Discussion Paper

Improving the efficiency of social protection
Discussion Paper

Kenneth Nelson
Swedish Institute for Social Research (SOFI)

Introduction

The financial crisis of 2008 and fiscal consolidations in parts of Europe have increased the pressure on social protection. One challenge is to address the growing needs for income protection with reduced or constrained public resources, something that has brought the reorganization of social protection to the forefront of political discussion. Although national priorities are likely to differ depending on the specific context in which social protection is embedded, the need for reshaped social protection systems has been acknowledged at the EU level, most recently in connection with the Europe 2020 Growth Strategy launched in 2010. Measures to increase the efficiency of social protection are one item on this agenda.

The efficiency of social protection is often discussed in terms of cost containment, where one important criterion for evaluation is the degree to which the redistributive budget goes to those below the poverty line (Beckerman, 1979). The higher the proportion of resources that are spent on the poor, the more successful the anti-poverty programme is supposed to be (Barry, 1990; Besley, 1990). Redistribution to those above the poverty line will decrease the efficiency of social protection according to this perspective, likewise resources spent on administering and managing the programmes. The measures proposed at the EU level to improve the efficiency of social protection include, for example, responses related to policy implementation and active inclusion (European Council, 2011). The former may concern the complexity of programme regulations, the size of administrative costs and possible fraud and error in benefit entitlements. The latter relates to enabling beneficiaries to enter the labour market and employment.

The European Commission has also recognized that more efforts are needed to meet the ambitions set in the headline target for poverty and social inclusion, where the Member States are committed to raise at least 20 million people from the risk of poverty and social exclusion by 2020 (European Commission, 2010). Poverty is here viewed in terms of relative income standards, material deprivation and joblessness. Looking backwards, we can conclude that the Lisbon Strategy, the predecessor to the Europe 2020 Growth Strategy, did not deliver the expected payoffs in terms of reducing poverty, despite economic and employment growth (Cantillon, 2011). Economic development and the functioning of European labour markets continue to be important domains in EU policy for social inclusion. However, in the new framework for social inclusion the role of social protection and redistribution is prominent as well. Specifically this concern programmes designed to provide minimum incomes, such as non-contributory and means-tested social assistance benefits.

The European Council (2011) recently stated that the member states should reinforce minimum income safety nets by expanding coverage and increasing benefit levels in regions where policies are weak. Thus, the EU does not only address the efficiency of social protection. The effectiveness of enacted policies is emphasized as well, something that includes the extent to which policies actually reduce poverty. An evaluation of social protection from the perspective of
the Europe 2020 Growth Strategy should therefore take both the efficiency and effectiveness of social benefits into consideration.

The purpose of this paper is to provide input to the discussion on the efficiency of European social protection. The paper is part of the Peer Review in Social Inclusion and Social Protection that was established in 2006 to support the processes of policy exchange and mutual learning in Europe. This Peer Review on improving the efficiency of social protection is hosted by Portugal, where two decrees enacted in 2010 are likely to influence the functioning of social protection. The new regulation is part of the Portuguese Stability and Growth Pact to promote economic growth and to consolidate the state budget in the aftermath of the 2008 global financial crisis. The changes introduced to social protection concern mostly the non-contributory parts of the system, including the general benefit of last resort (Rendimento social de inserção) and unemployment assistance (Subsídio social de desemprego). Both eligibility criteria and entitlement levels have changed, and greater emphasis is placed on activation and restraining fraud.

This discussion paper is largely structured according to the Portuguese reformation of social protection. Consequently, the chief focus is on non-contributory minimum income benefits for the working age population in Europe, in the following referred to as social assistance. I argue that issues related to the efficiency of social protection often are intertwined with those of effectiveness. Measures introduced to improve, for example, the accuracy of social protection are therefore difficult to assess without considering the consequences for poverty alleviation. The most efficient social benefit may not always be the most effective to promote social inclusion (Korpi and Palme, 1998). In the following I will therefore initiate a discussion on the efficiency of social protection that takes effective redistribution and poverty alleviation into account. Based on the social objectives set out in the Europe 2020 Growth Strategy it is particularly important to identify potential trade-offs, where measures to increase efficiency may have detrimental effects on poverty alleviation at the more aggregate level.

The paper is divided into three sections. In the first section a brief review of EU policy to reduce poverty and social exclusion is presented. Also the role of social assistance in the overall EU social inclusion process is discussed. The second section provides an introduction to European social assistance and developments over time, focusing on benefit levels of relevance for poverty reduction. Topics specifically related to the efficiency of social protection are presented in the third section. Questions for discussion in the Peer Review are presented at the end.

A The social dimension of European integration

The social dimension of European integration has moved up the agenda as the EU has extended its intervention in social affairs. Nonetheless, social protection is still a prerogative of the national state. This does not mean that the EU lacks influence on social matters. Formally, effects from the supra-national level on national policies are of at least three types (Montanari et al., 2008). Harmonization occurs when there is a lack of possibility of political decision-making in policy fields where authority has been ceded to the EU. Directives and regulations at the EU level are here binding and should be translated into national law. This form of EU influence on national policies should be minor in the social domain since there are essentially no EU documents concerning the organization of social protection that legally require member states to take action. Indirect convergence may occur when there are constraints on political decision-making in policy fields where authority is still located at the national level, but which are dependent on developments in policy areas where authority in fact has been handed over. One example is EU
economic and monetary policy, which may exert pressure on the member states to re-organize or
calibrate social protection. Emulation takes place when non-binding policy recommendations act
as benchmarks or ‘good practices’ to be imitated by other member states. The social dimension
of European integration can be expected to emanate mainly from such non-binding initiatives in
the social field and indirect convergence due to EU economic and monetary integration.

Social assistance has been part of the European social inclusion process since the early-1990s at
least, when the European Council (1992a, 1992b) issued a number of recommendations
concerning the organization of benefits. One objective was to ensure that all member states
recognized the right to sufficient economic resources and to define common principles for
implementation. These principles included amongst other extended coverage, differentiated
benefit amounts and formal indexation procedures. The exact governance structures were not
detailed. As such, countries were free to define the level of benefits by their own terms. Similarly
it was up to the member states themselves to judge how benefits levels should reflect household
size and composition, and how benefits regularly should be updated. A few years later the
European Commission (1998) maintained that the Council recommendations on social assistance
had resulted in policy convergence in terms of eligibility criteria. In other aspects, however, cross-
national diversity has increased and is still substantial, not the least concerning benefit generosity
(Nelson, 2008).

The social dimension of European integration was for many years a contested topic and is still
often disputed among the Member States (Hantrais, 2007). Due in part to the difficulties of
countries coming to agreement on binding legislatives concerning the organization of social
protection, a new EU initiative to foster social integration was launched at the turn of the new
millennium, focusing on the diffusion of ideas and best practices. In the framework of the Open
Method of Coordination (OMC) the Member States agreed on common objectives and indicators
against which national and EU developments could be evaluated and compared. The intention is
to assist the member states to identify good examples, which can be used nationally to develop
new ways to tackle the issues of poverty and social exclusion.

The functioning of social assistance is integral to the OMC framework. Social assistance is the
only benefit scheme that enters the list of context information provided by the portfolio of
indicators for the monitoring of the European strategy for social protection and social inclusion
(European Commission, 2009). The proposed indicator is the level of minimum income benefits
as percentage of the at-risk-of poverty threshold for three types of jobless households. The at-
risk-of poverty threshold corresponds to incomes below 60 per cent of the median disposable
income after adjustments for household size and composition. The data is still under preparation,
although some progress has been made on the basis of tax and benefit model simulations
developed jointly by the European Commission and the OECD.

The Europe 2020 Growth Strategy, which details the approach for European economic
development over the years 2010-2020, marks a further step of European integration. The new
strategy is based on seven flagship initiatives and the European platform against poverty and
social exclusion is of most relevance for the purpose of this Peer Review. There is no doubt that
the EU still relies on economic growth and employment as main instruments to fight poverty and
social exclusion. However, the role of social protection is now more prominent. According to the
European Commission (2010) social protection is an additional cornerstone of an effective policy
to combat poverty and social exclusion, fruitfully complementing the effects of growth and
employment. In this framework social benefits should not only provide the right incentives to work,
but also guarantee adequate income support (European Council, 2011). As such, both the efficiency and effectiveness of social protection are addressed.

The recommendations for common criteria concerning sufficient resources and social assistance issued in the early-1990s have not lost relevance. Quite the contrary, the European Commission (2008) recently re-stated the significance of these recommendations for the continued fight against poverty and social exclusion. In some aspects the reference instruments for community policy in the social field have become more specific and detailed. This concerns particularly the level of sufficient minimum incomes, where adequacy recently was defined as incomes levels at least on par with the at-risk-of poverty threshold agreed by the EU Member States (European Parliament, 2009).

Despite that social protection continues to be subject to the cardinal principle of subsidiarity, meaning that the Community has no exclusive competence in the field, there are some financing instruments at the European level to fight poverty and increase social inclusion, reaching the headline targets set by the Europe 2020 growth strategy. The European Social Fund is the most substantial source of EU funding for reaching the poverty target, supporting national programmes to re-integrate marginalised groups in the labour market. Another funding instrument is the European Regional Development Fund, which co-finances initiatives to promote development in parts of Europe that are lagging behind by different standards. The Community Programme for Employment and Social Solidarity (PROGRESS) is an additional funding initiative of relevance for the social dimension of European integration. The PROGRESS programme finances initiatives to generate new knowledge in areas such as social protection and inclusion, and the programme is closely linked to the processes of mutual learning in the OMC framework.

### B Effectiveness and efficiency of minimum income benefits

#### B.1 Some notes on effectiveness

Most EU Member States have national frameworks for minimum income benefits, accessible for people without work income and access to contributory social insurance benefits. Today, only Greece and Italy lack such national legislation. The organization of minimum income benefits vary substantially across Europe, which not necessarily match the broader categories of social models typically observed in connection with welfare state organization (Esping-Andersen, 1990). Gough et al. (1997) identified eight distinct modes of organizing social assistance in the OECD countries. Adding the Central and Eastern European countries to this group we can expect cross-country institutional variation to increase further. This is not the place to go deeper into the subject of welfare state categorization. Instead, this section draws attention to the effectiveness of social assistance to alleviate poverty, in order to set the scene for the discussion on efficiency that follows.

One challenge at the centre of the European debate on social protection is how to provide sound safety nets while simultaneously avoiding exaggerated welfare dependency (Palme et al., 2009). It is a great challenge for policy makers to find the appropriate balance between efficiency and effectiveness in social protection, particularly since measures that are used to improve efficiency sometimes may have negative consequences for poverty and social inclusion. The European Commission (2008) has issued a recommendation that includes principles and guidelines for active inclusion, addressing the three pillars of adequate income, inclusive labour market and access to services. In addition there are some reports on the interaction between the three policy
strands. One key finding from the independent expert reports on minimum income schemes is that many Member States have been more willing to increase incentives for employment than to address the problem of inadequate social assistance benefits (Frazer and Marlier, 2009). Since generous social benefits may lower the incentives for employment, there might be a potential trade-off between effectiveness and efficiency.

Figure 1 shows the level of social assistance as percentage of the median disposable income in 28 European countries 1990-2009. In previous research this indicator has been used to analyze if benefit levels are adequate for effective poverty alleviation (Behrendt, 2002; Nelson, 2003; Kuivalainen, 2004). The social assistance indicator is from the Social Assistance and Minimum Income Protection Interim Data Set (SaMip), which is described in the annex. Both the numerator and denominator are adjusted for household size and composition, using the so-called modified OECD scale. The breadwinner is here given the weight of one. Every other adult person in the household receives the weight of 0.5, whereas each child is given the weight of 0.3.

![Figure 1. Social Assistance as percentage of the net median disposable income in five groups of European countries 1990-2009.](image)

Note: Average benefit levels for three type-cases: single person, lone parent and two-parent family. Data for Switzerland and Cyprus are from 2004 and 2008, respectively. Equivalized incomes are based on the modified OECD scale. Northern Europe includes Denmark, Finland, Norway, Sweden. Continental Europe includes Austria, Belgium, France, Germany, Ireland, the Netherlands, Switzerland, Luxembourg. The United Kingdom and Ireland belong to the British Islands. Southern Europe includes Spain, Portugal, Italy, Cyprus, Malta. Central and Eastern Europe includes Slovakia, Hungary, Estonia, Slovenia, Poland, the Czech Republic, Bulgaria, Lithuania, Latvia, and Romania. Equivalized incomes (modified OECD scale). The dotted line for Southern Europe excludes Cyprus and Malta.

Source: SaMip and EUROSTAT.

According to the European Council recommendations of 1992 on the convergence of social protection objectives and policies, the development of social benefits should reflect improvements in the standard of living of the population as a whole. It is evident that social assistance benefits do not meet this expectation. Adequacy rates have fallen in most European countries over the last two decades. The downward trend is to some extent due to the indexation of social assistance, where yearly adjustments to benefits tend to be linked to price developments, or alternatively to consumption patterns among the lower income strata, rather than to wages. In effect, social assistance benefit levels fail to keep up with income growth and living standards more generally. Another explanation for the erosion of benefit adequacy is the shift from passive...
to active labour market policy, where active inclusion seems to create a downward pressure on benefit levels (Nelson, 2011). We will shortly return to this relationship between active and passive policies in the section on efficiency below.

Developments differ somewhat between the European countries. The most substantial decline has appeared in Southern Europe and in the Central and Eastern European countries. The upward trend for Southern Europe in the 2000s is due to the subsequent inclusion of Cyprus and Malta in the SaMip data set. In 2005 both Cyprus and Malta had social assistance adequacy rates above 40 per cent, whereas corresponding figures for Italy, Portugal and Spain were between 25 to 31 per cent. The developments in Northern Europe are interesting and deserve some comment. The increase of benefit adequacy in the early-1990s is not the result of deliberate attempts on the part of policymakers to increase benefit levels in absolute terms, but an indirect consequence of a slow-down of wage increases due to deep recessions in the Northern European economies, primarily those of Sweden and Finland (Kuivalainen and Nelson, 2011). When the economies improved in the late-1990s, adequacy rates went down due to insufficient indexation of benefit levels and major social assistance reforms. It is difficult to predict whether we will witness similar developments in the nearby future across Europe. In any case the development of benefits during the economic downturn of the Northern European countries in the early-1990s indicates that adequacy rates should be interpreted cautiously. During periods of financial crisis and fiscal consolidations adequacy rates may paradoxically improve, despite any modifications to programme regulation. Such developments may be of limited relevance for living standards. In Sweden deprivation became more widespread in the beginning of the 1990s, when an increasing number of individuals experienced problems in diverse areas of life (Korpi et al., 2007).

It is doubtful whether social assistance in the Member States presently is provided at levels necessary to fulfil the EU target of reducing poverty by 20 million people by 2020. Only a few European countries seem to provide social assistance at income levels that are above the EU at-risk-of poverty threshold. Figure 2 shows the level of social assistance as percentage of the median disposable income in 28 European countries 2009. Once again the modified OECD scale is used to adjust incomes for household size and composition. Only Denmark and Ireland provide benefits that are above the EU at-risk-of poverty threshold. However, both countries have adequacy rates below this poverty line when the square root equivalence scale is used instead to standardize income across household types (not shown here). The square root scale is nowadays commonly used in comparative income distribution studies for reasons of simplicity. According to this scale, household income is divided by the square root of household size.
Substantial increases in benefit levels are often necessary to reach the EU at-risk-of poverty line. In order to reach the 60 per cent poverty threshold benefits must, at the minimum, be almost doubled in Bulgaria, Estonia, Italy, France, Latvia, Malta, Poland, Portugal, Romania and Spain. The regional differentiation of social assistance benefit rates is not likely to influence the general pattern to any serious extent. For example, it is doubtful that paying greater consideration to local variation would raise social assistance above the poverty line in Austria, Italy, or Spain, all countries with decentralized formulas for defining benefit rates. In large parts of Italy, for example, the level of social assistance is probably below that of Milano, which is used in the calculation of benefit rates in the SaMip data set. In some Italian regions there may not even be any local social assistance arrangements, whatsoever. In Austria and Spain benefit levels would have to be paid at levels substantially above those of Vienna and Madrid, which are used here, to reach the 60 per cent poverty threshold.

Sometimes it may be unrealistic to expect that social assistance in the short-term can be raised to the levels envisioned by the EU for effective alleviation of relative income poverty. The policy dynamics involved in the organization of social assistance involve also the functioning of first-tier programmes, such as contributory social insurance benefits (Lødemel, 1997). Social assistance tends to be set up to fill the holes of the safety net created by benefit programmes that enter the distributive process in earlier stages. Social insurance may therefore influence the political, budgetary and institutional possibilities for raising social assistance benefits further up the income scale (Nelson, 2006). The politics surrounding this interplay between programmes concern the ways in which social insurance influences cross-class coalition-making in support of vertical redistribution, for example, in the form of social assistance. The budgetary aspect refers to the marginal economic costs of increasing the size of social assistance benefits, something that is assumed to be less substantial the more social insurance has reduced the demand for minimum income benefits. The institutional requirement for raising social assistance benefits concerns the
so-called ‘distance of legitimacy’, according to which the minimum levels of social insurance to some extent set the maximum level for social assistance.

All of these factors may constrain decision-making concerning welfare state organization, and before policymakers can increase the level of social assistance they may first have to reform social insurance. Particularly, this seems to be the case in countries where social insurance is organized more or less exclusively according to basic security principles, which involves flat-rate or only weakly earning-related compensation for losses in work income. In reality such basic security programmes tend to produce comparatively modest replacement rates (Palme et al., 2009).

B.2 Some notes on Efficiency

Although it is often fruitful to discuss the balance between efficiency and effectiveness of social protection rather than exclusively focusing on either one of the two dimensions, there are nevertheless a few issues related to programme efficiency that deserve closer discussion in this paper. Based on the Portuguese reformation of the non-contributory social benefits we will here discuss in turn issues related to the benefit and resource unit, the harshness of means-testing, the implied equivalence scale, and activation.

B.2.1 The Benefit and Resource Unit

The benefit and resource unit can be used to restrict individuals to apply for entitlements or as a means to expand benefits to encompass broader population groups of immediate relevance for both efficiency and effectiveness. Social assistance is normally not paid to the individual as such, but is rather targeted to the nuclear family, whose needs and resources are assessed jointly. Portugal has adapted to this common principle to assess social assistance entitlements in terms of family ties and the sharing of a single economy. Additional non-dependent adult household members are in most European countries excluded from the assessment. Austria, the Czech Republic, France, Luxembourg, Poland and Slovakia are a few exceptions where the actual unit for whom benefits are payable is the household rather than the family. In these particular countries, however, there may be several exceptions to this rule.

The family centred character of social assistance marks a clear difference to contributory social insurance benefits, where entitlements are defined more in terms of individual rights. Essentially, eligibility for social insurance is not dependent on family circumstances, but on past contributions paid into the scheme and work history. This principle of an individual right to benefit is difficult to apply in the area of social assistance, since it most likely would result in substantial leakage of public resources from the poor to the non-poor. In such a scenario, parts of the distributed sums will reach individuals residing in families whose economic resources are clearly above the poverty line.

Nonetheless, it should be noted that reforms in the direction of providing a more individualized social assistance benefit may have positive impact on income adequacy and ultimately contribute to more effective policies in terms of poverty alleviation. In this regard the Danish social assistance programme is interesting, where benefits became taxable and tied to the level of the contributory unemployment insurance benefit as part of a major overhaul of tax and labour market policies in the mid-1990s. Each spouse receives the same fraction of the maximum
unemployment benefit, which roughly is 80 per cent for those with children and 60 per cent for those without. This arrangement explains in part why Denmark succeeds to provide social assistance benefits above the EU at-risk-of-poverty threshold, particularly for two-adult families. The risk for substantial outflows of public resources to the non-poor is somewhat restricted due to the joint assessment of family resources in cases where the spouses are legally married.

Countries may also have extended the financial responsibilities beyond the nuclear family. Sometimes the financial responsibilities even go further than that of other adults in the same household. Most countries demand that claimants for social assistance have used up all claims and civil responsibilities of maintenance owed to them by other people, for example, in the case of alimony. However, the stringency to which such subsidiarity principles are imbedded in national social assistance regulations vary substantially across the European countries, reflecting in part cross-national differences in family law. In this regard, the German system is often referred to, where claimants may first have to seek financial assistance from parents, grandparents and adult children before being eligible for social assistance. Similar arrangements have prevailed, and may still be in force, in other continental European countries as well, such as Austria, Belgium and Switzerland. It should be noted, however, that the enforcement of the subsidiarity principle may be at the discretion of the social workers. Over the years the principle of subsidiarity may also have been relaxed. In the 1970s, for example, Germany eased the eligibility criteria of social assistance by abolishing the obligation to support second-degree relatives (Seeleib-Kaiser, 1995).

Although principles of subsidiarity can be used to target social assistance on the truly needy, in this regard including those persons who are without any relatives in possession of financial means, the stringency by which such principles are put into practice is likely to interfere with benefit take-up, and thus with poverty alleviation at the more general level. For example, the extensive documentation of personal and financial conditions associated with social assistance in Germany has been seen as the main cause of the non take-up of benefits, which is estimated to be at levels around half of all eligible persons (Hanesch, 2003). Increased efficiency, in terms of accuracy of hitting the mark with benefit claims, may in this regard be followed by less substantial reductions of aggregate poverty rates. Investigations into the family relations of beneficiaries may also increase administrative costs and thereby lowering the efficiency of the programme. The administrative burden is likely to increase particularly in countries where income register data and information on extended family relationships are poorly developed.

B.2.2 Means-testing

The means-test as such can be used in several ways to increase the efficiency of social assistance. Countries differ substantially in terms of the income categories that are used in the means-test for social assistance. In Portugal, almost all family income, regardless of its nature and origin, is taken into account in the assessment of social assistance. The major exceptions are for benefits connected to maternity, paternity and adoption. Due to the complexity of national regulations it is beyond this discussion paper to provide a complete comparative analysis in this regard. However, one particular aspect that seems to have gained popularity across Europe is to introduce so-called tapers on work income, which allow beneficiaries to retain parts of work income. In Portugal, for example, 20 per cent of work income is disregarded in the calculation of social assistance benefits. One of the main objectives for this type of regulation is of course to reduce potential work disincentives created by the receipt of social assistance benefits, thus contributing to a more efficient policy through its effects on labour supply and employment.
At least twelve European countries have such tapers on work income, including the Czech Republic, Cyprus, Denmark, Finland, Germany, Ireland, Luxembourg, the Netherlands, Portugal, Slovakia, Switzerland and the United Kingdom. Figure 3 shows the taper on work income embedded in the means-test for social assistance benefits as percentage of half the average national wage in a selected group of European countries. The calculation is based on a single person type-case, assumed to work part time and earning half the average national wage. The size of these tapers on work income varies considerably across Europe, from 2 per cent of the half average wage in the United Kingdom to above 40 per cent in Ireland. The remarkably high income taper in Ireland demands some explanation. In the Irish system of minimum income benefits for those capable to work, in this example the Jobseeker’s Allowance, the first € 20 of work income per day is disregarded subject to a maximum amount of € 60 per week. Of the remaining earnings, only 60 per cent is subject to the means-test.

Figure 3. Tapers on work income for the assessment of social assistance benefits in selected European countries as percentage of half the average national wage.

The substantial differences across the European countries concerning the mere prevalence and size of work income tapers seem to reveal the uncertainty surrounding its effects on labour supply. Little is known about the link between work income tapers and entries into employment. Although continued studies are required before we can draw any firm conclusions, some results raise concern in connection with the effectiveness of work income tapers to foster employment. Based on micro simulations Buddelmeyer et al. (2006) show that increased tapers on work income for means-tested social benefits is among the least favourable options to encourage people that are on the welfare rolls to get back into employment. The policy alternatives that were evaluated included various types of income tax cuts and the introduction of an earned income tax credit. Although tax credits may encourage beneficiaries to enter into low-paid jobs, it should be noted that poorer incentives may be created to increase earnings further (Brewer, 2005), adding input to the larger issue of the functioning of labour markets and the possible creation of extensive low-wage sectors in Europe. Under the assumption of fixed budget constraints, it may
also be relevant to relate the potential positive impact of work income tapers on labour supply to the counterfactual case of increasing benefit levels for more effective income redistribution.

B.2.3 Implied equivalence scales

Since social assistance benefits address the income needs of families or households, the benefit formulas can be quite complex taking different family constellations into consideration. Thus, one peculiarity of social assistance, compared to that of many contributory benefits, is the so-called implied equivalence scales embedded in the benefit formulas. Differentiated benefit rates are necessary to ensure horizontal equity in social assistance regulation (Bradbury, 1989), something that also have been stressed by the European Council (1992a). Despite the simplicity of the problem, the seemingly large cross-country variation in the treatment of different family types indicates that there is no univocal response to address horizontal equity in social assistance.

Portugal is the only European country that has opted for the old OECD scale, which used to be frequently applied in comparative income distribution studies. This scale gives the head of household a weight on 1 and each additional adult in the household a weight of 0.7. Each child less than 15 years of age is assigned the weight of 0.5, whereas children aged 15 years and above are given the weight of 0.7.

The judgments concerning the needs of families of different types can be illustrated and analyzed in various ways. In connection with social assistance, one alternative is to evaluate how social assistance treats the needs of children and lone-parents. Since women are overrepresented in the latter category, the scale rates applied to lone parents may reveal an important gender dimension in the realization of minimum financial needs. The treatment of children’s needs in social assistance is evaluated by comparing the benefit levels of the lone-parent and the two-parent type-cases with that of the single person. The treatment of lone parents’ needs is evaluated by a comparison between the benefit levels of the lone-parent type-case and the two-parent family. Figure 4 shows the resulting implied child and lone-parent equivalence scales embodied in European social assistance. The dotted lines denote the mean value on each dimension. The benefit levels of the lone parent and two-parent type-cases are always above that of the single person (above 100 per cent on the implied child equivalence scale in figure 4) due to the difference in household size. The benefit level of the lone-parent type-case tends to be below that of the two-parent family (below 100 per cent on the implied lone parent equivalence scale in figure 4) for the similar reason.
There are quite extensive differences across Europe concerning the treatment of different family constellations. In Bulgaria the lone parent and two-parent type-cases receive benefit levels that on average are nearly four times the size of the benefit level for the single person type-case. Thus, the implied child equivalence in Bulgaria is about 400 per cent, which can be compared with a level of 160 per cent in the Netherlands. In relative terms the Bulgarian system therefore is comparatively generous toward the needs of children. It should be pointed out that this comparison does not take the absolute size of benefits into consideration. In the Netherlands, for example, both the purchasing power and adequacy of social assistance benefits are much higher than in Bulgaria (see Nelson, 2011). Cross-national variation is somewhat more modest on the lone parent dimension, where equivalences are approximately at levels between 105 per cent in Belgium and 64 per cent in Denmark.

The old OECD equivalence scale, which is used in the most recent reformulation of social assistance benefit rates in Portugal, scores around the average on the child dimension, but below the mean score for lone-parents. In conclusion therefore the old OECD equivalence scale tends to be more favourable to children than lone-parents, something that may add to the gender bias of social protection (Herrington Meyer, 1990; Lewis, 1992; Orloff, 1993; Gordon, 1994; Sainsbury, 1996; Gornick and Meyers, 2003), particularly in countries where it is applied to differentiate social assistance benefit levels according to family type.
B.2.4 Activation

The activation of beneficiaries is an important aspect of national social assistance frameworks and it has emerged as a cornerstone of EU policy to alleviate poverty and promote social inclusion (Barbier, 2005; Weishaupt, 2011). Portugal is no exception in this regard, where the new framework for social protection allocates more resources to assist beneficiaries to acquire new skills. Policies that encourage transitions from welfare dependency to employment are of course important in order to create more efficient use of public resources. However, despite increased research efforts we have only limited understanding concerning the great number of policy changes in activation policy that have been introduced across Europe and their impacts.

There is no comparative institutional data readily available to analyze the active approaches to European social protection on a broader scale. Comparative expenditure data on active and passive measures are available, but unfortunately it is problematic to accurately link those to particular benefit programmes. Whereas some countries make formal distinctions between social assistance specific activation instruments and more generic active labour market policy (ALMP) arrangements, other countries seem to differing extent have coordinated and made more similar the two parallel systems of activating social assistance recipients and beneficiaries of contributory benefits (Ditch and Roberts, 2002). Due to the complexity of national regulations and the absence of comparative institutional data we will in this section raise for discussion a few issues at the more abstract level that concern the link between activation and the functioning of social assistance.

It is possible in Europe to find examples of responses to activation that are based on human capital formation, focusing on the development of long-term individual skills rather than on moving people from benefit to work as quickly as possible (Lindsay et al., 2007). Likewise, it is possible to find active approaches to social protection that seem to be more pro-market in character, for example, involving harsher assessments of availability, reduced duration of benefits, increased use of sanctions, and wider definitions of what are deemed to constitute suitable jobs (Serrano Pascual, 2007). In these particular cases the reorganization of social protection has reinforced the individual responsibilities of beneficiaries, often requiring them to take on job-related activities and even actual work.

This shift in the balance between rights and obligations is more easily motivated if the active measures would actually lead to sustainable employment and a reduction of aggregate poverty rates. However, research shows that there is no univocal evidence in support for such positive effects of activation on labour supply and employment. The effects of activation on employability are complex and tend to vary across programmes, target groups and contexts (Rønsen and Skarðhamar, 2009). Activation of long-term benefit recipients and the low skilled seem to be especially problematic, particularly in terms of creating strong footholds on the labour market (Konle-Seidl and Eichorst, 2008). Since large parts of the social assistance clientele in many European countries probably belong to those groups that are especially hard to integrate, activation may not always have the expected payoffs in terms of increased social inclusion and reduced poverty rates. In the United States, for example, work programmes for welfare recipients have shown only small effects on employment (Smedslund et al., 2006).

The effects of active policies on employment may also differ between countries and over time due to the structure of labour markets. For many decades the so-called employment strategy was a distinguished feature of the Northern European countries. In Sweden, for example, employment policy combined measures intended to stimulate both the demand for, and the supply of, labour.
In addition, emphasis was placed on job matching. This set of policies was pursued during an era when full employment was an important and widely shared macro-economic objective. Consequently, unemployment levels were historically low. However, following the second oil shock in 1979 Western governments began gradually to change priorities from full employment to price stability, not only in the Northern countries but also elsewhere in Europe (Korpi, 2002).

Unemployment rates have also stabilized at levels substantially above those experienced in the immediate Post-War decades. Between 1956 and 1990 the unemployment rates of the Northern European countries seldom reached above 3 per cent, perhaps with the exception of Denmark during parts of the 1980s. Since 1990 the unemployment rates have fluctuated between 3 and 17 per cent and for most years the Northern European unemployment rates have been closer to the higher than the lower end points on this scale. Figure 5 shows the unemployment rate as an average for 23 European countries since the 1950s. The development largely mirrors the pattern of the Northern European countries. The unemployment rate in this larger group of European countries was on average below 3 per cent up to the mid-1970s, whereas it peaked at 9.8 per cent in the mid-1990s. Some recovery occurred during the proceeding decade, although the average unemployment rate was back at levels of 9 per cent after the global financial crisis hit the European economies in 2008.

Figure 5. The average unemployment rate in 22 European Countries, 1965-2010.

Labour market changes of the magnitude described above are not only envisioned to have profound effects on socioeconomic stratification and inequality, but they are also bound to have some consequence for the success of activation policy. It may be one thing to activate the involuntary unemployed and to foster transitions from welfare dependency to employment when...
job openings are relatively easy to find. More troubles may appear when available jobs are much scarcer. In such scenarios, preventive forms of activation may not suffice as an effective antidote to poverty and exclusion. It should be noted that in addition to the return of mass-unemployment in Europe, large scale industrial restructuring and accelerating economic internationalisation are also likely to influence the functioning of labour markets (Bluestone and Harrison, 1982; Layard et al. 1991; Collins, 1998) and the outcome of activation policies. Such extensive labour market transformations may also be related to the increase of unemployment in Europe.

Activation may also spill over into increased non take-up of benefits with negative consequences for poverty alleviation. Non-take up of social benefits may occur for several reasons and it seems fair to assume that an increased emphasis on preventive forms of activation may add to the social and psychological costs of applying for and receiving benefits, especially if the odds of moving into sustainable employment is believed to be low (Wolff, 2003). In addition the rules surrounding activation can make it more difficult for individuals to understand and master application procedures. Individuals may also believe that the activation requirements make the administrative process too complex and cumbersome to engage with (Storer and van Audenrode, 1995).

There is only limited evidence on the non take-up of social protection, but some estimates suggest that between 20 and 60 per cent of the potential social assistance clientele do not receive benefits to which they should be entitled. The take-up rate is somewhat higher for contributory benefits that typically involve fewer stigmas (Hernanz et al., 2004). For Germany, at least, there is also evidence that the non take-up rate of social assistance has increased (Riphahn, 2001).

Active labour market policies have certainly several virtues and recently the OECD (2006) concluded that active approaches to social inclusion foster employment and help to sustain high levels of social protection by reducing potential negative effects of generous social benefits on work incentives. However, worries have also been raised that preventive forms of activation has developed alongside a continuous and gradual erosion of benefit levels in order to strengthen work incentives even further. According to an EU-wide review of national reform initiatives, countries have been reluctant to prioritize the provision of adequate minimum incomes (Frazer and Marlier, 2009), indirectly making low-wage employment more attractive to beneficiaries.

Figure 6 shows the level of social assistance as percentage of the median disposable income and ALMP expenditure per unemployed as percentage of GDP per capita for the years 1990-2007 in 19 European countries. The lines show opposite trends. Whereas ALMP expenditure is on the rise, benefit levels tend to decrease. The level of social assistance benefits went down most in the second half of the 1990s, when the increase of ALMP was particularly pronounced. The negative relationship between social assistance benefit levels and ALMP holds even if alternative drivers for social policy development are taken into account, such as economic wealth, wage increases, labour force and employment patterns (Nelson, 2011). At least in this regard there seems to be a trade-off between the efficiency and effectiveness of social assistance to alleviate poverty. Although increased spending on active labour market policies may increase efficiency in terms of producing higher levels of social inclusion for a fixed amount of public resources, the actual impact on poverty may be restricted due to the subsequent erosion of benefit levels.
C Issues for debate

The pressure on social assistance and minimum income benefits tend to increase during economic downturns as more people are expected to seek economic support from social benefits; meanwhile national budgets have to struggle with fiscal constraints. In this scenario Portugal decided to reform parts of the social benefit system and to host this Peer Review on improving the efficiency of social protection. The changes introduced to social protection in Portugal concerned mostly the non-contributory parts of the system, such as social assistance and associated benefit schemes. The purpose of this discussion paper has been to raise some questions for debate during the Peer Review. There is no doubt that the efficiency of social protection is an urgent issue for the sustainability of contemporary welfare states and for the continued success of European integration. If social benefits can be better tailored to serve their main objectives, reforms are highly motivated. At least two objectives of social assistance can be identified at the European level; to provide adequate minimum incomes and to foster transitions from welfare dependency to employment. I will let this insight guide the overarching question for debate in this Peer Review:
- Is there a trade-off between efficiency and effectiveness, where a more narrowed targeting of public resources to those defined as needy may have negative consequences for poverty alleviation?

The efficiency of social protection is an essential component of the Europe 2020 growth strategy. The Portuguese example shows that reforms to improve the efficiency of non-contributory benefit programmes already have been initiated. Developments in other parts of Europe are unclear at the moment. However, this Peer Review gives exceptional possibilities to map ongoing reforms across Europe. It is therefore fruitful to raise a question that aim to capture the prominence of the topic in the national debate.

- What changes to social protection have been introduced (or planned) with the explicit aim of improving the efficiency of social benefits in the various Member States?

In this paper I have also raised for debate a number of issues that relate to the specific reforms introduced in Portugal to increase the efficiency of social protection. Each issue serves to be discussed at the Peer Review. One of the most essential but problematic aspects of social assistance is to provide horizontal equity, that is, to make sure that every eligible family receives financial support according to their income needs. Social assistance benefit rates that are well adjusted according to the needs of programme participants may improve the efficiency of social protection to the extent that beneficiaries are not provided resources above the poverty line. The comparative analysis of implied child and lone-parent equivalences in social assistance presented above shows that the European countries make different judgments concerning the relative needs of families, something that raise questions for debate in this Peer Review.

- Is it desirable to improve the horizontal equity of social assistance benefits in Europe, for example, in order to streamline across countries the assumptions applied in setting the implied scales of equivalence?

- How can the relative income needs of different families appropriately be defined?

- Which methods are used to set the implied social assistance equivalence scales in the separate Member States, for example, family budget estimations or ad hoc political decisions?

The means-test associated with social assistance is among other things used to separate the poor from the non-poor in the claiming process. Means-testing may increase disincentives for employment and increase welfare dependency, thus contributing to less efficient policies. Several countries have therefore introduced so-called tapers on work income, which define how much of earnings that are exempt from the means-test for social assistance. Portugal has joined this group of countries. However, the size of these work income disregards in benefit assessments varies extensively across the European countries. A substantial number of European countries have also refrained from introducing work income tapers altogether in connection with social assistance. The differences across Europe call for an explanation and motivate discussion in the Peer Review.

- What arguments have been used nationally to exempt parts of work income from the means-test for social assistance, or to refrain from doing so?
How was the size of these tapers on work income decided?

Is there any evidence as to the effects of these work income disregards on labour supply and employment?

Active approaches to social protection can improve efficiency by encouraging transitions from welfare dependency to work, something that may increase the possibilities of raising benefit levels without the danger of eroding work incentives and employment. However, an increased emphasis on activation may also have the opposite effect on benefit generosity, since a reduction of benefit levels may be viewed as an easy, inexpensive and effective strategy to increase work incentives even further, in some cases also for low wage employment. The direction of the relationship between active approaches to social protection and benefit levels needs to be researched further before we can make any firm conclusions. Nonetheless, the prominent role placed on activation and the provision of adequate minimum incomes in the framework of European social integration makes it relevant to discuss the potential links between passive and active welfare and possible outcomes in terms of the efficiency and effectiveness of social protection to reduce poverty and promote social inclusion. The following questions are therefore raised for discussion in the Peer Review.

Is it possible to find examples in Europe where benefit levels have been cut with the explicit aim of increasing work incentives?

Is it possible to find examples in Europe where activation policies have been introduced with the explicit aim of sustaining benefit levels?

Are the negative consequences of reduced benefit adequacy rates (benefit levels relative to median incomes) on poverty alleviation offset by the possible positive effects of strengthened work incentives on labour supply?

May active inclusion lead to a growth of low paid employment and increased problems of in-work poverty?

How should the active approaches to social protection be organized in order to deliver expected outcomes also during periods of low labour demand?

Some measures that have been used to improve the efficiency of social protection and to ensure consistency in the allocation of social assistance benefits may have unintended and negative consequences for benefit take-up, something that may prove to be harmful for effective poverty alleviation. Regulations surrounding obligations and requirements of beneficiaries to actively get off the welfare rolls and into employment is one example. Another is regulations governing definitions of the benefit and resource unit in connection with the assessment of benefit claims, particularly in cases where these units extend beyond the nuclear family. The relationship between the efficiency of social protection and benefit non take-up warrants some discussion at the Peer Review.

Is the non take-up of benefits continuously monitored and discussed nationally?

Which measures have been implemented in the various Member States to reduce benefit non take-up?
What are the consequences of benefit non take-up for the continued fight against poverty and social exclusion, both positive and negative?
References


Appendix
The social assistance and minimum income protection interim data set (SaMip)

The Social Assistance and Minimum Income Protection Interim Data-Set (SaMip) is an ongoing research project at the Swedish Institute for Social Research, Stockholm University. The aim of the data set is to improve the possibilities to conduct large-scale institutionally informed comparative and longitudinal analyses of social protection in general and minimum income benefits in particular. The current data-set contains detailed information regarding the level of social assistance and minimum income benefits in 34 industrialized welfare democracies year-by-year for the period 1990-2009.

Levels of social benefits are complicated to compare over time and across countries. The general procedure gradually adopted in comparative research is to follow a type-case approach, where benefit levels are calculated based on national regulations for certain standardized households (see Korpi, 1989; Esping-Andersen, 1990; Bradshaw et al., 1993; Gough et al., 1997; Scruggs and Alan, 2005). In the SaMip data set benefit levels have been calculated for three type-case households: a single adult person, a lone parent with two children aged 7 and 14, and a two-parent family with two children aged 7 and 14. The adult persons are assumed to be of working age and involuntary unemployed without access to contributory social benefits, such as social insurance. The data used in this Peer Review are based on the average benefit levels of the single person type-case, the lone parent type-case and the two-parent type-case. Non-contributory minimum income benefits are generally not subject for income taxation. In a few countries, however, recipients have to pay tax on the whole or parts of the income package. In the SaMip data set, all benefits are measured after taxes and social security contributions. Only the net amounts are reported.

Social assistance is an ambiguous benefit category that may include many different types of programmes. In this Peer Review, the social assistance benefit package refers to the basic scale rates of social assistance, child benefits, housing benefits and refundable tax-credits where appropriate. The type-cases are not assumed to have any special or occasional needs, such as disability or funeral expenses. The basic scale rates of social assistance include the following programmes (and their predecessors): Sozialhilfe (Austria), Minimex (Belgium), Месечна социална помощ (Bulgaria), Systém pomoci v hmotné nouzi (Czech Republic), Упірмесіз Коїнвікії Ευηµερίας (Cyprus), Kontanthjælp (Denmark), Toimetulekutoetus (Estonia), Laki toimeentulotuesta (Finland), Revenu de solidarité active (France), Arbetislosenhilfe II (Germany), Rendszeres szociális segély (Hungary), Supplementary Welfare Allowance (Ireland), Minimo Vitale (Italy), Pabalsts garantētā minimālā ienākumā nodrošināšanai (Latvia), Socialinė pašalpa (Lithuania), Revenu Minimum Garanti (Luxembourg), Ghajnuna Socjali (Malta), Wet Werk en Bijstand (Netherlands), Økonomisk stønad (Norway), Zasilek Okresowy (Poland), Rendimento social de inserção (Portugal), venit minim garantat (Romania), Životné minimum (Slovakia), Denama Socialna Pomoc (Slovenia), Ingreso Minimo/Renta Mínima de Inserción, (Spain), Ekonomiskt bistånd (Sweden), Aide Sociale (Switzerland) and Income Support (United Kingdom).

In most countries social assistance has nationally uniform scale rates, but in some countries the amount of social assistance vary regionally. Regional variation in social assistance benefit rates are typically greater in some of the non-European welfare states, such as the United States and Canada, but they also appear to a more moderate extent in Europe. In most cases, within-country differences are rather small. One example is Germany, where social assistance is only in part
regulated by federal law, but where certain coordination procedures by the German Association of Public and Private Welfare, together with evaluations by the courts, serve to reduce local variation (Behrendt, 2002). SaMip data for Germany are based on the average benefit rates applied in the various provinces (Länder). Similar coordination mechanisms exist in Switzerland and Norway (since 2001), where the level of social assistance in the SaMip data set is based on national guidelines. The same was true of Sweden until 1998; however, the standard rates of Swedish social assistance now are defined by national regulations. The scale rates of social assistance in Finland are established at the national level, but used to be differentiated according to the costs of living in different regional areas. For earlier years, the data in this Peer Review discussion paper uses the highest rated bands. Local variation is somewhat more extensive in Austria, Spain, and Italy. For these countries, we use the largest or most representative cities. Benefits in Spain are for Madrid. In Austria, benefits scale rates reflect those of Vienna, which are somewhat lower than those of Carinthia and Upper Austria. The Italian data should be interpreted with additional caution, due to the absence of national social assistance frameworks and very large regional differences. In this paper the Italian figures refer to benefit rates effective in Milan. The SaMip data set is not only designed to increase comparability across countries, but also over time. The geographical boundaries and assumptions used in the calculation of benefit levels are the same for all years, to avoid troublesome breaks in the series for individual countries.

Housing benefits are estimated on the basis of actual rents in the various countries. Rent levels are based on Eardley et al. (1996), who asked national informants and experts in a large number of countries to report the rent level for different sized apartments in 1992 for their respective country. The assumption was that families rented an apartment from a public authority, housing co-operative or housing association, if this was the common procedure in the country. Otherwise, it was assumed that the household rented from a private landlord. For the one-person household, a one bedroom apartment was used. For the lone parent type-case, a two bedroom apartment was used. For the two-parent family, a three bedroom apartment was used. In the SaMip data set the rent levels for other years have been established by adjustments to movements in the rent indices published by ILO Bureau of Statistics.