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Gaps, traps and springboards in the floor of social protection systems.
A comparative study of 13 EU countries

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2 The views expressed in this report reflect the authors' opinions and should not be taken to represent the official standpoint of the European Commission, nor the Belgian Government.

1. Introduction

EU enlargement and globalisation have challenged the 'European social model'. Indeed, the need for structural adjustment, as well as increased competition and the risk of social dumping have revived the interest in the value of social protection as one of the cornerstones of European welfare states. Some experts and policy makers are advocating the introduction of an EU-wide system of guaranteed minimum income, which would strike a balance between the subsidiarity principle on the one hand and a 'common socle' of social protection on the other. In this context, it is important to agree on some common quality requirements to be met by each national system. A first attempt into this direction was made in 1992 with recommendation 92/441/CEE of the European Council: this recommendation invited Member States to ensure a basic right to adequate resources and services with reference to human dignity, open to all legal residents, means-tested, conditional upon availability for work, not subject to duration limits, and linked to measures aimed at the full socio-economic integration of beneficiaries.

How effective and strong are the existing safety nets of guaranteed minimum income and, more generally, social security systems in the EU ? What proportion of the active population actually has/has no access to minimum income protection? What structural mechanisms determine the probability of exclusion from / inclusion into social protection ?

This paper presents and discusses new empirical evidence for thirteen 'old' EU countries,[3] grouped into the four well-known 'welfare regimes' (Esping-Andersen, 1990; Ferrera, 1996):

- the Scandinavian or social-democratic regime, based on the concept of citizenship, with high levels of employment and (quasi-)universal social protection;
- the Anglo-Saxon or liberal system, based on personal responsibility, flexible labour markets and widespread means-tested social insurance;
- the Continental or corporatist-conservative regime, based on the insurance principle and the male breadwinner model, with derived rights for dependant family members and residual minimum income schemes for the non-insured;
- and the Southern or familialist regime, with rather fragmented insurance schemes and a strong emphasis on informal protection through family solidarity.

Table 1 summarises the main characteristics of each regime, with particular emphasis on the role of guaranteed minimum income. The 13 countries are classified by welfare regime, although some of them obviously display characteristics of hybrid systems.

3 Sweden and The Netherlands could not be included because one of the key variables (monthly activity calendar of individuals) is not included in the data.

Table 1. Welfare regimes and protection against poverty in Europe

Protection from poverty risks	Liberal	Corporatist conservative	Social democratic	Familialistic
Through work	- High labour market participation - High (UK)/low (Ireland) level of female employment - High occurrence of low-paid labour	- High labour market participation - Medium/low level of female employment - Low occurrence of low-paid labour	- High labour market participation - High level of female employment - Low occurrence of low-paid labour	- Low labour market participation - Low level of female employment - High occurrence of low-paid labour
Through social security	- Medium(UK)-low (Ireland) social expenditure - Modest universal transfers - Means-tested - Flat rate benefits	- Medium-high social expenditure - Contribution related social insurance - Categorical insurance: related to class and status - Unequal levels of benefits	- High social expenditure - Universalistic insurance - High level of benefits	- Low social expenditure - Contribution related social insurance - Categorical insurance: related to class and status - Immature and fragmented insurance system - Low level of benefits
Through intra-family transfers		- Extended family obligations	- Dependence on the family is minimised	- Traditional family structures
Through minimum income	- Extensive system of SA - Medium -low levels of generosity	- Extensive system of SA - Generous benefits	- Residual system of SA - Medium -high levels of generosity	- No universal guaranteed minimum income system - Categorical schemes for the elderly
Countries	UK, Ireland	Austria, France, Germany, Belgium, Luxemburg	Denmark, Finland	Greece, Spain, Portugal, Italy

From the overview of welfare regimes in table 1, we can derive some hypotheses regarding the role and effectiveness of minimum income systems in the countries involved in the analysis. For example, guaranteed minimum income systems are expected to play a prominent role in the liberal regime, and a marginal role in Southern countries. More people are expected to be in insufficient protection in conservative-corporatist and Southern countries, and less in the Scandinavian regime, independently of the level of benefits offered by guaranteed minimum income systems.

The basic model used for this purpose distinguishes between *five social protection states* in which individuals can find themselves: (a) 'insufficient protection' (i.e. below the national minimum income standard), (b) minimum income (or social assistance), (c) social security ('transfers from mainstream social security'), (d) work and (e) other states (mainly intra-family transfers).[4] In this paper, we focus on the first two states (insufficient protection and minimum income). The bulk of the work consisted in establishing whether a household was under-protected for some months in the observation period: for this purpose, existing or hypothetical minimum income thresholds have been simulated retro-actively, by country, month and household type.

2. The Data

Our project utilises the European Community Household Panel (ECHP). The ECHP contains information on demographics, income and assets for the household and individual information for all adults on (un)employment, income, education and training, health, social relations, immigration and satisfaction with various aspects of life. Five waves of the ECHP were available as our project started, providing information from January 1993 up to December 1997. However, from the outset, it is necessary to draw attention to some of the drawbacks relating to the use of the ECHP for this research.

First of all, some *marginal groups* such as foreigners, travellers and homeless people are un(der)-represented; persons in institutions (hospital, prison) are not included; and there are indications of (slight) selective attrition among minimum income recipients. This means that the proportions of individuals in the minimum income and insufficient protection states could be under-represented.

A second, major obstacle is that monthly income variables are not available. This is problematic insofar as yearly income data tend to conceal shorter spells of dependence on minimum income, or spells of insufficient protection. Hence, the *monthly income of each individual/household needed to be reconstructed* by combining data on annual income sources with monthly data on economic activity states. This inevitably means that month-to-month variations in income by source (within a given spell) have been levelled off. In other words, annual income from a given economic state (e.g. employment) is divided equally by the number of months in that state during the year (e.g. the number of months in employment), when there may have been fluctuations in this income over the period(s) in that state.

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4 when individuals combined several income sources (e.g. from work and social security) within any given month, they were assigned the status of their main source.

This approach involves a particular risk of error in the following cases:

- Individuals being laid off and receiving a severance pay may apparently earn very high wages during their employment spell, and no income during the first months of unemployment (this has been corrected on a case by case basis wherever possible, by combining information about monthly wage, yearly earnings and the activity calendar).
- For unemployment periods exceeding the maximum duration of benefit entitlement,[5] unemployment benefits are spread over more months than the real entitlement period. Depending on the level of overall household income, these individuals may be assigned the 'insufficient protection' or 'social insurance' state for the entire period of unemployment - whereas in reality, this spell should be split up into two separate periods. This error may cause over- as well as underestimation of the duration of insufficient protection.
- Next, it was impossible to distinguish part-time from full-time work, with potential errors when individuals combined different states and income sources for short periods. For example, part-time workers drawing in-work benefits could be correctly categorised only if they remained in this situation for the whole year. If, for example, a period of part-time work, combined with benefits, was followed by a period with just benefits (complete inactivity), we have inevitably assigned the benefits of that year to the period of complete inactivity, and thereby under-estimated the individual's income during the part-time work period.

Note that errors in either sense were likely, so that it cannot be concluded whether estimates of the frequency, duration and 'gravity' of insufficient protection were systematically over- or underestimated.

Thirdly, the *data are not available for all countries and all waves of the ECHP*. For Germany and Luxembourg, we disposed of 3 waves only; for Finland, no more than 2 waves were available when our research started. As noted earlier, some key variables were missing for The Netherlands and Sweden, so that we could not include these countries.

3. Definition of minimum income

Our research does not aim to compare poverty rates or the generosity of benefit levels across countries; instead, the main purpose is to study the systemic effectiveness of social protection (and minimum income) systems, irrespective of benefit levels. Therefore, we use national minimum income thresholds 'as they are'. Given this principle, it is particularly important to give consideration to the different definitions of minimum income used in the Member States, and the difficulties this can cause for comparative analysis of this type. Although the concept of a minimum income looks straightforward a priori (a non-contributory, means-tested and 'universal' income guarantee), transposing this concept to the national context of every country involves several challenges.

First of all, for the period of analysis 1993-1997 *not all EU member states had a fully implemented, nation-wide system of minimum income*. This is particularly true for the Southern European countries. Until now, Greece has no universal minimum income guarantee. The Portuguese RMI was introduced on 1/08/1997. In Italy in 1998, a 3 year pilot project was started in

5 Unemployment insurance and assistance benefits have been added up in the ECHP.

39 cities across the country, introducing a RMI scheme. This means, first of all, that no individuals can be found in the minimum income (MI) state where no such scheme exist(ed). However, we at least need a theoretical minimum income threshold in order to be able to determine whether individuals or households are living in insufficient protection (i.e., below the MI threshold). So, in the Italian and Portuguese case we opted for application of reverse indexation of the existing RMI-amounts for the period 1/1/1993 to 31/07/1997. Thus, the thresholds of the existing RMI-schemes are used as a starting point for identifying the people potentially entitled. In the case of Greece we chose to use two arbitrary thresholds in order to identify a category of potential beneficiaries. The first threshold is based on the social pension, the second threshold corresponds to 50% of the minimum wage,[6] for a single person (both equalised for family composition).[7] As can be seen in Figure 1, these thresholds are rather well chosen: the social pension threshold for a single person in Greece corresponds to the Portuguese MI threshold. The 50% of the minimum wage-norm corresponds to the Italian MI threshold.

A second difficulty exists for countries in which a general MI guarantee is operational but with considerable *regional differentiation*, as is the case in Austria, Germany and Spain, whilst in Finland two regions are used. In Austria, Germany and Finland we opted for applying the lowest threshold. As Spain has very regionalised MI systems, we opted to differentiate according to the grouped regions as provided in the ECHP. From the grouped-regions that the ECHP reports, the region within that grouped-region with the lowest minimum income scheme was chosen and that threshold was applied to all in the matching ECHP region.

Thirdly, *in the ECHP, the definitions of minimum income (or public assistance) used do not cover all national schemes*. In most cases, the variable 'assistance' in the database only refers to the mainstream minimum income system for non-disabled working-age adults. For the UK and Ireland, these benefits cannot even be distinguished from other social security benefits. In such cases, we have assumed that all households with an income situated in a range between 95% and 105% of the national minimum income rates (and including social benefits) were on 'minimum income'. This probably results in a rather incorrect estimation of the number of MI recipients. What it does provide, however, is an accurate estimate of the proportion of individuals living with incomes equivalent to Income Support or SWA levels receiving social benefits.

Fourthly, in many countries the guaranteed minimum income is supplemented with *housing benefits* that may vary by region and tenure status. Housing benefit was excluded from our simulations as the ECHP did not provide sufficient details for this purpose. This is expected to result in under- rather than overestimation of the risk of insufficient protection.

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6 The 50%-norm has also been used in France and other Southern European countries as a standard for the establishment of a minimum income scheme. The underlying rationale is that the tension between minimum income and minimum wage must be sufficient in order to safeguard incentives to work.

7 For the social pension threshold, the equivalence scale of the Portuguese MI system was used, whilst for the minimum wage threshold, the OECD equivalence scale was utilised.

4. Under-protection

We will use the term '*insufficient protection'* – or 'under-protection' to designate a failure of the system to provide a universal income floor. The normative element, expressed in the term 'insufficient', is not meant to involve any judgement about the adequacy of the benefit amounts; it rather refers to the target effectiveness of minimum income systems: do they cover all residents falling below the official minimum income standard ? If not, to what extent, and why ?

Different reasons can be imagined as to why MI schemes fail to function as an absolute floor: eligibility rules, lack of information to potential users, other administrative obstacles, miscalculation of amounts, sanctions and suspensions, etc. Moreover, insufficient protection does not necessarily mean that households do not receive any benefits: the amounts actually received can be lower than those prescribed by the law, when regulations are not fully applied, or when part of the benefit is withheld by social services, for example, for the reimbursement of debts. When no benefit is paid at all, we use the term *non-coverage*, which is slightly more restrictive than insufficient protection.

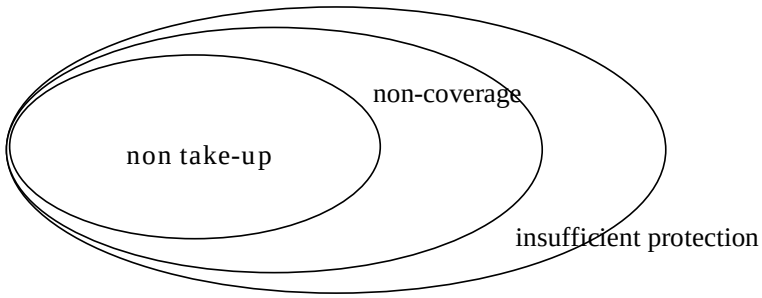

Figure 1. Insufficient protection, non-coverage and non take-up

It is striking that most studies have concentrated on the issue of *non take-up* rather than non-eligibility or other causes of non-coverage, thus apparently narrowing down the focus of research to the behaviour of potential users. Non take-up is defined as a situation where people are entitled to a service but do not claim their rights: The most straightforward explanations for such paradoxical behaviour are a lack of information or the stigma attached to the service, namely, when means-testing is involved.

We prefer the term 'insufficient protection' as it includes situations of non take-up as well as other reasons of non-coverage, and also situations where benefits are drawn which are below the MI threshold. The analysis of causality will thus implicitly be extended from individual (psychological) factors to social and institutional causes.

The main limitation of the explanatory models put forrward in the literature so far (Kerr, 1982; Davies & Ritchie, 1988; Walker et al., 1991; Van Oorschot, 1995) is indeed that they are confined to the psychological determinants of action undertaken by individuals, within a given institutional context. From a comparative, transnational perspective, the diversity of national social protection systems means a considerable enrichment. The variation in individual behaviour just adds to the enormous variation in institutions, culture, economic development, social policies etc. between countries. Consequently, it is critically important to include a whole range of structural and cultural

mechanisms of exclusion and inclusion into the analysis. To begin with, people can not be faced with the problem of insufficient protection by guaranteed minimum income schemes unless they are first excluded from the main spheres of social protection. In countries with high levels of (decent) employment and solid social insurance systems, very few households will ever be at risk of insufficient protection. Hence, we will try to include in our analysis a range of variables that measure the structural (economic, social, legal) environment within which individuals have to make their decisions.

5. Insufficient protection in the mid-1990s: comparative statistics

The first exercise in our own comparative analysis consists of classifying all individuals (including children, students and people above working age) by state of social protection: insufficient protection (IP), minimum income (MI), social security (SS), work and 'other', on a yearly basis. Whenever a person has been in a particular state in any month during a given year, whatever the duration of that spell, this person is taken into account in calculating the yearly proportion of the population 'ever in that state'. As individuals can move from one state to another, thus combining two or more states within any given year, the sum of the shares in a year lies in the interval between 100 (no mobility) and 500% (maximum mobility). A sum score close to 100% would mean that there is low mobility between social protection states.

Table 2. All individuals by state of social protection, averaged yearly proportions

	Insuff. protection	Min income	Social security	Work	Other	All
Austria 94-97	3.3%	1.0%	23.5%	47.2%	32.8%	107.7%
Belgium 93-97	4.2%	1.1%	27.0%	39.3%	38.6%	110.2%
France 93-97	5.3%	2.6%	23.3%	42.5%	34.7%	108.5%
Germany 93-97	8.2%	3.6%	25.9%	44.4%	28.2%	110.2%
Luxembourg 93-97	13.9%	(1.2%)	16.0%	40.1%	35.2%	106.3%
Conservative cluster average	7.0%	1.9%	23.1%	42.7%	33.9%	108.6%
Britain 93-97	10.0%	2.8%	24.2%	41.9%	33.4%	112.2%
Ireland 93-97	10.8%	2.2%	20.9%	35.5%	42.3%	111.7%
Liberal cluster average	10.4%	2.5%	22.6%	38.7%	37.9%	112.0%
Denmark 93-97	6.8%	5.5%	28.7%	50.5%	22.3%	113.8%
Finland 95-96	2.0%	11.7%	34.4%	46.1%	25.7%	119.8%
Social-democratic cluster av.	4.4%	8.6%	31.6%	48.3%	24.0%	116.8%
Spain 93-97	4.5%	0.9%	23.3%	33.4%	47.6%	109.6%
Greece Social pension 93-97	6.9%	NA	20.0%	33.9%	46.0%	106.8%
Portugal 93-97	9.0%	NA	21.0%	42.8%	34.6%	107.4%
Italy 93-97	12.7%	NA	20.6%	34.6%	37.3%	105.3%
Southern cluster average	8.3%		21.2%	36.2%	41.4%	107.3%
Greece 50% min wage 93-97	16.0%	NA	16.7%	32.2%	42.0%	106.9%

Proportions based on less than 20 unweighted observations are not reported and marked with a -
Proportions based on 20-50 unweighted observations are reported between brackets.

Table 2 reflects the distribution of all individuals by state of social protection on a country level, as well as on the welfare regime level. Welfare regime averages for each state are calculated as the unweighted averages of the member countries' aggregate scores for that state.

Despite the diversity among the 13 countries studied, one common feature in the results is the astonishingly high rate of insufficient protection. On a yearly basis, between 2 and 13% of the population8 have at some point lived with less than the national minimum income standard. Even in countries with a long-standing record of minimum income, the under-protected target group is much larger than the actual number of beneficiaries. Finland seems to be the only exception, with 'just' 2% of the population in insufficient protection as against 12% living on social assistance.

In a closer analysis of the degree of under-protection, we calculated two additional indicators, namely, the *duration* of insufficient protection spells and its 'severity' (i.e. the risk of falling below 75% of the minimum income threshold).[9] Detailed statistics can be found in the research report (Nicaise et al., 2004). Overall, between 50 and 80% of the group affected by IP suffered severe deprivation (i.e. their income was less than three-quarters of the MI threshold. Two-thirds of the group were affected in two or more years.

Can any differences be observed between the four welfare regimes ? Broadly speaking, our analysis tends to corroborate the typology of welfare regimes described in section 1, even though some regimes are represented by two countries only.

The *social-democratic* regime combines high levels of labour market participation with high levels of social protection and strong 'de-familialisation' (independence from transfers within households). Universal coverage is reinforced by a strongly developed and effective minimum income system. Through this system, Finland seems to have achieved the best results (among the 13 countries covered by our study) in terms of effective protection: no more than two percent of the population slips through the safety net on a yearly basis (admittedly, this figure may underestimate reality as housing benefits were not included in the analysis). Denmark performs less well, partly because its selective unemployment insurance actually diverges from the social-democratic model, and partly because access to its (very generous) minimum income system is rather conditional.

The countries belonging to the *corporatist-conservative* regime occupy an intermediate position, with high levels of social protection for the core of the working population, derived rights for other household members and a residual system of minimum income for groups that are unable to secure a position in the labour market. The role of this minimum income system is conceived as marginal and, hence, many individuals tend to fall between the cracks. The risk of insufficient protection is also relatively more gender-biased in this system, given the explicit (historical) link between social insurance and the male breadwinner model. This explains the relative vulnerability of (single) female pensioners and female-headed households in these countries.

The *liberal* regime is actually represented by two countries (Ireland and Britain) with substantial mutual differences. The Irish system includes characteristics of the Southern social protection model, with low labour market participation and high dependence on intra-household transfers. Yet, both countries have fairly comparable minimum income systems with a moderate level of benefits, fairly

8 16% in Greece if the 'generous' threshold of 50% of the minimum wage is taken as a yardstick

9 These additional indicators were calculated only for individuals in active age.

broad coverage, but at the same time, very high rates of insufficient protection. Children are particularly vulnerable in this group of countries.

Finally, in the *Southern* countries, the role of the family as a safety net is reflected in high proportions of the population depending on intra-household transfers. Both labour market participation and social insurance coverage are low, whereas minimum income plays at best a marginal role (it was non-existent in Portugal, Greece and Italy during the period under study). Even when measured with very low minimum income thresholds, substantial proportions of the population remain unprotected, which means that family solidarity - in contrast with political discourse - is actually unable to secure a minimum standard of living for all.

6. Aggregate flows of inclusion and exclusion

The previous section has examined social protection from a static perspective, that is, we have described: the proportions of individuals who have experienced each state within any given year. However, this does not tell us whether, to what extent and in what direction movements take place *between* the states of work, social security, minimum income, insufficient protection and other. This section therefore considers the movements between these states, as well as stability within states, comparing the countries.

Our main tool for the dynamic analysis has been called the 'transition (or mobility) matrix', a country-specific 5 by 5 table reflecting the *average yearly probabilities* associated with transitions from any social protection state to any other state (see table 3). For example, the first row of the table reflects the transition probabilities of persons who have been in IP in any given month t, within the next 12 months. All elements on the diagonal of the matrix refer to probabilities of status-quo (respectively, in each of the five states).

Some further comment is needed on the conceptual assumptions underlying this table and, in particular, the designation of particular movements as exclusionary or inclusionary.

First, it could be argued that the 'ideal' position for countries in terms of transitions between states would be for each country to have 100% of all individuals in work throughout the period of analysis (cell showing '*stability*' in Table 3). This, of course, would not be feasible given that some individuals are unable to work because of ill health or caring responsibilities, for example. Moreover, 'stability in work' says little about the quality of the work in which people are 'stable' or the adequacy of wages which the work supplies - other than that it is not below minimum income levels. Nevertheless, given that our definitions are 'hierarchical', with work at the top of the preference hierarchy and insufficient protection at the bottom, we can argue that stability in work is preferable to stability in social security but stability in social security is preferable to stability in minimum income which is, in turn, better than stability in insufficient protection.

However, given that people inevitably move between states, we now need to examine the nature of these movements. These may be 'desirable' or 'undesirable' movements in terms of our hierarchy of preference, along two dimensions (see Figure 2). Obviously any movement *to* work from any other state is preferred to any movement *from* work so that all movements of the former type can be described as 'inclusionary'. However, other movements *up* the hierarchy are also preferable to movements *down* the hierarchy. Further, within movements up the hierarchy, movements to work are

preferable to movements to social security which, in turn, are preferable to movements to minimum income. Similarly, within movements down the hierarchy, movements to social security are preferred to movements to minimum income which are better than movements to insufficient protection. For the purposes of this analysis, movements up the hierarchy are defined as movements to *inclusion* from the various states, and movements down the hierarchy as movements to *exclusion* from the various states**.**

Table 3 Mobility between social protections states: (yearly transition rates)

FROM ⇓ TO ⇒	Insufficient protection	Minimum income	Social security	Work	Other
Insufficient protection	Stability	Inclusion	Inclusion	Inclusion	Inclusion
Minimum income	Exclusion	Stability	Inclusion	Inclusion	Inclusion
Social security	Exclusion	Exclusion	Stability	Inclusion	Unknown
Work	Exclusion	Exclusion	Exclusion	Stability	Unknown
Other	Exclusion	Exclusion	Unknown	Unknown	Stability

It will be noted that most movements from and to the 'other' state in Table 4.1 have been labelled as 'unknown'. It is not possible to conclude that all movements from or to this state are exclusionary or inclusionary. Some movements to the 'other' state might be considered 'good' movements, others might be thought of as 'bad'.

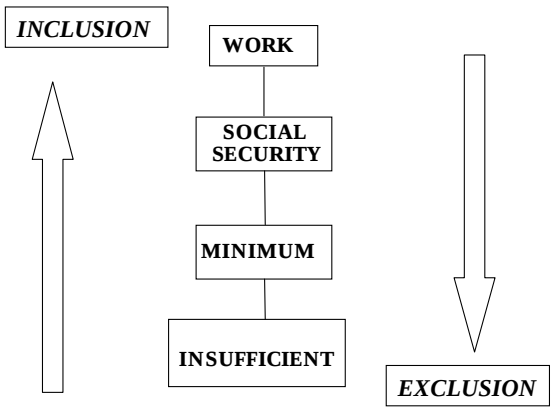

Figure 2 The Transition 'Preference Hierarchy'

A general picture of stability, 'inclusionary' and 'exclusionary' movements for each country, on the basis of their respective transition matrices, is presented in Annex 1. This section focuses on the *comparison* between countries' stability, inclusionary and exclusionary movements, and the characteristics associated with such movements.

6.1 Stability

First, we compare the stability experienced within each state for the 13 countries.

Table 4 Cross-National Comparison of Stability

	Work	Social security	Minimum income	Insufficient protection	Other
Austria	88.18	48.43	22.52	29.09	71.52
Belgium	83.75	64.74	39.82	19.20	61.21
France	88.32	45.8	51.63	34.35	64.54
Germany	85.37	67.89	62.44	42.43	61.87
Luxembourg	88.84	82.62	9.07	53.85	76.63
Britain	88.38	60.08	24.91	28.15	58.85
Ireland	83.07	61.29	25.98	48.36	68.82
Denmark	85.14	42.47	32.96	28.34	40.75
Finland	78.1	34.81	36.43	9.69	28.61
Greece*	84.19	54.97	N/A	27.36	75.85
Italy	85.56	68.67	N/A	46.36	73.35
Portugal	87.98	74.75	N/A	45.75	62.36
Spain	75.75	53.38	17.25	23.87	73.33

* In this table, and in all that follows, the social pension threshold has been used.

Table 4 reproduces the elements of the diagonal of the transition matrices (stability in IP, MI, SS, work and other) for all thirteen countries, grouped by welfare regime. Several features are worth noting:

1. first of all, '*stability'* appears to be by far the *most frequent type of outcome*: this means that, on a twelve-month basis, individuals end up in their initial state, most probably because they have not made any movement.[10]
2. Comparing the relative stability of different states, *work was the most stable state* in all countries, with well over four-fifths of spells in work being stable in all countries except Finland and Spain, where only just over three quarters of work states were stable. No pattern can be seen among the welfare regime clusters; whereas three of the five conservative countries had very high proportions of work stability (more than 88%), Britain and Portugal also reached similarly high levels.
3. There was far more variation between countries in the proportions of *social security spells* that were stable with, in general, less stability than in the work state. This is to be expected given the generally temporary nature of social security to cover periods of unemployment and/or ill-health, time limits on entitlement and the operation of activation policies. Stability in social security ranged from more than four-fifths of spells in Luxembourg to only just over one-third in Finland. There was very little clustering by regimes, except that Denmark and Finland showed the lowest levels of stability in social security and Ireland and Britain had similar levels of social security

10 Note that 'stability' may also mean that people move away from a state and return to their initial state within 12 months. However, this does not occur frequently as we know that stability is also by far the most frequent outcome on a month-to-month basis.

stability. However, some of the southern countries also had high levels of stability in social security; Portugal and Italy had the second and third highest proportions.

4. Stability in *minimum income* was, again, generally lower than for stability in work or social security. However, the range was extremely wide, from Luxembourg with less than 10% of minimum income spells being stable compared to Germany where almost two-thirds of spells were stable. Some patterns emerged across the welfare regimes, with France, Germany and Belgium showing the highest proportion of stable minimum income states (although Luxembourg as noted, from the same welfare grouping, had the lowest). In addition, Denmark and Finland, and Britain and Ireland had very similar patterns of stability in minimum income, thereby clustering by regime.
5. Comparing stability in minimum income and social security, two countries (Finland and France) showed the less desirable pattern of having *more stable minimum income than social security* states.
6. *Insufficient protection* is – fortunately - the least stable state in most countries, although there are some notable exceptions such as Ireland, Luxembourg, Portugal and Italy. The two Nordic countries (Finland and Denmark) appear to perform best in re-integrating individuals from IP into other states.
7. As regards the *'other' state,* the figures reflect fairly nicely the expected differences between welfare regimes, with high stability in Southern countries and high mobility from this state in the Nordic countries.

6.2 Exclusion

Let us now focus on movements to exclusion, comparing the magnitude of these movements across countries. For the ease of interpretation, the figures are presented in graphs. Each graph shows the average annual transition probabilities for that state when the proportion remaining in that state is included, although stability itself is not shown on the chart. Movements to or from the 'other' category are not included since, as mentioned earlier, it is hard to categorise movements to or from this state as either exclusionary or inclusionary.

Three charts are presented, showing first exclusionary movements from work, followed by movements from social security and, finally, from minimum income. The section considers each set of exclusionary movements in turn.

Exclusionary Movements from Work

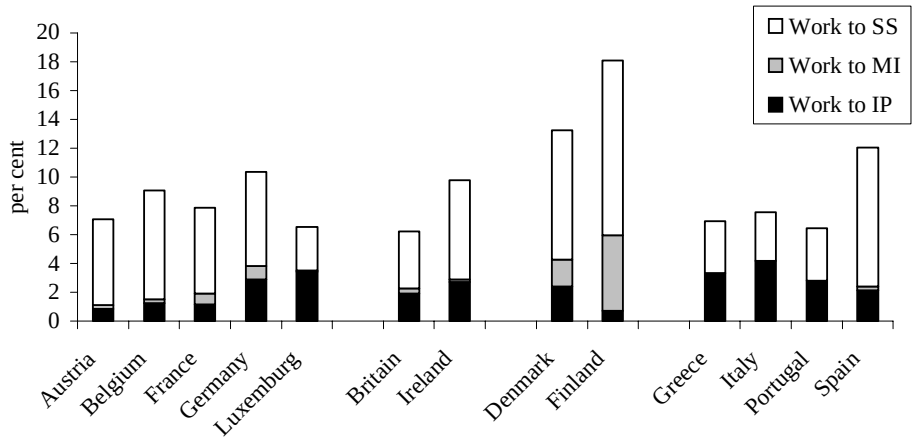

Figure 3 Exclusionary Movements from Work[11]

The overall picture is, again, eye-opening. In all countries except Italy, there were more 'safe' movements from work to social security than to either minimum income (in countries where this was possible), or insufficient protection. However in all countries, except Finland, *moves from work directly to insufficient protection were more common than from work to minimum income*. In other words, excluding the three southern countries without minimum income systems, in nine out of ten countries a slide from work to being insufficiently protected by the welfare system was more likely than a move from work to the residual minimum income system. This, again, points to the surprising lack of protection offered by minimum income systems as the 'safety net of last resort'.

Somewhat surprisingly, Denmark and Finland showed higher rates of exclusionary movements from work than the other countries. This should be qualified by taking into account differences in desirability between exclusion towards SS, MI and IP. Here the picture diverges between the two Nordic countries: Denmark is characterised by rather frequent movements from work to IP, whereas in Finland (relatively speaking) the safety nets of mainstream SS and MI seem to operate very effectively in preventing exclusion into IP. The minimum income systems of the Nordic countries play an important role in catching people falling out of work, although the difference between the two countries is large; 1.87% of those at work moved to minimum income annually in Denmark, but 5.24% in Finland. Among the other eight countries which had a minimum income system, movements from work directly to minimum income were much lower, ranging from 0.1% of all movements in Luxembourg to 0.91% in Germany.

11 It should be noted that only two types of exclusionary movement from work were possible in three of the southern countries because they did not have a minimum income system.

It was unsurprising to find that the Southern countries, particularly those without a minimum income system recorded the largest proportions of the 'least desirable' movements; that is movements directly from work down to insufficient protection, ranging from 2.14% in Spain to 4.2% in Italy. In general, the Anglo-Saxon countries performed slightly better (1.94% for Britain and 2.71% for Ireland), the majority of the corporatist countries better again (from 0.87% in Austria to 3.42% in Luxembourg), and the Nordic countries, in general, best (0.72% in Finland and 2.43% in Denmark).

Exclusionary movements from social security

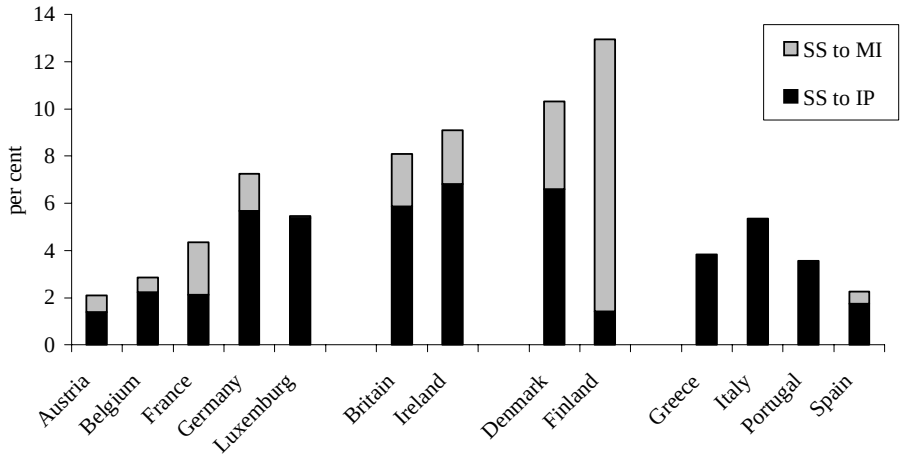

Figure 4 Exclusionary Movements from Social Security

As was the case for exclusionary movements from work, those from social security were also *mainly to IP* rather than to MI. With the exceptions of France and Finland, the 'less desirable' movements from social security to insufficient protection were more common than the 'more desirable' movements from social security to minimum income. It seems that, as with exclusionary movements from work, a slide from social security to insufficient protection was more likely than being caught by the residual safety net of minimum income. The situation in Finland is apparently, again, somewhat different. Movements from social security to minimum income, whilst much higher than in the other countries (11.53%) were far more common than movements from social security to insufficient protection (1.42%), with only Austria having a lower rate of movements from social security to insufficient protection (1.39%).

Some unexpected differences emerge also between *welfare regimes*. The social-democratic regime has the *highest* proportions of exclusionary movements from social security (12.95% in Finland, followed by Denmark with 10.32%). This puts into perspective the 'generosity' of Nordic social protection schemes. Among the possible explanations, we suspect that tight activation requirements and duration limits in the Nordic unemployment insurance systems may be responsible for these high rates of exclusion. Britain and Ireland (liberal regime) had the next highest proportion

of moves from social security. There were no observable patterns in the (lower) proportions of exclusionary moves from social security between or within the corporatist and southern countries.

Exclusionary Movements from Minimum Income

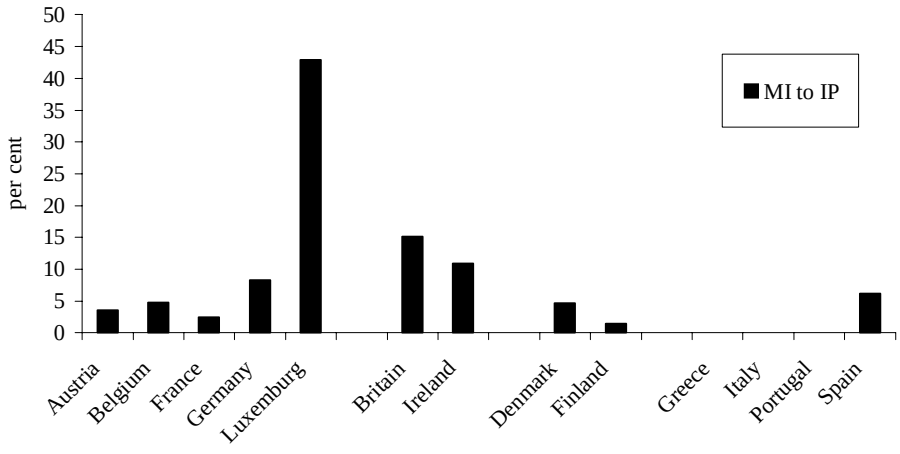

Figure 5 Exclusionary Movements from Minimum income

Only one exclusionary movement from minimum income is possible, that is, to insufficient protection and, since only Spain among the four Southern countries in our analysis has a minimum income system, such movements were only possible in 10 of the 13 countries.

In seven of these ten countries, movements from minimum income to insufficient protection were more common (relatively speaking) than exclusionary movements from social security; only in France, Denmark and Finland were the figures lower for movements from minimum income to insufficient protection than for the total of exclusionary movements from social security.

The extremely high proportion of movements from minimum income to insufficient protection in Luxembourg should be noted (42.92%). This is significantly larger than the next two countries, Britain at 15.15% and Ireland at 10.86%.

The range for the corporatist countries was extremely large from a low of 2.49% in France to 42.92% in Luxembourg.

Again, Finland had the lowest transition rate from minimum income to insufficient protection (1.43%), and Denmark showing a much higher proportion (4.64%).

6.3 Inclusion

The rank ordering of inclusionary moves in our preferred hierarchy means that moves to work are 'better' than moves to social security which are, in turn, 'better' than moves to minimum income.

As for exclusion, three charts are presented which show inclusionary 'movements' from insufficient protection, minimum income and finally social security, showing the average yearly transition rates.

Inclusionary Movements from Insufficient Protection

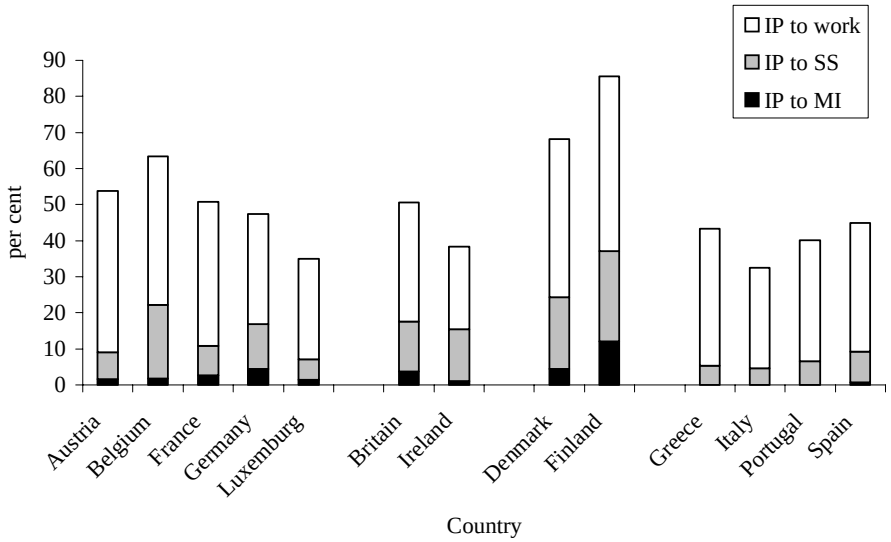

Figure 6 Inclusionary Movements from Insufficient Protection

Overall rates of inclusion from IP (i.e. the sum of transition rates from IP to MI, SS and work) *differ widely* between countries, ranging from 32% in Italy to 85% in Finland. Broadly speaking, we see that the two Nordic countries achieve the highest rates, followed by the corporatist welfare states. Liberal and Southern regime countries follow at a greater distance.

The fact that moves into work account for the major part of inclusionary movements seems to confirm the (much contested) policy principle that employment is the most effective weapon in the fight against social exclusion. The next largest proportion of moves out of insufficient protection were to social security followed by moves to minimum income.

Finland, Denmark, Belgium and Austria had the greatest rates of inclusionary moves from insufficient protection and Italy, Ireland, Luxembourg and Portugal the least. Finland, Austria, Denmark and Belgium also had the greatest proportion of movements out of insufficient protection to work while Ireland, Luxembourg, Italy and Germany had the least. As this suggests, with the exception of the Nordic countries, there was little similarity within welfare regimes in this regard.

Inclusionary Movements from Minimum Income

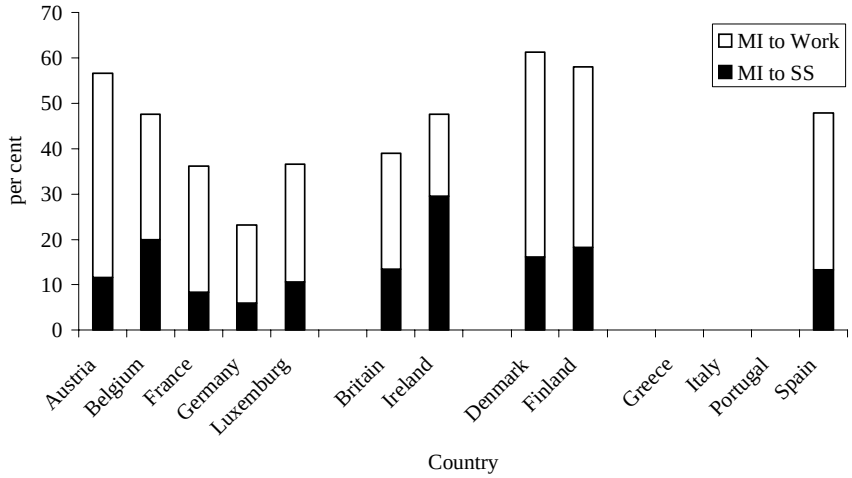

Figure 7 Inclusionary Movements from Minimum Income

The *overall rate of inclusion* from MI (to SS or work) ranges between 23% in Germany and 61% in Denmark. The poor performance of Germany may be due to the labour market problems in the 1990s, generated by the German re-unification.

In each of the countries with a minimum income system, with the exception of Ireland, the largest proportion of movements from minimum income were moves *into work*. In Ireland there was a larger proportion of moves from minimum income to social security than to work.

Inclusionary Movements from Social Security

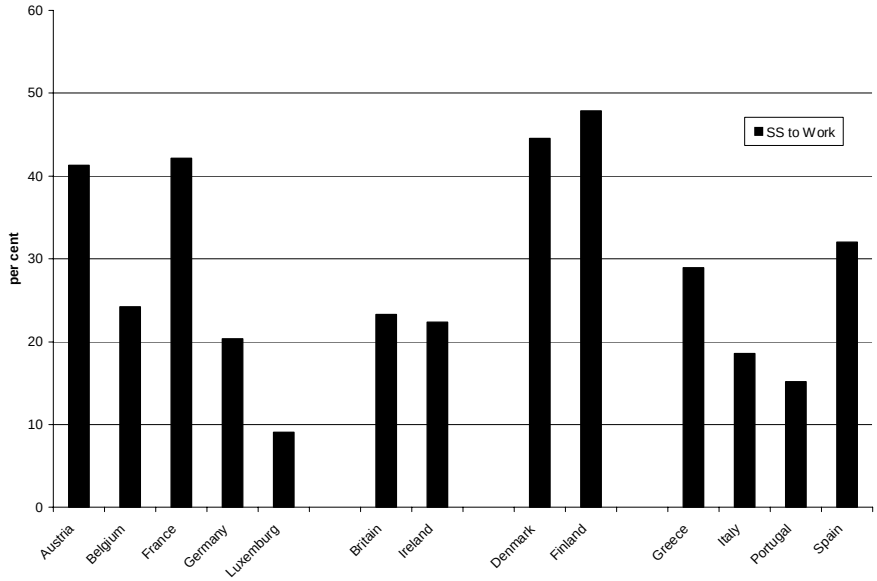

Figure 8 Inclusionary Movements from Social Security

Inclusionary movements from social security can only be to work. The variation in this inclusion rate is strong, with a *minimum value of 9% in Luxembourg and a maximum of 48% in Finland*.

The Nordic countries achieved the highest rates of inclusion, but were, it should be noted, closely followed by Austria and France. Britain and Ireland achieved similarly low rates of 23% and 22%, respectively. Given the wide variation between the Southern and corporatist countries, any conclusions about the relative performance of these welfare regimes would be hazardous.

7. Summing up

This paper has approached the issue of (lack of) social protection from a dynamic angle. Flows of 'inclusion' and 'exclusion' have been defined and measured on the aggregate (national) level, with a view to identifying systemic characteristics associated with (a) increased risks of exclusion, and (b) increased opportunities for inclusion.

On the aggregate level, we have seen that the flows between social protection states can vary considerably. Yet, some general trends have emerged from the analysis.

1. First of all, our findings tend to confirm the policy principle that *work provides the best protection against precariousness and poverty*. Work is by far the most stable state, with relatively low transition rates directly into insufficient protection (1-3% per year in most countries). Transitions into work also appeared to be the main exit from IP as well as from MI. Admittedly, our statistics are slightly biased as the 'work' category only measures 'good' jobs. Work should therefore not be seen as a guarantee of social protection for all groups in all circumstances.

2. The present minimum income systems appear to play a *surprisingly weak role in cushioning exclusionary movements*. In all countries except Finland, more individuals move from work or social security directly into insufficient protection than to MI. A lot of poverty can probably be prevented by checking systematically the eligibility for social assistance at the moment when individuals lose their work or their SS benefit. Even more importantly, SS regulations should prevent suspension or reduction of SS benefits for households at risk of under-protection.

3. The analysis provided information concerning the *relative performance of welfare regimes*.
   - Generally speaking, the *Nordic* social protection systems tend to perform best in re-integrating people from IP or MI into work, thus confirming their reputation as 'champions of active labour market policy'. However, Nordic welfare systems are also characterised by rather high rates of exclusion from work and SS. Whereas in Finland, this exclusion is cushioned effectively by MI protection, Denmark produces a lot of IP as its MI system is more conditional. Our hypothesis is that these high rates of exclusion may be attributable, at least in part, to the same activation strategies that include so many people. It would be worthwhile to examine further to what extent, particularly in Denmark, the strict activation rules involve higher rates of non-compliance and sanctioning or 'opting out' behaviour on the part of beneficiaries.

- The *Southern and liberal* regimes are characterised by the highest transition rates (from work and SS) to IP. It is striking, however, that the liberal systems (Ireland and Britain) also typically had low rates of re-integration (from SS, MI and IP) into work, despite the strict activation rules that applied already in the early 1990s. Possible explanations include the poverty trap that is inherent in means-tested benefit schemes (and widespread in the liberal regime), and the high frequency of low-paid work, which may move people off welfare but not away from IP.
- On the other hand, the *liberal systems displayed relatively high inclusion rates into social security* (from IP and MI), indicating that their mainstream social security is more accessible than in the corporatist and Southern regimes.
- Within the *corporatist-conservative* group, there was substantial variation in inclusion as well as exclusion rates. Austria, Belgium and France generally performed better in terms of (less) exclusion and (more) inclusion, while Germany and Luxembourg had less favourable scores.

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