



# Social Safety Nets and Targeted Social Assistance: Lessons from the European Experience

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# **SOCIAL SAFETY NETS AND TARGETED SOCIAL ASSISTANCE: LESSONS FROM THE EUROPEAN EXPERIENCE<sup>1</sup>**

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<sup>1</sup> The paper is based on and summarizes a more extensive analysis found in five Maastricht Graduate School of Governance Working papers: the reference (de Neubourg en de Graaf, 2007a, de Neubourg and de Graaf, 2007b, de Neubourg, Hener and Roelen., 2007, de Neubourg, Castonguay and Roelen, 2007, de Neubourg and Nelissen, 2007); details and a lot more data on the issues discussed here are provided in that publication.

## **ABSTRACT**

The performance and design of targeted income support to the poor differ across the advanced countries analysed. Yet in most European countries, social assistance can be seen as an instrument of last resort after all other components of the Social Protection system have contributed to lower inequality and reduced poverty levels. The European Social Protection systems are effective and efficient, but reforms are needed as a response to changing socio-economic conditions. Of special importance are the reforms with respect to the provision of incentives for beneficiaries to become more active on the labour market, for providers to operate to be more critical when handing out benefits by changing entitlement rights as well as the containing operational costs. After all, it is the design and adjustment to local circumstances that matter when the role of social assistance in a broader SP system has been well understood.

### **JEL Codes:**

H53: Government expenditure and welfare programs;  
I38: Government policy, provision and effects of welfare programs;  
O15: Human resources; human development, income distribution;  
O52: Europe.

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# Social Safety Nets and Targeted Social Assistance: Lessons from the European Experience

## Introduction

Social Protection (SP) systems in advanced market economies consist of many different components. The specific architecture of the SP systems differs from country to country (and sometimes from region/state to region/state). The specific social programmes that form the SP system can be subdivided in contributory and non-contributory benefits. Contributory transfer systems, which include among others pension and unemployment insurance, limit benefit disbursement to the contributors to particular schemes. Non-contributory programmes instead are financed out of general public revenue. They include social assistance programmes like family allowance and transfers and are not necessarily limited to tax/premium-payers, but may be means-tested and targeted to the poor.

The objective of this paper is to review and compare the performance of social assistance non-contributory income support programmes for the poor<sup>2</sup> within the context of the Social Protection (SP) systems in European and other advanced economies. Most of the discussion is based on the experience in nine European countries (Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden, United Kingdom), augmented sometimes with examples and comparisons with the SP system in USA and other OECD countries.

The distinction between contributory SP programmes and social assistance is technically difficult within the European context. Nevertheless, European countries have very sophisticated Social Protection systems within which both contributory and non-contributory benefits. In most of the European countries, social assistance therefore plays only a marginal role. The performance and specific design of the social assistance programmes differ greatly and are heavily related to the institutional and local conditions. The latter implies that other countries that would like to learn from the European systems, should judge the role of social assistance as a part of a more encompassing overall SP system.

The first section of the paper provides the background necessary for analysing the differences in the construction of the Welfare States in the various countries. The discussion is focused on the role of various components of SP systems and illustrates the large international differences in their components and their role in alleviating poverty and reducing inequality. The second section provides details on the characteristics of the social assistance (targeted income support to the poor) programmes in the nine European countries. The third section discusses the differences in the performance of the social assistance systems in terms of coverage and participation, effectiveness towards reducing poverty and inequality, efficiency in delivering the benefits, and implementation issues. The fourth section reviews the recent debate towards reforms in the systems. The concluding section draws lessons from the experiences of the European countries related

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<sup>2</sup> Note that social assistance non-contributory income support programs for the poor sometimes can be referred to as targeted income support to the poor, means tested social assistance and means tested social transfers, targeted social assistance or safety nets. In this paper we use those terms as synonymous and interchangeable.

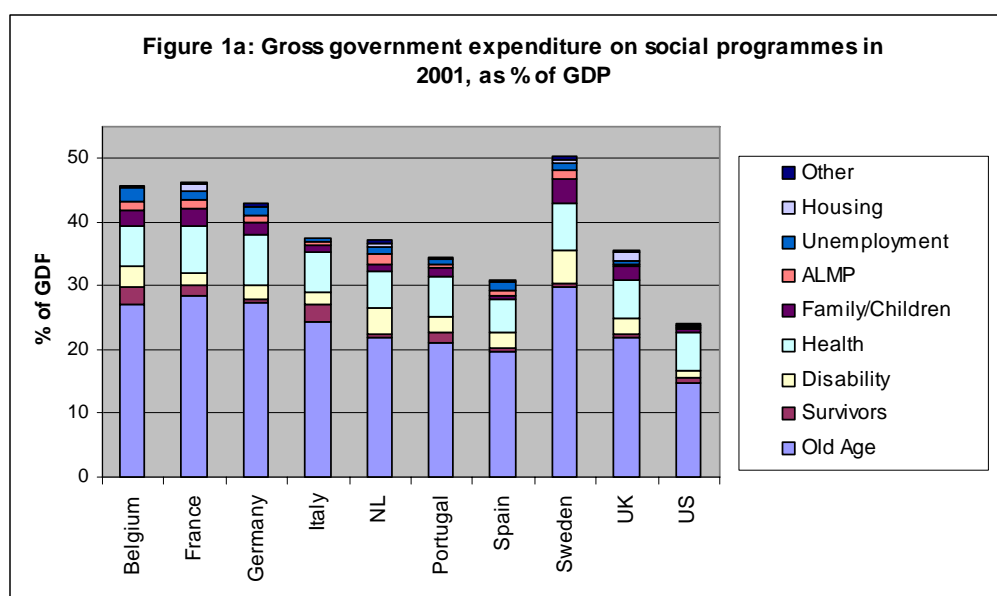
to the design and implementation of Social Protection systems aimed at fighting poverty and reducing inequality.

## 1. Social Protection systems and the role of targeted assistance to the poor

### *Public spending on Social Protection in Europe is high*

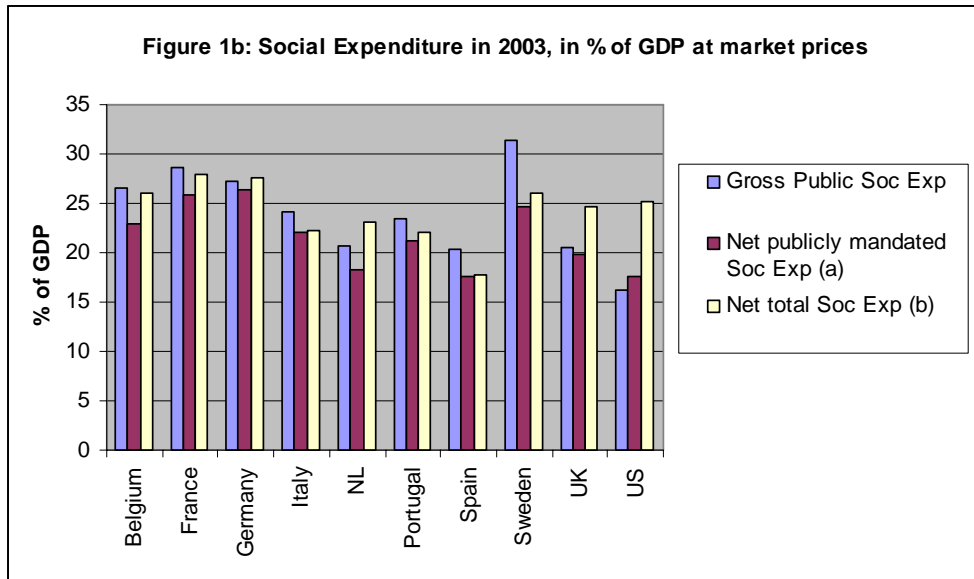
As illustrated by Figure 1a, public spending on Social Protection (including health) is important in all countries under consideration, but international differences are large. The European emphasis on the public provision of social protection can be clearly seen from the level of public social expenditure. Continental Europe allocates more funds to Social Protection than the United States.

The highest public social spending levels are found in Central and North European countries. Sweden is heading the list with social expenditure of 50% of GDP, and most of the other Western European countries spend between 30 to 45 % of their GDP on social protection. Nevertheless, the emphasis on different types of benefits varies greatly between the different countries. The Italian system puts a great emphasis on old age benefits and survivor benefits, which leaves little resources to be spent on other types of benefits, particularly on unemployment benefits while the Italian unemployment rate is one of the highest in Western Europe.



Source: Own calculation based on OECD Social Expenditure Database Edition 2004.

A more accurate measure of social spending is however net total social expenditure. This indicator represents not only gross government social expenditure, but also incorporates indirect taxes, tax breaks as well as mandatory and private social expenditure. Figure 1b gives an overview of both gross and net expenditure and indicates that differences in social spending solely based upon gross figures may in fact be a less realistic representation of actual social spending behaviour. For example, including voluntary private expenditure net total social protection expenditure actually differs slightly among the United States, United Kingdom and Sweden.



Notes:

a: Incorporates gross public expenditure, indirect taxes, tax breaks and mandatory private social expenditure.

b: Net publicly mandated social expenditure plus voluntary private social expenditure corrected for certain tax breaks to avoid double counting.

Source: OECD Social Expenditure Database Edition 2007.

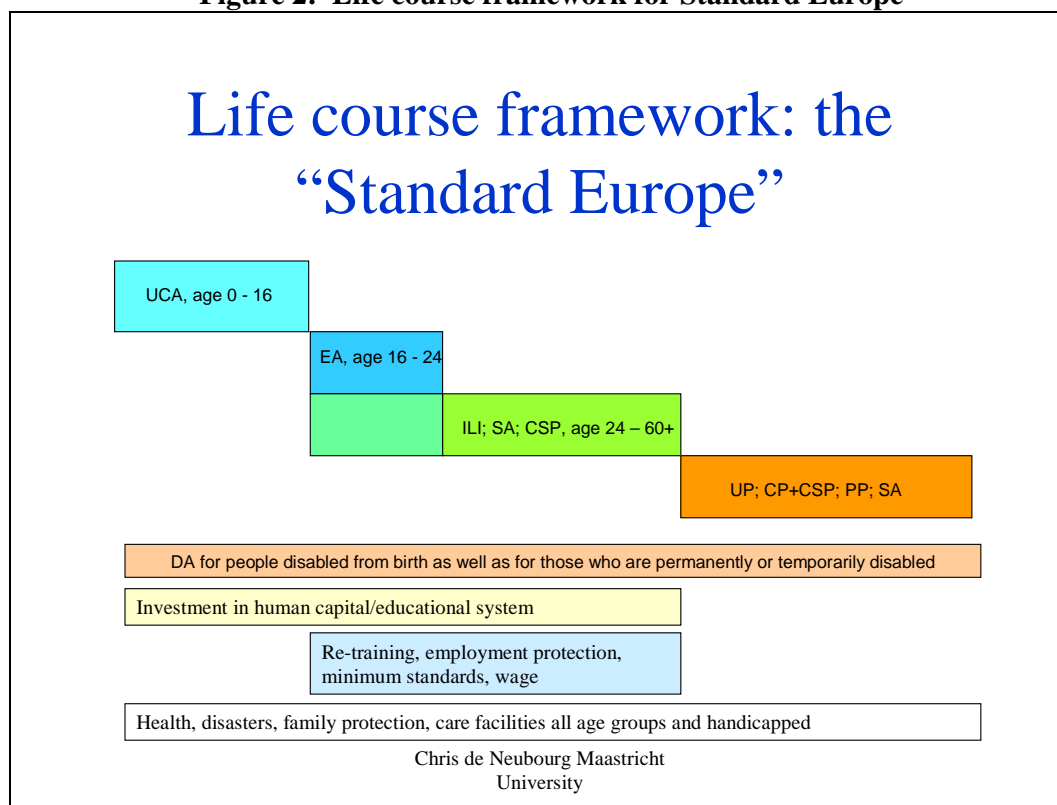
The Social Protection systems in Europe are almost equally financed by three types of contributions: employers' social contributions, social contributions by the protected persons and general government contributions. But on the national level these proportions vary considerably between the different countries. Notably, around 65% of contribution comes from contributions from employers and protected persons in Belgium, Spain, France, the Netherlands and Germany. On the other hand, taxes are the main source of financing Social Protection in United Kingdom and Sweden. Finally, it appears that it is only in the Netherlands that protected persons contribute more than their employers. This 10% difference is quite considerable since in all other countries, employers contribute almost twice as much as protected persons.

The philosophy underpinning the northern European Social Protection system is known as the *Life course framework* (Figure 2). Under this framework, there are Social Protection interventions tailored for every stage in life of individuals and families: from child allowances (typically universal) for families which children, to employment assistance during youth, to unemployment benefits during the active period and finally to pensions during old-age. Social assistance programmes, in this framework, provide the net of last resort for low-income families who cannot support themselves or are not assisted by other social programmes.

Figure 2 also indicates how for every stage a combination of elements plays together in order to provide protection that the individual may need during a certain stage in life. Age specific provisions are supplemented by general components for handicapped and long term ill/disabled. It also indicates that the public provision of goods as education, health and employment protection all work together to reduce risks and to mitigate the

effects of unfortunate events and to guarantee sufficient investment in human capital; all these elements are important to prevent people to slide into poverty after a crisis or unfortunate event. Over the life cycle of individuals the consumption of public goods as education and health, take the form of Social Protection benefits in kind.

**Figure 2: Life course framework for Standard Europe**



Legend for Figure 2:

UCA = Universal Child Allowance  
 EA = Educational Allowance  
 ILI = Income Loss Insurance  
 SA = means tested Social Assistance  
 CSP = Contributory Survivors Pension  
 UP = Universal Pension  
 CP = Contributory Pension (compulsory)  
 PP = Private Pension  
 DA= Disablement Allowance

Source: de Neubourg, 2005

### **Social protection spending, poverty and inequality**

Higher spending on Social Protection in Continental European economies is associated with less (relative) poverty and inequality (Figures 3 and 4)<sup>3</sup>.

The fact that the poorest Americans are worse off than the poorest Europeans is confirmed regardless of which poverty and inequality measure is taken as a basis. It is clear that there is a large gap between the poverty rate in Europe and the poverty rate in

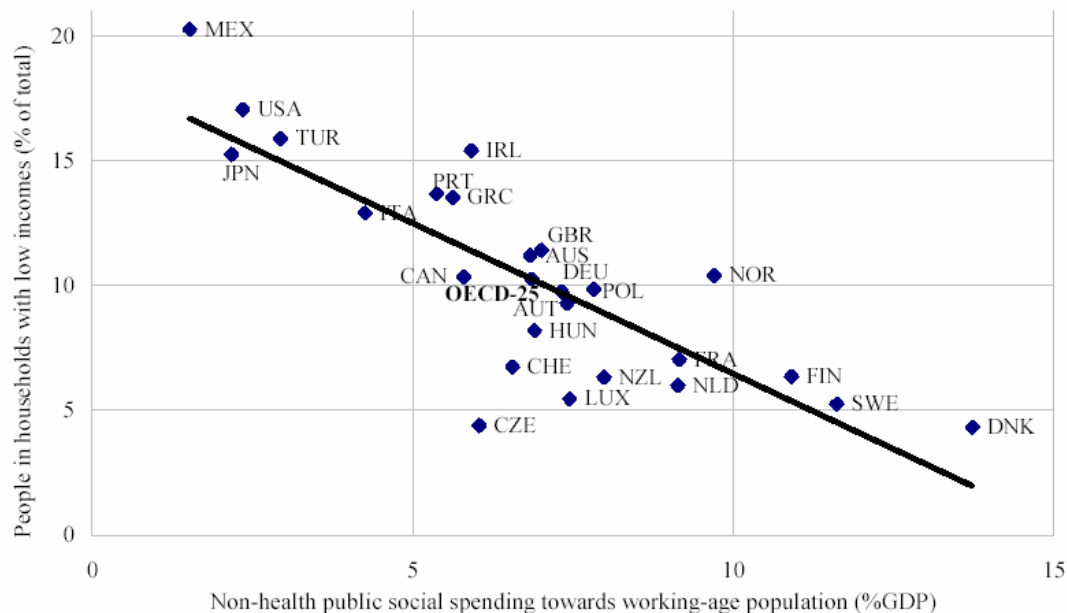
<sup>3</sup> Figure 3 uses a relative poverty measure. Poverty is measured as the percentage of the population with an income below 50 percent of the median equivalent income in the country. The use of absolute poverty line would reveal the same differences (see footnote 1 for details). This is also confirmed by a recent study by the OECD (2005).



the United States, which is almost three times as large as the poverty rate in Belgium, Germany, the Netherlands and Sweden according to studies by Eurostat and the OECD. The United Kingdom finds itself between the Northern European countries and the Southern European countries. This rank order is true no matter what poverty rate is used for comparison.

**Figure 3**

**Social spending reduces the proportion of people with low incomes**  
 Share of total population living in households with less than 50% of median equivalised income and non-health public social spending towards working-age population, in 2000



Source: OECD project on income distribution and poverty; OECD (2004), Social Expenditure Database.

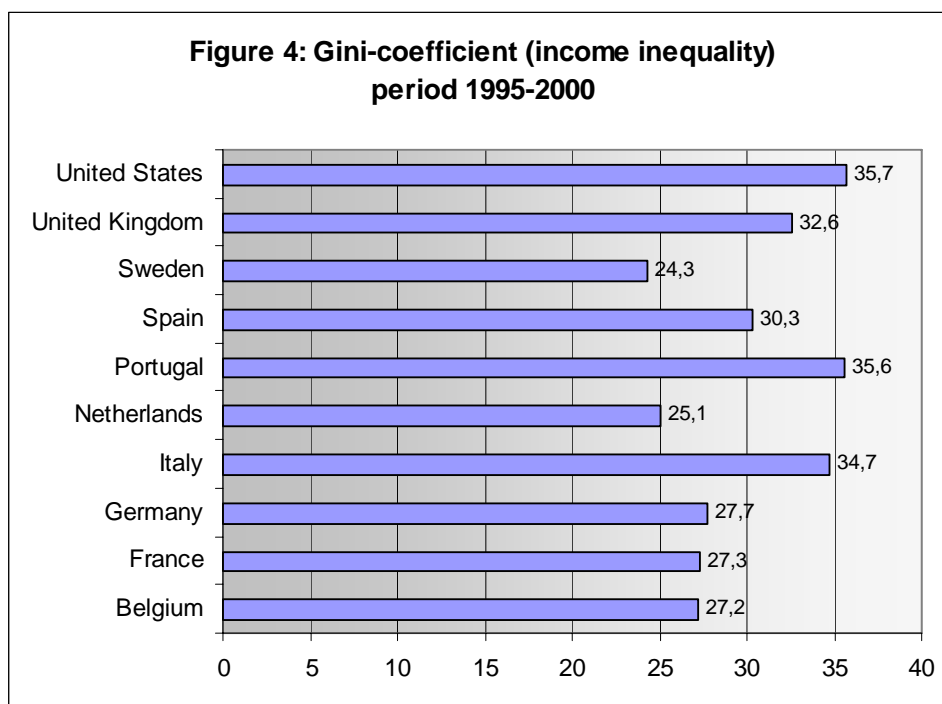
While the average American has a higher living standard than the average resident in the other countries, this does not hold for the entire spectrum of the income distribution. Despite the higher aggregate and average standard of living in the United States, people in the lower deciles of the income distribution are far worse off in US than poorer persons or households in Europe, if compared to the median income of their own country. Even if compared with the median income in US, the poor in Europe are better off (except of United Kingdom).

Furthermore, the levels and duration of poverty are higher in the United States and the United Kingdom than in Continental European countries: more people experience poverty and stay longer in poverty in US and UK.

By age-group, the largest differences in relative poverty rates in US versus Europe are for children and for the working poor. Looking at child poverty rates, the same type of differences can be observed: in Sweden and Belgium less than 5 percent of the children lived in poor households in 1995; in France, the Netherlands and Germany it was around 10 % or less; in Italy, the United Kingdom and the United States approximately one out of five (or more) children lived in poor households. On the other hand, the older age

group is doing particularly well. Retired workers used to belong to the risk-groups in terms of poverty, but this has clearly changed over the years (France and Belgium still show high poverty risks for persons over 65 years of age). Improvements in pension provisions and social sector coverage in general are responsible for the reduced poverty among elder residents in most countries<sup>4</sup>.

Poverty among working households is strongly associated with the number of earners in the family. Among households with two working adults poverty is virtually non-existent, except in Italy, the United Kingdom and the United States. This and the relative high incidence of poverty among single worker families in the same countries (and still poverty rates well above zero for the same group in the other countries) point to a phenomenon known as working poor. Looking at poverty rates for households where one or more of its members are employed shows a clear difference between Continental European countries and Anglo-Saxon countries. The relative poverty rates for that group were 2,3 % for France, 2,4 % for Germany, 3,7 % for Sweden compared to 6,9 % in Canada and 12,4 % in the United States (data for 2000; details see de Neubourg and de Graaf, 2007a).



Source: Förster and Mira d'Ercole, 2005.

Welfare States and social protection arrangements are, according to many – especially European scholars – not only designed to alleviate poverty but also to reduce inequality. The same division of countries as found in the poverty studies, appears in this context as well: Sweden together with the other Continental European countries, Belgium, France, Germany and the Netherlands show the least inequality (the lowest Gini-coefficient see

<sup>4</sup> A detailed analysis can be found in the publications referred to in footnote 1. De Neubourg and de Graaf, 2007 as well as Notten and de Neubourg, 2007, also give a detailed comparison of poverty rates in Europe and the USA using relative and absolute poverty estimates.

Figure 4); Italy, the United Kingdom and the United States have the highest income inequality.

***Social Protection systems play a crucial role in reducing poverty and inequality***

The impact of Social Protection systems in reducing poverty and inequality is large. Many studies have illustrated this by comparing (simulated) poverty and inequality levels before taxes and transfers, with post tax-and-transfer levels. While the Continental European countries show internationally the highest income inequality before taxes and benefits<sup>5</sup>, they display smaller inequalities after taxes and benefits. The interventionist and universalistic oriented Social Protection systems play an important role in this “correction”. They also produce considerable lower poverty rates than other countries. Moreover, Social Protection systems in Continental Europe are more effective in the sense that they manage to reduce the duration of poverty and the incidence of poverty over the life-cycle of individuals and households. The impact of social transfers on poverty rates is estimated in table 1 providing estimates of the relative (Laeken) poverty level (60 % of median income) and the absolute (Orshanski) poverty level (for details see Notten and de Neubourg, 2007).

**Table 1: Poverty incidence using income excluding social benefits in 2000**

	Relative poverty (Laeken): 60 % of median income			Absolute poverty (Orshansky) (net household income)		
	Before social transfers	Before social transfers but after pensions <sup>2</sup>	Disposable income after all social transfers	Before social transfers	Before social transfers but after pensions <sup>2</sup>	Disposable income after all social transfers
Belgium	36.8	22.4	13.3	28.6	10.9	3.6
Denmark	30.3	20.6	10.8	25.5	11.7	3.4
Germany	37.9	20.7	11.1	30.7	12.4	5.1
Greece	38.9	22.7	20.5	42.8	27.8	26.1
Spain	36.4	23.3	18.8	35.8	23.2	19.1
France	41.0	24.4	15.4	33.3	15.2	6.5
Ireland	35.2	29.5	21.4	26.1	19.5	10.6
Italy	41.4	21.9	19.3	38.1	19.2	16.7
Luxembourg	40.3	23.1	12.5	22.2	6.9	0.6
Netherlands	35.0	20.4	11.3	29.7	15.0	6.6
Austria	37.7	21.8	11.9	27.0	11.0	4.8
Portugal	36.4	24.4	20.1	47.3	37.5	32.2
Finland	39.1	28.2	11.4	30.2	17.3	4.9
Sweden	na	na	10.4	na	Na	5.7
United Kingdom	38.5	27.6	17.1	32.0	18.7	9.3
United States	32.5	24.4	23.4	18.7	9.9	8.7

<sup>1</sup> The threshold (poverty line) is calculated on the basis of the income distribution **after** transfers.

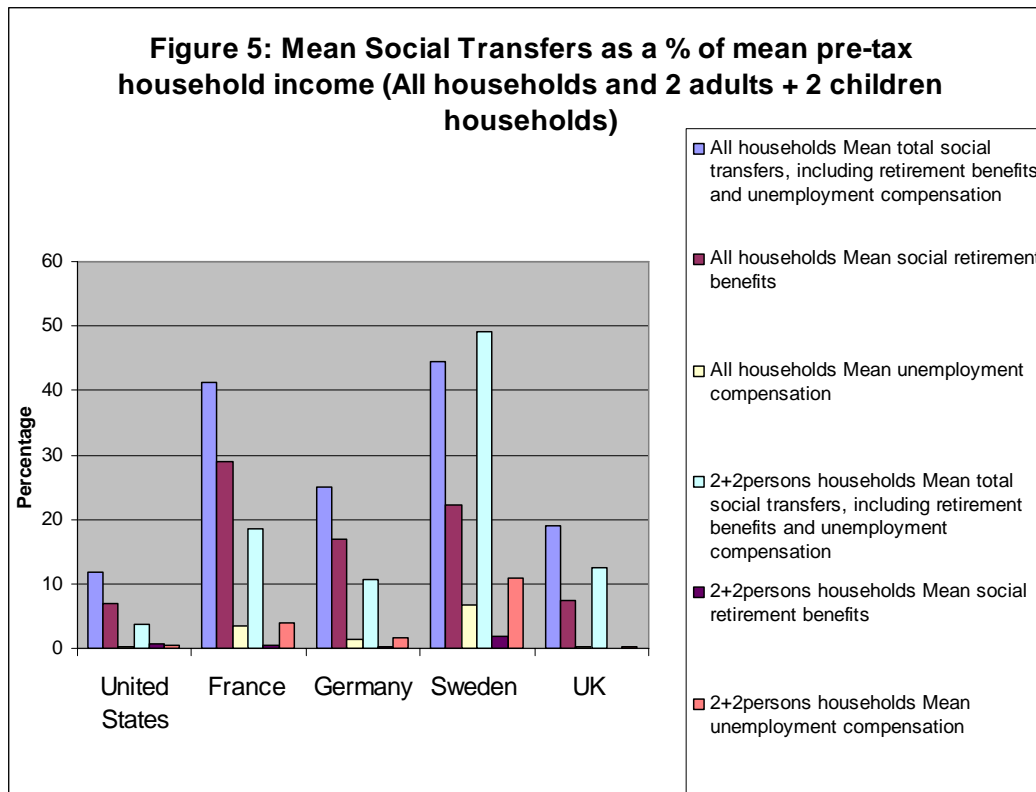
<sup>2</sup> Thus, pensions are included in income but other social transfers are not.

<sup>3</sup> Not available or not yet calculated.

<sup>4</sup> ECHP total household income data for France and Finland are available in gross amounts only.

<sup>5</sup> This is actually also due to the fact that the household surveys in the USA do not record household incomes above a certain level while European countries do not truncate the observation in this way.

The impact of Social Protection systems is even more pronounced for children. While more than one out of five children in the United States lives in poor households, this is only the case for less than 4 percent of the children in Belgium and Sweden (data 2000, details see de Neubourg and de Graaf, 2007a). Undoubtedly, Social Protection systems have a large impact in reducing poverty in Continental European countries (they cover more people and provide higher transfers). This success is associated with the provision of more generous benefits (higher benefit adequacy), as illustrated in figure 5.



Source: Compiled from Alesina and Glaeser, 2004; data for 1995.

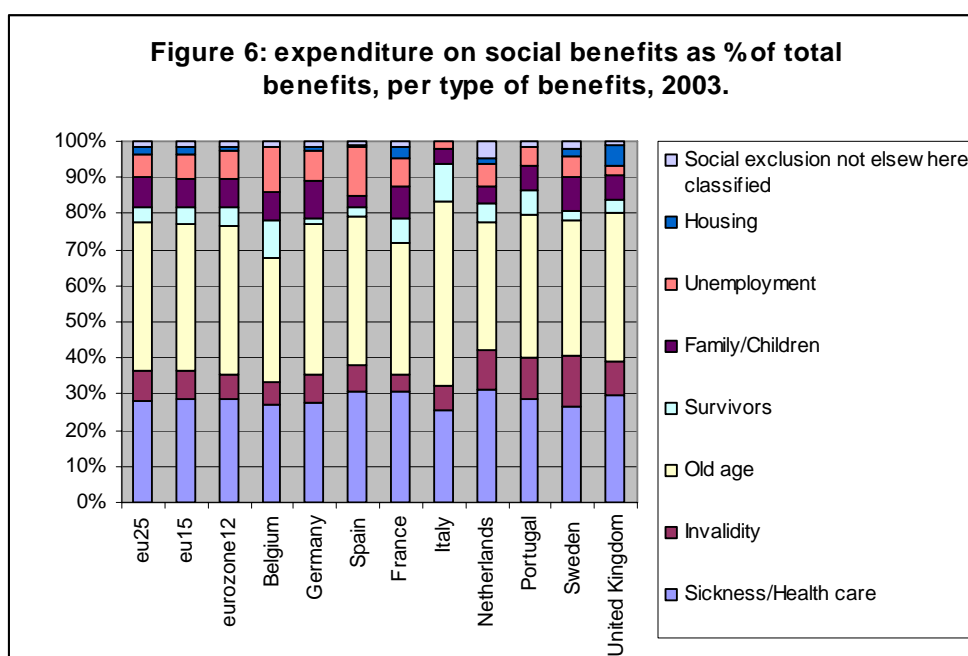
Another interesting finding while looking at poverty rates is that the number of long term poor BEFORE transfers and taxes is LOWER in the United States than in any European country with the United Kingdom and surprisingly Sweden having the HIGHEST poverty rates. The same applies for the occasionally poor (at least once in the five year period). Looking from this perspective, the UK Social Protection system delivers good results as does the Swedish system since their poverty rate AFTER transfers and taxes are amongst the lowest. Indeed, comparing poverty rates before taxes and transfers to poverty rates after taxes and transfers, it is clear that direct taxes and social transfers contribute a lot to the alleviation of poverty in all countries, but in the United States less than in others.

Furthermore, taxes and transfers played a significant role in containing the growing inequality in all the countries due to growing differences in market earnings. The fact that inequality increased a lot more than poverty rates indicates that the importance of the taxes and government transfers has increased over the period from the early 80's to the mid-90's. A strong evidence for this is a simulation showing that when all transfer incomes increase by the same percentage as other incomes, poverty in Europe is reduced

to 10.1 percent in 2005 and to 7.9 percent in 2010 (See de Neubourg and de Graaf, 2007a). When, however, transfer incomes would be frozen on their 1995 level, poverty rates would be respectively 14.6 and 13.6 percent (1995 poverty level is 17.2 percent). The biggest effect would be felt by the aged persons, but poverty incidence would increase considerably for children as well. This illustrates how even small adjustments in benefits (not indexing benefits to the growth of other incomes) change the (relative) poverty count.

***Within Social Protection systems, targeted social assistance plays a modest role***

Social Protection systems consist of many different types of benefits. The European systems are big and include contributory benefits and non-contributory benefits. Contributory benefits are mostly associated with risks directly linked to labour market events (unemployment, retirement, professional illness and accidents, etc). Non-contributory benefits contain a large range of arrangements of which social assistance is only one (such as universal child benefits and social pensions). Table 2 summarises the availability of non-contributory benefits in a selection of OECD countries<sup>6</sup>.



Source: Eurostat-ESSPROS (2006)

<sup>6</sup> We will argue in the final section that it is interesting to relax our assumptions on which arrangements can be contributory.

**Table 2: Non-contributory social transfer programmes**

	Guaranteed Minimum Income	Housing Benefits	Family benefits		Lone-parent benefit	Employment conditional benefits	Childcare benefits	
			Universal	Means tested			Non-parental care	Parental care
Australia	Y	Y	-	Y	Y	Y	Y	Y
Austria	Y	GMI	Y	-	-	-	-	Y
Belgium	Y	-	Y	-	-	Y	Y	-
Canada	Y	GMI	-	Y	Y	Y	Y	-
Czech Republic	Y	Y	-	Y	-	-	-	Y
Denmark	Y	Y	Y	-	FB	-	Y	-
Finland	Y	Y	Y	-	FB	Y	-	Y
France	Y	Y	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	-	T	Y	Y	Y
Greece	-	Y	Y	-	-	-	-	-
Hungary	Y	Y	Y	-	FB	-	-	Y
Iceland	Y	Y	Y	Y	Y	-	-	-
Ireland	Y	GMI	Y	-	Y	Y	-	Y
Italy	-	Y	-	Y	-	-	-	-
Japan	Y	GMI	-	Y	Y	Y	-	-
Korea	Y	GMI	-	-	Y	-	Y	-
Luxembourg	Y	GMI	Y	-	T	-	Y	Y
Netherlands	Y	Y	Y	-	T	Y	Y	-
New Zealand	-	Y	-	Y	Y	Y	-	-
Norway	Y	Y	Y	-	Y	-	Y	-
Poland	Y	Y	-	Y	CCB	-	-	Y
Portugal	Y	-	-	Y	T	-	-	-
Slovak Republic	Y	Y	Y	Y	-	-	-	Y
Spain	Y	-	-	Y	T	-	-	-
Sweden	Y	Y	Y	-	Y	-	-	-
Switzerland	Y	GMI	Y	-	-	-	-	-
United Kingdom	Y	Y	Y	-	-	Y	Y	-
United States	-	Y	-	Y	-	Y	Y	-

Notes: “Y” indicates that the specific benefit or tax credit exists in this country. Where no specific housing or lone-parent benefit is available, “GMI” (guaranteed minimum income), “FB” (family benefit) or “CCB” (childcare benefit) indicate that housing or lone-parent specific provisions exist as part of these schemes. “T” indicates different tax provisions or specific tax allowances for lone parents where no other benefits are available.

Source: OECD (2004) Benefits and Wages

Within the SP system, social assistance programmes play a residual role in Continental Europe, because other types of benefits are available. Moreover, universal health care and free education (including higher level education) also contribute to an effective social safety net BEFORE means targeted social assistance comes in.

Within the Social Protection system, non-contributory social assistance plays a small, residual role in European Union countries, except for United Kingdom. Figures 1 and 6 show for the European countries that about 0,5% of GDP is spent on “other contingencies” and about 1.5% of total social spending is meant for “Social exclusion not elsewhere classified”.

Sickness and invalidity benefits have a great impact in the Netherlands and family benefits are important in Belgium, France and the UK. In Italy, low spending on unemployment benefits is noticed in the impact it has on poverty rates. Other benefits (including Social Assistance) are important in the UK particularly, and also in France and the Netherlands (in Germany the figure includes too many different benefits to draw conclusions). It is striking to repeat that universal benefits such as public pensions and family allowances are important in poverty alleviation. The resources allocated to these types of benefits are quantitatively more responsible for the success in poverty reduction programmes in Continental European countries that means tested targeted assistance (see also Figure 1).

Many social benefits are universal in Europe, such as Child benefits and Old Age benefits. This does imply that the scope of the European Social Protection system is very high, since a large part of the population is eligible for many of the social benefits. About 95% of the benefits in Continental Europe do not have a means-test, so that only categorical criteria such as age or degree of disability are determining eligibility.

Moreover, Continental European Social Protection systems are generous systems in which benefit levels<sup>7</sup> are high compared to the United Kingdom and the United States. Mean social transfers are around 40% of mean pre-tax and transfer income for France and Sweden, but only 12% in the United States. For four-person households with two children, Sweden shows much higher benefit levels than the other countries, which can be explained by the importance of family benefits.

The coverage of the overall European Social Protection system is thus very high, particularly compared to the United States. First, the proportion of the population covered by the Social Protection system is larger, because of the universalistic nature of many benefits. Second, the high level of interventionism in Continental Europe also implies that benefits are more generous.

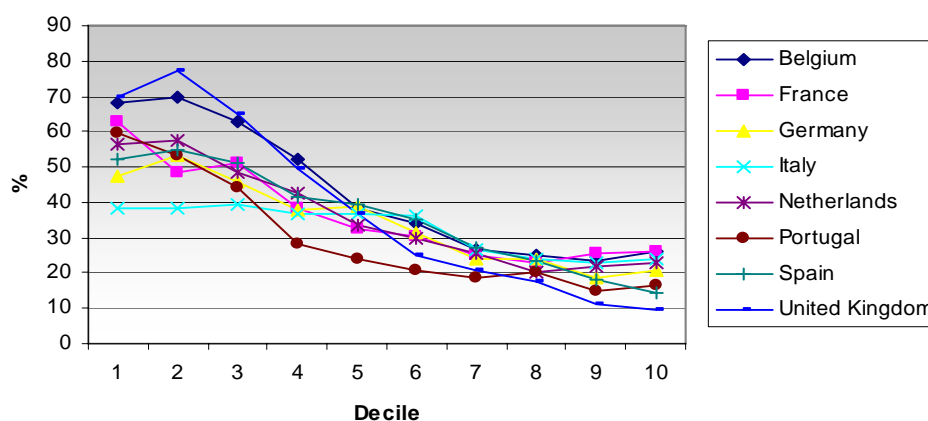
Which countries are more successful in targeting their spending toward the poorest strata of the society? Figure 7 from Heady (2001) illustrates the proportion of total cash transfers (excluding pensions) as a proportion of the total income captured by each decile. The steepness of the descent of each line indicates the amount of targeting of benefits towards the poor. The United Kingdom, followed by Belgium, has the more targeted distribution of benefits as a percentage of decile income. On the other hand, Italy has a very flat descent indicating a small difference between the deciles in terms of cash transfers as a proportion of

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<sup>7</sup> In certain cases this could be called replacement rates. However, it is technically not correct to indicate benefit levels with “replacement rates” since this implies that some income is replaced while that is not always the case. Child allowances for example do not “replace” any income at all.

total decile income. Most other countries have very similar distributions and find themselves between these two extremes.

**Figure 7: Cash transfers as proportion of total decile income, 1994.**



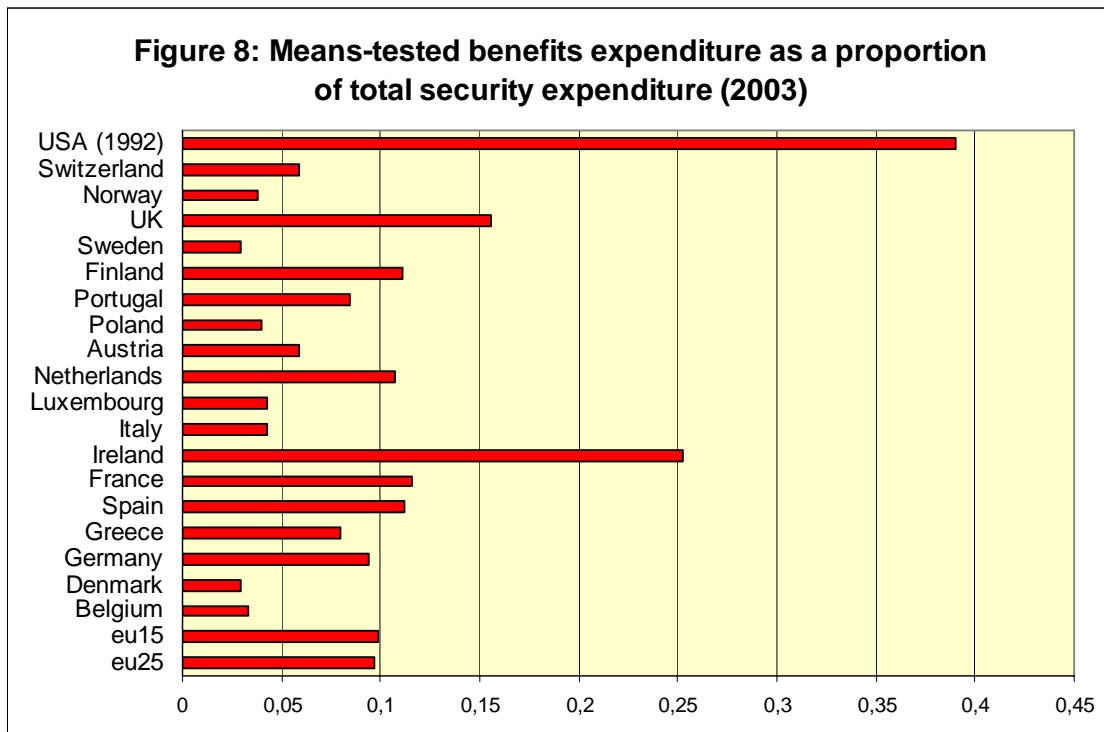
Source: Heady et al. (2001).

The European social protection systems also have low administration costs. In looking at the efficiency of a social protection system, an important question is whether its expenditure is efficiently spent, that is to say whether administration costs and other expenses are not taking over a significant part of the expenditure. This is not the case for public social expenditure in Europe, where the administration costs for most countries are under 4% of total social expenditure. In fact, the European Welfare State is doing well in terms of efficiency if we compare it to the private insurance sector, where administration costs are often much higher.

However, a comparison of the costs (overall SP spending) required to achieve a given reduction in overall poverty, most studies reviewed in de Neubourg and de Graaf, 2007b, place Anglo-Saxon countries (US and UK) before the other countries in the European Union. US and UK systems tend to be more cost-efficient: the extensive use of means-tested programmes translated in a larger reduction in poverty per monetary unit spent. The most efficient Social Protection system according to calculation presented in de Neubourg and de Graaf 2007a, is the system in the United Kingdom, followed by the systems in Belgium and, surprisingly, the United States. This can partially be explained by the small size of the US Welfare State, where very limited inputs produce small effects wasting relatively few resources (as judged from the financial indicators).

All in all it becomes easy to understand why targeted benefits are such a small proportion of the total social expenditures in Europe compared to other countries as illustrated in figure 8.





Source: EU data: Eurostat-ESSPROS (2006)

USA data: Gilbert (2002)

While the role of social assistance programmes in reducing poverty and inequality is marginal in Europe due to their small size (as is illustrated in table 3), these programmes are very effective in weaving the safety net tightly for those who fall through the protective belt of the other social protection measures. The performance of social assistance schemes in Europe is discussed in section 3.

## 2. Targeted means tested social assistance systems by 5 dimensions

Means-tested social assistance programmes take many forms even within Europe. Describing the systems in detail is a tedious undertaking and easily leads to lists of details that leave the overall picture difficult to grasp. The main features of the systems can be outlined using 5 dimensions:

- Solidarity between family members
- Selectivity and targeting
- Institutional decision level
- Generosity
- Re-integration efforts.

Each of these dimensions relate to a set of basic questions that policy makers have to address when designing a system of targeted income support for the poor.

1) Solidarity between family members:

- Is the system based on solidarity between all the individual residents or does the collective solidarity only apply after the assumed solidarity between household- and/or family members is exhausted? *Example: the social assistance systems in Germany and*

**Table 3: Poverty reduction impact of benefit categories in 2000 (benchmark: final income)**

	Laeken					Orshansky (net household income)				
	Pensions	Family benefits	Sickness / disability/ unemployment	Social Assistance	Other	Pensions	Family benefits	Sickness / disability/ unemployment	Social Assistance	Other
Belgium	-15.6	-4.7	-4.9	-0.1	-0.5	-16.9	-2.8	-4.8	-0.2	-0.3
Denmark	-11.5	-2.2	-5.1	-0.3	-2.9	-14.2	-0.7	-4.3	-0.1	-2.1
Germany	-18.2	-4.9	-4.1	-0.5	-0.5	-18.0	-3.4	-3.1	-0.6	-0.4
Greece	-16.7	-0.8	-1.4	0.0	-0.1	-15.2	-0.4	-1.2	0.0	-0.1
Spain	-12.7	-0.4	-4.0	0.0	-0.2	-12.3	-0.4	-3.6	0.0	-0.2
France	-16.9	-3.6	-3.8	-0.2	-2.4	-17.5	-3.7	-3.0	-0.2	-2.4
Ireland	-6.1	-2.8	-5.4	-0.2	-0.8	-7.0	-3.3	-4.1	-0.4	-0.8
Italy	-19.4	-0.5	-2.0	0.0	-0.1	-18.5	-0.4	-1.9	0.0	-0.1
Luxembourg	-16.6	-6.0	-4.1	-0.3	0.0	-14.3	-2.3	-2.2	-1.3	0.0
Netherlands	-14.7	-3.4	-4.3	-1.4	-0.7	-14.2	-2.4	-3.8	-1.8	-0.4
Austria	-15.6	-6.7	-2.9	0.0	-0.5	-15.2	-3.7	-2.2	0.0	-0.2
Portugal	-11.1	-0.9	-2.5	-0.3	-0.2	-9.8	-1.6	-3.4	-0.5	-0.1
Finland	-12.4	-5.6	-11.3	-0.5	-2.8	-12.3	-2.6	-6.4	-0.4	-1.4
Sweden										
United Kingdom	-14.0	-4.3	-3.9		-3.8	-14.1	-3.9	-3.2		-3.9
United States										

*Italy require that family members assist each other; the income of family members is part of the means test; only if the family cannot help, the social assistance system steps in. The contrary is true in Sweden; all individuals are seen as independent and individuals are entitled to receive a benefit independently from the means of family members.*

2) Selectivity and targeting:

- Who is entitled to receive a benefit? Everybody whose income is below a certain threshold or only well defined categories in the population; *Example: is the benefit given to every individual household like in i.e. in all European countries or i.e. only to household heads with children;*
- What is the income threshold? How is it defined? And how is “income” (means) calculated? *Example: are all household means taken into consideration for calculating the income (means) or are certain items excluded such as the house that one is living in; Sweden takes into consideration many income sources while other countries exclude more items;*
- How is the budget of the programmes determined? Are the programmes designed as entitlements, or are they subject to quotas? *Example: does the law guarantee the payment to all the entitled persons like in all northern European countries or is the budget fixed leading to non-disbursement once the budget is spent like in some Italian cities (see also section 3 on the service rate);*

3) Institutional decision level:

- Which level in the administration defines the level of the benefits? Is the entitlement defined as a right for the citizens? How is the local level involved and what can be decided on the local (implementing) level? *Example: in France the benefits are decided upon by the central administration; in most other European countries local authorities are responsible for setting the benefits; in the northern European countries the benefit formula is fixed by law; in the southern European countries local administrations have a lot more discretionary power;*

4) Generosity:

- What is the level of the benefit? What is taken into consideration when the level is defined? For how long is the benefit allocated? *Example: benefit levels differ widely between countries (as seen in table 2) but in some countries, in Belgium i.e., relatively low benefit levels are compensated by large disbursement of in kind assistance.*  
The benefit levels of various countries and some other key design features of social assistance systems in the OECD economies is summarised in table 2.

5) Re-integration:

- How does the system avoid welfare dependency? Do the beneficiaries have duties? How does the system stimulate re-integration of the beneficiaries into the regular economy? *Example: Some arrangements, like for example in Sweden and in the Benelux, put a lot of effort in channelling the beneficiaries as quickly as possible to a job or a re-training programme; other systems are less active in that respect, like the southern European arrangements; all systems tend towards more activation (see section 4).*

It is possible to group the countries by three types of targeted social assistance arrangements<sup>8</sup>; supportive, selective and inclusive.

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<sup>8</sup> Note that this typology is based on MEANS TARGETED SOCIAL ASSISTANCE ARRANGEMENTS ONLY. The typology can not be used to categorize the social protection systems as a whole.

**Table 4: Key design features of Social Assistance programmes**

	Maximum amount % average productive wage			Threshold	Features of means test		
	Household head	Spouse	Children		Income disregard	Benefit withdrawal rate	Benefits excluded
Belgium	23	8	4-10	N	Y	1	Family
Denmark	31	31	10	N	Y	1	
Finland	16	11	9-12	N	Y	1	
France	20	9	0-9	N	Y	1	Family/Housing
Germany	11	9	5-10	N	Y	1	Family
Netherlands	30	13		N		1	Family/Housing
Norway	30	7	4-16	NG		1	
Sweden	16	11	7-12	NG		1	
Switzerland	22	12	6	NG		1	
Greece							
Italy	16	9	7-8	R	Y	1	
Portugal	20	20	10	N	Y	1	Family/Housing
Spain	27	3	3	R		1	Family
Ireland	31	25		R		1	Family/Housing
UK	14	8	10	N	Y	1	Housing
USA	5	4	4	N	Y	1	EITC
Hungary	16			NG		1	
Poland	21			N		1	
Slovak Rep.	17	12	8	N		1	

Note: APW is the average wage of a blue-collar worker in manufacturing sector in each country. The income threshold can be determined nationally (N), under national guidelines (NG), or regionally (R).

Source: OECD (2004) Benefits and Wages

**Supportive arrangements** have universally accessible benefits guaranteed as citizens' rights at a relatively generous level with strong pressures and incentives for the recipients to re-integrate into the labour market. The northern-central European countries Belgium, France, Germany, the Netherlands and Sweden belong to this group. Social assistance arrangements are residual because many other social protection arrangements are available and tenders social assistance as the component of last resort within the Social Protection system. The Netherlands and Sweden provide the most generous benefits but both countries also have hard means testing procedures and strong activation pressures (to get off the role). Germany has the most selective system since it defines its entitlements more in terms of categories and requires a high level of family solidarity before the social assistance arrangements steps in. France and Belgium have nationally unified benefits (at a lower level than the Netherlands and Sweden) but leave a lot of discretionary power to the local social worker to push the beneficiaries into the labour market and to negotiate other duties. The duration of the benefits in all countries is defined by the actual need of the claimants.

**Selective arrangements** require and assume a high level of intra-household and intra-family solidarity. The level duration of benefits is often limited by regulation and benefits are not nationally guaranteed. The local discretion in the system is not only high in its implementation but even in its design; financing is often entirely left to the regional or even local level leading to big differences within the countries. The southern European countries Italy, Portugal and Spain belong to this group with Spain leaning most towards the northern European Arrangements.

The United Kingdom is an example of an **inclusive arrangement**. In the heart of the Anglo-Saxon tradition, the social assistance arrangements are an integral part of a Social Protection

system that is highly means tested in its entire design. A large part of the entire Social Protection system is targeted towards the poor by having means testing as its basic feature.

### 3. The performance of social assistance systems in Europe

There is relatively little systematic information available on the performance of the means-tested programmes in the European Union, partly due to the residual character of the social assistance arrangements. The information that is available can be summarised by answering 4 main questions:

- A. How well do the systems cover the vulnerable part of the population that they seek to protect (*coverage*)?
- B. To what extent do these parts of the SP system reduce poverty and inequality and how well do they succeed in avoiding benefit dependency (*effectiveness*)?
- C. How well do the social assistance systems contain the costs (*efficiency*)?
- D. What are the specific implementation features that lead to human but effective and efficient arrangements (*implementation*)?<sup>9</sup>

#### A. Coverage of means tested social assistance programmes in Europe

Estimates of the population covered by means-tested social assistance programmes (universal family benefits excluded) are relatively old and incomplete. The available evidence, however, supports four main conclusions:

- The *percentage of the population* receiving social assistance is small but rising;
- The number of persons receiving a SA benefits is much smaller than the number of “theoretically eligible” (considerable *non-take up rate*);
- We understand why the non-take up rate is considerable;
- Non-take up is a policy concern and can be addressed.

The *percentage of the population actually receiving targeted social assistance benefits* is small, as the SA programmes are mainly patching the Social Safety Net (SSN), providing last-resort assistance for low-income households that are still poor after all other SP programmes have worked or that are no longer assisted by other programmes (typically other programmes are more generous in terms of benefit level and share of population covered; e.g. unemployment benefits or unemployment assistance for able-bodied individuals, special benefits for people with disabilities). However, the limited evidence available suggests that the percentage of beneficiaries is increasing during the last decade. We do not know precisely why that happened but the inflow of low income immigrants and refugees, the fact that the other SP programmes became more restrictive over time (with the emphasis on activation in Europe – see also section 4), and the fact that people are shifted from one type of benefit to another (towards the less generous SA benefit), all play an important role. Tables 3 and 4 illustrate the low percentages of the population that receive social assistance benefits and the rise of that percentage during the nineties of the last century. A detailed discussion of the figures and the international differences is found in de Neubourg and Castonguay, 2007).

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<sup>9</sup> The answers to these questions should be provided by sound social assistance monitoring devices: de Neubourg, Hener and Roelen, 2007 provides details on the monitoring systems in several countries as such.

**Table 5: Percentage of the population covered by targeted social assistance programmes**

	Share of working-age individuals benefiting from SA	Share of individuals in households who receive SA
Year	1992	1999
Belgium	3.6	2.5
France	2.3	2.8
Germany	5.2	2.2
Italy	4.8	
The Netherlands	3.7	3.2
Portugal	2.7	
Sweden	6.8	(1.1)
United Kingdom*	15.9	9.2
Source	Gassmann and Desczka (2003)	Sainsbury and Morissens (2002)

**Table 6: The coverage of targeted social assistance programmes increased over time**

	Belgium	France	Germany	The Netherlands	Portugal	Sweden	United Kingdom
	Proportion Social Assistance (percentage)						
1980	1,5	-	0,9	1,2		0,2	3,5
1985	1,7	-	1,7	1,6		0,5	7,8
1990	2,1	1,2	2,1	1,5		0,5	7,0
1995	2,5	2,3	2,2	1,4	5,7	1,1	10,5
1999	2,5	2,8	2,2	3,2		1,1	9,2

Note: Figures show the proportion of the population aged between 15 and retirement age  
Source: Gassmann and Desczka (2003) and Farinha (2001)

The number of persons actually receiving a SA benefit is much smaller than the number of “theoretically eligible” persons. This means that the *non-take up rate* is considerable. Figures are only available for few countries and the studies are not fully comparable. An overview of the empirical and theoretical research on take up of welfare benefits<sup>10</sup> undertaken by OECD (2003) provides some basic data and reveals mechanisms that are important in this respect. The take up rate reflects both decisions of eligible individuals to apply for benefits and the accuracy of administrative decisions as to whether these individuals should get the benefit in question or not. The estimates of the extent of take up of welfare benefits are based on a variety of approaches, and typically combine both administrative and survey data. Despite these methodological differences, and the very few OECD countries for which estimates are available, the available evidence suggests that low take-up of welfare benefits occurs both across countries and programmes. Estimates of take up rates typically span a range of between 40% and 80% in the case of social assistance and housing programmes, and between 60% and 80% for unemployment compensation. For some countries more detailed data is available and they teach us that in case of means tested social assistance programmes, this considerable non-take up rate is both less outspoken and less dramatic than actually suggested by the overall figures. For Germany and the UK we know that *non-take up* is positively associated with age (the older the potential beneficiaries, the less likely that they

<sup>10</sup> The extent to which people eligible for various types of benefits actually receive them.

will claim the benefits) and negatively associated with children (the more children the potential beneficiaries have, the more likely they will claim the benefit).

For the UK it has been estimated that although the non-take up rate in terms of caseload (people) is estimated to be in the range of 14 to 5 percent (for non-pensioners), the non-take rate in terms of expenditures is far less and ranging between 9 and 2 percent. This leads to two important findings. First, this indicates that the persons that do not claim their benefit (or do not receive it from the administration) are those who would have a small amount of benefit anyway; most of those with considerable benefits in fact do claim and get them. The second finding is related to administrative rules. The more stringent and complicated the administrative rules are, the less likely potential beneficiaries will claim the benefit. This is especially clear in the cases of Germany and Sweden. Both countries show a remarkable high non-take up rate. In Germany this is related to the fact that the social assistance administration is entitled to check the income/means position of the family of the claimants including parents, grandparents, children and grandchildren. This may refrain many potential beneficiaries from applying for a benefit since they do not want to bother their families with their own financial trouble<sup>11</sup>. In Sweden, the social assistance administration is known for being stringent on all income sources of the claimants; this clearly refrains some of them from applying fearing scrutiny of all their income components including the hidden ones<sup>12</sup>.

The *factors that contribute to low take up rate* in all social programmes can be grouped in three elements:

- Design of the social programme;
- Application behaviour of the potential beneficiaries and
- Practise of the administration in allocating the benefits.

Together these factors lead a group of persons through a filtering process from “needy” to eventually welfare recipient. It is important to understand the nature of these filters. The filters are summarised in Figure 9.

Around the starting level of this filtering process are all the individuals who are targeted by a social benefit. Generally they find themselves under a certain level of income or qualify for other kinds of criteria, which define them as needy in terms of the part of the legislation under consideration (for example, number of months unemployed). Nevertheless, these targeted individuals have already been filtered from a larger group of needy individuals; some of those are not considered to be “deserving” poor and “thus” are not targeted by the Social Protection system<sup>13</sup>.

The second level of the filter differentiates between all those who are targeted because of having an income below a certain threshold and/or other types of selection criteria, and those who can legally be eligible for the benefit. This difference is reflected by the eligibility rate.

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<sup>11</sup> This does not imply that a potential claimant would ask the family members to assist. This might leave the potential claimant poor or in financial distress.

<sup>12</sup> For a detailed discussion and for a study of the beneficiaries of targeted social assistance schemes, see de Neubourg, and Nelissen 2007.

<sup>13</sup> The social construction of coverage and poverty is an issue that is often overlooked and that needs to be considered at this point of the analysis. Unavoidably, judgments are made on the population that is taken into account in order to estimate the number of needy or poor. Saraceno (2002) argues interestingly how coverage indicators and even the very concept of ‘poverty’ is subject to ‘social construction’, meaning that a society implicitly and explicitly defines who is regarded as ‘deserving’ and who is not. Estimates of social protection coverage therefore reflect these views through the process of filtering, from level 0 containing all needy persons to level 1 which refers to the targeted needy persons.

For example, while most students have an income below the threshold for social assistance, they are, however, often legally excluded from receiving this benefit since other types of financial help is available to them<sup>14</sup>.

Not all those who will be legally eligible for a benefit will apply for this benefit. Potential applying claimants face four factors that influence the decision whether or not to file an application for social benefits:

- The amount and the duration of the benefit
- Information costs, costs associated with the administrative process
- Uncertainties and delays in the administration handling the applications and finally
- Social and psychological costs, such as stigma.

The lower the benefits and the higher the costs of claiming a certain benefit, the bigger are the difference between levels 2 and 3.

Then, from those who apply for a benefit, a portion will be found ineligible to receive the benefit. The importance of this level of the filter depends a lot on the strictness of the eligibility criteria of the first level and the discretionary power of the social worker or administrators attributing the benefit<sup>15</sup>. The inclusion rate therefore explains the difference between the applying claimants, level 3, and the accepted claimants, level 4. In addition, the difference between those who are legally eligible claimants (level 2) and those who are accepted claimant (level 4) is the participation rate.

Finally, the last level in the filtering process refers to the service rate, since not all accepted claimants might become actual beneficiaries for cause of lack of financial resources.

The filtering process can quantitatively be described by calculating 6 ratios (Figure 9):

- Recognition rate: needy / targeted needy: from the larger group of needy individuals, only a subset considered to be “deserving” poor are covered by the programme system;
- Eligibility rate: targeted needy / legally eligible claimants: from the group of deserving poor people may be excluded for specific legal reasons related to their status (refugees, immigrants during the first years of their stay in a country, the institutional population, students, etc.);
- Participation rate: accepted claimants / legally eligible claimants: from the group of legally eligible claimants the administration may exclude some persons because of administrative reasons (incomplete information, doubts, mistakes, etc.);
- Inclusion rate: accepted claimants / applying claimants;
- Service rate: actual beneficiaries / accepted claimants;
- Take-up rate: actual beneficiaries / legally eligible claimants.

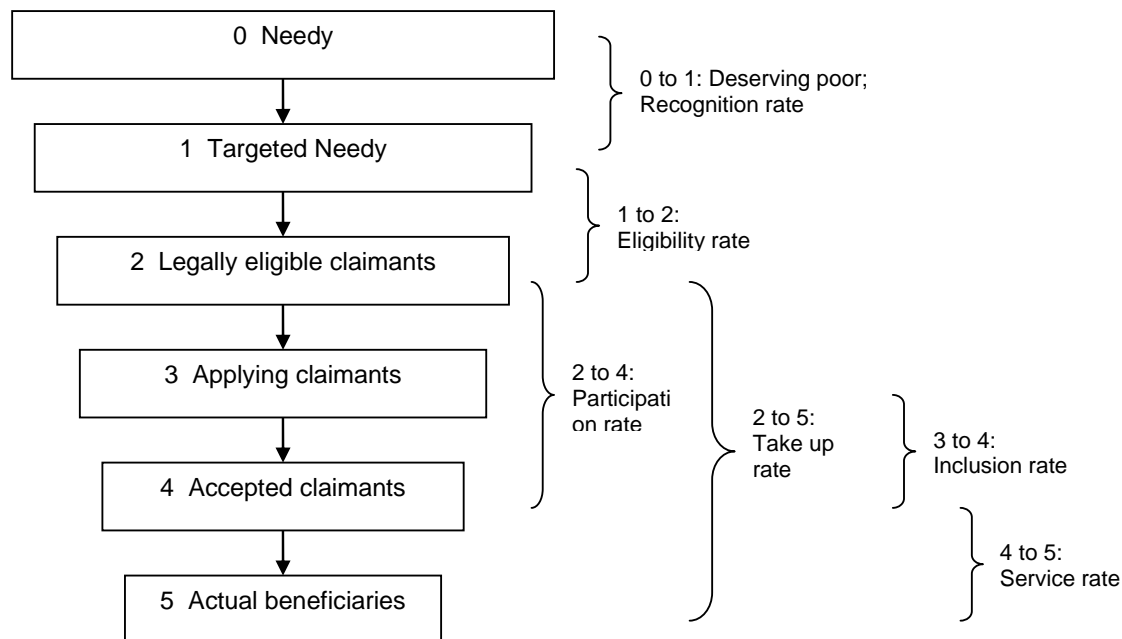
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<sup>14</sup> In addition, the status of (illegal) immigrants e.g. is a highly debated issue in this context; as well as the internationally very large ‘institutional’ population in the United States is equally quantitatively important in this respect raising questions about the status of inmates and psychiatric patients.

<sup>15</sup> Note that this is a somewhat simplified presentation of reality. In this scheme we assume that Applying claimants are a subset of the Legally eligible claimants and thus that the number of Applying claimants < the number of Legally eligible claimants. This is not necessarily true since applications are theoretically also open to persons who are not legally entitled to a benefit.



**Figure 9: The Filtering Process**



Describing the coverage of existing social programmes using the framework depicted above requires specific data. General purposes surveys, administrative records and specific surveys can all contribute to our understanding, but all suffer from certain drawbacks<sup>16</sup>.

While it may be tempting for policy makers to ignore *significant non-take up rates* (lead to lower costs), they are in fact *an important policy concern* for at least three reasons:

- Whatever the aim of a welfare programme, the fact that it only reaches a fraction of those that are supposed to benefit, reduces the chances that it will reach its goals. The programme is not effective.
- Low take up of welfare benefits relates to equity. When the decision not to take-up a benefit is partly involuntary (*i.e.* when individuals are simply unaware of being entitled, or feel stigmatized when receiving benefits), this will generate disparities of treatment between individuals who should *ex ante* be treated equally by the welfare system.
- Better understanding the determinants of take-up decisions by individual agents will allow anticipating more accurately the financial consequences of policy changes. For example, welfare reforms that restrict the pool of individuals eligible for benefits may not lead to substantial savings if more of them decide to take up their benefits.

There is also a good understanding of what governments and/or programme administrations can *do to reduce the low take-up rate* of SA benefits:

- Simplification of administrative procedures;
- Consideration of the interactions between different programmes; and
- Production of better empirical evidence and research.

<sup>16</sup> See OECD, 2003.

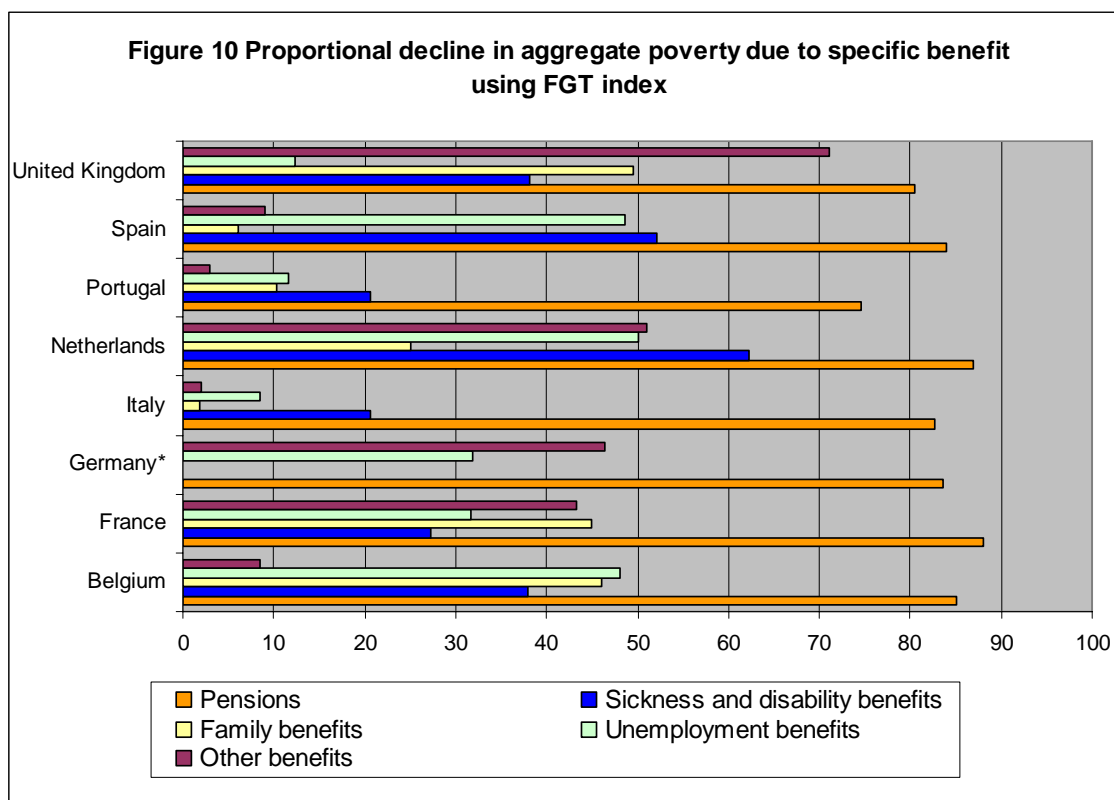
<i>Review and simplify administration rules</i>	
	<ol style="list-style-type: none"> <li>1. Simplify application procedures</li> <li>2. Make access rules transparent and objective, in order to reduce the uncertainty related to the claiming process.</li> <li>3. Put in place advertisement campaigns to inform potential beneficiaries about the existence of welfare programmes that respond to their needs and about the application procedures.</li> </ol>
<i>Improve the interactions with other elements of the welfare state</i>	
	<ol style="list-style-type: none"> <li>1. Make greater use of one-stop shops to avoid fraud and better inform potential beneficiaries (to improve interactions between various welfare benefits).</li> <li>2. Consider carefully the effects of tax reforms on individuals' incentives to take up welfare benefits (to improve synergies with the tax system).</li> </ol>
<i>Strengthen empirical evidence and research</i>	
	<ol style="list-style-type: none"> <li>1. Produce regular estimates of take-up rates for various programmes, based on the same data and standardized procedures.</li> <li>2. Make administrative data more readily available to the research community.</li> <li>3. Conduct ad-hoc surveys at regular intervals (e.g., every 5 years).</li> </ol>

Source: Hernanz, Malherbert and Pellizzari (2004)

### ***B. Which European social assistance programme has greater impact in reducing poverty?***

In the first section, we looked at the impact of the overall SP spending on reducing poverty and inequality. This section raises the same question, this time focusing only on social assistance programmes. Looking at the impact of some broad categories as done in Figure 6, where social assistance is calculated as the residual (other benefits) it can easily be concluded that relative to other social protection benefits, the impact of social assistance programmes on reducing poverty is relatively small. For most European countries pensions account for the largest poverty reduction, but the second place, between unemployment benefits, disability benefits and family allowances varies per country. Social assistance (other benefits) is much less important for reducing poverty than the rest of the SP programmes. This is less so for the UK and to a certain extent also for the Netherlands (see figure 10).

In judging the importance of targeted social assistance in (continental) Europe, it is important to note that these programmes are a smaller component of a large SP system that includes several social benefits that are available to large parts of the population. The success of the SP system as a whole and of the non-targeted assistance components, indicated by the coverage of the SP systems might cast a shadow on the role of social assistance programmes.



Source: Heady et al. (2001). Figures are simulated based on data for the year 1994.

A more in depth analysis of the impact of social assistance programmes is possible using the data available for a limited set of countries: France, Italy, Germany and UK. For these four countries, Hölsch and Kraus (2004) compared existing poverty rates with counterfactual poverty rates, simulated in absence of these benefits. Not surprisingly, the largest reduction in poverty is found in UK. Table 5 indicates that the Social Assistance programme in the United Kingdom is very effective at reducing poverty rates compared to the other three countries.

**Table 7: Percentage reduction of poverty due to social assistance (1994-1995)**

	Headcount ratio	PGR*	FGT2**	Sen index
France	3,50	15,85	24,62	15,23
Italy	1,72	3,76	5,61	3,71
Germany	7,40	23,63	32,75	21,88
United Kingdom	28,99	57,67	66,00	52,45

Source: Hölsch and Kraus (2004)

Notes: \* PGR = Poverty Gap Ratio

\*\* FGT2 = Foster-Greer-Thorbecke Index ( $\alpha = 2$ )

Table 6 gives similar estimates for the reduction in inequality: again it can be seen that United Kingdom stands out as the country where means targeted social assistance realises the highest reduction.

**Table 8: Contribution of unemployment compensation and means-tested benefits to income inequality [around 1995, head of household aged 25-59 (elasticities of the Gini coefficient of disposable income)]**

	Belgium	Germany	Netherlands	Sweden	United Kingdom	United States
Unemployment compensation after taxes	-9,4	-2,7	-1,0	-9,3	-0,4	-0,6
Means-tested benefits	-1,2	-5,2	-7,2	-9,9	-14,4	-5,2

Source: Ferranini and Nelson (2002)

These results, however, should be interpreted with caution when compared with the overall impact of SP. In the previous section it was concluded that the United Kingdom and the United States were found to perform relatively poorly in terms of overall poverty and income inequality levels. Moreover and more importantly, in both these countries the impact of the entire social protection system on the levels of poverty and income inequality is very modest compared to other countries. These results contrast with the analysis in this section that suggests that the United Kingdom and the United States are very effective in reducing poverty using means-tested targeted social assistance. The latter is certainly true; when comparing the impact of means-tested targeted social assistance internationally, the UK and the USA stand out as performing very well.

However, in the northern Continental European countries, means-tested targeted social assistance is but a much smaller fraction of the benefits and policies used to address poverty and income inequality. In the latter countries other non-means-tested benefits are much more important both quantitatively (in terms of money spent and number of beneficiaries) as well as in its impact on poverty and income inequality. Public pensions, family allowances and unemployment benefits are significantly more important in these countries than in the UK and the USA. Social assistance is the policy instrument of last resort in northern Continental Europe. For this reason, poverty and inequality in the northern European countries is reduced in first instance by other policy instruments than means-tested social transfers. The hard pockets of poverty left over after all the other instruments have done their work, is left to be addressed by social assistance. Not surprisingly, it is much harder to reduce that part of poverty by raising the standard of living of social assistance recipients. As an example, this is also clearly illustrated in Table 6 where in Belgium ranks number one when the poverty reduction impact of unemployment benefits are calculated but ranks number six when the impact of social assistance is estimated<sup>17</sup>.

The situation for the southern European Countries (Italy, Spain and Portugal) is different. In these cases, social assistance is not very important nor very effective, while also the other parts of the social protection systems are less developed compared to the northern European Countries; the Welfare State is less all encompassing and social assistance is not organized effectively according to the measure used here.

An effective social assistance programme lifts a great number of people out of poverty and reduces the income gap between people below and the people on the poverty line to zero (reduces the poverty gap). In practice, in order to do that, after having defined the part of

<sup>17</sup> In Belgium there is no duration limit to unemployment benefits, meaning that long-term unemployed who are legally entitled to receive an unemployment benefit will receive it until they find a job or leave the labour market.

poorest deciles in the population that is entitled to receive benefit, policy designers still have choices to make. One option is to allocate the available resources to the very poorest part only and lift these households out of poverty; another option would be to spread the available resources over all the households below a certain threshold income (the poverty line). There are many options and combinations in between. Under both options the headcount poverty rate and the poverty gap ratio will be most probably be reduced but at different rates. Theoretically it is even possible that the second option would leave the headcount poverty unchanged despite the reallocation of resources (meaning that there would be just a many poor before and after the implementation of the programme, but that the income difference between the poor and the non-poor is reduced)<sup>18</sup>.

Table 7 estimates the changes in the poverty gaps for 3 countries due to means tested benefits. The reduction on the poverty gap is considerable in the three countries. The largest reduction in absolute terms is again seen in the UK; the biggest relative change, however, is found in Sweden. This illustrates also the reasoning explained above.

**Table 9: Average poverty gap and average poverty gap reduction by means-tested benefits for households who were poor before having received any means-tested transfers, United Kingdom, Germany and Sweden**

	Germany 1994	Sweden 1992	United Kingdom 1991
Absolute change of poverty gap	-0,537	-0,518	-0,586
<i>Rank order (small poverty gap = 1)</i>	2	3	1
Relative change of poverty gap	-98%	-152%	-121%
<i>Rank order (small poverty gap = 1)</i>	3	1	2

Note: The average poverty gap is calculated as the average resources needed to lift the poor households over the poverty line of 50% of median disposable household income after means-tested transfers adjusted for family size, given as a percentage of the poverty line. Poverty gaps are negative if the average income of the poor after transfers is higher than the poverty line.

Source: C. Behrendt (2000a)

The targeting of social assistance<sup>19</sup> in each of these three countries can be seen in table 8, where the distribution of households receiving means-tested benefits is given for different poverty brackets. The results are striking and point towards very low level of coverage in Germany and Sweden. For example, of the household in extreme poverty, 87% of them receive means-tested benefit in the UK, against 66% in Germany and almost half in Sweden. For Germany, the targeting efficiency drops even more when looking at strong and moderate poverty where about 1/3 of these household receive Social Assistance benefits. In Sweden, the situation is slightly better at 50% to 70%, but does show signs of poor targeting when looking at the households who are not considered poor. Indeed, 16% of these households do receive social assistance benefits while in the UK this figure is at 11% and in Germany at 4%.

<sup>18</sup> Using a relative poverty measure complicates the estimates further since the threshold value of poverty is than distribution-dependent and thus influenced by the policy instrument used.

<sup>19</sup> Social Assistance is also indicated in this publication as targeted social transfers. This implies that the beneficiaries are defined by assessing their means: this process is indicated as targeting: in case means tested targeting.

**Table 10: Distribution of means-tested benefits on households (percentage of households receiving means-tested benefits in each poverty bracket), United Kingdom, Germany and Sweden.**

Poverty Bracket		Germany 1994	Sweden 1992	United Kingdom 1991
Extreme Poverty	$Y < 30\%$	66	55	87
Strong Poverty	$30\% < Y < 40\%$	34	49	76
Moderate Poverty	$40\% < Y < 50\%$	28	69	76
Near Poverty	$50\% < Y < 60\%$	24	64	57
No Poverty	$Y > 60\%$	4	16	11

Notes: Y = disposable income adjusted for household size

Example: Among all households living in extreme poverty before means-tested in Germany 1994, 66% received some kind of means-tested transfers

Source: C. Behrendt (2000a)

The social assistance scheme in the United Kingdom has the most impact on poverty for those found in the extreme poverty and the strong poverty bracket, as shown in table 9. The targeting effectiveness is very poor when looking at household in strong, moderate and near poverty. This explains why poverty after receiving the benefit is actually increased in these three categories, but extensively decreased in the Extreme Poverty category. Sweden is the only of the three countries where poverty is decreased in all four categories. Indeed, poverty is also increased in the United Kingdom for those in the category Near Poverty by about 44%.

**Table 11: Poverty rates before and after means-tested benefits and reduction through means-tested benefits, United Kingdom, Germany and Sweden.**

Poverty		Germany 1994	Sweden 1992	United Kingdom 1991
<b>Impact of means-tested benefits in relative terms (percent)</b>				
Extreme Poverty	$Y < 30\%$	-49,1	-45,6	-80,6
Strong Poverty	$30\% < Y < 40\%$	10,0	-17,4	-40,0
Moderate Poverty	$40\% < Y < 50\%$	2,5	-52,2	-15,9
Near Poverty	$50\% < Y < 60\%$	15,4	-28,9	44,1
50% poverty (cummul.)	$Y < 50\%$	-20,9	-44,3	-48,4

Notes: Y = disposable income adjusted for household size

Example: For the United Kingdom 1991, 9.3% of the population was extremely poor before having received some kind of transfers and 1.8% after having received some transfers. Poverty rates for this poverty bracket were thus reduced by 7.5 percentage points or by 80.6% compared to the pre-transfer poverty rates

Source: C. Behrendt (2000a)

### Social assistance programmes in Europe and the dependency trap

Social Protection systems are set up to assist households to cope with difficult circumstances. Ideally, they should lift households out of poverty by providing benefits and services and bring them to the point where they no longer have to rely on the social protection system to survive. If a social protection system keeps people relatively long in the benefit system, we speak of benefit- or better welfare-dependency. The latter is potentially a problem not only to the long run financing of the system, but also for the beneficiaries involved. Benefit

dependency usually keeps households on a low level of welfare and threatens their long term integration into society. This is related to the problem of social exclusion.

Giving the extensive experiences of modern Western welfare states, we know that some degree of welfare dependency is probably unavoidable, but that does not mean that the effectiveness of social assistance programmes (and social protection systems) should not be judged by the degree by which they avoid problems of welfare- and benefit-dependency. Benefit duration and recurrent entry into the systems are good indicators in this respect. Again data on this issue are limited but a couple of firm observations can be made.

Using the data for selected cities in Germany, Italy, Portugal, Spain, Sweden and the UK in table 10, it can be concluded that benefit duration is very high in most countries: more than 80 % of the beneficiaries receive a SA benefit for over 12 months in Spain and the UK; the lowest figure is found for Sweden where still more than one third of the beneficiaries stay in the system for more than 12 months<sup>20</sup>. The social assistance systems do not seem very effective in sending people back to the labour market or the regular economy. According to the data collected by Saraceno (2002), a significant amount of persons re-enter social assistance several times. For a serious number of recipients it is clearly true that they do not succeed in permanently leaving the system. This raises questions about the possibility to “activate” these persons, or at least questions about the actual success of the systems in realising that. We will discuss this issue again in the next section on social assistance reforms.

**Table 12: Long Term duration of Social Assistance benefits**  
Percentage of total beneficiaries

	12 months or more	Between 12 and 24 months	24 months or more
Germany	38.3	18.0	20.3
Italy	43.9	19.2	24.7
Portugal	75.3	17.2	58.0
Spain	80.3	19.3	61.0
Sweden	33.6	19.3	14.3
UK	83.0	13.9	69.1

Sources: Saraceno 2002, UK: Gassmann and Deszka, 2003 Data for different years between 1991 and 1994..

### *C. Arrangements to contain administrative costs*

Financial arrangements vary greatly between the different countries studied. In Belgium, Germany, Italy, the Netherlands and Sweden, the municipalities take an important role in both the financing and the administration of the Social Assistance system. However, in France, Portugal and the United Kingdom, financing and most of the administration is predominantly a task of the national government. Nevertheless, even in countries where the social assistance system is greatly decentralised, the municipalities do receive a part of the funding from the national level (Italy is an important exception in this respect). For example, in Belgium, municipalities receive a matching-grant for the value of at least 50% of the benefits they pay

<sup>20</sup> The figures for Italy refer to Turin; given the very local organisation of social assistance in Italy, we find different figures for other cities usually due to a lack of elaboration of the SA system: Saraceno (2002) quotes the example of Milan.

out. On the other hand, in Sweden and the Netherlands, the state provides block grant funding to municipalities for the range of functions they have to fulfil. Also Dutch and Swedish municipalities must fund their social assistance expenditures partially from their own tax take, together with the state grant.

All systems face the problem of containing the costs. In the design of the social assistance systems there are basically two types of instruments that can be used to do that:

- Institutional incentives between the legislators and sponsors on the one hand (usually the central government level) and the providers on the other hand (usually the local administrative level);
- Incentives and pressures on the beneficiaries to reduce the number of claims and to limit the duration of the claims.

*Institutional incentives* may take the form of bureaucratic controls and more importantly of financing mechanisms that guarantee the co-responsibility of the local level (providers)<sup>21</sup>. Partial (conditional) block grants and matching grants are used in most countries. The Netherlands used to have a full capitation grant, guaranteeing the local level the ex post reimbursement of all costs made for social assistance. This financing mechanism has shifted towards a block grant, but the effects of the former system are still visible in the form of relatively high spending levels for social assistance in the Netherlands.

*Pressure and incentives for the beneficiaries* take many forms ranging from low replacement levels to earned income disregards and tax benefits; these instruments are discussed in the section 4.

It is important to note that every national system seeks a certain balance in the design of the social assistance systems by using trade-offs between various instruments. In general, systems with generous benefits (like the Swedish and the Dutch) seek to compensate for its generosity by installing tough bureaucratic controls at the local level. Systems with moderately generous benefit levels (like the Belgian and the French) try to contain the costs by heavy involvement of the social workers in “re-cycling” the beneficiaries into the regular economy or at least in the workfare sector. Low benefit levels of the southern European type need less controls and tax instruments to contain the costs, but are less effective in terms of poverty alleviation. In designing social assistance systems it seems crucial to search for a system that makes choices that fits the economy and the social “culture” in the county.

All European systems are cost efficient judging the share of the administration costs. This is remarkable since means testing and monitoring beneficiaries are usually costly operations. This is only possible because the caseload for the social assistance systems is contained by the fact that the majority of the cases where households or individuals become temporary poor are dealt with by the other parts of the Social Protection system encompassing both contributory and other non-contributory benefits. The presence of large public good sectors in education, health, public transportation and housing that in fact distribute categorically targeted in kind benefits (to pupils and students and to the ill and handicapped), is a factor of importance in this respect as well.

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<sup>21</sup> For a discussion of institutional incentives see de Neubourg (2002).



#### ***D. Implementation***

There is a huge degree of variation on how social assistance arrangements are actually implemented at the local level. No internationally comparative studies are available allowing drawing conclusions in this respect. The practice is so different that case studies are almost necessary to describe the daily operations (for an interesting set of case studies see Saraceno, 2002, chapters 2 and 4). The details of the implementation are, however, very important and may explain the success rate of social assistance programmes. A successful example is the Belgian social assistance office wherein trained social workers combine moderate benefits (nowadays called “living wage”) with a plethora of instruments often using in kind support, labour market assistance and financial coaching.

Outreach and information is not really an issue in Europe. Even in the most centralised systems, such as in the United Kingdom, social assistance offices are scattered all over the country to make sure that everyone can access them easily. The fact that Europe is very densely populated together with the fact that the transportation infrastructure is well developed makes the outreach of the social assistance system in terms of physical access rather good. In many countries, for example Belgium, the Netherlands and Italy, is the municipality the first point of information for all residents. This implies that even if an individual does not know the precise details of how to apply for social assistance, he/she will most likely first go to his/her municipal office and thus hit the right door. Nonetheless, some individuals do not end up finding the financial help they should receive because of lack of information. Most vulnerable groups are immigrants who are less familiar with the social security system of their new country of residence, as well as the elderly who never used the social security system or for whom a change in the system has occurred after they left the labour market.

In most of the countries, claimants have to apply personally for their benefits. The required forms are then filled out together with the social worker or case manager. In France and Germany, the procedure starts with a written application. All countries employ income tests to evaluate whether a claimant is eligible to receive benefits and in Belgium, France and the Netherlands these details and other personal information are always verified. In Germany, Sweden and the United Kingdom verification only takes place when there is suspicion that a wrong detail or information has been given. The role of the case manager handling the specific application procedure is limited in Belgium, France, the Netherlands and the United Kingdom. The case manager guides the applicant in the procedure but the decision with respect to receipt of benefits is left to another unit. This method might be chosen to preserve the objectivity. However, in Germany and Sweden, the case managers are given more discretionary power and guide the applicants but also decide about whether or not benefits are awarded.

Three different difficulties are associated with the implementation of social assistance systems. Firstly, there is the problem of controlling the conditions that make one eligible to receive benefits. Secondly, economic disincentives are considered to be a great difficulty in the implementation. These disincentives include poverty traps, especially relevant for those that only become slightly worse off when leaving the labour market. The third problem is related to take-up, which is discussed in section 2, showing that not all legally eligible claimants do actually receive benefits.

#### **4. Reforms in European Social Safety Nets**

Social Protection systems often figure on the policy agenda. This has been increasingly the case since the economic downturns of the eighties and the nineties of the last century. Issues have been raised about the long term financial sustainability of the systems as a whole referring to changing demographics (ageing and the inflow of new immigrants) and changing economics (globalisation and a consequentially eroding tax base). Moreover, some analysts believe that the current Social Protection systems installed incentives that lead to more moral hazard and thus to abuse, in turn resulting in an increased caseload for the SP systems.

All these forces have pushed policy makers across the OECD area to reform the social protection system in general and the social assistance arrangements in particular. This section reviews the changes proposed for:

- A. Incentives for the beneficiaries
- B. The incentives for the providers and
- C. The entitlement rights.

##### ***The need for reform***

Reforms of the Welfare State are mainly in response to changing situations. Policy makers are forced to evaluate existing policy and to consider alternatives because of an immediate problem that may lead to a political crisis. Over the last decades it has frequently been argued that European social protection systems would be or become unsustainable due to demographic and economic changes. Notably the unprecedented high number of long-term unemployed (and/or people permanently at the margin of the labour force), the ageing of the population and the inflow of more immigrants would have put the SP system under pressure and would have endangered its long term financing. The same is said about the globalisation trend in the world economy that is assumed to contribute to an eroding tax base. While there were few countries that really faced fiscal crises due to the SP system, the mechanisms pushing the reforms are, however, somewhat more subtle and political. The attitudes of tax payers have been changing in the sense that an increasing number of the population became reluctant to pay for social transfers (solidarity) to a segment of the population that seems to have been stimulated by the generous benefit system to settle at the margin of the economic system. What was defined as “welfare dependency” for the recipients became seen “welfare cocooning” to those contributing to the system (moral hazard), thus reducing the willingness to pay for the SP system. Despite the fact that the empirical evidence invariably points to the fact that welfare dependency is a marginal problem, the anecdotic evidence about a - nevertheless present- minority, has changed the attitudes and the opinions of taxpayers. It is undeniably true that the political discourse on Social Protection system has changed pressing towards less solidarity and a diminished preparedness to share the costs (taxes, premiums). On the more conservative end of the political spectrum the pressure has been towards more individual responsibility and less collective public assistance; on the more progressive end of the political spectrum arguments have been formulated to fight marginalisation (social exclusion) of welfare recipients by stimulating social inclusion. In both cases it pushes towards activation of the beneficiaries of SP systems.

It is also true that social protection systems are far from perfect and that there is ample room for improvements in the systems (see also de Neubourg and Castonguay, 2006). It is, however, remarkable how stable the Welfare States have been in Europe. The large redistributive machinery still exists, despite the fact that numerous operational details have been

changing over time. The quintessence of the systems has not been changed; while some changes have been important, a large number of them were only cosmetic.

A political crisis is not a sufficient condition for policy change. The capacity to translate a crisis into specific policy innovation depends on political forces and institutional factors. Indeed, reforms are often only slowly implemented and limited in scope even because of:

- Stickiness: Resistance to change because of the existence of formal and informal veto points and path dependency.
- Ingrained popular expectations and the electoral popularity of the Welfare State.
- Institutionalised contract: The Welfare State as we know it has been one of the chief organising principles of the lives of several generations and hence it represents a deeply institutionalised contract.

Consequently a crisis might trigger the need for reform, but the reform itself is often slowed down because of political forces and institutional factors. It is a combination of globalisation and long-lasting and slow social changes that put new demands on the “old” Welfare States:

- Changes in economic and social conditions in Western societies in the last quarter of the 20<sup>th</sup> century;
- Changes in the demographic situation and the appearance of new groups;
- Changes in the “discours politique” in many Western societies.

### ***Objectives and instruments***

Basically Social Protection arrangements are under pressure because they either exhaust fiscal resources or because they are believed to produce adverse results (often a combination of both). The main objective of welfare reforms is to reduce the public expenditure of an arrangement by reducing the number of benefit months and their related administrative costs. The instruments that are used to realise this overall objective are to be subdivided in 2 categories:

- Reducing the quantity and the duration of benefits
  - to provide incentives for potential claimants to apply less often for an arrangement;
  - to provide incentives for beneficiaries/clients/recipients to stay shorter periods (to exit the arrangements as soon as possible);
  - to provide incentives to the providers to reduce the participation rate (ratio of accepted claimants to legally entitled claimants);
  - to provide incentives to the providers to reduce the actual duration of benefits by stimulating the beneficiaries to stay shorter periods;
  - to cut the number of potential applicants by changing legal entitlement rules;
- Reducing operational costs;
  - administrative and market reforms intended to increase productivity in case-load handling, to reduce overhead costs and to work more efficient.

#### ***A. Reforming incentives for the beneficiaries***

Apart from the apparent goal of reducing the financial burden of the welfare provisions and the wish to reduce the aggregate dependency rate by increasing the number of contributors, the underlying reason for changes in social assistance arrangements has been an increased concern about the ‘social inclusion’ of welfare recipients via increased- and speeded-up integration into the labour market. To implement these policy reforms many forms of

incentives directed towards the (potential) beneficiaries of the Social Protection systems are used. We distinguish below between:

- Financial incentives;
- Increased administrative and moral pressure;
- Lower barriers to entry the labour market;
- Enhancing self-responsibility in covering risks and making choices.

### Financial incentives

In this category five instruments are used by many countries:

#### *Higher earnings disregards*

Under many Social Protection arrangements beneficiaries lose their benefit (and often other related benefits and subsidies - housing subsidies in many cases) once they start working and thus pass an income threshold. This creates poverty- or dependency-traps. In order to avoid this apparent disincentive to accept jobs, many countries have chosen to smooth the transition into the labour market by introducing or extending higher earnings disregard when a job is accepted.

A higher earnings disregard refers to an increase in the portion of the wage not deducted from a claimant's benefit. It should lead to a financial stimulation for the benefit recipient to return back to the labour market as the beneficiary receives the opportunity to earn extra money next to receiving a benefit.

#### *Increased earned income tax credit*

This is a special tax credit for low-income people who meet certain requirements and file a tax return. The basic idea is simple: persons previously in a social protection arrangement accepting a job are given a special income tax relief either for a specified period. Some countries have introduced this additional tax relief for all workers (regardless of whether they have been in a Social Protection arrangement or not) intending to increase financial incentives to accept a job or stay on their job.

#### *Back to work bonus*

This cash benefit is given to Social Protection beneficiaries when taking up employment or when moving from part-time to full-time work. In some cases the benefit is paid as a one-time bonus, in others it is spread over the first years of employment.

#### *Stimulating self-employment*

Another option for an unemployed to return to the labour market is through self-employment. An incentive is offered for unemployed to become self-employed through special programmes.

#### *Increasing child care allowances*

Since a substantial number of beneficiaries are single parents (mostly mothers) many countries increased child care allowances for persons accepting a job. This reduces the poverty trap that exists for single parents to find a low wage job who would see their disposal income declining because the eventual gain of a higher wage compared to the social benefit is more than compensated by the additional costs for child care.

Table 11 summarises which of the EU countries (Europe 15) used which instruments since 1997. It can be seen that earned tax income credit and increasing child care allowances are the most popular instruments used.

**Table 13: The use of financial incentives for beneficiaries in Europe after 1997**

	Higher earning disregard	Earned income tax credit	Back to work bonus	Stimulating self employment	Child care allowances
Austria		X			X
Belgium	X	X			X
Denmark	X	X		X	X
Germany		X		X	X
Greece			X		
Finland		X			X
France	X	X	X		X
Ireland			X	X	
Italy		X			
Luxemburg		X			
Netherlands	X	X	X	X	X
Portugal					
Spain			X		X
Sweden		X			
UK		X	X		X

Sources: compiled from Peters et al. (2004) and from de Neubourg, and Nelissen (2007)

### Increased administrative pressure on the beneficiaries to accept a job

Apart from providing incentives for beneficiaries of Social Protection systems to return to the labour market by increasing the returns of paid labour (compared to the benefits) or by reducing the costs (child care), Social Protection administrations also use administrative pressure to push beneficiaries to the labour market. In most countries this comes in three main forms: workfare, stricter requirements and sanctions and improved personal services.

#### *Workfare*

“Workfare” covers many different programmes that focus primarily on work. The main difference between workfare and active labour market policies is the fact that workfare comprises the idea that you need to work-for-your-welfare. Its implementation is harsher than that by the combination of:

- Work-orientation: “any job is a good job”;
- Compulsion: requirements and sanctions;
- Focus on the lowest tier of public income maintenance (often groups with the furthest distance from the labour market);
- Lack of focus on training elements and options.

Most European countries introduced in some way or another a workfare approach, but the set up differ considerably per country. Some countries are very strict in setting exact requirements, while other countries adjust the rules in order to avoid that too much clients fall out of the system. Germany, the Netherlands, Spain, Sweden and the United Kingdom are examples of European countries that implemented a fairly strict “workfare approach”.

#### *Stricter requirements and sanctions*

The requirements to be eligible for a benefit (social assistance, unemployment benefit, but also other benefits) are becoming increasingly more stringent and sanctions are gradually more implemented. These requirement and sanctions are mostly imbedded in a “workfare” setting as the focus is put on actively finding work and/or participating in work experience programmes or trainings. In addition, the job search requirement is becoming stricter in the sense that unemployed should apply to all (legally accepted) jobs and not only to “suitable” jobs.

### *Individualised assistance*

To move beneficiaries as quickly as possible out of the benefit system, the focus moved towards more individualised assistance. Different systems of individualised assistance co-exist. In many cases, beneficiaries get assigned to a specific case manager or personal advisor who helps not only to fill out all the benefit forms, but often also helps the client to formulate an individual action plan focused on becoming self-sufficient. Examples of these action plans are the integration contract in Germany, the New Deal in the UK, the municipal workfare programmes in the Netherlands and “Plan d’Insertion” in France.

### Lower barriers to entry the labour market

The success of a workfare programme is dependent on the existence of good quality job placements. Consequently, stimulating the demand side is equally important as activating the supply side. Most workfare programmes are therefore combined with either a lowering of the employers’ social contributions or with employer subsidies.

### Enhancing self responsibility

#### *Shifts to cash benefits for special groups*

Increasingly, the focus is shifting towards cash benefits instead of benefits in kind.

#### *Saving accounts*

The issue of introducing the system of saving accounts in the social security system is still very hotly debated in European countries. The controversy is caused by the fact that under certain types of implementation, each person individually saves on his/her saving account, leading to a more unequal system, which might harm people who suffer unexpected risks. The basic design of the system of personal saving accounts is that mandatory payments into a personal savings account will replace taxes currently used to finance unemployment benefits, sickness benefits, parental leave and pensions. When there is need, people can withdraw from their account instead of receiving benefits.

## ***B. Reforming incentives for the providers***

Besides changing the regulations and incentives for the beneficiaries, policy makers who seek to reduce the number of benefit months may also change the organisation of the Social Protection administration itself. It is believed that providing the right incentives for the providers of the assistance may lead to a reduction in the caseload and the costs. Three main trends can be observed when looking at European countries: devolution, privatisation and the introduction of one-stop shops<sup>22</sup>.

### *Devolution*

Decentralisation is currently publicly debated and is motivated as it leads to greater flexibility, efficiency or resources and more integrated contact with other local actors (public/private cooperation). In many European countries this trend has been outspoken. The degree of decentralisation is however different for each country

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<sup>22</sup> Details on the implementation of these trends differ across countries and the discussion of the main differences is found in de Neubourg and Nelissen 2007.

### *Privatisation*

Privatisation can be seen as a shift from government responsibility to the individual and the market. In the Netherlands the complete privatisation of the reintegration services took 8 years (from 1994 to 2002) through trial and error.

### *Increased service quality*

One-stop shop can lead to more cost-efficiency and greater co-ordination as multiple interrelated services are brought together under one roof. The clients are provided with one single point of contact for (almost all) their claims. This leads to more transparency and client satisfaction. E-governance or services online is increasingly implemented to cope with cost minimising problems, to enhance information access and to increase service quality.

### ***C. Reforming entitlement rights***

Finally a reduction of the number of benefit months can be realised just by making it more difficult to enter the system: excluding certain groups or limiting the rights of others are options chosen.

Despite the universalistic tendency in many European Welfare States, differences in entitlements regarding the Social Protection support are still presents and growing. These differences are produced 'at the margin' rather than in the heart of the system and basically the debates concentrate around 2 groups: the young and the immigrant population. In case of the young, decisions have to be made on when a young person can be entitled to receive support. Two elements are important in this context: the solidarity of kinship and family and the fact that young people did not work for a long period and therefore did not contribute to the Social Protection system. The immigrant population in Europe has been growing and do need disproportional assistance from the Social Protection system. The system has been under pressure to abandon the rights of the immigrant population to Social Protection coverage or to reformulate their rights (e.g. excluding them from cash benefits and restricting them to benefits in kind provided in specific locations).

### ***A limited success***

The important concluding question is whether the policy changes brought the effects that were intended. There is not a lot of research available to lead to clear-cut conclusions and the impact studies that are available come with different conclusions, but the overall trend seems to be that the results of the policy changes in Europe are rather disappointing. This is due to three basic reasons.

First, the wish to activate the social assistance beneficiaries and to "recycle" them into the regular economy provides the administrations with serious incentives to activate the welfare recipients with the highest chances of being employed; as a result the remaining beneficiaries are those that are hard to activate into the regular labour market. The reforms therefore change the distribution rather than the quantity of the beneficiaries. This raises an interesting issue pointing to the fact that there may be *two kinds of welfare recipients*: those who are easy to activate and those who are not. The former group is not long-term vulnerable but is easily recycled both by the economy and the Social Protection system (and so can and will be activated easily). The latter group is difficult to integrate into the regular labour market at current minimum- and market wages: their perceived productivity is too low to justify

employment at current wages. As a result they tend to stay within the Social Protection system when the system allows them to.

The Social Protection system can now react basically in two ways: it either recognises this fact and allows the beneficiaries to keep on receiving benefits or they ‘sanction’ (by regulation or by discretion) the recipients and stop the benefit. Under the latter regime the costs for the beneficiaries are in fact shifted to other sources of assistance (either to families, to networks, to third sector charity or to the informal unregulated low-wage low-productivity labour market). Under the former regime (staying as a beneficiary) people can either just keep their benefit or people can be stimulated to integrate into a particular segment of the labour market and be “included” in the society. The Belgian system institutionalised the latter possibility by giving long term beneficiaries the opportunity to work in the low productivity service sector paid by relatively small contributions from the buyers of the services while the recipients can supplement their benefit with a relatively modest increase in their income with the public sector filling the gap. The system works well, stimulating social inclusion of benefit recipients without forcing them into a labour market where they would not be able to survive. Moreover, they often provide services in the economy that would be left undone or would be provided by voluntary workers or on informal markets;

The second reason why reforms did often not produced the intended effect is that providers (and politicians) looking for immediate success tend to focus on the statement that ‘every job is better than no job’, stimulating beneficiaries to accept precarious employment. While leading to immediate success in terms of individuals leaving the ranks of the unemployed, it also might be the recipe to become soon a welfare recipient again. This may lead to exactly the opposite effect of what has been intended: namely to long-term vulnerability because the recipient is further stigmatized by repeated welfare dependency. The mechanism is known as the “revolving door” and has been observed in Denmark, Sweden and Germany (Saraceno, 2002; Abrahamson, 2000; see also Atkinson, 1998 and Paugam, 1997).

Finally, beneficiaries pushed out of the Social Protection system and nevertheless not being able to find stable employment, may find themselves in a situation wherein they have no other choice than to settle in “assisted equilibrium” relying on the Social Protection system whenever allowed and seeking informal (and precarious) employment to supplement their income.

## **5. Lessons from Europe**

This concluding section summarises the main findings of the analysis and draws lessons from the European experiences. While copying European means-tested social assistance programmes is not a viable path for other countries, an improved and locally adjusted version of the European social protection architecture, including a social assistance scheme as instrument of last resort, is an interesting option with the potential of gradually bringing low poverty and inequality levels within reach.

### ***The main findings revisited***

The findings of the previous sections (and of underlying studies referred to footnote 1) can be summarised in the following points:



- European countries spend a big share of their GDP on Social Protection. The European Social Protection systems are effective and efficient. Moreover, they play a crucial role in reducing both poverty and inequality.
- Within the Social Protection systems means tested social assistance programmes play a modest role in most European countries; social assistance can rather be seen as instrument of last resort. The extent by which poverty is reduced by the social assistance system is co-determined by its place in the entire Social Protection system.
- The percentage of the population actually receiving social assistance is therefore low in most countries (but increasing). Yet, the performance and specific features of these schemes differ over countries. They especially differ with respect to the solidarity basis, generosity and selectivity and targeting.
- The UK is most effective in reducing headcount poverty by the social assistance system, but still faces the highest poverty rate in northern Europe.
- European social assistance systems can be grouped in three main groups: supportive systems (in Belgium, France, Germany, the Netherlands and Sweden), selective systems (in Italy, Portugal and Spain) and inclusive systems (UK).
- Potential beneficiaries go through a filtering process that greatly determines the success (or lack thereof) of a programme. Overall, social assistance systems target the poor very well. Nevertheless still a significant number of benefits are allocated towards the people (just) above the poverty line.
- The non-take up rate is considerable in many European countries and is therefore an important policy issue.
- Recent socio-economic developments have pressed many countries to reform their social assistance system. Reforms are meant to reduce either the quantity and duration of the benefits or the operational costs by means of providing the right incentives to both the beneficiaries and providers. The success of the reform policies and especially of activation policies has been limited, mainly due to the existence of a hard core of social assistance recipients.

### *Lessons for other countries*

#### *Lesson 1: Building up the Social Protection system*

Copying the European type of social assistance to other countries will not lead to a successful and pronounced decline in poverty and inequality. European social assistance systems are part of a larger social protection construct. Copying one element out of that construct will not yield European like poverty- and inequality levels. However, it does make sense to try to copy the design and architecture of the (whole) European Social Protection system. Improvements should then be considered (see lessons 4 and 5) and the systems should be locally adjusted. The idea is that Social Protection policy is a matter of design (besides sound and transparent implementation). The mature stage of a Social Protection system should be the starting point of the design exercise.

The European Social Protection systems are all built up gradually during more than a century. The systems for a long time were based on the typical continental European conditions from around the early fifties of the last century: households characterised by nuclear families with few children with a male worker working in the formal non-agricultural sector. The system had to adjust and still is adapting to smaller families, a high divorce rate with lone-parents a significant element and more economic instability with larger spells of unemployment. Designing new systems for other countries also means to decide how to take local economic, demographic and social conditions into consideration. It is wise and (technically) possible to

seek solutions that are relatively robust against the changes referred to. Institutional developments play a serious role in what is possible and impossible.

### *Lesson 2: Institutional design*

All systems will have to solve the problem of containing costs. Institutional design is an important element in this respect and the financial relations between sponsors and providers are of crucial importance. Incentives and administrative procedures towards the beneficiaries are the other important element. Some countries combine a high level of generosity in benefits with though administrative procedures to apply; other have less stringent rules but provide also less generous benefits. All systems will have to balance the regulations and incentives in order to reach the objectives set on the one hand but contain the costs on the other.

### *Lesson 3: Implementation*

Besides design, implementation is important. European systems all are characterised by a high density of regional social assistance offices operating in relative urbanised densely populated areas. The offices are well-equipped and employing well-trained staff with considerable discretionary power. The social workers dispose of an extended portfolio of non-cash benefits and assistance.

The success of the European social assistance systems is partially due to the fact that they have a reduced caseload since many persons are caught in the safety net before they fall into the ultimate net of social assistance and partially due to the fact that operate in the proximity of the recipients and dispose of a large spectrum of instruments. The proximity of the social assistance offices reduces the outreach problem, facilitates control over the applicants and enhances the personal character of the services towards the recipients.

In adjusting the implementation of the basic scheme three important requirements should be taken into consideration:

- Capacity to pay: Is the country able to afford the specific implementation of the component given its level of economic development?
- Capacity to implement: Is the legal and institutional infrastructure in the country capable of implementing a component; does the country have enough trained capacity to implement the policy?
- Capacity to design: Does the country have enough human capital to design the details of all the components?

It should be noted that while the first two capacities are difficult to develop, the latter capacity is the easiest one to be build: only a few people are needed for that part and that is where training should start.

### *Lesson 4: Further development and the setting of priorities*

Having to make choices on the priorities in the development of a social protection system, four elements in the life course design stand out as basic and should be addressed first:

- *Child allowances.*  
The European countries (except Greece) all have universal child allowances and educational allowances of some sort. It is proved to be a crucial element in alleviating poverty for one of the most vulnerable groups in the economy in all countries, namely households with children. Invariably middle- and low-income countries (and some advanced countries like the USA) show that child poverty is high. Child allowances

- are a powerful instrument in combating poverty. Child allowances are non-contributory.
- *Flat rate basic old age pensions.*  
Although the elderly population seems to be the best protected subgroup in many countries, the provision of an universal flat pension still may be a interesting element in reducing poverty, mainly because it takes the elderly as a group out of policy makers concern regarding poverty especially when supplemented by a well designed compulsory second pillar in the contributed pension system. Moreover, pensions are often passed on to grandchildren especially in countries where extended families are still prevalent. Flat rate basic pensions are non-contributory
  - *Income Loss Insurance.*  
The economically active part of population needs relatively less protection but needs an insurance type of regulation to protect them against all type of (labor) income loss. In de developed European Welfare States there are several insurances covering each another type of risk. The social insurances protect the population ate working age effectively against adverse economic conditions such as unemployment, labor related disability and short term illness. All income loss insurances are contributory (and compulsory).
  - *Social assistance.*  
Means tested social assistance plays the role of instrument of last resort and should be well designed to avoid “over-consumption”, to maximise take up rates and to prevent welfare dependency for those groups for which it is realistic to expect re-entry in the labour market (see sections 3 and 4). The recently revised Belgian system probably provides the best overall design combining medium level benefits with well guided in kind supplements and strong but realistic activation measures.

However, many policy makers in middle- and low-income countries will argue that budget constraints do not allow them to introduce a comprehensive system like the European one. This is true if the system would be introduced at once and with benefit levels comparable to the European ones. However, it is possible to install the system gradually using (very) low benefit levels and thus limiting the budgets needed for its implementation. As the economy grows the system can then be made more generous at the speed of economic growth. It avoids installing elements of a system that has to be revised and redesigned regularly. The overall design is then at least known and further implementation is “only” a matter of expanding the system. It is true that the system is endangered and difficult to implement if the economy has a large informal sector. This applies, however, to nearly all Social Protection arrangements. A policy to “formalise” the economy is necessary.

Lastly, it is important to note that “social engineering” in Social Protection systems is difficult since vision is to be paired by intelligent and detailed policy design. Politicians, interest groups and providers are often guided by relatively short-term motives and are limited in their choice by vested interests and veto-points. But policy advisors and analysts can point to the gains to be made and a well elaborated design can also help in convincing the stakeholders that improvements are feasible and potentially successful. After all, Social Protection systems are intended to render the world more human, but it is also shaped by human actions and behaviour, for the better and the worse.

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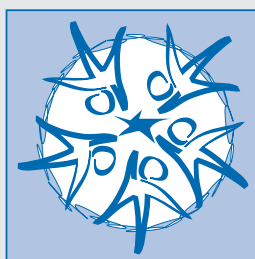
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