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European Centre of Expertise (ECE) in the field of labour law, employment and labour market policy

Labour Market Policy Thematic Review 2017: An in-depth analysis of the impact of reforms on inequality

Synthesis Report

March 2017

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Directorate DG Employment, Social Affairs and Inclusion

Unit B.2 – Working Conditions

Contact: Krzysztof Bandasz

E-mail: Krzysztof.BANDASZ@ec.europa.eu

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B-1049 Brussels

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Country Articles Prepared by

Belgium: Ive Marx, Centre for Social Policy Herman Deleeck, Antwerp University, Antwerp

Bulgaria: Pobeda Loukanova and Vasili Tzanov, Economic Research Institute, Sofia

Czech Republic: Alena Bicakova, CERGE-EI, Charles University and the Czech Academy of Sciences, Prague

Denmark: Per Kongshøj Madsen, CARMA — Centre for Labour Market Research, Aalborg Universitet (Aalborg University), Aalborg

Germany: Nicola Düll and Tim Vetter, Economix Research & Consulting, Munich

Estonia: Kirsti Nurmela, Praxis Centre for Policy Studies, Tallinn

Ireland: Seamus McGuiness, Economic and Social Research Institute, Dublin

Spain: Elvira González Gago, Research4Consulting, Madrid

France: Nicolas Farvaque and Djamel Messaoudi, ORSEU, Lille

Italy: Giuseppe Ciccarone, Fondazione Giacomo Brodolini (Giacomo Brodolini Foundation), Rome

Cyprus: Louis N. Christofides, University of Cyprus, Nicosia

Latvia: Mihails Hazans, Faculty of Business, Management and Economics, University of Latvia, Riga and Anna Pļuta, BICEPS, Riga

Lithuania: Boguslavas Gruževskis and Inga Blažienė, Lithuanian Social Research Centre, Vilnius

Luxembourg: Patrick Thill, Luxembourg Institute of Socio-Economic Research (LISER), Esch-sur-Alzette

Croatia: Zdenko Babić, Faculty of Law, University of Zagreb, Zagreb

Hungary: Ágota Scharle, Budapest Szakpolitikai Elemző Intézet Kft (Budapest Institute for Policy Analysis Ltd), Budapest

Malta: Suzanne Gatt, Department of Primary Education, Faculty of Education, Attard

Netherlands: Nico van De Vrie, Ministry of Social Affairs and Employment, The Hague

Austria: Ferdinand Lechner, Lechner, Reiter und Riesenfelder Sozialforschung OG, Vienna

Poland: Agnieszka Chłoń-Domińczak, Warsaw School of Economics, Warsaw

Portugal: Reinhard Naumann, DINÂMIA — Centro de Estudos sobre a Mudança Socioeconómica (Research Centre on Socioeconomic Change), Lisbon

Romania: Cătălin Ghinăraru, National Labour Research Institute, Bucharest

Slovenia: Klemen Širok, Faculty of Management Koper, University of Primorska, Ljubljana

Slovakia: Luboš Vagač, Centrum pre hospodársky rozvoj (Centre for Economic Development), Bratislava

Finland: Esa Jokinen, Benefit Studies, Tampere

Sweden: Dominique Anxo, CELMS HB — Centre for European Labour Market Studies HB, Gothenburg

United Kingdom: Kenneth Walsh, TERN — Training & Employment Research Network, Kidderminster

European Centre of Expertise (ECE) in the field of Labour Law, Employment and Labour Market Policies
ICF
30 St Paul's Square
Birmingham
B3 1QZ
UNITED KINGDOM

Tel. +44 121 233 8900
E-mail: ece@icfi.com

Editors: Tina Weber, Anna Manoudi, Nicola Düll, Jo Hawley-Woodall, Leona Walker Finlay and David Scott

About the ECE

This report was produced by the European Centre of Expertise (ECE) in the field of Labour Law, Employment and Labour Market Policies, based on country articles prepared by experts from the ECE pool of labour market experts.

List of acronyms

AIM	Access and Inclusion Model, Ireland
ALMPs	Active Labour Market Policies
BME	Black and Minority Ethnic, UK
CCS	Community Childcare Subvention Programme, Ireland
CSA	Cash Social Assistance
CSR	Country Specific Recommendation
ECCE	Early Childhood Care and Education, Ireland
EPL	Employment Protection Legislation
GMI	Guaranteed Minimum Income
LTU	Long-term Unemployed
MoU	Memorandum of Understanding
NLW	National Living Wage, the UK
NMW	National Minimum Wage, the UK
NEETs	Young people not in employment, education or training
PES	Public Employment Service
REP	Networks of Educational Priority (*réseaux d'éducation prioritaire*) , France
SAC	Single Affordable Childcare, Ireland
SIA	Support for Active Inclusion, Italy
SICAP	Social Inclusion and Community Activation Programme
SSC	Social Security Contributions
YG	Youth Guarantee
ZEP	Zones of Educational Priority (*zones d'éducation prioritaires*), France

1 Introduction

This Review performs an analysis of the impact of recent reforms on inequality in Europe. The information in this synthesis report is based principally on information collected through country articles from 27 countries, prepared as part of the European Centre of Expertise (ECE) Thematic Review on Inequalities. The report considers the impact of reforms both on income inequalities and on inequality of opportunity.

Income inequality is associated with inequality of opportunities, such as the absence of equitable access to high-quality education and training, quality healthcare, good housing, or access to credit. Insufficient health care and limited access to (good quality) childcare can also be contributing factors. These can have an impact at the early stages of an individual’s life and, in turn, have implications for later in life –for instance on employment status (employment, unemployment, or inactivity), type of contract (temporary or permanent), wages or hours worked (part-time versus full-time). They also have a bearing on the accumulation of human and social capital. These elements determine earnings (including wages) inequality, seen as ex-ante or market inequality.

Inequality of disposable income (inequality of outcomes or ex-post inequality) is then to a large extent determined by the design and impact of tax and benefits systems, which are also important to cushion the effects of weaker economic situations. Tax and benefit systems in the EU have an important role in reducing earnings inequality (market inequality) through their progressive and redistributive role.

Inequality, being a multidimensional concept, can be influenced by policy changes in numerous policy areas. The experts preparing national contributions were asked to consider a selection of reforms, mainly from 2015 and 2016, that have had or are expected to have a significant impact on increasing or reducing inequalities in the following seven policy areas:

- Labour market segmentation;
- Wages/Labour and non-labour costs;
- Promoting reforms of welfare systems for efficient distribution;
- Fairer and more progressive tax systems;
- Investing in human capital and promoting access to education and skills over the life course;
- Access to healthcare;
- Promoting the participation of women and other groups in the labour market and fighting discrimination.

This synthesis report highlights key reforms discussed in the country articles in the above seven policy areas.

One additional prism that the experts were asked to use was to examine recent reforms in the context of the European Semester. The European Semester, is an annual cycle of macro-economic, budgetary and structural policy coordination, set up in 2010, in the framework of the Europe 2020 Strategy. The European Semester starts in the spring of every year and provides a timetable and process for EU policy-making. The Commission assesses plans by Member State governments and presents each country with a set of Country Specific Recommendations (CSRs). The recommendations aim to prompt Member States to take action on the most pressing employment and economic development priorities identified at the national level and focus on what can realistically be achieved in the next 12-18 months. This Review only covers the countries which are part of the European Semester and receive Country Specific Recommendations (CSRs), that is, it covers the EU-28 Member States, except Greece. In the context of this Review, the country experts from 27 Member States receiving CSRs were asked to assess whether and how reforms respond to CSRs for their country.

It should also be kept in mind that the experts were asked to select a limited number of reforms to report on, prioritising them in terms of their impact on inequalities and not to present an exhaustive discussion of reforms in 2015 and 2016.

Table 1 below summarises the number of reforms discussed in the reports for each of the 27 countries covered by this Review, and in each of the seven policy areas.

The report starts with a description of the background of existing inequalities in the EU in section 2.

Sections 3-9 seek to paint a broad picture of reforms in each of the seven policy areas identified that have taken place in each country and highlight examples from the country articles.

For each policy area, the Review analyses:

- Reforms implemented by the EU Member States (MS) in response to the Country Specific Recommendations (CSRs) made by the Council of the European Union in the past two years (2015-16).
- This is followed by a discussion of CSRs not addressed.
- The impact of these and other important reforms undertaken during the past two years, which may not have been prompted by CSRs but which have nevertheless had a significant impact on inequality.

It should be noted that experts were asked to include the reforms they considered to be most significant in terms of their (potential) impact on addressing inequalities. This review and the country reports therefore do not seek to provide a comprehensive picture of all relevant reforms implemented in recent years. Moreover, if certain systems had already been reformed prior to 2015, such reforms are also not included in the scope of this Review.

Table 1. Summary table of reforms covered by this Review

Policy Area / Country	**Labour market segmentation**	**Wages & wage setting**	**Welfare system reforms**	**Taxation Reforms**	**Education & skills**	**Employment of women, anti-discrimination**	**Health care**
BE		✓ (4)	✓ (1)	✓ (1)			
BG		✓ (1)	✓ (1)	✓ (3)	✓ (1)		
CZ		✓ (4)	✓ (3)			✓ (5)	
DK	✓ (2)		✓ (3)		✓ (1)		
DE	✓ (5)	✓ (1)	✓ (3)	✓ (2)	✓ (3)	✓ (4)	✓ (1)
EE	✓ (1)	✓ (3)		✓ (1)	✓ (1)	✓ (2)	
IE		✓ (5)	✓ (8)	✓ (2)	✓ (8)	✓ (3)	✓ (1)
ES	✓ (4)	✓ (2)	✓ (1)	✓ (2)	✓ (1)		
FR	✓ (3)	✓ (2)	✓ (4)	✓ (3)	✓ (3)		✓ (2)

Policy Area / Country	Labour market segmentation	Wages & wage setting	Welfare system reforms	Taxation Reforms	Education & skills	Employment of women, anti-discrimination	Health care
HR		✓ (1)	✓ (1)	✓ (2)	✓ (1)		
IT	✓ (4)	✓ (1)	✓ (5)		✓ (2)	✓ (1)	
CY			✓ (2)	✓ (1)			
LV	✓ (1)	✓ (2)	✓ (1)	✓ (5)	✓ (1)		
LT	✓ (1)	✓ (2)	✓ (3)	✓ (1)	✓ (1)		
LU		✓ (2)	✓ (3)	✓ (1)	✓ (1)		
HU	✓ (2)	✓ (2)	✓ (5)	✓ (1)	✓ (3)		
MT		✓ (1)	✓ (1)		✓ (8)	✓ (1)	✓ (2)
NL	✓ (1)	✓ (3)	✓ (2)	✓ (2)			
AT	✓ (1)	✓ (2)		✓ (1)	✓ (3)	✓ (2)	
PL	✓ (1)	✓ (2)	✓ (4)	✓ (1)	✓ (3)		
PT		✓ (2)	✓ (3)		✓ (1)		
RO	✓ (5)	✓ (2)	✓ (4)		✓ (2)	✓ (2)	
SI	✓ (3)	✓ (1)	✓ (3)			✓ (2)	
SK	✓ (1)	✓ (4)	✓ (4)	✓ (2)	✓ (2)	✓ (2)	
FI			✓ (2)	✓ (1)			✓ (1)
SE		✓ (1)		✓ (1)	✓ (1)		
UK		✓ (2)	✓ (4)		✓ (2)	✓ (2)	
Total	40	52	71	33	49	26	7

Note: Blank cells refer to 'no reforms reported in that policy area for that country'.

2 Overview of inequality in the EU

Inequality has become a growing concern for governments and international organisations. Despite overall improvements internationally (OECD) in labour markets and household incomes since 2010, economic recovery has not delivered inclusive growth and not reversed the trend towards increasing income inequality[1]. Higher-income households have tended to benefit more from recovery than those with middle and lower incomes.

Even if the overall income distribution in the EU-28 is more equal than in other major economies, it is still a policy challenge, with the total income received by the richest 20 % of the population about five times higher than total income received by the poorest 20 % of the population (the mean income quintile share ratio for 2015 was 5.1 for the EU-28 plus EEA and candidate countries, and 5.2 for the EU-28 only).For the EU-28, inequality has has only slightly increased between 2008 and 2015. The mean Gini Coefficient figure for 2008 was 30 compared to 30.7 for 2015, and the mean income quintile share ratio for 2008 was 4.9 compared to 5.1 for 2015. However, there are differences between countries: 15 countries became less equal between 2008 and 2015 (i.e. the Gini Index increased) and 13 became more equal while in two Member States, inequality remained unchanged). If we look at changes between 2014 and 2015, seven countries became less equal: Lithuania, Romania, Bulgaria, United Kingdom, the Netherlands, Malta and Belgium, although the change was very small in most cases.

Section 2.1 below discusses these trends in more detail and also considers the at-risk-of-poverty rates for different countries.

Section 2.2. looks at the role of taxation, social expenditure, and minimum wages in influencing levels of income inequality, prior to elaborating trend data relating to key systems of taxation impacting income inequalities (e.g. tax on low wage earnings, value added tax), as well as data on levels of minimum wage.

2.1 Income inequality

2.1.1 Gini coefficient of equivalised disposable income

The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income[2]. Data covers income before and after social transfers. Below, we examine disposable income after social transfers.

Figure 1 below shows the scores for the EU-28, where the Gini Index figure for 2015 ranges from 23.7 (Slovakia) for the most equal country to 37.9 (Lithuania) for the least equal country. The mean for the EU-28 is 31. The interquartile range for 2015 is between 26.8 and 34.1. Countries in the first quartile are the most equal countries in terms of disposable income after social transfers (from lowest score/more equal): Slovakia, Slovenia, Czech Republic, Finland, Sweden, Belgium, and the Netherlands.

Countries in the fourth quartile are the least equal countries after social transfers: Greece, Spain, Estonia, Latvia, Bulgaria, Romania and Lithuania. Compared to the situation before social transfers, it is interesting to see that the most unequal countries before transfers represent a different set of countries, including Portugal, Germany, the UK and Ireland – thus indicating that social transfers have a key role to play in enhancing equality of disposable income.

Figure 1 also shows data for 2008 (not available for combined EU-28, Croatia). The mean figure across the EU-28 for 2008 is similar to 2015 (29.8 – not including Croatia - compared to 31). Fifteen countries became less equal between 2008 and 2015 (i.e. the Gini Index increased), 10 became more equal (i.e. the Gini Index decreased), and two remained the same (no data for Croatia). In a small number of countries there was a significant increase in the index (becoming less equal): Cyprus (+4.6), Estonia (+3.9), Lithuania (+3.4), Hungary (+3), Denmark (+2.3), Spain (+2.2), and Romania (+1.5).

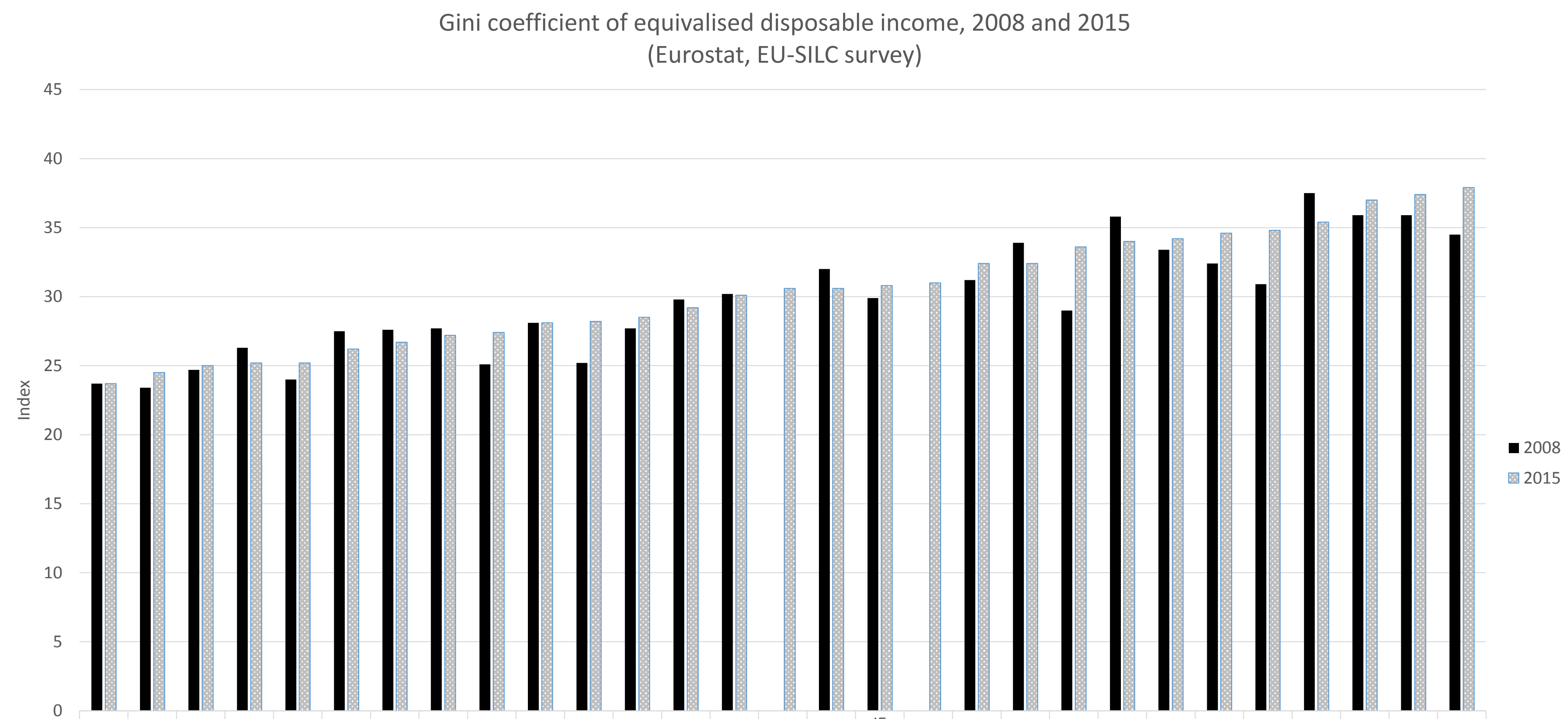
In other countries the index figure significantly decreased over time, showing a movement towards more equality in this indicator: Latvia (-2.1), Portugal (-1.8) and UK (-1.5). It should be noted that this does not mean that there was necessarily a linear decrease or increase year-on-year between 2008 and 2015.

When considering income before social transfers the vast majority of countries became less equal between 2008 and 2015 (i.e. the Gini Index increased), which is very different to the situation for income after social transfers. Only Belgium, Slovakia, Romania and Poland became more equal, and only by relatively small increments.

If we look at changes between 2014 and 2015, seven countries became less equal: Lithuania, Romania, Bulgaria, United Kingdom, the Netherlands, Malta, and Belgium. However, only three countries saw an increase in the Index of more than one (Lithuania, Romania, Bulgaria) and only two countries saw a decrease of more than one (Cyprus and Slovakia). All other countries saw minor changes.

It should be noted however, that the above analysis of the Gini coefficient focuses on relative poverty and inequality within a country, and on how earners are doing compared with the median income at any point in time. As a result, any absolute declines in incomes that makes almost everyone worse off, are not captured when examining the Gini coefficient.

Figure 1. Income distribution after social transfers as measured by the Gini Coefficient (countries in order for 2015 data beginning with the most equal)



	SK	SI	CZ	FI	SE	BE	NL	AT	DK	MT	HU	LU	FR	DE	HR	PL	IE (14)	EU-28	IT	UK	CY	PT	EL	ES	EE	LV	BG	RO	LT
2008	23.7	23.4	24.7	26.3	24.0	27.5	27.6	27.7	25.1	28.1	25.2	27.7	29.8	30.2		32.0	29.9		31.2	33.9	29.0	35.8	33.4	32.4	30.9	37.5	35.9	35.9	34.5
2015	23.7	24.5	25.0	25.2	25.2	26.2	26.7	27.2	27.4	28.1	28.2	28.5	29.2	30.1	30.6	30.6	30.8	31.0	32.4	32.4	33.6	34.0	34.2	34.6	34.8	35.4	37.0	37.4	37.9

Country

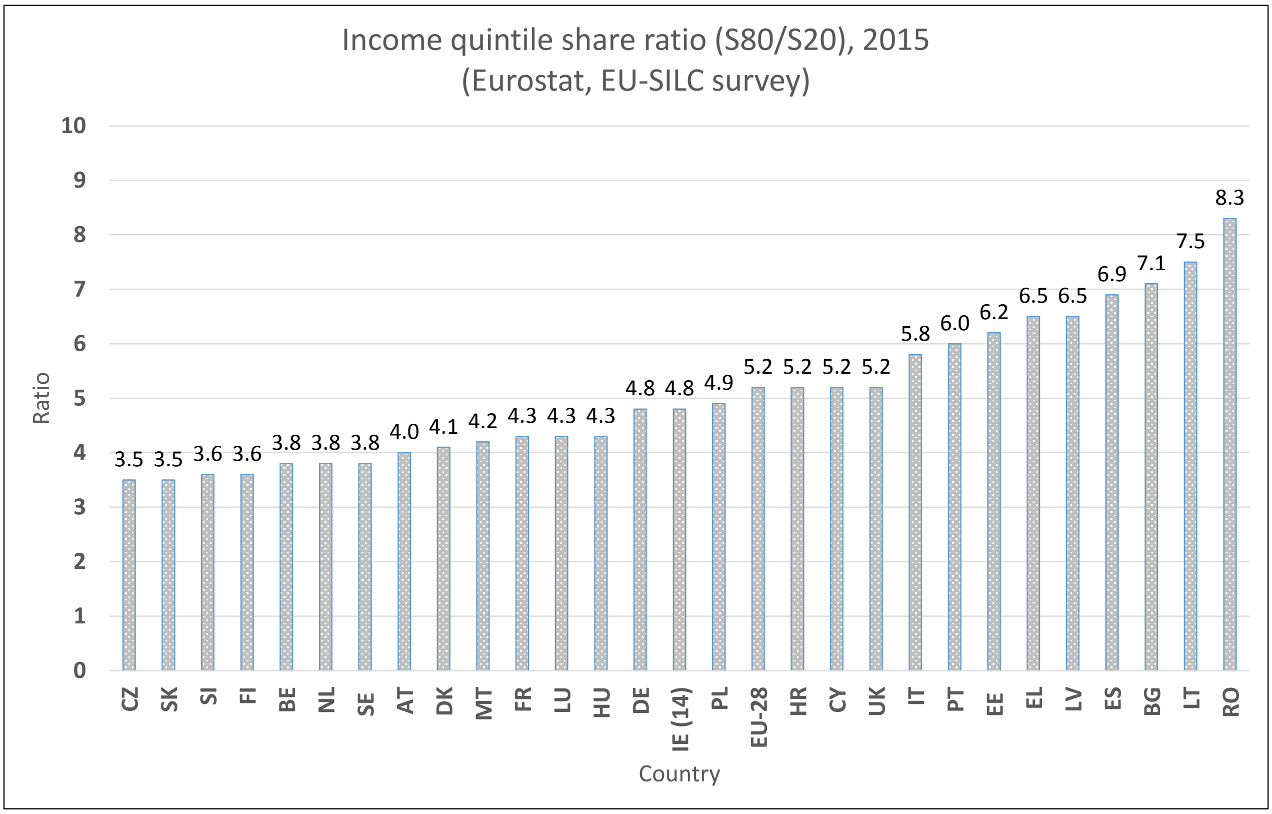
2.1.2 Income quintile share ratio (S80/S20)

The Gini coefficient does not capture where exactly inequality occurs in the income distribution, meaning that two different distributions of income can have the same Gini coefficient. For this reason, we also look at the income quintile share ratio (or S80/S20 ratio) as a measure of the inequality of income distribution. This is calculated as the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile). All incomes are compiled as equivalised disposable incomes[3].

The ratio for 2015 ranges from 3.5 (Czech Republic) for the most equal country to 8.3 (Romania) for the least equal country. The average for the EU-28 is 5.2.

Figure 2 below, shows the scores for the EU-28.

Figure 2. Income distribution as measured by S80/S20 (countries in rank order beginning with the most equal)



Note: Data is for 2015, except for Ireland where the latest data available is for 2014

The interquartile range is between 3.9 and 6.1. In countries with the lowest levels of inequality the richest 20 % earn between three and four times more than the poorest 20 % (Czech Republic, Slovakia, Slovenia, Finland, Belgium, the Netherlands, and Sweden).

In the most unequal countries the richest 20 % earn around six to eight times more than the poorest 20 % (Romania, Lithuania, Bulgaria, Spain and Latvia).

The most equal countries (in the first quartile) as measured by S80/S20 are the same as those as measured by the Gini Coefficient (after social transfers). The least equal countries (in the fourth quartile) are also broadly similar, although includes Greece for the S80/S20 measure, and does not include Estonia.

In the same way as for the Gini Coefficient (after social transfers) there is an even split between countries that saw an increase in the S80/S20 ratio between 2008 and 2015 and those that saw a decrease. Significant increases in the ratio (indicating less equality) were seen in Lithuania (+1.4), Spain (+1.3), Romania (+1.3), and Estonia (+1.2).

2.1.3 The at-risk-of-poverty rate

According to Eurostat, the at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfers) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers. Therefore this indicator measures relative poverty.

The latest data available is for 2015.

There is significant variation in the at-risk-of-poverty rate, with a low of 14 % for the Czech Republic and a high of 41.3 % for Bulgaria. The mean figure for the EU-28 is 23.7 %.

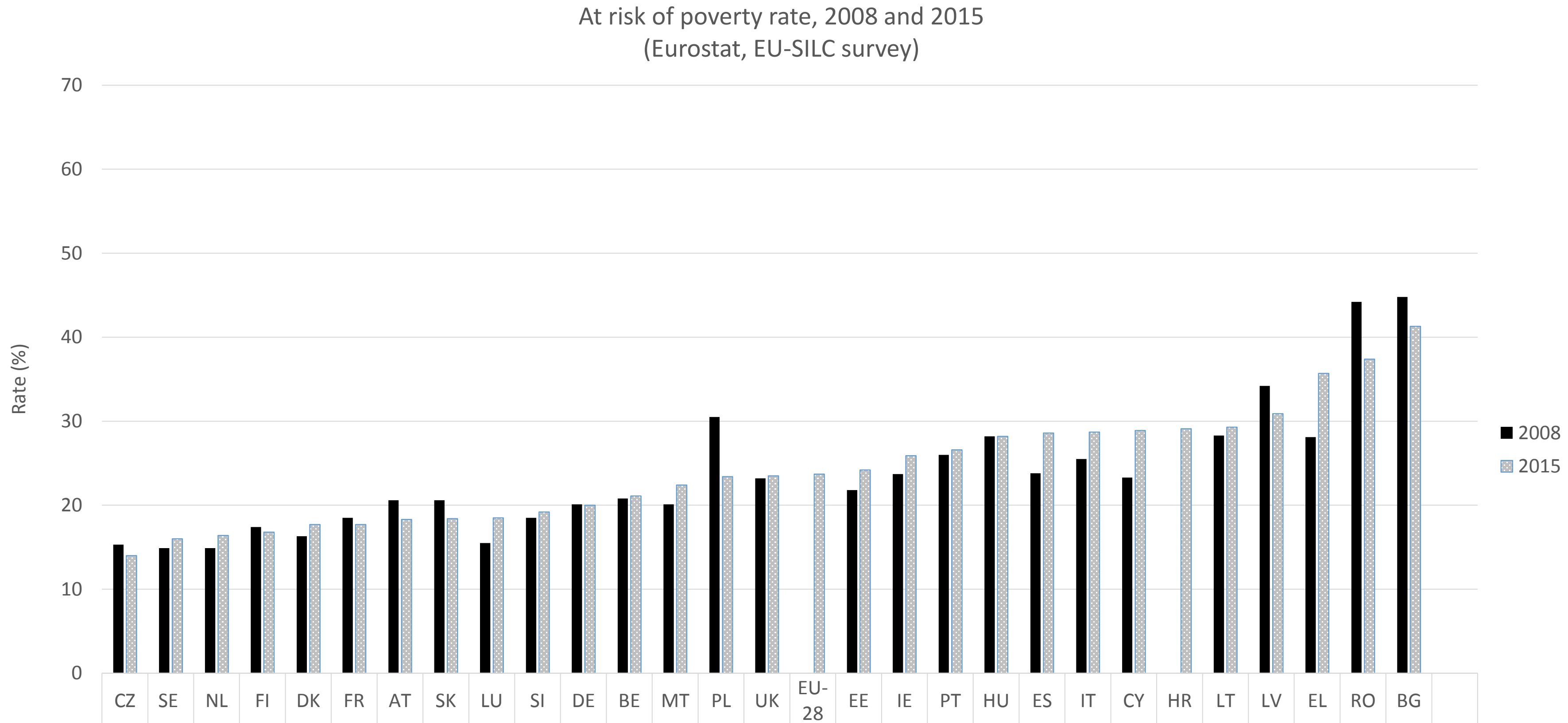
The chart below shows the scores for the EU-28. The interquartile range for 2015 is between 18.3 % and 28.9 %. The countries with the least risk of poverty (in the first quartile) are (in order beginning with the lowest score): Czech Republic, Sweden, Netherlands, Finland, Denmark, France, and Austria. This is similar to the most equal countries as measured by the Gini Coefficient but does not include Slovakia, Slovenia and Belgium, and adds Denmark, France, the Netherlands, and Austria to the group.

The countries with the highest risk of poverty (in the fourth quartile) are (in order beginning with the lowest score): Cyprus, Croatia, Lithuania, Latvia, Greece, Romania and Bulgaria. Again, this group of countries is similar to the least equal countries as measured by the Gini Coefficient but does not include Spain and Estonia.

Figure 3 below also shows data for 2008 (not available for combined EU-28, Croatia). The mean value across all 28 countries for 2008 (not including Croatia) is the same as for 2015 (23.7 5). Fifteen of the countries for which there is data, saw an increase in the at-risk-of-poverty rate between 2008 and 2015, with especially sharp increases for Greece (+7.6 %), Cyprus (+5.6 %), Spain (+4.8 %), Italy (+3.2 %), and Luxembourg (+3 %).

If we look at changes between 2014 and 2015, the rates for Lithuania (+2 %), and Cyprus (+1.5 %) saw the biggest increases, while Hungary (-3.6 %), Romania (-2.9 %), Latvia (-1.8 %), and Estonia (-1.8 %) saw the most significant reductions.

Figure 3. At-risk-of-poverty rate (countries in rank order for 2015 data beginning with the lowest rate)



	CZ	SE	NL	FI	DK	FR	AT	SK	LU	SI	DE	BE	MT	PL	UK	EU-28	EE	IE	PT	HU	ES	IT	CY	HR	LT	LV	EL	RO	BG
2008	15.3	14.9	14.9	17.4	16.3	18.5	20.6	20.6	15.5	18.5	20.1	20.8	20.1	30.5	23.2		21.8	23.7	26.0	28.2	23.8	25.5	23.3		28.3	34.2	28.1	44.2	44.8
2015	14.0	16.0	16.4	16.8	17.7	17.7	18.3	18.4	18.5	19.2	20.0	21.1	22.4	23.4	23.5	23.7	24.2	25.9	26.6	28.2	28.6	28.7	28.9	29.1	29.3	30.9	35.7	37.4	41.3

Country

2.2 Inequality of opportunity

There are numerous explanatory and normative theories regarding inequality of opportunity and its relationship with income inequality. It is a highly complex and much debated issue in social science and political discourse.

One influential conception, by Roemer, is that inequality of opportunity refers to the way that: 'an individual's outcome (income, welfare, health, etc.) is a function of variables within and beyond the individual's control; called **effort** (occupational choice, number of hours worked, or investment in human capital) and **circumstances** (socio-economic and cultural background or ethnicity), respectively'[4]. This would mean that total inequality is a combination of inequality of effort and inequality of opportunity.

Roemer's conception provokes an interesting debate about the extent to which it is possible to fully equalise circumstances in order to attempt to ensure that an equal degree of effort/choice, regardless of circumstances, leads to equality of outcome. It is important to note that there are a wide range of views amongst theoreticians and commentators about how effort/choice and circumstances intersect and the implications they have for social and economic outcomes.

Arguably, inequalities of opportunities and inequalities of outcomes are two sides of the same coin[5]. It is important to consider future opportunities, such as the scope for upward social mobility and health outcomes. An inter-temporal dimension means that whether the focus should be on inequalities of opportunity or inequalities of outcomes may not be so relevant, as the unequal outcomes of one generation tend to become the inequality of opportunity of the next. The OECD (2012)[6] outlines different aspects of income and shows how different policy areas affect these levels of income and influence equality of opportunity (see table below).

Table 2. Aspects of income in relation to policy areas

Income concept	Relevant policy area
1) Individual labour income	**Employment protection; active labour market policies; education and training; equal opportunities; wage setting; health; housing** – affects fair access to and the rewards from the labour market
2) Household labour income	**Caring responsibilities (children and/or older people); gender equality;** – affects ability of household members to work
3) Household market income	**Tax (wealth, capital, income)** – affects financial capacity
4) Household disposable income	**Tax; social transfers** – affects final consumption expenditure and savings
5) Household adjusted disposable income	**Education; health; housing** – affects income based on the ability to use goods and services received free of charge from government and non-profit institutions serving households (NPISHs), i.e. social transfers in kind.

Tax and social security policies are more relevant for determining household market and disposable income – i.e. income equality. Policies related to employment, education, equal opportunities, wage setting, health and housing can ensure equality of opportunity in respect to individuals being able to attain their education and work goals and receive a fair income. Family related policies can ensure equality of opportunity by allowing all household members to have the capacity to work and receive an income. Education, health, and housing policies also affect final disposable income by virtue of the extent and range of 'free' goods and services provided (e.g. whether a national health service exists, or widespread affordable social housing and/or housing benefit payments are available).

Dunnzlaff et al. (2010)[7], using data from EU-SILC, analyse the extent to which income taxes, social contributions and social benefits lead to a reduction of opportunity inequality in 15 EU MS, and how the different tax-and-transfer systems affect outcome (measured by equivalised income) and opportunity inequality. Opportunity inequality is measured by the Gini opportunity (GO) index[8]. The authors quantify the degree of inequality of opportunity and rank countries according to their degree of opportunity equality. The results show a divide between the Continental and the Nordic countries that provide relatively high levels of opportunity equality, and the Anglo-Saxon and Eastern European countries, where there is less equality of opportunity for income acquisition. Countries are ranked as follows (in order of the lowest index, or more equality of opportunity): Denmark, Germany, the Netherlands, Sweden, Iceland, Austria, Czech Republic, Slovakia, Estonia, Slovenia, UK, Ireland, Poland, Hungary, and Luxembourg. Looking at the effect of taxes, in most cases taxation structures lead to a decrease of opportunity inequality, and in Ireland, Iceland, and the Netherlands, the tax system seems to be more successful in reducing inequality of opportunities. In all 15 countries, social benefits lead to an increase in opportunity equality. However, countries vary markedly in terms of the level of opportunity equality they achieve. The GO index for disposable income of Luxembourg is almost ten times larger (indicating less equality) than the Swedish one heading the list. The top performers are the Scandinavian and Continental European countries, with the lower performers being the Anglo-Saxon countries and some Eastern European countries (Estonia, Hungary, and Poland). It is concluded that both taxes and transfers reduce inequality of opportunities, with social benefits typically playing the key role.

Using a different technique, Marrero and Rodriguez (2012) measure inequality of opportunity using data from EU-SILC and applying parametric methods[9]. They find that the countries with the highest equality of opportunity are similar: (in order of highest ranking) Denmark, Germany, Finland, the Netherlands, and Slovakia. Countries with a lower measure of equality of opportunity are (in order of lowest ranking) Portugal, Lithuania, Estonia, Poland, Ireland, and Greece. It should however be noted that the data used in this study is from 2005, so the situation may have changed in some countries in the meantime. For example, from 2005 onwards, the Portuguese government has implemented broad and significant reforms in several areas relevant to equal opportunities (including school education, initial and continuous VET, tertiary education etc.), which have improved the situation.

The study finds the following correlations:

- Equality of opportunity improves with economic 'development' (a country's level of development is measured by the PPP-adjusted per capita GDP, and the percentage of jobs concentrated in the agriculture and in the service sector). However, some Eastern European countries with higher per capita GDP (Hungary, Slovakia, the Czech Republic, and Slovenia) score relatively well for equality of opportunity, more than would be expected for their level of development. The UK, Italy, Ireland, Spain, and especially Portugal, have lower equality of opportunity than would be expected given their level of development.

- Equality of opportunity improves where there is lower long-term unemployment, although this is not a strong correlation, and there are notable exceptions.
- Equality of opportunity improves with better attainment of secondary level of education.
- Equality of opportunity improves with higher public expenditure in social protection, although not all items of welfare expenditure are equally correlated. For example, spending to reduce social exclusion and on child and health care are greatly correlated, but disability, pensions and unemployment are less so.

The sections that follow are each devoted to one of the seven policy areas covered by this Review. For each of the seven policy areas, the following sections will consider:

- the redistributive impacts of reforms in the seven policy areas and their impacts in terms of addressing inequality of opportunities
- the influence of CSRs on inequalities and the influence of other reforms
- the factors influencing impact.

The above questions are examined, keeping in mind that it is difficult to disentangle the effect of individual policies, since often, there are reform packages (rather than individual policy reforms) being introduced at least in some countries. These could have either contradictory effects or cumulative and multiplying effects. Further, it is important to take the time lag for implementation into account as well as the macroeconomic environment. Moreover, on the whole, there are often no (or very few) thorough evaluations conducted. Nevertheless, the synthesis will attempt to discuss factors that are likely to impact on results.

It should be noted that when the impact of reforms on inequalities has been characterised as strong/moderate/weak, this is based on the assessment of the country experts. While trying to base their assessment on evidence, some element of subjective judgement enters into play, as strong/moderate/weak is not consistently defined in the context of each country situation. In any event, any assessment of the impact of reforms on inequalities needs to be seen in context, since the country articles are examining reforms of the past couple of years. Thus, most of the reforms are expected to have an impact in the medium and long term, rather than in the short term. This is particularly true for social investments, whose impact can often be under-assessed in the short term.

3 Recent reforms concerning labour market segmentation and active labour market policies

Growing employment may contribute to reducing inequalities provided that jobs offer progressive career prospects. This requires that temporary jobs are a stepping stone to better jobs and that they allow for continuing employment and also social mobility and lead to a positive impact on income, thereby reducing poverty and inequalities. However, in reality, segmentation still characterises European labour markets, meaning that these labour markets include some sub-groups of workers that have little capability to progress to other (more secure and/or more highly remunerated types of employment. Employment protection legislation (EPL) describes the set of rules and procedures in each country, related to the dismissal of workers by companies. Strict EPL reduces job losses during recessions but also reduces jobs created during expansions, as employers are wary of high dismissal costs. This contributes to labour market segmentation, where there are differences in the labour market opportunities available to different population groups. Certain groups such as young people, low-skilled workers, older workers and women tend to face longer spells of unemployment or prolonged periods of less secure employment[10].

Across Europe, major differences exist regarding the extent of labour market segmentation, particularly between those on open-ended and temporary contracts.

Strict protection for open-ended contracts coupled with loose protection for fixed-term or other non-standard contracts tends to enhance labour market segmentation, where workers hired under atypical contracts risk being stuck in unstable jobs. Reforms that seek to rebalance the protection offered to those on open ended and fixed-term or similar contracts can contribute to lowering income inequality by reducing labour market segmentation.

Segmentation has thus become a (major) concern in a number of countries, and policy measures with the objective of reducing segmentation have been introduced. This section discusses reforms aiming to combat labour market segmentation by:

- introducing legislation promoting flexibility combined with security on the labour market, as well as legislation to improve the situation of atypical workers overall; and
- improving active labour market policies (ALMPs). Effective ALMPs can facilitate the access of specific groups into the labour market whether that is for young people accessing the labour market for the first time or for workers after a redundancy or after a period of unemployment.

Considering the 40 reforms reported in relation to this policy area, the picture in terms of impact on inequalities appears positive since the vast majority of reforms in this area (36 of the 40 reforms), are seen by the experts as contributing to decreasing inequalities. Four of the reforms have debatable impacts. Additionally, reforms aiming to facilitate the labour market participation of women and older workers are discussed in section 8.

Among the EU Member States, 10 countries (namely Belgium, Bulgaria, Czech Republic, Cyprus, Luxembourg, Malta, Portugal, Finland, Sweden and the UK) have not reported reforms in this policy area which significantly impact on inequalities.

3.1 Reforms relevant to the CSRs and their impact on inequalities

Out of 40 reforms related to addressing labour market segmentation, 29 were considered to be relevant to CSRs (for those countries which have CSRs). Amongst these 29 reforms, 27 were considered to contribute to a decrease in inequality.

3.1.1 Increasing labour market flexibility

A labour market with high turnover is usually considered dynamic and flexible, this is why countries pursue increased labour market flexibility. The challenge is to achieve higher flexibility combined with security for workers.

Regarding the functioning of the labour market, at least three EU Member States (France, Croatia and Italy) have introduced laws to increase flexibility in the labour market.

France received a CSR 'to remove barriers to activity in the services sector, in particular in business services and regulated professions'. This has been directly targeted by the law on economic opportunities (known as the Macron Law) creating more flexibility by deregulating some professions or markets (for instance car transportation). The law is expected to moderately decrease both income and opportunity inequalities. France also introduced the El Khomri law, which seeks to increase labour market flexibility by making it easier to lay off workers and reduce severance payments. Passed by the government in an effort to increase labour market flexibility, it proved very controversial, particularly with trade unions. Its impact on inequalities has not yet been assessed.

In **Italy**, a new model open ended contract was agreed for new employment relationships in the public sector (*contratto a tutelecrescenti*). Law 183/2014, D. lgs 4 March 2015, n.23 aims to increase both flexibility and security (through social contribution relief in the short term) by offering greater protection to workers as seniority increases, ***while making it easier to dismiss workers***.' More specifically, the law makes it easier to dismiss everyone with the new contract, and the cost is particularly lower for people with lower seniority. Before this law, the reinstatement of the worker was the main provision in case of unfair dismissal, and economic compensation was the exception. After the law, the reinstatement became a marginal provision, and in case of dismissals based on economic grounds, it is almost impossible to apply. Moreover, while the judge previously had more leeway in the decision of the economic compensation, s/he now has to abide with a well specified regulatory framework linked to seniority at work. Therefore, employers' uncertainty and costs are reduced. This is expected to moderately decrease inequality of opportunities for everyone on the labour market, with a strong focus on unemployed people. Overall, the last two years have seen the introduction of a number of relevant reforms with the potential of reducing inequality in Italy, to below the EU average. This was done through a series of coherent measures, and mainly through the Jobs Act (one of the main Italian labour market reforms of the past 20 years).

Italy's 2015 Budget Law[11] introduced a reduction of the tax wedge of employers, by offering exemptions from social security contributions for employers issuing the new 'open ended contracts with employment protection increasing with seniority'. The rationale is to support and reward companies who create permanent and stable employment. The 2016 Budget Law reduced the amount of exemption again (40 % of the social security contributions to be paid by the employer capped at EUR 3 250 per year), but fixed its duration to two years (Ciccarone, 2016a). The effect of a tax wedge reduction is undoubtedly positive in the short-term (the employment rate is increasing since the second trimester of 2015)[12] but it is argued that it should become permanent to prolong the effect. Having said this, such long-term relatively untargeted employment subsidies have been argued by some to be ineffective. If this is not the case, the measure may have negative effects on the people entering the labour market after the expiration of the exemptions, thereby increasing inequality levels.

3.1.2 Incentives to stabilise employment

Some countries (including Germany, Italy, Poland, and the Netherlands) have introduced reforms focusing on stabilising employment, by offering incentives to employers to convert fixed-term contracts into permanent ones.

One such example is **Italy's** Employment and Self-employment Superbonus, which is linked to the Youth Guarantee programme. Italian young people between the ages of 20 and 24 have the highest rate of young people not in employment, education or training (NEET rate) in Europe, equal to 32 % (Schraad-Tischler 2015) and NEETs are more likely to be at risk of poverty and social exclusion. The Superbonus reform was in force from March to December 2016 (Italian Ministry of Economy and Finance, 2016).[13] It was activated when an employer transferred the contract of a person aged 16 to 29 having a traineeship through the Youth Guarantee programme (who were previously NEETs) into an open-ended contract with employment protection increasing with seniority. Alternatively, it was granted when an employer hired a young person who had just completed a Youth Guarantee traineeship. The bonus had a minimum value of EUR 3 000 and maximum value of EUR 12 000, disbursed in equal amounts monthly. While it is still too early to assess the effect of the Superbonus, it is likely to be positive (at least in relative terms) for the targeted recipients. Nevertheless, this sort of incentive[14] may discriminate against people at the upper age margin (30 years old and above). It will also probably create difficulties for young people to be hired from January 2017 onwards, with employers bringing forward recruitment to the end of December 2016 in order to benefit from the Superbonus.

In **Poland,** the reform of the labour code limiting the duration of temporary contracts to 33 months is already showing effects, moderately reducing inequality of opportunity especially for young people and people with few qualifications.

In **Germany** the reform of the Temporary Agency law improves the situation of temporary agency workers which is expected to moderately decrease both the income and opportunity inequality experienced by these workers.

In **the Netherlands**, the Work Security Act, in force since 1 July 2015, tackles barriers to hiring staff on permanent contracts and facilitates the transition from temporary to permanent contracts. The Act is intended to have a strong impact on decreasing income inequality, which has not become evident yet. The Act increases income protection for employees on a "flexible" contract, such as agency workers, zero hours workers and workers on a fixed-term contract; and reduces the disparity between permanent and fixed-term employees.

3.1.3 Active Labour Market Policy Measures (ALMPs)

Some disadvantaged groups face barriers in entering, remaining and progressing in the labour market. Beyond the barriers they may face in entering the labour market, once individuals in these groups have found jobs, they may be stuck in precarious employment. Countries have made the choice to target ALMPs specifically to disadvantaged groups of workers, with two objectives of a) rapid integration in the labour market by improving access to the labour market and reducing discrimination and b) sustainable integration by increasing employability to improve the chances of moving to more stable, high quality employment in the longer term.

The EU Member States have pursued active employment measures and have facilitated access to labour market services for disadvantaged groups in order to alleviate inequalities of opportunity which lead to income inequalities.

ALMPs are interlinked with the policy areas of welfare and anti-discrimination, so a degree of overlap exists between the reforms covered in this section and in subsequent sections. For example, activation policies and conditionality tied to the receipt of unemployment benefit are discussed further in section 5 (welfare reforms), while vocational rehabilitation measures for individuals with a reduced capacity to work are discussed in chapter 9 (healthcare reforms).

The table below summarises a total of 25 ALMP reforms to address inequalities for a variety of target groups that face disadvantage on the labour market, from 10 MS. The target groups include NEETs, long term unemployed (LTU) people, low-skilled workers, migrants and refugees, among others.

Strengthening the provision of Public Employment Services (PES) to employers and jobseekers is also a priority. Three MS (Ireland, Romania, Slovakia) have mentioned ongoing reforms of their public employment services as significant in the fight against inequalities.

Table 3. Recent ALMP reforms relevant to CSRs and their impact on inequalities

Country	Name of reforms	Target Group	Effect on inequality of income	Effect on inequality of opportunity
DK	ALMP (2015) with emphasis on firm-based training	LTU, low-skilled		Moderate ↓
DK	integration programme for newly arrived immigrants and refugees (2016), introduced new vocational education for refugees	Refugees		Moderate ↓
DE	Promotion of further training and skill assessment measures for unemployed	All unemployed		Too early to determine but likely to ↓
DE	Integration law	Migrants		Moderate ↓
DE (2)	- qualifications for LTU - improving employability for LTU of 4+ years	LTU and hard-to-place LTU		Moderate ↓ since target groups are small
IE (3)	JobPath Reforms Intreo Reforms Jobbridge internship scheme	All unemployed	Moderate ↓	Moderate ↓
IE	Momentum - Free education and	LTU	Limited ↓	Limited ↓

	training for LTU			
ES	Joint Action Programme to support LTU	LTU		Strong ↓
FR	'*Emplois d'avenir*' scheme – incentive hiring scheme	Young people w/ low or no qualifications		Limited ↓
FR	*Garantie Jeunes*: Reinforced support & creation of a minimum income (EUR 460) during a one-year contract	NEETs		Strong ↓
IT (2)	Creation of new national agency for implementing and monitoring ALMPs (the ANPAL) Voucher for the unemployed to spend on employment services (*contratto di ricollocazione)*	All unemployed		Limited ↓
LV	Range of measures to support LTU	LTU		Moderate ↓
HU (2)	Complementing Public Works schemes with activation elements and an employment bonus given when a public works participant finds regular employment	Unemployed /public works beneficiaries	Limited ↓	Limited ↓
PL (4)	Modifications in the unemployment insurance law to encourage the employment of 45+, single parents, workers 5 years before statutory retirement, spatial mobility	NEETS, older workers, LTU	Moderate ↓	Moderate ↓
PL	Activation bonus provided to the unemployed, for the first three months after finding employment	LTU	Moderate ↓	Moderate ↓
SI (3)	Measures that stimulate the prolongation of working life and employment of LTU and older workers	LTU and older workers	Limited ↓	

NOTE: ↓ denotes decreasing inequality

On the whole, the reforms summarised in the table above, are seen to be contributing to moderate decreases in inequality, mainly of opportunities, in respect of the targeted groups. One measure expected to have a strong impact on decreasing inequalities is **Spain**'s joint action programme to support long term unemployed people, as described in the case study box below.

SPAIN - Joint Action Programme to support long-term unemployed people (*Programa de Actuación Conjunta para desempleados de larga duración*)

Main aims: This programme aims to benefit at least 1 million LTU in the period 2016-2018 and receives EUR 515 million. The joint action will finance provision of a personal tutor for the LTU responsible for designing an individualised itinerary for each beneficiary. It also funds training for staff (including the tutors) of the Autonomous Communities to improve the services provided to the beneficiaries and to improve management systems that have direct impact on unemployed people.

Background: The 2015 and 2016 CSRs for Spain focus on increasing the quality and effectiveness of ALMP such as job search assistance and counselling, improving labour market integration, strengthening the effectiveness of training measures (CSR3.2 in 2015 and CSR2.1 in 2016)

Details: The new Joint Action Programme to support the LTU was agreed by the Ministry for Employment and Social Security and the Autonomous Communities in April 2016 and was finally approved in December 2016. The budget of EUR 515 million is intended to finance structural measures that will allow the Autonomous Communities to improve the capacity of the regional employment services to provide rapid and individualised attention to the LTU.

Two types of measures are to be implemented: a personal tutor will be provided to design an individualised itinerary for each unemployed person. Each tutor can help a maximum 120 beneficiaries; the Programme foresees training for staff (including the tutors) of the Autonomous Communities to improve services to the beneficiaries and to improve management systems that have a direct impact on unemployed people.

Target group: Long-term unemployed

Duration of the measure: 2016-2018

Anticipated impact on inequalities: Even though there are no data available yet on the implementation of the Joint Action Programme, it is expected to have a moderate to strong effect in reducing inequality of opportunity for LTU between 2016-2018. Together with the Employment Activation Programme and other existing programmes for the LTU (such as the Prepara programme), this Joint Programme can be considered to be a turning point in the equal opportunities offered to long-term unemployed people, both in quantitative terms (with over 1 million LTU being targeted) and in qualitative terms, with the effective reinforcement of individualised pathways to employment. It can also mean an opportunity to modernise the Spanish public employment services and make it more effective (Jansen, 2016).

Reference: ECE country article for Spain

ALMP - Hiring incentives

Hiring subsidies, mainly paid as a wage subsidy or in the form of a reduction of social security contributions, are a common instrument of ALMPs, mostly to promote the hiring of disadvantaged groups. Theoretically, hiring subsidies (in the form of direct wage subsidies to the employer or wage cost subsidies in the form of reduction of social security contributions), are compensating for reduced productivity or perceived lower productivity (in case of discrimination) of the jobseeker (see also Chapter 4). Hiring subsidies may also be used as an instrument of "positive discrimination". However, in some cases the use of temporary wage subsidies may itself foster segmentation between stable and unstable employment or entrench discriminatory attitudes. Therefore, the success of wage subsidies in reducing segmentation will depend on the transition pathways between the different labour market segments. In-work benefits can also be perceived as indirect wage subsidies. They are intended to increase work incentives of benefit recipients, and encourage them to also accept relatively low paid jobs (thus reducing benefit traps). It has been debated whether they can potentially contribute to depressing wages, as employers (and employees) come to rely on such payments.

Four EU MS (Spain, Italy, Romania and the Netherlands), have introduced new hiring subsidies or have amended existing ones.

In **Romania**, as a response to criticism that the budget spent on employment incentives is far too low, the government decided in 2016 to introduce an increase in hiring subsidies targeted at bringing disadvantaged groups into the labour market as well as a special bonus for promoting regional mobility. These groups include young NEETs, single family providers, unemployed aged 45 and above, unemployed 5 years prior to (early) retirement age, long-term unemployed, as well as graduates with disabilities. However, there are as yet no thorough assessments of the impact of these measures on employment.

In addition wage cost subsidies are also directed towards turning temporary contracts into permanent ones, or to promote full-time employment. In the **Netherlands**, as of 2017, employers receive a subsidy for hiring low-paid workers. The intended effect is to promote job-creation (in particular full-time employment for people on low incomes) and thereby tackle inequality resulting from the large number of part-time jobs in the Netherlands. However, it is too early to assess the impact of this measure.

In **Spain,** the renewal of the Employment Activation Programme aims to encourage the hiring of LTU. LTU are entitled to a EUR 426 monthly benefit, accompanied by intensive guidance and counselling and the possibility of a job within 5 months, while hiring companies benefit from a subsidy of EUR 426 for salary payments.

3.2 Unaddressed CSRs and their hypothetical impact on inequality

The country articles for two EU MS (Croatia and Italy) identify that there is still room for improvement in addressing the CSRs related to activation and addressing labour market segmentation.

Political instability in **Croatia** peaked in 2016 and resulted in early parliamentary elections in September 2016, less than a year after the regular elections were held in 2015. For several months Croatia was led by an appointed Government, which caused significant delays in implementation of announced reforms, as well as limited progress in addressing the 2015 and 2016 CSRs. Due to political turmoil, a large part of the 2015 and 2016 CSRs have been inadequately addressed or have remained unaddressed. In the area of enhancing employability, ALMPs oriented towards youth unemployment (primarily funded within the Youth Guarantee Scheme) are showing results, however coverage of low-skilled workers and long-term unemployed people has remained limited. An external evaluation of ALMPs in Croatia over the period 2010-2013, completed with delays in early 2016, brought a list of recommendations related to the design and delivery of ALMPs in Croatia. However, no information is available on the implementation of these recommendations in practice. There is also no indication on steps taken to increase the effectiveness, monitoring and evaluation of the Youth Guarantee, nor on measures to increase participation in lifelong learning.

In **Italy,** employment services and ALMPs are still seen to have substantial room for improvement. The CSRs of 2016 continued to highlight the need for the implementation of ALMP reforms. The Italian Public Employment Centres are indeed the second least involved in job brokering among OECD countries and the share of ALMP spending is also low (less than half of the OECD average and decreasing, from 0.5 % of GDP in 2004 to 0.3 % in 2010) (Jin et al., 2016). Further reform and adequate funding could certainly help reduce the Italian unemployment rate towards the EU average. In this respect, hope rests on the new ALMP agency (ANPAL) intended to supervise and monitor ALMPs locally implemented by institutions and other accredited public and private providers. The agency is expected to ensure that service delivery complies with national standards. In this sense, the agency's intervention is aimed at reducing inequality of opportunities, which varies across the Country's areas, both in terms of access and availability of labour market services and instruments.

3.3 Other important reforms, not linked to 2015 and 2016 CSRs

3.3.1 Incentives for employers to hire low wage workers

Three MS (Belgium, Portugal and Slovakia) have introduced incentives for employers to take on low paid workers.

Belgium, a country that dedicates a relatively high share of the budget to ALMPs, has recently increased resources for promoting low-paid work. The so-called Belgian 'Work Bonus', based on a reduction of social security contributions for low wage earners, was introduced in 2005 and is being enhanced. The reduction is highest at wage levels around the minimum wage and then gradually tapers away. The primary rationale for this measure is to increase the incentive to work, especially to take up relatively low-paid work. But the measure is also defended on the grounds that it boosts incomes of people on low incomes and that it acts as a partial defence against in-work poverty. Here, however, the policy fails to realise this aim. Analysis (Marx et al 2012, Vandelanootte and Verbist, 2016) has demonstrated that the largest winners of the work bonus find themselves in the middle of the equivalised household income distribution, and not at the lower end, as many policy makers tend to perceive. The lower deciles are overwhelmingly populated by inactive people - pensioners, but also people living on benefits. According to the country expert, reductions in employers' social security contributions are a policy path that has been pursued for decades, yet employment growth still strongly lags behind, while structural unemployment remains high.

As will be described in more detail in section 4, in **Portugal** the tripartite agreements on the minimum wage in 2014, 2016 and 2017 included a clause that reduces the costs of the minimum wage increases for employers by reducing their social security contributions for workers whose salaries increased as a direct consequence of the increase of the minimum wage. The provision in question was implemented in 2014-15 and 2016, but its continuation was in fact cancelled on 25 January 2017[15]. The long duration of the reduction (39 months) and the increase of the reduction in the most recent arrangement (from 0.75 p.p. to 1.25 p.p.) are contentious issues.

In **Slovakia**, a health contribution allowance was introduced on 1 January 2015. The main goal of the measure was to offset the increase of labour costs incurred by the 8 % hike in the statutory minimum wage and so to incentivise employers to hire low-wage workers (the reform is discussed in more detail in section 6 on taxation).

4 Reforms related to wages and wage setting frameworks

4.1 Introduction

Wage inequalities account for a very important part of income inequality. The wage distribution determines the primary distribution of income from work (before taxes), which accounts for the major part of income for most people of working age and impacts on incomes in old age. OECD sources (Joumard 2012[16] and OECD 2012[17]) suggest that inequality of income before taxes and transfers is mainly determined by wage differentials and the prevalence of part-time employment and inactivity. Other sources of household income such as transfers and capital income also contribute to explaining trends in overall inequality[18], as demonstrated in section 2.1 above.

Taxes and social transfers are key to shaping the actual income distribution. Welfare benefits in turn are financed via taxes and social security contributions, and mainly the latter are non-wage labour costs. While they redistribute income, they also influence the supply of and demand for labour.

From a wider perspective the distribution between wage and capital incomes is also decisive, and therefore tax policies concerned with taxing other incomes than from work are also important. Consequently, interactions between income from work, welfare benefits, non-wage labour costs as well as taxes need to be taken into account when looking at wage setting mechanisms. While welfare policy reforms and tax reforms and their impact on inequalities will be the focus of Chapter 5 and Chapter 6 respectively, measures or reforms that are considered to be more directly related to wage setting mechanisms will be considered in this section. The section discusses the extent to which recent reforms concerning collective bargaining and wage setting have had distributional effects; the impact of reforms on income inequalities as well as the impact of minimum wages on employment.

4.1.1 Minimum wages

The role of minimum wages and the coordination between minimum wage policy and other redistribution measures, could have a significant impact on reducing poverty and inequalities.

Minimum wages vary a great deal, with Luxembourg having the highest level at EUR 1 999 per month and Bulgaria the lowest, at EUR 235 (see table 4 below). The range is lessened when taking into account the 'purchasing power standard' amounts, but there are still very significant variations across the EU.

Countries with minimum wage levels below the median value tend to be amongst the least equal (as measured by the Gini Coefficient after social transfers) (e.g. Estonia, Latvia, Bulgaria, Romania, and Lithuania). However, there is not a clear correlation: Slovakia and the Czech Republic have minimum wages below the median value but rank relatively highly in terms of income equality.

The table below also lists the minimum wage as a proportion of average monthly earnings in industry, construction and services, and in business economy. For industry, construction and services, the proportion ranges from 34 % of the average wage in Spain and the Czech Republic, to 51 % in Slovenia. For business economy, the proportion ranges from 35 % of the average wage in the Czech Republic, to 52 % in Slovenia.

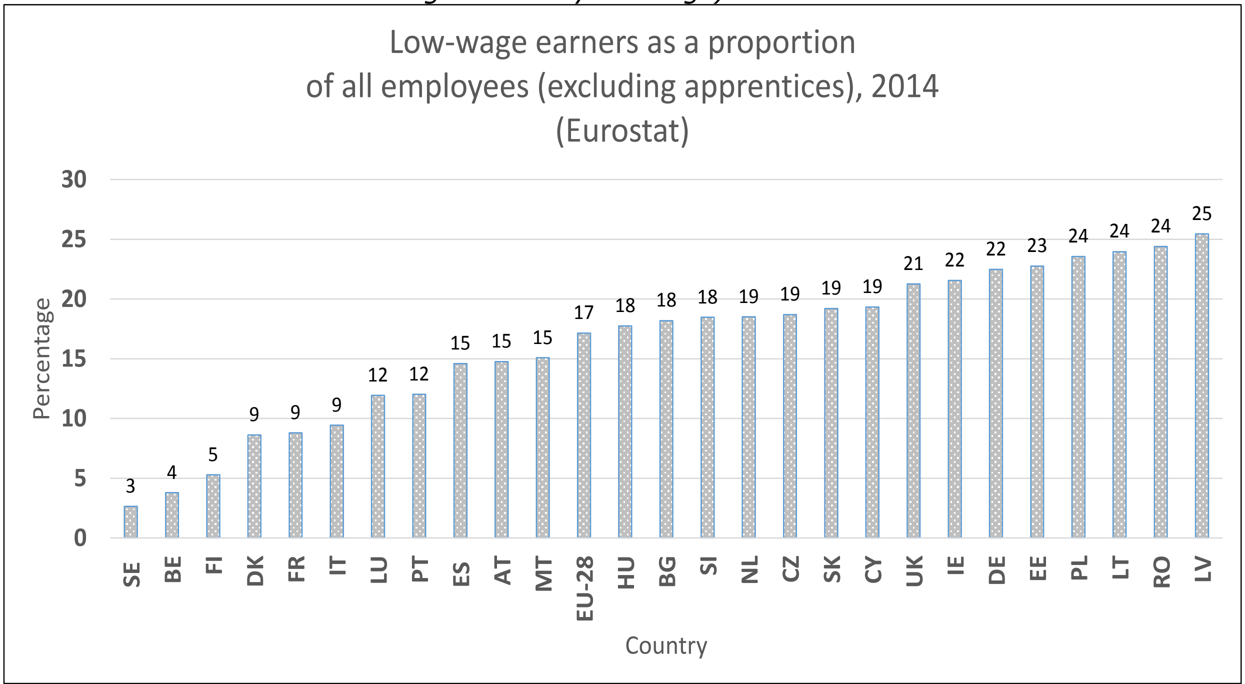
Table 4. Monthly gross statutory minimum wage rates (January 2017) and the relation between minimum and average wages (based on Eurostat indicators for 2015, 2016, 2017 depending on the country)

Country	Monthly min wage (EUR)	Monthly min wage (EUR) (adjusted by purchasing power standard)	Monthly minimum wage as a proportion of average monthly earnings (%) (2015, 2016, 2017) Industry, construction, services	Monthly minimum wage as a proportion of average monthly earnings (%) (2015, 2016, 2017) Business economy
Luxembourg	1 999	1 659	46.4	48.9
Ireland	1 563	1 280	42.3	44.0
Netherlands	1 552	1 433	42.7	42.7
Belgium	1 532	1 453	No data	No data
Germany	1 498	1 493	41.1	41.7
France	1 480	1 415	No data	No data
United Kingdom	1 397	1 236	44.1	44.2
Spain	826	910	34.1	36.0
Slovenia	791	994	50.8	52.4
Malta	736	917	44.2	45.8
Greece	684	805	No data	No data
Portugal	650	793	46.6	45.8
Estonia	470	645	37.4	37.2
Poland	453	881	45.5	45.5
Slovakia	435	658	37.9	36.9
Croatia	433	663	38.6	39.4
Hungary	412	723	45.3	43.2
Czech Republic	407	644	34.6	34.6
Latvia	370	553	45.2	44.4
Lithuania	380	625	46.6	47.0
Romania	275	551	40.4	40.5
Bulgaria	235	501	41.2	40.5

Source: Eurostat
Note: 2015 data on monthly minimum wage as a proportion of average monthly wage, except for Luxembourg, Portugal, Slovenia, UK (2016), and Germany, Malta(2017). For business economy only, the Bulgaria data is for 2016.
No data available: Denmark, Italy, Cyprus, Austria, Finland, Sweden

We can also see that there is a wide variation in the share of low-wage earners in a given country (see figure 4 below). Some of the most equal countries (as measured by the Gini Coefficient) have levels under 10 %, while others have rates in excess of 20 %, although there is not a clear correlation between income inequality and share of low-wage earners.

Figure 4. Extent of low-wage earners (defined as those earning two thirds or less of the national median gross hourly earnings)



4.1.2 Linking wage policies, tax policies and labour market policies

The setting of minimum wages, social security contributions and the coordination between minimum wage policy and other redistribution measures, could have a significant impact on reducing poverty and inequalities. At the same time they could have a positive or negative impact on employment (thus indirectly impacting inequalities). Further it has been argued that higher wages are likely to boost demand and to create employment. Moreover, there is the assumption that this effect would be larger in the lower wage segments, as the consumption propensity of people on lower incomes is assumed to be higher than that of high income groups. The opposite view is that "high" minimum wages and a high wage compression in the lower part of the wage scale lead to a wage level that is above labour productivity. This would have a negative impact on employment, which in turn would raise income inequalities. Equally, it can be argued, that wage compression in the upper half of the wage distribution could either mean that excessive wages (above productivity) are avoided or that high productivity jobs are not adequately remunerated. In the latter case, wage compression would have distortive effects: either less people are choosing these jobs and are investing less in human capital to get them, or are looking for better paid jobs at the global labour market. The net effect is then not clear a priori and depends on a number of factors.

In order to counteract the negative effects of minimum wages or other wage policies that lead to wage compression, measures have been implemented - such as wage subsidies, reduction of social security contributions for certain groups. In contrast, to counteract negative effects on inequality of wage policies that lead to a large low wage sector measures such as in-work benefits and tax credits, as well as tax reforms for low wage earners might be in place. Taxation of low incomes may de facto act as a substitution to implementing or raising minimum wages: they could have the same effect on net income for the worker, but different effect for the employer. However, it increases the supply of workers in the low wage sector and in this respect can be regarded as somehow indirectly supporting the employment of low-wage earners. In order to be income neutral for the State this implies that other wages are accordingly taxed at higher rates.

In general, in the area of wage policies, the CSR recommend to find wage setting mechanisms that link wages and productivity in order to increase competitiveness and safeguard or increase employment. This does not solely relate to the bottom end of the wage structure. The potential effect of linking wages to productivity is to ensure global competitiveness and in this way maintain or increase employment. The following classification of measures and initiatives into those who comply with CSRs and those who do not, or were adequate measures and reform initiatives are absent is based on the assessment of the country experts

4.2 Reforms relevant to the CSRs and their impact on inequalities

4.2.1 Wage policies

CSRs in general recommended the introduction of wage setting mechanisms that link productivity and wages or wage setting and competitiveness. In principle, this also applies to minimum wages. The relative level of minimum wages as well as the level at which they increase varies widely across countries (see table 4 above). Further, the macroeconomic conditions as well as the competitive position of the economies varies greatly. Therefore, assessed impacts on employment and income inequality are quite disparate. Further, the methodologies and assumptions used in the evaluation studies (e.g. on wage elasticities, on the multiplier effect, on the wage – productivity profile) make a direct comparison of the results difficult. Measures in the area of minimum wages, complying with the CSRs, have been implemented in seven MS. Most of them concern minimum wage setting mechanisms. Three MS have amended general wage setting mechanisms.

4.2.2 Minimum wages

Minimum wage reforms were introduced in Ireland, Greece, Luxembourg, Slovenia, Poland and Portugal. In **Portugal**, between 2014 and 2016 **the minimum wage increased** in total by 14.8 %. The sum of the gains during the same period in the apparent labour productivity is close to 6 %, and the sum of yearly inflation rates is 7 %. The agreements underpinning minimum wage developments included an arrangement that reduces employers' social security contributions for workers who benefit from the increases in the minimum wage. The analysis of the country expert indicates that the minimum wage actually reduces in-work poverty as the share of people covered by the minimum wage increased and no evidence of negative employment effects was found. **Contrary to expectations, the increases in the minimum wage have shown a very limited influence on the wage setting system as a whole**.[19]

The minimum wage was also increased in Poland. Interestingly, the increase proposed by the government is higher than that agreed earlier between the employer and trade union representatives in the Social Dialogue Council. The effects of the rise in the minimum wage have yet to be seen. It should be noted that previous increases of the minimum wage contributed to the observed reduction of inequalities and poverty in Poland, while the labour market still performed well. Due to the ageing population, the size of the potential workforce is shrinking which also means that the negotiating position of employees in the labour market is increasing (Saczuk et al. 2016).

In **Romania**, in 2016, the new government enacted only one increase of the minimum wage (instead of bi-annually increases as in the past two years), after consultation with the trade unions and employers' organisations from May 2016. Furthermore the government and the social partners agreed to **jointly work on establishing a 'mechanism' for the regular and transparent setting of the minimum wage**. Research commissioned in this context by the government concluded amongst other things that small salary increases by no more than 10-15 % are not damaging to the competitiveness of Romanian products. However larger increases in the range of 20 %, 30 %, 50 %, would dent cost competitiveness quite significantly and thus generate problems for a fragile labour market. The study also concluded that the impact on poor households is very low as many of them do not derive their incomes from salaries.

Similarly, in the case of **Ireland**, the minimum wage is not seen as a significant instrument to tackle poverty **since most households in poverty do not contain a minimum wage employee**, as described in the box below.

IRELAND - MINIMUM WAGE

Main aims: Budget 2015 announced the establishment of a statutory Low Pay Commission (LPC) that would make annual recommendations regarding the National Minimum Wage (NMW)[20].

Details: Following recommendations from the LPC, the NMW for an adult worker increased from by 6.9% between 2015 and 2017. It is argued, that increasing the NMW may incentivise employment and potentially increase the work intensity of households.

Anticipated impact on inequalities: In order to understand the impact of changes in the NMW and its potential impact on inequality, it is important to take into account the rather limited overlap between low pay and household poverty.[21] Most households in poverty do not contain an employee, and of those which do, most do not contain a minimum wage employee. In Ireland, just under 16 % of NMW workers belong to households whose income is less than 60 % of the median equivalised household income, compared to a rate of 3.1 % of non-NMW workers. In terms of deprivation rates (defined as being unable to afford at least 2 out of 11 basic items, including food, clothing, heating, furniture and some social participation activities) 28 % of NMW workers are defined as being deprived, relative to 19.5 % of non-NMW workers.[22] With regard to the incidence of consistent poverty (defined as being both at risk of poverty and deprived) 4.5 % of NMW workers fall into this category compared to 1.4 % of non-NMW workers[23].

Therefore, as noted by the Irish Low Pay Commission (2016), a minimum wage by itself appears to be a blunt instrument for tackling poverty. This is consistent with Callan et al. (2015), who state that low-paid employees are found in a range of household situations, such as, adult children living in households where the earnings of parents ensure that the household is not in poverty, others are second earners, and the earnings of primary and secondary earners are sufficient to bring the household above the poverty line. Employees in poor households are more often earning wage rates above the minimum, but fall below the poverty line because of the number of people depending on that income, or part-time working at a wage above the minimum. Therefore, this group is targeted by measures such as the Family Income Supplement and the Back to Work Family Dividend.

Reference: ECE country article for Ireland

In **Slovenia,** in November 2015, **the definition of the minimum wage was changed** so that from 1 January 2016 bonuses for night shifts and work on Sundays and public holidays are no longer included within the definition of the minimum wage and are paid as extra compensation. Relative to the average wage, **the minimum wage was already high** before its exceptional increase in 2010 and is now among the highest in the OECD (OECD 2016). The number of minimum wage recipients has decreased since 2015 (OECD 2016, 53). According to data from the Pension and Disability Insurance Institute of Slovenia, the 2010 minimum wage hike created a spike at the bottom of the wage distribution with a large number of workers close to the new minimum wage level (Laporšek, Vodopivec, and Vodopivec 2015). Some studies conducted in Slovenia suggest that **the minimum wage might not be an appropriate tool to address poverty**. Quantitative estimates of the impact of the 2010 minimum wage hike (IMAD 2012; Laporšek, Vodopivec, and Vodopivec 2015; Stoviček 2013) suggest that the minimum wage could be a factor increasing long-term unemployment among low-productivity workers and it may motivate the use of non-standard contracts, thus increasing short-term unemployment. While the minimum wage may increase the probability of working-poor households escaping poverty, it may also increase the probability of non-poor households entering poverty due to a loss in employment or a decline in hours worked (OECD 2016; Stoviček 2013). Also, Stoviček (2013, 7) finds that the net income of single minimum-wage earners remains below the at-risk-of-poverty threshold even after the minimum wage hike in 2010.

4.2.3 Other wage setting mechanisms

In Belgium and in Luxembourg amendments have been introduced to the indexation system of wages. In the case of **Belgium**, an important measure was the **temporary suspension of the automatic indexation mechanism** and the government imposed limitation on the scope for general wage growth to 0.5 % for 2015 -2016. Further, the law regulating wage growth relative to Belgium's main competitors (the ‘1996 Act’) will be simplified through the 2016 National Reform Programme. **An automatic correction mechanism will be introduced, adjusting the maximum wage increase for the next two years to the difference between the actual wage increases in Belgium and in the reference countries (Germany, France, and the Netherlands) in the two previous years**. In the 2016 National Reform Programme it is also announced that sectoral consultation structures should be simplified. Furthermore amendments to seniority wage rules are announced. Nevertheless, reforms in this area remain very limited. It seems unlikely and unrealistic that the government will succeed in challenging the strong autonomy of the social partners, who seem to favour the status quo in the area of wage setting. According to the country expert, the outlook for wage inequality thus remains stable. The employment effects of the measures so far have not been assessed.

In **Luxembourg**, an automatic indexation system of wages is in place. Wage setting agreements have been the subject of strong debates at the political and social partner level: the debate concerned on the one hand the introduction of an upper limit as the application of indexation is not only limited to the lower wages; on the other, while employers' associations consider wage indexation to harm corporate competitiveness, trade unions are against any modulation and major reform as it would have a positive impact on consumer demand, consumption and social cohesion in general[24]. In 2016, it was decided that the increase of inflation led to automatic wage indexation by 2.5% on all wages to be applied in 2017.

4.3 Unaddressed CSRs and their hypothetical impact on inequality

4.3.1 Wage setting

In five Member States either the CSR were not addressed at all, or measures implemented did not fully address CSR. Mostly changes in wage setting mechanisms were not (sufficiently) addressed, which may be explained by the fact that social partners play here a major role, which may make addressing CSRs less straight forward, since more time may be required to reach solutions. Furthermore, the influence of the governments on the social partners is restricted.

The progress made in **Portugal** on the rise of the minimum wage, as presented above, can also be questioned, as the strong increase contradicts the CSR, although the country expert identified a positive effect of this measure to combat in-work poverty. In **Bulgaria**, the recommendation to establish a transparent mechanism for setting the minimum wage has not yet been implemented. The effect of transparent mechanisms as such on inequalities is not evident at first sight. Much depends on the current relative level of the minimum wages, wage elasticities as well as the development of wages in other wage segments. It also depends on the extent to which such a mechanism follows the development of productivity, of average wages or the development of inflation. There is also no progress in the negotiations between the social partners for setting the minimum social security thresholds (MSST). Again the potential impact on inequalities is not clear at first sight. Higher contributions allow avoiding poverty and potentially reducing inequalities in old age or in access to medical care. Gross wages elasticity of labour demand would need to be assessed in order to be able to evaluate the potential negative impact on labour demand.

Although, in **Romania** progress has been made to meet the CSR recommendations on establishing an appropriate mechanism for determining the minimum wage (see above), its final aim has not been reached as no mechanism is yet established. It proved to be difficult to follow recommendations directed towards the collective bargaining system in some countries.

Potential positive impacts of higher social partner involvement on inequalities is likely to depend on the relative bargaining position of employers' associations and trade unions. One could theoretically assume that in case bargaining power is well balanced, inequalities are likely to improve, as trade unions probably strive at reducing inequalities, while employers will try to remain competitive. This would assume that trade unions are not defending the interests of small groups of workers and that they are not easily substituted by machines and new technologies. In **Lithuania**, it has been found that the recommendation to strengthen the role of social dialogue mechanisms was not given due attention by policy makers. It could have been expected that a higher involvement of social partners facilitates finding social compromises to reduce inequalities (although, as argued above the effect is not fully self-evident).

4.4 Other important reforms, not linked to 2015 and 2016 CSRs

4.4.1 Wage policies - Minimum wages

In eight countries, minimum wages are high on the agenda. Mainly, minimum wages have been increased recently. In most cases these recent changes in minimum wages did not have a negative effect on employment and did thus not increase unemployment. Thus, any feared negative effects, were avoided. The positive effect of increased minimum wages on reducing inequalities is more likely in case their relative level (as compared to median wages) is not very high. Also, if the increased or introduced minimum wage is redistributing economic gains without harming company competitiveness (this is likely to be the case when previously lower wages were the results of low bargaining power). The macroeconomic environment (of recovering from recession) as well as the labour market context (falling unemployment levels) increases the likelihood of positive impacts of minimum wages on reducing inequalities. The impact also depends on the interaction between wage levels and the welfare system (e.g. in the event of in-work benefits the net effect may not necessarily be positive if higher wages are substituting receipt of in-work benefits).

In **Germany**, **a Minimum Wage of EUR 8.50 was introduced** on 1 January 2015 (with a transition period until 2017 to accommodate periods where collective agreements have set lower wages), and has been raised in 2017. The introduction of the minimum wage was a reaction to the expansion of the low wage sector. In the past, the latter led to an increased wage inequality but also contributed to reducing unemployment, when it was at a high level (before the crisis). At first sight the introduction of the minimum wage has reduced wage inequality, especially in Eastern Germany. Nevertheless, the low wage sector in Germany is still very large.[25] The minimum wage commission assessed the effects of the minimum wage recently (Mindestlohnkommission 2016). 4.0 million out of 5.5 million jobs with wages below the minimum wage level in 2014 were affected by the reform.[26] Women were more affected than men. Younger workers (aged between 18 and 24) as well as very old workers of 65 years or more benefited the most from the introduction of the minimum wage. The number of means tested minimum income recipients who were working, decreased by 4.4% between 2014 and 2015. This decrease may therefore be linked to the minimum wage. Employment growth in sectors that were particularly affected by the minimum wage was higher than in sectors that were less affected. Further, macro-economic effects on labour costs, productivity and unit labour costs could not be observed yet, but prices increased in some sectors that were most strongly affected by the minimum wage, especially in Eastern Germany. Overall, **no (negative) effect on unemployment could be detected so far**.

In the **UK**, the **transformation of the National Minimum Wage (NMW) into the National Living Wage (NLW)** was announced in the Budget 2015. The idea behind it was to bring the NMW more in line with average earnings so that by 2020 the NLW would equate with 60 % of the median wage. The new NLW would only apply to those aged 25 and over on the basis that to increase the minimum wage for young people might lead to detrimental employment effects – so for under 25s the existing NMW rates would apply, though would be uprated on the recommendations of the independent Low Pay Commission as before. The NLW was introduced in April 2016 at GBP 7.2 (EUR 8.3) per hour with the expectation that this would rise to GBP 9.35 (EUR 10.8) per hour by 2020. Recent research principally using ONS earnings data (IHS Markit, 2016) estimates that around 5.6 million employees are earning under the (unofficial) NLW. This represents around 22 % of all employees and is significantly higher than the 19 % recorded in 2012. More women than men are affected and around 69 % of the total are young people aged 18-21. **The effects of introducing the NLW on employment are difficult to isolate and any effect on employment**

is likely to have been small, given that the wage is being introduced incrementally and also comes at a buoyant time for the UK labour market. Nevertheless, the Resolution Foundation (2016c) has examined (principally through an employer survey) the first few months since its introduction in April 2016. It found that '*reduced employment does not appear to be the primary response employers make to a rising wage floor*'. Instead it found that employers were more likely to pass on their increased costs in higher prices for their goods and services. Increased prices could then **fuel inflation** which could eat into any NMW increase received but could also lead to interest rate increases that will affect mortgage and other debt payments.

The statutory minimum wage was relatively low in the **Czech Republic** over the last 15 years, ranging between 30 and 35 % of the average gross monthly wage and between 35 and 40 % of the median gross monthly wage.[27] Since 2015, the statutory minimum wage was subsequently substantially raised and will be reaching approximately 40 % of the current average gross monthly wage in 2017. Overall, the labour market situation was favourable for the gradual minimum wage increases implemented by the current government since 2015. Both gross and nominal monthly wages have risen annually by about 2-3 % since 2013, while the unemployment rate declined by about 1 % from 6.1 % in 2014 to about 4 % in 2016.[28] Interestingly, the gross wage inequality remained more or less constant over the same period. The indices based on the ratios of different deciles of the gross wage distributions actually imply a slight rise in the wage inequality between 2013 and 2015 (P50/P10 from 1.89 to 1.93, P90/P10 from 3.51 to 3.57, while P90/P50 remained constant, moving only from 1.86 to 1.85)[29]. The rise in the incidence of the low-paid workers[30] from 19.95 to 20.65 between 2013 and 2015 is even more striking vis a vis the rising statutory minimum wage but is probably a consequence of the negative selection into labour force, i.e. the low-paid individuals without work gradually finding employment over the same time period, as reflected by the decline in the unemployment rate and the rise in the employment rate. **The latest strong rise of the minimum wage in January 2017 is likely to have a more discernible impact** on the wage distribution and could also affect the employment prospects of the minimum wage earners. **The authors of a study commissioned by the government found no effect of the minimum wage on aggregate unemployment** (see Pícl and Körner, 2016).

In **Hungary**, the government announced a 15 % rise in the minimum wage, and the guaranteed minimum wage by 25 % as of 2017 and a further raise in 2018 (of 8 % and 12 % respectively). This is likely to curb improvements in employment opportunities for low-skilled workers. Experts also warn that the wage increase might lead to an increase in consumer prices affecting the poorest (unemployed, pensioners, etc.).[31] Also in **Latvia**, a 15% raise in minimum wage was decided between 2014 and 2016. Since there is a large number of low-wage earners[32], the changes in a minimum wage affect a great number of workers and carry a substantial risk of negative employment effects, especially in lagging regions. Burkhauser (2014) discusses recent literature findings on negative employment effects from minimum wage increases, as well as weak (if any) effects on poverty reduction; he concludes that the earned income tax credit (EITC) is a much more targeted way to provide income to workers in poor families. In **Slovakia,** after relatively modest increases between 2010 and 2014, **the minimum wage has been substantially increased** by the government in the last three years. Consequently, the minimum to average wage ratio rose to almost 45 % in 2016 and is expected to exceed 46 % in 2017. At this pace, minimum wage growth clearly surpassed labour productivity dynamics in recent years. A recent analysis by the Institute for Financial Policy (IFP, 2016) validates this assumption using 2008-2014 data, though the authors estimate that the overall effects of an average 5 % minimum wage hike are rather insignificant for the country's unemployment situation. EU-SILC data on income distribution indicate that the **decline in inequality observed in Slovakia in 2015 was caused not only by raising income in the lower parts of the income distribution but also** – and perhaps more significantly – **by a decrease of incomes in the top quintile**. This could be due to a possible side effect of minimum wage increases – namely that they force companies to offset costs, among others, through reduced wage increases for high-paid workers.

With regard to the most vulnerable groups, the **Czech Republic** has now withdrawn the subminimum wage for workers with disabilities, while wage subsidies for this group were increased (see for details below) and in the **Netherlands** the sub-minimum wage for the 21 and 22 years old has been abolished. In the case of the **Czech Republic** these employment subsidies seem not to be strong enough. According to the country expert it is likely that this change will negatively affect the demand for disabled workers and worsen the position of this subgroup in the labour market. Again, there is no rigorous analysis of the expected impact of this policy change. Note that in the **Netherlands** all employees aged between 23 and state pension age are entitled to the statutory minimum wage. Previous to the reform, employees aged 15 to 22 were entitled to a specific (and lower) minimum youth wage. This abolition is based on the assumption that the negative effect of an increase in the minimum wage for these employees, an increase of unemployment among young people, will mainly take place in the segment of small jobs (less than 12 working hours per week), while the extra costs for employers are covered by the new reduced tax wedge for (working) people on a low income.

4.4.2 Other wage setting mechanisms and wage costs

Other measures implemented in the area of wage setting include posted workers (new law against wage and social dumping in Austria) and **cuts in public sector pay** (in Cyprus). In the case of **Cyprus,** the study by Christofides and Michael (2013) shows that the public-private pay gap was greater for individuals with low skills and levels of education, and for women. Low-income individuals were shielded from many of the public sector cuts but their private sector colleagues were not. The relative impact on public and private sector pay of reforms undertaken during the crisis at low income deciles is as yet unknown. Overall, reforms to the wage determination process during the crisis are likely to have reduced inequality within the public sector, have had as yet unmeasured effects in the private sector and hence on the public-private pay gap, and may have increased or decreased the public-private pay gap at low deciles of the earnings distribution and when conditioned by gender. A clearer understanding of the impact of these reforms on inequality at this level of detail must await the appearance of new data and further research.

5 Reform of welfare systems for efficient distribution

This section discusses reforms relevant to welfare systems. The adequacy and coverage of income support schemes (unemployment benefits, social assistance, and minimum income) can help the purchasing power of those at the bottom of the income distribution. Depending on how they are distributed (either as benefits or as services receiving greater subsidisation for lower income families), other services (e.g. childcare and housing) can also address inequalities by enhancing educational and health outcomes of children.

Focusing upon the distribution of income at a single point in time (i.e. leaving aside the issue of longer-term inequality of opportunity), on average across the OECD, three quarters of the reduction in income inequality is due to transfers, the rest is due to direct household taxation[33]. The link with activation and labour market participation may also play a role in the improvement of earnings, although this depends upon wage levels, the nature of employment contracts, and in-work benefits.

There are a total of 71 reforms reported in the country reports which directly relate to welfare systems. Almost all country experts reported reforms in their country articles, with the exception of Austria and Sweden.

The section begins with a discussion of the role of welfare in reducing inequalities and how it combines with taxation. The second part describes reforms in the EU-28 that were related to CSRs. The third part looks at unaddressed CSRs and their hypothetical impact on inequality. The final section describes reforms not linked to CSRs in the 27 countries covered by this Review.

5.1 Social expenditure for re-distribution

The financial crisis and its consequences have contributed to an increase in inequality in recent years and fuelled a widely-held perception of unfair burden-sharing in society[34]. While there is a varied picture between different countries, from an overall international perspective, there were important reductions in social expenditure notably during the second dip of the crisis which may have presented challenges for social protection systems to offset the deterioration of the labour market and social situation. This is for example the case of unemployment benefits which expired in a context of rising long-term unemployment. Unemployment has overall been declining of late but long-term unemployment remains high and disproportionately affects some groups. Also, the extent to which reduced unemployment impacts upon household income depends upon job quality and wage growth[35].

As previously indicated, inequality as measured by the Gini Coefficient is much higher before social transfers than it is after social transfers (mean of 30.7). Inequality of income before taxes and transfers is mainly determined by wage differentials and the prevalence of part-time employment and inactivity[36], but taxes and transfers potentially have a significant redistributive impact.

It is interesting to note that **some countries exhibit a relatively large difference between scores for before and after social transfers.** This is most notable for the following countries (in order of the biggest difference): Portugal, Sweden, Greece, Germany, Denmark, Hungary, UK and Ireland. For example, Sweden is one of the least equal countries before social transfers but is one of the most equal after social transfers. **This indicates that the benefit system is playing an important role in these countries to ensure greater equality.** Conversely, some countries exhibit a relatively small difference between scores for before and after social transfers (in order of the smallest difference): Latvia, Estonia, Bulgaria, Lithuania, Romania, Spain, and Italy. These tend to be countries relatively close to the median score before social transfers (i.e. not significantly unequal, with the exception of Lithuania) but are among the least equal countries after social transfers, with the exception of Italy. **This indicates that the system of benefit is playing a more limited role in adjusting for greater equality**.

A 2014 research paper describes in detail the redistributive effects of the systems of taxes and cash benefits of the EU-27, making use of the 27 country version of EUROMOD, the tax-benefit microsimulation model for the EU[37]. The study looks at eight different tax-benefit instruments, i.e. public pensions, means-tested benefits, contributory benefits, non-contributory non means-tested benefits, direct taxes, tax allowances, tax credits[38], and worker insurance contributions. While the paper evaluates the policy year 2010 (and thus misses the bulk of the post-crisis effect), it finds that:

- The size of the tax benefit system varies widely among the 27 countries and the extent of the redistribution varies markedly across countries. Belgium, Hungary, Ireland, France, Germany and the Czech Republic reduce inequality significantly through their taxes and benefits. In contrast, tax-benefit systems reduce inequality least in Cyprus, Malta, Bulgaria, Latvia and Lithuania.
- Public pensions and direct taxes are the main instruments responsible for greater distribution, mainly attributable to their sizeable share in final disposable income. Both pensions and taxes redistribute more in countries where the tax-benefit system is more extensive (as measured by the relative size of taxes and benefits as a percentage of disposable income).
- Countries with higher levels of redistribution are the countries where direct taxation is higher, but there is no one to one relationship between the taxation level and the extent of redistribution effected through the tax-benefit system. This may be due to the tax system, as high gross taxation levels may be compensated by significant tax concessions[39]resulting in much lower net tax burdens (e.g. Sweden, Spain, and Netherlands), or by the redistribution potential of some tax schedules being limited by low progressivity (e.g. Sweden, Spain, and Latvia).
- New EU MS and Southern European countries tended to have direct tax policies and tax schedules that are comparatively less redistributive, possibly due to the use of flat-rate taxation in some countries in the Eastern European region.
- Non-means tested contributory (short-term benefit based on previous contributions being paid, but not pensions, so things like insurance-based unemployment benefit) and non-contributory benefits (e.g. for a disability) have a very limited influence on disposable income inequality, mostly due to their relatively small share of disposable income which is a general pattern across the EU. However, these benefits see the widest cross-national variation in progressivity.
- Neither tax allowances nor tax credits influence inequality levels to any great extent, and affect inequality much less than means-tested and non-means tested non-contributory benefits. Tax allowances are progressive in a context of flat rate taxation but regressive in a progressive regime.

5.2 Reforms relevant to the CSRs and their impact on inequalities

Of the 71 reforms, 45 were considered to be relevant to CSRs. Four of these were relevant to CSRs before 2015 but the other 40 were applicable to CSRs in 2015 and 2016. Amongst these 45 reforms, 38 have had an effect on inequality or have both an impact now and an impact expected in the future. **Of these 38 reforms, 32 were considered to have contributed to a decrease in inequality**. Fourteen of these were identified as having an impact on income inequality, seven were identified as having an impact on inequality of opportunity, and eleven were identified as impacting upon both income equality and inequality of opportunity. **Only five of the 38 reforms were considered to have contributed to an increase in inequality (all income inequality)**. These reforms are now discussed below.

5.2.1 Child benefits and family-based tax credits

Regarding the 14 reforms that have decreased income inequality (all only having a moderate or weak impact), many are related to child benefits or family-based tax credits, notably in Germany, Latvia, Portugal and the Czech Republic**.** The **Czech** child tax credit targets households with multiple dependent children and increases the amount of tax credit for a second and subsequent dependent child (moderate impact). This tax credit becomes a tax bonus for those earning at least six-times the minimum wage per year. In **Portugal**, the reform saw an increase of the family allowance for the three lowest income groups by between 2.5 % and 3.5 %, and of the increment for single-parent households by 15 percentage points (moderate impact). **Germany** saw the increase of tax allowance and child-related benefits (limited impact), and **Latvia** an increase in the family state benefit for the second and each consequent child (limited impact). The latter appears well targeted as its beneficiaries are overrepresented among low-income groups.

A further 11 child benefit reforms (including Ireland, Romania, Slovakia and the UK) were identified as impacting upon inequality both of income and of opportunity**.** In the **UK**, 15 hours subsidised childcare has been increased to 30 hours per week for 3 to 4 year olds, for eligible children. The UK has made some progress in relation to the CSR on the provision of childcare, especially considering that it was starting from a comparatively low base. However, some weaknesses of the scheme include that the provision of this subsidised childcare is not means-tested, is not full-time and the funding may still not be adequate to ensure quality provision throughout the country.

Child or family-based benefits can be important for addressing inequalities. However, this depends on the extent to which transfers benefit the whole population or people with low income. The lack of targeting of low-wage earners has limited the impact of measures in, for example, **Germany**. The German expert comments that the promotion of employment and further training (especially of single parents and low-income families) might be a better use for these funds for preventing poverty. In the **Netherlands**, as part of long tradition of minimum income schemes, child benefits (for all parents and progressive on the number of children and their age) are a key element in supplementing disposable household income.

5.2.2 Means-tested benefits

Other reforms that have decreased income inequality do so by improving the level of welfare payments. This may occur in a context whereby the transfer system plays a more important role in reducing inequality compared to the tax system, for example in Ireland. **Ireland** saw an increase in social welfare payments by EUR 5 weekly.

In other countries, social transfers improve equality but are limited in vertical redistribution from rich to poor. In **Slovakia**, the bulk of social expenditures is allocated to domains in which insurance-based transfers prevail (pensions, health care, disability/sickness). Such transfers are thought to be less vertically redistributive than, for example, means-tested benefits. The 'special allowance (in-work benefit)' means that temporary in-work benefits are available for long-term unemployed people and inactive welfare recipients who take up low-wage employment (moderate impact). As a result, most of these individuals moved from minimum income support to labour market income which can range from the minimum wage up to almost the average wage during the benefit period and translate into higher disposable incomes for the households concerned. A more precise quantification of effects is restricted by the lack of access to individual level data. Information about the concurrence of in-work benefits and contribution rebates is also not readily available. Nevertheless, it may be assumed that during the last two years the special allowance has played a relatively important role in redistributing income towards lower-income groups.

In **Italy**, **the 'support for active inclusion' reform, targeting the poorest households, has from 26 May 2016 extended the experimental social card to the whole country (see case study box below).** This is a significant measure in the Italian system, given its 'truncated' welfare state - despite Italian expenditure on social protection being consistently high (close to 24 % of GDP in 2013) this has not translated to change for the poorest quintile of the population through social assistance. Italian social expenditure generally gives priority to protecting old people, but also focuses on the unemployment risks facing workers with standard open ended contracts. Transfers are also made on the basis of lifecycle rather from the richer to the poorer layers of society. In this context, the Support for Active Inclusion is an ambitious scheme, but its budget and coverage may limit its impact.

ITALY - SUPPORT FOR ACTIVE INCLUSION (Sostegno per l'inclusione attiva)

Background: In Italy, the share of people at-risk-of-poverty before social transfers was already slightly higher than the EU average before the start of the crisis (0.1 percentage point (p.p.) in 2006) and the gap increased further in 2011 (1.2 p.p.). In particular, the number of people in severe material deprivation spiked, more than doubling from 6.4 % in 2006 to 14.5 % in 2012, before falling to below 11.5 % in 2015, 3.5 p.p. higher than the EU average.

Main aims: The Support for Active Inclusion (SIA) measure aims to tackle poverty in Italy. SIA addresses CSR4 2016 to '…Adopt and implement the national antipoverty strategy and review and rationalise social spending'.

Details: The SIA was introduced by decree in May 2016 and the budget was covered by the 2016 State Budget Law. The SIA budget for 2016 was EUR 750 million and has risen to EUR 1.15 billion for 2017. The SIA reform was an extension at national level of the 'Pilot Social Card' (*Social Card Sperimentale*), introduced in 12 Italian cities covering more than 250 000 people in 2013.

SIA is a means-tested allowance with a monthly amount of EUR 80 per recipient, capped at EUR 400 for the whole family. SIA tackles income inequality and signals a step towards implementing a comprehensive approach including activation policies for beneficiaries.

Target group: The poorest sub-set of the population. It is characterised by strict eligibility criteria, namely:

- having an ISSE of lower than EUR 3 000 (ISSE is an 'equivalent economic situation indicator': a synthetic family-based economic indicator taking into account family income, number of family members, assets etc.)
- being an Italian or European citizen with at least two years residence in Italy;
- being available to take up a job with no possibility of refusal;
- having in the family at least one person below 18 years old, or with a disability, or pregnant;
- not being a beneficiary of unemployment benefits; and
- not having a car or a motorbike over a certain cubic capacity.

Duration of the measure: 2016 - ongoing

Anticipated impact on inequalities: It is still too early to be able to assess effects. According to the Ministry of Labour and Social Policies, SIA should help 200 000 people in 2017, having 500 000 minors as dependants. (Source http://www.lavoro.gov.it/priorita/Pagine/Da-settembre-via-al-SIA-su-tutto-il-territorio-nazionale.aspx).

Reference: Italy ECE Thematic Review article

The magnitude of the impact is expected to be only moderate or limited in other cases. In **Portugal**, the partial restitution of the reference value for the Social Insertion Income (RSI) has had a moderate impact.

5.2.3 Housing benefits

Three countries (Luxembourg, the Netherlands and the UK) have introduced reforms to make housing more affordable for low-income groups.

The **UK** (schemes to make homes more affordable to buy) have seen in-kind social transfers. In the UK, affordable housing is crucial to challenging inequality and the range of initiatives from government have (or will have) mixed results. Without attention to providing an adequate supply of private and social housing, the costs of buying and renting property will become even more unaffordable, particularly for young people. Two different reforms in **the Netherlands** targeted tenants on low-income: one ensures that annual rent increases are based on tenants' income and the other affects allocation requirements for housing co-operations. Both reforms have a positive, but moderate impact on reducing inequalities. In **Luxembourg,** a rent subsidy of up to a maximum of EUR 300 per month was introduced in January 2016. High housing prices concern around 25 % of low-income households and this subsidy will be a considerable help to these households.

5.2.4 Unemployment Benefits and Stricter Activation Requirements

Stricter activation requirements and / or more intensive guidance for benefit recipients are seen as necessary to increase incentives for job-search as well as to implement measures that increase employability. Other reforms modify unemployment benefits to facilitate labour market activation (tapered withdrawal of benefits when returning to work) in **Ireland**; another measure in **Romania** is the activation bonus for unemployed people in the first three months after finding employment).

In terms of future impact, the new law on unemployment social insurance (NLUSI) in **Lithuania** to be implemented in July 2017, increases coverage and benefit levels, and is expected to have a moderate impact on reducing income inequality. Unemployment benefit cuts in **Finland** due in 2017 are expected to increase inequality (income inequality).

5.2.5 Guaranteed minimum income schemes

Cyprus introduced a guaranteed minimum income scheme within a package of MoU reforms. The key measure is the introduction of the guaranteed minimum income (GMI) programme. This programme has helped to deal with (i) the problem of long-term unemployment (unemployment insurance stops after six months) and (ii) youth unemployment (individuals under the age of 28 can be included in the parental household and claimed for under the guaranteed minimum income) and its impact is expected to be strong.

Conversely, in **Latvia**, the adequacy of social assistance benefits has not been improved. An ambitious guaranteed minimum income reform was developed and proposed by the Ministry of Welfare in 2014, but the procedure of coordination with the local governments have not been completed because the central government could not guarantee co-financing requested by local government, and the legislative process has been delayed.

5.2.6 Activation / conditionality

A policy option that has been discussed in European countries, has been to reduce the generosity of out of work incentives in order to increase incentives for return to work. Thus, the combination of generosity of out of work benefits and the type and intensity of activation approaches determine the success of measures to reduce inequality.

The impact of others has been limited, however. In **Lithuania** a reform of cash social assistance (CSA) aims to enhance motivation within the working age population capable for work in order to integrate into the labour market and reduce long-term dependence on CSA, poverty trap risks and CSA abuses. In **Hungary**, entitlement to the basic material need benefit requires that recipients carry out at least 32 hours of activation work per month (e.g. small municipal services, voluntary work), provided work is offered to them. Refusal to accept the offered activity is sanctioned with a temporary loss of the benefit.

5.2.7 Reduced benefits to encourage employment – with debatable effects

Some reforms reduce the level of out-of-work benefits in order to activate benefit claimants. The extent to which this increases or decreases inequality is debatable and depends on circumstances and the broader system of tax and social transfers. In **Denmark**, the reforms of social benefits, are perhaps negative in the sense that the target groups in the short run will experience lower incomes and increased risk of economic poverty. Given the large number of children affected there is also the risk of negative generational effects. Whether these negative effects will in the longer run be cancelled out by increased employment is questionable. An important factor here will of course be the general demand for labour and also the degree to which the target groups face other barriers to employment than just weak economic incentives (for instance health problems or lack of formal or informal competences).

5.3 Unaddressed CSRs and their hypothetical impact on inequality

CSRs have reportedly not been addressed in several MS. In **France** reforms have not been implemented regarding the unemployment benefit system that should be reformed 'to bring the system back to budgetary sustainability and to provide more incentives to return to work'. Social partners have not managed to find an agreement on a reform of the system.

In **Spain**, in contradiction to recommendations, minimum income support schemes remain uncoordinated, with levels of benefits around or below 40 % of the national median income in most regions, very low coverage rates between 1 % and 3 % and large regional disparities. The social protection system generally has low capacity to prevent the risk of poverty, social exclusion and inequalities. The redistribution capacity of the Spanish social protection system and its capacity for lifting people out of poverty is more limited than in the EU-28 and very much based on the protection capacity of the pension system. In other countries taxes play a greater role to alleviate inequalities through social assistance, child and other benefits. Ideally, reforms in the relevant policy fields should be conducted for the pension system to not be the main safety net. As pensions are mainly financed by social security contributions on labour, this means that labour costs have to be very high in order to fill gaps in other social policy fields. In Spain, although unemployment benefits and fiscal reforms at the onset of the crisis managed to cushion the impact of unemployment on inequality, the fiscal consolidation measures have weakened the capacity of the social protection system to prevent an increase in both poverty and inequalities.

In **Croatia**, no measures have been implemented to address 2016 CSR 2: 'By the end of 2016, take measures to discourage early retirement, accelerate transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme'. The issue of insufficient adequacy of pensions has been partially tackled with the increase of the non-taxable share of pensions from HRK 3 400 (EUR 445) to HRK 3 800 (EUR 497) in 2015. However, this change did not tackle persons with low pensions and with the highest risk of poverty, thus did not significantly influence the adequacy of pensions.

Also in **Croatia**, consolidation of social protection benefits (2016 CSR No. 2) was not addressed after the latest amendments of the Social Welfare Act introduced in 2015, and thus further alignment of eligibility criteria, integrating their administration and ensuring special focus on those most in need was not achieved during 2016. **This CSR is especially important in terms of reducing inequalities since social protection benefits directly influence the disposable income of the most vulnerable groups and their quality of life.**

In **Hungary**, unaddressed recommendations include the following: to increase the period of eligibility for unemployment benefit; to improve adequacy and coverage of unemployment benefits and social assistance while strengthening the link to activation; and to implement streamlined and integrated policy measures to reduce poverty significantly, particularly among children and Roma. In Hungary, there is a limited range and uneven accessibility of welfare services for solving crisis situations in the family (such as illness, loss of work, or divorce). Several recent policy reforms have aggravated the situation, for example a shift in the targeting of child benefits towards working families, and adjustments of the welfare system in a way that reduced both the amount and access to means tested benefit schemes.

In **Romania**, the CSR on the equalisation of the pension has remained un-addressed (CSR no.2, 2015, 2016). No progress has been made although measures relating to the alleviation of income and opportunity inequality within the remit of pensions have been adopted. Impacts would have been felt in the reduction of inequality of opportunities between men and women, had the equalisation measure been adopted. The law on the minimum insertion income was adopted in January 2017 and it will become applicable on 1 April 2018. The impact would have been strong in relation to income inequalities.

5.4 Other important reforms, not linked to 2015 and 2016 CSRs

Of the 71 reforms reported in relation to this policy area, 26 were considered to not be relevant to CSRs. Amongst these 26 reforms, **21 were considered to have contributed to a decrease in inequality**. Fifteen of these were identified as having an impact on income inequality, four were identified as having an impact on inequality of opportunity, and two were identified as impacting upon both income equality and inequality of opportunity (one reform did not identify a type of impact). These groups of reforms are now discussed below.

5.4.1 Strong impact on decreasing inequalities from pension reforms

Two pension reforms, in France and the UK, were identified as having a strong impact on decreasing income inequality, while lowering retirement age in Poland is expected to do the opposite. The **UK** introduced a single-tier pension and continuation of triple lock annual increase. From April 2016, the new single-tier state pension replaced the previous and more complicated two-tier system which had fixed and variable (based on additional contributions made) elements. The new flat rate is significantly above the flat rate under the old system of an average. The triple lock annual increase means that the state pension must go up by whatever is biggest from the increase in national average earnings, the consumer price index, or 2.5 %. In the past few years of low inflation and earnings growth, the state pension has grown in real terms so pensioners have seen real improvements in their incomes.

In **France**, the lowering of the legal retirement age (from 62 to 60 for workers with long professional careers i.e. people who started to work before the age of 20 and with more than 40 years of work) is expected to have a strong impact on decreased inequality of opportunity.

Conversely, **Poland**'s decision to reverse the increase in retirement ages and take it back to 60 for women and 65 for men, is expected to have a strong negative impact and to increase income inequality in future.

5.4.2 Moderate impact from unemployment benefit reform in Italy

Three related reforms in **Italy**, responding to CSRs from 2014, are expected to smooth the negative effects faced by people exiting mainly temporarily the labour market, are seen in the country expert's assessment to have had a moderate impact on decreasing income inequality. The New Social Insurance for Employment (*Nuova Assicurazione Sociale per l'Impiego*, NASpI), introduced a new unemployment benefit with a decreasing net replacement rate of 75 % (capped at EUR 1 300) for up to 24 months. This is linked to a pilot assistance scheme for people still unemployed at the end of the period covered by NASpI: the ASDI, *Assegno di disoccupazione)*, an Unemployment Allowance. ASDI is limited to people with dependent children under 18 years old and who are close to retirement age. Finally, an unemployment benefit for atypical contracts was introduced in the country: the DIS-COLL (*Disoccupazione per i*

Collaboratori con rapporto di collaborazione coordinate). DIS-COLL has a duration equal to half the number of months of social contribution paid since the first of January of the year before the beginning of the unemployment period. The monthly benefit will be equal to 75 % of the labour income and match the established benefits for NASpI recipients.

5.4.3 Food assistance programmes

Other programmes, which include food assistance and food stamps, while they demonstrate the very high level of need in some EU MS, nevertheless have had only limited impact on decreasing income inequality: food and/or basic material assistance programme providing in-kind support to families in need and homeless people (**Hungary**); increases in some benefits (**Slovenia**); and one-off debt write-off targeting those without income or with very low incomes (**Slovenia**).

5.4.4 Strong negative impact from benefit caps

Both the UK and Denmark, have introduced caps on benefits, considered to have strongly contributed to an increase in income inequality.

In the **UK**, the welfare reform involves: a freeze on the value of most working age benefits and tax credits for four years; a reduction of the overall Benefits Cap to GBP 23 000 (EUR 26 500) in London and GBP 20 000 (EUR 23 108) elsewhere in the UK; cuts in the generosity of the benefit and tax credit system for those with more than two children. The measures were embodied in the Welfare Reform and Employment Bill 2015 and are effective from April 2016.

In **Denmark** where there has been an introduction of lower social benefits for newly arrived immigrants (2015), and an introduction of a cap on total cash benefits (2016) - a maximum is put on the sum of cash benefits, special benefits and housing benefits that an individual can receive; individuals working more than 225 hours per year will not be subject to the cap.

In **Finland**, a basic income pilot scheme providing EUR 560 per month to 2 000 random persons is part of an 'activating social policy' from the start of 2017. This would substantially decrease inequality by raising the bottom level incomes the most. However, only a partial experiment is possible. The results expected are rather modest taking into account that the sample is too small for statistical generalizations. This is still an important measure to compensate for the otherwise sanctioning political measures on labour.

6 Fairer and more progressive tax system

6.1 Introduction

Reshaping the tax system to ensure less growth-distortive taxation and shifting taxes away from labour could improve incentives to work, save and invest. More progressive tax systems can play a role in reducing inequalities and the impact of unequal opportunities. OECD studies (Joumard et al. 2012[40] and OECD, 2012[41]) find that:

- the progressivity of labour taxes has increased in the majority of OECD countries. Social security contributions (SSCs) for low-income earners have been cut or tax relief improved (although SSCs tend to be regressive). A rise in earned income tax relief has made work more attractive for low-income earners, raising the progressivity of labour income taxes.

- Personal income tax tends to be more progressive, while consumption taxes and real estate taxes take a larger share of income of the less well-off, although there are significant cross country variations.

- Tax on capital income, wealth and inheritance has been reduced in many countries, which has reduced the redistributive impact of tax systems.

When examining the redistributive impacts of recent tax reforms on income inequalities, some caveats need to be borne in mind. The caveats relate to the time factor and the assumptions on how taxes affect the economy. On the one hand, reducing income taxes for poorer households is likely to boost consumption in a Keynesian argumentation. On the other hand, reducing corporate taxes and taxes on high income avoids the flight of capital, increases investments and thus promotes economic growth which can generate employment. Both strands of argumentation are present in the scientific and political debates throughout the EU.

Twenty of the 27 countries covered by this Review, reported on a total of 32 tax-related reforms. Out of the total of 32 reforms, there is a mixed picture in relation to their impact on inequality, since only half of them (17 reforms) were considered to be contributing to decreasing inequality. Another 10 reforms are considered to be contributing to increasing inequality, while 5 reforms have mixed or indeterminate effects on inequality. As might be expected, the reforms under examination, have impacted mostly on inequality of income, rather than inequality of opportunity.

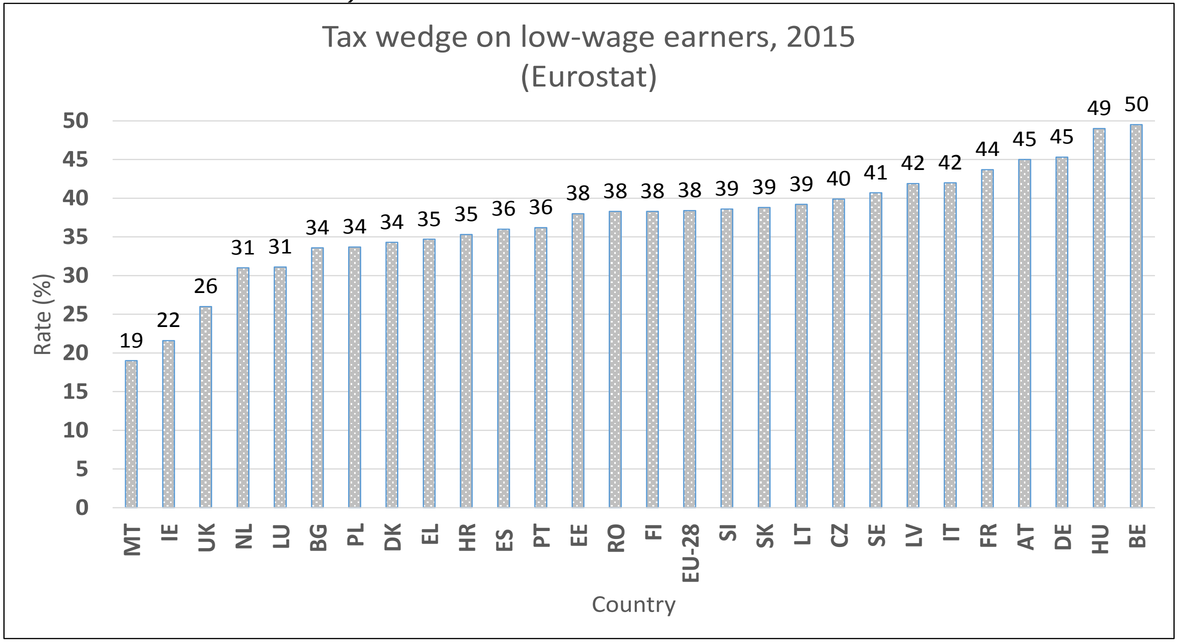
The taxation reforms covered fall under the following categories:

- Reducing taxation for low wage earners
- Shifting taxation away from labour towards property, environmental or consumption taxes
- Reforms of indirect taxation (namely, VAT)
- Ensuring the budget neutrality of tax reforms.

6.1.1 Tax on low-wage earnings

Eurostat provides data on the tax wedge on low wage earners. The 'tax wedge' on labour costs is defined as income tax on gross wage earnings plus employee and employer social security contributions, expressed as a percentage of total labour costs. This indicator is compiled for single people without children earning 67 % of the average earnings of a worker in the business economy. Data is provided in figure 5 below.

Figure 5. Tax wedge on low wage earnings (countries in rank order beginning with the lowest rate)



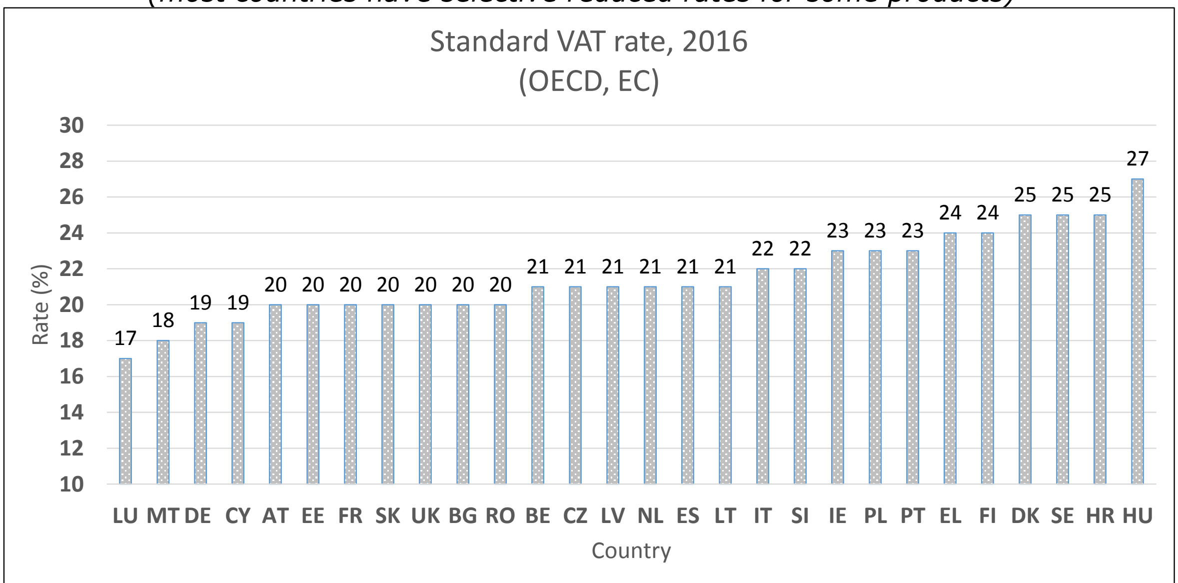
NOTE: No data available for Cyprus

We can see that there is a wide range in the tax wedge (between 19 % for Malta and 50 % for Belgium) but that many countries are close to the average of 37 % and median of 38 % (interquartile range is between 34 % and 42 %). A lower tax wedge could benefit low-wage earners, although there is no clear match with levels of inequality. For example, Belgium, Czech Republic, and Sweden are amongst the most equal for income distribution (as measured by the Gini Coefficient) but have relatively high tax wedges. Clearly, the tax benefit system is configured to redistribute income through other channels.

6.1.2 Value Added Tax

The following chart depicts VAT rates across the EU.

Figure 6. Standard VAT rates (countries in rank order beginning with the lowest rate) (most countries have selective reduced rates for some products)



A high rate of value added tax (VAT) could arguably signal a more regressive tax system because it indiscriminately taxes all income groups at the same rate. However, we can see from figure 6 below, that some of the most equal countries (as measured by the Gini Coefficient) have high rates of VAT (e.g. Finland, Sweden). Other countries with relatively low rates of VAT are relatively unequal for income distribution (as measured by the Gini Coefficient) (e.g. Estonia, Bulgaria, Romania). Thus, while a high rate of VAT has the potential to be part of a regressive taxation, it depends on how it fits with a country's broader tax regime.

6.2 Reforms relevant to the CSRs and their impact on inequalities

Nineteen EU Member States reported 33 reforms in the area of taxation, related to CSRs. Of the 33 reforms, 24 were considered to be relevant to CSRs.

6.2.1 Shifting taxation away from labour

From a growth perspective, it is recommended to shift the tax burden away from labour and towards other sources, which are less detrimental to growth. Consumption, environmental and property taxes are recognized as least detrimental to growth.

Latvia is considering legislative proposals to reform the property tax. Several factors complicate this process. First, there are institutional barriers: the cadastral values are set by the State Land Service which reports to the Ministry of Justice, while the tax system is the responsibility of the Ministry of Finance. The two ministers represent different parties of the ruling coalition, with different priorities. Second, all of the immovable property tax revenues and 80 % of personal income tax (PIT) revenues currently go to the local governments, while 100 % of SSC revenues go to the state special budget. Shifting the tax burden from SSC and/or PIT to the property tax will require changes in these arrangements and therefore difficult negotiations between the stakeholders. Finally, within the political and business elite there are strong vested interests lobbying against increasing the property tax. However, the property tax reform, if implemented correctly, is likely to reduce inequality.

Slovakia's introduction of the Health Contribution Allowance aimed to reduce the tax wedge through the reduction of social security contributions in response to a past CSR. The Allowance was introduced on 1 January 2015 to offset the increase of labour costs incurred by the 8 % hike in the statutory minimum wage, encouraging employers to hire low-wage workers whilst improving the labour supply by raising net pay for low-wage workers. According to estimates by the Institute for Financial Policy, around 700 000 employees have benefited from the measure in 2015.[42] It has contributed to an increase in net income for workers earning a wage between the minimum and roughly two thirds of the average wage and/or three quarters of the median wage (in 2015). **The contribution allowance adds to the progressivity in the taxation system and so could promote higher income equality. However, this effect is partially mitigated by the increases in the minimum wage.** The Institute for Financial Policy is planning on publishing a quantitative analysis of the impacts of the health contribution allowance on employment and income inequality during 2017.

Turning to VAT, **Latvia** is considering increasing VAT from the three VAT rates currently applied in Latvia (21, 12, and 0 %). As described earlier, increases in VAT are essentially regressive. In this case, such a shift from labour to consumption taxes would have a negative effect especially on pensioners, who make a large part of the lower quintiles of equivalised disposable income: they do not significantly benefit from lower labour taxes but would be burdened with higher VAT rates. Shifting the tax burden to VAT should therefore be carefully considered before taking action.

VAT increases in **France**, as well as in **Cyprus** (due to the crisis) are seen as regressive, increasing inequality. France (VAT increased from 19.6 % to 20 %) and Cyprus (VAT increased to 19 %) also expect a moderate negative impact since the increases affect the poorest households adversely, since individuals in lower quintiles spend a larger share of their income on VAT than individuals in higher quintiles.

6.2.2 Ensuring the budget neutrality of tax reforms

The need to ensure a sustainable correction of the excessive deficit through **less public spending in Spain, is also seen to be strongly increasing inequalities**, as budget cuts negatively affect the lower income groups who use public services.

Ensuring the budget neutrality of the tax reform aimed at reducing the tax burden on labour was a CSR for **Austria** in 2015. A main objective of the income tax reform was to substantially lower the tax burden for wage tax payers. The Austrian Institute for Economic Research undertook an ex-ante assessment of the reform (cf. Rocha-Akis, 2015). The results show that the reform leads to an increase of 3.1 % in average disposable household income. The net income gain increases with the pre-reform net income, for household income as well as for earned and pension incomes. Households in the seventh to ninth deciles of the net household income distribution will benefit more from the tax reform than households in the first and second deciles. As a consequence, income inequality will increase slightly.

6.2.3 Taxation of low wage earners

Changes to direct taxation have the most potential to reduce income inequality. In this context, five EU MS have introduced or amended their rules on taxation of low-wage earners (Estonia, Ireland, Latvia, Lithuania, Malta), responding to CSRs in this area. **Estonia** offers personal income tax refund for low-wage earners; **Ireland** has increased the self-employed tax credit from EUR 550 to EUR 950 (but the impact is unclear); **Lithuania** and **Latvia** have increased the threshold for non-taxable personal income; while **Malta** now allows all those on the minimum wage or pensioners on the lowest level not to be liable to pay income tax.

A further two MS (**Bulgaria** and **Germany**) have increased the child tax credit allowed to families with children, but in both cases this is expected to have a limited effect on decreasing inequalities.

In **Estonia**, as of 2016, a new benefit scheme is introduced offering personal income tax refund for low-wage earners. The first refunds will be made in 2017. This addresses the comparatively high tax wedge for low-income earners. Calculations by Võrk et al. (2015)[43] indicate that the maximum annual benefit for 2016 is up to 14 % of after-tax earnings for those who earn about 40 % to 45 % of the average wage. However, the benefit scheme introduces high marginal effective tax rates, i.e. part of a change in earnings that is 'taxed away' (together with social insurance contributions it may reach up to 57.9 %) within a range of earnings that may increase disincentives to ask for a higher wage, increase effort or encourage non-declaration of earnings. This tax refund scheme applies only to low-wage earners so the above disincentives apply to those who are eligible for the tax refund for low-wage earners.

In **Lithuania,** one of the CSRs was related to the reduction of high tax wedge for low-income earners. Several recent reforms were taken in this direction, including the increase of the level of non-taxable personal income and the introduction of property tax. Though there is no evaluation on the impact of the aforementioned initiatives on inequality, low-wage earners are set to benefit most from it as tax progressivity increases with income earned.

Latvia has introduced a differentiated non-taxable income threshold scheme in order to make the tax system more progressive and equitable, as described in the box below, while policy makers are currently examining further options for tax reforms that will help reduce income inequality.

LATVIA - Differentiated non-taxable income threshold

Background: According to the OECD (2016) and World Bank (2017, forthcoming) conclusions, one reason for the significantly high income inequality in Latvia is weak redistributive taxes and transfers. The labour tax burden for low-income earners stays particularly high, raising concerns on incentives for labour supply (Strokova and Damerau, 2013[44]; OECD, 2015[45], World Bank, 2017).

Main aims: Despite frequent changes of the Latvian tax and benefit system, income inequality has not been significantly reduced. The latest measures aim to make the tax system more progressive and equitable.

Details of the reform: The non-taxable income threshold has been increased and is set to be differentiated starting in January, 2016. This reform stipulates the maximum monthly allowance to be EUR 1 200 per year and to be applied to annual income that does not exceed EUR 4 560. (Latvijas Vēstnesis, 2016a).

Duration of the reform: The differentiation of the non-taxable minimum is being introduced gradually from 2016 to 2020. The withdrawal rate for differentiated non-taxable allowance will gradually increase from 0.0403 (in 2016) to 0.1538 (in 2020).

Anticipated impact on inequalities: According to the microsimulation results prepared for the World Bank (2017), the income effect of the differentiation of the non-taxable minimum has an inverse U-shaped form and for both 2016 and 2020 is growing up to the fifth decile of equivalised disposable income. In 2016 all deciles benefit from the differentiated non-taxable minimum, while in 2020 the income of the top decile decreases in comparison to the baseline scenario. This way, this policy, especially in its final envisaged form, is expected to reduce the gap between the rich and the poor, but the size of this effect is small.

Despite the fact that the implemented reform was not well-targeted on low-income earners, and the beneficiary group is large, the differentiation of the non-taxable minimum has a potential for decreasing overall income inequality (as measured by Gini coefficient) by 0.1 percentage point in 2016 and by 0.4 percentage points in 2020. Again, this is a small effect.

Reference: ECE country article for Latvia

6.3 Unaddressed CSRs and their hypothetical impact on inequality

6.3.1 Taxation of low-wage earners

Four EU MS (Czech Republic, Hungary, Latvia and Sweden) mention policy issues related to taxation of low-wage earners which remain unaddressed.

In **Hungary**, the CSR on lowering the tax-wedge on single low-income earners, was not addressed. In **Latvia**, no measures have been adopted concerning the shift of the tax wedge from labour towards environmental and property taxes during the last two years, although this was recommended.

In the **Czech Republic**, two changes in the tax system were recently introduced which definitely reduced labour taxation but none of them was targeted specifically at low-income earners, although this was recommended by the CSR. Without an appropriate micro-data-based evaluation study, their redistributive impact is unclear. The incentives for low-income earners to be in the labour market remains very low in the Czech Republic, with the 'unemployment trap' still at 80 % in 2015 compared to the 74 % EU average.[46]

Also in the **Czech Republic**, a key issue affecting the incentives of women with small children to return to work that remains unaddressed is the high participation tax rate women face (as second earners), compared to men. The disincentives to work that the tax system creates for women with small children has been recently demonstrated in Satava (2016). Recent changes in the dependent child tax credit considerably reduced labour taxation of households with multiple dependent children, including the households with low-income earners. However, as the tax credit is typically used by the parent with the higher earnings, this policy change may widen the already considerable difference between the taxation of primary earners (typically men) and secondary earners (typically women) and further discourage non-working women from entering the labour force.

In **Sweden**, a household's mortgage interest payments are deductible from income taxation. This may have contributed to increased household debt in combination with increasing house prices. The Council recommended, both in 2015 and 2016, that Sweden should address the rise in household debt by "*adjusting fiscal incentives, by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes*". The reason why these recommendations have remained unaddressed is that a limitation of the tax deductibility would alter the conditions for a great number of households, who have already taken out loans. The median housing costs as a percentage of total household disposable income is significantly lower for households that are owners of a single-family house than for households in condominiums and rented apartments. Also, the share of housing costs has decreased for house owners while it has remained stable for tenants during the period 2004–13. It can thus be concluded that inequality in housing costs can be reduced by increasing the property taxes or limiting the tax deductibility of mortgage interest payments.

6.4 Other important reforms, not linked to 2015 and 2016 CSRs

6.4.1 Taxation of low wage earners

Four of the biggest EU MS (Spain in box below, France, Poland and the UK), have adopted taxation measures to help lift low paid workers out of poverty.

In **France**, the 2015 tax reform allowed three million households to be exempted from income tax and six million households to benefit from a tax reduction. Family policy has also been reformed as some social benefits are now based on incomes, which was not the case before (they only depended on the number of children in the household). The principle of universality has therefore been abandoned. As a consequence, the households with the highest incomes (more precisely the 12.5 % top income households) have experienced a reduction of these benefits. Considered together and in combination with tax reforms from 2012 and 2013, these reforms have contributed to a significant reduction of income inequality observed from 2013 onwards.

In the **UK,** the taxation reforms of recent years should help improve the situation of those on low incomes. The government claims that incremental changes in income tax since 2010 have removed around 4 million lower paid people from paying any income tax. Reforms undertaken or planned, include gradually increasing the personal income tax threshold, changing the rate of National Insurance Contributions to benefit those on low earnings, and changes to the Council Tax, which is a direct tax on dwellings.

Poland also increased the personal income tax threshold for low income earners and decreased it for high income earners, effective since January 2017. According to the estimates of CenEA (CenEA 2016d), around 2.4 million households will benefit from the change. The benefits will be highest for those in the first and second income deciles with a gain of around EUR 4 per month, equivalent to 1.0 % and 0.5 % of their income, respectively.

SPAIN - Personal Income Tax reform

Main aims: To reduce Personal Income Tax (PIT) for a large number of households.

Background: After a tax reform in 2012 aimed at increasing tax revenue through increases in VAT and PIT, a new tax reform was approved with effect from July 2015. This new reform aims to reduce PIT and it is estimated that the ex-ante fiscal cost of the personal income reform, once fully implemented, will be almost EUR 6 billion, or 12 % of total tax revenue from PIT in 2014.

Anticipated impact on inequalities: Simulations of the impact of the reform on general income conducted by the European Commission Joint Research Centre based on the EUROMOD model show that almost 60 % of the households are affected by the reform and that, on average, the reform increases the average disposable income for households by 1.4 %. According to these simulations, the tax reform would have made PIT more progressive, with a Kakwani index increasing from 0.35 to 0.37 (+4.1 %) between 2014 and 2015, though less redistributive (Reynolds-Smolensky index diminishes by -7.4 % in the same period)[47]. However, the significant reduction of tax revenue would have reduced the ability of the tax system to make after-tax incomes more equal, possibly more than offsetting the increase in progressivity, and thus reducing the redistributive power of taxation in Spain (EC 2016b).

The Spanish Institute for Fiscal Studies (Adiego Estella, M. et al. 2015) has carried out its own assessment, which leads to slightly different conclusions in terms of the impact of the PIT reform on equality. Focusing on the difference between the PIT normative framework in 2011 and 2016, the analysis concludes that the 2016 framework reduces inequalities more than the 2011 one, in spite of the effective average tax rate being 2.6 percentage points lower. Thus the lower tax revenue (EUR 2 870 million in 2016) is more than offset by the redistribution capacity of the 2016 normative framework, with the Reynolds-Smolensky index in 2016 being 5.1 % higher than the 2011 one. This redistribution capacity would be explained by the higher progressivity of the 2016 framework with the Kakwani index 8.1 % higher in 2016 than in 2011.

The Spanish report also analyses the impact of the PIT reform on poverty and concludes that it contributes to reduced poverty in three ways: reduces the incidence of poverty, since the poverty rate diminishes from 21.31 % to 20.82 %; it reduces the intensity of poverty by 2.51 %; and it reduces inequality among poor persons by 2.47 %. This impact can be seen in all poverty thresholds used (from 10 % to 90 %)

Reference: ECE country article for Spain.

In **Luxembourg**, the fiscal reform[48] introduced in January 2017 is regarded as the most significant and ambitious government project to enhance the consumption of households with lower incomes, although the reform has also attracted criticism. The tax reform incorporates a handful of specific measures destined to decrease the tax burden for lower wages and especially for vulnerable subgroups such as single parent households. STATEC[49] expects a positive impact on employment creation (around 720 jobs), an increase of household revenue (1.2 %), as well as an increase of GDP by 0.2 %[50]. However, the study does not provide an impact assessment for lower income households.

6.4.2 Taxation of high wage earners

As of 2016, **Latvia** introduced a solidarity tax on high income employees aimed to increase the progressivity of labour taxation. The solidarity tax rate is equal to the state social insurance contribution of 34.09 % (23.59 % paid by the employer and 10.5 % by the employee). In essence, the new solidarity tax removes the cap on the social insurance contributions (which was, effectively, a regressive policy) but its proceeds will go to state general revenues and the contributors will not be entitled to increased social insurance benefits. Mosberger (2017) analysed the introduction of the solidarity tax based on preliminary data from the first half of 2016 and estimated the extent to which taxpayers respond to marginal incentives. The analysis showed that the high-income earners subject to solidarity tax on average generate less taxable income when facing a higher marginal tax rate. Nevertheless, tax revenues from the solidarity tax have been at the expected level, and the tax will remain for 2017.

7 Investing in human capital and promoting skills over the life course

Unequal access to education leads to unequal employment outcomes and to income disparities by educational level. The OECD finds that intergenerational earning, wage and educational mobility vary widely across countries. For example, mobility in earnings, wages and education across generations is relatively low in France, southern European countries, and the UK, while it tends to be higher in the Nordic countries[51].

Further, the OECD[52] points out that a large share of low-skilled adults is associated with a high income inequality. It is not a large skills gap between the low- and high-skilled which seems to be related to high social inequality, but the size of the low-skilled population. The smartest skills strategy a country can develop to improve social inequality is to upgrade the skills of low-skilled adults.

Moreover, individuals can face different types of inequalities over their life cycle, in terms of access to education early in life, participation in further education and training as a young adult and access to re-skilling, upskilling and lifelong learning, later in life. In this context, reforms in pre-school education are made with a view to improve equal opportunities and schooling results, while for young people and NEETs, policies aim to overcome inequalities in participation in further education and training. Later in the lifecycle, upskilling specific groups of young people or adults (for example, low-skilled workers, long-term unemployed, migrants, refugees, Roma, etc.) is necessary to allow these groups to access employment. Addressing these inequalities and up-skilling of the workforce, notably the low-skilled, can play an important role in addressing inequality and promoting mobility.

Key policy issues that need to be addressed relate to improving access to education, training and lifelong learning, improving the quality of education and training at all levels, as well as the need to link training to labour market needs and link work place and class room learning.

This section looks at reforms relating to education, skills and lifelong learning throughout the lifecycle. This includes reforms which were identified as falling fall under the following policy areas: early childhood education, apprenticeships, vocational education, higher education, some overlap with active labour market policies (already discussed in section 3), lifelong learning, and skills mismatches.

Only a small number of countries did not refer to any reforms in relation to this policy area: Belgium, Czech Republic, Slovenia. As in other sections, reforms relating to CSRs are examined first, followed by a discussion of CSRs which have not yet been addressed; and finishing with a discussion of reforms not linked to CSRs.

7.1 Reforms relevant to the CSRs and their impact on inequalities

A total of 49 reforms, across 21 countries were reported which were relevant to this policy area. Of these reforms, 37, across 16 countries, were considered to be relevant to CSRs. Amongst these 37 reforms, the vast majority (33 reforms) were considered to contribute to reducing inequality.

Two reforms in **Poland** were thought to increase inequality (a change in the organisation of vocational schools and a change of the school structure), the impact of two reforms in **Malta** is not yet clear (giving qualification status to the School Leaving Certificate and promoting professional development of teachers) whilst the Tanoda

Programme in **Hungary,** described below, was felt to lead to both decreasing and increasing inequality.

All but one of these CSR-relevant reforms were identified as having an impact on *inequality of opportunity*. Around a third (11 reforms, across four countries) were identified as having an impact on *income inequality*. These were reforms relating to early years education / childcare provision (Ireland and Romania), training for unemployed people (Ireland), the extension of full-day schooling (Austria), reforms to apprenticeships (Romania) and an increase in teachers' salaries (Slovakia).

With regard to *target groups*, the reforms identified in this policy area targeted:

- **Children, pupils and students,** including those in specific types of provision or in specific age brackets;
- **Young people**, including those experiencing different forms of disadvantage, including early school leavers and NEETs;
- **Parents and families**, including working parents, disadvantaged families and homeless parents;
- **Adults**, including adults participating in education and training, adults from disadvantaged groups such as LTU; and
- **Teachers.**

7.1.1 Improved access to education for improved outcomes

Only four of the reforms were identified as having a *strong* impact on inequality: the expansion of apprenticeship places in the UK, a change of the school structure in Poland and the introduction of new student grants in Luxembourg, and anticipated future strong impact in Austria, as described below.

In **Luxembourg**, the introduction of student grants has an impact on inequality of opportunity, by providing opportunities to better access higher education, which is a government priority highlighted in past NRPs and reports (as it refers to a CSR issued prior to 2015). The legislation[53], which concerns around 25 000 students, aims to reduce the financial burden of grants on public finances and introduce a more equal treatment. There will be a series of different grants; for the purpose of this report, the newly introduced social grant is significant as poorer students are eligible to receive a maximum of EUR 3 800 per year (i.e. a household with a social minimum income can benefit from a EUR 3 800 social grant), as well as a grant of EUR 1 000 in the case of significant social precariousness. A final inequality that was abolished concerned children of cross-border workers as the law stipulated that a non-resident student is only eligible if one of the parents works in Luxembourg for an uninterrupted period of five years, revised as a result of a European Court of Justice judgment.

In **Austria**, the expansion of full-day schools came in response to the country's 2015 and 2016 CSRs. The potential impact of this law will only materialise in the future. However, it is expected that it **will have a strong impact on improving both equality of opportunity and income**, as detailed in the case study below.

AUSTRIA - EXPANSION OF FULL-DAY SCHOOLS

(*Bundesgesetz über den weiteren Ausbau ganztägiger Schulformen (Bildungsinvestitionsgesetz)*, approved by the National Council on 14.12.2016

Main aims: The main aim is to increase the number of pupils in full-day schools from

22 % (2015/2016) up to 40 % and to offer them a place within a radius of 20 km from their place of residence. The government assumes that this requires an extension of full-day places by around 120 000 to 270 000. Places combining teaching and leisure will be particularly supported. Up to now such integrated school models are rather rare (3 %), while research indicates comparably good educational results from these models, especially for disadvantaged young people (cf. Hörl et al. 2012).

Details: Educational attainment in Austria is often correlated across generations and socio-economic background. This is one of the reasons that the Austrian education system is in need of reform. The country's 2016 CSR recommended to 'take steps to improve the educational achievements of disadvantaged young people, in particular those from a migrant background.' (CSR 2016, 2015, cf. also Nusche et al. 2016). Several reforms over the last years have been introduced (cf. National Reform Programme) and the process will still be ongoing in the coming years. With the latest reform decided in December 2016, EUR 750 million will be invested in the improvement of school infrastructures and personnel costs for the years 2017 to 2025. EUR 250 million are reserved for the expansion of integrated models combining teaching and leisure, expanded offer during holidays, staggering financial contributions of parents.

Target group: School-age pupils and their families

Anticipated impact on inequalities: (including reference to evaluation or impact assessment findings or national debate)

Studies indicate that full-day-offers, especially those combining teaching and leisure are important to compensate for disadvantages and support educational equality. Yet to date, children from different socio-economic backgrounds do not have equal access to full-day schools. Data show that the share of children accessing full-day offers rises continuously with the relative socio-economic status of their parents (Bruneforth 2015).

One reason for is the financial contributions of parents. Hörl et al. (ebd.) estimated an amount of EUR 150 to 200 per month as a typical amount. A study from 2014 (cf. Riesenfelder et al. 2014) analysing the childcare situation of female full-time workers showed monthly average costs for full-day-schools of EUR 216 (combined offers) and EUR 132 in the case of afternoon care in schools. These costs can lead to a substantial financial burden. Hörl et al. (ebd.) calculated that the financial burden for low income groups would reach up to more than 20 % of the household income, if more children were using all-day offers. Financial support for schools and help for parents to stagger their payments can therefore be seen as an important contribution to more equality.

Full-day schools are not just important in terms of educational equality but also in terms of gender equality and increased possibilities for women to work full-time and improve their income. Women in Austria often work part-time - more full-day school offers will remove a barrier to full-time employment and career progression. A survey showed that more than a third of employed women (35 %) who take care of children between 0 and 12 years, would like to have a full-day care offer (cf. Danzer et al. 2014). But only 11 % have an institutional full-day care for their children. This quota is higher in the case of full-time working mothers, with 19 % and a further 45 % would like to have such an offer. This underpins the necessity of full-day schooling to improve the reconciliation of work and caring responsibilities.

Reference: ECE Country Article for Austria

A more *moderate* impact is anticipated from around three quarters of the reforms identified (25 out of 37 reforms). These include, among others, reforms relating to work-based learning, vocational education and apprenticeships (Denmark and Italy described below, Latvia, Malta, Poland and Romania), early years care and education (Germany, Ireland and Hungary), a national literacy strategy (Malta), alternative learning for school drop-outs (Malta), integration of migrants (Germany – described below), the national qualifications framework (Poland). In **Ireland**, it is observed that no one policy will have had a major impact on inequality but it is likely that the combined impact will have led to moderate reductions in the level of earnings inequality.

A reform of vocational education and training in **Denmark** has been implemented since autumn 2015. This includes the introduction of entry requirements relating to Danish and mathematics. However, concerns have also been raised that the stricter entry requirements would cause an increase in the group of young people who do not get a vocational education at all. The Ministry of Education has followed those applicants aged under 25 who failed to enter a vocational education in August 2015. In October of the same year between 9 % and 21 % were not in employment or education. The highest share was found for those applicants who did not apply for admission directly after having left primary school (Undervisningsministeriet, 2015). There is thus a risk that a group of young people not in employment, education or training will be a negative side effect of the reform. On the other hand this must be balanced with the lower dropout rates of those who actually enter the vocational colleges. Also efforts are made to reach the non-admitted applicants and offer them other opportunities to improve their qualifications. No direct assessment has been made of the distributional effects of the reform. However given the positive effects of raising the educational level of the lower skilled with respect to both earned income and employment, there is no doubt that the reform, if successful, will lead to a reduction in the number of persons in low-income groups.

The reform of the **Italian** school system (Law 107 of 13 July 2015[54]) tackles the part of the CSR 2015 to 'adopt and implement the planned school reform'. The most important measure is a new fund of EUR 100 million to make school and workplace partnerships in upper secondary education curricula compulsory for all types of schools. This is expected to reduce the inequality of employment opportunities among the different types of upper secondary schools (given that students of *lyceums* tend to continue in tertiary education also because of their lack of work experience), but also the inequality of learning opportunities (giving technical and vocational school students the possibility to learn through experience, which is generally more suitable to their expectations and objectives).

In **Germany**, people from a migrant background are at a comparatively high risk of social exclusion and falling below the poverty line. The law on the acceleration of the asylum process (*Asylverfahrenbeschleunigungsgesetz*)[55] has been in force since October 2015. With this law, access for refugees and asylum seekers to integration courses has been eased. Asylum seekers and refugees have also been permitted to work in temporary work agencies. It further eases access of refugees and asylum seekers to the labour market, to education and training (including an expansion of the supply of language and integration courses), and to active labour market programmes and employment services. By opening up the labour market to refugees and by adopting a stronger commitment to integration measures, the foundations were laid to reduce the risk of inequalities in labour market opportunities for refugees.

Some country experts identified *barriers* to the impact of the reforms which have been implemented, such as in Denmark and Malta, as outlined below.

In **Denmark**, barriers have been encountered in relation to the educational aspects of the country's reforms to ALMPs. The reform is intended to increase the employment and income of the unskilled unemployed and those with obsolete vocational qualifications. This would, according to available studies, have a positive effect on their incomes and employment in the longer run (see for instance Arbejderbevægelsens Erhvervsråd, 2013[56], 2015b[57]). The reform has not yet undergone a comprehensive evaluation but the first observations from its implementation indicate significant barriers with respect to increasing the educational efforts[58]. There has been about 8 % of the planned level of activity in 2015 and 5 % of the planned overall level of the entire year of 2016. Thus, at present the actual effects on educational and economic inequality are marginal, but when the reform is fully implemented, the effects could be significant for unemployed unskilled workers.

In **Malta**, a reform launched in the academic year 2015/16 brought about administrative and structural changes in apprenticeships. The reform is considered successful as it has managed to attract more young people to apprenticeships. However, it is less clear whether the apprenticeships offered reflect needs in the labour market and tackle the problem of skills gap. There is currently no mechanism which identifies the required sectors to predict the need for skills, and thus for courses offered to better reflect labour market needs. This has an impact on inequalities: if apprenticeships are offered in sectors where there is no demand, they will not help young people secure a job and can become a tool for increasing inequalities.

Six reforms, across three countries (Malta, Ireland, Hungary and Slovakia) were considered to have a *limited* or no impact on inequality. Two of these were reforms too recent to have had any impact so far. The remaining three were: a measure to promote lifelong learning among adults in **Malta**, the Momentum initiative in **Ireland,** which offers free education and training for the long-term unemployed, the Tanoda programme in **Hungary**, and the increases in teachers' salaries in **Slovakia**.

Hungary's Tanoda programme involves a network of extracurricular learning centres helping particularly disadvantaged pupils (mostly of Roma origin) to keep pace with school material and improve their social skills. In recent years, ESF funds have been used to finance the learning centres. However, in September 2016, many widely known and reputable Tanodas did not receive funding. After public outcry, a new grant scheme of EUR 6.5 million (HUF 2 billion) was opened to those Tanodas.[59] Evaluations and international surveys show that the Hungarian public education system performs poorly in countering the disadvantages of children with poor socio-economic background[60] and therefore, institutions like Tanodas – despite their shortcomings[61] - can play a key role in reducing social inequalities by providing the only chance for these children to tackle the learning material and improve their skills. See also (Németh, 2009)[62] for an empirical evaluation.

7.2 Unaddressed CSRs and their hypothetical impact on inequality

Only four countries identified CSRs that have not yet been addressed: Italy, Hungary, Slovakia and the UK. These are discussed in turn below. In **Italy**, the recommendation to expand vocationally-oriented tertiary education remains unaddressed. It is suggested that this is a reform that could have a definite impact on the employment opportunities of younger generations. The two main institutions providing vocationally-oriented tertiary education in Italy are the Superior Technical Institutes (Istituti Tecnici Superiori, ITS) and the Superior Technical Education and Training (Istruzione e Formazione Tecnica Superiore, IFTS). A reform of ITS and IFTS, as well as a campaign to promote the two institutions, could help to address the problem of NEETs in Italy, who are at risk of disengaging from society and who present a higher probability of becoming long-term unemployed.

Reforms related to education, child-poverty and the situation of the Roma in **Hungary** have increased rather than reduced inequality (with some exceptions). School segregation, increasing school drop-out rates, and the shift towards lower-vocational education (with limited capacities to develop basic skills and competences) continue to be key barriers to supporting the development of Roma children. The most recent PISA survey provides evidence of a notable fall in teaching quality and the fact that Hungarian schools are currently not able to reduce the disadvantage of children from a poor socio-economic background.

One of **Slovakia's** CSRs relates to improving educational outcomes through raising the attractiveness of the teaching profession. No significant progress in response to this recommendation has been observed, other than increases in teacher salaries (5 % in 2015 and 6 % in 2016). Another 6 % increase has been agreed in sectoral tripartite negotiations as from 1 September 2017, which could lift salaries in the education sector closer to the demanded 1.2 times of the average wage in the economy. Teacher salary hikes, which in the last three years outrun wage increases in other public-sector jobs, improve the relative standing of teachers in the country's income distribution (there are approximately 90 000 teachers at present). Although there is no national evidence of a straightforward link between teacher remuneration, quality of teaching and educational outcomes of pupils and students (which are important for reducing future inequalities), there is a wealth of foreign research suggesting that higher relative teachers' pay leads to improved student performance.

In the **UK**, although the government has gone some way towards addressing all three of the country's CSRs with inequality implications, it could be argued that they have not gone far enough or have failed to take action with the most potential for tackling inequalities. Skills mismatches are affected, in part, by inequalities in the opportunities for accessing education and training. This is most pronounced in higher education where progress in attracting young people from disadvantaged backgrounds has been disappointing, while undergraduate numbers have been rising.

7.3 Other important reforms, not linked to 2015 and 2016 CSRs

Other important reforms and inequalities in relation to this policy area were described in the country articles for 11 countries: Austria, Estonia, France, Croatia, Italy, Latvia, the Netherlands, Portugal, Finland, Sweden, and the UK. These reforms concern either facilitating access to various levels of education or improving the quality of education and training systems. **Similarly to the reforms relating to CSRs, the majority of the reforms identified under this heading will primarily have an impact on reducing inequality of opportunity.** They include facilitating access to education (France and the Netherlands) and, structural reforms to facilitate access to higher education (UK), as well as initiatives enhancing quality of education, apprenticeships and training (Lithuania, Croatia and Finland).

7.3.1 Improved access to education

In particular, reform in **the Netherlands** is expected to have a strong impact on tackling inequality. In March 2016, the Dutch Inspectorate of Education concluded that some pupils and students do not have an opportunity to participate in education that fits their individual abilities. Family background still plays a big role in their education; although these differences have always existed, the divide has been widening over the past few years. The government is now investing EUR 87 million over the next three years in tackling inequalities in education to make sure that children of poorly educated parents get the equal opportunities as children from a higher social environment. Some of the extra money will be invested in bridging classes, designed to give students extra help to push them to a higher education level. Children whose parents have low levels of education will also receive extra guidance and so their parents who will be offered Dutch language classes.

In the **UK**, it is in relation to Higher Education where there are concerns regarding equality of access; there are long-standing concerns about the proportion of entrants from disadvantaged backgrounds and from black and ethnic minority (BME) groups, particularly to the more prestigious institutions. Throughout the UK the issue of fair access to higher education has been promoted as a key tool for increasing social mobility. A number of actions have been implemented to address this over the years across the UK. Now, the government in England has pledged to double the proportion of students from lower income backgrounds and increase by 20 % those with BME backgrounds by 2020. This will be done by a fundamental shake-up of higher education, the provisions of which are set out in the Higher Education and Research Bill currently before parliament[63].

A series of measures have been taken in **France's** education system since 2012, including the '*collège*' reform implemented since 2016. The overall objective of these measures is to improve the efficiency of the school system and to reduce important school inequalities. One key strand of the reforms is to allocate more financial means, including more jobs, to the so-called 'priority education areas' or 'networks'; schools located in disadvantaged areas. The priority education programme has existed since 1982 under the label 'ZEP' (zones d'éducation prioritaires). Under the current government, these areas have been relabelled 'REP' (réseaux d'éducation prioritaire) and channelled additional resources. Their goal is to limit up to 10 % the discrepancies in school achievements between the REP students and those in other areas. This corresponds to an objective of equality of opportunity, through increased means for the REP, including classes with a reduced number of students, or encouragement for new teaching projects. These priority education areas covered 18 % of primary schools and 20 % of *collèges* in 2015.

7.3.2 Improved quality of education and training systems

A higher education reform has been implemented in **Lithuania** but the focus here is on improving quality and the match between studies and labour market demands. The reform includes a stricter admission procedure – criteria are set both for entrants and higher education institutions. This tightening of the admissions procedure provoked criticism that it discriminates against less talented students and increases inequality of their opportunities in accessing higher education. Educational authorities do not agree. Instead, they believe that the said measures protect higher education institutions from potential students who can afford tuition studies, but their knowledge and competences are insufficient for higher education studies. In **Croatia**, comprehensive curricular reform was initiated as one of the first measures identified by the Strategy of Education, Science and Technology, which was adopted in the Croatian Parliament in October 2014. This reform was expected to address several gaps in the education system, including underperformance regarding access to and quality of the education system, which have strong effects on equality. A number of the reforms presented under this heading were judged to be too recent to assess their potential impact (e.g. policy changes in Estonia aiming to increase lifelong learning participation among the adult population, the Italian reform of apprenticeships).

8 Promoting the participation of women and disadvantaged people in the labour market and fighting discrimination

Addressing barriers to participation, including discrimination, is important to improve access to the labour market particularly for women and disadvantaged people. These barriers can be related to qualification levels, age (young or old), gender, religion, ethnic origin, disability, and other factors.

Women, in particular, may face discrimination in the labour market but they are also confronted with other barriers to participation, including for example, inadequate access to affordable childcare, cultural barriers in relation to women's position in society etc. Policies promoting the equal treatment of men and women in the labour market are discussed at the start of this section.

Discrimination in the labour market can be expressed as higher unemployment rates, lower earnings, and access to different types of occupations (more 'menial') for certain groups. Some individuals face multiple disadvantage if they combine two or more factors causing discrimination. The main approaches to reduce discrimination and decrease inequality of opportunities for different target groups facing discrimination include anti-discrimination legislation, positive discrimination, targeted ALMPs as well as policies targeting the wider society such as sensitisation campaigns and minimum wages. Different groups face different barriers accessing the labour market, and successful policies attempt to overcome the specific barriers faced by each group. Removing barriers to employment and career progression for disadvantaged and marginal groups can improve the earnings of these groups and reduce inequality.

Using examples from the country articles, this section starts by examining the impacts of policies on reducing inequalities of opportunity for women in accessing the labour market and then focuses on policies to facilitate the participation of disadvantaged groups in the labour market. There is naturally a degree of overlap between this section and previous sections, in particular, with section 3 on LM segmentation.

8.1 Reforms prompted by Country-Specific Recommendations (CSRs) and their impact on inequalities

A total of 26 reforms in response to related CSRs were mentioned across ten countries (five in the Czech Republic, four in Germany, three in Ireland, as well as one each in Austria, Estonia, Slovenia, Slovakia, and the UK and one each in Italy and Malta). **Of these 26 reforms all (except from the reform in Italy) were considered to have a decreasing effect on inequality.**

Only three of the reforms mentioned in this area were considered to have a strong impact (Austria, Czech Republic and Romania). Austria's *Act on Part-time re-integration to the workplace* and Estonia's workability reform were considered to have a limited positive impact on reducing inequalities. In relation to the German *Flexi-pension law reform*, the country expert considered that it was too early yet to assess the strength of its impact on inequality.

Most of the reforms mentioned concerned parents or families, with the majority targeted at women, four targeted at migrants (three in Germany and one in Austria), while three reforms targeted older workers (three in Germany and two in Slovenia) and two were specifically targeted at children (Slovakia and Ireland).

Only five reforms were expected to impact immediately (two in Austria, Slovakia and two in Romania) (which may imply that while the impact would begin immediately it may also remain into the longer term), with eight reforms expected to impact in both the short and long term (Czech Republic, Germany, two in Estonia, Slovakia, three in Ireland). Eight reforms (four in the Czech Republic, two in Germany, two in Slovenia) were expected to impact in the longer term only.

Types of policies included increasing access to the labour market such as enhancing the participation of women, older workers, migrants and people with disabilities. Most CSR related policies reported a decreasing impact on inequalities to varying degrees. Other CSR driven policies in this chapter concerned reducing income inequalities between men and women, between able and disabled people, and between migrant and native workers.

8.1.1 Increasing Women's Participation – reducing inequalities of opportunity and income

Policies targeting women's participation are discussed in the country articles and include the following:

- Increasing institutional childcare provision
- Enhancing financial incentives to participate through measures to shorten the duration of paid family leave via parental leave allowance, childcare tax allowance schemes etc.
- Making childcare affordable: a frequently cited measure to improving access to the labour market for women in the countries covered.

Some of the characteristics of childcare provision identified by country experts as needing to be addressed include:

- addressing childcare provision concerning very young children (for example Czech Republic and Estonia)
- ensuring that the childcare provided is compatible with the length of a working day and that barriers to unlimited access were removed
- ensuring that job protection periods are synchronised with the length of paid leave allowances
- positively promoting measures to support access for children from disadvantaged backgrounds such as migrant children (Germany), children with disabilities (Romania and Ireland), children of homeless parents (Ireland), children of lone parents (Ireland), Roma children (Slovakia)
- providing varied forms of childcare such as pre-school education, day care, funded by government or non-profits (Czech Republic, Germany and Estonia)
- promoting the idea that society supports women who return to work after having children.

A number of barriers were identified in the country articles concerning the take up of childcare and causing difficulties for increased participation of women in the labour market. These include:

- the uneven spread of childcare services across the country making it less accessible in certain areas (Malta)
- where provision of childcare does not mirror the normal eight hour working day thus limiting women from remaining in full-time employment (Malta)

- the prevalence of widespread social norms that mothers provide the best care for children (Czech Republic, Malta and Romania)
- the notion that childcare is only associated with working women (Malta)
- the critical lack of care for particular age groups (Slovakia)
- the lack of more flexible forms of working.

8.1.2 Increasing childcare provision

Eight countries (Czech Republic, Germany, Estonia, Ireland, Malta, Romania, Slovakia and the UK) have introduced reforms to increase the availability of childcare for young and very young children. For example, the **UK** has made some progress in addressing the CSR on the provision of childcare. The issue has featured in the UK CSRs for some time and gradually the array of initiatives (often announced years in advance) are beginning their implementation phase. There has been a plethora of new policies for supporting childcare, particularly for those children aged 3 and 4 years and aimed at giving working parents a better work-life balance, with attention to the *quality* of provision as well as affordability. However, there are some factors that may limit the impact on reducing inequalities, since the latest subsidised childcare of 30 hours per week is not means tested. This is a missed opportunity to restrict the support in order to increase the quality and length of provision (beyond the 38 weeks) throughout the country (since provision is patchy) and to support low income earners more intensively.

In the **Czech Republic** the government has designed a set of measures to improve childcare provision for children over and under two years of age. In 2016, a new version of the ***Law on Education addresses the insufficient capacity of public kindergartens*** and imposes an obligation on municipalities to guarantee parents provision in kindergarten for a four year old child from 2017, for three year olds from 2018, and for two year olds from 2020. This law should substantially help women return to work when their child is aged two or above.

In some countries, however, it would seem that measures directed at improving access to childcare have had negligible or limited effects both on encouraging further access to childcare services or as a means of facilitating women's return to the labour market.

In **Slovakia** projects to ***increase the capacity and access to kindergartens for three to six year olds*** have been approved which could result in the additional enrolment of approximately 5 000 children, with the rate of participation in the four to six age group also likely to increase by two to three percentage points. Critically, it is the lack of formal care services for children younger than three years that discourages non-earning mothers from entering/returning to the labour market at low wages and contributes to prolongation of leave. In order to facilitate access for very young children therefore the government has also increased the monthly childcare allowance from EUR 230 to EUR 280 from 1 January 2016 but this has resulted in only a modest increase in beneficiaries. It also raised the replacement rate of the maternity leave benefit from 65-70 % of the previous gross salary received as of 1 January 2016. With approximately 24 000 women in receipt of this benefit and as it is earnings related with an upper cap, it is likely that it has no significant impacts on income redistribution. In addition a pilot project called *Family and Work* was implemented in 2015. This subsidised childcare in the employer's premises or specialised care facilities and offered temporary wage subsidies to companies who employ women with children, thus supporting 1 300 jobs. Again impacts on inequalities seem to be negligible.

Another example of where the impacts of reforms have been limited is **Malta.** While policies to promote women's participation in the labour market through the provision of, for example, ***free childcare***, recent figures indicate a significant slowdown in the growth rate of female employment in comparison with previous periods. It could indicate that the measures have reached saturation with most women who can take advantage of the measure already having done so. It may however also indicate that the full potential of the measures have not been reached with certain groups not benefitting including children from disadvantaged households such as those with mental health problems, involved in drug abuse, or experiencing other social problems.

8.1.3 Increasing financial incentives for female participation

Aside from lack of childcare facilities, another factor that may be keeping women out of the labour market is the long duration of paid family leave. Decreasing this duration can positively affect women's labour market participation and can decrease income inequality but it can also have negative effects (on the children if the quality of childcare is poor, and on the parents if there are no affordable childcare facilities). The **Czech Republic** has shortened parental leave allowance to allow mothers to return to work earlier, if they so desire, as described in the case study below.

Czech Republic - Parental Leave Reform (not yet approved by all stages of the legislative process)

Main aims: To allow mothers to return to work earlier.

Details: The total amount of parental leave allowance in the Czech Republic is currently fixed at EUR 8 143 (CZK 220 000). Mothers can choose to spread this amount over two to four years. The eligibility for choosing a shorter duration of the parental allowance receipt requires that at least one of the parents' earnings exceed certain limits in the year prior to child birth.

Recent changes include:

a) Change in the Limit on the Maximum Monthly Parental Leave Allowance

The limit on the maximum monthly allowance will be substantially increased, allowing mothers to return to work earlier. This option is expected to be used in particular by mothers with the highest earnings.

b) Shorter Duration of Allowance Receipt

The proposed change will allow mothers who are entitled only to the previous four-year allowance receipt to increase the monthly level up to EUR 281 (CZK 7 600) and therefore be able to shorten the duration of the receipt up to the child's third birthday. The proposed change should again support mothers return to work sooner. The four-year long family leave not only substantially reduces mothers' economic activity but also increases their risk of post-leave unemployment as it exceeds the three-year job protection period by one year and typically results in mother's job loss (Bicakova and Kaliskova 2015, 2016). **Survey evidence also reveals that some mothers confuse the duration of the parental allowance receipt with the length of the job protection period** (Krizkova et al. 2011). The proposed change should therefore also help to synchronize the two features of family leave.

c) Abolition of Limit on Institutional Childcare for Very Young Children

The limit of 46 hours a month on the use of institutional childcare for children younger than two years of age - as a condition for the parental leave allowance receipt - will be abolished. The limit (still in place) implies very strong financial disincentives for mothers to return to work. Up to now, the only way mothers of children younger than two could start working and at the same time keep the allowance was to use childcare provided by grandparents or a nanny (not affordable for most mothers).

Target group: Women returning to the labour market

Duration of the measure: Expected to come into effect in 2017.

Anticipated impact on inequalities: All three reforms described above are expected to support women's earlier return to work after child bearing. Their impact will, however, primarily depend on the availability of affordable institutional childcare for children younger than two, which is still limited, usually privately offered and rather expensive. In recent years, the Czech government has taken several steps to increase the supply of financially affordable institutional childcare for very small children.

Reference: ECE country article for the Czech Republic

In **Germany** in July 2015 there was an ***increase in tax allowance and child related benefits*** and in October 2016 the Federal Minister of Finance announced further tax cuts for families and taxpayers. However, these measures are not targeted, benefitting the whole population not only low-wage earners.

In **the Czech Republic**, since 2014, parents can ***deduct the cost of institutional childcare*** up to a certain limit incurred for pre-school children in a given year from their personal income tax. Again, this type of measure raises issues. From a redistribution point of view, the tax credit is not means-tested so high income households also benefit. It is typically deducted from the personal income tax of the primary household earner (i.e. the father, in particular where the mother does not work yet or not employed with a full time contract) inducing a further wedge between the effective marginal tax rates of men as the primary earners and women as the secondary earners providing further disincentives for women to work. While the cost of the tax credit is high, the impact on the economic activity of mothers with small children and impact on income inequality are unclear. And also, the tax credit is insufficient to offset the cost of private care and so in the absence of much wider availability of financially affordable childcare for very young children, the existence of this tax credit will hardly induce any mother to return to work before her child is accepted to the (inexpensive) public kindergartens.

Another reform which is important for mothers' opportunities to return to the labour market is the **Austrian** reform agreed in December 2016 which guarantees a ***further expansion of full-day-schools*** (see case study box in section 7 for more details). The recent introduction of financial support for this model of school which staggers the contributions of parents along social criteria can therefore be seen as an important contribution to more equality. All-day schools are not just important in terms educational equality but also in terms of gender equality and increased possibilities for women to work full-time and improve their personal income situation (see Danzer et al. 2014 for a discussion of a recent survey on 35 % of employed women needing full-day care offer compared to only 11 % receiving it).

8.1.4 Increasing the participation of/reducing discrimination against disadvantaged people (older workers, migrants and disabled people)

Countries responding to CSRs have also introduced reforms targeting disadvantage people, such as older workers, children with disabilities, people with reduced work capacity and migrants, with a view to improving their participation in the labour market, as described below.

Older workers and people with disabilities

Older workers have been a focus of the policy responses to CSRs in Slovenia and Romania, mainly through incentives for employers to employ them. In **Romania**, the subsidy for employing older workers five years before statutory retirement age was increased. These reforms are expected to decrease both income and opportunity inequalities for older workers. Conversely, **Poland**'s decision to reverse the increase in the retirement age back to 60 for women and 65 for men is expected to have a strong negative impact on income inequality in future. In **Slovenia,** poverty among older people is rising together with long-term unemployment. Measures aimed at activating older people were introduced in response to the CSR 2 to 'increase the employability of low skills and older workers' and 'provide adequate incentives to extend working lives'. Two labour market intervention measures were introduced during 2015-16 but it is too early to ascertain their impact.

Five reforms emerge with respect to improving equality of opportunity for families and children coping with disabilities (two from Ireland) while three further reforms to pension systems in Germany, Austria and Estonia have taken place in response to CSRs covering vocational rehabilitation and a lengthening in working lives.

The **Austrian** Reintegra reform, enables workers with severe physical illness or mental health problems a stepwise return to their former workplace. It does this by reducing the working time volume (to 50 % up to 75 %) over a period of up to six months maximum and a corresponding wage compensation through a reintegration allowance. Older workers may especially benefit from this reform as the duration of sickness leave extends significantly with increasing age (CF. Leoni 2016).
The way in which the reform affects a reduction in inequality of opportunity is through allowing the target group a greater chance to return to employment earlier, thus securing their jobs by avoiding dismissal which can often occur in the case of long-term sickness leave. With respect to reducing income inequality, the reform means that the income (wage + reintegration allowance) during the period when working time is being reduced is higher than the sickness allowance received in the case of permanent sickness leave. The loss of income for workers suffering from severe illness will be diminished, thus reducing income inequality for this group. A key factor which may limit the magnitude of impact, however, is the limited take-up rate. According to government calculations it assumes a yearly number of about 200 workers.

Similarly in **Estonia** efforts to improve the labour market participation of particular groups of workers (namely, those receiving work incapacity pensions) can be seen in the introduction of the Work Ability Reform described in the box below. Again, similar to the Austrian example, this encompasses the question of take-up and whether the reform will succeed in bringing more people with reduced work capacity to the labour market thereby increasing their incomes from work instead of the allowance.

ESTONIA - WORK ABILITY REFORM

Main aims: Improve the work ability of workers with reduced work capacity by combining transition from passive disability pensions to activation.

Details: The Work Ability Reform was implemented on 1 January 2016, as follows:

- the Unemployment Insurance Fund (UIF) widened its selection of active labour market measures for improving work capacity, offered since 1 January 2016.
- A new system of evaluating work ability was introduced on 1 July 2016, shifting away from evaluating incapacity to assessing a person's actual ability to work.
- Since 1 January 2017 all people with work incapacity pensions will gradually have to return to the UIF for re-evaluation according to the new evaluation criteria, with complete transfer to the new system by the end of 2021.

Target group: People with reduced capacity to work due to health issues

Duration of the measure: Implementation started in 2016, with complete transfer to the new system by the end of 2021.

Anticipated impact on inequalities: How the reform will impact on incomes is not clear because firstly, the new system only has two levels of work ability allowance (for total incapacity and for partial incapacity at 57 % of the daily rate). Secondly, the new allowance is reduced in cases of labour earnings higher than the average wage, which means that those with total incapacity to work and those who are least affected by incapacity are most likely to gain. However, those with a 60-90 % loss of capacity level will most likely loose from the new allowance scheme on average. The factors therefore making it difficult to assess the size of the impact on inequality include the reduction in incentives to increase work effort for people with high earnings as the allowance is gradually reduced depending on earnings and for those with partial (40-50 %) or no work ability. The reform should also increase access to the labour market (i.e. increase equality of opportunity for those with reduced work capacity) through increased integration between the work ability allowance and active labour market measures. It is planned that the public sector will employ at least 1 000 persons with reduced ability to work by the year 2020[64].

However, Võrk et al. (2016) outline that the total combined effects of the new allowance scheme on labour supply incentives are not clear-cut. The lower allowance may increase incentive effects at low levels of earnings (through the income effect), higher marginal tax rates may reduce labour supply at high levels of earnings (through the substitution effect). The total effect is further affected by the new activity requirements and enhanced labour market services for people with reduced ability to work. This means that the total effect the reform will have on income and labour market inequalities will be seen in the coming years.

Reference: ECE country article for Estonia.

Improving health and working conditions is a key element in a policy towards lengthening working lives, as illustrated in **Germany** which introduced changes to its pension system through the Flexi pension law (Flexirente) in December 2016 (due to become effective in 2017). This change addressed health issues by strengthening prevention and rehabilitation including the introduction of voluntary health check-ups from the age of 45. The reform has potential to **decrease both income and opportunity inequality**. By increasing incentives to delay retirement it has the potential to slightly increase employment rates and improve the income situation of workers with low pensions (e.g. linked to broken working biographies). There are more flexible rules in relation to additional contribution payments and promotion of a partial pension system. However, a key group excluded from the effects of the Flexi-pension package, which includes incentives for early retirement at the age of 63, are those who work in arduous and hazardous jobs and are more likely to face health problems before reaching the age of 63. While the reform might help to prevent old-age poverty it is difficult to predict the overall impact of the reform i.e. whether the incentives for early retirement and shortened working hours will be larger or smaller than the incentives to lengthen working lives and raise working hours.

Migrants, refugees and asylum seekers

In addition to **Ireland's** *SICAP programme* mentioned above to improve the work prospects and labour market integration of a number of vulnerable groups including migrants, refugees and asylum seekers, **Germany and Austria** have also introduced measures aimed at similar outcomes. In this case, together with integration and language courses, the laws to activate the labour market potential of migrants might reduce future inequalities between migrants and nationals.

In **Germany** investment in education and training in general was part of the response to the CSRs. Promoting childcare to raise labour market participation of women and to reduce inequalities in the access to education was a particular focus. The *Programme of 'language Kindergardens' (Sprach-Kitas)* mentioned above will provide additional staff training for language teaching in childcare facilities with an above-average share of children from a migrant background. Despite measures aimed at reducing inequalities in access, they remain high with respect to education. The greatest step in terms of decreasing inequalities were recent reforms that promoted refugee participation on the German labour market and in active labour market policy measures. Persons with a migration background are at a comparatively high risk of social decline and of falling below the poverty line. By opening the labour market up to refugees and by adopting a stronger commitment to integration measures, the foundations were laid to reduce the risk of inequalities in labour market opportunities between refugees, regular immigrants from abroad, and German citizens.

The German ***law on recognition of formal qualifications*** **acquired abroad** has been in force since 2012. The number of applications issued increased from 11 000 in 2012 to 17 600 in 2014[65]. In the second half of 2015 20 % of applications came from refugees. Despite this increase the numbers of applications are still low. Especially at the intermediate skill level, qualification validation in Germany is problematic.[66]

Since 2015 the *law on the acceleration of the asylum process*, known as *Asylverfahrenbeschleunigungsgesetz*[67], entered into force. With this law, access for refugees and asylum seekers to integration courses has been eased. Integration and language courses have been offered to immigrants who intend to stay in Germany. Asylum seekers and refugees have also been permitted to work in temporary work agencies. The same conditions as for other dependent employed apply (work permit, priority review). The integration law (*Integrationsgesetz*) was implemented in July 2016[68]. It further eases access for refugees and asylum seekers to the labour market, to education and training (including an expansion of the supply of language and integration courses), and to active labour market programmes and employment services.

Similar to the above CSR-driven German policy response, one **Austria** reform responds to an older CSR from 2013 and 2014 concerning improvements in the recognition of migrants' qualifications. After lengthy negotiations the '*Recognition and Assessment Act'* entered into force in 2016. It aims to support persons who obtained foreign educational or professional qualifications in finding employment that matches their qualifications and support their integration into the labour market. A general unification and simplification of the complex legal situation could not be achieved during the negotiations. But the establishment of an electronic platform and especially the continuation of the nationwide advice centres should help to guide applicants and encourage people to use the support and gain recognition and assessment of their foreign gained educational or professional qualification. An evaluation of the advice centres in 2016[69] showed that around half of the interviewed clients think that without support from the advice centres they would not have achieved recognition and/or assessment.

Research results demonstrate that formal recognition of qualifications helps to improve the labour market situation. Easing access to the recognition/assessment procedures therefore will have a positive impact in terms of equality of labour market opportunities. This new law could contribute to a reduction of the pay and poverty gap between foreign born people and home-born people. Foreign nationals achieve only around 80 % of median income (cf. Statistics Austria, 2016). Nevertheless, more intensified efforts in different areas are needed to improve the labour market prospects of migrants such as expansion of occupational oriented language courses.

8.2 Unaddressed CSRs and their hypothetical impact on inequality

The country articles contained information for this section about unaddressed CSRs concerning Slovakia, Spain and Austria related to inadequate childcare facilities and family support schemes and for Estonia concerning the persistent gender pay gap.

In **Slovakia**, to address the shortage of formal **childcare** for the youngest children in a more systemic way, the government prepared an amendment to the Act on social services in the second half of 2016 which established a legal framework for childcare facilities for children under three years old. At present, care for children aged from six months to three years is provided in facilities (usually crèches and day-care centres) which are not managed or guided by a central state department and are not part of the school network. An important incentive to include childcare facilities under the social services law was to make them eligible for support from the European structural and investment funds. The draft amendment has been vetoed by the Slovak President in December 2016 and returned to the parliament for discriminating against certain parents and their children, as childcare for those under three years of age would be provided only to working or studying parents. Once the flaws of the proposal are removed, the new regulation could positively influence women’s access to the labour market.

In **Spain,** the CSR 3.3 in 2015 and 2.3 in 2016 recommend the **improvement of family support schemes** including access to quality childcare and long-term care. However, following sharp budgetary reductions in response to the needs of fiscal consolidation described above, overall limited progress has been made in improving family support schemes, including affordable early childhood education and care (from zero to three years) and long-term care (EC, 2016a). This lack of support affects children’s opportunities, particularly children from vulnerable backgrounds. It also hampers women’s labour market opportunities, particularly again for those who are lower skilled, who cannot afford private expensive child care services and have thus to exit the labour market or work part-time, while the risk of poverty and social exclusion among part-timers is higher. The reduction of 5 percentage points since 2011 in the share of children under three years of age cared for formally, for more than 30 hours a week, is an eloquent result of the tendency depicted. Also the reduction of the number of dependent persons covered by the long-term care system has been estimated at 40 000 in 2014 (Barriga Martín et al. 2015); moreover, since the state ended the payment of social security contributions for informal carers in November 2012, the vast majority of informal carers -mostly women- are out of the social security system, with an evident impact on their labour conditions and social protection (González-Gago, 2016).

The European Commission has recommended that **Austria** take steps to improve **the labour market participation of women**. Despite several measures already existing for a long time (cf. National Reform Programme), the past two years can be characterised largely as a period of stagnation in the further development and implementation of new measures. The National Action Plan 'Equality between women and men on the labour market 2010 until 2013' will be continued until 2018. At the end of 2016 around two-thirds of the planned 55 measures were fully implemented.

Both the 2015 as well as 2016 CSRs for **Estonia** stressed the need to **address the gender pay gap**. Despite the actions taken so far, the gender pay gap has not reduced significantly (e.g. action plan for reducing gender pay gap 2012-16, calls for projects financed by various EU and Norwegian funds, activities of the Gender Equality and Equal Treatment Commissioner). According to Eurostat, the unadjusted gender pay gap has remained between 27 % and 30 % during 2008-14. A recent analysis on the gender pay gap reveals that out of the 22 countries included in the analysis, Estonia has the highest gender pay gap of 25 % as well as the highest unexplained gender pay gap, i.e. after all the differences in educational attainment, occupational choice, working hours and other attributes considered in the analysis are taken into account (Boll et al. 2016). The analysis also shows that almost half of the gender pay gap (41 %) is explained by differences in segregation and employment conditions.

Still, reducing the gender pay gap remains on the agenda. The National Reform Programme 'Estonia 2020' (updated in 2016) recognises the need to address various aspects of gender inequalities in the labour market in order to narrow the gender pay gap. Further, the Welfare Plan 2016-23 includes the aim of reducing gender inequalities in society and the labour market with a specific aim to narrow the gender pay gap. Specific research and sensitisation activities and policy initiatives (as described in the NRP 'Estonia 2020') in the coming years will include:

- pay audit and analysis of gender pay gap in public sector institutions in 2017
- a strategy to collect and publish reliable data on gender pay differences (2016)
- giving the Labour Inspectorate the right to monitor pay differences for equal jobs (2017)
- raising knowledge among students of stereotypical career choices (2016-20).

While most of the activities described above aim towards making the pay systems more transparent and thereby promoting the notion of equal pay for equal work, these will most likely not result in immediate impact on the gender pay gap in Estonia.

8.3 Other important reforms to increase female participation, not linked to 2015 and 2016 CSRs

In relation to increasing women's participation in the labour market and promoting gender equality, a number of reforms which were not CSR-driven, were introduced in Germany, Spain and Latvia. In Latvia, since October 2014, it is possible to work and receive parental benefit. If a person chooses to work while receiving the parental benefit, only 30 % of the benefit amount is paid.

Germany's *Elterngeld Plus* effectively shortens breaks from work for new mothers. German parents get a Parents' Allowance (Elterngeld) equivalent to 65-100

% of their net income if they do not work (full-time) to look after their newly born children for at most 14 months. A study evaluated the allowance as being effective in shortening breaks for new mothers. However, this law does not sufficiently raise incentives to share childcare more equally between the partners (Bonin et al. 2013). Therefore, the Parents' Allowance Plus law (Elterngeld Plus) which was implemented in December 2014 incorporated this criticism[70]. For children born from January 2015, parents can get the Parents' Allowance Plus for 28 months (half the total benefits for double amount of the time) and an additional financial bonus amounting to four months additional receipt if both parents work for 25-30 hours a week. This reform is the continuation of a long-term strategy to increase the labour market participation of women. However, major reforms still remain to be carried out, although an equal pay law was announced recently. A change in the part-time culture and particularly the spread of mini-jobs is an important condition for reducing gender inequalities in career opportunities.

Another **German** measure concerning gender equality is the Gender Quota, or the law on equal participation of men and women in leading positions (*Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen*) which has been in force since 1 May 2015.[71] Although its impact on most of the workforce is very slight, it was debated heavily as gender inequalities are comparatively high in Germany. The gender pay gap, the difference of (average gross hourly) wages (without bonus payments) of men and women in relation to wages of men (GPG), has remained constant in the last 15 years (German Federal Statistical Office data). The **Comparable Worth Index** was developed to compare requirements and burdens of occupations in a gender-neutral way to prevent an underestimation of the worth of work in female dominated sectors and occupations (Lillemeier, 2016). With the gender wage gap (GPG) indicator, results that indicate lower wages in sectors or occupations with predominantly female workers are often interpreted as legitimate reactions of the market. The study of Lillemeier indicates that workers in 'women's jobs' often receive wages below the average of workers in 'men's jobs' despite similar requirements and burdens. Gartner (2016) shows that for every year from 1993 until 2010, women earned 12 % less than men given the same qualification, age, occupation, and an occupation in the same company. According to Gartner, this is due to more frequent employment breaks of women, longer effective working lives of men, as well as hierarchies within occupations.

Finally, a measure recognising the differences in opportunities for men and women and aimed at reducing the gender gap in the area of pensions was introduced in **Spain.** Spain introduced the **new maternity complement** (*complemento de maternidad*) **for retirement pensions of mothers** as part of the Integral Plan for Family Support 2015-17. From January 2016 on, women who have had children and are entitled to a contributory retirement, permanent disability or widowhood pension will receive the maternity complement. The complement is equal to between 5 % and 15 % depending on the number of children. It is estimated that 124 000 women are entitled to this new complement in 2016, and this number will increase cumulatively to 455 000 in 2019. The cost in 2016 of the measure is estimated at EUR 56 million, which means a complement of about EUR 30-35 per month on average. This complement is a step forward in recognising and addressing the cost of family responsibilities and child bearing for women. However, it only benefits women accessing contributory pensions from 2016 onwards. So, women entitled to non-contributory pensions or who retired before 2016 will not have theirs complemented either. **The positive step forward is partly jeopardised by insufficient and inadequate coverage that might result in increasing disparities.**

9 Access to healthcare

The OECD/EU publication Heath at a Glance 2016 part of the Commission's State of Health initiative, finds that the most vulnerable and disadvantaged groups, have difficulties accessing necessary healthcare, because of cost. In 2014, on average across Europe, poor people were ten times more likely to report unmet medical needs because of financial reasons than poor people.

There is consensus on the need to ensure access for all to adequate health care. This includes ensuring that the need for care does not lead to poverty and financial dependency, and that inequities in access to care and in health outcomes are addressed. Health status affects one's employability and therefore earnings.
This section discusses reforms based on the content of the country articles, examining the extent to which recent policy changes have enhanced access to healthcare for low-income earners and other groups with limited financial means (e.g. pensioners, peoples with disabilities) and changes to activation requirements.

It should be noted that healthcare-related reforms are not within the usual reporting remit of the ECE country experts. Therefore, only a limited number of reforms in this policy area are covered by this publication. The discussion in this section revolves mostly around the obstacles that countries face in responding to healthcare-related CSRs as well as healthcare reforms not directly related to CSRs.

The policy approaches discussed in this section include:

- preventive and curative approaches for workers with health problems as well as linking these approaches with other ALMPs and social services. Some of the reforms focus more on the passive measures (benefits), while other reforms also consider activation;
- reforms addressing access to health care, such as the introduction of health cards to offer and monitor access to free healthcare, especially for disadvantaged population groups; and
- measures and reforms concerned with the organisation of health services.

In total, seven reforms in this policy area were presented in the country articles.
One of those reforms were initiated in response to country-specific recommendations (Finland), and six reforms can be categorised as 'other reforms' or reforms not related to the CSR process (including reforms from Ireland, Germany and two reforms each from France and Malta). Unaddressed CSRs concerning health care reforms have been discussed by three countries i.e. Cyprus, Latvia and Slovenia.

9.1 Reforms prompted by Country-Specific Recommendations (CSRs) and their impact on inequalities

One reform was introduced in response to a CSR with a mitigating effect on inequality of opportunity: **Finland**'s Health Social Services and Regional Government Reform aiming to reduce healthcare expenses. **Slovakia**'s Health Contribution Allowance already discussed in section 6 on taxation, is also relevant.

In **Finland**'s effort to curb increases in expenses in social and healthcare which involves reducing the number of social and healthcare districts from 200 to 15, equality of opportunity is expected to improve by opening up the possibility of using private sector services for all and not only those with high income. All this will be achieved mostly by digitalisation but also by reforming the funding system. The extent of the impact on equality is hard to estimate however as the increased access to private care might be balanced out by the effect on access caused by increased distances to services in low-density regions. The costs of investing in digitalisation may also not have been adequately taken into account in the official scenarios.[72]

9.2 Unaddressed CSRs and their hypothetical impact on inequality

Three countries have not yet addressed CSRs concerning healthcare reform in their countries – Cyprus, Latvia and Slovenia.

9.2.1 Need for reform to prioritise equality

Despite substantial attention being devoted to it in its Memorandum of Understanding (2016 CSRs reflect unfinished MoU agenda), the health care system reform has yet to take place in **Cyprus**. A key recommendation of the MoU was to introduce a National Health System (NHS). Due to its dual approach to provision – public and private – the health care system is inherently unequal as far as access is concerned, particularly when many procedures in the public system require long waiting times. The private system is very developed but is available only to those covered by private insurance or willing to pay for services received. Critical to progress in the area of equality of access is the need for equality led reforms; it is believed that the Cyprus MoU is not focusing on equity aspects but rather on the health system being inefficient. Addressing the recommendation might impact positively on equality of access. Discussions on a NHS are continuing but political consensus may be hard to achieve.

9.2.2 Equality of opportunity likely to be significantly improved if changes are implemented

On the other hand, the unaddressed CSRs in the **Latvian** case, do focus on improving the accessibility as well as the quality and cost effectiveness of the healthcare system. In the most recent CSR 'a major structural reform of the health sector' is recommended (European Semester, 2016).

Looking at the statistics, the implications for reducing inequality of opportunity and improving the health of the population by introducing such a reform is significant: since 2009 Latvia is at the top of the table in Europe in terms of the incidence of self-reported unmet needs for medical examination because it is too expensive or is too far to travel to or due to long waiting lists[73].

Although the reforms in the health care sector are yet to be implemented, the first steps have been taken at the end of 2016, based on recommendations of the World Bank study[74] (which focused on hospital volumes and quality of care in general, as well on four more specific fields: prevention and treatment of cardiovascular diseases and cancer; mental health; mother and child healthcare). The Latvian Ministry of Health has worked out a new document on location and development of high-intensity hospitals, as well as the general plan implementation of the health sector reforms in 2017, and the government has approved a new version of the requirements for quality of work of health care institutions.

9.2.3 Political Obstacles

Similar issues to Cyprus and Latvia are the subject of the planned health care reform in **Slovenia** as recommended in the 2015 CSR. The 2016-17 National Reform Programme too identified the introduction of the new Health Care and Health Insurance Act in October 2016. The reforms are expected to address, among other things, challenges related to health inequalities (Albreht et al. 2016; Buzeti et al. 2011):

- improved physical or geographical access to health care that has become more difficult to provide because of the lack of doctors, dentists and nurses;
- waiting lists (waiting time) and
- the provision of certain health services, particularly those that are preventive, and are related to the pressing issue of the continued operation of primary

health care centres, which in some areas are not able to provide comprehensive care for the population.

However, there are many obstacles to the long overdue reforms related to lack of consensus among stakeholders and lack of political support from Health Ministers.

It would appear that key practical and motivational obstacles in responding to CSRs in the area of health reform, include political barriers and a need to prioritise equality outcomes. Judging from statistics available for Latvia it would appear potentially significant benefits concerning improved access lie in wait and anticipation of a reformed system.

9.3 Other important reforms, not linked to 2015 and 2016 CSRs

Reforms in the health policy area not linked to CSRs were carried out in Ireland, Malta (two reforms) and France (two reforms). The reforms in question include:

- **Ireland**'s Free GP visits for children under six
- **France**'s Generalisation of a mutual health insurance system for all employees
- **France**'s 'Compte pénibilité' (reform of arduous working conditions)

All reforms were considered to have a decreasing effect on inequality. It was inequality of opportunity that was impacted by the reforms in France (arduous working conditions reform). In Ireland and France (Generalisation of a mutual health insurance scheme for all employees), both types of inequality - income and opportunity - are judged to be affected. The reforms in Ireland and France are also deemed to have immediate impact on their target constituents. The strength of that impact on inequality varied from limited (Ireland and Germany) to strong (France - both reforms).

9.3.1 Ways to improve access to health care services

Various methods to increase access to health care for particular groups of people and/or workers have been introduced in other reforms. In **Ireland**, in 2015, free GP health visiting cards became available for all children under six years of age. It is the intention of the Irish government to include all children under 12 years of age but the implementation date for this has been delayed. In **France** the government has introduced a major reform making it compulsory for any company to pay for its employees' mutual health insurance. This entered into force at the beginning of 2016 and now benefits more than 4 million workers previously not covered.

All reforms are expected to reduce inequalities of opportunity, but the problem perceived with the Irish reform is that it is a blunt instrument for tackling inequality of access due to the fact that the scheme depends only on the child's age and disregards the income of the family. Therefore households across the income distribution benefit from this programme.

9.3.2 Vocational Rehabilitation & lengthening working lives

This issue of addressing the impact of working lives on workers' health arose earlier in relation to the CSR-related reforms. However, **France** has introduced a voluntarist approach linking the exposure to hazardous or arduous working conditions to compensatory rights with regard to retirement and pension. In 2014 the '***compte pénibilité'*** (arduous working conditions) was created. Its aims were to compensate employees for a series of heavy working conditions that they might have faced during their career. In concrete terms employers are supposed to take account of a series of hazardous working conditions (such as night work, posted work, carrying heavy loads, and working in a noisy environment). When employees' exposure goes beyond a specified level, they can benefit through one of three options - from certain advantages with regard to their pension rights, such as a reduction of the contribution period in order to retire earlier, or a reduction of working time, or access to training in order to change job. In 2015, 530 000 individual accounts were set up. However, the future of this measure is very unsure as the employers' unions have been opposed to it from the beginning. The financing of the measure is still not secured. While some accounts have opened, the process is far from operational and subject to a change in government after the Presidential election in May 2017. However, from an external point of view this is a measure that is likely to reduce social and health inequalities. Its main effect is to reduce the duration of exposure for workers most exposed to arduous working conditions, and therefore, improve their life expectancy.

To conclude, a key factor to consider in reform efforts at reducing inequalities is how focused the measures are on the target group and how well they are designed to deliver on improving equality of access and overall opportunity. The above measures raise questions in relation to whether they have effectively raised equality of opportunity concerning health care access for the marginalised in society. Political and financial constraints have hampered France's efforts to improve the work experiences and health inequalities faced by those exposed to arduous working conditions.

10 Conclusions

- This Review aims to offer an overview of the impact of recent policy changes (mainly from 2015 and 2016) on reducing inequalities in Europe.
- The analysis in this synthesis report is based principally on information collected through country articles from 27 countries, prepared as part of the European Centre of Expertise (ECE) Thematic Review on Inequalities.
- Country experts were asked to report on the impact of recent reforms on inequalities in seven policy areas. One additional prism that the experts were asked to use was the extent to which reforms responded (or not) to Country Specific Recommendations (CSRs).
- It should also be kept in mind that the experts were asked to select a limited number of reforms to report on, prioritising them in terms of their impact on inequalities and not to present an exhaustive discussion of reforms in 2015 and 2016.
- It should be kept in mind that the impact of many of the reforms covered by this Review will only be discernible in the longer run making it difficult now to give an accurate picture of their overall impact on inequalities.
- Furthermore, there are sometimes contradicting assessments of the impacts, depending on the macroeconomic models and scenarios chosen for the estimation of anticipated impacts. Effects are often complex and difficult to isolate and attribute to a specific reform, among several factors influencing outcomes. This makes the assessment of (future) effects even more difficult.
- Out of 23 reforms from the EU-28 countries, which had a strong impact on reducing inequalities, about one third of them (eight reforms) concerned new or increased direct social transfers to specific groups, including four new family benefits, three pension reforms increasing pension levels, and one new rent subsidy. Still looking at reforms with a strong impact on decreasing inequalities, another third (another eight reforms) concerned inequality of opportunity with three reforms facilitating access to education, two facilitating access to healthcare and three reforms facilitating the access of disadvantaged groups in the labour market.
- Considering the seven policy areas covered by the Review, the three policy areas where reforms in their majority had a positive impact on reducing inequalities were: reforms aimed at increasing the participation of women in the labour market, ALMP reforms and welfare-related reforms. The impact of wage setting reforms (in particular minimum wage increases) is less conclusive since in four out of ten countries which introduced reforms, the impact on reducing inequalities was seen to be clearly positive, in another four countries the reforms were seen to have had a positive but not significant effect on reducing inequalities, while in another two MS the reforms were seen as increasing inequalities. The taxation reforms under review also give a mixed picture with 17 of the 32 reforms covered assessed as helping to reduce inequalities, while 10 of the 32 may increase inequality and five have an indeterminate effect to date. The healthcare reforms covered by this Review are too few to allow for generalisations.
- A key factor to consider in reform efforts at reducing inequalities is how focused the measures are on the target group and how well they are designed to deliver on improving equality of access and overall opportunity.

Conclusions for each of the seven policy areas covered are summarised below.

10.1 Labour Market Segmentation

Differences in the labour market conditions available to different population groups, and mainly between those on open-ended and temporary contracts (the level of labour market segmentation) can have a significant impact on income inequalities and lead to inequality of outcome. The extent to which the labour market is segmented and the level of transitions between insecure and more secure employment relationships can be impacted by EPL and ALMPs among other things.

Measures in these two policy fields of EPL and ALMPs are the main approaches which have been used to tackle growing concern about labour market segmentation – not only between open-ended and temporary employment, but also for newly emerging forms of insecure work and employment relationships. Considering the 40 reforms reported in relation to this policy area, the picture in terms of impact on inequalities appears to be very positive since the vast majority of reforms in this area (36 of the 40 reforms), are seen by the experts as suitable to contributing to reducing inequalities. Four of the reforms are considered to have debatable impacts.

Regarding the functioning of the labour market and EPL, at least three EU MS (France, Croatia and Italy) have introduced laws to increase labour market flexibility in response to CSRs.

Some countries (including Germany, Italy, Poland, and the Netherlands) have introduced reforms focusing on stabilising employment, by offering incentives to employers to convert temporary contracts into permanent ones.

Turning to ALMPs, beyond the barriers they may face in accessing the labour market, once disadvantaged groups such as young people, low-skilled, LTU, migrants or older workers have accessed the labour market, they may be stuck in precarious employment. Countries have made the choice to target ALMPs specifically to disadvantaged groups of workers, with two objectives of a) rapid integration in the labour market by improving access to the labour market and reducing discrimination and b) sustainable integration by increasing employability to improve the chances of getting better jobs in the longer term.

On the whole, ALMP reform are seen to be contributing to moderate decreases in inequality, mainly of opportunities, in respect of the targeted groups. One measure expected to have a strong impact on decreasing inequalities is **Spain**'s Joint Action Programme to support long term unemployed people. Together with the Employment Activation Programme and other existing programmes for the LTU (such as the Prepara programme), this Joint Programme can be considered to be a turning point in the equal opportunities offered to long-term unemployed people, both in quantitative terms (with over 1 million LTU being targeted) and in qualitative terms, with the effective reinforcement of individualised pathways to employment.

Three MS (Ireland, Romania, Slovakia) have reported on ongoing reforms of their public employment services as significant in the fight against inequalities, while Spain's Joint Action Programme for LTU mentioned above is also seen as an opportunity to modernise the Spanish PES.

The country experts for two EU MS (Croatia and Italy) identify that there is still room for improvement in addressing the CSRs related to activation and addressing labour market segmentation.

Last but not least, important reforms in this policy area not linked to CSRs mainly relate to incentives for employers to hire low wage workers which were reported in three MS (Belgium, Portugal and Slovakia). Another four MS (Spain, Italy, Romania and the Netherlands), have introduced new hiring subsidies or have amended existing ones in response to CSRs. However, analysis in Belgium has demonstrated that the largest winners of hiring subsidies are found in the middle of the equivalised household income distribution, and not at the lower end. The lower deciles are overwhelmingly populated by inactive people - pensioners, but also people living on benefits.

10.2 Wages and wage setting frameworks

Wages, together with benefits are an important source of income for the low income groups. The role of minimum wages, social security contributions and the coordination between minimum wage policy and other redistribution measures, could have a significant impact on reducing poverty and inequalities. CSRs have mainly addressed wage setting mechanisms rather than the level of (minimum) wages (as wage setting is a national competence). These include mainly the recommendation to link wage and productivity development and the potential to devolve wage setting to a lower level where it can be closely linked with productivity considerations. Wage levels are only mentioned exceptionally, e.g. in the case of France, the Commission points to high minimum wages which may harm employment. As has been shown throughout this report, the CSRs have also addressed non-wage labour costs.

Member States have mainly implemented changes to minimum wages and their indexation system. It is more difficult for Member States to introduce changes to bi-partite wage bargaining between social partners due to the autonomy of the social partners, but in some cases bargaining systems have been rendered more flexible providing greater local autonomy. Changes to the general wage setting mechanisms linked to the CSRs were made in two countries (Belgium and Luxembourg). Other Member States may have introduced changes to non-wage labour costs and tax system instead.

In eight countries, minimum wages are high on the agenda. Mainly, minimum wages have been increased recently. In most cases these recent changes in minimum wages did not have a negative effect on employment and did thus not increase unemployment. Thus, any feared negative effects, were avoided. A positive effect of increased minimum wages on reducing inequalities is more likely in cases where their relative level (as compared to median wages) is not very high. Also, if the increased or introduced minimum wage is redistributing economic gains without harming company competitiveness (this is likely to be the case when previously lower wages were the results of low bargaining power).

Minimum wage reforms are seen to have had a positive impact on reducing inequalities in four MS (Germany, Slovakia, Poland and Portugal). In Portugal, the minimum wage has reduced in-work poverty as the share of people covered by the minimum wage increased, and in Poland previous increases of the minimum wage contributed to the observed reduction of inequalities as well as poverty in Poland, while the labour market still performed well. In Germany, at first sight the introduction of the minimum wage has reduced wage inequality, especially in Eastern Germany. Nevertheless, the low wage sector in Germany is still very large.[75] The number of working means tested minimum income recipients decreased 4.4% between 2014 and 2015.

The reforms are seen to have had a positive but not significant effect on reducing inequalities in another four MS (Ireland, Latvia, Slovakia and Romania). In these later

countries, the minimum wage is not considered as the most efficient instrument to reduce poverty.
In the UK, the impact of reforms related to the minimum wage is indeterminate, while in the Czech Republic and in Hungary such reforms are likely to have increased inequalities. In the UK, in particular, the effects of introducing the national living wage on employment are difficult to isolate and any effect on employment is likely to have been small, given that the wage is being introduced incrementally and also comes at a buoyant time for the UK labour market.

With regard to the most vulnerable groups, the Czech Republic has now withdrawn the subminimum wage for workers with disabilities, while wage subsidies for this group were increased and in the Netherlands the sub-minimum wage for those under 22 years old has been abolished.

There are a number of complex issues and factors which determine the impact that minimum wage increases have upon inequality.

- First, it depends upon household make-up and employment circumstances. As noted in the case of Ireland, most households in poverty do not contain an employee, and of those which do, most do not contain a minimum wage employee. Therefore, as noted by the Irish Low Pay Commission (2016), a minimum wage by itself appears to be a blunt instrument for tackling poverty. This is consistent with Callan et al. (2015), who states that low-paid employees are found in a range of household situations. A study in Romania also found that impact on poor households is very low as these do not derive their incomes from salaries.
- Second, individuals and households are impacted differentially. In Germany, the minimum wage commission assessed the effects of the minimum wage recently (Mindestlohnkommission 2016): 4.0 million out of 5.5 million jobs with wages below the minimum wage level in 2014 were affected by the reform.[76] Women were more affected than men. Young workers (aged between 18 and 24) as well as very old workers (older than 65) benefited the most from the introduction of the minimum wage.
- Third, wage increases may lead to consumer price inflation, which will affect low-wage workers. For example, in the UK, the Resolution Foundation (2016c) has examined (principally through an employer survey) the first few months since its introduction in April 2016. It found that 'reduced employment does not appear to be the primary response employers make to a rising wage floor'. Instead it found that employers were more likely to pass on their increased costs in higher prices for their goods and services.
- There are also potential negative effects on employment. 'High' minimum wages and a high wage compression in the lower part of the wage scale can lead to a wage level that is above labour productivity. This would have a negative impact on employment, which in turn would raise income inequalities. While the minimum wage may increase the probability of working-poor households escaping poverty, it may also increase the probability of non-poor households entering poverty due to a loss in employment or a decline in hours worked (OECD 2016; Stoviček 2013). Quantitative estimates for the impact of the 2010 minimum wage hike in Slovenia (IMAD 2012; Laporšek, Vodopivec, and Vodopivec 2015; Stoviček 2013) suggest that the minimum wage could be a factor increasing long-term unemployment among low-productivity workers and it may motivate the use of non-standard contracts, thus increasing short-

term unemployment. In Latvia, since there is a large number of low-wage earners[77], the changes in a minimum wage affect a great number of workers and carry a substantial risk of negative employment effects, especially in lagging regions.[78]

- However, the response of employers to minimum wage increases is likely to depend on any associated adjustments to social security contributions. In Portugal, where productivity has increased, minimum wage agreements included an arrangement that reduces the employers' contribution to the social security paid for workers who benefit from the increases in the minimum wage. It also depends on the level of the labour supply. In Poland, for example, the ageing population means that the size of the potential workforce is shrinking, which also means that the negotiating position of employees in the labour market is increasing (Saczuk et al. 2016). The extent of the wage increase is also important. Research in Romania suggests that small salary increases by no more than 10-15 % are not damaging to the competitiveness of Romanian products. However, large increases in the range of 20 %, 30 %, 50 %, would dent cost competitiveness quite significantly and thus generate problems for a fragile labour market. In Slovakia, a possible side effect which the pressure on minimum wages might entail is that it forces companies to offset costs, among others, through reduced wage increases for high-paid workers.

10.3 Welfare Systems

This section discusses reforms relevant to welfare systems. The adequacy and coverage of income support schemes (unemployment benefits and minimum income) can help the purchasing power of those at the bottom of the income distribution. Depending on how they are distributed (either as benefits or as services receiving greater subsidisation for lower income families), other services (e.g. childcare and housing) can also address inequalities by enhancing educational and health outcomes.

Taxes and transfers potentially have a significant redistributive impact. On average across the OECD, three quarters of the reduction in inequality is due to transfers, the rest is due to direct household taxation[79]. However, the role of social transfers in reducing inequality varies significantly between countries.

There are a total of 71 reforms reported in relation to welfare systems. The vast majority of country experts report reforms, with the exception of Austria and Sweden. Reforms generally impact upon income inequality as opposed to inequality of opportunity.

Of the 71 welfare reforms, 45 were considered to be relevant to CSRs. Four of these were relevant to CSRs before 2015 but the other 40 were applicable to CSRs in 2015 and 2016. Amongst these 45 reforms, 38 have had an effect on inequality or have both an impact now and an impact expected in the future. **Of these 38 reforms, 32 were considered to have contributed to a decrease in inequality.** Fourteen of these were identified as having an impact on income inequality, seven were identified as having an impact on inequality of opportunity, and eleven were identified as impacting upon both income equality and inequality of opportunity. Only five of the 38 reforms were considered to have contributed to an increase in inequality.

Out of the 32 reforms that decreased inequality, 14 reforms are related to child benefits or family-based tax credits. Child or family-based benefits can be important for addressing inequalities. However, this depends on the extent to which transfers benefit the whole population or rather are targeted at people with low income. The lack of targeting of low-wage earners has limited the impact of measures in, for example, Germany. The German expert comments that the promotion of employment and further training (especially of single parents and low-income families) might be a better use for these funds for prevention of poverty. In the UK, the provision of subsidised childcare for up to 30 hours per week is not means-tested, not full-time and still may not be funded adequately to ensure quality provision throughout the UK.

Finland's scheme to pilot a basic income is also very relevant to the debate currently taking place in a number of European countries (e.g. in France, Germany) about introducing a universal basic income scheme.

Other reforms that have decreased income inequality do so by improving the level of welfare payments. This may occur in a context whereby the transfer system plays a more important role in reducing inequality compared to the tax system, for example in Ireland, which saw an increase in social welfare payments by EUR 5 weekly. In other countries, social transfers improve equality but are limited in vertical redistribution from rich to poor. In Slovakia, the bulk of social expenditures is allocated to domains in which insurance-based transfers prevail (pensions, health care, disability/sickness). Such transfers are thought to be less vertically redistributive than, for example, means-tested benefits.

However, CSRs remain unaddressed in some countries. In France and Hungary reforms have not been implemented regarding unemployment benefit. In Spain, in contradiction to recommendations, minimum income support schemes remain uncoordinated, with levels of benefits around or below 40 % of the national median income in most regions, very low coverage rates between 1 % and 3 % and large regional disparities. In Croatia, consolidation of social protection benefits was not addressed after the latest amendments of the Social Welfare Act introduced in 2015. This CSR is especially important in terms of reducing inequalities since social protection benefits directly influence the disposable income of the most vulnerable groups. In Latvia, the adequacy of social assistance benefits has also not been improved.

Some reforms were considered to have contributed to an increase in income inequality, mainly due to the introduction of benefit caps (Denmark, UK).

Some reforms reduce the level of out-of-work benefits in order to activate benefit claimants. The extent to which this increases or decreases inequality is debatable and depends on circumstances and the broader system of tax and social transfers. In Denmark, for example, the reforms of social benefits are perhaps negative in the sense that the target groups in the short run will experience lower incomes and increased risks of economic poverty. An important factor here will of course be the general demand for labour and also the degree to which the target groups face other barriers to employment than just weak economic incentives (for instance health problems or lack of formal or informal competences).

Pension reform has not featured in many countries, although in general it can play a key role in redistribution. In Spain for example, the redistribution capacity of the Spanish social protection system and its capacity for lifting people out of poverty is more limited than in the EU-28 and very much based on the protection capacity of the pension system. In other countries taxes play a greater role in alleviating inequalities by providing financial resources for social assistance, child and other benefits. Ideally, reforms in the relevant policy fields should be conducted for the pension system to not be the main safety net.

In Romania, the CSR on the equalisation of the pension has remained un-addressed, and in Croatia no measures have been implemented to address the CSR on discouraging early retirement.

Many reforms were implemented that were not considered to be relevant to the CSRs. Fifteen of these were identified as having an impact on income inequality and involved a mix of policy fields and target groups and two of these were identified as having a strong positive impact on reducing income inequality: In Luxembourg, a rent subsidy was introduced in January 2016 which could benefit around 25 % of low-income households. The UK introduced a single-tier pension and continuation of triple lock annual increase. The triple lock annual increase means that the state pension must go up by whatever is biggest from the increase in national average earnings, the consumer price index, or 2.5 %. In the past few years of low inflation and earnings growth, the state pension has grown in real terms so pensioners have seen real improvements in their incomes.

Food assistance programmes demonstrate the very high level of need in some EU Member States but have nevertheless had only limited impact on decreasing income inequality.

10.4 Taxation

When examining the redistributive impacts of recent tax reforms on income inequalities, some caveats need to be borne in mind. The caveats relate to the time factor and the assumptions on how taxes affect the economy. On the one hand, reducing income taxes for the poorer is likely to boost consumption in a Keynesian argumentation. On the other hand, reducing corporate taxes and taxes on high income avoid the flight of capital, increases investments and thus promotes economic growth beneficial to all. Both strands of argumentation are present in the scientific and political debates throughout the EU. A 2014 study[80] found that neither tax allowances nor tax credits influence inequality levels to any great extent, and affect inequality much less than means-tested and even non-contributory benefits.

Looking at the 27 EU Member States covered by this Review, 19 of them reported on a total of 33 tax-related reforms. Out of the total of 33 reforms, there is a mixed picture in relation to their impact on inequality, since only half of them (18 reforms) were considered to be contributing to decreasing inequality. Another 10 reforms are considered to be contributing to increasing inequality, while 5 reforms have mixed or indeterminate effects on inequality. As might be expected, the reforms under examination, have impacted mostly on inequality of income, rather than inequality of opportunity.

Changes to direct taxation have the most potential to reduce income inequality. In this context, five EU MS have introduced or amended their rules on taxation of low-wage earners (Estonia, Ireland, Lithuania, Latvia and Malta) responding to CSRs in this area. Not directly prompted by CSRs, but covered by this Review are reforms from a further seven countries: Four of the biggest EU MS (Spain, France, Poland and the United Kingdom), have adopted taxation measures to help lift low paid workers out of poverty. On the whole, the reforms to reduce the tax wedge on low wage earners are judged to have a limited to moderate positive effect on reducing income inequalities.

Shifting taxation away from labour towards property, environmental or consumption taxes is a concern in Lithuania (in response to CSRs), while a reform of property tax is under consideration in Latvia. In Lithuania, several recent reforms were taken in this direction, including the increase of the level of non-taxable personal income and the introduction of property tax. Sweden would still need to address CSRs from 2015 and

2016 to gradually limit the tax deductibility of mortgage interest payments or by increasing recurrent property taxes in order to reduce inequality in housing costs.

Turning to reforms of indirect taxation, VAT increases in France and Cyprus (the latter due to the crisis) are seen as regressive, increasing inequality. This is because individuals in lower quintiles spend a larger share of their income on VAT than individuals in higher quintiles. The regressive character of VAT is confirmed in Latvia, which is considering several policy options to increase budget revenue from VAT.

Ensuring the budget neutrality of tax reforms does not appear to be easily attainable. Tax reforms adopted in Austria have not successfully ensured their budgetary neutrality, leading to moderate increases in inequalities. Similarly, the need to ensure a sustainable correction of the excessive deficit through less public spending in Spain, is also seen to be strongly increasing inequalities, because budget cuts negatively affect the lower income groups who use public services.

10.5 Human Capital and Access to Education

In general, improving levels of education / skills is thought to support equality of opportunity, and thereby also in the longer-term improve the chance of income equality. Unequal access to education leads to unequal employment outcomes and to income disparities by educational level. For example, there is evidence from Germany to show that lower qualified persons and persons who were not able to find employment were at risk of falling below the poverty line, while better qualified persons had enhanced opportunities of social advancement. Increasing the skills level of persons with a low educational level is therefore seen as a strategy that can contribute to poverty prevention and help decrease social inequalities.

Moreover, individuals can face different types of inequalities over their life cycle, whether in relation to access to education early in life, participation in further education as young adults and access to re-skilling, upskilling and lifelong learning later in life. Key policy issues that need to be addressed relate to improving access to education, training and lifelong learning, improving the quality of education and training at all levels, as well as the need to link training to labour market needs and link work place and class room learning.

A total of 49 reforms, across 21 countries were reported which were relevant to this policy area. Of these reforms, 37, across 16 countries, were considered to be relevant to CSRs. Amongst these 37 reforms, 33 were considered to contribute to reducing inequality.

Two reforms in **Poland** were thought to increase inequality (a change in the organisation of vocational schools and a change of the school structure), the impact of two reforms in **Malta** is not yet clear (giving qualification status to the School Leaving Certificate and promoting professional development of teachers) whilst the Tanoda Progamme in **Hungary** was felt to have had a mixed impact.

Measures have targeted specific groups which show lower levels of participation and attainment in education and learning, e.g. migrants (Austria and Germany), early school leavers and/or NEETs (Austria and Bulgaria), Roma (Bulgaria).

A difficulty for some countries is reaching out to those who are distanced from education, training and employment, such as young NEETs, as in Austria, and Italy.

Some measures were identified as supporting intergenerational/social mobility, such as in Cyprus and the UK respectively. Reforms in the field of education aim to reduce inequalities between children due to socio-economic background (France, Hungary).

Some of the reforms introduced to improve equality of access and equality of opportunity for children and young people, mainly through early years education and care (e.g. Germany, Ireland, Romania) but also in some countries through changes to school hours (e.g. Austria) also help to improve the access of second-earners (usually women) to the labour market - and thereby contribute to gender equality. In addition, income equality can also be improved, as suggested in Ireland, where high early childcare costs may present a barrier to work for some single parents and therefore policies to improve accessibility and reduce these costs may be important steps towards reducing the incidence of joblessness.

Ensuring there is sufficient supply to meet demand is important. In Hungary, the compulsory kindergarten attendance age has been lowered from five to three years but one evaluation has shown that an increasing child/teacher ratio may lead to a deterioration in the quality of provision. Also, that an increase in the number of children obliged to attend kindergarten will lead to capacity problems in some localities, which is in turn likely to lead to the crowding out of disadvantaged children from childcare facilities.

Vocational education and training (VET) and / or apprenticeships are the subject of reforms in some countries (e.g. Denmark, France, Italy, Latvia, Malta, Poland, Romania), whilst in others there is an aim to increase provision of VET and/ or apprenticeships (e.g. Cyprus, France, UK). VET and work-based learning is seen as a way of addressing inequality by easing the transition from education / training to employment. VET reduces the 'inequality of opportunities' of young people without work experience and helps to address skills gaps. However, increasing numbers alone is not enough: the apprenticeships offered need to reflect needs in the labour market and tackle the problem of skills gap (Malta) and they need to be of good quality (UK). For example, in Malta, while there is acknowledgement of the need for a structure responsible for skills prediction, little action has been taken. This has an impact on inequalities. If apprenticeships are offered in sectors where there is no labour demand, they can become a tool for increasing inequalities.

Thus, action related to skills prediction needs to be taken for apprenticeships to achieve greater impact. In this regard, some countries have introduced reforms to improve labour market intelligence through enhanced skills forecasting measures.

Lifelong learning is the focus of reforms in Cyprus, Denmark and Malta, while the lifelong learning reform in Bulgaria is still lagging behind. In Denmark, the aim is to create a new tradition of training and life-long learning and skills upgrading for skilled workers. The Maltese national LLL strategy aims to address the low levels of adults participating in learning; early school-leavers and low skills achievement; the low number of women actively at work or engaged in lifelong learning; and the persistence of low education passed on from generation to generation. Bulgaria recognises different ways of undertaking education (e.g. validation of competences) with a view to reducing early school leaving and enabling those who have dropped out to acquire qualifications.

Education and lifelong learning measures to help refugees and migrants to access the labour market also play a part in reducing inequality of opportunity. In Austria and Germany, measures have been introduced to recognise the qualifications of migrants acquired in their country of origin. Access to integration and language courses has also been increased in Germany. This helps to address the inequalities between migrants and nationals. For example, in Germany, persons with a migration background are at a comparatively high risk of social decline and of falling below the poverty line. By opening the labour market to refugees and by adopting a stronger commitment to integration measures, the foundations are laid to reduce the risk of inequalities in labour market opportunities between refugees, regular immigrants from abroad, and German citizens.

Measuring the success of the initiatives is also important. In Malta, it is suggested that there is a need to develop better ways through which to collect statistics in an efficient way to allow tracking of participation at national level and thus identifying where achievements have been gained and where needs still exist.

10.6 Anti-discrimination and women's labour market participation

Some groups face discrimination and barriers accessing the labour market. These barriers can be related to their level of qualification, age (young or old), gender, religion, ethnic origin, disability, and other factors. Discrimination in the labour market can be expressed as higher unemployment rates, lower earnings, and access to different types of occupations (more 'menial') for certain groups. Some individuals face multiple disadvantage if they combine two or more factors causing discrimination. The main approaches to reduce discrimination and decrease inequality of opportunities for different target groups facing discrimination are anti-discrimination legislation, positive discrimination, targeted ALMPs, as well as policies for the wider society such as sensitisation campaigns and minimum wages.

A total of 27 reforms in response to related CSRs were mentioned across ten countries (five in the Czech Republic, four in Germany, three in Estonia and Ireland, as well as two each in Austria, Italy, Malta, Slovenia, Slovakia, and the UK). **Of these 27 reforms all (except one of the reforms in Italy) were considered to have a decreasing effect on inequality.** Only three of the reforms mentioned in this area were considered to have a strong impact (Austria, Czech Republic and Romania). Austria's *Act on Part-time re-integration to the workplace* and Estonia's workability reform were considered to have a limited positive impact on reducing inequalities. The strength of the impact of the German Flexi-pension law reform on inequality was deemed too early to assess by the country expert.

Regarding facilitating the access of women to the labour market, questions remain over whether how much an increase in provision of childcare places or financial incentives to return to work will increase women's employment and how much social norms and women's preference to care for very young children will dampen outcomes.

It is important to look at other ways of supporting the further increases of women's participation in the labour market. For example, in Malta free childcare has only been associated with working women. It is only this year that through the National Lifelong Learning Strategy it has been recognised that the scheme can also benefit those women who need to follow courses in order to upgrade their skills and increase their opportunities for re-entry into the labour market. Childcare would allow these women to participate in training at times when they would normally be bound by childcare responsibilities.

More empirical analysis is needed to account for any rising trends (as seen in the Czech Republic for example) of economic activity among women at whom policies are targeted to discern what factors are contributing to such rises (e.g. demographic, economic). For instance, the new parental leave allowance in the Czech Republic, if approved, is expected to have a moderate impact on inequality of opportunity. The reform increases the maximum monthly allowance to both high-income and low-income mothers, and abolishes the limit on the usage of childcare as a condition of the allowance receipt. Impact will, however, ultimately also depend on the availability of affordable institutional childcare for children younger than two, which is still limited, usually privately offered and rather expensive. The **UK** has made some significant progress in addressing the CSR on the provision of childcare. However, if the latest subsidised childcare of 30 hours per week was means tested, this could help target the support more intensively on low income earners.

Older workers have also been a focus of the policy responses to CSRs in Slovenia and Romania, mainly through enhancing the incentives for employers to employ older workers. These reforms are expected to decrease both income and opportunity inequalities for older workers. Conversely, Poland’s decision to reverse the increased retirement age back to 60 for women and 65 for men is expected to have a strong negative impact on income inequality in future.

Voluntary rehabilitation was the subject of a further three reforms: the Reintegration Allowance (Austria), the Work Ability Allowance (Estonia) and Germany’s Flexi-pension package. Whether these reforms prove successful in improving equality of opportunity and income will be dependent on, among other things, the take up rates. While the German Flexi-pension package has potential to reduce old-age poverty, the overall impact on labour supply is unknown as the incentives work in opposing directions.

10.7 Healthcare

Under access to healthcare, a number of different policy areas are considered:

- preventive and curative approaches for workers with health problems as well as linking these approaches with vocational rehabilitation and other ALMPs and social services. Some of the reforms focus more on the passive measures (benefits), while other reforms also consider activation.
- reforms addressing access to health care for the population, such as the introduction of health cards to offer and monitor access to free healthcare, especially for disadvantaged population groups; and
- Measures and reforms concerned with the organisation of health services.

Seven reforms in this policy area were presented in the country articles: one of those reforms in Finland, was initiated in response to country-specific recommendations, while six reforms did not relate to the CSR process (Ireland, Germany and two reforms from France and Malta). Unaddressed CSRs concerning health care reforms have been mentioned by three country articles: Cyprus, Latvia and Slovenia. The Finnish reform due for introduction in 2019 aims to transfer the organisation of health care and social services and other regional services to counties. More freedom of choice for clients, provision of equal access of services and curbing expenses are the drivers behind its introduction. The overall effects on access to healthcare services will depend on how increased access to private care for all is affected by the increased travel distance to medical care that arises as a result of the reform.

It would appear that key practical and motivational obstacles in responding to CSRs in the area of health reform, include political barriers and a need to prioritise equality outcomes. Judging from statistics available for Latvia it would appear potentially significant benefits concerning improved access lie in wait and anticipation of a reformed system.

Focusing measures on the target group is a key success factor in getting a positive impact on improving equality of access. In the Irish reform introducing health cards for free healthcare, examined earlier, it would appear that the groups who would benefit most from the measure, whilst not excluded in either case, have not been positively targeted. Both measures raise questions in relation to whether they have effectively raised equality of opportunity concerning health care access for marginalised people in society. Political and financial constraints have hampered French efforts to improve the work experiences and health inequalities faced by those exposed to arduous working conditions.

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[30] The low-paid are defined as the share of workers earning less than two-thirds of median earnings.
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[46] Unemployment trap is defined as the percentage of the gross earnings (when entering employment) that is 'taxed away' by the combined effects of the withdrawal of benefits and higher tax and social security contributions.
[47] The Kakwani Index is calculated as the difference between the degree of inequality of tax liabilities and the degree of inequality of pre-tax income. The higher the value, the more progressive the tax system is.
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