

"The purchasing power evolution of minimum income protection in Belgium and in neighbouring countries"

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Summary

Under the so-called Generation Pact, Belgium's system of inflation-proof minimum social benefits, through automatic linkage with the consumer price index ('health index'), was extended to a linkage with earnings growth (as of 2007, biennial adjustments). This extension of the indexation mechanism provides an occasion for a thorough assessment of the development of the purchasing power and welfare level of minimum social benefits over the period 1970-2006. We consider the evolution of gross benefit amounts as well as net disposable household incomes for various household types. We also take due account of the evolution of benefits and adjustment mechanisms in the reference countries for Belgium's wage norm (Germany, France and the Netherlands).

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The main findings of the study may be summarised in 14 points.

Minimum social benefits in Belgium

1. The purchasing power of minimum social benefits in Belgium is much greater today than it was in 1970. After a period of exceptional increases (1970s and, in the case of some benefits, up to the late 1980s) and a long period of stagnation, (1980s and 1990s), minimum benefits grew again in the 2000-2006 period. In those years, almost all gross minimum benefits were increased in excess of statutory indexation. The social minima for the self-employed gained most substantially in terms of purchasing power: by 18% in the case of pensions and up to 29% in the case of disability benefits. Under the regime for employees, real growth of minimum pensions amounted to 7%, while the minima for unemployed persons and the disabled grew by only 2 to 3% in real terms. In social assistance, the guaranteed income for the elderly grew much faster (15%) than benefits for persons of working age (5%).
2. Most gross minimum benefits for employees and social assistance benefits grew more quickly in the period 1970-1985 than average earnings¹, and consequently

¹ The wage mass per FTE, on the basis of data from the National Office of Social Security (RSZ).

they also outpaced the rise in general welfare. From the mid-1980s, however, these benefits lagged behind earnings growth. Between 1986 and 1999, all social minima as a proportion of average earnings had declined by between 10% and 15%. In the period 2000-2006, by contrast, a number of minima grew more quickly than average wage. This was the case for minimum pensions for the self-employed, disability benefits for the self-employed and the guaranteed income for the elderly. The other social minima grew less quickly, but above-statutory increases often sufficed to prevent a further welfare erosion. If we consider gross benefits as a proportion of national income rather than average earnings, we notice similar evolutions, albeit that now the relative decline in minima for employees since the mid-1980s is greater and the relative rise in minima for the self-employed is smaller.

3. Despite their above-earnings growth between 2001 and 2006, the social minima for the retired self-employed remain well below those for employees. The net income of a self-employed household head on a minimum pension evolved between 2001 and 2006 from 42% of average wage to 44% of average wage. This is barely higher than the guaranteed income for the elderly (43%). By comparison, the minimum pension of a retired employee who is a household head amounts to 53% of average wage. Likewise, the minimum survivor's pension for the self-employed is barely more than the guaranteed income for the elderly. However, since January 2006, disabled self-employed persons have enjoyed the same level of income as disabled employees, unless they are single without dependent children.
4. Between 1992 and 2001, net minimum benefits (with the exception of disability benefits for the self-employed) also lost ground on net average wage². The analyses of the evolution of net benefits are more or less in line with those for gross benefits and wages. The most substantial welfare erosion is again recorded in the social assistance schemes and the regime for employees, particularly insofar as disability and unemployment benefits are concerned. Retirement and survivor's pensions declined less sharply. The net income of disabled self-employed persons was raised in line with net average wage growth.
5. If we consider the evolution between 1991 and 2001 of net minimum benefits as compared to net minimum wages (or, if you will, the evolution of the inactivity traps), we notice that the gap between the two became wider. Benefits, like minimum wages, are linked to the 'health index'. In this respect, the ratio of minimum wages to benefit amounts cannot change. However, thanks to the implementation of a tax reduction on low wages that net wages could be increased without gross wages following suit. In the period 2001-2006, under the regime for employees, the gap between minimum benefits and minimum wage remained more or less constant for most household heads of working age, through a combination of real growth of benefits and further tax cuts for minimum wage earners (work bonus). The real growth of benefits for the self-

² On the basis of standard simulations for 4 hypothetical households : single persons, couples without dependent children, couples with two children aged 7 and 14, a lone parent with two children aged 7 and 14. These average wages apply to men in full-time employment and they are based on survey data.

employed has reduced the gap between benefits and minimum income, but the inactivity trap remains much smaller than in the case of employees. In Belgium, the inactivity trap is generally the greatest for employees of pensionable age, and the smallest for those entitled to social assistance and for single persons.

6. If we compare net minimum benefits with the poverty line (60% of median standardised net disposable income), we notice that the Belgian social minima are rarely socially adequate for all household types. Pensions for employees only provide single persons adequate protection against income poverty. Under the regime for employees, minimum pensions for household heads lie 8% below the poverty line. Under the Belgian regime for the self-employed and in social assistance, the minima for single persons and those for couples are respectively 15% and 25% below the poverty line.

Minimum social benefits in France, Germany and the Netherlands

If we consider the evolution of the Belgian minimum benefits in international perspective, we notice a pattern that is very similar to those in neighbouring countries.

7. As was the case in Belgium, minimum benefits in the Netherlands and France were raised substantially during the 1970s, with comparable average annual growth. In Belgium average annual growth between 1992 and 2005 amounted to 0.6% in the cases of minimum benefits for employees and social assistance and 1.6% in the case of social minima for self-employed persons. The purchasing power of the minima for the elderly increased slightly more quickly in Belgium than in neighbouring countries.

In France, the purchasing power of minimum pensions (“minimum vieillesse”) was doubled between 1972 and 1982. Subsequently, this benefit, alongside the RMI (Revenu Minimum d’Insertion), has been adjusted annually for inflation. Sporadically, the basic amounts are also increased, but such above-statutory increases rarely result in a substantially higher purchasing power. On average, the French minima grew by 0.4% per annum between 1992 and 2005.

In the Netherlands, the period of rising minimum pensions in the 1970s was followed by a decline in purchasing power between 1980 and 1985. Likewise, the growth of minimum pensions (particularly survivor’s pensions) in the early 1990s was followed in the mid-1990s by a decline in real terms. This was a consequence of the minimum wage freeze in the 1993-1995 period, when the adjustment mechanism, whereby social benefits are coupled with net minimum wages, was temporarily suspended. From 1995, most benefits in the Netherlands once again followed earnings growth. Average annual growth of the minima between 1992 and 2005 amounted to 0.5% (with the exception of survivor’s pensions : -0.4%).

In Germany, the purchasing power of social assistance benefits for persons of working age has remained more or less constant since 1992. The average annual growth in real terms for persons of working age amounts to 0.1%. However, minimum benefits for the elderly were cut drastically in the mid-1990s.

8. As in Belgium, the welfare level of gross Dutch and French social benefits has declined substantially since the early 1980s. Between 1992 and 2005, the Belgian minima for employees lost 0.5% annually on average gross wage and 1.0% on per capita Net National Income, while those for the self-employed gained 0.5% on average gross wage and kept apace with per capita NNI. In France, where the social minima have closely followed the rate of inflation since 1982, the period between 1992 and 2005 saw an annual decline by 0.5% compared to average wage and by 1.0% in relation to per capita Net National Income. In the Netherlands, the freeze on social benefit amounts from 1993 to 1995 led to a substantial decline in the welfare level of the social minima. In the course of the next decade (1996-2006), the welfare loss of most minimum benefits was restricted thanks to a linkage with the minimum wage. The average annual decline in welfare level amounted to 2.2%, with peaks of up to -3.0%. Minimum benefits in Germany, particularly those for the elderly, also lagged substantially behind the general rise in welfare level, particularly in the 1992-1995 period, and certainly if measured against average gross wages (-2.0% for the elderly and -1.2% for the population of working age). Since then, relatively long periods of growth in line with the general welfare level have alternated with short periods of declining welfare.
9. The comparison of the evolution of net minimum benefits on the one hand and net average income on the other shows that the greatest erosion occurred in all Dutch minima and in German social assistance to the elderly. In the Netherlands, the net income of a couple on a retirement pension declined from 81% of net average wage in 1992 to 64% in 2006, compared to a decline from 57% to 48% in Germany, from 59% to 53% in Belgium, and from 74% to 69% in France. The erosion was least outspoken in the case of French means-tested benefits and the Belgian guaranteed income for the elderly. The only minima to have increased substantially in comparison to new average wage since 1992 are those for the self-employed.
10. The gap between the minimum social benefits and minimum wages is generally smaller in France and in the Netherlands than it is in Belgium, and consequently the inactivity trap in those countries is deeper. Between 1992 and 2001, the inactivity traps in France and the Netherlands were reduced, but since 2001 they have remained more or less unchanged. In the Netherlands, single social assistance claimants of working age and the unemployed receive benefits and a housing allowance which together amount to around 80% of the net income of a minimum-wage earner, as compared to 64% of minimum wage in France, and 58% in the case of subsistence income and 70% in the case of unemployment benefit in Belgium. For single disabled persons and single persons on a retirement pension, the gap between net benefits and net minimum wage is smaller, so that benefit amounts can represent 89% of net minimum income in the case of employment.

11. As in Belgium, the net minimum benefits applied in neighbouring countries are rarely socially effective for all household types. We compare the net minima with the poverty line set at 60% of median standardised net disposable household income. Despite the enormous welfare erosion of the Dutch minima during the 1990s, the net income of most benefit recipients remains above the poverty line. In Germany, minimum protection for the elderly is no higher than 70% to 80% of the poverty line. Likewise in the case of the disabled, the degree of social efficacy of minimum benefits varies considerably depending on household type. Benefits for singles and/or lone parents are on or above the poverty line in most countries, including Belgium. For the other household types – couples with and without children – the distance to the poverty line may vary from 13% in Germany, 17% in Belgium and 19% in the Netherlands, to as much as 25% in France.

The statutory adjustment mechanisms

12. In Belgium, social benefit levels are, by law, linked automatically to the consumer price index. As in France, this automatic linkage ensures that the purchasing power of minimum benefits is maintained. This is not the case in Germany and the Netherlands, though, where statutory provisions allow for deviations from the principle of earnings growth linkage for socioeconomic or demographic reasons. Automatic linkage to consumer prices has the disadvantage that any adjustment of minimum benefits to earnings growth above the rate of inflation is entirely dependent on above-statutory adjustment, and, in the long run, such ad hoc measures rarely keep pace with general welfare growth.

13. Since 2005, in addition to automatic linkage of social benefits to the consumer price index, Belgium has also had a legal framework for further adjustments to evolutions in the general welfare level. Every two years, after consultation of the social partners, the government is required to determine the budget for adjustments of social benefits to earnings growth and the distribution of the available budget over the system. In this process, the social partners must take account of evolutions in the employment rate, the financial balance within the social security system, and demographic evolutions (i.e. population ageing). The law prescribes that due attention should be paid to such factors as economic growth, the ratio of the number of benefit recipients to the size of the working population, as well as possible inactivity traps. In other words, as in Germany and the Netherlands, socioeconomic and demographic factors come into play, but no a priori decision is taken on which category of social benefits should be adjusted. This holds the danger that some categories of benefit recipients may be denied any welfare adjustments to benefit amounts for years on end, all the more so as any regulatory framework for such adjustments to social assistance benefits is still lacking. Moreover, the generation pact does not define a welfare indicator that could be used as a guideline for negotiations or government decision-making. Dutch and German legislation, on the other hand, refers explicitly to wage growth as an indicator of welfare. But although the linkage of social minima to the general welfare level is regulated much more strictly under

Dutch and German law than under Belgian law, experience in those two countries shows that such a legal mechanism for deviations provides no guarantee for welfare-linked benefit amounts.

14. German legislation contains a mechanism not only for welfare-linked social minima, but also for checking the social efficacy of benefits at regular intervals, which, from the perspective of poverty alleviation, is probably more important than welfare linkage. To this end, every five years a minimum budget is drawn up for a single person. This budget standard is based almost exclusively on the actual consumer behaviour of low-income families and probably not enough on normative criteria. However, it does offer the German authorities a clear picture of the standard of living of households on minimum income. In Belgium, we only know that minimum benefits are often well below the relative poverty line. Any systematic assessment in the light of other, more budget-oriented, criteria that provide insight into how dignified one can live on a minimum benefit is therefore lacking.