



The Social Protection Committee

SPPM THEMATIC REVIEWS ON THE 2012 SOCIAL TRENDS TO WATCH

The poverty risk of the (quasi-) jobless households ¹

¹ SPC (2014). Social Europe – Many ways, one objective - Report of the Social Protection Committee
<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7695&type=2&furtherPubs=yes>

1. Introduction

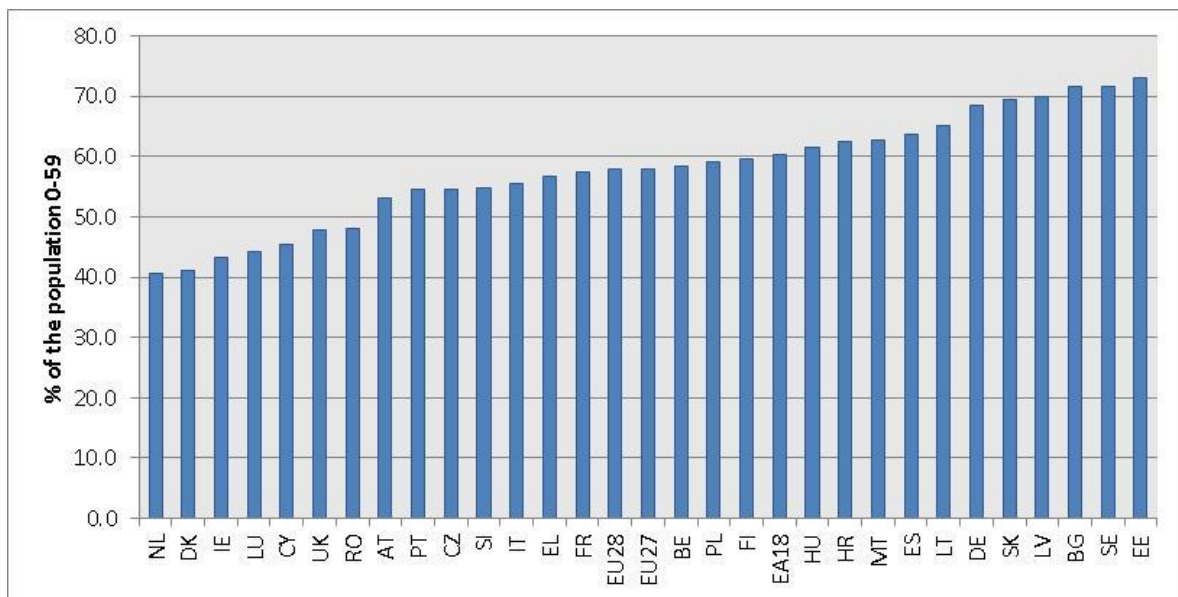
Poverty risk among (quasi-) jobless households has been identified as one of the main social trends to watch in the EU (SPC, 2012). The situation of the (quasi-) jobless households, i.e. those furthest away from the labour market, is at the core of the interrelation between activation policies and access to services, effectiveness of social protection schemes and the tax and benefit system and is directly influenced by general labour market conditions.

Household joblessness has received a good deal of attention since Gregg and Wadsworth (1996, 1998) pointed out that jobs in many Western countries have become concentrated in certain households. In the period of employment growth, this leads to parallel static or even increasing numbers of working-age households with no one in work. This can have a range of negative consequences, not only in terms of poverty and deprivation but also for psychological well-being, social relations and integration into the workforce and wider society (de Graaf-Sijl and Nolan, 2011). The economic crisis and the sustained high unemployment rates make the issue of the situation of individuals living in (quasi-) jobless households all the more problematic and wide-spread.

The definition of the Europe 2020 poverty and social exclusion headline target with the inclusion of (quasi-) jobless households as one of its components puts an important emphasis on the policy attention necessary for this specific group. The (quasi-) jobless households at risk of monetary poverty are indeed a sub-component of the Europe 2020 target and specific analysis can shed some light also on broader strategies for achieving the headline target.

Around 13.5 million Europeans live in households at risk of poverty where household members are not in the labour market in 2012. This share has been increasing in the past years at the EU level. Differences in the poverty risk for households outside the labour market across the Member States are quite big, ranging from between 40-50% in NL, DK, IE, LU, CY, UK, RO to more than 70% in BG and EE (Figure 1).

Figure 1. At-risk-of-poverty rate for the (quasi-) jobless households, 2012

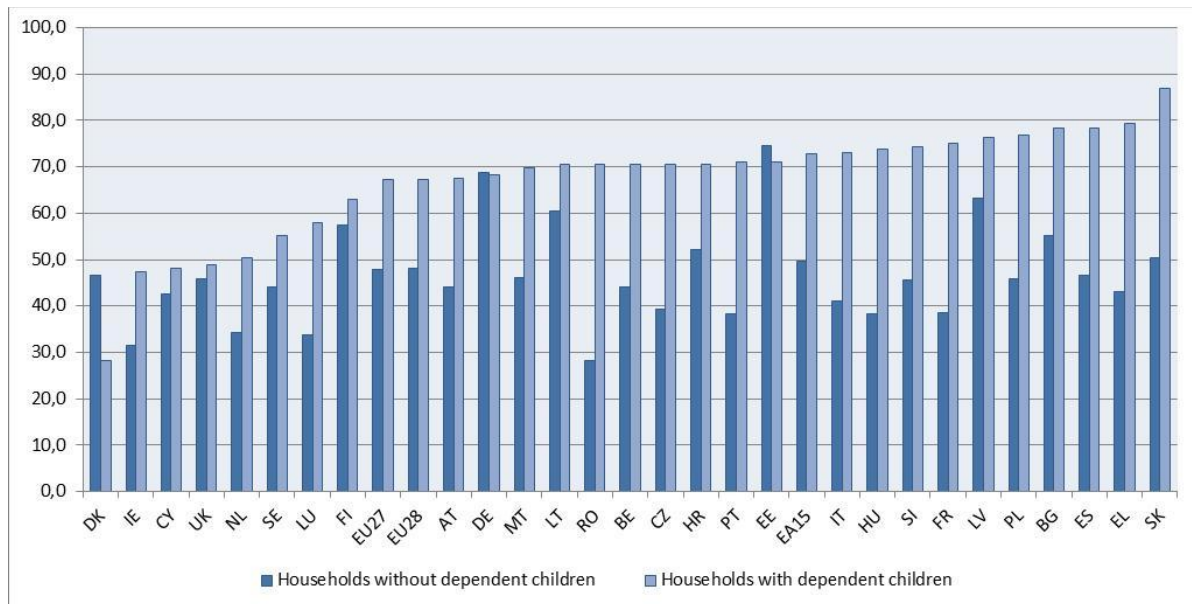


Source: Eurostat (EU-SILC); Note: 2011 data has been used for IE. Data for BE is provisional.

An important consideration when looking at the poverty risk for (quasi-) jobless households is the share of the (quasi-) jobless population in a country, i.e. the incidence of joblessness. **Error! Reference source not found.** shows the levels and recent evolutions of the share of this population.

In comparing the poverty risk of (quasi-) jobless households for households with and without children (see Figure 2), the overall trend is that (quasi-) jobless households with children have a much higher poverty risk with RO, FR, EL and SK where the difference is largest (between 36-42 pp). DK, and to a lesser extent DE and EE, which are the only Member States where (quasi-) jobless households with dependent children are more protected from poverty risk. Single people and single parents in particular represent a larger share of those living in (quasi-) jobless and poor households.

Figure 2. At-risk-of-poverty rate for the (quasi-) jobless by household type, 2012



Source: Eurostat (EU-SILC);

Note: i) data for IE refers to 2011; ii) provisional data for BE and SE.

European Commission analysis (European Commission, 2014) shows women, young and older workers, the low skilled, migrants, people with disabilities and single adults, including single parents are over-represented among the people living in (quasi-) jobless and poor households.

2. Main factors affecting the poverty risk of the (quasi-) jobless households

Effectiveness of social protection systems

Adequate income support aims at income smoothing in cases of job loss or temporary inability to work (replacement income) and to ensure access to minimum resources that are necessary to lead a life in dignity for those who cannot work or have no access to other replacement schemes (Nelson, 2013)

Adequate income support for the able bodied of working age can be seen as a two level system of safety nets. The first level aims at covering risks that temporarily prevent the individual from working (e.g. becoming unemployed or sick) with unemployment benefits typically providing a level of income replacement sufficient to also enable the unemployed to search for appropriate work (European Commission, 2011, Acemoglu and Shimer, 1999; Zolibotti, 1999). The second level of safety nets provides last resort financial assistance for those who do not work or cannot rely on any other resources, and typically includes unemployment assistance and social assistance.

In this context, policies and institutions promoting inclusive labour markets aim at facilitating access and return to employment and ensuring a living wage, especially for those who are the most

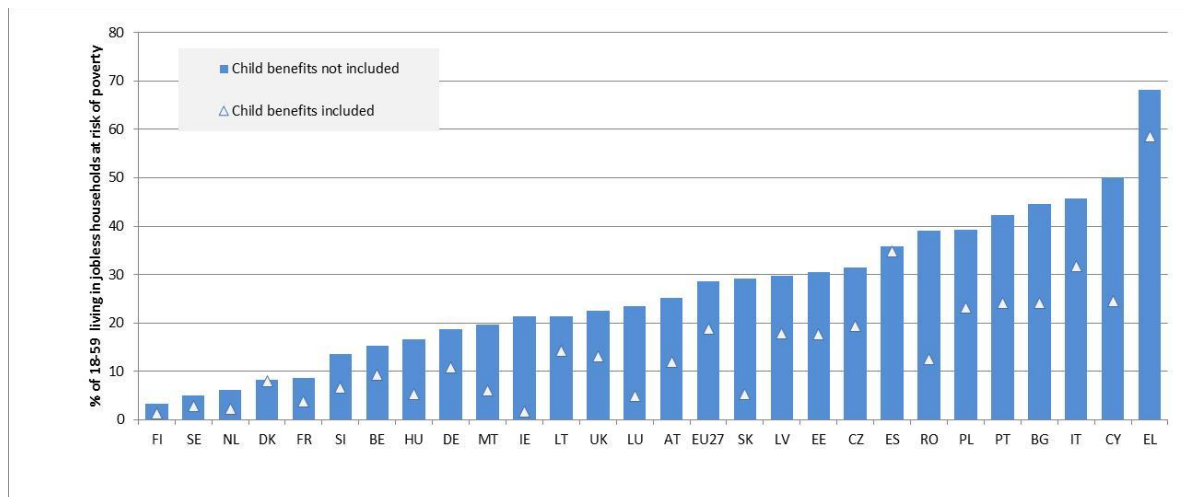
disadvantaged in terms of accessing the labour market, serve to reduce joblessness and in-work poverty. Inclusive labour markets are seen to result **from positive interactions between activation policies, labour market institutions that prevent segmentation and limit entry barriers, and well-designed tax and benefits systems**. Enabling services support labour market participation by addressing barriers to entry into employment (such as care obligations, low skill levels or health problems) and are seen as especially important for parents, including lone parents, the low-skilled, migrants or disabled. Examples of positive interactions between different policy dimensions include cases where strong labour market activation and conditionality compensate for any disincentives potentially created by the existence of relatively generous benefits. (European Commission, 2014)

The effectiveness of income support in working age depends on the characteristics of the benefit system, which can be described in terms of: coverage, adequacy, duration, eligibility rules and labour market friendliness, which can be judged in terms of the financial incentives they offer relative to labour market outcomes (wage levels, working arrangements, etc) and associated tax-benefit treatments.

The second level of safety nets (unemployment assistance or social assistance) is generally available for those who are out-of-work but not eligible for unemployment benefits (because they have never worked, did not work long enough to be eligible, etc) or because they have exhausted the duration of their entitlement. They are an essential element for guaranteeing minimum income to households which are outside of the labour market. Assessing the coverage (or lack of coverage) of this type of benefit is complicated because most surveys do not contain enough information to test whether a person out of work (inactive or long-term unemployed) is actually in need of (and/or eligible for) such a 'last resort' income support. The means-tests associated to such schemes generally require detailed information on income and assets which are not available in the EU Statistics on Income and Living Conditions (EU-SILC). An exploratory analysis by the European Commission (2014) on looking at non-coverage based on the share of people aged 18-59 living in (quasi-) jobless households at risk of poverty but receiving little or no benefits (accounting for less than 10% of their disposable incomes) shows that **at EU level, 15 % of those living in (quasi-)jobless and poor households receive no more than 10 % of their income from social benefits**. The share of individuals not receiving income support is especially large in EL, CY, IT, BG and PT, where more than 40 % of those living in (quasi-) jobless and poor households receive 10 % or less of their income from social transfers. By contrast, this share is less than 10 % in FI, SE, NL, DK and FR. (Figure 3). **Lack of coverage of these people would suggest a lack of effectiveness of the benefit system in reaching the most vulnerable. A large number of individuals not covered by social transfers are found in countries with large number of multi-generational households suggesting high levels of reliance on family solidarity**. This can cause difficulties in facilitating return to the labour market for working age individuals as those without income support might also be excluded from access to rights and obligations associated with the receipt

of working age benefits (job search requirement, training, etc.). Another coping strategy which cannot be monitored by standard survey data is resorting to the informal economy².

Figure 3. Proportion of 18-59 individuals living in (quasi-) jobless households at risk of poverty, whose total benefits received is less than 10% of total net disposable household income, 2010



Source: European Commission (2014); DG EMPL calculations based on EU SILC 2011 (IE 2010) Note: Reference population: Individuals aged 18-59 living in a (quasi-) jobless (very low work intensity) household.

In order to assess the capacity of safety nets to provide effective income support to those who need it, information on coverage needs to be complemented by information on the adequacy/generosity of benefits. The adequacy of unemployment benefits is generally approached through the net replacement rates, in so far as unemployment benefits are considered as replacement income, while the adequacy of social assistance is assessed in relation to the poverty threshold. The OECD tax-benefit model³ produces two theoretical indicators to reflect this: the net replacement rates of unemployment benefits⁴ and the net income of people on social assistance relative to the poverty threshold⁵.

²European Commission (2014), "Chapter 4: Undeclared work: recent developments

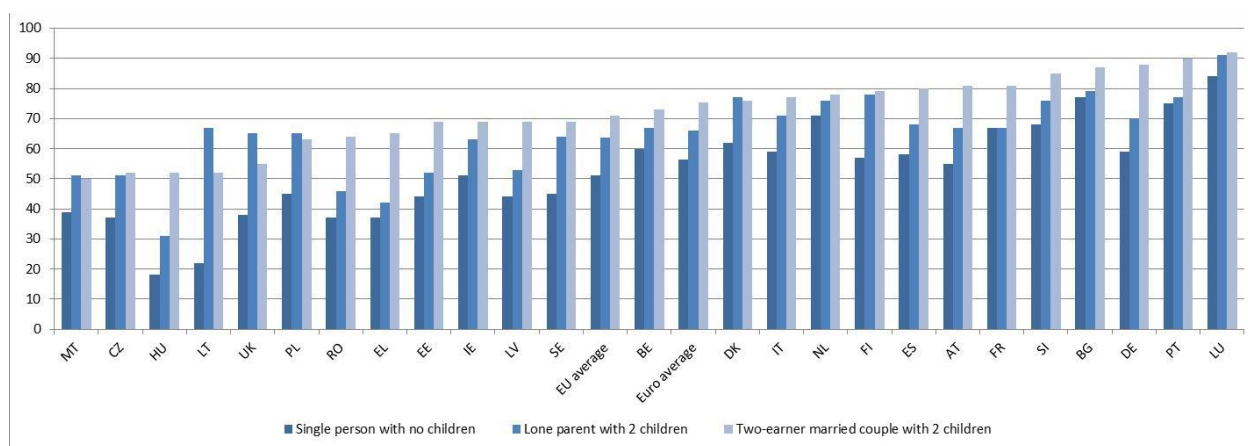
³ The OECD tax-benefit model aims at assessing benefit generosity, work incentives and income adequacy. <http://www.oecd.org/els/benefitsandwagesoecdindicators.htm>

⁴ The net replacement rate compares net income while out of work to net income while in work. The benefits may cover unemployment benefits, social assistance, family and housing benefits. Person assumed to be aged 40 with 22-years employment history. For married couples the percent of AW relates to one spouse only; the second spouse is assumed to be "inactive" with no earnings in a one-earner couple and to have full-time earnings equal to 67% of AW in a two-earner couple. Children are aged 4 and 6 and neither childcare benefits nor childcare costs are considered.

⁵ Next to the net replacement rates, the OECD calculates the level of income of people who receive social assistance (non contributory) relative to the poverty threshold; it would be another measure to reflect the adequacy of second safety net.

In most Member States the theoretical adequacy of unemployment benefits, as measured by the net replacement rates, varies widely (from a range of between around 40-50% depending on the household type in MT and CZ to as much as 85-90% in LU) and decreases with unemployment spells. (Figure 4). The presence of children in the household corresponds to relatively higher replacement rates across all Member States, but there are big differences in terms of the position of single parents and two-earner couples. For example, in countries like LT, UK, PL, DK single parents are better protected and register higher replacement rates. In most other countries, they are on the contrary receiving less benefits.

Figure 4. Net replacements rates of unemployment benefits for some household types (7th month of unemployment), 2012

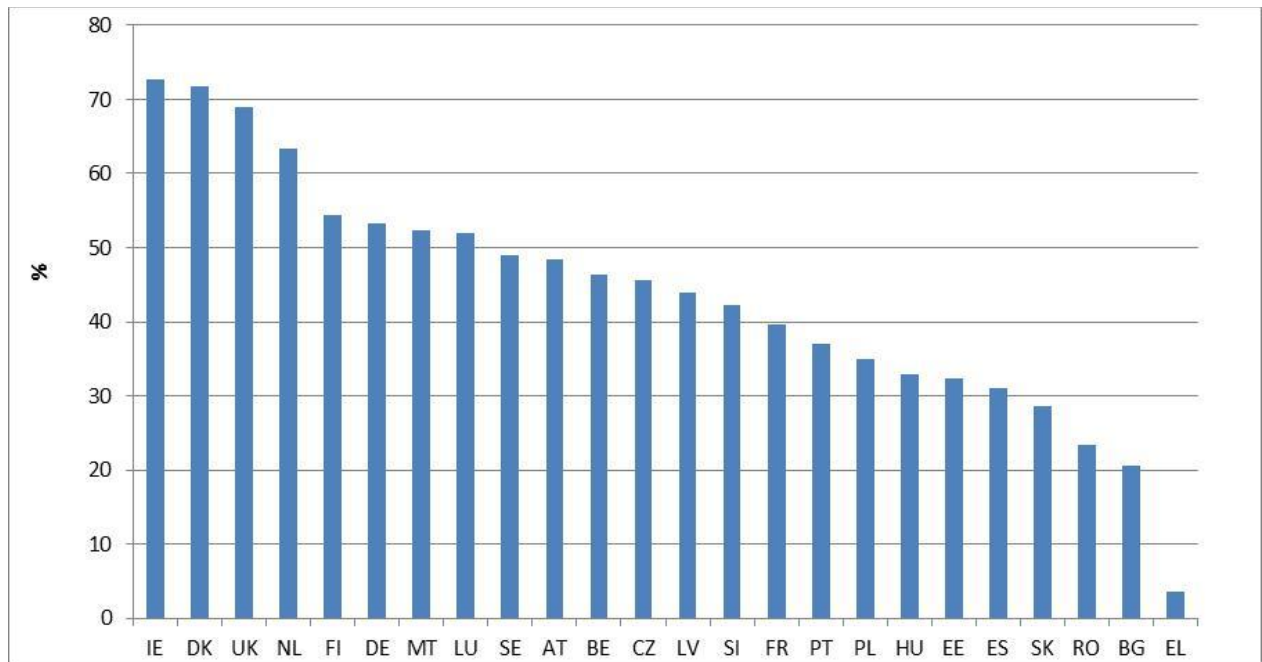


Source: OECD-EC tax-benefit model

Note: data available for 25 MS

The theoretical adequacy of social assistance can be measured by the net income of people on social assistance relative to the poverty threshold (Figure 5). Countries differ substantially in terms of the minimum safety nets they provide to workless households, even relative to the at-risk-of-poverty threshold, which depends on the living standards within each country. Only a few countries provide households with a minimum income and related benefits (for example housing) that are sufficient to lift them close to, or above, the 60% median income threshold, and this is true only for some family types. (European Commission, 2014)

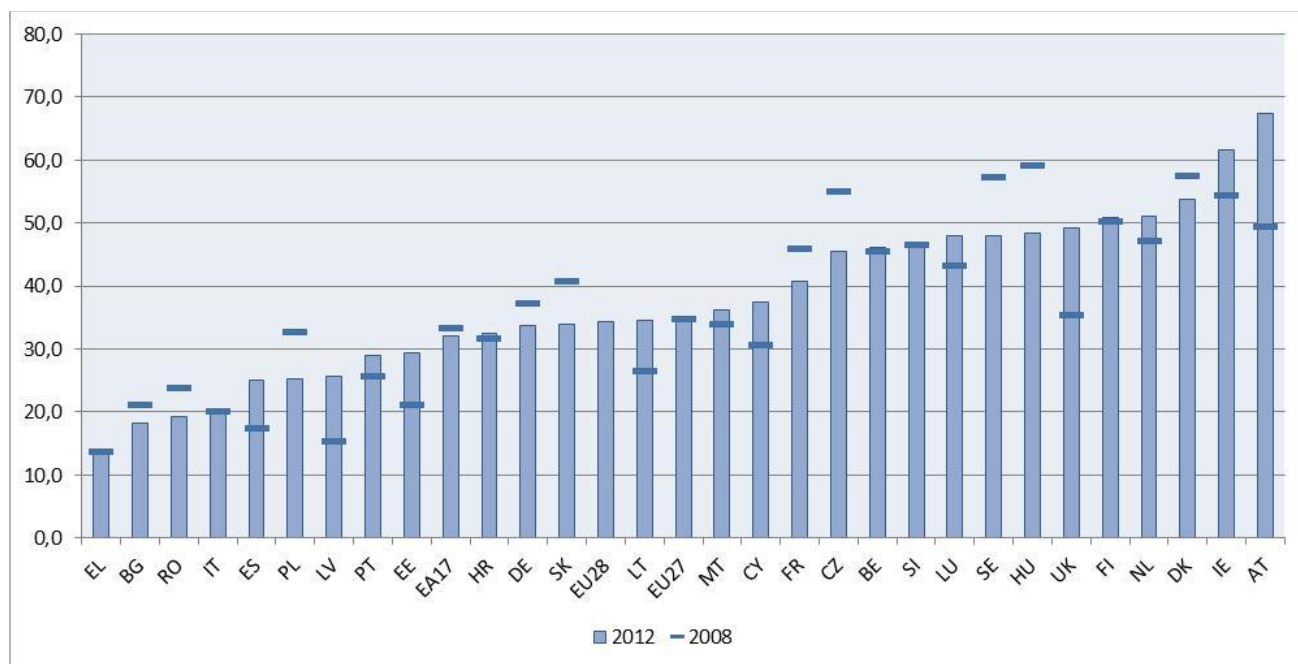
Figure 5. Net income of people living on social assistance relative to median income (including cash housing assistance), 2010



Source: OECD-EC tax-benefit model

The ability of social transfer to reduce poverty overall in many ways mirrors the adequacy of benefits and offers yet another element in understanding the link between effective social protection systems and providing support to the households furthest away from the labour market. In countries with low rates of poverty risk for the (quasi-) jobless households, the effectiveness of social transfers is very high – IE, NL, DK, AT, LU, UK (Figure 6), but this is not always the case. For example, countries like MT, BE and SE have relatively good poverty reduction impact of social transfers but with rather high poverty risk for the (quasi-) jobless households.

Figure 6. Impact of social transfers (excluding pensions) on poverty reduction, in %, 2012



Source: Eurostat (EU-SILC);

Note: 2011 data has been used for IE; provisional data for BE

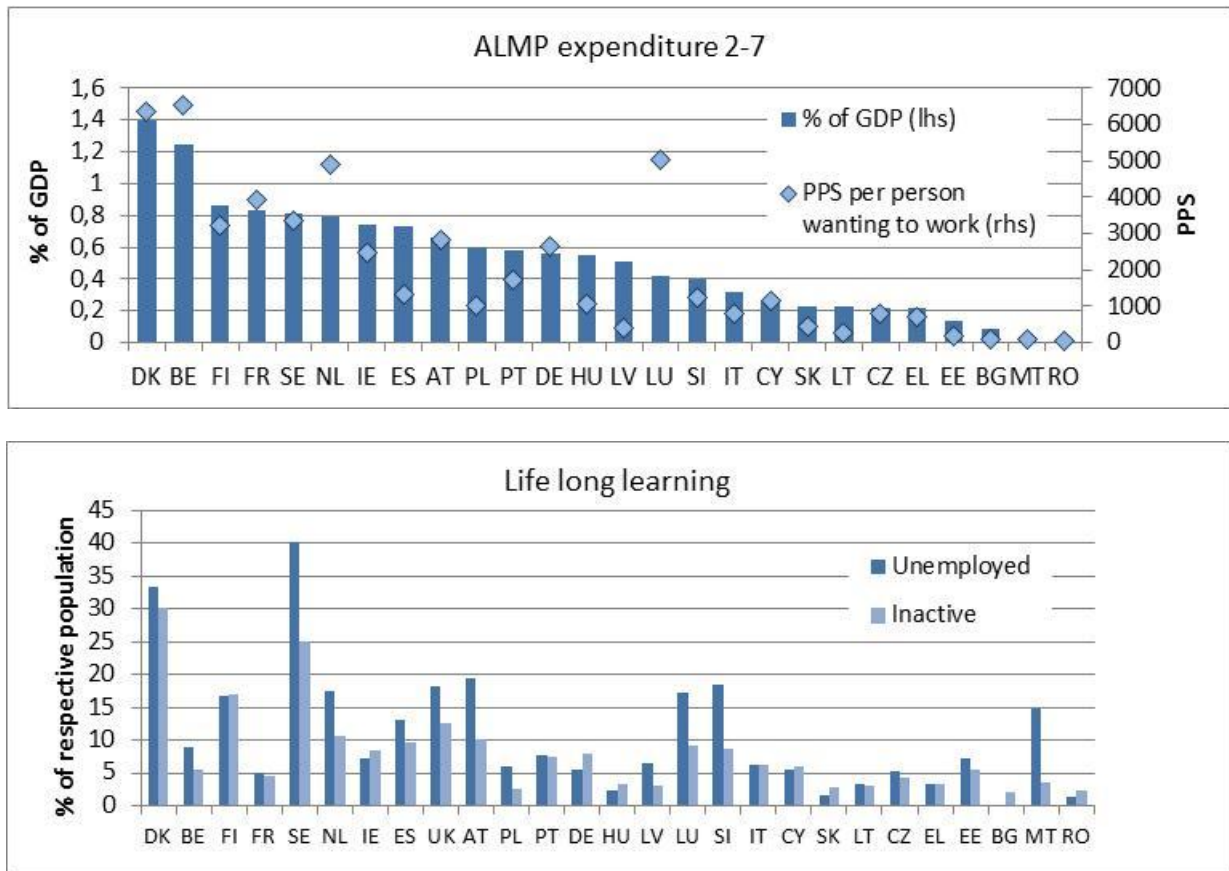
Inclusive labour market policies

Activation policies help ensure that unemployment benefit recipients and other jobseekers have a better chance of finding employment than they would otherwise have. Key features of such policies⁶ are to establish and enforce work-availability and mutual obligation requirements, meaning that benefit recipients are expected to engage in active job search and improve their employability in exchange for receiving efficient employment services and benefit payment. By improving skills, they are better able to return to "reduce the risk of long term marginalization from the labour market." (Gallie and Paugam, 2000). Overall, the effective integration of activation policies and unemployment benefit systems are seen as crucial in containing the potential disincentive effects of benefits⁷.

⁶ See www.oecd.org/els/employment/alm

⁷ This is confirmed by various macro-econometric evaluation studies that found evidence for interactions between activation policies and other policies, for instance that spending on activation policies mitigates the impact on higher unemployment benefits in rising unemployment (Bassaninin and Duval 2006).

Figure 7. ALMP expenditure (as % of GDP and in PPS per person wanting to work) and life-long learning (% of unemployed/ inactive in education or training), 2010



Source: European Commission (2014) using Eurostat (EU-LFS and LMP database). No reliable LMP data for the UK for categories 2-7. The UK spends mostly on category

Activation policies can be analysed in terms of expenditure in active labour market policies and participation in activation measures, including lifelong learning.⁸

Nordic countries score better in applying activation measures than do Southern and new Member States (except ES and PT), with DK and SE being particularly strong in terms of life-long learning and BE making particularly important efforts in terms of expenditure on activation measures.

The characteristics of activation policies vary considerably across countries ranging from high spending and high participation in Nordic countries and Continental Europe to low spending and low participation in the new Member States.

⁸ However, these measures do not take into account apprenticeship schemes, which are of special importance in Austria and Germany; they benefit mainly the young who experience much better school to work transitions, and are better integrated on the labour market than in other countries.

Enabling services are those services which support labour market participation by addressing issues that can be barriers to people entry into employment, such as having care obligations, lacking skills or health problems. Such services are therefore seen as especially important for working parents (i.e. working mothers, given that in all countries women devote much more time caring for children than men), including lone parents (more likely to be women according to the UNECE data for 2010), the low-skilled, migrants or disabled.

Accessible services are crucial to effective labour market participation, mobility, work and family life reconciliation, and social participation. However, a combination of various barriers - costs, coming from a deprived area, limited access or availability - might lead to a 'social gradient' in access to services. Research has shown that many collective services are more intensively used by people with higher educational attainment than by others, which serves to reinforce inequalities – a fact re-enforced if poorer areas have poorer quality services in the first place⁹. On the other hand, some collective services have been identified as pro-poor, such as bus services¹⁰ in cities.

Areas that fall under the heading 'enabling services' include access to early childcare, education and training, health care and housing which, whatever their original purpose, serve to facilitate labour market participation and returns to work, in particular for parents, those with care responsibilities, young people and those who are particularly disadvantaged such as the disabled and the low-skilled.

Tax-benefits systems are an important element for reducing reliance on social benefits and increasing self-sufficiency by supporting labour market participation and making work pay. The combination of low wages and inadequate benefits and taxes may indeed produce the risk of restrained incentives to take up work and perpetuate labour market exclusion. The effect of increased taxes and withdrawn benefits deducted when experiencing transitions from unemployment/ inactivity to paid employment are captured through the implicit marginal tax rates. These are the unemployment trap and the inactivity trap (European Commission, 2014, forthcoming). The OECD reports that such 'traps' vary across various types of stylized households (single earner, one-earner couple, two-earner couple, each without children and with two dependent children) and different wage levels (here 67% and 100% of average workers earning). The average unemployment trap is estimated to range from less than 50% in SK and the UK to well in excess of 80% in LV and LU. As regards inactivity traps, i.e. people who are inactive often times due to unfavorable tax incentive, (with potentially associated effect of losing unemployment benefits), these range from between 25% in EL and IT to over 75% in DK (European Commission, 2014, forthcoming).

However this does not, in practice, mean that countries with the poorest welfare schemes achieve higher levels of employment since the countries that provide the most generous unemployment/

⁹ See Bramley and Besemer (2011), Ward and Ozdemir (2012).

¹⁰ Ibidem.

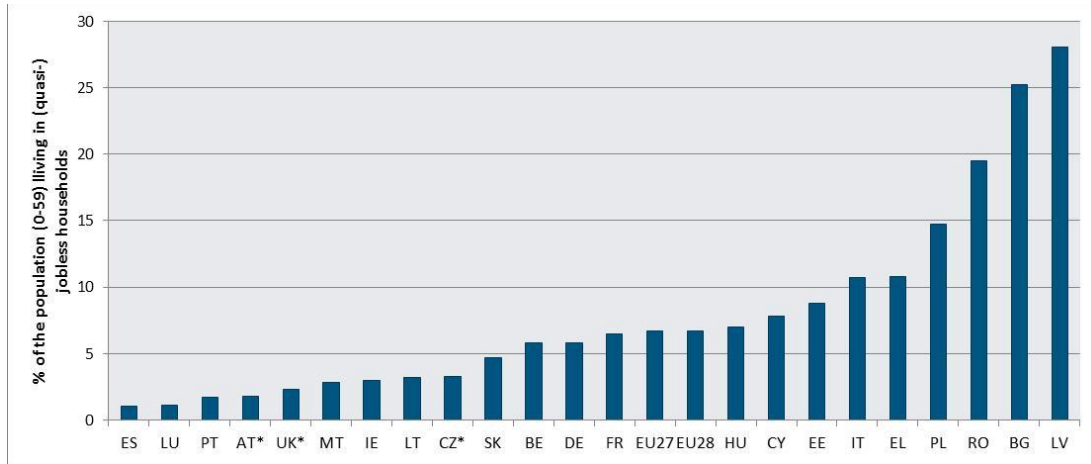
social benefits (wide coverage and high level) tend to achieve a good level of labour market participation and low poverty outcomes due to the integration of their benefit systems with well-design activation policies and strictly enforced job search conditionality terms, which more than offset the potential disincentives.

It is important to highlight that such traps are theoretical by nature and whether they realize themselves in reality depends on the factors indicated above, as well as more general determinants, not least the prevailing state of the economy and the general efficiency of the labour market. The policy tools used to lower the potential financial disincentives are generally concentrated on low-wage workers, and include seeking to reduce the tax wedge by adjusting the marginal tax rates, reducing social security contributions on lower wages, increasing minimum wages, reducing the level or duration of unemployment benefits, increasing conditionality, introducing in-work benefits or earnings disregards, and reviewing the design of out-of-work benefits (social assistance, child/family benefits, housing benefits, disability schemes). However, while some of these tools have no impact on benefit adequacy (in-work benefits, lower the tax wedge, increased minimum wage), others may lead to poverty and exclusion if the return to work is not achieved or fails to last.

Access to services

Data on access to services, especially for people in more vulnerable situations, is very scarce, not allowing for a comprehensive monitoring. Analyzing some of the standard indicators can give some indicators on potential areas of problems. For example, looking at the self-reported unmet need for care for people living in (quasi-) jobless households, we can see that compared to the rates for the overall population (see **Error! Reference source not found.**), some Member States have similarly low shares also for people out of the labour market. This highlights the potential good accessibility of health care services for people who are temporary/permanently not participating in the labour market. However, in some other countries, like RO, BG and LV, the share of individuals, living in (quasi-) jobless households, declaring difficulty in accessing medical care goes as high as between close to 20% and 30%. An important policy concern is, in fact, the extent to which being excluded from the labour market leads to bigger challenges regarding the accessibility of basic services.

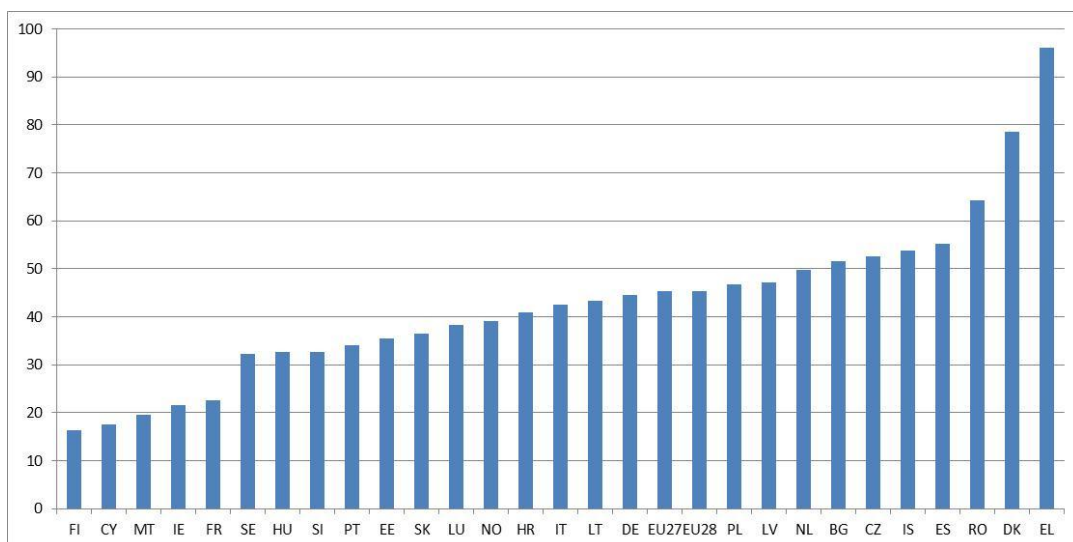
Figure 8. Self-reported unmet need for care for the population living in (quasi-) jobless households, 2012



Source: Eurostat (EU-SILC); unreliable data for AT, UK, CZ

Another potentially useful way of looking at the issue of services is the extent to which housing access can be a challenge for people who are both monetary poverty and (quasi-) jobless. The following figures suggest the ways in which Member States might address this issue with housing cost being more than 40% of the total disposable household income (net of housing allowances) for only between 15% and 30% of the (quasi-) jobless and poor in countries like FI, CY, MT, IE, FR, SE, HU, SE and going to as much as close to 100% in EL and 80% in DK.

Figure 9. Housing cost overburden rate for the (quasi-) jobless households living at risk of poverty, 2012



Source: Eurostat (EU-SILC); Note: data for IE refers to 2011

What do (quasi-) jobless households at risk of poverty live off?

The analysis by the European Commission (2014) shows that working age adults living in (quasi-) jobless households which are at risk of poverty have an equivalised disposable income equal to an average of around 60% of the poverty threshold with a range of between 50 and 85%. Most (quasi-) jobless households are living mainly on social transfers. They represent about 70 % of the annual gross disposable income of those living in a (quasi-) jobless and poor household, as opposed to 8 % of the income of those not at risk of poverty. The share of annual gross disposable income coming from social transfers received by individuals of working age living in (quasi-) jobless and poor households varies greatly across the Member States. This share is lowest in BG, EL and IT where (quasi-) jobless and poor households are living with no more than 40–50 % of their annual income coming from social transfers. The level of support to (quasi-) jobless and poor households is much higher in AT, BE, DE, FI, SE and the UK, where those living in (quasi-) jobless and poor households typically receive more than 85–90 %.

Income of individuals living in (quasi-) jobless and poor households consist, on average, in the largest share of social cash transfers, with the bulk of benefits received consisting of unemployment benefits (23 % of income on average). Sickness and disability benefits, family and education related allowances, housing and pensions also represent significant shares of the net disposable income on average. In BE, ES, FR and DE, for example, a large part of the benefits received by individuals living in (quasi-) jobless and poor households comes from unemployment benefits. In PT, and to a lesser extent in FR, BE and UK, social exclusion benefits account for a large part of support to those in this situation, while in PL, RO and the CZ, sickness and disability benefits form the major component. Pensions represent a large share of income support of those living in (quasi-) jobless and poor households in EL, RO, and PL, while housing benefits are significant in the UK and DE, with family and education related allowances also large in UK, FR, BE and the CZ.

These elements are essential in understanding the profile of people who find themselves in such situation and the necessary policy levers and potential gaps in the structure of safety nets that can address this.

What can we expect from the future?

The autumn European Commission forecast (European Commission, 2013) points out that the legacy of the crisis –deleveraging, financial fragmentation, elevated uncertainty and rebalancing needs – will continue weighing on growth. Unemployment has stabilised at high levels for the past half year, as employment losses have petered out. An early turnaround of the labour market is not expected. Employment in the EU and the euro area is projected to expand by ¼% in 2014, which will not yet be sufficient to curb high unemployment. In 2015, employment growth is set to accelerate to ¾ % in both the EU and the Euro area, resulting in a slight reduction of unemployment to 10¾% in the EU and 11¾% in the euro area. The differences in labour-market performance across Member States are expected to remain extremely large. This suggests that increasing shares of (quasi-) jobless households may still characterise the short-term with the

associated probability of increased poverty risk for those households who remain away from the labour market for larger periods of time

Moreover, while rising rates of long-term unemployment and joblessness are recognised as strong drivers of rising working age poverty, falling unemployment and rising employment rates do not necessarily lead to any immediate exits from poverty and reduction in poverty. Analysis of the European Commission (European Commission, 2014) shows that in the EU, around 20 % of those who are unemployed or inactive and at risk of poverty are in employment the following year. This proportion ranges from 15 % or less in MT, BE, RO, to more than 25 % in SE, AT, HU, CY and DK.

3. Policies, best practices and evidence-based responses

There is evidence¹¹ that well-designed policies can make a difference when it comes to transitioning out of unemployment. For instance, participation in **lifelong learning** (education or training) by unemployed persons improves their transition rates out of unemployment. However, participation in lifelong learning is currently limited in many Member States, particularly among low and medium skilled workers. Another finding is the positive effect of being registered with the **public employment service**, particularly when receiving **unemployment benefits**. In this context, the following section will look at the role of active labour market policies (with a specific emphasis on public works programmes), unemployment benefits, and finally it will examine the importance of comprehensive policy responses (including access to services such as life-long education). It is, however, possible to envisage also additional interventions taking into account the peculiarity of household joblessness, namely the fact that these families normally cumulate multiple disadvantages and therefore require a combination of policy measures.

Active Labour Market Policies

Measures to **increase access to and intensity of employment** are widespread, particularly in response to the economic and financial crisis. These measures usually fall under the broad category of **active labour market policies (ALMPs)**. Shared characteristics of ALMPs in Member States are **profiling, job counselling, educational training and (re-)qualification**.¹² **Subsidised employment, public work programmes, short-term paid employment, traineeships** and **voluntary work** are among ways of reintegrating people into work. While all Member States have policies for the unemployed and job seekers generally, the degree to which these target those who are furthest from the labour market (e.g. social assistance recipients) varies substantially. However, some Member States (BE, DE, AT, FI, LU, SI) specifically target these recipients by means of separate programmes.

¹¹ European Commission (2012). Employment and social developments in Europe 2012.

¹² For a classification by type of action see Eurostat (2010). Labour market policy — expenditure and participants.

Among the unemployed and recipients of social assistance and activation policies, Member States identify different sub-targets for ALPMs, among which **young and older workers, low-skilled and long-term unemployed, migrants and people with disabilities**. For example, IE targets older workers, while the UK targets young people within the Jobseeker's Allowance scheme. DK and SE have separate schemes for older workers and young unemployed people. Measures currently in place in DE, SK, SI and ES tend to focus on the long-term unemployed. Few efforts are made to provide special support to integrate migrants into the labour market, although Vienna is a notable exception.

An overwhelming majority of Member States¹³ **link the right to income support to the willingness to work and a minimum commitment to seeking a job, vocational or occupational training**. In SK, proving one's willingness to work and to accept a suitable job is only compulsory when applying for the highest level of income support benefit.¹⁴

The conditions under which job seekers have to accept a job offer varies across Member States. In CZ and DE, job seekers are required to accept *any* job, even if it is short-term, or a mismatch with their skills. In LV, EE, SK, MT and NL, job seekers are obliged to accept *suitable* work only (subject to the relevant authority's assessment).

'Reluctant behaviours or attitudes' such as refusing a job offer or refusing to take part in ALMPs are generally penalised by sanctions. These vary, and include withdrawal of benefits and grants (e.g. in EE, SI, LT, CZ, EE, LV), withdrawal of benefits (e.g. BG, CY, HU), suspension of benefits (e.g. LT, DK) or lowering the level of benefits (IE).

If a job seeker is unable to find work, most Member States offer **vocational or occupational training**. Some also provide various counselling services which can cover advice to manage debt or addiction or psychological support (DE) during drug or alcohol rehabilitation (MT). In SI, job seekers may have to sign a contract with the Social Work Centre to take part in social and/or health programmes (SI). In other countries such as LU, an 'integration allowance' is available only if job seekers take part in an 'integration activity'. In NL, a young person who is not in employment or education (NEET) has the right to request a job or an offer of a place in education from the local municipality.¹⁵

If occupational or vocational training is not successful, some public administrations provide **(mandatory) measures to ensure activation** (NO, RO, BG, NL, LV, HU). This may mean compulsory involvement in **public works**¹⁶ (e.g. providing social services, cleaning). This dimension should in

¹³ MISSOC Analysis (2011). *Guaranteed Minimum Resources*, MISSOC Secretariat for the European Commission, Contract nr. VC/2010/1131 .Pg 17.

¹⁴ MISSOC Analysis (2011).

¹⁵ The recently adopted Youth Employment Package aims to tackle the phenomenon of NEET at Member State level. For more information see: COM(2012) 727 final.

¹⁶ European Commission (2013). Public works – does it work? Issue paper prepared by DG EMPL, unit E5.

many cases be complemented by improving job seekers' prospects of finding work, to avoid locking them into such schemes (LV, HU).¹⁷

In general, there is emerging evidence that public works programmes **are not effective activation tools**. A large majority of evaluations (Card et. al (2010), Kluve (2010), Kluve (2006), Martin (2001), J.Csoba, Z.E.Nagy (2011), Leigh-Doyle (2012) Matković et el. (2012) Kraus et. al (1998) (Heyer et al. (2011), Hujer and Thomsen S. (2006), Caliendo (2005), Kluve et. al. (2006), Hujer et. al (2004)) conclude that public works programmes have not been successful in terms of helping the unemployed to enter the open labour market compared to other types of ALMPs (services and sanctions, training, wage subsidies etc.). Matković et el. (2012) also found that the public works programme increases the likelihood of being unemployed. However, some positive effects were found in terms of activation, e.g., more participants of the public works programme might have left unemployment for inactivity if they did not participate in the programme. Heyer et. al (2011) argue that direct job creation schemes may improve the labour market prospects of hard-to-place individuals, but they can be damaging for the employment prospects other groups of unemployed. What can be inferred from the debate is that the problem is not limited to direct job creation schemes but it concerns ALMPs at large. As a matter of fact, ALMPs can have unintended consequences, such as crowding-out effects, substitution effects and lock-in effects (see Boeri and van Ours, 2008; European Commission, 2012)

Lock-in effect (for example, (Kraus et. al (1998), (J.Csoba, Z.E.Nagy (2011)), Heyer et al. (2011) and others), is mentioned as one of the reasons for the low performance of the public works programme. Lock-in effect refers to the situation when the participants of the programme search less intensively for a regular job than unemployed non-participants. The possible reasons for lock-in effect are lack of time or lack of motivation (the participants regard public works as a job and hence see no pressing need to look for another employment). For example, the participant surveys of the Latvian Public Works programme confirm that many participants did not look for job because they were already involved in the programme.

Evaluators (for example L.J.Rotar (2011), Schweighofer (2013)) also believe that **stigmatization** provides additional explanation of the low success of the public works programmes. J.Csoba, Z.E.Nagy (2011) hold the opinion that public works programs contribute to creating dependency and loss of self-initiative.

As a response to the economic crisis, most governments recognise the need to step up efforts to develop measures **tailored to specific vulnerable groups**, notably the young, older unemployed people, and women. The main priorities for ALMPs in NRPs are expanding educational measures (including on-the-job and vocational training) to reduce skills mismatches, expanding and improving job (search) counselling for the unemployed to improve the matching process, and tax

¹⁷ Commission Staff Working Documents, Assessment of the 2012 national reform programme and convergence programme for Hungary and Latvia, SWD(2012) 317 final, SWD(2012) 320 final.

reforms that benefit low-wage earners to support labour market participation even during high unemployment, as implemented recently by e.g. AT and LU.

Back-to-work benefits (such as gradual phasing out of income support, tax allowances and in-work benefits) and **earnings disregards** (income that is disregarded when it comes to assessing tax liability) complement ALMPs in making it more attractive to take a job. Taxing labour income is a prominent element of every Member State's tax policy. So it is important to understand the underlying relationship between taxation and labour supply. Evidence suggests that **secondary earners**, mostly women, are much more responsive to wages (and thus taxes) than primary earners¹⁸. If the tax burden is too high, **secondary earners might decide they are better off not working, or (more rarely), working fewer hours.**¹⁹ Disincentives can also stem from joint taxation.

The role of unemployment benefits

Besides activation measures there is a need to provide income support for individuals and households that have just lost their jobs and incomes. **Unemployment benefits** (both contributory and non-contributory) act as a cushion to sudden income losses. In this respect, unemployment benefits are vital to keep households on a lifeline and avoid loss of human capital.

A recent assessment of the unemployment benefit systems in the EU²⁰ reveals some interesting dynamics on the structure and nature of unemployment benefit systems. Within the EU, there are groups of countries with relatively homogenous benefit systems. **Nordic and Continental** countries are characterised by relatively generous unemployment benefit systems both in terms of entitlement conditions and income support per unemployed. In both groups, activation and active labour market policies have a prominent role, with job search conditionality being strong especially in Nordic countries. In **Anglo-Saxon countries**, unemployment insurance benefits are relatively modest, while unemployment assistance plays a major role. Monitoring of job-search activity is strict whilst active labour market policies play a less important role. In **Southern countries**, access to unemployment insurance is strict and benefit generosity varies widely depending on age and contribution period. Activation policies have a relative low share of spending, while participation in active labour market policies is widespread. Finally, **Central and Eastern** countries tend to exhibit a tight unemployment benefit system both in terms of benefit support per unemployed and benefit coverage. Although replacement rates at the beginning of the unemployment spell can be high in

¹⁸ For a review of the empirical literature, see: Bargain O., Orsini K., Peichl A. (2011), "Labor Supply Elasticities in Europe and the US", IZA Discussion Paper No. 5820; Evers M., De Mooij R., Van Vuuren D. (2008), "The wage elasticity of labour supply: a synthesis of empirical estimates", *De Economist*, 156 (1): 25–43. DOI 10.1007/s10645-007-9080-z.

¹⁹ In the US, for every 10% reduction in after-tax wages, primary earners work about 1% fewer hours, for an elasticity of labour supply with respect to after-tax wages of 0.1. Secondary earners are much more responsive to wages (and thus taxes), with elasticities of labour supply with respect to after-tax wages estimated to range from 0.5 to 1. Source: Gruber (2011) *Public finance and public policy*, Third edition, Worth Publishers, pp. 628.

²⁰ Stovichek, K. and Turrini, A. (2012). *Benchmarking unemployment benefit systems*. European Commission, Economic Papers 454.

some cases, benefits drop sharply over the unemployment spell. Strict conditions on job search and availability often apply.

The overall generosity of unemployment benefit systems exhibits a high degree of variation across EU countries, with BE, AT, DK, IE, FI and PT having much more generous benefit systems than EU average while opposite is the case in the CZ, LT, SK, IT, PL, HU, LV and EE.

A somehow different picture emerges when the overall generosity of unemployment benefit systems is benchmarked against the prediction from multivariate regressions that take into account differences in fundamental factors affecting unemployment benefit systems. While unemployment benefit systems in MT, BE and PT appear even more clearly highly generous, the evidence becomes weaker for DK and FI. The reason is that high income per capita, strong activation policies, and sufficient fiscal space in these countries, justify more generous benefit systems. These benchmarks strengthen the case that Luxemburg and Sweden are characterised by relatively tight benefit systems, while for SK, EL, PL and HU results become more nuanced: benefit systems are still relatively tight, but, in light of a combination of low income per capita, fiscal deficits, and high long-term unemployment, not as much as coming out from a simple comparison with EU average.

The role of minimum income schemes

Minimum income schemes (MI) provide cash benefits to ensure a minimum standard of living for individuals (and their dependants) that have either no other means of financial support, or whose resources fall short of a given level, despite including contributory cash benefits and support from other family members. MI schemes are considered as 'schemes of last resort.' They provide a safety net to protect people from destitution if they are not eligible for social insurance benefits, or are no longer entitled to such benefits. **They play an even more important role in a crisis**, when the rise in unemployment has already had an impact on social assistance schemes.²¹

Almost all EU countries have some form of MI scheme at national level. Member States that do not have one, such as Italy, have some sort of scheme at regional or local level. These are generally conceived as a short-term form of assistance, though in most Member States, they are not formally time-limited. They are means-tested and funded through the tax system (i.e. non-contributory). They are intended mainly for people out of work, but some Member States (CY, DE, LT, FR, PT, RO, SI, SE and IE) have extended their scope to provide in-work income support.

In most Member States, MI schemes are designed at national level, while delivery is delegated to the local authorities.²² An examination of various national definitions²³ shows that most Member

²¹ Social assistance (SA) schemes represent the broader category including MI benefits together with other types of benefits such as housing benefits, child benefits and unemployment assistance benefits.

²² In a few Member States, like Austria and Hungary, responsibility for policy decisions on SA benefit levels and eligibility conditions is partly delegated to regional/local governments.

²³ MISSOC Analysis (2011). *Guaranteed Minimum Resources*, MISSOC Secretariat for the European Commission, Contract nr. VC/2010/1131.

States use a **statutory minimum level of income**, fixed by the (national, regional, local) legislator or government. Further classifications are possible along territorial arrangements, type of benefits (cash vs. in-kind), and existence of top-ups (or income tapers). Minimum income benefits in general are adjusted periodically. Most Member States do automatic adjustments following changes in the consumer price index (in some countries an increase will only take place if the consumer index is raised by a certain percentage (CZ, LU, BE)). Some Member States will only adjust at irregular intervals after a decision by the government (LT, EE), while in other countries this will depend on the available budgetary resources (BG, LV). However, the periodicity of adjustment varies from every 6 months (SI, NL), to each year (almost all Member States), up to once every 3 years (PL), or at irregular intervals (LT, EE)²⁴.

The design of MI schemes varies widely among Member States. In terms of **comprehensiveness** (i.e. the extent to which MI schemes are non-categorical, thus applying to those on low incomes in general, rather than to specific subgroups), four 'broad' groups of countries can be distinguished.²⁵

- **Group 1 (AT, BE, CY, CZ, DE, DK, FI, NL, PT, RO, SI, SE)** is characterised by relatively simple and comprehensive MI schemes, generally open to those without sufficient means to live in dignity.
- **Group 2 is smaller (EE, HU, LT, LV, PL, SK)**. It has simple and non-categorical²⁶ MI schemes accompanied by more restricted eligibility conditions.
- **Group 3 (ES, FR,²⁷ IE, MT, UK)** is characterised by a complex set of different and often categorical schemes that sometimes overlap but generally cover most of those with insufficient means.
- Finally, there is a small group of countries with limited, partial or piecemeal arrangements only covering narrow categories of people (BG, IT, EL).

Eligibility conditions (commonly related to age, nationality, residence, lack of financial resources and availability for work) vary significantly. In some Member States, where there are only piecemeal and categorical schemes, there are **people on very low incomes that do not have access to any form of MI scheme**.

Over the past years many Member States have **tightened eligibility conditions**.²⁸ Conditionality has generally been increased and **availability for work** has usually been more tightly enforced for those

²⁴ MISSOC Analysis 2011

²⁵ Frazer H. and E. Marlier (2009) 'Minimum income schemes across EU Member States. Synthesis Report' .

²⁶ Access to categorical benefits is restricted based on some personal characteristics (single, with children, etc.) non-categorical benefits are benefits with no restriction based on personal characteristics. .

²⁷ This has improved with the introduction of the Revenu de solidarité active in 2009.

²⁸ A follow-up survey, conducted in autumn 2011 and spring 2012, on the implementation of the active inclusion strategies at national level (based on pre-filled questionnaires complemented by MS information) found that more countries have implemented stricter eligibility criteria for minimum income (CZ, FR HU, PT, RO, UK) compared to those that relaxed eligibility (MT, LT) in the examined period (2008-2012).

are fit to work. There are often sanctions if beneficiaries fail to comply with the requirement that they must be available for work. Sanctions may lead to reductions in benefits, and to the loss of the right to SA benefits in more extreme cases. There is also a trend towards a stronger link between income support through MI schemes and **activation measures** including vocational training, job search assistance, and counselling.

MI schemes are of unlimited duration in all Member States. They are granted for as long as a person is in need of support, and need is monitored by regular checks that beneficiaries do indeed fulfil eligibility conditions. National MI schemes differ as regards the duration for which benefits are available after each application, so the frequency with which a claimant has to reapply varies. For example, in FR the Revenu de solidarité active (RSA) has to be renewed after three months, in BG, SI and LV after six months, while in PT, the period is 12 months.²⁹

Considering overall income support, it should be noted that in some Member States, MI claimants also receive **additional assistance for specific needs**, such as housing benefits, contributions to fuel costs and means-tested child benefits. Though not formally classified as 'guaranteed MI benefits' these do contribute to the level of income that is actually guaranteed to people supported by MI schemes.

The need for a comprehensive policy approach

The recent assessment of the **active inclusion strategies**³⁰ at national level highlights the importance of **comprehensive policy response** to the rising unemployment and the resulting poverty. The assessment clearly shows that Member States with robust social protection systems characterised by adequate income support, high coverage of unemployment and social assistance, access to enabling services, and strong activation policies have weathered much better the crisis.

The particular case of the (quasi-) jobless households, which often times combine a number of disadvantages, is a good example of the need for comprehensive measures to address the problem. It is important to contrast the social isolation and reach out to these families in order to connect them to the community. To these aim social services and particularly family centres offer good opportunity of (first) contact. Support for improving parenting and life capacities can be a first step to improve employability, as often times these households are households with dependent children

Employment services should be tailored around the clients' needs and offer options which meet their skills and interests and avoid placing individuals into predetermined employment pathways. A correct assessment of skills and placement into different streams could allow to better tailor these services. Clients must be transparently informed and aware of each step concerning their reinsertion path in order to improve their sense of ownership.

²⁹ MISSOC database for 2011.

³⁰ European Commission Communication of 20 February 2013 *Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020, CSWD 39 final.*

4. Results of the thematic in-depth review

The second thematic review of the SPPM 'trends to watch' focused on the poverty risk of the people living in (quasi-) jobless households, which is at the core of the interrelation between activation policies and access to services, effectiveness of social protection schemes and the tax and benefit system and is directly influenced by general labour market conditions.

The presenting countries (DK, FR and NL) outlined their specific macroeconomic context and the main employment and social indicators relevant for the situation of people living in (quasi-) jobless households and gave an overview of policy approaches undertaken by public authorities in their countries aimed at addressing the poverty risk to which those furthest from the labour market are exposed.

These countries use a different mix of tax instruments and cash benefits for delivering support to households with dependent children. Cash benefits can be universal or means-tested targeting low-income households, whereas tax instruments can take the form either of tax allowances or of tax credits specifically aimed at households with dependent children. Enabling services as those found in the presenting countries can also help address the poverty risk of people living in (quasi-) jobless households, by removing barriers to people's entry into employment and by facilitating mobility, work and family life reconciliation, and social participation. They include access to early childcare, education and training, health care and housing.

The best performing countries in reducing the poverty risks of jobless households combine direct income support with housing allowances and social assistance top-ups, especially for low-income households with dependent children. People living in (quasi-) jobless households receive about 70% of their annual gross disposable income in social transfer, as opposed to 8 % of the income of people not at risk of poverty, but the level of support to (quasi-) jobless and poor households varies widely across the Member States. The share of individuals not receiving income support is especially large in EL, where more than 40% of those living in (quasi-) jobless and poor households receive 10% or less of their income from social transfers, whereas this share is less than 10% in NL, DK, FR and SE.³¹ Moreover, people living in (quasi-) jobless and poor households receive, on average, the largest share of social cash transfers, with the bulk of benefits received consisting of unemployment benefits (such as in FR), followed by social inclusion benefits (sickness and disability benefits, family and housing allowances etc.).

Nonetheless, measures to promote activation and labour market participation are seen as key to reducing poverty and social exclusion. Activation policies encompass a range of measures: job search training and education for the unemployed and inactive, employment incentives and subsidies for job taking as well as job creation activities. The presenting countries seem particularly adept at applying activation measures. For instance, NL introduced tax credits with the aim of providing incentives for individuals to move into employment, which work in effect as tax reliefs on

³¹ *Employment and Social Developments in Europe 2014*

individual income and are thus similar to reductions in individual social protection contributions. In FR, the 2009 reform of the social assistance scheme towards a '*revenu de solidarité active*' focused on job security, on improving access to employment and to life-long learning and training, as well as on individual income support support to people already in employment. In the case of DK, the focus of the forthcoming reforms of cash benefits and of flexjobs will be put on direct income support for people living in low-income households irrespective of the employment status, combined with activation measures targeting especially the youth as well as with rehabilitation measures for disabled people of working age.

Taking up a job can have different implications and lead to different outcomes in terms of exits from poverty, depending on the labour market characteristics (segmentation, temporary or permanent contract arrangements, wage polarisation etc.) which also differ quite widely both between and among the presenting and the examining countries. For instance, labour market segmentation based on contractual arrangements is more of a concern in EL and FR, whereas wage polarisation and rigidities are more common in DK or NL.

The main conclusion that was drawn from the interventions of the presenting countries is that a policy mix that combines relatively broad coverage with high income replacement rates, as implemented in DK, FR and NL, tends to achieve low rates of entry into poverty, high returns to employment, and high exit rates out of poverty.

Afterwards, the examining countries (EL, SK, SE, LV) took the floor and discussed the findings put forward by the presenting countries, focusing in particular on the common challenges for both the presenting and the examining countries, as well as on the potential for transferability of those policy approaches that were identified in the preceding discussion, notably the reforms of the minimum income and social assistance schemes, measures to stimulate labour market participation and child care programmes. A greater focus on work incentives was identified by all the examining countries as the policy with the greatest potential for transferability, whereas improving the adequacy of social benefits and of the minimum income support targeting jobless households was desirable but also likely to deepen dependency traps and to come at considerable costs for their social protection budgets.

5. What should be the focus of policy effort?

The prevalence of household joblessness varies significantly across the EU. Understanding the cross-country variation should help to identify the potential causes of household joblessness. The level of household joblessness is related to the overall state of the labour market, the characteristics of (quasi-) jobless household members (their age, level of education, the age and number of children, and the health status of adults and children), and the tax and benefit systems operating in different countries.

More generally, poverty at working age is more strongly correlated with work intensity at household level than with the individual labour market status. Tax and benefits systems, particularly in countries with extensive means-testing of social benefits based on household income, may also

impact on the poverty risks of jobless households by creating disincentives for work that lead to dependency traps.

In assessing the impact of household joblessness, an important distinction may be drawn between households that contain only one adult and households that contain more than one. For an adult living in a one-adult household, individual joblessness obviously equates to household joblessness; the phenomenon of jobless individuals being clustered together in a household is a distinct one, though each gives rise to a jobless household.

A significant increase in the risk of poverty among the working age population is one of the most tangible social consequences of the economic crisis in Europe. Even if unemployment is gradually reduced as currently projected, this may not be enough to reverse rising poverty, especially if wage polarisation continues, notably due to a rise in part-time work. Poverty is especially likely to remain a growing problem if polarisation between high and low wages continues, and if more and more people are obliged to work only part-time.

For an adult to exit poverty, it is usually necessary to find a job. However, much depends on the type of job found, the level of pay and the number of hours worked. It also depends on the composition of the household and the working situation of the partner. A gradual reduction of unemployment is unlikely to be enough to reverse the increasing trend in poverty levels. In many Member States, significant shares of unemployed people are not covered by standard safety nets, such as unemployment benefits or social assistance.

Another persistent challenge to labour and social inclusion is represented by the gender gap in labour market participation, pay and the risk of poverty. Although gender gaps have decreased since the start of the crisis, as many traditionally male-dominated sectors were most affected by the downturn, persistent gender inequalities can still be encountered on the labour market. Women still work shorter hours and have lower hourly pay and less career opportunities, which ultimately contributes to the poverty risk of households with low work intensity.

Therefore, policy-makers need to foster both job creation and inclusive labour markets and decent working conditions. Moreover, efficient and effective income support schemes and well-targeted social expenditure, including for households whose members do have a job, are needed in order to allow more people to escape poverty and social exclusion. This would require an effective policy mix consisting of measures to stimulate flexible working conditions, investment in human resources development, activation, as well as employment-friendly accessible and affordable childcare.