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Decent Incomes for the Poor: Which Role for Europe?*

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Abstract

EU social policy has generally been limited to the definition of non-binding social outcome targets, a governance model known as 'second order output governance' (Vandenbroucke *et al.*, 2013). However, many EU Member States have failed to make progress in fighting poverty. This begs the question of whether a more performant EU-level involvement in the field of social policy is conceivable. In this paper, we argue that European minimum standards are the place to start, including principles for minimum social security *and* minimum wages, as i) the European social objectives cannot be attained without guaranteeing adequate incomes to those in and out of work, and ii) social co-ordination should thus go beyond broad outcome goals such as the reduction of the number of households at risk of poverty or social exclusion. We propose to include policy indicators regarding *minimum income protection* sensu lato in the recently revised EU monitoring process of the European Semester.

Keywords: Social Europe; minimum income protection; EU governance; social monitoring; social indicators

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Introduction

Ever since the Lisbon Strategy, the European Union (EU) has declared poverty reduction one of its main social goals. This was reaffirmed by the ambitious Europe 2020 target aiming for a reduction of the number of persons living in poverty, jobless households or material deprivation by 20 million. Yet, despite this ambition, progress has been disappointing to say the least (Gábos *et al*., 2015). Whereas the situation has worsened considerably after the onset of the financial crisis, it is mainly the lack of progress in the pre-crisis years that indicates the existence of structural constraints against which the EU social governance was even then powerless (Cantillon and Vandenbroucke, 2014). Substantively, the EU social agenda promoted 'social investment' and 'work oriented welfare reform' as a political recipe for success in the field of social inclusion (Cantillon and Vandenbroucke, 2014). Prior to the crisis this strategy could be regarded as a success in the field of employment (Van Rie and Marx, 2012). It however largely failed to deliver on its promise to decrease poverty among the working age population. At that time in many countries work poor households benefited less from job growth (Corluy and Vandenbroucke, 2014) while the poverty reducing capacity of social protection decreased to the detriment of these households in particular (Cantillon *et* al., 2014). During the crisis in many countries the number of job poor households increased, contributing to an overall increase of poverty while the effectiveness of social systems further declined in many countries (Gábos *et al*., 2015).

In this paper, we ask what role the EU can play in facilitating progress towards the Europe 2020 targets and which instruments might be put in place. We argue that a broad approach to minimum incomes, including minimum standards in social assistance and minimum wages, is the place to start. The European social objectives can only be attained if a new balance is struck in the investment concept that is often referred to within the EU: effective employment strategies should be supplemented by efficient social spending and adequate incomes for those in and out of work. To that end, the EU should support the Member States on a systemic level. As a first step, a set of well-thought-out indicators of minimum income policy packages could balance and strengthen the monitoring arrangements underpinning the social Open Method of Co-ordination (OMC) and the European Semester, leaving room for subsidiarity, monitoring and mutual learning, starting from a broad view of the overall quality of social policy. Using a comprehensive database of gross and net minimum wages, in-work-benefits and employment incentives for low-productive workers, we show how these indicators could be instrumental in pointing to country-specific policy mixes and point to possible imbalances, policy failures and successes.

This article is organised as follows. In the next section, we outline the social policy governance issues the EU is confronted with when putting social objectives on the policy agenda. We proceed by presenting minimum income protection as a policy area where increased EU social governance is both conceivable and needed. In section 3, we propose to include selected minimum income protection policy indicators in the social governance framework of the EU, in order to render the different policy choices explicit, and to enable a more transparent monitoring of policy effort towards adequate minimum income protection. We then discuss the data and method on which the proposed indicators build. In section 5, we use these indicators to capture the current variation in levels of minimum incomes relating them to minimum wages, gross-to-net efforts and unemployment traps. Finally, we conclude.

1. Social Subsidiarity and Weak 'Outcome' Governance

Social policy within the EU is structured around the principle of subsidiarity. An *ex-post* evaluation suggests that despite the absence of a supra-national social policy, in the post-war period the old EU Member States have succeeded in developing strong welfare state architectures. However, crucial changes have taken place ever since. The increased economic and financial integration has led to stricter standards (and sanctions) for fiscal discipline which -- in combination with the more recent increased monitoring throughout the European Semester -- seriously inhibit the national room to manoeuvre (Costamagna, 2013). Moreover, creeping economic integration and continuous expansion have given rise to fears of welfare tourism and social dumping within the EU. Famous cases such as Rüffert, Laval and Viking illustrate how the European Court of Justice (ECJ) challenges nationally based social regulation (Ferrera, 2012; Leibfried, 2010). These cases, combined with the 2004 enlargement, have only fostered such fears, as exemplified by recent proposals to limit exportability of benefits and limit access to employment related benefits (Cameron, 2013). Even recent ECJ decisions reflect fears of benefit tourism (Verschueren, 2015).

Confronted with shifting context factors and in combination with the huge disparity in social outcomes across the EU Member States, the EU has more and more felt the need to take a stance on social issues. In line with the social subsidiarity principle, the EU's involvement has remained however limited to soft governance initiatives, such as the formulation of non-binding policy targets (the Europe 2020 social targets) and the monitoring of Member States' progress towards these targets in the OMC and, more recently, in the revised European Semester. Hence, the Union relies on (non-binding) outcome targets that leave it to the Member States to outline policy strategies. Important in the present context are the employment related indicators and the European poverty line at 60 per cent of median equivalent income in any given country. Various other indicators build on this notion, including those relating to poverty risks in jobless households, and the depth and duration of poverty risks. These employment and income indicators are prominently present within the portfolio of indicators.

Conceptually, scholars distinguish in this regard between input and output, and first-order and second-order governance (Vandenbroucke *et al.*, 2013). Second-order governance merely seeks to influence existing policy structures and objectives, whereas first-order governance aims to replace or adjust existing policy strategies more directly. Both governance modes may target policy outputs (social outcomes) or input (policy instruments). The current OMC Social Inclusion can be firmly categorised as second-order output governance.[1]

The 'bite' of second-order output governance has however remained very limited: as said, even before the crisis the EU largely failed to deliver on its ambitious promises concerning poverty. Whereas the outcome indicators do have merit in defining common policy objectives, individual Member States' responsibility towards reaching the overall targets remains vague or relatively non-committal, the more as the Commission has not fully exploited the presence of the existing output indicators (see for instance Zeitlin and Vanhercke, 2014).[2] The broad poverty reduction targets do not systematically point to good policy packages, nor do they set general standards on what a social Europe should entail. More precisely, against the background of what may be regarded as a one-sided policy focus on social investment and work-oriented welfare reforms (Cantillon and Vandenbroucke, 2014), the indicators are largely ineffective in pointing to the *three* factors of success, namely the dynamics of overall employment growth, the distribution of jobs across households *and* adequate incomes for households in work and out of work.

[1] Although a limited number of policy indicators are included, these serve as contextual variables rather than for policy evaluation. For the purpose of the OMC Social Protection, replacement rates for pensions are included, as is an indicator of the adequacy of social assistance benefits.

[2] The individual Member States' National Reform Programmes were indeed allowed to change their national operationalisations or targets, sometimes without stark reasons (Vanhercke and Lelie, 2012; Zeitlin and Vanhercke). In this sense, the merely partial and insufficient trickling down of the Europe 2020 poverty and social exclusion target into national poverty targets is worth noting (see also Copeland and Daly, 2012).

The currently used set of indicators should therefore be improved through the inclusion of indicators that offer more clear and concrete social standards not only on the level and the distribution of employment but also on adequate minimum incomes. These indicators should enable monitoring of policy efforts, trade-offs and priorities, rather than only broad outcomes.

2. A Broad Focus on Minimum Incomes

We understand minimum income protection as the income floor that is in principle guaranteed to all citizens. For a working age person out of work, this is often the general social assistance benefit (although there are exceptions, see Van Mechelen and Marchal, 2013). For those in work, most EU Member States have legislated minimum wages which in many cases are increased by in-work and family related benefits (Marchal and Marx, 2015). So, why is a broad focus on minimum income protection the place to start?

Obviously, minimum income protection schemes and adequate minimum wages are highly relevant for the living standards of its individual beneficiaries. In addition, the social investment strategies and employment policies that were favoured over the last decades (culminating in the social investment package; European Commission, 2013b; 2014) did not help to deliver on the European poverty targets, at least partially because social protection became less adequate for work-poor households. There are reasons to believe that this was associated with the development of work-oriented policies in order to discourage benefit dependency and to make work more attractive (Cantillon and Vandenbroucke, 2014; Gabos *et al.*, 2015). This does not only highlight the importance of social protection *per se* but also the tensions and trade-offs between adequate social protection for work-poor households and making work pay (Cantillon and Vandenbroucke, 2014).

Also, various EU-level policy initiatives already focus on minimum income protection in this broad sense. The European Council, Parliament and NGOs alike have repeatedly pointed towards the importance of minimum income protection for those out of work (see for instance the 1992 Council's Recommendation 'Common Criteria Concerning Sufficient Resources and Social Assistance in Social Protection Systems' (92/441/EEC))(Council of the European Economic Community, 1992). However, these initiatives never went further than recommendations, proposals and resolutions. Recently, in June 2015, following a discussion of the college of Commissioners on 'Policy Orientations for a Social Europe', Commissioner of Employment, Social Affairs, Skills and Labour Mobility Thyssen included the following statement in the Press Conference that followed:

> "Our social protection systems need to remain sustainable for the future. I believe that upwards social convergence is the key to achieve this. We can encourage gradual convergence by establishing minimum standards, expressed in benchmarks. These can cover for example the duration and level of unemployment benefits, minimum income or access to child care or basic health care. I believe the European Semester would be the appropriate instrument to monitor its application" (Thyssen, 2015a).

Likewise, on several occasions both the European Parliament and the Council of Europe have expressed concerns about minimum wage levels across Europe. In 2013 then Eurogroup President Jean-Claude Juncker advocated an agreement on a European minimum wage while France and Germany proposed 'minimum wage floors, defined at national level that would guarantee a high level of employment and fair wages – leaving the choice between legislation and collective-bargaining agreements' (cited by Vandenbroucke and Vanhercke, 2014, p. 97).

Hence, the principle of European standards for national minimum incomes in the broad sense has the support from the new European Commission. Also the European Trade Union

Confederation favours minimum social protection standards, although the unions have not reached a consensus on standards for minimum wages (European Trade Union Confederation, 2013).

Building on a broad stakeholder consultation (Frazer *et al*., 2010), the 2008 Active Inclusion Recommendation, the European Commission acknowledged the inherent relationship between minimum wages, social assistance and work incentives. In this Recommendation, the Commission reinforced the 1992 Council Recommendation with a more focused message on active inclusion by 'combining adequate income support, inclusive labour markets and access to quality services' (2008/867/EC). Here the Commission explicitly linked minimum income protection for those out of work ('those at a large distance from the labour market') to their chances and prospective income on the labour market (European Commission, 2008; Marchal and Van Mechelen, forthcoming). However, this recommendation does not go beyond very broad and non-binding general objectives and policy suggestions, and even today, has very limited impact (European Commission, 2013a; Frazer and Marlier, 2013; Marchal and Van Mechelen, forthcoming).

In this paper we argue that, in the spirit of the 2008 Recommendation, a thorough assessment of minimum income protection necessitates a synthetic view on the income floors for those out of work as well as in work, including social assistance and minimum wages. Admittedly, poverty reduction is often not considered as the main justification for minimum wages. The impact of minimum wages on poverty is rather limited since many minimum wage earners can rely on other household incomes (Eurofound, 2013; Nolan and Marx, 2009). Yet, minimum wages are at least *indirectly* important for two reasons: first, because they may relate as a 'glass ceiling' to minimum benefits for jobless households or at least signal relevant thresholds in the hierarchy of incomes within individual Member States and, second, because they have an impact on unemployment traps of low-skilled seeking a job (Cantillon *et* *al*., 2015). Policy-makers' common sense dictates a need to maintain a reasonable wedge between minimum income benefits and low wages. Either policy-makers should ensure that wages are sufficiently high at the bottom of the distribution in order to enable adequate out-of-work benefits, and/or they should boost net take home pay from low-paying jobs, and/or they must accept relatively low work incentives conditional on stringent activity requirements and strong active labour market policies.[3] Relevant policy indicators should reflect the trade-offs involved, as well as the adequacy of current and alternative policy packages.

3. Adding 'Input Indicators' to the Output Governance

We thus propose to add input indicators to the portfolio of indicators currently used for the second-order output governance of social policy within the EU. These input indicators should allow a synthetic assessment of the income floors for out- and in-work families, in the spirit of earlier EU-level policy initiatives (cf. section 2).

In addition, our proposal fits into the increased policy monitoring of its Member States that the EU has installed in the wake of the budgetary eurozone crisis. Whereas the focus was initially on macro-economic indicators, more recently, the monitoring includes the progress towards the Europe 2020 outcome targets, including the poverty reduction target (Zeitlin and Vanhercke, 2014). Obvious examples are the inclusion of auxiliary social outcome indicators in the macro-economic imbalance procedure (MIP), and the separate development of the Social Scoreboard. This Scoreboard monitors progress on five social outcome indicators, including the unemployment level and the real disposable household income. Moreover, employment and social indicators were included as auxiliary indicators in the MIP-scoreboard. More recently, the Five Presidents' report emphasises the use of benchmarking

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

and cross-examining performance in order to achieve convergence (Juncker *et al.*, 2015). 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. Clearly, these recent advances open up an opportunity *and* a necessity to include input indicators in the monitoring process, thereby allowing for a first step along the continuum of non-binding second-order output governance towards input governance.

Including carefully selected input indicators in the streamlined EU policy monitoring process, on top of the currently used outcome indicators, has a number of advantages. For one, the EU and the Member States would be rendered accountable for the social quality of economic policies and anti-poverty strategies by conceptualising these strategies as a means of realising the fundamental social rights of citizens (Vandenbroucke and Vanhercke, 2014). Secondly, adding policy indicators pertaining to minimum income packages to the Social Scoreboard will be helpful to link outcome indicators to policies taking into account the tough trade-offs that might be involved between work-oriented policies, guaranteeing adequate minimum incomes and budgetary restraints. In the next section it will become clear how a well thought-out selection of indicators can bring out different policy mixes, available options and potential imbalances. Without interfering with national authority and policy structures, such contextualised indicators can indicate imbalances in the nexus of minimum wages, work incentives and minimum incomes for jobless households. This leaves room for subsidiarity, monitoring and mutual learning, starting from a broad view of the overall quality of social policy. The aim should be to support the Member States to find adequate country-specific economic and social balances.

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

4. Data

In this section, we present the policy indicators we propose to include in the European monitoring effort. Policy indicators should measure policy *input* solely, not confounded by demographic or other variables. This requirement excludes commonly used spending indicators. The indicators should inform on the policy design and policy choices regarding the balance of minimum income protection for different target groups, more in particular working and non-working households. They should be timely and susceptible to revision, capture the essence of the problem and have a clear normative interpretation (Atkinson, Cantillon, Marlier and Nolan, 2002). They should be statistically validated, responsive to policy changes and comparable to European standards. They furthermore should gauge the interrelations and incentive effects at the bottom of the labour market.

This can be achieved by indicators based on standard simulations of net disposable income packages. Standard simulations are calculations of income packages for a hypothetical family, solely based on the applicable tax benefit rules and the characteristics of the hypothetical family. By keeping the definition of the family type constant across countries and over time, shifts in the income package (and its components) are solely based on differences or shifts in policy. Results are easily comparable across countries, and intuitively understandable. Data requirements are limited, allowing for a timely release of the indicators. Moreover, a longstanding academic and institutional interest in the gathering and refining of standard simulations on minimum income protection has produced valid and comparable indicators (Bradshaw and Finch, 2002; Eardley *et al*., 1996; Gough *et al*., 1996; Immervoll, 2009; Nelson, 2008).

It is important to note that due to our focus on standard simulations, we limit ourselves to a focus on income only. Admittedly, this gives only a partial picture: the adequacy of minimum income schemes is defined not solely by the level of household income it guarantees, but also by the definition of the eligible persons, residential duration requirements, and means-tests on the one hand and additional cost compensations and in-kind benefits for low income families on the other. Strict means-tests, work conditions, severe residential requirements, stigma etc., may limit access in a prohibitive way.[4] This limitation of the indicators should be borne in mind. A more specific drawback of standard simulations is the heavy reliance on the definition of the model family. The underlying assumptions may substantially impact on the results *inter alia* because of the large variation of family formation across the Union. The model family should therefore be carefully selected and contextualised.

For our purposes, we define the model family as a lone parent household with two children, in a minimum income situation. We focus on a lone parent type case, as this is a case where policy choices are straightforward. Indeed, a comparison of policy choices regarding

[4] Studies that cross-nationally assess these limitations specifically for minimum income protection are rare (but see for instance Bargain *et al.* (2010), Eurofound (2015) and Immervoll *et al.* (2004) on coverage and non-take-up, Marchal and Van Mechelen (forthcoming) on activity requirements and De Wilde (2015) on the discretion of case workers).

minimum income protection for couples might be marred by international differences in views regarding non-working spouses in breadwinner couples. In addition, lone parent households are generally at a higher risk of poverty (see Vandenbroucke and Vinck, 2013), despite policy attention and efforts in recent years (Marchal and Marx, 2015). We assume this lone parent household to have no savings or social insurance entitlements. In the out-of-work case, the household has no income, and therefore fully relies on the applicable minimum income protection scheme, and other income components insofar as the household is eligible for them, such as child benefits or housing allowances. We exclude discretionary income supplements. In the corresponding in-work case, we assume the lone parent to be full-time employed at the statutory minimum wage, or an equivalent proxy of the wage floor. The number of hours worked in full-time employment[5] is in line with national regulations, or in the absence of those, with common practice according to consultations with a national expert. As for the out-of-work case, we take account of all applicable non-discretionary tax benefit regulation when calculating this family type's net disposable income package.

The two indicators show the adequacy of the final net income floor for lone parent households out-of-work and in full-time employment. Yet to capture the trade-offs and policy choices regarding minimum income protection we include three additional indicators: the financial incentives to work (defined as the net income difference between full-time minimum wage employment and net social assistance income), the gross minimum wage and the gross-to-net welfare effort (calculated as the difference between the minimum wage and the final disposable income), all expressed relative to the EU at-risk-of-poverty threshold. We consider this measure a relevant benchmark to assess the adequacy of minimum income protection, in light of the Europe 2020 targets. The values for these poverty thresholds are obtained from

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

Eurostat (2015). The values are based on the EU-SILC survey (for 2009 and 2012), or on the European Community Household Panel survey (for 2001). This could potentially lead to comparability issues.[6]

The simulated income packages are extracted from CSB MIPI, a dataset on minimum income protection hosted by the Herman Deleeck Centre for Social Policy at the University of Antwerp, as this dataset specifically comprises information on minimum wages. Nonetheless, similar indicators can be construed based on the OECD Benefits and Wages data[7] and in the near future by the EUROMOD HHOT tool. We include all EU Member States on January 2012, bar Cyprus, Malta, Sweden and Latvia. The lone parent type case in CSB MIPI concerns a 35-year old divorced lone parent, with two children aged 7 and 14 years. When no statutory minimum wage exists, simulations are based on a proxy of the wage floor. For Austria, Finland, Denmark and Italy, we use the sectoral minimum wage in a low-paid sector. For Germany, the standard simulations are based on an hourly minimum wage of €7.5.[8] Also, in some countries, minimum income protection generosity is a regional or local responsibility. In those cases the simulations are based on legislation in a particular region or municipality (see Van Mechelen *et al.*, 2011 for more information on the underlying assumptions of the standard simulations).

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

[7] We include a robustness check of our findings to the OECD Benefits and Wages data in the supplementary materials, available online at the publisher's website.

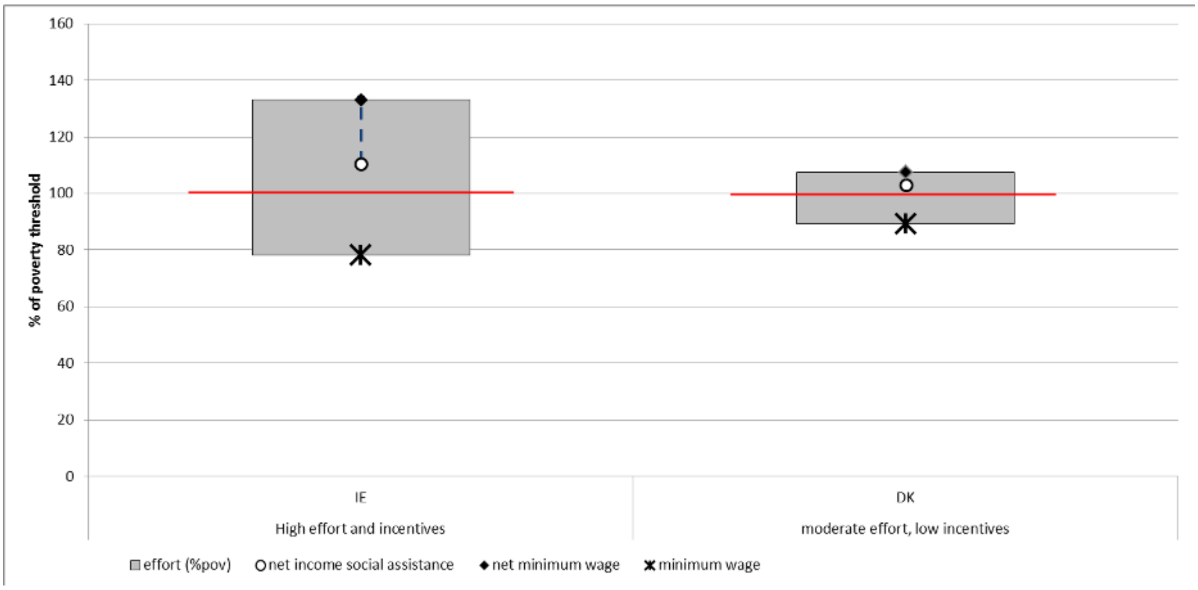
[8] This value was selected as it was frequently proposed in the public debate regarding the introduction of a minimum wage at the time the data were collected in 2012. In 2015, the German government introduced a statutory hourly minimum wage of €8.5.

5. Minimum Incomes in Europe: A Wake-up Call

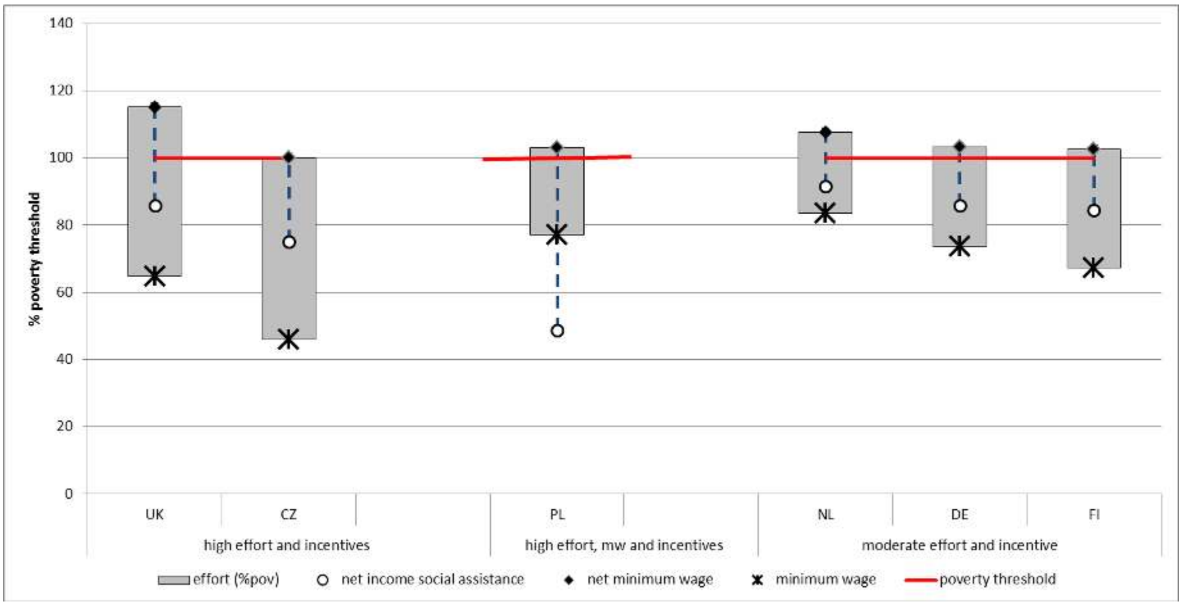
We measure the adequacy of minimum income protection by comparing the rights-based net income packages of the model family to the EU at-risk-of-poverty threshold. These are represented by the white circle markers in Figure 1. In most cases this comparison shows a substantial inadequacy of net income packages for jobless lone parents with two children. In fact, only two countries of our sample (presented in panel A of Figure 1) guarantee a net disposable income above the at-risk-of-poverty threshold to out-of-work lone parents. However, differences between EU Member States are enormous, ranging from less than 40 per cent of the poverty line in Romania (in panel D of Figure 1) to adequate levels in Denmark and Ireland (panel A). Roughly speaking, net income packages are relatively more generous -- though still inadequate -- in the richer Member States than in the poorer ones.

Figure 1: Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with two children, 2012

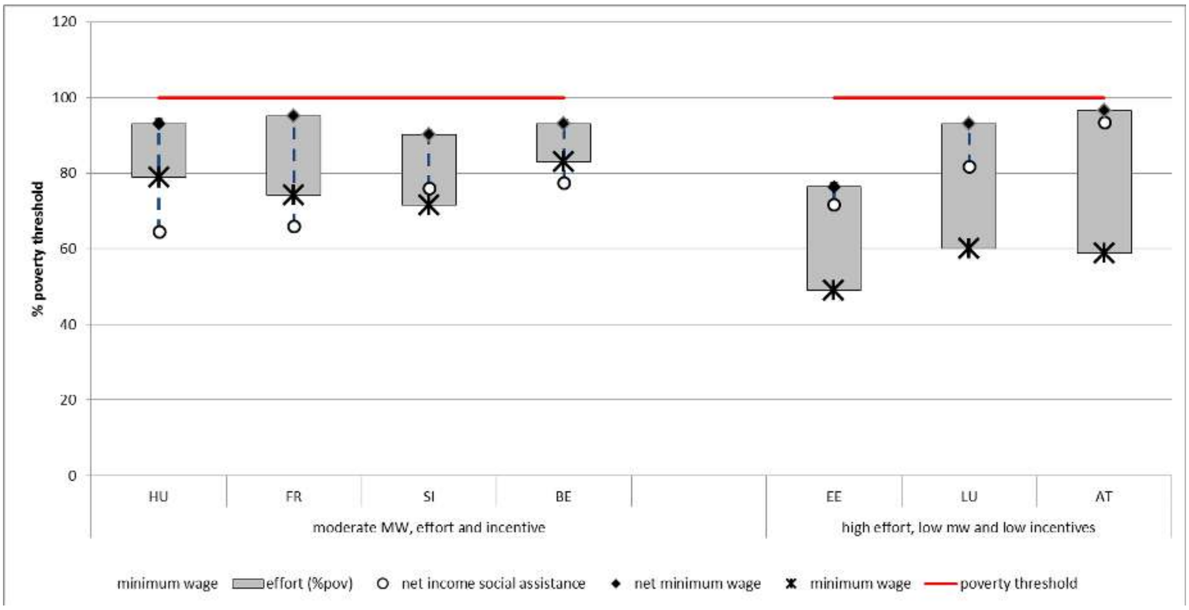
Panel A. High road: Adequate minimum income protection packages in- and out-of-work



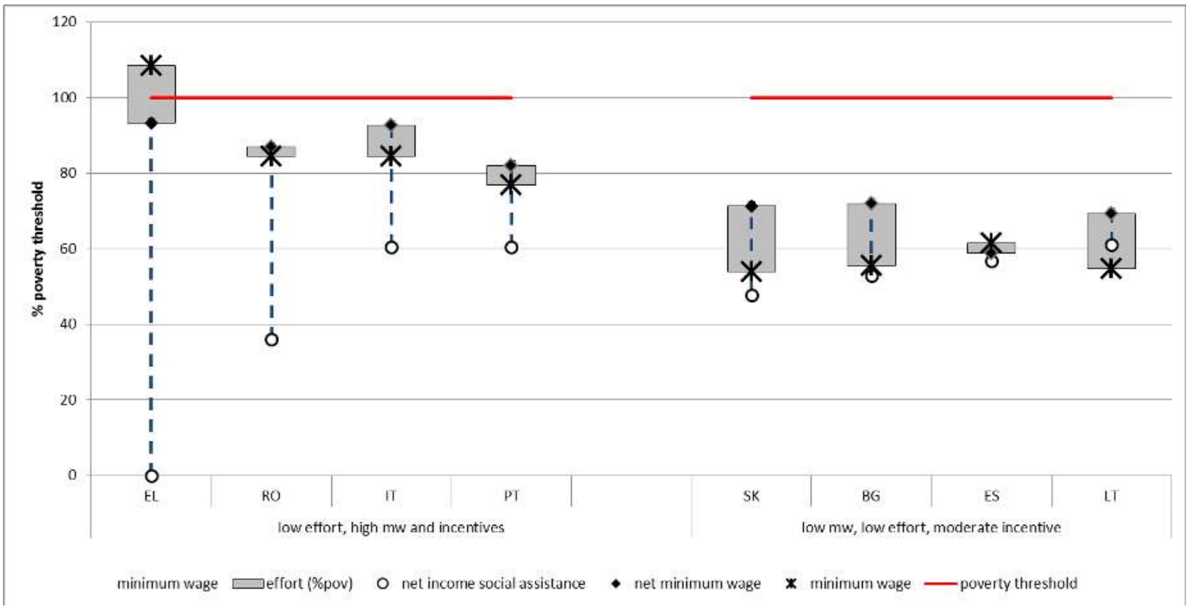
Panel B. Middle road: adequate minimum income package for a working lone parent family, inadequate out-of-work protection



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



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



Key: AT: Austria, BE: Belgium, BG: Bulgaria, CZ: Czech Republic, DE: Germany, DK: Denmark, EE: Estonia, EL: Greece, ES: Spain, FI: Finland, FR: France, HU: Hungary, IE: Ireland, IT: Italy, LT: Lithuania, LU: Luxembourg, NL: The Netherlands, PL: Poland, PT: Portugal, RO: Romania, SI: Slovenia, SK: Slovakia, UK: United Kingdom.

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

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

We gauge the adequacy of in-work minimum income protection by comparing the net disposable income of a lone parent with two children, who works full-time at the minimum wage, to the EU at-risk-of-poverty line (the black diamonds in Figure 1). Figure 1 shows that income protection for working lone parent families exceeds the poverty line in only eight Member States (those represented in panel A and panel B). However, in all cases the difference with the poverty line remains very small while in a large majority of countries in-work incomes are inadequate for the considered family type.

This inadequacy is not surprising given gross minimum wage levels (the black asterisks in Figure 1). As a general rule, gross minimum wages do not suffice to protect lone parents with two children against income poverty. However there is a quite large variation in relative values across countries, ranging from a low 46 per cent of the poverty line in the Czech Republic to a high of 84 per cent in Romania and 108 per cent in Greece.[9] Importantly, and in contrast to net social assistance levels, the adequacy of the gross minimum wage does not seem to relate to Member States' economic prosperity. Depending on the sectors and the number of workers affected this might signal problematic imbalances between productivity and labour costs of low-wage workers within the EU and possible ensuing negative spill-over effects. This adds to the need to monitor minimum wages.

Most countries provide substantial direct additional income support to lone parent families that rely on a full-time minimum wage (the grey bars in Figure 1). The value of these benefits generally surpasses any taxes or social insurance contributions: in most countries the welfare state adds to the net disposable income of working lone parent families. Again, the variation

[9] The reference date for the Greek minimum wage standard simulation is February 2012, rather than January, in order to include the stark reduction of the gross minimum wage that was then implemented. In addition, the simulations take account of an atypical experience-related top-up. Nonetheless, also taking account of i) this inclusion of the legally-backed increase of the minimum wage for employees with six years of experience in our data, and ii) the fall of the median equivalent household income in the wake of the crisis, in relative terms the Greek gross minimum wage remains one of the highest within the EU, though less exceptionally so.

across countries is enormous. Gross-to-net efforts range from a burden of 15 per cent of the poverty line in Greece to an added boost to net disposable income equal to 54 per cent of the poverty line in the Czech Republic and 50 per cent in the United Kingdom. However, despite these gross-to-net efforts, disposable incomes at a full-time minimum wage only protect against poverty in a limited number of countries (see panel A and B of Figure 1).

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

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

Notes: [a] Net disposable household income at social assistance; [b] Net disposable household income at full-time minimum wage employment.

Source: CSB MIPI Version 3/2013; authors' own calculations.

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

Finally, and not unimportantly, there also is a large variation in the wedge between net income at minimum wage and the net social assistance benefit: some countries accept very limited financial work incentives (for example, Denmark and Austria) while in others the financial gains are exceptionally high (see the vertical dashed lines in Figure 1). In Romania and Poland the difference between minimum incomes for jobless households (social assistance) and net income at minimum wage is larger than 50 per cent of the poverty line. Other countries have installed financial incentives in a broad range of 10 to 30 per cent of the poverty threshold.

In Figure 1, countries are divided into three groups, based on the adequacy of their income floors using the poverty threshold as a benchmark. In ‘high road countries’, just including Ireland and Denmark, the packages for both in- and out-work lone parent households are adequate. In ‘middle road countries’, the guaranteed income package of a working lone parent family exceeds the poverty threshold, but it is inadequate for jobless lone parent families. This was in 2012 the case in six countries: the United Kingdom, the Czech Republic, Poland, the Netherlands, Germany and Finland. Finally, in the large number of ‘low road countries’ (Hungary, France, Belgium, Estonia, Luxembourg, Greece, Romania, Italy, Portugal, Slovakia, Bulgaria, Spain and Italy), both in-work and out-work income protection is inadequate.

Taken together we can distinguish different stylised trajectories (with many shades of grey in between). Clearly, adequate minimum income protection packages are secured through different policy trajectories. In some countries a substantial gross-to-net effort allows for a substantial work incentive (Ireland) while others combine much smaller efforts with a negligible gap between in- and out-work incomes (Denmark). Some countries ensure adequate in-work income protection through topping up very low minimum wages with exceptionally large supportive tax and benefit measures (the United Kingdom and Czech Republic) while others opt for moderate to high minimum wages combined with more modest supportive measures.

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

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

For many countries however, raising the net income for those out of work will require an equivalent increase of the net income for those in work, either through a relative increase of gross minimum wages or through bigger gross-to-net efforts.

Conclusion

Europe should care better for the poor. Despite ambitious EU policy goals on poverty reduction, Europe and its Member States are facing disappointing poverty trends among the working-age population. 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 the European social agenda has proven to be powerless. In this paper we argued that success in the future would require first the reappraisal of income protection as one of the three crucial pillars of the fight against poverty *and*, second, the strengthening of the EU social governance in these fields.

Against this background, recent developments at the EU governance level may prove important for strengthening the steering and co-ordination 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 social indicators were also included as auxiliary indicators in the MIP-scoreboard. Importantly, the Five Presidents' report emphasises the use of benchmarking and cross-examining performance in order to achieve convergence. This position has, on multiple occasions, also been defended by Commissioner Thyssen (see Thyssen, 2015b, 2015c). On a more substantive level, the recent Communication from the Commission (European Commission, 2016a) launching a consultation[10] on a European Pillar of Social Rights mentioned explicitly the 'scope and added value of minimum standards'. In addition, the field of minimum income is proposed as one of the policy domains within this Pillar of Social Rights (European Commission, 2016b).

An operational way to implement these recent advances is to insert indicators of minimum income packages in the European semester governance framework, which could support the Europe 2020 outcome target indicators. 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 highlight trade-offs, different policy mixes, available options and potential imbalances.

[10] This consultation will run until December 2016.

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 leaves room for subsidiarity, monitoring and mutual learning, starting from a broad view of the overall quality of social policy. Ultimately, the aim should be to support the Member States to find adequate country-specific economic and social balances.

In light of changing work patterns, technological developments, migration and international competition, European welfare states will continue to be challenged by poor wages, growing tensions at the lower end of the labour market and the ability of social protection systems to provide adequate living standards for all. Therefore, there is an urgent need for the EU to reconsider its role in supporting Member States in their attempts to guarantee decent incomes. A social Europe will need to be established incrementally, step by step. Later, in order to give more bite to the abovementioned actions, an EU framework on minimum incomes (in a broad sense) should be put in place, not only as a guideline for national governments but also to rebalance the legal asymmetry between economic and social standards. If the Europe 2020 targets on the reduction of the EU population at risk of poverty or social exclusion are to be taken seriously this seems to be a necessary next step.

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Supporting Information

Additional supporting information can be found in the online version of this article at the publisher's website.

Appendix

Figure A1: Balance of minimum income protection packages, relative to at-risk-of-poverty threshold, lone parent with two children, 2012