



Working Poor in Europe: A Partial Basic Income for Workers?

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1. Introduction

While the problem of working poor is broadly discussed in the United States of America, there are very few empirical investigations about the working poor in Europe. Moreover, workers play almost no role in the public and political debate about poverty. In Europe it is typical to think of “the poor” as non-working people like the unemployed, pensioners and children, or at least as people whose ability to work is restricted, such as single parents. In contrast to this general opinion, I will show in the next part of this paper that a substantial share of the poor work and that the majority of the poor in Europe live in households with at least one household member working.

These results raise the question of what means can prevent workers from becoming poor. Since the working poor have an income of their own which is, however, insufficient, even a partial basic income (PBI), in contrast to a full basic income below the poverty line, could be a means of fighting poverty for this group. In the third part of the paper, I will propose one concrete model of a partial basic income for workers and discuss its consequences, advantages and disadvantages.

2. The working poor in Europe

For the discussion it makes sense to have some basic empirical background information about the working poor in Europe. For a few years a comparable data set has been available for all countries in the European Union except Sweden. Using this data set I will answer some simple questions, such as: How many working poor are there in the European Union and its member states, and what are the causes of poverty among the working poor?

2.1 Definition and measurement of poverty

The first question, however, is: what is poverty and how is it measured? There is a variety of poverty definitions and measures (see Atkinson, 1998, pp:10ff.; Hagenaars, 1986; Strengmann-Kuhn, 2000; Van den Bosch, 1999). It is

not possible to discuss the alternatives here in detail, but the main questions and the answers given for the investigations performed for this paper will be described in following.

One basic distinction is the difference between direct and indirect measures of poverty (see Ringen, 1988; Sen, 1981). Indirect measures are based on what is known as the resource definition of poverty, that is, people are poor if they lack resources, and are not poor if they have sufficient resources, independent of their use. Direct measures of poverty are based on the observation of an individual's current living standard and supply of goods. Most international comparative investigations, including this paper, use indirect measures on the basis of income.

When an income definition of poverty is used there are a number of questions that have to be answered regarding measurement. The first question is what kind of income should be used: the income period (monthly, yearly or weekly income), the kinds of income sources (especially if non- monetary income can be included), gross or net income and so on. Another question is the income unit. Typically the household income is used. Thus it is presumed that income is equally distributed within the household or – more precisely – that income is distributed in such a way that the welfare of each household member is the same. This assumption can be criticised (see Jenkins, 1991; Ruspini, 1998; Burri, 1998), because it is not guaranteed that intra-household transfers actually take place or that they occur at such a level that everyone in the household has the same welfare. Nevertheless it cannot be observed how income is distributed within a household, and in any case the assumption that income is not distributed within the household is even less plausible than the equal distribution assumption.

Besides the problem of unequal distribution within the household, household income itself is not a good measure for welfare. A more obvious measure would be a per capita income. But this neglects economies of scale, i.e. a two-person household does not need twice the income of a single household, and children don't need as much as adults: for example, a household of two adults needs more income for the same welfare than does a single parent with one child. The solution to this problem is what is known as the equivalent income, which can be

interpreted as a means-weighted per capita income. To calculate it one has to define the equivalence weights, which constitute an equivalence scale. One customary scale, the one used in this paper, is the (original) OECD scale, where the weight of one adult is one, the weight of other persons aged 15 years or older is 0.7, and each child under 15 years is weighted as 0.5. The equivalence scale is then calculated by dividing the household income by the sum of weights of the household.

Finally, the question of the income threshold below, which there is poverty, has to be answered. Usually the poverty line is defined as a percentage of average income. For this, too, several points must be clarified. The first is whether national averages are used or a Europe-wide standard (see Atkinson, 2000, pp27ff.; Vos/Zaidi, 1998). Typically poverty is defined by a national standard, which corresponds to the poverty definition used by the Council of the European Union. The second point is the percentage of the average to be used: typical are 40, 50 or 60 per cent. The third point is how to calculate the average. There are several possibilities, each of which has advantages and disadvantages (see Hagenaars et al., 1994). Usually the median or the (arithmetic) mean is used. The median is the point at which exactly 50 per cent have an income above and 50 per cent below. The mean, which is higher than the median, is the income of equal distribution. In this paper I use 50 per cent of the mean as a poverty threshold, a threshold also used by Eurostat (Eurostat, 1997). In newer publications of Eurostat this was changed to 60 per cent of the median (Marlier/Ponthieux, 2000; Mejer, 2000; see also Atkinson et al., 2002). However, both thresholds are about the same for all member states of the EU (see Hauser et al., 1999).

In summary, in this paper I will use the following poverty measure: a person is poor if she or he lives in a household with a monthly net equivalent income below 50 per cent of the mean equivalent income (MEI), with the original OECD scale used as the equivalent scale. However, the European Community Household Panel provides the possibility of using several other poverty measures (Strengmann-Kuhn, 2000). Results about working poor using alternative measures of poverty can be found in Strengmann-Kuhn (2002). These alternatives are

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- § using yearly income instead of monthly income;
 - § the Subjective Poverty Line, where both the poverty line and the equivalence scale are estimated empirically and
 - § a poverty line based on a welfare function which is dependent on both income and direct measures of welfare.

2.2 Definition of the “working poor”

As a next step it must be clarified what is meant by “working poor”, a term which remains rather ambiguous both in political discussions and in the academic literature. One possibility is to say that the working poor are persons whose individual wage lies below a certain threshold (Schäfer, 1997); this threshold may be a poverty line, a percentage of average wage or determined in some other way. In this case, however, the term 'poor' is misleading: workers with a low wage are not necessarily poor, because it is possible that they receive income other than wages, or that there are other household members with an income high enough to avoid poverty for the whole household. For this reason the term working poor is not used for this group in this paper.

An obvious possibility would be to define working poor as all workers who are poor. That is, according to the definition of poverty used in this paper, all workers who are living in a poor household. For employment the definition of the ILO (International Labour Organisation) is used in this paper, that is, the term “worker” designates all who worked at least one hour in the week before the interview. In the literature about working poor this definition is sometimes restricted further to some types of workers. On the other hand, in some studies the definition of the working poor is extended to all household members who live in a poor household with at least one worker (Knöpfel, 1999; Caritas Schweiz, 1998). In this paper four different definitions are used:

- § all workers living in a poor household;
- § all full-time workers living in a poor household;

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- § all people living in a poor household with at least one working household member (working poor household);
 - § all people living in a poor household with at least one full-time working household member (full-time working poor household).

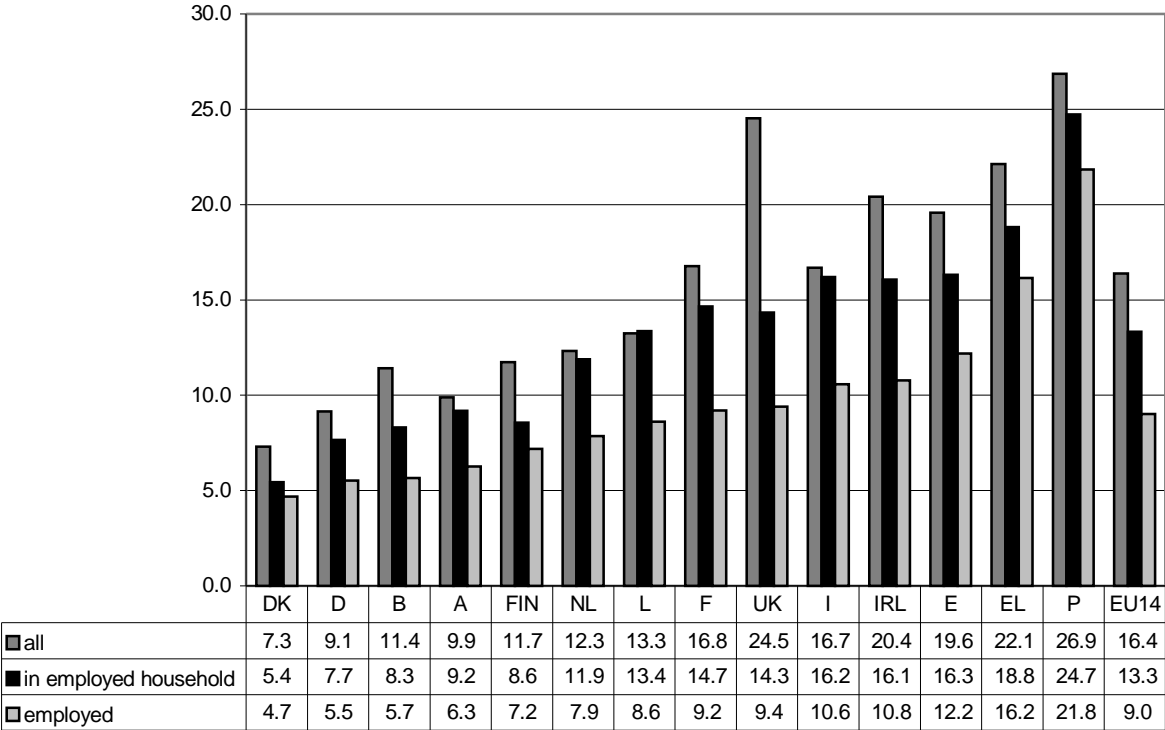
2.3 Database: The European Community Household Panel (ECHP)

The database of the following empirical results is the European Community Household Panel (ECHP). The ECHP is a data set provided by Eurostat, collected in the countries of the European Union since 1994. The ECHP is a panel study, i.e. the same households are interviewed each year. In 1994 the twelve countries that were then EU members were included; Austria was added in 1995 and Finland in 1996. Sweden does not take part in the ECHP. The aim of the ECHP is to acquire comparable data for all countries using a similar questionnaire. The advantage of this data set as regards poverty research is that it includes detailed data on income and a number of additional indicators, which can be used for poverty measurement. This paper analyses the data from 1996, the third wave.

2.4 Empirical results

In the following only some basic findings about working poor in Europe are presented (for further results see Strengmann-Kuhn, 2001 and 2002). The first question is: what are the poverty rates of workers? The results are shown in figure 1. In all countries the poverty rates of workers are below the average poverty rates. In the whole EU (except Sweden) the poverty rate is 16.4 per cent in the whole population, but “only” 9 per cent of all workers are poor. The poverty rate in employed households, that is, households with at least one employed household member, is higher than for the worker alone in all countries. For the EU this poverty rate is 13.3 per cent, which is lower than the general poverty rate. This is typical for all member states; only in Luxembourg is the poverty rate in employed households slightly higher than for the whole population.

Figure 1. Poverty rates in the member states of the European Union (%)



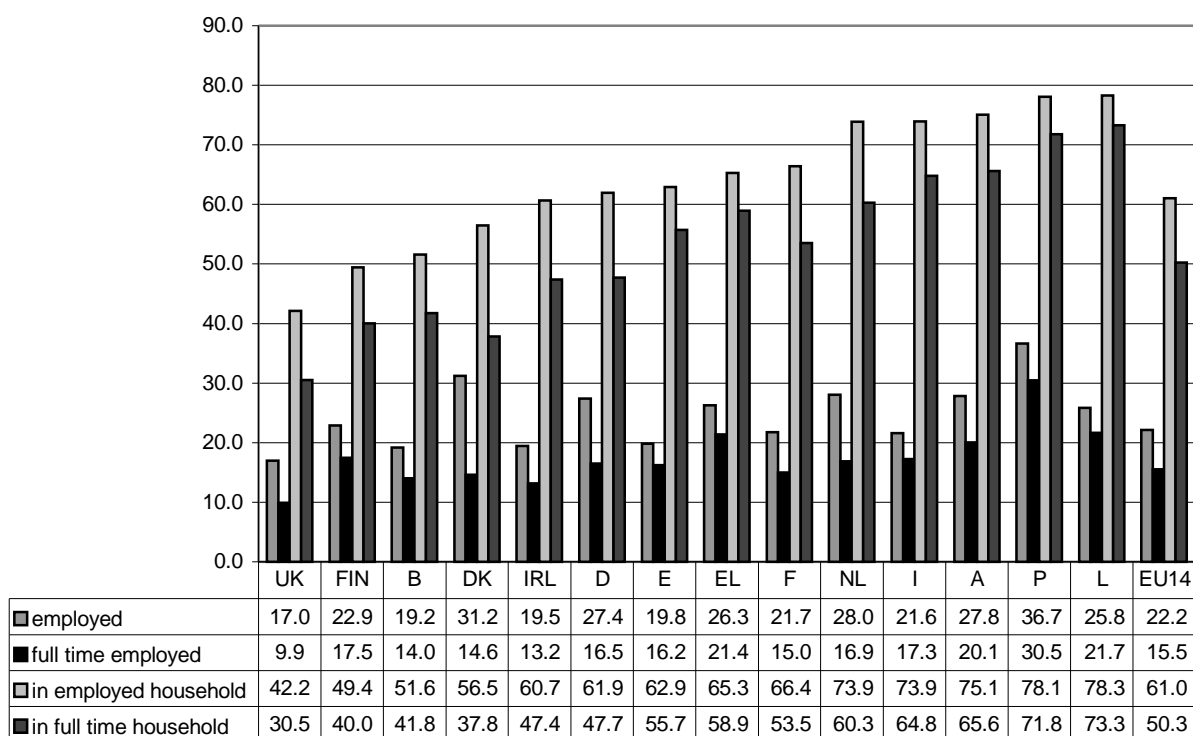
Source: European Community Household Panel (ECHP) 1996, author's calculations

Workers have the highest poverty rates in Portugal (24.7 per cent) and Greece (18.8 per cent), followed by Spain, Ireland and Italy with poverty rates between 10.6 per cent and 12.2 per cent of all workers and about 16 per cent in employed households. This means that the poverty rates connected with employment are particularly high in southern Europe and in Ireland. These are also the regions with the highest general poverty rates. At the bottom of the ranking are the countries in which poverty rates are also low for the whole population, namely Denmark, Germany, Belgium, Austria and Finland. In general there is a correlation between the poverty rate for the whole population and the rate for the employed. The most striking exception is the United Kingdom, which has the second highest poverty rate for the whole population but poverty rates with employment located in the middle of the ranking.

The consequence is that the share of the working poor among the poor is lowest in Britain. Only 17 per cent of the poor in the United Kingdom (UK) are employed and only 10 per cent of them full time (see figure 2). Nevertheless, even

in the UK, 30.5 per cent of the poor live in a full-time working poor household and 42.5 per cent in a working poor household. In all other countries the majority of the poor live in a working poor household: in Portugal and Luxembourg this proportion is over 80 per cent; in the Netherlands, Italy and Austria still over 70 per cent and in Germany, Spain and France between 60 per cent and two thirds. In the whole EU, 50.3 per cent of the poor live in households in which at least one member works full time. Including all kinds of employment, this percentage increases to about 61 per cent. The shares of employed persons themselves among the poor are somewhat lower, between 17 per cent (UK) and 36.7 per cent (Portugal). Between 9.9 per cent (UK) and 30.5 per cent (Portugal) of the poor are full-time workers.

Figure 2: Shares of the working poor among all poor in the member states of the European Union (%)

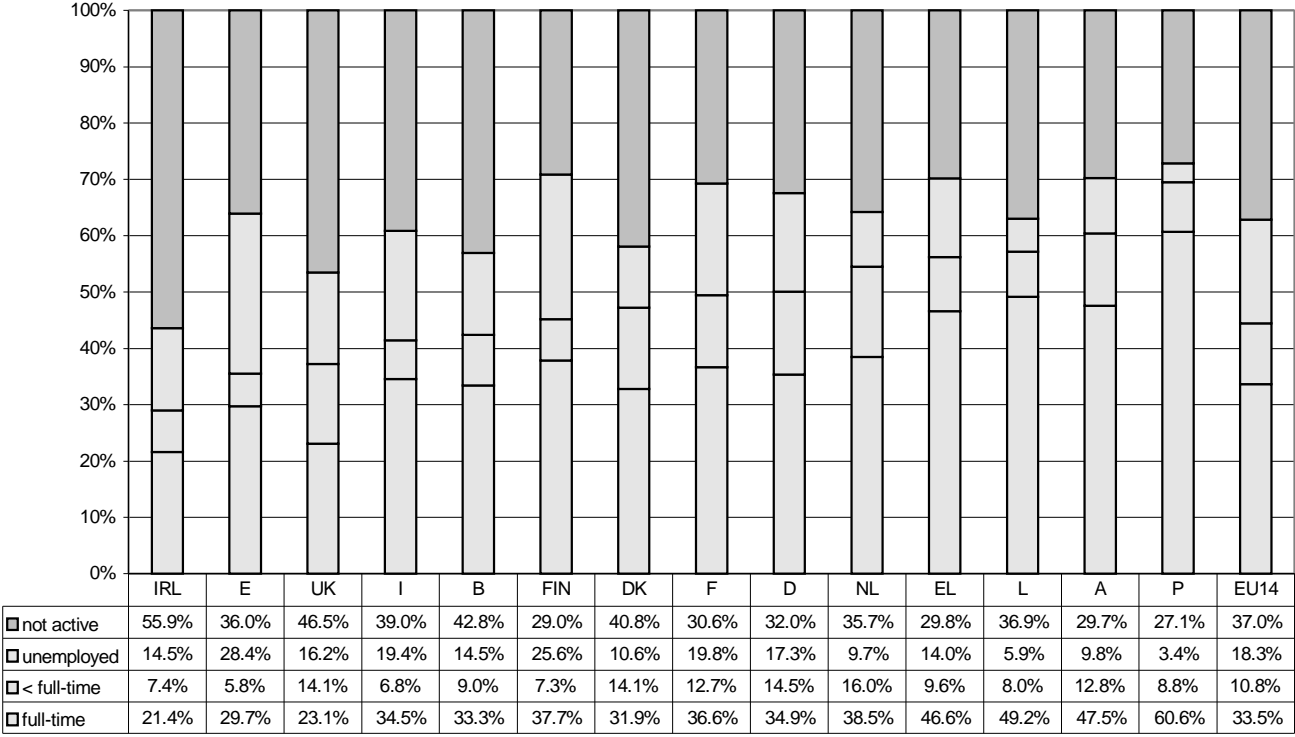


Source: European Community Household Panel (ECHP) 1996, author's calculations

These percentages refer to all poor including children and the elderly. Focusing on people in the primary work age (25 to 55 years), the importance of employment for the poor becomes even more apparent. More than a third of the

poor in this age group in the EU work full time; an additional 10 per cent work less than full time (see figure 3). As compared to these 43.3 per cent who are employed, the share of 18.3 per cent of the 25- to 55-year-olds who are unemployed is relatively low. Portugal has the highest employment ratio of the poor. More than 70 per cent of the working-aged poor are employed and more than 60 per cent of them full time. In all of the other countries, less than half are full-time workers. However, with between 46.6 per cent and 49.2 per cent, nearly half of the poor in Austria, Luxembourg and Spain work full time; when workers who are employed less than full time in these countries are included, the majority of the poor between 25 and 55 years are working. In the Netherlands, Germany, France and Denmark about half are employed, but with a relatively high share of part-time workers, such that about 40 per cent of all working-aged poor are employed full time. This is nearly the same percentage as in Italy, Belgium and Finland, but in the latter three countries there is a lower additional share of poor part-time workers. The lowest employment ratios of working-aged poor are found in Ireland, Spain and Great Britain. The percentages are below 40 per cent, in Ireland even below 30 per cent. The lowest percentage of full-time workers among the working-aged poor is found in Great Britain and Ireland, with a higher additional share of part-time employment in Great Britain. It must be emphasized that in all countries more working-aged poor are employed full time than are unemployed.

Figure 3. Employment status of the working-aged poor in the member states of the European Union (%)



Source: European Community Household Panel (ECHP) 1996, author's calculations

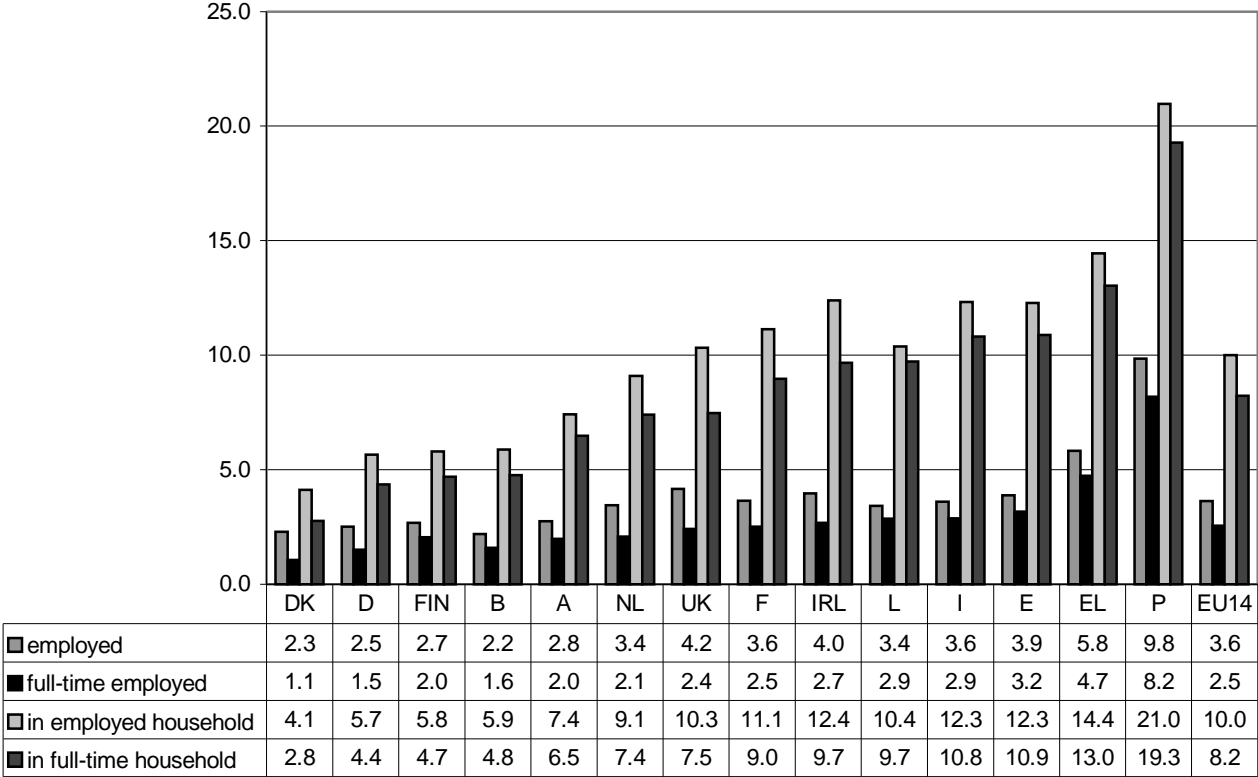
To get a final impression of the quantity of the working poor in the countries of the European Union, working poor rates are calculated, that is, the percentage of the working poor in the population as a whole (see figure 4). Since Portugal has the highest poverty rate with employment as well as the highest share of working poor among the poor, it is not surprising that the working poor rates are also highest in Portugal. Nearly 10 per cent of the whole population in Portugal work and yet live in a poor household. Including the people with whom they live, 20 per cent of the Portuguese population live in a working poor household, 19.3 per cent of them in a full-time working poor household. In all other countries the working poor rates are much lower. In Greece, 5.8 per cent of the population work and are poor; in all other countries less than 5 per cent. These other countries can be divided into two groups. Ireland, Italy, Spain, France, Luxembourg, Great Britain, and the Netherlands have relatively high working poor rates. Between 3.4 per cent (Luxembourg) and 4.2 per cent (Great Britain) are themselves employed and are poor, and about 10 per cent of the population lives in working poor households. But it must be noted that there are different reasons for these

relatively high working poor rates. While in Great Britain and Ireland the working poor share among the poor is relatively low, but poverty rates relatively high, this is the other way around in Italy, Luxembourg and the Netherlands.

In the remaining countries, Austria, Belgium, Finland, Germany and Denmark, the working poor rates are comparatively low. Less than 3 per cent of the population work and are poor and less than 7.5 per cent live in a working poor household. Nevertheless, even in these countries the problem of working poor is not to be overlooked. For example, in Germany, a rate of 2.5 per cent of the whole population means that two million workers are poor. In total, 10 per cent of the whole population of the EU live in a working poor household, 2.5 per cent are employed full time and poor.

In the final part of this section, we will have a look at the causes of poverty. For this it makes sense to analyse the income distribution process. The causes are analysed by looking at each stage of this process when income falls below the poverty line. For each stage in the following I use the same poverty threshold, that is, 50 per cent of MEI. The first stage of this process is individual earnings. So the question is whether the wage would be high enough to avoid poverty if the worker were living alone. If that is not the case, I call it a poverty wage. The second stage is household earnings. Then the question analysed is whether the household earns enough to avoid poverty if there were no other incomes like capital income or state transfers. Some workers rise or fall from the first stage to the second stage. Workers with a poverty wage may rise because the household earnings may be above the poverty threshold if there are other household members with earnings high enough. On the other hand, workers with better than a poverty wage may fall below the poverty line because there are other household members with no or insufficient earnings. The final stage is net household incomes. If these fall below the poverty line then the household is poor. Naturally, there is no fall from the second to the third stage because the only change is additional income.

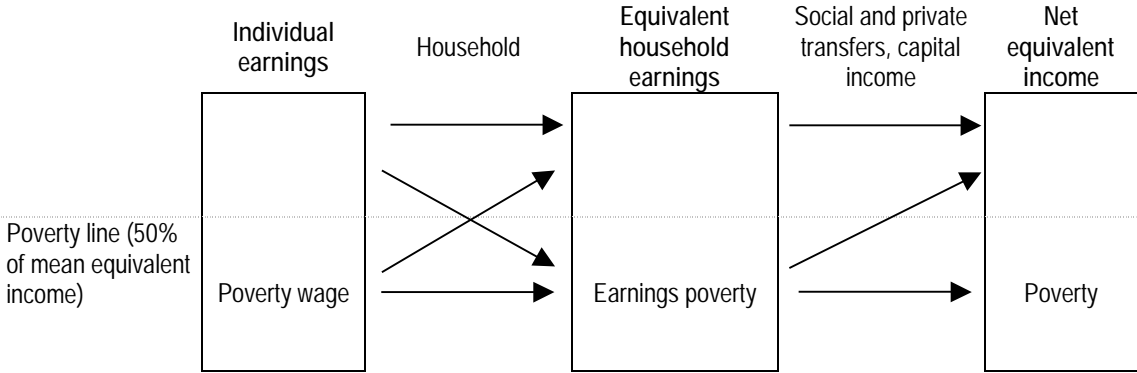
Figure 4. Working poor rates in the member states of the European Union (per cent of the whole population)



Source: European Community Household Panel (ECHP) 1996, author's calculations

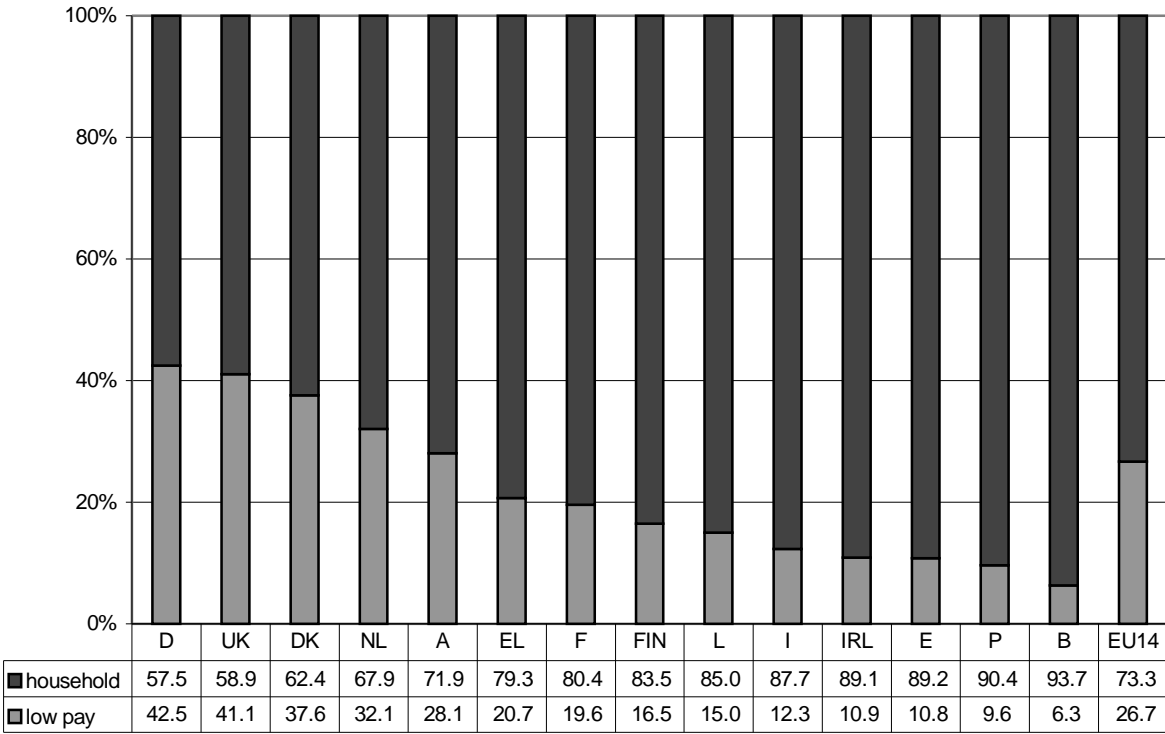
Figure 5 illustrates this process. One can see that there are two ways for workers to become poor. The first is that the worker has a poverty wage and poverty can be avoided neither by earnings of other household members nor other income like state transfers. Then the reason for poverty is low pay. The second way to become poor is that the worker himself or herself has a sufficient income, but falls below the poverty line because of the household context.

Figure 5. The income distribution process and poverty



Now we analyze which of these two causes (household context and low pay) can be found more often in each country. For that the working poor are distinguished between those who have a poverty wage and those who do not. The result is that the majority of the working poor is poor because it falls below the poverty line due to the household context (figure 6).

Figure 6. Causes of poverty of workers in the member states of the European Union (per cent of all working poor)



Source. European Community Household Panel (ECHP) 1996, author's calculations

The highest percentages of low pay as a cause for poverty can be found in Germany and the UK with a bit over 40 per cent, in Denmark (37.6 per cent), in

the Netherlands (32.1 per cent) and Austria (28.6 per cent). In all other countries at least four fifths of the working poor become poor due to the household context.

3. A partial basic income for workers?

3.1 Goals of antipoverty policy

Before presenting and discussing a Partial Basic Income as a means to prevent poverty among the employed, it makes sense to clarify the goals of antipoverty policy. Obviously the reduction of poverty is one goal. For this it would be sufficient to increase the income of a person or a household with an income below the poverty line *a posteriori*, for example by state transfers. For that the target is the last stage of the income distribution process described above. However, besides this it is also an aim of social policy that people be able to receive an income of their own that is sufficient, independent of social or private support. In this case, earlier stages of the income distribution process come into question for measures to fight poverty.

A point of discussion is whether the worker's own wage should be sufficient to avoid poverty. In former times when the male breadwinner model was typical, the answer to this question would be a clear "yes". Since this model belongs to the past - at least as the only model - the answer is not so obvious. The changing employment behaviour of women has several consequences for our question. On the one hand it follows that a man does not need to earn so much money that his income is also sufficient for his wife, because one can assume that she has her own income, too. On the other hand, the earnings of women in many cases are still only additional income, often from only part-time employment.

Therefore there are two points to discuss. The first one is the extent to which the household context should be taken into account to fix a target for a poverty-avoiding wage. The second point is whether a poverty-avoiding wage should be attained for all kinds of employment. It could be argued that in cases where the partner has a sufficient income, the wage must not necessarily be above the poverty line, because poverty could be avoided by intra-household transfers. On

the other hand, it is not certain that these transfers actually flow. Furthermore, above it was argued that an aim of social policy is to make it possible for every individual to receive a sufficient income independent of private or social transfers, and there is no reason why this should not be the case with regard to private intra-household transfers as well. So, if a wage above the poverty level could be guaranteed, dependency (especially of women) on a partner could be decreased. Therefore a goal could be that the individual wage should be above the individual poverty line, that is the poverty line of a single household.

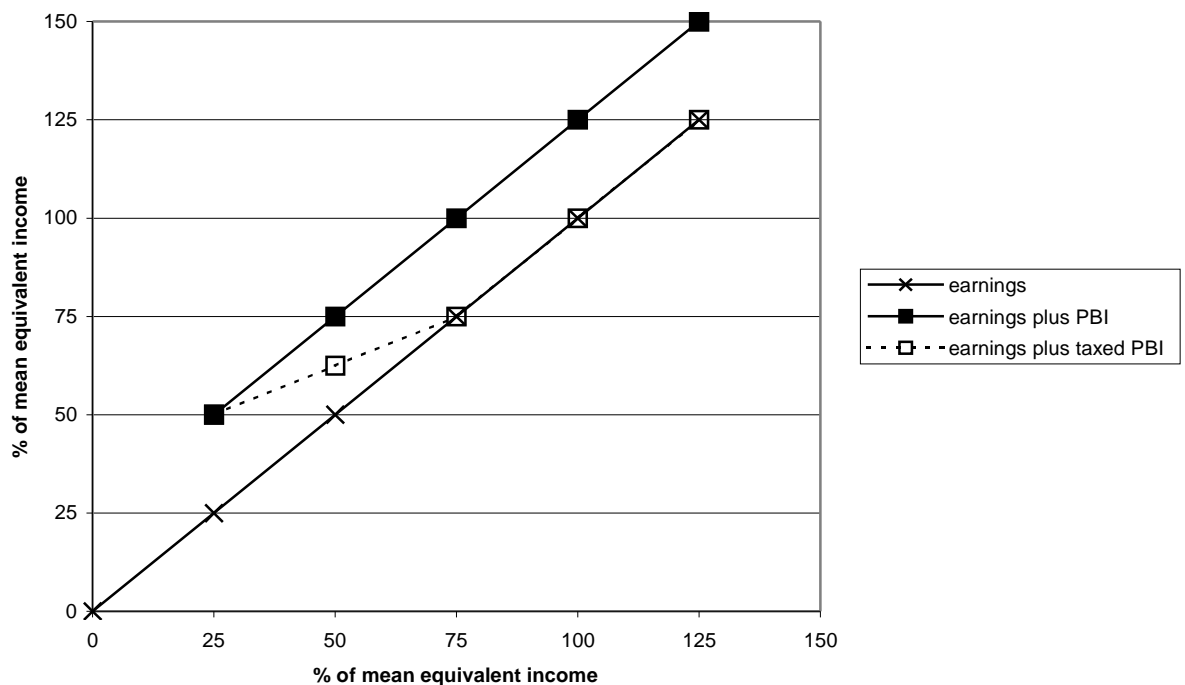
The second question is whether this should be a goal for all kinds of employment. Should even people who work only one hour per week receive a wage that is above the poverty line? I expect most people would answer this question with “no”. One argument would be that the resulting hourly wage rate would be too high. So, what could be an employment threshold above which an individual income over the individual poverty line should be received? Surely there is a consensus that a full-time worker should receive a wage that is sufficient to avoid poverty for her or himself. If part-time workers also should receive an individual income above the individual poverty line, then the following could be a sensible threshold. Germany has instituted what is known as *Geringfügige Beschäftigung* (minor employment), which is employment for fewer than 15 hours per week and with a monthly wage less than 325 Euro. Such kinds of employment are usually seen as additional employment and not intended to secure a subsistence level of one’s own. Therefore it would make sense to say that a wage for employment that is more than a *Geringfügige Beschäftigung* should be higher than the individual poverty line. Incidentally, this threshold is about half of the German poverty line, measured as the half of mean equivalent income. Thus this goal can be generalized for other countries: workers who have a wage of more than half of the poverty line should receive an additional income that is above the individual poverty line.

3.2 A partial basic income for workers

Means to reach this goal could be wage subsidies or a partial basic income that looks like the following (see figure 7). Each worker who earns more than a

quarter of the mean equivalent income, or half of the poverty line, would have the right to receive a PBI at the level of half of the poverty line. That would guarantee that all of these workers have an income of their own above the individual poverty line.

Figure 7. A model for a partial basic income for workers



To limit the costs for this PBI it should be constructed in such a way that the net payment will decrease with increasing earnings. Figure 7 shows an example with a marginal tax rate of 50 per cent. Here only workers with earnings between 25 per cent and 75 per cent of average income, or 50 per cent up to 150 per cent of the poverty line respectively, would take advantage of the PBI. Naturally, this tax rate could be higher (or lower). Then fewer (more) people would have a benefit from the PBI and the costs would be lower (higher).

As generally for basic income, this PBI could be constructed in two ways. The first alternative is that the PBI be paid like a social dividend, that is, everyone who has the right to receive it would get the PBI only by proving that her or his earnings are high enough. At the end of the year, the PBI would be taxed along with other income. People who earn more than 75 per cent of mean income would pay 100 per cent of the PBI as a tax, and below this income the tax would be 50

per cent of the difference between gross earnings and the PBI, as shown in figure 7. The advantage of this type of social dividend is that everyone who is eligible receives the PBI; there is no problem of non-take-up. The disadvantages are that the gross costs are relatively high and that there is a high amount that must be redistributed by the tax authorities. The second alternative is that the PBI be paid like a negative income tax or like a transfer. In this case, only workers with an income between 25 and 75 per cent of the mean income would be eligible and they would only receive the difference between the PBI and the 'PBI tax.' Then the gross costs would be much lower, but the earnings would have to be checked, which might lead to non-take-up of the PBI. Beyond transaction costs, the costs are equal for both of these alternatives.

3.3 Discussion

A main argument against a full basic income - that is, a basic income that is at least as high as the poverty line - is that it is too expensive. A partial basic income obviously has much lower costs. This is not only because the payment for each person is lower, but also because the number of persons who are eligible for a net payment is reduced substantially. In the case of a full basic income at the level of 50 per cent of mean income and a marginal tax rate of 50 per cent, everyone with an income below the mean income would receive a net payment. This means that the majority of people would receive a net payment, which is the main reason for the high costs of a full basic income. With a PBI as described above, only people with earnings between 25 per cent and 75 per cent of the mean income would receive a net payment, which limits costs.

What would be the effect on labour supply of the model above? There are three kinds of incentives. First, it is worthwhile for non-active persons of working age to become employed, particularly women. This is obviously positive. Second, there would be a benefit for workers who have only a *Geringfügige Beschäftigung* if they increase their employment above the 25 per cent threshold. This can also be judged as positive. Third, there is an incentive for workers above the 75 per cent line to decrease employment. This is positive in the sense that it would serve as an incentive for part-time work, which has positive effects on the reduction of

unemployment. On the other hand it might be argued from a feminist point of view that this reduces the link to the labour market for part-time workers, presumably more women than men. However, the other labour-supply effects are positive even from a feminist point of view and may compensate for this.

The third point of discussion is the effects on poverty reduction. The proposed PBI guarantees that the individual income of workers who earn at least half of the poverty line by themselves is above the individual poverty line, which reduces dependence on other household members, the state or other organizations and thus the poverty risk. But it does not guarantee that the household income is above the household poverty line. For that the subsistence level of the other household members also must be satisfied. As shown in the empirical part of this paper, only a minority of the working poor, albeit in some countries a large minority, have earnings below the individual poverty line. The majority becomes poor because other household members have either not enough income or no income at all. For households in which one worker earns above the poverty line and another earns below the poverty line, however, a PBI for workers would help to reduce the poverty risk. Furthermore, one frequent reason why workers become poor due to the household context is that their partners, in most cases women, are not working. Since the described PBI has a positive effect on labour-market participation, there would be another, indirect effect to reduce the poverty risk of workers. Nevertheless, to avoid the possibility of workers falling below the poverty line due to the household context, it is necessary for non-working household members also to meet their individual subsistence level, particularly children and unemployed.

4. Conclusion: A partial basic income – not only for workers?

Not only in the United States of America, but also in the member states of the European Union there is a high number of working poor. Among the poor more people are employed than unemployed, and the majority of the poor are living in working poor households. It is not necessary for the working poor to receive a full basic income, because they naturally have an income of their own. For workers

whose earnings are at least half of the poverty line, a partial basic income as proposed above would be sufficient to reach their individual subsistence level. Compared to a full basic income it has much lower costs. Furthermore, there are mainly positive labour supply effects and the poverty risks of workers would decrease.

To guarantee that workers will not be poor, it is necessary for not only workers, but also the other household members of a working poor household, to have an income above their individual subsistence level. Children usually do not receive any state allowance over their subsistence level, which is about the half of the poverty line. One financially viable and very effective model to guarantee that every child receive just this subsistence level was proposed by Hauser/Becker (2001) and adopted by the German Green party (see Otto 2002, Otto et al. 2001), who call it *Kindergrundsicherung* (Basic Income for Children). Poverty then can arise only if the adults do not have sufficient income for themselves. That leads to the thought of applying the idea of a partial basic income for workers to other groups as well. Like workers, non-working adults, too, usually have an individual income of their own: the unemployed usually receive unemployment benefits, pensioner's pensions and so on. Thus, an individual partial basic income at the level of half of the poverty line for all children, and for all adults who have an individual income of their own of more than the half of the poverty line, would greatly reduce poverty such that only exceptional cases of poor households could be imagined. For example, it would guarantee that single parents who have their own income - including individual social transfers - at half of the poverty line would no longer be poor.

Finally, the question is why adults with an individual income below half of the poverty line should not be eligible for the PBI. Two reasons for this are that the costs would be much higher and that the labour-supply incentives would be not as strong as those described above. More important, however, is that many of them do not need aid. Many of them are voluntarily unemployed or are voluntarily earning only a small amount, for example because they have a partner with a high income. It is not reasonable for the state to subsidize these individuals. Finally, resistance against a basic income would be lower if it were paid only to those who

make a contribution of their own to society, and if the recipients' own income were higher than the basic income. Of course, in the case of a partial basic income rather than a full basic income it would be necessary to have something like means-tested social assistance for those who are not making ends meet even though they receive a partial basic income. But then these would be only exceptional cases.

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