

## **Chapter 4 – Strengthening Policy Analysis**

### **Comments by Georg Fischer**

As the report as a whole has the potential to make a major contribution to the development of social policies the chapter 4's significance results from the emphasis on evidence-based policy analysis as a condition for further progress in policy development and implementation. More specifically, the report reminds us of the contribution analysis based on cross-country comparisons can make to improve the understanding of national performance.

The focus of policy analysis depends on our understanding of policy challenges. While analytical tools are often useable for different policy settings some are clearly better geared to some challenges than to others. The report recognises poverty as a multidimensional issue – and calls for a multidimensional policy response. This is also a central idea of the EU policy on social inclusion. If I feel at all that one could go beyond the content of the chapter it is in this respect notably how to open avenues for the analysis of the dynamics of the social processes which lead into social exclusion or out of poverty and exclusion.

The chapter presents two analytical tools aimed at better understanding of how household incomes are composed and the implications for work incentives. These two tools are calculations of incomes using the formalised rights of appropriately defined model families and micro-simulations. The latter uses in contrast to the former data actually recorded – usually in household surveys.

One can only agree with the comprehensive description of strength and weaknesses of both concepts. The Commission supports the calculation of the tax/benefit position of model households in order to improve the knowledge of policy makers on the income situation of certain households and to assess the work incentives. The Commission has proposed indicators using the results of these calculations. However, the DG EMPL has insisted on a careful analysis of the assumptions concerning the model households which may be used to construct indicators. The main issues of concern are: Representativity of the model case, coverage and take-up rates of benefits and tax provision included in the calculation.

Based on research carried out within DG EMPL and by the OECD the necessary warnings have been issued. Representativity of any model household is problematic but the situations used occur reasonably frequently. There are substantial differences in take-up rates between Member States and even more so in terms of coverage rates. One has to admit that the warnings have not always been voiced sufficiently loudly and not everybody wants to hear them either. Therefore, the reservations expressed in the report are welcome. On the other hand, calculations of the tax/benefit positions of model households are relevant beyond the actual numbers. They tell us something about what messages public policy sends to people concerning income protection and encouragement to actively change the situation in which income support amounts often a large share of total income of the household. Clearly work motivation does not result only from differences between earnings and benefit positions. In fact we find that people often do work despite of very high marginal rates – so such numbers are a starting point for policy analysis useful and necessary but far from being sufficient.

Micro-simulations are less used in the daily work of the policy processes. And there is undoubtedly a great potential. They have their benefits and shortcomings – and both result from the fact that they are based on actual observations. These observations of the situation at

a moment in time are driven by many factors and to isolate the policy impact is difficult, and interpretation of results with a view to policy development can be complex as well. The chapter proposes – if I have well understood - that “policy swapping” could help to identify policy impact and one should certainly pursue this proposal.

I would like to return to the principal statement of the report on the multidimensional character of poverty and on the broader objectives of social inclusion policies. Key ideas in this respect are: breaking out of social exclusion and “preventing the risks of social exclusion”. We all know that a set of comprehensive policies is required to make progress along these lines which go beyond the provision of adequate incomes support and ensuring that taking up employment improves the household’s income position. For example, sustaining employment over time and improving work satisfaction and related income can be decisive for effectively breaking out of inactivity/dead-end job cycles leading to high risks of poverty and social exclusion. And so can be the availability of affordable care facilities, universally accessible health services, and access to training- retraining or rehabilitation services. Also in this regard, Member States could learn from each other. This requires as pointed out in the report to identify, first, good performance and, secondly, to understand the conditions of success and failure and the role of supportive policies. Policy swapping analysis using micro-simulations may be a way to provide evidence for a policy debate on such issues. However, it is also necessary to re-visit the basic statistical tools and methodologies for assessing performance and conditions of success and failure.

Measuring progress with regard to prevention and breaking out of social exclusion can of course be done by using macro-indicators and comparing them over time. However, panel data greatly facilitate such analysis. Following the same people over time is likely to be the best information base for making such assessment. The now abandoned ECHP had offered such data and proved useful despite of its huge problems. Panel data allow carrying out the analysis of progress of individuals and as all household surveys they allow also the identification of a broad range of socio-economic characteristics. Of course, they are often weak with regard to information on policy variables. For indicators work could one learn from the concept of transition indicators developed under the Belgian Presidency in the context of measuring progress in individual employment careers (as part of the job quality agenda).

I regret that the replacement tool for the ECHP, the EU-SILC, has a much weaker panel component. This may damage our ability to move more decisively to the analysis of the dynamic aspects of the social inclusion/social exclusion process. Nevertheless, a lot could be done using EU-SILC, national panels and specialised EU wide surveys. Let me illustrate this point with information on health status and care. A recent EU research project, SHARE, based on a survey of the older population looked at ageing, health, work and retirement. Interesting results on links between quality of work (autonomy and satisfaction), health and voluntary activity emerged, confirming some of the central policy ideas of the Social Inclusion Process. To deepen the analysis and to understand causality a continuation of the survey is necessary. Also, the development of methodology is important and here I ask myself to what extent dynamic micro-simulations could help. Finally, the evaluation of policy measures needs to reflect the policy objectives of prevention and breaking out of social exclusion, and this is an area where best practice exchange and mutual learning has a great potential.