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Stream 9: “Positive welfare” in practice: transformation, trends and dilemmas in European welfare states

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Welfare with work?
Comparative evidence on benefit and labour income
in European countries

Preliminary draft – please do not quote without authors' permission

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Abstract

Triggered by concerns for welfare states' sustainability, the 'new welfare' agenda in Europe implied a strong focus on individual responsibility for income provision. Activation policies play a key role in this respect. Their purpose is to minimize social benefit receipt, channeling claimants from welfare to work. Early 'Third Way' commentators argued that 'enabling' policies would come to replace 'traditional' compensatory forms of welfare, i.e. cash benefits. More recently, however, the social policy agenda seems to promote a synthesis of old and new welfare. By promoting concepts such as 'flexicurity' and 'active inclusion', the EU stresses the importance of both inclusive labour markets and adequate social protection.

There remains considerable diversity in European welfare states, not least the extent to which they correspond to this ideal. Nordic countries are often cited as an example, combining (near) full employment with generous and universal social systems. At the opposite end of this spectrum, the argument holds, Mediterranean countries feature segmented labour markets and rudimentary systems of social protection. In this quadrant, other combinations include inflexible labour markets but generous benefits (Continental) and vice versa (Anglo-saxon).

Based on internationally comparable EU-SILC data, this paper analyzes patterns of personal income (from work and/or social benefit) across EU15 countries. The paper provides an answer to the following questions: Are income from work and benefit income mutually exclusive or complementary? How do these patterns vary across countries? Do they correspond to the pattern outlined above?

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Introduction

'Benefits' and 'work' have made for a chequered partnership in advanced welfare states. In the early stages of welfare state development, the expansion of institutionally provided social benefits was seen as one answer to (unbridled) capitalism's inherent instabilities and weaknesses; particularly social unrest and disruptive industrial action. Functionalist theorists asserted a symbiotic relationship between income replacement benefits and work, especially productivity of workers. Adequate benefits 'greased' capitalist development (powered by creative destruction) by dampening risk aversion and resistance to job or health threatening technological change. Capitalism development, in turn, provided an ever expanding financial base for welfare state development, including services and benefits that did not necessarily have a direct or indirect 'efficiency' pay-off.

The 1970 and 80s saw an expansion of benefit volumes that was in part 'automatic' (dismal economic conditions generated rising benefit dependency rates under existing entitlement rules) and an in part intentional (new schemes, particularly early retirement). Welfare state overexpansion – particularly rising chronic benefit dependency - became to be regarded in some quarters as threatening to the very system it is was resting on (and, in the early functionalist logic, supposed to support).

Initially regarded as a neoliberal critique of the welfare state, the notion that benefit dependency had reached problematic levels in advanced welfare states made its way across the European continent around the late 1990s. The 'Active Welfare State', for all its conciliatory, not-blaming-the-victim rhetoric entailed a clear ambition: increasing work participation. 'Welfare to work' became the motto. This slogan, quite notable for its 'to' rather than its 'and', captured the agenda well. This paradigm rose to prominence at the European level, notably in the Lisbon agenda and the subsequent 'Growth and Jobs' relaunch of 2005.

Criticisms of the European agenda establish a direct link between the focus on employment and developments in cash benefit provision, namely "*decreasing benefit levels and tightening eligibility*

criteria for those who remain outside the labour market, while policies aiming at ‘making work pay’ have mostly benefited higher income groups” (Cantillon, 2010).

The most recent reincarnation of the Active Welfare State is the Social Investment State. It aspires to toughness on inactivity and on the causes of inactivity. The need for active participation being taken as self-evident, the paradigm focuses on creating the conditions for people to be able to do so and on providing them with the resources. High-quality education, starting at early childhood and continuing throughout adult life is seen as key. Services, that stimulate and accommodate participation, for example child care, are also part and parcel.

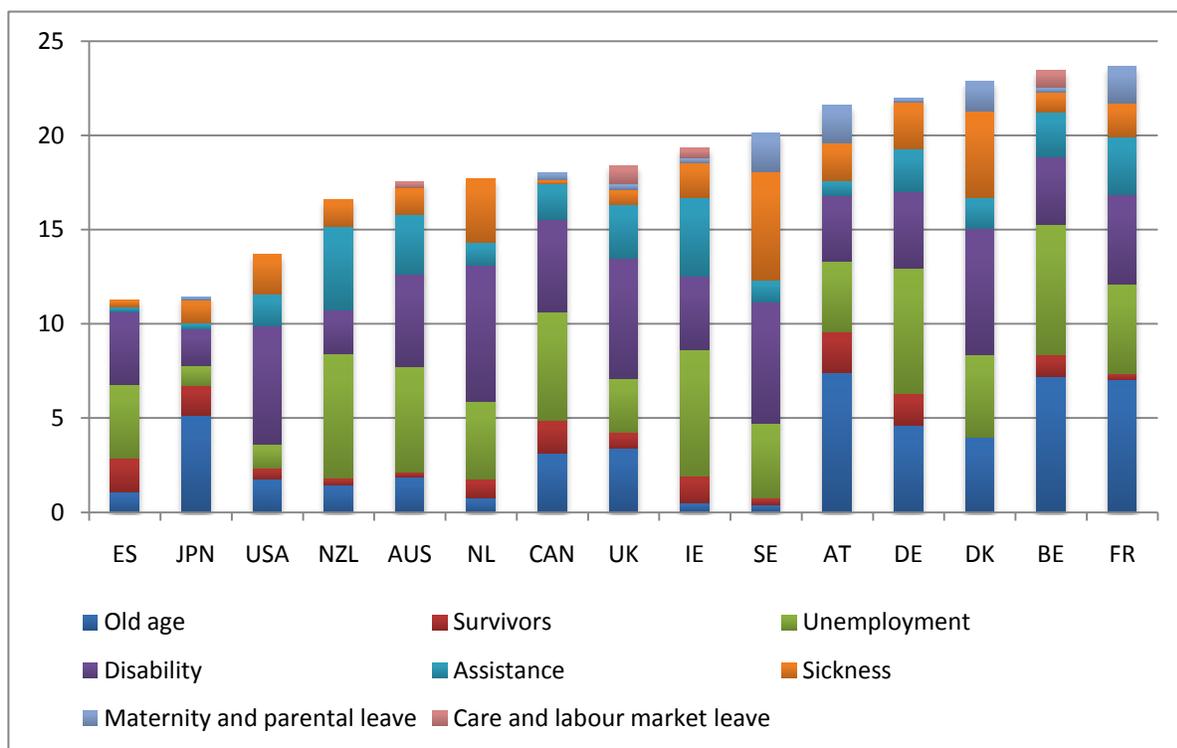
A current strand of thinking, that effectively goes back to the functionalist theories of welfare state development, sees cash income replacement benefits as part of a policy trinity (triangle) completed by a flexible, laid-back approach to labour market regulation and active welfare state policies. The flexicurity paradigm is noticeable in that benefits (old-school, passive benefits) do feature explicitly and prominently as playing a crucial role in making the other policy components work. (for a discussion relating to social investment, see Vandenbroucke e.a., 2011).

This paper asks whether benefits and work, to use OECD parlance, are ‘friends’ or ‘foes’? Are relatively high levels of benefit use (and expenditure) compatible with well-functioning labour markets characterized by high levels of participation? The analysis builds on the European Union Statistics on Income and Living Conditions (EU-SILC) to investigate the work-welfare nexus across European countries. Our analysis will focus on the countries that constituted the EU prior to its most recent Enlargement (2004-2007). The first section provides an overview of prior international comparisons of benefit receipt. The second section explores the potential and shortcomings of the EU-SILC data for the purpose of our analysis. The third section presents exploratory descriptive results. The final section concludes and identifies directions for further inquiry.

1. Prior international comparisons of benefit receipt

The number of social benefit recipients and their labour market prospects are key issues in many current policy debates. Yet international studies on benefit receipts are few and far between. Employment rates and social expenditure data are often used as proxies, for lack of current and comparable data on social benefit receipt. The most encompassing international data set was first compiled by Arents et al. (2000), later revised and featured in OECD (2003).

Figure 1. Benefit reciprocity rate, full-time equivalent, for population aged 15 to 64, 1999



Source: OECD Employment Outlook 2003, Chapter 4

Based on these data, the OECD observes an overall increase in (full-time equivalent, FTE) benefit receipt, with a sharp rise over 1980s and stability over the course of the 1990s. Total FTE benefit receipt varies strongly across countries. Figure 1 shows the patterns as of 1999, the most recent year available. The

shares of full-time equivalent benefit recipients in the working age population range from 11% in Spain and Japan to almost 25% in Belgium and France¹.

Disaggregating by type of benefit, unemployment and disability represent an important share of benefit receipt in all countries. Beyond this finding, there is considerable cross-country variation. Different branches may act as functional equivalents, even within countries. As the report notes, *“There is a risk of substitution between benefits. Declines in the number of recipients of benefits targeted by an activation strategy may be offset by increases in the number of recipients of other benefits”*.

Yet, it should be noted that social benefits can serve a number of functions, beyond pure income replacement: *“allowing people to withdraw from the labour market in order to care for children or other dependants, in the case of parental benefits; and facilitating better job matches and macroeconomic stabilisation in the case of short-term unemployment insurance (UI) benefits. Promotion of part-time, temporary or seasonal work on a salaried basis rather than an informal basis may be an additional objective”* (OECD, 2003, p.174).

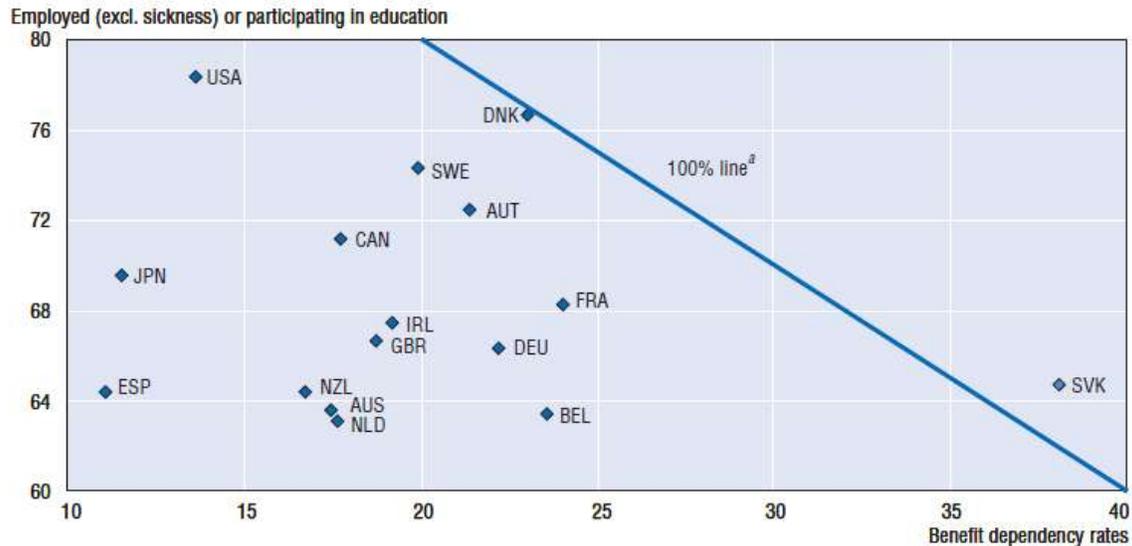
In reply to its question ‘Benefits and Employment, friends or foes?’ the OECD identifies a complex link between employment and the overall level of benefit receipt. Figure 2 confronts the FTE benefit receipt ratio with an FTE employment rate (which includes participation in education) for the working age population in 1999. The residual of both represents the working age population that is neither working or studying, nor receiving any social benefits. These are mainly young adults and housewives that depend on the income of other family members.

In 1999, Denmark and Sweden combine relatively high employment (incl. education) rates with a considerable share of benefit recipients, which jointly cover 95 to 100% of the working age population. The OECD suggests similar patterns might be observed in Finland and Norway. Benefit receipt rates in Germany, France and Belgium are somewhat higher than in the Nordic countries, while the employment rates are lower. The residual category amounts to nearly 10%. In Spain, benefit receipt and employment are lower still, with a residual category that

¹ We do not consider the data for Slovakia here, which is an outlier with an overall benefit receipt rate of 38%).

represents more than one fifth of the working age population. The OECD suggests that similar patterns might be observed in Greece and Italy (not Portugal).

Figure 2: Full-time equivalent employment and benefit dependency among the working age population, 1999

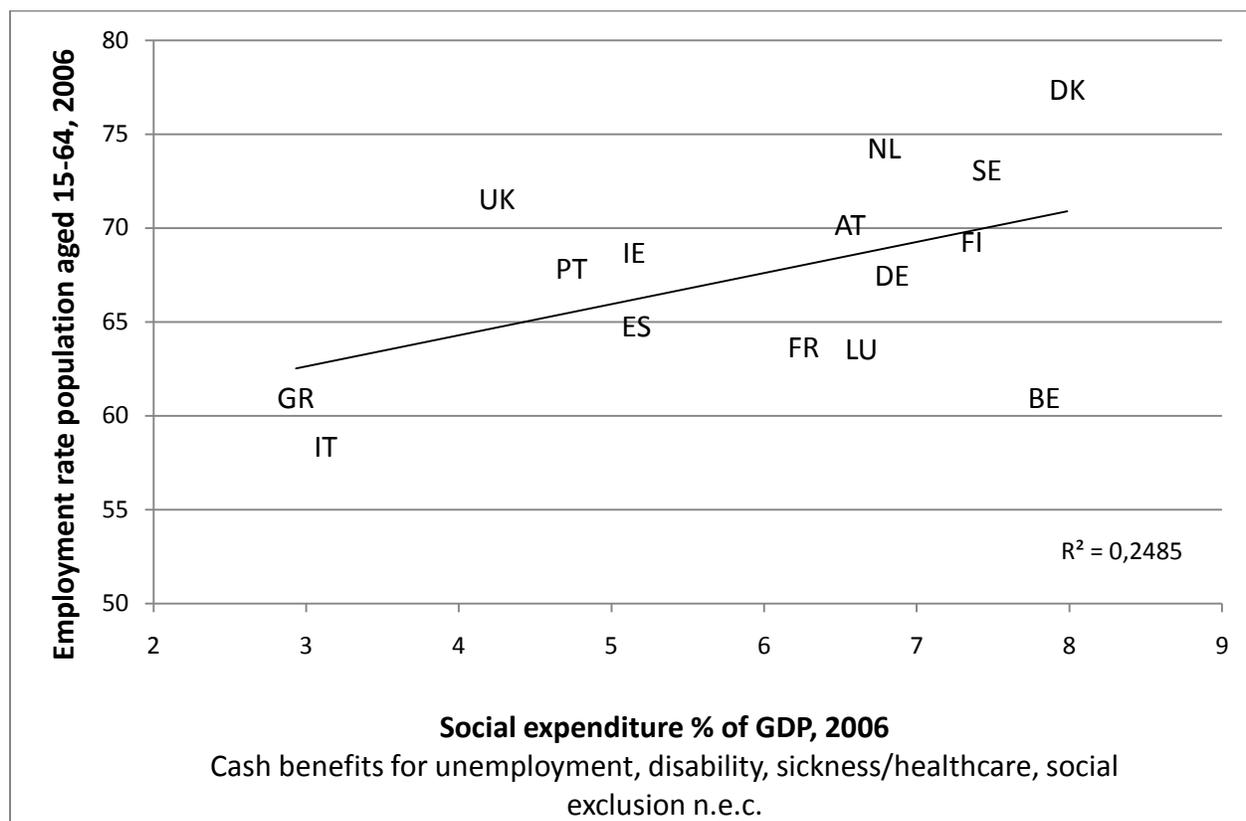


a) The 100% line shows points where employment (excluding absences due to sickness, maternity and slack work), student participation, and benefit dependency on a full-time equivalent basis sum to 100% of the working-age population.

Source: OECD Employment Outlook 2003, Chapter 4

Figure 3 plots employment rates for the working age population against social expenditure on cash benefits. For social expenditure, we include cash benefits (i.e. excluding benefits in kind) for unemployment, sickness and healthcare, disability and social exclusion not elsewhere classified. We disregard old age pensions and survivor's benefits, as these cannot easily be disaggregated into spending on active age and for the elderly. Moreover, we omit family/children's benefits and housing allowances, as these are not directly relevant to our analysis. It should be noted that these aggregate data do not convey information on the distribution of benefits. An identical figure on expenditure (for countries with identical GDP) might refer to very large amount of benefits channeled to a small number of recipients and vice versa.

Figure 3: Social expenditure on cash benefits (2006) by the employment rate (2006)



Source: Eurostat, based on EU-LFS and ESSPROS

To some extent, the plot for 2006 mirrors the patterns observed by the OECD. The Nordic countries combine high employment rates with a relatively large share of GDP on social expenditure (as defined earlier). The Netherlands feature in this quadrant as well. Greece and Italy are at the opposite end of the spectrum, with low employment rates and relatively modest social expenditure. In between these extremes, the pattern is less clear-cut. We find Mediterranean Spain and Portugal, along Continental Austria, France and Germany. The UK and Ireland are close, both featuring relatively high employment and low social expenditure. Based on this graph, Belgium would appear to be a prime example of ‘welfare without work’. The subsequent chapter explores the potential of EU-SILC for considering these questions beyond aggregates, at a micro-level.

2. Data: EU-SILC

The EU-Statistics on Income and Living Conditions (EU-SILC) instrument is the EU reference source for comparative statistics on income distribution and social inclusion at the European level. It collects comparable multidimensional micro-data on income, housing, material living conditions, demographic characteristics, education, health and labour market participation.

EU-SILC is based on a common “framework” defining a harmonised list of variables to be transmitted to Eurostat. A set of regulations defines common guidelines and procedures; common concepts (household and income) and classifications aimed at maximizing comparability of the information produced. Since 2005, EU-SILC covers EU25 countries, as well as the Norway and Iceland. Bulgaria and Romania implemented EU-SILC in 2007.

The reference population in EU-SILC includes all private households and their current members residing in the territory of the countries at the time of data collection. Persons living in collective households and in institutions are generally excluded from the target population.

For the purpose of this analysis, we will focus on cash income from work and social benefits. Income from work includes ‘employee cash or near cash income’ and ‘cash profits or losses from self-employment’. With regard to employee income, validation by Brandolini et al. (2010) shows that the amounts reported in EU-SILC are quite close to those observed in national accounts. The difficulties of measuring self-employment income through surveys are well-documented. Unfortunately, EU-SILC does not appear to be an exception to this rule.

Social benefits in EU-SILC are defined as *“current transfers received by households during the income reference period and intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by government units and Non Profit Institutions Serving Households” ... “In order to be included as a social benefit, the transfer must meet one of two criteria. First, coverage is compulsory (under law, regulation or a collective bargaining*

agreement) for the group in question. Second, it is based on the principle of social solidarity (i.e. if it is an insurance-based pension, the premium entitlements are not proportional to the individual exposure to risk of the people protected).” ... “Social benefits do not include benefits paid from schemes into which the recipient has made voluntary payments only, independently of his/her employer or government”. (Commission Regulation (EC) No 1980/2003 of 21 October 2003)

The dataset distinguishes benefits for different functions. At the personal level, it covers unemployment benefits; sickness benefits; disability benefits; old-age benefits; survivors' benefits and education-related allowances. As the focus is on replacement on income from work, the analysis will not include the education related allowances. Furthermore, a number of benefits recorded at the household level will also not be included. These are family/children-related allowances and housing allowances. A residual category 'social exclusion not elsewhere classified includes social assistance for a number of countries. The definitions in EU-SILC are based on ESSPROS, but there are a number of differences².

With regard to data quality, it should be noted that EU-SILC has certain advantages. As an annual data source covering all of the EU Member States, it is potentially a very powerful tool for analyzing benefit receipt. Detailed micro-data enable researchers to link information on benefit receipt at the personal level to a large amount of other dimensions. These include income components, such as income from work; demographic characteristics; education; health and labour market participation, all measured at the personal level. At the household level, the dataset includes information on income, housing and material living conditions.

Moreover, the survey could solve a number of problems that occur when benefit volumes are based on figures by disparate administrative offices. EU-SILC enables researchers to identify persons that receive

² First, the ESSPROS definition covers both current and capital transfers whereas the EU-SILC definition covers current transfers only. Second, the ESSPROS definition covers certain reductions on taxes where they meet the general criteria for social protection schemes and certain other criteria. Third, the EU-SILC definition covers only the cash benefits (with the exceptions of housing). Finally, the EU-SILC definition of social benefits includes the function education while ESSPROS does not. (Source: European Commission, Description of EU-SILC User database).

different types of benefits concurrently, thereby preventing double counts. In its quality report the EU-SILC 2007 data used in this paper, Eurostat claims that the benefit income variables are fully comparable across countries, with a few minor exceptions.

However, there are a number of potential drawbacks to EU-SILC data for the purpose of this analysis. First, the definition of the income variables does not always ensure a clear distinction between income from work and income from benefits. In some cases, additional payments by employers may be coded as employee cash or near cash income. Clearly, this may lead to the misidentification of persons receiving an employee income, when in reality they are not working as employee. More problematic still is a situation where a spouse or other household members is eligible to these payments from the employer, and therefore considered as receiving an employee income. To the extent that this practice differs across countries, it may introduce a bias into the results³. Moreover, there is a specific problem for Italy, where paid sickness leaves of employees are included in the dependent employment incomes; the same holds true for self-employment.

Furthermore, it should be noted that while EU-SILC only measures cash benefits⁴, not every benefit in EU-SILC is an income replacement benefit. For instance, disability benefits also include *“economic integration of the handicapped: allowances paid to disabled people when they undertake work adapted to their condition, normally in a sheltered workshop, or when they undergo vocational training”*. Unemployment benefits include *“mobility and resettlement payments by social security funds or public agencies to unemployed persons to encourage them to move to another locality or change their occupation in order to seek or to obtain work”*. The user database does not allow analysts to disaggregate these benefits from income replacement benefits.

³ Employee cash or near cash income may include “payments made by employers to an employee in lieu of wages and salaries through a social insurance scheme when unable to work through sickness, disability or maternity leave where such payment cannot be separately and clearly identified as social benefits”. Moreover, it may include “additional payments made by employers to their employees or former employees and other eligible persons to supplement the sick, disability, maternity leave or survivors' pay entitlement from social insurance schemes, where such payments cannot be separately and clearly identified as social benefits”. SILC Regulation 1980/2003

⁴ With the exception of housing allowances, which are not considered in this analysis.

Moreover, while most social benefits are measured at personal level, a number of important exceptions apply. 'Social exclusion not elsewhere qualified' is a very important, but somewhat unwieldy variable, as it is attributed to every member of the household in receipt of this benefit. As such, benefit receipt rates for this variable should be interpreted differently from receipt of personal benefits. Furthermore, 'family/children benefits, measured at household level, include cash benefits that replace loss of earnings during temporary inability to work in case of pregnancy and parental leave benefits. In the user database, they cannot be distinguished from child allowances and other related benefits. However, paid leave in case of sickness or injury of a dependent child is coded under 'sickness benefits', measured at the personal level.

A further issue concerns the collection of income data as gross income. By lack of net income data, the share of benefits in total disposable income cannot be calculated in a straightforward manner. For a number of countries, net income data on social benefits are available; these might provide valuable information on the share of benefits in disposable income.

In principle, the EU-SILC income data relate to an income reference period of one year. The reference year can either refer to a fixed period (previous calendar or tax year) or a moving 12 month period (year preceding the interview). For the aim of this analysis, the annual reference year has its advantages. It may be better suited than monthly income to identify persons that combine income from work with income from benefits⁵.

On the other hand, the EU-SILC does not include calendar data for income from work and benefits. As a result, the data do not allow researchers to distinguish periodic benefits (benefit receipt and income from work in consecutive spells) from partial benefits (concurrent receipt of benefit income and income from work, for instance part-time unemployment). Monthly calendar data on the main self-reported activity status are available in EU-SILC, which could to some extent mediate this shortcoming, by identifying spells of work and non-work.

⁵ The UK is the only exception to the annual reference period, as it annualizes monthly income. Therefore, it will not be considered in this paper.

However, Lohmann (2011) claims that there are issues of comparability between the EU-SILC data that are based on register data, as compared to survey data. In register countries (Denmark, Finland, Sweden, the Netherlands, Latvia, Slovenia, Iceland and Norway), the income data are collected from administrative sources, whereas the labour market data are collected through surveys. This would result in major discrepancies between income from work collected through registers and the main activity status collected through surveys.

More generally, the different modes of data collection may constitute a potential source of bias in benefit income measurement. Some authors have noted that surveys tend to underestimate benefit receipt, compared to administrative sources⁶. The majority of EU countries rely on surveys for the collection of EU-SILC benefit data. In the 'register countries', however, income is collected from administrative sources. As the differences in data collection methods cluster around the Nordic countries, this may introduce a systematic bias in the results.

Analyses that build on EU-SILC data tend to consider overall disposable income, particularly in relation to the risk-of-poverty indicator. Research that focuses specifically on the distinction between income from work and benefit income tends to analyze single countries, particularly the differentials for migrants (Corluy & Verbist (2010); Barrett e.a. (2011)). Clearly, the suitability of the data for the purpose of this analysis should be monitored and validated in further detail.

⁶ From OECD Employment Outlook 2003, the annex: "*Comparisons between benefit payouts and income surveys suggest that unemployment and disability/invalidity benefit incomes are 30% underreported in the Australian Income Survey; UI benefits are underreported by 25% in Canada's SCF, unemployment benefit income is overreported by 15% but Disability Benefit income is underreported by 28% in Ireland's main survey; and UI and AFDC income are both underreported by about 25% in the US CPS (Atkinson et al., 1995, Tables A6.3, A6.5, A6.10, A.6.13). Income Distribution Survey data for Australia from 1982 to 1996, as compared to administrative data, understate reciprocity rates for lone-parent, disability and unemployment benefits although they overstate reciprocity for partners, carers and parental benefits (Landt and Pech, 2000). In the mid-1990s, according to the European Community Labour Force Survey (ECLFS) only 6% of unemployed people in Greece and 25% in Portugal had benefits, whereas administrative data suggested that proportions were 30% in Greece and 50% in Portugal (OECD, 1998b, Table 4.3)*".

3. Results

3.1. Income from work

Figure 4 shows the share of the working age population (aged 15 to 64) that in 2006 reported income from work (defined as more than 0, not considering amounts) for the EU15 minus the UK. Negative incomes are negligible, except for the Netherlands, Denmark and Sweden. Comparison with the EU Labour Force Survey yields largely similar results and rankings. For ages 16 to 64, Pearson's correlation between both measures is .85, Spearman's rank correlation .87. The results from EU-SILC tend to yield higher employment rates than EU-LFS, which is to be expected as the former has a longer reference period (one year) compared to the latter (average of quarterly survey with a reference week). The differences between both sources tend to be largest at early age (16 to 24) and for older age groups (55 to 64). This is not surprising, as these are the ages where transitions into and out of the labour market are frequent. Moreover, these are also the age categories where most discrepancies occur between reported income from work and main activity status calendar data. For ages 25 to 54, Pearson's correlation between both measures is .86, Spearman's rank correlation .92.

The Nordic countries have the largest share of the population reporting income from work. The large share of self-employed in the Mediterranean is consistent with results from the LFS. Remarkably, the Nordic countries (and the Netherlands) report large shares of workers that combine income from work with income from self-employment.

Figure 4: Share of the population aged 16-64 reporting income from work, 2006



Source: Author's calculations on EU-SILC 2007 (income 2006)

3.2. Benefit income

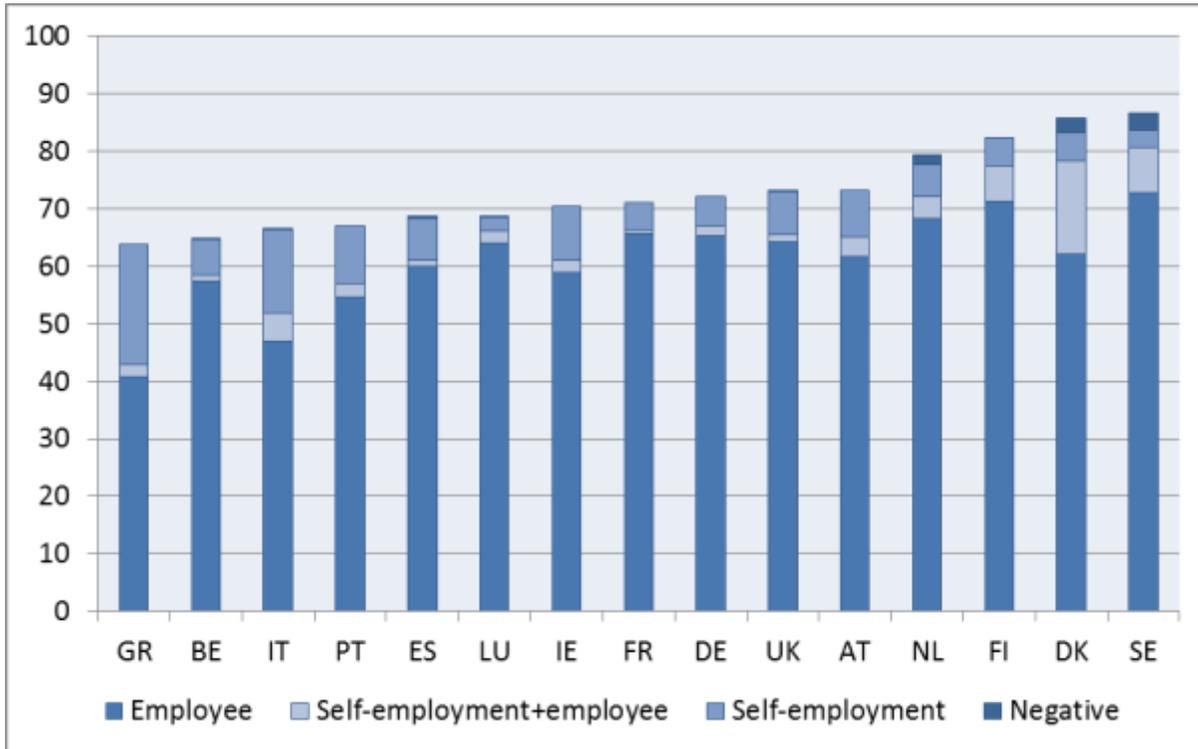
Social benefit receipt is defined as a person reporting income larger than zero for any of the benefits under consideration (unemployment, sickness, disability, old age, survivors)⁷. In 2006, total benefit receipt among the working age population ranges widely across countries, from less than 15% in Greece to over 40% in Sweden. Moreover, the recipient population shows considerable variety with regard to benefit types. In Sweden, Finland, Denmark, the Netherlands and Luxembourg, there is relatively large share of the population combining different types of benefits.

⁷ Negative benefit income is negligible. It is absent for the majority of countries and variables. The largest share of negative benefit income is 0,22 percentage point, Finland for social unemployment in SILC 2007.

Table 1 shows the impact of the variable 'social exclusion not elsewhere classified'. This category is not directly comparable to other benefits, as it is measured at the household level, rather than at the personal level. Despite some variety across countries in receipt of this residual benefit, the country ranking stays largely stable for benefit receipt. The Netherlands is a notable exception, however. According to these data, 13% of the Dutch working age population lives in a household that receives social exclusion benefits. Including social exclusion benefits, the Netherlands rank 5th between France and Belgium. Disregarding the social exclusion benefits, the Dutch are in 11th position, between Spain and Portugal. In subsequent analyses, which disregard the social exclusion variable, the results for the Netherlands will clearly need to be interpreted with caution.

Figure 5 confronts shares of the working age population receiving income from work with the share receiving income from benefits. At an aggregate level, these seem to go hand in hand. The Scandinavian countries are at the top of the ranking for both measures. A number of continental countries report lower shares, both with regard to benefit receipt and work. Mediterranean countries report markedly lower shares of benefit recipients. There are notable outliers, particularly Belgium and Italy, which have low share of income from work with relatively high shares of benefit receipt. This could suggest prevalence of 'welfare without work'. However, it should be noted that the measures in Figure 5 are not mutually exclusive, i.e. they do not consider individuals that combine income from work and income from benefits. This also explains why for the Scandinavian countries, the sum of benefit receipt and income from work exceeds 100%. The subsequent analysis will consider combinations of income from work and income from benefits at the personal level.

Figure 5: Working age population reporting income from work by population reporting income from benefits, 2006



Source: Author's calculations on EU-SILC 2007 (income 2006)

Table 1: Share of the working age population (16-64) in receipt of benefit, by benefit type, 2006

	Unemployment	Old age	Survivors	Sickness	Disability		Total ^a		Social exclusion ^b	Total incl soc excl ^a	
AT	11,2	8,2	1,1	2,4	3,4		24,2		2,7	25,7	Austria
BE	15,3	3,5	0,9	2,2	4,2		25,1		1,5	26,4	Belgium
DE	11,5	5,1	2,3	1,3	3,7		21,9		6,4	24,7	Germany
DK	21,0	0	0,9	11,4	9,1		34,2		0	34,2	Denmark
ES	6,6	3,2	1,7	2,1	2,6		15,5		0,8	16,1	Spain
FI	19,6	3,5	1,6	6,7	10,4		36,3		9,1	39,5	Finland
FR	9,8	10,1	0,6	5,1	2,7		25,9		5,4	29,9	France
GR	3,3	6,1	1,6	0,5	2,3		13,2		2,7	15,2	Greece
IE	10,4	2,7	1,8	0,2	9,8		23,5		3,9	25,4	Ireland
IT ^c	12,0	8,9	2,2	-	4,0		25,4		0,6	25,9	Italy
LU	3,6	3,8	5,9	0,5	4,0		14,5		4,3	17,8	Luxembourg
NL	5,1	7,5	1,0	2,0	5,9		16,8		13,1	27,9	Netherlands
PT	5,2	5,6	2,5	1,6	3,1		16,9		2,0	18,4	Portugal
SE	11,4	7,8	1,2	23,2	8,8		41,3		3,7	43,5	Sweden

Source: Author's calculations on EU-SILC 2007 (income 2006)

a' Total' does not equal the sum of previous categories, because some individuals combine benefits of different types.

b Social exclusion is measured at household level, and attributed to all household members. The other benefits refer to the personal level.

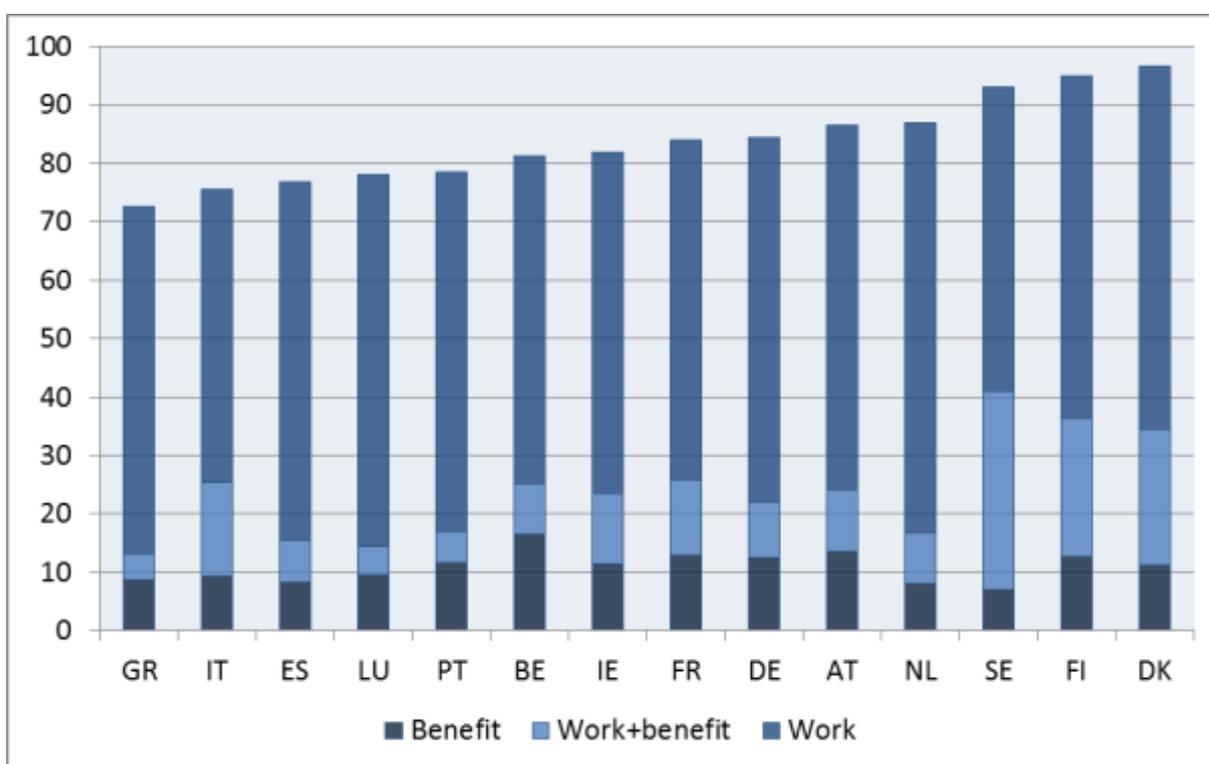
c In Italy, sickness benefits are included under 'employee cash or near cash income'

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3.3. Income sources combined

Figure 6 shows the share of the population that reports income from different sources. The residual to 100% indicates the proportion of the population that reports income neither from work, nor from benefits. This residual is very limited in the Scandinavian countries (less than 10%), but over 25% in Greece and Italy. The graph suggests that there are many combinations of income from work and benefits in Denmark, Finland and Sweden. Remarkably, Italy combines a large residual with a sizeable share of the population combining income from benefits with income from work. Belgium is the country with the largest share of benefit recipients that do not report any income from work.

Figure 6: Share of the working age population by income source, 2006



Source: Author's calculations on EU-SILC 2007 (income 2006)

The figures in the Annex show the patterns by age group for every country. Furthermore, they disaggregate the patterns for the core working age (25 to 54) along lines of gender and educational attainment. Overall, these suggest that that for most countries, the major gender differences relate to the share of the population reporting income from work and the residual,

rather than benefit income. In most countries, there is a marked gradient of benefit receipt along the lines of educational attainment, where benefit receipt is lower among the groups with higher education. This largely corresponds to expectations. In the current exploratory stage of the research project, these are included so as to allow national experts to check the plausibility of the observed patterns.

Discussion and conclusion

Welfare and work as alternative sources of income play a key role in current debates on welfare state development. The relation between both has been subject to fluctuating assumptions and appreciations over time. The activation paradigm since the 1990s has focused strongly on the issue of 'welfare without work', where cash benefits may act as disincentive to labour market participation. More recent versions stress the importance of cash social benefits to support the aspiration of social investment.

The analyses presented in this paper build on EU-SILC data to consider different sources of income. The results suggest wide variety of income packages across European countries. The most salient findings relate not to welfare without work, but rather to alternative combinations. These relate to combined income from work and benefits (particularly in Scandinavian countries) and residuals (no income from either source, in a number of Mediterranean countries). The EU-SILC micro data have potential to further investigate these patterns, beyond aggregates.

However, further work will be required to monitor the quality of the income data. The Scandinavian countries all rely on register data, which might be more sensitive to small amounts than survey data are. Further research is needed into the internal consistency of the data (between income and labour market calendar data or reported health in EU-SILC). Further validation with external sources (i.e. national administrative data for survey countries) could be additional proof to assess the robustness of the findings. Moreover, the relative importance of alternative sources of income should be studied in further detail, looking beyond the binary approach (receipt or no receipt, regardless of the amounts) applied in this paper.

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Annex: Benefit receipt rates in OECD Employment Outlook 2003

The dataset considers cash benefits (as opposed to in-kind benefits or services) that are periodic (as opposed to for instance lump sum payments). Benefits provide earnings-and income replacement, i.e. the benefits that are paid in the event of income and earnings loss. Scholarship or student grant incomes are not taken into account, nor are child allowances, housing benefits or payments that reimburse healthcare costs. Rather, the benefits are associated with a number of risks, namely old age; survivors (widows and orphans); sickness; disability; maternity and parental; care and labour market leave; unemployment; lone-parent and non-categorical social assistance. Only those benefits that are regulated by law are included, regardless of the way in which they are administered and financed.

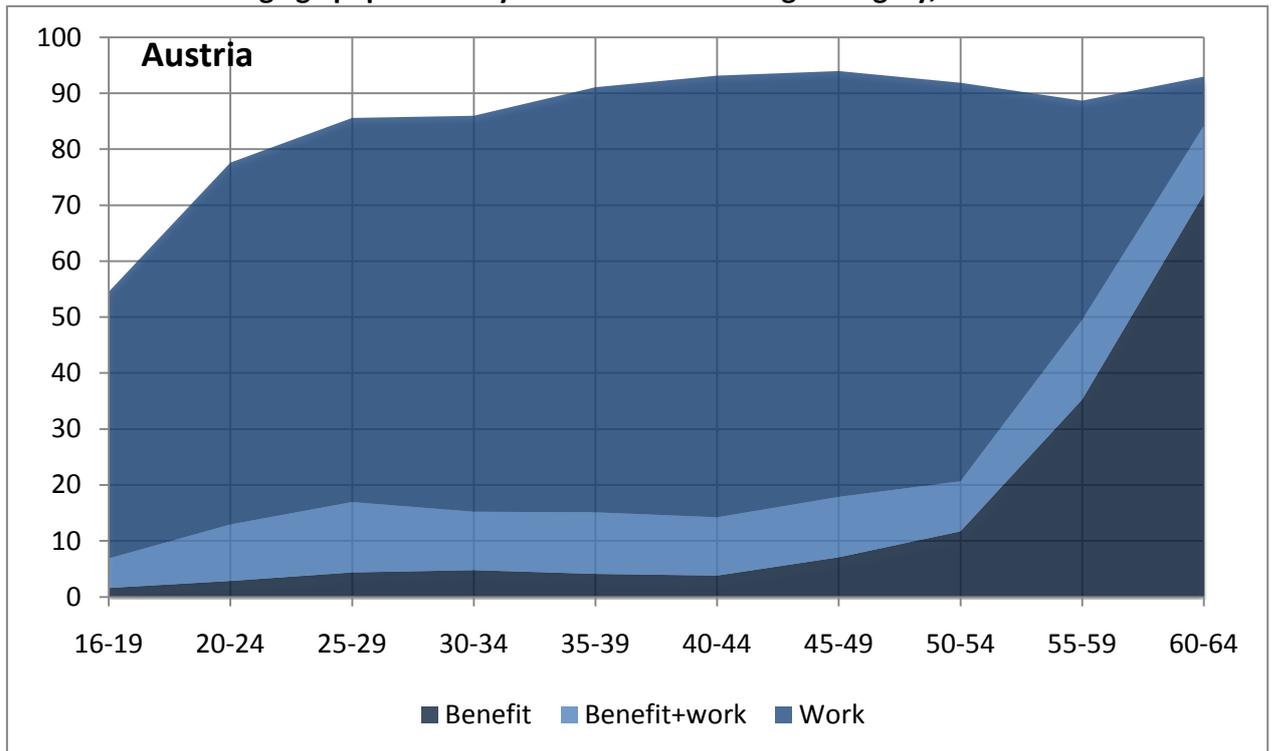
Based on administrative data, the benefit volume is calculated, then expressed in full-time equivalent (FTE) benefit recipients at working age (aged 15 to 64). Full-time 'benefit years' are obtained by dividing total spending by the rate of the benefit at a full or normal rate. Some adjustments are made to take into account persons receiving more than one benefit, and benefits paid at the level of the household.

Annex: Country codes

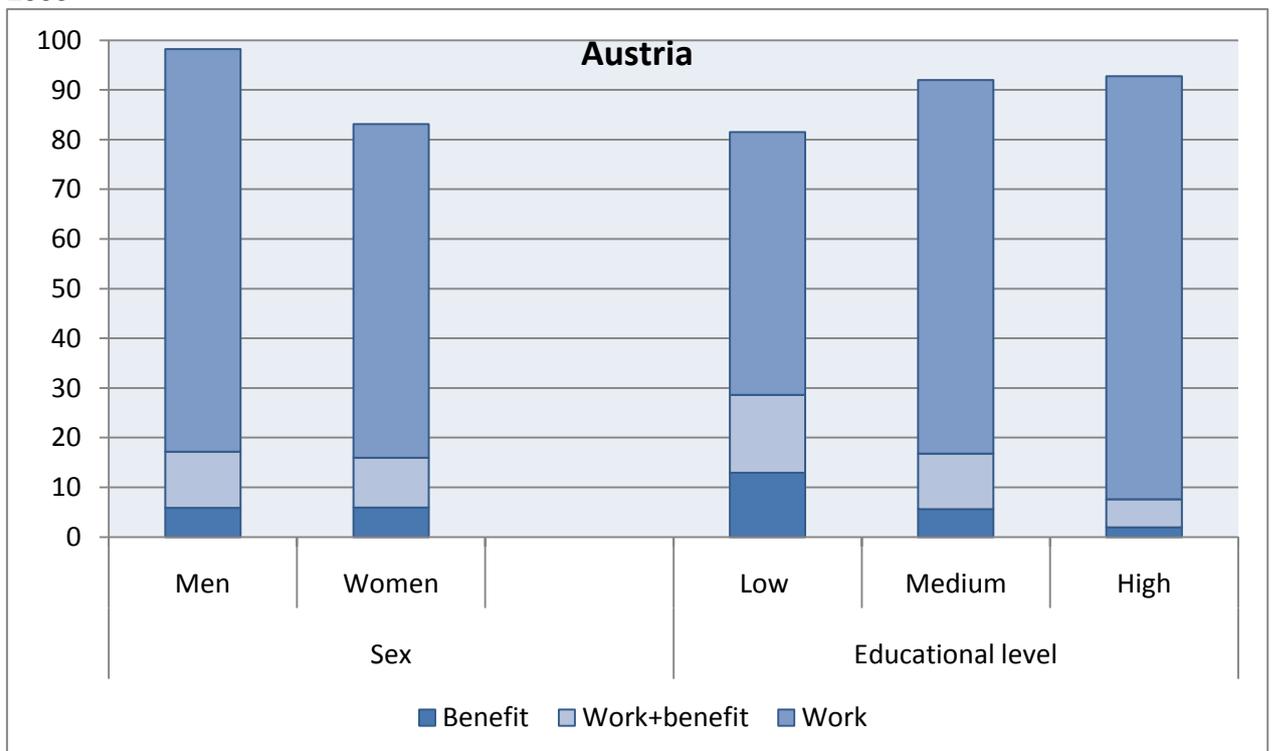
AT	Austria
BE	Belgium
DE	Germany
DK	Denmark
ES	Spain
FI	Finland
FR	France
GR	Greece
IE	Ireland
IT	Italy
LU	Luxembourg
NL	The Netherlands
PT	Portugal
SE	Sweden
UK	United Kingdom

Annex: country profiles:

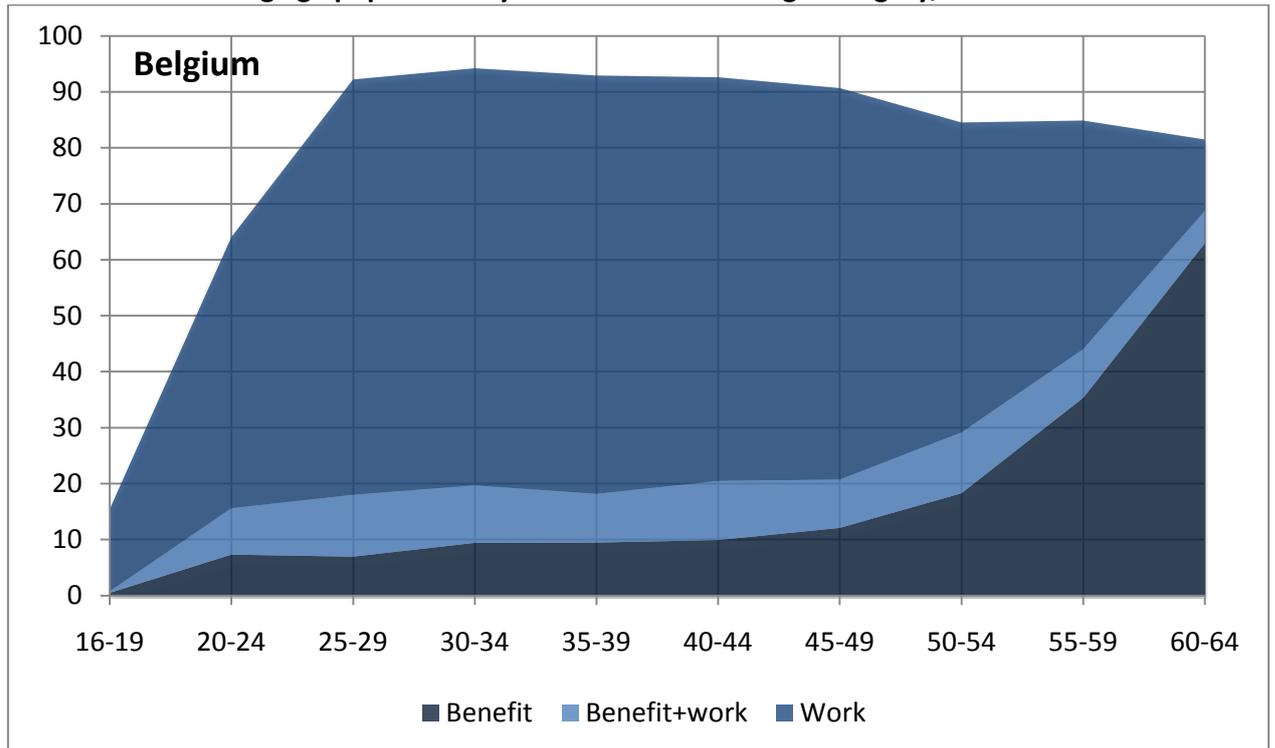
Share of the working age population by income source and age category, 2006



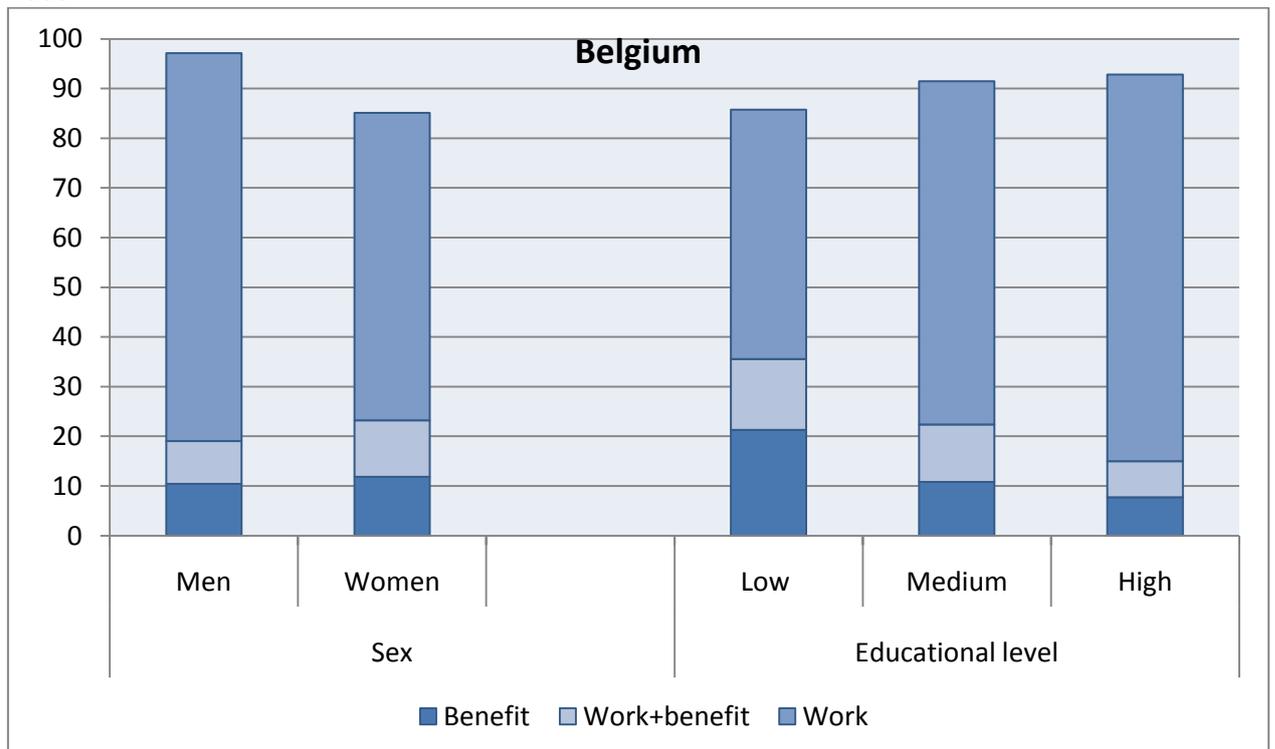
Share of the population by income source, sex and educational attainment, age 25 to 54, 2006



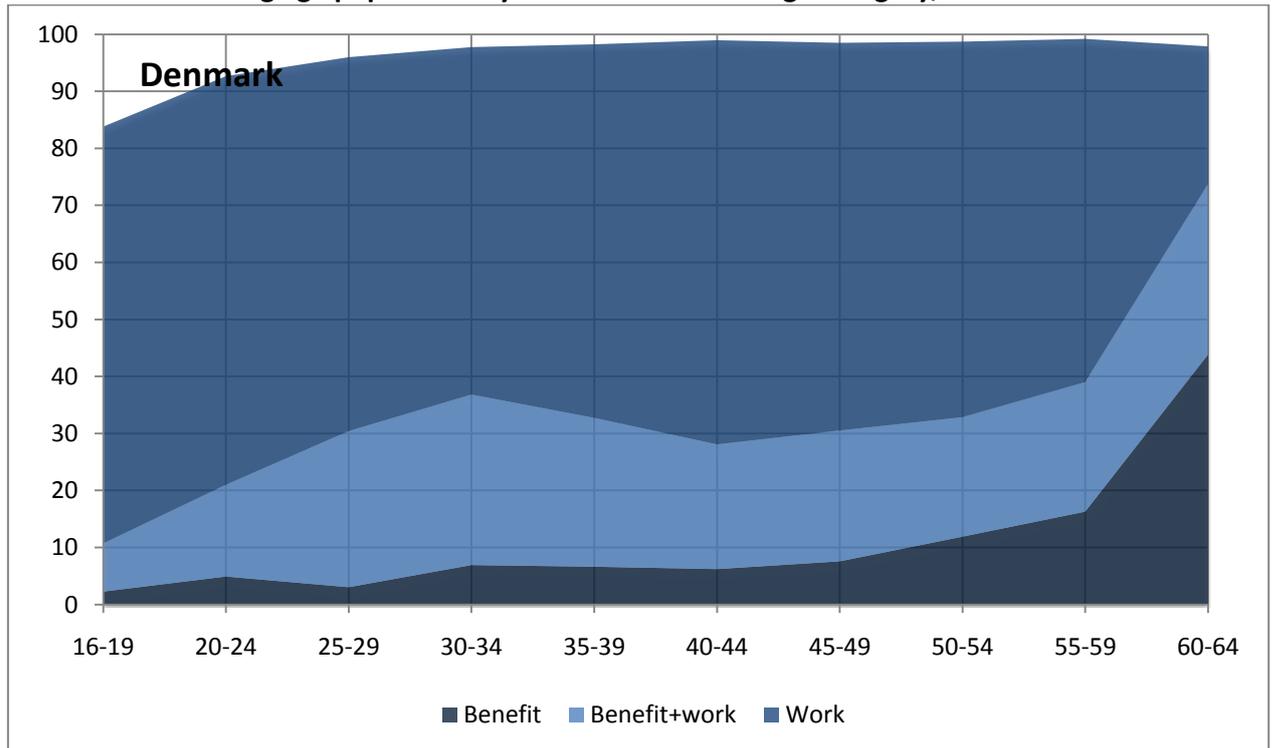
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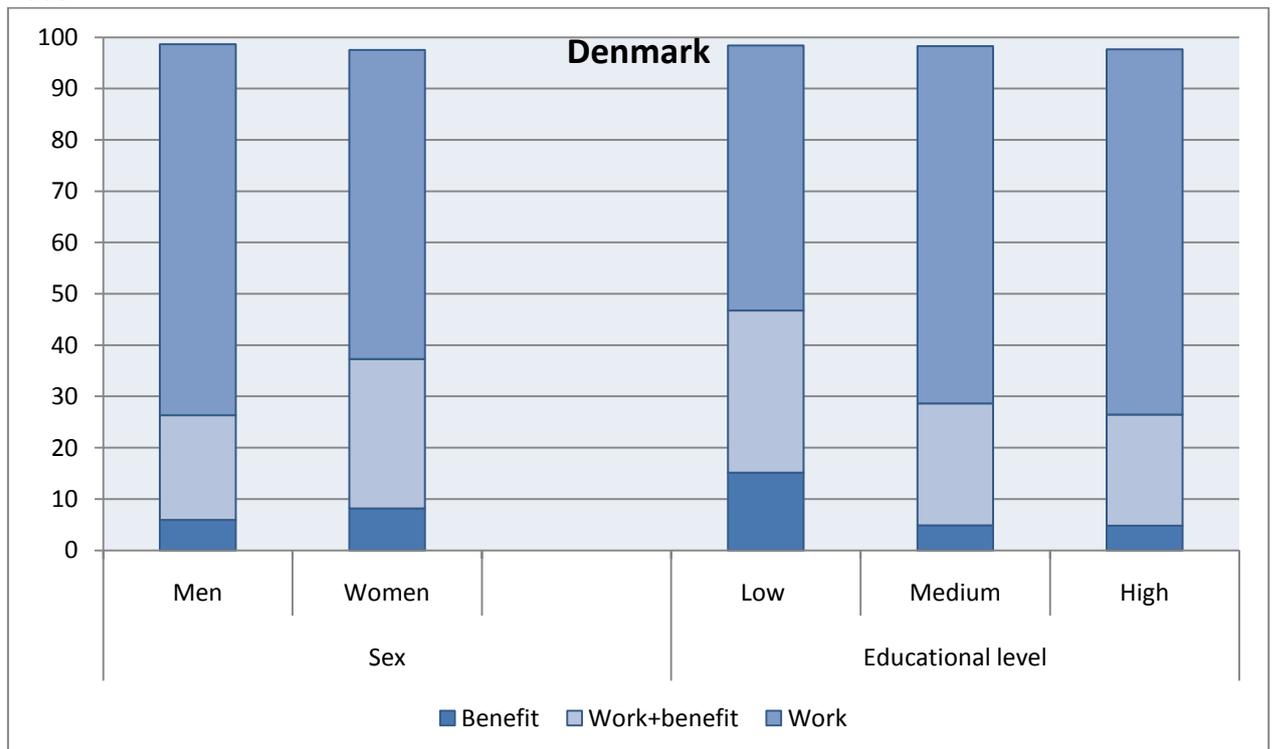
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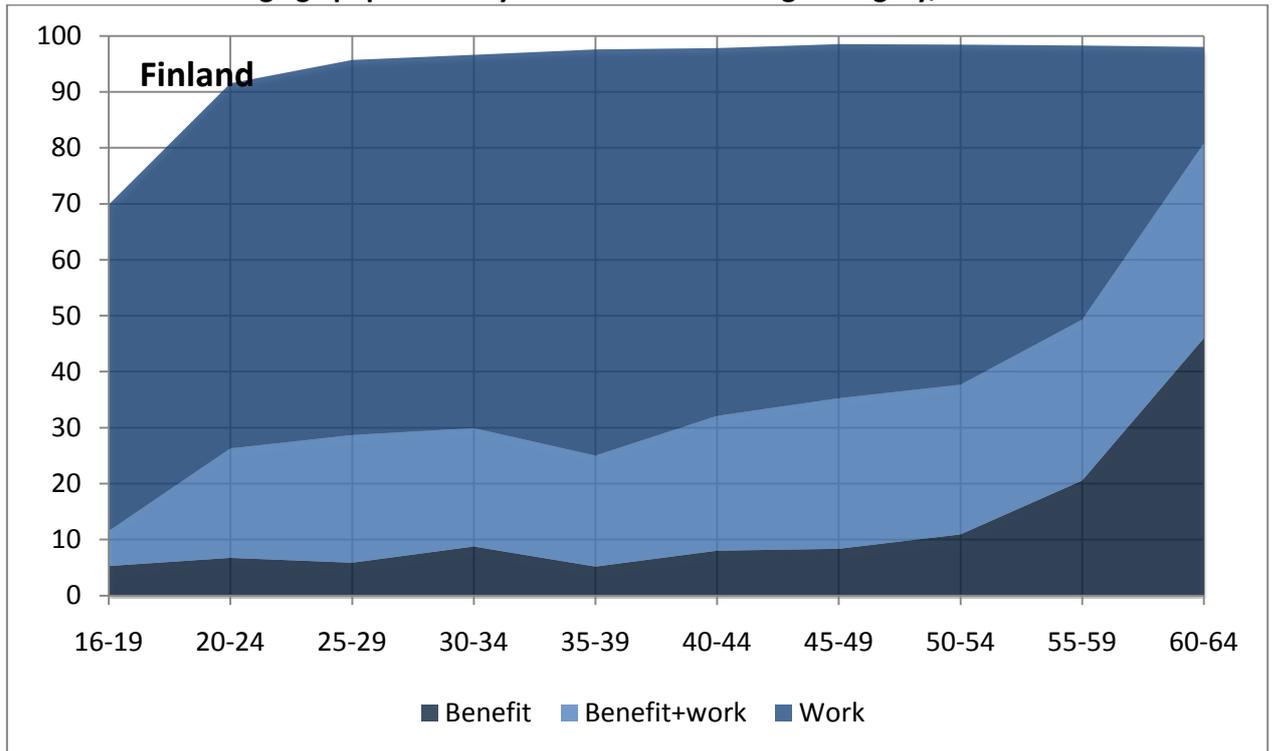
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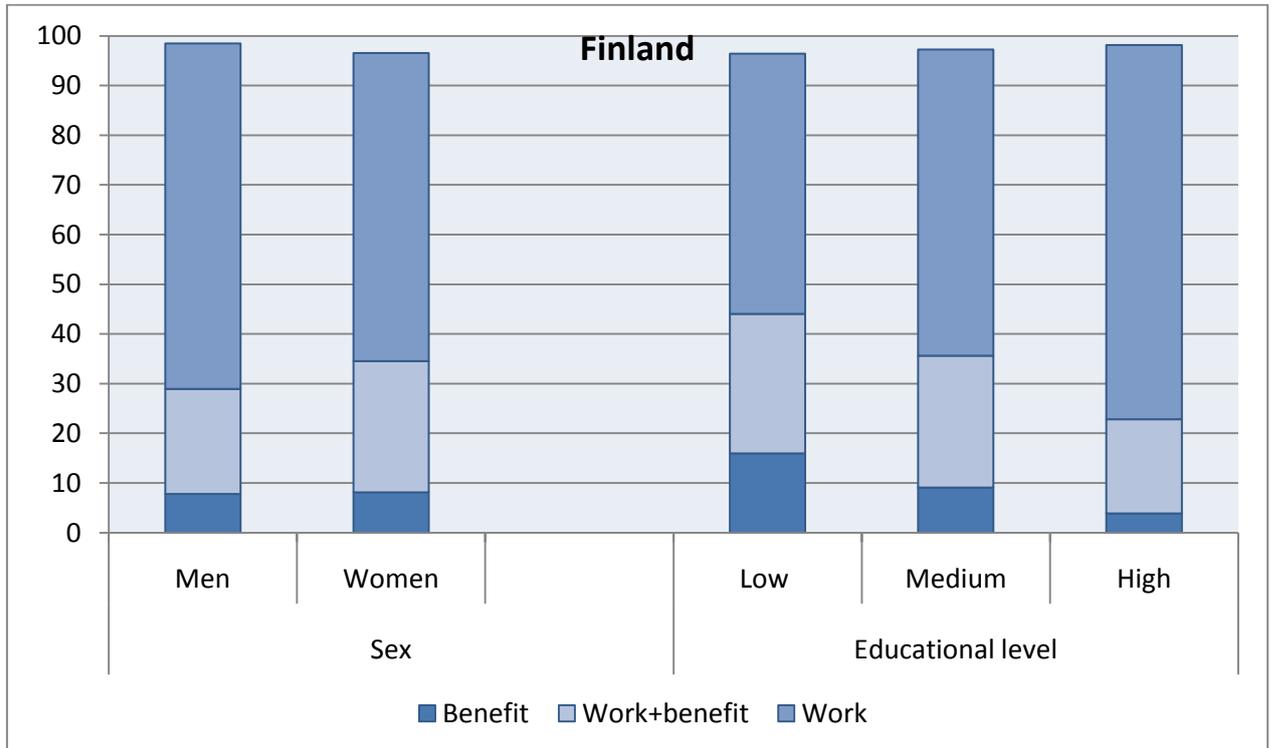
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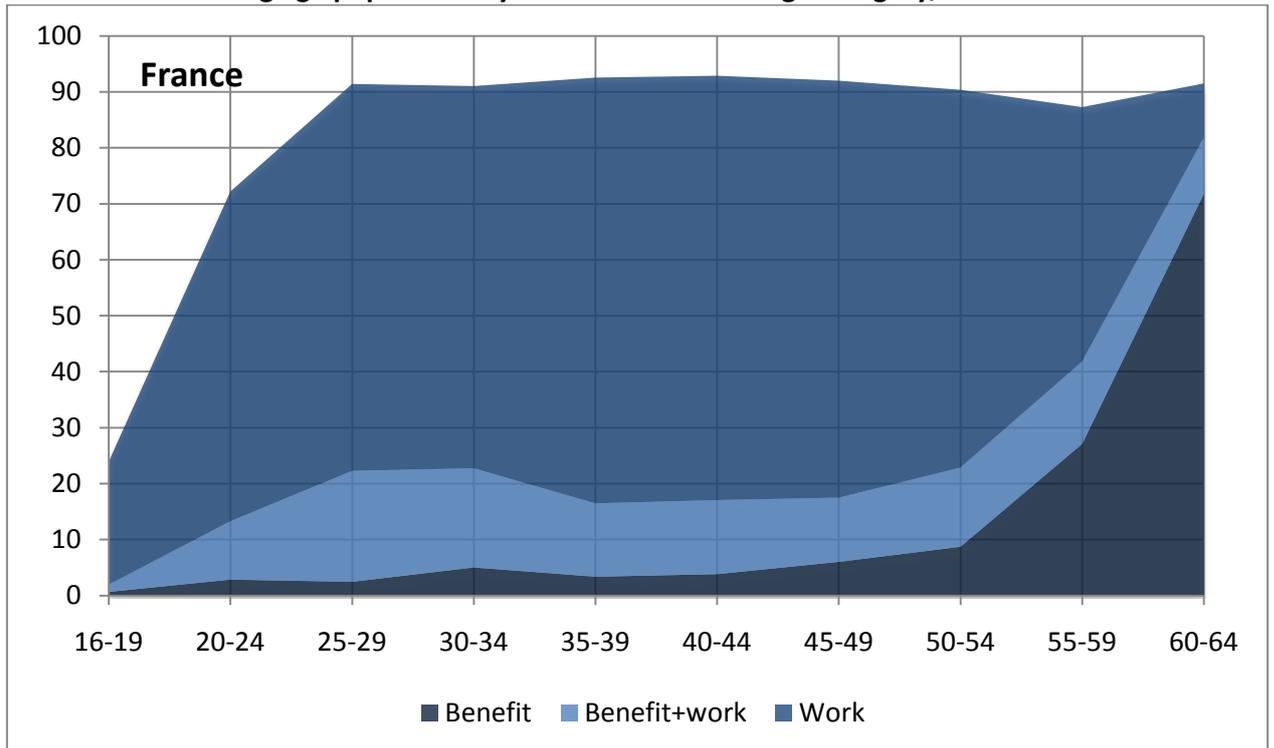
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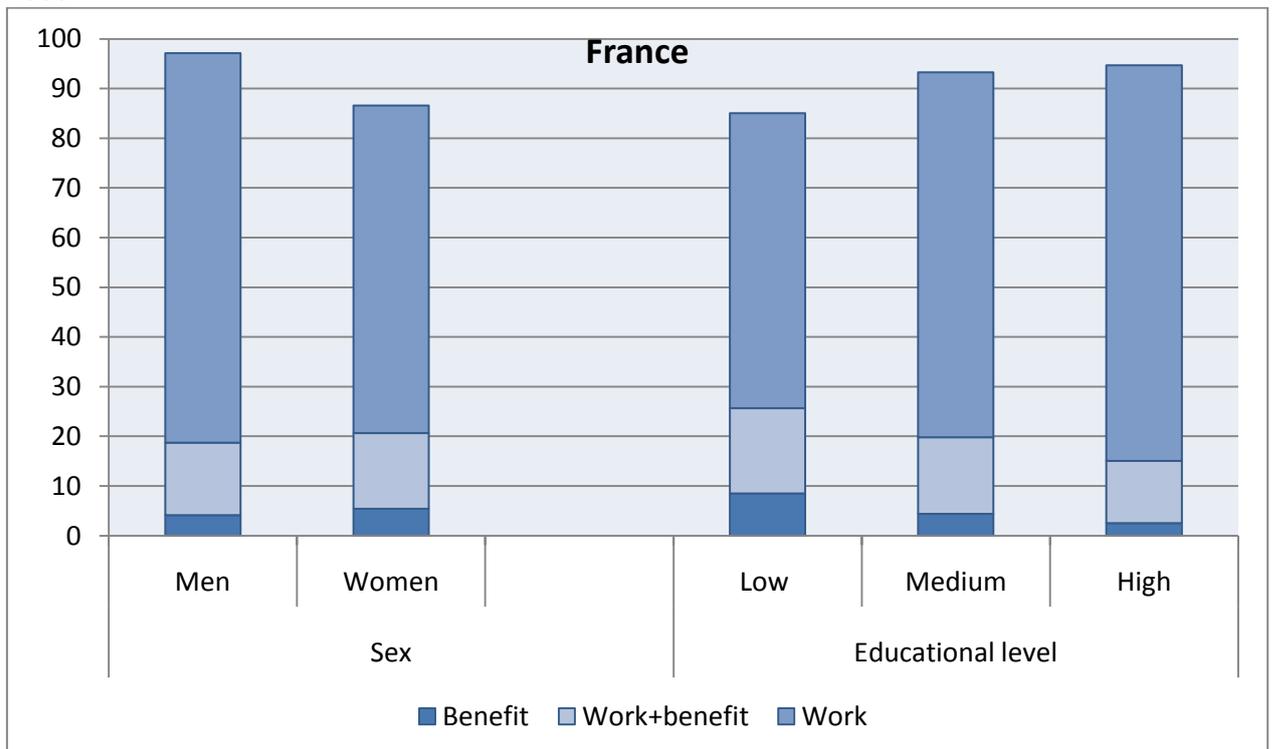
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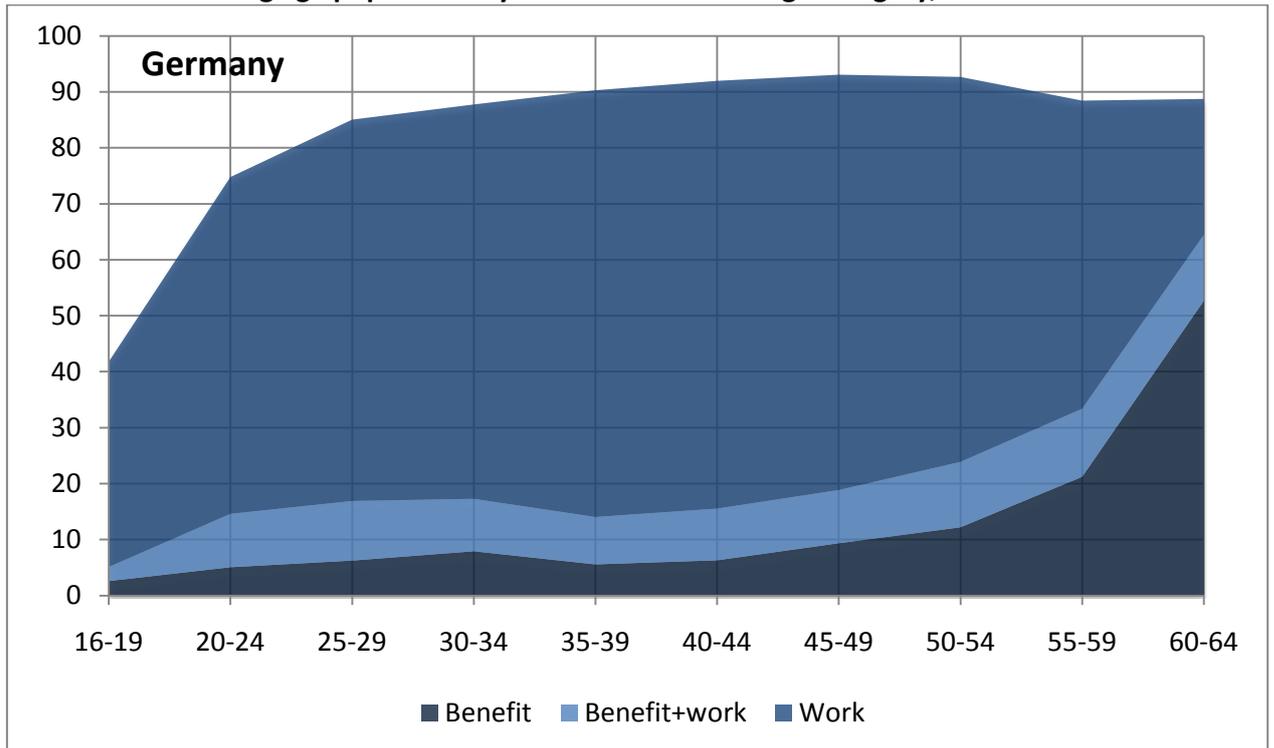
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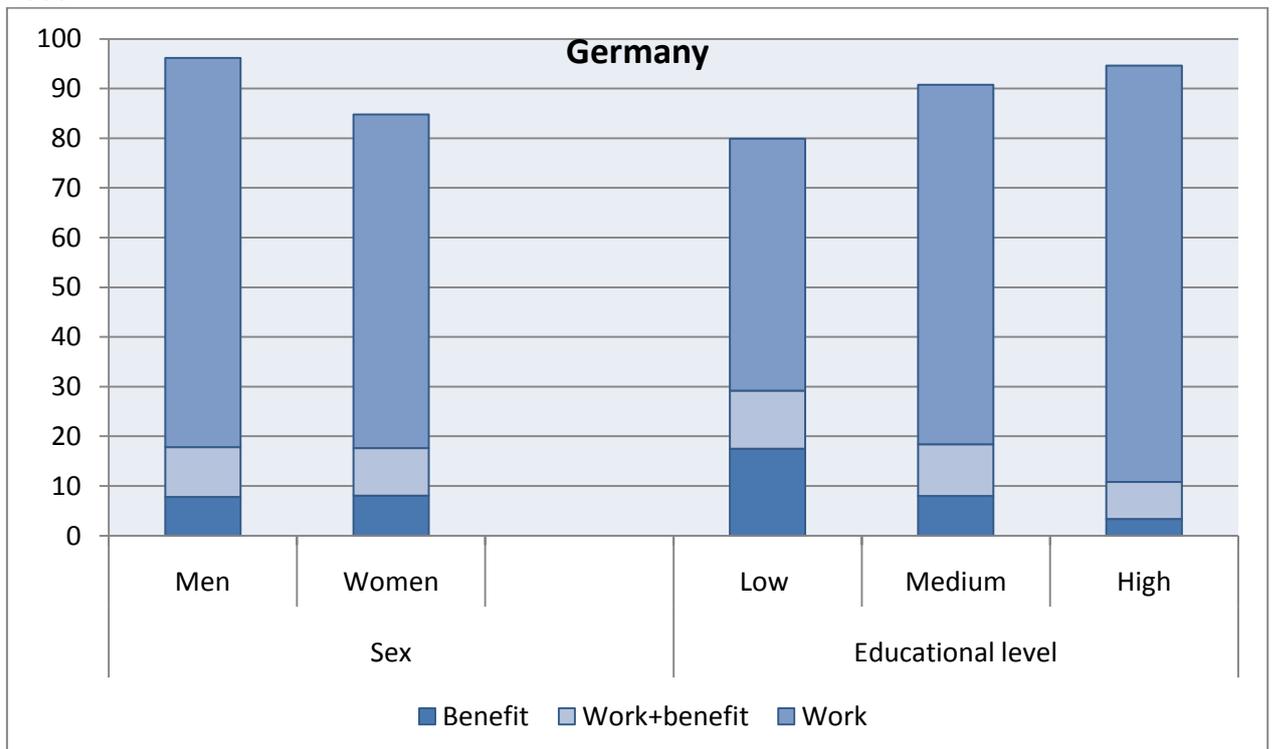
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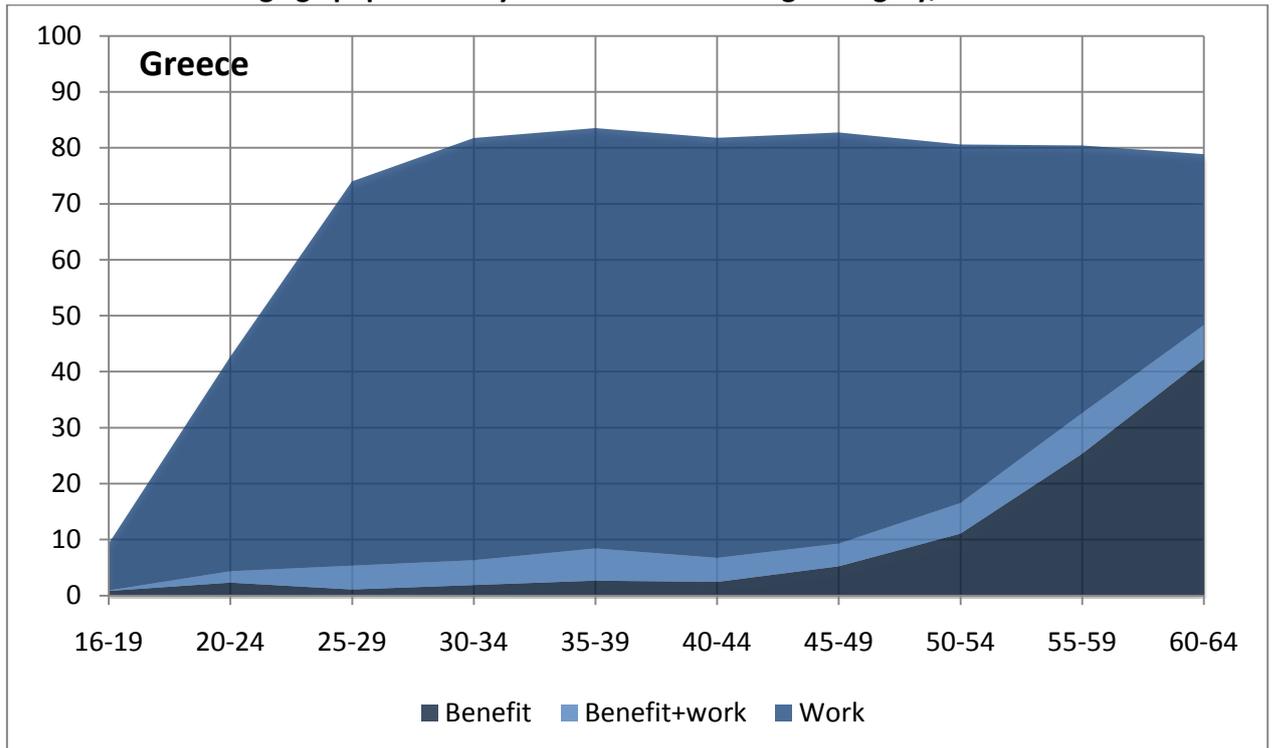
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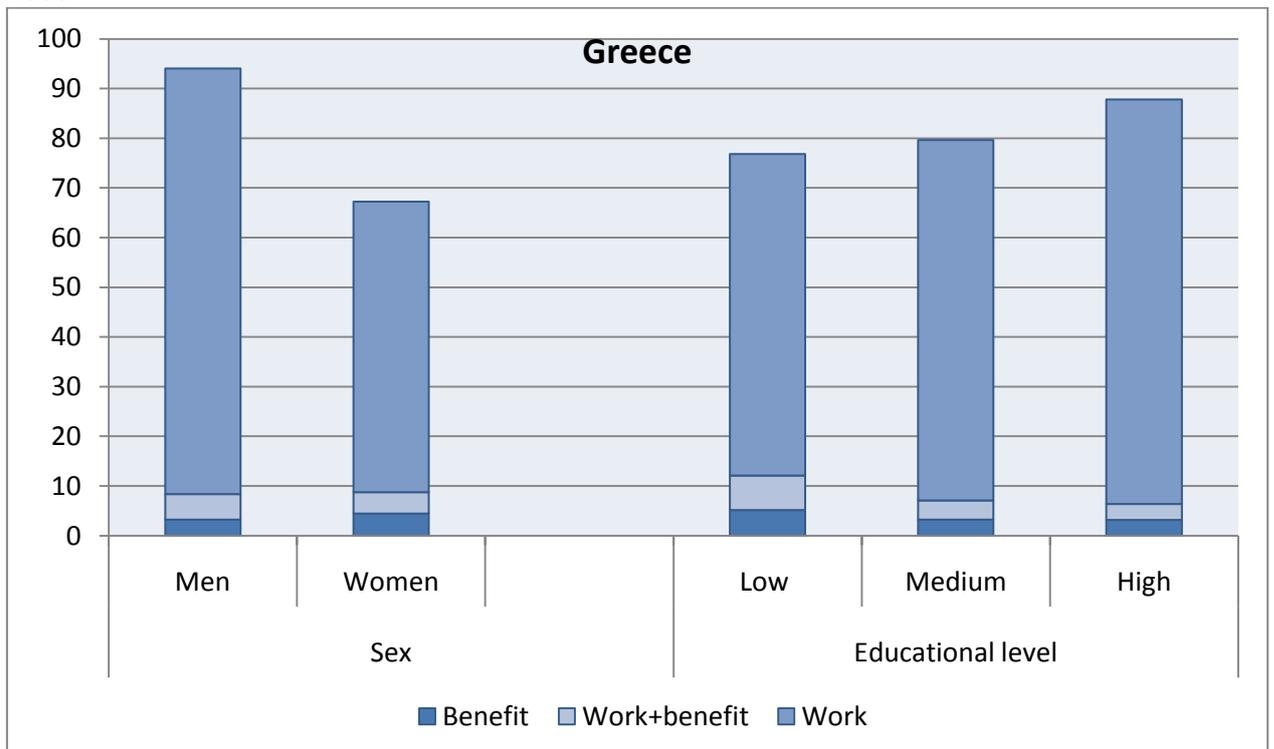
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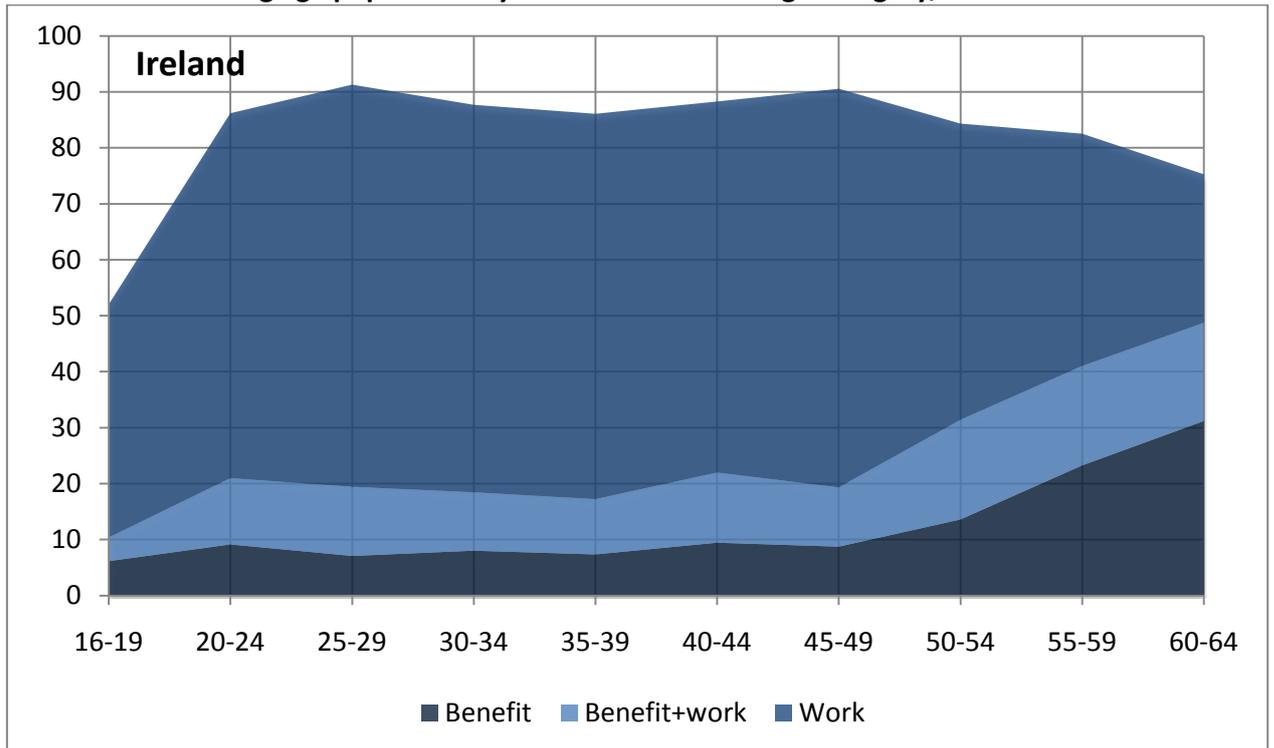
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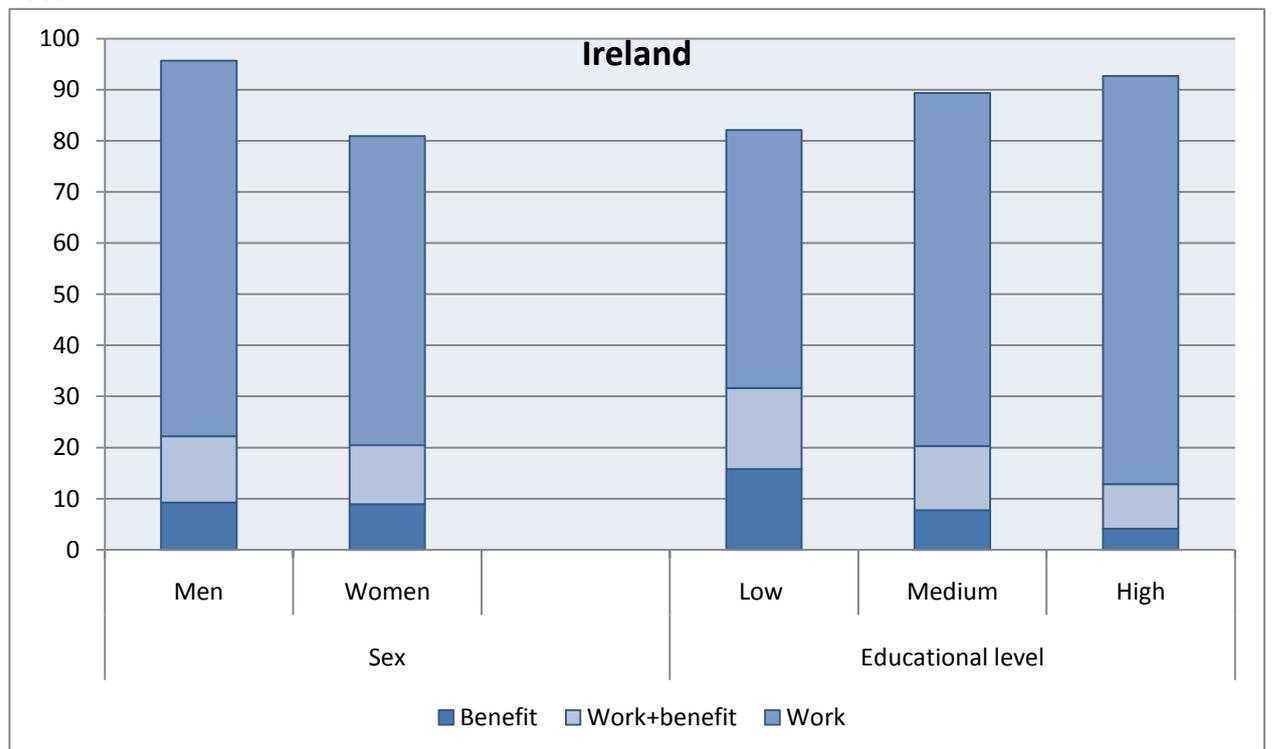
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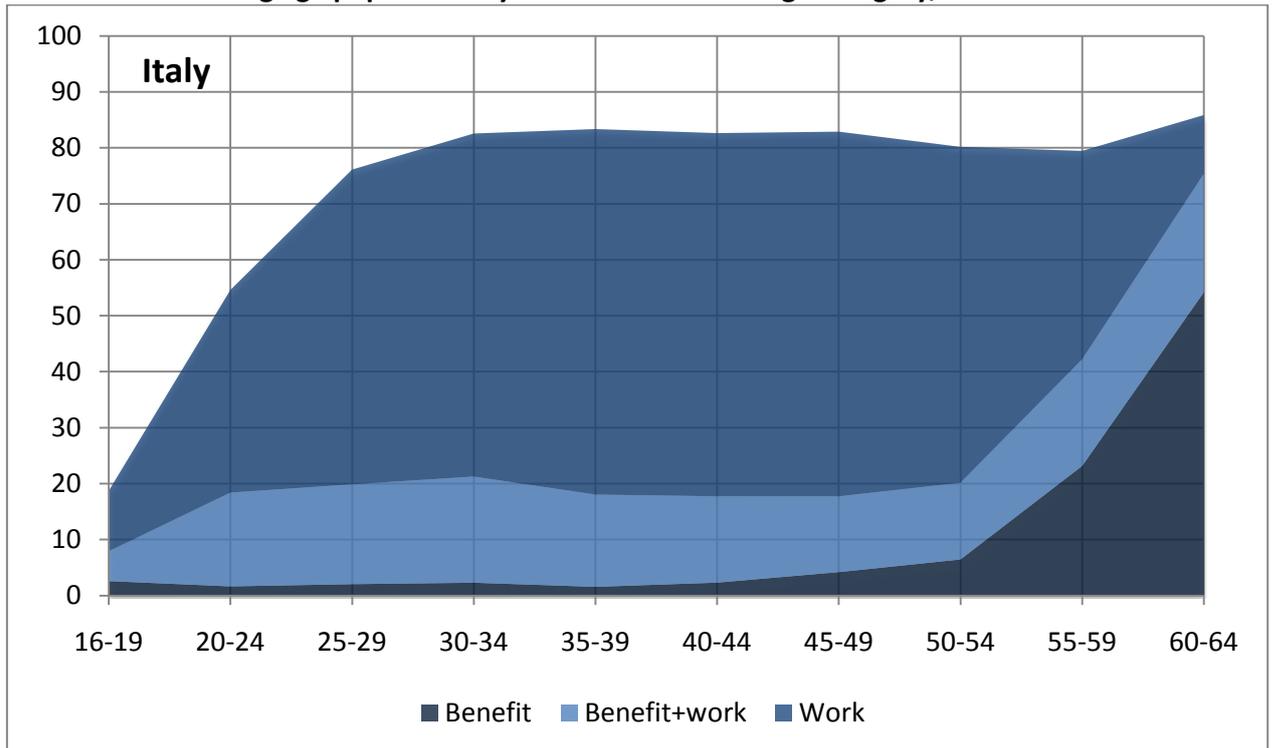
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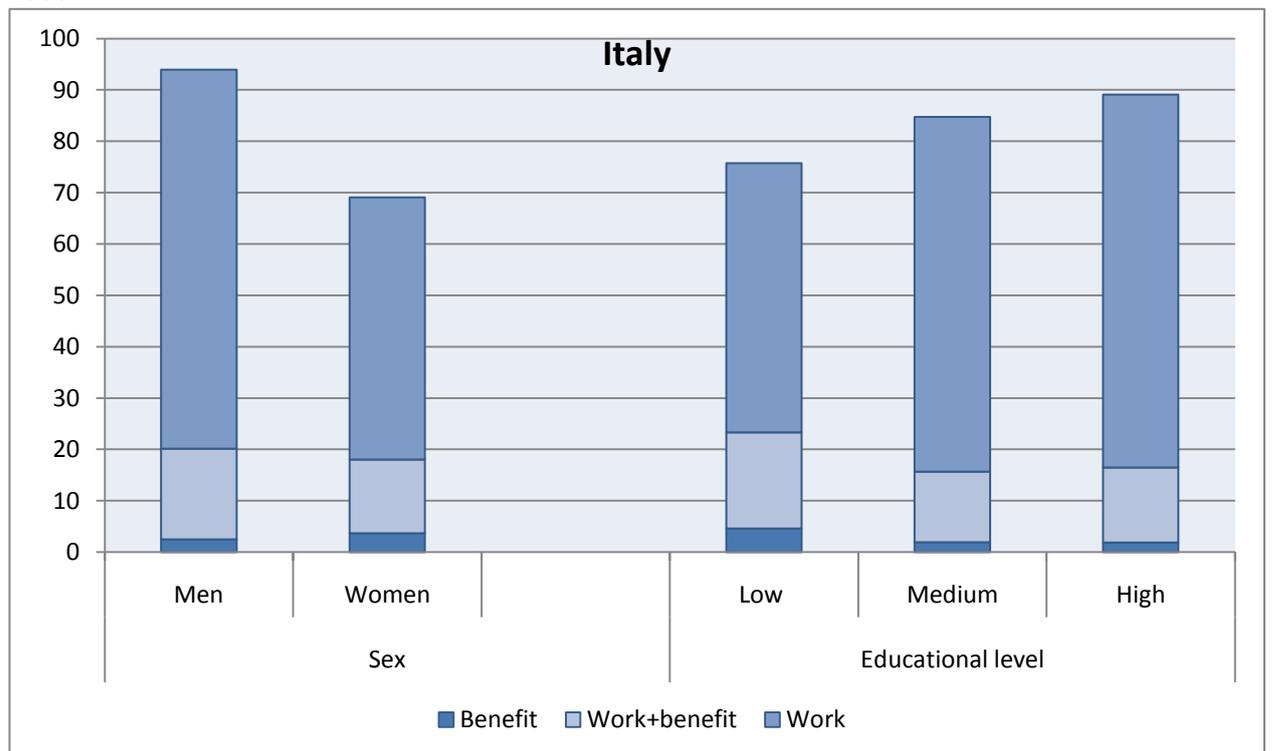
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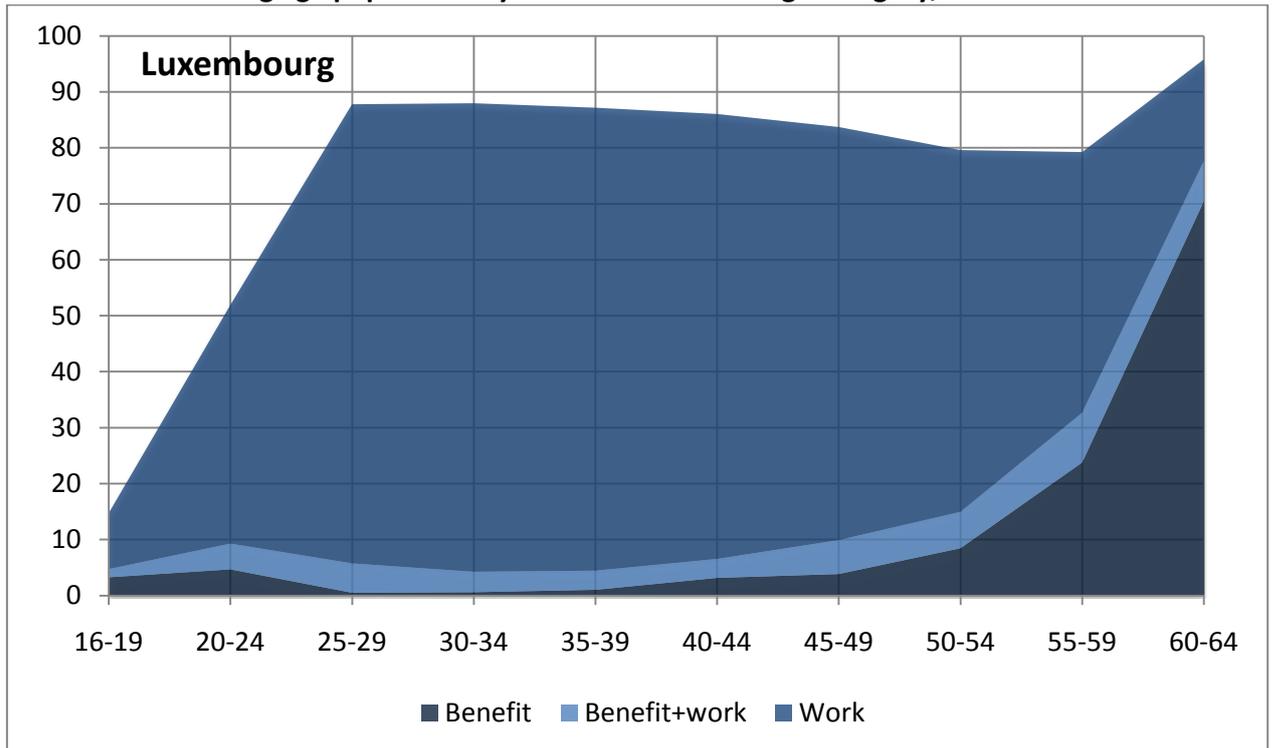
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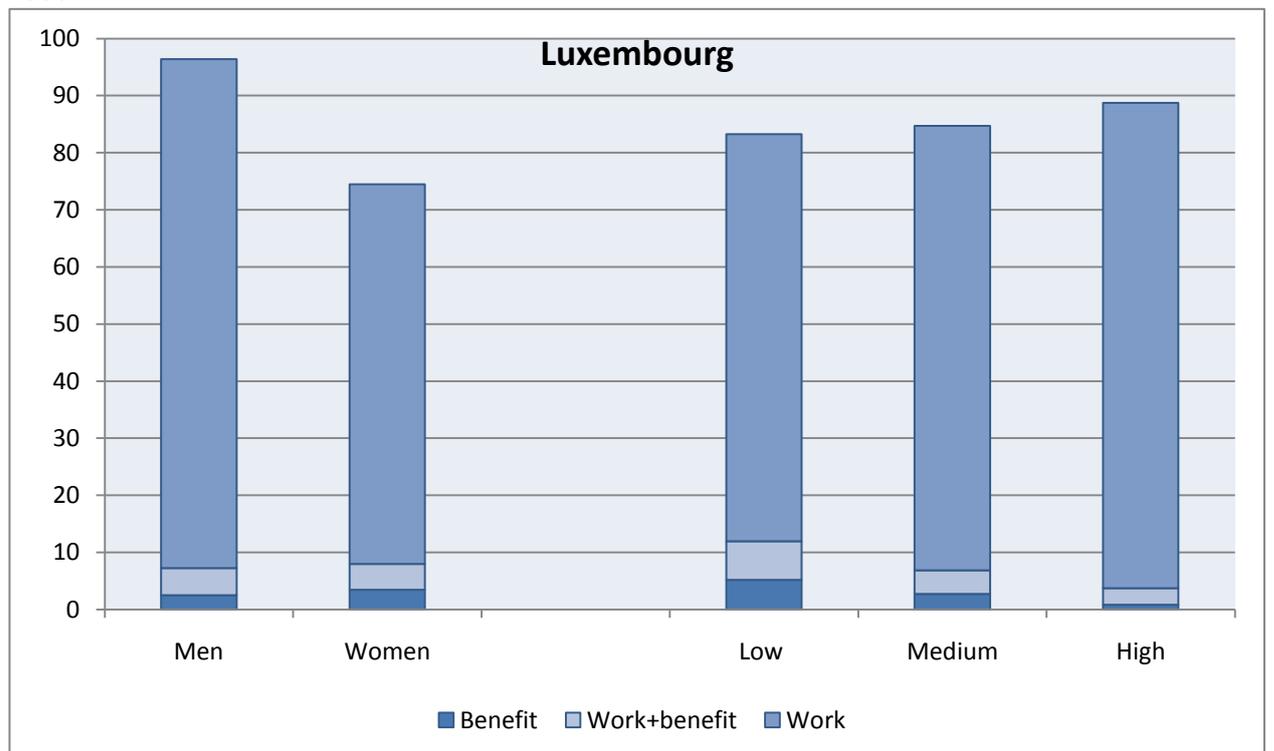
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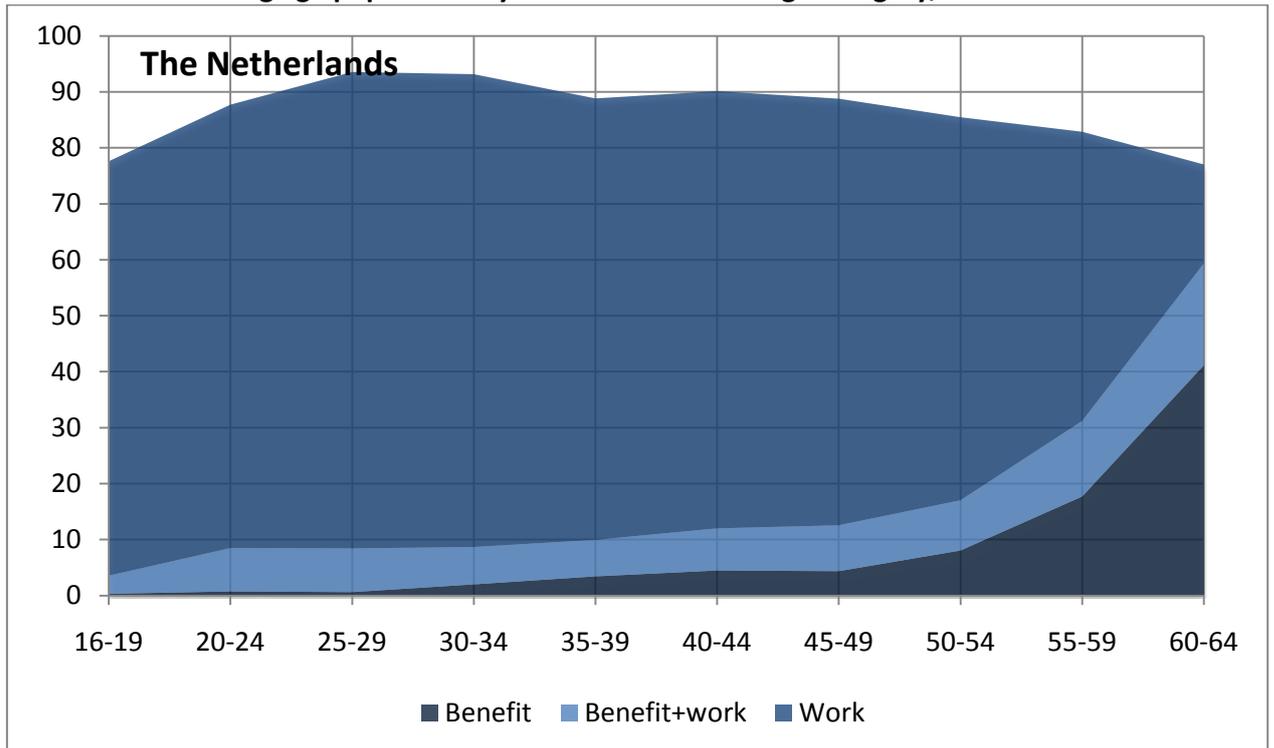
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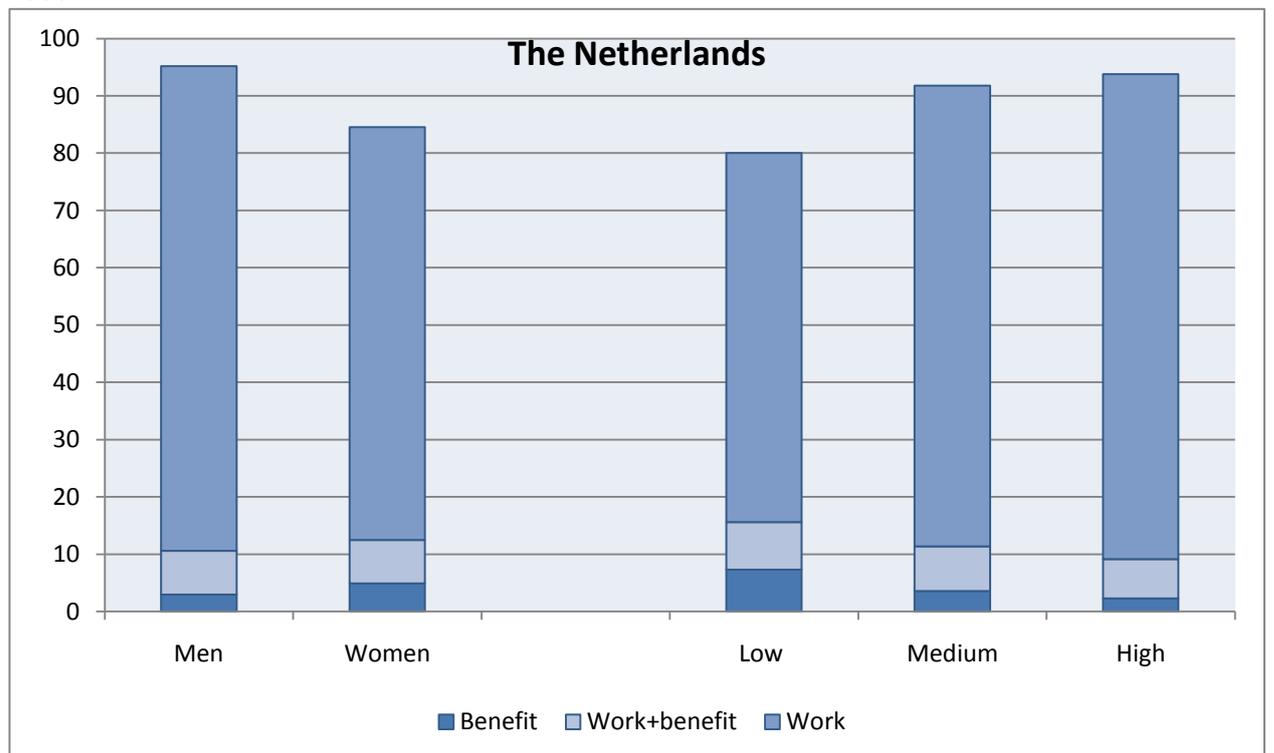
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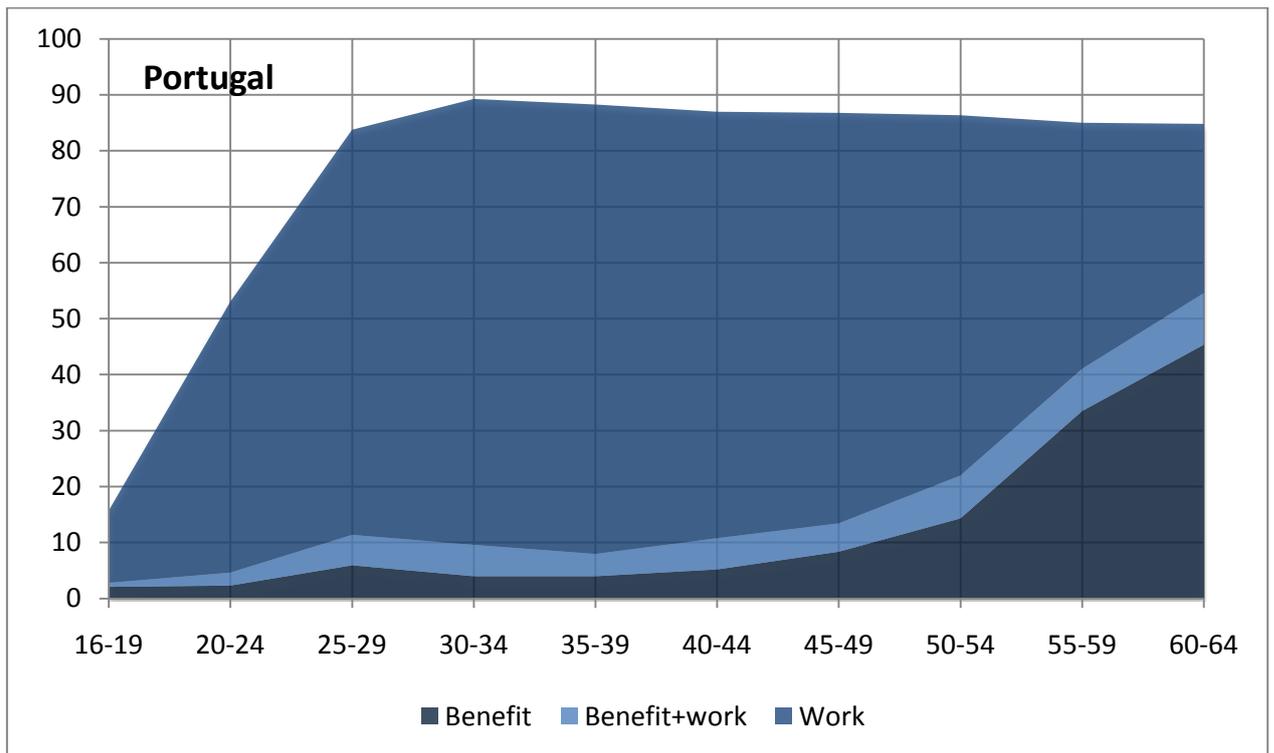
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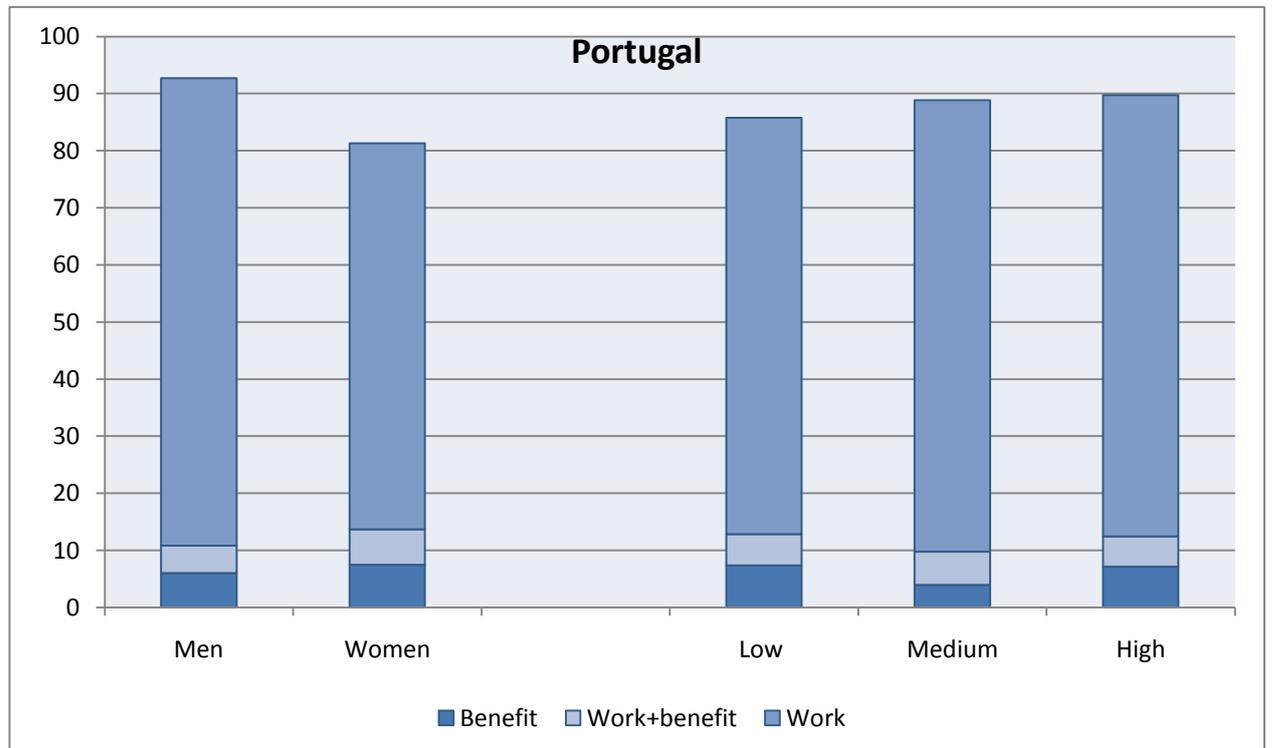
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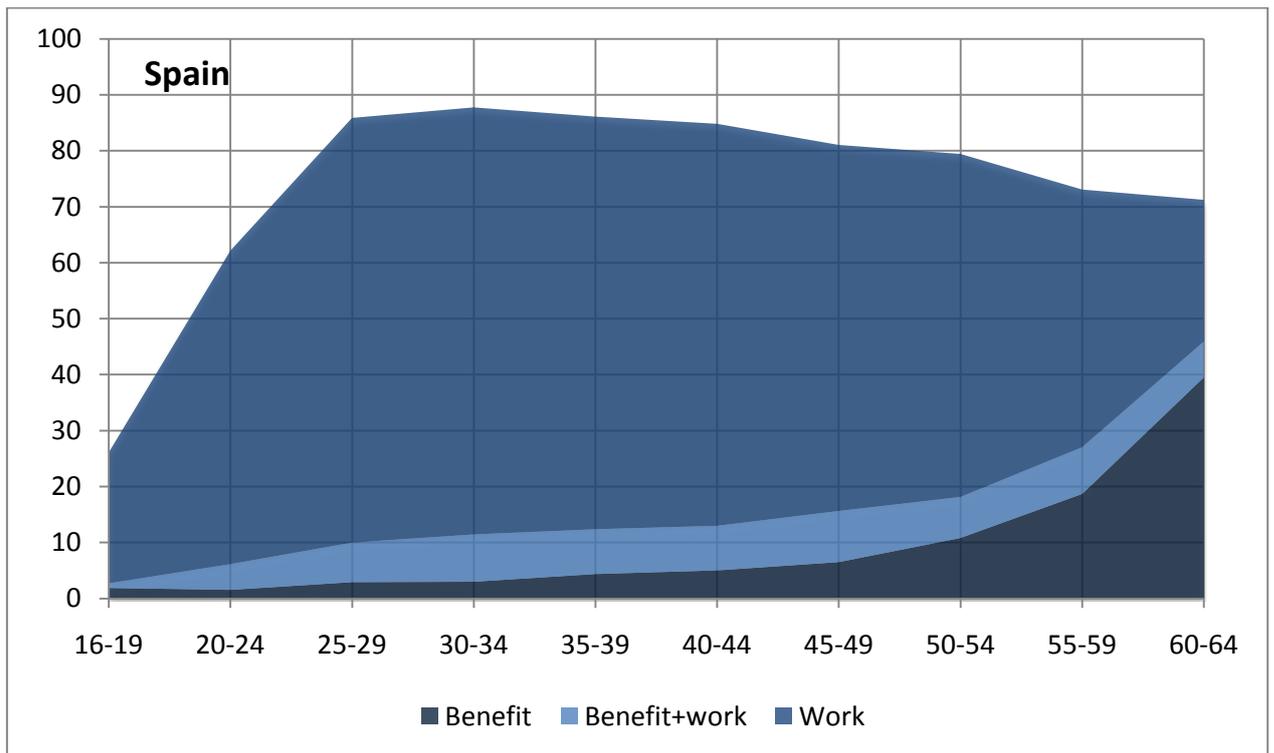
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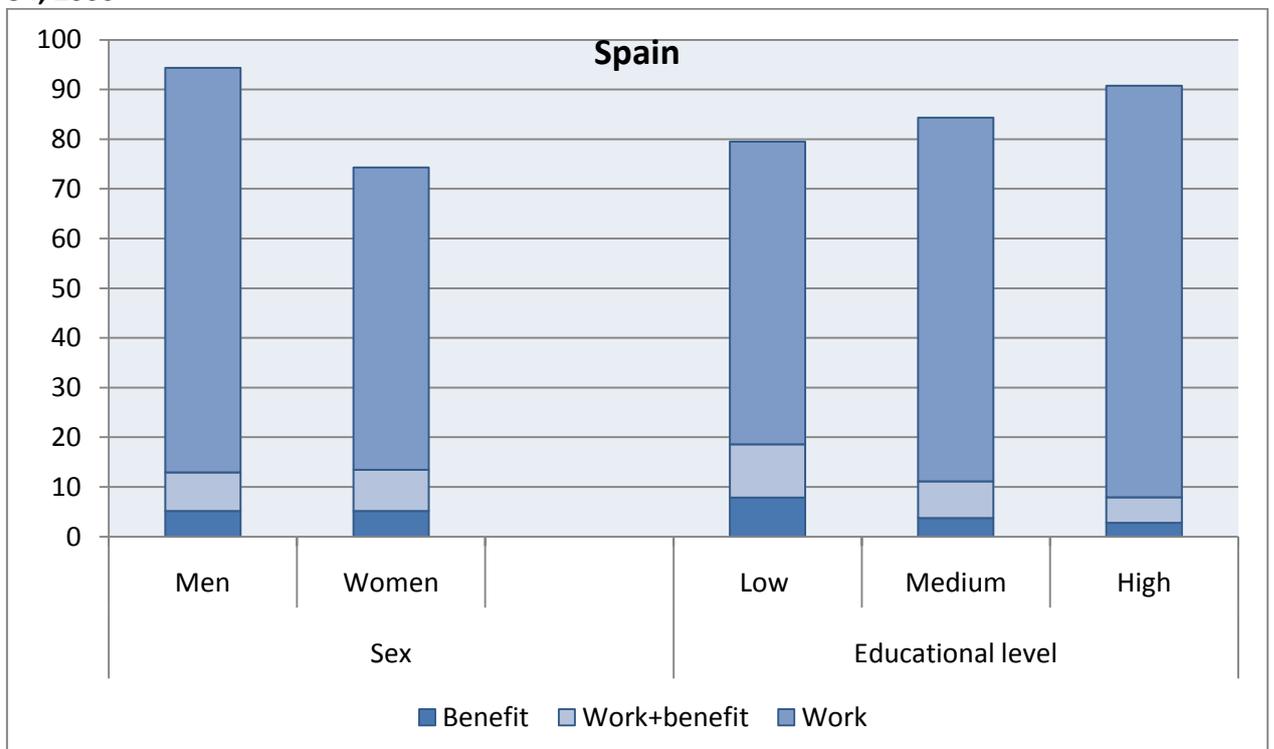
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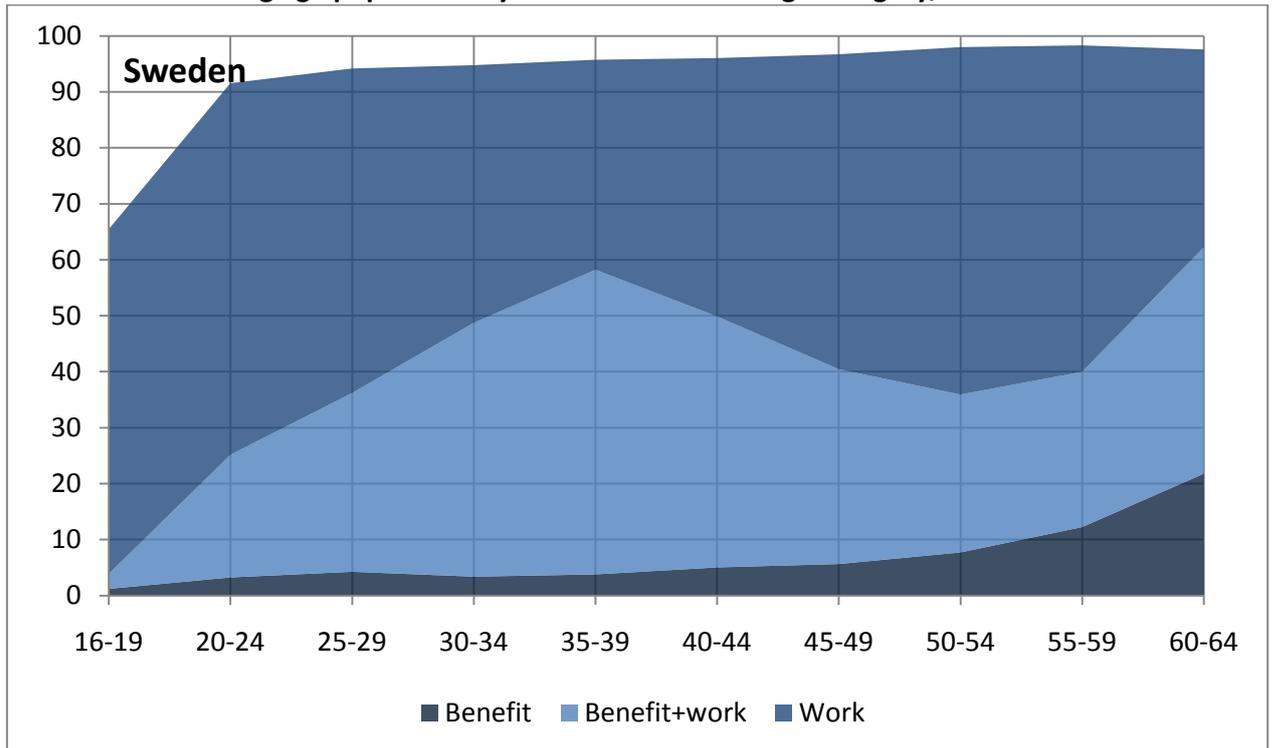
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