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THE WORK VERSUS WELFARE TRADE-OFF: EUROPE

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EXECUTIVE SUMMARY

If welfare benefits become too generous, they can create a significant incentive that encourages recipients to remain “on the dole” rather than to seek employment. Benefits in European Union (EU) countries vary widely, but in many of them, benefits are high relative to what an individual could expect to earn from a low-wage or entry-level job. For example, for a single parent with two children in 2013—

- Welfare benefits in nine EU countries exceeded €15,000 (\$18,200) per year. In six countries, benefits exceeded €20,000 (\$24,300). Denmark offers the most generous benefit package, valued at €31,709 (\$38,558).
- In nine countries, welfare benefits exceeded the minimum wage in that country.
- Benefits in 11 countries exceeded half of the net income for someone earning the average wage in that country, and in 6 countries it exceeded 60 percent of the net average wage income.
- In Austria, Croatia, and Denmark, the effective marginal tax rate for someone leaving welfare for work was nearly 100 percent, meaning that a person would gain virtually no additional income from working. In

another 16 countries, individuals would face an effective marginal tax rate in excess of 50 percent.

- Benefits in the United States fit comfortably into the mainstream of welfare states. Excluding Medicaid, the United States would rank 10th among the EU nations analyzed, more generous than France and slightly less generous than Sweden. Thirty-five states offer a package more generous than the mean benefit package offered in the European countries analyzed.

Many European countries have recognized the problem and have begun to reform their welfare systems to create a better transition from welfare to work. In fact, the United States is falling behind some European countries with regard to welfare reform.

Countries that are serious about reducing welfare dependency and rewarding work should consider strengthening work requirements, establishing time limits for participation, and tightening eligibility. Perhaps more important, countries should examine the level of benefits available and the effective marginal tax rates their welfare systems create, with an eye toward reducing disincentives and encouraging work.

“The combination of high benefit levels and effective marginal tax rates in many EU countries is large enough to discourage work.”

INTRODUCTION

In 2013 the *New York Times* reported about the case of “Carina,” a 36-year-old Danish single mother who had been on welfare since she was 16.¹ Denmark has long had one of the most generous welfare systems in Europe, and Carina was able to collect more than €2,300 per month (roughly \$2,769) in benefits, an amount that enabled her to live quite comfortably without working. Similarly, a second welfare recipient discussed in the article, Robert Nielsen, had been supported by the government for more than a dozen years. He had not attempted to find work and did not intend to. As he says, “Luckily, I am born and live in Denmark, where the government is willing to support my life.”²

Critics will, of course, respond that such stories are not typical, even in Denmark. And Denmark is not typical of European welfare systems as a whole, with benefits more generous than most. However, examination of data provided by the European Commission and the Organisation for Economic Co-operation and Development (OECD) suggests that the combination of high benefit levels and effective marginal tax rates in many EU countries is large enough to discourage work.

Welfare benefits were intended as a temporary safety net, not as a permanent lifestyle. If the benefits themselves begin to discourage workers from becoming independent and self-sufficient, they can become self-defeating. That is, while alleviating the material discomforts of poverty, they may help trap individuals in long-term dependency.

Several European countries have begun to recognize this problem and have started to reform their welfare programs to put a greater emphasis on moving recipients into the workforce. But such reforms have so far fallen short of what is necessary to truly transition recipients from welfare to work. In far too many countries, welfare remains an economically rational alternative to work.

THE WORK VERSUS WELFARE TRADE-OFF

In 1995 and again in 2013, the Cato Insti-

tute published studies on the total value of welfare benefits that a typical family could receive, the relative value of those benefits in comparison with wages, and the likely effect on work incentives. The second Cato Institute study, “The Work versus Welfare Trade-Off: 2013,” found that a mother with two children participating in seven common welfare programs—Temporary Assistance for Needy Families (TANF), food stamps (Supplemental Nutrition Assistance Program), Medicaid, housing assistance, WIC (Women, Infants, and Children), energy assistance (Low Income Home Energy Assistance Program), and free commodities—could take home income higher than what she would earn from a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit and Child Tax Credit. In fact, in Connecticut, Hawaii, Massachusetts, New Jersey, New York, Rhode Island, Vermont, and the District of Columbia, such welfare pays more than a \$20-an-hour job, and in five additional states, it yields more than a \$15-an-hour job.³

Essentially, the phaseout of benefits combined with the impact of federal and state taxes creates an enormous effective marginal tax burden on low-wage work. As a result, someone who left welfare for work could actually be worse off financially, especially in the short term.

Recently, other studies have confirmed the basic conclusion of our report. For example, a report by the Congressional Budget Office looking at Pennsylvania found that marginal tax rates, after accounting for the loss of benefits could reach extremely high levels, discouraging labor-force entry and work hours. The report found that unemployed single taxpayers with one child would face a marginal tax rate of 47 percent for taking a job paying the minimum wage in 2012, and they could face a high marginal tax rate of 95 percent as their earnings disqualify them from Medicaid.⁴

A study by the Illinois Policy Institute found that that a single mother with two children in that state, who increases her hourly earnings from the Illinois minimum wage of

\$8.25 to \$12.00, would increase her net take-home wage by less than \$400. Even worse, if she increased her earnings from \$12 to \$18 an hour, supposedly a gateway to the middle class, her net income would actually *decrease* by more than \$24,800 because of benefit reductions and tax increases.⁵

And none of that includes the costs associated with work—transportation, childcare, clothing, and so on—or the loss of leisure and family time. Therefore, it frequently becomes a rational choice for individuals to choose welfare over work. As Casey Mulligan of the University of Chicago points out, work “requires sacrifices, and people evaluate whether the net income earned is enough to justify the sacrifices.”⁶

This situation is problematic for several reasons. First, if we are to accept some level of redistribution, it seems fair to require those receiving the benefits of such efforts to take steps that would enable them to become self-supporting as soon as possible. Such a requirement is not merely a question of moral sentiment and reciprocity. In the case of the negative income tax, to the degree that recipients choose not to work, it could drive up the cost of the program. And although that is not an issue with a universal basic income, recipients who are not working are also not paying taxes and therefore are increasing the burden on others. Moreover, the perception that recipients are content to live off of others, accurate or not, is likely to undermine political support for the program as it undermines the implied reciprocity of redistribution programs.

Second, if we actually want to help the poor escape poverty, we know that work is one of the ways to achieve that goal. In the United States, only 2.7 percent of full-time workers are poor. Even part-time work makes a significant difference. Only 15.8 percent of part-time workers are poor, compared with 23.2 percent of adults who do not work.⁷

There is undoubtedly a degree of self-selection in such results. Those with the skills and drive to escape poverty are those most likely

to be employable. But evidence also suggests that once individuals start a job, even an entry-level or minimum-wage job, they move up the income ladder. In the United States, two-thirds of those earning the minimum wage earn a higher wage within the year. Therefore, although it may be possible that some of the poor may forever lack the ability to enter the labor force, helping as many people as possible move from welfare to work would reduce poverty and increase economic mobility.

And third, a reduction in labor-force participation slows the growth of gross domestic product (GDP), making all of us a little bit poorer. Although the relationship is uneven, studies show that, if productivity remains constant, economic growth is strongly influenced by changes in the size of the labor force. In virtually all industrialized economies, labor-force participation is decreasing naturally as the population ages. So far, that decline has been offset by increases in productivity per worker, but that seems unlikely to increase indefinitely. As a result, future economic growth may be slower than it has been in the past. Any policy that encourages more otherwise-able workers to drop out of the labor force would further slow growth.

The question arises whether the work versus welfare trade-off is unique to the U.S. welfare system or whether it exists in other social welfare states. Is it, in effect, a natural outgrowth of the modern welfare state? And if it is, to what extent are other countries suffering from this disincentive effect? For that matter, is the U.S. system better or worse than other systems at promoting work?

METHODOLOGY

In an attempt to answer those questions, this study will look at the basket of welfare benefits available in 23 European Union countries, applying a methodology similar to that employed in “The Work Versus Welfare Trade-Off: 2013.”

Of course, comparisons between U.S. welfare benefits and those of other countries, as

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“Labor-market regulation in particular has a significant effect on whether people leave welfare for work.”

well as between those countries, are not strictly “apples-to-apples” measures. Each nation has a unique set of benefits as well as unique eligibility requirements. Notably, although basic social assistance and housing benefits in European countries are means-tested, or restricted to individuals below a certain income level, other programs such as family benefits are often universal in nature. Interestingly, those family benefits in 2013 were more likely to be universal in northern European countries such as Ireland, the Netherlands, and the United Kingdom, and thus available to everyone regardless of income. In the United States, almost all welfare benefits are means-tested and target a narrower range of incomes.

Entry-level wages, minimum-wage regulations, and ease of entry into the labor force vary widely from country to country. As we shall see, labor-market regulation in particular has a significant effect on whether people leave welfare for work.

However, we were able to analyze the package of benefits available to two typical categories of recipients. First, as in our U.S. study, we looked at a single parent with two young children. Second, because some European welfare benefits are less likely to be linked to family composition or the presence of children, we also looked at the case of a single, childless individual.

Specific benefit packages are listed in the country-by-country analysis in the Appendix. Benefits generally fell into three broad categories: social assistance, housing assistance, and family benefits. The included benefits were based on data from the European Commission and the OECD.

Greece and Italy are not included in this study. Greece was excluded owing to a lack of complete and accurate data and high levels of uncertainty regarding benefits. In Italy, benefits are set at the local or regional level rather than being uniform nationally. We have also not included Cyprus, Luxembourg, and Malta because their small size and special circumstances make comparisons difficult.

In looking at the relationship between welfare and work, one additional factor should

be considered. There appears to be an inverse relationship between the generosity of welfare benefits and the rigidity of labor-market regulations. That is, those countries with high benefits tend to have more flexible labor markets, and vice versa.

That factor reflects a deliberate choice—and a division between northern and southern Europe—over how to best balance policies that promote economic growth with social responsibility. Nordic countries, in addition to Germany, the Netherlands, and a few others, have chosen to pursue what is often referred to as the “Nordic,” “Danish,” or “flexicurity” model. That version of the welfare state combines a largely deregulated labor market, one that makes it easier to hire and fire workers, with a generous safety net to cushion workers from the consequences of those policies. As the Danish government says: “The aim of flexicurity is to promote employment security over job security. The model has the dual advantages of ensuring employers a flexible labour force while employees enjoy the safety net of an unemployment benefit system and an active employment policy.”⁸

In contrast, in much of southern Europe, countries such as Italy, Portugal, and Spain have smaller safety nets but much more tightly regulated labor markets. They effectively shift much of the social cost to employers.

Therefore, in southern Europe, the welfare benefits may not deter work to the same extent, but finding a job may be more difficult. Then again, in countries with flexicurity, it might be easier to find a job, but benefits and effective marginal tax rates are high enough to discourage workers from doing so. The result in both models is that workers are more likely to remain on welfare and out of work for longer than they otherwise would.

That element, along with country-specific economic factors, has prevented us from drawing direct relationships between benefit levels and unemployment rates. Even so, the broad sweep of evidence suggests that high benefit levels can discourage work.

CROSS-COUNTRY RESULTS

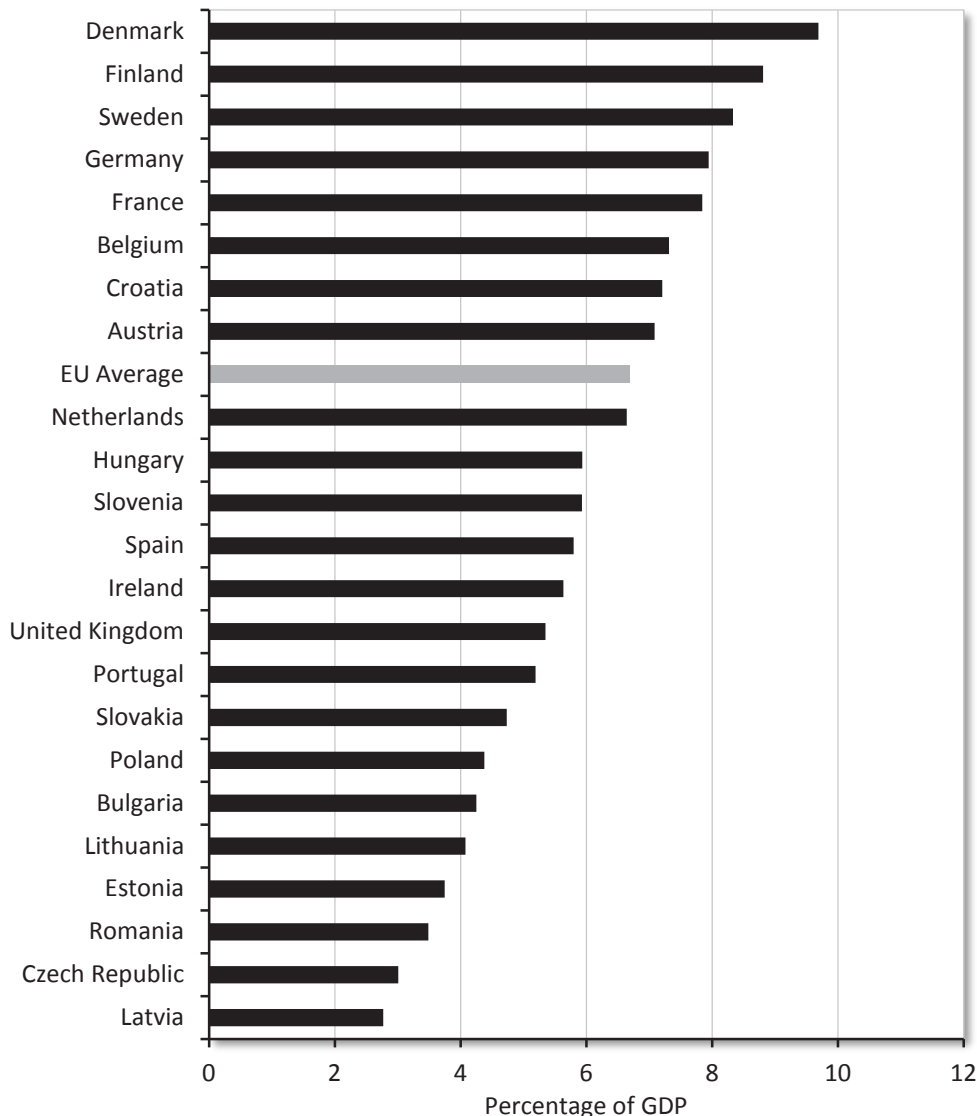
As Figure 1 shows, total welfare spending in EU countries varies significantly, ranging from less than 4 percent of GDP in countries such as Latvia, Lithuania, and Poland to more than 9 percent of GDP in Denmark, Finland, France, and Sweden. On average, EU countries spend 6.9 percent of GDP on welfare. (Note that we exclude health care, old-age pensions, and unemployment payments from the definition of welfare spending that we are using for this study. Essentially, we are considering only

those programs that are designed specifically to prevent or alleviate poverty.)

The composition of the welfare package, or the manner in which benefits are delivered, also varies significantly between countries. Countries such as Austria, Belgium, the Netherlands, Portugal, and Spain funnel more of their welfare benefits through social assistance programs; Bulgaria, Ireland, Slovakia, and the United Kingdom provide more funding for family and child benefits; and the Czech Republic, Latvia, and Poland focus more on housing assistance.

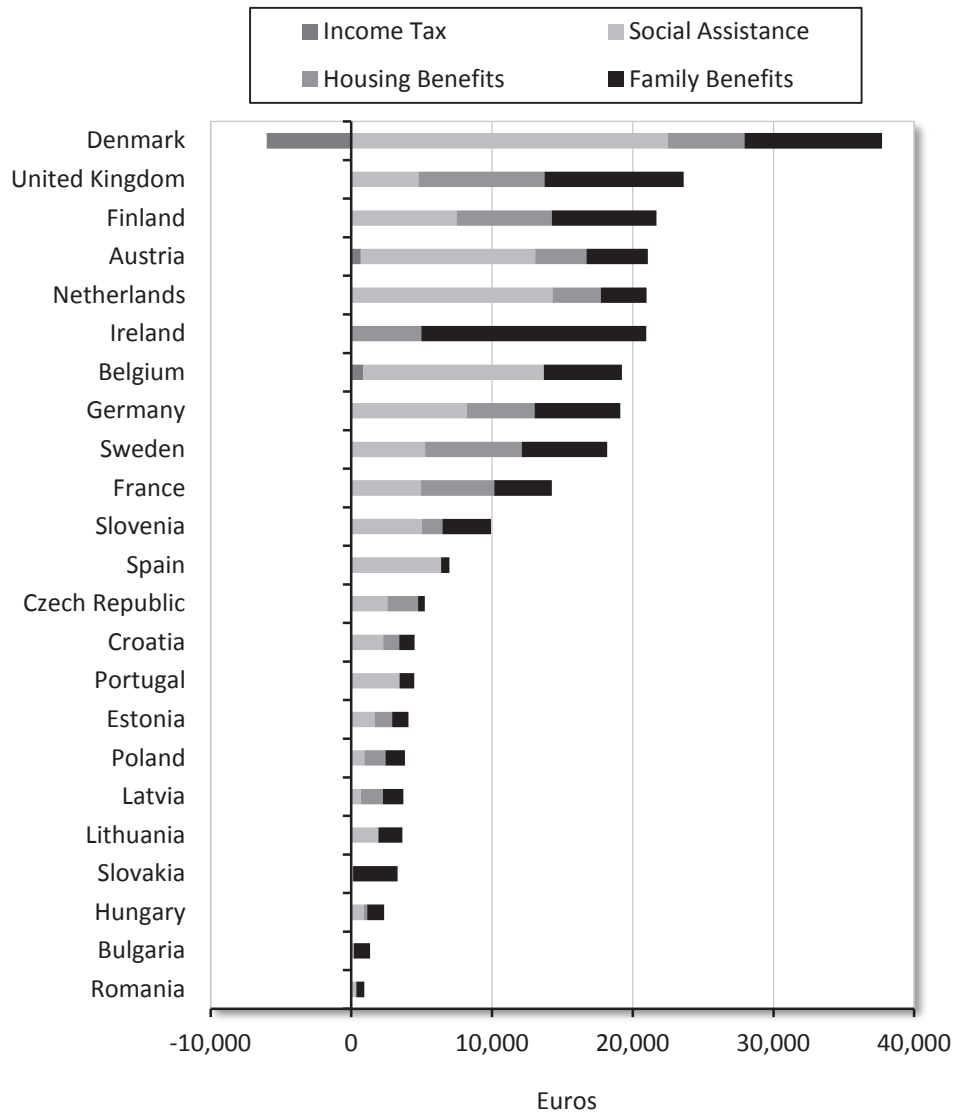
“Total welfare spending in EU countries varies significantly, ranging from less than 4 percent of to more than 9 percent of GDP.”

Figure 1
Social Assistance Expenditure as a Percentage of GDP



“Welfare benefits for a single parent in nine EU countries exceed €15,000 per year.”

Figure 2
Composition of Welfare Benefits Package for Single Parent with Two Children, 2013



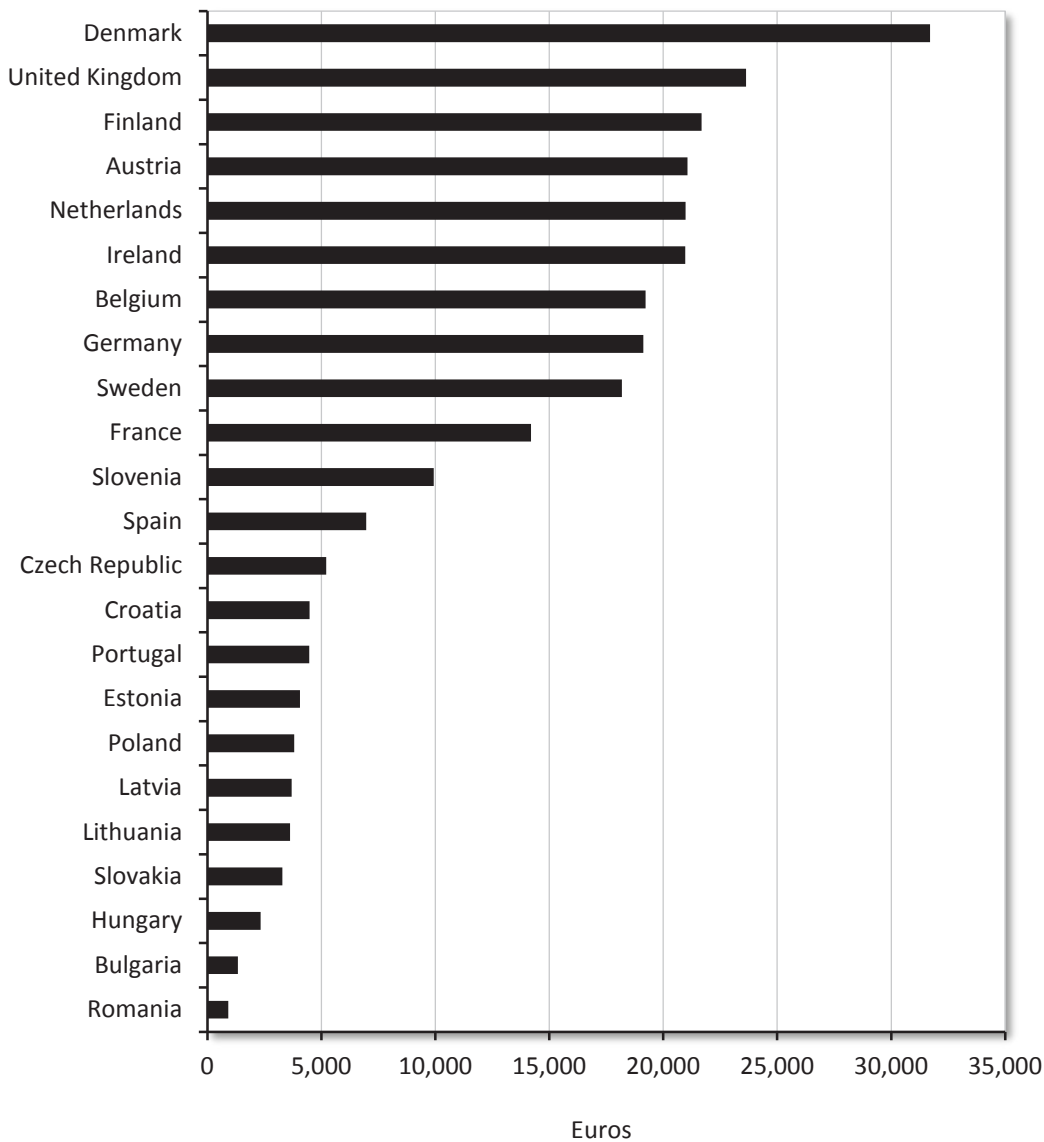
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes.”

Figure 2 shows the composition of each country’s welfare package by assistance type.

Measured in euros, welfare benefits for a single parent in nine EU countries exceed €15,000 per year. In six countries, benefits exceed €20,000. Denmark offers the most generous package of benefits, €31,709. At the other end of the continuum, several eastern European countries provide low levels of benefits, notably Hungary, Bulgaria, and Romania (Figure 3).

Because purchasing power and GDP per capita vary significantly between countries, comparing benefits across countries in nominal euros may be misleading. Figure 4 directly compares the value of the benefits for a single parent with two children to the annual gross income earned at the minimum wage in each country. (Note: Not all countries included in this study have a minimum wage; only those with a statutory minimum wage in 2013 are shown.)

Figure 3
Benefits for Single Parent with Two Children without Earned Income, 2013



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes"; European Commission, "Currency Converter," Financial Programming and Budget.

In nine countries (Belgium, the Czech Republic, Estonia, Ireland, Latvia, Lithuania, the Netherlands, Slovenia, and the United Kingdom), welfare benefits for a mother with two children exceeded the minimum wage. In fact, in the United Kingdom, welfare benefits exceeded 160 percent of the minimum wage.

Another way to look at these data is to compare the welfare package with the average wage in each country (Figure 5). Here, we see

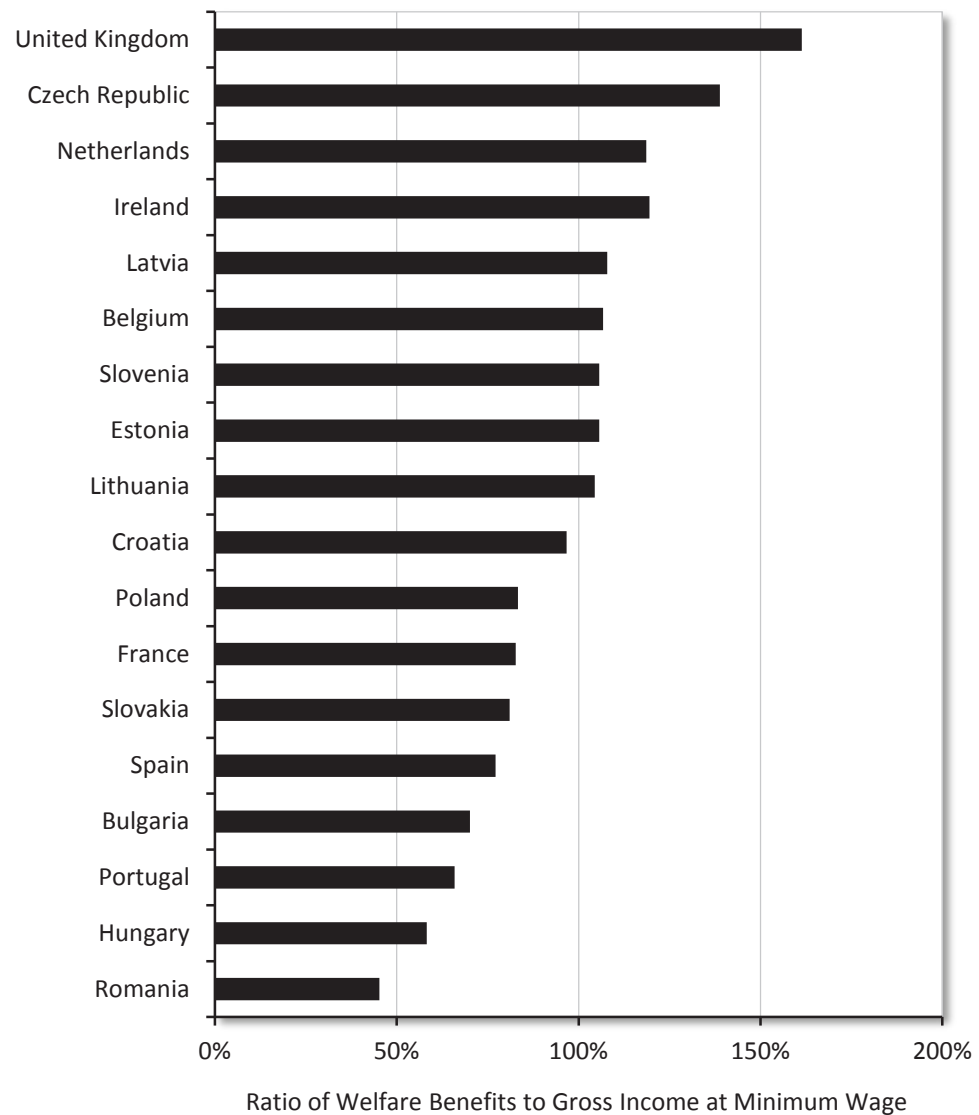
that benefits in 11 countries exceed half of the net income for someone earning the average wage in that country, and in 6 countries, it exceeds 60 percent of the net average wage income. In Denmark, it is more than 70 percent.

Given the generosity of welfare benefits, then, it should come as no surprise that some individuals choose to remain in welfare programs and out of work. If you pay someone as much for not working as they can earn by

“Given the generosity of welfare benefits, it should come as no surprise that some individuals choose to remain in welfare programs and out of work.”

“Some of the highest effective marginal tax rates are actually levied on the poor who leave welfare for work.”

Figure 4
Welfare Benefits for Single Parent with Two Children vs. Gross Income at Minimum Wage, 2013



Source: European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat; Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes.”

working, not working becomes a rational choice.

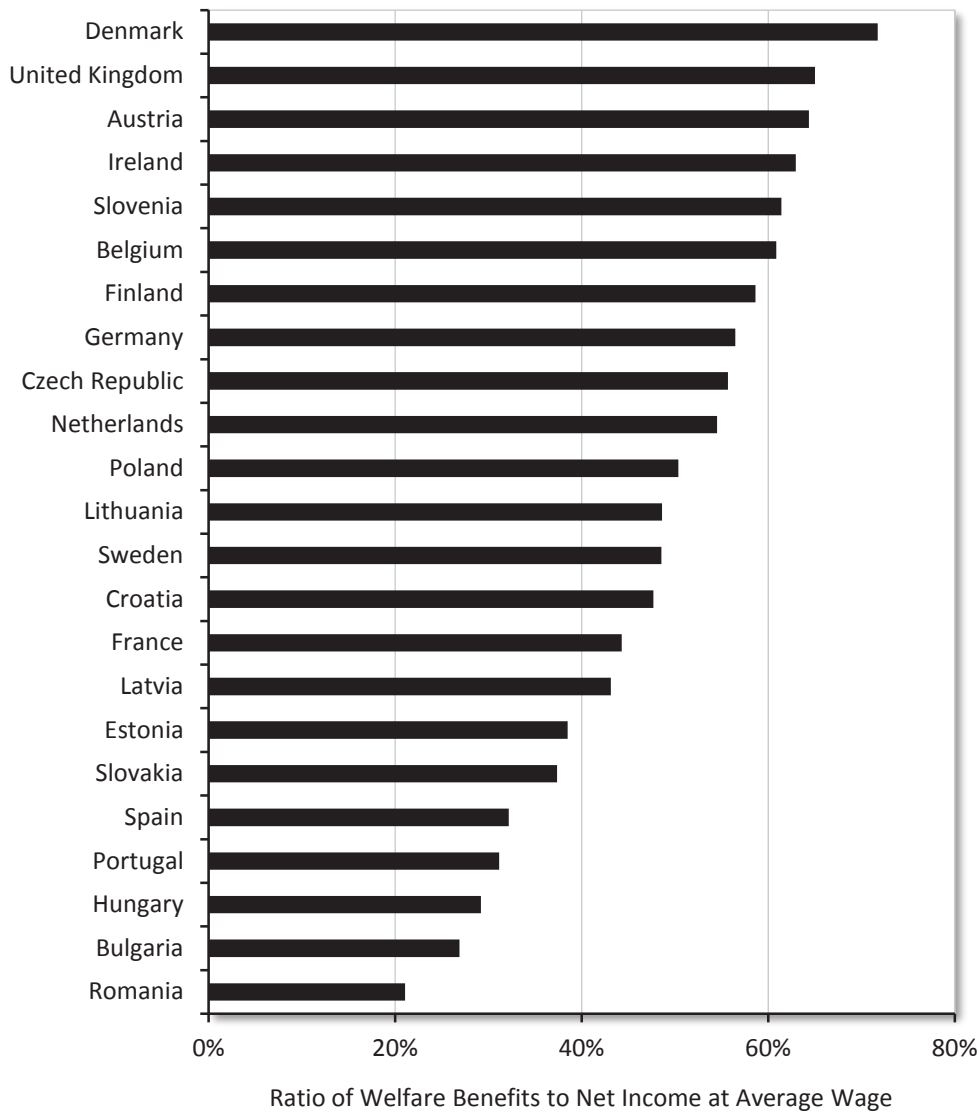
But the disincentive for work is actually greater than the simple availability of benefits while not working.

The other side of the equation is the cost associated with leaving welfare for work. Working individuals must pay taxes on the wages they earn. In addition, once they start earning wages, many of the benefits that they

were receiving are phased out or withdrawn completely. The result is that each dollar that they earn brings them far less than an additional dollar in disposable income. Economists spend a great deal of time worrying about the disincentive effects of high marginal tax rates on high-income earners. But some of the highest effective marginal tax rates are actually levied on the poor who leave welfare for work.

Figure 5
Welfare Benefits for Single Parent with Two Children vs. Net Income at Average Wage

“In Austria, Croatia, and Denmark, the effective marginal tax rate is nearly 100 percent.”



Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes.”

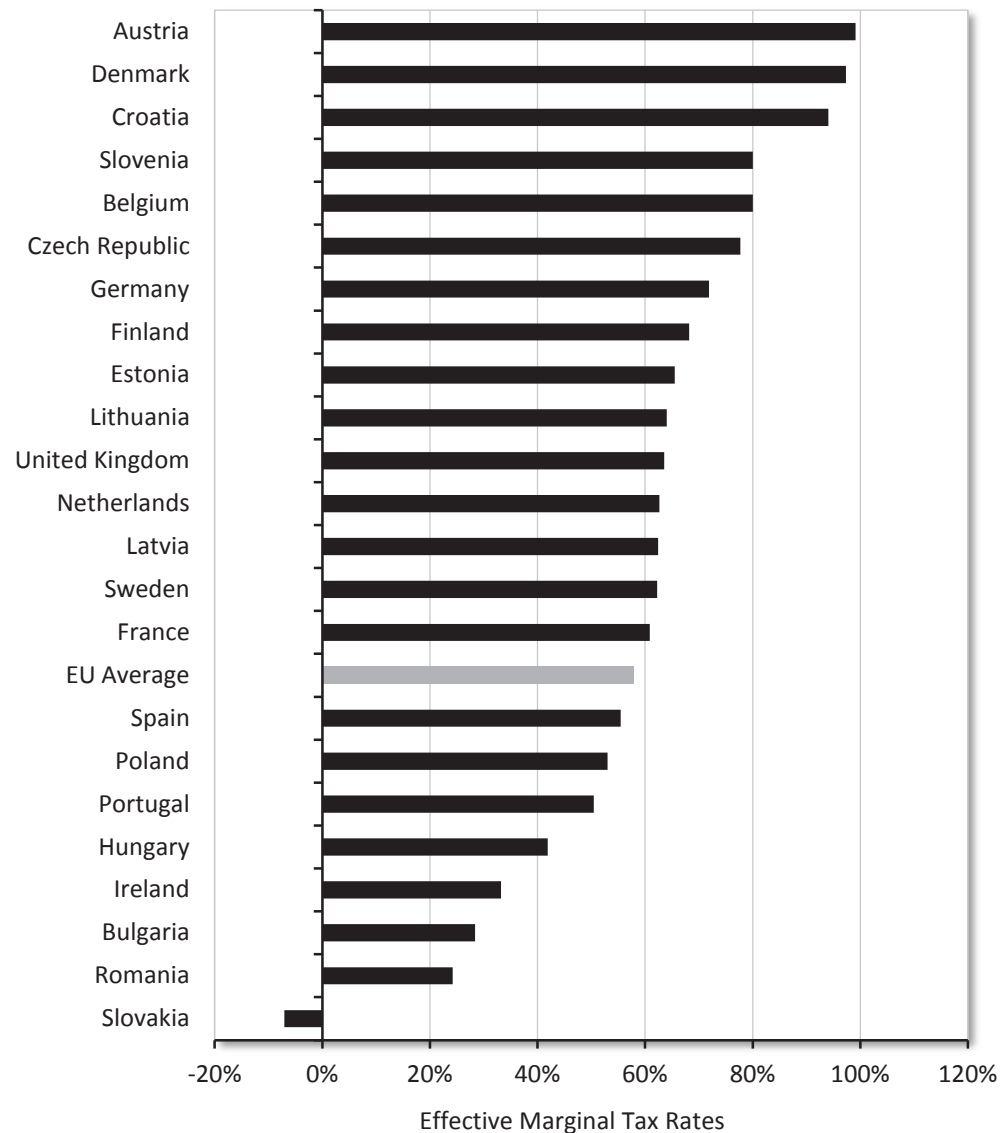
Figure 6 shows the effective marginal tax rate faced by a single parent leaving welfare for a job paying half of the average wage in each EU country we analyzed, as measured by the portion of the additional earnings lost to taxes and withdrawn welfare benefits. In Austria, Croatia, and Denmark, the effective marginal tax rate is nearly 100 percent, meaning that this single parent would gain virtually no additional disposable income from working. In

fact, given the expenses associated with work, not to mention the loss of leisure and family time, a single parent leaving welfare for work in those three countries would very likely be worse off. In another 16 countries, this person would face a marginal tax rate in excess of 50 percent. Only in Slovakia would this single parent suffer no penalty from working.

It is also worth pointing out that Figure 5 assumes a wage significantly above the mini-

“Several European countries have attempted to alleviate lack of disposable income by adopting tax credits designed to offset entry-level marginal taxes, similar in principle to the Earned Income Tax Credit (EITC) in the United States.”

Figure 6
Inactivity Trap: Effective Marginal Tax Rate for Single Parent with Two Children
Moving from Welfare to 50 Percent of Average Wage, 2013



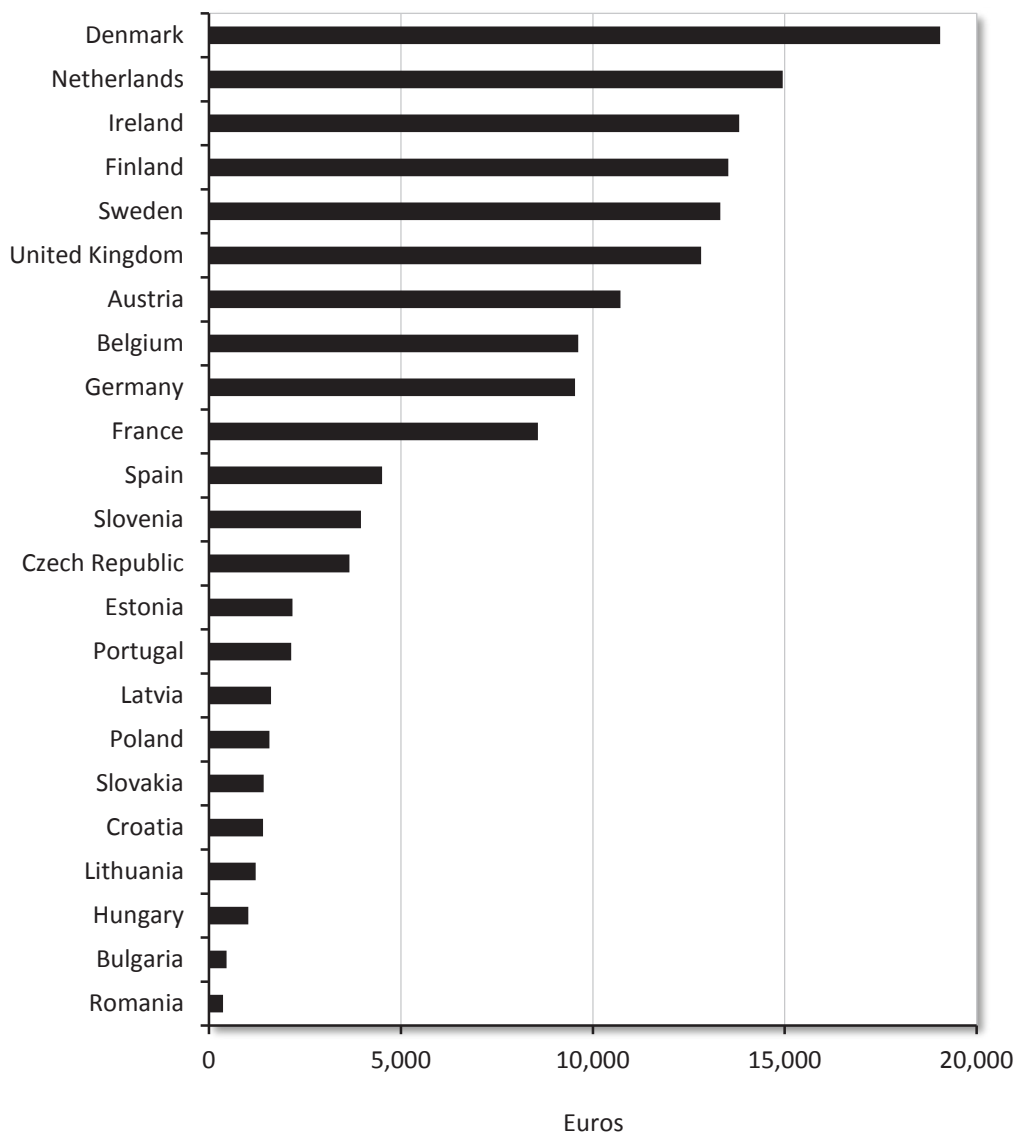
Source: European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs.

mum. Many entry-level jobs are likely to pay less than half the national average. In such cases, the increase in disposable income would be even smaller.

Several European countries have attempted to alleviate this problem by adopting tax credits designed to offset entry-level marginal taxes, similar in principle to the Earned Income Tax Credit (EITC) in the United States. In 2013, employment conditional benefits such

as the EITC were more concentrated in northern European countries. Austria, Belgium, and Germany have a time-limited, targeted supplementary bonus for the long-term unemployed returning to work. Finland has an earned income tax credit that can be used to reduce central government and municipal taxes as well as the health insurance contribution. Ireland has a benefit for families with children that meet a minimum threshold of hours worked, and the

Figure 7
Welfare Benefits for Single Childless Adult, 2013



Source: European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat; Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes.”

benefit amount is based on the difference between earned income and the household size-adjusted income limit. Before the transition to the Universal Credit, the Working Tax Credit in the United Kingdom calculated the benefit according to household and other characteristics and phased it out as gross income exceeded a threshold. Sweden also has an EITC that adjusts the benefit on the basis of earned income and local tax rates. The Netherlands

and France have a work-activated tax credit most similar to the EITC; in France, after an initial phase-in range, the benefit is calculated as 19.3 percent of earned income up to a cap, a rate very similar to the EITC.⁹

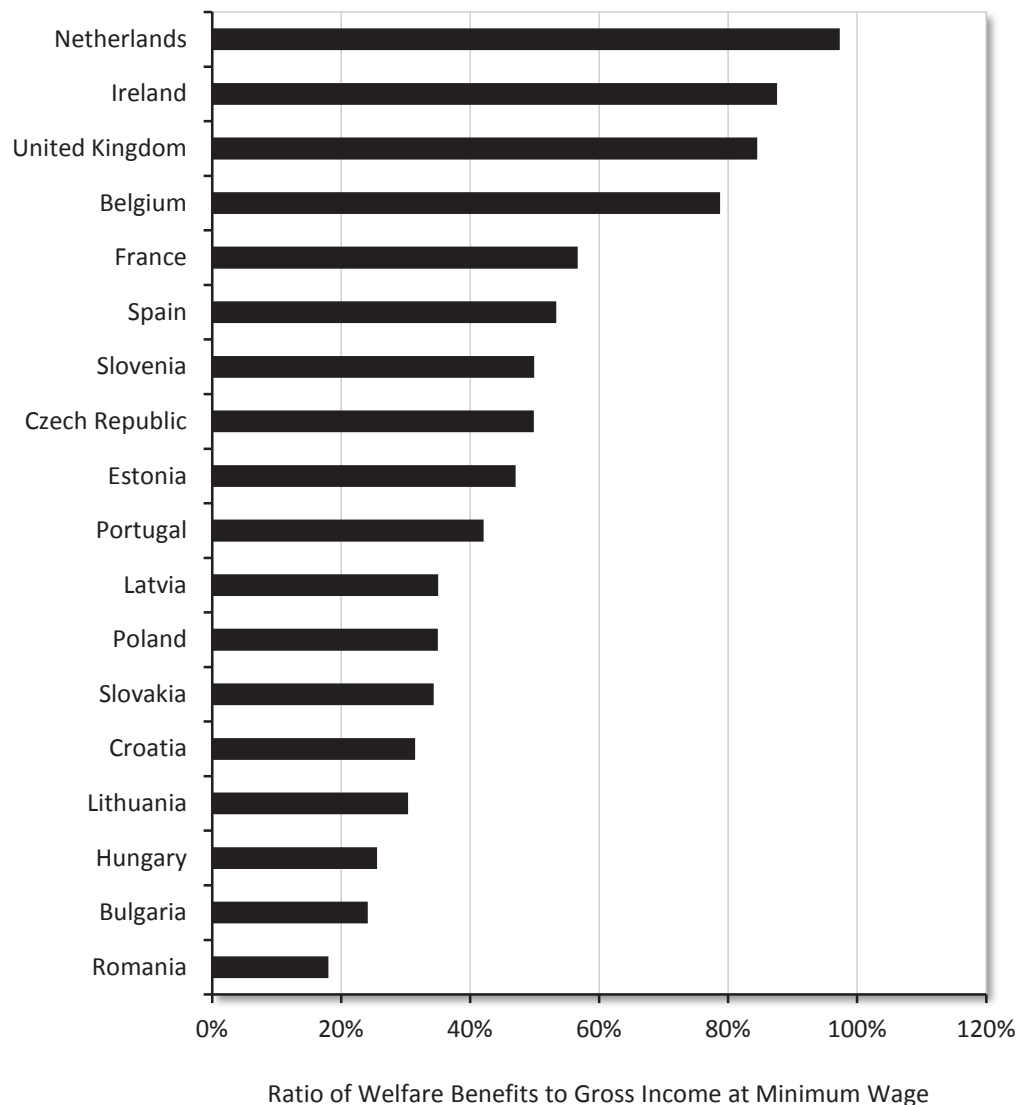
SINGLE CHILDLESS ADULTS

Benefits are significantly lower for single childless adults than for the single parent

“Benefits are significantly lower for single childless adults than for a single parent with two children.”

“Although benefits are lower in nominal terms, they remain relatively generous in many countries when measured against what an individual could earn from a minimum-wage job.”

Figure 8
Welfare Benefits for Single Childless Adult vs. Gross Income at Minimum Wage



Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes.”

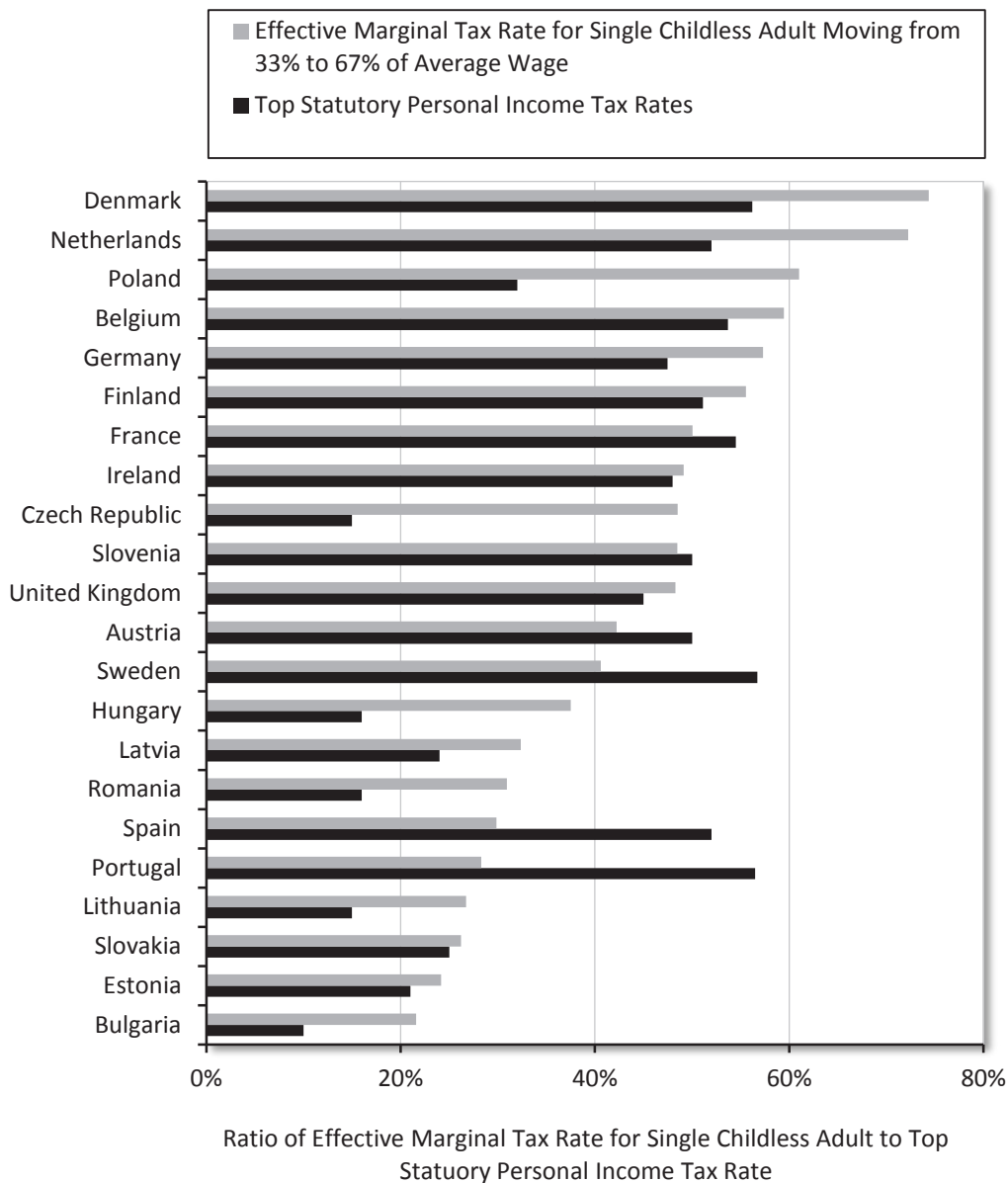
with two children used in the analysis above, although how much lower varies significantly from country to country (Figure 7). This variation is not simply a question of one person versus three; it is also a function of the relative weight that a country puts on benefits for children. Thus, the benefit package falls below €20,000 in all EU countries analyzed. Denmark, unsurprisingly, remains at the top of the measure in terms of generosity.

Although benefits are lower in nominal terms, they remain relatively generous in many

countries when measured against what an individual could earn from a minimum-wage job. In eight countries, benefits exceed half the gross income earned at the minimum wage, and benefits exceed more than 80 percent of that amount in Ireland, the Netherlands, and the United Kingdom (Figure 8).

Perhaps the high effective marginal tax rates that create these poverty traps can best be seen by comparing the rates facing low-wage workers with the highest statutory marginal tax rates intended to affect the highest

Figure 9
Effective Marginal Tax Rate for Single Childless Adult vs. Top Statutory Income Tax Rate, 2013



Source: Organisation for Economic Co-operation and Development, OECD.StatExtracts Tax Database, Table1.7; KPMG, "Individual Income Tax Rates Table"; European Commission, "Tax Rate on Low Wage Earners—Low Wage Trap," Eurostat.

earners in the country. In 16 out of the 22 countries with relevant data, a single person with a low-wage job paying a third of the average wage whose earnings increase to two-thirds of the average wage faces an effective marginal tax rate equal to or higher than the country's top statutory marginal rate (Figure 9).¹⁰ For example, Denmark had one of the highest top statutory income tax rates in the world at 56.2

percent in 2013, but a single person in a low-wage job faces an effective marginal tax rate of 74.4 percent—far higher.¹¹

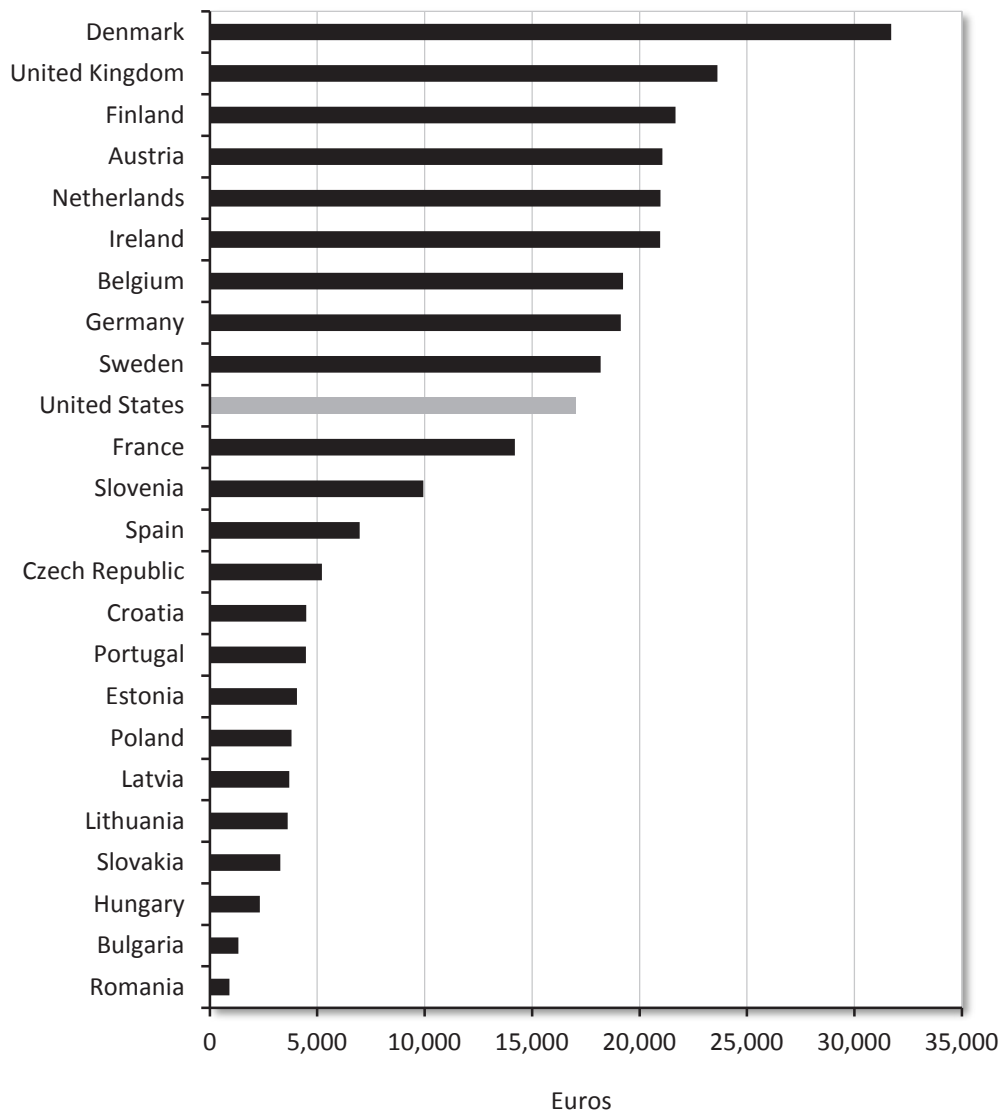
EUROPE VERSUS THE UNITED STATES

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“The raw value of a comparable basket of welfare benefits in the United States varies significantly from state to state.”

“Contrary to stereotypes, U.S. welfare benefits are more generous than those in many European countries.”

Figure 10
Welfare Benefit Comparison, Single Parent with Two Children, 2013



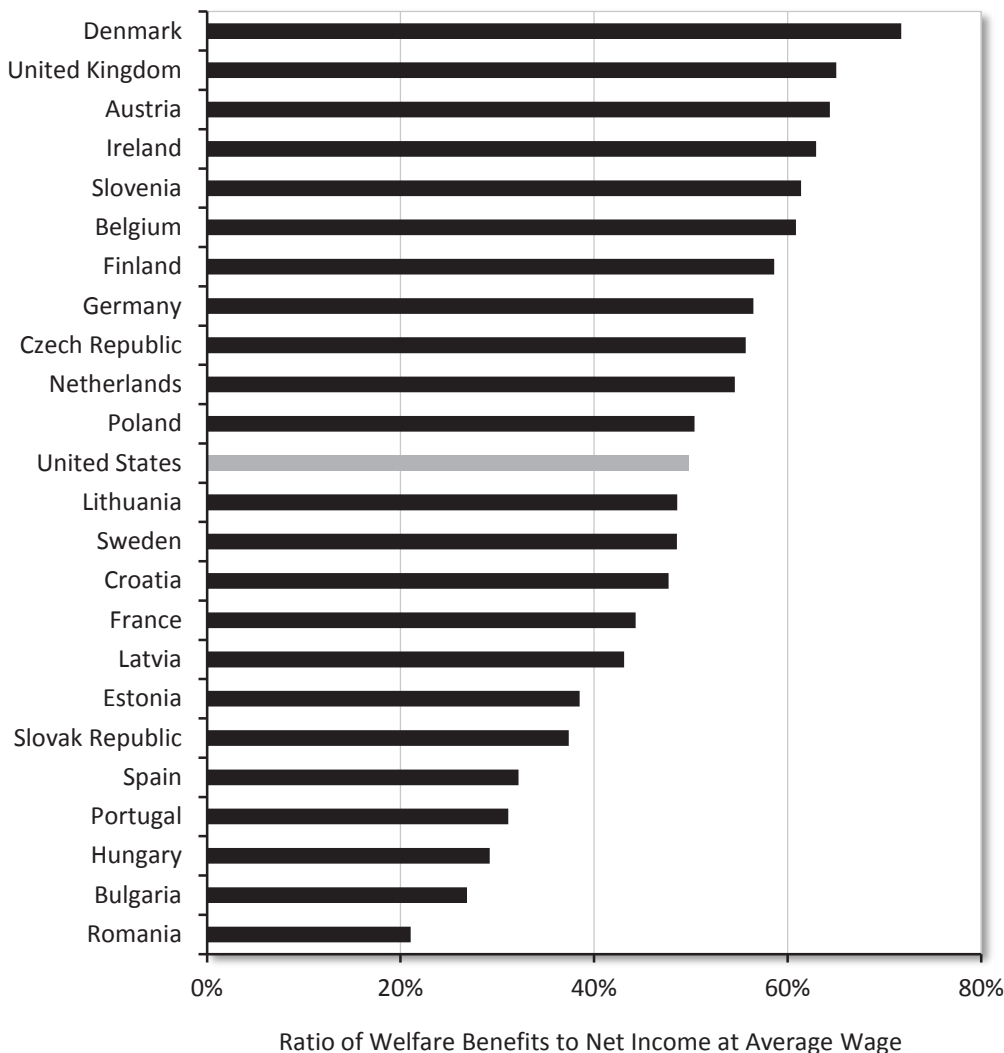
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes”; Michael Tanner and Charles Hughes, “The Work Versus Welfare Trade-Off: 2013,” Cato Institute White Paper, August 19, 2013.
Note: U.S. package excludes Medicaid benefit.

cantly from state to state, ranging from a low of \$16,984 (€14,096) in Mississippi to a high of \$49,175 (€40,815) in Hawaii. The national average (unweighted for beneficiary population) is roughly \$28,122 (€23,341). In this comparison, the average welfare package in the United States is actually the third most generous, smaller than only Denmark and the United Kingdom.

Contrary to stereotypes, U.S. welfare benefits are more generous than those in many European countries normally associated with

a sprawling welfare state.

That fact is somewhat misleading however, because the U.S. benefit package includes Medicaid, which is a means-tested health care program. In EU countries, health care is provided on a universal basis and therefore is not included in the commonly defined European package. If we strip Medicaid out of the U.S. package to provide a more apples-to-apples comparison, the United States would rank 10th, above France and below Sweden (Figure 10).

Figure 11**Welfare Benefits for Single Parent with Two Children vs. Net Income at Average Wage, 2013**

Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes”; Michael Tanner and Charles Hughes, “The Work versus Welfare Trade-Off: 2013,” Cato Institute White Paper, August 19, 2013.

Note: U.S. package excludes Medicaid benefit.

Measured as a share of average national income, the United States ranks 12th (Figure 11).

As we saw in “The Work Versus Welfare Trade-Off,” U.S. states vary significantly in the generosity of their benefits, unlike EU countries, which generally have a single nationwide set of benefits. Still, 35 U.S. states offer a package that is more generous than the mean benefit package offered in the European countries analyzed. And U.S. states would be 10 of the 15 most generous jurisdictions if measured against European

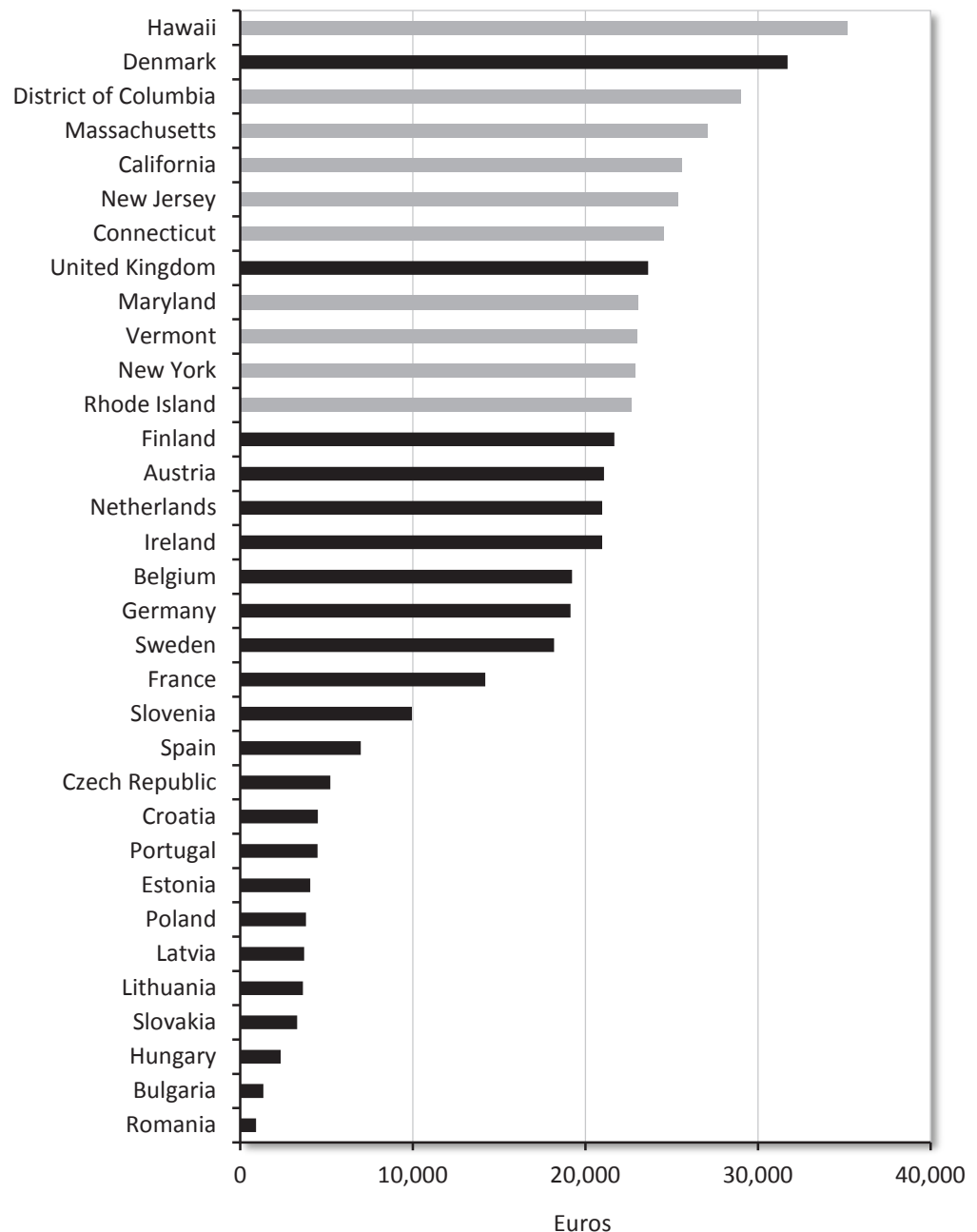
countries. Figure 12 shows how the most generous U.S. states would fit into the EU context.¹²

Overall, then, the United States appears to fit comfortably into the mainstream of welfare states, at least when it comes to programs for the poor. Moreover, some especially generous states provide a richer basket of benefits than do many European countries. The image of a parsimonious United States compared with a lavish European welfare state proves more stereotypical than true.

“Overall, the United States appears to fit comfortably into the mainstream of welfare states.”

“Most European countries do have some work-related requirements for the social assistance component.”

Figure 12
Welfare Packages in Most Generous States Relative to European Countries



Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes”; Michael Tanner and Charles Hughes, “The Work Versus Welfare Trade-Off: 2013,” Cato Institute white paper, August 19, 2013.

Note: Medicaid is excluded from the U.S. packages seen in Tanner and Hughes.

SOME STEPS IN THE RIGHT DIRECTION

Most European countries do have some work-related requirements for the social assistance component. Almost every country analyzed requires beneficiaries to register with an

unemployment office, to look for work, and to accept job offers. Failure to meet those requirements can lead to sanctions and the suspension, or even termination, of benefits. However, the strictness with which those requirements are enforced varies greatly.

It should be noted, though, that a requirement to look for work and accept job offers has less practical meaning in a country with rigid labor markets and very high unemployment. A beneficiary may look for a job without finding one or receiving an offer of employment for months or even years, collecting benefits and doing little to improve his or her prospects in the meantime. Fifteen countries in the European Union had an unemployment rate above 10 percent in 2013, meaning the job search requirements, absent other measures, could be relatively ineffectual in a practical sense.¹³

In some countries, mostly concentrated in northern and eastern Europe (although Portugal has also developed a fairly robust “integration contract” for receipt of social assistance that must be completed within 60 days), beneficiaries must develop a strategy to transition back to the labor force and participate in active employment programs such as job training or public service, if so directed.¹⁴ Unlike the United States, which has a lifetime benefit limit for TANF, in most of those European countries, social assistance and minimum income benefits can be given for an unlimited duration, as long as income and work requirement conditions are met. As seen with the work requirements, some countries have made more progress than others in improving this aspect of the welfare system. For example, Lithuania continues social assistance for a brief time for those who move into employment to make the transition to work smoother and more attractive, while benefits are reduced for long-term recipients. In Bulgaria and the Netherlands, applicants must register for benefits for a period during which they must accept any job offer before they receive benefits.¹⁵

More recently, however, several countries have begun to recognize that the generosity of their welfare programs is creating a barrier to work. As a result, some have begun to reform their welfare systems. Figure 13 shows the recent progress or regress that different countries have made regarding the inactivity trap, which to some extent measures the barriers to work in a welfare system. As the figure shows,

there is a significant degree of variation, while the EU as a whole has become slightly worse in this regard.

Many of the major countries in the EU, such as France and Germany, saw relatively little change in their inactivity trap rates. Some other member states such as Slovenia, Slovakia, and Hungary made significant progress in ameliorating this inactivity trap. Others, such as Ireland and Estonia, actually made the inactivity trap much worse over this period. It is important to note that this figure captures changes only up until 2013, so the effects of more recent reforms are not reflected here.

Much, however, has taken place since those data were compiled. Leading the way in the period not covered is the United Kingdom, which is consolidating its six major welfare programs (the Jobseeker’s Allowance, the Income Support, the Employment and Support Allowance, the Child Tax Credit, the Working Tax Credit, and Housing Benefit) into a single grant. In doing so, the UK has now capped the new consolidated grant at no more than £500 per week (about \$40,000 a year) for a family and just £350 (about \$29,000 a year) for single individuals.¹⁶

The Department for Work and Pensions (DWP) estimates that as many as 40,000 households—about 1.6 percent of those receiving benefits—will have their total benefits reduced as a result of the benefit cap.¹⁷ The idea, according to work and pensions secretary Iain Duncan Smith, is that “benefits should be a safety net—but not something that gives claimants an income out of reach of many hard-working families.”¹⁸

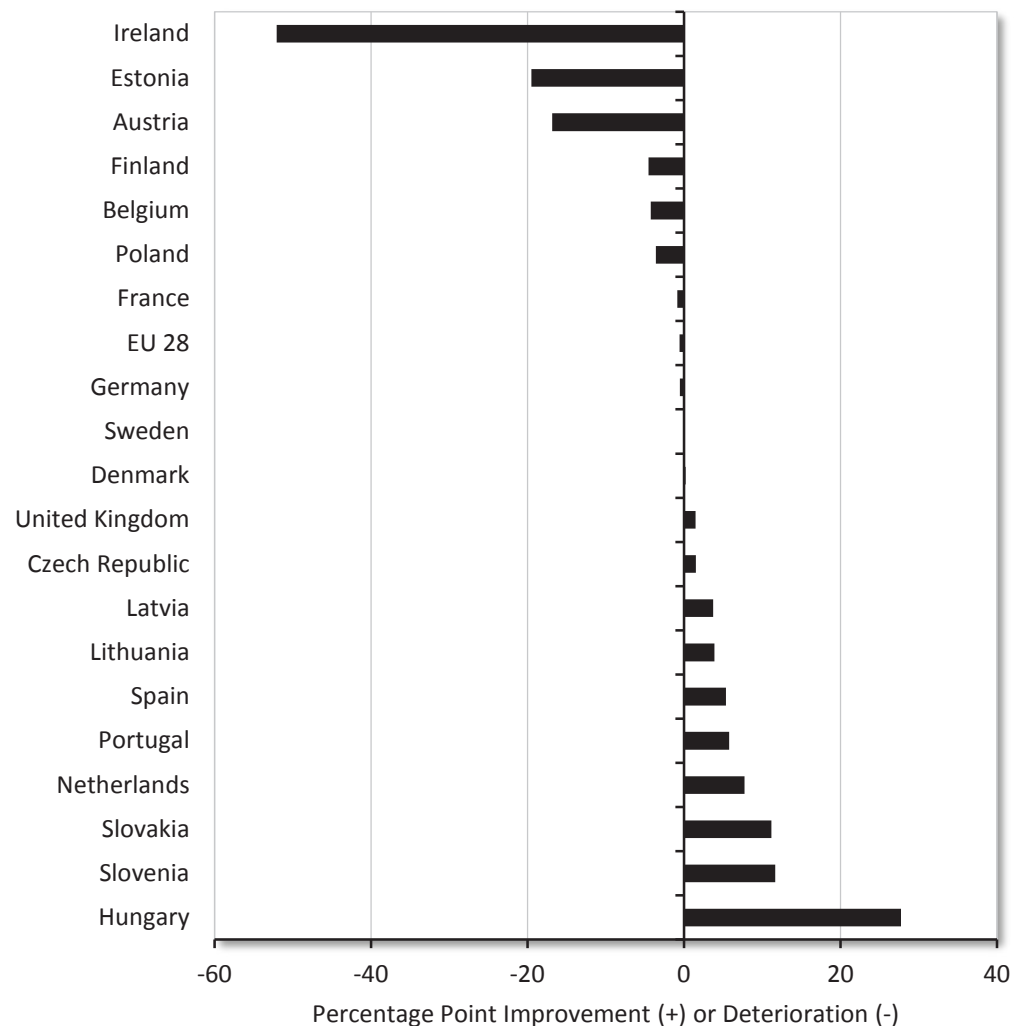
At the same time, by moving away from a patchwork of different programs to a single Universal Credit, Britain will shift welfare payments to put a greater emphasis on children. The DWP estimates that the consolidation means some 2.8 million British households, mostly couples without children, will eventually receive lower benefits (although current recipients are being held harmless during the transition), while some 3.1 million households will actually get more money.¹⁹

“A requirement to look for work and accept job offers has less practical meaning in a country with rigid labor markets and very high unemployment.”

“The poor will be treated like adults, with responsibility for their own finances, rather than childlike wards of the state.”

Figure 13

Change in Marginal Effective Tax Rate for Single Parent with Two Children Moving from Inactivity to 50 Percent of Average Wage, 2007–2013



Source: European Commission, “Inactivity Trap,” Tax and Benefit Indicators Database.

Note: EU 28 = The European Union’s current size of 28 member countries.

Moreover, the benefits will now be paid in a monthly lump sum, rather than weekly or biweekly, and will be paid directly to the recipient rather than to intermediaries such as landlords. The poor will be treated like adults, with responsibility for their own finances, rather than childlike wards of the state. And there will be a greater overall emphasis on moving recipients from welfare to work. “We want to help people find a job and move away from benefits,” Duncan Smith explained.²⁰

Although the program has yet to be rolled out nationwide, and to date only the simpler childless adult cases are being taken, interim reports show that these changes are making a difference. To claim the Universal Credit, potential recipients have to agree to a Claimant Commitment, an agreement that their work coach at the local job center helps tailor to them that establishes the requirements for receiving the Universal Credit, such as work search and the consequences of failing to comply.²¹

In a recent survey of Universal Credit recipients, 61 percent said it was easier to understand what they were required to do, 63 percent of respondents said the Universal Credit provided better financial incentives, and 64 percent said it better regarded small amounts of work compared with its predecessor, the Jobseeker's Allowance.²² Ninety percent responded that some or all of the actions agreed to in the Claimant Commitment would genuinely increase chances of finding work, while almost all of the respondents felt these actions would be checked by their local job center. Although these changes in attitudes and perceptions are good, outcomes matter more than words. Fortunately, those in the Universal Credit spent 26 hours on work-related activities compared to just 17 for their comparators in the old system and applied to more jobs as well.²³

Another report from the DWP compared Universal Credit claimants with “similar people making similar claims to [the old] JSA [Jobseeker's Allowance] at the same time in similar areas” in the four months after they made their initial claims. The report found that Universal Credit claimants were 5 percentage points more likely to work, spent an average of four more days in work in the first four months after the start of their claim, and earned about £50 more on average.²⁴

Meanwhile, in the Netherlands, already tough work requirements may become even tougher. Welfare applicants will now be required to prove that they spent at least four weeks actively searching for a job before they become eligible for any assistance. And once they begin to receive benefits, they will have to either work or perform volunteer community service.

In a direct effort to “mak[e] the transition from social benefits to labour participation financially more attractive,” the Netherlands has increased the employed tax credit for low-income people significantly. The country has increased the maximum credit from €1,611 in 2012 to €2,097 in 2014, with scheduled increases to €2,559 in 2017.²⁵ Another reform that took effect in January 2015 consolidated

11 child benefit programs into 4, the result being that “single parents on benefits will be given an incentive to work, where in the old situation they would have suffered financially by making the transition from benefits.”²⁶

Croatia, the most recent addition to the EU, has pursued some of the most comprehensive reforms. Like the United States, Croatia had a complex and inefficient series of programs that composed its welfare system; that system was made up of some 80 different programs, administered jointly by eight national-level ministries and more local governments. As detailed in a recent European Commission working document, “The lack of a clear overview and adequate targeting of social protection benefits, coupled with their ineffective and untransparent allocation, often results in inactivity traps” and creates disincentives to work.²⁷

In an effort to begin to address the serious shortcomings of their welfare system, in 2013 the country introduced a guaranteed minimum benefit (that consolidated four different programs (social assistance benefits, two war veterans' benefits, and the extended unemployment benefit). In addition, Croatia established a benefit cap to ensure that the maximum amount of benefits “may not exceed the minimum gross salary in the country” and also established a new three-month transitional period for social assistance recipients who find employment to reduce the effective marginal tax rate and make the work more attractive.²⁸

Slovakia imposed a minimum number of hours that beneficiaries must participate in labor-market activation activities to receive benefits—64 hours a month. Inactive low-income people who have been receiving social assistance who start work will continue to receive benefits for six months. Part of the aim of these reforms has been to ensure that a household with someone working has more net income than one without workers, and this gap increased significantly with these reforms: in most household compositions, the difference increased by more than €100 from 2013 to 2014.²⁹ Slovakia also consolidated many of its overlapping active labor-market programs de-

“In the Netherlands, already tough work requirements may become even tougher.”

“Belgium introduced streamlined, personalized job search assistance for able-bodied beneficiaries.”

signed to transition people to work, terminating 11 of the country’s duplicative programs.³⁰

The Czech Republic abolished the social allowance that was given to the lowest-income families with children (although it continues for those with physical disabilities) and significantly reduced the birth grant so that it applies only to the first child and is means tested.³¹

In 2012, Belgium introduced streamlined, personalized job search assistance for able-bodied beneficiaries, similar to the individual case-worker plan envisioned for the United States in the proposal by Rep. Paul Ryan (R-WI).³²

In an attempt to encourage work, Denmark introduced a tax-free wage enhancement for single parents who enter work after having been long-term unemployed or receiving cash, rehabilitation, or sickness benefits for more than one year.³³ In 2013, the country reformed social assistance for people under age 30. Instead of funneling them into the broader social assistance system, those with lower educational attainment get education subsidies instead. Those not deemed eligible or ready for further education get continued cash assistance but are required to participate in education and training offers, and all recipients are required to “contribute to the community in public or private service jobs.”³⁴

Ireland has taken some steps to address the 23.9 percent of people living in households with low-work intensity, which is the highest in the EU and more than double the EU average. Starting in 2015, a household that increases its earned income can continue to receive the family income supplement for a certain amount of time; previously, the payment was discontinued as soon as earnings reached an upper limit, exacerbating the inactivity trap.³⁵ The country is also in the process of reforming housing assistance in an attempt to address the benefit cliff there, as in the previous system, claimants lose benefits as soon as they work more than 30 hours a week.³⁶

Lithuania introduced a transitional wage supplement for long-term social assistance recipients with children who move to work, in

an effort to make the transition to work more attractive.³⁷ The country also reduced the benefit duration for social assistance, from 36 months to 12 months, and benefits are reduced proportionately to length of benefit spell: between 12 and 24 months, a reduction of 20 percent is applied in the guaranteed minimum income rate; between 24 and 36 months, a 30 percent reduction; between 36 and 48 months, a 40 percent reduction; and between 48 and 60 months, a 50 percent reduction.³⁸ Lithuania had previously established a pilot program devolving the administration of cash assistance to the municipal government level, where those municipalities were given the flexibility to adjust benefit levels and set their own rules. In 2013, Lithuania expanded the program nationwide, to take effect in January 2014.³⁹

Although it is still early to draw too many conclusions from these reforms, some interim results, especially with the earlier pilot projects, can be seen. Much like the flex funds that Sen. Marco Rubio (R-FL) has recommended for the United States, Lithuania gave municipalities the power to reallocate a block grant of federal funds to different social assistance programs, and resources not used for cash benefits could be used for other purposes (although, unlike Rubio’s plan, Lithuanian municipalities can reallocate those unused funds to things other than poverty reduction and social assistance).⁴⁰ Recent analyses, including a European Commission working document, find that social benefits expenditure and the number of recipients fell by 25 percent in the first quarter of 2014 compared with the year before, although they caution that the main driver of that reduction is not yet clear. Assistance could be allocated or targeted more efficiently, the broader improvement to the economy could reduce the demand for this assistance, or it could be the result of more restricted access, as those municipalities do have the ability to reallocate unused funds for other things.⁴¹

Slovenia has lately undertaken several diverse reforms. It has increased the minimum income benefit, established a “one-stop shop” for all programs, begun counting other bene-

fits received in the calculation, and introduced a new scale that allows for continued benefits when beneficiaries take up work. That new scale ensures that household income in a working scenario is always higher than a non-working one.⁴² Over a longer term, Slovenia has reduced the low-wage trap for the single parent with two children moving from one-third to two-thirds of the average wage. In 2001, this person would have lost almost all the gains from the increase in earnings, as he or she faced a 99 percent effective marginal tax rate, but that fell to 62 percent by 2012.⁴³

Portugal has enacted reforms in both directions. The country expanded education-related supports in the form of free school meals, textbooks, and transportation. It also indexed family benefits to increase annually. In 2012, the Portuguese government passed a reform package requiring welfare recipients between ages 18 and 60 to accept up to 15 hours of unpaid work per week in institutions of the social sector or in the public administration.⁴⁴ Caution should again be exercised when looking at any of the data for recent reforms, but the number of recipients has declined from more than 338,000 in October 2012 to roughly 210,700 in December 2014. Caseloads declined to some extent in the previous year, but we do not yet know how big a role this one policy change played in the reduction relative to other unrelated factors.⁴⁵

Sweden has recognized that its welfare system makes transitioning to work unattractive for many recipients because of high effective marginal tax rates, and it adjusted its benefit calculations so that only a part of labor income is included in eligibility tests for benefits: for those having received income support for six consecutive months, 25 percent of income from employment will not be taken into account when assessing their entitlement to social assistance. As the European Commission explains, “The main objective of the reform is to strengthen incentives for social assistance recipients to start working or to extend their current working time.”⁴⁶

On the other hand, some countries are taking steps in the other direction. Estonia, often

praised for the way it navigated through the crisis, has raised benefits and increased the minimum wage by roughly 35 percent since 2012.⁴⁷ Two of the central member states of the EU, France and Germany, have for the most part failed to match the improvements in some of the other member states. France removed age restrictions for social assistance eligibility and announced plans to build 15,000 new buildings a year over a period of three years to “support access to housing by young people especially those under 30.”⁴⁸

On the other hand, France has announced plans to merge the earned income supplement (*revenu de solidarité active*) and the employment bonus (*prime pour l'emploi*) into one benefit, the *prime d'activité*, starting in January 2016. The change is intended to simplify the system and better reward work while also making younger people who work a significant amount eligible for the new program. The new benefit would be paid monthly and would be linked to earnings and household resources.⁴⁹ Although this change could end up being a step in the right direction, it remains to be seen how this reform will be implemented in practice, and it still makes up only one small component of the overall welfare system in France.

Finally, Germany increased the minimum income benefit, imposed a new national minimum wage, and introduced new benefits such as a school lunch benefit for children from low-income households and a “child-rearing benefit.”⁵⁰

CONCLUSION

Poor people are not lazy. But they are also not stupid. Like everyone else, they respond to the incentives they face. If work brings little or no gain, many will choose not to work.

Welfare benefits in many EU countries are quite high compared to the wages that a recipient could expect to earn from a low-wage or entry-level job. Effective marginal tax rates for many of these people exceed the marginal income taxes facing the top earners in their country. As a result, it is likely that many beneficiaries choose welfare over work.

“France and Germany have, for the most part failed, to match the improvements in some of the other member states.”

“Many European countries have at least begun to recognize the problems with their welfare systems.”

As noted, benefits tend to be higher in countries with more flexible labor markets. This trade-off between benefits and labor-market flexibility makes it difficult to draw any effective correlation between benefit levels and unemployment rates. In addition, unlike the United States, EU countries do not actively track the percentage of welfare recipients working or looking for work. Still, both common sense and a review of the relevant economic literature suggest that benefits of the level available in some EU countries, and the way the different programs interact to create high effective marginal tax rates, serve as a disincentive for work. The degree of disincentive can be debated, but its existence cannot.

That disincentive is unfortunate for taxpayers who must foot the bill for such programs, but even more so for the recipients themselves. By making a rational short-term choice, recipients who forgo work for welfare may trap themselves and their families in long-term dependence.

Many EU countries have recognized the problem and have begun reforming their welfare systems. For example, several countries have strengthened their requirements that recipients look for work or accept employment when offered. Others have established time limits for benefits. Still others have established work-based tax credits or transitional assistance to increase the value of work compared with benefits. In many cases, these reforms are tentative, but they are steps in the right direction.

Even so, few countries have tackled the underlying problem of excessively high benefits. And some of the countries with the worst work-versus-welfare problem, such as Denmark, have been among the most modest in reforming their welfare programs.

There should clearly be a public policy preference for work over welfare. Therefore,

countries that are serious about reducing welfare dependency and rewarding work should consider strengthening work requirements, establishing time limits for participation, and tightening eligibility. Perhaps more important, countries should examine the level of benefits available and the effective marginal tax rates created in their welfare system with an eye toward minimizing those disincentives and encouraging work.

Many European countries have at least begun to recognize the problems with their welfare systems, and some have even taken the first steps to address some of them. In that sense, despite the conventional wisdom that welfare in Europe is more expansive and generous than in the United States, at least some of these countries are further along than the United States with regard to reform. In both instances, much more work needs to be done.

APPENDIX

For each country detailed in this appendix, the relevant programs are listed in the table, along with the program's classification and a brief description. What follows is a breakdown of the welfare package available for a nonworking parent with two children by type of program: social assistance, income tax (or refundable tax credits), social contributions, housing benefit, and family benefits.

Following that are two charts comparing benefit packages for a single childless adult and the hypothetical family analyzed earlier; these benefit packages are compared with other relevant metrics as well as the inactivity trap. Next is a figure showing how much a single parent with two children would see his or her net disposable income increase by moving to different levels of the average wage. Finally, there is some information about unemployment and labor markets.

INDIVIDUAL COUNTRY INFORMATION

AUSTRIA

| Program | Type | Description |
|-------------------------------------|--------------------|---|
| Bedarfsorientierte Mindestsicherung | Social Assistance | Persons are eligible only if they cannot support themselves and their dependents, respectively, through other resources (e.g., income, social insurance) or assets. |
| Alleinerzieherabsetzbetrag | Tax Credit | Tax credit is refundable; can be paid out as a negative income tax. Credit amount varies by number and age of children. |
| Wohnbeihilfe | Housing Assistance | Supplementary housing benefit is calculated as the difference between countable housing expenditure and “reasonable housing expenditure.” |
| Familienbeihilfe | Family Benefits | Monthly family allowance benefit is adjusted by age of child. |
| Schulstartgeld | Family Benefits | Additional payment in September of €100 for each child between the ages of 6 and 15. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Austria,” <http://www.oecd.org/els/soc/at.zip>; Statistik Austria, “Bedarfsorientierte Mindestsicherung,” http://www.statistik.at/web_de/statistiken/soziales/sozialleistungen_auf_landesebene/bedarfsorientierte_mindestsicherung/index.html; Bundesministerium für Finanzen, “Alleinverdiener-und Alleinerzieherabsetzbetrag,” <https://www.bmf.gv.at/steuern/familienkinder/alleinverdiener-und-alleinerzieherabsetzbetrag.html>; European Commission, “Österreich—Familie,” <http://ec.europa.eu/social/main.jsp?catId=1101&langId=de&intPagelId=2363>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €21,070 | €10,722 |
| Percentage of net income at average wage | 64.4 | 39.0 |
| Percentage of gross income at minimum wage | n/a | n/a |

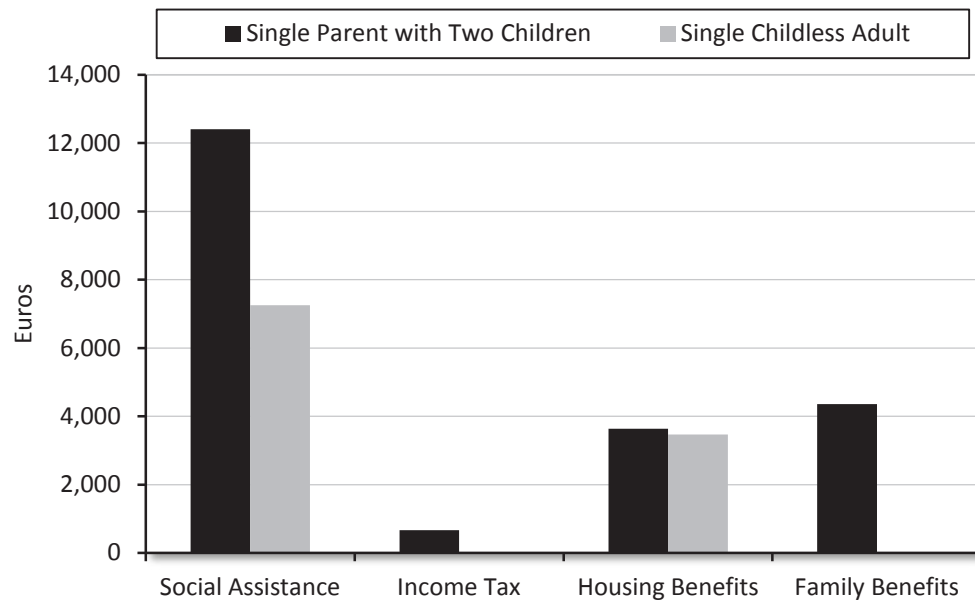
Sources: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|----------|
| Fraser/Cato, 2012 | 6.2/10 |
| Heritage, 2013 | 80.4/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

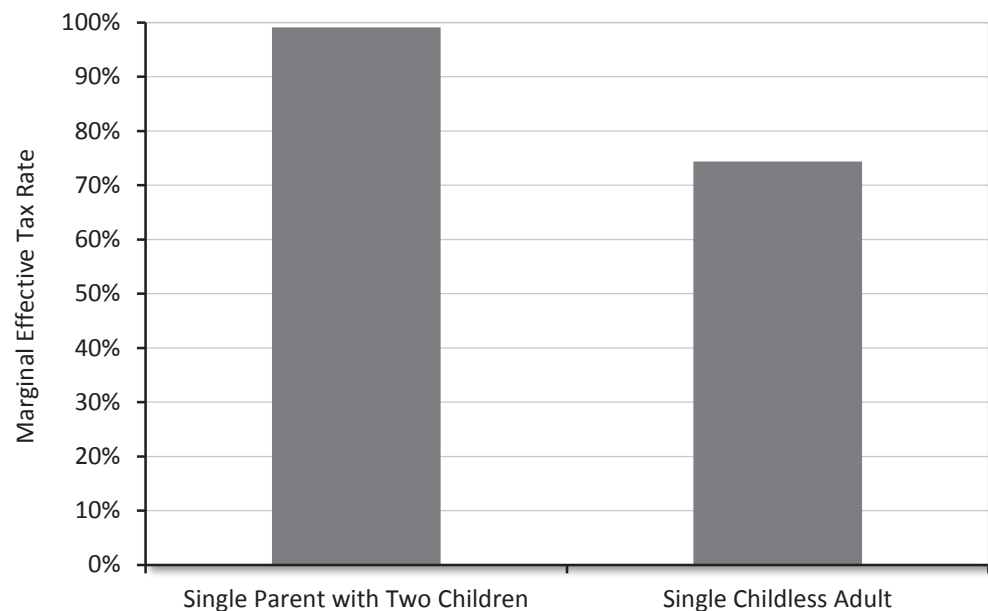
AUSTRIA *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

BELGIUM

| Program | Type | Description |
|---|-------------------|--|
| Revenu de Moyens d'Existence et d'intégration (Minimex) | Social Assistance | Minimex, or social assistance benefits, are only granted after exhausting all other options, such as pensions, unemployment, disability, and family allowances. The program is means tested and granted only to those age 18 and older, although there is an allowance if a person below that age threshold has a dependent child. |
| Allocation Familiale Garantie (AFG) | Family Benefits | Family benefit is granted to households with dependent children up to age 18, or up to age 25 if they are in school. |
| Quotités exonérées pour enfant | Tax Credit | Dependent-child exemptions in excess of available income give rise to a reimbursable tax credit. This reimbursable tax credit is calculated at the marginal rate for the spouse with the highest income and capped at €430 per dependent child. |

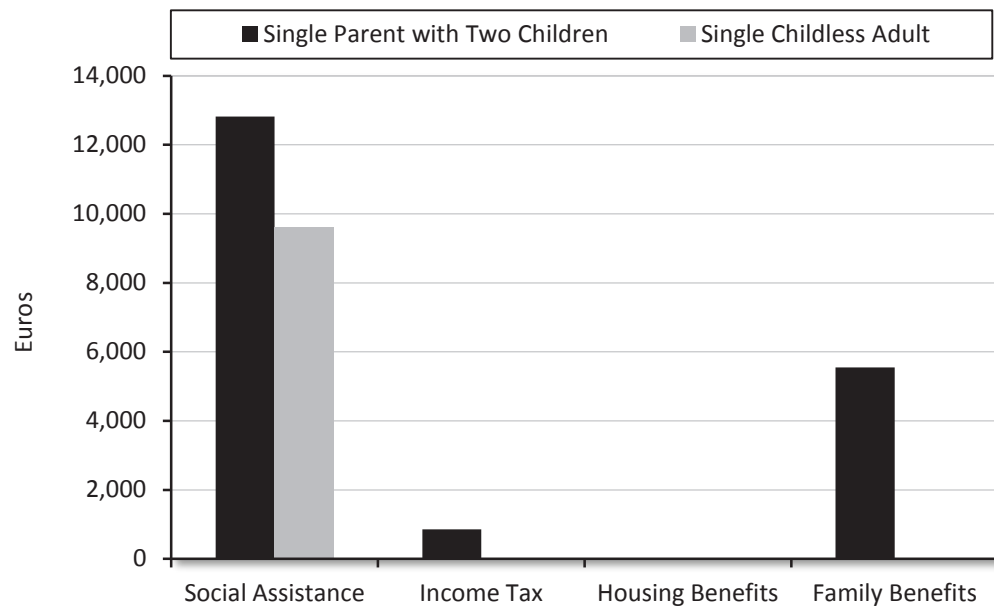
Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Belgium," <http://www.oecd.org/els/soc/be.zip>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|------------------------------------|---------------------------|
| Welfare package | €19,228 | €9,616 |
| Percentage of net income at average wage | 60.8 | 36.1 |
| Percentage of gross income at minimum wage | 106.7 | 53.4 |

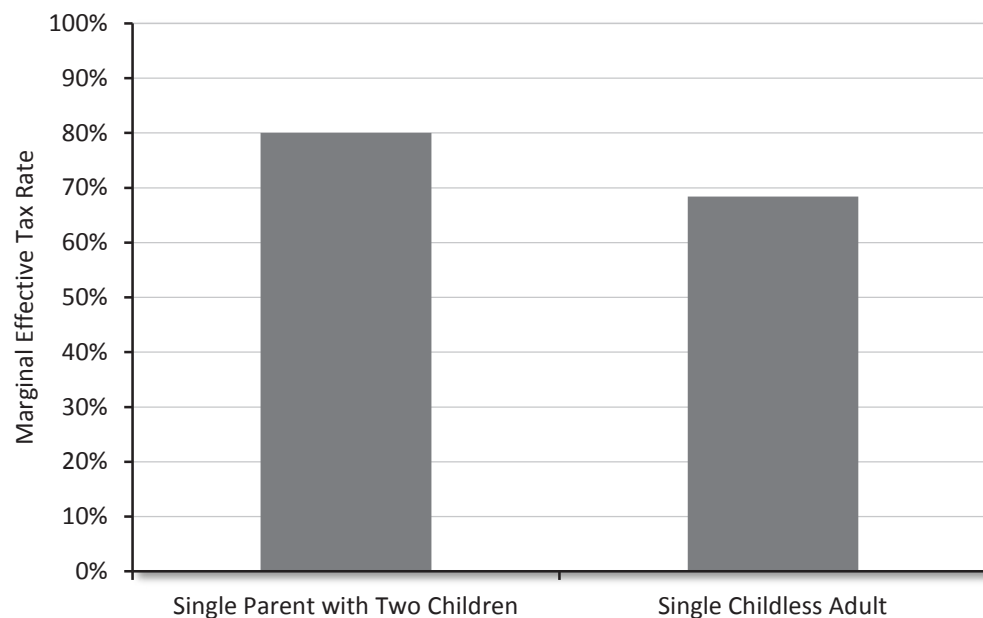
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.41/10 |
| Heritage, 2013 | 69.80/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

BELGIUM *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

BULGARIA

| Program | Type | Description |
|-------------------------------------|-------------------|---|
| Гарантираният минимален доход (ГМД) | Social Assistance | Cash assistance is given to households whose income for the preceding month was below the defined minimum income as determined by an Act of the Council of Ministers. There are restrictions on property and living conditions, and the applicant must have been registered at the employment agency for six months and cannot have refused a job offer or education and training. |
| Месечна помощ за деца | Family Benefits | Households with a dependent child under age 18 are eligible, and benefits continue to be available up to age 20 if the child is in secondary education. Some benefits depend on family income, and others are universally available. There are other irregular payments, such as one-time financial support at pregnancy and at the birth of a child and monthly support when the child is younger than one year old. |

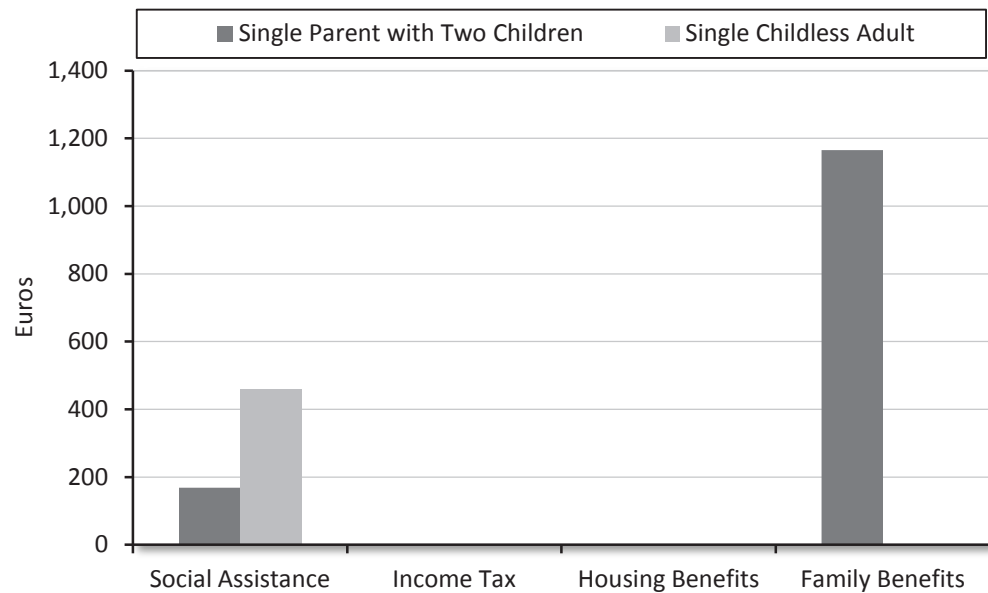
Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Bulgaria," <http://www.oecd.org/els/soc/bg.zip>; European Commission, "Bulgaria—Social Benefits," <http://ec.europa.eu/social/main.jsp?catId=1103&langId=bg&intPagId=2439>; МИНИСТЕРСТВО НА ТРУДА И СОЦИАЛНАТА ПОЛИТИКА (Ministry of Labour and Social Policy), "СЕМЕЙНИ ПОМОЩИ ЗА ДЕЦА (Child Benefits)," <http://www.mlsp.government.bg/bg/public/deca.htm>; European Commission, "България—семејни помощи за деца," <http://ec.europa.eu/social/main.jsp?catId=1103&langId=bg&intPagId=2417>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €1,334 | €459 |
| Percentage of net income at average wage | 26.9 | 12.1 |
| Percentage of gross income at minimum wage | 70.1 | 24.1 |

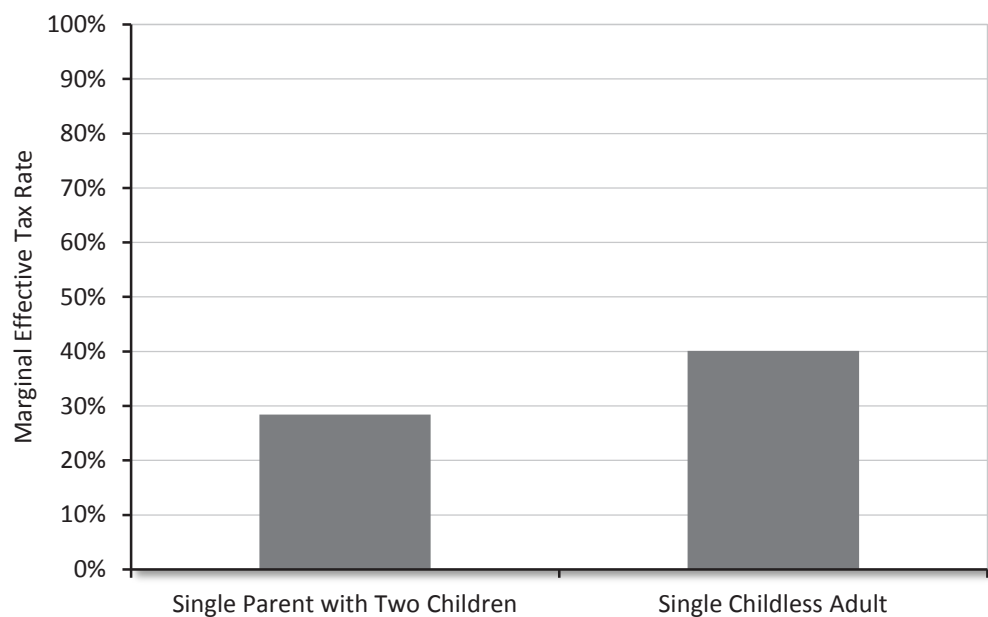
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.68/10 |
| Heritage, 2013 | 74.80/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

BULGARIA *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

CROATIA

| Program | Type | Description |
|-----------------------------|-------------------|---|
| Zajamčenu minimalnu naknadu | Social Assistance | A number of different components make up this subsistence benefit. There is a basic dependency allowance, a benefit for children, benefits for school needs, disability benefits, benefits for home care, and assistance for heating and housing costs. Each component has a benefit amount and eligibility criteria. After determining which components a household qualifies for, the benefit amount is determined as the difference between the determined threshold amount and the average monthly earned income in the preceding three months. |
| Doplatak za djecu | Family Benefits | Benefit is given to each dependent until age 15, or until the end of the school year in which the dependent turns 15. It is continued until age 19 if the child is in secondary education. Benefit amount is adjusted for household income and number of children. |

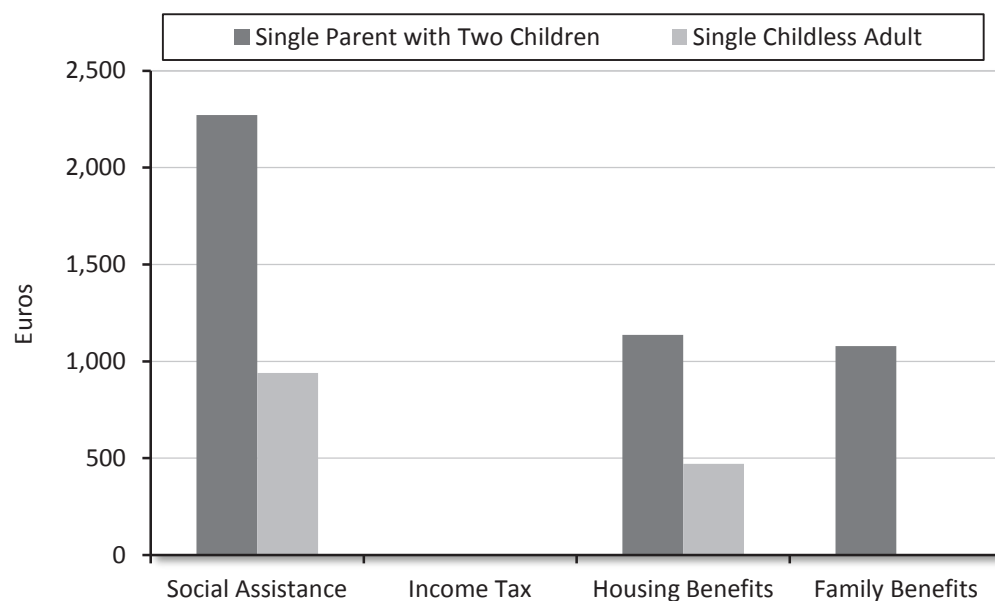
Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Croatia,” <http://www.oecd.org/els/soc/hr.zip>; European Commission, “Hrvatska—Socijalna pomoć,” <http://ec.europa.eu/social/main.jsp?catId=1104&langId=hr&intPagelD=2471>; European Commission, “Hrvatska—Doplatak za djecu,” <http://ec.europa.eu/social/main.jsp?catId=1104&langId=hr&intPagelD=2449>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|------------------------------------|---------------------------|
| Welfare package | €4,486 | €1,410 |
| Percentage of net income at average wage | 47.7 | 16.7 |
| Percentage of gross income at minimum wage | 96.7 | 30.4 |

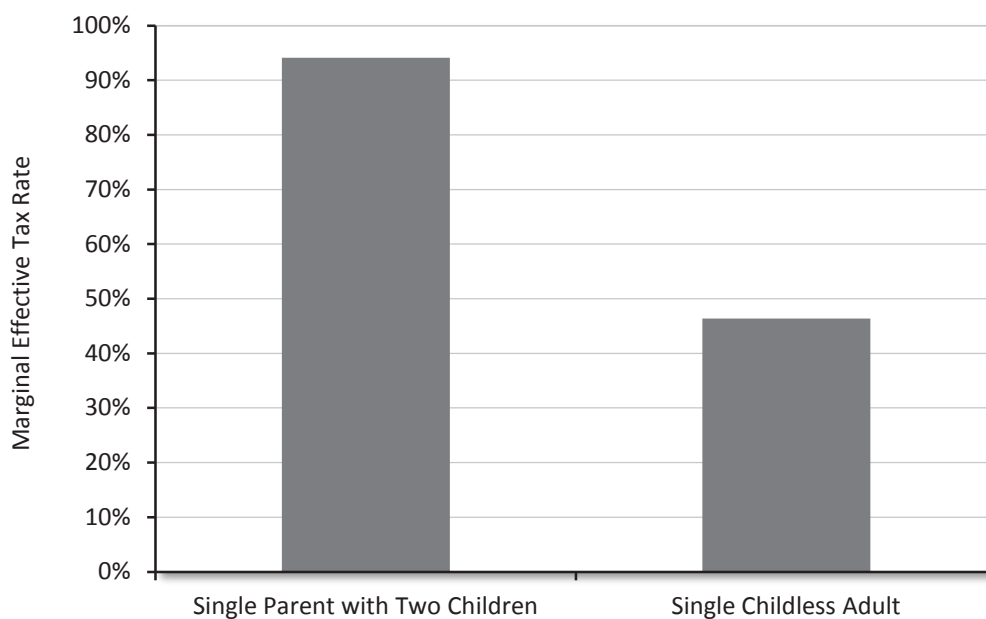
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 6.04/10 |
| Heritage, 2013 | 42.40/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

CROATIA *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

CZECH REPUBLIC

| Program | Type | Description |
|----------------------|--------------------|---|
| Pomoc v hmotné nouzi | Social Assistance | The Social Assistance in Material Need Act determines the situations that qualify people for social assistance based on inadequate means of subsistence or housing in addition to emergencies that affect material need. Benefit amounts and duration do not depend on age but are means tested. The program gives higher benefits to those who are active job seekers who are working. The benefit is set as the difference between the determined minimum income minus earned income and reasonable housing costs. Those not meeting the conditions described in the act are sanctioned, meaning their benefits top up only to a lower “subsistence minimum” instead of the usual “living minimum.” |
| Příspěvek na bydlení | Housing Assistance | The means-tested benefit subsidizes housing costs. Households are eligible if housing costs constitute more than 30 percent of household income, and the benefit is calculated to bring housing costs below that threshold. Benefits do not depend on the type or condition of housing. Payments are limited to 84 months over the previous 10 calendar years. |
| Přídavek na dítě | Family Benefits | The basic means-tested benefit is provided to dependent children younger than 15 years old, and longer if a child is in full-time education, up to age 26. Family income must be less than 2.4 times the determined living minimum. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Czech Republic,” <http://www.oecd.org/els/soc/cz.zip>; European Commission, “Česká republika—Péče o dítě,” <http://ec.europa.eu/social/main.jsp?catId=1106&langId=cs&intPagelId=2481>; European Commission, “Dávky hmotné nouze,” <http://ec.europa.eu/social/main.jsp?catId=1106&langId=cs&intPagelId=2505>; European Commission, “Příspěvek na bydlení,” <http://ec.europa.eu/social/main.jsp?catId=1106&langId=cs&intPagelId=2485>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €5,219 | €3,657 |
| Percentage of net income at average wage | 55.7 | 43.5 |
| Percentage of gross income at minimum wage | 138.9 | 97.3 |

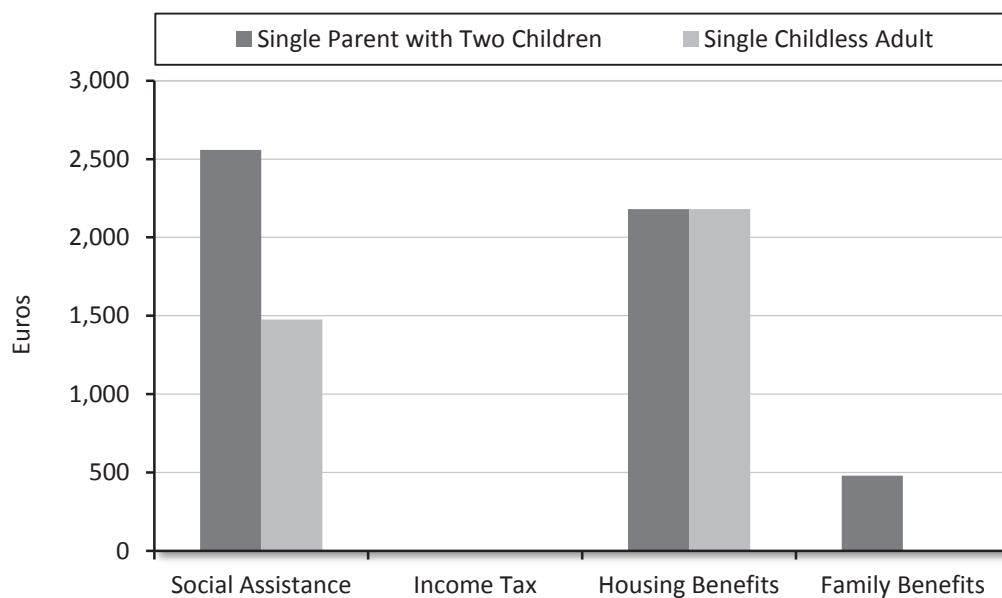
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 8.08/10 |
| Heritage, 2013 | 85.50/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

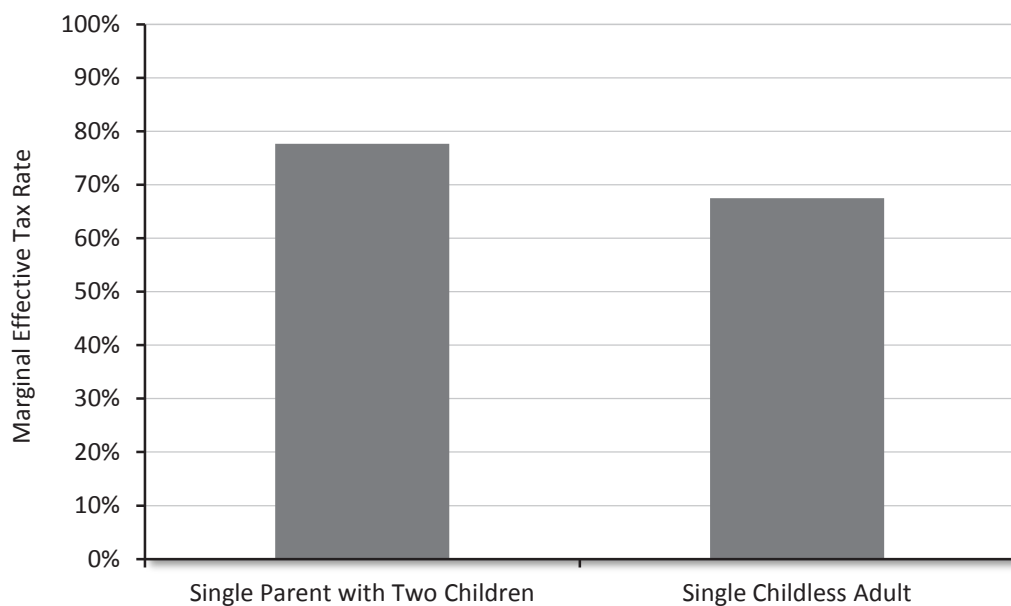
CZECH REPUBLIC *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

DENMARK

| Program | Type | Description |
|---------------------|--------------------|---|
| Kontanthjælp | Social Assistance | This benefit is for both people who are ready for the labor market and people who have problems other than unemployment. For those with the capacity for work, job search is a condition for becoming (and remaining) entitled to the benefit. Benefits correspond to approximately 80 percent of the maximum unemployment insurance benefit for units with dependent children and 60 percent for others. Payment rates are adjusted for age, with younger people (< 24) receiving fewer benefits than older people. Benefits are based on the income and savings of both spouses for married couples. Recipients do not pay social security contributions but do pay income tax. |
| Boligstøtte | Housing Assistance | Assistance is based on rent, house size, and level of household income with an initial benefit of 60 percent of paid rent for all types of income receivers. It is aimed primarily at households with children, as a second program deals with elderly and disabled renters. It also extends to childless workers if their income is low enough or their rent is high enough. The benefit is means tested and depends on household composition and number of children. The housing benefit cannot cover the entire cost of rent; households must cover a proportion. |
| Børne- og ungedelse | Family Benefits | Benefit amounts are adjusted for age, and benefits for older children are dependent on fulfilling conditions related to education or work plans. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Denmark," <http://www.oecd.org/els/soc/dk.zip>; European Commission, "Danmark—Kontant- og uddannelseshjælp," <http://ec.europa.eu/social/main.jsp?catId=1107&langId=da&intPagelId=3219>; Afdeling: Kultur og Borgerservice, "Boligstøtte," <http://www.aarhus.dk/da/borger/oekonomi/boligstoette.aspx>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €31,709 | €19,050 |
| Percentage of net income at average wage | 71.7 | 57.7 |
| Percentage of gross income at minimum wage | n/a | n/a |

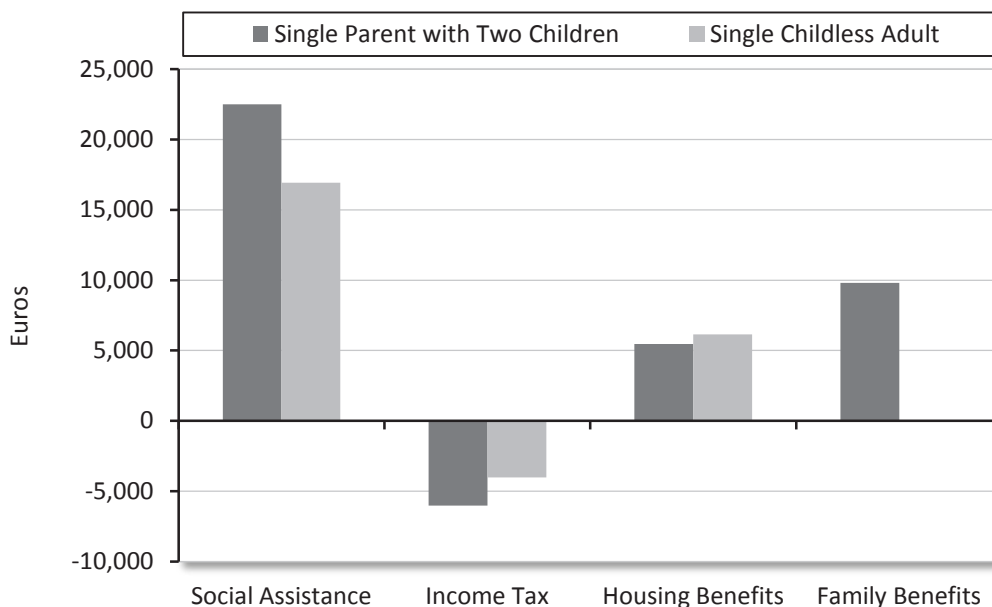
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.35/10 |
| Heritage, 2013 | 91.10/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

DENMARK *Continued*

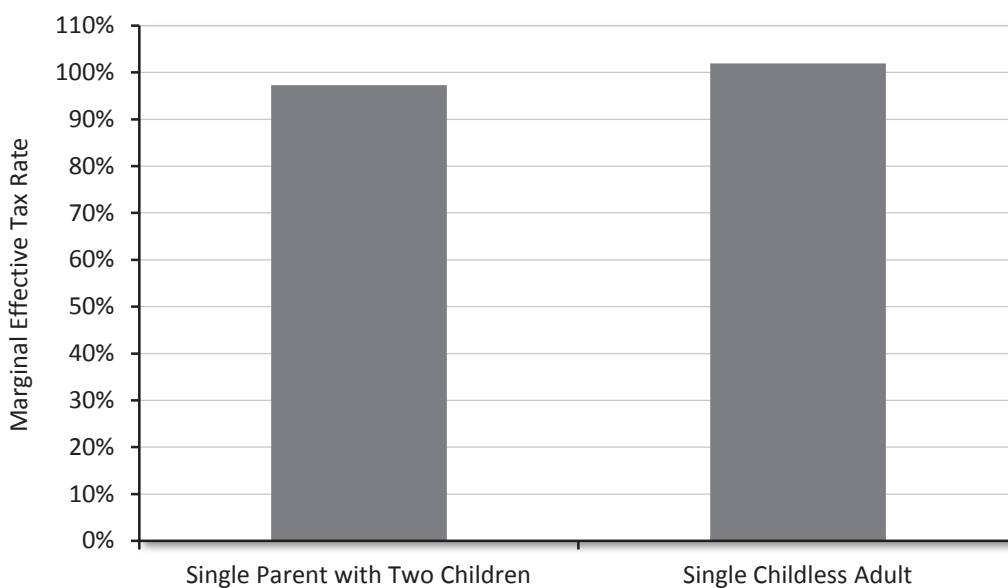
Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Note: Recipients of social assistance pay income tax. They do not pay the 8 percent social security contribution, but they do pay the supplementary pension scheme contributions if they have received social assistance for an uninterrupted period of six months.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

ESTONIA

| Program | Type | Description |
|--------------------------|--------------------|--|
| Toimetulekutoetus | Social Assistance | The subsistence level is established by the Parliament each year in the budget. The benefit is paid from state resources but administered by local municipalities. Benefit supplements household income up to the subsistence level that all households should have after paying for housing. In other words, social assistance would effectively pay for housing and supplementary payments to the point that the household is above the determined level. There are no limits on benefit duration, and the benefit must be given within five working days after submission of all documents. |
| Housing Benefits | Housing Assistance | Housing is paid for under social assistance (Toimetulekutoetus). |
| Lapsetoetus | Family Benefits | Monthly benefit is paid to households with dependent child under 16 years old or up to 19 years old if that child is in continuing studies. |
| Üksikvanema lapse toetus | Family Benefits | Similar to the child allowance, this is an additional benefit given to single parents. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Estonia," <http://www.oecd.org/els/soc/ee.zip>; Sotsiaalministeerium, "Toimetulekupiir ja toimetulekutoetus," https://www.eesti.ee/est/toetused_ja_sotsiaalabi/toetused_ja_huvitised/toimetulekutoetus; Sotsiaalkindlustusamet "Peretoetused," <http://www.sotsiaalkindlustusamet.ee/peretoetused-2/>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €4,059 | €2,176 |
| Percentage of net income at average wage | 38.5 | 23.5 |
| Percentage of gross income at minimum wage | 105.7 | 56.7 |

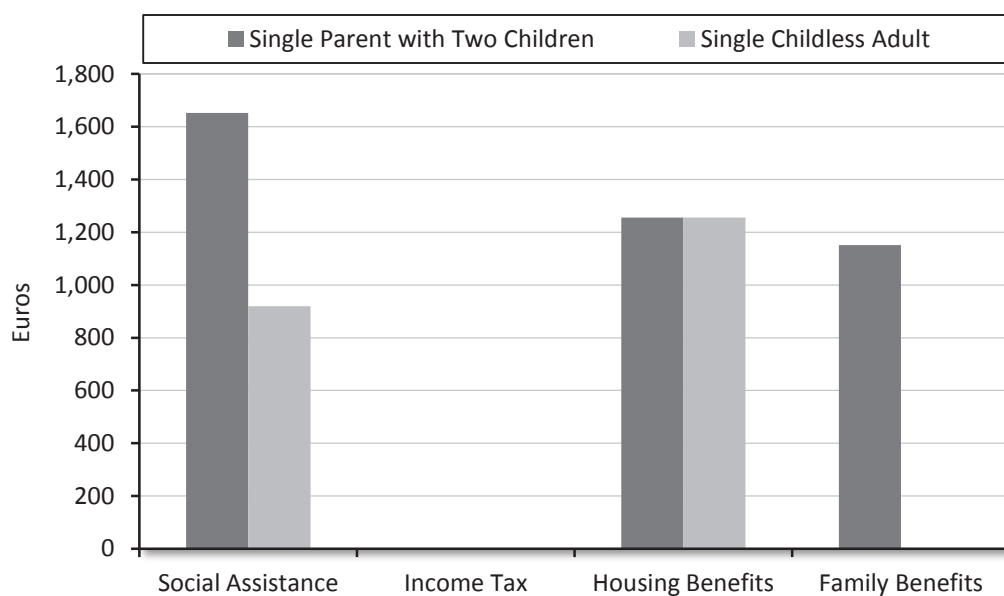
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 6.23/10 |
| Heritage, 2013 | 56.00/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

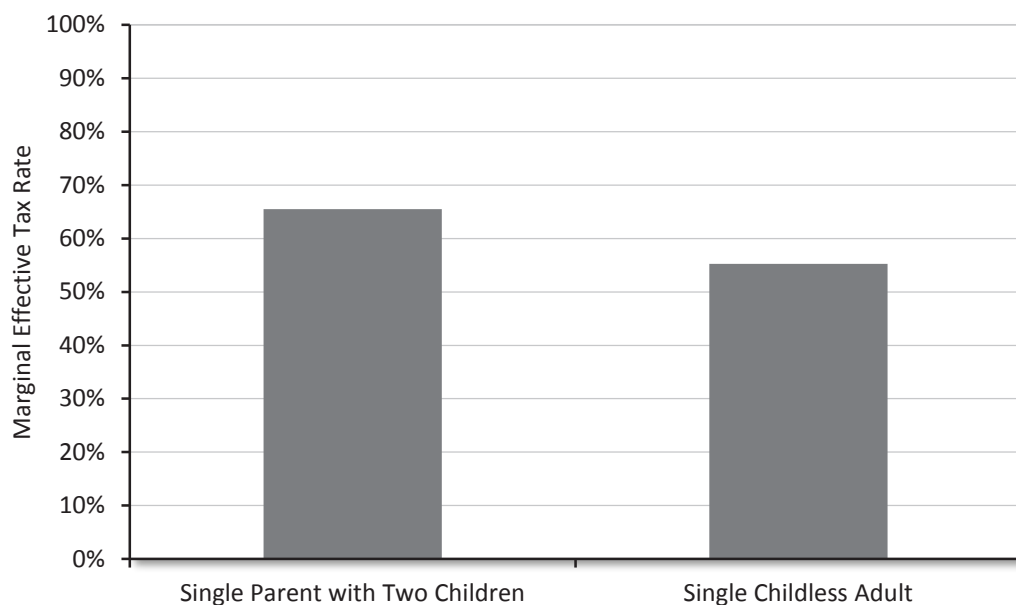
ESTONIA *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

FINLAND

| Program | Type | Description |
|------------------|-------------------|--|
| Toimeentulotukea | Social Assistance | Program acts as a final safety net and brings up household income to the determined level. This level is designed to be sufficient to cover the costs of food, clothes, hygiene, transportation, information, and reasonable housing costs. The program is means tested, and benefits are determined case by case. |
| Asumistuki | Housing Allowance | Eligibility is reviewed once a year and subject to means testing. |
| Lapsilisää | Family Benefits | Benefit is paid for dependent children younger than 17 living in Finland. Benefit amount depends on the number of children. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Finland," <http://www.oecd.org/els/soc/fi.zip>; European Commission, "Suomi—Lapsilisä," <http://ec.europa.eu/social/main.jsp?catId=1109&langId=fi&intPagId=2918>; European Commission, "Suomi—Toimeentulotuki," <http://ec.europa.eu/social/main.jsp?catId=1109&langId=fi&intPagId=2942>; Kela, "Yleinen Asumistuki," <http://www.kela.fi/yleinen-asumistuki>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|------------------------------------|---------------------------|
| Welfare package | €21,681 | €13,527 |
| Percentage of net income at average wage | 58.6 | 45.8 |
| Percentage of gross income at minimum wage | n/a | n/a |

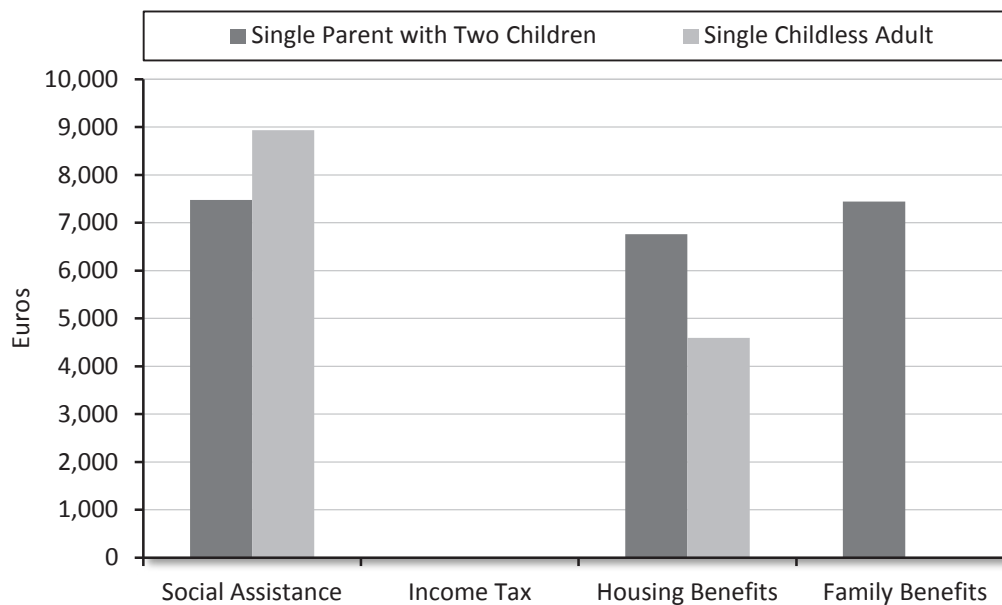
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 5.38/10 |
| Heritage, 2013 | 45.30/100 |

Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

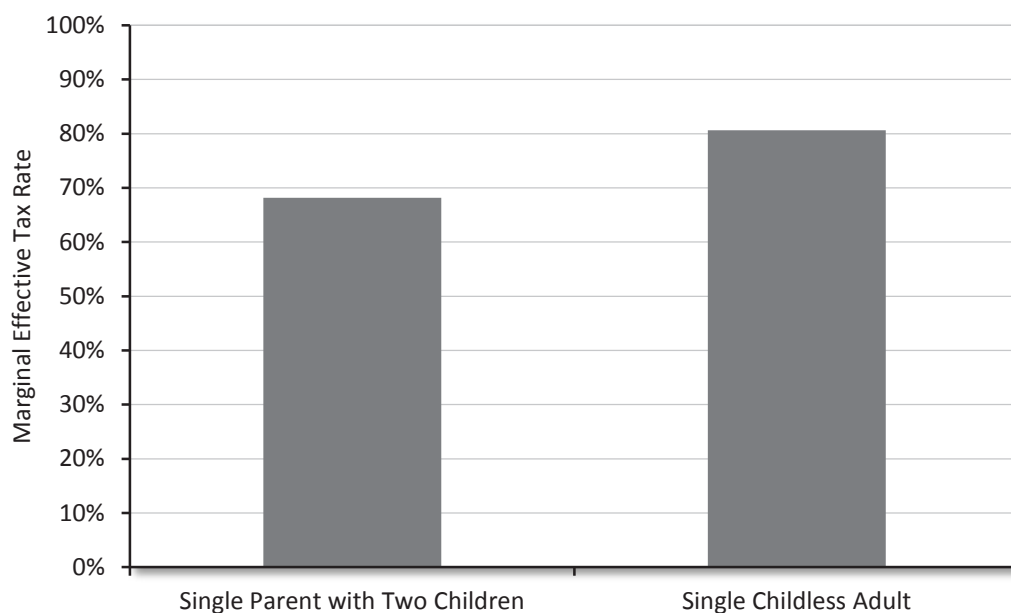
FINLAND *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

FRANCE

| Program | Type | Description |
|---|--------------------|---|
| Revenu de Solidarité Active (RSA) | Social Assistance | The active solidarity income (RSA) provides people without resources or who are resource poor with a minimum level of variable income, depending on the composition of the household. RSA is open, under certain conditions, to persons at least 25 years old and those ages 18 to 24 if they are single parents or have worked two years of full-time employment in the preceding three years. People with no earned income receive a lump-sum benefit to bring them up to the defined minimum. Those with earned income get an income supplement benefit. In its current iteration, a household moving from inactivity to a job will maintain 62 percent of its RSA benefits. |
| L'allocation de Logement à Caractère Familial (ALF) | Housing Assistance | Housing allowance is given to households that receive family benefits. The benefit amount is a percentage of housing expenses and is adjusted by household income, number of children, and housing expenditures. It is also adjusted for the income and resources available to the beneficiary household in the reference year. |
| Allocations Familiales | Family Benefits | Family allowance is a universal benefit paid to families with two or more children under age 20. The benefit amount is based on the BMAF (<i>Base Mensuelle de calcul des Allocations Familiales</i>) and adjusted for family size and age of children. |
| Allocation de Soutien Familial | Family Benefits | Benefit is paid to single parents with children under age 20. It is not means tested, and the benefit amount was €90.85 per child per month as of 2013. |
| Prime pour l'emploi (PPE) | Income Tax | Tax credit is for households that include wage earners whose equivalent full-time net taxable earned income is between €3,743 and €26,572. First, the amount of the premium is calculated for each eligible wage earner, and then the individual amounts are aggregated. The resulting amount may then be increased under certain conditions (dependent children or single-parent wage earner). |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, France," <http://www.oecd.org/els/soc/fr.zip>; European Commission, "France—Revenu de solidarité active (RSA)," <http://ec.europa.eu/social/main.jsp?catId=1110&langId=fr&intPagelId=2533>; Service Public, "Allocation de soutien familial (ASF)," Direction de l'information légale et administrative, <http://vosdroits.service-public.fr/particuliers/F815.xhtml>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €14,201 | €8,569 |
| Percentage of net income at average wage | 44.3 | 32.5 |
| Percentage of gross income at minimum wage | 82.7 | 49.9 |

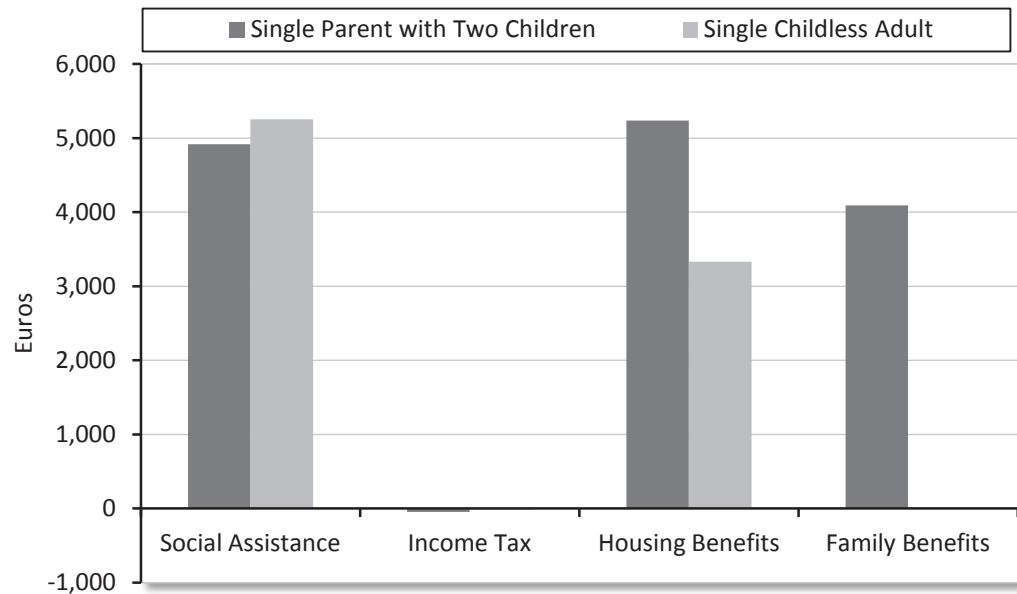
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 5.87/10 |
| Heritage, 2013 | 50.50/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

FRANCE *Continued*

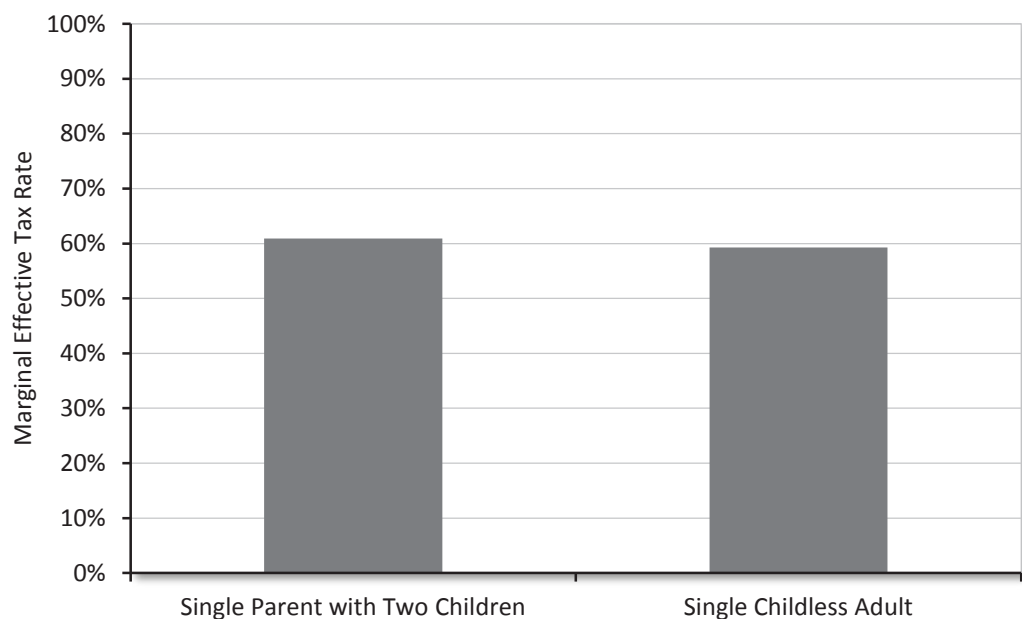
Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Note: Some benefits in France are subject to the *contribution à la réduction de la dette sociale* (CRDS), or contribution to the reduction of the social debt, and the rate is 0.5 percent.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

GERMANY

| Program | Type | Description |
|------------------------------|--------------------|---|
| Arbeitslosengeld II (ALG II) | Social Assistance | This assistance, consolidated with a component of unemployment assistance, is a needs-based, means-tested welfare benefit. Recipients must be older than 15 and able to work. The basic needs assistance component provides a lump sum for food, household goods, and everyday needs. The standard amount is adjusted each year in line with the weighted average of the increase in gross salary at 30 percent of the average wage and the increase in the price index used for the basket of basic goods. The benefit amount is adjusted by household composition (i.e., number of children and whether the parent is a single parent). This standard amount is added to any additional allowances and allowances for rent, heating, and utilities minus any net earned income to arrive at the benefit amount. |
| Kindergeld | Family Benefits | The benefit is paid to all families with children up to age 18, extended to age 25 if the child is in education or training, or 21 if the child remains unemployed. Benefits are adjusted by the number of children: €184 per month for the first two children, €190 per month for the third, and €215 per month for each additional child. |
| | Housing Assistance | Housing assistance is encompassed by ALG II. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Germany," <http://www.oecd.org/els/soc/de.zip>; European Commission, "Deutschland—Familienleistungen," <http://ec.europa.eu/social/main.jsp?catId=1111&langId=de&intPagelId=2545>; Bundesagentur für Arbeit, "Unemployment Benefit II (Arbeitslosengeld II)/Social Benefit (Sozialgeld)," <http://www.arbeitsagentur.de/web/content/EN/Benefits/UnemploymentBenefitII/index.htm>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|------------------------------------|---------------------------|
| Welfare package | €19,126 | €9,540 |
| Percentage of net income at average wage | 56.5 | 35.2 |
| Percentage of gross income at minimum wage | n/a | n/a |

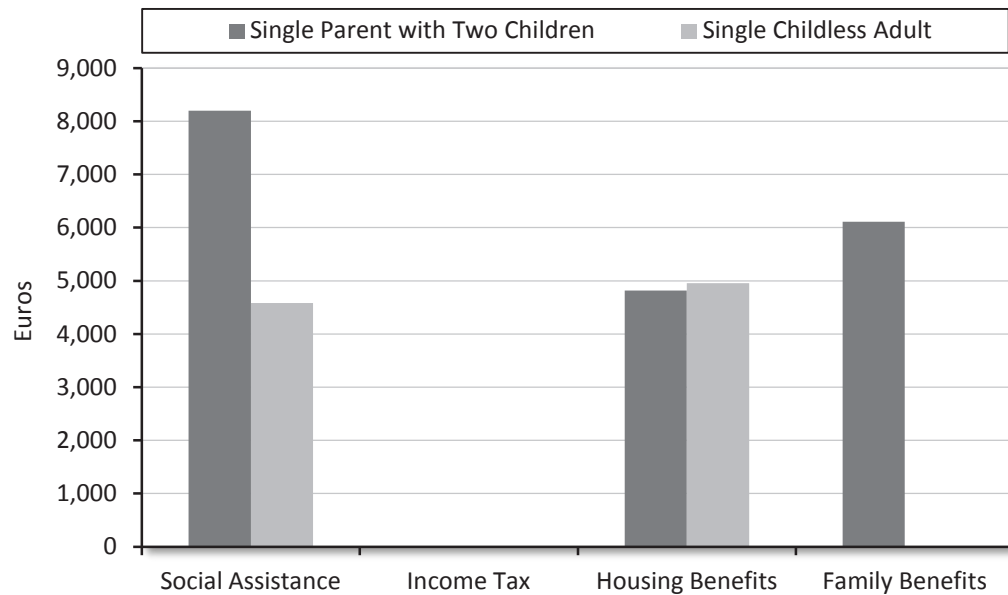
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 6.44/10 |
| Heritage, 2013 | 43.80/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

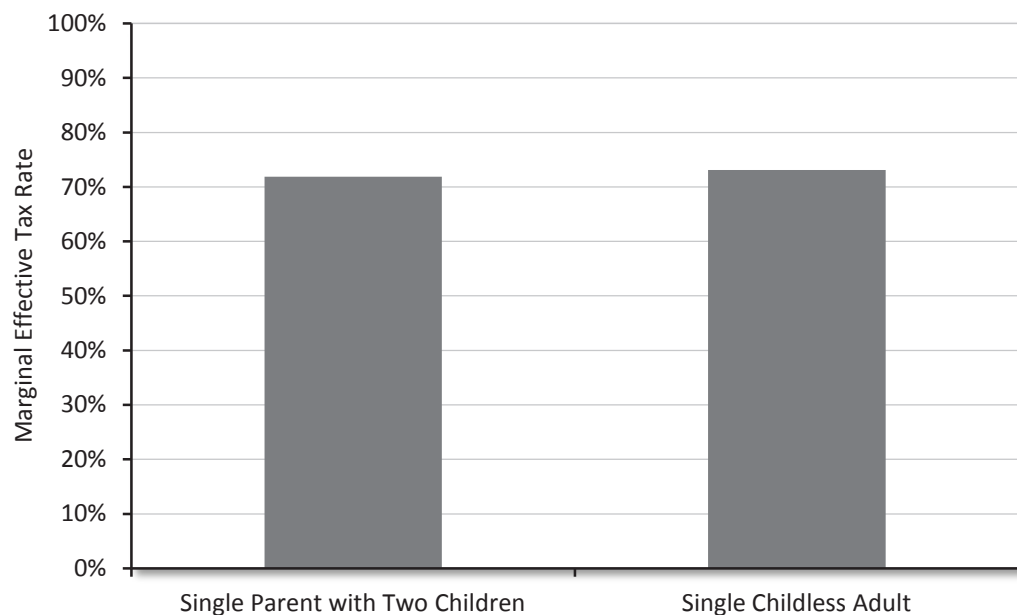
GERMANY *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

HUNGARY

| Program | Type | Description |
|--------------------------------|--------------------|--|
| Aktív korúak ellátása | Social Assistance | Benefit is available to those who are age 18 and older. Recipients are obliged to cooperate with the Public Employment Service and take part in public works. The benefit is a fixed lump-sum payment equivalent to 80 percent of the minimum old-age pension and is not dependent on household composition. It is means tested in the sense that a unit's monthly income cannot exceed 90 percent of that minimum old-age pension. If a recipient is working in public works, a minimum wage is paid. |
| Lakásfenntartási támogatás | Housing Assistance | Means-tested benefit is for households living in a home that does not exceed a specified minimum size. Households with per capita monthly income below 250 percent of the minimum old-age pension are eligible. |
| Családi pótlék | Family Benefits | This universal benefit is available to all families with children up to age 23 who are eligible for family allowance. |
| Gyermeknevelési támogatás/GYET | Family Benefits | Child protection allowance is also available to families with income below 140 percent of the minimum old-age pension. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Hungary," <http://www.oecd.org/els/soc/hu.zip>; European Commission, "Magyarország—Családi ellátások," <http://ec.europa.eu/social/main.jsp?catId=1113&langId=hu&intPagId=3165>; Magyar Államkincstár, "Gyermeknevelési támogatás," http://www.allamkincstar.gov.hu/hu/lakossagi-ugyfelek/gyermeknevelesi_tamogatasi; European Commission, "Magyarország—Megélhetési források," <http://ec.europa.eu/social/main.jsp?catId=1113&langId=hu&intPagId=3183>; Kormány, "Lakásfenntartási támogatás 2010–2014," <http://2010-2014.kormany.hu/download/a/ec/21000/lak%C3%A1s%20fenntart%C3%A1s%202014.doc>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €2,332 | €1,025 |
| Percentage of net income at average wage | 29.2 | 16.8 |
| Percentage of gross income at minimum wage | 58.2 | 25.6 |

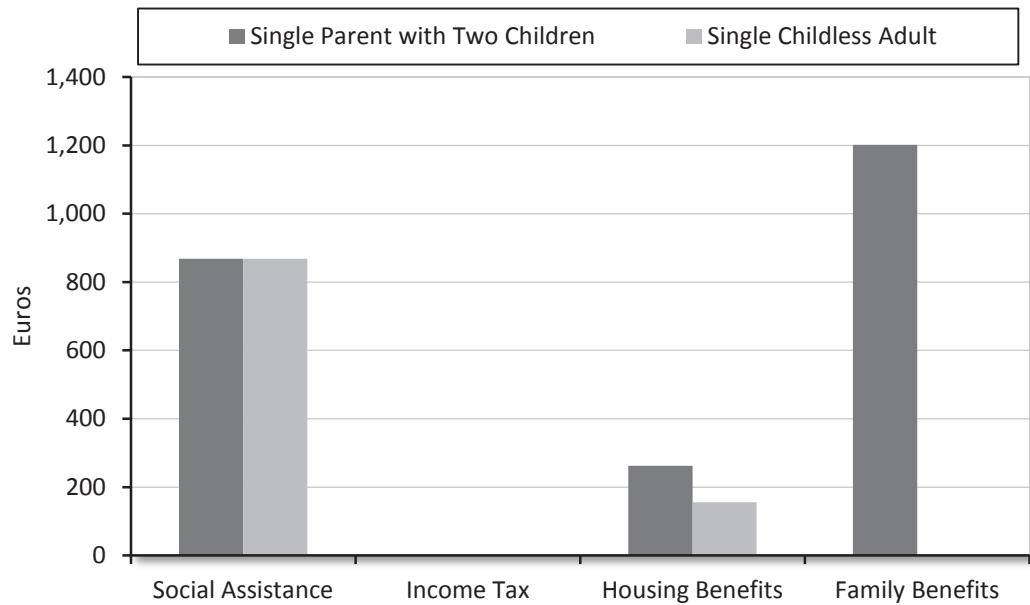
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 6.78/10 |
| Heritage, 2013 | 64.40/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

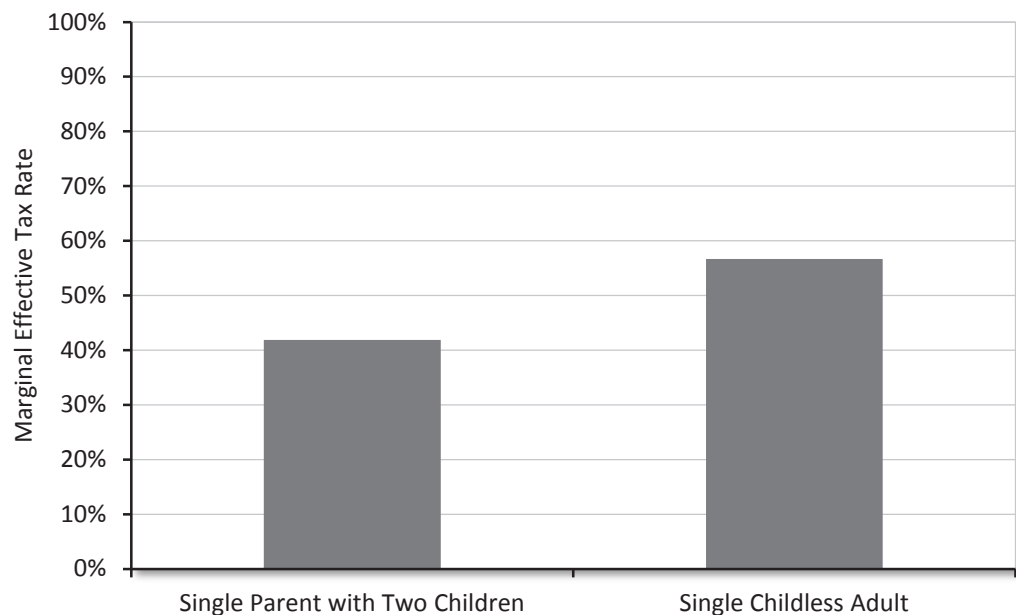
HUNGARY *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

IRELAND

| Program | Type | Description |
|---|--------------------|---|
| Basic Supplementary Welfare Allowance (SWA) | Social Assistance | The SWA provides benefits to those with insufficient means. It encompasses rent and mortgage interest supplements and provides a basic weekly benefit. |
| Rent Supplement | Housing Assistance | The rent supplement is encompassed in the basic SWA scheme. It is available to claimants who reside in private rented accommodations subject to a maximum rent limit that varies by geographic location. |
| Child Benefit | Family Benefits | This universal benefit is given to families for each dependent child under age 16, or under 18 if in education. Benefit amount is adjusted by household size. Amounts are €130 per child per month for the first three children, then €140 per child per month for each additional child. |
| One-Parent Family Payment | Family Benefits | This weekly means-tested benefit is for single parents. The benefit amount is adjusted for number of children. |
| Community Childcare Subvention programme/child-care allowance for children not using child-care centers | Family Benefits | The benefit is adjusted by age of child and by the components of care they use. For those using formal care centers, government subsidizes the fees. This scenario assumes the child is older than 1 year and is the average of community-based and private provider costs. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Ireland,” <http://www.oecd.org/els/soc/ie.zip>; Citizens Information Board, “Community Childcare Subvention (CCS) Programme,” http://www.citizensinformation.ie/en/education/pre_school_education_and_childcare/community_childcare_subvention_programme.html.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €20,962 | €13,812 |
| Percentage of net income at average wage | 62.9 | 51.6 |
| Percentage of gross income at minimum wage | 119.5 | 78.7 |
| Inactivity trap, marginal effective tax rate moving from inactivity to 50% of average wage | 33.2% | 88.1% |

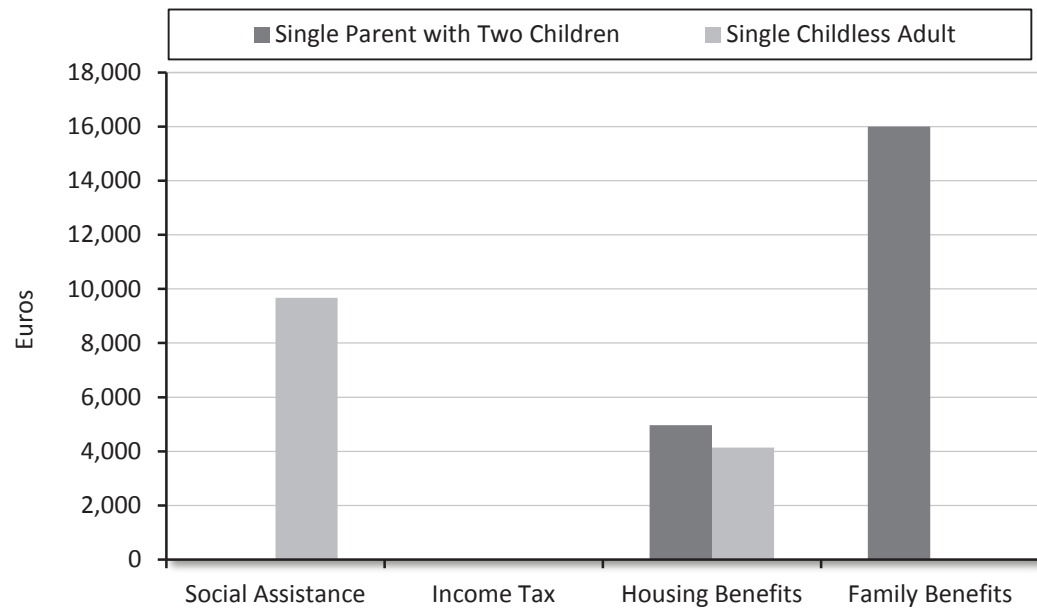
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.97/10 |
| Heritage, 2013 | 76.60/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

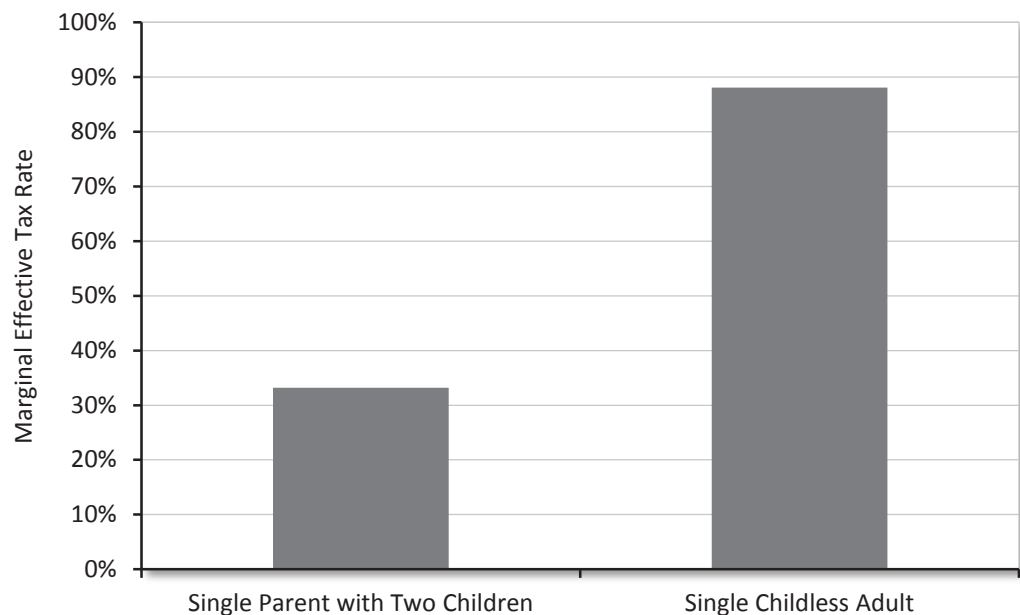
IRELAND *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

LATVIA

| Program | Type | Description |
|---|-------------------|---|
| Pabalsts garantētā minimālā ienākuma (GMI) nodrošināšanai | Social Assistance | The benefit amount is calculated as the defined minimum income multiplied by the number of persons in the household minus household income. Housing assistance is folded into this broader scheme and is defined at the local municipality level. |
| Ģimenes valsts pabalsts | Family Benefits | State family allowance, given for each child between ages 1 and 15, or older than 15 if in education. From 2009 through December 2014, the monthly state family benefit allowance for all children was the same, €11.38 per month. |

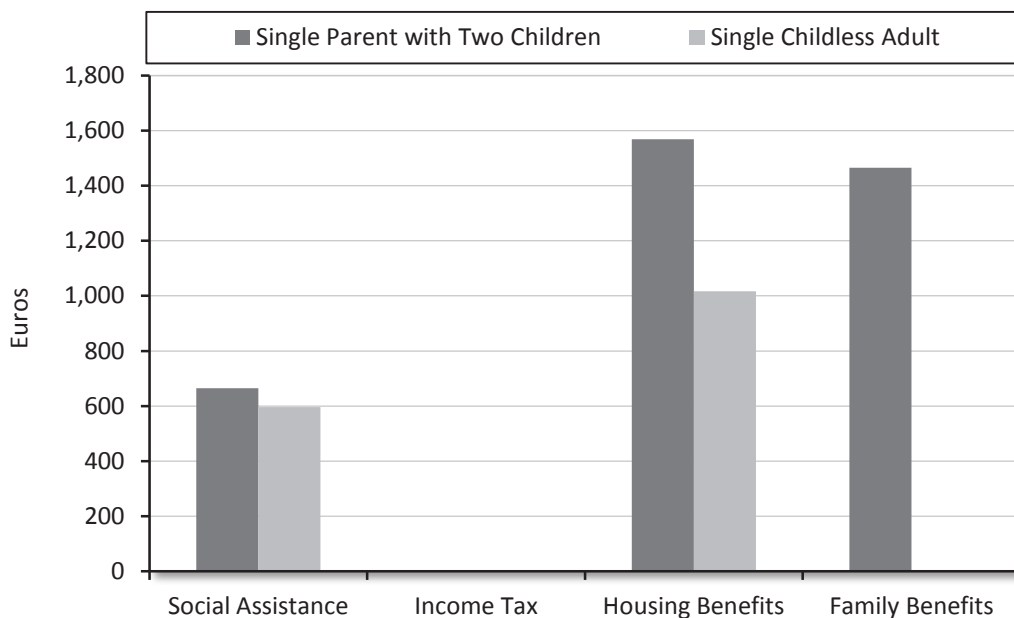
Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Latvia," <http://www.oecd.org/els/soc/lv.zip>; European Commission, "Latvija—Pabalsti ģimeni ar bērniem," <http://ec.europa.eu/social/main.jsp?catId=1117&langId=lv&intPagId=2629>; European Commission, "Latvija—Minimālā nodrošinājuma pabalsti," <http://ec.europa.eu/social/main.jsp?catId=1117&langId=lv&intPagId=2653>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €3,699 | €1,613 |
| Percentage of net income at average wage | 43.1 | 25.0 |
| Percentage of gross income at minimum wage | 107.9 | 47.1 |

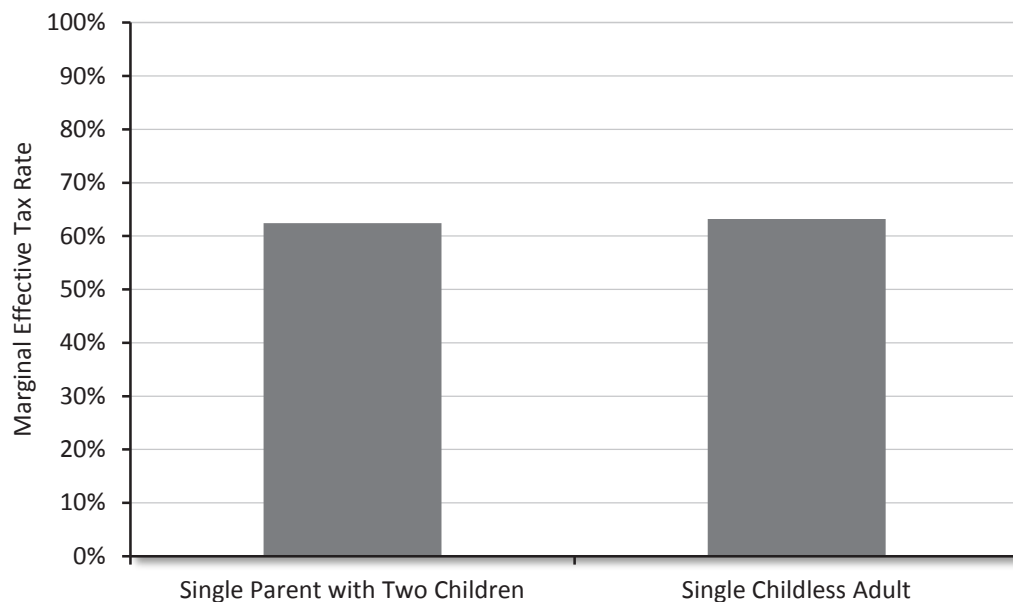
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 6.89/10 |
| Heritage, 2013 | 64.40/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

LATVIA *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

LITHUANIA

| Program | Type | Description |
|-------------------|-------------------|--|
| Socialinė pašalpa | Social Assistance | Households with per capita income that does not exceed the state-supported income threshold established by the government are eligible for the benefit. The benefit amount is the difference between any earned income and this threshold. |
| lšmoką vaikui | Family Benefits | The means-tested benefit is adjusted for age and number of children. A family cannot have a monthly per capita net income that is more than 1.5 times higher than the minimum income threshold. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Lithuania,” <http://www.oecd.org/els/soc/lt.zip>; European Commission, “Lietuva—lšmokos šeimai,” <http://ec.europa.eu/social/main.jsp?catId=1119&langId=lt&intPagId=2687>; European Commission, “Lietuva—Piniginė socialinė parama nepasiturintiems gyventojams,” <http://ec.europa.eu/social/main.jsp?catId=1119&langId=lt&intPagId=2705>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €3,628 | €1,216 |
| Percentage of net income at average wage | 48.6 | 20.4 |
| Percentage of gross income at minimum wage | 104.4 | 35.0 |

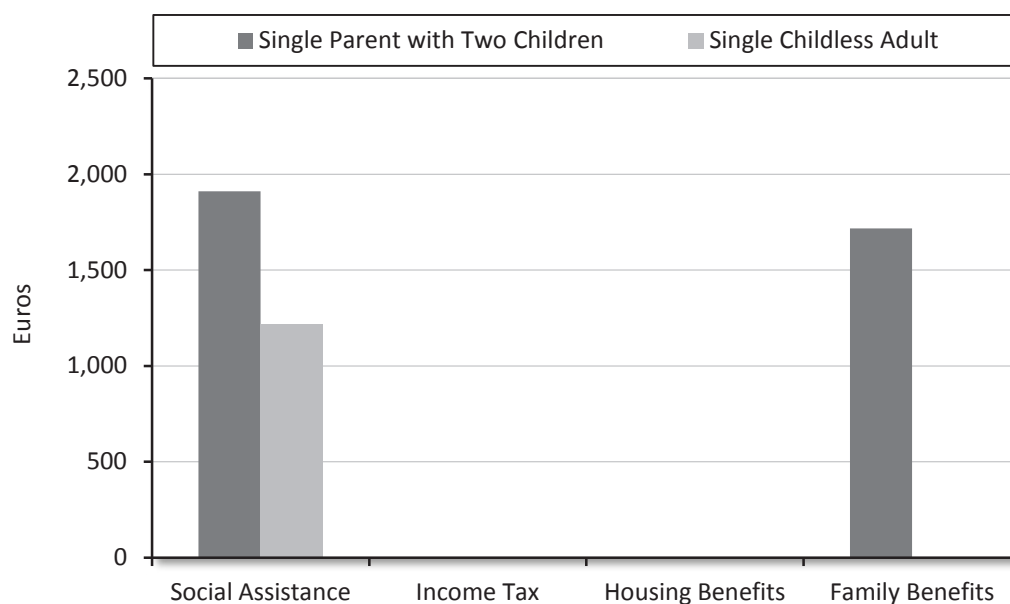
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.37/10 |
| Heritage, 2013 | 64.10/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

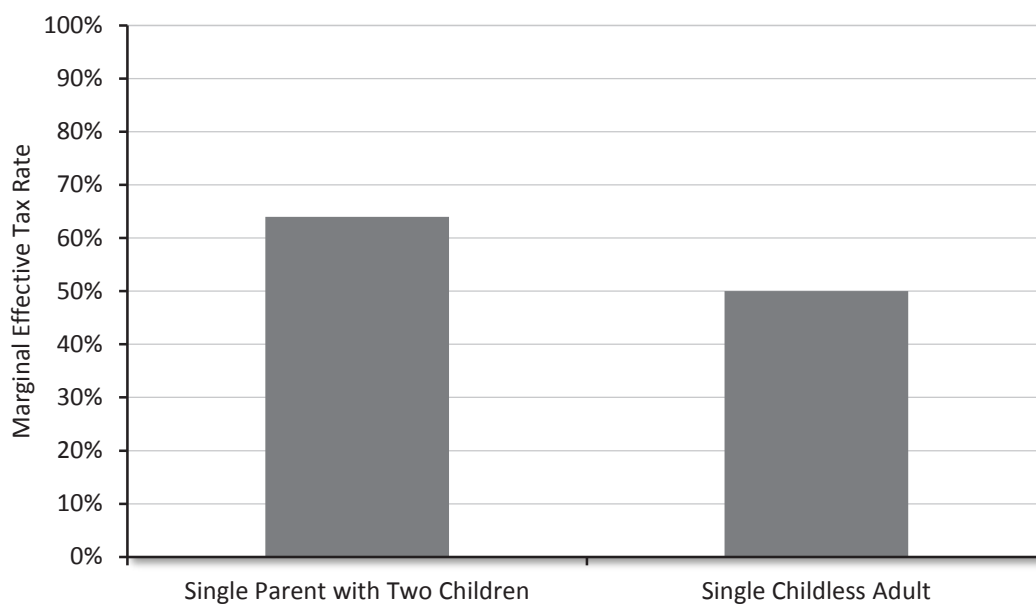
LITHUANIA *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

NETHERLANDS

| Program | Type | Description |
|---------------------|--------------------|---|
| Bijstandsuitkering | Social Assistance | Beneficiaries of this program are often people who are no longer eligible for social insurance schemes such as unemployment benefits. Payments are intended to cover basic needs, such as food, housing, heating, and furniture. There are three basic payment rates for working-age people. Single parents get a benefit that is 90 percent of the subsistence minimum threshold. Benefits continue when an inactive person takes up work and are used to top up low levels of earned income. |
| Huurtoeslag | Housing Assistance | Rental allowance is available to low-income households. It is restricted by maximum and minimum rent levels and a household's taxable income. The program is separate from social assistance, but as the OECD report explains, "The social assistance income level is generally that low [sic] that all benefit recipients should be entitled to housing benefits as well, if they apply." In this program, households must still pay a minimum amount of their rent themselves, the <i>basishuur</i> , which depends on housing accommodations, income, and household composition. |
| Kinderbijslag | Family Benefits | The program provides a universal benefit for all children under age 18. Benefits are paid quarterly and are adjusted by the child's age. |
| Kindgebonden budget | Family Benefits | A means-tested supplementary child benefit is provided. Benefit amounts are adjusted for household income and assets as well as the age and number of children. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Netherlands," <http://www.oecd.org/els/soc/nl.zip>; European Commission, "Nederland—Bijdragen voor kinderen," <http://ec.europa.eu/social/main.jsp?catId=1122&langId=nl&intPageId=2985>; Toeslagen Belastingdienst, "Huurtoeslag," <http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privetoelagen/huurtoeslag/huurtoeslag>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €20,974 | €14,945 |
| Percentage of net income at average wage | 54.5 | 49.4 |
| Percentage of gross income at minimum wage | 118.6 | 84.5 |

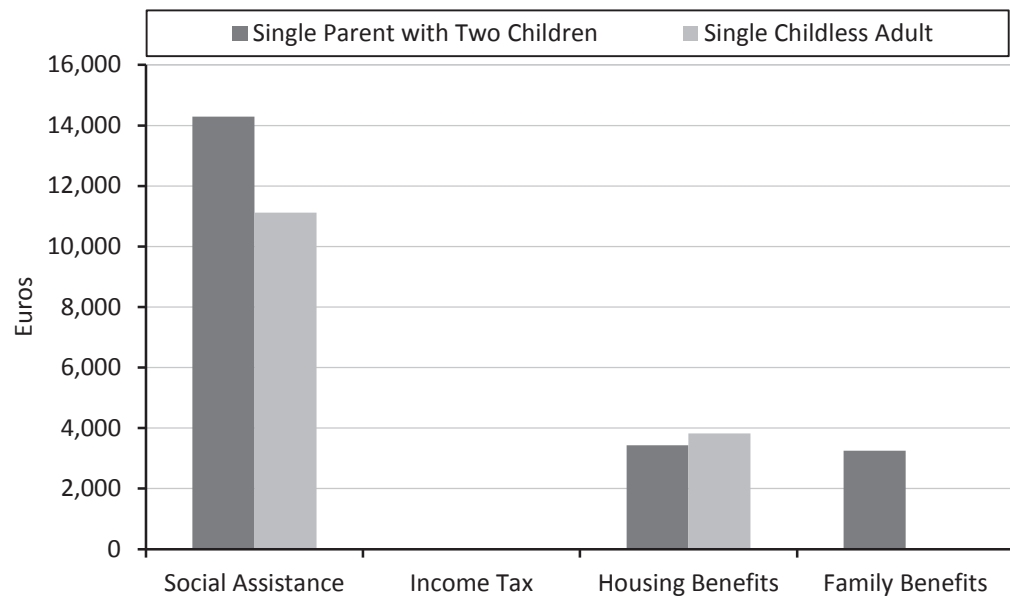
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|----------|
| Fraser/Cato, 2012 | 6.8/10 |
| Heritage, 2013 | 62.9/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

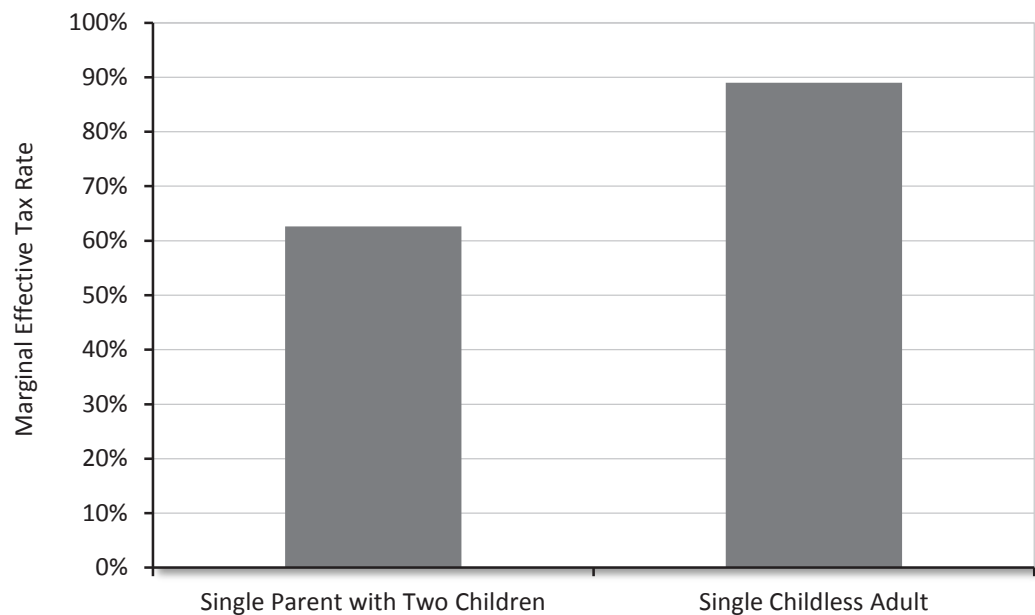
NETHERLANDS *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

POLAND

| Program | Type | Description |
|----------------------|--------------------|--|
| Zasiłek okresowy | Social Assistance | For a family, benefits are half of the difference between family income and the defined minimum threshold, which is set to 84 percent of the minimum pension for the elderly. |
| Dodatek mieszkaniowy | Housing Assistance | Beneficiary families cannot have gross income in excess of 125 percent of the minimum retirement pension per capita. Benefit amount is based on the difference between the government-defined “reasonable payment” and actual housing costs, which cannot exceed a maximum threshold. Reasonable housing costs are based on the size of the family and dwelling. |
| Zasiłek Rodzinny | Family Benefits | Benefits for dependent children under age 18, or 21 if still in secondary education. Benefits are means tested, and benefit amounts vary by age of the child. There is also a supplementary benefit for single parents. |

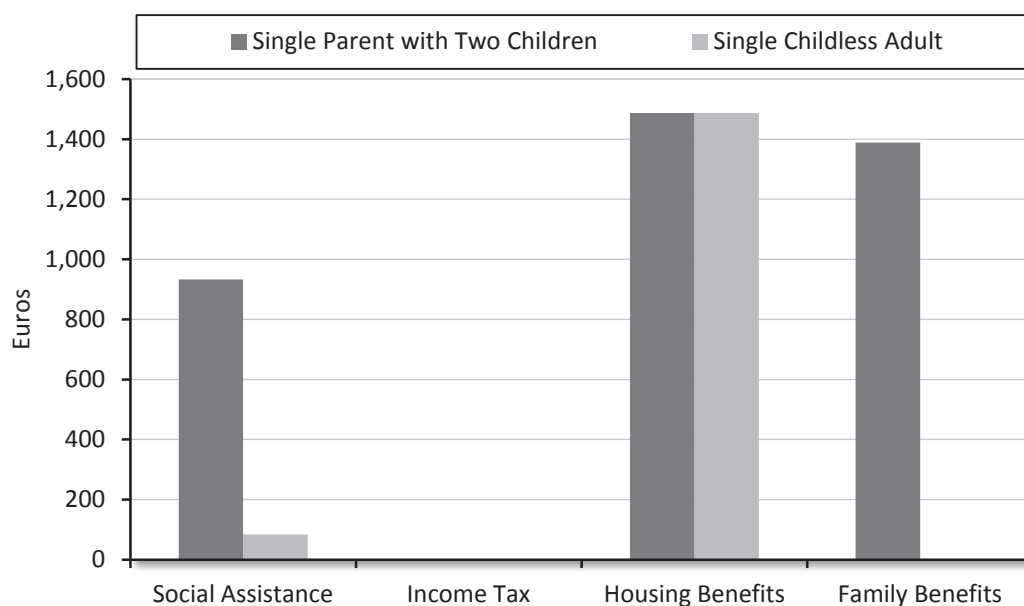
Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Poland,” <http://www.oecd.org/els/soc/po.zip>; European Commission, “Polska—Świadczenia rodzinne,” <http://ec.europa.eu/social/main.jsp?catId=1124&langId=pl&intPagId=2771>; European Commission, “Polska—Świadczenia pomocy społeczne,” <http://ec.europa.eu/social/main.jsp?catId=1124&langId=pl&intPagId=2791>; Centrum Świadczeń Socjalnych w Łodzi, “Dodatki mieszkaniowe,” <http://css.samorzad.lodz.pl/dodatki-mieszkaniowe>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €3,809 | €1,570 |
| Percentage of net income at average wage | 50.4 | 22.7 |
| Percentage of gross income at minimum wage | 83.3 | 34.4 |

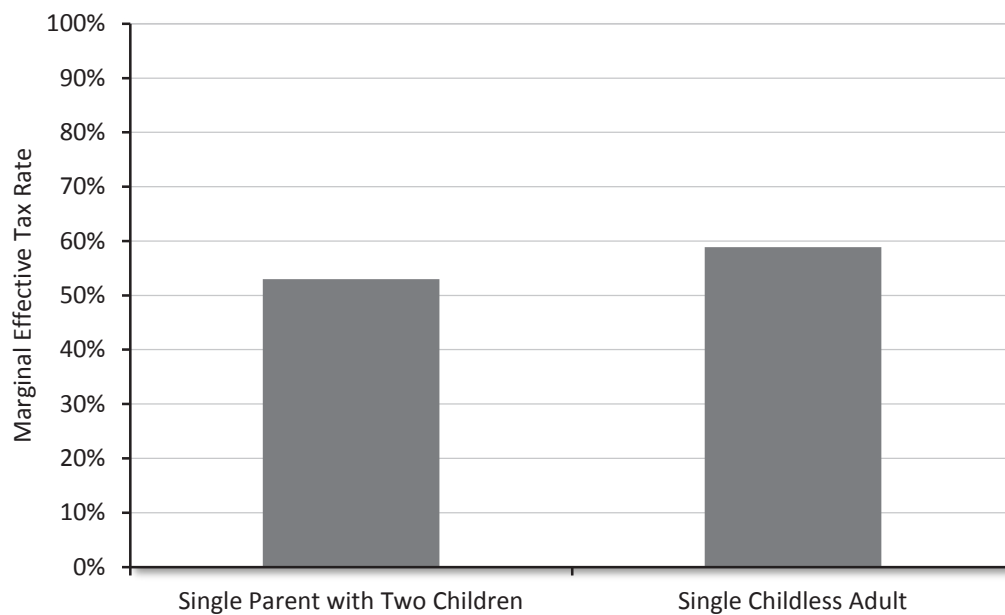
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|----------|
| Fraser/Cato, 2012 | 6.8/10 |
| Heritage, 2013 | 62.9/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

POLAND *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

PORTUGAL

| Program | Type | Description |
|-------------------------------|-------------------|--|
| Rendimento Social de Inserção | Social Assistance | The program is a benefit but also an insertion program with the stated goal of providing recipients with the means to “allow for a progressive insertion in the labor market.” Household income and assets must be below a determined threshold, which is adjusted by household composition. |
| Abono de Família | Family Benefits | Monthly benefit is paid to households with children under age 16, or under 24 if in education or training, that are eligible. Benefit amounts are adjusted for age and income. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Portugal,” <http://www.oecd.org/els/soc/pt.zip>; European Commission, “Portugal—Rendimento social de inserção,” <http://ec.europa.eu/social/main.jsp?catId=1125&langId=pt&intPagId=2972>; European Commission, “Portugal—Encargos com crianças e jovens,” <http://ec.europa.eu/social/main.jsp?catId=1125&langId=pt&intPagId=2952>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €4,476 | €2,138 |
| Percentage of net income at average wage | 31.1 | 16.7 |
| Percentage of gross income at minimum wage | 65.9 | 31.5 |

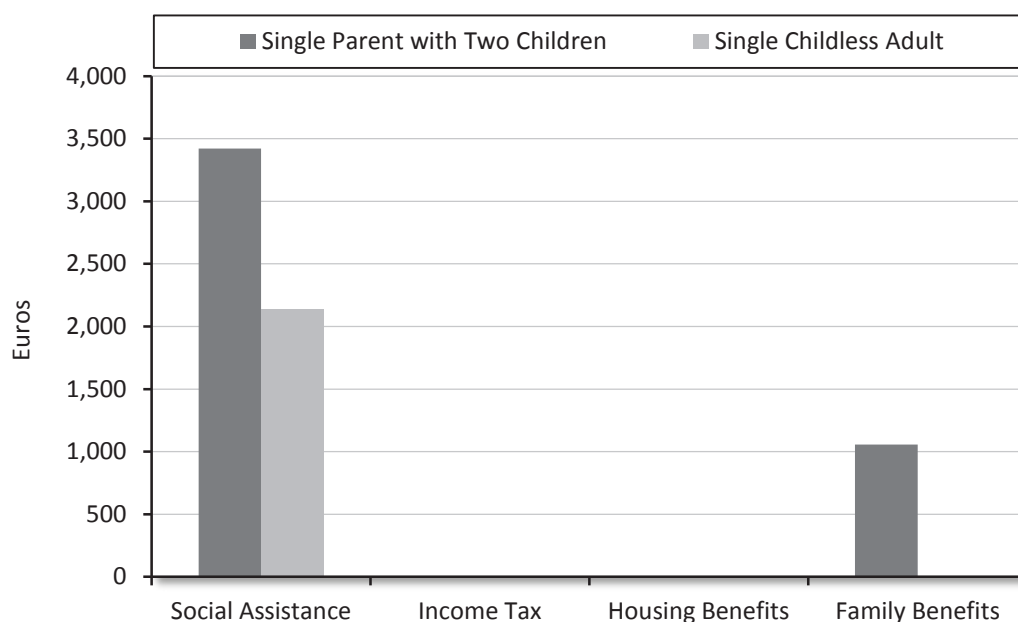
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 5.79/10 |
| Heritage, 2013 | 63.50/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

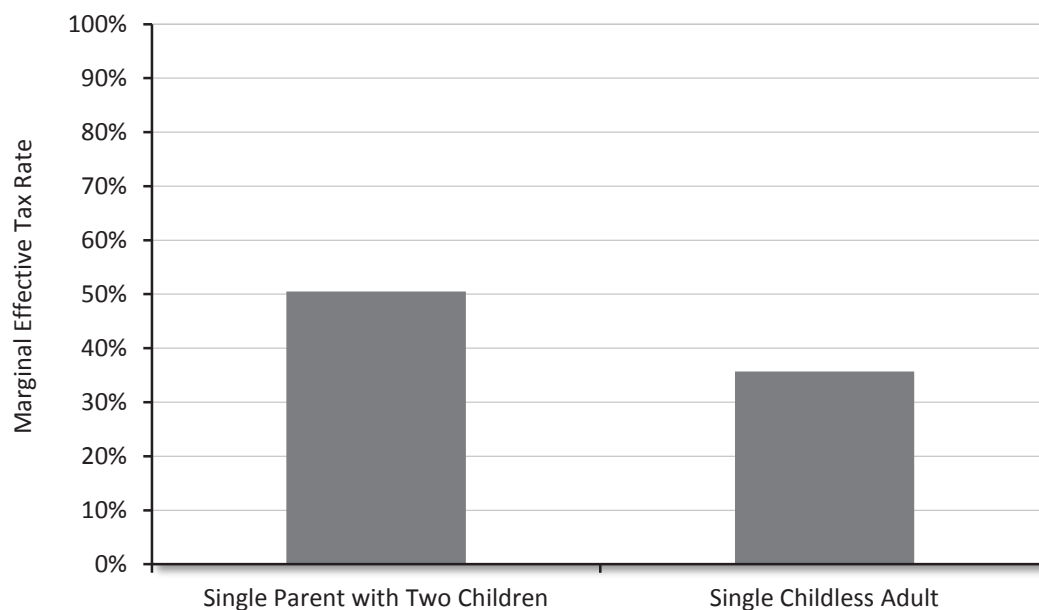
PORTUGAL *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

ROMANIA

| Program | Type | Description |
|--|-------------------|--|
| Ajutorul social/ Venitul minim garantat | Social Assistance | Means-tested benefit gives benefits to ensure that every household has at least the guaranteed minimum income as determined by the government. Benefits are adjusted for household income and composition and are disbursed monthly. |
| Alocația de stat pentru copii | Family Benefits | Child's allowance is given to all children up to age 18 and is extended further if the child is in secondary or postsecondary education. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, Romania," <http://www.oecd.org/els/soc/ro.zip>; European Commission, "România—Ajutorul social," <http://ec.europa.eu/social/main.jsp?catId=1126&langId=ro&intPagId=3283>; European Commission, "România—Alocația de stat pentru copii," <http://ec.europa.eu/social/main.jsp?catId=1126&langId=ro&intPagId=3263>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|------------------------------------|---------------------------|
| Welfare package | €915 | €364 |
| Percentage of net income at average wage | 21.0 | 8.9 |
| Percentage of gross income at minimum wage | 45.3 | 18.0 |

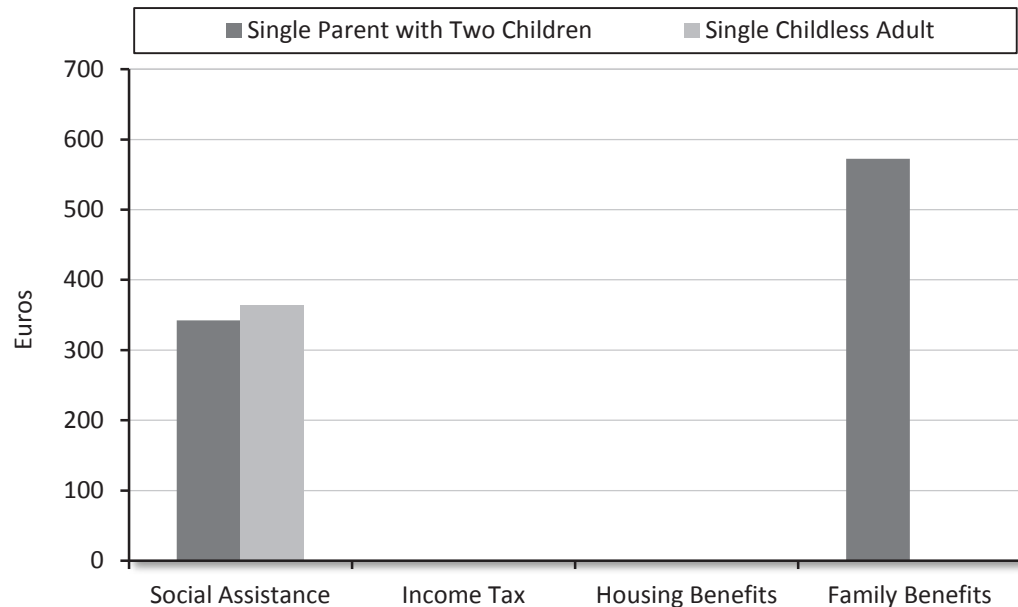
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.43/10 |
| Heritage, 2013 | 72.20/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

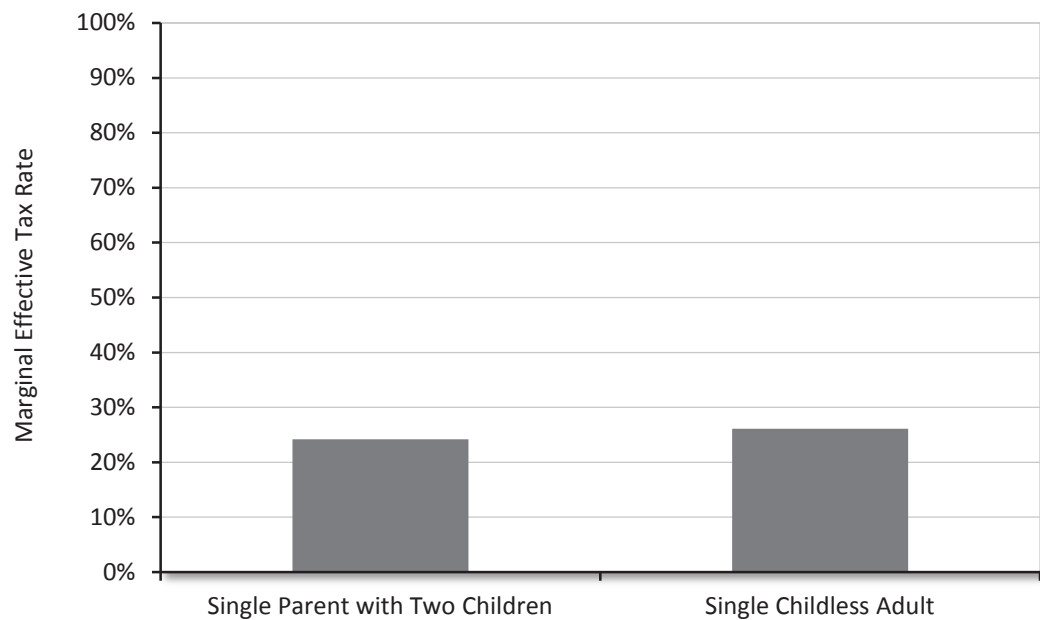
ROMANIA *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

SLOVAKIA

| Program | Type | Description |
|---|--------------------|---|
| Dávka v hmotnej núdzi (“material need” benefit) | Social Assistance | Program guarantees that each household or family has income at least equal to the minimum threshold as defined by the state, <i>životné</i> minimum. There are supplemental allowances for housing, health care, activation, and others. Benefit amount is adjusted by household composition. |
| Prídavok na dieťa | Family Benefits | Child allowance is provided at a flat rate, monthly, and is granted universally to every dependent child. |
| | Housing Assistance | Since 2004, this assistance has no longer been provided as a separate benefit but is now within the social assistance program. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Slovakia,” <http://www.oecd.org/els/soc/sk.zip>; European Commission, “Slovensko—Nároky rodiča,” <http://ec.europa.eu/social/main.jsp?catId=1127&langId=sk&intPagId=2799>; European Commission, “Slovensko—Dávka v hmotnej núdzi,” <http://ec.europa.eu/social/main.jsp?catId=1127&langId=sk&intPagId=2815>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €3,284 | €1,420 |
| Percentage of net income at average wage | 37.4 | 18.4 |
| Percentage of gross income at minimum wage | 81.0 | 35.0 |

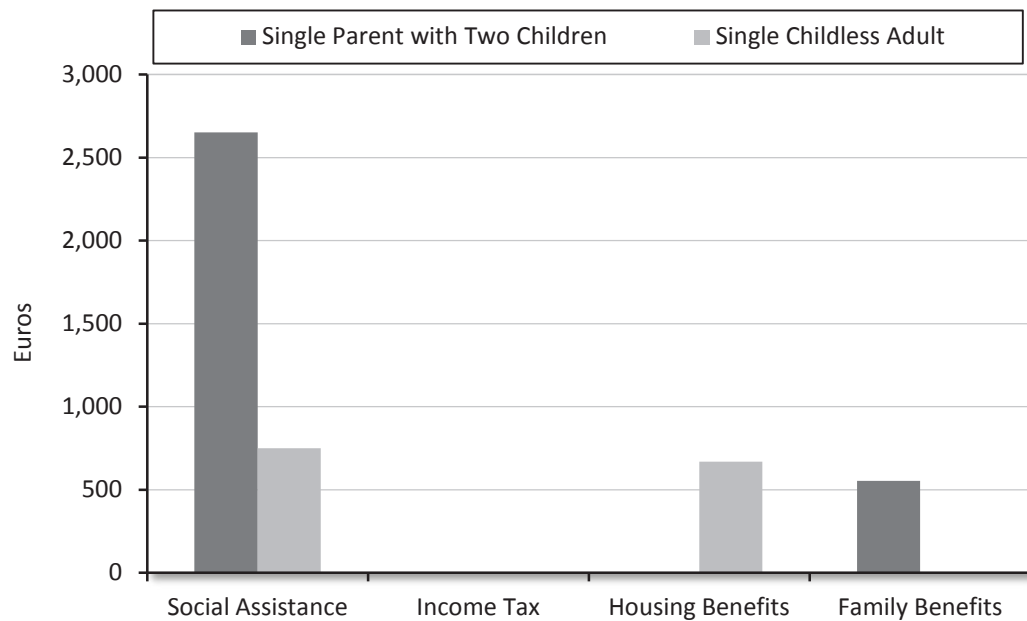
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 7.15/10 |
| Heritage, 2013 | 40.40/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

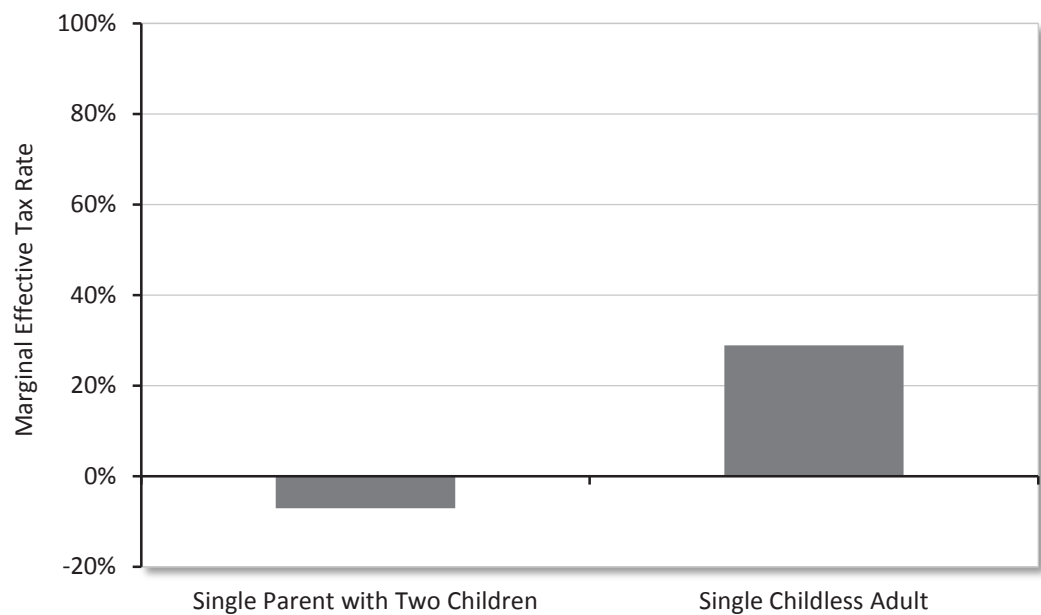
SLOVAKIA *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

SLOVENIA

| Program | Type | Description |
|------------------------|--------------------|--|
| Denarna socialna pomoč | Social Assistance | Means-tested program is intended to provide sufficient resources for basic needs for a limited time. Eligibility is determined case by case by <i>za socialno delos</i> (social work centers), which are “one-stop shops” for welfare and social assistance. Benefit amounts are determined relative to the <i>minimalni dohodek</i> (basic minimum income) as defined by the government as dictated by the Financial Social Assistance Act. From February 2013 to January 2014, the basic minimum income was €261.65 per month. |
| | Housing Assistance | The housing assistance component is folded into the social work centers and is related to the basic minimum income. Benefit amount depends on income and rent but is not intended to fully pay for housing. Recipients are required to pay a compulsory minimum 20 percent of rent. |
| Otroškega dodatka | Family Benefits | Benefit for dependents under age 18 or up to age 26 if the child is still in education. Benefit amount depends on household composition and family income. |

Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Slovenia,” <http://www.oecd.org/els/soc/sl.zip>; European Commission, “Slovenija—Otroški dodatek,” <http://ec.europa.eu/social/main.jsp?catId=1128&langId=sl&intPagId=3013>; European Commission, “Slovenija—Minimalna sredstva,” <http://ec.europa.eu/social/main.jsp?catId=1128&langId=sl&intPagId=3033>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €9,937 | €3,956 |
| Percentage of net income at average wage | 61.4 | 33.5 |
| Percentage of gross income at minimum wage | 105.7 | 42.1 |
| Inactivity trap, marginal effective tax rate moving from inactivity to 50% of average wage | 80% | 58.4% |

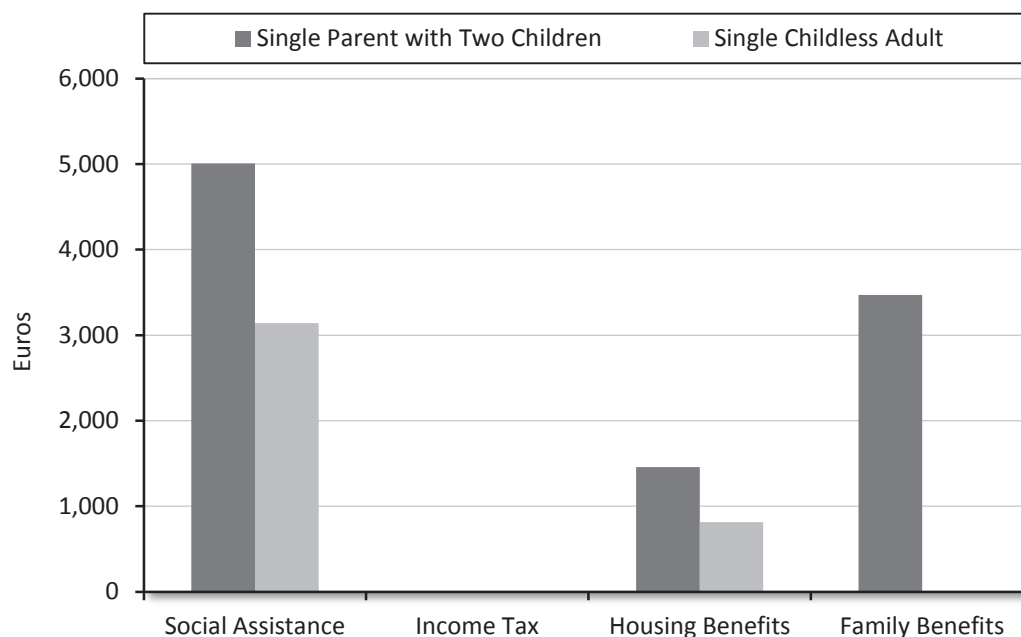
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 5.66/10 |
| Heritage, 2013 | 54.30/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

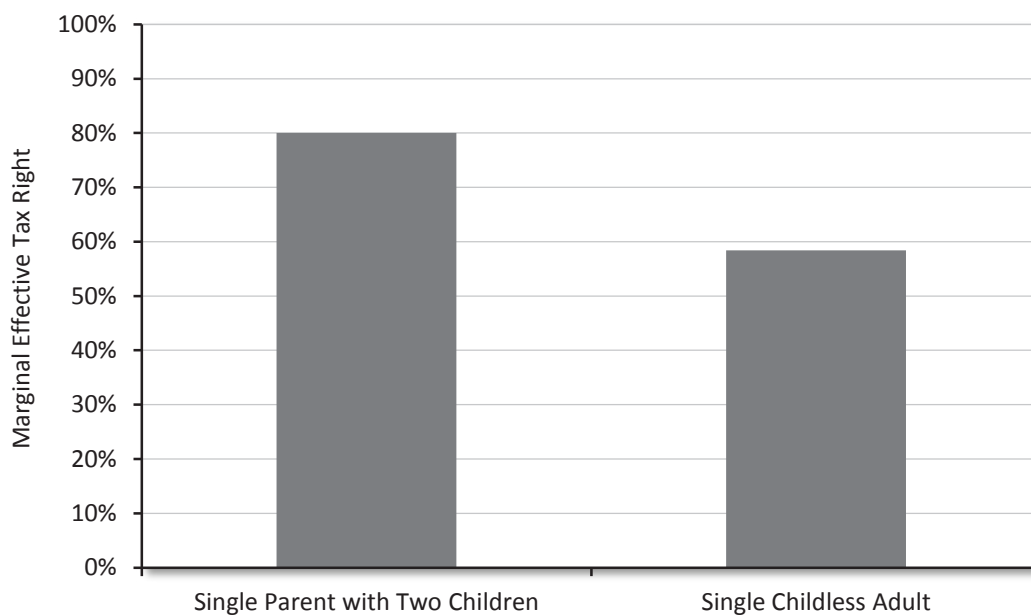
SLOVENIA *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

SPAIN

| Program | Type | Description |
|---|-------------------|---|
| Ingreso Mínimo/Renta Mínima de Inserción (Minimum Income for Insertion—MII) | Social Assistance | Program is intended to alleviate poverty by means of cash assistance for basic needs. Similar to TANF in the United States, MII is implemented at the regional level within the guidelines of a national framework. The amount shown here is for Madrid. The benefit is means tested, and applicants must be available for work and actively seeking it. The minimum age is 25, although younger people with dependents can also qualify. Benefit amounts are adjusted for household composition. |
| Prestación por hijo o menor acogido a cargo | Family Benefits | Program provides child allowance for each dependent child under age 18; the benefit amount is adjusted for household income and number of children. |

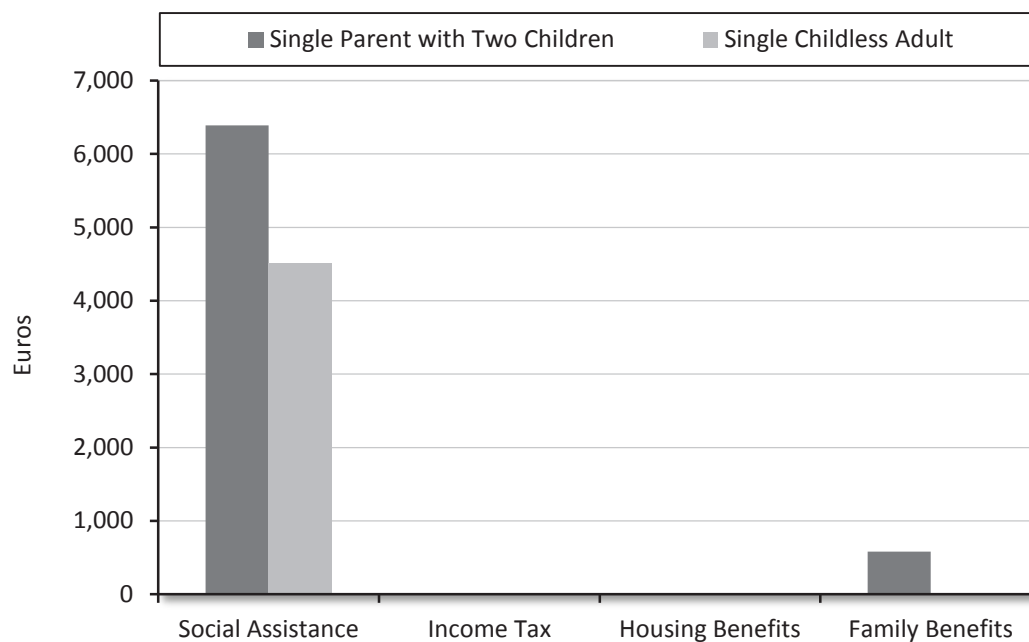
Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Spain,” <http://www.oecd.org/els/soc/es.zip>; Seguridad Social, “Prestación económica por hijo o menor acogido a cargo,” http://www.seg-social.es/Internet_1/Trabajadores/PrestacionesPension10935/Prestacionesfamilia10967/Prestacioneconomica27924/; Ministerio de Sanidad, Servicios Sociales e Igualdad, “Informe de Rentas Mínimas de Inserción,” <http://www.msssi.gob.es/ssi/familiasInfancia/inclusionSocial/serviciosSociales/RentasMinimas/home.htm>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €6,972 | €4,507 |
| Percentage of net income at average wage | 32.2 | 22.5 |
| Percentage of gross income at minimum wage | 77.2 | 49.9 |

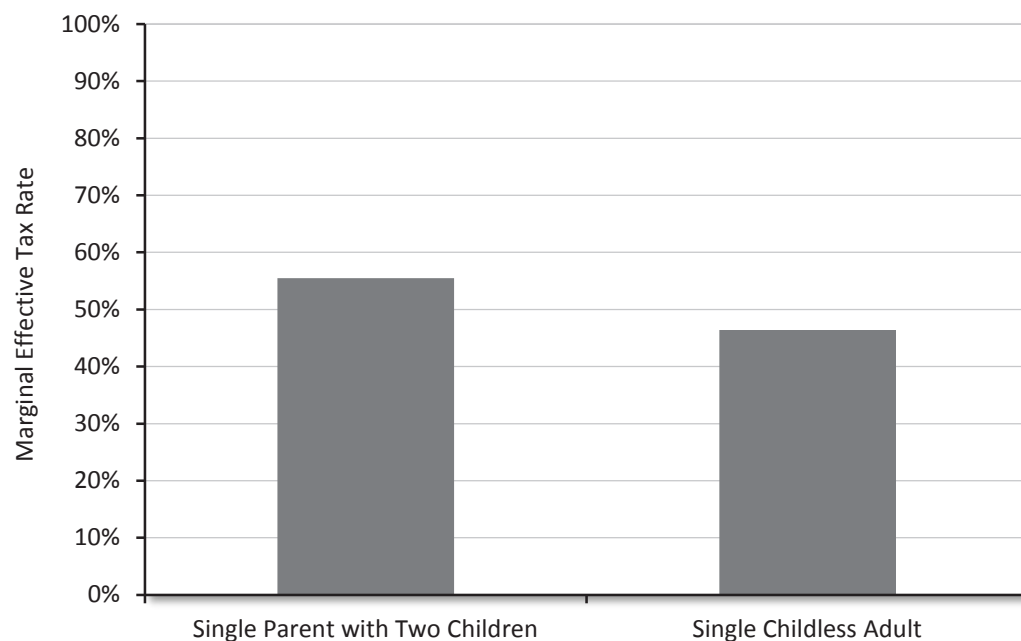
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| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 5.33/10 |
| Heritage, 2013 | 53.60/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

SPAIN *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

SWEDEN

| Program | Type | Description |
|------------------|--------------------|--|
| Försörjningsstöd | Social Assistance | Program provides income and asset-tested benefit. Applicants must be actively seeking employment. The National Board of Health and Welfare establishes national guidelines for social assistance annually, and this threshold is adjusted for household composition. |
| Bostadsbidrag | Housing Assistance | There is an income-tested housing allowance that is adjusted by age, household income, housing costs, and household composition. Households getting social assistance get their rent fully covered. |
| Barnbidrag | Family Benefits | Universal benefit for all children under age 16, or age 20 if child is in some form of education. Benefit amount is adjusted by number of children. |
| Flerbarnstillägg | Family Benefits | Supplemental child benefit is for households with multiple children and is given until the child turns 16, or longer if the child is in education. |

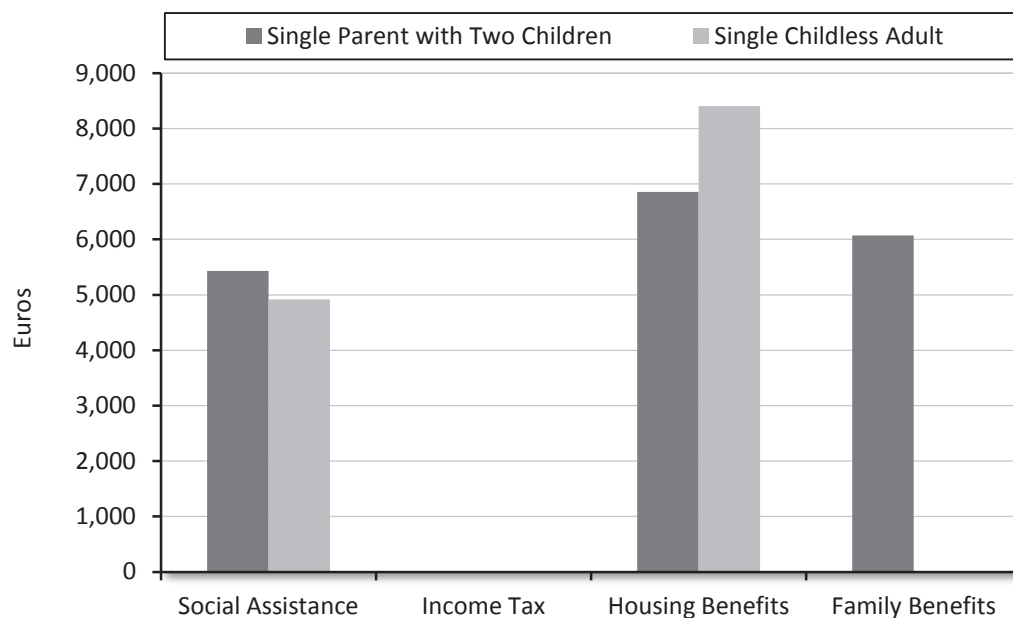
Source: Organisation for Economic Co-operation and Development, “Benefits and Wages, Country Specific Information, Sweden,” <http://www.oecd.org/els/soc/se.zip>; European Commission, “Sverige—Barnbidrag,” <http://ec.europa.eu/social/main.jsp?catId=1130&langId=sv&intPagId=3101>; European Commission, “Sverige—Ekonomiskt bistånd,” <http://ec.europa.eu/social/main.jsp?catId=1130&langId=sv&intPagId=3125>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €18,183 | €13,320 |
| Percentage of net income at average wage | 48.5 | 42.4 |
| Percentage of gross income at minimum wage | n/a | n/a |

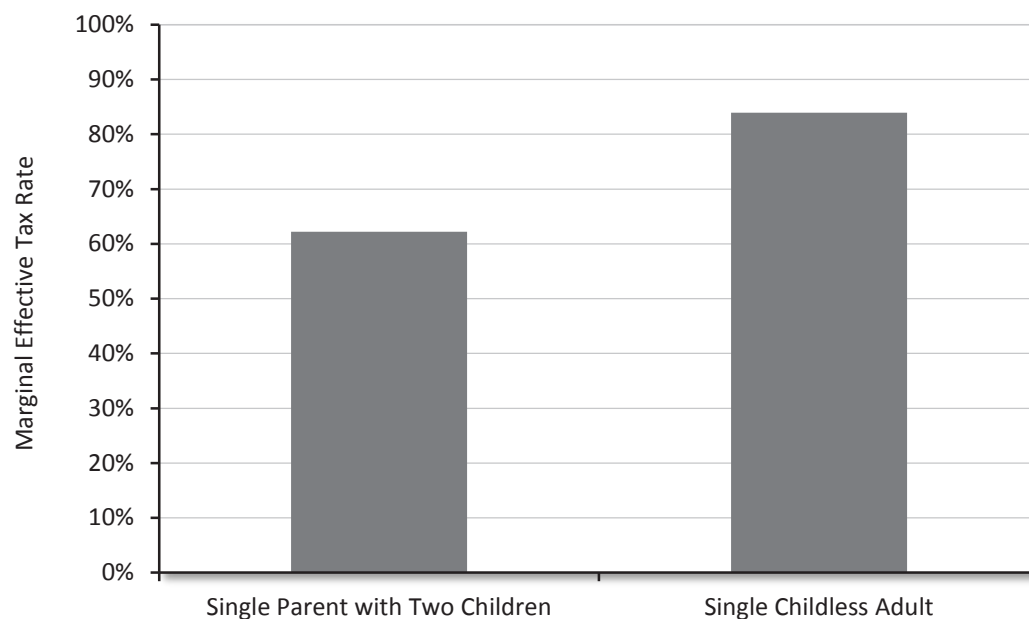
Source: Organisation for Economic Co-operation and Development, “Benefits, Taxes and Wages—Net Incomes,” <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, “Inactivity Trap,” Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, “Monthly Minimum Wages—Bi-Annual Data,” Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|----------|
| Fraser/Cato, 2012 | 6.8/10 |
| Heritage, 2013 | 58.6/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, “2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,” Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

SWEDEN *Continued***Benefits Package by Category (in Euros)**

Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage

Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

UNITED KINGDOM

| Program | Type | Description |
|------------------|--------------------|--|
| Income Support | Social Assistance | Means-tested benefit is for working-age people not subject to the work requirements in the Jobseeker's Allowance, such as full-time care providers and single parents with a child under age 5. |
| Child Tax Credit | Family Benefits | Tax credit granted for each dependent under age 16, or 20 if in education or training. Unlike the Working Tax Credit, parents do not need to be working to claim the Child Tax Credit. |
| Housing Benefit | Housing Assistance | Means-tested benefit is intended to provide help with paying rent for private or public housing. For people in households that receive Income Support or Jobseeker's Allowance, the housing benefit is the full amount of eligible rent; for all others, it is eligible rent minus 65 percent of the difference between net resources and relevant amount. |
| Child Benefit | Family Benefits | Benefit is given to each child under age 16, or 19 if the child is in full-time education. Benefit amount in the applicable period was £20.30 for the first child and £13.40 for each additional child. Benefit was universal, but starting in 2013, high-income households are subject to a tax that ultimately negates the benefit. There is a charge equal to 1 percent of the child benefit for every £100 over £50,000. |

Source: Organisation for Economic Co-operation and Development, "Benefits and Wages, Country Specific Information, United Kingdom," <http://www.oecd.org/els/soc/uk.zip>.

| Measure | Single Parent with Two Children | Single Childless Adult |
|--|---------------------------------|------------------------|
| Welfare package | €23,625 | €12,818 |
| Percentage of net income at average wage | 65.0 | 37.6 |
| Percentage of gross income at minimum wage | 161.4 | 87.6 |

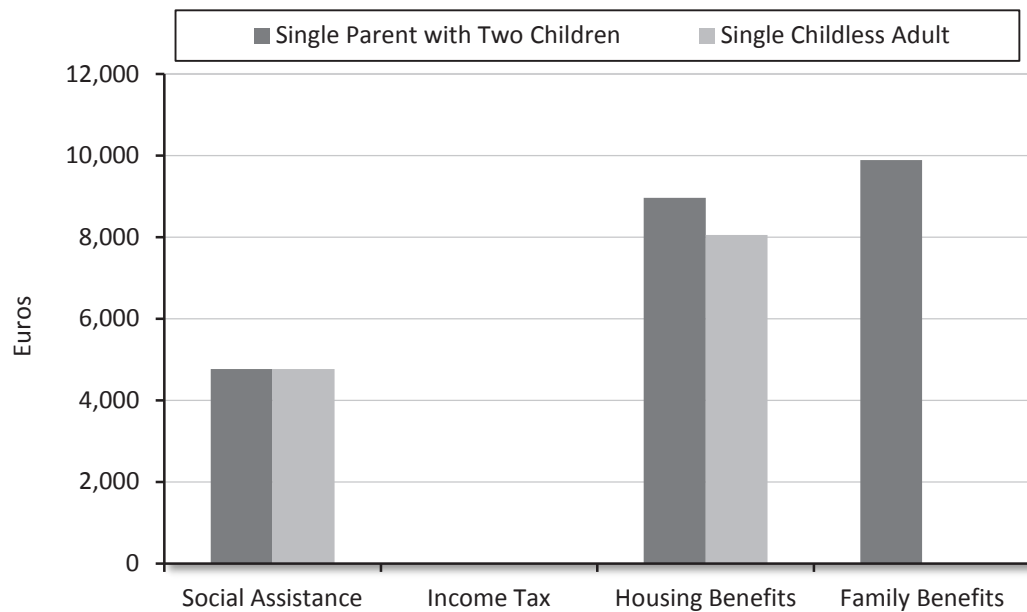
Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>; European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/; European Commission, "Monthly Minimum Wages—Bi-Annual Data," Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_mw_cur&lang=en.

| Labor Market Grades | |
|---------------------|-----------|
| Fraser/Cato, 2012 | 8.27/10 |
| Heritage, 2013 | 71.60/100 |

Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, "2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity," Heritage Foundation, January 10, 2013; James Gwartney, Robert Lawson, and Joshua Hall, *Economic Freedom of the World: 2014 Annual Report* (Vancouver: Fraser Institute, 2014).

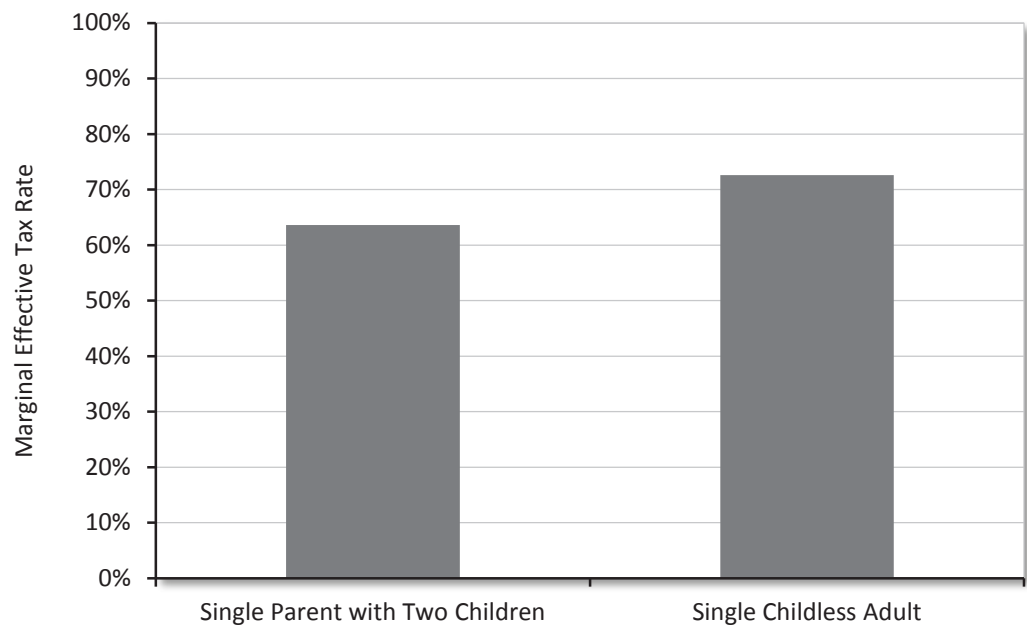
UNITED KINGDOM *Continued*

Benefits Package by Category (in Euros)



Source: Organisation for Economic Co-operation and Development, "Benefits, Taxes and Wages—Net Incomes," <http://stats.oecd.org/Index.aspx?DataSetCode=FIXINCLSA>.

Inactivity Trap, Marginal Effective Tax Rate Moving from Inactivity to Half of Average Wage



Source: European Commission, "Inactivity Trap," Tax and Benefits Database, Economic and Financial Affairs, http://ec.europa.eu/economy_finance/db_indicators/tab/.

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