

Budget Perspectives 2024

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VENUE

The Royal College of
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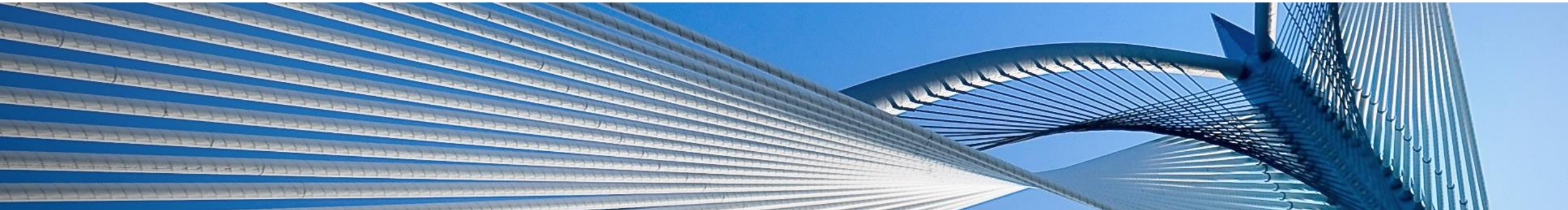
Minimum income support systems as elements of crisis resilience in Europe

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Main contribution of this study (commissioned by German Ministry of Labor and Social Affairs)

- Identify the contribution of minimum income support (MIS) systems to crisis resilience in European welfare states
- Look deeper into the interaction between MIS and upstream systems of job and income protection such as employment protection legislation, short-time work and unemployment insurance (UI)
- Update our understanding of different welfare state / labour market arrangements given recent reforms and latest crisis periods (Great Recession + COVID 19)

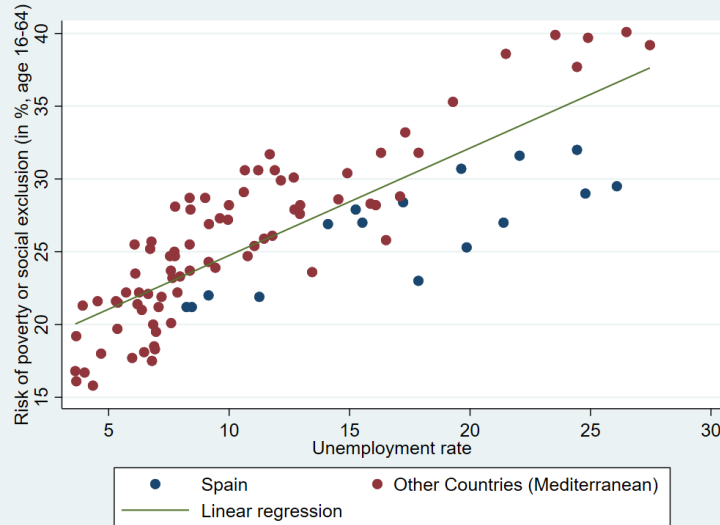
Conceptual framework and hypotheses

- MIS contribute to crisis resilience through income provision and active inclusion
- The concrete contribution of MIS depends
 1. *on its institutional design (e.g. coverage, benefit adequacy, delivery of activation policies) and*
 2. *the wider institutional arrangement of the welfare state and labour market, in particular on the role of upstream systems of protection against job and income losses*
- We expect persistent differences across welfare state types (Nordic, Continental, Liberal, Mediterranean, CEE) regarding the role of upstream systems and MIS in providing income support and active inclusion
- Structural reforms in response to e.g. economic shocks and fiscal pressure can result in major changes in the institutional set-up

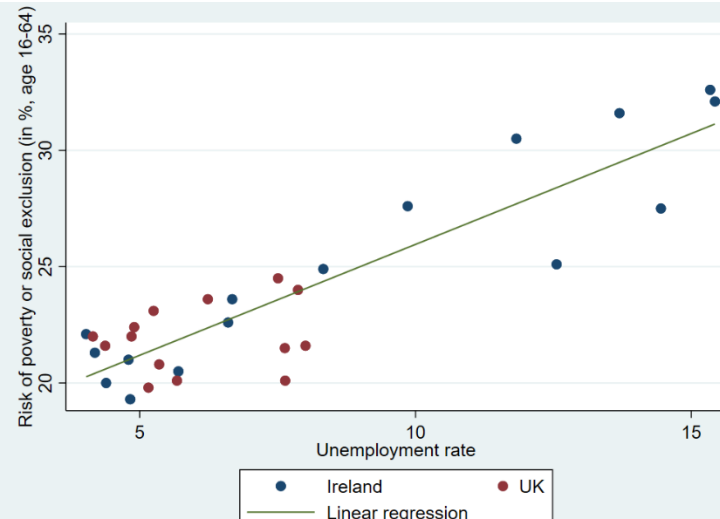
A mixed-methods approach

1. **Descriptive analysis** of core macro-economic variables and socio-economic outcomes (mid-2000s to most recent)
2. **Multivariate analysis** of the correlations between macro variables, welfare state types/institutions and outcomes
3. **Simulation** of the impact of hypothetical and identical shocks on core outcome variables, given country-level institutions (i.e. the tax/benefit system)
4. **In-depth case studies** of five countries representing different welfare state types

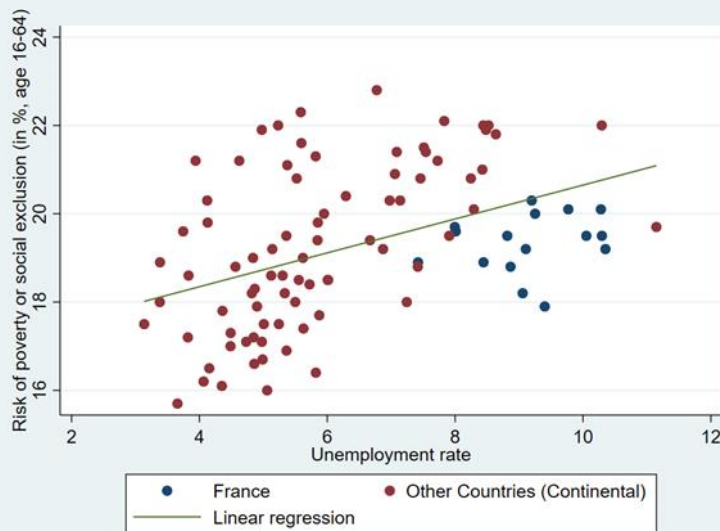
Poverty risk and unemployment rate by type of welfare state



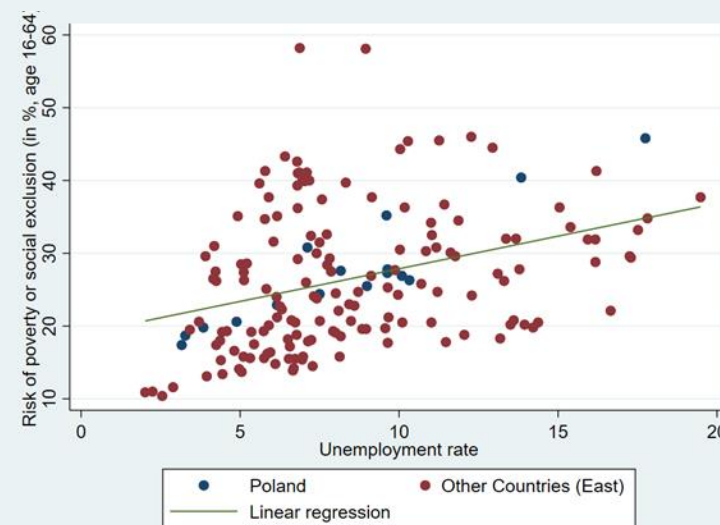
Correlation coefficient: 0.82



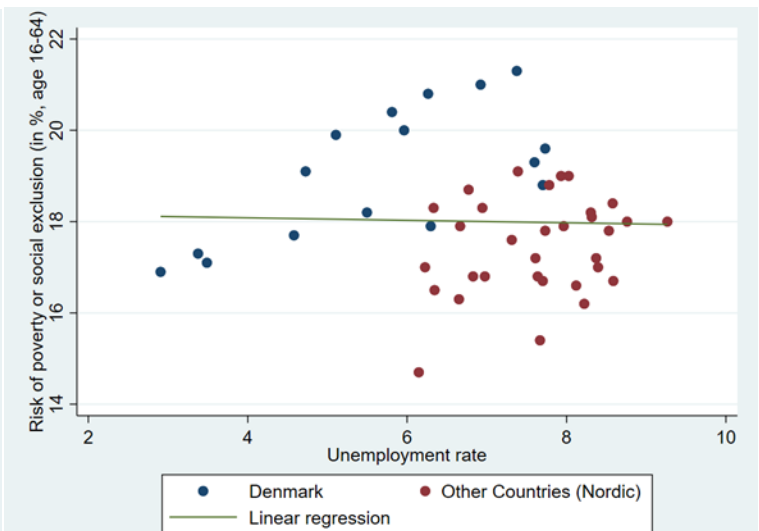
Correlation coefficient: 0.89



Correlation coefficient: 0.44



Correlation coefficient: 0.35



Correlation coefficient: -0.03

← High correlation

Lower/no correlation



Microsimulation of shock scenarios

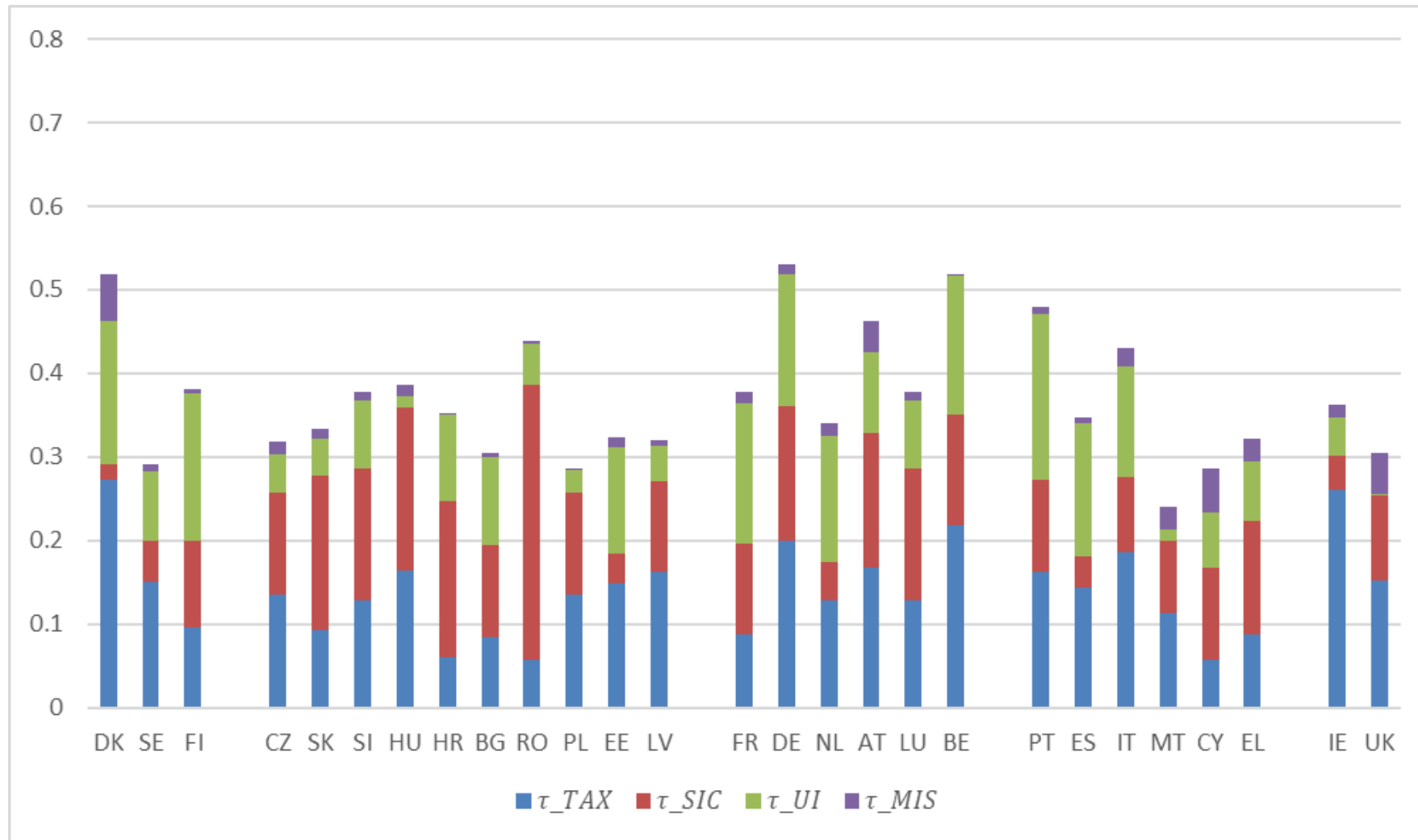
- How do MIS perform in crisis in terms of...
 - ... income stabilization? -> Income stabilization coefficient by Dolls et al. (2012)
 - ... poverty reduction? -> Comparison of at-risk-poverty rates with and w/o MIS
 - ... inequality reduction? -> Comparison of GINI with and without MIS
 - ... labour market integration? -> Calculation of participation tax rates

- Definition MIS: mainly social assistance, partly means-tested, non-contributory unemployment benefits without duration constraints (e.g. in Germany)

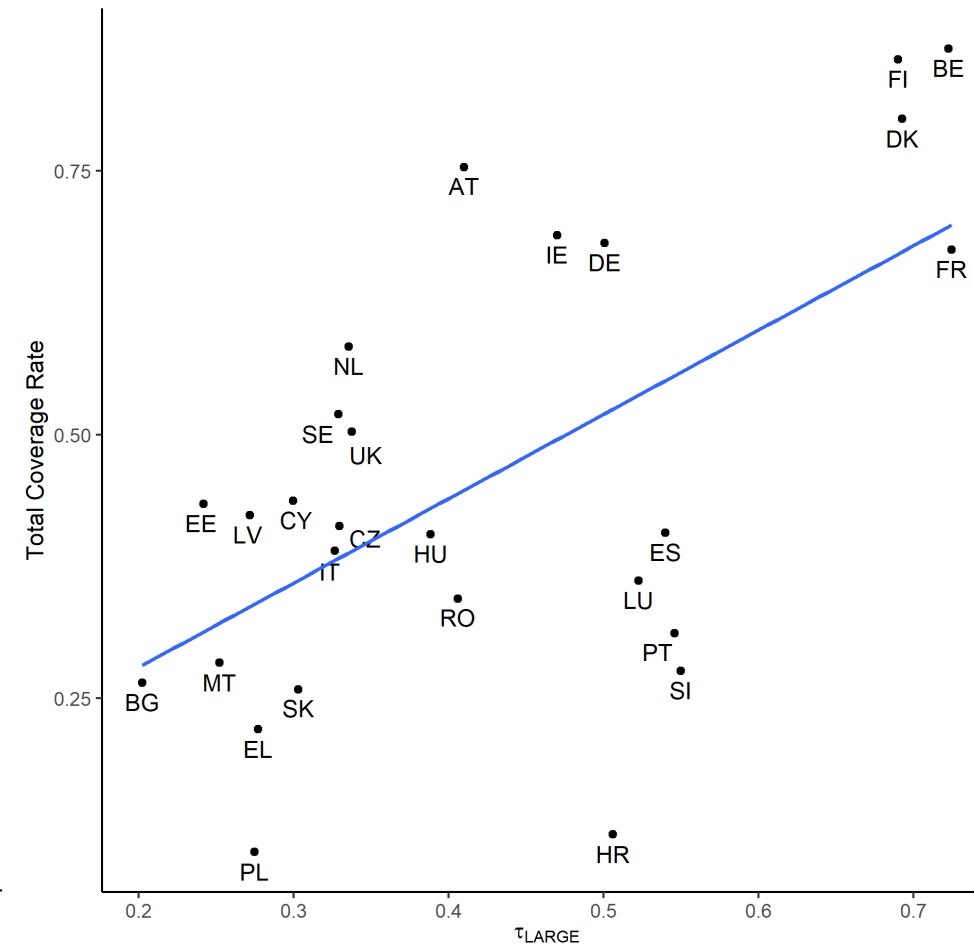
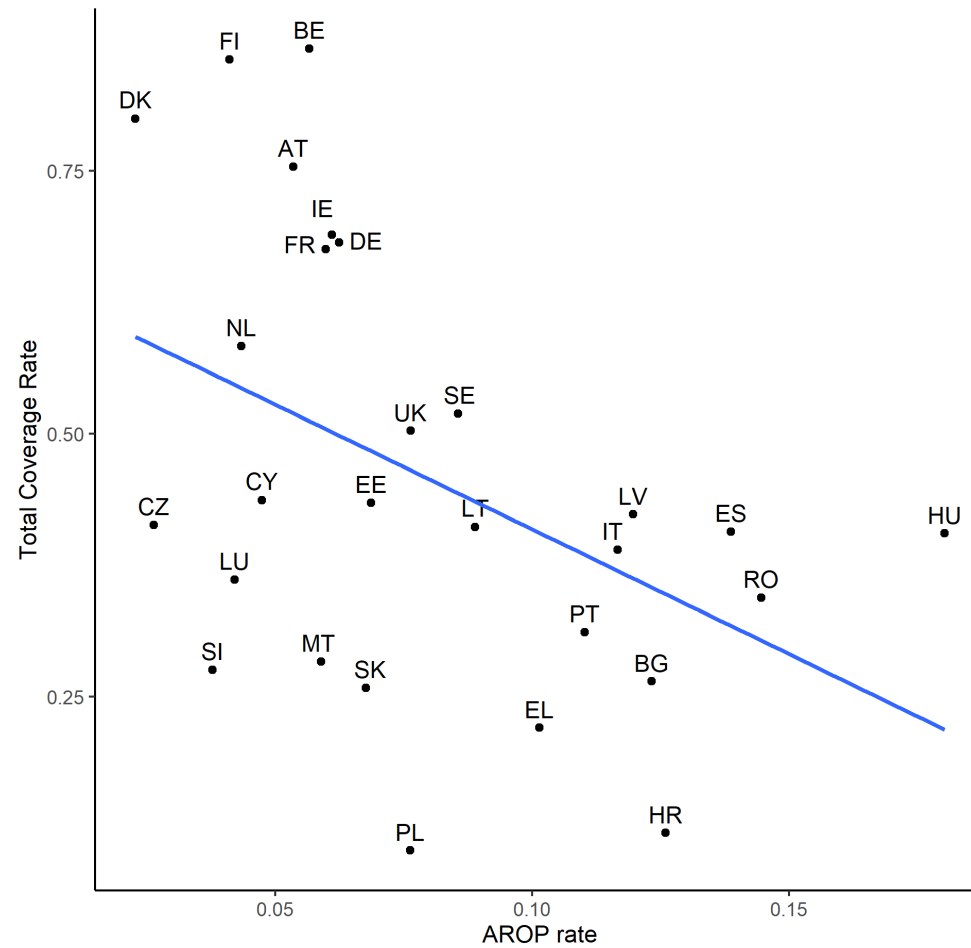
Simulation methodology

- Use of EUROMOD for EU and UK on basis of tax-benefits rules from 2020, EU-SILC data from 2019
- Modelling different labour market transitions to account for interactions with upstream systems, especially unemployment insurance
- Exclusion of temporary, non-structural Covid-related policies, e.g. one-off payments
- Simulation of two shock scenarios to model periods of crisis + 2 variants:
 - Small shock: UR ↑ by 1 pp, duration of 1y, new unemployed resemble currently unemployed
 - Large shock: UR ↑ by 5pp, duration of 2y, new unemployed resemble employed population

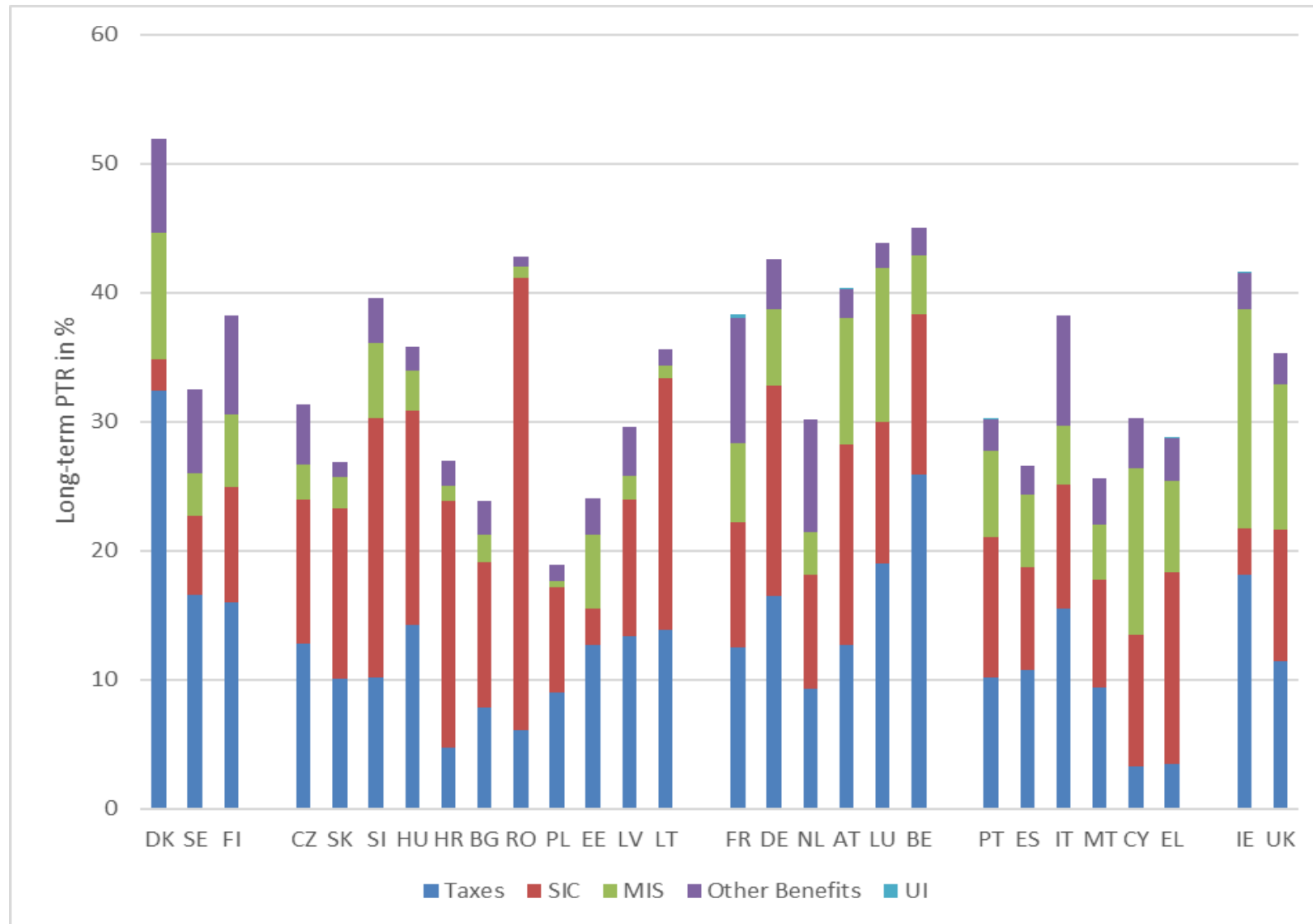
Effect of large shock on income stabilization



Correlations : a) total coverage rate and AROP rates
b) total coverage rate and income stabilization coefficient



Decomposition of long-term participation tax rates across EU Member States



Main findings of the simulations

- Low relative contribution to income stabilization, esp. in contrast to UI systems, higher in larger shocks
- Small effects on cushioning increases of at-risk-of-poverty rates in times of crisis, but important role in reducing poverty in general
- Small effects on preventing higher inequality
- Differing disincentivating effects of MIS across EU: high in Anglo-Saxon welfare states, low in Post-Socialist
- Higher overall social resilience in Nordic and continental welfare states

In-depth case studies

- Selection of five countries representing the five welfare state types: France, Spain, Denmark, Ireland, Poland
- Tracking economic development, institutional arrangements (upstream systems and MIS, including activation/governance) and socio-economic outcomes over the period 2005-2022

Main patterns of crisis responses in five selected welfare states

	France	Spain	Denmark	Poland	Ireland
GDP change 2008-09	-2.6	-2.9	-5.4	7	-9.6
AROPE from low to peak (age 16-64)	18.9 (2008) + 1.4 (2011)	21.2 (2007) + 10.8 (2014)	16.9 (2008) + 4.4 (2013)	30.8 (2008) -3 (2010)	21 (2007) + 11.6 (2011)
Simulated AROP change (large shock)	2.2	2.61	1.12	2.31	2.41
Income stabilisation coefficient (large shock, V2)	0.73	0.56	0.69	0.29	0.37
Main classification	Strong resilience primarily via UI and MIS in second place	Strong resilience via UI, weaker MIS	Strong resilience primarily via UI and MIS in second place	Lower resilience	Intermediate resilience, but strong MIS
Benefit adequacy 2009 (jobless couple with two children)	62.3	37.1	112.6	74.7	113.0
Expenditure change from low to peak (means-tested)	0.2 (2007, 2009)	0.8 (2008, 2011)	0.8 (2007, 2013)	0.1 (2008, 2013)	2.2 (2007, 2011)
Main observations	Strong income stabilisation, but issues with labour market and social protection dualisms	Massive increase in poverty and exclusion in a dual system with rather limited stabilisation capacities	Relative increase in inequalities in a strongly redistributive and encompassing welfare state	Country less affected by the crisis during a long catching-up phase, limited stabilisation not strongly put at test	Quite strong stabilisation of income via MIS, but massive fiscal pressure in the aftermath of the acute crisis
Main structural reforms (2010s)	Employment protection reforms (weak de-dualisation) Expansion of in-work benefits Activation policies Expansion of UI coverage	Deep austerity phase with partly de-dualising employment protection reforms and benefit cuts Creation of national MIS scheme Expansion of UI coverage	Austerity phase with benefit cuts and shift towards more demanding activation continuous adjustment of UI	Steps towards reducing dualisms in the labour market and social protection Expansion of family benefits	Severe austerity phase with social policy retrenchment Rather late shift towards activation

France

- France exhibits **strong income stabilisation capacities** even during crisis periods due to the **design of UI and MIS**. Both tend to provide relative generous income support and reach high coverage.
- Risks of poverty and exclusion are **less cyclically related**, but there are persistent issues with medium employment levels, **difficult labour market entry and upward mobility**, in particular with the young.
- Over time, there have been steps to **even out the long-standing dualism in social policy and labour market regulation** without fully overcoming this divide that is typical for Continental European settings.
 - *UI insurance has become **more inclusive** while protection of labour market insiders has declined to some extent in UI and in employment protection legislation.*
 - *MIS is still fragmented, but over the period observed the main scheme has been expanded, not least with a strong focus on **permanent in-work benefits** - this has brought more people into paid work to some extent while low pay and in-work poverty could be contained.*
- Overall, the French minimum income support system and the wider social policy arrangement seem stronger with respect to income stabilisation than regarding **activation and entry into non-subsidised and permanent jobs**.

Spain

- The Spanish system, characterized by the Southern European combination of **fragmented and weak MIS with a comparatively strong system of job and unemployment protection** for permanent workers as opposed to temporary employees, came under massive pressure during and after the Financial Crisis.
- Under strong internal and external pressure, Spain questioned the legacy of the Mediterranean welfare state type, trying to establish **more encompassing unemployment insurance**, and a **more balanced and flexible model of employment protection**.
- As the crisis unfolded, it became clear that neither the **relatively encompassing UI** nor the existing minimum income protection system relying mainly on the **diverse regional MIS** systems in place did suffice to stabilise income and contain poverty.
- During the COVID-19 crisis, it could provide more support through short-time work than ten years earlier, and it was able to **establish a national MIS system** that is now in the process of implementation and brings Spain closer to the European mainstream.
- In this sense, the Spanish welfare state was modernised at the institutional level, **departing somewhat from the Southern European legacy**. Despite these efforts, it seems difficult to overcome long-standing patterns of labour market and social policy dualism.

- Denmark entered the 2008/09 crisis with a **highly developed and inclusive Nordic welfare state**.
- The crisis had a major impact on socio-economic outcomes in the first half of the 2010s. While still **quite favourable overall** and in comparison to the other countries in our sample, **unemployment and poverty risks increased** and stayed at elevated levels for some time.
- The **flexible labour market** in Denmark with very limited employment protection suffered more from the crisis than one would have expected.
- The 2010s were characterised by a sequence of emergency measures on the one hand and structural changes following an **austerity orientation** on the other hand. This made social protection **more restrictive**, exclusive and activating, while traditionally high spending on ‘enabling’ ALMPs was cut.
- In that sense, the Danish welfare state has become **more ‘demanding’** over time by lowering benefit generosity and tightening work requirements.
- This calls into question a path dependent logic according to which **the Nordic model** is characterised by a stable policy approach leading to superior performance.

Poland

- The **Post-Socialist welfare state** setting in Poland experienced a somewhat **asynchronous development** relative to the other countries in our sample. Most importantly, the role of crisis periods was more contained.
- This also implied that the **rather weak stabilisation capacities** of the Polish welfare state due to low generosity and coverage on the one hand and labour market dualisms on the other hand were not put to a test to the same extent as in the other countries.
- Departing from a **limited social protection system** with low coverage and low benefits as well as a rather **dualised labour market** with notable segments of low pay and low job stability, Poland could **catch up** significantly in economic terms.
- Not having to deal with a severe economic shock and subsequent labour market deterioration created the fiscal space for a **partial expansion of social policies** and some attempt at reducing the dual character of the Polish labour market. However, this all occurred within the long-standing institutional structures.
- A main focus of Polish social policy in the 2010s was laid on **family benefits**, but also – to some extent – on streamlining **activation** policies.

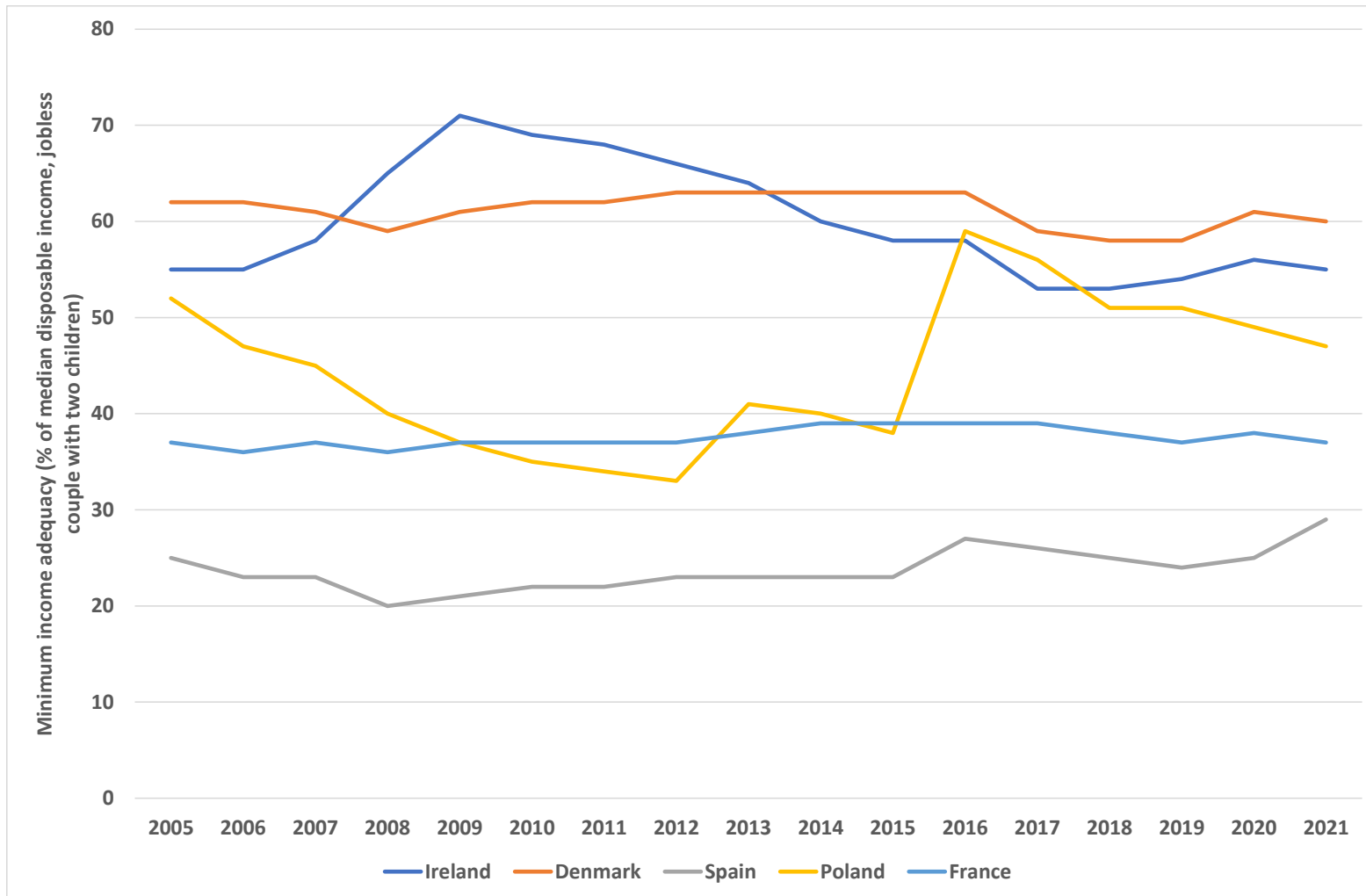
- Ireland suffered heavily from the **Financial Crisis** and its aftermath.
- **MIS schemes** played the primary role in containing poverty and income dispersion in the Anglo-Saxon model in normal times and were also particularly relevant during the deep crisis after 2008 along with the limited and transitory role of UI.
- The massive shock from the late-2000s put the Irish welfare state under **massive fiscal pressure**, not least due to the negative development of employment and large shares of working-age people out of work or with **low work intensity**.
- To counter the massive increase in the fiscal pressure of the escalating crisis, the early 2010s in Ireland were characterised by **strict austerity policies**. This included more efforts to overcome low work intensity, which could be attributed to persistent lack of jobs on the one hand but also high benefit withdrawal rates when entering the labour market.
- Adopting a medium-term perspective, Ireland moved away from the established model of rather transfer-heavy social policies that did not place much emphasis on activation. In fact, the mid-2010 saw **more systematic and effective activation of job seekers**.

Conclusion

- There are consistent differences in crisis resilience across countries and welfare state types.
- In general, Nordic and Continental European welfare states with **strong upstream systems and MIS** show better outcomes in core socio-economic outcomes - however, labour market integration shows some dualisms in Continental Europe. MIS are also quite strong in Liberal welfare states.
- MIS are of particular importance if there are **gaps in upstream systems** or cases of **severe and lasting crises**.
- In **Continental Europe and Nordic countries**, MIS play an important role in stabilisation of income and inclusion, but they are rather secondary to UI in particular. MIS are the crucial stabilisation mechanism in the **Liberal** setting while they are less strong in the **Southern European and Post-Socialist models**.
- Over time, UI and MIS underwent a phase of **austerity** in all case-study countries hit by the 2008/09 crisis, but were **reformed and expanded** later on, e.g.. the Mediterranean MIS in Spain is now becoming more integrated, departing from its long-standing legacy. The role of **activation**, both with demanding and enabling elements, has become more prominent over time in all countries.

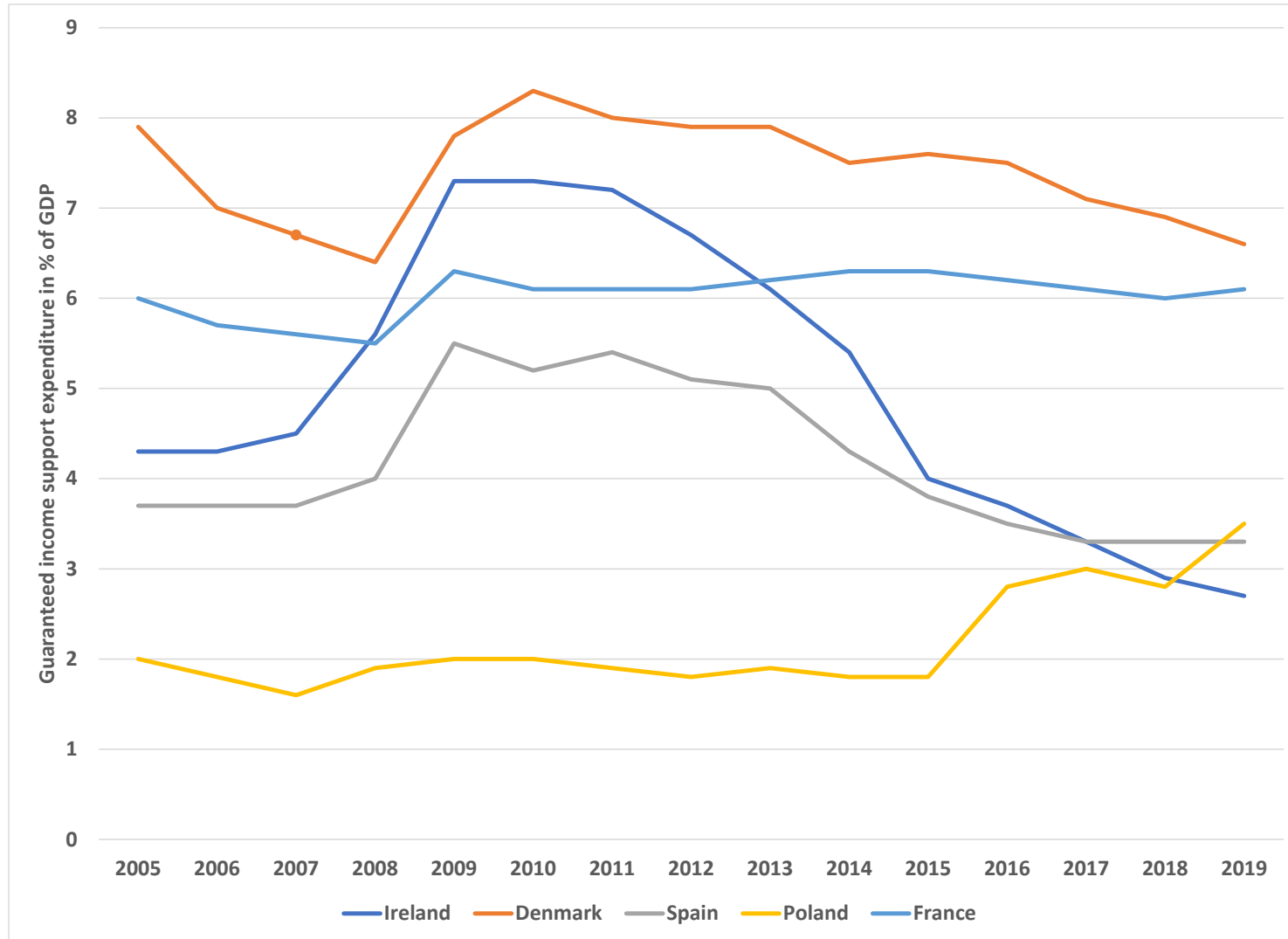
- Remaining policy issues concern three main design challenges:
 1. A better design of **upstream systems** to ease pressure on jobs, individual income and eventually MIS remains a pending issue. In particular, **UI coverage** is crucial in this respect. It makes sense to expand contributory UI to different contract types or combinations, and provide temporary, earnings related benefits (+ job retention schemes) – particularly in case of low employment protection
 2. The adequacy of MIS benefits does not always suffice to overcome poverty in the household and meet the threshold targets. Fixing an **appropriate level of support** and **adjusting and uprating** it appropriately over time would be important. Another issue concerning MIS relates to **formal and de facto access** to benefits, i.e. making sure benefit coverage is sufficient both formally and in practice.
 3. The **governance of activation** poses particular challenges in many countries. This is related to the dualism between unemployment insurance and MIS on the one hand and the frequent involvement of partly autonomous lower levels of regional government in combination with the public employment service or national-level entities on the other hand.

Adequacy of guaranteed minimum income benefits, jobless couple with two children (% of median disposable income), 2005-2021



Source: OECD statistics, Adequacy of guaranteed minimum income benefits, GMI amount in % of median disposable income, including housing benefits.

Expenditure on guaranteed income support (total expenditure in % of GDP, categories: unemployment, social exclusion, housing, family/children)



Source: Own calculations based on the Eurostat ESSPROS database ([SPR_EXP_SUM](#)) and Coady et al. (2021).