) long term.

5.4 Reciprocity, Responsibility and Compassion

In an ‘*opportunity driven logic*’ (Taylor-Gooby 2011) social investment policy measures tend to be oriented towards behavioural incentives and disincentives for the purpose of steering individuals in the direction of appropriate behaviour (Gilbert and Van Voorhis 2001). Due to the commitment to equality of opportunities rather than equality of outcomes (e.g. the emphasis on schooling and training which presupposes commitment and hence responsibility from individuals) and the focus on employment as a fast-track to social inclusion (which – again – presupposes a commitment to look for a job and the responsibility to accept suitable employment), benefit recipients and persons in need are increasingly expected to act upon opportunities that are opened up to them by the investment state. Several examples are to be found, such as behavioural management contracts³⁷, social benefits conditional on school enrolment or penalty fines against truants (Cantillon and Van Lancker 2012).³⁸ In real life the dividing line drawn by responsibility-sensitive egalitarians³⁹ between ‘circumstances’ (f.i. social background) for which an individual should be compensated and ‘ambitions or efforts’, for which an individual is held responsible, is however very thin. Not only the actual living conditions but also family histories, deprivation and social hierarchy can influence

³⁶ In their important contribution ‘Nonpersistent inequality in educational attainment’ (2009) Breen *et al.* challenged the classic ‘persistent inequality thesis’ of Shavit and Blossfeld (1993). They found, contra Shavit and Blossfeld, a widespread decline in educational inequality in the first two thirds of the 20th century in eight European countries. Importantly however, the decline took place “for the most part during a relatively short period of around 30 years in the middle of the century, between the oldest cohort (born 1908-24) and the second youngest (born 1945-54 and thus in the educational system during the period 1950-75)” (Breen *et al.* 2009, 1514).

³⁷ Jobseekers agreements, youth offender contracts, parenting contracts (Vincent-Jones 2009).

³⁸ The CSB MIPI dataset (Van Mechelen *et al.* 2011) learns f.i. that the conditionality of (some) social benefits on school enrolment is nowadays present in *inter alia* Belgium (Flanders), Netherlands, Germany, Denmark, Finland, Slovakia and United Kingdom. In some of these countries, social benefits are dependent on a status of ‘material need’, a status which can be retracted when a families’ children are playing truant. Some countries even go further: in the UK, truancy is considered a criminal offence for parents and they face penalty fines and prosecutions, and recently (September 2011), the government has proposed to cut child benefits of parents whose children regularly play truant. Similar proposals have been made in Belgium⁷.

³⁹ Dworkin (1981a,b), Sen (1980, 1992), Arneson (1989), Cohen (1989), and Roemer (1993, 1998).

judgements and behaviours: “Suffering is not typically ennobling; more often it can deform or main the personality” (Nussbaum 2001, 411). Because of the enormous gravitational pull of social class, punitive measures – justified under the mantra of individual responsibility – should therefore be approached with great circumspection. More generally, ‘bad’ social risks such as unemployment or ill-health remain truly ‘social’ in that they are not coincidentally connected with life courses. The strong social selectivity of these risks significantly qualifies the notion of ‘individual ‘responsibility’. Hence disciplinary policy instruments should only be deployed if they stand a good chance of achieving success, in accordance with human dignity, with *compassion*⁴⁰ and in the service of agency and social justice.⁴¹ That is why great modesty is called for in policy outlining and implementation. In that matter, social policy should continue to be primarily concerned within the evenly distribution of capabilities, of equal opportunities for functioning⁴², instead of enforcing desirable functionings by means of sanctioning and conditional policies. Otherwise, new policies risk to encourage new forms of exclusion.

The terms ‘investment’ and ‘responsabilisation’, and the kind of measures they encompass, can also imply a tougher outlook on society. The unemployed person is seen not so much as a victim or a legitimate user of social security moneys, but rather as a passive recipient or even a calculating claimant who, in the worst case, is abusing the system (characterised quite aptly by Le Grand, 1997, as ‘the knaves’). Herein lie two further dangers. *First*, as the underlying assumption of measures is often one of the ‘calculating recipient’, a self-fulfilling prophecy looms: citizens may actually be encouraged by existing provisions and the associated discourse to act in a calculated manner (Le Grand 1997). Moreover, institutions and regulations also largely determine people’s perceptions of deservingness, personal responsibility and – by extension – solidarity, and hence their willingness to pay: “The judgement of no desert is also shaped by laws and institutions... public policies toward the predicament of a group can decisively affect the perception of its role in incurring the predicament” (Nussbaum 2001, 419).

5.5 Trade-offs, Political Choices and Conflicts

⁴⁰ Note the difference between ‘compassion’ and ‘pity’: ‘compassion is based on an awareness of suffering, an intrinsic condition of a person’ (Andersen, 306).

⁴¹ See for a discussion on the relationship between Investment policies and ‘citizenship’ (Hvinden and Johansson 2007; Rosanvallon 2011).

⁴² “Some political views deny this: they hold that the right thing for government to do is to make people lead healthy lives, do worth-while activities, exercise religion, and so on. We deny this: we say that capabilities, not functionings, are the appropriate political goals” (Nussbaum 2011, 25).

For the reasons mentioned before ‘social investment’ cannot take the place of the Welfare State. What it can and must do is add a further dimension to the ethical project underlying the welfare state. Given budgetary constraints, ageing and health care costs, this process however inevitably involves tough trade-offs, which – if inadequately acknowledged and identified – may lead to less social redistribution, care and protection for the very weakest in society. This book deals with several such tradeoffs, three of which we briefly mention here. In theory, “adequate minimum income protection is a critical precondition for an effective social investment strategy” (Hemerijck forthcoming). But in practice it turns out to be a constant search for appropriate balances, which moreover strongly fluctuate in time and space. For example, increasing minimum income protection – which in view of their low generosity in many countries ought to be made an absolute priority – appears to create dependency traps and to be rather expensive in some settings, due to the wide gap that needs to be bridged and the large proportion of work-poor households. In such countries, a guaranteed income compatible with a life of dignity can only be implemented gradually, on condition that one succeeds in increasing social redistribution, in reducing the proportion of work-poor families and in solidarity at the European level (Vandenbroucke, Cantillon *et al.* forthcoming).

Van Lancker and Ghysels (forthcoming) delves into the distributional effects of instruments of family policy, more specifically parental leave, childcare, child benefits and home care allowances currently applied in France, Germany, Finland and Norway. Parental leave and childcare are work-related instruments (‘family activation’), whereas home care allowances and child benefits are not. Looking at who benefits from such interventions, it transpires that home care allowances and (to a lesser extent) child benefits are most advantageous to lower income groups and the lower skilled. The opposite holds for work-related parental leave schemes. The choice for one or the other model is normative, not in the least because of its great impact on the organization of ‘care’ and on the gender equality.

A third trade-off we mention here is that between expenses for ‘services’ versus ‘cash transfers’. Healthcare expenses will undoubtedly continue to rise in the future, while the need for education may also be expected to increase. These expenses are definitely redistributive and they are obviously also beneficial to the poor, but less so than cash transfers (Verbist and Matsaganis, forthcoming).

By emphasising the productive side of social policy⁴³, the literature on social investment and the European policy discourse tend to minimize these (and many other) trade-offs. The truth

⁴³ Social policy as a productive factor, Berghman Rhodes etc.

is however that there is little evidence showing that new incentive structures did substituted for ‘redistributional slack’.⁴⁴ Therefore the highly tensional question of (re-)distribution of resources to the most vulnerable will and should inevitably remain the core object of political conflict at the local, national and – increasingly – the European level.

6 Towards a Compassionate EU agenda on Protection, Social Distribution and Investment

This paper has focused on the changes – prior to the crisis – affecting the triad of work, social spending and poverty risks in the new (EU-12) and the old (EU-15) Member States of the European Union. Indications were found of the existence of two prevailing patterns incorporating elements of upward convergence. With the exception of Ireland, the dominant pattern in the EU-15 was one of more work, stable or slightly declining social spending and stationary or rising poverty. In many of the post-Communist countries, on the other hand, employment growth (which tended to be stronger than in the EU-15) did coincide with declining at-risk-of-poverty rates.

This gave rise to two questions: i) why did the countries of the old Europe (Ireland excepted), despite a period of economic growth and rising general employment, fail to make inroads in poverty reduction? and ii) why was the pattern observed in the post-Communist countries and in Ireland so different?

As will become apparent in the course of this book, the answers to those initial questions are complex and depend on a variety of factors. Moreover, there are notable divergences to be accounted for within the two predominant patterns. Still, empirical evidence suggests that most of the EU-15 did not succeed in closing the ‘virtuous circle’ of growth, employment and social inclusion as put forward under the Lisbon strategy and its underlying social investment paradigm; only in the most recent Member States did employment growth coincide with declining at-risk-of-poverty rates.

These trends are, in a general way, indicative of a convergence between the new and the old Europe, in terms of welfare and employment as well as social redistribution and relative income poverty. This should self-evidently be regarded as a major step forward in the European socio-economic project: the citizens of the poorer Member States became richer, broad population sections were able to benefit from expanding labour markets and relative income poverty declined. Given the urgency of socio-economic convergence, with a view to

⁴⁴ Streeck (2000, 552).

the shaping of a common social project within the Union, this should also be seen as a further important step towards defining and implementing a ‘Social Europe’. It is, after all, very clear that the rather substantial socio-economic differences between the EU Member States stand in the way of, or at least seriously hamper, pan-European agreements on social redistribution, including the setting of common standards for a guaranteed minimum income (see specifically Cantillon *et al.* forthcoming and Vandenbroucke *et al.* forthcoming).

However, the poverty rise or standstill in the rich and established European welfare states (and in some of the new Member States) points to imbalances in the EU’s first social agenda and its underlying social investment paradigm. With an all-encompassing focus on work, family policy as a productive factor and investment in human capital, it failed to take adequate account of the necessary balance between ‘investment’, ‘social distribution’, ‘care’ and ‘protection’. As argued above, *the logic of social investment entails a tendency to underestimate the workings of labour markets and the strong gravitational pull of social class, to consequently overestimate the potentiality of activation, enabling and developmental strategies, and to depreciate the question of redistribution, of social protection and of care for the most vulnerable.* Contemporary welfare states are clearly in need of powerful capacitating policies aimed at promoting inclusion through work, empowerment and more equality in education and in the labour market. However, better and compassionate social protection, more substantial redistribution from the rich to the poor and a care giving agenda are needed in order for the welfare state to enter a new and successful era, where decisive steps can be taken in the eradication of poverty. Europe should – much more so than is presently the case – draw on the notion of ‘compassion’, as advocated at length by Nussbaum: “A *compassionate society* is one that takes the full measure of the harms that can befall citizens beyond their own doing; compassion thus provides a motive to secure to all the basic support that will undergird and protect human dignity” (Nussbaum 2001, 414).

With the Lisbon Strategy – the first real Social Agenda in the political history of Europe – the EU put forward an ambitious social project. Although the shortcomings of the chosen instruments and prevailing policy paradigms are evidenced by the poor performance in the favourable years prior to the crisis, they certainly are a stepping stone towards more effective tools, on the explicit condition, that is, that adequate social protection and effective social redistribution are part and parcel of any effective investment strategy, and vice versa.

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Tables and figures

Table 1. Employment, Social Spending, Poverty and GDP.

	Pov. Threshold		Empl 15-64			Soc exp kind			Soc exp cash			Soc exp total			AROP <60 ¹			
	2004	2004-8 %	2004	2008	2004-8 pp	2004	2008	2004-8 pp	2004	2008	2004-8 pp	2004	2008	2004-8 pp	2004	2008	2009	2004-8 pp
Austria	10458	8,2	67,8	71,6	4,3	7,6	8,4	0,2	7,1	6,7	-1,0	14,7	15,2	-0,7	12,2	11,3	11,6	-0,9
Belgium	9320	12,6	60,3	61,6	2,1	7,6	8,6	0,3	7,8	8,7	0,0	15,5	17,3	0,3	13,5	13,1	13,7	-0,4
Czech Republic	4585	32,2	64,2	65,4	2,4	5,9	6,1	-0,5	4,7	4,6	-0,6	10,6	10,7	-1,1	11,8	9,0	9,7	-2,8***
Denmark	9513	13,0	75,7	75,7	2,2	9,7	11,6	0,7	9,0	8,8	-1,6	18,7	20,5	-1,0	11,3	12,1	12,9	0,8
Estonia	2837	69,0	63,0	63,5	6,8	3,7	5,2	0,7	3,5	5,7	0,4	7,2	10,9	1,2	17,9	16,5	15,9	-1,4
Finland	8481	22,2	67,6	68,7	3,5	8,3	10,0	0,6	8,0	8,0	-1,2	16,3	18,0	-0,6	10,5	12,3	12,3	1,8***
France	8702	21,7	63,8	64,0	1,0	10,6	10,6	0,0	6,7	6,6	-0,7	16,6	17,2	-0,6	12,5	13,7	14,8	1,2**
Germany	9391	14,7	65,0	70,3	5,1	9,0	10,7	0,1	7,7	7,2	-1,3	16,7	18,0	-1,2	11,9	15,4	15,8	3,5***
Greece	6450	17,4	59,4	61,2	2,5	8,0	9,9	1,3	3,3	3,8	-0,1	11,2	13,8	1,3	17,7	19,3	19,9	1,6*
Hungary	3337	22,9	56,8	55,4	-0,1	6,7	6,8	0,1	5,0	5,7	0,5	11,7	12,5	0,5	15,4	14,5	14,4	-0,9
Ireland	9048	16,7	66,3	61,8	1,3	7,0	10,9	1,7	5,1	8,8	1,6	12,1	19,7	3,2	17,8	14,7	16,7	-3,1**
Italy	8208	11,1	57,6	57,5	1,1	6,7	7,5	0,5	3,1	3,9	0,2	9,8	11,3	0,6	18,2	18,5	19,1	0,3
Luxembourg	16538	-1,9	62,5	65,2	0,9	6,5	6,7	-0,5	7,5	7,8	-0,8	13,9	14,5	-1,2	15,0	16,8	16,3	1,8
Netherlands	9612	20,0	73,1	77,0	4,1	7,8	10,7	1,9	7,6	7,3	-1,2	15,4	18,0	0,7	11,8	11,9	11,2	0,1
Poland	2855	55,0	51,7	59,3	7,5	3,4	4,0	0,5	4,5	3,5	-1,0	7,9	7,5	-0,6	23,1	17,8	18,4	-5,3***
Portugal	4942	14,2	67,8	66,3	0,4	7,1	7,6	-0,3	4,8	5,0	-0,3	11,8	12,6	-0,6	17,6	17,3	17,2	-0,3
Slovakia	2394	96,8	57,0	60,2	5,3	5,2	5,9	0,1	4,4	4,7	-0,7	9,6	10,6	-0,7	14,7	11,5	13,2	-3,2***
Slovenia	6946	24,5	65,3	67,5	3,3	7,3	7,8	-0,3	5,2	5,0	-0,9	12,5	12,8	-1,3	10,5	9,5	11,1	-1,0*
Spain	6993	19,9	61,1	59,8	3,2	6,5	7,8	0,7	4,8	6,8	0,7	11,3	14,7	1,4	17,6	18,3	20,8	0,7
Sweden	8648	30,2	72,1	72,2	2,2	10,4	11,7	0,3	8,3	6,6	-2,2	18,8	18,3	-1,9	9,8	12,9	12,8	3,1***
United Kingdom	10137	1,1	71,7	69,9	-0,2	9,6	10,8	0,1	4,5	5,2	0,2	14,1	16,0	0,2	17,8	16,2	16,3	-1,6*

¹ Standard errors take account of the fact that the poverty line has been estimated on the basis of the data and of the sample design (Cf. Goedemé 2011); ***, ** and * indicate statistical significance at the 5-percent, 10-percent and 15-percent level.

	AROP (total population) ¹		
	2004	2008	2004-8pp
Austria	12,3	12,0	-0,3
Belgium	14,8	14,6	-0,2
Czech Republic	10,4	8,6	-1,8***
Denmark	11,8	13,1	1,3**
Estonia	18,3	19,7	1,4*
Finland	11,7	13,9	2,2***
France	13,0	12,9	-0,1
Germany	12,3	15,7	3,4***
Greece	19,6	19,7	0,1
Hungary	13,4	12,4	-1,0
Ireland	19,7	15,3	-4,4***
Italy	18,8	18,4	-0,4
Luxembourg	13,7	14,9	1,2
Netherlands	10,8	11,2	0,4
Poland	20,6	17,1	-3,5***
Portugal	19,4	17,9	-1,5
Slovakia	13,3	11,0	-2,3***
Slovenia	12,2	11,4	-0,8*
Spain	19,7	19,5	-0,2
Sweden	9,3	13,4	4,1***
United Kingdom	19,1	17,8	-1,3**

¹ Standard errors has been estimated taking into account the sample design (cf. Goedemé 2011) and the fact that the poverty line has been estimated on the basis of the data (on the basis of DASP for Stata) (Araar en Duclos, 2007); ***, ** and * indicate statistical significance at the 5-percent, 10-percent and 15-percent level.

Employment rate: The employment rate is calculated by dividing the number of persons aged 15 to 64 in employment by the total population of the same age group. The employed population consists of those persons who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. (Source: EU-Labour Force Survey).

Social spending: Expenditure on social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs. In this table the risks and needs included are sickness/health care; invalidity; family/children; unemployment; housing; social exclusion not elsewhere classified. The functions 'Old age' and 'survivors' are not included in this table. (Source: ESSPROS).

At-risk-of-poverty rate (AROP): The share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). The risk-of-poverty threshold is calculated for the entire population, not just those aged under 60. (Source: EU-SILC).

Table 2. Indicators on working age (18-64) in the EU, 2004-2008 (EU-SILC 2005-2009)

	IN-WORK POVERTY (1)	SHARE OF POPULATION WITH WI=0 (2)	AT-RISK-OF-POVERTY-RATE WITH WI=0 (3)
Austria	-0.8	-0.79	3.83
Belgium	0.6	-2.63	3.34
Bulgaria	2.0	-7.34	12.77
Cyprus	0.5	-0.90	-5.61
Czech Republic	-0.3	-2.00	-2.18
Denmark	1.1	0.22	-2.37
Estonia	0.8	-3.20	0.27
Finland	0.0	-0.60	1.88
France	0.5	0.21	-3.00
Germany	2.0	-3.91	21.25
Greece	1.0	-0.82	-2.04
Hungary	-2.6	1.28	-5.15
Iceland	-0.2	1.85	2.53
Ireland	-1.0	8.72	-26.96
Italy	1.3	-1.05	-4.11
Latvia	2.3	-2.38	11.29
Lithuania	0.4	-3.60	7.74
Luxembourg	0.2	-0.49	5.74
Malta	0.9	-1.11	2.96
Netherlands	-0.8	-1.32	4.40
Norway	1.1	2.30	2.58
Poland	-2.8	-3.39	-6.20
Portugal	-1.2	0.74	1.60
Romania	0.1	-0.10	-14.50
Slovakia	-3.8	-1.48	3.69
Slovenia	0.2	-2.88	-2.72
Spain	0.9	0.90	-6.88
Sweden	1.5	-0.84	3.07
Switzerland	-1.4	0.09	0.29
Turkey	:		
United Kingdom	-1.7	5.06	8.34

(1) AROP of the population whose most frequent activity status over the course of the year was 'in employment'. Evolution based on EU-SILC 2005-2009, except for Bulgaria (EU-SILC 2006-2009), Romania (EU-SILC 2007-2009) & Switzerland (EU-SILC 2008-2009).

(2) Share of the population living in a household where work intensity is zero 0 (i.e. none of the members of the household have been in employment for one month or more). Evolution based on EU-SILC 2005-2009, except for Romania (EU-SILC 2007-2009) & Switzerland (EU-SILC 2008-2009).

(3) The AROP of the population living in a household with work intensity zero. Evolution based on EU-SILC 2005-2009, except for Bulgaria (EU-SILC 2006-2009), Romania (EU-SILC 2007-2009) & Switzerland (EU-SILC 2008-2009); At-risk-of poverty rate defined by cut-off point of 60 percent of median equivalized income after social transfers.

Figure 1.

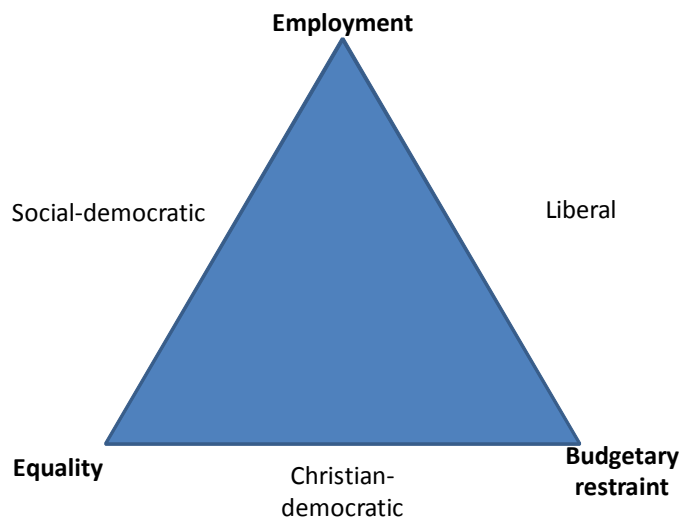


Figure 2. The Lisbon Strategy virtuous cycles and investment.

