Minimum income policies in the EU: a misguided proposal

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The European Parliament Committee on Employment and Social Affairs and the Committee on Economic and Monetary Affairs are currently promoting a new legislative proposal on minimum income policies as a tool for fighting poverty.

Although noble in its intentions, this whole initiative seems to rest purely on ideological grounds rather than on sound economics.

First of all, this legislative proposal fails to properly acknowledge the current situation of minimum income schemes in Member States. Secondly, it wrongly dismisses the key role played by structural reforms in restoring growth and competitiveness in some crisis-hit EU countries. Thirdly, it falls short of providing policy-makers with a clear strategy on how to tackle poverty and foster social cohesion.

For all these reasons, we urge the European Parliament not to forward this resolution to the Council and the Commission.

Introduction

On 10 February 2017, the European Parliament Committee on Employment and Social Affairs (EMPL) released a draft report on minimum income policies as a tool for fighting poverty. In short, the report (Agea, 2017) calls for the introduction of guaranteed minimum income schemes in all Member States. At the same time, the proposal is of the opinion that EU countries should set minimum incomes at a level equivalent to at least 60% of their own national median income, and argues that poverty and social exclusion are an issue that does not belong to national governments.

Despite the most admirable intentions, both the report and the related opinion piece published by the Committee on Economic and Monetary Affairs (ECON) on 29 June 2017 (Viegas, 2017) fall short of providing policy-makers with a clear strategy on how to tackle poverty. Moreover, the two documents fail to acknowledge the current situation of minimum income schemes in Member States and wrongly dismiss the importance of structural reforms in stimulating long-term economic growth and business activity.
Thus, although laudable in principle, this whole initiative seems to rest purely on ideological grounds rather than on sound economic reasoning.

Out-of-date statistics and the mistaken idea of further centralisation

Between 2013Q2 and 2017Q1, the EU28 total unemployment rate declined from the record rate of 11% to 7.9%. During the last four years, the EU-28 youth unemployment rate declined even more sharply, falling by around 8 percentage points, to 16.7% (Eurostat, 2017a).

The first strong criticism that should be made to this initiative is related to the outdated figures and facts used by the authors. For example, the two documents fail to keep track of the most recent evolution of minimum income schemes in the EU-28. In fact, contrary to what the draft report suggests, forms of minimum income support already exist in all EU Member States. As the latest "Minimum Income Policies in EU Member States" study highlights (European Parliament, 2017), even Greece and Italy also introduced their own national schemes in late 2016. Of course, means-tested safety nets have existed in all EU member states for decades, in some cases centuries.

Thus, given these latest improvements, it would be wrong for European institutions to call on Member States to provide for the introduction of schemes that have already been launched. Moreover, contrary to the idea that poverty and social inclusion are an issue that does not belong to individual Member States, EU national governments should instead retain control over these policy areas. As the wider economic literature underscores (Esping-Andersen, 1990; Boeri, 2002; Sapir, 2005), there is no such thing as a single "European social model". In fact, although European welfare states do share some broad characteristics, EU Member States use different welfare systems. Additionally, the 2004, 2007 and 2013 enlargement processes have further diversified the European social model and have de facto strengthened the competition between the different types of European welfare systems (Copeland, 2012).

As Boeri (2002) advocates, increasing competition among European systems has the potential to result in better outcomes. However, whilst competition among systems can take a long time to materialise, EU supra-national authorities must resist the temptation to impose a particular social model over all Member States. Hence, converse to what this initiative wants to promote, a one-size-fits-all approach risks jeopardising recent reforms efforts altogether. In this case, a more Hayekian approach should be taken into account (EPICENTER, 2017). More generally, there is no obvious reason why the EU should be involved at all in the social policies of its Member States. The EU (or international organisations in general) should be confined to deal with genuine cross-border problems. They should not meddle with members' domestic affairs.

Structural reforms have helped Spain returning to growth. As of 2017, Spain is heading for its third consecutive year of growth of around 3%. The economy is creating about 500,000 jobs a year. Thanks to improvements in competitiveness, Spain is now continental Europe's second-biggest car producer and exporter (The Economist, 2017).

Structural reforms boost economic growth and employment opportunities

The second strong criticism is linked to the wrong premises underlying this proposal. According to the authors, recent structural reforms imposed on Member States have not produced any significant results and unemployment levels still do not appear to be declining. These statements are misleading, to say the least.

At its simplest, structural reforms imply changes to the way government works. Following the 2009 and 2012 recessions, several EU Member States had to embark on the needed path of structural reforms. The economic stories of Ireland, Portugal and Spain demonstrate the importance of these. Over the last few years, unemployment figures have declined sharply in these countries. According to the European Commission, by the end of 2017, Ireland's unemployment rate is projected to decline to 6.4%, down from 14.7% in 2012; Portugal's to 9.9%, down from 16.4% in 2013; and Spain's to 17.6%, down from 26.1% in 2013 (Eurostat, 2017b; European Commission, 2017). Even Greece, which is finally set return to relatively healthy growth this year, saw some improvements: between 2013 and 2016: the country's unemployment rate declined by around 4 percentage points.

On the other hand, Member States such as France and Italy have not undergone any substantial reform since the aftermath of the Eurozone sovereign debt crisis. For this reason, the gap between those countries and other comparable EU Member States has been widening in recent years. According to the latest Istituto Bruno Leoni Super Index (2017), missed pro-market reforms are the main cause of the economic stagnation that has affected these two large economies. Whilst the percentage of people at-risk-of-poverty did not increase between 2010 and 2015 in either France or Italy (Eurostat, 2017c), overly rigid and centralised labour markets, constantly rising labour costs and high taxes are keeping unemployment rates relatively high, and are a constant burden on economic growth and business activity.

A guaranteed minimum income scheme is the wrong way to tackle poverty

According to a draft law presented to the Italian Parliament by the Five Stars Movement in 2013 (Senato della Rep. Italiana, 2013), the costs for a selective and conditional guaranteed minimum income scheme would be around €16 billion. Thus, Italian taxpayers will have to pay at least €270 each for the introduction of this scheme.

The third criticism that should be made focuses on the economics of minimum income schemes. It is a matter of fact that this legislative proposal remains too ambiguous. For example, the initiative makes very little reference to the definition of appropriate eligibility criteria.
Of course, strong eligibility criteria are a key aspect when it comes to the introduction of a guaranteed minimum income scheme. Eligibility is typically determined by citizenship, a means test, and either availability for the labour market or a willingness to perform community services. However, when citizenship is the only requirement, the system turns into a universal basic income.

These programmes have a natural appeal. Nevertheless, as Zon (2016) argues, there is a real risk that these schemes worsen poverty, rather than reducing it. According to a recent OECD study (2017), the introduction of a guaranteed minimum income scheme available to everyone would actually increase poverty in the vast majority of advanced economies. The OECD report also shows that, at current spending levels, a guaranteed minimum income scheme would be well below the poverty line. At the same time, tax-burdens would go up for most people, further increasing tax-to-GDP ratios, which are currently already high in the vast majority of EU Member States. Finally, the analysis worries that the introduction of these schemes would undermine the incentives to work.

Conclusion

Despite the noble goal of fighting poverty and fostering social cohesion all across the EU, the own-initiative procedure promoted by rapporteurs Laura Agea (5 Stars Movement, EFDD) and Viegas Miguel (Portuguese Communist Party, GUE-NGL) is misguided and it simply neglects the economic and political reality. Thus, we urge the European Parliament not to forward this resolution to the Council and the Commission.

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