POVERTY AND THE TRAGEDY OF THE WELFARE STATE

Seven terms for a new social contract

Bea Cantillon

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POVERTY AND THE TRAGEDY OF THE WELFARE STATE

SEVEN TERMS FOR A NEW SOCIAL CONTRACT*

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Executive summary

The main mission of the welfare state is to improve the living conditions of the vulnerable in society. For many decades, however, the welfare state has failed to reduce poverty among the active population, in Belgium and elsewhere in Western welfare states. This is not only related to policy failures, there is more to it. The simultaneous increase of poverty, employment and social spending point to a systemic crisis of the welfare state : increasingly it has become more difficult to achieve decent incomes for all while preserving sufficient work incentives without greater efforts in terms of the size and the progressivity of social spending. To better manage climate change, digitalization and ageing a new social contract is therefore needed. That social contract should build on the achievements of the post-war social welfare state but it has to offer more security: by putting a floor under incomes, by broadening the repertoire of work, by including taxes on wealth and carbon emissions in the redistribution process and by intensifying the cooperation in the European and global context.

Foreword

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1. Introduction

These reflections draw on more than 40 years of research into poverty and social policy in the welfare state. Over this long period, much has been said and written about the concept and measurement of poverty[1]; about the effects of successive crises; about the importance of work, social security and taxation; about the virtues of the Nordic and Continental models; and about the performance of individual welfare states in relation to one another. In retrospect, through cyclical waves and major differences between countries, if we focus on relative income poverty within the working-age population and look at the commonality of long-term changes, the overall picture is disappointing and disturbing.

In recent decades, rich welfare-states have enjoyed growth in income, work and social spending. Welfare states worked harder than ever before. They were resilient and, by taking a 'social investment turn', they were, at least to a certain extent, able to adapt to major social and economic transitions. And yet, for several decades now, the welfare state has been losing the battle against increasing relative income poverty amongst their working-age population.[2] For low skilled, work-poor households relative income poverty has for many years and in many countries seen a slow but steady upward trend. The level and speed of rising trends vary widely between countries, but everywhere, even in the best performing countries, the upward poverty curve has failed to reverse for several decades.

The paradoxical observation that, on the one hand, relative income poverty among the working-age population is increasing in many developed welfare states in Europe and beyond, and on the other hand, that the welfare states' social spending and programs have, in general, also been deepening and broadening suggests a fading away of the effectiveness of mature welfare states on poverty reduction. Have welfare states failed to properly adapt to the great transformations of our time? Have they changed but bet on wrong horses? Or is there more to it: is the welfare state experiencing a systemic crisis because of increased structural constraints on poverty reduction?

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[1] On the concept and measurement of relative income poverty, see Atkinson et al., 2001 and Decancq et al., 2014.

[2] The focus here is on relative income poverty, but further down in the text we also use alternative measures. For Belgium, see the successive reports of the FPS Social Security (The evolution of the social situation and social protection in Belgium, 2021; (https://socialsecurity. belgium.be/sites/default/files/content/docs/en/publications/silc/silc-analysis-social-situation- and-protection-belgium-2020-en.pdf); for developments in Europe, see B. Cantillon & F. Vandenbroucke, 2017; B. Cantillon, T. Goedemé & J. Hills, 2019 and G. Fisher & R. Strauss, 2021 and several OECD reports for a portrayal of changes worldwide. For the Netherlands, see the reports of the Dutch Central Bureau for Statistics (CBS) (https://www.cbs.nl/nl-nl/publicatie/2019/50/ armoede- en-sociale-uitsluiting-2019).

We argue that the crisis of outcomes is systemic in nature: it is endogenously related with structural constraints and functional requirements unfolding from economic transformations, modern family-hood and migration; it affects the poverty reducing impact of each of the basic institutions of the welfare state (social insurance, social assistance, social investment) and it is reinforced by unequal political representation and changing opinions on deservingness. We identify the following factors as key explanations for the weakening of the welfare state's capacity to reduce poverty: first, the "great decoupling" between productivity and profit gains on the one hand and low wage growth on the other has impeded more adequate social assistance ; second, the polarization of jobs across households and the ensuing concentration of social risks has weakened the poverty reducing capacity of social insurance and, third, social stratification, reinforced by migration, is a major hindrance to successful social investment for the poor.

If the crisis have taught us anything, it is how vital the welfare state is, for both the people and the economy. However, there is also no doubt that the current crisis has brought the welfare state to a critical point in its history. Despite the impressive way in which the welfare state has brought relief,[3] the crisis have exposed social inequality in society in a very visible way. The collective burden has reached unprecedented heights. Rich societies can handle a great deal, in the aftermath of the pandemic the economy and employment recovered unexpectedly fast while poverty remained quite stable in many countries. But massive government supports had to be repeated to cope with the inflation crisis, they come on top of the costs of ageing and the efforts needed for climate policy. Meanwhile, the dramatic high poverty levels among low skilled, jobless households pose a major obstacle on a successful climate transition. All this calls for deep reflection.

Walter Scheidel (The Great Leveler), Branko Milanovic (Global Inequality) and Thomas Piketty (Capital) argued that transformative change - of the kind that could bring about a decisive shift towards a more equal society with less poverty - would probably only follow a world war or a pandemic. It is much too early to tell whether the still unpredictable consequences of the crisis will lead to substantial changes. One thing is for sure: to succeed where we have failed in the past, we will need to do more than address random flaws.

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[3] For Belgium, see Marchal et al., 2021.

2. Poverty in the rich welfare state

The welfare state should, wherever possible, improve the living conditions of the most vulnerable in society as a matter of priority.[4] How successful were rich welfare states at this? And could they have done better?

The concept of poverty pertains to a multiple reality that cannot be captured in a single indicator. Poverty is essentially relative (to the society in which you live), progressive (deep and less deep poverty) and multidimensional (income, health, housing...). The evaluation of poverty trends, therefore, requires many indicators covering the various aspects of poverty. Choosing the content of such portfolios is of great importance because: “what we measure shapes what we collectively strive to pursue - and what we pursue determines what we measure” (Stiglitz, Sen & Fitoussi, 2009, p. 9).

This essay addresses the question of the extent to which rich welfare states have succeeded over the past decades in improving the living conditions of those in the working-age population who are at the bottom of the income distribution[5]. The focus is on households with an income below 60% of the median standardised household income. This is the poverty threshold used in Europe to monitor the social inclusion in the Member States. This standard is tied to the evolution of purchasing power and living standards.[6] This is important for comparisons over longer periods of time, because it allows us to consider evolutions in needs and social expectations that change as society evolves.

2.1. Growing income poverty among the working-age population

In the following figures, we first show the evolution of the number and characteristics of people of working age with an income below 60% of the median standardised household income[7] (AROP60). Our focus is on long-term movements: instead of drawing comparisons within shorter periods of time (which is often the case in policy documents, international reports and academic research), we look for common ground in levels and long-term changes.

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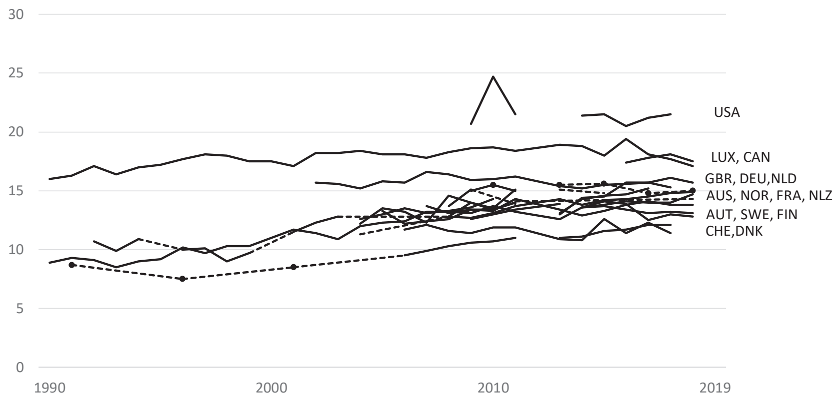
[4] According to Rawls‘s difference principle.

[5] Data limitations restrict the time perspective we can take. Work such as that in Caminada et al.,2021 for the Netherlands to make data series comparable would have to be generalised. For Belgium, see the BE-PARADIS project.

[6] The low-income threshold used by CBS in the Netherlands only reflects a fixed purchasing power amount over time and is adjusted annually only to account for price developments.

[7] Figure 12 also shows the evolution of income poverty among the elderly. Levels and trends differ greatly between countries, which to a large extent reflects differences in pension systems on the one hand and past societal and economic changes on the other.

Figure 1: Evolution of the at-risk-of-poverty rate (AROP60), population at working age (18-65y) (in %).



Source: OECD income distribution database.

Note: Break in time series due to change in definition; dotted lines indicate years where data are missing.

Large-scale poverty measurements date back to the second half of the 1970s.[8] However, it is only since the 1990s that statistics have allowed comparative research on a sufficiently large number of countries. Figure 1 shows for 15 countries that, in a large number of rich welfare states, the at-risk-of-poverty rate for the population of working age has shown a slow upward trend since the 1990s. There are significant and persistent level differences between countries (compare the US with Denmark) and there are exceptions (Finland over the last decade), but overall the trends are upward.[9]

We do not have the data to go back further in time for all these countries. For Flanders, we know that the 1990s marked a turning point in poverty trends. 1976-1985 was a period of pronounced levelling-up: income poverty decreased significantly from 10% in 1976 to 6% in 1985. Between 1985 and 1992, the poverty risk remained stable at around 6%. Thereafter, an upward trend began that has now lasted for almost three decades (Cantillon et al., 1999).

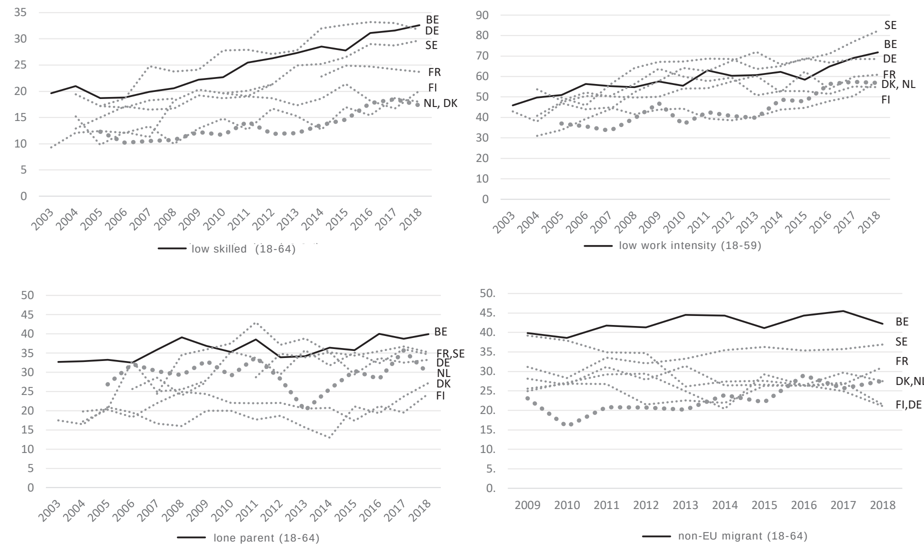
As regards the more recent past, during the decade preceding the pandemic, the European statistical system shows that the financial poverty rate of people

[8] In Belgium/Flanders, the first survey was held in 1976. Later, the methodology was applied in some countries/regions in Europe (Deleeck et al., 1992). Comparative research in Europe is now based on EU-SILC data.

[9] For the Netherlands, we also know that the share of the lowest deciles has declined over the long term (see Caminada et al., 2021 and for Belgium tentatively in Robben, Van den Heede and Van Lancker, 2018).

between 16 and 65 years of age has risen almost everywhere[10] in the most developed European welfare states to a level of around 13% (with Sweden as the outlier, where the at-risk-of-poverty within this age category exceeds 16%). In this relatively short period, the Netherlands saw an increase from 9.9% in 2009 to 13.6% in 2019; in Belgium, it went from 12.6% to 13.2% in the same period (see Figure 14).

Figure 2: Evolution of at-risk-of-poverty rate (AROP60), by socio-demographic groups (in %), 2003-2018



Source: Eurostat: EU-SILC, ILC & ECHP survey data.
Note: Low-skilled: less than primary education, primary education and lower secondary education (level 0-2). Education levels of individuals are classified according to the International Standard Classification of Education 2011 version; Very low work intensity households are those aged 0-59 living in households where the adults have worked 20% or less of their total work potential during the last year.

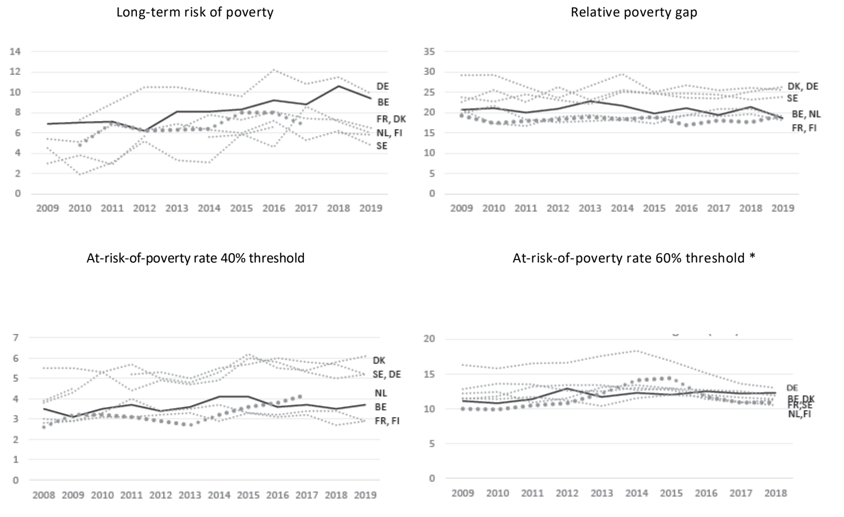
Figure 2 shows for Belgium, the Netherlands, Sweden, Denmark, Finland, Germany and France that the overall upward trend in the 2000s mainly pertained to the low-skilled households with low work intensity and, to a lesser extent, single-parent households. Particularly striking is the rise in the risk of poverty among work-poor households (households where the adults work less than 20% of their potential): on the eve of the pandemic, the social state had become inadequate for 60-80% of these households. Research for Belgium has shown that the increased risk of poverty for work-poor households is attributable to several factors, whereby both the more vulnerable profile of these households (more singles, more migrants, and more long-term sick people) and the inadequacy of

[10] Germany and Finland are two exceptions: in Finland the risk of poverty remained at the same level during this period, while in Germany there was a decrease from 15.5% to 14.5%. (https://appsso.eurostat.ec.europa.eu/nui/ submitViewTableAction.do).

social protection played a role (Hermans et.al. 2020). In Figure 14, we also show the evolution of financial poverty among working individuals. In many countries, this trend was also upwards, but with considerable differences: compare Germany – where the increase was pronounced – with Belgium or the Netherlands, where the increase was limited. The level of in-work poverty is relatively low in these countries (between 2.9% in Finland and 8% in Germany), although it should be noted that the numbers in the population are very significant. It is also striking that, although the at-risk-of-poverty among non-EU migrants is high, trends in most countries have been stable. The numbers in the population have, of course, increased.

The relative poverty threshold (used in Figures 1, 2 and 14) as a benchmark for poverty measurement is often questioned, rightly so. Poverty is a relative concept: poverty thresholds must, therefore, be tied to purchasing power and living standards. But it can be argued that standards expressed in relation to the median income are too relative (and too sensitive to changes in the middle), arbitrary (determined as 40, 50 or 60% of that median income) and that they do not take into account the duration of low income situations nor the size of the income deficits. This is why, in Figure 3, we present the evolution of poverty measured by some alternative measures, such as long-term poverty, the anchored poverty line, the 40% poverty line and the poverty gap.

Figure 3: Evolution of a selection of European poverty indicators for the population of working age (18-64y), 2009-201



*Anchored on 2008

Source: Eurostat: EU-SILC & ECHP survey data.
Note: Long-term at-risk-of-poverty rate: income below the at-risk-of-poverty threshold in the current year and in at least two of the three previous years; Relative poverty gap: the difference between the equivalent median net income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold.

We observe that the increase in poverty measured by the 60% threshold was accompanied by:

a) afairly consistent increase in the number of people with persistent income deficits (the percentage of the population living in households where the equivalised disposable income was below the at-risk-of-poverty threshold for the current year and at least two out of the preceding three years): this means that the measured increase in relative income poverty at one point in time was accompanied by an increase in the duration of income deficits;
b) a constant poverty gap (the difference between the equivalent median net income of individuals below the poverty risk line and the poverty threshold): this means that the growth of the number of income-poor individuals was not accompanied by a reduction of the income gap in this group;
c) a more diffuse picture with the stricter 40% poverty standard: stable in some countries (Belgium) and increasing in others (Sweden), but nowhere was the trend downwards;
d) except in Germany (and in the Netherlands between 2015 and 2018), a rather stable course of anchored poverty (anchored to median incomes 2018). This means that measured with a threshold that do not take into account the impact of changing living standards in the population on relative income poverty, the risk of poverty did not decrease in many countries between 2008 and 2018 and in fact, increased in some countries (Belgium and the Netherlands).

All these indicators suggest that the increase in living standards that occurred between the financial crisis and the health crisis has not done anything for lower incomes. Among the working-age population, the share of people in relative and persistent income poverty has increased, especially among the less educated and jobless households, while income deficits have not declined, even when using a fixed poverty line that does not consider increases in purchasing power and living standards.

We are hampered by breaks in the data series that prevent us from drawing comparisons going further back in time, but we assume that these trends are consistent with the upward poverty trends since the early 1990s, as shown in Figure 1 and documented in many country-specific studies. Data for Flanders suggest a clear break with the past. The disappointing poverty trends in the more recent past follow a strong downward trend in the 1970s, a stabilisation in the course of the 1980s followed by steady growth thereafter (Cantillon et al., 1999).

2.2. Would it have been possible to reduce income poverty?

We defined the main objective of the welfare state as 'improving the living conditions of its most vulnerable members *where possible*'. And so the question arises whether it would have been possible to bring down poverty during the period in question?

Figure 4 shows for a group of European countries the evolution of three factors that are important in reducing poverty: income, employment and net social expenditure. The figure shows that over the past three decades, income, employment and social expenditure have grown everywhere, albeit at different levels and at different speeds. The social expenditure shown in this figure pertains to programmes that involve the redistribution of resources among households or compulsory participation. They can be public or private. The trajectory is variable over different time periods and across countries (with many countries seeing a sharp rise in the wake of the financial crisis, followed by stable or slightly downward trends). But in almost all countries, social spending was higher in 2017 than in 1995. In most countries, also the trend in public social spending for the active population alone does not show a contraction of the welfare state either. Only in Sweden did there appear to be a decline in social spending from the 1990s onwards, but this started from a comparatively high level. Everywhere, social spending for the working-age population was higher in 2010-2020 than in the early 1990s[11] (for a further analysis of the evolution of public social spending, see Greve, 2021).

Stagnating or increasing working age income poverty in many developed welfare states in Europe and beyond also coincided with a deepening and broadening of welfare states' ends and means. Since the second half of the nineties, welfare states were committing to a process of major reorientation that has been interpreted as a "social investment turn" underlining the importance, for the long-term development of human capital, of early childhood development, training, education, life-long learning, and family reconciliation policies. While the social investment turn has been uneven, disparate, not always consistent, outcome indicators suggest that this reorientation coincided with an increase in employment and in many countries with a relative increase in social spending. Welfare state change contributed, also, to significant shifts in the composition of social spending. Although the allocation of spending categories to 'old' and 'new' social spending is fraught with conceptual and methodological problems, in many European countries a gradual shift has been observed toward relatively more spending on new social risks, capacitating services and work-related policies.

[11] Detailed explanation in Greve, 2021. For the evolution of social public expenditure taking account of changing needs, see Meeusen & Nys, 2014.

Conceptually one can contrast a 'high road' to social investment and employment creation, based on investing in work-balance, education, and decent jobs, with a 'low road' to employment creation, pushing unemployed people into low-paid, low-quality jobs or into inadequate benefit schemes. Although there was great diversity in experiences across countries and across time, indicators of welfare state efforts confirm the idea that welfare states started to work harder: spending levels remained high or increased despite employment growth while social policies were reoriented towards activation and social investment. Policy indicators also point, however, to a 'dual transformation' which retrenched social protection for so-called 'old' social risks (unemployment and ill-health) and expanded social policy to 'new social risks' (typically the reconciliation of work and family life) (Fleckenstein et al., 2011).

In Growing Unequal (OECD, 2008) the OECD concluded that for most countries the largest part of the increase in working age poverty rates for the period 1995-2005 was attributed to the decrease of net public transfers to workless households at the bottom of the income scale. Changes in the structure of the population dampened the rise of poverty rates in most countries, while the effect of changes in market-income poverty showed much variation across countries during that period. More recently, considering changes in inequality between 1995 and 2015 Causa and Hermansen (2017) observed a continuation of these trends. More specifically, the study reported that income support provided by social transfers to workless households declined substantially, largely driven by declining insurance transfers and only partially mitigated by increasing assistance transfers in a number of countries (Causa and Hermansen, 2017: 70). Considering changes in EU-countries since the early 90's until the financial crisis we found that the decline in poverty reduction by social transfers was the main determinant of substantial increases in income poverty experienced in the Nordic and Continental European welfare states (Cantillon, Van Mechelen, et al., 2014).

The Social Policy Indicators project from the University of Stockholm (Nelson, Fredriksson, et al., 2020) confirms these observations: they provide indications of reduced cash support for the unemployed although there has been a great deal of heterogeneity across countries and time periods (see also Immervoll & Richardson, 2011; Obinger & Starke, 2015). Drawing on the CSP Minimum Income Protection Indicators (MIPI), Van Mechelen and Marchal (2013) showed that the minimum income benefit packages for the able bodied in Europe have become increasingly inadequate in providing income levels sufficient to raise households above the EU at risk-of poverty rate. The overall tendency for 1990s was one of almost uniform erosion of minimum benefit levels. This downward trend changed somewhat in the 2000s, when the erosion of the level of benefit packages came to a halt in a number of countries while in a few countries there was evidence of a partial reversal of the declining trend (Cantillon, Marchal & Luigjes, 2019; Marchal, Marx & Van Mechelen, 2014). Comparisons across time and space suggest that the inadequacy of minimum income protection is a long-standing and fairly universal problem in mature welfare states which might point in the direction that there is more to it than just individual policy (non) interventions (Cantillon, Goedemé & Hills, 2018; Cantillon, Marchal & Luigjes, 2019; Marx & Nelson, 2013). Also the tightened eligibility criteria and increased conditionalities, especially in unemployment benefit and social assistance schemes, point to shrinking social protection for work-poor households (Eichhorst & Konle-Seidl, 2008; Knotz, 2018; Weishaupt, 2013). Additionally, more people work in non-standard jobs, that do not always entitle social insurance protection (Bonoli & Natali, 2012; Clasen & Clegg, 2011; Immervoll, 2009; Immervoll & Scarpetta, 2012).

Trends were not unequivocal, most of the research has focused on brief periods of time while cross-country differences are considerable. However, there seems to be a common pattern of: a) increasing relative income poverty, especially among work poor, low skilled households; b) stagnating or increasing welfare state efforts, despite employment growth, both in terms of spending and caseload; c) spending shifts towards services and new social risks associated with social investment and work-oriented welfare reforms; d) a reduced adequacy of unemployment benefits and social assistance pointing to a dual transformation of the welfare state. This raises the question whether it would have been possible to structurally replace spending on cash benefits for working-age households by social investment and employment creation without increasing poverty?

Figure 4: Changes in the employment rate, total net social expenditure and net disposable household income (growth in real terms), 1995-2019

Source: Eurostat: LFS data, OECD Social Expenditure Database (SOCX), OECD National Accounts Statistics Database.

3. The structural causes of the failing welfare state

To what extent was the combination of income and job growth and disappointing poverty trends a matter of political choice, of structural constraints, or of functional requirements? We know a great deal about the impact of social policy on poverty: work is important, there is a fairly strong correlation between income poverty and the market income distribution or 'pre-distribution while the size and the progressivity of social spending are key determinants.[12] We know that policy interventions and their impact on poverty can differ greatly from one country to another: what works in one country is not necessarily a good remedy in another. Social policy research has also demonstrated the superiority of the Scandinavian and Rhineland models: due to high levels of social spending, strong social security, broad public services and a more equal distribution of wages, these countries consistently outperform Anglo-Saxon countries (Kammer et al., 2012). The question arises how the fairly generally rising poverty rates over a long period of at least two decades can be explained in countries that belong to the best-performing social models worldwide.

In explaining changing welfare states, approaches taken in political economy tend to stress the role of partisan politics (Esping-Andersen, 1990; Esping-Andersen, 2017; Esping-Andersen, Gallie, et al., 2002; Korpi, 1983; Korpi, 1989; Korpi, 2006). In explaining rising inequalities Stiglitz (2012), Atkinson (2015) and De Grauwe (2020) referred to neoliberal policies. Social policy researchers have pointed to changing popular deservingness opinions (van Oorschot, Opielka & Pfau-Effinger, 2008) while labour market economists have stressed the weakening of trade unionism (Atkinson, Guio, & Marlier, 2017; Freeman & Medoff, 1984; Gumbrell-McCormick & Hyman, 2013). These explanations refer to "power resource" theories which see the welfare state as the outcome of democratic class struggle. There is mounting empirical evidence of a gradual decline of partisanship (Kwon & Pontusson, 2010) (see (Bandau & Ahrens, 2020) for an overview) which has been explained: by an ever more restricted policy space in the face of economic pressures (Pierson, 2001); by income and class biases in political representation (Burgoon & Schakel, 2022) and by changing opinions on deservingness. There is a case to made that power resources was important for the creation of big, egalitarian welfare states but that economic, functional and structural changes were the key driving forces over the past 50 years.

A second strand in the literature follows a "functionalist logic": functional demands for or against social policies emerge from economic and social change. From this perspective, in their seminal works, Polanyi (1944) and Wilensky (1974) respectively explained the emergence and the growth of the pre- and post-war

[12] For an overview, see Cantillon, 2021.

welfare state as a *necessity* for capitalism to flourish (Garland, 2016). Polanyi's "double movement" referred to the dialectical process of commodification and decommodification as driving forces behind the becoming of the welfare state (Polanyi, 1944). He considered that under modern capitalist conditions, a supportive network of non-commodified institutions was *necessary* for an economic system that utilizes labour as if it were a commodity. In *The Welfare State and Equality* (1974), Wilensky showed that the increase in government expenditures in post war welfare states was associated more with the development of economic and societal structures and the ensuing functional necessities than with partisan politics or ideology. In this line of thought, the fading away of the effectiveness of mature welfare states on poverty reduction might be explained by the fact that, because of the changed skill requirements of de-industrialized economies, reducing poverty may have become less of a necessity for welfare capitalism, an idea expressed, for example, by Rosanvallon in his book *La Nouvelle Question Sociale* (2015).

A third theoretical strand takes a "structural logic". In *Global Inequality*, Branko Milanović (2016) puts forward the notion of 'endogenous policies': technology, openness and policy are dependent upon each other and impossible to separate from each other in any meaningful way (2016: 132). Sociologists have also pointed to social factors to act as constraints on policy specific mechanisms Individualization for instance might force politicians to individualize tax regimes thereby reducing the progressivity of income taxes (Bonnet, 2019). In this line of reasoning, the reduction of the poverty alleviating function of mature welfare states might be explained by structural constraints linked to social and economic transformations. This leads to the hypothesis that the weakening of the poverty reducing capacity of contemporary welfare states is *structurally* related to changes in the labour market, women's emancipation, individualization, migration and ensuing *endogenous* policy reforms.

All three approaches, each from their perspective, present some compelling and complementary explanations of the decline of the poverty reducing capacity of contemporary welfare states. Echoing Iversen and Soskice (2015) who argued that "in advanced sectors, we see *politics for markets* in maintaining insurance-based welfare states...*whereas* in low-skill sectors ... our analysis is in line with *politics against markets"* we introduce the notion of "symbiotic contradiction": capitalism and the welfare state are intertwined in contradictory but also symbiotic relationships which are in constant flux, depending on economic and social change (Cantillon & Buysse, 2016). As a consequence of major social and economic transformations more mutual interdependence was accompanied by growing contradictions. In those situations where economic and social goals became more intertwined (for instance: fostering the work-family balance is needed for families and for firms) the welfare state started to work harder whereas, in situations where contradictions increased (for instance: adequate social protection for low skilled persons increases the cost of low productive work) the welfare state increasingly faced constraints on poverty reduction (Cantillon, Goedemé & Hills, 2018; Cantillon, Parolin & Collado, 2020). As a consequence, contrary to the first and second ages of welfare states - when poverty reduction was a vital and concurrent element of welfare capitalism - the third era of the welfare state is characterized by structural tensions between poverty reduction on the one hand, the new economy and modern family-hood on the other.

3.1. The post-war virtuous circle

The post-war welfare state was based on a threefold agreement between employers, trade unions and the government. Firstly, the trade union movement was to keep its wage demands within the limits of productivity growth and to cooperate loyally with the companies. Secondly, employers were to meet wage demands within those limits, strive for quality jobs, as well as contribute to the development of social security. Thirdly, the more implicit agreement was that women would provide unpaid care for children, the sick and the elderly.

In Belgium, the Social Solidarity Agreement drafted in 1944 by representatives of employers and trade-unions in exile was the shared compass to the development of the post war welfare state and the successful reduction of poverty. Growth, full employment (for men), higher wages and redistribution (within the nation, by means of national insurance, based on paid work and progressive income taxation) were to become the objectives of post-war policy. The social contract also prescribed a fairly precise methodology: it contained the principles of social dialogue and outlined the structure of the social insurance system, which, incidentally, was fully in line with what, in part and in some dispersed fashion, already existed before the war.

The substantive significance of the post-war social pacts for the further evolution of society can hardly be overestimated. In essence, they represented a new paradigm: mutual recognition of, and cooperation between, labour and capital superseded conflict and antagonism. Prosperity for all would be achieved through labour and through higher wages and social insurance. The generalised rise of the welfare state and the increasing role of the government was linked to industrialisation, the need to create collective corrective mechanisms, the pursuit of social peace and the need for coordination in a society that was becoming increasingly complex (Wilensky, 1975). The welfare state as a necessity, not against but for the market.

In a short time, the social welfare state brought prosperity to a growing number of people: there was full employment for men and the share of wages and salaries in the national income grew steadily. Social security brought social progress and stabilised the economic and political system. Education reached a growing number of working-class children and access to quality healthcare became widespread.

The post-war success was also largely attributable to the also non-state character of the welfare state. Social movements around the trade unions played a key role in the democratisation of education, social promotion and the emancipation of the working classes.

Thus, the dream that capitalist growth and social redistribution would lead to better living conditions for all was about to be realised. A virtuous circle was created: more and better work led to higher incomes for families, the state and social organisations, and higher wages translated into better and more accessible social protection. Poverty was reduced (but not eliminated), the worker 'deproletarised'. Although comparable time series are lacking, it is generally assumed that during the golden 60s, poverty was pushed back to a greater or lesser extent. In Belgium, this trend continued into the 70s, but stabilised thereafter, after which an upward trend set in. Why did the post-war virtuous circle come to a standstill?

In his penultimate book *Inequality*, Atkinson put it like this: *'The welfare state and the expansion of transfers, the rising share of wages, the reduced concentration of personal wealth, and the reduced dispersion of wages are candidate explanations for the period of falling European income inequality, while the main reason that equalization came to an end appears to be … that these factors have gone to the reverse or come to an end.'* (Atkinson, 2017: 75) In this line of thought, we explore the impact of social and economic change on the distribution of jobs (and social risks) among individuals and households, the growth of low wages and the ensuing poverty reducing capacity of the welfare state.

3.2. The distribution of jobs

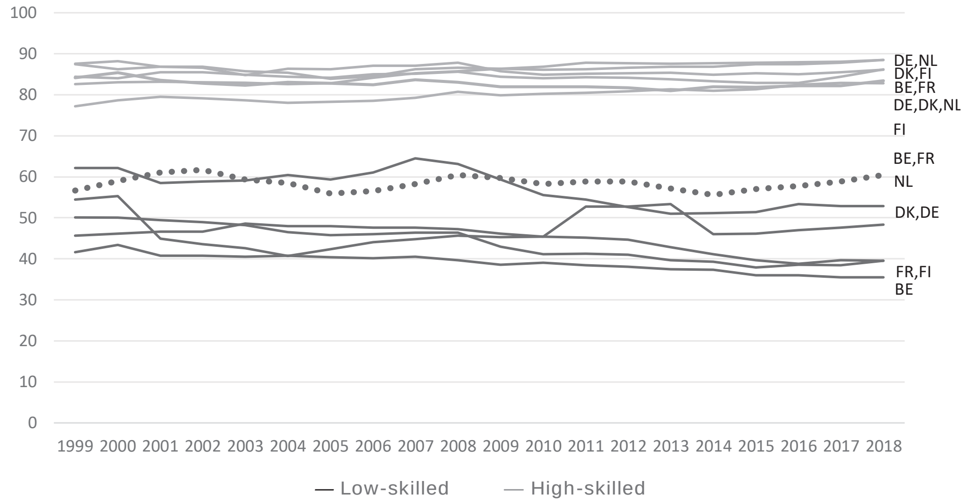
Unequal distribution among individuals

Since the 70s, full employment for men gave way to a pursuit of full employment for men and women. Employment growth,however, mainly benefited the growing group of higher educated men and women. This created a dual job market with (nearly) full employment of higher educated men and women on the one hand and structural underemployment of lower educated men and women on the other.

Belgium and the Netherlands are polar opposites when it comes to employment: Belgium is one of the worst performing countries in Europe, while the Netherlands is the leading country. In Belgium, the employment rate for low-skilled workers has consistently been below 40% for two decades. The Netherlands is doing considerably better, but there too, the employment rate among the lower educated barely surpassed 60% (see Figure 7)[13].

[13] See for Belgium the report of the High Council for Employment, and for the Netherlands, among others, the excellent report of the Scientific Council for Government Policy: the Superior Job, 2020.

Figure 7: Evolution employment rate by level of education, 1999-2018.



Source: Eurostat: European Labour-Force survey data.
Note: Low-skilled: less than primary education, primary education and lower secondary education (levels 0-2); medium-skilled: upper secondary and higher, non-tertiary education (levels 3 and 4); high-skilled: higher (tertiary) education (levels 5-8). The educational levels are classified according to the "International Standard Classification of Education" version of 2011.

How can the structurally low employment rates of the low-skilled be explained? An in-depth analysis of the lower skilled job market by the Belgian High Council for Employment identified the following factors: the lack of low-skilled jobs, displacement effects, inactivity partly related to unpaid family care burdens and low work incentives at the lower end of the job market.

There is, first, a lack of low-skilled jobs. In Belgium there are three times as many low-skilled workers as there are low-skilled jobs. The figures are better in the Netherlands, but there too, there are less than 50 low-skilled jobs for every 100 low-skilled workers (High Council for Employment, 2020).

There are, secondly, displacement effects. Over the past decades, technology's impact on the job market has mainly been felt in the middle segments of the job market, due to the growing possibilities of having more intellectual tasks performed by, and with, technology. The important work of Goos, Manning and Salomons has shown that it was mainly routine jobs in the middle of the distribution that were lost, rather than the low-productivity jobs at the bottom (Goos, Manning & Salomons, 2009). In Belgium, the share of high-skilled jobs rose from just under 40% in 1993 to almost 50% in 2019; in the same period, the share of medium-skilled jobs fell from 53% to 42% while the share of low-skilled jobs remained relatively stable at around 10% (High Council for Employment, 2020). It is likely that such shifts cause displacement effects: medium-skilled people take up low-skilled jobs.

Figure 8 shows the evolution of the share of low- and medium-skilled people in low-skilled and in higher-skilled occupations for Belgium. At each qualification level, we can discern a strong and persistent decrease in the proportion of lower-skilled people and an increase in the proportion of higher-skilled people. This indicates an increase in the complexity of work, also in lower-skilled jobs, and the displacement of lower-skilled workers by higher-skilled workers. This observation is important: higher employment rates for lower-skilled workers require not only low-productivity jobs to open up, but also jobs in the medium-skilled segments of the labour market.

The higher employment rates in the Netherlands compared to Belgium are partly the result of structurally more part-time work: the total volume of labour (expressed in full-time equivalents) is fairly similar in both countries, but it is better distributed in the Netherlands. More recently, in the Netherlands as in Germany, the more flexible nature of work has been an important employment strategy that has culminated in a larger number of (mainly lower-skilled) people in work. The flexibilisation of work has more than doubled in the Netherlands in recent decades, with temporary workers, on-call contracts and agency workers, as well as the self-employed without staff (the self-employed, who are the most vulnerable to poverty in the Netherlands; CBS, 2019; WRR, 2019).

Unequal distribution among households

The unequal distribution of jobs among individuals is reinforced at the household level by individualization and social homogamy (Cantillon, 2011; Corluy & Vandenbroucke, 2017). Since people with similar characteristics, such as education, often find each other on the marriage market, the skewed distribution of jobs over individuals has created a polarisation between a growing group of 'work-rich' families (where everybody is working) and a group of work-poor households (where nobody is working). The latter group comprises about 12% of the families in Belgium and 8% in the Netherlands (see Figure 9).

While there are variations in levels between countries, the shares of work-poor households have remained fairly stable during the period of strong employment growth in most countries.[14] Thus, employment growth has mainly benefited work-richer households, typically more highly skilled second earners. Work-poor households tend to be low-skilled and single, with or without children, and of course highly dependent on social security[15].

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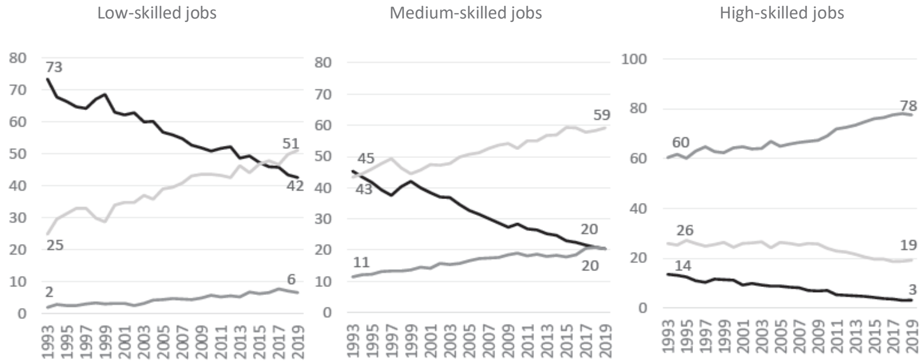
[14] Germany forms an exception: there, the share of work-poor households fell from 12% in 1998 to 8% in 2018, but this trend was accompanied by a sharp increase in 'in-work poverty', see Figure 11.

[15] For an in-depth analysis of the profile of work-poor households in a comparative perspective, see Vandenbroucke and Corluy, 2015.

Figure 8: Evolution of employment by level of qualification and by level of education (as a % of the corresponding total), Belgium, 1993-2019

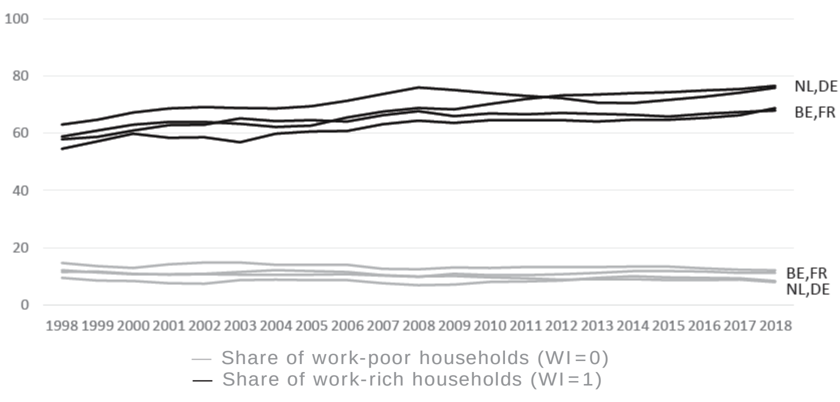


Source: Eurostat: European Labour-Force survey data, based on High Council for Employment (2021). *Report 2020. What is the position of the low-skilled on the job market in Belgium?.*
Note: Low-skilled: less than primary education, primary education and lower secondary education (levels 0-2); medium-skilled: upper secondary and higher, non-tertiary education (levels 3 and 4); high-skilled: higher (tertiary) education (levels 5-8). The educational levels are classified according to the "International Standard Classification of Education" version of 2011. Qualification of occupations are based on Maselli (2012): high-skilled occupations: ISCO classification 2008 category 1-3; medium-skilled occupations: ISCO classification 2008 category 4-8; low-skilled occupations: ISCO classification 2008 category 9.

Unequal distribution of paid and unpaid work

The post-war agreements on care work were based on three assumptions: full employment for men, unpaid family work by women and wages as the only income sufficient to support families. These agreements were rendered obsolete by women's emancipation, individualisation and slow wage growth. As a consequence, in the dual-income era, a single wage has become insufficient and unpaid care work unaffordable for households at the lower end of the wage distribution.

Figure 9: Polarisation of work-rich and work-poor families, 1998-2018.



Source: European Labour Force Survey Data, calculations by Dries Lens.

Even an average salary as a sole income is often too low for a decent standard of living. Unpaid care work and informal care are, therefore, in principle only possible for families where the only income is well above average. In practice, however, we see that it is mainly lower educated women who work unpaid. Not working in order to 'take care of each other' is therefore intricately connected to poverty situations (Ghysels & De Backer, 2007; Vinck & Brekke, 2020).

The welfare state defines rights and duties on the basis of an economic approach to work as the human activity that leads to the production of goods and services that can be expressed in monetary terms. However, emancipation has exposed a whole range of essential activities that are of great social value but which have no monetary value. These activities remain invisible, without economic value and without social security rights (unless derived). This is reflected today in the high poverty rates among families who have to invest heavily in caring for others.

It is worth noting that the unequal distribution of paid and unpaid work among individuals and families permeates society profoundly. After all, a low work intensity is by no means an individual risk that just happens to be linked to the life cycle and affects everyone in the same way. Work poverty is a highly multi-layered social risk: it particularly affects people whose parents were already low-skilled and who themselves belonged to lower socio-economic groups (Pintelon et al., 2013). As a result, the skewed distribution of work and the polarisation of jobs across households also entails a strong social divide within society: the growing group of 'hard-working families' belongs to different social strata of the population than the group of work-poor families. Economic exclusion goes hand in hand with social, cultural and political exclusion. This is what Pierre Rosanvallon aptly coined "la nouvelle question sociale" back in 1992.

3.3. Slow wage growth and the cost of closing the poverty gap

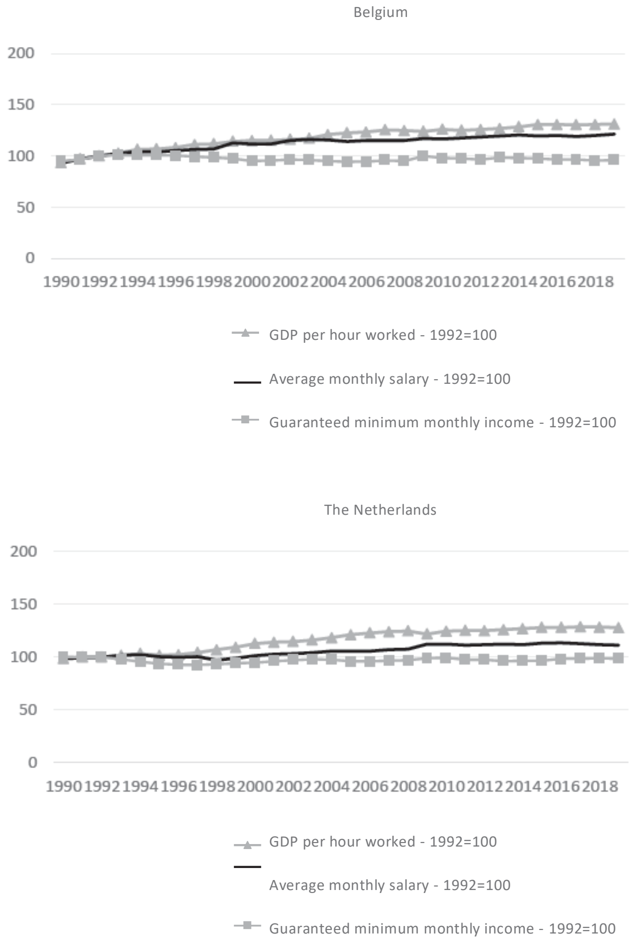
Figure 10 shows how, since the second half of the 1990s, average wages and especially minimum wages have lagged behind productivity growth in the Netherlands and Belgium[16]. There are considerable differences between countries, but the lagging behind of low wages, albeit in varying periods of time,[17] was a

[16] In order to comprehend the disappointing poverty trends, wage growth at the bottom of the distribution is especially pertinent. The guaranteed minimum wage shown in Figure 5 is a first indication of this, but since the majority of employees with a minimum wage can fall back on higher sectoral minimum levels, it is also important to look at the evolution of the gross wages of full-time employees, divided into deciles. This shows that all wages at the bottom of the distribution lag behind: in Belgium, over a 20-year period between 1999 and 2018, gross wages increased on average by 4.4% in the first decile, by 5.2% in the second decile, and by 14.4% in the ninth decile.

[17] In the Netherlands, wages were frozen for a long time in the 1980s and then there was also an intervention in the minimum wage. Also in the first half of the 1990s, the minimum wage was kept at the same level for several years. From the mid-1990s onwards, the minimum wage has been in line with collective wage agreements (Central Statistics Bureau Netherlands, 2019, https://www.cbs.nl/nl-nl/ nieuws/2019/08/vijftig-jaar-minimumloon).

common and thus probably partly endogenous trend in the world of rich welfare states (see Nolan, 2018 for a comprehensive analysis). Research has shown that this trend does not directly affect poverty rates: after all, a growing number of low-wage earners live in households where there are other incomes (Marx & Nolan, 2014). But indirectly – through its impact on the social floor – this trend contributed to disappointing poverty trends: because wage floors declined relative to median household incomes (and thus relative to poverty thresholds) social safety nets have become structurally less adequate.

Figure 10: Evolution productivity and wages, average monthly wage and minimum wage, Belgium and the Netherlands, 1990-2019.

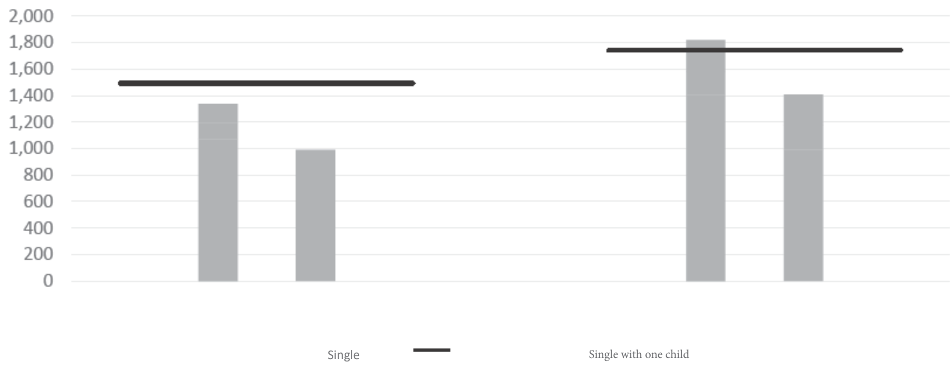


Source: OECD: productivity data, labour and earnings data.
Note: Real guaranteed minimum monthly income at 22y with 12 months of service; 2015 introduction statutory minimum monthly income Germany.

Low wages determine the floor of social security. In a study for a large number of countries, we found for the period 2005-2015 a clear link between the development of the social floor on the one hand and changes in minimum wages on the other: a fall of 10 percentage points in the lowest gross wages in relation to the median income went hand in hand with a drop by 2.47 percentage points in relation to the median income. (Cantillon, Parolin & Collado, 2020).[18]

Since lower wages for families with children are close to the poverty line, pressure on low wages leads to structural adequacy issues in social security.[19] Figure 11 shows that in Belgium, the minimum wage is insufficient for a single parent who works full-time, has at least one dependent child and rents on the private housing market. In other countries, we find similar patterns, although there are substantial differences (see Cantillon et al., 2020). This has made it difficult for welfare states to keep work attractive for low wage earners and at the same time to keep the promise of adequate social protection. Raising the social floor presupposes, after all, that the incomes of low-wage earners are also raised first: either by placing the burden on employers (increase in low gross wages), or through additional costs for governments (work bonuses, tax credits and/or family allowances to raise the net incomes of low-wage earners).

Figure 6: The minimum wage compared to reference budgets (RB), Belgium, 2020.



Source: From Cantillon, Marchal, Peeters, Penne, Storms (2020). *Huishoudbudgetten en sociale minima in lockdown, COVIVAT Beleidsnota 2.* (Household budgets and social minimum levels in lockdown, COVIVAT Policy note 2).

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18 Only one or two countries in the European Union have been able to reconcile adequate minimum wages with adequate minimum benefits, and that in very exceptional circumstances: Ireland after the Great Depression and the fall of national income, and Denmark where a system with very small labour incentives operates. See, among others, Marchal, 2017

19 See Marchal, 2017.

Merely closing the poverty gap was estimated at 2% of total disposable household income in Belgium (and at 2.5% and 3.2%, respectively, in the UK and Denmark; see the first column in Table 1). But raising only the lowest incomes creates unemployment traps at the bottom of the distribution. The second column of Table 1 therefore shows the simulated cost of closing the poverty gap with 'overspill': in this exercise, not only is the poverty gap closed but the incomes in the first three deciles are also proportionally lifted. In this scenario, the cost of closing the poverty gap is roughly doubled: 4.2% of disposable income in Belgium, 5.7% in the UK and 7.1% in Denmark. This is, moreover, not the end of the matter because higher up on the income distribution, from the fourth decile onwards, it will result in low wage traps or promotion traps.

In any case, the cost of closing the poverty gap is very substantial, although there will be variations depending on the extent to which it is deemed necessary, or desirable, to compensate for unemployment traps and promotion traps higher up in the distribution. Moreover, the calculated costs shown in Table 1 assume a perfectly selective allocation of resources which is an unrealistic assumption, *inter alia* because of the problem of non-take-up. An important question, therefore, is according to which methodology the poverty gap is closed: selectively by means of income-tested measures, such as social assistance, or by means of universal measures, such as child allowances or a partial basic income to lift the entire income distribution or by focussing on the affordability of essential services rather than on income adequacy, for example through basic social services (childcare, water, electricity...).

Table 1: The cost of closing the poverty gap (in % of the disposable income of all households).

	Cost with 100% deduction	Cost with overspill (deduction BE=58%, DK=50%, UK=52%)
BEDK	2.2	4.2
UK	3.2	7.1
	2.5	5.7

Source: from Collado et al. (2019)

3.4 The dualisation of social risks and new Matthew effects

The post-war virtuous cycle relied heavily on the technique of social insurance or horizontal redistribution: by pooling risks that were widely spread across the population, social security was the strongest poverty-reducing instrument of the post-war welfare state. It still is, but the unequal distribution of work among individuals and households has led to a dualisation of social risks, which has had an impact on the very *modus operandi* of social insurance.

Increasingly, social security has to take care of social risks that are strongly concentrated among groups in society. On the one hand, the growing number of work-rich families has created ‘new social risks’: not only unemployment, illness and disability can prevent paid work, but now also the care for children and family and lifelong learning. Hence the need - for families and firms - for childcare, all kinds of care leave and other alternatives for family care. The typical recipients of the social spending involved are higher-skilled, work-rich families. Thus, unintentionally, the coverage of new social risks creates new Matthew effects in the distribution of social expenditure (Cantillon, 2011; Parolin & Van Lancker, 2021). On the other hand, the ‘old social risks’ (unemployment, disability and unpaid care work) are more prevalent among lower-educated, work-poor households at the bottom of the distribution. They are ‘bad’ risks in two senses. Firstly, they are concentrated among people with a low contributory capacity who are often long-term recipients of benefits. Secondly, families affected by these class based risks are at greatly increased risk of poverty because of the coincidence of these risks with other vulnerabilities such low education, poor health and weak social networks (Pintelon et al., 2013).

Traditionally, social insurances are the strongest policy instrument to reduce poverty. This has to do with the size of the budgets involved (associated with their universal design) and with the fact that horizontal redistribution generates considerable vertical redistribution too (Cantillon, 2019). However, the concentration of social risks has put pressure on that mechanism. Old social risks such as unemployment and disability are more prevalent among workless families, thus more correlated with an ex-ante low contributory capacity and ex post high poverty risks. These risks have therefore become less ‘insurable’ and have been increasingly taken over by social assistance which is inherently less adequate in poverty reduction. Meanwhile social protection against ‘new social risks’ (e.g. parental leave) has improved in many countries making social insurance more oriented towards work-rich households. The polarization of social risks may also have had an impact on the legitimacy of social insurance systems and on opinions about deservingness.

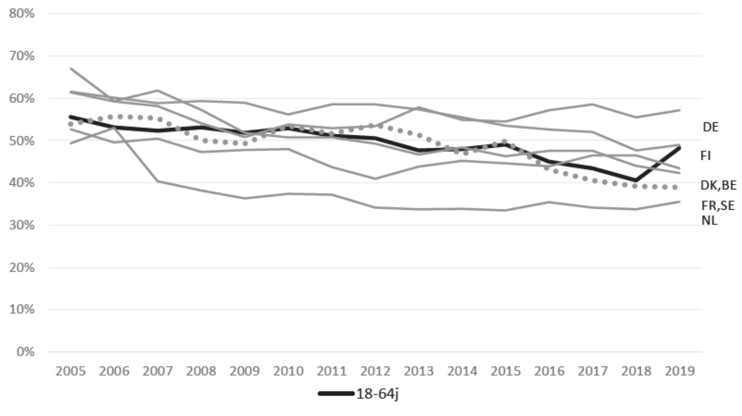
That is why in most countries[20], it is no coincidence that coverage of long-term unemployment has increasingly come to be included in the sphere of social assistance. This is problematic from the point of view of poverty reduction, as the mechanism of social assistance suffers from inherent problems, such as non-take-up (see, among others, Bargain et al., 2012), high operational costs and discretion (De Wilde & Marchal, 2019). Social assistance is less preventative and more error-

[20] Also in Belgium, where these benefits still fall within the social security system but have a strongly degressive character.

prone and, as such, offer less security than the universal protection of social security. Moreover, social assistance benefits are structurally inadequate: even in the most generous settings the minimum income protection for unemployed families with children is inadequate (Marchal, 2017).

The second problem is the Matthew effect in the distribution of social spending. In Figure 4, we showed the evolution of net social expenditure. This remained high and even showed an upward trend in many countries. Simulation research also showed that in some countries, the *design* of social security became more redistributive. This is, for example, what Bargain and Callan (2010) and Decoster et al. (2015) found for France, Belgium and the UK (see also Hills et al., 2019)[21]. Yet, social security's capacity to reduce poverty has declined (Cause & Harmansen, 2019). Figure 12 shows the rather generally reduced effectiveness of social security in combating income poverty among the working-age population. This trend is at least partly endogenous. On the one hand, a growing share of expenditure on new social risks accrued to work-rich families. On the other hand, benefits for working-poor households were under pressure from the slow growth of low wages and structural unemployment among the low-skilled. The related problem of unemployment traps was tackled with more conditions and lower benefits (in Belgium with the degressivity of the benefits for the long-term unemployed). This refers to what has been coined as a 'dual transformation' which retrenched social protection for so-called 'old' social risks (unemployment and ill-health) and expanded social policy to 'new social risks' (typically the reconciliation of work and family life, see Fleckenstein, Saunders and Seeleib-Kaiser, 2011).

Figure 10: Evolution effectiveness of social protection by age: reduction in poverty risk level caused by social transfers, 2005-2019.



Source: EUROSTAT: EU-SILC and ECHP survey data.
Note: Social transfers exclude pensions for 18-64y, including pensions for those >=64y.

[21] In some other countries and in other periods, policies were sometimes less favourable to redistribution (for Sweden, see Cronert and Palme, 2019).

3.5. The social trilemma, or why the active welfare state failed

The welfare state is resilient, flexible and accommodating. Since the 1970s, it has accompanied the transition to the new economy, accommodated the emancipation of women and absorbed the consequences of individualisation. The modus operandi was gradually adjusted, which, in turn, affected the direction and speed of the economic and social changes at the end of the 20th and beginning of the 21st century.
From the second half of the 1990s onwards, as the post-industrial transition and women's emancipation slowly approached completion, many countries moved into Giddens's Third Way, the new strategy of the active welfare state, also known as the 'social investment state'.[22] Attention shifted from 'preparing' instead of 'repairing', from social protection to job creation to opening up the demand for domestic services, to 'activating' the unemployed and to investing in human capital (childcare, education, training). Employment rose, the welfare state grew to become a companion of women's emancipation; care for children and the elderly was extended and new benefits were created. During this period, social spending on 'new social risks' increased in most countries (Hemerijck, 2017).

In essence, the active welfare state aimed to restore the post-war virtuous cycle: more work would lead to higher incomes – for families and for the state – and so to less poverty. But the new jobs came at a price. They were unevenly distributed and did not always provide protection from poverty. Significant employment gains did, not translate into a proportional decline of pre-transfer poverty: partly because of job polarization and partly because of the increase of in-work-poverty. Figure 13 shows the evolution of the number of working poor. With the exception of Finland, we see increasing trends everywhere. The employment strategy was also accompanied by a high budgetary cost (in Belgium mainly due to reductions in taxes and subsidies to reduce the cost of labour, such as service vouchers).

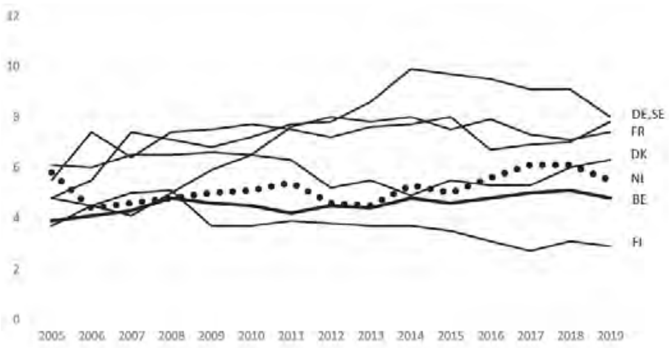
Instead of the intended virtuous cycle, the active welfare state faced a trilemma. In the new socio-economic order, it became difficult to combine full employment and poverty reduction within budgetary margins. To single out not only the direct effects of policy changes on poverty but also the impact on work incentives that may affect pre-transfer poverty, Decoster et al. (2018) charted how changes in the Belgian tax and benefit system over the past three decades have had an impact on three dimensions: equity, efficiency and budgetary position. They concluded

[22] There are many different views on how social investment strategies should be designed, and it is certainly not the case that the politically dominant views in Belgium and the Netherlands were based on a one-sided belief in social investment rather than social protection. In Why we Need a New Welfare State, Esping-Andersen, Hemerijck, Gallie and Myles wrote that strong income protection is the sine qua non for an effective social investment strategy. Vandenbroucke put it as follows: "We are strongly in favour of a 'high road' to employment creation, based on adequate social protection and social investment ..." (Cantillon & Vandenbroucke, 2014: 133).

that a hard balance had to be struck between safeguarding sound public finances, redistribution and work incentives. Collado et al. (2019) also showed the difficulty of reducing poverty while not discouraging work nor running large public deficits: the observed increase in poverty among Belgian jobless households from 2005 to 2015 (which was very significant) resulted not only from benefit retrenchment but also from the deadweight cost of increasing benefits more than in-work incomes. Such findings are in line with a generic version of Iversen and Wren's social trilemma hypothesis and the 'iron triangle' of welfare reform: when wage floors decline relative to median household incomes (and thus relative to poverty thresholds) increasing transfers to the poor comes at the cost of either worsening financial work incentives or stronger redistributive effort, if in-work transfers are also to be increased so as to maintain work incentives and to avoid in-work poverty[23].

This social trilemma was also found in a study of the evolution, between 1994 and 2007, of minimum wages and minimum income protection for a number of typical households in EU-countries. In our paper '*A Glass Ceiling on Poverty Reduction'* together with Parolin and Collado (2020) we found that the observed deterioration of the social floor compared to the poverty threshold was *not* associated with deliberate cuts in benefit levels for the poor: in general, net disposable incomes of families on social assistance evolved at a similar pace as the net income packages of corresponding families on low wages. Rather, the erosion of the minimum social floor appeared to have been related to sinking gross low wages compared to median household incomes.

Figure 11: Evolution monetary poverty risk (AROP60) of the working population (in %), 2005-2019.



Source: EUROSTAT: EU-SILC data.

[23] The Dutch Central Planning Bureau and the Social and Cultural Planning Bureau have summarised the results of the simulation of 60 policy options and three system changes to reduce poverty as follows: "Targeted measures to reduce poverty, such as an increase in social assistance, are effective, but come at a cost and are often at the expense of jobs." (Kansrijk Armoedebeleid, 2020).

The policies of countries differed: in Sweden, social protection was reduced,[24] the Netherlands and Germany went to great lengths to make labour more flexible and were successful in the area of employment, while Belgium and France were slow to reform, with the result that employment rates lagged behind, especially for the less educated. However, poverty trends were unfavourable in every instance.

The Third Way's new policy paradigm had been hoping for a rerun of the post-war virtuous circle by investing in equal opportunities, for instance through childcare. But the active welfare state held overly optimistic expectations about the effectiveness of equal opportunity policies: while ambitions cannot be high enough, stratification research shows that there are major institutional, sociological and individual barriers to real success (Bukodi & Paskov, 2018). Better policies can lower the barriers, but can never completely eliminate them. That is why 'social investment spending' almost inevitably generates Matthew effects (Bonoli, Cantillon & Van Lancker, 2017; Pavolini & Van Lancker, 2018). As the disadvantaged find it more difficult to find their way to childcare, college, university and subsequently the job market, the more affluent benefit more from the associated social spending.

Matthew effects may be temporary: the positive effects of a social investment policy may only become visible over time (Plavgo & Hemerijck, 2021). But the unequal use can, in the longer term, also negate the potential levelling effects of, for instance, childcare (Parolin & Van Lancker, 2021). If children from lower social backgrounds make less use of capacity-enhancing social services, the social divide is likely to widen in the long run.

Perhaps the active welfare state also expected too much of the state. Governments must create conditions for equal opportunities, but social promotion must be carried and driven from below, by schools, social organisations, place-based social action . Otherwise, the equal opportunities policy is in danger of being caught up in regulations that are too bureaucratic, coercive and punitive.

Finally, the active welfare state, by focusing on paid labour, did not pay enough attention to the appreciation of paid and unpaid care work. For that reason, too, it failed to reconcile work and poverty reduction.

3.6. Combating poverty as a necessity

The health crisis reminded us the symbiotic relationship between the social state and the economy so nicely worded by David Garland: "The welfare state is an essential basis for human flourishing in capitalist society and an essential

[24] In Sweden, poverty has risen sharply. This is down to a very one-sided implementation of the social investment paradigm (see Cronert & Palme, 2019).

basis for capitalist flourishing in human society”.[25] Today again the welfare state presents itself as a crucial crisis-manager. It is far too early to say if, and how, the pandemic and the inflation crisis will affect the social trilemma and what the long-term effects will be. The future is unpredictable, but it is safe to assume that the social trilemma will not disappear. Social spending has increased enormously, the ageing costs are far from reaching their peak while many observers expect further pressure on the opportunities for quality work for lower educated people as a consequence of digitalisation. A recent OECD report assumes that the number of jobs occupied by low-skilled workers will fall, as will their employment rate (OECD, 2020).

Meanwhile, the reduction of poverty among working-age households and their children has become a necessity for a successful climate transition. In 2009, Nicholas Stern wrote very poignantly: ‘The two great challenges we face are overcoming poverty and managing climate change. If we fail on one, we will fail on the other’. Some people are more threatened by global warming than others, but some are also more affected by the policies needed to slow down climate change than others. Major shifts will be needed in economic production and – consequently - in the job market. Some stand to benefit, while others will lose their jobs. Social security will have to be a strong and reliable partner in the climate transition. The ecological shift of the economy will also have to be accompanied by changes in behaviour. The ‘polluter pays’ principle is clear, but it is partly at odds with the principles of distributive justice. Carbon taxes, for example, hit the bottom strata relatively harder than the top ones. Moreover, low-wage earners and jobless households often lack the financial capacity to switch to more environmentally-friendly behaviour. As such, climate policy without a clear strategy to reduce income poverty will not work (see Leroy, 2021).[26]

In ageing societies, increasing income poverty among the working-age population raises an important issue of intergenerational equity. Poverty trends within the elderly population vary greatly from country to country. Figure 14 shows that in many countries, including Belgium, there has been a sharp decline in income poverty among the over-65s. In other countries, such as the Netherlands and Sweden, the trends were strongly upward (although starting from comparatively low levels). But almost everywhere, poverty levels among the young are higher than among the old. The crisis may have exacerbated this imbalance. After all, in a recession, pensions are maintained while the incomes of the active population decrease. This is a major concern because, in ageing societies, a balanced income distribution between young and old is a necessary condition for social cohesion.

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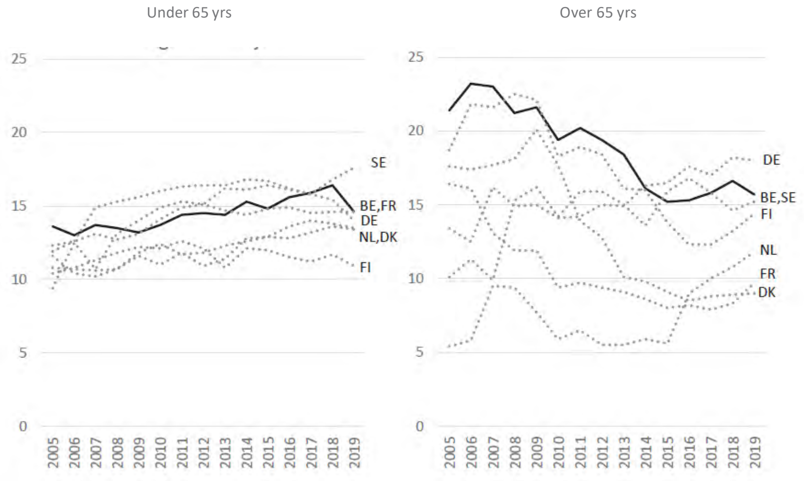
[25] Research into this extremely important issue is beginning to take off, see for example Lévay et al., 2020.

[26] Research into this extremely important issue is beginning to take off, see for example Lévay et al., 2020.

Due to the rising poverty curve in the working-age population, therefore, ageing has more than ever become a distribution problem.

Figure 14: Evolution monetary poverty risk (AROP60) by age (in %), 2005-2019.



Source: EUROSTAT: EU-SILC and ECHP survey data.

4. Seven terms for a renewed social contract

Poverty reduction requires great efforts, at many levels. Adequate minimum wages and social protection, quality jobs, lifelong learning and affordable social services - they are all equally essential. And it is not enough to proclaim that these efforts are 'productive' and generate social and economic investments (although they certainly do): the inconvenient truth is that fighting poverty is neither cheap nor easy. To effectively make it a priority we need a social contract that defines common terms, objectives and basic agreements for a future that is uncertain.

'Define your terms', Aristotle stressed in his logic lectures, before entering into a social debate (for historical thinking on social contracts, see Cantillon & Latré et al., 2022). The following seven terms can feed a much needed social conversation.

1. Poverty reduction and climate policy must together become top priorities. Improving the living conditions of the vulnerable is a society-wide task, which does not only concern the 'poor'. In order to lift the social floor, the incomes of the middle must be raised. To increase employment opportunities for the low-skilled, investments must also be made in middle-skilled jobs. Social policy research has also shown that universal settings offer the best chance for successful investment in the human capital of children and adults at the bottom of the ladder. So conceived, there need not be a trade-off between policies aimed at poverty reduction and those aimed at the 'middle classes'.

2. Decent work for all requires that the range of jobs must be broadened. The structural underemployment of less skilled workers is linked to the loss of low-productivity labour, displacement effects and insufficient work incentives. Social investments in human capital are part of the answer, provided they prioritise the groups that are lagging behind. In addition, working conditions and wages at the lower end must improve. More opportunities must also be created in caring activities and in the circular economy. The range of work must be broadened by creating more space for the third sector, between the market and the state.

3. Social security must be strengthened, both in terms of accessibility and generosity. *The link between paid work and social protection remains important, but a social security system more tailored to the changing world of work is needed.* In order to protect new flexible forms of employment and to enhance the value of care work, the link between employment and social protection must be relaxed. This is also necessary to avoid social risks being excessively passed on to social assistance. Targeting is important but has its limits. Social security must also be further adapted to the new family-hood through a further individualisation of social rights.

4. The social floor must be raised. It is unacceptable that in a rich society, a significant number of working and non-working families should live on inadequate incomes. The repeated pledge by successive governments in Belgium and beyond to raise the social floor should be applauded but the consequences in terms of the efforts to be deployed in order to get there are not sufficiently recognised. Not only minimum benefits must be raised but, in order to avoid dependency and promotion traps, also the minimum wage and wages higher up in the income distribution. Because there are limits to targeting, *a partial universal but taxable basic income must be considered as a foundation under the income distribution*.

5. Wealth and climate taxes must be included in the redistribution process. Labour has become too narrow a basis for funding social policies; the one-sided taxation of labour weighs on workers' incomes, on the cost of labour to employers and thus on employment opportunities and on the social protection of lower-productivity workers. The redistribution base must, therefore, be further broadened. The revenues of carbon taxation could be used to fund the above-mentioned partial basic income (where the Canadian carbon dividend can serve as an example).

6. Clear agreements must be made about the distribution of the costs of ageing. The poverty level among the active population is higher than among the elderly. This highlights the problem of intergenerational sharing the ageing cost. The inverse poverty trends among the young (upward) and the old (downward) calls for a revision of the pension contract according to the Musgrave rule that says that a pension system is intergenerationally fair if the ratio of benefits to retirees to earnings of workers is fixed.

7. More international cooperation and also more local, place-based social action are needed. Without a common compass, cooperation and mutual support, national welfare states cannot weather the challenges on their own. The European Social Rights Pillar should, therefore, be embraced, as should recent European initiatives, such as the directive on adequate minimum wages. Conversely, a great deal will also have to be generated by local social innovation. There must be more room for citizens' initiatives to address burgeoning problems, help develop new experimental dynamics and empower people in trust and confidence, away from bureaucratic and punitive rules which sometime accompany state-driven social investment. .

In order to make progress were we failed in the past, against the background of climate change, ageing, and global imbalances, a reassessment of the post-war social contract is needed. That social contract must build on the achievements of the social welfare state and on the important transformative changes of the past decades, such as social investment, the growth of the third sector, and the socialisation of the European project. Viewed this way there is reason for optimism.

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For decades now, the welfare state has failed to reduce poverty in the active population, in Belgium and elsewhere in other Western welfare states. This is about more than just bad policy choices. The simultaneous increase in income poverty, employment and social spending points to a systemic problem – a problem that will be brought into further focus in the future with the impact of the ageing population, the climate transition, digitalisation.

This Position Paper sets out recommendations for the recalibration of the social contract. Building on the achievements of the post-war social welfare state, the new social contract must provide greater social security: by proving adequate safety nets, by broadening the repertoire of labour, and by including wealth and climate taxes in the redistribution process. To this end, national welfare states need to cooperate more at the European and global level.

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