

Decent incomes for the poor: which role for Europe?

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Abstract

Social Europe is under lingering construction. Not only does the EU indirectly (and increasingly) impact on national social policies, the Union itself is slowly evolving towards more social governance as has become apparent with the inclusion of social indicators in the European Semester. This notwithstanding, apart from the coordination of social security rights for mobile workers, anti-discrimination legislation, and health and safety standards at work, social policy remains an exclusive national competence. Moreover, it is guaranteed to remain so through the legal subsidiarity principle. As a consequence, EU social policy has to a large extent been limited to soft governance initiatives that aim to influence national policies in order to achieve commonly agreed social goals. These goals are defined as social outcomes, rather than the means through which they are achieved, a governance model known as “second order output governance” (Vandenbroucke, Cantillon, Van Mechelen, Goedemé, & Van Lancker, 2013). However, over the past decades, despite the ambitious Lisbon and EU2020 social targets, many EU Member States have failed to make progress in fighting poverty. Since the crisis the picture has become truly negative, not in the least due to strong diverging trends within the Union. Meanwhile, the indirect influence of the EU on national social policies has increased. This begs the question whether a more performant EU level involvement in the field of social policy is conceivable, within the constraints set by the European Treaties. In this paper, we argue that European minimum standards are the place to start. Thereby, a broad approach should be taken, including principles for minimum social security *and* minimum wages. To this end we believe that time has come for a modest shift to “second order *input* governance”. More in particular, we propose to include policy indicators regarding *minimum income protection sensu lato*, in the recently revised EU monitoring process of the European Semester. We assess the current (im)balances in national minimum income packages, and discuss in depth the potential value of including the indicators in a structured EU monitoring, as well as their main drawbacks and limitations.

Keywords: Social Europe, minimum income protection, EU, social policy, social floor

JEL codes: I380

1 Introduction

The lack of progress in the fight against poverty stands in stark contrast to the ambitious European policy goals formulated ever since the Lisbon strategy. Whereas the situation has worsened considerably after the onset of the crisis, it is mainly the lack of progress in the pre-crisis years that indicates the existence of structural constraints against which the EU social governance was even then powerless (Cantillon, Collado, & Van Mechelen, 2015b; Cantillon & Vandenbroucke, 2014). In this paper, we ask what role the EU can play in facilitating progress towards the EU2020 targets and which instruments might be put in place. We argue that a broad approach to minimum incomes, including minimum standards in social assistance and minimum wages, is the place to start. We argue for a better monitoring of minimum income policies (in a broad sense) in the member states both in the social Open Method of Coordination (OMC) and in the European Semester, in line with previous EU policy initiatives. Using a comprehensive database of gross and net minimum wages, in-work-benefits and employment incentives for low-productive workers, we show country-specific policy mixes and point to imbalances, policy failures and successes.

The outline of this article is as follows. In the next section, we briefly discuss the disappointing poverty trends in the EU Member States, both before and after the crisis. In section 3, we then outline the social policy governance issues within the EU. We proceed by presenting minimum income protection as a policy area where increased EU social governance is both conceivable and needed. In section 5, we propose to include selected minimum income protection policy indicators in the social governance framework of the EU, in order to render the different policy choices explicit, and will hence enable a more transparent monitoring of policy effort towards adequate minimum income protection. We then discuss the data and method on which the proposed indicators build. In section 7, we use these indicators to capture the current variation in levels and trends of minimum incomes relating them to minimum wages, gross-to-net efforts and unemployment traps. Section 8 then discusses the main advantages and drawbacks of including these indicators. Finally, we conclude.

2 Disappointing and diverging poverty trends

Before the crisis, most of the old Member States did not realise any substantial improvement in the reduction of poverty for the working-age population. There were however significant decreases in many of the new Member States where poverty was initially above average: at that time, the Union experienced convergence (Vandenbroucke & Diris, 2014, pp. 6-7). However, in the post-crisis years most countries saw significant increases in the incidence of poverty among the working age populations (Gábos, Branyiczki, Lange, & Tóth, 2015; Vandenbroucke & Diris, 2014, p. 6). Moreover, ever since convergence has come to an end, increases were generally stronger in countries with above average poverty rates. This divergence between Member States has raised serious concerns. In particular, a persistent widening of the gap in social exclusion levels could lead to a dangerous polarisation within the EU (see e.g. Eurostat, 2015a). These observations stand in stark contrast to the poverty reduction targets formulated by the EU: first in the Lisbon strategy, and more recently (and

concretely) the intended reduction of persons in or at risk of poverty or social exclusion¹ by 20 million, in the EU2020 targets.

Since the crisis, in many countries, the most important drivers of increasing poverty are the increase in the share of jobless households *and* a marked increase of their poverty risk. Yet, it would not be warranted to conclude that these trends are just transitory, merely related to the crisis. They were indeed already observable before the crisis: at that time in many countries work poor households benefited less from job growth while the poverty reducing capacity of social protection decreased to the detriment of especially these households. This indicates severe and increasing *structural* difficulties to reduce poverty. Undoubtedly, external inegalitarian forces such as globalization, technological progress and individualization are to a large extent accountable for downward pressures on low paid work, the job opportunities for low skilled households and their incomes (see e.g. Cantillon et al., 2015b; OECD, 2011). Some countries were however more successful than others: this indicates the importance of social policies.

The increasing inadequacy of minimum income protection is a case in point. Various authors have demonstrated that social assistance levels eroded in a substantial number of countries over the past decades, a development that was particularly outspoken in the 1990s (Nelson, 2008; Van Mechelen & Marchal, 2013). As a consequence, today, even in the most generous settings minimum income protection for jobless households falls short of the at-risk-of-poverty thresholds, in particular for families with children. Moreover, although with important variations, in several EU member states the wage floor too has become increasingly inadequate for families with children (Cantillon, Collado, & Van Mechelen, 2015a).

A focus on adequate minimum income floors for workers and non-workers is necessary, as they are not only important *per se* but also because they i) may create the appropriate incentives to work while they ii) constitute the lower limit of the larger social protection systems. So, how can Europe contribute to decent incomes for the poor? How can a more successful European social policy agenda be envisaged that accommodates national diversity and autonomy? In an attempt to answer these questions we need to start from an appropriate understanding of the necessity to give more bite to social governance.

3 Social subsidiarity and weak ‘outcome’ governance

In creating the European Economic Community (EEC), the Treaty of Rome explicitly left social policy to the national level. The EU was aimed at economic integration, creating an internal market and reinforcing mobility (International Labour Organization, 1956). The logic was that the EU would create a common market, which would foster comparative advantages and thereby create a profitable division of labour based on heterogeneity. Trade unions would preserve a natural link between wages and productivity to keep social security differences out of competitiveness issues. Until today the dominant rationale in Europe is based on the confidence that social improvements would follow from market integration spill-over effects. Social policy within the EU is therefore structured around the principle of subsidiarity. EU level involvement has therefore remained limited to soft governance

¹ Persons in or at risk of poverty or social exclusion in EU2020 are defined as either living in a household with income lower than 60% of the national median equivalent household income, or living in a jobless or materially deprived household.

initiatives, such as the formulation of non-binding policy targets (the EU2020 social targets) and the monitoring of Member States' progress towards these targets in the Open Method of Coordination (OMC) and more recently in the revised EU monitoring process of the European Semester.

An ex post evaluation suggests that despite the absence of a supra-national social policy, in the post-war period the old EU Member States have succeeded in developing strong welfare state architectures. Until today there is conclusive evidence nor for a 'race to the bottom' nor for a strong convergence of social models. Rather reassuringly, developments in these regards point to different outcomes, based on which time period one looks at. But since the 1970s in different crucial areas things have changed thoroughly. In the past, the then European welfare states sailed on the tides of economic growth, strong productivity growth and equivalent increases of wages. They were pushed forward by strong trade unions and by "the sympathy of the (then) European governments for social aspirations" (International Labour Organization, 1956, pp. 86-87). The internal diversity of the Union was much more homogenous while labour markets remained largely confined within national borders. Today these conditions are no longer met. As a consequence, the logic of the internal market increasingly clashes with the principle of social subsidiarity.

For one, for a considerable time now, in many countries real wage growth no longer keeps pace with labour productivity growth, putting especially low wages and social protection under strain. This trend manifests itself in all developed nations but may weigh more heavily within the common market of the European Union. Since the 2004 and 2007 enlargements, internal disparity between the EU Member States is immense on both social and economic indicators (Vandenbroucke et al., 2013).

Secondly, the current degree of economic and financial integration seriously constrains national choices. The initial EU response to the sovereign debt crisis was to strengthen macroeconomic surveillance. New measures such as the Macro-economic imbalance procedure and the Fiscal Compact introduced stricter standards for fiscal discipline and reinforced sanction procedures. Likewise, the new overall governance framework of the European Semester adopted this focus. Such changes seriously inhibit the national room to manoeuvre².

Thirdly, creeping economic integration and continuous expansion have given rise to fears of welfare tourism and social dumping within the EU. Famous cases such as Rüffert, Laval and Viking illustrate how the European Court of Justice (ECJ) challenges nationally based social regulation (Ferrera, 2012, p. 22; Leibfried, 2010). These cases, combined with the 2004 enlargement, have only fostered such fears. This is exemplified by recent proposals to limit exportability of benefits and limit access to employment related benefits (Cameron, 2013). Even recent ECJ decisions reflect fears of benefit tourism (Verschuere, 2015). Yet such proposals and rulings that aim to prevent benefit tourism may in turn endanger the universality of free mobility.

In sum, the heterogeneity of European welfare states and the logic of social policy subsidiarity are historically linked, and may have spurred the development of (Western) European welfare states in the past. Yet the increased heterogeneity of the EU after enlargements, global technological changes putting low productive work under stress and increased mobility are testing the limits of this European approach. It precludes the status quo or the idea that national achievements can be protected by building 'firewalls' around welfare states and necessitates a soul-searching exercise on what role the

² Or, as Costamagna (2013, p. 5) puts it: "The interplay between the different components of the Semester gives to EU institutions an unprecedented capacity of policy formulation, guidance and monitoring on virtually the entire spectrum of Member States' economic and social policies."

EU should play in facilitating further social development. As its Member States are so heterogeneous and due to the lack of democratic capacity at the EU-level to organize the struggle over scarce resources, it would be impossible to think of a social Europe as a supranational welfare state. Yet, it is clear that convergence of social outcomes is needed to overcome differences that may be considered as dysfunctional to national welfare states. They should be protected and encouraged to become more performant : the Union should “support national welfare states on a systemic level ... and guide the substantive development of national welfare states – via general social standards and objectives, leaving ways and means of social policy to member states” (Vandenbroucke & Vanhercke, 2014, p. 86). Given the common pressures caused by globalisation and technological changes European welfare states are also in need of *collective* defence mechanisms.

The link between heterogeneity and subsidiarity has in the past fostered economic *and* social convergence. Back then it was generally thought that a European Social Union was not possible, not desirable and not necessary. Today, “defining the Union’s social objective is a necessity rather than a luxury” (Vandenbroucke, 2012, p. 3). Without denying the importance of the current social *acquis*, we urgently need new ways to think about social Europe. These ways should acknowledge the principle of subsidiarity, yet they should also more forcefully point national welfare states towards more efficient and adequate social protection. To be successful they should be pragmatic and incremental and, importantly, they should combine as far as possible economic and social rationales.

4 A broad focus on minimum incomes

For a number of reasons, a broad focus on minimum income protection, including minimum wages, seems to be the place to start. For one, we now know that social investment strategies and employment policies are important but not sufficient for poverty reduction (Cantillon & Vandenbroucke, 2014). If Europe wants to deliver on the Europe 2020 targets Member States must simultaneously fight unemployment traps and raise income packages for working and non-working families. Secondly, minimum income protection for jobless households has an important benchmark function, as it signals the bottom in the hierarchy of incomes within individual Member States. These minimum standards are however constrained by minimum wages which act as a ‘glass ceiling’ for social assistance (Cantillon et al., 2015b), hence the need for a broad focus on minimum incomes, including standards for national minimum wages.

Recent years saw the reorientation of social policy from more passive income compensation towards activation, social investment and “pre-distribution” (Hacker, 2011; Hemerijck, 2012). The European Commission has also embraced social investment “to ‘prepare’ people to confront life’s risks, rather than simply ‘repairing’ consequences” (European Commission, 2013a). However, the available outcome indicators clearly suggest that, even before the crisis, this paradigm shift has not achieved the desired poverty reduction (Cantillon & Vandenbroucke, 2014; Gábos et al., 2015). Even if we performed very well in social investment these observations point to the lasting importance of adequate minimum incomes for those in and out of work. Minimum incomes refer here to the income floor that is in principle guaranteed to all citizens. For a working age person out of work, this is often the general social assistance benefit (although there are exceptions, see Van Mechelen & Marchal,

2013)³. For those in work, most EU Member States have legislated minimum wages which in many cases are increased by in-work and family related benefits (Marx, Marchal, & Nolan, 2013).

These minimum incomes have repeatedly been a vehicle for proposals for a more caring Europe. The European Council, Parliament and NGOs alike have repeatedly pointed towards the importance of minimum income protection for those out of work (see for instance the 1992 Council's Recommendation 'common criteria concerning sufficient resources and social assistance in social protection systems' (92/441/EEC))(Council, 1992). However, it never went further than recommendations, proposals and resolutions. Recently, in June 2015, following a discussion of the college of Commissioners on 'Policy Orientations for a Social Europe', Commissioner Thyssen included the following statement in the Press Conference that followed:

"Our social protection systems need to remain sustainable for the future. I believe that upwards social convergence is the key to achieve this. We can encourage gradual convergence by establishing minimum standards, expressed in benchmarks. These can cover for example the duration and level of unemployment benefits, minimum income or access to child care or basic health care. I believe the European Semester would be the appropriate instrument to monitor its application."

Likewise, at several occasions both the European Parliament and the Council of Europe have expressed concerns about minimum wage levels across Europe⁴. In 2013 then Eurogroup president Jean-Claude Juncker advocated an agreement on a European minimum wage while France and Germany proposed "minimum wage floors, defined at national level that would guarantee a high level of employment and fair wages – leaving the choice between legislation and collective-bargaining agreements" (cited by Vandenbroucke, 2014, p. 22).

The principle of European standards for national minimum incomes *sensu lato* has the support from the new European Commission. Also the ETUC favours minimum social protection standards, although the unions have not yet reached a consensus on standards for minimum wages (European Trade Union Confederation, 2013).

In the 2008 Active Inclusion Recommendation the European Commission acknowledged the inherent relationship between minimum wages, social assistance and work incentives. In this Recommendation, the Commission reinforced the 1992 Council Recommendation with a more focussed message on active inclusion by "combining adequate income support, inclusive labour markets and access to quality services" (2008/867/EC).⁵ Here the Commission explicitly linked minimum income protection for those out of work ("those on a large distance from the labour market") to their chances and prospective income on the labour market (European Commission, 2008; Marchal & Van Mechelen, forthcoming). However, this recommendation does not go beyond very broad and non-binding general

³ This is not to say that other income replacement schemes may not be more empirically relevant, either in size or scope, for unemployed working age persons. Yet, these do not provide a *guaranteed* minimum, but depend on contribution records and/or prior work history and wages. A minimum income reflects the absolute floor of what a society deems acceptable protection for persons on either fringe of the labour market, and, moreover, consequently stipulates a minimum floor for the entire building of (replacement and other) incomes.

⁴ See for concrete proposals Schulten (2014) and Eurofound (2014).

⁵ This Recommendation was eventually affirmed by the European Parliament (resolution of 6/5/2009). In 2010 the European Anti-Poverty Network (EAPN) launched The European Minimum Income Network (EMIN) – based on the 2008 Recommendation – and released a draft 'Framework Directive on Minimum Income' (Van Lancker, 2010).

objectives and policy suggestions, and until today, it remains with only very limited impact (European Commission, 2013b; Frazer & Marlier, 2013; Marchal & Van Mechelen, forthcoming).

In this paper we argue that, in the spirit of the 2008 Recommendation, a thorough assessment of minimum income protection necessitates a synthetic view on the income floors for those out- as well as in-work, i.e. including social assistance and minimum wages. Admittedly, poverty reduction is often not considered as the main justification for minimum wages. The impact of minimum wages on poverty is indeed rather limited since many minimum wage earners can rely on other household incomes (Eurofound, 2013; Nolan & Marx, 2009). Yet, minimum wages are at least *indirectly* important for two reasons: first, because they may relate as a “glass ceiling” to minimum benefits for jobless households and, second, because they have an impact on unemployment traps of low-skilled seeking a job (Cantillon et al., 2015b). Policy makers’ common sense indeed dictates to maintain a reasonable wedge between minimum income benefits and low wages. Either policy makers should ensure that wages are sufficiently high at the bottom of the distribution in order to enable adequate out-of-work benefits, and/or they should boost net take home pay from low-paying jobs, and/or they must accept relatively low work incentives conditional on stringent activity requirements and strong active labour market policies.⁶ So conceived, there is an inextricable link between minimum wages, minimum income protection and work incentives for low productive workers. This is why we argue that a broad focus on minimum incomes should be taken.

5 Adding ‘input indicators’ to the outcome governance

All of the abovementioned initiatives deviate to varying extent from common EU social policy governance. The Lisbon strategy, the related OMC Social inclusion and the social targets within Europe 2020 are based on non-binding outcome targets that leave it to the Member States to outline policy strategies - and in general, also their own national social outcome targets - the initiatives listed above explicitly point to specific policy tools (in casu minimum income protection measures). Important in the present context is the agreement at the highest policymaking level on the setting of a European poverty line at 60% of median equivalent income in any given country. Various other indicators build on this notion, including those relating to poverty risks in jobless households, and the depth and duration of poverty risks. These income indicators are prominently present within the portfolio of indicators.

The indicators were subsequently refined and enhanced, not least thanks to the excellent work of the Indicators Sub-Group (Marlier et al., 2010). In addition to the original outcome indicators, designed to measure progress towards the common objectives, a number of *policy* indicators were introduced. For the purpose of the OMC Social Protection, replacement rates for pensions were included, as was an indicator of the adequacy of social assistance benefits (by comparing them to the relative poverty line), albeit merely as a contextual variable, not as an indicator for policy evaluation. The initiatives listed above however explicitly point to specific policy tools (in casu minimum income protection measures).

Vandenbroucke et al. (2013) distinguish in this regard between input and output, and first-order and second-order governance. Second-order governance merely seeks to influence existing policy structures and objectives, whereas first-order governance aims to replace or adjust existing policy

⁶ These are the options from a concern with work incentives and legitimacy. Bringing budgetary concerns into focus evidently further complicates the matter.

strategies more directly. Both governance modes may target policy outputs (in casu social outcomes) or input (policy instruments). Hence, the current OMC Social Inclusion can be firmly categorized as second-order output governance⁷ whereas the proposals mentioned above vary from (non-binding) first- to second-order *input* governance. Binding input governance in the field of minimum income protection is according to Vandenbroucke et al. (as illustrated by their discussion of the European Anti-Poverty Network's (EAPN) proposal for a minimum income protection directive) at this stage in the EU convergence process improbable, for a variety of reasons. In particular, an EU-level guideline would require different redistributive efforts in and across Member States and have a varying impact on dependency traps, putting disproportionate stress on poorer countries.

Therefore, in this paper we take a step back. Is it possible to square the obvious importance of minimum income protection (outlined in the previous section) and the need for a more social Europe with the enormous international variation and European social subsidiarity, and if so, how?

In the wake of the budgetary Eurozone crisis, the EU has increased the policy monitoring of its Member States through the European Semester⁸. Whereas the focus was initially on macro-economic indicators, more recently, the monitoring includes the progress towards the Europe 2020 outcome targets, including the poverty reduction target. In a detailed analysis of recent developments in the EU's institutional architecture for economic and social governance Zeitlin and Vanhercke (2014) argue that "since 2011 there has been a partial but progressive 'socialization' of the European Semester". Obvious examples are the inclusion of auxiliary social outcome indicators in the macro-economic imbalance procedure⁹, and the separate development of the Social Scoreboard. This Scoreboard monitors progress on five social outcome indicators, including the unemployment level and the real disposable household income. These recent advances open up an opportunity *and* a necessity to include input indicators in the monitoring process, thereby allowing for a first step along the continuum of non-binding second-order output governance towards input governance.

This is even more the case as some of the country-specific recommendations the Commission voices in the process of the European Semester already point to particular policy tools, such as the level of the minimum wage and the organization of minimum income protection (e.g. Council, 2015a; Council, 2015b). However, systematically basing these country-specific recommendations on uniform indicators assessed through a clear analytical grid will render them more forceful as well as more coherent.

Including carefully selected input indicators in the streamlined EU policy monitoring process, on top of the currently used outcome indicators, has a number of advantages. For one, the EU and the Member States would be rendered accountable for the social quality of economic policies and anti-poverty strategies by conceptualizing these strategies as a means of realizing the fundamental social rights of

⁷ The OMC is a continual and sequential process of defining objectives, peer review, identification of 'best practices' and country specific recommendations. It is based around the formulation of outcomes. The objectives are clearly quantitatively defined by means of social indicators. In line with the notion of an 'objectives-oriented policy' the indicators were originally intended for measuring social policy outcomes (rather than policy effort): "The aim is to measure social outcomes, not the means by which they are achieved" (Atkinson, Cantillon, Marlier, & Nolan, 2002, p. 20).

⁸ This is a structured policy monitoring cycle, with fixed and streamlined reporting and feedback moments.

⁹ See also Costamagna (2013, p. 23): "The new social indicators have been swiftly included in the scoreboard used for the Alert Mechanism Report 2014, which is the first to put the deterioration of the social situation among the factors that are taken into account to determine whether a State is experiencing macroeconomic imbalances."

citizens (Vandenbroucke et al, 2014). Secondly, adding policy indicators pertaining to minimum income packages to the Social Scoreboard will be helpful to link outcome indicators (i.e. the reduction of at-risk-of-poverty and joblessness) to policies. A well thought-out selection of indicators can bring out different policy mixes, available options and potential imbalances. Without interfering with national authority and policy structures, such contextualized indicators can indicate imbalances in the nexus of minimum wages, work incentives and minimum incomes for jobless households. In line with the aforementioned initiatives, most in particular the 2008 Active Inclusion Recommendation, this leaves room for subsidiarity, monitoring and mutual learning, starting from a broad view of the overall quality of social policy. The aim should be to support the Member States to find adequate country-specific economic and social balances.

6 Data

Policy indicators should measure policy *input* solely, not confounded by demographic or other variables. This requirement excludes commonly used spending indicators. The indicators should solely inform on the policy design and policy choices regarding the balance of minimum income protection for different target groups, in casu working and non-working households. They should, in line with the 2008 Recommendation, gauge the interrelations and incentive effects at the bottom of the labour market. This can be achieved by indicators based on standard simulations of the net disposable income packages of hypothetical families. Standard simulations are calculations of income packages for a hypothetical family, solely based on the applicable tax benefit rules and the definition of the family type. By keeping the definition of the family type constant across countries and over time, shifts in the income package (and its components) are solely based on differences or shifts in policy. Moreover, results are easily comparable across countries, and intuitively understandable. An additional advantage of using standard simulations is that data requirements are limited, allowing for a timely release of the indicators. Moreover, a longstanding academic and institutional interest in the gathering and refining of standard simulations on minimum income protection guarantees valid indicators (Bradshaw & Finch, 2002; Cantillon, Van Mechelen, Marx, & Van den Bosch, 2004; Eardley, Bradshaw, Ditch, Gough, & Whiteford, 1996; Gough, Bradshaw, Ditch, Eardley, & Whiteford, 1996; Immervoll, 2009; Nelson, 2008; Van Mechelen, Marchal, Goedemé, Marx, & Cantillon, 2011). Likewise, the European Commission has supported various initiatives to ensure comparable standard simulations of Member States' policies. For instance, the Commission funds an extension of the OECD's Benefits and Wages simulations for the non-OECD EU Member States. The results of these simulations are published by Eurostat. Also, the Commission is currently funding an add-on to the microsimulation tool EUROMOD that will allow for extremely versatile standard simulation possibilities for the EU Member States.

It is important to note that due to our focus on standard simulations, we limit ourselves to a focus on income only. Admittedly, this gives only a partial picture: the adequacy of minimum income schemes is defined not solely by the level of household income it guarantees, but also by the definition of the eligible persons, residential duration requirements, and means-tests on the one hand and additional cost compensations and in kind benefits for low income families on the other. Strict means-tests, work

conditions, severe residential requirements, stigma... may limit access in a prohibitive way.¹⁰ This limitation of the indicators should be borne in mind. A more specific drawback of standard simulations is the heavy reliance on the definition of the model family. The underlying assumptions may substantially impact on the results *inter alia* because of the large variation of family formation across the Union. The model family should therefore be carefully selected and contextualised.

For our purposes, we define the model family as a lone parent household with two children, in a minimum income situation. We focus on a lone parent type case, as this is a case where policy choices are straightforward. Indeed, a comparison of policy choices regarding minimum income protection for couples might be marred by international differences in views regarding non-working spouses in breadwinner couples. In addition, lone parent households are generally at a higher risk of poverty (see Vandenbroucke & Vinck, 2013), despite policy attention and efforts in recent years (Marchal & Marx, 2015). We assume this lone parent household to have no savings or social insurance entitlements. In the out-of-work case, the household has no income, and therefore fully relies on the applicable minimum income protection scheme, and other income components insofar the household is eligible to them, such as child benefits or housing allowances. Our focus is on the absolute minimum floor guaranteed to EU citizens, meaning that we exclude discretionary income supplements. In the corresponding in-work case, we assume the lone parent to be full time employed at the statutory minimum wage, or an equivalent proxy of the wage floor. The number of hours worked in full time employment¹¹ is in line with national regulations, or in the absence of those, with common practice according to consultations with a national expert. As is the case for the out-of-work case, we take account of all applicable non-discretionary tax benefit regulation when calculating this family type's net disposable income package.

The two indicators show the adequacy of the final net income floor for lone parent households out-of-work and in full-time employment. Yet to capture the balance and policy choices regarding minimum income protection in the light of the 2008 Recommendation, we furthermore include three additional indicators: the financial incentives to work (defined as the income difference between full time minimum wage employment and net social assistance income), the gross minimum wage and the gross-to-net welfare effort (calculated as the difference between the minimum wage and the final disposable income), all expressed relative to the EU at-risk-of-poverty threshold. We consider this measure a relevant benchmark to assess the adequacy of minimum income protection, in light of the 2010 resolution on minimum income protection (European Parliament, 2010) and the EU2020 targets. The values for these poverty thresholds (at 60% of the national median equivalized household income) are obtained from Eurostat (2015b). The values are either based on the EU-SILC survey or on administrative data (for 2009 and 2012), or on the ECHP survey (for 2001). This may potentially lead to comparability issues. Yet, in this paper, we use these values as given.

The simulated income packages are extracted from CSB MIPI, a data set on minimum income protection hosted by the Herman Deleeck Centre for Social Policy at the University of Antwerp, as this dataset specifically comprises information on minimum wages. Nonetheless, similar indicators can be

¹⁰ Studies that cross-nationally assess these limitations specifically for minimum income protection are rare (but see for instance Bargain, Immervoll, and Viitamäki (2010), Immervoll, Marianna, and Mira d'Ercole (2004) and Eurofound (2015) on coverage and non-take-up, Marchal and Van Mechelen (forthcoming) on activity requirements and De Wilde (2015) on the discretionarity of case workers.

¹¹ It goes without saying that full-time employment may be very difficult for a lone parent to combine with care responsibilities. Moreover, the standard simulations do not take account of potential child care costs.

construed based on the OECD Benefits and Wages data¹² and in the near future by the EUROMOD HHOT tool. We include all EU Member States on January 2012, bar Cyprus, Malta, Sweden and Latvia. The lone parent type case in CSB MIPI concerns a 35-year old divorced lone parent, with 2 children aged 7 and 14. CSB MIPI only includes non-discretionary rights-based income components. Generally, this means that benefits tied to additional conditions (other than the ones emanating of finding oneself in a minimum income situation) are not included. When no statutory minimum wage exists, simulations are based on a proxy of the wage floor. For Austria, Finland, Denmark and Italy, we use the sectoral minimum wage in a low-paid sector. For Germany, the standard simulations are based on an hourly minimum wage of €7.5.¹³ Also, in some countries, minimum income protection generosity is a regional or local responsibility. In those cases the simulations are based on legislation in a particular region or municipality (see Van Mechelen et al., 2011 for more information on the underlying assumptions of the standard simulations).

7 Minimum incomes in Europe: a wake-up call

In this section we show how the proposed indicators can be used. First, we focus on the different balances in minimum income protection for lone parents out- and in-work. Next, we illustrate how we can monitor changes in policies using these indicators. A robustness check of the indicators is provided in appendix.

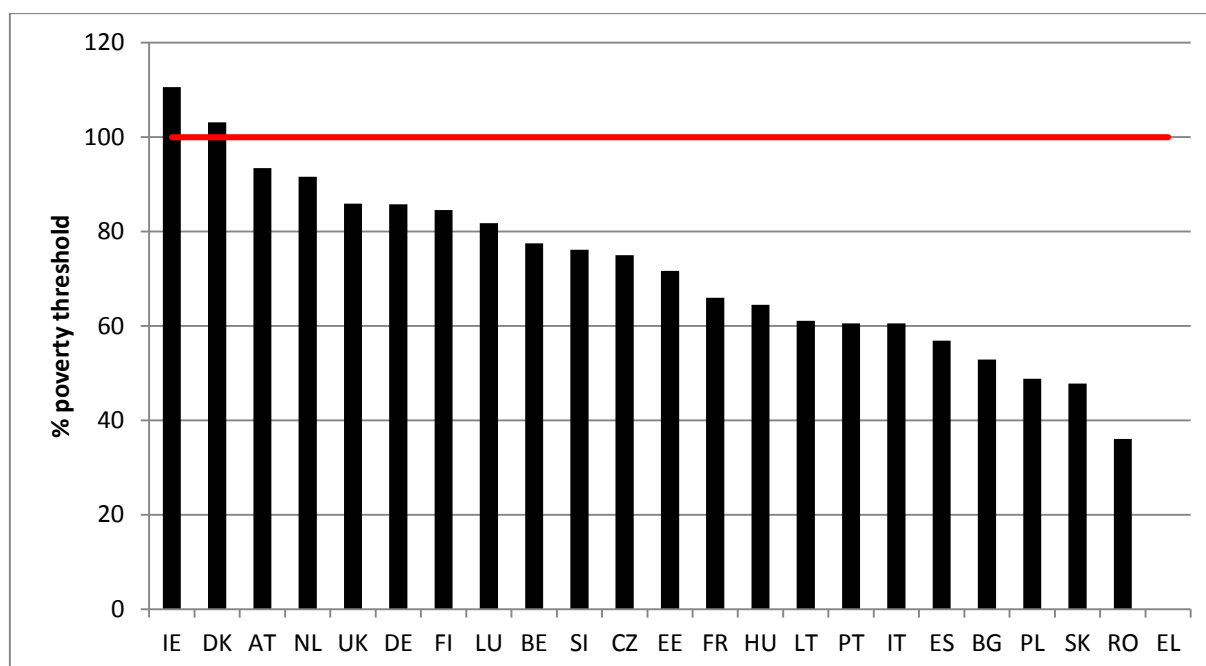
7.1 Levels

We measure the adequacy of minimum income protection by comparing the rights-based net income packages of the model family to the EU at-risk of poverty threshold at 60% of the national median equivalent household income. The net income packages take account of all rights-based benefits, hence ensuring to measure truly functional equivalent income protection measures. In most cases this comparison shows a substantial inadequacy of net income packages for jobless lone parents (see figure 1). However, differences between EU Member States are enormous, ranging from less than 40 of the poverty line in Romania to adequate levels in Denmark and Ireland. Roughly speaking, net income packages are relatively more generous - though still inadequate - in the richer Member States than in the poorer ones.

¹² We include a robustness check of our findings to the OECD Benefits and Wages data in the appendix.

¹³ This value was selected as it was frequently proposed in the public debate regarding the introduction of a minimum wage at the time the data were collected, in 2012. This decision was further backed as the lower third of the sectoral minimum wages was around this value. In the end, the German government introduced a statutory hourly minimum wage of €8.5 in 2015.

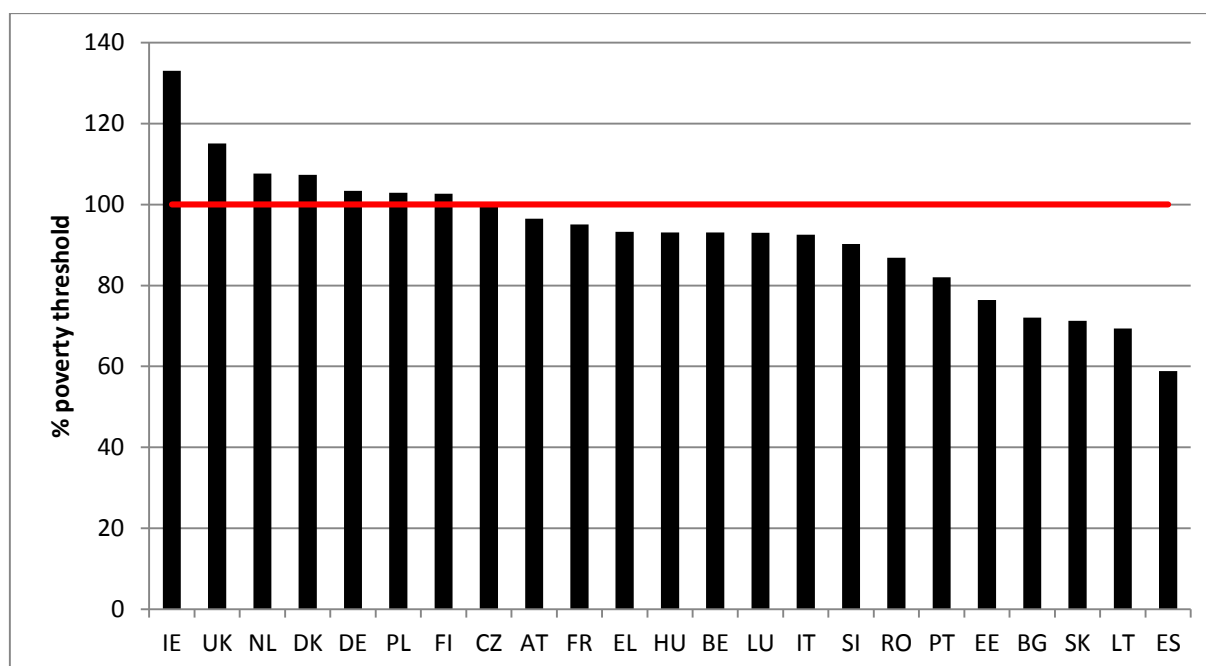
Figure 1. Net disposable income at social assistance, as a % of at-risk-of-poverty threshold, lone parent with 2 children, 2012



Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011), poverty thresholds from Eurostat (2015)

More countries shift to adequate (or near adequate) income protection in the case of full-time work at minimum wage. However, the number of countries where full time employment at minimum wage level does not guarantee an income above the poverty threshold remains substantial (figure 2). Moreover, only in very few countries the disposable income of jobless lone parents exceeds the poverty line by more than 10 percentage points (see figure 3): this points to the need of increasing minimum wages and/or the acceptance of more modest financial incentives as preliminary conditions for more adequate social floors.

Figure 2. Net disposable income at full-time minimum wage employment, lone parent with two children, as a % of the at-risk-of-poverty threshold, 2012



Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011), poverty thresholds from Eurostat (2015)

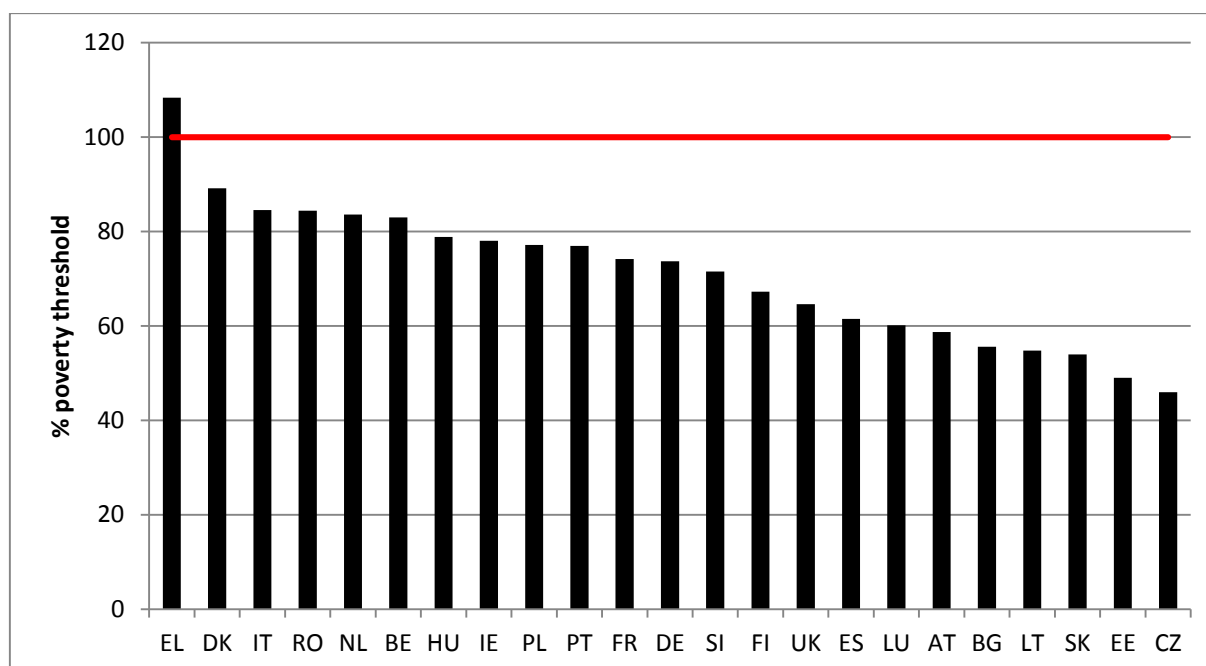
To what extent is the inadequacy of net in-work income related to low gross minimum wages? And how important are the gross-to-net-efforts that countries make to increase the take home pay of minimum wage earners? We start with an inspection of the relationship between gross minimum wages and the poverty thresholds (figure 3).

As a general rule, gross minimum wages do not suffice to protect lone parents with two children against income poverty. However there is a quite large variation in relative values across countries, ranging from a low 46% of the poverty line in the Czech Republic to a high of 84% in Romania and 108% in Greece¹⁴. Importantly, we do not observe any correlation between GDP and the relative level of gross minimum wages. High levels (at least relative to the poverty threshold) are in place in some of the rich countries (such as the Netherlands and Belgium) but also in some of the countries with below average GDP. Relative minimum wages in Greece, Italy and Romania belong to the highest in Europe. In contrast, some of the rich countries display quite low relative gross minimum wages. This is the case in Austria, Luxemburg and the UK. Depending on the sectors and the number of workers affected this might signal problematic imbalances between productivity and labour costs of low-wage workers within the EU and possible ensuing negative spill-over effects¹⁵.

¹⁴ The Greek data already include the stark reduction of the gross minimum wage that was implemented in February 2012. However, unlike for the other countries, the simulations for the Greek minimum wage case do include experience-related top-ups. Nonetheless, the Greek gross minimum wage remains one of the highest within the EU, though less exceptionally so, if we take account of i) this inclusion of the legally-backed increase of the minimum wage for employees with 6 years of experience in our data, and ii) the fall of the median equivalent household income in the wake of the crisis.

¹⁵ In the context of the macro-economic imbalance procedure spill-overs are defined as situations in one country that lead to problems in (an)other country(ies).

Figure 3. Gross minimum wage relative to the at-risk-of-poverty threshold for a lone parent with 2 children, 2012



Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011), poverty thresholds from Eurostat (2015)

Most countries provide substantial direct additional income support to lone parent families that rely on a full-time minimum wage (the grey bars in figure 4). The value of benefits, such as housing allowances, heating allowances, child benefits and tax credits, generally surpasses any taxes or contributions. Again, the variation across countries is enormous. Gross-to-net efforts range from a negative 15 % of the poverty line in Greece to 54% in the Czech Republic and 50% in the UK. However, despite these gross-to-net efforts disposable incomes at a full-time minimum wage only protect against poverty in a limited number of countries. Only in Denmark, the Netherlands, Ireland, Poland, Slovenia, the UK and the Czech Republic disposable incomes of lone parents on minimum wage exceed the poverty threshold thanks to welfare state efforts.

Table 1. Correlations between the proposed indicators, all expressed as % of the poverty threshold, 2012

	Net social assistance ^a	Net minimum wage ^b	Minimum wage	Gross-to-net effort	Financial incentive
Net social assistance ^a	1				
Net minimum wage ^b	0.5478	1			
Minimum wage	-0.2513	0.3786	1		
Gross-to-net effort	0.7278	0.6155	-0.4965	1	
Financial incentive	-0.7323	0.1685	0.6043	-0.3565	1

Note: ^a Net disposable household income at social assistance; ^b Net disposable household income at full-time minimum wage employment

Source: CSB MIPI Version 3/2013; own calculations

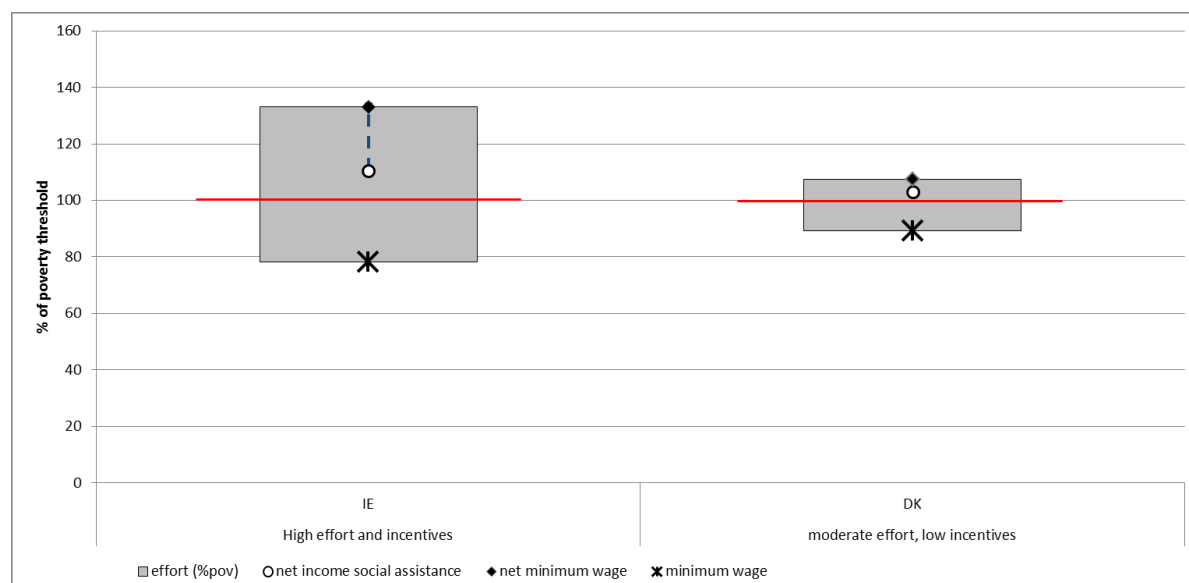
Comparing gross minimum wages with the ‘gross-to-net’ efforts a strong negative correlation appears (see table 1): efforts to increase the take home pay of low wage earners tend to be higher in countries where minimum wages are low and vice versa. This suggests that countries tend to accommodate low gross minimum wages by social and tax spending while in some others relatively high minimum wages are taxed and used as a source for welfare state funding. This may amplify the problem of imbalances and spill overs mentioned earlier adding an economic rationale for a European monitoring of national minimum income packages *sensu lato*.

Finally, and not unimportantly, there also is a large variation in the wedge between net income at minimum wage and the net social assistance benefit: some countries accept very limited financial work incentives (e.g. Denmark, Austria) while in others the financial gains are exceptionally high. In Romania and Poland the difference between minimum incomes for jobless households (social assistance) and net income at minimum wage is larger than 50% of the poverty line. Other countries have installed financial incentives in a broad range of 10 to 30 % of the poverty threshold.¹⁶ Altogether, in Europe the social minimum floor (defined as disposable incomes for workless lone parents with 2 children) correlates with welfare state efforts, work incentives and – albeit to a much lesser extent – with the level of the gross minimum wage. This suggests a large variation in policy packages. Taking the adequacy of minimum incomes for working and non-working lone parents we distinguish a variety of low, middle and high roads.

¹⁶ Financial incentives are generally larger for singles without children (see robustness check in appendix).

Figure 4. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012

Panel A. High road: Adequate minimum income protection packages in- and out-of-work



Panel B. Middle road: adequate minimum income package for a working lone parent family, inadequate out-of-work protection

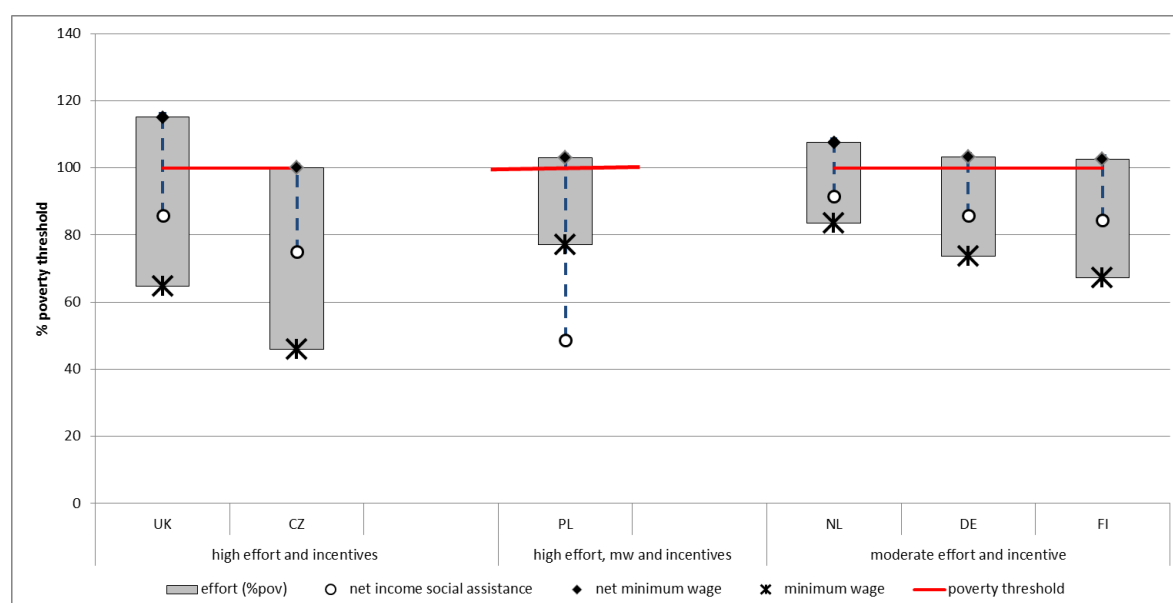
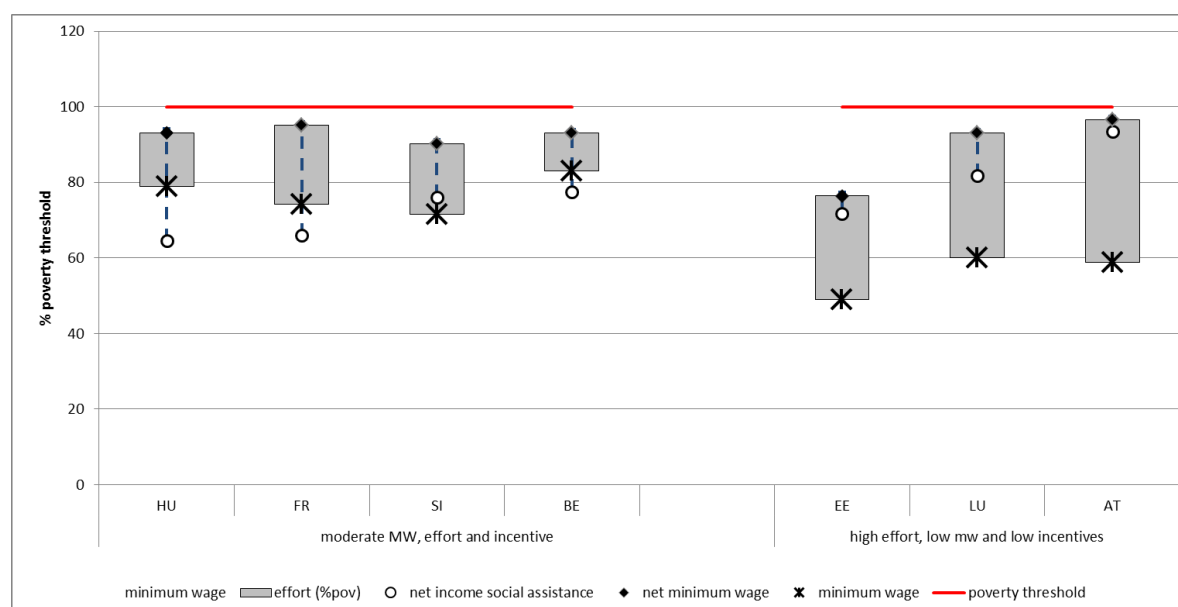
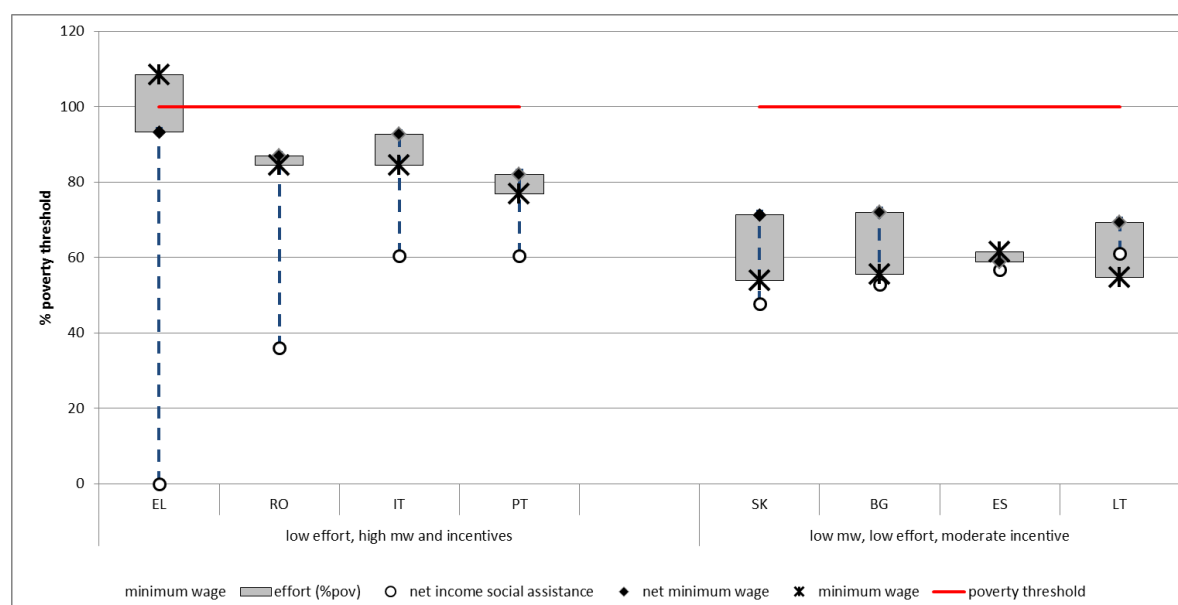


Figure 4. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012 – ctd.

Panel C. Low road: inadequate minimum income packages, both out and in work



Panel D. Low road: inadequate minimum income packages, both out and in work



Note: Countries are ranked according to the level of the net income at social assistance. Social assistance in ES and IT is based on legislation in Catalonia and Milan respectively. No social assistance in EL. In DK, DE, FI, AT and IT no statutory minimum wage existed in 2012. Standard simulations are based on a proxy of the wage floor. Data for EL and BG include experience related top-ups (the lone parent is assumed to be 35 years old). Financial incentives: income gain when moving from social assistance to full time minimum wage employment.

Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011); poverty thresholds from Eurostat (2014)

In Figure 4, we bring these indicators together. Countries are divided in three groups, based on the adequacy of their income floors using the 60% of median income threshold as a benchmark: high road countries, where the guaranteed minimum income protection package for in- and out-work lone parent households exceeds the poverty threshold. This was in 2012 only the case for Denmark and Ireland. In middle road countries, the guaranteed net income package of a working lone parent family exceeds the poverty threshold, but the final income protection for jobless lone parent families is inadequate. This was in 2012 the case in six more countries: the UK, the Czech Republic, Poland, the Netherlands, Germany and Finland. Finally, in the third group of low road countries, income protection for both families in-work as out-of-work is inadequate.

Within these groups the policy packages differ enormously: we can distinguish six different stylized trajectories (with many shades of grey in between):

1. **High road/middle road through** relative high minimum wage, high gross-to-net effort, high work incentive, adequate incomes for working and jobless households: Ireland is the only country that combines all these factors while guaranteeing adequate minimum income protection packages. Starting from far lower minimum wages the UK and the Czech Republic also combine high gross-to-net efforts with substantial financial incentives, but only realize adequate incomes for working families.

Poland appears to be the odd man out. A substantial effort tops up a high gross minimum wage to an adequate net disposable in-work income. Yet this is combined with particularly low social assistance benefits, leading to very high financial incentives.

2. **High road/middle road through** high gross minimum wage, moderate effort, adequate incomes for working households combined with low work incentives resulting in a relatively high social floor: this is the strategy pursued in the second high-road country Denmark. Less extreme (and also less generous) variations of this type can be discerned in the middle-road countries the Netherlands, Germany and Finland, where somewhat lower minimum wages are topped up to above the poverty thresholds through modest gross-to-net efforts. Inadequate social assistance benefits leave room for some modest financial incentives.

Inadequate net minimum incomes, both in-work as out-work are far more common. Nonetheless, there is quite some variation in both the extent of inadequacy in these **low road** countries, as the relative balance between minimum incomes they seek: the inadequacy of minimum income packages in the countries presented in panel C is far less severe than those in the countries shown in panel D.

3. **Low road through** low gross minimum wage, moderate to high efforts, nearly adequate incomes for working households combined with low work incentives resulting in a relatively high social floor (Austria, Luxembourg, Estonia)

4. **Low road through** a moderate to high minimum wage, a modest gross-to-net effort, inadequate incomes for working households combined with low work incentives and a moderate social floor (Belgium, Slovenia). The combination of a somewhat lower social assistance benefit and more substantial effort lead to higher work incentives in France and Hungary.

5. **Low road through** high gross minimum wage, low effort, inadequate incomes for working families combined with high work incentives and no or a very low social floor (e.g. Greece, Italy, Romania)

6. **Low road through** low gross minimum wage, low gross-to-net effort, highly inadequate incomes for working households combined with low or moderate work incentives result in a low social floor (Spain, Lithuania, Slovakia and Bulgaria);

Although optimal policy mixes cannot not readily be defined¹⁷ - they should take into account such things as the large variation in activation policies (Marchal & Van Mechelen, forthcoming), the share of low paid work, additional cost compensations , budget constraints... - the analytical grid is useful to indicate possible social imbalances. The cross-national comparison of the country-specific relations between the adequacy of minimum incomes, work incentives, minimum wages and gross-to-net efforts suggest that in order to make minimum incomes more adequate:

- a) some countries could consider an increase of the 'gross-to-net' effort (e.g. Belgium);
- b) others might rebalance gross minimum wage, minimum income protection and financial work incentives (e.g. Romania and Poland);
- c) yet in another set of countries there might be room for increasing minimum wages (e.g. Luxemburg).

For many countries however, raising the net income for those out of work will require an equivalent increase of the net income for those in work, either through a relative increase of gross minimum wages or through bigger gross-to-net efforts. This points to the close link between minimum wages and social assistance, hence the importance of a broad perspective on minimum income standards.

7.2 Trends

So, in which direction did countries evolve in the past decades? Table 2 and Table 3 show changes in the 1990s and 2000s. In order to ensure comparability over time, there are some differences with the indicators presented in the former section while some countries are excluded because they lacked a statutory minimum wage at the beginning of the considered time period.

In the nineties in five out of the nine countries included we observe a deterioration of the adequacy of the minimum social floor for jobless households¹⁸. In all these cases this was related to gross minimum wages sliding away from median household incomes. Welfare states reacted by increasing the gross-to-net efforts. While in most cases financial incentives remained unchanged or increased¹⁹ these efforts were however insufficient to compensate for declining minimum wages.

¹⁷ Indeed, although there are good reasons for policy makers to wish to maintain a certain gap in the income gained from work and from benefits, some countries do not maintain a significant hierarchy. The example of Denmark comes to mind. There are indeed reasons to assume that "ideal" financial incentives may differ across countries, such as work culture, the availability of low-paid jobs, or policies that make the combination of work and family life easier. Recommendations regarding financial incentives therefore seem solely warranted for countries where such a recommendation would be supported by outcome data, or where financial incentives are especially large outliers.

¹⁸ Increases were observed only in Vienna, France, Milan and Portugal.

¹⁹ Exceptions are limited to countries with non-representative regional or local minimum income schemes (Spain and Italy), and Portugal, which introduced a minimum income scheme in 1996.

Table 2. Changes in indicators, 1992-2001

Country	Net disposable income at social assistance	Net disposable income at minimum wage	Minimum wage	Effort	Financial incentive
NL	-	-	-	+	+
ES	-	-	-	=	-
DE	-	-	-	-	=
LU	-	+	-	+	+
BE	-	+	-	+	+
IT	+	-	-	+	-
EL	=	-	-	=	=
PT	+	+	-	+	-
FR	+	+	+	=	+
AT	+	+	+	+	=

Note: more than one percentage point change upwards or downwards on the indicator over the period. Countries are grouped by decrease/increase net social assistance and decrease/increase net disposable income at minimum wage; and within those groups ranked by trends gross minimum wage.

Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011)

In the 2000s the picture is more diffuse. In a majority of countries net disposable income at minimum wage increased while in half of the countries social assistance too became more adequate. However, in a sizable number of Member States, including countries where the social floor was low to start with, minimum incomes decreased compared to the poverty threshold signalling possible social imbalances. Two further conclusions stand out. First, in almost all countries where gross minimum wages declined disposable incomes for both working and non-working households decreased. Conversely, increases in minimum wages were usually accompanied by increases of the minimum floor. Again this points to the interrelationship between minimum wages and social assistance. Second, financial incentives in general became stronger, both in countries where they were absent or low for this family type to start with, as well as in countries where they initially were quite substantial. Arguably, this reflects a common focus on employment related welfare reforms.²⁰ In general, the trends in the 2000s give ground for some optimism: in many countries the social floor became more adequate through increased gross-to-net spending and/or higher minimum wages.

²⁰ The same policy route has recently been taken by the British government.

Table 3. Changes in indicators, 2001-2009/2012 (most recent available)

Countr y	Net disposable income at social assistance	Net disposable income at minimum wage	Minimum wage	Effort	Financial incentive
IT	-	-	-	+	+
FR	-	-	-	+	+
CZ	-	-	-	-	+
FI	-	-	=	-	+
EE	-	-	+	-	+
PL	-	+	-	+	+
SE	-	+	-	+	+
LT	=	+	-	+	+
BE	+	=	-	+	-
PT	+	+	+	+	+
ES	+	+	+	-	-
LU	+	+	+	+	+
UK	+	+	+	=	+
SI	+	+	+	+	+
HU	+	+	+	-	=

Note: more than one percentage point change upwards or downwards on the indicator over the period. Countries are grouped by decrease/increase net social assistance and decrease/increase net disposable income at minimum wage; and within those groups ranked by trends gross minimum wage.

Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011)

8 Conclusion

In contrast to the practices in the sphere of economic governance where Member States have to comply with sometimes very detailed *policy recommendations*, the current *social acquis* is open and flexible with a focus on merely non-binding, broadly defined outcomes and ad hoc recommendations. Notwithstanding a progressive ‘socialization’ of the European Semester in the recent past this approach clearly lacks the necessary bite to truly address inequalities and poverty. Better monitoring of policies and social outcomes would in particular help to improve the design of policies recommended to countries undergoing macroeconomic adjustments. This would also foster convergence. The introduction of auxiliary indicators certainly contributed to enhance the analytical potential for monitoring social developments during adjustment processes. However, because the link with policies is not made explicit they have only limited and sometimes incoherent operational impact on the corrective measures that States have to adopt.

Yet, these recent advances open up an opportunity to include policy indicators in the monitoring process, thereby allowing for a first step along the continuum of non-binding second-order output governance towards input governance. Including carefully selected indicators of policy packages in the streamlined EU policy monitoring process, on top of the currently used outcome indicators, has a number of advantages. For one, the EU and the Member States would be rendered accountable for the social quality of economic policies and anti-poverty strategies in a more concrete way, starting from the fundamental social rights of citizens. Secondly, adding policy indicators pertaining to minimum income packages to the Social Scoreboard will be helpful to link broadly defined outcome indicators (i.e. the reduction of at-risk-of-poverty and joblessness) to policies. A well thought-out selection of indicators can bring out different policy mixes, available options and potential imbalances. This would allow for better and more coherent policy recommendations.

Thereby, a broad approach should be taken, including principles for minimum standards in social assistance *and* minimum wages. Often it is not so perceived but, especially in a context of budget restraints, minimum wages and minimum income protection for jobless households are inextricably related to each other. Therefore, as a first step and in line with the 2008 Active Inclusion Recommendation, a modest shift should be envisaged to “second order *input* governance” by including policy input indicators regarding *minimum income protection sensu lato* in the recently revised EU monitoring process of the European Semester.

For some, this proposal may seem to be lacking in ambition, but, like the national social protection systems, social Europe will need to be established incrementally, step by step. Later, in order to give more bite to the abovementioned actions, starting from the abovementioned 2008 Active Inclusion Recommendation, a EU framework on minimum incomes *sensu lato* should be put in place, not only as a guideline for national governments but also to rebalance the legal asymmetry between economic and social standards. If the EU 2020 targets on the reduction of the EU population at risk of poverty or social exclusion are to be taken seriously this seems to be a necessary next step.

9 Annex

9.1 Robustness check with OECD data

The MIPI data are not the only internationally comparable standard simulations of minimum income protection arrangements. The OECD runs a tax benefit simulation model that provides estimates of the financial incentives to take up employment, the Benefits and Wages series (<http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm>). Similarly, the EUROMOD team at the University of Essex is currently developing a model family simulation extension to EUROMOD in collaboration with the Herman Deleeck Centre for Social Policy at the University of Antwerp.

For this paper, the authors have chosen to use the CSB MIPI data, as they were collected by the core team with the explicit aim to capture minimum income situations (i.e. the social floor) rather than capturing budget constraints. As explained in the data section, CSB MIPI builds on custom made simulations provided by national experts in accordance to the core team's guidelines. Because of the authors' involvement in CSB MIPI, it was possible to cross-check country-specific balances with the national experts. Nonetheless, simulations from other sources should lead to conclusions in line with the policy mixes presented in this paper.

In this section, we use the OECD Benefits and wages country-specific output data, published on the OECD site, to check the robustness of the cross-section data and the trends for a lone parent with two children. The model family characteristics in the OECD output data and the CSB MIPI simulations differ to some extent, which allows assessing the robustness to slightly different assumptions. Adults are aged 40 years, and children are aged 4 and 6 (OECD, 2012). This reflects in a different equivalence scale used when expressing net benefits as a percentage of the poverty threshold. Also, housing costs are in most countries substantially higher, as the output data are based on a fixed housing assumption of 20% of the average wage. Income is expressed as a percentage of the average wage. The minimum wage case is not explicitly included in the OECD output data. Therefore, we expressed the minimum found in MIPI for the 2012 simulations as a percentage of the OECD average wage, and took the closest income level as a proxy for the minimum wage case. The data were downloaded from the OECD site in May 2015, and were extracted from the OECD simulation model in February 2015.

Finally, due to different choices with regard to the selected schemes and localities, findings are not directly comparable for Finland, the United States, Spain, Italy and Greece.

Correlations between the indicators calculated on the MIPI data and the OECD data range from 0.7 (for effort) to 0.9 (for net social assistance) (and of course a self-evident quasi-perfect correlation for the gross minimum wage. Differences are mainly caused by the different housing cost assumptions (that are generally higher in the OECD data), different child benefits related to the age of the children, and in-work benefits specific to the situation of moving from social assistance to minimum wage employment. Moreover, due to the different equivalence scales, some countries move to adequate net income at minimum wage (e.g. Belgium, Luxembourg, France). For most countries, these differences do not translate in a different assessment of their policy mix:

Countries where a low minimum wage combined with a substantial effort leads to near adequate net minimum wages: Austria still combines a fairly high social assistance benefit with a low gross minimum wage, adequate net income at minimum wage employment thanks to a substantial effort, and very

low financial incentives. Financial incentives in Luxembourg are according to the OECD data slightly higher, and now closer to the policy mix found in Finland, rather than Austria. Similarly, for the UK, indicators based on the OECD simulations show adequate income at full-time minimum wage employment, mainly thanks to the substantial effort. Despite high social assistance benefits, the high net income at minimum wage still allows for substantial financial incentives. The overall policy balance is similar, only higher housing allowances based on the higher housing cost assumptions lead in the OECD data to even higher (and adequate) social assistance benefits, and somewhat lower –though still moderate– financial incentives. In Ireland, the minimum wage is quite high relative to the median equivalent household income. Even though the OECD data point to even higher government gross-to-net effort, this only strengthens the image of the balance found with the CSB MIPI data. The resulting high net income at full-time minimum wage employment leaves ample room for both financial incentives and adequate social assistance benefits.

Countries where a moderate government effort combines with moderate to high minimum wages into near adequate net minimum wages: In France and Poland, we find the same balance: these characteristics are combined with inadequate net social assistance packages and high financial incentives. The Netherlands combines its adequate net minimum wage for lone parent with two children with moderate financial incentives and adequate social assistance benefits. Benefits are lower (and inadequate) in Slovenia, but still among the highest of the Eastern European countries. Combined with nearly adequate net income at minimum wage, financial incentives are in the range of the Dutch ones.

Countries where a low government effort in combination with a high relative gross minimum wage leads to moderate net minimum wage incomes: Due to the less demanding equivalence scales for younger children, in a number of countries the net income at full time minimum wage reaches the poverty threshold. This is the case for Romania and Greece, and –barely – Belgium and Hungary. Only in Italy does the net income at the wage floor proxy stay under the 60% poverty threshold. Nonetheless, the more precise policy mixes found based on the CSB MIPI data are confirmed for Belgium, Hungary and the Southern European countries.

Belgium combines a relatively high minimum wage with limited effort into (for younger children) a near adequate net household income. Social assistance benefits still do not reach the poverty threshold, although the shortfall is far less pronounced. Financial incentives are limited to moderate. In Italy and Greece, the lack of adequate social assistance benefits leads to substantial financial incentives, despite the complete lack of additional effort. (In contrast, in Spain, the lack of effort in combination with an exceptionally low minimum wage leads to limited financial incentives. The incentives are higher according to the OECD data, as the simulations are based on the situation in a less generous region than Catalonia.) Also in Portugal are the financial incentives even higher according to the OECD data, due to lower net social assistance benefits. This is caused by the different reference data of the CSB MIPI (January 2012) and OECD (July 2012) simulations. Portugal introduced another reform (only 2 years after the previous) of its minimum income scheme, further retrenching both equivalence scales and base rates (Institute for social and economic research, 2014; Rodrigues, 2012). For Hungary, somewhat lower social assistance benefits lead to even higher financial incentives, as a different social assistance scheme is simulated in the OECD data (employment substituting support vis-à-vis regular social assistance in MIPI, as the lone parent cares for a child younger than 14).

Finally, in Lithuania and Bulgaria, both CSB MIPI and OECD point to inadequate net social assistance benefits. Despite a moderate to high effort, the net minimum wage does not reach the poverty

threshold. Financial incentives are low to moderate in Lithuania, and high in Bulgaria. In both countries OECD data point to a higher effort and resulting net minimum wage income and financial incentive, but the overall balance remains more or less similar.

In some countries however, the differences combine in such a way that conclusions with regard to their policy mix differ. This may reflect a different situation for families with younger children and/or housing costs, or point to income components that are included or excluded

The most substantial deviation we find for the Czech Republic. In the MIPI data, we found this country to have a policy mix somewhere in between the US and the UK situation. It topped up a low gross minimum wage through a high effort to an adequate net minimum wage. Social assistance benefits fell far short of the EU at risk of poverty threshold, but were still relatively high for an Eastern European country. Meanwhile, financial incentives were substantial, at the same level as the UK financial incentives. Based on the OECD data however, both the gross-to-net effort and the net minimum wage is lower, leading to a complete lack of financial incentives for a lone parent with two children. The difference is mainly due to a different treatment of the tax bonus for workers in the means-test simulated in the OECD and MIPI data.

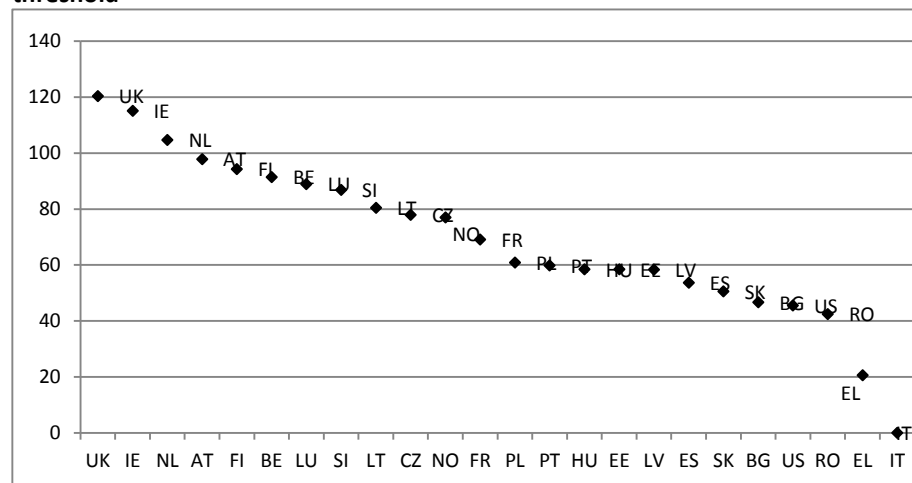
Another country where the overall image of the policy mix differs is Estonia. The difference centers on the financial incentives that are negligible according to the CSB MIPI data, and moderately present according to the OECD simulations. This difference can be explained by the atypically different housing cost assumptions that are lower in the OECD data than they are in CSB MIPI. This shows that for Estonia, housing costs do impact on the robustness of our findings.

Furthermore, we find different balances in Romania and Slovakia.

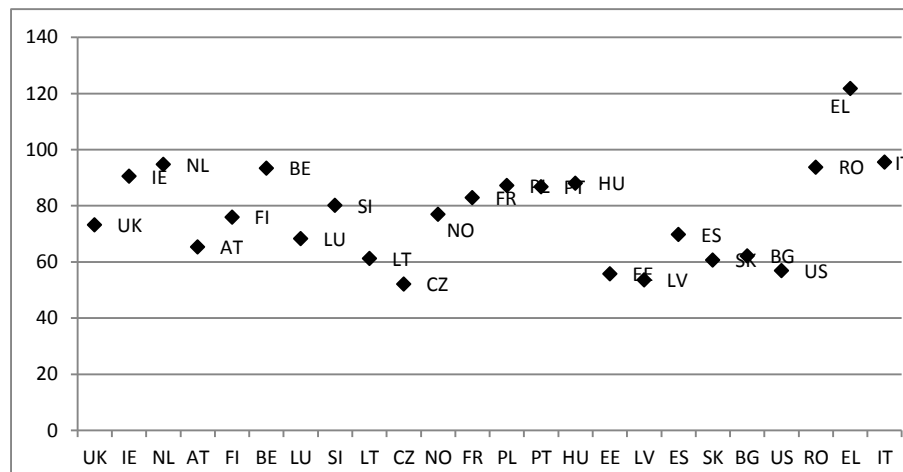
Romania shows some moderate effort in the OECD data, as opposed to no effort according to the MIPI data. This leads to adequate net income at full-time minimum wage employment, and financial incentives that are even higher than the ones recorded in CSB MIPI, in the presence of very low social assistance benefits. As the OECD models transitions from social assistance to employment, in contrast to CSB MIPI simulations that aim to capture minimum income situation, the OECD based measure of gross-to-net effort includes the continuation of the social assistance benefit for another three months after the start of employment. We find a similar difference in Slovakia, here due to higher simulated child benefits in the OECD simulations.

Figure A1. Minimum income protection, financial incentives for a lone parent family with 2 children, at social assistance and in full-time minimum wage employment, 2012, OECD data

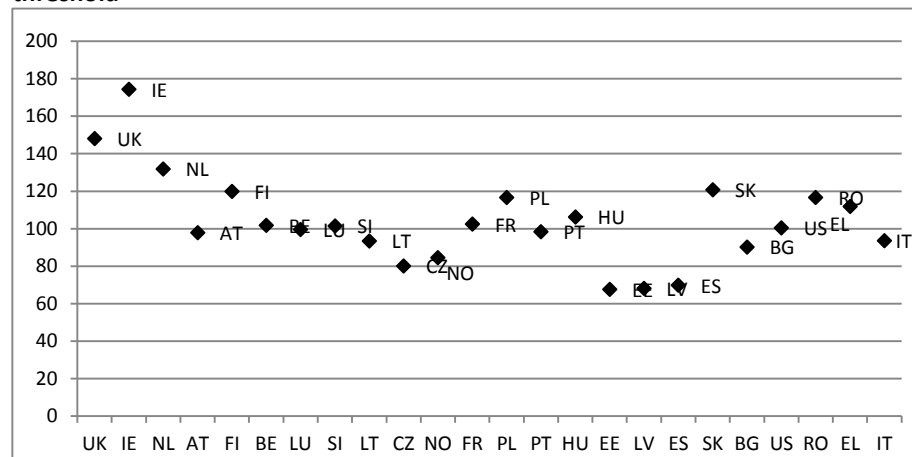
Panel A. Net social assistance benefit relative to the EU 60% at risk of poverty threshold



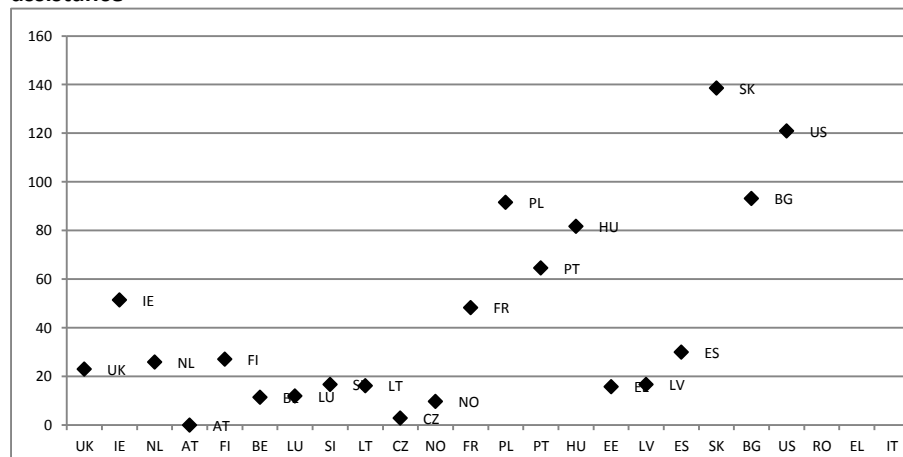
Panel B. Gross minimum wage relative to the EU 60% at risk of poverty threshold



Panel C. Net income at minimum wage relative to the EU 60% at risk of poverty threshold

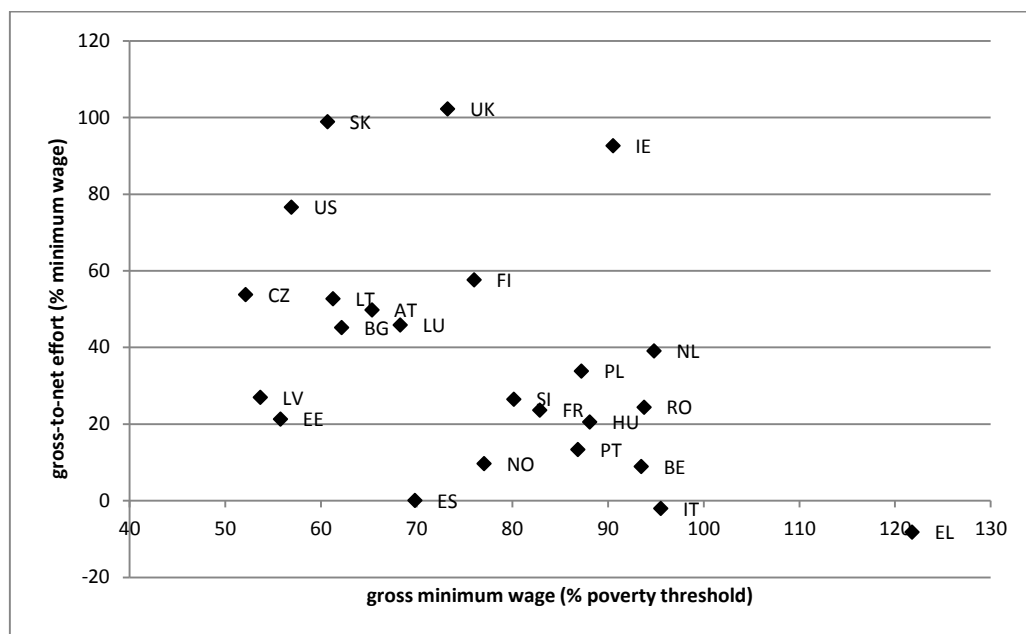


Panel D. Financial incentive to take up minimum wage employment, % social assistance



Source: OECD Benefits and Wages (2015); poverty thresholds from Eurostat (2015)

Figure A2. Gross minimum wage relative to effort, lone parent with 2 children, 2012, OECD data



Source: OECD Benefits and Wages (2015); poverty thresholds from Eurostat (2015)

Figure A3. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012

Panel A. Original high road/middle road countries

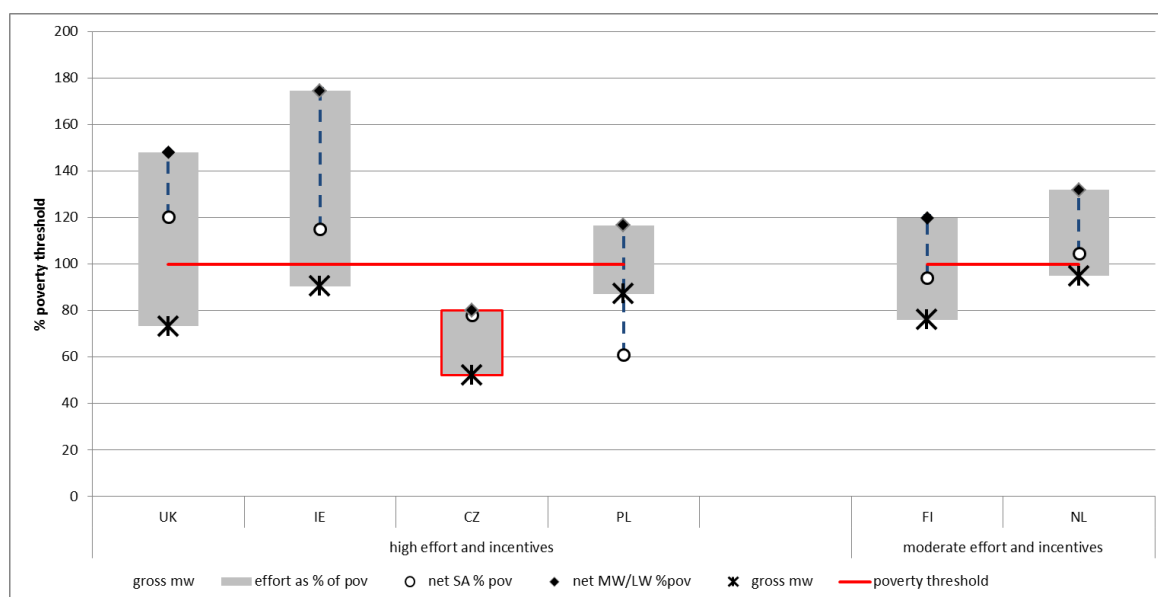
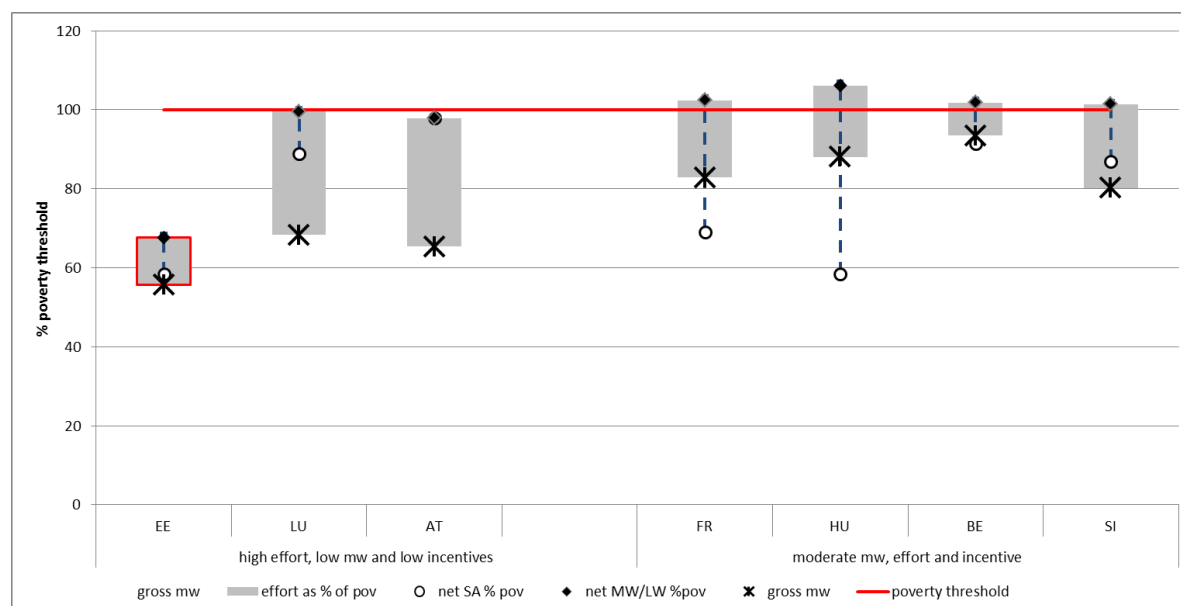
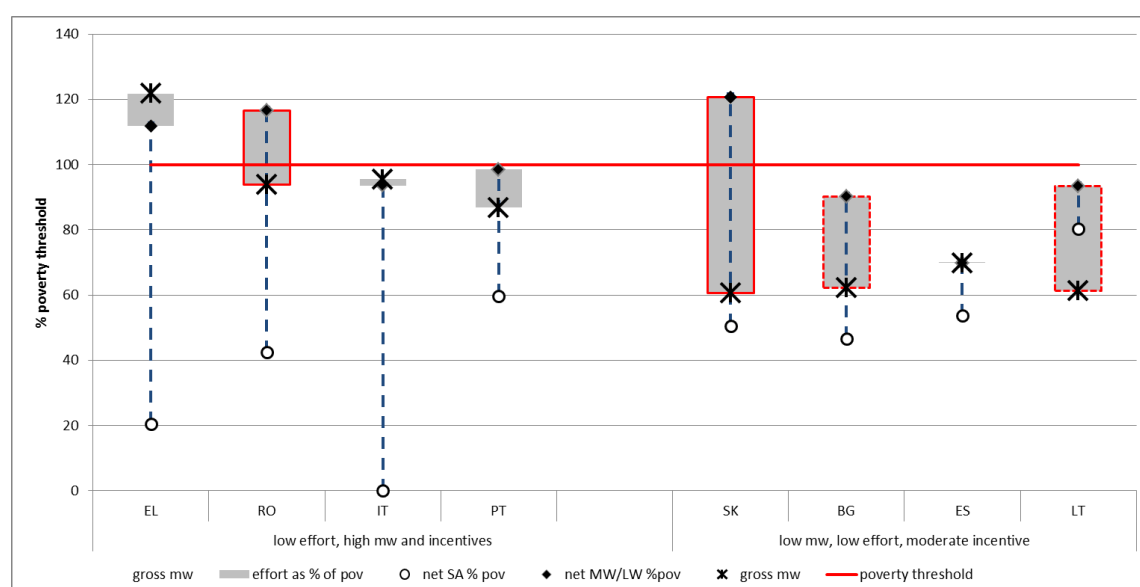


Figure A3. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012 – ctd.

Panel B. Original more generous low road countries



Panel C. Original least generous low road countries



Notes: In the outlined countries, the balance substantially differs when using OECD indicators (see text). Countries are grouped as in Figure 4.

Source: OECD Benefits and Wages, poverty thresholds from Eurostat

Due to comparability issues, we cannot for all countries compare trends calculated on the two different data sources. (A number of Eastern European countries is only included in the OECD series as from 2005 onwards, whereas for some Western European countries there were breaks in the data collection in CSB MIPI between 2001 and 2009 or 2012.) Of the ten comparable countries included in Table A1,

the direction of trends is exactly the same for seven of them: Belgium, the Czech Republic, Finland, Luxembourg, Poland, the United Kingdom and the United States.

There are differences for France, Hungary and Portugal. For Portugal, the difference is due to the aforementioned different simulation dates in MIPI and the OECD, with the OECD data incorporating the further retrenchment of the minimum income scheme in 2012. This impacted on the net social assistance benefit, the level of the social assistance top-up (included in the effort) and hence also the net income at minimum wage. For Hungary, we already mentioned that the MIPI data simulate a different income protection scheme for the lone parent type case. The differences for France are fairly small, and could be due to the different time period.

All in all, these differences often do not point to robustness problems, but to actual policy changes in the slightly different time periods or different schemes. The currently constructed EUROMOD household simulation tool (HHOT) will in the future further support the calculation of strictly comparable and reliable indicators for the EU Member States.

Table A1. Trends in indicators, 2001-2012, OECD Benefits and Wages data

Country	Net disposable income at social assistance	Net disposable income at minimum wage	Minimum wage	Gross to net effort	Financial incentive
BE	+	+	-	-	+
CZ	-	-	-	+	-
FI	-	-	+	+	-
FR	-	-	-	=	-
HU	+	+	+	+	=
LU	+	+	+	+	+
PL	-	+	-	+	+
PT	-	-	+	+	-
UK	+	+	+	+	+
US	+	+	+	+	+

Note: more than one percentage point change upwards or downwards on the indicator over the period.

Source: OECD Benefits and Wages, poverty thresholds from Eurostat

9.2 A comparison to singles without children

An obvious check is to assess whether the balance of minimum income protection is similar for different family types. In principle, there is no reason why this should be the case. It is a legitimate policy choice to want to support vulnerable families with children more (or less) than families without children.

CSB MIPI includes simulations for five different family types: a single, a couple, a couple with two children, a lone parent with two children and a lone parent with a young child. In this annex, we compare the findings presented in this paper to the situation (and trends) for a single. We focus on this family type as it is – like the lone parent type case - a conceptually clear case, where the full work capacity of a household is reached at one single minimum wage. Results are not confounded by

potential activity requirements for the non-working partner in a couple household or cultural views on breadwinner households.

Figure A4 shows the same indicators as presented in this paper, but this time for a single person household.

A number of obvious remarks:

First, as for a lone parent with two children, net social assistance income packages are largely inadequate. Benefit packages only pass the poverty threshold in two countries, and in a fair amount of countries, they are even lower – relatively speaking – than for a lone parent with two children.

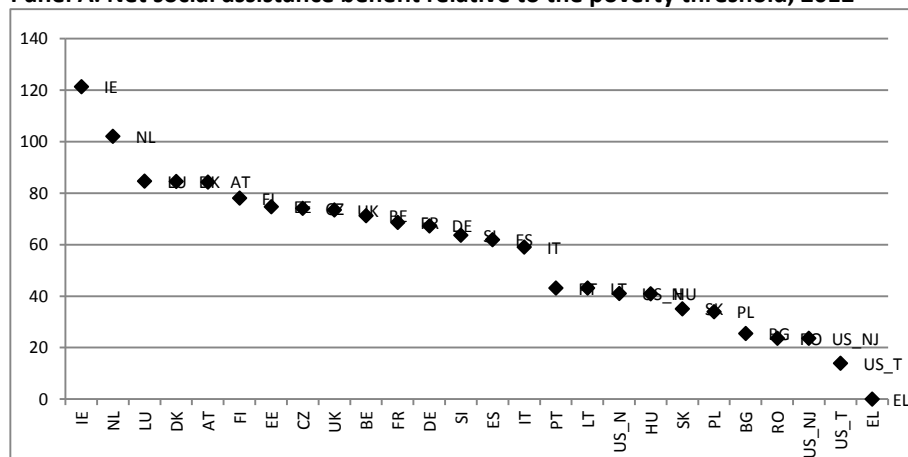
Second, the gross minimum wage generally suffices to protect a single person against poverty. The sole exceptions are Estonia, the Czech Republic, the US States and Lithuania and Slovakia.

Negative gross-to-net efforts in all countries but the Czech Republic lead to somewhat lower net disposable income packages at full time minimum wage employment. Single full-time minimum wage earners are generally still net contributors to the tax benefit scheme, most importantly through social insurance contributions and local taxes. In few countries, income taxes for this family type are still substantial. Nonetheless, net incomes are generally still higher than the poverty threshold. Exceptions are once again Lithuania, Slovakia and the US states, but also Bulgaria, Estonia, Austria, Hungary and Luxembourg.

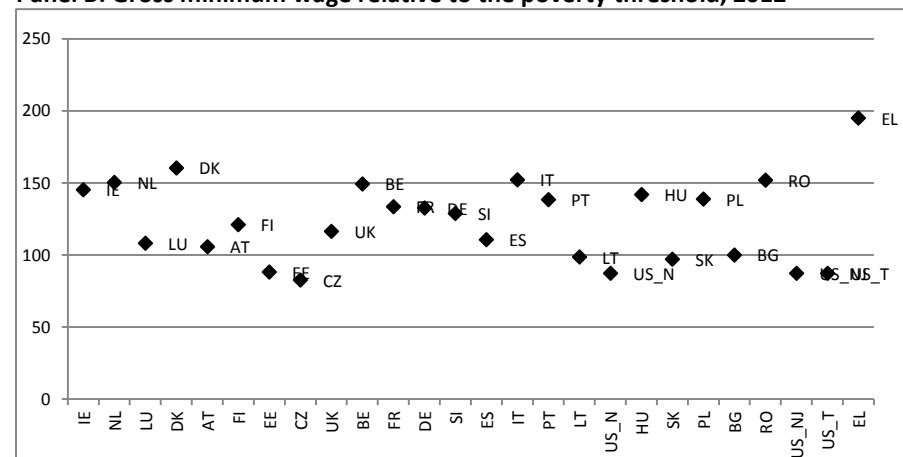
Financial incentives are substantial for this family type. They surpass 35% of the net social assistance benefit in most countries, and generally by a very wide margin. Only in Ireland, the Netherlands, Austria and Luxembourg are the financial incentives situated around 20% or lower of the social assistance income. They are negligible in Estonia.

The fact that gross minimum wages generally suffice to cover the needs of a single person, translates in negative effort and high financial incentives relative to the situation for a lone parent with two children, rather than more adequate minimum income protection for those out of work. It consequently is obvious that the “absolute” balance of minimum incomes for those out and in work differs between singles and lone parents. However, is this also the case when we assess these balances relatively, from a cross-national comparative perspective?

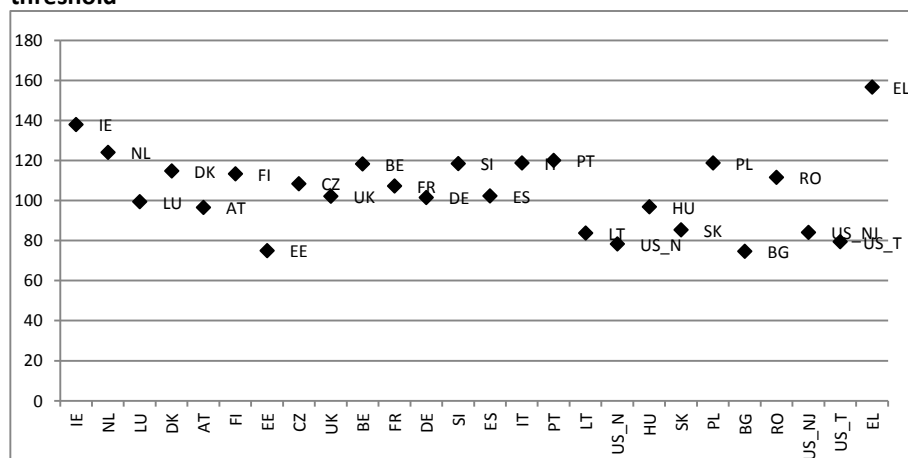
Figure A4. Minimum income protection indicators for a single, 2012
Panel A. Net social assistance benefit relative to the poverty threshold, 2012



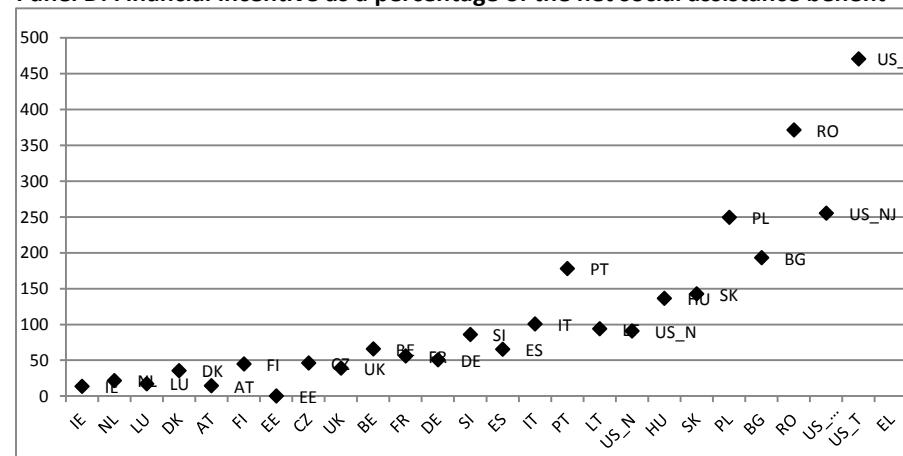
Panel B. Gross minimum wage relative to the poverty threshold, 2012



Panel C. Net income at full-time minimum wage employment relative to the poverty threshold



Panel D. Financial incentive as a percentage of the net social assistance benefit



Source: CSB MIPI Version 3/2013; Poverty thresholds from Eurostat

Overall, countries with ungenerous social assistance provisions for lone parents with children in general also have ungenerous social assistance for singles (correlation of 0.92). In contrast the correlation between net minimum wage income packages for singles with and without children is at 0.49 far lower. The correlation between the high financial incentives for singles and those for lone parents lies around 0.8.

Whereas there are important differences, these correlations indicate that for quite some countries, the relative balance (as compared to the policy mix in other countries) will to some extent show certain similarities for singles and lone parents:

The US minimum wage is one of the exceptions where the minimum wage cannot meet the needs of a single person. Other than for a lone parent with two children, there is no government-issued top-up for this family type, leaving net disposable income at minimum wage around 80% of the at-risk-of-poverty threshold. Nonetheless, despite the negative value of the gross-to-net effort, relative to the situation in most other countries, the negative impact is fairly limited. The very low net social assistance packages ensure very high financial incentives.

Other obvious examples are the Czech Republic, where a (still positive) effort lifts net minimum wages above the poverty threshold, and ensures relevant financial incentives. Although social assistance benefits are also for this family type inadequate, they are once again among the highest in the Eastern European countries. Greece and especially Romania show also for the single family type a high minimum wage with a high negative gross to net effort. Other than for a lone parent with two children, the resulting net minimum wage income is higher than the poverty threshold. Nonetheless, social assistance benefits are still lacking (Greece) or highly inadequate (Romania), leading to substantial financial incentives.

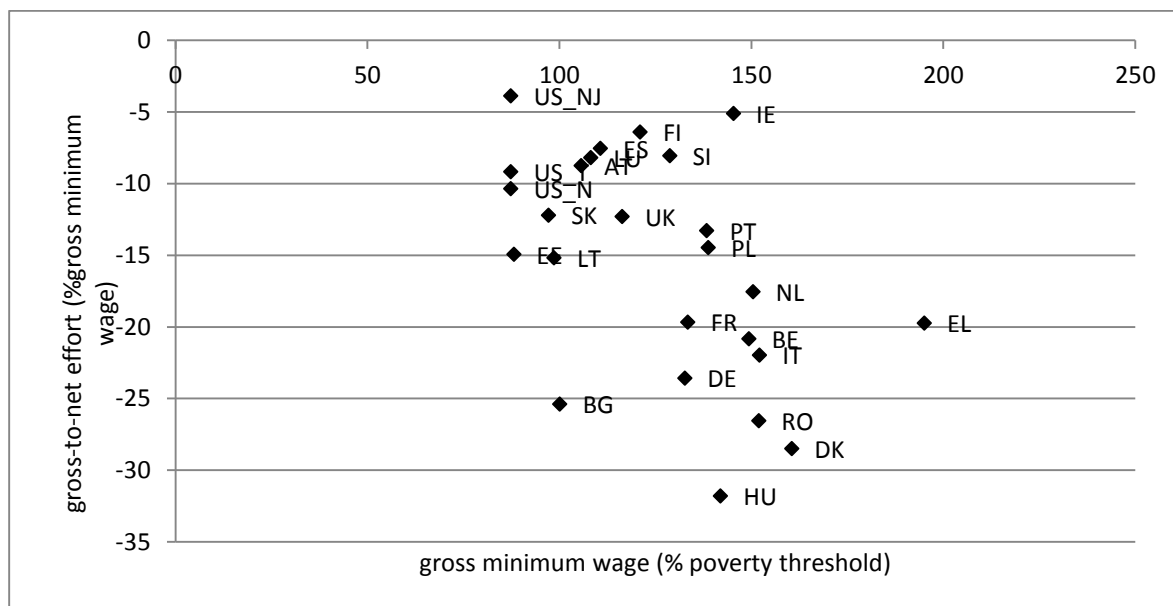
In Austria, the combination of a relatively speaking rather high net social assistance, with a low minimum wage and – through a limited negative effort – nearly adequate net income at minimum wage, results also for this family type in only limited financial incentives from an international perspective. The same is true for Luxembourg and – with higher financial incentives - Finland. The financial incentives for the Netherlands are in the same range as those for a lone parent with children, in combination with adequate income for those out and in work.

In some countries the balance shifts more prominently:

For instance, even though in principle the Irish balance could be put on par with the balance for a lone parent with two children (adequate social assistance, a high minimum wage and net income at minimum wage, and low negative effort), the resulting financial incentives are relatively modest for a single, as opposed as for a lone parent with two children. Similarly, Denmark overall keeps a similar balance between generous assistance and adequate net minimum wage income, but with higher financial incentives and far less effort.

An obvious shift between income protection for singles and lone parents exists in Spain, where the effort for a single is – from a cross-national perspective- more generous for a single than it is for a lone parent with two children. This results in an adequate income from work, as well as in a substantial financial incentive.

Figure A5. Gross-to-net effort and the gross minimum wage for a single, 2012



Note: excluding outlying value for the Czech Republic: effort = 31% of gross minimum wage; gross minimum wage = 83% at-risk-of-poverty threshold. Correlation incl. CZ: -0.54; excl. CZ: -0.51

Source: CSB MIPI Version 3/2013; poverty thresholds from Eurostat

Figure A6. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, single person household, 2012

Panel A. Original high road/middle road countries

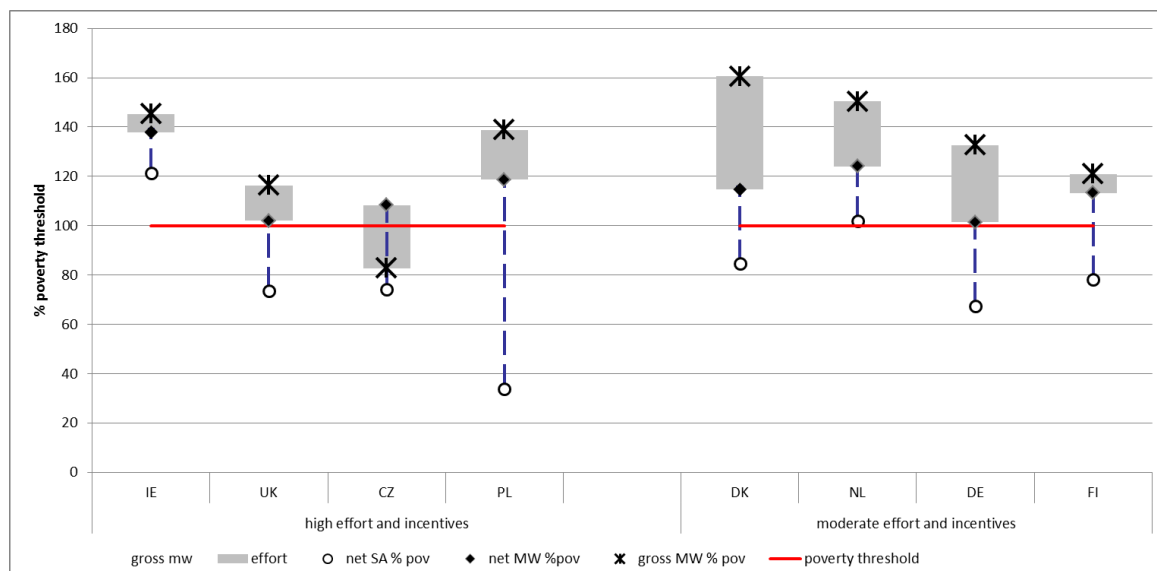
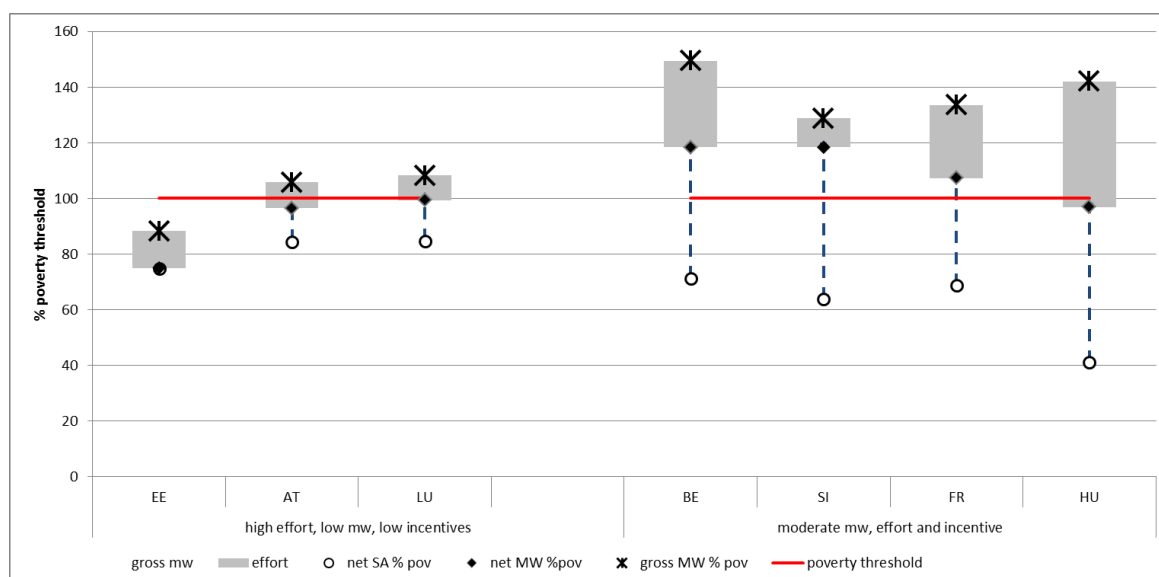
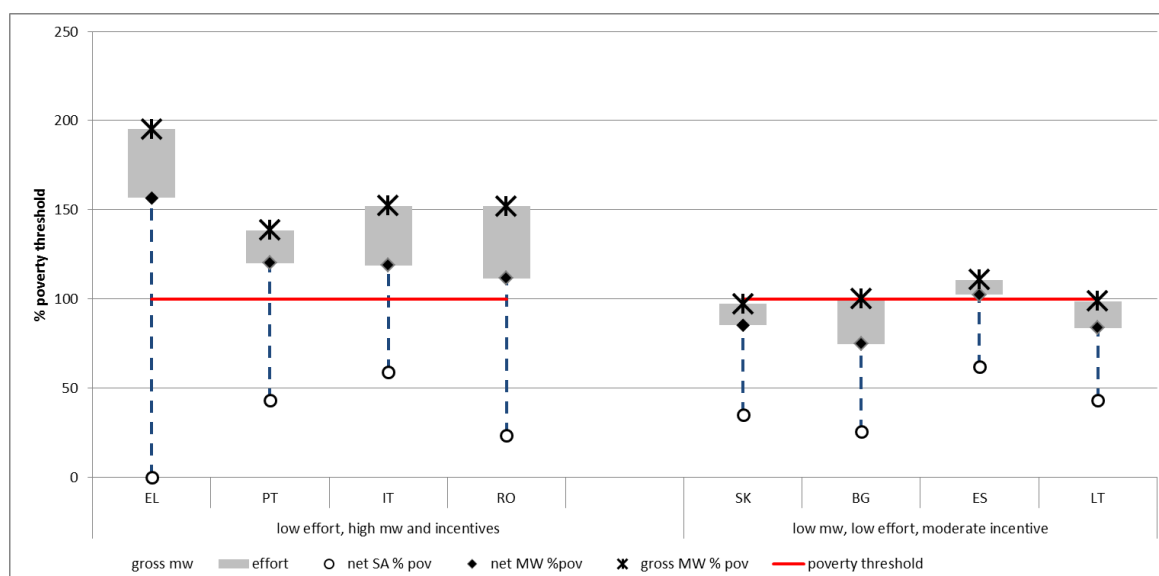


Figure A6. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, single person household, 2012 – ctd.

Panel B. Original more generous low road countries



Panel C. Original less generous low road countries



Notes: Countries are grouped as in Figure 4.

Source: CSB MIPI Version 3/2013, poverty thresholds from Eurostat

As mentioned above, there is no a priori reason to suspect trends for a lone parent will be similar to those for a single. Governments may have been more concerned with child poverty, leading to more attention to families with children. Alternatively, the initial situation for both family types may have been different, leading to different policy actions. For instance, in Marchal and Marx (2015) we demonstrate decreases in income taxes for singles over the period 2001-2012, as opposed to a standstill for families with children for whom income tax liability was already very limited from the outset.

In Table A2, we show trends in the selected indicators for a single over the period 2001 to 2009 or 2012 (most recent data available).

Overall, trends are similar to those for a lone parent with two children only in Belgium, Slovenia and Luxembourg. There are small differences between both family types in the Estonia, Spain, Hungary, France, Portugal and the US. This generally points to some supportive measures having a proportionally larger impact on the net disposable income of singles (for instance in the United States), or more changes to the various income components that are relevant for the lone parent with children. For instance, in Estonia, as this family type was a net receiver of support through various income components, its net disposable income was more vulnerable to the budget cuts issued in the wake of the crisis. But also non-decisions (such as only pursuing inadequate indexation of some benefits) explain the slightly different trends for both family types in these countries.

Table A2. Trends for a single, 2001-2009/2012

	Net disposable income social assistance	Net disposable income at minimum wage	Minimum wage	Effort	Financial incentive
BE	+	-	-	+	-
CZ	-	=	-	+	+
EE	-	=	+	-	+
ES	+	+	+	=	+
FI	-	+	+	+	+
FR	-	-	-	+	-
HU	+	+	+	-	+
IT	-	-	-	+	-
LT	+	-	-	+	-
LU	+	+	+	=	+
PL	-	-	-	=	+
PT	+	+	+	=	+
SI	+	+	+	+	+
UK	-	+	+	=	+
US_N	+	+	+	-	-
US_NJ	-	+	+	+	+
US_T	+	+	+	=	+

Note: more than one percentage point change upwards or downwards on the indicator over the period.

Source: CSB MIPI Version 3/2013, poverty thresholds from Eurostat (2015)

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ImPRovE: Poverty Reduction in Europe. Social Policy and Innovation

Poverty Reduction in Europe: Social Policy and Innovation (ImPRovE) is an international research project that brings together ten outstanding research institutes and a broad network of researchers in a concerted effort to study poverty, social policy and social innovation in Europe. The ImPRovE project aims to improve the basis for evidence-based policy making in Europe, both in the short and in the long term. In the short term, this is done by carrying out research that is directly relevant for policymakers. At the same time however, ImPRovE invests in improving the long-term capacity for evidence-based policy making by upgrading the available research infrastructure, by combining both applied and fundamental research, and by optimising the information flow of research results to relevant policy makers and the civil society at large.

The two central questions driving the ImPRovE project are:

How can social cohesion be achieved in Europe?

How can social innovation complement, reinforce and modify macro-level policies and vice versa?

The project runs from March 2012 till February 2016 and receives EU research support to the amount of Euro 2.7 million under the 7th Framework Programme. The output of ImPRovE will include over 55 research papers, about 16 policy briefs and at least 3 scientific books. The ImPRovE Consortium will organise two international conferences (Spring 2014 and Winter 2015). In addition, ImPRovE will develop a new database of local projects of social innovation in Europe, cross-national comparable reference budgets for 6 countries (Belgium, Finland, Greece, Hungary, Italy and Spain) and will strongly expand the available policy scenarios in the European microsimulation model EUROMOD.

More detailed information is available on the website <http://improve-research.eu>.

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