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The Poverty Effects of Social Protection in Europe: EU Enlargement and its Lessons for Developing Countries

Looking at poverty in the enlarged EU- and at the factors explaining why one country performed better than another country regarding poverty alleviation- some lessons could be drawn for the poor developing world. Using the social indicators adopted by the EU in the process of open method of coordination, social inclusion and social protection. This does not mean that there is no discussion about the meaning of the indicators used.

To start with, one can analyse the poverty levels of the 25 EU countries and ask whether the social policies should be focussed on growth, on employment or on social distribution. The first figure [see PowerPoint presentation] shows the at-risk-of-poverty rate for EU-25, using data of the income year 2003. There is great diversity in poverty outcomes within the EU-25, the EU-15 and within the EU-10. The best performing countries are Netherlands, Hungary, Sweden, Finland, Luxembourg, Denmark, Slovenia and the Czech Republic. At the right hand side of the figure, there are the countries with a high poverty level Slovakia, Portugal, Ireland, Spain, Greece and then Italy, the UK, Estonia and Poland. Countries with a poverty risk between 13% and 15% are Malta, Lithuania, Cyprus, Belgium, France and Austria. Europe, as a whole, does significantly better than the US.

Comparing the best performing states with the worst performing countries, Europe comes always on top. However, not unimportantly, the dispersion within the EU-25 is much greater than that within the USA.

How to explain these huge differences? Should anti-poverty strategies focus on growth, employment or social redistribution?

We can take a figure in which poverty risks in the 25 EU-member states are plotted against poverty thresholds (or GDPs) in each country. At the left are the poor countries, at the right hand side are the rich countries. Poverty is low at the bottom of the graph.

If we divide this figure into quadrants, we see that, in fact, all four combinations of relative poverty and welfare level occur within Europe:

1. the rich egalitarian countries: Scandinavian countries, Belgium, Luxemburg, France and Germany
2. the poor egalitarian countries: Malta, Cyprus, Czech Republic, Hungary, Slovenia, Bulgaria
3. the rich inegalitarian countries: UK, Italy and Ireland.
4. the poor inegalitarian countries: The Baltic States, Romania, Greece, Spain, Portugal

The great diversity that exists in Europe in terms of income, income distribution and poverty provides two important insights. Within the EU-15 poverty falls as we move from poor countries to richer ones. Poverty is lower in Denmark, Netherlands, Luxembourg, and France as compared to Portugal, Greece, Spain, and Italy. A certain level of economic growth is thus needed in order to obtain a low level of relative poverty. Income equality and low poverty rates do not seem to be

an impediment to high GDP levels. The rich countries are also within the EU-15 which display the lowest poverty levels.

Secondly, the relationship between the relative poverty level and GDP is not strong. Looking at Ireland and Denmark, both countries are at the same income level, but relative poverty risk in Ireland is twice as high as in Denmark. The same holds for the UK and Austria: poverty is much higher in the UK as compared in Austria. In the new Member States poverty is lower than predicted by their level of income.

The lesson for the developing countries is that growth is important, but that is not a decisive factor, other features are at stake.

Focus on employment?

A figure shows the employment rate (2004) and poverty risk (2003) for EU-25. The higher the employment rate in a country, the lower the poverty rate in a country, but the link between employment and poverty is not strong. This link is less strong than the link between GDP and poverty and much less strong than the link between social redistribution and poverty.

There is a positive relationship for Denmark, Netherlands, Sweden which are high employment countries and low poverty countries as compared with Italy, Belgium or Luxembourg where employment rate is much lower and income poverty is higher. Some countries exist with a low poverty rate and a low employment rate (f.ex. France and Hungary), and vice-versa, other countries have a high employment rate and a high poverty rate (f.ex. Ireland, UK and Portugal). The reasons for a weak relationship between employment and poverty are:

- a) more jobs do not always benefit the poor and the poor being the jobless households,
- b) in some high-employment economies, minimum wages are low, so we find a lot of high in-work poverty,
- c) the third factor to weaken the positive relationship between employment and poverty is the degree of social protection that is provided for those out of work. There is a negative relationship between employment rates and the poverty risks faced by the unemployed, suggesting that social protection against unemployment tends to be more adequate in high-employment countries.

Focus on social redistribution?

What are the poverty effects of social redistribution by taxes and by social security?

The figure "Social Protection Expenditure (2001) and Poverty Risk (2003) for EU-25" expresses social protection expenditures as a percentage of GDP and poverty rates for the EU-25.

The EU-15 countries are again represented by crosses; the new Member States by triangles. The solid line shows a linear regression fitting in the observation for the EU-15.

There is a positive relationship: the higher the social expenditures, the lower poverty and vice-versa. This relationship is stronger than the relationship between poverty and employment or than that between GDP and poverty.

If it is at all possible to attain low or moderate poverty rates without social spending, then this has yet to be demonstrated. Social expenditures do not tell the whole story. The ways the expenditures are used are important. It is equally true that efficiency should be stressed. Looking at Slovakia, Estonia and Poland, poverty seems to be high, despite relatively generous social expenditure levels, thus the social architecture is not so efficient!

Conclusion

Poverty in Europe is correlated with relative low GDP, low employment rate and low level of public social expenditure. Thus, countries need to focus on employment, growth and social expenditure. The relationship between poverty and low social expenditure is important. The European social indicators confirm that no country has yet succeeded in achieving below average poverty with below average social spending. They also show that there are many paths to welfare for all. High levels of social distribution are needed, but there are different paths to organise this. In any case, the massive input in social redistribution is very important.

Looking at the welfare levels in very poor countries, it should not be the case that social redistribution in the South cannot and will not be attained within the boundaries of merely nationally founded social security systems like we did in Europe. Social protection in the South presupposes worldwide social redistribution.