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# EU welfare systems and the challenges of poverty and inequality

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This study examines how contemporary welfare state policies address the issues of inequality and poverty both between and within EU Member States. It combines quantitative and qualitative analysis to show the strong links between inequality and poverty, not only in statistical terms, but also in terms of wealth distribution, intergenerational mobility and labour market dynamics. Welfare states are discussed in a multidimensional way, covering traditional welfare state policies on social protection, labour markets and health as well as policies on education and on culture. These last two are also public policies that have the potential to mitigate social risk and marginalisation – a key aim of welfare state policies. The study points to the links between welfare state policies and economic strategies, and investigates the direct and indirect impact of EU policies. It shows convergence in some areas, such as decreasing poverty levels and more pre-distributive policies across Member States, but it also shows persisting inequalities and a great deal of path-dependency – the continuing impact of historical traditions and institutions. The study concludes with four scenarios for the future of EU welfare states, casting light on the wide range of possible policy options both at national and at EU level.

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## Executive summary

This study aims at contributing to the debate on the modernisation of welfare states across the European Union (EU) in the context of the green and digital transitions and of debates on the future of Europe.

The starting point is an analysis of key data on the complex and sometimes worsening picture of inequalities and poverty. The study then examines how inequalities – including one of their worse consequences, intergenerational disadvantage – are tackled in Europe across several policy areas: social protection, health, education, and arts and culture.

The welfare states created in the 20th century aimed at combating deprivation and ensuring social and economic security for all. These are now facing important changes and challenges. The drop in inequality observed in Europe since World War II has faltered since the last decades of the 20th century. Groups of Member States follow different paths in addressing these challenges, according to their history and institutional set-up.

The impact of direct and indirect EU policies on Member States' policies throughout the years is varied.

This study follows a new direction in comparative welfare state research, which is to emphasise the multidimensional nature of welfare state politics. The concept of the welfare state not only entails social, labour market and health policies, but also education and culture. These latter also have a role in mitigating social risks, reducing marginalisation and income inequality, and paving the way to prosperity for all members of society; as such they can be considered public goods. The study contributes to the discussion on the challenges of financing welfare states, and to the debate on the development of social citizenship across the EU, where social rights are truly universal and not necessarily linked to employment or residence status. The study highlights the interlinkages between economic strategies and welfare policies. Socio-economic institutions, such as product market rules, financial systems, wage setting, education and social protection, help determine economic and welfare policies. Thus, welfare states can redistribute income by means of taxes and transfers but they also have a role in pre-distribution, i.e. setting the preconditions for the distribution of income, wealth and other intangible resources. Pre-distribution can be influenced by systems of collective bargaining, fiscal policies and service provision, such as education.

The study's main findings include:

- Overall, while there are important differences between Member States, the 27 Member States (EU27) have made progress in combating material deprivation. Between 2010 and 2019, the number of materially deprived people in the EU declined by 15 million. However, there has been less success in combating income poverty.
- Income poverty is a measure of income relative to the median income of each country, and therefore an indicator of inequality. In some countries, income poverty increased substantially; incomes at the bottom of the distribution did not keep pace with the increase in median income. Inequalities have grown since the 1980s/1990s, which hampers the fight against poverty itself.
- Social expenditure is a major source of income for the EU population, and plays a role that goes beyond poverty alleviation. Between 2010 and 2018, social expenditure as a share of gross domestic product (GDP) declined by 1.7 percentage points in the EU27. It decreased in most EU countries, mostly due to a fall in spending on unemployment benefits. At the same time, social expenditure per capita increased in constant prices (9 % between 2010 and 2018).

- The spread of social expenditure between the countries with the highest and the lowest expenditure was greater in 2018 than in 2010. This indicates a lack of upward convergence; the increase in countries with a significantly lower GDP did not reduce the differences between Member States. There have been common trends in some areas, such as support for disabled people, more investment in family policies and for older people, individualisation of social protection and a greater use of pre-distributive policies. Still, path-dependency seems to prevail within Member States' welfare state systems.
- Social transfers have allowed the share of population at risk of poverty to be reduced by about 10 percentage points in the EU27 (with important differences across countries).
- Socio-economic realities vary greatly across the EU. This makes it difficult to achieve consensus on measures at EU level. The east–west and north–south divides within the EU need to be better addressed. The coronavirus crisis has given new impetus to this long-standing challenge.
- Social programmes are part of broader growth and economic strategies. They are closely linked to the different structures of the labour markets, including differences in the proportions of non-standard jobs and levels of social protection across the Member States. They can influence both the demand and the supply side of the economy, depending on such factors as the extent of progressive taxation, access to education and culture, and health and safety at work.
- Health services are critical to welfare not least because of the persistence of health inequalities, as illustrated by lower life expectancy among underprivileged groups for example. Current challenges include the need for preventive strategies for epidemics and adaptation to new opportunities and risks in areas such as technology and climate. Successful policies can help to mitigate health inequalities.
- Education is a public good that takes the form of a social transfer in kind without means testing. It promises equal opportunities through generalised literacy and numeracy. However, education policies and their implementation in specific contexts can create barriers rather than opportunities. For example, the combination between social stratification, mainly along socio-economic lines, and the use of educational tracks can reinforce socio-economic divides. Some school systems do manage to support disadvantaged students better than others, and this is reflected in their results.
- Education can play an important poverty-reduction role. An increase in a single standard deviation in public expenditure in primary education is associated with a reduction of about 3.1 percentage points in adult poverty.
- Cultural policies are part of the welfare state, as arts and culture can help people become autonomous individuals and engaged citizens; these qualities are associated with better chance of overcoming poverty, exclusion and inequality. Cultural deprivation – a lack of participation in and of access to the ecosystem of culture – often accompanies other socio-economic determinants of people's life trajectories, such as economic deprivation, substandard living conditions, or discrimination.

The concluding chapter offers four archetypal scenarios for the future of the welfare state. Scenarios are useful ways to promote reflection about the future. They invite consideration of different possibilities, reminding us that there are several possible futures, not just one.

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# 1. Investigating EU welfare states

## 1.1. Historical background

Historically, welfare states were designed to compensate for social risk, reduce social marginalisation and income inequality and ensure prosperity for all members of society.<sup>1</sup> In this context, in 1952, the International Labour Organization (ILO) codified<sup>2</sup> policies securing social security rights as covering nine areas: medical care, sickness, unemployment, old age, industrial injury, family, maternity, invalidity and widowhood. This mainly therefore built on historical social risks, but also indicated that new social risks were on the way. The history of European welfare states is indeed about shifting objectives and tools, due to changing demography, family patterns, financial and economic transformation, crises, etc. However, when considering its main functions in terms of legislation, delivery and financing, welfare states rest on three pillars: the state, the market and the citizens.<sup>3</sup>

All paradigms are based on a certain notion of social justice: needs (focusing on means-tested maintenance), merit (focusing on insurance), or equality (focusing on universal services, unconditional basic income, etc.).

## 1.2. Welfare state typologies and their development

Welfare state typologies attempt to create groups of different welfare regimes according to different criteria. Typologies are important in dealing with the issue of path-dependency and/versus convergence.<sup>4</sup>

Esping Andersen<sup>5</sup> grouped European welfare states according to three initial criteria in the 1990s: decommodification (i.e. to reduce individual's welfare reliance on the market); social stratification (i.e. the role of the welfare state in maintaining or breaking down social stratification); and the private-public mix (i.e. the relative roles of the state, the family and the market in welfare provision). Other criteria were added later, such as de-familialism, universalism and marketisation. The categories defined were liberal, conservative corporatist and social democratic; as well as the later-defined southern European and central and eastern European or post-socialist regime.<sup>6</sup> Traditionally, liberal welfare states are characterised by means-tested assistance, modest universal transfers, or modest social insurance plans. Benefits cater mainly to a clientele of low-income, usually

<sup>1</sup> B. Greve, *Welfare and welfare state: central issues now and in the future*, Routledge, 2020.

<sup>2</sup> ILO, [Social security \(minimum standards\) Convention](#), 1952 (No 102).

<sup>3</sup> W. Van Lancker, A. van den Heede, [Economic inequality and the welfare state](#), Centre for Sociological Research Working Paper Series, 2019-2.

<sup>4</sup> In the late 1960s, Richard Titmuss was the first to present a welfare states classification scheme and distinguish residual, industrial achievement-performance, and institutional redistributive welfare models. In the countries with the residual model, families are prioritised and the state intervenes only in extreme cases when the family itself can no longer take care of its wellbeing. In the production welfare state model, a significant role is played by the social welfare institutions that provide support in terms of performance and productivity. The institutional redistributive welfare model provides social services based on need and seeks social equality. See: R. Titmuss, [What is Social Policy?](#), in: S. Leibfried, S. Mau, (eds), *Welfare States: Construction, Deconstruction, Reconstruction Volume I*, Edward Elgar Publishing, 2008.

<sup>5</sup> G. Esping-Andersen, *The three worlds of welfare capitalism*, Princeton University Press, 1990.

<sup>6</sup> These categories are debated widely in the comparative welfare state literature. A rather recent summary, including the central and eastern European countries can be found in H. J. M. Fenger, [Welfare regimes in Central and Eastern Europe, Incorporating post-communist countries in welfare state typology](#), *Contemporary issues and ideas in social sciences*, 2007.

working-class people. There is little redistribution of incomes in this type. The conservative-corporatist type is characterised by a moderate level of decommodification. The direct influence of the state is restricted to the provision of income maintenance benefits related to occupational status. Labour market participation by married women is traditionally discouraged, and the principle of subsidiarity implies that the state will only interfere when the family's capacity to support its members is exhausted. In the social-democratic type, the level of decommodification is high. The often generous universal and highly redistributive benefits stem mainly from progressive taxation.

Research is growing in identifying subgroups within the post-socialist countries category, as on the welfare models in, for example, Eastern Europe (including Bulgaria, Estonia, Latvia, Lithuania, Romania) and Central Europe (including Croatia, Czechia, Hungary, Poland, Slovakia, Slovenia). Based on 2014 data, the main dividing lines between the two subgroups were income inequality, the proportion of temporary employment contracts, and the size of government expenditure. After examining the differences between the two models under consideration, states with the Central Europe welfare model are seen to be more advanced and closer to the rest of Europe or the 'old European' welfare states than to countries with the Eastern Europe welfare model. The Eastern Europe model includes a rigid and discriminatory labour market and lower government financial capacity to pursue generous social policies.<sup>7</sup> Another grouping of post-socialist countries divides into the Visegrád country group<sup>8</sup> on one hand, and Baltic and Balkan countries on the other. This distinction was particularly valid between 2014 and 2016, after which time these countries have become increasingly similar to the continental, i.e. conservative-corporatist, regime.<sup>9</sup>

Since the 2008 crisis, there has been an emphasis on questioning this typology and to see convergence between the different categories of welfare states. In addition, some new theories looking into welfare state transformation in Europe after 2008, look beyond the idea of convergence and suggest including concepts such as 'structured diversity' and 'beyond continuity' when describing the changes in the welfare state.<sup>10</sup> The first theory puts great emphasis on different institutional frameworks and argues that policy responses are strongly shaped by those in the different political, social and economic contexts. The second argues that the direction of transformation is not dominated by the different welfare regimes or other models, but is very diverse, and convergence in some policy areas can be observed across countries (e.g. more focus on social investment,<sup>11</sup> or privatisation or individualisation of policies).

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<sup>7</sup> A. Lauzadyte-Tutliene, T. Balezentis, E. Goculenko, [Welfare State in Central and Eastern Europe](#), Economics and Sociology, 2018, 11(1), 100-123.

<sup>8</sup> The origins of this cultural and political alliance of four Central and Eastern European countries (Czechia, Hungary, Poland and Slovakia) date back to the 14th century, when the Bohemian, Hungarian and Polish rulers agreed on common commercial routes.

<sup>9</sup> A. Orosz, [The emergence of East Central Europe in a welfare regime typology](#), Central and Eastern European Online Library, Volume 9, No 2, July-December 2019.

<sup>10</sup> P. Taylor-Gooby, B. Leruth and H. Chung, (eds.), *After austerity: welfare state transformation in Europe after the great recession*, Oxford University Press, 2017

<sup>11</sup> Social investment means a change in the mind-set regarding what social policy means and how it should be delivered. It implies investing in people throughout the life course, so that each and every individual can participate in the economy. To reach this goal, policies are adapted to individualised circumstances and services are delivered in an integrated manner. Social investment emphasises public policies that 'prepare' individuals, families and societies to adapt to challenges, such as changing career patterns and working conditions, new social risks, ageing populations and climate change. The emphasis is therefore on 'empowering' rather than 'repairing' any damage done. i.e. employment creation and employability instead of income replacement, Some main theoreticians of the approach are: N. Morel, B. Palier and J. Palme, *Towards a social investment welfare state?: ideas, policies and challenges*, Policy, 2012; A. Hemerijck, *Changing Welfare States*, Oxford University Press, 2013; J. Gingrich, Ben W. Ansell, *The Dynamics of Social Investment: Human Capital, Activation and Care*. In: P. Beramendi, S. Häusermann, H. Kitschelt and H. Kriesi (eds.), *The Politics of Advanced Capitalism*, Cambridge University Press, 2015, pp. 282-304.

### 1.3. The role of the EU – Europeanisation of welfare states

In general, Europeanisation can be understood as the impact of the European Union (EU) on the Member States, as this implies a focus on the link between supranational development and national welfare state development. The impact can, in principle, be in both directions, based either on bottom-up or top-down development of ideas and policies. The impact of Europeanisation on a national welfare state can be direct or indirect. There are at least three different ways to understand Europeanisation: development of a European level of governance; the process of impact and influence from the supranational level to the national level; the processes focusing on the development of shared beliefs and norms that might then be transferred to nation states, as well as in both a bottom-up and top-down understanding.

To focus on some examples, the open method of coordination (OMC) is an indirect way of influencing national welfare states. The Economic and Monetary Union (EMU) and gradual integration of European economies can influence national welfare states and can be argued to stand in-between direct and indirect influence. For example, the effect may be direct, as restrictive fiscal policies may narrow the room for welfare spending and policies. At the same time, it can be argued that the free movement of goods and services and free trade, all other things being equal, can bring about a higher overall level of welfare through the increase in aggregate income as a consequence of European free trade. A more direct way, is when the EU agrees on a directive in relation to welfare issues. However, this is difficult to achieve, given that in most areas either unanimity or qualified majority is needed in order to impose a directive.

The EU can also act as agenda-setter and can influence Member States' ability and choice in the delivery of social services in modern welfare states, thereby influencing voters in different countries. In this context, the EU influences by defining the direction of policy through designing targets and objectives (but sometimes the terms used are interpreted differently in the different Member States). Another area is by changing the confines of the role of the market and of the state. For example, the European Court of Justice has, by referring to the free movement of goods and services, changed several borderlines between the state and the market. One example is where the court came to the conclusion that a person was entitled to have the cost of a hip operation reimbursed, despite the operation taking place outside the physical borders of then-Member State the United Kingdom (UK), as it would otherwise have taken too long to wait for treatment within the UK (the *Watt* case).

The EU's influence can be further distinguished between 'hard' law (such as EU directives), or 'soft' law<sup>12</sup> –parts of the European Semester, for example, the EU's governance framework that enables Member States to coordinate their economic policies.

Since 2000, the EU has increased its influence on social protection. The latest overarching initiative in the field, the European Pillar of Social Rights, with its twenty principles and rights, should serve as a compass for the updating of labour markets and welfare states to the 21st century realities of life and work. Some research claims that the EU has a 'hidden welfare state policy', as it has built up its competence in this field since the Treaty of Rome, always trying to adapt to the changing requirements<sup>13</sup>. Recent years have seen a stronger impact from supranational developments also due to the gradual integration of European economies, implying that an economic crisis in one country, especially the larger countries, also has an impact on many other countries in Europe. A

<sup>12</sup> N. Milotay, [Social governance in the EU: Managing complex systems](#), EPRS, May 2020.

<sup>13</sup> R. Cornelissen, F. de Wispaleare, Sixty years of European social security coordination, in: B. Vanhercke, D. Ghailani, S. Spasova and Ph. Pochet (eds.), [Social policy in the European Union:1999-2019; the long and winding road](#), ETUI-OSE, 2020.

financial crisis and constant difficulties, as well as the coronavirus crisis, have huge impact on welfare states across the EU.

The biggest challenge is posed by the differences among Member States and regions in the EU in terms of welfare delivery and financing, as they are strongly linked to their respective socio-economic contexts.

## 1.4. Debates on the future

Going forward, some of the comparative welfare state literature<sup>14</sup> looks to the future of the 20th century welfare states, which have been put under additional pressure by the coronavirus crisis. It moves beyond the traditional ways of thinking about welfare states. Earlier literature has mainly focused on increasing demands on the welfare state and simultaneously decreasing resources, so that the welfare discussion has become a discussion of trade-offs. In contrast, the new avenues emphasise the multidimensional nature of welfare state politics (e.g. on social investment) and also attempt to look deeper into its priorities and determinants.

Exploring answers to priorities and determinants also involves the analysis of the differences between Western, Eastern and Central European welfare states in an equal manner. The future of nation-specific types of welfare state might be less strong than previously, and perhaps a movement towards a European kind of welfare state instead of the existing welfare regimes may occur. At the same time, new kinds of risks still imply a need for very local or at least regional level welfare action.

In this context, this study explores the inequalities addressed by the different policy domains of welfare politics.

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<sup>14</sup> These include: A. Hemerijck, *Changing Welfare States*, Oxford University Press, 2013; G. Bonoli and D. Natali (eds.): *The New Welfare State in Europe*, Oxford University Press, 2012; or the currently running project called [welfarepriorities](#) financed by the European Research Council.

## 2. Challenges of poverty and the link with inequalities in Europe

*'Poverty is one of the two great challenges facing the world as a whole today, along with climate change, with whose consequences poverty is intimately connected ...'*

*'Learning about the extent of poverty is important in terms of understanding the world in which we live ... Poverty statistics matter because they motivate people to tackle a key challenge.'*

Anthony B. Atkinson<sup>15</sup>

### 2.1. Poverty dynamics in the EU

All over the world, the number of people living in extreme poverty declined from 36 % in 1990 to 10 % in 2015. This masks a huge heterogeneity across regions.<sup>16</sup> This progress is decelerating and the COVID-19 crisis can reverse the advances made so far.<sup>17</sup>

In the European Union and its Member States, the fight against poverty and social exclusion is a key commitment.<sup>18</sup> After 1997, the Amsterdam Treaty added new provisions to the existing fields of activity, in particular Articles 136 and 137, and provided a new legal framework and basis for new policy commitments in this area.

In 2010, the European Commission proposed five measurable EU targets for 2020, which should steer the process, and translated them into national targets in several areas, including combatting poverty.<sup>19</sup>

The European Commission proposed the following EU headline targets by 2020.<sup>20</sup>

- 75 % of the population aged 20-64 should be employed and
- 20 million fewer people (25 %) should be at risk of poverty.<sup>21</sup>

#### 2.1.1. At risk of poverty or social exclusion (AROPE)

In 2019, 91.4 million people in the EU27 lived in households that were at risk of poverty or social exclusion (AROPE), equivalent to 20.9 % of the entire population.<sup>22</sup> In 2010, they were 103.7 million

<sup>15</sup> A. B. Atkinson, *Measuring poverty around the world*, Princeton University Press, 2019.

<sup>16</sup> The number of extreme poor is still raising in Sub-Saharan Africa., despite the decline in the poverty rate (The World Bank, [Poverty and Shared Prosperity Report](#), 2020).

<sup>17</sup> United Nations, [Sustainable Development Goals](#), 2020 and United Nations, [Shared Responsibility, Global Solidarity](#), Responding to the socioeconomic impacts of COVID 19, March 2020.

<sup>18</sup> Decision No 1098/2008/EC of the European Parliament and of the Council on the [European Year for Combating Poverty and Social Exclusion \(2010\)](#).

<sup>19</sup> European Commission, [Europe 2020 A strategy for smart, sustainable and inclusive growth](#), COM/2010/2020, March 2010.

<sup>20</sup> The 2021 action plan on the European Pillar of Social Rights proposed three new headline targets to be reached by 2030: at least 78 % of the population aged 20 to 64 should be in employment; at least 60 % of adults should be participating in training; and there must be a reduction of at least 15 million in the number of people at risk of poverty and social exclusion.

<sup>21</sup> Ibid, the national poverty line is defined as 60 % of the median disposable income in each Member State. The poverty line is, according to the [Cambridge English Dictionary](#): 'the official level of income that is needed to achieve a basic living standard with enough money for things such as food, clothing, and a place to live'.

<sup>22</sup> Eurostat, Glossary: [At risk of poverty or social exclusion \(AROPE\)](#).

(23.9 % of EU population). The COVID-19 pandemic poses severe challenges to this trend: in 2020, the indicator remained stable overall, but increased in about half of Member States.<sup>23</sup>

The 'At risk of poverty or social exclusion (AROPE)' indicator has three dimensions, classifying people at risk of poverty or social exclusion to be in at least one of them. These are:

- Severe material deprivation (non-monetary and related to consumption, i.e. the inability to satisfy basic needs);
- Living in households with very low work intensity (measures access to employment and social exclusion);
- Income poverty (the monetary dimension and relative to the rest of the population).

These three indicators reflect multiple facets of poverty, exclusion and inequality across Europe.

### Severe material deprivation

The first dimension of 'Severe material deprivation'<sup>24</sup> rates complement information on social exclusion by providing an estimate of the proportion of people whose living conditions are severely affected by a lack of resources (e.g. not able to afford a meal with meat, chicken, fish or vegetarian equivalent, to afford heating to keep the house warm and/or to face unexpected financial expenses).

In 2010, 8.9 % of the EU's population (38.7 million people in total) were severely materially deprived. The share of those severely materially deprived varied significantly between EU Member States, ranging from 0.5 % in Luxembourg to 45.7 % in Bulgaria.

In 2019, 5.5 % of the population (23.9 million people in total) were severely materially deprived. The share of those severely materially deprived varied – but significantly less compared to 2010 – between EU Member States, ranging from less than 1.3 % in Luxembourg to 20.9 % in Bulgaria.

In 2019, compared with 2010, the severe material deprivation rate was 3.4 percentage points lower – representing nearly **15 million fewer people in severe material deprivation in Europe**. The reduction was well above the average in the Member States in Eastern Europe (with the exception of Slovenia). In the south of Europe, no improvement can be seen in the last decade, and in some cases increases in material deprivation can be observed. The strongest effects of the economic crisis, exacerbated by austerity measures,<sup>25</sup> may partly explain why the severe material deprivation rate remained unchanged in Italy, not significantly lower in Spain, and 40 % higher in Greece.

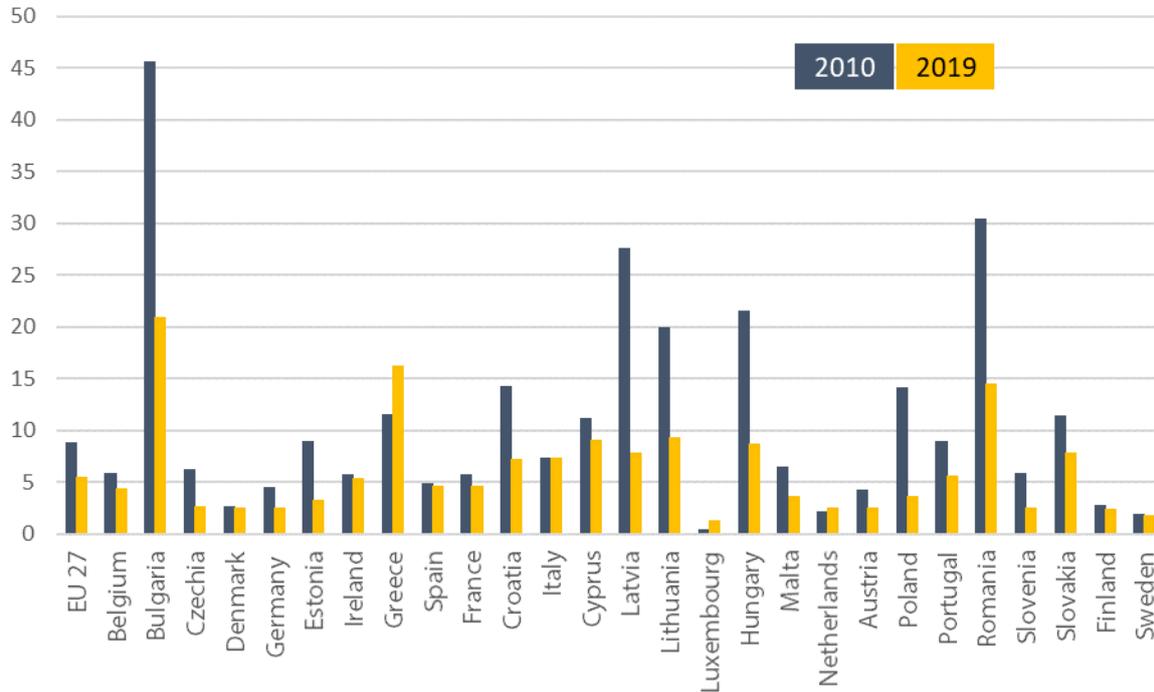
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<sup>23</sup> European Commission, [Employment and Social Developments in Europe](#), 2021.

<sup>24</sup> Eurostat, Glossary: [material deprivation](#).

<sup>25</sup> L. Rajmil, A. Hjern, N. Spencer, D. Taylor-Robinson, G. Gunnlaugsson and H. Raat, Austerity policy and child health in European countries: a systematic literature review, *BMC public health*, Vol. 20, 2020, pp. 1–9.

Figure 2.1 – Share of people living in severe material deprivation



Source: Eurostat, [ilc\_mddd11].

In 2019, the lowest shares can be found in Luxembourg (1.3 %) and Sweden (1.9 %), as well as in Finland (2.4 %), the Netherlands (2.5 %), Denmark Germany, Czechia and Slovenia (all around 2.6 %). With some exceptions there is therefore a trend to 'upward convergence', with a remarkable lower spread between Member States with respect to 2010.

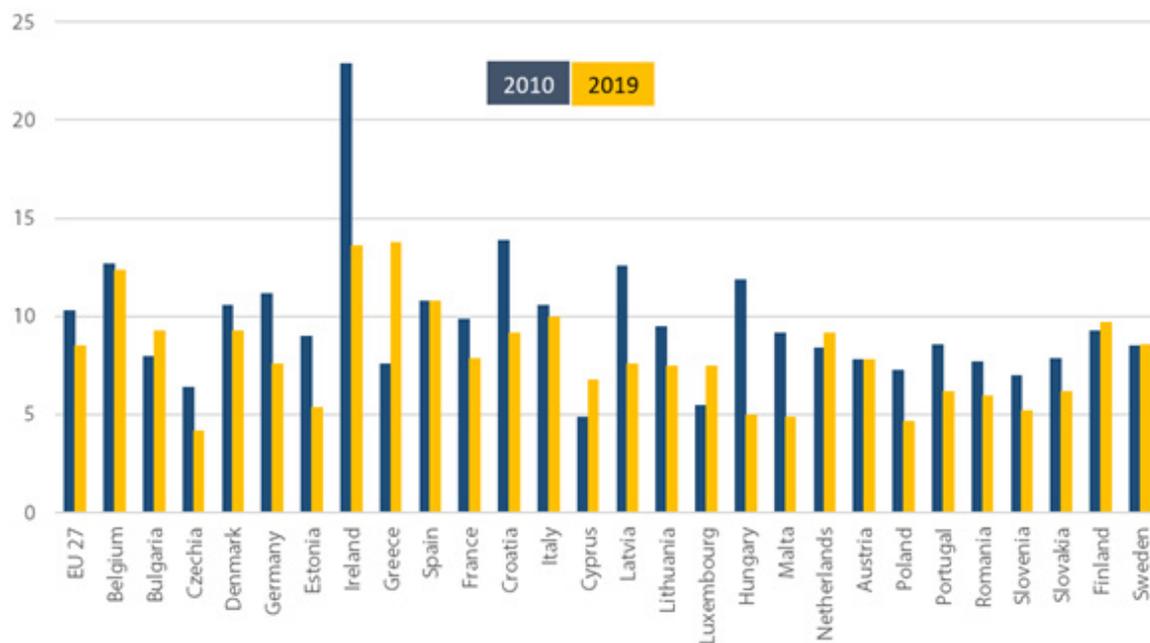
### Households with low work intensity

People living in households with very low work intensity are defined as people aged 0-59 years living in households where the adults worked 20 % or less of their total potential during the previous 12 months.<sup>26</sup>

In 2010, 9.9 % of the European population (39 million people in total) lived in households with low work intensity; ranging from less than 4.9 % in Cyprus to 22.9 % in Ireland. In 2019, 8.8 % of the population (32.8 million people in total) lived in households with low work intensity; ranging from less than 4.9 % in Slovenia to 13.8 % in Greece. Overall, in 2019, compared with 2010, the share of the **population living in households with low work intensity** was 19 % lower – representing **6.3 million people**.

<sup>26</sup> Work intensity refers to the ratio between the number of months that household members of working age worked during the income reference year and the total number of months that the same household members could theoretically have worked.

Figure 2.2 – Share of people living in households with low work-intensity



Source: Eurostat, [\[ilc\\_lvhl11\]](#).

The picture is very diverse in Europe. There were remarkable reductions in the number of households with low work intensity in Hungary (-62 %), Latvia (-48 %) and Estonia (-42 %)<sup>27</sup>, and increases in Cyprus (+42 %), Luxembourg (+59 %) Greece (+68 %).

### Income poverty

The third dimension of AROPE is monetary (income) poverty, which is the share of the population 'at risk of poverty', that is measured as the share of people with an equivalised disposable income<sup>28</sup> below a certain national threshold. This threshold is set at 60 % of the national median equivalised disposable income after social transfers.<sup>29</sup> This is not an absolute measure of standard of living, but rather a measure of low income in comparison to other residents in that country. It is therefore also an inequality measure.

**This indicator is stable between 2010 and 2019, with 16.5 % of the population below the national thresholds.** This share varied significantly in 2019 between EU Member States, ranging from around 10 % in Czechia to around 24 % in Romania.

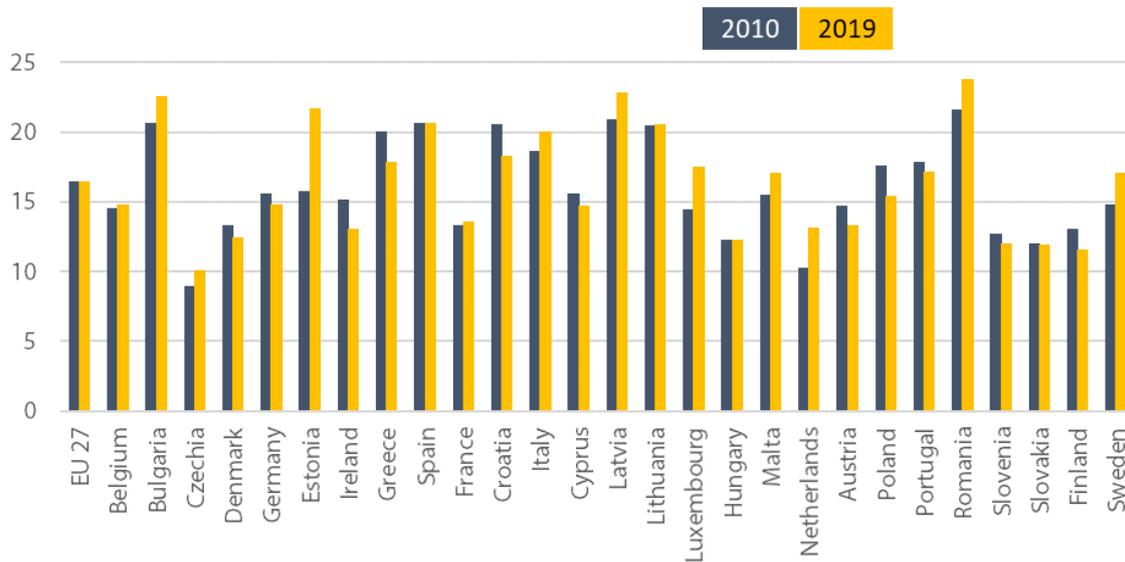
The at-risk-of poverty rate decreased significantly in Austria, Croatia, Finland, Greece, Poland and Ireland. However, the development of the poverty threshold must also be taken into account. For example, the decrease of the share of population at risk of poverty in Greece is due to a substantial decrease in the median income and therefore a decrease in the threshold, which explains the apparent contradictory result with material deprivation dynamics.

<sup>27</sup> In most of these cases, including Ireland, there was a rapid increase in the aftermath of the financial crisis (2008-2010).

<sup>28</sup> Eurostat, [Glossary: Equivalised disposable income](#).

<sup>29</sup> Eurostat, [Glossary: At-risk-of-poverty rate](#).

Figure 2.3 – At risk of poverty rate (income poverty)



Source: Eurostat, [ilc\_li02].

Despite the fact that the share of population at risk of poverty in the EU remained stable, between 2010 and 2019, **the number of people at risk of poverty increased by 600 000**, due to the increase in the population. This increase was well above the average in the Netherlands (33 %), Estonia (35 %), and Luxembourg (46 %). In these cases, relative income poverty increased, indicating that that median income increased substantially, but in leaving a high share of the population behind.

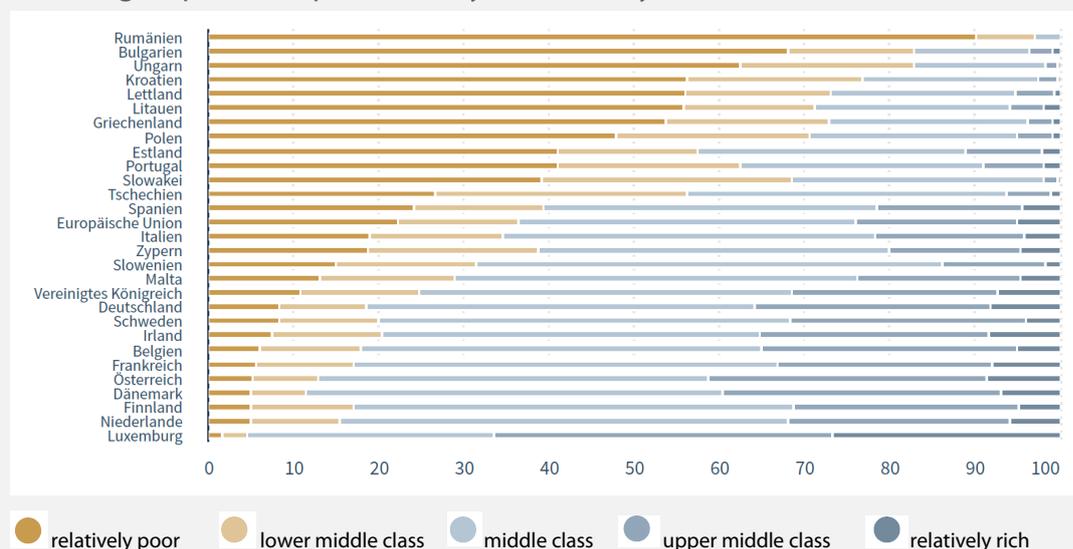
Overall, it appears that the **EU27 made important steps towards combating poverty in its dimensions of material deprivation and work intensity** – with 20 million fewer people experiencing these forms of poverty – but has **not been successful in combating income poverty. This failed attempt to reduce inequality is hindering the fight against poverty itself.** We turn to an analysis of the connections between poverty and inequality to better develop this aspect.

## The European perspective: If the EU had a unique poverty threshold

From the European perspective, it is important to be aware that the at-risk of poverty threshold is set at 60 % of the national (and not the European) median equivalised disposable income (after social transfers). It is expressed in purchase parity standards (PPS), to take account of differences in the cost of living between EU Member States. In 2018, the poverty threshold varies considerably for a single person, between Romania at 3 745 PPP (purchasing power parity – €1 970) and Luxembourg at 19 197 PPP (€24 162).

The perspective changes if we define the European median income, which was PPP €1 311 per month for the EU28 in 2014. Of this European median income, 60 % is around 790 PPS per month, which could be considered a 'European poverty threshold'. Should this be considered the poverty line, in richer countries there would be 20 million fewer poor people, and 45 million more in poorer countries. In some countries, the median income in PPS was even lower than the 'European poverty threshold' of around 790 PPS (Romania, Bulgaria, Hungary, Croatia, Latvia, Lithuania and Greece). In these countries, in 2014, more than half of the population lived below the European poverty threshold, with the proportion in Romania at 90 %. This represents an important measure of the differences still existing across Member States, despite the elements of convergence shown above.

## Income groups: If Europe were only one country (2014)



Source: Niehues, Judith, [Einkommen in Europa: Arm und Reich ist auch eine Frage des Maßstabs](#), 2018.

## 2.2. From poverty to inequality and back: The interlinkages

### 2.2.1. Inequality in the EU: Brief overview

Europe saw a major decrease in inequality during the decades after the Second World War (WW2), but this trend largely faltered from the 1990s onwards.

According to Atkinson,<sup>30</sup> this decrease in inequality in Europe can be ascribed to several elements. Firstly, the welfare state and the expansion of social provision, financed by progressive taxation: indeed, for several decades redistribution through taxes and benefits has been able to counterbalance the inequality in the distribution of market incomes. Secondly, the increase in the labour share of national income<sup>31</sup> has been an important characteristic of European economies between WW2 and the 1970s. The negative relationship between labour share and inequalities has

<sup>30</sup> A. B. Atkinson, *Inequality*, Harvard University Press, 2015.

<sup>31</sup> The share of national income that goes to wages.

been identified by Checchi and Garcia Penalosa,<sup>32</sup> in analysis of Organisation for Economic Co-operation and Development (OECD) data: a 1 percentage point increase in the labour share is associated with a 0.7 percentage point reduction in the Gini coefficient. Thirdly, in the same years, the distribution of capital became less unequal (the share of wealth owned by the top 1 % decreased until around the early 1980s). The distribution of wage incomes also played a major role: especially between the 1960s and the 1970s, when the dispersion of wages decreased thanks to collective bargaining and to some policy interventions aiming at protecting the lower-paid (e.g. minimum wages). All these factors came to an end or were reversed between the 1980s and the 1990s. The income share of the top income deciles started to increase and the share of the bottom half of the income distribution decreased.

During the COVID-19 pandemic, inequality has worsened: on top of pre-existing inequalities, vulnerable groups have been hit more severely: vulnerable workers, young people, migrants and people from ethnic minorities, people in need of long-term care, children and carers, and single parents have suffered greater consequences. Gender inequalities have also been impacted: women experienced the biggest reduction in working hours and continued to take the largest share of caring responsibilities, which put even more stress on their work-life balance than ever before.<sup>33</sup> Workers with low education levels moreover experienced greater job losses than workers with a higher education.<sup>34</sup>

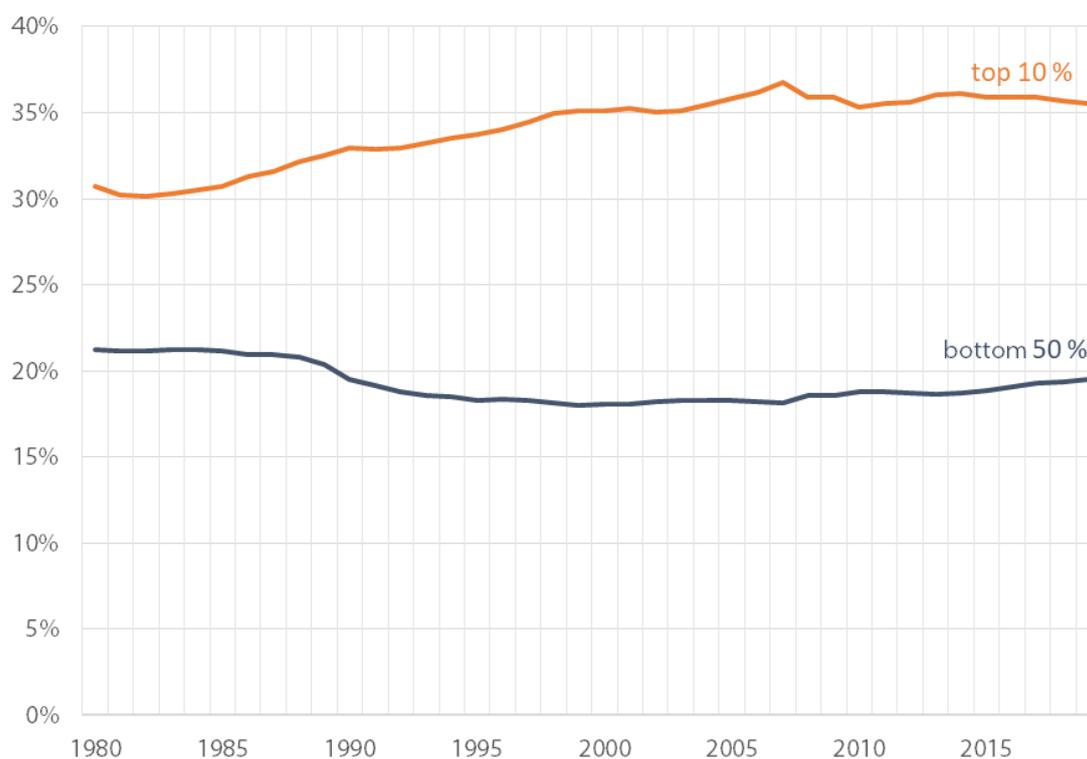
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<sup>32</sup> D. Checchi and C. García-Peñalosa, Labour market institutions and the personal distribution of income in the OECD, *Economica*, 77(307), 2010, pp. 413450.

<sup>33</sup> European Commission, [Employment and Social Developments in Europe](#), 2021.

<sup>34</sup> Z. Darvas, [COVID-19 has widened the income gap in Europe](#), Brueghel, December 2020.

Figure 2.4 – Inequality in the EU: Share of adults in the top and bottom of the income distribution



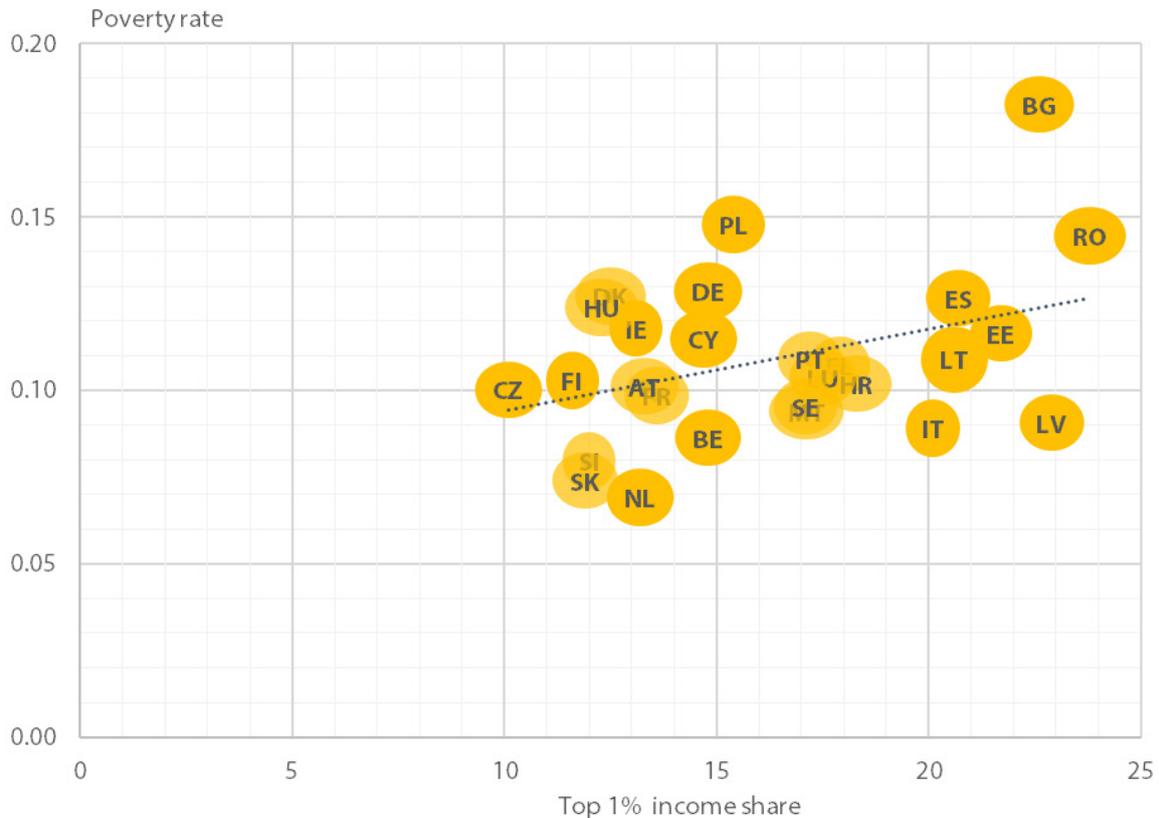
Source: [World Inequality Database](#).

## 2.2.2. Poverty and inequality within countries

Income poverty and inequality are closely linked, as shown in Figure 2.5. The share of population at risk of income poverty is indeed affected by the general level of income. The share particularly rises in cases where the median income increases but the incomes at the bottom of the distribution do not grow at the same pace. Indeed, in some countries, the share of people in poverty increased substantially also because there has been an important increase in average and median incomes, while the incomes of those at the bottom of the distribution did not maintain the same pace. For example, in Luxembourg, the Netherlands and Sweden, the share of those in income poverty increased more or equal to the increase in median income. As stated above, Estonia saw a massive increase in incidence of relative poverty, due to an increase in median income that did not see a corresponding increase in low incomes. It is interesting to compare situation with Lithuania, which saw a similar increase in median income, but where low incomes seem to have kept up. In Greece, to the contrary, a substantial contraction of the median income was greater than the contraction of the lowest incomes. This indicates that **relative income poverty cannot be addressed without also addressing inequality**.

Higher poverty tends to go together with high top income shares, as shown by Atkinson (2015). Atkinson plots OECD countries according to their poverty rate and the share of income going to the top 1 %: almost no country has achieved below-median poverty rates together with an above-median share of income of the top 1 %. A similar picture can be obtained using 2019 data.

Figure 2.5 – Correlation between poverty and inequality indicators in the EU



Source: authors' calculation based on [World Inequality Database](#) and Eurostat [[ilc\\_li02](#)], 2019.

The COVID-19 crisis also provides evidence that inequality is detrimental to the support provided to vulnerable categories. A recent analysis reported by the *New York Times*<sup>35</sup> argues that, in more egalitarian countries, people with lower incomes and lower education levels were more protected from losing their job or their income during COVID-19 than in less egalitarian societies.

The connections between poverty and inequality are not merely statistical. We select here two areas where the interlinkages between the two are particularly relevant:

- wealth distribution and intergenerational mobility;
- labour market dynamics.

### Wealth distribution and intergenerational mobility

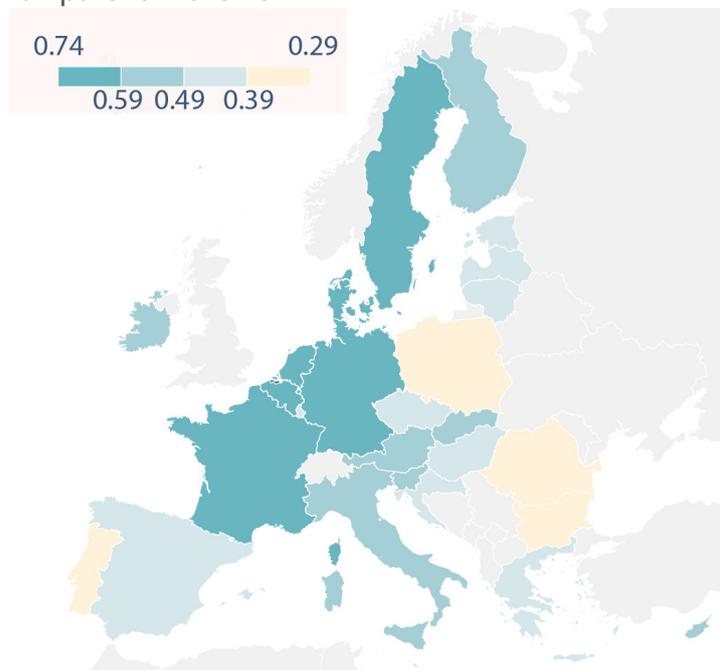
Income inequality appears to go hand-in-hand with a lack of intergenerational mobility.<sup>36</sup> In most EU Member States, less than the half of the white-collar workers had no white-collar worker among

<sup>35</sup> J. Rothwell, [How Social Class Affects Covid-Related Layoffs Worldwide](#), *The New York Times*, 3 May 2021.

<sup>36</sup> L. Cappellari, Income inequality and social origins, *IZA World of Labor*, 2021: 261 ([doi: 10.15185/izawol.261.v2](#)).

their parents.<sup>37</sup> The situation is very heterogeneous, and eastern and southern European countries have the lowest inter-generational mobility (see Figure 2.6).<sup>38</sup>

Figure 2.6 – Share of 'white-collar' children with no 'white-collar' parent in the EU



Source: [European Commission](#).

Social mobility is closely related to wealth, which is more unequally distributed than income: being asset-poor strongly conditions a person's life outcomes. According to recent Eurofound<sup>39</sup> findings, wealth and education are strongly correlated. Together with parental education, wealth is a major determinant of educational attainment. Parental wealth is moreover strongly associated with children's living standards, acting as a buffer for young adults.

Wealth is clearly persistent, i.e. is strongly dependent on inter-generational transmissions, such as inheritance. Wealth inequality in Europe has been increasing since the mid-1970s, after having declined between the 1910s and the 1970s: the

share of wealth owned by the top 10 % is smaller if compared to that in the United States of America, but is still above 60 %.<sup>40</sup> Europe has seen a major increase in the wealth/income ratio, which poses challenges in terms of real estate dynamics and of taxation.

### Labour market dynamics and in-work poverty

The share of national income that goes to labour is another determinant of inequality dynamics, as discussed above. Between the 1970s and the 2010s, contrary to the previous decades, profit share increased in most rich countries (see Figure 2.7 below).

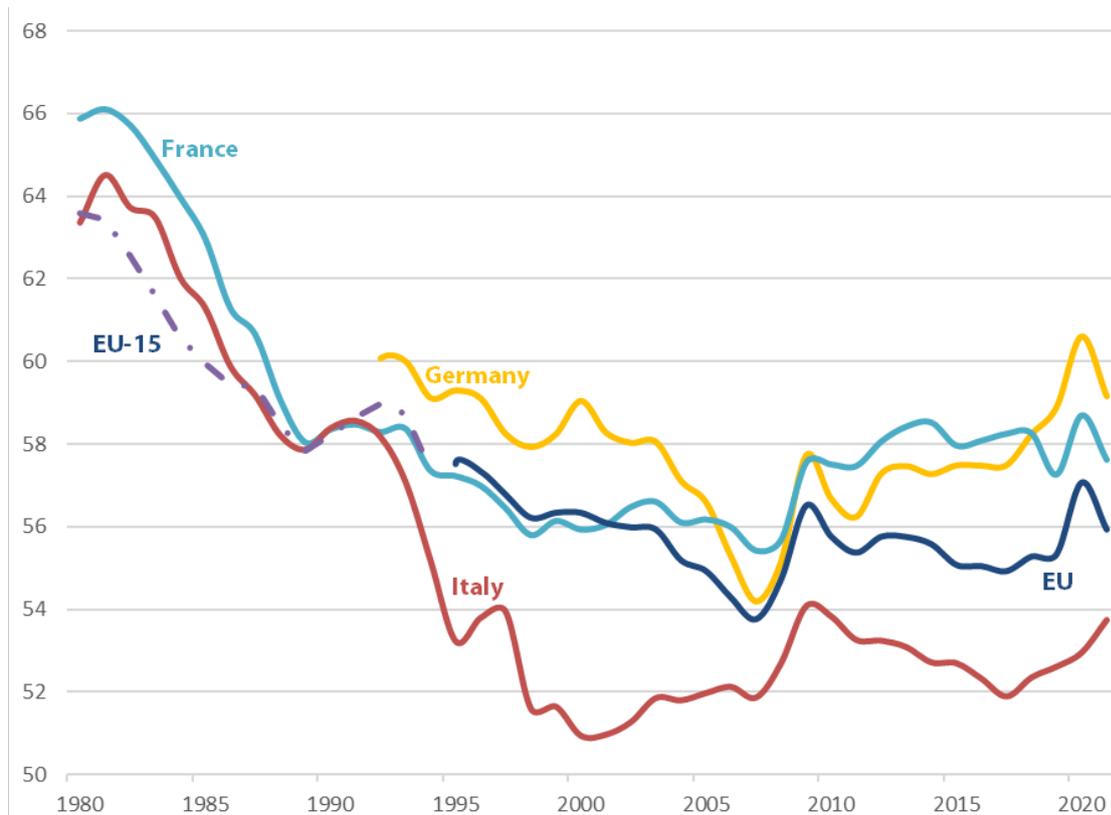
<sup>37</sup> The percentage of white-collar workers among SILC respondents aged 30 years or over with none of their parents being a white-collar worker. [EU Multidimensional Inequality Monitoring Framework](#), European Commission.

<sup>38</sup> Within-country heterogeneity is also important and shows a similar correlation with income inequality as the one described above. The [Multidimensional Inequality Monitoring Framework](#) of the JRC indeed identifies a negative relationship between income inequality and intergenerational mobility at the regional level in the four countries for which data are available: Italy, the Netherlands, Spain and Sweden.

<sup>39</sup> Eurofound, Wealth distribution and social mobility, Publications Office of the European Union, 2021.

<sup>40</sup> T. Piketty, Inequality in Europe and what the EU can do about it, EUSA Conferences, 2015.

Figure 2.7 – Changes in the labour share in selected European countries



Source: [European Commission, Ameco database](#).

Labour market institutions have an important impact on the labour share and on income inequalities (both via the labour share and via other channels). According to Checchi and Garcia Penalosa (2010),<sup>41</sup> collective bargaining coverage has a particularly relevant positive impact on the labour share.<sup>42</sup> Furthermore, according to the same authors, both unemployment benefits and stronger employment protection legislation decrease inequality (interestingly, the second also decreases the unemployment rate).<sup>43</sup>

Since the 1990s, major changes have occurred in European labour markets and greater pay, hiring and temporal flexibility have been introduced. In recent decades, an important component of jobs growth in EU countries has been in the form of non-standard employment (part-time, temporary, low-paying jobs). Indeed, non-standard work<sup>44</sup> and self-employment made up 41 % of the EU27 workforce in 2019.<sup>45</sup> The rise in these types of job has contributed substantially to the increase in wage inequality and in vulnerability in cases of shocks, as the COVID-19 pandemic has shown.

<sup>41</sup> Checchi and García-Peñalosa, op. cit.

<sup>42</sup> Interestingly, this paper finds that greater bargaining coordination has a decreasing effect on unemployment, while unemployment benefits have no effect (despite theoretical predictions would have led to assume an increasing effect on unemployment).

<sup>43</sup> D. Checchi and C García-Peñalosa (2008). Labour market institutions and income inequality. *Economic Policy*, 23(56), 602-649.

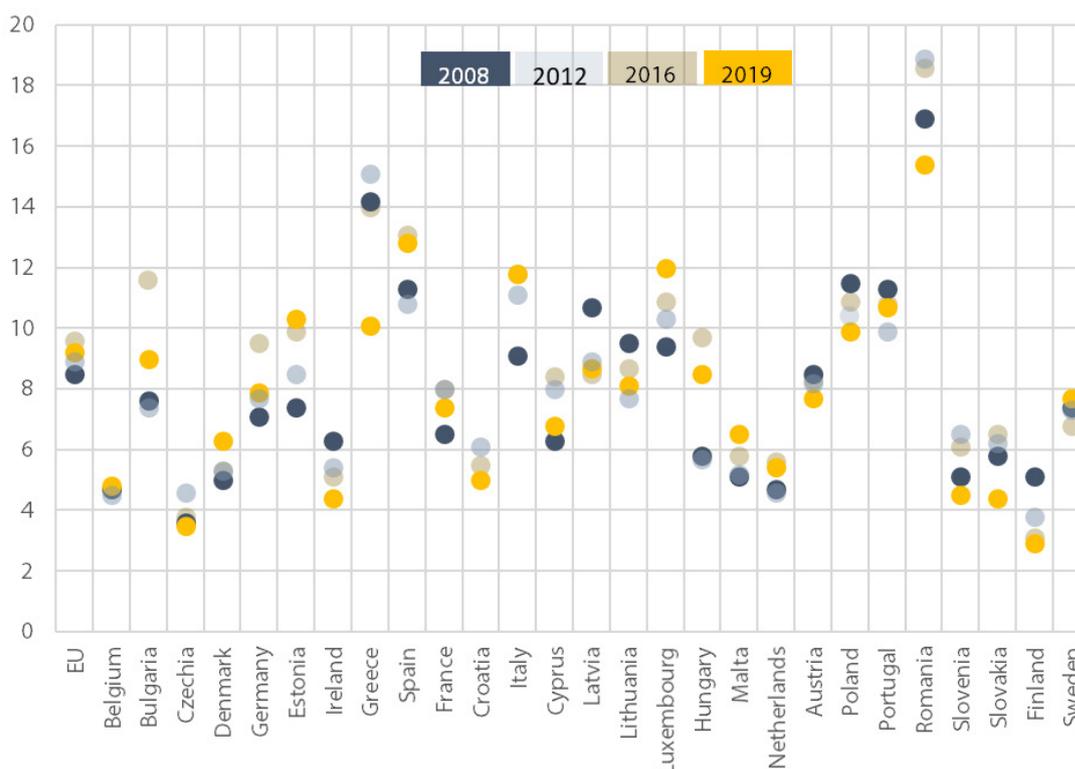
<sup>44</sup> Definition by [Eurofound](#): Non-standard workers include temporary employment, part-time and on-call work and other multiparty employment relationship as well as disguised employment and dependent self-employment.

<sup>45</sup> European Commission, [Access to social protection for workers and the self-employed](#). Version 0 of the monitoring framework, October 2020, p. 78. Based on Eurostat LSF). Another category of vulnerable workers is the self-employed – counting some 28 000 million in the EU.

Moreover, studies demonstrate that precarious employment more likely affects women, and this, among other factors, because of the disproportionate amount of time that women spend in caregiving roles and domestic work, both of which are unpaid and largely unrecognised.<sup>46</sup>

This leads us again to the analysis of poverty: **having a job in such a context is not a guarantee to exit poverty**. As shown by Atkinson, in 2008/2009, only one in two people who, starting from a condition of poverty, took up a job, could actually escape poverty.

Figure 2.8 – In-work poverty rate



Source: Eurostat [ilc\_iw01].

Looking at the problem a few years later, it seems to have increased in most Member States. Across the EU, the risk of poverty for those not working increased substantially between 2008 and 2016; declining in some countries afterwards, but still not offsetting the previous increase. However, households which are in work and poor make up a significant – and, in some countries, growing – proportion of all those in poverty.

Poorer workers are also less able to save, and this is particularly evident for the young (15 to 30 year olds), who are the most affected by the changes in the labour market. Saving rates reflect inequalities, since they increase with income.<sup>47</sup> Only five EU countries show positive median saving rates for the first quintile of income (the 20 % of households with the lowest income): France, Czechia, Ireland, Estonia and Poland. In contrast, Greece (-73.3 %), Romania (-53.5 %), Croatia (-35.8 %) and Portugal (-26.4 %) show the most pronounced negative saving rates for households in the lowest income quintile. For these four countries, even the median household in the second

<sup>46</sup> European Parliament, Policy Department, Precarious work from a gender and intersectionality perspective, and ways to combat it, study requested by the European Parliament Committee on Women's Rights and Gender Equality (FEMM), 2020.

<sup>47</sup> Eurostat, [Income, consumption and wealth](#). Experimental statistics.

income quintile records a negative saving rate. Solid median saving rates are attained for all countries in the last quintile of income (the 20 % of households with the highest income).

### 3. Size of the welfare state in the EU and its impacts

The role of the welfare state varies from direct intervention and support to indirect creation of options and avoidance of constraints, helping to ensure a high degree of social inclusion.

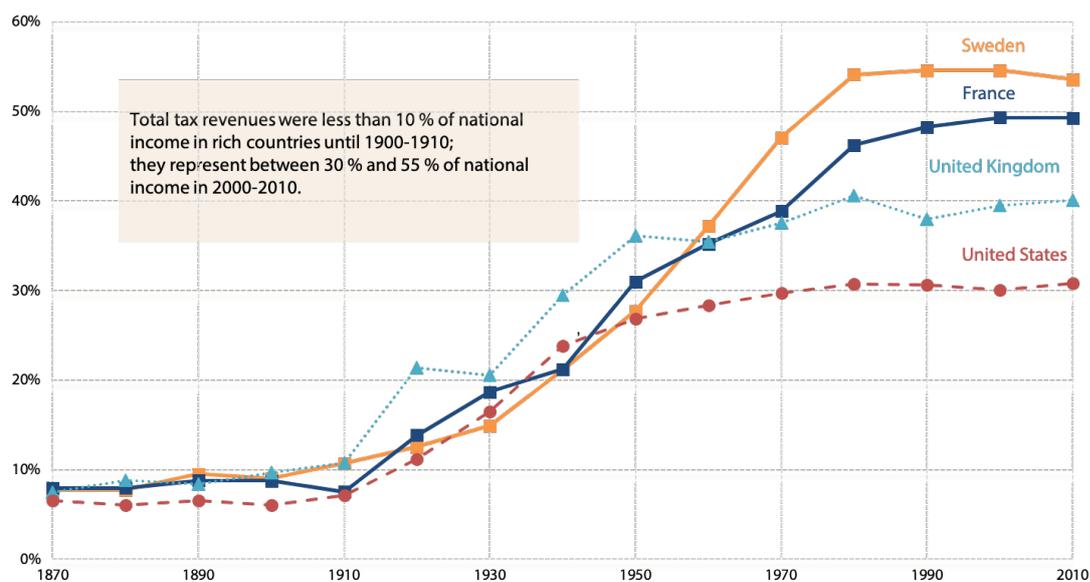
The size of the welfare state and the degree of reduction of inequality it seeks are highly contested areas in research and policy debates. Welfare states have several instruments they can use to reduce inequalities. Besides higher absolute or relative levels of taxes and duties on high-income earners, the welfare state can also target social transfers and/or make social services available for those most in need in terms of education, nutrition, health, housing, and employment. The impact of the welfare state depends on the precise nature and size of the chosen instruments.

Welfare systems can **contribute substantially to the reduction of inequalities**, and they can support households facing shocks. As a result of the uneven employment impacts of the COVID-19 pandemic, poorer households generally experienced larger reductions in market incomes. **Cash transfers and taxes alleviated – and in certain cases even offset – the regressive nature of the initial COVID-19 shock on market incomes.**<sup>48</sup> This, together with the lower increase in unemployment as compared with the 2008 crisis, can be ascribed to the bigger effort to mobilise resources for welfare systems and employment and income stabilisers.

#### 3.1. The resource side: A brief overview of taxation

The pandemic follows some two decades where, to the contrary, the '**reduced redistributive capacity of tax-benefits systems** was sometimes the main source of widening household income gaps', as noted by the OECD's Secretary General, in the introduction to their 2011 report on inequalities, 'Divided we Stand'. As shown in the figure below, focused on a sample of rich countries, tax collection as a share of GDP increased between 1910 and 1980 and then stagnated everywhere, although at different levels (continental Europe being at higher levels than the UK and USA).

Figure 3.1 – Tax revenues in selected rich countries (% of national income), 1870-2010

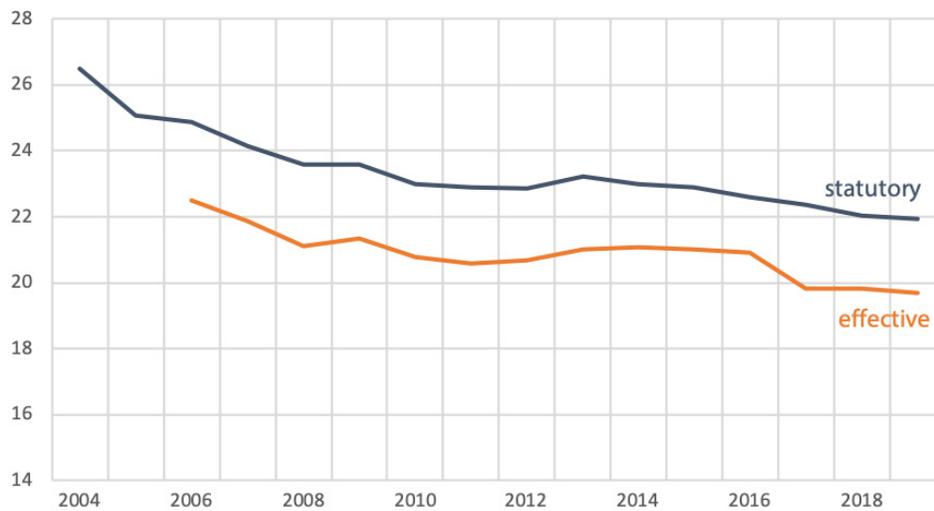


Source: Piketty, [The capital in the 21st century](#), 2014.

<sup>48</sup> *ibid.*

This change in trend occurs at the same time as increasing inequalities identified in the previous section. Particularly from the 1990s, **tax competition** has played a major role. A 2019 study<sup>49</sup> on OECD countries shows how the international competition for firms and investments and for the very mobile top 1 % of incomes has led to a substantial decline in tax rates on corporations and on the ultra-rich. Tax competition is a major challenge at the global level, as well as at the EU level. Both corporate taxes and top income taxes fell (corporate taxes declined more in Europe than in the USA). Piketty identifies a decline in statutory tax rate from a level of around 35 % in 1995, to about 23 % in 2011. The figure below updates this evidence with data to 2019.

Figure 3.2 – Corporate taxes in the EU, 2004-2019



Source: [European Commission](#).

As demonstrated by Saez and Zucman,<sup>50</sup> in the case of the US economy, this evolution has been driven by political choices, especially from those that reversed the tax system inspired by Franklin D. Roosevelt – which lasted from the 1930s to the 1970s and was indeed able to reduce inequality,<sup>51</sup> cutting the marginal tax rate on top incomes. Nevertheless, the importance of social benefits and transfer is crucial for the income of EU residents. Social benefits (e.g. unemployment and family benefits) and social transfers in kind (e.g. free access to education and health), which are generally based on rights and not means-tested, together make up a bigger share than net wages of adjusted household disposable income<sup>52</sup> (see Figure 3.3 below).

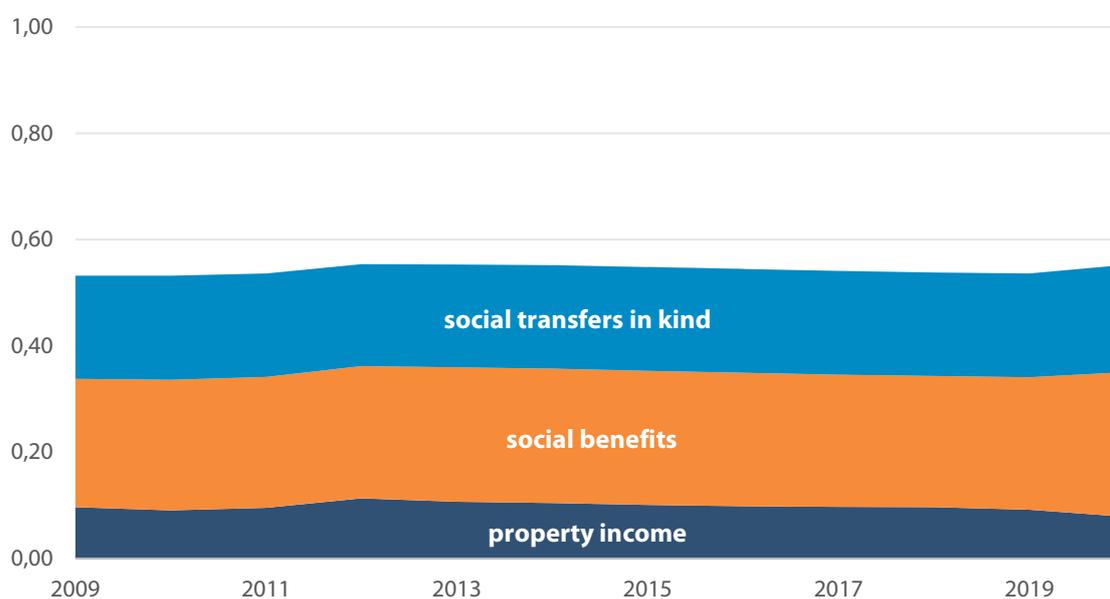
<sup>49</sup> P. H. Egger, S. Nigai and N. M. Strecker, The taxing deed of globalization. *American Economic Review*, 109(2), 2019, pp. 35390.

<sup>50</sup> E. Saez and G. Zucman, *The triumph of injustice: How the rich dodge taxes and how to make them pay*, WW Norton & Company, 2019.

<sup>51</sup> A 94 % marginal tax rate established in 1942 for extremely high incomes was meant – as declared by Roosevelt himself in the US Congress – to discourage the ultra-rich from earning beyond a certain level, and indeed had an impact on incomes before tax redistribution.

<sup>52</sup> The gross household-adjusted disposable income has five main sources: net wages, social benefits, mixed income, social transfers in kind and net property income.

Figure 3.3 – Evolution of some components of household adjusted disposable income



Source: Eurostat, [[nasa\\_10\\_nf\\_tr](#)].

### 3.2. The expenditure side: Social expenditure in the EU

Welfare systems are financed via taxes and social security contributions.<sup>53</sup> The higher the share of GDP, the higher the potential for redistribution. Despite the challenges on the tax side discussed above, in 2018, the share was nearly 28 % of EU GDP, which leads to two conclusions:

- Social expenditures are an important factor for the whole economy.
- Social expenditures play a role that goes beyond combating (including preventing) poverty.

Member States are heterogeneous as regards the share of social expenditure over GDP. The level is:

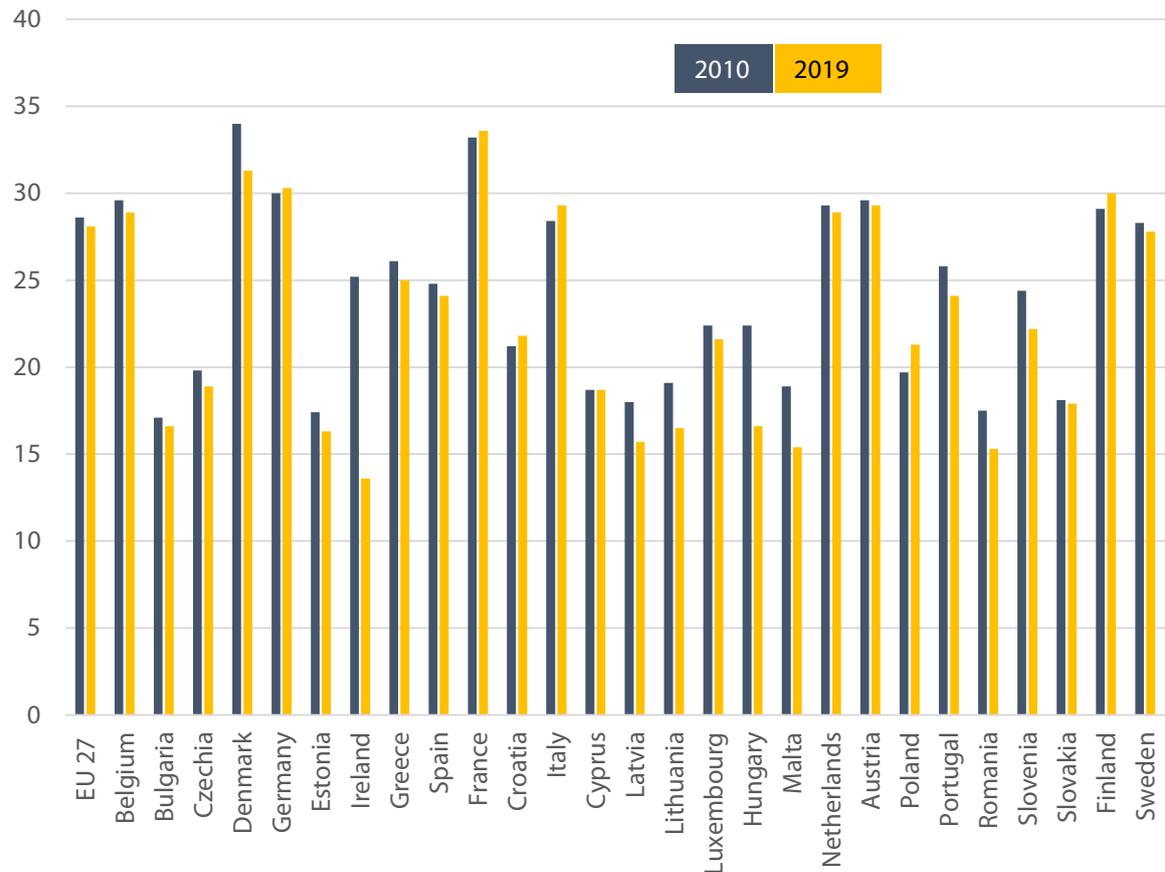
- 28 % or more in Belgium, Denmark, Germany, France, Italy, the Netherlands, Austria, Finland, and Sweden;
- between 20 % and 26 % in Greece, Spain, Croatia, Luxembourg, Portugal and Slovenia; and
- below 20 % (and in cases well below) in Bulgaria, Czechia, Estonia, Ireland, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania and Slovakia.<sup>54</sup>

Between 2010 and 2018, this share declined by 0.7 percentage points in the EU27 and decreased in most EU countries.

<sup>53</sup> The redistributive impact of tax systems itself and other forms of welfare provisions (e.g. occupational welfare) also play a role, although they are not be discussed here. Solid data about fiscal welfare (or tax expenditures) and occupational welfare are limited, especially if we are interested in international comparisons. They are therefore often overlooked in the presentation and discussion of welfare states and welfare regimes.

<sup>54</sup> According to the OECD figures for 2019, the [share of public social spending](#) in the USA is 18.7 %.

Figure 3.4 – Social expenditure as share of GDP

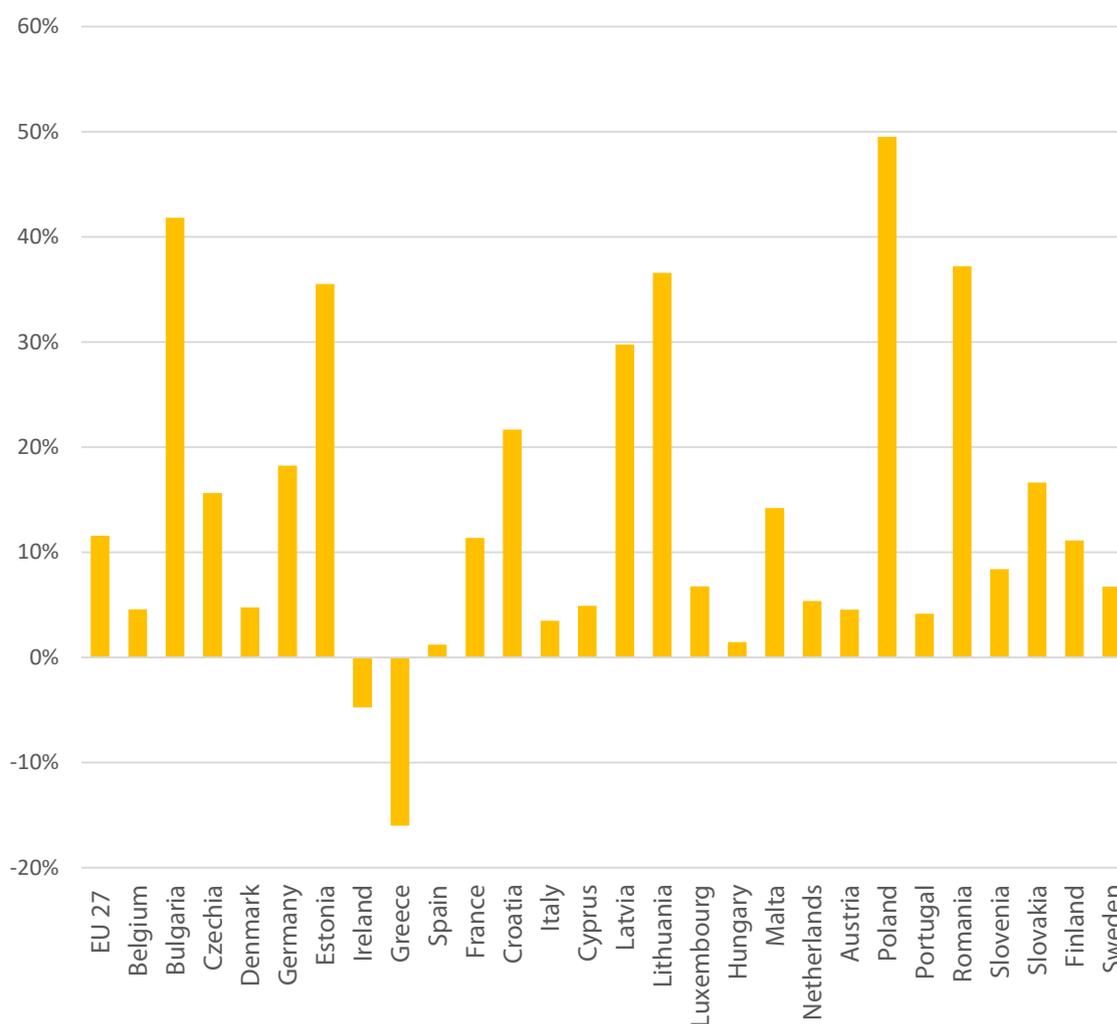


Source Eurostat, [[spr\\_exp\\_sum](#)].

**The increase in social expenditure per capita at constant 2010 prices** – which represents the real growth – **was about 9 % in the EU27 between 2010 and 2018**. The countries that had the biggest increase in absolute terms (between €900 and €1 700 per capita) were Sweden, France, Finland, Germany and Luxembourg; the biggest increases in relative terms (23 %-35 %) were in Latvia, Lithuania, Romania, Estonia, Poland and Bulgaria. There are also absolute losses in Spain, Ireland and Greece, and an overall stagnation in the south of Europe, to which austerity measures are likely to have contributed.

It is important to note that the spread of social expenditures at constant 2010 prices of countries with the highest (Luxembourg) and lowest (Bulgaria) expenditure is bigger in 2018 than 2010, thus indicating that there is **no upward convergence**, i.e. the relative increase in countries with a significantly lower GDP does not reduce the differences between Member States.

Figure 3.5 – Change in social expenditure (constant 2010 euros) per capita, 2010-2019



Source: Eurostat, [[spr\\_exp\\_sum](#)].

### 3.2.1. The components of social expenditure

In 2018, the four main components, representing 85 % of EU social expenditure, are sickness/healthcare, family/children, unemployment and old age/survivors.

Component	2010	2018
Sickness/healthcare	27.8	28.0
Family/children	7.8	8.0
Unemployment	6.3	4.5
Old age and survivors	43.3	44.5

Some 28 % of expenditure is aimed at sickness and healthcare, with huge differences between the Member States. The spread is between around 19 % (Greece and Cyprus) and 32-35 % (Czechia,

Germany, Croatia, Malta, Netherlands and Slovenia), with the highest share at around 37 % (Ireland). Remarkably, expenditures in Greece declined from 26 % to 19% in this period.

An average share of 8 % of expenditure aims at supporting the family and children; here again we find significant differences between the Member States. The spread is from around 4 % (Italy and the Netherlands) and 9 %-11 % (Czechia, Germany, Croatia, Latvia, Lithuania, Austria, Finland and Sweden) the highest share are from around 12 % (Estonia, Luxembourg, Hungary and Poland<sup>55</sup>).

Unemployment benefits and active labour market policy correspond to 4.5 % of the expenditure. Compared with 2010, the share in 2018 is 1.8 % points lower, with significant differences between the Member States. It decreased by 6 percentage points in Belgium, Ireland and Spain, and fell more moderately in Denmark, Germany, Greece, Latvia, Hungary, Portugal, Romania and Slovakia. In the other Member States, changes were quite small. The overall decrease in unemployment benefits, if due to an increase in employment (which helps to finance all the components of social expenditures), may not be a problem. However, it becomes highly problematic if it leads to lower benefits for the unemployed or to lower social coverage.

Pensions are based on rights acquired during previous periods (contributions, duration of working life), and are the main source of income in old age. Some 44.5 % of total social expenditure is for the elderly and survivors. This share is 1.1 % point higher in 2018 than in 2010. Since 2010, the increase is well above 6 % points in 6 countries and the share of total social expenditure above 50 % in 7 countries. In 6 countries, the share decreased. There is an obvious relationship between higher employment rates, especially for older employees (60-69 years), longer working lives and a lower share for pensions in the social protection budget.

A phenomenon that is relevant both to the expenditure and the resource sides of social benefits is **intra-EU worker mobility**. Since 2010, employment rates have increased for 'nationals' and 'mobile' EU citizens, especially when minimum wages and/or collective agreements are in place. The free movement of economically active citizens generally leads to higher employment, higher productivity and income (remittances), and has an impact on the flow of taxes and social contributions.<sup>56</sup>

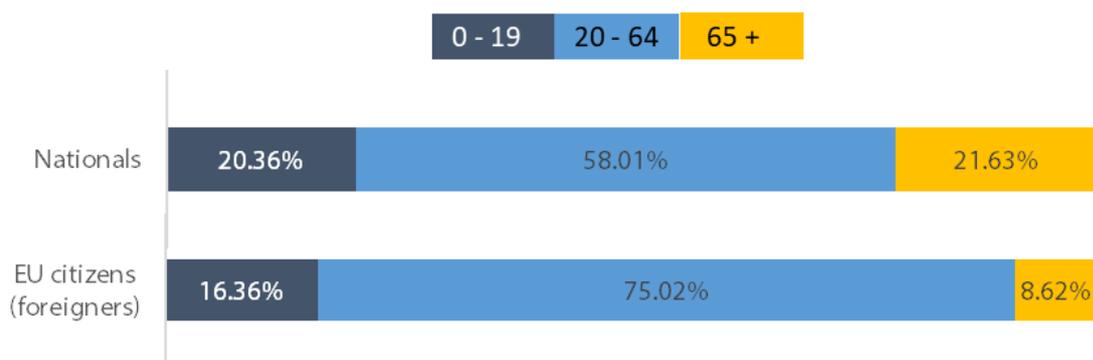
EU mobile citizens are net payers to the social security and education systems in their host countries. The share of mobile citizens in the working age population (20-65 years old) is significantly higher than in the national population as a whole. As a result, the 'young and old-age dependency rates' are lower. It is estimated that mobile EU citizens use childcare and school facilities to a lesser extent (17 %) than nationals (21 %). They also avail of health and care facilities to a lesser extent, because the proportion of people aged 65+ is half the size (10 %) of that of nationals (20 %) of the same age group.<sup>57</sup>

<sup>55</sup> In Poland it increased from around 7 % in 2010 to 13 % in 2018.

<sup>56</sup> K. Müller, [Free movement of economically active citizens within the EU](#), EPRS, European Parliament, 2019.

<sup>57</sup> K. Müller, [Free movement of economically active citizens within the EU](#), EPRS, European Parliament, 2019.

Figure 3.6 – Age structure of mobile EU citizens versus nationals, EU27 aggregate, 2020



Source: Eurostat, [[migr\\_pop1\\_ctz](#)].

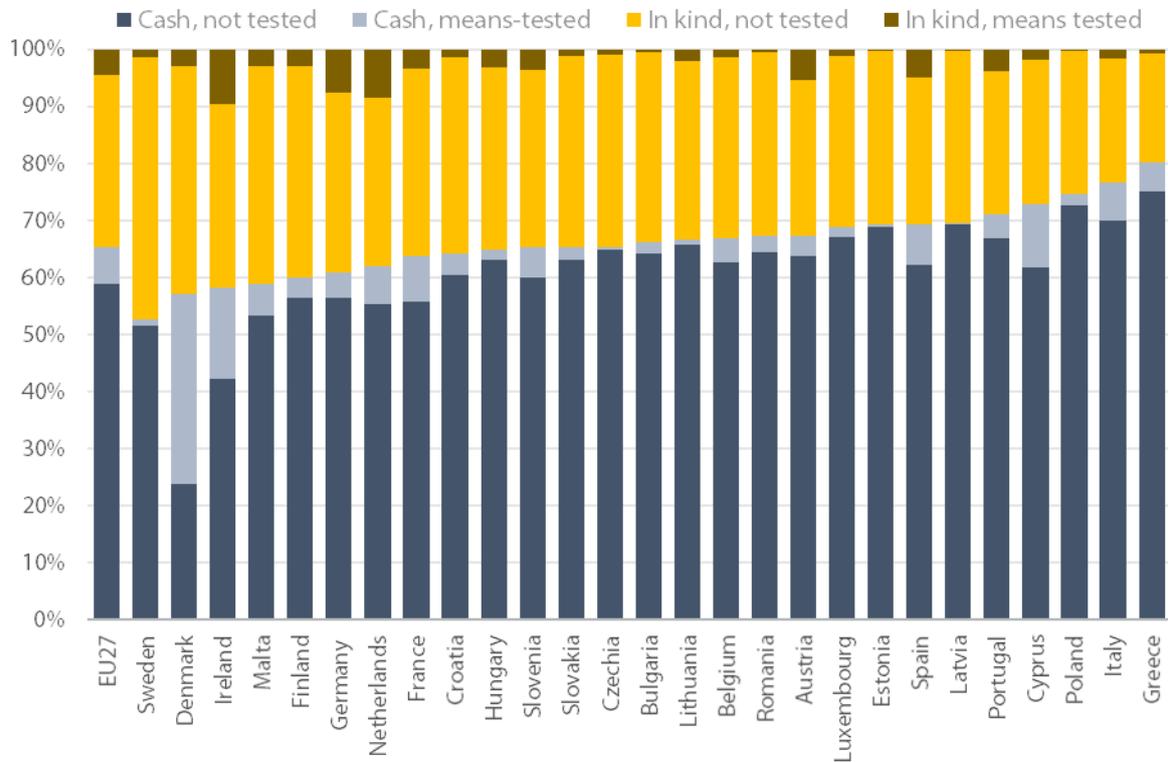
### 3.2.2. Impact of social transfers on inequality and poverty

Welfare systems **combat inequality, since social transfers in cash and in kind are more equally distributed than wages**; they can therefore reduce (but do not fully equalise) inequality based on 'market' income:

- Social transfers in cash, some of which depend on the number of payments and the amount paid into the social security systems (e.g. pensions, unemployment benefits), often with minimum and maximum amounts, and some transfers depending on defined criteria (family benefits related to the number of children) with fixed amounts.
- Social transfers in kind do not depend on income, like access to education and health, but can have a redistributive effect if income groups use the transfer differently – but this differential use is in itself a product of inequalities in access to services and inter-generational inequality. Progressive taxation, on the other hand, should ensure that different income groups also pay differently for the provisions of these public goods.

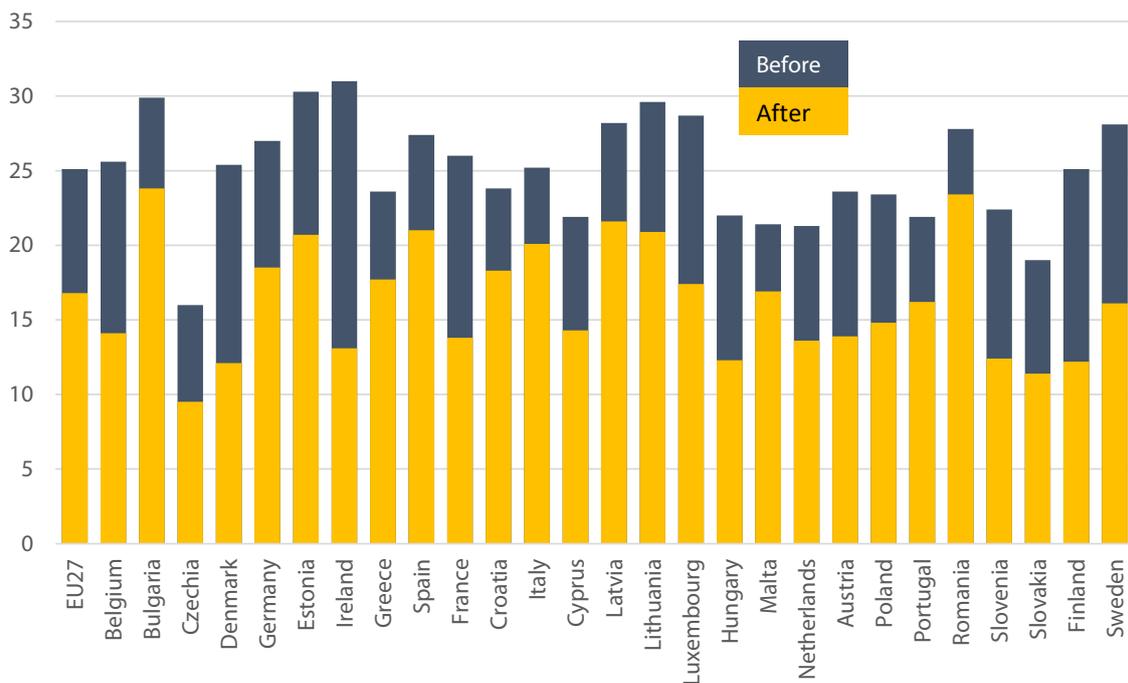
To identify the impact on poverty, at-risk-of-poverty rates should be compared before and after social transfers to assess the effectiveness of welfare systems. The at-risk-of-poverty rate before social transfers measures the situation where social transfers do not exist. Comparing it with the at-risk-of-poverty rate after social transfers reveals whether social protection measures have the redistribution capacity of welfare systems and helps to reduce the number of people at risk of poverty. The graph illustrates that social transfers allow a reduction of the share of population at risk of poverty by about 10 percentage points in the EU27, with important differences.

Figure 3.7 – Social protection benefits in cash and in kind, 2019



Source: Eurostat, [[spr\\_exp\\_fto](#)].

Figure 3.8 – At risk of poverty rate before and after social transfers, 2020

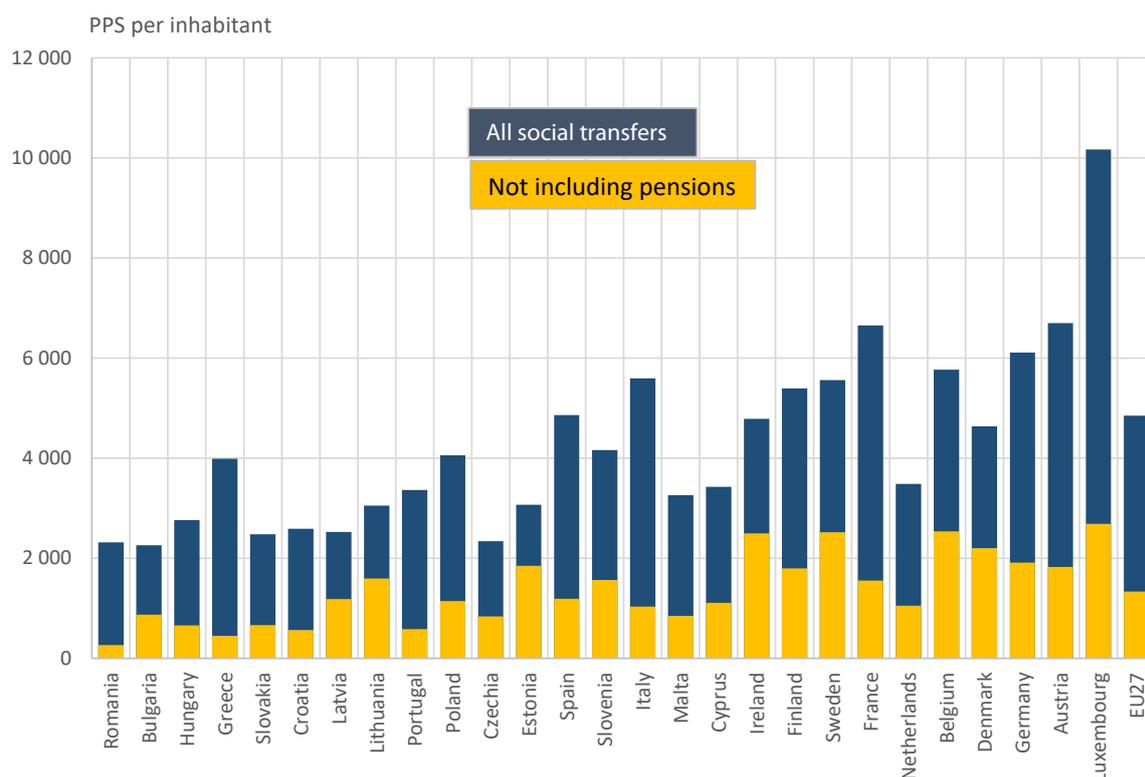


Note: Ireland, Italy, EU: 2019

Source: Eurostat, [[ilc\\_li10](#)], [[T2020\\_52](#)].

The impact of social transfers on income increases substantially if **pensions**, which provide the highest contribution of social transfers to median equivalised income, are included. Among the EU Member States, there were considerable variations in the contribution made by social transfers to median equivalised disposable income in 2018. The largest transfers were observed in Luxembourg, where social transfers (including pensions) increased the median equivalised disposable income by 10 730 PPS per inhabitant. Social transfers (including pensions) were also relatively high in Austria (6 811 PPS) and France (6 570 PPS).

Figure 3.9 – Contribution of social transfers to median equivalised income, 2020



Note: Ireland, Italy, EU: 2019

Source: Eurostat, [ilc di03], [ilc di13], [ilc di14].

In the EU27 in 2018, as a result of all social transfers (including pensions), the median equivalised disposable income was 4 880 PPS (per inhabitant) higher. It was 1 320 PPS higher due to social transfers other than pensions. The impact of pensions is therefore substantial.

In Estonia, in 2018, social transfers including pensions were around 1.7 times as high as social transfers, excluding pensions. On the other hand, in Romania, the value of social transfers including pensions was 9.5 times as high as social transfers, excluding pensions. The next highest ratios were recorded in Greece and Portugal, where transfers including pensions were 8.1 and 6.7 times as high as transfers excluding pensions.<sup>58</sup>

Pension systems are the largest component of social protection, and have been reformed over the years in pursuit of a variety of social goals. Pensions are an important pillar in welfare systems and 'the' relevant **protection against poverty in old age**. They ensure income maintenance after retiring; redistribute income to reduce poverty in old-age and ensure that the elderly can enjoy

<sup>58</sup> Eurostat, [Statistics explained](#), April 2020.

living standards in line with the rest of the population.<sup>59</sup> In 2018, 25.6 % of the European population were pension beneficiaries and the expenditure on pension was equivalent to around 13 % of the EU's GDP.

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<sup>59</sup> European Commission, [The 2018 Pension Adequacy Report: current and future income adequacy in old age in the EU, 2018](#).

## 4. Social protection

Social protection, often used interchangeably with the term 'social security', is generally provided by the state and involves state-citizen contract,<sup>60</sup> in which both state and citizen have rights and responsibilities towards each other. There is also an (economic and social) security dimension, in terms either of social justice<sup>61</sup> or of the ILO's concept of social protection floors.<sup>62</sup> This dimension should consist of at least four basic social security guarantees: essential healthcare and basic income security throughout the three main stages of the life-course – childhood, adulthood and old age – for all residents and all children as defined in national laws and regulations. The different instruments of social protection include:<sup>63</sup> social assistance (non-contributory transfers in cash vouchers or in-kind), social insurance (contributory schemes providing compensation in case of sickness, maternity/paternity, unemployment, etc.), social care services (for those facing social risks) and labour market programmes (active or passive, such as minimum standards).

The ILO has identified four types of social protection: social protection linked to a contract with a specific employer; social protection linked to salaried employment; social protection linked to participation in gainful employment (including non-salaried employment); and social protection linked to residency status.

### 4.1. The issue

Current trends of rapidly ageing societies (including a shrinking working population), low growth rates, shrinking tax bases, a rising share of the top 1 % in total national income and a shift from labour to capital in the national income,<sup>64</sup> a shift in gender roles and family structures, structural changes in the labour market (including large population losses in some regions), could all create pressure on social protection systems, depending on the policy choices taken to address them. In addition, polarisation in the labour market in terms of skills and wages and the blurring boundaries between work and family life have led to worsening working conditions for many leading even to infringement on fundamental rights for some.<sup>65</sup>

Behind these unified trends, considerable variations exist in terms of Member States, regions, employment statuses and generations. As discussed in the previous chapter, non-standard work<sup>66</sup> and self-employment made up 41 % of the EU-27 workforce in 2019.<sup>67</sup> The charts below show the very diverse pictures of labour markets in terms of the proportion of temporary workers and of self-employed. According to 2020 data (Figure 4.1), the proportion of temporary workers is much higher among the younger than among the older generation and slightly higher among women than men. For the younger generation, in 6 countries over half of male employees are in temporary employment, including 67.7 % in Spain. This is the case for young women in 10 countries, including

<sup>60</sup> E. Browne, [Social protection: Topic guide](#), University of Birmingham, 2015. This chapter mainly focuses on the social security system and some aspects of the labour market, excluding services such as health and education, which are discussed in the following chapters of the study.

<sup>61</sup> In *A theory of social justice*, John Rawls claims that an institution is fair if its rules are made to function to the advantage of all citizens and not just some of them.

<sup>62</sup> ILO, [Social Protection Floor Recommendation](#), (No 202), 2011.

<sup>63</sup> B. Carter et al., [Social protection](#), GSDRC Applied Knowledge Services, Topic Guide, October 2019.

<sup>64</sup> T. Piketty, *Capital in the 21st century*, Harvard University Press, 2014.

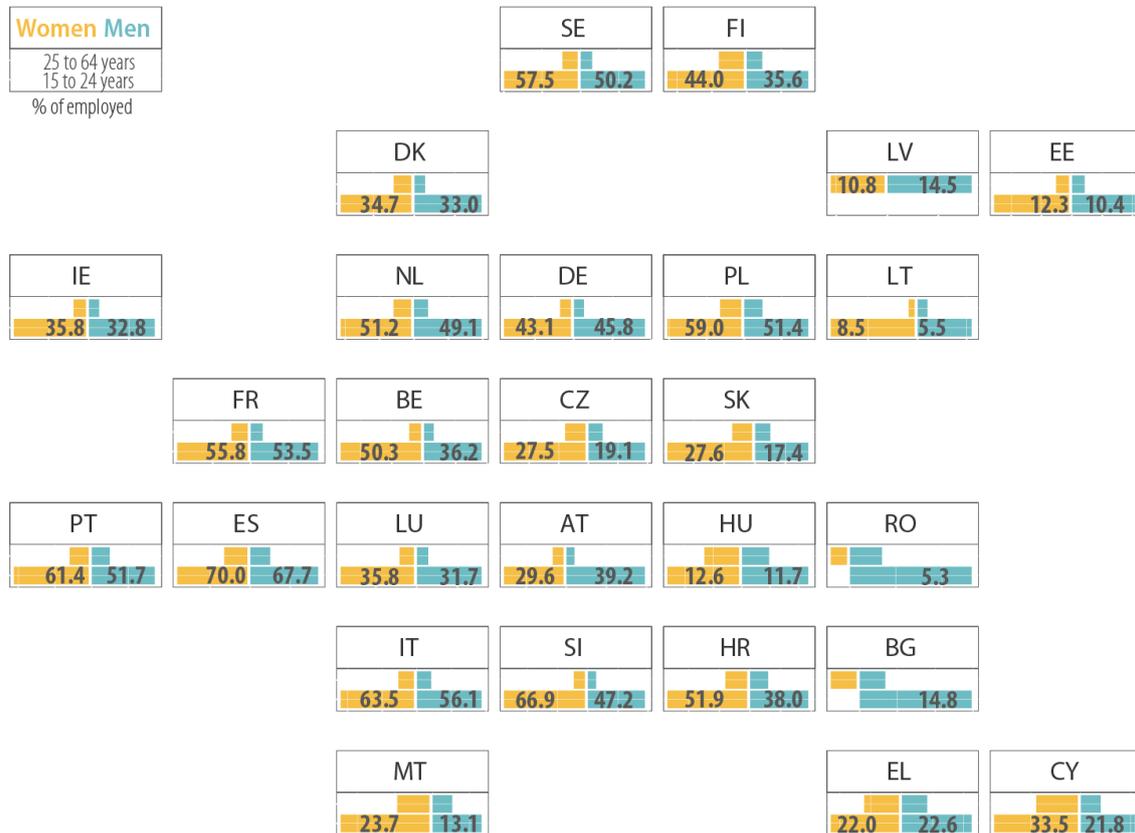
<sup>65</sup> Global trends to 2030: [The future of work and workplaces](#), ESPAS Ideas Paper Series, 2018.

<sup>66</sup> Defined by [Eurofound](#) as: 'Non-standard workers include temporary employment, part-time and on-call work and other multiparty employment relationship as well as disguised employment and dependent self-employment'.

<sup>67</sup> European Commission, [Access to social protection for workers and the self-employed](#), Version 0 of the monitoring framework, October 2020, p.78. Based on Eurostat LSF.

70 % in Spain and 66.9 % in Slovenia. In 6 countries, over half of young people are in temporary employment. In the older generation, there are 7 countries where between 10 and 25 % of older employees are temporary workers. The lowest shares of temporary jobs are observed in Central and Eastern European countries, including Bulgaria, Romania, Hungary, Estonia, Latvia and Lithuania.

Figure 4.1 – Temporary employment rate, 2020



Source: [Eurostat](#).

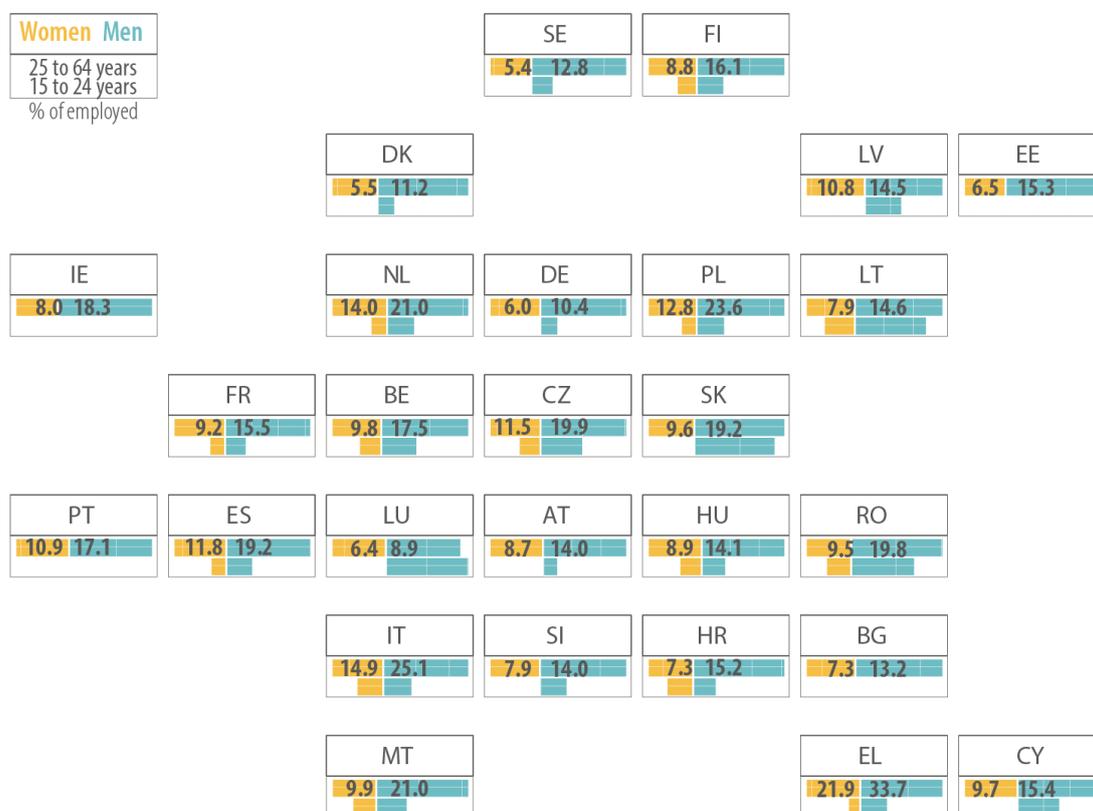
According to 2020 data (Figure 4.2), the proportion of self-employed workers is much higher among the older generation than the younger. The highest levels of self-employment are among men, reaching over 15 % in 17 Member States, including very high levels of 20 % or over in 9 countries, including the Netherlands, Poland, Czechia, Slovakia, Spain, Romania, Malta, with the highest shares recorded in Italy and Greece.

Employees on temporary contracts are twice as likely to be low-wage earners as employees on permanent contracts. Many, particularly those in precarious work situations (non-standard workers and the self-employed, but also younger workers and the low-skilled), tend to fall through the cracks in social provision, particularly regarding access to insurance schemes and receipt of insurance-based benefits.<sup>68</sup> This is particularly the case concerning access to unemployment benefits, where some countries are significantly stricter than others, but many of the countries with strict criteria also offer advantages to specific vulnerable populations. Moreover, access to maternity and

<sup>68</sup> S. Avlijaš, [The dynamism of the new economy](#), Non-standard employment and access to social security in EU-28, LSE 'Europe in Question' Discussion Paper Series, No. 141/2019.

particularly to sickness benefits is still challenging in some countries, especially for the self-employed.

Figure 4.2 – Self-employment rate, 2020



Source: [Eurostat](https://ec.europa.eu/eurostat).

The immediate response to the pandemic confirmed this situation. In spring 2020, unemployment benefit schemes and short-term work schemes were mobilised. Some 22 of the 27 Member States improved access to unemployment protection, while 21 improved its adequacy.<sup>69</sup> All Member States deployed some targeted measures for the most vulnerable, including increased benefits, or introduction of supplementary benefits; extended coverage and improved access; direct support for household expenses; suspension of loans; support for carers; measures for the elderly; and in-kind benefits. However, even in countries with the most advanced social protection systems, workers with non-standard jobs and the self-employed have been facing protracted hardship. At the same time, the assistance function of social protection systems – providing last-resort minimum-income benefits for those with little or no other resources – have been severely tested.<sup>70</sup>

Since the 2008 crisis and its aftermath, there has been some convergence in the responses to the challenges in certain social protection areas across the Member States. These included reduced generosity towards to the unemployed (mainly due to gradually decreasing numbers of

<sup>69</sup> European Commission, [2020 Annual Report of the Social Protection Committee](#), November 2020. The [report](#) prepared by the European Social Policy Network in September 2021, building on analysis of 35 countries across the EU and beyond, further refined this picture.

<sup>70</sup> As a follow-up work to the 2018 [Council Recommendation on social protection for all](#), the European Commission, with the Member States, is developing a monitoring framework on access to social protection of 'non-standard' workers and the self-employed. [Version 0 of the framework](#) published at the end of 2020 contains examples of the measures applied by countries.

unemployed people) and people with disabilities, greater protection for transfers to older people, more social investment in family policies and childcare, and a trend towards the privatisation and individualisation of policies, as well as pre-distributive policies such as the introduction or strengthening of the minimum wage.<sup>71</sup> It also meant a shifting balance between individuals and institutions in the first two decades of the 21st century, where people have had to take increasing responsibility for their economic outcomes as workers, savers and consumers.<sup>72</sup> This has had a range of impacts on different groups. For example, high-skilled, high-income individuals have fared well. Economic outcomes for the top two quintiles of the population (by income and wealth levels) have improved since 2000, while middle-skill, middle-income workers have been squeezed out of the labour market.

Nevertheless, despite convergence in some areas across Member States' welfare systems, a considerable body of comparative empirical ('large N')<sup>73</sup> studies still seem to agree that, despite some convergence, path-dependency seems to prevail.<sup>74</sup>

## 4.2. Policies

Historically,<sup>75</sup> national social protection systems were primarily developed to protect people in standard employment. This is particularly the case for insurance-based schemes, i.e. those based on social contributions from both employee and the employer. In contrast, benefits and services financed by taxes (e.g. family allowances, some forms of healthcare and long-term care) and certain means-tested benefits (e.g. social assistance and minimum income provisions for older people) are granted in many European countries regardless of the employment status of an individual.

As shown in Chapter 3, countries have different spending patterns when it comes to social protection expenditure relative to GDP: spending varies from high (Nordic and continental European countries), to medium (southern European countries) and low (central and eastern European countries). Lower-income countries often have worse provision than higher income countries.<sup>76</sup> For example, in the case of the widely used short-term work schemes<sup>77</sup> instituted during the coronavirus pandemic, only in the Netherlands, Denmark and Ireland did allowances cover 100 % of original pay and then only for limited periods. The lowest level was 40 % of the national average wage in Poland. Moreover, many people from those countries work abroad (for example, 15.5 % of Romanian citizens were living in another EU Member State in 2019), often in insecure jobs that are the first to disappear in a crisis situation.

<sup>71</sup> P. Taylor-Gooby et al., (eds.), [After austerity: welfare state transformation in Europe after the great recession](#), Oxford, August 2017.

<sup>72</sup> J. Manyika et al., [The social contract in the 21st century](#), McKinsey Global Report, February 2020.

<sup>73</sup> The methodology used in the literature is overwhelmingly the 'small N approach', which entails looking in depth for causal relationships in a small number of cases. There have also been experiments using the 'large N approach' that analyses a large number of cases. With a 'large N approach' it is possible to analyse whether case studies' findings can be generalised across EU countries.

<sup>74</sup> Starting from Esping-Andersen for example B. Vis, *Politics of risk-taking, Welfare state reform in advanced democracies*, Amsterdam, 2010, D. Jahn et al., *Interim report of the research project 'welfare policies in the enlarged Europe'*, University of Greifswald, 2011, and P. Pierson (ed.), *The new politics of the welfare state*, Oxford, 2001.

<sup>75</sup> S. Spasova et al., [Access to social protection for people working on non-standard contracts and as self-employed in Europe](#), A study on national policies, April 2017.

<sup>76</sup> B. Vanhercke et al. (eds), [Social policy in the European Union: state of play 2020](#), OSE-ETUI, 2021.

<sup>77</sup> The national short-term work schemes have been supported by the [EU's instrument](#) for temporary support to mitigate unemployment risks in an emergency.

Figure 4.3 – Government performance estimate: -2.5 weak to 2.5 strong



Source: [World Bank](#).

Generally, the cluster of central and eastern European Member States is characterised by a welfare state that is less generous and less well-funded, but at the same time a high degree of universalism and moderately high level of sickness insurance is observed when compared to mature western European welfare states.<sup>78</sup> However, this cluster is not homogenous, depending on the research template used, some of these countries might align more closely with the southern European model, for example. The basic principle of financing and organisation of welfare, and especially social security, not only attests to path dependency but also to a state socialist social security model based on the idea of full employment. In this regard, there are universalist (Nordic model) countries in the post-communist welfare states.

In addition, comparative analysis of EU countries,<sup>79</sup> looking into the response to the 2008 financial and economic crises, showed substantial differences between countries in terms of resilience.<sup>80</sup> Having tested over 200 potential pre-determined characteristics

for their association with resilience, one study showed that the strongest predictor of absorptive short-run resilience, adaptive medium-run resilience, and 'bouncing forward' capacity are, respectively, high government expenditure on social protection, political stability and a favourable business environment. A difference of around two standard deviations can be detected between the most consistently resilient countries (such as Germany and Poland) and the least resilient (such as Greece and Cyprus) in any given indicator. These findings further support the theory that, in addition to spending levels, the quality of governance<sup>81</sup> is strongly correlated with welfare

<sup>78</sup> K. Kuitto, *Post-communist welfare states in European context. Patterns of welfare policies in Central and Eastern Europe*, Elgar, 2016, pp. 165-66.

<sup>79</sup> L. Alessi et al., '[The resilience of EU Member States to the financial and economic crisis](#)', *Social Indicators Research*, Vol. 148, 2020, pp. 569-598.

<sup>80</sup> Resilience refers to the ability to withstand and respond to shocks and challenges, and recover quickly in a fair, sustainable and inclusive manner. W. Hynes et al., '[Bouncing forward: a resilience approach for dealing with the Covid 19 and future systemic shocks](#)', *Environment Systems and Decisions*, May 2020, pp. 1-11.

<sup>81</sup> Calculated by adding up country's scores for the six parts of the [World Bank Worldwide Governance indicator](#): voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of

outcomes,<sup>82</sup> such as poverty levels or resilience. Figure 4.3, based on the world governance index, shows two indicators: government effectiveness and control of corruption. The best performing countries (scoring over 1.5) include Denmark, Luxembourg, the Netherlands, Finland and Sweden on both indicators. The worst are (scoring under 1) Bulgaria, Czechia, Greece, Croatia, Hungary, Italy, Poland, Romania and Slovakia. In all countries both indexes demonstrate a trend towards worse performance in 2020 compared to 2000.

In this context, the challenge facing the EU in devising welfare policies or policy that impacts citizens' welfare is the status of social and employment policies and the Member States' very different expectations of EU policy.<sup>83</sup> There is no European comprehensive, regulated social governance framework to compare with those that exist for economic governance.<sup>84</sup> Several 'soft' social governance tools are available, however, while economic governance influences and impacts the social realm. These include: EU minimum standards, the social open method of coordination (OMC), the impact assessment of policies and programmes, renewed social dialogue, the European Semester with greater focus on social and employment issues, and the European funds designed to support Member States in achieving upward economic and social convergence. Moreover, it is very difficult to bring about a consensus around social protection issues at European level.<sup>85</sup>

### 4.3. Emerging new policies and practices

In the light of the major trends in the labour markets and the economies at large discussed above, many recent policy debates focused on the need for a renewed social contract, i.e. a rethinking of the relationship between the government and society. These debates explored how such a new social contract could reorder and possibly equalise how opportunity and security are distributed across society.<sup>86</sup> In the very diverse context of welfare state and labour market models and the still prevailing path-dependency, questions most often concern the sustainability (including financial) and the responsiveness of social protection systems to the changing needs.

As for responsiveness, there is a growing emphasis on combining social protection and social investment policies to achieve flexibility, stability and protection, including collective risk sharing.<sup>87</sup> The approach also seeks to contribute to strengthening social protection systems by bringing non-standard workers into existing social protection schemes, making further efforts to individualise (i.e. meeting the individual's needs) social protection, and ultimately to move towards universal social protection, where social protection would be removed from the employment relationship. The coronavirus crisis has shown that workers in independent forms of employment need to be able to build up rights to the types of out-of-work support that are already available to standard

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law; and control of corruption. [Scores for each of the six indicators](#) can vary from -2.5 to 2.5, so the overall indicator can vary from -15 to +15.

<sup>82</sup> A. Sapir, [Why has Covid 19 hit different European Union economies so differently?](#), Bruegel, September 2020. Earlier in [Global trends to 2035. Economy and society](#), EPRS, European Parliament, November 2018.

<sup>83</sup> N. Milotay, [Social and employment policies in Europe](#), EPRS Ideas Paper, September 2020.

<sup>84</sup> Governance is often defined in contrast to government: government is about hierarchy and bureaucracy, and governance about decentralised markets and networks. Social governance is defined as a process of governing societies in a situation where no single actor can claim absolute dominance. In the EU, it is referred to mainly in relation to social policies and objectives, and increasingly with the idea of putting economic and social objectives on an equal footing.

<sup>85</sup> S. Anghel et al, [Towards a more resilient Europe post-coronavirus options to enhance the EUs' resilience to structural risks](#), EPRS, European Parliament, April 2021.

<sup>86</sup> M. Shafik, [What we owe each other](#), Penguin, March 2021.

<sup>87</sup> European Commission, [Employment and Social Developments](#), 2021.

employees.<sup>88</sup> A more equitable treatment of the different forms of employment can help minimise the need for makeshift programmes in the future – which are necessarily less targeted and cost-effective and can be liable to leakage.

When it comes to sustainability, a country's policy towards flexible working, and whether to make it more or less difficult by reforming social benefits and programmes, cannot be examined in isolation from that country's labour market conditions or its growth strategies.<sup>89</sup> The latter mean a (relatively coherent) series of decisions and reforms, taken by either governments or producers' groups (economic and social actors) to boost growth and stimulate job creation in a specific nation, and the rationale for these decisions, e.g. the Europe 2020 strategy promoting smart, sustainable and inclusive growth, including specific social policies.<sup>90</sup> Emerging research investigating the dynamics of welfare state reform trajectories shows how welfare states and labour markets, in addition to economic strategies, can be part of growth regimes.<sup>91</sup> Growth regimes in this context refer to modes of governance of the economy and are determined by the functioning of socio-economic institutions, such as product market regulation, financial system, wage setting, social protection and education and training systems. According to the theory, growth strategies also encompass welfare reforms and balanced growth is therefore key for welfare state progress. At the same time, education, labour market regulation, social insurances, and other social policies all contribute to both the supply and the demand sides of the economy. Examining issues of social protection under this broader lens might help to embrace several emerging proposals to increase the sustainability of social protection systems. These include measuring the impact of economic reforms<sup>92</sup> on income and wealth inequality with a broader set of indicators that not only focuses on the bottom of the income ladder but also broader groups, such as the middle-class, as well as better fiscal rules and fiscal institutions to safeguard growth and distribution-friendly expenditures.<sup>93</sup>

Examining social protection issues under this broader lens might also help to better understand what kind of EU policies can best support Member States to improve the adequacy and effectiveness of their social protection systems. It can also shed more light on the socio-economic factors underpinning the EU's East-West and North-South divides, as well as regional disparities and the lack of upward social convergence.<sup>94</sup> In the context of the existing EU tools that can impact social protection systems, the main avenues through which the EU can influence policies on social protection in the Member States include the EU's economic governance framework. This includes policies to improve and complement the EU's monetary policy with stronger budgetary and financial capacity. The European Parliament has strongly advocated most of these initiatives throughout the years. The multiannual financial framework (MFF) and Next Generation EU (NGEU)

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<sup>88</sup> S. Spasova, D. Ghailani, S. Sabato, S. Coster., B. Fronteddu, and B. Vanhercke: [Non-standard workers and the self-employed in the EU: social protection during the Covid 19 pandemic](#), OSE-ETUI, 2021; OECD, [Supporting livelihoods during the Covid 19 crisis: closing gaps in safety nets](#), May 2020.

<sup>89</sup> S. Avlijaš, [The dynamism of the new economy](#), Non-standard employment and access to social security in EU-28, LSE 'Europe in Question' Discussion Paper Series, No 141/2019.

<sup>90</sup> A. Hassel et al., [The pursuit of growth](#). Growth regimes, growth strategies and welfare reforms in advanced capitalist economies, in: *Stato et mercato*, Fascicolo 1, April 2020. A. Hassel and B. Palier, [Growth and welfare in advanced capitalist economies](#). How have growth regimes evolved?, Oxford, 2020.

<sup>91</sup> Hassel, op. cit. In more detail see: Hassel and Palier, op. cit.

<sup>92</sup> L. Antonucci, and F. Corti, [Inequalities in the European Semester](#), Foundation for European Progressive Studies, 2020; MacNaughton, G., [Economic inequality and human rights impact assessment of economic reforms](#), *The International Journal of Human Rights*, Volume 24, Issue 9, 2020.

<sup>93</sup> Z. Darvas, [The economic growth and income distribution implications of public spending and tax decisions](#), Bruegel Working paper, Issue 5 10 October 2020.

<sup>94</sup> A. Bărgăoanu and C. Volintiru, [How the EU can prevent the East-West divide developing between its members](#), LSE blog, April 2019; M. Myant, [Dependent capitalism and the middle income trap in Europe and East Central Europe](#), *International Journal of Management Economics*, Volume 54, Issue 4, December 2018; B. Galgóczi and J. Drahokoupil (eds.), [Condemned to be left behind? Can Central and Eastern Europe emerge from its low-wage model?](#) ETUI, 2017.

have certainly been designed to bring about changes in the institutional set up that can strengthen the budgetary and financial capacity of the EU to complement its monetary policy. This could result in greater solidarity and cohesion and, ultimately, more (upward) convergence and integration. In addition, the gradual introduction of new own resources should facilitate the repayment of NGEU borrowing. In the longer term, efforts could also be made to strengthen fiscal co-insurance in the form of automatic stabilisers. These are unemployment benefits or lower taxes paid as a result of job losses and/or a decrease in market incomes and can partly reduce the toll on household income and consumption. One idea put forward by some experts in this context is the creation of a permanent European unemployment benefit reinsurance scheme, which could complement and also increase the effectiveness of national schemes.<sup>95</sup> The implementation of the European Pillar of Social Rights according to the new action plan<sup>96</sup> aims to set a common social protection floor for all across the Union and is also likely to influence EU social policies. Finally, the efficient use of EU funds to find sustainable solutions for societal problems depends on crucial element establishing or developing institutions and administrative capacity and appropriate financial regulations that, in turn, also improve the absorption of the funds in the Member States.<sup>97</sup>

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<sup>95</sup> J. Saulnier, [Improving the quality of public spending in Europe, Budgetary 'waste rates' in EU Member States](#), EPRS, European Parliament, October 2020.

<sup>96</sup> N. Milotay, [European Pillar of Social Rights: Gothenburg, Porto and beyond](#), EPRS Briefing, European Parliament, May 2021.

<sup>97</sup> Z. Darvas, *op. cit.*

## 5. Health as a dimension of welfare

### 5.1. Background

#### 5.1.1. Overcoming the coronavirus pandemic

In 2020, the coronavirus pandemic became the most salient health issue in Europe and across the world. It served as a reminder that the march of science does not guarantee protection from infectious disease. The crisis has offered example of heroisms – notably in the work of health professionals – and has seen some scientific success, such as the rapid development of effective vaccines. Strategies to hinder the spread of infection have been developed and refined. The need for decisions to be taken on a response at the international level has been recognised. Vaccine production at scale is testimony to the potential of international cooperation to mobilise and direct the necessary resources. At EU level, there has been a huge effort to establish common criteria for the adoption of restrictions on travel, seeking a path to the restoration of economic activity while also protecting public health.

A key focus has been the reinforcement of institutional arrangements to protect against future epidemics. This is a response to the realisation that a swifter executive-level response to concerns expressed by specialist bodies could have limited the spread of the virus in early 2020. The exact circumstances are still under debate, but experts have noted that opportunities to contain the virus were missed, firstly in China.<sup>98</sup>

#### 5.1.2. Tackling health inequalities

COVID-19 has increased inequalities in several dimensions.<sup>99</sup> It has accentuated existing health inequalities; studies from the USA and the UK show that COVID-19 disproportionately affected minority communities.<sup>100</sup> People from minority groups are over-represented in employment sectors that involve close contact with others and cannot be carried out remotely – such as healthcare, manufacturing, food processing, and public transport.

The need to address the social determinants of health has long been recognised as a priority concern, for example in a major World Health Organization (WHO) report in 2008.<sup>101</sup> This documented the link between poor living and working conditions and lower incomes and poor physical and mental health. A famous example of health inequity comes from the UK, where life expectancy was reported to decline by one year for every tube station one travelled east from Westminster.<sup>102</sup>

Research also points to effective remedies. An increase in public expenditure on health has been shown to reduce health inequities, as does increased spending on housing and on social protection.<sup>103</sup> It follows that the trend for all public expenditure – not just in health – has huge implications for public health. Action limited to the health sector is not enough to improve the

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<sup>98</sup> On China, see A. Green, [Li Wenliang obituary](#), *The Lancet*, February 2020; on the USA, see T. Lewis, [How the US pandemic response went wrong - and what went right during a year of Covid](#), *Scientific American*, March 2021.

<sup>99</sup> Ian Goldin, Robert Muggah, [Covid 19 is increasing multiple kinds of inequality](#), World Economic Forum, October 2020.

<sup>100</sup> On the UK, see Daniel Pan et al, [Ethnic disparities in COVID-19: increased risk of infection or severe disease?](#), *The Lancet*, July 2021; On the USA, see Centers for Disease Control and Prevention (CDC), [Health Equity Considerations and Racial and Ethnic Minority Groups](#), April 2021. Many European countries lack comparable data, due to a reluctance to track data linked to ethnicity; see Reuters, [COVID toll turns spotlight on Europe's taboo of data by race](#), November 2020.

<sup>101</sup> Commission on the Social Determinants of Health, [Final Report](#), WHO, 2008.

<sup>102</sup> Andy Dangerfield, [Tube map used to plot Londoners' life expectancy](#), BBC, July 2012.

<sup>103</sup> WHO, [Healthy, prosperous lives for all: the European Health Equity Status Report](#), WHO 2019, p. xxv.

health of the entire population; policy needs to be located within a wider strategy to address the social dimension of health.

## 5.2. Current policies

### 5.2.1. Healthier for longer

Ageing is an example of a public health challenge beyond the linked issues of the pandemic and health inequalities. The European population has the highest average age in the world. This is testimony to decades of relative stability and prosperity, but also poses problems. Older cohorts have greater need of health services, due to an increasing prevalence of geriatric illnesses such as Alzheimer's. A central focus of current strategies to mitigate ageing is a focus on healthier lifestyles, so that people enjoy good health well into old age. An equity issue also emerges in this regard; on average, over 65 year-olds in Sweden enjoy over 15 healthy years; the equivalent figure for over 65 year-olds in Slovakia is 4 years.<sup>104</sup>

Improved health in old age is linked to diet and exercise throughout a lifetime. Policies that discourage over-consumption of alcohol, tobacco and sugar help in this regard. The Swedish example also suggests that there are long-term benefits from the promotion of physical activity and good dental hygiene from an early age.

### 5.2.2. Healthcare capacity

A clear lesson from the current pandemic is that health systems need to have capacity to cope with sudden surges. Fatality rates were lower in countries with a greater availability of beds, treatments, protective equipment and personnel.<sup>105</sup> Efficiency savings within the health service has proved to be a false economy. The OECD summed this up as follows: 'Risk management is too often construed as a means of maintaining the leanest possible operations in the name of efficiency, and consequently, reducing redundancy to zero. Without redundancy, there is much greater vulnerability and little or no ability to absorb shocks, which in turn can quickly turn into failures.'<sup>106</sup>

Health service reforms in parts of Europe have been shaped in recent decades by a preference for privatisation and for-profit arrangements. The pandemic seems to strengthen the case for a larger emphasis on the public sector in delivering healthcare. Such a shift would rhyme with the perception that resilience should be embraced as a higher policy priority than efficiency.

It is now easier to argue that public spending on healthcare is an investment rather than a dead cost. It creates employment in a sector that helps societies and economies function better. Already in 2019, nearly 15 million people worked in healthcare in the EU.<sup>107</sup> Demand for health professionals is increasing, driven by the ageing of the population and the increased burden of chronic conditions. Good training facilities and systems can help smooth the supply of qualified professionals; good salaries and conditions can attract and retain the necessary personnel.

### 5.2.3. Capacity for independent high quality research

Robust science is central to improvements in public health. In due course, the rapid development of effective coronavirus vaccines may be seen as an achievement to set alongside those of Jenner and Pasteur. The EU will continue to play a major role in the promotion of science, particularly through

<sup>104</sup> EuroHealthNet, [Infographic on health inequities in Europe](#), 2019.

<sup>105</sup> Vasilis Kontis et al, [Magnitude, demographics and dynamics of the effect of the first wave of the COVID-19 pandemic on all-cause mortality in 21 industrialized countries](#), *Nature Medicine*, October 2020.

<sup>106</sup> OECD, [A systemic resilience approach to dealing with Covid-19 and future shocks](#), April 2020.

<sup>107</sup> Eurostat, [Majority of health jobs held by women](#), April 2020.

long-term, strategic investment in research funding. It will continue to facilitate collaboration across national boundaries, which makes it easier to build teams capable of cutting edge research.

Public-private partnerships are also critical. The European Research Agency provided significant funding to BioNTech, while that company's partnership with Pfizer helped deliver the new vaccine at scale.

Coupled with greater public appreciation of science as a path to better health – and to the restoration of economic activity – the coming years could well see improved framework conditions for the development of new treatments and medicines.

The EU also has a role in ensuring rigorous evaluation of new medicines and vaccines. Managing evaluation at European level has the advantage of providing access to resources and expertise that may be lacking at the national level, particularly in smaller states. The same can be said of the approvals process for new treatments. Rigour remains important, both to build public trust and to prevent the dissemination of ineffective and harmful treatments, in the face of vigorous promotion of disinformation. The Thalidomide case is a reminder that innovations need to be thoroughly tested before being brought to market.<sup>108</sup>

There are great hopes for advances in areas like personalised medicine, but here too, claims of effectiveness require rigorous scrutiny. The infrastructure for ensuring independent and authoritative evaluations can be seen as a public good that accordingly merits funding and an institutional framework. It is a critical contribution to distinguishing hype from hope, and to help decision-makers channel resources to where they can be most productive.

#### 5.2.4. Digital technologies as a path to better health services and outcomes

The progress of digitalisation also offers opportunities to improve health outcomes. Artificial intelligence is already helping to improve diagnostics and to develop new treatments.<sup>109</sup> It has huge potential to deliver beneficial innovations. This potential can be helped by the development at EU level of a carefully calibrated and agile regulatory ecosystem for the digital economy.

Communications technologies offer opportunities for cost-effective and secure use of information in support of health care. Better coordination between services in individual cases is one dividend, while protection of patient confidentiality is a challenge. The need for security was illustrated by a May 2021 cyberattack perpetrated against the Irish health service, which not only captured patient records, but also affected patient care.<sup>110</sup> Safeguards and their robust enforcement will be crucial in building public trust in digital innovation. The European Commission is preparing to set up a European Health Data Space to facilitate this development.<sup>111</sup>

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<sup>108</sup> Thalidomide caused thousands of birth defects in Europe, but not in the USA, as the Food and Drug Administration resisted strong pressure to approve it. See S. Philips, [How a courageous physician-scientist saved the U.S. from a birth-defects catastrophe](#), *University of Chicago Medicine*, March 2020.

<sup>109</sup> See J. Vamathaven et al, [Applications of machine learning in drug discovery and development](#), *Nature Reviews*, 2019. Machine Learning 'has the potential to speed up the process and reduce failure rates in drug discovery and development.'

<sup>110</sup> BBC, [Cyber attack on Irish health service 'catastrophic'](#), May 2021.

<sup>111</sup> G. Quaglio, [EU public health policy](#), EPRS, European Parliament, July 2020.

## 5.3. Emerging priorities and outlook

### 5.3.1. Preparedness for future emergencies: Prospect and challenges

It is said that prevention is better than cure; one recent report concludes that 'It would take 500 years to spend as much on investing in preparedness as the world is losing due to COVID-19.'<sup>112</sup> Horizon scanning - with clear channels to communicate urgent information to decision-makers - and due preparatory measures are key to the future protection of public health. Horizon scanning is needed to identify emerging risks. This requires a dedicated scientific and institutional framework, protected from the impulse to relax our guard. The USA provides an instructive case. In 2019, the Trump Administration decided not to renew the PREDICT programme, set up in the wake of the SARS epidemic, because it was sceptical about an expense with little apparent return. Just three months after its fieldwork ended, COVID-19 appeared in China.<sup>113</sup> In 2020, a health crisis quickly became an economic crisis; this serves to underline the need to integrate the reports from horizon scanning bodies into decision-making processes at the highest level.

The expansion of the European Centre of Disease Control (established in 2004, against a background of earlier epidemics) is an important development, as is the creation of the Health Emergency Response Authority (HERA). HERA is tasked with strengthening EU health security coordination during the preparedness phase, shortening crisis response times, and reinforcing the EU's health emergency preparedness and response capacity.<sup>114</sup>

### 5.3.2. The health consequences of climate emergency

The environmental determinants of health are also increasingly recognised.<sup>115</sup> The Lancet Commission on Health and Climate Change describes climate change as 'the greatest global health threat facing the world in the 21st century', but also as an opportunity to redefine the social and environmental determinants of health. Their most recent report documents increased mortality associated with extreme heat and extreme weather.<sup>116</sup> It tracks the health impact of air pollution from coal-fired power stations and of climate-related threats to global food security, among much else. They also note efforts to adapt health services to these threats, such as Germany's creation of a department on health protection and sustainability. The OneHealth programme is just one example of an EU-sponsored initiative which recognises the connection between human health and the environment.<sup>117</sup> Climate trends such as sea-level change, extreme weather events and drought also pose a risk to health and wellbeing, especially when they give rise mass displacement of vulnerable populations.<sup>118</sup>

### 5.3.3. Realising the potential of European cooperation

Within the EU, the prospect of a transfer of competence on health matters from Member State level to the EU level are remote. Absent an agreement between all Member States to this effect, the EU role will continue to be that of a supporting actor. This role can easily be underestimated. It is

<sup>112</sup> Global Preparedness Monitoring Board, [A World Prepared: Strategic Plan 2021-23](#), June 2021.

<sup>113</sup> E. Baumgaertner, [Trump administration ended early warning program](#), *Los Angeles Times*, April 2020.

<sup>114</sup> See [European Health Preparedness and Emergency Response Authority](#) (HERA), European Commission: C. Evroux, [HERA: the EU's new Health Emergency Preparedness and Response Authority](#), EPRS, European Parliament, February 2022.

<sup>115</sup> See L. Atwoli et al, [Call for emergency action to limit global temperature increases, restore biodiversity, and protect health](#), *The Lancet*, September 2021.

<sup>116</sup> The [Lancet Commission on Health and Climate Change](#). See also the [Lancet Countdown](#), 2020.

<sup>117</sup> See [Promoting One Health in Europe](#), Cordis, January 2018.

<sup>118</sup> E. Noonan and A. Rusu, [The future of climate migration](#), EPRS, European Parliament, March 2022.

grounded in provisions such as Article 9 TFEU, which calls for all EU activity to **'take into account'** a **'high level of protection of human health'**, and in the EU commitment to work towards the United Nations Sustainable Development Goals, which seek inter alia 'to ensure healthy lives and promote wellbeing for all at all ages'.

The European Commission can influence health, healthcare and health services across Europe for the better in several ways. These include funding activities, preparing legislation in related fields, facilitating dialogue between stakeholders, and encouraging the identification and diffusion of best practices. Each of these dimensions will remain important, long after we have overcome the worst effects of the present pandemic.

In response to the COVID-19 pandemic, the EU has mobilised substantial new resources, a portion of which will be spent on the health sector. Support for services in regions which are short of resources is a particular focus. This is part of the broader effort towards stronger cohesion between the countries of the EU. The EU role in macroeconomic policy can also contribute to better health outcomes. Health is becoming more integrated in the European Semester process. This can lead to acknowledgement and support of the need for Member States to invest more in health services.

Finally, the EU can be expected to play a stronger role as a global actor in the area of health. An example of its engagement is the export of vaccines; by May 2021, the EU had shipped more than 200 million vaccine doses to the rest of the world – as many as it had used itself at that point.<sup>119</sup> The EU's engagement with global organisations is also important. A high level panel has proposed the creation of a global health threats council, led by heads of state, charged with supporting and overseeing the WHO; it also recommends increasing resources and authority for the WHO itself.<sup>120</sup> Should the EU support these steps, that would be consistent with its long-standing commitment to multilateralism – this is a time for global responses to global health challenges. A short-term test of the effectiveness of international action on health will be the ability of low and middle income countries to secure adequate supplies of coronavirus vaccines.

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<sup>119</sup> U. Von der Leyen, [Speech at the State of the Union Conference of the European University Institute](#), May 2021.

<sup>120</sup> The Independent Panel for Pandemic Preparedness and Response, [Covid-19: Make it the last pandemic](#), 2021.

## 6. Education

### 6.1. The issue

The COVID-19 pandemic has led to huge disruptions in education with periods of school closure and extensive reliance on distance learning.<sup>121</sup> Distribution of computers in schools is more equitable than it is in homes; in fact, according to the OECD,<sup>122</sup> schools with students who come from disadvantaged backgrounds have a higher proportion of computers per student than schools with advantaged populations. On the other hand, in disadvantaged schools, computers are less likely to be portable, so they cannot compensate for the lack of privately owned materials for distance learning.<sup>123</sup>

At the same time, children and young people have also missed a number of opportunities for social interaction, including participation in school sports. There is concern that children and young people from disadvantaged and marginalised backgrounds may at times have lost access to healthy meals, and may have become more vulnerable to economic and social stress.<sup>124</sup> After protracted periods of closure, dropout rates tend to rise, as some children and young people do not return when schools reopen.

A crisis like the pandemic forces us not only to examine the welfare dimension of the health sector, as we have done in the previous section, but also to look at our educational systems as integral to welfare states and to the extent to which they disrupt attributed disadvantage. In welfare states, education is a form of social transfer in-kind, typically without means testing. As mentioned in Chapter 2 above, wealth is a major determinant of educational attainment. An OECD report following the latest round of Programme for International Student Assessment (PISA), revealed an overall trend in the perpetuation of inequalities in education along socio-economic, migrant and gender lines, yet some notable differences among educational systems exist.<sup>125</sup>

- In Bulgaria, Czechia, Hungary, Luxembourg, Romania and Slovakia, disadvantaged students have a less than one in eight chance of attending the same school as high achievers. In contrast, the chances of disadvantaged students in Denmark, Estonia, Finland, Ireland, Portugal, Spain and Sweden were more than one in five.
- In more than half of the countries surveyed, head teachers of disadvantaged schools were more likely than their counterparts in advantaged schools to report staff shortages and inadequacy or lack of educational materials and physical infrastructure as a hindrance to instruction. The exceptions were Bulgaria, Croatia, Finland, Latvia, Lithuania, Poland, Portugal and Romania, where disadvantaged schools reported fewer staff shortages than advantaged schools. In Bulgaria, Croatia, Finland, Lithuania and the Netherlands they reported having more educational materials.

<sup>121</sup> D. Chircop, [Education in isolation in the pandemic, following the path of Isaac Newton](#), EPRS, European Parliament, June 2020.

<sup>122</sup> [Learning remotely when schools close: How well are students and schools prepared? Insights from PISA](#), OECD 2020.

<sup>123</sup> D. Chircop, [Breaking cycles of disadvantage through education: an EU Perspective](#), EPRS, European Parliament, December 2021.

<sup>124</sup> S. Giannini and S. Grant Lewis, [Three ways to plan for equity during the coronavirus school closures](#), World Education Blog, Global Education Monitoring, 25 March 2020.

<sup>125</sup> Every three years, the [OECD](#), the Organisation for Economic Co-operation and Development undertakes the Programme for International Student Assessment ([PISA](#)) to evaluate the performance of educational systems. It does so by testing the ability of 15 year olds to apply their reading, mathematical and scientific knowledge and skills to real life situations. The last round took place in 2018 with the participation of 79 countries and economies. See OECD, [PISA 2018 Results \(Volume II\): Where All Students Can Succeed](#), PISA, OECD Publishing, 2019.

- In Austria, Finland, Germany, Hungary, Italy, Latvia, Poland, and Sweden, socio-economic status accounts for a gap that is larger than 25 percentage points among high achieving students in their expectation to complete tertiary education.
- In all countries, girls outperformed boys in reading, with an average score of 30 points. No EU Member States were among the countries with the narrowest gender gap, while Finland was among the countries with the widest gap (more than 50 score points).
- Across the OECD, on average, boys outperformed girls by 5 score points in mathematics and girls outperformed boys by 2 score points in science.
- On average, 13 % of students in OECD countries had a migrant background. In Austria, Denmark, Finland, France, Germany, Greece, the Netherlands, Slovenia and Sweden, at least two out of every five students with a migrant background were disadvantaged. No EU Member States were among those in the group of countries with more than 30 % of immigrant students in the top quarter of reading scores. The OECD average rate was 17 %.

Studies<sup>126</sup> link education with the life chances of adolescents, especially those of poor adolescents. Children who risk poverty and social exclusion are more likely to underperform and to drop out of school early. They are less likely to continue their education following compulsory schooling. They are more likely to be poor as adults and to suffer worse health. Disadvantaged students face difficulties that go beyond material deprivation, as they are held back by additional worries, responsibilities, perceptions of poor health, low-expectations and low self-esteem.

## 6.2. Current EU education policy

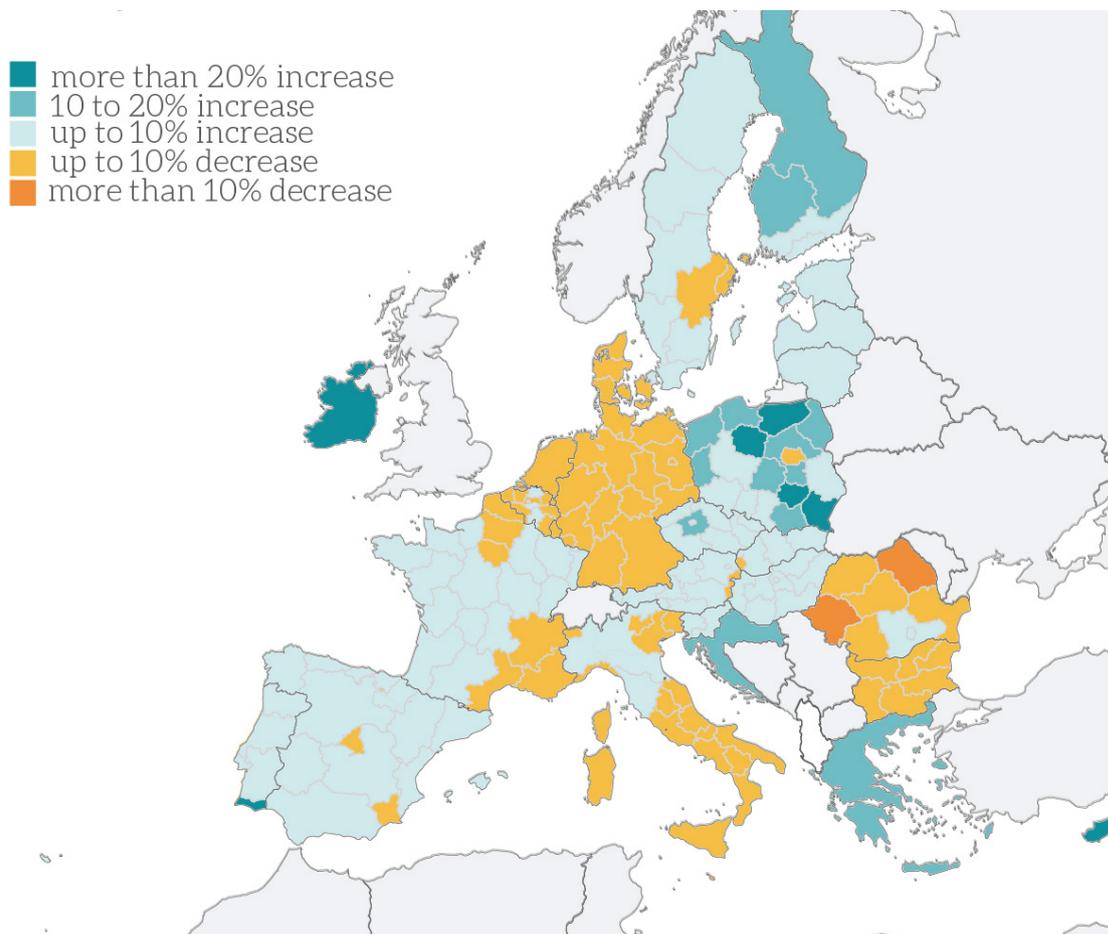
Figure 6.1 shows the evolution by region from 2014 to 2019 in enrolment rates in early childhood education of children 3 years and older. The variation between regions is quite considerable, from a reduction of 13 % in the West and North-East regions in Romania, to an increase of 31 % in Cyprus. This is significant due to evidence that shows that the provision of early childhood education as a public service helps to reduce educational disadvantage later. However, a case study exemplifies how the effectiveness of such a policy could be undermined by patchy implementation and unattractive working conditions.<sup>127</sup> Furthermore, measures that are designed for marginalised groups, rather than with them, can alienate intended beneficiaries, resulting in low uptake. In that instance, this was further compounded by lack of administrative capacity, lack of political commitment and lack of cooperation between different levels of governance.<sup>128</sup>

<sup>126</sup> A. Johnsen et al, [Does poverty in a Scandinavian welfare state influence school competence in adolescents? Poverty and Public Policy](#), pp 7, 3, 277297, September 2015.

<sup>127</sup> M. Leon et al, [Tensions between quantity and quality in social investment agendas: working conditions of ECEC teaching staff in Italy and Spain](#), Journal of European social Policy, 29, pp 4, 564-576, 2019.

<sup>128</sup> T. Magazzini, E. Chiozza and M. Rossi, [Conformism or inadequacy of Roma inclusion policies? Missed opportunities at the European and local levels](#), in: T. Magazzini, S. Piemontese (eds), *Constructing Roma Migrants*, IMISCOE Research Series, Springer, 2019.

Figure 6.1 – Early childhood education and care enrolments of children from 3 years (% change between 2014 and 2019)



Source: Eurostat, [[educ\\_uae\\_enra22](#)].

In the meantime, as schooling systems expanded in conjunction with the rise of nations and their welfare systems,<sup>129</sup> the promise of equality of opportunity in the form of generalised literacy and numeracy<sup>130</sup> accompanied social stratification with educational tracks that lead to differentiated opportunities.<sup>131</sup> Studies link this development to the role that educational systems play in the welfare state. Public spending makes education a public good and this has been justified in terms

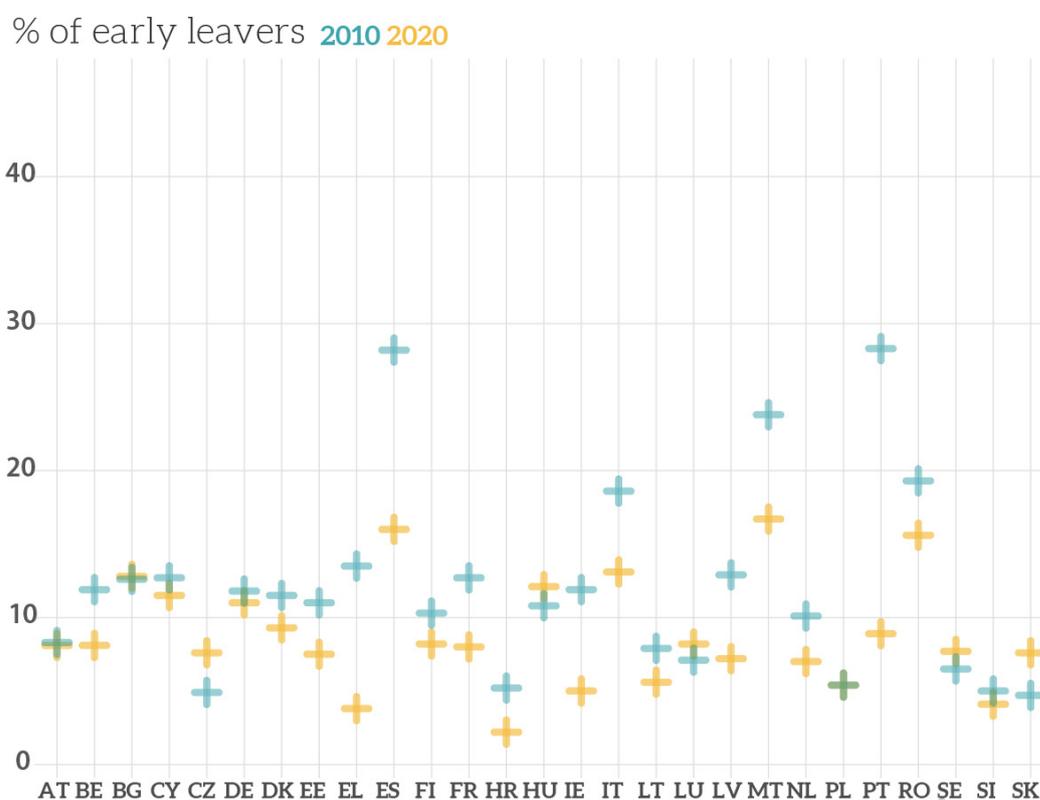
<sup>129</sup> See for instance: D. Tröhler, [Curriculum history or the educational construction of Europe in the long nineteenth century](#), *European Educational Research Journal*, Volume 15, issue 3, 2016, pp. 279-297; and A. Andrade, J. Kelley, R. Robertson, and D. Watson, *Eastern European Education: A study of education in the Czech Republic & Romania*, The Middlebury Institute site network, 2021.

<sup>130</sup> P. F. Grendler, [Education in Europe: Nineteenth and twentieth-century education](#), JRank Science & Philosophy website, 2021.

<sup>131</sup> A. Yu. Pleshakova, [Germany's dual education system: The assessment by its subjects](#), *The Education and Science Journal*, Volume 21, issue 5 pp. 130-156, May 2019.

of safeguards on public order and morality, citizens' rights to equal opportunities,<sup>132</sup> and more recently, concerns related to young people's employability.<sup>133</sup>

Figure 6.2 – Young people (between 18 and 24 years old) abandoning school before completion



Source: Eurostat, [edat\_lfse\_16].

With this in mind, education ministers at the European Council had agreed to reduce the rate of early school leaving to below 10 % by 2020, which they almost achieved (10.1 %). This benchmark is significant for its links with socio-economic status, qualification levels, unemployment rates, and participation rates in adult learning. Figure 6.2a represents the evolution in the percentage of early leavers per Member State and their regions. The differences between regions were broader in those Member States with higher shares of early leavers than in Member States with lower rates. At the same time, rates only increased in exceptional cases over the decade. Figure 6.2b represents the evolution in adult learning, with 6 Member States having lower rates in 2020 than in 2010. The EU Member States have committed to a target of 47 % of 25-64 year-olds participating in learning in the last 12 months by 2030.<sup>134</sup> This policy is important for upskilling and reskilling.

In conclusion, while welfare states can offer support through educational systems to break the perpetuation of disadvantage, at times, policies and their implementation can become an additional

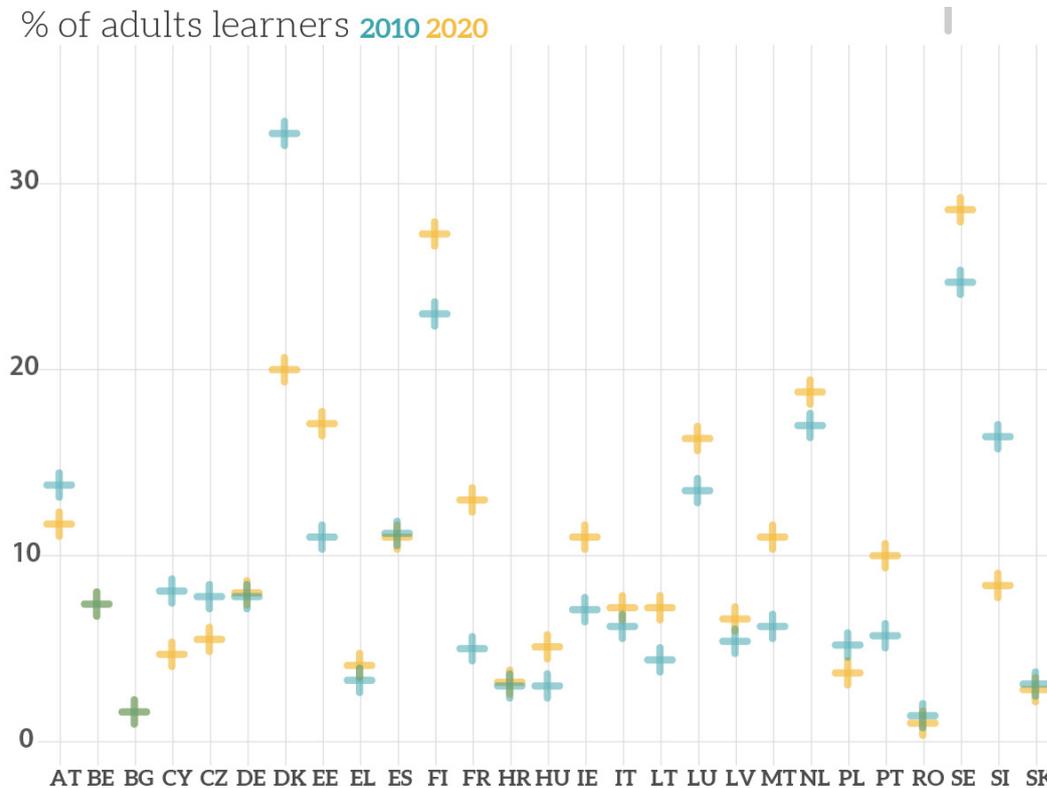
<sup>132</sup> M. B. Katz, [Improving Poor People: The Welfare State, the 'Underclass,' and Urban Schools as History](#), Princeton University Press, 1997.

<sup>133</sup> S. Lappalainen, M. Nylund, and P. Rosvall, [Imagining Societies through Discourses on Educational Equality: A Cross-cultural Analysis of Finnish and Swedish Upper Secondary Curricula from 1970 to the 2010s](#), *European Educational Research Journal*, EERJ 18, 2019, pp 3, 335-54.

<sup>134</sup> D. Chircop, [The European Education Area and the 2030 strategic framework for education and training](#), EPRS, European Parliament, May 2021.

barrier, especially for groups who suffer from extreme forms of marginalisation.<sup>135</sup> The pattern may be difficult to break because habit and history have ingrained practices that become self-evident to the extent that they cloud the possibility of different approaches.<sup>136</sup>

Figure 6.3 – Adults (between 25 and 64 years old) participating in training



Source: Eurostat, [[trng\\_lfse\\_04](#)].

Notwithstanding, the transmission of poverty is not a forgone conclusion. In some European countries, public expenditure on education has resulted in a beneficial impact on the prospects of individuals whose parents have a low level of education.<sup>137</sup> For instance, according to one calculation, an increase of one standard deviation in public expenditure in primary education is associated with a reduction of about 3.1 percentage points in adult poverty.<sup>138</sup>

### 6.3. Emerging new policies/directions

Like welfare states, educational systems in Europe are broadly classified as liberal, social democratic or conservative. While each refers to different models of social stratification, a closer look at educational systems makes it clear that classification is not a straightforward exercise. This is because policy agendas both mutate over time and continue to maintain links to the countries' history. These shifts explain in part the trajectories of change, as some values lose ground and others

<sup>135</sup> T. Magazzini, E. Chiozza and M. Rossi, 2019, op. cit.

<sup>136</sup> L. Gilliam et al., *Children of the Welfare State: Civilising Practices in Schools, Childcare and Families*, Pluto Press, 2017.

<sup>137</sup> For an analysis of public spending by educational level and Member States see D. Chircop and E. Claros, *Lifelong Learning in the EU*, EPRS, European Parliament, October 2018.

<sup>138</sup> M. Hidalgo-Hidalgo, 'Childhood-Related Policies and Adult Poverty: Evidence from Some European Countries', *Social Indicators Research: An International and Interdisciplinary Journal for Quality-of-Life Measurement*, Springer, vol. 144(1), pp 191-217, July 2019.

gain a stronger foothold. The result can be policies that seem to pull in different directions. Policy change also depends on the structures of decision-making, which can either empower or block proposing and opposing pressure groups from successfully pushing through or preventing change at specific points in the process.<sup>139</sup>

While EU Member States have guarded their competence in deciding on educational matters, they have not been immune to the impact of international surveys such as PISA. The role of international organisations has drawn some criticism. For instance, one author<sup>140</sup> who took a closer look at the increased levels of dissatisfaction with schools and their performance, linked this to the growing practice of measuring school performance promoted by the global education measurement industry. The author questioned notions of quality based solely on efficiency and efficacy and pointed out that neither properly answers what education is supposed to achieve, which ought to be key to assessing the quality of education. Claiming that it has been successful in jolting governments into action to make schooling fairer and more inclusive, PISA insists its aim is to help educational systems improve so that more students gain the social and emotional skills they need to thrive and be prepared for further studies or work.<sup>141</sup> Education ministers in the EU have agreed to reduce low achievement on the PISA test to not more than 15 % by 2030. Overall, results for the EU have worsened when comparing the 2015 and 2018 rounds of assessment – the rate of low achievers being over 20 %.

The EU supports a lifelong learning approach by coordinating cooperation between Member States. In 2021, education ministers agreed on a strategy of cooperation on education and training for 10 years up to 2030,<sup>142</sup> a strategy commonly referred to as an EEA Strategic Framework.<sup>143</sup> Governance of the framework depends on the open method of coordination.<sup>144</sup> All forms of cooperation are voluntary, as they must both correspond to the real needs of participating Member States and fully respect Member States' sovereignty. The framework needs to cooperate with adjacent policy areas such as employment, enterprise, social affairs, youth, and culture. As cooperation continues to evolve, the European Commission launched the idea of establishing a European education area by 2025.<sup>145</sup> One of its aims is that educational systems become inclusive. On the other hand, EU governments have been criticised for increasingly favouring market-oriented policies that lead towards the commodification of the sector and away from its status as a public good. They have been further criticised for emphasising the value of education as preparation for the labour market, thereby diminishing its role in the formation of citizens and cultural actors.<sup>146</sup>

In this section, we have looked at formal education as a public good and a social transfer in-kind with the potential to create equitable opportunities and life chances. Yet, research shows that certain educational practices and policies reinforce the link between wealth, other forms of inequality and educational attainment. Educational policies which are single-mindedly focused on economic

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<sup>139</sup> M. Baggesen Klitgaard, [School Vouchers and the New Politics of the Welfare State](#), *Governance*, 2008; 21, 4, pp 479-498.

<sup>140</sup> G. J. J. Biesta, [What Kind of Society Does the School Need? Redefining the Democratic Work of Education in Impatient times](#), *Studies in Philosophy and Education*, 38.6, 2019 pp 657-68.

<sup>141</sup> See the Programme for International Student Assessment PISA, [OECD webpage](#).

<sup>142</sup> D. Chircop, [op. cit.](#), May 2021.

<sup>143</sup> European Commission, [Proposal for a Council Recommendation on Pathways to School Success](#), COM(2022) 316, June 2022.

<sup>144</sup> See the discussion on the open method of coordination in N. Milotay, [Social governance in the European Union: Managing complex systems](#), EPRS, European Parliament, May 2020.

<sup>145</sup> [Making the European education area a reality: state of affairs, challenges and prospects](#), Policy Department for Structural and Cohesion Policies, Culture and Education, European Parliament, February 2021.

<sup>146</sup> Y. Dobyshuk, [BWSE 2018: Commodification tendencies across Europe – Is education still a public good?](#), European Students' Union, 12 April 2019 and European Students' Union, [Policy paper on public responsibility, governance and financing of higher education](#), 2016.

outcomes, to the detriment of a rounded education, can also be counter-productive by alienating or disempowering learners. This issue will be exemplified in the next section, which draws attention to the mutually reinforcing relationship that exists between education and culture.

## 7. Arts and culture

### 7.1. Inequalities in access and participation

The COVID-19 pandemic resulted in almost immediate total closures of cultural venues, which have been the last to reopen under strict sanitary conditions. Cultural activities moved online where people both intensely watched cultural content and shared their own professional or amateur productions. Spontaneous performances were staged on balconies and rooftops and were appreciated both by neighbours and online, showing the importance of cultural participation.

The right to participate freely in cultural life is a human right<sup>147</sup> and can be framed in a broader context of democracy, pointing to its importance for democratic and civic participation.<sup>148</sup> The respect of cultural rights is a legal obligation for all EU Member States, which ratified the UN Covenant on economic, social and cultural rights.<sup>149</sup> Access to and engagement in culture is among a plethora of elements composing 'cultural rights' and the state has a responsibility to secure the right conditions for participation when socio-economic factors hinder access to culture, as well as to refrain from applying political pressures that limit such participation.

Cultural policies have evolved from protecting cultural heritage and promotion of national identity, public instruction and elitist artistic education, towards cultural democracy, cultural diversity, digital culture,<sup>150</sup> access and participation, as with more leisure time, people 'consume' more culture. The policy support has therefore broadened to popular culture, multifunctional equipment and various means of communication.

However, the broader the definition of culture, the more fragile and tension-ridden this policy area becomes.<sup>151</sup> These tensions are addressed within support regimes of cultural policies, which, in turn, depend largely on national or territorial traditions and history<sup>152</sup>. They differ in the share of public to private funding, the role of arts and culture in society, and the decisions on whom to support. Culture is a public good in the French model, based on the *exception culturelle*. It consists of massive state funding for museums, libraries and cultural venues concentrated in a few cities and 'high culture' as a tool to modernise society. The Anglo-Saxon model is decentralised; very limited state intervention focuses mostly on popular culture, but access to public museums is often free of charge and funded from private donations. In Scandinavian countries, the state has exclusive financial responsibility for arts and culture, following their egalitarian approach to supporting both high and popular culture and grass-roots cultural activities. Post-communist European countries developed a new model,<sup>153</sup> where tax-deductible private funding for cultural institutions and foundations is allowed. Culture ministries still adopt and implement cultural policy goals, in consultation with professional associations, and allocate funds together with local government and foundations.

<sup>147</sup> [Universal Declaration of Human Rights](#), UNESCO, 1948.

<sup>148</sup> [Indicator Framework on Culture and Democracy \(IFCD\)](#), Council of Europe, December 2016.

<sup>149</sup> [United Nations Covenant on economic, social and cultural rights](#) 1966, in force as of 1976.

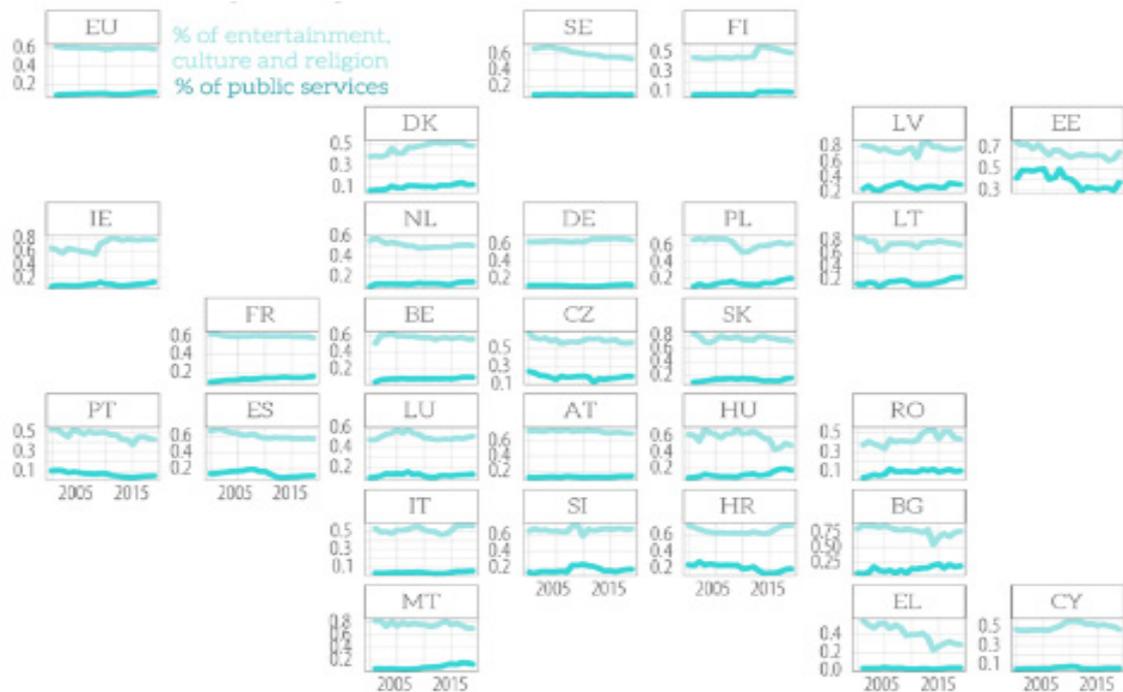
<sup>150</sup> P. Poirrier, [La politique culturelle en débat. Introduction](#), *La politique culturelle en débat*, anthologie 1955-2012, 2012, La documentation française, pp.19-40.

<sup>151</sup> J. Craik, [Re-Visioning Arts and Cultural Policy: Current Impasses and Future Directions](#), ANU Press, 2007.

<sup>152</sup> S. Toepler, A. Zimmer, Subsidizing the Arts: Government and the Arts in Western Europe and the United States, in: D. Crane, N. Kawashima, K. Kawasaki (eds.), [Global culture : media, arts, policy, and globalization](#), pp 29-48 , Routledge, 2016.

<sup>153</sup> B. Jung, M. Moleda-Zdziech, [Central and Eastern European cultural policies, media reform and development of media markets in the mid-nineties](#), *Leisure Studies*, 17, 2, pp 69-93, December 2010.

Figure 7.1 – Government spending in cultural services



Source: Eurostat, [[gov 10a exp](#)].

Significant differences persist in the level of public funding for culture and arts, individual spending on cultural services, and the level of the individual practice of arts or engagement in cultural activities.

Governmental expenditure on cultural services accounts for 0.5 % of average GDP<sup>154</sup> in the EU, ranging from 0.1 % in Greece, to 1.1 % in Hungary and Estonia.

As concerns participation in culture,<sup>155</sup> the most important barriers to access for EU audiences are cost, interest and lack of time (also reflecting life priorities or lack of leisure time, which is not spread evenly across the population). Households' cultural expenditure<sup>156</sup> depends on income. On average, those in the fifth quintile spend 3.5 times more on culture than those in the first. However, in Cyprus, where households spend less than 2 % of their income on culture (EU average: 2.9 %), the difference is almost tenfold, while in Sweden, where cultural spending is the highest (5 %) the difference is twofold. Cultural spending covers a broad array of data such as the purchase of the equipment, fees and subscriptions, books and newspapers, going out and entertainment, and articles for arts practice and creation. If we look at cultural expenditure in detail, Sweden devotes most of its cultural expenditure to equipment and fees;<sup>157</sup> Poland and Portugal to articles for arts practice (musical instruments, painting and drawing equipment); Spain and Cyprus to going out and entertainment.

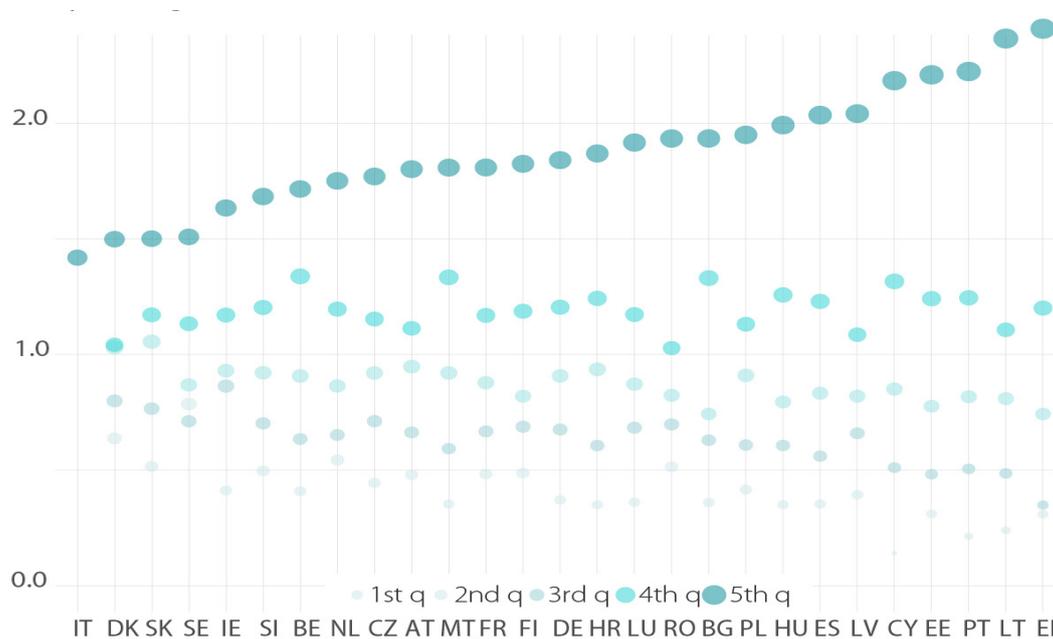
<sup>154</sup> [Government expenditure on cultural services](#), Eurostat, 2019.

<sup>155</sup> [Special Eurobarometer 399: Cultural access and participation](#), the European Commission, November 2013.

<sup>156</sup> [Mean household expenditure on cultural goods and services](#), % share of household expenditure, Eurostat, 2015.

<sup>157</sup> Mean household expenditure on cultural goods and services, %, share of household expenditure, by expenditure purpose: [equipment](#) and fees, [household expenditure](#), Eurostat, 2015.

Figure 7.2 – Households spending on culture by income quantile (ratio with average spending), 2015



Source: Eurostat, [[cult\\_pcs\\_qnt](#)].

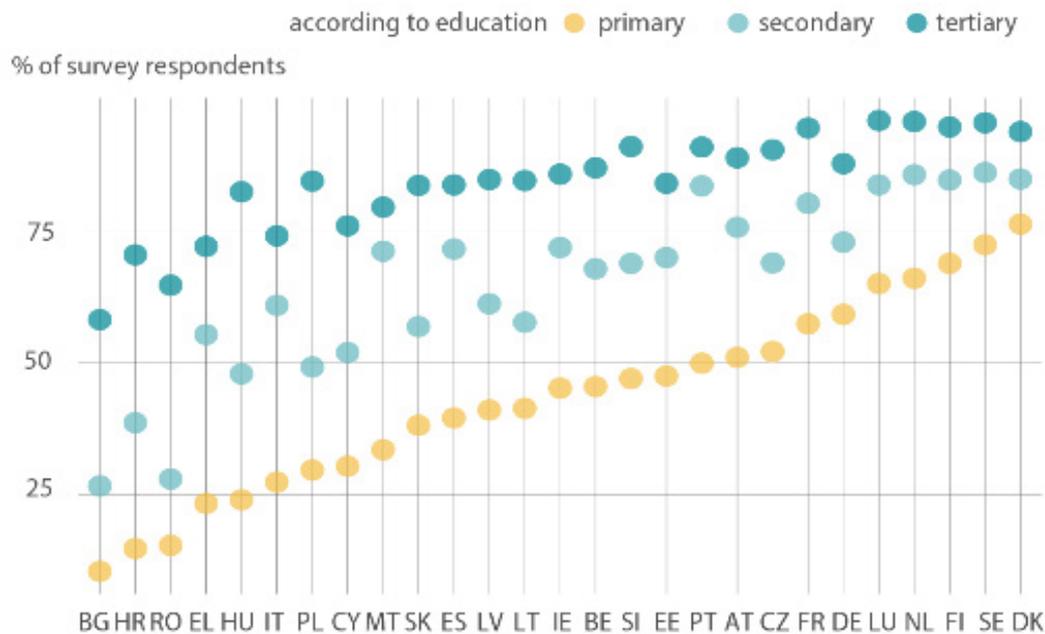
Educational attainment<sup>158</sup> is another important factor in cultural participation. On average, twice as many people with tertiary education participate in cultural events, compared with those with lower secondary education and below. In Bulgaria and Croatia, the difference is about fivefold, fourfold in Romania. In Sweden and Denmark, the gap is just 20 percentage points and points to other factors favouring more democratic participation. The quality of artistic education could also be a factor.

Inhabitants of urban areas<sup>159</sup> are more numerous in participating in cultural activities compared with those living in towns, suburbs or rural areas, with some exceptions in favour of towns. This is probably related to access to physical cultural infrastructure that is linked to cultural centralisation, population density and the distance between towns and large urban areas. The most important difference relates to the gap between the attendance at cultural activities between urban and rural areas. The difference is the smallest (48 percentage points) in the Netherlands, Austria, Portugal and Germany, Slovenia and Latvia, Czechia and Denmark; while in Bulgaria it is the highest (fourfold), followed by Hungary and Poland (25 percentage points). The location of towns and suburbs on the scale varies, but most often is closer to rural than urban areas. If they had to attend a cultural event, rural populations are keener on live performances, given that they can watch films at home, they may be less willing to travel the distance to reach a cinema.

<sup>158</sup> [Cultural participation during the previous 12 months, by level of educational attainment, 2015 \(% share of population aged ≥16 years\)](#), Eurostat.

<sup>159</sup> [Cultural participation by degree of urbanisation](#), (% share of population aged ≥16 years), Eurostat, 2015.

Figure 7.3 – Percentage of those having attended a cultural event (cinema, museum or live performance), 2015



Source: Eurostat, [[ilc\\_scp\\_03](#)].

Amateur artistic practices have an impact on attendance at cultural events. Differences among EU countries are significant, depending on educational level and range, from 27.5 % of people with tertiary education practicing an artistic activity<sup>160</sup> every week in Finland, to 2.1 % in Romania, with 16.5 % the EU average. Those not practicing during the previous 12 months were most numerous in France and Romania (75 %). Among those with lower secondary and below educational levels, who did not practice during the previous 12 months, Romania ranks the highest with 91.3 %, while in Finland the score is 38.9 %. The opposite is the case for weekly artistic practice: Finland's score is almost 20 % while Romania scores below 1 %, with the EU average at 8.2 %.

Digital technology is key to providing democratic access to cultural goods and services, and potentially beneficial for inhabitants of remote, rural, or peninsular areas devoid of cultural infrastructure and activities, and for people with disabilities and the elderly. 'Affordable, available, and usable' public access<sup>161</sup> to 'a literate user having access to meaningful content and services' is a prerequisite. Its lack is a factor of exclusion, and differences in access result in a digital gap/divide. Geographical location<sup>162</sup> may also hinder access in rural and peripheral areas, which are not as well connected as cities and densely populated areas. Those who left education at earlier educational stages and elderly people lacking digital skills cannot fully enjoy digital cultural offers and develop their creative potential. The democratic promise of digital access has not yet been reached across EU countries, generations, geographical locations and educational levels.

<sup>160</sup> Frequency of [practicing an artistic activity by educational attainment level](#), Eurostat, 2015.

<sup>161</sup> L. Jeyffrey, *Vital Links for a Knowledge Culture*, Council of Europe, 2001.

<sup>162</sup> M. Pasikowska-Schnass, [Digital culture – Access issues](#), EPRS, European Parliament, June 2020.

## 7.2. Welfare issues

Cultural policies as an element, 'which added cultural entitlements to social rights to achieve a more equal and inclusive society'<sup>163</sup> has long been a component of welfare state, where arts and culture are expected to help people become autonomous individuals and engaged citizens, as well as a factor in overcoming poverty, exclusion and inequalities. Research has been conducted on the positive impact of cultural activities and participation on health,<sup>164</sup> or better school results due to arts practice, which strengthens cognitive skills and the attention system.<sup>165</sup> Countries such as Finland<sup>166</sup> and Sweden,<sup>167</sup> place culture within their welfare system as elements potentially reducing social marginalisation and radicalisation thanks to inclusion in cultural projects, which promote dialogue and self-expression, better health and learning outcomes, raise professional opportunities and chances to exit the poverty trap. South Korea also introduced the notion of cultural welfare,<sup>168</sup> pointing to the improvement in citizens' cultural welfare and their engagement and civil society maturity in Seoul, due to arts and cultural education. However, the study also points to the lack of data and comparative analysis, international data and case studies. Access and participation, and amateur arts practice are at the core of culture in a welfare state. Ensuring access to and interest in the cultural offer, eagerness to devote time to, and readiness and ability to pay for culture, are essential. Audience development measures, including artistic<sup>169</sup> and cultural education, traditionally help develop knowledgeable and thus interested audiences.

Culture is also widely perceived across the EU as a factor of tolerance.<sup>170</sup> Research indicates that when population participation in cultural activities is greater, people tend to be more tolerant than when participation is less common.<sup>171</sup>

A new approach to cultural participation and access to culture establishes links between cultural and civic engagement, and audience development. Recently, a more participative approach fosters a qualitative relationship between cultural venues and their public, which consists of co-creation in an effort to better represent the whole of society.<sup>172</sup> To this end, the direct involvement of representatives of various audiences is necessary and the aim is not 'art products' but rather a legacy in the involved communities. Such an approach begins at the decision-making stage and is important for safeguarding cultural diversity.

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<sup>163</sup> V. Dubois, [Cultural Policy Regimes in Western Europe](#), *International Encyclopedia of the Social & Behavioral Sciences*, 2013.

<sup>164</sup> [Intersectoral action: the arts, health and well-being](#), The World Health Organisation, 2019.

<sup>165</sup> M. I. Posner, Ph.D., B. Patoine, [How Arts Training Improves Attention and Cognition](#), Dana Foundation, Cerebrum, 14 September 2009.

<sup>166</sup> L. Laitinen, [From grass-roots activities to national policies – the state of arts and health in Finland](#), Arts&Health, April 2020.

<sup>167</sup> B. Lindberg, [Cultural Policy in the Swedish Welfare State](#), Linnaeus University, Faculty of Humanities and Social Sciences, 2012.

<sup>168</sup> Wonjin Song, Boyoung Kim, [Culture and Art Education to Promote Cultural Welfare in Civil Society](#), Seoul Business School, Seoul School of Integrated Sciences and Technologies, November 2019.

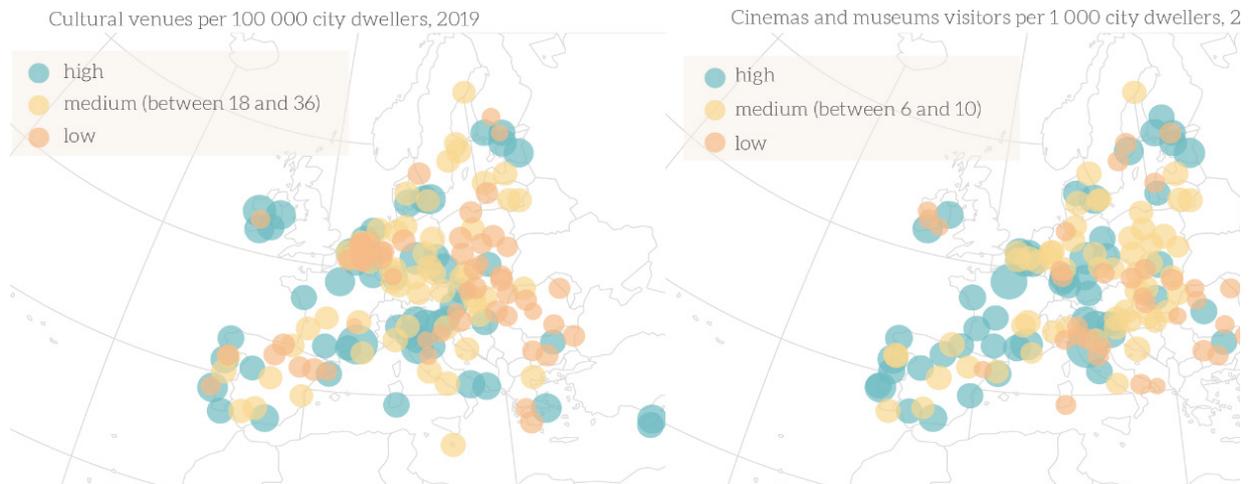
<sup>169</sup> E. Winner, T. R. Goldstein, S. Vincent-Lancrin, [Art for Arts' Sake? The Impact of Arts Education](#), OECD, 2013.

<sup>170</sup> [Cultural Participation and Inclusive Societies](#), Council of Europe, December 2016.

<sup>171</sup> Ibid.

<sup>172</sup> G. Ciancio, [Active spectatorship, changes and novelties in the performing arts sector](#), in: L. Bonet, E. Négrier (eds), [Breaking the Fourth Wall: Proactive Audiences in the Performing Arts](#), Kunnskapsverket, 2018.

Figure 7.4 – Available cultural venues and frequentation rate in major European cities



Source: [Cultural and Creative Cities Monitor](#) 2019, European Commission Joint Research Centre.

Recent literature redefines cultural participation as support for everyone's cultural participation without judging cultural expressions or imposing a hierarchy, ensuring that everyone has the capabilities, the time, and the right to express and pursue their own individual and collective cultural values. Addressing differences in the degree to which individuals are free to pursue their own cultural interests and desires regardless of their relative poverty, lack of time, and geographic location should help reduce social injustices such as unequal opportunities.<sup>173</sup>

Arts and cultural education are key to raising the knowledge of and interest in culture and arts. However, this cannot be measured solely by teaching time<sup>174</sup> devoted to cultural education and arts practice at all levels of education (from kindergartens to universities) and all kinds of education (formal, informal and non-formal). A balanced art education<sup>175</sup> is needed, with a goal of balancing productive and receptive arts education when students both try hands-on self-expression using various means, techniques and approaches, and analyse works of art, cultural heritage, their context, and content, adopting critical, analytical thinking.

However, support for public funding is not unanimous. The mixed success in promotion of access to culture and in the reduction of inequalities in participation weaken the legitimization of cultural policy. Public support for cultural expressions, which do not satisfy audiences' needs and tastes, is questioned, alongside debates on the definition of art and culture in the light of counter-cultural movements, and the promotion of cultural diversity.<sup>176</sup> In democracies, the state delegates such decisions to experts, commissions and cultural organisations gathering artists and officials. However, the instrumental use of arts and culture for specific social or political objectives,<sup>177</sup> and instrumentation of culture by authoritarian regimes, point to potential risks and the need for firm defence of artistic freedom. It is believed that private funding for culture, benefiting from tax exemptions for donators, counterbalances this situation. Allowing some space for private influence

<sup>173</sup> D. Stevenson, [Cultural Participation Policies](#), A Poverty of Ambition, October 2019.

<sup>174</sup> E. Winner, T. R. Goldstein, S. Vincent-Lancrin, op. cit.

<sup>175</sup> L. Vermeersch and W. Elias, The End of 'To-Do-List', Towards a Balanced Arts Education, in: B. van Heusden, P. Gielen (eds), *Arts Education, Beyond Art, Teaching Art in Times of Change*, pp 113-130, Vakuz, Amsterdam, 2015.

<sup>176</sup> V. Dubois, op. cit.

<sup>177</sup> E. Belfiore, O. Benette, *The Social Impact of the Arts: an Intellectual History*, Palgrave Macmillan, 2008.

on the promotion and understanding of arts and culture, for individual taste and preferences in offering money for selected arts and artists, promotes cultural diversity and freedom.

### 7.2.1. Possible support measures for culture

In view of the above considerations, the elements below feature as factors in cultural welfare:

- Public funding for cultural institutions and spaces, the promotion of (e-)access to cultural venues and services (people with disabilities, low revenues or education, from remote areas);
- Public support for arts and cultural education at all levels and in all forms of education;
- Support for social and health cultural projects;
- Support for artistic and creative activities across the whole of society;
- Promotion of cultural diversity that encompasses all forms of cultural expression and participation, as well as exposure to diversity (also ethnic and linguistic);
- Promotion of cultural vibrancy in all geographical areas, whether urban, rural or peripheral.

The EU has limited competence in cultural policy, but can provide support for and promotion of cultural diversity and protection and promotion of cultural heritage, via cooperation and networking. It sets objectives for cultural policy at EU level and provides instruments and funding. The open method of coordination allows national experts from all Member States to share and deepen their analysis of topical issues and formulate recommendations to all Member States.

Among the topics the EU has recently addressed, social inclusion and social cohesion feature,<sup>178</sup> addressing health, wellbeing, and the education and inclusion aspects of cultural policies, as implied by the Council.<sup>179</sup> This approach includes empowering people via creative skills and creative thinking.

Boosting education and skills<sup>180</sup> in cultural domains feature among the objectives to be achieved across the EU. Cultural awareness and expression is included among the key competences to be acquired in education. A set of EU guidelines provides recommendations how to develop them.<sup>181</sup>

Reduced VAT on e-books, and copyright exceptions for digital access for visually impaired people, as well as for educational and research purposes, are an important step in this direction.

The pandemic-related limited perimeters of mobility highlighted the need for a local cultural offer across all geographical locations. To help develop cultural services and heritage sites in such areas, EU funds were made available.<sup>182</sup> European Heritage Days offer free of charge access to cultural heritage sites across Europe. Contemporary creation and active participation promoting free of charge access to numerous and diversified live performance events add a contemporary touch to European Capitals of Culture, which have recently been spread into neighbouring areas.

Huge amounts of money were spent to preserve jobs and the economy during COVID-19 lockdowns. When budget for culture is 'last to invest, first to cut', cultural spending<sup>183</sup> could also be reduced, as culture is perceived as a liability rather than an asset; an expenditure, not an investment.

<sup>178</sup> From social inclusion to social cohesion, The role of culture policy, European Commission, 2019.

<sup>179</sup> [Council Work Plan for Culture 2019-2022](#).

<sup>180</sup> European Commission, '[A New European Agenda for Culture](#)', 2018.

<sup>181</sup> [Cultural awareness and expression handbook](#), Open method of coordination (OMC) working group of EU Member States' experts on 'cultural awareness and expression', European Commission, 2016.

<sup>182</sup> M. Pasikowska-Schnass, op. cit.

<sup>183</sup> [Culture shock: COVID-19 and the cultural and creative sectors](#), OECD, September 2020.

Bridging the two, this year, France offered cultural passes<sup>184</sup> to young people turning 18 years old, encouraging them to discover new areas of culture and arts, and also engage in arts practice. This initiative has been tested in Italy since 2016.<sup>185</sup> In 2017, both countries advanced the idea of a cultural pass at the EU level.<sup>186</sup> When people lost jobs and revenues due to COVID-19, such passes could encourage cultural spending participation, training and amateur practice and self-expression.

Cultural welfare is not yet a widely accepted notion. However, material deprivation is recognised as an element that needs to be addressed within the social policies of a welfare state. Perhaps it is time to also address cultural deprivation – defined as the 'lack of opportunity to participate in the cultural offerings of the larger society due to such factors as economic deprivation, substandard living conditions, or discrimination'.<sup>187</sup> In May 2021, the Portuguese EU Presidency, which focused on the EU social pillar, organised a conference on 'Culture, Cohesion and Social Impact'.

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<sup>184</sup> [Qu'est-ce que le Pass Culture?](#), Ministère de la Culture, 2021.

<sup>185</sup> [Le « Pass culture » italien ne marche pas si mal!](#), *Le Journal des Arts*, 26 June 2019.

<sup>186</sup> [France et Italie lancent l'idée d'un « pass culture européen »](#), Euractive, 28 July 2017 ; [France aims to create 'European culture pass'](#), *The Connection*, 30 July 2017.

<sup>187</sup> [Dictionary of Psychology](#), American Psychological Association, July 2021.

## 8. Outlook: Future scenarios for the welfare state

The consequences of pandemic and war are likely to intensify the debate on the future of the European social model, especially when added to prior trends, such as the loss of revenues due to profit shifting, and the implications for expenditure of ageing societies.<sup>188</sup>

Primary competence for social affairs remains with the Member States. At the EU level, Article 3 TFEU states inter alia that

*The Union's aim is to promote peace, its values and the well-being of its peoples.*

*... It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress...*

*... [It] shall promote social justice and protection ...*

A key framework for the realisation of these overarching goals is the European Pillar of Social Rights, endorsed at the Gothenburg Social Summit in November 2017 and revisited at the Porto Social Summit in May 2021.<sup>189</sup>

Of course, economic and social affairs are closely inter-related, and this means that the EU's role in economic affairs has a strong influence on developments in the social sphere. The European Semester increasingly includes reference to social matters.<sup>190</sup>

Scenarios are useful ways to promote reflection about the future. They invite consideration of different possibilities, reminding us that there are several possible futures, not just one. Indeed, COVID-19 is a powerful reminder of the complexity and uncertainty involved in planning ahead. There are more contingencies than we tend to allow for. The lesson of the pandemic is that we need to pay more attention to unwanted and unlikely scenarios, beyond the 'comfort blanket' scenario of business carrying on as usual.

Presenting a set of scenarios is a conscious effort to escape the trap of thinking that present conditions will continue indefinitely – a trap known as present bias. By examining futures other than the one considered probable or desirable, we can develop more robust strategies, designed to succeed under a variety of conditions. This can improve our chances of mastering the challenges and exploiting the opportunities that lie ahead.

This chapter takes inspiration from the archetype approach to scenarios developed by Jim Dator.<sup>191</sup> The scenarios chosen below represent different gradients: decline, continuity, advance, and transformation. Applied to the future of welfare, the following archetypal scenarios can be proposed:

- Decline is based on a failure of resource levels and systems to adapt to changing circumstances. The institutional framework of the welfare state comes increasingly under

<sup>188</sup> See 'Building a European social model for the 21st century', in EPRS, [Future Shocks 2022: Addressing risks and building capabilities for Europe in a contested world](#), April 2022, pp. 106-113; and 'Long-term sustainability of social protection systems', in EPRS, [Towards a more resilient Europe post-coronavirus An initial mapping of structural risks facing the EU](#), July 2020, p. 14.

<sup>189</sup> N. Milotay, [European Pillar of Social Rights: Gothenburg, Porto and beyond](#), EPRS, May 2021.

<sup>190</sup> See for example B. Vanhecke and A. Verdun, [The European Semester as Goldilocks](#), *JCMS* Vol. 60, 1, January 2022, pp. 204-223.

<sup>191</sup> See J. Dator, [Alternative futures at the Manoa School](#), *Journal of Futures Studies*, 2009. Dator designates his four archetypal scenarios as Collapse, Discipline, Continued growth and Transformation.

strain. More and more people struggle to meet basic requirements, and public capacity to deliver services continues to shrink.

- Continuity is based on careful management of scarce resources, balancing competing demands. In Europe, macroeconomic policy continues to emphasise stability and growth, interpreted narrowly.
- Advance is based on the further development of welfare systems, accompanied by reasonably good economic growth and a restoration of state revenues.
- Transformation is based on a profound shift in mindset, accompanied by productivity and social dividends from technological innovation.

Different scenario models are also possible.<sup>192</sup> One could, for example, draw up a two-by-two matrix showing more or less individual participation in welfare activities on one axis, and stronger or weaker institutional infrastructure and funding on the other. Such an approach would overlap to some extent with the archetypal scenarios presented here. The decline scenario corresponds to a low participation, weak institution outlook, while the transformation scenario resembles a high participation future underpinned by strong institutions and funding levels.

As discussed earlier, social provision is intrinsic to a functioning economic system, and vice versa. The two dimensions depend on each other. Accordingly, the intersection of economic and social policies is a key factor in each of the imagined scenarios. There is a gradient across the archetypes, from mutually inconsistent policy choices, to uncoordinated choices, to a good level of coordination, and on to the systematic exploitation of synergies for mutual benefit.

## 8.1. Decline: Chronic underfunding of social protection

The decline scenario assumes that resource levels and systems do not adapt to changing circumstances, and come increasingly under strain. Struggle to meet basic requirements increases, while public capacity to deliver services continues to shrink.

Other assumptions include:

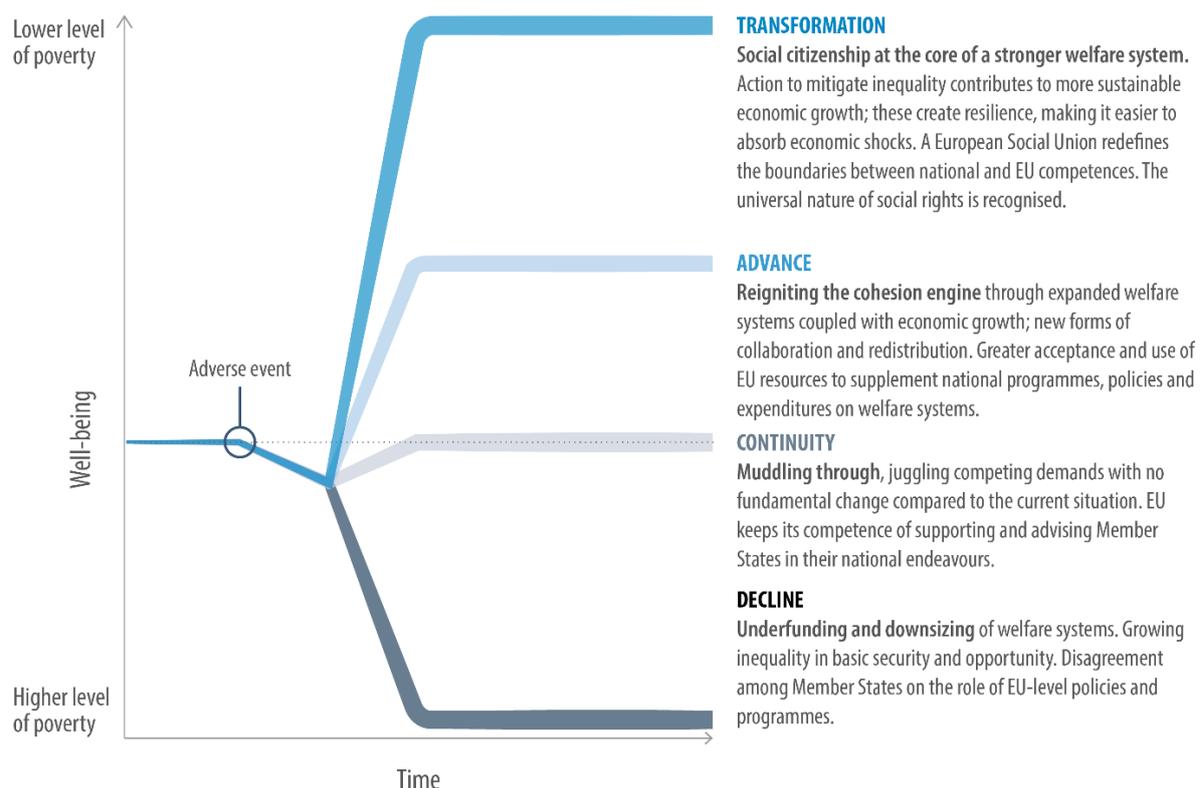
- Broad decline in welfare services, institutions and infrastructure.
- Consistent failure of governance in reversing this pattern.
- A flight of capital and talent from the worst affected areas.
- Common values are not sufficient to reverse the trend.
- More conditionality and more 'red tape' is added to social supports, prompting greater stigmatisation of service users.
- Largely uncooperative important private sector actors. Shareholder capitalism wins the day; calls for a shift to stakeholder capitalism do not gain traction.
- Life quality deteriorates, first slowly, then quickly.

<sup>192</sup> A recent example is G. Pasi and G. Misuraca, [Welfare 2.0: future scenarios of social protection systems in the digital age](#), *Policy Design and Practice*, 2020.

In the **short and medium term**, negative trends that are already visible continue to develop. These include:

- growing inequality;
- job losses through digitalisation and automation;
- population ageing; and
- increased difficulty in marshalling resources to fund social protection.

Figure 8.1 – Four scenarios for the welfare state



Source: EPRS.

Governments feel constrained to cut social expenditure sharply, in an attempt to stabilise and reduce debt levels, which increased steeply during the pandemic. Social expenditure declines as a share of GDP. There is also a more pronounced trend towards renationalisation of policy discussions and decisions.

Several governments choose to pare back the role of the state even further. The concept of transfers between strata – from the more resourced to the less resourced – is not an agreed foundation of welfare policies. A *sauf qui peut* attitude prevails, coupled with lower levels of transfers.

This gives rise to a greater diversity of approaches to social protection and indeed on approaches to taxation. There is a tendency to shift the tax burden from direct to indirect taxation, and to reduce its progressive element policies.

Disagreement between Member States about the competences of the EU level prevent the EU from taking a more active role in social policy.

In the **longer term (2035 and beyond)**, the programmatic preference for privatising services has unwelcome consequences, such as greater inequality in access, as this now becomes more dependent on the individual's economic status.

Fragmentation of jobs and the increased recourse to non-standard forms of work exacerbates the funding problem for social security. First, companies evade the usual employers' contribution to social insurance schemes. Second, workers do not accumulate benefit entitlements at the same levels as previously.<sup>193</sup>

Polarisation in the labour market continues, with middle-skilled jobs being phased out due to automation. This also eats into tax revenues, with a knock-on effect on funding for social security.

Many vulnerabilities become evident. The cost of pensions continues to rise, and the dependency ratio continues to worsen. The premiums paid for social insurance cover a diminishing share of the premiums payable. The element of redistribution seen in many welfare state regimes is systematically removed.

As a consequence of health system inequities, continued economic downturn with job losses, incomplete economic and monetary union, and a shrinking population, the EU becomes less and less able to deliver benefits to its citizens at home and to influence events on the global stage.

The challenges posed by diversity within society are not tackled seriously, and prove to be an obstacle to collective mobilisation.

East-West and North-South divisions within the EU become more pronounced. Rising inequality in incomes and opportunities and growing divergence between Member States increases the risk of social instability, democratic backsliding, and unrest.

## 8.2. Continuity: Muddling through

The continuity scenario assumes careful management of scarce resources, balancing competing demands. There is continued policy priority for stability and growth, interpreted narrowly.

- There is no significant change in mindset.
- There is a return to relative normalcy, though the economy is still constrained by the pandemic and its aftermath. Economic recovery is modest.
- The accelerating impacts of the climate crisis add more constraints.
- As regards the broad contours of policy, the default returns – we go back to tried and true models of welfare policy.

In the **short and medium term**, the policy mix at national and European levels remains more or less as it is today. There are relatively modest policy changes on a case by case basis. Some programmes are updated and some expenditures are adjusted at the margins, according to near term goals and exigencies. There is no major reframing of welfare policy principles, objectives and systems.

A mixture of more or less successful changes is held together on the basis of a general consensus around core principles. There is a limited degree of divergence in approaches across EU countries, but there is a shared acceptance of the social *acquis*.

<sup>193</sup> M. Goos et al., [The Impact of Technological Innovation on the Future of Work](#), JRC Working Papers 2019/03, European Commission, Joint Research Centre (JRC), 2019.

Social insurance regimes at national level continue to involve a mix of Bismarck-type schemes (benefits are mainly funded by employee contributions) and Beveridge-type schemes (benefits are mainly funded by general tax revenues).

In the **longer term**, there is continued debate, concern about resources, and limitations on programme effectiveness. The rollout of new technologies and new programmes leads to only marginal improvements. There is a degree of variation across the EU Member States. The Social Scoreboard plays a marginal role in the European Semester process. More recommendations are made on social matters, but implementation remains sporadic. No significant enforcement mechanisms are developed. 'Pre-distributive' measures are preferred to redistributive tax reforms.

The EU role remains limited to advice and support. There are marginal enhancements of this role, for example in codifying regulations around non-standard forms of work. A common logic and a 'common sense' trajectory is identified, helped by the demands put forward through the Conference of the Future of Europe. There is little sign of upward convergence of social expenditure across the EU Member States.

### 8.3. Advance: Reigniting the cohesion engine

The advance scenario assumes the expansion of social protection and welfare systems, accompanied by reasonably good economic growth and a restoration of state revenues.

- Technology is leveraged, effectively, across the EU.
- Solutions are found for sustainable survival.
- Mindsets change, as does the orientation of economic policy; both become more favourable to social solidarity.

In the **short and medium term**, the **vaccine rollout** is successful in providing protection against COVID-19 and its variants. This is also important for cohesion across the EU Member States. The EU helps to ensure the rapid, fair and systematic rollout of vaccination programmes across the Member States. The rollout extends to developing countries. This allows a gradual recovery of employment in sectors such as hospitality, travel and tourism.

There is greater acceptance of the responsibility of the state for social welfare and social services, and greater acceptance of redistributive approaches to taxation. At EU level, the Recovery and Resilience Facility (RRF) leads to greater acceptance and greater use of EU resources as a supplement to national programmes, policies and expenditures on welfare and social protection.

The European Semester process acknowledges the importance of social investment as a factor which creates the conditions for economic growth.

New forms of collaboration are developed, especially community-based initiatives, and these have a positive impact in several ways. Public funding is considered to be affordable and adequate for social protection needs. There is successful leveraging of private funding, which is subject to clear, well-established, and well-enforced conditions of effectiveness and equity.

Several measures to mitigate income polarisation are adopted. Strong investment in education for all is part of the story. Systems of continual training are developed, allowing people to keep pace with the changing routines and skills resulting from continually developing technological environments.

In the **longer term**, the advance scenario involves broad improvements in social justice and in social protection. This creates the basis for a sustainable and fair economic recovery. This in turn means

that the EU achieves a high degree of social and economic resilience. Economic shocks can be overcome, and long-term, fair and inclusive structural recovery can be achieved.

The capabilities of the social market economy, the single market, strong trade and investment links, and a well-regulated financial system are harnessed. Opportunities are seized. The Next Generation EU funding is well used, and expanded. The capital markets union advanced. A health union is developed. The social pillar becomes more central as a strategic priority. The labour market is restructured on principles of solidarity, inclusiveness and fairness.

Stronger welfare systems allow societies to harness the skills and innovativeness of the entirety of the population, and not just that subsection which currently has access to third-level education and economic opportunity. As a result, we see more innovation and more economic growth. Social transfers contribute to significantly reducing the share of the population at risk of poverty.

Foresight is used to inform decisions and propel reforms. There is successful adaptation of skills and a growth in green jobs. There is a long-term vision for rural areas. GDP growth is no longer the all-important metric of policy success.

Digital opportunities are seized. Hyper-connectivity is accelerated, leading to improvements in healthcare, education, and the greening of the economy.

Digital social innovation becomes common, allowing co-creation of public services. 'Social effervescence' continues.<sup>194</sup> Local initiatives flourish. Digital communication and connectivity allow them to be refined, to spread, and to recruit supporters. State and local authorities provide enabling services and seed funding. Participatory budgeting is widely used, allowing stronger community input into decisions on what projects receive funds.

More digitalisation enables universal access to public services, and the public service uses digital tools to improve delivery and effectiveness: better services, delivered faster. The pandemic is a catalyst of lasting change in the willingness to use online services. Processes are simplified. Benefits are paid by bank transfer, not by calls to a public office. User-friendly online portals prove faster and easier for service users than the completion and submission of printed forms. Digital systems facilitate improved transparency and accountability. This in turn enhances trust between citizens and authorities.

Facilities to assist those with special needs to interact with service providers are made available everywhere, both as computer programmes and in schemes employing young people to assist those uncomfortable with digital interactions. Link workers are available to remedy the problem of a lack of uptake of benefits and services among vulnerable groups.

## 8.4. Transformation: Stronger and more universal social protection

The transformation scenario assumes a profound shift in mindsets, accompanied by significant productivity and social dividends from technological innovation.

This scenario assumes

- A significant and lasting shift in mindsets, skill sets, attitudes and behaviours.
- National transformation and a transformation in attitudes about European integration.
- The revival and implementation of projects hitherto sidelined.

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<sup>194</sup> M. Lee Moore and F. Westley, [Surmountable Chasms: Networks and Social Innovation for Resilient Systems](#), *Ecology and Society*, 2011.

- Identification and exploitation of synergies between the EU and the Member State levels of governance.

In the **short and medium term**, social protection is strengthened. The state takes a larger role, where necessary, in several areas: investment, redistributive strategies. No other entity has the capacity to do at scale what an engaged public service can do: to deliver services to all, not only those who can pay, not only those nearby, and not only those whose problems are less acute.

Internationally, the framework of the tax system is modernised, and includes measures that effectively tackle base erosion and profit shifting (BEPS).

Longstanding proposals are actually taken up and implemented, including proposals with a long-term perspective. Potential is realised, for economic growth, productivity growth, and social cohesion. Mindsets change significantly, and as a consequence, attitudes and behaviours also change. Attention is paid to encouraging and developing new skillsets.

In this scenario, the post-coronavirus period is widely regarded as comparable to the post-war era after 1945. This helps create a consensus in favour of a major reworking of social protection, to rival that of the earlier era. The consensus covers most EU Member States and is endorsed by the European Parliament, Council and European Commission.

An agreed priority is the creation of a system that can better handle economic shocks and better manage their short- and medium-term social consequences. A new vision is announced: a European social union with social citizenship – that determines the universal nature of entitlements independently from work or residence status – at its core

Beveridge's war on 'want, disease, ignorance, squalor and idleness' (WIDES), the 'five giants on the road of reconstruction' – serves as an inspiration for a reframing of approaches to welfare in the post-pandemic era. The 21st century equivalents are declared to be poverty, health inequities, barriers to education, poor housing, and vulnerable or no employment.

The difficult process of redefining the boundaries between national and EU level competences is undertaken. Lengthy and difficult negotiations are crowned with success. This is followed by a stronger integration of social goals in economic policy decision-making at EU level.

The importance of a transnational effort on the social dimension is acknowledged. A 'together' dimension is adopted, to accompany and if necessary mitigate the continuing digital and green transitions. The length, depth and complexity of the COVID-19 crisis concentrated minds and allowed people move on from earlier red lines and sectoral prerogatives.

In the **longer term**, the EU role develops as the logic of mutual support is accepted, and effectively demonstrated. Some social security programmes are Communitarised.

The EU adopts directives on minimum wages, social insurance, health, and rent control. It supports active labour market policies (ALMP) and improves the regulatory framework protecting those in non-standard forms of work.

There is a deliberate and coherent strategy to facilitate the recycling of the surplus, and to prevent its diversion to offshore tax havens. This involves taking another look at policies allowing share buybacks, and national and EU mirroring of the US Foreign Account Tax Compliance Act, which requires annual reporting of financial assets abroad to the US Internal Revenue Service. There are salary and bonus caps, and minimum wage provisions.

The public sector becomes a guarantor of fair business conditions – of competition – thus (a) reducing the economic costs and social impact of corruption and (b) assuring good framework conditions for entrepreneurship. Transfers from wealthy (capital) cities to under-resourced districts

are understood to be a public good and a basis for more sustainable growth, and enjoy broad public and political support.

The transformation scenario could also include new tools introduced at EU level, such as:

- an early warning system for social justice. Codification of EU Member States' obligation to assure social protection, with mechanisms to act against countries who renege on their obligations.
- a global compact on social protection. An international agreement to establish a set of policies and programmes aimed at protecting all people against poverty, vulnerability and social exclusion.
- European climate insurance. A social protection facility funded by taxation of greenhouse gas emissions and other environmental 'externalities' can provide income replacement for citizens negatively affected by climate change.<sup>195</sup>
- European time banking. This involves the establishment of a common framework for different forms of work (e.g. employment, care work, civil service, voluntary work). The framework allows them to be translated into a time-denominated currency that in turn can be used by Member State welfare institutions, providing a minimum guarantee of social protection for all EU citizens. This system could be connected to a European employment guarantee.<sup>196</sup>

Countries that do not provide public healthcare would have to document that they are not, as a result, unfairly undercutting prices in countries which do. In areas such as education, health and culture, ambitious goals are realised. Better resources for education lead to less adult poverty. Targets for improvement in basic skills are met. Marginalised groups gain better access to opportunities, reopening paths to upward social mobility.

In healthcare, funding for preventive medicine and public health expands, leading to better management of the burden of disease, with dividends for individuals, society and the economy. Measures to redress health inequality and to improve access to services, lead to better outcomes for marginalised and vulnerable groups. Cultural activities become more inclusive, leading to greater empowerment of marginalised and minority groups, and countering the risk of polarisation and stigmatisation of segments of the population.

## 8.5. Concluding remarks

One lesson from our recent past is that implausible events can quickly come to pass. The unthinkable can become reality. Archetypal scenarios remain speculative; they are not a prediction that the future will follow a particular course. If experience is a reliable guide, the future will involve elements from several scenarios at the same time. However, a great deal depends on the decisions taken in the near term. The European Union has agency; the laws and policies it adopts will strongly influence the future of welfare in Europe.

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<sup>195</sup> K. Bohnenberger and M. Fritz, [Making welfare resilient. Creating stable and sustainable welfare systems in times of declining economic growth](#), Transformation policy brief, #2, 12/2020.

<sup>196</sup> Ibid.

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This study examines how contemporary welfare state policies address the issues of inequality and poverty both between and within EU Member States. It combines quantitative and qualitative analysis to show the strong links between inequality and poverty, not only in statistical terms, but also in terms of wealth distribution, intergenerational mobility and labour market dynamics. Welfare states are discussed in a multidimensional way, covering traditional welfare state policies on social protection, labour markets and health as well as policies on education and on culture. These last two are also public policies that have the potential to mitigate social risk and marginalisation – a key aim of welfare state policies. The study points to the links between welfare state policies and economic strategies, and investigates the direct and indirect impact of EU policies. It shows convergence in some areas, such as decreasing poverty levels and more pre-distributive policies across Member States, but it also shows persisting inequalities and a great deal of path-dependency – the continuing impact of historical traditions and institutions. The study concludes with four scenarios for the future of EU welfare states, casting light on the wide range of possible policy options both at national and at EU level.

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