The cost of poverty

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THE COST OF POVERTY

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Abstract

Many of the people of working age at risk of poverty in the EU are not in employment. This Research Note, first, examines the extent to which their income would rise above the at-risk-of-poverty threshold if they were in paid work and, secondly, the gain to public finances as a result of the reduction in social expenditure on transfers and increased taxes that this would give rise to. The focus is on those aged 20-59 and it considers men and women who are economically inactive as well as those recorded as being unemployed, in the sense of both being available for work and actively looking for work, distinguishing those who for the most part are likely to be capable of working and willing to do if jobs were available from those who are not. It covers the potential take-up of part-time jobs as well as full-time and assesses the extent to which men and women working part-time would, nevertheless, gain sufficient earnings to raise their income above the at-risk-of-poverty line. In estimating the gain to public finances, it takes account of the fact that many of those out of work are not in receipt of benefits, or if they are, of relatively low ones, as well as of the likelihood that their potential earnings from employment are likely to be less than the average of those at present in work. It stops short, however, of considering how the jobs required to employ the men and women concerned could be created.

Introduction

In addition to the human cost, a substantial burden falls on government budgets as a result of the high level of unemployment which prevails across the EU at present and of the social transfers which are provided to support the income of the people concerned. Despite the support provided, however, the income of many of the unemployed falls below the at-risk-of-poverty threshold even after transfers. Nevertheless, the amount of social expenditure concerned which could potentially be put to more effective use if unemployment could be reduced is considerable. Equally, a large proportion of the people out of work are not unemployed as such, in the sense of actively looking for work, but are economically inactive. A significant number of these have low levels of income and many of them are also in receipt of social transfers as a result, though again these are often not enough to prevent their income from falling below the risk-of-poverty threshold.

The main concern here, in addition to examining the characteristics and household circumstances of those of working age at risk of poverty, is twofold. It is, first, to examine those out of work with income below the at-risk-of-poverty threshold in order to assess how many of them would see their income rise above the threshold if they were able to find employment, taking account of their age, sex and education level, as well as the extent to which they live alone or share a household – and income – with other people out of work or only partly employed. Secondly, it is to estimate the reduction in social transfers which would result if this were to happen. This, of course, is only a hypothetical exercise and leaves out of account, in particular, the critical question of how to create the jobs required to make it possible. It, nevertheless, highlights the reduction in the risk of poverty which would result if those out of work were in employment as well as the saving in social expenditure which could be achieved as a consequence.

In what follows, the extent to which the unemployed across the EU are at risk of poverty, in the sense of having (equivalised) income below 60% of the median in the country in which they live is examined first, followed by consideration of the breakdown of those at risk of poverty by their employment status, or more precisely by the employment status of members of the household in which they live. Since the income is measured on a household basis, therefore, the analysis needs to be conducted at a household level to determine the effect on income from those out of work being employed instead. The same applies to benefits.

The next step is to estimate the earnings potential of those out of work with income below the at-risk-of-poverty threshold in order to determine the number whose income would be raised above the threshold if they were employed. This indicates the importance of the people concerned being able to find a full-time job rather than a part-time one, which an increasing number of those moving into work, men as well as women, have been taking up during since the onset of the economic and financial crisis in 2008. Even moving into a full-time job, however, does not necessarily ensure that people escape from the risk of poverty, especially in some countries. The final step is to assess the savings in social expenditure as a result of no longer having to support the incomes of those out of work. This varies markedly across countries as a consequence not only of the numbers involved but also the levels of benefit paid to them, which depends in turn both on the scale of expenditure on social security and its distribution across income groups. More specifically in this particular case, it depends on the degree of redistribution built into the social security system, or the extent to which income is transferred from those above the at-risk-of-poverty threshold to those below and out of work.

The focus throughout is on those aged 20-59 in order to exclude those younger than this who for the most part are in education or training – or who ought to be in many

cases if they are unemployed – and those older than this who in many cases will be in retirement if they are not employed.

Risk of poverty of those out of work

The proportion of those aged 20-59 with income below the at-risk-of-poverty threshold in 2010 varied from just over 21% in Romania and slightly over 20% in Spain, Latvia and Lithuania to 10-11% in Austria, the Netherlands and Cyprus and only 9% in the Czech Republic. The figure in most countries rose between 2009 and 2010 (Table 1).

Table 1 Proportion (%) of those aged 20-59 unemployed and at risk of poverty and their average income relative to the poverty threshold, 2009 and 2010

	% total age group at risk of poverty		% of unemployed at risk of poverty		Average ratio of income relative to 60% of median	
	2009	2010	2009	2010	2009	2010
Germany	15.3	15.4	59.5	58.9	71.8	74.2
Lithuania	21.8	20.1	50.7	47.7	56.7	58.7
Bulgaria	15.2	17.7	43.9	47.6	61.1	58.4
Latvia	19.8	20.3	42.1	45.8	57.0	60.2
`UK	14.5	13.6	53.9	45.5	69.3	71.6
Estonia	15.3	18.3	37.7	42.8	63.1	61.0
Italy	17.0	18.8	40.7	42.7	60.5	60.1
Romania	19.2	21.4	40.0	42.5	58.2	58.3
Malta	12.4	12.9	37.2	40.9	69.4	69.9
Luxembourg	14.2	13.3	38.7	39.6	77.4	71.5
Greece	18.6	19.7	31.4	39.4	69.6	63.7
Hungary	12.1	13.7	36.9	39.3	76.7	75.4
Slovenia	10.6	11.4	35.8	39.0	71.6	68.7
Croatia		18.4		38.8		62.2
Belgium	11.8	12.7	31.1	37.9	77.2	77.5
Poland	17.2	17.0	40.0	37.4	70.8	68.3
Slovakia	11.3	12.6	36.3	37.3	62.6	62.8
Czech Rep	8.0	9.1	32.8	37.0	68.8	68.5
Spain	19.2	20.4	34.1	36.6	62.7	62.7
Sweden	11.8	12.6	34.4	36.3	70.1	74.2
Finland	12.3	12.8	31.8	33.0	77.9	77.8
Austria	10.6	10.9	32.2	32.8	74.2	70.8
France	12.4	13.3	28.8	32.1	75.6	78.2
Portugal	15.4	15.6	33.0	31.3	66.2	69.3
Netherlands	9.9	10.6	28.3	30.3	85.2	83.8
Cyprus	10.5	10.5	25.8	27.7	74.4	73.6
Denmark	13.3	13.6	34.3	26.2	76.7	71.9
Ireland	13.7		23.0		79.6	
EU13	15.7	16.7	39.5	40.2	66.6	65.2
EU15	15.0	15.6	39.3	40.9	69.1	69.5
EU28	15.1	15.8	39.4	40.7	68.6	68.5

Note: No data for Ireland for 2010; no data for Croatia for 2009.

Source: Own calculation based on EU-SILC data.

Not having a job is a prime reason for having income below the at-risk-of-poverty threshold in most EU countries[1]. On average in the EU, just over 40% of those aged 20-59 who were for the most part unemployed during 2010 had income below this level, and much the same proportion in the EU13 countries as in the EU15. In 5 countries, the proportion was over 45% and only in three countries (Cyprus, Denmark and probably Ireland) was it less than 30% (the unemployed in Table 1 being defined as those who spent more months unemployed than employed or inactive). The figure, as for the overall risk for the age group, rose in most countries between 2009 and 2010 as the effects of the recession spread and as spells of unemployment lengthened because of the shortage of jobs for people to move into.

For most of the unemployed concerned, their income was some way below the at-risk-of-poverty threshold rather than only slightly below. On average, it amounted to only around 69% of the threshold in 2010 and tended to be lower (65% on average) in the EU13 than in the EU15. In Italy, Greece and Spain, however, it was more similar to the level in the EU13, at less than 65% of the threshold, while in Bulgaria, Lithuania and Romania, it was less than 60% of the threshold On the other hand, the income of the group in question averaged over 75% of the threshold in Finland, Belgium and France as well as Hungary, and over 80% in the Netherlands.

In the majority of countries, in both the EU15 and EU13, the average income of the unemployed at risk of poverty was much the same in 2009 as in 2010.

Those who are out of work but not actively looking for work and so who do not regard themselves as unemployed – i.e. the economically inactive – are generally less likely to have income below the at-risk-of-poverty threshold than the unemployed since they are more likely to share a household with someone in work. Nevertheless, 27% of those who were mainly inactive during 2010 were at risk of poverty in the EU (Table2).

In this case, the proportion at risk was significantly smaller in the EU13 than in the EU15 (7 of the 9 countries in which the proportion was lowest are in the EU13), to some extent reflecting the relatively few of the inactive in the former who do not live in a household with someone, or more than one person, in employment, partly because of the lack of income support if they do not. The availability of such support (even if at a relatively low level in some cases) in some degree explains the relatively large number of the inactive who have income below the at-risk-of-poverty threshold in Denmark and Sweden – in the first of which, the proportion is larger than in the case of the unemployed.

The average income of the inactive at risk of poverty was very similar to that of the unemployed at risk, at just under 70% of the threshold, though there was less of a difference in the level between countries. There was, therefore, no country where the average was below 60% of the threshold and only two (Bulgaria and Latvia) where it was below 64%. On the other hand, though there was no country where the proportion was over 80%, there were 8 countries, where it was over 75% and four, Hungary, Malta, Luxembourg and Finland, where it was 77-78%.

[1] See, for example, M. Matsaganis, E. Ozdemir and T. Ward, 'The coverage rate of social benefits', Social Situation Monitor, Research Note 9/2013

Table 2 Proportion (%) of those aged 20-59 inactive and at risk of poverty and their average income relative to the poverty threshold, 2009 and 2010

	% of inactive at risk of poverty		Average ratio of income relative to 60% of median	
	2009	2010	2009	2010
Denmark	33.2	38.0	64.9	64.2
Sweden	33.2	34.4	71.5	72.7
Estonia	27.3	30.5	67.1	65.7
Spain	27.2	30.1	63.0	64.5
Finland	29.0	29.9	76.6	77.1
UK	35.4	29.3	74.5	72.4
Italy	27.3	28.2	66.8	63.2
France	28.0	27.3	69.3	72.7
Germany	26.2	27.1	72.8	72.4
Latvia	27.5	27.1	61.7	64.1
Lithuania	33.0	27.0	60.8	68.6
Belgium	25.0	26.8	72.7	72.8
Romania	23.1	26.7	65.3	64.2
Greece	26.3	26.6	72.0	67.2
Portugal	26.5	26.2	69.3	70.0
Bulgaria	21.9	25.4	63.9	61.0
Croatia		25.3		68.4
Netherlands	22.7	25.2	71.7	71.7
Poland	23.7	24.6	72.0	72.8
Malta	21.9	21.6	75.5	77.6
Austria	20.5	21.6	75.6	75.1
Hungary	17.7	20.4	79.9	77.6
Luxembourg	20.2	18.7	76.7	77.2
Slovakia	14.8	17.1	72.3	72.9
Slovenia	15.8	16.0	75.3	76.1
Cyprus	17.8	14.6	77.0	76.3
Czech Republic	11.6	12.5	75.1	75.1
Ireland	25.2		77.8	
EU13	21.4	23.2	70.1	69.8
EU15	27.9	28.1	70.2	69.4
EU28	26.3	26.9	70.2	69.5

Source: Own calculation based on EU-SILC data.

The household circumstances of those at risk of poverty and out of work

Most of those out of work in the EU with income below the at-risk-of-poverty threshold lived in households where either no-one was in employment during the year or which had very low work intensity (i.e. someone was employed but worked only very short hours or only for a small part of the year. In the EU15, therefore, some 65% of those aged 20-59 unemployed for most of the year (or more precisely who spent more months unemployed than employed or inactive) who were at risk of poverty fell into this category in 2010, while only 13% lived in households where work intensity was 0.5 or higher (i.e. with someone in full-time work) (Table 3). In the EU13, the proportion living in zero or very low work intensity households was much smaller (51%) on average and more people shared households with someone in full-time work (19%).

There was large variation in the distribution of the unemployed at risk of poverty between households with different levels of work intensity, however, in both country

groups. In Ireland, Belgium, Germany and the Netherlands, 80% or more of the people concerned lived in zero or very low work intensity households, while in Portugal and Luxembourg, the proportion was less than half. Similarly in the EU13, in Malta and Croatia, around 70% lived in zero or very low work intensity households as against less than 40% in Poland and Cyprus, with well over a quarter in the former and a third in the latter sharing a household with someone in full-time employment.

The situation in respect of the economically inactive with income below the at-risk-of-poverty threshold is similar. In the EU15, some 61% lived in households with no-one in work or someone working relatively little as opposed to 51% in the EU13 (Table 3). The proportion was over 80% in Ireland and Denmark and only slightly below 80% in Belgium, while in Spain, Italy, Portugal and Luxembourg, it was less than half, as it was in Poland and Romania. In all of these 6 countries, over a quarter of the inactive shared households with someone in full-time employment.

Table 3 Division of those aged 20-59 unemployed and inactive during the year and at risk of poverty by household work intensity in 2010 (%s)

	Unemployed					Inactive				
	Zero	<0.2	0.2-0.49	0.5	>0.5	Zero	<0.2	0.2-0.49	0.5	>0.5
IE	77.0	9.9	8.1	2.1	2.9	78.7	4.9	5.7	2.5	8.3
BE	75.6	8.3	11.2	3.4	1.6	68.9	10.5	11.1	5.4	4.1
DE	70.6	8.9	12.7	3.5	4.3	65.0	8.1	12.5	9.8	4.5
MT	65.3	7.2	24.9	0.5	2.1	46.6	3.9	26.6	14.5	8.4
NL	64.6	20.3	11.6	1.4	2.0	69.5	3.9	13.3	9.0	4.3
DK	60.7	9.4	7.6	10.9	11.4	81.0	3.5	8.7	4.1	2.7
HR	59.2	10.4	21.2	5.7	3.4	65.7	6.8	20.1	5.0	2.4
UK	54.8	10.0	21.7	1.8	11.7	60.7	7.0	16.4	6.1	9.8
FI	53.1	19.9	18.1	2.9	6.0	45.4	16.9	27.1	4.2	6.5
RO	52.1	10.6	23.2	7.0	7.1	37.0	5.8	25.8	13.1	18.2
SE	49.3	18.0	16.4	4.7	11.5	51.4	19.6	16.1	6.1	6.8
SK	47.9	9.8	26.5	7.3	8.5	41.1	8.7	29.7	4.0	16.5
LT	47.9	11.1	26.7	6.5	7.8	50.9	3.8	21.4	18.5	5.4
AT	47.4	10.6	28.6	4.5	8.9	53.8	11.9	17.6	6.4	10.3
SI	47.3	7.3	21.0	10.4	14.0	62.8	5.1	15.8	6.0	10.4
CZ	45.8	9.1	23.5	12.0	9.6	51.3	5.4	23.2	7.2	12.9
ES	45.1	17.7	24.7	4.8	7.6	39.2	7.5	25.8	8.8	18.7
EL	43.9	9.8	26.4	6.6	13.4	49.6	5.6	21.5	9.9	13.4
LV	41.8	11.9	29.0	10.2	7.0	52.7	11.2	23.5	8.7	4.0
EE	41.2	12.6	30.9	6.6	8.7	58.1	10.0	19.5	6.8	5.6
PT	41.0	8.5	25.4	9.3	15.8	40.9	3.8	27.9	12.6	14.9
FR	40.8	14.9	27.6	4.6	12.1	53.6	9.2	21.2	9.2	6.8
IT	40.6	11.5	32.5	6.9	8.5	42.3	5.5	27.0	12.6	12.6
BG	35.7	17.5	32.0	6.4	8.4	41.3	15.8	27.9	7.7	7.3
HU	31.8	20.6	34.4	6.2	7.0	43.5	16.7	27.6	7.4	4.7
PL	26.2	11.3	34.2	10.3	17.9	42.3	7.4	25.0	12.3	12.9
LU	24.3	9.3	34.1	13.2	19.0	31.6	10.1	26.8	21.4	10.1
CY	21.0	6.2	39.4	8.3	25.2	43.3	7.4	24.4	16.3	8.6
EU12	38.6	12.7	29.6	8.3	10.7	43.3	8.2	25.2	10.9	12.4
EU15	52.1	12.5	22.5	4.7	8.2	53.6	7.6	19.9	9.1	9.8
EU28	49.0	12.6	24.2	5.5	8.8	51.5	7.7	21.0	9.5	10.4

Note: Figures for IE relate to 2009.

Source: Own calculation based on EU-SILC data.

In many Member States, therefore, the low income of both the unemployed and the economically inactive is linked to the lack of earnings from employment coming into the household from other members, to a large extent because the people concerned live alone. In many other Member States, however, a significant proportion of those out of work share households with people in full-time employment, though the income they bring in, combined with any benefits that are received, is not enough to prevent them being at risk of poverty.

Division of those at risk of poverty by employment status

In order to go further, it is necessary – and informative – to break down those aged 20-59 at risk of poverty by their employment status as well as that of the other people in the household in which they live, if there are any. In 2010, around 18% of the people concerned in the EU15 were unemployed and either living alone (12%) or with someone else unemployed (6%, while another 10% shared a household with someone, or others, who were economically inactive (Table 4).

A further 19% lived in households where all members were inactive, mostly because they were in full-time education or training, which means that almost half (47%) were in households with no-one in work. This contrasts with the situation in the EU13 where only 36% were in households in which no-one was employed, reflecting again the difficulty in most of the countries of someone not being in paid employment being able to live alone as well as the fact that for many earnings from employment are not sufficient to prevent income from falling below the at-risk-of-poverty threshold.

The proportion living in households with no-one in work was equally small in each of the four southern EU15 Member States, falling to only 33% in both Greece and Italy and to just 27% in Portugal, where in each case, over half of the people at risk of poverty lived in households where someone was employed and someone was out of work, either unemployed or inactive. In many cases, these were 'single-bread-winner' households where typically the man was working and his wife was economically inactive. This was even more so in Malta – where participation of women in the work force is the by far the lowest in the EU – and Romania. In these countries, therefore, the earnings of one person is not enough to raise household income above the at-risk-of-poverty threshold.

In Romania too, a larger proportion of people than elsewhere with income this low lived in households where everyone was employed and no-one was out-of-work, over a third of the total, although most of those concerned are self-employed, many of them subsistence farmers with little monetary income. The proportion at risk of poverty living in households with no-one out of work was also relatively large in Sweden, Denmark, Luxembourg and the Netherlands, but in these cases, though less so in the last, most of them were in paid employment, many of them working full-time rather than part-time. This was the case as well in the UK and Germany, where the proportion in households with no-one in work was only slightly less than a quarter. In these countries, therefore, for a significant number of those of working age with income below the at-risk-of-poverty threshold, low earnings from employment seem to be a primary cause rather than people being unemployed or inactive.

The focus here, however, is on the other people, those in households where at least one person was out of work. In all countries, apart from Romania, these made up around three-quarters or more of the total of those aged 20-59 at risk of poverty and in the majority of countries (15 of the 28), over 85% of the total – in three (Croatia, Bulgaria and Malta), 95% or more.

Table 4 Division of those aged 20-59 at risk of poverty by employment status of household members, 2010 (%)

	Unempl only	Unempl+ inactive	Inactive only	**Total no-one in work**	Unempl with empl	Inactive with empl	With full-time empl	Part-time only	With self-empl	**Total all empl**
FI	25.6	10.5	41.0	**77.1**	4.6	9.3	1.0	1.7	6.3	**9.0**
BE	23.8	19.8	28.4	**72.1**	2.9	12.9	2.3	4.1	5.6	**12.1**
DK	12.0	2.1	54.5	**68.6**	3.1	1.8	14.3	3.4	8.8	**26.5**
IE	15.1	15.7	37.5	**68.2**	6.9	13.3	1.3	1.6	8.7	**11.6**
HR	20.6	26.0	12.7	**59.3**	28.6	9.9	1.0	0.0	1.2	**2.2**
AT	22.6	12.3	23.7	**58.6**	7.2	18.5	4.0	4.1	7.6	**15.8**
HU	18.8	26.7	12.8	**58.4**	18.7	15.5	3.8	0.7	2.9	**7.4**
DE	28.9	5.9	23.0	**57.8**	6.7	12.7	11.3	7.1	4.4	**22.8**
NL	16.9	4.9	35.2	**57.1**	3.0	13.4	7.2	7.1	12.2	**26.4**
SE	11.4	5.0	37.7	**54.1**	5.5	10.0	12.5	9.5	8.5	**30.4**
EE	20.0	12.6	21.3	**53.9**	21.3	13.7	3.9	1.3	5.9	**11.1**
FR	18.6	10.7	21.8	**51.1**	12.1	15.7	5.8	6.0	9.4	**21.2**
LV	27.9	14.6	8.0	**50.4**	28.2	10.5	5.2	1.4	4.4	**10.9**
CZ	22.7	13.8	13.7	**50.2**	22.9	15.6	3.7	0.5	7.1	**11.3**
LT	31.3	8.1	7.9	**47.3**	23.1	16.9	8.6	0.4	3.6	**12.7**
SI	23.1	8.9	14.8	**46.8**	24.1	12.9	4.9	0.7	10.6	**16.3**
UK	10.4	7.2	27.4	**45.0**	11.3	20.3	8.0	6.7	8.7	**23.4**
BG	17.7	21.1	6.0	**44.8**	36.4	13.4	4.2	0.3	0.9	**5.4**
SK	19.5	15.5	7.8	**42.7**	33.3	13.7	2.8	0.7	6.8	**10.3**
MT	8.2	13.7	20.0	**41.9**	5.0	48.4	1.7	0.2	2.7	**4.7**
CY	15.5	11.8	12.5	**39.7**	24.7	20.3	9.2	2.5	3.6	**15.3**
ES	18.6	12.8	5.8	**37.3**	23.9	22.3	2.5	1.4	12.7	**16.6**
PL	10.1	11.0	15.4	**36.6**	23.9	24.8	2.5	0.8	11.4	**14.7**
LU	12.5	9.8	11.5	**33.8**	14.8	25.2	18.1	4.5	3.6	**26.2**
EL	12.1	13.2	8.0	**33.3**	28.3	27.8	1.7	1.5	7.4	**10.6**
IT	9.9	13.3	9.8	**33.0**	23.5	28.8	5.1	3.4	6.3	**14.7**
PT	9.9	10.3	6.5	**26.8**	30.2	25.0	5.1	0.8	12.1	**18.0**
RO	1.6	6.0	6.3	**13.9**	13.1	39.1	1.6	0.1	32.2	**34.0**
EU12	12.3	12.6	11.0	**35.9**	21.8	24.6	2.9	0.5	14.2	**17.7**
EU15	17.9	9.8	19.3	**47.0**	14.4	19.0	6.7	4.8	8.0	**19.5**
EU28	16.8	10.4	17.7	**44.9**	15.9	20.1	6.0	4.0	9.2	**19.2**

Note: The last 4 columns relate to households with all members in work and no-one unemployed or inactive, respectively, households with at least one person in full-time employment throughout the year, all members in part-time employment and with at least one person self-employed (households with self-employed are excluded from the previous two columns

Source: Own calculations of EU-SILC microdata

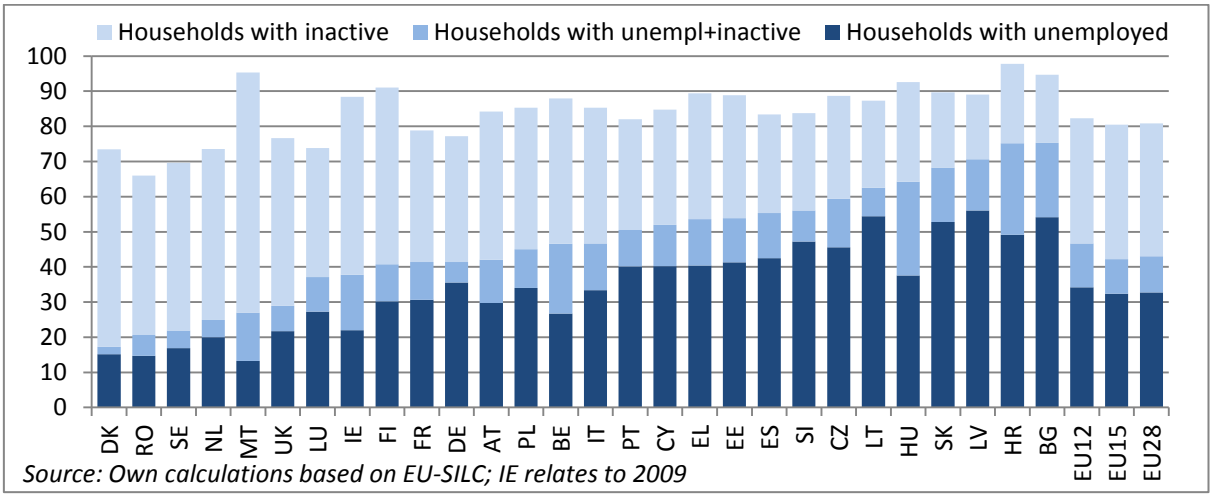
Households with someone unemployed

The majority of people in this age group at risk of poverty who do not live in households where everyone is in work are in households where someone is unemployed. In the EU as whole in 2010, around a third lived in households where at least one person was unemployed, often themselves, and no-one was inactive, while another 10% lived in households where someone was unemployed and someone else – in some cases more than one person – was inactive (Figure 1).

In 7 countries, all of them in the EU13, 60% or more of those at risk of poverty lived in households where one person or more was unemployed, in three of these, Latvia,

Croatia and Bulgaria, over 70%. In another 6 countries, Spain, Greece and Portugal plus three other EU13 countries, the proportion was over half. In these countries, especially, therefore, getting the unemployed into work could have a major effect on the number of people at risk of poverty. By contrast, in 6 countries, the UK, Malta, the Netherlands, Sweden, Romania and Denmark, less than 30% of those at risk of poverty were unemployed or shared households with someone unemployed, in Denmark, less than 20%. Accordingly, in these countries, reducing or even eliminating unemployment can have only a limited effect on reducing the at-risk-of-poverty rate for this age group and it is more important to focus attention on the economically inactive (though see below on this), as well as, in all but Malta, on those in work with low earnings – and the self-employed in the case of Romania.

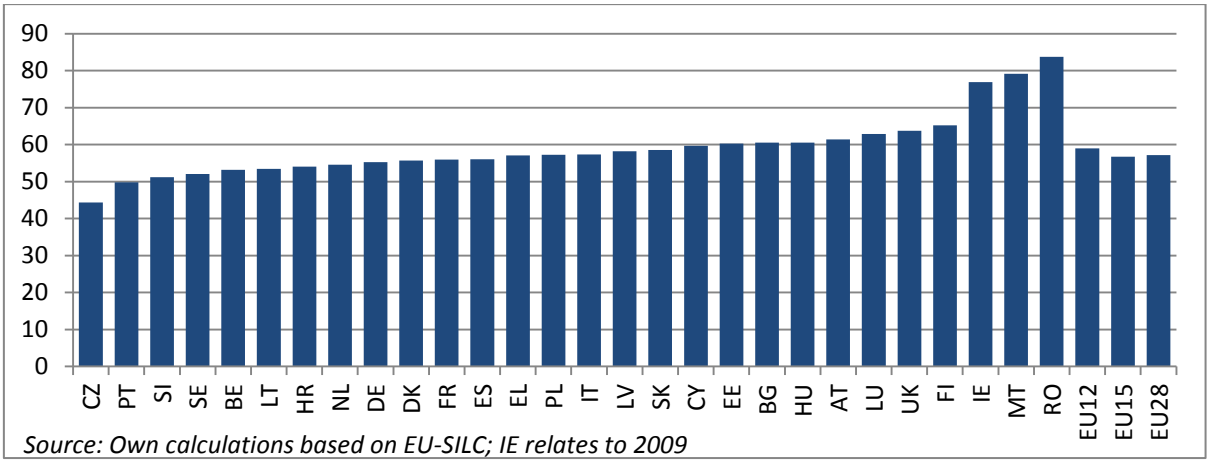
Figure 1 Proportion (%) of those aged 20-59 living in households where there is someone unemployed or inactive, 2010



Source: Own calculations based on EU-SILC; IE relates to 2009

The majority of the unemployed concerned are men rather than women, around 57% of the total in the EU as a whole and over 60% in 10 Member States, with Ireland, Malta and Romania having figures of around 80%, reflecting in the first the disproportionate effect of the crisis on jobs typically filled by men and in the second, and to a lesser extent the third, the relatively small proportion of women who are economically inactive (Figure 2). Only in two countries, the Czech Republic and Portugal was the proportion of men less than 50% in 2010 and only in another 6, less than 55%.

Figure 2 Men as a proportion (%) of the unemployed aged 20-59 at risk of poverty, 2010

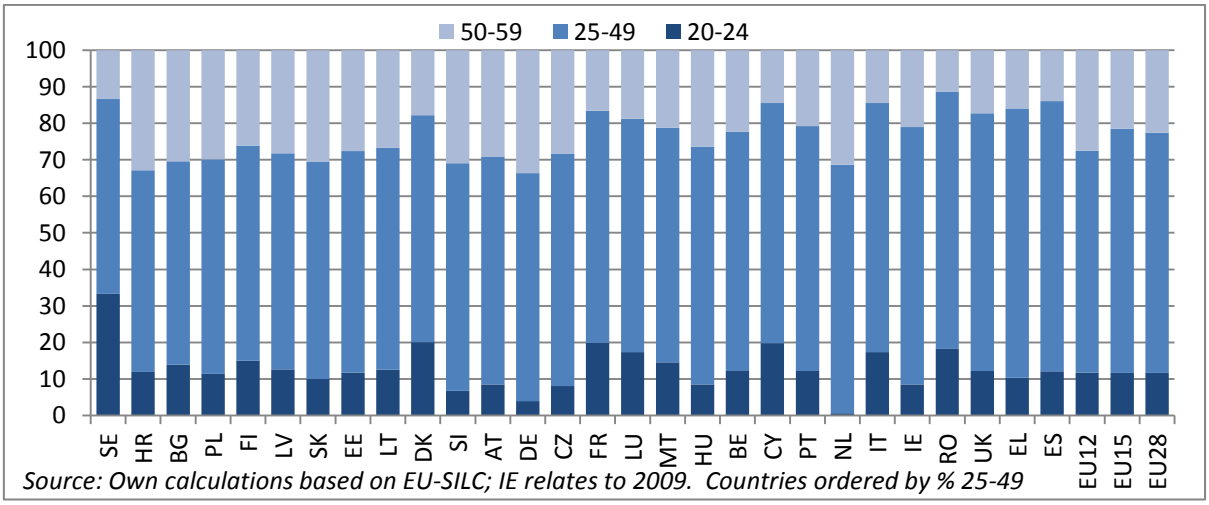


Source: Own calculations based on EU-SILC; IE relates to 2009

The unemployed concerned are also for the most part in the age group 25-49, around two-thirds on average in the EU in 2010 and less than 60% only in 7 countries (Figure 3).

Young people aged 20-24 make up only 12% of the overall number, though for as much as a third in Sweden, far more than in other country, the proportion being around 20% in Denmark, France and Cyprus but less than this in all other countries. Older people account for a larger share, 23% in the EU as a whole, but for a third in Germany and just under a third in the Netherlands and Austria, as well as in 5 EU13 countries – Croatia, Bulgaria, Poland, Slovakia and Slovenia – with the proportion being well over a quarter in all the other apart from Malta, Cyprus and Romania.

Figure 3 Distribution of the unemployed aged 20-59 at risk of poverty by broad age group, 2010 (% of total)

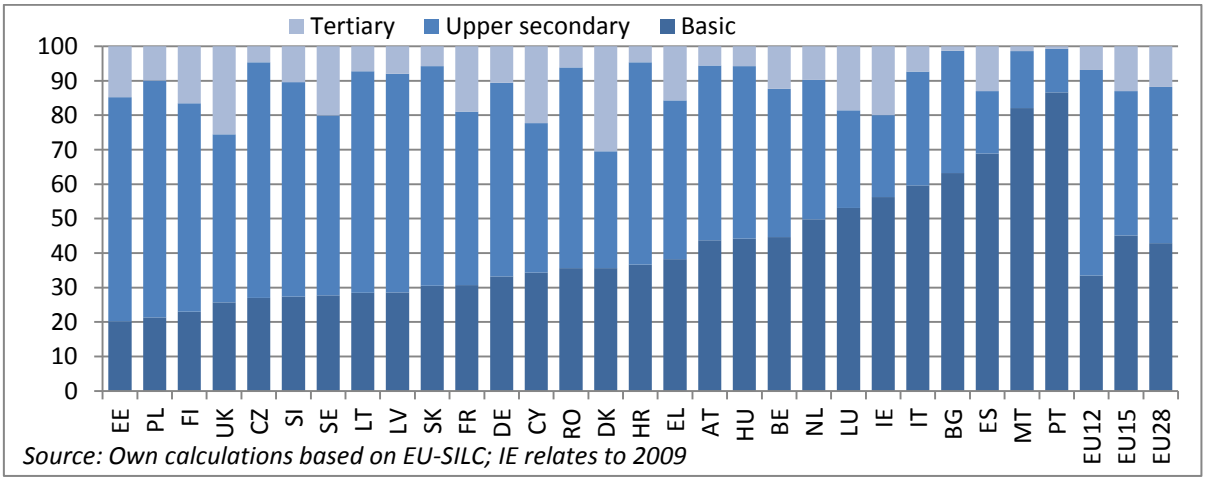


Source: Own calculations based on EU-SILC; IE relates to 2009. Countries ordered by % 25-49

A disproportionate number of the unemployed – as compared with those in employment – have a relatively low level of education. In 2010, 45% of those aged 25-49 (to exclude those of 20-24, many of whom were still in education or training) had at most only compulsory schooling and only 13% had tertiary education (Figure 4). The former figure is much less in the EU13, where a larger proportion of working-age population than in the EU15 have at least upper secondary education (mostly from having studied in a vocational college), but still around a third. The proportion with tertiary qualification, however, is also smaller, at only 7% and less than 5% in the Czech Republic, Croatia, Bulgaria and Malta, which is also the case in Portugal,

where the figure was less than 1% in 2010. By the same token, over 85% of the unemployed in the last and over 80% in Malta had only basic schooling, while the figure was 60% or more in Spain, Bulgaria and Italy. The earnings potential of the unemployed in these 5 countries, therefore, is likely to be particularly low.

Figure 4 Distribution of the unemployed aged 25-59 at risk of poverty by education attainment level, 2010 (% of total)



Source: Own calculations based on EU-SILC; IE relates to 2009

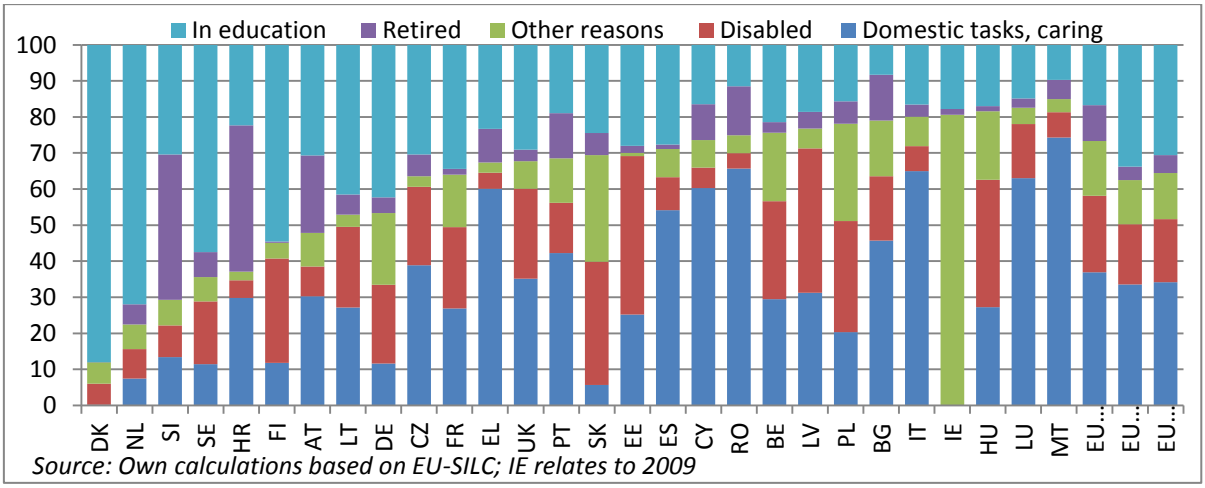
Households with people economically inactive

Unlike the unemployed, it cannot necessarily be assumed that the people in the age group at risk of poverty who are economically inactive are available to take up employment, or in some cases, capable of working. Much depends on the reasons why they are neither employed nor actively looking for a job. In 2010, just over a third of those aged 20-59 in the EU who spent more months in inactivity than being employed or unemployed reported that they were caring or undertaking domestic tasks, 18% reported being sick or having disabilities, another 12% gave unspecified reasons for not working, some 5% were already in retirement and the remaining 31% were in education or training (Figure 5).

These figures, however, vary widely across the EU. In Malta, around 75% of the inactive concerned reported caring or domestic responsibilities as the main reason for not working, in Romania and Italy, around 65% and in Luxembourg, Cyprus and Greece, over 60%. By contrast, no-one gave this as the main reason in Denmark or Ireland (though in the latter this may because most respondents failed to give a specific reason for their inactivity) and less than 10% in both the Netherlands and Slovakia. It can be assumed that most of the people concerned, especially in the countries where the proportion is relatively large, would be able, and perhaps in most cases willing, to work if suitable care provision were available and, of course, jobs were available, though it might still require a change in attitudes across society for this to happen.

The proportion not working because of disability also differed substantially from 40% or more in Estonia and Latvia and around 35% in Slovakia and Hungary to only 5-6% in Denmark, Croatia, Cyprus and Belgium. It is hard to believe that this reflects actual differences in the prevalence of disability or long-term illness across countries rather than the possibilities open to those with disabilities to take up paid employment. Again with suitable arrangements, it seems plausible to assume that many of the people concerned would be able to take up employment if jobs were available.

Figure 5 Distribution of those aged 20-59 economically inactive and at risk of poverty by reason, 2010 (% total of total)



Source: Own calculations based on EU-SILC; IE relates to 2009

The variation in the relative number of people reporting non-specific reasons for their economic inactivity is narrower, if Ireland is excluded, and most of these can also be assumed to be capable of working if there were jobs for them to take up, especially as many may have stopped actively looking for work because they believed no jobs were available.

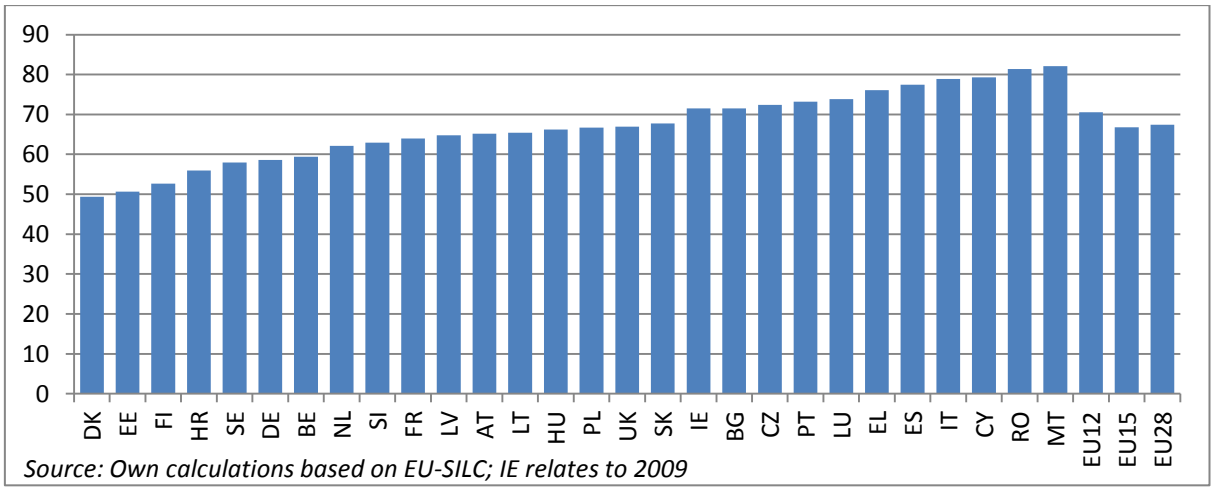
The proportion in retirement among those aged 20-59 was relatively small in most countries, as would be expected, though it was over 40% in both Slovenia and Croatia and over 20% in Austria. It is hard to know how many of these would be willing and able to work.

Finally, the proportion in full-time education or training was relatively large in a number of countries, especially in Denmark (almost 90%), the Netherlands (over 70%), Sweden and Finland (55% or more).

As would be expected, especially in countries where caring or family responsibilities represent a major reason for inactivity, women account for the majority of those who are inactive and at risk of poverty across the EU. In 2010, they made up 67% of the total in the EU15 and 70% in the EU13 (Figure 6). The proportion was less than 50% only in Denmark – where participation in education or training is by far the main reason for the people concerned being inactive – and, apart from Denmark, less than 60% only in Estonia, Croatia, Finland, Sweden, Germany and Belgium, in all of which caring represents a less important reason for inactivity than average. On the other, women made up over 75% of the inactive at risk of poverty in Greece, Spain, Italy and Cyprus, where the reverse is the case, and for over 80% in Romania and Malta, where more people reported caring to be the reason for inactivity than anywhere else. In the last two countries, therefore, while men make up the large majority of the unemployed in this age group with income below the at-risk-of-poverty, women account for large majority of the inactive.

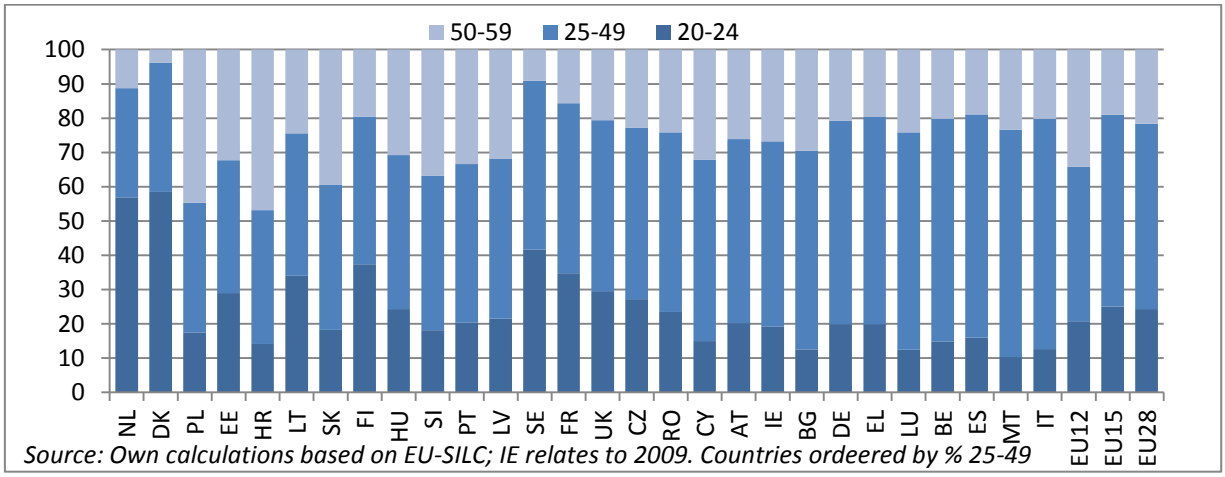
The inactive are much less concentrated in the age group 25-49 than the unemployed, especially in the EU13. In 2010, only 45% of the inactive at risk of poverty were in this age group in the EU13 as opposed to 56% in the EU15, with 34% being aged 50-59 as against only 19% in the EU15 and 21% aged 20-24 (25% in the EU15) (Figure 7).

Figure 6 Women as a proportion (%) of the inactive aged 20-59 at risk of poverty, 2010



Source: Own calculations based on EU-SILC; IE relates to 2009

Figure 7 Distribution of the inactive aged 20-59at risk of poverty by broad aged group, 2010 (% of total)



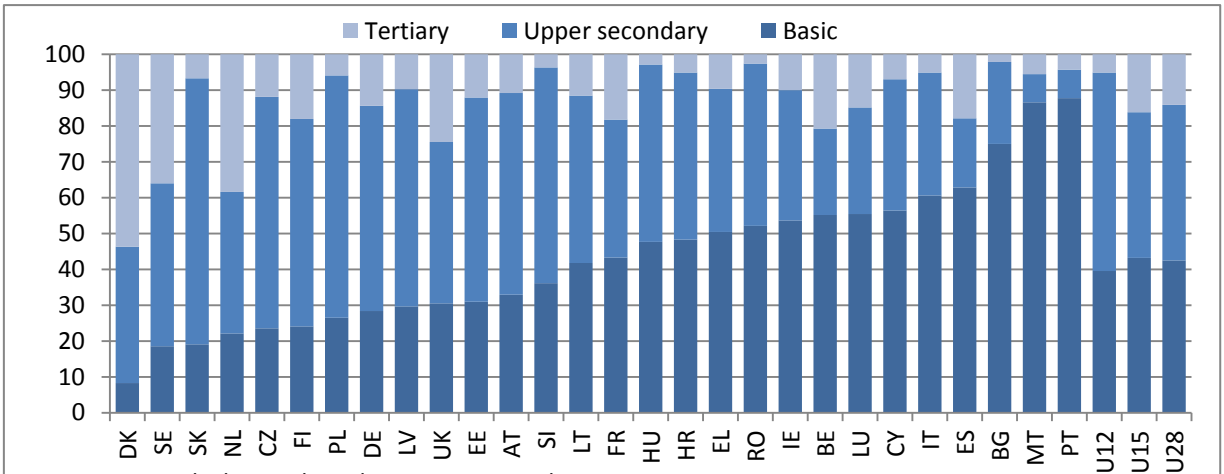
Source: Own calculations based on EU-SILC; IE relates to 2009. Countries ordeered by % 25-49

In only 6 countries, Greece, Spain, Italy, Luxembourg, Belgium and Malta was the proportion aged 25-49 over 60%, in each case apart from Greece, with the proportion under 25 being much smaller than average. In 5 countries, Croatia, Estonia, Poland, Denmark and the Netherlands, it was less than 40%. This reflects the large number aged under 25 in the last two (57-58% of the total), much larger than anywhere else (the proportion being above 35% only in Finland and Sweden of the other countries). In the other three countries, it reflects the large number aged 50-59 (45-47% in Croatia and Poland).

The education levels of the inactive at risk of poverty, unlike their age distribution, are very similar to the unemployed, especially in the EU15, where some 43% of those aged 25-59 had no qualifications beyond compulsory schooling in 2010 (45% in the case of the unemployed), though slightly more had tertiary education (16% as against 13%) (Figure 8). In the EU13, more of the inactive than the unemployed had only basic schooling (40% as against 32%) and fewer had tertiary education (only 5% as against 7%). In both Portugal and Malta, the proportion of the inactive with only basic schooling was over 85%, larger even than for the unemployed, while in Bulgaria, it was 75%, again more than for the unemployed, and in Spain and Italy, over 60%, similar to the proportion for the unemployed. In another 6 countries, the proportion with only basic schooling was also over 50% (making 11 countries in all as opposed to

7 in the case of the unemployed), while there were only 9 countries (the same as for the unemployed) where the proportion was less than 30% (though only 5 of the 9 being the same as for the unemployed). These 9 countries – where accordingly the earnings potential of the inactive was relatively high - include 5 EU15 countries where the proportion of the inactive who were not in education or retirement was relatively small, implying that the number of those able to take up employment was also relatively small.

Figure 8 Distribution of the inactive aged 25-59 at risk of poverty by education attainment level, 2010 (% of total)

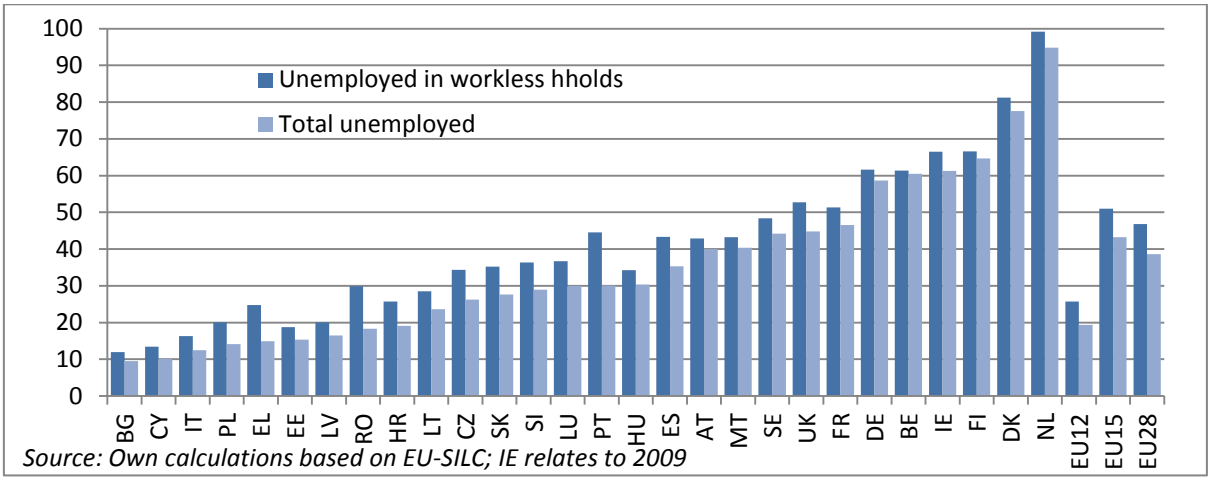


Source: Own calculations based on EU-SILC; IE relates to 2009

Benefits received by those with income below the poverty threshold

In practice, the unemployed at risk of poverty across the EU receive relatively low levels of benefits. In 2010, on an equivalised basis (i.e. adjusted for the size and composition of the household in which they lived) in the EU15 they received on average only around 43% of the at-risk-of-poverty threshold from all social benefits apart from child or family benefits and retirement pensions (i.e. from unemployment benefits, social exclusion benefits – mainly social allowances or minimum income guarantees –housing allowances, disability and sickness benefits). While they received more if they lived alone or shared a household with others unemployed or inactive, the amount averaged only just over half the at-risk-of-poverty threshold (Figure 9). In the EU13, the average received was even less, at only around 19% of the at-risk-of-poverty threshold in total and 26% if there was no-one in the household in employment (which implies that even in a couple of household where both people were unemployed, benefits would amount to only 52% of the at-risk-of-poverty threshold).

Figure 9 Amounts received by the unemployed aged 20-59 at risk of poverty from social benefits other than child, family or old-age benefits as % of poverty threshold, 2010



Source: Own calculations based on EU-SILC; IE relates to 2009

The average amounts, however, vary markedly across the EU, from over 90% of the threshold in the Netherlands and over 75% in Denmark to only around 10% overall in Bulgaria and Cyprus and less than 15% in both Italy and Poland. As might be expected, the amounts are broadly related to national income levels, so that all 8 countries where the amounts are largest are in the EU15 and 6 of the 8 countries where they are smallest are in the EU13. However, two EU15 countries, Italy and Greece, are in the latter group, while Luxembourg, which has by far the highest level of national income in the EU, has benefit levels for the unemployed concerned which are well below average.

An interesting feature of the benefits received by the unemployed with income below the at-risk-of-poverty threshold in the EU13 countries is that a large proportion takes the form of sickness and disability benefits. On average, these accounted for some 34% of the total amount received in 2010 in the EU13 as opposed to only just over 7% in the EU15. Indeed, in Bulgaria, they made up 57% of the overall amount, in Croatia and Romania, 48% and in Poland and Estonia, over 40%. They were also significant in Greece and Italy, accounting for 31% and 27%, respectively, of the total benefits received by the unemployed. These figures, however, highlight the relatively small amounts of unemployment benefit paid to those out of work in these countries as much as the relatively large numbers of the unemployed in receipt of sickness or disability benefits[2].

The above represents the basis for estimating the amount of benefit, and accordingly social expenditure, which might be saved if the unemployed were to be in work. While it is not clear how much sickness and disability benefits would be reduced in practice, as indicated above these account for only a small part of the amount received in the EU15, though more in the EU13.

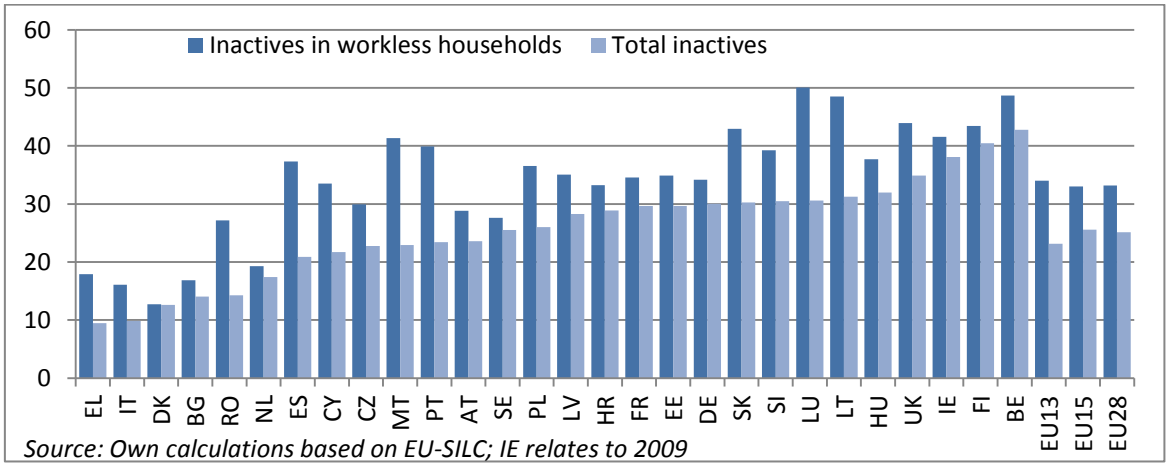
For those aged 20-59 who are economically inactive, it is harder to judge how far these benefits could be reduced and since they make up a large part of the overall benefits received by the people concerned, the results of the analysis depend a great deal on what is assumed. This is particularly the case in the EU13 countries where, on average, they account for over 80% of the overall amount of social transfers, again excluding child and family benefits, going to the inactives in this age group, reflecting the relatively small amounts of social exclusion benefits paid. (In the EU15, they

[2] It should be recalled that the unemployed are defined here as those for whom unemployment represented the main activity during 2010, so that a number might have spent part of the time ill or with a disability.

account for much over half of the overall amount only in Greece, Italy, Portugal and Austria.)

The amount of benefit received – again excluding child or family benefits and again on an equivalised basis – by those aged 20-59 who were economically inactive and at risk of poverty averaged only 26% of the at-risk-of-poverty threshold in the EU15 in 2010 and slightly less in the EU13 (23%) (Figure 10). For those living in a workless household, either alone or with others not in employment, it was higher, though still relatively low, averaging around 33-34% of the threshold in both the EU13 and EU15. As this implies, unlike in the case of the unemployed, there is no tendency for benefits to be larger in the EU15 countries than in the EU13. While the four countries in which amounts were largest were all in the EU15 (Ireland, the UK, Finland and Belgium), the three countries in which benefits were smallest, Greece, Italy and Denmark, were also in the EU15.

Figure 10 Amounts received by the inactive aged 20-59 at risk of poverty from social benefits other than child or family benefits as % of poverty threshold, 2010



Source: Own calculations based on EU-SILC; IE relates to 2009

Taking all those aged 20-59 with income below the at-risk-of-poverty threshold, the social transfers received, again excluding child and family benefits and retirement pensions, were made up to a large extent of unemployment benefits in the EU15, which accounted for 40% of the total in 2010, though this is slightly less than the proportion of unemployed among those out of work in this group (46%) (Table 5). Many of the unemployed, however, are in receipt of social exclusion benefits (16% of the total) as well as housing allowances which were more important in monetary terms (accounting for 27% of the total). Sickness and disability benefits together made up 17% of the overall amount of transfers, which is significantly more than the proportion of those reporting to be not working because of illness or disability (only 9%).

The situation in the EU13 is quite different. Unemployment benefits made up only 21% of the total transfers received in 2010, much less than in the EU15 despite the proportion of unemployed in the total in the age group with income this low being marginally larger than in the EU15. Social exclusion and housing allowances made up another 25% of the transfers received, while sickness and disability benefits accounted for as much as 54% of the total, substantially more than any other type of benefit. Those reporting to be ill or having disabilities, however, represented only a small minority - only just over 11% -of the total aged 20-59 with income below the at-risk-of-poverty threshold. Many of these benefits, therefore, went to people who were not in work for other reasons, a significant amount, as noted above, to the unemployed. In Croatia, 63% of benefits took the form of sickness and disability ones,

in Poland, 66% and in Estonia, 72%, in each case considerably more than the proportion of those out of work reporting to be sick or to have disabilities.

Table 5 Types of benefit received and main status of those aged 20-59 not in work and at risk of poverty, 2010

	Types of benefit (% total amount)				Main status of those out of work in year (% total)*				
	Unemp-loyment	Social exclusn	Housing allow	Sick/ disability	Unemp-loyed	Caring/ family	Educatn/ training	Sick/ disabled	Other inactive
ES	73.3	12.4	1.3	13.0	58.4	22.6	11.5	3.8	3.8
DK	72.9	0.0	8.5	18.7	20.6	0.2	69.9	4.6	4.7
IT	62.2	5.9	6.0	25.9	43.4	36.8	9.4	4.0	6.5
EL	60.2	3.2	0.7	35.9	50.0	30.1	11.6	2.2	6.1
IE	59.4	0.6	8.8	31.2	33.5		11.8		54.7
AT	58.9	10.8	7.6	22.6	44.3	16.9	17.1	4.6	17.2
BE	58.5	14.0	0.9	26.5	43.1	16.8	12.2	15.5	12.5
HU	48.1	8.4	4.8	38.7	52.5	12.9	8.1	16.8	9.7
DE	45.2	4.7	33.8	16.3	52.0	5.6	20.3	10.5	11.6
FI	38.2	12.5	23.7	25.7	39.5	7.1	33.0	17.5	2.9
PT	37.1	29.5	1.5	31.9	52.6	20.0	9.0	6.6	11.8
BG	31.0	11.2		57.8	64.5	16.2	2.9	6.3	10.0
MT	30.1	39.0	2.8	28.1	23.3	57.0	7.4	5.3	6.9
FR	26.1	29.0	34.8	10.1	45.5	14.6	18.7	12.3	8.8
SE	25.7	26.4	15.5	32.3	26.5	8.4	42.2	12.8	10.0
CY	25.7	20.7	7.4	46.2	52.3	28.7	7.9	2.7	8.4
LU	24.7	44.1	5.4	25.8	42.9	36.0	8.5	8.6	4.0
LV	23.8	16.3	10.5	49.4	68.8	9.8	5.8	12.5	3.1
HR	20.8	12.1	4.2	62.9	57.4	12.7	9.5	2.1	18.3
CZ	17.3	14.4	18.0	50.3	58.8	16.0	12.6	9.0	3.7
UK	16.4	25.1	40.7	17.9	30.8	24.4	20.1	17.2	7.5
PL	16.2	12.5	5.5	65.9	41.6	11.9	9.1	18.0	19.4
SK	16.0	31.9	0.0	52.1	60.5	2.2	9.7	13.5	14.1
EE	14.9	0.7	12.7	71.7	50.6	12.5	13.8	21.7	1.4
SI	14.5	43.3	1.1	41.1	58.9	5.5	12.5	3.6	19.5
LT	13.5	53.3	1.1	32.1	68.0	8.7	13.3	7.2	2.9
NL	13.2	56.9	16.5	13.4	32.2	5.1	48.8	5.5	8.4
RO	8.5	33.3	0.0	58.3	21.8	51.4	9.0	3.4	14.5
EU13	21.0	19.3	5.7	54.1	46.4	19.8	9.0	11.4	13.5
EU15	40.1	16.1	26.6	17.1	45.5	18.3	18.4	9.1	8.7
EU28	39.5	16.2	25.9	18.4	45.7	18.6	16.6	9.5	9.6

Note: % Division not including those who were employed for 10 months or more (who made up on average 36% of the 20-59 age group at risk of poverty. 'Other inactive' includes those retired (who on average make up under 3% of the total included in the table, though 16-17% in HR and SI and 11-12% in AT and RO).

Source: Own calculations based on EU-SILC microdata

In most countries (all but 9), unemployment benefits made up less than 40% of the total transfers received by this group and in a significant number (another 9) for less than 18% of the total, all EU13 countries, except for two, the Netherlands and the UK. In these two countries, as well as in many others, in the EU15 in particular, the bulk of the transfers received by the unemployed and others with income below the at-risk-of-poverty threshold took the form of means-tested social assistance (social exclusion benefits) or housing allowances.

Effects of those out of work becoming employed

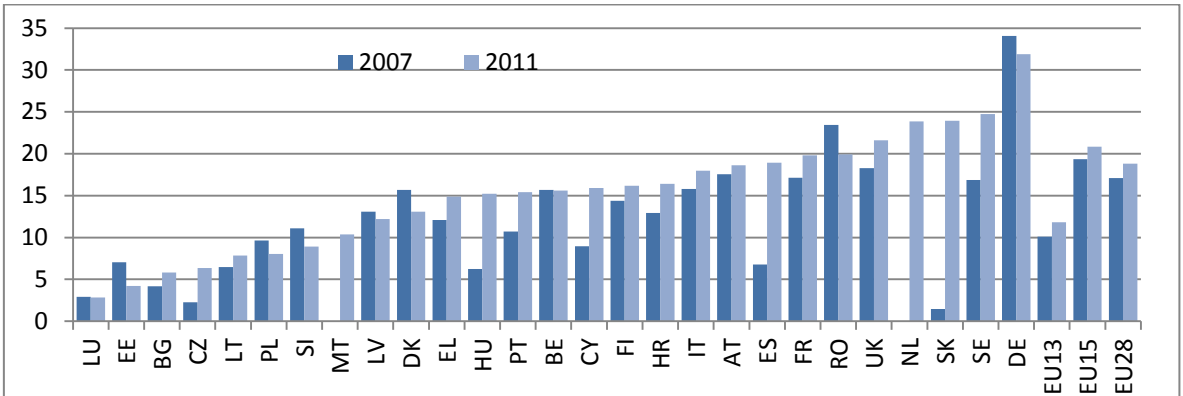
The trend towards part-time working

Although this is a hypothetical exercise to assess the costs associated with people being out of work and accordingly having income below the at-risk-of-poverty threshold, it is instructive to consider the kinds of job that the people concerned are likely to move into. Clearly this is related to factors such as their age and education level, which are explicitly allowed for below, but there is also an issue over whether people move into full-time or part-time jobs. While for purposes of the analysis, it can be assumed that they move into full-time jobs and receive the corresponding earnings, it is relevant to consider how far in practice this is the case at present for someone moving from unemployment or inactivity into work.

In reality (as indicated by European Labour Force Survey –LFS – data), in many countries, a significant number of men as well as women making the transition into employment take up part-time rather than full-time jobs, which in some cases may be because they have family responsibilities or are constrained by other factors but in other cases, it is because there are no other jobs available. The relative number taking up part-time jobs has, moreover, increased over the crisis period as it has become more difficult to find any kind of employment (with the result that the time taken to find work has lengthened).

In 2011, some 21% of men who moved from unemployment into work in the EU15 took up a part-time rather than a full-time job (Figure 11). This was much more than in the EU13 (12%), where part-time working is far less prevalent. It is more too on average than in 2007 before the onset of the crisis (19%), despite the decline in the proportion in Germany (which has a significant effect in pushing down the average). Indeed, Germany along with Denmark was the only EU15 country showing a decline over this period, Nevertheless, the proportion taking up part-time jobs (32%) was still larger in Germany than anywhere else, though there were four other countries – the Netherlands, Sweden, the UK and Slovakia – where the proportion was over 20%, and only three EU15 countries (Greece, marginally, Denmark and Luxembourg) where it was under 15%. On the other hand, in 7 of the EU13 countries, the proportion was 10% or less.

Figure 11 Proportion (%) of men aged 20-59 moving from unemployment into work taking up a part-time job, 2007 and 2011

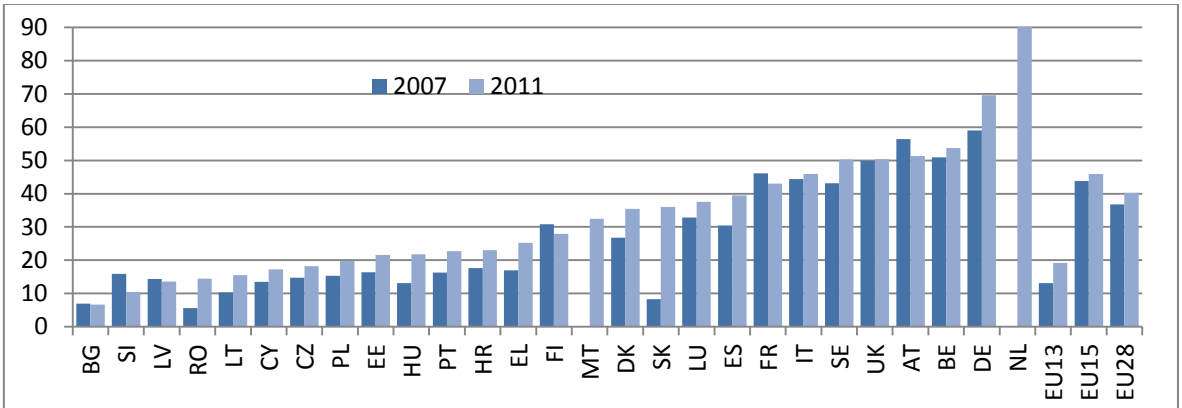


Source: Own calculations based on European LFS; no data for IE in both years and MT, NL in 2007

For women, as would be expected, the figures are much higher, with on average 46% of women aged 20-59 in the EU15 taking up a part-time job in 2011when moving from unemployment into work (Figure 11). This is again more than in 2007 and

substantially more than in the EU13 (19%), though in the latter, the proportion rose markedly between 2007 and 2011.

Figure 12 Proportion (%) of men aged 20-59 moving from unemployment into work taking up a part-time job, 2007 and 2011

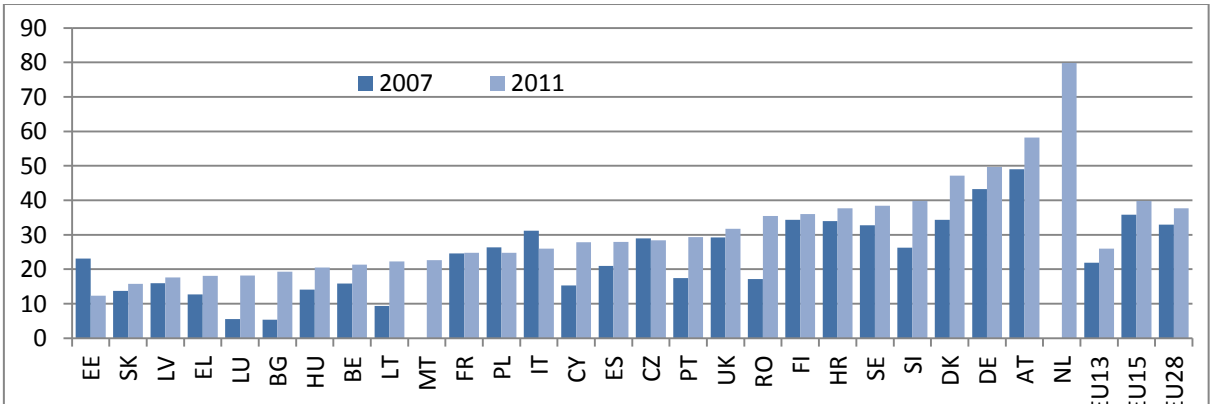


Source: Own calculations based on European LFS; no data for IE in both years and MT, NL in 2007

The rise was widespread across countries with only Slovenia and, marginally, Bulgaria in the EU13 and Finland, France and Austria in the EU15 showing a decline over the period. The proportion was above 40% in 8 of the 14 EU15 countries for which data are available and below 25% only in Portugal, while in the EU13, it was below 25% in all but two countries, Slovakia and Malta.

The proportion of men in the age group who moved into a part-time when making the transition from inactivity to employment was much higher than in respect of those moving from unemployment, averaging 40% in the EU15 in 2010 and 26% in the EU13 (Figure 13). The increase between 2007 and 2011 was also larger in both cases, with the proportion declining only in Estonia, Italy and, marginally, the Czech Republic. The proportion in 2010, however, was above the EU15 average of 40% only in Denmark, Germany, Austria and the Netherlands, though equally, it was below 20% only in 6 countries.

Figure 13 Proportion (%) of men aged 20-59 moving from inactivity into work taking up a part-time job, 2007 and 2011

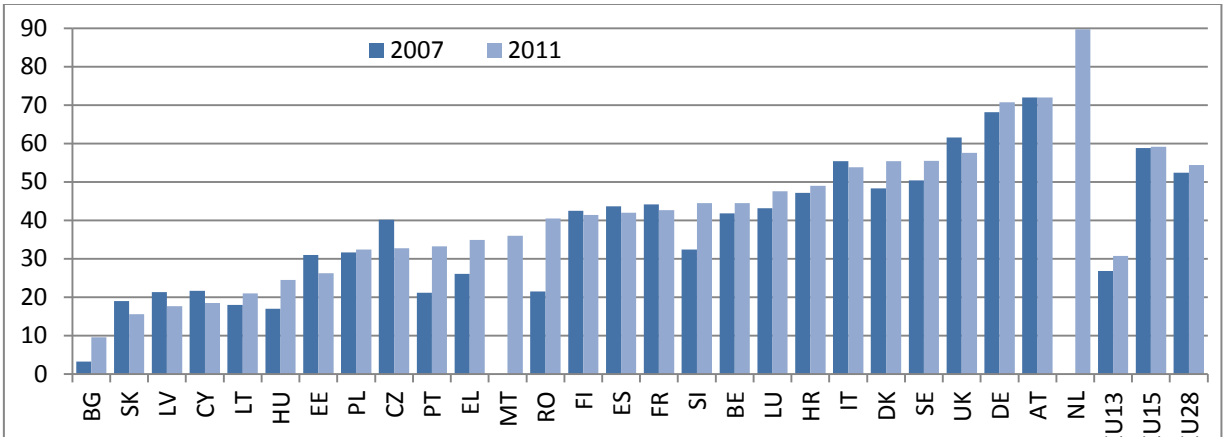


Source: Own calculations based on European LFS; no data for IE in both years and MT, NL in 2007

The proportion of women taking up part-time jobs when moving from inactivity into work was also larger than for those moving from unemployment, reflecting the significant number with a child to care for. In the EU15, the proportion averaged almost 60% and in the EU13, 30% despite the limited number of part-time jobs (Figure 14). In 6 countries, however, all in the EU13, the proportion less than 25% and in another five, including Portugal and Greece as well Estonia, the Czech Republic

and Poland, it was less than 35%. In this case, there was no widespread tendency for the proportion to increase over the crisis period.

Figure 14 Proportion (%) of women aged 20-59 moving from inactivity into work taking up a part-time job, 2007 and 2011



Source: Own calculations based on European LFS; no data for IE in both years and MT, NL in 2007

In the case of movements from unemployment into work, there is more of a tendency for those with only basic schooling to take up part-time jobs than those with higher levels of education, though this is much more apparent for those in EU13 countries than those in the EU15. (In the EU13, 26% of men with only basic schooling took up part-time jobs in 2010 when moving from unemployment into work as against 10% of those with upper secondary education and 6% of those with tertiary qualifications. In the EU15, the figures were 21-22% for both those with only basic schooling and those with upper secondary education and 18% for those with tertiary education. For women, the figures for the EU13 were, respectively, 31%, 19% and 12% and 50%, 50% and 34% for the EU15.)

In the case of movements from inactivity into work, the pattern of difference between countries is similar, with the difference in the proportions taking up part-time jobs between those with different levels of education being larger in the EU13 than in the EU15 for both men and women. (The proportion of men moving from inactivity and taking up part-time jobs instead of full-time in the EU13 in 2010 averaged 41% for those with basic schooling, 28% for those with upper secondary qualification and 15% for those with tertiary education, while the figures for the EU15 were 32%, 45% and 30%, respectively. For women, the proportions averaged 48%, 34% and 20%, respectively, in the EU13 and 62%, 67% and 47% in the EU15.)

Effect on income levels of the unemployed becoming employed

The potential earnings of those aged 20-59 who are unemployed and at risk of poverty are estimated on the basis of gender (it is still the case, if to differing extents, that women earn less than men even in the same types of job), age (since earnings in most countries tend to increase with age) and education level (which determines to a large extent the kind of job open to people). In the first instance, it is assumed that the men and women concerned would be capable of earning the average wage of those in work, which may well not be the case since the fact that they are not in work suggests that their potential value to employers (their productivity widely defined) is less than in the case of those that are. The earnings concerned are then attributed to each of the unemployed to replace both unemployment benefit and all other benefits (social exclusion, sickness and disability benefits and housing allowances), apart from child and family benefits (i.e. these benefits are taken away) and their equivalised income (i.e. taking account of the size and composition of their household) compared

with the at-risk-of-poverty threshold. This, accordingly, indicates the number of unemployed who would see their income rise above the threshold if they were in work and with average earnings from employment rather than receiving social transfers. It should be emphasised that the at-risk-of-poverty threshold is held constant in the calculation rather than being allowed to increase along with a possible rise in median income. (How far the assumed move of the unemployed into work raises the median depends on how many of them would see their income rise above the median as a result of receiving earnings from employment which are around average for existing workers with the same broad characteristics. In practice, for many of them the rise in income is likely to be less than this, given their age and education level.)

On the basis of these assumptions and taking the situation as it was in 2010, the proportion of the unemployed in the age group at risk of poverty in the EU would be reduced from around 42.5% to just 1.5% if they were able to move into a job at average earnings (given their gender, age and education level) (Table 5). The reduction is slightly more in the EU13 than the EU15. The proportion with income below the at-risk-of-poverty threshold would be reduced to below 2% in most countries – in 21 of the 28 Member States – though it would remain above 3% in Luxembourg and Sweden, in part reflecting the relatively large number of the unemployed aged under 30 (almost 40% in both cases).

If the unemployed moved into a part-time rather than a full-time job and lost their benefits at the same time, their earnings would still have the effect of reducing the relative number at risk of poverty substantially, to around 12% in the EU as a whole and to only 9% in the EU13. In Germany and Lithuania, however, it would leave around a quarter of them at risk and in Latvia, the UK and Romania, over 15%, in these reflecting the relatively low potential earnings from part-time employment for the people concerned. In Slovakia, Poland and Ireland, on the other hand, earnings even from part-time employment would reduce the proportion at risk to below 5%.

More realistically perhaps, it can be assumed that the unemployed would receive less than average earnings from the job they would be able to obtain, which would obviously leave more of them with income below the at-risk-of-poverty threshold. Nevertheless at 90% of the average, there is relatively little increase in the proportion remaining below the threshold in the case of a movement into full-time jobs (the proportion is raised to just 2% in the EU) (Table 6). On the other hand, there is much bigger increase in the proportion at risk in the case of a movement into part-time jobs, especially in the EU15, which highlights the closeness to the threshold that many people would be if they were to move into part-time jobs at average earnings – and, accordingly, the relatively low level of these as compared with the benefits received when unemployed.

The increase is particularly marked in Germany, Lithuania, the UK and the Netherlands, in each of which over a third of the unemployed would still be at risk of poverty if they were to move into a part-time job with this level of earnings. By contrast, the proportion at risk of poverty would still be below 10% in Italy, Hungary, Croatia and Poland, which reflects not so much the level of part-time earnings but the small amounts of benefit received by the unemployed and the income coming into the household from other members (in Italy and Poland, for example, over half of the unemployed share a household with someone in work; in Germany and the Netherlands, it is only around 15%.)

Table 6 Proportion (%) of those aged 20-59 at risk of poverty before and after moving from unemployment into work, 2010

% with income <60% median

	Before	With average earnings		With 90% average earnings	
		After in full-time job	After in part-time job	After in full-time job	After in part-time job
Germany	62.7	1.3	24.0	1.4	34.7
Lithuania	49.8	2.7	28.0	3.9	35.0
Latvia	49.1	1.8	19.4	2.6	25.2
Malta	46.5	0.0	6.0	0.0	21.2
UK	46.5	2.0	16.5	2.4	33.6
Italy	45.9	1.2	5.7	1.7	9.3
Romania	44.8	0.6	15.2	0.6	18.3
Bulgaria	44.3	0.5	8.0	1.0	12.0
Estonia	43.2	0.6	12.4	2.5	16.9
Hungary	41.3	0.4	5.4	0.4	9.9
Slovenia	40.7	1.6	12.3	2.3	19.9
Belgium	40.4	1.9	9.0	2.7	13.3
Luxembourg	39.9	3.4	13.9	6.1	26.4
Slovakia	39.3	0.3	3.6	0.5	10.1
Sweden	39.1	5.7	12.6	7.8	19.8
Greece	38.2	0.3	11.8	0.6	14.5
Spain	38.2	1.9	7.6	2.2	11.5
Croatia	37.9	0.2	6.0	0.4	9.1
Poland	36.7	1.6	4.8	1.9	7.3
Austria	36.4	2.8	9.9	3.3	19.4
Finland	34.6	1.0	7.3	1.6	22.6
Czech Rep	34.3	0.6	12.6	0.9	14.9
France	33.7	2.5	13.9	3.8	25.5
Portugal	29.7	0.2	10.7	0.9	17.0
Cyprus	29.3	1.5	10.0	1.5	11.4
Netherlands	27.1	0.6	5.7	1.2	35.3
Denmark	26.9	2.2	8.7	3.7	14.8
Ireland	26.2	0.1	3.2	0.1	13.4
EU13	40.1	1.0	9.1	1.4	12.8
EU15	42.9	1.7	12.5	2.2	21.3
EU28	42.4	1.5	11.8	2.1	19.6

Note: Figures for Ireland relate to 2009
Source: Own calculations based on the EU-SILC microdata

Effect on income levels of the inactive becoming employed

It is more complicated to assess the consequences of those aged 20-59 who are economically inactive and have income below the at-risk-of-poverty threshold becoming employed, since some selection needs to be made from among the inactive since it does seem plausible to assume that all of them should be in work. The focus here is on those who report being economically inactive for caring or family reasons, because of disability or sickness and for non-specified reasons. In each case, it is effectively assumed that all of the people in these three groups could potentially take up employment. This is obviously an extreme assumption, though with suitable provision of support – such as ensuing that good care facilities are available at an affordable price or that the work environment and public transport is adapted to enable those with disabilities to work and to travel to work – it is possible that most

might be able to work. On the other hand, it is assumed that no-one in the other two groups, those in education or vocational training and those in retirement, are available for work, which is equally an extreme assumption.

The effect of assuming that the three groups in question move from inactivity into employment, losing the benefits they receive but being paid the average wage for men and women in the different broad age groups and with the different levels of education is to reduce the proportion of the inactive with income below the at-risk-of-poverty threshold in the EU15 from 30% to 10% and in the EU13 from 23% to just 4% (Table 7 – as above, the at-risk-of-poverty threshold is held constant at the level before the change).

Table 7 Proportion (%) of those aged 20-59 at risk of poverty before and after moving from inactivity into work, 2010

% with income <60% median

	Before	With average earnings		With 90% average earnings	
		After in full-time job	After in part-time job	After in full-time job	After in part-time job
Denmark	41.2	36.4	38.4	36.4	41.3
Sweden	37.9	24.1	26.7	24.3	32.2
Estonia	33.7	8.6	17.8	8.9	22.0
Finland	31.9	15.7	17.6	16.0	28.2
Spain	31.1	6.5	11.3	6.8	13.4
Latvia	30.3	4.5	17.2	5.0	21.1
Germany	30.2	13.2	18.5	13.2	23.5
Belgium	29.6	5.4	8.3	5.6	11.4
UK	29.3	9.1	14.9	9.4	33.6
France	28.8	10.1	15.3	10.3	22.9
Italy	28.8	3.6	7.8	4.5	9.9
Netherlands	28.5	20.9	21.3	21.0	26.6
Ireland	28.2	5.3	8.2	5.3	20.6
Greece	26.8	6.9	11.9	7.0	12.7
Austria	26.4	13.0	14.0	13.0	15.9
Croatia	26.2	7.9	12.2	8.2	13.8
Lithuania	26.0	11.0	20.3	11.9	22.3
Portugal	25.8	4.9	12.0	5.2	14.8
Poland	25.7	3.5	6.8	4.1	8.9
Romania	24.0	5.7	11.4	6.7	13.0
Bulgaria	23.8	2.8	9.0	3.0	11.6
Malta	23.3	1.5	5.4	1.6	9.3
Hungary	20.3	2.2	3.7	2.2	6.2
Luxembourg	20.1	3.2	5.1	3.7	9.6
Slovakia	18.1	3.1	4.1	3.2	7.4
Slovenia	17.4	9.6	11.4	9.8	12.8
Cyprus	17.4	2.9	6.6	3.2	7.1
Czech Rep	12.5	3.6	6.6	3.7	7.4
EU13	22.9	4.4	8.5	4.9	10.5
EU15	29.7	10.1	14.7	10.4	21.4
EU28	28.2	8.9	13.4	9.2	19.1

Note: Figures for Ireland relate to 2009
Source: Own calculations based on the EU-SILC microdata

Both proportions after the change are, of course, larger than in the case of people moving from unemployment into work because not all the inactive are assumed to take up employment. This is especially the case in Denmark and the Netherlands and

to a lesser extent Sweden and Finland since many of the inactive are in education. On the other hand, there is a big reduction in the southern countries in the EU15 as well as in Belgium and Ireland and most EU13 countries, where relatively few of the inactive are in education or retired.

Taking up part-time rather than full-time jobs generally makes less of difference to the proportion at risk of poverty after the event than in the case of the unemployed. The proportion at risk would, therefore, be only 4-5 percentage points larger on average in both the EU15 and EU13 than if people moved into full-time jobs, though the difference is larger in each of the three Baltic States and Portugal than elsewhere, reflecting the relatively low earnings of part-time workers.

As would be expected from the limited increase in the at-risk-of-poverty rate if part-time jobs rather than full-time ones are assumed to be taken up, reducing the earnings assumed to be paid to 90% of the average only marginally affects the extent of reduction in the rate. This suggests that receipt of average earnings in place of any benefits received raises income well above the at-risk-of-poverty threshold.

Reducing assumed part-time earnings to 90% of the average has a bigger effect, especially in the EU15, increasing the proportion at risk of poverty by almost 7 percentage points, implying that receipt of average part-time earnings in many cases raises income only slightly above the threshold. This is particularly the case in the UK, where the proportion at risk is increased from 15% to 34% by the relatively small reduction in assumed part-time earnings. Indeed, the proportion after the move into part-time jobs is larger than before, implying that for many of the people concerned, two-thirds of whom are women, it may not make economic sense to take up employment if it is part-time and the wage is below average. The same is the case, to a lesser extent in Finland, where the proportion at risk is increased by around 11 percentage points if the lower assumption is made about part-time earnings.

Effect on overall at-risk-of-poverty rate of those aged 20-59

The effect of assuming that both the unemployed and a significant number of the inactive aged 20-59 with income below the at-risk-of-poverty threshold move into employment is to reduce the overall number with income below this level markedly if they are assumed to take up full-time jobs. (Again it should be emphasised that the at-risk-of-poverty threshold is held constant and its level before the change.) This is slightly more the case in the EU13, where the number is reduced on average from 16% to just under 5%, than in EU15, where it is reduced from 15% to just over 5% (Table 8), reflecting in part the larger proportion of the inactive in education in the latter. This is especially so in Denmark, as noted above, the proportion of the age group with income this low remaining at around 12% even after the assumed shift. The reduction in the Netherlands and Sweden are also relatively small for the same reason, as it is Romania, where many of the inactive are in retirement. It makes very little different to the results if the full-time earnings which are assumed when the unemployed or inactive move into a job are 10% lower.

The effect of assuming that the unemployed and inactive take up part-time rather than full-time jobs is to cut the reduction in the proportion with income below the at-risk-of-poverty threshold, so that in the EU15, around half of those with income below this level remain in this situation after the switch. In the EU13, the effect of assuming that the jobs taken up are part-time instead of full-time is similar in size on average, but much larger in Latvia and Lithuania, in particular, reflecting the relatively low wages paid by part-time work.

Reducing the assumed earnings paid by part-time jobs by 10% results in a significant increase in the proportion remaining with income below the at-risk-of-poverty threshold in a number of countries, especially in the UK, the Netherlands, Finland and

France, in the first two of which, the proportion is larger after the change than before. In these four countries, together with Sweden, Germany and Lithuania, therefore, the unemployed and inactive moving into employment does not represent a solution to the problem of people of working age being at risk of poverty if the employment taken up is part-time rather than full-time. Moreover, in Denmark, it does not represent a solution even if the people concerned take up full-time jobs since the unemployed make up a relatively small number of those at risk of poverty and few of the inactive are available to take up a job. In the other countries – i.e. the majority of Member States – however, even a move into part-time work would have a major effect in reducing the proportion at risk.

Table 8 Overall proportion (%) of those aged 20-59 at risk of poverty before and after unemployed and inactive have moved into work, 2010

% with income <60% median

	Before	With average earnings		With 90% average earnings	
		After in full-time job	After in part-time job	After in full-time job	After in part-time job
Latvia	21.7	3.9	10.5	4.2	12.7
Romania	20.5	9.7	13.0	10.2	13.8
Spain	19.7	5.7	8.2	5.9	9.7
Lithuania	19.7	6.2	13.5	6.6	16.1
Estonia	18.7	4.6	8.8	5.0	10.5
Italy	18.7	4.0	6.0	4.4	7.1
Greece	18.7	3.8	7.6	3.9	8.4
Croatia	17.7	2.3	4.8	2.4	6.1
Germany	16.2	6.4	9.7	6.4	12.2
Bulgaria	16.2	1.6	4.6	1.9	6.0
Poland	15.6	3.8	5.2	4.0	6.0
Denmark	14.9	11.7	12.7	11.8	14.0
Portugal	14.2	3.8	7.4	4.1	8.9
Hungary	13.7	1.9	3.1	1.9	4.6
Finland	13.6	5.0	6.3	5.2	11.2
Sweden	13.4	8.8	9.6	8.9	11.3
Ireland	13.0	3.0	4.3	3.0	8.7
UK	12.9	5.1	7.3	5.3	13.4
Slovakia	12.7	2.3	3.1	2.3	4.7
France	12.7	4.9	7.4	5.2	11.4
Belgium	12.7	2.9	4.3	3.1	5.4
Luxembourg	12.6	4.5	6.0	4.8	8.5
Malta	12.5	1.2	2.9	1.2	5.0
Austria	12.5	5.1	6.1	5.2	7.9
Slovenia	11.9	4.3	6.1	4.5	7.7
Netherlands	10.1	6.2	6.7	6.3	10.5
Cyprus	9.4	2.1	3.9	2.2	4.2
Czech Rep	8.3	2.0	3.9	2.0	4.4
EU13	15.7	4.5	6.8	4.7	7.9
EU15	15.3	5.4	7.7	5.5	10.7
EU28	15.4	5.2	7.6	5.4	10.1

Note: The 'before' figures for the % at risk of poverty differ from those on Table 1 above because they relate to households containing only people aged 20-59 rather than to all households with someone aged 20-59. Figures for Ireland relate to 2009.

Source: Own calculations based on the EU-SILC microdata

Social expenditure implications of reducing the at-risk-of-poverty rate

It remains to consider the effect on social expenditure and government revenue of the unemployed and inactive at risk of poverty moving into employment. Overall, those with income below the at-risk-of-poverty threshold in the EU in 2010 accounted for just over a quarter of the total unemployment benefits going to those aged 20-59, though slightly less in the EU13 (Table 9). This compares with the 15% of people in this age group whose income was below this threshold (see Table 7 above). The share, however, varied from 56% in the UK (but see below) and 44% in both Germany and Hungary to 11-12% in Italy and Cyprus and under 10% in the Netherlands, reflecting not only the extent to which benefits are targeted on those with low incomes but also the effect of the benefit system in raising the income of the unemployed above the at-risk-of-poverty threshold – and, accordingly, the extent to which the unemployed tend to have income below this threshold.

Table 9 Share (%) of benefits of different types paid to those aged 20-59 accounted for by those at risk of poverty, 2010

	Unemployment benefits	Social exclusion benefits	Housing allowances	Sickness/disability benefits	Total
Germany	44.3	50.7	74.4	26.3	45.7
Malta	38.4	46.5	31.9	23.7	34.5
Belgium	34.1	88.6	50.4	21.5	32.0
Estonia	18.0	14.4	85.5	33.1	31.3
Finland	26.5	53.6	51.5	21.1	29.8
Slovakia	25.4	61.9		22.1	28.6
Austria	33.0	50.7	42.6	16.5	28.2
France	14.2	51.9	46.7	24.3	28.1
Sweden	23.9	72.5	52.2	17.7	28.1
UK	56.2	29.2	34.3	14.0	27.7
Poland	19.1	73.5	50.0	24.3	26.1
Greece	24.7	33.3	5.9	29.7	25.9
Hungary	44.4	41.6	43.8	15.0	25.2
Luxembourg	15.8	60.4	17.3	17.4	24.5
Spain	25.4	35.8	12.3	12.6	22.9
Slovenia	18.2	59.9	81.1	13.3	21.6
Portugal	13.3	74.5	10.8	23.3	21.3
Latvia	15.8	65.1	61.2	16.2	20.1
Lithuania	30.8	52.0	50.1	8.3	18.6
Netherlands	9.4	35.7	38.9	6.6	18.3
Ireland	16.7	6.5	19.9	20.9	17.9
Croatia	30.3	55.0	79.7	13.1	17.3
Romania	11.7	67.2		12.7	17.3
Bulgaria	12.4	74.2		17.6	16.8
Czech Rep	18.7	82.2	74.5	8.7	14.0
Denmark	22.4		23.5	5.0	13.7
Italy	11.9	18.6	35.8	14.7	13.3
Cyprus	11.2	70.0	3.0	18.1	13.1
EU13	23.3	61.7	44.8	16.2	21.4
EU15	25.7	41.3	50.1	17.4	28.9
EU28	25.7	41.8	50.1	17.3	28.5

Note: Figures for Ireland relate to 2009

Source: Own calculations based on the EU-SILC microdata

Social exclusion benefits, as might be expected are more concentrated on those with low income levels, with 42% of the total in terms of expenditure going to those with income below 60% of median income in the EU in 2010, slightly less on average in the EU15 and substantially more (62%) in the EU13. In this case, the figure was almost 90% in Belgium, over 80% in the Czech Republic and just under 75% in Portugal and Bulgaria but under 20% in Italy, less than 15% in Estonia and just 7% in Ireland. Again, the low figures do not necessarily indicate failure to concentrate support on those in most need but perhaps success in raising the income of the people concerned above the at-risk-of-poverty line.

The figures for the shares of these two sets of benefits going to those with income below the at-risk-of-poverty threshold, however, might be slightly misleading if considered separately, insofar as it is unclear whether there is a consistent treatment, or definition, of the two across countries. In particular, it is not clear whether social assistance which is paid to the unemployed in order to provide income support is included as part of social exclusion benefits or as part of unemployment benefits and, whichever is the case, whether or not this is true in every country. For example, in a number of countries, including the UK, those not eligible for social-insurance-based benefits or who have exhausted their entitlement to these (which in the UK happens after 6 months), can receive means-tested unemployment allowances which are dependent on their income. If these are included as part of unemployment benefits, this will tend to increase the share of these benefits going to those with low income. If included as part of social exclusion benefits instead, it will tend to raise the share of these going to the latter. Since there are no details available for the EU-SILC on which benefits are included under which head, it is not possible to say what is the case in practice and, accordingly, to interpret the results for each kind of benefit unambiguously. (In the UK, the share of unemployment and social exclusion benefits combined going to those at risk of poverty was 36%, which is still above average but much less so than in the case of unemployment benefits alone.)

Housing allowances are even more concentrated in the EU15, with 50% of the total going to those with income below the at-risk-of-poverty threshold, though slightly less so on average in the EU13, with 45% going to this group of people (but half or more in most of the countries, the average being pulled down by the low figure in Cyprus where such allowances total more than in any other EU13 country). They are particularly concentrated on those at risk of poverty in Estonia, Slovenia and Croatia, with 80% or more of the total going to these, but not concentrated at all in Spain, Portugal, Greece and Cyprus.

Sickness and disability benefits are also on average concentrated to some extent on those with income below the at-risk-of-poverty threshold, though much less so and not in many countries. Those with income below the threshold who accounted for 15% of the population aged 20-59, therefore, received 17% of the total expenditure on these benefits going to this age group in the EU – as well as in the EU15. In the EU13, the share received by those at risk of poverty was slightly smaller and much the same as their share of the population aged 20-59. In Poland, Malta, Cyprus and, above all, in Estonia, however, their share of benefits was significantly larger than their share of population, as it was in Germany, France, Finland, Greece, Portugal and Ireland in the EU15.

Overall, while in most countries the share of expenditure on these four benefits taken together going to those aged 20-59 with income below the at-risk-of-poverty threshold was larger than the share of the latter in the population of the age group, this was not the case in 8 countries – in Cyprus (if only marginally), Latvia, Lithuania, Bulgaria and, above all, in Croatia and Romania in the EU12 and Denmark and, more especially, Italy, in the EU15.

The effect of the unemployed and the groups of inactive aged 20-59 and at risk of poverty moving into employment is to reduce expenditure on benefits broadly in line with the share of spending accounted for by this section of the population (i.e. in line with the figures in Table 9 above). This is particular so in respect of unemployment benefits which are reduced to very small amounts as those unemployed for most of the year are assumed to be employed, leaving only those unemployed for a few months to draw benefits. In total, therefore, expenditure on unemployment benefits for those aged 20-59 is reduced by 22% in both the EU13 and EU15 (Table 10).

Table 10 Reduction (%) in benefits going to those aged 20-59 as a result of unemployed and inactive at risk of poverty moving into employment, 2010

	Unemployment benefits	Social exclusion benefits	Housing allowances	Sickness/disability benefits	Total
Germany	-38.9	-40.9	-65.1	-22.4	-39.7
Malta	-36.9	-46.1	-30.9	-17.7	-31.5
Belgium	-32.6	-86.6	-49.0	-20.4	-30.6
Estonia	-16.5	-6.1	-84.6	-30.5	-29.0
Slovakia	-25.4	-61.8	0.0	-19.7	-26.9
Finland	-24.0	-47.6	-34.0	-20.3	-25.6
Hungary	-43.2	-40.2	-42.7	-14.7	-24.5
UK	-47.5	-24.9	-29.4	-11.9	-23.6
Poland	-17.3	-69.8	-45.7	-20.2	-22.5
Luxembourg	-14.0	-56.2	-13.1	-16.5	-22.4
France	-11.3	-42.0	-35.3	-21.7	-22.3
Spain	-24.6	-35.1	-10.6	-11.0	-21.9
Greece	-23.6	-31.7	-5.9	-17.4	-21.3
Austria	-30.2	-46.9	-29.7	-3.0	-20.7
Latvia	-13.9	-63.7	-54.2	-15.2	-18.6
Sweden	-14.3	-55.7	-30.2	-9.9	-17.6
Portugal	-12.3	-68.7	-4.4	-14.1	-17.4
Netherlands	-9.0	-34.6	-18.7	-6.3	-16.2
Lithuania	-24.8	-45.4	-45.6	-6.3	-15.4
Ireland	-12.3	-6.3	-18.2	-17.7	-14.1
Slovenia	-16.3	-54.9	-63.4	-3.4	-13.8
Bulgaria	-10.5	-68.2		-12.0	-12.8
Czech Rep	-18.5	-82.2	-70.8	-7.2	-12.7
Italy	-8.3	-17.0	-30.6	-12.8	-10.2
Denmark	-17.2		-9.2	-3.9	-10.1
Cyprus	-10.5	-58.0	-3.0	-7.8	-9.0
Croatia	-30.1	-53.8	-77.3	-1.1	-7.3
Romania	-11.6	-39.3		-2.3	-6.7
EU13	-21.9	-55.7	-42.1	-11.8	-17.5
EU15	-22.2	-35.6	-41.0	-14.5	-24.4
EU28	-22.2	-36.2	-41.0	-14.2	-24.1

Note: Figures for Ireland relate to 2009

Source: Own calculations based on the EU-SILC microdata

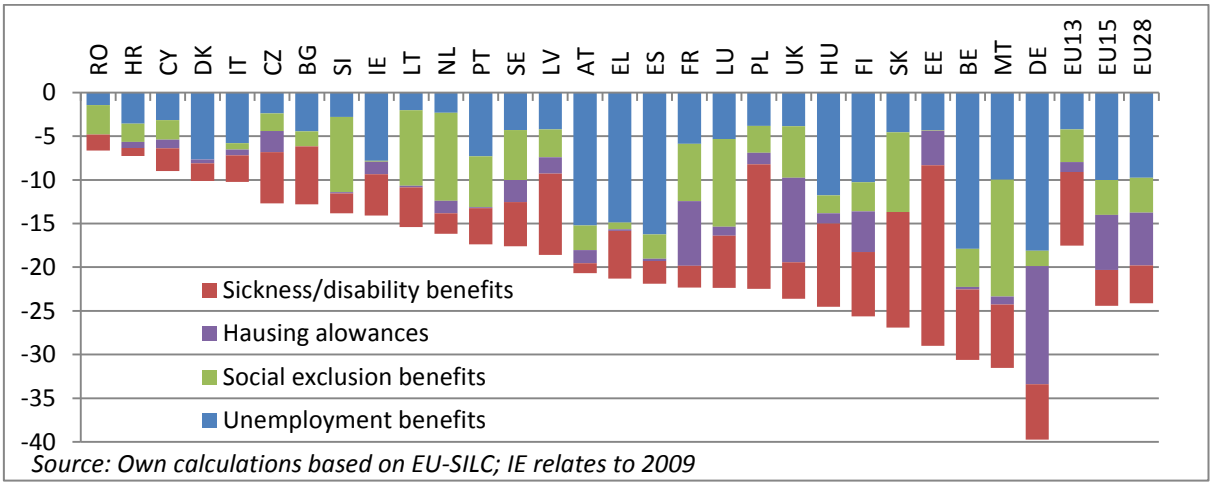
The reduction in social exclusion benefits, which amounts to 36% in the EU15 and 56% in the EU13, is less in line with the share of the age group accounted for by those at risk of poverty. This is especially the case in Romania but also in Cyprus, Germany, France and Sweden, in each case reflecting the relatively large numbers of people still receiving benefits after the assumed move of the unemployed and inactive into work, especially those in retirement in Romania.

The reduction in housing allowances - averaging 41-42% in both the EU13 and EU15 – also diverges significantly from the share of expenditure going to those with income below the at-risk-of-poverty threshold in a number of countries, especially Denmark, Finland, Sweden and the Netherlands, where a relatively number of the inactive in the age group are young people in education.

This is an even bigger divergence in respect of sickness and disability benefits, in this this case in Greece, Austria, Portugal, Slovenia, Bulgaria, Romania and Croatia. In all of these, but in the last two especially, where the reduction in expenditure amounts to only 1-2%, the reason is that most of the benefits DO not GO to those who report being inactive because of sickness or disability but to those who have retired, who are not included in the inactives who are assumed to move into employment. The overall reduction in sickness and disability benefits in the EU13, therefore, amounts to only 12%, much less than the share of those at risk of poverty in the total in the age group. In the EU15, the reduction is more (just under 15%), but this is still slightly less than the population share of those at risk of poverty.

The division by type of benefit of the overall reduction in benefits as a result of the unemployed and the inactive at risk of poverty moving into employment varies markedly between countries. In the EU15, much of the reduction (40%) on average is made up of lower expenditure on unemployment benefits, while in the EU13, unemployment benefits account for less than a quarter of the reduction whereas sickness and disability benefits make up around half (Figure 15). As indicated above, this reflects the fact that the latter benefits account for a large part of those received not only by the inactive but also by the unemployed. In Poland, around 65% of the overall reduction in benefits is accounted for by reduced payments of sickness and disability benefits and in Estonia, over 70%, in line with the share of such benefits in the overall transfers received by those in this age group at risk of poverty (see Table 5 above), while in Spain and France, the figure is only around 11-12% and in Austria, just 6%. Similarly, housing allowances make up a third of the reduction in France and Germany and over 40% in the UK, whereas in many countries they either do not exist (as in Bulgaria and Romania) or account for a very small part of the overall reduction.

Figure 15 Division (%) of reduction in benefits going to those aged 20-59 as a result of unemployed and inactive at risk of poverty moving into employment, 2010



Source: Own calculations based on EU-SILC; IE relates to 2009

The effect on overall government expenditure and revenue

It is not straight-forward to relate the reduction in spending on social transfers which can potentially be achieved by moving the unemployed and inactive into work at risk of poverty into work to overall government expenditure, partly because the data in the EU-SILC differ from those reported in ESSPROS (the European system of integrated

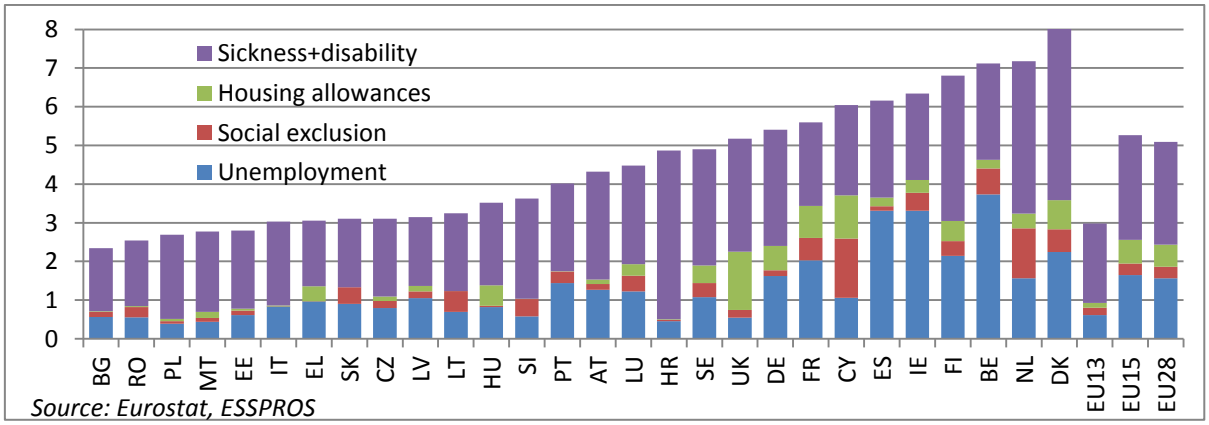
social protection statistics) and the public sector accounts. In particular, the total expenditure on the benefits concerned recorded in the EU-SILC tends to be significantly lower than in the latter, which may in part be because households with very low levels of income are not covered satisfactorily as well as because people may tend to understate the benefits they receive. This is likely to mean that the present analysis understates the relative number of people with income below the at-risk-of-poverty threshold and, accordingly, both the benefits they receive and the potential savings in social expenditure if the people out of work were in employment.

Overall, therefore, total receipts by households of unemployment benefits, social exclusion benefits, housing allowances and sickness and disability benefits in the EU28 in 2010 according to the EU-SILC data amounted to only 60% of the ESSPROS total for expenditure on these benefits (Annex Table A.1.). The figure was slightly more for the EU13 – 70% - though there was a marked variation in the relationship between countries, the EU-SILC total for Slovenia and Lithuania being larger than the ESSPROS total but only 39% of the latter in Cyprus. The variation was only slightly narrower in the EU15, the EU-SILC total for Denmark being much the same as the ESSPROS total but that for Luxembourg and Greece being only 41-43% of the latter.

Comparison of the EU-SILC data with the ESSPROS figures also shows substantial differences in the way particular benefits are classified in the two datasets as well as marked variations in the scale of the differences across countries. This applies especially to social exclusion benefits and housing allowances, which in a number of Member States – Italy and Greece, in particular, as regards the former and Lithuania and Portugal as regards the latter – account for considerably more expenditure according to the EU-SILC than according to ESSPROS. Such differences may well reflect the fact that people do not necessarily know what types of benefit they receive, so their classification in the EU-SILC may diverge significantly from the way they ought to be classified.

Given these differences, and given in particular the question-mark over how far the EU-SILC captures the benefits received by those with low income, any estimates of the scale of the reduction in social expenditure resulting from moving those out of work with income below the at-risk-of-poverty threshold involve a good deal of uncertainty. As a starting-point, it is useful to bear in mind the overall amount of expenditure on the benefits considered here relative to GDP, which provides a benchmark against which reductions in social expenditure can be assessed. According to ESSPROS, the total spending on unemployment benefits in the EU28 amounted to only 1.6% of GDP and to just 0.6% in the EU13, while social exclusion and housing allowances totalled 0.9%, though only 0.3% in the EU13 (Figure 16). Sickness and disability benefits accounted for more – for 2.7% of GDP in the EU28 (and EU15) and 2.0% in the EU13, so that overall, the 5 benefits together totalled 5% of GDP in the EU28, slightly more than this in the EU15, but only 3% of GDP in the EU13, with only Cyprus and Croatia having a figure above 4%.

Figure 16 Expenditure on social benefits by type of benefit as a % of GDP, 2010



Source: Eurostat, ESSPROS

The reduction in benefits from moving those at risk of poverty and out of work into employment, as indicated above, amounts to around 24% of the total received by those aged 20-59 in the EU15 and just under 18% in the EU13. Given the benefits received by this age group as a share of the total receipts by the population as whole implies a reduction of around 15% in overall expenditure on the benefits in question in the EU28 and just over 15% in the EU15 and a decline of just under 10% in the EU13. This is equivalent to an average reduction of around 0.5% of GDP in the EU28 and EU15 and of 0.2% in the EU13 (Table 11).

The reduction varies from 0.8% of GDP in Germany, Finland and Belgium to only 0.1% of GDP in Italy, Greece, Cyprus, Bulgaria and Croatia and to even less than this in Romania. If the reduction is applied to the ESSPROS figures for overall expenditure on these 5 benefits – assuming that the benefits received which are missing from the EU-SILC are spread evenly between households – the size of the saving in expenditure is increased to 0.8% of GDP in the EU15 and 0.3% in the EU13, though to over 1% of GDP in Germany and Belgium[3]. Since it is likely that those with low income account for a disproportionate amount of the missing expenditure, however, these figures almost certainly understate the overall saving in social expenditure which could be achieved by those at risk of poverty who are out of work taking up employment.

[3] These figures for some countries marginally overstate the saving to government budgets since taxes and social contributions apply to benefit receipts and these are lost as benefits are withdrawn, though the amounts involved are small.

Table 11 Reduction in unemployment, social exclusion, sickness and disability benefits and housing allowances from those aged 20-59 at risk of poverty and out of work moving into employment, 2010

	Reduction in benefits to 20-59 age group (%)	Reduction in total benefits (%)	Reduction as % GDP	Reduction implied by ESSPROS (% GDP)
Germany	39.7	28.2	0.8	1.5
Finland	25.6	14.7	0.8	1.0
Belgium	30.6	17.9	0.8	1.3
Ireland	14.1	8.2	0.5	0.5
France	22.3	14.6	0.5	0.8
Netherlands	16.2	10.0	0.4	0.7
UK	23.6	14.5	0.4	0.7
Denmark	10.1	5.1	0.4	0.4
Spain	21.9	12.8	0.4	0.8
Estonia	29.0	18.8	0.4	0.5
Sweden	17.6	10.1	0.4	0.5
Malta	31.5	15.6	0.3	0.4
Austria	20.7	13.1	0.3	0.6
Lithuania	15.4	9.7	0.3	0.3
Hungary	24.5	14.6	0.3	0.5
Slovenia	13.8	7.2	0.3	0.3
Latvia	18.6	10.8	0.3	0.3
Slovakia	26.9	15.2	0.3	0.5
Luxembourg	22.4	13.4	0.2	0.6
Portugal	17.4	9.3	0.2	0.4
Poland	22.5	12.2	0.2	0.3
Czech Rep	12.7	7.3	0.2	0.2
Italy	10.2	6.3	0.1	0.2
Greece	21.3	9.4	0.1	0.3
Cyprus	9.0	4.8	0.1	0.3
Bulgaria	12.8	5.8	0.1	0.1
Croatia	7.3	2.8	0.1	0.1
Romania	6.7	3.8	0.0	0.1
EU13	17.5	9.6	0.2	0.3
EU15	24.4	15.3	0.5	0.8
EU28	24.1	15.0	0.5	0.8

Note: Countries ordered by reduction as % GDP. Figures for Ireland relate to 2009.

Source: Own calculations based on EU-SILC microdata and Eurostat, ESSPROS dataset

The other gain to public finances from those at risk of poverty and out of work moving into jobs is the increase in government revenue that would result from both income tax and social contributions on the earnings of the people concerned. The amount involved varies, of course, with the level of wages that they are assumed to earn. If the jobs they move into are full-time and the wages are the average for men and women of a similar age and education level, it is estimated to add around 3% to the total taxes and contributions paid by those aged 20-59 (see Box for details of the estimation). In this case, the figure is much the same for the EU13 as for the EU15. This is equivalent to 0.8% of GDP in the EU15 and 0.6% in the EU13 (Table 12). The increase in revenue is slightly smaller if wages are 90% and only around half as much if part-time rather than full-time jobs are taken, though the difference in the size of the increase – reflecting the difference in wage levels between the two – varies between countries.

Table 12 Increase in revenue from income tax and social contributions from those aged 20-59 at risk of poverty and out of work moving into employment, 2010

	% total paid by 20-59				% GDP			
	F-t 100% mean	F-t 90% mean	P-t 100% mean	P-t 90% mean	F-t 100% mean	F-t 90% mean	P-t 100% mean	P-t 90% mean
Belgium	10.2	9.2	6.2	5.6	1.3	1.2	0.8	0.7
Italy	9.2	8.3	3.7	3.4	1.2	1.0	0.5	0.4
Latvia	13.5	12.2	4.1	3.7	1.1	1.0	0.3	0.3
Greece	8.6	7.8	2.6	2.3	1.1	0.9	0.3	0.3
Croatia	14.0	12.6	7.1	6.4	1.0	0.9	0.5	0.5
Ireland	9.3	8.4	1.9	1.7	0.9	0.8	0.2	0.2
Estonia	12.5	11.3	3.3	3.0	0.9	0.8	0.2	0.2
Lithuania	10.4	9.4	4.7	4.3	0.8	0.7	0.4	0.3
Austria	5.8	5.2	2.7	2.4	0.8	0.7	0.4	0.3
Spain	10.9	9.8	5.2	4.7	0.8	0.7	0.4	0.3
Slovenia	5.3	4.8	2.4	2.2	0.7	0.6	0.3	0.3
Poland	6.8	6.1	4.0	3.6	0.7	0.6	0.4	0.4
Romania	7.9	7.1	4.0	3.6	0.7	0.6	0.4	0.3
Portugal	5.1	4.6	1.4	1.3	0.6	0.6	0.2	0.2
France	4.9	4.4	2.8	2.5	0.5	0.4	0.3	0.2
Luxembourg	3.8	3.4	2.4	2.1	0.4	0.4	0.3	0.2
Bulgaria	8.3	7.5	3.6	3.2	0.4	0.3	0.2	0.1
Czech Rep	4.3	3.9	1.8	1.6	0.3	0.3	0.1	0.1
Sweden	3.1	2.7	1.5	1.3	0.3	0.2	0.1	0.1
EU13	7.0	6.3	3.6	3.2	0.6	0.5	0.3	0.3
EU15	7.4	6.6	3.4	3.1	0.8	0.7	0.4	0.3
EU28	7.3	6.6	3.5	3.1	0.7	0.7	0.3	0.3

Note: The columns show the increase in revenue from income taxes and social contributions as a result of the unemployed and inactive at risk of poverty moving into, respectively, full-time jobs with average wages, full-time jobs with wages of 90% of the average, part-time jobs with average wages and part-time jobs with wages of 90% of the average. Countries for which there are no data on gross wages to estimate taxes are excluded.

Source: Own calculations based on EU-SILC microdata and Eurostat, national accounts

As in the case of the reduction in expenditure on social transfers, the scale of the increase differs markedly across countries reflecting the number of people assumed to move into employment as well as the level of taxes and contributions. Aggregating the increase in Government revenue and the reduction in social expenditure, however, results in a possible overall gain to the Government Budget of 1% of GDP or more in most Member States for which it is possible to make an estimate (Table 13, second column). Taking the 'ESSPROS-adjusted' figure for the reduction in benefits (in the first column of Table 13), moreover, gives a gain of 1% or more in all Member States but four (Romania, Sweden, the Czech Republic and Bulgaria). Even if all jobs taken up are assumed to be part-time and earnings are 90% of the average, the gain would be at least 0.5% of GDP in the majority of countries.

Table 13 Overall gain to Government budgets from those aged 20-59 at risk of poverty and out of work moving into employment (% GDP)

	Benefit reduction implied by ESSPROS f-t jobs at mean wages	Benefit reduction implied by EU-SILC f-t jobs at mean wages	Benefit reduction implied by EU-SILC p-t jobs at 90% mean
Belgium	2.6	2.1	1.5
Spain	1.5	1.2	0.7
Estonia	1.5	1.3	0.6
Ireland	1.5	1.4	0.7
Latvia	1.4	1.4	0.6
Italy	1.4	1.3	0.6
Greece	1.3	1.2	0.4
Austria	1.3	1.1	0.6
France	1.3	0.9	0.7
Croatia	1.2	1.1	0.6
Lithuania	1.1	1.1	0.7
Poland	1.0	0.9	0.6
Luxembourg	1.0	0.7	0.5
Portugal	1.0	0.8	0.4
Slovenia	1.0	1.0	0.6
Romania	0.8	0.8	0.4
Sweden	0.8	0.6	0.5
Czech Rep	0.5	0.5	0.3
Bulgaria	0.5	0.5	0.2
EU13	0.9	0.8	0.5
EU15	1.6	1.2	0.8
EU27	1.5	1.2	0.8

Note: Countries for which data on gross earnings are not available to estimate revenue are excluded

Source: Own calculations based on EU-SILC microdata and Eurostat, national accounts

The estimation of the increase in revenue from taxes and social contribution from people moving into employment

The estimates of the increase in income taxes and social contributions as a result of those out of work taking up jobs are derived from the difference between gross and net earnings. Specifically, the average gross wage, as well as the net wage, is calculated for men and women in the same age group and with the same level of education as the individuals moving into employment. The difference between the two is then taken as the estimate of the additional revenue which would accrue to the government as a result. This, of course, assumes that the tax and contribution rates applying to the earnings concerned would be the same for the people taking up the jobs as those already employed in them, which implies that their household and other circumstances as well as other factors which affect their liability to tax are similar, which may or may not be the case. In order to calculate the implication for government revenue of this, the estimate is expressed as a percentage, first, of household net income and, secondly, of GDP on the basis of the ratio of household net income to GDP in the national accounts.

Depending on the assumptions adopted, therefore, the average gain to Government Budgets amounts to 1.2% of GDP in the EU15 and 0.8% in the EU13, which may not seem much, but it is equivalent to around EUR 135 billion in the former and EUR 8 billion in the latter and would make a significant reduction in budget deficits. This is particularly so in Belgium, where the gain is estimated to be around 2% of GDP or more if the people concerned, or at least most of them, took up full-time jobs and 1.5% of GDP even if they took up part-time ones. Although the figure is smaller in other countries, it is still well over 1% of GDP in Spain, Ireland, Italy and Greece as

well as in Estonia and Latvia. In these countries, however, the increase in net Government revenue (and the potential reduction in the budget deficit) is much less if the jobs which people move into are part-time rather than full-time. This is especially so in Greece where the increase is less than 0.5% of GDP. Nevertheless, in relation to the budget balance and in a context of tight constraints on public finances, even this seemingly low figure, which is the minimum increase if those out of work were to move into full-time jobs, is significant.

Concluding remarks

The analysis presented here is purely a hypothetical one designed to show the cost to social welfare system and to the Government budget more generally of people of working age – specifically aged 20-59 – not working and as a consequence having a level of income which is below the at-risk-of-poverty threshold. Although those with income this low include people in employment, they represent a minority and many of them live in households with people who are not in work. Less than 20% of those in the age group at risk of poverty in the EU27 in 2010 were, therefore, in households where everyone of working-age was in employment and though the figure was just over a third in Romania, many of these were subsistence farmers.

Of those not in work, a significant number are in full-time education or training and so not available for work or wanting to do so, while a few have retired. In 2010, the former made up an average of 17% of those at risk of poverty and not employed among those aged 20-59 in the EU27, though in the EU13, they accounted for less than 10%. People who have retired made up less than 3% in the EU as a whole, though slightly more in the EU13 (5%). Of the remainder not in work, most were unemployed (accounting for 57% of the total on average) and so actively seeking work but unable to find a job. The majority of the rest of were not working because of caring or family responsibilities, while many of the others had disabilities. Both groups, it can plausibly be assumed, would, to a large extent, be available for work and might well want to do so if arrangements were in place to provide the necessary support to enable them to take up employment.

It is a largely a matter for governments to ensure that these arrangements are in place. The policy issue for them is to weigh up the costs of providing the care facilities and support services of various kinds which are required against the cost of providing the social transfers needed to provide a measure of income support to the people concerned, as well as the 'costs' of foregoing the tax revenue which their employment would bring. The costs of people not being able to take up paid employment are not just financial. Account needs also to be taken of the social gains from reducing the number of people at risk of poverty and social exclusion and, consequently, of the improvement in social cohesion which is likely to result. The people concerned, therefore, are not only given the opportunity to be employed but to be longer reliant on social transfers which in most cases leave their income well below the at-risk-of-poverty threshold.

The extent to which their income is increased, however, depends on the type of job they able to take up and the wages they are able to command. Wages might well be less than the average for men and women already in employment in the same broad age group and with the same level of education, since arguably they would be in work instead of the latter. But even if this is the case, their earnings should still be enough to lift their income above the at-risk-of-poverty threshold. What seems more important is the type of job they are able to move into and, in particular, whether it is full-time instead of part-time. As indicated, a significant and increasing proportion of men as well as women moving into employment from being unemployed or inactive

have taken up part-time rather than full-time jobs over the past few years, especially in the EU15 countries.

Nevertheless, even moving into a part-time job, so long as the wages received are around the average would halve the proportion in the age group at risk of poverty in the EU15 and reduce it by more than half in the EU13. If, however, wages were to be much below the average, then the reduction in the EU15, though much less so in the EU13, would be much smaller. Indeed, in the Netherlands and the UK, even if wages were only 10% less than average, given the characteristics of the people concerned, it would mean an increase in those at risk of poverty rather than a decline if everyone moving into employment took up part-time jobs. At the same time, for most countries, people out of work taking up part-time at wages this much below the average would still be enough to reduce the proportion at risk of poverty significantly – by more than half in most EU13 countries as well as in Greece, Spain, Italy and Belgium.

The critical issue, however, is how the jobs are to be created for those not in employment to move into. This is an issue which is far outside the scope of the present paper though the above findings highlight the importance of finding a solution to this problem.

Annex

Table A.1 Total expenditure on benefits of different types, EU-SILC data as % of ESSPROS data, 2010

	Unemployment benefits	Social exclusion benefits	Housing allowances	Sickness/ disability	Total
Slovenia	89.5	89.7	91.3	122.0	112.7
Lithuania	39.7	115.9	920.0	121.4	103.5
Denmark	162.2	0.0	74.6	86.9	100.5
Ireland	112.8	14.4	165.8	79.6	95.7
Finland	102.1	79.1	115.2	62.2	79.7
Latvia	72.6	85.0	68.3	84.1	79.6
Malta	99.2	811.1	55.4	41.5	78.9
Italy	172.3	2221.1	192.7	33.3	75.6
Bulgaria	107.4	47.2	1.3	64.2	73.3
Sweden	85.1	61.2	73.4	67.5	71.4
Czech Rep	30.9	28.4	65.8	89.7	70.1
Croatia	69.5	402.5	211.0	66.6	69.5
Estonia	80.5	27.0	138.8	66.8	69.4
Belgium	68.3	31.1	8.1	65.1	61.8
Poland	76.3	106.2	66.2	56.2	60.6
Hungary	66.7	415.7	11.8	63.6	59.5
Austria	83.4	100.4	98.7	44.1	59.0
Netherlands	59.9	86.8	106.0	43.6	58.2
France	78.7	81.9	90.3	20.2	58.2
UK	42.0	300.6	73.0	32.5	55.4
Portugal	74.8	58.2	2155.3	39.2	54.5
Germany	81.7	98.1	85.4	30.7	54.2
Slovakia	33.0	57.5		63.1	53.7
Spain	56.6	257.2	27.9	38.4	51.8
Romania	27.2	50.4	0.0	55.6	48.3
Greece	51.8	4478.1	6.4	30.7	43.0
Luxembourg	62.2	80.4	33.6	25.3	40.9
Cyprus	71.7	4.9	48.1	41.5	38.7
EU13	57.9	68.2	39.4	68.0	64.9
EU15	81.5	107.9	80.0	37.4	60.2
EU28	80.7	105.8	79.4	39.4	60.4

Note: Figures for Ireland relate to 2009

Source: Eurostat, ESSPROS database and EU-SILC microdata