Welfare economics

Concepts and typology

Welfare state = A system in which the government undertakes the chief responsibility for providing for the social and economic security of its population, usually through unemployment insurance, old-age pensions and other social-security measures.

A welfare state guarantees ***a mimimum of social rights*** and it has many forms. The idea is that the welfare state takes the main responsibility. It's a roll for the state → Welfare state!

Why does government produce and distribute certain goods such as health and education and leave other goods such as food to the private sector? So what does the govenment? For who? And when? → Wordt allemaal behandeld in de cursus.

There's a ***economic theory*** that offers a framework to explain and justify[1] this. The main arguments are efficiency and social justice.

- Efficiency. The private sector needs ***governement corrections***. We can't have a free economy without a government, because the govenment has to take care of it. There must be rules, a level playing field..., because everyone has to be able to enter the market.

- Social justice. All people need ***a minimum of living standards***, because everyone can get sick, can lose his job... So the government has to protect them. The governement takes care that the people can stay at their living standards, but is has to be unexpected. Their is vertical en horizontal equity. Vertical is the distribution from rich to poor (has a link with income). Horizontal is the distribution between your age, your family status. It's related to your status.

  There's also ***social integration***. Everybody has to be integrated in one society, namely a welfare state. That's very important, because if anyone is (temporary) unemployed, he can get e support (≠ charity), because he has the right to look for a new job. The social justice is between individuals.

Sufficientarism (Frankfurt, 1987, p.177) is a ***principal of social justice.*** "... each should have enough. If everyone has enough, it would be of no moral consequence whether some had more than others." 'Each should have enough' is the principal. Everybod should get what he wants. The notion of enoughness makes that (high) inequality is possible. There is subjective nd objective poverty. Subjective poverty is "being poor is feeling you don't have enough to get along[2]." So it's 'Do you feel poor?'. Objective poverty is 'Everyone needs a dollar a day.'. There are a lot of possibilities. There aren't bad answers. Some will never be satisfied, others with very little things. But what is 'enough'? This term is too objective.

[1] To justify = Rechtvaardigen
[2] To get along = Opschieten, vooruitgeraken

There are some questions about social justice i.v.m. sufficientarism...

- Conservative social security. Only minimal redistribution for those below the threshold[3] en nothing for those above the threshold. (Een drempel waarbij mensen hulp krijgen als ze onder deze drempel zitten.)
- Choosing a (low) threshold?
- Is this a week concept of justice?
- And how to prioritize the threshold?
- Nothing about responsibility or incentives? If someone is in need because of it's own fault, then the situation is diffrent, f.e. being ill of drinking too much.

→ ***Conclusie***: Social justice is a difficult point.

Income concept in a welfare state

Income is the market ***income from labour and capital***. Is the income people get of their job. There's a typical diffrence between the market income and the tertiary income. There are diffrent steps in which the government takes a part of your income.

The primary income is what people get every month. The government takes direct taxes and social security contribution. Their is also a reduction if people have children.

The secondary income is the ***disposable income***. It's about what people do with their income. If peope buy a car, they have to pay VAT (BTW). It's also about collective public goods like ways, schools...

Market income (from labour and capital)
= Primary income
- \- Direct taxes
- \- Social Security contribution
- \+ Reduction in taxes
- \+ Social Security allowances → sociale zekerheids-uitkeringen

= Secondary income (=disposable income)
- \- Indirect taxes (VAT, excise)
- \+ Object bound price lowering subsidies
- \+ Use of collective goods and services

=Tertiary income (=redistributed income)

The tertiary income is the sum of the primary income and the secondary income. It the ***redistributed income.***

There are 4 types of intervention

1) ***Regulation*** quantity, quality or price. Examples are labour policy, a wage minimum, protection of employees.
2) ***Price subsidy*** (partial or total) or ***taxes***. There are for example high duties on alcohol, because it's bad for our health.
3) ***Public production***. There are a lot public goods like healthe and education. The govenment pays schools, the profs...
4) ***Income transfers*** (tied[4] or untied)

[3] Threshold = Drempel
[4] Tied = Gebonden

Typology of welfare states

typology
The of ***Esping-Andersen (1)*** (1990) is a classification of welfare states based on 3 criteria.

1) ***Degree of decommodification***. It's the level at which one can live without reliance[5] of the (labour) market. Decommodificatie is dus de mate waarin een kapitalistische maatschappij de welvaart van de burgers afhankelijk maakt van hun positie op de markt in het algemeen, maar ook op de arbeidsmarkt. Het is de mogelijkheid om de welvaartstand van de burgers onafhankelijk te maken van de deelname van het marktgebeuren, waardoor er onafhankelijkheid van de markt en het gezin.

2) Level of ***stratification*** in society. There are a lot of diffrences between those on top and those down stairs.

3) Balance between ***public and privat welfare programs***. Does everyone takes care of his own or on thier public initiatives?

There is a ***social-democratic regime in the Nordic countries (2)***. The Nordic countries had a good social security. Belgium uses their ideas. The Nordic countries emphasis[6] on universal inclusion and its comprehensive definition of social entitlements[7]. The social security is responsible for a lot of things in the society. It has a wide scope. So everyone has to be able to enter this. This countries focused on equalizing the living conditions across the critizens. They limited the rol of private welfare and took 'de-familializing' welfare responsibilities. They offerd services for families, kids...,because women entered the labour market.

The Nordic countries also had a ***unique synchronization of social and labour market policies***. There was a social policy to promote maximum employment and an active labour market policy to minimize unemployment. This last element is also very important for Belgium.

The opposite of the regime in the Nordic countries, is ***the liberal regime in the Anglo-Saxon countries (3)***. This is applied in the United States and in the United Kingdom. The idea of this kind of welfare state is to ***minimize the public intervention*** under the assumption[8] that the majority of citizens can obtain adequate welfare from the market. We see for exampe that the VS still don't have the Obama care, while we in Belgium have the social security (RSZ) for several years.

The Anglo-Saxon regime targets public benefits to the neediest, traditionally via means-testing but recently also by using negative income tax type policies. This policies are less unregulated. There ar unregulated labor markets: greater labor turnover and greater wage inequality.

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[5] Reliance = Vertrouwen
[6] Emphasis = Nadruk leggen
[7] Entitlements = Aanspraken
[8] Assumption = Veronderstelling

The last regime is ***the conservative-corporatist regime in the majority of Continental European Countries (4)*** . Theres a more heterogeneous group of countries. Things have been changed since 1990. There are transfers and more services, because in the past Europa has less services compared with the Nordic countries, but now we have services for kids, for old people.. Nowadays are their also entitlements who depend on life-long-employment and is their a strong famialistic view. So it recently changed.

There's a ***marginal role of the private welfare***.The social insurance offers generous benefits and broad coverage of the employed population and there is also a strong labour market regulation and high labour costs who have an influence on employment. We don't rely[9] anymore on the private welfare, but on the public welfare.

Kaufman formulated in 1970 2 fundamental dimensions. It's alreayd 50 years old, but still relevant.

- Systemsicherheit. A social system supporting certain groups, but more structural and more objective. It provides security with social security system(s).

- Selbsicherheit. Depends on the individual his capacities, product of education and training. It's enable for people to cope with the insecurity themselves.

We have to take care of the old problems in the social security. The social security policy must guarantee the old and the new problems!

There are 3 types of welfare:

1) Social welfare: benefits and services of the welfare state.
2) Fiscal welfare: tax system influences disposable income.
3) Occupational welfare: work related to benefits, workfare. It's related tot the job situations.

The ***interplay*** between these 3 types is important.

We can conclude that the social security system leads tot ***a 'state of being'*** of the citizens and also of the society. And this situation has a subjective experience component, namely, the citizens feel save, being optimistic, pessimistic.. But the social security is *only one component of the social policy*. Other components of the social policy are employment policy, educational policy...

[9] To rely = Vertrouwen

Evolution and challenges

Long term history of the welfare state

The origins of welfare states was in the late 1800s. The social expenditures were in Europe only 3% of the GDP (before World War 2). It was very limited. Only a few people were covered. The concept of the welfare state came in the post-war decades. By 1960, the median level of social expenditures had risen to 10% of the GDP. The real take-off occured[10] in the 1970s, there was a social reform wave. There was benefit generosity and population inclusion. By 1990 the median level of social expenditure had risen to 24% of GDP.

After World War 2, were there ***feelings of national solidarity*** shared by all classes. There was also economic growth and prosperity[11]. It has led to an over-generous and unconditional system of social security. If something happend (f.e. illness), then you can get a compensation. The government gives the compensation. So after the fact, there is social insurance.

After the ***oil shocks and the economic recession*** (after 1973-1979) was there fiscal austerity[12], high social needs, inactivity and poverty... Rather than remediate[13] the impacts of social risks, it's more preferable to prevent people from ocurring in the first place. Social investment is the fact that government prevent. They give training, invest in long live learning...

Since 1970 were there ***economic and social changes***. There were shifts in the labour market: from manufacturing to services, from unskilled tot knowledge-intensive jobs... Another change was the individualization and the emancipation of women. There came more active women on the labour market (increase of the labour force). But these women have to be paid, so their an increase of the direct prices en more social risks.

The government needs ***fiscal discipline***, because there are ***new needs*** (f.e. the participation of women in the labour market). There is since 1990 a new welfare state en because of that there are new social risks and more costs to tackle those risks. So since 1990, was there a vast body of literature to develop a ***'new welfare state'***. It had 3 core ideas.

1) *The existence of new social risks*
   The old social risks are unemployment, old age, bad health, sickness and disability and the financial burden of raising children. Since 1990 new socials risks. Examples: The impossibility to reconcile[14] family responsibility and paid labour. If women enter the labour market, there arises a need of child care. Other examples are the single parenthood, long-term care dependency of a family member, low or inadequate schooling because their are more intellectual jobs, insufficient coverage by social security, older people...

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[10] To occur = Voorkomen
[11] Prosperity = Welvaart
[12] Fiscal austerity = Fiscale strengheid
[13] Remediate = Saneren
[14] Reconcile = Verzoenen

2) *The notion of social investment.*
The government has to prevent people from ocurring in the first place.

3) *The development of services*
The existence of new social risks and the notion of social investement has led to the development of services. It's the consequence. There are new risks. If women enter the labour market, arises a need of child care. So the welfare state has to develop.
→ ***Problem***: Mathew effect.
↓
The advantages of the budgets for the new risk ***tend to flow to the higer income groups***, for example to families with 2 earners. So the solutions to tackle the new risks are more in favour for the families with a high income. There's a explanation for it, because in the new welfare state, the budgets are ***work-related*** and thus income-related. The government has to make the welfare state more service-oriented, because services are less distributive than cash transfers.

Changes in public spending on old versus new welfare (2005-07 compared to 1985-89)

	EU-13	Belgium
"Old 1" Healthcare	**1.35**	**1.26**
"Old 2" Retirement Pensions	**1.08**	-0.38
"Old 3" Other social transfers	**-1.13**	**-1.65**
"New 1" Parental Leave	0.06	0.10
"New 2" Elderly care	0.17	0.19
"New 3" Childcare + pre-primary	**0.49**	**0.83**
"New 4" ALMP	0.06	-0.04
"New 5" Prim. & Sec. Educ.	0.05	**0.57**

→ Active Labour Market Policy

There is a spending on benefits for people at working age and their children as a percentage of GDP (old 3) is significantly lower in 2005-07. We can explain it, because there were lower levels of unemployment (EU -1.23 / Belgium -3.16). But there is also a declinig of benefit geneoristy (less generous).

We also see a considerable increase of the 'new' spending, dominated by childcare and education. But it's wrong to say that the 'new' spendigs crowed out the 'old' spendings.

Public spending in Belgium (in % of GDP)
→ How much do we spend on all these risks in % of GDP?

	1985	2007
"Old 1" Healthcare	5.7	7.3
"Old 2" Retirement Pensions	9.3	8.9
"Old 3" Other social transfers	12.0	8.7
"New 1" Parental Leave	0.1	0.2
"New 2" Elderly care	0.17	0.19
"New 3" Childcare + pre-primary	**0.1**	**0.9**
"New 4" ALMP	1.2	1.2

We spent mainly on the old risks. The ***demografic changes*** are ***a driver***, there are less kids, less expenditures... Because of that, we eliminate thos facts out of the table. That gives a better idea of the budgetary efforts. So we can distinguish[15] demografic and unemployment impacts in the table. Some facts.

- Spendng on retirement pensions (old 2) divided by the number of people older than 64, compared to GDP per capita.
- Spending on childcare and pre-primary education (new 3) divided by the number of children younger than 5, compared to GDP per capita.
- Spending on ALMP (new 4) per unemployed, compared to GDP per capita.
- Spendig on primary and secondary education (new 5) divided by the population form 5 to 19 years old, compared to GDP per capita.

Budgetary effort indicators:

	EU-13	Belgium
("Old 2" / 65+)/(GDP/CAP)	96	80
("New 3" / <5)/(GDP/CAP)	**1231**	**815**
("New 4"/ UN)/(GDP/CAP)	128	124
("New 5"/ 5-19)/(GDP/CAP)	127	130

The table shows that the effort per pension is lower. We think the budget increased a lot, but the number of older people increased even more.

Employment incentives

There are 3 types of instruments:

those who work have to pay for the benefits for elderly people, sick people.

1) The ***negative economic*** incentives. It's about 'making work pay' by retrenchment[16] of employment benefits.

2) The ***positive economic*** incentives. It's about 'making work pay' by improving the net income of those in work, particularly at the bottom end of the wage distribution.

3) ***Administrative incentives*** or 'close monitoring'. It's about generous offers of training and counselling[17] combined with a strict follow-up each individual's willingness to accept training and counselling and jobs on offer, with sanctions at hand.

[15] Distinguish = Onderscheiden
[16] Rentrenchment = Bezuiniging
[17] Counselling = Begeleiding

Positives incentives in Belgium

		minimum wage	unemploym. minimum	unemploym. maximum
single	increase 1999-2010	**14%**	**24%**	**36%**
	ratio 1999	*100%*	*63%*	*70%*
	ratio 2010	*100%*	*68%*	*84%*
lone parent	increase 1999-2010	**20%**	**4%**	**4%**
	ratio 1999	*100%*	*93%*	*103%*
	ratio 2010	*100%*	*81%*	*89%*
single earner, no children	increase 1999-2010	**20%**	**5%**	**6%**
	ratio 1999	*100%*	*79%*	*90%*
	ratio 2010	*100%*	*69%*	*79%*
single earner, 2 children	increase 1999-2010	**22%**	**9%**	**9%**
	ratio 1999	*100%*	*83%*	*91%*
	ratio 2010	*100%*	*74%*	*82%*

There's a real increase between 1999 and 2010 in net disposable household income, which takes into account all relevant benefits including child benefits, personal social security contributions, taxes and the cost for the lone parent. So if parents get child benefits, it comes on an account.

The household income is expressed as a ratio of household income when the household is living on a minimum wage. It's a rough indicator of the financial incentive for the households in question to find a job at minimum wage. When the ratio's decrease over time, the financial employment incentive increases.

We see that the minimum wage increased by 14%, but that the benefits for unemployment increased more. It gives negative incentives. We also see that lone parents who are unemployed get more if they work. Because of that fact, aren't they motivated to work. The minimumwage is 100%, if a single person is unemployed does he get 68% minimum.

Economic motivation – Efficiency (public goods & extranalities)

Axiom welfare economics

A first theorem of welfare economics is a competitive equilibrium. We call ist Pareto-efficient. A competitive equilibrium is the competition between supliers and demanders. It's reflected in the price in a perfectly competitive market situation. Pareto-efficient implies that nobody can get better off, without making someone else worse off. This theorem has some limitations.

- Market failures and public goods
- External effects. People don't take into account[18] the effect of their decisions or behaviour on the welfare of others.
- Distribution and social justice isn't adressed n the first theorem.

The limitations of this theorem show the ***need for a government***. But there doesn't only exist market failure, but also ***government failure***. The government can't solve all the problems perfectly. In general does the government fail if the objectives of the government differ from those of its citizens. With other words, if the government doesn't know what their citizens want. So it's for the government a ***challenge*** to transform the personal preferences into public policy (using a democracy). And what are the roles for the politicians, the pressure groups, bureaucrats...?

[18] Take into account = Rekening houden met

A competitive equilibrium is possible for a market economy with private goods and private (personal) preferences. The equilibrium price equals[19] the private willingness to pay for one more unit of the good. Each consumer can choose diffrent levels of units of consumption.

Pure public goods are non-exludability. The individual habitants can't be exclued to use the goods. It's like a dike[20] who protects all inhabitants. It's also non-rivalry. If I use the good, it doesn't affect[21] you the possibiliy to use it. For public goods has every consumer the same level of consumption, but the willingness to pay can be different. The amount of provision of the public good should respect the rule of Samuelson. The social willingness to pay for public goods is the sum of the individual willingness to pay. It's difficult to know wath the optimal level of public goods provision is, because to determine it, we can't rely on the market for public good provision.

'The tradegy of the commons' is a problem. The individual freedom by the common use of goods lead to underuse or overexploitation of those goods, when each individualistic person aims[22] tot maximalisation of the own utility, while the costs are divided over all the users of the goods. In other words 'If **you** contribute for the provision of a public good (that **I** can use as well), **I** don't have to pay.'. If every citizen think like that (= free rider behaviour), there will be no good provision or at least an insufficient provision. So there is need for a mechanism to organize public good provision (this can be the government).

If the government organize the public good provision, then ***everyone will be better off***, because everyone prefers a world with the public goods to a world without the public goods. So the welfare is increased thanks to the public intervention. This implies that coercion or taxation makes people better of.

Examples of ***quasi-public goods*** are infrastructure, public space, environment... Some of them are excludability, some rivalry. That's why they are quasi-public. Externalities can we also find by the quasi-public goods. It's basically ***the same challenge*** as for public goods. Consumption or production creates namely costs or benefits external to the specific consumer or producer. So private benefits/costs are different from societal benefits/costs and a competitive market can not produces an optimal (Pareto) solution. The government has to take care of the externalities.

So, quasi-public goods, externalities...in summary are called ***'market failures'***. It simply means that the market mechanism isn't the best and efficient mechanism to organize society. It makes thus plenty of room for other institutions, such as government... Welfare can increase beyond the first theorem of welfare economics. This also holds for a redistributive rol of government.

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[19] To equal = Evenaren
[20] A dike = Een dijk
[21] To affect = Beïnvloeden
[22] To aim = Streven

Economic motivation – Redistribution

The ***social choice theory*** is about the preferences of the society.

1) *Income vs. Welfare*

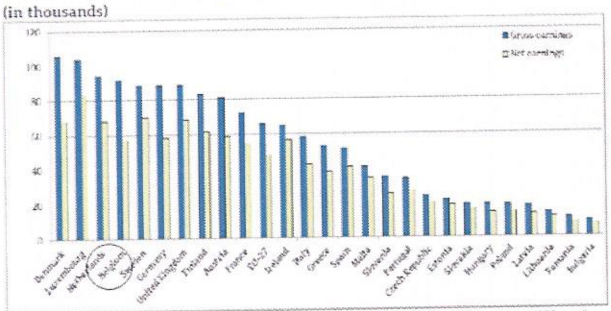
   Disposable income is the market income from labour decreased with direct taxes and social security. It's the income consumers use to buy goods en services. The income from labour is most important. The biggest part of our income is from labour, ± 51%. Ranging from 7.5% among the 20%poorest households to more than 70% among the 20% richest households.

   There are ***objective and subjective criteria***.

   I. Objective criteria: health status, age, family size...
   II. Subjective criteria: individual preferences or coping with objective restrictions. Some people will spent a lot on luxury goods and aren't happy with simply things.

Figure 24b: Annual gross and net earnings of a two-earner married couple, both at 100% of average wage, with two children, 2012

(in thousands)



Source: Eurostat-Online 2014, OECD annual publications "Taxing Wages" and "Benefits and Wages".

The graph shows ***the impact of the taxation of the government*** on the income. There's a diffrence betwee net and gross income (taxes included or no). The blue bar are the gross earnings. The green bar are the net earnings. There are big diffrences between the European countries, and also between the blue and the green bar. In Belgium is the diffrence between the bleu and green bar the biggist. In England is the diffrence the lowest.

The ***family size*** has also an impact on the income. Citizens has to divide their disposable income by the number of family members, f.e. €1500.

- A couple without children: Welfare level of €750 each.
- A couple with 4 children: Welfare level of €250 each.

So there are more diffrences in welfare if there are more children, but somethigs families can get advantages if there are more family members. The ***equivalence scale*** is a factor which takes family composition and advantages of scale into account. There are some rules.

OESO:
- additional adult: factor 0,5
- additional child (<14 years): factor 0,3

Example: equal prosperity
- single with €1500
- couple without children: €2250 (scale1,5)
- couple with four children: €4050 (scale 2,7)

First person + 1 addition = €1500 + €750 = €2250
1 person + 1 extra + kids = €1500 + €750 + (4*0.3) * €1500 = €4050

2) *Inequality vs. Poverty*

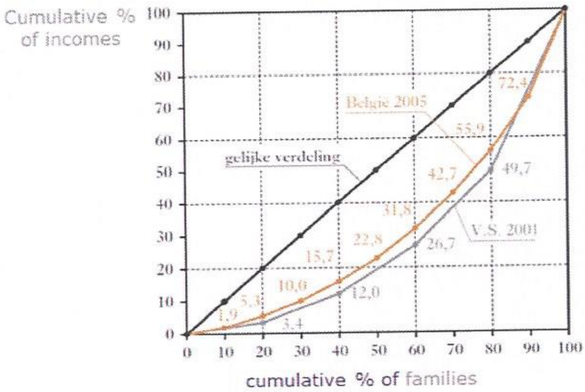
Inequality ≠ Poverty! Most inequality measures aren't sensible for propotional income changes. The income in Tanzania is for example 100 times lower than in Belgium. Similar for the Gini coëfficient (= a measure for inequality). So the level of income is diffrent.

Inequality can be measured by 4 manners.

I. The average of household incomes.

II. Decile-distribution. This is the distribution in income classes which contain as many families, but are not necessarily as large. We analyse for example 10% families and their income. We always consider 10% but the income levels are diffrent.

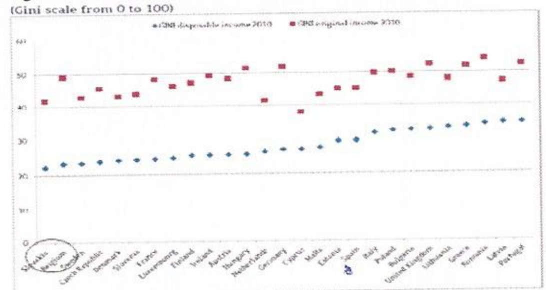
III. Lorenz curve en Gini-coëfficiënt.



The horizontal axis shows the cumulative shar of population. The vertical axis shows the cumulative share of income. The diagonal is the reference point. The 10% poorest people only have 1.9% of the income. If we compare that with the diagonal, then we see it's a situation of inequality. The Gini-coëfficiënt is the distance between the Lorenz curvve and the diagonal. If the Gini-coëfficiënt = 0, then there's a perfectly equality situation. The curves fall togheter. If the Gini-coëfficiënt = 1, then there's perfectly inequality.

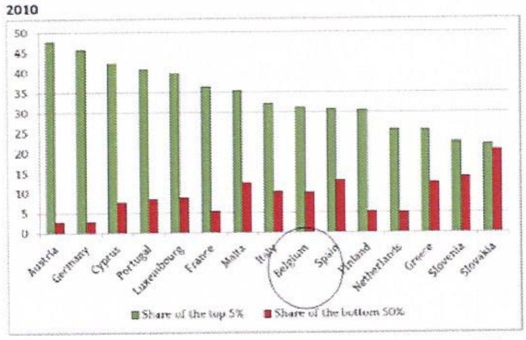
The next graph shows the Gini-coëfficient before and after ***government intervention***. The red curve is the original Gini, the blue one the Gini after intervention. We see that the 2 curves doesn't correspond with each other. In Belgium the Gini-coëfficient developped from 50 to 22. There was inequality befor the government intervention, but after the intervention came we to a country with the lowest inequality. In Spain is the evolution the opposite. It developped from a lowGini-coëfficiënt to a high one. So the Belgian governement was more succesfull to reduce inequality.

Figure 25: Gini coefficients before and after taxes and transfers, 2010
(Gini scale from 0 to 100)



Source: EUROMOD statistics on distribution and decomposition of disposable income, accessed at http://www.iser.essex.ac.uk/euromod/statistics/ using EUROMOD version no. F6.0++

Figure 32: The distribution of wealth: Share of the top 5% and bottom 50%, 2010



Source: Fessler and Schürz (2013): Cross-Country Comparability of the Eurosystem Household Finance and Consumption Survey. Monetary Policy & the Economy, Oesterreichische Nationalbank (Austrian Central Bank), issue 2, pages 29–50.

In Belgium have the top 5 richest people 30% of the wealth. The top 50% poorest people have only 10% of the wealth.

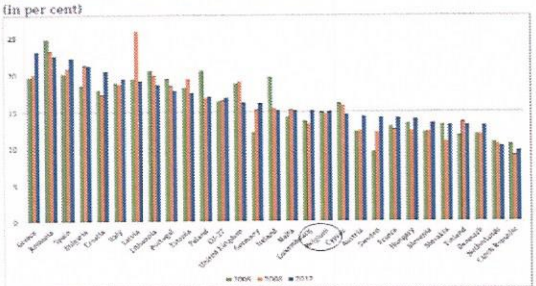
Poverty in ***absolute terms*** means that someone can't reach an absolute income level (f.e. $1 a day). Poverty in ***relative terms*** is a situation in which a family doesn't have enough income to participate fully in social life. It's 60% of median equivalent incom (EU and OECD). There are subjective methods (surveys) to measure that kind of poverty.

→ at-risk-of-poverty
→ material deprivation

So there are 2 manners to measure poverty. On the one hand poverty in absolute terms and in the other hand in relative terms. The best indicator to measure poverty used by the OECD is the relative one. Someone is poor if he/she has le***ssthan 60% of the median income***.

So, the key indicator is ***'at-risk-of-poverty indiciator'*** (60% of median income). It's an indicator that is used a lot, but sometimes it may ***overestimate or underestimate*** the realities of financial strain and poverty risks. The indicator underestimates the poverty risks for people who are working vis-à-vis people who aren't working, or it underestimates the poverty risks in households wth more than on child. The indicatro overestimates the poverty risks for the eldery. Older people have a lot an income under 60%, the indicator says they are poor, but in fact they have an own house who is part of their wealth. They don't have to pay for it anymore.So it's a useful but ***inadequate indicator***.

Figure 34: Change in at-risk-of-poverty rate, 2005, 2008 and 2012
(in per cent)



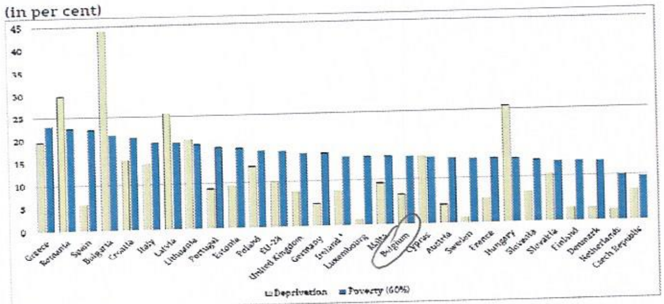
Source: Eurostat-Online 2014. Survey of Income and Living Conditions (EU-SILC).
Note: At risk of poverty rate (cut-off point: 60% of median equalized income after social transfers)

Survey year Incomes		2006 2005	2008 2007	2010 2009	2011 2010
At-risk-of-poverty rate					
BE	65+	23.2%	21.2	19.4%	20.2%
BE	<18	15.3%	17.2%	18.3%	18.7%
BE	total	14.7%	14.7%	14.6%	15.3%
EU15	65+	19.7%	19.2%	16.3%	
EU15	<18	18.3%	19.3%	19.8%	
EU15	total	15.9%	16.2%	16.2%	
Poverty threshold BE					
euro's		10328	10791	11678	12005
index		100.0	104.5	113.1	116.2
corrected for inflation		100.0	100.8	104.5	105.1

The graph shows that Belgium is a stable country. The levels of 'at-risk-of-poverty' stayed ± the same. In other countries is there an evolution. The table indicates some evolution. For whole Europa is there a downward trend for the eldery. The poverty by older people have dropped. Bij younger people is there an upward trend. But there are overestimations.

In general being relatively poor is worse in a poor country. We should look if people can afford ***what they need and what they want***. The key indicator is material deprivation. A number of items are considerd to be important, looking for the number of people who like but can't afford these items. For example: 'Are you able to pay your rent? Can you eat meat? Can you go on holiday? Do you have a telephone? Do you have heating?...'. The ***EU-deprivation*** says that if their are lacking at least 3 out 9 items that someone is poor because then they can't participate fully in life.

Figure 36: National material deprivation rates and at-risk-of-poverty rates, 2012
(in per cent)



Source: Eurostat-Online 2014, Survey of Income and Living Conditions (EU-SILC).
Note: *Poverty and deprivation rate of Ireland refers to 2011 data.

The graph shows that there are ***big diffrences between material deprivation*** (green bars) between countries. The poverty is in general equal in all the countries. The reason for the big diffrences between the countries is that every country get the same questions, but it's relative per country. It depends from country to country. In Belgium is there for example a low poverty but high deprivation.

Survey year		2006	2008	2010	2011
Material deprivation rate (> 2 items)					
BE	**65+**	9.8%	8.1%	7.8%	7.7%
BE	**<18**	17.3%	14.2%	15.5%	17.7%
BE	**total**	12.9%	11.6%	12.3%	12.9%
EU15	**65+**	9.8%	9.5%	8.9%	
EU15	**<18**	15.3%	15.4%	16.1%	
EU15	**total**	12.5%	12.5%	13.0%	

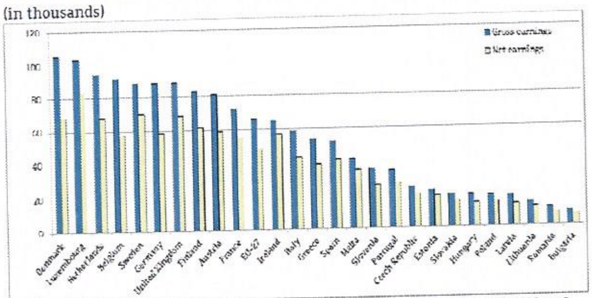
If we compare eldery with young people, do we get a diffrent picture. In the European Union is the problem worser for younger people than for eldery people. Eldery people can participate well in life, because they already have a house, a car.. For young people is that more difficult, they still have to buy these things.
→ See slide about child poverty in Europe! (slide 63)

3) *Redistribution through taxes*

Taxes are the ***first*** important redistribution mechanism to change the distribution of income and welfare, to finance public goods and to influence behaviour of economic agents. Typical for Belgium is the progressivity of tax rate. Strong shoulders (should) bear more burden.

Figure 24b: Annual gross and net earnings of a two-earner married couple, both at 100% of average wage, with two children, 2012

(in thousands)



Source: Eurostat-Online 2014, OECD annual publications "Taxing Wages" and "Benefits and Wages".

There are some ***principles*** for a good tax system. First of all, strong shoulders bear more burden[23], because their is vertical redistribution. There is redistribution form more income to lower income. It's also called the ability-to-pay principle. Next, the taxable persons should be treated equal in equal circumstances. That's horizontal equity and redistribution. If someone has a child they get a reduction. It's redistribution by a relevant factor, like a child, older people..

Taxes in OECD countries

Average rates and marginal rates for a single person with an income equivalent to 167% of that of an average worker in 2012. The averages rate is lower than the marginal rate. That's because their's an progressive system in all those countries. Belgium has the highest rates, Mexico the lowest.

Country	Average rate	Marginal rate
Germany	43.8	44.3
Poland	25.4	26.7
Korea	15.7	18.7
Japan	25.0	30.8
Mexico	14.0	22.9
Canada	26.7	35.4
United States	28.6	37.4
France	33.9	42.4
OECD - Average	30.5	39.9
Australia	29.1	39.5
United Kingdom	30.7	42.0
Spain	28.1	40.0
Netherlands	38.1	49.3
Italy	37.9	49.9
Denmark	45.1	56.1
Belgium	49.5	59.8
Sweden	35.2	56.6

4) *Redistribution through social security*

Social security is the ***second*** redistribution mechanism. It has 2 principles. The first one is ***insurance against risk***. There are income transfers towards victimes. For example sick people, old people, handicapped people... But there's also ***solidarity***.

Bismarck regime	Beveridge regime
The Bismarck regime is financed by social contributions. There's involving of social partners in the managing system. This regime emphasis on insurance element. Reciprocity[24] between contributions and benefits.	The government plays a great rol in the financing of the Beveridge regime. They impose taxes. This regime emphasis on solidarity and redistribution.

↳ Belgium : Bismarck

[23] De sterkste schouders dragen de grootste last.

[24] Reciprocity = Wederkeerbaarheid

Insurance reduces uncertainity by loss of labour or by unforeseen costs. The beneficiary pays a premium to the insurer. The insurer garantees that 'damage' is paid by the insurar at the occurence of the risk. An example is the car insurance.

Reciprocity means that who pays premiums is entitled to contractual benefits. It's crucial. If people pay a premium, they can get a benefit. People pay for example a premium for their health insurance and if they have to go to the hospital, then they receive a compensiation. They can 'repair' the damage.

So exant is there the voluntary membership and ex post can the members get redistributuios. Social security contributions aren't just tax but also paratax expenses.

Social security is organised by the government and not y the market. There are 3 important reasons for that.

a) *Collective component*

   Some examples:

   → Unemployment risk. It depents on the business cycle. In a financial crisis are there winners and losers. But there are more losers than winners. The winners weren't able to compensate the losers, so the government does.

   → Longer life expectancy for everyone

   → Risks of earthquakes or floods. The government funds with compulsory contributions.

b) *Adverse selection*

   'Good risks' pay too much and leave the market. It leads to adverse selection. Only the bad risks remain ant the market disappears. The govermet ***obliges people to pay contributions*** . For example, those who are in a good health won't take an insurance, because the premium is too hight. So those with a low risk won't pay and only those with a high risk will pay premiums. The result is that the market will not work. Because of that the goverment obliged people to pay premiums. So there comes an oligation from the government to pay contributions.

c) *Moral hazard*

   The risk of damage (and extent of it) isn't exogenous but determined ***by behaviour*** of the beneficiary. People can take ***more risk*** if they have an insurance. People drive for example more dangerous if they have car insurance. Or people don't look for work, because they know they can get unemployment benefits. They will wait till they find a good job... The government will discourage this kind of behaviour by regulations.

There are diffrent forms of solidarity in the social insurance:

- *Risk solidarity (insurance)*
  Redistribution towards those who have been unlucky
  → verplicht
- *Compulsory solidarity*
  Redistribution beyond self-interest. People have to do it by themself.
- *Subsidizing solidarity*
  Individuals with a diffrent risk are charged the same premium. There isn't primium differentiation.
- *Income solidarity*
  Linking allowances to income or purchasing power of individuals and thus not to contribution. Pensions capped by maximum pension. Reciprocity between contributions and benefits weakened.

The goal of social insurance and solidarity is to ***fight against poverty***. The social security is reduced tot a support system. The Belgian system of social security was originally more Bismarck-oriented (focus on insurance), but nowadays it's more solidarity-oriented. But there is a needto av***oid the Matthew-effect***. That's a situation in which the advantages go (mostly) to the higher income groups. It leads to inefficient use of resources. The solution is: more ***selectivity*** in benefits.

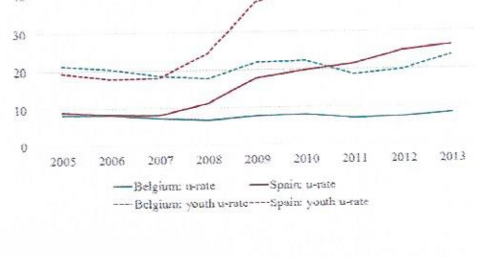
The Social Security has some challenges:

- High costs
- Vision on tradition family structure. It's not adequate for new developments in society (f.e. individualisation)

*It also has some **specific challenges***

- *Unemployment benefits*
  During periods with high unemployment, are there ***high unemployment costs***. There are unemployment benefts for people who lost their job, but it can lead to moral hazard. People don't look for a new job, because they get unemployment benefits. The motivation to work is missing. Some families are ***in an unemployment trap***. The benefits of not working are higher than the benefits to work. For example if someone get more unemployment benefits than income if he or she works. The solution is to decrease the unemployment beneftis with the duration of unemployment. The reverse is also possible.

  During the crisis of 2007-2008 the unemployment was high. Before the crisis was it more stable.The crisis had a big effect on the unemployment rate in Spain. The budget of the Social Security was under pressure.



- *Pensions*

The Social Security gives pensions to eldery people so they can be sure of an income for the period in which they aren't able to work anymore. There exist 2 systmes. One is the ***system of capitalisation*** (of funding). It implies that each generation saves for themselves. The danger is that if someone invest for himself and he loses money, that that person can get big financial crisis.

There's also ***a repartition principle*** (= pay-as-you-go). Contributions are'nt invested on the capital market, but directly transferred to pensioners. The principle is that young people contribute for retirees now. There's solidarity between generations. The disadvantage is that the system is more sensibility for ageing.

The challenge by the pensions is that their is ***ageing***. It means that there's a decline in the birth rate and that there is an extension of the life expectancy. The dependency ratio is a ratio of population aged over 64 compared with those between 20 and 64 years. Or in other words, it's the ratio of people older than 64 year to the working-age population (15-64 year). In 1980 this ratio was 25%. It indicates that for one old people, there are 4 active persons. The expectation for the future is that it wil decrease to 50% in 2050, for one old people, only 2 active persons. They expect there will be less people who work en pay for the pensions of the eldery.

	1990	2000	2010	2014
EU 27	20,6	23,2	26,1	28,2
Belgium	22,1	25,5	26	27,3

The ***solutions*** for the problem are reducing pensioners benefits, increasing contributions of active population and longer working lives.

Pillars pension scheme

I. Compulsory social security contributions
II. Emloyers provide supllementary pensions for their employees
III. Personal savings and investment plans

The 3 pillars lead tot discussion. More slectivity ans solidarity in the first pillar versus strenghtening reciprocity between contributions and benefits in the first pillar. So they have to search for ***the right balance*** between insurance and solidarity in social security.

- *Health insurance*

The Belgian ***reimbursement system***. The patient pays only a fraction of the cost. The patient contribution is 'het remgeld'. In some cases can it lead to moral hazard by doctors. The solution for it is to limit over-consumption by a fixed salary instead of a performance fee. But that can also lead to a problem, namely that doctors might perform less. But that's a difficult problem to solve. There's also a problem of affordability[25].

[25] Affordability = Betaalbaarheid, veroorloofbaarheid

Everything has a price, also redistribution
The size of the dividing cake is exogenous. It's not possible that policy choices to divide the cake in a certain way influence the size of the cake. The main reason are discouragement effect. There are also encouragement effects, but they are sometimes forgotten.

- *Voorbeeld 1: 'Leaky bucket'*
  The income tax varies with income and thus with labour efforts. It might decrease labour supply. Welfare loss: try to avoid taxes by working less

- *Voorbeeld 2: 'Adapt behaviour to get more benefit'*
  If you have a higher income, you have to pay more. If you find that to high, you will work less. It increases reservation wage. Below a certain level a job is not accepted. Employees stay at home more easy since they get a benefit anayway. Een unployee will only accep a new job if the wage he will get is higher than his unemployment benefits.

Efficiency-equity trade-off between insurance and equity
If taxes are more progressive, then there's more redistribution and more discouragement effects.

- Maximize objective function. Welfare of citizens and redistribution objectives.
- Subject to restrictions. Reacions of private economic agents and effects on government budget.
- Example: ***Theory of optimal taxes***.

Conclusion

3 explanations for the choice and the size (and growth) of government activities.

1) The government has a rol in dealing with market failures.
2) The goverment has a task as redistributor of income and wealth.
3) The goverment is responsible to claims of pressure groups, bureaucrats... in short, all kinds of goverment failures.

But which is the optimal government size?

The (re)distributive rol of a government in a welfare stat is extremely important, especially in times of a crisis.They have to prevent poverty, decrease inequality and provide the right incentives. In the presence of scarcity[26], cost-effectiveness is an ethical obligation.

Who is responsible? Is the unemplyed person responsible for his unemployment situation? Is the sick person responsible, depending on his lifestyle? There is a shared responsibility between person and society. It's better to think about both as being ***complementary***, depending on the goals of social fairness.

[26] Scarcity = Schaarste

Role of Europe and member states

Social legislation

Rights at work

The EU employment legislation guarantees minimum levels of protection that appy to everyone living and working in the European Union. It includes some important points.

- Health and safety at work
- Equal opportunities for women and men
- Protection against discrimination
- Labour law. For example, employers can't give a lot of fixed contracts to their employees. At a time, the employees has to get an unfixed contract, because that gives them more security.

These rules have to be put into a national law. The enforcement[27] of the national laws taht implement EU legislation is the responsibility of the member states.

The EU provides common rules to protect social security rights when moving within Europe. Europe doesn't organise social security. The countries decide the conditions depending[28] on the circumstances. There are ***4 main principles***.

1) Coverage by the legislation of one country at a time. So people are only coverd by one system and people can't choose the system. People are covered by the system of the country where they work. But there are some exceptions.

2) Principle of equal treatmen or non-discrimination. The national governments decide who is allowed, what the benefits are.. Everybody in the country has the same conditions.

3) Previous periods of insurance, work or residence in other countries are taken into account if necessary. Citizens of a country can import and export their rights. If someone for example works in a country and moves to another country, then he/she can export what he/she already built up in the first country.

4) Principle of exportability

EU countries are primarily responsible for employment and social policy. The EU funding only aims to support and complement the national efforts. Europe tries to stimulate employement and social security ***by a policy*** with 4 main programmes.

- The European Social Fund (ESF)
- The PROGRESS programme
- The European Globalisation Adjustment Fund (EGF)
- The European Progress Microfinance Facility

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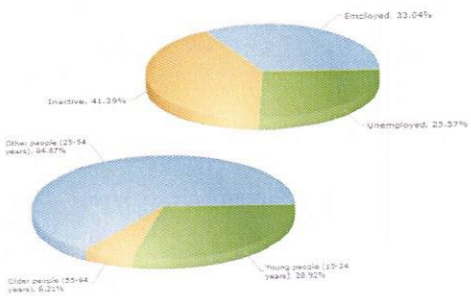
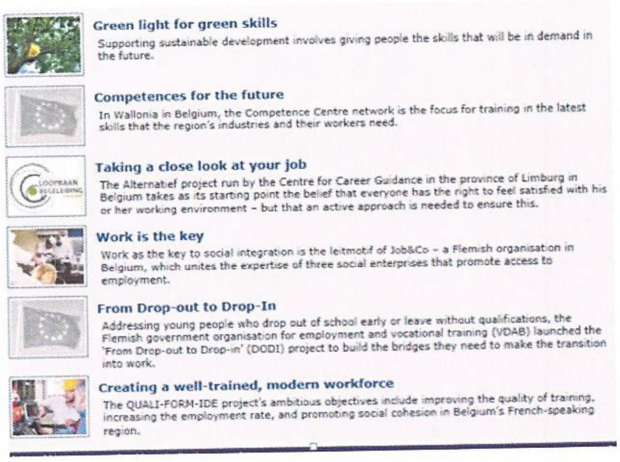
[27] Enforcement = Handhaving

[28] Depending = Naargelang

The ESF tries to ***create more and better jobs***. The ESF is set up to reduce diffrences in prosperity[29] and living standards across EU Member States and regions, and therefore they promote economic and social cohesion. The ESF helps Member States to make a good European workforce and make companies better equiped to face new, global challanges. The funding of ESF is spread across the Member States and regions, in particular in the states where economic development is less advanced. Over the period 2007-2013 some €75 billion will be distributed to the EU Member States and regions to actief its goals.

ESF: Participation by labour market status and age (EU – 2012)





Green light for green skills

Supporting sustainable development involves giving people the skills that will be in demand in the future.

Competences for the future

In Wallonia in Belgium, the Competence Centre network is the focus for training in the latest skills that the region's industries and their workers need.

Taking a close look at your job

The Alternatief project run by the Centre for Career Guidance in the province of Limburg in Belgium takes as its starting point the belief that everyone has the right to feel satisfied with his or her working environment – but that an active approach is needed to ensure this.

Work is the key

Work as the key to social integration is the leitmotif of Job&Co – a Flemish organisation in Belgium, which unites the expertise of three social enterprises that promote access to employment.

From Drop-out to Drop-In

Addressing young people who drop out of school early or leave without qualifications, the Flemish government organisation for employment and vocational training (VDAB) launched the 'From Drop-out to Drop-in' (DODI) project to build the bridges they need to make the transition into work.

Creating a well-trained, modern workforce

The QUALI-FORM-IDE project's ambitious objectives include improving the quality of training, increasing the employment rate, and promoting social cohesion in Belgium's French-speaking region.

The ***PROGRESS programme*** finances supports activities with a strong Europe-wide dimension and of an appropriate[30] scale to ensure EU added value. They have diffrent programmes for the diffrent regions.The ***European Globalisation Adjustment Fund*** (EGF) provides, time-limited individual support geared[31] to helping workers who have suffered redundancy as a result of globalisation or the current crisis. By financing measures such as careers advice or by providing time limited support, come for example mobility allowances[32]. So this programme helps people who suffer from the crisis. They can't give those people unemployment benefits, because tht's part of the Social Security of the states, but give them more additonal things like for example career advice.

The ***European Progress Microfinance Facility*** increases the availibity of microcredit (smaller funds) for setting up or developing a small business by enabling[33] selected microcredit providers in the EU to increase lending.

[29] Properity = Welvaart
[30] Appropriate = Geschikte
[31] Geared = Gericht
[32] Mobility allowances = Mobiliteitsvergoedingen
[33] Toe enable = In staat stellen

Open Method of Coordination

The ***'Open Method of Coordination[34]'*** was introduced by the European Council of Lisbon in March 2000. It was a method designed by tthe Member States to help them reach their goals. The countries have decided their goals en the simulatiors. So it was a method designed to help the Member States to progress in the reforms they needed to undertak in order ***to reach the Lisbon goals***. There's a benchmaking, the diffrent countries compare each other. No one wants to perform the worst. So they really want to join their goal. They can also learn from each other. The Open Method of Coordination takes place in areas that ar the competence of the Member States, such as employment, social protection, social inclusion, education, youth and training.

The OMC has some principles. These are **the key concept** *of Europa, introduced in 2000.*

- Jointly identifying and defining objective to be achieved, adopted by the Council.
- Jointly established measuring instruments (statistics, indicators, guidelines)
- Benchmarking. Comparison of the Member States' performances and exchange of the best practices, monitored by the Commission.

The process of the Open Method of Coordination is expected to produces some outcomes. It expects enhances mutual learning and peer review, identification of good practices and of their conditions for transferability, development of joint policy initiatives among several Member States and region and identificaton of areas where Community initiatives could reinforce actions at Member State level.

Integrated in a broader framework: from Lisbon to Europe 2020 strategy

In 2002 the Lisbon Strategy was launched as a respons to the challenges of globalisation and ageing. The objective of the strategy (goa) was 'to become the ***most dynamic and competitive knowledge-based economy*** in the world by 2010 capable of ***sustainable economic growth*** with more and better jobs and greater social cohesion and ***respect for the environment'***.

In 2005 was there a mid-term review. The Lisbon Strategy was too complex, because it has too much goals. There came a re-launch of the Lisbon Strategy with focus on growthe and on jobs. The re-launch of the Lison Strategy in 2005 provided a set of new and more powerful instruments.

1) *The Integrated Guidelines*

   The Integrated Guidelines are ***the priorities***. It are the foundations for the National Reform Programmes, outlining the key reform priorities for the EU as a whole. Every country has to say what they will do to reach the goals. Some examples below.

   - Implement employment policies intended to achieve full employment, improve quality and productivity at work, and strengthen social and territorial cohesion.

   - Promote a new lifecycle approach to work.
   - Ensure inclusive labour markets, enhance work attractiveness, and make work pay attractive for job-seekers, including disadvantaged people and the innactive.

[34] OMC = Open Method of Coordinatioon

- Improve matching of labour market needs.

- Promote flexibility combined with employment security and reduce labour market segmentation, having due regared to the role of social patners.

- Ensure employment-friendly labour cost developments and wage-setting mechanisms.

- Adapt education and training systems in respons to new competence requirements.

2) *National Reform Programmes*
Documents prepared by Member States, for a 3 year cycle, to indicate what instruments they would use ***to realise their economic policy objectives***. The National Reform Programmes were followed by annual updates 'Implementation Reports'. Europe wants to take care of it and because of that they give the countries advide.

3) *Country-specific recommendations*
It's based on the Commission's assessement of Member States' progress towards achieving the objectives set out in their National Reform Programmes.

4) *The Commissions' Annual Progress Report*
The annual assessment of the Commission on progress made with the implementation of the Strategy accompanied by policy proposals for the European Council.

5) *The open method of coordination*
Intergovernmental method of 'soft coordinatio' by which Member States are evaluated by one another, with the Commissions 's role beng one of surveillance.

The Lisbon Strategy has some targets. There were ***2 main targets (!)*** en a few ***secondary targets***:

- 70% employment rate (!)
- 3% of GDP spend on R&D (!)

- 3% average growth of GDP
- 50% employment rate for older workers
- 60% employment rate for women
- 85% of the population aged 20 to 24 having completed at least upper secondary education
- Early school-leavers less than 10%. So people who leave school without degree of secudary school < 10%.

Employment rate (total)

	2000	2005	2008	2009	2010
EU (27 countries)	62,2	63,4	65,8	64,5	64,1
Belgium	60,5	61,1	62,4	61,6	62
Germany	65,6	65,5	70,1	70,3	71,1
Greece	56,5	60,1	61,9	61,2	59,6
Spain	56,3	63,3	64,3	59,8	58,6
France	62,1	63,7	64,8	64	63,8
Italy	53,7	57,6	58,7	57,5	56,9
Netherlands	72,9	73,2	77,2	77	74,7
Austria	68,5	68,6	72,1	71,6	71,7
Portugal	68,4	67,5	68,2	66,3	65,6
Finland	67,2	68,4	71,1	68,7	68,1
Sweden	73	72,5	74,3	72,2	72,7
United Kingdom	71,2	71,7	71,5	69,9	69,5
Norway	77,5	74,8	78	76,4	75,3

Uitleg:

There were only a few countries (green) who reached the goal of an employment rate of 70% in 2010. The North countries are better than th-e countries in the south. The financial crisis (2008-2009) had an influence on the employment rate. → PI(I)GS

Employment rate (55-64 year)

	2000	2005	2008	2009	2010
EU (27 countries)	36,9	42,3	45,6	46	46,3
Belgium	26,3	31,8	34,5	35,3	37,3
Denmark	55,7	59,5	57,3	57,5	57,6
Germany	37,6	45,5	53,7	56,1	57,7
Greece	39	41,6	42,8	42,2	42,3
Spain	37	43,1	45,6	44,1	43,6
France	29,9	38,5	38,2	38,9	39,7
Italy	27,7	31,4	34,4	35,7	36,6
Netherlands	38,2	46,1	53	55,1	53,7
Austria	28,8	31,8	41	41,1	42,4
Portugal	50,7	50,5	50,8	49,7	49,2
Finland	41,6	52,7	56,5	55,5	56,2
Sweden	64,9	69,4	70,1	70	70,5
United Kingdom	50,7	56,8	58	57,5	57,1
Norway	65,2	65,5	69,2	68,7	68,6
Switzerland	63,3	65,1	68,4	68,3	68

Uitleg:

The table above shows the countries who reached the goal of an employment rate of 50% for older workers. In Belgium there was an increase after the financial crisis.

Employment rate (women)

	2000	2005	2008	2009	2010
EU (27 countries)	57,3	60	62,8	62,3	62,1
Belgium	56	58,6	61,3	61	61,6
Denmark	72,9	73,7	75,4	74,8	73,1
Germany	60,9	63,1	67,8	68,7	69,6
Greece	45,5	49,6	52,5	52,7	51,7
Spain	44,5	54,4	58,3	56,3	55,8
France	60,3	63,7	65,5	64,9	64,7
Italy	42,2	48,4	50,6	49,7	49,5
Netherlands	64,1	67,6	72,2	72,7	70,8
Austria	62,3	64,9	68,6	69,4	69,6
Portugal	65,1	66	67	66,1	65,6
Finland	68,2	70,8	73,1	72,4	71,5
Sweden	75,3	75,5	77,2	75,7	75,7
United Kingdom	66,8	68,5	68,8	68,2	67,9
Norway	76,1	74,6	78,6	77,9	76,9
Switzerland	71,2	72,7	76	75,6	74,6

Uitleg:

Most of the countries reached the goal of an employment rate of 60% for women.

→ Only Greece, Spain & Italy didn't reach the goal.

% of GDP spent on R&D

	2000	2005	2008	2009	2010
EU (27 countries)	1,86	1,83	1,92	2,01	2
Belgium	1,97	1,83	1,97	2,03	1,99
Denmark	2,24	2,46	2,85	3,06	3,06
Germany	2,47	2,51	2,69	2,82	2,82
Ireland	1,11	1,24	1,45	1,74	1,79
Spain	0,91	1,12	1,35	1,39	1,39
France	2,15	2,11	2,12	2,26	2,26
Italy	1,04	1,09	1,21	1,26	1,26
Netherlands	1,94	1,9	1,77	1,82	1,83
Austria	1,93	2,46	2,67	2,72	2,76
Portugal	0,73	0,78	1,5	1,64	1,59
Finland	3,35	3,48	3,7	3,92	3,87
Sweden	:	3,56	3,7	3,61	3,42
United Kingdom	1,81	1,73	1,79	1,86	1,77
Norway	:	1,52	1,61	1,8	1,71

Uitleg:

Only a few countries spent 3% of their GDP on research and development.

↳ it's regrettable, because R&D is an important element for a country to be innovative & competitive.

Average growth of GDP

	2000	2005	2008	2009	2010
EU (27 countries)	3,9	2	0,3	-4,3	2
Belgium	3,7	1,7	1	-2,8	2,3
Denmark	3,5	2,4	-0,8	-5,8	1,3
Germany	3,1	0,7	1,1	-5,1	3,7
Ireland	9,3	5,3	-3	-7	-0,4
Greece	3,5	2,3	-0,2	-3,3	-3,5
Spain	5	3,6	0,9	-3,7	-0,1
France	3,7	1,8	-0,1	-2,7	1,5
Italy	3,7	0,9	-1,2	-5,5	1,8
Netherlands	3,9	2	1,8	-3,5	1,7
Austria	3,7	2,4	1,4	-3,8	2,3
Portugal	3,9	0,8	0	-2,9	1,4
Finland	5,3	2,9	0,3	-8,4	3,7
Sweden	4,5	3,2	-0,6	-5	6,1
United Kingdom	4,5	2,1	-1,1	-4,4	2,1
Norway	3,3	2,6	0	-1,7	0,7
Switzerland	3,6	2,6	2,1	-1,9	2,7

Upper secondary education

	2000	2005	2008	2009	2010
EU (27 countries)	76,6	77,5	78,5	78,6	79
Belgium	81,7	81,8	82,2	83,3	82,5
Denmark	72	77,1	70,6	70,1	68,3
Germany	74,7	71,4	74,1	73,7	74,4
Ireland	82,6	85,8	87,7	87	88
Greece	79,2	84,1	82,1	82,2	83,4
Spain	66	61,8	60	59,9	61,2
France	81,6	83,4	83,8	83,6	83,2
Italy	69,4	73,6	76,5	76,3	76,3
Netherlands	71,9	75,6	76,2	76,6	77,6
Austria	85,1	85,9	84,5	86	85,6
Portugal	43,2	49	54,3	55,5	58,7
Finland	87,7	83,4	86,2	85,1	84,2
Sweden	85,2	87,5	85,6	86,4	85,9
United Kingdom	76,7	78,1	78,2	79,3	80,4
Norway	95	96,2	70,1	69,7	71,1
Switzerland	77,7	78,3	82,6	79	82,3

Uitleg:

There's a good evolution in most of the countries, but only one country, namely Sweden, reached the goal of 85%.

Early school-leavers

	2000	2005	2008	2009	2010
EU (27 countries)	17,6	15,8	14,9	14,4	14,1
Belgium	13,8	12,9	12	11,1	11,9
Germany	14,6	13,5	11,8	11,1	11,9
Greece	18,2	13,6	14,8	14,5	13,7
Spain	29,1	30,8	31,9	31,2	28,4
France	13,3	12,2	11,5	12,2	12,6
Italy	25,1	22	19,7	19,2	18,8
Netherlands	15,4	13,5	11,4	10,9	10,1
Austria	10,2	9,1	10,1	8,7	8,3
Portugal	43,6	38,8	35,4	31,2	28,7
Finland	9	10,3	9,8	9,9	10,3
Sweden	7,3	10,8	12,2	10,7	9,7
United Kingdom	18,2	11,6	17	15,7	14,9
Norway	12,9	4,6	17	17,6	17,4
Switzerland	7,3	9,7	7,7	9,1	6,6

The 24 guidelines of the Integrated Guidelines served as the cornerstone of the EU reform effort and helpt to make the case for reforms are ***very broad and insufficiently action-oriented*** to have a significant impact on the national policy making. The European Parliament has also critised the guidelines for not reflection changing economic realities. Their exhaustive nature means that no sense of priortisiation is possible.

zo aanmoedigen

The National Reform Programmes encouraged Member States fo focus on progress towards the Lisbon goals. It was ***a mixed picture***. Some Member States used the National Reform Programmes as powerful instruments of policy coordination which brought togheter ministries and local legislators (oftern for the first time), while other Member States tended to use them as low profile reporting mechanisms.

The country specific recommendations were ***a success story of the Lisbon strategy***. They have helped to address poor performance and focus on main reform priorties, while also playing a key role in policy making in several Member States by increasing political pressure at home. However, in a number of Member States they remained low profile policy advice, and their impact on the reform pace has beel less evident. The quality of the recommendations evolved with experience and succeeded in bringen several structural problems in Member States to promincen. Hower, in some cases, the language was vague and not entirely effective in pinning down the real issues at stake.

The Open Method of Coordination was in the first place a source of peer pressure (no one will be the worst performer) and a forum for sharin good practices, but in fact, most of the Member States have used it as a reporting devid rather than one of policy development.

→ ccl: Lisabon Strategy failed

Europe 2020 came as reaction on the Lisbon Strategy. Europe 2020 build on lessons from the earlier strategy, recognizing its ***strengths*** (the right goals of growht and job creation), but addressing its ***weaknesses*** (poor implementation, with big diffrences between EU countries in the speed and dept of reform) The new strategy also reflect changes in the EU's situation since 2000. In particular the immediate need to recover from the economic crisis.

What wille Europe 2020 bring that differs form the Lisbon strategy?

- A new kind of growth, namely smart, sustainable and inclusive.
- Stronger governance. Regular and transparent monitoring and leadership at the highest political level (the European Council).
- Tighter economic coordination → The European semester. Countries has to say what they will do to reach the goals and to foresee the financial impact of it.

*The Europe 2020 has some **priorities***

- ***Smart growht*** to improve the EU's performance in education, research, innovation and digital society.

- ***Sustainable growth*** for a resource efficent, greener and more competitive economy.

- ***Inclusive growth***, with a high-employment economy delivering economic, social and territorial cohesion. Europe 2020 wants more and better jobs, also for women, older and young people.

- ***Economic governance*** with a reinforced economic agenda with closer EU surveillance.
  - Agreed policy priorities and targets
  - Additional commitments taken by Member States participating in the Euro Plus Pact.
  - Thighter Eu surveillance of economic and fiscal policies as part of the Stability and Growht Pact.
  - A new working method, namely the European semester.

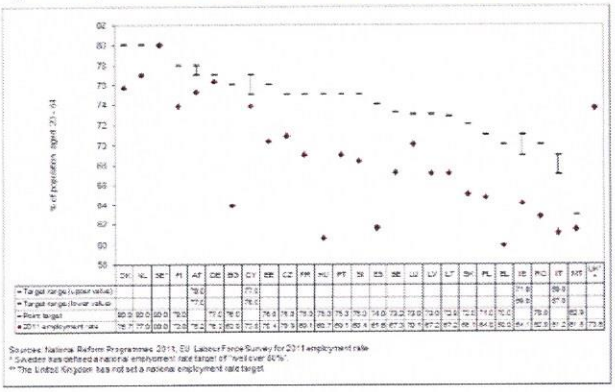
  There are also actions to safeguard the stability of the euro area and to repair the financial sector.

*The Europe 2020 has **5 main targets**.*

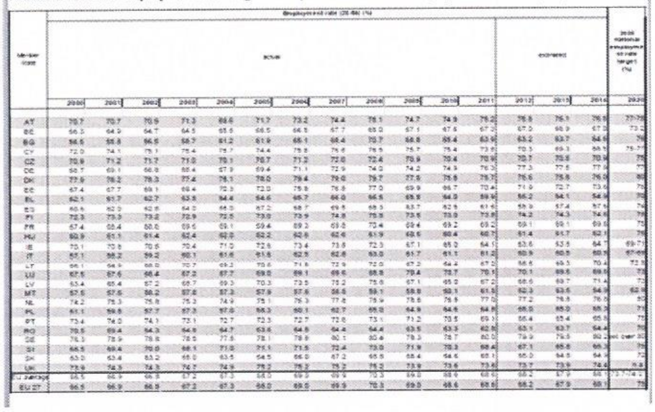
1) ***Employment***: 75% of the 20-64 year-olds to be employed.
2) ***R&D***: 3% of the GDP to ***be invested in R&D***
3) ***Climate*** change/energy with 3 subtargets
   - Greenhouse gas emissions 20% (or 30% if the conditions are right) lower than in 1990.
   - 20% of energy from renewables
   - 20% increase in energy efficiency
4) ***Education***: Reducing school drop-out below 10% and at least 40% of the 30-40-year-old completing third level of education (bachelor or master).
5) ***Poverty/social exclusion***: At least 20 million fewer people in or at risk of poverty and social exlcusion.

Figures:

Figure 2: Europe 2020 national employment rate targets set by MS in their 2011 NRPs



Annex 1: National employment rate targets compared to current and projected 2020 employment rates (a



Uitleg: The influence is high!

Europe has identified ***new engines[35] to boost growth and jobs***. These areas are addressed by 7 flagship initiatives. The EU and the national authorities have to coordinate each initiative. Below an overview about some initatives taken by the autorities and the EU.

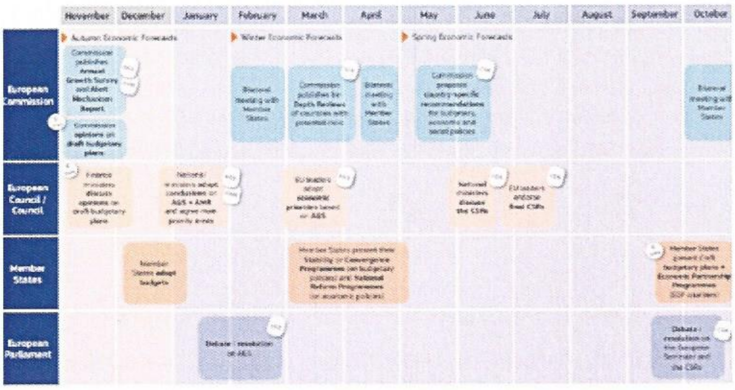
- *Smart growth*
  - Digital agenda for Europa (f.e. online booking and paying)
  - Innovation Union
  - Youth on the move (f.e. Erasmus)

- *Sustainable growth*
  - Resource efficient Europe
  - An industrial policy for the globalisation area.

- *Inclusive growth*
  - An agenda for new skills and jobs
  - European platform against poverty

The European semester ***is a six-month perido each year when Member States' budgetary, macro-economic and structural policies are coordinated*** effectively so as to allow Member States to take EU considerations into account at an early state of their national budgetary processes and in other aspects of economic policymaking. Or in other words is the European semester the first trimester of the year in which the control of the budgets happened. There is integration of Member State's plans for public financaes and policy measures to boost growth and jobs.

[35] An engine = Een motor



Annual growth survey 2015

↗ f.e. to improve social security

In November 2014, the European Commsion presented its 4th ***Alert Mechanism Report***[36] on the prevention and correcton of macroeconomic imbalances. The Alert Mechansime Report serves as an initial screening device to identify Member States that warrant futher in depth analysis into whether imbalances exist or risk emerging. So in general Europe ***indentifies countries who are in risk to have problems with budget and does in dept reviews of the countries who really have risks***. For expample, Belgium was in the past a Member State identified as experiencing imbalances.

In the 2015 in-depth review the Commission conluded that Belgium is ***experiencing macroeconomic imbalances***, which require policy action and motoring. Developments with regard to the external competitiveness of goods continue to present risks and deserve attention as a renewed deterioration[37] would threaten macroeconomic stability. Further action to ensure convergence of cost parameters would slow down the decline of employment in the tradable sectors while tangible progress to narrow the historic cost gap could be reinforced by a tax shift towards non-labour tax bases. Public debt remains high but several factors temper associated macroeconomic risk.

Because of the imbalances of Belgium, Belgium had to take some ***country specific recommendations*** in 2014.

- Reinforce the budget stratey. Ensure a balanced contribution by all levels of governement.
- Improve the balance and fairness of the overall tax system and prepare a comprehensive tas reform that will allow shifting taxes away from labour.
- Step up efforts to close the gap between the effective and the statutory retirement age.
- Further reduce disincentives to work.

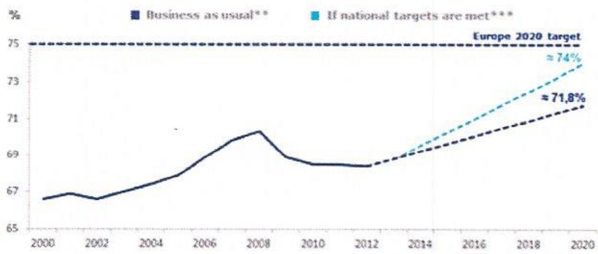
[36] AMR
[37] Deterioration = Verslechtering

- Restore competitiveness by continuing the reform of the wage-setting system, including wage indexation
- Ensure that the 2020 targets for reducing greenhouse gas emissions are met.

An evaluation of Europe 2020 shows that progress towards the Europe 2020 targets has inevitably been mixed. The ***crisis has had a clear impact***, particularly on the employment and the levels of poverty, and has a constrained progress[38] towards the other targets, with the exception of its effect on the reduction of greenhouse gas emissions. Below some figures and tables to see the evolution and the evaluation of the Europe 2020.

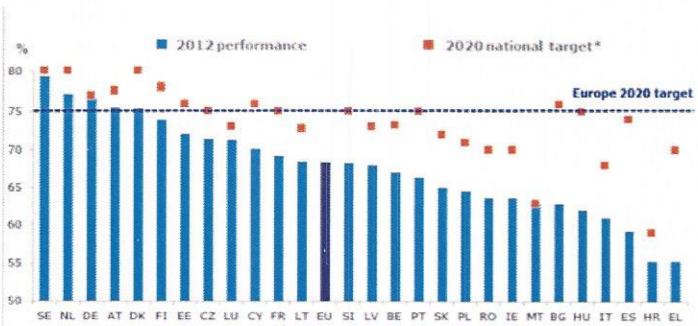
Topic	Headline indicator	2008	2009	2010	2011	2012	2013	Target
Employment	Employment rate age group 20-64, total (% of population)	70.3	69.0	68.5	68.5	68.4	68.4	75.0
	• Employment rate age group 20-64, females (% of population)	62.8	62.3	62.0	62.2	62.4	62.6	:
	• Employment rate age group 20-64, males (% of population)	77.8	75.7	75.0	74.9	74.5	74.3	:
R&D	Gross domestic expenditure on R&D (¹) (% of GDP)	1.85	1.94	1.93	1.97	2.01	2.02	3.00
Climate change and energy	Greenhouse gas emissions (¹) (Index 1990 = 100)	90.4	83.8	85.7	83.2	82.1	:	80.0
	Share of renewable energy in gross final energy consumption (%)	10.5	11.9	12.5	12.9	14.1	:	20.0
	Primary energy consumption (Million tonnes of oil equivalent)	1 689	1 595	1 654	1 596	1 584	:	1 483
	Final energy consumption (Million tonnes of oil equivalent)	1 175	1 108	1 160	1 107	1 103	:	1 086

Employment



Uitleg:
The blue bar shows the business as usual. The light blue bar shows what will happen if the national targets are met. If gives an idea what will happen if all the countries reach the target. If alle the countries reach the target, then the employment rate of the population age 20-64 will increase to at least 75%.

Employment



[38] A constrained progress = Een beperkte vooruitgang