

Chapter 7

A European minimum wage framework: the solution to the ongoing increase in in-work poverty in Europe?

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Introduction

The European Pillar of Social Rights (EPSR), endorsed jointly by the European Parliament, the Council and the European Commission on 17 November 2017, reaffirmed a series of guaranteed rights for workers and citizens in the European Union (EU). The new European Commission, which took office on 1 December 2019, geared its work programme to the effective implementation of the principles set out in the EPSR (von der Leyen 2019). A number of initiatives were announced, including the development of European frameworks for minimum wages and guaranteed minimum incomes, the strengthening of collective bargaining and the roles of the social partners. The Covid-19 pandemic put the establishment of European Support to mitigate Unemployment Risks in an Emergency (SURE)¹ back on the agenda (see also Myant, this volume), an idea already floated by the previous Commission in response to the 2008 economic and financial crisis (European Commission 2020a). Furthermore, the idea of developing a European minimum wage framework has sparked lively discussions and renewed interest in the relationship between low wages and in-work poverty (Eurofound 2020a; Müller and Schulten 2020a). People in in-work poverty – both (low-paid) working individuals and members of households with a total disposable income below the at-risk-of-poverty threshold – are the focus of these discussions.

In light of these, this chapter begins by examining the incidence and development of in-work poverty in the EU before going on to explore the link (not necessarily automatic) between minimum wages and in-work poverty. It then reports on the wide variety of policies which, directly or indirectly, have an impact on the development of in-work poverty. The last section presents useful lessons to be considered in the European debate on minimum wages with a view to countering the current unacceptable situation in which more than 20 million Europeans are finding that having a job is not necessarily sufficient to keep them out of poverty.

1. This new European solidarity mechanism takes the form of 'temporary support to mitigate unemployment risks in an emergency'. With a budget of €100 billion, it is designed to provide financial support, by way of loans, to Member States affected by sudden increases in public expenditure for the preservation of jobs, particularly via temporary unemployment or income support schemes (European Commission 2020a).

1. In-work poverty and minimum wages in the European Union

1.1 In-work poverty: incidence and development

Under the various manifestations of the European Employment Strategy (EES), from the original 1997 version to its current one as part of the Europe 2020 Strategy and the European Semester, EU Member States have been strongly encouraged to undertake structural reforms aimed at bringing about full employment as a pre-condition for economic development and a guarantee of wellbeing for European citizens. This objective of full employment, which is far from being achieved after more than twenty years of reforms,² underpins the increasingly pressing activation requirements set for the unemployed and those with little or no work. It also explains the greater flexibility of labour markets, in most Member States resulting in a spectacular increase in the number of atypical jobs of various types – (very) part-time, (very) temporary contracts, bogus self-employment. Around one third of the European labour force is currently in atypical work (Eurofound 2018), a trend encouraged by the 2008 economic and financial crisis. These ‘new forms of employment’, particularly those generated by the ‘platform economy’,³ have increased the precarity of work and the prevalence of in-work poverty in recent years (Horemans 2019; Eurofound 2018).

In European social policies, employment is considered the solution to the problems of poverty and social exclusion. However, the existence of a large number of in-work poor seems to fundamentally contradict this view, undermining the model of full employment as a guarantee of wellbeing in Europe. Having a job is not necessarily enough to ensure individual wellbeing and protect people from poverty, particularly if this job is not only insufficiently remunerated but also of very poor quality (Peña-Casas *et al.* 2019).⁴

Using the EU definition of in-work poverty⁵, in 2018 on average 9.4% of EU-28 workers were living in poverty, a total of 20.7 million people (both employees and self-employed workers). If we add the number of in-work poor to the number of unemployed living in poverty (48.6% of the unemployed, i.e. around 7.7 million people), then around 28.3 million Europeans are ‘active poor’. These figures, importantly, do not include people traditionally missed by sample-type surveys like the EU Statistics on Income and Living Conditions (EU-SILC), such as those in informal work, the homeless, people living in collective shelters or those whose papers are not in order.

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2. With regard to the active population aged between 20 and 64, while the average employment rate for the EU-28 grew from 73% in 2000 to 78.7% in 2019, it is still far from the objective of full employment (Eurostat, Labour Force Survey, indicator `lfsi_emp_a`).
 3. The platform economy uses intermediary-based economic relationships, often with digital intermediaries, to link suppliers of goods and services to their customers who call on the intermediary to acquire these goods and services.
 4. This chapter is focused on in-work poverty in terms of income. We should nevertheless remember that the issue of job quality, involving aspects apart from remuneration (working conditions, health and safety, vocational training, statutory protection and eligibility for social security), should also be considered when speaking of in-work poverty. For example, atypical workers generally have lower-quality jobs (Eiffe *et al.* 2018).
 5. The European in-work poverty indicator is based on the EU Statistics on Income and Living Conditions (EU-SILC). For the population aged 18 to 64, a ‘worker’ is a person who has been in work for more than 6 months during the year preceding the survey, and a person in ‘in-work poverty’ is a worker who, in addition, lives in a household whose equivalised total disposable income is below the at-risk-of-poverty threshold, i.e. 60% of the national median equivalised disposable income (EU-SILC indicator `[ilc_li04]`).

For the increasing number of workers on atypical employment contracts, the in-work poverty rate is twice as high for part-time workers as for full-time workers (on average 15.6% compared to 7.6% in Europe in 2018). It is almost three times higher for those on a temporary contract than for workers on a permanent contract (16.2% compared to 6%), as well as for self-employed workers compared to employees (21.6% versus 7.5%). Comparing the various EU countries, the situation seems to be stable, polarised, and relatively similar to the picture regarding poverty risk: there is a group of countries with a low in-work poverty rate of around 5% (Belgium, Croatia, Czechia, Denmark, Finland, Ireland, Malta and the Netherlands) and a group with a high rate of above 10% (Spain, Greece, Italy, Luxembourg, Portugal and particularly Romania at 18.1%). Over the last decade, in-work poverty has grown in most EU countries, rising from 8.3% in 2007 to 9.4% in 2018 among the EU-28 (European Commission 2020a). In-work poverty is thus a widespread, growing and worrying phenomenon. Nevertheless, it is only rarely referred to as such in European and national policies (Peña-Casas *et al.* 2019).

1.2 In-work poverty and minimum wages

1.2.1 European framework: a directive on minimum wages

In January 2020, the European Commission launched an initial consultation of the social partners on possible action addressing the challenges related to fair minimum wages (European Commission 2020b). This refers, in particular, to EPSR Principle 6, which states that workers ‘have a right to fair wages that provide for a decent standard of living’ and emphasises the role of minimum wages to achieve this, as well as the need to tackle in-work poverty. The second consultation phase was launched in June 2020 (European Commission 2020c). This Commission initiative is at odds with the constant and strong pressure for wage moderation applied elsewhere in connection with the structural reforms implemented as part of the European Semester.

In the document launching the social partner consultation in early 2020, the Commission first describes the varying situation within the EU. Of the 28 Member States, 22 have national legislation setting a statutory minimum wage. The six other countries (Austria, Cyprus, Denmark, Finland, Italy and Sweden) have set minimum wages for individual branches or have systems whereby these are set by means of collective bargaining between the social partners. The aim is not, therefore, to establish minimum wage systems for the EU, but rather to remedy the shortcomings of the existing systems. According to the Commission’s analysis, many EU workers are not protected by adequate minimum wages, since these are either too low or, in some cases, because of insufficient coverage of collective agreements. Among the reasons for this vulnerability, the Commission cites five points where the EU could provide added value and help ensure fair and decent wages for European workers: a) strengthening collective bargaining; b) establishing clear and stable frameworks for the setting and adjusting of statutory national minimum wages; c) involving the social partners in the setting of minimum wages; d) reducing the many current exemptions; and e) enhancing compliance with minimum wage provisions (European Commission 2020b).

The reactions to the first consultation were lukewarm (European Commission 2020c). Among the social partners, there was a clear difference of views between the trade union organisations, which generally supported the initiative, and the employer organisations, which were against European interference in the area of wages for reasons of subsidiarity and competitiveness. The Member States, for their part, were also divided between those with a statutory minimum wage and those, particularly the Nordic countries, where the minimum wage is set by sectoral collective agreements, generally extended to all workers. Following this first consultation, the Commission concluded that there was a case for EU action and launched the second consultation phase. Following this phase, at the end of the second round of consultation, the European social partners were still unable to reach an agreement on 4 September 2020.

Consequently, on 28 October 2020, the Commission presented a proposal for a directive on adequate minimum wages to the European Parliament and the Council (European Commission 2020d; see Box 1). If these institutions adopt the directive, Member states will have two years to transpose it into national law. The Commission has therefore opted for a binding directive rather than recommendations. Although more binding in its form, the directive remains sufficiently flexible, even broad, to avoid encroaching on national competences and traditions of social dialogue.

The reactions of the European social partners were not long in coming and differed little from what they had already expressed during the two consultative phases. BusinessEurope, the European employers' association, reiterated its opposition to a binding directive, described as a 'legal monster' (BusinessEurope 2020). The European Trade Union Confederation, for its part, is more satisfied with the proposed directive, while highlighting certain aspects that should be improved (European Trade Union Confederation 2020).⁶

Both EPSR Principle 6 and the Commission proposal emphasise that a minimum wage must not only be fair in relation to other wages but also must provide a decent standard of living to the worker and his or her household. This is in line with the approach taken in international law.⁷ This relationship between the fairness of the minimum wage, in terms of the wage scale, and the decent standard of living it should provide reignited debate on the role of minimum wages as a cause of or solution to in-work poverty.

6. According to the ETUC, the main improvements to be made to the directive are the following: a) include in the legal provisions of the directive a clear decency threshold below which legal minimum wages cannot fall (60% of the median wage or 50% of the average wage); b) specify that private companies are obliged to respect collective bargaining as a condition for benefitting from public procurement and other funding, such as the Common Agricultural Policy and stimulus funds; c) specify that the action plans required of Member States to increase the extension of collective agreements to at least 70% must ensure respect for the right to collective bargaining and address real problems such as anti-unionism; and d) end the exclusion of certain workers, such as domestic workers and young people, from the legal minimum wage, and prohibit employers from making deductions from the legal minimum wage (European Trade Union Confederation 2020).
7. The right to a fair and decent wage is included by the United Nations in the Universal Declaration of Human Rights (1948), in International Labour Organization Convention 131 (1970). At European level it is enshrined in the Council of Europe's European Social Charter (1961) and more recently in the European Community Charter of the Fundamental Social Rights of Workers (1989).

Box 1 European Commission proposal for a directive on adequate minimum wages in the European Union

The proposed directive still pursues the two main objectives announced during the consultations: to improve minimum wages and to increase the coverage of collective agreements by revitalising the role of the social partners.

Chapter II (Statutory Minimum Wages) of the proposed directive specifies in its preamble that the provisions of this chapter apply only to Member States that have statutory minimum wages in place.

Article 4 of the proposed directive requires Member States to take measures to promote the capacity of the social partners to engage in collective bargaining for the purpose of fixing wages and to encourage constructive, meaningful and informed negotiations on wages. It also requires Member States in which collective bargaining coverage does not reach at least 70% of workers to provide a framework for collective bargaining and establish an action plan to promote collective bargaining.

Article 5 concerns the adequacy of these minimum wages in terms of the criteria for deciding and updating national schemes. This provision requires those Member States which have them to provide for the following: national criteria for setting and updating statutory minimum wages defined in a stable and clear manner, regular and timely updates and the establishment of advisory bodies. The national criteria should include at least the purchasing power of minimum wages, the general level of gross wages and their distribution, the growth rate of gross wages and labour productivity developments. They should be defined in accordance with national practices, either in relevant national legislation, in decisions of the competent bodies or in tripartite agreements. On the sensitive issue of assessing the adequacy of the minimum wage, the proposed directive is rather discreet. The Commission refrains from specifying a specific criterion and merely invites Member States to use indicative reference values to guide the assessment, such as those commonly used internationally, notably the Kaitz Index (see Section 1.2.2) and the at-risk-of-poverty rate. It is regrettable that the proposed directive is not more explicit on this key issue of the adequacy of minimum wages.

Article 6 calls on Member States, in consultation with the social partners, to limit the use of variations in minimum wages and their application over time and their extent. This article also provides for the protection of statutory minimum wages against unjustified or disproportionate deductions.

Article 7 requires effective and timely participation of the social partners in the setting and updating of statutory minimum wages, including through participation in the advisory bodies mentioned in Article 5. Member states must involve the social partners in the definition of the criteria referred to in Article 5, in the updating of minimum wages, in the establishment of the variations and deductions referred to in Article 6, and in the collection of data and studies in this area.

Article 8 of the proposed directive requires Member States to take the necessary measures, in cooperation with the social partners, to ensure that workers have effective access to the protection afforded by statutory minimum wages, in particular by strengthening arrangements for on-the-spot checks and inspections, providing guidance to enforcement authorities and providing workers with adequate information on applicable statutory minimum wages.

Chapter III includes horizontal provisions on compliance with minimum wage legislation when awarding public contracts (Article 9), requiring economic operators (including the subcontracting chain thereafter) to respect collectively agreed wages and applicable statutory minimum wages where they exist.

The proposed directive also contains provisions on the establishment of a monitoring and data collection system (Article 10), the right to redress and protection against unfavourable treatment or adverse consequences (Article 11), and sanctions for non-compliance with minimum wage legislation (Article 12).

Source: European Commission 2020d.

It is a complex task to ensure that wages are both fair and of a decent level. The link between minimum wages and poverty is certainly important, but not necessarily causal, since whether a worker lives in poverty is determined by a household's various sources of income, not just the worker's wage. Income from all activities of all household members is counted, including social transfers from the various social protection regimes. Income tax arrangements are also taken into account, since a worker's degree of poverty is measured on the basis of net household income. At the end of the day, only a fraction of low-wage workers actually live in poverty.

1.2.2 How can a wage be set that is both fair and decent?

The first part of this question is relatively straightforward. The fairness of minimum wages must be assessed in relation to the general wage distribution. Most stakeholders agree that a standard should be used that refers to a threshold set as a percentage of the median or average wage (Kaitz Index). The next question is whether gross or net average wages should be used as a reference. The European social partners differ on this point. The trade union organisations prefer an approach based on gross wages so that the cost of increasing the minimum wage is not shifted from companies to the state. The employers' organisations, however, tend to favour an approach based on net wages, to safeguard the competitiveness of businesses (European Commission 2020c). The Commission only indicates that the EU initiative could contain an obligation for national frameworks to include specific indicators making it possible to assess whether minimum wages are adequate, based on non-binding reference values estimated from thresholds for median or average gross or net wages.

The second part of the question is more complex. The 'decency' of a minimum wage is based on the extent to which it can ensure a decent standard of living. In other words, the minimum wage should be sufficient to achieve a household income that can lift the worker and his or her household above the poverty threshold. The Commission raises the possibility of using a reference value based on a criterion ensuring decent living standards, referring to a 'living wage' approach.⁸ A living wage is estimated with reference to a threshold based on the cost of a basket of goods and services considered as a minimum but essential (European Commission 2020c). The literature and international institutions distinguish between two main ways of assessing poverty and setting thresholds to identify what is considered a decent standard of living. The so-called 'absolute' approach is similar to the living wage approach, i.e. to ascertain the cost of a basket of goods and services reflecting the minimum needed by an individual and his or her household to have a decent standard of living within a particular social group or region. The so-called 'relative' approach refers to a threshold reflecting the minimum resources (financial, social and cultural) required by an individual and his or her household to enjoy a decent standard of living judged socially acceptable by society as a whole (Atkinson *et al.* 2002). Curiously, the Commission makes no reference in this context to the relative at-risk-of-poverty rate – 60% of the national median equivalised

8. For an overview of the living wage approaches used in Europe see, for example, the special issue of the *Transfer* review on this subject (European Trade Union Institute 2019).

disposable income – used to estimate whether a minimum wage can provide a decent standard of living. However, this ‘relative’ approach to poverty has nevertheless been used as a key indicator in European social policies designed to tackle poverty and social exclusion ever since the adoption of the first European poverty and social exclusion indicators by the Laeken European Council in 2001.⁹ Since then, other European indicators have been added that reflect difficult living conditions (on the most recently adopted European indicator, the indicator of material and social deprivation, see Guio and Marlier 2017).

Currently, at EU level, there is no agreed indicator that can be used to compare the ‘decency’ of living wages or social minima in the various Member States. Only a few European countries (Ireland, Romania, Slovenia and the United Kingdom) assess the value of minimum wages by referring to a basket of goods and services (Eurofound 2020b). As part of an EU pilot project, research was carried out into the budget needed by various types of household to obtain a basket of goods and services (including housing) considered essential to a basic standard of living, but acceptable in a given region. The study provided many lessons on the methods to use to decide, in a participatory fashion, on the content of a basket of goods and services. It shows how difficult it is to agree on this type of ‘reference budget’ in such a way that they can be used in the various European countries; it also shows that it is hazardous to compare the results for the various Member States, given the economic, social and cultural differences which may exist not only between countries but even between regions in one and the same country (Goedemé *et al.* 2015).

Given the lack of a specific criterion of this type, the relative poverty threshold and the material and social deprivation rate provide credible alternative ways to assess the extent to which minimum wages enable decent living standards and allow a worker’s household to rise above the poverty threshold or move beyond the deprivation threshold. These decent standard of living indicators are also, for now, the only alternative monitoring tool available to the Commission, enabling it to compare how far the minimum wages in the various Member States provide a decent standard of living, in the context of its proposal and more broadly of the EPSR. Currently, these indicators are used in research for making international comparisons and have been endorsed at political level by all Member States as key indicators for European social policies. Some European countries, such as Belgium, already use the European relative poverty threshold as a reference criterion to set the level of their minimum welfare support. The study by Marchal *et al.* (2018), referred to below, compares the level of minimum wages for European countries with the relative poverty rate, set at 60% of the median income.

9. This approach is based on the definition adopted by the EU Council of Ministers on 19 December 1984, which states that a person or household is considered poor if their income or resources do not seem sufficient or are not socially acceptable: ‘the poor shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live’ (European Council 1985).

1.2.3 Fair and decent wages: the miracle solution for reducing in-work poverty?

Given the situation described above, it is worthwhile asking whether the existence of fair and decent minimum wages is sufficient to significantly reduce in-work poverty.

Studies on the links between in-work poverty and low wages show that although the latter increase the risk of poverty, most low-paid workers do not, however, live in poverty (Salverda 2018; Maître *et al.* 2018; Horton and Wills 2018).¹⁰ While minimum wage schemes do have an effect on in-work poverty, these effects are limited. Comparing net minimum wages with the at-risk-of-poverty threshold (60% of the median) for the EU in 2017, Marchal *et al.* (2018) found that the minimum wage is sufficient in almost all the EU (the exceptions being Estonia and Czechia) to protect a single adult against poverty. However, households made up of one poor single worker only make up a small percentage of households. The minimum wage cannot fully support more than one person and is insufficient for households made of up several adults but with just one earner, or for single-parent households. The rare international assessments show that the overall impact of increased statutory minimum wages on reducing poverty is statistically significant but low, varying depending on the percentage of the population receiving the minimum wage (Arpaia *et al.* 2017). Though an increase in minimum wages is not per se sufficient to make a significant contribution to tackling in-work poverty, it is nevertheless a key step. Minimum wages are nevertheless useful, as they help ensure fairer wage distribution and establish a floor for wages, preventing employers from creaming off direct income support measures (Marchal *et al.* 2018).

Reducing in-work poverty cannot be done with minimum wage policies alone; it requires a broader range of instruments. Studies all point to the size and nature of households, as well as the work intensity of individuals and households,¹¹ as the most significant factors in in-work poverty, particularly when combined (Peña-Casas *et al.* 2019; Eurofound 2017; McKnight *et al.* 2016; Fraser *et al.* 2011). For this reason, in-work poverty can only be tackled effectively with a range of policies. In 2019, the European Social Policy Network (ESPN) published a comparative analysis of national policies to combat in-work poverty in the EU and candidate or pre-candidate countries (Peña-Casas *et al.* 2019). The report shows that while in-work policy is rarely a stated policy objective, many policy measures are taken in various areas that, in combination, may help reduce in-work poverty.

10. In 2018 on average in the EU-28, 39.9% of people aged between 18 and 64 living in poor households worked at least 6 months in the previous year on a wage (27.7%) or as self-employed (12.2%). In other words, 60.1% of poor individuals were not in employment, instead being unemployed (21.3%), inactive (34.2%) or retired (4.1%), according to EU-SILC indicator [ilc_lvhlo2].

11. Work intensity of a household is described by Eurostat as ‘the ratio of the total number of months that all working-age household members have worked during the income reference year and the total number of months the same household members theoretically could have worked in the same period.’

2. Tackling in-work poverty: the various policies available to Member States

While minimum wages have a real but limited impact, in-work poverty cannot be reduced by them alone – this task requires a broader range of instruments (Eurofound 2020a; Peña-Casas *et al.* 2019).

A series of policies may help to prevent in-work poverty. They can be split into those which have a direct and those which have an indirect impact on income and work intensity (Marx and Nolan 2012). Direct-impact measures include a first group made up, in addition to minimum wages, of measures topping up (low) wage gains: family benefits, in-work benefits, reduced tax and social security contributions and guaranteed minimum income schemes, if these can be cumulated with income from employment. Aimed at increasing work intensity, a second group includes all measures falling under the heading of ‘active labour market policies’ or taken to tackle labour market segmentation, including job protection legislation.

Indirect policy measures can be targeted either at enhancing work intensity by allowing a better work-life balance (childcare and access to long-term care), or at improving workers’ prospects for career progression (vocational training, further education, equality, non-discrimination, etc.). Indirect policies also include measures to support households’ standards of living (health care, housing, heating, transport, etc.). In the next section, we examine these various policy measures.

2.1 Policies with a direct impact on in-work poverty

2.1.1 Tax and social security contributions

Rather than increasing minimum wages, many Member States have taken measures to increase the net income of employees receiving the minimum wage or around this amount. There are several ways of cutting taxes and social security contributions to tackle in-work poverty (McKnight *et al.* 2016; Marx *et al.* 2012). One approach involves reducing taxation of wages. However, this is not an ideal strategy, since such reductions also benefit households above the poverty line. Reducing personal income tax can allow for more targeting, but most of the in-work poor already pay very little tax. Since social security contributions are often higher than the tax due by low-income households, cutting these in a targeted way would be a better strategy for reducing in-work poverty. However, this political choice is limited by the fact that social security contributions must be paid if a person is to be eligible for social security benefits (Marchal *et al.* 2018; Marx *et al.* 2012). Each of these approaches has its pros and cons, but they do not take account of the fact that some households have income so far below the poverty line that they would still be poor even if they paid no taxes at all (Marx and Nolan 2012).

2.1.2 In-work benefits

In-work benefits come in various forms: ‘permanent work-contingent tax credits, tax allowances or equivalent work-contingent benefit schemes designed with the dual purposes of alleviating in-work poverty and increasing work incentives for low-income workers’ (OECD 2011). More and more countries have invested in this type of benefits, with the best-known examples being ‘earned income tax credits’ in the United States and ‘working tax credits’ in the United Kingdom. These two countries have been the first to use these benefits and have invested the most in them in budgetary terms.¹² These credits are one of the most important aspects of the UK approach to tackling in-work poverty, but their positive impact cannot necessarily be replicated in the rest of Europe, particularly in continental and northern countries with less wage inequality. The various institutional and socio-economic contexts in the other countries could reduce the effectiveness of this approach (Marchal *et al.* 2018; Marx *et al.* 2012). Micro-simulations carried out for the southern European countries have shown that in-work benefits are of limited effectiveness in combating poverty, while the same is true for measures encouraging second-earners in households to work more (Figari 2011). Vandelanoot and Verbist (2017) showed that if 1% of GDP were spent on in-work benefits, in-work poverty would fall by 1.19% in Belgium, 1.13% in Italy and 2.59% in Sweden, with less of an impact in Poland (0.83%).

If measures are to tackle poverty effectively and, at the same time, be affordable within reasonable limits, they must be highly targeted. However, if low-income households are greatly targeted, there is a risk of creating mobility traps which can only be avoided if the rates are smoothly degressive. This can be extremely costly if there are many people at the low end of the household income scale, as is the case in many European countries. This cost can only be avoided by reducing the level of the tax credit itself, but in this case, there is less of an impact on poverty (Marchal *et al.* 2018).

2.1.3 Family benefits

Many studies show that family benefits, provided in the form of family allowances and tax breaks related to the presence of children in the household, are important instruments for reducing child poverty (Van Lancker and Van Mechelen 2015). Their effectiveness in reducing poverty, however, depends on how generous such benefits are and on how they are designed (as universal benefits or limited to a specific category, such as low-income or single-parent households; Marchal *et al.* 2018). Looking at the programmes aimed at children as a whole (universal and targeted), Van Mechelen and Bradshaw (2012)

¹². In addition to the United Kingdom, several European countries have also tried out this type of policy in recent years: ‘working family payments’ in Ireland, ‘income tax credits’ in Sweden and activity bonuses (the active solidarity income) in France.

observe that their effects vary among European countries.¹³ They find that the countries providing the most generous family allowances to people on a low income have the most targeted approach. If these benefits are to be effective in reducing poverty, they must be of a sufficient level, meaning considerable budgetary cost. One way of reducing this cost to some degree is to direct the resources of the universal system proportionately more towards the poorest. Combined with policies facilitating and supporting dual earners in households, particularly encouraging the partner doing most of the housework to also take on employment, these universal benefits with targeted components are a key element of any set of effective measures (Marx and Nolan 2012; Marchal *et al.* 2018).

2.1.4 Guaranteed minimum income

Social assistance supplements ensure that earned income is higher than the income a person would receive if he or she was not working. In several countries, these extra benefits are means-tested and available to low-income households, but even then, there are major differences between Member States. At the end of 2015, for example, 14% of social assistance recipients in France were in paid work, of whom a quarter were on open-ended contracts (Legros 2019). In Germany in 2017, nearly a quarter of those receiving basic income support under the income topping-up provisions of unemployment benefit II (ALG II) had a job (Hanesch 2019). The granting of a guaranteed minimum income to in-work poor can generate concerns. In Spain, for example, the trade unions hold the view that repeated recourse to the guaranteed minimum income to offset the disadvantages of temporary work may help make low-paid jobs more socially acceptable (Rodríguez Cabrero *et al.* 2019).¹⁴ Guaranteed minimum income schemes have also become an integral part of active labour market policies, as receipt of this income is increasingly dependent on actively seeking a job; at best, this follows the principles set out in the 2008 EU Recommendation on the active inclusion of people excluded from the labour market, combining an adequate income, personalised activation plans and access to high-quality services (European Commission 2008).

2.1.5 Active labour market policies

Active labour market policies can improve jobseekers' skills and enable them to take on better paid jobs. Nevertheless, the demanding activation requirements may oblige unemployed people to accept job offers even when the wages offered are low. In such cases, the income of these successfully 'activated' people may be too low to raise household income above the poverty line – poor unemployed become in-work poor (McKnight *et al.* 2016). Seikel and Spannagel (2018) have analysed the impact

13. In Austria, Czechia, Denmark, Finland, France, Greece, Italy and Latvia, the standard of living of households on an average wage with two children is above the poverty threshold only thanks to family benefits, while the programmes run in Bulgaria, Hungary, Portugal and Slovenia are not sufficient to raise such families above the poverty line. For a couple with two children, with only one adult earning and receiving the minimum wage, family benefits are not sufficient to keep the family above the poverty threshold in any of the countries examined. For a single parent on a low income with two children, these allowances are sufficient to protect the household from living in poverty only in Hungary, Latvia, the United Kingdom, Czechia and Sweden (Van Mechelen and Bradshaw 2012).

14. This system also means that some of the worker's income is indirectly supported by the social security regime rather than coming from the employer.

of various elements of activation policy on in-work poverty, based on EU-SILC and OECD data, in 18 EU Member States. They show that high expenditure on active labour market policies reduces the poverty risk for workers. However, strict conditions and a high level of recommodification¹⁵ heighten the risk of in-work poverty. They also show that a combination of well-financed active labour market policies and generous social benefits is the most promising strategy for tackling in-work poverty. This combination is generally associated with the ‘enabling welfare state’ model seen in the Scandinavian countries. It is also the approach underpinning the three pillars of active inclusion referred to in the 2008 recommendation on active inclusion of people excluded from the labour market (European Commission 2008).

2.1.6 Measures to tackle labour market segmentation

Measures taken to address low wages should be just the first step in a strategy to boost individuals’ ability to protect themselves and their families from poverty. Job stability and security, as well as the ability to progress in one’s work, are also essential. Permanent contracts and jobs offering wage increases and prospects for advancement are important to guarantee this stability (McKnight *et al.* 2016). We have already emphasised the continuing growth in atypical employment and the rates of in-work poor on part-time or temporary contracts, which are two to three times higher than those working full-time and with an open-ended contract. Job protection rules influence workers’ chances of employment and their risk of falling into poverty. Measures have been taken in many Member States to limit the wrongful use of fixed-term contracts, and, in some, to promote open-ended contracts (for example in France, Italy, Portugal and Slovenia; Peña-Casas *et al.* 2019).¹⁶

2.2 Policies indirectly influencing in-work poverty

2.2.1 Childcare policies

Childcare policies are often considered an effective policy tool for reducing in-work poverty. The link between childcare and in-work poverty is *a priori* fairly clear: available and affordable childcare is supposed to increase employment (above all of mothers) and the number of workers per household, thus resulting in a drop in in-work poverty. However, new research is calling into question the efficacy of childcare provision as a policy tool to tackle in-work poverty. Van Lancker and Horemans (2018) have thus shown that, although childcare provision is associated with a lower individual risk of poverty, no link can be established between the take-up of formal childcare services and the national in-work poverty situation. This is because households making use of

¹⁵ Commodification means an extension of what can be bought and sold in the market. It describes a process whereby goods and services that were not previously commercialised are transformed into tradable goods.

¹⁶ These provisions include exemptions or increases of social security contributions for employers (for example in France, Italy and Slovenia), a limitation of the maximum duration of fixed-term contracts (for example in Portugal or Slovenia), and a stepping-up of labour inspections (in Spain, for example).

formal childcare services tend to be high-work-intensity households, i.e. rarely poor households. When speaking of in-work poverty, it is important to differentiate between formal and informal childcare. Informal childcare services tend to be used by less work-intense households. For childcare to be an effective tool in the fight against in-work poverty, it must reach the target group – i.e. workers with young children living in low-work-intensity households, with less stable jobs and lower incomes (Van Lancker and Horemans 2018).

2.2.2 Measures to improve the standard of living of low-income households

Housing support is the most obvious of these measures, as it enables housing costs to be reduced, thus improving the standard of living of low-income households and the in-work poor. Most Member States grant means-tested housing support to such households (Salvi del Pero *et al.* 2016).

Access to essential services is vital to ensure that people are fully integrated into society and the labour market. These are services in different sectors such as transport or energy. These services can be hard to afford, meaning that the state needs to step in to ensure their availability, quality and affordability (Baptista and Marlier 2020). Energy costs, for example, are significant cost items for low-income households. To address this issue, some Member States apply social tariffs. In Portugal, for example, a social tariff is paid by any energy consumer with an annual income below €5,808 – thus excluding consumers earning the minimum wage – while in Spain the *bono social eléctrico* applies to the most vulnerable consumers, helping to reduce their electricity bills by 25-40%.

Finally, transport support can be useful to improve the purchasing power of low-income workers, involving subsidies or reduced tariffs for specific groups (for example in Belgium and Bulgaria; Eurofound 2017).

2.2.3 Health care and long-term care

Financial difficulties frequently await people needing health care services that require the payment of proportionately high direct costs. Even low direct payments can result in financial problems for poorer individuals or households and for people having to pay for long-term treatment. A lack of financial protection may hamper access to health care, compromise health, aggravate poverty and exacerbate health and socio-economic inequalities. As all health systems require a certain level of direct payments, financial difficulties can potentially be a problem in any country (OECD 2018). Low-income households generally have universal access to health care but have to pay for certain services and medicines.¹⁷ In some countries, direct costs are low (e.g. Belgium, the United Kingdom, Sweden, Czechia) and set at the same level for all groups (e.g. Sweden).

17. For example, in Belgium, Denmark, Greece, Spain, Latvia, Portugal, Sweden, the United Kingdom and Czechia.

In other countries, particular groups are exempted (e.g. Spain, Latvia, Malta, Portugal)¹⁸ or are eligible for a reduction (e.g. Belgium, Denmark; Peña-Casas *et al.* 2019).

Despite cultural changes, new attitudes and progress in the division of care responsibilities, women still provide the bulk of long-term care (Spasova *et al.* 2018). Absence of long-term care support may make it less likely for women to have a job or be employed full-time, thus reducing family income and resulting in a higher risk of poverty.¹⁹ Some countries have implemented identified measures to tackle these situations, such as care allowances or paid care leave (for example, Finland and Czechia).

2.2.4 Training

To conclude this overview of policies, we very briefly describe training measures. Incentives are offered for individuals to take part in training aimed at improving skills and qualifications. They can therefore be an important way to enhance low-skilled people's access to decent, remunerated work, thus helping to reduce labour market segmentation as long as the most vulnerable groups are able to participate (Eurofound 2017). In some Member States, for example, workers even have a right to training (for example, in Belgium and Portugal).

2.3 Policies influencing in-work poverty: varied combinations in the Member States

Of the direct measures, income support measures, including the minimum wage, are most frequently mentioned by the national experts in the ESPN network as being used to tackle poverty in their countries (Table 1). Active labour market policies and policies to combat labour market segregation are referred to less often. No country has just one policy; rather, all systematically use a combination of policies. Increasing the minimum wage, although all the countries examined have done this, is not sufficient to protect low-income households against in-work poverty. Family benefits and appropriate tax provisions are also cornerstones of any strategy to tackle in-work poverty (Peña-Casas *et al.* 2019).

With regard to indirect measures, the ESPN study shows that Member States face two major challenges when addressing in-work poverty: availability and affordability of childcare, and access to housing. The table below presents the various direct and indirect policies followed and the countries using them, even if reducing in-work poverty is rarely their main objective.

18. In Spain, people at risk of poverty are entitled to free health services (medical consultations, treatment, hospital care). They need only contribute to the cost of pharmaceutical products – 40% for workers with an annual income below €18,000, and 50% for those with an annual income between €18,000 and €100,000.

19. In 2016, on average in the EU, 10.1% of women working part-time and aged between 50 and 64 (compared with 3.6% of men working part-time) explained that they work part-time in order to look after dependent children or disabled adults (Eurostat, Labour Force Survey, [lfsa_epgar]).

Table 1 Direct and indirect policies addressing in-work poverty in the EU in 2019

Member State	In-work poverty rate (2018)*	Policies directly influencing in-work poverty						Policies indirectly influencing in-work poverty					
		Minimum wages	Tax and social security contributions	In-work benefits	Family benefits	Guaranteed minimum income	Active labour market policies	Measures to tackle labour market segmentation	Childcare policies	Health care	Long term care	Housing, energy, transport	Training
BE	5.1	x	x	x			x	x	x			x	x
BG	10.1	x	x		x		x	x					x
CZ	3.5	x	x		x	x	x	x				x	x
DK	6.1	x	x				x						
DE	9.0	x	x		x	x	x	x				x	
EE	9.5	x	x			x	x	x					
IE	4.8	x	x	x	x			x	x			x	
EL	10.9	x	x		x		x	x				x	x
ES	13.0	x	x		x	x	x	x				x	
FR	7.1	x	x	x	x	x		x				x	
HR	5.2	x	x			x	x	x				x	x
IT	12.3	x	x		x	x		x					
CY	7.4	x	x		x	x		x	x			x	x
LV	8.2	x	x			x		x				x	x
LT	8.3	x	x		x	x		x				x	x
LU	13.5	x	x		x	x		x				x	x
HU	8.5	x	x			x		x				x	

Table 1 Direct and indirect policies addressing in-work poverty in the EU in 2019 (cont.)

Member State	In-work poverty rate (2018)*	Policies directly influencing in-work poverty							Policies indirectly influencing in-work poverty						
		Minimum wages	Tax and social security contributions	In-work benefits	Family benefits	Guaranteed minimum income	Active labour market policies	Measures to tackle labour market segmentation	Childcare policies	Health care	Long term care	Housing, energy, transport	Training		
MT	6.4	x		x		x		x				x			x
NL	6.1	x	x												
AT	8.0	x	x		x	x		x		x		x			x
PL	9.7	x	x		x	x		x		x		x			x
PT	9.6	x	x			x		x		x		x			x
RO	15.0	x	x		x	x				x				x	
SI	6.0	x	x		x	x		x		x		x			x
SK	6.0	x	x		x	x				x				x	
FI	3.1	x	x		x	x						x			x
SE	7.1	x	x		x	x				x					x
UK	10.4	x	x		x	x		x		x		x			x
Total		28	27	8	17	22	19	15	27	14	9	20		15	

Notes: * In-work poverty rate 2018, EU-SILC survey [lic_ iw01]. This table is not exhaustive and does not rule out the use of other policies. The national ESPN experts have chosen to highlight particular policies implemented in their respective countries, given the specific situations therein.

Source: own elaboration, based on Peña-Casas *et al.* 2019.

Conclusions

In-work poverty is an oxymoron in the economic and social development model promoted by the EU and implemented by Member States. It should not exist at all, or at most only marginally. It is not only unacceptable in itself but also harmful for poorer workers and their households, as well as damaging for the economy and society as a whole. Given its scale in EU countries and its persistence and even increase over the last decade, in-work poverty is a worrying issue and a significant challenge for the future, especially since the unprecedented crisis linked to the Covid-19 pandemic is more than likely to significantly increase poverty in general, and in-work poverty in particular, in the coming years. This crisis has rapidly become a large-scale economic crisis, the impacts of which are set to persist for the economy, for workers and for citizens in general. European economies have been hit by a pronounced recession in 2020, and a return to normal seems far off. Millions of workers have lost their jobs, temporarily or permanently.²⁰ Whole sectors of the economy are currently operating at half-throttle or even in stop mode. Several of these (retail, hospitality, tourism, personal services, art and entertainment, etc.) employ large numbers of poorly or averagely skilled, low-paid workers. These workers' future is uncertain in the short and medium term and will depend on, among other things, the duration and future of state temporary assistance schemes set up to counter the socio-economic consequences of the Covid-19 pandemic, as well as the restructurings and closures generated by this crisis (European Commission 2020c; Eurofound 2020a, 2020b).

On its own, the establishment of a European framework favouring an increase in minimum wages to a level allowing for a decent standard of living can only partially help reduce in-work poverty. Approximately a quarter of people living in poor households are salaried workers, and only a fraction of these are being paid the statutory minimum wage (when one exists). Nevertheless, fair and decent minimum wages are vital to ensure fairer wage distribution and to guarantee a wage floor protecting individuals earning this amount from poverty, at least if they are supporting themselves alone. Minimum wages are thus a necessary safeguard, though insufficient to alone prevent in-work poverty.

A heterogeneous group, the in-work poor, cannot all be reached by one sole targeted policy. The number and variety of policies already implemented in Member States with a direct or indirect influence on in-work poverty show that there is no simple solution: a holistic approach is vital, with a diverse set of policies combined to form an integrated vision of how to tackle in-work poverty. There is not only a need to maintain and boost the existing earnings of the in-work poor and to improve job quality, but also a need to increase the work intensity of individuals and households, facilitating the access to

20. More than a quarter of European workers, i.e. over 42 million people, have temporarily lost their jobs and part of their earnings due to the widespread implementation of protective temporary measures such as short-time work or similar measures (Müller and Schulten 2020b). According to Eurofound's recent 'Living, Working and Covid-19' survey, 29% of the people questioned had lost their job or contract, temporarily or permanently, due to the pandemic (Eurofound 2020b). And this is only part way through a crisis which may well last a long time. As it is, these figures only partially take account of future job losses due to redundancies and closures and the planned end of temporary support measures.

work of all adult members of such households. Social protection schemes making up for lost or absent earnings are playing a vital role and should be extended over the long term. These arrangements should be upheld not only as social shock absorbers in times of crisis but also as an essential contribution to the well-being of all European citizens, irrespective of their employment status. As such, they need to be continued and improved. In this respect, the European Commission must make determined headway on the proposal for a European framework for the setting and adequacy of guaranteed minimum income systems. Long announced, the proposal has been under discussion for several years now (European Anti-Poverty Network 2020; Peña-Casas and Bouget 2014). At this stage, we can only hope that the creation of a European minimum wage framework can help free up this issue which is just as essential.

With the introduction of a proposal for a directive that is both binding and flexible enough to take account of the specific features of the social dialogue while strengthening it, and by focusing its work programme on the effective implementation of the social rights included in the EPSR, the Commission is on the right track. And it is to be welcomed that this objective was recently strongly reaffirmed by the German Chancellor on behalf of the trio of EU presidencies (Merkel 2020). It remains to be seen what will remain of the Commission's proposal for a directive after it has passed under the caudal forks of the European Parliament and the Council.

But this effective implementation of social rights should also be fully reflected in the European Semester so that purely economic objectives are not the main driving force behind the structural reforms advocated to European countries, as has been the case so far with wage moderation, for example. The European Semester and the Social Scoreboard will have a role to play in the effective implementation of social rights. With regard to minimum wages, both the provisions of the (proposed) directive and the guidance and the monitoring framework of the European Semester should make it possible to better follow the progress made both in terms of wage catch-up and the coverage of the social partners. As a positive sign, the last cycle of the European Semester contains more recommendations to countries on social issues (Rainone 2020).

Vital cross-cutting issues such as ending social inequalities, poverty in general, in-work poverty and job quality should be better highlighted as political objectives by the EU and its Member States. Many observers emphasise the need for the European development model to be updated – as already highlighted during the previous economic crises. Given the extent of the Covid-19 crisis, but also the scale of the social and environmental challenges facing us, a return to 'normal' seems difficult to envisage in the short or medium term.

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