

European Foundation for the Improvement of Living and Working Conditions

The Working Poor

Greet Vermeylen

*Presentation to Combat Poverty Agency
21 September 2004*

27/06/2006 1

European Foundation for the Improvement of Living and Working Conditions

Policy context

- Lisbon agenda :
 - More and better jobs
 - Raise participation rate of men, women and older workers
 - Puts fighting poverty and social exclusion high on the agenda

27/06/2006 2

European Foundation for the Improvement of Living and Working Conditions

The terms of the policy debate at EU level

Strong emphasis on the capacity of employment to promote social inclusion and prevent poverty...

... but recognising that holding a job is not always sufficient to escape poverty...

...hence the need to define common indicators to be used in the OMC in the field of social inclusion and the employment strategy...

27/06/2006 3

European Foundation for the Improvement of Living and Working Conditions

Working poor in the EF

- Report on working poor in the EU: a literature review
- Seminar to discuss the findings of the report in Brussels on 1 / 2 July

27/06/2006 4

European Foundation for the Improvement of Living and Working Conditions

Aim of the report

- Clarify concepts
- Quantifying the phenomenon
- Providing information on institutional factors likely to influence the development of this phenomenon
- Identifying groups at risk in a number of national contexts
- Providing information on policies tackling the issue

27/06/2006 5

European Foundation for the Improvement of Living and Working Conditions

Structure of the report

- Definition of the concept
 - Starting definition : *working poor are individuals that are in employment and simultaneously members of an household which global income is below the poverty line*
- Incidence of working poor
- Characteristics of working poor
- Groups at risk e.g. migrant workers, young low-qualified workers, disabled workers, women etc.
- Policies which could have an impact on the issue

27/06/2006 6

European Foundation for the Improvement of Living and Working Conditions

National and EU policies

- ▶ Employment and social protection policies:
 - Working poor in the welfare state
 - Making work pay

27/06/2006 7

European Foundation for the Improvement of Living and Working Conditions

Starting point :

- In-work poverty: a hybrid concept
- At the cross-road of two fields : work and poverty
- Links are generally established in terms of deficit :
 - ▶ lack of work is the reason of poverty /
 - ▶ work is the way out of poverty
- Underlying assumption :
 - ▶ for those capable to work, unemployment (and poverty) is the result of a lack of commitment to work (notion of « voluntary unemployment »)
- The existence of WP is a glaring contradiction to this strong belief

27/06/2006 8

European Foundation for the Improvement of Living and Working Conditions

- Working poor : expression mainly used
 - in the context of low wage/quality (US) employment &
 - in the EU incentive to work /Make Work Pay policies
- Existence of a certain confusion between the distinct issues of working poverty and low wage work
- Keep in mind :
 - Working poor : to be considered at individual (work) and household (poverty) levels
 - Work and poverty are both complex and multidimensional issues
 - Traditionally : approached through income related issue

27/06/2006 9

European Foundation for the Improvement of Living and Working Conditions

Existing definitions in literature

- Literature research shows that the issue of WP has been scarcely considered in literature, especially in Europe
- USA are the only country where an official definition of WP exist since 1989 : "The working poor are defined as persons who have devoted at least half of the year to labour market efforts, being either employed or in search of a job during that period, but who still lived in poor families" (Klein, 1989)
- French statistical institute (INSEE) has in the recent years used the same definition and make a distinction between active poor (working or searching a job) and working poor (effectively working at least 6 months)

27/06/2006 10

European Foundation for the Improvement of Living and Working Conditions

- These multiple definitions are articulated around different understandings of what is meant by being at work and being poor
- To be categorised as WP or AP an individual has to :
 - To live in a poor household
 - To be either working or searching for a job
 - To have worked (or searched a job) for the major part (1 to 6 months) in the prior year; or accumulated the corresponding amount of working hours

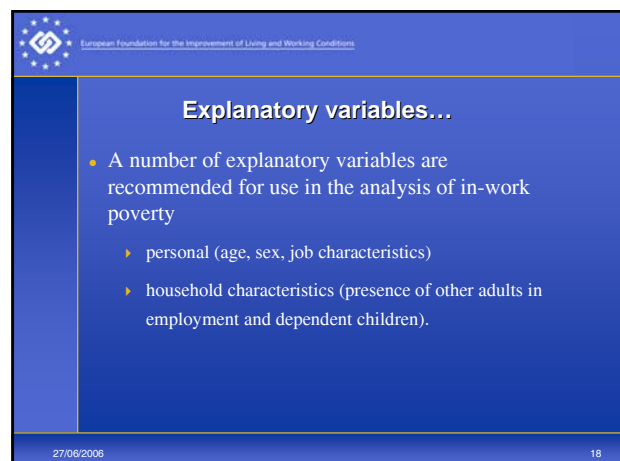
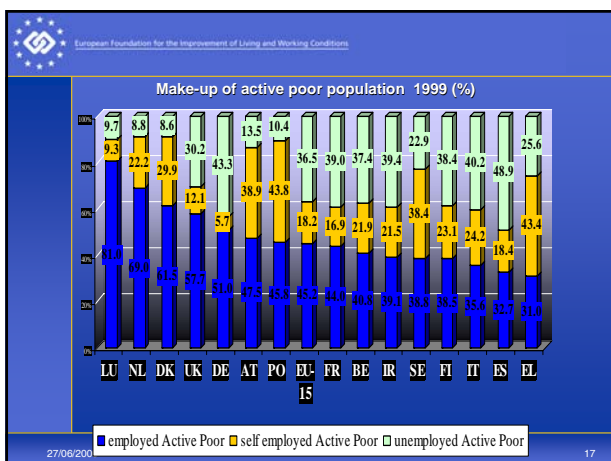
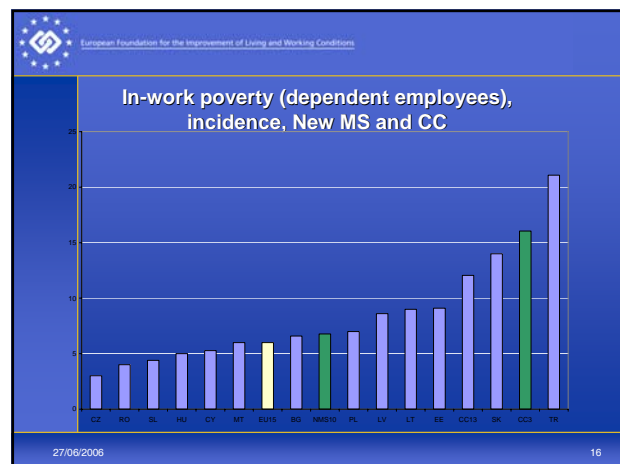
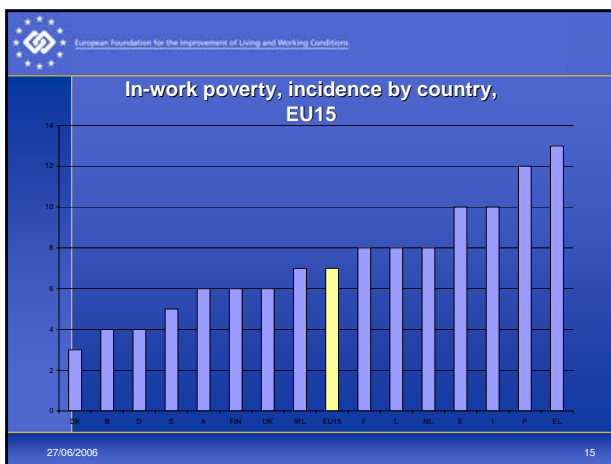
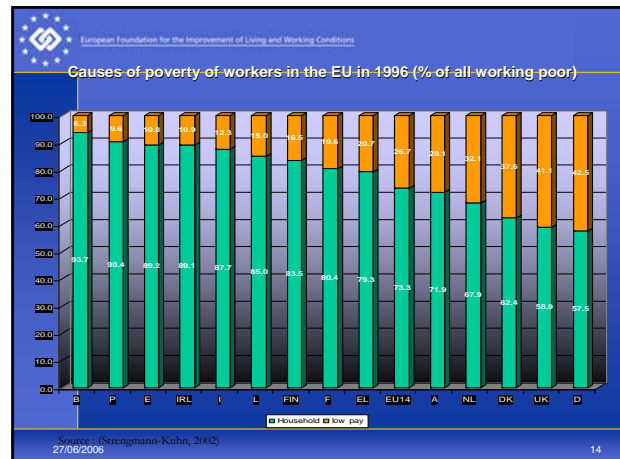
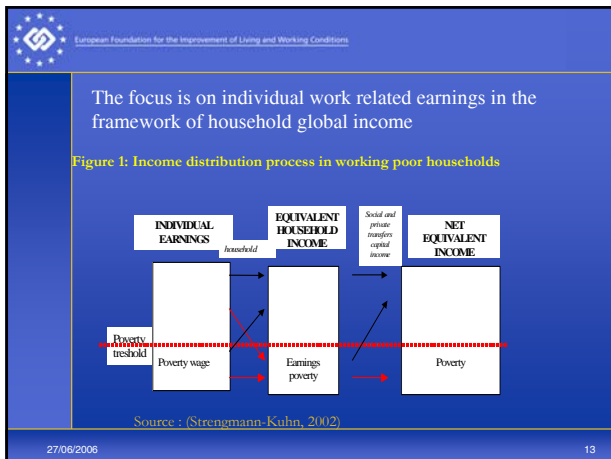
27/06/2006 11

European Foundation for the Improvement of Living and Working Conditions

Recalling the definition of working poor:

working poor are individuals that are in employment and simultaneously members of an household which global income is below the poverty line

27/06/2006 12



European Foundation for the Improvement of Living and Working Conditions

Characteristics affecting WP

Household level

- work richness of HH
- work related earnings and HH income
- size and composition of the HH
- risks of lone parenting

Individual level

- low pay
- quality of employment
 - self-employment for women and migrants
 - part-time work
 - non-permanent employment
- gender
- education and qualifications
- age
- ethnicity

27/06/2006 19

European Foundation for the Improvement of Living and Working Conditions

Individual level : low pay

- Low wage workers are often confused with WP
- Around 15% of EU employees are low waged
- Low wage employees are more exposed to be WP than other employees. If only 7% of all employees are poor, this proportion raise to 20% among low wage employees (particularly in GR, IT and DE)
- But low wage workers represent more than a third (37%) of the WP population

27/06/2006 20

European Foundation for the Improvement of Living and Working Conditions

Understanding low incomes among the employed

- Household structure
- Low hours or months worked
- Low hourly pay
- Permanent versus temporary contracts
- Distribution of employment between households

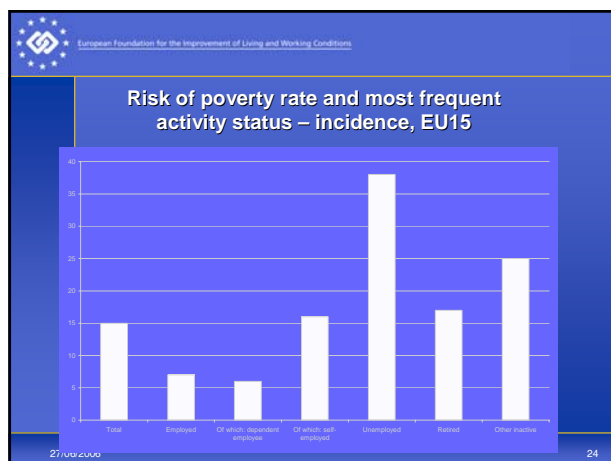
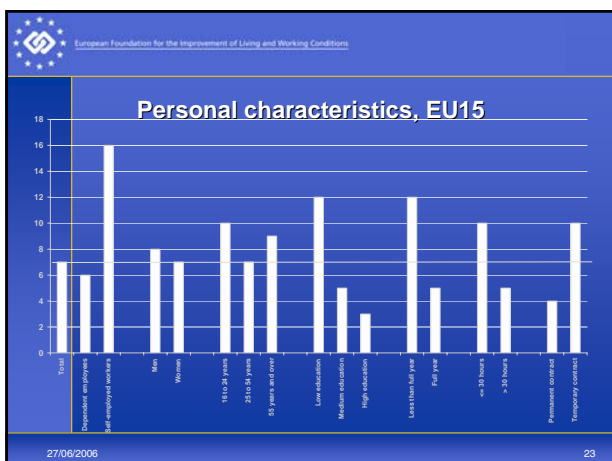
27/06/2006 21

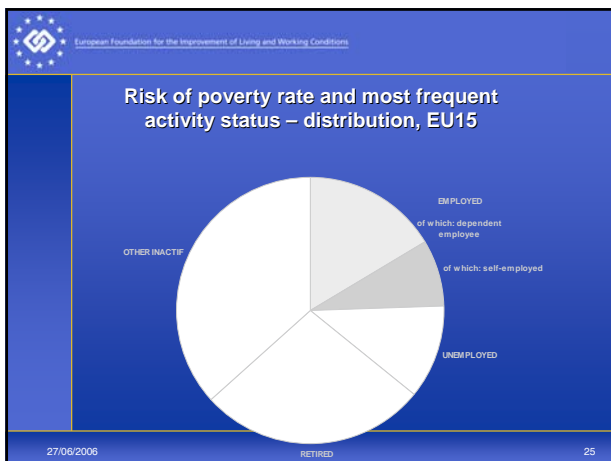
European Foundation for the Improvement of Living and Working Conditions

Training and Education

- Low hourly rates can be because of low education and training
- Solution is long term and slow
- Other remedial action also needed

27/06/2006 22



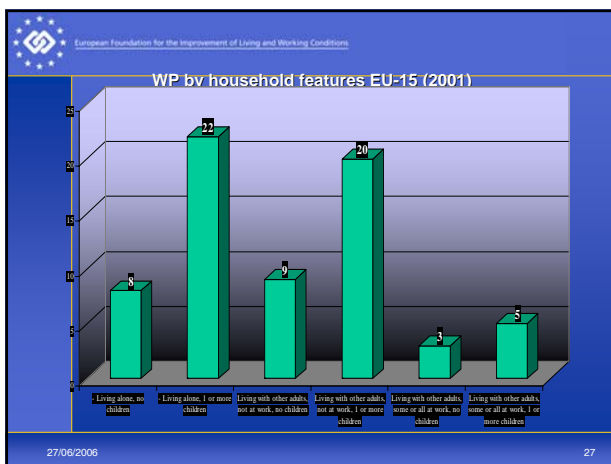


European Foundation for the Improvement of Living and Working Conditions

Household level : size and composition of HH

- Studies on poverty show that a certain number of other HH characteristics (and the way they are combined) are determinant on poverty risk :
 - Lone parenthood
 - Single households
 - Presence (and number) of children in the HH
 - Individuals characteristics of HH members (low education/qualification,...) and their cumulation
 - Work richness of HH

27/06/2006 26

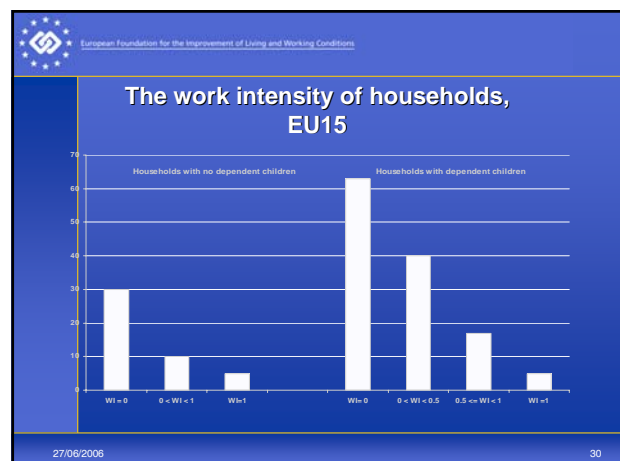
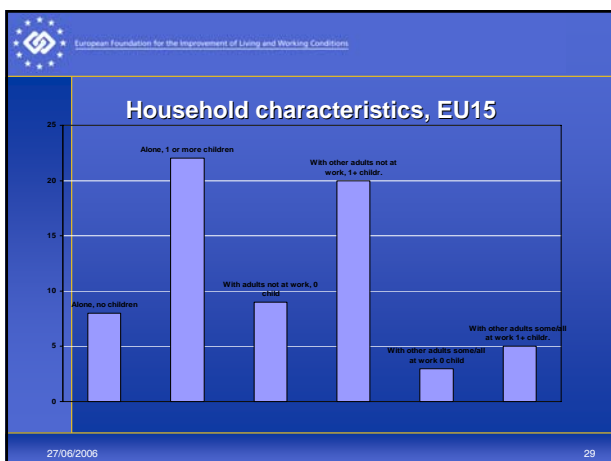


European Foundation for the Improvement of Living and Working Conditions

Household Structure

- Low earnings can lift a household clear of risk of poverty rate where they are a second income
- Important to ensure policies do not remove the benefit of low earnings as a second income
- Low earnings resulting from involuntary low hours can reflect labour market rigidities that limit employees choices

27/06/2006 28

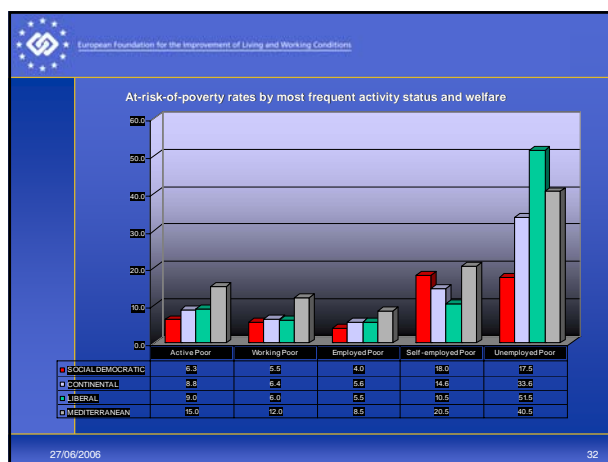


European Foundation for the Improvement of Living and Working Conditions

Working Poor & Welfare states

- Global context : welfare states arrangements, including their redistributive provisions (mainly those for the unemployed), and labour market policies and configurations.
- To what extent could the various European welfare state arrangements explain the varying degree and nature of working poverty in its different forms? Is it possible to identify a causal relationship, and if so, how can it be characterised ?
- Approach of effects of Welfare states in terms of decommodification, understood as « *the ability of workers to maintain a livelihood in the society without reliance on the market* » (Esping-Andersen, 1990)
- Classification of WP according to the four Welfare states ideal-types described in literature

27/06/2006 31



European Foundation for the Improvement of Living and Working Conditions

Income replacement schemes

- The income replacement schemes : could have a significant weight to the total income of poor households:
 - they may complement at household level earnings provided by the work of certain members of the household.
 - they may be the main source of income.
- Generally, means-tested
- Ideally, should be put in relation with the poverty threshold to give us a view of their effect on poverty.
- Practically, only indicative as the household income is formed by an accumulation of different sources
- Nevertheless, the existence (or not) of such income replacement schemes, as well as their relative level of generosity and conditions of access, may explain certain variations observed between the welfare clusters.

27/06/2006 33

European Foundation for the Improvement of Living and Working Conditions

Labour market policies / Employment regimes

- The institutions and rules regulating the labour markets are another important component of the welfare state.
- Include : wage policies, hiring and firing regulations, employment promotion schemes, in some countries financial incentives for employers to hire specific categories of workers, vocational training and workforce mobility programmes.
- While it is difficult to identify precise relations between these factors and poverty among workers, some issues are often quoted as more relevant than others, including low pay and discontinued employment experiences (Ioannidis, 2002)

27/06/2006 34

European Foundation for the Improvement of Living and Working Conditions

Policies responses targeted to WP

- Make Work Pay policies (MWP) are now at the core of EU agenda in the framework of Lisbon's Strategy and full-employment
- Social protection income replacement schemes are supposed to preclude individuals (unemployed or inactive) to take up jobs as they authorise a choice, based on the expected insufficient net return on their income of a transition to employment.
- Thus, the goal of Make Work Pay policies is to accentuate the gap between (net) wages and social income replacement schemes, either by increasing the first or reducing the second. The (supposed) willingness of individuals to stay out of employment for purely financial reasons has been supported by the development of the concepts of 'traps' of unemployment and inactivity, but also poverty and low wages

27/06/2006 35

European Foundation for the Improvement of Living and Working Conditions

Working poverty and MWP

- While the 'positive' side of these policies is to put the stress on 'making work pay', their negative side is to pressure social protection schemes towards retrenchment in the field of income replacement, which may increase poverty risks for other categories of workers.
- It is also important to note that these policies are generally targeted simultaneously at the unemployed as well as low paid workers.

27/06/2006 36

European Foundation for the Improvement of Living and Working Conditions

Policy orientations/mix

- Reforms of the level and duration of benefits to make unemployment/inactivity 'less' attractive';
- Topping up low paid workers' purchasing power by selective tax credits;
- Increasing the low paid workers' net pay by lowering personal social security contribution on low earnings;
- Supporting a sufficient minimum wage.
- Several EU countries have introduced in recent years reforms of tax systems to tackle these issues (BE, NL, FI, IR, IT, UK & FR)

27/06/2006 37

European Foundation for the Improvement of Living and Working Conditions

- the great diversity of populations gathered under the working poor label, shows the need of specific and multi-faceted answers.
 - - various groups of WP
 - - conditions affecting working poverty
 - at individual (age, gender, education, job quality, ethnicity,...)
 - and household (work intensity, size, lone parenthood,...) level

>Working poverty is thus a complex and multidimensional issue that could not be tackled by simple measures. A careful assesment of incidence and characteristics of WP at national (and regional) level is necessary in order to design the more adequate answers

27/06/2006 38

European Foundation for the Improvement of Living and Working Conditions

Factors which may play a role :

- **Quality of employment**
 - The focus put in the Lisbon Strategy and the EES on the multidimensional issue of quality in work may prove to be a significant factor in reducing WP, as well as other aspects related to the Lisbon Strategy such as improving women and older workers participation and condition, or the emphasis on the development of lifelong learning and human capital.
- **A better coordination and streamlining of economic, employment and social protection policies** could also have a major influence.
- WP is in an hybrid position at the conjunction of these policy fields and could become a « gateway category » between economic, employment and social concerns, but also on the action of all stakeholders, notably social partners.

27/06/2006 39

European Foundation for the Improvement of Living and Working Conditions

Thank you

27/06/2006 40