

The Future of Europe has to be social, or there will be no Future!

Welfare in itself is a concept that is dependent on cultural differences. These provide an explanation for the different historically-rooted welfare concepts throughout European countries.

For our research we have consciously focused on European Union member countries, the number of countries involved in one way or another in the project is twenty.

According to Esping-Andersen we differentiate three different types of Welfare models: the liberal "Beveridge" systems, the conservative, corporatist "Bismarck" systems and the social democratic or Scandinavian (Nordic) regimes. Our working group decided to opt for an "own class" of countries belonging to a "Mediterranean" Model. And we added also a group of "Central and Eastern European" Systems.

After having described these systems and their development, we have examined if, and to what extent the countries of a given regime are all following the same trends and developments. The question of a possible convergence of all these models in one future European social model was also investigated.

At the end the most important questions remain: How can we overcome the austerity paradigm and move towards a cohesive society where everyone participates according to his means and where everybody gets according to his needs? How can we agree on a minimum socket of social rights in all European Countries?

THE FUTURE of the WELFARE STATE



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PROGRESS
INCLUSION

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A Caritas Europa Publication,
edited by Robert Urbé

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THE FUTURE of the WELFARE STATE

A comparative study in EU-countries

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**A Caritas Europa Publication,
edited by Robert Urbé**

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of the
WELFARE STATE**

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Content

Preface	<i>Jean-Claude Juncker</i>	7
Foreword	<i>Erny Gillen</i>	11
Introduction	<i>Robert Urbé</i>	13
Chapter I		
Welfare in EU Member States		
<i>Robert Urbé</i>	Welfare in Europe	21
<i>Carlo Knöpfel</i>	The Social Protection System: Analytical Questions and Quantitative Indicators	27
Chapter II		
Welfare in Bismarckian Countries		
<i>Dominic Verhoeven</i>		35
	Social Protection Mechanisms in Belgium – a Bismarckian Social Security System coping with the crisis	37
	Trends in Belgium and other Bismarckian Countries – short, medium and long term	79
Chapter III		
The Beveridge Welfare System		
<i>Seán Healy</i>		93
	The Ireland Report	95
	Trends in Ireland – short, medium and long term	175
Chapter IV		
The Scandinavian Welfare Regimes		
<i>George Joseph</i>		185
	The Future of Sweden's Welfare Model	187
	Challenges and Trends in Sweden	211

Chapter V

The Mediterranean Welfare Approach

<i>Chiara Lucchin</i>	227
Description of a Welfare Model from a Mediterranean Country: Italy	229
Trends in Italy's Social Policies	269
Are the Mediterranean Countries Moving in the same Direction? – Are there Similar Policy Trends?	281

Chapter VI

Welfare in Central and Eastern European Countries

<i>Juraj Barat</i>	289
Slovakia's Report on the Social System	291
Trends in Slovakia's Social Policies	307
Trends in the Social systems of Central and Eastern European Countries	313

Chapter VII

Conclusions	321
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Appendices

Caritas Europa's Basic Principles for a Sustainable Social System	339
Actual Values of the Indicators	351
About the Authors	369

Preface

What a Welfare World...

“The object of government in peace and in war is not the glory of rulers or of races, but the happiness of common man” once said Sir William Beveridge. Replace “happiness” with welfare, prosperity and the common good and I totally agree with the founder of the British welfare state and his memorable report on “Social Insurance and Allied Services” from 1942. For I do not believe that government can create or even command happiness – even though welfare might be one material foundation or precondition of good life. But government – both in its individualistic and collectivistic forms – surely can destroy the always very personal and intimate pursuit of happiness. Personal happiness and freedom are at least encouraged by a public framework – actually a network! – of welfare and social security, prosperity and justice. For there is no personal freedom without public security! Freedom and security together, that is what I call subsidiarity. For there is no such thing as an invisible hand in politics, economy or society! It is nothing but a “belief”. The same is true for the at least questionable mainstream belief in the perfection of markets. However, markets are always “incomplete” (Joseph Stiglitz). That is why we need a very visible welfare state! Actually, a modern welfare state is the concrete political form of the more abstract ideas both of freedom and of justice. For freedom is social justice and social justice is freedom!

Government can and therefore must assure welfare, social justice and contribute to the common good. Both for ethical and for economic reasons! Not to forget the political, the social and the pragmatic dimension of our welfare task. Actually, what is more of a noble task for a state than protecting the welfare of its people – of its entire people! But what is welfare in the beginning? Is it enough? Is it too much? Welfare is in any case more than the German “Wohlfahrt”. It is more than antipoverty programs! It is more than charity! For me, it is actually more “Wohlstand” than “Wohlfahrt”. Renewing the welfare state means therefore a political and economic evolution

from a “Wohlfahrt für alle” towards a “Wohlstand für alle” state to quote Ludwig Erhards famous motto of the Social Market Economy. Without that permanent evolution, political and social revolutions are inevitable! Nobody knew this better than Otto von Bismarck. Yet, 115 years after the death of the visionary founder of the German welfare state, his power stabilizing findings and pragmatic political insights represent still no general consensus among political and economic leaders in the 21st century. One concrete element of such a welfare state in the evolution towards social justice could be what the Belgian political economist Philippe Van Parijs calls a “basic income” in order to “avoid a social tragedy”.

In any case, we have to work on this welfare consensus – and this inspiring publication by Caritas Europa is one important step in doing so – by transcending the traditional conflicts and cleavages between states and markets, labour and capital, collectivism and individualism, workers and entrepreneurs in order to transform our economy into a more personalist one. For our most important guidance is no longer the state or the economy: it is the human being! And all the human communities: couples, families with children, friends, local communities, regions, nations and even humanity as the ultimate community of communities. Therefore, the German globalization expert Ulrich Beck is absolutely right when he says that true social justice can today only be thought on a global scale. The same is even truer as far as the welfare state is concerned.

Our world, our states, our economy are changing. Still, social cohesion is not an “established fact” in Europe. We stand, in the words of Gøsta Esping Andersen, “at a crossroads which is similar to that of the post-World War II era and the invention of the modern welfare state. (...) We are moving toward a new type of economy and society, both of which call for a new model of social policy.” Therefore, we have to transform the welfare state of the 19th and 20th centuries into a strong, “antifragile” (Taleb) and “positive” (Giddens) political network of social subsidiarity and political priorities: full employment, inclusive growth, investments in families and young people, strong social security, decent retirement, and active health policy. We have to move from the self-interest to the common good. We have to move from protection to “social investment”. We have to move from the welfare state to a state of evolving social justice. For justice and the common good are the true self interests of our nations. The euro is by the way a strong and tear-resistant yarn in our welfare and social justice network.

But we have to move even further. We have to cast our network on a global, on a European, on a national, on a regional and also on a very personal scale.

For the times of absolute national sovereignty are over. We live in a globalized multi-level and interdependent world. Therefore our welfare network has to be globalized too. A good first step would be to finally launch a new Social Union within our old European Union. Against this backdrop, I would like to relaunch the idea of minimal social and welfare standards in every EU member state.

With that said, the only way to get us out of the current financial and economic crisis is an intelligent combination of a strong welfare state, a strong economy and a strong budget consolidation. Actually, no other combination will work in the long run. For Europe is still the first and sometimes the only and lonely social power in the world with a truly unique social model. And both European and world citizens do need more European welfare and more social leadership. For nobody else will do it! What we need is therefore a Welfare World or at least a Welfare Europe with a new network of welfare governance. This is by the way the “more Europe” our citizens are justifiably waiting for! A world where politics have to become again what Aristotle once called the “master art”! Actually, in a modern social justice network, the true master art is a people’s server art! Such a vision is not an illusion! It is, at the end of the day, an absolute necessity and a consequence of “caritas”: of social love beyond welfarism and utilitarianism! The days of caritas will never end in this world of imperfection. But we can make it less imperfect every day. In fact, we must! That is my definition of politics in general and of welfare politics in particular...

Jean-Claude Juncker
Prime Minister of Luxembourg,
President of the Eurogroup



Foreword

Writing about the future of the Welfare State in times of crisis, makes this publication a critical one. Does the Welfare State contribute to the crisis or is it a solution out of the crisis. Some – including the OECD – argue that in some countries (like Luxembourg) the “burden” of the Welfare State puts at risk the future of the economic growth as well as the future of the so-called Welfare State itself. Others feel that the so-called Welfare State is the safety-net for those suffering of unemployment and poverty. The Welfare State is no longer the condition in which people, economy and politics evolve; it becomes part of a hidden complex agenda, where public and political opinion discuss individual items and elements, without bearing in mind the whole paradigm. But is the Welfare State a closed concept? Or is it just an open concept where you can add and withdraw protection measures, allowances, control mechanisms, etc. This publication shows that the Welfare State according to the authors is an open concept. It should therefore not be used as an ideological tool or argument.

The question how much of today’s protection systems and how many percentage of today’s welfare in a given society should be distributed can only be answered in concrete terms and in real situations. “The” Welfare State does not exist. It has to be modelled and remodelled again and again. Whether so-called “acquis” are the right way to start discussions today can clearly be answered with no. Whether the center-european system can simply be exported or transposed into other cultural, political and economical systems can also be answered with no. Whether we need a global idea about a future Welfare State must be answered with yes in a global world and a global society.

The “invention” of the Welfare State was grounded in a model of society. It is based on the concept that all people living under a certain roof are to

be accepted as equals, as brothers and sisters. There must be compensation systems allowing everyone to participate in the wealth of his world, the global world. There must be compensation systems allowing everyone to be protected against disasters and life hazards. The Welfare State can no longer be conceived as a comfort zone without any risk for those who happened to be born in the middle of a wealthy generation.

I hope that this publication contributes to discuss the cultural, anthropological, political and economic hypothesis under which a framework for a global Welfare State can be developed. The idea of an unconditional basic income might be a leverage to re-discuss the Welfare State of tomorrow and worldwide – not in terms of money, but in terms of objectives!

Erny Gillen
President of Caritas Europa

Introduction

This publication about the Future of the Welfare State is the fruit of cooperation between Caritas Europa and some of its member organizations. Caritas Europa member organizations are cooperating more closely since some years now in the framework of Social Policy. Social Policy Advocacy Work used to be less prominent for Caritas Europa than international cooperation issues, like emergencies, development, justice and peace or also than migration issues, where Caritas Europa and its member organizations were experienced actors. After the fall of the wall, new members from central and eastern European countries joining Caritas Europa were concentrating more on the direct assistance to vulnerable groups than on a bad name bearing “political action”. Though it took some years for the whole network to establish advocacy work in the social field on an equally important stage.

Starting in 2002, following then in 2004 and 2006 Caritas Europa published a series of three Poverty Reports, shedding light on poverty in European countries.

Beginning with a new Strategic Plan voted 2004 in Dubrovnik, a new Social Policy Commission was born, besides working bodies in the fields of international cooperation and migration.

Taking profit from a grant of the European Commission a closer cooperation in this field started in 2006, bringing the daily experience on the grass root level up to the European level where it could shape the content of the policy work, and where advocacy activities could be grounded on this experience.

Some of the fruits of this collaboration, especially in following the national reform programmes in the framework as well as the national strategic reports on social protection and social inclusion, came out of the dark in the last years: Interim Assessment reports on National Inclusion Strategies, “Poverty among us” a Poverty Paper issued for the European Year 2010 against poverty

and social exclusion, followed by some related papers on issues like migration, child poverty, employment and training etc. A culminating point was the presentation in Madrid 2010 during the Spanish Presidency of the European Union of “Political Proposals to European Decision Makers”.

The present publication about the “Future of the Welfare State” now is another link in this chain of public advocacy action.

Caritas Europa member organizations are coordinating since 2006 their activities regarding their involvement in drafting, establishing, implementing, monitoring and evaluating governmental national action plans in the social field. These were in the beginning the followers of the National Action Plans on social inclusion (NAP's incl), the National Strategic Reports on social protection and social inclusion (NSRspsi) as well as the National Reform Programmes (NRP's) first in the framework of the Lisbon Strategy and then in the framework of the Strategy Europe 2020. This coordination happened in 2006 and 2007 by means of the CONCEPT project (CARITAS ORGANISATIONS NETWORKING TO COUNTER THE EXCLUSION AND POVERTY TRAP) and since 2008 by means of the INCLUSION project (INTTEGRATING AND NOURISHING CARITAS LEARNING AND UNDERSTANDING OF SOcial INCCLUSION THROUGH OPTIMAL NETWORKING), cofinanced in 2006 by the European Commission under the Community action programme to combat social inclusion, and since 2007 under PROGRESS (PROGRamme for Employment and Social Solidarity).

The INCLUSION project contained since 2008 three thematic working groups, of which one concerned “The Future of the Welfare State”. The INCLUSION Steering Group identified five different Welfare Systems throughout Europe¹⁾ and installed the thematic working group with representatives from Belgium (for the Bismarck-Systems), Ireland (for the Beveridge-Systems), from Sweden (for the Scandinavia or Nordic Systems), from Italy (for the Mediterranean Systems) and Slovakia (for the Central and Eastern European Systems). And these are the main authors of this publication, in the above order: Dominic Verhoeven, Seán Healy, George Joseph, Chiara Lucchin and Juraj Barat. Due to sickness, the Belgian representative was replaced since 2009 by Ilse Simma from Austria, but as

1 This is a serious difference to Esping-Andersen's famous divide in three systems: liberal, conservative-corporatist, social-democratic (see ESPING-ANDERSEN, GØSTA (1990): *The Three Worlds of Welfare Capitalism*, Cambridge). Whereas the Eastern and Central European Systems were just born when he published his findings, he had added amongst other Italy to the conservative-corporatist systems. We think however that there are more similarities between the Mediterranean Systems than between for instance Italy and the Bismarckian countries.

her national organization needed her in Haïti after the Earthquake in 2010, and as Dominic was going better, he took again over in 2011. I sincerely thank those who worked during months and even years on this piece of work. The working group was during all the years supported by the Caritas Europa Secretariat staff: we due therefore special thanks to Natallya Kaval Kova, Miriam Pikaar and Déirdre De Burca. I also want to address my assistant Lydie Krecké who did the whole editing of the publication: many thanks for that. With the support of Carlo Knöpfel from Caritas Switzerland and chaired by myself, the two remaining authors of this publication, the working plan was established. First the analytical model that had been agreed upon in 2008 by Caritas Europa's Regional Conference in Bled was adapted and an according set of indicators was developed (see chapter 1 and appendix 2).

Chapters 2 to 6 are then presenting country reports for each one of the five models or systems. Based on the analytical model and by using the indicators the authors are commenting the development and actual state of play of their country's respective social welfare system.

Besides description of a system, it is the analysis of what is happening in the different countries and what should happen that attracts our interest. To analyse, to assess social systems Caritas Europa has developed between 2006 and 2008 a tool called "Caritas Europa's Basic Principles for a Sustainable Social System". This tool (see appendix 1) served the authors and the working group of this publication. It was then the aim of the project to analyse the trends and tendencies which can be observed in each country, and to compare these trends and tendencies with those in other countries of the same model in order to establish whether these are trends and tendencies of the specific country or of the model as such. During the life of the project, the well known crisis came up which changed in many countries the developments of their welfare systems. Therefore we had to adapt our plan and to analyze long and medium trends and tendencies separately from short term trends and tendencies. Only for the Central and Eastern European Model it was more difficult to stick to long term trends as these models were only evolving since 1989 and so there we had more a look on the actual and future trends at stake. For this exercise of comparing our 5 example countries with the ones of a similar social model, we received answers from 16 other countries, and so we wish to say our gratitude also to those Caritas workers that, without standing in the brightness of the lights shedding on those called authors, have added an important part as well to our work.

At this moment it is likely to stress that the authors as well as those who cooperated by delivering answers from their countries are mostly not academics but Caritas workers that are more in touch with the social realities of the people they serve than to be familiar with academic research. In that sense our project and this publication do not have the intention to represent research in an academic sense, but we build our expertise on the experiences with people at the grass root level and on the knowledge of their situations. In that sense our work may rather be considered as complementary to purely academic research.

Chapter 7 with the conclusions we could draw from the developments we analyzed for the future of the welfare state(s) closes this publication, we submit to you, dear readers, to share our insights, and to join us in pushing forward the open issues, be it on the political scene by advocating and debating, be it in political science by taking up some of the points and deepening them by your research.

Now I wish you through the reading of this publication first endurance and then new insights and enrichment for your own work. This publication about the Future of the Welfare State, fruit of cooperation of Caritas member organizations in Europe is the culminating point of a very long process.

Robert Urbé
Coordinator of the project

Chapter I
Welfare in
EU Member States



Welfare in Europe

ROBERT URBÉ

Welfare in itself is a concept that is dependent on cultural differences. These cultural differences provide an explanation for the different welfare concepts throughout European countries. Moreover welfare itself is not even possible to translate in several languages: where there is no concept, there are no words! And where it has been translated, it is not quite certain that the meaning is the same.

And, whereas in some countries the name of the concept is “social welfare”, in some others this would mean only a narrow understanding such as benefits or payments, and a broader approach, including social and health services is designated by “welfare”.

So it is not so astonishing that there is no one European Welfare System (compared to a US welfare system or a Chinese, Japanese or Indian one etc.). Mostly European countries have a historically rooted Welfare System, matured according to their historical circumstances.

For our research we have consciously focused on European Union member countries, taking into account the pan-European panoply obviously leading us in a situation that would have been hardly manageable, but also because it was part of an EU co-funded project. Even the 27 actual member states could not all be covered for various reasons, so the number of countries involved in one way or another in the project is twenty. And these had to be catalogued in order to overcome the exercise.

According to Esping-Andersen¹ we differentiate three different types of Welfare models. First there are the liberal “Beveridge” systems which are dominated by poor social security systems as well as rather small social transfers: sometimes means-tested, sometimes universal. Modest insurances and national health systems together with graduated child benefits are the

¹ See Esping-Andersen (1990).

characteristics of these systems. Typical examples are the United Kingdom, Ireland, the US, Canada or Australia. Some add to these Malta, but our author of chapter 3 comes to the conclusion that “the Maltese welfare system provides a unique fusion of welfare philosophies which are not consistent with Beveridge”. So for the purpose of our project, only Ireland and the UK remained as representatives of the Beveridge Model.

On the other hand we have the conservative, corporatist “Bismarck” systems. Here the typical features are: the traditional role of the family, the male breadwinner model, social security is organized as insurance system, where the whole family of the breadwinner is insured, the right to social transfers is based on contributions (mostly dependent on the amount of the salary, mostly paid partly by employers and partly by employees) and the belonging to a certain stratum or even professional group, therefore you can observe a differentiated range of state organized insurances, depending on the status of the insured. Typical representatives of this system are besides Germany: Belgium, Austria, Luxembourg but also France (bearing some specific French features) and according to Esping-Andersen even Italy (but more on this will follow below).

Both these systems wear the name of her “founder” or “developer”. On the one hand we have Lord William Henry Beveridge (1879-1963) who stays as the “spiritus rector” for the developing English system after World War II². Presiding an expert group set up by the government and led by social justice he published in 1942 a report called “Social Insurance and Allied Services”, known as the Beveridge-report³, in which he led the foundations for the welfare state put in place after the 1945 elections by the Labour government. In 1948 was established the National Health Service that Beveridge had assumed in his report.

On the other hand there is Fürst Otto von Bismarck (1815-1898) who was Prime Minister in Prussia from 1862-1872 and from 1873-1890, and at the same time Chancellor of the German Reich (1871-1890)⁴. He “invented” the German social insurance system in the eighties of the 19th century. Trying to defend the state on the one hand against the catholic church which he considered as being a threat for the security of the state⁵, and on the other

2 See Harris (1997).

3 See Beveridge (1942).

4 See e.g. Schoeps (1997).

5 It is one of history’s peculiarities that it is precisely the Church that defends the conservative-corporatist way of shaping the social welfare state, as it is “strongly committed to the preservation of traditional family-hood”, see Esping-Andersen (1990).

hand against the socialists which he accused to be enemies of the state (“vaterlandslose Gesellen”), he thought to tighten the individual’s bonds with and his loyalty to the state; and at the same time it was an attempt to stabilize the existing strata (or classes) of the society.

The third welfare system described by Esping-Andersen is the social democratic or Scandinavian (Nordic) regime, in which the ruling principles are universalism, social rights for all and equality. This system, developed in the mid 1950ies, knows a high standard of social transfers which opened it not only to the lower classes like it was the case for the Beveridge system, but offered also incentives to the middle classes. It came into force by a historic capacity of social democrats to tailor the benefits to “the tastes and expectations of the middle classes”⁶ and to capture the farmers too. It is the only system out of the three in the classification of Esping-Andersen that is not named after its founder or developer. Typical examples of the Scandinavian Model are Sweden, Denmark and Norway, but in some way also Finland and Iceland.

In opposition to Esping-Andersen’s classification our working group decided to open the catalogue to more categories. As indicated above we saw a too big difference with the continental Bismarckian countries to let Italy in that same cluster. Regarding the nevertheless Bismarck oriented way of organizing the social system, but with less generous benefits and with not all the branches of social insurance being equally developed, putting a larger burden of the social well-being on the family, we opted for an own class of countries belonging to a “Mediterranean” Model. Besides Italy, already named, Spain, Portugal and Greece belong to this group of countries.

And then there was this large group of countries⁷ that changed their whole political and social system so drastically after 1989 and that joined the European Union in 2004 and 2007. Their only common point is that none of them opted for one of the existing three models, but they have all ended up with the construction of a mix using components of the three systems. And this construction was not done in one great bang (as also the three above described models evolved during several years and are still being newly shaped as our trends reports in chapters two to six are demonstrating), but often a government change brought also radical change again in the welfare approach of the country, whereas after the next elections things were again changed as they were previously and so on. Also because the lifetime of these really existing systems is still short enough, we overcame the

⁶ See Esping-Andersen (1990).

⁷ See Busch (2005).

difficulties in cataloguing them by putting them altogether in one group, the “Central and Eastern European” Systems. We could have clustered together the Visegrád countries⁸ (Czech Republic, Hungary, Poland and Slovakia), the Baltic countries (Estonia, Latvia and Lithuania) as well as the Southeast European countries Romania and Bulgaria, but in addition to their obviously common past for each of these groups we did not find along these clusters similar common developments today. Of course we have to accept that this choice may have jeopardised from the beginning the possible finding of commonalities between these 9 countries altogether.

A certain number of countries like Cyprus, Estonia, Hungary, Latvia, Lithuania, the Netherlands and Poland are not included in these studies, for various reasons: either we did not manage to assign them to one of our five models, or it was not possible to have a competent answer from our contact persons in a reasonable time frame or we did not even find a correspondent etc.

But covering twenty countries we may nevertheless draw some conclusions and thus prepare a future in depth research in this field.

⁸ See www.visegradgroup.eu.

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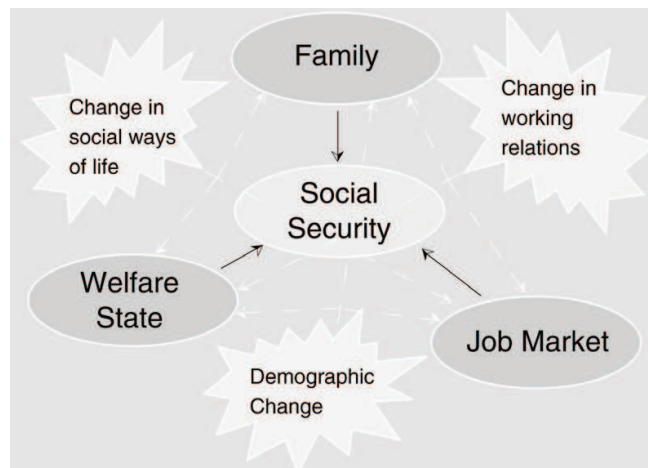
The Social Protection System: Analytical Questions and Quantitative Indicators

A practical guide to prepare country data
for a comparative studie

CARLO KNÖPFEL

*This paper is based on the Caritas Europa social security model¹.
In this model social security has three different sources:
labour market, family and welfare state.
Social security is challenged by the changes in society:
the economic, social and demographic change.*

Graph: The Model of Social Security System



Until now we spoke about a “Social Security System”. A “Social Protection System” includes not only the social insurances but also transfers and benefits like minimum income, social aid etc.

In this paper important questions to the different elements of this model are formulated. These questions give help and orientation for an analysis of a country-specific situation. After these questions we provide a number of key indicators which give quantitative information on the different elements of the model.

¹ For a description of this model see: Poverty among us, part A, Chapter 1, pages 7-14, Caritas Europa (2010), Bruxelles.

The First level: The three sources of social protection

Social protection has three sources: labour market, family and welfare state. If we describe the situation on the labour market, the role of families and the meaning of the welfare state for social protection, we describe the actual picture of a society. It is a static picture, a momentum of the current situation.

The first source: labour market

Questions

What is the situation on the labour market? Who is employed, who is not? How is employment along various socio-economic markers? How is employment in the various sectors of economy, in various regions of the country and within the various branches? Is there a black or grey labour market? Has it a significant meaning? What is the relation between full time and part time jobs? Does a tendency to precarious situations and non-standard contracts for workers exist? Are the workers organized? What is the strategy of the unions? How is the distribution of wages?

Indicators

1. Employment rates
Employment rates by sex, age, nationality, education level, branches, regions, degree of employment
2. Unemployment rates
Unemployment rates by sex, age, nationality, education level, branches, regions
3. Percentage of standard worker contracts in relation to all worker contracts
4. Size of black and grey labour market
5. Height of wages
Height of wages by sex, age, nationality, education level, branches

The second source: family

Questions

What is the meaning of families in society regarding social protection? What does society expect from families? Which types of families do exist? How is the distribution of paid and not paid work within families? How is child care organized? What is the meaning of subsistence economy for families?

Indicators

6. Size of households
7. Structure of families
8. Median household income by household type (=At-risk-of poverty threshold/60*100 K-EUR, based on the median equivalised disposable income after transfers)
9. Distribution of household income
Distribution of household income by size of household
10. Work intensity of the households
Work intensity of the households by household income
11. Degree of household employment
12. Percentage of children (over 1 year) in child care facilities
13. Size of subsistence economy

The third source: welfare state

Questions

Is there a welfare state? How is the welfare state organized? What is the role of NGOs as social service providers? Which kind of social insurance does exist? Are there other social transfers? Does social aid exist? How is the welfare state financed? Do instruments for integration in labour market exist?

Indicators

14. Welfare state quotes (Social protection benefits – sickness and health care, disability, family and children, unemployment, old age and survivor benefits, housing and social exclusion – as a % of GDP)
15. Distribution of social transfers by various functions (for unemployment, illness, invalidity, pension, families)
16. Percentage of persons receiving social transfers, by the various functions
17. At-risk-of poverty rate “before” (before all social transfers except old age and survivors benefits) and “after” social transfers
18. Percentage of households in a material deprivation situation
19. Net income (after tax and social insurances) in relation to total income

The second level: The three challenges for social protection – a changing society

Change in society happens. Three aspects are especially important for social protection: the economic, social and demographic change. Describing change of society means to go over to a dynamic picture of social protection: social protection changes if society changes.

The first challenge: economic change

Questions

What is the development of the national economy? How is the national economy influenced by the globalization process and the new technologies? Which kind of economic activities is the national economy confronted with, which ones are phasing out? Is there a national education strategy? Is there a national strategy for research and development? Does a flexicurity approach exist?

How does the economic change influence the labour market, family life and the welfare state?

Indicators

20. Growth of GDP
21. Growth of GDP per capita (here: GDP per capita in PPS)
22. Export rate
23. Percentage of persons with low educational attainment (level of education < 2 according to ISCED)
24. Percentage of early school leavers
25. Hours per capita and year for lifelong learning
26. Expenditure for education in percentage of GDP

The second challenge: social change

Questions

How does the individualization process go? Does social background change? Is there a change of values and norms? What is the meaning of social NGOs and church in society? Is there a change of the role of women in families? What is the meaning of migration? Does a migration policy exist?

How does social change influence the labour market, family life and the welfare state?

Indicators

27. Internal rural migration
28. Population by region (town, countryside, agglomeration)
29. Employment rate by sex
30. Rate of divorce
31. Rate of couples without children
32. Single household rate
33. Rate of volunteers in relation to the population
34. Migration rate
35. Crime rate

The third challenge: demographic change

Questions

Which structure does the population have? Are there changes between the different age groups? Is a four-generation-society coming? Does a family policy exist? Does a migration policy exist?

How does demographic change influence the labour market, family life and the welfare state?

Indicators

36. Size of population
37. Rate of different age groups
38. Fertility rate
Fertility rate by nationality
39. Life expectancy
40. Rate of children who know their great grandparents

The third level: Development of social protection

This model should help answer the question, whether the development in society can offer social protection to all or whether it cannot. On the third level follows the reflection: How changes in society influence the three sources of social protection? Social protection has again three facets.

The first facet is the possibility to secure material life of oneself and ones family. The second facet describes whether people are secure in critical life situations (unemployment, illness or invalidity). The third facet has to do with the possibility to provide for pension.

The first facet: To secure material daily life of oneself and ones family

Questions

How does change in society influence the possibility to secure material daily life? Are households able to finance their material daily life? Do poor households exist?

Indicators

41. Distribution of household income (Lorenz curve, Gini-coefficient)
42. Quintile ratio (S80/S20)
43. At-risk-of poverty rate
44. Relative median poverty risk gap (difference between the median equivalised income of persons below the at-risk-of poverty threshold and the threshold itself, expressed as a percentage of the at-risk-of poverty threshold)
45. At-risk-of poverty rate by size of household
46. Working poor rate

The second facet: To be secure in critical life situations (like unemployment, illness or invalidity,...)

Questions

How does change in society influence the possibility to be secure in critical life situations? Are private transfers in these situations important?

Indicators

47. Percentage of households with a right to social security (including health insurance)
48. Percentage of persons receiving social transfers
49. Net income of social assistance recipients as a % of the at-risk-of poverty threshold for 3 jobless households
50. Percentage of persons receiving social aid

The third facet: To provide for pension

Questions

How does change in society influence the possibility to provide for the pension? Is pension a special poverty risk? Do people work past the official pension age? Do pensioner households need private transfers?

Indicators

51. At-risk-of poverty rate by age
52. Average effective labour market (retirement) age (no data for SK)
53. Employment rate of elderly people (55-64)
54. Replacement rate (income before pension in relation to income after pension), here aggregate replacement ratio in % (ratio of median income from pensions of persons aged 65-74 relative to median work income of persons aged 50-59)
55. Pension system dependency ratio (Number of pensioners for 100 contributors) – no data for SE
56. Old age dependency ratio (number of persons aged 65+ in relation to number of persons 15-64)
57. Relative median income ratio of people aged 65+ (relative to the complementary age group 0-64, in %)

Synthesis: Social protection for all?

Questions

What is the social protection situation for the different social groups in society? Who will gain more social protection from change in society, who will lose social protection?

Indicators

58. At-risk-of-poverty rate by different social groups (single parents, elderly people, children and youngsters, migrants, low-qualified workers)



Chapter II

Welfare in Bismarckian Countries

DOMINIC VERHOEVEN



Social Protection Mechanisms in Belgium – a Bismarckian Social Security System coping with the Crisis

1. Introduction

In this paper we aim at presenting – in a global way – how the Belgian Social System tries to uphold social protection mechanisms in the current crisis context. The Belgian case is used here as an example of a number of countries whose social security system is based on the so-called Bismarckian model, after the German chancellor Otto von Bismarck who introduced this model of social security in 1883 in Prussia.

After a brief description of this Bismarckian model, we will deal with the three fundamental components of social protection, as depicted in the analytical model that Caritas Europa has adopted¹, i.e. the Labour Market, the Family and the Welfare State.

Further on, we will look at the three major changes that are challenging the existing protection mechanisms: economic changes, social changes and demographic changes. Does the Belgian system seem apt to survive these challenges in a reassuring way?

Finally, we try to distil some trends about the sustainability of social protection for the future. How ‘robust’ is the Bismarckian approach in times of crisis in Belgium? How can we work towards social protection for all – or is it just a dream?

In order to be able to compare with other countries and data from over Europe, we will make use as much as possible of Eurostat data².

In a separate section we will then compare these trends with other countries that are known to be ‘of Bismarckian nature’, such as Germany, Austria, France and Luxembourg.

¹ See Carlo Knöpfel’s article in chapter 1.

² See Appendix 2.

2. The Bismarckian Model of Social Security in Belgium

Back in 1883, the German Chancellor Otto von Bismarck introduced a statutory health insurance in Germany and so paved the way for a comprehensive social insurance system. The main aim was to prevent employees from suffering dramatic changes in standards of living due to the accidental loss of one's job. In doing so, von Bismarck wanted to counter social unrest – and growing support for the socialists – and to weaken the 'friendly societies', the voluntary mutual social insurances (which later developed into sickness funds) from the trade unions and church-run workers' movements.

Since its main aim is to reduce the impact of – temporarily – losing the possibility to work, the Bismarck Model is focusing on people earning wages. Its means mainly come from contributions from both employers and employees. The contributions are income related, so are the benefits (to a large extent). Hence the Bismarck Model's prime objective is not income redistribution, but risk management, insuring risks for all who contribute. Everybody who pays in, must be able also to get something out. Therefore Bismarck systems are universalistic (even if ceilings are used to limit the relation between income and benefits).

Another feature of Bismarck social security systems is that civil society not only plays a role in administering the system (by the trade unions and the employers' associations), but also in organising care. Faith based organisations among others have been very active in setting up care facilities. In Germany civil society holds a constitutional priority to set up and run health care and social welfare facilities.

These characteristics oppose the Bismarck Model to the other main model at the origin of social protection mechanisms in Europe – the Beveridge Model – that aims at offering a basic service to all who can't afford to pay for it themselves (and which is hence predominantly means tested), and that is financed by taxes.

In Belgium, apart from rudimentary elements as Civil Hospices run by local authorities and from the mutualities that date back from the last decades of the 19th century, it was only in the beginning of the 20th century that a number of compulsory insurances were put in place (accidents at work, occupational diseases, survival pensions, family benefits, annual vacation), as well as a guaranteed income for disabled persons (paid by tax money). And it was only at the end of the Second World War that almost all these measures

were grouped and co-ordinated into a ‘Social Pact’ (1944), an ‘agreement for social solidarity’ concluded by representatives of the workers’ trade unions, the employers’ organisations and government officials that was meant to safeguard social peace and to ameliorate the living conditions of the workers.

The biggest innovations were that all social insurances were made compulsory for all workers, that a National Office for Social Security was created as a central body to collect the social contributions, and that social security was controlled with equal representation by both workers’ and employers’ associations, fully in line with the Bismarck tradition.

The Social Pact also applied only to wage earning employees. For the self employed workers, it took until 1967 before the ‘Social Scheme of the Self Employed’ was created, integrating all the existing schemes for them.

After the war and especially during the Golden Sixties, a period characterised by economic expansion, the Social Security System grew enormously. It gradually evolved from an insurance mechanism against social risks to a guaranteed subsistence security for everybody (with the 1974 law on the subsistence minimum underlining this point) that also incorporated the new risks. It meant as well that the share of the government, as third contributor to the system, was growing.

The Bismarckian Model in principle saw employment as the rule and unemployment as a social risk, and an exception to the rule. When the Oil Crisis of 1973 put an end to the years of economic growth, unemployment rose and the number of beneficiaries increased. Revenues were increased and social benefits cut down, hitting foremost single persons, couples living together and young persons who finished their studies but didn’t have a job yet. To enhance the competitiveness of companies, the employers’ social security contributions were drastically lowered and partly replaced by ‘alternative financing sources’ (from VAT revenues). It seems as if we haven’t got out of this ‘crisis limiting policy’ since, although the ‘return of the heart’ (le retour du Coeur) policy at the early years of this century gave way to increased benefits and new legislation (e.g. on the ‘social integration income’ (the former ‘subsistence minimum’) and the ‘income guarantee for the elderly’ (the former ‘guaranteed income for the aged’)). Finally, in 2009, equal treatment for women and men has been completed as to pension age for salaried persons and self-employed persons (at 65 for both men and women).

As introduced above, the Belgian system is based on the Bismarck approach, but also has a number of features that relate to the Beveridge model, as there

are the social assistance systems, or the fact that almost everyone is entitled to reimbursement of hospital costs.

If we look at the relative figures of the contributions of the various factions over time, as reported in the DICE-report on the 5-year interval evolution by CESifo (2008), we see that Belgium ranks among the best ‘pupils in the class’ of the so-called Bismarck countries, with a total of 73.4 % of the funding in 2005 coming from Employers and protected individuals (wage earners, civil servants and the self-employed). And this proportion was growing, compared to 1995 (71.1 %) and 2000 (72.2 %). For the other Bismarck countries, Austria, Germany and France), these percentages were ranging from 62.7 % to 67.8 %. Only Luxembourg had a score of 51.3 %.

Of this 73.4 %, 51.4 % came from employer contributions (increasing), and 22.0 % from the employed (stable), so nearly a ratio of 7 to 3. This underpins the critique of the employers on the cost of the system. For the employees, two systems of contributions exist: wage earners pay a fixed percentage of 13.07 % of their gross wage; while civil servants pay only 11.05 %. The self employed pay a proportion of their income that decreases as their income goes up, but that in general remains under twenty percent (whereas for salaried people, apart from the personal contribution of 13.07 %, the employer pays an additional contribution of about one third of the gross monthly salary into social security contributions.

The Bismarck Model started from insuring the social risks of employment, with one breadwinner per household, and a sane, pyramid shaped demographic tree. Within this framework, the system was easily sustainable, at relatively low cost. But if we change the parameters to a context of crisis, with structural unemployment, with large categories of people that are only on a part-time basis on the labour market or that are for considerable periods of time in temporary leave systems, and with a demographic evolution that leads to a rather reversed pyramid, it is clear that the sustainability of the model is under threat, and that measures have to be taken.

Alternative sources of revenues for the social security system have to be developed, also because it keeps the cost of labour expensive, according to the employers’ associations too expensive compared with the cost of labour in the neighbouring countries (which are Belgium’s main competitors in an open economy). We will discuss some of the (proposed) adaptations and changes later on in the text. But so far no dramatic changes have been made, compared to the ones in the nineties of the last century.

Yet from another point of view, the fact that our social security system is not primarily paid by taxes, makes it more robust to withstand drastic cuts that are being made in many other ministerial departments, due to the European Union's severe Rule on budget orthodoxy and austerity.

In the following paragraphs, we will see how well or how bad the Belgian Social Protection Mechanisms manage to keep poverty from spreading dramatically. We are far away though from the ultimate objective of arriving at 'zero poverty'³.

3. Participation in the Labour Market as Source of Social Protection

The most important element in order to secure your living and that of your children, is to have a job and earn a decent salary. This is also the reason why the European Commission is hammering on 'Growth and Jobs'. The idea is that if we produce more jobs and foster employment, also the social conditions will ameliorate. Whether this is a sufficient condition remains to be seen. But it undoubtedly is an important source of social protection.

In this paragraph, we will draw a picture of the Belgian labour market, by paying attention to the number of people in the labour force, to types of labour and legislation, to the organisation of workers but as well to unemployment data.

We will especially draw the attention on the impact of having or not having a job on being at risk of poverty.

3.1 Employment Rate

Belgium has a relatively low proportion of the active population at work. With 67.3 % it scores just slightly above some new member states like Bulgaria and Romania, and some of the countries facing the effects of the crisis in the most severe way (Greece, Ireland, Spain, Italy), but far beneath the 80 % of Sweden, the 77 % of the Netherlands, the 76.3 % of Germany and even behind France (69.2 %). The European 2020 Target has been set at 75 %, but even the 73.2 % put forward for Belgium doesn't seem attainable at the current pace.

³ See Caritas Europa (2010).

Table 1: Proportion of Population Active in the Labour force (in %)						
Category \ Year	1995	2000	2005	2007	2009	2011
<i>Employment Rate</i>						
Total population, 20-64y	61.2	65.8	66.5	67.1	67.7	67.3
<i>By Gender</i>						
Men	73.0	75.5	74.3	75.0	73.2	73.0
Women	49.2	56.0	58.6	60.3	61.0	61.5
<i>By Age Group</i>						
20-24 years		55.9	60.5	57.9	53.7	52.9
25-49 years		85.7	87.0	87.2	88.1	85.7
50-54 years		64.1	72.4	75.5	78.6	76.5
55-59 years		42.3	43.8	51.1	52.0	56.0
60-64 years		11.4	16.2	18.1	18.2	20.5

Source: Eurostat

The figures for men are at 73 %, but the figures for women are only very slowly rising, by less than 1 % a year. So it remains a giant problem to accelerate the participation of women in the workforce...

If we look more in detail at the breakdown table by age groups, we notice that the proportion is sharply dropping after 54 years of age. Of those between 60 and 65, hardly one out of five is still at work. When asked when they want to stop working, the average answer of people aged 50 and older is 'at 62'; about a quarter wants to retire before 60, a figure that is understandably much higher among blue collar workers (36.9 %) (Figures 'Leeftijdenwerk.be, 2006). If we take the 'older workers' (the EU category '55 – 64', the overall EU percentage of active older workers in 2011 is 47.4 %, whereas the figure for Belgium remains at a low level of 38.7 %.

When the present Belgian Government took office – after the longest ever coalition formation period – at the end of 2011, their first measure was to review and severely limit early retirement possibilities. This should reduce the proportion of early leavers: so far these possibilities were not only used for 'companies in difficulties' – what they were initially meant for – but overtly as a way of letting older (and more expensive) employees leave the company with financial support from the company and the government.

These changes met with a lot of resentment and a number of strikes, but were nevertheless accepted without too many problems, partly as well because the effects will only come into play in some years from now on. On the political

level, there is quite some understanding that the employment rate needs to get up in order to keep the system going. Yet at the end of 2012, with the announced closing down of the Ford car assembly plant in Limburg and the foreseeable loss of about 10.000 jobs, the trade unions again ask for a very ‘broad interpretation’ of the law on early retirement. At first sight though the political parties don’t seem to choose this card.

3.2 Types of work

A quarter of the Belgian population is working part-time, a proportion that is slightly increasing. Among men, part-time work still is limited to about 10 % (though this figure has nearly doubled over the last 10 years), whereas among women it was 40.4 % in 2011, an increase of more than 15 % since 2000. Comparative figures for the European Union are 19.5 % for the total population, and respectively 9.0 % and 32.1 % for men and women.

Category \ Year	2000	2005	2007	2009	2011
<i>Persons empl. part-time</i>	18.9	22.0	22.1	23.4	25.1
<i>By Gender</i>					
Men	5.5	7.6	7.5	8.6	9.8
Women	37.4	40.5	40.6	41.5	43.4
<i>Persons on contracts with limited duration</i>	9.1	8.9	8.6	8.2	9.0

Source: Eurostat

Hence, the Belgian active population is not only participating less on the labour market, also those people that have a job are significantly more often employed in a part-time work.

If we look at the number of people employed on a contract with limited duration, we notice an opposite trend. Only 9.0 % of the work force has a temporary contract and this proportion seems to be stable over time. The figure for the whole of the EU is 14.1 %, so 50 % higher than in Belgium.

These figures can be interpreted in the sense that Belgium has focused more on the distribution and safeguarding of existing jobs (by promoting part-time work) and has a relatively more robust system of protecting jobs (less contracts on limited duration).

The fact that the level of adhering to a trade union in Belgium is quite high (about 52 % in 2010, and stable over time, compared to other countries (Germany 18.6 %, 19.0 % in the Netherlands, and 7.6 % in France) may help to explain this – where this high level of trade union membership may in itself be a function of the important role the trade unions are playing in Belgium in managing the social security system.

The other side of the coin of course is that this relatively higher rigidity of the labour market together with the high cost of labour (including Social Security contributions) leads to an increased use of interim labour, especially in times of crisis, and of work being transferred to the black market, which is estimated to account for 14 % of the total GDP in Belgium⁴.

3.3 Unemployment Rate

The unemployment rate in Belgium is clearly below the European average, which in 2011 reached 9.6 % for the whole of the Union, and even 10.1 for the Euro-zone, illustrating the deep crisis of the Euro. Belgium though could maintain a low unemployment rate, which put it among the better performing Member States – including most of the Bismarck-countries. Ever since the beginning of the Third Millenium, the Belgian unemployment figures remain more or less stable.

Table 3: Unemployment Rate (in %)						
Category \ Year	1995	2000	2005	2007	2009	2011
<i>Unemployment Rate</i>						
Total population	9.7	6.9	8.5	7.5	7.9	7.2
<i>By Gender</i>						
Men	7.6	5.6	7.6	6.7	7.8	7.1
Women	12.7	8.5	9.5	8.5	8.1	7.2
<i>Long term Unemployment</i>	5.8	3.7	4.4	3.8	3.5	3.5
<i>Youth Unemployment</i>	22.9	16.7	21.5	18.8	21.9	18.7

Source: Eurostat

Looking at the separate figures for men and women, we notice that the differences between the sexes, still apparent in the nineties, have disappeared during the last years. Women do not have a higher probability anymore of ending up unemployed.

⁴ See Pacolet and others (2009).

Youth Unemployment

One of the most vulnerable categories now seems to be young people under 25, that are just arriving on the labour market. Here the average for the country is 18.7 %, still under but close to the EU's average of 21.4 %. Yet also here, when we compare with the past, the current score is more than reasonable. Especially when we look at the disaster in terms of youth unemployment that has been provoked by the crisis in countries like Spain and Greece, with percentages well over 40 %, and others like Ireland, Portugal, Italy, Latvia, Slovakia and Lithuania, that are all around 30 %.

Long Term Unemployment

There also remains a lasting core group of long term unemployed people, about 3.5 % of the active population (4.1 % in Europe), that is already unemployed for more than a year, and that might remain so for some time. This is a very vulnerable category indeed, and they might need other mechanisms to make them participate in society – as has been done with some other categories of people that are unemployed for quite some time and that are not (supposed to be) actively looking for a job anymore, so they have been removed from the statistics (but in a comparable way for all countries in Europe).

Unemployment among immigrants

By far the most vulnerable category in Belgium turns out to be Migrants. For immigrants coming from one of the other EU-member states, the unemployment rate increases by half. It stands at 10.9 % for those who are living already more than 5 years in the country, and slightly more for those with a length of stay of less than 5 years: 11.4 %. In both cases the rate remains just under the overall average for the EU (resp. 11.6 % and 12.0 %). Most of the people in these categories come from France and from the Netherlands.

For immigrants coming from outside the European Union, the situation is much more dramatic. Here the unemployment rate is 30.5 % for those staying already more than five years in the country and 32.9 % for those who arrived more recently. For women these percentages are even considerably higher, with 34.6 % resp. 37.6 %. Moreover, these percentages exceed by far the EU average of 19.4 % and 21.1 %! It is clear that the government urgently has to take steps in order to facilitate the access of immigrant workers to the labour market.

Unemployment according to the Regions

The last unemployment rate breakdown we want to highlight is the one according to the regions. In 2010, the average unemployment rate for the Flemish Region, was 5.1 %; in the province of Western Flanders, the figure was even smaller: 3.8 %, which nears structural full employment. In Wallonia, 11.4 % were unemployed (with Luxembourg with 7.5 % as best province), and in Brussels, the proportion was 17.3 %.

The differences between the regions have given way to discussions about transferring labour policy from the national government to the regions, so that different measures could be taken for the various regions. This is supposed to be part of the Sixth State Reform currently under way.

Temporary Unemployment

Before we look at the impact of having a job on escaping the risk of poverty, let us indicate one element that has been quite instrumental in avoiding sharp increases in unemployment, notably the broadening, by the previous government, of the Law on Temporary Unemployment from blue to white collar workers.

In doing so, the government created a mechanism that allowed the companies to keep their skilled staff within the organisation but at a subsidized cost. Hence it was more convenient for the employers to opt for this formula, instead of having to fire an experienced collaborator and replace him half a year later, when the economy is recuperating, by a new one.

3.4 Participation in labour market and poverty

Let us now return to the question we asked ourselves at the beginning: does having a job, does participating in the labour market, have an effect on avoiding poverty? In what way does employment help to build social protection against poverty? In order to answer this question, we will look at the most commonly used indicator, i.e. the at-risk-of-poverty-rate, defined as the proportion of the population that remains under the threshold of 60 % of the median equivalized disposable income. Since the ‘new’ indicator that is part of the 2020 Dataset, i.e. the at-risk-of-poverty-or-social-exclusion-rate, has in its own composition a component on ‘very low job intensity’ it cannot be used properly here.

But the data clearly indicate that only a very small proportion of those working fall below the threshold of 60 % of the median income. This group constitutes yet another problem: they form the working poor, people that

do have a job, but still are at risk of poverty, because it's a part-time job, because it doesn't pay well, because... . For the vast majority however, we see that having a job seems to be the engine to take the poverty hurdle (i.e., after social transfers).

Table 4: At Risk of Poverty according to Employment (in %)					
Category \ Year	2000	2005	2007	2009	2011
<i>At Risk of Poverty Rate</i>					
Total population	13.0	14.8	15.2	14.6	15.3
<i>In work At Risk of Poverty Rate</i>	---	3.9	4.4	4.6	4.2
<i>Unemployed persons</i>		30.7	34.2	33,4	37,9

Source: Eurostat

However, for those who are, on the contrary, unemployed, the chance of becoming at risk of poverty is pretty high, with 37.9 % in 2011. These figures are already calculated 'after social transfers', so the impact of living in a jobless household is dramatic. When we look at the evolution of the data we notice as well that this last group is growing: in 6 years' time, figures increased from 30.7 % to 37.9 %. Does this mean that the system, due to cuts and adaptations, has fewer possibilities to keep people out of poverty?

But before to have now a look at the second pillar of social protection, the family, let us first summarize some of the more important findings of this first paragraph.

3.5 Conclusions and trends

- Belgium has an employment rate of 67.3 % but which is not really increasing, and which still has an important gap between men (73 %) and women (61.5 %).
- The biggest social turmoil in recent years had to do with the changes brought forward to reduce early retirement. This law was passed, but will only show effects in the years to come. Much will also depend on the pressure on the government to allow exceptions for people losing their job due to the crisis.
- The overall unemployment rate is moderate (7.2 %) – even if we bear in mind that a number of people are left out of the statistics – but there are big differences between the regions and provinces, and according

to age and ethnicity. The sixth State Reform that is currently being debated, is thought to regionalise part of the labour policy, so as to make it easier to address the differences across regions.

- The impact of the crisis on the overall unemployment rate was limited. One of the reasons was the introduction of temporary unemployment by the previous government, in order to counter the effects of the crisis in 2007-2008. It allowed the companies to keep their employees in the workforce, whereas otherwise they might have had to lay them off.
- Having a job proves to be the best guarantee to pass beyond the at-risk-of-poverty threshold. Only for 4.2 % of the population, this is not sufficient. They constitute the working poor.
- Overall, participation in the labour market and employment figures have quite well withstood the waves of the crisis. This does not mean that ‘we got through’. More reforms are needed. But at least we have some more time, more time that was not given to other countries of the EU.

4. The Family as Source of Social Protection

In ancient times, the family, and larger the clan, were the prime source of protection. But also after the industrial revolution and the development of paid labour outside of the family, it remained a very important structure providing social protection to its members. And also when Otto von Bismarck laid out the cornerstones of his model, the family played an important role, as it was seen as the basic unit of society. Every family had a breadwinner whose income had to be protected, and that income should serve the whole family. No other rights were directly attributed to other family members.

However, the empirical meaning of ‘family’ has changed, as has the sociological definition. One person households used to be a mere exception, mainly composed of widows and widowers, now they make up 15 % of the Belgian population. The ‘family’ as a social stronghold that can absorb a lot of misery, may have suffered from these developments.

In this paragraph, we will first provide some basic information about families and types of families or households in Belgium, and then link this types with the at-risk-of-poverty indicator, to see if there are types of families that are more likely to be at risk of poverty than others.

4.1 Characteristics of Belgian 'households'

The average size of a household now lies at 2,31 members. The average number of children a woman gives birth to, is now relatively stable at 1.84. Just over half of the households count children (52.5 %), where it was still 56 % in 2000. The families haven't only become much smaller in size, they also have become more loose units. Every year, there are 4.1 marriages per 1000 inhabitants, and 2.9 divorces; 49 % of all children are now born outside of marriage, in loosely composed partnerships of parents, that are much easier to dissolve and recombine than ever before.

Table 5: Household Composition Belgium (in %)		
Category \ Year	2000	2011
Households with dependent children	56	52,5
Single parents with children	4	6,6
Two adults with 1 dep. child	10	11,3
Two adults with 2 dep. children	20	15,0
Two adults with 3 or more dep. children	12	11,7
Three or more adults with children	10	7,9
Households without dependent children	44	47,5
Single persons without children	10	15,3
Two adults under 65, without children	11	14,3
Two adults one > 65, without children	11	10,2
Three or more adults without children	12	7,7

Source: Eurostat

If we look at the types of households of families that constitute the Belgian society, the figures indeed indicate a decrease in households with children. Small households are becoming more frequent: single person households (with or without children) saw an increase of more than 50 %, from 14 to 21.9 %, and also households with two adults and one or no children, are now more present. More generation families are equally clearly on the decline (from 22 to 15.6 %).

But what does this changed typology mean when we look at the risk of poverty?

4.2 The impact of the type of household on the risk of poverty

The at-risk-of-poverty rate

Table 6 shows the breakdown of being at risk of poverty as a function of household composition.

Table 6: At-risk-of-poverty-rate by household composition Belgium (in %)					
Category \ Year	2000	2005	2007	2009	2011
Households with dependent children	11	15.9	14.7	14.1	15.2
Single parents with children	27	33.2	39.1	35.3	38.5
Two adults with 1 dep. child	7	9.0	9.3	8.4	9.2
Two adults with 2 dep. children	11	9.7	8.4	8.0	8.5
Two adults with 3 or more dep. children	9	19.6	18.0	15.8	16.7
Three or more adults with children	11	17.8	12.6	11.7	11.6
Households without dependent children	15	13.8	15.7	15.1	15.6
Single persons without children	19	22.0	25.6	22.5	21.4
Two adults under 65, without children	10	8.2	7.9	9.5	9.9
Two adults one > 65, without children	23	17.3	20.4	20.9	22.0
Three or more adults without children	11	4.5	6.3	5.2	6.1

Source: Eurostat

The main factor of being at risk of poverty is not whether or not to have children, but to be part of a single person household. If that's the case, even without children, the chance of being at risk of poverty is 21.4 % (this category of course also includes quite some widowed pensioners). But if you combine being the only adult in a household with having children, then we see that not less than 38.5 % of these people are at risk of poverty, so 4 out of 10. Being alone and responsible for raising children turns out to be a most fragile combination! It also proves that 'marriage as the cornerstone of society' is not only a faith based creed, but still also finds economic corroborating evidence.

The number of children comes into play from the third child onwards: then even households with two adults see the chances of being at risk of poverty almost doubled (to 16.7 %). For single parent families no data are available, but it seems logical that also in that case, the risks will not decrease with the number of children.

That families with two older people have a higher risk, has everything to do with the fact that they fall back on a pension, which means a severe loss of purchasing power.

Very low work intensity

If we combine this with ‘very low work intensity’ (working less than 20 % of the time), the rate rises to 74.8 %. So being an unemployed lone parent – mostly a lone mother – with children to raise is a deadly combination and almost for sure means a ticket to lasting poverty – for the children as well, since they also will grow up in poverty. So it is a crucial policy demand to offer these lone parents possibilities to get out of unemployment and find a decent job, combinable with caring for their children after work. Investing in making child care facilities accessible, available and affordable will be of uttermost importance.

4.3 Conclusions and trends

- The data clearly show an impact of the type of family or household one is living in, on the risk of becoming poor.
- For people living in fragile one person households these family surroundings do not add to any social protection, but, on the contrary, constitute additional problems.
- This does not only affect the single parents, but as well the children who will grow up in poverty and exclusion.
- Therefore all the necessary measures must be undertaken to assist these families, in order to offer them possibilities to combine working with raising their children.
- At the same time, as society, we must reflect on ways to restore or replace the supporting social tissues of the old family structures around people in trouble.

5. The Welfare State as a Source of Social protection

So far we learned that being part of the labour market provides income and hence social protection; unfortunately, being jobless keeps you away from this form of security. We also learned that the family is still playing an important role. Two working adults is now the rule; single parents with kids are facing hard times: if they are as well unemployed, they have three chances out of four to find themselves in poverty.

So there still is a need for an intervention to make up for those people where the labour market and the family fail to provide social protection. This was exactly the reason the Welfare State was created for.

We will first look at the overall expenditure that goes to social protection, and then describe the various components of the system. Finally, we will again look at the effectiveness of the interventions of the Welfare State: does it actually prevent people from falling into poverty?

5.1 The overall expenditure on social welfare

In 2009, the latest year for which data are available to date, Belgium spent 30.4 % of its GDP on Social Protection, i.e. 88 billion euros, or 8.350 € per inhabitant. Proportionally, this is slightly more than the 29.5 % for the whole of the European Union, and in line with the other so-called Bismarck-countries, that are in the range from 30.4 % for Belgium to 33.1 % for France. Only Luxemburg is an outlier, spending only 23.1 % on social expenditure.

These figures relate to expenditure in the framework of social protection; they do not contain expenses in terms of social welfare infrastructure and organisation on regional or local level.

Category \ Year	2000	2005	2007	2009	2009 EU27
<i>Total expenditure</i>	25.4	27.3	26.8	30.4	29.5

Source: Eurostat

Over the years, we see a clear increase from 25.4 % to 30.4 % (for the European Union as a whole, the expenditure for social protection rose from 27.1 % in 2005 to 29.5 in 2009). With a 5 % increase over 10 years, it is evident that questions are raised about sustainability and that political choices have to be made.

Of this total proportion, 95 % are directly allocated to the beneficiaries, while 5 % goes up in administration and other costs, which makes the Belgian system slightly more costly than in the EU on average, with 3.9 %.

5.2 Distribution of Social Expenditure per Type

The next table analyses the breakdown of social expenditure over the different sectors or types. We also give the 2009 breakdown for the EU27 as a comparison. The two biggest components clearly are 'Old Age' and Sickness and Health Care. Together they account for 60.9 % of Belgian expenditure. These figures are more or less stable over the last five years, after an increase

for health care between 2000 and 2005 (partly due to the yearly increase by 4.5 % beyond inflation for health care). Compared to the EU, Belgium spends less on pensions but more on unemployment, where the figures double those from the EU27 in general.

Category \ Year	2000	2005	2007	2009	2009 EU27
Sickness / Health Care	24.6	28.9	28.7	28.2	29.6
Disabilities	9.7	7.3	7.0	7.1	8.0
Old Age	33.3	32.4	32.2	32.7	39.0
Survivors	9.6	8.3	7.9	7.5	6.0
Families / Children	8.8	7.8	8.1	7.7	8.0
Unemployment	12.1	13.2	12.9	13.3	6.0
Housing	0.1	0.3	0.6	0.8	2.0
Social Exclusion	1.7	1.8	2.6	2.7	1.4
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Eurostat

We will now discuss somewhat more in detail the expenditure per type in Belgium, for the main categories in the table. Therefore we use national data from the Federal Public Service Social Security for 2010.

Sickness and Health Care

The sickness and health care sector is the second largest in terms of budget allocation. Its main objective is to make sure that every inhabitant has access to health care in an affordable way. Almost the entire population is thus benefiting from this insurance. Adherence to a sickness fund is compulsory. The sickness fund intervenes when costs are incurred, and is are turn reimbursed by the Social Security Agency. For people with a low income, pensioners, widows and others, a third party payer system has been developed, so that the sickness fund is directly paying the bill. The patient then only has to pay his personal share of the bill, which for these categories is very low as well.

The growth of the budget for health care is limited by law to a level of 4.5 % above inflation. If this margin is not used, the remaining sum is transferred to the Future Fund, which can be used to cover losses in subsequent years.

In 2010, almost 23 billion Euro were spent on medical care. The main subcategories are shown in table 9. Almost half of the budget is spent on paying medical personnel. In Belgium, medical doctors, dentists, other (para)

medical therapists, as well as self employed nurses (home care) are being paid ‘per act’ (in a very detailed way). Only nurses employed by hospitals are touching salaries.

The first medical person to contact is your personal medical doctor, who administers your personal medical file. If he judges it necessary, he may refer you to a specialist. People who do not follow this line are penalised financially: they pay a greater personal share for the doctor’s visit. Belgium counted in 2009 31.561 medical doctors, and 59.217 other non-medical professions in health care, 40 % of them nurses.

Table 9: Expenditure on Sickness and Health Care by subcategory (in %)	
Sickness / Health Care	%
Medical Acts by Doctors, Dentists and paramedics	44.7
Stay in Hospitals or other Facilities	30.4
Pharmaceutical Products	18.6
Others	4.8
Maximum bill	1.5
Total (N = 22.826.873.000)	100.0

Source: Data FPS Social Security, 2010

Stays in hospitals or other facilities amount to 30.4 % of the expenses, while a third subcategory of pharmaceutical products – which is increasing yearly – takes about 18.6 % of the budget. Cancer treatments, cardiovascular drugs and anti-depressants constitute the three main types of drugs.

Worthwhile mentioning is the last category in the table, expenses regarding the ‘maximum bill’. For each person, a record is kept with his or her expenses on health care. Once a threshold – depending on the level of income – is passed, the patient doesn’t have to pay anymore and all costs are taken over by social security. This is an expense of ‘only’ 326 million euro per year, but it can make a big difference for people in need.

Disabilities, Occupational Diseases, Accidents at Work

People risk losing their ability to work, due to illnesses, accidents, accidents at work, or occupational diseases. An insurance against accidents at work is compulsory for employers.

If this happens they enter a phase of temporary incapacity to work, for which they get an allowance, which lasts for a maximum of one year. If they have not resumed work after that, they enter a second phase of permanent

incapacity to work, and a degree of incapacity is established. In 2009 403.354 persons found themselves in temporary incapacity to work, for 264.668 this had become a permanent situation.

A third group of people that are covered under this heading are people with disabilities. In 2010, allowances were paid to 309.016 persons, of which slightly more than half were under 65.

Table 10: Expenditure on Disabilities, Occupational Diseases and Accidents at Work by subcategory (in %)	
Disabilities, Occupational Diseases, Accidents at work	%
Temporary Incapacity to Work	19.4
Permanent Incapacity to Work	47.2
Allowances People with disabilities	26.0
Accidents at work	4.5
Occupational diseases	2.9
Total (N = 6.582.892.020)	100.0

Source: Data FPS Social Security, 2009

People who are victims of an accident at work, or who suffer from occupational diseases (like e.g. miners' black lung disease) also get a social security allowance to compensate for their loss of job. In 2010 there were 186.645 people with an accident at work, and 56.401 persons with an occupational disease who got an allowance.

Pensions

The largest part of expenditure is dedicated to pensions. The legal retirement age in Belgium is at 65 years, or after a career of 45 years, in order to obtain a full pension. Early retirement is possible as of 60 or earlier in special circumstances, but you can as well earn a bonus by working after 62.

The pension your are entitled to is calculated according to your earnings throughout your career but with a ceiling applied. In case your personal pension rights fall below a minimum, you are entitled to the Income Guarantee for the Elderly (IGE). It is a social assistance component independent of career history, but it is however means-tested. Other sources of income are evaluated before the IGE is authorized.

1.668.445 persons received a pension in 2010, where 99.146 people received an IGE. Belgium since 1968 uses the redistributive pension system. There are still 531.986 persons who receive pensions in the framework of the old capitalisation system.

Table 11: Expenditure on Old Age by subcategory (in %)	
Old Age	%
Retirement Pensions	97.8
Income Guarantee for Elderly	1.6
Rents (capitalisation system)	0.6
Total (N =25.570435.628)	100.0

Source: Data FPS Social Security, 2010

Survival Pensions

Historically treated under a different heading, but mostly also related to old age (though not necessarily) are survival pensions. If somebody loses (mostly) his or her partner – or his or her parent or child who dies, he or she may be entitled to a ‘survival pension’ if he or she was dependant on the deceased for a living.

Again this survival pension (that can also be obtained before retirement age!) is means tested, and can only be partially combined with own revenues. It also comes to an end when the person remarries.

Also life rents in the case of death as a consequence of accidents at work or occupational diseases are put under this heading, but they account for less than 0.1 % of the budget.

524.981 persons received a survival pension in 2010, 98 % of which are women. Slightly over half of them combine it with a proper retirement pension. This pension was established at a time when the man was the sole breadwinner in the household. Since more and more couples now both have an income, this category will become less important in the future.

Families and children

The biggest category of allowances to family and children are of course child allowances. Each child gets a child allowance, paid to the mother, plus supplementary allowances according to age and schooling, or in case of orphanage or disability. In 2010 more than 2.5 mio allowances were paid to 1.482.417 families or households.

Other subheadings include the Maternity Fee at giving birth (or equally at adoption), and payments to compensate wage loss during maternity leave.

Table 12: Expenditure on Families and Children by subcategory (in %)	
Family and Children	%
Child's Allowances	85.8
Maternity Fee (adoption fee)	2.0
Maternity Leave (paternity leave)	11.3
Other	0.9
Total (N = 5.662.325.375)	100.0

Source: Data FPS Social Security, 2010

Unemployment and Labour Policy

Belgium spends twice as much on unemployment and labour market initiatives than the Union as a whole. In 2010, 857.499 people received some kind of an unemployment allowance. For 117.509 this was part of an early retirement scheme, 173.286 were on temporary unemployment. One of the measures taken by the Government in 2010, as a response to the crisis, was to broaden the temporary unemployment possibility to white collar workers. This measure costed less than 20 mio euro in 2010, but was very effective in avoiding people from being made redundant.

Table 13: Expenditure on Unemployment and Labour Market by subcategory (in %)	
Employment / Labour Market	%
Unemployment payments	65.7
Early Retirement schemes	13.4
Job / life balance (<i>temporary leave systems</i>)	5.5
Service Vouchers subsidies	10.4
Activation measures	5.0
Total (N = 11.863.122.709)	100.0

Source: Data FPS Social Security, 2010

Unemployment rates in Belgium are dependant on previous earnings, at least for the first year of unemployment. After that, they are reduced partly, but up till now, they were generally not limited in time although this is currently changing.

There are also a lot of different plans and initiatives to either stimulate and support job creation or to offer possibilities for people to pay attention to the balance between work and life, by allowing systems of temporary leave.

One specific tool that has been set up, was the system of service vouchers, that allows people that are very busy to ‘buy in’ services (housekeeping, gardening...) at an affordable but subsidized price. It has proven to be very successful, also in limiting the effects of the black market. However, this system is often misused for purposes which were not supposed to be into its scope, such as personal services.

Housing and Social Exclusion not elsewhere classified

The two remaining headings in the table mainly refer to limited expenses in the field of housing, and social exclusion, that have not been classified somewhere else. These figures mainly comprise rent subsidies, income subsidies and income support, often handled via local authorities.

On local level, those people who are still falling through the net, can ask for social assistance at the local authority of the village they live in. After means-testing, they are given an ‘integration income’. For the ultimate purpose was that any person residing in Belgium should have some kind of minimum income.

5.3 The impact of Social Security on the risk of poverty

The at-risk-of-poverty rate

In the previous paragraph, we briefly described a lot of measures that have been put into place from out of social security to limit the exposure of people to poverty and social exclusion. Although we know the effect hasn’t been complete – Belgium still has an at-risk-of-poverty rate of 15.3 % – we can still evaluate the effect of the model ex negativo, i.e. where would we have been without all these social security transfers?

The next table shows the difference ‘before’ and ‘after’ social security transfers. The effect of the social security intervention remains almost steady over time, producing a decrease by 12 to 12.5 %points of the at-risk-of-poverty rate, a reduction of close to half of the rate before transfers.

This is a significant decrease, although maybe not so big as in e.g. countries with a more Beveridge-like approach. This is linked of course with the fact that the Bismarck-model is in the first place an insurance model. Its first aim was not the redistribution of income, but avoiding poverty as a consequence of bad luck. Therefore, a lot of the benefits are universalistic and income related.

Table 14: At-risk-of-poverty rate (in %) 'before and after' social transfers					
Category \ Year	2000	2005	2007	2009	2011
Before social security transfers	23	28.3	27.5	26.7	27.8
After social security transfers	13	14.8	15.2	14.6	15.3
Difference attributable to Social Transfers	-10	-13.5	-12.3	-12.1	-12.5
Difference attributable to Social Transfers in %	-43.5	-47.7	-44.7	-45.3	-45.0

Source: Eurostat

Nevertheless, we still notice a reduction in at-risk-of-poverty rate of about 45 % on average over the years, while at the same time keeping a universalistic approach for most transfers, so as to maintain a broad sense of commitment in the population: 'we will continue to support and pay our contributions, since we also get something out of it, and especially when we really need it.'

If we further compare the differences for gender, we cannot see a significant change. The decrease of 45 % seems to be quite robust. There is one exception though, when we compare with age: since pensions are topped (because a ceiling has been imposed), the universalistic impact has severely diminished and the effect is much weaker, less than half the 45 % reduction we found above. From another angle: the pensions are too low to keep old people out of poverty.

Table 15: At-risk-of-poverty rate among people + 64 years of age (in %) 'before and after' social transfers					
Category \ Year	2000	2005	2007	2009	2011
Before social security transfers	28	25.7	26.6	25.9	25.2
After social security transfers	24	21.4	23.0	21.6	20.2
Difference attributable to Social Transfers	-4	-4.3	-3.6	-4.3	-5.0
Difference attributable to Social Transfers in %	-14.3	-16.7	-13.5	-16.6	-19.8

Source: Eurostat

5.4 Conclusions and trends

- With 30 % of overall expenditure, quite a lot of money is dedicated to social security.
- Given the Bismarck-character of Belgian Social Security, the financing is less dependent on the State. Most contributions still come from both employers and workers. The state nevertheless is paying in an important share of the total budget.
- Belgium's welfare regime remains Bismarck-oriented, and is still predominantly universalistic (although newer benefits are more often means tested, and ceilings have been applied in a number of cases). Regarding pensions, the impact of the ceiling is thus, that people are no longer shielded from poverty.
- In general however, the actual social security system allows for a reduction of the rate for at risk of poverty by 45 %.
- Yet this approach will have to be complimented by specific measures in fields like child care and pensions.

Herewith we end our overview of the three components of social protection. In the following paragraphs, we will now look at the three challenges that we have to face: on the economic, the social and the demographic level.

6. Challenges to the Social Model: the economic angle

The main single heading that dominates all economic analyses is 'crisis', on the international scene as well in the various countries. This on-going crisis presents a threat to the levels of social expenditure, if not to the paradigm of the social welfare state as such. How does it affect the Belgian social model so far?

6.1 The international face of the crisis

The collapse of the Lehmann Brothers Bank in September 2008 triggered the biggest crisis on the worldwide markets since the thirties of the previous century. A number of domino stones fell.

The banks were the first to feel the effects of the crisis, but it soon had its consequences for the economy as a whole. Four years later, various European countries need financial support from the EU and from international players – it's a worldwide crisis that shows the limits of European intervention.

Apart from the IMF, also the BRIC countries offered their support. And Angola offered to help out Portugal. The power balance of international economy clearly is shifting. And the crisis isn't over yet: in October 2012, German Chancellor Angela Merkel predicted another five difficult years.

The remedies used so far mostly aim at applying austerity measures to state budgets, since a lot of money was needed to save systemic banks. The pits caused by the greed of the wealthy and powerful bankers, are being filled by savings on the back of the poor. Apart from any ethical considerations though, there are also second thoughts on the political and economic level. The imposed austerity measures may as well reduce consumption and strangle all chances of swift recovery.

There is a strong need though for a European answer and a common European strategy – at least a common EURO-pean strategy – to face this crisis. Since many European countries adopted the single European currency, the arsenal of means to react is limited: national devaluations are no longer possible.

6.2 The Belgians in face of the crisis

Yet the effects of the crisis differ considerably among the European countries. For Belgium, the negative effects are, compared to other countries, so far limited. Belgium is doing slightly better than Europe in general (see table 16), the Belgian Government so far didn't have to take austerity measures that come close to those of the countries in southern Europe, and the lending capacity of the National State is still intact when we look at the rates (except for a short period at the end of 2011).

Partly, this is due to the fact that Belgium went through the longest government formation period in its history (it took the country more than 500 days!), so no big measures could be taken – but the main argument probably is that since Belgium has always been a coalition governed country, all measures tend to be a balanced compromise of a bit more taxes and a bit more savings, and very rarely are draconic cuts or drastic tax increases.

The introduction furthermore of temporary unemployment as well for white collar workers made it easier to keep people in the workforce. The question though is what the effect will be over a longer period of time.

Table 16: Main Economic Indices (in %)				
Category \ Year	2000	2011	2000	2011
Annual change in GDP Belgium	1.2	2.1	-3.5	0.9
Annual change in GDP Europe-27	1.6	2.8	-4.6	1.4
Annual change in Consumption expenditure of households – Belgium	2.7	2.9	-0.8	3.1
Annual change in Consumption expenditure of households – Europe-27	2.4	2.5	-2.7	2.7
Annual change in Export – Belgium	4.0	2.4	-5.1	3.9
Annual change in Export – Europe-27	2.4	1.7	-4.7	3.7

Source: Eurostat

That social security measures are not a priority focus for budget cuts, also has to do with the fact that the Belgian Social Model is a Bismarckian model, which means that it is still largely building on contributions and therefore more robust than a system that is based on general taxes, and where immediately a competition arises as to where budget cuts have to be made.

It doesn't mean that Belgium is safe for the effects of the crisis. Although we are performing reasonable, there are some dark clouds hanging over Belgium: Belgium's efforts regarding the banking sector so far have been largely counted in guarantees – that even brought in some money. If one or more of the systemic banks would really end up in failure, the consequences would be dramatic in terms of national debt.

Other challenges are related to the type of industry we have. During the last quarter of 2012, some closures of factories have been announced, like the Ford assembling plant in Genk (with a possible loss of 10.000 places), or the closure of a Philips plant (for lamps etc), and there are more to come.

Partly this has to do with a 'wage handicap' compared to our neighbouring countries (Belgium has an open economy) for which the employers' federation hold the automatic indexation of the wages responsible (whenever the index of consumption goods increases by 2 %, also wages are automatically increased by 2 %). This mechanism now is under scrutiny, although there is fierce resistance from the trade unions and some political parties.

Yet more in general this is about one phase in the history of industrial activity in Belgium that's coming to an end: other countries can produce a number of products cheaper than Belgium can. As in the past we saw the textile industry leaving the country. Either we engage in a competition in decreasing wages, or we try to make the shift to other products and activities, based on competitiveness and/or innovation.

6.3 Innovation and education

Like Europe, Belgium indeed is aiming at innovation. Therefore though, education is of prime importance. In the Europe 2020 targets, different measures are foreseen that are related to innovation. In terms of research and development, a target of 3 % of GDP investment is set, whereas Belgium for the moment reaches just 1.99 (2010 – against 2.03 in 2009), which is close to the EU-average (2.01), but still a long way to go.

Furthermore, the share of early school leavers should be under 10 % and at least 40 % of the age group in between 30 and 34 years, should have completed tertiary education. Here Belgium clearly performs better, with 12.9 % of early school leavers compared to 13.5 % in Europe, and with just 9.7 % among girls (against 14.9 % for boys), where the target has been reached already. Similar data are available for tertiary education, where Belgium as a whole attains already 42.6 % (compared to 34.6 % for Europe). An additional benchmark is set for Life Long Learning, at 15 % of the 25-64 year old, that state having received education or training in the four weeks prior to the survey. Here Belgium has some catching up to do, with actually 7.1 % of positive answers, compared to 8.9 % for Europe.

6.4 Conclusions and trends

- Belgium so far escaped from harsh measures and cuts in social security. A number of threats though are still around.
- Belgium, as an open economy, is vulnerable to what's happening in other countries, e.g. on the level of labour costs.
- Belgium will also need to change the focus of its industrial activity. For some sectors of industry, there will hardly be a future in Belgium.
- In terms of focussing on innovation, the Belgian education system offers good results.
- If we bring this shift to other areas of economic activity to a good result, we may have a sound basis to be able to continue to provide a good level of social welfare.

- It is crucial for our Bismarckian Social Model that there will be enough people active and employed on the labour market. People need to have a job in order to be able to contribute to the system.

7. Challenges to the Social Model: the social angle

The Belgian society has undergone quite some changes these last decades, and in different areas: on the level of personal and cultural development, as well as on the level of its organisation and reproduction. Sociologists of culture speak about the de-traditionalisation of Society (see a.o. Laermans, 1992).

7.1 The Individualisation of Society

The individualisation of society implies changes on the level of individual experience and behaviour. People don't live anymore according to 'standardized biographies' that prescribe them which job to do, with which type of partner to marry, in which circles to engage in social life. Instead, they are supposed to compose their own biography. 'You are what you are doing, what objectives you reach', instead of: 'you are what your parents were'. Self-realisation has become a key element. It puts a huge burden upon the individual, because he or she is the final person responsible to take control over his or her life (this evolution also partly explains the high acceptance rate of euthanasia in the Belgian society for instance: it is the ultimate proof of taking responsibility for your life – until the very end).

7.2 Changing Family Values

Of course this process has consequences for the place of the family as the cornerstone or 'building block' of society. The focus on self-realisation places high demands on relationships. They are not only institutional vehicles for procreation or security (!), but they must also provide love and affection and they should help you in fulfilling your self-realisation – but they can as well be a factor that hinders this self-realisation, or that limits its possibilities.

More and more, the family setting is changing. We went from more-generations families with grandparents that were part of the household to single households in just a few decades. As we mentioned already while describing the composition of households, the average size of a household now lies at 2.31 members. Just over half of the households count children (52.5 %), where it was still 56 % in 2000. More than one out of five households has only one adult.

Families have become much smaller in size, and they have as well become much more loose units. Every year, there are 4.1 marriages per 1000 inhabitants, and 2.9 divorces; 49 % of all children are now born outside of marriage, in loosely composed partnerships of parents that are much easier to dissolve and recompose than ever before.

From an ideological point of view, these changes are seen as a liberation from tradition – hence the term de-traditionalisation. The de-construction of the classic family also was paralleled by new laws on marriage and divorce, which also legalised same sex marriages, and by changes in the tax laws, which used to favour couples but are now supposed to be as neutral as possible.

Unfortunately, as became clear from the data we have listed, the type of household may then have become ideologically neutral, but it is not neutral at all when we look at the vulnerability in terms of poverty and social exclusion. Single adults with dependent children have a chance of 38.5 % of being at risk of poverty. Being alone and raising children indeed turns out to be a most fragile combination.

7.3 The Disintegrating Social Tissue of Society

Not only the composition of the nuclear family has changed. Also the ties that bind the larger family together are much more loose. People are becoming more mobile, and end up in different places, without the social control of their larger family, but also without its support.

And not only the larger family becomes less effective in supporting family members, also other social networks that have geographically always been around the individual, are becoming less successful in providing social support and assistance. We can think of neighbourhoods, local church groups and the like. Other types of social networks have become important instead: they are not based on geographical proximity anymore, but on the ‘chosen proximity’ of the new tribes (Maffesoli, 1988). Yet these new tribes may be based on much closer ties, their effect often is much weaker, given that they are on average much smaller.

Geographical networks are not only becoming less important in somebody’s life, they also have become less powerful, since they cannot count anymore on the ‘availability at hand’ of a large number of non-working housewives...

The reduced impact of church groups of course is linked to the effect of secularisation. Church practice has retroceded significantly, especially in urbanised regions, but in the countryside it remains higher: in 2007, 4.7 %

went to mass at Christmas in Brussels, whereas this was still 18.2 % in Limburg (Hooghe, 2008). Also the number of volunteers parishes can count on – not only for liturgy, but also for works of solidarity - have decreased: on average they count 20.1 volunteers per 1000 inhabitants. A similar survey one year before still gave 25 %. A lot of parishes especially in the bigger cities still are actively committed to social assistance work, but their numbers are rather declining.

Hence we can indeed say that the social tissue of society, in its capacity of helping its members against social risks, is weakening and often has to be replaced by paid labour (e.g. lending a hand when the neighbour breaks a leg).

This may be in contrast with the very positive sounds about volunteering, especially since the European Year of Volunteering in 2011. Yet the nature of volunteering has changed: from a long term commitment to local voluntary organisations, it has gradually changed towards a specific and clearly defined commitment, for a limited period of time (Baldas et al, 2012).

Notwithstanding this, politicians like to make use of the ‘positive vibes’ regarding volunteering to focus again on its possibilities to help secure the social network around poor and excluded people, as did the British Prime Minister David Cameron in England, by launching his ‘Big Society’ campaign with the aim ‘to empower communities’ but eventually as well with the aim to save money on social expenditure.

In Belgium in this sense, a lot of government interest is paid to the so-called ‘societalisation of care’, where the emphasis is on integrating people with disabilities, the chronically ill and vulnerable elderly people as much as possible into society, with professional help. This is a very rich and promising discourse, which rightly values the support by home care, relatives and neighbours, but it can as well easily derive into less care and mainly savings, if it is not conceived of in a global way that takes into account as well the social context of the person with disabilities.

7.4 Conclusions and Trends

- The social transformation of society challenges the role the family traditionally has been playing with regard to providing social protection to people.
- The individualisation process gives way to a more atomic position of the individual, less embedded in family structures that can be of help.

- Family structures themselves are changing. Families become smaller and less robust. Therefore, they are also less capable of offering social protection.
- Also traditional social networks loose there capacities as agents of social protection. Chosen individual networks don't have the same potential.
- And even the very positively promoted 'Societalisation' of care, with emphasis on home care, the importance of family members and neighbours, may result in less care and mainly savings if it is not conceived of in a holistic way.
- From a Bismarckian point of view, the family played an important role in providing social protection to the individual, next to and alongside participation in the labour force. Only in the absence of both, social security needed to enter into play. Under the given changes, the family has lost a considerable impact and becomes rather part of the problem than part of the solution.

8. Challenges to the Social Model: the demographic angle

Belgium follows the general trend of most Western societies. It is a slowly growing, ageing population, which will put pressure on all social expenditure that is age-related. We will first present the main demographic characteristics of the Belgian population, and then consider the effects of the demographic challenge on the impact of social security interventions.

8.1 Demographic Characteristics

In 2001, Belgium counted 10.25 million inhabitants. Ten years later, this figure had hardly risen to 11 million. It is projected to continue to grow up to 13.5 million in 2060 (EU projection). Some basic characteristics are given in table 17.

Table 17: Main Demographic Characteristics					
Category \ Year	2000	2005	2007	2009	2011
Total Population (in mln)	---	10.4	10.6	10.8	11.0
Natural Population Change (/1000 inh)	1.1	1.6	2.1	2.3	2.2
Birth Rate (/1000 inh)	11.4	11.4	11.7	11.8	11.9
Fertility Rate	1.67	1.76	1.82	1.84	---
Life Expectancy					
Life Expectancy Men	74.6	76.2	77.1	77.3	---
Life Expectancy Women	81.0	81.9	82.6	82.8	---
Proportion of population 65-79 (in %)	13.3	12.9	12.5	12.3	---
Proportion of population 80 + (in %)	3.4	4.3	4.6	4.8	---
Source: Eurostat					

It becomes obvious that the Belgian Population is slowly ageing. People are getting older: life expectancy lies at 77.3 years for men and at 82.8 years for women. On average, every women gives birth to 1.84 child, which is far beneath the reproduction rate. Per 1000 inhabitants, just over 11 children are born per year. The net increase of 0.2 % per year can be largely attributed to net immigration.

The Belgian population is getting older. The proportion of people over 80 years of age is increasing, from 3.4 % to 4.8 % in less than a decade. For the amount of care needed, this is a tremendous challenge. About 17 % is older than 65 years. The effect will however become still more visible when the baby boom generation will retire.

8.2 Pensions under pressure

The demographic challenge put a lot of pressure on the sustainability of the pension system. When the Bismarck system was developed, this evolution was not foreseen. The design started from a healthy population pyramid, a single breadwinner who was the only direct beneficiary, and family structures to make sure that also the relatives could benefit indirectly.

That all three parameters are now pointing at the opposite direction, poses a big problem to the system. The ratio between beneficiaries and contributors need to change, but any measure taken that breaks in into ‘workers’ rights to go on early retirement’ will meet with fierce resistance from trade unions.

A ‘Silver Fund’ was set up some years ago in order to ease the effects of ageing, but the heavy debates about austerity right now impede that more money should be made available. We notice a tacit ‘de-budgeting’, what means that expenses are shifted from this generation to the next.

The only possible element one could think of, is that the ageing of the population in general will lead to less unemployment, but also this is not a clear perspective yet: even now for a lot of jobs (e.g. engineers, but also skilled craftsmen and jobs in the care sector) no suitable candidates are found.

So far, measures have been imposed to cut possibilities for early retirement. The retirement age as such in Belgium is still put at 65. Since only a fraction of the population works that long, changing this won’t make too much of a difference, except that it would change the basis on which pensions are being calculated.

We will deal more in detail with problems related to pensions in the closing paragraph of this chapter.

8.3 Conclusions and trends

- The demographic challenge is a real threat to Belgium.
- The Bismarck Social Model was not designed for situations with a lack of contributors.
- So far only limited measures have been taken to enhance the activity rate of the population. More will have to be done.
- Enlarging the number of contributors is an important target for Belgium.

So far, in the paragraphs 3, 4 and 5, we dealt with the three components of social protection. The next three paragraphs looked at the three major challenges the social protection system is facing from changes in society. In the remaining paragraph, we will now bring together the impact of all these elements and analyses and try to appreciate the effectiveness of our model.

9. Which Future Development of Social Protection?

We showed that in general in Belgium the various components of social protection play their role and manage to keep the at-risk-of-poverty rate around 15 %, even with the crisis. We will now look more in detail into the objectives of the social protection models, centered around three questions:

- How effective is it in achieving social protection for all?
- How effective is it in critical life situations?
- How effective is it in providing decent pensions?

9.1 Achieving Social Protection for All

The first question we want to ask is: to what extent is the Belgian model able to provide social protection for its entire population? Next to the at-risk-of-poverty rate, we have used throughout the chapter, we will introduce here two other measures, i.e. the percentage of severely materially deprived people and the percentage of people living in households with very low work intensity, as well as a combined index, with a positive score on at least one of these three indicators. This combined index, labelled ‘People at risk of poverty or social exclusion’ is used to measure the fifth headline target of the strategy Europe 2020.

Severely materially deprived persons have living conditions that are constrained by a lack of resources: they experience at least 4 out of 9 following deprivation items: they cannot afford i) to pay rent or utility bills, ii) to keep their home adequately warm, iii) to face unexpected expenses, iv) to eat meat, fish or a protein equivalent every second day, v) to take a week of holidays away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.

People living in households with very low work intensity are those under 59 years of age living in households where the adults (aged 18-59) worked less than 20 % of their total work potential during the past year.

Category \ Year	2005	2007	2009	2011
Severely materially deprived people	6.5	5.7	5.2	5.7
People in low work intensity households	15.1	13.8	12.3	13.7
At-risk-of-poverty rate	14.8	15.2	14.6	15.3
People at risk of poverty or social exclusion (Combined index)	22.6	21.6	20.2	21.0

Source: Eurostat

The newly used combined index puts 21 % of Belgian inhabitants in 2011 as ‘at risk of poverty or social exclusion’. In absolute terms, we are speaking of 2.271.000 human beings! For the separate indices, these figures are: 1.657.000 at risk of poverty, 1.152.000 persons living in low work intensity households, and 615.000 persons being severely materially deprived. All over Europe, the aim is to reduce the total number of people in this combined position (we are talking about 115.732.000 individuals, 2010 figures) by 20 million until 2020, which means a reduction by 17.28 %. Applying this percentage to Belgium, it would mean a reduction of the number of people at risk of poverty or social exclusion by 392.429 people. Belgium itself has put the target at 380.000 people, a very ambitious goal.

When we look at table 18, we see that the combined approach is about one third larger than the income measure. This category is mainly made up by people who are living in a low work intensity household, but are still beyond the 60 per cent of the median income threshold. That a significant number of those living in low work intensity households are actually not at risk of poverty (otherwise the total number would be smaller!), is partly due to other sources of income, but also to the good working unemployment benefits, in line with the objectives of the Bismarck approach, that aims at insuring the risk of losing one’s job.

Very few of the severely materially deprived people will not belong to the at risk of poverty category (although the Eurostat presented data does not allow for this conclusion and one should have access to the raw data). It seems reasonable though to assume that the 615.000 persons may rather constitute a ‘core group’ of very poor people, the ones that are the hardest to reach, and that appear in a lot of qualitative studies about poverty in Belgium as

the most problematic and most difficult to reach group of excluded and poor people. When we would only look at the ‘at-risk-of-poverty rate’, this group doesn’t give the authorities any stimulus to do something for them: it would take a lot of trouble and money to move them over the 60 %-threshold. For authorities, it proves to be much more rewarding to concentrate on those slightly below the poverty threshold, because bringing them to a slightly better position will immediately affect the percentage of people at-risk-of-poverty.

Yet the overall distribution of income in Belgium is still quite equitable, when we look at the Gini-coefficient. Technically, the coefficient is defined as the relationship of cumulative shares of the population arranged according to the level of equivalised disposable income, to the cumulative share of the equivalised total disposable income received by them. It is a coefficient that theoretically can range from 0 to 1, whereas smaller coefficients mean a more equitable distribution of income, and higher coefficients indicate a more skewed income distribution. With a Gini-Coefficient of 0.263 Belgium has quite an equitable distribution, compared with the European Union as a whole (0.305), and especially countries like the UK (0.33) or the Mediterranean and Baltic countries (0.33-0.35); only Scandinavian countries do slightly better.

Category \ Year	2005	2007	2009	2011
<i>Gini-coefficient Belgium</i>	0,280	0,263	0,264	0,263

Source: Eurostat

So in general we could say that overall the Belgian, Bismarckian based social model has a good result in that it reduces the proportion of the population at-risk-of-poverty by 45 % (see supra), but it will not be able to take on the core category of structurally poor people, without a job and severely materially deprived, simply because from a Bismarck perspective – aiming at limiting the risks of losing one’s job – they stay out of scope. And clearly the assistance measures that have been set up in the meantime are not sufficient to tackle this.

So in order to reach such specific groups, specific measures are needed, which are means tested in order to be affordable and effective. Among the groups which are most at risk, we count in the first place those groups with no income from labour at all, and especially single mothers with children, as well as the working poor. Such measures though should not be limited to financial allowances, but can also comprise structural measures, like making

available child care facilities (with flexible hours!), offering transport to reach them, etc.

9.2 How effective is the social model when critical situations do occur in life?

In other words, is the social protection system able to help people when they are confronted with acute problems like unemployment or illness, that make them lose their job related income? As we have indicated in the fifth paragraph of this chapter, belonging to a sickness fund is compulsory. From the universalistic approach of our social model, almost all people can benefit from the system – except a small number that for one reason or another is not able to cope with the administrative burden of this membership.

A second element nevertheless is that for e.g. chronically ill patients, the allowances paid by the sickness funds are not sufficient to cover the costs. The maximum invoice has solved this to a large extent, but still we learn from the grass root level that people postpone visits to the doctor, because they cannot pay it.

The strong emphasis on the universalistic principle dates back to the founding fathers of the Belgian Model. Both universalism and the insurance principle are basic characteristics of the Bismarck model.

Whether or not it will remain (and become more) affordable, will also depend on the ratio between the number of contributors and the number of beneficiaries.

9.3 How effective is the social model in providing decent pensions?

The last question we want to deal with has to do with the area of pensions. This might as well be the Achilles' heel of the discussion. When the system was designed, there were a lot of workers, and a limited number of retired persons. And those who retired had a limited number of years ahead of them.

Now this has changed dramatically. We still have early retirement schemes (of which the effect also last for years), equalised pensions for those who don't have enough years of contributing into the system, and many years to go after retirement. This evolution makes it almost unsustainable to uphold the mechanism much longer.

As the figures in table 20 illustrate, at this moment, the at-risk-of-poverty rate for pensioners is just a bit higher than that for the overall population (17.3 % versus 15.3 %), and this figure is even declining. This though is due

to the fact that more and more people – especially women – are obtaining a full pension for which they have worked themselves, instead of a survival pension based on their late husband’s earnings.

Yet the aggregate replacement ratio, which is defined as the ratio of the median individual gross pensions of 65-74 age category relative to median individual gross earnings of 50-59 age category, excluding other social benefits, is less than 50 %, what indicates that the median pension is less than half of the median last wage. Since the pensioners’ risk of falling into poverty has not really increased (except for the 2 % mentioned above), this indicates that many pensioners do have other means of income (like e.g. other pension pillars).

Category \ Year	2005	2007	2009	2011
Pensioners at risk of poverty	19.1	19.6	17.8	17.3
Aggregate Replacement Ratio	0.42	0.44	0.45	0.44
Old Age Dependency Ratio	25.5	26.3	25.9	25.9

Source: Eurostat

The ‘old age dependency ratio’ at last indicates the ratio between the total number of elderly persons of an age when they are generally economically inactive (aged 65 and over) and the number of persons of working age (from 15 to 64). At this moment the ratio still lies at 25.9 %. Yet projections show that this figure will rise to 33 % in 2025 and 43 % in 2060, which means that every person contributing will then at least have to support two others.

This evolution shows that with the actual rates, the system won’t be sustainable much longer. Different options are being presented. The first option, partly introduced by the markets, is to keep only a basic general pension (first pillar), and to combine it with other pension systems available on the market: a second pension (second pillar), provided for by the company or the employer – which however will not contribute to equality: only bigger companies are able to offer this to their employees. The third pillar finally, consists of private pension funds, for which the contributions can be deducted from one’s taxes. Again, this depends largely on the financial capacities of people and will tend to make the gap bigger and bigger.

The other big option is of course to postpone the retirement age. In many countries this has been carried through already, and the legal pension age has been put at 67 years. Belgium has opted not to do this so far, but to use other ways to raise the retirement age (which is very low, cfr. supra), the most important so far being the much stricter application of early retirement schemes.

Belgium also in 2001 has set up the so called “Zilverfonds” (silver fund), in order to be able to save money for more difficult years to come. Actually it comprises about 19 billion euro, but it has lost some momentum, in the light of the crisis.

If anything is clear, then it is that the sustainability of the pension system is under serious threat. The old mechanisms were not designed to work with a reversed age pyramid. It is time for solutions to be found to remedy this situation.

10. Summary and Conclusions

In this paper we tried to present in a global way how the Belgian Social System tries to uphold social protection mechanisms in the current crisis context. The Belgian case is used here as an example of a number of countries whose social security system is based on the so-called Bismarckian model.

If we look back in a quick glance at our analysis of the three major components, we came to the conclusion that our model is quite robust.

The most important element in order to secure your living and that of your children, we said, is to have a job and earn a decent salary. And indeed, in terms of the *labour market*, having a job still proves to be the best guarantee to pass beyond the at-risk-of-poverty threshold. Only for 4.2 % of the population, this is not sufficient. They constitute the working poor. Overall, participation in the labour market and employment figures have quite well withstood the waves of the crisis. This does not mean that ‘we got through’. More reforms are needed. But at least we have some more time, more time that was not given to other countries of the EU.

Also the *family* has a significant role in adding to social protection, i.e. as long one is not living in a fragile, one person household. Two working adults is now the rule, and a necessity: ‘single families’, with only one adult and with dependent children, run a much higher risk of slipping into poverty and social exclusion. Combined with unemployment, these families have about 3 chances in 4 to end up poor.

So there clearly is a need for a *social security* intervention to make up for those people where the labour market and the family fail to provide social protection. Belgium spends 30 % of its overall expenditure on social security, which is quite a lot of money. In general the system allows for a reduction of the rate for at-risk-of-poverty by 45 %. We should not forget however that the Bismarck approach is universalistic, so in order to really address the most excluded groups, additional means tested measures should be introduced, especially in the fields of child care and pensions.

The functioning of these social protection mechanisms is though challenged by what's happening in society. As far as the *financial and economic crisis* is concerned, Belgium so far escaped from draconic cuts in social security, partly because our Bismarckian social security predominantly is based on contributions, and so turns out to be less vulnerable for bad public finances. We have to carry through though changes in our economic activities, in order to maintain a viable labour market. People need to have a job in order to be able to contribute to the system!

With regard to the *social transformation of society*, the challenges are great as well. The individualisation of society, the changing family patterns and the disintegration of the social tissue, make people much more vulnerable.

The third major challenge we identified, was the *demographic change*. Belgium follows the general trend of most Western societies, with an ageing population, which will put pressure on all social expenditure that is age-related. The Bismarck Social Model was not designed for situations with a lack of contributors. Enhancing the activity rate of the population is a core political issue, but one meeting fierce resistance in a population that wants to retire early to enjoy their best pensioners' years...

When we finally looked at whether the Belgian Model would be fit to achieve *social protection for all* – hence zero poverty – the answer was nuanced. Although the Bismarckian approach remains universalistic and insurance oriented and hence is not aimed at those who never had a job, Belgium is (as most so-called Bismarck countries are) among the countries with the most equitable Gini-coefficients in Europe.

Regarding the role of the social model in helping people to cope with *critical situations in life*, such as illnesses or unemployment, the universalistic approach still holds and support is given. Yet for a number of people – the most vulnerable – the allowances do not meet the needs, and they will, e.g. in the case of healthcare, postpone their doctor's visit – or they just won't go to see the doctor.

As for *pensions* the situation is much more sombre. The model clearly was not defined to function with reverse shaped demographic pyramids. Actions need to be undertaken to keep the system functioning, but unpopular measures are always difficult to take.

All in all, the Bismarck oriented model turns out to be a rather good functioning social security system, that helps to give way to a quite equitable society (Gini = 0.263), although it favours in the first place those who contributed, since it is also co-organised by them. That makes it also quite robust, in the sense that since it is fed by contributions, it is less dependent on the financial situation of the country.

For the most needy in itself it is not the most effective model. There it needs to be supplemented by a number of means-tested measures, although the principals from the Bismarck model should be kept, i.e. the fact that all contribute, following the idea that someday they might need it on their turn.

A universalistic Bismarckian model though starts from a number of assumptions that don't hold anymore nowadays, hence it has difficulties in coping – in the long run – with structural unemployment, ageing populations and changing family patterns. All in all, these features make that the number of contributors becomes a critical factor.

In order to enhance the number of contributors, various elements are under scrutiny, but none is popular. Working longer is a specific option, as is the idea of trying to get more women in the workforce. Looking for alternative financing is also an option, but it seems less feasible in a context where also the national budget is anyhow under pressure.

In order to reach out for the non-working groups at the poor and excluded end of the continuum, more means-tested measures should be added, especially in the realm of childcare and helping single mothers with children.

Introducing means testing could also be an option to reduce the number of beneficiaries and in doing so restore the balance with the number of contributors, but it would as well endanger the sense of ownership. We do believe that the universalistic approach, where everybody contributes to his possibilities and gets out according to his needs, should not be given up so hastily.

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Trends in Belgium and other Bismarckian Countries – short, medium and long-term

An analysis of the data on a specific country at a specific moment in time is a tricky exercise, first of all because of the fact that the crisis that is sweeping Europe and the world in general since 2007 is still building up, which makes it difficult to interpret evolutions over time.

A second element that may interfere, has to do with country specific elements. Belgium may always have been ‘a good pupil’ when it comes to the Bismarckian tradition, it nevertheless takes a specific place in European contemporary history, due to its internal federalisation process and the nationalist tendencies this debate brings with it.

We therefore need to and want to countercheck our findings with other countries that have a comparable Bismarckian background, i.e. Germany, Austria, France and Luxemburg. We will not multiply the analysis, but try to depict general tendencies, based on the appraisals done by Caritas colleagues in the countries mentioned.

In identifying trends in this paper, we try to distinguish between short-to medium term trends and medium-to-long term trends in the following areas:

- Welfare
- Labour Market
- Poverty
- Public Expenditure
- Approaches to the recent series of crises.

1. On Belgium's welfare regime in general

1.1 Short to Medium-term

High levels of tax rates

A first and well known element of course is that Belgium's overall level of taxes is very high. Total Government Revenue is still on the rise, with 49.5 % of GDP in 2011, compared to 48.7 % in 2010.

Belgium is not an exception though: also most other countries with a Bismarckian tradition have high tax levels – e.g. France 50.6 %, Austria 48.0 %, Germany 44.5 and Luxembourg 41.5 – though slightly under the Belgian top.

These high tax levels are under continuous political debate – as it has been for years, but the current crisis will not allow for many possibilities to make large cuts. On the contrary: the 'notional interest deduction', a Belgian tax reducing measure for company taxes, that treats the writing off of investments out of own means as if loans had been taken and that was introduced a few years ago is under scrutiny. There is a political consensus that the overall level is too high, but there is no consensus on how to reduce and/or redistribute the taxes.

The aim though is to shift from taxes on labour, where Belgium is the market leader, to other sources of income. Yet a fortune tax so far has not been installed, and will in Belgium probably not be installed in the near future.

This debate is equally fuelled in other countries, like Austria. In Germany, discussions are on their way to see a tax on property itself, instead of on the benefits it produces. In France, a wealth tax has existed for a long time, but the plans of the left-wing government of president Hollande to create a 75 % tax on incomes of over one million EUR, meet with strong resistance, and some key entrepreneurs are threatening to leave or are already leaving the country. The European Union's Internal Market makes it difficult to implement specific tax measures that are not followed in other countries. And the chances that other countries would follow this draconic new tax plan are almost non existing.

Social Security Autonomy

Given the Bismarck-character of Belgian Social Security, the financing is less dependent on the State. Most contributions still come from both employers and workers, even if the State is paying in an ever greater share of the total budget, which is the case for all Bismarck countries. *Belgium and France have introduced a 'General Social Contribution' to provide the means*

for this, also in Luxemburg state participation in financing the various pillars of the social system is growing.

This government participation might slow down or be maintained at least at a given level in the near future, and the introduction of new initiatives in the area of social security may be off the agenda for the time being. But there will be no sharp cuts neither, since the State doesn't have full control over the funds, as would be the case when all social expenditure were paid by general taxes.

We even notice special measures for designated specific groups, like an increase for the lowest pensions (under the minimum social income) in Germany, as well as an increase in the pensions for self-employed people (to be levelled with pensions for wage-earners) in Belgium. Yet in general, the development of pension systems is monitored quite closely in the context of demographic change, and the chances that future generations will have significantly lower pensions are most likely. In Luxemburg though the government is still continuing to adapt the social security system and to add missing pieces to the construction (like housing cost subsidies).

Accessibility of the Health Care System

The Belgian health care system remains accessible for most, and has been rendered even more accessible over the last years (since a larger number of clients doesn't have to 'pre-finance' their expenses anymore.) Yet medical consumption and expected healthy living years among poor people remain significantly lower.

This high level of accessibility to a high quality health care system, is a shared characteristic of all Bismarck Model countries. For most people this access is quite guaranteed. But for the most vulnerable groups (like homeless, migrants, chronically ill people), there may however still be thresholds to overcome, and even this easy access does not prevent the Health Gap from widening.

Crisis, but no meltdown

Due to their great autonomy and to the relative health of their economies, the social security systems in the Bismarckian region are still in relatively good shape. For sure, the crisis has its impact, and more and more people are making use of and are dependent on social measures and institutions. *Caritas Austria registered a 7.5 % increase in the number of people coming to their social counselling services.* On the other hand, less people can get a loan from the bank easily. But in general there is no meltdown of the system.

1.2 Medium to Long-term

An adapted Bismarck Model

Belgium's welfare regime remains Bismarck-oriented, and is still predominantly universalistic (although newer benefits are more often means tested, and ceilings have been applied in a number of cases).

This again appears to be a rather general tendency among the compared countries, although the link with the level of income for the insured risks is loosening (e.g. Germany) and means-testing, favouring socially selective benefits, is being discussed (e.g. Luxemburg).

The relative 'growth' of the social system that Belgium has known over the last years, will however have to slow down. The overall yearly increase of health care budgets by 4.5 % above inflation (!) will certainly not be continued, and tend to approach zero growth.

Also in the other countries we see similar evolutions. In Austria the increase over the last years have been moderate, but in Germany they augmented by 50 % over the period 1996 to 2010. In Luxemburg, higher cost participation for the patients has been applied in order to guarantee the system's survival, reducing generosity in order to assure sustainability.

An emerging Commercial, For Profit Sector

We notice the growing importance of a private commercial sector in fields of home care (family care and medical care) and elderly care: in the context of the demographic changes, these sectors provide financially interesting perspectives for investments.

Similar for profit initiatives are noticed in the other countries as well, especially in the field of elderly care and child care (e.g. Luxemburg). This may eventually put quality standards and finance mechanisms under pressure, if no sound monitoring system is developed and implemented.

Demographic changes neglected

Due to the crisis, the preparation for the demographic changes has been put aside, as less urgent nowadays. Nevertheless, people don't stop growing older.

Provisions for the effects of the aging of society have been announced for years in most countries, but the translation into legislation (e.g. France) or the application of the trajectory that has been laid out (e.g. the Silver Fund in

Belgium) are postponed or loosened. Yet some elements are taking into account, as Germany has introduced changes in the way social insurances are organised.

Societalisation of Care

The very much politically popular and positively promoted ‘Societalisation of Care’, with emphasis on home care, on the important role family members and neighbours play, may yet result in less care and mainly savings if it is not conceived of in a holistic way.

Whereas Germany and Luxembourg have introduced old age dependency insurances, informal care is still dominant in many (less urban) regions in the various countries, as is the case in Austria, and will undoubtedly remain so, although the potential for informal care will diminish. Yet from a political point of view, there is a growing emphasis on this informal solidarity network, although the first aim may not be enhanced solidarity, but rather savings, exchanging professional workers with volunteers, which is the wrong point of departure in order to create an inclusive caring society.

Pension Reforms

The first (state) pillar of the pensions system in Belgium is not likely to gain importance, given the ratio of working/non-working people in the country, and given the fact that Belgium has a redistribution pension system.

More and more emphasis hence has been put on the second and third pillar. The feasibility of the second pillar (‘group pension’) is under doubt, given the state of the economy; the credibility of the third as well, given the losses on the financial markets during these last years. Working longer will not only be a point of activation, but also necessary of maintaining standards of living.

Even if governments are aware of the need to make changes, changing the age of retirement, as well as other reforms, may result to be a tiresome exercise in most countries. Yet in order to safeguard the sustainability of pensions in the future measures will have to be taken, e.g. cutting future pensions (Luxemburg).

2. On Belgium's labour market

2.1 Short to Medium-term

Employment Rates and pension age

Belgium has an employment rate of 67.3 %, which is not really fast growing, and which entails a gap between men (73 % and slightly decreasing) and women (61.5 % and hardly increasing). *Here there is a difference with the other Bismarck countries, that clearly have higher employment rates of over 70 %, Austria even 75.3 %, except for Luxemburg that is closer to the Belgian figures, with just 61.7 % of women in the labour force, even if this figure is faster growing.*

The biggest social turmoil in recent years had to do with the changes brought forward to reduce the early retirement age. Although a law was passed, it will only gradually start to show effects in the years to come. Much will also depend on the pressure on the government to allow exceptions for people losing their job due to the crisis (trade unions continue to ask for retirement schemes at ages as early as 50). *Again other countries count with the same problems: retirement age is increasing, except for people who started to work very young, or who face difficult working conditions.*

The overall unemployment rate is moderate (8.2 %) (being aware that a number of people are left out of the statistics!), but there are big differences between the regions, the provinces, the sexes, age groups and ethnicity. *Also in the other countries, big differences are reported, pointing among others at long-term unemployed people with disabilities (Germany), youth unemployment and regional differences (France) and ethnicity (Austria).* The sixth Belgian State Reform that is currently being debated, will regionalise part of the labour policy, so as to make it easier to address the differences in the different regions – a situation quite specific to Belgium.

The crisis and unemployment

The impact of the crisis on the overall unemployment rate in Belgium was limited. In early 2012, the actual rate was already again under the one for 2008 (8.3 %). One of the reasons was the introduction by the previous government of temporary unemployment, in order to counter the effects of the crisis in 2007-2008. This measure allowed the companies to reduce the cost of their employees, while keeping them in the workforce. So they were

able to resume production when possible without delay. At the same time though, part-time jobs and interim jobs are increasing.

The other Bismarck countries had similar measures applied in terms of reduced working hours (Germany), short time and part time work (Austria) or short time work and other holistic measures (Luxembourg). Also France started a similar approach. In general these measures worked well, and the countries were able to limit increases in unemployment. Except for France (10.3%), all were able to keep their unemployment rates well under 10%.

Unemployment and demographic change

The main argument over time is of course the ageing of the population, and it is common to all countries. There simply will be fewer people available on the labour market. Already now, in times of crisis, there are a number of jobs for which you can hardly find candidates. This is especially true for the care sector, where the lack of nurses is growing.

2.2 Medium to Long-term

Elasticity of labour market policies to be proven

In a first phase, the question is *how elastic the ‘temporary unemployment’ measures* will prove to be. As the crisis is still deepening, more and more companies face demand problems. Just as an example, at the end of October 2012, this provoked the decision of Ford Europe to close its Belgian plant in Genk (Limburg). At the same time, there is an overall increase (in all countries) of a-typical, part-time, temporary and precarious contracts. Employers keep demanding greater flexibility.

The decline in car assembly as well as in steel production also indicates Belgium has to ***change its industrial focus***. The different governments claim to aim for innovation (as in the other countries), but the proof of the pudding is in the eating: Belgium is an open economy. A lot will as well depend on the evolution of world economy and on the Euro – Dollar exchange ratio.

In this evolution, maintaining the ***automatic indexation*** mechanism has become something of a ‘trenches’ symbol: some – with international support – want to get rid of it, others, from a more socialist point of view, want to maintain it, but are willing to accept changes in the way the index is being calculated. *Only Belgium and Luxemburg have this mechanism of automatically adapting wages according to inflation. But also in the other countries, wage agreement negotiations remained moderate.*

Other points for debate around the table are the *high labour costs in general* (due to the high level of income taxes) and the still existing ‘unemployment trap’: the dichotomy between working and jobless means that sometimes it’s more rewarding to stay jobless (and/or work in the black market) than to take a job while having to pay extra for a number of things (e.g. childcare, transportation...).

Austria has a similar debate going on. In France and Luxembourg the trap is less important, since people can combine their benefits with a part time job.

Effects of demographic changes

In the long run, the demographic changes will nevertheless bring about a further reduction of the workforce and hence a much more acute need to find candidates for specific jobs, for which we probably will have to look abroad. *This again is a common problem, though birth rates may be slightly better in France e.g. In Luxembourg on the other hand roughly 40 % of the workforce are commuters.*

3. On Poverty in Belgium

3.1 Short to Medium-term

At risk of poverty

In 2011 in Belgium 15.3 % of the population could be considered at risk of poverty (60 % of the national median equivalised disposable income). This is comparable to the percentages in 2007 (15.2) and 2003 (15.4). In the other years, figures were lying in between 14.3 % and 14.7 %. Overall one could say the proportion of the population under the at risk of poverty threshold remains more or less stable. There is a small increase in the last year, but it is too early to say this is structural *Figures for the other countries are again similar, though slightly lower than those for Belgium (France 14.1 %, Austria 12.6 %, Germany 15 %, Luxembourg 13.6 %).*

For the numbers of severely materially deprived, the differences are a bit greater, though again not clearly outspoken (5.7 % at the end of 2011, 5.9 % in 2010 but 5.2 % in 2009). Yet the hypothesis can be put forward on the basis of corroborative data from other research findings, that the distribution of people under the poverty threshold is more skewed, hence poverty among the most hit by the crisis has worsened.

This is also supported by evidence from France and Germany: in France, the poorest people keep becoming poorer and poorer. 3.5 % of the population is living with less than 40 % of the median income (which moreover for the first time in 10 years has decreased). In Germany the group of people with a permanent risk of poverty has increased in the last 10 years from 3.0 % to 7.9 % in 2010. Austria on the contrary shows a decrease in the percentage of severely materially deprived people from 6.4 % to 3.9 % in 2010.

That this is not directly visible in the 60 %-threshold data, gives way to a perverse effect, in the sense that for governments it is more rewarding to bring people from a 59 % to a 61 % level, than to solve the problems of the poorest.

The figures are neither equally distributed: for women it is 16.8 %, for people over 65 years of age 20.2 %, and for the unemployed and for single parents with children even respectively 37.9 % and 38.5 %: child poverty hence remains a considerable problem. In these last two groups, the increase is also more considerable.

Also in France child poverty is a key element in explaining the increase: one out of three persons is a child, and 20 % of all children are poor. The most vulnerable groups are single parents with children (41 %!), and families with three children or more (21 %). In Austria the figure for this last group is 26 %, in Luxembourg 25.7 %.

The impact of social transfers

The at risk of poverty data are calculated after social transfers. If we look at the rough figures before social transfers (without pensions), we notice a (stable) percentage of 21 % at risk of poverty or social exclusion. This means that in general in Belgium, social transfers account for a reduction in risk of poverty of about 25 %, making it a relatively powerful instrument. Stated otherwise: social transfers produce a reduction in the Gini-coefficient from 0.49 to 0.27.

This holds for the other countries as well. In France, social transfers increase the income of the poorest 10 % of families by 140 %. The most effective benefits are basic social revenues, and housing and family allowances. An important remark here is that not all of these benefits are automatically granted, and that the most vulnerable people very often – and for whatever reasons – do not apply for benefits that they are entitled to. A more pro-active approach here is needed. In Luxemburg, the impact is exemplary: the minimum income is higher than in all other European countries, and it is higher than the poverty threshold !

3.2 Medium to Long-term

The actual social protection system seems to be able to address the situation relatively well. The question will be whether it will be ‘demographically proof’, given the challenges that lie ahead in this field and that have been pushed away because there were other priorities.

Poverty and especially deeply rooted poverty may however rise in the longer term as the ongoing economic crisis will take its toll.

4. On Public Expenditure in Belgium

4.1 Short to Medium-Term

High public expenditure

Belgium has a high level of taxes, it also has a high level of public expenditure. Total Government expenditure was growing in 2011 to 53.4 % of GDP, compared to 52.6 % in 2010. *In France it was even 56.6 %, whereas in Austria there was a decrease from 52.6 % to 50.5 % from 2010 to 2011, similar in Germany from 47.7 % to 45.3 % and in Luxembourg from 42.9 % to 41.8 %.*

Limited cuts in Public Expenditure

So far Belgium didn’t have to make dramatic cuts in expenditure. The overall national deficit for Belgium in 2012 may have been 3.9 % instead of the 2.8 % put forward, but this was mainly due to investments in the banking sector, and Belgium got its adapted path agreed by the European Commission.

There have been no austerity measures in Belgium comparable to the PIIGS-countries. No cuts in wages (although there were timid ideas expressed), no significant cuts in social security expenditure, no cuts on state pensions. The main principles applied are: no extra expenditure, no new initiatives, and postponing expenses whenever possible. Main target areas for (limited) cuts are: Defence, Public Property (sale and lease back), and of course Development Aid to some extent. Every year as well, we are happy to promise ourselves to find extra money in combating black labour and social and fiscal fraud.

One main critique on the past is that when the economy was prospering and there were possibilities to make savings, nothing was done and the money was spent on new initiatives and ‘the return of the heart’ (*‘le retour du Coeur’*), after the severe cuts in expenditure that were made in order to access the Euro

(meeting the Maastricht criteria), and that included among other things a reduction by 50 % of the child allowance for the first child, and two index leaps (on two occasions, the automatic indexation of the wages was not carried out).

France and Austria show similar figures. Deficits are slightly exceeding the 3 %-threshold. No big cuts have been made. Savings on social expenditure have been announced in France for years, and attempts have been made to reduce the number of civil servants, but without too much impact on public finance. Again equally, in times of prosperity, no savings have been made.

High Debt, low Risk

Belgium is one the five European Member States with the highest debt ratios, with 97.8 % (2011) (*in Austria the debt ratio was 72.5 %, in France 85.8 %, in Germany 80.4 and in Luxembourg 18.3*) but paradoxically this does not constitute a major problem since the risks are limited, for a growing part lent is on a long term basis and at low rates (hence the interest Belgium pays is limited to 3.2 % of GNP). Furthermore, a large proportion of the debt is due to Belgian citizens.

The Effects of Federalism

The federal organisation of the Belgian State and the increasing redistribution of State Income to the Regions make it hard to cut on the remaining public expenditure on the national level.

The mechanisms that have been put in place to finance the regions, made it already more and more difficult for the federal state to reach a break-even budget before the crisis, whereas the Regional Governments only had to find agreements on how to spend the additional income every year. This process has come to an end, and also the Regions now have to review their budgets and make minor cuts. Budgets for working costs are frozen and no automatic indexation is applied (except for wages (obligatory!), and as well on the regional level, no or hardly any new initiatives are foreseen.

4.2 Medium to Long-term

There is no direct risk for sharp increases in public expenditure, though the introduction of some new taxes (e.g. on big fortunes) may still account for small changes. Neither are there sharp reductions in taxes to be expected. There may well be a shift in type of taxes: from taxes on labour to taxes on other sorts of income.

The same again holds for the other countries; since all Bismarck countries have a rather high tax level, no much room for manoeuvring is available rather decreases in fiscal deductions (France). Possible new 'taxes' include an increase in VAT.

The consequences of the huge Belgian debt are so far under control, with low interest rates and a limited share of total government revenue that is used to service the national debt.

There is however one sword of Damocles with regard to the national debt. The Belgian Government provided a lot of guarantees for Belgian banks. If one or more would collapse, this could both increase the already high level of debt, and the rate Belgium has to pay on the international markets, which would reverse the decreasing interest rates, and would put the rent snowball (meaning we need to borrow money in order to pay the interests) back into motion, as in the eighties.

On approaches to the current series of crises: the Belgian Political Factor

The crisis was most present in its financial perspective, with several Belgian Banks that needed government support. The banks luckily did not go bankrupt, but needed cash. The State either provided guarantees, or bought banks (and sold some again and kept another one). As long as the guarantees don't have to be realised, the government may even win on this intervention. If they instead should have to pay, the whole picture might change dramatically.

Next to buying banks and reducing possibilities for early retirement, government intervention has been rather limited. This has to do with the longstanding tradition of coalition governments in Belgium, the actual one being a coalition of six parties (For changing the state's structure, even the Green parties work together with the coalition). This means that there are no major shifts possible: since every party needs to get something, there is always a bit of taxes, and a bit of savings... But in general there is compromise and continuity. From this point of view, the communitarian debate favours the status quo.

Even the strongest political changes (the velvet coalition without the Christian Democratic Party in the first decade of this century) didn't bring too much socio-economic change, but was focusing instead on the ethical dimension.

This little room for maneuvering makes governing Belgium a bit of a bookkeeping job, in which we seem to be very good. So we hardly noticed

the absence of a government for more than a year and a half : the institutions kept running, and finally, we still had a lot of other governments on the job. Actually, not having a government helped us saving, since only 1/12 of the previous year's expenses could be spent every month.

The Belgian situation differs from e.g. the one in France. Political changes in a bi-party context tend to be more outspoken, though even then the economic situation with deficits and debts and the Commission's monitoring increasingly limits the room for maneuvering.

5. Concluding Remarks

Overall, we can state the following:

1. The Bismarckian system, heavily funded by contributions from employers and workers, is robust against severe cuts as in the case of the Beveridge countries, approaching to those systems that relying on State money (the Scandinavian ones).
2. The redistribution effect of social transfers is very tangible.
3. For the moment, the classical Bismarckian countries have a good record: they are able to continue to perform in a socially acceptable way, without major cutbacks. Their economic prosperity is rewarded with very low interest rates.
4. Yet, the danger has not disappeared: industrial competitiveness is shrinking, and the measures (like temporary unemployment) that provided a barrier against the loss of jobs, may not be holding very long. The role of the educational system in keeping the pace of economic development and stability is very important. Inequality of chances, early school leaving cause major setbacks (e.g. Austria).
5. Another danger lies in the de-budgeting element: many expenses are pushed forward, to the next generation or at least to the next government.
6. So these countries are clearly not the sick men of Europe, but they aren't in a completely healthy shape neither...



Chapter III
The Beveridge Welfare System
SEÁN HEALY



The Ireland Report

This paper analyses the situation in Ireland. It explains how Ireland came to be in its present situation and how it is trying to adjust to this new context and the pressures it brings. It is followed in part 2 by an identification of trends – short term to medium term to long term – that flow from this analysis, concluding with a short summary of the narrative underpinning Ireland’s development.

Introduction

Ireland is experiencing great change and has been doing so for some time.¹ These are some key developments over the past 50 years:

- After a lengthy period of stagnation, Ireland’s economy improved dramatically in the 1960s and continued to improve with accession to the EU in 1973.
- However, dramatic policy failures by successive Governments in the period 1977-86 resulted in Ireland again experiencing serious economic, fiscal and social problems.
- These were slowly redressed through the 1990s and were given a major boost as women’s participation in the labour force grew dramatically.
- However in the first decade of the 21st century Ireland relied on a housing construction bubble fuelled by borrowed money to maintain high growth levels. A very high level of construction was encouraged and supported by many factors. Four key ones were:

¹ For a much fuller treatment of this topic see Healy et al, 2012, *Ireland Today: A Narrative*, in Healy et al, *Shaping Ireland’s Future*, 2012, Dublin: Social Justice Ireland, pp. 8-39.

- Very low interest rates. These were dictated by the large EU economies which, unlike Ireland, were experiencing very low growth rates. Interest rates were reduced to very low levels to encourage investment in those countries. The same rates applied in Ireland, however, which was at the opposite end of the economic cycle.
 - Large tax incentives for construction provided by the Irish Government.
 - Very risky investments by German and French banks and financial institutions – in effect gambles were taken.
 - Unsustainable house price inflation and profiteering.
- This bubble burst at the same time as the world’s banking and economic systems hit serious problems late in that decade.
 - The result for Ireland was catastrophic with dramatic falls in employment, rises in unemployment, cuts in pay rates, social welfare rates and public services being combined with huge allocations to rescue banks and financial institutions.

A range of assumptions, many of which have proved to be either inaccurate or simply wrong, have underpinned Irish economic and social policy in recent years. These have resulted in some very damaging decisions being made.

Regrettably, policy is still being based on some of these false assumptions. Until they are successfully challenged the consequence will be yet further damage to Irish society.

Two of the most notable decisions were the provision of a guarantee on all Irish bank deposits and the subsequent absorption of bank debts into the State’s sovereign debt.

As a result of these and other related decisions, the Irish economy was in a perilous and ultimately unsustainable position. State expenditure far outstripped revenue and both sovereign and personal debt levels were rapidly rising.

To resolve this situation Ireland’s Government negotiated a financial rescue package with the European Commission, the International Monetary Fund and the European Central Bank (EU/ECB/IMF) known as the ‘troika’. This, in turn, resulted in a combination of huge cuts in exchequer spending and significant increases in taxation.

The net result of all this is that many of the important components of the basic fabric of Irish society, including the provision of healthcare, education and the range of supports needed by the poor and disadvantaged, are under increasing threat.

This paper sets out an analysis of Ireland's welfare system/state following a model that has three levels:

Level 1: 3 Sources of social protection

- Labour market
- Family
- Welfare State

Level 2: 3 Challenges for Social Protection

- Economic changes
- Social changes
- Demographic changes

Level 3: Development of Social Protection

- 1st facet: To secure material daily life for oneself and one's family.
- 2nd facet: To be secure in critical life situation (e.g. unemployment, invalidity etc.)
- 3rd facet: To provide for pension.

The paper goes on to draw some overarching conclusions and to identify key trends.

1. The First level: The three sources of social protection

1.1 The first source: labour market

The post-2007 turnaround in the labour market contrasts with the fact that one of the major achievements of recent years had been the increase in employment and the reduction in unemployment, especially long-term unemployment. In 1991 there were 1,155,900 people employed in Ireland. That figure increased by almost one million to peak at 2,146,000 in mid-2007; during early 2006 the employment figure exceeded two million for the first time in the history of the state. Overall, the size of the Irish labour force has expanded significantly and today equals over 2.12 million people, almost one million more than in 1991 (see chart 1).

However, during the period since 2007 emigration has returned resulting in a decline in the labour force (first recently arrived migrants returned home, then native Irish began to leave) employment has fallen and unemployment has dramatically increased. CSO (Ireland’s Central Statistics Office) figures indicate that during the first quarter of 2009 the numbers employed fell below two million and since then they subsequently continued to fall reaching just over 1.8m in 2011. CSO figures indicate that during the first quarter of 2012 the numbers employed stood at 1,807,800.

Chart 1: The Numbers of People in the Labour Force and Employed in Ireland, 1991-2011.



Source: Central Statistics Office, Quarterly National Household Survey various editions

The numbers unemployed

At the outset it is important to outline what the term ‘unemployment’ means. There are two measurement sources often quoted, the *Quarterly National Household Survey* (QNHS) and the *Live Register*. The former is considered the official and most accurate measure of unemployment although it appears only four times a year unlike the monthly live register data.

The Central Statistics Office (CSO)’s QNHS unemployment data use the definition of ‘unemployment’ supplied by the International Labour Office (ILO). It lists as unemployed only those people who, in the week before the survey, were unemployed *and* available to take up a job *and* had taken specific steps in the preceding four weeks to find employment. Any person who was

employed for at least *one hour* is classed as employed. By contrast, the live register counts everybody ‘signing-on’ and includes part-time employees (those who work up to three days a week), those working but on short weeks, seasonal and casual employees entitled to Unemployment Assistance or Benefit.

As chart 2 shows, the period from 1993 was one of decline in unemployment. During mid-2001 Irish unemployment reached its lowest level at 3.6 per cent of the labour force. Since then the slowdown in the international and domestic economy has brought about increases in the rates. During 2006 unemployment exceeded 100,000 for the first time since mid-1999 with a total of 104,800 people recorded as unemployed in mid-2006. As chart 2 shows, it exceeded 200,000 in early-2009 and 300,000 in early-2011. It also highlights the rapid growth in the number of long-term unemployed (unemployed for more than 12 months). The CSO data report that there are now over 177,000 people in long-term unemployment and that this figure has increased five-fold since 2007; simply given the ongoing economic crisis many of those who entered unemployment in 2007-2010 have remained unemployed for more than 12 months and have therefore become long-term unemployed.

Chart 2: The Numbers of Unemployed and Long-Term Unemployed in Ireland, 1991-2011.



Source: CSO, QNHS various editions

Table 1 gives some indication of the transformation that occurred between late 2007 and 2011. Over the five years from 2007-2011, the labour force decreased by almost 6 per cent, participation rates dropped, full-time employment fell by over 20 per cent representing some 380,000 jobs while part-time employment increased by over 9 per cent. By quarter 3 2011 the number of underemployed people, defined as those employed part-time but wishing to work additional hours, had increased to 135,700 people – 6 per cent of the labour force. Over the period unemployment increased by over 210,000 people bringing the unemployment rate up from 4.6 per cent to 14.8 per cent.

Table 1: Labour Force Data, 2007 - 2011				
	2007	2010	2011	Change 07-11
Labour Force	2,253,100	2,150,500	2,120,300	-5.9%
LFPR %	64.6	61.2	60.4	-4.2%
Employment %	61.1	60.3	59.1	-2.0%
Employment	2,149,800	1,851,500	1,805,500	-16.0%
Full-time	1,764,000	1,436,800	1,383,700	-21.6%
Part-time	385,800	414,700	421,800	+9.3%
Underemployed	-	108,800	135,700	-
Unemployed %	4.6	13.9	14.8	+10.2%
Unemployed	103,300	299,000	314,700	+204.6%
LT Unemployed %	1.3	6.5	8.4	+7.1%
LT Unemployed	28,800	140,400	177,200	+515.3%

Source: CSO, QNHS on-line database

Notes: All data is for quarter 3 of the reference year.
 LFPR = Labour force participation rate, measures the percentage of the adult population who are in the labour market.
 Underemployment measures people in part-time employment who indicate that they wish to work additional hours but these are not currently available.
 Comparable underemployment data is not available for 2007.
 LT = Long Term (12 months or more).

The Live Register

While the live register is not an accurate measure of unemployment it is a useful barometer of the nature and pace of change in employment and unemployment. Increases suggest a combination of more people unemployed, more people on reduced working weeks and consequently reductions in the availability of work hours to the labour force. Table 2 shows the number of people signing on the live register increased rapidly since the onset of the economic crisis in 2007.

By February 2012 the numbers signing-on the live register had increased more than 250,000 people versus the situation four years earlier.

Year	Month	Males	Females	Total
2007	January	95,824	62,928	158,752
	September	98,015	62,637	160,652
2008	January	116,160	65,289	181,449
	September	156,055	84,162	240,217
2009	January	220,412	105,860	326,272
	September	278,003	141,851	419,854
2010	January	291,648	145,288	436,936
	September	289,798	152,619	442,417
2011	January	292,003	150,674	442,677
	September	281,988	155,453	437,441
2012	January	283,893	155,696	439,589
	February	283,450	155,972	439,422

Source: CSO Live Register on-line database

Increasing unemployment: implications and challenges

The scale of these increases is enormous. The consequence of all these job losses has been the sharp increase in unemployment and emigration described earlier. Dealing with unemployment, table 3 examines how it has changed between 2007 and 2011, a period where the numbers unemployed increased by over 200 per cent. As the table shows, male unemployment increased by over 140,000 people and female unemployment by more than 60,000. Most of the unemployed, who had been employed in 2007 and before it, are seeking to return to a full-time job with less than 11 per cent of those unemployed in 2011 seeking part-time employment. The impact of the unemployment crisis was felt right across the age groups and it is only in the age-groups 15-19 years and 20-24 years that any recent decrease has been recorded; a phenomenon almost entirely explained by emigration.

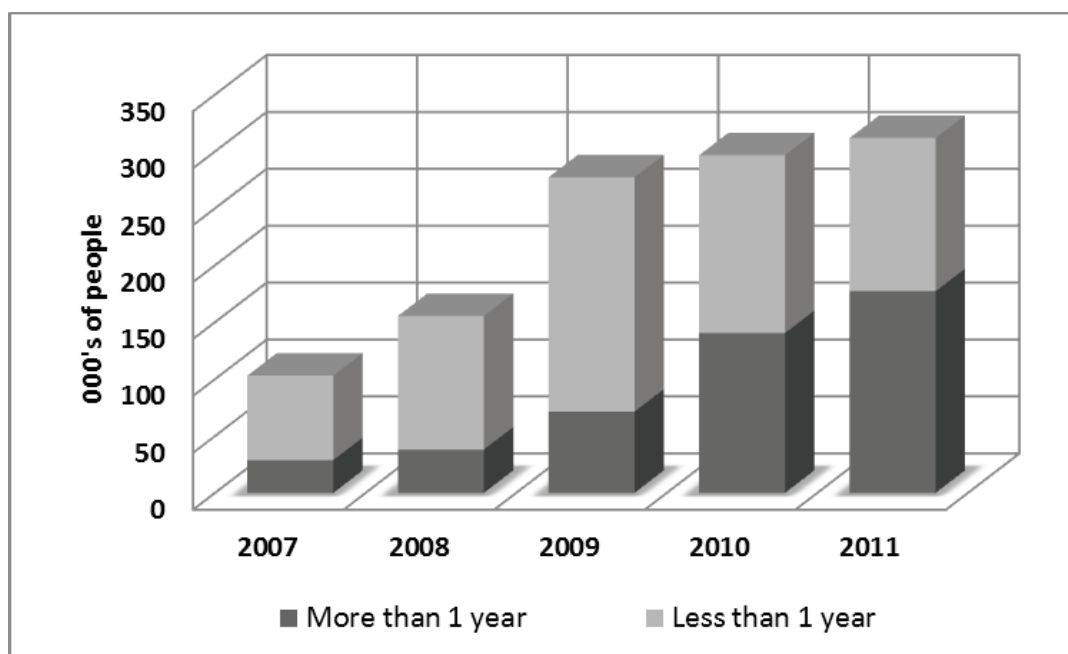
Table 3: Unemployment in Ireland, 2007 - 2011 (thousands of people)				
	2007	2010	2011	Change 07-11
Unemployment	103.3	299.0	314.7	+204.6%
Gender				
Male	62.2	201.5	206.2	+231.5%
Female	41.1	97.5	108.6	+164.2%
Employment sought				
Seeking FT employment	87.7	274.9	281.4	+220.9%
Seeking PT employment	15.6	24.1	33.4	+114.1%
Age group				
15-19 years	11.5	20.1	19.2	+67.0%
20-24 years	21.9	47.0	44.9	+105.0%
25-34 years	31.4	95.1	106.2	+238.2%
35-64 years	38.1	136.0	144.2	+278.5%
Region				
Border	13.8	29.5	30.7	+122.5%
Midlands	4.9	21.1	23.1	+371.4%
West	10.0	32.8	33.4	+234.0%
Dublin	29.7	70.9	76.7	+158.2%
Mid-East	10.5	31.6	34.3	+226.7%
Mid-West	10.1	29.6	30.8	+205.0%
South-East	12.0	41.4	43.4	+261.7%
South-West	12.3	42.1	42.3	+243.9%
Duration				
Unemp. less than 1 yr	74.2	156.2	134.6	+81.4%
Unemp. more than 1 yr	28.8	140.4	177.2	+515.3%
LT Unemp. as % Unemp	27.9%	47.0%	56.3%	

Source: CSO, QNHS on-line database

The rapid growth in the number and rates of long-term unemployment are also highlighted in table 3 and in chart 3. The number of long-term unemployed was less than 30,000 in 2007 and has increased since to reach 177,200 in 2011. For the first time on record, the QNHS data for late 2010 indicated that long-term unemployment accounted for more than 50 per cent of the unemployed

and by quarter 3 2011 the long-term unemployed represented 56.3 per cent of the unemployed. The transition to these high levels has been rapid since 2007 – see chart 2. The experience of long-term unemployment in the 1980s showed the dangers and long-lasting implications of an unemployment crisis characterised by high long-term unemployment rates. It remains a major policy failure that Ireland’s level of long-term unemployment has been allowed to increase so rapidly in recent years. Furthermore, it is of serious concern that Government policy has given limited attention to the issue.

Chart 3: The Increased Presence of Long-Term Unemployed in Ireland, 2007-2011



Source: CSO, QNHS various editions

Addressing a crisis such as this is a major challenge, however, it is crucial that Government, commentators and society in general remember that each of these numbers represents people who are experiencing dramatic and, in many cases, unexpected turmoil in their and their families’ lives. As Irish society comes to terms with the enormity of this issue, this perspective should remain central.

In responding to this situation Government should:

- Launch a major investment programme focused on creating employment and prioritise initiatives that strengthen social infrastructure such as the school building programme and the social housing programme.
- Resource the up-skilling of those who are unemployed and at risk of becoming unemployed through integrating training and labour market programmes.
- Maintain a sufficient number of active labour market programme places available to those who are unemployed.
- Adopt policies to address the worrying trend of youth unemployment. In particular, these should include education and literacy initiatives as well as retraining schemes.
- Recognise that many of the unemployed are skilled professionals who require appropriate support other than training.
- Resource a targeted re-training scheme for those made unemployed from the construction industry in recognition of the fact that this industry is never likely to recover to the level of employment it had prior to 2007.
- Recognise the scale of the evolving long-term unemployment problem and adopt targeted policies to begin to address this.
- Ensure that the social welfare system is administered such that there is minimal delays in paying the newly unemployed the social welfare benefits to which they are entitled.

Youth unemployment

While the increase in unemployment has been spread across people of all ages and sectors, table 4 highlights the very rapid increase on the live register of those aged less than 25 years. The numbers in this group doubled between January 2008 and January 2009 and subsequently peaked at just over 89,000 in September 2010. Since then some decreases have occurred and although we have no empirical knowledge of the reasons for these decreases, a large part of the decrease is likely explained by emigration. Previous experiences, in Ireland and elsewhere, have found that many of those under 25 and over 55 find it challenging to return to employment after a period of unemployment. This highlights the danger of major increases in long-term unemployment in the coming years and suggests a major commitment to retraining and re-skilling will be required. In the long-run Irish society can ill afford a return to the long-term unemployment problems of the 1980s. In the short-run the

new-unemployed will add to the numbers living on low-income in Ireland and will impact on future poverty figures.

Table 4: Persons under 25 yrs on the Live Register, Jan 2008 - Jan 2011

Month and Year	Numbers	Month and Year	Numbers
January 2008	36,945	September 2010	158,752
September 2008	53,666	January 2011	160,652
January 2009	70,268	September 2011	181,449
September 2009	89,810	January 2012	240,217
January 2010	85,910	February 2012	326,272

Source: CSO Live Register on-line database

Women returning to employment

The growth in employment over the last two decades has particularly impacted on women. Rates of female labour-force participation rose dramatically in the decade to 2001. Noticeably, many of these female entrants are women returning after having had a family. The increased participation of women played a dramatic role in increasing Ireland's economic growth and productivity during that period. Since 2007 job losses have had a greater impact on males versus females with male employment down 21 per cent since 2007 while female employment decreased by 10 per cent. As table 3 shows, male unemployment increased by over 140,000 people and female unemployment by more than 60,000.

Work and people with disabilities

The results of the 2006 National Disability Survey (CSO, 2008 and 2010) alongside the results of Census 2006 have highlighted the scale and nature of disability in Ireland. Census 2006 found that 9.3 per cent of the population, some 393,785 people, had a disability while the National Disability Survey recording a slightly lower rate (CSO, 2007:13). Both these reports reflect the findings of a more detailed labour market examination of the disabled as part of a 2004 QNHS special module on disability. It found that of all those indicating that they had a longstanding health problem or disability only 37 per cent (110,800) were in employment. This is a figure considerably below the participation rate of the overall population which at the times stood at 61 per cent. Furthermore, of those employed approximately one-quarter worked part-time while the remaining three-quarters were in full-time employment.

This low rate of employment among people with a disability is of concern. Apart from restricting their participation in society it also ties them into state dependent low-income situations. Therefore it is not surprising that Ireland's poverty figures reveal that people who are ill or have a disability are a group with a very high risk of poverty. *Social Justice Ireland* believes that further effort should be made to reduce the impediments faced by people with a disability in achieving employment. In particular consideration should be given to reforming the current situation where many such people face losing their benefits, in particular their medical card, when they take up employment. This situation ignores the additional costs faced by people with a disability in pursuing their day-to-day lives. For many people with disabilities the opportunity to take up employment is denied to them and they are trapped in unemployment, poverty or both.

Some progress was made in Budget 2005 to increase supports intended to help people with disabilities access employment. However, sufficient progress has not been made and recent Budgets have begun to reduce these services. New policies, including that outlined above, need to be adopted if this issue is to be addressed successfully and is all the more relevant given the growing employment challenges of the past few years.

Asylum seekers and work

Social Justice Ireland remains very disappointed that the government continues to reject the proposal to recognise the right to work of asylum seekers. We along with others advocated that where government fails to meet its own stated objective of processing asylum applications in six months, the right to work should be automatically granted to asylum seekers. Detaining people for an unnecessarily prolonged period in such an excluded state is completely unacceptable. Recognising asylum seekers right to work would assist in alleviating poverty and social exclusion among one of Ireland's most vulnerable groups.

The Work of Carers

The work of Ireland's carers receives minimal recognition in spite of the essential role their work plays in society. According to the Carers Association people caring full-time for the elderly and people with disabilities are saving the state approximately €2.5 billion a year in costs which it would otherwise have to bear. The Caring for Carers organisation (2010) have calculated there were 160,917 carers in Ireland providing 3,724,434 hours of care which was valued at more than €2.5bn. Results from the 2006 Census give similar indications (comparable results of the 2011 Census are not yet available). It found that 4.8 per cent of the population aged over 15 provided some care for sick or disabled family members or friends on an unpaid basis. This figure equates to almost 161,000 people. The dominant caring role played by women was highlighted by the fact that 100,214 (62.25 per cent) of these care providers were female.

Earnings

Table 5 shows the average weekly earnings and hourly earnings in, Q4, 2010 and Q4 2011. Average weekly earnings fell to €689.54 in Q4 2011, down from €699.94 a year earlier representing a fall of 1.5% over the year.

The fall in weekly earnings reflects the decrease in paid hours (-0.6% over the year) while average hourly earnings decreased by 0.8% year on year.

- Across the economic sectors average weekly earnings fell in 8 of the 13 sectors with the largest decreases in *Construction (-15.3%)* and the *Arts, entertainment, recreation and other service activities (-13.2%)* sectors. The largest sectoral increase in weekly earnings was recorded in *Professional, scientific and technical (+6.3%)*.
- Weekly earnings in the private sector fell by 2.1% annually compared with a fall of 0.5% in the public sector. In the three years to Q4 2011 earnings in the public sector have fallen by €50.91 (-5.3%) per week compared with a fall of €29.21 (-4.5%) per week in the private sector.
- Annual decreases in average weekly paid hours were recorded in 10 economic sectors with the largest percentage decreases being recorded in *Arts, entertainment, recreation and other service activities (-4.2%)* and *Construction (-3.8%)* sectors. In the remaining three sectors the highest percentage increase in weekly paid hours was in the *Professional, scientific and technical sector* where there was an annual increase of 2.8% or 0.9 hours.

In the public sector average weekly paid hours fell by 0.9% over the year from 31.9 to 31.6 hours. Private sector average weekly paid hours decreased over the same period by 0.6% bringing paid hours to 31.6 for Q4 2011. Since Q4 2008 weekly paid hours in the private sector have fallen by 1.1 hours or 3.4% compared with a fall of 0.4 hours or 1.3% in the public sector.

Table 5: Earnings and Labour Costs Q4 2010 – Q4 2011			
Quarter	Average Weekly Earnings	Average Hourly Earnings	Average Weekly Hours
	€	€	Hours
Q4 2010*	699.94	22.00	31.8
Q3 2011*	686.44	21.42	32.0
Q4 2011*	689.54	21.83	31.6
Quarterly Change %	0.5.	1.9	-1.3
Annual Change %	-1.5	-0.8	-0.6

*Preliminary Estimates

Source: CSO (2012) Earnings and Labour Costs QNHS Q4 2011

Table 6: Annual changes in earnings and hours Q3 2010 to Q4 2011

NACE Principle Activity	Q3 2010* - Q3 2011*			Q4 2010* - Q4 2011*		
	Average Weekly Earnings	Average Hourly Earnings	Average Weekly Hours	Average Weekly Earnings	Average Hourly Earnings	Average Weekly Hours
	%	%	%	%	%	%
B-E Industry	-1.4	-1.5	0.3	-0.8	-0.5	-0.3
F Construction	1.8	-2.9	4.8	-15.3	-11.8	-3.8
G Wholesale and retail trade; repair of motor vehicles and motorcycles	2.4	1.9	0.3	0.8	1.7	-1.0
H Transportation and storage	0.4	1.0	-0.6	-4.2	-0.7	-3.5
I Accommodation and food services	1.3	0.5	0.7	-0.3	-1.6	1.2
J Information and communication	-4.5	-2.5	-1.9	1.2	1.4	-0.3
K-L Financial, insurance and real estate	0.7	1.4	-0.9	-4.3	-4.5	0.3
M Professional, scientific and technical	-4.4	-3.1	-1.2	6.3	3.3	2.8
N Administrative and support services	3.8	5.5	-1.7	4.0	4.4	-0.3
O Public administration and defence	2.1	0.2	2.0	-2.0	0.3	-2.5
P Education	3.3	4.6	-1.2	1.2	2.1	-0.8
Q Human health and social work	-2.7	-0.4	-2.2	-1.7	-0.6	-1.3
R-S Arts, entertainment, recreation and other service activities	-6.6	-2.4	-4.0	-13.2	-9.5	-4.2
Total	0.4	0.4	-0.3	-1.5	-0.8	-0.6
Public/Private Sector						
Private sector	0.6	0.5	0.3	-2.1	-1.4	-0.6
Public sector	-0.2	0.6	-0.9	-0.5	0.2	-0.9
Size of Enterprise						
Less than 50 employees	0.6	0.5	0.3	-2.1	-1.4	-0.6
50-250 employees	-0.2	0.6	-0.9	-0.5	0.2	-0.9
Greater than 250 employees	-0.2	0.6	-0.9	-0.5	0.2	-0.9
*Preliminary Estimates						

1.2 The second source: family

The working poor

The growth in jobs over the years leading up to 2008 was dramatic and the subsequent increase in unemployment began to impact in the 2009 poverty figures. However, it is important to realise that having a job is not, of itself, a guarantee that one lives in a poverty-free household. As table 7 indicates 7.8 per cent of those who are employed are living at risk of poverty. Translating this into numbers of people suggests that among Ireland's workers in 2010 at least 120,000 were at risk of poverty.²

This is a remarkable statistic and it is important that policy makers begin to recognise and address this problem. Many working families on low earnings struggle to achieve a basic standard of living. Policies which protect the value of the minimum wage and attempt to keep those on that wage out of the tax net are relevant policy initiatives in this area. Similarly, attempts to increase awareness among low income working families of their entitlement to the Family Income Supplement (FIS) are also welcome; although evidence suggests that FIS is experiencing dramatically low take-up and as such has questionable long-term potential. However, one of the most effective mechanisms available within the present system to address the problem of the working poor would be to make tax credits refundable. We will address this proposal later in this review.

	Males	Females	Total
At work	7.6	6.5	7.8
Unemployed	41.5	44.0	26.1
Students and school attendees	23.1	29.5	24.0
On home duties	31.8	23.8	20.3
Retired	27.7	14.8	9.0
Unable to work as ill/disabled	51.7	40.8	20.9
Total	19.7	17.0	15.8

Source: CSO SILC reports (2005:11, 2007:15, 2011:7), using national equivalence scale

² See table 8.

Table 8 examines the composition of poverty by household type. Given that households are taken to be the ‘income receiving units’ (income flows into households who then collectively live off that income) there is an attraction in assessing poverty by household type. From a policy making perspective, this information is crucial as anti-poverty policy is generally focused on households (households with children, pensioner households, single person households etc). These data show that in 2010 29.1 per cent of households who were at risk of poverty were headed by somebody who was employed. Almost 44 per cent of households at risk of poverty were found to be headed by a person outside the labour force.³

Table 8: Households below 60% of median income classified by principal economic status of head of household, 2004-2010						
	2004	2006	2007*	2008*	2009	2010
At work	29.8	29.5	31.3	39.6	22.8	29.1
Unemployed	12.0	14.7	12.3	11.5	26.0	21.2
Students/school	2.8	4.6	5.1	4.1	5.4	3.0
On home duties	28.0	30.7	28.7	25.7	26.7	27.1
Retired	13.5	8.5	10.9	7.9	6.6	6.0
Ill/disabled	12.0	11.5	11.2	10.1	10.9	9.5
Other	1.9	0.7	0.4	1.1	1.6	4.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO SILC Reports (2007:39; 2008:36; 2009:49; 2010:49; 2011:37)
 Note: * Data for 2007 and 2008 not excluding SSIA effect as not published by CSO.

1.3 The third source: welfare state

The Scale of Poverty – Numbers of People

It is useful to transform these proportions into numbers of people. Table 9 identifies that in 2010 706,371 people were living below the 60 per cent of median income poverty line. Using this figure, table 9 presents the number of people in poverty in that year broken down into various categories. Comparable figures are also presented for 2005 2006 and 2007.

The data in table 9 are particularly useful in the context of framing anti-poverty policy.

³ Those on home duties, students and school attendees, retired plus a proportion of the ill and disabled.

Groups such as the retired and the ill/disabled, although carrying a high risk of poverty, involve much smaller numbers of people than groups such as adults who are employed (the working poor), people on home duties and children/students. The primary drivers of the 2005-09 poverty reductions were increasing incomes among those who are on home duties, those who are classified as ill/disabled, the retired and children. Between 2007 and 2009 the numbers of workers in poverty declined while the numbers of unemployed people in poverty notably increased. This reflected the rise in unemployment in the labour market as a whole during those years. As the table shows, the increase in poverty between 2009 and 2010 can be principally explained by the increase in poverty among people with jobs, people who are unemployed and children.

Table 9: Poverty Levels Expressed in Numbers of People, 2005-2010				
	2005	2007	2009	2010*
Overall	764,753	685,562	628,761	706,371
Adults				
On home duties	150,656	128,200	113,177	117,964
At work	120,066	115,174	89,913	122,202
Students/school	102,477	96,664	91,799	85,471
Unemployed	57,356	63,072	81,110	94,654
Ill/disable	60,415	50,732	40,241	37,438
Retired	57,356	48,675	29,552	29,668
Other	12,236	5,484	9,431	18,366
Children				
Children (under 16 yrs)	204,954	177,561	173,538	200,609
Children (under 18 yrs)	n/a	224,179	219,438	235,928

Source: Calculated using CSO SILC Reports (2011:13; 2009:48, 2008:25, 2006:13)

Social Welfare System in Ireland

There are three main kinds of income support payments in Ireland's social welfare system. These are social insurance, social assistance and universal.

Social insurance schemes have been developed on the basis of social insurance contributions being paid. They are financed by compulsory contributions from both employers and employees (including the self-employed). Once the insurance payments have been made, the entitlement has been established and the social insurance scheme payments are made irrespective of any other income the person may receive.

The use of the term insurance is a misnomer in this context. The social insurance system is not insurance in the commercial or actuarial sense in which that term is usually applied. There is no proportional link between the contributions paid by individual insured persons and what these individuals receive in payments under any of the social insurance schemes. In practice, the schemes are based on the principle of solidarity and are organized on a pay-as-you-go basis. The State provides the additional funding required if there is a shortfall between what has been provided by employer and employee payments and the total cost of the schemes in any particular year. In reality, the social insurance fund represents a tri-partite arrangement between employers, employees (including the self-employed) and the State. For a number of years in the late 1990s and early 2000s there was an exceptional situation. The performance of the Irish economy meant that the State was not required to provide any funding to pay for social insurance payments in those years. 1994 saw the introduction of a threshold below which an employee pays no social insurance contribution.

For **social assistance**, eligibility is determined on the basis of an assessment of needs. These are means tested schemes. The claimant becomes eligible for payments from these schemes only if his/her means are less than the threshold set for accessing the scheme. People receiving payments from these schemes have either no social insurance record, or have used up their entitlement or their social insurance payments are inadequate, e.g. their contributions had not been paid for an adequate period of time.

Universal schemes require neither insurance contributions nor a means test. Payments are made without reference to the income of either the recipient or the beneficiary (where these are not the same such as in the case of child benefit).

Child benefit is the most important universal social welfare scheme in Ireland. It is paid in respect of all children under the age of 16. It is also paid in respect of 16, 17 and 18 year-olds if they are in full-time education or have a physical or mental disability.

The payments are made on a monthly basis. The payments currently are €166 a month for the first and second child with a payment of €203 a month for the third and subsequent children. This money is paid to the mother and is tax free. There is disagreement among analysts, legislators and lawyers concerning who is entitled to the payment – the child or the mother. Consequently, there is an ongoing discussion on whether a move to tax or means test this payment would be constitutional.

However, the Irish Government has indicated that it will either tax or means-test these payments from 2010 onwards. There are a range of technical problems in the Irish welfare system that may make both of these options impossible to implement for the foreseeable future. Consequently, some commentators have proposed that the level of child benefit payments should be reduced by 30% in 2010.

Ireland's Total Social Protection Expenditure

Tables 10-17 provide an overview of Ireland's expenditure on welfare and of those who receive these payments. Some of these tables may be more relevant in later sections of this report but are inserted here for ease of comparison and of understanding. Table 10 shows the total expenditure on social welfare for the years 2009 and 2010 and the changes between those years. Particularly noteworthy are the dramatic increases in employment supports (up 31.4 per cent) and in Jobseeker's supports (up 9.5 per cent). These increases flow directly from the implosion Ireland was experiencing as a result of the economic crisis that hit in 2008.

Table 10: Expenditure on Social Welfare by Programme, 2009-2010			
Programme	2009	2010⁽¹⁾	Change 2010 over 2009
	€000	€000	
Older People	4,569,861	4,614,970	1.0%
Widows, Widowers or Surviving Civil Partners and One Parent Families	2,608,226	2,570,545	-1.4%
Child Related Payments	2,877,010	2,650,751	-7.9%
Illness, Disability and Caring	3,504,680	3,469,550	-1.0%
Jobseeker's Supports	3,738,372	4,094,732	9.5%
Employment Supports	454,318	597,095	31.4%
Supplementary Welfare Allowance	969,724	950,919	-1.9%
Miscellaneous Payments and Grants	1,221,209	1,324,101	8.4%
Administration	592,640	575,567	-2.9%
Total Expenditure	20,536,040	20,848,230	1.5%

Source: (Department of Social Protection 2011:3)

(1) Provisional

Table 11 shows the development of social welfare expenditure in the period 2001-2010 as well as the proportion this was of Government's total current expenditure and as a percentage of GNP and GDP. Changes in the Consumer Price Index are also provided for reference. This shows the impact of the increase in unemployment as welfare jumped by a third, from €15.5bn in 2007 to €20.8bn in 2010. It also rose as a percentage of gross current Government expenditure and of GNP and GDP.

Table 11: Expenditure on Social Welfare as a Percentage of Current Government Expenditure, GNP and GDP, 2001 – 2010						
Year	Total Social Welfare expenditure ⁽¹⁾ (€m)	Index of expenditure ⁽²⁾	Consumer Price Index ⁽²⁾	Social Welfare Expenditure as a percentage of ⁽³⁾ change 2010		
				Gross Current Government	Gross National Product	Gross Domestic Product
2001 ⁽⁴⁾	7,842	100.0	100.0	26.2	8.0	6.7
2002 ⁽⁴⁾	9,517	121.4	104.6	28.8	8.9	7.3
2003 ⁽⁴⁾	10,493	133.8	108.2	28.9	8.9	7.5
2004 ⁽⁴⁾	11,291	144.0	110.6	28.9	8.9	7.6
2005 ⁽⁴⁾	12,168	155.2	113.3	28.2	8.8	7.5
2006 ⁽⁴⁾	13,586	173.2	117.8	28.6	8.8	7.7
2007 ⁽⁴⁾	15,518	197.9	123.5	29.5	9.5	8.2
2008 ⁽⁴⁾	17,809	227.1	128.6	31.1	11.5	9.9
2009 ⁽⁴⁾	20,536	261.9	122.8	33.8	15.6	12.9
2010 ⁽⁴⁾	20,848	265.9	121.7	33.8	16.7	13.5

Source: (Department of Social Protection 2011:3)
(1) Includes the full cost of Supplementary Welfare Allowance which is administered by the Health Service Executive.
(2) Re-based from Consumer Price Index data published by the Central Statistics Office.
(3) Source: Central Statistics Office
(4) Total Social Welfare expenditure for these years includes expenditure on the Redundancy and Insolvency Schemes which are administered by the Department of Enterprise, Trade and Employment.

This, increase, however, is open to misinterpretation as it fails to show that in the period after 2004 welfare rates were simply closing the gap because of how much they had fallen behind in the preceding decade or more. A longer perspective is interesting.

Income changes – a 25 year assessment

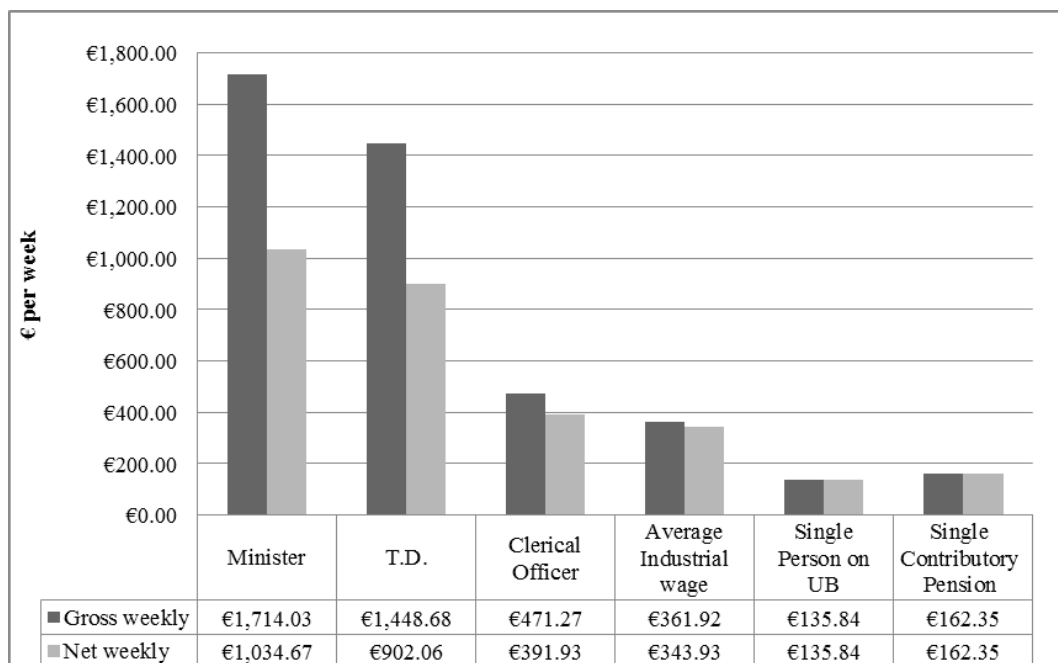
It has been suggested in recent times that there should be a reduction in the basic social welfare payment, the jobseekers allowance. It has been asserted by some that this rate increased too fast and reached too high a level during the last decade. It is worth broadening the picture to compare the income gains of those on welfare compared to a range of others in Irish society over the past quarter of a century. Chart 4 presents the results of such an analysis undertaken by *Social Justice Ireland* for the years between 1986 and 2012 (incorporating all changes to earnings and take home pay in Budget 2011).

The following should be noted about the calculations:

- Taxation is calculated on a single person basis under normal rules as this yields the lowest net pay. It could be calculated differently which would result in the net weekly pay increase being higher for those in paid employment included in the table.
- Irish punt values have been converted from pounds to euros.
- The pay for a TD⁴ is calculated on the 2011 rate for a TD with 10 years service or more. When the next Dáil is elected there will be no increments available to TDs and all will earn the same basic pay of €92,672 a year.
- To allow like for like comparison, the figures do not take account of pension contributions or deductions as these are neither available nor comparable across sectors. In this context it should be noted that those at the higher income range have a much greater gain for their pension contributions compared to the others listed in the table.

4 TD: Teachta Dála (i.e. Member of Ireland's Parliament).

Chart 4: Increases in weekly pay, 1986-2011⁵



The analysis shows that over the quarter century 1986-2011 the take-home pay of TDs rose by €902 a week while jobseekers benefit rates for a single person only increased by €136 a week in the same period. Government ministers' take-home pay rose by more than €1,035 a week in the same period. Similarly, the take-home pay of clerical officers in the public sector rose by €392 a week; the take-home pay of a person on the average industrial wage rose by €344 a week; and the contributory old age pension for a single person rose by €162.35 a week.

These are dramatic numbers in the context of the on-going calls for welfare and pension cuts. As we have pointed out in our various pre-Budget submission over recent years, other choices exist that would have enabled Government not to cut social welfare rates. These choices should have been taken in the past and should be taken in the period ahead. The figures also underscore the massive increases in direct income inequality over recent decades demonstrated earlier in this review.

⁵ UB: Unemployment Benefit paid to unemployed people who qualify for social insurance once they become unemployed. The increase in income for TDs will fall to €840 a week following changes coming into effect following the General Election of 2011.

Table 12 sets out the total expenditure on social welfare by type of payments. Older people and job-seekers each account for more than 20 per cent of the total expenditure.

Type of Payment	2010	2011 ⁽¹⁾	Change 2011 over 2010
	€000	€000	
State Pension (Non-Contributory)	977,293	971,566	-0.6%
State Pension (Contributory)	3,451,503	3,622,767	5.0%
State Pension (Transition)	108,194	132,396	22.4%
Widow's, Widower's or Surviving Civil Partner's Contributory Pension	1,335,584	1,337,868	0.2%
Death Benefit Pension	7,778	7,977	2.6%
Bereavement Grants	18,292	19,440	6.3%
Total Pension	5,898,644	6,092,014	3.3%
Jobseeker's Allowance	2,809,381	2,974,987	5.9%
One Parent Family Payment	1,110,328	1,088,897	-1.9%
Widow's, Widower's or Surviving Civil Partner's Non-Contributory Pension	19,252	18,173	-5.6%
Deserted Wife's Allowance	5,020	4,211	-16.1%
Basic Supplementary Welfare Allowance ⁽²⁾	206,570	174,349	-15.6%
Farm Assist	110,931	113,724	2.5%
Pre-Retirement Allowance	77,850	59,942	-23.0%
Jobseeker's Benefit	1,285,438	927,105	-27.9%
Deserted Wife's Benefit	93,387	85,828	-8.1%
Maternity Benefit	323,938	309,143	-4.6%
Adoptive Benefit	891	1,075	20.7%
Health and Safety Benefit	588	643	9.4%
Redundancy and Insolvency	490,304	326,892	-33.3%
Treatments Benefits ⁽³⁾	51,473	23,042	-55.2%
Exceptional Needs and Urgent Payments	69,420	62,228	-10.4%
Other Supplements	13,391	12,766	-4.7%
Humanitarian Aid	1,045	359	-65.6%
Total Working Age Income Supports	6,669,207	6,183,364	-7.3%
Community Employment	0	349,396	100.0%
Other Employment Programmes	0	48,180	100.0%
Integration Supports	0	27,158	100.0%
Employment Support Services ⁽³⁾	300,162	435,163	45.0%
Total Working Age Income Supports⁽⁴⁾	300,162	859,897	186.5%
Disability Allowance	1,109,505	1,089,178	-1.8%
Blind Pension	16,032	15,625	-2.5%
Carer's Allowance	501,789	507,193	1.1%
Domiciliary Care Allowance	95,710	99,924	4.4%
Respite Care Grant	128,097	130,392	1.8%
Illness Benefit	942,571	875,641	-7.1%
Injury Benefit	17,884	16,508	-7.7%
Invalidity Pension	639,994	606,512	-5.2%
Disablement Benefit	78,822	77,460	-1.7%
Medical Care Scheme	360	317	-11.9%
Carer's Benefit	26,288	24,474	-6.9%
Total Illness, Disability and Carers	3,557,052	3,443,224	-3.2%
Child Benefit	2,213,429	2,076,338	-6.2%
Family Income Supplement	185,998	204,543	10.0%
Back to School Clothing and Footwear Allowance	77,401	90,909	17.5%
School Meals Scheme	34,939	34,975	0.1%
Guardian's Payment (Non-Contributory)	4,697	5,134	9.3%
Widowed or Surviving Civil Partner Grant (Non-Contributory)	475	276	-41.9%
Guardian's Payments (Contributory)	11,462	11,502	0.3%
Widowed or Surviving Civil Partner Grant (Contributory)	6,455	6,228	-3.5%
Total Children	2,534,856	2,429,905	-4.3%
Household Benefits and Free Travel ⁽³⁾	670,660	711,011	6.0%
Rent Allowance	804	701	-12.8%
Supplementary Payments ⁽³⁾	639,484	617,894	-3.4%
Total Supplementary Payments	1,310,948	1,329,605	1.4%
Administration - Insurance Schemes	280,777	280,984	0.1%
Administration - Assistance Schemes	298,815	348,847	16.7%
Total Administration	579,592	629,831	8.7%
Grand Total	20,850,461	20,967,841	0.6%

(1) Provisional
(2) Includes Direct Provision Allowance
(3) See Additional Expenditure Details in Table A4
(4) Includes additional FAS Employment and Community Services Expenditure of €425 million for 2011

6 Source; Department of Social Protection, 2012 p.4.

Table 13 shows how social welfare expenditure is financed. 67.8 per cent came from the state (i.e. taxes) in 2010 while 32.2 per cent came from contributions to the Social Insurance Fund. Table 14 shows how this fund is financed. Employers paid almost three quarters of the income to the fund. In the period prior to 2008 the Social Insurance Fund provided full financing for all social insurance payments in the welfare system. The recession has changed that situation dramatically and now a much greater proportion of a higher bill is paid directly by the taxpayer. In this context it is important to recall that the rapid increase in the bill for social welfare is being driven principally by increases in unemployment.

Table 13: Financing of Social Welfare Expenditure, 2009 - 2010				
Sources of Finance	2009	2009	2010 ⁽¹⁾	2010
	€000	%	€000	%
State	13,238,439	64.5%	14,138,546	67.8%
Social Insurance Fund	7,297,601	35.5%	6,709,684	32.2%
TOTAL	20,536,040	100.0%	20,848,230	100.0%

Source: (Calculated from Department of Social Protection 2011:7)

(1) Provisional
A payment of €1.863 billion was made to the Social Insurance fund under Section 9 (9) of the Social Welfare consolidation Act 2005

Table 14: Financing of Social Insurance Fund, 2009 - 2010				
Sources of Finance	2009	2009	2010 ⁽¹⁾	2010
	€000	%	€000	%
Employer PRSI ⁽⁷⁾	5,209,403	72.5%	5,000,278	74.5%
Employee PRSI	1,559,416	21.4%	1,377,140	20.5%
Self-Employed PRSI	314,787	4.3%	330,603	4.9%
Investment Income	132,976	1.8%	1,644	0.0%
Other Receipts	19	0.0%	19	0.0%
Total Income	7,297,601	100.0%	6,709,684	100.0%
Expenditure on Social Insurance Schemes	9,784,225		9,461,060	
Surplus	-2,486,624		-2,751,376	

Source: (Department of Social Protection 2011:8)

(1) Provisional
Note: The breakdown between employer and employee contributions requires a detailed analysis of data collected by the Revenue Commissioners. The contributions are apportioned on the basis of the most recently available information and are of necessity provisional.
A payment of €1.863 billion was made to the Social Insurance fund under Section 9 (9) of the Social Welfare consolidation Act 2005.

7 PRSI: Pay-Related Social Insurance.

Table 15 provides details of the number of recipients of welfare payments each year between 2001 and 2010. The total number of beneficiaries for each year is also included. These have been rising steadily but show a dramatic increase from 2008 onwards.

Table 15: Number of Recipients and Beneficiaries of Weekly Social Welfare Payments 2001 - 2010		
Year	Recipients	Beneficiaries
2001	903,375	1,460,574
2002	938,971	1,496,714
2003	959,432	1,511,740
2004	957,732	1,463,921
2005	976, 613	1,469,106
2006	1,003,517	1,506,824
2007	1,060,327	1,577,463
2008	1,208,883	1,799,875
2009	1,379,206	2,076,256
2010	1,430,833	2,179,428

Source: (Department of Social Protection 2011:9)

Table 16 shows the total number of recipients broken down by the payment type and the programme. Almost 28 per cent of all recipients are older people receiving a state pension. This is slightly higher the proportion who are unemployed.

Table 16: Number of Recipients of Weekly Social Welfare Payments by Payment Type and Programme, 2009 - 2010

Type of Payment	Recipients		Change 2011 over 2010
	2010	2011	
State Pension (Contributory)	280,419	296,995	5.9%
State Pension (Transition)	10,206	12,110	18.7%
State Pension (Non-Contributory)	97,179	96,749	-0.4%
Pre-Retirement Allowance	6,021	4,820	-19.9%
Total Older People	393,825	410,674	4.3%
Widow's, Widower's or Surviving Civil Partner's Contributory Pension	114,579	115,762	1.0%
Widow's, Widower's or Surviving Civil Partner's Non-Contributory Pension	1,977	1,959	-0.9%
Deserted Wife's Benefit	8,372	8,071	-3.6%
Deserted Wife's Allowance	487	409	-16.0%
One-Parent Family Payment	92,326	90,307	-2.2%
Total Widows, Widowers or Surviving Civil Partners and One-Parent Families	217,741	216,508	-0.6%
Maternity Benefit	23,456	23,947	2.1%
Health and Safety Benefit	60	61	1.7%
Adoptive Benefit	53	45	-15.1%
Guardian's Payment (Contributory)	919	955	3.9%
Guardian's Payment (Non-Contributory)	429	441	2.8%
Total Child Related Payments	24,917	25,449	2.1%
Illness Benefit	81,253	73,397	-9.7%
Invalidity Pension	50,766	49,792	-1.9%
Injury Benefit	835	776	-7.1%
Interim Illness Benefit	374	327	-12.6%
Disablement Benefit	13,721	13,993	2.0%
Death Benefit Pension	633	628	-0.8%
Disability Allowance	101,111	102,866	1.7%
Carer's Benefit	1,642	1,637	-0.3%
Carer's Allowance	50,577	51,666	2.2%
Blind Pension	1,485	1,496	0.7%
Total Illness, Disability and Carers	302,397	296,578	-1.9%
Jobseeker's Benefit	123,457	96,044	-22.2%
Jobseeker's Allowance	261,850	283,929	8.4%
Total Jobseeker's Supports	385,307	379,973	-1.4%
Back to Work Allowance Employee	851	182	-78.6%
Back to Work Enterprise Allowance			
Self - Employed First Year	5,011	5,617	12.1%
Back to Work Enterprise Allowance			
Self - Employed Years 2 - 4	2,947	5,134	74.2%
Back to Education Allowance	21,147	24,666	16.6%
Part-Time Job Incentive Scheme	161	180	11.8%
Family Income Supplement	28,223	28,876	2.3%
Farm Assist	10,714	11,333	5.8%
Community Employment Scheme ⁽²⁾	0	22,589	100.0%
Tús - Community Work Placement Scheme ⁽³⁾	0	2,077	100.0%
Rural Social Scheme ⁽⁴⁾	0	2,537	100.0%
Total Employment Supports	69,054	103,191	49.4%
Supplementary Welfare Allowance ⁽¹⁾	37,413	34,597	-7.5%
Total Supplementary Welfare Allowance	37,413	34,597	-7.5%
Rent Allowance	179	159	-11.2%
Total Miscellaneous Payments	179	159	-11.2%
Grand Total	1,430,833	1,457,129	2.5%

(1) Includes Basis Weekly Payments only. See Section F and H for details of other Supplementary Payments.

(2) Funding Responsibility for FAS Employment Programmes and associated Administration Costs transferred from Department of Education and Skills to Department of Social Protection from 1st January 2011.

(3) Tús commenced in early 2011.

(4) Rural Social Scheme transferred to the Department of Social Protection in September 2010.

Finally, in this range of tables, table 17 shows the number of recipients of weekly payments by lifecycle stage. This shows that people of working age are the largest group followed closely by older people. In these tables it is important to note that child benefit payments are not included as these are universal and not paid on the basis of need.

Type of Payment	Recipients		Change 2010 over 2009
	2009	2010	
Family Income Supplement	25,963	28,223	8.7%
Guardian's Payment (Contributory)	860	919	6.9%
Guardian's Payment (Non-Contributory)	420	429	2.1%
Total Children & Families	27,243	29,571	8.5%
Adoptive Benefit	64	53	-17.2%
Back to Work Allowance Employee	2,012	851	-57.7%
Back to Work Enterprise Allowance			
Self - Employed First year	1,966	5,011	154.9%
Back to Work Enterprise Allowance			
Self - Employed years 2 - 4	2,625	2,947	12.3%
Back to Education Allowance	15,877	21,147	33.2%
Carer's Benefit	1,917	1,642	-14.3%
Carer's Allowance	48,223	50,577	4.9%
Deserted Wife's Benefit	8,737	8,372	-4.2%
Deserted Wife's Allowance	550	487	-11.5%
Farm Assist	8,972	10,714	19.4%
Health and Safety Benefit	49	60	22.4%
Illness Benefit	77,665	81,253	4.6%
Jobseeker's Benefit	160,122	123,457	-22.9%
Jobseeker's Allowance	203,248	261,850	28.8%
Maternity Benefit	23,294	23,456	0.7%
One-Parent Family Payment	90,484	92,326	2.0%
Part-Time Job Incentive Scheme	173	161	-6.9%
Pre-Retirement Allowance	7,468	6,021	-19.4%
Widow's, Widower's or Surviving Civil Partner's Non-Contributory Pension	1,998	1,977	-1.1%
Total People of Working Age	655,444	692,362	5.6%
Rent Allowance	192	179	-6.8%
State Pension (Contributory)	265,102	280,419	5.8%
State Pension (Non-Contributory)	97,798	97,179	-0.6%
State Pension (Transition)	8,378	10,206	21.8%
Widow's, Widower's or Surviving Civil	13,721	13,993	2.0%
Total Retired & Older People	484,578	502,562	3.7%
Death Benefit Pension	637	633	-0.6%
Disability Allowance	99,576	101,111	1.5%
Disablement Pension	13,520	13,721	1.5%
Invalidity Pension	52,922	50,766	-4.1%
Injury Benefit	726	835	15.0%
Interim Illness Benefit	318	374	17.6%
Blind Pension	1,467	1,485	1.2%
Total People with Disabilities	169,166	168,925	-0.1%
Supplementary Welfare Allowance ⁽¹⁾	42,775	37,413	-12.5%
Total Poverty & Social Inclusion	42,775	37,413	-12.5%
Grand Total	1,379,206	1,430,833	3.7%

Source: (Department of Social Protection 2011:11)

⁽¹⁾ Includes basic weekly payments only.

8 No comparable numbers available for 2011.

Impact of Social Welfare Payments

Social Justice Ireland believes in the very important role that social welfare plays in addressing poverty. As part of the *SILC*⁹ results the CSO has provided an interesting insight into the role that social welfare payments play in tackling Ireland's poverty levels. It has calculated the levels of poverty before and after the payment of social welfare benefits.

Table 18 shows that without the social welfare system 51 per cent of the Irish population would have been living in poverty in 2010. Such an underlying poverty rate suggests a deeply unequal distribution of direct income – an issue we address further in the income distribution section of this chapter. In 2010, the actual poverty figure of 15.8 per cent reflects the fact that social welfare payments reduced poverty by 35.2 percentage points.

Looking at the impact of these payments on poverty over time, it is clear that the increases in social welfare over the period 2005-2007 yielded noticeable reductions in poverty levels. The small increases in social welfare payments in 2001 are reflected in the smaller effects achieved in that year. Conversely, the larger increases, and therefore higher levels of social welfare payments, in subsequent years delivered greater reductions. This has occurred even as poverty levels before social welfare increased. *Social Justice Ireland* warmly welcomed these social welfare increases and the CSO's data proves the effectiveness of this policy approach.

Table 18: The role of social welfare (SW) payments in addressing poverty

	2001	2005	2006	2007*	2009	2010
Poverty pre SW	35.6	40.1	40.3	41.0	46.2	51.0
Poverty post SW	21.9	18.5	17.0	16.5	14.1	15.8
The role of SW	-13.7	-21.6	-23.3	-24.5	-32.1	-35.2

Source: CSO SILC Reports (2006:7; 2007:13; 2011:10, using national equivalence scale
Note: * Data for 2007 not excluding the Special Saving Incentive Account effect as not published by CSO.

As social welfare payments do not flow to everybody in the population, it is interesting to examine the impact they have on alleviating poverty among certain groups, such as older people, for example. Using data from SILC 2009, the CSO found that without any social welfare payments 88 per cent of all those aged over 65 years would have been living in poverty. Benefit entitlements reduce the poverty level among this group to 9.6 per cent in 2009. Similarly, social welfare payments (including child benefit) reduce poverty among those

⁹ SILC: Survey on Social Inclusion and Living Conditions conducted in Ireland by the Central Statistics Office.

under-18 years from 47.3 per cent to 18.6 per cent – a 60 per cent reduction in poverty risk (CSO, 2009:47). These findings, combined with the social welfare impact data in table 14, underscore the importance of social transfer payments in addressing poverty; a point that needs to be borne in mind as Government continues to address Ireland’s on-going crisis.

As shown already in this paper many of the groups in Irish society which experienced increases in their poverty levels over the last decade have been dependent on social welfare payments. These include pensioners, the unemployed, lone parents and those who are ill or disabled. Table 19 presents the results of an analysis of five key welfare recipient groups performed by the Economic and Social Research Institute using poverty data for five of the years between 1994 and 2001. These are the years that the Irish economy grew fastest and the core years of the famed ‘Celtic Tiger’ boom. Between 1994 and 2001 all categories experienced large growth in their poverty risk. For example, in 1994 only 5 out of every 100 old age pension recipients were in poverty; in 2001 this had increased ten-fold to almost 50 out of every 100. The experience of widow’s pension recipients is similar.

Table 19: Percentage of persons in receipt of welfare benefits/assistance who were below the 60 per cent median income poverty line, 1994/1997/1998/2000/2001					
	1994	1997	1998	2000	2001
Old age pension	5.3	19.2	30.7	42.9	49.0
Unemployment benefit/assistance	23.9	30.6	44.8	40.5	43.1
Illness/disability	10.4	25.4	38.5	48.4	49.4
Lone Parents allowance	25.8	38.4	36.9	42.7	39.7
Widow’s pension	5.5	38.0	49.4	42.4	42.1

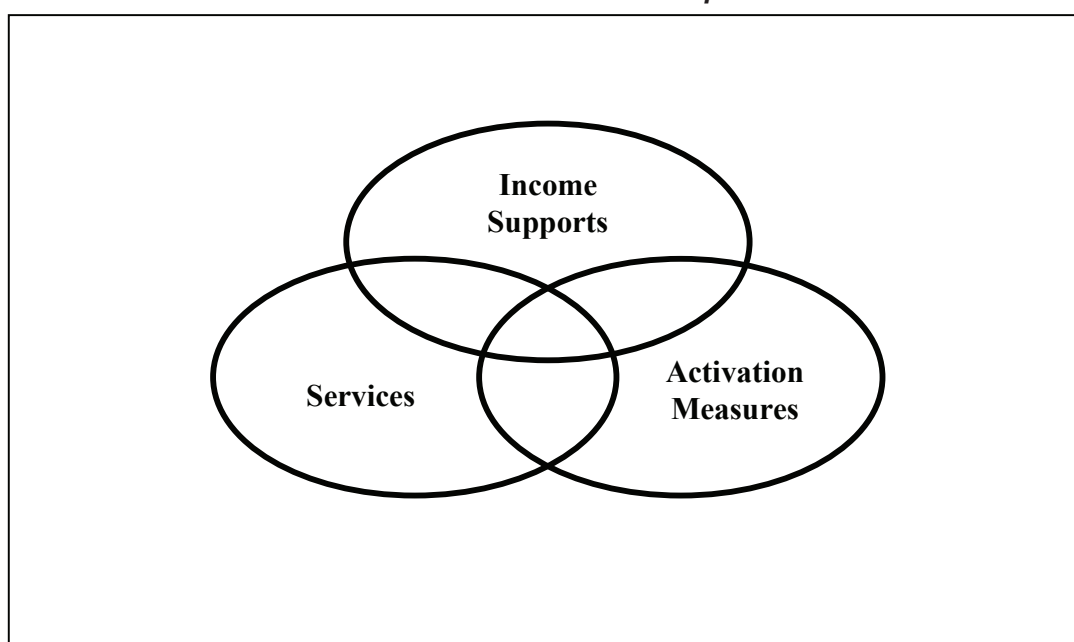
Source: Whelan et al (2003: 31)

Table 19 highlights the importance of adequate social welfare payments to prevent people becoming at risk of poverty. Over the period covered by these studies groups similar to *Social Justice Ireland* repeatedly pointed out that these payments had failed to rise in proportion to earnings elsewhere in society. The primary consequence of this was that recipients slipped further and further back and as a consequence more and more fell into poverty. It is clear that adequate levels of social welfare need to be maintained and we outline our proposals for this later in this chapter.

New Approach to social policy – the Developmental Welfare State

When considering how Irish society should address these priorities one worthwhile perspective is that offered by NESC – Ireland’s National Economic and Social Council – in its report entitled *The Developmental Welfare State* (NESC, 2005). Chart 5 presents the core structure of the model NESC presented. It comprises three interrelated areas: services, income supports and innovative measures.

Chart 5: The Core Structure of the Developmental Welfare State



Services	Income Supports	Innovative Measures¹⁰
<ul style="list-style-type: none"> • Childcare • Education • Health • Eldercare • Housing • Transport • Employment services • Training 	<ul style="list-style-type: none"> • Progressive child income support • Working age income for participation • Minimum pension guarantee • Capped tax expenditures 	<ul style="list-style-type: none"> • Social inclusion • Area-based strategies • Particular community/group projects • Emerging new needs • Novel approaches

Source: NESC (2005:144, 156)

10 Note that activation here refers not just to labour market activation but to a wide range of other forms of activation (for children, people with disabilities and older people for example).

In building the developmental welfare state NESC has argued that Irish society should take a ‘life-cycle’ approach. As table 20 shows, such an approach would focus on identifying the needs of children, young adults, people of working age, older people and people challenged in their personal autonomy such as those in care. The council has suggested that for each group we should focus on securing an effective combination of income supports, services and social innovations.

Who?	What?	How?	
0-17yrs	Integration of services, income support and activation measures	Governance and leadership	Standards and rights
18-29yrs			
30-64yrs			
65+ yrs			
People challenged in their personal autonomy			

Source: NESC (2005:147)

This is a welcome approach. It was incorporated into the *Towards 2016* national social partnership agreement. Successfully implementing this approach will underscore each of these groups ability to play a real and sustained role in Irish society and thereby play an important role in tackling social exclusion. This approach provides each sector involved with key challenges if the best options are to be taken and if the approach is to be successfully developed as a template for policy.

2. The second level: The three challenges for social protection – a changing society

2.1 The first challenge: economic change

The dramatic and sudden turnaround in Ireland’s economic experiences since 2007 needs to be considered in the context of its economic growth and expansion throughout the last decade. Clearly, as indicated earlier, there have been a number of major policy failures behind some of this growth – for example, the excessive fuelling of the construction industry and an unregulated banking sector. However, as table 21 shows, Ireland’s Gross Domestic Product (GDP) and Gross National Income (GNI) have increased significantly since

1997.¹¹ The final column of the table tracks the per-capita value of GNI over the last decade. In the early years of that decade it increased in real-terms (after taking account of price changes) by over 30 per cent. However, the current economic slowdown has brought per capita income levels back below the levels experienced in the early years of this century.

Table 21: Ireland's National Income, 1997-2010

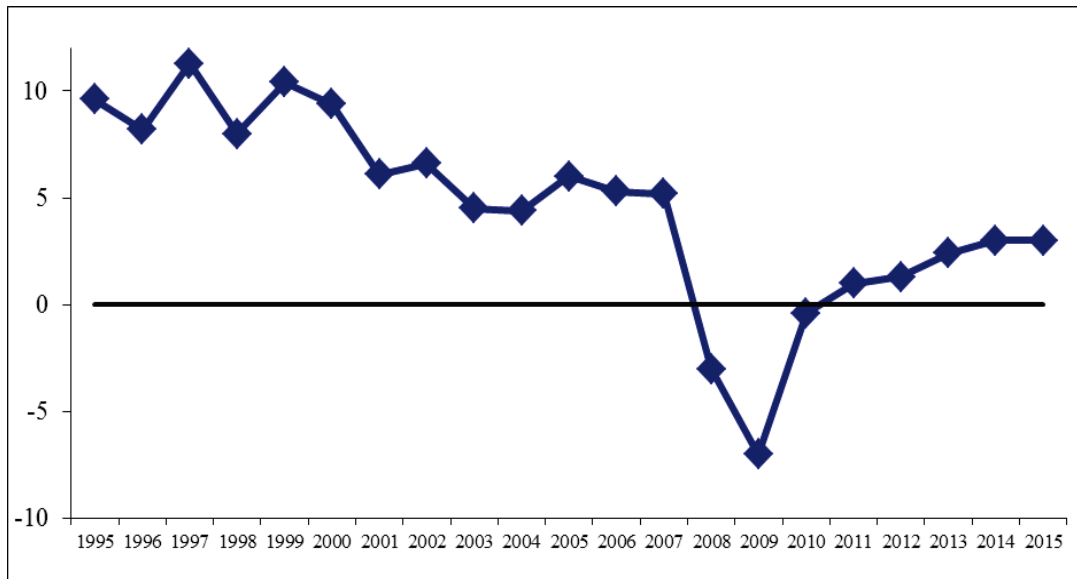
Year	GDP (€b)	GNI (€b)	GNI per capita €*
1997	68.6	61.4	n/a
1998	79.3	70.4	n/a
1999	91.4	78.8	n/a
2000	105.9	91.4	n/a
2001	118.1	100.0	30,488
2002	131.3	109.2	30,720
2003	141.0	120.7	31,711
2004	150.6	129.1	32,470
2005	163.5	141.0	33,433
2006	178.3	156.3	34,676
2007	189.9	164.6	35,061
2008	180.0	156.0	33,475
2009	160.6	133.6	29,958
2010	156.0	129.3	29,959

Source: CSO, 2011:17 and CSO online database
 Note: * Gross National Income per capita at constant 2009 prices

The speed and severity of Ireland's economic decline is also visible in chart 6. It shows the strength of economic growth between 1995 and 2006 (a period in which most developed world countries experienced 2-3 per cent growth per annum) and the rapid decrease between 2007 and 2010. While the nature, timing and pace of the recovery remain unclear, all agree that there is likely to be a return to small positive annual GDP growth rates from 2011.

11 GDP is calculated as the value of all economic activity that occurs in Ireland. GNI is calculated as GDP minus the net outflow of income from Ireland (mainly involving foreign multinationals repatriating profits), minus EU taxes and plus EU subsidies (for further information see CSO, 2008:76).

Chart 6: Ireland's GDP Growth, 1995-2015 (%)



Source: OECD Factbook 2008, CSO (2011) and Department of Finance (2012)

The sharp decrease in the rate of house building after 2007 was a significant component in the decline in GDP growth rates. Between 1995 and 2006 the number of units completed soared from just 30,000 units in 1995 to a peak of 93,419. But completions plummeted to 23,000 units in 2006 and approximately 10,480 units in 2011 (Department of Environment, Heritage and Local Government, 2009; AIB, 2011). The property bubble also produced over-priced housing, the product of foolish lending irrational borrowing and unrealistic profit expectations.¹² The legacy of this policy disaster was empty housing units, many of them in inappropriate locations, negative equity and high numbers of unemployed construction workers.

Similarly, the scale of the international recession had an impact on the level of exports, which fell by almost 3 per cent in 2009. During that period as production declined both the number of workers and hours worked per worker also fell. Exports have subsequently increased, growing by 6 per cent in 2010 and 4.6 per cent in 2011.

The combined effect of these changes on the public finances has been dramatic. Over the decade to 2008 the state had become heavily dependent on tax revenue derived from construction related activities, including stamp duty, building related VAT, PRSI and income taxes. Table 22 shows that as the economy turned these revenues rapidly declined. Overall, total tax receipts

¹² See Drudy and Collins (2011) who discuss this further.

fell from over €59 billion in 2007 to €43.3 billion in 2010.¹³ Comparative figures for 2011 were not available when this review was prepared. However, the Government's income from taxation rose by about 8% in 2011 due to the introduction of the Universal Social Charge and receipts from the temporary levy on private pension funds introduced during 2011. (Department of Finance, 2011: D6)

Table 22: The changing nature of Ireland's tax revenue (€m)				
	2007	2008	2009	2010
Taxes on income and wealth				
Income tax (including sur tax)	13563	13148	11684	11237
Corporation tax	6393	5071	3889	3944
Motor tax – Estimated portion paid by households etc.	526	583	582	563
Other taxes	5	6	5	8
Fees under the Petroleum and Minerals Development Acts	5	10	2	3
Training and Employment Levy	411	414	373	309
Social Insurance contribution	9053	9259	8924	8709
Total taxes on income and wealth	29957	28491	25458	24773
Taxes on capital				
Capital gains tax	3097	1424	545	345
Capital acquisitions tax	391	343	256	237
Total taxes on capital	3488	1767	801	582
Taxes on expenditure				
Custom duties (€ml)	3097	1424	545	345
Excise duties including VRT ⁽¹⁴⁾	391	343	256	237
Value added tax	3488	1767	801	582
Rates	5	6	5	8
Motor tax – Estimated portion paid by businesses	5	10	2	3
Stamps (excluding fee stamps)	411	414	373	309
Other fees				
Total taxes on expenditure	25193	22223	18243	17547
EU Taxes	519	484	359	400
Total Taxation (i.e. sum of the rows in bold above)	59157	52964	44861	43301

Source: CSO Statistical Data Bank, National Income and Expenditure annual results, various years, selected from table N1022: T22. Details on Taxation by Statistical Indicator and Year

13 In these calculations we have included items such as social insurance contributions that do not appear in the usual Budget calculations on taxation.

In the three-year period 2007-2010 taxes on capital fell by 83 per cent, on expenditure by 30 per cent and on income and wealth by 17 per cent. In money terms the biggest fall was €7.6bn in expenditure taxes compared to a fall of €5.2bn on taxes on income and wealth and €2.9bn on capital taxes.

The state continues to invest in infrastructure and other capital projects and, as in previous years, has borrowed money to make these investments. However, following the collapse in taxation revenues, since 2008 the state has been borrowing to pay its day-to-day (current account) costs. While this might be acceptable during a 'normal' down-turn, it is unsustainable in the medium to longer term. In 2009 the government borrowed over €12 billion to meet its day-to-day costs and a further €13 billion for capital investment. The latter includes contributions to fund the rescue of Anglo Irish Bank and to bail out the major banks via investment contributions from the national pensions reserve fund.

By November 2010 the scale of the exchequer deficit and the on-going, and escalating, bank bailout costs forced the state to turn to outside agencies for economic support. An agreement was reached with the IMF, the EU and the European Central Bank, to secure €85 billion in funding over the period 2010-2013. The bailout funds comprise €50 billion to facilitate state borrowing and refinancing over this period and up to €35 billion to rescue the banking system. In return for the right to borrow this money, the Irish Government signed a *Memorandum of Understanding* which set out a severe austerity programme over the period to 2014.¹⁵

Budget 2011 commenced this programme with tax increases and spending cuts totalling €6 billion in 2011. Further tax increases and spending cuts totalling €3.8 billion were included in Budget 2012. Budget 2012 also projected that in 2012 the Government will need to borrow over €11.2 billion to meet its day-to-day costs and €7.7 billion for capital purposes. This money is being drawn down from the bailout funds. Some of this borrowing will be used to service the banking debt incurred by the State as part of the Bank Guarantee and the Bailout Agreement.

14 VRT: Vehicle Registration Tax.

15 The memorandum has subsequently been revised and extended to 2015 by the Government elected in 2011.

Running down the economy

But this is not the whole story. Budget 2012 marked the seventh fiscal adjustment to the Irish economy since the beginning of the current economic crisis in 2008. Following that Budget's increases to taxes and decreases in public expenditure, the total adjustment to date has risen to almost €24.5 billion – equivalent to 15% of GDP which has been directly removed by government from the economy. Of course, the knock-on implications of these adjustments have removed additional economic activity from the economy explaining the large overall drop in GDP since 2007.

Table 23 shows the cumulative impact of tax increases and expenditure cuts since the adjustment process began in July 2008. It also shows what is planned to the end of 2015. Government has indicated that it intends to remove a further €8.6 billion from the economy over three Budgets from 2013-2015. If these plans are implemented, the overall sum of the adjustments from 2008-2015 will total €33 billion – equivalent to 18% of the GDP forecast for 2015.

Table 23: Budgetary Adjustments 2008-2015 (€m)				
Adjustment Description	Taxation ↑	Expenditure ↓	Total	Running Total
Adjustment July 2008		€1,000	€1,000	€1,000
Budget 2009	€1,215	€747	€1,962	€2,962
Adjustments Feb/March 2009		€2,090	€2,090	€5,052
Supplementary Budget 2009	€3,621	€1,941	€5,562	€10,614
Budget 2010	€23	€4,051	€4,074	€14,688
Budget 2011	€1,409	€4,590	€5,999	€20,687
Budget 2012	€1,600	€2,200	€3,800	€24,487
Budget 2013*	€1,250	€2,250	€3,500	€27,987
Budget 2014*	€1,100	€2,000	€3,100	€31,087
Budget 2015*	€700	€1,300	€2,000	€33,087
Total of Adjustments	€10,918	€22,169		
% Division of Adjustments	33.0%	67.0%		

Note: * indicates projected adjustment from Medium Term Fiscal Review Nov. 2011

The implications of these large and harsh adjustments are visible in the continued extension of the adjustment plan, the sustained increases in unemployment and the lack of confidence domestically and internationally in the Irish economy's recovery. As spending cuts and tax increases take effect, households are spending less, investment is falling and it is only export

growth (entirely driven by non-domestic demand factors) that is pulling the economy out of recession.

An obvious question arises regarding the sustainability of this policy approach. *Social Justice Ireland* believes that Government needs to adopt policies to stimulate the economy rather than continually run it down. Domestic demand should be given a chance to recover through policies which promote government or European Investment Bank led investment while further building domestic economic confidence through addressing the unemployment crisis.

Where further adjustments have to be made in the period to 2015 there is a clear need to alter the balance of adjustments towards additional taxation measures and away from reductions in public sector expenditure which is now impacting heavily on basis public service provision.

Ireland's General Government Balance (GGB) for 2012 as a percentage of GDP (the key indicator used by the European Central Bank to judge fiscal policy control) will be 8.6 per cent, down from 10.1 per cent in 2011. These figures are well above the 3 per cent limit set in the EU *Stability and Growth Pact*. The objective of Government economic, or fiscal, policy, as agreed with the EU and IMF, is to reduce the GGB deficit indicator to 3 per cent by 2015. Table 24 outlines the pathway signalled by the outgoing Government to achieve this; a pathway that has been endorsed by the EU and IMF.

Table 24: Plan to reduce the General Government Balance, 2011-2015					
	2011	2012	2013	2014	2015
GGB €m	-15,615	-13,650	-12,385	-8,505	-5,215
GGB as % GDP	-10.1	-8.6	-7.5	-5.0	-2.9

Source: Calculated from Department of Finance, Budget 2012: D18

Achieving these targets will be very challenging given the continuing decline in domestic demand and the challenges being faced at international level by Ireland's main trading partners. The Government's projections also assume that the on-going banking crisis does not require the exchequer to further invest in the banks and that the excessive budgetary cuts in Budget 2011 and 2012 do not damage the economy so badly that it spirals further into recession, a risk we highlighted in our *Analysis and Critique of Budget 2012* (Social Justice Ireland, 2011). Given that the Government is projecting a fall in net employment in 2012 and that the growth target is unlikely to be attained, it is difficult to see how the conditions of the EU/IMF/ECB deal can be maintained in their current form. Some serious adjustment to the terms of the agreement is needed for Ireland to reach the 3 per cent of GDP threshold.

Table 25 presents a summary of projections for Ireland over the years 2012-2015. Most of this data is derived from the Department of Finance's Budget 2012 documentation and, where appropriate, we highlight those projections we consider unreliable given the economic and banking events that have occurred since the Budget was presented in December 2011.

Table 25: Ireland's Economic Position, 2012-2015	
National Income	
GDP in 2012 (€m)#	€159,125
GNP in 2012 (€m) #	€128,800
GDP growth in 2012#	1.3%
GNP growth in 2012#	0.7%
GDP growth 2012-2015 (average) #	2.4% per annum
GNP growth 2012-2015 (average) #	1.8% per annum
Exchequer Budgetary Position	
Current Budget Balance, 2012 (€m)##	€159,125
Net Capital Investment, 2012 (€m)	€128,800
Capital Investment paid from current resources, 2012 (€m)	1.3%
Capital Investment paid from borrowing, 2012 (€m)	0.7%
Exchequer Borrowing, 2012 (€m)	2.4% per annum
General Government Balance (%GDP)	1.8% per annum
Current Budget Balance 2013 (€m)	€159,125
Current Budget Balance 2014 (€m)	€128,800
Net Capital Investment 2012-2015 (€m)	1.3%
Exchequer Borrowing 2012-2015 (€m)	0.7%
National Debt 2012 % GDP*	2.4% per annum
National Debt 2015 % GDP*	1.8% per annum
Inflation and the Labour Market	
HICP ⁽¹⁶⁾ inflation in 2012	1.8%
HICP inflation 2012-2015 (average)	1.7% per annum
Unemployment rate in 2012##	14.1%
Employment growth in 2012	-0.2%
Unemployment rate 2012-2015 (average)##	13%
Employment growth 2012-2015 (average)	0.85%
Source: Department of Finance, Budget 2012 (various tables) and separate calculations where indicated	
Notes: * Adjusted upwards to account for subsequent CSO revisions to GDP and borrowing to fund capital injections into the banks.	
# This is a Department of Finance Budget 2012 estimate and the actual number is likely to be smaller.	
## This is a Department of Finance Budget 2012 estimate and the actual number is likely to be larger.	

16 Harmonised Index of Consumer Prices (HICP).

A further insight into Ireland's economic standing is presented in table 26. It outlines where Ireland stands relative to other EU member states on the issue of total taxation. Ireland is near the bottom of the rankings.

Table 26: Total tax revenue as a % of GDP, for EU-27 Countries in 2009					
Country	% of GDP	+/- from average	Country	% of GDP	+/- from average
Denmark	48.1	+12.3	United Kingdom	34.9	-0.9
Sweden	46.9	+11.1	Czech Rep	34.5	-1.3
Belgium	43.5	+7.7	Ireland GNP	34.3	-1.5
Italy	43.1	+7.3	Malta	34.2	-1.6
Finland	43.1	+7.3	Poland	31.8	-4.0
Austria	42.7	+6.9	Portugal	31.0	-4.8
France	41.6	+5.8	Spain	30.4	-5.4
Germany	39.7	+3.9	Greece	30.3	-5.5
Hungary	39.5	+3.7	Lithuania	29.3	-6.5
Netherlands	38.2	+2.4	Bulgaria	28.9	-6.9
Slovenia	37.6	+1.8	Slovakia	28.8	-7.0
Luxembourg	37.1	+1.3	Ireland GDP	28.2	-7.6
Estonia	35.9	+0.1	Romania	27.0	-8.8
Cyprus	35.1	-0.7	Latvia	26.6	-9.2

Source: Eurostat (2011:50) and CSO National Income and Expenditure Accounts (2011:3)
Notes: All data are for 2009. EU-27 average is 35.8 per cent.

Of the EU-27 states, the highest tax ratios can be found in Denmark, Sweden, Belgium, Italy, Finland and Austria while the lowest appear in Latvia, Romania, Slovakia, Bulgaria, Lithuania and Ireland. Overall, Ireland possesses the third lowest tax-take at 28.2 per cent, some 7.6 per cent below the EU average. Furthermore, Ireland's overall tax take has continued to fall over the past few years with the 2009 figure representing the lowest tax-take since Eurostat began compiling records in 1995. The increase in the overall level of taxation between 2002 and 2006 can be explained by short-term increases in construction related taxation sources (in particular stamp duty and construction related VAT) rather than any underlying structural increase in taxation levels.

In the context of the figures in Table 26 the question needs to be asked: if Ireland expects its economic and social infrastructure to catch up to that in the rest of Europe, how can it do this while simultaneously gathering less

taxation income than it takes to run the infrastructure already in place in most of those other European countries? In reality, Ireland will never bridge the social and economic infrastructure gaps unless it gathers a larger share of our national income and invests it in building a fairer and more successful Ireland.

Social Justice Ireland believes that Ireland should increase its total tax-take to 34.9% of GDP (which would still keep Ireland as a low-tax economy as defined by Eurostat). We also believe that it will be necessary to provide additional tax revenue to cover the annual cost of servicing the banking element of Ireland's debt. A rough estimate of what the latter might require would be €2.5bn extra per annum. (In making this calculation we are assuming an Anglo promissory note restructuring and we calculate the cost of servicing €70bn of bank debt at an average of 3.5 per cent per annum).

Increasing the tax take to 34.9 per cent of GDP is certainly feasible and unlikely to have any significant negative impact on the economy in the long term.

Changing values and meaning: Embracing Liberalism

Over the past half century Ireland embraced the whole process of liberal globalisation with enthusiasm. It built on the policy of free trade from the 1960s onwards. Its imports and exports as a percentage of GDP were among the highest in the world. It supports transfer pricing, whereby transnational corporations take their profits in Ireland because of its low corporate tax rate and its many tax breaks. It presents itself to the world as a place that is attractive to global capital and the pursuit of foreign direct investment has been central to Ireland's development for almost half a century.

In the 1970s Ireland's total tax-take and its expenditure as a percentage of GDP were close to the European average. In the following two decades both of these declined to a level that was much closer to the US by the end of the 1990s. The focus was on "getting Government out of the way", on becoming ever more competitive and in "giving people back their own money" in tax cuts. A prominent former Minister for Finance argued that maximising tax-cuts was the best way of ensuring that the tax-take would increase (!) and, with the additional money in their pockets, people would make decisions that benefitted themselves and the economy. There was a failure to understand that this approach would result in Ireland's infrastructure and social services not being developed at the rate expected and required. This is the situation it finds itself in today as it faces the new economic crisis.

A Crisis of Meaning

The philosophical basis for this approach was rooted in modern rationality and comes to full expression in the individualism that sees no value in community or the common good but, rather sees the individual as the primary unit of social reality. This philosophical approach sees the individual as completely autonomous, owing nobody anything, being accountable to no one and relying on no one other than one's self. Such an individual sees the market as the core area of life and sees it as a place where he or she is to gain advancement. Such advancement is achieved at the expense of others who may be seen as rivals or competitors or usable commodities.

Such a person is constantly anxious concerning the future and their own position. They seek to secure the future by accumulating ever-greater resources. This is the core philosophical problem that has caused the present crisis. It is far more than just a financial or economic crisis. At its core it is a crisis of meaning.

An alternative to this dominant view of the world and how it should function is required. We need to move from a world that is built on individualism, anxiety and greed to a world that is built on the reality of abundance, the need for generosity, the dignity of the person and the centrality of the common good.

2.3 The third challenge: demographic change

A Young Population

As recently as 1981 just over 30 per cent of the population was aged under 15 years while the relevant proportion aged over 65 years was 10.7 per cent. At present these percentages are 20.9 per cent and 11.2 per cent, respectively. By 2036 it is projected that the young will make up 16.8 per cent of the projected 5.7 million population while older persons will account for 20.2 per cent of the total.

Migration

In the two decades 1987-2007 there was a fivefold increase in the rate of migration into Ireland. The increase produced a situation where close to 80,000 people were migrating into Ireland annually. Analysis of the 2006 Census shows that there were close to 400,000 non-Irish nationals in the Republic of Ireland representing 9.4 per cent of the total population.

Around 30 per cent of the non-Irish population aged 15 and over are from the EU-10 states that joined the EU in 2004. This is two and a half times the number from the rest of the EU (excluding the UK). The speed and scale of the response by nationals of the new member states to opportunities in Ireland's economy was dramatic.

The economic changes since 2008 have major implications for migration. Migration into Ireland has more or less stopped. Some of the migrants in Ireland are leaving to pursue what they perceive as better opportunities in other parts of the world. Others are choosing to remain. Others still are returning to their countries of origin.

Fertility

Table 27 provides a summary of the evolution of fertility rates in Ireland from 1960 to 2004. The data is drawn from work by Aidan Punch, Senior Statistician on Demographic Statistics at the Central Statistics Office.

Table 11: Expenditure on Social Welfare as a Percentage of Current Government Expenditure, GNP and GDP, 2001 – 2010								
Year	Live births per 1,000 females at specified ages							TFR
	15-19	20-24	25-29	30-34	35-39	40-44	45-49	
1960	8.8	103.9	209.6	213.1	156.3	56.0	4.2	3.76
1965	14.0	125.1	236.1	218.9	150.3	57.6	4.2	4.03
1970	16.3	145.5	228.7	201.9	131.9	45.3	3.7	3.87
1975	22.8	138.5	216.0	162.2	100.2	36.8	2.6	3.40
1980	23.0	125.3	202.3	165.7	97.3	29.6	2.3	3.23
1985	16.6	87.2	158.6	138.4	75.3	21.6	1.5	2.50
1990	16.7	63.3	137.6	126.2	63.1	15.4	1.1	2.12
1995	15.1	50.3	106.7	123.5	60.3	13.1	0.8	1.85
2000	19.5	51.6	95.1	129.3	71.3	13.6	0.5	1.90
2001	19.9	53.3	95.1	134.1	75.3	13.9	0.7	1.96
2002	19.6	53.0	93.6	134.3	79.9	14.7	0.6	1.98
2003	18.8	50.8	93.6	134.5	81.4	15.6	0.5	1.98
2004	17.6	49.1	87.9	133.4	84.6	15.8	0.6	1.95

By 2003 the fertility rate of women in their early twenties had declined by 65 per cent compared with the corresponding 1970 value while the decline for women aged 25-29 years was 59 per cent over the same period. The decline in fertility of women in their early thirties bottomed out during the mid-1990s and following subsequent increases has stabilised since 2001. For women aged 35-39 years the downward trend in fertility was arrested in 1995 and has since been upwards. At the overall level the total fertility rate has declined from over four children per woman in 1965 to less than two almost forty years later.

3. The third level: Development of social protection

3.1 The first facet: To secure material daily life of oneself and ones family

What is poverty?

The National Anti-Poverty Strategy (NAPS) published by government in 1997 adopted the following definition of poverty:

People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living that is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities that are considered the norm for other people in society.

This definition was reiterated in the 2007 *National Action Plan for Social Inclusion 2007-2016 (NAPinclusion)*.

Where is the poverty line?

How many people are poor? On what basis are they classified as poor? These and related questions are constantly asked when poverty is discussed or analysed.

In trying to measure the extent of poverty, the most common approach has been to identify a poverty line (or lines) based on people's disposable income (earned income after taxes and including all benefits). In recent years the European Commission and the UN among others have begun to use a poverty line located at 60 per cent of median income. The median income is the income of the middle person in society's income distribution. This poverty line is the one adopted in the *SILC* survey and differs from the Irish poverty line up to 2003 which was set at 50 per cent of mean, or average, income. This

switch to median income removes many of the technical criticisms that had been levelled against the use of relative income measures to assess poverty.¹⁷ While the 60 per cent median income line has been adopted as the primary poverty line, alternatives set at 50 per cent and 70 per cent of median income are also used to clarify and lend robustness to assessments of poverty.

The most up-to-date data available on poverty in Ireland comes from the 2010 SILC survey, conducted by the CSO. In that year the CSO gathered data from a statistically representative sample of more than 5,000 households containing 11,587 individuals. The data gathered by the CSO is very detailed. It incorporates income from work, welfare, pensions, rental income, dividends, capital gains and other regular transfers. This data was subsequently verified anonymously using Personal Public Service (PPS) numbers.

According to the CSO the median disposable income per adult in Ireland during 2010 was €18,502 per annum or €346.22 per week. Consequently, the income poverty lines for a single adult derived from this are:

50 per cent line	€173.11 a week
60 per cent line	€207.73 a week
70 per cent line	€242.35 a week

Updating the 60 per cent median income poverty line to 2012 levels, using the ESRI's (2012:iv) predicted changes in wage levels for 2011 (+0.1 per cent) and 2012 (0 per cent), produces a relative income poverty line of €207.94 for a single person. In 2012, any adult below this weekly income level will be counted as being at risk of poverty. It is noteworthy that the value of the 2012 poverty line is not much different to the 2010 figure shown above and is in fact lower than the poverty line value for 2009 (€231.37). This is because wages have fallen since 2009 and are projected to remain almost static for 2012 while throughout that period taxes have increased and most social welfare rates of payment have decreased. Taken together, these factors have had a negative impact on disposable income and, because the poverty line is a relative measure, it adjusts accordingly.

Table 28 applies the poverty line to a number of household types to show what income corresponds to each household's poverty line. The figure of €207.94 is an income per adult equivalent figure. It is the minimum weekly disposable income (after taxes and including all benefits) that one adult needs

¹⁷ In particular the use of median income ensures that it is possible to eliminate poverty (a rate of 0 per cent), a feature that was theoretically impossible when poverty lines were calculated using mean income.

to be above the poverty line. For each additional adult in the household this minimum income figure is increased by €137.24 (66 per cent of the poverty line figure) and for each child in the household the minimum income figure is increased by €68.62 (33 per cent of the poverty line).¹⁸ These adjustments reflect the fact that as households increase in size they require more income to stay above the poverty line. In all cases a household below the corresponding weekly disposable income figure is classified as living at risk of poverty. For clarity, corresponding annual figures are also included.

Household containing	Weekly poverty line	Annual poverty line
1 adult	€207.94	€10,842
1 adult + 1 child	€276.56	€14,420
1 adult + 2 children	€345.18	€17,998
1 adult + 3 children	€413.79	€21,576
2 adults	€345.18	€17,998
2 adults + 1 child	€413.79	€21,576
2 adults + 2 children	€482.41	€25,154
2 adults + 3 children	€551.03	€28,732
3 adults	€482.41	€25,154

One immediate implication of this analysis is that most weekly social assistance rates paid to single people are €19.94 below the poverty line.

How many have incomes below the poverty line?

Table 29 outlines the findings of various poverty studies since 1994, when detailed poverty studies commenced. Using the EU poverty line set at 60 per cent of median income, the findings reveal that in 2010 approximately 16 out of every 100 people in Ireland were living in poverty. The table shows that the rates of poverty decreased significantly after 2001, reaching a record low in 2009. These recent decreases in poverty levels are welcome. They are directly related to the increases in social welfare payments delivered over the Budget's spanning these years. However poverty increased once again in 2010 as the effect of budgetary changes to welfare and taxes, as well as the effects of wage reductions and unemployment, drove more low income households into poverty.

¹⁸ For example the poverty line for a household with 2 adults and 1 child would be calculated as €207.94 + €137.24 + €68.62 = €413.79.

Table 29: Percentage of population below various relative income poverty lines, 1994-2010

	1994	1998	2001	2005	2006	2007	2009	2010
50% line	6.0	9.9	12.9	10.8	8.9	*	6.9	8.5
60% line	15.6	19.8	21.9	18.5	17.0	15.8	14.1	15.8
70% line	26.7	26.9	29.3	28.2	26.7	*	24.5	25.1

Source: CSO (2011:10) and Whelan et al (2003:12), using national equivalence scale
 Note: All poverty lines calculated as a percentage of median income.
 * Data not published for 2007.

Because it is sometimes easy to overlook the scale of Ireland's poverty problem, it is useful to translate the poverty percentages into numbers of people. Using the percentages for the 60 per cent median income poverty line and population statistics from CSO population projections and Census results, we can calculate the numbers of people in Ireland who have been in poverty for the years 1994, 1998, 2001, 2003-2010 (CSO 2010:45, 2011:7). These calculations are presented in table 30. The results give a better picture of just how significant this problem really is in Ireland today.

Table 30: The numbers of people below relative income poverty lines in Ireland, 1994-2010

	% of persons in poverty	Population of Ireland	Numbers in poverty
1994	15.6	3,585,900	559,400
1998	19.8	3,703,000	733,194
2001	21.9	3,847,200	842,537
2003	19.7	3,978,900	783,843
2004	19.4	4,045,200	784,769
2005	18.5	4,133,800	764,753
2006	17.0	4,239,800	720,766
2007	15.8	4,339,000	685,562
2008	13.9	4,422,100	614,672
2009	14.1	4,459,300	628,761
2010	15.8	4,470,700	706,371

Source: Calculated using CSO (2011:11), Whelan et al (2003:12), using national equivalence scale and CSO SILC results for various years.

The table's figures are telling. Over the past decade more than 135,000 people have been lifted out of poverty. Furthermore, over the period from 2004-2008, the period corresponding with consistent Budget increases in social welfare payments, over 170,000 people left poverty. Despite this, it is of concern that between 2009 and 2010 the numbers in poverty increased once again, by 77,000 in that year.

However, the fact that there are now just over 700,000 people in Ireland living life on a level of income that is this low must be a major concern. As we have shown earlier these levels of income are low and those below them clearly face difficulty in achieving what the NAPS described as “*a standard of living that is regarded as acceptable by Irish society generally*”.

Who are the poor?

In recent years two interchangeable phrases have been used to describe those living on incomes below the poverty line: ‘*living in poverty*’ and ‘*at risk of poverty*’. The latter term is the most recent, introduced following a European Council meeting in Laeken in 2001 where it was agreed that those with incomes below the poverty line should be termed as being ‘at risk of poverty’.

The results of the *SILC* survey provided a breakdown of those below the poverty line. This section reviews those findings and provides a detailed assessment of the different groups in poverty.

Table 31 presents figures for the risk of poverty facing people when they are classified by their principal economic status (the main thing that they do). These risk figures represent the proportion of each group that are found to be in receipt of a disposable income below the 60 per cent median income poverty line. In 2010 the groups within the Irish population that were at highest risk of poverty included the unemployed and those not at work due to illness or a disability. Almost one in five classified as being “on home duties”, mainly women, have an income below the poverty line. The “student and school attendees” category represents a combination of individuals living in poor families while completing their secondary education and those attending post-secondary education but with low incomes. The latter element of this group are not a major policy concern, given that they are likely to only experience poverty while they gain education and skills which should ensure they live with sufficient income subsequently. Those still in school and experiencing poverty are more aligned to the issue of child poverty, which is examined later in this chapter.

Despite the increase in poverty between 2009 and 2010, the table also reveals the groups which have driven the overall reduction in poverty over the period (falling from 19.7 per cent to 15.8 per cent). Comparing 2003 and 2009, the poverty rate has fallen for all groups other than students and those in jobs while there have been pronounced falls among the welfare-dependent groups, i.e. the unemployed, retired and those not at work due to illness or a disability.

	2003	2006	2010
At work	7.6	6.5	7.8
Unemployed	41.5	44.0	26.1
Students and school attendees	23.1	29.5	24.0
On home duties	31.8	23.8	20.3
Retired	27.7	14.8	9.0
Unable to work as ill/disabled	51.7	40.8	20.9
Total	19.7	17.0	15.8

Source: CSO SILC reports (2005:11, 2007:15, 2011:7), using national equivalence scale

One obvious conclusion from table 31 is that any further progress in reducing poverty should be driven by continuing to enhance the adequacy of welfare payments. However, recent budgetary decisions seem likely to undermine progress in this area and have begun to drive poverty up once again (see analysis later in this chapter).

Child poverty

Children are one of the most vulnerable groups in any society. Consequently the issue of child poverty deserves particular attention. Child poverty is measured as the proportion of all children aged 17 years or younger that live in households with an income below the 60 per cent of median income poverty line. The 2010 *SILC* survey indicates that 19.5 per cent were at risk of poverty and, as table 32 shows, in recent years the rate of child poverty has begun to increase (2011:7).

	2006*	2007*	2008	2010
Children, 0-17 yrs	19.0	17.4	18.0	19.5

Note: * 2006 and 2007 data exclude SSIA effect. Source: CSO (various editions of SILC)

Translating the data in table 32 into numbers of children implies that in 2010 just over 200,000 children lived in households that were experiencing poverty. The scale of this statistic is alarming. Furthermore, it is of note that between 2008 and 2010, the 1.5 per cent increase in the child poverty rate suggests a further 30,000 children have slipped below the poverty line. Given that our children are our future, this situation is not acceptable. Furthermore,

the fact that such a large proportion of our children are living below the poverty line has obvious implications for the education system, for the success of these children within it, for their job prospects in the future and for Ireland's economic potential in the long-term.

Child benefit remains a key route to tackling child poverty and is of particular value to those families on the lowest incomes. Similarly, it is a very effective component in any strategy to improve equality and childcare. It is of concern, therefore, that child payments were cut in recent Budgets. On foot of these policies, it is likely that child poverty will increase further over the next few years. This will represent a major setback in an area in which the state already has a dismal record.

Older people

According to the CSO's *Population and Migration Estimates 2011* 11.7 per cent of the Irish population are aged over 65 years – some 524,100 people (CSO, 2011:7). Earlier data from the 2006 Census also indicated that just over a quarter of this group live alone (CSO, 2007: 36). When poverty is analysed by age group the 2010 figures show that 9.6 per cent of those aged above 65 years live in relative income poverty (CSO, 2011:7).

Among all those in poverty, the retired have experienced the greatest volatility in their poverty risk rates. As table 33 shows, in 1994 some 5.9 per cent of this group were classified as poor; by 1998 the figure had risen to 32.9 per cent and in 2001 it peaked at 44.1 per cent. The most recent data record a decrease in poverty rates. While recent decreases are welcome, it remains a concern that so many of this country's senior citizens are living on so little.

Table 33: Percentage of older people (65yrs+) below the 60 per cent median income poverty line.								
	1994	1998	2001	2003	2004	2005	2006	2010
Aged 65 +	5.9	32.9	44.1	29.8	27.1	20.1	13.6	9.6

Source: Whelan et al (2003: 28) and CSO (various editions of SILC)

The Ill /Disabled

As table 31 showed, those not employed due to illness or a disability are one of the groups at highest risk of poverty with 20.9 per cent of this group classified in this category. Much like the experience of Ireland's older people, the situation of this group has varied significantly over the last decade and a half. The group's risk of poverty climbed from approximately three out of every ten persons in 1994 (29.5 per cent) to over six out of every ten in 2001 (66.5 per cent) before decreasing to approximately two out of every ten in the period 2008-2010. As with other welfare dependent groups, these fluctuations parallel a period where policy first let the value of payments fall behind wage growth before ultimately increasing them to catch-up.

Overall, although those not at work due to illness or a disability only account for a small proportion of those in poverty, their experience of poverty is high. Furthermore, given the nature of this group *Social Justice Ireland* believes there is an on-going need for targeted policies to assist them. These include job creation, retraining and further increases in social welfare supports. There is also a very strong case to be made for introducing a non-means tested cost of disability allowance. This proposal, which has been researched and costed in detail by the National Disability Authority (NDA, 2006) and advocated by Disability Federation of Ireland (DFI), would provide an extra weekly payment of between €10 and €40 to somebody living with a disability (calculated on the basis of the severity of their disability). It seems only logical that if people with a disability are to be equal participants in society, the extra costs generated by their disability should not be borne by them alone. Society at large should act to level the playing field by covering those extra but ordinary costs. The *NESC Strategy 2006* also supported this policy development, urging that "the Government strongly consider the case for a separate 'cost of disability payment' that, in line with its analysis in the Developmental Welfare State, would be personally tailored and portable across the employment/non-employment divide" (NESC, 2005:168). In their *2008 Pre-Budget Submission* (for Budget 2008) DFI anticipate such a scheme would cost €183m per annum (DFI, 2007).

Poverty and education

The 2010 *SILC* results provide an interesting insight into the relationship between poverty and completed education levels. Table 34 reports the risk of poverty by completed education level and shows, as might be expected, that the risk of living on a low income is strongly related to low education levels. These figures underscore the relevance of continuing to address the issues of educational disadvantage and early-school leaving. Government education policy should ensure that these high risk groups are reduced. The table also suggests that when targeting anti-poverty initiatives, a large proportion should be aimed at those with low education levels, including those with low levels of literacy.

Table 34: Risk of poverty among all persons aged 16yrs + by completed education level, 2007-2010			
	2007	2008	2010
Primary or below	24.0	20.4	17.8
Lower secondary	20.7	16.4	19.8
Higher secondary	13.8	12.4	15.7
Post leaving certificate	10.9	10.9	13.2
Third level non-degree	8.4	5.4	8.6
Third level degree or above	4.2	5.5	7.8
Total	15.8	13.9	15.8

Source: CSO (2008:15; 2009:45, 2011:7), using national equivalence scale and excluding SSIA effect for 2007 and 2008.

Poverty and Nationality

A feature of the last decade has been the growth in the number of people living in Ireland but born outside the state. The CSO refers to this group as “non-Irish nationals” and the 2006 *SILC* report presented data on poverty levels among this group vis-à-vis “Irish Nationals”. For sampling reasons subsequent surveys did not publish an update of this figure. The definitions used by the CSO in examining this issue are necessarily broad given the difficulty of collecting accurate statistical samples among nationals of individual countries.

	2005	2006	Change
Irish Nationals	18.0	16.6	-1.4
Non-Irish Nationals	26.9	23.5	-3.4
Overall Population	18.5	17.0	-1.5

Source: CSO (2007:15), using national equivalence scale

The findings, reported in table 35, reveal a stark contrast between the poverty risk levels of the two groups. Non-Irish nationals face a much higher risk of poverty, overall and by gender. As the data does not allow for a more detailed breakdown of these figures by nationality, we cannot say with certainty who these non-Irish nationals in poverty are or where they came from originally. However, it is likely that many of those experiencing poverty are recent migrants, many from the new member states of the EU.

Social Justice Ireland welcomed the provision of this data, although it is of some concern that the data was excluded from the most recent reports. The poverty data suggests that migration issues, including issues with regard to the participation of migrants in Irish society, deserve greater attention. We consider many of these issues in chapter 10.

Poverty by region and area

Recent SILC reports have provided a regional breakdown of poverty levels. The data, presented in table 36 suggest a very uneven national distribution of poverty. Using 2009 data, in Dublin less than one in ten people lived in poverty while the figures are twice this in the Mid-West, South-East and the Midlands. The table also reports that poverty is more likely to occur in rural areas than urban areas. In 2010 the risk of poverty in rural Ireland was 7 percentage points higher than in urban Ireland with at risk rates of 20.0 per cent and 13.1 per cent respectively.

	2005	2007	2009	2010
Border	-	17.8	14.1	n/a
Midlands	-	29.7	23.5	n/a
West	-	19.4	14.1	n/a
Dublin	-	11.5	8.3	n/a
Mid-East	-	8.1	14.6	n/a
Mid-West	-	19.0	18.9	n/a
South-East	-	18.0	18.3	n/a
South-West	-	17.1	14.7	n/a
Border, Midland and West			16.2	14.9
South and East			13.3	16.2
Urban Areas	16.0	14.3	11.8	13.1
Rural Areas	22.5	18.4	17.8	20.0
Overall Population	18.5	15.8	14.1	15.8

Source: CSO (2008:15; 2009:45, 2011:7), using national equivalence scale and excluding SSIA effect for 2007
Note: Regional NUTS 3 data only available for 2007-2009 and NUTS 2 for 2009-2010.

The poverty gap

As part of the 2001 Laeken indicators, the European Union requested that all member countries begin to measure the relative “at risk of poverty gap”. This indicator assesses how far below the poverty line the income of the median (middle) person in poverty is. The size of that difference is calculated as a percentage of the poverty line and therefore represents the gap between the income of the middle person in poverty and the poverty line. The higher the percentage figure, the greater the poverty gap and the further people are falling beneath the poverty line. As there is a considerable difference between being 2 per cent and 20 per cent below the poverty line this approach is significant.

	2003	2004	2005	2006	2007*	2009	2010
Poverty gap size	21.5	19.8	20.6	17.5	17.4	16.2	18.9

Source: CSO SILC Reports (2006:7; 2007:13; 2011:10, using national equivalence scale
Note: * Data for 2007 not excluding the Special Saving Incentive Account effect as not published by CSO.

The *SILC* results for 2010 showed that the poverty gap was 18.9 per cent, compared to 16.2 per cent in 2009. Over time the gap had decreased from a figure of 21.5 per cent in 2003 (table 37). The 2010 poverty gap figure implies that 50 per cent of those in poverty had an equivalised income below 81.1 per cent of the poverty line. As the depth of poverty is an important issue, we will monitor closely the movement of this indicator in future editions of the *SILC*. It is crucial that as part of Ireland's approach to addressing poverty that this figure decline and it is of concern that the 2010 figures once again records an increase.

3.2 The second facet: To be secure in critical life situations (like unemployment, illness or invalidity,...)

The incidence of poverty

Figures detailing the incidence of poverty reveal the proportion of all those in poverty that belong to particular groups in Irish society. Tables 38 and 39 report all those below the 60 per cent of median income poverty line, classifying them by their principal economic status. The first table examines the population as a whole, including children, while the second table focuses exclusively on adults (using the ILO definition where adults are considered all those aged 16 years and above).

Table 38 shows that in 2010, the largest group of the population who are poor, accounting for 28.4 per cent of the total, were children. The second largest group were those working in the home (16.7 per cent). Of all those who are poor, 30.7 per cent were in the labour force and the remainder (69.3 per cent) were outside the labour market¹⁹.

19 This does not include the ill and disabled, some of whom will be active in the labour force. The *SILC* data does not distinguish between those who are temporally unable to work due to illness and those permanently outside the labour market due to their illness or disability.

	2003	2005	2006	2007*	2009	2010
At work	16.0	15.7	16.1	16.8	14.3	17.3
Unemployed	7.6	7.5	8.3	9.2	12.9	13.4
Students/school	8.6	13.4	15.0	14.1	14.6	12.1
On home duties	22.5	19.7	18.4	18.7	18.0	16.7
Retired	9.0	7.5	5.8	7.1	4.7	4.2
Ill/disabled	9.1	7.9	8.0	7.4	6.4	5.3
Children (under 16 years)	25.4	26.8	26.6	25.9	27.6	28.4
Other	1.9	1.6	1.8	0.8	1.5	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Collins (2006:141), CSO SILC Reports (2007:19; 2008:25; 2009:48; 2011:13)
Note: * Data for 2007 not excluding SSIA effect as not published by CSO.

Table 39 looks at adults only and provides a more informed assessment of the nature of poverty. This is an important perspective as children depend on adults for their upbringing and support. Irrespective of how policy interventions are structured, it is through adults that any attempts to reduce the number of children in poverty must be directed. The table shows that in 2010 almost one-quarter of Ireland's adults with an income below the poverty line were employed. Overall, 43 per cent of adults at risk of poverty in Ireland were associated with the labour market.

The incidence of being at risk of poverty amongst those in employment is particularly alarming. Many people in this group do not benefit from Budget changes in welfare or tax. They would be the main beneficiaries of any move to make tax credits refundable.

	2003	2005	2006	2007*	2009	2010
At work	21.4	21.4	21.9	22.7	19.8	24.2
Unemployed	10.2	10.2	11.3	12.4	17.8	18.7
Students/school	11.5	18.3	20.4	19.0	20.2	16.9
On home duties	30.1	26.9	25.1	25.2	24.9	23.3
Retired	12.0	10.2	7.9	9.6	6.5	5.9
Ill/disabled	12.2	10.8	10.9	10.0	8.8	7.4
Other	2.5	2.2	2.5	1.1	2.1	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from Collins (2006:141), CSO SILC Reports (2007:19; 2008:25; 2009:48; 2011:13)
Note: * Data for 2007 not excluding SSIA effect as not published by CSO

Finally, table 40 examines the composition of poverty by household type. Given that households are taken to be the ‘income receiving units’ (income flows into households who then collectively live off that income) there is a value in assessing poverty by household type. *Social Justice Ireland* welcomes the fact that the CSO has, at our suggestion, begun to publish the SILC poverty data broken down by household category. From a policy making perspective this information is crucial as anti-poverty policy is generally focused on households (households with children, pensioner households, single person households etc.). The 2009 data show that 22.8 per cent of households who were at risk of poverty were headed by somebody who was employed. Almost 44 per cent of households at risk of poverty were found to be headed by a person outside the labour force.²⁰

Table 40: Households below 60% of median income classified by principal economic status of head of household, 2004-2009

	2004	2006	2007*	2008*	2009
At work	29.8	29.5	31.3	39.6	22.8
Unemployed	12.0	14.7	12.3	11.5	26.0
Students/school	2.8	4.6	5.1	4.1	5.4
On home duties	28.0	30.7	28.7	25.7	26.7
Retired	13.5	8.5	10.9	7.9	6.6
Ill/disabled	12.0	11.5	11.2	10.1	10.9
Other	1.9	0.7	0.4	1.1	1.6
Total	100.0	100.0	100.0	100.0	100.0

Source: CSO SILC Reports (2007:39; 2008:36; 2009:49; 2010:49)
 Note: * Data for 2007 and 2008 not excluding SSIA effect as not published by CSO

20 Those on home duties, students and school attendees, retired plus a proportion of the ill and disabled.

Table 41 offers a more informed assessment of the nature of poverty given that it looks at adults only. This is an important perspective as children depend on adults for their upbringing and support. Irrespective of how policy interventions are structured it is through adults that any attempts to reduce the number of children in poverty must be directed. The calculations show that over one-quarter of Ireland's adults who have an income below the poverty line are employed. Overall, 37 per cent of adults who are at risk of poverty in Ireland are associated with the labour market.

The most alarming statistic here is that more than one in four adults at risk of poverty is in employment. This group's plight is consistently ignored. Many of this group do not benefit from Budget changes in welfare or tax. They would be the main beneficiaries of making tax credits refundable.

Table 41: Incidence of adults (16yrs+) below 60% of median income by principal economic status, 2003-2008						
	2003	2004	2005	2006	2007*	2008*
At work	21.4	19.8	21.4	21.9	22.7	26.2
Unemployed	10.2	8.5	10.2	11.3	12.4	11.2
Students/school	11.5	13.1	18.3	20.4	19.0	18.0
On home duties	30.1	26.9	25.1	25.2	24.9	23.3
Retired	12.0	10.2	7.9	9.6	6.5	5.9
Ill/disabled	12.2	10.8	10.9	10.0	8.8	7.4
Other	2.5	2.2	2.5	1.1	2.1	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Collins (2006:141), CSO (2007:19; 2008:25; 2009:48)
 Note: * Data for 2007 and 2008 not excluding SSIA effect as not published by CSO

3.3 The third facet: To provide for pension

Access to a pension

The issue of pensions is much contested in Ireland. All employees pay towards a state pension. This gives them the right to a contributory state pension at the age of 66. Others have the right to receive a means-tested pension on reaching 66. Table 42 supplies the details for 2010. It shows that 387,804 Irish people are in receipt of a state pension. Of these 280,419 have a contributory pension. An interesting fact to note is that almost twice as many males have a contributory pension compared to females. The opposite is the situation with regard to non-contributory pensions. This follows from the historical situation where males had access to paid employment.

Age Group	State Pension (Contributory)		State Pension (Transition)		State Pension (Non-Contributory)		Total	
	Males	Females	Males	Females	Males	Females	Males	Females
Under 70 years	56,110	29,474	6,742	3,464	7,995	10,946	70,847	44,157
70 to 74 years	54,999	25,357	0	0	8,282	12,913	63,281	38,270
75 to 79 years	40,981	20,093	0	0	7,190	12,924	48,171	33,017
80 to 84 years	21,814	12,055	0	0	6,583	11,530	28,397	23,585
85 to 89 years	8,504	5,772	0	0	4,022	8,299	12,526	14,071
90 to 94 years	2,223	1,961	0	0	1,362	3,768	3,585	5,279
95 years and over	332	471	0	0	251	1,114	583	1,585
Total	184,963	95,456	6,742	3,464	35,685	61,494	227,390	160,414
Overall Total	280,419		10,206		97,179		387,804	

On a broader front, for many years the state has argued that people should make substantial provision for their own pension. To this end all employees have the right to contribute to a pension fund. There are defined benefit pensions and defined contribution pensions.

A defined benefit pension is one where the level of the pension is linked to one's retirement income. This is the kind of pension held by all public servants. A relatively small number of private sector employees have a similar pension. Others have a defined contribution pension where they make a contribution to a fund during their working life and then whatever they have in the fund at their retirement can be invested to produce a pension. Many employees in Ireland have no pension provision other than the state pension.

Pension policy is under review again having been reviewed several times in recent years. Many private pension funds are hugely undersubscribed. A few have collapsed. Some companies have closed and left large shortfalls in their pension funds. Government has published a framework to guide pension's policy into the future. However it is a deeply flawed document that few see as likely to form the real basis of pension's policy into the future.

One issue that government has not addressed to date is the fact that there is a very substantial tax-break for people who contribute to their own private pensions. This tax-break amounts to more than €2bn a year and 80% of this goes to the top 20% of earners.

The challenge facing Ireland on pensions is further exacerbated by the fact that Ireland's population is young by EU standards. It is set to age steadily and many forecast a major problem in funding pensions by the 2030s. Given the steady increase in Ireland's young population however such a funding problems might be further off than anticipated.

A growing number of people in Ireland now continue in employment beyond the official retirement age of 65.

4. Synthesis: Social protection for all?

This analysis shows that Ireland's social protection has been improving for all groups when viewed over a longer time frame. The key change has been the substantial increases in social welfare payments and the commitment to benchmark the lowest of these at 30% of gross average industrial earnings. The poverty rates have fell dramatically as this commitment was implemented and reached EU-average levels.

The changing economic reality in the period since 2008 has put these positive developments at risk. Despite the fact that the property 'bubble' was not created by Ireland's poorest people, Government policies now mean that groups most at risk are bearing a disproportionate level of the impact of the adjustments that are required. This is likely to continue as Government continues to honour its commitments to pay for the gambling debts of banks and financial institutions in Germany, France and beyond.

At a deeper level there is a fundamental flaw in the development/welfare model that Ireland is following in practice. It envisages that the way to address poverty, inequality, social exclusion and related issues is to provide jobs for everyone and this will reduce the need to provide social supports and income to people who would otherwise be at risk. While job-creation is essential it is also clear that there should be a fundamental commitment to providing the income and services (healthcare, education, social housing etc) required by all. This is acknowledged in the understanding of the developmental welfare state already outlined in this paper. This DWS approach has been proposed by NESC and was accepted by Government and Social Partners in the most recent national agreement. However the new Government has not paid much attention to this approach since coming to office in spring of 2011. The experience of recent years would suggest that strong initiatives are required to ensure the development/welfare model of the future will follow the DWS approach and not revert into its traditional 'default' mode which has consistently been shown to fail in the longer term.

Groups most at risk

Children

Children are likely to be casualties in a period of economic difficulties as Ireland's relatively low support for children and above-average level of child poverty may be exacerbated by actions taken to reduce public expenditure and balance the national budget.

The 2010 SILC study estimates 19.5 per cent of all children are at risk of poverty. This amounts to approximately 200,000 children. The scale of this statistic is alarming.

If child poverty is to be addressed in any meaningful way in Ireland a substantial increase in Child Benefit is required and this payment should remain universal.

Working Poor

Almost a third of all households at risk of poverty are headed by a person with a job. Yet the Irish government has constantly refused to take the policy initiatives necessary to address this problem. As the economic situation becomes more difficult there is likely to be pressure to reduce wages. Already some commentators have called for a reduction in the minimum wage. Developments of this kind are likely to see an increase in the working poor. The minimum wage is €8.65 an hour which produces an income well above the poverty line for a single person who is full-time employed. However, this situation is much more complex once the household expands. A household with one income at the national minimum wage level which has two adults would be just below the poverty line while a household of one adult and one child would be above the poverty line.

Long-term unemployed people

The period 2008-2012 brought a return to the phenomenon of widespread unemployment in Ireland. The transition from near full employment to high-unemployment has been a critically important characteristic of the recession following from 2008. The implications for people, families, social cohesion and the exchequer's finances have been serious.

8.4 per cent of the labour force has been unemployed for more than a year up from 1.2 per cent in 2007. This is likely to continue to rise unless there is a large increase in the level of emigration.

While Government has unveiled plans aimed at increasing jobs and preparing those who are unemployed to take up employment, it is clear that unemployment is set to persist and that long-term unemployment is likely to continue at a record level for some considerable time unless there is large-scale investment aimed at generating jobs. This almost certainly requires a reduction of the debt burden, as discussed above.

Migrants

One of the groups most likely to be hardest hit in the coming period is migrants, particularly migrants with lower income levels. As unemployment grows they are among the first to lose their jobs.

Non-Irish nationals face a much higher risk of poverty, overall and by gender (23.5% at risk of poverty compared to 16.6% for Irish nationals). As the data do not allow for a more detailed breakdown of these figures by nationality we cannot conclusively say who these non-Irish nationals in poverty are and where they have originated from. However, it is likely that many of those experiencing poverty are recent migrants, many from the new member states of the EU.

Older People

Among all those in poverty, as we have seen already, it is the retired that have experienced the greatest volatility in their poverty risk rates. Their situation is not likely to improve with the current pressures on resources. Ireland also has 46,000 women who have no right to a state pension of any kind because of anomalies in the system. This is a ridiculous situation that should be addressed. No Government has produced proposals for addressing this situation.

If poverty among older people is to be addressed then Ireland needs to restructure its pensions system by eliminating tax-breaks for private pensions and using the savings made to increase the state pension and making it universal.

Ill or Disabled

As table 19 showed 20.9 per cent of those not at work due to illness or a disability are at risk of poverty. Over time the situation of this group has been volatile with previous poverty studies by the ESRI showing that this group's risk of poverty increased rapidly – climbing from 29.5 per cent in 1994 (Whelan et al, 2003:24) to 51.7 per cent in 2003 to its present level of 20.9 per cent in 2010. Although those not at work due to illness or a disability only account for a small proportion of those in poverty, among themselves their experience of poverty is high.

Key initiatives required if social solidarity is to be part of the economic recovery

Reduce Ireland's debt burden

Ireland's debt burden is too large to allow it return to the bond market on a sustainable basis in the near future. Ireland is implementing the conditions of the Bailout Agreement and hitting its targets on the fiscal front. Dramatic Budget cuts and tax increases are being delivered on schedule. Borrowing targets have been reached. However Ireland's economic growth has been sluggish. GDP declined slightly in the third quarter of 2011, while GNP fell significantly by 4.2 per cent. Most economic forecasts for 2012 predict little, if any, growth – the most optimistic setting it at 1 per cent.

It is clear that Ireland will be unable to produce the employment needed to produce the growth needed to recover from the current crisis without a significant reduction in the cost of servicing its sovereign debt arising from the Bailout Agreement with the ,troika'.

But part of Ireland's current debt is not our debt. It was caused, in part at least, by the reckless gambling of German and French banks and financial institutions among others. In the decade before the crash low interest rates were being maintained because that was deemed appropriate for the German banks; but such low rates were the direct opposite of what Ireland needed.

Under major pressure from the European Central Bank (ECB) the Irish Government provided a bank guarantee in September 2008 and that has resulted in a huge burden of private bank debt being assumed by the state. Ireland was told that were it to default, even marginally, on this debt that would have devastating consequences for Europe's entire banking system. To protect the banks of Europe Ireland has to bear an enormous debt burden alone. This is unjust and indefensible. This is a European problem and its solution should be shared among European nations.

The Anglo-Irish Bank promissory notes should either be written off or their redemption dates should be pushed far into the future. Either of these actions would make the situation less unjust and provide the leeway for Ireland to rescue itself from the current morass. Because of the amount involved (more than €47bn on the Anglo promissory notes and interest charges alone) a reduction in Ireland's debt burden is probably the most important action now required.

Address the moral hazard that protects banks

Moral hazard is the situation in which an individual or an institution or organisation is insulated from risk while others suffer the negative consequences of that risk. In such a situation those insulated from risk have an incentive to behave inappropriately. This is what happened to banks and financial institutions in Ireland, Germany, France and beyond in the years prior to 2008. The same is likely to happen again unless much more stringent institutional safeguards are put into place.

During the last four decades governments in wealthy countries have built up large liabilities because they have provided implicit guarantees to their banks and financial institutions. This contributes to the development of moral hazard in lending around the world. Current regulatory reforms will not stop this trend. The real structural challenge is to design an effective mechanism to address the moral hazard of banks and financial institutions. Such a mechanism must, almost certainly, include a provision to ensure that bondholders can be held responsible for losses when their gambling fails. Unless this challenge is addressed effectively we can be assured that banks and financial institutions will behave exactly as they did before and with the same or similar consequences.

Develop a Major Investment Programme

The depressed nature of the domestic economy and in particular domestic demand (see discussion in chapter 2) highlights the current dependency of Ireland's economic recovery and job creation prospects on external economic growth and exports. *Social Justice Ireland* believes that Government needs to adopt policies to stimulate the domestic economy given its current weakness and it should do so via the adoption of a major capital investment programme.

Such a multi-billion euro programme, structured over the next 3-4 years and focused on initiatives that strengthen social infrastructure such as a school building programme, a social housing programme, a nationwide high-speed broadband network, a water-system investment programme (e.g. pipes and meters), a green energy programme and a rural transport programme, would offer the prospect of simultaneously creating employment and addressing some of the socio-economic deficits that persist in Irish society.

A large-scale capital investment programme is attractive as it would stimulate the domestic economy by creating new economic activity and jobs, in particular jobs in the suppressed construction sector. Furthermore, pursuing justifiable investment projects, which make good long-term socio-economic

sense is all the more appropriate given the economic and unemployment crisis we are in. We note that a commitment to a stimulus package along these lines was a commitment of both Fine Gael and Labour as they campaigned to be elected to Government in 2011.

Introduce a Part Time Job Opportunities Programme aimed at the long-term unemployed

In a series of documents and briefings to Government, political parties and the Oireachtas²¹ over the past two years, Social Justice Ireland has outlined a proposal for a *Part-Time Job Opportunities Programme* (PTJO). We proposed that the government introduce this programme to ensure real employment at the going hourly rate for the job is available to 100,000 people currently long-term unemployed. We believe that participation must be on a voluntary basis and that the scheme should be modelled on the *Part-Time Job Opportunities Programme* that was piloted in the 1994-1998 period.²² Details of that pilot programme are outlined below.

The proposed programme would enable unemployed people to be employed on a part time basis by local authorities, the HSE²³, education authorities, voluntary and community organisations or groups; employed voluntarily and doing work of public or social value which is either not being done at all or is only being done partially at present; at the hourly ‘going rate for the job’; for as many hours as would give them a net income equivalent to what they were receiving from jobseekers allowance plus an additional €20 a week, with participants employed for a minimum of 8 hours and a maximum of 19.5 hours per week; the person taking up the new position would lose none of his/her other social welfare entitlements; once the required number of hours had been worked, the person would be free to do whatever she/he wished for the remainder of the week; the money paid to the person filling the new position would be reallocated to the employing organisation by the Department for Social Protection; the employer would be encouraged to give extra hours to the worker who would be taxed accordingly; if the person received further income from another job, this income would be assessed for tax purposes in the normal way; and to protect against any ‘deadweight effect’, no position under the programme would be created if a person had been employed to do this particular work at any point during the previous two years.

21 Ireland’s Parliament.

22 The current Directors of Social Justice Ireland led this pilot programme.

23 Health Services Executive which runs Ireland’s public health system.

The voluntary nature of the programme is considered very important from the point of view of the worker and the employer. It must not have any of the characteristics of 'workfare'.

- From the viewpoint of the worker, he/she must freely choose to come on the programme and must be free to leave if he/she chooses, subject only to normal requirements with regard to notice to the employer.
- From the point of view of the employer, there must be free choice in selecting workers from among those eligible for the programme. The employer should also be free to select the number of workers required. This ensures that the employment offered is real. The PTJO pilot programme showed that there would be more demand for these jobs than there were positions to accommodate them.

To protect the voluntary nature of the programme and to ensure that the employment is real the following would be expected:

- Positions should be advertised publicly by the employing body, through local media, or any other method used in the local area.
- A job description would be provided.
- Workers should be interviewed for the positions.
- Written job contracts should be provided.
- Employers would not be pressured to take more workers than they need.
- Leaving a particular job would not prejudice a worker seeking to participate in another project or training programme.
- Employers could replace workers immediately they left the programme.

Paying the 'going rate for the job' is an important concept in valuing the work done under the PTJO programme. It is the value which is placed on work in the market economy. In the pilot programme the programme's manager liaised with trade unions, professional organisations, employment agencies and personnel departments in an effort to arrive at a reasonable hourly rate for the various jobs created. In order to reflect incremental scales in many areas of employment, lower and higher level rates were provided in many instances, within which employers were free to negotiate the actual rate.

Social Justice Ireland estimates that 100,000 positions can be created using this PTJO approach – 10,000 places in the Community and Voluntary sector and 90,000 in the public sector. The total net additional cost of 100,000 places would be €150m; €90m for the 90,000 places in the public sector and €60m for the 10,000 places in the community and voluntary sector. Funding currently

being spent on social welfare payments to participants on this programme would be switched to their new employers.

Recognise all work

A major question raised by the current labour-market situation concerns assumptions underpinning culture and policy making in this area. One such assumption concerns the priority given to paid employment over other forms of work. Most people recognise that a person can work very hard even though they do not have a conventional job. Much of the work carried out in the community and in the voluntary sector fits under this heading. So too does much of the work done in the home.

Support for the introduction of a basic income system comes, in part, from a belief that all work should be recognised and supported. A basic income is an income unconditionally granted to all on an individual basis, without means test or work requirement. It is a form of minimum income guarantee that differs from those that now exist in various European countries in three important ways:

- it is paid to individuals rather than households;
- it is paid irrespective of any income from other sources;
- it is paid without requiring the performance of any work or the willingness to accept a job if offered.

Liberty and equality, efficiency and community, common ownership of the Earth and equal sharing in the benefits of technical progress, the flexibility of the labour market and the dignity of the poor, the fight against inhumane working conditions, against the desertification of the countryside and against interregional inequalities, the viability of cooperatives and the promotion of adult education, autonomy from bosses, husbands and bureaucrats, have all been invoked in its favour.

But it is the inability to tackle unemployment with conventional means that has led in the last decade or so to the idea being taken seriously throughout Europe by a growing number of scholars and organizations. Social policy and economic policy can no longer be conceived separately, and basic income is increasingly viewed as the only viable way of reconciling two of their respective central objectives: poverty relief and full employment.

There is a wide variety of proposals around. They differ according to the amounts involved, the source of funding, the nature and size of the reductions in other transfers, and along many other dimensions. As far as short-term proposals are concerned, however, the current discussion is

focusing increasingly on so-called partial basic income schemes which would not be full substitutes for present guaranteed income schemes but would provide a low – and slowly increasing – basis to which other incomes, including the remaining social security benefits and means-tested guaranteed income supplements, could be added.

Many prominent European social scientists have now come out in favour of basic income – among them two Nobel laureates in economics. In a few countries some major politicians, including from parties in government, are also beginning to stick their necks out in support of it. At the same time, the relevant literature – on the economic, ethical, political and legal aspects – is gradually expanding and those promoting the idea, or just interested in it, in various European countries and across the world have started organizing into an active network.²⁴

Develop a ‘Shared Social Responsibility’ approach

The current series of crises risks a regression in rights, social protection and democracy. On the one hand there is a danger that people put all their trust in the market as the only real source of solutions to the challenges being faced. On the other hand, there is a risk that people expect Government to resolve all the challenges effectively and fairly. Both of these extremes must be resisted. Because resources are scarce it is important that all stakeholders recognise the importance of securing the wellbeing of all. There must also be recognition of the need for social, environmental and intergenerational justice. To be effective, an approach is required that is characterised by a spirit of reciprocity, mutual accountability and a shared commitment to reducing social inequalities and inequalities of influence.

We live in a world in which no-one is totally independent or immune from the damaging consequences of other people’s actions or failure to act. The most advantaged population groups must not ignore their interdependencies and responsibilities vis-à-vis the rest of society. This is especially important when the least advantaged see their achievements in terms of access to rights, public services and common goods threatened. It is very important that all sectors of society work together and share responsibility for combating the causes of inequalities, poverty, insecurity and discrimination.

24 For further information on basic income particularly in a national context of Seán Ward, (2006) *Basic Income: Recent Analyses for Ireland* in Seán Healy, Brigid Reynolds, Micheál Collins (eds.) *Social Policy in Ireland: Principles, Practice and Problems*, revised and updated edition, pp191-204, Dublin, The Liffey Press.

Taking a 'shared social responsibility' approach would require individuals and institutions, both public and private, to be accountable for the consequences of their actions or omissions. This would apply to such areas as the protection of human dignity, the environment and common good, poverty and discrimination and the pursuit of justice, development and social cohesion. It is clear that all individuals and institutions do not have equal responsibility in each of these areas. Some have much greater resources, power or capacity and, consequently, have greater responsibility. But all have some capacity and, consequently, some responsibility.

For such an approach to work effectively would require much greater transparency and accountability, much greater access to knowledge and a deliberative approach to decision-making. It would require a new approach to responsibility in a context of interdependence. The Council of Europe agreed a new Charter on Shared Social Responsibilities in 2011 (Council of Europe 2011). It could provide a very good basis for proceeding on this issue.

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ONLINE DATABASES

CSO QNHS online database, web address: <http://www.cso.ie/px>

CSO Live Register online database, web address: <http://www.cso.ie/px>

CSO Statistical Data Bank, web address <http://www.cso.ie/px/pxeirestat/statire/SelectTable/Omrade0.asp?Planguage=0>

EUROSTAT Income and Living Conditions online database, web address: <http://epp.eurostat.ec.europa.eu>

OECD, Government revenue, expenditure and main aggregates: http://stats.oecd.org/Index.aspx?DatasetCode=SNA_TABLE11.



Trends in Ireland – short, medium and long-term

This paper develops the analysis contained in the Ireland report and assumes the reader is familiar with the analysis and data provided there.

An analysis of the data on Ireland so as to identify key trends is a challenging exercise. The situation is deeply complicated by two factors:

1. The economic and banking crisis of 2008 and following years. The response to this crisis has focused very strongly on austerity. This approach is based on two false assumptions i.e.
 - a. That all countries affected have been living beyond their means and that their debts have been caused by failure to balance their national budgets. This was not the situation with Ireland which had one of the lowest Debt/GDP ratios in the world in 2007.
 - b. That front-loaded austerity is the best and most effective way of rectifying these problems. [This claim has been shown to be false in a recent publication by the IMF¹. The main finding of this IMF study is that to be most effective in terms of permanently and rapidly reducing a country's debt-to-GDP ratio smooth and gradual consolidations are to be preferred to front-loaded or aggressive consolidations, especially for economies in recession facing high risk premia on public debt, because sheltering growth is key to the success of fiscal consolidation in these cases.]

¹ Batini, Nicoletta; Giovanni Callegari and Giovanni Melina. Successful Austerity in the United States, Europe and Japan. IMF Working paper published July 2012.

2. The fact that Ireland alone was forced by the European Commission, the European Central Bank and the International Monetary Fund to reimburse **in full** the unguaranteed and unsecured bondholders and financial institutions who had gambled their money in insolvent banks in Ireland and lost their gamble.
 - a. Ireland's GDP in 2012 is about €160bn. Ireland has spent about €64bn in repaying the debts of these gamblers. (Of this €64bn, €20bn came from a sovereign fund earmarked to pay pensions later in the twenty first century and the rest was borrowed.) Ireland's total sovereign debt is €126bn. Excluding the money from the sovereign fund 25% Ireland's current national debt is 107% of GDP, a quarter of which went to pay the debts of banks. Excluding the bank component then Ireland's national debt would be below 80% of GDP.

If this analysis was being conducted in 2007 the trends would have been relatively clear. The developments listed above have changed situation dramatically and made trend analysis much more uncertain.

In identifying trends this paper identifies the short-to medium term trends and the medium-to-long term trends in the following areas:

- Welfare
- Labour Market
- Poverty
- Public Expenditure
- Approaches to the recent series of crises.

On Ireland's welfare regime

Short to Medium-term:

- Ireland's total tax-take is and has been low as a proportion of GDP when compared with all other EU countries.
- Ireland's total government expenditure has been, and continues to be, low as a proportion of GDP when compared with all other EU countries.
- Welfare rates have fallen since economic crisis of 2008 and are under constant pressure.
- Entitlement to welfare has been circumscribed with some groups losing their previous entitlement or seeing it reduced dramatically.

- State pension payments had been rising and have not been reduced during the current economic crisis.
- Ireland has a two-tier a health system in which access to services beyond basic provision are much easier to access if one is in a position to pay for these services.
- Ireland has a serious adult literacy problem that has not been addressed in any effective or committed manner.

Medium to Long-term:

- Ireland’s welfare regime is neo-liberal and residual.
- It relies heavily on means-tested payments.
- It has low levels of social service provision funded by public expenditure.
- It depends on private insurance and voluntary provision to deliver a many services.
- Welfare rates had been rising in the years prior to 2008. This was in response to a growing recognition that many people in receipt of welfare payments had gained far less over the previous quarter century when compared to public servants or private employees or average incomes.
- State pensions have risen consistently.
- Ireland’s two-tier health system is likely to persist. Government has indicated its intention to introduce a full insurance-based health system with universal access – based on what they perceive to be the Dutch healthcare model. The current re-structuring of the health system and the financial pressures flowing from austerity measures would not provide much hope that such an outcome is likely.

On the labour market

Short to Medium-Term:

- Ireland has never attained full employment. However it did see long-term unemployment (in excess of one year without a job) fall to 1.3% of the labour force during 2007. Many would argue that this is as close to full employment as a country can get in the modern world.
- While the numbers employed grew dramatically in Ireland in the past two decades unemployment returned from 2008 onwards.
- Many of the new jobs went to women and to migrants.

- There has been a dramatic rise in the labour force participation rates of women but some of the gain was lost with the economic crisis.
- There has also been a dramatic rise in the proportion of the labour force that is long-term unemployed (i.e. over one year).
- There is a substantial working poor problem with people in employment also being in poverty.

Medium to Long-term:

- Full employment is a goal of government policy at all times but has never been achieved.
- Both employment and unemployment are forecast by Government to continue to fall.
- In the years immediately ahead unemployment will fall due to involuntary emigration.
- Unemployment has fluctuated in recent decades but is now in double digits and likely to remain there for quite some time.
- There is no prospect of anything close to full employment being achieved in Ireland in the foreseeable future.
- The working poor issue is a long-term problem that has not been addressed and persists.

On Poverty

Short to Medium-Term:

- There has been a drop in poverty in recent years due principally to increases in social welfare payment rates.
- This trend has suddenly been reversed as a result of the economic crisis of 2008 and the following years.
- About a third of households at risk of poverty are headed by a person with a job and this situation continues and is not being addressed at a policy-making level.
- Child poverty continues to rise and remains consistently above the national average poverty rate.

Medium to Long-term:

- Poverty is likely to rise in the longer term as the on-going austerity approach to economic development takes its toll.

- Poor people are taking the biggest ‘hit’ in proportionate terms as Ireland adjusts to its new economic reality. This has seen overall poverty rates rise – a reversal of the trend during the preceding decade - and this trend may continue into the future.

On Public expenditure

Short to Medium-Term:

- Ireland’s public expenditure has been one of the lowest in the EU when measured as a percentage of GDP. Even as a percentage of GNP it has been low.
- As a result of refinancing of banks and the movement of bank debt to being sovereign debt there have been some major aberrations in Ireland’s public expenditure. However these are one-off impacts.

Medium to Long-term:

- Ireland’s public expenditure is set to rise in the medium to long-term. This will not result in increased expenditure on social services or increased investment in anti-poverty measures or strategies. Rather it will go towards Ireland repaying the gambling debts of foreign banks and bond-holders.
- In 2007 less than 3% of total government revenue was used to service the national debt. In 2012 this is set to reach 11.5% of total Government revenue and by 2015 is set to reach 15.6% of total Government revenue according to Ireland’s Department of Finance.

On approaches to the current series of crises

- Most of Government’s effort has been focused on rescuing banks and on reducing pay and services.
- There has been too little focus on increasing taxes. This is problematic as Ireland’s total tax-take remains low despite recent developments.
- In effect resources are being transferred from Ireland’s poor and middle-income people and being paid to wealthy people and institutions that are having all their debts repaid by Ireland’s poor and middle-income people.
- This process is seen as profoundly immoral and unjust by a large proportion of Ireland’s population.

Are these model trends?

To get some sense of whether or not the trends identified in Ireland were simply Ireland's trends or model trends the author contacted representatives in the UK and in Malta to get their assessment.

Malta

In Malta's case it transpires that the Maltese welfare system is not really in the Beveridge model. Rather it is a hybrid model. Different aspects of the Maltese welfare system preserve features that go back to the period well before the emergence of different models of the welfare state. In adjusting to the new models it evolved to contain elements that fit into different models.

On the one hand it presents itself as very right wing. Malta has one of the highest percentages of means-tested cash benefits vis-a-vis total benefits in the European Union. However, it is relatively generous in other policy areas such as the pension and the health systems and in the educational sphere.

In Malta the traditional family, generally associated with the traditional breadwinner dependant model, is more predominant than is the case in various other welfare states. This traditional feature reveals itself in statistics showing that Malta scores the lowest in the EU in terms of female participation in the labour market.

In other words, the Maltese welfare system provides a unique fusion of welfare philosophies which are not consistent with Beveridge.

UK

The UK has a welfare model similar to Ireland. Most of the trends identified for Ireland can be clearly identified in the UK as well. This is particularly obvious when comparing the medium-to-long term trends.

At times the causes of these similar trends may be different. For example unemployment in the UK is rising but is being driven in part by immigration; unlike Ireland, which currently has a very low immigration level, it is not being alleviated in part by emigration.

What is very significant in this context is that the UK did not need a bailout from the IMF/ECB/EC as Ireland and others have needed. Yet there has been a focus on austerity measures as the key to fiscal consolidation. This austerity has hit those on low to middle incomes disproportionately in the same way as it has in Ireland. When choices are made there is little consideration for the

long-term consequences of such actions for the delivery of services in areas such as health, education, children and families.

What is also significant is that the approaches in both Ireland and the UK lack two key elements: balance and vision.

- A balanced approach requires the recognition in practice of the interdependence of economic development, social development and environmental development. Economic decisions have been taken that are having very negative impacts on social provision which in turn will mean that economic progress will be impacted on.
- Vision is lacking in that it is clear there is no over-arching societal vision guiding policy development and implementation. The Europe 2020 Strategy claims to be working for an inclusive society but that is not evident in the work being done in either Ireland or the UK.

Failure on both of these leads inexorably to the erosion of the social infrastructure that supports the provision of key services to many people. Over time this will impact very negatively on service provision and on social inclusion generally.

Seventy years after Beveridge first published his report in 1942 it is fair to say that its core parts are systematically being eroded. There is no appetite for the vision that guided Beveridge in the report that bears his name. The growing focus on the individual and the failure to appreciate the importance for all of the social, the societal and the community is producing deeply divided societies. All of this is underpinned by the dominant narrative in society. Below I set out some key aspects of the dominant narrative in Ireland which closely mirrors the dominant narrative in the UK. While there are some differences these are far out-weighted by the similarities. Both countries seem to be travelling in the same direction.

Without a substantial change of direction the Beveridge manifestation of the European Social Model could be substantially eroded until it ceases to exist in any real way.

Key issue - Narrative

The dominant narrative that underpins policy-making and public discourse in Ireland at present is deeply flawed. A narrative in this context sets out how we explain ourselves to ourselves and others. It addresses key questions of how we got to be in the situation we're currently in, where we are now, our vision of the future and how we can reach that desired destination.

A more accurate and appropriate narrative for Ireland would include the following six key propositions.

1. Ireland’s policy-making for more than a decade was guided by many false assumptions concerning economic growth, taxation, services and infrastructure. Among these were the following:

- Economic growth was good in itself and the higher the rate of economic growth the better it would be for Ireland. Whatever supported economic growth was to be facilitated. Whatever limited economic growth was to be resisted. The promotion of growth as an end in itself became the focus of policy.
- The benefits of economic growth would trickle down automatically. Everyone would benefit.
- Infrastructure and social services at an EU-average level could be delivered with one of the lowest total tax-takes in the EU.
- The growing inequality and the widening gaps between the better-off and the poor that followed from this approach to policy-development were not important as everyone was gaining something.
- Low taxation was good.
- Reducing tax rates would lead inevitably to an increase in tax-take.
- “Giving people back their own money”, through reducing taxes, was far better than investing that money in developing and improving infrastructure and services. The sum of Irish people’s individual decisions would produce far better results for Ireland than allowing Government to decide how best to use the money.
- Ireland had a great deal to teach the rest of the world particularly about how it could reach full employment, generate huge economic growth and provide for all the society’s needs while having one of the lowest total tax-takes in the Western world.

2. Many policy failures arose from these false assumptions. Among them were:

- Failure to take action to broaden the tax base or to promote tax equity.
- Failure to overcome infrastructure deficiencies, such as broadband, public transport, primary health care, water, energy, social housing and waste.
- Failure to adequately address high energy costs or to promote competition in sheltered sectors of the economy, such as professions.

- Failure to appropriately regulate the banking and financial services sector or to manage the growth of personnel numbers in the public service.
- 3. These, and similar, policy failures produced much of the current series of crises that Ireland is facing** – banking, public finances, economic, social and reputational.
- 4. These crises are being exacerbated by persevering with failed policies and false assumptions.** Principal among these are an insistence by Government that:
 - Ireland’s total tax-take must remain as one of the lowest in the EU.
 - The economy should have priority over all else.
 - Preventing all the major banks from collapse is the top economic priority.
 - Cuts in public expenditure are the key. (These are important but only part of the solution).

The emphasis on individualism over community has led to growing anxiety and greed.
- 5. Ireland needs a new vision to guide policy development and decision-making.** Four core values that should underpin a guiding vision for Ireland are: human dignity, sustainability, equality/human rights and the common good. Ireland needs to see these values at the core of the vision of its future as a country where:
 - Every man, woman and child has what is required to live life with dignity i.e.
 - Has sufficient income,
 - Has access to the necessary services and
 - Is actively included in a genuinely participatory society.
 - Sustainability (economic, social and environmental) is a central motif in policy development. This would mean that:
 - International economic competitiveness is developed and sustained.
 - Economic development, social development and environmental protection are seen as different sides of the same reality, all interdependent.
 - Balanced regional and global development would be at the heart of the vision of Ireland’s future.

- Equality and a rights-based approach are at the core of public policy.
- The common good is a constant goal of policy development.
- 6. Some policy priorities for moving Ireland towards a desirable alternative vision** include:
 - Raising Ireland’s total tax-take in a fair and equitable manner while keeping Ireland a low-tax economy (i.e. below 35% of GDP which is the cut-off level provided by Eurostat for a low-tax economy).
 - Providing the necessary resources over time to raise Ireland’s infrastructure and social services at least to the EU-average level.
 - Focusing economic growth on increasing per-capita National Income.
 - Reforming the Public Service to ensure it maximises its capacity and delivers appropriate outcomes.
 - Ensuring Ireland’s economy is internationally competitive.
 - Addressing the reality of unemployment for both short-term and long-term unemployed people.
 - Continuing to reduce poverty with a particular focus on reducing child poverty.
 - Developing long-term planning and ensuring all actions taken serve the long-term needs of Irish society.
 - Tackling inequality and developing a rights-based approach to policy development.
 - Ensuring that getting value for money is the norm where public expenditure is concerned.
 - Minimising the exposure of the tax-payer to the losses incurred by banks and the consequent expenditure of tax-payers’ money on rescuing these.

Social Justice Ireland’s Socio-Economic Review for 2012 entitled ‘**Shaping Ireland’s Future**’ addresses these issues and looks in detail at twelve key policy areas: taxation, income and poverty, work, unemployment and job-creation, education and educational disadvantage, health, rural development, sustainability and environment, housing, public services, participation, migration and the Third World.

Chapter IV

The Future of Sweden's Social Welfare Model

GEORGE JOSEPH



The Swedish Social Welfare Model

1. Introduction

To understand the social protection model and to discuss the future of the Swedish model, it is useful to consider the historical legacy of the existing system where social policy institutions provide for a specific mix in terms of coverage and benefit levels. Moving on from its original poor laws and friendly societies, Sweden adopted social insurance programmes that differed from the state corporatist approach taken by Bismarckian Germany and other countries on the European continent. The first Swedish pension law in 1913 was both contributory and targeted, i.e. it retained the means-testing principle of the poor laws, but expanded coverage to embrace a majority of the elderly population. When means testing was abolished after World War II, a basic security model developed with flat-rate benefits, as in the British Beveridge reform but without mandatory contributions. At the same time universal child benefits were introduced.¹

With the introduction of earnings-related benefits in the 1950s, the basic security programmes became encompassing. Here, the idea was to meet the need for both basic security and income security. But the other point of departure for the Swedish model was the introduction of state subsidies into voluntary programmes. In sickness and unemployment insurance, the first state interventions resulted in the emergence of the voluntary state-subsidised model. In 1955, Swedish health insurance became universal; step by step, it expanded the earnings-related principle and pressed ahead with earnings-related pensions. Thus by the end of the decade, Sweden had introduced the encompassing model. Despite this expansion, targeted elements still remain in the form of housing allowances and social assistance, while unemployment

¹ Esping-Andersen & Korpi (1987).

insurance in Sweden still has elements of a voluntary state-subsidised model. In health insurance, however, the last remaining traces of the ‘friendly societies’ were removed as the result of an administrative reform in 2005, when the independent insurance funds became fully integrated into the central state.

In the Nordic countries, the State is involved in financing and organizing the welfare benefits available to the citizens to a greater extent than in most other European countries. The system is universal, covering everyone. Sweden’s benefit programs are developed to meet virtually all contingencies and include, among others: pensions; support for the unemployed that includes benefits, job training, retraining and job creation; disability and sickness benefits; health care; parental leave; child allowances; financial assistance for families with disabled children; and decent housing for all.

There are three major pillars of the modern Swedish/Nordic welfare state²: **social security, health and free education**. Health care and social security ensure a high minimum living standard for all citizens regardless of their economic situation. The free education maximizes the social mobility, and strives to make it possible for everyone to better themselves, without relying on economic support from their families.

In the modern Swedish transfer system, there are hence three basic components: (i) citizenship benefits including old-age pension systems and family support; (ii) earnings-related social insurance benefits, on the same terms for all; and (iii) income tested benefits such as housing benefits for families with children and the elderly and social assistance.³

2. The three sources of social protection: Labour market, Family and Welfare State

2.1 Participation in the Labour Market as Source of Social Protection

The long-term goal of the Swedish labour market policy is to achieve full employment. Full employment is a national ethos and the top priority of economic policy. Sweden considers a well functioning labour market and

2 In the Nordic context, the concept of the welfare state normally covers social security (insurance) schemes (old age, occupational in-jury, unemployment, sickness, child allowances); family benefits (for example, paid parental leave); maternity benefits; social assistance; public health system; labour market policies; (basic) education; social services (old age institutions, home help for the elderly, nursing homes, kindergarten and daycare institutions); and (public subsidies for) housing.

3 Institute for Future Studies, Palme, Fritzell & Bergmarck (2008).

efficient labour market policy are important prerequisites for growth and welfare. The overall objective of labour market policy is to contribute to a well functioning labour market, to increase employment and to reduce social exclusion.

The average number of actual hours worked per person in Sweden and other Nordic countries are lower than the other EU27 countries and Norway. At the same time, the employment rate among the population is higher than the average, particularly among women.

	UNIT	REFERENCE PERIOD						TARGET
		2005	2007	2008	2009	2010	2011	2015
75% of the population aged 20-64 should be employed								
Employment rate - age group 20-64	% of population aged 20-64	78.1	80.1	80.4	78.3	78.7	80.0	80.0
	Male	80.7	83.1	83.5	80.9	81.7	82.8	–
	Female	75.5	77.1	77.2	75.7	75.7	77.2	–

Source: EUROSTAT

Development in the labour market were positive in 2010 and early 2011. The recovery in the labour market has gone quite quickly in the past two years. The number of employed people has increased significantly and also meant a decrease in unemployment. The rise in employment dampened towards the end of 2011, and with weak attachment to the labour market, e.g. young people entering the labour market are already in difficult labour market situation and risk finding it even more difficult to obtain work.

Today foreign-born persons comprise a considerable part of an unused supply of labour. In the future it will be more important to take advantage of this supply, since foreign-born persons are expected to comprise a larger part of the future population of actively working ages.

After five years in Sweden, nearly 56 percent of the men and roughly 44 percent of the women are employed. There are considerable differences among different groups of immigrants. Asylum seekers have the lowest level of employment, but with increasing time in Sweden the differences with other immigrant groups' decrease.

Of those foreign-born persons who immigrated in 1997, persons from the former Yugoslavia comprised the largest group. Most of these persons came

to Sweden seeking asylum. After five years in Sweden, 58 percent of those in this group were employed, and after ten years the figure was 70 percent. In contrast, the employment rate for persons from Iraq was 31 percent after five years and 47 percent after ten years.

The amount of time in Sweden thus affects employment positively. Despite this, persons who have been in Sweden more than 20 years have a lower employment rate than Swedish-born persons. The results point to a particularly low employment rate among persons born outside of Europe and among persons with a low level of education. These groups also have temporary employment to a greater degree and thus have a higher risk of becoming unemployed.

The proportion of employed persons increases consistently with the amount of time in Sweden. After ten years in Sweden, nearly 70 percent of the men and roughly 60 percent of the women are employed. However, employment varies for different groups of foreign-born persons. Persons who have received asylum are employed to a lesser degree. The difference in employment is especially great during the first few years in the country. Two years after immigration, about 20 percent of those who immigrated to Sweden for asylum are employed. Employment is particularly low among persons who received asylum and only have a pre-upper secondary school education. Employment is lowest among persons born in Iraq, Iran and Somalia, but the differences drop somewhat in relation to the amount of time in Sweden. Re-emigration varies with the reason for immigration. Among persons who received asylum, about 90 percent still live in the country after 10 years. Among labour force immigrants, this applies to less than half the group.

Foreign-born persons have a lower employment rate and a much higher unemployment rate than Swedish-born persons. Persons born outside of Europe and have only been in Sweden for a short time have the lowest employment rate. When comparing the first three quarters of 2009 with the same period in 2008, we see that foreign-born persons so far are not harder hit by the ongoing economic downturn.⁴

It is mostly the number of employed Swedish born men that has decreased. Foreign-born persons are temporarily employed to a greater degree than Swedish-born persons. This is also very clear for those who have been in Sweden for a short time, and especially for persons born outside of Europe. The proportion of those outside of the labour force is significantly higher among foreign-born persons and among foreign-born women in particular.

4 SCB (2010): Labour Force Survey.

A larger percentage of foreign-born persons in the population are not in the labour force due to long-term illness. Foreign-born persons are also over-represented concerning non utilized labour supply.

2.2 Family

For decades, Sweden's family policy has been one of the clearest examples of a dual-earner model, encouraging both parents to participate in the labour market and to share unpaid care work. Policy reforms proposed recently, however, will introduce a wider range of features, which may lead to greater diversity in terms of how families combine childcare and paid work. It will also affect gender equality, both in the labour market and within the family.

Since the 1970s, a prime goal of Swedish family policy has been to strengthen gender equality and the dual-earner model. Central to this model is the combination of earnings-related parental leave, access to publicly subsidised daycare and separate taxation of spouses. Parental leave is often seen as crucial to the way both paid and unpaid work is distributed between the sexes.

Currently, parental insurance entitles parents to a total of thirteen months of job protected leave, during which they receive 80 per cent wage replacement. Two months of leave are earmarked for each parent individually, while the remaining time is shared between them as they wish. At the end of the leave period, the great majority of children in Sweden enter day-care. This is heavily subsidised; the cost to a family with one child in full-time day-care, for instance, is a maximum three per cent of household income before tax.

The dual-earner model in Sweden and the other Nordic countries has resulted in high levels of female labour force participation and relatively high fertility.⁵

While Sweden stands out as a clear-cut example of the dual-earner model, it is still the women who perform most of the unpaid household and care work. However, the participation of fathers has increased over time. The public family-policy institutions have contributed to this gradual change in behaviour.

The economic situation for families with children improved between the years 2006 and 2010. The income standard has increased and a lesser

⁵ Clasen, Kvist & Van Oorschot (2001): Nordic Welfare State in the European Context.

percentage of children live among families with low incomes. However the families that are better off are those with higher incomes.⁶

2.3 The role of the public sector

The public sector comprises the state, municipalities and county councils. The public sector provides services that are important to people's welfare, such as health and medical care, elderly care and education. It also controls benefits to households, such as child benefit and insurance systems including sickness insurance, unemployment insurance and pensions. Pensions are based on the lifetime earnings principle, which means that all income a person earns in the course of their life entitles them to a pension and affects the size of their pension. More work, more pension. The purpose of benefit systems is to achieve a more even distribution of income between households and over time in order to support, for example, pensioners and families with children. Public sector expenditure is chiefly funded by taxes, social insurance contributions, and in some part patient fees. Health and medical care, and social services are provided directly by central or local government or by private actors, and are wholly or partly funded and regulated by the state.

The Swedish welfare state concept is based on the idea that all people should feel secure in all phases of life. People living in Sweden should not have to worry about their finances when they get old, have children or become ill. Those who fall into drug abuse should receive support to rid themselves of their dependency. All people should have access to good health care and dignified elderly care according to their needs.

Swedish social insurance is intended to provide financial security in the event of illness and disability, in old age, and for families with children. Social insurance is individual based and compensates for income lost due to illness and the care of children.

Social insurance is made up of general benefits and income-based benefits. General benefits provide the same amounts for all, for example, child benefit and adoption allowance. Income-based benefits include housing allowance for families with children and for pensioners. Financial support to families with children includes child benefit, housing allowance, parental insurance, maintenance allowance and care allowance.

Support and service based on individual needs: if people with disabilities are to enjoy the same rights and obligations as others, they need customised

⁶ SCB, Statistical Year Book 2011.

support and service. Services such as personal assistance, case managers, car allowance and sign language interpreters will make it possible for people with severe disabilities to live an independent and active life. Government grants play an important part in social welfare policy, as do labour market measures to enable more people with disabilities to support themselves through gainful employment.

The aim of social service support is to empower people to play a full and active part in society. First and foremost, people have a responsibility for their own lives. This means contributing to one's maintenance and other needs before being entitled to benefits. Those who are able to work are obliged to search for gainful employment. Financial support is primarily a safety net for those with short-term financial problems. Financial support is determined by municipal social services and is based on an individual means test.

2.4 More elderly people and more children

Every year, more and more Swedes live to see their hundredth birthday. In 2007 there were 1 458 people, 1 188 women and 225 men, over the age of 100. Average life expectancy in 2007 was 82.9 years for women and 78.9 years for men.⁷ Average life expectancy will continue to increase, and the increase will be greater for men than for women. This means that in 2020 there will be a greater proportion of elderly people in the Swedish population, and the difference in average life expectancy between the genders will be smaller. The elderly in most cases remain in good health for an ever longer time. This is a very welcome trend, but there are still problems. Many elderly women and men have meagre financial resources, and care is still not sufficiently good for all elderly people. Many family members, particularly women, bear great responsibility for their relatives. In addition, in ten to fifteen years the number of elderly persons over the age of 80 and needs for long-term care will increase at an even faster rate. Needs will also look very different from healthy elderly people who just need a little extra help around the home to elderly people with an extensive need for assistance.

The Swedish Government's view is that the quality of care of elderly women and men needs to be improved. Preventive efforts, medical care and social provisions need to be improved. The Government's long-term elderly care policy is based on the elderly and their relatives having a sense of reassurance, the care provided to them meeting reasonable standards of quality and dignity and providing the individual with greater freedom of

⁷ SCB, Statistical Year Book 2009.

choice. Long-term improvement in quality should be supported by measures such as systematic use of open comparisons between health care providers and by the development and use of relevant indicators in this area.

The birth rate affects the population trend and is thus of key significance to future growth. The number of children born in Sweden fell in the 1990s. In 1999 the downturn was reversed, and the number of births has since risen every year. In 2007 the average birth rate was 1.88 children per woman, and the cumulative fertility rate in 2011 was 1.90 children per woman.⁸

2.5 Poverty evolution

The concept of poverty is multifaceted and difficult to define. It may, for example, apply to access to material resources to meet the basic needs for survival. As a broadened term it may also include intangible assets such as education and social capital. Only economic poverty is considered here.

”At risk of poverty” in EU contexts is defined as the proportion of the population who have a disposable income below 60 per cent of the median in the country. At risk of poverty, otherwise known as relative poverty, is a measure of how unevenly incomes are distributed within the country and thus does not take account of the country’s general level. On the other hand, it shows what incomes various groups have in relation to the normal population. Another way of measuring poverty is to take an absolute income limit as a basis. If a threshold value of this kind is used, the limit for poverty is set at a particular level of income which can be regarded as a minimum with which to meet the needs of a family for food, housing, clothing, medicines etc.

Relative poverty has developed differently than absolute poverty in Sweden. Relative poverty has increased since 1994 because differences in income have increased, i.e. earned incomes have increased at a faster rate among those on middle and high incomes than among those on low incomes. Relative poverty in 2006 was almost 11 per cent. Unlike relative poverty, the proportion of people with incomes below the absolute poverty line has fallen since the mid-1990s to 4.5 per cent in 2006. The proportion of people receiving financial assistance has also decreased, by just over 44 per cent over the past ten years, and less financial assistance is now drawn than at the beginning of the 1990s. However, long-term receipt of financial assistance among young people is virtually unchanged.⁹

⁸ SCB, Statistical Year Book 2012.

⁹ Kautto & Kvist: Parallel Trends, Persistent Diversity: Nordic Welfare States in the European and Global Context.

Both relative and absolute poverty vary in different population groups. The proportion of people living in poverty in 2006 was around three times higher among those born abroad than among persons born in Sweden, and this ratio has been constant during the current decade. This applies to both relative and absolute poverty. However, as the labour market situation for those born outside Sweden improves the proportion living in poverty is also decreasing. There are also groups facing financial hardship among people with disabilities. One of the reasons is that many people have never had an opportunity to enter the labour market and have to depend on social protection systems for life.

Sweden has an even distribution of income in comparison with other EU Member States. Transfers have a great redistributing effect in Sweden, in particular because families with children receive comparatively high benefits. In 2006, just over 6 per cent, or 130 000, of all children in Sweden were living in families whose disposable income was below the absolute poverty line, compared with 18 per cent in the mid-1990s. The proportion of children in households in receipt of financial assistance has fallen sharply. Only 6 per cent of all children are living in households receiving financial assistance, which is half the level in the early 1990s. Relative child poverty, on the other hand, shows a different trend. On 2006 around 15 per cent of all children were living in families that can be said to be relatively poor. This proportion has increased in recent decades.¹⁰

Children's standard of living varies greatly depending on the type of family they belong to. Poverty is greatest among children both of whose parents were born outside Sweden. Among these households around 20 per cent are poor according to the absolute poverty line. However, poverty among children whose parents were born abroad has halved since the start of 2000. Children with a lone parent face substantially greater financial hardship than children whose parents live together. This applies irrespective of whether the parent was born in Sweden or abroad. The rate of relative poverty for lone parents increased from 11 per cent in the early 1990s to more than 29 per cent in 2006.

Studies have shown that countries, such as Sweden and the other Nordic countries, with well-developed universal welfare tend to have lower levels of financial vulnerability. In these countries public services play an important role in the low proportion of economically vulnerable children. The female activity rate combined with public childcare is an important factor in explaining the relatively low proportion of economically vulnerable lone parent families.

10 Palme, Fritzell & Bergmarck (2008).

The degree of economic vulnerability among children and the living conditions of economically vulnerable children are affected by developments in a number of different policy areas such as integration, the labour market, social services, family and education. For the most vulnerable groups, single mothers and families with parents born outside Sweden, there is thus a combination of measures in several policy areas.

Compared to the rest of EU, the risk of being affected by poverty is comparatively low in Sweden. People at risk of poverty or social exclusion amounted to 15 per cent in 2011.

Poverty should be reduced by lifting at least 20 million people out of the risk of poverty or social exclusion						
People at risk of poverty or social inclusion ⁽¹⁾	Thousand	1325	1264	1367	1459	1418
	% of total population	14.4	13.9	14.9	15.9	15.0
People living in households with very low work intensity	Thousand	534	409	381	430	418
	% of total population	7.5	5.9	5.4	6.2	5.9
People at risk of poverty after social transfers	Thousand	874	959	1121	1215	1212
	% of total population	9.5	10.5	12.2	13.3	12.9
People severely materially deprived	Thousand	216	197	132	144	125
	% of total population	2.3	2.2	1.4	1.6	1.3

Source: EUROSTAT

3. The Economic crisis 2008 – 2011 and current situation Slower growth in 2012

Growth in the Swedish economy slowed since 2007, partly due to a weaker international trend. A lower rate of growth is expected after the sharp growth in the labour market in 2007. The new policies and reforms which the present Government has implemented, including lowered income tax and reduced levels of unemployment benefit, and new start job schemes are expected to make a positive contribution to the rise in employment.

Absence due to sickness has co-varied with growth in employment for many years. Despite the rate of employment having now increased for two years, sick leave levels have continued to decrease. The changes to sickness insurance implemented by the Government, combined with stricter Swedish Social Insurance Agency rules are judged to have reduced the rate of sick leave.

It is crucial to reduce exclusion and get more people into work in order to achieve a high level of prosperity. The outturn for 2007 showed that the number of people (measured as full-time equivalents) whose means of support comes from schemes related to ill-health, unemployment or social assistance fell by as many as 121 000. Despite the strong trend, the Government judges that continued measures are required to achieve a lasting increase in employment and to reduce social exclusion. The new strategy for more people in work and reduced social exclusion rests on three pillars:

- Providing better incentives to work
- Making it simpler and less expensive to take on employees
- Making it simpler and more profitable to start and run businesses.

The present Government has taken a particularly serious view of the composition of social exclusion and policy is therefore intended to increase employment in particular among groups that are weakly placed in the labour market, such as young people, older people, those born abroad and women who work part time.¹¹

To fund future welfare, it is necessary for more people to be in work and for the number of hours worked to increase. A high employment rate is essential if a generous welfare policy is to be possible. Work and the ability to provide for themselves boosts people's security and freedom. The challenge for the future is to create conditions in which people both want to work and have an opportunity to do so. Activation is therefore an overarching principle in the Swedish Government's economic policy. Far too many people are leaving the labour force early on the grounds of sickness. Various measures have been taken in recent years to reduce sick leave. In 2009, the number of days of paid sick leave had fallen by 50 per cent in comparison with 2002; the number of people receiving sickness or activity compensation has fallen slightly but remains high. The Government has launched a broad reform programme in sickness insurance so that it provides greater impetus and opportunities for return to work.

11 Budget Bill 2011.

In the wake of the problems with public finances in several countries, the Swedish economy slowed down significantly at the end of 2011. The slow-down means that growth for 2012 – 2013 will be weak. Insecurity associated with the European debt crisis has diminished and financial markets have begun to stabilise. During 2012, confidence began to return among households and businesses. Increased demand in Sweden is therefore expected to occur gradually in the second half of 2013 and beyond. In the next few years production and employment could rise rapidly, without risk of overheating. This is due to a combination of low resource utilization in the economy in 2012, and strong potential growth due to the structural reforms, among other things. The increase in potential GDP is deemed to reach an average of 2.6 per cent a year during 2012 – 2016. Employment is expected to rise in 2013, and during the period 2014 – 2016 the labour market is expected to improve significantly.¹² Unemployment is forecast to go down to about 5 per cent by 2016, and use of resources in the economy as a whole is expected to normalise. There is great uncertainty about the future economic development. The general belief is that the risks are on the down side.

The Swedish economy continued to recover in the first half of 2011, but at a slower pace than in 2010. Behind the recovery are an expansive economic policy and a rapid increase in the demand for Swedish exports. These factors, in conjunction with a pent-up demand for consumption and investment and growing disposable income in the wake of an improved labour market, have contributed to increased consumption and investment and to companies' upward adjustment of their stocks to normal levels. The increased output has in turn brought about a rapid growth in employment and a decline in unemployment.

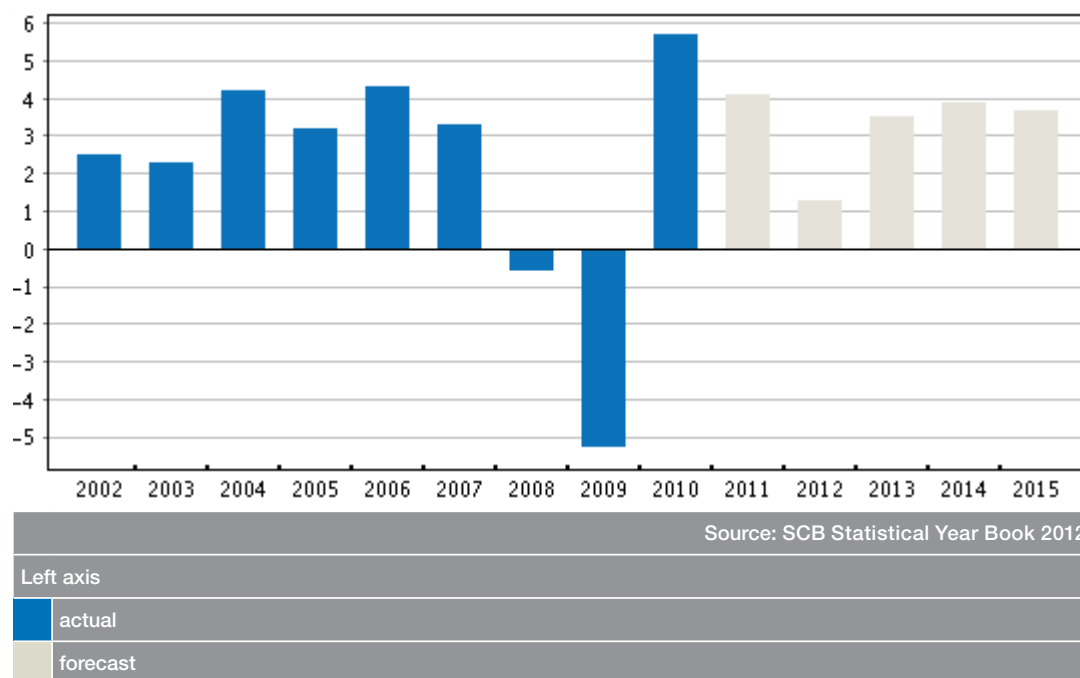
The economic slowdown is due to the inter-action of a number of factors. The growth in household consumption slowed down in 2011 as a result of increased uncertainty about economic developments, weak growth in net worth and rising mortgage rates. The growing uncertainty about future economic developments, the negative stock market trend and stagnating housing prices in recent times are expected to further reduce consumption, resulting in weaker labour market growth. This will in turn lead to weaker growth in household disposable income and a higher level of precautionary savings, which will further dampen consumption growth. This is an important reason for the slower GDP growth in the second half of 2011 and first half of 2012. Weaker global demand has also contributed directly to weaker GDP

¹² Ministry of Finance, Budget Bill Prop. 2012/13.

growth as export growth slows down over the next few years and businesses then have less need to increase investment.

Several factors now point to significantly weaker growth in the coming period than forecasted in the 2011 Spring Fiscal Policy Bill. The financial market turmoil and increased uncertainty because of the fiscal balance problems particularly in the US and a number of countries in the euro area will reduce economic growth in the next few years. GDP growth in Sweden will also be sharply reduced in 2012.

Increased uncertainty as a result of budget difficulties in other countries will lead to lower consumption and investment. Growth is therefore being written down by 2.5 percentage points in 2012 – 13.¹³



13 Budget Bill 2012-2013.

3.1 Key indicators

Percentage change unless otherwise stated Outcome 2010, forecast 2011–2015	2010	2011	2012	2013	2014	2015
GDP	5.7	4.1	1.3	3.5	3.9	3.7
Productivity growth, business sector ¹	4.1	3.3	1.1	2.9	2.1	1.6
Hours worked ²	1.9	1.5	0.2	0.9	2.0	1.9
Employed ³	1.1	2.2	0.0	0.4	1.6	1.8
Unemployment ⁴	8.4	7.5	7.8	7.7	6.6	5.5
Open unemployment ⁵	6.0	5.5	5.8	5.7	4.8	4.0
GDP gap ⁶	-3.9	-2.2	-3.6	-2.9	-1.6	-0.9
Wages ⁷	2.5	2.7	2.9	3.1	3.3	3.3
CPI ⁸	1.2	3.0	1.2	1.8	2.6	2.5

Source: Statistics Sweden, National Mediation Office and own calculations

¹ Value added at base price per hour worked.

² Calendar adjusted data.

³ Aged 15-74.

⁴ Percentage of the labour force aged 15-74.

⁵ The number of unemployed aged 16–64 excluding full-time students looking for work as a percentage of the labour force excluding full-time students looking for work.

⁶ Percentage of potential GDP.

⁷ Hourly wages according to short-term wage statistics.

⁸ Annual average.¹⁶

GDP will grow by an average of 3.7 per cent annually 2013 – 2015. Resource utilisation will increase with higher growth. Wages are expected to increase relatively slowly in 2013 because of moderate wage increases in the sectoral agreements and weak resource utilisation. The continued low resource utilisation in the labour market and the economic slowdown in 2012 also resulted in moderate wage increases in the 2011 wage negotiations, which will contribute to a relatively slow increase in wages over the next few years. Because of the low resource utilisation, combined with slowly rising unit labour costs, underlying inflation will be lower than the Swedish Central Bank (Riksbank's) inflation target of 2 per cent throughout the forecast period. Thus, the Riksbank is expected to conduct an expansionary monetary policy over the next few years.¹⁴

3.2 Lower unemployment during 2011¹⁵

During 2011 an average of 4 642 000 persons were employed. This is an increase of 96 000 persons compared to 2010. The number of unemployed

¹⁴ Budget Bill 2013.

¹⁵ SCB (2012): Labour Force Survey.

persons decreased by 38 000 persons and amounted to 378 000 persons. This corresponds to 7.5 percent of the labour force and is a decrease of 0.9 percentage points compared to 2010. The number of hours worked increased by 2.1 percent and amounted to 143.9 million per week.

The employment rate, that is, the proportion of employed persons in the population, was 65.6 percent on average during 2011. This is an increase of 0.9 percentage points and even here, the increase was for both men and women. The employment rate increased by 0.7 percentage points to 68.3 percent for men, while the increase for women was 1.1 percentage points to 62.9 percent.

The number of employed persons increased in four counties: Stockholm, Västra Götaland, Uppsala and Norrbotten. There was no statistically significant difference in any other counties compared to the previous year. In terms of percent, the largest increases were in Norrbotten County and Uppsala County, where the number of employed persons increased by 5.6 and 5.5 percent respectively. In terms of numbers, the largest increase was in Stockholm County where 30 000 more persons were employed compared to 2010.

The number of employees increased by 108 000 and amounted to 4 157 000 persons. The increase consisted of both permanent employees with an increase of 67 000 and temporary employees with an increase of 41 000 persons.

The number of unemployed persons aged 15-74 was 378 000 on average in 2011, corresponding to a decrease of 38 000 persons compared to 2010. The largest decrease was among men, where the number dropped by 23 000 men to 200 000 unemployed men. The number of unemployed women fell by 15 000 to 178 000 unemployed women.

During 2011, an average of 7.5 percent of the labour force aged 15-74 was unemployed. This is a decrease of 0.9 percentage points compared to 2010. Unemployment decreased among both men and women. The decrease for men was by 0.9 percentage points to 7.6 percent, and for women 0.7 percentage points to 7.5 percent.

Similar to the number of unemployed persons, the number of persons on long-term unemployment (those who have been unemployed for at least 27 weeks) also decreased. During 2011, 113 000 persons were on long-term unemployment on average, corresponding to a decrease of 19 000 persons compared to 2010.

3.3 Persons not in the labour force

The group not in the labour force includes individuals who are neither employed nor looking for work. In 2011, 2 054 000 persons aged 15-74 were outside of the labour force. Of these persons, 54 percent were women and 46 percent were men. Compared to 2010, the number of pensioners increased by 30 000 to 868 000 persons, and the number of persons with poor health decreased by 21 000 to 355 000 persons.

Labour Force Survey (LFS), October 2012¹⁶

Figure	Value	Change
Labour force	5055 (Thousands) September 2012	Change: 1.3% from corresponding period previous year
Labour force rate	71.0 (Percent) September 2012	Change: 0.5%-unit from corresponding period previous year
Employed	4680 (Thousands) September 2012	Change: 0.6% from corresponding period previous year
Employment rate	65.7 (Percent) September 2012	Change: 0.0%-unit from corresponding period previous year
Unemployed	376 (Thousands) September 2012	Change: 10.2% from corresponding period previous year
Unemployment rate	7.4 (Percent) September 2012	Change: 0.6%-unit from corresponding period previous year
Unemployed (aged 15-24)	138 (Thousands) September 2012	Change: 4.2% from corresponding period previous year
Unemployment rate (aged 15-24)	22.2 (Percent) September 2012	Change: 1.0%-unit from corresponding period previous year
Unemployed for more than 6 months (relative to all unemployed)	35.1 (Percent) September 2012	Change: 1.0%-unit from corresponding period previous year

¹⁶ Statistics Sweden (SCB).

In October 2012 the number of employed persons aged 15-74 years amounted to 4 666 000. The unemployment rate was 7.1 percent. Seasonally adjusted data show that the increase in the number of employed persons has slowed down and the number of unemployed increased.

3.4 Increased employment among older persons and foreign born persons

During the second quarter of 2012 the number of employed persons aged 15-74 amounted to 4 689 000, an increase of 28 000 persons compared to the same quarter in 2011. 2 458 000 of the employed persons were men and 2 232 000 were women. Among foreign born persons the number of employed increased by 40 000. Unemployment amounted to 8.3 percent. 8.4 percent of the men and 8.2 percent of the women were unemployed. The number of sick persons outside the labour force decreased to 4.7 percent of the population aged 15-74.

Persons at work are those who are employed who were not absent from work for at least a calendar week. During the second quarter of 2012, 4 191 000 persons were at work, or 2 249 000 men and 1 942 000 women. This is an increase of 29 000 compared to the second quarter of 2011. Of this increase, 23 000 were women. The number of employed persons during the second quarter amounted to 4 689 000 persons. This is an increase of 28 000 compared to the same quarter of 2011. The number of employed persons in the age group 65-74 increased by 21 000. Among foreign born persons, 719 000 were employed, an increase of 40 000 compared to the second quarter of 2011.¹⁷

3.5 Persons not at work – 41.0 percent of the population were not at work

The group of persons not at work consists of employed persons who were absent during at least one calendar week, unemployed persons and persons not in the labour force. During the second quarter of 2012, a total of 2 917 000 persons aged 15-74 were not at work, corresponding to 41.0 percent of the population.

Employed persons absent the entire week (higher absence among women than among men): during the second quarter of 2012, 499 000 persons, or 10.6 percent of employed persons, were absent from work during the entire

¹⁷ SCB (2012): Labour Force Survey.

reference week. Among employed men, 8.5 percent had been absent from work at least one week. The corresponding figure was 13.0 percent among employed women.

3.6 Unemployed – 30.1 percent are on long term unemployment

Unemployment is normally higher during the second quarter. During the second quarter of 2012, 425 000 persons were unemployed. Of these persons, 226 000 were men and 199 000 were women. Unemployment amounted to 8.3 percent. 8.4 percent of the men and 8.2 percent of the women were unemployed.

During the second quarter of 2012, 27.4 percent of those aged 15-24 were not in work. Of the unemployed young people, 52.1 percent were full-time students.

During the first quarter of 2012, the number of those on long term unemployment was 114 000, corresponding to 30.1 percent of all unemployed persons.

During the second quarter of 2012, the number of people not in the labour force amounted to 1 994 000 or 28.0 percent of the population aged 15-74. Of these persons, 913 000 were men and 1 081 000 were women, corresponding to 25.4 percent for men and 30.8 percent for women.

The group of sick persons who are not in the labour force included 332 000 persons during the second quarter of 2012. Compared to the same quarter in 2011, this was a decrease of 28 000 persons. The share of the population aged 15-74 decreased from 5.1 to 4.7 per cent.¹⁸

According to the government prognosis the weaker growth will lead to a slight weakening of the labour market, with unemployment estimated at 7.8 per cent in 2012. A revival will follow, with unemployment declining to 5.5 per cent in 2015. The labour supply is expected to continue to grow as the working-age population increases.

3.7 Slow labour market recovery

The labour market has grown strongly in the last two years. The number of people employed has increased sharply. The number of people in the labour force has likewise increased. This increase is positive because in the long run, it is the labour supply that determines employment. The strong

¹⁸ SCB (2012): Labour Force Survey.

upturn in employment has also led to a decline in unemployment, even with the increase in labour force participation.

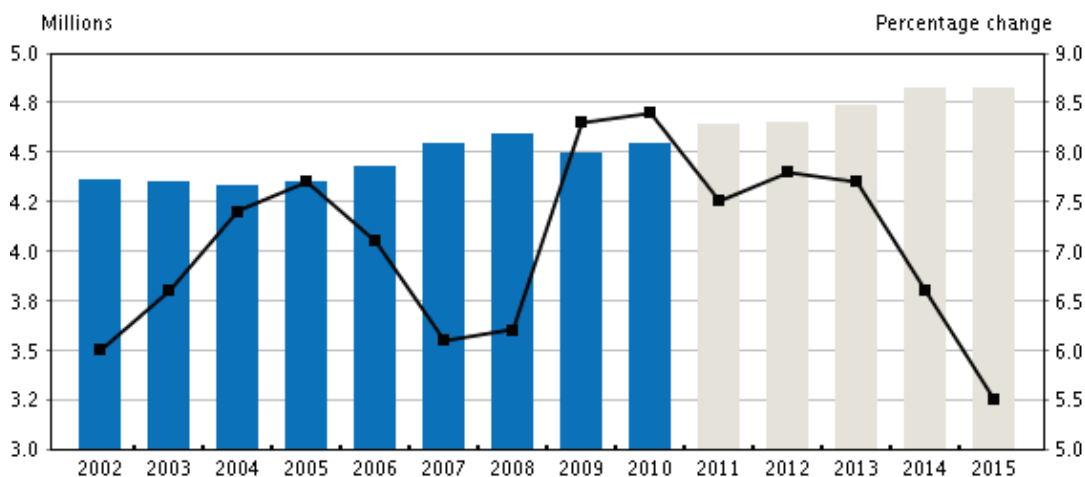
One sign that the Government's reforms have improved the way in which the labour market functions is that labour force participation held up during the financial crisis and that the strong increase in employment which then took place was not followed by any major shortages in the labour market. Despite these positive developments, resource utilisation in the labour market is low and traces of the financial crisis are still visible. The clearest indication of this is that unemployment is still high. In the second quarter of 2011, seasonally adjusted unemployment was 7.5 per cent. In addition, the employment rate is still lower than before the crisis because the working-age population has increased more rapidly than employment.

Because of the economic slowdown in Sweden in autumn 2011, companies' need to increase the number of people employed will rapidly decline. In principle, employment is expected to be un-changed from end-2011 to the second half of 2013. During this time, the labour supply is expected to continue to increase because the working-age population is growing. Unemployment rate has increased to 7.8 per cent in 2012 and remain at approximately the same level in 2013. As demand in the economy again picks up speed, employment is expected to grow in 2014 and 2015, while unemployment will decrease to 5.5 per cent in 2015. Due to the protracted economic downturn, resource utilisation in the labour market will first return to normal after 2015.

With the weak labour market growth, there is a risk that existing labour market problems may worsen. Long-term unemployment is still high and the number of people who are long-term unemployed will probably increase in the next few years. The risk of long-term unemployment differs from group to group.

People born outside Europe, older people, people with no more than a pre-upper secondary education and people with disabilities that reduce their capacity to work are more apt to be long-term unemployed than other groups. For these groups, it will be even more difficult to get jobs when the economy again weakens. Unemployment is expected to persist at a somewhat higher level due to the duration of the economic downturn. But these effects are expected to abate in the long run. Equilibrium unemployment is expected to come to about 5 per cent in 2015.

Outcome 2002-2010 Forecast 2011-2015



Source: SCB, National Mediation Office and Ministry of Finance

Employed (actual)	
Employed (forecast)	Left axis
Unemployed	Right axis

3.8 Measures for employment, growth and welfare

In the Budget Bill for 2012 the Government gave priority to measures to address the slowdown, achieve sustainably higher growth and employment, ensure that everyone shares in welfare and increase the stability of the financial system. A total of SEK 15 billion will be spent in 2012 and SEK 17.3 billion in 2013.

The Government has introduced measures to safeguard the core activities of the welfare system and ensure a fair distribution of the burdens of the debt crisis through:

- Measures to improve quality, accessibility and choice in health and social services;
- Adjustments to the sickness insurance reform as announced in the 2011 Spring Fiscal Policy Bill;
- Higher housing allowance for young people and families with children;
- Higher housing supplement for old-age pensioners;
- Measures for a humane and legally secure migration policy.

3.9 Objectives of fiscal policy

The overall objective of fiscal policy is to create a high level of welfare as possible through:

3.9.1 Sustainable economic growth and high employment level – structural policy

In order to have good quality welfare that is sufficient for everyone when our numbers are increasing and when more of us live longer, the economy must grow. This growth must also be sustainable, i.e. it must also contribute to a good environment and good health. In addition, it must not create economic imbalances.

The Government has therefore given priority to measures that:

- increase employment by making it worthwhile to work;
- increase investments by creating a good business climate so that companies and individuals are prepared to move forward;
- increase productivity by creating favourable conditions for competition, research, innovation and learning.

3.9.2 Welfare for all – distribution policy

The Government's goal is for everyone to be able to benefit from economic growth and welfare. Government policy can contribute to this if education, health and social care are financed through public funds.

Another way to ensure that everyone benefits from welfare is to redistribute economic resources by means of public transfer payments, i.e. social benefits, between individuals and over time.

The Swedish Government believes its efforts to get more people into work are not just a measure aimed at increasing economic growth but also the best distribution policy in the long term. When more people work and less people support themselves by means of social benefits, the income disparities in society are reduced.

3.9.3 Stable economic development – stabilization policy

Major economic fluctuations can lead to lower welfare. This is because there is a risk that the higher unemployment rate and the lower productivity that occur in a recession may become permanent.

The Central Bank of Sweden (Riksbank) has the primary responsibility for stabilising the economy by means of its monetary policy. Normally, fiscal policy only helps mitigate fluctuations indirectly and automatically. This is because tax revenues decrease and costs for transfers increase when the economy declines, and vice versa.

But there may be occasions when fiscal policy should be used more actively. One such example was during the crisis that began in 2008, when the economy fell so dramatically that lowering interest rates was insufficient.

In connection with the Budget Bill for 2011, the Government has proposed that the recovery will benefit from continuation of an expansionary monetary policy, fully functioning automatic stabilisers and a number of fiscal policy measures such as:

- continuing to maintain high preparedness for poorer economic growth;
- preventing bottlenecks and tendencies towards overheating when the economy rebounds;
- ensuring that financial markets continue to function.

The various objectives of fiscal policy cannot be dealt with individually. Stabilising the economy or distributing resources cannot be decoupled from measures to increase economic growth and employment. Political decisions involve the necessity to balance and prioritise, and cannot be taken automatically.

One important basis for achieving these objectives is that public finances are sustainable in the long term. Compared with other countries, Sweden is better equipped to meet the consequences of the budgetary uncertainties in the EU. The public finances are sound, the fiscal discipline and reforms have strengthened the ability of the economy to adapt and a framework for managing a possible return of financial turmoil is in place.

3.10 Government finances continue to improve¹⁹

Net lending and borrowing in the general government sector amounted to SEK 10 billion in 2011, according to the EU convergence requirements. In relation to GDP the surplus equalled 0.3 percent in 2011, implying that Sweden, as in previous years, has met the requirements by a good margin. Compared to 2010, the surplus has improved by SEK 1.7 billion and is slightly higher in relation to GDP.

¹⁹ Ministry of Finance 2012.

The consolidated gross debt amounted to 38.4 percent in relation to GDP in 2011. According to the EU convergence requirements, government savings must not be lower than minus 3 percent and gross debt must not exceed 60 percent in relation to GDP. This is illustrated in the calculations delivered by Statistics Sweden to Eurostat according to the EU Stability and Growth Pact.

Government net lending and borrowing and gross debt according to EU convergence criteria				
SEK billions	2008	2009	2010	2011
GDP	3 204.3	3 105.8	3 330.6	3 495.1
Net lending/borrowing	69.5	-22.2	8.3	10.0
Percentage of GDP (%)	2.2	-0.7	0.3	0.3
Gross debt	1 243.3	1 322.3	1 313.2	1 341.1
Percentage of GDP (%)	38.8	42.6	39.4	38.4

Calculations of convergence requirements are somewhat different from the ordinary compilations in national accounts. When net lending and borrowing are calculated, interest on swaps and forward rate agreements are included in the interest. This interest is not included in the ordinary national accounts compilations. Another difference is that the gross debt is calculated at a nominal value because this is the value that has to be paid on maturity. In the financial accounts valuation, gross debt is calculated at the market value. Furthermore, some small additional differences exist between the financial accounts presented in the EDP context compared to the ordinary financial accounts.



Challenges and Trends in Sweden

1. Preventing long periods without employment

Even though unemployment has declined, long term unemployment remains high. The slowdown in the labour market will make it even more difficult for the long term unemployed to find work.

As a result of the reforms by the present government, many individuals who were absent from the labour market for a long time have entered the labour market. This is a good sign, as the probability of getting a job is much higher for people participating in the labour force than for those outside. But many people in these groups have a reduced work capacity and risk long term unemployment. The prospects of these people finding and keeping a job may therefore need to be further improved.

A major challenge is to ensure that the long-term unemployed get the support they need to find a job and at the same time, try to prevent more people from becoming long term unemployed. A well functioning and effective employment service and unemployment insurance are important to achieve this. It is, for example, important to regularly follow up the unemployed person's efforts to find a job, both to be able to decide the need for support or measures and to ensure that the jobseeker actually is available for work. There are indications that the monitoring of job-seekers' availability for work does not function well. The support jobseekers need to find work could also be improved.

Wage subsidised employment is an important instrument in increasing the competitiveness of the long-term unemployed in a labour market with a compressed wage structure with relatively high starting wages. The aim of new start jobs, for example, is to provide work experience and references that increase the chances of subsequently getting an unsubsidised job. The

long-term unemployed with limited education may also be in need of further education in order to become competitive in the labour market.

All in all, there is a need to make support for the unemployed more effective and to expand it, particularly the support for the long-term unemployed. The economic slowdown may also justify further temporary measures targeting the long-term unemployed and people at risk of long spells without work to try to prevent unemployment from becoming persistent at high levels.

2. Improving weak groups' labour market position

A further challenge is improving the labour market situation for groups that have a relatively weak foothold in the labour market and for whom the labour market still does not function satisfactorily. Young people, older workers, people born abroad, people with no more than a pre-upper secondary education and people with disabilities that reduce their capacity to work are groups that have a more difficulties on the labour market than the working age population as a whole. These groups are also hardest hit when the economic situation worsens.

Young people are often unemployed for a relatively short time, but those who have not completed an upper secondary school leaving certificate are at risk of becoming trapped in long-term unemployment. People with limited education generally speaking also have a lower employment rate and run a greater risk of becoming long-term unemployed. The Government has started to implement new reforms in the education system, for example, it has reformed the upper secondary school, introduced the skills enhancement initiative for teachers ('Boost for Teachers') and carried out a broad initiative for apprenticeship training. The high youth unemployment is also due to the fact that young people are getting established in the labour market. During this phase, it may be difficult for employers to assess their skills since young people often have limited work experience and few references from previous employers. This, combined with relatively high employment costs (wage and employers' social contributions), makes it difficult for young people to compete for jobs.

The Government has also started to implement new reforms to increase labour demand for young people, in particular, by lowering employers' social contributions for this group. The Government has also announced that it intends to introduce two new forms of employment for young people – apprenticeships and trial apprenticeships – to make labour market entry easier.

As youth unemployment remains high, there is good reason for continuing to implement education system reforms and other reforms to improve the labour market situation for young people and stimulate demand for their labour in the long run. The proposed reduction of the VAT on restaurant and catering services will probably increase the demand for youth labour in particular, as work in the restaurant industry is the first contact many have with the labour market.

People born abroad have a lower employment rate and a higher unemployment rate than people born in Sweden. Like young people, people born abroad who have been in Sweden a short time are getting established in the labour market and thus high employment costs (wages plus employers' social security contributions) may reduce companies' propensity to hire people who are foreign born. There are large differences in this group, but for many it takes a long time to get established in the labour market. It is a great loss for the individual and for society. A successful integration of immigrants and refugees is based on the opportunity to earn a living from having a job or entrepreneurial activities.

The Government in 2010 implemented a new reform to accelerate the establishment of newly arrived immigrants, the establishment reform, which included giving the Public Employment Service a coordinating responsibility, and also taken some other measures aimed at improving labour market conditions for those born abroad, such as the introduction of step-in and new start jobs and has strengthened the validation of the education and other professional qualifications of those born abroad.

Older people who lose their jobs face a difficult labour market situation and are at risk of ending up in long-term unemployment or leaving the labour force. Many also voluntarily leave the labour force relatively early, for example, via supplementary pension schemes. Now Government is encouraging a later labour market exit, not least to safeguard the financing of the public sector in the long run. The most important measure taken by the present Government for stimulating the labour supply among older people is the higher in-work tax credit for people who have turned 65. People aged 55–64 can also get new start jobs for up to ten years, which is twice as long as for people aged 26–54. In addition, the qualifying time for a new start job has been temporarily shortened from 12 to 6 months for people who have turned 55 in order to improve older unemployed people's chances of remaining in the labour market.

3. Fine-tuning the sickness insurance reform

Sickness absence has declined considerably from its high levels in the early 2000s. This is both because fewer individuals are going on sick leave and because periods of illness are of shorter duration. All in all, the decline in ill health has led to a reduction in exclusion. The present government policies have contributed to this development by replacing the passivity that previously characterised the sick leave process with active measures that encourage a return to work. The sickness insurance reform has been successful in reducing the number of sick leave. Major changes like this have, however, resulted in many individuals being affected by unreasonable and unforeseen consequences. In the review of the sickness insurance reform conducted by the Government, adjustments were proposed aimed at making the sickness insurance reform function as intended. One remaining problem in sickness insurance is the increasing number of young people receiving activity compensation. A long term reform of activity compensation is complicated and requires further analysis.

The Swedish Parliament in its announcement has drawn attention to an important problem. It concerns the difficulty of ensuring legal certainty when assessing work capacity after day 180 of the sick leave period. Assessing the capacity to work is complicated and the Government's opinion is that better assessments of work capacity can improve legal certainty and thus strengthen confidence in the sickness insurance system. The Government has therefore given the Swedish Social Insurance Agency (Försäkringskassan), in cooperation with the National Board of Health and Welfare and in consultation with the Public Employment Service, a remit to further develop methods and instruments for assessing work capacity.

4. Challenges in ensuring that everyone shares in welfare

Sweden has one of the most even income distributions in the world, even if income differentials have increased over the past 20 years, as in most other countries. The trend towards increased income inequality is driven primarily by the fact that people with high incomes have increased their income more rapidly than the median income has increased. In addition, the incomes of people with relatively low incomes have increased more slowly than the increase in the median income.

This also leads to a difference in the proportion of individuals with a low economic standard in relative and absolute terms. In relative terms, the proportion of individuals with a low economic standard has gradually increased over the past 15 years, while in absolute terms the proportion fell until the middle of the 2000s and has since remained constant. The difference between the two measures is explained by the fact that although incomes have risen for individuals in the lower income brackets, the rate at which they have risen has been lower than for individuals with higher incomes. The main reason for this is that the proportion of individuals who derive their support from transfers, which have increased more slowly than wages, is higher in the lower income brackets.

The groups in which the proportion of financially vulnerable people is relatively high include children, single young adults, single elderly women over the age of 75 and lone parents. The major reason for households with members of working age having a low economic standard is that a large proportion of this group is not gainfully employed at all or works part time. The main reason for pensioners being in a weak economic position is that their pension is based on few working years.

Since a weak position in the labour market is the main reason for financial vulnerability, an increase in the proportion of people in work leads to a decrease in the number and percentage of financially vulnerable people. Despite the Government's previous reforms to strengthen the work-first principle, above all the in-work tax credit, for large groups of people it still remains insufficiently worthwhile to enter employment or increase their working hours. This problem is particularly great for many who live in financial vulnerability, since the marginal effects of subsistence allowances, introduction benefits and housing allowances are very high. It is of no financial advantage to recipients of financial assistance, for example, to go out into the labour market to perform limited part time work. Reducing exclusion and increasing the rate of self support in these groups is important in order to, in the long term, gradually reduce income differentials in society and give members of society more equal opportunities in life.

5. Challenges for social protection in a changing society

When one looks at the trends for average income, income inequality and poverty since 1991, a period that covers the deep economic crisis of the 1990s when GDP growth was negative for three consecutive years and open unemployment rose from less than two per cent to more than eight per cent. In addition, the share of the labour force engaged in active labour market policy programmes increased from two to almost six per cent. This triggered a crisis in Sweden's public finances which the government of the day tackled by means of both tax increases and benefits cuts, putting additional pressure on household income.¹

Beside general trends, it is particularly important to identify disadvantaged groups and assess how they fared. In scrutinising the 1990s, the Swedish Welfare Commission showed that most socio-demographic groups were hit by the recession and its aftermath, but that three groups appeared to be particularly hard hit: youth, immigrants and single mothers.

Turning to the post-crisis era, one finds a marked improvement in average incomes, for these three groups as well. Among both young adults and immigrants, the average increase is greater for women than for men. Yet the improvement for single mothers is quite modest. From the social exclusion viewpoint, the higher earnings of immigrants is a noteworthy development and offers hope of better labour market integration for these groups, especially since poverty in Sweden is so strongly linked to the lack of income from employment.

Survey data measuring economic hardship more directly reveal a similar improvement in the new century, among disadvantaged groups as well. More people, for instance, possessed what is termed a cash margin. The lack of such a margin is still widespread among certain groups, such as single mothers, but declined from 50 to 41 percent during the first years of the century.

Examining more broadly how living conditions changed, one finds that the question of who caught up and who lagged behind does not yield an equivocal answer. Comprehensive analysis suggests that when different dimensions of welfare are considered simultaneously, a polarisation tendency can be observed, particularly among youth, immigrants and single mothers. The good times meant that a larger share of disadvantaged groups, too, report that they have employment, that their health is good and that they

¹ Nordic Social Policy: Changing Welfare States. London: Routledge.

possess a cash margin. However, one finds no corresponding decrease in the share reporting difficult living conditions according to all these three welfare dimensions (no employment, few economic resources and ill health). Among single mothers, for instance, the latter fraction in 2004/2005 was twice that of the late 1990s. Such polarisation is also present when the number of social assistance recipients is studied. Both the cost and the overall number of recipients have decreased over the past decade. But when one analyses the probability of leaving long-term social assistance, one finds that it is lower today (2012) than previously. The average number of months with social assistance, which long used to be about 4 percent a year, has also increased substantially and reached a record level of 5.9 percent in 2006.²

Focusing on recently arrived immigrants also one finds examples of polarisation. Earlier studies have shown that in relation to other groups' migrants from former Yugoslavia have been extremely successful in swiftly entering a steady position in the labour market. Nevertheless, analysis of long-term social assistance shows that at the same time quite a large number of ex-Yugoslavs have remained in prolonged social assistance.

As regards income redistribution policy, the 1990s can be divided into three phases: (i) the major tax reform, (ii) crisis management, and (iii) recovery. The first phase brought a shift in terms of redistribution from the tax system to the transfer system, with less progressivity in the tax rates and increased generosity in terms of benefit spending. The total redistributive effect remained largely the same. The second phase included both benefit cuts and tax increases. Since the former slightly outstripped the latter, the redistributive level of ambition was lowered somewhat. The third phase was characterised by tax cuts and benefit hikes, which meant only small changes occurred in terms of increased redistribution.

Turning to the 2000-2010, one can divide it into two periods. The first phase included some tax deductions as well as step-by-step improvements in the unemployment benefit system and more generous child benefits. It is also worth noting that 2003 brought the reformed old-age pension system into being. It guaranteed that no pensioner would receive a lower benefit or less disposable income during his or her first year of retirement compared to what the old system would have delivered.

In 2006, the benefit-linked income ceiling in the sickness cash benefit programme was raised, which meant that medium-to-high income persons

² Fritzell, J. (2001) 'Still Different? Income Distribution in the Nordic Countries in a European Comparison'.

received a higher rate of insurance through the statutory system. The government further increased public spending on families with children in the form of adjusted child supplements to students, larger housing allowances, a higher rate of advance maintenance allowance to single parents, and the introduction of a second child supplement.

During the second period, with the Centre-Right coalition in power, there has been a change of direction. A number of benefits have been downsized and a number of taxes have been reduced. Benefits have been affected both by reduced income ceilings and reduced replacement levels, e.g. for the long term unemployed. The changes are not substantial, although they will result in somewhat higher levels of inequality. Tax cuts include special deductions on employment income but also the abolition of wealth tax and less progressive property taxes. All in all, changes in the redistribution system imply a shift in favour of the employed at the expense of the unemployed. The explicit ambition of the Government, however, is to reduce the number of unemployed by enhancing work incentives.

When it comes to meeting the criteria established for the encompassing model one can observe certain problems. The general pattern is that Sweden has had difficulties adjusting income ceilings for benefit purposes to growth in real wages, due to the price indexing principle in the social insurance systems. This in turn could cause middle class support for the welfare state to decline in the long run.

The Swedish pension reform of 1994/1998 is different, and of particular interest both in the present context and in others. In several respects, the reform strengthens the position of the encompassing model by indexing the income ceiling for benefit purposes to real wages. This means that roughly the same proportion of the labour force will continue to have their incomes replaced by the statutory system. In the old price-indexed system a growing number of people had earnings above the income ceiling due to real wage increase.

Other aspects of the pension reform have potentially significant implications for the future as well. One is the fully funded part of the reformed system, which is individual but compulsory. It could be argued that individual risk-taking is alien to a social insurance system, but at the same time it opens the door to individual choice. The comparatively high administrative cost of running the system also means that pensions will be lower than otherwise.

Another example is the new method for co-ordinating basic benefits and other benefits. Before, all pensioners received part of their pension in the form of a flat rate universal benefit. In the reformed system, income-related

pension is the first tier and basic benefits are only paid to those who have not earned enough to climb above the 'guarantee level'. This new strategy for maintaining the universalism of the system also includes mechanisms for increased work incentives for low-income persons. As yet it is unclear what the political consequences will be regarding the guaranteed pension in a future situation in which the majority of retirees only benefit from the income related pension.

When one analyses the redistribution strategy, the social services are an important factor, and changes in them are relevant. Furthermore, they illustrate how Sweden has dealt with the dilemma of middle class inclusion in the redistributive social policy system. Historically, the development of the welfare services, including health care, is in many respects another story, not only in that these services have been separated from cash benefits both administratively and financially, but also because the amounts spent on them are what makes Sweden stand out in international comparisons.

The universal provision of social services in Sweden is, by and large, a post-war phenomenon. Sweden established a universal health care system in the mid-1950s, followed by the expansion of elderly care and childcare services. Step by step, the policies for disabled persons have become part of the universal system of social protection. In this context it also appears warranted to underline the importance of full employment, active labour market policy and the dual earner system for shaping the model.

The expansion of social entitlements has been accompanied by growing costs. In Sweden, this has been fuelled by the presence of the 'world's oldest population'. However, the net costs of Swedish transfer systems do not diverge from the Western European pattern. Several factors have contributed to this. Important among them are the relatively high formal pension age and factual retirement age, and the high labour force participation rate among women.

Traditionally, Sweden has relied heavily on general taxation for the financing both of universal benefits and of subsidies to voluntary insurance. The municipalities have always had a strong financial responsibility for social assistance and for the care of vulnerable groups. The introduction of earnings related benefits was linked to new financing models, with social security contributions being paid by employers. These contributions have also helped finance labour market policy programmes and day care services. One of the features of the recent pension reform is that insured persons' contributions now go to the pension system. The presence of user-financing in virtually all welfare service spheres is nothing new for the Swedish social security model.

The increase in user fees during the crisis of the 1990s also had an adverse effect on the model's universality. When user fees are high – and times are hard – economically vulnerable groups forgo healthcare and old-age care to a greater extent than others, but they still contribute to the financing of such services with their taxes.

The changes in the financing of social services that took place during the first years of the 21st century illustrates how Sweden has dealt with the dilemma of middle class inclusion in the redistributive social policy system. Sweden has seen the introduction of maximum ceilings for user charges in childcare services as well as for user fees in elderly care.

The purpose of introducing maximum ceilings for child-care costs was to address the situation of low-income families, since the size of the fees threatened to deter them from using this heavily subsidised service or to exclude them from too costly childcare service centres. Another concern was the high and increasing marginal effects (poverty traps) facing single-parent families in particular due to the combined impact of income-related fees to child-care and incomes-tested housing allowances. The deterioration in the economic situation of single-parent families in the 1990s was a result of lower income from employment (not lower benefits).

In elderly care the motive was slightly different. The concern was partly that the economic situation for relatives of institutionalised elderly persons could be undermined by very high user charges. Also, the threat of high user charges had triggered preventive strategies on the part of households who were likely to face high fees (they passed on wealth to relatives etc.).

Several changes in the organisation of the social services deserve attention. One is the increased application of purchaser-provider models, which in combination with a change in 1992 that opened the door to private for profit providers in all sectors has altered the scenery. Municipalities and counties still make the decisions about subcontracting their social services, but the reform has led to a fairly substantial increase in the private provision of publicly funded services. There are large variations between sectors and regions. Private provision does not always include customer-choice models but more often tendering procedures where local monopolies remain in place but pass into private hands.

Freedom of choice may be considered valuable in itself. A crucial question for the Swedish model is whether it can be reconciled with equality of both supply and standards. Freedom of choice in the publicly financed welfare services sector has in certain contexts been weighed against the increased

segregation of users observed in connection with the introduction of customer-choice models. The value attached to, say, the systems of education as an interface for different groups in society might thereby conflict with goals concerning freedom of choice and other benefits deriving from increased competition. Weighing the various goals against one another should ideally involve value judgements, as well as an accurate assessment of how various alternatives work in the real world.³

The various policy changes that have taken place since 1990 may not have resulted in any fundamental shift in Sweden's redistributive strategies. One can even point to changes that were designed to reinforce these strategies. However, other changes have occurred that may help to bring about a more fundamental shift in the formation of interests around the welfare state. For instance, one can observe difficulties in connection with the use of the tax system for redistributive purposes, linked to the problems of high marginal tax rates. With lower taxes there has thus been a shift from taxes to transfers in terms of redistributive importance.

One reason why the funding of the welfare state is so crucial to its future is that the increased needs of ageing societies will place heavier demands on the public purse and the various sources of financing. Another reason is that critiques of the welfare state tend to be based on claims about lack of cost control and eroded incentives to work. The proportion of older inhabitants is continuing upwards in the long term, while other age groups are declining in absolute terms. In the period 2025–2030, this ageing process will become even more pronounced, and only the very oldest group aged 80 and over will show an increase. In the short term, ageing in Sweden is less of a problem for the redistribution system.

In 2005, a government commission reviewing parental leave proposed three main changes aimed at reducing gender inequalities in paid and unpaid work: a further two months' leave, increased individualisation from two to five months earmarked for each respective parent, and higher benefit ceilings. The latter measure was designed to reduce the adverse effect on the family economy when the parent with the highest earnings (usually the father) claimed leave.

Had they been fully implemented, these reforms would have radically strengthened the dual-earner model. However, the issue of earmarking is highly controversial and cuts across political lines. In the summer of 2006, the Social Democratic government and its parliamentary allies, the Green Party and the Left Party, raised the benefit ceilings for parental insurance, but

3 Esping-Andersen, G. (1999).

left the duration of leave and the number of earmarked months unchanged. During the autumn election campaign the same year, the latter two parties called for an increase in the earmarking of leave for fathers, while the Social Democrats opted to keep parental leave legislation unchanged.

After twelve years of Social Democratic rule, a centre-right coalition won the election in September 2006. During the campaign the coalition advocated a number of family policy reforms, including the introduction of a flat-rate childcare leave benefit for parents with children aged one to three years. The proposed net benefit amounts to a maximum of SEK 3 000 per month, which is around one fifth of an average net wage.

To supplement this benefit, a tax bonus for couples who share earnings-related parental leave more equally is about to be introduced. This means that the parent with the lowest income receives a tax reduction of SEK 3 000 per month when the other parent is on parental insurance leave. These reforms could be seen as a political compromise resulting from conflicting interests within the government, in particular between the Christian Democratic Party – which for decades has proposed a leave system that favours parents who prefer to stay at home instead of utilising public day-care – and the Liberal Party, a long-standing supporter of the dual-earner model.

In addition, “cash for care” is introduced to give Swedish parents a wider range of childcare choices. This will enable parents wishing to do so to take care both of their own and of other children at their home, while receiving economic compensation from the municipality.

The outcomes of these changes are difficult to predict, but the decade-long strengthening of an unmixed dual-earner model seems to have ended. Paternity leave during the first year after confinement will be supported by means of the above-mentioned tax bonus. One anticipated consequence of the flat-rate childcare leave benefit and ‘cash for care’ is a higher rate of female fulltime homemaking, beginning in the child’s second year of life, in particular among less educated women. Current policy may thus be seen as moving in opposing directions supporting female work and traditional families simultaneously.

The extent to which women actually return to work after claiming childcare leave varies between countries where such systems operate. In Finland, most women return to the labour market after a couple of years’ leave, while the return rate among German mothers is much lower. Critics argue that long periods of parental leave undermine the position of women in the labour

market by increasing the risk of unemployment, encouraging part-time work and pushing them into temporary and marginal forms of employment.

Another possible consequence is that women become high-risk employees to a greater extent, which may cause statistical discrimination of women as a group to worsen. Furthermore, flat-rate childcare leave benefits are likely to reinforce the already gendered division of labour. The low level of benefits means that recipients may have to rely on the parent with the highest income, which is usually the man. Consequently, there will be less opportunity for single mothers to avail themselves of childcare leave.

A model based on contradictory policies may also affect demographic and socioeconomic outcomes. Women with poorly paid jobs in the labour market are more likely to claim flat-rate childcare leave than women in more well-paid positions, thereby increasing economic polarisation among mothers. One possible implication of this would be a more divided society, where well-educated, high-income couples share paid and unpaid work more equally, while women with lower earnings or a weak footing in the labour market opt for a more traditional division of labour. This may in turn contribute to a polarisation in the fertility behaviour of different socioeconomic groups.

However, while the advocates of parental choice tend to use gender-neutral language, experience tells that long absences from paid work weaken the position of women in the labour market most. The price of greater freedom of choice regarding childcare may therefore ultimately be paid by women, albeit to different degrees depending on their socioeconomic position.

6. Conclusion

The scope of social planning – including establishing and developing social security, health and educational systems during the first half of the twentieth century – was clearly a result of democratic political processes aimed at balancing demands for and goals of economic growth and social justice. Scandinavian societies were relatively egalitarian before the industrial and economic take-offs and, throughout the 100-year phase of combined welfare state construction and mostly successful economic development, have had less tolerance for social inequality and poverty than most other developed countries.

The Scandinavian welfare state has remained comprehensive and, on the whole, rather generous. Although there has been criticism of its scope, the welfare state remains popular, general public and most politicians from

various political parties will defend it on moral, political and economic grounds.

The challenges and trends in the Nordic welfare model are more or less the same in all Scandinavian countries. The Nordic welfare model today is less universal, less generous and more conditional than it was twenty years ago. However, the Nordic welfare model is still distinct and fares well in comparison with other welfare state models on most dimensions of welfare. Poverty and inequality rates are low, income mobility – be it short term or inter-generational – is high, all this combined with high level of subjective welfare. This is very much in line with the basic Nordic ideas how the state should work: it should provide individuals with resources to master their own lives. Whether the Nordic welfare model can continue to do so seems to be as much a question of political decision as of harsh economic or social realities.

Recent Scandinavian experience indicates that there is no clear link between the scope of the welfare state, taxation levels, employment rates, labour productivity and economic growth. The example of Sweden during the 1990s shows that comprehensive, democratic welfare states are fully capable of making policy adjustments to stimulate new economic growth when hit by a serious economic recession. In fact, Scandinavian countries may be the proof that a well-developed welfare state, with sophisticated social security arrangements, may get through a crisis more easily or at least at a more moderate social cost (in terms of poverty and inequality). Social security therefore acts as a shock absorber. Democratic institutions have been shown to be responsive to economic and social challenges⁴.

⁴ See Kuhnle, S., A. Hatland and S.E.O. Hort. 2003.

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Chapter V

The Mediterranean Welfare Approach

CHIARA LUCCHIN



Description of a Welfare Model from a Mediterranean Country: Italy

1. Structure of the chapter and methodology

This paper is aimed at presenting the main characteristics of the Italian Social Welfare System: the history of how the model came into being through short descriptions of its different aspects, the provision of meaningful indicators; brief comments and the main reforms issued during the crisis period.

The analysis of the Italian model is carried out using the analytical model that Caritas Europa adopted¹, in order to illustrate the state of the three fundamental pillars that are identified as the main load-bearing structures of the social security system (Labour Market, Family, Welfare State), in order to identify the pressure and also the consequences created by the big changes occurring within the society (changes in working relations, changes in social ways of life, demographic changes) and the interconnections among the three pillars. The analysis describes systems that are dynamic as a change in one pillar causes a consequent change in another pillar, thus creating new balances or unbalances.

The first parts (paragraphs 1-4) of this chapter cover the evolution of the Italian Welfare State until the ongoing economic crisis and describe it providing mainly EUROSTAT data and also national data by ISTAT. The second part (starting with paragraph 5) deals with the impact of the crisis and the subsequent reforms describing in particular the years 2011-2012 with the worsening of the crisis and the advent of the Monti Government.

¹ See Chapter one.

2. Historical Background of the Evolution of the Italian Social Welfare System

After the unification of the country in 1861, the Italian liberal state tended to rely upon the institutions of the Catholic Church, the so-called *Opere Pie*, to alleviate poverty which was widespread especially in the South. In 1898 Francesco Crispi laid the foundations of an embryonic national health system and reformed the *Opere Pie* that were mainly controlled by local elites. With him, the dealing of social welfare matters progressively passed into the hands of government agencies and the impact of private organizations began to decrease. The Giolittian era which followed (1900-1914) saw the introduction of social insurance but only for the Northern industrial working class. The Government's aim was to integrate industrial workers into the Italian political and institutional system. The South was forgotten with the consequence of massive emigration abroad in search of a better life.

After the collapse of the liberal state in 1922, the Fascist regime tried to create a welfare state. But its actions were fragmentary and episodic. Unemployment insurance was introduced but it was set at very low benefits. A system of health care was put into practice but it was inadequate to the needs of the Italian population. The regime social policies proved effective in the field of children's protection. The first legislation to protect the rights of children was passed in 1927, while ONMI (*Opera Nazionale Maternità e Infanzia*) was established in 1925 to promote benefits for mothers and children.

An opportunity for the revision of the social system occurred after the end of World War II. The war had aggravated social problems, and insurance programs had gone bankrupted. Starting from the 1950s the pension system was gradually extended to new categories of beneficiaries like shopkeepers, small farmers, housewives, each with its own separate scheme. In 1978 a comprehensive national health service and national medical insurance were created, based on Local Medical Units (*Unità Sanitarie Locali, USL*; later renamed *Aziende Sanitarie Locali, ASL*). Key features of the new system were the rationalization of public expenditure and the improvement of patient care services.

Starting from the end of the 60's, the economic situation worsened and consequently social welfare entered a time of increasing difficulty. Public finance seemed no longer able to sustain the system of welfare, thus putting a great deal of pressure to reduce benefits in order to keep state expenditure within the limits set by state revenue. In such a process one needs to remember

that the Treaty of Maastricht, signed in 1992 formally obliged each E.U. member state to comply with financial constraints. The problem affecting Italy became how to continue to support a welfare system capable of coping with an ever-increasing demand for social and health services with more and more limited resources. The situation has been made more difficult by an increasing ageing population, by an expanding number of immigrants, by a fragmented Labour Market, within a framework of an unstoppable process of economic and financial globalisation of wealth.

3. The main features of the Italian Social Protection System

The Italian System presents very specific characteristics that are the result of its history. Italy shares the main features of its social protection system with other Mediterranean countries: Spain, Portugal and Greece. Together they form the so called “Southern European Model” – or “Mediterranean Model”.

The Italian model has been traditionally characterised by some specific features:

1. It is a familistic model: the family is seen as a “social security cushion”. Families often help by providing “private welfare” to their members;
2. This system provides the protection of the breadwinner’s job and it protects him/her against dismissal and sickness. It was once used to keep up breadwinners’ income. In this model women have the classical role of staying at home and taking care of children, and there is an informal support network mainly made up of family members and relatives. The system mainly protects employees (insiders) and it leaves out temporary workers (outsiders);
3. It is characterised by a low spending level on Social Security: there are very low expenditures on family and housing policies and on other social benefits; instead the expenditure aimed at pensions and healthcare are high;
4. Non means tested and cash benefits are the main form of benefits. In fact means tested benefits concern mainly housing and support to families. Benefits in kind are about one third of the benefits in cash. The limited presence of the State as Social Welfare actor, especially as regards social services, gets services to be provided by both public and private actors, both profit and non profit (the so-called welfare mix);

5. Healthcare is universally provided, except for the payment of some contributions (the so-called tickets) that are requested from well-off citizens for some Healthcare services;
6. Funding comes from private contributions and from taxes. The pension component is based on Social Contributions, while the social security part is funded by State Contributions, that is to say, by taxes. This pension system is more similar to the “continental corporative welfare system” being based on contributions and on job positions;
7. The Italian Social Protection System is characterized by big regional differences, especially between northern and southern regions.

4. The Italian Social Welfare Model

The analysis of the Italian Social Welfare System, here introduced by economic indicators, is based on the Analytical model and it is organised as follows:

1. The Italian Labour market
2. The Italian family
3. The Italian Welfare State

Economic indicators

The Italian **gross domestic product (GDP)** was 25,200 euro per capita (in current prices) in 2009, above the European average GDP (23,600 euro per capita) but below the euro Area average (27,200 euro per capita).

In fact, because of the crisis, the **real GDP variation rate**, after growing by 1.5% in 2007, went down by -1.3% in 2008 and by -5% in 2009. Already in 2008 it was clear that recovering from the financial and economic crisis and returning to the production level before the economic downturn would take a very long time.

In 2009 Italy presented the highest **public debt** (as percentage of the GDP) in the whole European Union. The government gross debt² had been constantly growing since the year 2000 (when it was 109% of the GDP) and reached 115.8% of the GDP in 2009 (equal to about 1,760,765 million euro). The problem of a high debt load poses serious constraints to the Government

² Public debt is defined (according to the Maastricht Treaty) as consolidated general government gross debt at nominal value, outstanding at the end of the year. The general government sector comprises central government, state government, local government, and social security funds.

as regards the possibility of intervention by the public sector and affects the development of the welfare state.

It is worth noting that big problems in Italy are illegal work and tax evasion that are widely spread phenomena. ISTAT estimated that illegal workers were 2 million and 600 thousand in 2009.

4.1 The Italian Labour Market

The Italian labour market system is characterised by:

- a low employment level of women, young people and elderly persons, compared to the rest of Europe
- high segmentation between guaranteed labour and not guaranteed labour
- big regional differences
- larger recourse to passive rather than to active employment measures: policies supporting the income of employees are still very strong, while measures for work insertion or work reinsertion of job seekers are still very poor
- introduction of flexibility elements in labour market policies, without security elements
- “Working poor” phenomenon. There are quite a big number of persons that are at risk of poverty even if they have a job.

Employment

Since the year 2000 the employment rate kept growing until the year 2008. In fact it passed from 53.7% in 2000 to 58.7% in 2008. Since then, this indicator started to decrease again getting to 57.5% in 2009 as one of the effects of the crisis.

Also **women's employment rate**, that is one of the weaknesses of the Italian Labour Market, showed a very big increase in those years. In fact in the year 2000 it was 39.6% and it reached 47.2% in 2008. Also this indicator decreased by 0.8% in 2009.

Despite a general reduction of the gender gap, the number of working women in Italy remained largely below the EU average (58.6% in the EU27 in 2009). Moreover women's employment indicator showed and still shows very big regional differences: the South of Italy has the lowest level of women employment in Europe and the highest rate of women unemployment.

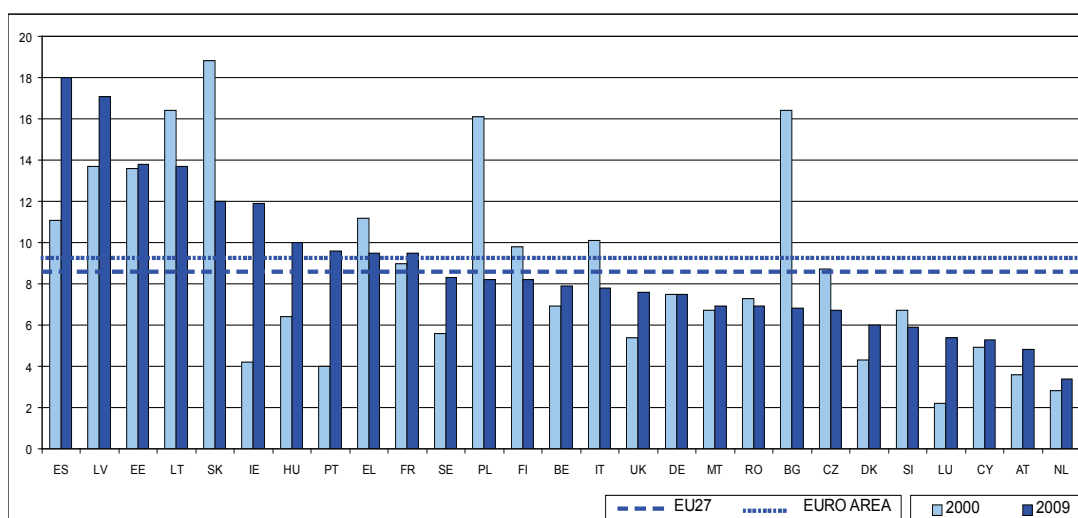
Unemployment

Since 2000, the unemployment rate showed a decreasing tendency, until the crisis came through. In fact the **total unemployment rate** decreased from 10.1% down to 6.1% in 2007, then it started to increase again reaching 7.8% in 2009.

In 2009 the Italian unemployment rate was below the European average, considering both the EU27 and the Euro Area, whose total unemployment rates were 8.9% and 9.4% respectively (see the chart below).

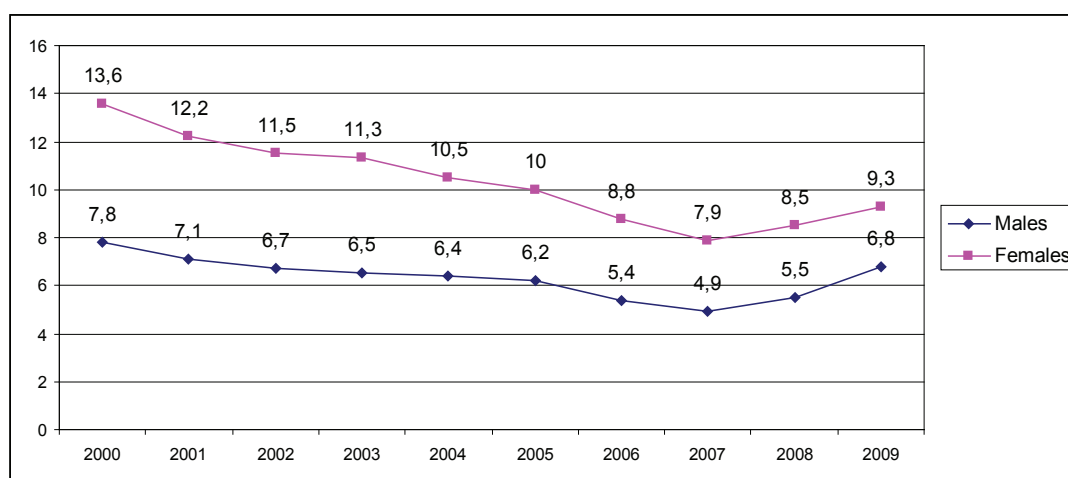
Also the **long term unemployment rate** decreased from 6.3% in 2000 to 3.5% in 2009; however, it remained above the European average (4% in 2000 and 3% in 2009). The same trend was also found in the **very long term unemployment rate**, which decreased from 4.5% in 2000 to 2% in 2009 (the European average being 2.4% in 2000 and 1.5% in 2009).

Unemployment rates in the European Union, 2000 and 2009 (EUROSTAT)



The following chart illustrates the **unemployment rate by gender**, showing a big issue of the Italian Labour Market: the disparity in the participation of men and women. In 2000, men's unemployment rate was 7.8%, while women's unemployment rate was 13.6%. These percentages reached respectively 4.9% and 7.9% in 2007 and then dramatically increased since the beginning of the crisis, getting to 6.8% and 9.3% respectively. From the chart a reducing gap between women and men emerges as women's unemployment proportionally decreased less.

Unemployment rate by gender, 2000-2009 (EUROSTAT)



The **unemployment rate of the population up to 25 years of age was very high**: it was 27% in 2000, it decreased to 20.3% in 2007, but because of the crisis it soared again to 25.3% in 2009. The European average was quite lower: in 2009, in fact, it was 19.6%, and about 15% before the economic crisis.

The **differences among regions are big**: the country can be divided in Northern, Central and Southern Regions, from the richest to the poorest.

As regards the Northern Regions, in 2000 the unemployment rate was 5.3% in the North West and 3.8% in the North East, it decreased to 3.8% and 3.1% in 2007, and then it started increasing again, reaching 4.2% and 3.4% respectively in 2008.

In Central Regions, the unemployment rate was 8.3% in 2000, it decreased to 5.3% until 2007 and it increased again to 6.1% in 2008.

Southern Italy showed much higher percentages: in the Southern Regions the unemployment rate was 20% in 2000 and 11.4% in 2008 (reaching its lowest level in 2007, which is 10.5%); in the Islands, it was even higher: 12.1% in 2007 and 13.3% in 2008.

Features of the Italian Labour Market in the years 2000-2009

One of the main changes in the labour market was the increase in job insecurity. The reforms introduced between 1997 (“pacchetto Treu”) and 2003 (Legge Biagi) brought about flexibility elements in the labour market policies. However, these changes were not accompanied by any additional “security mechanism”. In particular, temporary and self employed workers were those who bore the consequences and the cost of these labour market innovations.

Flexibility in Italy brought about many kinds of “atypical contracts” (co. co.co, low protected self employment schemes, different “part-time” contracts, stage, internships, etc). These kinds of contracts do not provide any kind of protection (or a very low level of protection) for what concerns illness, maternity leave and holidays. They offer very low pension contributions, income is usually low and in some cases payments are late in coming. Moreover, in most cases workers with this kind of contracts do not have the right to receive unemployment benefits.

Therefore, it seems that during this period the Italian labour market achieved flexibility, but not security.

The result was a **large segmentation of the working population that is still one of the main characteristics of the Italian Labour Market.** In segmented labour markets job risks are unequally distributed, full-time workers are protected, while temporary workers are not protected at all. This is typical of the models which have as their main aim the protection of the “breadwinner”.

The percentage of the temporary employees out of the total number of Italian employees kept increasing: it was 12.6% in 2007 and reached 12.8% in 2008.

A critical issue of the Italian labour market was and still is that many people are to be considered poor even if they have a job. The phenomenon of the so-called “working poor” reached one of the highest levels in Europe. Young people (18 to 24 years of age) and temporary workers were the worst hit by this phenomenon: 14% of the former and 19% of the latter were living under the relative poverty threshold in 2007³. However, also employed workers were affected by this phenomenon, since there was no longer wage ceiling and salaries were no longer linked to inflation: thus wages were not influenced by the changes in the average level of prices and no longer followed the rising cost of life.

3 CIES (*Commissione Indagine sull'Esclusione Sociale*, Commission on Social Exclusion), Rapporto 2008-2009.

Immigrants

According to ISTAT data, at the end of 2008 there were 3,891,295 immigrants permanently living in Italy, representing 6.5% of the total Italian population (in 2003, this percentage was 2.7%). If we consider also legal immigrants who had not been registered yet, the foreign people that were living in Italy in 2008 were about 4.3 millions. Estimates⁴ show that in 2009 the total number reached 5 millions, 60,000 of whom were immigrants in an illegal situation (equal to about 11% of all the foreign people in Italy). More than a fifth of the total foreign population was under 18 years of age.

Immigrant workers represent about 10% of the total working population and in 2007 they produced about 9.7% of the GDP. About 2.17 million immigrant workers in 2007 were registered on the National Social Security System (*Istituto Nazionale di Previdenza sociale, INPS, 2007 data*).

The phenomenon of over-education in employment affect immigrants much more than Italian workers: despite having a high level of education, they often carry out jobs for which no qualification is required. This contributes to the fact that, on average, they have lower annual income than Italians: in 2006, it was only about 11,000 euro per year.

According to the Bank of Italy (Survey 2009, 2008 data), immigrants account for about 4% of the total tax contributions collected in Italy. However, social interventions in favour of immigrant people correspond only to 2.5 % of the total resources invested in social services (including education, pensions, health care). In 2008 immigrants having the right to a pension were about 285,000 and received an average amount of 583 euro per month. Extra communitarian immigrants are the least protected among all social groups and are usually more exposed to illegal work contracts.

4.2 The Italian Family

Many changes have occurred in Italian social life: **changing values**, a strong **increase of individualism**, changes in the **structure of families and changing roles within the family**.

All these factors have influenced the Italian Social Welfare System, so much based on the support of the family and on solidarity networks.

The data show that the stability of families has decreased and families are getting smaller.

⁴ Censis, 2010.

The indicator of marriages is already a meaningful data: in Italy marriages have been decreasing during the last 35 years (the marriage rate in 2008 was 4.1 marriages out of 1,000 inhabitants). Marriages with at least one partner from a foreign country are rapidly increasing and in 2008 they represented 15% of the total number of weddings (ISTAT, 2008 data).

On the contrary, **divorces and separations** are on the rise. In fact in 2007, the number of legal separations was 81,359 (+1.2% compared to 2006) and the number of divorces was 50,669 (+2.3%), equal to 273.8 and 170.5 every 100,000 married persons respectively.

In 2007 the biggest percentage of families were couples with children, 38%, but also 27% were people living alone and 20% were couples without children.

Main family typologies in 2007-2008 (ISTAT)

Family typologies	Percentage
Couples with children	38%
People living alone	27%
Couples without children	20%
Single parents	8%
Other	7%

As concerns **family roles**, it can be said that housework is unevenly distributed within the Italian couple. Women carry out the largest part of the housework, also when they have a job: working mothers do approximately 70% of the family's housework. Moreover, one woman out of five leaves or loses her job at her first child's birth (ISTAT 2007). As a consequence, women's employment rate varies widely according to the presence of children in the family.

Demographic changes

Italy is a country characterised by an increase in average life expectancy and by very low birth rates, which leads to a rapid ageing process of the population. In 2008 Italy had the oldest population in Europe and the second oldest population in the world after Japan.

In 2007, the average **Life expectancy** in Italy was 78.71 years for males and 84.22 years for females, well above the EU average (76.07 and 82.21 years for males and females respectively, EUROSTAT 2007).

The **Italian birth rate** is quite low: in 2009 it was 9.5 children per 1,000 inhabitants, slightly below **mortality rate** (9.8 per 1,000 inhabitants, ISTAT 2009).

As to **fertility rate**, the average number of children per woman in 2009 was 1.41, slowly increasing thanks to the incidence of immigrants' childbirths (following the historic lowest point of 1.19 children per woman in 1995). The average age of women at first childbirth in 2009 was 30.8 (2009, ISTAT).

Despite low childbirth and low fertility rates, the Italian population continues to grow, even if at a low pace, thanks to increasing immigration and the higher fertility rates of immigrant families. Between 2000 and 2009, the population increased from 56.9 to 60 millions, and projections up to 2050 foresee a population growth up to 61.2 millions (EUROSTAT, 2009 data).

Increasing life expectancy and low childbirth and fertility rates bring about the ageing of the population, which in turn leads to a **growing old dependency rate**: in 2008, old dependency ratio in Italy was 30.4% (higher than the EU average, i.e. 25.2), but by the year 2050 it is estimated to reach 36,6%. This will cause an increase of the spending target for aged people.

This affects the **total dependency ratio**, which presents also an increasing trend: in 2001 dependency ratio in Italy was 48.4%, while in 2009 it reached 51.9%.

4.3 The Italian Welfare State

In order to understand the Welfare State in Italy, it is important to analyse how Social Protection Expenditure is allocated. To summarize, it can be said that

- Very high expenditure is allocated to pensions
- Quite high expenditure spent on health
- Unemployment benefits are low
- Social Benefit expenditure is very low, especially for family policies and for housing.

Social Protection Expenditure

In 2007, Italy was spending on Social Protection 6,773.3 euro per inhabitant (EUROSTAT data). This expenditure was slightly higher than the EU27 average (6,521.8 euro per inhabitant), but lower than the average of the Members of the Monetary Union (7,438.8 euro per inhabitant). Considering percentage values, the European (EU27) average expenditure

on social protection was 25.2% of the GDP, the Euro Area average was 25.8%, and the Italian average lied between the two (25.5%).

Looking at a longer period, it can be said that the total public expenditure on social protection has been increasing, presenting an average growth rate⁵ of 16.2% between 2000 and 2007, almost in line with the euro area average growth rate (15.7%).

The big differences between Italy and EU-25 regard

- the percentage of Social Protection Expenditure aimed at supporting families: 4,4%, which is about half of EU-25's average
- the percentage of unemployment benefits, 2,0%, which is about one third of EU-25's average⁶
- housing policies which are only 0,1% against EU-25's average of 2,3%⁷.

In Italy cash and non means-tested benefits are the main form of benefit expenditure. In 2007, cash benefits accounted for almost 76% of all social protection benefits, while the benefits in kind⁸ accounted for about 24% of total benefits. The relatively low share of benefits in kind (as compared with the euro Area, where the percentage on total social benefit was 30.5% in 2007) **shows a limited use of services and provision of goods across all social protection functions.**

Cash benefits and benefits in kind, percentages of total social benefits (2007, EUROSTAT)

Type of benefits	Italy	Euro Area
Cash benefits	75.7	69.5
Benefits in kind	24.3	30.5

Social benefits paid as non means-tested⁹ are by far the main form of benefit expenditure in Italy, more than Euro Area average. In fact, in 2007,

⁵ Calculated on EUROSTAT data: millions of euro at constant 2000 prices.

⁶ Unemployment expenditure in 2007 was 0,7% of GDP, including ordinary unemployment benefits, job mobility benefits and extra redundancy payments. In fact as these measures depend on insurances, temporary workers are completely unprotected by the risk of unemployment, and they are also less protected for what concerns pensions (in 2007 about 1.250.000 people).

⁷ According to EUROSTAT 2007 data.

⁸ Benefits in kind are benefits granted in the form of goods and services. They may be provided in the form of reimbursement or directly.

⁹ Means-tested social benefits are social benefits which are explicitly or implicitly conditional on the beneficiary's income and/or wealth falling below a specified level.

means-tested benefits (paid out mainly for housing, support to families and social exclusion) accounted only for 4% of all Italian social protection benefits.

Means- and non-means-tested benefits, percentages of total social benefits (2007, EUROSTAT)

Type of benefits	Italy	Euro Area
Non means-tested benefits	96.0	90.6
Means-tested benefits	4.0	9.4

It must be said that **the provision of services and social benefits in Italy is characterized by large regional differences**, reflecting the North-South dichotomy. There are also inequalities and differences among local areas. In fact some services and social benefits are provided at national level (pensions, unemployment benefits), whilst some others (like vouchers for the acquisition of social services) are provided at local level. Therefore the provision of services depends on funds available at local level and reflects regional economic disparities.

The chart below illustrates the **composition of social expenditure** by functions.

Social benefits allocation by functions, percentages (2007, EUROSTAT)

Functions	Italy	EU27	Euro Area
Old age	51.4	39.6	38.9
Sickness/Health care	26.1	29.1	29.3
Survivors	9.7	6,6	7.7
Invalidity	6.0	8.6	7.1
Family and children	4.7	8.0	8.1
Unemployment	1.8	5.1	5.9
Social exclusion n.e.c.	0.2	1.3	1.4
Housing	0.1	2.3	1.6
TOTAL	100.0	100.0	100.0

It can be observed that Italian Social Protection Expenditure is characterised by:

- **Very high expenditure on pensions.** Almost two thirds of the total social benefits are allocated to pensions (including old age, survivors and invalidity pensions). In particular, old age pensions represent more than half of the total Italian social expenditure (51.4%), which is more than 10 percentage points above the European average. Survivors' pensions are also relatively high (9.7% of the total social expenditure), while the quota allocated to invalidity pensions is below the European average. This represents one of the main unbalances of the Italian Public Expenditure.
- **Quite high expenditure on health, but still below the European average.** Health care and sickness expenditure (on medicines and services) is the second most important item, representing 26% of social expenditure, slightly below the European average. (around 29% in both the EU27 and in the Euro Area).
- **Very low unemployment benefits.** Unemployment benefits appear to be extremely low compared with the other EU Members. Only 1.8% of the total Italian social expenditure is allocated to ease the situation of people who have lost their jobs, a percentage that is about one third of the European average (5.1% and 5.9% in the EU 27 and in the Euro Area respectively).
- **Very low social benefit expenditure on families and children, housing and social exclusion.** The percentage of Italian expenditure allocated to actions aimed to support disadvantaged families and children is only 4.7%, a bit more than half of the European average. Finally, the amount aimed at housing policies and to fight social exclusion appears to be extremely marginal.

Welfare mix

In Italy, the role of the State for what concerns social action is mainly decentralised and allocated to Regions and Municipalities, while a mix of public and private subjects contributes to carry out the welfare system according to the principle of subsidiarity, the so-called “welfare mix”.

More and more often, the public sector delegates to private organisations the implementation of public programmes, thus becoming the financial backer of the services rather than the provider. It is in fact the Third Sector which provides services to final users. Since 2000, Law 328/2000 “*Legge quadro per la*

realizzazione del sistema integrato di interventi e servizi sociali (“Framework Law for the realisation of an integrated system of social actions and services”) has promoted and regulated at local level the joint planning and the integrated carrying out of social services by the Third Sector and public bodies, thus foreseeing the experimentation of public and private joint planning in the provision of social services.

The system resulting from this reform does not always appear transparent and it presents overlapping competences, with actors and interests not always clearly identified. Moreover, the Constitutional Law 3/2001, which gave Regions the competences regarding the provision of social services, weakened the previous national Law on social services. According to it, social strategies are designed and implemented by local authorities, while homogeneity across the national territory is only ensured by national guidelines on essential service provision. This can pose the risk of unequal actions across the territory, undermining the national social cohesion, especially in a country presenting large regional differences like Italy.

Features of the Italian Third Sector

The Italian third sector is made up of four types of organisations: associations, social cooperatives, volunteers’ organisations and foundations. On the whole, it includes about 25,000 organisations (data from last ISTAT *Census*, 2001), most of which are social cooperatives and, in second place, associations. They mainly operate in the social and health care sectors (excluding hospitals).

As concerns human resources, the Census specified that there are on average 5.6 employees and 2.8 volunteers per organisation. As to financial resources, 90% of the funding comes from the public sector. The great majority of this kind of organisations is located in the northern part of Italy (51%), 27% in the South and only 20.6% in the Centre. More than half of them (50.5%) was founded before 1990. The funding of these organisations makes them very dependent on public financing.

Social Assistance Benefits

The following paragraphs are meant to explain the main categories of social benefits in detail.

Pension system

As previously illustrated, pensions represent more than half of Italian social expenditure. In order to contain and reduce the enormous budget dedicated to pensions, starting from the early 1990s, the Italian pension system has gone through several reforms: Amato Reform (1992-1993), Dini Reform (1995), Prodi Reform (1997), Maroni-Tremonti Reform (2003-2004), second Prodi Government Reform (2003-2004) and second Tremonti Government Reform (2010).

All modifications had fundamentally the following objectives:

- to make the system financially sustainable;
- to increase horizontal equity;
- to tighten eligibility rules;
- to strengthen the contribution-benefit link;
- to diversify risks by introducing a multi-pillar architecture;
- to stimulate private savings through supplementary schemes.

Today, the Italian Pension system rests on three pillars:

- Public, compulsory and unfunded pay-as-you-go system (PAYGO)
- Until the mid-nineties this pillar was largely the dominant one. It was based on an earnings related scheme: the pension level of each retired employee was determined by the amount of salaries earned in the last years of his/her working activity. Consequently, the rate of substitution between pensions and salaries was up to 80%. The reforms introduced in the second half of the nineties kept up the PAYGO system; however, the pension level of each retired employee was linked to the amount of contributions poured into the public pension scheme during his/her working life. The reform stated that the individual pension level was determined by the sum of the individual amount of contributions and its capitalization at the rate of exchange of the nominal GDP.
- Private, voluntary, and “collective” funded system
- The Amato reform introduced the Pension Funds. They can be divided into two broad subsets: the so-called “Contractual” pension funds (they are the core of the second pillar, mainly created by employers’ associations as well as trade-unions on the basis of occupational schemes, geographic areas, or individual big firms, or by direct agreements between self-employees) and the so-called “Open” pension funds, founded by banks, insurance companies, and savings management companies.

- Italian pension funds act as institutional investors in the domestic and international capital markets, choosing asset allocations for their financial portfolios based on given benchmarks. Therefore, social security rents will depend on the gross rates of return realized by the financial investments of these funds.
- Private, voluntary, and individual social security schemes
- The third pillar consists of voluntary supplementary pension schemes, the so-called Individual Pension Plan (*Piano Individuale Pensionistico*, PIP), as well as open funds for individual affiliation. Both are managed by financial institutions.

Even though the different reforms increased the financial stability of the system, strengthened the incentives to retire later in life and made the schemes a bit more homogeneous, they created several problems that still need to be tackled. First of all, also due to the very slow phasing in of the new system, sustainability was not assured. Moreover, the pension system still appeared extremely fragmented: the first pillar is subdivided into 50 different schemes and the coverage of supplementary pensions is patchy. Moreover, it is inequitable, with certain categories inadequately protected, in particular as regards atypical and self-employed workers and young workers.

Services/Benefits for the elderly

They include services provision and monetary benefits.

The former refer to residential services, half-residential services, home care assistance, recreational services and services for the promotion of the elderly.

The latter cover the following:

- accompaniment allowance: it is given to non self-sufficient persons and it is not means-tested;
- care allowance: it is a cash contribution given to elderly people or to their relatives;
- vouchers for the acquisition of social services: they are provided by municipalities (upon the user's request) and give the right to buy services from certified public or private service suppliers. Services aimed at this part of the population appear to be inadequate and need improvements, especially if we consider the constant ageing process of the population. The inadequacy of services and benefits aimed at answering the problem of home care assistance of the elderly and of children drive Italian families to turn more and more to immigrant workers ("Badanti" and "Colf"), producing the so-called "Parallel

Welfare System” phenomenon. It is estimated that its cost is about 4 billion euro (2007).

Family and children allowances

As previously mentioned, support to families is still very small in Italy, despite a remarkable growth of this type of expenditure (+44% between 2000 and 2007). Most of the social support is means-tested and is made up of benefits in kind, mainly represented by child day care for children that are over 3 years old of age. In fact in 2000 only 7.5 per cent of under-three years old children had access to day nurseries (“Asilo nido”), while preschool education (“Scuola dell’infanzia”) from 3 to 6 years old was available.

In Italy there are also some monetary benefits like family or child allowances. However, there is not a universal child care benefit.

Social exclusion benefits

The expenditure to combat social exclusion appears to be undoubtedly marginal: in 2007 the Italian State spent only 13.3 euro per inhabitant, as opposed to 84.3 euro per capita in the EU27 and the 101.5 euro per capita in the Euro Area (2007 data, EUROSTAT).

Housing benefits

In Italy social benefits for housing are rather limited when compared to the European average. Even if the resources spent on this kind of support have more than doubled since the year 2000, in 2007 only 0.1% of the total social protection expenditure was spent on housing, despite the fact that housing is becoming more and more a major problem. In fact, the total cost that Italian families have to bear for their houses has been steadily increasing over the years and house expenditure is eroding an increasing part of their income: in 2006, housing expenditure per year reached 31% of total family expenses, while in 1968 this percentage was 16,4%, (ISTAT 2007). The growth of housing expenditure risks reducing many families to penury. This is particularly true with regard to big cities, where there is a lack of houses to rent, social housing is limited and rents are very high. In this respect the subjects more at risk are the elderly, young couples, families with one income, young workers and immigrants.

Housing benefits include both monetary contributions and social housing and are means-tested. As concerns housing policies, each Region is organised in its own way and presents large differences in the level of expenditure.

Health care

In Italy healthcare is universally provided, except for the payment of some contributions (the so called “tickets”) that are requested for some health care services. Healthcare is a competence delegated to Regions, and therefore there are remarkable territorial differences concerning costs and quality of services.

Unemployment benefits expenditures

There are major differences among EU Member States as regards the weight of unemployment benefits: while the average in EU-27 was about 6% of total benefits in 2007, in Italy unemployment benefits in 2007 accounted for less than 2% of the expenditure on social benefits.

All unemployment benefits in Italy consist of non-means-tested benefits (in EU27 in 2007, the share of non-means-tested benefits was 77% of the total expenditure on unemployment) and 96.5% of the total unemployment support is provided as cash benefits.

Unemployment expenditure includes ordinary unemployment benefits, Wage Guarantee Fund and mobility benefits. As these measures depend on insurances and contributions, temporary workers are completely unprotected from the risk of unemployment.

Italian actions to support unemployed people are characterised by the **prevalence of passive labour market measures** as opposed to “active employment measures”. In fact, passive labour market measures (which include early retirement benefits, full unemployment and partial unemployment benefits) accounted in 2007 for 96.5% of the total unemployment benefits, while active labour market measures (placement services, job search assistance and vocational training) accounted only for the remaining 3.5%.

Wage Guarantee Fund

Together with unemployment benefits (which are not provided for in the case of atypical contracts and of self-employed workers), during the last years the **measure that had and still has a positive impact on poverty** was the exceptional use of the *Wage Guarantee Fund* (*CIG, Cassa Integrazione Guadagni*), whose application was extended on derogation (“patti in deroga”) from its normal use, widening its application in terms of duration, employees categories and sectors of activities.

In the 2007-2009 period, the expenditure on *Wage Guarantee Fund* (ordinary, extraordinary and on derogation) doubled in Italy. In February

2009 an increase of the resources was made by using the ESF (European Social Fund) and 8 billion EUR were allocated to the 2009-2010 period. The agreement was extended up to 2011 (*Ministero dell'Economia e delle Finanze 2011, Economic and Financial Document, Section III National Reform Programme*).

In the years 2009-10-11 in Italy about 4 million workers received some form of income support: Wage Guarantee Fund ordinary and extraordinary on derogation benefits, labour mobility benefits and unemployment benefits. The number of hours of *Wage Guarantee Fund* authorised by INPS (National Institute of Social Security) reached an extremely high level: more than 914 million hours in 2009, 1 billion and 203 thousand hours in 2010 and about 1 billion hours in 2011. The *Wage Guarantee Fund* in derogation represents one third of the total number of hours of Wage Guarantee Fund paid by INPS (authorized hours).

The following tables show the differences among the Northern, Central and Southern parts of the country as regards the authorised hours of the *Wage Guarantee Fund*. The first table shows the differences among the different parts of Italy as regards the authorized hours. The second chart shows the percentage of authorized hours in the years 2010-2011 in the North, Centre and South of the country.

Guarantee Fund (authorized hours, millions)

	May 2010				May 2011			
	rdinary	extra-ordinary	on derog.	TOTAL	ordinary	extra-ordinary	on derog.	TOTAL
North	24.559	32.175	23.062	79.796	11.243	36.298	14.563	62.104
Centre	3.891	5.260	8.530	17.681	3.395	8.645	7.551	19.592
South	6.229	8.183	4.180	18.592	5.252	6.707	9.560	21.520
Italy	34.680	45.618	35.773	116.070	19.891	51.650	31.674	103.216

Guarantee Fund (authorized hours, millions), Difference 2010-2011 (%)

	ordinary	extra-ordinary	on derogation	TOTAL
North	-54,2	12,8	-36,9	-22,2
Centre	-12,7	64,4	-11,5	10,8
South	-15,7	-18,0	128,7	15,7
Italy	-42,6	13,2	-11,5	-11,1

These two measures (unemployment benefits and mobility benefits) have prevented the fall into absolute poverty of many individuals who lost their jobs. Many families are protected by one of these two measures. Young people that lost their jobs (and who are not entitled to these benefits if hired with atypical contracts) go back to live with their parents where at least one income is guaranteed (*ISTAT 2010, Povertà assoluta e relativa*).

The *Wage Guarantee Fund* is only given to employees, a fact which reflects the segmentation of the Italian Labour Market, while all the people with atypical contracts (mainly youngsters and some weak categories) are left without any social protection.

Minimum income

Italy is one of the three countries in EU27 (together with Greece and Hungary) which do not provide any Minimum Income Measure (intended as a universal and selective measure on a national basis) in order to assure a basic level of social protection to the poorest part of the population.

In 1999 a Minimum Income Scheme (called “Vital Minimum Income”, “*Reddito Minimo Vitale*”) was introduced as an experimental measure. The first two years of experimentation regarded 39 municipalities, mainly located in the South of Italy; the measure was then extended to larger areas for two more years. However, the experimentation was interrupted in the first months of 2003, when the new Government declared that it would issue a new form of minimum income measure, the so called Last Resort Income (*Reddito di Ultima Istanza, RUI*), which actually has never been implemented.

While waiting for a national decision on a minimum income measure, some Regions and some autonomous Provinces, usually pressed by the Municipalities where the Minimum Income Measure had been experimented, decided to introduce a minimum income scheme. Today, several schemes (called with different names and presenting different characteristics) are implemented in the following Regions: Valle d’Aosta (since 1994), Campania (since 2004), Basilicata (since 2005), Puglia (since 2006), and Lazio (since 2009). Moreover, minimum income schemes are implemented in the Autonomous Provinces of Bolzano and Trento.

Education

For what concerns the expenditure on education, Italy is below the communitarian average, in particular regarding secondary and tertiary levels. In 2007, the total **public expenditure on education** as a percentage of GDP was 4.29% (decreasing from 4.73 in 2006), below the UE-27 average (4.98%, decreasing as well from 5.04% in 2006 according to EUROSTAT data). The main differences are to be found at the secondary and tertiary levels of education (ISCED 2-4 and ISCED 5-6), where the European expenditure as a percentage of GDP was 2.12% and 1.11% respectively, while the Italian percentage was only 1.98% and 0.76% respectively. Instead, the expenditure on the primary level of education is almost in line with the communitarian average (1.16% of the GDP in EU27 and 1,08% of the GDP in Italy).

The Italian educational system has three critical issues which are represented by low attainment level, by early school leaving and by the very low level of life long learning.

As concerns the **attainment level**, in 2008 the percentage of the Italian population from 25 to 64 years of age who had completed at least upper secondary education was only 53.3%, far below the EU27 average (71.5%).

Early school leaving is another critical issue: in 2008, the percentage of the Italian population aged 18-24 having completed lower secondary education and not in further education or training was 19.7%, compared to EU average of 14.9%. The issue concerns in particular the male population (22.6% of early school leavers compared to 16.9% in EU27), while the female percentage is lower (16.7% in Italy compared to 12.9% in the EU27).

Also with regard to **life long learning**, Italy lags behind the EU average. In 2008, the percentage of the adult population aged 25 to 64 participating in education and training courses in the four weeks preceding the survey (EU Labour Force Survey 2009) was in fact only 6.3% in Italy compared to 9.5% in EU27.

5. The Impact of the Crisis

Introduction

Since 2008 Italy, as most EU countries, has gone through a severe financial and economic crisis. The crisis has affected national debt and public finance of many EU countries some of which (Portugal, Ireland and Greece) were saved in extremis from default risk.

In Italy the social impact of the crisis has brought a growing number of families into difficulties. The situation has become even more fragmented than before and the disadvantaged people, often the categories of people with more precarious jobs, have become marginalised.

The lack of reforms in the employment sector and within the scope of redistribution and equality has caused bigger and bigger polarisation of society, with rich people on one side and poor people on the other, while the middle class is getting poorer. Now there is also a large dichotomy between the last generation of persons with guaranteed social protection and the youngsters.

The Government focused mainly on the problems regarding public finance and budget constraints, giving priority to austerity measures and postponing the issues concerning growth and structural reforms. The economic crisis and its social impact became more and more severe as the growth of Italian economy was going through very difficult years: the GDP growth was negative in 2008-2009 (-1.2% and -5.5%), positive in 2010 and 2011 (1.5% and 0.4% respectively), while the expectations for 2012 are negative again: -1.3% (EUROSTAT 2012).

At the end of 2011 Berlusconi Government resigned and the so-called Technical Government of Monti took over. In a few months, the new Government started to implement drastic measures in order to face the emergency of the financial crisis, urged more than once by the EU, and started the elaboration of several structural reforms. The urgent and drastic actions of this Government (defined “Technical“ as it is composed by technical experts and university professors rather than by politicians) contributed to the reduction of the spread between Italian and German interest rates¹⁰ and initiated to try to lower the very high Italian public debt (in 2010 the total central government debt was 109% of the GDP, a percentage only smaller than the Greek one in Europe, OECD 2012). In this framework, the ECB (European Central Bank) supported the Italian debt crisis buying a large amount of Italian bonds with the obligation for Italy to reach the break-even budget by 2013, even it became clear soon that reaching this objective was not possible.

10 The *Italian Long term interest rate* that in February 2011 was 4.7356 reached 7.0571 in November 2011 and started to gradually descent again in December and January 2012 reaching 6.5366. On the contrary the German one passed from 3.2 in February 2011 to 1.82 (OECD 2012).

Increase of Unemployment

The long lasting economic crisis has had a big impact on **unemployment** that year after year has become higher, even if it has not increased as much as in other EU countries. In 2008 it was 6.7%, in 2009 7.8%, in 2010-2011 it reached 8.4% (7.6% male, 9.7% female) and in August 2012 reached 10.7 (ISTAT data). However this is partly due to the fact that the people benefitting from mobility measures and Wage Guarantee Fund in Italy are not reckoned among the unemployed.

Within the Italian labour market, young people and women have always been the most excluded types of workers. Young people are definitely the ones who have been most affected by the crisis: Italy has one of the highest **youth unemployment rates** in Europe: 27.8% in 2010 (EUROSTAT), data that reached 31% (national data) in 2011 and that should reach 35.9% in July 2012 (provisional ISTAT data 2012).

Women's employment remains one of the lowest in Europe (49.5%), even if it has been less affected by the crisis. This is due to the fact that the industrial and the construction sectors, where the percentage of female employees is lower, have been those mostly hit by the crisis. Besides, the creation of job places in high work intensity services and low qualification sectors has favoured women's employment (especially immigrant women's employment), thus increasing women's work in low qualification sectors.

The impact of the crisis has hit also immigrant workers. Their employment rate, which had already decreased in 2009, diminished again in 2010, from 64.5% to 63.1%. The main communities in Italy have been hit in different ways: Albanians and Moroccans, mainly men employed in the industrial sector, have been the most affected ones, while Filipinos faced a decrease in employment rates initially, but then recovered in the following years. Despite the "minor capacities" of immigrant workers in keeping their jobs, their availability to accept under-qualified jobs with low specialisation makes their participation in the labour market more dynamic also during crises. Out of 100 immigrant workers that became unemployed in the 1st trimester 2007, 38% of them were employed again one year later. In 2008 the percentage lowered to 34% but between 2009 and 2010 it raised again to 37%. The percentages regarding Italian people are much lower: in the same period the number of unemployed Italians that found a new job after one year progressively decreased from 33% to 26%.

As already said, in the last 10-15 years wages in Italy have not gone through a real growth, while *consumer prices* have been constantly increasing: they increased by 12% from 2005 to 2011 (OECD 2012). Thus Italian citizens have lost their purchasing power significantly.

As a consequence of the crisis, the category of people called **working poor** has been increasing. This has happened all around Europe, but in Italy the phenomenon is particularly relevant: in 2010 9.4% of the population was considered in *work at risk of poverty*, while the average was 8% in EU15 and 8.5% in EU27 (EUROSTAT 2010). This means that almost 1 Italian family out of 10 is at risk of poverty.

First Unemployment Measures

During Berlusconi Government (2008-2011), no successful measures were carried out in order to raise the rate of employment of women and young people.

There was a little improvement as regards maternity leave conditions in precarious contracts and some incentives for enterprises to create nurseries. Insertion contracts were introduced in underemployed areas specifically aimed at women, disabled and unemployed people. They were slightly de-taxed but presented the same obligations of hiring. Since companies did not have a real advantage from this, they did not adopt them frequently.

Also specific apprenticeship contracts for youngsters did not favour the increase of employment as they implied obligations for enterprises concerning hiring after two years, so that other precarious forms of contract were generally preferred.

Finally, the introduction of “occasional and temporary employment vouchers” to reduce the number of undeclared workers was not very successful.

The resources for training and promoting internships of disadvantaged people (“*borse lavoro*”), normally financed by the European Social Fund, were drastically reduced as the ESF Regional Funds were moved to finance the Wage Guarantee Fund. Also employment services run by Provinces went through budgetary reductions.

Poverty

The financial and economic crisis that started in 2007 brought a general worsening of the living conditions of families and individuals.

According to EUROSTAT statistics¹¹, in 2008, just after the beginning of the crisis, the **risk of poverty** affected about 19% of the Italian population. This percentage was higher than both the EU27 average (17%) and the Euro Area average (16%).

Those facing a higher risk of poverty were children, young people and the elderly, as it is shown by this table on the distribution of poverty by age.

At risk of poverty rates by age and gender, 2008 (EUROSTAT)

Age categories	Percentage of population at risk of poverty
Total	19%
Less than 18 years	25%
Between 18 and 24 years	21%
Between 25 and 54 years	16%
Between 55 and 64 years	13%
65 years and over	21%

Poverty, like other indicators, reflected the territorial differences between North and South of the country. In fact, **the risk of poverty was higher for the population living in the southern regions**, where one family out of four was relatively poor. Moreover, after a small reduction in 2006 and 2007, the disparities between Northern and Southern Regions started to grow again.

With the crisis, the ISTAT figure of relatively poor people¹² rapidly increased, passing from 7.54 millions of persons in 2007 to 8.78 millions of persons in 2008. Also the number of persons living just above the poverty threshold increased, while the presence within the family of one employed

11 Unfortunately, Italian and European data used to measure poverty are not easily comparable. In fact, for measuring poverty, ISTAT considers the indicator of family consumption, while EUROSTAT considers the income. The Communitarian Indicator used to identify the population “at risk of poverty” puts a poverty line that is higher than the Italian one (in 2007 the threshold was a monthly individual income of 750.25 euro, while the Italian indicator was an individual consumption of 999.67 euro in a family of two components). That is why the EU indicator identifies a percentage of people considered at risk of poverty much bigger (almost double) than the one measured by the Italian “relative poverty” indicator. In 2008, just after the beginning of the crisis, according to the national institute for statistics (*Istituto Nazionale di Statistica*, ISTAT), 11.3% of Italian families (8,780,000 persons, equal to 13.6% of the total population), were below the **relative poverty threshold**, consuming less than 60% of the monthly average consumption per capita (the Italian one is 999.67 euro for a family composed by two persons).

12 With monthly average expenditure below 999.67 euro for a family of two members.

person was no longer a guarantee against the risk of poverty. This represented a relatively new type of people at risk of poverty.

According to ISTAT data, the following categories of people were more severely hit by the crisis:

- families with 5 or more members,
- single parent families,
- workers between 35-44 and 45-54 years of age,
- persons with a low level of education,
- young people,
- working poor.

In 2008, the Italian **in-work-at-risk-of-poverty rate** was 9%, compared to the EU average of 8% (EUROSTAT data). This was particularly due to stagnating real wages. The in-work risk of poverty affected more men (11%) than women (6%), and much more temporary workers (16%) than employees with permanent contracts. Moreover, data showed that it was higher for people with lower education level, for people working part-time and for the households where there were dependent children.

In 2010 in Italy the *persons at risk of poverty rate* was 18.2% (Male:16.8%; Female:19.5%), higher than the EU27 average (16.4%). Also *material deprivation rate* showed the increasing difficulty of Italian families. This indicator in fact reached 15.9% in 2010, while before the beginning of the crisis (in 2006) it was 13.9%, thus showing a worsening of the living conditions of a considerable part of the population (EUROSTAT 2010).

Inequality

Indicators describing inequality and income distribution showed that Italy's level of inequality was almost in line with the European averages (EUROSTAT data):

- In 2008, the richest fifth of the Italian population had an income that was 5.1 times higher than the income of the poorest fifth of the Italian population (the EU27 average was 5). In 2008, this value had slightly increased in comparison with the 2000 value which was 4.8.
- The *Italian Gini Coefficient* that was 0.29 in 2000, and 0.31 in 2008 (equal to the EU average) got to 0.34 in 2010.

Data have shown that Italy is one of the countries where trans-generational inequalities are more persistent.

In fact, long period studies have shown that income inequalities tend to be transmitted from generation to generation. The reasons making social mobility low are several. The main one seems to be parents' attitude in choosing the type of education for their children. It tends to reproduce itself from parents to children, and it largely influences the quality of employment and therefore economical status.

Looking at the *distribution of households income by size of households (distribution of at risk of poverty population)*, it can be seen that the categories of people more at risk of poverty are those belonging to large families and single parents households, while the low number of 2 adult households over 65 indicates that the part of the population receiving pensions is less at risk of poverty.

Indicator of poverty risk	At risk of poverty percentage
Households with dependent children	22.6
Households without dependent children	13.9
2 adults and 3+ dependent children	37.2
Single parents	37.3
2 adult households over 65 years	11.8
One person households	24.3

Measures to fight poverty

Between 2008 and 2009 Berlusconi Government introduced four main modifications to the tax-benefit system that were aimed at affecting income distribution and poverty.

1. “*Carta acquisti*” or “Social Card”. It was a magnetic credit card financed by public funds and private donations and distributed by the Italian Post Service (Poste Italiane), which gave poor people the right to buy goods in affiliated shops or to pay bills for services such as electricity or gas provision. It gave the right to spend up to 40 euro per month. It was provided to persons over 65 and to children under 3 years of age who lived in low-income families with a very low Isee¹³. The elderly had to be entitled to pensions below 6,000 euro per year

¹³ Isee (*indicatore di situazione economica equivalente*, indicator of equivalent economic situation) illustrates the earning and patrimonial situation of a subject taking into account the family composition in terms of numbers and characteristics. This indicator of families' well-being was introduced by the Law n. 449 of the 7th December 1997.

(8,000 if they are over 70 years), had an Isee below 6,000 euro, and they could own any real estate or have assets over 15,000 euro. Immigrants, even if legally resident, couldn't receive this benefit in any case.

2. “*Bonus Famiglia*” or “Family Bonus”. Its aim was to support the income of families made up of dependent workers or pensioners. The person asking for the bonus could be a self-employed worker, while his/her spouse could occasionally work autonomously. The amount depended on the total income of the family, on the number of its members and on the presence of elderly or disabled people. In any case, the total family income did not have to exceed 35,000 euro.
3. *Electricity Bonus*. Established in 2009, its aim was to partly cover the expenditures on electricity of families with very low incomes. It could be requested by families with an Isee below 7,500 euro or below 20,000 euro in case they had four or more children.
4. Extension of the abolition of the municipal tax on real estates as regards the first house of property (*Imposta Comunale sugli Immobili*, ICI tax) to every citizen, regardless of his/her level of income (before the tax exemption was applied only to low-income families).

The Report on Policies Against Poverty and Social Exclusion 2008-2009 (*Rapporto sulle politiche contro la povertà e l'esclusione sociale 2008-2009*) studied the **impact of the measures** taken by Berlusconi Government. According to this study, the four measures described above had the effect of reducing the number of families living in condition of absolute poverty¹⁴ from 4.27% to 3.89%. About 91,000 families out of 1 million emerged from absolute poverty. Concerning the impact on relative poverty, the percentage of families living in condition of relative poverty lowered only from 17.55% to 17.07% between 2008 and 2009. It can be said that overall **poverty and inequality were slightly reduced**.

14 ISTAT defines absolute poverty as a situation where individuals and families cannot fill their basic needs. The absolute poverty threshold is calculated taking into account both the territorial differences of the price levels and the structure of families. Therefore there are as many absolute poverty thresholds as the number of the possible combinations of family typologies (38, according to ISTAT classification), geographical divisions (North, Center and South) and places of residence (metropolis, large municipalities, small municipalities). For example, regarding a family composed by two adults aged between 18 and 59 years old and two children aged between 11 and 17 years old, in 2007 the absolute poverty threshold varies by more than 400 euro between a metropolis in the North and a small municipality in the South (from about 1,500 euro to about 1,100 euro).

The Family Bonus had a positive impact particularly on middle- and low-income families, while the ICI tax abolition for the first property house had an impact mainly on middle-high income level families and did not have any impact on the reduction of poverty, since the ICI exemption was already granted to low-income families.

To summarize, welfare policies in Italy during the crisis were not very effective in fighting poverty: in 2009 the *at risk of poverty rate before social transfers (without pensions)* was 23.3%, while after social transfers it was 18.4%.

The cut-spending measures undertaken by Berlusconi Government in the social field made the situation even worse. In fact since 2008 the amount of funds addressed to the categories of people at higher risk of social exclusion started to be lowered (Antonio Misiani, 2011). In 2011 the Funds for Social Policies were drastically reduced and they are still decreasing according to the Financial Law (Stability Law) that plans the Funds expenditure until 2013.

The total amount of the 10 funds for social policies was 2 billion and 527 million euros in 2008. The Government's priorities and the economic crisis brought about drastic cuts, lowering the social policies budget to only 538 millions. Such a reduction (-78,7% between 2008 and 2011) has caused the cancellation or the reduction of a big number of actions and services, most of which are run by local authorities that have also been considerably hit by the Financial Law.

Here is the situation of the 10 main Funds for social assistance:

1. Fund for non self-sufficient people will be completely cancelled by 2013
2. Fund for family policies will be reduced by 91% between 2008 and 2013
3. Fund for young people policies will be reduced by 92% between 2008 and 2013
4. Fund for children and adolescents will be reduced by 9% between 2008 and 2013
5. Fund for equal opportunities will be reduced by 73% between 2008 and 2013
6. Fund for social policies will be reduced by 95% between 2008 and 2013
7. Fund for housing will be reduced by 93% between 2008 and 2013
8. Fund for the inclusion of immigrants was cancelled in 2009
9. Fund for childcare services was cancelled in 2010
10. Fund for civil service will be reduced by 62% between 2008 and 2013.

The **reform of fiscal federalism** that was started by Berlusconi Government in 2009, together with the spending cuts regarding local authorities, brought a general reduction of the social services provided by the local authorities themselves. Many Municipalities faced big difficulties since national funds for social policies were drastically cut. In addition, the tax on the first property house (ICI), that made up part of the income of Municipalities, was eliminated.

As already said, within the reform that brought the regionalization of healthcare, “health tickets” for services and medicines were introduced in those Regions that did not respect budget constraints. This hit mostly the categories of disadvantaged people, because normally there is no price differentiation for high and low incomes and only some Regions introduced income-based facilitations.

Also the social cooperation system has been hit by the Financial Law, both directly through the reduction of favourable taxation for Social Enterprises, and indirectly through the reduction of transfers to Municipalities that are their main contractors for social and health services.

Reforms in Education

As illustrated in the first part, the problem of NEETS (not in education, employment, or training) is particularly relevant in Italy. The high number of young people who are not studying nor working nor training is a key issue to be addressed, and the crisis has worsened the situation.

In 2010 the Italian young people that abandoned secondary school (*Early leavers from education and training by gender*) were 18.8%, one of the highest percentages in Europe, while the European average was 14.4% (EUROSTAT, 2010). To make things worse, only less than 50% of the youngsters that abandoned school got a job. Out of the 16,3% girls that abandoned school, only 31,9% got a job, while out of the 22% boys that abandoned school, 56% got a job (ISTAT 2010).

Another key issue that Italy needs to address is the significant territorial differences between North and South, which are observable also in education. In Sicily more than 25% of students leave school with only a middle school diploma (ISTAT 2010). Also in Sardinia, Puglia and Campania (southern regions), the percentage is higher than 23%, while in the North-East there are regions that have a school leaving percentage of 12% only (Autonomous Province of Trento and Friuli-Venezia Giulia).

As concerns tertiary education, the indicator of *educational attainment 30-34* shows that Italy with a percentage of 18.1% is one of the European countries with the lowest attainment level, followed only by Romania (EUROSTAT 2010). The number of persons who finished the tertiary level of studies has not increased much despite the introduction of the University Reform that reduced the number of years of first-level university in 1999.

In 2009-10 the **Reform called “Gelmini Reform”** was implemented. The Decrees provided for the “streamlining and reorganisation” of the Education System and a “renewal of the curricula and the contents”. Actually the reform consisted in big cuts of the resources of the public education system from primary school to University.

In general, the measures introduced by this reform have reduced all kinds of expenditures for educational institutions. They may increase the number of early leavers. They also hit teachers (especially the pro-tempore ones) through the reduction of the number of subjects. Besides, as the number of support teachers has been drastically reduced, the most vulnerable categories of students may be affected negatively, some people think that it is still too early to see the real impact of the Reform.

Recommendations by the EU to Italy

The European Union recommended Italy to face its big structural problems several times.

In particular, in the *Recommendation for a Council Recommendation on the National Reform Programme 2011 (SEC(2011) 810 final)*, the EU Commission urged Italy to take structural measures in order to promote stability and growth.

As concerns the labour market, the Commission recommended to combat its segmentation by reviewing selected aspects of the employment protection system and to reform the currently fragmented unemployment benefit system in a comprehensive manner.

It also recommended to step up efforts to fight illegal/undeclared work and promote a greater participation of women in the labour market, especially by increasing the availability of care facilities throughout the country. Italy should also reform the collective bargaining framework and ensure that wage growth better reflects productivity.

The Commission also called for measures to boost competition in the services sector, in particular in the field of professional services, to reduce

the length of contract law enforcement procedures, to take steps to promote the access of SME's to capital markets by removing regulatory obstacles and reducing costs.

Finally, it recommended to take steps to accelerate growth-enhancing expenditures co-financed by cohesion policy funds in order to reduce the persistent disparities between Italian regions by improving administrative capacity and political governance.

It must be pointed out that Italy is not efficiently using the EU funds: halfway through the programming period, only about 16% of the EU Funds has been mobilised, and the percentage is even lower in the Convergence Regions (*Recommendation for a Council Recommendation on the National Reform Programme 2011 of Italy SEC(2011 810 final)*).

6. Developments since the Beginning of the Monti Government

The fourth Berlusconi Government started on the 8th of May 2008 and ended on the 12th of November 2011 when Berlusconi resigned. From the 16th of November 2011, Mario Monti has been the new Italian Prime Minister, leading a technocrats' Government charged with the task of implementing structural reforms. These were warmly recommended by the European Union and other international observers in order to promote economic and financial consolidation and sustainability of the Italian public budget.

Between November 2011 and July 2012 Monti Government issued an impressive amount of Decrees regarding several fields. It must be said, though, that the two main reforms were the Pension Reform and the Labour Market Reform.

The most important reforms carried out up to July 2012 were the following:

On the 4th of December 2011, the Decree "Urgent disposals for the growth, equity and consolidation of public accounts" (called "**Save Italy Decree**") came into force. It is a package of measures with a total impact of about 30 € billions, planning cuts of 12-13 billions in the public sector spending on welfare, and an increase of 17-18 billions in new taxes.

The Decree introduced the following reforms:

Pension system reform: all pensions are now calculated according to the pro-rata contribution system. The minimum pensionable age will gradually rise to 66 for men and 62 for women employees and to 66 years and 6 months

for self-employed workers. Regardless of age, it will be possible for women to draw an “early” pension with 42 years and one month of contributions.

Also low pensions were touched by the Reform. The index linking pensions to inflation has been reviewed: pensions up to twice the statutory minimum (about 950 €) have been adjusted in full but all those exceeding this amount are frozen.

Fiscal reform:

- **New taxes on property houses:** the reform has introduced the Unified Municipal Tax (IMU) which local authorities can levy under fiscal federalism. All property houses, including the first one, are taxed (this tax, previously called ICI, had been cancelled by Berlusconi’s Government);
- **Fiscal shield:** the reform has levied a one-off additional tax of 1.5% on amounts repatriated last year under the tax shield, which had already paid a 5% tax;
- **Tax on luxury goods:** the reform has introduced an ownership tax on luxury goods (boats, helicopters, etc.);
- **Indirect taxes on fuel and tobaccos** (“accise”) were increased;
- **Tax on deposit of securities:** the stamp duty on bank accounts has been extended to the deposit of securities and to other financial instruments and products, such as insurance policies and mutual funds.

Some minor measures have been planned to promote growth: the package of these measures has included measures accounting for 10 billions euro to support growth and development, mainly through tax deductions.

Finally, capitalisation has been encouraged through **tax incentives** while the guarantee fund on loans for small and medium-sized businesses has been increased.

Measures to combat tax evasion have been issued in order to face this widespread phenomenon.

The second important reform aimed to promote growth by opening up professional guilds to competition and thus creating more jobs was the deregulation of protected sectors.

The first liberalisation targeted the following sectors: **pharmacies** (increase of the number of licences); **notaries:** the number of notaries (regulated by law at territorial level) should be increased; guilds representing lawyers, notaries, accountants and journalists should abolish minimum and maximum fees;

gas stations: they can now choose their providers, thus boosting competition in the market; **taxis:** increase of the number of licences. The reform hit also **insurances, newspapers sale and sale sectors in general** (with the liberalisation of the opening hours).

It must be said that many of the original proposals of the Government were softened under the pressure of the most powerful guilds.

The **third major legislative effort** made by the Government since its office taking has been the introduction of **measures to reduce bureaucratic red tape**. The measures are aimed at improving the quality of life of citizens who deal with the public administration and at boosting the competitiveness of the economy as a whole through gains in productivity deriving from these simplifications. The decree has tried to abolish hundreds of laws and to simplify rules regulating companies and new businesses. The decree now allows Italians to carry out many bureaucratic tasks online, including changing the official place of residence and obtaining or renewing birth certificates and identification documents. The use of the Internet should be expanded throughout the public administration and it will be possible to post key enterprise documentation online. This should sensibly reduce the red tape for companies that now, on average, need to present the same documents 27 times to State offices, thus saving an estimated 1.3 billions euro a year.

The new Minister of Justice, Paola Severino, is planning to carry out a reform of the judiciary system: the main issues that will have to be faced are prison overcrowding and the need for speeding up legal procedures. The reform should also abolish **judicial psychiatric hospitals**.

Besides the pension system reform that has had an immediate impact and a medium term impact, the **labour market reform** is the other structural reform where traditional rules have been changed.

The labour Market reform or Fornero Reform (from the Minister's name) was discussed for several months and reached a definitive form in March 2012. **The general aim was to reduce the fragmentation of contracts and to carry out the Reform of the Labour Market and the Reform of Social Security Cushions at the same time.**

The introduction of a minimum income was taken into consideration at the very beginning of the planning of the Reform, but it was soon abandoned for lack of resources.

One of the key innovations is that the reform applies both to large companies and to medium and small (under 15 employees) enterprises, trying to eliminate

the legislative dichotomy of the Italian market. The most important aspect of this labour market reform deals with flexibility in dismissal (modifying in particular article 18 of the Workers' Statute) and with measures to support youth and women employment. Concerning **dismissals**, the reform reduces the possibility of reinstatement (only for discriminatory dismissals) and modifies the procedures as follows.

1. The discriminatory dismissal remains protected by the obligation of reinstatement for discriminated employees. The main innovation is that, while up to now the rule applies only to firms with more than 15 employees, the reinstatement will become obligatory also in small and medium enterprises;
2. Dismissal for economic motives: according to the reform, economic dismissals will entail indemnification payment from 15 to 27 months (at present it is up to 48 months only for limited categories of workers);
3. Dismissal for disciplinary reasons: in this case of dismissals, the judge will assess the reason and, in case of appeal by the worker, establish if the employee has to be reinstated or if the firm must pay a financial compensation (up to 27 months).

The reform also introduces important modifications concerning the **types of employment contracts trying to reduce the abuses in precarious forms of contracts**:

- as a general guideline, the reform favours permanent contracts over temporary contracts, introducing an additional fiscal burden onto the latter (1.4% more for the contribution to security cushions);
- fixed term contracts: their maximum duration is set at 36 months. Fiscal incentives are provided for the stabilisation of temporary contracts;
- apprenticeship: to favour work insertion of young people, the reform introduces apprenticeship as the main form of contract for people under 30 years of age who are entering the labour market. This contract can last no more than three years and must include training obligation. After three years, this contract is expected to become a permanent contract; the enterprises failing to insert the young people after three years will pay a penalty. The aim is to discourage the excessive use of this form of employment;
- stages: unpaid internships will be allowed only for educational reasons, during university or post-university periods;
- freelances: concerning professionals (self-employed workers holding a personal VAT number), this reform introduces the obligation of

establishing a subordinated contract when at least 2 of the following conditions are met for 2 consecutive years: 1. there is a stable working station dedicated to the worker in the office; 2. the yearly income of the freelance worker is equal to 80% of the total; 3. the collaboration is lasting more than 8 months on a yearly basis. This is to avoid the misuse of self-employed labour and to provide professionals with the same rights as regular employees.

The reform of the social security cushions will become effective in 2017. It will introduce a structural modification of the employment compensations. ASPI (social insurance for employment) will replace both unemployment benefits (in case of dismissal) and mobility benefits (in case of closedown of the enterprise) and will apply to all types of contracts (including artists and apprentices, presently excluded from any form of social insurance). Workers losing their jobs will be entitled to benefits equal to 75% of their gross salaries (up to 1,150 euro) with an additional 25% for the quota exceeding this amount. The measure will last 12 months, 18 months for workers over 55 years. A special Solidarity Fund will be introduced for workers over 58 years who have been forced to leave their jobs four years before retirement.

7. Final Remarks

The analysis of the Italian Welfare State and of its most recent reforms has brought us to some final remarks.

The Italian social welfare system that was built on a specific social, economic and cultural model, has now difficulties in recognising the big changes society is going through and in acknowledging more widespread vulnerability and new forms of poverty.

This familistic model where families often contribute by providing “private welfare” to their members and where the family is seen as a “social security cushion” has entered a big crisis especially because the protection of the breadwinner’s job and income has become less meaningful. This is due to several factors: the percentage of working women has grown as they are dismissing their classical role of staying at home and taking care of children and elderly relatives; the changes in society have brought a new situation in the labour market where temporary workers are excluded from social protection measures; besides mono-parental families have become more and more numerous; the phenomenon of working poor has widely spread thus increasing the number of persons at risk of poverty.

Traditionally the Italian model almost exclusively takes care of the last period of man/woman's life, but does not take care of the other life phases, whereas today most problems and the new forms of poverty very often occur in the active phases of life and when the decisions concerning the future of families are taken. In particular young people are one of the categories most affected by the crisis and are often not entitled to social benefits. This can explain the very low birth and fertility rates. At the same time the high percentage of elderly population that characterizes Italian society is causing big unbalances.

The burden on families, worsened by the crisis, could be lightened by an increase of child-care services or benefits, by support for the care of the elderly and by more general very urgent family-policy measures.

It is too early to evaluate the real impact on society of the Reforms implemented up to the present day and that still need to be fully enforced. However it is clear that the Italian Welfare System seems to need stronger actions in order to better balance the expenses aimed at different functions and to overcome the fragmentation of social measures that should be more inclusive and more redistributive.

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Trends in Italy's Social Policies

I) LONG AND MEDIUM TERM TRENDS

1. Labour market

- ***INCREASING OF FLEXIBILITY AND INSECURITY IN THE LABOUR MARKET***

Job insecurity has been increasing: temporary contracts and atypical contracts are rapidly growing. Flexibility has gradually been introduced without improving security. In particular, there is a lack of an adequate safety net for the most precarious forms of employment while job risks result to be more and more unequally distributed: permanent and full-time employees are much more protected than temporary, atypical or part-time workers not only in terms of unemployment benefits, but also of illness, maternity leave and holidays (see also part A of this chapter, Paragraph 4.1).

2. Public expenditure

- ***ANOMALOUS STRUCTURE OF ITALIAN PUBLIC EXPENDITURE***

The Italian public expenditure for the provision of public services and for the support of disadvantaged people is below the OECD average, while the total amount spent on public consumption and on pension system is well above the European average. The sum of these two budget lines is about 320 billions euro, an amount that hinders the flexibility and adjustment of the public intervention.

3. Pension system

- ***TOO HIGH PENSION SYSTEM EXPENDITURES***

Pension expenditures represent the main expenditure of the Social protection system, much higher than expenditures on Social Assistance (Housing, Families, Disabled, ..). The unsustainable pension system has been reformed starting from 1992 and 1995 up to the present day.

4. Welfare and social policies

- ***FRAGMENTED AND UNEFFECTIVE MEASURES AGAINST POVERTY***

The very fragmented Italian Welfare System (in terms of measures and benefits) has proved to be scarcely effective with regard to income distribution and poverty reduction. Overall, the impact of welfare interventions has been limited: poverty and inequality have been reduced by a very small margin, mainly because of the lack of an integrated strategy. In fact, measures to tackle poverty vary widely according to target group, prerequisites and kind of approach while no universal measure is in place (see also part A of this chapter, Paragraph, 4.3).

- ***FAMILY AS MAIN SOCIAL CUSHION***

Traditionally, Italy presents a welfare model centred on families: the family is seen as the main social security cushion where women support their family members by providing “private welfare”.

Today this welfare model is facing growing difficulties in adapting to the changes society is going through (due to the economic crisis, the changing structure of families, the ageing of society) and in acknowledging more widespread vulnerability and new forms of poverty (working-poor, lack of care services for children and elderly).

- ***ITALIAN WELFARE SYSTEM MORE AND MORE DEPENDENT ON IMMIGRATION***

The dependency of the Italian welfare state on immigrant work-force is becoming a more and more important phenomenon, in particular for what concerns home-care, health and social services for the elderly and care of children. The extensive recourse to a flexible, cheap and apparently unlimited labour supply allows to maintain the traditional welfare model centred on the family, with a prevailing informal care system, in a context where the

demand for elderly care is rapidly growing and Italian women (the traditional caregivers) are participating more and more in the labour market.

- **HEALTH SYSTEM POLICIES**

Healthcare is universally provided, except for the payment of some contributions (the so-called tickets) that are requested to well-off citizens for some Healthcare services.

- **INCREASE OF PUBLIC-PRIVATE WELFARE MIX**

The role of the State for what concerns social intervention is more and more decentralised and a mix of public and private subjects contributes to carrying out the welfare system according to the subsidiarity principle (the so-called “welfare mix”). The different levels of the public sector (Regions, Provinces, Municipalities) delegate to private organisations the implementation of public programmes, interventions and services thus becoming the financial backer of the services rather than the direct provider. This system does not always appear transparent and often presents overlapping competences, with actors and interests not always clearly identified (see also part A of this chapter, Paragraph 4.3).

5. Education policies

- **CUTS IN THE EDUCATION SYSTEM**

During the last twenty years, the Italian public expenditure on education (already below the EU average) has been constantly decreasing, from 23.1% of GDP in 1990 to 17.7% of GDP in 2009.

These continuous reductions risk to destroy the Italian public education system, which already presents two critical aspects, especially by comparison with the average European performance: a very low attainment level and a very high percentage of early school leavers.

The strategy seems inadequate to meet the challenge of making the next generations able to compete in the “knowledge society” promoted by the EU and to provide a universal and equitable access to education (see also part A of this chapter, Paragraph 4.3).

- **SUPPORTING PRIVATE EDUCATION AGAINST PUBLIC EDUCATION**

While the State expenditure on public schools has been constantly reduced, the contributions to private schools (representing 20% of the education

system) have been increasing, reaching about one billion euro per year, thus more and more creating a dual system.

6. Immigration policies

- ***TENDENCY TO CONSIDER IMMIGRATION AS A SECURITY PROBLEM (see also part A of this chapter, Paragraph 4.2).***

There is a growing tendency, by the large majority of policy-makers, mainstream media and public opinion, to criminalise immigration, focusing almost exclusively on irregular immigration and on the links between immigration and criminality and between immigration and potential jobs “subtraction”. Over the years, immigration, criminality and job loss for Italians have been more and more associated in the public debate, creating a climate of growing diffidence, tension and fear among the Italian population. Today, the false perception of an invasion of foreign people regarded as a threat to the cultural identity and the employment of Italian citizens and to a peaceful and safe society is quite widespread.

This tendency is reflected in the dispositions contained in the Law “Urgent measures in the field of public security”, the so-called “Security Package” (Law 125 of July 24, 2008), aimed at combating illegality linked to immigration and to organised crime. The Law defines the status of irregular immigrants as crime aggravation in trials (meaning that an irregular immigrant faces a more severe sentence if compared to an Italian person committing the same crime). Also it foresees faster procedures of expulsion for irregular immigrants. Moreover, it gives doctors the possibility of reporting irregular immigrants to the police (any denounce by doctors was formerly forbidden by the law). The risk to create a clandestine health care system poses serious danger of proliferation of contagious diseases (like tuberculosis) across the whole Italian population, because ill irregular immigrants tend to renounce healthcare in order to avoid expulsion from the country.

- ***TENDENCY TO CONSIDER IMMIGRANTS AS WORKERS, NOT AS PEOPLE***

The present immigration Law, in force as of 2002 (the so-called “Bossi-Fini”), puts the focus on the immigrant as a worker, rather than regarding him/her as a new citizen. The adopted approach, in fact, focuses on employment demand, looking at immigration almost exclusively as a source of (cheap) labour. This approach is making the immigration and the integration processes precarious, since regular immigration is strictly linked to the needs of the

labour market and, in case of job loss, the immigrant loses the right to remain in the country in six months. Moreover, it creates a segmented labour market, with lack of guarantees for immigrants, which risks to create an extremely precarious and emarginated part of the population in the medium and long run.

- **LACK OF A CLEAR STRATEGY TO DEFINE IMMIGRATION FLOWS**

Immigration flows are regulated by a Decree stating the number of “required” workers on the basis of the sector of activity; from 2005 to 2008, the Government fixed an overall limit of almost 929,000 immigrants (with a demand of about 1,160,000); up to present, no additional Decree was issued, with the exception of seasonal employment.

Besides, regularisation acts legitimizing by decree the working situation of immigrants who already have a job but not the official residence permit, has had an important role. This process concerned primarily those immigrants providing home care services for elderly people, the most required category of workers.

The arbitrary, irregular and unpredictable approach to the management of immigration flows and to regularisation procedures has contributed to the creation of a situation of uncertainty, both for immigrants and for their Italian employers.

II) SHORT TERM TRENDS (since 2005)

1. Labour market

- **REFORM OF THE LABOUR MARKET AND SOLIDARITY CUSHIONS**

Monti Government (as illustrated in part A of this chapter, paragraph 6) is trying to reform the fragmented Italian Labour Market – not without protests from both Trade Unions and entrepreneurs’ organisations – but the impact of the reform will be assessed only in the coming years. The general aim is to reduce the fragmentation of contracts and to carry out the Reform of the Labour Market and the Reform of Social Security Cushions at the same time. The most important point of this labour market reform deals with flexibility in dismissal (modifying in particular article 18 of the Workers’ Statute) and with measures to support youth and women employment.

2. Public expenditures

- ***AUSTERITY MEASURES AND SPENDING CUTS***

As illustrated in part A of this chapter, paragraph 6, Monti Government issued the Decree “Save Italy, planning an estimated decrease in public expenditures of 12-13 billion euro and an increase of 17-18 billions of the fiscal drag. The Government is therefore reducing public spending by 4.2 billions in 2012, involving all administrative levels (Municipalities, Regions, Ministries). The aim is to reduce the enormous Italian public debt.

In addition, the Italian Parliament voted for the introduction of the break-even constraint for the public budget in the Italian Constitution. The implication of this constitutional reform is extremely relevant, jeopardising the freedom of choice regarding the economic and development strategies of the country even when the constraints posed by the European Fiscal Compact will not be deemed necessary anymore.

- ***SPENDING REVIEW***

Monti Government is carrying out an extensive spending review of public expenditures in order to rationalise and make public intervention at all levels (local, regional and national) more effective. The public expenditure under review in the medium term is about 295 billion euros. In the short term, the expenditure under review is estimated to be about 80 billion euros.

The review will allow to further reduce public expenditure in a selective, efficient way, increasing the savings already obtained through “Save Italy” Decree.

- ***CUTS IN THE BUDGET OF LOCAL AUTHORITIES***

Within a general austerity strategy, the recent budget laws issued during the crisis require remarkable cuts in the financial resources allocated by the Central Government to the Municipalities and the Regions: in 2011, Municipalities had to guarantee an improvement in budget deficit of 1,800 million euros and faced an additional reduction of financial transfers of 1,500 million euros, while Regions saw a reduction of their resources of 10 billions euros. Since Regions and Municipalities are the main service providers or financial backers (in particular for what concerns health, education, care and inclusion measures), the reduction of their budgets poses a serious threat to adequate service provision. As a consequence, there is the danger that the living conditions of the most vulnerable subjects (who are usually the most affected by the crisis) will see a remarkable deterioration.

Moreover, this manoeuvre risks to increase North-South disparities, as Municipalities will have to raise taxes to cover their costs, but the areas where the fiscal levying will be higher (the demand for services being stronger) are the poorest areas in the country.

- ***DELAY OF PUBLIC PAYMENTS***

In the framework of service provision, the issue of late payments by public administration is of particular concern, as delays put enterprises (and especially SMEs) in serious financial constraints.

The amount of delayed payments is estimated to be between 70 and 90 billion euros, representing half of the public outstanding debts to enterprises at EU level (estimated to be about 180 billions). Local authorities are the most responsible for the delays, being in charge of most contracting procedures (in health, education and infrastructure sectors).

On average, the public administration in Italy pays its debts after 180 days, with an average delay of 90 days, while in France invoices are paid after 64 days, in the UK after 47 days and in Germany after 35. The crisis has aggravated this phenomenon: the delay, in fact, has increased by 52 days since 2009.

The Association of Crafts and SMEs of Mestre (CGIA, 2012) estimates that one third of the enterprises bankruptcies (3,600 out of 11,615 bankruptcies in 2011) are related with the difficulties raised by payment delays.

Monti Government stated the intention to address this problem by developing a tight cooperation between the public sector, financial institutions (which can advance payments to enterprises at advantageous rates and with the public guarantee of refunding) and enterprises. Moreover, it allocated 6 billion euros in order to begin to pay off private enterprises.

However, the issue remains a priority, also because by 2013 the EU Directive on payments (2011/7/EU) should enter into force, requiring the public administration to settle its debts within 60 days and imposing a yearly overdue interest equal to 8%.

- ***CULTURE OF LEGALITY, LAWFULNESS AND TRANSPARENCY***

According to National Statistics Institute (ISTAT, 2010), in 2008 Italian shadow economy had an estimated value between 255 and 275 billion euros (i.e. between 16.3% and 17.5% of GDP). According to other research papers (Tax Research UK, 2009), this value has reached 418 billion euros. At the same

time, tax evasion produces 130 billions of lost tax revenue every year, almost the double of tax evasion in France, Germany and the UK (ISTAT, 2010).

In the framework of this widespread situation of illegality, also Italian politicians are presently implicated in numerous corruption scandals which are filling public opinion with indignation (especially considering the current economic difficulties that the country is facing). This is undermining citizens' trust in politics and institutions in general as well as their confidence in the fairness and legitimacy of tax collection and of the system as a whole.

The loss of revenues due to shadow economy and tax evasion raises the deficit and debt levels of the State, it reduces the funds to foster public investment, growth and employment and produces a lack of confidence and equity. In this perspective, Monti Government has adopted a series of measures to fight tax evasion and to promote the culture of legality and transparency.

3. Pension system

- ***ENCOURAGING PRIVATE SUPPLEMENTARY PENSION SCHEMES***

In line with the recommendations of the EU Commission, the 2005 Reform of the Italian pension system established supplementary pension schemes, with the institution of the private and voluntary Pension Funds. The strategy is stimulating and encouraging private savings through supplementary market schemes in order to ensure financial sustainability to the system (see also part A of this chapter, Paragraph 4.3).

- ***INCREASING RETIREMENT AGE***

The Legislative Decree 201/2011 ("Save Italy" Decree) sets new minimum pensionable age and intermediate target for the transition period: from 2013, the retirement age will rise to 66 for men and to 62 for women employees, and to 66 years and 6 months for self-employed workers and for public sector employees. At 62 years of age, it will be possible to get an "early" pension in case of 42 years and six months contributions. By 2022, the retirement age is set at 67 years of age for everyone. Besides, all pensions will be calculated according to the pro-rata contribution system (which lowers the due amount in comparison to the previous system based on earned salary).

This reform should impact on the very high Italian expenditure on pension system in the short term. The most affected workers are the ones working

in the public sector and those who were going to retire in 2012 or 2013, the working period for them may suddenly last three or even four years longer than expected.

4. Welfare and social policies

The ongoing reduction of the already limited amount of funds aimed at social policies risks to worsen the situation of poverty.

The cut-spending measures undertaken by Berlusconi Government in the social fields made the situation even worse. In fact since 2008 the amount of funds addressed to the categories of people at higher risk of social exclusion has started to decrease (Antonio Misiani, *Finanziaria 2011: fine delle politiche sociali? -aggiornamento approvazione legge di stabilità, 2011*). In 2011 the Funds for Social Policies were drastically reduced and today they are more and more decreasing according to the Financial Law (Stability Law) that plans Funds expenditure until 2013.

The total amount of the 10 funds aimed at social policies was 2 billion and 527 million in 2008. The Government's priorities and the crisis have determined a drastic cut, lowering the social policies budget to only 538 millions. Such a reduction (-78,7% between 2008 and 2011) will bring to cancellation and reduction of a big number of initiatives and services, most of which are run by local authorities that have also been hit by 2011 Financial Law.

5. Education policies

- ***CUTS IN EDUCATION POLICIES***

The latest Education reform (Gelmini Decree of October 2008, which became law a few months later), in line with the cuts in education policies, established additional financial cuts in state schools, foreseeing 87,400 teachers' redundancies and 44,500 auxiliary staff' redundancies.

6. Immigration policies

- ***THE OPEN ISSUES OF CITIZENSHIP RIGHTS***

The attribution of citizens' rights (first of all the voting right) and of citizen status to immigrants is still an open issue. However, the public debate

is biased by the criminalising approach towards immigration. At present, the procedures to become Italian citizens are extremely long and present many bureaucratic requirements: extra-communitarian immigrants can ask for Italian citizenship after 10 years of proved residence in Italy (a condition often difficult to demonstrate). For what concerns second generations, they can ask for Italian citizenship when they turn 18 year old, with the obligation of proving their permanence within the country. As delays are often encountered in the procedures, there are people who once they finish attending school, remain precarious and risk to loose their right of living in Italy (if they don't find a job) even if it is the only country they have ever lived in. Second generations represent a crucial challenge for social cohesion and the Government is asked to study a strategy of acknowledgment and integration of these people who have no citizenship rights in the country where they were born.

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Are the Mediterranean Model Countries Moving in the same Direction? Are there Similar Policy Trends?

The identification of a Mediterranean Model

Within the debate on Welfare Social Models, the hypothesis of the existence of a Mediterranean Welfare Model was made by Esping-Andersen in 1990 (Esping-Andersen, “The Three Worlds of Welfare Capitalism”, 1990). He identified a cluster of four countries that seemed to have convergent policies and similar trends of the main indicators: Italy, Spain, Greece and Portugal.

This cluster was described as a not completely mature variant of the Conservative-Continental Welfare regime model.

According to Ponzini and Pugliese (*Un sistema di welfare Mediterraneo, 2008*), if the Mediterranean Model is considered under the performance point of view, it can be classified as a “weak welfare model”, “weak” in the sense that it is characterised by evident internal unbalances and performance levels that are much below the typical Central and Northern European countries standard, therefore quite far from the Bismarck and Beveridge Models. The Mediterranean model can be considered weak in the capacity of answering social needs (domanda sociale) and also as the expression of a system capable of producing redistributive equity and solidarity.

The main similarities of the countries belonging to the Mediterranean Model concern:

- The Labour Market: it is segmented. Women’s and young people’s employment rate is low.
- Public Expenditure: it is unbalanced. Expenditure on pensions is high while expenditure on social assistance is very low.
- Role of the Family: it represents the fundamental social security cushion.
- Informal Networks: they are very widespread and support people in difficulty.
- Welfare and Social Policies in fighting poverty: they are not effective and are fragmented.

The Mediterranean countries and the crisis

The economic and financial crisis that started in 2008 hit particularly hard the four Mediterranean countries, as it can be observed looking at the main economic and financial indicators.

Gross Domestic Product (GDP)

In 2011 Italy, Greece, Spain and Portugal had very low or negative GDP percentage variation.

Country	GDP
Greece	-6.9%
Italy	0.4%
Spain	0.4%
Portugal	-1.6%

Public Debt

They present nearly all high or very high Public Debt.

Country	Public Debt (2011)
Greece	132.4%
Italy	123%
Spain	89.2% (Q1/2012)
Portugal	11.7%

Unemployment

They had very high and growing unemployment:

Country	Harmonised Unemployment Rate
Greece	21.2% M12/2011
	24.8% M6/2012
Italy	9.4% M12/2011
	10.8% M6/2012
Spain	23.2 % M6/2012
Portugal	14.6 % M12/2011
	15.4 % M6/2012

The financial conditions of the four countries are not always similar. For example Spain has lower public debt and very high private debt, while Italy has very high public debt while private saving is still quite good.

Unfortunately this paper does not allow a deep analysis of the economic and financial conditions of the four countries, but it must be said that the crisis they are going through is pushing all of them to implement big structural Reforms.

The Reforms in the four Countries that have already received or risk of having to ask for EU support have often been “suggested” and encouraged by the EU or by the EU-FMI-BCE (“Troika”).

Policy trends and Reforms in the Mediterranean Countries

Analysing their policy trends, it seems that the four Mediterranean countries are going in similar directions, with small differences.

1. Labour market policy trends

The Reforms carried out during the crisis are aimed at making the Labour Market more flexible (but also more precarious). In fact they concern the reduction of the cost of dismissal, the reduction of security both in the private and the public sector, the weakening of collective bargaining.

In Italy, Spain, Portugal and Greece the recent reforms have introduced or are introducing more flexibility, but not security. Among them, Greece seems to have the biggest lack of safety nets for precarious workers.

While Italy and Spain present a Labour market traditionally characterised by passive labour market policies, in Greece and Portugal active labour policies have been more explored.

In Italy, women’s employment has been promoted through tax reduction, while in Portugal policies in favour of the family and to favour work and life balance have been carried out.

In Italy the new Labour Market Reform is trying to put some limits to precariousness and improve social cushions, while in Portugal more restrictions regarding temporary contracts have been introduced.

In the 4 countries the reforms of the labour market seem to be going in the same direction: introduction of a more flexible labour market, promotion of active labour market policies.

2. Public expenditures reviews

During the crisis all the countries of the Mediterranean model showed a generalised concern for cost containment and fiscal sustainability. The goals of

social policy tended to be subordinated to budgetary constraints, with arguments concerning redistribution and the maintenance of social standards not playing much of a role.

Austerity measures and spending cuts are touching all administrative levels (organised in different ways in the 4 countries). The cuts to Municipalities reduced the provision of public services and benefits (in Greece also passive labour activities). In Portugal state owned enterprises are being privatised.

In the 4 countries public administration salaries are being cut, the number of employees is being reduced, pensions are being drastically cut, taxes are being raised (especially consumer taxes).

The cuts have hit also education, care, inclusion and health. The reforms of the Health System are reducing the medicines paid for by the state and Health services, and are introducing payments for well-off citizens, thus introducing selective criteria in the universalism of the Health system.

The reforms in the 4 countries are also planning to reduce the informal sector (shadow economy, tax evasion) and trying to reduce clientelism through stricter controls (especially in Italy, Greece and Portugal).

All four countries are reducing the expenditure on pensions, but due mainly to budget constraints they are not able to increase social services and benefit expenditures.

Big cuts in social, health, education fields are being made in all four countries.

3. Pension System

As previously said, the pension system in the Mediterranean countries is the main expenditure of the Social Protection System, much higher than the expenditure on social assistance.

Italy and Portugal started to carry out reforms of the pension system before the crisis. In 1992 and 1995 Italy introduced supplementary pension schemes with the provision of private and voluntary pension funds. The reforms carried out during the crisis have been more drastic than previous reforms: the pension age has been raised and the contribution assessed base has been reinforced. Today all the 4 countries present a voluntary and complementary contribution regime.

All 4 countries are following the same path: a reform of the pension system has been carried out. Reforms concerning the pension system were fundamental in order to face demographic ageing.

4. Welfare and social policies

In all four countries the measures against poverty are fragmented and often ineffective. In fact the number of people at risk of poverty after social transfers is higher than the EU average. The exception is Portugal that is the only Mediterranean country in line with the EU average with regard to the impact of social transfers.

The Mediterranean model is a familistic model where the family has been used as a security cushion while solidarity networks have been fundamental to support the system. However, the lack of childcare services and care services for the elderly, the fact that a number of women work and cannot any longer take care of the family has unbalanced the precarious equilibrium of the welfare system. There is increasing externalisation of personal care services traditionally provided by the family which are now entrusted to immigrants at low cost.

Traditionally the Health System has been universal in the four countries. But today there are some citizens in each country who are covered by private insurance. This phenomenon is more evident in Greece. In Italy and Spain health care has been decentralised with an increase of public-private welfare system. In Italy small payments for some services have been introduced. In Greece the continuous reduction in public health care has brought about deterioration of the quality of services. In Greece and Italy some measures to stop widespread waste are being taken.

In the 4 countries social policies are being cut. Families are weaker, population is older and inequalities are on the rise. Many factors are putting pressure on health and welfare systems. The Health System remains universal, but some selective contributions are being introduced.

5. Education policies

Cuts in the education system are being carried out.

6. Immigration policies

There is a common tendency to consider immigrants as workers. Families are more and more recurring to this cheap labour force to take care of the elderly and children, thus building a parallel welfare state mostly privately financed. There is no clear strategy to define immigration flows and the issue of citizenship rights.

Are the Mediterranean model countries going to reduce or increase poverty?

As a general trend, Mediterranean countries are making savings at the expenses of the people on low incomes, with cuts in pension benefits, social expenditure and welfare provisions. Spending cuts predominate, regardless of the composition of Governments. The common belief seems to be the “crowding-in” of the private sector as public investments fall.

It can be argued that the risk of a stagnant scenario is high, where cost cuts and consolidation efforts will have little success and will further reduce internal demand, so that the pressure towards regressive measures may increase again in a vicious cycle. In this framework, increasing economic imbalances and social inequalities can become unsustainable in the long term.

An important (and negative) impact on equality and equity is expected to come from the pension system reforms. Connecting pension levels more closely with contributions risks to exacerbate income inequalities in the old age, since the people on low incomes and with erratic jobs will increasingly receive lower benefits than the people on stable and high incomes. As a consequence, it can be expected that state pension benefits will be lower and distributed much more unequally, thus increasing the poverty-risk of aged population.

Spending cuts in social and welfare policies are being carried out in the four Mediterranean countries. This will certainly have a considerable impact on the living conditions of people.

It can be concluded that poverty is going to increase in these countries especially in the light of the impact of the crisis.

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Chapter IV

Welfare in Central and Eastern European Countries

JURAJ BARAT



Slovakia's report on the Social system

Introduction

The social system in Slovakia today is a result of the historical development from a centralised paternalistic system of the socialistic period and rapid changes of society after 1989.

The socialistic system protected people to fall out of the social system on one side, but made people depending on it in the same time.

Even in time of existence of a common state, Slovakia and Czech Republic have been economically and socially different. Average income and life standard were higher in the Czech part.

The Slovak Republic achieved independence in 1993, following the breakup of Czechoslovakia. This breakup had harder consequences for Slovakia. Czech Republic has had a higher economic productivity, more qualified work force and stronger administration of social services. After an initial decline in output in 1993, as a consequence of post-independence external shocks, the country's economic performance improved in the mid-1990s, and built on the structural transformation and economic liberalization that took place in Czechoslovakia during 1989-92.

Social system changes followed 15 years after political changes and the creating of a market economy, even later after health care transformation and education reform. The design of these reforms was led by economic and institutional ideas as diffused and promoted by the most influential international organizations, such as the IMF, the World Bank and the European Union (for ex. World bank proposals of EUR 26.2 million loan under the Social Benefits Administration Reform Project).

The social system in the region was traditionally based on a Bismarck model and after splitting of the Austrian-Hungarian Empire in 1917, the

Czechoslovak republic has taken this tradition into the new state social system as well. But the social system in Slovakia today is a mixture of basic concepts (Anglo-American liberal, conservative Bismarckian and social-democratic Scandinavian) with a still persisting behaviour of administration and clients on socialistic culture, so creating a post-socialistic model, typical with modifications for the whole region of Central Europe.

Basic social rights are defined by the Slovak constitution. It is guaranteeing right to work and to adequate welfare for elderly, in the case of loss of the breadwinner and inability to work. Those in material deprivation have the right to have guaranteed basic life conditions. Parents have the right to get support from the state for child care and pregnant women to be protected in employment. Women, young people and handicapped have the right to have higher protection in employment. Everybody has the right to health care protection and on the base of health care insurance free health care under legal conditions.

Due to the reform in 2003, the social system in Slovakia has undergone substantial changes. The state pension system was transformed into a two pillar system and labour law was liberalized.

1. The First level: The three sources of social protection

1.1 The first source: labour market

Slovakia rates among EU countries with high unemployment, for several years Slovakia has had the highest long term unemployment rate in the EU and relatively low employment rate of the young and elderly people.

The acceleration in the rate of economic growth had created an environment for improving labour market conditions throughout 2007. The trend of growth in employment which dates from 2001 had continued, and was accompanied by falling unemployment. Despite significant year-on-year growth in employment of 2.1% (in 2006 2.3%), the overall **employment rate** in 2011 was only 60.7% (men 68.4% and women 53.0%), which is still below the EU27 average (65.4%). A positive trend was recorded in the growth of employment of elderly active age groups (55-64 years), where their employment rate grew by 2.4 percentage points to 35.6% of the economically active population (men 52.2%, women 21.2%).

The **unemployment rate** is 13.44% in Sept. 2012. The difference in unemployment between women and men (2.8 percentage points) remained essentially unchanged. Most afflicted by unemployment are two eastern regions: the Kosice and Prešov regions, and the Banska Bystrica region in the south of Slovakia, with an unemployment rate of 20%. The overall situation in unemployment is worsened by the fact that approximately 70.9% of those unemployed have been without work for more than one year and the rate of long-term unemployment, despite its falling trend, has for some years now been the highest in the EU.

In Slovakia the main problem of the high rate of unemployment is the surfeit of people with little or no qualifications and the need for structural reform in the content of education in accordance with demands of the labour market.

A serious problem are the early school leavers in the case of children from vulnerable Roma communities. According to the “Report on the Living Conditions of Roma Households” (UNDP 2006), as many as 35% of Roma over 25 years of age did not complete elementary school. Likewise, approximately the same share, 36.6%, finished their education with elementary school. Only 24.3% continued in further education after completing elementary school, but of these almost 9% unsuccessfully and their career preparation ended with the status of unfinished education. Only 15.4% of the Roma population reached secondary-school or higher education.

Wage differentiation between regions continues to deepen. Generally only the Bratislava region exceeded the national average (131%). The lowest nominal average wage was in the Prešov region (74% of the national average).

There was a change in the financing of active labour market policies. Until 2004 active labour market policies were financed from the combination of resources collected from the unemployment insurance and specific government grants. After 2004, following the accession of Slovakia to the EU it was the European Social Fund to become the decisive source of active policies financing. The state budget resources were predominantly used to co-finance projects within the ESF and to co-finance investment stimuli for important foreign investors. The new Labour Code brought about a lot of influence, although it was considered controversial in many aspects (especially the left-wing parties claimed it was not well balanced towards the employers) and significantly amended after coming to power of the new government in 2006. The positive elements of the labour code included the introduction of flexible working hours, simplified recruitment and making redundant of

employees, and simplified limited period and part time employment, (seasonal work in the field of agriculture, but also in industry). The cost of making an employee redundant were decreased as well: before the reform was introduced there was a 3-month notice plus a 2-month compensation, while after the reform there was either a 3-month notice or a 3-month compensation paid. Flexibility was achieved by creating the possibility to work for other employers even more hours a week. In general, the flexible labour code and active measures adopted on the labour market brought along positive decrease in the unemployment rate.

Employment rates		
Indicators		%
General		60.7
By sex	Female	53.0
	Male	68.4

Source: Eurostat 2011

Unemployment rates		
Indicators		%
General		13.44
By sex	Female	12.7
	Male	9.9

Source: Eurostat 2012

1.2 The second source: family

In the case of poverty a problematic element is its reproduction from one generation to the next. The lives of children are greatly influenced by the circumstances of their parent's lives, for example by their education and income. The PISA outputs (2003) showed a highly significant relationship in Slovakia between a child's results at school and the socio-economic background from which he or she comes. In Slovakia the most significant factor affecting the risk of poverty is unemployment (45.1%), and unemployed men are somewhat more at risk of poverty (50.7%) than women (40.9%).

The average real wage in Slovakia reached pre-1989 levels only in 2008. However, the same does not apply to living standards, which are much improved as people need to work less to buy the same amount of goods and services.

According to the type of households, the most vulnerable households are those composed of 2 adults with 3 or more children. 33% of them are at risk of poverty. An other risk group are the households of 1 parent with at least 1 child (21%).

As job creation stagnates and existing jobs are lost, more people in Slovakia are in material need and thus represent a drain on the public purse. In 2007, 11% of the population qualified as living in poverty, with earnings of less than EUR 198 per month. Those identified as living in material need (under EUR 185) receive a subsidy that varies according to the individual's situation (whether they have children, etc) from EUR 60 to EUR 168 per month.

Poverty does not only affect the unemployed, but also the working population. According to Eurostat data¹, the so-called 'in-work poverty' affects 6.3% of the working population in Slovakia.

In 2012, the average wage in Slovakia was EUR 792 per month. In the capital Bratislava, it is almost a third higher than this. Recently, the government decided to increase the minimum wage of EUR 327,20 per month.

To be in productive age according statistics does not mean in Slovak context to be productive as well. There is still a growing group of people without proper education and working habits.

More than half of the budget of a typical household in Slovakia must be reserved for two basic needs: accommodation (including energy) and food. Accommodation costs are the biggest burden, consuming around a third of household income.

When it comes to housing, Slovaks are still very conservative and prefer to own their house or apartment. The majority of young people, once they have a job steady enough opt for a mortgage to buy an apartment. Real-estate prices are generally high, especially in the capital Bratislava, where they are higher than in neighbouring capitals like Vienna or Prague.

Unlike in Western Europe, long-term rental of apartments is not very popular and is only considered a temporary solution. Usually, only students or young professionals at the beginning of their careers share apartments with strangers, to keep living costs down.

According to Eurostat data, almost one in five Slovaks (19%) face housing costs that exceed 40% of his or her annual disposable income. Around 4% of the population suffers from "severe housing deprivation". One positive trend to come out of the economic boom was the amount spent on culture

¹ See Appendix 2.

and leisure, which had risen as income levels grew. Currently, an average household spends 14% of its income on such activities.

The number of people living at risk of poverty has been growing in Slovakia. More than a half of a million people are threatened by poverty (EU SILC 2010). 13.5% of Slovak citizens are at risk of poverty, which are more than 650,000 people. Compared with the results of EU SILC 2009, this is an increase by one percentage point, which accounts for approximately 50,000 people.

The poverty threshold for one-member households represents an income of EUR 306 per month. It is defined as sixty percent of the median income per household after deduction of payroll levies and other obligatory components, taking the household size into account. The median in 2010 was EUR 510 per person.

The proportion of pensioners endangered by poverty was 6.7 percent.

With regard to the type of households, households with three and more dependent children and one-parent households with one and more children face the highest risk of poverty.

When looking at at-risk-of-poverty rate by gender, women are more threatened than men. The rate in cases of men at risk of poverty reaches 11.7 percent, while in the case of women it is 12.2 percent. With regard to age, children under the age of 17 were at the highest risk of poverty.

1.3 The third source: welfare state

We can describe the system itself in 4 main parts:

- Health care: there is an obligatory system of health care insurance
- Social insurance: pension, sickness benefits, guarantee, disability and, unemployment insurances are administered by Social insurance under supervision of the Ministry of social affairs and family. The second pillar is managed by the state or private insurances. The third pillar is fully private.
- State social support and social benefits mainly for families, tax bonus.
- Social support: financial and material benefits to people in material need, handicapped people.

Despite these facts, there are still many essential drawbacks in the system.

The welfare state quote (Social protection benefits – sickness and health care, disability, family and children, unemployment, old age and survivor

benefits, housing and social exclusion – as a % of GDP) is with 18.81% by far the lowest of the countries examined in this project.

The at-risk-of poverty rate “before” (before all social transfers except old age and survivors benefits) compared to the one “after” social transfers shows that the welfare state has only a small impact: the poverty rate lowers by only 8 percentage points.

In Slovakia the percentage of households in a material deprivation situation is with 36% much higher than the at-risk of poverty rate.

2. The second level: The three challenges for social protection – a changing society

2.1 The first challenge: economic change

At the beginning of the transformation process there was a certain (expected) downfall of the economy, which could only be stopped in 1994. The cumulative decrease of GDP amounted to 25% in the period from 1989 to 1998, which was a drop rate comparable with the Czech Republic, Poland, and Hungary. It took Slovakia 10 years to achieve the same GDP level again. What was positive about this situation is the fact that in 1999, when Slovakia achieved the same level of GDP formation as in 1989, the quality of the formed GDP was significantly better, whereby the GDP was by 85% formed by private institutions.

From the point of view of economic policies the first 10 years of transformation may be divided into three periods. The years 1989-1993 are characterised by very restrictive policies influenced by neo-liberalism. The popular term to describe this type of policy at that time was “shock therapy”, where reforms were carried out „from one day to another“, since the then government was afraid of falling into the „transformation trap“ – that is significant weakening of the rules of socialist economy and the failing functioning of market economy rules leading to chaos.

Industry employs 39% of the workforce. Manufacturing is one of the most important sectors of the Slovak economy and includes machinery, steel, car production, chemical products, and textiles. The production of the processed food is also weighty. The weapon industry has been revived somewhat in recent years; military equipment produced now in Slovakia is primarily exported now.

Agriculture employs 7% of the workforce. The principal crops are wheat, barley, maize, sugar beets and potatoes. The breeding of live stock is also vital.

The services sector employs 54% of the workforce.

Slovakia adopted the Euro in January 2009 and is now feeling the pressure of price competitiveness from neighbours who have retained an autonomous capacity to devalue their currency as investors scale back expansion plans during the slowdown.

From the viewpoint of the Euro currency, the contribution of accession of the Slovak Republic to the Euro area is assessed rather positively in relation to the economic crisis. The Euro established a stable and foreseeable framework that is a good “buffer”. However, its negative effect reflected in worsening the export position of Slovak companies (especially on the turn of 2008-2009) due to an increase of the exchange rate of the Euro to other world currencies and also due to a decrease of surrounding currencies, which led to “shopping fever” of Slovaks who started to make their shopping in Hungary, Poland, Czech Republic and Ukraine.

A tax reform was introduced in 2004, when a flat rate income tax of 19 percent started. In 2011 the VAT rate has increased to 20%.

The Slovak state spends 17% of GDP on social protection (including health care), which is half the EU average. More than 84% of Slovakia’s social budget is funded by social contributions, not via taxes as is the case in Western countries. The majority of the funding is assigned to old-age pensioners.

To address the negative demographic trend and an ageing population – and boost the sustainability of the social system – the previous government added a second, private pillar to the social insurance system. This individual saving scheme, which complements the pay-as-you-go system, was meant to be compulsory for the younger population.

The current government strongly opposed the system and said it would put savers’ money at risk. It ceased to make participation obligatory and has been trying to persuade savers using individual accounts to return fully to the state system.

GDP (Ministry of Finance SR)		
2010	2011	2012
4,2 %	3,1 %	1,1 %

2.2 The second challenge: social change

The majority of inhabitants of Slovakia are ethnically Slovaks (85.8%). Hungarians are the largest ethnic minority (9.5%). Other ethnic groups, as of the 2001 census, include Roma with 1.7%, Ruthenians or Ukrainians with 1%, and 1.8% others or unspecified.

Unofficial estimates on the number of Roma population are much higher, around 9%. Till 1991 they have not been recognised as an ethnic group. We cannot overlook that a significant portion of the **Roma ethnic** in Slovakia lives in poverty and misery. Their poverty is a result of their exclusion from the labour market that spawns long-term unemployment, of the size of their families, as well as of a low education level.

Other social changes affected family life by various developments (employment rates of women, couples living without children, single households, the average marriage age, the mean number of children per woman etc.).

Employment rate by sex		
Indicators		%
1998	Total	67.4
	Male	75.9
	Female	59.2
2010	Total	64.6
	Male	71.9
	Female	57.4

2.3 The third challenge: demographic change

There were 5,397,036 inhabitants living in 2011 in the Slovak Republic, of which 2,627,772 were men and 2,769,264 women. From the view of age structure 11.97% were of age above 65 years, i.e. 647,000 inhabitants.

An accelerating process of aging of the population is the most serious consequence of today's demographic development. It is estimated that the average age will cross in 2015 the value of 40 years and by 2025 it will be near 43 years.

In years 2007-2015 the average age increase is estimated to be 4,6 years (12.1%).

While today there are for 100 children in age of 0 to 14 years 73 inhabitants in age of 65 years and more, there is an estimation that from 2018 seniors will be overweighting the youth part of the population.

So the process of population aging is a challenge also in the field of social services providing, for there is an expectation for an increasing demand of social services and also for higher quality and standards.

Fertility rate	
Indicator	%
Mean number of children per woman	1.24

Life expectancy		
Indicator	%	%
Life expectancy at 0 years	Males	71.4
	Females	79.1

3. The third level: Development of social protection

3.1 The first facet: To secure material daily life of oneself and ones family

On the basis of analysis of the social services, the weak side of them is mainly an undeveloped system of community planning, insufficiently created conditions for staying in home (natural) social environment, insufficiently secured continuity of social and health care in case of need for long term dependency on other persons' aid, insufficient number of qualified employees, absence of systemic deepening qualification in social services, missing standards of quality of social services, insufficiency of social services and there is a regional imbalance, field social services covering the justified demand of citizens as regards the kinds of services and insufficient variability of them.

But there is an opportunity for the regions to increase the responsibility of the local self governing bodies for solution of local and regional problems, creating aims oriented actions depending on local need with development of self help solutions of local problems depending on individual needs of clients, to increase more addressing and effective use of public resources and to develop cooperation with non public actors (NGOs).

To be received into some social services (houses for elderly care, institutions for seniors, retirement houses) there is a need for citizens to wait several years and they are usually on a waiting list. Officially those have advantages that are in thread of life and health. In institutional care of non state actors the waiting period to be accepted is not so long, but very often it is financially more expensive.

Distribution of household income (Lorenz curve, Gini-coefficient)	
Indicator	
Gini-coefficient	25.9

Quintile ratio (S80/S20)	
Indicator	
Income quintile share ratio	3.8

At-risk-of poverty rate	
Indicator	
Total population	13.5

3.2 The second facet: To be secure in critical life situations (like unemployment, illness or invalidity ...)

The Social Insurance System in Slovakia comprises apart from the sickness insurance, pension insurance and accident insurance, also the unemployment insurance with the current inclusion of the legal form of providing benefits out of this system, and the insurance in case of employer's insolvency named the guarantee insurance. The competency in the area of unemployment benefits provision and guarantee insurance benefits has been taken over from the National Labour Office by the Social Insurance Agency (SIA). The SIA provides for disbursement of unemployment benefits, the job seeking registry is administered by the Centre of Labour, Social Affairs and Family.

The Social Insurance Agency is a statutory institution with a nationwide competency in the area of the sickness insurance, the pension insurance, the accident insurance, the unemployment insurance and the guarantee insurance. Its executive bodies consist of the Headquarters and 37 Branch Offices.

SIA has been designated to be the competent and the liaison institution for the following branches of social security:

- Sickness benefit
- Maternity and equivalent paternity benefits
- Invalidity benefits
- Old-age benefits
- Survivors' benefits
- Benefits in respect of accidents at work and occupational diseases
- Unemployment benefits

Contributions paid by the employer and the employees		
Contributions	Contributions paid by the employer, as % of gross monthly salary	Contributions paid by the employees as % of gross monthly salary
Health insurance	10,00%	4,00%
Retirement	14,00%	4,00%
Permanent disability	3,00%	3,00%
Reserve fund	4,75%	
Sickness	1,40%	1,40%
Accident insurance	0,80%	
Unemployment	1,00%	1,00%
Guaranteed fund	0,25%	
Total contributions	35,20%	13,40%

Percentage of households with a right to social security (including health insurance)	
Indicator	
% covered by health insurance 2005	97.6

Net income of social assistance recipients as a % of the at-risk-of poverty threshold for 3 jobless households, no date for IT	
Indicator	
Single	0.5
Lone parent with 2 children	0.6
Couple with 2 children	0.5

3.3 The third facet: To provide for pension

Not only the composition of the nuclear family has changed. Also the ties that bind. The retirement pension reform, similar to the labour market reform, raises many controversies.

Even despite the fact that it can be deemed a unique one, especially due to the fact that it attempts to solve deficits from the past in a systemic way, but it also sets a new system from a long-term perspective. Its main goal is a long-term sustainability of public finances and an increase of individual responsibility of each individual for his life. The reform also brought more freedom and transparency, as each citizen has the choice of the retirement pension saving system and of the particular organisation that will manage his pension; and/or the choice of earlier/later retirement.

The reform introduced changes in the continuous (first) pension pillar (can be deemed a state pension pillar), especially through a gradual increase of the retirement age to 62 years, change of the pension valorisation system (inflation and salary growth with the same weight) as well as by increasing the meritorious principle.

Unfortunately, the reform is under a strong political pressure, because a majority of the population opted for the combination of the 1st and the 2nd pillars, which leads to deficit financing of the first – state pillar. Although the government implementing the reform left certain funds from privatisation yields to cover the arising deficit, those funds are insufficient and therefore the present government has been trying to adopt measures (sometimes of non-standard nature and inefficient – such as to sow doubt on the 2nd pillar, more stringent regulation of DSS companies) in order to deal with the growing deficit.

Synthesis: Social protection for all?

For politicians from centre right the role of the state seems to be too excessive, when more than half of the citizens are clients of the public social system, and it is given also to those who in reality do not need. The social system with more than 70 different social benefits seems to be too complicated and even so there are some social groups which are still out of the system.

However current centre left government speaks about fostering the cohesion of society as a main prerequisite for the betterment of the quality of life. The government suggests that orientation be primarily on such values as

the family, work as a source of income for a decent life, care for health, quality of life for senior citizens, education of children, housing, and social policy.

Very often, the discussion about poverty and people at risk of poverty focuses exclusively on the Roma population, but poverty is also a reality for many non-Roma. Most often, those affected by poverty are children, the elderly, families with more than three children, single parents and the handicapped – one of the most vulnerable groups in society.

For many single or divorced mothers – another group who often faces serious problems – one of the common realities is that the father does not pay child maintenance. This often goes unpunished and is difficult to contest.

Some studies show that 62% of the recipients in material need are single people without children. These families with more than 4 children are only 3% of those clients, what is against the belief that these are mostly people from Roma settlements.

But non-participation of Roma in the economy of the country (their employment rate is the lowest in Europe) means that they are mostly recipients and it costs the state 3.1 million EUR per year, what is 4.4% of GDP.

Economic consequences of not including the Roma population into society are enormous even today. Together with the demographic situation of the country it has a synergic contribution and may contribute to the collapse of the social system in the near future.

Conclusion

The social system in Slovakia has been modelled in the country itself under supervision of the international institutions, but has to be seen also in the context of the whole region of Central Europe as well.

The transformations and adaptations have taken place in nine countries spanning three distinct post-communist sub-regions: the Czech Republic, Hungary, Poland and Slovakia (the Visegrad region), Estonia, Latvia, and Lithuania (the Baltic area), and Bulgaria and Romania (Europe's new South-Eastern EU members). This reflects institutional diversity within and between sub-regions.

While all nine countries share a similar communist history with Bismarckian welfare institutions established in the pre-World-War II period and readapted to communist and post communist needs, there are significant country-specific and sub-regional peculiarities, including the respective legacies of the pre-

war Austro-Hungarian (the Czech Republic, Hungary, Slovakia, Slovenia), Turk-Ottoman (Bulgaria, Romania), Prussian monarchy (Poland), and Soviet union (Estonia, Latvia, Lithuania).

The three sub-regions display peculiar developmental problems. The strong economic ties established with Western Europe have greatly influenced the initial positive economic performance of the four Visegrad countries, while the slow rural urban modernization of South-Eastern European economies may have hindered a fast catching-up process.

The neo-liberal macro-economic dimension of the Visegrad model has been centered mainly around foreign direct investment and more complex exports (mainly of automobiles), based on production strategies that combined complex capital, technology, and more advanced industry-specific human skills.

The long-term social consequences of transition still have to be assessed, and already the ageing of the population looms up as the next big threat in the decades ahead.



Trends in Slovakia's Social Policies

The Slovak society is in the years after 1989 under permanent dynamic changes. These come from inside, and from external pressures and inputs as well. But surprisingly there are not enough resources where the Slovak society is moving to.

So bearing in mind its historical development and geographic position we may formulate the following trends for the next years. Again we concentrate on social development and labour market mainly, which themselves have to be seen in global trends and the future development of civilization, in trends in development of the political and law system, national economy aspects of the social development, ways to a knowledge-based society, significant factors of sustainable and safe development, perspectives of regional and territorial development.

It is possible to identify two main lines of trends which will influence the forming of the future in the next decades and also determine the claims in the adaptation of the Slovak society. The first is the general trend of the forming of a knowledge-based economy and society and the existential trend of quality and sustainability of life and other associated supporting trends.

The Slovak Government in this has prepared a „Strategy of development of the Slovak Society for the period 2015-2020“. This document is formulating expected trends for future periods and is striving to ensure the unity of the economic, social, political and environmental development of Slovakia and maintain these four components in balance.

The modernisation of the state for the universal development of society is planned to be based on Slovakia's membership in the European Union. It is necessary to achieve a balance between the shared interests of the European Union and its Member States, and the advancement of the national and state interests of the Slovak Republic.

The policy of the state will therefore be based on consolidated and permanently sustainable public finances on the one hand, and on an effective use and formation of the development potential of the state on the other. This is expected to bring progress on economic and social fronts, foster cohesion, and strengthen certainties in the life of our citizens.

The aim of the Government is to support the universal and permanently sustainable economic development of Slovakia as a prerequisite for the creation of new quality jobs and for the betterment of the material and technical conditions for all activities in society. It will redefine the boundaries for state interventions, as well as the irreplaceable role of the state in ensuring the provision of public services of general interest, overcoming impacts of the crisis and enhancing the quality of life in Slovakia. The Government will create conditions ensuring rigorous respect of the rule of law and law-abiding conduct, strengthening legal certainty and combating organised crime.

The Government suggests that orientation be primarily on such values as family, work as a source of income for a decent life, care for health, quality of life for senior citizens, education of children, housing, and social policy.

Based on this we may formulate the following trends in Slovakia:

- **Health care** will be the key intention in the next years.
 - It is generally stressed as basic priority of society;
 - There is a need to create adequate financial models of health care and programmable budgeting;
 - Transform financing of the health care.
- **Sustainability of life of the elderly population**
 - Reform the pension system;
 - Support home care from public resources and volunteering work.
- **Family support**
 - Transform the system of family support towards the birth of a 2nd and 3rd child;
 - Support of young generation education (programs towards drug abusers,...).
- **Housing**
 - Towards quality of housing and its environment;
 - Efficient energy consumption – support renewable energy resources.

- **Roma and socially excluded groups**
 - Create an information database about the Roma population (there are not sufficient demographic data till today). The estimation by Research of the Demographic Centre that in 2025 there should be above 500.000 Roma is obviously deeply underestimated.
 - Support education and school attendance. Need to prepare pre-school institutions.
 - To improve infrastructure and housing- in complex solutions, with creating strategies for delinquents and undocumented housing.
 - Employment and social benefits: the Roma population with 8% of the population is using 30% of social benefits of the state.
 - Accessibility to public services and health care on community levels.
 - Decrease of criminality – prepare prevention and education programmes.
- **Ways to a knowledge-based society**
 - The economic development based predominantly on the import of cheap labour is gradually spending all its opportunities. The Slovak economy must consider its transition to development aimed at a knowledge-based economy.
 - The transformation to a more efficient way of employing domestic labour, that means, use of its knowledge-based and creative potential appears to be more topical, requiring inception and development of creative companies, which are capable to find their way in the world thanks to their unique technologies, and creation of conditions for the arrival of investors seeking domestic knowledge- based, research and innovation potential.
 - The productive part of the population comes under strain by postproductive-age groups which must be compensated by more qualified work with higher economic efficiency.
 - Hence the lack of skilled workforce will be of permanent nature and, consequently, its demand will grow within the framework of domestic as well as international market (*brain-drain*).
- **Education**
 - To keep the step with development of the most advanced countries, Slovakia must overcome the present state of lagging behind in the field of education. In this development the key is played by the

concept of lifelong learning, including both the school education and further education.

- One of the basic development aims is to overcome the state of lagging behind in:
 - ♦ development of a lifelong education system,
 - ♦ harmonization of the structure of education and the needs of the market,
 - ♦ modernization of scientific and research base and efficient transfer of its results in commercial practice,
 - ♦ wide ranging application of digitalization in manufacture and services.

– **Employment**

- The Slovak Republic ranks among the countries with one of the highest unemployment rates of young people aged below 25 years. The unemployment rate of young women ranks higher only in Greece and Croatia.
- Almost two hundred thousand people work abroad. The number of those working abroad increased within one year by almost 24%.
- The economic growth in some branches puts pressure upon an increased need of skilled labour.
- Number and educational structure of graduates entering the labour market do not correspond to employers' demands. In some branches, there is a remarkable lack of especially vocational worker professions.
- The labour market has started perceiving intensively the deficit of skilled labour. The Slovak Republic, along with the Czech Republic, ranks among the countries with the lowest unemployment rate of those who did not complete secondary education. From this statements it follows:
 - ♦ The high unemployment rate of young people in Slovakia is not a consequence of the fact that they lack education, as it is in many other countries, but the fact that their education does not meet the demands of the labour market.
 - ♦ The opportunity to get employed after having completed school differs depending on the level of education, completed fields of studies and the overall situation of unemployment in each region.

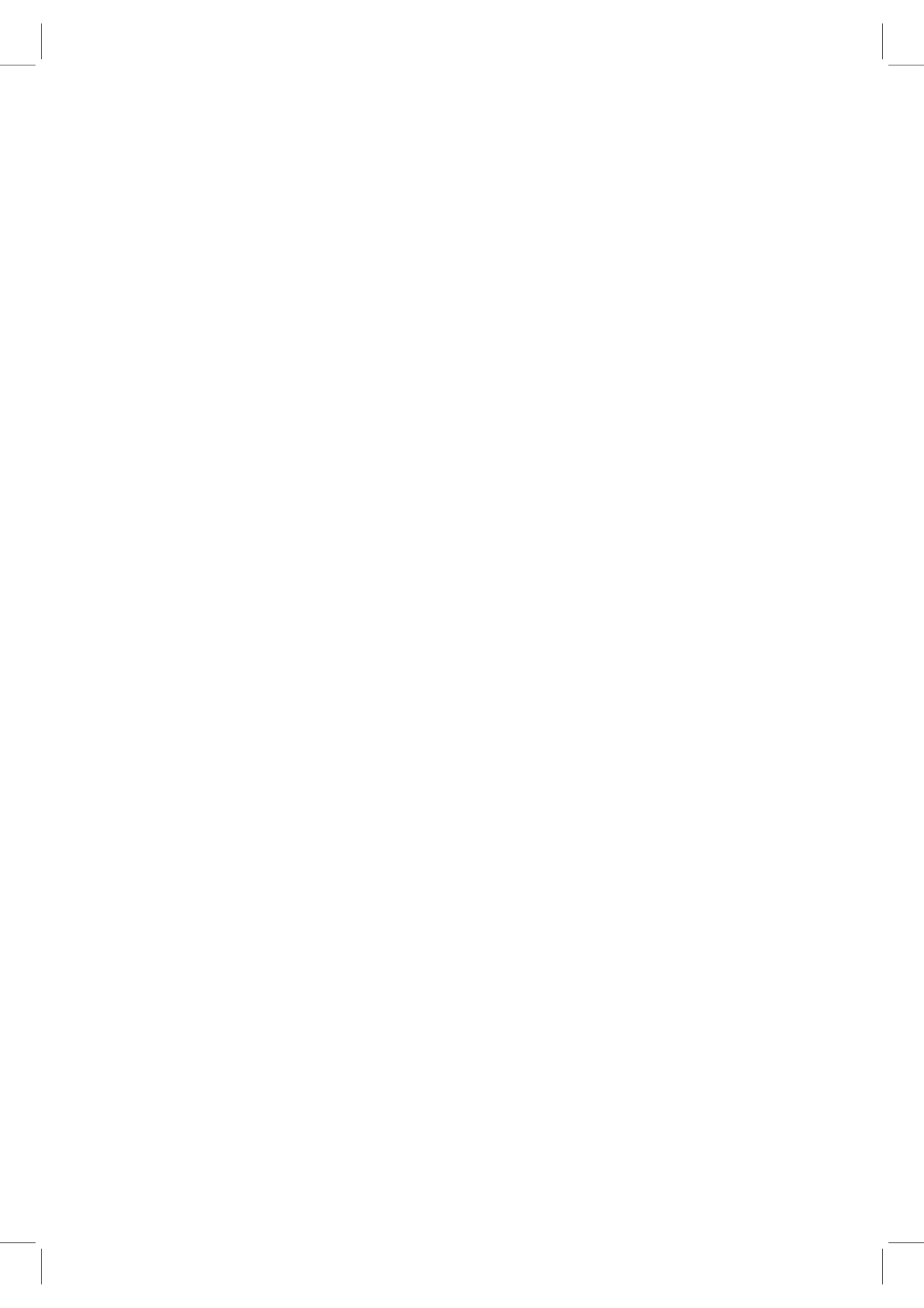
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Trends in the social systems in Central and Eastern European Countries

Background

The countries of Central and Eastern Europe may be seen in a very simplified view of the western observer like one unit of the post-soviet space. The truth is that these countries have a lot of similarities from a common history and geographical neighbourhood, but there are differences as well.

The fall of communism in its socialist expression caused large political, economic and social changes and turned the countries to open themselves to the globalisation and the European Union: this was creating a framework for changes in the social agenda as well.

The countries of Central and Eastern Europe have started with transformations after 1990. Governments ceased to control the economy directly, stopped planning production centrally, opened the markets to the prices and wages as well and eliminated direct subsidising of food prices. The phenomenon of unemployment became a common feature. The overemployment from the socialist era has shifted to unemployment, which affected social services in a way never seen before. The main changes of the social system occurred more on an institutional level (creation of insurance funds separated from the national budget, new structure of the social policy system, decentralisation of certain areas of social policy and its competencies towards regional and local levels, ...) than in the change of basic concepts (transition from state paternalism towards individual responsibility happened as well).

The widespread passivity and relying on the caring government are expressed not only in the missing personal responsibility, but also in a low rate of voluntary forms of solidarity. Although the change of rules and the legislative system enabled again the work of NGO's in the private sector and church charities, heavy social contributions and tax burden did not generate an environment

favourable for the development of voluntary forms of solidarity and NGO's are just a kind of appendix of the social policy implemented by public institutions.

Dependence of many individuals and entire families on social benefits and their relying on government's support leading to passivity has grave consequences mainly to the part of the population, which was unable to adapt to the new conditions and which is affected by long term unemployment and the related features of poverty. Those problems concentrate significantly in Roma settlements, which is another common phenomenon of the countries of Central and Eastern Europe.

There are obviously other factors which may be described as background of today's situation in this part of Europe.

Bearing in mind the problems described here we see possible future trends which we describe according to contributions received from Bulgaria (BG), Czech Republic (CZ), Romania (RO), Slovenia (SL), and of course Slovakia (SK). The Caritas workers in these countries expressed their views on a number of questions we have asked them.

- **Do you expect growing social welfare expenditures in the next 10 years?**

Generally speaking in some areas yes and in some no. It depends on the development of the economy and tax “games”, on politicians and on pressure from the public on the national and on the local level as well.

CZ: Regarding the policy statement of the government of the Czech Republic, it is not to suppose that expenditures on welfare, on pensions etc. will grow.

SL: In the next years, we are expecting a rapid growth of private healthcare, private education and private social services. It is told that would be necessary for the sake of competition. This would also mean that there will be no need to increase the funds for public welfare and at the same time the quality of services should improve.

BG: Registered problems and trends in our country require an increase in welfare expenditure. Bulgaria continues to be among the states in which the risk of poverty for the population is above the EU average (the at-risk-of poverty rate is about 20.7%). 35% of Bulgarians live in material deprivation. Those living at high risk of poverty are children under 18, unemployed, pensioners, working poor. This requires specific measures to overcome poverty

and social exclusion and hitherto an increase of public spending to the pension system, health care, social assistance and social services.

- **Do you expect a change in the quality of social services in the next years?**

CZ: The quality of social services will be fully linked with the provision of the financial resources. There is no standard method created for the planning of social services on the level of the communities, regions, etc.

There is a well-founded anxiety that the privatization of social services to a large extent will mean that by the current control system the rise of prices of these services is predictable and hence the exclusion of the most needed.

SL: Yes, in case the private sector and NGOs (e.g. Caritas) introduce new services. New services increase competition and quality due to the possibility to choose.

BG: After the long transitional period the problems in the social sphere are already clearly defined, so we expect that the newly implemented measures will improve the quality of the social services.

- **What are the expenditures on health care from private sources? Can you compare quality and effectiveness of healthcare? What is the level of corruption and transparency in all these aspects of life?**

Relevant and trustful data here fore are not available. Corruption and transparency is obvious a problem of the whole region including hard law enforcement.

SL: According to the European standards, the quality of Slovenian healthcare is relatively high. But on the other hand, we are facing great inefficiency in healthcare, because too much time is wasted on repeating examinations or even unnecessary examinations (bad organisation). Private donations don't exist except for different technical equipment (machines).

BG: For 2011 the public expenditure on health care is 4.2% of GDP. Compared to the other EU countries this percentage is one of the lowest. During the same year the average expenditure on health care per family was 479 lv. and per person – 196 lv. The households spend an average of 5.6% of the family budget on health care. The planned long-term reforms in the health-care system are still not realized and as a consequence the funds aren't managed effectively and thus ensure not the quality of provided services.

At the same time, the major part of the people living in the countryside has no access to qualitative health care. However, we may consider as a positive tendency that a development in home care is necessary and we hope that home care will be introduced and become a part of the health care services in the following years.

- **Are changes of right-left orientation of governments leading to significant changes in social policies in your country? What changes/transformations in the welfare system would be welcomed in the next years?**

Generally public expectations are to have capitalist production and efficiency and in the same time still state social protection and socialist benefits.

Joining the EU was obviously a more political act with economic calculation than accepting a social system. Permanent changes of the right-left governments brought changes more on the national than on the local level, where some social services are provided.

SL: A problem arises from the incompleteness of rules between the local and the national level for providing social security benefits (e.g. the state requires municipalities to pay for 50% of the costs for home care, but the municipalities don't have money here fore). Moreover, volunteer work is not considered to be an added value.

BG: The health care system has been changed recently and now the municipalities are responsible for the identification of care needs and for ensuring the budget for the care services. On the one hand, this change expresses the democratic belief that the problems are best solved at local level but on the other hand it caused difficulties in some municipalities due to the lack of capacity. Some services were also established just because it is possible to receive money from the national budget.

- **Is the world financial crisis influencing foreign investments in the country? Is there a significant change of employment due to the crisis? Which areas of employment are most vulnerable? How flexible is your labour market?**

SL: It is not all about financial crisis. In Slovenia, every government promised to simplify the procedures to obtain different permits (e.g. building permit) but it hasn't happened yet. Moreover, Slovenian administration is too expensive compared with other countries of the former Eastern bloc.

Changes in employment structure are mainly a consequence of the fact that young people after completing their education can't find a job or at least an internship. Slovenia didn't adjust to the changes by retraining young professionals for current needs. Moreover, we do not have enough programmes for retraining middle-aged people who lost their jobs. The biggest problem Slovenia is facing right now is the lack of new workplaces.

In a time of financial crisis, many big companies went bankrupt. Lots of qualified workers lost their jobs (e.g. in the textile industry). New textile factories are not opened because there is no future for them due to sharp competition from across the globe (especially from China). In addition, many construction companies went bankrupt. It means that a lot of people lost their jobs and don't have any possibilities for retraining.

RO: Overall, in the context of the global financial crises with stagnation for 2-3 years, in Romania there is a noticeable decrease in the quality of life of Romanians as measured by indicators such as: high unemployment, lack of access to social and medical services in small towns and rural areas, less employment opportunities on the labour market which caused a massive migration of Romanian active people to other EU countries, mainly: Spain, Italy and Germany.

Most affected by the financial problems in the last 2 years were families, especially women with children. Most female beneficiaries of our programs said that their family was left without sufficient financial resources for a decent life, facing difficulties in paying bills (women are constantly struggling to keep up with bills, instalments on loans, or are in a situation where duties are not paid for some time). It is becoming increasingly difficult to afford health care, and education for children. Also, they express concerns about their retirement income.

BG: There is a trend of reduction and freezing of foreign investment. The economic crisis and its duration reflect negatively on the labour market in the country. Employment continues to decline and unemployment increases. In 2011 the employment rate for the population aged 20 to 64 years of age reached 63.9%. The unemployment rate is 11.2% and long-term unemployment in 2011 reached 6.3%. The crisis led to a significant increase in the unemployment rate especially among the disadvantaged groups. In 2011, the level of youth unemployment in the age group 15-24 was 26.7% or 3.4 percentage points more than 2010; the unemployed over 50 years are 36.1% of the total number of unemployed; the unskilled unemployed are 57.1%.

- **What are expected trends in your pension system?**

CZ: The current proposal of the reform of pensions was rejected by the president of the Czech Republic. The analysis of the IDEA, for instance, (Institute for democracy and economic analysis) indicates this transfer is more profitable for the richer, because financial resources from outside of the state system would be better valorised.

According to the opinion and example (Hungary) the implementation of the second pension pillar means for working people less security for their pension savings.

SL: There are many people who really worked hard but they do not enjoy the benefits they deserve. On the other hand, social pensioners are privileged (those people who didn't work). Regarding social pensions, they are meant to cover basic living expenses. It means that a social pension doesn't include privileges such as having a single bedroom in a nursing home, or privileges in healthcare services etc., because this would be unfair to people who worked hard their whole life.

RO: In terms of the public pension system in Romania, it is a 'pay as you go'-system and the contributions received from active individuals immediately turn into allowances for pensioners. The main problem facing the public pension system in Romania is insufficient funds. From a technical point of view, the current system based on the contributory nature uses quota to redistribute the contributions in an increasingly larger way. This is due mainly to the continuous decrease in the number of active people.

In 2012 we celebrate five years since has been launched in Romania the private voluntary and mandatory pension funds in May 2007/September 2007. Five years ago two new components were added to the public pension system: Pillar II, the mandatory private pension funds and Pillar III, the optional or voluntary pension funds. This was meant to be an institutional rearrangement, the concept was to promote a pension system in Romania that would be financially sustainable. Romanian society records long developments with negative impact on the traditional construction principle of the pension system: intergenerational solidarity.

After 1989, we witnessed a massive reduction of the population due to a negative population growth rate and a significant emigration, which lead to a significant decrease of the working population in parallel with an increase of the number of pensioners. Add to that a rapidly increasing unemployment, especially under the impact of the recent economic and financial crisis. Under

these conditions, the simplest formula for measuring the sustainability of the pension system, e.g. the ratio between the number of pensioners and the number of active persons decreased from 3.3 after 20 years to a value close to parity now.

In this context it should be noted that people who currently contribute to the public pension system are mainly born between 1968-1989, when the Ceausescu decree about birth control affected so many generations (a similar situation post-war baby boomers). These will begin to retire beginning in 2030. At this moment the contributions will be supported by a significantly lower population number, as reflected in current statistical reviews.

BG: Following the EU trends increasing of the retirement age and equalizing of years for men and women are expected. It is planned that from 2017 on the retirement age will be 67 and the minimum required employment period (to be eligible for a pension) will be 15 years.

- **What trends do you expect in relation to expenditure on social protection, regarding the categories of pensions, sickness benefits, invalidity and expenditure on families with children?**

CZ: Because of the ageing of the population in Czech Republic (as in other EU countries) the costs for the social insurance of people will need to increase. Comparing the years 2006 and 2008, the expenditure was 13 billions CZK higher.

The lack of social security, the changes in the social insurance system realised in short intervals etc. seem to be unfavourable for the social development. Looking for instance to France, the stability of the family allowance assured the continuous growth of the French population.

SL: We are in favour of pension bonuses if the basic state pension is too low to live on. Regarding disabilities there are stricter criteria and we are in favour of them.

We are in favour of supporting families with three or more children with additional social security benefits (e.g. for school meals, etc.).

BG: An increase of the budgetary allocations in accordance with the needs and registered inflation can not be observed. A revision of certain expenditure items such as pensions and social pensions as well as payments for maternity are planned.

Resources:

GONDA, PETER & NOVOTA, MICHAL & DOSTÁL, ONDREJ
(2006): Draft of Welfare reform in Slovakia, Conservative Institute of Milan Rastislav Štefánik, Bratislava.

Inputs from Caritas Slovenia, Czech republic, Slovakia, Romania, Bulgaria.

Chapter VII
Conclusions
ROBERT URBÉ



The goal of social welfare is to create the conditions for everybody to have a good life¹. To say it in Carlo Knöpfel's own words: "The structural conditions for developing personal and societal well-being include:

- The possibility for all people to be able to manage daily life for themselves and for their families. This includes expenditure on food, housing, health, mobility and societal participation.
- The possibility for all people to protect themselves against social risks such as unemployment, sickness, accidents and disability.
- The possibility for all people to guarantee their living conditions in case of retirement by (social) insurances and/or by putting aside some savings for old age.

Three main sources shape these conditions: i) paid productive employment in the labour market; ii) solidarity within the family and primary networks, and iii) the support provided by the welfare state."²

In the present project we wanted to examine how far the different welfare state models in Europe are fulfilling these objectives, how they are combining the three sources to organize welfare and if these models are learning from each other; what are the developments of these models in the past and particular now in times of crisis.

From the previous five chapters we can extract a range of findings. These concern the state of the art of European Social Models, their developments in the last decades as well as their short term adaptations to the crisis beginning in 2008.

1 For a discussion of different approaches to characterize the welfare state, see e.g. Esping-Andersen (1990).

2 See Caritas Europa (2010), see also Carlo Knöpfel 's contribution in Chapter one.

How differently do these developments occur in the different models of welfare states? As regards the Bismarckian countries (Belgium, Austria, France, Germany and Luxembourg³) what is evident is that growing tax rates and high levels of public expenditure are coming down on the long run, but in the short term rising again because of the crisis. Shifting taxes from labour to other sources of income is a constant debate, as well as the part that taxes play in the financing of the welfare state. There is also a discussion about means-testing more of the benefits, combined with a better targeting of the needy groups. The provision of social services is generally alleviating the burden of the more vulnerable. Child care facilities are able to reconcile family life and professional life. Availability, accessibility and affordability as well as their quality is the big challenge for the future. Especially in the care sector for profit organizations are increasingly entering the scene. The care sector represents a certain challenge for the welfare state, it is not evenly organized throughout all countries of the Bismarckian system, and some are relying heavily on informal care provided by family members, whereas some have sophisticated care systems, which are increasingly threatened as regards their funding. Demographic challenges are generally not adequately addressed. In some countries pension reforms with a slight increase of the retirement age and with cuts for future pensions are undertaken, on the way or discussed; but these measures, implemented or foreseen, do not go far enough. A second or third pillar is not evenly developed in all countries, and when it is the case, it is not mainstreamed. Health care is organized in such a way that nearly everyone has access and it is of high quality, but still there are poor people living on with a lower health status. Labour markets were producing higher employment rates, especially also for women and the elderly, but the crisis has often reversed these developments. Most countries introduced anti-crisis measures like temporary unemployment, reduced working hours etc. to alleviate the effects on the labour market. There was also often a shift from passive to active labour market policies. Unemployment has risen in all countries, even if it is contained under the ceiling of 10%. Poverty rates, also because of the social transfers, were relatively stable over the last decades; however an increase in extreme poverty can be observed these last years. Even if some adaptations, slight reductions in expenditure, smaller decreases also on social expenditure, and some tax increases have taken place because of the crisis (where the social system played its role as an automatic stabilizer), there cannot be observed a general austerity plan with severe consequences

³ See Chapter two.

for the welfare system⁴. Bismarckian systems have so far resisted the impacts of the crisis fairly well, but certain dangers still remain and the situation is still unfolding.

As far as Beveridge model based countries are concerned (Ireland and UK, with a note on Malta⁵), they seem to experience the same trends: a low percentage of GDP (in comparison to countries from other welfare models) is spent on social welfare. Even more: whereas equally welfare rates and state pensions had consistently risen in the past, there is an erosion of welfare provision to be observed since 2008. While employment had increased significantly during the past decades, unemployment returned from 2008 onwards, culminating in a dramatic rise in the long-term unemployment rate. Similarly there has been a drop in poverty rates in recent years, a trend that was suddenly reversed as a result of the crisis. The long-term problematic issue of ‘working poor’ is not addressed. Child poverty continues to rise and is as well above the overall poverty rate as above the European average rate. As more and more emphasis is put on providing social protection at a low level for those in absolute need, the Beveridge model is in itself in danger. As “policies for the poor are poor policies”⁶, the model could – following substantial erosion – simply cease to exist⁷. Both in Ireland and in the UK the welfare policies are lacking a balanced approach which recognizes that a stable social system is also a stabilizer and a lever for the economy⁸.

Scandinavian countries (Sweden, Denmark, Finland and Norway⁹) are the ones with the most even income distribution, but inequalities are rising the last twenty years. The systems are performing well on the support to the unemployed by subsidized jobs (through a shift from taxes being less used for unemployment benefits and more for employment measures), but long term unemployment remains a problem. The sickness insurance reform went along with these developments, assessing the work capacity of those on sick leave. The integration of immigrants through employment is another element in this sense, as well as the incentives to keep people longer in work. Furthermore a high formal pension age, and a high effective retirement age, a high labour market participation of women are all signs of a system that puts a lot of emphasis on the labour market as the provider for social well-being. Another

4 See Hemerijck (2010).

5 See Chapter three.

6 Larry Summers, according to Woolcock (2006).

7 See e.g. Red (2009).

8 See Hemerijck (2010).

9 See Chapter four.

element consists in the entrance of private providers for social services into the market, especially on a regional basis. All in all the Scandinavian systems were better coping with the effects of the crisis, their GDP growth rate, their unemployment rate and their public finances being less affected than in other countries of other social welfare paradigms.

The Mediterranean countries for their part (Italy, Greece, Portugal and Spain¹⁰) are those where the most important cuts in social benefits can be recorded. There are merely no measures against poverty; the family is (again!) the main security cushion¹¹. The situation is characterised by a low employment rate for women, and especially for youngsters. Increasing flexibility and insecurity are deployed to overcome the segmented labour market; most of the countries are also shifting from passive to active labour market policies. The anomalous structure of public finances, together with unsustainable pension expenditures (there are some attempts to increase the retirement age, but this would not be sufficient) have led to a privatisation of social services, within it a shift from public to private schools, threatening seriously the cohesion of societies. Another element in this overall picture is the reliance on immigration, especially to alleviate the burden on the families and to fill the gap of not or no longer existing social services such as home care for the elderly. In Mediterranean countries the already poor welfare state is being more and more dismantled.

Finally we see in the Central and Eastern European countries (as far as they belong to our sample: Slovakia, Bulgaria, Czech Republic, Slovenia and Romania¹²) a zigzagging but constant move in the welfare system since the fall of the iron curtain. Changing governments have often brought changing patterns for the welfare system, but another reason is also the economic development in a historic situation. As on the one hand a welfare state as such did not exist, everything relying on the state budget that vanished after 1989, and as there was on the other hand a need to modernize the economy, there was not enough money (and attention?) left to organize a welfare system responding to the needs of the people. Especially the issue of pensions as well as unemployment threatened equally public finances and people's social protection. The downward spiral of tax alleviation such as low flat tax rates in some countries added to the precariousness of public finances. Another

10 See Chapter five.

11 And to found a family is even more difficult nowadays (lowest birthrates in Europe and drop of the number of marriages), so that it is likely that in the future there will be no cushion at all!

12 See Chapter six.

challenge was the necessary decentralisation and denationalization. The ongoing crisis did not relieve these challenges, especially for those countries that meanwhile were adhering to the Eurozone. Instead of a deepening of the public welfare system, a growing privatisation of social services takes place.

Some have argued that the importance of welfare reforms has been bigger in countries with a liberal (Beveridge) or social-democratic (Scandinavian) system than in conservative-corporatist (Bismarckian) systems¹³. The picture of Bismarckian countries as being “a frozen landscape” unable of undergoing reforms of their welfare system has even been drawn¹⁴. Here we must say that regarding our findings this can not be upheld. What is more, the size of reforms cannot be measured by the quantitative reduction of welfare expenses. It is of course easy to reduce already low benefits only a small part of the population is entitled to as it is the case in liberal systems¹⁵, or to cut all benefits by a certain percentage as it was the case in some Scandinavian countries¹⁶, and to call this “deep reforms”. The cuts in the social budgets were indeed not so drastic in Bismarckian countries, but the structural reforms were even deeper¹⁷. Looking at welfare systems from a neo-liberal point of view, it is obvious that Bismarckian countries have not undertaken such deep reforms, i.e. such drastic cuts in their social systems, as others did. If retrenchment is the paradigm for reform, than we have to admit that Bismarckian systems have withstood reforms. But if we take a deeper look¹⁸ in what happened and still happens, retrenchment was not as much at stake in Bismarckian countries. However nearly in all of them a huge reform process started in the early 2000’s and has gathered pace in the late 2000’s to make the welfare systems more resilient in the long run¹⁹. Only the future will show, if this has been successful²⁰. We may argue that as far as pensions are concerned the reforms, which went in the right direction, did not go far enough²¹. Maybe also, that in Bismarckian systems with the important participation of social partners in the management of the welfare systems, bigger one step reforms

13 See e.g. Scharpf & Schmidt (2000), Pierson (2001), Daly (2001) and others.

14 See Esping-Andersen (1996).

15 See Taylor-Gooby (2001).

16 See Kuhnle (2001).

17 See Palier (2007).

18 According to the analytical framework developed by Hall (1993), see Palier (2010).

19 See Palier (2010).

20 Some argue that the future hidden obligations inherent to the pension systems are not well taken into account, see e.g. Moog & Raffelhüschen (2011).

21 See above.

are not so obvious: it is more likely that a process of smaller reforms²², one building on the results of the previous ones is put on track, which is still taking place. And in that sense the last word cannot yet be spoken on this question.

Besides the findings on the question whether there are different model or system developments or whether these developments depend largely on national diversities, another question has for long time interested researchers, practitioners and politicians equally: will the different regimes of welfare state continue to exist next to each other, or will there be a tendency towards a convergence of these models?

Esping-Andersen already outlined that in considering clusters of welfare states “there is no single pure case”: Scandinavian countries “are not free of liberal elements”, the American New Deal was evenly social democratic and “European conservative regimes have incorporated both liberal and social democratic impulses”²³.

Whereas some²⁴ conclude that convergence towards the liberal model is the only possibility given the neoliberal environment, others argue that it is the underlying economic model that dominates and which influences the social model of a country as well as its time-wise adaptations, even if the models as such may evolve towards various hybrid models²⁵. Others see a convergence, not towards one of the distinguished models, but towards a hybrid model²⁶. Esping-Andersen himself has claimed that the differences will remain as the causal forces for welfare state developments are “the nature of class mobilization (especially of the working class); class-political coalition structures; and the historical legacy of regime institutionalization.”²⁷ As these, surely the latter, are and remain different from model to model, it can be argued that the models will develop²⁸, but not converge²⁹.

For Barou³⁰ the interesting point is neither the question of different models nor of convergence, but the fact that despite the differences a European model exists, compared to other parts of the World like China or the US.

22 See Palier (2010).

23 See Esping-Andersen (1990).

24 See e.g. Sapir (2003) and Sapir (2005).

25 See e.g. Strünck (2008).

26 See e.g. Busch (2005).

27 See Esping-Andersen (1990).

28 “Development” may also include profound changes, see Hemerijck (2009).

29 See Taylor-Gooby (2004).

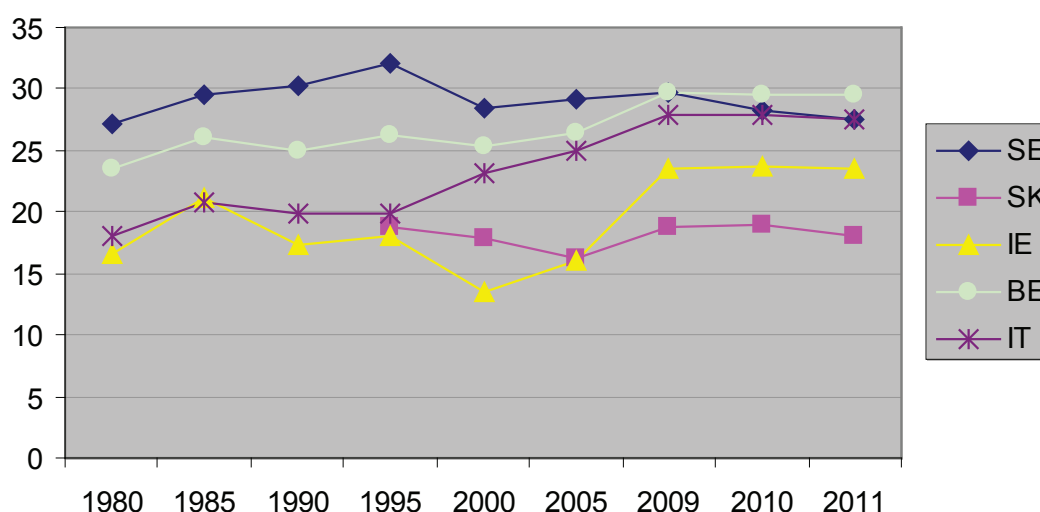
30 See Barou (2012).

On the other hand, according to Hemerijck a fully-fledged European welfare system is unlikely to emerge in the near future³¹.

A certain tendency to convergence can be found in recent answers to the crisis. Although very differing from country to country, several data, reactions and beliefs can be seen as common: the demographic development, the demand for higher pension ages, the belief in some social benefits being disincentives to work, the claim for more selectivity and better targeting of benefits etc. Moreover, given the diverse ways of responding to the crisis, there is nevertheless one more or less common element throughout all member states³²: fiscal consolidation, reducing public budget's deficits and limiting public debt led in all member states to savings in the social budget.

Whereas Heise and Lierse have computed from OECD data 1980 to 2005 a chart which shows that there is no “general downward spiral of levels of social security”³³, newer data show that this happened later.

Chart 1: Social Spending as a Percentage of GDP (1980-2011).



Source: Own calculations based on Eurostat data (for the period 1980-2005 comparable to OECD, Country statistical profiles 2009 according to Heise & Lierse (2011).

Focussing on the countries under scrutiny in this publication, we can observe that whereas for Slovakia and Sweden there is a net tendency downwards, Belgium, Italy and Ireland – after more or less clear increases between 2005 and 2009 – show only slight downward tendencies. However taken into account that in all these countries gross domestic product had more

31 See Hemerijck (2002).

32 See also Busch (2009).

33 See Heise & Lierse (2011).

or less pronounced decreases, this leads to a net downward spiral of social security expenses. Similar observations can be made for other countries³⁴.

Cuts in benefits, more means-testing instead of universal benefits, reducing the range of the entitled, limiting the time period where someone can rely on benefits, cutting the budgets allocated to social services etc. were measures introduced to a larger or smaller extent, putting more pressure on the needy and their families.

These austerity measures started in some member states as from 2009, in some others later, the latest in 2011, after the first attempt to combat the crisis in 2008/2009 had been a Keynesian answer: replacing the vanishing private demand by public demand, through deficit spending keeping the economy turning around³⁵. But a true Keynesian approach would have required that member states would have had made savings in the better years before the crisis, money to be spend then to overcome the crisis. As most member states however were already largely indebted before the crisis began³⁶, there was no base for a Keynesian approach. Several months of increased public expenditure trying to re-launch the stuttering engine of the economy combined with the budgetary means deployed to bail out failing banks were enough to bring up public deficits and, for most member states, public debt to levels that were never seen before and that have put a serious threat on future fiscal, economic, social and political development. Therefore a new policy was needed, to bring public deficits and public debt down to “normal” figures. By choosing austerity, i.e. cuts in public spending, in a range of countries the opposite was the result. Cuts in public spending led to a lowering of the public demand, followed by a lowering of private demand thus resulting in a negative GDP growth rate. In relation to a falling GDP, the ratio of public deficits and public debt to GDP was not going better, in a range of countries they were even getting worse. Their further deterioration led to more austerity measures and thus a vicious circle was created.

The only way out of this vicious circle would have been to bring public finances into a new balance not by cutting expenses (except the unnecessary ones), but by rising public income, i.e. by rising taxes on wealth and on high incomes. The wealthier people are, the lower is the probability to spend their whole income for consumption purposes, so that cuts in their income would not affect private demand as did the cuts in the income of the lower middle

34 See Eurostat data.

35 See European Commission (2008).

36 See Heise & Lierse (2011) and European Commission DG ECFIN (2010).

classes and the lower classes. The Strategy Europe 2020 of the European Union³⁷ claims for a smart, sustainable and inclusive growth, whereas the real politics seem to have forgotten about the third pillar: social inclusion!³⁸ The main failure is not that the National Reform Programmes are mainly focussing on macroeconomic developments, but that poverty and its implications are not comprised within the macroeconomic elements to be monitored. What else is poverty, when it is not a macroeconomic component? And what is macroeconomic examination when it does not consider poverty?

To put at least more emphasis on the employment, or better the unemployment problems, is therefore one of the new ideas that rose up in the Annual Growth Survey of the European Commission³⁹, starting the European semester 2013. Even the IMF, in some countries (the so called programme countries) together with the ECB and the European Commission the instigator of strong austerity measures has recently published a study which results in the findings that to come over the difficult situation, tax increases would be the better measure than expenditure cuts⁴⁰. Combining fiscal consolidation together with social investment is by some recommended as the way forward⁴¹.

These results lead us to the question, if there is not more need to investigate in the Future of the European Social Model or the Welfare State in another way⁴². As Caritas we do base our judgements on the Catholic Social Teaching: human beings are more important than economic efficiency, solidarity comes before individualism and a society can be judged on the way how it treats the most vulnerable⁴³. Should we hence not ask, how to ensure that our societies give space for everybody, that they are cohesive in that sense that they provide a good life for everyone and not enormous wealth for some to the expense of the majority? How can we translate the finding that social welfare expenses are not costs to be avoided, but that they are investments in the future (maybe that this will be taken up by the European Commission which is about to publish its “Social Investment Package”⁴⁴), how translate this into concrete policies? If there is evidence, that investment in early childhood results in later

37 See European Commission (2010).

38 For a better imbedding of social inclusion policies in the Europe 2020 strategy, see Marlier & Natali (2010).

39 See European Commission (2012).

40 See International Monetary Fund (2012).

41 See e.g. Vandenbroucke, Hemerijck & Palier (2011), or Busch (2011).

42 See Esping-Andersen, Gallie, Hemerijck and Miles (2002).

43 See e.g. Turner (2010).

44 See European Commission (2013). On the paradigm of “social investment” see also Jenson (2012).

savings for the society that are ten times bigger⁴⁵, why does this evidence not result into concrete steps combating child poverty? Is there a future for the European Union if there is not a kind of common agreement on a minimum of social rights, including a minimum wage?

Or should we ask with Dahrendorf, how the Union and its member states get back to a balance between ‘promoting the competitiveness of the economy’, ‘social cohesion’ and ‘a free society’?⁴⁶ He argued that the welfare state being considered only as a cost factor and social cohesion hence being put under pressure would in democratic societies end in protests and riots – as we can observe nowadays in southern European countries – and that this would inevitably lead to more authoritarian reactions: he saw the 21st century as potentially mutating to an authoritarian century.

The objective of this project born before the crisis was to analyze whether the changes operated throughout the European countries were country specific or model specific, searching if there were commonalities between the developments of the welfare systems of countries of the same welfare regime. But in a sense we might pretend to be victims of the crisis, as this disturbed (and prolonged!) our work in an excessive way. Even by separating the changes into those long-term developments since World War II (or since 1989 in the case of the central and eastern European countries) and the trends and tendencies to be observed since the beginning of the crisis, the results found are not that convincing.

Given the extent of austerity measures throughout Europe, we may ask ourselves in the end, whether to ask if there are different European Models, and if or if not they are to some extent converging or at least hybridising by overtaking elements of one another, is still the right question. Here we mean by “the right question” the one which is important to be answered, the one which bothers most Europeans etc. Therefore we think at this stage that our project is only one step in a necessary chain of other steps to go, the results of our project are only the base on which other questions are to be asked and answered. Among these we see that especially Caritas Europa could be interested in:

- Is austerity the right approach to overcome the crisis?
- Which are the measures that counterbalance the effects of the crisis and promise a more balanced future development?
- What changes are needed to make this world more just?

45 See e.g. MacKenzie (2008). Fritschi & Oesch (2008).

46 See Dahrendorf (2008).

- What would a sustainable model of economic, social and environmental development look like?
- How can we find a balance between social cohesion, political democracy, and economic globalization?
- How can solidarity be promoted and how can the common good be supported?
- How can we assure that public money is mobilised to invest in Europe’s future?
- And how can we shape a society in which everybody participates according to his possibilities and everybody receives according to his needs?
- How can the European Union fulfil its social responsibilities as outlined in Article 3 of the treaty⁴⁷, pursuing the common good?

In this sense Caritas Europa could also build on the results of a Caritas Europa study which is being prepared while this publication is being written, namely the study on the impact of the crisis in southern European countries⁴⁸; as well as on the Europe 2020 Shadow Report “Missing the train for inclusive growth”⁴⁹ and its predecessor reports on the assessment of the National Reform Programmes.

We recommend therefore to Caritas Europa to examine thoughtfully this questioning and start a follow-up project that could be named: “The Future of the Welfare State – ways to bring Europe’s Social development back on track”.

⁴⁷ The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.

It shall promote economic, social and territorial cohesion, and solidarity among Member States.

It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe’s cultural heritage is safeguarded and enhanced.

⁴⁸ See Caritas Europa (2013).

⁴⁹ See Caritas Europa (2012).

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Appendix I

Caritas Europa's Basic Principles for a Sustainable Social System

“Caritas Europa, in a profound commitment to fight poverty and social exclusion and to promote human development, social justice and sustainable social systems in Europe and throughout the world, brings together the human, technical and financial resources of its member organisations. This work of Caritas Europa lies at the heart of the Church’s witness to the Gospel.” This is how the mission of Caritas Europa is described in its strategy 2005-2010: “To Live Solidarity and Partnership in Europe and in the World”.

Caritas, acting for the most vulnerable, working to build a better world – especially for the poor and the oppressed - has over the years become a recognised actor in the social sector, for the aid directly delivered to the oppressed as well as for its advocacy and lobbying work. Outstanding testimonies are, amongst others, the Poverty Reports published from 2002 to 2006.

“Caritas Europa encourages a spirit of partnership with an accompaniment of people experiencing poverty or exclusion through listening to them, discussing their concerns and jointly designing and delivering adequate responses.

Based on this partnership, Caritas Europa works towards poverty eradication and social inclusion through the development and implementation of a comprehensive social policy framework and through fostering the principles of participatory democracy and civil dialogue.

Caritas Europa promotes the quality and the sustainability of social and health protection at the level of protection systems as well as at the level of service provision.”¹

¹ The CE Strategic plan 2005-2010 defines priority 1 (out of 6), “Social Inclusion and Social Cohesion”. This is how goal 1 of this priority is described: To develop and implement a comprehensive and coherent social policy framework that is structured around social policy themes that address the needs and rights of people experiencing poverty and/or

For all European countries, the Council of Europe's Social Cohesion Strategy indicates a common direction in which to move and common objectives to achieve, when social cohesion is defined as "...the capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation. A cohesive society is a mutually supportive community of free individuals pursuing these common goals by democratic means."

Social policy is more and more a common European issue. Even if the national governments are still the rulers of social policy in their country, for EU Member States, the Open Method of Coordination at European Community level has defined common objectives, common indicators and a common review of the actions undertaken at national level.

Therefore it is a must to Caritas in Europe to also have at its disposal a commonly agreed framework, a list of criteria, a measure, a mirror and a set of guiding principles to monitor national policies, shaped as they are by a common process at European level. To be capable of judging social policy measures and actions according to the benefits they provide – or do not provide – especially to the most vulnerable, we need to have means of measurement and comparison in our possession.

Status of the document

This document summarizes the actual vision of a good and sustainable social system according to the experiences of Caritas organizations. With these basic principles, Caritas organizations can work in their own national lobbying. Caritas Europa can lobby on this basis at the European level. It will be disseminated only in Caritas publications and websites for the information of Caritas members, volunteers and employees. It will direct and promote discussion about social issues within Caritas Europa network.

exclusion and that is agreed upon within the network.

To reach this goal, according to the workplan 2004-2005, a so-called Sustainable Development Task Force of the Social Policy Commission of CE prepared a document called first "Common criteria", later "List of Principles".

This document, which is based on the social cohesion definition of the Council of Europe, was refined in two Sustainable Development Seminars (one in Miercurea Ciuc in Romania in September 2005 and the second one as S2-Seminar of the CONCEPT-Project held in Brussels in March 2006).

Introduction

The dignity of the human being is a direct derivation of the divine origin of mankind.

Charity, as an essential part of the Catholic Church's mission², is at the centre of Caritas activities. It assists neighbours in need – free from ideologies and proselytism – being the best witness to God. Yet, charitable activities do not remain the same over time and new forms have arisen in response to new needs, which include asking for co-operations in a globalised world.

Caritas Europa jointly adopts the following basic principles to be fulfilled by any social system in a perspective of sustainable development³ throughout Europe. These principles form a foundation upon which Caritas Europa shall pursue its social-political lobbying in the individual countries and at the European level. The basic goals are **social cohesion as the capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation**⁴. Linked to this is social inclusion, which refers to a more targeted approach to disadvantaged groups. Functional to social inclusion is economic inclusion.

Therefore, in the following paragraphs, we opt for an integrated and more structural approach, where we consecutively discuss the social protection system, five 'basic rights' or fields of social inclusion and social services. This approach underlines the interlinked character of the various sub-domains of the social system. In our daily work, we often focus on specific categories of beneficiaries, such as migrants, the elderly, single mothers etc. Yet the problems they encounter are often interrelated and refer to various social subsystems.

Caritas Europa wants to contribute to a better life and build a better world for all people, and especially for the poor and the oppressed. Hence, in this approach, we do not focus on single categories of beneficiaries, but try to tackle exclusion circles in the main areas of society.

Caritas Europa thus promotes a **rights-based social system**.

2 Benedict XVI, *Deus Caritas est*, Encyclical Letter of December 25, 2005, par. 20.

3 "Sustainable development" means meeting the needs of the present generation without compromising the ability of future generations to meet their needs. Klaus Töpfer, Executive Director of UNEP, remarked that poverty is the most hazardous toxin polluting the environment of this planet. We focus on those parts of sustainable development that are concerned with social cohesion and inclusion, keeping in mind that environment and social development are closely interrelated and act on each other.

4 Council of Europe: *A new strategy for social cohesion*, 2004, p.3.

1. Social protection system

1.1. Social Protection System and Fundamental Rights

Caritas Europa believes the protection of fundamental rights should be at the core of every society. Fundamental rights are best respected when they are a source of inspiration for a comprehensive social protection system, which, in turn, also supports them. Such a system has to be based on solidarity and justice; it should protect collective as well as individual rights⁵.

Such fundamental rights are rooted in the dignity belonging to each human being and thus are intrinsically inherent to every person. Existing international documents, consequently, cannot but recognise them, rather than “creating” or “conferring” them upon everyone.

There has to be a public debate involving all members of the society, focusing on what dignified living means to society.

1.2 Functioning of a social protection system

- The dignity of the human being must be the basis for the conception of any social system.
- A social protection system must enable all members of society (citizens and non-citizens) to protect themselves for the long-term from life's risks in the form of illness, dependence on nursing care, disability, unemployment and economic poverty⁶, and it must enable everyone to make provisions for their old age.

⁵ Important features of such systems have already been developed in international legal instruments like the revised European Social Charter, adopted by the Council of Europe, together with the conventions of the International Labour Organization (ILO). Some of the provisions mentioned hereunder may overlap with the ones just described, but they should be strongly advocated for, particularly in countries that have not (yet) ratified the abovementioned conventions.

⁶ In this context, “poverty” is only meant in its economic dimension. However, Caritas Europa defines the concept of poverty in a much wider sense: *Poverty [is] a multi-dimensional and multi-factorial phenomenon [...] which is based not solely on income [...] but includes basic needs, basic human rights and such intangibles as vulnerability, risk, inequality, marginalisation, discrimination, exclusion, a feeling of powerlessness and the circumscribing of options and choices.* Caritas Europa, Report on Poverty in Europe, 2001, p. 11.

- There must be a minimum level of social protection for people who cannot help themselves and who are not covered by other primary-level protection systems.
- Special attention should be paid to child poverty in order to break the intergenerational transmission of poverty.
- A social protection system must not reinforce social plight and health limitations, but rather promote prevention and enable those people in need to help themselves, strengthen their autonomy and foster their reintegration.
- There must be transparent and verifiable criteria to measure the scope of assistance for special needs and situations.
- All people in economic need shall be offered opportunities to work and to earn their livelihood independently.
- The role of families as primary caregivers and actors of social protection must be better underpinned, in particular by providing support for raising children, for making family life and career compatible and for the care of family dependants.
- A social system has to avoid that the sheer fact of having dependent children may lead into the poverty trap.
- The social protection system must not exclude or discriminate against, in particular, the poor and those at risk of becoming poor, as well as the socially disadvantaged and the people with special needs. The system has to counteract tendencies that tear down societal solidarity.
- Components of the system have to be poverty-proof and ensure a certain socio-cultural minimum of subsistence according to an objective scale of measurement.
- Self-determination, self-help, sovereignty, personal responsibility and the citizen's right to information have to be guaranteed whenever possible within the framework of the social protection system.

1.3 Financing of the social protection system

- The social protection system must be sustainable. It must also be financially viable under circumstances of demographic change.
- The principle of efficiency has to be considered in raising funds and so does the principle of general fairness with regard to performance, distribution, participation and capability.

- Just and fair financing of the social protection system must also be guaranteed across generations. The contribution of families through their intergenerational nature has to be taken into consideration with financial compensation.
- Every component of the system must be sustainable in itself.
- The social protection system must be transparent and easy to understand so that citizens can see what their contributions or taxes are for and what services they can expect when in need.
- In designing the social protection system, national economic effects have to be taken into account as well as their influence on the behaviour of providers and users.
- Employment has historically been the basis of the whole protection system. It should not, however, bear the whole burden of financing. As this system equally has to protect all people residing in a country, other sources of financing have to be explored, such as taxation on production factors (other than labour) or a fair contribution from everyone. In this view, the fight against tax evasion and undeclared work could be useful preventive instruments.

2. Basic rights and social inclusion

2.1 Education

Education until the age of majority is a basic right and has to be free. Access to life-long learning⁷ and other forms of personal development are also basic rights.

- The education system has to guarantee equal opportunities and offer special support to the disadvantaged. It also has to be a flexible system that responds to the changing needs of society. It should aim at the acquisition of social skills and at personal development.
- The education system has to be non-discriminatory and culturally sensitive.
- The education system must allow for a plurality of providers.

⁷ The European Council of June 2000 made lifelong learning one of the objectives of the Lisbon Strategy. See Communication COM (2001) 678 final of November 21, 2001.

- The education system must also place particular emphasis on preventing and fighting illiteracy as one of the root causes of social exclusion.
- A variety of educational measures besides compulsory education should be offered; they should be implemented at community level, focusing on the needs and interests of people.

2.2 Employment

Employment under decent working conditions is a basic right.

- All people must have access to employment opportunities according to their qualifications and skills without discrimination and according to their personal and family situation.
- Decent working conditions imply job stability, personal safety, non-harassment and a fair salary.
- Salary levels must minimize disparities and avoid polarisation.
- For those who are temporarily without a job, a social protection system must take care of them.
- People without a job have to be offered an individually adapted integration path: professional guidance, vocational training and life long learning, as well as employment opportunities including intermediate work, social economy enterprises and other forms of supported/protected employment.
- Affordable, qualitative and flexible childcare facilities and services must allow both parents to choose to take up a paid job. The same is true for the care of elderly people and other dependent members of the family.

2.3 Health

The protection of people's physical and mental health is a basic right.

- National policies must aim at creating a healthy environment and promoting healthy life. They have to include prevention as a dimension of their action programme.
- Home should be the setting of first choice for care and treatment, in accordance to the needs and wishes of the beneficiaries.
- All people must have access, in due time, to an affordable state-of-the-art health care system, for prevention, cure and care, including long-term care.

- The health care system must be based on collective insurance or on a tax-paid ground that is financed according to the principle of solidarity.

2.4 Housing

Housing in fair conditions is a basic right.

- All people must have access to decent and affordable housing. “Decent” means: comfort of the lodging must correspond to normal standards according to the country, and the living conditions must suit the family size. “Affordable” means that housing costs should not exceed one third of the family budget.
- All inhabited areas must be equipped with access to public and community services, such as schools, workplaces, shops and well-organized public transports.
- Housing policies must be developed which take into account socio-economic and inter-cultural dimensions to avoid ghettoization.
- Public administrations have to provide public housing systems for people with low income.
- The competent authorities have to assure adequate lodging conditions (in full respect of human dignity) for homeless people.

2.5 Participation

Social, political, cultural and economic participation and access to decision-making are basic rights. People have the right to get relevant information and resources in their respective countries so that they can actively participate in public life. They have to be empowered so that they can fully use their capabilities and potential.

- Volunteer work should be encouraged, supported and recognized as the heart and soul of individual, community, non-profit and non-governmental initiatives.
- An ongoing and transparent dialogue should be established, maintained and encouraged between the public, civil and business sectors.
- Community development is essential for the grassroots input or reaction to various policies. It is the basis for creating social, capillary networks.
- Equal participation for women and men must be ensured.

- Civil society is the sum of the relationships between individuals and intermediate social groupings. Civil society organizations have a major role to play by providing citizens with concrete means to exercise their participatory rights.

3. Social Services

Social Services are not a “gift of society to people in need” but a right, and a fundamental element of development.

The definition of social services in general and, in particular, of *person-oriented social services of general interest*, has to go beyond the traditional understanding of good-doing and being solely a means for «helping the poor». Certainly, people who are excluded from society are those who most obviously need such services. However, it is important to see such services as part of modern society that is important for every resident⁸.

- The needs of those seeking support have to be the starting point for all services. A high quality and needs-oriented system of assistance, aimed at empowerment, has to be maintained or established to this end.
- The social protection system must enable families, volunteer initiatives and neighbourhood help systems to make their contribution either in competition with or supplementary to institutionalised service providers.
- The citizen’s right to make special requests and to choose among social services must be guaranteed by a variety of providers (including NGOs), transparency in performance and quality standards, cost efficiency as well as by consumer protection regulations.
- Governments are responsible for providing the adequate environment for high-quality, accessible and affordable social services, in interaction with non-state service providers. This implies an open and transparent framework for their regulation, funding and periodic evaluation.
- The institutional and legislative framework has to be designed in such a way that providers of social services can be flexible in order to respond to the changing needs of those seeking assistance, be innovative and keep their individual profile.

February 2009

⁸ “Concern for our neighbour transcends the confines of national communities and has increasingly broadened its horizon to the whole world”, *Deus Caritas Est*, 30.

Annex 1

Council of Europe's views on social cohesion

- Social protection and social inclusion are not aims in themselves, but rather paths leading to social cohesion.
- In its 2004 “Revised strategy for social cohesion”, the Council of Europe (COE) defines it as: *“the capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation. A cohesive society is a mutually supportive community of free individuals pursuing these common goals by democratic means.”*⁹
- The Council of Europe further develops: *“The question is how to manage diversity so that it becomes a source of mutual enrichment rather than a factor of division and conflict. ... Social cohesion is not only a matter of combating social exclusion and poverty. It is also about creating solidarity in society such that exclusion will be minimised. At the same time, in so far as poverty and exclusion continue to exist, there is also a need to take specific measures to help vulnerable members of society. A social cohesion strategy must therefore tackle exclusion by means of both prevention and cure. During the twentieth century, Western European States came to accept responsibility for achieving a balance between economic growth and social justice. Despite the considerable variations from country to country, the European approach is sufficiently distinctive when compared with other world regions that it has often been referred to as the “European social model”. The European approach now faces a series of questions and strains, however. The challenge for Europe in the twenty-first century is to find ways of adapting these social policy achievements to changing needs and changing circumstances without losing their essential character.”*
- The Council of Europe also makes the link with global issues: *“Particularly since the Johannesburg Summit, it has been increasingly recognised that sustainable economic development depends on sustainable social development as well as a sustainable environment.”* COE furthers their point: *“In a knowledge-based economy, investment in human resources is one of the most crucial areas of investment for*

⁹ Source: http://www.coe.int/t/dg3/socialpolicies/socialcohesiondev/source/RevisedStrategy_en.pdf

future economic growth. However, a succession of precarious, short-term jobs cannot be considered as being conducive to social cohesion if it results in social exclusion.”

- Finally, the Council of Europe makes the link with family policies (“Families are the place where social cohesion is first experienced and learnt.”) and with the involvement of the so-called “civil society” at large: “Despite a lessened propensity on the part of many to commit themselves to group activity, political parties, trade unions and religious bodies continue to engage many people in broad social networks. Charitable, sports and cultural associations, together with organisations for children and young people, play a particularly important part in building social cohesion and engage many people in socially useful voluntary activities. Governments should create a favourable environment for encouraging such bodies and activities, which often make suitable partners for government-sponsored programmes to build social cohesion. Non-governmental organisations need to be recognised and provided with support in order to help them play a more active part in strengthening social cohesion.”



Appendix II

Caritas Europa's Basic Principles for a Sustainable Social System

1. Introduction

The reader will find here for the indicators developed in the working group and presented in chapter one their actual values (i.e. end 2012, which means that data are coming mostly from 2011, sometimes from earlier years).

Laeken-Indicators

These indicators¹, agreed upon on the 2000 European council held in Laeken, were used since then in the framework of the Open method of coordination². They are divided into four portfolios:

- Overarching portfolio (abbreviation: O or none)
- Social inclusion portfolio (abbreviation: SI)
- Pensions portfolio (abbreviation: PN, three subdivisions on adequate pensions, sustainable pensions, modernised pensions)
- Health and Long Term Care portfolio (abbreviation: HC, three subdivisions on access to care and inequalities in outcomes, quality of care, long-term sustainability of systems)

These portfolios are broken down into primary and secondary indicators as well as context information (except for the overarching portfolio, where there is no distinction between primary and secondary indicators). Using the abbreviations, this leads us to the following numbering of indicators and their abbreviation:

1 See <http://ec.europa.eu/social/main.jsp?catId=756&langId=en>.

2 See http://ec.europa.eu/invest-in-research/coordination/coordination01_en.htm or http://europa.eu/legislation_summaries/employment_and_social_policy/social_inclusion_fight_against_poverty/em0011_en.htm.

- Overarching portfolio: O1 to O14 (or simply 1 to 14) and OC1 to OC12 (or C1 to C12)
- Social inclusion portfolio: SI-P1 to SI-P11, SI-S1 to SI-S3 and SI-C1 to SI-C11
- Pensions portfolio: PN-P1 to PN-P11, PN-S1 to PN-S11 and PN-C1 to PN-C5
- Health Care portfolio: HC-P1 to HC-P18, HC-S1 to HC-S12 and HC-C1 to HC-C4

These indicators comprise EU and national indicators:

- Commonly agreed EU indicators (EU) are contributing to a comparative assessment of the Member State's progress towards the common objectives.
- Commonly agreed national indicators (NAT) based on commonly agreed definitions and assumptions that provide key information to assess the progress of MS in relation to certain objectives, while not allowing for a direct cross-country comparison, or not necessarily having a clear normative interpretation.

Since 2010 and the implementation of the new strategy “Europe 2020”³ the OMC is losing importance and hence the Laeken Indicators are less prominent, also on the EUROSTAT website.

EUROPE 2020 Indicators

Another set of Indicators has since then become more prominent: the set of indicators to monitor the results of the strategy Europe 2020 and to verify, if the targets for the five objectives are reached.

These objectives and their targets are:

- **Employment**
75% of the 20-64 year-olds to be employed.
- **R&D**
3% of the EU's GDP to be invested in R&D.
- **Climate change and energy sustainability**
greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990.
20% of energy from renewables,
20% increase in energy efficiency.

³ Regarding the Europe 2020 strategy see http://ec.europa.eu/europe2020/index_en.htm.

- **Education**
Reducing the rates of early school leaving below 10%,
at least 40% of 30-34-year-olds completing third level education.
- **Fighting poverty and social exclusion**
at least 20 million fewer people in or at risk of poverty and social
exclusion.

A range of other indicators were developed by our group, that are not contained in the list of Laeken Indicators, some of them weren't even available and so far they are not listed in this Appendix (see chapter one for the complete list of indicators).

2. Indicators

All figures in the following tables stem from EUROSTAT and are from 2011 if not otherwise indicated

The first level: The three sources of social protection

The first source: labour market

1) Employment rates Employment rates by sex, age, nationality, education level, branches, regions, degree of employment						
Indicator	Abbr.	BE	IE	IT	SE	SK
Employment rate – total	OC-2a	67.3	63.8	61.2	79.4	65.1
Employment rate by sex – M	OC-2a	73.0	68.2	72.6	82.1	72.7
Employment rate by sex – F	OC-2a	61.5	59.4	49.9	76.5	57.6

2) Unemployment rates Unemployment rates by sex, age, nationality, education level, branches, regions						
Indicator	Abbr.	BE	IE	IT	SE	SK
Unemployment rate – total	OC-2b	7.2	14.7	8.4	7.8	13.6
Unemployment rate by sex – M	OC-2b	7.1	17.8	7.6	7.8	13.6
Unemployment rate by sex – F	OC-2b	7.2	10.8	9.6	7.7	13.6

The second source: family

6) Size of households						
Indicator	Abbr.	BE	IE	IT	SE	SK
		2.3	2.4	2.4	2.1	2.8

8) Median household income by household type (=At-risk-of poverty threshold/60*100 K-EUR, based on the median equivalised disposable income after transfers)						
Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
One person household in K-EUR	O1	15.66	14.54	14.97	16.33	5.12
One person household in K-PPS	O1	14.06	11.83	14.54	13.43	7.19
2 adults + 2 dep.children K-EUR	O1	22.19	21.82	14.94	23.72	6.24
2 adults + 2 dep.children K-PPS	O1	19.92	17.75	14.51	19.50	8.76

9) Distribution of household income						
Distribution of household income by size of household (here: Distribution of at-risk-of-poverty population, i.e. percentage of at-risk-of population living in the indicated household type)						
Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
Househ. with dependent children	SI-S1a	15.2	18.1	24.3	12.5	16.8
Househ. without dep. children	SI-S1a	15.6	12.7	15.0	15.5	7.9
2 adults and 3+ dep. children	SI-S1a	16.7	20.4	36.7	15.4	32.6
Single parents	SI-S1a	38.5	30.2	35.7	35.9	26.4
2 adult households > 65 years	SI-S1a	22.0	9.4	13.7	6.6	3.2
One person households	SI-S1a	21.4	22.6	23.9	30.2	18.7

10) Work intensity of the households Work intensity (w.i.) of the households by household income Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
Without dep. children w.i.:						
Very high 0.85-1		15.1	9.0	14.3	16.6	15.7
High 0.55-0.85		5.9	5.0	6.7	7.0	7.6
Medium 0.45-0.55		3.9	2.9	4.9	4.2	2.9
Low 0.2-0.45		2.2	2.5	3.6	1.4	2.1
Very low 0-0.2		6.0	5.9	5.2	3.5	3.7
With dep. children w.i.:						
Very high 0.85-1		32.0	15.7	22.3	31.5	35.3
High 0.55-0.85		13.7	15.4	12.2	19.5	12.4
Medium 0.45-0.55		9.7	18.2	19.0	8.6	12.5
Low 0.2-0.45		3.4	7.7	6.3	2.6	3.7
Very low 0-0.2		7.7	17.2	5.2	3.3	3.9

12) Percentage of children in child care facilities. Data from 2011						
Indicator	Abbr.	BE	IE	IT	SE	SK
Children up to 3 years old		39	21	26	51	4
Children between three years old and the mandatory school age		98	82	95	95	75

The third source: welfare state

14) Welfare state quotes (Social protection benefits – sickness and health care, disability, family and children, unemployment, old age and survivor benefits, housing and social exclusion – as a % of GDP)

Data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
Total	OC-7b	29.90	29.59	29.86	30.44	18.58

15) Distribution of social transfers by various functions (for unemployment, illness, invalidity, pension, families)

Slovakia data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
Sickness, health care	OC-7b	28.20	43.29	25.55	24.87	30.80
disability	OC-7b	7.50	4.69	5.94	14.19	8.72
family and children	OC-7b	7.71	12.90	4.58	10.40	9.75
unemployment	OC-7b	13.34	12.37	2.94	4.54	5.12
old age and survivor benefits	OC-7b	39.62	23.42	60.64	42.09	43.04
housing and social exclusion	OC-7b	3.62	3.33	0.34	3.90	2.57

17) At-risk-of poverty rate “before” (before all social transfers except old age and survivors benefits) and “after” social transfers

Ireland data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
Before:						
Total population	OC-11	27.8	40.4	24.4	27.9	19.5
Men	OC-11	27.1	39.6	23.0	25.3	19.4
Women	OC-11	28.4	41.3	25.7	30.5	19.7
Children 0-17 years	OC-11	33.8	51.6	33.0	32.0	29.7
People aged 18-64, Total	OC-11	26.4	38.8	23.6	26.5	19.0
Men	OC-11	25.7	37.0	22.0	25.3	18.9
Women	OC-11	27.2	40.6	25.2	27.8	19.0
People aged > 64, Total	OC-11	25.2	22.7	19.3	27.5	10.2
Men	OC-11	24.6	21.1	16.5	16.8	6.7
Women	OC-11	25.6	24.0	21.3	35.7	12.3
After:						
Total population	SI-P1	15.3	16.1	19.6	14.0	13.0
Men	SI-P1	14.6	15.9	18.3	12.2	18.8
Women	SI-P1	16.0	16.2	20.8	15.7	13.1
Children 0-17 years	SI-P1	18.7	19.7	26.3	14.5	21.2
People aged 18-64, Total	SI-P1	12.9	15.5	18.5	12.5	12.4
Men	SI-P1	12.0	15.7	17.2	12.0	12.4
Women	SI-P1	13.8	15.2	19.8	13.0	12.3
People aged > 64, Total	SI-P1	20.2	10.6	17.0	18.2	6.3
Men	SI-P1	20.1	10.9	14.0	9.8	3.4
Women	SI-P1	20.3	10.3	19.2	24.7	8.2
Households with >3 dep. children	SI-P1	16.7	20.4	36.7	15.4	32.6
Single parents	SI-P1	38.5	30.2	35.7	35.9	26.4
Activity status: at work	SI-P1	4.2	7.6	10.7	6.9	6.3
unemployed	SI-P1	38.2	26.7	47.7	38.5	42.6

18) Percentage of households in a material deprivation situation This Laeken-Indicator shows the rate of people deprived from at least 3 items of material well-being						
Laeken Indicator	Abbr.	BE	IE	IT	SE	SK
Total population	SI-P8	12.9	22.7	22.3	4.2	22.0
Men	SI-P8	12.6	21.6	21.6	4.2	20.8
Women	SI-P8	13.1	23.7	22.9	4.3	23.1
Children 0-17 years	SI-P8	17.7	30.0	23.7	5.2	23.7
People aged 18-64, Total	SI-P8	12.6	22.1	22.0	4.4	21.3
People aged > 64, Total	SI-P8	7.7	9.7	21.9	2.4	23.5
The percentages below show the rate of people deprived from at least 4 items of material well-being. They are from the EU 2020 indicators.						
Total population	EU 2020	5.7	7.8	11.2	1.2	10.6
Men	EU 2020	5.9	7.4	10.9	1.1	10.1
Women	EU 2020	5.4	8.3	11.4	1.2	11.0
Children 0-17 years	EU 2020	8,2	10.0	12.2	1.3	12.4
People aged 18-64, Total	EU 2020	5.6	7.9	11.0	1.3	10.3
People aged > 64, Total	EU 2020	2.5	3.0	10.9	0.6	9.7

The second level: The three challenges for social protection – a changing society

The first challenge: economic change

20) Growth of GDP in volume						
Indicator	Abbr.	BE	IE	IT	SE	SK
Rates 2008 at constant prices 2007		1.0	-2.1	-1.2	-0.6	5.8
Rates 2009 at constant prices 2008		-2.8	-5.5	-5.5	-5.0	-4.9
Rates 2010 at constant prices 2009		2.4	-0.8	1.7	6.6	4.2
Rates 2011 at constant prices 2010		1.8	1.4	0.4	3.7	3.2

21) Growth of GDP per capita (here: GDP per capita in EUR compared to previous year)						
Indicator	Abbr.	BE	IE	IT	SE	SK
2008		0.2	-4.2	-1.9	-1.4	5.6
2009		-3.5	-6.4	-6.1	-5.8	-5.1
2010		1.5	-1.2	1.2	4.1	5.7
2011		1.0	1.0	0.0	2.9	3.0

23) Percentage of persons with low educational attainment (level of education ≤ 2 according to ISCED)						
Indicator	Abbr.	BE	IE	IT	SE	SK
25-34, Total	SI-S2	18.1	15.1	28.7	13.0	5.9
Females	SI-S2	16.7	12.5	25.2	11.3	5.7
Males	SI-S2	19.6	17.8	32.1	14.7	6.1
35-44, Total	SI-S2	21.0	20.0	39.7	13.2	5.9
Females	SI-S2	19.2	17.0	36.7	12.3	7.0
Males	SI-S2	22.8	23.1	42.7	14.1	4.8
45-54, Total	SI-S2	32.0	31.4	48.2	18.4	8.3
Females	SI-S2	30.7	28.2	46.9	18.3	10.3
Males	SI-S2	33.3	34.6	49.5	18.6	6.4
55-64, Total	SI-S2	44.5	47.5	59.7	29.4	16.0
Females	SI-S2	46.6	45.0	62.4	31.1	21.0
Males	SI-S2	42.3	50.0	56.7	27.6	10.2
65+, Total	SI-S2	63.5	66.4	82.4	39.5	44.2
Females	SI-S2	68.6	66.8	86.1	43.0	54.8
Males	SI-S2	56.7	65.9	77.3	36.0	26.5

24) Percentage of early school leavers						
Indicator	Abbr.	BE	IE	IT	SE	SK
2000 – total (2002 for IE & SK)	O4	13.8	14.6	25.1	7.3	6.7
2000 – female (2002 for IE & SK)	O4	11.0	11.2	21.7	5.8	5.8
2000 – male (2002 for IE & SK)	O4	16.4	18.0	28.5	8.7	7.6
2011 – total	O4	12.3	10.8	18.2	6.6	5.0
2011 – female	O4	9.7	8.8	15.2	5.4	4.6
2011 – male	O4	14.9	12.8	21.0	7.8	5.4

The second challenge: social change

29) Employment rate by sex						
Indicator	Abbr.	BE	IE	IT	SE	SK
1998: Total	OC-2a	62.7	66.3	55.7	75.3	67.4
Male	OC-2a	73.2	79.3	71.7	77.7	75.9
Female	OC-2a	52.0	53.4	39.9	72.9	59.2
2001: Total	OC-2a	65.0	71.1	58.5	78.7	63.5
Male	OC-2a	74.5	83.0	73.4	80.9	69.7
Female	OC-2a	55.3	59.1	43.8	76.4	57.5
2007: Total	OC-2a	67.7	73.8	62.8	80.1	67.2
Male	OC-2a	75.0	83.0	75.8	83.1	76.0
Female	OC-2a	60.3	64.4	49.9	77.1	58.7
2011: Total	OC-2a	67.3	63.8	61.2	79.4	65.1
Male	OC-2a	73.0	68.2	72.6	82.1	72.7
Female	OC-2a	61.5	59.4	49.9	76.5	57.6

30) Rate of divorce						
Italy data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
		2.9	0.7	0.9	2.5	2.1

31) Rate of couples without children						
Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
2011	OC-5b	24.5	19.6	21.2	28.5	14.8

32) Single household rate						
Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
2011	OC-5b	15.3	8.1	12.5	18.7	8.7

34) Migration rate (ratio of the net migration plus adjustment during the year to the average population in that year expressed per 1000 inhabitants)

Indicator	Abbr.	BE	IE	IT	SE	SK
2011		6.5	-7.3	4.0	4.8	0.5

The second challenge: social change

36) Size of population

Data from 2011

Indicator	Abbr.	BE	IE	IT	SE	SK
The first of january		11.000.638	4.570.727	60.626.442	9.415.570	5.392.446

37) Rates of different age groups

Indicator	Abbr.	BE	IE	IT	SE	SK
0-19		22.9	27.5	18.9	23.2	21.9
20-39		25.9	31.2	25.5	25.8	32.0
40-59		28.2	25.1	29.0	26.0	27.9
60 and more		23.0	16.3	26.6	25.0	18.2

38) Fertility rate

Indicator	Abbr.	BE	IE	IT	SE	SK
Mean nr. children per woman	Eurostat	1.81	2.05	1.4	1.90	1.45

39) Life expectancy at birth

Data from 2009, IT 2008

Indicator	Abbr.	BE	IE	IT	SE	SK
Life expectancy at 0 years:						
Males	O-3/O-C3	77.8	78.3	80.1	79.9	72.3
Females	O-3/O-C3	83.2	82.8	85.3	83.8	79.8

The third level: Development of social protection

The first facet: To secure material daily life of oneself and ones family

41) Distribution of household income (Lorenz curve, Gini-coefficient)
Data from 2000 and 2011, Ireland data from 2000 and 2010,
Sweden data from 2001 and 2011, Slovakia data from 2005 and 2011

Indicator	Abbr.	BE	IE	IT	SE	SK
Gini-coefficient 2000	SI-C2	0.30	0.30	0.29	0.24	0.262
Gini-coefficient 2011	SI-C2	0.263	0.332	0.319	0.244	0.257

42) Quintile ratio (S80/S20)
Data from 2000 and 2011, Ireland data from 2000 and 2010,
Sweden data from 2001 and 2011, Slovakia data from 2005 and 2011

Indicator	Abbr.	BE	IE	IT	SE	SK
Income quintile share ratio 2000	SI-C1	4.3	4.7	4.8	3.4	3.9
Income quintile share ratio 2011	SI-C1	3.9	5.3	5.6	3.6	3.8

43) At-risk-of poverty rate
Data from 2000 and 2011, Ireland data from 2000 and 2010,
Sweden data from 2001 and 2011, Slovakia data from 2005 and 2011

Indicator	Abbr.	BE	IE	IT	SE	SK
Total population 2000	O-1	13	20	18	9	13.5
Total population 2011	O-1	15.3	16.1	19.6	14.0	13.0

44) Relative median poverty risk gap (difference between the median equivalised income of persons below the at-risk-of poverty threshold and the threshold itself, expressed as a percentage of the at-risk-of poverty threshold)

Ireland data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
Total population	SI-P3	18.6	15.2	26.0	18.5	22.8
Men	SI-P3	19.9	15.8	27.1	19.3	24.5
Women	SI-P3	17.4	15.0	25.3	17.9	21.0
Children 0-17 years	SI-P3	21.5	13.9	30.4	21.8	25.5
People aged 18-64, Total	SI-P3	20.0	16.2	30.2	21.9	24.2
Men	SI-P3	21.0	17.5	30.4	22.9	25.5
Women	SI-P3	19.5	15.1	30.1	22.8	20.9
People aged > 64, Total	SI-P3	13.2	24.7	15.7	11.6	8.3
Men	SI-P3	15.0	24.7	15.4	8.8	5.3
Women	SI-P3	11.0	24.7	16.0	12.3	10.8

45) At-risk-of poverty rate by size of household

Ireland data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
One-person households	SI-S1a	21.4	22.6	23.9	30.2	18.7
Two-adult households, both <65	SI-S1a	9.9	12.0	12.5	7.3	7.4
Single parents	SI-S1a	38.5	30.2	35.7	35.9	26.4
Two adults, 1 dep. child	SI-S1a	9.2	11.5	17.3	8.6	13.2
Two adults, 2 dep. children	SI-S1a	8.5	15.8	23.4	6.6	13.1
Two adults, 3+ dep. children	SI-S1a	16.7	20.4	36.7	15.4	32.6

46) Working poor rate

Ireland data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
Total	O11	4.2	7.6	10.7	6.8	6.3
Men	O11	4.3	10.1	11.6	6.9	6.7
Women	O11	4.0	4.7	9.2	6.8	5.9

The second facet: To be secure in critical life situations (like unemployment, illness or invalidity,...)

The third facet: To provide for pension

51) At-risk-of poverty rate by age						
Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
Total population: Total	O1	15.3	16.1	19.6	14.0	13.0
Men	O1	14.6	15.9	18.3	11.7	12.8
Women	O1	16.0	16.2	20.8	15.7	13.1
People aged 65+: Total	O1	20.2	10.6	17.0	18.2	6.3
Men	O1	20.1	10.9	14.0	9.8	3.4
Women	O1	20.3	10.3	19.2	24.7	8.2

52) Average effective labour market (retirement) age						
Ireland data from 2006, Belgium data from 2007, Slovakia data from 2009, Italy and Sweden data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
Total	PN-P7	61.6	64.1	60.4	64.4	58.8
Men	PN-P7	61.2	63.5	60.8	65.0	60.4
Women	PN-P7	61.9	64.7	60.0	63.7	57.5

53) Employment rate of elderly people (55-64)						
Indicator	Abbr.	BE	IE	IT	SE	SK
1998: Total	O10	22.9	41.7	27.7	63.0	22.8
Male	O10	32.1	60.2	41.4	66.1	39.1
Female	O10	14.0	23.1	15.0	60.0	9.4
2000: Total	O10	26.3	45.3	27.7	64.9	21.3
Male	O10	36.4	63.2	46.9	67.8	35.4
Female	O10	16.6	27.2	15.3	62.1	9.8
2007: Total	O10	34.4	53.8	33.8	70.0	35.6
Male	O10	42.9	67.9	45.1	72.9	52.5
Female	O10	26.0	39.6	23.0	67.0	21.1
2011: Total	O10	38.7	50.0	37.9	72.0	41.4
Male	O10	46.0	57.1	48.4	75.2	52.6
Female	O10	31.6	42.9	28.1	68.9	31.5

54) Replacement rate (income before pension in relation to income after pension), here aggregate replacement ratio in % (ratio of median income from pensions of persons aged 65-74 relative to median work income of persons aged 50-59) Ireland data from 2010						
Indicator	Abbr.	BE	IE	IT	SE	SK
Total	PN-P3	0.44	0.47	0.55	0.58	0.62
Men	PN-P3	0.44	0.46	0.60	0.62	0.55
Women	PN-P3	0.46	0.54	0.45	0.57	0.63

55) Pension system dependency ratio (Number of pensioners for 100 contributors)

Indicator	Abbr.	BE	IE	IT	SE	SK
2010	PN-C4	26.03	16.82	30.78	31.28	19.14
2050 forecast	PN-C4	42.48	39.66	56.34	41.7	51.38

56) Old age dependency ratio (number of persons aged 65+ in relation to number of persons 15-64)

Indicator	Abbr.	BE	IE	IT	SE	SK
2004	PN-C2	26.1	16.3	28.9	26.4	16.3
2050 forecast	PN-C2	42.48	39.66	56.34	41.7	51.38

57) Relative median income ratio of people aged 65+ (relative to the complementary age group 0-64, in %)

Ireland data from 2010

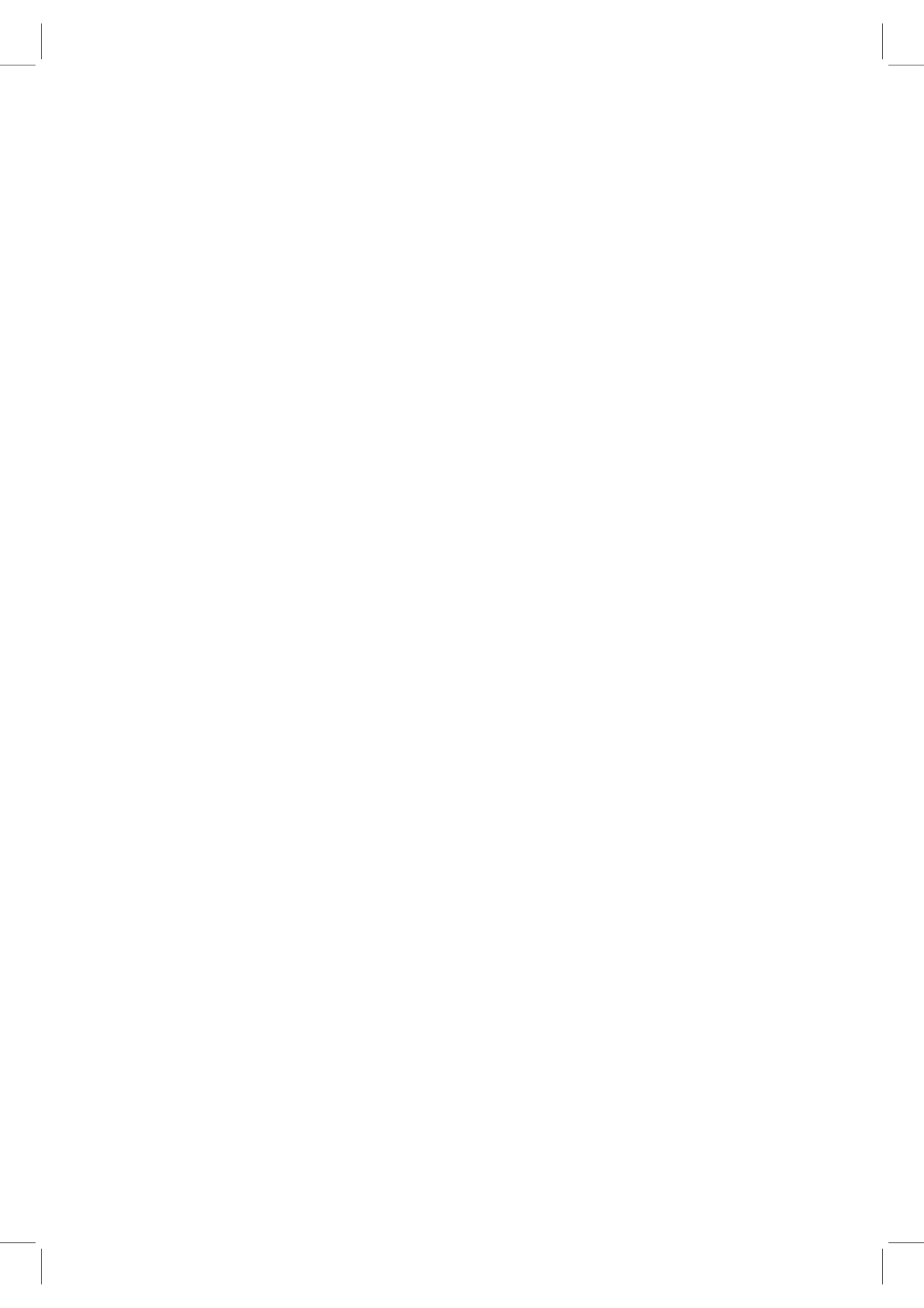
Indicator	Abbr.	BE	IE	IT	SE	SK
	PN-P2	0.74	0.86	0.92	0.77	0.86

The third facet: To provide for pension

58) At-risk-of-poverty rate by different social groups (single parents, elderly people, children and youngsters, migrants, low-qualified workers)

Ireland data from 2010

Indicator	Abbr.	BE	IE	IT	SE	SK
Single parents	SI-S1	38.5	30.2	35.7	35.9	26.4
Households with children	SI-S1a	15.2	18.1	24.3	12.5	16.8
Children 0-17	O-1	18.7	19.7	26.3	14.5	21.2
Elderly people (65+)	O-1	20.2	10.6	17.0	18.2	6.3
Migrants						
Unemployed	SI-S1c	38.2	26.7	47.7	38.5	42.6
Low qualified workers						



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