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Towards more inclusive social protection and active labour market policies in the EU: a social investment perspective

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Work Package 5 of the Re-InVEST project – synthesised in this policy brief – applies the notion of social investment to the policy areas of social protection and active labour market policies. Both policies are wide-ranging in themselves, but so intimately connected that it is hard to examine them separately.

The European Commission's Annual Growth Survey for 2019² and the accompanying Joint Employment Report³ reflect a strong social investment perspective, with a lot of attention for education and training, childcare, health care, targeted active labour market measures and integrated services for vulnerable groups. Yet, the discourse in these documents concerning social protection remains rather ambiguous, with no emphasis on better coverage or more decent benefit levels except for the guaranteed minimum income.

This policy brief argues that better social protection is necessary and does not trap people into dependency. It also questions the quality of active labour market policies and calls for a European quality framework in this area.

Three competing paradigms

So far the *social investment* paradigm, advocated by the European Commission, has little weight in the public policy arena. Whereas it prescribes generous social transfers - in order to allow jobless individuals to invest in their own skills, health, mobility, etc. – the dominant '*making work pay*' paradigm emphasises the need to keep benefits *low*, as an incentive to move back into work. A similar contrast can be observed in the literature about active labour market policies (ALMP): whereas the social investment paradigm prescribes high-quality measures to foster sustainable labour market integration, the conservative '*underclass*' paradigm heralds personal duties, using workfare and sanctions as disciplining instruments. This divergence in theoretical and normative arguments calls for empirical research on what effects can be expected from shifts in the level of social protection and from ALMP.

For this purpose, we used the EU-SILC data for households in active age in the period 2006-2014, pooled across countries and years. Whereas more generous social benefits obviously have an immediate poverty alleviating effect, our analysis focussed on the medium-term impact of social protection and LMPs on the degree of

¹ This policy brief also draws on case studies carried out by other colleagues from the Re-InVEST team – see the list of related reports in annex.

² https://ec.europa.eu/info/publications/2019-european-semester-annual-growth-survey_en?fbclid=IwAR0MvInMUPLy_goKagw8GTUveWKG_NOHhlpFg99cNT7lpjx1niCxEr5R_c

³ https://ec.europa.eu/info/publications/2019-european-semester-draft-joint-employment-report_en?fbclid=IwAR1_E2FOfMIPkMB2o2a3F0nSd0B40II7nLRupn3J3sbvM1RDTWWB3jDaaQg

economic self-reliance and employment of households. More precisely, the following criteria were used to assess the effectiveness of policies:⁴

- For social protection systems:
 - The effect of social security transfers in year t on the reduction of the pre-transfer household poverty gap⁵ (among households at risk of poverty in year t) between year t and $t+1$;
 - The effect of social security transfers in year t on the improvement in work intensity⁶ between year t and $t+1$, among households with very low work intensity in year t .
- For labour market policies ('passive' as well as 'active'):
 - The change in financial (AROP) poverty risks⁷ between two / three consecutive years through unemployment or early retirement benefits or ALMP;
 - The shift in work intensity among households with very low work intensity, through unemployment or early retirement benefits or ALMP.

Effects of more generous social benefits

Our findings are in line with a series of other studies, despite differences in methodology. They show remarkably small effects of both types of policies. To begin with, even drastic increases (decreases) in the level of *social benefits* generate very small decreases (increases) in employment and 'self-reliance' of poor households. By and large across the EU, *a 10% increase in the level of social benefits would result in a 0.05% reduction in work intensity in the next year. and a negligible 0.13% increase of the average poverty gap* before transfers in the next year. The good news in this finding is that the fear for adverse effects of generous social protection appears ungrounded: more decent social benefits will not trap people into long-term unemployment. They generate *immediate* poverty-alleviating effects without increasing, nor perpetuating dependency. Admittedly, a better social protection does not automatically produce *sustainable exits* from poverty either: other tools will be needed for that purpose, such as education, health care, etc. But even without these hypothetical long-term perspectives, there does not seem to be any objective reason to tighten the thumbscrews to poor families for fear of prolonged dependency.

Turning back to the theoretical debate about the effects of social protection generosity on employment and social inclusion, our conclusion is that none of the paradigms seems to dominate: it seems that the moral hazard and social investment effects of generous social benefits outweigh each other. A slight delay in the return to work may even be beneficial if it allows job seekers to find better-quality jobs.

Effects of active labour market policies

In evaluating the effectiveness of targeted ALMPs, a clear distinction must be made between individual treatment effects and aggregate effects. The latter include externalities, i.e. effects on other individuals than the direct beneficiaries of measures, such as substitution or displacement effects. As targeted measures often aim to enhance the competitive position of vulnerable groups in the labour market, the beneficiaries may well poach jobs that would otherwise be filled by other people. The aggregate (net) effect therefore tends to be smaller than the sum of individual effects. We would theoretically expect significant employment effects only insofar as LMP measures have an explicit social investment character (e.g. training). Without genuine social investment, the measures could simply reshuffle employment opportunities, as a zero-sum game between subgroups. And, what is worse, when the identification of target groups occurs on an ad hoc basis rather than a careful ranking of priority groups, measures targeted at moderately disadvantaged groups may well have adverse effects on the most disadvantaged. These arguments suggest that (a) the net effects of ALMP on employment and poverty can be positive or negative, and can even have opposite signs; (b) the effects on vulnerable / poor households can be different from the aggregate effects.

⁴ Only our dynamic analyses are reported here. Additional comparative static analyses can be found in Lehwess-Litzmann & Nicaise (2018a-b).

⁵ The poverty gap, measured at household level, is the percentage difference between a household's actual level of income and the poverty threshold for that household type. Note that this analysis examines the 'pre-transfer' poverty gap, i.e. abstracting from social security transfers.

⁶ Work intensity is the share of the overall amount of time, available to all adults in the household, spent in paid employment. Very low work intensity is defined as work intensity below 20%

⁷ A household is at risk of poverty (AROP) when its equivalised disposable household income is below 60% of the national median

Once again, our empirical findings are a bit ambivalent: more intensive ALMPs have the expected positive effects on employment, but the effects are small – possibly because they also account for substitution and displacement effects between the target groups and other groups. Fortunately, the most positive employment effects are observed among older, female and less educated groups. On the other hand, enhanced ALMPs also trigger additional exits into inactivity. This may be the consequence of sanctions, or harmful effects of activation programmes on job seekers with a fragile health.

Poor policies for poor people?

All in all, the modest employment effects found in our statistical research raise doubts about the effectiveness of current ALMPs: can they be attributed to poor targeting or poor quality of the services offered? In trying to answer this question, we also carried out seven case studies of policies targeting different groups in different European countries (see the list of reports in annex). In these case studies, we used an ‘enriched’ social investment model, building on a human rights and capabilities approach (see Policy Brief 09/2018). The findings indeed show very wide differences in quality – and a lot of room for improvement. Some ALMPs constrain individual freedom and impose measures that appear to be inadequate, if not counter-productive. Our conclusion is that, in order to improve their effectiveness as well as inclusiveness, the right to decent ALMPs should be put on the policy agenda. The better examples from our qualitative research teach us some important criteria for such decent-quality policies in the future: (a) more diversified offers (including more education and training, voluntary work, and social support) providing tailored responses to individual needs; (b) more holistic approaches, building on intersectoral partnerships between labour market, education and training, health care and social services; (c) more flexible, open-ended pathways that can be adjusted to changing circumstances; (d) involvement of civil society organisations that are embedded in local communities and have a capacity to innovate; (e) more voice for clients in the design and evaluation of services; (f) more respect for the clients’ rights, including room for negotiation and freedom of choice in pathways into work; and last but not least (g) no ALMPs without decent social protection.

Recommendations

1. The meanness of some social protection schemes is unbearable. Living under continuous financial strain makes people desperate and absorbs all the energy that could otherwise be spent on job search. Moreover, meagre benefits prevent them from investing in training, healthcare, mobility, decent housing etc. which are necessary for their re-integration. Hence, the claim of trade unions and civil society organisations that minimum benefits and guaranteed minimum incomes should be lifted to the at-risk-of-poverty threshold seems justified, and will not lead to increased or prolonged welfare dependency. Duration limits should also be avoided, because social investments necessitate financial security.
2. Whereas legal norms are imposed at national as well as EU level to guarantee decent work, legal quality frameworks for active labour market programmes appear to be missing in many countries. The Commission made very useful suggestions in its 2016 Recommendation on the integration of the long-term unemployed into the labour market. A more comprehensive quality framework could inspire Member States to develop such national frameworks. Quality criteria based on a human rights and capabilities approach would include the following:
 - Pro-active and transparent information campaigns to raise awareness among job seekers about their rights and duties;
 - Respectful treatment of clients, building on a rights-based vision of public services⁸. Absence of coercion such as workfare. Monitoring of the consequences of sanctions, and decent appeal procedures;
 - A sufficient diversity of offers, negotiable and tailored to individual needs;
 - Integrated services, facilitated through inter-agency collaboration between employment services, health and social services, community action and civil society;
 - Sufficient resourcing that allows labour market services to genuinely invest in personalized counselling;
 - Adaptability of integration pathways in response to changing individual, social and economic circumstances;
 - Continuous evaluation of measures, with the participation of clients.

⁸ See the ‘right to good administration’ (art. 41 of the European Charter of Fundamental Rights)

The Commission should evaluate all actions cofinanced by the EU on the basis of this quality framework, and peer learning seminars should be organized to disseminate good practice.

List of related reports

- Bonvin, J.-M., & Laruffa, F. (2017). Social protection and labour market policies for vulnerable groups from a social investment perspective. The case of 'Scène Active' in Geneva (RE-InVEST working paper series D5.1). Geneva: University of Geneva/Leuven: HIVA-KU Leuven.
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- Costa, G., & Araújo, S. (2017), Social protection and labour market policies for vulnerable groups from a social investment perspective. The case of young NEETs in Espinho, Portugal (RE-InVEST working paper series D5.1). Lisbon: EAPN Portugal/Leuven: HIVA-KU Leuven.
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- Droy, I., Dubois, J-L. & Ricardou, R. (2017). Social protection and labour market policies for vulnerable groups from a social investment perspective. The case of Youth Employment Initiative in France (RE-InVEST working paper series D5.1). France: IRD, GRDR/Leuven: HIVA-KU Leuven.
- Lace, T. & Rungule, R. (2017). Social protection and labour market policies for vulnerable groups from a social investment perspective. The case of Active Labour Market Policies towards People with Disabilities in Latvia (RE-InVEST working paper series D5.1). Riga: RSU/Leuven: HIVA-KU Leuven.
- Lehweß-Litzmann, R., Nicaise, I. (2018). Social protection, employment and poverty dynamics in the EU: re-assessment from a social investment perspective (RE-InVEST Working Paper Series D5.3). Göttingen: SOFI/Leuven: HIVA-KU Leuven.
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- Moth, R., & Lavalette, M. (2017). Social protection and labour market policies for vulnerable groups from a social investment perspective. The case of welfare recipients with mental health needs in England (RE-InVEST working paper series D5.1). Liverpool: Liverpool Hope University/Leuven: HIVA-KU Leuven.
- Nicaise, I., Lehweß-Litzmann, R. et al. (2018), Towards more inclusive social protection and active labour market policies in the EU: a social investment perspective, Leuven: HIVA / Göttingen: SOFI, 40p.