The European anti-crisis policy and its impact on poverty: A Flemish perspective

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The social and poverty impact of the crisis

In the past five years, the European Union underwent unprecedented financial, economic and social turbulence. GDP per capita decreased by almost 5% in the EU27 in 2008-2009; after a fragile recovery (+3% over the two-year period 2010-2011) growth rates became negative again in 2012. The absence of tangible recovery has put household incomes under pressure in the majority of EU countries and the risks of long-term exclusion increased. Between 2008 and 2012, real income per capita declined in all but 7 Member States. The largest drops were observed in Greece (21%), Cyprus (12.3%), Italy (8%), Hungary (6%), Ireland (6%) and Spain (5%). This evolution was in sharp contrast with the situation observed in Germany, Austria and Poland where welfare systems and more resilient labour markets have allowed overall incomes to continue rising during the crisis (European Commission, 08.01.2013).

Beyond the aggregates, more unequal effects can be observed between social groups. In what follows, we attempt to sketch an overall picture of the social and poverty impact of the crisis in particular.

1.1. Effects on the labour market

The most evident and documented effect of the crisis was the upsurge of unemployment rates in the European Union. While unemployment seems to have peaked by mid-2010 or even begun to fall slightly in some countries, in other countries it has continued to rise (Frazer et al., 2011). In 2012, the average unemployment rate stood at more than 10% in the EU27. Even more worrisome was the dramatic increase of youth unemployment, with young people twice as likely to be unemployed than the adult population (European Commission, 2012a). The youth unemployment rate amounts to 22% on average across the EU, and is even higher than 40% in Spain, Greece and Croatia (Eurostat, 01.02.2013).

The 2012 Employment and Social Developments in Europe Review furthermore confirmed a new pattern of divergence, which is most striking between the North and the South of the eurozone. The unemployment gap between these two areas was 3.5 percentage points in 2000, fell to zero in 2007 but then widened fast to 7.5 points in 2011. This points to an urgent need for more effective mechanisms of macroeconomic stabilisation (European Commission, 2013c).

In the absence of reliable figures concerning income losses incurred by employees who were laid off, the net replacement rate of unemployment benefits can be used to estimate them. In many EU-countries, the average net replacement rate of unemployment benefits is between 60 and 70%. This corresponds with an estimated income loss of at least 30% in the event of unemployment.

Another consequence of the crisis in several countries appears to have been the reinforcement of labour market segmentation with a general tendency for those at the bottom of the labour market (i.e. those in low skilled and precarious employment) to be hardest hit. With the crisis, the downward pressure on wages has become more prevalent resulting in an increase of the number of working poor, particularly among temporary workers and women. In some Member States, insecure and illegal employment seemed to be booming as well (EuroMemo Group, 2010). Taking into account the overrepresentation of vulnerable groups in precarious job positions, they were most likely to become the victims in case of business restructuring activities (Françon et al., 2010).
1.2. Effects on the income and poverty level

As far as income inequalities between income groups are concerned, no general pattern of a widening gap during the crisis emerges at EU level. Table 2 shows the inequality of income distribution in the EU27 on average as the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile).

Table 1 - Inequality of income distribution – Income quintile share ratio

<table>
<thead>
<tr>
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<th>2007</th>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>EU27</td>
<td>5</td>
<td>5</td>
<td>4.9</td>
<td>5</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: EU-SILC, Eurostat

The measured income inequality level remains relatively stable in the EU as a whole. However, the evolution of the income inequality varied greatly across Member States. In some EU member states, income inequality declined between 2008 and 2011. Spain, Italy, Denmark, Ireland, Hungary and Slovakia, on the contrary, experienced a considerable rise in income inequality in that same period (EC, 2013a).

Despite the exceptional severity and duration of the economic crisis, it appears very difficult to provide hard evidence about its social and poverty impact. The evolution of the risk of poverty and exclusion (AROPE-indicator) at EU level since the outbreak of the crisis in 2008 can be found in Table 1. Rather surprisingly, according to official statistics, the proportion of the people at risk of poverty or social exclusion in the European Union seems to have increased only slightly, from 23.6% in 2008 to 24.2% in 2011. In absolute terms, the increase is more impressive: 3.9 million people – whereas the ambition of Europe 2020 was a reduction by 20 million. Moreover, as will be demonstrated in section 1.2 below, the figures tend to dissimulate part of the impact on poverty because the overall decline of the living standard was reflected in a decline of the (relative) poverty thresholds in many EU countries.

Table 2 - People at risk of poverty or social exclusion (in %)

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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>EU27</td>
<td>23.6</td>
<td>23.1</td>
<td>23.6</td>
<td>24.2</td>
</tr>
</tbody>
</table>

Source: EU-SILC, Eurostat

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1 The official definition of ‘poverty’ has been revised in 2010. Until then, the ‘at-risk-of-poverty’ (AROP) rate was based on financial income only, using 60% of the median disposable equivalised income as the poverty threshold. Since 2010, two criteria have been added to make up the ‘at-risk-of-poverty-or-exclusion’ (AROPE) rate: severe material deprivation (at least four items from a list missing) and very low work intensity (less than 20% of the available time of all adults in the household worked).
While relative poverty seemed to remain fairly stable in the EU and in most countries, the poverty threshold itself declined dramatically in a number of countries, reflecting the general decrease of household incomes. Between 2008 and 2011, the threshold fell by 17.4% in Latvia, 12.5% in Lithuania, 10.7% in Ireland, 8% in Spain, 7.7% in the UK, 7% in Greece and 6.7% in Estonia. This shows that even at constant relative income positions, people living on low incomes are facing considerable reductions of their resources that were already considered insufficient to maintain a decent living standard before the crisis.

Using a financial poverty (AROP) threshold ‘anchored’ in 2005, the poverty rate in the EU15 increased by 1.8% rather than 0.5% between 2008 and 2011. If this figure can be extrapolated to the AROPE rate in the EU27, it may mean that the increase in the absolute number of inhabitants at risk of poverty or exclusion has increased by close to 14 million rather than 3.9 million in three years.

Even more worrisome is that the poor are getting poorer as the gap between the average income of the poor and the 60% of the median income threshold is increasing. Between 2008 and 2011, the poverty gap widened for all but a few Member States and with particularly strong rises in high-poverty countries such as the Baltic States, Slovakia, Italy and Spain (European Commission, 2013c).

All in all, drawing unambiguous conclusions with regard to the distributional impact of the crisis is difficult. The impact of the crisis on income inequality depends precisely on who is affected by the crisis and where they are located in the distribution in the first place. A second reason for the difficulties in finding evidence may be the time lag of the official statistical material (such as EU-SILC), and indeed time lags between different groups in income shifts. While the median incomes are mostly affected during the first phase of the crisis, social benefits may remain at the pre-crisis level for a while, due to the combination of ‘automatic stabilizers’ and counter-cyclical reactions.

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Notes:
1. The anchored poverty threshold is held constant at the level of a reference year and adjusted only for inflation.
of governments (see EC 2012b, p.38). This may indeed result in a decline of the relative poverty level in the first phase of the crisis. Because of the time lag, it is possible that statistics are flattered in this first phase of the crisis, while the real situation is likely to be worse. Another problem in drawing general conclusions is the diversity of experience across countries. This is related to the specific effects of the crisis in each country as well as to variation in systems of social protection, labour market institutions and so on (Jenkins et al., 2011).

Nevertheless, the impact of the crisis on the social situation has now become more acute as the initial protective effects of lower tax receipts and higher levels of spending on social benefits (automatic stabilizers) have weakened. A new divide is emerging between countries that seem to be stuck in a downward spiral of falling output, fast rising unemployment and eroding disposable incomes and those that have so far shown good or at least some resilience. In general, the latter tend to have better-functioning labour markets and more robust welfare systems (European Commission, 08.01.2013). Besides the considerable inter-country differences, the crisis contributed to social polarisation within each Member State by worsening the position of at-risk groups. Young people have been particularly hard hit with more than one in five active Europeans aged 15-24 being unemployed. Non-nationals, the low-skilled and men were also badly affected by the deteriorating labour market conditions (European Commission, 2013c). Jobless households are also a vulnerable category, with financial poverty risks ranging between 40% in Denmark and 76% in Bulgaria. Moreover, those poverty risks have increased between 2008 and 2011 (EC, 2013a).

In order to get the complete picture, it is also necessary to look beyond the traditional statistics. The 2012 European Quality of Life Survey looks at the relation between subjective and objective measures. Among the key findings was that unemployment – and long-term unemployment in particular – has a huge impact on subjective well-being. Furthermore, it was found that the most vulnerable groups (the lowest income quartile, the long-term unemployed and older people in Central and Eastern Europe) showed the greatest decline in subjective well-being in recent years. The results furthermore indicate that these vulnerable groups are expected to swell even more given that over one in three respondents said that their financial situation was worse than 12 months before (Eurofound, 2012).

The most up-to-date proxy for trends in poverty and inequality is the indicator of financial distress among households, derived from the six-monthly consumer surveys of the EC, as reproduced in Figure 2. The figure shows a clearly diverging trend in financial distress between the bottom and top quartiles of the income distribution, especially since the Summer of 2008. A similar graph relating exclusively to Spain shows an increase of the percentage of households reporting financial distress in the bottom quartile from 5% in 2000 to 37% in 2012.
1.3. Other effects

In addition to unemployment and income losses, households were also confronted with debt crises. Because banks became reluctant to lend as a result of the sovereign debt crisis, more and more enterprises ran into difficulties in borrowing the cash they needed or to pay off debts and went bankrupt or were forced to take drastic action. A survey released by the European Central Bank (ECB) showed that the financial institutions reduced the credit available to companies in the third quarter of 2011. Instead of being more lenient towards the credit-starved companies, banks preferred to deposit the cash with the central bank for safekeeping (Scott, 06.02.2012). Similar reactions are seen with respect to the lending conditions of banks to individual consumers, and low-income families in particular. The conditions linked to liquidity and credit facilities were tightened, resulting in a decrease as well as tougher lending opportunities for private lenders – including personal bankruptcies, households losing their homes and becoming homeless (Carpenter et al., 2011).

The so-called peripheral countries of the eurozone, and particularly the “PIIGS” (Portugal, Ireland, Italy, Greece and Spain – now joined by Cyprus), have suffered significantly more than other EU countries between 2007 and 2011 following the global economic downturn (Caritas Europa, 2013). Because of the enormous unemployment rates for young people in the peripheral countries, many young people decided to emigrate in order to find work in countries such as Germany, France and Poland. Other youngsters even found better employment opportunities in South-America. This resulted in a loss of around 300,000 (often well qualified) young people in recent years in Spain (Tremlett, 28.03.2011). Before the financial crisis began, Greece had the
lowest suicide rate in Europe at 2.8 per 100,000 inhabitants. In the mean time, this figure has almost doubled and is rising at an alarming rate (Eurostat, 13.12.2012). A Greek Ministry of Health study came to the disturbing conclusion that the suicide rate in the first half of 2011 was 40 percent higher than in the previous year. Similar increases are being seen across other hardest hit areas of Europe. Ireland saw a 13% increase in suicides among people under 65 between 2007 and 2008 (Von Hoffman, 05.04.2012). Another example of how the financial crisis is turning into a social one is the case-load of Greek food banks, which had to double the number of distributed meals over the last three years in order to meet increased demand (Vandeplitte, 29.04.2012).

In several Member States, the crisis led to a growing sense of insecurity, helplessness, hopelessness and fear among vulnerable segments of the population. This resulted in rising social tensions and the erosion of social cohesion. The 2010 Amnesty International (AI) report suggests that the economic downturn has led to a rise in discrimination, racism and xenophobia throughout Europe, particularly in countries such as Italy, Slovakia and Hungary (Amnesty International, 2010).

Besides an increasingly negative attitude towards immigrants, there also appears to be a loss of confidence in the capacity of governments to take the necessary steps to reduce poverty and social exclusion. A recent study showed that the electorate often punishes the party in government in bad economic times. This was clearly the case for Greece. The statistical model showed that the evaluations of the economy correlate with support for the governing party, even when other powerful predictors of party choice (such as ideology) were included (Nezi, 2012). Supplementary support for the relation between socioeconomic debacles and legitimacy crises can be found in the results of the Edelman Trust Barometer. This indicator clearly showed that the citizens’ trust in their national governments sharply decreased in almost all EU-countries in 2012 compared with the previous year (Edelman, 2012).
2. The impact of EU anti-crisis policies on poverty

In March 2010, the EU launched its growth strategy for the coming decade. This Europe 2020 strategy included five headline targets in the areas of employment, R&D, climate and energy, education and the fight against poverty. For our purpose, reducing the number of people at risk of poverty or social exclusion by 20 million by 2020 is the most noteworthy of these headline targets. Within the Europe 2020 strategy, two key leverages were put forward: the reduction of early school leaving and the increase in employment rates.

As such, the Europe 2020 blueprint looks coherent and shows a fair balance between economic, social and environmental objectives. However, the strategy was soon overshadowed by the Euro-crisis, which led to a series of drastic measures to impose a neoliberal macroeconomic agenda on Member States, combining internal competition with austerity – to the detriment of the social objectives. This chapter will give an overview of how the EU and the Member States tried to tackle the negative consequences of the crisis. Often, there will be a direct link between these two policy levels given that the Member States had to comply with the decisions taken at EU level. Nevertheless, some differences can be observed between different Member States.

The European Union has created a variety of instruments to tackle the negative consequences of the crisis. The first section will give a brief overview of the most important initiatives taken at EU level. In the following section, it will be demonstrated that the internal competition between the Member States constitutes an obstacle to an unambiguous and strong reaction. Finally, the effects of the European anti-crisis policy on poverty and inequality will be discussed.

2.1. The instruments: internal competition and austerity

According to De Grauwe (2012), the unequal geographical impact of the crisis (mainly on the PIIGS countries) has actually been aggravated by the architecture of the European monetary union, which transferred traditional monetary policy instruments (such as exchange rate or interest rate policies) from the Member States to the EU level. As Ireland, Greece and Spain were booming in the 2003-2008 period, these countries were unable to counter inflation and were ‘forced’ to live with the same low interest and hard currency rates as other Member States. This may have contributed to the bubbles experienced by these countries. At the same time, their trade deficits could not be corrected by devaluation, thereby spurring the accumulation of debts and the resulting liquidity crises. The lack of stabilising instruments at national level also necessitated alternative, ‘internal devaluation’ strategies after the outbreak of the crisis. Internal devaluation strategies include austerity in public budgets and wage cuts.

In 2011, 23 Member States also agreed on the Euro Plus Pact in order to step up coordination of reforms in areas not fully covered at EU level. The participating countries committed themselves to far-reaching reforms with respect to competitiveness, employment, sustainability of public finances and the reinforcement of financial stability (Duffy, 2012). In order to reinforce the monitoring of Member States’ economic and fiscal policies, the EU authorities also agreed on a ‘Six-Pack’ of legislation on economic governance. Through this initiative, the stability and growth pact was amended to strengthen collective surveillance of national policies, including a much stricter monitoring of national government deficits and debt ratios, but also international competitive positions, wage costs, unemployment and private debts. The surveillance framework was extended with a new ‘macroeconomic imbalance procedure’. This procedure ensures that corrective actions (including sanctions on member states) are taken in the event of imbalances.
The main EU policy vehicle has become the ‘European Semester’ of policy coordination. This cycle was designed to bring together all of the aforementioned commitments, leading to a better ex-ante coordination and follow-up of the decisions. The European semester is launched at the beginning of each year with the Annual Growth Survey and is delivered at the national level by Stability Programmes and National Reform Programmes (European Commission, 2012a). Country-specific recommendations can be imposed on countries, including e.g. austerity measures or cutbacks in social regulations, if these are deemed necessary to restore macro-economic imbalances. These recommendations are subject to prior negotiation procedures but can be enforced through sanctions.

Next to this overarching economic governance approach, the so-called Troika (EC, ECB and IMF) also insisted on the organisation of specific bailout terms in order to tackle the sovereign debt crises in some PIIGS-countries. These reforms included severe public sector cuts, state asset sell-offs and the weakening of labour market regulation.

All the aforementioned initiatives clearly demonstrate that the EU authorities’ principal reaction to the crisis was to streamline the macroeconomic policies of the Member States, according to an orthodox neoliberal doctrine. Although these measures clearly limited the freedom of movement of the EU countries, the organizational structure of the EU still allows them to pursue country-specific policies without taking into account the negative effects on other Member States (section 2.1.2).

2.2. Macroeconomic effects

For a monetary union to function well, it must have some means of dealing with divergent developments among its Member States. Some coordinated or centralised budgetary powers are indispensable in this respect. This necessity had been ignored when designing the monetary union. As a result of the absence of a coherent budgetary policy, an effective macroeconomic response to the recession was not possible. This deadlock in European integration of the macroeconomic policy mix favours the resort to non-cooperative strategies among member countries, such as competitive wage reductions, social dumping and fiscal competition (EuroMemo Group, 2010).

The non-cooperative strategy of structural reforms carried out mainly in Germany since 2003 was important in this respect because it had a significant impact on the orientation of macroeconomic policies throughout Europe. The German economic policies have led to inflation rates well below the ECB’s norm, resulting in serious losses of competitiveness for the other Member States. Consequently, they could only restore their competitive position by using non-cooperative strategies themselves. Some Member States, and the PIIGS-countries in particular, were forced to engineer so-called ‘internal devaluations’. This implies reducing prices, social benefits and wages relative to Germany (as an alternative for devaluation of national currencies).

The idea behind these internal devaluations was that a wage reduction would lead to an enhancement of the competitiveness, resulting in an increase of the export level. In an open economy, the ‘export-driven’ strategy is more likely to be successful given that exports represent an important share of the economic activity. However, because the euro-area as a whole is a relatively closed economy, with extra-EU exports making up less than 15 percent of the GDP, wage moderation in the euro-area can only have a contractionary effect on demand (Stockhammer, 2007). This leads to a decline in aggregate demand and domestic production, resulting in turn in increased government budget deficits and a deterioration of the fiscal position.
of those countries. In other words, these internal devaluations have come at a great cost in terms of poverty, lost output and employment, particularly in the PIIGS-countries (De Grauwe, 2012).

In contrast with this ‘social dumping’ strategy, a growth strategy based on domestic demand would imply that higher wages and benefits are seen as favourable, rather than detrimental for the economy. In a relatively closed economy such as the EU, higher wages lead to a higher demand, and thus more economic growth – while their depressing effect on exports and investments remains modest. Considering that a 1 percentage point increase in the wage share leads to a net increase in aggregate (private) demand by approximately 0.2 percentage points of GDP, it is obvious that the EU as a whole would benefit from rising wages and benefits, whereas wage moderation and cutbacks on benefits are to be avoided (Stockhammer, 2007; 2012).

As such, the situation within the EU can be compared with the prisoners’ dilemma. This concept is used to explain a paradox in decision analysis in which two individuals acting in their own best interest pursue a course of action that is detrimental to their common welfare. In the case of the EU, the best option would be that all European countries pursue policies aimed at stimulating demand (by keeping wages and benefits high). The worst situation occurs when the opposite situation takes place: if all Member States opt for wage moderation, overall demand tends to implode, leading to the aforementioned negative effects. Wage moderation strategies can be beneficial for some Member States only on condition that the other countries do not follow the same path. This European prisoners’ dilemma clearly shows that a eurozone with insufficient coordination threatens to end up in the worst scenario of collective impoverishment (De Grauwe, 2012).

Another key element of EU anti-crisis policy is austerity in government spending, as a means to consolidate government budgets, break the debt spiral and restore the equilibrium on financial markets. Nobel prize laureate Paul Krugman was one of the main critics of European austerity policies. He claimed that the austerity programmes imposed on the PIIGS countries in particular would do more harm than good, by dragging these countries along into a negative spiral of deflation, reduced tax revenues and further government deficits. A key argument in the debate was provided by a meta-analysis of 133 IMF-led austerity programmes, carried out by the IMF’s Independent Evaluation Office (2003), which concluded that the pursued deflationary fiscal policy – reducing spending and increasing taxes – in the Member States had detrimental effects. These austerity measures have led to sharp falls in the rate of economic growth, suggesting the negative multiplier effect is larger than may be expected in usual situations. In all countries, a fiscal consolidation is considerably more contractionary if made during a recession than during an expansion. Spending multipliers when the economy is in a recession are up to 10 times larger than spending multipliers during an expansion.

The IMF-study showed that withdrawing fiscal stimuli too quickly in economies where output is already contracting can prolong their recessions without achieving the expected budget balance. This is particularly the case if the size of the consolidation is large and if consolidation measures are centered around cuts to public expenditure, likely reflecting the fact that reductions in public spending have powerful effects on the consumption of financially-constrained agents in the economy. Instead, smooth and gradual consolidations are to be preferred, particularly for economies in recession facing high risk premia on public debt. In these cases, sheltering growth is key to the success of fiscal consolidation (Battini et al., 2012).
2.3. Effects on inequality and poverty

The severity of the implemented austerity policies varies greatly across Member States. While in a few countries a relatively limited social impact is expected, policies of other Member States are likely to hit the most marginalised worst and may boost long-term unemployment (Duffy, 2012; EC, 2013a).

Incomes of the poor have been squeezed from different sides. Germany’s response to the crisis was to keep wages down in order to encourage export-led growth and thus safeguard German jobs. Other European countries took the same path. While for the majority of the working population, low or no wage growth may not push them into poverty, it does increase poverty risks for marginal workers (Salais, 2012). Some Member States also introduced far-reaching reforms of their labour market aimed at enabling more flexible forms of contract and working arrangements. While these measures proved to be effective in several countries in preserving employment at the peak of the crisis, particularly in the manufacturing sector, they also led to more insecurity (European Commission, 2012a).

In several Member States, the austerity policy of the European Union had a direct effect on minimum wages. In particular in those countries suffering most acutely from the economic crisis, the Troika (European Commission, European Central Bank and IMF) have more or less directly influenced the development of the minimum wages. The extreme case was Greece, which was forced to reduce its minimum wage by 22%. But other countries also cut back their minima. In Lithuania and the Czech Republic, they remained constant in nominal terms for 4-5 years. In 2011, minimum wages decreased in real terms in 15 out of the 22 countries examined by the European Trade Union Institute (ETUI). In most other EU-countries, the upgrading of minimum wages was also restricted to the legally stipulated minimum rate. Currently, minimum wages are at critically low levels (sometimes below the AROP threshold), leading to increasing levels of in-work poverty. Schulten (2012, p.7) concludes that “although there is no direct economic link between the current debt problems and the development of minimum wages, a restrictive minimum wage policy has, nonetheless, under pressure from the EU, come to be regarded as a fixed component of the currently prevailing austerity policy”.

Another reaction to the crisis was the weakening of the social and legal protection of labour. This led to the proliferation of insecure jobs in atypical contracts, with reduced or no employment protection. In the context of the current economic downturn, workers faced substantial reductions in working hours. Given that underemployment appears to be a key determinant of in-work poverty, the rate of in-work poverty may rise significantly in the coming years (OECD, 2009). Meanwhile, the European Committee of Social Rights, the body within the Council of Europe responsible for monitoring compliance with the European Social Charter, decided that parts of the Greek labour market reforms induced by the EU were in violation of the European Social Charter. The difference in labour and social protection between older and younger workers and the absence of any dismissal protection during the first year of employment infringed with the charter. The committee stated “while it may be reasonable for the crisis to prompt changes in current legislation to restrict certain items of public spending, these changes should not excessively destabilise the situation of those who enjoy the rights enshrined in the Charter” (International Labour Organization, 08.11.2012). In the mean time, the ILO Committee on Freedom of Association is dealing with complaints lodged by Greek trade unions on the potential violation of the core labour standard conventions on freedom of association and collective bargaining. The Committee found that there were a number of repeated and extensive interventions into free and voluntary collective bargaining and an important deficit of social dialogue. As a result, the Committee insisted that the social partners should be fully involved in
the determination of any further alterations within the framework of the agreements with the Troika (International Labour Organization, 15.11.2012).

Whereas social protection schemes have played an important role in mitigating the impact of the crisis, the pressure to limit social transfers has strongly increased. In some EU countries, this led to cutting the level of payments and/or restricting access while in others indexation and uprating arrangements came to a halt. The impact of the social transfers in reducing the risk of poverty strongly depends on the type of social protection scheme. Given the wide disparities between the social protection systems in the different Member States, the effects of social transfers in reducing the poverty risk also varies strongly. While the social transfers in Sweden reduce the proportion of people at risk of poverty by more than half, they had a limited impact in Spain (Françon et al., 2010).

Cuts in the health care sector also triggered national governments to shift part of the costs to the users while reductions and subsidies for vulnerable groups were being reviewed (Duffy, 2012).

In several countries the cuts in services were unevenly spread and had a more severe impact on people who are experiencing poverty and social exclusion. The cuts in benefits and services have enhanced their risk of long-term exclusion, particularly among women, children, young people, the Roma, migrants and temporary workers. Whereas these vulnerable groups often rely on the support from NGOs, local and central funding to NGOs has also been cut, curtailing their ability to the increased demand (Frazer et al., 2011; Caritas Europa, 2013).

Moreover, further damage is expected in the future when looking at EU countries’ consolidation plans for 2012-2015. Some countries, such as France, who have not yet implemented large-scale fiscal consolidation, still have a number of restrictive measures in the pipeline. Moreover, the OECD calculated that further consolidation is needed in the majority of the Member States, for 1.5-2.5% of GDP per annum in 2012-2015, on top of current plans for that period (Erixon et al., 2012).

Despite the general tendency within the EU to pursue austerity policies, the case of Latvia demonstrated that those restrictive policies should not be seen as an unavoidable dogmatic recipe. The fiscal adjustment programme imposed by the IMF had devastating effects. Economic activity contracted by close to one-fifth in 2009. Instead of sticking to overambitious and tight fiscal objectives, the Latvian authorities found a way to abandon this austerity policy by substantially loosening the fiscal straightjacket. The consequence was that the economy ended its free fall and economic activity stabilised in the course of 2010. It was the rebound in domestic demand that supported growth in Latvia from 2010 onwards. This renewed growth was only possible by handling the deficit targets in a flexible and realistic way (Janssen, 2012).

Although the EU seems to be holding on to its strategy, the anti-crisis measures are heavily criticised by other instances as well. According to the European Anti-Poverty Network, the Europe 2020 strategy has been narrowed down to an instrument of economic governance. The priorities presented in the six pack legislative package appear to override any commitment to inclusive growth and the poverty target. The Network believes that the latter are only viewed as secondary concerns (Duffy, 2012). The European Economists for an Alternative Economic Policy in Europe (EuroMemo Group) agreed that the neoliberal bias of the Union’s policies is evident, referring to EU recommendations regarding employment flexibility, reductions in employers’ social contributions for those on lower incomes and the increase in the retirement age, along with cutbacks in public expenditure, welfare and wages (EuroMemo Group, 2010). Furthermore, Europe’s political and economic elites are being blamed for the absence of a coherent diagnosis of
the crisis. This led to a chronic underestimation of the challenges represented by the ‘collapse of financialised capitalism’ (Leaman, 2012).
3. Towards an alternative approach

Given the adverse economic as well as social effects of the current European anti-crisis measures, some EU authorities appear to be gradually reconsidering their strategy. On the one hand, social minimum standards are re-appearing on the policy agenda as a break on destructive competition (section 3.1); on the other hand, tight budget constraints are forcing welfare states to re-frame their social expenditures in terms of productive investments (section 3.2). Subsection 3.3 focuses on new perspectives in the financing of EU social policies.

3.1. Social minimum standards as a break on social dumping

The idea of social minimum standards was initially conceived as a response of social movements across the EU to the liberalisation of the public services such as telecom, energy, public transport – and, more importantly, social services such as child care, elderly care, labour market re-integration, etc. As the EU’s liberalisation policy went in pair with privatisation, competition and commercialisation, there was a great fear that this would result in low-quality services, social dumping and exclusion of vulnerable clients. Under the EU’s Services Directive, any kind of government intervention, through price setting, quality regulation or subsidisation was in principle considered as a market distortion and needed to be justified ‘from scratch’ or suppressed. Following strong protest from the public and non-profit sectors, the European Commission developed a ‘Quality framework for services of general interest’ in order to safeguard the highly regulated and subsidised (initial) education, social and health care sectors from commercialisation (EC, 2011).

A related aspect of the social minimum standards agenda concerns the introduction/strengthening of guaranteed minimum income (GMI) schemes (and minimum wages) across the EU. The objective is to lift minimum benefits to the at-risk-of-poverty threshold (60% of the equivalised median disposable income) by 2020 (Van Lancker, 2010– on behalf of EAPN). An EU framework directive on minimum income has been advocated for several reasons:

- the arguments relating to equity and human dignity are the most obvious ones, bearing in mind art.137 (fight against social exclusion) and the inclusion of the right to social assistance in the European Treaty, as well as the 2008 Recommendation on Active Inclusion;
- from an economic perspective, more generous GMI schemes can be expected (a) to support consumption demand and (b) to put a break on social dumping, particularly in the services sector. The productive role of social protection and minimum income (c) in preventing long-term social damage such as ill-health and social tensions should also be recognised.

In sum, it is clear that harmonised minimum income schemes will yield economic as well as social benefits.

The feasibility of EAPN’s proposal has been questioned by others, partly due to its budgetary cost (€ 130 billion for the EU as a whole in 2010). Yet this is just 1% of the EU’s GDP; and the ‘burden’ of the operation would obviously be shared between the government and employers (as minimum wages would need to rise as well). By way of comparison, the cost of the first wave of bank bailouts in 2008 and 2009 costed the European economies 23 times that amount (€ 2.99 trillion). Admittedly, the cost of a minimum income guarantee could turn out relatively higher in countries where the present schemes are weakly developed. Some form of European redistribution mechanism would therefore be welcome to support the weaker Member States in implementing the scheme.
A boundary condition for increasing minimum benefits is of course the necessity to maintain some tension between minimum wages and benefits. Vandenbroucke et al. (2012) calculated that the Europe-wide introduction of a minimum income equal to 60% of national median equivalent income could create a financial inactivity trap in at least eleven EU Member States. Therefore, the proponents of co-ordinated EU-wide GMI policies also propose to set appropriate standards for minimum wages. Admittedly, the problem is that minimum wages are not designed to address specific family situations or specific employment conditions, such as part-time work. Consequently, minimum wages are not well targeted as a direct anti-poverty tool (OECD, 2009). However, a co-ordinated minimum wage policy might prevent further damage from competitive wage dumping within the EU and thus also have a beneficial indirect effect on poverty.

3.2. Social investment: a new economic frame for the welfare state?

Whereas cutbacks on social expenditures in general were met with mixed feelings, many key actors, institutional as well as non-governmental, criticised the cuts in sectors such as education and health care. The European Anti-Poverty Network (EAPN) believes that a major programme of social investment in education, health and social services, as well as the provision of strengthened social protection is essential to restore business and consumer confidence in the short and medium term (Duffy, 2012). The OECD agrees that investments in the human capital of the workforce are key for reversing the growth in inequality as a result of the crisis. Policies that promote the up-skilling of the workforce -for the low-skilled in particular- would help to boost their productivity potential and future earnings (OECD, 2011a). According to Eurochild (2012), many Member States have made solemn commitments but failed to improve the quality and accessibility of early childhood services. Other NGOs and trade unions supported these demands (see e.g. Confederation of German Trade Unions, 2012).

In its call for a ‘Social Investment Pact’, the Committee on Employment and Social Affairs of the European Parliament advocated social investments as part of the EU’s responses to the crisis. According to the Committee, a better implementation of the employment, social and education goals is required for a re-balancing of the Europe 2020 strategy. The reason for this emphasis on social investments is their potential to reconcile social and economic goals. Therefore, they should not only be treated as spending but also as investments that will yield significant returns in the future (Committee on Employment and Social Affairs, 2012).

The European Commission echoed this report with a Communication on the Social Investment Package in February 2013. Recalling the inclusive dimension of the European growth strategy, the Commission advocates intensified investments in human capital through early childhood education, the New Skills Agenda, active labour market policies (including youth guarantee schemes), the social economy, preventive health policy as well as rehabilitation, active ageing, a more targeted and smarter allocation of social expenditure. The Communication refers explicitly to the 2008 Recommendation on Active Inclusion as part of the social investment agenda. While urging Member States to maintain social expenditure levels, the EC also commits itself to earmark 25% of all support from the Structural Funds to social investment, and 20% of the European Social Fund budgets to the fight against poverty.

The Social Investment Package integrated some earlier and new EC initiatives into a coherent framework. In what follows, we will focus on three key policy areas where the synergies between economic and social inclusion effects are most obvious: early childhood education and care...
(ECEC), education and training, and active labour market policies. Our focus will be on scientific evidence about the effectiveness of these strategies.

### 3.2.1. The fight against child poverty

The long-expected EU Recommendation on child poverty was issued at last as part of the Social Investment Package (EC, 2013d). The recommendation builds on three pillars, two of which coincide with the 2008 Recommendation on Active Inclusion:

- Access to adequate resources;
- Access to affordable quality services.
- The third pillar, the children’s right to participation, can be seen as the counterpart of the ‘inclusive labour markets’ pillar in the Recommendation on active inclusion.

It is interesting to note among the arguments in the introduction, apart from references to children’s rights and values of the EU, an explicit reference to cost-benefit arguments: “Early intervention and prevention are essential for developing more effective and efficient policies, as public expenditure addressing the consequences of child poverty and social exclusion tends to be greater than that needed for intervening at an early age.” Indeed, whereas (social) policy often shows a tendency to cure problems, such reactive interventions in the complex process of human development are often less efficient. Instead, it is necessary to put more weight on proactive measures to tackle poverty, inequality and social disadvantage at a very young age. Research in different scientific disciplines (developmental psychology, neurology, pedagogy and economics) has proven that better results can be obtained by shifting from curative to preventive actions, at the earliest possible age.

Even before children have their first school experience, significant differences can be observed between children of a different social origin with respect to cognitive and socio-emotional skills. A longitudinal study analysed the differences in the early cognitive development of cohorts of children with a low, medium and high socioeconomic status (SES). From the age of 2 a correlation could be observed between the average position in the distribution and the socioeconomic status of the family. Over time, the gap between the different cohorts appeared to increase. Moreover, children of high SES families with a low score at the age of 22 months were able to catch up with their counterparts, while children from low SES families with a low score had considerably fewer opportunities to improve their position. All this points to the importance of favourable living conditions for the development of children. It also implies that supportive investments in the development of children at a young age can make a difference in the long run (Alava et al., 2011). Evaluation studies of early intervention programmes showed that integrated approaches combining linguistic, cognitive and socio-emotional stimulation produce the best outcomes.

Longitudinal follow-up studies of various pre-school and early school programmes demonstrated convincingly that high-quality services can have a major impact on the (socio-emotional and cognitive) development of young children. Such programmes also managed to attenuate significantly the effects of social disadvantage. The most important benefits of pre-school programmes include more successful school careers, higher earnings, a better health condition, and less dependency on welfare. As a consequence, such interventions produce enormous future welfare gains through enhanced productivity and economies on public expenditures. Detailed cost-benefit estimates for the ‘best practice’ case in the USA, the Perry Preschool Programme, concluded that the social benefits equalled 6 to 13 times the cost of the programme (Belfield, 2006). In the context of the PISA 2009 study, the OECD (2011b) estimated the impact of participation in pre-primary education on the skills of 15-year-old students – expressed in ‘score
point differences’. As a yardstick for the assessment of the size of these effects, consider that a difference of 39 points corresponds with the effect of a full year of formal schooling. Despite the rough nature of the data, the analysis showed various significant effects, as can be seen from Figure 3. Note that quality plays a key role, and that ‘cheap’ commercial child care may also have negative effects on child development (Penn, 2009).

Figure 3 - Effects of participation in / quality of pre-primary education on skills at age 15

Source: OECD, 2011b

3.2.2. Education and training

Given the key role of human capital in the Europe 2020 strategy, The European Commission launched the New Skills for New Jobs initiative. This policy document mainly sets out to promote better anticipation of future skills needed, develop better matching between skills and labour markets needs and bridge the gap between the worlds of education and work (Schmid & Keraudren, 2012). The initiative was echoed by a communication from DG Education and Culture, ‘Rethinking Skills’, which was accompanied by an impressive analysis of trends and challenges in the field of education and lifelong learning (EC, 2012c).

Technological change, globalisation, shifts in demand patterns, ageing of the workforce, polarisation between high- and low-skilled labour market segments necessitate a number of shifts in the supply of skills:

- more secondary as well as tertiary education graduates,
- a shift away from industrial to service-sector skills,
- more generic (as opposed to job-specific) skills,
- more STEM (science, technology, engineering, mathematics) graduates,
- more lifelong learning,
- more collective learning (learning organisations, learning cities / regions), and
- more workplace learning.

The information is based on retrospective questions included in the PISA questionnaires answered by students, combined with national data on quality indicators.
Despite its comprehensive nature, the Rethinking Skills agenda puts a strong emphasis on the acquisition of basic skills, among young people as well as adults. This implies strategies to reduce early school leaving, but also curriculum reforms (to foster the development of generic work-related skills such as communication, problem-solving, languages and ICT skills), and a greater priority to basic literacy, numeracy and ICT training for adults. It goes without saying that these priorities converge to a large extent with the social inclusion agenda.

Moreover, education is probably the area where economic and social interests co-incide most. de la Fuente and Jimeno (2005) estimated the returns on education in 14 EU countries and concluded that the private rate of return was in most cases between 7.5 and 10%; analogously, the social rate of return (which takes into account government subsidies and revenues as well as spill-over effects on third parties) varied between 8.5 and 11.5% (de la Fuente, 2003). Endogenous growth theory has recently discovered that education does not simply enhance welfare levels, but growth, by extending the learning and innovation capacity of the economy. Using an econometric model that reflects the impact of skills (rather than years of schooling) on economic growth in the past (controlling for other determinants), and combining a multitude of data sources, Hanushek and Woessmann (2010) estimated the impact of improved skills levels of the European workforce on economic growth. Note that the effects materialise only in the very long run, as it takes approximately 60 years for a new cohort of children to complete their careers in the labour market. However, as small effects cumulate over time and across successive cohorts of new labour market entrants, the discounted cumulative GDP gain of the EU across the period up to 2090 can be quite large. Applying this model to the EU benchmark of reducing underperformance in all Member States to (at most) 15% by 2020, the authors estimate the welfare gain at € 23 trillion – i.e. 177% of the EU’s current GDP. As the achievement of this objective necessitates targeted action in favour of the lowest achievers, this also implies that the impact will be stronger in the EU countries with the weakest education systems (Bulgaria, Romania, Cyprus and Malta).

Given the delayed impact of skills upgrading strategies targeted at young people, it is certainly worth to conduct similar campaigns to upgrade the basic skills of adults. The latter approach may take less time and have a larger impact in the short term, as in principle the whole active population can be covered. This would obviously necessitate a radical shift in the priorities of adult education and massive sensitisation efforts. A noteworthy example of such a comprehensive plan is the Portuguese ‘Novas Oportunidades’ scheme, which combines second-chance education and training with counselling and tools for the accreditation of prior (experiential) learning. Unfortunately, it seems that the crisis and the change of government have diluted this plan. At EU level, the ‘Renewed agenda for adult learning’ for the period 2012-2014 and beyond puts particular emphasis on learning opportunities for low-educated adults. Yet, greater political commitment is needed for a successful implementation of this agenda. Its objectives should be translated into quantitative benchmarking, beyond the aggregate 15% participation target in adult education: for example, through specific quantitative targets at national level for participation of unqualified adults in adult education, as well as targets relating to outcomes. As Figure 4 indicates, low-educated groups are severely under-represented among adult learners. National plans should also include specific measures and budgets to encourage demand and supply and to boost the efficiency of adult learning.

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Note that the 15% target is expressed on a monthly basis, while the rates reflected in Figure 3 are calculated on a yearly basis.
The achievement of the EU targets (expressed in terms of reduced early school leaving, reduced underperformance or second-chance education) will not be easy. It requires strong political support and resistance against the temptation to prioritise the privileged, high-performing learners. It also requires sustained investments over a long period. But it is not less efficient: on the contrary, the benefits in terms of welfare as well as social inclusion will last for generations. It is therefore regrettable that no less than 20 countries or regions have reduced their education budgets in 2011-2012 (Eurydice, 2012).

### 3.2.3. Active labour market policies

Active labour market policies can be seen as investments in the employability of individuals, to the extent that they enhance their human and social capital. We need to distinguish between mere ‘activation’ (which often boils down to exerting pressure on job seekers or just offering short-term work experience) and genuine investments that combine decent work placements with training, counselling and other services. Figure 5 below shows a negative correlation between expenditure on active labour market policies in general and the risk of transition from short-term to long-term unemployment in EU Member States. Klueve (2006) reviewed a large number of evaluation studies and concluded that public employment schemes tend to have negative effects, whereas recruitment subsidies and services to job seekers are generally effective in enhancing the employment probability of beneficiaries.
A key element of the EC’s Social Investment Package is the *Youth Opportunities Initiative*, i.e. a set of measures to combat youth unemployment. In particular, it aims to reduce early school leaving and to foster the school-to-work transition. In eight countries with youth unemployment rates above 30% (in 2011: Greece, Ireland, Italy, Latvia, Lithuania, Portugal, Slovakia and Spain), the Commission participates in Youth Action Teams, providing policy advice including suggestions on how to use unspent money from the Structural Funds. Seven other countries with youth unemployment rates exceeding the EU average also get support. The idea of youth guarantee plans is being actively promoted in other Member States. Such guarantee plans aim to ensure that every young person is offered a job, training, apprenticeship or combination of those within four months of unemployment (European Commission, 2012c).

The idea of guarantee schemes for young people (or other target groups such as the long-term unemployed) is not new. The Nordic countries and the UK have introduced them in the 1980s and 1990s, while Austria, Germany, The Netherlands and Poland took the first steps more recently. Although these initiatives were not identical, they share the same key objective, i.e. to prevent young people from being trapped in unemployment and inactivity. In the Nordic schemes, a central role is played by the public employment services in offering the young job seeker a personalised needs assessment and an employment plan, followed by a package of guaranteed tailor-made services.

Accurate targeting of the guarantee scheme is essential, because the cost efficiency depends crucially on the avoidance of deadweight and substitution effects. Deadweight occurs whenever beneficiaries would have found jobs even without subsidies or services. As all school leavers enter the labour market as job seekers, it is difficult to target support at those who have the lowest probability of finding work, without discriminating. Substitution effects occur when support for one target group simply reshuffles the queues of job seekers, favouring young people at the expense of other groups that may be equally or more disadvantaged (such as disabled people, migrants, low-skilled unemployed etc.). Research indicates that the risk of deadweight and substitution effects is higher in active labour market programmes targeted at young people.
Evaluations of early youth guarantees such as the UK’s Youth Training Scheme and the Danish Law on Active Labour Market Policy showed negative effects, mainly because of the rigidity and lack of quality of services. Later reforms drew lessons from these evaluations: more emphasis was put on personalised pathways, combining a variety of services and offering more choice (Nicaise, 2001; Mascherini, 2012). Before the crisis of 2008, the Nordic youth guarantee schemes proved to be very successful with unemployed young people participating in the scheme managing to find a job quicker than older people. During the economic crisis, the public employment services had difficulties in delivering the promised servicing within the time frames. The workload of many counselling services became almost unmanageable. However, they are performing significantly better now as the demand for their services has started to slow down recently (Mascherini, 2012).

Equally importantly, economic cost-benefit estimates of guarantee schemes for the long-term unemployed showed that in smart employment guarantee schemes (i.e. work experience combined with training and personal counselling), the initial additional cost for the government is recovered within 3-4 years through economies on unemployment benefits and increased tax and social security revenues. The social cost-benefit balance (which takes into account costs and benefits for all stakeholders) turns out positive after 2-3 years, even if leakages such as dropout, deadweight and substitution effects are taken into account (Layard & Philpott, 1997; Nicaise, 1999).

### 3.2.4. Further comments on the Social Investment Package

Overall, the Social Investment Package can be seen as a milestone in the evolution of European welfare states. Hemerijck (2013) considers social investment as a new paradigm in social policy, with the emphasis shifting from compensating income equality (Rawls) towards “capacitating fairness” (Sen/Dworkin). Although trajectories diverge between countries, the global financial crisis appears to spur reforms into the same direction.

Our three ‘case studies’ in the previous subsections suggest that economic and social objectives may converge in practice, provided that social policies are conceived in a more efficient and proactive way. Whether the analysis can be generalised to other policy areas such as health, housing, family policy, elderly care... remains to be demonstrated.

A major weakness of the Social Investment Package is that the Commission does not seem to take an explicit position as regards potential budgetary implications. Although references to 'selectivity' in the document may raise some suspicion among social organisations about further cuts in social spending, the intention is not to make existing provision more selective - rather to extend it selectively. On the other hand, the Commission does not make any statement about financing of this extension either. This is cautious but leaves a critical issue unsettled. All in all, the document misses an overall strategic view on how to actively promote social investment amidst the crisis. Yet it is obvious that, if the EU wants to make a 'qualitative leap forward', this will inevitably require additional funding in the short run. It would be more courageous to state explicitly that additional government revenues are needed, and to examine the opportunities to raise taxes selectively on high-income groups, on wealth, transnational corporations, financial speculation etc.

The EuroMemo(random) Group is more explicit on these issues. This group of 350 economists and social scientists advocates an alternative fiscal policy for the EU, focussed on equity and the fight
against unemployment rather than austerity (Euro. Key prescriptions of the EuroMemo Group include:

- a proper EU fiscal policy margin in the order of 10% (instead of the present 1%), aimed at combating unemployment, conducting an industrial policy and redistributing between rich and poor regions in the EU;
- a requirement for surplus countries (such as Germany) to expand demand;
- alternative labour market policies based on a redistribution of work (through shorter work weeks) and investment in skills instead of wage competition;
- the power for the European Central bank to issue euro-bonds in order to finance major investment programmes;
- strict regulation of investment banks, hedge funds and private equity funds, and establishment of a public European rating agency; generalisation of the financial transaction tax;
- above all, breaking the downward spiral of tax competition through harmonisation of national tax policies, restoration of progressive taxation, strengthening of taxes on wealth, and elimination of tax havens (EuroMemo Group, 2013).

Although the EuroMemo agenda looks radically different from present macro-economic policies in the EU, it is certainly coherent, scientifically sound and compatible with monetary consolidation. The main difference with current EU policies is its balance between social and economic objectives. Europe is capable of funding a generous welfare system and investing in social progress, provided that unfair fiscal competition is stopped.

A second weakness of the Social Investment Package relates to the vision underpinning social protection, which is most visible in the background document 'Staff Working Document on demographic and social trends' (EC, 2013c). This document clearly sticks to the 'making work pay' paradigm as it continuously refers to the dilemma between generosity and work (dis)incentives of benefit systems: whereas the risk of losing one’s job is considered exogenous, the duration of non-employment is treated as the result of a rational choice process between leisure and income, with people getting trapped in inactivity if the income difference between work and non-work is not large enough. The dominance of the (neoliberal) ‘making work pay’ paradigm, resulting in an obsession about financial work (dis)incentives, has undoubtedly weakened public support for redistribution through social security in general, and unemployment benefits in particular. This explains why the latter have been systematically eroded in the past decade(s), resulting in increasing poverty rates among the unemployed.
Figure 6 - Trends in financial poverty (AROP) rates among unemployed persons

Source: Cantillon, 2011

Yet, the empirical basis for the ‘making work pay’ approach remains weak. Another report of the European Commission provides empirical evidence as well as references to the literature, showing that receipt, duration, and generosity of benefits have no clear-cut effect (and indeed sometimes a positive effect) on the probability of getting back into work (EC, 2012b). This can be explained by another role of social benefits, namely, allowing individuals to invest in their employability (through expenditures on mobility, training, social participation). The social investment perspective on social protection therefore prescribes decent benefits, combined with supporting services enhancing the employability of the individual. Curiously, the Social Investment Package does not seem to have fully integrated these lessons.
4. Financing social investments

Other stakeholders focussed on need to change the fiscal regulations within the EU. In that context the European Federation of Public Service Unions (EPSU) launched a campaign against tax fraud and avoidance in the EU. They criticize certain EU Member States for suppressing jobs in tax services instead of being tougher on tax dodging and investing in tax services that bring in much revenue. The union refers to the fact that each year 1 trillion euro of public revenues are lost in tax fraud, which is illegal, and tax avoidance, which may not be illegal but nevertheless unacceptable. Closing the tax gap between what governments expect to raise and what they do raise, is essential to tackle public deficits. Hence, it is vital to invest more into tax administration because it more than pays for itself and will combat tax evasion directly (EPSU, 2013). Note that the estimated loss of € 1 trillion is equivalent to 7.5 times the poverty gap in the EU.

Another popular demand with respect to fiscal measures was the introduction of a generalised financial transaction tax. The levy is designed to prevent a repeat of the conditions that stoked the credit crunch. In the meantime, the European Commission agreed to this idea by proposing the creation of such a tax at EU level. In line with its proposal, the proceeds of such a tax could be used to finance growth enhancing investments (European Commission, 2012d). The EU’s effort to introduce a tax on financial transactions was given new life recently. Concretely, Germany, France, Belgium and eight other eurozone countries have been given the green light to impose the financial transaction tax, using the ‘enhanced co-operation’ mechanism that allows groups of EU countries to move forward without the agreement of all 27 members. It is expected that the levy could raise as much as 35 billion euro a year for the 11 countries. Following go ahead for the EU Finance Ministers, the levy could be introduced within months (Inman, 22.01.2013).

According to the EuroMemo Group, another precondition for improving the fiscal health of the European Member States is to establish, through regional and international agreements, clear principles of fair taxation. Such an agreement would involve the elimination of so-called ‘tax havens’, the prevention of destructive tax competition, a standardised tax base for corporations and non-incorporated companies and the reestablishment of effective systems of progressive taxation (EuroMemo Group, 2010). The erosion of the progressiveness of income taxes in the EU is illustrated by Figure 7 below.
The OECD also favours tax reforms that increase the average rate of tax paid by top earners. Possibilities include aligning the taxation of owner-occupied residential property more closely to actual market values and returns, while also applying a progressive rate structure to those returns. Another option is to abolish or scale back a wide range of tax expenditures which tend to benefit high income recipients disproportionately (OECD, 2011a). The additional proceeds resulting from these tax reforms could be used to reconcile a balanced budget with increased social investments.

EAPN furthermore criticized that the 2007-2013 Structural Funds have fallen far short of their potential to promote social inclusion. In particular, the network criticized the way the 2007-2013 Structural Funds have been implemented. A non-satisfactory involvement of social inclusion NGOs in monitoring is considered to be one of the main reasons for this deficit. As a result, EAPN created a toolkit in order to help social NGOs to prioritise the new social targets of Europe 2020, and especially the poverty reduction target. Given their knowledge of the needs of the most vulnerable groups of people and how to reach them, social NGOs should participate in all stages of the processes of Structural Funds (preparation, implementation, monitoring and evaluation) (EAPN, 2012).

The EuroMemo Group argues that the aforementioned alternatives are not sufficient to turn the tide. Therefore, a deep and comprehensive reform of the monetary union is being proposed as a more radical alternative. The main line of this reform would be the achievement of democratic political control over the ECB and a reform of its mandate to emphasise financial stability, full employment, international cooperation and sustainable investment. Therefore, the Stability Pact should be replaced by a coherent budgetary policy based on a genuine coordination of the national budgetary policies on the one hand and a significant expansion of the central EU budget with a redistributive dimension on the other hand (EuroMemo Group, 2010).
5. The Flemish case

With its open and strongly export-oriented economy, the Flemish region has also been hit hard by the economic crisis. The overall social impact of the crisis - and its poverty impact in particular - will be summarised in this section. Moreover, we will discuss the policy responses on all relevant policy levels.

5.1. Overall consequences of the crisis in Flanders

As a consequence of the crisis, companies in all branches of industry decided to scale back their investment plans. This was especially the case for the manufacturing industries and the construction and energy sectors. A direct consequence of this poor economic climate was an upsurge of the unemployment rate in Flanders. The exceptional upsurge of unemployment in the aforementioned industrial sectors confirmed that these sectors are highly dependent on the business cycle. In June 2009, the number of unemployed who previously had a full-time job had increased by almost 23% on an annual base. The labour market statistics of the most recent years indicate that the rising trend of the unemployment rate seems to persist. Besides the year 2011, when the unemployment rate decreased with 5.2% compared with 2010, the number of employed continued to rise annually with 0.2% in 2012 and even 5.7% in 2013. A regional comparison furthermore indicated that the rise of unemployment was significantly higher in Flanders than in Wallonia and the Brussels Capital Region.

Whereas the unemployment growth was ‘only’ 10% among women in 2009, the number of unemployed men rose by almost 35% compared with the previous year. Although the unemployment growth among men decelerated in recent years, its year-to-year increase among men was still as high as 9.8% in January 2013, compared to 1.2% for women. This unequal trend eventually boosted the share of male unemployed to 54.5% in January 2013 (Departement Werk en Sociale Economie, 2013).

In Flanders, youth unemployment rose dramatically - as was the case in the entire EU (SERV, 2009). In June 2008, the number of school-leavers who still had no job a year after leaving full-time education was 9.8% or 7,600 people. By February 2009, this rate had risen to 11.2%. Most of the increase consisted of males with lower educational qualifications (Vlaamse Gemeenschap, 2011). Following a sharp decrease of the youth unemployment rate in 2011, the number of unemployed below age 25 began to rise again in 2012. In January 2013, the annual youth unemployment growth even amounted to 10.4% (Departement Werk en Sociale Economie, 2013).

Besides the rise in youth unemployment, other underprivileged groups (people between 54 and 65, low-skilled workers and non-EU migrants) also experienced a dramatic rise of the unemployment level between 2007 and 2010 (Studiedienst van de Vlaamse Regering, 2012).

The destruction of jobs was accompanied by a sharply decreasing number of new job openings. The number of vacancies had decreased by 20% in the second quarter of 2009 compared with the previous year (SERV, 2009), before starting to rise again. Although the job vacancy rate recovered rapidly over the period 2010-2012, this did not result in an equivalent reduction of the unemployment level, due to an increased inefficiency in the job matching process. The Belgian labour market in general is characterized by this well-known paradox: despite high numbers of jobseekers, the number of hard-to-fill job vacancies remains substantial. The matching between the two seems to be increasingly difficult. The reason for this mismatch is that the jobseekers do not (sufficiently) possess the competences required by the employers. The unfilled job vacancy
rate measures the efficiency of the labour market matching process between supply and demand. The rate reflects the number of unfilled vacancies per 100 jobs. Eurostat statistics indicated that Belgium (2.1) and Germany (2.5) had the highest unfilled job vacancy rates of the entire European Union (1.6) in the third quarter of 2011. An overview of the regional differences within Belgium furthermore shows that Flanders has the least favourable position (2.77), followed by the Brussels Capital Region (2.11) and Wallonia (0.97). Moreover, it is expected that the interregional mismatch will increase in the future, taking into account the higher replacement demand in Flanders compared to the other Regions (Verbond van Belgische Ondernemingen, 2012).

For many aspects of social exclusion, up-to-date statistics for a detailed analysis of the impact of the crisis are lacking. However, in the immediate aftermath of the crisis, several indicators already clearly showed that the crisis had severe consequences for the Flemish population. Between 2007 and 2011, the number of persons involved in collective debt mediation procedures increased by 45%. In the mean time, the number of Flemings entitled to a guaranteed minimum income rose by 18% between 2007 and 2010. Similarly, the number of elderly people with a right to a Guaranteed (minimum) Income for the Elderly (IGO) grew by 24% between 2007 and 2011 (Studiedienst van de Vlaamse Regering, 2012). Even though it is hard to draw general conclusions from these and other findings, the different indicators all seem to point in the same direction. The partial picture that can be drawn indicates that in a short time significantly more people were confronted with forms of social exclusion and insufficient means to live in dignity (SERV, 2009).

5.2. The impact of anti-crisis policies in Belgium and Flanders

In Belgium too, the federal policymakers outlined a fiscal consolidation programme. These austerity measures taken at the federal level also had a significant impact on the lives of the Flemings. The federal and Flemish responses to the crisis will be discussed in two consecutive subsections.

5.2.1. Austerity policies at federal level

The Belgian economy experienced a severe downturn in 2008-2009 in the aftermath of the economic crisis, resulting in a decline of the economic growth rate to -3.0% in 2009. Whereas the fiscal balance had shown a slight surplus in 2006, Belgium recorded a deficit of 6% of GDP in 2009, the highest deficit since 1993. The economic crisis also had a detrimental impact on the gross debt level. Before the economic crisis, gross debt had been steadily declining due to consolidation efforts during the previous decade. However, the costs associated with the crisis (mainly bank bailouts) resulted in a rise of the debt ratio to around 100% of GDP.

In January 2010, the federal government outlined its fiscal consolidation programme through 2012, based on a strategy to preserve the sustainability of public finances while at the same time mapping out an improvement path that would not damage the fragile economic recovery (OECD, 2012).

In the light of the necessary austerity measures, Belgium made a commitment to limit the general government deficit to 2.8% of GDP in 2012. In December 2011 the federal government drew up the initial budget for 2012 in a multi-annual perspective covering the period 2012-2014.

Most of the expenditure cuts will be seen in social security. First, in the health insurance sector the ‘growth norm’ (i.e. the cap on expenditure for the coming years) had been revised (yielding economies of €1,562 million in 2012, €2,016 million in 2013 and €2,520 million in 2014).
Additional cutbacks will be made in health care and social security, amounting to €823 million in 2012, €745 million in 2013 and €828 million in 2014.

Structural measures have also been implemented, with a substantial impact on expenditure. The conditions for access to the system of time-credit and career breaks have been tightened (yielding an estimated €52 million in 2012, rising to €125 million in 2014). Given that these measures were popular especially among women, the new restrictions might affect their labour market participation (Federale Ministerraad, 2012).

Another important austerity measure was the government’s decision to lower the benefits for long-term unemployed to (more or less) the national minimum income level rather than raising them to the at-risk-of-poverty threshold. This implicit erosion of the official poverty line should not come as a surprise given the fact that Belgian social protection policy has been vigorously influenced by the making-work-pay paradigm, which includes an agenda of reduced social benefits. The reinforced degressiveness of the allowances for the long-term unemployed implies that, depending on their work history and the household composition, after maximum 48 months they fall back onto a lump-sum benefit that is slightly superior to social welfare benefits. A related measure that will probably have a strong impact concerns the unemployment benefits for school-leavers, the so-called waiting allowances. In order to ‘foster the integration into the labour market’, the waiting period will be turned into a ‘work integration period’. The waiting period between school-leaving and entitlement to unemployment benefit is extended from nine to twelve months, and conditionality on continuous job search efforts is tightened (Peña-Casas et al., 2012).

The aforementioned measures are presented in the 2012 National Reform Programme as activation measures. Whereas the literature on the incentive effects of lowered benefits does not predict any substantial impact on re-employment probabilities, no attention has been paid by the Belgian government to their poverty impact. The reinforced degressivity of the allowances for the long-term unemployed will have serious financial consequences for beneficiaries. For a long-term unemployed single person, this austerity measure may involve a loss of 2,337 euro on an annual basis. This corresponds with a 17.5% decrease in purchasing power, resulting in total income 12.5% below the European at-risk-of-poverty threshold. The loss for a household head (with no other income) may amount to 1,778 euro per year, an 11.9% loss of purchasing power. This corresponds with an income level 31.5% below the European poverty threshold (Serroyen, 22.03.2012). Consequently, the combination of the stricter conditions and the drastic reduction of the allocated resources rather seems to signal an erosion of the minimum norm for social benefits in the direction of the social assistance level instead of an upgrade towards the European at-risk-of-poverty threshold.

Although the Commission’s Recommendations urged Belgium to reform wage setting procedures and arrangements, the system of automatic indexation of wages is being maintained, as well as the process of wage bargaining at centralised level. Wage indexation is preserved for the important role it plays in sustaining purchasing power of workers and cushioning the impact of the crisis. This is a positive option in terms of fighting poverty among workers but also more widely, as this indexation mechanism also applies to minimum social allowances (Peña-Casas et al., 2012). On the other hand, supporters of a (temporary) suspension of the indexation mechanism argue that an automatic wage increase puts Belgian companies at a competitive disadvantage compared to neighbouring countries (Nationale Bank België, 2012). As an alternative, the government decided to freeze real wages at their 2012 level, beginning with a two-year period. The longer-term objective is to reduce the wage gap between Belgium and its main trade partners by 5.2% by 2018. As this 5%-gap is the outcome of wage cuts in Germany rather than excessive wage increases in Belgium, this (unavoidable?) measure illustrates how EU
countries are trapped into a downward wage competition with their neighbours (see the discussion of the prisoner’s dilemma in section 2.2).

5.2.2. Recovery and protective measures at federal level

Next to the fiscal consolidation strategy, the federal government also implemented several measures aimed at tackling the negative consequences of the crisis. In this respect, the federal government adopted a Recovery Plan in December 2008. Afterwards, the plan was approved by the federated entities and served as a starting point to develop their own long-term plans. These plans included three pillars: an investment plan, a governance plan and an employment plan. The Belgian employment plan’s main goal was to attenuate the impact of the crisis. Job retention was considered to be crucial but this was obviously not always possible. This precarious post-crisis situation confirmed the necessity of a comprehensive strategy to help workers enter or re-enter and stay in employment (Schockaert et al., 2010).

With the aim of sustaining employment in times of economic downturn, the federal government implemented three types of specific measures applicable during the second half of 2009. These actions aimed at reducing working time and salary costs while maintaining purchasing power for the workers:

1. Temporary unemployment for white collar workers: The employer could suspend the employment contract of a white-collar worker entirely for a maximum of 16 weeks. It was also possible to partly suspend the contract for up to 26 weeks. In case of suspension, the worker received an unemployment benefit from the National Employment Office (NEO) and an additional supplement from the employer.

2. Crisis-related time credit: The working time of a full-time worker could be reduced by 1/5 or 1/2 during a period of one to six months. During this period, the worker was entitled to receive compensation from the NEO and possibly an additional voluntary contribution by the employer.

3. Temporary collective reduction of working time: The employer had the possibility to reduce the overall working time by 1/5 or 1/4 by means of a collective agreement. In this case, a social security contribution exemption was applied per worker and per quarter. At least 3/4 of the social security contribution exemption must return to the workers by means of a wage supplement (FOD Werkgelegenheid, 24.12.2009).

In order to promote economic growth during fiscal consolidation, the Belgian government decided to extend some 2009 anti-crisis measures (OECD, 2012).

Since their introduction in July 2009, these measures have shown their value, both for enterprises and employees. The job losses would have been considerably higher without the implementation of these measures. After having analysed the efficiency of the anti-crisis measures in a range of industrial countries, the OECD concluded that Belgium was among the countries where the largest proportions of permanent jobs were saved. The OECD estimated that approximately 1.3% of overall employment could be saved as a result of the aforementioned measures to reduce the working time. This corresponded with 0.9 percentage points of the employment rate (SD Worx, 2011). In its ‘Employment in Europe 2010’ report, the European Commission furthermore stated that the scheme of anti-crisis measures has been particularly successful in Belgium, where it played a major role in moderating the rise in full unemployment (DG Employment, 2010).
Besides these generic measures to protect the working population, part of the employment strategy related to measures aimed at improving access to employment of specific groups at risk of poverty and social exclusion (youth, ageing workers, low skilled, (long-term) unemployed, migrants, disabled persons). Taking into consideration the remaining distance to the 2020 targets for the overall employment rate (5.6%), employment rates of women (7.5%), aged workers (12.7%) and migrants (11.9%), these targeted policies are absolutely necessary. The federal measures announced in the NRP take the usual form of wage cost subsidies for employers in order to promote job-creation for specific groups (Peña-Casas et al., 2012).

5.2.3. Flemish anti-crisis measures

The Flemish government was the first of the Belgian governments to reach an agreement on a recovery plan at the end of 2008. The plan was based on a budget of 900 million euro, which was equivalent to just under 0.5% of GDP.

A first important section of the plan was a strengthening and acceleration of public and private investment. This led to the creation of the Innovation Knowledge Centre within the government agency for Innovation by Science and Technology (IWT). A second priority of the plan was a strengthening of the credit facilities available to companies. This has been achieved by a straightforward increase in the budget and an extension of the target group to larger companies. Furthermore, the Flemish government made use of the option to extend the guarantee provisions, as foreseen in the European Commission’s temporary framework. The maximum credit covered by the guarantee was raised and companies could benefit from reductions on the annual premiums to be paid for new guarantees. In the course of 2009, it soon became clear that those guarantees were an absolute necessity given the large increase in the number of applications. A third section of the Flemish recovery plan focused on the labour market activation (Departement Economie, Wetenschap en Innovatie, 2010).

In the coalition agreement of the Flemish government for the period 2009-2014, the poor economic situation was used as an opportunity to remedy the structural weaknesses of the Flemish economy. The first section of the coalition agreement dealt with ways to combat the economic crisis. The main objective was to switch from a simple recovery plan to a more comprehensive sustainable employment and investment plan (Vlaamse Regering, 2009).

The priorities of the Flemish recovery plan remained important in the employment and investment plan that was issued by the Flemish government and the Flemish social partners on 18 December 2009. This plan aimed to attenuate the negative impact of the crisis on the labour market and presented an overview of the required transformations in the economy and the labour market.

The main objective of the investment plan was to promote both private and public investment. The Flemish government recognized that its investment level was too low in relation to the large social needs. As a result, the government drew up an integrated multi-annual investment plan based on three pillars: direct capital investments in a Flemish energy company to support the economy; public-private partnerships; and direct additional government investments. As a result of the financial crisis, the Flemish region also introduced a new guarantee scheme for small, medium and large businesses. This scheme offered businesses operating in the Flemish region to obtain either a guarantee or an increased crisis guarantee as collateral for certain loans or credits granted by credit institutions. The main goal of these measures was to provide businesses with better access to funding opportunities for investments in the Flemish region. In principle, the
guarantee scheme expired on 31 December 2010. However, the Flemish government decided to extend the aforementioned scheme with some slight modifications (Racquet, 09.11.2012).

The employment plan intended to ease the consequences of labour market fluctuations while investing in employees, job seekers and companies. One of the principal objectives of the plan was to provide tailor-made guidance for all job seekers. Next to general measures to help the unemployed, efforts were targeted at vulnerable groups in society. Besides an improvement of the guidance for persons who have been unemployed for a relatively long time, additional on-the-job training opportunities were offered for young unemployed. Moreover, pathways to integration in the social economy sector were created for disadvantaged groups taking into account that the situation of these groups on the labour market remains critical. Another important priority mentioned in the employment plan consists in efforts to enhance the vocational training capacity (Vlaamse Overheid, 2009). Important in this respect was the design of the personal development plans (POP) which aimed at easing the transition from school to work (Vlaamse Regering, 2009).

The role of the Flemish Public Employment and Vocational Training Service (VDAB) was indispensable in providing comprehensive training services in addition to the traditional job-search assistance. The applications for training rose by 26% and waiting lists grew by 33% from December 2008 to December 2009 as a result of the crisis. In order to meet the increased demand, the budget for training was expanded by 9 million euro per year in 2009 and 2010.

VDAB focussed on employment by organizing additional training only in hard-to-fill or future-oriented occupations, including in the metals sector, construction, transport, social profit, logistics and energy distribution. Furthermore, the employment service pays special attention to disadvantaged groups through accompanying measures before and during training. Part of this effort included the expansion of training in the Dutch language for non-native speakers. In addition, VDAB took advantage of the crisis to build stronger partnerships with employers aimed at deepening the understanding of the recruitment needs of employers, particularly for hard-to-fill occupations.

The additional initiatives taken by VDAB proved effective. By April 2011, the waiting lists had decreased by 43% in comparison to December 2009. Table 3 gives an overview of the representation of several underprivileged groups in the additional training courses. It shows that large proportions of the disadvantage groups participated in the training activities.

<table>
<thead>
<tr>
<th>Disadvantaged groups</th>
<th>2010 (%)</th>
<th>January-April 2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-skilled</td>
<td>46.5</td>
<td>44.1</td>
</tr>
<tr>
<td>Older workers (50+)</td>
<td>6.2</td>
<td>7.0</td>
</tr>
<tr>
<td>Occupationally disabled</td>
<td>7.4</td>
<td>7.6</td>
</tr>
<tr>
<td>Persons of foreign origin</td>
<td>29.6</td>
<td>30.5</td>
</tr>
<tr>
<td>Youth (-25)</td>
<td>29.1</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Source: Public Employment Service of Flanders, VDAB

Furthermore, monthly customer satisfaction surveys among ex-trainees and their employers showed that for 68% of the ex-trainees who worked in the occupation for which they had been trained, the training was the decisive factor in hiring the trainee. VDAB gained from the increased cooperation with the companies due to the strengthening of the contacts for placement of jobseekers and the improved insight into the recruitment needs of companies, particularly for persistent shortages.
The economic crisis reinforced the recognition that providing effective labour market programmes is a complex matter which cannot be tackled by a single organization. Therefore, the crisis period has seen an increase in partnerships between VDAB, enterprises and third party training providers (Hansen et al., 2012).

The economic crisis and its consequences also became a central theme in the context of the Flemish long term strategy known as Flanders in Action (ViA). This strategy was the result of round-table discussions between all responsible partners. In 2009 the Flemish government decided to align its policy with the EU2020 objectives of the EU. This led to the creation of the Pact 2020, which consists of twenty ambitious objectives with clear target figures. One of the main goals was to build a competitive and sustainable economy. However, the Flemish long term strategy is not a merely economic approach. In the pact 2020, the Flemish government also strives at being rated among the best performing European regions in relation to the fight against poverty and social exclusion. With respect to the specific issue of child poverty, the long term strategy aims to reduce the number of children born in poverty by 50% and the general poverty risk in Flanders by 30% by the year 2020. This inclusive approach aims to ensure that every Flemish citizen must be in a position to contribute to and reap the benefits of prosperity and well-being (Vlaamse Overheid, 2011).

A monitoring device has been created in order to control whether all targets mentioned in the ViA-strategy were adequately implemented. Annual goals have been formulated for each project. As a result, it was possible to follow up each project closely. The progress of the Flemish anti-crisis projects has been measured twice a year. The September 2012 measurement shows that 5 (out of 19) projects have been realised so far: the extension of guarantee provisions; supplementary tailor-made guidance for job seekers; the strengthening of follow-up measures for unemployed; a gradual extension of guidance opportunities for unemployed people aged over 50; and the creation of an integrated awareness campaign to promote working longer (Vlaamse Overheid, 2012). The combination of the precise formulation of the long-term objectives with rigorous monitoring activities allows the Flemish government to have a detailed overview of the long-term objectives, and the anti-crisis measures in particular. This makes it easier for the Flemish authorities to intervene whenever a project is not progressing according to plan.

5.3. Social investments in Flanders

5.3.1. Halving child poverty by 2020

Reducing child poverty constitutes a top priority in Flanders. In the Flemish Reform Programme, the government aims at halving child poverty to 4% between 2008 and 2020. Nevertheless, statistics show that the number of children born in poor families is increasing instead of decreasing. In 2011, 9.7% of the births in Flanders occurred in underprivileged families (Vlaamse Overheid, 2011).

For this reason, the Flemish Government launched a child poverty reduction plan which aims to halve child poverty by 2020. The core of the plan consists in the integration of early childhood services (perinatal care, health care, child care, and parenting support) into ‘Children’s Houses’ and to strengthen support for the most vulnerable children. At present, an action plan supports local projects on an experimental basis. In the mean time, however, the government appointed an expert group and a task force to elaborate a more comprehensive strategy. The expert group submitted a series of proposals covering a wide range of policy areas, but recommended to invest also in disadvantaged young adults, i.e. young and future parents at risk of exclusion, as a way of
preventing child poverty altogether. One of the policy leverages for this target group is a
guarantee plan discussed in subsection 3.2.3 (Eeman & Nicaise, 2012).

### 5.3.2. Social employment

Taking into account the considerable growth of the number of jobseekers as a result of the crisis,
the Flemish government realized that social economy projects are essential to offer
underprivileged groups a more or less sustainable job opportunity. Although numerous social
employment initiatives had already been taken in the past, the precarious economic situation
strengthened the need to build a more solidary economy that offers sustainable tailor-made
employment and integration opportunities. This ambition was also supported in the Pact 2020
which aims to achieve an employment rate of 70 percent by 2020. As a result, the policy paper for
the period 2009-2014 mentioned actions to invest in additional sustainable jobs, in more job
security for vulnerable people, but also in innovation and opportunities offered by the social
economy. Meanwhile, several employment measures have already been developed to achieve
this goal (Van den Bossche, 2009).

In a comprehensive evaluation research, Nicaise et al. (2005) studied the long-term effects of
social employment projects on participants in Flanders. A distinction was made between three
types of social employment providers:

1. **Learn & work centres** (leerwerkcentra) which offer work experience in combination
   with guidance and training for a period of one year. The learn & work experience is
   limited to one year, after which the beneficiaries are supposed to make their way in
   the mainstream labour market.

2. **Social workshops** (sociale werkplaatsen) which offer subsidized employment to long-
   term unemployed who are faced with multiple disadvantages. Contrary to the learn &
   work centres, there is no obligation to leave the social workshop within a given time
   limit.

3. **Insertion enterprises** (invoegbedrijven) which offer permanent jobs in a quasi-
   regular company with degressive wage subsidies during 3 years. Afterwards, the workers are
   supposed to have reached a normal productivity so that subsidies can be phased out.

As social employment is considered as an expensive type of labour market policy, it is important
to take into account the overall costs and benefits for society at large. Whereas traditional
evaluation studies were often confined to measuring the ‘net employment benefits’ six months
after the implementation, this study focused on the long term and extended the framework to
include more than mere employment benefits.

In general, the study showed that all types of social enterprises contributed to the creation of
sustainable employment opportunities for vulnerable groups in Flanders. Besides sustainable
employment, the **learn & work centres** contributed significantly to various dimensions of social
inclusion (improved material, human and social capital) of the employees. The overall result for
**social workshops** was less clear: On the one hand, these social employment projects produced
lasting net employment gains for the most underprivileged job seekers. On the other hand, the
study indicated that they are relatively expensive (as their wages are permanently subsidised) and
contributed less to social inclusion than could be expected.

The study furthermore produced social cost-benefit estimates, which demonstrated that both the
employee and the taxpayer are the main beneficiaries of the investment. Indeed, in the long
term, the subsidies to learn & work centres and insertion enterprises are recovered within less
than five years through increased tax and social security revenues, combined with savings on
social protection expenditure. As regards social workshops, the cost-benefit balance was slightly negative (Rubbrecht et al., 2005; Nicaise et al., 2005).

Surprisingly, the Flemish government recently announced that it intended to suppress the subsidies to learn & work centres as of 2013. Following strong protest from social enterprises, the scheme was prolonged... for one year.

5.3.3. Steps towards a youth guarantee scheme

Flanders occupies a leading position in the ranking of EU countries in relation to active labour market policies. Taking into account the alarming evolution of the youth unemployment rate in Flanders, the Flemish government decided to focus more on the guidance and the activation of young people in the future. The Flemish public employment service VDAB is working on the elaboration of a differentiated approach for early school leavers. Actions that offer work experience through tailored work and training offers, such as social enterprises and workplace learning, will be important in this respect. Meanwhile, progress is made with respect to the implementation of a qualification and work experience guarantee for the entire group of early school leavers. The Flemish Reform Programme (2012) stated that a large-scale work experience scheme will be set up for the group of unqualified school leavers who did not gain any work experience within six months. The goal is to create opportunities for approximately 1,000 young people each year to participate in these projects (Vlaamse Regering, 2012). These measures will be reinforced in the future by new federal subsidies for short-term internships for low-skilled youngsters after 6 months of unemployment. Nevertheless, the vast majority of young people have not yet been reached. Is a youth guarantee scheme unfeasible in Flanders?

Vleugels et al. (1998) carried out a feasibility study of guarantee plans for long-term unemployed in Flanders. More precisely, the authors simulated the costs and benefits of a temporary job offer to acquire work experience. The duration of this work experience would be proportional to the elapsed length of unemployment. Furthermore, it was assumed that the private sector could deliver 30-40% of the temporary job supply, while the government and the non-profit sector would provide respectively 20% and 40-50%. In the simulation, the private employers received a subsidy to compensate for the lower productivity of the target group employees.

It was demonstrated that this type of alternative policy was not only feasible for government finances, but even beneficial in the long term. Furthermore, the provision of training and work experience guarantees to the (very) long-term unemployed was proven to contribute to an improved general labour market situation through a better match between supply and demand, and to positive snowball effects on the government budget (Vleugels et al., 1998; Nicaise, 1999).

5.4. The sixth state reform: opportunities for more effective anti-poverty policies

The political agreement concluded on 11 October 2011 outlines a sixth reform of the Belgian State. Besides the provision for a radical change to the Special Finance Act (SFA), it was decided to transfer a substantial set of responsibilities from the federal level to the federated entities. In order to make policy areas more homogeneous and coherent, competences amounting to a total of 16,898 million euro were transferred to the Communities and Regions (FOD Financiën, 13.07.2012).
One of the agreement’s most important sections in this respect concerns the regionalisation of the labour market strategies. According to the agreement, Flanders obtains full decision-making and implementation powers relating to services, control and sanctioning of both short- and long-term unemployed. The Regions will also be able to determine the particular basis on which one’s unemployment benefits will be approved or rejected. Additionally, a considerable part of the targeted policies will be transferred to the Regions. Nonetheless, the legislative framework with regards to administrative control, sanctions and target groups will still be determined at the federal level.

The state reform will furthermore lead to greater financial autonomy regarding the implementation of labour market policies. Flanders will become able to decide on financial resources for the reduction of wage costs, as well as for training and employment programmes. The Regions will also be responsible for the labour-market activation of people receiving a guaranteed minimum income (GMI). The transfer of federal social economy programmes, career break allowances for older unemployed and the implementation of (economic) migration policy to the regional authorities is also essential in the fight against poverty and social exclusion (Federale Regering, 2011).

Other transfers that are particularly important for the eradication of poverty take place in the health care and family policy domains. In the field of health policy, the main competences transferred to the Communities relate to assistance to the disabled and the elderly, hospitals, mental health care and preventive care.

The most important change with regard to family policy is the transfer of family allowances and child benefits to the federated entities (FOD Financiën, 13.07.2012). Research conducted by the Centre for Social Policy considers that the transfer of the system of child benefits to the Communities will provide an ideal opportunity to revise the system. Although Belgium’s child benefits system was once among the best in Europe in preventing child poverty, recent studies show that this is no longer the case today. Child benefits lagged behind compared with the general standard of living. This led to the erosion of the horizontal solidarity between child-poor and child-rich families. If the child benefits had followed the trend in general welfare, the amounts would have been 14 to 31 percent above the current level. The fact that this erosion was not (sufficiently) compensated for by selective increases for low-income households had detrimental consequences for the poverty risk of children and households. The transfer of the child benefit system to the federated entities provides an opportunity to introduce reforms that take into account the possibilities, needs and preferences of each Community. However, the concrete implementation of the transfer may take years – and a fundamental reform is not guaranteed (Cantillon et al., 2012).

Taking into account that most of the aforementioned transfers still need to be implemented, it is too soon to assess their impact on the fight against poverty and social exclusion. Nevertheless, it is clear that the transfer of competences will enhance the Flemish authorities’ opportunities to redesign social policies, with greater priority for the most vulnerable groups. In doing so, it is recommended that the Flemish policymakers generalise the principle of progressive universalism. This implies the supply of high-quality services to each citizen, with supplementary support for children and families with the highest needs (Eeman & Nicaise, 2011).

The aforementioned case of the child benefit transfer shows that the implementation of the institutional agreement needs thorough preparation. Therefore, the Flemish government’s decision to start preparing the state reform by drafting a green paper is positive. The green paper aims to propose possible scenarios for each of the policy domains that will be transferred to the Region in 2014 (Verstraete, 07.09.2012).
6. Conclusion

The ongoing financial and economic crisis has taken a high social toll on Europe’s citizens. Paradoxically, the poverty impact is hard to measure. In relative terms, the number of Europeans at risk of poverty or social exclusion has increased by 3.9 million between 2008 and 2011. However, using ‘anchored’ poverty thresholds, this number may well be three times as high. Traditional parameters such as a rising (youth) unemployment rate and an erosion of the income level also clearly demonstrate the detrimental impact of the crisis on the social situation of many Europeans. Apart from its impact on income and unemployment, the economic downturn also strongly affected social ties and psychological well-being – particularly in the peripheral regions of the EU.

In order to tackle the negative effects of the crisis, the EU authorities developed a fiscal consolidation strategy with a tight control over the budgetary policies of the Member States. Meanwhile, it has become clear that the deflationary effects of the (imposed) austerity measures actually tend to aggravate the impact of the crisis. The lack of co-ordinated budgetary policy in the EU furthermore hindered an effective macroeconomic response to the recession. Instead, it led to the use of non-co-operative strategies among the Member States, such as competitive wage reductions, social dumping and fiscal competition. Whereas the majority of EU citizens may be affected, there are indications of particularly harmful effects on the poorest.

While the EU is still following the same austerity line,\(^5\) a consensus seems to emerge among a number of European stakeholders about the need to adjust the current strategy in favour of renewed social investments. This strategy covers a wide range of areas and may benefit the entire population, but it is particularly relevant for the poorest segments of society who have traditionally survived on social benefits. Investments in the fight against child poverty, in education and training and in active labour market policies (youth guarantee schemes in particular) were taken as examples of such social investments. By strengthening the capabilities of excluded people, such investments may produce lasting social inclusion effects and may indeed break the inter-generational cycle of poverty.

However, the EU’s Social Investment Package did not adequately address the financial issues. Without additional resources, it is improbable that the package will produce any substantial impetus in the short run. Hence, continued efforts to extend and co-ordinate tax policies at the EU level are indispensable. The introduction of the tax on financial transactions (FTT) is a hope-giving step forward in this respect.

We also discussed the pros and cons of EAPN’s claim for an EU framework directive on guaranteed minimum income-schemes (GMI). Although this may be hard to achieve overnight, a co-ordinated set of GMI-schemes – accompanied with similar measures in relation to minimum wages - can be expected to produce favourable economic as well as social effects: in particular, through the ‘automatic stabiliser’ effect on consumption demand and a break on social dumping.

All in all, the Belgian and Flemish anti-crisis policies appear to have been relatively successful. At both levels, we observe a combination of austerity and social mitigation effects, indeed with some examples of a genuine social investment agenda. The cutbacks in unemployment benefits are the main exception.

\(^5\) Hemerijck (2013) argues in this regard: ‘unlearning is the most difficult part of policy learning’.
Even though many initiatives of the Flemish authorities to tackle the crisis followed the social investment approach, more can be done to genuinely empower vulnerable groups in a more sustainable manner. The discussion of the child poverty agenda, social employment, and the training and work experience guarantees demonstrated that the medium-term benefits for both the beneficiaries and society at large outweigh the (budgetary) costs. This argument should be convincing enough to boost efforts in this direction.
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