Chapter 2

Social Security and Poverty Reduction

Cracks in the Post-war Policy Paradigm, Avenues for the Future[1]

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For more than a decade, organisations such as the IMF, OECD and ILO have issued concerns about the trend of increased inequality in rich welfare states. The influential works of globally leading experts such as Sir Anthony Barnes Atkinson, Nobel Prize winners Paul Krugman and Joseph Stiglitz, Thomas Piketty and, more recently, Branko Milanovic converge on one point: globalisation and technological progress are making the currents of social market economies more unequal. Even more worrying is the observation that since the beginning of the 1970s, rich welfare states have largely failed to make any further progress in combating relative income poverty, especially among the working age population. On the contrary, over the long run, in the Anglo-Saxon world poverty has increased in many countries. On the European continent, too, poverty remains a largely intractable problem for policy-makers (Cantillon and Vandenbroucke, 2014; Cantillon, Goedemé and Hills, 2018).

1 I am indebted to Linus Siöland and Zach Parolin for their valuable help with data collection.

Growing inequalities and the failure to make any progress in the fight against income poverty stand in contrast to the progress achieved during the 'Golden Age' of the flourishing welfare state in the 1950s and 60s. This pattern explains Piketty's and Milanovic's references to 'waves'. Although Atkinson tends to refer more to 'episodes' rather than to 'waves' he identifies, 'the welfare state and the expansion of transfers, the rising share of wages, the reduced concentration of personal wealth, and the reduced dispersion of wages' as candidates for explaining the period of falling income inequality until the late 60s while 'the main reason that equalization came to an end appears to be ... that these factors have gone into reverse (welfare-state cut-backs, declining share of wages, and rising earnings dispersion) or come to an end (the redistribution of wealth)' (Atkinson, 2015, p. 75).

In *Divided We Stand* (2011) and *In It Together* (2015), the Organisation for Economic Co-operation and Development (OECD) attempted to show how technological changes, globalisation, individualisation and the associated policies have sparked inegalitarian forces through complex, inextricable interplays. The prevalence of these trends across the world of rich welfare states—albeit with big differences in both levels and the pace of changes—fuels the idea of the existence of strong and ineluctable deterministic forces leading to increasing inequalities and mounting pressures on the most vulnerable in society.

It is against this background that this chapter focuses on trends regarding poverty reduction and social security. Are disappointing poverty trends related to a weakening of social security? And if so, to what extent can that be linked to a lack of political will to better protect the most vulnerable or to systemic limits, structural constraints and cracks in the post-war policy paradigm underlying social protection systems? It will be argued that there are no unequivocal answers to these questions. For that matter, differences across rich welfare states are far too big in terms of levels, structure and trends. However, it is posited that along with the great variation in national experiences, the changes in family, employment and wage structures are important structural trends that have affected the poverty reducing capacity of social security at a systemic level. As a consequence, although many welfare states started to work harder, in some countries including Australia, poverty among jobless households has increased while in others social protection has proven to be unsuccessful in reversing the upward trend in in-work poverty.

Henderson's Dreams, the Post-war Consensus and the Great Disappointment

In 1966, Ronald Henderson began Australia's first systematic attempt at measuring poverty in Australia by estimating the extent of poverty in the city of Melbourne. Later, in the 1970s, these issues were addressed in the first report on Poverty in Australia. Henderson had two metaphorical dreams as did contemporary scholars elsewhere in the world of rich welfare states.[2] He had a strong optimistic vision about the role of social security in delivering adequate incomes for all. He also believed that the measurement of poverty would enable policymakers to define and monitor the impact of their policies. This would ultimately contribute to continued progress in the fight against poverty.[3] His pioneering empirical work on poverty was an important stepping stone for what would eventually become a worldwide 'social indicator movement'.[4]

Regrettably, however, after the undeniable progress achieved in the immediate post-war decades, rich welfare states have failed since the 1980s to make any further progress for the poor. This stands in stark contrast with Henderson's dream, the tremendous improvement in statistics and knowledge about the effectiveness of redistributive policies, the advent of the social indicators movement and the policy goals formulated by many national governments and international organisations.[5] While the deteriorating position after the onset of the great financial crisis may be unsurprising, it is the

2 In Belgium the first representative survey on living standards and poverty was launched by Herman Deleeck in 1978 (Deleeck et al., 1980). He also pioneered the development of social indicators in Europe (Deleeck, et al., 1992).

3 '… what we measure shapes what we collectively strive to pursue—and what we pursue determines what we measure' (Stiglitz, Sen and Fitoussi, 2009).

4 As described by Land and Michalos (2017), the contemporary era of research and reporting on social indicators has its origins in the social indicators movement of some fifty years ago.

5 In Europe, the bold 'eradication of poverty' strategic social policy goal of the Lisbon Strategy in the 2000's was replaced by the more concrete Europe 2020 targets, which aim to reduce by 20 million the number of persons living in poverty, jobless households or people experiencing material deprivation.

lack of progress in the pre- and post-crisis years that suggests the existence of structural constraints against which welfare states seem, to a greater or lesser extent, to be powerless.

Table 2.1: Poverty trends among the working age population, mid-90s to most recent data

	Mid-90s*				2010 (or latest available)**			
	Total	Working age	WI = 0***	WI > 0****	Total	Working age	WI = 0***	WI > 0****
AU	18.7%	14.2%	55.7%	8.4%	19.8%	13.0%	67.4%	7.5%
BE	14.9%	11.0%	37.9%	7.4%	15.3%	13.2%	50.6%	6.8%
NL	12.6%	12.1%	40.3%	7.6%	11.4%	12.3%	45.1%	7.4%
UK	18.3%	14.0%	48.2%	7.5%	15.4%	13.3%	47.7%	9.2%
US	23.6%	18.8%	64.2%	14.3%	23.9%	20.5%	62.9%	15.8%

* = 1995 for Australia, Belgium and the UK, 1994 for the US, 1993 for the Netherlands.
** = 2010 for AU, 2016 for US, 2012 for BE, 2013 for NL and UK.
***WI = 0 defined as no working age household members (excl. students) in employment.
****WI > 0 defined as all other households.
Source: Luxembourg Income Study data, EU-SILC.

Table 2.1 shows levels and trends in income poverty among the working age population (using the European threshold that is defined at 60 per cent of equivalised median household income[6]) in five countries: Australia, the UK, the US, Belgium and the Netherlands. Rates among the working age population range between 24 per cent in the US, 13 per cent in Australia and 11 per cent in the Netherlands. Since the mid-1990s, the figures have remained remarkably stable: among the working-age population, despite the general increase in employment and incomes, no country succeeded in substantially reducing poverty. However, in Australia, the Netherlands and Belgium, poverty increased significantly among work-poor households—defined as households in which no household member between the ages of 20 and 59 are in employment—while the UK and the US saw further increases in 'in-work poverty'. In Australia, poverty among jobless

6 This is one of the central indicators used in European social governance. Two premises underlie this choice: a) each household should have at its disposal the minimum income required for participation in its society, and b) on the national escalators of income growth (or decline) the discrepancy between those at the bottom and those in the middle should decrease, if we are to claim success.

households increased from 55.7 per cent in the 1990s to around 67 per cent today. While the significant differences across countries, in levels, structures and trends, point to the decisive impact of institutions and policies, the overall disappointing long-term tendencies signal growing pressures on the welfare state's capacity to reduce poverty. More specifically, the simultaneous prevalence since the 1990s of disappointing poverty trends, on the one hand, and increasing incomes and employment, on the other, fuels the idea of social security weakening. Has the most powerful poverty-reducing instrument at the welfare state's disposal become less effective? And if so, why? These issues are now addressed.

The Decline of the Wage Share and the Skewed Distribution of Jobs in the Post-industrial Era

Since the second half of the 1970s, social security systems have undeniably sailed into choppy water. At least in three areas that are important for their functioning, there have been trends that contrast with those observed in the post-war period of the flourishing welfare state. As a consequence of the changing employment and family structure and the decoupling of productivity and (low) wage growth, the distribution of jobs among individuals and households has become more unequal while pressures on minimum incomes have increased.

The Unequal Distribution of Jobs Among Individuals

For several decades, despite the major growth in employment before and after the financial crisis in 2008, the employment rate among the low skilled remained well below full employment levels in all countries, albeit at very different levels. Figure 2.1 compares employment rates for people with less than upper secondary or post-secondary non-tertiary educational qualifications between 1990 and 2016. Even in Australia where overall employment levels are high, employment rates among individuals with little education have never significantly exceeded 65 per cent.[7] The average for the OECD is 56 per cent. Clearly, everywhere, to a greater or lesser extent, the significant rise of employment benefited the low skilled only marginally. As a

7 See OECD (2017), Employment by education level, and OECD, *Education at a Glance*, 2014.

consequence, in the new era of the welfare state, full (or nearly full) employment for more highly educated individuals has been accompanied by structural under-employment among people with low levels of education. There is, moreover, ample evidence for the deterioration of the working conditions among low-skilled workers, especially in countries where employment levels are high. Precarious, uncertain and unpredictable work increased in a large majority of countries (see, among others, Kalleberg, 2009). Clearly, the skewed distribution of jobs among individuals and the flexibilisation of employment contrast with full employment (among men) and relative job security that characterised the three decades following World War II.

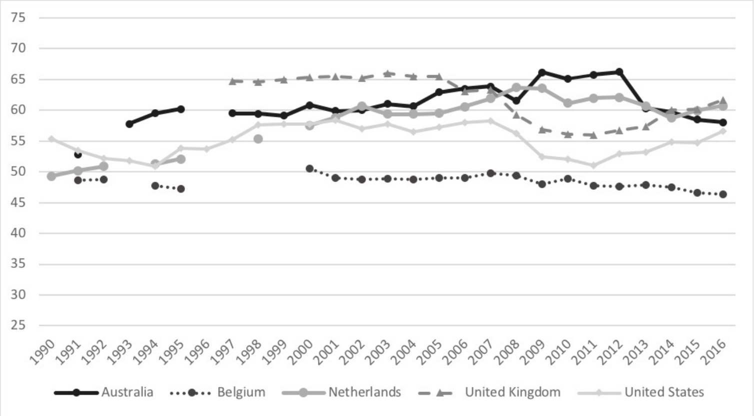

Figure 2.1: Levels of employment (%) for people with below upper secondary education

Source: OECD (2017), *Education at a Glance*, OECD, Paris.

The Unequal Distribution of Jobs Among Households

Driven by forces of modernisation and complex changes in family structure (see chapter 4)—the increase in the number small household as a consequence of individualization, the emergence of two-earner households combined with assortative mating—in many countries the unequal growth in employment resulted in an increasingly skewed distribution of jobs across households (for an extensive analysis of job polarisation in Europe, see Corluy and Vandenbroucke,

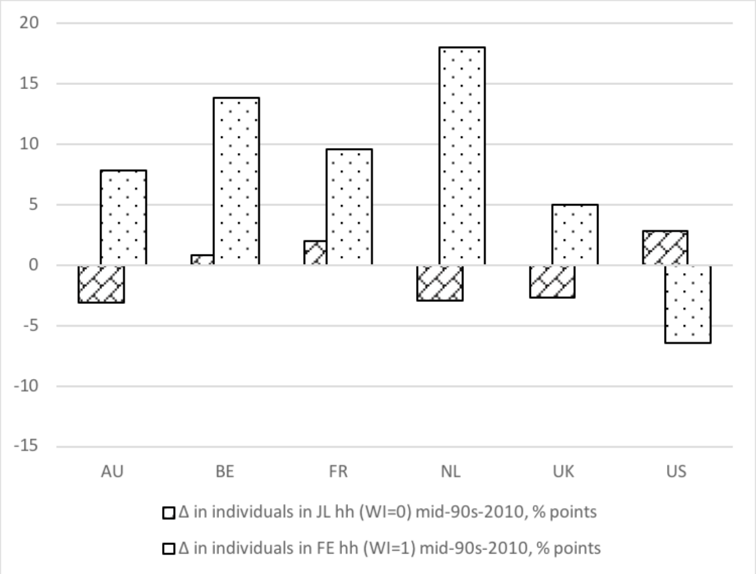

Figure 2.2: Household and employment changes for six countries, mid-90s to 2010, LIS and EU-SILC, ILO concept of employment

* = 1995 for Australia and UK, 1994 for France and US, 1993 for Netherlands, 1992 for Belgium.

Source: Luxembourg Income Study data, EU-SILC.

2014). With the notable exception of the US,[8] the share of so called 'work rich' households increased significantly while the decrease of the number of 'work poor' households has been much more modest or even non-existent. The trends for Australia, Belgium, France, the Netherlands, the UK and the US are displayed in Figure 2.2. Jobless households are those that have a work intensity that equals zero, where no working age adults are in employment for at least one hour in the week prior to the survey. Non-jobless households are defined as those having a work intensity higher than zero, ranging upwards from households where at least one working age member is in employment for at least one hour. Finally, full-employment households are those

8 The contrasting trend in the US is mainly rooted in an increase in jobless households, and associated decrease in in-work households during and in the aftermath of the Global Financial Crisis. If the latter comparison point is 2007 instead of 2010, the levels are very similar to those seen in the mid-1990s.

where all working age members are in employment. Jobless households are typically low-skilled, small households that are obviously highly dependent on social protection. Since the 1990s, in Belgium and France, a significant increase in the share of work-rich households was accompanied by an increase of the number of work-poor households, while in the Netherlands, the UK and Australia the increase of work richness at the household level was much stronger than the decrease of work poorness. In Australia, the number of jobless households decreased by 3 percentage points while the number of work-rich households increased by 8 percentage points. This polarisation contrasts with the widespread availability of jobs among households in the post-war era when the single breadwinner model largely prevailed.

The Decoupling of Productivity and Wage Growth

Over the past decades productivity growth has decoupled from real wage growth.[9] This process is illustrated in Figure 2.3. Although there are important cross-national differences, the trend seems to be universal. It is likely driven by technological innovation (the replacement of labour by machines, computers and robots) and globalisation (the relocation of labour), reinforced by work-centred welfare state reform, in particular policies of wage moderation and labour cost reductions, which have been considered necessary to cope with growing global competition. Importantly, in all countries displayed in Figure 2.3, we also observe a decoupling in the pace of growth of minimum wages compared with average wages. Since the early 1990s, average wages increased by 32.8 per cent in Australia, 19.9 per cent in Belgium, 15.7 per cent in the Netherlands, 41.5 per cent in the UK and 35.7 per cent in the US. The corresponding increases in minimum wages were 21.1 per cent, 4 per cent, -1.9 per cent, 34.7 per cent[10] and 6.5 per cent respectively. This is a third important contrast with the three decades following World War II, which were characterised by constant increases in the wage share.

9 See https://www.oecd.org/eco/Decoupling-of-wages-from-productivity-Macro-level-facts.pdf.

10 Note that the UK comparison point for minimum wage development is 2000 rather than the early 1990s, due to it not having a statutory minimum wage prior to this point.

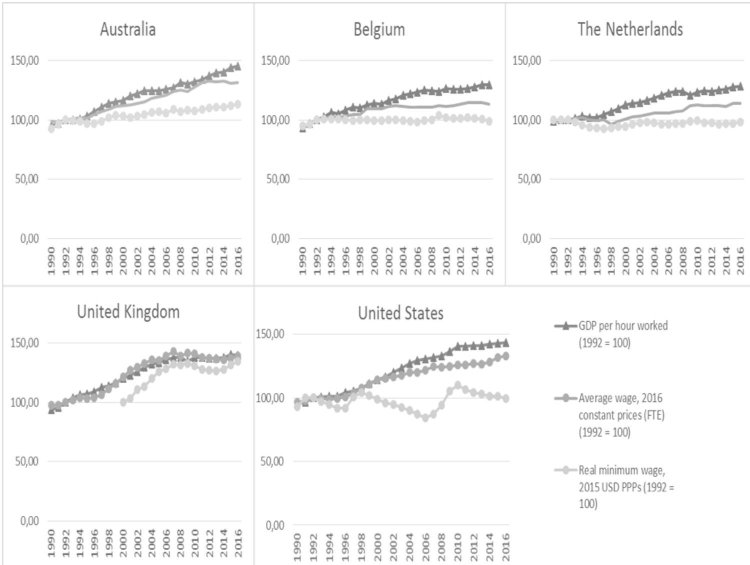

Figure 2.3: Change in GDP per hour worked, average wages on 2016 constant prices and real minimum wages, using 1992 as index year

Source: OECD (2018) "GDP per hour worked", OECD Productivity Statistics (database); OECD (2018) 'Average wage' and 'Real minimum wages', Employment and Labour Market Statistics (database).

The Poverty-reducing Capacity of Social Security Under Strain

The major breaks in post-war trends in household, employment and wage structure put systemic strain on the *modus operandi* of social security systems—defined as comprehensive arrangements consisting of distinct but mutually complementary layers of means-tested social assistance, contribution-based social insurance and occupational pensions. We posit that, although these trends do not necessarily lead to a reduction in the poverty-alleviating capacity of social security in practice (see below), they make it in principle more difficult for social security systems to function.

The Modus Operandi of Social Security

Traditionally, three types of social security systems are distinguished: the Anglo-Saxon or Beveridge-like type (flat rate, contribution based, principally guaranteeing minimum income protection); the continental or Bismarckian type (social insurance linked to the employment status, contribution based, proportional benefits to replace income from work, principally guaranteeing living standards); and the 'demogrant systems'(citizen's based, flat rate, tax based, principally guaranteeing minimum income protection) in the Scandinavian countries and the Netherlands. In practice, however, these types never came in pure form or exclusively. Rather, social security must be seen as global systems with different, distinct and mutually complementary layers in which means-tested social assistance, contribution-based proportional benefits and occupational pensions co-exist to varying degrees. The relative weight of these layers varies across countries and changes over time.

Although alleviating poverty is neither the principal nor the primary purpose of many social security systems (especially not on the European continent), there is no denying that social security is among the most potent redistributive tools at welfare states' disposal.[11] Social security is grounded on the principles of reciprocity and solidarity. It reduces poverty risks through mechanisms of horizontal and vertical solidarity, on the one hand, and by prevention and repair of social risks, on the other (summarised in Table 2.2).

The principal toolset of social insurance is modelled after the '*piggy bank'* principle of private insurance (Barr, 2001): in return for a financial contribution to the system, the insured are entitled to certain benefit levels when affected by a covered risk. In the case of social security systems, however, the actuarial logic is complemented (to varying degrees) with the principles of horizontal and vertical solidarity.

First, unlike in private insurance, in many social insurance systems the linkage of risk and contributions is either non-existent or weak: high-risk groups pay the same contributions as low-risk groups. In the case of unemployment, for example, contributions are not linked with education even though the actuarial risks for high- and low-skilled people vary enormously. And in the case of health insurance, a healthy twenty-five-year-old pays the same as a

11 See Verbist and Matsaganis (2014) for a comparison between poverty reduction through taxes, transfers and services.

seventy-five-year-old heart patient. This way, social security systems offer an element of *horizontal* solidarity (from low-risk to high-risk groups) that is much stronger than under private insurance schemes.

Second, social security systems incorporate techniques to provide adequate protection for those who were not able to accumulate sufficient entitlement rights. Multiple techniques are used to this end, such as uncapped contributions on wages combined with minimum and maximum benefits; the adjustment of benefits for household composition; income targeting, and so on. They provide, to a greater or lesser extent, elements of *vertical* solidarity from higher to lower incomes.

There are inherent tensions between horizontal and vertical solidarity. Systems that are geared strongly towards protecting living standards based on an actuarial logic (for example the European Bismarckian systems) will be less concerned with vertical income redistribution, which then becomes a matter for taxation and social assistance schemes. Conversely, systems that put minimum income protection first (for example the Beveridge systems) will provide less protection of the living standards of higher earners, leaving this aspect largely to private insurers.

More recently, and increasingly emphatically since the second half of the 1990s, social security has been assigned a third objective, that is social risk *prevention*, primarily through labour market integration. Although social security systems, like private insurance schemes, have always necessitated accompanying measures in order to deal with 'moral hazard', 'prevention' is increasingly evolving from a purely supportive social security function to a *social security objective in its own right*. Social security systems are thus deployed as a means not just of damage compensation but also damage prevention and repair. With this evolution, a second tension has sneaked into the system, namely between decommodification (that is, through social entitlements that immunise people from market dependency) and recommodification (that is, worsening entitlements in order to increase labour market participation).

Table 2.2 summarises the principles underlying social security, the techniques, the theoretical impact on poverty reduction and the drawbacks of different approaches.

Table 2.2: The poverty reducing capacity of social security: modus operandi, poverty reduction and drawbacks

Modus operandi	Techniques	Poverty reduction	Drawbacks
Horizontal redistribution	– equivalence of contributions/ benefits – no linkage of risk and contribution	Dependent on linkage of risk (ex post) and need	Cost
Vertical redistribution	– minimums/ maximums – uncapped proportional contributions on wages – taxation – means-testing	Dependent on: – design – take up – generosity – unemployment traps	– unemployment traps – legitimacy to higher-income groups – stigma
Prevention and repair	– carrots: in work benefits; parental leave; education and training; – sticks: conditionalities, low benefits	Dependent on success of active labour-market policy for households with low work intensity	– cost – job availability

Source: OECD (2018) "GDP per hour worked", OECD Productivity Statistics (database); OECD (2018) 'Average wage' and 'Real minimum wages', Employment and Labour Market Statistics (database).

The Decreasing Poverty-reducing Capacity of Social Security in Principle

We now turn to our central argument: how might the breaks described in the previous section have affected the *modus operandi* of social security systems and their poverty-reducing capacity?

As noted, central to the social security paradigm is the notion of *horizontal* redistribution from the healthy to the sick, from the employed to the unemployed, from the young to the old. This insurance technique presupposes: a) a large spread of risks across the population; b) non-predictability; and c) risks that are not too strongly exposed to moral hazard. When risks are predictable, concentrated too much among certain groups in society and/or easily malleable, it becomes difficult for social security to serve as a piggy bank. This is typically the case for many of the so-called 'new social risks', such as divorce, the work-family balance, in-work poverty and long-term unemployment (Bonoli, 2005). Divorce is obviously very liable to moral hazard; the uptake of parental leave or working part-time are subject to choice; while long-term unemployment is a highly asymmetric and predictable risk to which the insurance paradigm is unable to formulate an adequate answer.

Moreover, it can also be argued that, on a systemic level, the poverty-reducing impact of horizontal redistribution has declined. The *extent* to which universal horizontal distributive mechanisms reduce poverty depends on the ex-post distribution of social risks or, put differently, on the connection between risks and needs. For example, because low-income groups face higher risks of illness and unemployment than higher-income groups, the horizontal solidarity implied in these social insurance systems also effectuates vertical redistribution from rich to poor. Entitlements aiming at balancing work and care stand on the other side of the continuum because the uptake of parental leave is typically higher in two-earner households. Therefore, the coverage of new social risks such as benefits aiming at balancing work and family tend to diminish the poverty-reducing capacity of social security spending.

The link between *prevention/activation* and poverty reduction, finally, depends on: a) the approach taken (for example too strong a focus on keeping benefits low to make work pay can induce poverty); and b) the success ratio of activation measures, particularly in respect of reducing the number of jobless households. Because unemployment among the low skilled remains relatively high in most countries even though employment levels have reached very high levels, the tension between *decommodification*—adequate income protection for the jobless—on the one hand, and recommodification—activation and the fight against unemployment traps—on the other hand, remains high on the political agenda and in public discourse. This is the case even though the disappointing growth of employment among low-skilled persons highlights the limits of activation and prevention strategies deployed by tax benefit systems.

The effectiveness of *vertical* redistributive mechanisms in reducing poverty depends on: a) the take up of benefits; b) whether or not unemployment traps present themselves; and c) the adequacy of protection levels for the most needy households. It can be argued that, as a consequence of downward pressures on low wages and persistent under-employment of the low skilled described earlier, the poverty-reducing capacity of vertical redistributive mechanisms is compromised too. This is where we now turn.

A Social Trilemma[12]

As a consequence of downward pressures on low wages and structural under-employment of low-skilled people, social security systems now face tensions in their attempt to: (1) provide adequate incomes to families with children while simultaneously (2) making work pay and (3) keeping social spending in check. These tensions can be conceptualised as a 'social trilemma', or a three-way trade-off between adequacy of incomes, welfare state effort, and financial incentive to work (see Figure 2.4).[13] The ability of welfare states to balance each of those three objectives is constrained by the level of gross wages relative to median incomes; accordingly, to compensate for stagnation or decline of low gross wages welfare states should work harder while using instruments other than social security (for example tax credits).

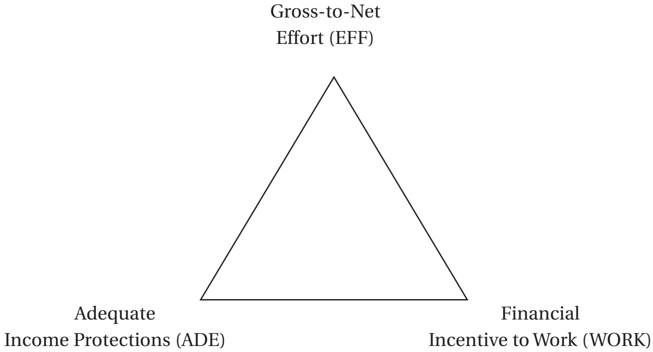

Figure 2.4: Framework for social trilemma of adequate income protection, financial incentives to work, and gross-to-net welfare state effort

Source: Cantillon, Parolin and Collado (2018).

12 This section relies largely on Cantillon, Parolin and Collado (2019).

13 See Cantillon (2014), Cantillon, Goedemé and Hills (2019) and Cantillon, Parolin and Collado (2019).

A hierarchy of incomes exists within the 'fabric of the welfare state'. In general terms, politics dictate that the disposable income of low-wage earners should be higher than the minimum incomes of jobless people. Given the inadequacy of the wage floor in many countries, including Australia (see below), it has become increasingly difficult for welfare states to guarantee adequate income protection for low-wage earners and work-poor households while preserving (or increasing) financial work incentives. Thus, wages towards the bottom of the earnings distribution act as a 'glass ceiling' over the adequacy of minimum incomes; when low wages stagnate or decline relative to median incomes, it becomes increasingly difficult for minimum incomes to lift non-working households towards or above the poverty threshold. This is especially a problem for lone-parent families because they rely on a single income while double incomes have become the societal norm, pushing up median household incomes.

This is illustrated in Figure 2.5, which shows the levels of a) the gross minimum wage, b) the disposable income of a lone mother with two children working full time on the minimum wage, and c) the disposable income of the same family type in the case of joblessness, expressed as a percentage of the poverty threshold, defined as 60 per cent of equivalised median income.[14]

To begin with, and as a general rule, in all countries gross minimum wages largely fall short of the level required to protect families with children against poverty. However, there is a large variation in the relative values of the gross minimum wages across countries, ranging from a low 45 per cent of the poverty line in the US to a high 74 per cent in the UK.

All countries provide substantial direct additional income support to families that rely on low wages in the form of child benefits, wage subsidies and other in-work benefits. These efforts range

14 Admittedly, this threshold is defined rather arbitrarily, while the indicator builds on the assumption that economies of scale at the household level are proportional to the level of household income and constant across countries. The contextualisation of these thresholds by means of the EU reference budgets (see Cantillon, Goedemé and Hills, 2019) suggests, however, that in many cases the European at-risk-of-poverty thresholds *underestimate* the minimum financial resources that a household requires for adequate social participation. It is important to keep this in mind when interpreting the results shown in Figure 2.5.

from a high 47 per cent of the poverty threshold in Australia, to 35 per cent in the US and a low 12 per cent in Belgium.

Turning to social protection levels, it appears that in all countries except the UK, net income packages for jobless families with children fall substantially short of poverty thresholds. Disposable incomes of jobless lone parent with two children range from less than 40 per cent of the poverty line in the US, 78 per cent in Australia and adequate levels in the UK. It should be noted however, that the good result for the UK might be affected by the OECD housing cost assumption of 20 per cent of average wages. This leads to quite high housing costs, and as a result a slightly higher housing allowance (compare with Cantillon, Marchal and Luigjes, 2019.

Finally, and not unimportantly, there is also a large variation in the wedge between net income at the minimum wage and the net level of social assistance benefit (that is, the financial incentive to work): some countries accept very limited financial work incentives (for example Belgium), while in others the financial gains are exceptionally high (for example the US and, to a lesser extent, Australia). In Australia and the US, the difference between minimum incomes for jobless households (social assistance) and net income at the minimum wage is larger than 40 per cent and 123 per cent respectively of the poverty line. Belgium and the Netherlands have installed financial incentives in a broad range of 13 to 37 per cent respectively of the poverty threshold.

In terms of adequacy, according to these indicators only the UK can be considered here as a 'high road country' where the packages for both in- and out-of-work lone parents are above the poverty threshold. Elsewhere in Europe, only two countries belong to this group, Ireland and Denmark (not shown in Figure 2.5, but see Cantillon, Marchal and Luigjes, 2019 for details). Australia can be considered as a 'middle road country', since its guaranteed income package for a working lone-parent family exceeds the poverty threshold, but for jobless lone-parent families it largely falls short. The other countries in Figure 2.5, including Belgium, the Netherlands and the US, are all on a 'low road' where both in-work and out-work income protection is inadequate.

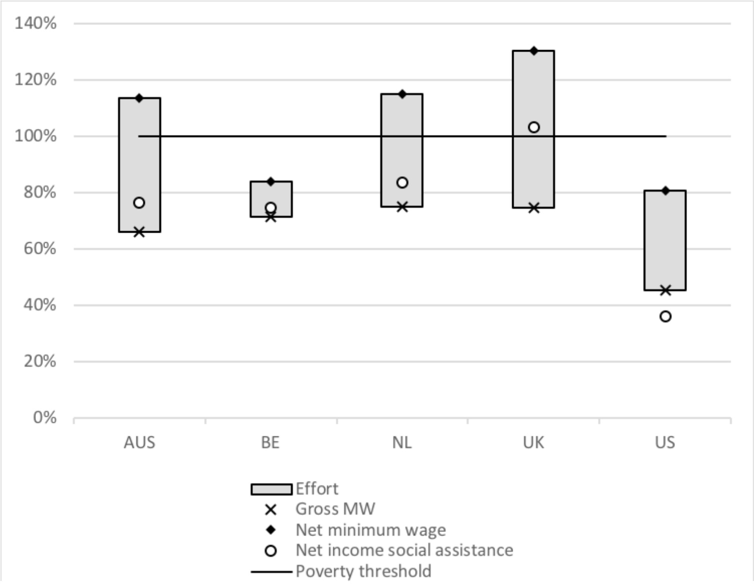

Figure 2.5: The adequacy of minimum incomes for household with lone-parent and two children, expressed as % of the European poverty line defined as 60% of mean equivalised household income, 2015

Source: Household income and wages from *OECD Benefits & Wages Calculator*.

European poverty line: 60% of median disposable household income, equivalised using OECD Square Root Equivalence scale. Retrieved from *OECD Social Protection & Wellbeing: Income Distribution and Poverty.* Australian 2015 figures uprated from 2014 using OECD CPI.

Although optimal policy mixes cannot be readily derived from these data—they should take into account such things as the large variation in activation policies, the share of low-paid work, additional cost compensations, budget constraints and other contextual variables—the presented combined indicators provide a useful indication of social imbalances in different countries. The indicators suggest that, to make minimum incomes more adequate, some countries should consider an increase in the 'gross-to-net' effort in the first place (for example Belgium); others must rebalance gross minimum wage, minimum income protection and financial work incentives (for example Australia); while in another set of countries there is room for increasing gross minimum wages (for example the

US). In almost all cases, however, increased welfare state efforts are needed.

So, how did welfare states respond to downward pressures on low wages? It appears that in three out of the five countries where gross minimum wages decreased between 2005 and 2015 (displayed in Table 2.3), in-work benefits and/or child benefits increased in order to elevate the take-home pay of lone parents on the minimum wage. In Belgium, the Netherlands and the UK, increased efforts went along with real increases of minimum income protection for the jobless. In Australia, however, the decline in the gross minimum wage was not compensated for by increased welfare effort. This resulted in a substantial decrease of the adequacy of the social floor compared to the poverty threshold. The very strong increase in poverty rates among jobless households in Australia shown in Table 2.1 might be linked to this observation.

Table 2.3: Gross minimum wage (MW), wage floor (net income on MW) and social floor (net income on social assistance) for household with lone parent with two children, percentage of the European poverty line defined as 60 per cent of mean equivalised household income

	Gross MW		Wage floor		Social floor		Effort (wage floor/gross MW)		Work incentives (wage floor/ social floor)	
	2005	2015	2005	2015	2005	2015	2005	2015	2005	2015
AUS	80.79	65.90	128.60	113.69	87.45	76.58	1.61	1.74	1.47	1.49
BE	76.87	71.54	82.15	83.86	70.11	74.49	1.07	1.17	1.17	1.13
NL	74.69	74.92	94.10	114.84	78.35	83.63	1.26	1.53	1.20	1.37
UK	68.68	74.46	123.30	130.47	97.34	103.21	1.80	1.75	1.27	1.26
US	38.15	45.24	62.93	80.61	36.41	36.11	1.65	1.78	1.73	2.23

Source: Household income and wages from *OECD Benefits and Wages Calculator*. European poverty line: 60% of median disposable household income, equivalised using OECD Square Root Equivalence scale. Retrieved from *OECD Social Protection and Wellbeing: Income Distribution and Poverty*. Australian 2015 figures uprated from 2014 using OECD CPI.

Overall, these indicators suggest that retrenchment has not been the general rule. On the contrary, some countries started to work harder to compensate for the sluggish growth of low wages. This conclusion is obviously based on a very small number of countries and a tiny range of indicators. Moreover, linking the receipt of benefits with conditions in terms of employment and parental behaviour remains under the radar of studies looking at the impact of changes in benefit levels. To what extent can we generalise the statement that at least some welfare states did increase their efforts to compensate for the pressures on the systemic poverty reducing capacity of social security?

Poverty Reduction in Practice: What Do We Know?

It is extremely difficult to measure the impact of policy changes on poverty reduction because of the complexity of tax and benefit systems and the many interactions with social, demographic and economic changes. The classic 'pre and post' approach—comparing the number of poor households before and after taxes and transfers—is problematic in that it fails to take into account the impact of policies on the underlying distribution (for example the impact of benefits on employment rates). Results of such exercises remain, moreover, inconclusive. Some studies pointed to a decrease in poverty reduction outcomes in many countries (see OECD, 2016), while others found that a large number of welfare states actually *increased* poverty reduction through taxes and benefits (see Kenworthy and Pontusson, 2005; Caminada et al., 2018).[15] More detailed analysis of the poverty-reducing capacity of social transfers for *jobless households* in Europe points, however, to significant and substantial decreases in relative poverty reduction through social transfers in the 1990s and the 2000s before the crisis (Cantillon et al., 2014). Yet, as noted earlier, behind changes in poverty reduction so conceived lie all kind of changes that may also have played a part. For example, when pre-transfer poverty increases one might expect that tax-benefit systems will automatically have a more redistributive impact, because of the progressivity built into these systems. Therefore, in order to gauge policy impact, we must dig deeper.

15 In contrast to the results of other studies, especially by the OECD, based on the *Leiden LIS Budget Incidence Fiscal Redistribution Dataset on Income Inequality,* Caminada et al. (2017), do not find that tax-benefit systems have become less effective in fiscal redistribution: 'Tax-benefit systems around 2013 are more effective at reducing income inequality compared to the mid-1980s and the mid-1990s'.

This is what some scholars, such as Hills, Paulus, Sutherland and Tasseva (2018) Decoster et al. (2015) and Matsaganis and Leventi (2019), have done by using sophisticated decomposition approaches to disentangle the effect of policy reforms on poverty from economic, social, demographic and other changes. Remarkably, they find that in a selection of European countries between 2001 and 2011, the policy changes taken into consideration did, in themselves, have poverty-reducing effects. Even at a time of crisis, some countries found it possible to structure fiscal retrenchment packages—or at least elements of them—in a progressive form. This research seems to indicate that policies certainly did not always affect the poverty-lowering function of social security, on the contrary.[16]

Changes in social security expenditures for the working age population also do not contradict the idea that social security retrenchment has not been the general rule. Figure 2.6 shows that, in general, while employment rates increased dramatically, social spending for the active age population did not decrease, on the contrary. In Australia, for example, according to the OECD Social Protection and Wellbeing database, spending increased from 4.3 per cent of GDP in 1985 to over 5.7 per cent in 1990 and to 8.5 per cent in 2012. Likewise, levels increased from 2.8 per cent in 1985 to 3.8 per cent in 2012 in the US and from 8.4 to 13.2 per cent in the EU-15.[17] Apparently, in all these countries the decrease in economic dependency did not imply a proportionate decline in social spending and the policy case-load. This is partly driven by social and demographic trends such as the increase in the number of entitled individuals as a consequence of the feminisation of the labour market and changing family structures and the fact that the increase in employment did not imply a proportional decrease in the number of jobless households. However, the spending trends also suggest increased welfare state efforts such as spending on activation, wage subsidies and other in work benefits.

16 However, results of these studies might be biased by the fact that not all policies can be taken into account in the underlying simulation models, while the impact of changes in conditionality and implementation of policies remains sightless.

17 EU-15 includes Belgium, the Netherlands, Germany, France, the UK, Italy, Spain, Greece, Austria, Luxemburg, Finland, Portugal, Ireland, Sweden and Denmark.

Welfare states have changed. Some authors refer to a true 'Social Investment Turn' (see Hemerijck, 2012, 2017), in which policy attention has shifted a) from 'protection' to 'activation' (preparing people for the new labour market),[18] b) from transfers to services (for example childcare), and c) to increasingly supplementing low wages with tax credits (first in the Anglo-Saxon world and now in Europe as well). In practice, we thus see that *welfare states have begun to work harder and in different ways, shifting away from 'protection' towards 'activation'*. More than before, social expenditures are preparing people for the new economy. They are supporting job creation and helping families to balance economic activities with family and care responsibilities. One might say that these policy changes should be considered as responses to the cracks in the post-war social security paradigm identified in this chapter.

Increased and shifting social spending was, however, *not* conducive to a decline of poverty among the working age population. This adds to the puzzle of the simultaneous prevalence of disappointing poverty trends, on the one hand, and increasing incomes and employment, on the other hand. The explanations that can be advanced are linked to increased tensions between the functions of social protection and the advent of a social trilemma previously described. First, additional efforts were needed in order to offset the structural decline of the poverty-alleviating capacity of social protection. Second, as noted, the success of employment-centred welfare reforms for the low skilled has been limited in many countries. Third, there is ample evidence that because public services and benefits aiming at the reconciliation of work and care are typically work-related, such spending has a less redistributive profile than traditional transfers and services, giving way to 'Matthew effects'[19] (Cantillon, 2011; Verbist and Matsaganis, 2014; Bonoli, Cantillon and Van Lancker, 2017).

18 To read more on this point, see, for example, Hemerijck (2012) and Hemerijck (2017).

19 The Matthew effect refers to the phenomenon that the middle and higher income groups tend to benefit disproportionately from public and social services and cash transfers.

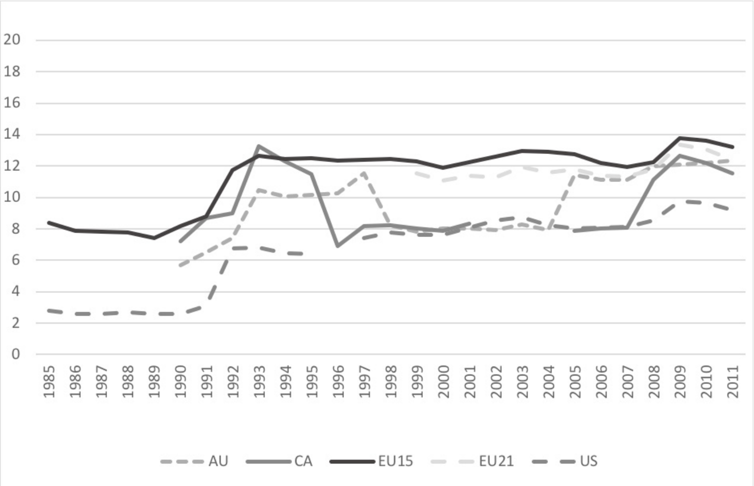

Figure 2.6: Total expenditure for active age (% in GDP), EU15, EU21, Australia, Canada and US

Source: OECD (2018), 'Social Expenditure—Aggregated Data', OECD Social Protection and Wellbeing (database).

Conclusion: A Decent Income for the Poor, How to Get There?[20]

At a systemic level, social security currently faces structural constraints on the improvement of minimum income protection and on its poverty reducing capacity. The analysis in this chapter has shown that, as a consequence of changing family, employment and wage structures, tensions between the main *modus operandi* of social security have increased. First, so-called new social risks are typically more predictable, more concentrated among certain groups in society and/or are more malleable than the old industrial risks. Therefore, it has become more difficult for social security to serve as a piggy bank. Second, the coverage of new social risks, such as benefits aimed at balancing work and family, is giving way for new Matthew effects and tends to diminish the poverty-reducing capacity of social security spending. Hence, the tension between horizontal and vertical redistribution has increased. Third, activation strategies

20 These conclusions largely rely on Cantillon, Goedemé and Hills (2018).

have to varying degrees proved to be less successful than was hoped for in increasing employment among the low skilled and reducing the proportion of work-poor households. Hence, tensions between providing adequate social protection for the unemployed, on the one hand, and strengthening entitlements to 'make work pay' and to increase labour market participation, on the other, remain high and have tended to increase. With stagnant low wages, it will require significant additional efforts, in terms of the budgets involved and the construction of coherent policy packages, to increase employment levels, especially among the low skilled, and create social and fiscal welfare systems that better succeed in protecting low-wage earners and jobless households.

Across countries, differences in poverty reduction through social security are, however, enormous in terms of both levels and changes over time. There is also no evidence of a universal decrease in the generosity of social protection, at least not in the past two decades. Instead, evidence suggests that many nations increased their relative spending efforts, while the literature points to many examples of policy changes having in themselves poverty-reducing effects. In other words, many welfare states responded to major social, economic and demographic changes by working harder and in different ways, shifting from 'protection' towards 'activation', by supporting low wages and by increasing the progressivity of social spending. However, in an overwhelming number of cases this was far from sufficient to keep poverty among the working age population in check, especially not among jobless households. Given the extremely high levels of poverty among households that are most dependent on social security, the question then arises of how progress can be made in a future that looks bleaker than the past, as pressures on social budgets will not go away.

Poverty reduction depends on achieving overall employment growth that reaches low work intensity households, coupled with structures of social and fiscal welfare systems that succeed in protecting low wage earners and those who do not have adequate incomes from work. The question is whether such an ambitious strategy is feasible at all, and if so how can it be realised?

First, the main point, which cannot be repeated too often, is that *social security* and its underlying principles of solidarity and reciprocity remains among the *most potent redistributive tools at welfare states' disposal*, even if it has become more difficult to combat poverty in an effective way.

Second, the experience in the worlds of welfare states shows that *policy choices and institutions make a big difference*. Some countries are much more successful than others in combining high employment levels, low poverty risks, a relatively high social floor and economic growth. This points to the importance of institutions and policy agency.

Third, because of differences in underlying income and demographic structures and in the architecture of social security systems, the same instruments have varying effectiveness in their potential for achieving poverty reduction in different countries: *one size does not fit all* to achieve the same results. In order to make minimum incomes more adequate, some countries should consider an increase in the 'gross-to-net' effort in the first place (for example Belgium); others must rebalance gross minimum wage, minimum income protection and financial work incentives (for example Australia); while in another set of countries there is room for increasing gross minimum wages (for example the US).

Fourth, achieving both employment growth, especially among the low skilled, and having social and fiscal welfare systems that succeed in protecting low-wage earners and jobless households, requires *important additional efforts* in terms of both the budgets involved and the construction of coherent policy packages.

Fifth, it is undeniable that contemporary developed welfare states face severe structural difficulties to reduce poverty and to make social protection adequate for all. Clearly this cannot be achieved with a single measure: even the best performing welfare states in the world are in need of significant *improvements in the social fabric as a whole*. The entire employment and wage regulation, tax and benefit systems and service arsenal should be involved in mingling and reinforcing different distributive logics: some countries (for example Belgium) should increase the progressivity of their tax and benefit system, while others (for example Australia) should increase the horizontal redistributive mechanism through an expansion in social insurance (see chapter 16).

Sixth, the goal of enhancing peoples' opportunities should be stressed through publicly provided or subsidised goods and services (such as housing, childcare, education) and (active) labour market policies. By helping to reduce the cost of subsidising jobs and social protection for the low skilled, *social investment* strategies should be part and parcel of any coherent social protection system (Cronert and Palme, 2018).

Finally, the role of social work and *local initiatives focused on social inclusion* should not be overlooked. Local social action—literally, 'feed the hungry, give drink to the thirsty, shelter the homeless, clothe the naked, look after the sick and visit the prisoners'. They can help to empower individuals who are insufficiently supported by traditional social policies and improve their capacity to participate in society (Oosterlynck, et al., 2018). However, even with large and meritorious efforts, one should not expect these actions to have a direct and significant impact on inequality and poverty. Yet, by alleviating persistent hardship, by forcing public authorities to recognise emerging needs, by strengthening the underlying social fabric and by fortifying society from the inside out, place-based social action can help to create the social and political conditions for successful poverty reduction.

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