



Working poor in the European Union

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Introduction

To coincide with the publication of the literature review *Working poor in the European Union*, the European Foundation for the Improvement of Living and Working Conditions organised a seminar to discuss in more detail some of the issues raised in the report. Over 60 experts from EU Member States as well as Canada and Bulgaria participated, bringing together representatives of different groups – social partner organisations, research organisations, governments and the European institutions.

The specific aims of the seminar were to tackle issues regarding the definition of the working poor, to identify particular groups at risk, and to assess the extent of the phenomenon in the European Union. The starting point was the Foundation literature review, *Working poor in the European Union*, and one of the authors, Ramon Peña-Casas, referred extensively to the findings of the review in his keynote speech.

The review identifies different sub-groups of working poor and analyses some of the welfare state arrangements designed to tackle the issue. It examines the link between employment and social protection policies, and ponders the extent to which integrated policy measures may offer a potentially positive response to working poverty. The review also tries to identify factors that may contribute to working poverty, as well as potential risk groups.

The definition of the working poor underpinning the seminar's discussions was the following: workers living in a household where at least one member works and where the overall income of the household (including social transfers and after taxation) remains below the poverty line (60% of median equivalised income).

At the heart of the notion of the working poor is the paradox that, while employment is considered the best antidote to poverty – and this remains true for the great majority of European citizens, a significant and possibly growing number of workers live below the poverty threshold. EU data suggest that 17% of self-employed people and 6% of those who are employed in the EU15 (the 15 EU Member States before May 2004) could be classified as poor. These figures are somewhat higher when the 10 new Member States are taken into account.

It has been customary among European policymakers to regard working poverty as predominantly an American phenomenon. The reality is that the European Union also harbours significant working poor populations and that the problem may well be a growing one.

In his opening remarks, Barry O'Shea (advisor to the Directorate, European Foundation for the Improvement of Living and Working Conditions) set the Foundation's project on the working poor in the context of the Lisbon agenda, with its emphasis on quality of work issues but also its commitment to social cohesion in an enlarging Europe. Working poor is a hybrid concept, engaging researchers with expertise in two traditionally separate disciplines: labour market and employment research, and poverty and social exclusion research. It is originally an American concept and one in which there is an established body of research knowledge in the US, dating back to the 1970s. It is not, however, an exclusively academic preoccupation. Popular non-fiction has brought a broader public understanding of what it is to work and still be poor. One example is Barbara Ehrenreich's *Nickel and Dimed* which explored one American writer's experiences over a year in low wage jobs in the US.

Box 1: The seminar in summary

1. Working poverty is not the same as low wages. In fact, only one in five low wage earners can be characterised as working poor. The main determining factors for working poverty are household circumstances (presence of earners in household, presence of dependent children, etc).
2. In-work benefits are in place or are being planned by a number of Member State governments. These address in particular the issue of low pay or income poverty. Supplements to child benefits for low-income households address the household dimension and reflect the increased risk of poverty for families.
3. Measuring poverty is difficult and can be based on relative or absolute poverty. Measuring working poverty, by its hybrid nature, is even more difficult. The definition of working poverty chosen by EU policymakers identifies those in employment whose household income falls below poverty thresholds.
4. There is a much higher incidence of working poverty among self-employed people than among other working categories, though income data from this group may lack reliability and distort the picture. Contributing factors may include recourse to self-employment by immigrants as the only means of entering the labour market. The poverty rate of self-employed immigrants in Denmark is six times the level for the population as a whole (employed and unemployed).
5. Research shows an increasing polarisation in recent years between work-rich and work-poor households, which has obvious implications for working poverty. The level of polarisation varies greatly among Member States but is highest in the UK, Ireland, Scandinavia and Belgium.
6. The correlation between low education levels and working poverty is very strong in most countries (exceptions: Denmark, Sweden). Education and training-based initiatives targeted at low-earners are an important means of enhancing employability but their positive impacts may be intangible in the short term.
7. Policy interventions intended to address one issue may be successful in their stated objectives but may also engender negative consequences, often unintended, in other areas. For example, raising employment rates may aggravate the problem of working poverty if the majority of new jobs are low-earning. In a multidimensional social problem such as working poverty, this law of unintended consequences remains especially true and requires proper coordination of relevant policies.
8. The European Commission is addressing the issue of working poverty. In its European employment guidelines, the Commission has specifically considered the problem in guideline eight on making work pay. Possible counter-measures considered include reform of the tax and benefit system to eliminate poverty traps, and provision of in-work benefits to low wage earners. Indicators of working poverty were added to the list of indicators used in the open method of coordination processes for employment and for social inclusion in 2003.

EU policy

In the opening presentation, Robert Strauss (European Commission) described how existing EU policies, principally the Lisbon strategy and the European employment strategy (EES), take on board the issue of working poverty.

The Lisbon strategy, with its well-known commitment to making the European Union 'the most competitive and dynamic economy in the world with more and better jobs and greater social cohesion', underlines the twin social and economic commitments underpinning the medium-term strategy for the EU. Implicit in the reference to better jobs is the belief that employment should offer a primary defence against poverty.

The European employment strategy is implemented by way of the employment guidelines which are renewed annually. Robert Strauss described how a number of the 2003 guidelines dealt, directly or indirectly, with the issue of working poverty. Of the 10 specific guidelines, many had some relevance (Table 1).

Table 1: *European employment guidelines with relevance for working poverty*

Employment guideline	Working poor relevance
3: Address change and promote adaptability and mobility in the labour market	Facilitates access for workers, especially low-skilled workers, to training
4: Promote development of human capital and lifelong learning	Relevant for training and development
6: Gender equality	Seeks reduction of the gender pay gap and includes targets for childcare provision, facilitating higher female employment levels
7: Promote integration of and combat discrimination against people at a disadvantage in the labour market	Increasing employability of groups with a high working poverty risk
8: Make work pay through incentives to enhance work attractiveness	Explicit reference to Member States' obligations regarding the working poor
9: Transform undeclared work into regular employment	People in undeclared work are a working poverty risk group, often existing outside the social security benefit net.

According to Strauss, the core working poverty guideline in the EES is generally considered to be guideline eight on 'making work pay'. This underlines the responsibility of Member States to develop appropriate policies 'reducing the number of the working poor', and highlights two of the main policy tools that might achieve this objective:

- reform of the tax and benefit system in order to eliminate poverty traps;
- provision of in-work benefits to low wage earners.

He added that fiscal reforms and changes to the benefit systems may not necessarily be an adequate response to the problem of working poverty, and that other measures may be required.

According to Strauss, the work of the European Employment Taskforce under the direction of Wim Kok has echoed many of the existing employment guidelines, and has gone further, for example, in stressing the need of employment policy measures to 'prevent the emergence of a two-tier labour market'.

In its Joint Employment Report 2003-4, the Commission noted that progress in lowering tax rates for low wage earners has stalled in recent years after significant reductions in the period 1998-2001. The report also draws attention to the high proportion of working poor in certain Member States (Portugal, Luxembourg and Italy), and notes that in-work benefit schemes are in place or are being planned by a number of Member State governments.

Another component of the EES are country-specific policy recommendations agreed annually by the Council, and a number of such recommendations were described with regard to both new (Lithuania, Poland) and older Member States (UK, Italy, Belgium). These dealt principally with the issues of reducing non-wage labour costs and tax rates, especially for low wage earners, while also increasing access to training.

Discussion: There was debate over whether working poverty was significantly higher in the new Member States than in the EU15. According to Ian Dennis (Eurostat), taking the standard measure for relative poverty (those below 60% of

median equivalised income), the new Member States are not much worse off than the EU15. This prompted some discussion of the wisdom of applying relative or absolute poverty measures to the new Member States as the basis for counting the working poor.

Robert Strauss pointed out that the revised regulation governing European Social Fund expenditure should see funding targeted at the new Member States. This extra funding, and the expected increase in economic growth levels which has traditionally accompanied EU accession in the past, may contribute to an improvement of the situation in these countries in respect of both poverty and working poverty.

Literature review

In his keynote speech, Ramon Peña-Casas summarised some of the principal conclusions from the review *Working poor in the European Union*, which was launched at the seminar. He emphasised that this was a topic about which there is as yet very little European comparative research. This is partly due to the hybrid nature of the concept which straddles two established, distinct areas of research study – social exclusion and poverty policy, and employment policy. An additional difficulty is that poverty is generally measured at the household level, while employment relates to individuals.

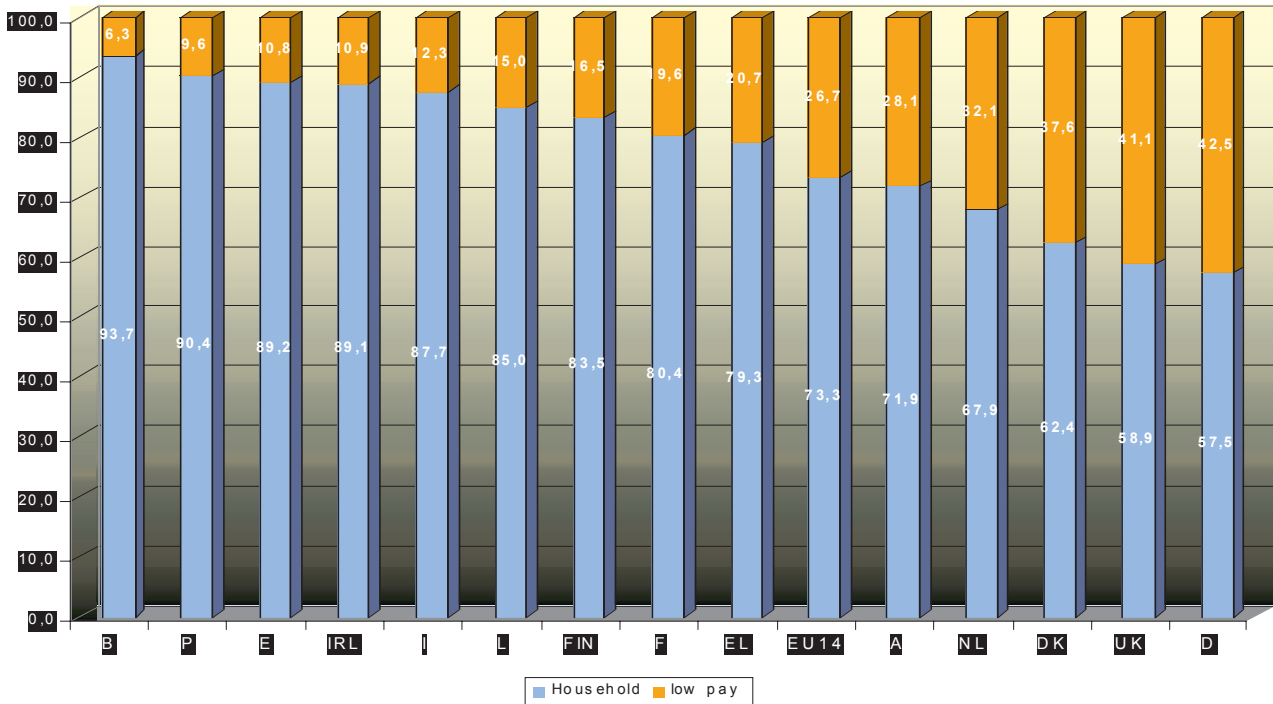
Nonetheless, an indication that the concept has worked its way onto the policy agenda is the existence of indicators of working poverty since 2003 both in the EES and also in EU social inclusion policy.

Available statistics at European level can make it difficult to measure the incidence of working poverty. For example, Eurostat's Labour Force Survey data indicate the labour market status of respondents only for a given reference period. The more longitudinal approach of European Community Household Panel (ECHP) data has the merit of tracking respondents' employment history over an extended period of time. This allows for developing a more nuanced picture of individual employment histories and identifying a respondent's 'most frequent activity status'. With the discontinuation of the ECHP and its replacement by a new tool, Statistics on Income and Living Conditions, it is not clear whether the same level of data coverage will be guaranteed in the future.

The longitudinal nature of the ECHP data allowed the review authors to refine their definition of working poverty to concentrate only on those individuals (and their households) with six months' employment or labour force activity in the previous 12 months.

One of the principal sources of misunderstanding when discussing the working poor, according to Ramon Peña-Casas, is the confusion of working poverty and low wages. Low pay is just one of many factors contributing to working poverty. As Figure 1 illustrates, household characteristics (such as number of workers, the size and composition of the household, number of dependent children) constitute a more significant contributing factor. Even in Germany, where low wages represent a higher contributing factor to working poverty than in the other countries, household characteristics are still the main contributing factor in 57.5% of cases of working poverty. Only one in five low wage earners can be characterised as working poor.

Figure 1: Main contributing factors for poverty among workers, by country (wages v household characteristics)

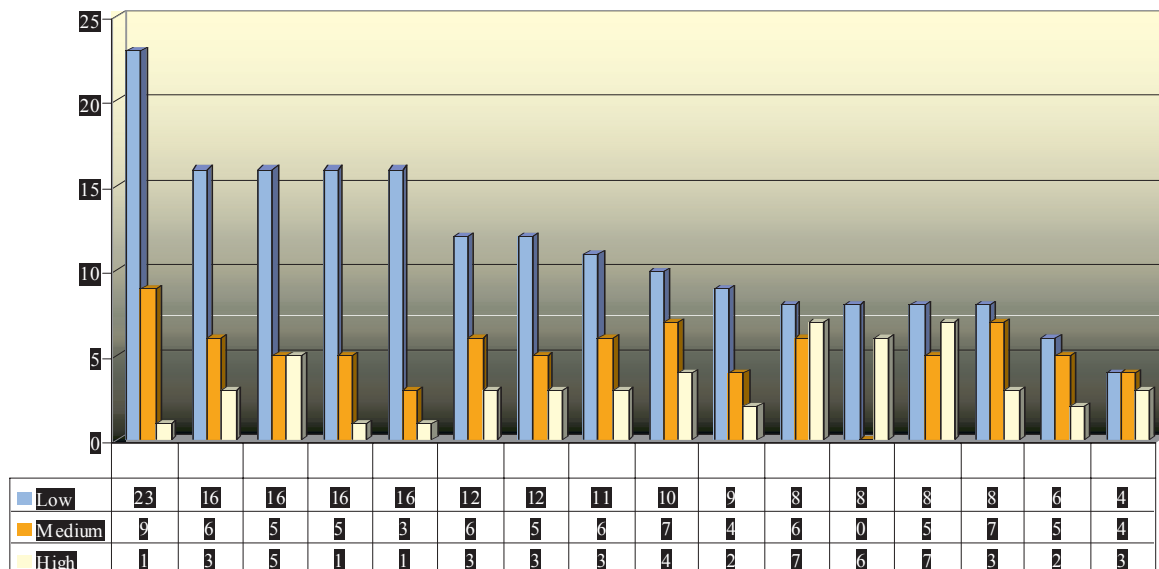


Source: Working poor in the European Union (2004)

One of the features of working poverty in the EU is how differently it takes shape from country to country, and the various ways different sub-populations are affected.

A low education level would be expected to be one potential contributing factor to working poverty for individuals. While this assumption does hold true in the main, there are interesting differences by country as illustrated in Figure 2.

Figure 2: Working poverty by educational level, EU15



Source: Working poor in the European Union (2004)

In certain countries, such as Denmark, the level of education appears to have a very limited impact on the likelihood of individuals falling into working poverty. However, in countries with high incidences of working poverty in general (such as Spain, Greece, Italy and Portugal), there is a strong differentiation among the working poor between those with low and high levels of education.

Different country groupings emerge when looking at the influence of age on incidence of working poverty. In countries such as the Netherlands, Denmark, Luxembourg and Finland, the age profile of the working poor is skewed towards the younger age categories, while the opposite is the case in countries such as Portugal, Greece and Ireland.

Peña-Casas concluded his presentation by confirming that working poverty is a problem affecting 10.9 million Europeans. He speculated that the problem had probably increased in recent years due to the growth in flexible employment and tightening eligibility criteria for social protection benefits.

Definition and indicator of working poverty

Eric Marlier (Centre for European Policy Studies/European Institute of Business Administration – INSEAD) explained the process that led to the adoption of indicators of working poverty by the European Commission in 2003, supplementing existing indicators agreed in 2001. The new indicators assess the progress of Member States in meeting commonly agreed EU objectives in terms of combating social exclusion and poverty. A separate indicator of working poverty is also included in the employment guidelines of the European employment strategy. Inclusion of these indicators should be seen in the context of the Lisbon strategy where the productivity-enhancing aspects of EU social policy are given special emphasis.

Both areas are subject to the open method of coordination whereby the European Commission coordinates convergence on agreed common EU targets, while leaving the choice of policies at the discretion of individual Member State governments.

The inclusion of working poverty indicators followed deliberation in indicator sub-groups of the two relevant committees reporting to the European Commission: the social protection committee (SPC) and the employment committee (EMCO).

Box 2: Working poor indicator (indicator 34 of 40) used in the Joint Employment Report 2004

Indicator: Number of working poor as % of working population, calculated separately for employees and self-employed (by gender).

Definition: Working poor (in-work poverty) is defined as the share of individuals who are classified as ‘at work’ (either in employment or self-employed) according to the definition of most frequent activity status (the status that individuals declare to have occupied for more than half the total number of months for which information on any status in the calendar of activities is available), and whose household equivalised disposable income is below 60% of national median equivalised income.

One important aspect of the working poor indicator elaborated by EMCO is that it tries to identify those actually in work and therefore distinguishes, on the basis of ‘most frequently active status’, between the working poor and the active poor (i.e. those who are available for work but may be unemployed).

This, according to Marlier, is an important distinction as the meaning of working poverty ought to be clear for policymakers, and an indicator that includes active but unemployed persons might lead to confusion. To be meaningful, working poverty should refer exclusively to those who are working most of the time. The in-work poor indicator developed by the SPC as a social inclusion measure adopts the same approach.

Discussion: According to Ronald Janssen (ETUC – European Trade Union Confederation), the European employment strategy may look good on paper but its implementation in practice can raise many questions. The objective of ‘making work pay’ has often been translated into policy decisions which incentivise work by reducing the level of benefits and in some cases by actively penalising unemployed people. A new focus on the working poor is welcome in that it serves to highlight the fact that revised social benefit rules may be forcing individuals to accept low waged jobs even in countries where there is no statutory minimum wage. This analysis bears out one important criticism of the Lisbon strategy: its tendency to set targets which are fundamentally economic in nature without anticipating properly the social consequences of settling on such targets.

Whether or not the definition of working poor should include unemployed people was discussed. Pierre Concialdi indicated that 30% of unemployed people in France also work (‘chomeurs travailleurs’) and considered that these ought to be included in the working poor category.

One of the striking features of working poverty to emerge from the Foundation report is the high proportion of self-employed workers who fall into this category. This raises obvious questions about why workers in this specific employment status are over-represented. One of the reasons put forward is that self-employment may not always be a voluntary preference to employment but a form of last recourse for those without good alternative employment possibilities. Another contributing factor in many countries is the high proportion of agricultural workers in self-employment. In France, for example, half of the self-employed working poor work in agriculture. This may mean that the presence of a large agricultural sector in an individual country has a disproportionate influence on the incidence of working poor. It was suggested that separate figures differentiating between the agricultural and non-agricultural components of working poverty in individual countries could provide a more complete and meaningful picture of the problem.

Table 2: *Proportion of self-employed who are under poverty line (60% of median equiv. income) by gender and country, and with gender index, 1999*

	EU15	BE	DK	DE	EL	ES	FR	IR	IT	LU	NL	AT	PO	FI	SE	UK
<i>Men</i>	14	15	15	6	24	18	18	10	17	9	17	29	25	14	24	11
<i>Women</i>	13	5	17u	3	16	13	22	9	15	18u	12	21	33	22	23	12
<i>W/M</i>	0.93	0.33		0.50	0.67	0.72	1.22	0.90	0.88		0.71	0.72	1.32	1.57	0.96	1.09

Source: *Working poor in the European Union (citing Eurostat, New Chronos, ECHP 1999)*

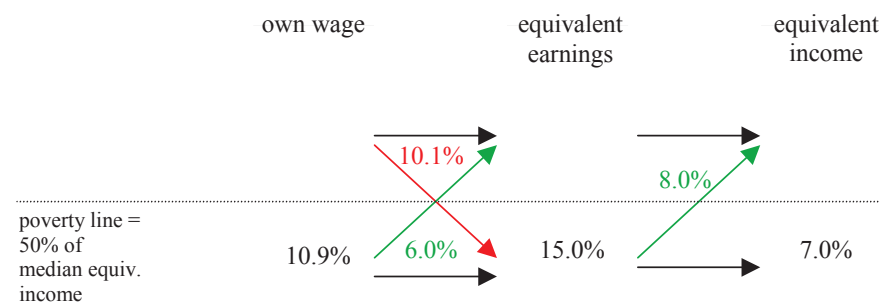
The high incidence of working poverty among self-employed people points to some methodological problems underlying data, notably the difficulties in getting an objectively reliable account of income and the tendency to under-report income in this group. Even greater problems arise in attempting to look at the interplay between the informal or ‘black’ economy and working poverty.

Are certain groups at risk?

Framework model

Wolfgang Strengmann-Kuhn (University of Frankfurt) gave a presentation on a theoretical framework that he has been involved in developing which seeks to separate the various stages of income distribution (social transfers, wages). It also checks whether income received at various stages is sufficient to avoid poverty. This model can be useful as the basis to identify possible policy initiatives to combat working poverty.

Figure 3: *Working poverty and income distribution stages*



Source: *Wolfgang Strengmann-Kuhn presentation*

Figure 3 represents the different phases of income distribution by the oblong boxes bisected by the poverty line (measured as 50% of mean equivalised income). Based on analysis of ECHP data, 10.9% of individuals earn a poverty wage. Of these, a majority (6% of total) are raised out of poverty by virtue of living in a household with other earnings. However, as has been established, the household dimension has a significant influence on working poverty, and a larger number of individuals (10.1% of total), despite having non-poverty wages, find themselves below the poverty line by virtue of their household circumstances.

The final box shows the effect of other non-wage transfers (social/housing benefits etc) in reducing the overall incidence of working poverty from 15% to 7%.

Consistent with other research in the area, household context rather than low pay is demonstrated to be a more significant contributing factor for working poverty. In Germany and the UK, around 40% of the working poor are in poverty because of low wages (see Figure 1) but, in most EU15 Member states, four out of five working poor fall into this category as a result of household circumstances. Only in two countries, the Netherlands and Denmark, do household circumstances actually serve to raise out of poverty those who would otherwise be classified as working poor.

Analysis of the ECHP data identifies:

- the positive impact of a second income in countering working poverty;
- the significant increased risk of working poverty in households with dependants.

The analysis can also provide the basis for policy initiatives aimed at reducing the risk of working poverty.

Two possible policy interventions outlined by Strengmann-Kuhn were a 'partial basic income' helping those with low earnings to rise above the poverty threshold, and supplements to the standard child benefits for low income households.

Starting at a threshold 25% of mean equivalised income (MEI), beneficiaries of the proposed partial basic income scheme would receive an income supplement of a further 25% of MEI bringing them up to 50% MEI, i.e. above the poverty threshold. 25% MEI would be the maximum entitlement.

A supplement to existing child benefits for low income households would counter the increased risk of working poverty in households with children.

Gender perspective

According to Reija Lilja (Labour Institute for Economic Research), poverty is not gender neutral. Women have a 10% greater likelihood of being at risk of income poverty than men.

Although only one in five low wage earners belongs to the working poor category, the risk of being in a working poor household is over three times greater if one is a low wage earner. In this context, it is notable that a high percentage of low wage earners are female (77%).

In general, employment rates for women are significantly lower than for men in the EU and this difference is greater in older age groups. The difference between genders is less than 7% for individuals in the 16-24 age group but rises to 19% for 25-54 year-olds and 20% for 55-65 year olds. In addition, income statistics show that the gender equity gap for single person households is particularly wide for older age groups.

The predominance of women in part-time work and fixed-contract work, two forms of work with a high level of working poverty risk, was also highlighted. On the other hand, a sizeable majority (73%) of self-employed people, another risk group, are male.

Another gender-specific characteristic is the overwhelming proportion of female single-parent households. As demonstrated in earlier presentations, the presence of children in a household significantly increases the at-risk-of-poverty rate. This is especially the case in single-parent worker households: 22% of this category find themselves in working poverty compared with only 3% of individuals in work who live in households with other adults, some or all at work, but with no children.

Regarding the impact of the number of earners in a household, interesting contrasts appeared between different EU Member States. Two Scandinavian countries, Denmark and Finland, showed a much lower at-risk-of-poverty rate for both no-earner and single-earner households than the EU average. According to Lilja, this emphasised that public policy initiatives in these two Member States have been successful in countering the risk of poverty in certain high-risk groups.

Table 3: *At-risk-of-poverty rate by number of earners in household*

	EU15	Denmark	Finland
No earner	51	25	28
One earner	22	6	5
Two or more earners	5	3	3

Source: *Working poor in the European Union (2004)*

The discussion that followed this presentation made clear that the Scandinavian countries also try to ensure that certain at-risk types of household are not necessarily predisposed to poverty. This aim works in parallel with public policy towards dual earner households (individualisation of tax rates, extensive state-provided childcare).

Self-employment and immigration

Kraen Blume (AKF – Institute of Local Government Studies, Aarhus, Denmark) was able to broaden the picture of working poverty in the Nordic countries, specifically Denmark. His presentation dealt with the incidence of working poverty among the self-employed and, in particular, self-employed immigrants.

In general, Denmark enjoys one of the lowest poverty and working poverty rates in Europe. A combination of a high negotiated minimum wage, high trade union density, high employment rates as well as a traditionally generous social benefits system help to raise all but a small minority (c. 5%) above the poverty / working poverty thresholds.

Among this minority, however, it is noteworthy that the proportion of self-employed people is actually higher than that of the unemployed. One is more likely to be self-employed and poor in Denmark than unemployed and poor. Possible reasons for this high incidence are that:

- the high minimum wage could be an important barrier to entry to the labour market;
- self-employment may be the only entry to the labour market for some;
- self-employment is often concentrated in sectors with low levels of profit (e.g. restaurants, small shops).

Kraen Blume pointed out the increasing numbers of immigrants, especially non-EU immigrants, who are self-employed in recent decades. Over the same period, the percentage of native Danes in self-employment has actually declined.

Table 4: *Share of self-employed among all employed in Denmark*

	1988	1997
Nationals	13%	11%
Immigrants from:		
<i>Scandinavia</i>	13%	12%
<i>Rest of the EU15 (minus the 3 Scandinavian countries)</i>	14%	17%
<i>Ex-Yugoslavia</i>	8%	8%
<i>Other developed countries</i>	15%	16%
<i>Turkey</i>	9%	26%
<i>Pakistan</i>	23%	37%
<i>Vietnam</i>	16%	18%
<i>Iran</i>	20%	33%
<i>Immigrants with no citizenship</i>	27%	46%
<i>Other less developed countries</i>	16%	18%

Source: *Kraen Blume presentation*

There remain difficulties in measuring the income of those who are self-employed, given the issue of unverifiable and under-reported earnings declarations, and this may have the effect of exaggerating poverty incidence of this group. Even taking this into account, however, self-employed immigrants earn much less than their native counterparts and the gap in terms of average income widened significantly in the period 1988-1997, notwithstanding the very long hours worked on average by this group (60% work over 60 hours per week). The poverty rate for self-employed immigrants in Denmark is around six times the national average (30% compared with 5%).

Kraen Blume concluded that self-employment is in effect a marginalised labour market situation for many in Denmark. It is accepted as the only means of labour market participation for many, especially among non-EU immigrant communities, but one that offers only limited possibility of transition to higher income or more secure employment.

Working poverty in Bulgaria

Lilia Dimova (Agency for Social Analysis (ASA), Sofia, Bulgaria) contended that very different concepts of poverty can be applied to many of the new and candidate Member States, especially in the post-Communist states of eastern Europe. The fact that unemployment is a comparatively new phenomenon, that the informal economy remains very significant and that many of these states have a large agricultural sector makes comparison with the EU15 problematic. The process of rapid transition to democracy and to a market economy also makes the experience of many of these countries more comparable among themselves than with other west European states.

Conventional objective measures of poverty based on percentage thresholds of mean or median equivalised income are not necessarily appropriate in the new Member States, she claimed, and should be supplemented by use of subjective poverty indicators.

Such indicators can measure perceptions of household access to basic materials (clothing, food), utilities, education and health care, as well as their anticipation of their future prospects. Results of surveys carried out by ASA demonstrate how many Bulgarians regard themselves as more exposed to poverty now than in 1989. A much higher proportion of individuals perceive themselves as having a lower social status than was the case at the period of the political upheavals. Most regard their quality of life as having disimproved since 1989 and this disenchantment is especially marked among the working poor. When it comes to prospects for the future, 58% of the working poor foresee only a further deterioration of their situation over the next two years, and 25.7% have considered or are considering migration to another European country as an alternative to life in Bulgaria.

While those most exposed to poverty are pensioners (54% of the poor fall into this category), there is also a sizeable proportion of working poor in Bulgaria (21%).

Interestingly, the number of earners in a household has comparatively little impact on the figures for working poverty in Bulgaria. 40% of the working poor have an employed spouse; only 20% have spouses who are unemployed. In common with other countries, however, the presence of children in a household increases the risk of working poverty.

Dimova concluded that working poverty is an issue for Bulgaria and one whose main contributing factors are low income, irregular payment, household composition and regional location. To address this problem, large-scale and differentiated anti-poverty strategies are needed to forestall poverty being passed on to the next generation and the establishment of a culture of poverty.

Working poor and family

Work-poor and work-rich households

According to Maria Iacovou (ISER – Institute for Social and Economic Research, University of Essex, UK), recent research suggests that there is an increasing number of households where no-one is working. In her presentation, she focused on the polarisation of work, in particular the extent to which jobs are concentrated among certain ‘work-rich’ two-earner households, at the expense of other ‘work-poor’ couples who have no job between them.

The extent of this problem varies, with a high degree of polarisation in the UK and Ireland, the Scandinavian countries and Belgium, and a much lower degree of polarisation in the Mediterranean countries. Various explanations for these

variations were suggested, including common characteristics between partners, and regional variations in employment levels. When these factors are taken into account, the observed degree of polarisation decreases markedly in a number of countries where polarisation is already low, but tends to remain high in countries where it was originally high.

Canadian experience

A transatlantic perspective on working poverty was provided by Myriam Fortin and Dominique Fleury (Social Development Canada) in their presentation on working poverty in Canada. Findings from their research, based on Statistics Canada's Survey on Labour and Income Dynamics, reflected the results of European research already presented:

- Most low-paid workers are not poor. Only 18% of low-paid workers in Canada (20% in EU) are poor.
- Workers' vulnerability to poverty relates more to family income and composition than to own earnings.
- The presence of children in a household increases the likelihood of belonging to the working poor; the greater the number of children the higher the risk, though this risk is radically reduced in the case of dual earner households.

They noted that the Canadian definition of working poor is different to the one in use in the EU and refers to workers who worked at least six months in the previous year and whose household income is below the poverty threshold. In practice, they found that 74% of the Canadian working poor worked 1,500 hours or more per year and that the working poor worked on average as many hours as the working non-poor. Contrary to trends in the EU suggested by the Foundation's research, the incidence of working poverty has decreased in recent years in Canada (from 5.5% in 1996 to 4% in 2001).

One of the public policy initiatives that has had a positive impact on working poverty in Canada is the National Child Benefit Supplement (NCBS) introduced in 1997. Under this scheme, families with net incomes below the equivalent of €20,000 get an NCBS based on the number of children in the household. The full supplement is received by families with incomes below €13,700 and there is a partial supplement for families above this threshold. Support is provided to families regardless of whether the parents are on social assistance or working. One of the impacts of the scheme has been to provide an incentive to single parents to re-enter the workforce. According to evaluations of the scheme, prior to 1997, the disposable income of lone parent families with two children declined by more than 8% when they left social assistance to take up full-time, minimum wage employment. By 2001, their disposable incomes were higher by 2% after leaving social assistance, the majority of the improvement being attributable to the NCBS.

The variety of definitions and measurements of poverty and of working poverty was a recurrent theme throughout the seminar. Dominique Fleury and Myriam Fortin referred to a model that has been developed in Canada, the Market Basket Measure (MBM), based on the costs of buying a standard basket of goods and services. As a complement rather than an alternative to existing poverty measurements based on household income, the MBM approach has the advantage of being more sensitive to the differences in the cost of living across Canada, which are often very large.

Transitions into and out of working poverty

In her presentation, which concluded the first day of the seminar, Sophie Pontieux (INSEE – National Institute for Statistics and Economic Studies, Paris) looked at transitions into and out of working poverty, based on an analysis of longitudinal data from the ECHP. She prefaced her remarks by saying that using and interpreting ECHP data on working schedules and incomes had proved more difficult than anticipated. It was hard to derive any definitive conclusions about the factors aiding exit from the active poor category or leading to staying within the same status. This was due to the number of complicating parameters deriving from the multidimensional nature of concepts of working poverty and active poverty.

She expressed some reservations about the working poor category, given the high proportion of households falling into the category based on one male earner with a modest but stable salary and one non-earning female.

Measuring the phenomenon

Role of indicators in the debate

The second day of the conference began with two presentations by David Stanton (chairman of the Indicators Sub-Group (ISG) of the Social Protection Committee) and Laura Bardone (European Commission, DG Employment / Social Affairs) on the development of indicators relevant to working poverty within the European Commission.

David Stanton described the work of the ISG and, in particular, the processes that led to the adoption by the Laeken European Council in December 2001 of a list of 18 indicators of social exclusion. He outlined some of the difficulties encountered in agreeing on a set of indicators, both in terms of their policy rationale and of their objectives.

Some within the ISG regarded social policy and anti-poverty policies almost exclusively at a household level, while others were more concerned with labour market outcomes and how they impacted on poverty. There were also concerns about the potential impact of any indicators on policies at national level. In the Netherlands, for example, there are separate minimum income standards in collective bargaining and social policy. There were concerns about the potential of indicators to develop into minimum income levels at EU level, causing conflict with existing national arrangements.

There was also a serious concern about potential conflict of objectives. Achieving existing employment policy targets (70% employment rate by 2010) may yet be achieved but it could be at the expense of other indicators, such as those of working poverty. Activating inactive and unemployed people – one of the principal means of raising employment rates – will probably increase working poverty rates as these new workers enter the labour market at lower wage levels. This raises the question of whether employment policy is successful if it serves only to transfer workers from non-working to working poverty. In such a multidimensional field, positive developments in one area may be mitigated by unintended negative consequences in others.

The principal aim of the indicators is to ensure comparability of measurements among Member States. They provide an essential support to the open method of coordination and serve as the basis for information and good-practice exchange as well as convergence towards specific agreed EU targets.

According to Stanton, some clear patterns emerge from the indicator-led statistics regarding the contributing factors to working poverty:

- non-working poverty is still a bigger problem than working poverty;
- the most vulnerable at-risk-of-poverty groups are those who are unemployed, inactive, retired or self-employed.

Some possible remedies also suggest themselves, again based on analysis of the existing data:

- the most reliable means of lifting a household out of poverty is an extra income;
- education and training-based initiatives are also important in enhancing employability and earnings ability, but their positive effects are longer term.

EU tools to measure working poor

In her presentation, Laura Bardone (European Commission, DG Employment / Social Affairs) described in some detail the indicators that the Commission has developed to measure working poverty. She reiterated one of the principal insights governing work in this area: the recognition that holding a job is not always sufficient to escape poverty. Several factors may result in poverty, e.g. a particular family structure, such as one with two or more dependants and only one earner; or low earnings, due to a range of labour market problems, including recurrent unemployment, inability to find full-time work and low wage rates.

In the list of indicators agreed at Laeken in 2001, no explicit indicator on working poverty was included though there was an indicator on relative poverty broken down by employment status. In 2003, it was decided to develop a specific working poverty indicator. One of the difficulties with such an indicator, already indicated by other speakers, was the question of whether one takes a household or individual perspective when measuring the problem. This is not only a definitional issue but implies a different policy focus. According to Bardone, both approaches are complementary rather than mutually exclusive.

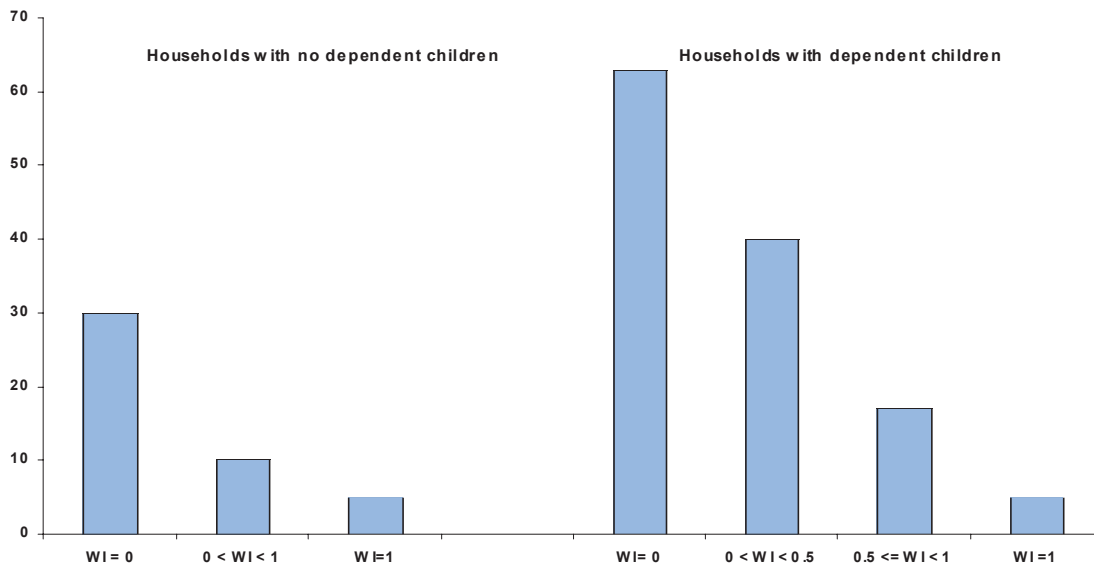
When focusing on individuals who are at work and are also poor, the main concern is to understand why their earnings are not sufficient to lift them and their households above the poverty threshold, with particular attention to labour market problems like low pay, precarious employment and inability to find full-time work. By taking a household approach, the interest is in the economic well-being of all the people living in households where there is some work. Measuring employment at the level of households provides a better indicator of the welfare implications associated with labour market status than measuring individual employment rates.

To assist the Commission in monitoring working poverty, new indicators and statistical variables were elaborated. A new definition of 'most frequent activity status' of individuals seeks to give a more accurate picture of individual employment over an extended period of time rather than at one point in time. This variable serves to limit statistical coverage of the working poor to those whose activity status is classified as employed and who have a household disposable income below 60% of median. The Indicators Sub-Group decided to ensure that the working poor indicator dealt with individuals who are, in the main, in employment and working, and is more demanding than other national indicators (US, France) in this respect.

The Commission also encourages the use of explanatory variables in the analysis of working poverty, both personal variables (age, gender, job characteristics) and household variables (presence of other adults in employment, dependent children). One new variable which has proved useful in terms of describing working poverty is the work intensity of households. This is defined as the total number of months household members have been working during the year, as a percentage of total number of months that could theoretically be worked within that household. It generates a clearer differentiation of work-rich and work-poor households.

In terms of how the working poverty indicator should be read and interpreted, the need to consider both the incidence and the distribution of the phenomenon was emphasised. Policymakers may not be surprised or impressed by a 6% poverty rate, but would be interested and see the policy relevance in the fact that certain sub-groups, e.g. the retired, have a much higher rate (16%), or that one in four of those in poverty are also in employment.

Looking to the future, Laura Bardone indicated potential pitfalls for working poverty measurement in the transition from ECHP to SILC (Statistics on Income and Living Conditions) data collection. Specifically, the ability to distinguish between the self-employed and employees may be lost, which could be problematic given the relatively high incidence of working poverty among self-employed people. It is also unclear to what extent SILC will collect earnings data.

Figure 4: *Work intensity of households, EU15*

Source: *Laura Bardone's presentation based on ECHP data.*

Note: *Work intensity = persons in employment in a household divided by working age persons in household (i.e. excluding dependent children and retired persons)*

Discussion: There was a debate regarding the Commission's definition of the working poor with its exclusion of unemployed people and its rigorous definition of 'working'. Some participants felt that such an indicator was politically motivated and that data based on such an indicator may serve to camouflage rather than address the realities of working poverty. In defence of the indicator, Laura Bardone repeated the importance of having an indicator that does what it says. A working poor indicator that included a large number of individuals who are not working could be confusing and contradictory for the policymakers it is intended to assist.

Strategies to tackle the problem

Making work pay

Wouter Roorda (Dutch ministry of social affairs and employment) concentrated on European employment guideline eight on 'making work pay'. Making work pay is the banner name for policies aimed at enhancing employment opportunities, reducing benefit dependency and increasing workforce participation.

Accepting and keeping a job is the most important route to escape poverty and to ensure social inclusion but poverty and unemployment traps still persist. Economic and social factors can discourage individuals from making the transition to paid employment. For example, the marginal tax rate for people moving from unemployment to 67% of average industrial wage is especially high for single parents and one-worker couples. There is a widespread lack of incentive to take up low paid work.

From a public policy point of view, working poverty presents a challenge in which three separate issues need to be reconciled: alleviating poverty, increasing labour supply, and ensuring that the measures used to secure these objectives are cost-effective and consistent with broad budgetary policy.

Policy design can encompass some of the following measures:

- reducing tax rates or social security contributions for employees;
- reform of social security systems;
- reform of income dependent benefit schemes;
- strengthening financial incentives through in-work benefits.

Many of the above measures involve some degree of trade-off. For example, reducing tax rates, especially for low-earners, may successfully increase labour supply but it is hard to target and has a high budgetary cost. There is much research evidence from the US and UK that in-work benefits targeting lone parents have worked well but they may also have the effect of discouraging family formation.

Benefits should be time limited where possible in order not to encourage benefit dependency. This generally also has the positive advantage of making interventions more cost-effective. However, Roorda pointed out that, in at least two cases, this may not prove possible. Income dependent benefits play an important role in poverty alleviation and the introduction of time limits may not be an option. Similarly, for low-paid workers who have difficulty finding alternative employment, the removal of in-work benefits may leave them at risk of working poverty or may make exit from the labour market more attractive than continuing to work.

Discussion: As several participants remarked, one component of many ‘making work pay’ policies is to reduce or scale down government expenditure by effectively compelling recipients to take up low-paid work. There is evidence that, as benefits are cut, wage levels may tend to fall as well. In this way, making work pay policies can actually aggravate working poverty rather than solve it. One suggested solution to this problem was to raise benefit levels in tandem with making work pay policies. Though costly, this has the potential to be effective.

On a similar point, there has been a significant focus in recent years on the policing and enforcement of benefits systems, in particular to ensure that systems are not abused. Klaus Schomann suggested that one factor of working poverty may be the under-utilisation of available benefits, and cited figures indicating significant numbers of individuals who are entitled to certain benefits but are not taking them up.

Taking a broad anti-poverty strategy

Gerry Mulligan (Office of the First and Deputy First Minister, Northern Ireland) described how his office is attempting to tackle working poverty through a wider anti-poverty strategy in Northern Ireland. He pointed out that, for structural reasons – large growth in employment in retail and tourism sectors, and the comparatively large share of agricultural employment, Northern Ireland is a relatively low wage economy. Recent changes in the structure of employment may have contributed to the problem of working poverty, despite employment growth.

People in employment now comprise a larger proportion of those in the bottom 30% of the income distribution than they did in the early 1990s. At that time, policy focused on addressing socio-economic differentials between the two main communities in Northern Ireland, particularly the disadvantage experienced by the Catholic community in respect of unemployment, housing, health and educational performance.

In the intervening period, government policy has been to target resources at those most objectively in need. As a consequence, there has been significant convergence in these differentials. Furthermore, the extent of poverty within the two communities, measured as the numbers in the bottom 30% of the income distribution, is broadly equivalent. People

in employment, lone parents, and people with disabilities make up a larger proportion of low-income households now than previously. Therefore, policy in Northern Ireland needs to refocus and adapt to changing needs, according to Mulligan.

Government has recently launched public consultation on a new policy framework aimed at tackling social need, including among those in employment. A broad range of measures will be necessary at community and individual level, and for vulnerable groups. Some of the measures that have been deployed or are under consideration include:

- education incentives, e.g. inducements for young people to stay in full-time education beyond 16 years;
- concessionary transport fares;
- financial counselling on debt / household budgeting;
- facilitating bank or credit union accounts;
- childcare provision.

A tripartite approach

In his presentation, Pasi Moisio (National Research and Development Centre for Welfare and Health, Finland) also addressed the issue of working poverty in the context of overall strategies for tackling poverty and social exclusion. He set the broad context for changes in poverty and in particular the development of a 'new poor', a category which would include the working poor. The three institutions shaping poverty, in his analysis, are the labour market, the state and the family. Significant changes in all three of these institutions have occurred in the last number of years, and these changes have had consequences for an understanding of poverty.

Changes in the labour market, such as the decrease in the bargaining power of employees and reduced demand for low-skill work, may have contributed to the problem of working poverty, by serving to depress wages at the lower end of the earning scale. The welfare state has also undergone transformations in many countries with an increase in spending due to an ageing population and, in many cases, a decrease in the resources made available as benefits. In the family, there has been a continued diversification away from the traditional male breadwinner model, creating a polarisation between work-rich/double earner and work-poor households. Another poverty-relevant factor is the smaller size of family units. These can be less resilient in absorbing shocks such as unemployment.

He commented that the poverty rate is a blunt instrument, dividing the population into poor and non-poor but ignoring the dynamic aspects of poverty. It is as important to understand the longitudinal dimension, the transitions into and out of poverty, and this remains an area in which more research needs to be carried out.

An integrated approach

The closing session of the seminar featured a series of reflections by EU, non-governmental organisations and social partner representatives on an integrated approach to the issue of the working poor in Europe.

Armindo Silva (DG Employment and Social Affairs, European Commission) commented that two specific areas requiring further attention are the role of the informal economy, and the extent to which the EU has a distinct pattern of working poverty compared with other developed economies in the world, notably the US. He considered it problematic that data from the new Member States were only beginning to come on stream, which limits the capacity to analyse and describe the issue at an EU level. He also felt that more research and analysis are needed before concluding that working poverty is a growing problem. Trend data are not yet available.

He posed the question whether working poverty was in fact a new concept. Perhaps one reason that it has not proved very popular with politicians or, until recently, researchers in the EU may be that the concept is already implicit in many existing policies. Minimum income and wage systems, unemployment insurance, and housing benefits are all established forms of policy intervention in EU Member States.

He commented that minimum wage systems can inhibit job creation at bottom of the wage scales and may also encourage the growth of an informal economy. Given the major policy concern in this area, there may be a reluctance to deal with working poverty by means of minimum pay levels.

According to Lorena Ionita (UNICE – Union of Industrial and Employers' Federations of Europe), minimum wage systems need to reflect market realities. If they are set too high, they generate perverse effects in the labour market and can be counterproductive. Well-designed tax and benefit systems are clearly important and useful in addressing the issue of working poverty but, again, attention must be paid to the possibility of unintended consequences. For example, in-work benefits can be abused by employers and employees at the expense of the taxpayer.

From an employer's perspective, it is essential to make work affordable and this implies a lowering of the indirect labour costs, often high in Europe, which make it difficult for employers to take on new staff. It is also important not to penalise skilled labour in efforts to lower the tax burden on low wage earners.

She stressed the important role that education and training policy can play in alleviating working poverty in the medium and long term. Poverty and working poverty are both linked to low education levels, and there is much evidence to show that individuals in these categories are less inclined to take up further education. Policy needs to address this resistance.

In her intervention, Katherine Duffy (European Anti-Poverty Network, EAPN) began with the observation that, in the last 20 years, we have moved from visions of a workfree, leisure-based society to a situation where the working poor increasingly service the needs of the time poor. Things have not turned out as planned.

Her principal contention was that social inclusion should not be regarded as an instrument of economic policy but as a necessary and desirable end in itself. Her EAPN colleague, Claire Champeix, reinforced this message when she commented that the European employment strategy, with its emphasis on employment rates, and the broad economic policy guidelines, with their focus on growth, both tend to consign social cohesion to the second rank of policy priorities.

Duffy concluded from the seminar's discussions and presentations that the best advice to offer to those seeking to avoid working poverty was not to form a family or live with other jobless adults. She considered it significant that the two EU Member States with the lowest levels of working poverty – Finland and Denmark – also have high union density rules as well as high levels of social welfare benefit.

Discussion: In the participants' concluding remarks, some themes from the two-day discussion recurred. Against the growth of employment in Europe in the period 1996-2001, the overall quality of the new jobs might be questioned. Klaus Schomann asked whether there is necessarily a trade-off between quantity and quality of employment. Katherine Duffy enlarged on this point, indicating that a high proportion of the new low-quality employment had been taken up by female workers. This in itself could have lasting social consequences. Transfer of females from the home into paid employment may make sense in terms of improving poverty statistics, but may also have negative consequences in terms of social and family stability.

Policy interventions intended to address one issue may be successful in their stated objectives but may also have a negative impact, often unintended, in other areas. In a multidimensional social problem such as working poverty, this

law of unintended consequences is especially true. It is clear that the only way to approach the problem of in-work poverty is an integrated approach.

The issue of quality of employment remains a vital element. The Lisbon agenda, with its commitment to more and better jobs, could contribute to this in a twofold way. On the one hand, it might allow for more people to enter the labour market and thus possibly allow for two incomes in a household. On the other hand, it could focus on better jobs (with, for example, access to training and education, etc). The Foundation has worked for a long time on the issue of quality of work and employment. It will continue to monitor and carry out research on working conditions in the European Union, through the European Working Conditions Survey (fourth EU-wide survey to be carried out in 2005) and in the European Working Conditions Observatory.