



Sustainable Social Security

WP CSDLE “Massimo D’Antona”.INT – 145/2018

© Tiziano Treu 2018

Professor Emeritus - Catholic University of Milan

tiziano.treu@yahoo.it

WP CSDLE MASSIMO D'ANTONA.IT - ISSN 1594-817X

Centre for the Study of European Labour Law "MASSIMO D'ANTONA", University of Catania

On line journal, registered at Tribunale di Catania n. 1/2012 – 12.1.2012

Via Gallo, 25 – 95124 Catania (Italy)

Tel: +39 095230855 – Fax: +39 0952507020

csdle@lex.unict.it

<http://csdle.lex.unict.it/workingpapers.aspx>



Sustainable Social Security^a

**Tiziano Treu
Catholic University of Milan**

| | | |
|-----|---|----|
| 1. | The multidimensional concept of sustainability | 3 |
| 2. | Different reforms in pensions and unemployment benefits. | 4 |
| 3. | Adjustement of NDB schemes and systemic reforms (NDC). | 6 |
| 4. | From single to multipillar pension systems..... | 8 |
| 5. | Implementation and corrections of pensions schemes. | 8 |
| 6. | Pensions adequacy: a necessary objective..... | 10 |
| 7. | Specific measures to improve pensions adequacy. | 12 |
| 8. | Pensions credits for career breaks. | 13 |
| 9. | Support to low income pensioners. Minimum pensions. | 14 |
| 10. | Supplementary pensions..... | 16 |
| 11. | Unemployment benefits: insufficiency of insurance - based systems. | 18 |
| 12. | Measures to adapt unemployment benefits to flexible labor markets. | 20 |
| 13. | Difficult choises for combining financial and social sustainability. | 22 |
| 14. | Strategies for promoting social adequacy..... | 23 |
| 15. | Guiding principles: universalism and solidarity..... | 25 |

^a This paper is forthcoming in Rivista del Diritto della Sicurezza Sociale (RDSS).

| | |
|---|----|
| 16. Extending the coverage of social security and the credits for career breaks. | 26 |
| 17. Minimum income provisions: common objectives, different conditions. | 28 |
| 18. Social security and labor policies: common challenges and need of coordination..... | 31 |
| 19. Coordination of different policies and common levels of adequacy. | 33 |

1. The multidimensional concept of sustainability.

The questions posed to our discussion on sustainable social security touch on fundamental principles of the welfare systems. Sustainability is a multidimensional concept which requires to be analysed with an integrated approach by different disciplines.¹

This interdisciplinary exercise is not usual in many field of studies and has a difficult testing ground in a highly complex and controversial area like social security. Even more so because this analysis have a merely intellectual objective, but must be finalized to promoting policy integration among the different areas of social security and among the various components: the sources of the financing the costs of organization and of delivery, the mechanism of adjustment between contributions and benefits etc. Moreover such an approach is necessary to understand the two major aspects of sustainability: financial and social.

A further dimension must be considered, even if is not the focus of this paper: namely political sustainability, i.e. the possibility of the national institutions to regulate and reform their social security systems, overcoming the obstacles and the resistance of (their) public opinions and of organized interest groups. The ageing of population is a major factor influencing political decisions in this areas; particularly the choices affecting social security, beginning with pensions systems.²

The implications of these choices for the fundamental principles of our social model are particularly wideranging when one considers not only financial but also social sustainability : because, as I will try to show, social adequacy implies various quantitative and qualitative aspects of monetary and service provisions of the social security system.

The very concept of adequacy is multidimensional, as indicated in the recent "Pension adequacy report" (2018) of the European Commission. The Report considers three aspects of adequacy related to pensions, but which can apply with variants to other institutions of social protection. One is measured by the ability of pensions and of welfare provisions to prevent and mitigate the risk of poverty. The second concerns their capacity to replace earned income while in work. The third is measured in relation to

¹ European Commission, *Pension adequacy report*, vol. I, 2018, p. 22 ff.

² V. Galasso, P. Profeta, *Politics, Ageing and pensions*, Economic Policy, April, 2004, p. 63-115; see also N. Giger, *The risk of social policy? The electoral consequences of welfare State retrenchment and social policy performance in OECD countries*, Routledge, London, 2011, spec. cap. 8-9.

the duration of the period in which welfare benefits are provided or needed.³

Social adequacy refers not only to the amount and duration of income replacement but also to the conditions required for the effective exercise of the right to benefits: personal and family income requisites; age limits, organization and accessibility of services.

Moreover even the financial aspects of sustainability are not simple technical and budgetary concepts. The pensions reforms which have introduced the defined contributions schemes with the aim of guaranteeing the financial equilibrium of the system, have taken into account complex social variables and adjust their functioning to the dynamic of labor markets, to demographic trends - aging and life expectancy in particular - to family compositions, and to the major economic indicators such of growth rate, inflation, etc.

In fact most of these factors are relevant, although in different ways, both for financial and social sustainability. This structural link confirms that the two objects of sustainability are interrelated, even though they have been often pursued separately by national legislators and have received different emphasis in the various periods of time.

2. Different reforms in pensions and unemployment benefits.

I will analyse some aspects of sustainability as implemented in the major European countries. Specific attention will be given to two major areas of social security, namely old age pensions and unemployment benefits.

Both areas have been recently object of reform in quite a few countries with the aim of adjusting the design received from tradition to the social and economic transformations, including the economic crisis, which have characterized recent years.

On the basis of available comparative research this paper will consider the objectives pursued by the reforms in the two areas selected; the methods and techniques adopted and the modifications which have been necessary to adapt the legislation to the rapidly changing economic and social scenarios.

This analysis will show that European countries have followed different reform itineraries depending on their history and on their political, social and economic context. It will show different applications of the principles

³ *Pension adequacy report*, quoted, p. 23 ff., on what is called "the triangle of pension adequacy".

of sustainability and a variable impact on the social and economic performance of their system, but also some (limited) convergence towards common targets.

Diversity is present in other areas of European labor law and industrial relations⁴. A major institutional reason of this diversity is that according to the European treaties both fields fall within the prerogatives of the national States. The original separation between national and European prerogatives in these matters has remained unchallenged throughout our history and has greatly limited the construction of a social Europe, leaving it basically to the weak instruments of soft law.

The old age pensions, both public and complementary, have been the area of social security most frequently regulated by national legislators. They have reformed at different times even important features of their systems in order to respond to the changing economic and social environment. These repeated changes have been at the center of public debate and of political tensions, given the importance of pensions in the system of social protection and their impact on the life of people.

The pressures for reform stemmed from the economic and social transformations which have profoundly altered the basis on which pension systems were built in the last century: population aging; technological innovations and global competitiveness, accompanied with flexible and mobile patterns of work; lately weak economic growth culminated in the crisis of 2008.

A great body of comparative research has been devoted to analyse the reform trajectories adopted in the various countries, showing many resistances to change the established patterns, but also the capacity of most countries to overcome the social and political barriers to reform. These comparative analysis confirm the existence of a variety of reform projects and outcomes. As in other fields of social policies the experiences of European countries presents more diversities than convergence.⁵

⁴ See in general T. Treu, Keynote speech at the ILERA World Congress, July 23-27, 2018, Seoul Korea, *Employment for a sustainable society: what is to be done*.

⁵ J. Visser, *Neither convergence nor frozen paths: bounded learning international diffusion of reforms, and the open method of coordination*, in M. Heidenreich, I. Zeitrin, *Changing European employment and welfare regimes*, Routledge, p. 37 ff., the title is significant because the author indicates that the EU has experienced a higher intensity of reforms than other OECD countries.

3. Adjustement of NDB schemes and systemic reforms (NDC).

Two major directions and methods of reform can be detected in our field. A group of countries has abandoned the approach of parametric (internal) adjustments of the traditional defined benefits (NDB) schemes, which had been often followed in the past and has approved a systemic reform that moved from defined benefits to defined contributions schemes while maintaining the unfunded character of the pension system; the so called non financial (or notional) defined contribution schemes (NDC). The early examples of Sweden and Italy have been followed by other European and non European countries: in Europe, Latvia, Poland, Norway, in part Greece.⁶

A parallel direction of reform, even more distant from the traditional pattern, has been spurred by the Chilean reform of 1988, promoted by World Bank, and followed by those countries which have moved from NDB to fully funded Defined Contribution schemes (FDC).

The experience of the countries which have adopted NDC systems has been judged positively by many commentators. Some have even claimed that these systems present the best characters for a universal public pension scheme.⁷ In particular the one – to - one relation between individual contributions and pensions with annuities based on life expectancy at retirement is meant to provide a transparent, economically efficient and fair mechanism for insuring the population against the risk of outliving their resources, yielding financial stability over time. At the same time the tight relationship between contributions and benefits is expected to offer better incentives for labor supply decisions, including for labor market participation and for retirement age selection.

The supporters of these reforms have underlined a further advantage of the NDC: namely that it takes politics out of pensions thereby favouring clarity and transparency⁸. This advantage is due to the fact that the functioning of NDC relies on automatic mechanisms of adjustment inherent in the system.

But this assumption has not always materialized. Even where - like in Sweden - the schemes have been neatly designed and consistently applied,

⁶ These reforms have been approved in a period ranging from the early 90's to 2016. The timing has influenced the content of reforms: see K. Hinrichs and M. Jessoula, *Labor market flexibility and pension reforms*, Palgrave Mc Millan, 2012, p. 13 ff; R. Holzmann, *The ABC of non financial contribution (NDC) schemes*, Int. Soc. Sec. Rev., n. 3/2017, p. 56 ss.

⁷ M. Gora, E. Palmer, *The generic old age pension system*, Uczelnia SGH, 2001.

⁸ R. Holzmann, *The ABC of non financial contribution*, quoted, p. 71.

some adjustment have proved necessary, in particular in order to cushion temporary economic shocks and to share the systemic longevity risk.⁹ These interventions have required political decisions and compromise.

Moreover in countries like Italy recurrent public interventions have introduced normative changes which have altered in various ways the logic of the contributory system: e.g. the adoption of fixed age threshold for retirement.¹⁰ Despite the potential advantages of NDC pensions, the diffusion of these schemes has been limited in recent years;¹¹ and since 2015 the pace of reforms has slowed down in OECD countries.

These two approaches have been applied differently in the various countries, but have pursued some convergent goals which reflect common economic and social constraints.

The pressure of the internationalization and liberalization of the economy, combined with the financial requirements imposed by the Maastricht Treaty, has contributed to bring to the forefront since the major reforms of the 90ies, the guarantee of financial sustainability of public pension. The (continued) increase of the contribution rates, already high in many European countries did not appear a viable strategy.

In order to respond to the need of financial stability some alternative measures have been adopted in a different combination: a) raising the retirement age, more or less rapidly, sometime (not often) combined with measures of active aging directed to favor the prolongment of work participation; b) reducing or containing pension costs in various directions: e.g. harmonizing downwards pension regimes, with the aim of reducing those granting benefits above the average via extra yields; restricting the conditions and controls of disability pensions; revising the criteria of pensions indexation; tightening the link between contributions and benefits either with the adoption of NDC systems; or with (equivalent) corrections of the functioning of DB systems, in particular shifting from a full salary to an average career salary formula for calculating the amount of pensions.

⁹ This is the case for any public pillar which is always susceptible to change in government policy, that can instantly impact on accrued rights.

¹⁰ See M. Jessoula, *Risky combination in Italy; Selective flexibility and defined contribution pensions*, in K. Hinricks, M. Jessoula, *Labor market flexibility*, quoted, p. 62 ff., and the critical remarks of G. Gronchi, F. Nisticò, *Implementing the NCD theoretical model: a comparision of Italy and Sweden*, in R. Holzmann, Palmer (eds), *Pension reform issues and prospects for nonfinancial defined contribution (NDC) schemes*, World Bank, 2006.

¹¹ See I. Guardancich, R. Weaver, *The politics of NDC pension system diffusion: an idea whose time has come and gone?* The obstacles to the adoption of the NDC have been of different kind: difficulty in defining transitional arrangements, opposition from powerful societal groups, technical complexity, uncertainty in the redistributive elements.

4. From single to multipillar pension systems.

The application of these measures has contributed to reduce in various degree the benefit generosity of the public system.

With the declared aim of compensating for this benefit reduction many European countries have introduced in the same period supplementary pension pillars. A second pillar has been usually instituted and regulated by collective agreements, according to occupations or economic sectors and bilaterally administered. The diffusion of these supplementary pensions has been promoted by the legislators mainly through fiscal incentives. In some countries it has been made compulsory or semi automatic via contracting out mechanisms or the like¹². Consequently these pension schemes have acquired an hybrid nature: characterized by private origin but subject to public regulations.

A third pillar left to individual decision has also been promoted or facilitated with fiscal incentives.

As a result of these reforms most European countries already at the turn of the century had changed from the traditional single pillar to a multipillar pension system. As we shall see a well designed integration among these pillars, particularly among the second and the first, can contribute to guarantee not only the sustainability but also the adequacy of pension systems.¹³

5. Implementation and corrections of pensions schemes.

The effective pursuance of sustainability, which in principle is inherent in the NDC system, depends mostly on the design of the scheme and on its implementation in the progress of time. In fact experience has confirmed that financial sustainability may require corrections or balancing mechanism for introducing the necessary corrections.

An automatic adjustment mechanism implicit in the NDC scheme is the increase of retirement age in line with life expectancy, accompanied with a consequent reduction in the annual accrual rate of pension. But even so NDC schemes are challenged by heterogeneity in longevity among socio economic groups, an element which is widely documented among OECD countries.¹⁴

¹² In 2016, 7 of 35 OECD countries have some mandatory or quasi mandatory private pension systems, in variable forms, *OECD Pensions at a glance*, 2017, p. 150; see also K. Hinricks – M. Jessoula, *Labor market flexibility and pension reforms*, quoted, p.15.

¹³ See *Pension adequacy report*, p. 79 ff.

¹⁴ Holzmann, *The ABC of non financial contribution schemes*, quoted, p. 62 ff.

The financial sustainability of NDC is challenged by economic and demographic shocks which have intensified in recent years and which may influence in particular the indicators adopted by the various national schemes: the GDP growth rate (as in Italy) the per capita wage growth (as in Sweden), or the growth rate of the contributions wage sum (Norvegy, Poland). Here too a balancing mechanism is necessary; either authomatic such as has been adopted in Sweden or decided through budgetary corrections, in order to remedy the imprecisions of the scheme's indexation.¹⁵

The national experiences confirm the importance of these elements. The Italian legislator has approved quite a few variations of the major reform of 1995 (Act 335).

The long transition period aimed at correcting some shortcomings of the original design to the NDC scheme decided by the 1995 Act has greatly reduced the impact of the reform in containing the financial burden of pension on the Italian budget. This impact has been further diminished by the presence of privileged costly pension systems; one linked to the individual work seniority irrespective of age and others organized for specific sectors.

Italy has still the third highest pension-related revenue as a percentage of GDP (15.7%) in the OECD, while the net replacement rates of current pensions are higher than the OECD average; 79,7% for a full career compared with 63% of OECD average. And the effective age of labor market exit remains the fourth lowest in OECD. The adjustement of benefits has been linked to period and not cohort life-expectancy. This choice has introduced a distortion in the calculation of pension benefits among generations the various cohorts. This distortion has been aggravated by the fact that

The Italian legislators has intervened repeatedly with the aim of guaranteeing the financial substanibility of the system. It has raised the minimum age for retirement, lately (in 2012) with an increase of five years. This decision is inconsistent with the logic of NDC schemes which implies not a fixed age of requirement but a range of possible retirement ages within which the individual may choose, with the consequent variations of the pension according to principles of actuarial equivalence. In order to reduce the period of transition fixed by Act. 335/1995 Italy has introduced

¹⁵ Academy research has advanced many proposals on how to select benefit indexation variables to achieve sustainability of NDC schemes: see R. Holzmann, *The ABC of non financial contribution schemes*, quoted, p. 68.

in 2011 the application pro quota of the NDC scheme to workers exempted by the 1995 reform.

The need of adjustments is even more evident in DC schemes which lack automatic systems of correction. In fact these schemes have adopted various corrections in order to prevent possible financial and social distortions. One major correction has been to introduce the element of life expectancy in the functioning of the system. In some cases individualized life-expectancy either at the time of annuitization or during the accumulation phase. Gender inequalities in this respect can be redressed by applying gender specific life expectancies at retirement.¹⁶

6. Pensions adequacy: a necessary objective.

The two major lines of reforms implemented since the 90ies have pursued, with different methods and results, the primary objective of guaranteeing the financial sustainability of public pensions. Comparative research has shown that once sustainability gains were achieved, more or less completely, recognition grew in many countries that these reforms had to be accompanied with measures to safeguard pensions adequacy. In fact this dimension of public pensions has become increasingly critical because the reforms implemented has contributed to cause an already visible decline in the retirement income of future pensioners. In particular the stringent connection introduced between contributions and benefits has exposed the future pensions, specially for youngsters, to the negative effects of the increased labor markets flexibility and of the growth of intermittent and precarious careers.

In fact since 2015 many national reformers have focused on the various aspects of pensions adequacy.¹⁷ The European documents have renewed recommendations to the member States to ensure a high level of social protection, including pensions adequacy.

Principle 15 of the European pillar of social rights stresses the right of workers and of self employed to a pension commensurate with contributions and to an adequate income during their old age. Here too the European scenario presents different measures adopted to ensure pensions adequacy and shows a variable capacity of member States to guarantee them in the context of economic instability and of flexible labor markets.

The pensions adequacy report analyses a wide range of measures and suggests best practices to members States, following the soft technique of

¹⁶ Different policies for reducing gender gaps in pension are analyzed in the *Pension adequacy report*, p.78 ff.

¹⁷ See ILO *World Social Protection Report*, 2017-2019, p. 157 ff., *Pension adequacy report*, quoted, p. 17.

the open method of coordination (OMC), with the purpose of promoting mutual learning and convergence of social policies.

These measures have a different impact on the two aspects of pension adequacy mentioned above. Some are meant to maintain the amount of pension closely related to income earned during working life. Others are mainly directed to sustain low pensions in order to guarantee minimum income for the beneficiaries; sometime are directed to combine the two objectives.

A majority of European countries allow people to work while receiving an old age pension, within some maximum earning threshold.¹⁸

A general measure introduced by some countries to the same end, in addition to raising retirement age has been to facilitate longer work lives, sometime with monetary incentives (France) and often with policies of active aging.¹⁹

These policies have become a priority given the rapid aging of the population. The best practices have adopted a comprehensive approach to this issue, i.e. they touch on various aspects of working life, such as promoting learning opportunities during the entire life including the periods precedent to normal retirement age, and adapting the work place in order to favor the employment of elder people (flexible working times and part time, ergonomic improvements, career paths tailored to the abilities of the elders, promotion of healthy life styles).²⁰

Some countries have used the leverage of indexation to improve the real value of pensions not only to protect pensions during economic downturns but also to take into account the increasing duration of retirement and to avoid pensions erosion.

The European report quoted above underlines some improvements accomplished by public pensions systems, in particular the fact that retirement income is distributed more equally than work earned income.²¹ But, despite these improvements the same report lists a number of serious problems.

¹⁸ *Pension adequacy report*, quoted, p. 97.

¹⁹ See *Pension adequacy in the European Union 2010-2050*, Joint Report of Dir. General for Employment, social affairs and inclusion of the European Commission, and the social protection committee, May 2012, p. 102 ff.

²⁰ Active ageing policies have received high priority and attention in the EU. See European Foundation, *Employment trends and policies for older workers in the recession*, Eurofound Publications, Dublin, 2012; R. Ennals, R.H. Salomon, (eds.), *Older Workers in a Sustainable Society*, Peter Lang, London and Brussels, 2011.

²¹ *Pension adequacy*, quoted, p. 27 ff.

The diffusion of old age poverty indicates that inequality among older people persists and that the risk of social exclusion increases with age. More than 20% of older women are at risk of poverty and of social exclusion. People in non standard and in self employment often face unfavorable conditions for accessing and accruing pensions.²²

7. Specific measures to improve pensions adequacy.

Specific measures are suggested, and have been adopted in some countries, aimed at guaranteeing pension schemes more favorable than the standard systems to hazardous and arduous jobs which are exposed to short and often precarious working careers.

Similar critical conditions are common on a larger scale to migrant workers who are typically confined to short and discontinuous careers. But the conditions of the migrants have not been so far considered by specific social measures, indeed not only in the field of pensions.

Another critical aspect which is affecting the adequacy of pensions systems is the gap between women and men treatments. Comparative research confirms that this gap, while gradually narrowing, is persistent, because the cumulative effect of low wages and of multiple career gaps affecting women has been only partially compensated for by the pension schemes. On the contrary the structure of these schemes tends to multiply the inequalities present during the work life.²³

Reducing gender related pension inequality requires new policies in two areas. One: promoting full application of the measures supporting equal opportunities for women and men which are often written in the books but weakly implemented (work life balance, equal distribution of caring responsibilities, equal employment and career opportunities). Two, fully recognizing care-related work breaks for pension credits.

Innovative measures are needed also to face the increased mobility of workers among different types of activities. In many pension systems organized along sectoral lines this mobility may expose pensioners to dispersions and losses of pensions credits and consequently of benefits. In order to counteract this negative impact some States – including Italy – have recognized the possibility for workers to cumulate periods of work

²² Inequality among older people varies due not only to the different levels of income replacement by national pension systems, but also to the availability of other benefits, (housing, health care, etc.). Long term care provisions will have a growing impact in the future given the increase of life expectancy. *Pension adequacy*, quoted, p. 34 ff., 41 ff.

²³ According to European estimates, the average gender gap in pensions in EU, is 37,2%. See *Pension adequacy in the European Union, 2010-2050*, quoted, p. 81 ff.

performed in different economic sectors and in different types of contract, without additional or with reduced costs.

8. Pensions credits for career breaks.

A similar risk of loss of pension benefits is caused by the periods of interruption of work during working life. A traditional measure aimed at preventing or reducing this risk has been to provide pension credits paid out of taxes for career breaks due to socially relevant reasons, either personal, (such as illness, work accidents, maternity and childcare, care for dependent family members), or linked to economic conditions, such as unemployment and temporary inactivity due to business slowdowns.

The types of career breaks recognized for pension credits, their duration and the amount of fiscal support are different in the European countries. But in many cases the limits posed to these credits make them insufficient to restore adequate levels of pensions.²⁴ Indeed this approach has become inadequate to cope with the intermittent work patterns which have altered for an increasing number of people the continuity of employment well beyond the cases considered by the traditional measures.

In particular these measures are insufficient to protect part timers which often are not adequately covered by pension schemes, because they are considered a marginal group of workers mainly of women. This gap of protection has become quite serious since part-timers are becoming a growing component of the workforce.

In fact the new structure of work patterns has posed a wider threat to the traditional pension schemes. People in non standard works and in self employment, even in the countries which have included them in the general pension system, face conditions for accessing and accruing pension rights less favorable than those employed in standard open-ended full time jobs.

The increasing numbers of workers characterized by mixed traits of dependency and of independence are in an uncertain position with respect not only to pensions but also to other aspects of social security. Indeed they present a challenge to all the categories of labor law and of social protection, so serious that they require a revision of the major aspects of our discipline.

An open issue is to verify which social provisions must be extended to these new types of work, according to the principle of universality of basic

²⁴ This is particularly the case for women whose pensions levels are negatively affected (more than men), by gaps in life time earning, by a shorter duration of working life and lower intensity of employment (smaller number of hours worked): see data and discussion in *Pension Adequacy*, quoted, p. 73 ff.

rights and which other protections and benefits may be left to private institutions and to supplementary welfare schemes established either on an individual basis or collectively (if and when these workers will develop some kind of collective organization).

9. Support to low income pensioners. Minimum pensions.

The insufficiency of the provisions so far adopted to support pension rights of future pensioners has given more prominence to measures targeted at low income pensions and aimed at preventing the risk of poverty. In general it has contributed to introduce redistributive elements in public pension schemes.

A measure approved by quite a few countries to this end has been to grant to low earners a replacement rate of pensions higher than that provided to average and high earners.²⁵ But even the greatest "advantage" provided in this respect (e.g. in the UK 50% point) does not compensate fully for the difference in work earning. Moreover the difference in net replacement rate is lower than in gross rate due to the impact of pension taxation.²⁶

More specific measures in this respect are those which introduce some kind of minimum pension. The European documents mentioned above, confirm that the recourse to minimum income provisions for pensioners is vital, particularly in order to protect older women.

Member states have set up a variety of systems aimed at responding to this need.²⁷

²⁵ Examples can be found in *Pension adequacy report*, quoted, p. 53 ff.

²⁶ See D. Natali, *Lessons from the UK: when multipillar pension system meet flexible labor markets*, in K. Hinricks, M. Jessoula, *Labor market flexibility*, quoted, p. 143 ff.

²⁷ See overview in *Pension adequacy report*, p. 55 and *Pension adequacy in Europe, 2010-2050*, quoted.

The OECD architecture of pension systems presents three main types of public schemes aimed to prevent poverty in old age (*OECD Pensions at a glance 2017*, p. 86): basic pensions where benefits are paid to everyone irrespective of any contributions made, possibly linked to some residence criteria or paid on the basis of years of contributions, independently of earnings; Minimum pensions referred to either a minimum of a specific contributory scheme or of all schemes combined (15 OECD countries); Social assistance safety- net present in all countries, for poor pensioners, usually means tested. The amounts are variable: most minimum pensions average 25,6% of average worker earning and are above both the basic pensions (average 19,9%) and social assistance (average 18,6%), *OECD, Pensions at a glance, 2017*, p. 88.

A few legislations have introduced universal flat rate benefits, usually based on residence and on age. Consequently all elders, including those with incomplete or atypical earning careers and those who have never worked in paid employment, qualify for this minimum income guarantees. The Netherlands is an exemplar case. This flat rate pension, rather generous in international comparison, has been important in preventing poverty in the old age. In this country the basic pension is supplemented by a general system of occupational pensions extended also to non standard workers.²⁸

A different solution adopted by some member States has been to include a guaranteed minimum amount of pension in the earnings -related pension system, usually at the condition to reach the pensionable age and to complete a certain number of years of contributions or of residence. This solution amounts to introducing a redistributive element in the commutative logic of NDC systems. The amount and the coverage of this minimum pension are variable among the States.

The amount is often determined in a sum equal for all pensioners which is deemed to correspond to the basic personal and family needs, and is often accompanied by specific allowances (e.g. for housing). In other national systems the protection to low income pensioners is guaranteed by granting not a fixed basic pension but a sum linked to some elements of the individual work career, year of contributions, or to the age. This latter solution has been deemed more consistent with the NDC scheme, because it corrects its functioning in favor of old pensioners with fragile careers without depriving it of the principle which is to make contributions pay. Moreover it carries a possible reduction of costs with respect to a general fixed basic pension, and it can be adapted with fine tuning arrangements to different careers and personal conditions.

In addition to minimum pensions most States provide a ultimate safety net for those elders unable to meet even the minimum contributory or residential requirements.

The social benefits mentioned here are usually means -tested, according to conditions which are common to other benefits provided by social assistance schemes.

²⁸ K. Anderson, *The Netherlands: reconciling labor market flexicurity with security in old age*, in K. Hinricks, M. Jessoula, *Labor market flexibility*, quoted, p. 222 ff., who concludes that the Netherlands seems to be a success story in combining labor market flexibility and retirement security (p. 227). But even here the future of this system is uncertain as shown by the present attempts to further reforms. See *Advisory Report on the future of the Dutch pension system*, Social and economic Council, SER, 2015/01.

These redistributive mechanisms inserted in the pension systems have acquired growing importance in the last years, particularly after the crisis of 2008. But this trend is all but uniform. In contrast to it some countries have cut benefits across the board including those for low earners. Others like Italy, Poland, Hungary, have tightened the link between contributions and benefits up to the point of eliminating all or most elements of redistribution in their pension system.²⁹

In these countries pensioners who do not reach the minimum requirements for pension rights under the NDC system are entitled only to a social allowance, which is means- tested and rather low, (in Italy it amounts to 5825 euro yearly).

This result has been criticized as being inadequate to meet the needs of many low pensioner and because it deprives the pension system of its traditional redistributive elements, which are now more important than in the past.

10. Supplementary pensions.

As indicated above a major strategy followed by many European countries in order to maintain an adequate income for pensioners has been to complement statutory pensions with supplementary retirement savings. The forms of these supplementary pensions are quite different across Europe. In quite a few member States (UK, Netherlands, Switzerland, Denmark) the adoption of a second pillar of pension has become mandatory or quasi mandatory in such a way to extend their coverage to the entire workforce.³⁰ In other countries, including Italy, supplementary pensions have been promoted by collective bargaining and supported by fiscal and other incentives, including cost effective access for different income groups. The European guidelines, already quoted, emphasize the potential contribution of these supplementary schemes, occupational but also individual, to reach adequate old age benefits within the national systems.

Pension funds are exposed by their very nature to market fluctuations. The economic crisis of the last decade has highlighted their vulnerability to

²⁹ T. Galazoulos, A. Tsetoura, *European Journal of social security*, 2014, n. 2, p. 141 ff.; M. Jessoula, K. Hinricks, *Flexible to day, secure tomorrow?*, in K. Hinricks, Jessoula, *Labor market flexibility*, quoted, p. 24, observe that in these countries there may be a risk of inadequate economic protection in the old age in the next two or three decade.

³⁰ More information also on the assets of pension funds, on their allocation, and on the investment performance, in *OECD Pensions at a Glance*, 2017, quoted, p. 150 ff.

financial shocks and to economic downturns.³¹ In order to improve the safety of private pensions the EU has put in place specific directives finalized to strengthen the regulatory framework and scheme designs.³² These provisions have been specified and reinforced by national legislations in many respects. Regulations have been directed to define the responsibility of pension funds administrators concerning investment strategy and the subsequent asset allocation, and in general to pursue the aim of market diversification, of individualization of old age risks, of improvement of financial performance and of strengthening the rules and controls of these pension funds, in order to bring confidence to the members and guarantees them against losses.

The diffusion of the supplementary schemes, both in the form of defined contribution and of defined benefits, has contributed with their positive financial performance to improve the level of benefits for the pensioners involved in these schemes.

However the benefits are not equally distributed across the different groups and generations of workers. The groups usually underrepresented in the funds (in those countries where participation has remained voluntary) are those mostly in need of increasing the amount of their public pension, i.e. young employees, low wage earners and non standard workers, including part timers. The reasons which reduce the impact of private pensions schemes for these workers are similar to those which prevent public statutory schemes to guarantee adequate pensions to the same categories, namely intermittent and late work careers and scarce income capacity. Moreover the marginal position of these workers in the labor market and their scarce involvement in collective and trade unions activities, reduce their access to the informations concerning the opportunities offered by the second pillar of pensions and favor scarce trust in their effectiveness.³³

³¹ Private pension plans lost 23% of their value in 2008 and they climbed back to pre crisis level in 2011. But the crisis affected also public system and some governments (France, Norway, Sweden, Spain, Poland) created public capital reserve funds in order to prevent these schemes to go bankrupt.

³² Pension portability directive of 30 April 2014; Directive on Institutions for occupational retirement provision the government of pension schemes, IORP II, January 2017 EU/2016/2341 v.

³³ It has been argued that while supplementary pensions are scarcely useful for the groups which are not adequately protected by public schemes they may not be particularly useful in those systems which guarantee a high replacement rate (up to 80% of normal wages) to workers with good and long careers.

The search of new formulas aimed at improving the functioning of these schemes has been stimulated, here as in other fields, by the economic crisis of 2008, in particular with the view of finding a better combination between public and private forms of social security. An often quoted example of virtuous combination of the two pillars is that of Sweden, where the first pillar of public pensions is supplemented by a public capitalized system of mandatory individual accounts which cooperates under a regulatory framework with the private sector, acting as investment manager. This solution utilizes private sector advantages without-depriving the system of its social character.³⁴

11. Unemployment benefits: insufficiency of insurance - based systems.

Unemployment compensation schemes are the most relevant welfare program as regards income maintenance for unemployed people.

In most European countries these schemes cover basically persons who have involuntarily lost their job. They provide income guarantees of a given amount, either fixed or most often related to previously earned wages and for a limited period of time. The European unemployment schemes present, like pensions and other welfare institutions, a great variety of features: different requisites for accessing the benefits, different duration and amount of guaranteed income. However most unemployment benefits share with other forms of social security the common trait of being insurance based and of being related more or less closely to previous work career and wages. Consequently these schemes, do not cover people who have never worked, and exclude in particular a growing number of youngsters like the NEET. Intermittent and workers with precarious career are penalized because they often don't meet the minimum requirements for access to the system. Moreover this type of insurance has been historically devised for dependent workers, leaving out self employed and independent contractors.

In some countries insurance- based benefits are accompanied, often with a phasing out period, by social assistance schemes for those workers who have exhausted their rights under the insurance systems, in particular for long term unemployed who have reached the maximum limit of

³⁴ W. Price, *Integrating the role of funded private pensions with NDC schemes* (Rome, 2017, to be published), indicates criteria and pension design for a mix of public and private pension conducive to a best combination of pension outcomes.

insurance.³⁵ The benefits of social assistance are usually means tested and not related to previous work earnings.

The economic and social transformations of recent years have greatly influenced the functioning of insurance scheme for the same reasons which have affected other sectors of social security in particular the economic crisis and the restrictive policies adopted by many countries and, by the European Union have increased the pressure to reduce the cost of this area of social security, at the same time in which unemployment was increasing all over Europe. On the other hand the diffusion of flexible and intermittent forms of work has reduced for a great number of workers the effective coverage of the insurance for the reasons just mentioned.

In response to these transformations many European member states have reformed the architecture of unemployment compensation. The impact of these reforms on the traditional systems has been often significant, even though it has raised less debates and controversies than those concerning the pension system. Indeed they have attracted scarce attention also by academic studies, even on the interaction of unemployment compensation systems with labor market dynamics which is decisive in determining the social and economic performance of these schemes.

According to the comparative analysis the various national reforms have followed different approaches. Some countries in pursuing the objective of cost reduction and financial sustainability have tightened the links between work careers and the right to unemployment benefits. In particular the requirements for eligibility have been more closely connected with past work records, namely wages and paid contributions.³⁶ Minimum requirements for access to benefits have been raised often considerably, e.g. to two years in the UK, to one year in Belgium.

Work records have become increasingly relevant in determining the amount and the duration of income compensation. The former have been fixed in a declining quantity during the period of unemployment, following a widely adopted strategy of workfare. The right to receive the benefits has been subject to a variety of conditions. According to the same strategy (of workfare) benefit claimants are required to satisfy stringent work-related conditions. In particular they must prove their willingness to work by accepting job offers not necessarily correspondent to their previous

³⁵ See examples in F. Berton, M. Richiardi, S. Sacchi, *The political economy of work security and flexibility*, Policy Press, 2012, p. 113 ff.

³⁶ See the comparative analysis of M. Van Gerven, M. Beckers, *Unemployment protection reform in Belgium, Finland, the Netherlands and the UK*, in Heidenreich, Zeitlin, *Changing European, employment and welfare regimes*, Routledge, 2009, p. 63 ff.

employment or by participating in training activities aimed at increasing their employability. The failure to satisfy these conditions may result in benefits being withdrawn, reduced or not granted at all.³⁷

A parallel trend has been followed by those reforms which have provided more precise targeting of benefits rights according to the characteristics of specific groups, e.g. students, family status (household size, age and number of children, disability).³⁸

12. Measures to adapt unemployment benefits to flexible labor markets.

A different promotional strategy has been followed by other countries (Belgium, the Netherlands) which have introduced financial incentives and training services aimed at favoring the transition of unemployed to other available jobs, or have allowed recipients to maintain some earned income without losing benefits rights.

As mentioned already the recent growth of non standard contracts has exposed an increasing number of workers to high employment discontinuity and consequently to low employment security. Indeed employment instability has been in the increase also for core workers hired under open-ended contracts, which are proving to be far from permanent and often of relatively short duration. But comparative research confirms that the risk of precariousness is much greater for most types of non standard, particularly intermittent and fixed term contracts, and that this high discontinuity is generally not offset by prompt transitions to new jobs.³⁹

The negative effect of low employment security is often increased by the fact that recent labor market reforms have concentrated legal protections on core workers while introducing flexible rules for non standard workers: so called flexibility at the margin.

According to the European guidelines the greater flexibility introduced in the regulation of employment contracts had to be compensated by reinforcing security of employment through various measures: income

³⁷ The marked decline of the percentage of unemployed receiving benefits between 1985 and 2005 is denounced by A. Atkinson, *Inequality*, Harvard Univ. Press, 2018, p. 228.

³⁸ M. Van Gerven, M. Beckers, *Unemployment protection*, quoted, p. 64.

³⁹ See in general J. Clasen, D. Clegg, *Regulating the risk of unemployment. National adaptation to post industrial labor market in Europe*, Oxford Univ. Press, 2011.

maintenance during unemployment and intensified services aimed at helping the unemployed in the search of new jobs.⁴⁰

The same guidelines advocate the participation of social parties to the design and implementation of unemployment benefits and suggest active labor practices as a means to favor the reinsertion of the unemployed in the labor market and a better implementation of this strategy.⁴¹

The actual framing and implementation of this flexicurity strategy have been quite uneven in the different member States. On the whole they have proved inadequate to maintain the promised balance between flexibility and security because the measures aimed at reinforcing employment security on the labor market have been insufficient to compensate for the increased risks caused by more flexible regulations of labor contracts. The reduced employment opportunities during the crisis have increased the difficulty of assuring a prompt reinsertion in the labor market of displaced workers, even in the countries traditionally best equipped with active labor policies. On the other hand the reforms have reduced the duration and the amount of income compensation during the periods of unemployment which were being prolonged by the economic crisis. The combined effects of the two trends have penalized precisely those non standard workers mostly in need of protection and of security.

Given the scarce effectiveness of these promotional measures some countries have adopted a different strategy i.e. to extend the coverage of unemployment benefits beyond the traditional categories of dependent workers by including in the insurance schemes some types of non standard workers. In the case of Italy where the traditional unemployment insurance covered a small percentage of the workforce, recent reforms (Act 22/2015) have raised this percentage to over 95%, which includes most of non standard workers, intermittent and economically dependent workers.

The Spanish legislator has extended the coverage to economically dependent workers and self employed, although the latter on a voluntary basis. But the tightening of the eligibility criteria for receiving the benefits introduced by the reforms has reduced even in these countries the practical impact of the extension of the coverage, because most workers are usually unable to meet these criteria.

Indeed the strategies mentioned above – which have restricted the access requirements of unemployment benefits and reduced the duration

⁴⁰ See already T. Wilthagen, *Flexicurity: a new paradigm for labor market, policy reform*, WZB, Discussion Paper 1998; lately I. Mandel, F. Celikel-Esser, *The second phase of flexicurity, an analysis of practices and policies in the member States*, Eurofound 2012.

⁴¹ See *Social parties involvement in unemployment benefits regimes in Europe*, European observatory of working life, Eurwork, 2013.

of the insurance - have implied that even a great number of core workers has been losing the ordinary unemployment benefits based on their past work career and has been forced to pass from the insurance schemes to social assistance regimes.

A fundamental reform in this direction has been approved in countries like the UK where the unemployment schemes have changed from the role of replacing the lost earned income to the function of guaranteeing minimum benefits, subject to strict conditions of access for the claimants.⁴² These new treatments, like most benefits due under social assistance regimes, are usually much lower than those provided by the traditional insurance systems. And they have not been increased to respond to the actual needs of the recipients.

In a few countries the reduction of these benefits caused by the strict requisites introduced by recent reforms (work related periods required for entitlements and conditions of activation) has made the benefits less attractive to claim, thus subtracting many contributors to the insurance system. Due to these trends it has been noticed that the very distinction between insurance and assistance schemes shows signs of blurring.⁴³

A complete different strategy has been adopted in countries like Belgium where the objective of preventing early retirement has been pursued also by foreclosing the possibility of exit from the labor market through unemployment schemes or even by abolishing altogether a separate unemployment pension.⁴⁴

13. Difficult choices for combining financial and social sustainability.

The comparative analysis presented here shows that financial sustainability and social adequacy, contrary to the idea that they are two faces of the same coin, have complex relations from a theoretical point of view and even more as a matter of policy.

The complex itineraries of social security reforms summarized here indicate that most European countries have faced difficult choices in reconciling financial and social sustainability.

The reforms approved by most member States particularly in the two last decades, have tried to adapt the systems received from their traditions in order to ensure that these systems could continue to be even in a long term perspective an important part of social protection of their citizens.

⁴² M. van Gerven, M. Beckers, *Unemployment protection*, p. 67.

⁴³ M. van Gerven, M. Beckers, *Unemployment protection*, p. 67.

⁴⁴ M. van Gerven, M. Beckers, *Unemployment protection*, quoted, p. 66 ff.

This intense reform activity shows that welfare systems, contrary to common opinions, are not a static segment of the State apparatus, but are capable of reacting positively to the social and economic transformations.

The influence of the European Union on these reforms has been only indirect since the decision powers on labor and social security matters rests on national governments and parliaments.

Recently the economic crisis and the persistent high level of unemployment have called for a more direct initiative of the Europe Union in this policy area, including the adoption of a common unemployment insurance financed with European funds. But the Emu has not contributed to support common social policies; it has stressed the prior target of financial sustainability of social security, even though it has been claimed that this influence has not produced the much feared race to bottom.⁴⁵

The pressures exerted on social budgets by the economic crisis and by the cost cutting strategies adopted by many countries and promoted by the European institutions have reduced the resources available for many areas of social at the same time when the needs and the expectations of social protection were increasing. Moreover the capacity of the national States to guarantee the basic features of social protection has been reduced by the changes of the social and economic context on which social security depends.

A further factor has augmented the difficulty of balancing financial and social sustainability of pensions, namely the increase in the life expectancy which has prolonged the time spent in retirement in a measure which has not been matched by raising the retirement age.

Thirdly the increased flexibility and volatility of the labor markets have supplanted the historic pattern of open- ended contracts and stable life-long employment on which most institutions of social security were based. Consequently they have challenged the insurance- based social security schemes adopted by many European countries.

14. Strategies for promoting social adequacy.

The national reforms have responded to these challenges with different strategies and with uneven results. On the whole they have achieved good results in guaranteeing the sustainability of social security institutions, both pensions and unemployment benefits. Adequacy outcomes have been less impressive in both areas. Indeed increased financial sustainability has been

⁴⁵ B. Cantillon, H. Verschuren, P. Ploscar, *Social protection and social inclusion in the EU: any interactions between law and policy?*, in B. Cantillon, H. Verschuren, P. Ploscar (eds), *Social inclusion and social protection in the EU: Interactions between law and policy*, Intersetia, 2012, p. 9.

reached through reductions in present and even more in future adequacy, at the expenses of intergenerational equality. International research has given evidence that poverty and disparities in income distribution have markedly increased, particularly across generations.⁴⁶

The established patterns of social security are exposed to so fundamental challenges that no minor adjustments is sufficient to make them perform their function in the new scenario. Innovative strategies responding to a new paradigm are needed.

A prerequisite for a successful innovation is to analyze in depth the changes in the dynamics of the labor markets with the view of shaping social security policies, consistent with these changes.

A prior commitment of national economic policies is to develop robust employment strategies capable of better sustaining social security schemes. In turn the design of these schemes must be adapted to more flexible labor markets, in particular with a view of supporting intermittent work careers and the frequent transitions that future workers will have to face. The connections between social security and labor market policies need to be investigated by further economic research supported by empirical studies.⁴⁷

Still we have enough evidence that the reconciliation between financial sustainability and social adequacy is not possible unless we change the insurance-based structure of both pensions and unemployment benefits.

The European Commission itself has confirmed that the traditional design of pension schemes, (but the same is true for unemployment benefits), is well adapted to a world of standard employment patterns, but is less suitable for people with non standard careers. Applying strictly insurance-based systems systematically imperils the adequacy of social security in particular for these groups.⁴⁸

In fact some reforms mentioned in our review have modified social security schemes in the two areas precisely with the aim of correcting this bias. The changes introduced so far have been greatly influenced by the social and normative conditions of the national systems. In most cases have been introduced on a case by case basis.

This approach may be to some extent inevitable because both financial and social sustainability, even though well designed by the laws, are not fixed targets which can be reached automatically, but are moving horizons

⁴⁶ *Inequality and poverty across generations in the European Union*, IMF discussion note, January 2018, SDN, 18/01, prepared by Tingyun Chen, J.J. Hallaert, A. Pitt, Haohan Qu, M. Queyranne, A. Rhee, A. Shabuninina, J. Vanderbussche, I. Yackovlev.

⁴⁷ F. Berton, M. Richiardi, S. Sacchi, *The political economy of work security*, quoted, p. 16.

⁴⁸ ILO, *World employment and social outlook trend 2018*, p. 23 ff.

which need to be continuously monitored in order to define the conditions and the procedures most fit for their attainment.

For this reason the implementation of the reforms is decisive, here as in most other areas of social policies. And the procedures necessary to promote an effective application of the policy design cannot be left to ordinary administrative routines. On the contrary they require direct attention and control by policy makers, aimed at verifying the process of application and at introducing the necessary corrections.

Moreover this political monitoring needs to be accompanied by the participation of the stakeholders, social actors and civic organizations, both to the process of implementation and to the adjustments of the original design.

15. Guiding principles: universalism and solidarity.

Our previous analysis supported by comparative research, indicates some positive results of recent reforms, but also the limits of a piecemeal approach . A more systematic set of strategies are needed in order to promote a better balance between financial sustainability and social adequacy of social security schemes.

A first guideline which can be drawn from the experience is to modify the architecture of social security organized on the basis of different economic sectors and of social groups which is still present in many countries, including Italy, towards a more universal coverage and harmonized treatments. The sectorial organization of social security schemes has brought about quite a few distortions and disparities of benefits among workers having similar needs, usually in favor of protected areas of beneficiaries, and to the detriment of newcomers. In most cases it has favored overlapping of institutions and of provisions with waste of public resources.

Diffusing the principle of universalism in the various fields of social security can contribute to promote more equal and adequate treatments among the potential beneficiaries, and at the same time may be an antidote to the centrifugal trends which pervade and destabilize our societies.

Secondly a new balance has to be found between the commutative-individualistic principle which inspires the insurance- based schemes and the principle of solidarity, which is typical of most programs of social assistance and of the universal guarantees of social security.⁴⁹

⁴⁹ According to the ILO, *Inception Report for the Global Commission on the future of Work*, febr.2018, p. 26 ff., the combination of contributory and non contributory elements is key to building comprehensive social security.

This balance requires a new combination of two functions of social security: that of providing total or partial replacement of personal income earned with work, and that of guaranteeing to all persons regardless of their work career, income and services adequate to their basic needs during the lifetime and in the old age: the needs and risks may be different in the various life cycles.

This combination has been pursued differently in the various countries because it reflects not only the national traditions but the basic conception of the role and place of work in society and in the constitutional organization-of the nation.

Some European Constitutions, including the Italian, distinguish these two functions of social security by stating that all citizens unable to work and lacking the necessary resources for living have the right to be supported by social assistance, while the workers (of all types) have the right to be assured resources adequate to their life needs in case of old age, unemployment, work accidents, illness.

The combination of these functions must be shaped in such a way as to avoid distortions and to take into account the new characters of the labor markets.

16. Extending the coverage of social security and the credits for career breaks.

The first guideline mentioned above requires extending the coverage of the various areas of social security to all types of work which have emerged in the new economy, according to the principle of universality, with the view of correcting the limitations and the inequalities of the sectorial insurance systems.

The second guideline implies that the two principles mentioned above, commutative and solidaristic, should be combined in the design of pensions and of unemployment benefits. While keeping a link with the years of work, both schemes could guarantee a flat rate of benefits, possibly joined with an amount of benefits proportional to past earnings.

Moreover the number of qualifying years for the benefits might be increased by including not only periods of actual work but the all the periods during which work is suspended for socially relevant reasons: in addition to those already considered in many social systems, (illness, maternity, work accidents, involuntary unemployment), all periods spent in performing care activities.⁵⁰

⁵⁰ A. Atkinson , *Inequality*, quoted, p. 230 ff.

The rationale of this wide recognition of social security credits, as endorsed by some countries, is that these activities contribute to the wellness of society and consequently deserve to be credited for social security entitlements and to be supported by national budgets. A number of States have applied this rationale also to the growing number of part time workers, which so far have received scarce or no social security benefits, by granting contributions paid out of taxes to the periods of part time unemployment.

This new design of social insurance has the positive effect of extending the benefits to groups of workers mostly in need to be supported by public solidarity. At the same time it can contribute to redress the balance between social insurance and social assistance, against the trend promoted by mainly conservative governments to reduce the share of insurance - based systems and to shift the emphasis on social assistance. The consequence of this neoliberal approach has been that assistance programs have remained the only form of social protection for a increasing number of workers: a protection which is often of reduced amount due to the scarcity of resources and to the competition with other claimants (citizens and non citizens at risk of poverty).⁵¹

The coverage and the adequacy of many programs of social assistance have been limited not only for the reasons just mentioned, but by the use of various types of means and income tests. The actual implementation of means testing, combined with high marginal taxes, has caused a increasing number of unclaimed benefits and of incomplete take up, which raises serious doubts on the functioning of many schemes of social assistance.⁵²

Furthermore, as Atkinson reminds us, receipts of means tested as opposed to unconditional benefits is stigmatizing.

The inadequacy of existing social security schemes to meet the expectations of workers and of citizens has stimulated the search and practice of alternative ways to design these schemes. Indeed the growth of inequalities and of poverty among various sectors of the population, including workers, has posed a major challenge to the entire welfare system, even in the rich countries.

⁵¹ In fact social assistance benefits have eroded in most States since 2000: B. Cantillon, N. van Mechelen, *Between dream and reality, on anti poverty policy. Minimum income protection and the European social model*, in B. Cantillon, H. Verschuren, P. Ploscar, *Social inclusion*, quoted, p. 193.

⁵² A. Atkinson, *Inequality*, quoted, p. 229

17. Minimum income provisions: common objectives, different conditions.

In response to this challenge most European countries have introduced or reinforced various forms of minimum income directed to provide monetary support to poor workers and families, usually accompanied with personal assistance services to the beneficiaries, with a special emphasis on child care.

In spite of some common principles the types and levels of benefits granted by these measures and the conditions of access are quite variable and have been adapted over time to respond to the needs of people in conditions or at risk of poverty.⁵³ Poverty is defined according to criteria legally determined by the national systems.

Usually the national systems of minimum income have maintained the approach common to most welfare measures, whereby (for people able to work) they are combined with labor and training policies aimed at activating the beneficiaries.⁵⁴

⁵³ The European Parliament in a resolution of October 2010 already indicated that a European strategy on social protection should encompass a minimum income set at a level equivalent to 60% of median income of the State concerned. The European Commission has set out in 2008 common principles and guidelines for a comprehensive strategy based on three integrated pillar: adequate income support, inclusive labor markets, access to quality services.

An overview of the various measures can be found in H. Frazer, E. Marlier. *Minimum income schemes in Europe. A study of national policies 2015*, for the European Commission; *Minimum Income policies in EU member States*, April 2017, European Parliament, IP/A/ Empl /2016-22. ESPN (European Social Policy Network), 2016.

The questions concerning minimum income have been object of long discussions among experts and also among policy makers: B. Cantillon, N. van Mechelen, *Between dream and reality*, quoted, p. 202, who remark that "given the great heterogeneity between countries any binding agreement on minimum income will have to be flexible and gradual"; H. Verschuren, n. 3, A. Van Lancker, *Working document on a framework directive on minimum income* (2010), A. Atkinson, *Inequality*, quoted, 218 ff.

⁵⁴ On this common basis it has been advocated that minimum income might be the likely candidate for a pioneering European legislation on the sphere of social protection B. Cantillon, N. van Mechelen, *Between dream and reality*, quoted, p.187. Another candidate might be a system of common unemployment benefits: S. Dullien, *A European Unemployment Benefit Scheme. How to Provide for More Stability in the Euro Zone*, Verlag Berterlsmann Stiftung, Gutersloh, (2014); M. Faioli, *Introduction The EUBS without States?*, in *Economia & Lavoro*, I, 2017, p. 7 ff.; S. Bologna, *The unemployment scheme: legal basis, for resocialising Europe*, in *Economia e Lavoro*, quoted, p. 11 ff.; T. Bazzani, *EUBS Implementation from a comparative perspective*:

The possibility to introduce measures of basic income unconditional, i.e. granted regardless whether the beneficiaries work or are willing to work has been widely discussed in Europe and has been tested in practice with some limited experiments (Finland, Austria). But so far the introduction on a general scale of basic unconditional income has not been decided. Indeed it has been deemed unfeasible not only for its costs but for objections of principle. One: because disconnecting completely social security from the participation to the labor market would obscure or minimize the value of work and contradict the concept of social security as contributing to the activation of people; two: because it might reduce the (prior) commitment of public economic policy to the promotion of employment opportunities.

The actual costs of basic income depend not only on its coverage and level but also on its relations with other social security benefits. The present measures of minimum income have been often introduced in addition to the existing measures of social assistance, with some specific targeting (which however has not been always sufficient to avoid overlapping of benefits).

Some countries have followed a different approach: the UK has introduced (and revised) a system of universal credit, which merges six existing benefits into one, with the declared aim of simplifying the access to the benefits, but also of better controlling their conditions and of reducing the overlapping of schemes.⁵⁵

Any how the introduction of a general form of unconditional basic income would dramatize the issue of coordination among social security measures and the need of financial sustainability. According to some estimates referred to the Austrian case, a non conditional basic income of 800 euro granted in addition to other social security benefits would result in raising the state social expenditures to 70%. An increase of such a magnitude of social security costs, which in many of our countries are

a chance for increasing the EU's Legitimacy, in *Economia e Lavoro*, quoted, p. 27 ff.; Elena Monticelli, *The EUBS and the Protection from Involuntary Unemployment. Towards a New Model of Solidarity in Europe?*, in *Economia e Lavoro*, quoted, p. 77 ff.; V. Ferrante, *Afterword. The European Benefit Scheme: the Way Ahead*, in *Econ. e Lavoro*, quoted, p. 93 ff.

In fact the European Commission emphasizes that minimum income schemes should be introduced in the context of an active approach, linking adequate income with inclusive labor and high quality services. The report quoted above shows that this emphasis on active labor policies is present in nearly half of the 35 countries covered.

⁵⁵ The Economist, *The new safety net*, 2nd June 2018, p. 32.

already high, would hardly meet the capacity and the willingness of the active population to share the burden of this welfare measure.⁵⁶

On the other hand granting basic income in substitution to all other welfare benefits, following a neoliberal approach to social security, would not contribute to promote equality among the beneficiaries and the citizens. On the contrary it might increase the gap between the poor and the rich because the former profit more relatively to the latter from the existing social security benefits (which perform redistributive functions).

The discussions and the controversies over this perspective are due to continue.⁵⁷ They might be influenced by the impact of the digital revolution on the future of work. Whatever the dimension of the impact, certainly these technologies will represent a major challenge for the existing measures both of labor law and of social security.

Policy makers and the social parties will be faced more drastically than in the past with two general alternatives: find economic and labor strategies capable of promoting employment opportunities for people displaced by the new technologies, or pursue some redistribution of employment opportunities by reducing working time - as the German metal

⁵⁶ F. Marhold, *Solidarity, who for whom?* Paper presented at the XII Regional Congress of the ISLSSL, Prague, 2-22 Sept. 2017. The Author discusses the meaning and value of different types of solidarity. The welfare prevailing in continental Europe has been based on solidarity among employees belonging to defined social and economic categories (and the mutualization of the risk among the members of the group has been implemented by various forms of insurance). The extension of welfare schemes to most or all categories of workers, which have been promoted by the reforms discussed above, corresponds to a broader concept of solidarity, which encompasses groups and individuals in different work and economic conditions and (often) requires the financial participation not only of the categories of the beneficiaries, but of the citizens, via the general taxation system. This wider sense of solidarity which goes beyond the traditional insurance –based schemes, supports the various forms of minimum pensions and minimum income, which are referred to members of the active or sometime of the resident population. An even broader concept of solidarity would be called in question in order to extend social security schemes to people who do not belong to the group of risk sharers: e.g. to non residents, non taxpayers, non contributors, such as migrants, refugees, and also young people not (yet) active. The question discussed by Marhold is whether our social security systems will be capable to deal with these situations.

⁵⁷ A different version of minimum income is proposed by A. Atkinson, *Inequality*, quoted, p.219 ff. according to whom this income would complement existing social transfers (rather than replace them) and should be paid on the basis not of citizenship but of participation, defined as any kind of activity making a social contribution, (not only paid employment, but training, active job, search, and home care or regular voluntary work).

workers have begun to do -, and/or by generalizing part-time work even more than in the Dutch system.

The impact of the digital revolution on the quantity of work might increase the pressure to experiment forms of basic income, on the assumption that no viable economic policies can be implemented to fight an irreversible decline of work. But this assumption cannot be taken for granted.

18. Social security and labor policies: common challenges and need of coordination.

The evolution of social security systems analyzed here confirms the need of further reforms directed to reconcile financial sustainability and social adequacy of the various kinds of benefits. This reconciliation is proving particularly difficult for the future generations in the area of pensions, which appear to be most exposed to the negative impact of restrictive social and economic policies and of demographic trends.

The pressure of new technologies and of the increased global competition are threatening the adequacy not only of social security, but also of traditional employment policies.

A significant evolution worth mentioning, because it is somehow parallel to the changes of social security analyzed here, is the diffusion of minimum legal wages in many countries, lately Germany.⁵⁸

The pressure of the external factors just mentioned has deeply influenced the dynamics of the labor market, increasing the inequalities, exposing a growing number of workers to the risk of unemployment, and often obliging them to accept working conditions and salaries much below the average standards. Legally defined minimum wages have been usually introduced in order to compensate for the reduced capacity of collective agreements to perform their traditional function of wage regulators, particularly for the growing number of atypical workers and for regular workers of low skills and qualification.⁵⁹

These minimum salaries can be broadly grouped into two categories, universal regimes which define a general wage floor for all employed

⁵⁸ The Commission has stated that minimum wage should be present in every EU member and the ETUI has advocated the implementation of a European minimum wage standard to fight poverty and to foster internal demand. ETUI Policy Brief 118/2014, *Back on the agenda: a European minimum wage standard*.

⁵⁹ Eurofound, *Statutory minimum wages in the EU 2017*; the level of statutory minimum wage varies considerably between the lowest less than 500 Euros per month (most new member States) to 1999 Euros in Luxemburg (2017).

workers, and sectoral regimes which set a minimum wage for specific branches and/or occupational groups.

The first category performs the function not of fixing the wage correspondent to the specific job hold by the individual, but of guaranteeing an income sufficient to meet the basic needs of the worker and of its family. This function of minimum wage which is explicitly mentioned in the Italian constitution (art 36), goes beyond the concept of a strict counterpart of work and embodies a principle of adequacy. In this respect the function is similar to that of social security institutions.

This diffusion of minimum wages and the evolution of their functions are significant indicators of the need to coordinate labor market policies with social security measures.⁶⁰

The European guidelines on flexicurity which have been the most significant benchmark for national labor market policies are another example of this kind of coordination. According to the guidelines labor regulations introducing more flexibility in employment contracts need to be accompanied with active labor and training policies and economic supports aimed at providing security to the workers in the transitional labor markets. But also this policy needs to be reconsidered in the present and future world of work.

The fragmentation of work patterns requires new instruments and policies capable of guaranteeing employment continuity in the (recurrent) variation of job positions. On the other hand welfare measures will be challenged to sustain employment transitions with new more focused measures: in particular services and income support directed to promote the reemployment of unemployed workers and the employment of inactive persons; paid leaves for periods of inactivity due to personal reasons (not only parenthood, illness, work accidents, but also professional upgrading); personal services aimed at facilitating work life balance, professional and territorial mobility.

In this perspective welfare measures need to be better integrated with labor policies with the aim of helping them in the difficult task of fighting precariousness and of promoting quality employment. Indeed the institutions of social security are called to perform a major role for the future of labor relations, because they will be decisive in correcting the deficiencies and failures of transitional labor markets.

⁶⁰ The necessity to abandon the separation between employment, social security, family and educational policies is stressed by M. Heidenreich, *The open method of coordination: a pathway to the gradual transformation of national employment and welfare regimes?*, in Heidenreich, Zeitlin, *Changing European employment and welfare regimes*, quoted, p. 25.

19. Coordination of different policies and common levels of adequacy.

The forms of this coordination must be further investigated in order to adjust social security institutions to the changing dynamic of the labor markets and to the new forms of work. In performing these new functions the institutions of social security will still (or even more) be required in order to maintain a balance between the two guiding principles of sustainability and adequacy.

The meaning of adequacy has to be examined in relation to the various areas so as to reflect the different functions of the benefits, in particular to determine the level of income to be guaranteed to the beneficiaries.

The various forms of social assistance, in so far as they are finalized to satisfy fundamental needs of workers (or possibly of citizens) with resources coming from the solidarity of the national community and defined in the public budgets, should be designed in such a way to provide a similar level of benefits, even though with variable forms of income guarantee and of services.

Some national experiences show convergent trends in this direction. In particular the common objective should be to provide similar basic treatments in the case of minimum income, in favor of workers who are unemployed beyond the maximum terms provided for insurance-based benefits, and in case of (minimum) social pensions. These income guarantees may be accompanied by special allowances and by personal care and health services according to the specific conditions and needs of the beneficiaries.

Minimum wages are usually fixed at a level higher than minimum income, a level which is justified by their multiple function. Even though they perform not a purely commutative but a social function, they correspond to a work activity which deserves to be specifically rewarded.