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EUROFORUM

Policy making in an era of growing inequalities

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Issues

- Adding a pan-European perspective
- Universalism ⇔ targeting ***and*** cash ⇔ services

➡

a ‘non-naïve’ argument for social investment as a packaged strategy

Vandenbroucke, Diris, Verbist, *Excessive Social Imbalances and the Performance of Welfare States in the EU*, Euroforum Policy Paper (www.kuleuven.be/euroforum)

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Issues

- Adding a pan-European perspective
  - Moderates negative assessment ‘pre-crisis’
  - Reinforces negative assessment ‘post-crisis’
  - Underscores ‘social investment’ in a nuanced way, without denying tensions

- Universalism ⇔ targeting ***and*** cash ⇔ services
  - Ex post ⇔ ex ante
  - Arguments pro/contra targeting of cash cannot be ‘read’ in data
  - Legitimacy argument needs disaggregation *and* aggregation

→ ‘non-naïve’ argument for social investment as a packaged strategy

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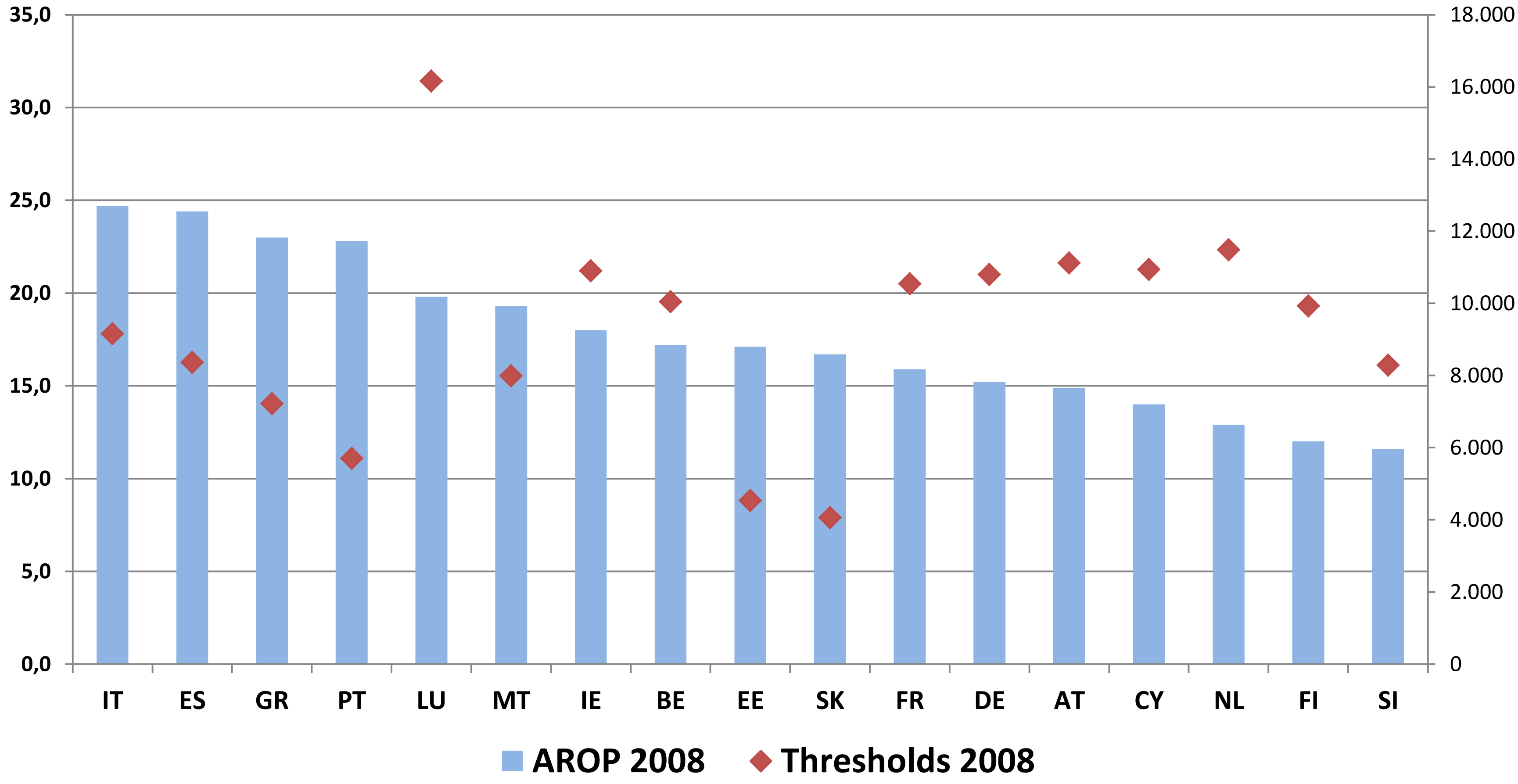
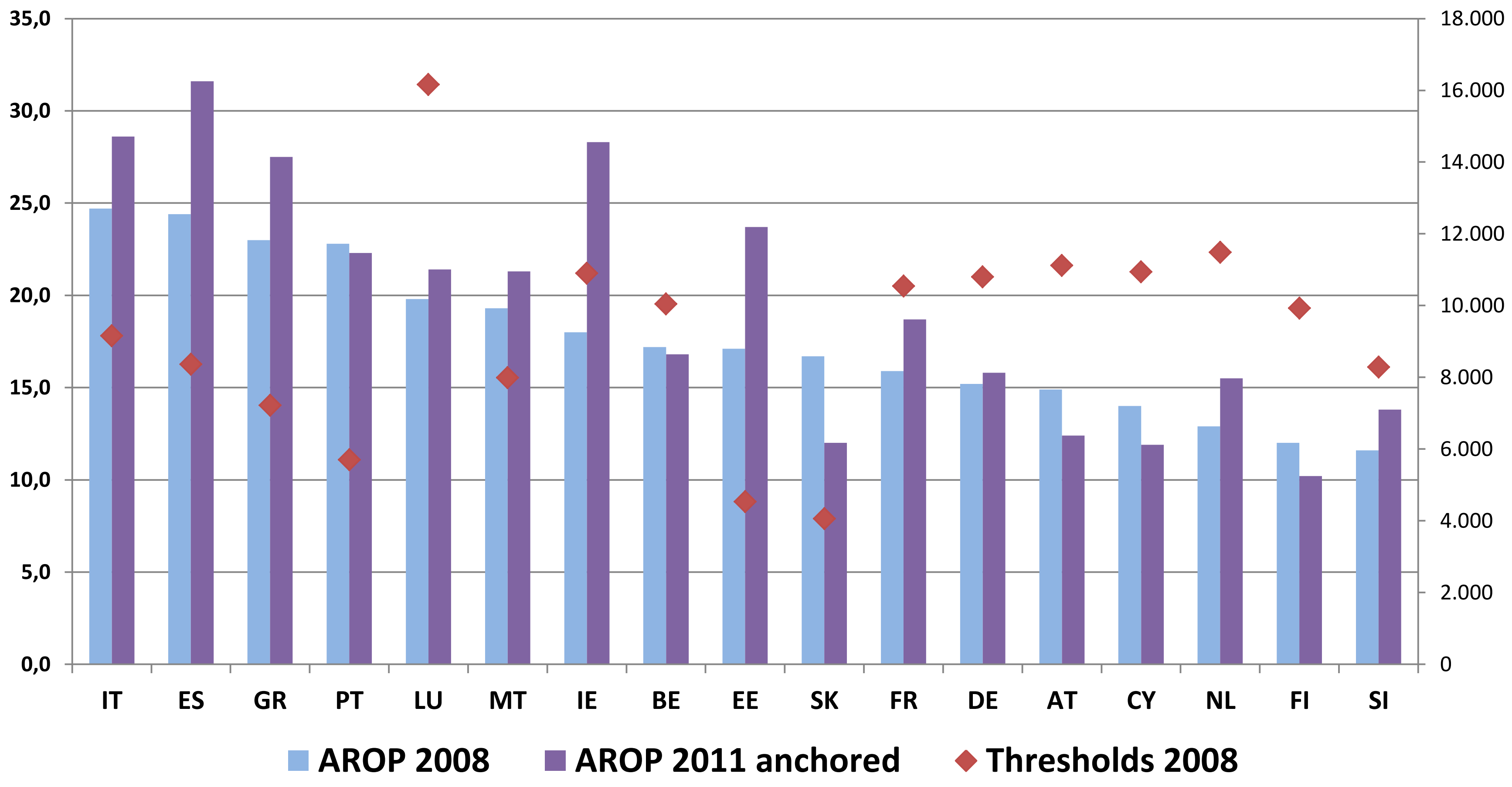
Child poverty in the Eurozone, SILC 2008



Child poverty in the Eurozone, SILC 2008-2011 threshold 2008



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Economic growth vs. inequality

- 'Anchored' poverty measures are affected by
  - Redistribution
  - Economic growth

- Impact economic growth dominates
- Especially true during crisis years
- Negative growth hurts more than positive growth helps

- Diverging (anchored) poverty rates are predominantly explained by the magnitude of the economic crisis in countries with high initial child poverty (*coincidence?)*

Excessive social imbalances

- Divergence threatens political legitimacy of EU

- High levels of child poverty signal investment deficits that may be *cause* and *effect* of underperforming welfare systems, i.e. underperforming…

    - Labour markets
    - Child care & education
    - Transfer systems

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Mapping child poverty (floating thresholds)
Data and model

- Explanatory variables:
  - Social spending on cash transfers and pensions
  - Household work intensity (two measures)
  - Pro-poorness of transfer and pension benefits
  - Social investment and human capital
  - Demographic dependency

- Data from EU SILC 2005-2010
- GLS model, using panel data
- We include:
  - Country fixed effects
  - Time fixed effects

Social spending

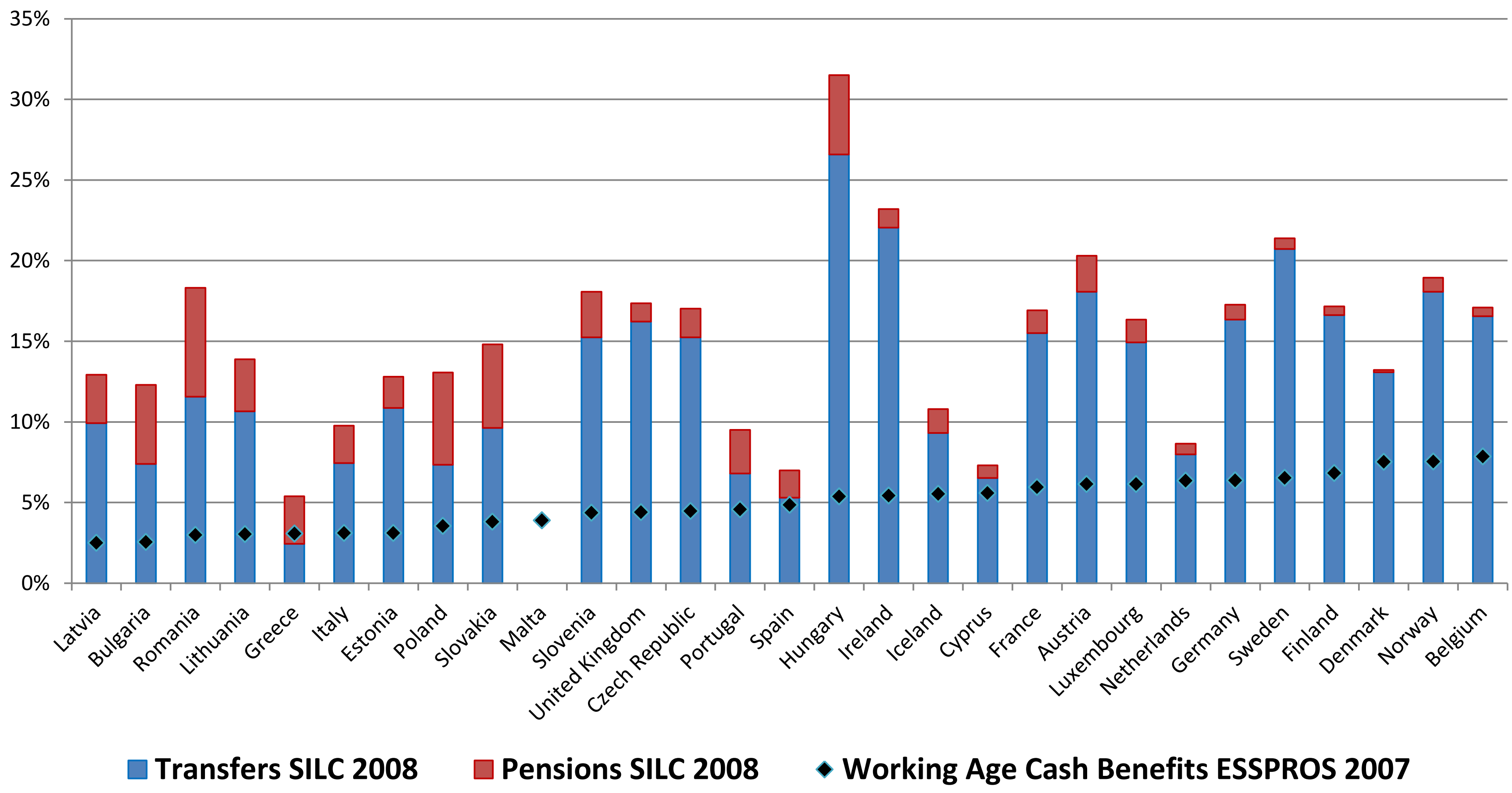
- Separate measures for transfer and pension spending, based on EU SILC

- Measured as share of household income

- Two different reference groups
  - Non-elderly population (0-59) for transfers
  - Child population (0-17) for pensions

- Using SILC and including pensions changes the traditional picture about low and high spenders (e.g. Hungary, Romania, Denmark and Belgium)

Transfers & pensions as % of dpi, age [0-17], SILC 2008 versus ESSPROS ‘working-age cash benefits’ % GDP, 2007



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Pro-poorness of spending

- We control for the size of spending, but also for how benefits are targeted *ex post* (≠ *ex ante*; ≠ means testing)

- We apply a measure of pro-poorness, similar to Korpi and Palme (1998): calculates how income components are distributed, irrespective of their size

- Where K-P find that this is negatively related to the size of spending (mid 1980s), our findings are different

  - Positive correlation between pro-poorness of transfers and size of transfers
  - No correlation between pro-poorness of pensions and size of pensions

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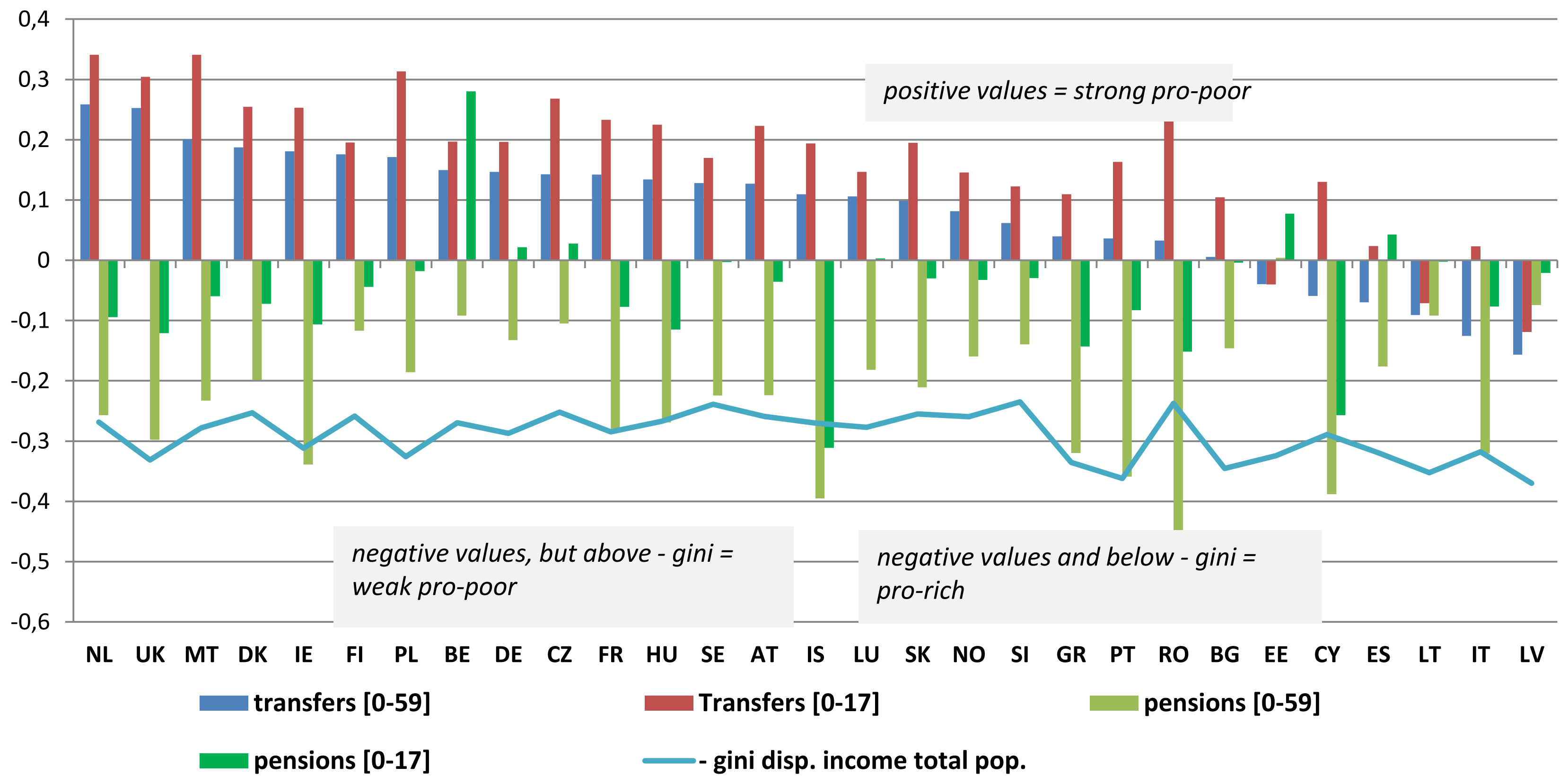
Age-specific pro-poorness indicators and -1*gini

Average values SILC 2005-2010; ranking according to pro-poorness transfers [0-59]



Household work intensity

- Focus on two population subgroups:
  - *Work poverty* = share of individuals in households with work intensity lower than 55%
  - *Severe work poverty* = share of individuals in households with work intensity lower than 20%
- We apply two controls for work intensity of the household (best fit):
  - *Work poverty*
  - *Relative severity of work poverty*

    = severe work poverty ***/*** work poverty
- *Work poverty* correlates with social investment
- *Relative severity of work poverty* correlates with polarization

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Results (1)

- Both transfers and pensions are negatively related to poverty, with roughly similar impacts

- Statistically significant effects of work intensity and pro-poorness of pensions (not of transfers)

- However, they explain only very little of the disparity in poverty rates across Europe in this FE model
    - Magnitudes of effects is modest
    - No country performs universally ‘bad’ or ‘good’ on all these indicators

- No additional explanatory power of human capital, social investment, GDP or dependency *in country FE model*

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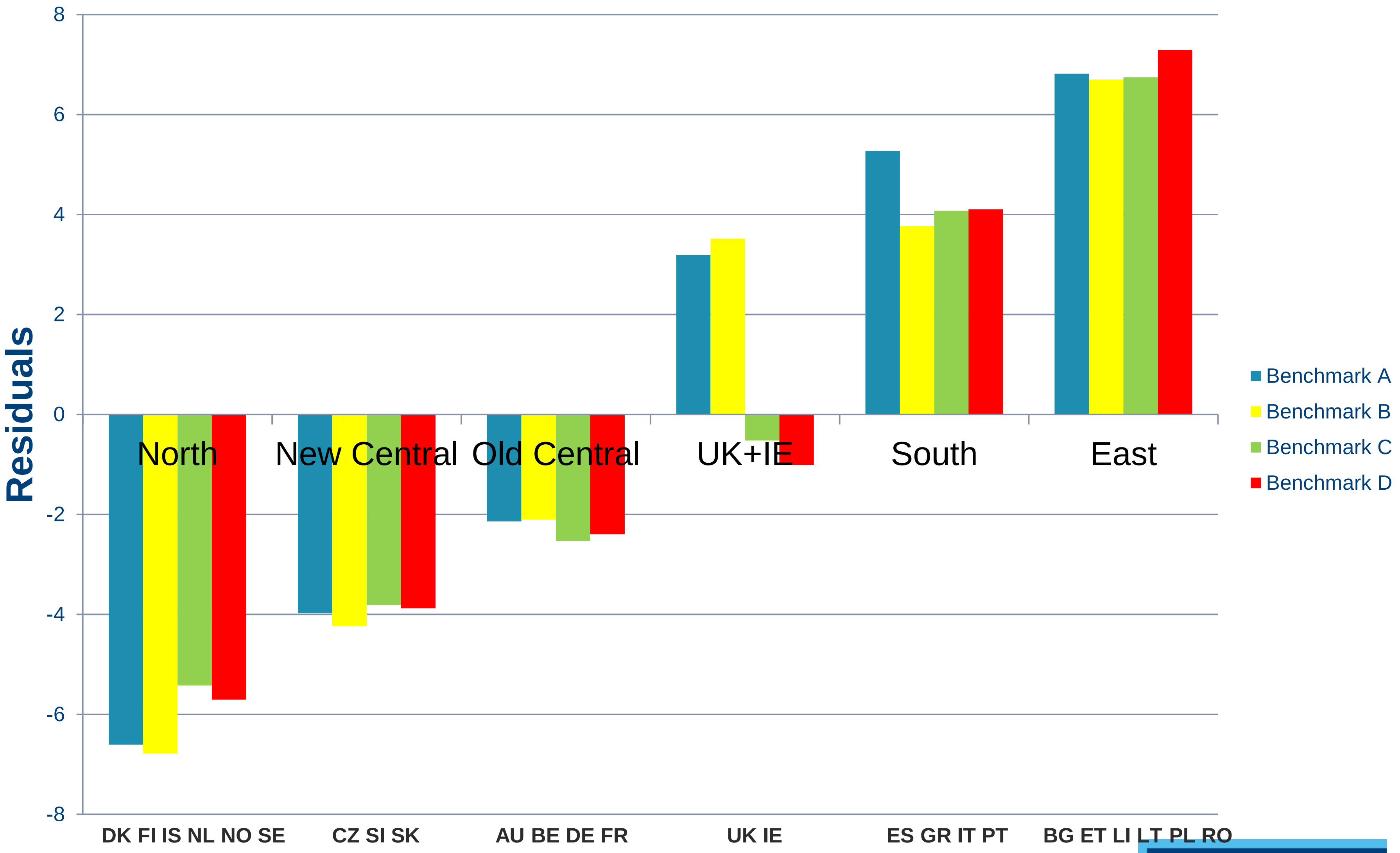
Results: efficiency scoreboard



Results (2)

- Unexplained disparity reflects differences in the underlying social fabric, which correlate with

  - Level and architecture of social spending
    - Transfer spending
    - Pension spending: **-**
    - pro-poorness

  - GDP per capita

  - Social investment

but are not readily ‘explained’ by these factors separately

Conclusions w.r.t. architecture of cash spending

- Pensions
  - Positive structural correlation of child poverty with pension spending (as feature of ‘underlying social fabric’)
  - Negative regression coefficient for impact of changes in pension spending that affect households with children

- Pro-poorness of transfers and pensions
  - *Positive* correlation pro-poorness transfers with size transfers
  - No correlation pro-poorness pensions with size pensions
  - Pro-poorness transfers has no impact on poverty, but impact on poverty reduction (=> impact on inactivity traps?)
  - Pro-poorness pensions has impact on poverty, but *no* impact on poverty reduction

Universalism and legitimacy

- An example of ‘selectivity in universalism’ in Belgian health care: the Maximum Billing System

- Universalism as support for ‘enlightened self-interest’

  - Enlightened self-interest vs. reciprocity
  - Reciprocity-based legitimacy (cf. Bowles)
  - Analysis requires both disaggregation and aggregation! (cf. Deleeck)

- Universalism as ‘shared experience’

  - Education (cf. chapter in GINI-book on education)
  - Health care

Conclusions: policy (1, domestic)

- Well-organized social protection and social investment are complementary strategies
- Increasing fragility of models relying on pension spending (w.r.t. child poverty): points to social investment, but also tensions between short term and long term.
- Argument in favour of combinations of universalism and selectivity (‘progressive universalism’) not contradicted by data; analysis should go beyond ‘reading the data’.
- Both employment creation and distribution of jobs over households matter (role of activation and supporting services)

Conclusions: policy (2, EU level)

- Excessive social imbalances must be incorporated in policy analysis and recommendations: economic and social governance cannot be dissociated

- No ‘one size fits all’ EU governance, but

  - more balanced approach to macro-economic coordination

  - greater room of manoeuver and support for member states that opt for a social investment strategy

  - policy guidance based on sufficiently stringent and constraining objectives (social outcomes) and scope for exploration/learning on ways and means to achieve outcomes.

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