

POVERTY AND LOW WAGES: INTERDISCIPLINARY PERSPECTIVES ON POLICY ISSUES

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INTRODUCTION

Minimum income protection (MIP) provisions in Europe fall well short of commonly accepted poverty thresholds in all but a few countries. Nearly everybody agrees that we need more adequate poverty relief, especially where jobs are scarce. The EU needs to be "Triple A" on social issues proclaims EU Commission President Juncker. Yet not much is actually happening.

So what is going on? Are politicians incurable cynics? Are they perhaps constrained by the preferences of middle class electorates that care mostly about themselves? Is adequate minimum income protection simply too expensive? Or are things more complicated? Are there structural barriers to raising income floors?

In this paper we discuss and explore one structural account, namely that social safety net provisions are stuck in a hierarchy of incomes that is not moving up at the same pace as median living standards, and thus relative poverty thresholds. In countries where the gap between social assistance benefits and net incomes at minimum wage is already small, the only way to increase minimum income floors for those without a job is through simultaneously increasing minimum wages. The problem, however, is that the minimum wage hikes that would be needed to bring social safety net provisions to adequacy levels, while also maintaining a sufficient work incentive, would be quite substantial in many countries.

People will argue that drastically lifting wage and hence minimum income floors is a non-starter in an era of continuing deindustrialization, intensifying international trade and migration within and from outside of Europe, skill-biased technological change, etc. The idea that wages of the low skilled, and therefore income replacement benefits, are inexorably under pressure unless governments and their electorates are prepared to take countervailing action in the form of offering public or subsidized employment was influentially promoted by Iversen and Wren (1998) in the "Service Economy Trilemma." It has since been echoed by many others. The notion has become common currency in debates these days.

So do we better learn to accept eroding wages and safety nets as a fact of life unless we allow ourselves to indulge in fantasies of governments spending vast resources on public and subsidized employment programmes for the least skilled to sustain or increase wage floors and minimum income levels, further assuming that electorates would be unperturbed by tax bills to match? Does policy really have to work from the assumption that substantial increases in wages, especially low wages, are not realistic?

It is absolutely important to consider these issues carefully and to weigh up the empirical evidence. This is especially important because governments in some countries are doing exactly the opposite of

what a portion of scholarship deems difficult if not impossible – pushing up wage floors. Germany is a notable recent case. The minimum wage that was introduced there is far more than a political gesture; it is having a very real impact in the wages of an important section of the work force. In Britain the government announced major cuts in tax credits, to be compensated by very substantial increases in the minimum wage. Japan is contemplating sizeable increases. At the same time, Living Wage Campaigns are emerging and flourishing in many countries, pushing for a more equitable deal for the lowest paid workers. New York and California recently voted in minimum wage twice as high as the current federal US minimum wage.

I argue that these governments and living wage campaigns may well be doing sensible things because the actual evidence sits at odds with simplistic trade-off or trilemma views. The bottom line of this paper is that we need to critically re-examine some ideas that are taken for granted too easily in contemporary debates, notably the notion that there are structural constraints to at least doing better. The scope for raising income floors is an issue of critical importance in this context.

THE DIRE STATE OF SOCIAL SAFETY NETS

Adequate protection against severe financial poverty is the first duty of the welfare state. It is also an explicitly stated priority of redistributive and policy efforts in many countries, and at the EU level where a poverty reduction target is part of the Europe 2020 strategy.

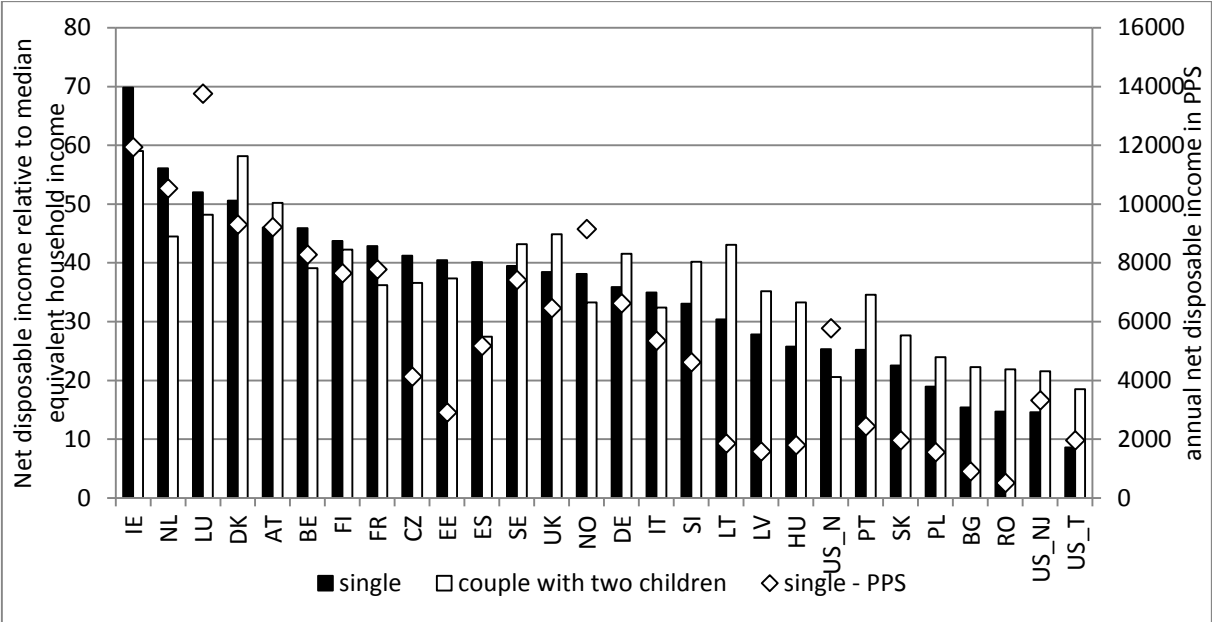
The importance of adequate social safety nets really hit home when the economic downturn of a magnitude unseen in decades struck after 2007. Despite some differences between individual countries, unemployment levels generally surged, causing dramatically increased demands for income protection. Safety nets played particularly important roles as the final barrier against severe poverty and the disruptive consequences thereof.

Yet minimum incomes for the able bodied at working age have become increasingly inadequate in providing income levels sufficient to raise households above the EU at-risk-of poverty rate, defined as 60 per cent of median equivalent income in each country. The overall tendency for the 1990s was one of almost uniform erosion of benefit levels, relative to the development of wages (Van Mechelen and Marchal, 2013; Nelson, 2008). This downward trend in the relative income position of families in receipt of social assistance changes somewhat in the 2000s, when the erosion of the level of benefit packages came to a halt in a number of countries. In the first years of the crisis a small number of countries took extra steps to increase protection levels (Marchal et al. 2014)¹. This pattern is symptomatic of a broader and not always well-recognized trend. While lots of studies tend to focus on explicit, intentional changes in social policy, non-action - notably non-adjustment of benefits to increases in prices, wages and living standards - can have equally if not more significant consequences. As Moisio et al. (2014) bring out with great clarity in a study of Finland, poverty increased there not because of changes to the benefit systems, but because benefits eroded relative to wages and living standards. When it comes to social transfers, non-action can be as significant as action.

Despite a number of positive developments in at least some countries, net incomes of minimum income recipients continue to fall well short of the EU's at-risk-of-poverty threshold (60 per cent of median equivalent household income) in all but a few EU countries, as is shown in Figure 1. The size of

the gap between the level of the social safety net and the commonly used 50 or 60 per cent of median income poverty threshold varies across countries and family types, but it is generally quite substantial.

Figure 1: Minimum income guarantees relative to median equivalent household income, 2012, EU Member States + 3 US States



WHY IS MINIMUM INCOME PROTECTION SO INADEQUATE?

This begs the question: why are social safety nets not more (potentially) adequate?

Misers and cynics

There is one obvious candidate explanation: they are just not affordable.

But would adequate social safety nets really be too costly? Final safety net provisions (social assistance schemes) generally constitute only a fraction of total social transfer spending (the bulk of outlays going to pensions, unemployment and disability insurance, child benefits and other benefits). Vandenbroucke et al. (2013) calculated the redistributive effort required to lift all equivalent household incomes to the 60% of median level in a wide range of European countries. In most countries, the hypothetical expenditure needed amounts to less than 5 per cent of the aggregate equivalent household income that is above the 60% threshold. Nowhere is it higher than 9 per cent. Other calculations have estimated the total amount needed to lift everybody to the level of the poverty line at a couple of percentage points of GDP. The Dutch Social and Cultural Planning Bureau, for example, found that it would cost just over 2 billion euro to bring every Dutch person to the level of the poverty line, equivalent to not even half a percent of GDP.

Such a mechanical calculation ignores incentive effects and behavioural change (more poor people may prefer social assistance to low-paid jobs; the non-poor may reduce their work effort). The real cost of such an operation is probably higher than the mechanical effect and the calculation may be seen as indicating a lower boundary for the distributive effort that is required. Still, such calculations

also illustrate that the cost of adequate social safety nets is not necessarily outside of the realm of the conceivable.

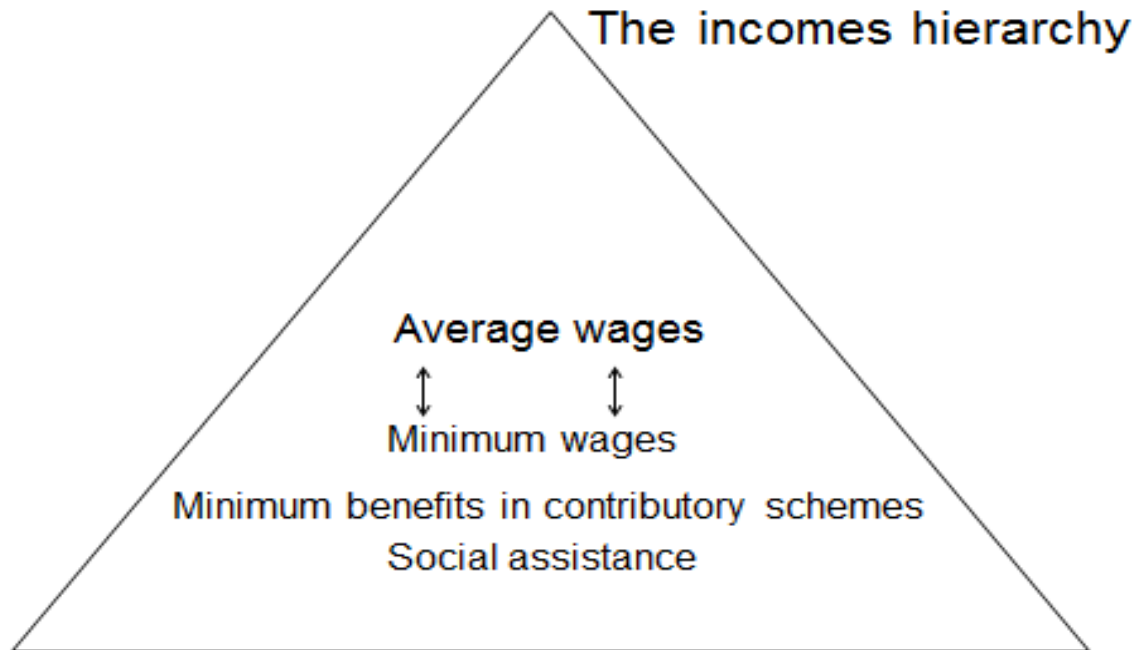
So the question is: what keeps governments from doing the proper thing? Perhaps it is electoral calculation and hence self-preservation. Politicians like to talk about the need for adequate poverty, but in reality they spend money on other policies, perhaps policies that they perceive to be more popular among their (middle class) electorates. It may also be the case that politicians prefer to spend money on policies that they believe will bring more lasting improvements to poor people's lives. Governments may prefer to invest in human capital and in services that help people to build, enhance and realise their earnings potential. Indeed, this would be in tune with current thinking in many circles. In an influential report to the Presidency of the European Union, Esping-Andersen et al. (2002) called for a radical overhaul of welfare state architectures in Europe stating: "As the new social risks weigh most heavily on the younger cohorts, we explicitly advocate a reallocation of social expenditures towards family services, active labour market policy, early childhood education and vocational training, so as to ensure productivity improvement and high employment for both men and women in the knowledge-based economy." The OECD (2011) has stressed the crucial importance of human capital investments in the fight against growing inequality and poverty, while stating that "redistribution strategies based on government transfers and taxes alone would be neither effective nor sustainable". By the same token, the European Commission (2013) has launched a 'Social Investment Package' also emphasizing human capital investment. Publicly-provided or subsidised services of various kinds, and particularly education and care services, are seen as key instruments in this package. So it may well be the case that increased human capital and social investment spending has crowded out cash spending on transfers. But there is little actual evidence for large shifts from cash to services spending (Cantillon and Vandenbroucke, 2014). Moreover, that would not account why governments would not spend some extra money to make direct and significant inroads into poverty reduction, as is their stated intention in many cases. Neither does it tell us why governments do not redirect resources within existing cash spending programs to the poor.

A structural account

There is an alternative account that goes like this. Policy makers are faced with structural constraints to improving minimum income protection adequacy that have emerged because of an interplay of shifts in labour markets, household formation and household income packaging (dual earnership).

In order to understand this argument we need to see that incomes from various sources tend to sit in a certain hierarchy in advanced welfare states.

Figure 2: The Incomes Hierarchy



At the bottom sits the minimum income floor as it is provided in most countries through social assistance. This is in principle the minimum income below which nobody can fall. It is in most cases ensured by law at the national level. Where no nationally regulated safety net exists it is sometimes provided at regional or local level (Van Mechelen and Marchal, 2013)

Above the minimum income floor provided by social assistance sit the minimum benefits provided within various social insurance schemes. These entitlements are acquired through contributions and work histories. The logic in most systems seems to be that rights acquired through past contributions sit somewhat higher in the incomes hierarchy than benefits that are provide because of sheer need, and on the basis of compassion or other notions of decency and social justice.

Then come minimum wages. It is a widely accepted principle that work needs to pay more than living on a benefit, certainly as far as people at working age are concerned. This may not apply to those who are incapacitated for work, for example because of illness or injury, but a situation in which work capable people are able to live on benefits that are higher than minimum wages for extended periods of time does not have much legitimacy.

Note that we use the term minimum wage here as shorthand for the de facto wage floor. There may be a substantial difference between the official 'headline' minimum wage and the de facto wage floors that exist. In Belgium for example the "headline" minimum wage serves more of a benchmark purpose than anything else: it constitutes the absolute bottom line of the wage structure. "Real" minimum wages (i.e., pay scales for the youngest, least qualified and least experienced workers) are negotiated

at the industry level. These tend to be considerably higher than the nationwide minimum wage. As we will see there is in reality only a fuzzy relationship between the level of the minimum wage as captured by institutional indicators (be it OECD, CSB-MIPI, etc) and the actual low pay incidence.

However, it is important to point out that in policy discussion the headline minimum wage does tend to play a large role, if only because it is most often used benchmark in calculations of work incentives. How pervasive potentially reduced work incentives from higher social assistance or social insurance benefits are in reality depends of course on how many people actually work or can work for the headline minimum wage, and this respect there are considerable country differences. For example, the OECD calculates the level of the minimum wage as a percentage of the median wage in both Belgium and Latvia at around 50 per cent. Yet in Latvia close to 15 per cent of workers are estimated to work at around the minimum wage while in Belgium it is close to zero.

Which has brought us to the central income component in our income hierarchy, the average wage, or the median wage. Again this is shorthand for what is essentially the rest of the wage building that lies above the minimum wage. It is, again, a widely accepted principle that there needs to be some spread in wage levels in order to have a properly functioning labour market.

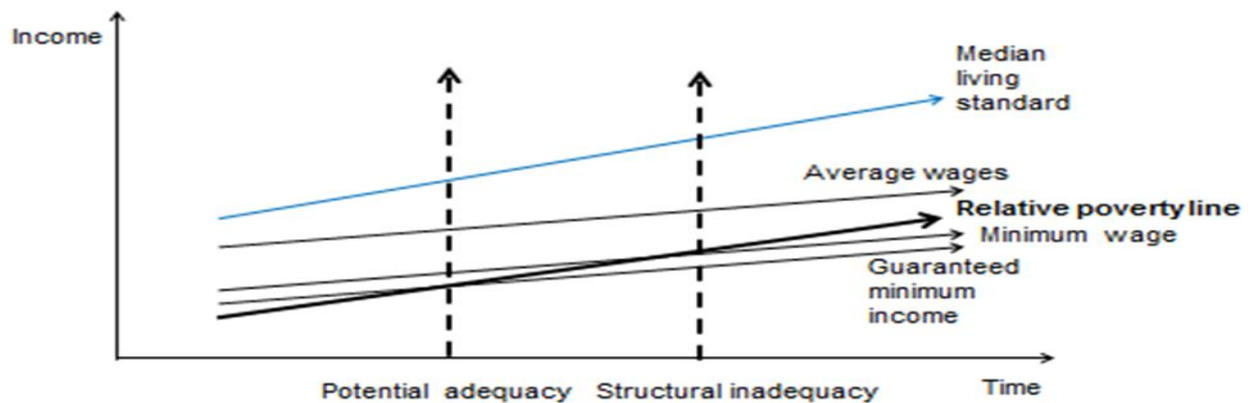
Let us for the sake of the argument accept that this incomes hierarchy applies in any advanced welfare state. The clear implication is that lifting the minimum income floor – raising social assistance benefits – would have reverberations throughout the whole income distribution. Everything of course depends on what the actual distances are. If there is a very considerable distance between the minimum income floor provided to those not in work on the one hand and the minimum wage on the other there may be ample scope for some lifting while maintaining work incentives. But if there is not a lifting of the minimum income floor will have implications for the rest of the incomes structure if relative hierarchies are to be maintained.

The crucial issue now is: where is the poverty line? If the poverty line is sufficiently above the minimum wage floor, or if the minimum wage can be set well above the poverty line without harmful employment effects, it is in theory possible to provide adequate minimum income protection.

We now come to the crux of the question. For in actual reality the poverty line in many countries sits above the minimum income floor, in some case way above it. Even minimum wages for full time workers are below the poverty in many countries, as we will document in more detail later. In such a situation significantly lifting the minimum income floor would have far reaching repercussions for other incomes. In that situation, improving minimum income protection adequacy would require lifting the entire incomes building, not just social assistance and equivalent benefits.

But what is even worse: it would appear that the poverty line has been moving up right across the incomes pyramid over the past decades. How is this possible? Does the poverty line not move up in step with wages? Not necessarily. The relative poverty threshold is calculated on the basis of equivalent disposable household income. Disposable household income is the sum of the incomes – labour and non-labour – of all household members. When wages remain stagnant but the number of earners per household increases, for example because of higher female labour participation, then living standards go up, and the relative poverty threshold follows. Likewise, if non-labour income goes up and wages remain stagnant, then living standards also increase.

Figure 3: An account of structural inadequacy when living standards outpace wage growth



This is where the shifts that we mentioned at the beginning of this section come in. Dual earnership has proliferated in just about everywhere, often pushing up living standards more than individual wages. In the Netherlands for example sustained wage moderation was at the core of a concerted strategy by governments and social partners to boost employment, especially of women. Being highly successful in this respect, living standards outpaced wages considerably.

Likewise, in many countries there has been a structural shift from labour income to capital income, as documented by Piketty (2014) and others. Capital income tends to be heavily concentrated at the top but it is nevertheless conceivable that it has contributed more to disposable income growth in the middle than at the bottom.

In this context it is easy to see to how a divergence of real average wage growth and living standards growth may bring structural inadequacy, as depicted in figure 3. Minimum income levels and minimum wage levels are after all constrained by average wage growth.

But although this sounds plausible, is this what has happened? Figures 4 and 5 shows trends in the poverty line relative to median and low wages (P10) in six countries, drawing on OECD data for wages and EU-SILC data for relative poverty thresholds (60 per cent of median equivalent income). We can see a general erosion of wages relative to poverty thresholds, largely driven by stronger increases in median living standards than real wages. That said, the trend is not universal. In the UK, for example, low wages (P10) were about at the same level relative to the poverty threshold in 2012 as compared to 1995. Yet the general picture is of an uphill struggle to maintain potential adequacy.

Figure 4: Median wages relative to the poverty line in six countries

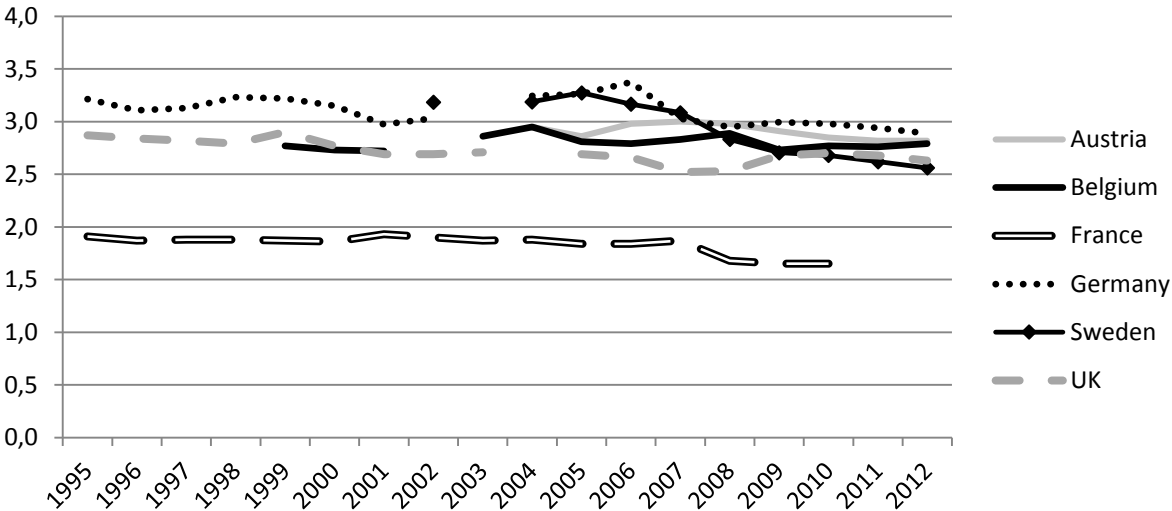
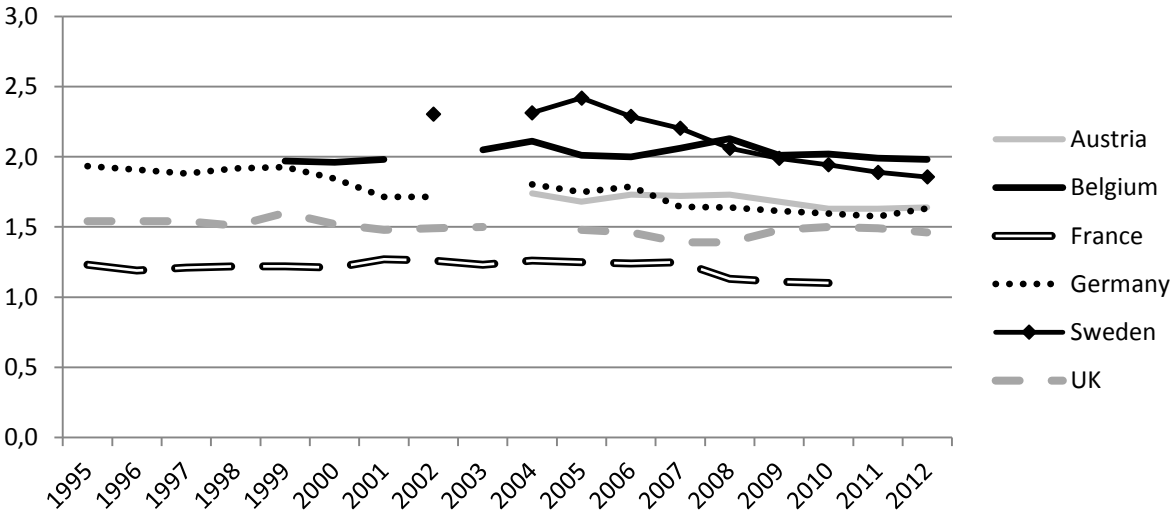


Figure 5: Low wages (P10) relative to the poverty line in six countries



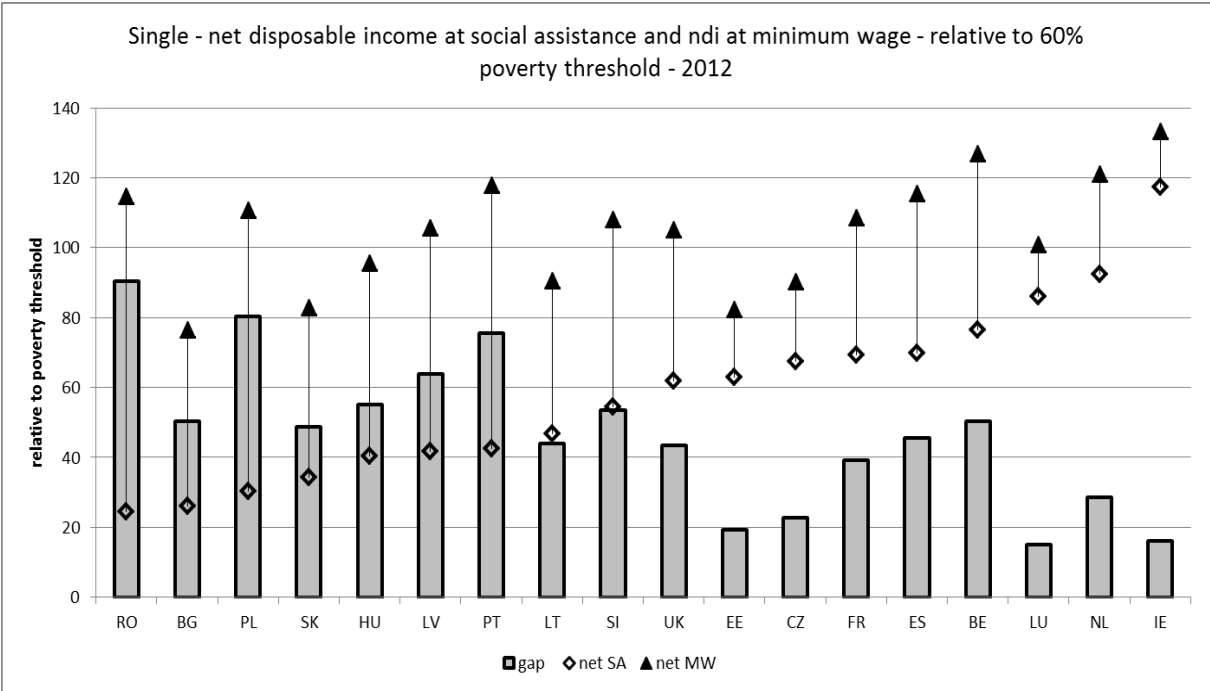
Where are we now?

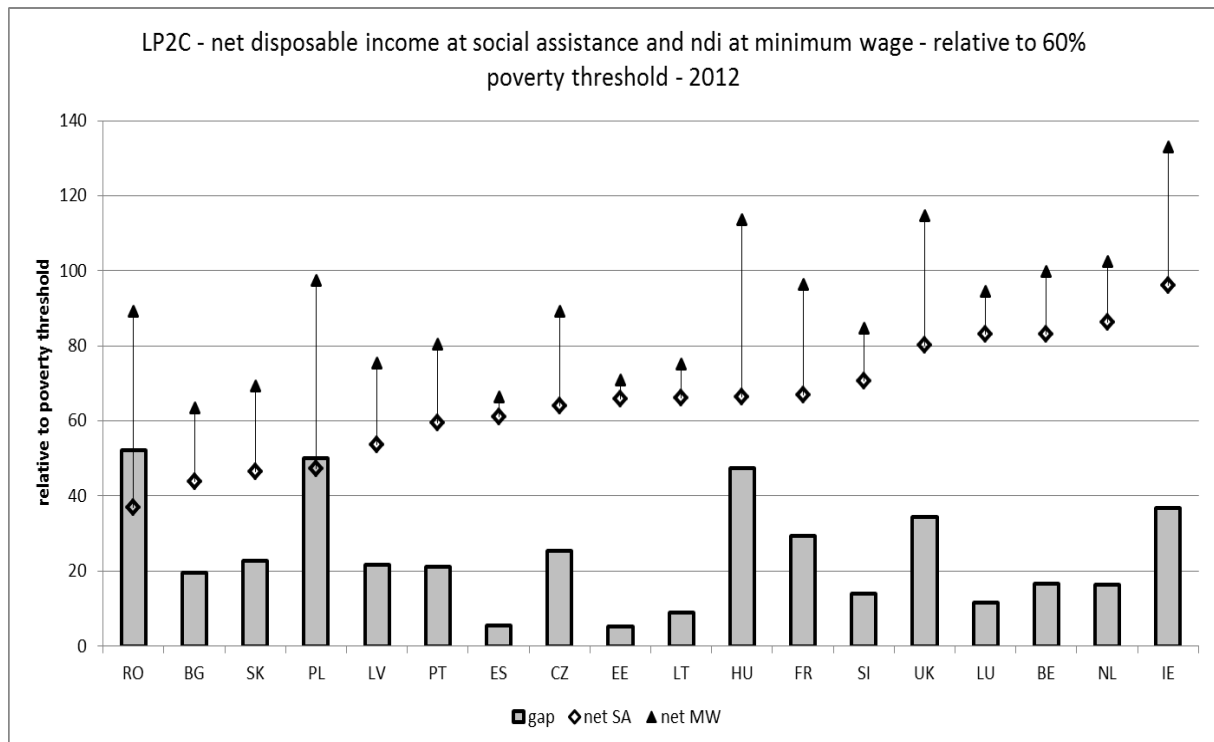
The next two graphs (Figure 6) show the situation in 2012 in a set of countries by benchmarking two key MIP measures against the relative poverty level: the net income of social assistance recipients and minimum wage workers, taking account of tax and social security contributions, but also child benefits and other potential income supplements. This is shown for a single person and for a lone parent with two kids.

As in Figure 1, it can be seen that the guaranteed minimum incomes for people not in the work (as generally provided through social assistance) generally fall well short of what would be needed to lift them theoretically out of relative poverty (60 per cent), i.e. in case that they would get what they are legally entitled to. (Note that in this graph theoretical adequacy requires a social assistance amount equal to 100 per cent of the poverty threshold.) We can also see that net incomes of minimum wage workers (i.e. gross minimum wages minus taxes and social security contributions) do exceed the poverty threshold in a substantial number of countries. This means that plausible minimum wages can (still) be set at more than adequate levels for at least some categories of workers, notably those without kids or other dependents. In the case of lone parents putting in full work effort (as hard as that may be) net incomes (taking into account not only taxes and social security contributions paid, but also transfers such as child benefits) rarely exceed the amount needed to stay out of poverty, and where they do they only do so marginally.

The ranking of the countries is by the adequacy of minimum income protection for those not in work and depending on social assistance. It can be seen that in the relatively most generous countries the gap between the net income in a full time minimum wage job and the social assistance level is generally much smaller than in the less generous countries. In fact, hypothetically increasing social assistance levels to the level of the poverty threshold would in many countries eliminate any financial incentive to work in a minimum wage job or thereabouts. In other words, raising the minimum incomes of those not in work cannot be done without simultaneously raising the wage floor, if one would seek to maintain some significant work incentive. That is why the issue of wage floors are so important. They do not only matter for workers, and especially the working poor, they also matter to those not in work.

Figure 6: Net incomes at minimum wage and on social assistance, 2012





CAN WE PUSH UP WAGES AND WAGE FLOORS?

We have now established why wages, especially low wages, matter so much for workers and non-workers alike. Looking at public and academic discourse on minimum wages there is a fascinating contrast. On the one hand there is a renewed public interest in wages and in minimum wages in particular. Minimum wages are back big time. After decades of intense and at times heated discussion, Germany introduced a minimum wage. And it is more than a token one: it has a real bite in the German wage distribution. The UK government committed itself in 2015 to increasing the UK minimum wage in a very substantial way. There are Living Wage Campaigns in many countries that try to stimulate employers to pay higher wages to their lowest paid workers.

At the same time there is widespread pessimism about the prospects for low-skilled workers.

Some say the low skilled are doomed in rich countries unless there were to emerge a great societal willingness to support them, through subsidized employment or direct transfers. That, bluntly, is the bottom line of much of contemporary discourse. Low skilled jobs and wages are seen to be under pressure due to continuing deindustrialization, intensifying international trade, migration, skill-biased technological change, etc.

The contrast is often drawn with the golden years of welfare capitalism when manufacturing industry provided stable, well-paid employment even for those with little or no formal education. As Esping-Andersen et al. (2002) put it: "We no longer live in a world in which low-skilled workers can support the entire family. The basic requisite for a good life is increasingly strong cognitive skills and professional qualifications... Employment remains as always the sine qua non for good life chances, but the requirements for access to quality jobs are rising and are likely to continue to do so."

The idea that wages of the low skilled are structurally under pressure unless governments and their electorates are prepared to take countervailing action in the form of offering public or subsidized employment was also influentially promoted by Iversen and Wren (1998). In the “Service Economy Trilemma” they promoted the idea that welfare states would become increasingly confronted by choice between full employment, wage equality and fiscal sustainability.

The idea that governments and voters would warm to vast expansions of state subsidized employment for the less skilled, offering them stable, decent and relatively well paid jobs in sectors sheltered from global market forces, was considered unlikely even when the Trilemma thesis was launched (the late 1990s when economies were booming and Millenium euphoria was rampant). In the present post-crisis context of permanent austerity the chances would appear even more remote.

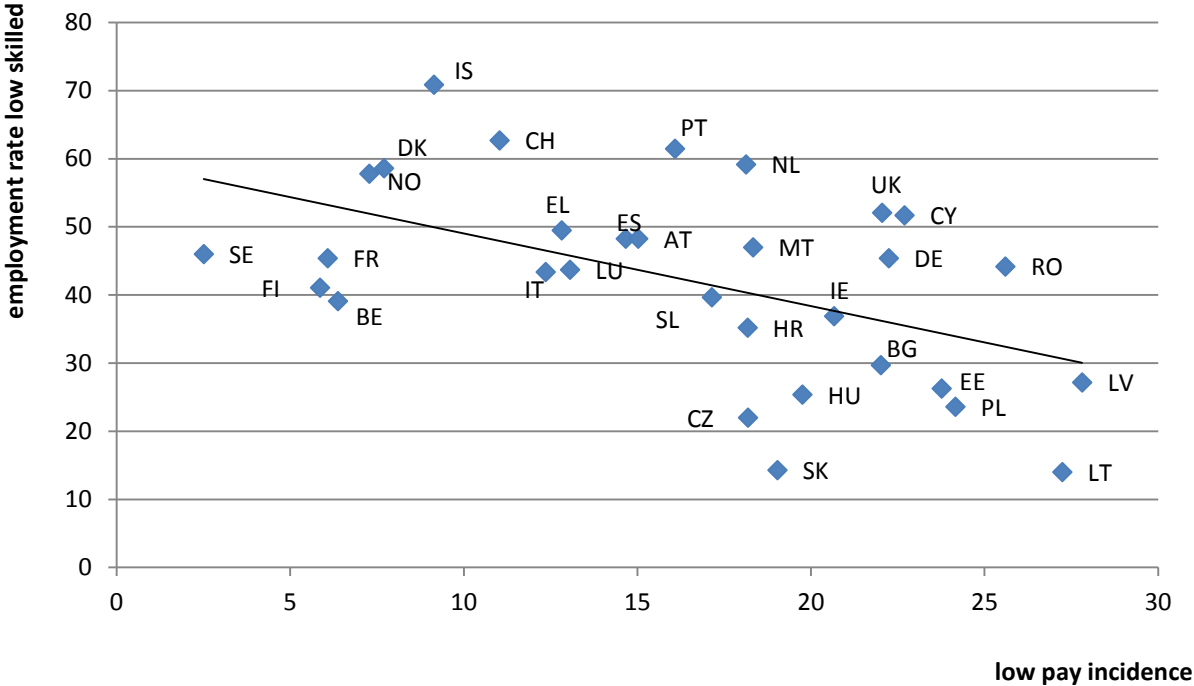
The trade-off between low pay and employment

The central idea in much of contemporary social policy discourse is that rich countries are increasingly confronted with a choice between two evils, and if that is too strong a word: undesirable outcomes. Either we do not accept the reality of the demand shift against the less skilled, and the increased competition for low-skilled jobs it brings, especially with more migrants willing to take these scarce jobs, and we will be confronted with large-scale structural labour market exclusion. Or, we adapt to that reality, and we also accept that wage inequality will go up and many will work for low wages, probably too low to stay out of poverty.

This view is explicitly encapsulated in the statements of such influential scholars such as Esping-Andersen and Iversen and Wren, as quoted earlier. It is implicit in much of the wider literature and in policy discourse.

Yet if that is the reality we face, then it is not a very obvious one in the facts we have at hand. First, there is absolutely vast variation in the extent of low wage employment across the OECD. Wage inequality by every imaginable measure differs immensely across rich economies. Much used is the OECD measure which defines low pay as less than two thirds of median earnings. By that measure low pay varies from less than 5 per cent in countries like Denmark, Belgium and Sweden to upwards of 25 per cent.

Figure 7: Low pay and low-skilled employment



However, those differences in wage inequality or the extent of low wage employment do not relate in any obvious way to employment outcomes. Not to overall employment rates, or employment rates for specific subgroups like the low skilled, as demonstrated in Figure 7. Neither does the wage inequality relate in any straightforward way to unemployment rates. If anything, the relationship is inverse. There is more low-skilled employment in countries with relatively fewer low-paid jobs.

This is bivariate plot is illustrative of what comes out of a sizeable and for the most part far more sophisticated labour economics literature linking low pay, and more broadly wage inequality, to employment outcomes (for extensive reviews see Lucifora and Salverda, 2009; Checchi and Salverda, 2014). There is no simple relationship between any measure of wage compression and employment outcomes, even if controlled for the extent of direct or subsidized public employment. Note that while minimum wages matter here, the extent and setup of collective bargaining matters much more for observed levels of wage compression and low pay. Countries with extensive collective wage bargaining coverage have far more equal wage distributions, higher wage floors and much fewer low-paid workers. As the OECD (2004: 130) concluded: "High union density and bargaining coverage, and the centralisation/co-ordination of wage bargaining tend to go hand-in-hand with lower overall wage inequality. [...] *we do not find much evidence that employment of these groups is adversely affected.*" (my emphasis)

The debate about the question of whether minimum wages or other institutionally determined wage floors destroy jobs, or stifle job growth, is as old as the minimum wage itself. A wealth of empirical evidence has been amassed by labour economists. It seems fair to conclude that the measured effects of minimum wage increases have sometimes been positive, sometimes negative, sometimes neutral, but never very large. Research does suggest that the effects may be stronger for particular subgroups. When significant negative employment effects are found, they tend to be among young

people. As Martin and Immervoll (2007) state: “On balance, the evidence shows that an appropriately-set minimum wage need not have large negative effects on job prospects, especially if wage floors are properly differentiated (e.g. lower rates for young workers) and non-wage labour costs are kept in check.”

That is not to suggest, of course, that there are no limits to raising wage floors. Obviously effects on employment become harmful at some level, or when increases happen at too fast a pace. At which level this will occur probably depends on many factors, such as the skills profile of the work force, the structure of the economy (e.g. the sectoral set-up or the extent of monopsony power) etc. But the point here is that we need to think about this as an empirical question in a given context.

EVEN WITH HIGH WAGE FLOORS, ADDITIONAL INCOME SUPPORT MATTERS

While there may be less reason for pessimism about the potential for raising wages, particularly low wages, than is sometimes assumed it is clear that adequate wage floors could not do the job alone. Even in countries with the highest relative minimum wages these do not suffice to lift to keep sole minimum wage workers with kids or other dependents out of poverty, even if they work full time.

In some EU countries, and certainly outside of the EU, minimum wages remain non-existent or low relative to average wages, but in a range of others they do suffice to keep single persons reliant on them out of poverty. Thus it would appear sensible for countries with non-existent or very low minimum wages to contemplate introducing or increasing these. However, the route of introducing or boosting minimum wages to the upper ranges currently prevailing in Europe (relative to average earnings) would, even in the absence of negative employment effects, not be sufficient to eradicate in-work poverty. Even in countries where minimum wages are comparatively high they do not suffice to keep sole breadwinner household out of poverty, especially when there are dependent others or children. Minimum wages have probably become inherently constrained in providing minimum income protection to sole breadwinner households, especially in countries where relative poverty thresholds have become essentially determined by dual earner living standards.

For low-earnings households, only direct household income supplements may offer a reasonable prospect to a poverty free existence, especially when there are dependent children. Such ‘in-work benefits’ are now often associated with Anglo-Saxon-type “tax credits” such as the EITC in the United States and the WTC in the United Kingdom. It is increasingly argued though that more effective redistribution will not come from augmenting/expanding the traditional channels of income support, for example more generous social insurance or social assistance levels, or from higher minimum wages. These are seen as not only as failing to address today’s social risks and needs, but as exacerbating underlying problems such as exclusion from the labour market and entrapment in passive benefit dependency. Worse, have are considered as standing in the way of innovative mechanisms of social protection that are pro-active and self-sufficiency enhancing, such as active labour market policies and services such as child care, and improved education and training.

The option to consider, then, are other forms of (targeted) income supplements for households that provide some level of income protection but that are also conducive to labour market participation. As Kenworthy (2011) puts it, ‘Given the importance of employment and working hours for the

market incomes of low-end households, policy makers must guard against programs that provide attractive benefits without encouraging or requiring employment. An ideal transfer would be one that both boosts the incomes of low-earning households and promotes employment by able working-aged adults. As it happens such a program exists. Referred to variously as “in-work benefit” or “employment-conditional earnings subsidy”, it is best exemplified by the Working Tax Credit (WTC) in the United Kingdom and the Earned Income Credit (EITC) in the United States”. (p. 44)

Under these schemes households with low earnings do not pay taxes but instead they receive additional money through the tax system. In the United States, the 1993 expansion of the Earned Income Tax Credit (EITC) turned it into the country’s pre-eminent anti-poverty program for families of working age. The United Kingdom has also implemented and extended several schemes (and in fact did so earlier than the US), culminating in the Universal Credit. Clearly, Anglo-Saxon style negative income taxes have been garnering increased interest of late. As Immervoll and Pearson (2009) note, “Even in the mid-1990s, twenty years after such schemes were first introduced in the United Kingdom and the United States, such schemes were seen as interesting but unusual [...] it seems reasonable to conclude that IWB schemes are now mainstream policies in many countries.”

That is perhaps somewhat of an overstatement. Several European countries have contemplated introducing Anglo-Saxon-style tax credits, or have done so in some form. Examples here include the ‘Prime Pour l’Emploi’ (PPE) and the Revenue de Solidarité Active (rSa) in France, the ‘Combination Credit’ in the Netherlands, and a “Low Wage Tax Credit” in Belgium. Yet the reality is that most of these schemes exhibit only a faint resemblance to the EITC or the WTC. Sweden has a scheme that goes by the same name in English as its American counterpart EITC. It was introduced in 2007, and was reinforced in 2008, 2009 and 2010. The stated motive of the reform was to boost employment; in particular to provide incentives for individuals to go from unemployment to, at least, part-time work. The scheme is different from the American scheme in that it is a non-refundable tax credit. Also, because the tax unit in Sweden is the individual and not the household it works in effect as tax relief on low individual earnings. In that respect it is similar to personal social security contributions relief measures elsewhere.

While tax-channelled in-work benefits targeted at households with low earnings remain of limited significance in most European countries, it is of course the case that many countries have child benefit systems that provide an additional income to workers and their families (Van Mechelen and Bradshaw, 2013). Child benefits have generally lost ground. For a couple with two children, the size of the child benefits package, expressed as a percentage of the gross minimum wage, declined in the majority of countries awarding these benefits. For lone parents with two children the trend was somewhat more favorable in a number of countries. The decline of child cash benefits, both in value as in their importance in net disposable income, is discussed more extensively in Van Mechelen and Bradshaw (2013). Interest in EITC type schemes remains strong however, in the public debate and in the academic literature (Kenworthy, 2011; Figari, 2011, Allègre and Jaerhling, 2011; Crettaz, 2011; Marx et al., 2012; Aaberge and Flood, 2013). That interest seems entirely legitimate. The empirical evidence shows the American EITC, in combination with other policy reforms and several increases in the minimum wage, to have produced some significant results, including marked increases in labour market participation and declines in poverty among some segments of the population, especially single-parent households (Hotz and Scholz, 2003; Eissa and Hoynes, 2004). It needs to be noted, however, that these initial results happened in favourable economic circumstances, including strong

labour demand and low unemployment. The relatively strong increases in labour supply of lone mothers in the American setting also resulted from welfare reform, notably the transformation of the social assistance scheme into a temporary support system with time limits on the duration of benefits. This clearly provided a strong push incentive, with the EITC acting as pull incentive. Not all who were forced out of passive dependence found their way to work. (Grogger, 2003; 2004) In addition, as the survey by Holt (2011) brings out, there is considerable evidence of incomplete take-up (around 75 per cent according to some estimates), although exact estimates are hampered by the fact that there is no systematic tracking.

There are potential downsides to subsidizing low paid work. While EITC is intended to encourage work, EITC-induced increases in labour supply may drive wages down, shifting the intended transfer toward employers. Rothstein (2010) simulates the economic incidence of the EITC under a range of supply and demand elasticities and finds that in all scenarios a substantial portion of the intended transfer to low income single mothers is captured by employers through reduced wages. The transfer to employers is borne in part by low skill workers who are not themselves eligible for the EITC. There is some empirical evidence that corroborates the potential wage erosion effect of EITC (Leigh, 2010; Chetty et al., 2013)

Yet whether EITC type schemes can work elsewhere, as Kenworthy (2011) and others suggest, is not self-evident. The socio-demographic make-up of the US differs from that in most European countries; there are more single adult (and parent) households but also more multi-earner households. The dispersion in earnings is also much more compressed in most European countries, where, in addition, benefits are generally higher relative to wages (including minimum wages) and less subject to means-testing if they derive from social insurance. This also implies that benefit entitlements of household members are less interdependent, possibly weakening the potential impact on labour supply. Many countries have individual taxation, and the trend is away from joint taxation of couples.

In order to be effective as an anti-poverty device and at the same time affordable within reasonable limits, such measures need to be strongly targeted. However, strong targeting at households with low earnings is bound to create mobility traps, which can only be avoided if taper-off rates are sufficiently flat. That comes at a very considerable cost if the lower end of the household earnings distribution is densely populated, as is the case in many European countries. This cost can only be avoided by making the amount of the tax credit itself smaller, but in that case the anti-poverty effect is reduced. Simulations by Bargain and Orsini (2007) for Germany, France and Finland, by Figari (2011) for four southern European countries (Italy, Spain, Portugal and Greece) and by Marx et al. (2012) for Belgium shed doubt over the applicability of EITC type systems in other settings. In an earlier study, Bargain and Orsini (2007) investigated the effects on poverty of the hypothetical introduction of the British scheme (as it was in place in 1998) in Germany, France and Finland, using EUROMOD for 2001. They found that the anti-poverty effects of a UK type tax credit (similar in design and relative overall spending) would be very small in these countries, especially relative to the budgetary cost. For Belgium, the hypothetical introduction of the UK's WTC is shown to yield a limited reduction in poverty at the cost of possible weakened work incentives for second earners (Marx et al., 2012). Figari (2011) notes that the presence of extended families in southern Europe does not allow for such policies to be well targeted at the very poorest. Bargain and Orsini (2006) have concluded that "interest in such schemes is destined to fade away". Whether that is true remains uncertain and indeed doubtful, but EITC type negative tax credits are not obviously suitable

for wholesale emulation throughout continental Europe. In Germany, for example, the labour market has undergone some profound changes over the past decade. Low paid employment has become far more prevalent and in-work poverty seems to have increased. It is not unlikely that a simulation like the one performed by Bargain and Orsini on 2001 data would yield different results today. A recent study by Giannelli et al. (2013) analyse the quality of the new jobs created in Germany between 1998 and 2010 and find that the reforms of 2000's (Hartz reforms) reinforced an existing trend of increasing wage inequality and lower wages among the least advantaged individuals. Although, as found by Card et al. (2013), a great deal of the increase of wage inequality in Germany for the period 1985-2009 is due to the increasing heterogeneity in job premiums and the raise of assortativeness in the matching between workers and establishments.

Clearly, simulations demonstrate that in-work benefit schemes that work well in certain settings do not necessarily perform equally well in a different context. Family composition, individual earnings distributions and family income structures drive outcomes in a very substantial way. It remains to be explored whether alternative designs are conceivable that have better outcomes in continental European settings and that are realistically affordable.

In conclusion, EITC/UC etc type schemes are hailed by some as the way forward. While such schemes may encourage and reward work there are also demonstrated or potential disadvantages, including: substantial non-take up, delayed payments, administrative cost and complexity (especially in view of increasing instability in household composition and income volatility), potential wage erosion effects, hours and career mobility traps in the phase out zone, ..

By contrast, less strongly targeted income supplements, like for example universal (but possibly categorically or otherwise modulated) child benefits, can have an immediate impact on poverty among those at high risk (i.e. child rich households with non-working parents, but equally with working parents) without adversely affecting work incentives between workers and non-workers, although an income effect may have a dampening effect on labour supply among both categories . But for such benefits to be effective across the board as an anti-poverty device they need to be high, even when to some extent categorically differentiated or income modulated. This inevitably comes at a significant budgetary cost. Studies of show that the best performing countries in terms of poverty reduction tend to have systems of universal child benefits and tax concessions that are not particularly strongly targeted at low-income children (see e.g. Corak, Lietz, and Sutherland (2005). Marx et al. (2016) also find that targeting within universalism works best if one seeks to maximize redistributive impact.

CONCLUSION AND A SIMPLE RECIPE FOR DOING BETTER

A core message of this paper is that wage floors matter a great deal if we want to do better for the poor. They matter for workers obviously, but also for non-workers. Wage floors matter to people not working because they effectively constrain how generous social transfers for them can be, if one seeks to maintain a sufficient work incentive, something that all governments seek to do, for obvious economic reasons, but also for legitimacy and public support motives.

In some countries minimum wages remain non-existent or low relative to median wages. In such countries minimum wages (set by law or collective bargaining) need to be put on a trajectory towards the highest levels compatible with properly functioning labour markets, if more adequate

poverty relief is the goal. That may take time and economic adjustments, as well as enhanced investments in education and training.

However, the route of introducing or boosting minimum wages to the upper ranges currently prevailing in Europe (relative to other earnings) would, even in the absence of negative employment effects, not be sufficient to eradicate poverty. Minimum wages have probably become inherently constrained in providing minimum income protection to sole breadwinner households with dependents, now that relative poverty thresholds are essentially determined by dual earner living standards.

For low-earnings households, only direct household income supplements can offer a reasonable prospect to a poverty free existence, especially when there are dependent children. Such 'in-work benefits' are now often associated with Anglo-Saxon-type "tax credits" such as the EITC in the United States and the WTC in the United Kingdom. We have emphasised that the socio-demographic, economic and institutional context remains vastly different in much of the rest of Europe and that such tax credits or equivalent schemes, while demonstrably effective in particular settings and for particular groups, do not offer a model for wholesale emulation. And there remain many questions on their longer term effects.

By contrast, universal income supplements, like for example universal child benefits, can have an immediate impact on poverty among those at high risk (i.e. child rich households) without adversely affecting work incentives. But for such benefits to be effective across the board as an anti-poverty device they need to be high, which inevitably comes at a significant budgetary cost. Hence, some degree of targeting, through categorical differentiation or means-testing, seems inevitable.

In short, this is what I would propose:

1. Set minimum wages at a level in higher range of prevailing levels relative to median wages. This should do the trick for single persons putting in full work effort, while still allowing for adequate MIP for singles not in work while still maintaining work incentives.
2. Low-income households with dependent children will need additional support, be it whether they are in work or not. Have universal child benefits a first layer of supplementary income protection for working and non-working households with kids.
3. Have (categorically) targeted supplements for specific segments within that group at high risk of poverty, e.g. lone parents.

A final thought. Perhaps we should seriously contemplate the potential benefits of introducing a basic income of sorts (e.g. Atkinson's (2015) Participation Income, or see Colombino, 2015) to overcome the limits to incrementalism. I am not thinking here of a basic income that would replace in any way the existing provisions, but rather of a partial basic income that would lift the floor on which the existing provisions rest sufficiently to bring social assistance levels to adequacy by prevailing poverty lines, while maintaining the hierarchies between minimum wages, social insurance benefits and social assistance benefits. A partial basic income in the order of 10 to 20 per cent of median equivalent income, combined with increases in child benefits along the line just proposed, would go a long way in achieving this.

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ⁱ Based on data drawn from CSB Minimum Income Protection Indicators (MIPI) dataset (Van Mechelen et al., 2011). In this dataset net income packages are calculated using the so-called model family approach, where the income package of households in various situations (varying by household composition and income levels) is simulated, taking into account all relevant benefits for which such households are eligible as well as taxes.