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Poverty in the EU: the Pillar of Social Rights as change-maker?

The Covid-19 pandemic has hit the welfare state at a critical moment in its history. Since the second half of the 1990s, we have observed a fairly universal trend of increasing inequality and poverty in the world of rich welfare states, especially among the population of working age. Today, on the eve of the normalisation of our lives in the midst of deep transformations such as ageing populations, climate change and digitalisation, one might say that national welfare states find themselves in a systemic crisis. They will not get out of it without a common compass, cooperation and mutual support. That is exactly what the European Pillar of Social Rights has to offer.

Disappointing poverty trends and the failure of the national welfare state

Since the Lisbon Strategy, poverty reduction has been one of the European Union's main social goals. However, in southern Europe the bottom has fallen out. And although the new member states have done relatively well, this has mainly been due to a drop in material deprivation among non-poor households while the old welfare states have redistributed increasingly less, with growing inequality and poverty as a result. In most countries social floors are inadequate. This situation is worrying – especially in the poorest member states, where minimum incomes are too low even to allow poor households to afford both adequate housing and adequate food.

And yet, looking back at the 'good times' before the crisis, in nearly all member states incomes were rising, and employment was increasing significantly. In many countries social spending was high and was continuing to grow. So, why did the welfare state fail to reconcile work and poverty reduction? And why did social spending become less pro-poor? Was it a matter of choice or were there deeper, structural reasons for the disappointing poverty trends?

Those are the questions we need to answer if we want to do better in the future.

To set about our answers we must revert to the foundations of the welfare state and the post-war social deals on growth, full employment, and social protection. In the golden age, welfare states successfully reduced inequalities and poverty through a virtuous circle of full employment (for men), wage increases according to productivity growth, and social protection based on work. At the beginning of the 1970s, the dream that capitalist growth and social protection would lead to better living conditions for all came into focus.

But just as the welfare state had come to adulthood, post-war social levelling began to slow down and then came to a halt, sometime in the 1990s. In many countries poverty started to grow again, especially among the low-skilled, the unemployed, and their children.

This was undoubtedly related to policy choices. But there must also be deeper reasons. After all, the rise in poverty occurred in most of the world's welfare states, albeit at different levels and speeds. The trends are longstanding and unambiguous. In many countries there was no retrenchment in social spending at all while employment rates grew strongly everywhere. On the eve of the pandemic, an unprecedented number of people were in work. In many countries, social spending had never been as high. Aspirations were soaring. The conclusions of the Lisbon Summit in 2000 spoke boldly of the "eradication of poverty". But with disappointing poverty trends, it appears that welfare states started to run harder only to get nowhere, at best.

So, what went wrong? Why exactly does the welfare state no longer succeed in taking proper care of those left behind by globalisation, technological change, and individualisation?

There are three major structural mechanisms at play.

First, post-war full employment for men has evolved into a dual labour market in which full employment for the higher-skilled men and women goes together with structural underemployment for low-skilled men and women. Even in the best years of the active welfare state and in the best performing countries, the activity rate among the low-skilled remained well below 60 per cent, leaving 40 per cent of them behind.

Second, because of shifting demands for labour towards higher-skilled and higher-wage occupations, since the 1990s, low wages have come to lag behind productivity growth and median incomes. As a result, lower wages have become increasingly less protective against in-work poverty, especially among families with children.

Welfare states are facing a structural crisis related to the distribution and remuneration of low productivity jobs and the growing complexity of society

Third, declining or sluggish growth in earnings for low-wage workers has contributed to pressures on the levels of minimum income protections for jobless households. Minimum wages serve as a 'glass ceiling' to the social floor of the welfare state, for reasons of both equity and efficiency. When the wage floor drops below the poverty line, so does social protection. Poverty among jobless households has risen dramatically.

These trends have created an uneasy social trilemma: in today's welfare state it has become structurally difficult to achieve decent incomes for all while preserving sufficient work incentives without greater efforts in terms of the size and the progressivity of social spending. Welfare states are facing a structural crisis related to the distribution and remuneration of low productivity jobs and the growing complexity of society. The social trilemma will not disappear and comes at a time in which inequality and poverty are crucial to a successful climate transition, inclusive ageing, and digitalisation benefiting everyone.

The need for a new balance between social protection, social investment, and social innovation

In these circumstances, and in the hope of returning to the post-war virtuous circle of growth, employment and poverty reduction, the focus has shifted in many countries from social protection to social investment, activation and work-related welfare reforms – a reorientation that has been labelled 'the social investment turn'. Sadly, however, it has proven to be an illusion to believe that progress can be attained with a one-sided focus on activation, investment, and promotion alone. We learned the painful lesson that social investment cannot be a substitute for social protection and fair working conditions. Instead, social protection and social investment need to be viewed as twin pillars of the modern welfare state.

In disconcerting circumstances, from the late 1970s onward, as a response to growing social needs, a wide range of local social action emerged on the margin of the welfare state. Gradually, social innovation became a third sector of the welfare state. The central role of civil society, social entrepreneurs, and local governments can hardly be overestimated, and neither can the support they receive from Europe (for example, the Fund for European Aid for the Most Deprived – FEAD). And yet, one should not expect these actions alone to have a direct and significant impact on at-risk-of-poverty rates.

Today, the welfare state has not yet found the right balance between its three constituent pillars of protection, investment, and place-based innovation. Meanwhile the issue of adequate wages and fair working conditions has been given too little attention. In general, social policies are too little oriented towards the implementation of social rights for the most vulnerable. It is with these structural weaknesses that welfare states must now face major new transformations.

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Action on climate protection will involve radical change in economic production. Some will benefit from the many jobs created by new industries. Others will lose their jobs and will need retraining. And adequate social protection should be provided for those for whom new activities will not be possible. Moreover, excessive inequalities and poverty stand in the way of a just transition. Carbon taxes, for example, hit those on lower incomes relatively harder than others. The 'gilets jaunes' in France have given the first clear signals that if we fail on income redistribution and poverty-reduction, we will also fail on climate change.

The pandemic has hit us at a time when we have ageing societies and, at least in the short term, it has undermined the traditional strategies to finance increasing pension burdens. For the next few years, we will not have to count on the reduction in pre-Covid debt. The cost related to ageing has thus more than ever become a distributional issue.

The Covid crisis has accelerated digitalisation and the pace of change in the labour market. The pandemic has particularly affected young people, the low- and middle-skilled, the lower-paid, blue-collar workers, and migrants. For some of them it will be difficult to reconnect. New jobs will emerge, but routine jobs are at risk. The demand for training, reskilling, and upskilling as well as meaningful work and adequate social protection will thus become more important than ever.

For success in the future, fixing only where we have failed in the past will not be enough to remedy the flaws in a post-Covid society. Poverty reduction will necessitate great effort, and on many levels. Adequate minimum wages, minimum income protection, meaningful work for all, lifelong learning, and affordable social services are all equally essential. National welfare states will not get out of disappointing poverty trends without a common compass being pointed at poverty reduction; without guidance in finding the balance between social protection, investment, and innovation; and without mutual support to meet the systemic conditions for success. The European Pillar of Social Rights offers some new levers to this end.

The three paradigmatic shifts of the European Pillar of Social Rights

Over the past two decades, we have seen a marked acceleration in the socialisation of European integration. In the midst of this process the European Pillar of Social Rights (EPSR) marks an important threefold paradigmatic shift: 1) where in the past the focus was on convergence around important but rather vague social goals, now a set of concrete principles and social rights are defined; 2) the pillar is balanced around social protection, investment, and innovation where previously the dimensions of fair working conditions and social protection seemed to be less of a priority; 3) the outcome-driven social governance based on monitoring and soft coordination is now linked to financial levers.

Linking goals to a ‘principles- and rights-based’ approach

Until the 1980s, the harmonisation of social policies was the leading idea of those concerned about the social dimension of Europe. However, as national systems evolved and became more complex, and as the Union grew larger, and therefore more diverse, harmonisation became increasingly more difficult and less desirable. The ambition to develop common policy instruments was therefore gradually replaced with an ambition to develop common policy objectives. Social Europe was to be shaped by different national policies, all directed at common European objectives. With a view to supporting the convergence process, a number of common social objectives were agreed, including the eradication of poverty. A loose and open approach to policy was developed and a set of social indicators was defined for the purpose of measuring the progress made towards the common social objectives. Ambitions were high: the Europe 2020 targets aimed at a reduction of 20 million in the number of persons living in poverty, jobless households, or material deprivation. Regrettably, however, this approach has failed to make real progress, at national or European level.

There are several reasons for the lack of success of the convergence strategy: the design failures in the architecture of the eurozone, the non-binding method of coordination, and the fact that the objectives were defined at too abstract a level. With a shift from outcome convergence to a principles- and rights-based approach, the EPSR marks a new approach which is potentially more powerful than the harmonisation of overly divergent policy instruments or attempts at convergence on overly vague objectives. The first strong examples can already be seen: the EPSR has become part of EU socio-economic governance with the elaboration of a number of non-legislative and legislative initiatives in areas such as the work-life balance, working conditions, wage transparency, access to social protection, and the minimum wage.

Balancing social protection, social investment, and social innovation

Poverty reduction cannot be achieved with a single measure: significant improvements are needed in the social fabric of welfare states. Social investment, social protection and redistribution are key while the role of the 'third sector', the social economy, local initiatives focused on social inclusion, publicly provided social services, and active labour market policies in enhancing people's opportunities are equally important. Arguably, in the past, hope was too one-sidedly placed on employment-related welfare reforms. The idea was that higher employment would reduce social spending levels and reorient expenditure towards more 'productive', activating, and inclusive policies, and towards combating poverty, either directly through work or indirectly through more inclusive social provisions. However, this strategy could not prevent a further increase of in-work-poverty while poverty rates among jobless households were soaring: even in some of the most developed European welfare states, for 70 to 80 per cent of jobless households, social protection has become inadequate. It is therefore crucial that the EPSR attaches great importance to adequate minimum wages, fair working conditions, and adequate social protection. The 20 principles are well balanced across the broader categories of 'Equal opportunities and access to the labour market', 'Fair working conditions' and 'Social protection and inclusion'.

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The principles are more specific than the convergence objectives, while still leaving room for a large range of national policy packages. Also important is the fact that through the link with the social funds, social protection and social investment can be balanced with social innovation.

Using social funding as lever

The European Social Fund (ESF) and the Fund for European Aid to the Most Deprived (FEAD) are instruments by which the European Union (EU) acts as a 'material supporter' of national welfare states. Originally, these funds served social objectives only in an economically derived form. Today, however, the reformed European Social Fund Plus (ESF+) is presented as the main instrument to implement the European Pillar of Social Rights (EPSR). Certainly, and not without reason, there are critical voices as regards both FEAD and the ESF. FEAD, as a programme supporting charity food aid, operates in a controversial area of humanitarian assistance, while empirical indications of how the implementation of ESF-funded programmes and FEAD could help to realise social rights are also very scarce. Leaving these concerns aside, it is remarkable that European funding is explicitly used to encourage member states to orient their programming towards the realisation of social rights: "member states should make full use of the unprecedented EU funds available to support reforms and investments in line with the European Pillar of Social Rights". This makes it possible, for the first time in EU history, to support the EU's social agenda with financial levers.

Making the EPSR a success through prioritising principle 14

Given the structurally disappointing poverty trends, national welfare states will have to work harder in order to deliver on their mission. They will have to support each other and act as part of what the EU in essence is: a 'union of European welfare states'. The European Pillar of Social Rights has the potential to become a powerful instrument for the EU to act as a guide, supporter, and provider of social rights. However, not everything in the Pillar is equally important. To be successful, focus should be placed on the essentials, building on previous initiatives and existing foundations. The roll-out of the EPSR must be instrmental to national welfare states and to Europe as a whole. It should be based on strong moral principles, and it should also gain the support of citizens. It must start from the existing building blocks and the full exploitation of motivational potential but, where appropriate, it should ultimately lead to binding agreements on the essential points.

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Taking these assumptions as a starting point, it seems appropriate to prioritise principle 14: "everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services. For those who can work, minimum income benefits should be combined with incentives to (re)integrate into the labour market".

The priority of the European Social Union (ESU) should be catering for the most vulnerable. Anti-poverty policies should be conceived in broad terms, with reference not only to minimum incomes, social assistance, and access to essential services but also to policies that will deliver accessible health care, adequate minimum wages, childcare, housing etc. In other words, effective anti-poverty strategies must deliver on the broad range of principles on which the EPSR is built. Given the importance of earned income to most people of working age, and given that in nearly all countries people relying on social assistance would be below the national poverty line, the guarantee of decent incomes for all, starting with those in work, is of paramount importance.

Since the adoption of the Lisbon Strategy poverty reduction has been one of the European Union's main social goals. Providing low-paid workers and jobless households with adequate income is essential. Just as employment objectives are now firmly anchored in European and national social policy, so equivalent European embedding of the minimum income guarantee is also required. Effective anti-poverty policies have to be embedded in a broad set of social, employment, and economic policy objectives, at both EU and member state level.

The principles on which the EPSR is built, and the policies needed to deliver on them, are closely related. In some cases, they are mutually reinforcing; in others there are clear tensions and trade-offs (for example, providing adequate social protection for the unemployed must be balanced against the need to 'make work pay'). Delivering more effective social rights for all European citizens therefore requires a comprehensive approach and multiple country-specific policy packages that balance the various conflicting objectives. In this complex policy field, the right to adequate minimum incomes is fundamental – normatively and instrumentally. Appropriate levels of social investment and social mobility, equal opportunities, effective social protection, and affordable services presuppose adequate minimum income protection and vice versa.

Minimum standards for wages, social assistance, and social insurance are also a necessary precondition of pan-European solidarity. Compacts on minimum incomes are needed to support the functioning of the social funds, to give a future to SURE (the Support to mitigate Unemployment Risks in an Emergency) and to make proposals for European unemployment insurance a reality. The solution for the design failures in the architecture of the eurozone is that monetary unions need ex ante solidarity mechanisms, in the form of insurance mechanisms or redistribution. However, increasing pan-European redistribution raises the issue of the creation of a level playing field. Member states must make sufficient efforts at national level to protect the unemployed and the poor; a social re-insurance mechanism could be layered on top of existing national safety nets. A fair operation of FEAD, for example, assumes minimum efforts by the jurisdictions to which the receiving charitable organisations belong. Compacts on minimum incomes are therefore the first step towards the reinforcement of pan-European solidarity.

The conditions required for a major step towards the full exploitation of the potential for guaranteeing adequate minimum incomes are present: existing national building blocks have been supplemented by the EU-2020 targets on social inclusion and social coordination and the ESF+. Like national welfare states, the creation of the ESU will be a gradual process, involving building on existing systems and devices. The influential political scientist Maurizio Ferrera rightly suggested that the building blocks required are already in place. This is particularly true in the case of minimum income protection. Since the introduction of social safety nets in Greece and Italy all countries in Europe have general social assistance systems, various social security minima, and income supplements for low-paid workers. At the EU level these building blocks have been supplemented by the EU-2020 targets, social coordination and the ESF+, which is explicitly intended to promote social inclusion.