

ACCESS TO EMPLOYMENT AND ITS RELATION TO MINIMUM INCOME SCHEMES IN THE EUROPEAN UNION

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1. Poverty and the shifting politics of the welfare state

Curiously, the theoretical thinking about the welfare state often lags behind a few decades when the fight against poverty is concerned.

The welfare state of the 1950s and 1960s was largely based on income redistribution. The labour movement, jointly with enlightened employers' organisations, had developed a social security system that aimed to reduce the risk of poverty in the event of loss of one's income from work. A solid income insurance system, coupled with income redistribution from employed to inactive workers aimed to save people from destitution.

During the 1980s, this welfare state got off-track. The two major oil crises of the 1970s had caused a massive structural unemployment which was concentrated among the most vulnerable groups: low-literate workers, immigrants, youngsters and the 'intergenerational poor'. Rosanvallon (1981; 1995) pointed out that the very foundations of the welfare state (and social security in particular) were at stake. Indeed, two key principles of social insurance (the random distribution of risks and the principle of reciprocity between contributors and beneficiaries) appeared to be violated. People applying for benefits often had no possibility to contribute (due to long-term unemployment), whereas the better-off contributors often did not need social protection. Increasing proportions of the populations had to recur to the residual systems of non-contributory social assistance. The solidarity between haves and have-nots came under pressure, while at the same time the awareness rose that a subsistence income was insufficient to combat poverty. Genuine social inclusion in society supposes active participation, through work. The welfare state therefore needed to be rebuilt, with a stronger focus on access to work. The idea of the 'active welfare state' was born.

Across time, the discourse on the active welfare state diversified under the influence of various (social-democratic, liberal, conservative) ideologies. Whereas all Western governments agreed on the need for more active labour market policies, some countries put more emphasis on rights, others on 'incentives', still others on duties and individual responsibility. Nearly all used tax-benefit reforms to boost either the supply, or the demand for labour. At the EU level, a compromise called 'flexicurity' aimed to combine elements from different ideologies, with strong social protection on the one hand and deregulation of labour markets on the other (Wilthagen, 1998). Despite some interesting examples of innovation in social protection, European trade unions believe that, overall, the dominant trend was flexibilisation with less security. Across Europe, minimum income systems gained importance as the social protection of last resort, in a context of fragmentation of work and erosion of labour protection. The phenomenon of in-work poverty rose, even in the richer member states.

After the turn of the millennium, the EU as a whole adopted a more neo-liberal strategy. Whereas the Union as a trade block was relatively well protected against global competition, it deliberately boosted internal competition through the services directive and measures to encourage free internal migration of workers. After the extension towards Central-Eastern Europe, the new member states actually used their poverty as a competitive weapon against the well-organised, efficient industries of the West. Low wages, substandard social protection and fiscal dumping in the East gradually challenged the competitiveness of the economies in the old member states. The latter started to respond with social and fiscal dumping too. The financial crisis of 2008 and the ensuing euro-crisis were countered through drastic austerity measures, affecting not just employment but also the social protection of the unemployed and minimum income systems. The Troika's adjustment

programmes in PIIGS countries, as well as country-specific recommendations in other countries in the context of the European Semester process, imposed a policy agenda with severe consequences for the middle-class as well as the poorest. In an increasing number of member states, this met fierce opposition and, in some cases, led to political instability. Trust in national and European political institutions has reached an unprecedented low (Nicaise & Schepers, 2014).

The Juncker Commission seems to draw lessons from these trends, with a renewed social policy agenda: after the Social Investment Package (launched by the previous Commission in 2013), the call for the 'Pillar of Social Rights' triggers hope for more humane and inclusive policies (EC, 2016). A new balance is being sought between monetary stability, fiscal equity and a better protection of basic human rights. 'Guarantee programmes' (youth guarantee, a guarantee for the long-term unemployed, skills guarantee) as well as a 'convergence' policy in minimum income systems emerge in the policy discourse, and to a lesser extent in practical policy making.

The notion of social investment deserves a further comment. Basically, it inverts the traditional prejudice that social policies – funded through redistribution - are affordable only 'after' a healthy economic environment is established (Vandenbroucke et al., 2011). The dominance of the latter view probably explains why the social objectives of Europe 2020 (and the reduction of poverty in particular) were put on hold barely a few months after the launch of the strategy. Yet, the economy depends on social welfare to the same extent. There is enough evidence that a healthy economy depends heavily on sound social policies: education, health care, active labour market policies, housing and social institutions yield enormous economic returns. The cutbacks in public / social expenditure, increasing inequality and poverty appear to have unnecessarily prolonged and exacerbated the economic crisis in Europe (OECD, 2011; IMF, 2012; Blanchard & Leigh, 2013; OECD, 2014). For the future, a powerful 'social investment' agenda may help overcome the crisis, under certain conditions (Nicaise & Schepers, 2014). The Annual Growth Survey (EC, 2016) shows that the Commission has embraced this idea and is now prioritising social investment on the same footing as other investment in the European Fund for Strategic Investments.

Actually, the same principle applies to some extent to social protection (including minimum income): social benefits allow households to continue investing in education, job search, health, mobility, social networks etc. This view on social protection is new and has not yet fully permeated the EU's social policy discourse. This applies a fortiori for minimum income: as we suggested in the introductory sentence of this section, scientists and policy makers as well as practitioners still tend to consider social assistance as mere redistribution and, consequently, as a 'burden' on the economy. Activation measures for minimum income recipients are used as instruments to minimise the burden, as if the economy would lose from this unproductive use of resources. As we will argue in this paper, both minimum income benefits and labour market integration can be seen as leverages for the enhancement of the capabilities of disadvantaged groups.

A major paradox in this social investment paradigm concerns the gap between discourse, resources and political competencies. Reforms preached at EU level need to be decided and implemented at national level, with national funding. The very same EU has marginal resources and keeps imposing an austerity agenda on member states and boosting (fiscal) competition between them. The only way out is a co-ordinated European fiscal policy enabling member states to raise new revenues while keeping tax evasion under control. This obviously reaches beyond the scope of this paper; however it is essential to frame the issues of minimum protection and access to employment into a fundamental discussion on the future of European welfare states.

Across Europe, the 'active welfare' state has been shaped in different ways, depending on the ideological balance in different member states. Moreover, the picture keeps shifting across time due to shifting cultures and ideologies. In the next three sections, we will elaborate on three paradigms, each of which is based on its own theoretical framework and results in specific policy prescriptions. We will summarise the main empirical findings and discuss the potential relevance of each paradigm for Spain.

2. The neoliberal view: making work pay

The economics of social security (Atkinson & Micklewright 1991; Barr 2001) are closely connected with the neoclassical theory of labour supply, which considers individual labour supply decisions as the result of a trade-off between income and leisure. In this context, (forced) non-employment means a sort of 'rationing' in the individual's time allocation, resulting in a welfare loss if the (forced) increase in his leisure time is outweighed by his reduced income. As a response to uncertainty about such welfare losses in the future, income insurance schemes have been set up to collect savings and to compensate for part of the income losses in periods of non-employment. They are therefore Pareto-optimal – at least, within some limits. Too generous compensation schemes with 'soft' admission criteria, high benefit levels and a long duration of entitlement, are seen as potentially harmful because such regulations may imply a minimal welfare loss (or indeed welfare gain) for non-employed beneficiaries, thereby reducing the incentives to re-enter the labour market (moral hazard effect).

2.1 Theoretical basis of the making work pay paradigm

Moral hazard, the most frequently mentioned problem in this context, relates to the fact that the mere existence of an insurance (whatever its nature) may discourage cautious behaviour. In concrete terms, unemployment benefits may reduce active job search by the beneficiaries. Even though the risk of becoming unemployed is (mostly) exogenous, the duration of unemployment is to a large extent believed to depend on the individual's rational calculus, based on cost-benefit considerations. The beneficiary supposedly weighs the cost of unemployment (income loss) against its advantages (more leisure time, lower expenses for mobility, child care etc.). The more generous the benefit and the longer the entitlement period, the more beneficiaries may feel comfortable and reduce their willingness to take up low-paid or unpleasant work. Hence, a sufficient gap must be maintained between earnings from work and social benefits for non-working people in order to 'make work pay'. Note that this argument applies to any kind of replacement income (unemployment benefit, sickness benefit, minimum income, early retirement etc.).

These assumptions concerning human behaviour have informed the 'making work pay' agenda, which made up the core of the OECD's Jobs Study (OECD, 1994). The message was copied by the European Commission as one of the four pillars of its agenda for the modernisation of social protection (EC, 1997). The EU Employment Guidelines, developed around the turn of the millennium, urged Member States to "review and, where appropriate, reform their benefit and tax systems to reduce poverty traps, and provide incentives for unemployed or inactive people to seek and take up work".

An additional, typical problem of guaranteed minimum income (GMI) schemes is the poverty trap effect. Given that benefits are means-tested and just meant to top up primary income, up to a fixed income threshold, each euro earned below that threshold is deducted from the benefit. This means that beneficiaries do not gain (and indeed, actually lose leisure time) when they take up small jobs.

In economic jargon, the ‘effective marginal tax rate on earnings’ below the GMI threshold equals 100%.

Both the moral hazard and the poverty trap arguments rest on some key assumptions:

- Firstly, it is assumed that unemployed / poor people behave as a ‘homo economicus’ who maximises his utility, valuing primarily income and leisure time. Other aspects, such as the stigma attached to depending on social assistance, or the non-financial value of work (autonomy, social contacts, sense of citizenship, personal fulfilment) are ignored.
- Secondly, the theory assumes that jobs are available and accessible at any time or, in other words, the lack of employment opportunities is ignored.
- As regards the poverty trap in particular, it must be noted that it applies only to marginal jobs yielding earnings below the GMI threshold. Decent jobs will generally earn wages well above that threshold.

The reality check of these assumptions necessitates empirical research, which is relatively scarce. An overview of empirical findings will be discussed in section 2.3 below.

2.2 Instruments to foster access to work under the ‘making work pay’ approach

Neoliberal policies are largely based on the assumption that individual behaviour can be ‘steered’ by financial incentives. Examples of such incentives include:

- Measures to *maintain or increase the gap between benefits and net earnings* (so as to increase the gain from employment). The balance between benefit cuts and increased earnings depends to a large extent on the business cycle. Whereas lower benefits are unpopular and – in the case of GMI - conflict with the objective of poverty reduction, this type of measure is tempting in times of crisis because it can be justified as ‘activation’ measure in combination with budget cuts. The alternative (increasing net earnings) can be achieved either through reduced personal income taxes on earnings, or through increased gross minimum wages. The latter are at the same time an important tool to combat in-work poverty (Marx et al., 2012). Even though the effect of increased minimum wages on employment is not necessarily negative – and their effect on poverty relief clearly positive (see Bosch et al., 2009), employers often oppose such increases, arguing that they will be harmful for the economy.
A typical ‘solution’ in unemployment (insurance) benefits consists in a design whereby benefits start at a ‘decent’ level and gradually decline as unemployment persists. In many countries, unemployment insurance benefits are limited to 6 months, followed by ‘unemployment assistance’ which is equivalent to the GMI.
- Taking up marginal jobs (part-time, low-paid, or temporary work) can be encouraged through *in-work benefit schemes*. Most EU countries have introduced such measures as the share of marginal jobs in overall employment increased. The most typical case is the British ‘Working tax credit’, a refundable means-tested tax credit paid to households working less than a given number of hours per week (Bradshaw & Bennett, 2015). In other countries, the GMI properly speaking is designed as a top-up benefit and mostly does not depend on the type of other income earned (wages, benefits, income from assets...). Other in-work benefits are often more modest and limited in duration (EC, 2013b).
- A third and often ‘forgotten’ policy instrument relates to the *worker’s employment-related expenses* (childcare, mobility etc.). Reducing these costs is equivalent to the two previous

approaches. Moreover, subsidised (quality) childcare is increasingly advocated as a powerful strategy to break the cycle of disadvantage for children born in poverty.

- Finally, *negative income tax* (NIT) schemes make up a radical alternative for GMI systems, whereby the poverty trap effect is attenuated. The replacement of the French RMI by the RSA (Revenu de Solidarité Active) in 2009 is the most outstanding example of a NIT scheme. (Legros, 2015; Nicaise, 2014). The main difference between NIT and a traditional GMI scheme is that the 'top-up benefit' is tapered gradually, as explained in the box below. Whereas each euro earned is fully 'taxed away' under the GMI, it is partly exempted under the NIT.

In concrete terms, the effective marginal tax rate on (low) earnings is 38%. This means that a household sees its income increase by 62 eurocents with each euro earned through work.

On the other hand, households that are unable to work under this regime receive a benefit which is barely half of the EU poverty threshold and well below the previous GMI.

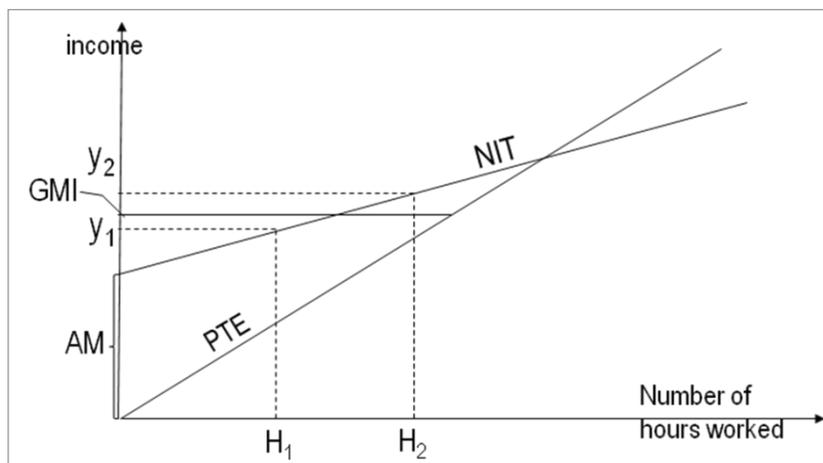
Consequently, the working poor gain, while the non-working poor lose under the RSA scheme. Such arrangements can be called 'fair' only if enough decent jobs are available and if beneficiaries have the necessary skills and health to take up these jobs.

Box: Work incentives under a negative income tax scheme, compared to a GMI scheme: the case of the French Revenu de Solidarité Active (RSA)

Figure 1 shows the difference between a negative income tax (NIT) and a regular guaranteed minimum income (GMI) scheme. Let the PTE-curve (= pre-transfer earnings) represent the relation between the number of hours worked (on the horizontal axis) and the corresponding earnings (on the vertical axis) in the absence of any social protection: we assume that net earnings are strictly proportional to the number of hours worked. The horizontal GMI-line expresses the level of the minimum income benefit under a traditional GMI scheme. Suppose that the work intensity of the household shifts from H_1 to H_2 , this will not be rewarding under a GMI scheme as in both cases income is topped up to the GMI level. The well-known poverty trap effect under this regime implies that earnings are 'taxed away at an implicit tax rate of 100%' between H_1 and H_2 .

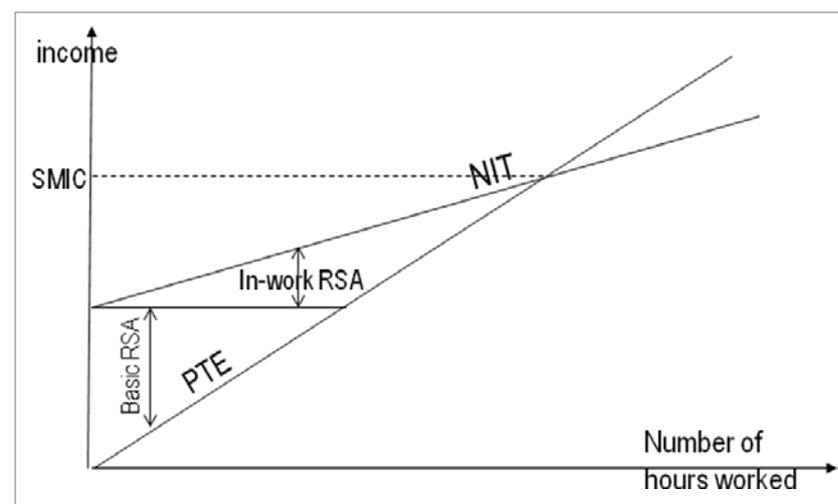
Alternatively, suppose that the GMI is replaced with a negative income tax (NIT) scheme: the 'absolute minimum' benefit (AM) is guaranteed if the work intensity of the household is zero. In the RSA scheme, AM corresponds to the 'basic' benefit of 410 or 590 Euros, depending on the household composition. As the number of hours worked increases, the partial exemption of earnings (e.g. 62%) means that earnings are 'taxed away' at a rate of 38%, so that a higher work intensity leads to a higher net income level (y_1 at H_1 hours, y_2 at H_2 hours). The NIT scheme thus involves a stronger work incentive.

Figure 1a. Conceptual difference between guaranteed minimum income and negative income tax scheme



The basic RSA component corresponds to the income supplement up to the 'absolute minimum' (AM minus net earnings, as long as the latter do not exceed AM). The 'in-work' component corresponds to the supplement on top of the absolute minimum (NIT minus AM). Note that the RSA expires at the intersection between the PTE- and NIT-lines, which roughly corresponds to the poverty threshold (and the full-time minimum wage level when applied to a single-earner family).

Figure 2b. Components of RSA



2.3 Empirical research on the effectiveness of the 'making work pay' approach

The notion of 'effectiveness' should be interpreted in two ways here: the employment effect and the poverty reduction effect. To some extent both effects reinforce each other, but this is not always the case. For example, in its reassessment of the Jobs Strategy after a decade, the OECD openly admitted that cutbacks in social benefits may be held responsible for increased poverty in some countries: "Cutting benefit levels and their duration have succeeded in raising work incentives but, beyond certain thresholds, this may compromise social objectives" (OECD 2006: 10). As a consequence, the revised OECD Jobs Strategy has shifted away its emphasis from restricting unemployment benefits to other activation measures (see section 4). In what follows, we will mainly focus on the employment effects of GMI designs, however without losing the poverty reduction objective out of sight.

Whereas by and large empirical research appears to confirm that there is some *effect of benefit design on labour supply*, the effect is often small to insignificant and indeed less positive on the macro level than on the individual level.

In its 2012 and 2013 reports 'Employment and social developments in the EU', DG Employment presented a brief overview of the literature as well as its own analysis of the effects of (unemployment) benefit levels and duration on the return to employment (EC 2012: 91-95; EC 2013b: 161-167). The literature on the effects of benefit coverage, level and duration shows – to say the least - very mixed findings. Note however that the bulk of the econometric research on this topic looks exclusively at individual effects. The Commission's own empirical research – at country level - tends to contradict, rather than support, the making work pay hypothesis. For example, at country level, a slight *positive* correlation was found between the coverage rate of job seekers by unemployment benefits and the rate of re-entry into work – even after controlling for other determinants. Likewise, a *positive* correlation was found between the replacement rate (in unemployment benefits) and the probability of re-entry into work. More importantly, generous benefits systems (with decent replacement rates and a longer duration of entitlements) appear to protect job seekers from poverty and/or to foster exits from poverty.

The report also focussed on the '*poverty trap effect*' in social assistance and found the opposite of what economic textbooks predict, namely, that more generous social assistance (GMI) systems act as springboards out of poverty (see figure 2)¹:

- lower coverage rates of poor households by social benefits go in pair with higher risks of *persistent* poverty. In other words, even though almost all GMI benefits are below the poverty level, countries with more extensive GMI systems manage to lift households out of poverty more quickly;
- more generous levels of social assistance benefits tend to reduce the risk of persistent poverty; and
- higher inactivity traps (i.e. high effective marginal tax rates on earnings among social assistance recipients)² are correlated with less persistence in poverty.

¹ Note that Bargain and Doorley (2009) find a small disincentive effect of the French RMI, with young beneficiaries being 7% more employed than non-beneficiaries – after controlling for other characteristics. However, this is not the result of an 'inactivity trap' (comparing people with and without benefits), not a poverty trap (comparing beneficiaries with earnings below the GMI level and subject to effective marginal tax rates of 100% or less).

² One would expect effective marginal tax rates close to 100% in all countries. Although it is not very clear what is meant in the ESDE-report (EC, 2013) by 'average inactivity trap', we guess that the 'average' includes households that are affected and others that are not (because their subsequent earnings exceed the GMI level).

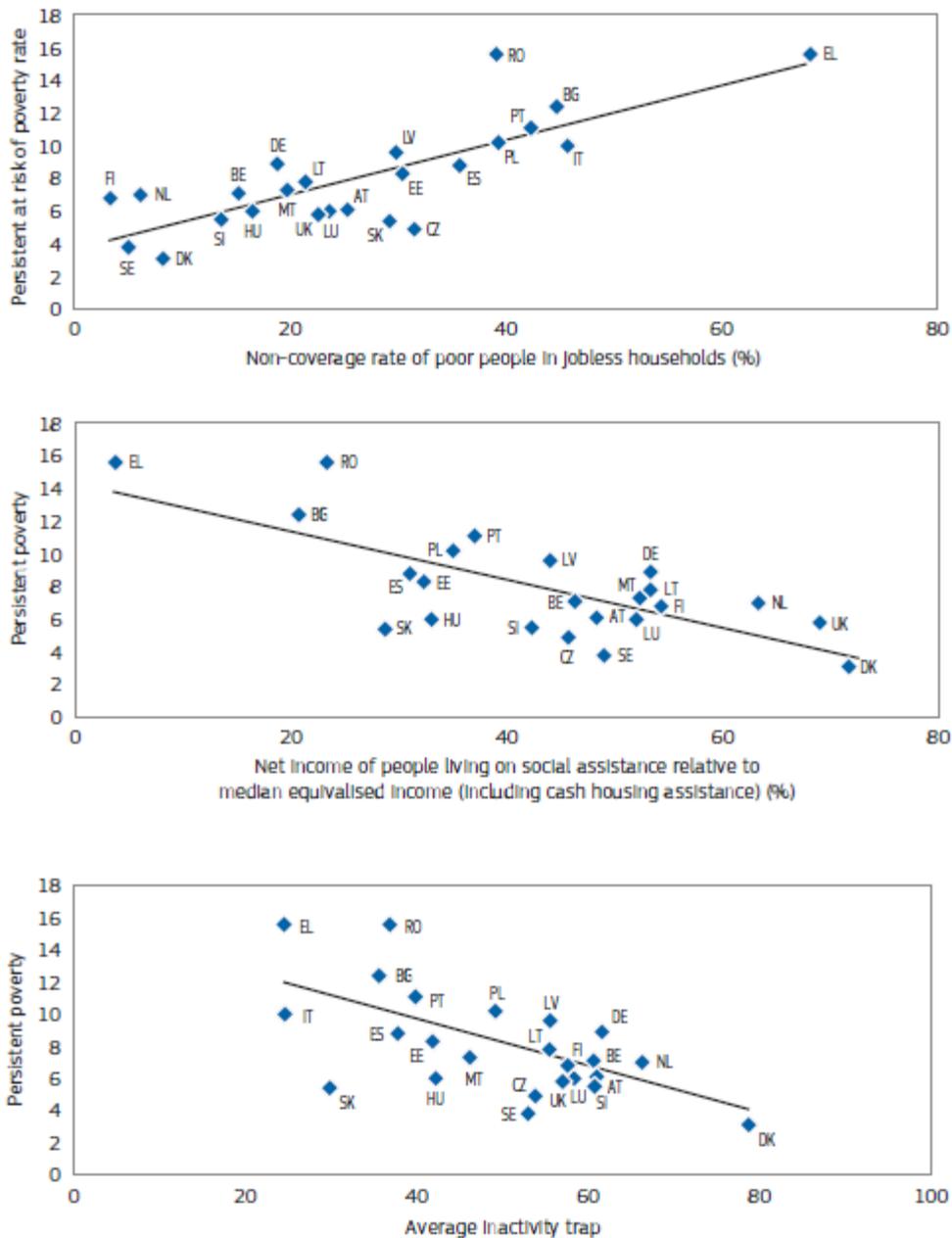


Figure 2. Relation between the generosity of GMI / social assistance systems and persistent poverty risks at country level (Source: EC 2013b: 165)

At least five explanations can be given for these – at first glance, paradoxical – findings:

- firstly, as pointed out by Immervoll et al. (2009), work incentives targeting exclusively the supply of the labour market (job seekers) have little (if any) effect in periods when demand constraints dominate. When jobs are not available, incentives for job seekers to step up search efforts may lead to greater frustration rather than higher employment. Bargain et al. (2005) come to the same conclusion in their evaluation of the German Mini-job reform (Hartz IV).
- Secondly, the inverse correlations in figure 2 may be spurious, as unobserved third factors may affect both covariates in each of the graphs. For example, countries with more developed social protection and GMI schemes may also spend more on active labour market

policies. After all, this is not really a spurious correlation, because more generous social protection generates a stronger sense of belonging and citizenship on the part of recipients as well as a stronger pressure on governments to avoid the cost of unemployment through active labour market policies. Hence, efforts on both sides are encouraged for re-integration into the labour market.

- Thirdly, a distinction must be made between incentive effects at micro-level and the macro-economic impact of social protection, and between short- and longer-term effects. In less developed social protection / assistance systems, the financial pressure from low benefits and short duration of entitlement on individual job seekers may indeed accelerate their exit from unemployment, but this may be offset by substitution and revolving door effects at macro-level. Substitution effects mean that the waiting queues for jobs are simply re-shuffled as desperate job seekers just ‘jump over the heads of others’, with no net job creation effect. Revolving door (or ‘churning’) effects mean that job seekers take up the first job within their reach but fall back into unemployment soon as their skills and aspirations do not match with the job requirements and content.
- Fourthly, extreme competition for jobs between under-protected job seekers exerts a downward pressure on wages and working conditions at the ‘bottom’ of the labour market, resulting in a further erosion of jobs and increased (in-work) poverty risks.
- Finally, maybe some key assumptions of the ‘making work pay’ paradigm do not hold in reality. Maybe – for the majority of the job seekers, and the poor in particular - job search behaviour is driven more by other motives (the quest for autonomy, participation and social inclusion, the sense of citizenship) than by financial incentives. Moreover, although inactivity and poverty traps may be ‘biting’ for some categories (early retired, large families, single parents, marginal workers) they do not affect the vast majority of welfare recipients. In Spain in 2010, for example, less than half of all job seekers (and barely 25% of the very long term unemployed) were covered by unemployment (insurance or assistance) benefits; the net replacement rate including housing benefits did not exceed 70%.³ Across the EU as a whole, the picture is roughly the same, though with a lot of variation between countries.

As regards *in-work benefits* – as a specific incentive to take up marginal work - Immervoll & Pearson (2009) warn us not to expect miracles because these schemes usually have two opposite incentive effects (intensive and extensive) with a reduced supply of *hours* (in the phasing-out range of the benefit) offsetting (partly) the increased number of *individuals* entering jobs. The same argument is found in Bargain et al. (2005). All in all, the most positive effect of in-work benefits is that they alleviate in-work poverty among marginal workers, rather than the (non-existent) net employment increase.

Let us now look more closely into the labour market and poverty (relief) effects of the *French RSA scheme*. The overall cost of the scheme has risen by 32%, partly due to a gradual extension of the coverage and partly to increased benefit levels. At the end of 2015, the scheme covered 2.5 million households or 5.3 million persons, a sharp increase since its creation in 2009. And yet these numbers make up only half of those who are potentially entitled. Roughly two-thirds (63%) of the beneficiaries in 2015 drew the ‘basic amount’, which means that they did not have any earnings from work. One-third of the beneficiaries were single parents. Although the vast majority of the beneficiaries want to return to work as soon as possible, the rate of exit into employment is very small (Rabreau, 2016).

³ Figures for 2010. Source: EC (2012: 93-95)

These sobering figures (as regards the activation effect) are not surprising. The pilots carried out prior to the generalisation of the schemes were already subject to a careful evaluation, with similar conclusions (see Nicaise, 2011 for an overview). The observed overall effects on the return to work turned out insignificant. Although the interim evaluation in 2010 pointed to an increased share of beneficiaries registered with the employment agency, it must be admitted that registration as a job seeker does not mean 'having a job'. Of course, one must keep in mind that the implementation of the scheme took place amidst a severe economic crisis.

Overall, we must conclude from this survey of the empirical literature that the role of financial incentives has been grossly over-estimated. The 'making work pay' paradigm appears to rest on over-simplified and unrealistic assumptions, while other important determinants of employment are being overlooked. The lessons for the Spanish minimum income system are two-fold:

- A more generous minimum income system will not discourage the take-up of work; it may indeed provide a better springboard for re-integration in the labour market as well as in society at large.
- In-work benefits may prove meaningful from an equity point of view (reducing the 'effective marginal tax rate' on earnings) but cannot be expected to boost welfare-to-work transitions.

3. The conservative view: workfare, rights and duties

3.1 Theoretical basis of the workfare paradigm

The *rights and duties* approach is based on the perception that financial safety nets do not just discourage job search, but even contribute to a 'dependency culture', i.e. a value system that is transferred from generation to generation in poor families. The fact that some benefits are paid selectively to groups with specific characteristics allegedly incites people to adapt their behaviour in order to obtain (or retain) those benefits. In the American literature, for example, we encounter extensive debates on the former AFDC welfare scheme, centred around the claim that AFDC encouraged young women to remain unemployed, to separate from their partners and even to bear children with a view to being able to claim the AFDC benefit for as long as possible (Murray, 1984, 1990). The resulting dependency culture was said to breed in ghettos, where it is allegedly passed on from generation to generation. This claim is then linked to the observation that many daughters of AFDC-clients in turn began claiming benefit as pregnant teenagers. A culture such as this, it is argued, should be combated by changing the behaviour of the poor: for example, by linking income support to community service ('workfare') or enforcing alimony payment by fathers (Mead, 1986). This view informed the 1996 Welfare Reform in the US, which abolished entitlements and limited the duration of GMI-benefit reciprocity (TANF) to a maximum 5 years in a life-time, under the telling title 'Personal Responsibility and Work Orientation Reconciliation Act'.

The debate about the dependency culture has been less intense in Europe. It was relatively lively in the UK a few decades ago (Runciman, 1990) and was re-fuelled in particular by the writings of Dalrymple (2001), who saw a strong link between poverty and moral decay (dependency and laziness, teenage pregnancy, out-of-wedlock childbearing, family disruption, child abuse, alcoholism, substance abuse, violence and criminal behaviour), and blamed social services for perpetuating the underclass culture instead of combating it. It is probably no coincidence that the Cameron Government was the first to introduce large-scale workfare programmes in the UK after the 2008 financial crisis.

Another line of thought supporting the idea of workfare, of an economic rather than moral nature, was the macroeconomic theory of active labour market policies developed by Layard et al. (1991a-b). As a response to the stagflation in the Western world at that time, the authors advocated activation⁴ in order to boost the employability of the long-term unemployed and the competition for jobs. Activation was expected to compress wages, break the rigidities on the labour market and, indirectly, foster the return to work – admittedly, at the risk of a further erosion of wages and working conditions and more in-work poverty.

3.2 Instruments for activation: rights and duties, conditions and sanctions, workfare

In the US, the plain *abolition of legal benefit entitlements* is in fact openly advocated as a means of activation. Since the Welfare Reform in 1996, welfare benefits can no longer be claimed as a legal entitlement, and are at best temporary (hence the new term TANF or ‘Temporary Aid to Needy Families’). Beneficiaries are preferably placed in (mandatory) community service jobs (workfare) and remunerated below the poverty threshold, in order to spur them to move into the regular labour market as quickly as possible. Lødemel and Trickey (2001) define workfare as mandatory work in exchange for benefits rather than wages. ‘Work first’ is the motto, while training is seen as ineffective for welfare recipients. The abolition of the right to a guaranteed minimum income in the US may have boosted the reluctance to introduce GMI systems in Italy, Greece and Hungary, although we are not aware of any documents that explicitly discuss the link between these policies.

In Europe, the shift was less abrupt. The main trend in the unemployment insurance has been towards *tightening of the access to - and conditionality of benefits*, in four ways:

- restrictions in eligibility conditions (age, family income, prior work intensity in the period preceding application, assets...),
- increased mobility requirements (home-work distance considered acceptable),
- tighter follow-up of job search activity (obligation to report weekly or monthly on one’s job applications, training efforts etc.) and
- ‘contractualisation’ of the participation in activation programmes.

GMI schemes were extended almost unavoidably, to fill the gaps in social insurance; however they also became more conditional and linked to activation. This was the rationale of the RMI reform in Belgium in 2002, which replaced the right to a minimum income with a ‘right to social integration’ and linked the minimum income to a ‘personalised integration contract’. Whereas the so-called *contractualisation* may suggest that support is better tailored to individual needs and aspirations, the reality is often a shift towards stricter conditionality and ‘duties’. The number of sanctions tends to increase across the board in Europe too, with ‘first sanctions’ generally becoming more moderate and repeated sanctions more harsh (Knotz, 2014).

As European economies got stuck in a prolonged economic and employment crisis, the tendency for governments to introduce *workfare* schemes gained ground. The examples of the UK and Germany informed tight activation programmes, particularly in Norway, Bulgaria, Latvia, and The Netherlands (the 2014 Participation Act). In a number of EU countries, the Youth Guarantee programmes have turned into workfare programmes due to poor funding and substandard remuneration of participants. In May 2016, the Belgian parliament also voted a law introducing part-time workfare obligations for GMI-recipients.

⁴ It must be noted that Layard himself advocated temporary employment guarantee schemes for the long-term unemployed rather than workfare.

3.3 Empirical research on the effectiveness of restricted rights, mandatory activation programmes and sanctions

- As regards *duration limits*, most recent studies find a peak in individual exits from unemployment just before the expiration of entitlements (see e.g. Katz & Meyer, 1990) but none of them has taken into account external effects of individual exits on the employment opportunities of other people. It is quite plausible that the suspension of benefits simply leads to a revolving door effect (with job finders pushing others into unemployment) without raising the aggregate employment level. However, some studies also pointed at the fact that exits from unemployment do not necessarily mean entry into jobs, as part of the transitions lead to uninsured inactivity or other benefit schemes (social assistance or disability). For Belgium, several studies found that roughly half of suspended benefit recipients just disappear from the statistics. For example, recent statistics from the National Employment Office show that 45% of the permanently suspended unemployed did not appear in any other register (employed, unemployed, GMI, sickness or disability, pension...) afterwards (Callewaert, 2015).

Grogger (2003) examined the impact of the duration limits (along with other reforms) introduced under the American Welfare Reform – which is more relevant for GMI systems. He found that they reduced the welfare rolls by 12% and increased employment of the (former) beneficiaries by 7%, but had no net impact on their income. In other words, the reform had benefited taxpayers while turning housewives into working poor.

In our own study of social protection and GMI systems in 13 EU countries (Groenez & Nicaise, 2004), we examined (among other things) the effects of duration limits in the unemployment insurance on the aggregate annual mobility between employment and unemployment, as well as on flows into and out of poverty at the *macro (country) level*.⁵ We did not find any significant overall effect of the benefit duration on these hazard rates. As mentioned above, a possible explanation is that the peak in individual exits from unemployment, observed in micro-economic studies, does not necessarily mean that people take up jobs: many indeed disappear into other forms of inactivity. Another interpretation is that the peak right before expiration of entitlement is followed by a collapse of exit rates beyond the entitlement period – whereas a longer duration of benefit entitlement may increase the probability of getting suitable job offers at later dates.

- In the same study, we also examined the impact of *active labour market policies* - as they were in the mid-1990s – after controlling for macroeconomic context variables such as GDP/capita, unemployment level etc. The overall intensity of ALMP was measured as the average ALMP expenditure per unemployed person. The findings suggest that, overall, more intensive ALMP had pushed *more* people below the (national) poverty line. This points to the existence of substantial adverse effects such as deadweight, creaming, substitution and displacement effects, lock-in effects, sanctions, as well as the lack of quality of programmes. This obviously does not mean that ALMP are a waste of resources per se – rather, that the labour market programmes implemented around the mid-1990s were either poorly targeted (benefiting the stronger job seekers at the expense of the most disadvantaged), or of poor quality - and actually disempowered participants. In sum, the ALMP in the EU (two decades

⁵ Whereas our approach could be criticised from a methodological perspective (due to the limited number of countries involved), it was innovative in that it linked the macro- with the micro-perspective and accounted explicitly for unintended side-effects such as deadweight losses, substitution, displacement, revolving door effects etc.

ago) were often barely better than workfare. In section 4, we will elaborate further on characteristics of effective ALMPs.

- Carcillo & Grubb (2006) also quote examples of welfare-to-work programmes that are specifically targeted at *social assistance* recipients and produce the same ambiguous results as those mentioned above. The 1996 Welfare Reform in the US is probably the most outstanding example of a programme that succeeded in shifting people massively off welfare into work... while leaving most of them in poverty. The earnings of those leaving the programme remain precarious, their terms of employment are unfavourable (mostly part-time work at low hourly wages) and above all extremely difficult to combine with family tasks (1 in 4 working mainly at night). One reason for this is that Welfare-to-Work in the US invests virtually nothing in the human capital of the target group. 25-30% consequently become benefit claimants again shortly after leaving the scheme, while no more than 25% of all leavers earn incomes above the poverty level one year later.

Other evaluators express strong concerns the long-term *effects on children* (as the target group of TANF consists mainly of single-parents). Whereas the children may benefit from having a role model of a working parent – and, at best, higher family earnings – a substantial proportion need to be placed with (equally poor) grandparents or other relatives, or institutionalised, which produces additional trauma as well as negative effects on cognitive development (Zaslow et al., 2000; Bernstein, 2002; Duncan et al., 2007-2008; Heflin & Kukla-Acevedo, 2011). Similar outcomes were observed in Australia by Brady & Cook (2015). Evaluation studies in *Europe* are scarcer and have a more limited scope. The Dutch Participation Act, and the related Work and Income Support Act are so recent that no ex-post evaluation is available. Nevertheless, the laws were preceded by pilots in Rotterdam and Amsterdam. In Rotterdam, applicants for income support (including the unemployed whose insurance benefit expires after 24 months) first have to prove four weeks of intensive job search. In both cities, while they draw the GMI, they are subject to continuous monitoring (e.g. proof of five job applications per week) and have to do ‘socially useful work’ (care, simple administrative work, watering plants, cleaning streets, shining shoes etc.). These activities must not compete with regular work. Insufficient compliance is sanctioned with cutbacks on benefits. Whereas quantitative net effects have not been published yet, participants complain a lot about unrespectful treatment and the mismatch between the community work imposed on them and their job aspirations. Apparently, municipal services are unable to implement the ‘stepping stone’ objective⁶ of the programme. Municipal officers also complain that it is very hard for them to maintain a positive relation with their clients and keep motivating them after sanctions.

⁶ according to the law, the workfare activities must act as a stepping stone to regular employment-

Box: Community Work Placement in the UK

In April 2014, the British Government introduced strict eligibility conditions for benefits, coupled with sanctions, on the long-term unemployed under the 'Help to Work' programme. In concrete terms, applicants are subject to an assessment and subsequently allocated to one of three pathways: mandatory training, community work placement, or daily monitoring. Community Work Placement involves 30 hours of unpaid community work, as well as 4 hours of job counselling, during a period of six months. Non-compliance results in a 4-week suspension at the first infringement and 13 weeks the second time. The community work must provide useful work experience (contrary to the Dutch scheme) and include individualised support.

The fact that unpaid work was imposed – also in the private sector – which competes directly with regular jobs, met fierce protest and resulted in a boycott organised mainly by civil society organisations who refused to engage workfare 'clients'. The law was challenged in court, which resulted in amendments to the programme.

The pilot preceding the law ('Community Action Programme' - CAP) involved 15,000 participants and was rigorously evaluated, with the third ('monitoring') subgroup serving as control group.⁷ As shown in figure 3, the work intensity among the three subgroups was identical during the 104 months preceding the start of the pilot. In the 91 months following its kick-off, the (un)employment trajectories of the three subgroups barely deviated from each other, finishing with a 2% 'advantage' of the CAP. Yet, this difference in benefit retention was not even attributable to differences in employment rate.

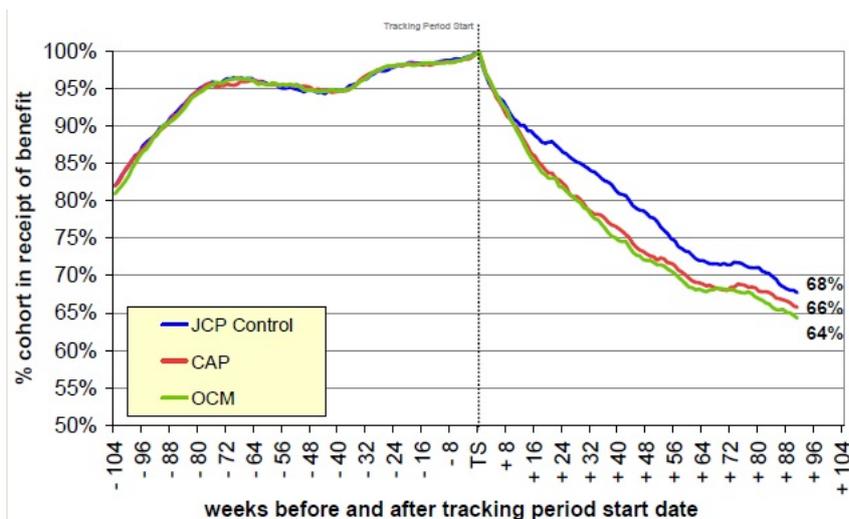


Figure 3: Effect of the British Community Action Programme on exits from welfare (Source: Department for Work and Pensions, 2013)

Given that the jobs carried out by the CAP participants competed directly with regular jobs, we can assume high substitution effects, which means that the *net* employment effect of the CAP was very negative.

Box: Hartz reforms, Mini and Midi jobs in Germany

The Hartz reforms, introduced between 2003 and 2005, combine a drastic cut in benefits for the long-term unemployed with an integration contract and workfare-like (low-wage) employment. The

⁷ The first subgroup received a treatment called 'ongoing (intensive) case management' (OCM); the third subgroup (control group: Job Centre Plus – JCP) just had to report regularly to the Job Centre.

unemployed henceforth fall back on very low and means-tested 'unemployment assistance' benefits after 12 months, substantially below the poverty line. On the other hand, they are 'allowed' (but also obliged) to take up part-time and low-paid 'Mini-jobs' yielding up to 300€ and get a tapered reduction of their benefit: in practice, their benefit is topped up at 1 (currently 1.3) euro per hour of work. The Mini-jobs are not subject to social security contributions but do not build up rights either. The scheme is extended with Midi (up to 450€) jobs which are also partly tapered and exempted from social security contributions. In addition to the low benefits and low quality of the jobs offered, the 'workfare' nature of the reform is also characterised by its emphasis on 'duties' ('*Fördern und Fordern*'): any (legal) job must be accepted, and non-compliance is sanctioned with benefit cuts.

Approx. 2.5 million Germans worked under the Mini and Midi jobs in 2013, at an average wage of 6.2€/hour. The next extension, decided in May 2016, targets 100,000 refugees who will earn 1€/hour for community service on top of their 'pocket money' (approx. half the unemployment assistance rate).

Another aspect of the Hartz reforms is the institutional change whereby the monopoly of the federal employment agency was broken and services were decentralised to the local level (including outsourcing and co-operation with municipal social services). According to Jacobi & Kluve (2007), this has led to a better policy mix and more efficient services (occupational training in particular). This was also the conclusion of Fahr & Sunde (2009) who found that the Hartz I-II-III had accelerated matching – and thus reduced structural unemployment. On the other hand, at least two studies were very sceptical about the effectiveness of the Mini- and Midi-jobs. Caliendo & Wrolich (2010) pointed at no significant short-run effects, while Bargain et al. (2005) argued that the net employment effect was low due to demand rationing (massive unemployment) in the labour market.

Given the comprehensive nature of the Hartz reforms, it is fair to evaluate their impact from a macro-economic perspective. The enormous quantitative impact of the Hartz reforms – affecting 7 million people altogether - produced a macro-economic shock effect. According to Krebs & Scheffel (2013) the reforms reduced structural unemployment by 1.4 percentage points (from 9 to 7.6%) due to the combined effects of:

- A boost of labour supply (drastic cut in benefits, introduction of in-work benefits and the contractualisation of rights and duties);
- A wage moderation effect on the wider labour market;
- A *de facto* labour demand subsidy, as non-wage costs of entry-level jobs are almost abolished;
- A social dumping effect in international trade, resulting in a considerable cost advantage in labour-intensive industries;
- A substantial decline in public expenditure, due to lower social benefits and lower costs of public employment.

All in all, this impact is not spectacular. Akyol et al. (2013) rather believe that the favourable evolution of the German labour market in the past decade should be attributed to an ongoing systematic policy of wage moderation – to which the Mini- and Midi-jobs may have contributed indirectly.

Anyhow, the downside of the reforms is that the cost of the operation is borne to a large extent by the remaining long-term unemployed, whose poverty risk has risen to 67%, i.e. the highest level in the EU (Guttierez, 2016), and partly also by trade partners whose terms of trade relative to Germany deteriorated.

The main lesson from this review of the workfare approach is that it is important to consider the effects on poverty along with the employment effects. The empirical research about the effectiveness of workfare produces very ambivalent findings, depending on the countries and programmes examined. The British scheme appears to have no effect at all on the re-employment probability of participants, and a negative effect on employment at the macro-level. Whereas the American and German workfare programmes undeniably manage to move disadvantaged and hard-to-place job seekers into work, this seems to go at the expense of more and/or deeper poverty among the target group. On balance, there seems to be no genuinely positive lesson to draw from this approach for Spain.

4. The social investment approach

4.1 Theoretical basis of the social investment paradigm

The European Commission's Social Investment Package, launched in 2013, includes a focus on active inclusion as one of the pillars of social investment along with early childhood services, education, health care, the Youth Guarantee plan, the EU Skills Agenda, housing etc. Social investment is defined as '*investing in people*' (as opposed to financial or material investments): the common feature to all forms of investment is that costs are incurred in the short and medium term, with a view to yielding higher returns in the longer term. For example, investing in skills training may shorten the expected duration of unemployment and may therefore be profitable for the individual as well as for the government, tax-payers and society at large. Note that 'investing in people' may also include health care, psychological assistance, participation in civil society organisations etc.

Although the EC's Communication (EC, 2013a) refers in the first place to social investment as an economic strategy to make people more employable and to 'ensure the best use of economic resources', the introduction also frames the initiative as a means to foster *social cohesion* and implement the Charter of *Fundamental Rights* of its citizens.

In this context, the social investment approach to active inclusion links up with Rosanvallon's (1995) emphasis on the right to work, on equal footing with the right to a minimum income and other basic social rights. The recent Communication on the Pillar of Social Rights reaffirms the intention to develop '*more ambitious and efficient social policies, not just as a result of economic development, but as a central part of their growth model. Key to this is the design of welfare systems and labour market institutions fulfilling their role and supporting job creation*' (EC, 2016).

Building on the ongoing Re-INVEST project,⁸ we see employability as one dimension of human *capabilities*, as defined by Amartya Sen (2004; 2005) and others; and social investment as a strategy to extend human capabilities with the aim of implementing fundamental rights. The Charter of Fundamental Rights is a policy agenda, rather than a judicial framework that enables citizens to claim instant results. Converting fundamental rights into genuine wellbeing for all citizens requires policies that invest in their resources (health, skills, mobility, social participation etc.) so as to enable them to achieve their rights. Parallel to direct investment in individual and household resources, governments and civil society need to invest in a material, social and institutional environment that fosters safe, secure and fulfilling jobs.

⁸ www.re-invest.eu

This view of active labour market policies contrasts with the 'making work pay' and workfare approaches in several ways:

- A *humanistic* vision of vulnerable people as citizens with equal rights and aspirations, as opposed to a vision based on distrust or underclass culture. Paugam et al. (2014) interviewed job seekers in 7 EU countries during the crisis: they collected telling testimonies about their attachment to work and their efforts to find work, irrespective of pressure from employment services or financial incentives.
- A *multidimensional* framework for government action, as opposed to a narrow view based on financial sticks and carrots. It is widely known that more than half of the disadvantaged workers lack the necessary education and skills to take up jobs; others lack recent or relevant work experience; often ignored is the fact that for one in four of them, health problems or disabilities are a major barrier to work (Immervoll, 2016). Other barriers relate to mobility or family burden. All these obstacles can be overcome by means of appropriate social investment.
- A focus on the *long-term (including intergenerational) sustainability of work*, as opposed to a short-term 'work first' perspective: the investment in human resources may take time but should result in the capability to carry on a job, and for working parents to invest in their children.
- Finally, an emphasis on the degree of *free choice* as a key element of welfare. One of the novelties of Sen's theory of capabilities is the explicit link between freedom and welfare. Persons with the same level of functioning(s), but with unequal freedom, have a different degree of welfare, because the 'capability' of the less free persons (i.e. the set of functionings that are feasible for them) is more restricted than the capability of the more free persons. This means that the room for negotiation in activation programmes becomes a key criterion in evaluating the welfare-enhancing effect of measures. Workfare is seen as welfare-reducing for the participants, whatever the 'success rate' in terms of net employment effect.
Obviously, this should not imply that a GMI scheme must be completely unconditional. To the extent that fundamental rights are based on some notion of citizenship, they also include elements of reciprocity between the individual and society. Freedom is no absolute, binary variable: it rather refers to the room for negotiation and the choice between alternative ways of fulfilling one's duties, with as little coercion as possible.

A critical reading of the Social Investment Package may suggest that the Commission urges the Member States to shift social expenditure away from social transfers to preventive services (such as education) that yield more permanent outcomes. The message should obviously be qualified. Whereas investments such as early childhood services, education, health care etc. undeniably strengthen the resilience of vulnerable people against social risks and thus reduce the need for compensatory benefits, the picture in terms of public intervention is not 'black and white'. First of all, public expenditure in preventive services does not always yield higher social returns than transfers: when public services are consumed by high-income groups, they may just crowd out private investments and produce no (social) added value. As a general rule, the more social investment is targeted at disadvantaged groups, the lower its deadweight effect, and the greater its return will be. Secondly, social transfers in themselves are not necessarily unproductive transfers that are used just for consumption. Private households also invest part of their income in goods that can be useful either for labour market purposes (e.g. ICT equipment and internet connection, means of transportation, lifelong learning, health care) or

for their children (childcare, school expenses etc.). This means that the distribution of public expenses and their use by disadvantaged groups matter as much as the nature and volume of the public expenses.

4.2 Instruments for investment in labour market inclusion

Let us begin by reminding that *social protection itself* partly serves a social investment purpose: decent unemployment or GMI benefits should allow job seekers to invest in their own human and social capital so as to maximise their chances of finding a decent job. From this perspective, the predicted effect of generous benefit systems is the opposite of the Making Work Pay hypothesis: more generous benefits and regulations should result in a higher (rather than lower) probability of finding (sustainable) work.

Targeted services make up a second type of social investment instruments. Such services may take many different forms, but need to be tailored to the needs of disadvantaged groups: (high-quality) childcare, health care, education and training, work experience programmes, counselling, job coaching, transportation services... Overall, such services - as well as the quality of the relationship with job counsellors - are seen as more effective for labour market inclusion than financial incentives. In what follows, we will not elaborate on supporting services and focus on the work-oriented components of activation programmes, usually referred to as active labour market policies (ALMP).

Active labour market policies in turn include a wide range of measures, ranging from education and training, over job application training, work trial placements, counselling and mediation, to public employment schemes and conversion of benefits into recruitment subsidies. The social investment view almost automatically excludes from the list measures such as benefit cuts, duration limits and sanctions, because such measures do not include any form of investment. The quality of ALMPs for GMI recipients is largely dependent on (a) the tailoring of instruments to the needs of the individual as well as the local labour market, (b) the integration of services (mediation, training, childcare, transportation etc. in view of the multidimensional nature of poverty), (c) the sustainability of the employment effects. As mentioned earlier, 'work-first' solutions may be an effective option for the stronger groups of job seekers but tend to be of little help for the more disadvantaged segments of the unemployed.

A mixed working group of people with a personal experience of poverty, experts and NGO workers from France and Belgium elaborated an 'ideal' concept of '*integrated individual pathways to labour market inclusion*' under the umbrella of ATD-Fourth World (1998). The concept includes the following 11 elements:

- A contractual framework negotiated with the job seeker, covering his full integration period, and securing a regular and adequate income in order to allow him to plan and invest in integration activities;
- The integration contract should mention *reciprocal expectations en commitments*;
- An integration pathway of flexible *duration*, adapted to the needs of the individual, ending after full integration into regular work. For the most disadvantaged, a duration of three years was seen as a norm;
- Subsidised *work* experience should be provided in the short term, either in the social economy or in a commercial enterprise, in order to motivate participants;
- *Work-oriented activities* must include orientation, basic skills training as well as vocational training;

- A '*right to a second chance*' for those who have failed and lost self-confidence in the past; the social protection status should reward the efforts made for those who fall back into unemployment;
- *Counselling and supporting services* in various fields (housing, administration, health care etc.);
- All offers must be *adequate*, of decent quality and assessed by public authorities as well as the social partners;
- *Appeal procedures* must be available, including in court;
- The *free choice* of work by the individual (within reasonable limits) must be guaranteed at all times;
- The integration pathways must contribute to building up *rights to social security*.

The criteria listed above provide a good framework for assessment of the quality of activation schemes. Their implementation requires strong partnerships between sectoral institutions (mainly employment and social services) as well as between national and local policy levels (Zimmermann, 2015).

The research group also examined a series of cases of informal work such as care activities, community service, sheltered employment, '*social activation*' and voluntary work. We define informal work as authorised non-domestic work carried out outside the framework of a legal work contract; and social activation as an institutional framework for the organisation of informal work in the context of welfare-to-work programmes. People experiencing multiple disadvantages often do not have the capability to fulfil the requirements of formal work and carry out such informal activities as an alternative way of participating in society. The research group concluded that all these forms of informal work can be useful stepping stones to integration, as long as they are freely chosen and (whatever their duration) embedded in a pathway towards regular formal work. In this way, informal work also includes an element of social investment if it contributes to the empowerment, social integration, employability and personal fulfilment of the worker.

4.3 Empirical research on the effectiveness of the social investment approach

4.3.1 Social protection as an instrument of social investment

In the 'negative' sense, there are clear indications that prolonged unemployment destroys the human and social capital of its victims. Not only do their skills depreciate, but also their (physical as well as mental) health (Brenner, 2013; 2015). In addition, unemployed people also tend to economise on social activities (Paugam et al., 2014) and see their social networks dwindle over time (Gallie et al., 1994; Paugam & Russel, 2000). Their increasing social isolation in turn gives them less access to information on job opportunities (Larsen, 2008; Dieckhoff & Gash, 2012).

Despite the persistent dominance of the 'Making work pay' paradigm in social policies, an increasing number of studies confirm the importance of decent benefits for the reintegration of job seekers. Aldeghe (1991) demonstrated that job seekers disposing of a telephone, a newspaper subscription, a car etc. were more likely, *ceteris paribus*, to find jobs. In Groenez & Nicaise (2004), we studied aggregate flows between different states of social protection in 13 EU-countries in the period 1993-1997. We found that, at the macro-level, *higher* unemployment benefits and *longer* entitlements have a *positive* impact on mobility into (decent) work. The positive effect of longer entitlements on (aggregate) re-employment chances can be explained by the fact that greater security allows job seekers to invest in themselves and prevents them from prematurely accepting precarious jobs - which ensures a better matching process. In recent years, the European Commission has come to

the same conclusion: *'The (...) analysis shows that broad coverage and the relatively high net replacement rate of unemployment benefits are in fact associated with lower rates of entries into poverty; and that they do not prevent, and even in certain circumstances, facilitate, returns to employment, and thereby are associated with better exits from poverty'* (EC, 2013b). After controlling for a number of other group characteristics (age, gender, citizenship, level of education) as well as macro-economic variables, the EC (2015) found a significant *positive* effect of benefit receipt on the transition from long-term unemployment to work. We refer to section 2.3 for additional explanations of this effect (including the social investment rationale).

4.3.2 Active labour market policies

The motto that 'work is the best route out of poverty' is simply untrue – at least, for the target groups that are usually covered by GMI schemes. Precipitation into work with weak skills, poor health or an imbalance between work and family responsibilities often results in early dropout and further disenchantment. Moreover, the jobs that are easily accessible for disadvantaged groups are often precarious. In its 2013 Employment and Social Development in Europe (ESDE) report, the EC found that only half of the unemployed living in poverty manage to escape poverty as they take up work (EC, 2013b). Our own dynamic analysis of work and poverty transitions in Belgium (De Blander & Nicaise, 2009) even showed that the *net* effect of a standard 12-months work experience on poverty peaks after 20 months but then dwindles to barely 5% after 60 months. By contrast, helping unqualified individuals to obtain a secondary education degree lifts the overwhelming majority of them out of poverty and gives them a permanent (and indeed growing) advantage over those with no degree.

This means that ALMP for disadvantaged groups cannot be limited to cheap and quick recipes. Card, Kluge and Weber (2015) confirm that quality matters. For example, there is increasing evidence that education and long-term training programmes, despite requiring substantial investments, are really rewarding for these groups in the longer term, and even more so in periods of economic downturn. Formulas combining workplace learning with formal education and resulting in recognised degrees appear to be very successful, especially when they are geared towards hard-to-fill vacancies. Facilitating the validation of non-formal and informal learning through systematic assessment and upgrading is another promising strategy.

Although one would expect similar findings for investments in health care and social support, research on the labour market effectiveness of these types of social investment for GMI recipients is nearly non-existent.

4.3.3 Social activation for the most vulnerable groups

The Netherlands have been experimenting with 'social activation' of GMI recipients in the period 1996-2001 (Nicaise & Meinema, 2004): welfare recipients could be temporarily exempted from job search, and were sometimes granted small financial supplements in return for tailor-made socially useful activities that were negotiated with them (only in exceptional cases was participation made mandatory or were sanctions imposed). Mid-2001, the scheme covered 12,000 participants, who were among the most disadvantaged of the GMI recipients. Whereas half of them still hoped to get back into regular work, the others mainly wanted to break their isolation or simply do something useful.

The evaluation focused on social integration as well as employment effects (Jehoel-Gijsbers et al., 1998; 2000; Serail & van de Pas, 2002). The employment effects appeared to be rather disappointing (with 16% in work and another 17% in training or voluntary work at the time of the follow-up

interviews⁹). On regards social integration, however, the evaluators found evidence of substantial positive effects on the ‘capabilities’ of participants:

- *social contacts*: 83% of the participants reported that their social contacts *had widened*, and 38% said they now felt less lonesome.
- *social recognition*: 61% of the participants found that they now received more recognition from others, and 35% felt they now ‘count’ more in society. These are probably the best (subjective) indicators of (self-)esteem and inclusion.
- *citizenship*: 35% had gained greater confidence in the government. In a country that experienced a dramatic upsurge of extreme-right parties, such an effect is obviously important from a political point of view.
- *structuring of life*: participants experienced a more balanced lifestyle (78%) and a better feeling of ‘having a goal’ (69%). They typically spend less time on ‘time-consuming’ activities (household, TV, sleep).
- *self-esteem*: 70% said they now have more self-confidence.
- *(mental) health*: 74 reported improved mental health, and 17% an improved physical health (10% saw their physical health deteriorate).

The finding that 87% expressed their (great) satisfaction with the projects is telling. Moreover, interviews with civil servants showed that public support for the social activation policy in The Netherlands was very strong. Unfortunately, the government later decided to suppress the incentives and to make social activation mandatory, as was explained in section 3 above.

Overall, this section shows ambitious but promising avenues for linked minimum income and activation policies in Spain. The key messages can be summarised as follows:

- The combination of three perspectives (social investment, fundamental rights and the capability approach) provides a correct overarching framework for a balance between social protection and labour market activation.
- The concept of integrated pathways to labour market inclusion, developed through participatory research with people experiencing poverty, provides an operational framework for high-quality, multi-dimensional, flexible and effective casework. This necessitates partnerships between employment and social services, between state and local government levels.
- Decent benefits are no traps. They should be seen as part of the social investment strategy: they allow beneficiaries to invest in themselves and their families, and they strengthen the bonds between citizens and the state – which in turn commits both parties to joint efforts for further integration. Decent benefits foster labour market integration.
- Cheap strategies such as ‘work first’ may look tempting but are deemed to fail in the longer run. Although quality has a price, investments in quality for disadvantaged groups are rewarding.
- Although regular work remains the ultimate goal for the overwhelming majority of socially disadvantaged citizens, intermediate forms of ‘social activity’ should be facilitated for those for whom formal contract work is temporarily – or in some cases indefinitely – out of reach.

⁹ Unfortunately, no comparison group was selected for the evaluation.

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