



**The Social Protection Committee**

# SPPM THEMATIC REVIEWS ON THE 2012 SOCIAL TRENDS TO WATCH

## The working poor in Europe<sup>1</sup>

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<sup>1</sup> SPC (2014). Social Europe – Many ways, one objective - Report of the Social Protection Committee  
<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7695&type=2&furtherPubs=yes>

## 1.1 Introduction

One of the most tangible impacts of the crisis has been the increase in unemployment and the long-term labour market exclusion of millions of Europeans. However, the crisis has also had an impact on people in work. 12 Member States (MS) had registered statistically significant increases in the number of the working poor in the period 2010-2011. The working poor are defined as individuals who are classified as employed (i.e. being in work for over half of the year) and who are at risk of poverty, i.e. live with an equivalised disposable income below 60% of the national median equivalised disposable income<sup>2</sup>.

Job creation has been at the heart of the Lisbon Strategy and the follow-up of the European Employment strategy, with 20 million additional jobs being created before the current crisis. Analysis has pointed out the need to assess the quality of these jobs and the need to strengthen the links between jobs creation policies and those intended to reduce poverty. This has been taken up strongly and at the highest political level in the context of the Europe 2020 strategy with the headline objectives of increasing employment while reducing the number of people living in poverty or social exclusion.

The Social Investment package<sup>3</sup> adopted by the Commission in February 2013 has most recently emphasized the need for well-targeted, comprehensive and enabling active inclusion strategies which include both income support and access to services. The investment approach can be used in containing the rise of the working poor by placing the right emphasis on the prevention dimension.

## 1.2. Why is in-work poverty relevant?

The EU sees very divergent trends in the working poor with some 8 countries which register levels below 6%, representing a rather heterogeneous group – FI, BE, CZ, NL, IE, HU, DK and MT, while on the other side of the spectrum we have countries like LU, PL, IT, ES, EL with rates above 10% and RO which has the absolute highest level in the EU of 18.9%<sup>4</sup>. (Figure 1) This to a certain extent already gives the intuition of the complexity behind the phenomenon of the working poor which cannot be easily associated with some usual distinction in performance levels, both in relation to

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<sup>2</sup> [The in-work poverty rate is an individual measure but based on household income, and heavily dependent on household composition and household work intensity. The changes over time should be additionally interpreted in relation to changes in the poverty threshold.](#)

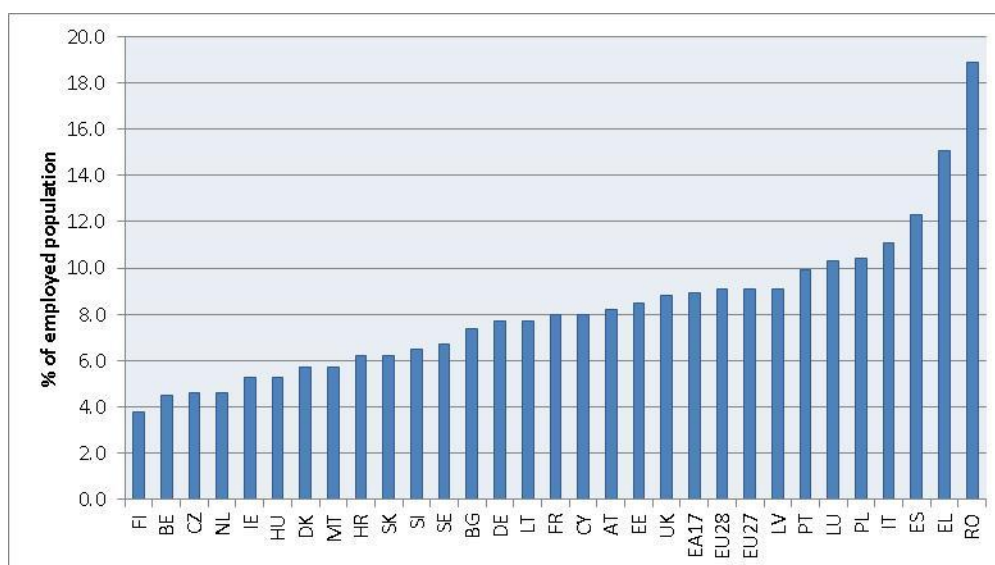
<sup>3</sup> <http://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes>

<sup>4</sup> It is important to highlight that the employed population distinguishes between employees and self-employed. In the case of RO, for example, the majority of in-work poor are to be found among the self-employed while the in-work poverty risk for the employees is around the EU average. This points out to the complexity of the interpretation of the indicator and to the need to analyse in-depth what stands behind the overall figures.

employment as well as to poverty and social exclusion. Overall, 9.1% of the EU population at work lives below the poverty threshold in 2012.

In most countries, policies addressing the working poor cannot be clearly separated from policies aiming to combat poverty and social exclusion, including those related to the respective social welfare systems. The complexity of the phenomenon of the working poor sees, in fact, the interrelation between labour market and social protection policies which interact at both the individual and household level.

**Figure 1. In-work at-risk-of-poverty rate in the EU, 2012**



Source: Eurostat (EU-SILC)

Notes: i) 2011 data for IE, ii) provisional data for BE.

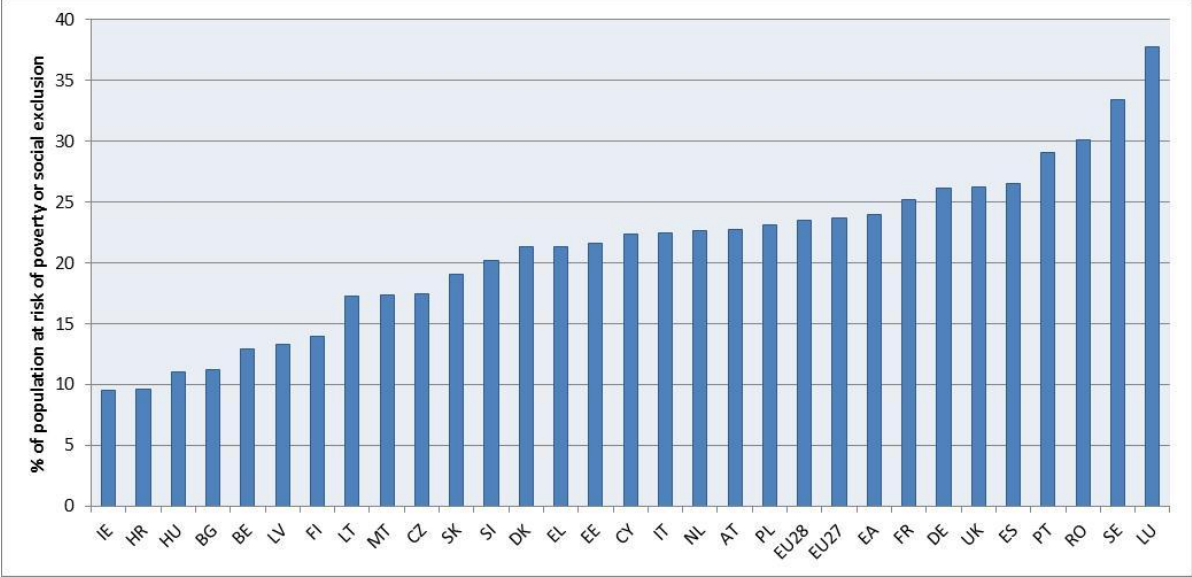
In fact, even in the period of employment growth in the years before the crisis, the share of working poor has remained rather stable suggesting that creating jobs is not enough and more refined and targeted policies are necessary. The crisis has put this problem at a new level and more so in some Member States (see Section 1 of the report for most recent evolutions).<sup>5</sup>

The share of the working poor in the overall population at risk of poverty or social exclusion varies greatly and has significant implications for the achievement of the Europe 2020 headline target – from less than 10% in IE and HR, to between 10-15% in HU, BG, BE, LV and FI to above 30% in RO, SE and LU where the working poor account for 37.7% of the population at risk of poverty or social exclusion. This suggests that in many countries dealing with poverty and making any real progress

<sup>5</sup> Two important caveats need to be taken into account when reading these figures: i) all changes need to be looked together with the change in the poverty threshold as general deterioration of the income situation can result in a decrease in the poverty threshold and consequent possible decreases in the poverty risk; ii) for the at-risk-of poverty rate, the income reference year is the calendar year prior to the survey year (i.e. 2011 for 2012 figures) except for the United Kingdom (survey year) and Ireland (12 months preceding the survey).

on the agenda on reducing poverty and social exclusion needs to go hand in hand with addressing the problems of the working poor.

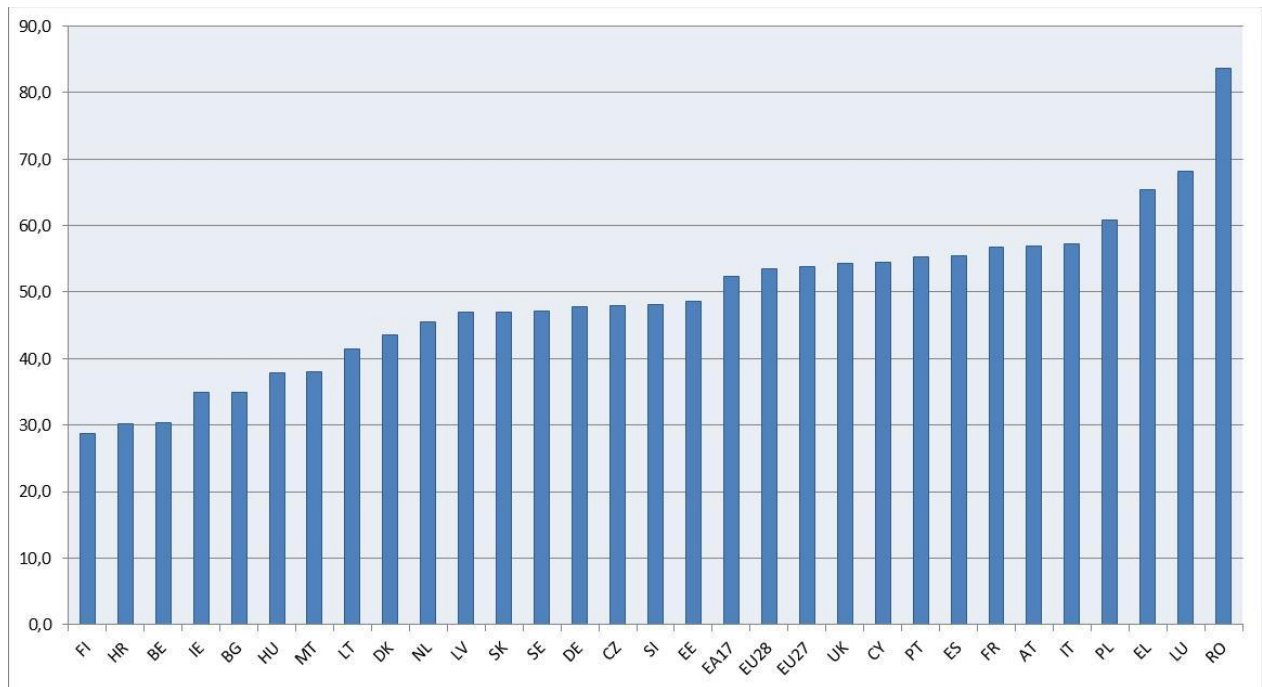
**Figure 2. Share of working poor in the population at risk of poverty or social exclusion, 2011**



Source: Eurostat (EU-SILC)

The in-work poverty risk tends to vary in a similar pattern with the overall risk of poverty. However, a large variability arises between the two rates, which can be explained by a mix of factors, such as the incidence of poverty risk in each economic activity status group of the population and their proportion of the total population. Above all, the in-work poverty depends on the household composition and employment status and income of all household members. In particular it depends on the extent to which people in employment with low earnings share households with others in work, who might earn more and therefore effectively share their income as well – as opposed to living alone. FI, HR and BE have very low share of working poor among their population at risk of poverty (close to 30%) while on the other end of the spectrum is RO where most of the people (83%) at risk of poverty are working poor but also LU (68.2%), EL (65.4%) and PL (60.8%) (Figure 3).

**Figure 3. In-work at-risk-of-poverty as a share of the at-risk-of-poverty rate, 2012**



Source: Eurostat (EU-SILC); Note: 2011 data for IE.

### 1.3 What are the factors influencing in-work poverty?

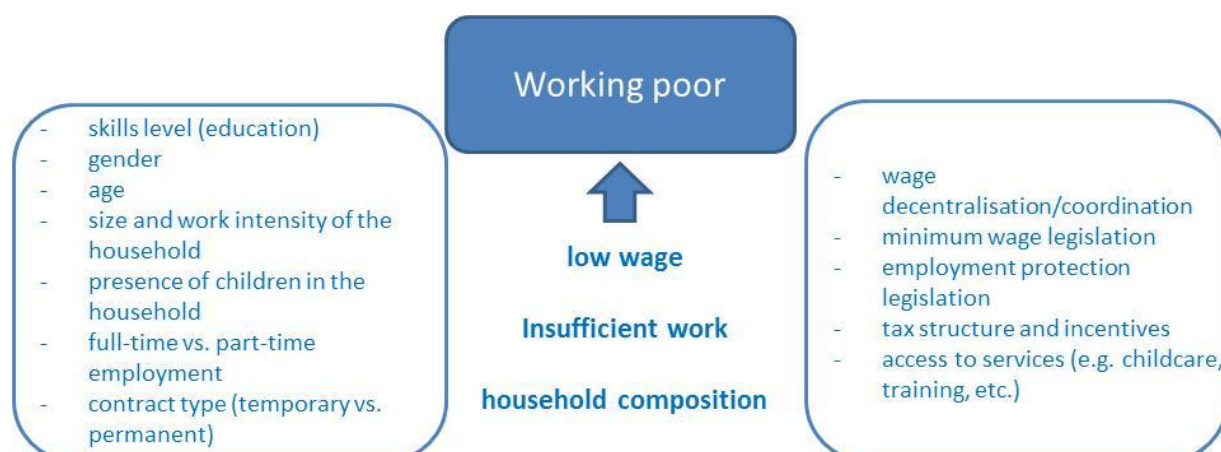
As highlighted by academic and institutional research (most recently European Commission (2011), Eurofound (2010), Marx and Nolan (2012), Frazer and Marlier (2010)), the roots of in-work poverty are to be found in the interaction of a variety of factors at individual and household level.

The main factors can be grouped under four categories with different implications in terms of actions for social protection and labour market policies:

- i) **individual** characteristics (low education/skills, gender, age);
- ii) **household** composition, household work intensity
- iii) **institutional factors** (i.e. duration and type of contract, minimum wage, tax incentives, access to services such as childcare, social protection);
- iv) **structure of economy/labour market**.

The following chart offers a summary of the main elements in understanding the phenomenon of the working poor.

**Figure 4. Factors influencing in-work poverty**



## Individual characteristics

**Gender - working women are generally less likely to face poverty risk than men due to the household effect**

Although women face a higher poverty risk, statistics show that, if they are in work, they are on average across the EU less likely than men to live in households with income below the poverty line. Indeed, in 2011 the in-work poverty risk was lower for women (8.3%) than for men (9.4%) for the EU27. In the majority of MS (18) men are more often working poor than women, with the highest gender difference observed in Romania (4.9pp) and MT (4.4pp). In only 5 countries (CZ, DE, EE, CY, LU) the poverty risk is higher for working women. Yet, single mothers and single women are particularly at risk of in-work poverty compared to others.

**Age and experience matter – working young people are more at risk of poverty**

Overall in the EU28, younger workers (18–24) face the highest risk of in-work poverty (12.2%), followed by workers aged 25–54 years (8%) and older workers (7.7%). This can be explained by the fact that young people often start their careers with low-paid jobs - more precarious jobs (temporary, part-time, training).. However, some differences arise among the Member States. The EU pattern of young workers facing the highest risk of in-work poverty is evident in 15 MS based on 2011 data: BE, BG, DK, DE, EE, IE, FR, HR, IT, CY, LU, NL, RO, SE, FI. While Scandinavian countries register very high rate of poverty risk for working young people (e.g. 27% in DK and 16% in SE), young people there establish their own households and start living independently much earlier and are often combining work and studies. In Southern Europe, on the other hand, young people leave their parental home much later (Becker et al. 2010), which results in them benefiting from the overall household income levels and resulting at much lower risk. Moreover, high (or rising) labour market insecurity is likely to affect household formation and fertility decisions.

On the other hand, in as many as five Member States – EL, IE, LT, PT, ES – older workers face a higher in-work poverty risk than young workers. Becker et al. (2010) find that after considering

many other factors, higher youth job insecurity is associated with higher co-residence rates with parents.

## **Education and the associated skills level have a significant influence on in-work poverty**

Education is an important driver of personal and societal growth. Returns to education are positive, and usually quite important, in all Member States. In-work poverty is negatively correlated with education levels for the employed: the higher the level of qualification obtained, the lower the incidence of in-work poverty. However, the 'returns to education' in terms of the effect of education on poverty reduction is quite different across countries. In BG, EL, PL, and RO - and to some extent in LV, LT, LU, and HU - education markedly reduces the odds of experiencing in-work poverty. Low-skilled people are generally experiencing higher inactivity and unemployment rates than higher skilled. In countries like DK, SE, FI, and NL, that have safety nets that cover all people regardless of their former attachment to the labour market, low-skilled individuals are at a lesser risk of in-work poverty. People with low educational attainment generally have an employment rate significantly lower than that of high-skilled persons, mainly due to high inactivity, even among the adult population aged 25-64. Lack of opportunities to obtain a permanent or full-time job is a significantly greater reason for the high incidence of temporary and part-time work among the low-skilled, which is higher than for other skill groups. Data from the LFS show that 13.5 % of low-skilled employees hold a temporary contract and almost 80 % of them cannot find a permanent job, while one in five low-skilled employees work part-time, including a third who want, but cannot find, a full-time job. (European Commission, 2011)

## **Household characteristics**

### **Household composition – the number of dependents in a household is decisive for in-work poverty**

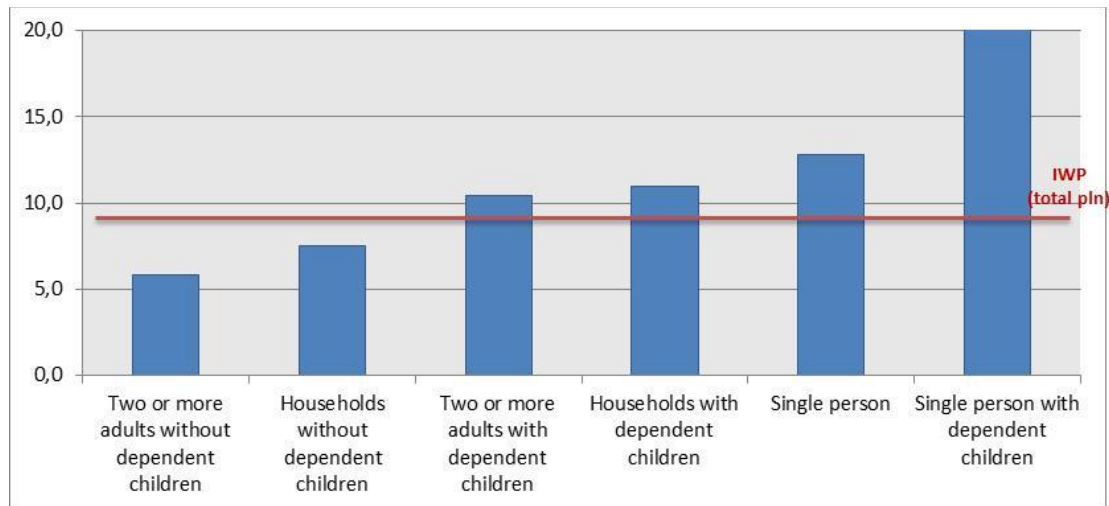
Household composition is one of the main factors influencing poverty risk in general and the working poor in particular<sup>6</sup>. As poverty is measured at the household level, a working adult can live in a poor household despite significant earnings and working hours. This is most often the case when there are not enough adults working in the households or a large number of children compared to the number of earners. For this reason, single-parent households and single households in which the breadwinner is not working full-time, as well as single-earner families face the highest risk of in-work poverty. However, there are still notable differences in the EU both due to the importance of the family structure as well as the ability of social protection systems to provide an adequate support. Family composition is, in fact, very important in Southern Europe (IT, ES, MT), where female employment rate are low and family support (e.g. child benefits, services,

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<sup>6</sup>And adds to the complexity of the interpretation of poverty rates by individual characteristics

etc.) is weak, while is very little so in Nordic countries (SE, DI, DK and DE) where family allowances and services are stronger.

**Figure 5. In-work poverty rate by type of household, EU28, 2012, in %**



Source: Eurostat (EU-SILC)

Figure 5 shows that the **households without children** are the ones which are less at risk (around 7%). The presence of children increases the risk to 11% with this figure being double for single parents (20.2%). These patterns broadly apply to all MS, with some variations in the relative situation of specific households, notably single persons households (European Commission, 2011).

The countries where the difference between working poor living in households with dependent children and without is largest are RO (9.8pp), MT (7.4pp), ES (7.2pp), EL (7pp), IT (6.7pp), LU (6.5pp) in 2012. This is also related to the division of care work between partners. Low support to care implies lower probability for women to be in employment and therefore lower family income and higher risk of poverty. On the other hand, countries where consistently individuals living in households with dependent children face a lesser risk of poverty than the ones without children are only two - DK and CY.

In most Member States, **very high work intensity can reduce the risk of poverty affecting children**. This, however, is not the case for BG, EE, LT, PL, and PT. This may be due to low levels of child benefit and wages. In ES and IT, for example, only high work intensity seems to alleviate the risk of poverty, mainly because of higher wages and largely due to lack of family support. (European Commission, 2011) In general, **two key factors influencing low work intensity are the limited availability and affordability of child care and the lack of access to flexible working arrangements** (Frazer and Marlier, 2010).

### *How has the crisis affected the in-work poverty trends by household type?*

Some countries have seen strong increase in the poverty risk of working people living in certain type of households – notably, single persons (DK, FR, IT, DI), single parents (DE, RO, LV), and households with dependent children (IT and RO). FI is the only country with stable tendency of



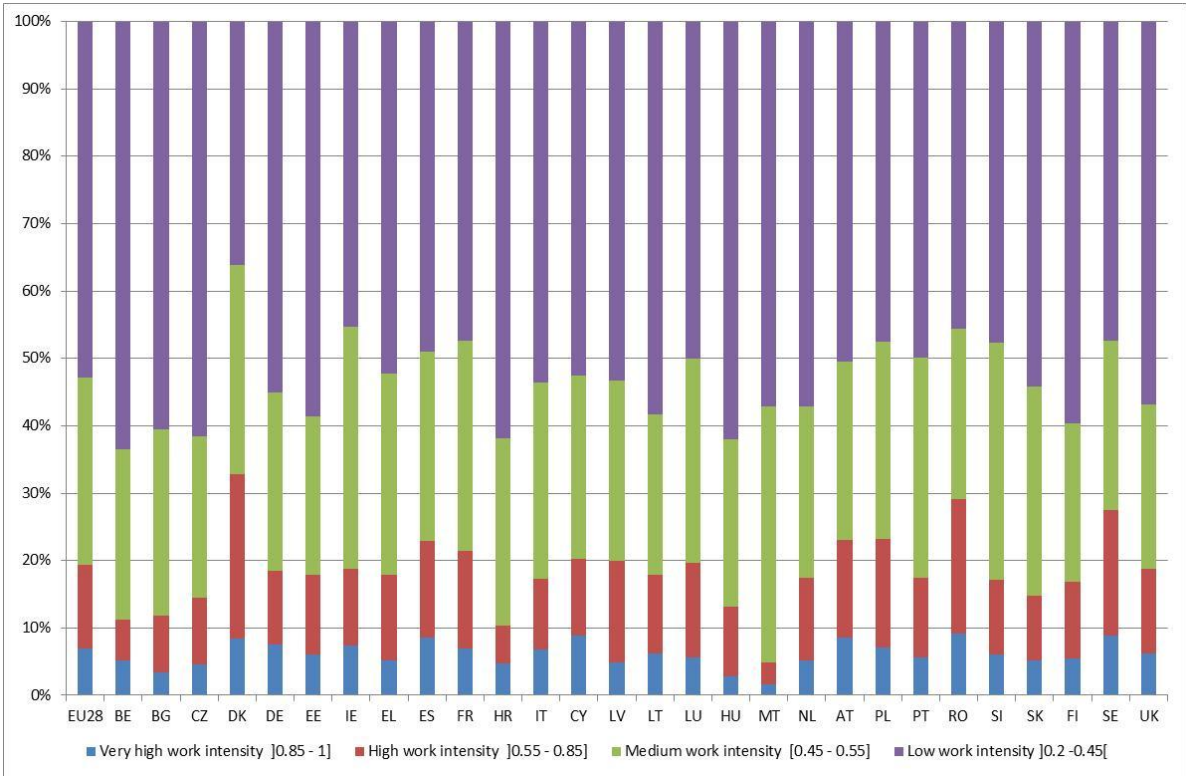
decreasing the poverty risk of the working population across all household types. BG, CZ, EE, IE, CY, LT, UK have seen substantial improvement in the situation of single working parents.

**Insufficient work intensity is a key driver of in-work poverty in all Member States**

Overall, the more members of a household there are in work, the lower the risk of poverty (Figure 6). Thus, many of the one-breadwinner family household, in which work intensity is low to medium, are not protected from the risk of poverty. In fact, across the EU, the risk for such households is between 9% (NL) and 57,6% (RO) in 2012.

Evidence shows that when household work intensity increases beyond 20% of the total work potential, the risk of poverty begins to drop significantly (European Commission, 2011). Moving further up the scale of work intensity, the change is more gradual. Very high work intensity in households brings down the risk of poverty among adults significantly – to around 5% in the 80-90% work intensity bracket and to around 4% in the households with work intensity of 90-100% of the total potential.

**Figure 6. The distribution of household work intensity among the working poor (18-64), 2012**



Source: Eurostat (EU-SILC)

Note: data for IE refers to 2011

While it is important to keep in the mind the overall share of the working poor in a country and thus, the overall size of the challenge, Figure 6 shows that MS have different profiles in terms of

the challenges they face with the working poor population. Overall improving the work intensity of the household may be the main way of decreasing the working poor but this varies for some countries where even having all household members working fully (high work intensity) or close to high does not take them out of the poverty (e.g. DK, RO SE).

In general, **two key factors influencing low work intensity are the limited availability and affordability of child care and the lack of access to flexible working arrangements** (Frazer and Marlier, 2010).

## Institutional factors

Previous research suggests that labour market institutions play a key role in explaining the extent of low-wage work as well as the distribution of wages<sup>7</sup>. In particular, institutional features like centralized and/or coordinated wage setting are likely to affect the incidence of low wages. Many studies also show an influence of union density on the distribution of wages<sup>8</sup>.

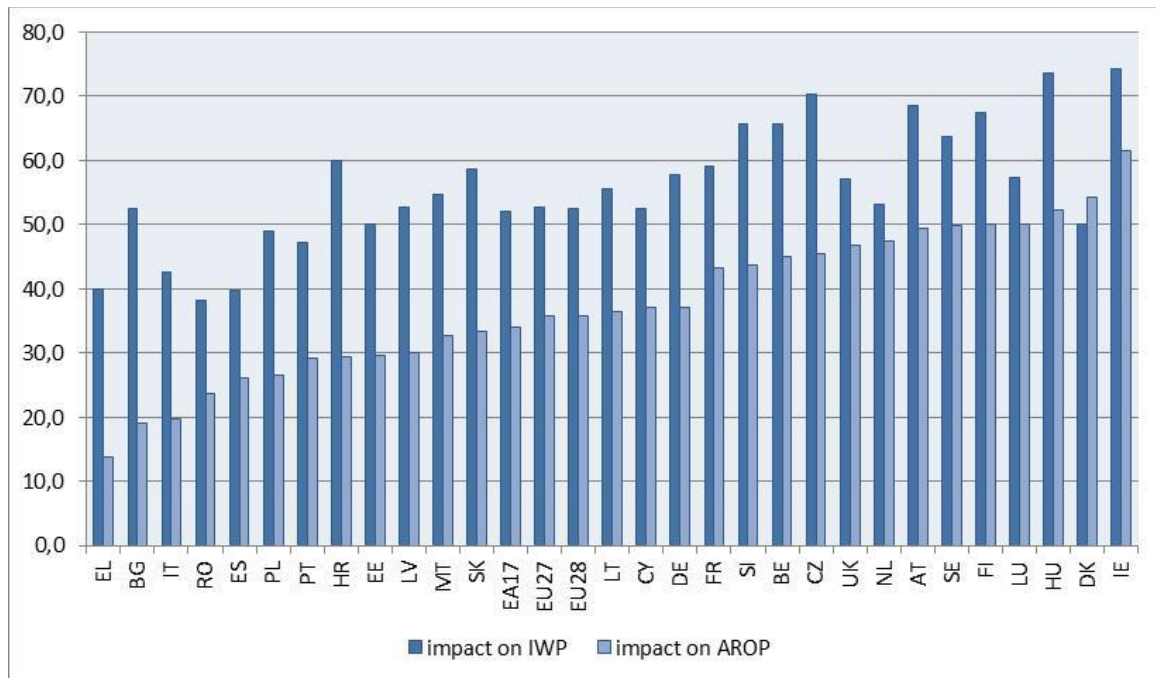
Alongside these, the effectiveness of social protection systems in terms of complementing income through income transfers is a relevant variable to consider. In the figure below, we can see the impact of social transfers on reducing in-work poverty as compared to the reduction in the poverty rate overall. What comes quite clear is that in most countries social transfers have a higher poverty reduction impact for the working poor than for the people at risk of poverty overall. This is mainly due to the fact that the working poor already have some income from wages and any top-ups in terms of social transfers make it easier for them to rise above the poverty threshold. One exception is DK where the impact of reducing the in-work poverty rate is somewhat lower. Another important consideration is the size of the poverty reduction effect. In some countries it is above 60% (SI, BE, CZ, AT, SE, FI) and above 70% in DK and IE. In some countries it is quite similar to the overall impact of social transfers on poverty reduction (IE, LU, NL, UK) while in others the difference is very large (EL, BG, HR). This can be explained by the depth of poverty in these countries which makes the overall poverty reduction to be quite difficult but can also be due to lesser difficulties in targeting working people.

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<sup>7</sup> Blau and Kahn, 1996; Teulings and Hartog, 1997; Lucifora et al., 2005

<sup>8</sup> Freeman, 1993; Di Nardo et al., 1996; Rueda and Pontusson, 2000

**Figure 7. Impact of social transfer on reducing in-work poverty vs. reducing overall at risk of poverty, 2011**



Source: Eurostat (EU-SILC)

## Structure of the labour market

### Part-time and temporary contracts lead to higher poverty risk in the majority of Member States

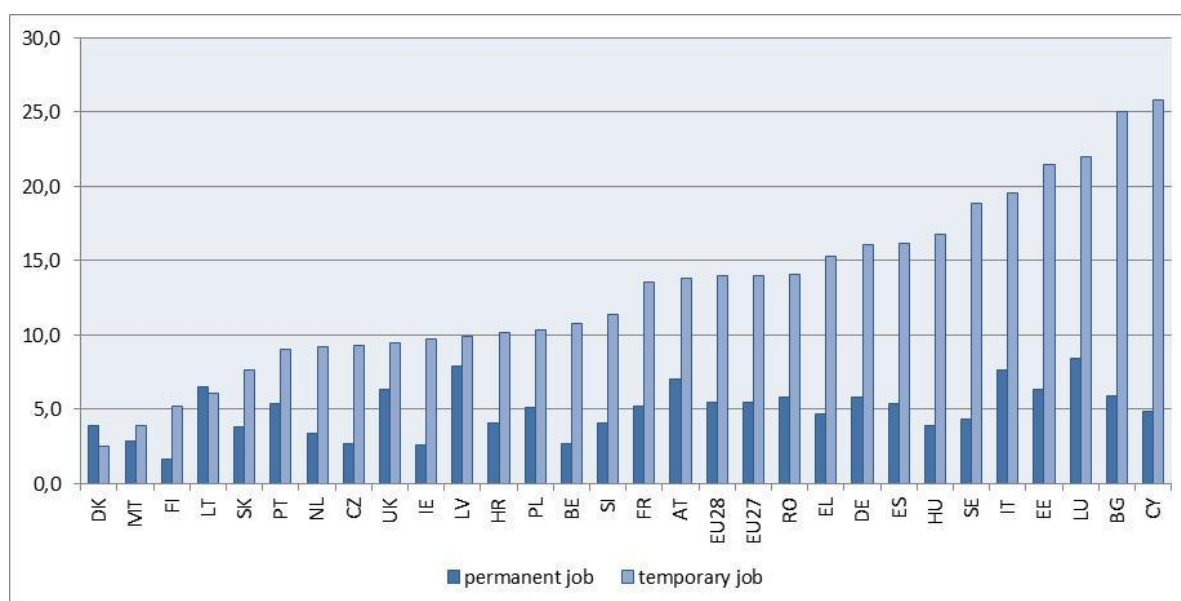
In-work poverty is highest for people working less than a full year, for those in temporary contracts or in part-time employment. Apart from DK, LV, LT, MT, AT, PT and UK, all Member States have in-work poverty rates for those on temporary contracts that are more than double those seen for people with permanent employment (Figure 8). Only in DK and LT is in-work poverty similar for those in permanent and temporary employment. Young people, migrants and those in low-skilled labour are most likely to be on temporary contracts and face a high wage penalty relative to permanent contracts (for instance, in Poland, those on temporary contracts account for up to 26.8 % of total employment, working in jobs with a wage penalty of 27.8 % relative to permanent contracts) (European Commission, 2011). Involuntary part-time work is a growing issue in many countries, such as DE, where wider use of non-standard contracts has increased flexibility on the labour market, but also led to further inequalities among workers.<sup>9</sup> Eurostat labour force data shows that for EU28 (annual data) between 2008 and 2012 total employment recorded a net decrease of 5,429 million; this is the combined effect of a dramatic fall

<sup>9</sup> Commission Staff Working Document, Assessment of the 2012 national reform programme and stability programme for Germany, SWD(2012) 305 final.

in full-time and an increase in part-time work. The fall in full-time employment has hit men more severely than women, while the expansion of part-time employment has affected men and women more evenly. The contraction in total employment and the shift towards part-time employment has resulted in a dramatic increase in the share of people in involuntary employment (i.e. working part-time because they could not find a full-time job).

Between 2011 and 2012, the most important changes occurred for people in temporary jobs whose risk of poverty increased substantially (above 6pp) in BG, CZ, EL and RO while it decreased in DK, LV and LT.

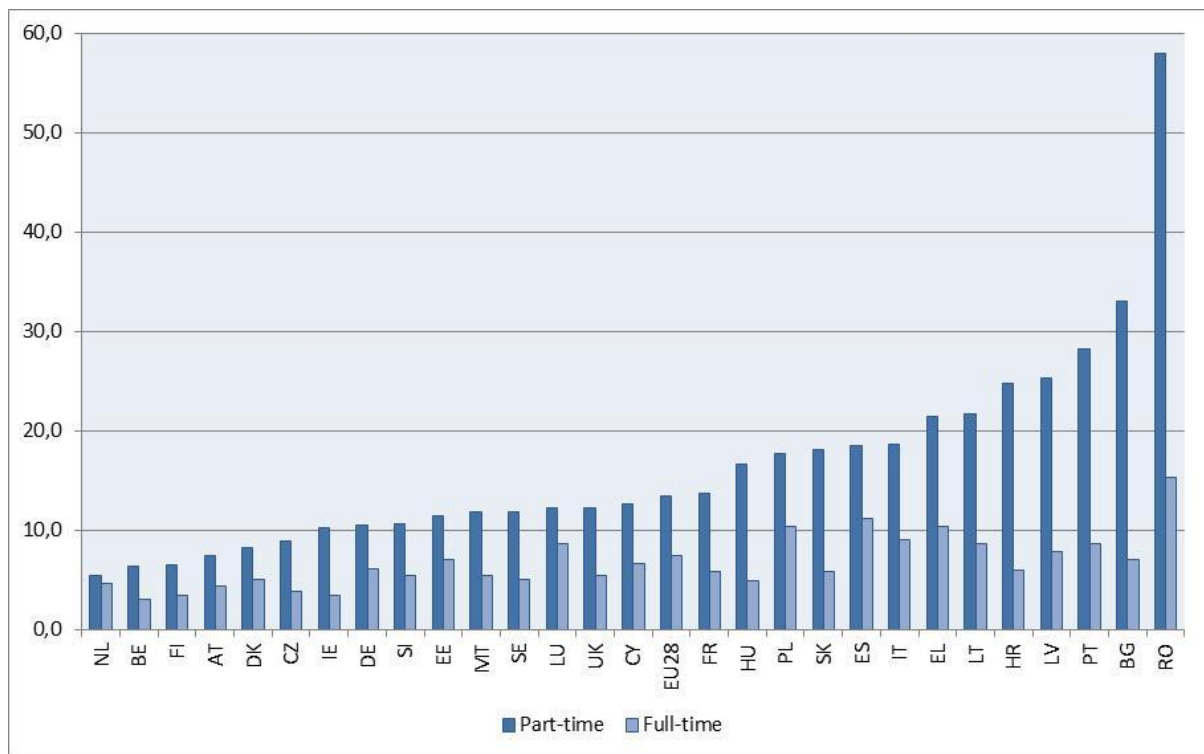
**Figure 8. In-work poverty by type of contract, 2012**



Source: Eurostat (EU-SILC)

Figure 9 shows the relative poverty risk for the employed population in part-time and full-time jobs. Overall part-time jobs are associated with a higher poverty risk but the difference is not very big in countries like NL, BE, FI, AT and DK. A much more important difference is observed in RO, BG, PT, HR, LV with RO having as much as 42pp difference between the poverty risk of the part-time and full-time workers but with a relative low incidence of part-time in overall employment (around 10%). Part-time work is often involuntary, especially for young people. The share of people working part-time has increased significantly since 2008. The shift from full-time to part-time employment has involved a significant increase in involuntary part-time, both among men and women. Particularly noticeable is the increase in female involuntary part-time in the countries more severely hit by the crisis, like IE, ES, EL, BG, CY, IT and LV. In 2012, involuntary part-time among women is higher than 40% in eight countries (BG 66.2%, EL 62.2%, ES 58.2%, IT 54.5%, PT 51.9%, CY 46.8%, LV 42.5%, RO 41.7%)

**Figure 9. In-work poverty by working full-time vs. part-time, 2011**



Source: Eurostat (EU-SILC)

### Low wages are an important driver of in-work poverty across the board

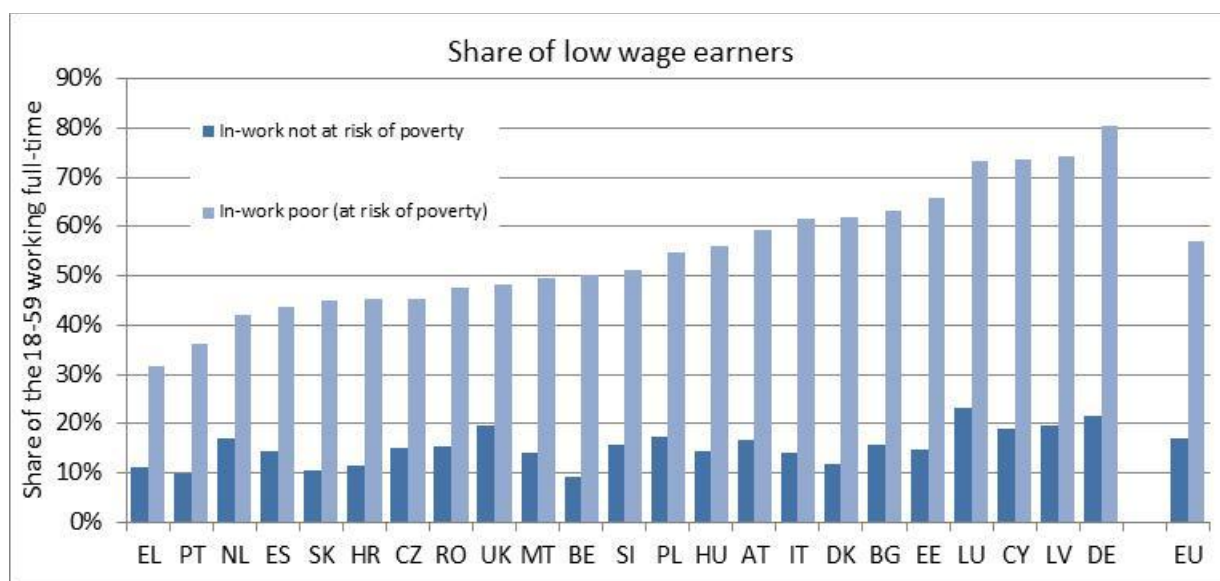
Low wages are an important driver of in-work poverty because they affect individual and subsequently household disposable income. Low wages are also linked to different labour market institutions, as Keese et al. (1998) show, with low wage workers tending to do better in countries with strong union movements. In these countries, the coverage of collective bargaining agreements may extend to workers who might otherwise have very low-wage, low-quality jobs. On the contrary, where unions are strong but cover only certain categories of workers they might contribute to stronger segmentation. An important element to consider is also the role of statutory minimum wage.

On the other hand, low wage work can represent a first stepping stone towards better paid employment especially among young workers, but as mobility between temporary and permanent contracts in the EU is not very high, it can also become a persistent feature of a person's working life (European Commission, 2011).

Research on the varying extent of low-wage employment suggests that labour market institutions, in particular centralized wage-bargaining, union power and minimum wages, play a key role (Lucifora and Salverda, 2008). The characteristics of the workers most likely to experience low pay are key. Low pay is generally highly concentrated not just in particular sectors of the economy but among particular kinds of workers – with those having low levels of education, those working part-time, non-nationals, women and young people having rates well above the average. This has fundamental implications for the relationship between low pay and household poverty.

Exploratory analysis by the European Commission (2014) looks at the share of individuals with low wages<sup>10</sup> among those working full time, both working poor and not (Figure 10). It shows that low wage earners are overrepresented among full-time workers<sup>11</sup> at risk of poverty. DE is the Member State with the highest share of low wages among full-time working poor. At the opposite end, EL and PT have the lowest shares of low wage earners among those at risk of poverty and full-time employed.

**Figure 10. Share of low wage earners among full-time workers at-risk-of-poverty or not**



Source: European Commission (2014) – calculations based on EU SILC 2011

### Getting out of in-work poverty: the role of wage transitions

This section investigates the extent to which ‘weaker’ labour market positions provide steps towards better ones, or whether they trap individuals in precarious jobs. It is based on a new analysis done in the context of the *Employment and Social Developments in Europe 2013* report (European Commission, 2014).

For those in work but poor, exits from poverty may be achieved by increasing working hours, moving from a temporary job to a permanent position, increasing wages (not related to one of the

<sup>10</sup> The EU definition of low wage earners relates to those employees earning two thirds or less of the national median gross hourly earnings. Hence, the threshold that determines low-wage earners is relative and specific to each Member State. The main survey used is the European Structure of earnings survey (SES). While there are some difficulties in using EU-SILC to calculate hourly wages due to the reference periods, DG EMPL has produced a rough estimation, sufficiently correlated with official statistics on hourly wage. It has been computed by restricting the population to those who worked full-time over more than 9 months during the previous year, and by applying to them the number of hours worked a week declared at the time of the interview. (Employment and Social Developments in Europe, 2013)

<sup>11</sup> The reference population is full time workers having worked at least 9 months over the reference period

previous cases) at the individual level, or through an increase in the number of adults working in the household. But they can also be achieved by stronger and more efficient income support (through cash transfers, tax benefits/credits) or improved availability of services (e.g. child care, long-term care). The following section analyses the exits related to the labour market.

In EU-SILC, the labour market transitions can be captured through the following changes: moving from a temporary contract to a permanent contract, moving from a part time job to a full time job, wage transitions, either measured as individuals moving to a higher estimated hourly wage decile or from a low-wage job to a non-low wage job.

The frequency of labour market transitions varies by type. At EU level, some 20% of the in-work poor experienced at least one of the labour market transitions listed above in a given year. The types of transition are indicated below:

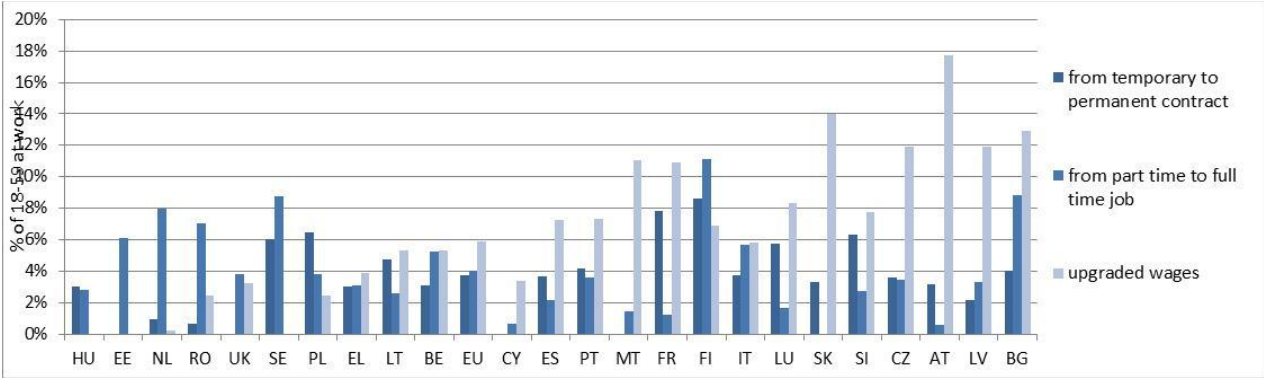
- The **most frequent transition involves changes in the wage decile** (14% of those in-work poor).
- The **least frequent concerns a transition from part time to full time job** (achieved by only 5% of part-time workers at risk of poverty).

The likelihood of each type of transition occurring also varies across countries (Figure 11) with the **highest rates of transitions among the in-work poor found in AT, BG and SI**. Among the in-work poor employed on a temporary contract, the largest transitions to permanent jobs occurred in SI and in FI, where more than 20% of temporary workers moved to permanent jobs.

Transitions from part-time to full time were also more frequent in FI (16% of part-time workers), in SE and the NL (10%). This share was also high in BG, RO and EE, where 8% of part-time workers moved to full-time work.

The transitions from low paid jobs to better paid jobs were high in AT, BG, SK, LV and CZ. They were much rarer in the NL and RO.. Lastly, transitions to a higher wage decile - the most frequent transition - occurred more often among the in-work poor in AT, BG, SI, LV, and CZ.

**Figure 11. Share of individuals at risk of poverty experiencing one of the labour market transitions**



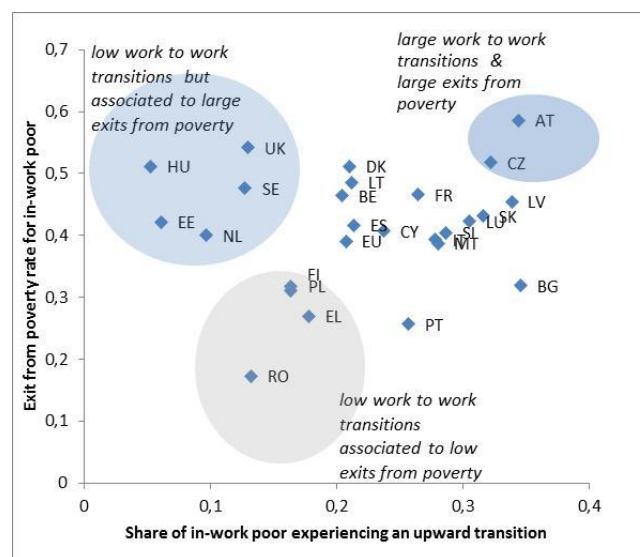
Source: European Commission (2014) - calculations based on EU SILC 2010 longitudinal data

Note: MS are ordered by increasing share of in-work poor experiencing any transitions

## Even significant wage increases are sometimes not enough to escape poverty

Analysis done by the European Commission (2012) even upward labour market transitions for the in-work poor do not necessarily translate into exits from poverty. At EU level, the average experience of making one transition (from, say, temporary to permanent contract, or part time to full time work) occurred in the case of 24% of those who were in-work poor between 2008 and 2009. However, only half of these escaped poverty during this period. Figure 12 shows the incidence of labour market transitions among the in-work poor and related exits from poverty for Member States. It shows no single or simple relationship between upward labour market transitions and exits from poverty. In Member States such as AT, a high level of transitions is associated with exits from poverty. In BG, on the other hand, the number of transitions among the in-work poor is high, but they do not translate into exits from poverty. In Member States such as DK or the UK a lower rate of transitions is observed, but these are associated with large exits from poverty. Lastly, in Member States such as EL or RO, transitions are relatively rare, and do not result in exits from poverty.

**Figure 12. Share of in-work poor experiencing a labour market transition and exit rate out of poverty**



Source: DG EMPL calculations based on EU SILC 2010 longitudinal data

Reading note: between 2008 and 2009, in Bulgaria, 34% of in-work poor experienced a labour market transition (ie from temporary to permanent, from part time to full time, from low paid to non-low paid, or toward a higher wage decile). Of these, 30% got out of poverty.

### 1.4 Policies, best practices and evidence-based responses

Policies addressing the working poor cannot be clearly separated from policies aiming to combat poverty and social exclusion more widely, including those related to the respective social welfare



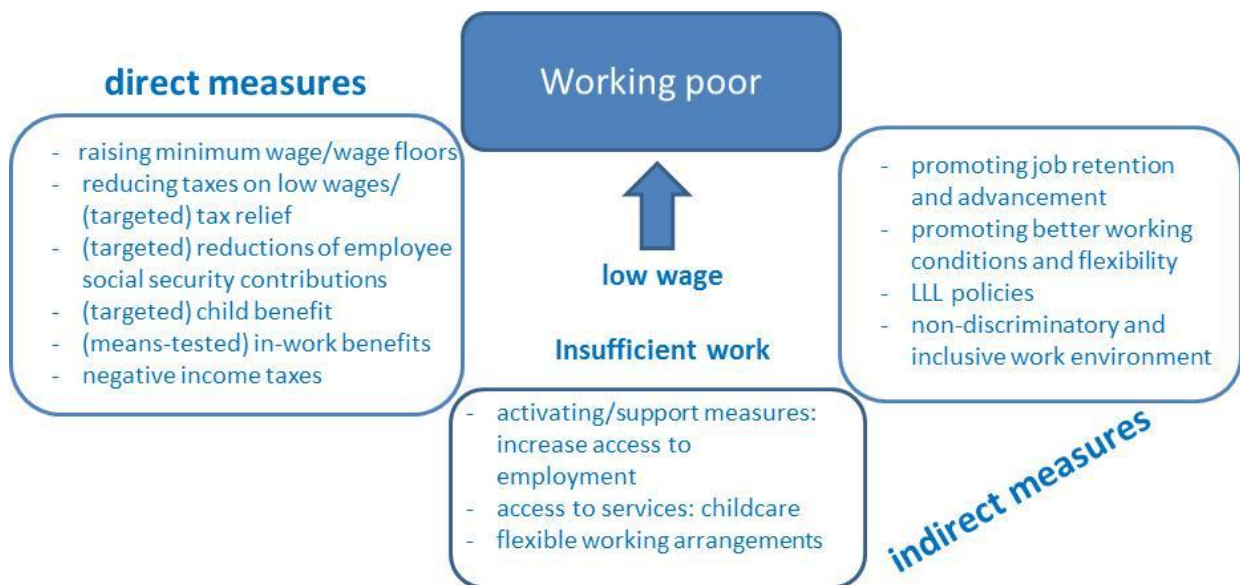
systems. Nevertheless, in the form of various transfer payments and social benefits, certain policies specifically tackle in-work poverty.

Three broad groups of policy instruments can be identified: **supporting wages and income, supporting the labour market participation of groups at risk of poverty, providing access to enabling services** (European Commission, 2011). These comprise **fiscal measures**, such as in-work benefits or tax credits paid to those with earnings below a certain level; **labour market policies**, such as minimum wages, wage policies in general, unemployment benefits, unemployment assistance and start-up benefits; **family policies**; or **a combination of all** of these measures.

The working poor do not constitute a well-delineated, homogenous group, visible and easily 'targetable' for policy. While for example social assistance recipients, or more generally people wholly reliant on transfers, are unambiguously at a very high risk of poverty and (seen to be) deserving of policy intervention, the working poor are more heterogeneous. Only a small percentage of workers are at risk, and even the risks for low paid workers, or for that matter, part-time or atypical workers are not uniformly high. It is only within specific household configurations that workers face a substantial risk. They are also less visible, leading 'below the radar' normal lives, going out to work and raising children.

In-work poverty in Europe, as it is conventionally measured, is to a considerable extent concentrated among low work intensity households, for example dual adult households with only one working adult. Whether their at risk of financial poverty status is construed as a problem of insufficient breadwinner earnings or as a problem of partner non-participation makes a fundamental difference as to what type of policy action is to be examined and possibly favoured.

**Table 1. A toolbox of policy options for addressing in-work poverty**



*Source: Adapted from Marx and Nolan (2012) and Frazer and Marlier (2010)*

The **main policy approaches** to address in-work poverty can be grouped under three broad headings. First, there are policies to **increase low net wages**, secondly there are policies to **increase work intensity** and **reduce labour market segmentation** and lastly the provision of enabling services. It is important to get the right balance between them depending on the situation in each country. Thus, for instance, in countries where net wages are not particularly low but where work intensity of families with children is low there is a need to pay more attention to increasing work intensity.<sup>12</sup>

The majority of Member States have **national minimum wages** set by government (often following negotiations with the social partners), whereas a minority (e.g. AT, DK, FI, DE, IT, and SE) regulate minimum pay rates just through collective agreements on a sectoral basis. However, there is a significant variation in the level of minimum wages as a proportion of average monthly earnings though minimum wages tend to be set below the at-risk-of-poverty line. Their impact on reducing in-work poverty varies significantly across Member States. In many countries, minimum wage provisions and/or collective agreements are an important element in reducing in-work poverty, or at least its intensity. However, in several countries (e.g. BG, EL, LV, RO) minimum wage levels are set so low that they have quite a limited impact on in-work poverty.<sup>13</sup> The effectiveness of minimum wages in providing a wage floor also depends on the collective bargaining level,

<sup>12</sup> Frazer, H. and Marlier, E. ed. (2010). "In-work poverty and labour market segmentation in the EU." EU Network of Independent Experts on Social Inclusion. Pp. 12.

<sup>13</sup> Idem.

structure and coverage, and on the laws relating to the extension of collective agreements. The incidence of low pay is generally higher in countries where bargaining takes place predominantly at a company level, e.g. BG, EE, LT, LV which are also the countries with the lowest level of bargaining coverage. (European Commission, 2011) A recent paper focusing on the specific case of SI highlights the need for carefully assessing the structure of the income distribution (e.g. more or less equal) when deciding on levels of minimum wage in relation to the national poverty threshold. In some cases, the minimum wage can increase the probability of poor households escaping poverty but it may also increase the probability of non-poor households entering poverty due to a decline in employment and hours worked. (Stovicek, 2013)

In contrast to minimum wages, **benefits granted through the tax and social security** systems can make it easier to target specific groups of people and family types. Countries like FI, NL, BE have low levels of in-work poverty both before and after social transfers, suggesting that the policies in these countries are designed in such a way that they manage to achieve low levels without having to redistribute among people. The impact of social transfers on reducing in-work poverty is highest in IE, HU, CZ and lowest in EL, RO and ES (**Error! Reference source not found.**).

One way to support low wage earners is through the so-called **earned income (or working) tax credit**. A tax credit works as a negative income tax: low wage earners, instead of paying taxes receive tax credits that are usually (negatively) related to the level of income earned. This approach brings together the need to boost the incomes of low-earning households while at the same time promoting employment by able working-aged adults. In the US, the Earned Income Tax Credit is the primary tool to combat poverty among the working poor. The programme has had a relatively high take-up rate (around 80-86% according to Scholtz 1994),<sup>14</sup> and considerable poverty reduction potential. Most recent research<sup>15</sup> suggests that the benefits of EITC go beyond the limited time that families claim the credit. The empirical evidence shows that EITC, in combination with other policy reforms and several increases in the minimum wage, has produced some striking results, including marked increases in labour market participation and declines in poverty among some segments of the population, especially single parent households (Hotz and Scholz 2003; Eissa and Hoynes 2004). The research indicates that children of EITC recipients, for instance, do better in school, are more likely to attend college, and earn more as adults. The United Kingdom has also implemented and extended several schemes, culminating in the Working Tax Credit (WTC) of 2003.

Focusing on **in-work (or employment-conditional) benefits**, which represent features of both social benefit support for low-income workers at risk of in-work poverty, and an incentive payment designed to increase the financial return to work has gained interest in a number of countries. Several European countries have contemplated introducing tax credits, or have done so in some

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<sup>14</sup> Scholtz, J., K. (1994). "Participation, compliance, and anti-poverty effectiveness." *National Tax Journal* 47, pp. 63-87.

<sup>15</sup> Marr, Charite, and Huang (2013). "Earned Income Tax Credit promotes work, encourages children's success at school." Center on Budget and Policy Priorities.

form. Examples here include the 'Prime Pour l'Emploi' (PPE) and the 'Revenu de Solidarité Active' (rSa) in France, the 'Combination Credit' in the Netherlands, and a 'Low Wage Tax Credit' in Belgium (Marx and Verbist 2008a). Yet the reality is that most of these schemes exhibit only a faint resemblance to the EITC or the WTC. The UK Working Tax Credit, to be replaced by the Universal Credit, remains the most important measure of its kind in Europe, both in terms of scope and budget.

Some researchers claim that EITC/WTC-type of policies, means-tested on household income, are suspected to increase work incentives for single workers but to discourage married women with a working partner. It is typically argued that this efficiency loss is outweighed by the equity gains from targeting families in need. In contrast, individualized schemes appear to combine clearer incentive effects with less efficient targeting, since resources may be transferred to workers in well-off families. Overall, whether redistributive and efficiency objectives can be reconciled in a single policy measure remains an open question. (Bargain and Orsini, 2005) Marx et al. (2012), in a micro-simulation study for Belgium, suggests that in order to be effective as an anti-poverty device and at the same time affordable within reasonable limits, such measures need to be strongly targeted. Some researchers, notably Figari (2011), question the potential transferability in terms of similar results in southern European countries, where the presence of extended families stands into the way of such measures being well targeted to the poorest.

**Back-to-work benefits** and **earnings disregards** make participation in the labour market more viable. Several countries, CY, DE, LT, FR, PT, RO, SI, SE and IE make use of various forms of back-to-work or tax allowances, with gradual phasing out of social assistance payments. Similarly, earning disregards are a common practice in CY, DE, AT, BE, LU, MT, NL, SK, CZ, DK and LT. In many cases, around 30 % of earnings are disregarded when calculating social benefits. In addition, special allowances, e.g. for single parents and children (MT) and compensation payments for voluntary work (NL) can top up incomes.

For Member States, **designing social benefits without eroding incentives to take up work is a key concern**.<sup>16</sup> Schemes are increasingly designed to avoid creating unemployment and inactivity traps, as well as low wage traps for people in work and in receipt of minimum income benefits. Member States have, for instance, adopted measures to reduce the tax wedge (direct labour taxation plus social security contributions) on lower wages, to raise minimum wages, to offer in-work benefits, and they have reviewed the design of out-of-work benefits, including social assistance.<sup>17</sup>

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<sup>16</sup> The **Employment package** (COM(2012) 173 final), launched in April 2012, is a **set of policy documents** looking into how EU employment policies intersect with a number of other policy areas in support of smart, sustainable and inclusive growth. It identifies the EU's biggest job potential areas and the most effective ways for EU countries to create more jobs. Measures are proposed in the areas of supporting job creation, reforming labour markets, investing in skills, improving EU governance, etc.

<sup>17</sup> See also European Commission (2009) 'Recent reforms of the tax and benefit systems in the framework of flexicurity' European Economy Occasional Papers 43, Feb 2009.

A recent example of policy reform that combines **income support with activation** (including support of low wage earners is the **Revenu de Solidarité Active (RSA)** in France. The RSA can be seen as a cornerstone of France's current antipoverty policy, in combination with the minimum wage and employment subsidies. The declared objectives are to integrate and simplify existing benefit schemes, to combat poverty more efficiently and to foster the transition into work. The RSA scheme is equivalent to a negative income tax. A basic benefit of € 410 (for a single adult) or € 590 (for a couple with no children) applies to claimants who do not work; for those who work, earnings are topped up by an in-work RSA supplement in such a way that 62 % of their net earnings are exempted. The implicit tax rate is set so as to make the benefit expire as the claimant's earnings approach the poverty threshold (SMIC = approx. € 1 200 gross/ € 950 net). In comparison with the pre-existing schemes, the RSA focuses more on the lowest income group and, above all, strengthens the work incentive component.<sup>18</sup>

Measures to **increase access to and intensity of employment** are widespread, particularly in response to the economic and financial crisis. These measures usually fall under the broad category of active labour market policies (ALMPs). Shared characteristics of ALMPs in Member States are profiling, job counselling, educational training and (re-)qualification.<sup>19</sup> Subsidised employment, public work programmes, short-term paid employment, traineeships and voluntary work are among ways of reintegrating people into work. While all Member States have policies for the unemployed and job seekers generally, the degree to which these target those who are furthest from the labour market (e.g. social assistance recipients) varies substantially. However, some Member States (BE, DE, AT, FI, LU, SI) specifically target these recipients by means of separate programmes.

ALMPs<sup>20</sup> account for only a small share of Member States' GDP in the EU-27 (0.85 % of the GDP on average), and these policies are mostly financed through unemployment insurance funds. DK, BE, NL, and SE had the highest share of ALMP spending in 2010. Sometimes ALMPs go hand in hand with passive labour market policies,<sup>21</sup> as in DK, providing an effective tool for both protection and activation. Most eastern European countries spend little (see the chart below) on labour market policies, whether active or passive. There has been no significant rise in funding for ALMPs in recent years.

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<sup>18</sup> Ides Nicaise (2011): Building the tools to fight in-work poverty, Synthesis report, France. Available at: [www.peer-review-social-inclusion.eu](http://www.peer-review-social-inclusion.eu).

<sup>19</sup> For a classification by type of action see Eurostat (2010). Labour market policy — expenditure and participants.

<sup>20</sup> In EU ALMPs include labour market services, training, job rotation and sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.

<sup>21</sup> Passive labour market policies include various unemployment benefits and early retirement.

An overwhelming majority of Member States<sup>22</sup> link the right to income support to the willingness to work and a minimum commitment to seeking a job, vocational or occupational training. In SK, proving one's willingness to work and to accept a suitable job is only compulsory when applying for the highest level of income support benefit.<sup>23</sup>

The conditions under which job seekers have to accept a job offer vary across Member States. In CZ and DE, job seekers are required to accept any job, even if it is short-term, or a mismatch with their skills. In LV, EE, SK, MT and NL, job seekers are obliged to accept suitable work only (subject to the relevant authority's assessment).

If a job seeker is unable to find work, most Member States offer vocational or occupational training. Some also provide various counselling services which can cover advice to manage debt or addiction or psychological support (DE) during drug or alcohol rehabilitation (MT). In SI, job seekers may have to sign a contract with the Social Work Centre to take part in social and/or health programmes (SI). In other countries such as LU, an 'integration allowance' is available only if job seekers take part in an 'integration activity'.

If occupational or vocational training is not successful, some public administrations provide (mandatory) measures to ensure activation (NO, RO, BG, NL, LV, HU). This may mean compulsory involvement in public works (e.g. providing social services, cleaning). This dimension should in many cases be complemented by improving job seekers' prospects of finding work, to avoid locking them into such schemes (LV, HU).<sup>24</sup> In NL, a young person who is not in employment or education (NEET) has the right to request a job or an offer of a place in education from the local municipality.<sup>25</sup>

Policy responses can only be effective if they take account of the fact that low-paid work and in-work poverty do not always overlap.<sup>26</sup> Low-paid work is only one of the factors contributing to in-work poverty.<sup>27</sup> Thus, if the goal is to reduce in-work poverty, there is limited scope in using tax

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<sup>22</sup> MISSOC Analysis (2011). *Guaranteed Minimum Resources*, MISSOC Secretariat for the European Commission, Contract nr. VC/2010/1131 .Pg 17.

<sup>23</sup> MISSOC Analysis (2011).

<sup>24</sup> Commission Staff Working Documents, Assessment of the 2012 national reform programme and convergence programme for Hungary and Latvia, SWD(2012) 317 final, SWD(2012) 320 final. .

<sup>25</sup> The recently adopted Youth Employment Package aims to tackle the phenomenon of NEET at Member State level. For more information see: COM(2012) 727 final.

<sup>26</sup> Evidence suggests that the overlap is rather low — between 5 to 10 per cent in most industrialised economies Nolan, B. and Marx, I. 1999. 'Low pay and household poverty', Luxembourg Income Study, Working Paper, No 216. .

<sup>27</sup> See chapter on in-work poverty of European Commission (2011): *Employment and Social Developments in Europe 2011*. A summary of the results is included in the beginning of this section.

and benefit support on low-wage earners. Instead, targeting should focus on particular household types, chiefly single-earner households, or households with dependent children.<sup>28</sup>

In many cases, in-work poverty is strongly associated with single-earners, or with secondary earners who are women that may want to work part time. So supporting the latter through childcare provisions for working parents would yield good results.

**Tax and benefit incentives** should be primarily targeted towards low-income single-earner households, to encourage them to take full-time jobs. Offering tax and benefit allowances to families with children or dependents would raise the likelihood of parents taking jobs, reducing child poverty. This should be complemented by affordable childcare services, very important for households with small children and crucial for single parents

**General access to services** such as affordable transport, childcare, healthcare, education, and housing can increase the incentives for higher employment participation and reduce the burden on the household budget. Countries have implemented various policies to increase the amount of day care available, supporting alternative forms of care, creating childcare facilities at work places, and introducing mandatory pre-school education in order to liberate care takers from care responsibilities and allow them to participate more actively in employment. Childcare services are in some countries integrated with support services like transport to nursery/school at the neighbourhood level.

### *1.5. Results of the thematic in-depth review*

Following the SPPM methodology as endorsed by the Council, the thematic in-depth reviews are structured around the idea of countries with good outcomes being reviewed by countries with challenging situation in order to foster mutual learning. The first thematic review of the SPPM trends to watch focused on the situation of the working poor in terms of their participation in the labour market and of the access to and design of social protection benefits.

The presenting countries (AT, BE, CZ and FI) gave a summary of the key employment and social indicators relevant for the discussion and outlined in their presentations the factors behind their comparatively low rates on in-work poverty, distinguishing between exogenous (e.g. macro-economic conditions, demography) and endogenous factors (e.g. policy design, expenditure levels, etc.). Then they presented an overview of policy approaches undertaken by public authorities in their countries aimed at addressing in-work poverty.

In their interventions, the 4 presenting countries identified the key factors behind in-work poverty: unemployment spells and low-work intensity in households with more than one person of working age (AT, BE, CZ and FI), non-standard working hours, part-time and temporary employment

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<sup>28</sup> Marx, I., Vanhille, J., Verbist, G. (2012). "Combating in-work poverty in Continental Europe: An investigation using the Belgian case." *Journal of Social Policy*, 41/1.

(especially in AT, BE and FI), insufficient access to child care facilities which especially affects the labour market participation of women (CZ), and health impairments (AT).

The review confirmed the evidence examined earlier in this section. It appears that the causes of in-work poverty are to be found in the interaction of a complex set of factors at individual and household level, such as low education and skills, employment status (self-employment, temporary/part time work) and household structure. Moreover, in-work poverty is strongly associated with a variety of factors at institutional level, including gender inequalities (especially in labour market participation), minimum wage and tax arrangements and, finally, labour market regulation and social policies as well as the role of collective bargaining.

These multiple factors draw a very heterogeneous picture of the working poor in each of the 4 countries, which explains in part why the national authorities in these countries did not opt for a policy approach specifically targeting this group. Instead, they implemented a policy mix consisting of measures to foster labour market participation, such as investments in active labour market policies (AT, BE, CZ and FI) and support for the labour market participation of second earners, who are generally women<sup>29</sup>, by pursuing measures to reconcile work and family life (AT) and by introducing flexible arrangements for parental allowance (CZ).

In addition to labour market policies, the presenting countries also focused on social policies aimed at enabling the access of people in a situation of in-work poverty to social and health care services (AT, BE, CZ and FI) as well as specific child care support (AT, BE and FI) and social housing schemes (AT, BE and CZ).

The third aspect of the policy approaches that was mentioned by the presenting countries is related to efforts to promote adequate income support, either in the form of tax credits and reductions in the social security contributions for low-wage earners (BE and FI), minimum wage schemes at national level (CZ) or agreed in collective arrangements at sectoral level (AT, BE and FI), family and social assistance benefits (AT, BE, CZ and FI), automatic indexation mechanisms (BE and FI). In all the 4 countries, the role of the social partners in concluding binding collective arrangements for decent wages either at national or at sectoral level and in preventing wage dumping was highlighted.

The reviewing countries (LT and RO) focused in their presentations on challenges common to both the presenting and the reviewing countries as well as on their own challenges. They also identified key elements in the policy approaches of the presenting Member States which could be transferred to the policy contexts in their countries as well as those without potential for transferability.

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<sup>29</sup> Statistics show that large majority of second earners in all Member States are women. For more details see the Report of an EU Presidency Conference organised in April 2013: "Women's Economic Engagement and the Europe 2020 Agenda" available at:

<http://www.genderequality.ie/en/GE/IE%20PRES%20REPORT.pdf/Files/IE%20PRES%20REPORT.pdf>



LT asserted that most policies aiming at ensuring adequate income support, providing vocational training and enabling access to quality social and health care services had a good potential for transferability, whereas the policies in the field of taxation and reduction of social security contributions were not to be envisaged in the short and medium-term.

However, in the case of RO, the only policy that was deemed not transferrable in the short-term was raising the level of the minimum wage at national level.

### *1.6 What should be the focus of policy effort?*

From a policy perspective, in-work poverty risks are influenced by a broad set of factors, ranging from labour market specificities (wage-setting mechanisms, collective bargaining, minimum wage policies), household income support arrangements (tax incentives, child care provisions) to the set-up of social protection systems<sup>30</sup>.

The country differences regarding in-work poverty risks highlight the multi-dimensional nature of in-work poverty and explain in part why in-work poverty is pervasive across Europe and why its extent does not simply reflect the size of the low-wage sector. While in-work poverty is strongly associated with low work intensity households, it also depends on various institutional factors that affect labour market participation patterns and effectiveness of social protection systems in their income support and service provision functions, both at individual and at household level.

Therefore, **the policy responses to address in-work poverty should also be multidimensional**. One dimension of differentiation is whether the policy in question seeks to have a direct or indirect impact on income. Minimum wages, social benefits and tax measures have a direct impact on individual or household income. Indirect measures can either seek to increase individual earnings potential (education, training) or to promote higher work intensity at the individual or household level (e.g. child care policies). Another policy dimension could include measures to stimulate the demand for labour force through changes in the institutional settings, tax provisions and labour market arrangements (subsidised employment, wage cost subsidies, service cheques) as well as measures to boost the supply side of the labour force (gender-equality policies, empowerment, fiscal reforms) which in turn may help individuals and households increase their work intensity.

Minimum wages effectively serve a kind of benchmark purpose in many countries. While in some countries there may be scope for increases in their level relative to average earnings, this might

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<sup>30</sup> An analysis by the European Commission (2011) on the determinants of in-work poverty shows that at the EU level the most important determinants are low work intensity and low wage. Working less than half of the potential of the household leads to a more than 5 times higher risk of being working poor, with single parents or those in households with a single earner and dependent children facing much higher poverty risks than those in households. Similarly, having a low wage increases the odds of being poor in work by 5 times. Marx et al. (2011) suggests that increasing work intensity decreases poverty more than increasing low wages.

not in all cases have a sufficiently significant impact on in-work poverty risks. Even in countries where minimum wages are comparatively high, they are not enough to keep single-earner households out of poverty, especially when there are dependent spouses or children. While minimum wages can help to prevent poverty among workers and support living standards for the low skilled, the OECD (2011) has cautioned that a balance needs to be struck when setting a minimum wage. If set too low, it may miss its targets. When too high with respect to the average wage, it may discourage the hiring of low-skilled workers or encourage hiring them informally.

An alternative policy measure would entail not increasing the minimum wage itself but rather reducing the taxation and social contributions at individual or household level. Measures aiming at improving the income support given to low-wage households through cuts in social contributions and income taxes may be more effective in reducing poverty risks as they can stimulate people to take up employment or increase their working hours, thus boosting the household work intensity. This supposes focusing labour tax reductions on groups that face the strongest disincentive effects on their labour supply and labour demand, in particular the low skilled. This could stimulate employment, thus raising economic performance and generating social inclusion without affecting revenue significantly. One common way to support the working poor is to provide tax credits. In this way the incentive to work is maintained while at the same time providing income support.

Thus, it appears that **employment-oriented policies are centre stage in the fight against in-work poverty, as this is to a large extent associated with low-work intensity at the household level.** This brings into view a wide variety of potential policies that can help households to optimize, if not maximize their work intensity.

**Social and employment policies that address the barriers to labour market participation are a crucial elements in increasing the low-work intensity of households** - affordable quality childcare/long term care services, which prevent parents (mainly women) from entering employment, job training possibilities, more effective income support measures (e.g. direct household income supplements, tax credits), human capital investments facilitating prospects of finding better-paid jobs in the form ALMPs, up-skilling, on-the-job-trainings.