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Stream 20: Effects of the economic crisis on inequality and poverty

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Minimum income schemes in the EU: did they provide adequate shelter against the economic storm and how, if at all, did EU governments respond?

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Stream 20

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The financial crisis came against the background of decades of policy changes that have generally weakened the capacity of advanced welfare states to offer citizens with adequate incomes when labour markets fail to do so, as was for so many the case at the height of the crisis. The reverberations are still being felt in many countries, with un- and non-employment rates remaining well above pre-crisis levels. Building on data for 27 European Union countries, this paper documents the general inadequacy of minimum income protection in the EU. The paper builds on the CSB Minimum Income Protection Indicators (MIPI) data base, a national expert sourced data base covering 27 EU countries and almost two decades (1992-2009). The most recent round of MIPI data gathering among national experts also contained a module specifically aimed at gauging government responses to the economic crisis. This module gauged whether governments introduced changes to their benefit systems, in the form of benefit level changes, eligibility requirements and/or conditionality aspects.

In the immediate aftermath of the crisis, EU minimum income schemes turned out remarkably resilient. A majority of countries even introduced measures positively affecting net disposable income of minimum income recipients, mainly focusing on families with children by expanding child benefits. However, further supporting measures are absent later on in the crisis, whereas the countries that were most severely hit, by then introduced cuts in gross benefit levels (Ireland) or more indirectly touched upon net income of minimum income beneficiaries. Though not yet reflected in our data, also elsewhere it seems that retrenchment will not spare minimum income schemes. This raises concerns about the adequacy of these schemes, that was already during the crisis insufficient to protect the social assistance population from poverty.

Keywords: crisis responses, minimum income schemes

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1 Introduction

This paper deals with two questions. First, have minimum income schemes in the EU provided adequate shelter against the recent economic crisis? Second, how, if at all, did EU governments adjust their minimum income protection policies in response to the crisis?

These questions are relevant both from a societal as from a theoretical viewpoint. It is self-evidently of major importance to know whether and to what extent minimum income protection systems as they exist in the EU today are adequate in protecting citizens against calamities over which they have no control and for which they cannot be held responsible. We know that the crisis comes against the background of decades of policy changes that have generally (but not universally) weakened the capacity of European welfare states to offer citizens with adequate incomes when labour markets fail to do so. But exactly how (in-)adequate are systems today and where and for whom are improvements most urgently needed?

From a theoretical viewpoint the recent crisis is of major interest in that it presents a relatively rare, major and rather unexpected shock to the socio-economic system. There has long been an interest in the role such major shocks play in shaping and re-shaping policies, possibly pulling long-standing (path-dependent or even path-trapped) policy trajectories off course.

The focus of this paper is on the initial response to the economic crisis, in the period 2008-2010. How did governments respond in the area of direct minimum income protection, particularly social assistance? Did that response prove to be a path-breaking or path-reinforcing event? Was there any communality in the response across the EU, or was it in any way contingent upon contextual factors such as the severity of the impact of the crisis or institutional factor coercing path specific responses ?

This paper looks at minimum income protection systems in 25 EU-countries. This sample is considerably larger than the set of countries covered in the presently available literature on the effects of the crisis. Moreover, including all countries, instead of selecting only a few based on regime types, as is often the case (see e.g. Chung & Thewissen, 2011; Vis, van Kersbergen, & Hylands, 2011), is more appropriate when assessing social assistance schemes, that do not necessarily fit into Esping-Andersens typology (Gough, Bradshaw, Ditch, Eardley, & Whiteford, 1997).

We start with sketching the economic crisis and its impact on the number of social assistance recipients. We then analyze policy responses in the area of minimum income protection against the background of longer term trends. The focus here is not only on the levels of protection offered, relative to commonly used poverty thresholds, but also on changes relating to entitlement conditions.

2 Literature

Literature on the impact of a crisis on welfare states and consequent change mostly focuses on crises as “windows of opportunity” for fundamental change (Kuipers, 2006). However, an often voiced critic is that these agenda setting theories do not provide indications as to the direction of reform caused by crises (Chung & Thewissen, 2011), or clearly neglect other contributing variables to welfare state reform (Kuipers, 2006; Vis, 2007). For instance, Vis identifies socio-economic losses as a necessary condition for unpopular reforms, though these reforms will only be effectively implemented when the government enjoys firm support or has a rightist orientation. Likewise, Kaasch, Starke and Van Hooren (2010) find that political parties influence crisis responses, though mediated by political institutions. Moreover, they find that real policy innovation is generally absent after a crisis, and that mostly the choice is between expansion or retrenchment of the existing welfare state. Castles (2010) attaches less importance to the influence of political actors, but focuses on the timing of crises and on the size of the welfare state, when assessing the influence of unexpected events on welfare state formation. Whether this event has long-term impacts further affects the subsequent adaptation of welfare states, with graver and longer consequences leading to more adjustments. Moreover, a well-established welfare state is less likely to structurally adapt in response to an unexpected event, such as a crisis. This is not only due to the high degree of institutionalization in se, but also because the established institutions do their job, preventing need for fundamental reforms. A large welfare state is therefore less prone to reforms in the aftermath of unexpected events, urging Castles to compare them with “elephants on the move”. Nevertheless, he suggests that the diminishing impact over time of unexpected events may also partly be due to a trend among policy makers, who try to avoid blame by denying the emergency situation of the event. However, denying the emergency of the situation precludes employing the crisis situation as a momentum for reform.

Although beyond doubt very interesting findings, this research does not provide indications for the type of policies employed in direct response to the crisis, but focuses more on far-reaching reforms, that require more preparation time. Literature on the nature or direction of first-round anti-crisis measures is apparently more scarce, although measures taken during the crisis are of paramount importance for the most vulnerable in society, who are likely to suffer disproportionately more from a crisis (OECD, 2011, p. 9).

Recent research into the immediate policy responses to the crisis therefore relied on broader theoretical perspectives on the evolution of welfare states. For instance, Vis et al. (2011), when trying to predict the policy responses to the current crisis, present among others the institutionalist approach, in which a crisis presents a window of opportunity to embark upon (unpopular) reforms. Likewise, socio-economic hardship may cause a functional need to retrench. Following an ideational perspective, the uncertainty caused by the crisis could turn out to be a favourable environment for the adoption of new controversial ideas. These theoretical currents would then identify the crisis as a window of opportunity for welfare state reform, most likely retrenchment. However, Vis et al. argue that they do not find these reactions in reality. Assessing policy responses to the crisis in six Western countries, the UK, the USA, DE, NL, DK and SE, they find in an initial phase largely similar responses, in which all countries embarked upon bail-out programmes to help the financial sector and to prevent large drops in demand. They also find a second phase, where the similarity of policy responses remains striking, as all countries in their sample expanded social programmes, thereby mitigating the impact of the crisis. They argue this response might be driven by a favourable public opinion. Nevertheless, they suspect an upcoming round of retrenchment, in which countries’ policies might differ.

Also Chung & Thewissen (2011) remark upon the apparent lack of literature on reactive policies. Therefore, as Vis et al., they take recourse to broader theoretical currents to hypothesize upon the direction policy responses to the crisis will take. They see two relevant theoretical views. First, they argue countries may rely on existing institutions or known policy responses, in line with the path dependency paradigm. They consider this perspective to be extremely relevant during a crisis, since the urgent need for reactive policies could, even more than during less chaotic times, effectively preclude other, more time-consuming reforms. Moreover, reconciling different pressure groups with new measures may, especially in times of crisis, simply turn out too expensive. Chung and Thewissen identify however another theoretical current possibly appropriate to frame reactive policies. They argue that according to the convergence theory, the comparable problems caused by the crisis may provoke similar policy responses. Based on an analysis of three countries representing the three ideal types identified by Esping-Andersen, it is Sweden, Germany and the United Kingdom, they argue that reactive policies are in general path-dependent measures. According to their reading, Germany introduced conservative measures, aiming to keep insiders in employment, by a considerable extension of the short-time unemployment scheme, the extension of early retirement schemes, and the reduction of UI contributions. Moreover, investments in human capital were mainly directed to people in employment. The UK adopted rather liberal measures, decreasing VAT, though it also increased spending on active labour market programmes and increased some benefits. Chung and Thewissen interpret the Swedish strategy of employment incentives, job creation and activation programmes as in line with the Social-democratic legacy.

Thus current research is inconclusive on the direction welfare states are taking. While some indications point to a turn for austerity, this development does not seem universal. Indeed, some argue that the welfare state currently enjoys a positive public opinion. The crisis has underlined the (sometimes forgotten) advantages of this social buffer (Euzéby, 2010), possibly causing that public opinion may preclude or limit retrenchment reforms for the time being (Vis et al., 2011).

This paper focuses specifically on the immediate impact of the crisis on minimum income schemes in the European countries. Since detailed data on the impact of the crisis on poverty and inequality are still lacking, such an analysis at least allows to assess whether governments have taken preventive measures to prevent expected negative social consequences. Also, such an extension of the crisis literature on welfare states is necessary since an analysis of the impact of the crisis on minimum income schemes may get lost in a discussion of the battery of measures taken by welfare states. Moreover, the specific aim of social assistance schemes to prevent hardship for European citizens was never more relevant than in times of crisis. Whereas traditionally unemployment insurance schemes were most responsive to economic downturns, the current crisis is likely to have impacted on unemployment and social assistance schemes alike (Immervoll, 2009). One element here is the rise in the number of people in atypical jobs that do not open (sufficient) rights to unemployment insurance. Another factor is the fact that the unemployment insurance has become less generous in some countries, be it in level, duration or both. The Hartz reforms in Germany are a notable example.

Although Vis et al. and Chung & Thewissen did not (yet) find stark evidence pointing to retrenchment of the welfare state in response to the crisis in their sample, they do warn for upcoming retrenchment. Indeed, the welfare state must now cater for an increasing number of people, while additional funding is hard to find. This problem is especially relevant for unemployment insurance and social assistance schemes. This situation may well provoke retrenchment in benefit levels or in coverage. However, governments may want to spare social assistance schemes for a number of reasons.

First, these schemes generally cater for the weakest. It is a moral question whether one wants to make this group disproportionately pay for the cost of the crisis (Stiglitz, 1999). This issue is especially relevant given the causes and development of the current crisis (Watt, 2009).

Second, cutting in minimum income schemes may have detrimental social consequences (Bonnet, Ehmke, & Hagemejer, 2010), all the more as these schemes are in general insufficient to escape poverty (Van Mechelen & Marchal, forthcoming). Another, more practical, concern in this regard is that aiming fiscal measures towards poorer segments of the population is a rather sure way to boost demand. Indeed, purchasing power handed towards low-incomes is more likely to be inserted into the economy. Expanding minimum income schemes during the crisis would then reconfirm the first pillar of the European Economic Recovery plan, urging governments to inject purchasing power into the economy, while subscribing to the fundamental principles of the plan, it is complying with solidarity and social justice.

> *Public expenditure has an impact on demand in the short-term. Measures that can be introduced quickly and targeted at households which are especially hard hit by the slowdown are likely to feed through almost directly to consumption, e.g. temporarily increases to the unemployed or low income households, or a temporary lengthening of the duration of unemployment benefit.(European Commission, 2008, p. 8)*

Since coverage and adequacy of minimum income benefits remains scant in a large majority of EU countries, this perspective certainly calls for expansionary measures in the European minimum income schemes (Figari, Matsaganis, & Sutherland, 2011).

Third, public opinion might drive policy makers to spare minimum income schemes, since rising unemployment levels could trigger more support for minimum income schemes (Pfeifer, 2009).

Given these considerations, we would expect expansionary measures directed towards the lower income groups, for which social assistance recipients cater, or at the very least, that governments were rather reluctant to cut in social assistance benefits. Nevertheless, one cannot ignore the financial strain the crisis has placed on governments' budgets (Bonnet et al., 2010; Euzéby, 2010; Orton, 2010). Some countries may then simply have been forced to touch upon social assistance schemes. However, it seems likely that this will only occur when austerity measures have become inevitable, in order to not prematurely withdraw expansionary measures and thus to hamper demand in a frail economy. This concurs with the suspicions of Vis et al., who found in their data only by mid 2010 indications for upcoming retrenchment.

It is also probable that (ideological) retrenchment, as expected by (part of) the literature, will abound only in a later phase of the crisis. Though a crisis may provide a fertile ground for new ideas taking root, designing reforms in line with new ideas takes time. It seems that initial responses towards a crisis can be more driven by social and economic (practical) concerns, than by grand ideas, as both the research of Chung and Thewissen and Vis et al. show. In a similar vein, descriptions on the reaction of governments on the Scandinavian crisis (1990s) seem to indicate that these policies have been more guided by pragmatism (Kosonen, 2002; Uusitalo, 1996, 2000), with (initial) retrenchment more provoked by practical concerns than by a turn in ideology.

These observations support our hypothesis that governments will only have cut social assistance benefits when the budgetary situation called for severe downsizing, thus pointing more to a context-specific response, at least in the initial urgent responses to the crisis. The following assessment of policy responses impacting on low income families includes measures taken from 2008 until mid 2010, effectively capturing this first phase of the crisis.

3 The depth of the crisis in EU countries

Beyond doubt, the crisis has hit the European countries hard. Overall GDP growth came to a halt in most countries in 2008, subsequently turning negative in all EU countries except for Poland in 2009. Countries that were particularly hard hit are Estonia (with a negative GDP growth in 2009 of 13,9%), Latvia (-17,5%), Lithuania (-14,3%), although also Slovenia (-9%), Finland (-8,9%), Ireland (-8,1%) and Romania (-6,9%) faced more than average declines in GDP growth. While GDP growth seems to have resumed since 2010, though hesitantly, Greece, Ireland, Romania, Spain and Norway still had negative growth in 2010, in the case of Portugal negative growth is even forecasted to persist in 2012.

Table 1. Annual GDP growth, 2006-2012

	2001-2005[a]	2006	2007	2008	2009	2010	2011	2012
Austria	1,06	3,1	3,3	1,7	-4,2	1,8	2[f]	1,6[f]
Belgium	1,14	2	2,2	0,2	-3,5	1,3	1,6[f]	1,5[f]
Bulgaria	6,66	7,1	7	6,7	-5,2	0,7[f]	3,3[f]	4,2[f]
Cyprus	1,42	2,1	3,6	2,4	-2,5	0,6	0,9[f]	1,7[f]
Czech Republic	3,8	6,5	5,6	1,4	-4,7	2,1	2[f]	2,9[f]
Denmark	0,94	3,1	1,2	-1,7	-5,7	1,3	1,4[f]	1,2[f]
Estonia	8,32	10,8	7,1	-5	-13,9	3,1	4,7[f]	3,9[f]
Finland	2,36	4	4,9	0,5	-8,6	2,7	3,2[f]	2,1[f]
France	0,88	1,8	1,7	-0,6	-3,3	0,9	1,2[f]	1,5[f]
Germany	0,52	3,5	2,8	1,2	-4,4	3,8	2,7[f]	2,1[f]
Greece	3,7[p]	4,7[p]	3,9[p]	0,6[p]	-2,4[p]	-4,7[p]	-3,7[f]	0,9[f]
Hungary	4,18	3,8	0,9	1	-6,5	1,4	2,9[f]	2,9[f]
Ireland	3,6	2,8	3,1	-5,2	-8,1	-1,2	0,3[f]	1,7[f]
Italy	0,3	1,5	0,7	-2,1	-5,8	0,8	0,6[f]	1[f]
Latvia	8,88	12,8	10,6	-3,8	-17,5	0,4	4[f]	4, 7[f]
Lithuania	8,32	8,5	10,4	3,5	-14,3	2,9	6,2[f]	5,5[f]
Luxembourg	2,3	3,3	4,9	-0,3	-5,4	1,6	2[f]	2,5[f]
Malta	0,68	1,2	3,8	4,5	-3,7	2,6	1,7[f]	1,8[f]
Netherlands	0,84	3,2	3,7	1,5	-4,4	1,3	1,6[f]	1,4[f]
Poland	3,16	6,3	6,8	5,1	1,5	3,7	3,9[f]	3,7[f]
Portugal	0,2	1,1	2,2	-0,1	-2,6	1,3	-2,2[f]	-1,7[f]
Romania	6,5	8,1	6,5	7,5	-6,9	-1,1	1,7[f]	3,9[f]
Slovakia	4,98	8,4	10,4	5,6	-5	3,8	3,4[f]	4,3[f]
Slovenia	3,52	5,5	6,2	3,5	-9[b]	0,9[b]	1,7[f]	2,2[f]
Spain	1,72	2,4	1,7	-0,7	-4,4	-0,5	0,4[f]	1,2[f]
Sweden	2,34	3,7	2,6	-1,4	-6,1	4,8	3,9[f]	2,2[f]
United Kingdom	2,04	2,2	2	-0,7	-5,5	1	1[f]	1,4[f]
EU27	1,44	2,8	2,5	0	-4,6	1,6	1,6[f]	1,7[f]

EU25	1,32	2,8	2,4	-0,1	-4,6	1,6	1,5[f]	1,7[f]
EU15	1,12	2,5	2,1	-0,4	-4,7	1,5	1,4[f]	1,5[f]
Norway	1,64	1,4	1,7	-0,6	-2,9	-0,9	1,5[f]	1,2[f]

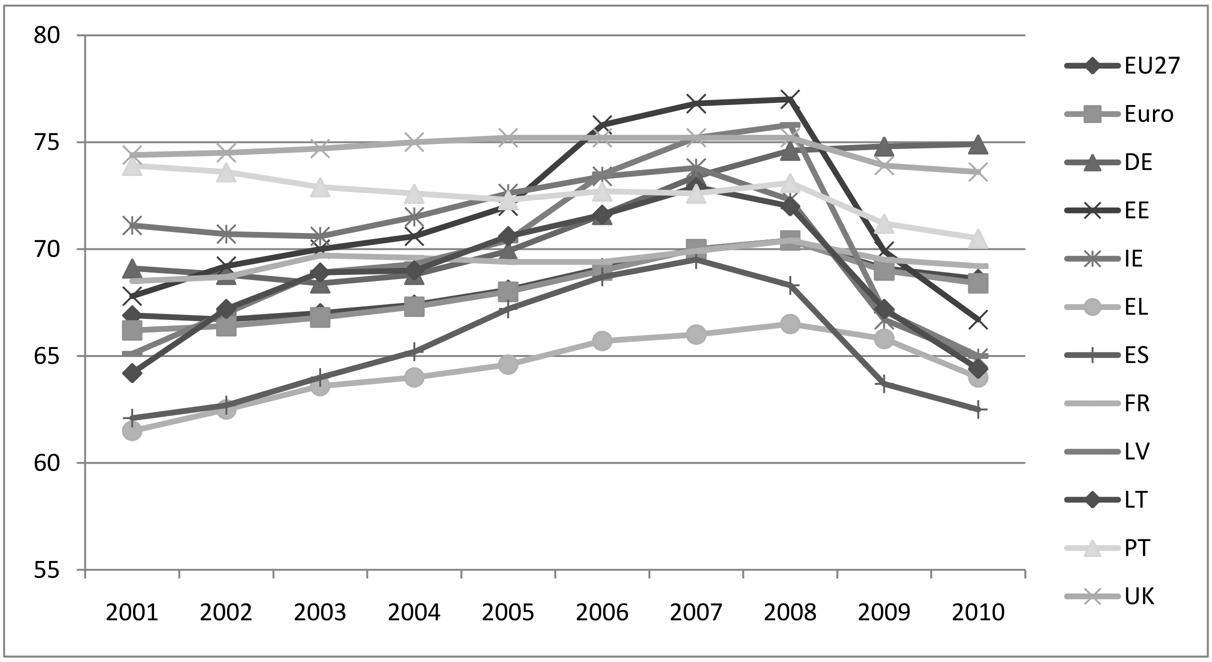
a: average annual growth over 2001-2005 period; b: break in series; p: provisional value; f: forecast

Source: (Eurostat, 2011)

This decline in growth rather immediately impacted on employment levels in EU countries. Employment levels declined by 2,5% between 2008 and 2010 over the entire EU27, although some countries, again, were hit far more severely than others. Figure 1 presents employment levels for the EU 27, the Euro area (16 countries), Germany, France and the UK as representatives of the larger EU economies and for the countries that showed a rather large decline in GDP growth. All countries had a gradual rise in employment levels since the beginning of the 2000s, with the exception of Portugal, that followed suit only from the mid 2000s on. However, this gain perished during the crisis, with some countries even being back or under the 2001 level of employment. A notable exception is Germany, that for now, seems to weather the crisis relatively unscathed in terms of lost jobs. In fact, employment rose during the crisis by 0.40%. Other countries where the crisis does not seem to have impacted on employment levels are Malta and Luxembourg.

Table 9 in appendix shows the percentual change in employment levels since the onset of the crisis (for which we took 2008) until 2010. All countries that saw large negative growth, equally suffered from large job losses, it is employment levels in Latvia, Estonia, Lithuania and Ireland fell by more than 10%. Employment losses in Portugal are less severe than for these countries (-3.56%). This seems to be in line with the rather moderate, though protracted negative growth in this country.

Figure 1. Annual employment rates, selected EU countries, 2001-2010



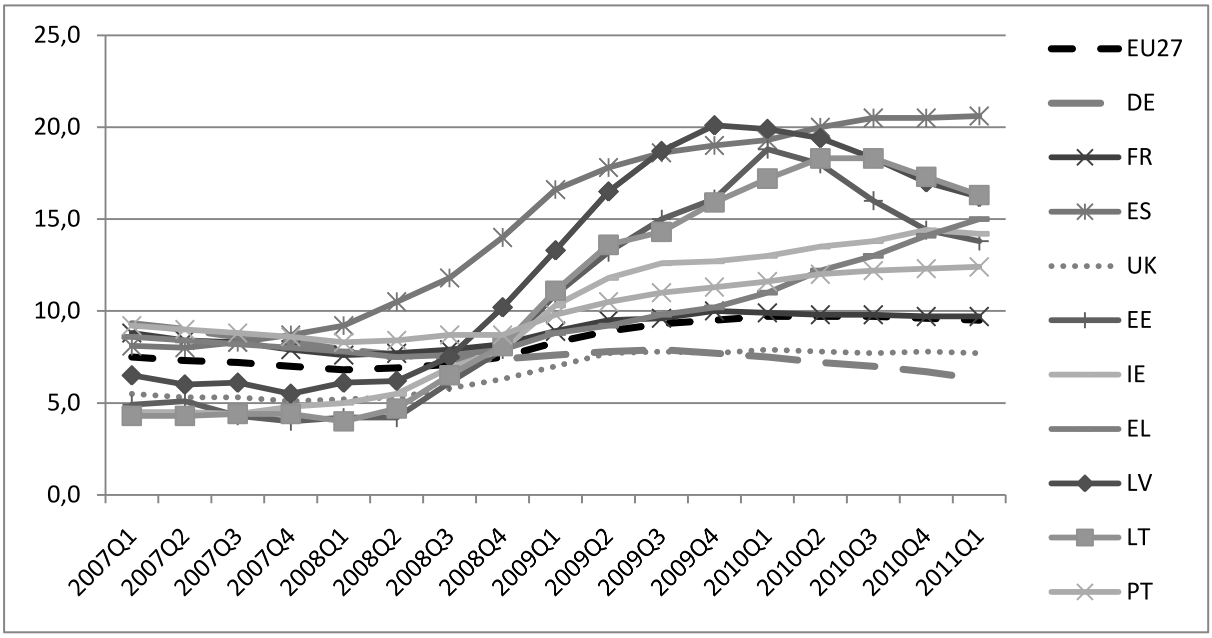
Source: (Eurostat, 2011)

Together with this universal decline of employment levels, unemployment rates started to rise substantially from 2008 on. As with GDP growth, signs for recovery differ between countries.

Unemployment was still on the rise in Spain during the first quarter of 2011, although the unemployment rate had already reached 20%. The same is true for Portugal. Other countries did show declining unemployment rates, such as Lithuania and Latvia.

Again, the evolution of unemployment rates substantially differed between countries. Unemployment declined in Germany between the start of 2008 and the end of 2010, and remained largely the same in Luxembourg. On the other hand, unemployment more than doubled in Spain, Latvia, Ireland, Estonia, Lithuania and, surprisingly, Denmark. However, since unemployment rates in the latter country were amongst the lowest in Europe at the onset of the crisis, the unemployment rate remained under two digits, unlike the other countries with stark increases in unemployment.

Figure 2. Quarterly unemployment rates, selected EU countries, 2007Q1 – 2011 Q1



Source: (Eurostat, 2011)

It is clear that these rising unemployment levels mean a large financial burden for welfare states, both in terms of foregone earnings, as in increased expenditure to transfer programs. Indeed, the OECD estimates the cost of a lost full-time job to be 80% of GDP per head (OECD, 2011). According to the same publication, higher transfer spending during the crisis was in a considerable number of countries a substantial contribution towards deteriorating government budgets. These unfavorable trends have undoubtedly contributed to surging government deficits. The EU 27 deficit augmented from -0,9% in 2007 to -6,8% of GDP in 2009, with only a small improvement (0,4 percentage points) in 2010. Likewise, governments' gross debt rose from a low of 59,0% in 2007 to 80% of GDP in 2010 on average for the 27 EU countries.

Deficits and debt specifically surged in Ireland, where general government debt rose by 284% since 2007, though from a low starting point (25% of GDP in 2007). General government gross debt also rose starkly in Spain, though again from a rather low starting point. Latvia had a rise in gross debt comparable to Ireland, from 9% of GDP in 2007 to 44,7% in 2010. Likewise, Lithuania and Romania saw considerable rises in debt levels. Portugal had in 2010 a gross consolidated debt amounting to

93% of GDP. However, the highest debt was accrued by Greece, amounting to 142.8% in 2010, having risen with 35% from the 2007 level of 105.4% of GDP

Exceptional rises in debt levels were related to the need of countries to lend on the financial markets to cover urgent expenses, leading to deficits in government budgets. All countries, except for Norway, incurred negative balances during the crisis. While some countries could benefit from surpluses attained before the onset of the crisis, this option was effectively inexistent for the majority of countries. Though Ireland had succeeded in reaching surpluses the years before the crisis, with a deficit amounting to 32.4% of GDP in 2010, these former gains became rather immediately irrelevant. Greece already incurred high deficits before the onset of the crisis, that subsequently quickly mounted to a deficit of 15.4% of GDP in 2009. Other countries incurring two-digit deficits in 2009 were Spain Portugal and surprisingly, the UK. Latvia, Lithuania, Romania, Slovakia, France and Poland, though more moderate, all incurred deficits above the EU27 total.

Table 2. General government gross debt, 2001-2010, %GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Austria	67,3	66,7	65,8	65,2	64,6	62,8	60,7	63,8	69,6	72,3
Belgium	106,6	103,5	98,5	94,2	92,1	88,1	84,2	89,6	96,2	96,8
Bulgaria	66	52,4	44,4	37	27,5	21,6	17,2	13,7	14,6	16,2
Cyprus	60,7	64,6	68,9	70,2	69,1	64,6	58,3	48,3	58	60,8
Czech R.	24,9	28,2	29,8	30,1	29,7	29,4	29	30	35,3	38,5
Denmark	49,6	49,5	47,2	45,1	37,8	32,1	27,5	34,5	41,8	43,6
Estonia	4,8	5,7	5,6	5	4,6	4,4	3,7	4,6	7,2	6,6
Finland	42,5	41,5	44,5	44,4	41,7	39,7	35,2	34,1	43,8	48,4
France	56,9	58,8	62,9	64,9	66,4	63,7	63,9	67,7	78,3	81,7
Germany	58,8	60,4	63,9	65,8	68	67,6	64,9	66,3	73,5	83,2
Greece	103,7	101,7	97,4	98,6	100	106,1	105,4	110,7	127,1	142,8
Hungary	52	55,6	58,3	59,1	61,8	65,7	66,1	72,3	78,4	80,2
Ireland	35,5	32,1	30,9	29,6	27,4	24,8	25	44,4	65,6	96,2
Italy	108,8	105,7	104,4	103,9	105,9	106,6	103,6	106,3	116,1	119
Latvia	14	13,5	14,6	14,9	12,4	10,7	9	19,7	36,7	44,7
Lithuania	23,1	22,3	21,1	19,4	18,4	18	16,9	15,6	29,5	38,2
Luxembourg	6,3	6,3	6,1	6,3	6,1	6,7	6,7	13,6	14,6	18,4
Malta	62,1	60,1	69,3	72,4	69,6	64,2	62	61,5	67,6	68
Netherlands	50,7	50,5	52	52,4	51,8	47,4	45,3	58,2	60,8	62,7
Poland	37,6	42,2	47,1	45,7	47,1	47,7	45	47,1	50,9	55
Portugal	51,2	53,8	55,9	57,6	62,8	63,9	68,3	71,6	83	93
Romania	25,7	24,9	21,5	18,7	15,8	12,4	12,6	13,4	23,6	30,8
Slovakia	48,9	43,4	42,4	41,5	34,2	30,5	29,6	27,8	35,4	41
Slovenia	26,7	27,9	27,3	27,4	26,7	26,4	23,1	21,9	35,2	38
Spain	55,5	52,5	48,7	46,2	43	39,6	36,1	39,8	53,3	60,1
Sweden	54,7	52,5	51,7	50,3	50,4	45	40,2	38,8	42,8	39,8
UK	37,7	37,5	39	40,9	42,5	43,4	44,5	54,4	69,6	80
EU27	61	60,4	61,8	62,2	62,8	61,5	59	62,3	74,4	80
EU25	61,2	60,6	62,1	62,5	63,2	62	59,6	63	75,1	80,7
Norway	29,2	36,1	44,3	45,6	44,5	55,4	51,5	49,1	43,1	44,7

Source: (Eurostat, 2011)

It is then not surprising that some countries needed external aid, addressing the EU, neighboring countries, the IMF and the Worldbank. Up till now, Greece, Latvia, Romania, Ireland, Portugal, Poland and Hungary turned to the EU or the IMF for financial assistance (European Commission, 2011; International Monetary Fund, 2011). In general, the conditions attached to this international aid relate to improving government finances, though more specific guidelines are agreed upon per country (for instance: the Hungarian EU installment equally served to cover the election period, while Romanian assistance was tied to a revision of the country's pension scheme) (European Commission, 2009).

Table 3. Government deficit, 2001-2010, % GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Austria	0	-0,7	-1,5	-4,5	-1,7	-1,6	-0,9	-0,9	-4,1	-4,6
Belgium	0,4	-0,1	-0,1	-0,3	-2,7	0,1	-0,3	-1,3	-5,9	-4,1
Bulgaria	1,1	-1,2	-0,4	1,8	1	1,9	1,1	1,7	-4,7	-3,2
Cyprus	-2,2	-4,4	-6,5	-4,1	-2,4	-1,2	3,4	0,9	-6	-5,3
Czech R.	-5,6	-6,8	-6,6	-3	-3,6	-2,6	-0,7	-2,7	-5,9	-4,7
Denmark	1,5	0,4	0,1	2,1	5,2	5,2	4,8	3,2	-2,7	-2,7
Estonia	-0,1	0,3	1,7	1,6	1,6	2,4	2,5	-2,8	-1,7	0,1
Finland	5	4	2,4	2,3	2,7	4	5,2	4,2	-2,6	-2,5
France	-1,5	-3,1	-4,1	-3,6	-2,9	-2,3	-2,7	-3,3	-7,5	-7
Germany	-2,8	-3,7	-4	-3,8	-3,3	-1,6	0,3	0,1	-3	-3,3
Greece	-4,5	-4,8	-5,6	-7,5	-5,2	-5,7	-6,4	-9,8	-15,4	-10,5
Hungary	-4	-8,9	-7,2	-6,4	-7,9	-9,3	-5	-3,7	-4,5	-4,2
Ireland	0,9	-0,4	0,4	1,4	1,6	2,9	0,1	-7,3	-14,3	-32,4
Italy	-3,1	-2,9	-3,5	-3,5	-4,3	-3,4	-1,5	-2,7	-5,4	-4,6
Latvia	-1,9	-2,3	-1,6	-1	-0,4	-0,5	-0,3	-4,2	-9,7	-7,7
Lithuania	-3,6	-1,9	-1,3	-1,5	-0,5	-0,4	-1	-3,3	-9,5	-7,1
Luxembourg	6,1	2,1	0,5	-1,1	0	1,4	3,7	3	-0,9	-1,7
Malta	-6,4	-5,5	-9,9	-4,7	-2,9	-2,8	-2,4	-4,5	-3,7	-3,6
Netherlands	-0,2	-2,1	-3,1	-1,7	-0,3	0,5	0,2	0,6	-5,5	-5,4
Poland	-5,3	-5	-6,2	-5,4	-4,1	-3,6	-1,9	-3,7	-7,3	-7,9
Portugal	-4,3	-2,9	-3	-3,4	-5,9	-4,1	-3,1	-3,5	-10,1	-9,1
Romania	-3,5	-2	-1,5	-1,2	-1,2	-2,2	-2,6	-5,7	-8,5	-6,4
Slovakia	-6,5	-8,2	-2,8	-2,4	-2,8	-3,2	-1,8	-2,1	-8	-7,9
Slovenia	-4	-2,5	-2,7	-2,3	-1,5	-1,4	-0,1	-1,8	-6	-5,6
Spain	-0,6	-0,5	-0,2	-0,3	1	2	1,9	-4,2	-11,1	-9,2
Sweden	1,5	-1,3	-1	0,6	2,2	2,3	3,6	2,2	-0,7	0
UK	0,5	-2,1	-3,4	-3,4	-3,4	-2,7	-2,7	-5	-11,4	-10,4
EU27	-1,4	-2,5	-3,1	-2,9	-2,5	-1,5	-0,9	-2,4	-6,8	-6,4
EU25	-1,4	-2,5	-3,1	-2,9	-2,5	-1,5	-0,9	-2,3	-6,8	-6,4
Norway	13,5	9,3	7,3	11,1	15,1	18,5	17,5	19,1	10,5	10,5

Source: (Eurostat, 2011)

Although detailed income data are not yet available, the surging unemployment rates leave one to suspect increased hardship has arrived or is coming. Other indicators also point in this direction. The CSB-MIPI data show a nominal decline of gross average wages in 2009 in Estonia, Latvia and Ireland.

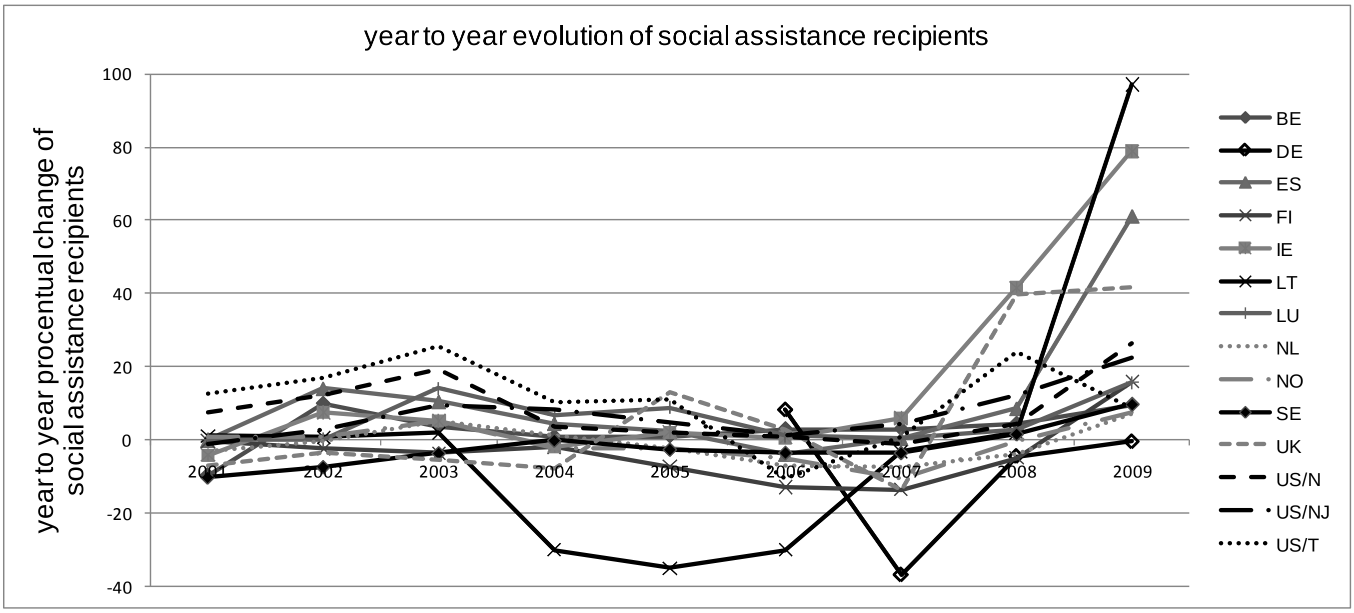
Median equivalent income estimates for 2010 (based on income acquired in 2009) are so far only available for Latvia, Finland and Iceland. Nevertheless, already on the estimates for 2009 (based on income acquired in 2008) some declines are apparent. Median equivalent income decreased in Ireland, Italy, the Slovak Republic and the United Kingdom, from 2008 to 2009. Latvia and Iceland show nominal declines from 2009 to 2010. It thus seems likely that the economic crisis has impacted on the income of people, confirming consequences observed after earlier recessions, when income declined, though unequally distributed among the population, leading to higher inequality and poverty (OECD, 2011).

4 Impact of crisis on the number of social assistance recipients

Figure 3 presents the year-to-year evolution of social assistance recipients in a selection of countries since 2001. Since there are no comparative data available on this subject, this figure draws on national sources and its scope is limited to the eleven countries for which this information is easily accessible to researchers.

After a decline, or at least a stagnation of minimum income recipients by the mid 2000s, the national data show that in the years after the economic crisis there has been a sudden and vast increase in the number of able-bodied claiming social assistance in all countries. The number of social assistance recipients rose, from 2008 to 2009, by around 10% in Belgium, Finland, the Netherlands, Norway and Sweden. Somewhat larger increases were apparent in Luxembourg and the US states. The largest increases occurred in Spain (Catalonia), Lithuania, Ireland and the United Kingdom. This overall image is confirmed in the joint report on social protection and social inclusion of 2010, that presents the situation in Austria, the Czech Republic, Denmark, the Slovak Republic, Portugal and Latvia. The increase in social assistance recipients from 2008 to 2009 amounts to more or less 11% in Austria and the Czech Republic and 16% in Portugal, while also the remaining countries show increases (European Commission, 2010). Germany is once again an exception to this overall pattern of increasing social assistance recipients, as the extension of the partial unemployment scheme has for now taken care of the bulk of people affected by the crisis (Chung & Thewissen, 2011).

Figure 3. Year – to – year evolution of the number of social assistance recipients, %, 2001 - 2009



Sources: (Bundesagentur für Arbeit, 2010; Centraal Bureau voor de Statistiek, 2011; Department for work and pensions, 2011; Department of social protection, ; Financial Supervisory Authority & Social Insurance Institution, 2010; Food Research and Action Center, 2011; Generalitat de Catalunya, 2010; POD Maatschappelijke Integratie, 2011; Service Nationale d'Action Sociale, 2011; Socialstyrelsen, 2011; Statistics Norway, 2011; Statistikos departamentas, 2011)

The growth in social assistance recipients' numbers was thus by far the strongest in Lithuania, Ireland, Spain, and the United Kingdom. Though the UK did experience an average annual negative GDP growth of -1% over the period 2008-2010, with a comparatively large budget deficit and increase in debt, the country did not experience more than an average drop in employment levels, and the rise in unemployment remained relatively moderate. The immediate rise in social assistance recipients then seems more attributable to the set-up of the unemployment scheme, where after 6 months people leave the (earnings-based) unemployment insurance scheme and go up into the categorical income based jobseekers allowance. A similar system applies in Ireland.

In the two remaining countries unemployment has reached very high levels. Apparently the unemployment insurance scheme did not cover all newly unemployed. This may be due to recent changes in the labour market, with a higher prevalence of non-standard careers (Immervoll, 2009). Also, the awarding of social assistance benefits may have risen in a number of countries where social assistance is given as a top-up to unemployment benefits. This was possibly the reason behind the rise in social assistance recipients in Luxembourg, where unemployment did not encounter a similar rise.

Notwithstanding the reasons behind differences in extent of growth of social assistance recipients' numbers, we may suspect that in the large majority of countries the social assistance scheme became more important during the crisis. This increased importance of minimum income schemes well justifies a closer inquiry into their adequacy and their resilience to cuts caused by the budgetary difficulties faced by most countries. The remainder of this paper focuses on both questions. How adequate was the protection provided in the European countries for an increased number of people in need? Did governments change usual business with regard to minimum income schemes in the immediate aftermath of the crisis, by reinforcing or affecting its adequacy in reaction to the crisis?

5 Data

The remainder of this paper draws on data gathered in the CSB-MIPI dataset. CSB-MIPI contains information on minimum income protection provisions for workers, for people at working age not in work, and for the elderly. By first defining the group at risk (for this paper, the working- age able-bodied who fall outside the social insurance scheme and are without a job), equivalent schemes are compared across countries, instead of schemes who merely have a similar name.

The expert-sourced CSB-MIPI dataset contains gross time series on minimum wages, minimum income benefits and minimum income guarantees for elderly spanning two decades, from 1992 until 2009. The focus of the dataset is on model family simulations of net disposable income for five household types per income situation, taking full account of taxes, social security contributions, means-tested supplements and child benefits. These simulations refer to three points in time, i.e. May 1992, June 2001 and June 2009. An additional questionnaire provides an overview of the assumptions made for these simulations and provides background information on the schemes under analysis.

Moreover, two additional questionnaires were answered by the national respondents, probing into i) the conditionality of minimum income benefits, and more importantly for the purpose of this paper, ii) measures undertaken since the onset of the crisis that may have affected net disposable income of minimum income recipients and minimum wage earners. The questionnaires were received between April 2010 and September 2010, thus providing us for some countries with more recent measures than for others. Also, since then, further developments have undoubtedly taken place. The completeness of the responses has been assessed against recent publications on anti-crisis measures to the extent possible[1]. More information on the methodology and content of the CSB-MIPI dataset can be found in Van Mechelen et al. (2011).

The remainder of this paper is based on the gross social assistance benefit levels and on the crisis module of the questionnaire. The model family simulations for 2009 are used to assess the adequacy of minimum income benefits. It is important to note that in a number of countries where the minimum income scheme is a regional responsibility, we focus on the situation in one region. For Spain, our data consider the situation in Catalonia, for Italy, the data refer to the minimo vitale awarded in Milan and for Austria, we consider the situation in Vienna. In Sweden and Norway, data refer to the situation in respectively Stockholm and Oslo.

[1] Although, of course, the uniqueness of the questionnaire stems from the fact that the development of social assistance schemes during the crisis is generally disregarded in recent publications.

6 Impact of the crisis on the level of social assistance benefits

6.1 How did minimum income recipients fare during the crisis?

The following section first assesses the evolution of gross social assistance benefits since 2001. However, since states have more instruments at their disposal to affect the income situation of social assistance beneficiaries, we complete this assessment with a description of policy measures that have influenced the net disposable income of social assistance recipients since 2008. Finally, we present an assessment of the adequacy of minimum income benefits as of June 30, 2009, based on the model family simulations for a single and a couple with two children comprised in the CSB-MIPI dataset.

6.1.1 Gross social assistance benefits

Table 4 presents the yearly percentage change in nominal gross social assistance benefits. In the years before the crisis, countries steadily increased nominal social assistance benefits. Two exceptions are apparent, it is the Czech Republic, where nominal gross benefits for couples decreased by 26% in 2007, and the Slovak Republic, where benefit levels decreased on average by 12,5% per year over the period 2000-2006. Both declines are caused by far-reaching reforms of the social assistance scheme. The Czech Republic split the minimum income scheme in a separate housing allowance scheme and a social assistance scheme. However, since most social assistance recipients still apply for housing allowances under the new scheme, the effects on net disposable income are far less severe. The Slovak Republic reformed its social assistance scheme in 2004. Since then, minimum income protection consists of a (very) low base amount, that can be topped up by additional conditional benefits.

A first observation from table 4 is that the variation across countries in nominal growth rates has been rather modest between 2007 and 2009 as compared with the preceding years. Apparently, immediately after the onset of the crisis, most countries were rather expectant. Most countries did not immediately touch gross benefits, although it seems that some countries did not maintain previous growth rates, such as Austria, where growth in nominal benefits in 2009 seems to have decelerated compared to the past decade. Similar decelerations seem to have taken place in the Netherlands, Luxembourg, Portugal and Spain, although it cannot be derived from this table whether this is an intentional development or a mere consequence of indexation mechanisms.

Growth of social assistance benefits was halted in Estonia already in 2008, after some stark nominal increases in the previous years. Only Ireland presents a nominal decline of benefits, in 2010. This can be interpreted as an attempt to control state finances in response to the crisis. Indeed, both Ireland and Estonia are among the countries that were hit the hardest by the crisis, both in terms of GDP decline as in terms of unemployment rises. While the Estonian deficit was comparatively minor, Ireland faced in addition severe budgetary challenges.

Table 4. Year-to-year nominal change of gross social assistance benefit level, in %, couple

	'00-'06[a]	'06 tot '07	'07 tot '08	'08 tot '09	'09 tot '10
AT	2,8	2	3	4	1
BE	2,9	3	6	4	n.a.
CZ	1,1	-26	0	0	n.a.

DK	2,8	2	3	3	4
EE	8,3	20	11	0	n.a.
FI*	2,1	1	2	3	5
FR	1,8	2	2	2	1
DE	3,7	1	2	2	n.a.
IE*	9,5	12	6	3	-4
IT	3,0	2	2	3	n.a.
LU	3,3	4	2	4	0
NL	3,5	3	2	1	1
NO	2,0	6	7	3	n.a.
PT	5,5	3	3	3	1
RO	53,1	4	5	8	15
SK	-12,5	6	2	5	3
SI	12,0	2	4	4	2
ES	3,4	9	4	3	1
SE	1,9	3	4	4	n.a.
UK	1,6	3	2	6	2

[a]: average annual nominal change in gross social assistance benefit

Note: data for IE and FI refer to gross social assistance benefits for a single; PL, LV, LT, HU, BG: n.a.; EL: no minimum income scheme

Source: CSB-MIPI, Version 1/2011 (Van Mechelen et al., 2011)

Nominal increases may result from regular indexation mechanisms, who are still in place during a crisis. They may also reflect ad hoc supplemental increases, or reforms. Van Mechelen and Marchal (forthcoming) discuss the adequacy of the indexation mechanisms applicable in the EU, concluding that in most countries additional increases, above regular indexation, are needed to keep benefits in line with overall living standard in society.

Figure 4 and Figure 5 present the real evolution and the evolution relative to gross average wages of gross social assistance benefits for a couple. Countries are grouped relative to average GDP growth in the period 2008-2010, with the first grouping representing the countries with smallest GDP growth over this period and the last grouping the highest GDP growth. This is a very crude indicator to assess the depth of the crisis. For some countries, the suddenness of the 2009 drop, though quickly made up for, may have constituted a far more severe challenge that the protracted decline that is measured here. Nevertheless, this grouping was chosen for presentational purposes.

A first observation is the general erosion of gross social assistance benefit levels during the past decade. Though most social assistance schemes held ground in real terms (except for the Czech Republic and Slovakia, see above), this was not the case when we assess benefit levels relative to gross average wages. Taking gross average wages as an imperfect measure for general living standard, only Ireland, Portugal, Belgium, the Netherlands, Germany and Austria (and the UK as far as families with children are concerned) succeeded in maintaining or improving gross social assistance benefits relative to overall prosperity over the course of the decade (2001-2007). Romania and Slovenia had in 2007 benefit levels that were, relative to average wages, far more generous than in 2001, though this was mostly the consequence of a one-time reform, followed by substantial erosion.

Despite the deceleration of nominal levels in 2008 and 2009 in some countries, gross benefit levels followed the price evolution. In most countries, gross social assistance benefits even increased in real terms. However, it is not always clear whether this is as a reaction to the crisis. In Ireland this increase is very much in line with the evolution throughout the first decade of this century, while in Romania, Portugal, Italy and France this increase followed a gradual decline in real terms.

The evolution of gross social assistance benefits from 2009 to 2010 is less general. Moreover, information is lacking for a considerable number of countries. The countries that were, according to our crude indicator, more severely affected by the crisis generally saw an increase of gross social assistance benefits from 2008 to 2009 in real terms, followed by a decrease or a stagnation the year afterwards. This is especially apparent for Ireland. An exception to this pattern is Estonia, where gross social assistance benefits already in 2008 stagnated, after some substantial hikes previously enacted. However, these previous hikes were rather ad hoc increases, making it difficult to speak of a rising trend with regard to Estonian benefit levels. In Denmark gross social assistance benefits increased further in real terms in 2010. However, according to the indicators presented in section 3 of this paper, the depth of the crisis in Denmark seems less severe than indicated by average annual GDP growth.

The picture does not severely change when assessing the evolution of benefits relative to gross average wages. Note that the presentation of the evolution is limited to 2009 in this graph. The rise of minimum income benefits is still apparent relative to this indicator of overall living standard in society, though less outspoken in some countries (e.g. Spain). The decline in average wages in Estonia entails that, despite stagnating nominal and real minimum income benefits, benefits remained in line with average wages.

The evolution of gross social assistance benefits is more diverse for the second group of countries. Whereas gross social assistance benefits in real terms increased in Finland, benefits remained the same in the Netherlands and France. Most countries in this group were not able to keep benefits in line with average wages (2008-2009), though this does not seem to be a break in trends with the previous decade. This leads one to believe the resilience in real terms was due to regular indexation mechanisms, whereas additional measures to maintain benefits in line with standard of living were postponed. This was for instance certainly the case in Finland, where, according to our respondent, the expected increase of social assistance benefits, following a study on the adequacy of these benefits, was postponed in the aftermath of the crisis [2].

In line with the general pattern, gross benefit levels increased in real terms between 2008 and 2009 in the countries of the last group, an increase that remains apparent compared to average wages. Only Romania is here a notable exception. Although benefits increased substantially in real terms, this increase did not suffice to follow the evolution of gross average wages. However, the classification of Romania in this group of countries is more based on the rather late onset of the crisis in this country, than on the depth of the crisis after it unleashed its full force. A classification

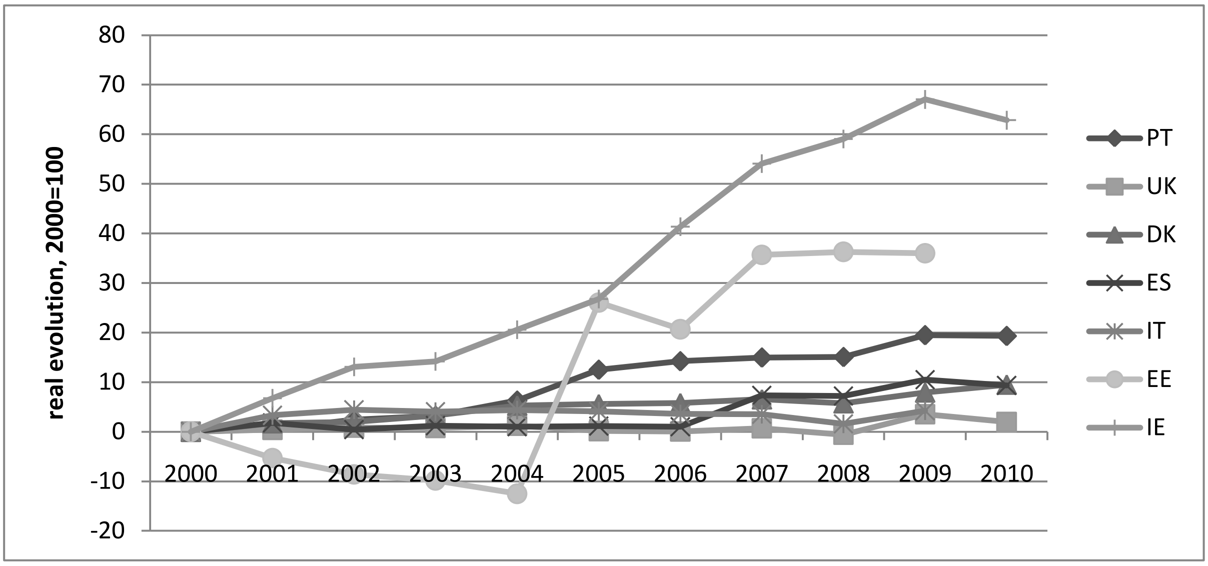
[2] However, the indexation mechanism, that keeps benefits in line with prices (and partly in line with earnings) sufficed to maintain purchasing power.

according to other indicators (see Table 10 in appendix) puts Romania between the more severely affected countries .

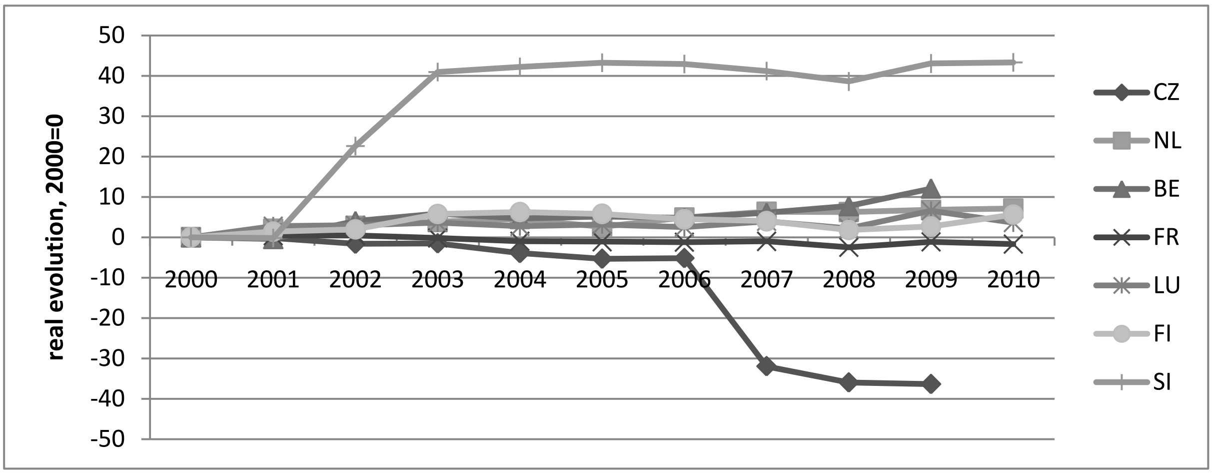
All in all, gross social assistance benefits do not seem to have suffered serious blows. Mostly benefits were kept in line with prices (and for a considerable number of countries, even in line with average wages). While for most countries the real increase of gross benefit levels seems to be in line with earlier trends, some countries do seem to have used gross social assistance benefits to counteract the impact of the crisis. However, we do not observe a general break in trends or exceptional reactions, except for the nominal decrease of social assistance benefits in Ireland. Moreover, evolutions in gross benefit levels do not seem overly determined by the depth of the crisis.

Nevertheless, also other measures enacted by governments may have affected (positively or negatively) on the income of social assistance recipients, that are not apparent in the evolution of gross social assistance benefits. In fact, government may favour alternative measures, as retrenchment in gross benefit levels is rather visible. On the other hand, one-off measures aiming to boost income of minimum income recipients, are unlikely to appear in time series of gross social assistance benefits. Therefore, the next section delves into additional measures affecting *net* disposable income of social assistance recipients.

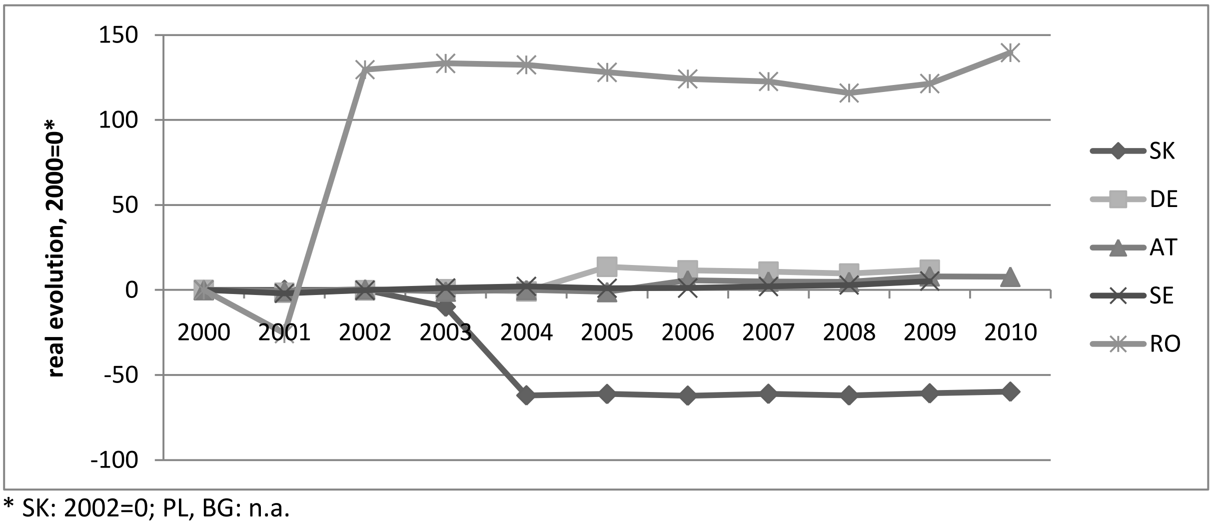
Figure 4. Real evolution of gross social assistance benefits for a couple, 2000-2010



LV: n.a., EL: no minimum income scheme



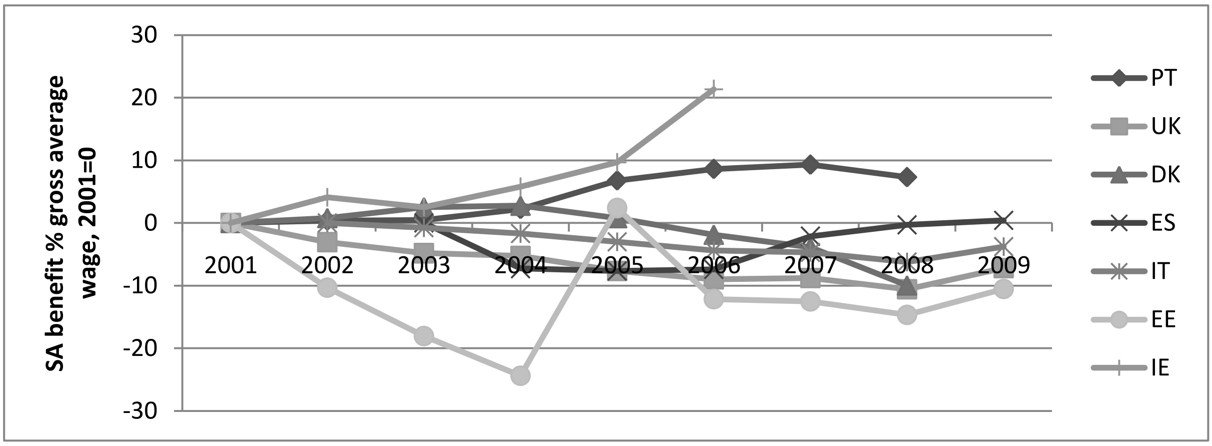
HU, LT, NO: n.a.



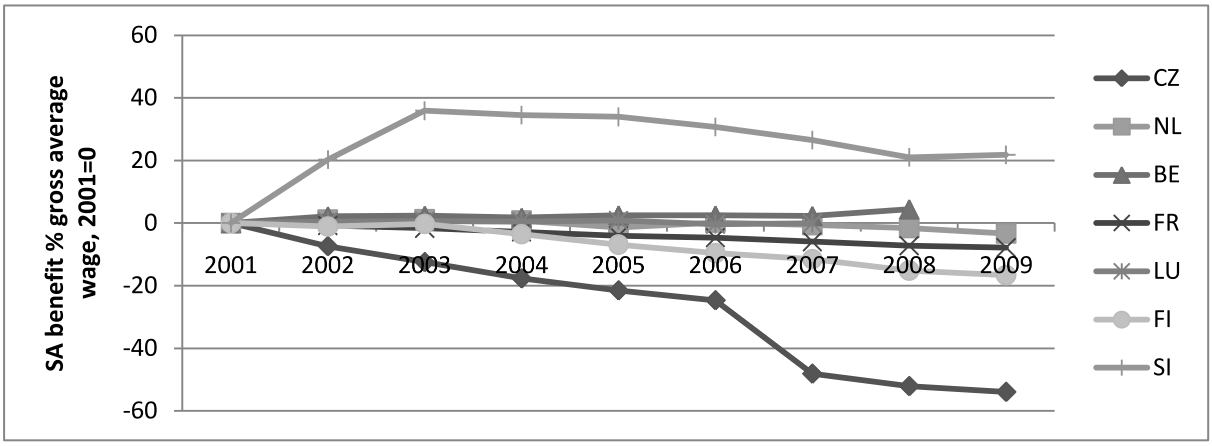
* SK: 2002=0; PL, BG: n.a.

Source: CSB-MIPI Version 1/2011 (Van Mechelen et al., 2011)

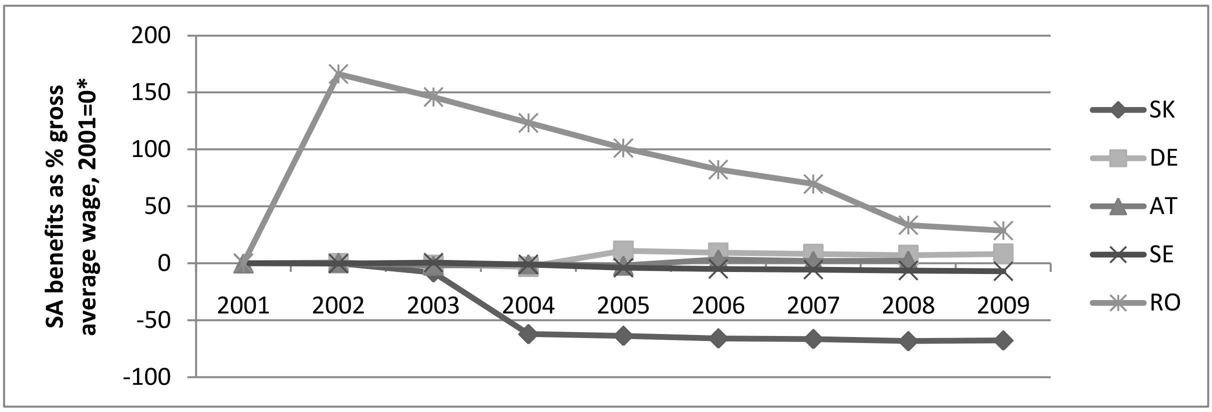
Figure 5. Evolution of gross social assistance benefits for a couple relative to gross average wages, 2001-2009



LV: n.a., EL: no minimum income scheme



HU, LT, NO: n.a.



* SK: 2002=0; PL, BG: n.a.

Source: CSB-MIPI Version 1/2011 (Van Mechelen et al., 2011)

6.1.2 *Net disposable income of social assistance recipients*

The CSB-MIPI questionnaire asked national experts to describe policy changes taken in response to the crisis, that may have influenced net disposable income. Although less precise, the following overview aims to give an indication of the real impact of the crisis on *net* disposable income, through policy responses affecting child benefits, taxes, social security contributions and (also) gross benefit levels. The following table splits policy measures in two stages, those taken before (more or less) mid 2009 and those issued more recently. This division is mostly related to the set-up of our data-gathering, with policy changes taken before mid 2009 still reflected in the model family simulations for 2009[3].

Countries that did not report measures affecting net disposable income of social assistance benefits are DK, ES, FI, IT, NL, SE, SI and SK[4]. As for Denmark and Italy, possibly in-kind benefits attenuated the impact of the crisis. In Denmark, social housing regulation was reconsidered and in Italy, social assistance beneficiaries received a social card. Moreover, they may apply for aid with their energy bill. However, no measures were enacted that undoubtedly raised net disposable income of social assistance beneficiaries. In Finland, the crisis effectively prevented expected increases, although no cuts were enacted. Some countries mentioned regular indexation of benefits. However, since this was surely the case in more countries of our sample, we chose to exclude this from the overview presented in Table 5. With regard to the Netherlands, the government initially relied heavily on an expansion of the part-time unemployment schemes, whereas only minor investments were made in training-related measures. Very soon however, the question of how to retrench came into the public debate (Kaasch et al., 2010). The envisaged reforms will make social assistance less generous and more conditional. Harsher sanctions will be applied in case of fraud. Moreover, municipalities get more possibilities to ask services from social assistance recipients in return for benefits, whereas activity requirements for persons under 27 become harsher. The activity requirements for lone parents of children under 5, that had become less tight in 2009, are reinforced. Meanwhile, the means-test regulating access into the social assistance scheme will become less generous, since income of children above the age of majority will be taken into account when determining the benefit. Finally, the social assistance benefit for cohabitants will substantially decline. However, the reform is not yet enacted, urging us to exclude these envisaged reforms from Table 5 (Rijksoverheid, 2011). The literature on crisis reforms mentions an increase in activation measures in Sweden (Chung & Thewissen, 2011; Kaasch et al., 2010). However, since social assistance recipients mainly benefit from the activation measures enacted by local governments, we chose to only present the information provided by our respondent, stating that by mid 2010, no explicit reforms in social assistance generosity and conditionality were enacted. According to our respondent, the discussion in Sweden focused on the distribution of the extra costs caused by the crisis between the local and the national governments.

Table 5 then provides an overview of the measures reported by national experts as affecting net disposable income of social assistance recipients. Here, we should mention that possibly, not all measures enacted since the crisis are genuine anti-crisis measures. To simplify matters, all measures provided to us are mentioned.

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[3] See Figure 6 on the adequacy of net benefit levels.

[4] Moreover, information for Lithuania is missing. Greece is not included since no general minimum income scheme exists in this country.

Table 5. Overview of measures affecting net disposable income at social assistance since 2008 until mid 2010

	After onset crisis	More recent reforms	Schematic
AT	Net: Universal rise of child tax credit and child benefit	Gross: September 2010: new minimum income benefit scheme, that presumably benefits social assistance recipients	↑+↑
BE	Gross: rise by 2%		↑+=
BG	Gross: rise by 18.2%		↑+=
CZ	Gross: decrease after 6 months of benefit receipt *		↓*+=
DE	Net: increase of child benefits *(Chung & Theeuwissen, 2011)*		↑+=
EE	Net: abolishment of school allowance		↓+=
FR	Net: one-off measures for certain groups of low-income households		↑+=
HU	Gross: Rise, although conditional upon participation in employment programme	Gross: decline: January 2010: only one adult per household eligible for higher benefit	↑+↓
IE	Gross: rise (*Dukelow, 2011*: retrenchment focused on the less visible areas of conditions and entitlements before the full onslaught of the crisis)	Gross: decline Net: Reduction of child benefits	↑+↓↓
LU	Net: - Introduction of cost of living allowance - Linear increase of tax brackets		↑+=
LV	Gross: rise	Gross: rise Net: Withdrawal of ceiling of benefits (in case of large families) decline of child benefits	↑+↑↓
NO	Gross: rise of benefits in national guidelines by 5%		↑+=
PL		Gross: Envisaged indexation did not occur	=+↓
PT	Net: - increase of child benefits for low income categories - extension of complementary support	Net: end of complementary support stricter means test	↑+↓
RO	Gross: rise Net: child benefit extended	Gross: rise + financing fully covered by national government Net: lower eligibility threshold for heating allowance	↑+↑↓
SI	*Gross: foregone indexation (January 2009) (Frazer & Marlier, 2009)*	Indexation of minimum income benefits resumed as of July 2009	↓+=
UK	Gross: increase Net: rise of child tax credit and child benefit	Gross: increase Net: rise of child tax credit and child benefit	↑+↑
US	Gross: increase of SNAP benefits by 13.6% Rise of federal TANF grants to states	Rise of federal TANF grants to states	↑+↑

* Respondent indicates that the measure was already legislated before the onset of the crisis.

Source: CSB-MIPI (Van Mechelen et al., 2011)

In general, most countries took measures that raised net disposable income of social assistance recipients, either by directly raising social assistance benefits (BE, BG, LV, NO, RO, UK, US) or by the introduction of a supplementary allowance (LU). A number of countries chose to increase child benefits or child tax credits (AT, DE, PT, RO, UK), thereby only targeting particular groups of (low income) families. France chose to award one-off measures to part of the social assistance population. Also the response of Hungary was particular. This country introduced a new social assistance scheme for able-bodied working-age adults without care responsibilities, that provided somewhat more generous benefits. However, receipt of benefits was made conditional on actual participation in employment programmes. Bonnet et al. (2010) observe this as a rather common response in middle-income countries, as it has the advantage of being a self-targeting scheme. However, they caution that the design of these schemes might exclude vulnerable groups.

Most of the expansionary anti-crisis measures were taken before mid 2009, with a remarkable absence of more recent positive measures. This lack of new measures in some countries might consequently well be due to a wish or a need to limit expenditures. Indeed, some respondents mentioned that upcoming measures would rather aim to retrench and limit expenditure.

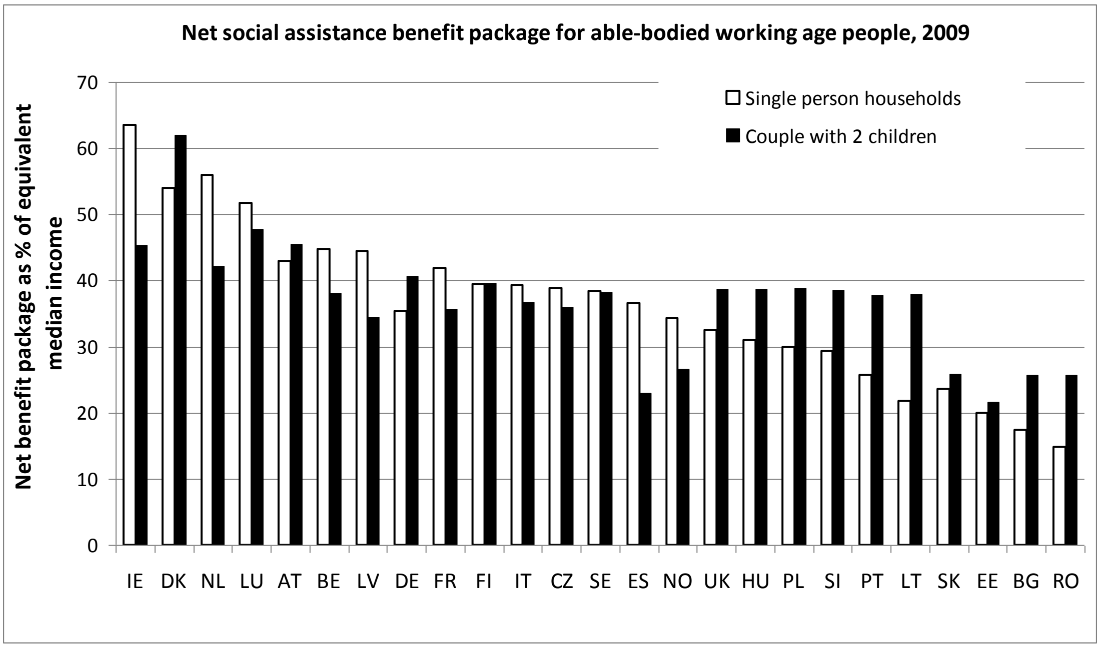
Of the countries that did enact measures more recently, the majority enacted some sort of austerity measure. In three instances, this was after expansionary measures were introduced after the onset of the crisis. The countries that enacted measures negatively affecting net disposable income of social assistance recipients in some way are Portugal, Poland, Ireland, Estonia and the Czech Republic. Both Romania and Latvia still introduced measures benefiting social assistance recipients. However, these were combined with a withdrawal of other, less important benefits. In the beginning of 2010, Hungary partly withdrew an expansionary measure that had become fully operative by April 2009.

Ireland, Latvia and Portugal first enacted measures raising net disposable income of social assistance benefits, and only in a second stage withdrew some benefits. The Czech Republic and Estonia already curtailed net disposable income in the first half of 2009, however, the time limit on social assistance in the Czech Republic was already envisaged before the onset of the crisis. Ireland is the only country that reduced the gross benefit levels of the social assistance scheme. The other countries tried to not too openly reduce benefits. In Estonia, a rather minor benefit was abolished. Poland simply did not enact a planned indexation whereas Portugal introduced a stricter means-test, as did Romania for the heating allowance. Remarkable is that child benefits were reduced in Portugal, Ireland and Latvia, whereas most countries used these child benefits rather to increase net disposable income. All in all, the reductions in net disposable income are mostly not directly pertaining to the social assistance scheme, but are achieved more indirectly, through the child benefits scheme and also, in a more stealth way, by lowering eligibility thresholds or postponing indexation.

6.1.3 The adequacy of social assistance benefits (2009)

Most countries introduced measures raising net disposable income of social assistance recipients. However, did these increments help to provide adequate benefits to the growing contingent of social assistance recipients? Clearly views on what are sufficient resources are strongly related to the ideas and norms about what constitutes poverty. In its resolution of 20 October 2010 on the role of minimum income in combating poverty and promoting an inclusive society in Europe, the European Parliament 'takes the view that adequate minimum income schemes must set minimum incomes at a level equivalent to at least 60% of median income in the Member State concerned' (European Parliament, 2010). The European poverty line is thus put forward as a reference point to assess the adequacy of benefit levels, despite the fact that the debate on whether this operationalisation of poverty is appropriate has been revived recently as a result of the enlargement of the EU to the east (Fahey, 2007). Figure 6 too, uses the EU poverty line to assess the adequacy of assistance benefit levels due to a lack of a widely accepted alternative. It shows that social assistance benefit packages (including housing allowances and child benefits but excluding in-kind benefits and associated rights) are above the European poverty line only in Ireland (for single person households) and in Denmark (for couples). Note that the data presented in Figure 6 refer to June 30, 2009, thus before Ireland introduced cuts in its minimum income scheme. In the rest of the EU Member States social assistance benefit packages were still insufficient to protect benefit recipients and their households against poverty[5]. In the Netherlands, Luxembourg, Belgium, Austria (Vienna), Germany, France, but also in Latvia benefit levels tend to lie between 40% and 50% of equivalised median household income, though there is generally considerable variation among family types. In the majority of countries social assistance payments are usually below 40% of median income. This is even the case in rich Member States such as Finland, Sweden, Norway and the United Kingdom. In the Slovak Republic, Estonia, Bulgaria and Romania, benefit levels are typically set below half the poverty line. Following a different methodology, Figari et al. (2011) also point to the general inadequacy of minimum income schemes.

Figure 6. The adequacy of net social assistance benefit packages, 2009, EU Member States



Source: CSB-MIPI Version 1/2011 (Van Mechelen et al, 2011)

As apparent from Figure 6, the countries negatively affecting net disposable income of social assistance beneficiaries, are not uniformly (un)generous. Although Ireland had the most generous minimum income benefits for able-bodied working-aged persons before the cuts[6], other countries, such as Estonia, find themselves at the other end of the spectrum.

[5] The CSB-MIPI-estimates of net social assistance benefit packages tend to provide a(n even) less favourable picture of the adequacy of assistance payments than the estimates presented in the OECD's Employment Outlook 2009. This is largely explained by the fact that the CSB-MIPI data draw on much lower housing costs. Whereas the CSB-MIPI study focuses on households with a rental costs equal to only 2/3 of median rent (SILC), the OECD estimates are based on the assumption that in all countries housing costs are equal to 20% of average wage, for all family types (see Van Mechelen et al, 2011).

[6] In fact, this leading position was used to defend these cuts, according to Dukelow (2011).

6.2 How do these developments in net disposable income at social assistance compare to the evolution of net disposable income of minimum wage earners since the onset of the crisis?

Table 6 provides an overview of the measures taken since 2008 until more or less mid 2010. Again, it should be noted that not all measures were genuine anti-crisis measures. Sometimes, governments presented formerly taken decisions as measures taken in response to the crisis.

Some countries are not presented in the table. These are DE, DK, FI, SE, IT, NO, HU, NL and SK. DE, DK, FI, SE, IT and Norway did not respond to the question with regard to minimum wage since no statutory general minimum wage exists in these countries. However, this is not to say no measures were enacted to support low income earners. For instance, Germany introduced a lower tax rate in the first income bracket, increased personal tax allowances and raised universal child benefit and the tax free child allowance. Moreover, a one-time child bonus was awarded to parents with children. Further on in the crisis, the German government issued a reduction of unemployment and health insurance contributions (Chung & Thewissen, 2011). Together these reflect highly expansionary measures, aiming to protect low income earners from the worst impacts of the crisis. Sweden took similar measures to maintain employment as far as possible. Social security contributions and payroll tax were reduced. In order to protect people on low income, tax allowances were raised. Moreover, much attention was devoted to job creation and education opportunities. Also measures were undertaken to mitigate the impact of the crisis on households, by expanding passive labour market programmes, and by relaxing entitlement conditions for an unemployment benefit (Chung & Theeuwissen, 2011; Kaasch et al., 2010). After the first impact of the crisis had been countered, subsequent measures were aimed towards families with children, by increasing child benefits (Kaasch et al., 2010). Denmark mainly combated the crisis by issuing tax cuts directed towards the middle and high incomes. Answers for Lithuania are missing in the CSB-MIPI questionnaire. However, Orton (2010) notes that Lithuania introduced austerity measures rather early. Thereby, it increased contribution rates and pensionable age, but also brought new groups into the social insurance scheme. In Hungary, during the described period, no measures specifically aimed towards minimum wage earners were enacted. However, a fund was established to help households that find themselves in sudden need due to the crisis. By mid 2010, no measures were yet undertaken in the Netherlands. However, our respondent foresaw a heavy retrenchment round, which so far, has turned out correct in among others the cultural sector, defense and the social assistance scheme. Our Slovak respondent did not mention measures positively or negatively affecting net disposable income of minimum wage earners. However, Orton mentions that the Slovak Republic aimed to stimulate employment by reducing contribution rates or offering tax incentives.

Most of the abovementioned measures, especially the reduction of social security contributions, taxes and an increase of child benefits, were also introduced in the other countries. In addition, some countries raised gross minimum wage levels (such as BE, BG, LV, PL, PT, RO, SI, UK and the US). Although no anti-crisis measure, it is noteworthy that Austria introduced a quasi-national minimum wage in 2009. Overall, it is striking how alike measures in social assistance and minimum wage schemes are. Apparently, no country raised social assistance benefits without also raising net disposable income at minimum wage. Mostly, the increase in net disposable income when earning minimum wage even seems to have risen more than at social assistance. This is most likely the case for Bulgaria, the Czech Republic, Spain, France, Luxembourg, Poland, Slovenia, the UK and the US, though one can only be sure when the exact impact of reductions in tax rates and contributions are calculated. Nevertheless, it seems that countries tried to maintain a gap between income from earnings and social assistance income and tried to keep working attractive.

Table 6. Overview of measures affecting net disposable income of minimum wage earners since 2008 until mid 2010

country	After onset crisis	More recent reforms	schematic
AT	Gross: introduction of general gross minimum wage of € 1000/month (14 months per year) (1/1/2009) Net: a) Universal rise of child tax credit and child benefit (9/ 2008 and 1/1/2009) b) Increase of tax free zone (1/1/2009)	Net: a) abolition of parental fees in crèches (9/2009) b) child care benefit does no longer have to be paid back. However, income limits were reduced. (1.1.2010)	↑+↑↓
BE	Gross: rise with 25 euro* (10/ 2008)		↑+=
BG	Gross: increase with 9.1% Net: increase of child benefit by 40% + increase of income threshold by 16.7%	Net: reduction of social security contributions by 2 percentage points	↑+↑
CZ	Net*: reduction of social security contributions (Bonnet et al., 2010)*		↑
EE	Net: a) rise of employee contributions to the UI fund from 0.6 to 2.0% (1/6/2009) b) Abolishment of additional tax allowance for the first child (1/2009 → impact only felt 3/2010) c) Abolishment of school allowance (1/1/ 2009)	Net: rise of employee contributions to the UI fund from 2.0 to 2.8% (1/8/2010)	↓+↓
ES	Net*: reduction of social security contributions (Bonnet et al., 2010)*		↑
FR	Net: reduction of tax income for low income tax payers	Net: introduction of rSa tops up income of low wage earners*	↑+↑
GR		Gross: freezing of statutory minimum wage for 3 years at nominal level of 2009 Net: a) special allowances in the public sector cut by 20% b) 13th and 14th month payments were abolished for public sector employees and replaced by flat-rate vacation allowances (March and May 2010)	=+↓
IE		Net: reduction of child benefit by 16 euro	=+↓
LU	Net: a) linear increase of tax brackets by 9% b) Introduction of refundable personal tax credits (replacing former allowances) c) Child care service voucher* d) Introduction of allocation de vie chère		↑+=
LV	Gross: increase of minimum wage by 20 LVL Net: increase of income tax from 25 to 23% (however: VAT was increased)	Net: a) decrease of monthly non-taxable income b) less generous family state benefit and child care benefit c) Increase of income tax rate: 23 → 26%	↑+↓
PL	Gross: a) increase of MW by 20% (1/2008) b) Increase of minimum wage by 13 % (1/ 2009) Net: a) decline of basic tax rate from 19 to 18% (however: tax-free amount was lowered, slightly increasing the effective income tax rate for minimum wage earners with 0.1 percentage point*)	Net: no adaptation of tax rates and tax free amounts, slightly increasing effective taxation in 2010	↑+=↓
PT	Gross: rise of national minimum wage* Net: a) rise of tax allowances b) Extension of the number of years that families may be exempted from municipal tax on housing c) rise of family allowances d) Municipal initiatives e.g. social funds, supporting part of medical expenses	Gross: rise of national minimum wage * Net: a) introduction of fiscal retention of 1 to 1.5% of income tax according to level of income b) announcement that anti-crisis measures will be withdrawn: elimination of additional amount of family allowance (5/2010)	↑+↑↓

Table 6 – continued. Overview of measures affecting net disposable income of minimum wage earners since 2008 until mid 2010

country	After onset crisis	More recent reforms	schematic
RO	Gross: increase of gross minimum wage with 40 lei Net: a) extension of period children are eligible for child benefit b) Higher eligibility threshold for family allowances c) Child care benefit becomes earnings related d) Increase of monthly state allowance for children	Net: heating allowance is slightly increased, however: tighter income thresholds	↑+=↓
SI		Gross: increase of minimum wage from 597.43 to 734.15 euro Net: general tax allowances have increased	=+↑
UK	Gross: slight increase of minmum wage Net: a) increase of maximum entitlements to elements of the WTC and CTC b) Increase of child benefit c) rise of personal allowance of income tax	Gross: slight increase in minimum wage Net: a) Increased disregard for housing benefit and council tax benefit b) Rise of child benefit c) Rise of maximum entitlements to elements of WTC and CTC d) York council tax increases by 2.7% e) income tax personal allowance and the earnings rate at which NI contributions are paid remains the same.	↑+↑↓
US	Gross: increase in minimum wage Net: increase in the generosity of the EITC for families with 3 children or more.	Gross: increase in minimum wage Net: increase in the generosity of the EITC for families with 3 children or more.	↑+↑

* Respondent indicates that the measure was already legislated before the onset of the crisis.

LT: n.a.

Source: CSB-MIPI questionnaire version 1/2011(Van Mechelen et al., 2011)

The countries that have enacted measures decreasing net disposable income when earning a minimum wage are once again EE, IE, PL and PT. Also Greece[7] did not spare minimum wage earners when searching for ways to retrench. It is interesting to see that also in the minimum wage scheme, Poland did not enact unpopular measures, but used the impact of inflation on nominal thresholds. The cautious saving measures enacted in Romania are also relevant for minimum wage earners. Latvia applied harsher savings measures for minimum wage earners than it did for social assistance recipients. This is also the case for Estonia and (perhaps) Poland. The rise of minimum wages in Portugal was already agreed upon before the onset of the crisis. So far, the government has not yet disbanded this agreement, despite ferocious demands of employers.

The apparent split between expansionary measures at the onset of the crisis, followed by a lack of measures or retrenchment is less apparent from Table 6. Nevertheless, most retrenchment took place in the second stage. In this regard it is interesting to note that also Austria and the UK have enacted some minor measures that might possibly have detrimental effects for the net disposable income of minimum wage earners. However, these measures are accompanied by various expansionary measures.

A number of respondents mention measures not directly impacting on the net disposable income of minimum wage earners. The most notable measure is the extension of partial unemployment in a number of European states, where a reduction of working time (and thus wage) was compensated for by unemployment benefits. This measure mostly aims to keep persons in jobs during the crisis,

[7] Greece does not have a minimum income scheme and was consequently not included in table 2.

avoiding depreciation of human capital. Countries that reverted to partial unemployment are Germany, the Netherlands, Belgium, Austria, France, Poland (Bonnet et al., 2010) and Ireland (Weishaupt, 2011). Mostly, this measure was combined with the opportunity to participate in training and/or education.

This focus on education and training is also apparent in some other schemes. Some countries, such as Germany and the Netherlands, advocated on-the-job training. Belgium promoted outplacement services for older workers laid off due to the crisis and employment measures. Sweden seriously expanded activation programmes and efforts (Chung & Thewissen, 2011; Kaasch et al., 2010). In Latvia, labour intensive sectors were promoted (Orton, 2010). In general, an extension of employment measures can be observed, though it is not always clear whether these are aimed towards social assistance recipients, newly unemployed or long-term unemployed.

Another rather popular measure, not directly affecting the net disposable income of minimum wage earners, was the subsidizing of labour demand. Employment subsidies, either as a direct cash transfer towards employers, either by means of a reduction of labour taxes or social security contributions were aimed at specific vulnerable groups, and were enacted in, among others, Belgium, Ireland, Sweden, Spain and the United Kingdom (Chung & Thewissen, 2011; Liddle, 2009; Weishaupt, 2011).

7 Impact of crisis on the conditionality of social assistance benefits

Whereas the former part of this paper focused on the impact of the crisis on the generosity/adequacy of social assistance benefits, we now turn to the conditions regulating receipt of benefits. The impact of the crisis on the conditionality of social assistance benefits is, again, hard to predict.

Stealth tightening of conditionality

First, it is possible that, given the need to economize, policy makers may favour the rather stealth means of increasing conditionality of social assistance benefits. For instance, one could choose to reduce the pool of possible social assistance recipients, by excluding newly arrived immigrants. Likewise, policy makers could opt to tighten the means-test, including more income types. However, the focus of our questionnaire was on behavioural requirements. It is easy to see how stricter behavioural conditionality could exclude possible beneficiaries from the scheme. Nevertheless, this tightening of conditionality can also be driven by other motives than merely limiting expenditure. The crisis could be regarded as a momentum to bring the general tightening of (mainly) behavioral conditions that was observed in the decades before the crisis (see e.g. Frazer & Marlier, 2009; Pfeifer, 2010) to the next level, using the crisis as a window of opportunity to introduce unpopular reforms (Vis, 2007).

The growing deficits may furthermore urge savings in the provision of (enabling) active labour market policies, also affecting behavioural conditionality. In one way, more (mandatory) active labour market programmes increase the importance of behavioural requirements, since formal participation rules become more relevant when more places can be filled. On the other hand, participation in (quality) active labour market programmes may be considered as an opportunity for beneficiaries (see next point).

Maintaining human capital of social assistance recipients
Kenworthy (2010) suspects that another mechanism will be at work. Falling employment rates will increase pressure on governments to provide employment support, both on the demand side and the supply side, also leading to stricter (behavioural) conditionality. However, in order to avoid hysteresis, they may favour participation in training or employment programmes, preventing the depreciation of human capital of the jobless. This would lead to the provision of more enabling active labour market programmes. According to this reasoning, conditionality will be tightened, however, this will be *compensated for* by the beneficial effects of the expansion of active labour market programmes. In this regard, it is important to note that Hemerijck (2011) argues that investment policies will keep being paramount to prepare welfare states for the future. However, contrary to Kenworthy, he fears that these policies can be sacrificed to bring short-term relief to the financial hardship caused by the crisis. It is thus certainly important to gauge the road taken thus far for those people that are generally most in need of investment policies, with other words, did countries expand or introduce new active labour market programmes, in order to deal with the rising number of beneficiaries.

Lessening conditionality
Finally, it could be assumed that, given surging unemployment levels caused by the crisis, the conditionality requirements seem rather irrelevant or ineffective. When it is assumed that social assistance recipients simply cannot succeed in acquiring employment, it may seem more appropriate to lessen behavioral requirements. This can take place either in formal rules, or be apparent in the implementation of conditionality, as front line workers may be influenced by the overall economic situation when assessing the deservingness of their clients.

Apart from this rather subjective mechanism, it is possible that, when passive and active measures are financed out of the same budget, rising unemployment (and rising expenditure on passive unemployment/social assistance benefits) crowds out investment in active labour market policies (Bonoli, 2009).

Given these rather divergent hypotheses, policies may vary between countries. However, both the OECD and the EU have solicited not to lessen (behavioural) conditionality requirements (Weishaupt, 2011), thereby promoting the second reasoning outlined above.

Table 7 provides an overview of the different measures enacted in the countries in our sample. It should be noted that this table mainly describes the impact of the crisis on the *legal* rules applying to social assistance recipients. Differences in implementation are harder to grasp, although at least the respondent for France notes that monitoring of activity requirements seems to have been less strict than envisaged due to the crisis. Moreover, it should be kept in mind that the exact question asked to the national respondents was the following: “Please provide an overview of the policy changes that have affected the conditionality of social assistance benefits for able-bodied persons (see questionnaire part B). Please also specify the date at which the changes came into operation.” Most respondents employed a rather strict interpretation of conditionality, and thus did not refer to possible expansions or introductions of active labour market programmes. Nevertheless, there are indications that a number of countries did expand these programmes. For instance, Weishaupt (2011) notes that in both Austria and Germany, public investment in education was raised. Budget for active labour market programmes was raised and new PES staff was hired to cope with rising demand. Likewise, expenditure on ALMP's in Denmark was automatically extended, when the activity threshold for young unemployed was pushed forward. The Irish government increased the budget of the FAS in order to provide job-search support and to expand existing skills-enhancing programmes. Also in Sweden, the number of available places in work-placement schemes was increased, while education and training schemes were expanded. Private agencies were engaged to improve job placement and counseling. Finally, the UK invested over 3 billion pounds in PES services and activation programmes (Chung & Thewissen, 2011).

A first observation is that a substantial number of countries did not report changes in the conditionality of the social assistance scheme by mid 2010. These are AT, BE, DE, EE, ES, LU, NO, NL, PL, SE, SI and SK. The Italian respondent observes from own research that Italian social workers tend to apply sanctions more strictly, when participants breach agreed activity requirements. However, this tendency was not observed as a consequence of the economic crisis. With regard to the Netherlands, we already noted that far-reaching reforms, severely affecting various levels of conditionality, are currently proposed.

Most changes in conditionality pertained to changes in activity requirement and behavioural monitoring. However, Portugal and Bulgaria appear to have tried to restrict the social assistance population by respectively tightening the means-test and strengthening time limits, though Bulgaria withdrew the latter measure one and a half year after its introduction. Latvia on the other hand made its means-test less strict. Households paying of loans may still apply for benefits, though the actual thresholds are decided upon by the municipality.

It seems that the measures taken in response to the crisis generally embark further upon the increase in behavioural requirements observed the latest decennia. Seven countries have tightened conditionality. However, it is also notable that four of these countries (it is DK, FI, HU and the UK) compensated for this increase in conditionality by an expansion of available places in active labour market programmes. Hungary even combined this expansion with a higher benefit for participants. It seems that these countries at least, have taken the road to the preservation of human capital of social assistance recipients. Most likely, they do not stand alone in this strategy, given the rather numerous indications that also other countries have reacted on the crisis with an increase in investment in active labour market policies. Unlike the traditional 'bridging programmes' employed during former crises (Bonoli, 2010; Weishaupt, 2011), a striking number of countries combined these programmes with investments in training programmes and education. Remarkable in this regard is that the increases in conditionality in Denmark and the United Kingdom were mostly aimed towards the younger social assistance recipients.

Three countries increased conditionality without compensation. However, the reform in the Czech Republic was already legislated before the onset of the crisis. This leaves only two countries that increased conditionality after the crisis, not surprisingly Ireland and Portugal. Presumably, these countries followed the first option, it is increasing conditionality in order to contain spending on benefits. It is interesting to note that the increase of conditionality in Ireland already took place before mid 2009, thereby confirming Dukelows statement (2011:422) that "prior to the full unslaught of the economic crisis … retrenchment focused on the less visible areas of conditions and entitlements".

Table 7. Overview of changes in conditionality of minimum income benefits since 2008 until mid 2010

	Before june 2009	After june 2009	type
BG	reduction of time limits: 18 months to 12 months (1/7/2008)	Abolishment of this reduction as of 1/1/2010	+ *Abolished as of 1/1/2010*
CZ*	After 6 months of SA receipt, benefit is reduced unless one participates in public work or volunteer services (at least 20 hours/week)*		+
DK	*Increase of activation threshold for young jobseekers (<30) : pushed forward from 6 to 3 months (Weishaupt, 2011)* *Increase of activation requirement for couple (450 hours work during the last two years) (Pfeifer, 2010)*		+ for young jobseekers → automatic expansion of ALMP + for couples
FI	Regulation to reduce waiting lists. More swiftly responding to new demands and need of social assistance recipients.		closer monitoring, but perceived as an improvement
FR		Introduction of rSa (june 2009): new activity requirements. But: not yet visible in practice	+ Implementation: =
HU		"Road to work": public employment organized by local government for long-term unemployed and social assistance beneficiaries (separate scheme with higher benefit)	+ → expansion of ALMP, higher benefit
IE	*No new participants in back to work allowance scheme* (May 2009) *(Citizens information board, 2011)* *Immediately activate young jobseekers aged 18 or 19 (Weishaupt, 2011)*		+
LV		Less strict access requirement: households with mortgage / loan commitments are eligible for social assistance.	-
PT		Offer of active labour market programmes will be expanded, so as to ensure a maximum waiting period of 6 months. Stricter means test. Harsher sanctions, especially in the case of fraud.	+ → expansion of ALMP
RO	Less strict activity requirements for adults with care responsibilities		- for certain groups
UK	Expansion of active labour market programmes: *support for the newly unemployed* and the *Young person's guarantee*		+ → expansion of ALMP (especially for youth)
US	Modification of state requirements for work participation for TANF recipients so that staes would not be penalized for failing to meet work participation goals for fiscal years 2009 and 2010	Modification of state requirements for work participation for TANF recipients so that staes would not be penalized for failing to meet work participation goals for fiscal years 2009 and 2010	(possibly) -

LT: n.a. +: tighter conditions, -: less strict conditions

*: respondent notes that this change was already legislated before the onset of the crisis.

Source: CSB-MIPI Version 1/2011 (see Van Mechelen et al., 2011)

As mentioned, France did not implement in practice the envisaged harsher activity requirements. Romania lessened the conditionality for care-providers. The US has a peculiar system, paying grants to the states so that they can enact the minimum income scheme for families with children. Nevertheless, the awarding of these grants is conditional on having enough beneficiaries in work first measures. This condition was made less strict in the aftermath of the crisis, possibly leading to less strict work requirements for social assistance recipients. All in all, it seems that, apart from (maybe) Latvia and France, no country really embraced the third option outlined above, it is lessening conditionality of benefits because of perceived need and the assumed impossibility of meeting the activity requirements in an unfavourable economic context.

In contrast to the measures affecting the net disposable income of social assistance recipients, no clear phasing of tightened conditionality is apparent.

8 Conclusion

This paper looked into the policy measures taken in (immediate) response to the crisis in the European minimum income schemes. In line with our hypothesis, minimum income schemes turned out, for now, remarkably resilient.

Gross social assistance benefits generally do not seem to have suffered serious blows. Nominal growth rates decelerated in some countries, effectively leading to less variation among the European countries. In general, the limited nominal rises sufficed to keep benefits in line with prices immediately after the onset of the crisis. However, relative to average wages, this European communality disappears. Likewise, real evolution of gross social assistance benefit levels already started to differ again from 2009 on. While for most countries the real increase of gross benefit levels seems to be in line with earlier trends, some countries do seem to have used gross social assistance benefits to counteract the impact of the crisis, as they temporarily breached with a trend of gradual decline in the years before the onset of the crisis. However, we do not observe a general break in trends or exceptional reactions, except for the nominal decrease of social assistance benefits in Ireland. Furthermore, we do not observe expected variations in gross social assistance benefit levels in line with the depth of the crisis in the various EU countries.

With regard to measures impacting on net disposable income of social assistance recipients, slightly more variation was apparent. The majority of countries introduced expansionary measures positively affecting net disposable income of social assistance beneficiaries (see table 8). Mostly, similar expansionary measures were directed towards low-wage earners. However, a number of countries did negatively affect the net income of minimum income beneficiaries. Immediately after the onset of the crisis, only three countries decreased net disposable income of social assistance recipients, it is Slovenia, Estonia and the Czech Republic. However, the decrease of social assistance benefits after 6 months of inactivity in the Czech Republic was already legislated before the onset of the crisis. The delay of indexation in Slovenia and the abolishment of the school allowance in Estonia on the other hand were reactions to deteriorating budgetary situations caused by the crisis. Especially Estonia was hit hard from the onset of the crisis on. Retrenchment here was not limited to the minimum income scheme, but also affected, even more severely, minimum wage earners, unlike in Slovenia.

Later on in the crisis, measures pointing to retrenchment were enacted in more countries, that were, as in Estonia, not limited to minimum income schemes, as also minimum wage earners were affected. Measures negatively affecting the net income of minimum income recipients were enacted by the end of 2009 or the start of 2010 in Ireland, Portugal, and though less severely, in Poland and Romania. Hungary partly withdrew a formerly introduced expansionary measure, whereas Latvia in the minimum income scheme combined expansionary measures with measures pointing to retrenchment.

Apart from Poland, all of these countries were severely hit by the crisis according to the various indicators presented in this paper. Although Romania was of this group the least affected, this country did have to accept foreign aid, as did Latvia. Greece does not appear in this list, since this country does not have a minimum income scheme. However, minimum wage earners in Greece were severely affected, especially in the public sector.

Table 8. Summary of reactive policies affecting situation of minimum income recipients and minimum wage earners

	Minimum income recipients Measures affecting ndi	Measures affecting conditionality	Measures affecting ndi of minimum wage earners
AT	↑+↑	n.a.	↑+↑↓
BE	↑+=	n.a.	↑+=
BG	↑+=	Time limits: ↓ *Abolished as of 1/1/2010*	↑+↑
CZ	↓*+=	↓	↑
DE	↑+=	n.a.	n.a.
DK	n.a.	↓ for young jobseekers → automatic expansion of ALMP Conditions of circumstance: ↓ for couples	
EE	↓+=	n.a.	↓+↓
ES	n.a.	n.a.	↑
FI		closer monitoring, but perceived as an improvement	
FR	↑+=	↓ Implementation: =	↑+↑
GR	n.a.	n.a.	=+↓
HU	↑+↓	↓ → expansion of ALMP, higher benefit	n.a.
IE	↑+↓↓	↓	=+↓
LU	↑+=	n.a.	↑+=
LV	↑+↑↓	Means-test: ↑	↑+↓
NO	↑+=	n.a.	n.a.
PL	=+↓	n.a.	↑+=↓
PT	↑+↓	↓↓ → expansion of ALMP Means-test: ↓	↑+↑↓
RO	↑+↑↓	↑ for certain groups	↑+=↓
SI	↓+=	n.a.	=+↑
UK	↑+↑	↓ → expansion of ALMP (especially for youth)	↑+↑↓
US	↑+↑	(possibly)↑	↑+↑

Note: Arrows pointing down indicate retrenchment, arrows pointing up indicate expansionary measures. In case of conditionality: arrows pointing down thus indicate stricter conditionality. *: respondent notes that this change was already legislated before the onset of the crisis.

Source: CSB-MIPI questionnaire Version 1/2011(see Van Mechelen et al., 2011)

This observation indeed indicates that the crisis responses were rather context-specific, and severely determined by the severity of the crisis. However, a number of countries that, according to some macro-indicators should have embarked on retrenchment, such as the UK, DK or ES, have not (yet) done so, according to our information. Perhaps, the indicators employed do not capture the real budgetary problems caused by the crisis. Even more likely, retrenchment is bound to start. This is almost certainly the case for the UK and ES.

As mentioned, a clear phasing was observed in the introduction of (first) expansionary and (second) austerity measures in most countries that introduced retrenchment measures. This concurs with concerns raised by Vis et al. and Orton. They expect a coming retrenchment round. We also find indications that countries will embark on heavy savings, that possibly will not forego the minimum income schemes. As mentioned, in some countries, a retrenchment round is already announced, such as the Netherlands and the United Kingdom. Both of these countries, at least partially, were able to keep social assistance benefits in line with average wages throughout the past decennium. For these countries at least, the upcoming retrenchment round may well mean a departure from previously observed trends.

As retrenchment has already been introduced in countries where benefits were not able to follow the overall living standard in the absence of conscious retrenchment, the indications for retrenchment we begin to see in our data, and in the public debate, may well point to a further general retrenchment of social assistance benefits, despite the increased relevance of these schemes.

9 Appendix

Table 9. Change in employment rate, 2008-2010

	Δ employment 2008-2010
LU	2,76
MT	1,35
DE	0,40
AT	-0,27
BE	-0,59
PL	-0,62
CY	-1,44
FR	-1,70
RO	-1,71
SE	-2,11
UK	-2,13
HU	-2,42
EU 27	-2,56
NL	-2,66
NO	-2,69
CZ	-2,76
Euro	-2,84
IT	-3,02
PT	-3,56
FI	-3,69
SI	-3,70
EL	-3,76
DK	-4,64
SK	-6,10
BG	-7,50
ES	-8,49
IE	-10,24
LT	-10,56
EE	-13,38
LV	-14,25

Source: own calculations on Eurostat data

Table 10. Overview severity crisis

Largest GDP drop 2009	Largest average GDP drop during crisis	Largest decline in employment levels	Largest rise in unemployment	Largest 2009 deficit	Largest increase in debt during crisis
EE	LV	LV	LT	EL	LV
LV	IE	EE	EE	IE	IE
LT	EE	LT	IE	UK	RO
SI	EL	IE	LV	ES	LT
FI	IT	ES	DK	PT	UK
IE	ES	BG	ES	LV	EE
RO	DK	SK	US	LT	ES
	UK	DK	BG	RO	SI
		EL	EL	SK	DK
		SI	CY	FR	SK
		FI	SI	PL	NL
		PT	CZ		FI
		IT	UK		PT
			PT		EL
			NO		

Source: Eurostat

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