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ANALYSIS OF SPECIAL INSTRUMENTS FOR REDUCING INCOME INEQUALITY AND POVERTY USED IN EU COUNTRIES

This article comparatively analyzes EU policy instruments for reducing income inequality and poverty, including social transfers, minimum income schemes, and active labour market policies, finding that integrated policy mixes combining income support, employment promotion, accessible services yield strongest results.

Keywords*: income inequality; poverty reduction; social protection instruments; tax-benefit systems; minimum income schemes; European Union; social inclusion.*

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Income inequality and poverty remain central challenges in the EU despite its extensive social protection systems. Over one fifth of the EU population is at risk of poverty or social exclusion — rising to nearly one in four among children — underscoring the urgency of effective social policy. The EU's 2030 target, under the European Pillar of Social Rights Action Plan, aims to reduce this figure by at least 15 million people, including 5 million children. Social transfers are the primary redistributive tool: in 2024, government transfers accounted for over a quarter of median disposable income across the EU. Their poverty-reducing impact is substantial — in the most generous systems, transfers cut relative poverty rates by 50% or more, while the least effective systems achieve reductions of 20% or less. Yet inequality varies markedly across member states. The EU-wide Gini coefficient stood at around 29.4 in 2024, ranging from 22—24 in more egalitarian countries such as Slovakia, Czechia, and Slovenia to above 34—38 in Bulgaria, Lithuania, and Latvia. Post-transfer poverty rates similarly diverge, with some countries recording fewer than 10% of residents below the poverty threshold and others exceeding 20%. These disparities reflect not only structural economic differences but also divergent policy choices and varying effectiveness of social protection instruments. Europe's tax and transfer systems are central to reducing inequality and poverty. Progressive taxation combined with social benefits — pensions, family allowances, and social assistance — can cut poverty rates nearly in half in the most effective systems. Welfare state design matters significantly: Nordic countries favor universal benefits, liberal regimes rely on means-testing, and continental and southern models blend social insurance with assistance. Research consistently finds that combining universal and targeted approaches yields the best outcomes, provided benefits are adequate and well-designed; the degree of tax progressivity and the mix between universal and means-tested benefits are key determinants of poverty-reduction performance [1] (Nardo et al., 2024; Jula et al., 2025). All EU member states operate minimum income schemes as last-resort safety nets, yet coverage and adequacy remain problematic. Non-take-up rates range from 20% to 50% across member states due to restrictive eligibility rules, complex procedures, and limited awareness (Nardo et al., 2024). On average in 2023, minimum income benefits reached only 56% of the poverty threshold, with several Eastern and Southern European countries falling below 35%. The 2022 Council Recommendation on adequate minimum income reflects growing EU pressure to close this gap. To address work disincentives, many countries have strengthened activation requirements and introduced in-work benefits — tax credits and earnings supplements — designed to make employment financially worthwhile through gradual benefit tapering. Their effectiveness, however, depends on proper calibration and must be complemented by minimum wages, collective bargaining, and access to

[1] Lichte M. Using social vouchers for targeted support in times of crisis. European *Social Network News*. 2020. Nov 25. URL: https://www.esn-eu.org/news/using-social-vouchers-targeted-support-times-crisis#:~:text=The%20post,a%20closed%20foodbank%20in%20Germany (accessed: 24.01.2026).

services. Social vouchers offer a targeted complement to cash transfers, directing support toward specific needs such as food, energy, childcare, or education. Their value lies in ensuring resources reach essential purposes, as demonstrated during the COVID-19 crisis in countries like Italy and Belgium. When well-administered, they are effective additional tools, though they should not substitute for adequate income support. Finally, ALMPs — training, counseling, wage subsidies, and public works — improve employability among vulnerable groups and reduce long-term welfare dependency. Their poverty impact is often indirect but meaningful when integrated with income support and social services, as illustrated by the Nordic activation model.

The purpose of this article is a comparative overview of the policy instruments EU countries use to reduce income inequality and poverty. It examines five categories: social transfers and tax-benefit systems; minimum income schemes; in-work benefits; social vouchers; and active labour market policies. Drawing on recent data and cross-country studies, the analysis evaluates performance using key indicators — the Gini coefficient, at-risk-of-poverty rates, and material deprivation — while addressing core design tensions such as universality versus targeting, benefit adequacy versus work incentives, and effectiveness versus fiscal sustainability. The goal is to distil policy lessons for countries seeking to strengthen social cohesion and align with EU social protection standards.

Material and methods. This study adopts a comparative analytical approach to evaluate the effectiveness of various policy instruments in reducing inequality and poverty across EU member states. It is primarily a policy analysis and synthesis of existing data and research. The analysis is structured around the key instruments identified — social transfers/tax-benefit systems, minimum income schemes, in-work benefits, social vouchers, and active labour market policies — examining each in turn against a common set of evaluation criteria (Table 1) and then considering their combined impact as policy mixes. Quantitative data on poverty and inequality indicators were drawn from the latest available Eurostat statistics and EU reports. In particular, we use EU-SILC (EU Statistics on Income and Living Conditions) data for indicators such as the Gini coefficient of income inequality, the at-risk-of-poverty (AROP) rate (share of persons below 60% of median disposable income after transfers), and the severe material and social deprivation rate [2, 3]. These indicators are standard in EU social monitoring and allow consistent comparison across countries. The data used are primarily for the year 2024 (with 2019—2024 trends noted where relevant), which captures the situation following the COVID-19 pan-

[2] Living conditions in Europe — income distribution and income inequality. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_income_distribution_and_income_inequality#:~:text=The%20at,in%202019 (accessed: 24.01.2026).

[3] Living conditions in Europe — material deprivation and economic strain. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_material_deprivation_and_economic_strain#:~:text=In%202024%2C%206.4,in%202023 (accessed: 24.01.2026).

Table 1. **Evaluation criteria for social policy instruments**

Criterion	Definition	Measurement indicators
Coverage	Share of the eligible/target population actually receiving the benefit	At-risk-of-poverty (AROP) rate before social transfers (pensions included in social transfers) vs. At-risk-of-poverty (AROP) rate before social transfers (pensions excluded in social transfers)
Adequacy	Benefit level relative to a socially accepted threshold of need	At risk of poverty threshold (60% of median equivalised income)
Work-incentive preservation	Degree to which the instrument avoids poverty traps or unemployment traps	Tax rate on low wage earners — Unemployment trap
Targeting efficiency	Concentration of expenditure on the households in greatest need	Income quintile share ratio S80/S20 for disposable income
Fiscal sustainability	Cost-effectiveness of poverty reduction relative to budgetary outlay	Expenditure on social protection as percentage of GDP

Source: authors' elaboration.

demic and recent economic developments. We also incorporate specific statistical findings for data on benefit adequacy and coverage, and regarding in-work poverty and labour market policies [4].

The analysis takes a comparative approach, synthesizing cross-country studies and meta-analyses to assess the relative performance of social policy instruments across European welfare regimes. Each instrument is evaluated against five criteria: coverage, measured by at-risk-of-poverty rates before and after social transfers; adequacy, benchmarked against the 60% median equivalised income poverty threshold; work-incentive preservation, assessed through the unemployment trap rate for low-wage earners; targeting efficiency, examined via the S80/S20 income quintile share ratio; and fiscal sustainability, proxied by social protection expenditure as a share of GDP. Where relevant, the analysis incorporates recent developments — including 2020s policy reforms, the fiscal legacy of COVID-19, and EU initiatives such as the Child Guarantee and the minimum wage directive — to ensure the assessment reflects the current European policy landscape.

Limitations. It should be noted that this research is largely based on secondary data and literature. We rely on available indicators which, while comprehensive, may not capture all dimensions of social inclusion (for example, material deprivation indices complement income poverty measures to address multidimensional poverty). Causal inferences are cautious — when we say an instrument is "effective"

[4] The 2025 Minimum Income Report. Brussels, Council of the EU. 123 p. URL: https://data.consilium.europa.eu/doc/document/ST-14905-2025-ADD-1/en/pdf#:~:text=6,of%20Member%20States%20are%20implementing

in a country, this is based on associations reported in studies or comparative rankings, not a controlled experiment. Nonetheless, by triangulating multiple sources and indicators, we aim to present a robust picture of what policy instruments appear to work best in the EU context.

To ground the discussion, we first overview the current state of inequality and poverty in the EU using key metrics. As of 2024, the Gini coefficient for disposable income in the EU averaged 29.4, indicating a moderate level of inequality (for reference, a Gini of 0 would be perfect equality and 100 maximum inequality). This EU average, however, masks considerable cross-country variation. The data below illustrate the range from lowest inequality to highest one. Several Central and Eastern European countries exhibit the lowest Gini values in the EU — notably Slovakia (Gini 21.7), Czechia (23.7), and Slovenia (23.8) have very equal income distributions by international standards. These countries combine relatively compressed wage distributions with redistributive tax-benefit policies. For instance, Slovakia's tradition of equalized earnings and Czechia's extensive social benefits contribute to their low Gini outcomes. At the opposite end, the Baltic and Balkan states and some southern countries record the highest inequality. In 2024, Bulgaria had the highest Gini at 38.4, followed by Lithuania (35.3) and Latvia (34.2). Such high values imply a significant gap between rich and poor households. Factors behind these figures include unequal labor market incomes (e.g. concentrated wealth, informal sectors) and less effective redistribution. Notably, even a wealthy country like Germany has a Gini (around 30) close to the EU average, reflecting rising inequality there, whereas Belgium and the Nordic countries (Denmark, Sweden, Finland) are in the lower inequality tier (~25—28 range) due to their strong welfare systems.

Parallel to inequality, the at-risk-of-poverty (AROP) rate — defined as the share of people living in households with disposable income below 60% of the national median — is a core indicator for poverty. In most EU countries, the AROP after social transfers falls between 10% and 20% (Alessandrini, Iacobucci, 2025). The EU average AROP in recent years has been around 16—17% (European Commission, 2020, 2026). According to the latest data, the anchored AROP rate (using 2019 as baseline for real income comparison) actually fell to 14.1% in 2024 at the EU level, down from 16.5% in 2019, indicating some progress in lifting incomes at the bottom (though this anchored measure adjusts for inflation and general growth). In 2024, country differences in AROP are striking: for example, Czechia and Slovakia often feature among the lowest poverty rates (around 9—10%), thanks in part to their low inequality and robust social safety nets. By contrast, countries like Romania or Spain can have 20% or more of their population under the poverty line. It is noteworthy that social transfers substantially reduce these rates from what they would be before transfers; for instance, Ireland and the Nordics achieve some of the largest poverty reductions through their welfare systems, whereas in some southern countries the relative poverty after transfers remains higher due to less comprehensive coverage.

Another critical outcome indicator is the Severe Material and Social Deprivation (SMSD) rate, which captures the share of people who cannot afford a set of basic items and activities considered necessary for a decent life in Europe. This

metric complements income poverty by reflecting living conditions more directly. As of 2024, 6.4% of the EU population (around 27.5 million people) experienced severe material and social deprivation. This is an improvement from 6.8% in 2023, continuing a downward trend as economies recovered from the pandemic. However, the burden of deprivation is very uneven across the Union (Castilho, Fuinhas, 2025; Varlık et al., 2025; Aprea, Raitano, 2025; Dewilde, 2025).

To provide a more structured and accessible comparative overview of these outcome disparities, Table 2 groups EU member states into five welfare-regime clusters and presents trends across the key indicators for the period 2016—2024. This periodization captures the full arc from the pre-pandemic baseline through the COVID-19 shock and into the subsequent recovery, enabling assessment of how different institutional models responded to extraordinary fiscal and social pressures. The clustering follows the established comparative welfare state typology (Nordic, Continental, Southern, Eastern) while subdividing the Eastern group to reflect the documented divergence between low-inequality and high-inequality new member states, a distinction with direct policy relevance for EU cohesion objectives.

The data reveals a clear west-to-east, north-to-south gradient in distributional outcomes, but with important internal differentiation within the Eastern cluster. Nordic countries maintain the most compressed distributions (Gini 23.2—29.5; S80/S20 of 3.21—4.73), reflecting decades of universalist redistribution. Continental Europe sits just behind, with slightly wider ranges but structurally similar logic. Southern Europe diverges markedly — a Gini ceiling of 34.5 and S80/S20 reaching 6.60 signal persistent structural inequality rooted in labour market duality and historically weaker social assistance. The most striking finding, however, is the bifurcation within Eastern Europe. The low-inequality Eastern cluster (Czechia, Slovakia, Slovenia, Poland) actually outperforms Southern Europe on both Gini and S80/S20 — and approaches Continental levels — suggesting that post-socialist wage compression and strong contributory systems in these countries have been preserved through transition. By contrast, the high-inequality Eastern cluster (Bulgaria, Romania, Lithuania, Latvia) shows the widest range in the entire table: Gini up to 40.8 and S80/S20 reaching 8.23, the highest recorded. This is not just underdevelopment — it is active polarisation, consistent with the literature on Baltic flat-tax regimes and Bulgarian/Romanian structural exclusion.

The comparison between AROP before transfers (pensions included vs. excluded) is analytically the richest part of the table, because it reveals where poverty reduction is coming from. For Nordic and Continental countries, the gap between pensions-included and pensions-excluded pre-transfer poverty is substantial (e.g., Nordic: 35.9—47.3 vs. 21.2—29.8), meaning that pensions are doing a large share of the redistribution work, and the residual poverty risk without pensions is already moderate. This is a sign of mature pension systems that function as the primary poverty prevention mechanism. For the Eastern high-inequality group, the figures are counter-intuitive: pre-transfer poverty with pensions (24.7—58.4) is in some cases lower than without pensions (38.4—47.5), which at face value seems inconsistent. This likely reflects data composition effects — countries where pension cove-

Table 2. **Key social outcome indicators by country group in 2016—2024 years, minimum value — maximum value**

Country group	Nordic	Continental	Southern	Eastern — low inequality	Eastern — high inequality	EU-27 Average
Representative countries	Sweden, Denmark, Finland, Norway, Iceland	Germany, France, Austria, Belgium	Spain, Italy, Greece	Czechia, Slovakia, Slovenia, Poland	Bulgaria, Romania, Lithuania, Latvia	—
Gini coefficient of equivalised disposable income	23.2—29.5	24.4—31.2	30.8—34.5	20.9—29.8	27.3—40.8	29.4—30.6
AROP rate before social transfers (pensions included) vs. AROP rate before social transfers (pensions excluded)	35.9—47.3 vs 21.2—29.8	40.6—48.6 vs 22.6—37.4	41.9—50.8 vs 21.0—34.0	34.0—46.9 vs 17.1—48.5	24.7—58.4 vs 38.4—47.5	31.3—34.4 vs 42.8—45.2
At risk of poverty threshold (60% of median equivalised income), Euro	14190—25154	12765—19926	4500—13237	3530—12249	1469—8390	—
Tax rate on low wage earners — Unemployment trap, %	72.40—90.40	67.20—92.30	42.40—82.20	58.70—91.00	47.10—106.00	73.89—74.96
Income quintile share ratio S80/S20 for disposable income	3.21—4.73	3.25—5.07	5.11—6.60	3.03—4.76	4.37—8.23	4.66—5.16
Expenditure on social protection as percentage of GDP, %	19.78—33.44	28.63—38.05	23.27—34.16	17.81—26.38	14.87—19.97	27.66—31.46

Source: authors' elaboration based on: Living conditions in Europe — income distribution and income inequality. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_income_distribution_and_income_inequality#:~:text=The%20at,in%202019 (accessed: 24.01.2026); Living conditions in Europe — material deprivation and economic strain. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_material_deprivation_and_economic_strain#:~:text=In%202024%2C%206.4,in%202023 (accessed: 24.01.2026); Database. *Eurostat*. URL: https://ec.europa.eu/eurostat/databrowser/explore/all/popul?sort=category&lang=en&subtheme=livcon.ilc&display=list (accessed: 24.01.2026).

rage is incomplete or where pensioners fall below the poverty threshold even after receiving pensions, meaning pension inclusion does not reduce measured poverty risk in the way it does in the West. This warrants explicit methodological acknowledgment in the paper. The EU-27 average also shows an inversion of the expected relationship (31.3—34.4 with pensions vs. 42.8—45.2 without), which is the expected pattern: removing pensions from the pre-transfer income raises measured poverty, confirming that pensions are the backbone of European poverty prevention at the aggregate level.

The relationship between social expenditure and distributional outcomes varies considerably across country groups. Nordic countries achieve strong compression of inequality (Gini 23.2—29.5) at expenditure levels ranging from 19.78% to 33.44% of GDP, implying high system efficiency. Continental Europe, by contrast, records the highest expenditure in the table (28.63—38.05% of GDP) yet produces only moderately better distributional outcomes than Southern Europe, pointing to diminishing returns characteristic of fragmented Bismarckian systems. Southern countries spend at intermediate levels (23.27—34.16% of GDP) but register the weakest inequality outcomes among Western clusters (Gini 30.8—34.5), suggesting low cost-effectiveness of their redistributive architecture.

Within Eastern Europe, the contrast is especially stark. The low-inequality subgroup (Czechia, Slovakia, Slovenia, Poland) achieves some of the most compressed distributions in the entire sample (Gini as low as 20.9) while spending only 17.81—26.38% of GDP — the strongest implicit efficiency observed across all groups. The high-inequality subgroup (Bulgaria, Romania, Lithuania, Latvia), however, spends the least (14.87—19.97% of GDP) and produces the worst distributional outcomes (Gini reaching 40.8), reflecting not a failure of expenditure generosity per se, but the compounding effect of weak institutional capacity, labour market informality, and poor transfer targeting that simultaneously suppress both revenue mobilisation and redistribution effectiveness.

The unemployment trap rates (tax rate on low wage earners) are alarming across virtually all groups, with several reaching or exceeding 90—106%. The Eastern high-inequality group has the widest range, with a ceiling of 106% — meaning that for some earners in those countries, entering employment is financially punishing relative to remaining on benefits. This is directly relevant to fiscal sustainability: systems that create unemployment traps generate deadweight loss by simultaneously depressing labour supply, reducing tax revenues, and sustaining benefit dependency. The Continental group's upper bound of 92.3% suggests this problem is not confined to less developed systems. Notably, Southern Europe's lower floor (42.4%) may reflect weaker benefit generosity rather than better system design — workers face less of a trap because there is less to lose by entering employment.

The absolute poverty threshold ranges (from €1,469—8,390 in Eastern high-inequality countries to €14,190—25,154 in Nordic countries) expose the fundamental limitation of relative poverty measures in cross-national comparison. A country can reduce its relative poverty rate while its citizens remain in absolute

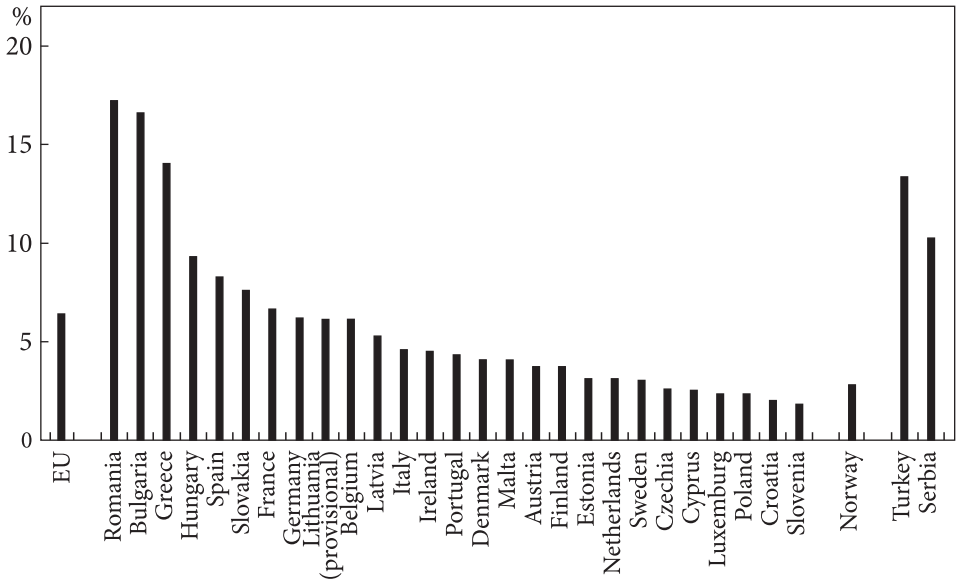
deprivation by EU standards — a problem particularly acute for Bulgaria, Romania, and Ukraine — and Moldova-adjacent contexts. This range should be explicitly flagged as a qualification on the AROP-based efficiency metrics: improvements in relative poverty statistics in low-threshold countries may not translate into meaningful improvements in living standards relative to the EU norm.

The table supports three overarching arguments useful for a fiscal sustainability framework: i) Expenditure volume is not the primary determinant of redistributive outcomes — institutional design, targeting quality, and labour market integration matter as much or more; ii) The Eastern low-inequality cluster demonstrates that fiscal efficiency in poverty reduction is achievable at moderate expenditure levels, making it a more relevant benchmark for transition economies than the Nordic or Continental models; iii) Unemployment traps represent a structural inefficiency that simultaneously undermines fiscal sustainability (through lost revenues) and social protection effectiveness (through benefit lock-in), and deserve dedicated policy attention regardless of country group.

As shown in Figure, severe material deprivation is most acute in Romania (17.2%), Bulgaria (16.6%), and Greece (14.0%) — countries where a significant share of the population struggles to afford basic necessities such as adequate heating, nutritious food, or essential durables. These outcomes correlate with below-average social protection spending relative to GDP. At the other end, Luxembourg, Poland, Croatia, Slovenia, and Cyprus all recorded deprivation rates below 3% in 2024. Notably, Poland's sharp improvement over the past decade reflects both rising wages and the expansion of family benefits such as the 500+ child benefit program, while established welfare states like Sweden and the Netherlands demonstrate that strong safety nets consistently prevent extreme hardship. Overall, the EU has made progress in reducing poverty and deprivation, but significant cross-country disparities persist — disparities that the following analysis of policy instruments seeks to explain. A key measure of social policy effectiveness is the extent to which transfers reduce poverty. In the most redistributive systems — Ireland, Finland, and Sweden — social transfers cut at-risk-of-poverty rates by over 50%, through a combination of universal child benefits, unemployment support, housing assistance, and pensions. Ireland is a notable case: despite high market-income inequality, its progressive tax-benefit system achieves one of the largest poverty reduction effects in the EU. By contrast, countries such as Greece and Romania have historically reduced poverty by only 20—25%, reflecting lower benefit levels and coverage gaps [5, 6] (EAPN, 2009, 2017). Greece has since taken

[5] Poverty and Inequality Explainer in the EU. EAPN, 2009. URL: https://www.eapn.eu/images/docs/poverty%20explainer_web_en.pdf#:~:text=higher%20than%20it%20is%20in,approach%20to%20measuring%20relative%20poverty

[6] Social Rights or Social Plight? EAPN 2017 National Reform Programmes. European Anti-Poverty Network, 2017. 80 p. URL: https://www.eapn.eu/wp-content/uploads/2017/09/EAPN-2017-EAPN-Report-Assessment-National-Reform-Programmes-1323.pdf#:~:text=for%20families%20with%20children%2C%20increase,voucher%20is%20provided%20supporting%20fees



Severe material and social deprivation rates in 2024, % of population. Countries on the left (e.g. Romania, Bulgaria, Greece) have the highest deprivation rates, while those on the right (e.g. Slovenia, Luxembourg, Poland) have the lowest. EU average = 6.4%. *Source*: authors' elaborated based on: Living conditions in Europe — income distribution and income inequality. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_income_distribution_and_income_inequality#:~:text=The%20at,in%202019 (accessed: 24.01.2026); Living conditions in Europe — material deprivation and economic strain. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_material_deprivation_and_economic_strain#:~:text=In%202024%2C%206.4,in%202023 (accessed: 24.01.2026); Database. *Eurostat*. URL: https://ec.europa.eu/eurostat/databrowser/explore/all/popul?sort=category&lang=en&subtheme=livcon.ilc&display=list (accessed: 24.01.2026).

steps to address this, introducing a guaranteed minimum income in 2017 and progressively scaling it up.

Best practice in transfer effectiveness combines broad coverage with adequate benefit levels. Nordic countries exemplify this through largely universal schemes — child allowances, near-universal pension coverage — financed by higher taxes and complemented by active labour market policies, achieving low inequality without significant poverty traps. France offers another model: despite average EU inequality levels, it maintains a relatively low poverty rate through a blend of universal benefits (family allocations, universal health coverage) and targeted instruments such as the revenu de solidarité active (RSA), now integrated into the France Travail reforms, alongside social vouchers like the chèque énergie for utility bills. A common challenge is ensuring that generous transfers do not erode work incentives. Steep benefit withdrawal rates create high effective marginal tax rates — so-called poverty or unemployment traps — that discourage labor market entry. Many EU countries have addressed this through earnings disregards and tapered

withdrawal: Belgium and Estonia, for instance, introduced in-work supplements ensuring that taking a job always yields a net income gain. Nevertheless, gaps remain; in some systems, moving from part-time to full-time work produces little increase in disposable income due to near-simultaneous benefit withdrawal (European Commission & Social Protection Committee, 2025). The recommended approach is gradual phase-out as earnings rise rather than abrupt cliff-edges. The Netherlands and Germany have tapered housing and childcare benefits progressively, while the United Kingdom consolidated multiple benefits into Universal Credit with a single ~55% taper rate to smooth withdrawal. The guiding principle is benefits generous enough to reduce poverty, but structured so that work always pays. Minimum income schemes are the last-resort safety nets and arguably the backbone of anti-poverty policy. A key finding across the EU is that where these schemes have high coverage and adequate levels, poverty and social exclusion rates tend to be lower. For example, Germany and the Netherlands have relatively comprehensive MIS (Germany's system, known previously as Hartz IV and now Bürgergeld, and the Netherlands' bijstand). These ensure that even those without work or insurance benefits receive some income support, combined with job-search assistance. Their poverty rates (especially for working-age adults) are moderate compared to countries that until recently lacked a national MIS (such as Italy, which only introduced a national minimum income policy with the Reddito di Cittadinanza in 2019). Studies like Nardo et al. (2024) noted that non-take-up seriously hinders MIS effectiveness: many who qualify do not apply due to stigma, lack of information, or administrative hurdles. A best practice to counter this is proactive outreach and simplification — Denmark and Finland, for instance, have made use of digitalization and data-sharing to auto-enroll or notify individuals who might be eligible for assistance. Additionally, some countries have been experimenting with lowering bureaucratic barriers (e.g. reducing paperwork, one-stop-shop services) to increase take-up.

On adequacy, most minimum income schemes fall well short of the poverty threshold. The Social Protection Committee's benchmarking records an average adequacy of 56% of the poverty line for single persons; while Ireland, Luxembourg, and Denmark reach 70—80%, several Eastern European states cover only 30—40%. In practice, MIS often alleviate extreme poverty without eliminating relative poverty. The European Minimum Income Recommendation (2022) — encouraging member states to anchor benefit levels to reference budgets and national median income — has prompted notable responses: Belgium strengthened indexation to inflation and wage growth, and Spain launched the Ingreso Mínimo Vital in 2020, though initial uptake was lower than expected, highlighting the importance of outreach. Best practice also involves linking recipients to activation measures in a supportive rather than punitive manner. France's RSA requires an integration contract, while Sweden gives social workers broad local autonomy to tailor support and referrals to ALMPs. However, the 2025 Minimum Income Report cautions that overly strict activation requirements — particularly where job opportunities are scarce — risk pushing vulnerable people into deeper hardship. Activation should be

enabling, expanding access to services and opportunities, rather than primarily focused on sanctioning non-compliance[7].

In-work benefits are most effective when combined with minimum wages and strong collective bargaining. Countries with high union coverage and robust minimum wages — France, Belgium, and the Nordic states — tend to have lower in-work poverty due to a more equal primary distribution of wages. In-work benefits complement these by subsidizing low-income workers directly, rather than placing the full cost on employers. The UK and Ireland pioneered tax credit schemes that substantially reduced child poverty among working families, inspiring similar instruments elsewhere: France's Prime d'Activité supplements low earners' wages, while Italy's 2022 Assegno Unico consolidates family and in-work support into a single universal allowance. Evaluations generally show improved net incomes for poor households, though some find mixed effects on employment, particularly for secondary earners whose incentive to work may be partly offset by the benefit. Countries making concerted post-2010 efforts — raising minimum wages, expanding in-work benefits, or improving access to full-time employment — managed to contain the rise of in-work poverty[8]. Yet EU-wide, the in-work poverty rate rose from 8% to 10% over the decade to 2017, driven partly by the spread of part-time and temporary contracts, suggesting that in-work benefits alone are insufficient without broader labor market reform. Finland illustrates best practice: a low in-work poverty rate of around 3—4% reflects high collectively agreed minimum wages, a universal housing and basic income support system, and public services that reduce out-of-pocket costs. At the other end, Romania faces high in-work poverty due to low agricultural wages and weak transfers, while Spain's dual labor market and job instability produce similar outcomes. Spain's substantial minimum wage increases between 2019 and 2022 have yielded wage gains for millions of workers and likely reduced in-work poverty, though challenges persist for those in informal or unstable employment.

One best practice emerging is to use targeted in-work benefits for households with children, since families with children are at higher risk of in-work poverty (due to additional needs). The Earned Income Tax Credit (EITC) in the United States, while outside the EU, often serves as an example of a successful policy to encourage work and reduce poverty for families. In Europe, the closest analogues are the UK and Ireland's systems, and more recently, other countries are designing similar supports. The positive effects include lower child poverty and improved work participation among single parents. However, careful design is needed to avoid marriage or secondary-earner penalties.

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[7] The 2025 Minimum Income Report. Brussels, Council of the EU. 123 p. URL: https://data.consilium.europa.eu/doc/document/ST-14905-2025-ADD-1/en/pdf#:~:text=6,of%20Member%20States%20are%20implementing

[8] In-work poverty in the EU. Luxembourg, Publications Office of the European Union, 2017. *Eurofound*. URL: https://www.eurofound.europa.eu/en/publications/all/work-poverty-eu#:~:text=The%20%E2%80%98working%20poor%E2%80%99%20are%20a,work (accessed: 24.01.2026).

Social vouchers occupy a niche but innovative role in EU social policy. Energy vouchers are among the most notable applications, particularly as rising utility costs have made energy poverty an increasingly pressing concern. France, for example, issues annual energy vouchers to low-income households for use toward electricity or gas bills — a measure that has benefited millions, especially following recent price spikes. To be effective, such schemes must be adequately funded and integrated with broader social services to ensure they reach all eligible households, including those not enrolled in other benefit programs. Vouchers have also been deployed for food and basic necessities. During COVID-19, countries such as Italy and Belgium rolled out emergency voucher schemes — often administered through companies like Edenred — to deliver rapid food aid to families affected by lockdowns. The success of these initiatives has prompted interest in making vouchers a permanent crisis-response tool. In Eastern Europe, social vouchers targeting child services have gained traction as part of child poverty reduction strategies; Romania, for instance, introduced education vouchers to encourage low-income families to enrol children in kinderg — en, addressing not only monetary poverty but also the risk of social exclusion. Although vouchers represent a small fraction of total social spending, they are valued as targeted complements to broader transfer systems, since their restricted-use design ensures resources reach their intended purpose efficiently. Vouchers are welcomed especially by local authorities who need flexible tools. However, there is also a view that vouchers should not undermine the autonomy of people in poverty — cash transfers allow choice, whereas vouchers restrict spending to predefined items. Therefore, the guiding principle is to reserve vouchers for situations where cash might not ensure the intended consumption (like energy or schooling), and always treat beneficiaries with dignity and trust. The data on ALMP spending show huge differences: some countries spend over 1% of GDP on active measures (e.g., Sweden, Denmark), while others spend only 0.1—0.2% (e.g., Latvia, Bulgaria in some years). This often correlates with outcomes in terms of long-term unemployment and skill levels. Germany dramatically increased ALMP investment during the Hartz reforms in the early 2000s and saw a drop in unemployment and eventually poverty (though cause-and-effect is complex). On the other hand, countries with chronically high unemployment (like Greece or Spain post financial crisis) had to ramp up ALMPs starting in the mid-2010s, often with EU funding support, to tackle youth joblessness and upskill workers.

ALMPs broadly reduce poverty by moving people into employment, but effectiveness depends on design and targeting. Training aligned with labor market demand — particularly in digital and green sectors — raises earnings potential for low-skilled workers. Wage subsidies can incentivize employers to hire the long-term unemployed or marginalized groups such as older workers and people with disabilities. Job-search assistance and individualized counseling are among the most cost-effective interventions, facilitating quick labor market re-entry. Public works programs, by contrast, show mixed results: they provide temporary income but rarely lead to sustained employment unless paired with skills development. A growing trend across EU countries is the integration of employment and social

services into single points of contact. Belgium and France, among others, have piloted one-stop centers where individuals facing unemployment alongside housing, health, or childcare challenges receive a coordinated support plan. This approach reflects the recognition that poverty is multidimensional and that employment interventions alone are unlikely to produce lasting results without addressing underlying barriers. It also aligns directly with the European Pillar of Social Rights, which calls for integrated support under Principles 13 and 14. During the COVID-19 pandemic, many countries expanded income support (furlough schemes, emergency grants) to prevent poverty, but also realized the importance of resilience: now there is increased emphasis on reskilling workers for new industries (digital, environmental) to ensure they are not left behind in poverty as economies transform. The EU's Recovery and Resilience Facility and ESF+ funds are being utilized by countries to invest in training programs targeted at vulnerable groups (youth, women, long-term unemployed). These are essentially ALMP measures on a large scale to mitigate the pandemic's social fallout.

The instruments discussed above do not operate in isolation. The evidence from best-performing countries suggests that a combination of approaches is what yields the strongest poverty and inequality reduction. For example, Sweden historically combined: generous universal benefits (child allowance, etc.), a strong minimum income safety net, active labour policies, and high-quality public services (education, healthcare, childcare) available to all. The result was low poverty and inequality, and high social mobility. While Sweden's inequality has grown a bit in recent years, it remains below EU average and poverty is low. Another example, the Netherlands, pairs a robust social assistance system (with relatively high coverage and adequacy, and recently increased minimum wage) with extensive part-time work opportunities and childcare support — leading to one of the lowest poverty rates in EU, especially for children. On the other hand, a country like Italy for a long time lacked a national minimum income and spent relatively less on social exclusion benefits, resulting in higher poverty, especially in the south of Italy; this is now being addressed through a combination of the Reddito di Cittadinanza (income support) and the European Child Guarantee initiatives to reduce child poverty.

To synthesize the foregoing comparative analysis in a structured and visually accessible form, Table 3 applies the six evaluation criteria defined in Table 1 to each of the five instrument categories examined before. This cross-instrument assessment matrix consolidates the country-level evidence reviewed before into a single comparative framework, enabling direct identification of the relative strengths and weaknesses of each instrument type and providing a basis for evidence-based instrument selection within integrated policy mix design.

The comparative matrix reveals several important patterns. First, no single instrument scores high on all six criteria simultaneously: trade-offs are inherent to the architecture of social policy. Universal social transfers achieve the widest coverage and highest adequacy but are fiscally costly and may create work-disincentive effects. Minimum income schemes are well-targeted and fiscally contained, but their effectiveness is fundamentally constrained by low adequacy levels and high non-

Table 3. **Comparative assessment of social policy instruments across evaluation criteria**

Instrument	Coverage	Adequacy	Work-incentive preservation	Targeting efficiency	Fiscal sustainability
Social transfers & tax-benefit systems (universal/insurance-based)	High in most EU states; near-universal in Nordic countries	Moderate to High; pension systems generally adequate	Risk of poverty traps if benefit withdrawal is too steep	Low-Moderate; broad base includes non-poor households	Moderate-High; high GDP share but strong poverty reduction per euro
Minimum income schemes (MIS)	Low-Moderate; 20—50% non-take-up in many member states	Low; EU average ~56% of national poverty threshold	Variable; cliff-edge designs create traps; tapering mitigates risk	High; tightly means-tested	Moderate; low absolute cost but limited poverty lift due to inadequacy
In-work benefits (tax credits, earnings supplements)	Moderate; requires formal employment	Moderate; supplements low wages without full income replacement	High by design; rewards labour market entry and hours	Moderate-High; targeted at low-income workers	Moderate; effective for working poor, limited reach for non-employed
Social vouchers (energy, food, childcare)	Low-Moderate; often limited to specific crises or sub-groups	Low; partial coverage of specific costs only	Neutral; no direct impact on labour supply decisions	High within targeted categories; well-directed at specific needs	Low overall budget share; high efficiency for targeted spending
Active labour market policies (ALMPs)	Moderate; varies by programme type and country	Not applicable (not an income transfer); indirect income effect via employment	High; promotes transition from benefits to sustainable employment	Moderate; often targeted at long-term unemployed or youth	Moderate; long-term returns positive but short-term costs significant

Source: authors' elaboration based on: The 2025 Minimum Income Report. Brussels, Council of the EU. 123 p. URL: https://data.consilium.europa.eu/doc/document/ST-14905-2025-ADD-1/en/pdf#:~:text=6,of%20Member%20States%20are%20implementing; European semester thematic factsheet. Active labour market policies. European Commission, 2020. 13 p. URL: https://commission.europa.eu/system/files/2020-06/european-semester_thematic-factsheet_active-labour-market-policies_en_0.pdf#:~:text=policies%20,institutional%20and%20workplace%20training%20offers; Addressing poverty and supporting social inclusion. *European Commission*. 2026. URL: https://employment-social-affairs.ec.europa.eu/policies-and-activities/social-protection-social-inclusion/addressing-poverty-and-supporting-social-inclusion_en#:~:text=Key%20challenges (accessed: 24.01.2026); Living conditions in Europe — income distribution and income inequality. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_income_distribution_and_income_inequality#:~:text=The%20at,in%202019 (accessed: 24.01.2026); Living conditions in Europe — material deprivation and economic strain. *Eurostat*. URL: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_material_deprivation_and_economic_strain#:~:text=In%202024%2C%206.4,in%202023 (accessed: 24.01.2026); Database. *Eurostat*. URL: https://ec.europa.eu/eurostat/databrowser/explore/all/popul?sort=category&lang=en&subtheme=livcon.ilc&display=list (accessed: 24.01.2026); Nardo et al., 2024.

take-up rates across most EU member states. In-work benefits offer the strongest work-incentive profile but reach only those already attached to the formal labour market. Social vouchers score high on targeting efficiency within their domain but are too narrow in scope to address poverty in a comprehensive manner. ALMPs contribute to sustainable income gains through employment but operate with a time lag and require complementary income support to be effective during transitions. Second, the matrix confirms that the best-performing country clusters identified in Table 2 — notably the Nordic and Continental groups — are precisely those that combine the highest-scoring instruments in a coherent policy mix, namely universal social insurance supplemented by MIS activation linkages, in-work incentives, and strong ALMP investment. This finding reinforces the conclusion that policy integration, rather than reliance on any single instrument, is the key driver of superior social outcomes.

The central challenge in social policy design is balancing universality with targeting. Universal benefits ensure broad coverage and public support but direct resources to some who are not poor; targeted benefits concentrate spending on those in greatest need but risk exclusion errors and high marginal tax rates. Most EU countries resolve this through a combined approach — universal child benefits topped up with means-tested supplements for the poorest, or universal state pensions paired with targeted minimum pension guarantees.

Fiscal sustainability is a parallel concern, given that EU countries already devote around 27% of GDP to social benefits on average. Aging populations add pressure on pensions and healthcare, prompting reforms such as retirement age increases that can conflict with poverty goals if poorly designed. The "social investment" paradigm — articulated in documents such as the EU Social Investment Package (2013) — reframes social spending as productive investment: early childhood education, training, and active inclusion reduce future welfare costs while raising productivity and social cohesion.

Cross-country comparisons illustrate these dynamics clearly. Nordic countries achieve low poverty and inequality through extensive universal benefits, high employment, and accessible public services, though integrating immigrants remains a challenge. Continental European countries maintain moderate inequality through insurance-based systems. Southern European countries have historically had patchier safety nets and segmented labor markets, though reforms in the 2010s and 2020s — Italy's minimum income scheme, Spain's minimum wage increases and expanded child benefits — have narrowed the gap. Among Eastern member states, Czechia and Slovakia maintain low inequality through egalitarian wage structures, while Poland dramatically reduced material deprivation through economic growth and the 500+ child benefit program, though working-age poverty remains elevated. Ireland demonstrates that even in a market-oriented economy, sufficiently generous transfers can offset high pre-transfer inequality. The recurring lesson is that no single instrument suffices — durable poverty reduction requires coherent, mutually reinforcing combinations of income support, employment policy, and accessible services.

CONCLUSION

Reducing income inequality and poverty demands a comprehensive policy mix. The most successful EU countries combine universal measures — broad-based social insurance and public services — with targeted instruments such as means-tested minimum income schemes, balancing wide coverage with efficient resource use. Benefit adequacy is essential: transfers must be indexed to inflation and wage growth and benchmarked against poverty thresholds, since low benefits perpetuate poverty regardless of system design. Equally important is accessibility — non-take-up must be reduced through simplified procedures, digital enrollment, and outreach, with particular attention to groups excluded from standard schemes.

Work disincentives are a manageable concern. Gradual benefit tapering, in-work supplements, and lower marginal tax rates on low earners can ensure employment always improves one's financial position. More broadly, cash assistance alone addresses the symptoms rather than the causes of poverty. The EU's Active Inclusion framework — integrating income support, labor market access, and quality services — consistently outperforms transfer-only approaches.

EU coordination mechanisms, from the European Semester to ESF+ funding, facilitate mutual learning and upward convergence of standards. Countries should actively engage in this exchange and adapt proven instruments to local contexts. Ultimately, low poverty rates reflect political will as much as economic capacity. For Moldova and other EU-aspiring countries, the European experience offers a clear roadmap: invest in robust, well-coordinated social protection systems that protect citizens across the life cycle and leave no one behind.

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АНАЛІЗ СПЕЦІАЛЬНИХ ІНСТРУМЕНТІВ ДЛЯ ЗНИЖЕННЯ НЕРІВНОСТІ ДОХОДІВ І РІВНЯ БІДНОСТІ, ЯКІ ВИКОРИСТОВУЮТЬ У КРАЇНАХ ЄС

Проаналізовано спеціальні інструменти політики, які країни Європейського Союзу застосовують для зниження нерівності доходів і рівня бідності. Акцентовано на цільових та універсальних механізмах, таких як соціальні трансферти, системи податків і виплат, програми мінімального доходу, виплати для працюючих, соціальні ваучери і активна політика на ринку праці, розкрито їх роль у вдосконаленні розподілу доходів та посиленні соціальної інклюзії. З використанням порівняльно-аналітичного підходу оцінено ефективність цих інструментів у державах — членах ЄС, при цьому приділено увагу їх моделям, охопленню, ефективності цільової орієнтації та фіскальній стійкості. Для оцінювання результатів використано ключові показники нерівності та бідності, у тому числі коефіцієнт Джині, рівень ризику бідності та індекси матеріальної і соціальної депривації. За підсумками аналізу виявлено найкращі практики й спільні проблеми, такі як балансування універсальності та цільової орієнтації, забезпечення належного рівня виплат і під-

тримка стимулів для праці. Отримані результати свідчать про те, що комплексні комбінації політик, які поєднують підтримку рівня доходів з послугами у сфері зайнятості та соціальними послугами, є найбільш ефективними в зниженні рівня бідності та нерівності. У підсумку сформульовано уроки щодо політики, актуальні для країн, які прагнуть узгодити системи соціального захисту із стандартами ЄС і зміцнити соціальну згуртованість. Підкреслено важливість координації політики та інституційної спроможності для забезпечення ефективного впровадження і довгострокової стійкості цих інструментів.

***Ключові слова**: нерівність доходів; зниження рівня бідності; інструменти соціального захисту; системи податків і виплат; програми мінімального доходу; Європейський Союз; соціальна інклюзія.*

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