



# EUROPEAN POLICY BRIEF



## DECENT INCOMES FOR THE POOR: WHICH ROLE FOR EUROPE?

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### INTRODUCTION

Europe should care better for the poor. Despite ambitious EU policy goals on poverty reduction, Europe and its Member States are facing disappointing poverty trends. Poverty rates have worsened considerably after the onset of the crisis. But more worryingly, there has been a lack of progress in the fight against poverty in the prosperous pre-crisis years as well. This indicates the existence of structural constraints against which EU social governance and the ambitious EU 2020 targets have proven to be powerless. On the other hand, some countries have been more successful than others in the fight against poverty, clearly pointing to the importance of adequate social policies.

Against this background, recent developments at the EU governance level may prove important for strengthening the steering and coordination of social policies in order to meet common social objectives. In the wake of the budgetary Eurozone crisis, the EU has increased the policy monitoring of its Member States through the European Semester. Whereas the focus was initially on macro-economic indicators, more recently, monitoring includes progress towards the Europe 2020 outcome targets, including the poverty reduction target. In order to strengthen the social dimension of the Economic and Monetary Union (EMU), a scoreboard of key employment and social indicators was included in the Joint Employment Report while employment and social indicators were included as auxiliary indicators in the MIP-scoreboard. More recently, the Five Presidents' report emphasises the use of benchmarking and cross-examining performance in order to achieve convergence. According to the European Commission's communication on steps towards completing the EMU, benchmark indicators need to meet two requirements. First, they must closely relate to the policy levers, such that they can lead to actual and meaningful policy implications. Second, there needs to be robust evidence and enough consensus that they contribute significantly to higher level objectives such as jobs, growth, competitiveness, social inclusion and fairness or financial stability.

Keeping this in mind, we propose to insert indicators of minimum income packages in the European semester governance framework, which could support the EU-2020 outcome target indicators. We argue that the introduction of a broad focus on minimum income protection, including minimum wages is an important inroad into a stronger role for social Europe in the fight against poverty. Including carefully selected indicators of policy packages in the streamlined EU policy monitoring process (European Semester), would

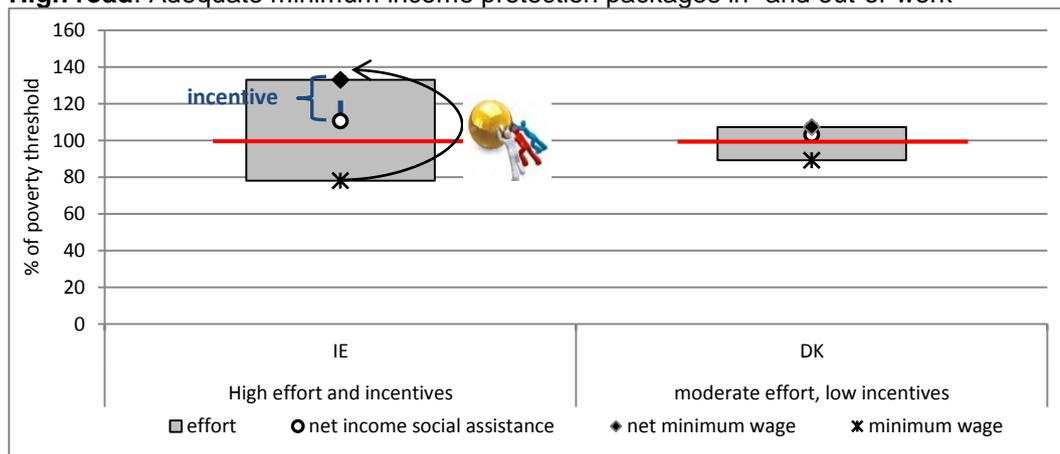
render Member States more accountable for the social quality of economic policies and anti-poverty strategies and can bring out different policy mixes, available options and potential imbalances. Without interfering with national authority and policy structures, such indicators can pinpoint imbalances in the nexus of minimum wages, work incentives and minimum incomes for jobless households. This broad focus (including minimum wages, gross-to-net efforts and work incentives) is needed as minimum wages are inextricably linked to minimum income protection while adequate minimum income protection should be in balance with work incentives.

## EVIDENCE AND ANALYSIS

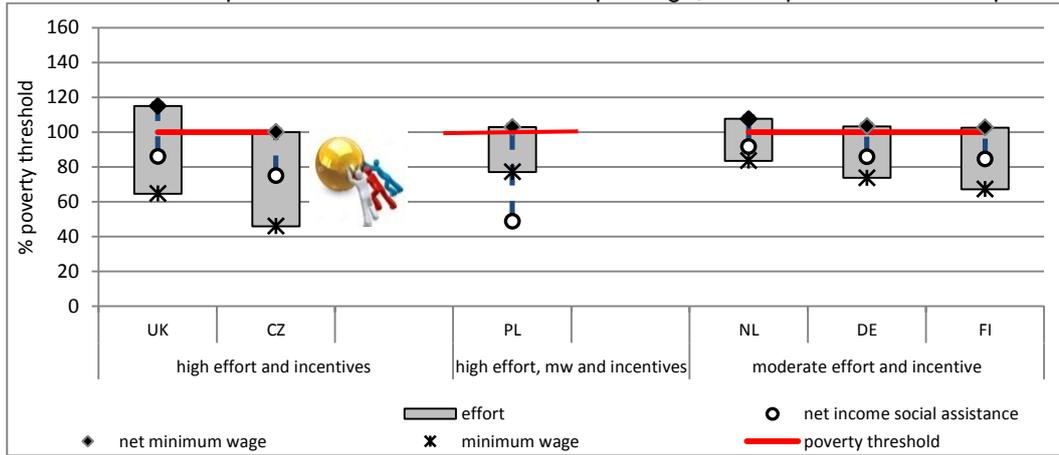
The policy indicators that we propose to include in the European Semester are indicators that solely inform on the policy design and policy choices of member states regarding minimum incomes for working and non-working households: gross minimum wage, gross-to-net efforts, net disposable income on minimum wage, work incentives and net disposable income on social assistance (i.e. including the impact of taxes and non-discretionary benefits). To gauge the interrelations and incentive effects at the bottom of the labour market we assessed the net disposable income packages of a hypothetical lone parent family. This exercise is easily replicable in the framework of the European Semester. The graphs below divide countries into three groups, based on the adequacy of their income floors: 1) high road countries (first graph) where the guaranteed minimum income package for families in and out-work exceeds the at-risk-of poverty thresholds. Ireland starts from a moderate gross minimum wage but thanks to significant gross-to-net efforts relatively high work incentives are combined with an adequate income for workpoor households. In Denmark the adequate social floor goes together with low gross-to-net efforts as well as low work incentives; 2) middle road countries where the guaranteed net income package of a working family exceeds the poverty threshold, but the final income protection for jobless lone parent families is inadequate (UK, Czech Republic, the Netherlands, Germany & Finland and Poland ). In some of these countries low minimum wages are increased by considerable gross-to-net efforts (e.g. the UK and the Czech Republic) while others combine higher minimum wages with moderate efforts ; 3) Low road countries that display inadequate income protection for both families in-work and out-of-work. This group encompasses the largest number of member states. Large variation exists though regarding the extent of the minimum income packages' inadequacy.

### Minimum income protection packages in- and out of work, lone parent with 2 children, 2012

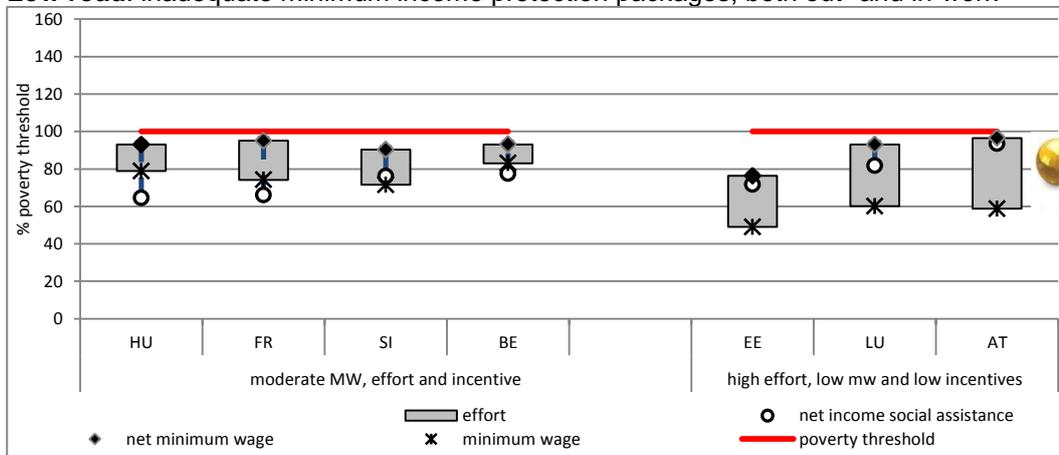
#### High road: Adequate minimum income protection packages in- and out-of-work



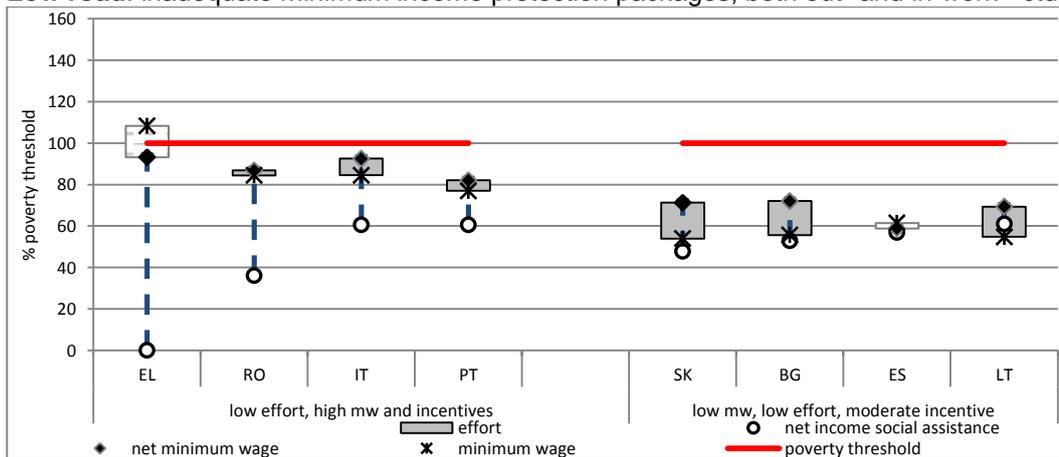
**Middle road:** adequate in-work minimum income package, inadequate out-of-work protection



**Low road:** inadequate minimum income protection packages, both out- and in-work



**Low road:** inadequate minimum income protection packages, both out- and in-work - ctd



**Note:** vertical dashed lines represent the financial incentive (i.e. the gap between net disposable income at social assistance and net disposable household income at full-time minimum wage employment). Effort: the (positive or negative) combined impact of taxes and transfers on the gross minimum wage to arrive at the net disposable household income at minimum wage (net household income at minimum wage – gross minimum wage).

**Source:** CSB MIPI Version 3/2013

## POLICY IMPLICATIONS AND RECOMMENDATIONS

These simulations enable policy makers to distinguish stylized policy packages, from which coherent policy recommendations can be deduced. Some countries could consider an increase of the ‘gross-to-net’ effort (e.g. Belgium); others might rebalance gross minimum wage, minimum income protection and financial work incentives (e.g. Romania & Poland); yet in another set of countries there might be room for increasing minimum wages (e.g. Luxembourg & UK). The further advantage of this “second order *input* governance” is the possibility of a timely release of the indicators, while at the same time leaving room for subsidiarity, monitoring and mutual learning. The introduction of these policy indicators, however, should always be contextualized against country-specific situations. In addition, it is important to include sufficient variation in the hypothetical households, as systems may perform differently for other family types.

## RESEARCH PARAMETERS

In this policy brief, we argue for the inclusion and simultaneous assessment of social policy indicators that grasp the balance of minimum income protection packages for out-work and in-work families. We measure the adequacy of minimum income protection by comparing the rights-based net income packages of a model family to the EU at-risk of poverty threshold. The net income packages take account of all rights-based benefits, hence ensuring to measure truly functionally equivalent income protection measures. In most cases this comparison shows a substantial inadequacy of net minimum income packages for both jobless and working lone parents. A more elaborate set of these policy input indicators, would offer a very useful tool for monitoring social policies at the EU level, and contribute to more effective social policies.

## PROJECT IDENTITY

<b>PROJECT NAME</b>	Poverty Reduction in Europe: Social policy and innovation – ImPRovE (Project reference: 290613)
<b>COORDINATOR</b>	Center for Social Policy Herman Deleeck, University of Antwerp, Belgium. Coordinator: Bea Cantillon (bea.cantillon@uantwerpen.be) Manager: Tim Goedemé (tim.goedeme@uantwerpen.be)
<b>CONSORTIUM</b>	1 Universiteit Antwerpen, Center for Social Policy Herman Deleeck – UA - Belgium 2 Athens University of Economics and business – Research Center AUEB - Greece 3 Tarsadalomkutatási Intézet Zrt – TARKI - Budapest, Hungary 4 London School of Economics and Political Science LSE – CASE - United Kingdom 5 University of ESSEX – UESSEX – ISER - United Kingdom 6 Wirtschaftsuniversität Wien – WUW - Austria 7 Università Degli Studi Di Urbino Carlo Bo – UNIURB - Italy 8 Turun Yliopisto – UTURKU - Finland 9 Universität Wien – UNIVIE - Austria
<b>FUNDING SCHEME</b>	Programme acronym: FP7-SSH Topic: Combating poverty in Europe: a key question of human dignity and social cohesion Project officer at the European Commission: Georgios Papanagnou Georgios.PAPANAGNOU@ec.europa.eu
<b>DURATION</b>	From 2012-03-01 to 2016-02-29, total duration: 48 months
<b>BUDGET</b>	EU contribution: EUR 2 699 856

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## WEBSITE

<http://improve-research.eu>

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## FOR MORE INFORMATION

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## FURTHER READING

### Working paper:

Cantillon, B., Marchal, S., Luigjes, C. (2015), Decent incomes for the poor: which role for Europe, ImPRovE Working Paper 15/20. Antwerp: Herman Deleeck Centre for Social Policy – University of Antwerp.

### Journal articles:

Notten, G. (2015), 'How Poverty Indicators Confound Poverty Reduction Evaluations: The Targeting Performance of Income Transfers in Europe' in *Social Indicators Research*: 1-18. doi: 10.1007/s11205-015-0996-4.

Goedemé, T., Storms, B., Stockman, S., Penne, T., and Van den Bosch, K. (2015), 'Towards Cross-country Comparable Reference Budgets in Europe: First Results of a Concerted Effort' in *European Journal of Social Security (EJSS)*, 17(1): 3-31.

### Book chapter:

Cantillon, Bea (2014), 'Beyond Social Investment. Which Concepts and Values for Social Policy-making in Europe?' in Cantillon, Bea & Vandebroucke, Frank (eds.), *Reconciling Work and Poverty Reduction. How Successful are European Welfare States?*, Oxford: Oxford University Press: 286-318.

### Book:

Cantillon, Bea & Vandebroucke, Frank (eds.) (2014), *Reconciling Work and Poverty Reduction. How Successful are European Welfare States?*, Oxford: Oxford University Press.