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Simulating the Impact of Employment Growth on Poverty: Implications for the European Social Targets

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Abstract

The European Pillar of Social Rights Action Plan sets ambitious targets to be achieved by 2030, including reducing the number of people at risk of poverty or social exclusion (AROPE) by 15 million and raising the employment rate to 78% among the working-age population. This article investigates the extent to which employment growth to the level of the 2030 employment rate target can deliver on the EU's 2030 social target. Departing from key theoretical perspectives, we explore five mediating mechanisms that shape the relationship between employment and poverty, including job distribution across households, job quality, and social protection effectiveness. Our twofold analytical strategy first assesses past trends between employment and poverty indicators and then employs shift-share and regression-based simulations to estimate how different employment growth scenarios may affect the active-age population's at-risk-of-poverty (AROP(a)) and the total population's at-risk-of-poverty and social exclusion (AROPE) outcomes by 2030. The analysis confirms that employment growth, though it has a strong effect on poverty, is unlikely to deliver the EU's poverty reduction target without further policy intervention. The full potential of employment growth to reduce poverty depends on, among other things, the distribution of jobs across households. While the EU has long promoted employment as the cornerstone of social inclusion, this article underscores the limits of such employment-focused poverty reduction strategies in the absence of supporting institutional configurations. Policy recommendations align with the European Pillar of Social Rights and call for coordinated action across employment, wage setting, and social protection domains.

Keywords

employment; European Pillar of Social Rights; European social agenda; poverty

1. Introduction

Employment growth as a driver of poverty reduction has long been an integral part of the strategic vision of the EU (Cantillon & Van Lancker, 2013; Daly, 2006) and of its member states. This notion has been pivotal from the foundational principles of the Lisbon Agenda, which saw the increase in employment levels as one of its primary goals, to the Europe 2020 strategy, and most recently, the European Pillar of Social Rights (EPSR) Action Plan. Adopted in 2017, the EPSR constitutes the EU's most recent flagship social initiative, aiming to improve living standards. Since its adoption, the initiative has served as an overarching conceptual framework for the EU's social initiatives. The litmus test for the EPSR Action Plan's success will, however, be reaching the three headline targets by 2030: to reach an employment rate of at least 78%, to have at least 60% of adults attending training courses every year, and to reduce the number of people at risk of poverty or social exclusion (AROPE) by 15 million.

Common to the approach taken in the EPSR Action Plan and its predecessors has been the framing of employment growth as a primary vector for promoting social inclusion. This reflects both the functional logic of welfare states and the institutional structure of the EU. In the case of the latter, this principle is reinforced by an uneven distribution of competencies: Although recent years have seen noteworthy socialisation of the EU, competencies in the social domain remain limited, especially where social goals are not fortified by binding legal instruments (Akarçeşme et al., 2024).

Although the EPSR has opened up a new political window to confront the uneven status of economic and social policies and advance social themes (Vesan & Corti, 2022) and has created new margins of manoeuvre that the Commission and Parliament have started to exploit (Keune et al., 2023), in terms of the programme's implementation, employment growth remains favoured over social inclusion goals (Aranguiz, 2023). Within the national social agendas of the EU and its member states, employment policies tend to be framed as the principal pathway to poverty reduction. However, the extent to which and under which conditions employment growth specifically can reduce poverty remains theoretically and empirically contested. This article contributes to these debates by asking whether increased employment rates to the level of the 2030 targets alone might lead to the achievement of the 2030 poverty target. In doing so, it derives timely policy implications for the achievement of the 2030 social inclusion target.

The remainder of the article is structured as follows: Section 2 outlines the key theoretical frameworks for understanding the employment-poverty nexus and identifies the key mechanisms that mediate the relationship between employment growth and poverty reduction, providing a context-specific conceptual foundation for the simulation modelling that follows. Section 3 reviews the past poverty and employment indicator trends and their interactions across the EU. Section 4 delves into the simulations by first describing the data, the simulation approach, and the methodology; it then presents and discusses the simulation results, drawing out their implications for EU social policy. Section 5 concludes.

2. Conceptualising the Relationship Between Employment Growth and Poverty Reduction

Empirical evidence from the last decades at the EU level shows that progress in reducing the AROPE has not kept pace with the success in increasing employment rates (Cantillon & Vandenbroucke, 2014), thereby

challenging conventional economic assumptions. Economic theories generally indicate that increases in employment and income are negatively correlated with poverty levels which has been supported by both macro-level (Moller et al., 2003; Tudorache, 2019) and micro-level studies (Vaalavuo & Sirniö, 2022). However, efforts to explain the paradox of disappointing poverty trends despite notable employment growth have shown that while there is a negative and significant relationship, the impact varies considerably across countries, time periods, and the poverty measures used (Gábos et al., 2019). To explain this, two theoretical frameworks are particularly relevant: the polarisation of jobs across households, driven by labour market segmentation and social homogamy (the tendency for individuals to partner with others of similar socio-economic backgrounds) and the tension between job creation, adequate social protection, and the controlling of social spending, often framed in the literature as a "social trilemma." As for the mitigating role of the social investment policy paradigm—which has taken a central place in Europe since the early 2000s—the literature has shown that social investments tend to fail to reach the individuals and households that need them most.

2.1. Employment Polarisation

A growing body of research has examined how changes in the distribution of employment across households affect poverty outcomes. Particular attention has been paid to the influence of assortative mating or homogamy (Kalmijn, 1998), and the interplay between employment and family structures. The former helps explain why rising employment rates, especially due to the increased labour market participation of women, have not consistently led to reductions in income poverty (Corluy & Vandenbroucke, 2014; Gábos et al., 2024; Nieuwenhuis et al., 2020; Vandenbroucke & Vleminckx, 2011). In Belgium, Corluy and Vandenbroucke (2014) found that while rising employment rates and changes in household composition between 2005 and 2012 helped reduce poverty, this effect was counterbalanced by growing joblessness polarisation—defined as the growing divergence between the actual and a random distribution of joblessness across households—and an increase in poverty among jobless households.

Labour market segmentation theory (Doeringer & Piore, 1971) provides a second analytical framework for understanding the coexistence of employment growth and persistent poverty. This theory posits that the labour market is divided into a primary segment, characterised by stable, well-paid jobs, with career progression, and a secondary segment that mainly consists of insecure, low-paid, precarious work. In such a segmented labour market, access to jobs is structurally unequal, where "insiders" with higher skills or a previously established strong attachment to work disproportionally benefit from new job opportunities, usually in the primary segment. In contrast, "outsiders," who tend to be disadvantaged individuals, including the long-term unemployed, those with low qualifications, migrants, those with health issues and individuals with caregiving responsibilities, frequently encounter structural barriers (Emmenegger et al., 2012) and remain confined to the usually precarious secondary sector or face complete exclusion from the labour market. While Marx and Nolan (2014) demonstrated that segmentation contributes less to in-work poverty than often expected, homogamy can reinforce employment clustering within certain households.

While the dynamics of segmentation and job clustering explain much of the divergence between employment growth and poverty outcomes, institutional context also matters. Welfare regime typologies (Esping-Andersen, 1990) can help explain cross-country differences. In conservative corporatist regimes such as Germany and Austria, pronounced labour market dualism tends to create divides between secure insiders and insecure

outsiders. Nordic welfare states, by contrast, with their comprehensive safety nets and active labour market programmes, tend to buffer the effects of employment polarisation more effectively and limit precarious work (Crettaz & Bonoli, 2011). During the Great Recession, for instance, social democratic countries were more successful in preventing the concentration of joblessness in already disadvantaged households (Biegert & Ebbinghaus, 2022). However, many regimes have undergone substantial transformations over time, Sweden's shift away from its earlier universalist model being one example (Blomqvist & Palme, 2020).

2.2. Social Trilemma

In light of the "disappointing" poverty trends in Europe, discussions about the potential of tax-benefit systems to reduce income poverty are often constrained by a social trilemma: the challenge of simultaneously promoting employment, ensuring adequate social protection while maintaining work incentives, and controlling social expenditure. Cantillon and Vandenbroucke (2014) drew on this diagnosis to ask the question of whether the distribution upside of the social investment or active welfare state (more people in work, thus fewer people confronted with poverty risks) may have been affected by a distributive downside (more poverty among work-poor households that did not benefit from job growth) that may have been intrinsic to how jobs were created. Arguably, achieving both employment growth, especially among the low-skilled, and adequate social protection for outsiders would have required greater fiscal commitment, suggesting a social trilemma. Cantillon et al. (2015) showed the difficulty of reducing poverty while not discouraging work nor running large public deficits, echoing Iversen and Wren's (1998) social trilemma hypothesis and the "iron triangle" of welfare reform (Adam et al., 2006). When wage floors decline relative to median household incomes (and thus relative to poverty thresholds), increasing transfers for the poor comes at the cost of either jeopardising the hierarchy of incomes at the bottom of the distribution or stronger redistributive effort, if in-work taxes or benefits are also to be increased to maintain work incentives and to avoid in-work poverty. From a somewhat different perspective, the existence of a social trilemma was also suggested in a study of the evolution of minimum wages and minimum income protection for many typical households in EU countries (Cantillon et al., 2020). The interaction between benefit generosity and employment is an important element to consider when evaluating the evolution of the pro-poorness of employment growth and welfare state efforts.

2.3. Social Investment

Since the second half of the nineties, welfare states have undergone a shift toward a "social investment" paradigm emphasising early childhood development, education, lifelong learning, and work–family reconciliation (Hemerijck, 2012; Morel et al., 2012). While uneven, disparate, and not always consistent, outcome indicators suggest this reorientation coincided with an increase in employment and, in many countries, also with a relative increase in new social spending. Plavgo and Hemerijck (2020) found positive effects of social investment policies for families with children. Other investigations, however, tend to show that increasing spending on social services and social investment was not associated with reduced poverty rates (Van Vliet & Wang, 2015). One of the reasons why social investment spending tends to benefit the poor less than higher-income households is that spending on services suffers from the Matthew effect. This is linked to social stratification and the concentration of low-skilled people in workless households (Parolin & Van Lancker, 2021). The Matthew effect is observed in the use of and access to capacitating services such as childcare, leave, lifelong learning, and education. Without robust redistribution and inclusive design, social

investment cannot reach its potential. Therefore, we treat social investment and welfare regime frameworks as providing the institutional and normative context within which the core mechanisms of segmentation and household clustering operate. This approach emphasises the importance of contextual factors such as labour market conditions, features of the welfare state, and normative structures within which the described mechanisms interact, thereby influencing the cross-national variation in the extent to which employment growth might contribute to poverty reduction.

2.4. Mediating Mechanisms

To better understand why employment growth has not consistently led to commensurate reductions in poverty, the literature has identified several mechanisms that may mediate the relationship between employment gains and poverty dynamics (Tóth et al., 2024). These findings highlight the complexity of the employment–poverty relationship, requiring us to adopt a more nuanced analytical lens. Having briefly explored the key theoretical perspectives, we now turn to the interrelated mediating mechanisms (Figure 1) already explored in the literature (Tóth et al., 2024).

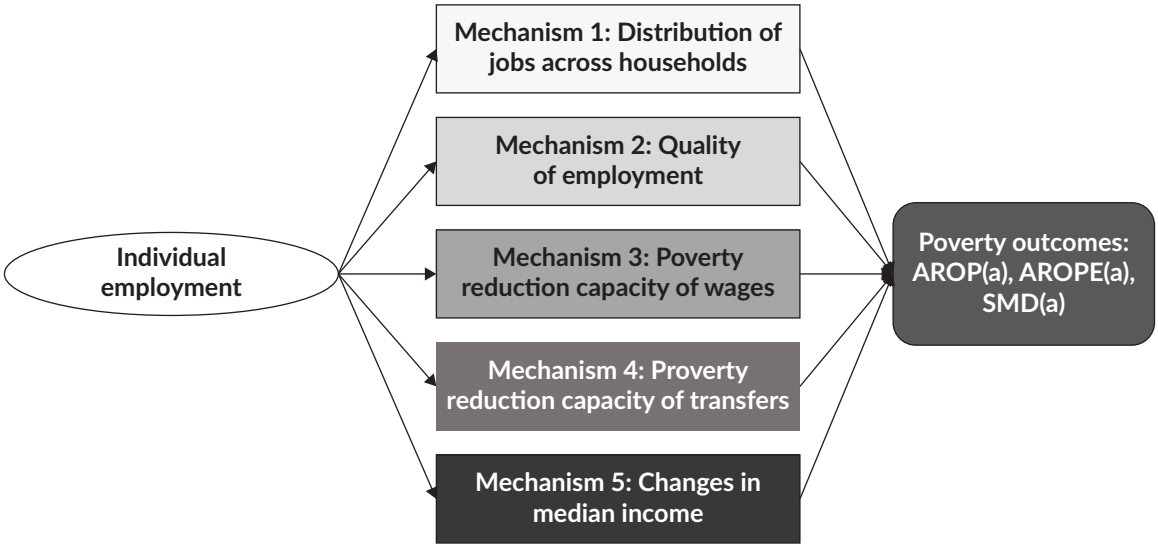

Figure 1. Mechanisms mediating the employment–poverty relationship. Notes: AROP(a) = at-risk-of poverty rate of the active-age population; AROPE(a) = at-risk-of poverty and social exclusion rate of the active-age population; SMD(a) = severe material deprivation rate of the active-age population. Source: Tóth et al. (2024).

2.4.1. Distributions of Jobs Across Households

To the extent that poverty is typically measured at the household level, any anti-poverty effect of employment growth hinges critically on which households benefit from new employment opportunities. The first mechanism mediating the employment–poverty relationship thus pertains to the distribution of jobs across households. If job growth is polarised and thus mainly benefits households that already have multi-earner status while it benefits households with very low work intensity (VLWI) only to a limited extent, then rising employment will not cause commensurate drops in poverty. Evidence on the pre-financial crisis period (Corluy & Vandenbroucke, 2014) substantiates this perspective, indicating that job growth mostly favoured families already engaged in the labour market, while those in VLWI households were generally

overlooked by governmental activation initiatives. More recent comparative studies also confirm this pattern, for they find that the share of individuals living in VLWI households remains a strong predictor of poverty across countries and over time, with increases in the shares of VLWI households closely mirroring increases in poverty, while decreases in the former contributed to poverty reduction (Azzollini et al., 2025; Gábos et al., 2024).

2.4.2. Quality of Employment

Regarding the potential impact of job growth on poverty reduction, the type of employment created is as important as the quantity. If employment growth is primarily driven by part-time, temporary, or otherwise non-standard forms, workers may remain poor despite being employed. Gábos et al. (2024) emphasise how the rise of precarious work in many EU countries has contributed to in-work poverty. Further empirical evidence shows that structural labour market changes increased non-standard and precarious employment, such as part-time, fixed-contract, or pseudo-self-employment arrangements, contributing to labour market polarisation and rising in-work poverty (Alper et al., 2021; Brülle et al., 2019; Vaalavuo & Sirniö, 2022).

2.4.3. The Poverty Reduction Capacity of Wages

The third mechanism pertains to the poverty-reducing capacity of wages. The challenge from an anti-poverty perspective goes beyond simply encouraging individuals to move from dependency to employment. It also requires that employment provides a sufficient income to elevate people out of poverty and ensure an adequate standard of living. Poor households with weak or no labour market attachment, such as single-parent and large families, often live far below the poverty threshold. In those cases, even a job that pays significantly above the minimum wage may not be enough to lift their households out of poverty (Immervoll, 2007; Marx & Nolan, 2014).

Gábos et al. (2024) found that slow growth in minimum wages relative to median income and the persistence of low pay weakened this mechanism in many EU countries. This issue reflects broader structural inequalities, as wage growth has been unequally distributed. Nolan (2018) highlights the significance of fostering low wage growth as a means to alleviate income poverty via economic expansion, whereas Cantillon et al. (2020) emphasise the downward pressure on low wages relative to median household incomes. The impact of minimum wages on poverty reduction has also been widely discussed in the literature (Burkhauser et al., 2023; Collado et al., 2019; Gábos & Tomka, 2022; Gindling, 2018). While higher minimum wages may displace unskilled workers, increasing their risk of poverty, they may also provide stronger incentives for the unemployed to take up work.

2.4.4. The Poverty Reduction Capacity of Social Transfers

Even with employment growth, poverty might persist if the redistributive capacity of the welfare state insufficiently compensates for low income or fails to support those not in work. Evidence shows that redistribution has become less effective in most European countries (Caminada et al., 2012; Leventi et al., 2021), especially for households with VLWI (Akarçeşme et al., 2024). This decline in redistributive capacity has likely contributed to a standstill in income poverty reduction (Cantillon, 2011), further exacerbated by the declining adequacy of minimum income and social protection schemes observed in many EU member

states even before the Great Recession (Causa & Hermansen, 2017; Gábos & Tomka, 2022). Comparative research on minimum income schemes shows a general retrenchment of their adequacy, but also a stronger link between employment and social transfers in the recovery period due to increased conditionality of benefits on work (Knotz, 2018), especially in Central-Eastern member states (Weishaupt, 2011). The difficulty of reducing income poverty through social transfers while not discouraging work nor running large public deficits is exacerbated when wage floors decline relative to median household incomes (Cantillon & Vandenbroucke, 2014; Collado et al., 2019). Higher public social spending is associated with lower income inequality and poverty but tends to benefit the elderly more than the working-age population (Chen et al., 2018; Chzhen et al., 2017; Jaumotte et al., 2013; McKnight et al., 2016).

2.4.5. Changes in Median Income

The fifth intervening factor concerns the trajectory of median income and its impact on relative income poverty thresholds (Jenkins, 2020; Marx & Nolan, 2014), meaning that as median incomes rise, so does the poverty threshold. This has to do with the choice of poverty measurement in the EU, which is relative. This relative measure reflects the EU's normative commitment to social inclusion and the principle that poverty is not just about subsistence but about the ability to participate in society (Atkinson et al., 2002). When incomes near or below the income poverty line do not keep pace with overall income growth, income poverty stagnates or increases. Conversely, during recessions, a decreased threshold may result in reduced levels of relative income poverty.

These five interrelated mechanisms are crucial for understanding why rising employment might not automatically lead to poverty reduction and will be key for our simulation modelling of the potential impact of achieving the employment targets on poverty rates. However, before turning to the simulations, the next section will turn to past empirical trends by examining key social inclusion indicators and tracing employment and poverty trends across EU member states. Special attention is given to the relationship between employment levels and the components of the AROPE indicator.

3. Empirical Trends: Employment, Poverty, and Social Exclusion Pre-2020

While the focus of this article is on future scenarios, it is important to understand past developments in employment and poverty indicators, as well as their interrelationship. In this section, first, we describe the two target indicators of the EU strategies: the employment rate and the AROPE (with its components). Further, we discuss trends in these indicators between 2005 and 2023. Finally, interlinkages between employment and poverty will be briefly discussed.

3.1. Overview of Key Indicators

For the employment rate indicator, employment is measured by the share of the total working-age population (20–64 years of age) who have worked at least 1 hour for pay or profit during the reference week, including contributing family workers. For Europe 2020, the EU-level target was set at 75%, but it was later raised to 78% within the framework of the EPSR and its Action Plan targets for 2030. The European Union Labour Force Survey (EU-LFS) serves as the data source for the indicator.

For the measurement and monitoring of poverty, the AROPE indicator was built up as a political compromise, resulting from a long and intensive build-up process of employing EU social indicators in recent decades (Atkinson et al., 2002; Marlier et al., 2007). When introduced, the AROPE was defined as persons who were either at risk of (relative income) poverty, lived in severe material deprivation (SMD), or lived in a household with VLWI (Marlier et al., 2010). Later, the Action Plan of the EPSR modified AROPE to include a new deprivation indicator and expand the age range for the VLWI indicator.

The at-risk-of-poverty rate (AROP), a measure of relative income poverty, is defined as the share of individuals whose income falls below the AROP threshold established as 60% of the median equivalent income of the total population.

The SMD rate was originally defined as the share of individuals living in households deprived of four or more items out of nine necessities for a decent life. This indicator was then modified and renamed the severe material and social deprivation rate (SMSD), referring to the share of those individuals living in households unable to afford seven or more items out of 13.

The VLWI household rate was initially defined as the share of persons living in households where the value of household work intensity was below 0.2, for individuals in the age range 0–59. With the revision of AROPE-2030, the age range was extended to individuals aged 0–64.

The data source for producing AROPE and its components (AROP, SMSD, and VLWI) is the EU Statistics on Income and Living Conditions (EU-SILC). These indicators (except for VLWI) refer to the total population, with a small "a" notation in parentheses referring to the active age population (e.g., AROP(a)). Attention is drawn to concerns regarding the quality and reliability of Hungarian income data for the period 2014–2023. Since the submission of this article, Eurostat has withdrawn the Hungarian microdata from its latest release (2019–2024) due to reliability concerns and subsequent revisions. Due caution is therefore warranted when interpreting Hungarian figures.

The assessment of the Europe 2020 strategy (European Commission, 2019) noted strong employment growth despite setbacks during the crisis years, with the employment rate target almost being met before the pandemic. Overall, at the EU level, we witnessed a considerable 5 pp increase in employment among persons aged 20–64 between 2008 and 2020. Some countries were able to surpass their national targets substantially (like Malta, Poland, Lithuania, Czechia, Slovenia, and, to a lesser extent, Germany), while for some of them, the plan proved to be too ambitious. This was the case in Italy, Greece, Belgium, Spain, and, to a lesser extent, Luxembourg, Bulgaria, Austria, and Denmark (see A1 in the Supplementary File).

However, the poverty and social exclusion target was missed, as the decline in AROPE fell short of expectations: The decline in the number of persons affected by AROPE reached only 7.8 million between 2008 and 2020 overall in the EU, as contrasted to the planned decline by 20 million. One of the main reasons for this failure was stagnant AROP (Cantillon & Vandenbroucke, 2014). In their analysis, Tóth et al. (2024) showed that this decline in AROPE from 2008 to 2020 was largely due to reductions in SMD, especially in East-Central Europe, as well as in France, Italy, and Portugal. Conversely, changes in the number of persons affected by AROP contributed negatively to the improvement in AROPE figures in almost all countries, except Greece and Spain.

3.2. Employment Trends, Poverty Dynamics, and Their Interrelationship Across Member States

Figure 2 displays the indicators for the active age population as the direct effects of employment on poverty are better seen by an analysis limited to active age individuals (Cantillon & Vandenbroucke, 2014; Gábos et al., 2019, 2024). A negative association with employment rate and a co-movement with AROPE(a) is visible in the case of the SM(S)D(a) and VLWI(a) rates, while the EU-27 average figures of the relative income poverty measure AROP(a) show little variation in this period. Overall, visual observation of these co-movements at the EU level indicates that trends in AROP did not, or only weakly, reflect employment trends.

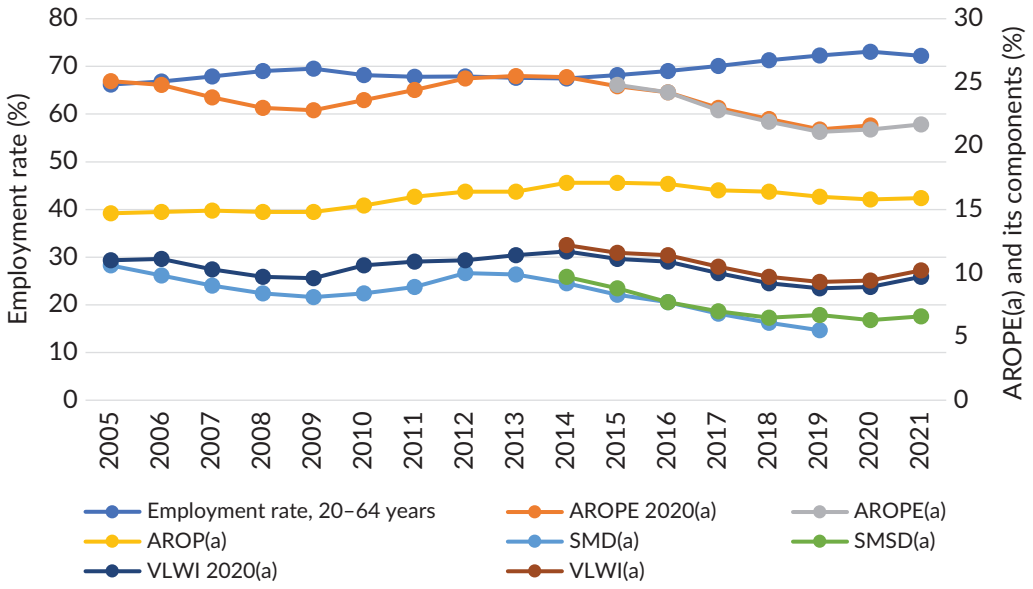

Figure 2. Trends in the employment (left axis), the social target (AROPE) indicator and its components (AROP(a), VLWI(a), and SMSD(a); right axis), active age population (18–64), EU-27 average, 2005–2021. Notes: A detailed explanation of the indicators is provided in the Supplementary File (A2). Source: Eurostat database, retrieved on 31/7/2023.

Tóth et al. (2024) show that, similarly to the EU-27 average presented in Figure 2, a clear mirror trend between employment and AROPE(a) is also observed in the majority of individual countries. The exceptions are France and Luxembourg, where the trends move by and large parallel to each other. In countries where variation in employment is relatively small (Belgium, Finland, and Italy, for example), AROPE(a) trends are also less volatile, but they do not go counter to the mirror. In periods with significant employment growth, AROPE(a) increases occur very rarely (e.g., Hungary between 2011 and 2013, Italy between 2014 and 2017, Malta between 2009 and 2013, and Sweden between 2007 and 2009).

The co-movements of employment rate with AROP(a) are remarkably weaker. However, still, in many member states, the AROP(a) rates mirrored the evolution of the employment rates, especially where employment rates displayed large volatility (e.g., the Baltic States, Ireland, Portugal, or Greece). This was the case in many other countries, too. By contrast, in countries characterised by moderately increasing employment (Belgium, Finland, France, Italy, and Luxembourg), AROP(a) showed similarly stagnant or moderately decreasing trends. In countries with steady employment growth, AROP(a) rates either remained stagnant or declined (i.e., Austria, Czechia, Germany, Malta, and the Netherlands).

Furthermore, a comprehensive correlation analysis between employment rates, AROPE, and its components from 2005–2020 at both the EU and national levels reveals that employment levels and fluctuations were markedly and adversely associated with poverty outcomes, especially among working-age adults. AROPE rates calculated for the total population correlated negatively with the employment rate at a relatively high level (−0.54): An increase in employment was associated with a decrease in the AROPE rate in the period between 2005 and 2020 (see A3 in the Supplementary File). The corresponding analysis restricted to the active age bracket results in an even stronger correlation (−0.61), underlining that there was a positive relationship between employment increase and income poverty reduction.

To better understand the conditions under which the EU's 2030 social inclusion target might still be met, the following section employs simulation-based scenarios.

4. Future Scenarios: The Projected Impact of Employment Growth on Poverty and Social Inclusion Targets

We present a simulation study to explore how different mediating mechanisms such as job allocation patterns, job quality, wage levels, and redistribution effectiveness shape the extent to which rising employment rates can reduce poverty, considering the EPSR's Action Plan targets and building on the conceptual framework and mediating factors introduced earlier. Using shift-share analysis and a regression-based simulation model, we estimated future trends in AROP rates by simulating progress toward each country's 2030 employment target under alternative scenarios, based on varying assumptions about these mediating mechanisms further explained below.

4.1. Methodology: Modelling the Impact of Employment Growth on Relative Poverty

The simulations aim to answer a core policy question: If EU member states achieve their national employment targets for 2030, would this alone, without further policy intervention, lead to the achievement of the 2030 poverty targets? To explore this, we developed multiple scenarios based on different assumptions which aimed to capture the mediating mechanisms identified in the theoretical model in Section 2 (Figure 1). These assumptions varied regarding:

- To whom the new jobs are allocated, aiming to capture Mechanism 1—the distribution of jobs across households;
- Which kinds of jobs are created, reflecting Mechanism 3—the poverty reduction capacity of wages—and also serving as a proxy for Mechanism 2—the quality of employment;
- How poverty within vulnerable groups evolves, serving as a proxy for Mechanism 4—the poverty reduction capacity of social transfers;
- How the poverty line is defined (e.g., fixed vs floating), capturing Mechanism 5—changes in median income.

For our simulations, we used EU-SILC 2019 data (income reference year 2018) for all EU countries for two reasons: It was the baseline year for tracking progress toward the 2030 targets, and it is the last wave unaffected by the Covid-19 pandemic. Later waves are either partially or fully impacted by pandemic-related disruptions in employment, income, and data collection. In particular, the widespread introduction of job

retention schemes such as short-time work significantly altered both recorded employment and income levels. Given the scale and temporary nature of these interventions, and the difficulty of distinguishing short-term pandemic effects from structural trends within the scope of our article, we consider EU-SILC 2019 the most appropriate data source for simulating counterfactual employment scenarios in a more stable pre-pandemic context.

In our simulations, we generally focus on the 20–64-year-old population (denoted by a small "a," e.g., AROP(a)). However, as the 2030 AROPE target (a reduction of 15 million in the number of AROPE individuals) is set for the entire population, our AROPE simulations are also based on the impact on the entire population. Poverty is primarily measured via AROP, which is a component of AROPE as described in the last section.

4.1.1. Shift-Share Analysis

We assessed the impact of achieving the 2030 employment rate target on poverty outcomes by implementing a shift-share simulation that reweights the active age population across employment status categories (employed, unemployed, inactive) and levels of household work intensity (VLWI, LWI, other work intensity). For each country, the employment gap relative to the EU target was filled by reallocating individuals stepwise, either first from unemployment and inactivity, or from households with VLWI and LWI. The overall poverty rate was then computed as the weighted average of group-specific poverty rates, holding those rates constant or extrapolating 2010–2020 trends (the relevant equations are specified in A4 in the Supplementary File). The four main shift-share scenarios are defined in Table 1.

Table 1. Summary of the simulation scenarios employing shift-share methodology.

Scenario Code	Sequential Job Allocation Priority	Simulated Employment Growth	Poverty Line	Within-Group Poverty Rate Assumption	Wage Imputation	Predicted Poverty Indicator
(1) SS_UI_Static	1 Unemployed 2 Inactive	To the level of the country–specific 2030 employment rate target (see A5 in the Supplementary File)	Only Fixed is possible with SS	AROP(a) constant within the group	Not possible with SS	AROP(a)
(2) SS_UI_Trend	1 Unemployed 2 Inactive			AROP(a) constant within the group		AROP(a)
(3) SS_VLWI_Static	1 Individuals in VLWI households 2 Individuals in LWI households			AROP(a) trends 2010–2020 continue		AROP(a)
(4) SS_VLWI_Trend	1 Individuals in VLWI households 2 Individuals in LWI households			AROP(a) trends 2010–2020 continue		AROP(a)

Notes: SS = shift-share; UI = unemployed, inactive.

The limitation of the shift-share analysis is, however, that it cannot account for wage dynamics and, hence, disregards the important mechanism of increase in median incomes resulting from job growth. Furthermore, it is not possible to distinguish between individuals' employment chances when simulating employment growth

with this method. Therefore, we followed Marx et al. (2012) and also performed a regression-based analysis to simulate an increase in employment growth by considering more detailed assumptions about the mechanisms described previously.

4.1.2. Regression-Based Simulations

To better account for the nuanced ways in which employment is likely to change in practice, we complemented the shift-share approach with a regression-based simulation. This allowed us to estimate the probability that each unemployed or inactive individual will move into part-time or full-time employment based on their personal and household characteristics. Key variables in this model included age, education, gender, health status, migration background, and family composition. Interactions between characteristics (e.g., gender and parenthood, or gender and origin) allowed for more nuanced predictions. Table 2 summarises the scenarios simulated with this methodology. The multinomial logit model specifications, the variable list, and the key parameter estimates are provided in the Supplementary File (A6, A2, and A7, respectively).

Table 2. Summary of the simulation scenarios employing a regression-based methodology.

Scenario Code	Sequential Job Allocation Priority	Simulated Employment Growth	Poverty Line	Within-Group Poverty Rate Assumption	Wage Imputation	Predicted Poverty Indicator
(5) RB_Float	Top predicted probability	To the level of the country-specific 2030 employment rate target (see A5 in the Supplementary File)	Floating	Dynamic	Predicted Wages	AROP(a) and AROPE
(6) RB_Fixed	Top predicted probability		Fixed		Predicted Wages	AROP(a) and AROPE
(7) RB_Low_Float	Top predicted probability		Floating		Low Wage (2/3 of Median)	AROP(a)
(8) RB_Low_Fixed	Top predicted probability		Fixed		Low Wage (2/3 of Median)	AROP(a)
(9) RB_VLWI_Float	Individuals in VLWI households prioritised		Floating		Predicted Wages	AROP(a)
(10) RB_VLWI_Fixed	Individuals in VLWI households prioritised		Fixed		Predicted Wages	AROP(a)

Note: RB = regression-based.

Each individual in the non-employed population received an estimated probability of moving into part-time or full-time work. These probabilities were then used to rank individuals according to who was most likely to take up newly created jobs if the employment rate increased to the level of the 2030 employment rate target.

In the default simulations (Scenarios 5 and 6), jobs were assigned in order of likelihood: Those among the unemployed with the highest predicted probability were moved into employment first. Alternative versions prioritised individuals in VLWI households, reflecting the mechanism concerning the distribution of jobs across households.

Once new jobs were assigned, we imputed incomes for the newly employed. In some versions, we used predicted average wages based on individual profiles (Scenarios 5, 6, 9, and 10); in a more conservative version, we assumed that all new jobs were low-paid, set at two-thirds of the national median wage (Scenarios 7 and 8). These scenarios helped us to assess how much wages and, implicitly, job quality might influence poverty outcomes.

To understand how employment growth interacts with poverty measurement, we simulated two treatments of the poverty line. In terms of the fixed poverty line, the poverty threshold was anchored at 2019 levels (Scenarios 6, 8, and 10). In terms of the floating poverty line, the poverty threshold was updated to reflect post-simulation median incomes (Scenarios 5, 7, and 9).

In our simulations, the SMSD rate was kept constant when simulating job growth. While increases in employment rates have a direct impact on household work intensity and incomes, the impact on SMSD is indirect and, therefore, difficult to model. Previous attempts substantiate this difficulty and point to the weak predictive capacity of SMD for poverty outcomes in the framework of the Europe 2020 Strategy targets (Ajwad et al., 2013). It is, thus, likely that in countries with a high SMSD rate, our simulations may underestimate the impact of employment growth on AROPE. This is further supported by the evidence that the SMSD component was found to be more responsive to employment changes as well as more highly correlated with the AROPE aggregate than the other two components (Tóth et al., 2024).

Furthermore, it is important to emphasise that our analysis did not establish causal relationships between employment and poverty outcomes. Rather, it modelled their association under various hypothetical allocations of job growth. This means the potential endogeneity between employment status and poverty, where the two may mutually influence each other, was not explicitly addressed. Also, the simulations assumed no behavioural responses from individuals or households. As such, we do not account for potential changes in labour supply incentives, benefit take-up, or eligibility that could result from shifting employment patterns or policy interventions. Finally, labour demand was treated as exogenously fixed in the model. The number of jobs to be created was derived from policy targets without modelling the economic or sectoral conditions under which such job creation might realistically occur. These limitations did not undermine the usefulness of the simulations for policy analysis, but they did underscore the importance of interpreting the results as indicative rather than predictive.

4.2. Simulation Results and Discussion

This section presents the simulation results assessing whether employment growth alone can lead to the achievement of the EU's 2030 poverty and social inclusion target. We examine the projected impact of reaching national employment targets on income poverty, using two complementary approaches: a shift-share simulation and a regression-based simulation.

First, we present the results from the shift-share analysis, which models how changes in the composition of the working-age population across employment or work intensity categories affect poverty outcomes. This approach assumes either fixed or trend-adjusted poverty rates within population groups and allows us to assess the mechanical impact of increased employment under different job allocation strategies.

Second, we report results from a regression-based simulation that estimates individual employment probabilities based on sociodemographic characteristics. This enables a more realistic modelling of job transitions, job quality, and income changes. Together, these simulations provide insights into whether and how much employment growth can be expected to reduce poverty, and under what conditions the impact may be limited or even offset.

The shift-share analysis (see Figure 3) reveals that overall, the AROP(a) rate declines when the employment rate is increased to the level of each country's 2030 target. As expected, countries that are already close to their target employment rates experience only modest reductions in income poverty. The largest decreases occur under scenarios where new jobs are allocated first to individuals in VLWI households (Scenario 3): In this case, AROP(a) drops by up to 8.2 pp in Germany and Cyprus. However, when simulations incorporate the continuation of past AROP(a) trends within VLWI and LWI households (Scenario 4), the projected AROP(a) reductions are generally smaller. This reflects, among other factors, the limited effectiveness of social protection systems in these contexts. In fact, under these trend-based scenarios, countries such as the Netherlands, Slovakia, Germany, Cyprus, Austria, Hungary, and Croatia are projected to have 2030 AROP(a) rates that exceed their 2020 levels, even when job creation is geared towards individuals in VLWI households.

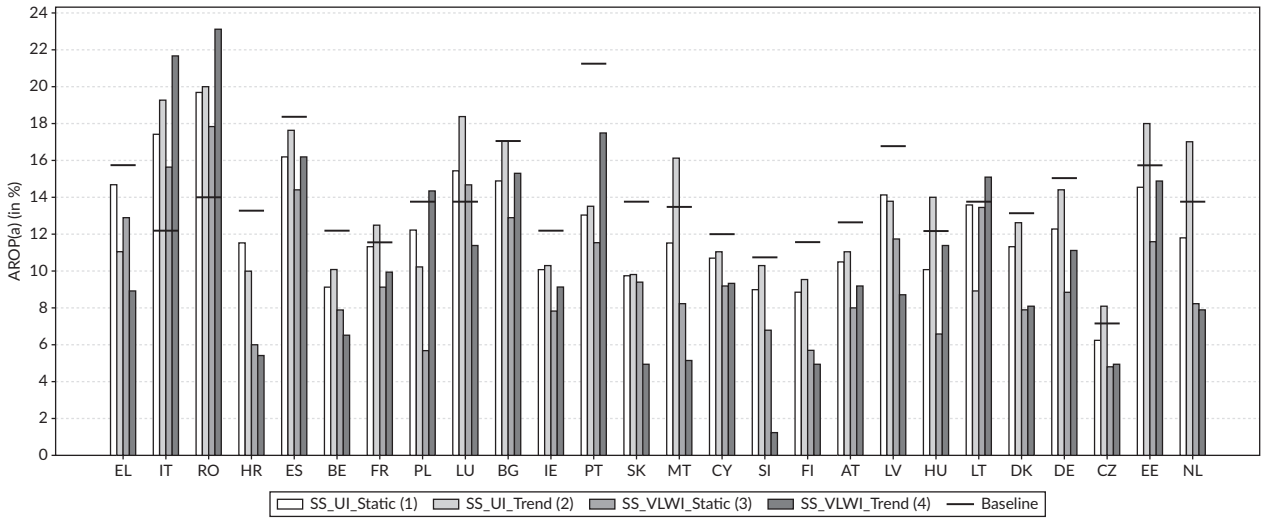

Figure 3. AROP(a) before and after increasing the employment rate to the 2030 country-specific employment rate target for the population aged 20–64 under four scenarios using shift-share, EU-27. Countries are ranked from low to high pre-simulation employment rates. Source: Authors' calculations based on EU-SILC 2019.

The shift-share simulations provide some insights into the structural link between job growth and poverty outcomes. Nevertheless, they depend on simplified allocation procedures and presume stable or trend-adjusted poverty risks across population subgroups. To get a more accurate representation of the nuanced ways in which employment is likely to change in practice, we will now turn to the regression-based

simulations. This approach facilitated us to model the likelihood of individuals entering part-time or full-time employment based on their key demographic and socio-economic characteristics. It also allowed us to simulate income changes more flexibly, including differences in wage levels, which also serve as a proxy for job quality. This section presents the projected poverty outcomes under various regression-based scenarios, including those that test the effects of low-wage employment, job allocation priorities, and different treatments of the poverty line.

Figure 4 shows that when the allocation of jobs is simulated, taking into account the statistical likelihood of individuals moving into employment based on their socio-economic profiles (Scenarios 5 and 6), the impact of employment growth on AROP(a) is generally smaller than in the previous shift-share analyses where jobs were allocated to the unemployed first and then the inactive (Scenario 1), or to individuals in VLWI households (Scenario 3). In high-employment countries, the hypothetical impact is very small, as in the case of Sweden and Czechia, or non-existent, as in the case of Hungary and Denmark. In low-employment countries, the impact remains significant when the AROP threshold remains fixed (Scenario 6). If we assume that the income poverty threshold increases when employment rises (Scenario 5), the theoretical impact of increasing employment rates is, however, negligible (or negative) in more than half of the countries, where the baseline employment is moderate or high. In those cases, a significant impact on AROP(a) is observed only in countries with low baseline employment rates, such as Greece and Spain.

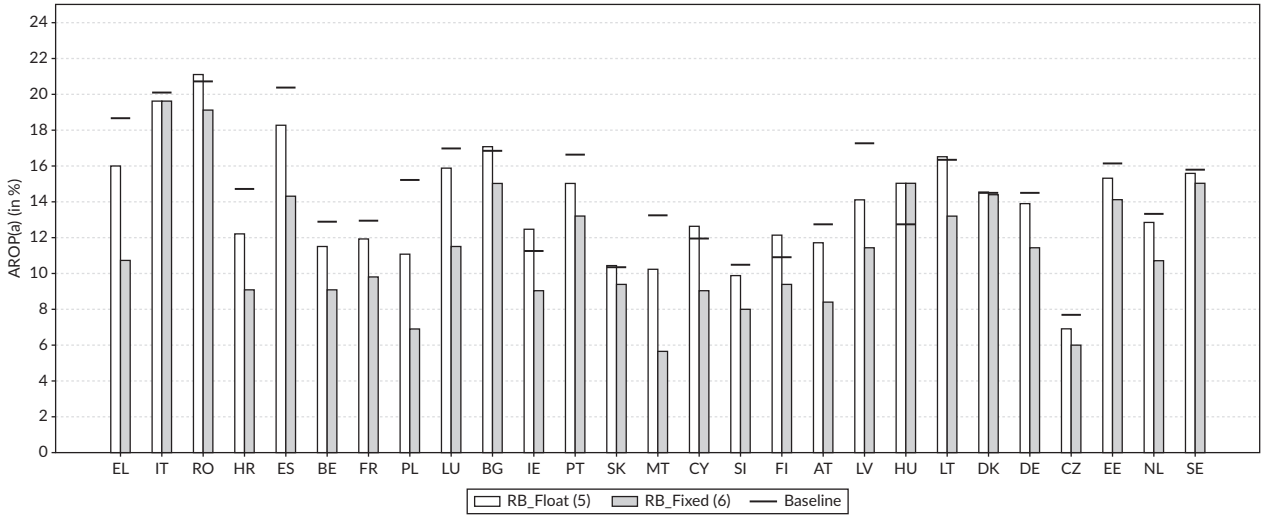

Figure 4. AROP(a) before and after increasing the employment rate to the country-specific 2030 employment rate target for the population aged 20–64 under two scenarios using the regression-based (RB) approach, EU-27. Countries are ranked from low to high pre-simulation employment rates. Source: Authors' calculations based on EU-SILC 2019.

Figure 5 shows the impact of job growth on the number of earners in the household. When jobs are econometrically distributed according to individuals' employment probabilities (Scenarios 5 and 6), the share of households with no earner moving to one-earner households is limited. Moves from no earners to two earners are even less frequent. Most of the changes involve transitioning from a one-earner to a two-earner household, which is most pronounced in Greece (12.77%) among low-employment-rate countries, in Poland (13.71%) among mid-employment-rate countries, and in the Netherlands (8.4%) among high-employment-rate countries. These patterns point yet again to the finding that poverty outcomes may

depend on the job allocation mechanism. Hence, in what follows (Figure 6), we test the sensitivity by allocating jobs to individuals in VLWI households first.

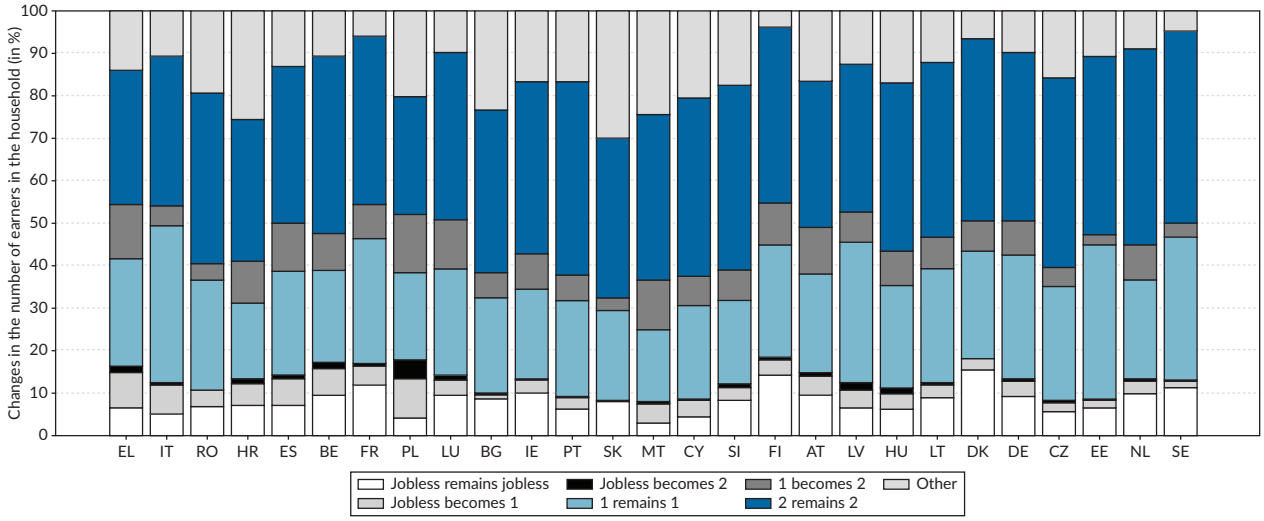

Figure 5. Changes in the number of earners in the household after increasing the employment rate to the country-specific employment rate target for the population aged 20–64 using the regression-based approach, EU-27. Countries are ranked from low to high pre-simulation employment rates. Source: Authors' calculations based on EU-SILC 2019.

Figure 6 shows the simulated AROP(a) outcomes of allocating jobs to individuals living in VLWI households, under both a floating (Scenario 9) and a fixed poverty line (Scenario 10) assumption. In these scenarios, substantial reductions in AROP(a) are observed. This holds for both the fixed and the floating poverty line, suggesting that the poverty-reducing capacity of this targeting strategy is not merely a statistical artefact of shifting thresholds. The likely explanation is that households with no or very low current labour market attachment typically face a compounded poverty risk, and any labour income introduced into such households has a stronger marginal impact on household total disposable income. As a result, allocating jobs to VLWI households can move the entire unit above the poverty threshold, which is less likely in partially employed or multi-earner households, which are more likely to already be above the poverty line. However, besides the allocation of jobs across households, the levels of the imputed wages are also very important.

Figure 7 shows the impact of employment growth on AROP(a) when, instead of using econometrically estimated wage levels (Scenarios 5 and 6), low wages defined as two-thirds of the full-time wage (Lucifora & Salverda, 2011) were imputed (Scenarios 7 and 8). With a fixed poverty line (Scenario 8), the low-wage imputation resulted in either lower or similar rates of poverty reduction compared to the wage imputation following the econometrically estimated wage level (Scenario 5). However, with a floating poverty line (Scenario 7), the AROP(a) results were significantly affected in some countries. Imputing lower wages prevents the poverty line from rising as much as it does with econometrically estimated wages, leading to more favourable poverty outcomes. While we have so far focused on AROP(a) outcomes, the 2030 poverty and social inclusion target is measured by AROPE outcomes (for the total population). In what follows, we thus present the potential impact of employment growth on AROPE.

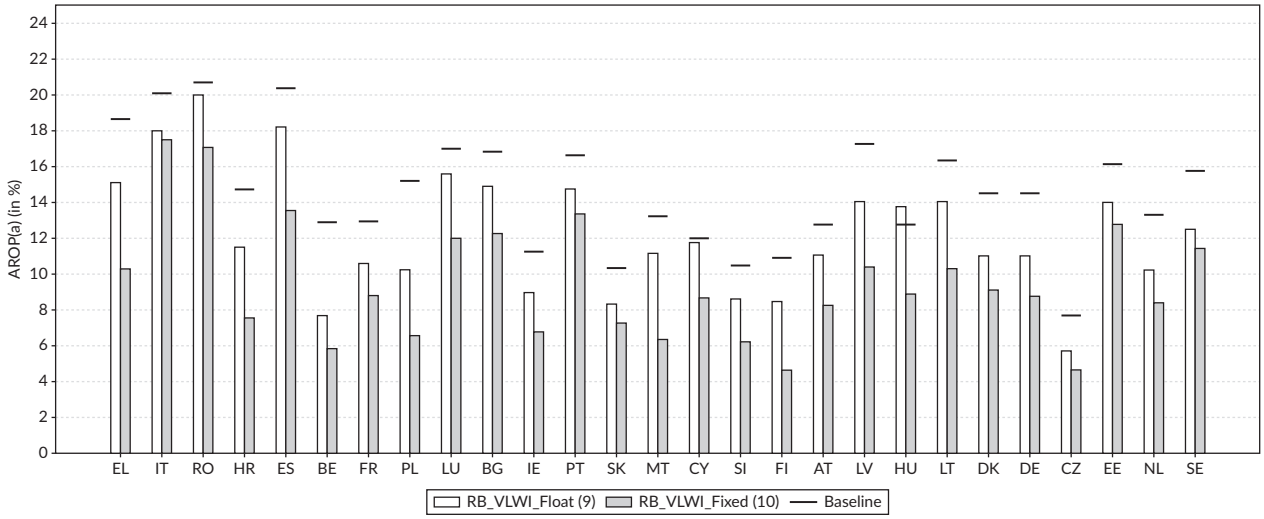

Figure 6. AROP(a) before and after an increase of employment to the country-specific employment rate target for the population aged 20–64 if jobs are primarily allocated to individuals in VLWI households using the regression-based (RB) approach, EU-27. Countries are ranked from low to high pre-simulation employment rates. Source: Authors' calculations based on EU-SILC 2019.

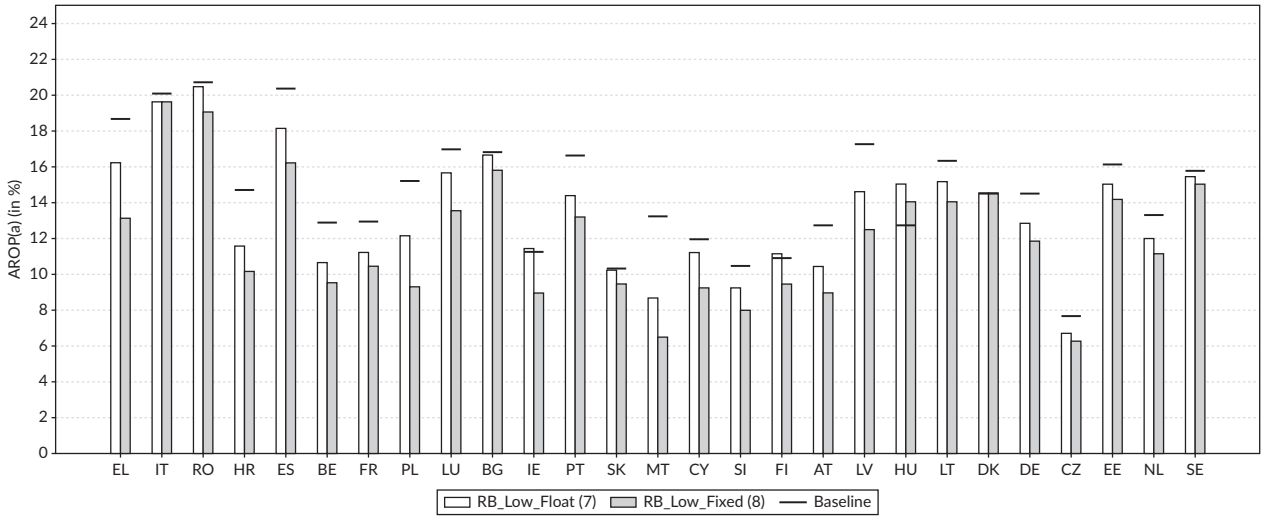

Figure 7. AROP(a) before and after an increase of employment to the country-specific employment rate target for the population aged 20–64 using the regression-based (RB) approach, sensitivity test for changing the imputed wage level, EU-27. Countries are ranked from low to high pre-simulation employment rates. Source: Authors' calculations based on EU-SILC 2019.

Figure 8 shows the simulated effect of employment growth on two out of the three dimensions of AROPE (AROP and VLWI). The results are compared with the national AROPE targets. Assuming that the income poverty thresholds will increase due to employment growth (Scenario 5) and that additional jobs are allocated according to individuals' job chances without affecting the severe material and social deprivation rate, the findings indicate that only six countries, namely Austria, Czechia, Hungary, the Netherlands, Poland, and Slovenia are projected to meet their 2030 AROPE target. Even under the more optimistic Scenario 6, where the poverty threshold is held constant, more than half of the EU countries still fall short of their 2030 AROPE target.

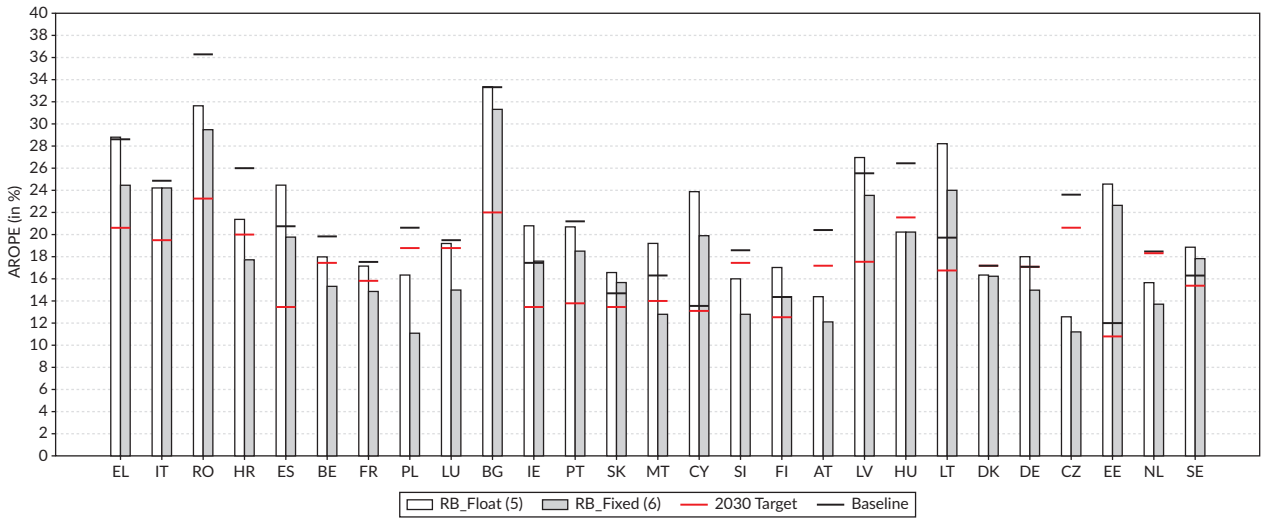

Figure 8. AROPE rates (of the total population) before and after increasing the employment rate of the population aged 20–64 to the country-specific employment rate target using the regression-based (RB) approach, EU-27. Countries are ranked from low to high pre-simulation employment rates. Source: Authors' calculations based on EU-SILC 2019; DE and DK express their targets not in terms of AROPE but in terms of a reduction in the number of people living in VLWI households.

When assessing the EU-wide objective of reducing the number of AROPE persons by 15 million by 2030, including a reduction of 5 million children, the simulations presented the following results: Under the floating poverty line scenario, where median wages increase due to employment growth, as do the poverty thresholds, the number of people at risk is projected to increase by 14,170,773—a significant deviation from the targeted reduction (see A8 in the Supplementary File).

The country-specific contributions to this overall increase varied considerably, with Italy (2,889,353), Spain (2,118,715), Romania (1,643,711), and Poland (1,123,761) showing the largest projected increases, while Luxembourg (2,696), Malta (9,908), and Estonia (53,802) displayed much smaller increases. In the fixed poverty line scenario, the overall projected increase in individuals at risk was notably lower at 2,618,076, though it remained misaligned with the desired reduction. For child AROPE, the relative poverty line scenario simulated a decrease of 895,640 such children, which falls significantly short of the target of five million. Under the fixed poverty line scenario, the projected decrease in children at risk amounted to 3,538,317, which was significantly higher than in the latter scenario, but still insufficient to meet the 2030 target.

Against the background of a renewed commitment to social Europe under the EPSR Action Plan, our results call into question the EU's inherent premise that mainly raising the employment rate will substantially reduce poverty. Instead, our simulations show that the structure and distribution of job gains, as well as larger institutional and demographic circumstances, play a critical role in shaping poverty trajectories among member states. Together with the available empirical evidence, these can offer important political implications. The next section is dedicated to those.

4.3. Policy Implications

The preamble to the EPSR emphasises that reducing poverty and social exclusion through adequate social protection, sufficient income support, and access to essential services remains a top priority. The success of the EPSR thus relies on the identification and implementation of concrete initiatives and measures that bring its substantive principles to life across all areas.

This section translates the simulation findings into a set of policy recommendations. Each recommendation aligns with the core dimensions discussed and is grounded in existing policy debates, notably the EPSR and recent scholarly evidence. While employment remains a key driver of poverty reduction, inclusive growth also requires recognition of the importance of supporting those outside the labour market. Thus, a nuanced strategy must combine inclusive employment growth with robust systems of social protection.

We recognise that the competence for most of these recommendations lies with the member states. However, the EU can play an important role in steering, coordinating, and supporting national efforts through legislation, soft governance tools, and financial instruments. The EPSR, the European Semester, Directives, Recommendations, monitoring, and dedicated EU funds (e.g., the European Social Fund Plus, the Social Climate Fund, and the Just Transition Fund) provide critical levers for incentivising national reforms aligned with shared social goals. This multilevel governance approach is essential given the limited direct EU competence in areas such as wages and labour law.

Our simulation results show that the poverty-reducing potential of employment growth hinges critically on who benefits from new job opportunities. When employment gains are directed toward individuals in VLWI households, the projected reductions in AROP(a) rates are substantially greater than in scenarios where job growth is purely based on employment propensities based on individual socio-economic characteristics. This underscores the need for targeted activation and social investment strategies as well as integrated policy measures that address household-level barriers to employment, including access to childcare, flexible work arrangements, and tailored support for disadvantaged groups. Such efforts align with Principles 4 and 11 of the EPSR, which emphasise active labour market support and work-life balance and should be further encouraged through EU tools like the European Semester and the European Social Fund Plus.

However, increasing labour force participation without improving wage structures and job quality will likely have a limited impact on poverty. In terms of improving wage structures, EU and national policymakers must, in line with EPSR Principles 5 and 6, prioritise the enforcement of fair wages and stable contracts. The Minimum Wage Directive recommends aligning statutory wages with at least 60% of median income, and Haapanala et al. (2023) demonstrate that higher minimum wages and collective bargaining coverage correlate with higher wage floors and lower incidence of low pay. Furthermore, the Minimum Wage Directive appears to have created political and institutional avenues for trade unions and other stakeholders to advocate for increases in minimum wage levels and expanded collective bargaining coverage (Müller, 2024). Nonetheless, political tensions persist: The Danish government challenged the Minimum Wage Directive in Case C-19/23 before the Court of Justice of the European Union, a move later supported by Sweden. This illustrates enduring disputes over the EU's competence in wage setting. Despite legal analyses questioning the Danish government's claim (Aranguiz & Garben, 2021), the advocate general issued an opinion in favour of annulling the Directive. At the time of writing, a final judgement from the Court of Justice of the European Union is still pending.

While the EPSR acknowledges the importance of fair working conditions (Principle 5) and adequate wages (Principle 6), its operational framework and Social Scoreboard fall short of explicitly capturing the quality of jobs created. Piasna et al. (2019) observe that the EPSR merely commits to preventing the abuse, rather than the use of atypical contracts that lead to precarious working conditions, though it does pave the way for at least some regulation on some extreme features of poor job quality. In light of these shortcomings, there is a need to further invest in the refinement of job quality metrics. While there is great variation in terms of the definition and measurement of job quality (Piasna et al., 2019), the headline employment targets might be complemented with indicators on the quality of the working environment, labour market security, and earnings quality (Cazes et al., 2015).

Finally, social protection must be safeguarded and adapted to evolving labour market risks. The effectiveness of redistribution through social transfers has weakened in several member states (Cantillon et al., 2020), highlighting the urgency of reinforcing benefit adequacy. This includes both anchored safety nets for those out of work and in-work benefits for low earners, addressing the EPSR Principles 12, 13, 14, and 20. Furthermore, automation, the green transition, and potential economic shocks threaten job stability and skills relevance, particularly for the low-educated and low-skilled. Member states should anticipate these challenges by scaling up reskilling initiatives and investing in lifelong learning and digital competence, in line with Principles 1 and 3. When combined, these coordinated strategies offer a cohesive and forward-looking framework to ensure that employment-led growth contributes meaningfully to poverty reduction across Europe.

5. Conclusion

Performance vis-à-vis the employment and social targets of the EPSR Action Plan represents a central challenge for the Union. A substantial rise in employment rates in recent years has not been accompanied by a commensurate decline in the AROPE rate, prompting critical questions about how employment growth affects poverty and the prospects of achieving the 2030 social target of reducing the number of individuals experiencing AROPE by at least 15 million.

While the 2020 employment rate target of 75% was not fully achieved at the EU level, 16 countries did meet that target. The number of persons in the EU affected by AROPE fell by 7.8 million between 2008 and 2020, but the targeted decline in that case was 20 million, with some countries seeing substantial reductions but others marked increases. The decline in AROPE was primarily due to falls in the extent of its SMD and VLWI elements, especially in most East-Central European countries, but also in France, Italy, and Portugal, whereas the relative income poverty component was mostly stable or increasing.

This article has demonstrated that an increase in employment was associated with some decrease in the AROPE rate over the period 2005–2020, but relative income poverty responded much more modestly than SMD, VLWI, or the overall AROPE measure.

Investigating the complex and multifaceted nature of the relationship between employment growth and income poverty has highlighted the importance of how additional jobs are distributed across households. The simulation results presented show that for a given level of employment increase, income poverty declines most when job growth reaches VLWI households first, while when the statistical likelihood of

individuals moving into employment is incorporated into the modelling, the impact of job growth on relative income poverty is smaller. The simulations also demonstrate the importance of the quality of jobs/wage levels involved, as well as the social protection support for households who do not benefit from job growth. Simulations integrating key assumptions about mediating mechanisms suggest that with unchanged policies, reductions in relative income poverty will make little contribution to reaching the central 2030 AROPE social target.

The implication is that policies to improve the transmission from employment growth to poverty reduction must be an urgent priority. Employment policies must increase their focus on activating the most vulnerable, requiring intensive job search and related support. Policies at national and EU levels to underpin job quality also need to be strengthened via labour market regulation and minimum wages, collective bargaining, education and training, and encouraging innovation. At the same time, levels of social protection and provision for those of working age need to be safeguarded and enhanced, with particular attention paid to how the green and digital transitions impact the low-educated and low-skilled, which also necessitates targeted and effective reskilling programmes.

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Conflict of Interests

The authors declare no conflict of interests.

Data Availability

Our analysis is mainly based on EU-SILC Microdata. Access to this data is granted by Eurostat to researchers and institutions upon request. However, some aggregated indicators and metadata are publicly available from the Eurostat online database.

Supplementary Material

Supplementary material for this article is available online in the format provided by the authors (unedited).

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