



Excessive social imbalances

and the case for a European Social Union

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Resources

- Vandenbroucke, Diris, Verbist, *Excessive Social Imbalances and the Performance of Welfare States in the EU*, Euroforum Policy Paper, April 2013 (www.kuleuven.be/euroforum)
- Vandenbroucke, with Vanherce, *A European Social Union: 10 Tough Nuts to Crack*, Friends of Europe, February 2014 (http://www.friendsofeurope.org/Portals/13/Events/WorkingGroups/SocialEurope/03_03_14_Report_SocialUnion_FINAL_V.pdf)

Debates on 'social Europe'...

- 'Social Europe' is an elusive concept
- Denial of existing *acquis*
- A European Welfare State, or a Union of Welfare States?

A European Social Union

A European Social Union

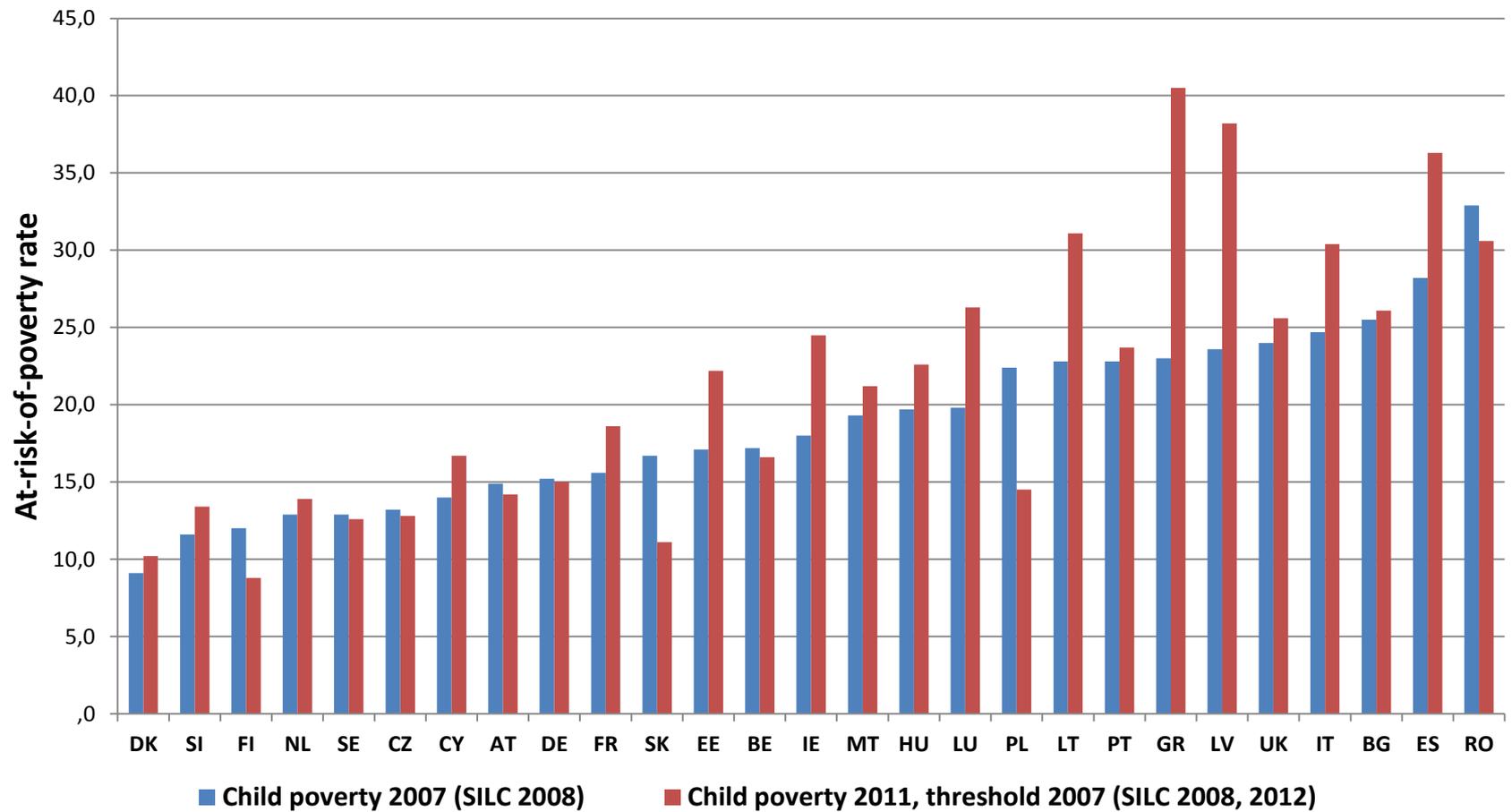
A Social Union would

- support national welfare states on a *systemic* level in some of their key functions
 - guide the substantive development of national welfare states – via general social standards and objectives, leaving ways and means of social policy to Member States – on the basis of an operational definition of ‘the European social model’.
- ⇒ European countries would cooperate in a union with an explicit social purpose

Defining the EMU's social objective is a necessity rather than a luxury

- A basic consensus on social objectives is an existential necessity for the long-term sustainability of EMU
 - Long term
 - Short term: how to restore stabilisation capacity?
- Shared objectives
- Prevention/correction of 'excessive social imbalances'

Child poverty: an 'excessive social imbalance'



Economic growth vs. inequality

- ‘Anchored’ poverty measures are affected by
 - Redistribution
 - Economic growth
- Impact economic growth dominates
- Especially true during crisis years
- Negative growth hurts more than positive growth helps
- Diverging (anchored) poverty rates are predominantly explained by the magnitude of the economic crisis in countries with high initial child poverty (*coincidence?*)

Excessive social imbalances

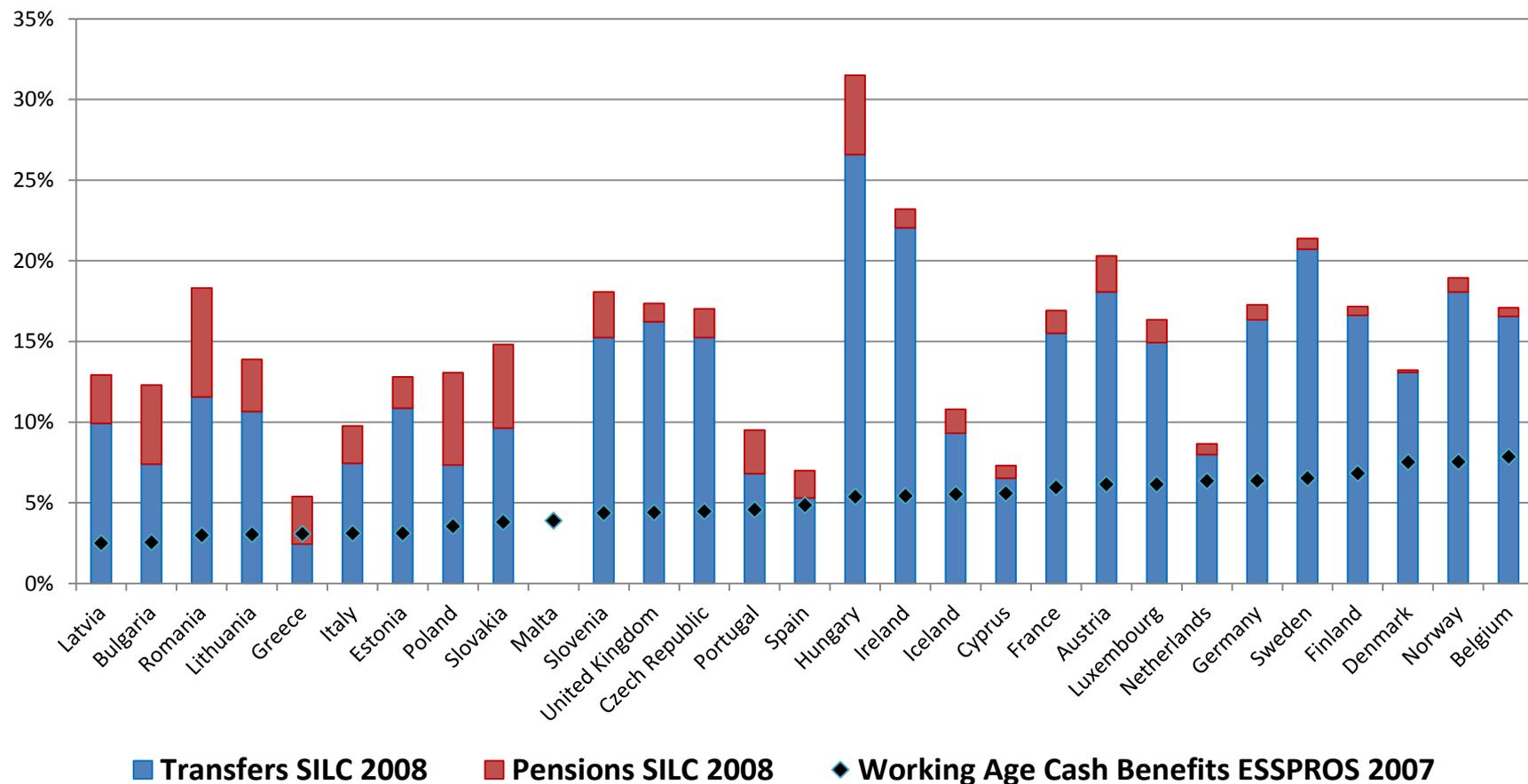
- Divergence threatens political legitimacy of EU
- High levels of child poverty signal investment deficits that may be *cause* and *effect* of underperforming welfare systems, i.e. underperforming...
 - Transfer systems
 - Labour markets
 - Child care & education

Mapping child poverty (floating thresholds)

Data and model

- Explanatory variables:
 - Social spending on cash transfers and pensions
 - Household work intensity (two measures)
 - Pro-poorness of transfer and pension benefits
 - Social investment and human capital
 - Demographic dependency
- Data from EU SILC 2005-2010
- GLS model, using panel data
- We include:
 - Country fixed effects
 - Time fixed effects

Transfers & pensions as % of dpi, age [0-17], SILC 2008 versus ESSPROS 'working-age cash benefits' % GDP, 2007



Pro-poorness of spending

- We control for the size of spending, but also for how benefits are targeted *ex post* (\neq *ex ante*; \neq means testing)
- We apply a measure of pro-poorness, similar to Korpi and Palme (1998): calculates how income components are distributed, irrespective of their size
- Where K-P find that this is negatively related to the size of spending (mid 1980s), our findings are different
 - Positive correlation between pro-poorness of transfers and size of transfers
 - No correlation between pro-poorness of pensions and size of pensions

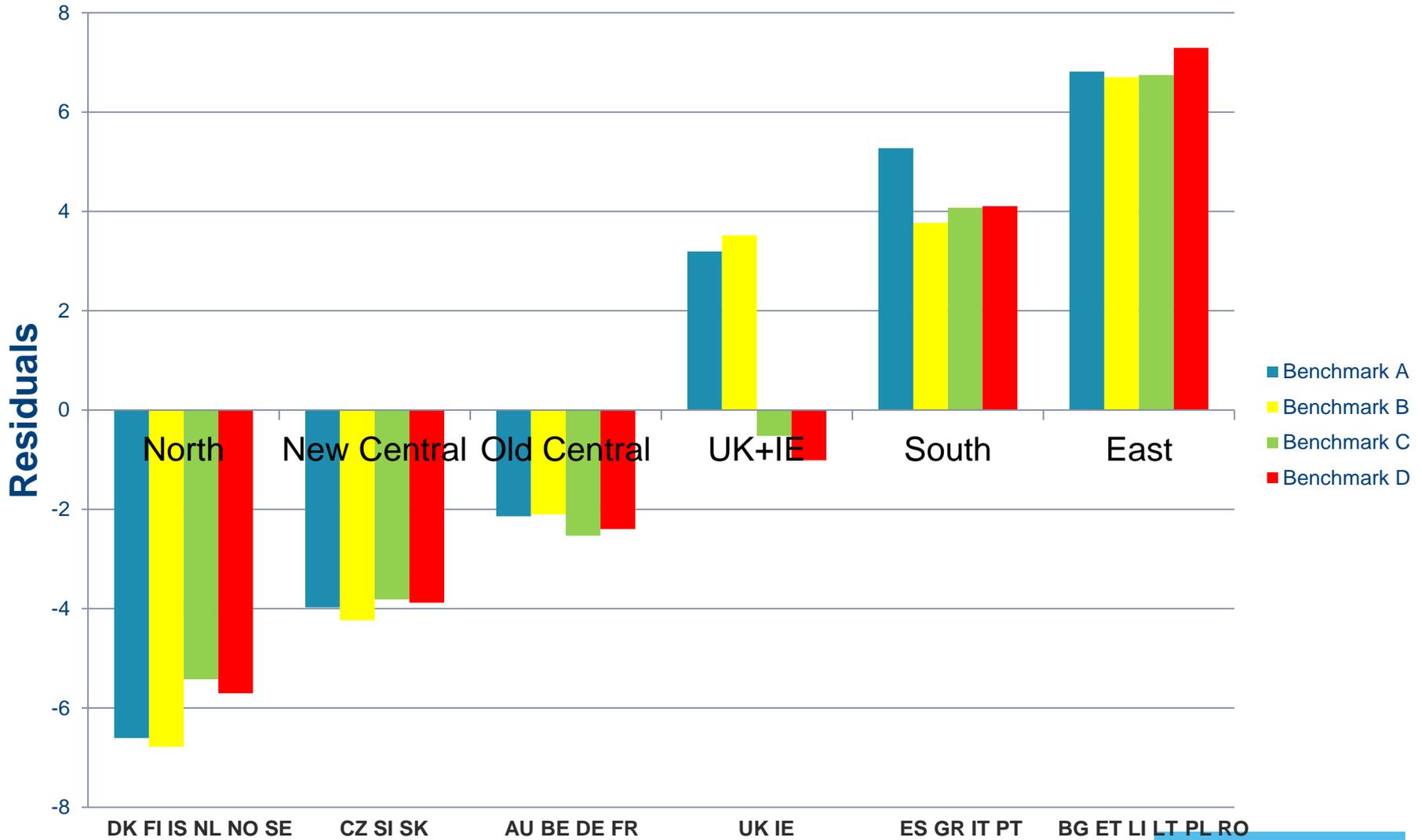
Household work intensity

- Focus on two population subgroups:
 - *Work poverty* = share of individuals in households with work intensity lower than 55%
 - *Severe work poverty* = share of individuals in households with work intensity lower than 20%
- We apply two controls for work intensity of the household (best fit):
 - *Work poverty*
 - *Relative severity of work poverty*
= severe work poverty / work poverty
- *Work poverty* correlates with social investment
- *Relative severity of work poverty* correlates with polarization

Results (1)

- Both transfers and pensions are negatively related to poverty, with roughly similar impacts
- Statistically significant effects of work intensity
- However, they explain only very little of the disparity in poverty rates across Europe in this FE model
 - Magnitudes of effects is modest
 - No country performs universally 'bad' or 'good' on all these indicators
- No additional explanatory power of human capital, social investment, GDP or dependency *in country FE model*

Results: efficiency scoreboard



Results (2)

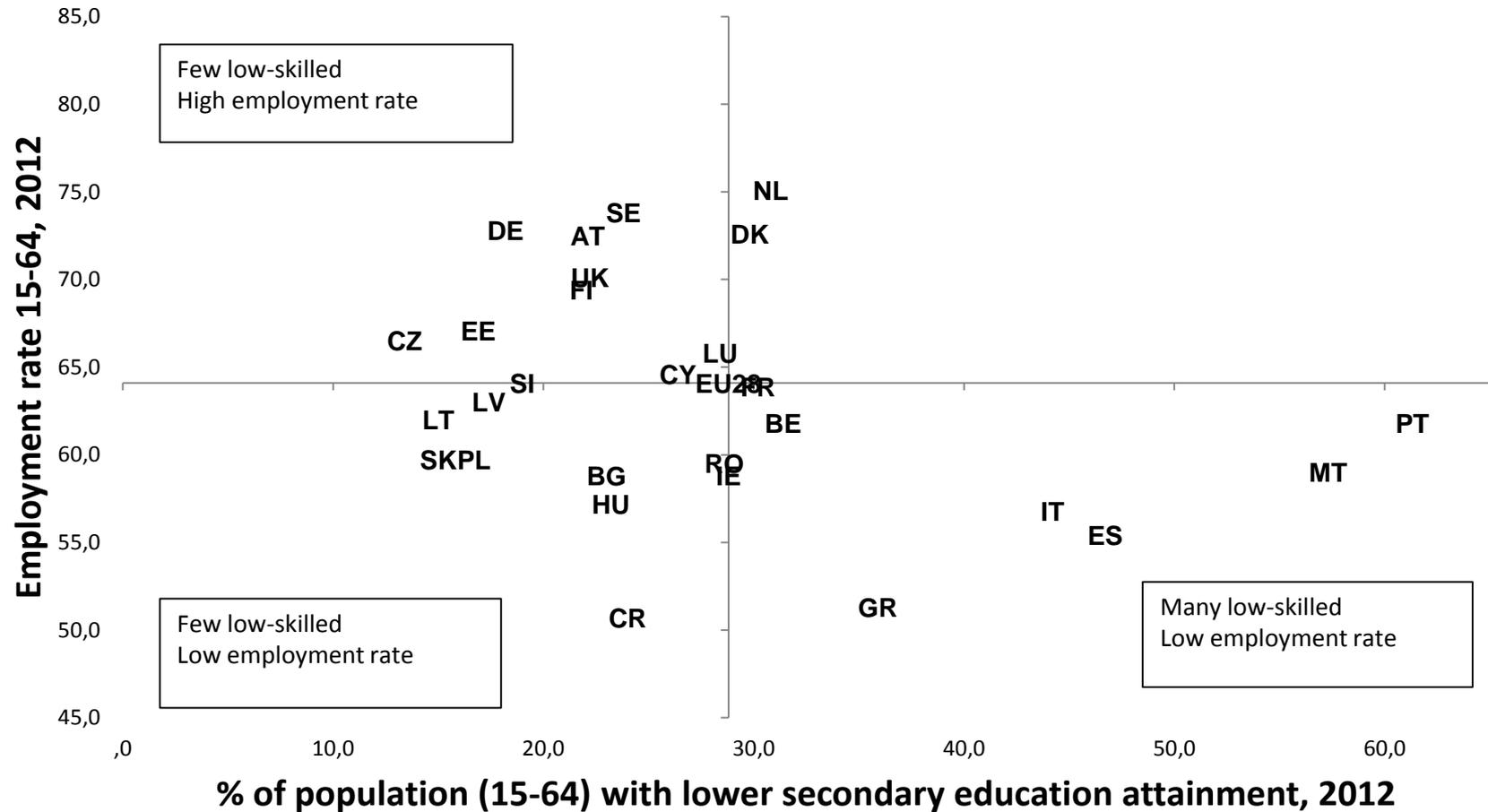
- Unexplained disparity reflects differences in the underlying social fabric, which correlate with
 - Level and architecture of social spending
 - Transfer spending
 - Pension spending:
 - Positive structural correlation of child poverty with pension spending (as feature of 'underlying social fabric')
 - Negative regression coefficient for impact of changes in pension spending that affect households with children
 - Pro-poorness
 - GDP per capita
 - Social investment

but are not readily 'explained' by these factors separately

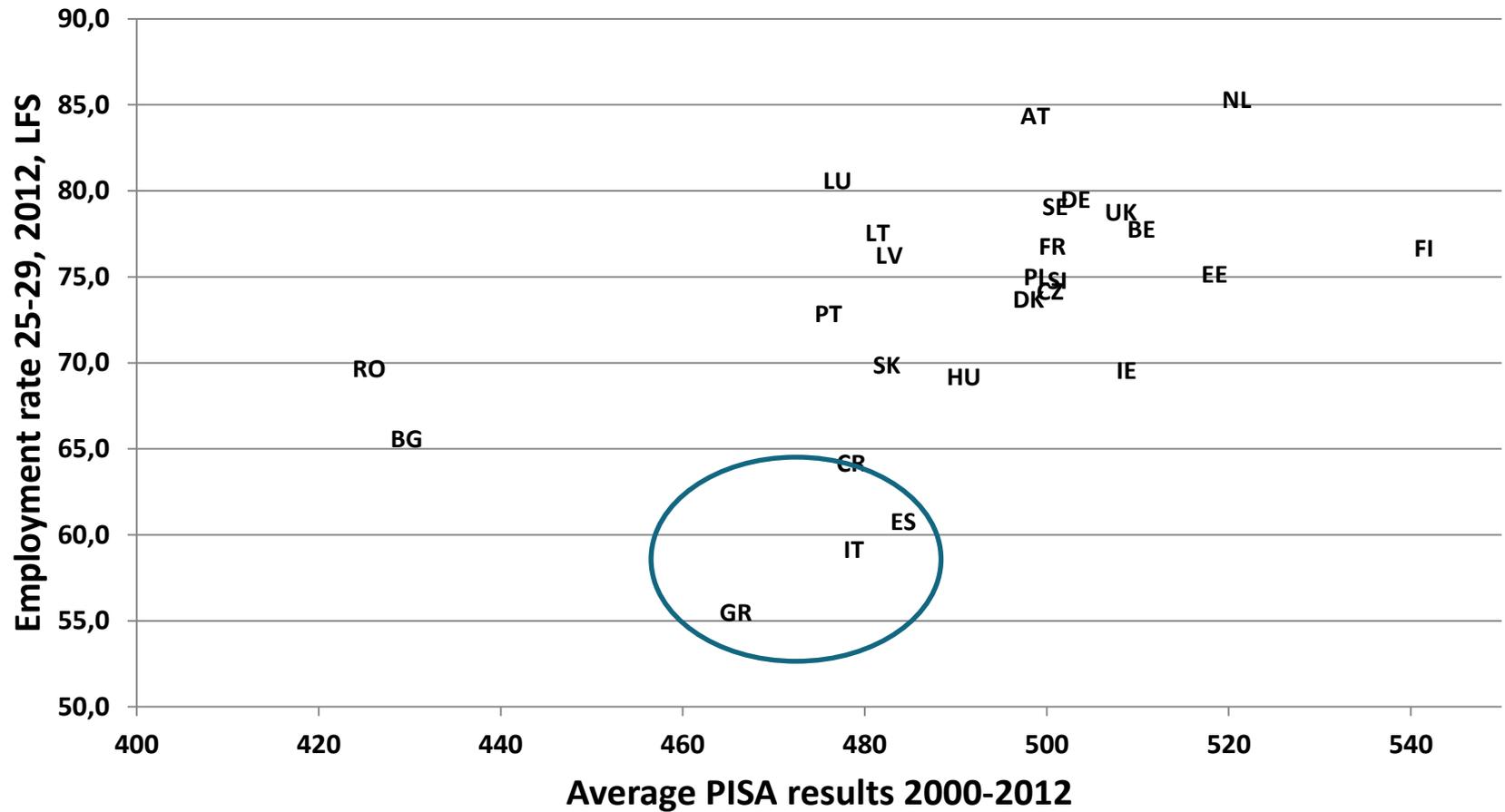
Excessive social imbalances: 'bad equilibria'

- Child poverty as a human capital investment deficit
- Education asymmetry
- Pension asymmetry

The human capital asymmetry (1)



The human capital asymmetry (2)



Conclusions: policy (1, domestic)

- Well-organized social protection and social investment are complementary strategies
- Increasing fragility of models relying on pension spending (w.r.t. child poverty): points to social investment, but also tensions between short term and long term.
- Argument in favour of combinations of universalism and selectivity ('progressive universalism') not contradicted by data; analysis should go beyond 'reading the data'.
- Both employment creation and distribution of jobs over households matter (role of activation and supporting services)

Conclusions: policy (2, EU level)

- Excessive social imbalances must be incorporated in policy analysis and recommendations: economic and social governance cannot be dissociated
- No 'one size fits all' EU governance, but
 - more balanced approach to macro-economic coordination
 - greater room of manoeuver and support for member states that opt for a social investment strategy
 - policy guidance based on sufficiently stringent and constraining objectives (social outcomes) and scope for exploration/learning on ways and means to achieve outcomes.

Which solidarity in the EU?

- A dual perspective: pan-European cohesion and domestic cohesion
- Reciprocity
 - *A caring Europe should care for poorer Member States and demand social efficiency everywhere*
 - *A virtuous circle of solidarity in Europe would be one where both internal (domestic) and external (pan-European) solidarity are enhanced*

The social investment imperative

- A social investment agenda (cf. *Europe 2020, SIP*)
 - Child-centred social investment strategy
 - Human capital investment push
 - Reconciling work and family life
 - Later and flexible retirement
 - Migration and integration through education and participation
 - Minimum income support and capacitating service provision
- The political deal the EU needs is one wherein *all* governments pursue budgetary discipline and social investment, and are *supported* therein in a tangible way by the EU.

Conclusion (1): the legacy of the crisis

- excessive social imbalances, instead of convergence
- budgetary policies contradict *Europe 2020* (e.g. education)
- reduced stabilization capacity
- reduced social regulation capacity

Conclusion (2): the case for a *European Social Union*

- support national welfare states *on a systemic level* in key functions (e.g. stabilization)
- guide the *substantive development* of national welfare states
 - via general social standards and objectives
 - leaving ways and means of social policy to Member States
- a Union of Welfare States, with an explicit social purpose

Conclusion (2): the case for a *European Social Union*

- support national welfare states *on a systemic level* in key functions (e.g. stabilization)
- guide the *substantive development* of national welfare states
 - via general social standards and objectives
 - => social investment, minimum income protection...
 - => solidarity in reform
 - leaving ways and means of social policy to Member States
- a Union of Welfare States, with an explicit social purpose

Thank you!

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