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ARE EUROPEAN SOCIAL SAFETY NETS TIGHT ENOUGH?

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GROWING INEQUALITIES' IMPACTS

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GINI GROWING INEQUALITIES' IMPACTS

Are European Social Safety Nets Tight Enough?

Coverage and adequacy of minimum income schemes in 14 EU countries

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Abstract

This paper explores and compares the effectiveness of Minimum Income (MI) schemes in protecting persons of working age from poverty in the European Union. Using the European microsimulation model EUROMOD we estimate indicators of coverage and adequacy of MI schemes in 14 EU countries. In terms of coverage, we find that in several countries a significant number of individuals are ineligible for MI even when they fall below a poverty line set at 40 per cent of median income. With respect to adequacy, we show that in certain countries a large fraction of those entitled to MI remain at very low levels of income even when MI benefit is added. Overall, our findings suggest that the clustering of MI schemes in Europe may be more complex than previous literature has hitherto allowed for.

1.   Introduction

The alleviation of poverty (at least, in the form of extreme poverty) is a common objective of all welfare states. The corrosive implications of poverty (be it to "the fabric of society" or, more prosaically, political stability) may be one of the few concerns that are common across political philosophies. As a result, difficult though it may be to define the "European social model", there can be little doubt that it encompasses the need to guarantee a decent minimum standard of living for all. This idea is reflected in works of scholarship. For instance, Baldwin (1990) defined Marshall's concept of social citizenship as 'full membership of community', premised on a 'kind of basic human equality' that, while tolerating differences of class and wealth, guaranteed each a minimum standard, regardless of the hand dealt by fate, biology and society" (Baldwin, 1990, p.4; Marshall, 1950; see also Ringen, 1987).

Naturally, just how different welfare states attempt to alleviate poverty differs greatly. Esping-Andersen (1990) famously distinguished between three "welfare regimes": Anglo-Saxon liberal, Continental corporatist and Scandinavian social-democratic. While his analysis rested on a comparison of pensions and unemployment benefits rather than of social assistance, he did elaborate on the much greater reliance of the liberal welfare regime on means-tested benefits.

From a different perspective, Korpi and Palme (1998) addressed the question of whether social policies ought to be targeted to low-income groups. They identified five different "ideal types of institutional structures", in order of historical appearance. These are the targeted, voluntary-subsidized, corporatist, basic security, and encompassing models. The targeted model relies heavily on means testing, although that can be used to exclude the rich (as in Australia) rather than strictly to include the poor. The voluntary-subsidized model was in many European countries the precursor to the corporatist model, where social insurance is compulsory, even though still organised along occupational lines. The basic security model resembles the original Beveridge design, with more comprehensive flat-rate benefits, and low ceilings on earning-related ones, on the assumption that higher-income groups will turn to the market and private insurance. Finally, the encompassing model combines generous citizenship-based universal programmes with earnings-related benefits for the economically active population (1998, pp.667-9). Korpi and Palme went on to formulate the "paradox of equality": since redistributive budgets are not fixed, but depend on welfare state institutions, and since there seems to be a trade-off between the size of redistributive budgets and the extent of targeting, "the more we target benefits at the poor, (…) the less likely we are to reduce poverty" (1998, pp.681-2).

The work of Gough et al. (1997, pp. 36-7) is more directly relevant to the question of minimum income protection. The authors analysed social assistance in OECD countries, identifying eight regimes. Three of these concerned English-speaking countries. In welfare states with integrated safety-nets (Ireland, Britain, Canada), social assistance was institutionalized nationally and benefits are generous. In selective welfare states (Australia, New Zealand), almost all social benefits were categorical and means-tested, but also relatively generous and nationally integrated. In the rather exceptional case of the United States, welfare benefits were low and work incentives punitive. Japan is another unique case, with centralized but discretionary social assistance. On the other hand, in continental European countries (France, Belgium, Germany) dual systems of social assistance prevailed, with categorical programmes combined with general safety nets of last resort. However, in Austria and Switzerland (and Norway) poverty relief was local and discretionary, with relatively high benefits but few beneficiaries. In Scandinavian countries (except Norway) and the Netherlands, social assistance was citizenship-based and residual, with a general scheme providing generous benefits, but occupying a marginal role within social security. Finally, in Southern Europe (including Turkey), social assistance was rudimentary, usually involving categorical schemes for the elderly with local discretionary relief for other groups, benefits were low and coverage was limited (see also Gough 2001, p.165).

The focus of this paper is on Minimum Income (MI) schemes, which represent the ultimate safety net in protecting individuals of working age from poverty. Minimum income protection in Europe has a long pedigree, going back to the British Poor Law (1601), amended in 1834, and finally abolished with the introduction of the National Assistance Act in 1948 (Barr, 2004). Similar legislation was passed in other European countries after World War II, introducing *Social Bistand* in Denmark (1961), *Sozialhilfe* in Germany (1962), *Algemene Bijstand* in the Netherlands (1963), *Socialbidrag* in Sweden and so on. In French-speaking countries progress was slower, with *Minimex* introduced in Belgium in 1974, followed by *Revenue Minimum d'Insertion* (RMI) in France in 1988 (Guibentif and Bouget, 1997). The successful launch of RMI set in motion developments that led to the adoption of similar schemes throughout southern Europe. In Spain, Basque Country put in place its own scheme in 1988, Catalonia in 1990, other regions soon after. In Portugal, a national pilot scheme was introduced in 1996 and became fully operational in 1997 as *Rendimento Mínimo Garantido* (RMG). In Italy, a formal experiment was started in 1998 and extended further in 2000, before it was terminated in 2003 (Matsaganis et al., 2003). On the other hand, Central and Eastern European countries moved swiftly since the early 1990s to creating social safety nets, even though in some cases minimum income protection is only provided at very low levels (Rat, 2009).

MI schemes provide cash benefits intended to guarantee a minimum level of support when other incomes (from the market, from other cash benefits, or of other family members) are insufficient. In effect, the level of income of a person in receipt of MI is the minimum level of income deemed acceptable for that type of person by the social protection system in that country. Interest in MI has been recently strengthened by a resolution of the European Parliament. The resolution, passed on 20 October 2010, acknowledges MI schemes as a key instrument in combating poverty, and encourages Member States to take a fresh look at policies to foster social integration and to guarantee an adequate standard of living (European Parliament, 2010).

Although MI schemes are usually viewed as an integral part of the European social model (Pestieau, 2006), a comprehensive empirical assessment of their effectiveness in the EU is still lacking. Recent contributions (Bahle et al. 2010; Immervoll, 2010; Nelson, 2010; Van Mechelen et al., 2011), typically based on institutional data measuring the level of social assistance for a limited number of stylised family types, sometimes supplemented by information on the number of recipients, review and update the available evidence, and thereby offer important insights into the role of minimum income schemes in alleviating poverty. Nevertheless, important questions remain unanswered or even unaddressed.

The first question is about coverage. How many of those in poverty are entitled to MI? Are those not covered by MI excluded by design, or due to some administrative failure? Recipient statistics provide interesting information, yet cannot answer this question because they mix up two different issues: entitlement rules and targeting errors. Non take up implies that some individuals will not receive MI benefit even though they are theoretically eligible for it. The opposite may also be the case: some other individuals will receive MI benefit (and will show up in the data as MI recipients) even though they are theoretically ineligible for it. On the other hand, eligibility rules may exclude some groups *a priori*, even when they are poor (and could include some other groups even when they are not poor). Looking at recipient numbers alone will confuse rather than clarify these separate issues, and this would still be the case even if data on recipient numbers were complete and directly comparable across countries (which, as the above and other studies have shown, they are not). Entitlement rules and targeting errors are both important issues. However, since they originate from different problems and call for different policy responses, they deserve to be analysed separately. While recent research has shed light on targeting errors (Hernanz et al., 2004), little is known about the nature and extent of exclusion from minimum income protection *by design* (i.e. because of entitlement rules).
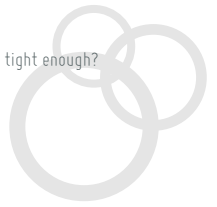
The second question is about adequacy. Is the value of MI benefits sufficient to lift recipients above a given poverty threshold? The "model family" calculations provided by the studies cited above are certainly informative. Nevertheless, recipients of social assistance in real life often combine MI with other social benefits (e.g. housing benefits, family allowances) and, in some cases, with income from other sources as well. These incomes interact with each other (and with income taxes, and with social contributions) in complex ways. Even with the best of intentions, encapsulating the complexity of real life within the "model family" approach is extremely difficult, if not practically impossible. Moreover, differences in definitions have also hampered comparative analysis: while in some countries extra support for dependent children or housing costs is already included in the MI scheme being analysed, in other countries it is provided under separate schemes. Again, adopting the "model family" approach involves the difficulty of having to decide what to include under MI and what not. For both reasons, the comparative analysis of the effectiveness of MI schemes in alleviating poverty ought to take into account their interaction with the rest of the tax-benefit system, and focus on the entire range of public assistance while on MI rather than on the MI benefit alone.

This paper is an attempt to fill the gap left by existing studies as discussed above. We jointly consider coverage and adequacy of MI schemes. On the one hand, we compare the level of income while on MI (rather than the level of MI benefit alone), and take into account the interaction of MI with the rest of the tax-benefit system. On the other hand, we clearly separate the impact of targeting errors from that of entitlement rules, focusing on the latter. Our research, based on the microsimulation approach, aims to complement the findings of "model family" studies.

Incidentally, the paper sheds some light on the actual diversity of MI schemes across Europe, thereby engaging with recent debates on the degree of convergence in terms of social protection (Caminada et al., 2010; Nelson, 2008), and on the scope for harmonisation of minimum income schemes in the EU (Gough, 2001; European Parliament, 2010). We return to these issues towards the end of this paper.

The paper is structured as follows. After this introduction, which places our research in the context of the literature, section 2 discusses the scope of MI schemes and issues of cross-country comparability, and describes the advantages of the methodology used relative to other approaches. Section 3 presents our findings in terms of coverage and adequacy of MI schemes. Finally, section 4 concludes with a summary of results and a discussion of their policy implications.

2.   Methodology

The scope of "MI schemes" is not easy to define in a way that is both meaningful and consistent across countries (Bahle et al., 2010; Immervoll, 2010). As pointed out by Adema (2006), comparing spending on social assistance across countries is fraught with difficulties. The same applies to the cash component of such schemes, the "MI benefit". In some countries (e.g. France, Germany and Spain), means-tested unemployment assistance operates as an intermediate stage between contributory unemployment insurance and general social assistance. This contrasts with most countries where the MI also functions as unemployment assistance benefit. Furthermore, MI benefits are often complemented by separate means-tested housing benefits, which make an important contribution to the minimum income package. Elsewhere, (e.g. Germany, Estonia, the Netherlands and Poland), the MI scheme itself covers housing assistance. Also, in most countries the MI benefit is intended to cover the basic needs of all family/household members. But in some cases (e.g. in the UK) the MI scheme is only intended to cover the needs of some family members (adults), whereas the needs of other members (children) are addressed by other benefits. Finally, additional benefits (such as one-off grants for the purchase of necessary durables, social care, employment support and other "social reintegration" services) can either be "passported" (i.e. eligibility is automatic when in receipt of MI), or an integral part of MI, or must be applied for separately.

In this paper we deal with issues of comparability, avoiding the need to make ad hoc (often arbitrary) decisions when considering what to include under MI and what not, as follows.

We first take the schemes listed as "Minimum resources: general non-contributory minimum" in the Mutual Information System on Social Protection (MISSOC) database[1], a source of valuable information on social protection in Europe, used extensively in cross-country comparisons (e.g. Nelson, 2007). The schemes are listed in Table 1. We use the MISSOC definition to identify those entitled for MI in each country.

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1 See the MISSOC website (http://ec.europa.eu/employment_social/spsi/missoc_en.htm).

Table 1 Characteristics of Minimum Income schemes in 14 EU countries

	Belgium	Denmark	Germany	Estonia	France	Luxembourg	Netherlands
title of scheme	Droit a la l'integration sociale	Kontant-hjælp; Starthjælp	Sozialhilfe	Toimetule-ku toetus	Revenue Minimum Insertion	Revenu Minimum Garanti	Algemene Bijstand
assessment unit	family	individual	family	household	family	Household	family
lowest age for claiming	18	18	none	none	25	25	23
seeking work	yes	yes	yes	yes	yes	Yes	yes
other conditions	none	none	none	none	none	not left work voluntarily	none
disregards	some earnings	some assets some earn. invalidity benefit	basic pension some earnings	housing benefit family allowance	none	maternity benefits long term care benefits	some capital
additional payments	family housing mainten-ance benefits	child benefit settlement family benefit	parental allowance	housing benefit	housing benefit supplement	housing benefit family allowance	family allowance rent subsidy
taxable	no	yes	no	no	no	No	no

	Austria	Poland	Portugal	Slovenia	Finland	Sweden	UK
title of scheme	Sozialhilfe	Poloc spoleczna	Rendimento social de inserção	Denarna socialna pomo	Toimeentulotuki	Ekonomiskt bistand	Income Support
assessment unit	family	household	household	household	family	Family	family
lowest age for claiming	no age limits	18	18	18	in practice 18 or over	no age limit	18
seeking work	yes	yes for periodic allowance	yes	yes	yes	Yes	yes unless exempt
other conditions	none	none	be available for training	none	none	None	none
disregards	care-related benefits education allow-ance	none	some earnings	scholarships alimony childcare allowance	some household income	None	own home disability benefits some earn.
additional payments	family allowance child benefit housing benefit	none	family allowance housing supple-ments	child benefit rent subsidy	family allowance housing benefit	housing supplement	child tax credit housing benefit council tax benefit
taxable	no	no	no		no	no	no

Notes: *Belgium: age is 18 unless the claimant is married, pregnant or a parent, in which case he or she can be younger. Denmark: assessment unit is individual unless married; seeking work is required unless the claimant has a partner who is already working. Germany: family allowances are disregarded only for families with 3 or more children. Austria: here the household is used as the assessment unit. Luxembourg: age is 25, unless the claimant is disabled, unable to work, or looking after a child. Netherlands: age is 23, but can be reduced by the municipality to 21 or to 22 in special cases. Portugal: age is 18, but can be reduced for claimants who have a dependent child, are married or cohabiting. UK: age is 18, but can be reduced to 16 or to 17 in special cases*

Sources: *EUROMOD Country Reports (http://www.iser.essex.ac.uk/research/euromod/resources-for-euromod-users/country-reports); MISSOC table XI: 'Guaranteeing Sufficient Resources' (http://ec.europa.eu/employment_social/spsi/missoc_tables_en.htm).*

We then calculate the total disposable income of those entitled for MI. This comprises all incomes, from all sources, of all household members. That obviously includes the MI benefit itself, taking into account any income disregarded when assessing entitlement. Note that total disposable income is net of taxes and social contributions. Considering the entire range of resources available to those entitled for MI allows us to overcome the difficulty (common in many cross-country studies) of defining the scope of MI schemes in a comparable way.

MI schemes guarantee a level of income that varies by personal and household characteristics. Entitlement to MI is usually contingent on the exhaustion of all other social benefits, although in some cases the MI benefit supplements other benefits when these are set below the guaranteed level of income. Generally, MI schemes require able-bodied recipients to be actively looking for work, and to participate in training or social integration programmes. MI schemes vary considerably in terms of eligibility conditions (e.g. related to age and residence), and in the extent of income disregards (e.g. small amounts of earnings or maintenance payments). As discussed above, MI schemes also differ in how they treat family and housing needs, and in how they are treated by the tax system. Finally, MI schemes differ in whether entitlement is assessed at the level of individual, household, or some other unit of assessment.

Not all European countries operate MI schemes. In Hungary, social assistance is organised at a local level. In Spain, where minimum income provision is the responsibility of regions, there are significant variations between fully-fledged MI schemes in some regions, and less ambitious local initiatives to support low incomes in other regions. In Italy, following the termination of the MI experiment, social assistance is provided at the discretion of municipal social services in some large cities. In Greece, no MI scheme exists at any level of government; emergency assistance may be paid as a lump sum, and is limited to victims of natural disasters and other vulnerable groups. The remaining 23 EU member states operate national, non-discretionary MI schemes, even though in some (Austria, Germany, Finland) the minimum guaranteed level of income varies by region.

In fact, the level of income guaranteed is the most fundamental difference between MI schemes across the EU (Bahle et al., 2010). While in some countries the level of the minimum income guarantee is set in relative terms (e.g. as a proportion of the minimum wage or the social pension), in others it is defined in absolute terms (i.e. based on an assessment, at some point in time, of the cost of a range of basic needs such as food and clothing). As a result of the different approaches, reflecting different policy priorities, the experience of "living on MI" varies considerably across Europe.

Our analysis adopts the microsimulation approach, using the European tax-benefit model EUROMOD. The model simulates tax liabilities, social contributions and benefit entitlements, applying the rules of each country's tax-benefit system on micro-data derived from income surveys (or, in a few cases, administrative registers). Original incomes (such as earnings, capital income, transfers from other households), as well as policies that cannot be simulated (for example, contributory pensions) are taken directly from the data (Sutherland, 2007; Lietz and Mantovani, 2007).

EUROMOD is gradually being extended to all 27 EU member states. In this paper we analyse MI schemes in 14 countries: Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Luxembourg, the Netherlands, Poland, Portugal, Slovenia, Sweden and the United Kingdom. These are selected to represent all parts of Europe including the East, all three of Esping-Andersen's welfare regimes, and all five of Gough's social assistance regimes present in Europe[2]. The datasets used, the sample size, the data collection year, the income period and the policy year are all shown in Table 2.

Table 2: EUROMOD input datasets and simulated tax–benefit systems

Country	Dataset	Date of collec-tion	Income period	Policy rules	Sample size (households)
Belgium	EU–SILC	2006	annual 2005	2005	5,860
Denmark	ECHP	1995	annual 1994	2001	3,215
Germany	German Socio–Economic Panel Study	2002	annual 2001	2003	11,303
Estonia	Household Budget Survey	2005	monthly 2005	2005	3,432
France	Enquête sur les Budgets Familiaux (EBF)	2000/01	annual 2000/01	2001	10,305
Luxembourg	Socio–Economic Panel (PSELL–2)	2001	annual 2000	2003	2,431
Netherlands	Sociaal–economisch panelonderzoek	2000	annual 1999	2003	4,329
Austria	Austrian version of ECHP	1998+1999	annual 1998	2003	2,674
Poland	Household Budget Survey	2005	monthly 2005	2005	34,692
Portugal	ECHP	2001	annual 2000	2003	4,588
Slovenia	A sub–sample of Population Census merged with administra-tive records	2005 (2002)	annual 2004	2005	4,777
Finland	Income distribution survey	2001	annual 2001	2003	10,736
Sweden	Income distribution survey	2001	annual 2001	2001	14,610
UK	Family Resources Survey (FRS)	2003/04	monthly 2003/04	2003	28,860

Notes: EUROMOD data sources are the European Community Household Panel (ECHP) User Data Base and the EU Statistics on Incomes and Living Conditions (EU-SILC) made available by Eurostat; the Austrian version of the ECHP made available by the Interdisciplinary Centre for Comparative Research in the Social Sciences; the Estonian Household Budget Survey (HBS) made available by Statistics Estonia; the Income Distribution Survey made available by Statistics Finland; the Enquête sur les Budgets Familiaux (EBF) made available by INSEE; the public-use version of the German Socio-Economic Panel Study (GSOEP) made available by the German Institute for Economic Research (DIW), Berlin; the Socio-Economic Panel for Luxembourg (PSELL-2) made available by CEPS/INSTEAD; the Sociaal-economisch panelonderzoek (SEP) made available by Statistics Netherlands through the mediation of the Netherlands Organisation for Scientific Research – Scientific Statistical Agency; the Polish Household Budget Survey (HBS) made available by the Economic Department of Warsaw University; a sub-sample of Population Census merged with Personal income tax database, Pension database and Social transfers database, made available by the Statistical Office of Slovenia; the Income Distribution Survey made available by Statistics Sweden; and the Family Resources Survey (FRS), made available by the UK Department of Work and Pensions (DWP) through the Data Archive. Material from the FRS is Crown Copyright and is used with permission. Neither the DWP nor the Data Archive bears any responsibility for the analysis or interpretation of the data reported here. An equivalent disclaimer applies to all other data sources and their respective providers cited here.

We simulate entitlement to MI using all information available in the underlying datasets. Note that income surveys do not provide information on all eligibility conditions (e.g. citizenship, availability for work, assets). Moreover, in certain MI schemes some discretion operates at local level, which is also impossible to take into account with the information available. On the other hand, our simulation of MI entitlement is typically based on total incomes received during the year, while in real life entitlement is usually assessed on the basis of incomes

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2   Three social assistance types are excluded: the selective welfare states of Australia and New Zealand, and the exceptional cases of the US and Japan (Gough et al., 1997; Gough 2001).
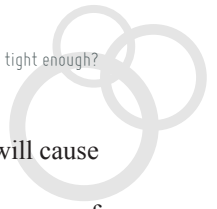
received in a much shorter period (e.g. a month). To the extent that incomes fluctuate over the year, this will cause us to miss some individuals entitled for MI for part of the year. Our analysis focuses on the intended coverage of MI schemes, abstracting from targeting errors.

In this paper, we focus on working age individuals and the households in which they live. "Working age" is defined as age 16 to 64 (inclusive), excluding those in full-time education. The share of this group in the population is quite similar in most countries, ranging from 56 to 61 per cent.

Most comparative studies of social assistance examine aggregate expenditure data, while micro-level comparisons of MI schemes tend to rely on calculations of their effects on stylised households using the "model family" approach (Gough et al., 1997; Adema, 2006; Frazer and Marlier, 2009; Immervoll, 2010; Nelson, 2010; van Mechelen et al. 2011).

The "model family" approach is transparent and parsimonious (in the sense that it needs little information other than guaranteed amounts by family type, plus median income or minimum wage by country). However, it also has a number of limitations. To start with, the focus on particular family types ignores others that may be equally important. In particular, extended households including more than one nuclear family are usually entirely neglected. Moreover, it cannot directly account for the fact that some types are more common in some countries than others. For example, lone parent households are much more prevalent in the Scandinavian countries and in the UK, while three-generation households are more common in Southern and Eastern Europe. This failure to account for differences in the population share of each family type from country to country leaves readers with no clear picture of the effect of social assistance and MI schemes on income redistribution and poverty alleviation.

Furthermore, as explained in the introduction, the "model family" approach cannot always reproduce the complex ways in which MI entitlements interact with other social benefits, with income from other sources, with income taxes, and with social contributions. Nor can it easily deal with differences in the scope of MI schemes, having to rely on ad hoc decisions of what to include under MI and what not.

Arguably, the microsimulation approach avoids all of these pitfalls. First of all, using micro-data allows the full range of relevant individual and household circumstances to be reflected in the analysis (Marlier et al., 2007), and to capture the impact of MI schemes on recipients' income (Holsch and Kraus, 2006; Avram, 2009).

In addition, microsimulation has further advantages over the direct analysis of micro-data. For instance, MI schemes are rarely identified as such in income surveys. Even though the most widely used of such surveys, the European Union Survey of Income and Living Conditions (EU-SILC), does contain a "social assistance" variable,

this is not strictly comparable across countries as different benefits have been aggregated under the same heading[3].

Since EUROMOD simulates each policy instrument (and indeed, each component of each instrument) separately, variables are disaggregated – and can even be "customised" as is appropriate for a particular analysis.

As mentioned earlier, the assessment unit for entitlement to MI differs in each country: in some cases it is wider than the (nuclear) family but narrower than the household. Ignoring such differences while at the same time assuming (as usual) that income is equally shared within households will distort estimates of distributional effects. EUROMOD deals with this problem by carefully simulating MI entitlements in a manner consistent with programme rules in each country.

Finally, there is evidence that social benefits are often under-reported in income surveys (Lynn et al. 2004, Meyer et al. 2009). In particular, respondents on very low incomes tend to under-report receipt of benefits, either because they fail to recall a particular benefit altogether, or because they misplace in time or misclassify some of the benefits received, or because they consciously suppress the relevant information because of stigma (Lynn et al. 2004). Notably, under-reporting plagues attempts to estimate the extent of benefit take up. Again, our analysis gets round this problem by focusing on the extent and incidence of non-entitlement rather than non-receipt as a whole. Specifically, by focusing on entitlement rules we can estimate the proportion in each country of those excluded from MI by design, even when their income falls below a given poverty threshold.

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3   To give a few examples, the EU-SILC "social assistance" variable includes Working Tax Credit in the UK, Unemployment Assistance in Slovenia, and Social Pension and Pensioners' Social Solidarity Benefit in Greece. None of these benefits form part of the MI scheme in the UK and Slovenia, while no MI scheme exists in Greece. For an overview of EU-SILC, see Atkinson and Marlier (2010). Note that the problem of non-comparability of aggregate variables in survey data applies to some extent to all cross-national datasets, including the Luxembourg Income Study (Smeeding, 2002).
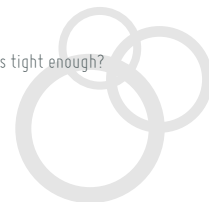
3.   Results

We first address coverage. What proportion of the population in poverty is entitled to MI? We define "poverty" by reference to two different poverty lines: the "standard poverty" line of 60 per cent of median equivalent income, and the "extreme poverty" line of 40 per cent of median equivalent income. For each poverty line, Tables 3 and 4 show the share of working age population falling, according to our estimates, into one of the following five categories:

(a). not entitled to MI, poor;

(b.) entitled to MI, poor with MI;

(c.) entitled to MI, not poor with MI, poor without MI;

(d.) entitled to MI, not poor with MI, not poor without MI;

(e.) not entitled to MI, not poor.

The coverage rate[4] is defined as the sum of those entitled to MI who are either poor or would have been poor in the absence of MI, divided by the population in poverty – in other words: (b) + (c) / (a) + (b) + (c).

Table 3: Distribution of population by MI entitlement and poverty status (at 60% of median)

	not entitled to MI; poor	entitled to MI; poor with MI	entitled to MI; not poor with MI; poor without MI	entitled to MI; not poor with or without MI	not entitled to MI; not poor	coverage rate
	(a)	(b)	(c)	(d)	(e)	(b)+(c) / (a)+ (b)+(c)
Belgium	6.29	1.95	0.98	2.99	87.78	31.80%
Denmark	5.54	0.15	1.07	0.32	92.92	18.04%
Germany	8.66	2.23	0.35	0.19	88.57	22.94%
Estonia	11.12	5.62	0.09	0.01	83.17	33.90%
France	7.79	1.33	1.32	1.76	87.80	25.33%
Luxembourg	4.11	4.41	1.12	0.22	90.14	57.38%
Netherlands	7.64	2.36	0.85	0.38	88.77	29.58%
Austria	6.20	1.27	0.02	0.00	92.51	17.31%
Poland	4.75	11.69	1.13	3.89	78.54	72.98%
Portugal	9.86	5.73	0.01	0.01	84.39	36.77%
Slovenia	8.12	5.96	0.16	0.01	85.76	42.95%
Finland	5.12	3.96	0.77	5.09	85.05	48.02%
Sweden	4.26	2.59	1.32	1.04	90.79	47.91%
UK	7.66	5.81	3.02	3.35	80.15	53.56%

Notes: The population of interest is individuals aged 16 to 64 (inclusive), excluding people in current full-time education, living in the relevant assessment unit (if entitled to MI). The sample size of those entitled to MI below a poverty line at 60% of median is small in Denmark and Austria.

Source: Own calculations using EUROMOD.

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4   Note that, in addition to the coverage rate, Tables 3 and 4 can be used to compute other indicators. For instance (b) + (c) + (d) is the entitlement rate (the number of individuals of working age entitled to MI as a proportion of the population in working age), (a) + (b) is the counterfactual poverty rate of the population of working age assuming full take up of MI entitlements etc.

With respect to the standard poverty line, the coverage rate ranges widely: from around 20 per cent in Austria and Denmark to around 70 per cent in Poland. In Belgium, Slovenia, Estonia, Portugal, the UK, Finland, Sweden and Luxembourg large proportions of those in poverty are entitled to MI. In contrast, in France, the Netherlands and Germany coverage is relatively low. Note that lack of entitlement may either be due to categorical conditions, or due to the fact that the threshold for entitlement of a given MI scheme is set below the standard poverty line of 60 per cent of median equivalent income.

Furthermore, the proportion of those entitled to MI who are not poor when receiving MI but would have been poor in the absence of MI (c) is only substantial in France, Sweden and the UK.

Conversely, the proportion of those entitled to MI who are not poor when receiving MI and would not have been poor in the absence of MI (d) is particularly relevant in Finland, Belgium and Poland and the UK. Note that the size of (d) may depend on a number of factors. The OECD modified equivalence scale used here in the calculation of poverty risk and the implicit "equivalence scale" by which the amount of MI benefit is adjusted for dependants may differ. Additional needs of e.g. a disabled dependant may be taken into account in assessing eligibility for (and in determining the level of) MI benefit, but they are ignored in the OECD modified equivalence scale. Moreover, as mentioned earlier, if the assessment unit of MI schemes is narrower than the household, MI recipients will be sharing resources with people in the same household but outside the assessment unit.

Table 4: Distribution of population by MI entitlement and poverty status (at 40% of median)

	not entitled to MI; poor	entitled to MI; poor with MI	entitled to MI; not poor with MI; poor without MI	entitled to MI; not poor with or without MI	not entitled to MI; not poor	coverage rate
	(a)	(b)	(c)	(d)	(e)	(b)+(c) / (a)+ (b)+(c)
Belgium	0.05	0.71	1.05	4.16	94.02	97.00%
Denmark	1.99	0.02	0.96	0.56	96.47	33.03%
Germany	1.95	0.44	1.42	0.92	95.28	48.65%
Estonia	2.60	3.95	1.07	0.69	91.69	65.89%
France	0.74	0.53	0.78	3.09	94.86	63.74%
Luxembourg	0.18	0.11	2.25	3.39	94.07	93.10%
Netherlands	1.45	0.24	2.02	1.33	94.96	61.03%
Austria	0.89	0.77	0.40	0.12	97.81	56.83%
Poland	0.63	3.89	2.21	10.61	82.66	90.60%
Portugal	0.56	3.49	1.70	0.56	93.69	90.20%
Slovenia	0.72	2.89	2.46	0.78	93.16	88.19%
Finland	1.39	0.05	2.42	2.49	93.66	63.97%
Sweden	0.55	0.58	1.00	8.24	89.63	74.28%
UK	2.40	0.86	4.20	7.12	85.41	67.83%

Notes: The population of interest is individuals aged 16 to 64 (inclusive), excluding people in current full-time education, living in the relevant assessment unit (if entitled to MI). The sample size of those entitled to MI below a poverty line at 40% of median is small in Denmark, Germany, France, Luxembourg, Netherlands, Austria and Sweden.

Source: Own calculations using EUROMOD.

As might be expected, coverage of MI improves with respect to a lower poverty line of 40 per cent of median equivalent income. In Belgium, France, Luxembourg, Finland, Denmark and Sweden extreme poverty is low (under 2 per cent). The share of the extremely poor entitled to MI is high in Slovenia, Belgium, Poland, Portugal, Finland and Luxembourg. Nevertheless, in certain countries (France, Austria, Sweden, Germany, the UK, Estonia, Denmark and the Netherlands) sizeable proportions of the extremely poor are not entitled to MI. Again, lack of entitlement may either be due to categorical conditions, or due to the fact that the threshold for entitlement of a given MI scheme is set below the extreme poverty line of 40 per cent of median equivalent income.

Should the exclusion of poor persons of working age from MI be attributed to categorical conditions, or to low income thresholds? One way to answer the question is to establish whether the entitlement rate rises significantly as income falls. That it does not is *prima facie* evidence for the presence of categorical conditions limiting eligibility to MI. Our calculations (available from the authors on request) show that this is likely to be the case in Germany, Luxembourg, the Netherlands, Finland, Sweden and the UK.

Let us now turn to adequacy. Opinions as to what level of income should be deemed adequate differ (Frazer and Marlier, 2009). Recently, the European Parliament affirmed that "adequate MI schemes must set minimum income at a level equivalent to at least 60 per cent of median income" (European Parliament, 2010). International studies of MI schemes tend to compare the MI benefit for "model families" with median income or average earnings (Immervoll, 2010; Nelson 2010). Instead, as explained earlier, our approach is twofold. First, we consider the entire disposable income of those entitled to MI, rather than the level of MI benefit alone. Then, we analyse the distribution of those entitled to MI by level of income, rather than simply calculate their average disposable income. The results are shown in Table 5.

Table 5: Distribution of working age individuals entitled to MI by level of income

	equivalent income of those entitled to MI as a proportion of the median					
	< 40%	≥ 40% < 50%	≥ 50% < 60%	≥ 60% < 70%	≥ 70% < 80%	≥ 80%
Belgium	12.02	12.26	8.73	7.22	8.58	51.19
Denmark	1.40	3.99	4.57	26.90	28.33	34.81
Germany	15.76	25.02	39.73	11.01	3.83	4.65
Estonia	69.15	20.54	8.59	0.84	0.88	0.00
France	11.98	6.11	12.11	23.71	14.36	31.73
Luxembourg	1.87	25.00	49.74	16.49	3.93	2.98
Netherlands	6.71	11.40	47.59	19.63	5.80	8.88
Austria	59.64	33.43	5.17	1.76	0.00	0.00
Poland	23.29	25.04	21.65	11.29	5.38	13.36
Portugal	60.69	37.12	1.85	0.11	0.00	0.23
Slovenia	47.17	39.77	10.33	2.73	0.00	0.00
Finland	5.90	17.31	17.13	11.51	11.25	36.89
Sweden	0.96	11.01	40.41	22.18	8.92	16.52
UK	7.05	17.98	22.69	15.94	10.89	25.45

Notes: *Figures refer to various years (see Table 1). Working age individuals on MI are individuals aged 16 to 64 (inclusive), excluding people in current full-time education, living in the assessment unit as defined by each MI scheme. The equivalent income of those entitled to MI includes the MI benefit to which they are entitled.*

Source: *Own calculations using EUROMOD.*

In some countries large numbers of working age individuals live on very low incomes even when eligible for MI. In Estonia, Austria and Portugal over 60 per cent of those entitled to MI fail to reach 40 per cent of median income. In Slovenia the relevant share is nearly 50 per cent. Conversely, in Belgium, Denmark, Finland, France and the UK relatively high proportions of those entitled to MI have household incomes well clear of the poverty line (e.g. above 80 per cent of median). In all of these countries the assessment unit for MI is narrower than the household, making it less likely that those entitled to MI live in households with relatively high income.

In countries with a high entitlement rate (Poland, the UK, Finland Belgium), and also in France, the relevant population appears to be rather evenly distributed by income. Elsewhere (Germany, the Netherlands and Luxembourg), MI seems designed to bring most recipients to between 40 and 60 per cent of median income. In some other countries (Estonia, Austria, Portugal and Slovenia), MI is closely targeted at those with low incomes, but its adequacy is generally low.

Plotting coverage against adequacy produces Figures 1 and 2 (for the two poverty lines at 60 and 40 per cent of median equivalent income respectively).
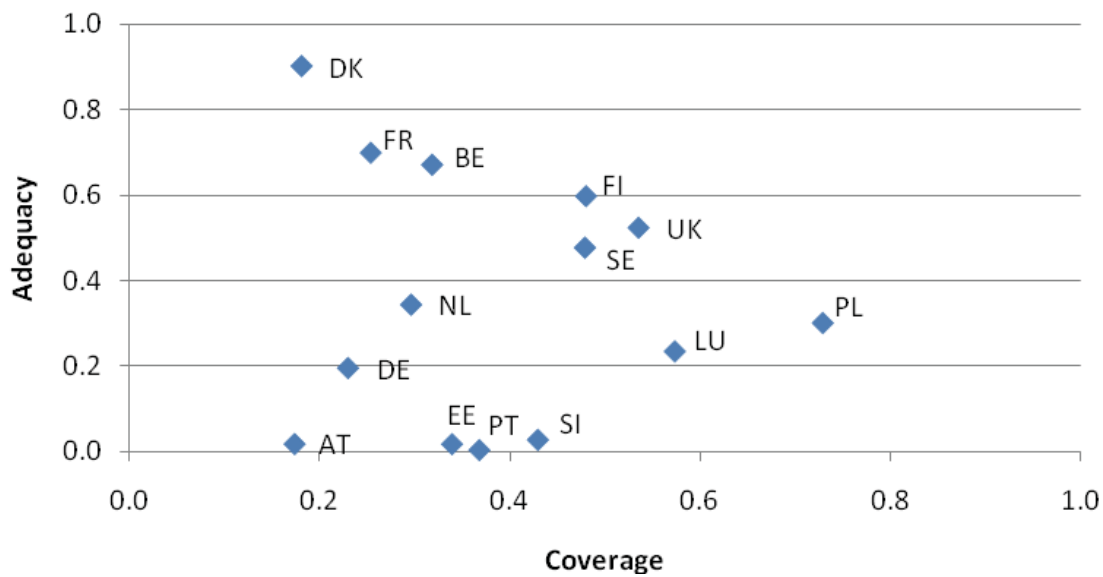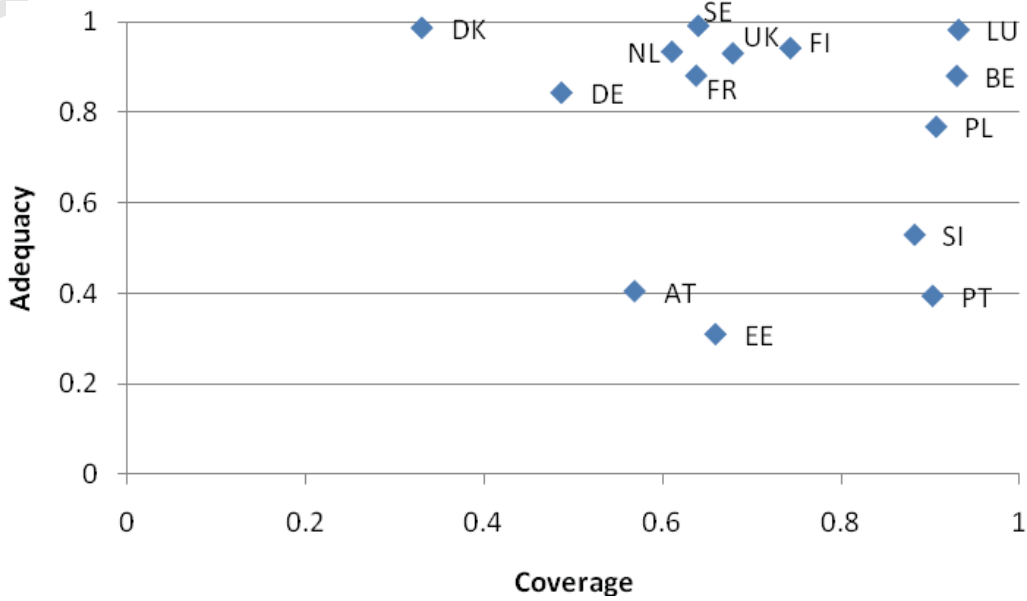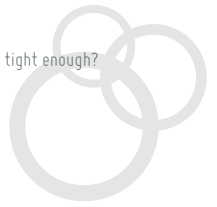
Figure 1: Coverage and adequacy of MI schemes in the EU (poverty line at 60% median)

Notes: *Coverage rates from Table 3. The adequacy rate is the proportion of working age individuals entitled to MI with equivalent income equal or greater than 60% of the median (Table 5). Correlation coefficient = -0.089; p-value = 0.761; no. of observations = 14.*
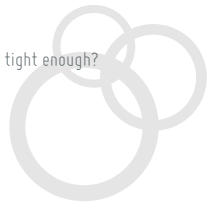
Judging the effectiveness of MI schemes against the standard poverty benchmark (at 60 per cent of median) reveals no clear pattern. Denmark, France and Belgium score high on adequacy but low on coverage. Poland and Luxembourg score high on coverage but less so on adequacy. Austria, followed by Germany and (to a lesser extent) the Netherlands score low on both counts. Estonia, Portugal and Slovenia do as poorly as Austria in terms of adequacy, but better than Germany and the Netherlands in terms of coverage. Another cluster (made up of the UK, Finland and Sweden) performs above average on both counts.

Figure 2: Coverage and adequacy of MI schemes in the EU (poverty line at 40% median)

Notes: Coverage rates from Table 4. The adequacy rate is the proportion of working age individuals entitled to MI with equivalent income equal or greater than 40% of the median (Table 5). Correlation coefficient = -0. 167; p-value = 0. 567; no. of observations = 14.

Effectiveness obviously looks better against the extreme poverty benchmark (at 40 per cent of median). Luxembourg, closely followed by Belgium, score high (above 80 per cent) on both counts, with Poland almost making it. Seven countries (Finland, the UK, Sweden, France, the Netherlands, Germany and Denmark) score progressively less on coverage, but still high on adequacy, while the exact opposite is the case with Slovenia and Portugal. Austria and Estonia do poorly on both counts.

4.   Conclusions

In this paper we provided estimates of coverage and adequacy of MI in 14 EU countries using microsimulation, thus offering a complementary picture to the studies based on "model families" (Immervoll 2010; Nelson 2010; van Mechelen et al. 2011).

With respect to coverage, we have demonstrated that in several countries a large proportion of individuals of working age are ineligible for MI even when they fall below a poverty line set at 40 per cent of median income. This highlights one reason why social safety nets may be less tight than is commonly believed: eligibility rules limit coverage by design, either by introducing categorical conditions that exclude potential beneficiaries, or by setting the income threshold for entitlement too low.

With respect to adequacy, we have shown that in some countries a large fraction of those entitled to MI remain at very low levels of income even when MI benefit is added. This suggests that MI schemes are often insufficient to lift people out of poverty, although naturally "they do play a very important role in reducing the intensity of poverty" (Frazer and Marlier, 2009).

Plotting coverage against adequacy reveals interesting patterns, partly consistent with the literature on welfare regimes and social assistance types. Within continental Europe, Belgium and Luxembourg appear to do far better than either France or Germany. Within Scandinavia, Finland and Sweden outscore Denmark in terms of coverage, though not in terms of adequacy (with Netherlands, an honorary member of the Scandinavian regime, showing up somewhere in the middle). Austria, expected to feature relatively high benefits but few beneficiaries (Gough, 2001), does marginally less poorly in terms of coverage than in terms of adequacy. The UK does rather well on both counts. Portugal, the only Southern European country with a comprehensive MI scheme, scores very high in terms of coverage with respect to a poverty benchmark at 40% of median, but quite low otherwise. Finally, among the Eastern European countries considered, Poland stands out, clearly outperforming Slovenia and leaving Estonia far behind.

Where does this all leave us? Our findings suggest that the clustering of MI schemes in the 14 EU countries may be more complex than previous literature (Gough et al., 1997; Bahle, 2010) allowed for. If coverage and adequacy are accepted as key dimensions of anti-poverty effectiveness, then variation in effectiveness seems to be as significant *within* Gough's social assistance regimes as it is *between* them. Clearly, some of the divergence can be explained by later developments (e.g. the successful launch of RMG in Portugal), while the fact that the set of

countries examined here is different may also have played a role. Still, some divergence remains, and can only be attributed to our use of a methodology that makes it possible to paint a more nuanced picture.

Moreover, the apparently reasonable notion that coverage and adequacy must be strongly and positively correlated with each other (as countries move along a continuum from rudimentary to comprehensive social safety nets) is actually not borne out here. We have found that the correlation between our two dimensions of effectiveness is weak and negative (and very far from being statistically significant). Hence, while some countries offer better coverage and more adequate MI benefits than others, elsewhere in the EU an implicit trade off seems to be present: while some countries have opted for narrowly targeted but relatively generous MI support, others have chosen the exact opposite. Clearly, more research into the nature and the causes of this intriguing pattern is needed.

Finally, our results confirm that recent developments have not led to institutional conformity (Nelson, 2008), nor to a convergence of social protection in the EU (Caminada et al., 2010). In the light of this diversity, the recent legislative proposal that MI schemes across the EU ought to clear the standard poverty threshold at 60 per cent of median income (European Parliament, 2010) looks remarkably ambitious.

As Immervoll (2010) has pointed out, the current economic downturn is bound to boost demand for minimum income protection throughout the EU. Increasing shares of non-standard workers, and reductions in the scope of unemployment benefits, imply that many of those losing their job in the recession may be ineligible for standard unemployment insurance. As a result, benefits of last resort such as minimum incomes will become the main (perhaps even the only) social safety net for large numbers of people.

This raises several issues at once. Perhaps paradoxically, minimum income benefits perform better in the context of a well-functioning labour market and a strong welfare state than when they are "the only game in town" (Ferrera, 2005). In this sense, the wisdom of a general shift to means-tested benefits, such as that experienced in some countries over the last few decades (Gilbert, 2004; Gough et al., 1997; Schuknecht and Tanzi, 2005), may have to be questioned, and the relative roles of social insurance and social assistance reconsidered (Nelson, 2004). In the meantime, policy makers will have to ensure that an effective safety net is in place to stop those losing their job (or otherwise experiencing a significant drop in income) from descending into poverty (Figari et al., 2011).

The evidence presented here suggests that the current crisis will put MI schemes in several EU countries to a severe test. To meet the challenge, social safety nets must become stronger and tighter. MI schemes can act as efficient social shock absorbers and play a counter-cyclical role by boosting internal demand and consumption, so long as extending coverage and/or improving adequacy are part of the agenda.
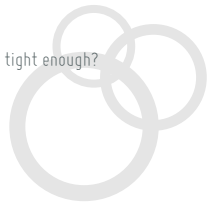
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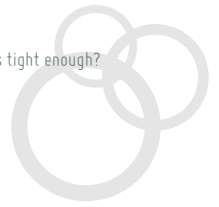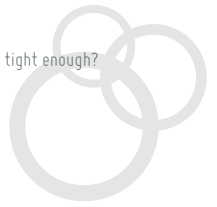
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Information on the GINI project

Aims

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

Methodologically, GINI aims to:

- exploit differences between and within 29 countries in inequality levels and trends for understanding the impacts and teasing out implications for policy and institutions,

- elaborate on the effects of both individual distributional positions and aggregate inequalities, and

- allow for feedback from impacts to inequality in a two-way causality approach.

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

Inequality Impacts and Analysis

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

Support and Activities

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

www.gini-research.org

GINI GROWING INEQUALITIES' IMPACTS

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