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## Decent incomes for the poor which role for Europe?

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## **ABSTRACT**

Social policy remains an exclusive national competence within the EU. As a consequence, EU involvement has generally been limited to the definition of non-binding social outcome targets, a governance model known as 'second order output governance' (Vandenbroucke, Cantillon, Van Mechelen, Goedemé, & Van Lancker, 2013). However, many EU Member States have failed to make progress in fighting poverty. This begs the question whether a more performant EU level involvement in the field of social policy is conceivable. In this paper, we argue that European minimum standards are the place to start, including principles for minimum social security *and* minimum wages. We propose to include policy indicators regarding *minimum income protection sensu lato* in the recently revised EU monitoring process of the European Semester.

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

## 1 Introduction

Ever since the Lisbon Strategy, the European Union (EU) has declared poverty reduction one of its main social goals. This was reaffirmed by the ambitious EU2020 target aiming for a reduction of the number of persons living in poverty, jobless households or material deprivation by 20 million. Yet despite this ambition progress has been disappointing to say the least (Gábos, Branyiczki, Lange, & Tóth, 2015). 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). At that time in many countries work poor households benefited less from job growth while the poverty reducing capacity of social protection decreased to their detriment (Cantillon, Van Mechelen, Pintelon, & Van den Heede, 2014; Corluy & Vandenbroucke, 2014). 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 working age families (Cantillon, Collado, & Van Mechelen, 2015a).

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. To that end, a set of well-thought-out policy indicators should contribute to 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 outline the social policy governance issues the EU is confronted with when putting social objectives on the policy agenda. We proceed by presenting minimum income protection as a policy area where increased EU social governance is both conceivable and needed. In section 4, 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 to 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 6, we use these indicators to capture the current variation in levels of minimum incomes relating them to minimum wages, gross-to-net efforts and unemployment traps. Finally, we conclude.

## **2 Social subsidiarity and weak 'outcome' governance**

In creating the European Economic Community, 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. Social policy within the EU is therefore structured around the principle of subsidiarity. EU level involvement has remained limited to soft governance 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 OMC and more recently in the revised 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. Yet since the 1970s things have changed thoroughly in crucial areas. 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. The increased economic and financial integration has led to stricter standards (and sanctions) for fiscal discipline which - in combination with the increased monitoring throughout the European Semester - seriously inhibit the national room to manoeuvre (Costamagna, 2013).

Moreover, creeping economic integration and enormous disparity after the 2004 enlargement have given rise to fears of welfare tourism and social dumping within the EU. Famous cases such as Ruffert, Laval and Viking illustrate how the European Court of Justice (ECJ) challenges nationally based social regulation (Ferrera, 2012, p. 22; Leibfried, 2010). These cases have only fostered such fears, as 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 (Verschueren, 2015). Yet such proposals and rulings that aim to prevent benefit tourism may in turn endanger the universality of free mobility.

Clearly, these developments are testing the limits of social subsidiarity while common pressures caused by globalization and technological changes preclude the idea that national achievements can be protected by building 'firewalls' around welfare states. Hence, a soul-searching exercise on what role the EU should play in facilitating further social development is necessary. 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. Rather, 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) .

### **3 A broad focus on minimum incomes**

For a number of reasons, a broad focus on minimum income protection is the place to start<sup>1</sup>. First, we now know that the social investment strategies and employment policies that were favoured over the last decades (and culminating in the social investment package; European Commission, 2013b, 2014) did not (yet?) help to deliver on lower poverty rates (Cantillon & Vandenbroucke, 2014). Adequate minimum income protection therefore remains necessary, for out-of-work but also for in-work households, given the attention to activation. Second, minimum income protection for out-of-work and in-work households have important benchmark functions, as they signal relevant thresholds in the hierarchy of incomes within individual member states (Cantillon, Collado and Van Mechelen, 2015).

Moreover, various EU-level policy initiatives already focus on minimum income protection in this broad sense.<sup>2</sup> This is most clearly apparent in the 2008 Active Inclusion Recommendation (2008/867/EC (European Commission, 2008)), that reinforced the 1992 Council recommendation on adequate minimum income protection (92/441/EEC (Council, 1992)) with a more focused message on active inclusion by ‘combining adequate income support, inclusive labour markets and access to quality services’ (2008/867/EC).<sup>3</sup> The Commission hence explicitly linked minimum income protection for those out of work 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 objectives and policy suggestions, and until today, it remains with only very limited impact (European Commission, 2013a; 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

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<sup>1</sup> Minimum incomes refer 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). 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). Please note that we focus in this paper on minimum income protection for the active age population, as it is precisely for this group that poverty trends were most disappointing. In addition, it is for this target group that the employment – protection trilemma comes to the fore most explicitly.

<sup>2</sup> See for instance the remarks by Commissioner Thyssen at the press conference of ‘Policy Orientations for a Social Europe’, the agreements on a European minimum wage advocated by Jean-Claude Juncker (cited by Vandenbroucke, 2014, p. 22) and the draft ‘Framework Directive on Minimum Income’ launched by the European Anti-Poverty Network (EAPN) (Van Lancker, 2010).

<sup>3</sup> This Recommendation was eventually affirmed by the European Parliament (resolution of 6/5/2009).

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.<sup>4</sup>

#### **4 Adding 'input indicators' to the outcome governance**

Common standards for minimum income protection (such as the proposals and recommendations listed in section 3) deviate to varying extent from current 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. Important in the present context is the agreement 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. 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.

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 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 governance whereas the proposals concerning common standards for minimum income protection 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. 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

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<sup>4</sup> These are the options from a concern with work incentives and legitimacy. Bringing budgetary concerns into focus evidently further complicates the matter.

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 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 Semester. 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 (Zeitlin & Vanhercke, 2014). Obvious examples are the inclusion of auxiliary social outcome indicators in the macro-economic imbalance procedure, 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 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 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. 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.

## **5 Data**

We choose to propose policy indicators that 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. Moreover, in line with Atkinson, Cantillon, Marlier, and Nolan (2002) they should be timely and susceptible to revision, capture the essence of the problem and have a clear normative interpretation. They should be statistically validated, responsive to policy changes and comparable to European standards. They furthermore should gauge the interrelations and incentive effects at the bottom of the labour market. This can be achieved by indicators based on standard simulations of net disposable income packages. 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. Results are easily comparable across countries, and intuitively understandable. 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).

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.<sup>5</sup> 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 hypothetical household. The underlying assumptions may substantially impact on the results *inter alia* because of the large variation of family formation across the Union. The hypothetical household should therefore be carefully selected and contextualized.

For our purposes, we define the hypothetical household 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 Vandembroucke & Vinck, 2013), despite policy attention and efforts in recent years (Marchal & Marx, 2015). We assume

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<sup>5</sup> 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 discretion of case workers).



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. 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 employment<sup>6</sup> 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 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 EU2020 targets. The values for these poverty thresholds are obtained from Eurostat (2015). The values are either based on the EU-SILC (for 2009 and 2012), or on the ECHP survey (for 2001). This may potentially lead to comparability issues<sup>7</sup>.

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 construed based on the OECD Benefits and Wages data<sup>8</sup> 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. 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. In Austria, this minimum wage has (near-) national coverage (European Commission, 2010). For Germany, the standard simulations are based on an hourly minimum wage of €7.5, which is somewhat

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<sup>6</sup> 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.

<sup>7</sup> These comparability issues may arise over time, due to the shift in underlying survey, but also for countries where the EU-SILC income data are based on administrative data rather than survey data.

<sup>8</sup> We include a robustness check of our findings to the OECD Benefits and Wages data in the appendix. A more thorough discussion is provided in the Improve Working Paper 15/20.

lower than the recently (2015) introduced national minimum wage.<sup>9</sup> For the other countries, the values presented in this paper should be interpreted as they are, i.e. as an approximation of the wage floor that allows us to some extent to assess the balance between in-work and out-work income protection throughout Europe. 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. This neglects the large variation in out of work minimum income protection in Italy (Milan) and Spain (Catalonia). Variation is somewhat less pronounced in Austria (Vienna). Especially in the case of Italy and Spain, this approach substantially overestimates the generosity of minimum income protection<sup>10</sup> (see Van Mechelen et al., 2011 for more information on the underlying assumptions of the standard simulations).

## **6 Minimum incomes in Europe: large variation in policy mixes**

We measure the adequacy of minimum income protection by comparing the rights-based net income packages of the hypothetical household to the EU at-risk of poverty threshold. In most cases this comparison shows a substantial inadequacy of net income packages for jobless lone parents. 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.

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.

The inadequacy of net in-work income is not surprising given gross minimum wage levels. 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 Greece<sup>11</sup>. Importantly, and in contrast to net social assistance levels, the adequacy of the gross minimum wage does not seem to relate to Member States' economic prosperity.

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<sup>9</sup> 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. In the end, the German government introduced a statutory hourly minimum wage of €8.5 in 2015.

<sup>10</sup> We take this caveat into account when interpreting our results.

<sup>11</sup> The reference date for the Greek minimum wage standard simulation is February 2012, rather than January, in order to include the stark reduction of the gross minimum wage that was then implemented. In addition, the simulations take account of an atypical experience-related top-up. Nonetheless, also taking 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, the Greek gross minimum wage remains one of the highest within the EU, though less exceptionally so.

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 1). The value of these benefits 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 (see Panel A and B of Figure 1).

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.

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

	Net social assistance <sup>a</sup>	Net minimum wage <sup>b</sup>	Minimum wage	Gross-to-net effort	Financial incentive
Net social assistance <sup>a</sup>	1				
Net minimum wage <sup>b</sup>	<i>0.5478*</i>	1			
Minimum wage	-0.2513	<i>0.3786</i>	1		
Gross-to-net effort	<i>0.5640*</i>	<i>0.6742*</i>	-0.3541	1	
Financial incentive	<i>-0.7323*</i>	0.1685	<i>0.6043*</i>	-0.1157	1

Notes: <sup>a</sup> Net disposable household income at social assistance; <sup>b</sup> Net disposable household income at full-time minimum wage employment. Correlations in italics appear to be relatively robust when taking account of influential cases and data variations.

Source: CSB MIPI Version 3/2013; own calculations

Table 1 shows the correlations between these five different institutional indicators. As we assess the relations between these indicators for a fairly small group of countries, these correlations can merely act as an *indication* for possible patterns or trade-offs. In such a small group of countries, outlying countries can have a very large impact. Moreover, even though we report significance levels in Table 1, these can only serve to further suggest the strength of the reported correlations (see Van Lancker et al., forthcoming). In order to increase our confidence in the relations reported in Table 1, we checked the correlations for different subgroups (more in particular, excluding the Southern European countries, Romania and Bulgaria, and Ireland and the UK) and for the indicators based on a different data source (i.e. the OECD Benefits and Wages data, see appendix).

Taking account of these robustness checks, there seems to be ground for the following conclusions:

- Adequate minimum in-work incomes and adequate minimum out-work incomes tend to co-exist;
- There is a negative relation between the adequacy of the net income floor for those out-of-work and the financial incentives this target group experiences to actually take up work
- There is a strong and positive relation between gross-to-net effort and the adequacy of the minimum income for those in-work, and to a smaller extent also to those out-work.
- The relation between gross minimum wage and effort is not robust, nor is the relation between net minimum wage and financial incentives and between minimum wage and financial incentive.

Figure 1. 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

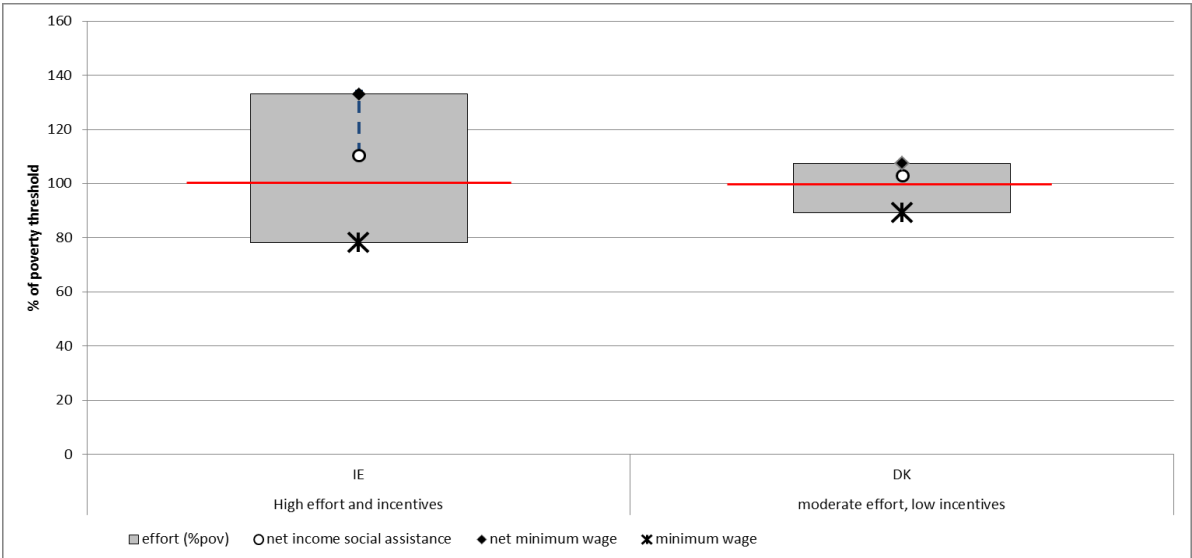
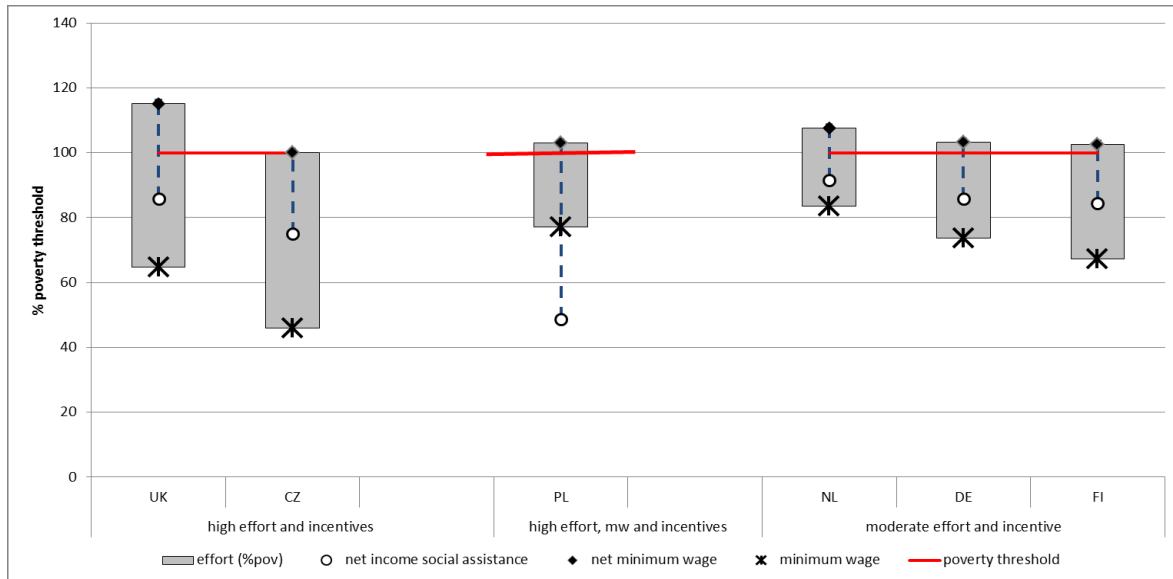


Figure 1. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012 – ctd.

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



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

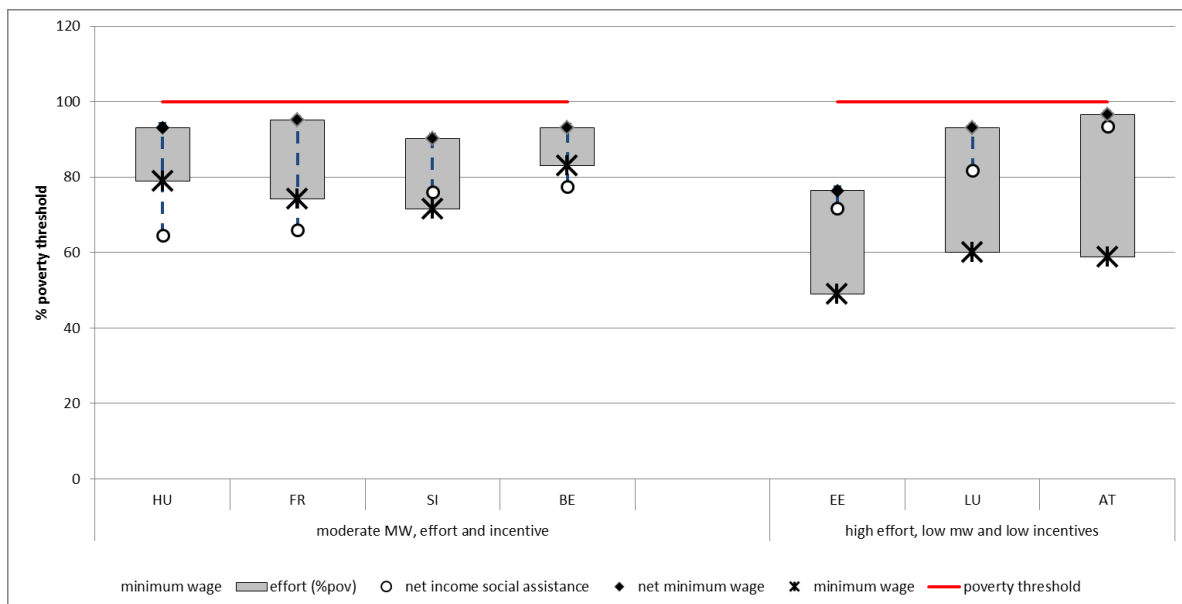
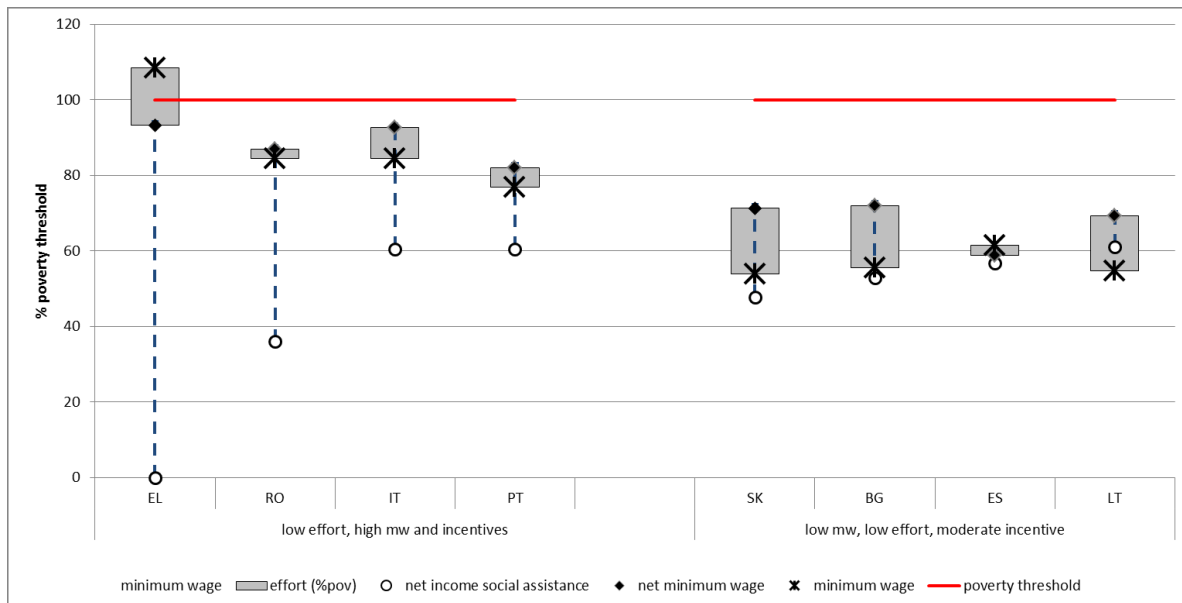


Figure 1. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012 – ctd.

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



Notes: 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 1, we bring these indicators together. Countries are divided in three groups, based on the adequacy of their income floors using the poverty threshold as a benchmark. In “high road countries”, only including Ireland and Denmark, the packages for both in- and out-work lone parent households are adequate. In “middle road countries”, the guaranteed income package of a working lone parent family exceeds the poverty threshold, but for jobless lone parent families it is inadequate. This was in 2012 the case in six countries: the UK, the Czech Republic, Poland, the Netherlands, Germany and Finland. Finally, in the large number of “low road countries”, both in-work and out-work income protection is inadequate.

Within these groups we can distinguish different stylized trajectories (with many shades of grey in between). Some low road countries such as Belgium and Slovenia start from moderate to high minimum wages. However, due to low or modest gross-to-net efforts, inadequate incomes for working households are combined with low work incentives and an inadequate social floor. In contrast, in countries starting from a low minimum wage such as Estonia and Luxembourg, a high gross-to-net effort does not succeed in bringing net in-work minimum income above the poverty thresholds. The inadequacy of net social assistance

benefits remains however relatively modest, in light of very low financial incentives. In yet a third group of countries ( e.g. Greece, Italy and Romania) high gross minimum wages are combined with low efforts, inadequate incomes for working families, high work incentives and no or a very low social floor.

Although optimal policy mixes for lone parent households cannot not readily be defined - 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 and other context variables - the presented combined indicators are 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.

## 7 Trends

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 households<sup>12</sup>. 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 increased<sup>13</sup> these efforts were however insufficient to compensate for declining minimum wages.

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<sup>12</sup> Increases were observed only in Vienna, France, Milan and Portugal.

<sup>13</sup> 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 signaling 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. 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. 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.



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

Country	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 Discussion: instrumental relevance of minimum income protection

In this paper, we argue that policy input indicators may act as a first step towards a more performant EU social policy. Monitoring – through easily interpretable and readily available policy input indicators – may help to highlight individual member states’ policy choices and stance on minimum income protection. In addition, they carry substantial intrinsic value, in the sense that the decision to include indicators of the adequacy of minimum income protection (as measured against the at-risk-of-poverty threshold) makes the EU stance on social cohesion explicit in a very concrete and visible way. However, an equally important (longer term) objective of incorporating policy input indicators in EU social policy monitoring is their expected contribution to an EU-wide convergence of social outcomes. Specifically for the case of minimum income protection, an EU level effort of monitoring the adequacy of minimum income protection for those in- and out-work should also be assessed in light of the instrumental relevance of adequate minimum incomes in achieving the poverty targets defined by the Union.

Whereas the expectation of a negative relation between adequate social assistance receipt and poverty status makes intuitive sense at the individual level, whether this holds true on the country (macro) level is less straightforward. Vandenbroucke et al. (2013) note in this regard that “the link between input and outcome is complex in this domain” (p. 290). For one, as demonstrated in this paper, most countries do not guarantee a minimum income floor above the 60% at-risk-of-poverty threshold. In this sense, it might make more sense to expect a relation with the depth of poverty, or severe poverty (for instance at the 40% at-risk-of-poverty threshold). Also, as we mentioned earlier in the data section, the focus on income of our indicators neglects equally relevant issues, related to non-take-up and eligibility. In addition, minimum income protection is a truly residual scheme that only comes into action after all other social rights are exhausted. The overall generosity of these more general social rights may be more relevant in this regard. Finally, poverty measurement is fraught with issues, furthermore impacting on macro-level relations.

In their chapter, Vandenbroucke et al. (2013) assess the relation between an overall measure of the adequacy of minimum income protection (more precisely, the average net social assistance benefit for five different family types) with various poverty indicators: the poverty headcount at the 60% and the 40% at-risk-of-poverty threshold, the poverty reduction by transfers at both poverty threshold, the poverty rate for households at low and high work intensity, and the poverty gap at the 60% poverty threshold. They do find negative correlations between most (if not all) of these poverty indicators and their measure of social assistance adequacy, especially for the old EU Member States.

Here, we explore the instrumental relevance of the indicators of adequate minimum income protection presented in this paper in a similar way. However, we focus on the relation with outcome indicators for the specific target group of working age lone parents.

Table 4 presents the correlations for all countries together, for the different institutional indicators.

Table 4. Exploration of the instrumental relevance of adequate minimum income protection for lone parent households, 2012

	Employment	Poverty	
	Share of people living in a jobless lone parent household, out of all people living in a lone parent household	At-risk-of-poverty rate of people living in working age lone parent households (40%AROP)	Severe material deprivation among lone parent households
Net social assistance	0.1347	<i>-0.7238*</i>	<i>-0.6071*</i>
Net minimum wage	0.4278*	<i>-0.5729*</i>	-0.1531
Minimum wage	0.3051	0.1315	0.1823
Gross-to-net effort	0.2686	<i>-0.5735*</i>	-0.2007
Financial incentive	0.1894	0.3864	0.5907*

Notes: <sup>a</sup> Net disposable household income at social assistance for a lone parent household with 2 children; <sup>b</sup> Net disposable household income at full-time minimum wage employment for a lone parent household with 2 children. Correlations in italics appear to be relatively robust when taking account of influential cases and data variations.

Source: CSB MIPI Version 3/2013 (Van Mechelen et al., 2011), EU-SILC, own calculations, Eurostat (2015)

However, taking once again account of the large impact single country cases can have in such a small group, we repeated the exercise for different country groups and data sources (i.e. the OECD Benefits and Wages data, see appendix). Especially the inclusion of the Southern European countries led to an overestimation of the impact of the assessed institutions. In light of these robustness checks, the following observations can be made:

- Adequate minimum income protection for out-work lone parent households tends to co-exist with lower poverty rates among persons living in working age lone parent households
- Similarly, adequate minimum income protection for in-work lone parent households tends to correlate with lower poverty rates among persons living in working age lone parent households
- There appear no consistent correlations between the other proposed institutional indicators and employment or poverty indicators for the risk group of lone parents

These findings open up an interesting agenda for further research. Using pooled time series regression, the correlations should be checked further. Nonetheless, table 4 does point to at least some instrumental relevance of adequate in-work and out-work minimum income protection for lone parent households.

## 9 Conclusion

Europe should care better for the poor. Despite ambitious EU policy goals on poverty reduction, Europe and its Member States are facing disappointing poverty trends. Poverty rates have worsened considerably after the onset of the crisis. But more worryingly, there has been a lack of progress in the fight against poverty in the prosperous pre-crisis years as well. This indicates the existence of structural constraints against which EU social governance and the ambitious EU 2020 targets have proven to be powerless. On the other hand, some countries have been more successful than others in the fight against poverty, clearly pointing to the importance of adequate social policies. Against this background, recent developments at the EU governance level may prove important for strengthening the steering and coordination of social policies in order to meet common social objectives. In the wake of the budgetary Eurozone crisis, the EU has increased the policy monitoring of its Member States through the European Semester. Whereas the focus was initially on macro-economic indicators, more recently, monitoring includes progress towards the Europe 2020 outcome targets, including the poverty reduction target. In order to strengthen the social dimension of the Economic and Monetary Union (EMU), a scoreboard of key employment and social indicators was included in the Joint Employment Report while employment and social indicators were included as auxiliary indicators in the MIP-scoreboard. More recently, the Five Presidents' report emphasizes the use of benchmarking and cross-examining performance in order to achieve convergence. According to the European Commission's communication on steps towards completing the EMU, benchmark indicators need to meet two requirements. First, they must closely relate to the policy levers, such that they can lead to actual and meaningful policy implications. Second, there needs to be robust evidence and enough consensus that they contribute significantly to higher level objectives such as jobs, growth, competitiveness, social inclusion and fairness or financial stability.

Keeping this in mind, we propose to insert indicators of minimum income packages in the European semester governance framework, which could support the EU-2020 outcome target indicators. We argue that the introduction of a broad focus on minimum income protection, including minimum wages is an important inroad into a stronger role for social Europe in the fight against poverty. Including carefully selected indicators of policy packages in the streamlined EU policy monitoring process (European Semester), would render Member States more accountable for the social quality of economic policies and anti-poverty strategies and can bring out different policy mixes, available options and potential imbalances. Without interfering with national authority and policy structures, such indicators can pinpoint imbalances in the nexus of minimum wages, work incentives and minimum incomes for jobless households. This broad focus (including minimum wages, gross-to-net efforts and work incentives) is needed as minimum wages are inextricably linked to minimum income protection while adequate minimum income protection should be in balance with work incentives.

A social Europe will need to be established incrementally, step by step. Later, in order to give more bite to the abovementioned actions 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.

## **10 Robustness check with OECD data**

We use the OECD Benefits and wages country-specific output data, published on the OECD site (<http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm>), to check the robustness of the findings presented in this article. The model family characteristics in the OECD output data and the CSB MIPI simulations differ to some extent, which allows assessing the impact of 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.

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. CSB MIPI indicated 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 A. 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

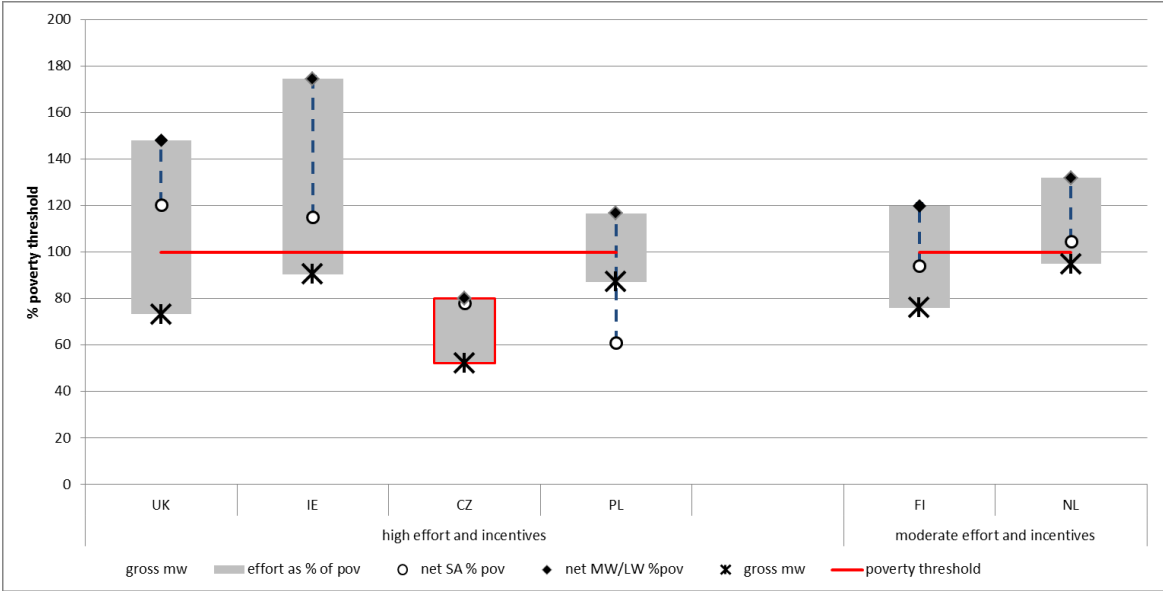
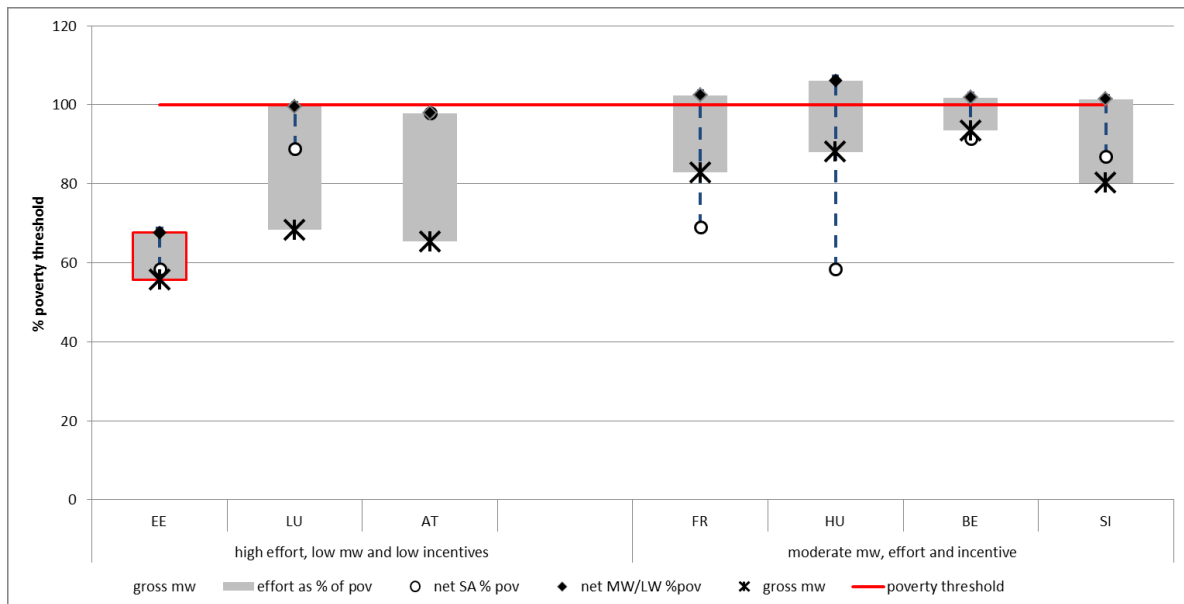
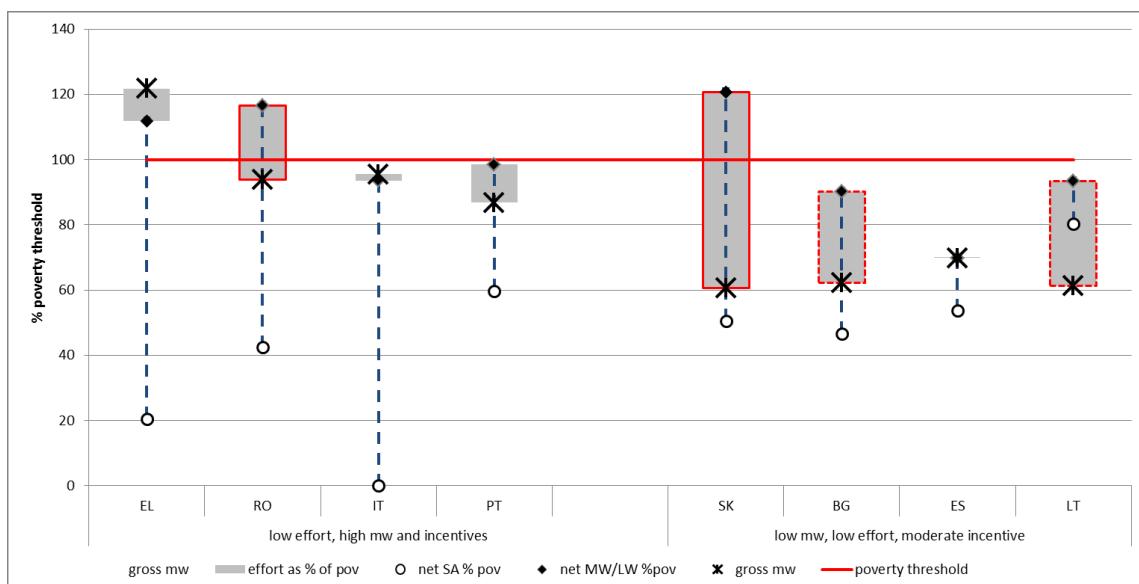


Figure A. Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with 2 children, 2012 – ctd.

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 1.

Source: OECD Benefits and Wages, poverty thresholds from Eurostat

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