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Vandenbroucke, F.

Publication date
2018

Document Version
Final published version

HERMAN DELEECK
CENTRE FOR SOCIAL POLICY

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WORKING PAPER
No. 18.15
October 2018

University of Antwerp
Herman Deleeck Centre for Social Policy
centrumvoorsociaalbeleid.be

A self-critical flashback on the EU's anti-poverty promise

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Foreword to Cantillon, B., Goedemé, T., Hills, J. (eds.), *Decent incomes for all. Improving policies in Europe*, Oxford University Press, forthcoming.

Abstract

This paper is an introduction to a forthcoming book by Bea Cantillon, Tim Goedemé and John Hills, *Decent incomes for all. Improving policies in Europe*. This new book presents extensive empirical research on the impact of policies pursued in EU countries to fight poverty, and focuses on a question that has exercised European policy-makers and policy-analysts for at least ten years: why did European governments fail to deliver on their promise – proclaimed with so much emphasis at the turn of the century – to reduce poverty among European citizens? In this introductory paper, I situate the book in a line of research marked by three earlier books, and I look back – self-critically – on the promises made 18 years ago at the EU's Lisbon Summit.

[1] I thank John Hills, Tim Goedemé and Jonathan Zeitlin for comments.

A self-critical flashback on the EU's anti-poverty promise

The new book by Bea Cantillon, Tim Goedemé and John Hills, *Decent incomes for all. Improving policies in* Europe, focuses on a question which has exercised policy-makers and policy-analysts for at least ten years: why did European governments fail to deliver on their promise – proclaimed with so much emphasis at the turn of the century – to reduce poverty among European citizens? It constitutes an important sequel in a line of research marked by three earlier books, to which I return below. And it cannot be read – at least not by me – without a self-critical flashback and some soul-searching about the solemn promises made 18 years ago.

I therefore have to start with a relatively well-known story. For those concerned with poverty, expectations ran high at the turn of the century. Social policy was explicitly introduced as a distinct focus of attention for European cooperation at the special European Summit in Lisbon in March 2000. The Lisbon Council concluded that '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'. Objectives to fight against poverty and social exclusion were then agreed at the European Council in Nice in December 2000. Since it is impossible to monitor progress in the EU member states with regard to social inclusion in the absence of comparable, quantitative indicators, the Belgian government decided to make the establishment of common European social indicators a priority for its presidency of the Council of the European Union during the second half of 2001. The Council indeed agreed on a set of common social indicators at the Laeken Summit. A crucial factor in this political success was the preparatory scientific work by the late Anthony Atkinson and his team, published in a book on *Social Indicators* in 2002 (Atkinson, et al, 2002). That seminal book is the first in the sequel of publications to which I referred in my introductory sentences.

Although the story is relatively well-known, we may have forgotten about part of the inspiration. Why did we focus so single-mindedly on poverty in 2000? Many welfare state scholars would emphasize that fighting poverty is but one dimension of the much broader mission state of welfare states, and I would not quarrel with them. However, apart from the idea that a litmus test for social justice is how well a society caters for its most vulnerable members, there was another, broader motivation and a 'tactical' consideration. The underlying tactical consideration was that a call to fight poverty would have strong political traction, and inevitably imply a much broader concern with the quality of the welfare state at large. For sure, national political actors would be wary about a comprehensive debate about the architecture of their national welfare states, and all the hardware applied in it; but, engaging them in a debate on poverty *outcomes* (which they could not refuse, so we thought), would also engage them in a much broader debate on *policy inputs*, needed to safeguard and modernize Europe's welfare states at large. This motivation was rather implicit in our campaign for the social chapter at the Lisbon Summit; one might even say that the broader agenda was introduced by stealth.[2] In the foreword to the *Social Indicators* book, it was formulated cautiously, but clearly: "The indicators are not a vehicle for defining any pecking order among Europe's nations, but are a tool to preserve and rejuvenate Europe's hallmark of social protection for all its citizens. Indeed, a credible commitment to combat poverty and social exclusion presupposes a firm commitment to the establishment of an efficient and productive welfare state, and its continuous adaptation to new social needs and risks." (Vandenbroucke, 2002a, p viii).

The objectives set in the subsequent 'Open Coordination on Social Inclusion' were thought to be ambitious but realistic. 'Realism' was seen as a feature of the new process, in part because we were at pains to respect the policy sovereignty of member states, in a spirit of subsidiarity and respect for diversity. "Our objectives should be realistic yet ambitious. What Europe needs is an exercise in ambition in the social policy area, the establishment of 'standards of excellence' rather than standards of mediocrity. (…) But there is not a single best practice: there are different ways to reach excellence, and there is no end in sight for this process, since we can always do better." Hence, the Open Method of Coordination put a strong emphasis, not only on common objectives and guidance rather than on hard legislation, but also on subsidiarity: "The Open Method of Coordination is designed to help member states develop their own policies, reflecting their individual national situations, to share their experience, and to review the outcomes in a transparent and comparable environment." (Vandenbroucke, 2002a, p. v-vi).

In the same year, another book commissioned by the Belgian government was published. The brief of Gosta Esping-Andersen and his co-authors of *Why we Need a New Welfare State* was "to reflect upon the *Gestalt* of social policy at the beginning of the new century, both from the point of view of desirability and feasibility" (Vandenbroucke, 2002b, p. ix). The book called for social investment policies, but it also stressed that social investment is not a substitute for social spending, as correctly recalled by Cronert and Palme in this volume: "The idea that the 'social investment state' can replace much of the traditional welfare state is unrealistic, especially given that we live in an ageing society, with ever more people dependent on benefits and social spending because of age." (Vandenbroucke, 2002b, pp. x). Such carefully balanced ideas had to inform the further development of the Open Method of Coordination, which would become both a cognitive and a normative tool: European policy-makers would learn from each other's practices; but this methodology would also allow to define the objectives of 'social Europe' in more specific terms, on the basis of substantive views on social justice. It was, therefore, also an exercise in consensus-building.

Nearly two decades later, there can be no denying that poverty, as defined in the Laeken indicators increased, and that some bitter divisions on the policies to be pursued by EU welfare states, rather than consensus, emerged during the crisis of the Eurozone. What went wrong?

[2] The fact that separate processes of Open Coordination were introduced with respect to pensions and health care does not contradict this. In the beginning of the 2000s, these processes were much less centre-stage (and less developed) than the Open Method of Coordination on Social Inclusion.

The softness of EU social governance is the usual suspect in these discussions. Yet, it is too easy to say that the *essential* problem was the 'non-binding' nature of the social objectives of the Lisbon Strategy and the anti-poverty targets of its successor strategy, Europe 2020. A recent review of the EU's anti-poverty strategy again illustrates this point (Jessoula and Madama, 2018). There is no denying that the non-binding nature of the processes launched in the 2000s makes them weak. However, even within national welfare states, instruments against poverty *stricto sensu* are to a significant extent decentralized *qua* implementation and even *qua* design. Subsidiarity is a salient and sensitive principle when it comes to minimum income protection. Hence, the 'non-binding' nature of guidelines with regard to minimum income can also be seen as a precondition to getting a process off the ground at EU level. Therefore, the actual governance challenge is rather different and multifaceted: it cannot be reduced to opposition between 'binding' and 'non-binding'. In part, in the realm of policy coordination, the challenge is to move from 'outcome indicators' to 'policy input indicators', which can critically question the existing policy mix of member states without enforcing a uniform 'one-size-fits-all' ideal policy mix. The need for consistent policy packages, tailor-made to national situations, is well identified by various contributions in this volume; the chapter by Cantillon, Marchal and Luigjes also suggests an operational way to pursue this. In part, the challenge is also to combine all the instruments the EU disposes of in an optimal way, that is, to combine benchmarking and 'soft' policy coordination, with EU funding instruments and with EU 'hard' legislation in specific domains, and to steadily enhance the salience of social objectives in the fiscal and economic surveillance organized by the European Union. If the *European Pillar of Social Rights*, solemnly proclaimed in 2017, is now translated into a comprehensive work program in which all the instruments at hand are indeed combined in this spirit, the *Pillar* may be a crucial turning point in the right direction. Importantly, the promise of the *Pillar* is that it formulates an agenda for social policy at large, that is, for the whole welfare edifice. Below, I return to the observation that anti-poverty success requires a well-functioning welfare state *across the board*.

Rather than focusing on governance, Bea Cantillon launched a third book which tried to understand why, before the financial crisis of 2008, improving employment records and worsening poverty records (for the non-elderly population) went hand in hand in a number of mature welfare states (Cantillon and Vandenbroucke, 2014). Why was *Reconciling Work and Poverty Reduction* – as the book's title had it – so difficult? A key observation was that success in employment policies was neutralized by the fact that those left behind – non-elderly people living in households with little or no attachment to the labour market – were confronted with considerable and increasing poverty risks. This new book edited by Cantillon, Goedemé and Hills, adds important insights to the 2014 work. I will not try to summarize them, since that would not do justice to the richness of the material; also, sometimes, the emerging picture is still contradictory or triggers new questions. Let me formulate what I consider to be the main take-home messages, in terms of social indicators, analysis and policy.

In terms of *indicators*, this book firmly positions itself in a tradition which sees AROP, the European at-risk-of-poverty indicator formally endorsed in Laeken, as a legitimate key benchmark for the quality of mature welfare states. This indicator measures risks of exclusion in our societies which we must not tolerate, even though its metric is about inequality at the bottom end of the income distribution rather than poverty in an 'absolute' sense. Simultaneously, this new book adds two qualifications. The first qualification is that the reality of living below the national poverty threshold is very different in a poor country, as compared to a rich country; the chapter on reference budgets shows this clearly. This does not diminish the relevance of a poverty threshold set at 60% of national median income (the same chapter corroborates this too). But it underscores the importance of convergence in prosperity *across Europe*, as fundamental to the idea of 'a European social model'. Since 2008, inequality and poverty in Europe are very much a story of economic growth versus economic decline within the same 'union', as the chapter on the pan-European income distribution sadly illustrates. My first take-home message is that upward convergence in prosperity is part and parcel of the European social model. Achieving upward convergence across Europe is a matter of economic policy; but it is not only a matter of economic policy: it also depends on social policy.[3]

The second qualification with regard to the at-risk-of-poverty indicator underscores the importance of the welfare state as a stabilizer of citizen's incomes. In their contribution to this volume, Matsaganis and Leventi rightly use the at-risk-of-poverty (AROP) indicator *anchored in time* to assess the role of policies: that is indeed the correct metric to gauge the impact of economic shocks. When an economic shock occurs, the actual experience of poverty, for citizens, is to lose out in terms of a standard of living that was once seen as essential to enjoy a minimally decent living standard. To put this in a somewhat broader perspective: the 2014 book on *Reconciling Work and Poverty Reduction* was about creeping trends in poverty, with poverty risks for the non-elderly increasing slowly but steadily in a mature welfare states with growing median incomes; in that context, relative income poverty with a 'floating threshold' is a relevant benchmark. In contrast, this new book had to engage both with *trends* and *shocks*. To understand and judge the impact of shocks, also from a normative point of view, one needs both relative income poverty 'anchored in time' and relative poverty with a floating income threshold.

This seemingly technical point about indicators leads to my take-home messages with regard to the *analysis* of our welfare states' trajectories. Both slow trends and sudden shocks are at play. Let me first elaborate on the trends. An insight that emerges in this new book is that public policies were not necessarily the culprit of adverse trends in poverty among the non-elderly, at least not in a direct 'active' sense. In six of the seven countries examined by Hills, Paulus, Sutherland and Tasseva, the Lisbon decade was not entirely a 'lost decade' for poverty reduction: changes in the tax and benefit policy were actually poverty reducing. In these countries, it seems that 'welfare states had to work harder to stand still'. Hence, it is important to understand what exactly changed in the fabric of our societies and now forces welfare states to work harder for the same result. The usual suspect in these discussions is exogenous: it is globalization and technological change. Sweeping generalizations about

[3] With regard to the interplay between upward convergence in prosperity and welfare state policy, the role of welfare states as developers of human capital, and, hence, the debate on the merits and caveats of social investment are important. Therefore, Hemerijck (2017) might be seen as a fifth book to be added to the sequel of books revisited in this foreword.

globalization and its detrimental impact on welfare states abound, however, such generalizations are rarely underpinned by comprehensive empirical observations about the causalities at play. It is surprising how little attention is paid, in ongoing public debates, to trends that are endogenous to welfare states, but not necessarily in a uniform way across all welfare states.

One such endogenous trend is the improving relative income position of the elderly population: poverty risks among the elderly are diminishing in a number of welfare states (not in all of them!), whilst poverty risks among the non-elderly increase. The former trend is a result of the maturation of pension systems and the gradual improvement of women's labour market participation, more than a result of policies. But it shows a change in the fabric of society, to the advantage of the elderly, that may force governments to work harder for the relative income position of the *non*-elderly, notably the non-elderly who are not economically active. (I write 'may force', because the reason *why* welfare states have to work harder is not examined in this volume, and I dare not affirm my conjecture; the data available for the micro-simulation exercises nevertheless make such examination possible, and this should be higher on the research agenda.) The reader should not mistake me with the example I've given here: I don't presume a clash between generations, let alone a zero-sum game between the elderly and the non-elderly: for instance, adequate pension provision is an important macro-economic stabilizer; it indirectly supports the younger population in times of crisis. But improving pensions may contribute to some extent to a shift in the actual distribution of income.

Another slow trend is the development of dual earnership: in a society where households with two earners set the benchmark for a decent standard of living, single earners will inevitably tend to lose out. It may even be the case that, for complicated sociological reasons, incomes of dual earners increase more rapidly than incomes of single earners, as Salverda and Thewissen show for the Netherlands (Salverda and Thewissen, 2018). Hence, it may not be the case that public policies change for the worse; but even a stand-still in policies may lead to growing inadequacy of the existing policy mix. The extent to which that is the case, will differ from country to country: in some countries the rise of dual earnership cannot explain developments in the 2000s, because it dates back to earlier periods; in other countries it might still be part of the story.

So far for trends. The analysis of shocks leads to a different analytical focus: the risks taken in the banking sector, the fragility of housing booms, the lack of automatic stabilizers at the Eurozone level, the lack of trust and consensus among Eurozone governments, the belief in austerity… In the beginning of the 2000s, the latent problem of stability was vastly underestimated, not only in the economic literature but also in much of our social policy literature, including in *Why we Need a New Welfare State* (except for the chapter on pension policy). In the run-up to monetary unification, the emphasis was put on the necessary 'flexibility' of labour markets, often without much questioning. With the financial crisis, we learned a hard lesson: a well-functioning monetary union needs a consensus on labour market institutions that support both flexibility and stability. Flexibility was associated with 'enabling' policies: equipping people with adequate skills would empower them and thus recreate individual security. 'Social investment' can be seen as an enabling policy *par excellence*. But it cannot cater for stability. To achieve stability, one needs collective action: collective bargaining, but also the organisation of collective insurance devices. Stability requires instruments that typically protect vulnerable individuals: unemployment insurance stabilises the economy, because it protects the purchasing power of the unemployed. In other words, stability is intrinsically associated with collective action and 'protective' policies. Enabling and protective policies can be mutually reinforcing in creating *resilient* welfare states.

How could we have prevented the shocks that led to sharp increases in poverty 'anchored in time'? The answer largely surpasses anti-poverty policy *stricto sensu.* Avoiding these deep shocks would have required quite different economic and fiscal policies; we should have allowed Eurozone welfare states to function as welfare states must function in times of crisis, that is, as stabilizers. Partly, this was a matter of policy choices and belief systems, notably the belief in austerity. Partly, it was a matter of design flaws in the monetary union. Repairing the design flaws implies that the European Monetary Union becomes a true 'insurance union', and, more generally, that the European Union becomes a European *Social* Union. The latter expression is not happenstance: the aim should not be a European welfare state, but a union that supports national welfare states in some of their key systemic functions, such as stabilization. This entails a broad agenda, in which concern with 'social insurance', 'labour market standards' and 'social investment' are interwoven (Vandenbroucke, Barnard and De Baere, 2017). We need to think in terms of a *Gestalt*, to reiterate the expression used in the introduction to *Why we Need a New Welfare State,* and reconnect critically with issues broached in that book (see Cronert and Palme in this volume, this volume's conclusion, but also Hemerijck, 2017). I need not elaborate on this broad agenda here. However, there is a general take-home message which also emerges from this book. It may have been a mistake to think, in the year 2000, that anti-poverty policies, understood as minimum income protection *sensu stricto*, could take the lead in the debate on social Europe and that 'the rest of welfare state policy' would inevitably follow suit. What seemed a clever and expedient strategy at that time, turned out to be very incomplete. The policy failure was much broader than simply a failure in terms of adequate minimum income protection. To avoid a repetition of this dismal experience, anti-poverty policies have to be embedded explicitly in a broad set of realistic social, employment and economic policy objectives, both at the level of the Eurozone and the EU and at the level of individual countries.[4] This is what a European Social Union is about: it inevitably implies a broad, slow and piecemeal process. But it is the only process that has at least the potential to avoid broken promises. The pages that follow contribute importantly to understanding the nature of that challenge.

[4] One might also say, conversely, that social, employment and economic policies have to be embedded explicitly in a set of realistic anti-poverty objectives. What is needed, is a recognition of the complex interdependence of socio-economic policies at large and poverty reduction *stricto sensu,* and a consequent implementation of that insight. This is what 'mainstreaming' should be about.

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