Making Work Pay, Making Transitions flexible. The case of Belgium in a comparative perspective

Lieve De Lathouwer

juli 2004

B E R I C H T E N

CENTRUM VOOR SOCIAAL BELEID HERMAN DELEECK
UNIVERSITEIT ANTWERPEN - Stadscampus
http://www.ua.ac.be/csb
D/2004/6104/01

Inhoud

Introduction

In the European Employment Strategy 'making work pay' policies are a key issue for reducing benefit dependency and increasing labour market participation. The importance of making work pay policies (MWP) is underlined by the specific Guideline eight of the Employment guidelines. This guideline mainly addresses financial incentives to encourage men and women to seek, take up and remain in work (European Commission, 2003). Several welfare states have introduced income arrangements aimed at 'making work pay'. In principle, two policy answers to increase financial incentives are possible: either benefits are lowered down or net income from low paid work is increased. In particular, since the nineties we see in various continental welfare states the emergence of the latter policy line by directly subsidizing low wage earners. Such a policy of 'in-work' arrangements can take various forms e.g. complementary social benefits to work, reductions of employee's social contributions or tax credits. These new income arrangements entail a stronger integration between social, employment and fiscal policies. The underlying rationale is that it is better to take an active approach to income arrangements, i.e. to pay people for working rather than for inactivity.

In this contribution, we investigate both the theoretical and empirical consequences of making work pay policies for continental countries, taking the Belgian Welfare State as a case study.
In a *first section*, we provide a short outline of the labour market performance and poverty outcomes in the Belgian and other welfare states based on comparative employment and poverty data. *Section two* makes an institutional analysis of the Belgian social protection model against unemployment in a comparative perspective. In *section three*, we consider the developments in relation to making-work-pay policies in Belgium. We illustrate the effects of these policies on net incomes for low wage earners and on net replacement rates for the unemployed by using a tax-benefit model for hypothetical household situations. In a *fourth section*, we search for the rational to introduce in-work support in continental European welfare states. In *section five*, we try to make a first assessment of the cost-effectiveness of making-work-pay policies in Belgium. We bring together the main findings on in-work benefits in the Anglo-Saxon countries (mainly the lessons from EITC in the US and WFTC in the UK) and try to relate them to the specific conditions of the Belgian welfare state. *Section six* summaries and formulates some academic and policy considerations.

1. Labour market performance and poverty outcomes in welfare states

Esping Andersen's well-known typology of welfare states (Esping-Andersen, 1990) differentiates between three types: the continental European or corporatist model, the liberal model of the Anglo-Saxon world, and the social democratic model of the Scandinavian countries. The continental European welfare state has developed generous passive income transfers within a social insurance system that is primarily work-related and financed through social contributions on labour, with a marginal role for private social provisions, a high-wage strategy and strongly developed labour relations (Belgium, Germany, France). The liberal welfare state has more limited public income protection schemes, with a dominant role for social assistance, a greater weight on private social provisions, a low-wage strategy and less developed labour relations (UK, US). The social democratic type has developed generous universal social protection, based more on citizenship (and less on work), but strongly linked with active employment policies such as training and publicly subsidized job creation (Sweden, Denmark).

These three types of welfare state have produced different results in the labour markets and in relation to income protection (i.e. different poverty and inequality rates). The continental European welfare state has succeeded in ‘addressing’ the income-related consequences of unemployment and non-employment mainly through a broad (expensive) but passive social security system. The downside is that benefit dependency is high and employment rates are relatively low. Social expenditure levels are relatively elevated, but poverty and inequality are low.

- Low employment levels

Continental Europe (Benelux, France and Germany) is confronted with low employment levels. Relative employment growth since the 1980s has varied from country to country, but the proportion of employed persons in the active population (15-64 years) remained comparatively low by the end of the 1990s. Employment rates were between 60% (Belgium, France) and 66% (Germany). While this was higher than in Southern Europe, it was still significantly lower than in the Anglo-Saxon and Scandinavian countries, where employment rates were 70% or higher. (See Table 1). Only the Netherlands has succeeded in realizing a substantial net employment growth over the past decade and a half and has reached an employment rate that is comparable to the UK and Sweden.

Table 1. Employment rate (persons in work between 15-64 years), 1985-2002.

	1985	1990	2002
Belgium	53.1	54.4	59.7
France	62.0	59.9	61.1
Germany	63.1	64.1	65.3
Netherlands	57.7	61.1	73.2
UK	66.2	72.4	72.7
Denmark	77.4	75.4	76.4
Sweden	80.3	83.1	74.9
Ireland	51.4	52.3	65.0
Italy	53.0	53.9	55.6
Spain	44.1	51.1	59.5
Greece	57.3	54.8	56.9
European Union	59.8	61.6	64.3

Source: OECD Employment Outlook 2003.

- Outsiders on the labour market

Underemployment in continental Europe is concentrated in certain subgroups of the active population: it is high among women, younger and older persons, particularly if they are lower skilled (Table 2). Among the high skilled, underemployment is actually low, with employment rates approximating to the Scandinavian and the Anglo-Saxon figures. Structural underemployment is however manifest among the lower skilled, particularly if they are women or older men. In the Benelux and Germany, 40% or less of the low-skilled women are in work. In the Scandinavian countries, particularly Sweden, a considerably higher percentage of low-skilled are employed (60%). Older men (a considerable proportion of who are low-skilled) are very much excluded from the Continental European labour market.

Table 2. Employment rates according to educational attainment (1) and gender, persons between 25-64 years, 2001.

	All			Men			Women		
Educational attainment	High	Middle	Low	High	Middle	Low	High	Middle	Low
Belgium	84	74	49	89	83	63	80	64	34
Germany	83	70	52	87	77	65	78	64	44
France	84	76	58	88	84	69	78	64	44
Netherlands	86	80	59	90	88	75	81	72	45
Denmark	87	81	62	90	85	72	85	76	54
Sweden	87	82	69	88	84	75	86	80	62
UK	88	79	54	91	84	61	85	74	48
VS	84	76	58	90	82	70	79	71	47

Source: OECD, Employment Outlook 2003, Low means less than upper secondary education; middle upper secondary education and high tertiary education.

- High benefit dependency

The continental European welfare state has succeeded in 'addressing' the income-related consequences of unemployment and non-employment mainly through a broad, but passive social security system. The downside is that benefit dependency is high. Besides a high prevalence of non-working pensioners, also benefit dependency among the active generation is high in Belgium, France and in Germany (Table 3). The Netherlands succeeded in bringing down benefit dependency. In Belgium, the number of benefit recipients of working age as a proportion of the working aged population grew from 17% in 1980 to almost 24% in the mid-90s, with a slight decrease occurring in the second half of the 1990s. In comparative perspective, Belgium's high benefit dependency is due mainly to the high proportion of female benefit recipients (NEI, 2002). Apart from the fact that the eligibility period for unemployment benefits is long in Belgium there are various schemes that allow people to combine work and care. Often, the beneficiaries are women. Maybe surprisingly given the high employment rates, benefit dependency is also high in the Scandinavian countries. The Danish benefit dependency levels are comparable with Belgian levels (esp. 23.1% and 23.6% of the working aged population). An important difference with Belgium however is the financial sustainability. The same high level of benefit dependency in both countries is 'sustained' in Denmark by an employment rate of 76% compared to only 60% in Belgium (see table 1). In the Anglo-Saxon and Southern European countries, benefit dependency is lower because social protection arrangements are less generous.

Table 3. Benefit dependency: benefit recipients at working age as a % of the working age population (15-64 years), 1980-1999 (in FTE) 1980-1999.

	1980	1990	1999
Belgium	17.4	24.4	23.6
Netherlands	15.9	19.9	17.8
Germany	15.2	18.1	22.4
France	13.9	20.2	24.2
Denmark	20.1	23.2	23.1
Sweden	16.1	17.0	20.0
UK	15.2	18.5	18.9
Spain	8.3	12.3	11.2

Source: OECD 2003, based on National Economic Institute (NEI)/the Netherlands).

An important question is *the function* of benefit dependency: do social benefits support the employability of people and hence function as an economic and social force or are they used simply to withdraw groups from the labour market? The high and increasing benefit dependency levels among the low skilled, as illustrated for Belgium, suggest the latter. In Belgium, the low skilled –especially older men and young adult women- saw their likelihood of benefit dependency continue to increase in the 1990s despite job growth. By the end of the decade, one in three low-skilled persons were benefit recipients.

Table 4. The proportion of persons receiving a replacement income at active age (1) by skill level (2), Belgium, 1985-1997.

		1985	1988	1992	1997
All		17.2	19.2	22.1	21.4
Low-skilled		23.5	26.3	31.5	34.3
High-skilled		7.2	9.2	10.5	10.9
Low-skilled men	- 45 year	16.3	19.3	17.2	21.1
	+ 45 year	43.3	42.9	53.5	54.6
Low-skilled women	- 45 year	16.3	23.5	31.2	33.5
	+ 45 year	17.9	19.3	24.5	26.3

(1) active is defined as men aged 25-65 and women aged 25-60; persons under the age of 25 who either work or are benefit dependent are also considered to be professionally active.

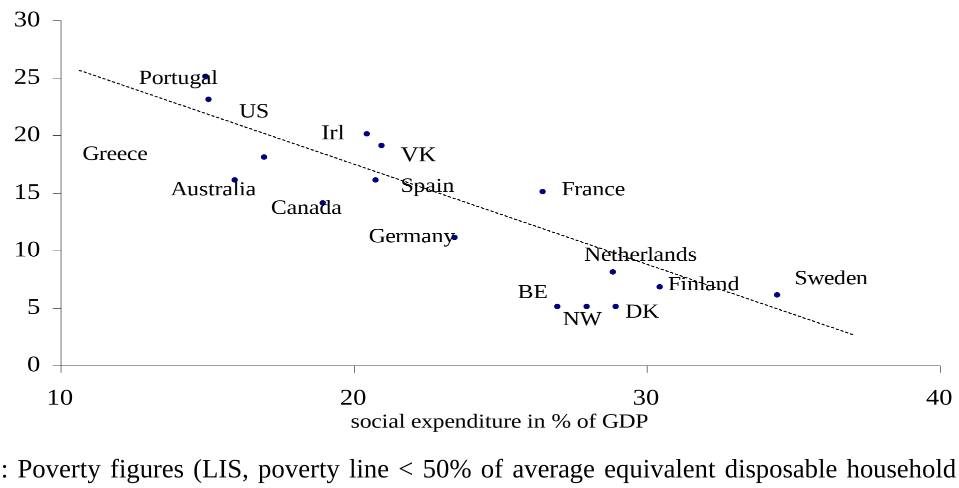
(2) low-skilled means less than upper secondary education; high-skilled means tertiary education.

Source: Centre for Social Policy (CSB) Surveys.

- Low poverty and high social expenditure levels

Despite their comparatively low employment rates, the continental European welfare states also rank among the countries with low (financial) poverty rates and low degrees of income inequality (Förster, 2000; Cantillon, Marx, Van den Bosch, 1997 and 2002; Atkinson, 2003). Together with the Scandinavian countries, the Benelux countries appear to have achieved low poverty rates, while the Anglo-Saxon nations (US, UK) and the southern European countries tend to have high poverty rates. Comparative poverty research indicates that there is an inverse relationship between levels of social spending and poverty (Figure 1). As the regression line in figure 1 shows, countries with high levels of social expenditure enjoy low poverty levels and vice versa (see also Mitchell, 1990; Beblo and Knaus, 2001).

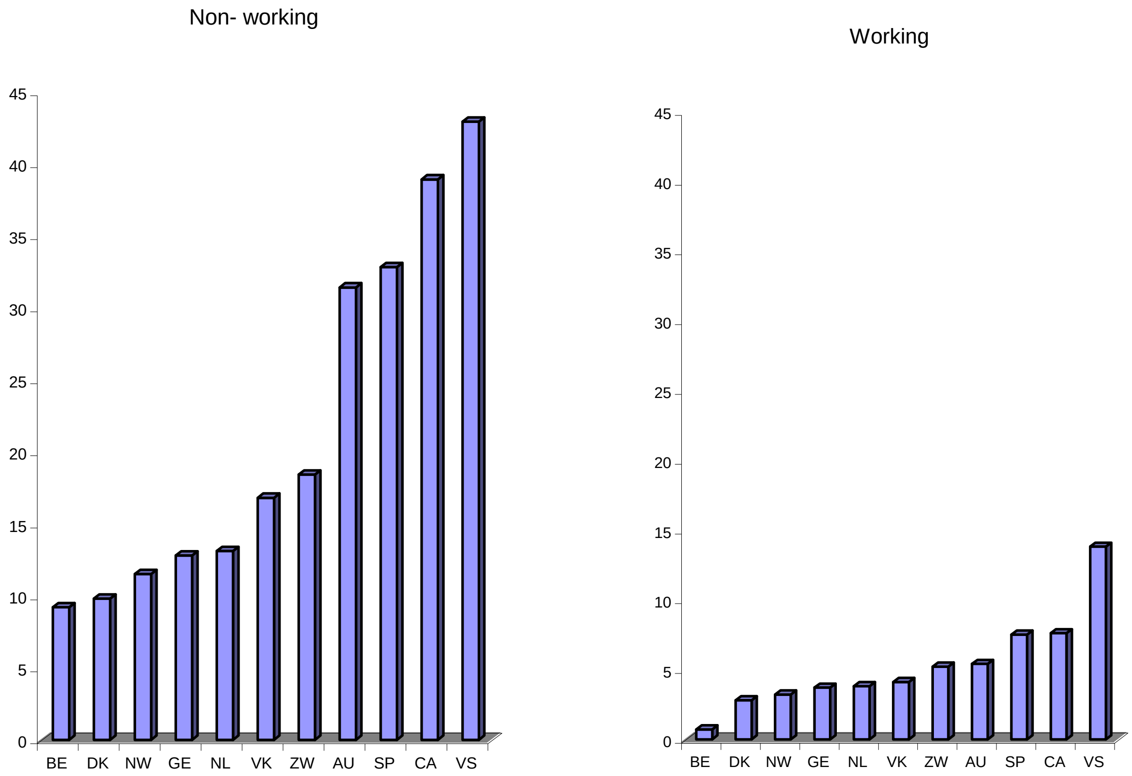
Figure 1. Poverty and social expenditures, early 90s.



Source: Poverty figures (LIS, poverty line < 50% of average equivalent disposable household income), Social expenditures (OECD).

The importance of high social expenditure levels is also apparent from poverty rates among the non-working population at working age. Poverty is low in continental European welfare states, in part because of high wages (unlike in the US, where one is confronted with the problem of the 'working poor'), but it is, first and foremost, among the non-working that poverty levels between different countries diverge quite strongly (see Figure 2). In the Scandinavian and Benelux countries, poverty among the non-working population is kept comparatively low thanks to a broad social security system. In the Anglo-Saxon world, on the other hand, more limited social security systems result in exceptionally high poverty risks among groups with few labour market opportunities.

Figure 2. Proportion of working aged persons (15-64 year) in poverty, early 90s.



Note: poor = household income less than 50% of average equivalent disposable household income.
Source: LIS (Luxembourg Income Study).

2. Welfare institutions and disincentives for employment

- Institutional characteristics of the continental social model

Weak labour market performance and high benefit dependency are the result of a complex combination of factors (Ferrera, 2000). The long-term increase in benefit dependency can be explained in terms of a process of de-industrialisation with massive (male) job loss in manufacturing and a significant rise in the female labour supply. Job growth in services has been insufficient to absorb the effects of both these processes. Technological developments and globalisation trends often imply more stringent requirements in terms of knowledge, skills and intellectual flexibility, combined with lower demand for low-skilled labour. However, concerns have also been raised about the possibly negative impact of w*elfare institutions (*minimum wages, social security, taxes). These tend to affect the employment of the lower skilled in particular. High labour costs make the recruitment of low-productive workers problematic. The "productivity trap" (i.e. an imbalance between high labour costs and low market productivity) results in a weak demand for less skilled or less productive workers. On the other hand, the combination of a generous social security system, a high fiscal burden on wages (including low wages) and labour–related costs (e.g. child care) creates a situation where low-skilled labour is not very rewarding, neither financially nor in terms of job satisfaction. The “unemployment trap” (i.e. an imbalance between net income from low-paid work and social benefits) is said to discourage labour supply.

Concerns about the negative impact of *welfare institutions* on the labour supply and on long-term unemployment are based on a combination of three distinct institutional characteristics:

- Generous benefit levels and the issue of the unemployment trap

A first characteristic is the *relative generosity* of social insurance systems offering relatively high net replacement rates. In particular, for persons with a low earning potential, decent benefit levels might create a financial trap, as they can make the transition from welfare to work financially unrewarding. Net replacement rates, based on a tax/benefit model for various household types, provide an accurate but theoretical picture of the relationship between total net (household) income in unemployment and in work, allowing in principle to take into account taxation and social security contributions, child benefits, housing allowances and various welfare provisions (OECD, 1999).

OECD calculations for the 1990s show that, in the case of short-term unemployment for average wages, net replacement rates vary substantially between countries, reflecting differences in, for example, the insurance nature of unemployment benefits and supplementary social benefits. Generally speaking, net replacement rates are the highest in the Netherlands and in the Scandinavian countries and the lowest in the UK, with Belgium occupying a middle position. But it is in case of long-term unemployment and low wages, that net replacement rates are reaching the highest level everywhere, particularly for breadwinners and lone-parent households. Due to the high fiscal burden, the loss of selective provisions (including increased child benefit) and the additional costs associated with work (esp. childcare) low-paid work (2/3 of the average wage) is made financially less attractive. According to OECD calculations for the 1990s, the net replacement rates for these categories were 80% or higher in several countries (see Figure 3). Belgium again occupies a middle position; the highest replacement rates again occur in the Scandinavian countries, while relative benefit levels are the lowest in France.

Calculations based on a Tax-Benefit model for Belgium show that the OECD calculations underestimate the potential unemployment trap (see paragraph 3). For example, in the OECD calculations no childcare costs, part-time labour, double-income households or benefit levels for elderly unemployed persons, people in early retirement or partial work incapacity are taken into account.

Recently more attention in academic and policy literature has been given to work and flexibility disincentives in a more dynamic perspective. For example in the framework of ‘transitional labour markets’ (Schmid and Schömann, 2003) it is argued that social security is not providing satisfactory security of trajectories. Transitions from unemployment benefits to non-standard work such as temporary, part-time or self-employed jobs can be penalized in terms of future income losses by losing benefit entitlements to unemployment or pension rights or by worse opportunities for participation in activation programs. The high level of insecurity of temporary jobs can discourage the unemployed to take up an uncertain job compared to a stable benefit situation. Schmid and Schömann argue that in order to encourage people to take flexibility risks, institutions should protect the income risks related to mobility.

Figure 3a. Net replacement rates on average wages (APW level), for long-term unemployment (Source: OECD, Benefits and Wages, 2002).

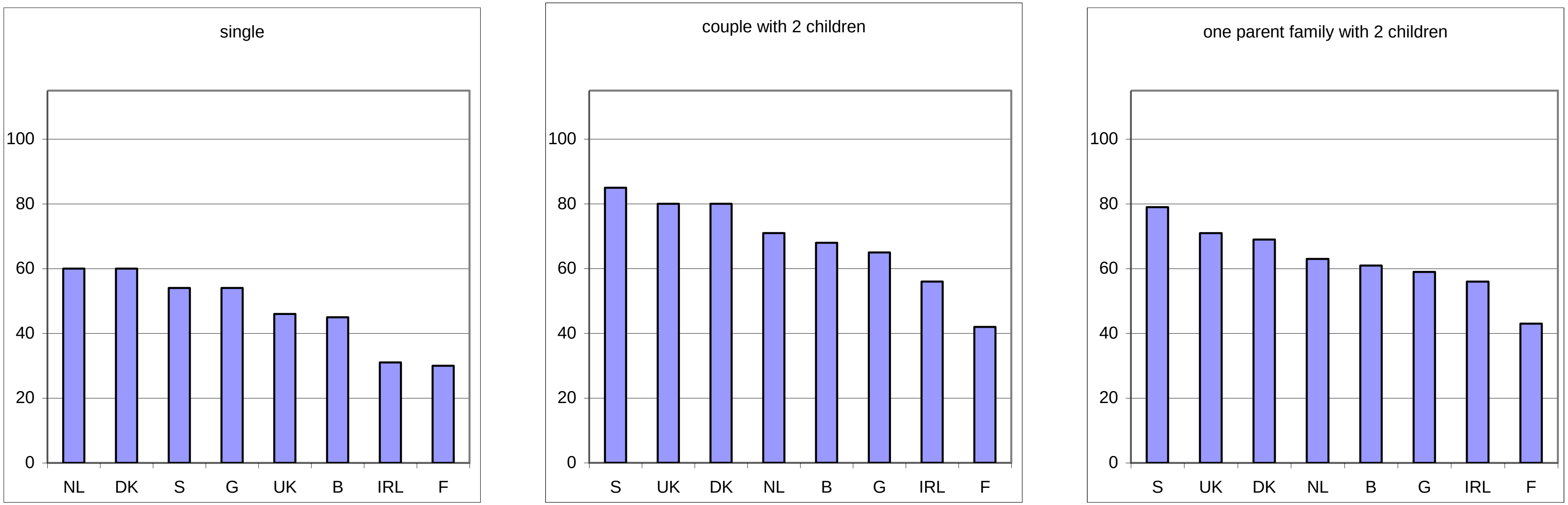
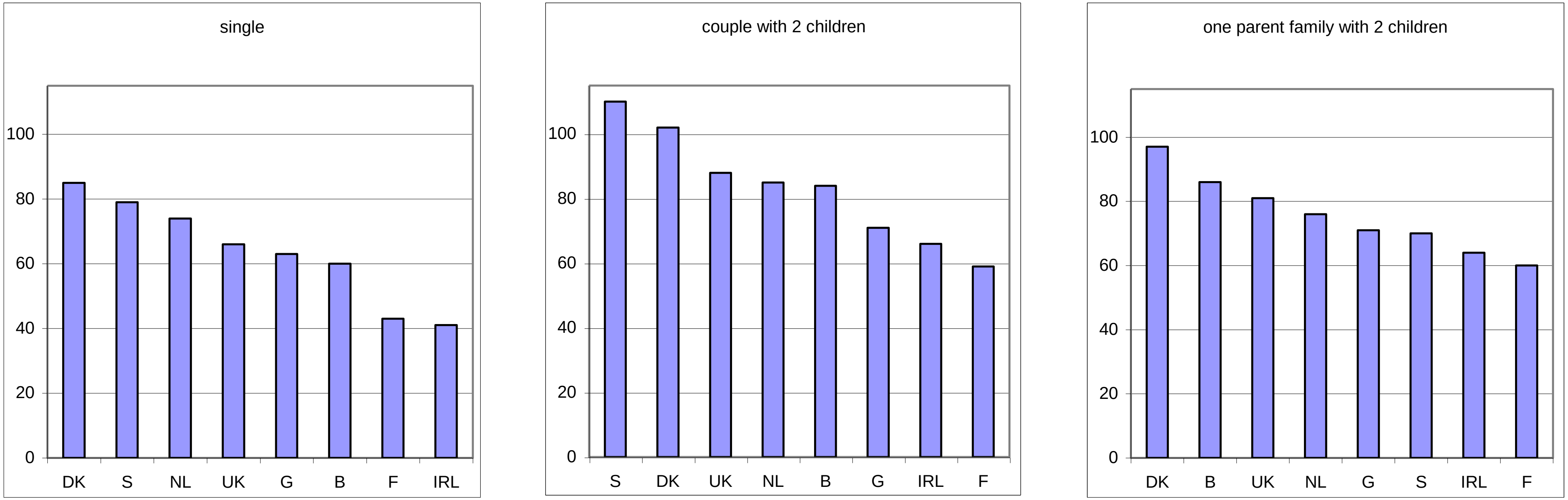


Figure 3b. Net replacement rates on 2/3 APW level (low wages), for long-term unemployment.



The high level of taxation and social security contributions are important contributing factors in making low-paid jobs (at minimum wage) unrewarding compared to a situation of benefit dependency. Comparative figures show that, in Continental European and Scandinavian welfare states, there is a considerable burden of taxation on labour, with Belgium having one of the highest total tax wedges (see Table 5). This not only results in a high labour cost, but often also means that the employee retains less of his/her gross wages. In Belgium, for example, the employee's tax burden by the end of the 1990s was as high as 42% of the average gross wage. The proportion paid in taxes and workers' social security contributions was also substantial for low wages (34%).

Table 5. The total tax wedge and employees' tax burden for a single full-time production worker (APW), average and low wages 1999.

	Total tax wedge (1)		Employees' tax burden (2)	
	Average wage	Low wage (3)	Average wage	Low wage (3)
Belgium	57.0	51.2	42.0	34.2
Germany	51.9	47.0	42.0	36.1
Sweden	50.5	48.8	34.2	31.8
France	47.9	40.4	27.6	23.4
Netherlands	44.4	40.3	35.6	31.2
Denmark	44.0	40.9	44.0	40.6
UK	31.0	26.2	24.6	20.4

(1) income tax plus employee and employer contributions as a % of labour costs.
(2) income tax plus employee contributions as a % of gross wages.
(3) 67% of the average wage.
Source: OECD, *Taxing Wages 1998-1999*.

- Benefit entitlement and long benefit duration period

Secondly, financial disincentives can, moreover, persist for a very long time because of the lengthy *benefit entitlement period*. For example, the entitlement period for the unemployed in Belgium is atypically long. Benefits awarded under the insurance scheme are, in principle, unrestricted in time for unemployed persons without other sources of household income (breadwinners, lone parents, single persons). For unemployed persons belonging to households with other earners (so-called 'cohabitees', mostly married women and children living at home) benefits may also continue for a long time, though the maximum entitlement period for this group has been reduced (De Lathouwer, 1997)[1]. Women in particular may enjoy long entitlement periods under the Belgian system, unlike under foreign regimes. In many countries, unemployment insurance benefits are limited in time, followed by an (often income-tested) welfare allowance. Under such schemes, more unemployed persons, particularly married women, lose their benefit rights more quickly. Due to the length of the entitlement period, the (financial) disincentive for seeking employment may persist for a long time in Belgium. Duration figures suggest that unemployment has a self-enhancing effect. The longer one remains (or can remain) benefit entitled, the more difficult it seems to become to re-enter into the labour market (Commission for Social Affairs, 1997).

Moreover, a significant proportion of the unemployed in Belgium have not worked much in the past. This is partly due to the fact that entitlement conditions for unemployment benefit

[1] The benefit entitlement period for unemployed cohabitees (with an income above a certain income threshold), was restricted during the 1990s (Article 80). This group loses the benefit if the unemployment period is longer than 1.5 times the average unemployment period (2 times up until 1996), taking into account age, sex and region. The maximum entitlement period for women, for example, varies between 2.5 years (Ostend, for women under the age of 36) and over 8 years (Mons, for women aged over 46).

are not very strict: they take account not only of past employment, but also of studies. One-third of the unemployed women, for example, have never worked (RVA, 2001).

- The passive nature of benefits

Finally, benefits can be *passive* in nature. Consequently, social security used to serve as a kind of collective safety net that made it possible to drain off the 'economically redundant' from the labour market in a socially acceptable manner. There are several indications that Belgian unemployment benefits were for a long time passive benefits. The passivity of the system manifested itself in a weak link between benefits and training. According to OECD statistics, Belgium scored comparatively low in the early 90s with expenditures for training amounting to 0.22% of GDP in 1991, compared to, for example, 0.47% in Germany and 1.01% in Sweden. In the course of the decade, expenditures on training in Belgium increased only slowly (up to 0.26%) in comparison to, for example, Denmark where they increased from 0.36% to 0.83% (Table 6). There is also evidence that counseling and guidance is weak in Belgium. As social investment in human capital is inadequate, one may expect knowledge, skills, competences and work attitudes to erode. The passive nature of the Belgian system is also apparent from the low incidence of controls on the job-seeking behavior of the unemployed (e.g. to check whether they are willing to work or to ascertain that they are not performing illicit work). Although comparative figures on effective controls and sanctions are limited, an OECD comparison suggests that Belgium performs weakly in relation to sanctions. The number of sanctions for insufficient willingness to work (refusal of job offer, unavailability, failure to present oneself at job mediation or employment office, or refusal of a subsidized position such as work in a Local Employment Agency) as a percentage of all unemployed beneficiaries was about 1% in Belgium, compared to 2% in Denmark, 5.5% in the UK, 7.3% in Norway, 10.2% in Finland and 35% in the US (OECD, 2000). Recently (end 2003) the Belgian federal and regional governments have launched a reform plan on guidance and control for the unemployed.

Table 6. Expenditure on passive and active labour market policies in % of GDP, 1991-2000, selected countries.

	Belgium		Germany		France		Netherlands.		UK		Sweden		Denmark	
	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000
Passive	2.75	2.18	1.80	1.90	1.94	1.65	2.49	2.05	1.14	0.56	1.65	1.33	4.73	3.00
Active	1.21	1.30	1.33	1.24	0.89	1.31	1.09	1.55	0.57	0.36	2.46	1.37	1.46	1.56
Training	0.22	0.26	0.47	0.34	0.35	0.25	0.22	0.30	0.15	0.05	1.01	0.31	0.36	0.85
Subsidies	0.63	0.77	0.34	0.32	0.11	0.37	0.05	0.41	0.02	0.01	0.26	0.27	0.36	0.17
Public employment service	0.19	0.17	0.22	0.23	0.13	0.18	0.14	0.25	0.20	0.13	0.21	0.25	0.10	0.12
Target groups *	0.16	0.13	0.30	0.35	0.29	0.51	0.68	0.61	0.19	0.17	0.97	0.54	0.63	0.43

* This category includes expenditure for special programs targeted towards youths and the disabled.

Source: OECD, *Employment Outlook 2002*, Expenditure on passive and active labour market policies.

3. The development of 'making-work-pay' policies in continental European welfare states: the example of policy reform in Belgium

3.1 Policy developments

The disappointing performance of the Belgian labour market and the issue of the sustainability of the welfare state resulted in the 1990s in a more explicit discourse on benefit and employment policies. A consensus was reached that benefit dependency needed to be reduced urgently, both from an economic perspective (pressures on sustainability of the system, in particularly due to population ageing), from the perspective of the legitimacy of the welfare state and from a social point of view (poverty and personal well-being of those concerned) (for an extensive analysis, see De Lathouwer, 2003). Moreover, the *EU Employment Strategy* has put considerable pressure on European governments to increase their employment rates and to reach an agreement on employment-friendly reforms of social security and taxation. By 2010, average employment rates should have reached 70%. With 60% of the population aged 15 to 64 in work, Belgium is still far removed from this objective.

A strong consensus has been reached in the Belgian Welfare state that structural underemployment should be alleviated without allowing poverty to increase. Hence, activation and making-work-pay policies are combined with work subsidizing. Making work pay can, of course, also be achieved by reducing the generosity of social protection (deregulation) and, in doing so, boosting the financial incentives to accept a regular low-paid job. But the argument against such a policy is that it would have severe consequences in terms of poverty. Although in the 80's and the 90's benefit levels stagnated under pressure of the worse public finance situation, unemployment traps were above all combated with *employment subsidies*, in order to combat structural underemployment without increasing poverty. In the course of the 90s, demand-driven policies were complemented with more supply-oriented policies.

- Demand-driven policies: reducing indirect labour costs

Subsidizing in continental Europe has been primarily demand-driven, by reducing *employers social contributions* in order to reduce the (indirect) wage cost of hiring workers. In Belgium, for example, this policy direction has been followed since the 1980s and it became particularly prevalent in the second half of 90s. Total reduction of employers' social contributions rose from 1 billion Euro in 1995 to 3.4 billion Euro in 2001 (Conseil Superieur de l'Emploi, 2000; National Bank, 2001). Moreover, there has been a trend towards more *generic* regulations (general cuts in social security contributions, aimed at large groups of workers and without obligations regarding the recruitment of certain categories of unemployed people) and away from the more *selective and conditional* regulations of the past (with recruitment obligation, i.e. an employer would only receive a particular subsidy on recruitment of an unemployed worker). The proportion of generic measures increased from 65.8% to 77.3% between 1995 and 2000.

There is a big debate going on regarding the net employment effects and the concrete modalities of reduced employers social contributions. Evaluation literature on the impact of subsidized job creation on aggregate employment suggests that the net employment effects are much weaker than what one might expect theoretically. This is due to possible displacement, substitution and dead-weight effects (Marx, 2001; Koning and Mosley, 2001).

- Activation of social benefits: a combination of supply and demand-oriented policies

Since the early 1990s, a more supply-oriented policy has been pursued, although demand-driven policies were never abandoned. The focus has shifted to the necessity for the unemployed to gain work experience and the need to provide greater financial incentives. In Belgium, this is reflected in the strategy of "activation of benefits". Social security benefits (i.e. unemployment benefits or welfare) are used directly as an employment subsidy, at the same time reducing labour costs and increasing financial incentives for the unemployed to take up work.

By the end of the 1990s, about 90,000 unemployed persons had been employed under various 'activation-of-benefit' schemes (figures 1999). The bulk of activated benefits was taken up by the 'Local Employment Agencies' (PWAs) and by the 'guaranteed-income benefit'.
The PWA scheme, which was launched in 1994, is an alternative employment circuit, but is actually in reform. It consists of local employment agencies established by municipal authorities, creating jobs which hardly exist on the regular labour market, e.g. domestic help, care to sick people or children, administrative assistance. The idea is to redirect benefits towards wage subsidies in order to create additional jobs in services, because many latent social needs remain unfulfilled in the market due to high labour costs. Under the scheme, long-term unemployed persons (minimum 24 months if under 45 years of age, 6 months if over 44) and subsistence welfare recipients can enter into a labour contract, albeit for a limited number of working hours (45 hours per month), and perform activities for natural persons, non-profit organizations, local governments and –in the case of certain strictly defined tasks- private companies. The unemployed person who has taken up such a small part-time job receives unemployment benefit as a wage subsidy, complemented with a modest part-time wage. Employment under the scheme is not restricted in time. The wages paid are tax deductible for the employer. The PWA scheme has proven very popular among women, as it provides small part-time and flexible jobs that match the needs of the unemployed (about 40,000 beneficiaries). The PWA is to be replaced by the new system of 'service cheques', which stimulate the creation of 'service companies'. The system is restricted to domestic and household services. Again, the aim of the measure is to create jobs in the services sector by stimulating demand. The user of services pays the supplier (i.e. private companies or non-profit organizations who are required to employ unemployed persons) with a special service cheque. The suppliers, for their part, are able to offer the services at cheaper rates because they are subsidized with unemployment benefits. Activation of unemployment benefits is also taken place by the *Activa jobs.* The latter combine a reduction of employers' social contribution with wage subsidies in the case of employment of a registered long-term unemployed person, with increasing advantages with age (stimulating employment of the elderly) and duration of unemployment. A specific Activa plan for temporary work and temporary labour contracts was introduced.

The 'guaranteed-income benefit' is a good example of an employee subsidy. It is a direct cash transfer under unemployment insurance that is intended to make relatively low paid part-time work financially more attractive. The unemployed person making the transition to part-time work receives the subsidy as a benefit, but remains registered as searching for a full-time job (they are however not included in the official unemployment statistics), assuming that the scheme is for involuntary part-time unemployment. Such transfers have proven to be very successful in terms of take-up. The initial scheme, which was very advantageous for unemployed women from households with children, resulted in a sharp increase in the number of beneficiaries to 200,000 by 1990. But due to budgetary constraints, the scheme was cut back and consequently the number of beneficiaries dropped to 35,000 by the end of the decade.

One of the criticisms of these carefully targeted categorical subsidy schemes is that they create a dual economy, with certain groups of benefit-entitled unemployed persons being eligible for subsidies if they take up low-paid work and other non-subsidized workers having to perform the same work for a lower (non-subsidized) income. Moreover, these selective schemes might become 'dead-end jobs', certainly when these benefits are unlimited in time and not really coupled with training, as is the case in many Belgian programmes. Hence, 'vertical mobility', that is to say the transition from a subsidized to a non-subsidized low-paid job, is hampered (this is known as the low-wage trap). Moreover, in order to boost employment rates sufficiently, as is the stated objective in the European Employment Strategy, it will not suffice to direct policies towards the formally unemployed only; a more general supply-oriented policy is required (e.g. towards other non-working groups). Therefore, policies have shifted more recently towards more generic and less targeted measures.

- Towards more universal employee subsidies through the reduction of employees' social contributions

In the late 1990s, the debate on the unemployment trap was high on the political agenda in Belgium. Measures were taken to create greater financial incentives for the unemployed, but the broader objective was to make work more financially attractive in general. Hence policies became more universal.

An important strategy to increase net wages is the *reduction of employees' social contributions on low wages*. This scheme started in January 2000 and consists in a fixed sum (95 Euro since June 2003) that is gradually decreased as the wage increases, up to a maximum level. At minimum wage level, the employee's social contribution is cut from 13.07% to about 6%. In June 2003, the scope of this measure was further extended and further extension is being planned. The initial maximum (gross) wage limit was increased from 1,394 Euro/month to 1,539 Euro/month. According to estimates, about 630,000 workers are benefiting from this measure. The budgetary cost is substantial: it increased from an estimated 96 million Euro in 2001 (before the extension) to 165 million Euro in 2003 (after the extension) (Ministry of Social Affairs, 2003). This cost implies an income loss for the social security system. Moreover, it has caused a shift from proportional social contributions to progressive social contributions. This enhances the solidarity principle of social security and weakens the insurance nature of the system. Trade unions are however opposed to such reforms, arguing that under an insurance-based scheme all employees should pay contributions (even if the link between benefits and contributions has become weak). Clearly, social contributions legitimize the important role that trade unions play within the social security system.

Besides this general policy, a number of selective 'back-to-work bonuses' have been introduced since 2000, albeit under very restrictive entitlement conditions. Measures have been launched to reduce specific work-related costs for unemployed persons making the transition to work. Lump-sum annual bonuses were introduced in unemployment insurance to partly compensate for childcare costs (only for lone-parent households) and mobility costs for unemployed persons who have taken up work. The number of beneficiaries under these latter measures is, however, still extremely low (in 2001, only 41 persons received the mobility bonus and 79 claimed the childcare cost bonus). In addition to the aforementioned measures, certain selective benefits for the long-term unemployed (e.g. increased child benefit) can now be temporarily retained after re-employment.

- From social security towards tax credits: a closer integration between social and fiscal policies

As the approach of reducing employees' contributions has its limits, due to the insurance principle and the lack of alternative financing, increasing net wages for low-wage earners has been an explicit objective since the general tax reform of 2002. Besides a general tax reduction for all income groups, an individual refundable *income tax credit* was introduced for low-paid individuals. Eligible low-wage earners should earn a yearly (taxable) wage of no less than 3,850 Euro and no more than 16,680 Euro. The maximum yearly amount in basic tax credit is now 440 Euro (incremental introduction of 78 Euro in 2002, 266 Euro in 2003 en 440 Euro in 2004). The cost has been estimated at 450 million Euro (Valenduc, 2002). This basic tax credit can actually be complemented with tax credits for children (tax exemptions for children were also reformed into a refundable tax credit; these tax credits are however universal, i.e. they are applicable to all citizens and not low-wage earners only). Compared to tax credits such as the Working Families Tax Credit (WFTC) in the UK and the Earned Income Tax Credit (EITC) in the US, the Belgian basic tax credit plus the tax credit for children is lower. For example, the maximum tax credit in Belgium amounts to 440 Euro for a single person, 1,530 for a family with 1 child, 2,150 for a family with 2 children and higher amounts for large families, compared to about 350 Euro for a single person, 2,400 Euro for a family with 1 child, up to about 4,000 Euro for a family with 2 or more children under EITC. Likewise, the earned income threshold is lower in Belgium (around 17,000 Euro compared to 30,000 Euro under EITC) (Blundell and Hoynes, 2001). The limited nature of the Belgian scheme is due mainly to the very recent (experimental) status of the measure. Another reason is that it is an *individual* measure (not means-tested) and thus more expensive than schemes such as the WFTC in the UK and EITC in the US, which grant a means-tested tax credit to low-income *households*. One of the problems with tax credits is that the effects are only felt at the moment taxes are calculated definitively. In Belgium this is two years later and it is assumed that this delay is not favorable to encourage labour supply. The new reform of the 'work-bonus', which is planned for the end of 2004, intends to solve this problem and will replace the existing tax credit and the reduction of employees' social contributions on low wages.

The reductions of taxes and of the employees' social contributions have substantially reduced the fiscal burden on wages, in particular for the lowest (minimum) wages. For couple breadwinners working at minimum wage, the employees' tax burden remains very small.

Table 7. The tax burden for employees: taxes and social contributions as a % of gross wages, Belgium, 1992-2003.

	1992	1999	2001	2003
Minimum wage				
Single	27	29	24	21
One parent 2 children	19	19	15	12
Couple breadwinner 2 children	13	13	8	5
Average wage (1)				
Single	39	42	41	40
One parent	35	37	37	36
Couple breadwinner	29	31	30	29

(1) The average wage (approx. 30,425 Euro gross annual wage) is about 200% of the minimum wage.
Source: Centre for Social Policy, STASIM (Tax-Benefit Model).

- Beyond tax-benefit policies: reforming childcare

Childcare costs are often the most substantial in-work expense and they are commonly identified as a barrier to taking up employment, in particular for low-income households (OECD, 1996). In 2002, *childcare* was reformed, resulting in a significant decrease in childcare costs for lower income groups, while higher income groups are now paying more. The reform was intended to be budget neutral. It meant, for example, that childcare costs for a lone-parent family with 2 (small) children working at minimum wage were reduced by half, thus making low-paid work financially more rewarding. Besides reducing the financial cost, the government also increased the number of public child daycare centers and stimulated private childcare services, e.g. by improving the social-protection status of this group.

3.2 The impact of recent Belgian reforms on net low wages and unemployment traps

Tax-benefit based calculations show that the reforms introduced in Belgium since 2000 have had a significant impact on the net disposable income of low-wage earners (working at minimum wage).

Table 8. Net disposable household income (*) for low-paid workers (minimum wage), Belgium, 1999-2003.

	1999	2000	2001	2002	2003
Single	100	107	110	114	120
Lone parent 2 children	100	105	108	114	122
Couple breadwinner 2 children	100	106	109	112	117
Married partner (second partner working), 2 children	100	104	107	110	115

(*) Net disposable income after payment (and fiscal transfers) for daycare.

Source: Centre for Social Policy, STASIM (Tax-benefit Model).

Consequently, existing unemployment traps have been reduced (Table 9). Traps were mainly associated with a transition from maximum unemployment benefit to full-time minimum wage, particularly in the case of single parents. After the reforms, lone parents no longer lose money in the transition from maximum unemployment benefit to full-time minimum wage. However, net replacement rates for lone parents and couple breadwinners (on maximum benefit) remain high (90%). Breadwinners (including couples and lone-parent families) constitute approximately one-third of the unemployed population (about one-third of this group receive maximum benefit, RVA). Likewise, for women who are living with an (earning) partner (so-called cohabitees), the financial rewards of the transition from unemployment to low paid part-time work remain weak (net replacement rate of 92%). The latter is a considerable group among the unemployed in Belgium (almost 50% of the total unemployed population) and survey evidence indicates that there is a strong preference for part-time work among this group (De Lathouwer and Bogaerts, 2004).

Table 9. Net disposable household income for long-term unemployed in % of net disposable household income in minimum wage work, Belgium, 1999-2003 (1 January).

	Full-time minimum wage					Half-time minimum wage				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Maximum unemployment benefit										
Single	71	69	71	83	81	85	82	83	89	86
Lone parent 2 children	104	96	96	99	97	92	86	86	88	88
Couple breadwinner 2 children	91	88	87	90	90	88	86	86	87	86
Minimum unemployment benefit										
Single	64	62	66	72	70	82	79	81	85	83
Lone parent 2 children	94	87	89	88	86	89	83	84	85	85
Couple breadwinner 2 children	83	79	81	84	82	87	84	84	87	85
Married partner (second partner working), 2 children	85	82	81	81	73	96	94	94	94	83
Welfare benefit (social assistance)										
Single	61	58	58	59	59	74	75	75	75	74
Lone parent 2 children	88	84	84	86	83	91	91	91	86	85
Couple breadwinner 2 children	77	74	74	76	75	89	89	89	85	85

Simulated reforms: Reduction of employees' social contributions, tax credit, work-related 'back-to-work bonuses' and childcare costs.

Source: Centre for Social Policy, STASIM (Tax-benefit Model).

4. Pressures for continental European welfare states to introduce direct wage subsidies for low-wage earners

The introduction of making-work-pay policies, directly subsidizing the net income from work, has resulted in a certain convergence between the continental European welfare states and the Anglo-Saxon liberal welfare states. In the Anglo-Saxon countries, where labour markets are highly deregulated, low-wage jobs are common. Instead of improving the incomes of low wage earners through minimum wages, wage subsidies for *families* on a low earned income have been the main strategy. For example in Canada, 'back to work bonuses' such as the Canadian Self-Sufficiency Project SSP, target an earning supplement for working single parents who have been on welfare. Tax credits such as the Working Families Tax Credit (WFTC) in the UK and the Earned Income Tax Credit (EITC) in the US have developed into the principal tools for social policy in these countries (OECD, 2000a).

Arrangements whereby the net wages of low-paid workers are subsidized are "alien" to the traditional Continental and Scandinavian European welfare state. An important objective has always been to guarantee decent (minimum) wage levels, with fairly universal coverage often determined through collective wage bargaining. Historically two important goals of the minimum wage have been to provide workers with a "fair" compensation for their work effort and to raise the standard of living of low paid workers and their family. The advantages of high minimum wages are that they avert the danger of unemployment traps and working poverty by guaranteeing that even low-paid jobs are financially more attractive than unemployment.

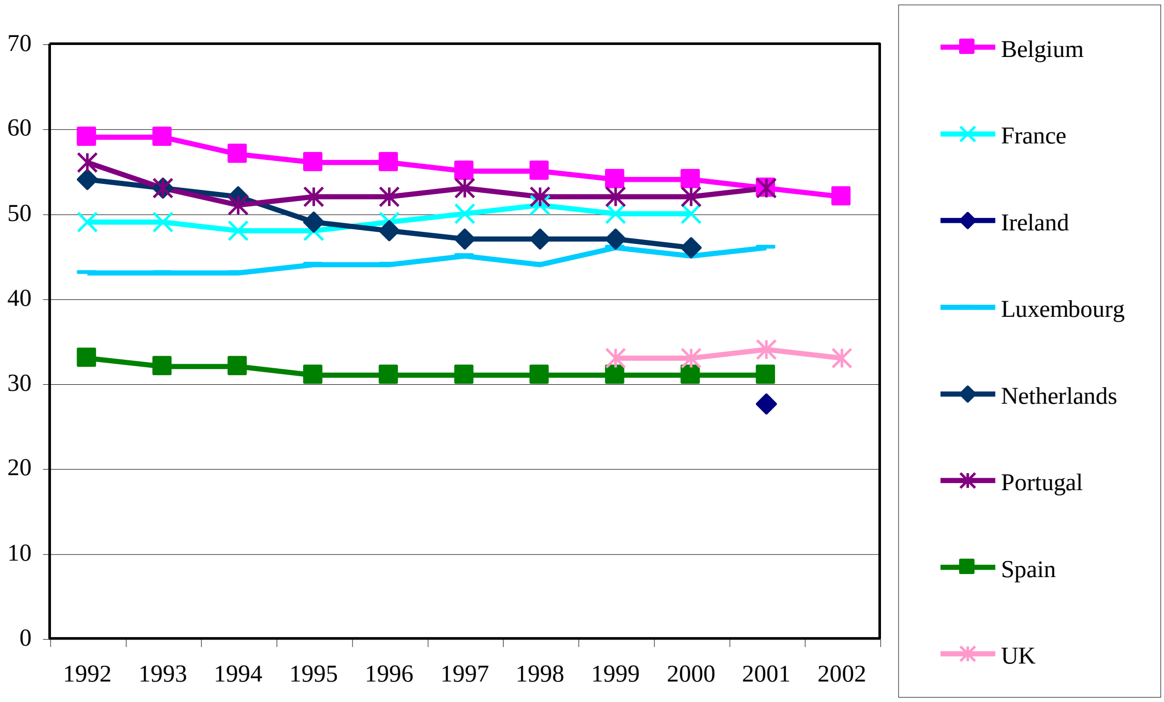
In recent years however several European countries introduced making work pay policies, which raised *net incomes* for low wage earners in order to raise work incentives at the bottom of the labour market. There is no single instrument to make work pay (European Commission, 2003), which was also illustrated by Belgian policies. Work incentives can be stimulated by combining a (partly) unemployment benefit/social assistance benefit with a work income (e.g. France, Belgium, Portugal). Another instrument is the reduction of social security employee contributions for low wages in order to raise net wages (e.g. in Germany the mini- and midi-jobs, in Belgium). Other countries introduced tax reductions, often for low and moderate work income (e.g. Denmark). Several countries introduced tax credits, which were mostly part of a broader tax reform. (France, the 'Prime Pour l'Emploi' or PPE in 2001; the Netherlands, the Employment Tax credit (ETC) in 2001, Finland, Belgium with a 'Tax credit for low-wage earners' in 2002.)

These developments suggest that the traditional role of decent minimum wages as an instrument of wage solidarity is weakening. We formulate at least four developments, putting traditional minimum wages under pressures.

4.1 Declining earning capacity and limits to minimum wages?

Through collective bargaining, strong trade unions were able to realize relatively high (breadwinner) minimum wages in continental and Scandinavian countries, reducing earnings inequality and low pay (OECD, 1997) and easing unemployment traps. However, raising minimum wages seems to run into limits. Although there is no firm empirical evidence that wage inequality has risen rapidly in continental Europe, contrary to countries like the UK and the US, there are several indications that minimum wages have fallen behind average wages in several European countries, in particular since the nineties (see also OECD, 1997; see also OECD-website, *Labour Market Statistics Indicators*). Figure 4 shows the evolution of relative (gross) minimum wages for a set of European countries. Particularly in Belgium and the Netherlands minimum wage levels have fallen significantly behind average wages. These were precisely the countries with the most generous minimum wage level in the early nineties. Calculations for Belgium over a longer time period show that the minimum wage has fallen 20% behind average wages since 1975. Dolado (2000) also shows some long term time series (although only till 1995) for countries where there is no national, but a collective bargained minimum wage such as Denmark, Sweden, Italy and Germany. Also in most of these countries there has been a decline in relative minimum wage floors fallen behind average wages. France and Luxemburg follow however a different pattern. In France the minimum wage remained stable and in Luxemburg relative minimum wages even increased. The figures show that we can not talk about a universal pattern of wage erosion for minimum wages; nevertheless several countries were under strong downward pressures.

Figure 4. Evolution of relative gross minimum wage in % of gross average wage, 1992-2001.



Source: Cantillon and Van Mechelen, 2004.

These development raise the following challenging question: are continental European labour markets still able to provide decent wages for low-productive and/or low-skilled workers. The literature provides various explanations for a relatively deteriorating position of low-wage workers (for an overview see Snower, 1998). A frequently heard hypothesis is that market productivity of the low skilled has decreased due to a shift in demand from unskilled to skilled labour. This is as well a result of skill biased technological innovation and of globalization, t.i. growing competition with low labour cost economies. In other words the downward pressure on minimum wages is a reflection of the 'economic deterioration of low skilled work'. Another hypothesis is the changing production structure of post industrial societies, shifting from high productive industrial activity, with high wage levels to a service economy with lower wages in particular in low productive labour intensive personal services, often suitable for low-skilled jobs. Of course wages are not only the result of market productivity and thus of 'inexorable economic forces', but they are also the product of labour market institutions such as the power of trade unions and collective wage bargaining and of values relating to solidarity and equality (the pay norm) (Atkinson, 2003). For example the case of France shows that this country so far 'refused' an erosion of minimum wages. One could assume that if a high minimum wage reflects what society wants to provide for low paid work, the minimum wage establishes the 'right' social cost of this kind of labour (Dolado, 2000). There is as well as no empirical evidence on changes in the 'pay norm' comparatively spoken.

The major answer of the European social model on the reduced labour demand of the low skilled has been a sharp increase in (long-term) unemployment and benefit dependency, rather than accepting large wage inequalities such as in the UK and the US. But some will argue that continental Europe precisely is in need of more wage flexibility. Although the relation between the level of minimum or low wages and job creation remains a very controversial issue (Nickell and Bell, 1995; OECD, 1996; Card and Kruger, 1996; Dolado, 2000), it is often assumed that lowering wages will increase job opportunities for the low skilled. In particular in labour intensive service economy it is argued that wage costs should be brought more in balance with market productivity. Subsidizing *net* wages is then considered as a tool for 'flexicurity', fostering wage flexibility (read slow down of low wages), while at the same time providing decent levels of income for low wage earners (social security). Yet from a social policy perspective such a strategy should be taken with prudence. There is clear evidence that even a very high degree of wage flexibility does not guarantee high employment and low unemployment among the most vulnerable; even countries with highly flexible labour markets and comparatively non-generous 'passive' benefits for the unemployed, such as the US, remain confronted with significant non-employment among the least skilled (see Marx, 2004; see also table 2 in paragraph 1 for employment rates among the low-skilled in the US).

4.2 A high tax burden on low wages increasing productivity traps

The relation between market productivity and labour costs is not only a matter of gross wages. High indirect labour costs by fiscal charges and social contributions have a strong upward pressure on the total labour cost (see previous table 5 in paragraph 1). A frequent heard thesis in academic and policy literature is that high social charges have blocked the expansion of private (labour intensive) service employment in continental Europe, while there was little room for expanding public service employment because under pressure of the Maastricht Treaty governments had to bring down budget deficits (Ferrera, 2000; see the 'service trilemma' of Iversen and Wren, 1998). Also minimum wages could not escape from high social charges in large welfare states. Table 10 shows the employee part of the tax burden on minimum wages as a % of gross minimum wages for several European countries. In the early nineties total employee taxes and social contributions on minimum wages amounted around 20% or even higher (28% in the Netherlands) in most continental and Scandinavian countries. Over the nineties countries such as the Netherlands and Belgium have reduced the employee tax wedge on low wages significantly. However in most of the countries the tax burden remained more or less stable and in Sweden it even increased substantially.

Because net wages for low wage earners are significantly lower compared to gross minimum, this increases the danger for unemployment traps and working poverty. As is shown in table 10 the net income for minimum wage earner families is hardly or not at all sufficient to be out of poverty in all countries. Taken into account supplementary income transfers for low wage earners, such as in many countries housing subsidies or in some countries in-work benefits, the net income of a couple living on the minimum wage is approximating the poverty line in France, the Netherlands but also in Greece and to a lesser extent in Belgium. In Denmark these households are substantial below the poverty line, due to an excessively high tax burden. In Spain and Portugal minimum wage earner families fall far below the poverty line.

Of course the impact of (net)minimum wages on financial disincentives and poverty depends on the number of families affected. According to estimates for the early nineties brought together by Dolado (2000), the number of minimum wage earners is very small in countries such as the Netherlands and Belgium and very high in Greece. Also in France the number of minimum wage earners is substantial (see table 10).

Table 10. Indicators of minimum wages, 1992-2001.

	Minimum wage (1) as a % of average wage		Employee Tax burden (2)		Net minimum wage for a couple in % of the poverty line (3)	% Minimum wage earners (4)
	1992	2001	1992	2001	2001	Early 90's
Belgium	59	53	22	17	96	4.0
Netherlands	54	46 (7)	28	5	99	3.5
France	49	50 (7)	23	24	99	12.0
Luxembourg	43	46	12	14	-	-
Germany (5)	-	-	18	20	-	-
Sweden (5)	-	-	24	33	-	0.2
Denmark	-	52	-	32	87	6.0
UK	(6)	34	-	11	92	8.3
Spain	33	31	8	9	72	5.0
Greece	52	51	14	15	102	20.0
Portugal	56	53	11	11	75	8.0

(1) National minimum wage: Belgium (GGMI); France (SMIC), Netherlands (Minimumloon), Portugal (SMN), Greece (KBM), Spain (SMI), UK (Statutory Minimum Wage); Collective bargained low wage: Denmark (low wage supermarket check out).

(2) Taxes, social contributions and local taxes as a % of the gross minimum wage for a couple without children.

(3) Poverty line = 60% of the median equivalent household income (this line is used by the European Commission in the National Plans Social Inclusion).

(4) Dolado, 2000.

(5) tax burden calculated for a fictive low wage (Sweden 50% of average wage; Germany 130% of poverty line).

(6) The Statutory Minimum Wage was only introduced in 1999.

(7) 2000.

Source: Cantillon and Van Mechelen, 2004.

4.3 Financial incentives, changed preferences and part-time work

A development which has certainly increased the concerns about the limits of full time minimum wages to avert unemployment traps and working poverty is the rise of part-time work. Over the past decade(s) there has been a trend increase in part-time relative to full-time employment in many countries. For example in Belgium, the proportion of part-time employees rose from 9% in 1985 to 21% in 2000. The rise in part-time work is partly demand driven. For employers it can permit not only greater flexibility in responding to market requirements e.g. by increasing capacity utilization or extending opening hours but also productivity gains. But the development of part-time work is first and foremost supply driven (Bollé, 1997). For workers it offers the chance of a better balance between working life and family responsibilities, training and leisure. Part time work today in highly gendered. In all countries the majority of part time workers are women. The European labour force surveys show that the first motives to take up a part time job for women are family reasons. The potential preferences for part time work are not clear yet. Part time job may offer also possibilities for elderly to retire more gradually or younger to combine study and work at the start of their career. It can also make it easier for persons who have been out of work for a long time progressively to (re)enter the labour market, because it gives opportunities to readapt to working life. And it may create job opportunities for partial disabled persons.

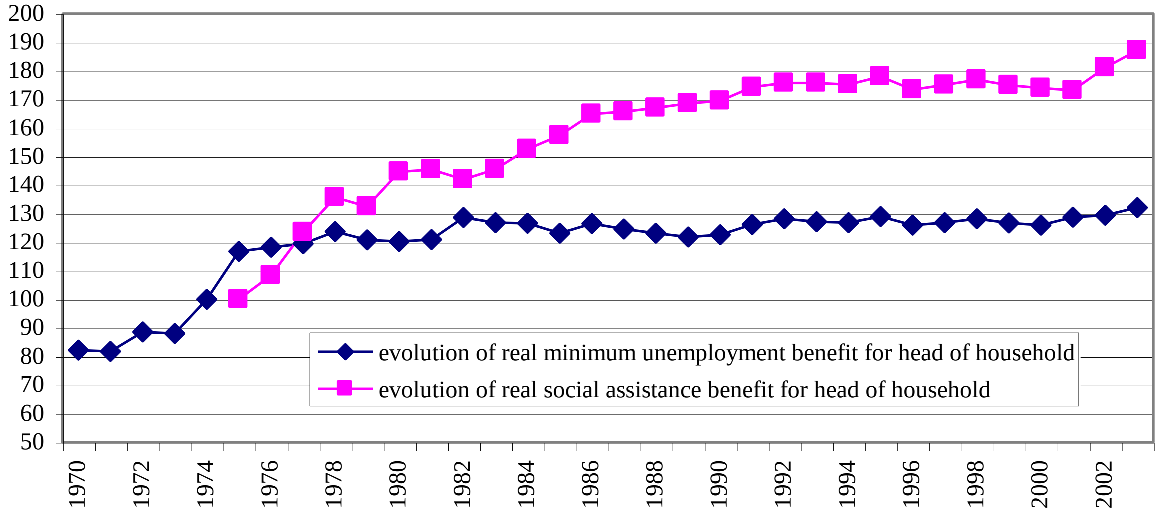
Because part-time jobs are mostly low-paid jobs, not necessarily because of low hourly wages, but because of reduced working hours, they can create financial disincentives and they

can also endanger working poverty. A high level of minimum wages, which was historically based on a full-time breadwinner model, can not prevent these threats. Even with a high minimum wage level, there is a significant risk that the transition from a (full time) benefit to a part-time job is not financial rewarding. With regards to poverty threats of part-time jobs, such a threat is limited as most part time workers (married women, younger workers living in the parental home) live in a household with more than one earner. Comparative research shows that there is a limited overlap between low pay and financial poverty in most countries (Marx and Verbist, 1998; Marx and De Lathouwer, 2004). But it is plausible that there is a significant preference among certain groups for part time work (e.g. one parent families), which is not fulfilled because of financial constraints.
Low-wage subsidies complementing net earnings from part-time work would come to meet these preferences and would financially encourage the transition from benefit dependency to part-time work.

4.4 Direct low-wage subsidies as a condition to safeguard (minimum)social protection?

If the thesis of growing limits on minimum wages is justified, there would be a rational for direct low wage subsidies, not only to avoid unemployment traps and working poverty, but also to safeguard (minimum)social protection 'tout court'. It is generally accepted that minimum wages put a floor level on minimum income protection, precisely to avoid unemployment traps. When minimum wages are stagnating or eroding, the entire minimum income floor in social protection is "locked in'. We illustrate the relation between minimum wages and minimum income protection in social security with the case of the Belgian welfare state. The stagnation of Belgian gross minimum wage in the nineties hampered the improvement of (minimum)benefit levels. Real benefit levels stagnated, while in relative terms benefits increasingly fell behind household welfare levels. This growing inadequacy of benefits resulted in an, albeit weak, increase in the average poverty risk since the end of the 1980s (by approximately 1 or 2 percentage points since 1988). Especially those living exclusively on benefits, and particularly the unemployed, were confronted with a growing poverty risk. Between 1985 and 1997 the poverty risk for unemployed one income earners, living exclusively on benefits, increased from 30 to almost 60%, while the poverty risk of unemployed living in households with other available incomes (which is a substantial group in Belgium) remained stable at a very low level (Cantillon et al., 1999). Instantly after the recent Belgian reform policies, which reduced the unemployment trap by low-wage subsidies, benefit levels were substantially increased, as can be observed in figure 5 (Cantillon et al., 2003). This evaluation suggest that given the downward pressure on minimum wages, subsidizing *net* wages has become a necessary condition for safeguarding and improving (minimum) social protection levels.

Figure 5. Evolution of real minimum unemployment and real social assistance benefit for a head of household (1975=100), Belgium, 1970-2003.



Source: Centre for Social Policy, University of Antwerp.

The Belgian two-fold strategy of subsidizing low wages and increasing benefit levels at the same time is a good illustration of how large welfare states are trying to overcome the dilemma of financial incentives versus income protection. However, such a strategy of combining two objectives simultaneously is expensive. This strategy was financially feasible in the Belgian context of economic recovery and favorable public finances during the late 1990s, early 2000, the period in which most of the measures to fight the unemployment trap have been introduced (see paragraph 3). For example 2000 was a record year of employment creation (Conseil Superieur de l'Emploi) and since 2000 the Belgian budget deficit is lower than 1%. In periods when economic circumstances are unfavorable, the sustainability of such a policy is unproven. Given the actual low economic growth figures, the rise in unemployment and the increased debate on the long-term negative impact of ageing on public finance, it remains the question if this dual strategy of developing in-work support and raising social benefits at the same time will remain feasible for Belgium.

More fundamentally, we should raise the question on the relation between wage flexibility and overall poverty (Cantillon et al., 1997 and 2002). In countries with large wage flexibility (Anglo-Saxon countries), also the poverty impact of the welfare state is low, suggesting that a strong redistributive welfare state requires modest wage dispersion. In other words in these countries a social correction of rapid growing wage inequalities seems to be difficult, despite the importance of in-work benefits.

5. An assessment of the possibilities and limits of in-work benefits

Subsidies to low-wage earners, for the purpose of raising their *net incomes* from work, are said to be attractive because they can promote both efficiency and equity by fostering employment and decent levels of (family) income for workers. Yet, in the assessment literature, the cost-effectiveness of in-work benefits remains a much debated point (for an overview, Pearson and Scarpetta, 2000; OECD, 2000a). The most evidence on in-work benefits are available for the Anglo-Saxon countries, where in-work benefits such as EITC in the US and WFTC in the UK have been very extensively studied (e.g. Blundell, 2000; Blank, 2002; Blundell and Hoynes, 2001). However the findings for the United States and the UK cannot be generalized. The socio-economic conditions between continental and Anglo-Saxon countries do differ substantially. Compared to continental European countries such as Belgium, wage dispersion is substantially larger in the Anglo-Saxon countries, the number of vulnerable family types such as lone parent families higher and the level of social expenditure lower. In this paragraph, we present a tentative critical assessment of subsidies for low-wage earners by bringing together the main findings from existing schemes and by trying to relate these to the specific conditions of the Belgian welfare state.

- Budgetary implications

Making-work-pay policies are not for free (OECD, 2000b). For example tax credits, being tax expenditures, imply a loss of tax revenue. A reduction of employee's social contributions implies a loss of social security revenue. Subsidies for low-wage earners are usually financed by increasing revenue elsewhere (in order to compensate the loss) or through cutbacks in public spending. Targeting is one way of keeping the cost down, as not all groups are at risk of falling into an unemployment trap and certainly not all low-wage earners are living in poor families. Many low paid workers today are second earners(e.g. part-time working women in couples) Tax credits or in-work benefits can be more closely targeted at the working poor (compared e.g. with minimum wages), when they are means-tested on family income. This is the case in most existing schemes in Anglo-Saxon countries such as the Working Families Tax Credit (WFTC) in the UK and the Earned Income Tax Credit (EITC) in the US.

The Belgian experience shows however that, in universal welfare states, in-work benefits tend to obtain a more universal character. They are based on individual earnings instead of on family income, which makes them more expensive. In universal welfare states, and particularly in Belgium, targeting through means-testing on family income is 'disliked' as a policy instrument. If it comes to targeting, then preference appears to be given to categorical targeting.

Selective systems have a number of important drawbacks. Targeting might discourage upward (income) mobility. Subsidized low-wage earners who want to 'improve' their careers can reach a point where they are trapped in a low-paid job because earning more would actually be punished financially. Thus, the dependency trap is merely replaced with a low-wage trap. If payments are based on household income, some of those already in a job may reduce their working hours or, if both partners are working, one partner may even withdraw from the labour market completely if they are earning relatively little. This disadvantage may be reduced by extending the phase-out zone of the financial benefit to a broader range of incomes, but such a measure will make the scheme much more expensive (Atkinson and Micklewright, 1991). In some countries (UK, US, Australia) the phase-out zone of the financial benefit has been extended, so bringing more people into the 'subsidy net'.

Moreover the literature mentions other disadvantages of targeting, including the scope for abuse and error, and possible stigma effects (in particular if targeting measures are implemented as a benefit rather than as a tax credit) (OECD, 1997).

The degree of earnings inequality is also an important factor. In countries exhibiting wide wage dispersion, such as the UK and the US many wages will exceed the phase-out zone of the subsidy and the total cost will be lower. In countries with a very compressed earnings distribution, such as many continental European countries in-work benefits will be more costly because of the greater number of workers that are entitled to the subsidy.
A strategy of in-work benefits is costly, but the budgetary impact should be judged against the cost of potential job loss due to high (minimum) wages. It should also be judged against the

costs of alternative strategies, which have been followed since the 80's in many continental welfare states. The most widespread strategy was a demand-driven policy approach with far-reaching reductions of employer's social contributions aiming to improve the job prospects of low skilled for decent paid jobs, but the net employment effects are far from conclusive (Marx, 2001; de Koning and Mosley, 2001, see also paragraph 3.1.).

Finally, the literature suggests that for the budgetary implications of extensive schemes of in-work benefits the existence of an effective wage floor is important. In the absence of an effective wage floor, employers are encouraged to keep wages low by the fact that the subsidizing authority is providing additional household income to low-wage earners. As a matter of fact, the US and the UK, countries with very important in-work benefits, have increased the statutory minimum wage or have (re)introduced it. Organizations such as the OECD (2000b), which in the past used to defend deregulation, now argue that it makes sense to pursue a combination of a minimum wage and subsidizing of low wages, as this will prevent wage erosion. Hence in-work cash transfers may be seen as complements rather than substitutes for the minimum wage.

- The impact of financial incentives and subsidies for low-wage earners

Economic theory assumes that providing greater financial incentives (by reducing benefit levels or by increasing net wages through subsidizing) has a positive impact on people's job-searching behaviour and on their willingness to accept work. There are many studies (mostly econometric) on the relation between benefits and the labour supply or unemployment (for an overview, see Atkinson and Micklewright, 1991, Atkinson and Mogensen, 1993; Pedersen and Westergard-Nielsen, 1993; Blundell and Macurdy, 1999; Schettkat, 2003). However, micro-econometric studies do not produce conclusive results. They find that net replacement rates have no or very mixed effects on unemployment or unemployment duration (an indicator of willingness to work). Benefit duration periods seem to have a significant effect on unemployment duration, but the causation is not clear. Is it longer benefiting duration causing longer unemployment duration or did longer benefit periods have been introduced because of the increasing difficulty of finding a job.

On the impact of wage subsidies, many evaluation studies have been carried out of WFTC in the UK and EITC in the US. In particular the extension and improvements of these programs over the past decade has given rise to abundant research (e.g. Blundell, 2000; Blank, 2002; Meyer and Rosenbaum, 2001). These studies provide evidence that the improvements of WFTC and EITC had a substantial impact on labour participation for some groups, in particular single parents and workless married couples with children, but with some offsetting reductions in employment in double income couples with young children because of the family income test. Overall, the impact seems to be significant but modest. Thus, it would appear that such subsidies, if they are substantial, can have a positive effect on labour participation for certain groups. This again raises the issue of cost-effectiveness of 'targeting versus universalism'. Relatively universal provisions, such as the in-work support measures in Belgium, need to the amounts concerned are rather modest due to budgetary considerations. Hence, the potential impact on financial incentives and on the labour supply will be weaker.

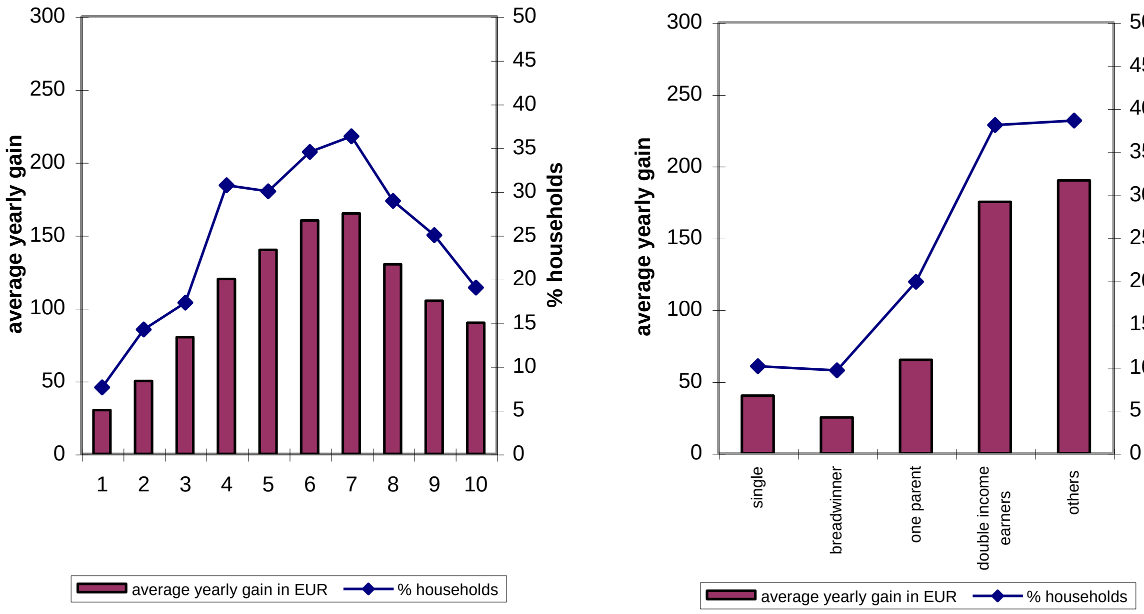
Obviously, financial incentives tend to work out differently for various groups. If one chooses to study financial incentives, the heterogeneity of the labour supply must be taken into account. For example, economic theory predicts income elasticity's for single-income families to be greater than those for second income earners e.g. women with an earning partner (Blundell and Macurdy, 1999). Unfortunately, many of the existing studies on the labour supply effects of financial incentives focus on single-income families. As the number of one parent families in Belgium tends to remain rather modest compared to the number in e.g. the UK and the US, the overall labour supply effects of in-work benefits might turn out to be weaker.

- The impact of low-wage subsidies on poverty

Survey evidence from the UK and the US shows that subsidizing low-wage earners can have a positive impact on in-work poverty. The strong poverty impact of the Anglo-Saxon tax credit schemes is due to the fact that relatively high levels of tax credit are targeted towards working poor families and to a positive employment effect. In the case of the EITC, for example, the program was found to have taken about 4.3 million Americans out of poverty. Especially children living in lone-parent families saw their poverty risk decline. Likewise in the UK almost all the WFTC goes to poor households (OECD, 2000b).

The poverty impact of the Belgian reforms is not yet clear. However, we may assume that these measures will have a rather modest effect. First the level of subsidies for low-wage earners is, after all, relatively low. Moreover, due to the individualized nature of the subsidies (both the tax credit and the reduction of employees' social contributions), they are not targeted as clearly towards the poor. Empirical microsimulations of Belgium's individualized tax credit show that the first-order effect of this measure on poverty was zero (Cantillon, Kerstens and Verbist, 2003). The poverty impact depends on the overlap between low pay and low family income (Marx and Verbist, 1998; OECD, 2000b). It is unlikely that an individualized low-wage subsidy will have a strong poverty-reducing impact, given that a substantial proportion of the low-paid in Belgium, namely part-time working women, actually belong to the higher income groups. Moreover, the poorest groups usually have no earnings whatsoever, so they will benefit the least from this type of measure. Therefore the tax credit is mainly at the profit of the middle income groups and of two-earner families, as can be observed in Figure 6.

Figure 6. The average level of the tax credit (yearly gain in Euro) and % of households receiving tax credit according to standardized income deciles and family types, Belgium.



Source: Micro Simulation Model MISIM, Centre for Social Policy, University of Antwerp.

Poverty impact studies of low-wage subsidies should ideally also take into account long term effects on wage and benefit formation. We need to know more on the relation between wage flexibility, low-wage subsidies, social protection and poverty dynamics in the long run.

- The need for policies that go beyond financial incentives

In recent years, much priority has been given in employment policies in Belgium and other welfare states to providing financial incentives. It would appear, then, that financial tools still provide the 'easiest' route for social and employment policies in welfare states. However, survey evidence suggests that an adequate employment policy directed at reintegration requires more than merely financial incentives. Barriers to getting into work and out of poverty are very much related with individuals' lack of qualifications and work experience and with their familial responsibilities (OECD, 2001). There is empirical evidence that the effectiveness of work-oriented policies is very much determined by important framework conditions, such as positive measures to boost the labour supply by providing training and work experience (Blank, 2002; Pearson and Scarpetta, 2000). Policies that go beyond work and job skills, such as measures that provide good access to child- and healthcare, seem also to have a positive impact on people's overall employability. Dutch research (de Beer, 1996) found evidence that working conditions play a significant role in the choice between benefit and work. For unappealing jobs (long travel times, irregular working hours, physically demanding work), respondents indicated that they expected a 'bonus' of, on average, 50% above the minimum wage and a quarter said they would never accept such a job, even if the financial gains were substantial. Survey evidence also suggests that a combination of 'carrot' and 'stick' measures (checks on willingness to work and sanctions) can be important (Blank, 2002). For Belgium, there is survey evidence that the impact of mere financial incentives can be small for some groups. A survey on suspension of unemployment benefit among long-term unemployed women (the so-called suspension article 80) shows that the net impact of benefit withdrawal (compared to a control group) is small, while the majority of these women transit to (unpaid) inactivity. The reason is that many long-term unemployed women in Belgium stopped looking for work a long time ago. They tend to have a negative attitude towards work, and the fact they are providing care is cited as the most important barrier to work. Moreover, they have usually had few contacts with public employment services (De Lathouwer and Bogaerts, 2004). Comparative research also seems to indicate that Belgium has a substantially lower proportion of unemployed persons who are committed to finding work (between 50% and 60%) than the Scandinavian countries (Denmark 83%, Sweden 79%), the Netherlands (80%) and the Anglo-Saxon countries (UK 78%, Ireland 71%) (Gallie, 2000). These findings suggest that more job search enhancement policies, which are traditionally pursued more strongly in the Scandinavian and the Anglo-Saxon countries than in Belgium, can effectively stimulate people's willingness to work. Moreover, these international figures on the commitment of the unemployed to find work confirm that financial incentives are probably not the most decisive motivating factor for seeking a job. In the Scandinavian countries, where benefits are generally high, the unemployed are equally committed to finding employment as in the UK, where benefits are typically much lower. In other words, a high level of income protection and a high willingness to work can go hand in hand, providing that the welfare institutions accommodate the unemployed with active policies such as counseling, training, work experience, control and sanctions, all of which are typical institutional arrangements of the Scandinavian welfare states (Lodemel et al., 2000).

6. Summary, research and policy considerations

1. The main challenge for the continental social model is to combat non-employment and benefit dependency without abandoning its most important achievement: a relatively low degree of inequality and poverty. Rather than deregulating labour market institutions and cutting benefits, the policy answer to work disincentives in Belgium and other continental countries has been the introduction of various models of 'making work pay policies'. Initially such policies were demand driven, focusing on 'employers' subsidies, reducing employer's social security contributions in order to support the creation of decent jobs. In the course of the 90s, demand-driven policies were complemented with more supply-oriented policies. A combination of various routes into in-work support has been developed. In Belgium a reduction of employee social security contributions, tax credits, back-to-work bonuses and childcare subsidies have been introduced. All these policies have in common that they directly subsidize low wage earners, helping to make low wage work more financially attractive compared to benefits, while at the same time improving the income position of these households.

2. The introduction of in-work benefits for low-wage earners in European countries on the one hand and the (re)introduction of minimum wage in Anglo-Saxon countries on the other hand suggest a certain convergence between the continental European welfare states and the Anglo-Saxon liberal welfare states. In continental European welfare states unemployment traps and working poverty were traditionally kept low by a high (minimum)wage strategy. Yet a high minimum wage strategy seems to run into limits because of three developments. First high minimum wages endangers the job prospects of the low skilled due to the declining market productivity as a result of shift in demand from unskilled to skilled labour. Secondly, a high tax burden on minimum wages causes net minimum wages to be significantly lower compared to gross minimum wages and this endangers unemployment traps and working poverty. Thirdly, high full-time breadwinner minimum wages can not avert unemployment traps because of the trend towards part time work. There is a significant risk that the transition from a (full time) benefit to a part time job is not financial rewarding. Hence in-work support can be considered as a tool for 'flexicurity' in Continental European countries, fostering wage flexibility, while at the same time providing decent levels of income for low wage earners (social security). Conversely the experiences in the Anglo-Saxon countries with wage deregulation supplemented with extensive in-work benefits show that a combination of a minimum wage floor and subsidizing of low wages could prevent employers from transferring the wage cost to the subsidizing authority too excessively. These observed convergences suggest that in-work cash transfers may be seen as complements rather than substitutes for the minimum wage.

3. Is it a good idea for continental Europe to develop a low wage subsidy strategy and hence to introduce a fundamental new labour market institution of in-work support? To be able to answer this question we need more research on what works for whom and under which conditions. Substantial evidence on the functioning of in-work benefits is available for the Anglo-Saxon countries, which show that such arrangements can have a significant impact on labour participation and poverty. However, these findings cannot be generalized to Europe. After all, wage dispersion is substantially larger in the Anglo-Saxon countries, the number of vulnerable family types such as lone parent families higher and the level of social expenditure lower. Yet, the cost-effectiveness of in-work benefits for continental countries is far from clear today.

4. Which lessons can we draw so far from the early Belgian experience? First, in generous welfare states, such as Belgium, making work pay policies tend to become 'universal',

providing in-work support for large groups of individual workers instead of low-wage earning households. Because means-testing is something policymakers want to avoid, these arrangements tend to become expensive and the advantages relatively modest. Secondly, there is yet no empirical evidence for Belgium available on the impact of low-wage subsidies on labour participation and poverty. Static empirical microsimulation can however provide a first insight into the first-order distributive and budgetary effects of (alternative) in-work support policies, given the existing income (and wage) distribution and household composition in a country. In countries with a very compressed earnings distribution, such as Belgium, in-work benefits will be more costly because of the greater number of workers that are entitled to the subsidy. Given that a substantial proportion of the low-paid in Belgium, namely part-time working women, actually belong to the higher income groups, it is unlikely that an individualized low-wage subsidy will have a strong poverty-reducing impact. Moreover, the poorest groups usually have no earnings whatsoever, so they will benefit least from this type of measure. Thirdly, the introduction of making work pay policies in Belgium has allowed improvements of unemployment benefit levels. The dual strategy of raising financial incentives, while at the same time also raising to a certain extent benefit levels is a good illustration of how large welfare states such as Belgium, are struggling with the difficult trade-off between work incentives and income protection. A decent social safety net remains in Belgium an important priority. Such a dual strategy is costly and feasible in periods of favorable economic and budgetary circumstances; in an unfavorable socio-economic context, the sustainability of such a policy is unproven.

In addition to the study of the cost-effectiveness of alternative in-work support policies, we should study the relation between wage flexibility, employment and overall poverty. There is evidence for the Anglo-Saxon countries that even a very high degree of wage flexibility does not guarantee high employment and low unemployment among the most vulnerable. Moreover, in countries with large wage flexibility the poverty impact of the welfare state is low, despite the existence of large in-work benefits, suggesting that a strong redistributive welfare state requires modest wage dispersion.

5. Subsidizing wages appears to be the ‘easiest’ active employment policy in passive welfare states. However, an adequate work-oriented policy requires more than a policy of financial incentives. Because barriers to getting into work and out of poverty are very much related with individuals’ lack of qualifications and work experience and with their familial responsibilities, making-work-pay policies need to be complemented with other activation policies. First, low-wage subsidy policies should be linked more strongly with skill-upgrading programs to increase human capital and earning potentials. By doing so, one might prevent low-wage traps and lack of mobility. Secondly, subsidizing low wages should be combined with job-search enhancement policies, from an early stage of non-employment, in order to prevent individuals from slipping into long-term unemployment. Because joblessness appears not only to be an economic risk but also a life-course risk, a work-oriented policy should also improve the ‘work-life balance’ e.g. by improving the combination between work and care through better care provisions (e.g. childcare), more flexible working time arrangements and parental leave.

Bibliography

Atkinson, A.B., Micklewright, J. (1991), ‘Unemployment Compensation and Labour Market Transitions: a critical review’, *Journal of Economic Literature*, 24: 1679-1727.

Atkinson, A.B., Mogensen, G.V. (1993), *Welfare and Work Incentives, A North European Perspective*. Oxford: Clarendon Press, 324p.

Atkinson, A.B. (2003), *Inequality in OECD countries: data and explanations*, CESifo Working paper, n° 881, February 2003.

Beblo, M., Knaus, T. (2001), ‘Measuring income inequality in Euroland’, *Review of Income and Wealth*, 47, 3, p.301-320.

Blank, R.M. (2002), *US Welfare Reform: What’s relevant for Europe*, CESifo Working Paper n°753, 35 p.

Blundell, R., Macurdy, T. (1999), ‘Labour Supply: A Review of Alternative Approaches’, in: Ashenfelter, O., Card, D. (eds.), *Handbook of Labour Economics Volume 3A*. Amsterdam: Elsevier; p.1559-1695.

Blundell, R. (2000), ‘Work incentives and ‘in-work’ benefit reforms: a Review’, *Oxford Review of Economic Policy*, 16, 1, p.27-44.

Blundell, R., Hoynes, H (2001), *Has “in-work” Benefit Reform helped the Labour Market?*, NBER Working Paper Series, Working Paper 8546, October, 33 p. (+annexes).

Bollé, P. (1997), Part time work: solution or trap?, *International Labour Review*, 136, 4.

Cantillon, B., Marx, I., Van den Bosch, K. (1997), ‘The Challenge of Poverty and Social Exclusion’, in: OECD (ed.), *Towards 2000: The New Social Policy Agenda*, Paris: OECD.

Cantillon, B., De Lathouwer, L., Marx, I., Van Dam, R., Van den Bosch, K. (1999), ‘Indicateurs sociaux 1976-1997’, *Revue Belge de Sécurité Sociale*, 41, p. 713-766.

Cantillon, B., Marx, I., Van den Bosch, K. (2002), *The puzzle of egalitarianism. About the relationships between employment, wage inequality, social expenditures and poverty*, Berichten / UFSIA, Antwerpen: Centrum voor Sociaal Beleid, december, 19 p.

Cantillon, B., Kerstens, B., Verbist, G. (2003a), ‘Les effets rédistributifs de la réforme de l’Impôt des personnes physiques’, *Cahiers Economiques de Bruxelles*, 46, 1, p. 71-98.

Cantillon, B., Marx, I., De Maesschalck, V. (2003b), *De bodem van de welvaartsstaat van 1970 tot nu, en daarna*, Berichten / UFSIA, Antwerpen: Centrum voor Sociaal Beleid.

Cantillon, B., Van Mechelen, N. (2004), *Minimum income protection in 15 European countries, 1992-2001*. Berichten/UA, Antwerpen: Centrum voor Sociaal Beleid Herman Deleeck.

Centre for Social Policy (2002), *STASIM: A Tax Benefit Model for Belgium*, Methodological Manual (only in Dutch available), unpublished document.

Clare, R. (2002), *Minimum wages in the European Union*, Eurostat Statistics in Focus 2002.

Conseil Superieur de l’Emploi/Hoge Raad voor de Werkgelegenheid (2000), *Verslag 2000*. Brussel: Ministerie van Tewerkstelling en Arbeid.

de Beer, P. (1996), *Het onderste kwart: werk en werkloosheid aan de onderkant van de arbeidsmarkt*. Den Haag: VUGA.

De Lathouwer, L., Bogaerts, K. (2002), ‘Stimulants financiers et travail faiblement rémunéré. L’impact des reformes de la securité sociale et de le fiscalité sur le piège à l’emploi en Belgique’, *Revue Belge de securité sociale*, 44, 4, p 615-692.

De Lathouwer, L. (2003), ‘Reforming Policies and Institutions in Unemployment protection in Belgium’, in: Clasen J., Ferrera M., Rhodes, M. (eds.), *Welfare States and the challenge of unemployment, Reforming Policies and Institutions in the European Union*, Routledge (forthcoming).

De Lathouwer, L., Bogaerts, K. (2004), *Labour market transitions and long term unemployment: The case of withdrawal of benefits for long term unemployed women in Belgium*, Paper for the TLM

WP5 Conference, Centre for Social Policy, University of Antwerp, Rotterdam 26-27 April 2004, 19 p.

Esping Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*, Cambridge, Polity Press.

European Commission (2003), *Making Work Pay. Facts, Figures and Policy Options,* Report to the Employment Committee, Group of experts on Making Work Pay, October, 18 p. (and annexes).

Ferrera, M., Hemerijck, A., Rhodes, M. (2000), *The Future of the European Welfare State: Managing Diversity for a Prosperous and Cohesive Europe*, Report for the Portuguese Presidency of the European Union, 94 p. (+ annexes).

Förster, M. (2000), 'Trends and driving factors in income distribution in the OECD area', *Labour Market and Social Policy Occasional Papers n.42*, Paris:OECD.

Gallie, D. (1999), 'Unemployment and Social Exclusion in the EU', *European Societies*, 1 (2).

Gallie, D. (2000), 'Unemployment, gender and the attitude to work', in: Gallie, D., Paugam, S. (eds.), *Welfare Regimes and the Experience of Unemployment in Europe,* Oxford: Oxford University Press.

Hotz, V.J., Scholz, J.K. (2000), 'Not perfect but still pretty good: The EITC and other policies to support the US low wage labour market', *OECD Economic Studies*, 31, 1, p. 25-42.

Koning, J. & Mosley, H. (2001), *Labour market policy and unemployment: impact and process evaluations in selected European countries*. Cheltenham, UK: Northampton.

Lodemel, I., Stafford, B, (z.d.), *An offer you can't refuse. Work-fare in international perspective,* Bristol: Polity Press.

Marx, I., Verbist, G. (1998), 'Low wage employment and poverty: curse or cure?', in: Bazen, S., Gregory, M., Salverda, W. (eds.), *Low-wage Employment in Europe*. London: Edward Elgar.

Marx, I. (2001), 'Job subsidies and cuts in employers' social security contributions: the verdict of empirical evaluation studies', *International Labour Review,* 140: 1, 30 p.

Marx, I. (2004), *The impact and consequences of the labour demand shift against the less skilled for minimum income protection policy in advanced welfare states,* doctoral thesis, Centre for Social Policy, University of Antwerp (forthcoming).

Marx, I., De Lathouwer, L. (2004), *Social Protection and Low Pay*, Paper for the LOWER Policy Conference, 26 May 2004 at the University Antwerp (forthcoming),

Meyer, B., Rosenbaum, D.T. (2001), 'Welfare, the Earned Income Tax Credit and the labour supply of single mothers', *Quarterly Journal of Economics*, 116, 3, p. 1063-1114.

Ministerie van Tewerkstelling en Arbeid (diverse jaargangen), *Het Federaal werkgelegenheidsbeleid*, Evaluatierapport, Brussel.

Ministery Social Affairs (2003), *Les régimes de protection sociale*, doc 50 2079/001 (unpublished document).

Mitchell, D. (1991), *Income Transfers in Ten Welfare States*. Aldershot: Avebury.

Nationale Bank (2001), *Yearly Report*, Brussels.

NEI (Netherlands Economic Institute) (2002), *Benefit Dependency ratios by Gender. An International Comparison*. Rotterdam: NEI labour and social policy.

Nickell, S., Bell, B. (1995), 'The collapse in demand for the unskilled and Unemployment across the OECD', *Oxford Review of Economic policy*, 11, 1, p.40-62.

OECD (1994), *The OECD Jobs Study,* Paris: OECD.

OECD (1996), *Employment Outlook 1996,* Paris: OECD.

OECD (1997), 'Making the most of the minimum: statutory minimum wages, employment and poverty', *Employment Outlook*, Paris: OECD.

OECD (1999), *Benefit systems and work incentives*, Paris: OECD, 59 p.

OECD (2000), 'Eligibility criteria for unemployment benefits. Chapter 4', *Employment Outlook 2000*. Paris.

OECD (2000a), 'An overview: What do we know about policies to make work pay', *OECD Economic Studies*, 31, 1.

OECD (2000b), 'Rewarding work', *Employment Outlook*, Paris: OECD.

OECD (2000c), *Taxing Wages 1998-1999*, Paris: OECD

OECD (2002), *Employment Outlook 2002*, Paris: OECD.

Pearson, M., Scarpetta S. (2000), 'An overview: What do we know about policies to make work pay', *OECD Economic Studies*, 31, 1, p. 12-24.

Pedersen, P.J., Westergard-Nielsen, N. (1993), 'Unemployment: a review of the evidence from panel data', *OECD Economic Studies*, 20, p. 65-95.

Phelps, E.S. (2000), 'The importance of inclusion and the power of job subsidies to increase it', *OECD Economic Studies*, 31, 1, p. 84-111.

RVA (2001), *Yearly Report*, Brussels.

Schettkat, R. (2003), *Institutions in the Economic Fitness Landscape: What impact do welfare state institutions have on economic performance*, IZA Discussion paper n°696, 37 p.

Schmid, G., Schömann, K. (2003), *Managing Social Risks through Transitional Labour Markets: Towards a European Social Model*, Second draft of the Seminal paper for the TLM Network, WZB Berlin, 37 p. (www.siswo.uva.nl/**tlm)**.

Snower, D.J. (1998), *Causes of changing earnings inequality, Income Inequality: Issues and policy options* (Kansas City, Federal Reserve Bank of Kansas City, pp. 69-134

Sweeny, J. (1998), *Why hold a job? The labour market choice of the low skilled*. Leuven: Katholieke Universiteit Leuven, 263 p.

Valenduc, Ch. (2002) 'La reforme de l'impôt des personnes physiques: ses effets sur l'imposition des salaires, l'incitation à l'emploi et sur la distribution des revenus', *Documentatieblad Ministerie van Financiën*, 62, 3, p 145-203.