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## In-Work Poverty in the EU

### Abstract

[Excerpt] The working poor are a substantial group in the overall poverty statistics and are estimated to constitute 10% of European workers. This report examines in-work poverty in the European Union, picking up where a previous Eurofound report on this subject, published in 2010, ended. It looks at how in-work poverty evolved in the aftermath of the financial crisis of 2008, based on analysis of the latest data from the European Union Statistics on Income and Living Conditions (EU-SILC). While the prevalence of in-work poverty has been studied before, less is known about what it means to be one of the working poor. This report examines the social ramifications of in-work poverty by describing the well-being and living conditions of the working poor. It also looks at different measures adopted by governments to prevent or alleviate in-work poverty, especially indirect measures that improve the living standards of the working poor. These indirect measures have not received much policy attention compared with direct measures to increase incomes, such as minimum wages and social transfers.

### Keywords

European Union, in-work poverty, living conditions, well-being

### Comments

#### Suggested Citation

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# In-work poverty in the EU





# In-work poverty in the EU



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# Executive summary

## Introduction

The working poor are a substantial group in the overall poverty statistics and are estimated to constitute 10% of European workers. This report examines in-work poverty in the European Union, picking up where a previous Eurofound report on this subject, published in 2010, ended. It looks at how in-work poverty evolved in the aftermath of the financial crisis of 2008, based on analysis of the latest data from the European Union Statistics on Income and Living Conditions (EU-SILC). While the prevalence of in-work poverty has been studied before, less is known about what it means to be one of the working poor. This report examines the social ramifications of in-work poverty by describing the well-being and living conditions of the working poor. It also looks at different measures adopted by governments to prevent or alleviate in-work poverty, especially indirect measures that improve the living standards of the working poor. These indirect measures have not received much policy attention compared with direct measures to increase incomes, such as minimum wages and social transfers.

## Policy context

Preventing in-work poverty has to be seen as part of the overall goal to reduce poverty in the EU. The Europe 2020 strategy identifies unemployed people as being particularly at risk of poverty. However, getting people into work is not always sufficient to lift them out of poverty. Even before the onset of the 2008 financial crisis, a substantial number of European workers were poor. Since then, there has been growing divergence in in-work poverty rates across Member States. This divergence warrants policy attention in light of the EU's commitment to economic, social and territorial cohesion, inclusive growth and upward economic convergence for Member States. The European Commission's 2017 recommendation on the European Pillar of Social Rights explicitly recognises the need for policies and measures to tackle in-work poverty.

## Key findings

- Although it is difficult to discern clear trends, there is a link between increases in non-standard forms of employment in many countries and the expansion in the proportion of Europeans at risk of in-work poverty.

- The working poor face significantly more social problems than the population as a whole: in-work poverty is associated with lower levels of subjective and mental well-being, problems with accommodation, as well as poorer relationships with other people and feelings of social exclusion. This finding demonstrates the importance of paying specific attention to this group and better documenting the social situation of people at risk of in-work poverty.
- Most Member States do not specifically address in-work poverty, and the examples in this report show that governments and the social partners have approached the issue through the discussion of poverty more generally, with a particular focus on measures to get people into work. Consequently, the number of policies that are designed explicitly to protect or improve the situation of the working poor is limited.
- While an adequate minimum wage is a core pillar of any model of social protection for the working poor, it is clear that policy attention should rather be on minimum household income to reflect more accurately the situation of many of the working poor.
- One advantage of measures that indirectly improve the living standards of the working poor is that they help these households without necessarily having them as their main focus. Unfortunately, this can also be a significant disadvantage because the risk exists that these measures fail to reach the working poor. The impact of indirect measures as a tool to prevent in-work poverty needs to be further evaluated.

## Policy pointers

- The increase in in-work poverty during the financial crisis has had a broad social impact and is not merely a statistical issue. In-work poverty is a significant problem across Europe that requires specific policy attention from governments and the social partners.
- In most Member States, the focus lies on getting people into work. While having work generally improves people's situations, it is not in itself a remedy for in-work poverty. In fact, the focus on getting people into employment can increase in-work poverty if no attention is paid to the incomes of these workers and the households in which they live.

- The risk of poverty among people in non-standard forms of employment appears to have increased during the recession. It is important that developments in in-work poverty among these workers and their households are carefully monitored to better assess their needs and the risks that they face. These workers should have the same rights and access to social protection that workers with standard contracts enjoy.
- Considering the poverty risk that these workers face during spells of unemployment, measures are needed to facilitate the transition between jobs and to provide financial support while they are between jobs.
- Member States could learn from policies developed to assist a particularly vulnerable group of workers, those working part time through necessity rather than choice (involuntary part-time workers).
- Since housing and childcare costs may force households into poverty, it is important to take these into account when measuring in-work poverty. In the UK, for instance, housing costs are integrated into standard indicators of social reporting, and figures before and after housing costs are calculated.
- For childcare to be an effective tool in combating in-work poverty, it must reach the target group – workers with young children who have lower levels of household work intensity and less stable jobs associated with lower earnings.
- Another important factor to consider is the impact of education. The growing trend towards more high-skilled professions calls for investment in lifelong education to help people move into better-paid jobs and reduce in-work poverty in Europe in the long term.
- More policy evaluations are needed to better understand the effectiveness of indirect measures that can help to address in-work poverty.
- In-work poverty is not easy to define and measure, and this makes it difficult to understand divergent developments between different groups of workers and between countries, especially in times of rapid economic change. Anchored poverty thresholds or measures of material deprivation may provide a more simple approach for comparing in-work poverty trends over time.

# Introduction

In 2010, Eurofound published a study on in-work poverty, the same year that the European Union presented Europe 2020, its 10-year strategy for inclusive growth, which called for a reduction in poverty levels across the EU (European Commission, 2010; Frazer and Marlier, 2010). The Eurofound study provided an overview of what governments and social partners in the then 27 Member States were doing to combat in-work poverty. However, the study did not yet capture the significant impact of the financial and economic crisis that had hit European shores only two years earlier in 2008. The current report revisits the subject to examine how in-work poverty has developed since then and how governments and social partners have responded.

EU poverty statistics show large differences between countries in meeting the target to reduce poverty and social exclusion by 2020: while some countries have moved towards the target, others have moved away from it. The same goes for in-work poverty. The ‘working poor’ are a substantial group in the overall poverty statistics: the latest Eurostat figures put 10% of European workers at risk of poverty, up from 8% in 2007. To better understand these developments, it is important to monitor trends in in-work poverty in Member States and to gain an insight into the causes and potential remedies of this important part of the poverty problem.

While unemployment soared during the crisis, those who kept their jobs or emerged from unemployment often found themselves working for less pay, with fewer hours and reduced job security. Little is known specifically about what it meant to be working poor during the crisis years, making it difficult to know what kind of support these people and their families need. This report aims to address this significant gap in knowledge.

Before the crisis, in-work poverty was already a significant issue in Europe. Three mechanisms are often identified through which economic and sociodemographic factors have a direct bearing on the income status of working households (Halleröd et al, 2015). The most intuitive mechanism leading to in-work poverty is being poorly paid, and while low hourly earnings are seldom the sole cause of in-work poverty, being paid a low wage vastly increases the risk of it. Moreover, those on a low wage are more likely to live in poor housing, struggle to meet childcare costs, face

more health risks in their jobs and consequently experience stress. The second mechanism behind in-work poverty is low work intensity in the household. The third mechanism is high needs, especially having a large number of dependent children in the household. This explains why the risk of in-work poverty is higher for families, particularly single-parent families.<sup>1</sup>

When it comes to combating in-work poverty, minimum wages, social transfers and a number of indirect measures have been identified as potential options. Social transfers – such as cash benefits and tax credits for working families, child allowances and social assistance benefits – can have a significant impact. In general, they have a redistributive effect, but their impact depends on other institutional factors. While there is a lot of evidence on the impact of minimum wages and social transfers on in-work poverty, the impact of indirect measures (non-cash benefits such as childcare and other work-life balance supports, skills improvement or housing support) has not been widely researched, although these are likely to play an important role in the fight against in-work poverty. That is why this report focuses on these measures.

## Structure of the report

Chapter 1 describes the main factors that influence in-work poverty. Chapter 2 explains how in-work poverty evolved in the aftermath of the financial crisis of 2008, based on findings from an extensive review of the literature and analysis of the latest microdata from the European Union Statistics on Income and Living Conditions (EU-SILC). Chapter 3 describes the social situation of the in-work poor compared with the working-age population, looking at subjective well-being, mental well-being, accommodation and living environment, and relationships and social exclusion. Chapters 4 and 5 look at what governments and social partners are doing to combat in-work poverty and examine the role of various measures to reduce in-work poverty. Much of the information in these two chapters comes from Eurofound’s Network of European Correspondents, which covers all 28 EU Member States.<sup>2</sup> It is important to note that the information included in the report refers to the situation in Member States at the time of data collection. The questionnaire used and individual national contributions are available on request from Eurofound.

1 The same number of children is more likely to lead to poverty for one-parent families than for two-parent families, assuming that both parents work.

2 A questionnaire was circulated to all correspondents in September 2016. The depth of the contributions varies across different Member States.

## EU policy context

Preventing in-work poverty is part of the overall goal to reduce poverty in the EU. One of the headline targets of the Europe 2020 strategy was to have 20 million fewer people at risk of poverty by 2020. The strategy noted that unemployed people are particularly at risk, and as a consequence one of the main priorities has been to aim for high levels of employment, by investing in skills, modernising labour markets, training and social protection systems.

However, getting people into work is not always sufficient to lift them out of poverty. Even before the onset of the crisis, substantial numbers of European workers were poor; this points to the need for policies that ensure that work pays sufficiently well to provide a decent living and to avoid poverty. It is also why the Social Protection Committee (SPC) noted in a 2014 report that ‘in many countries dealing with poverty and making any real progress on the agenda on reducing poverty and social exclusion needs to go hand in hand with addressing the problems of the working poor’ (SPC, 2014, pp. 73–74).

The European Commission’s 2017 recommendation on the European Pillar of Social Rights refers to in-work poverty explicitly, stating that ‘adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his/her family in the light of national economic and social conditions, while safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented’ (European Commission, 2017a, Chapter II, para. 6(b)). Similarly, a recent European Parliament resolution notes that in-work poverty and absolute poverty remain unacceptably high and reiterates the importance of having a minimum income that is sufficient to help people meet their basic needs (European Parliament, 2016).

Member States have made significant progress in this regard (Eurofound, 2017b). However, the link between minimum wages and in-work poverty is complex and the impact of minimum wages on reducing poverty is debatable (Crettaz, 2011; Matsaganis et al, 2015). In this context, the concept of a living wage is increasingly being debated, as this is a wage that makes possible a minimum acceptable standard of living and participation in society. The European Economic and Social Committee (EESC) has called for an assessment of the living wage as part of an overall study examining the rapidly developing and changing nature of work and employment relationships (EESC, 2016).

In its assessment of progress towards the Europe 2020 social inclusion objectives, the European Commission saw a lack of adequate income support as a key challenge for many Member States (Frazer and Marlier, 2014). As noted earlier, the impact of non-cash (or indirect) measures on in-work poverty has received less

attention. This was picked up by the European Commission in the report *Employment and social developments in Europe 2014*, which identified the provision of benefits in-kind as an area for which future research is needed (European Commission, 2014).

One of the aims of the Europe 2020 strategy has been to promote entrepreneurship. During the economic crisis, self-employment increased, but this development has more often been out of necessity rather than stemming from genuine entrepreneurship. With some exceptions, the at-risk-of-poverty rate for the self-employed tends to be higher than for employees across the EU. This is partly due to gaps in social protection coverage. This is why, as part of the European Pillar of Social Rights, the European Commission has recommended that all workers, regardless of the type and duration of their contract, and including the self-employed, have the right to social protection (European Commission, 2017a).

Finally, the development of in-work poverty in the EU deserves particular attention because of growing divergence between Member States. The SPC identifies in-work poverty as a particular challenge in Germany, Greece, Italy, Luxembourg, Romania and Spain, but notes particularly good social outcomes in Belgium, Croatia, the Czech Republic, Denmark, Finland, the Netherlands and Slovenia (SPC, 2016). This growing divergence warrants the close attention of the EU, in light of its commitment to economic, social and territorial cohesion, inclusive growth and upward economic convergence across Member States.

## Methodological note: Measuring in-work poverty in the EU

The statistical analyses in this report are primarily based on data from the EU-SILC, which is the most frequently used data source when looking at in-work poverty across Europe. One advantage of the EU-SILC is that its harmonisation of data is conducive to comparative analysis across multiple countries with diverse labour market conditions (Bardone and Guio, 2005).

### The in-work poverty risk indicator

As part of the European Employment Strategy and the ‘open method of coordination’ on poverty and social exclusion, the EU in 2003 explicitly called upon Member States to reduce in-work poverty. That same year, a new indicator for measuring the risk of in-work poverty was added to the set of indicators the EU uses to monitor poverty and social exclusion (Eurostat, 2010). However, for a variety of reasons, several countries still apply different definitions to report in-work poverty statistics nationally. These alternative methodologies are presented in Table A1 in the Annex.

The EU-SILC in-work poverty risk indicator considers individuals to be at risk of in-work poverty when they work for over half of the year and when their equivalised yearly disposable household income is below 60% of the national household median income level.<sup>3</sup> This means that the EU-SILC definition of in-work poverty incorporates two dimensions: a definition of work and a definition of poverty. To be considered as being employed, people have to work (either for an employer or as self-employed) for at least seven months of the reference year. For the second dimension, the Eurostat at-risk-of-poverty (AROP) measure is applied. The AROP measure includes the use of the modified equivalence OECD scale<sup>4</sup> to account for economies of scale (Bardone and Guio, 2005; Horemans and Marx, 2013). The 60% threshold is intended to identify a minimum level of income necessary for individuals to obtain basic necessities relative to the societies in which they live (Horemans and Marx, 2013).

Hence, the in-work poverty rate combines an individual measure of work with a household measure of (relative) income and as such is ‘heavily dependent on household composition and household work intensity’, meaning that ‘changes over time should be interpreted in relation to changes in the poverty threshold’ (SPC, 2014, p. 72). This makes the measurement of in-work poverty challenging. While an individual’s employment conditions (wages and hours worked, for instance) may remain constant, their household income and poverty status may fluctuate as the employment conditions of others in the household change (Marx and Nolan, 2012; Cantillon and Vandenbroucke, 2014). This reflects the complexity of contemporary, more gender-equal European societies where the relationship between the earnings of an individual male breadwinner and the overall household income of dual-earners has become far from linear. Furthermore, the strict division between a stable full-time job and receipt of out-of-work benefits has become blurred (Horemans, 2016). Several types of workers, especially those not working for a full year in a full-time job, combine income from work with different types of benefits.

### Challenges with the in-work poverty risk indicator

The use of the in-work poverty risk indicator poses a number of challenges. The first relates to the criteria used to determine whether an individual is poor. The indicator is based on the concept of relative poverty. However, while the 60% threshold is commonly

adopted, it remains an arbitrary cut-off point to some degree (Crettaz and Bonoli, 2010). Furthermore, because the poverty threshold is defined in relation to median national household income, the poverty line can shift as the income of the median citizen changes. In addition, the threshold can change as a result of larger macroeconomic trends. In times of strong economic growth, median national income might increase and push up the poverty threshold. This would artificially increase the number of workers being counted as poor. Conversely, economic recession can depress national median income and so lower the poverty threshold. As a consequence, workers whose income did not change are no longer counted as in-work poor under the new threshold, creating the impression that in-work poverty is falling (Marx and Nolan, 2012). Horemans et al (2016) demonstrate the relevance of this problem by using both the 2007 and 2011 poverty thresholds to examine in-work poverty trends during the crisis. While using the 2011 poverty threshold does not reveal a clear trend in in-work poverty rates, using the 2007 threshold shows an increase for full-time workers in the countries hardest hit by the crisis.

A second challenge concerns the definition of activity status (Horemans and Marx, 2013). Using a year as a reference point has been criticised as a problematic time frame, because it can fail to capture periods of poverty for workers for whom employment is inconsistent (Marx and Nolan, 2012). The indicator counts individuals as employed only when they have worked for at least seven months in the reference year. Setting the standard at seven months may distort in-work poverty calculations by excluding a large group of workers who have weaker attachments to the labour market and frequently find themselves with periods of unemployment between jobs (Ponthieux, 2010; Crettaz, 2015). A bias against workers with weak attachments to the labour market is seriously problematic because members of this group are some of the most vulnerable (Crettaz, 2015). This critique is especially relevant for analysing in-work poverty during the recent economic crisis because employment flexibility, short-term contracts and unemployment increased during this period (Ponthieux, 2010). The potential suppression of the in-work poverty rate hinders comparative analyses, particularly in relation to countries such as Greece and Spain that experienced higher unemployment during the crisis (Crettaz, 2015). In sum, the indicator tends to underestimate the proportion of working poor, and in particular, the most vulnerable workers are often not included.

<sup>3</sup> For more information, see Eurostat (2016a).

<sup>4</sup> ‘The equivalence scale used is the OECD modified scale (1 for the first adult, other adults correspond to 0.5 equivalent adult, and each child under 14 corresponds to 0.3 equivalent adults in terms of needs); the use of an equivalence scale is necessary in order to be able to compare households of various size and composition and to account for the economies of scale in multi-person households.’ (Horemans and Marx, 2013, p. 1).

The research reported here controls for the fact that the relative poverty indicator does not show changes over time if the majority of the population is affected by also using material deprivation as an absolute indicator. The material deprivation indicator is useful in the monitoring of living standards because it helps capture the impact of the crisis on people's actual living conditions (Atkinson et al, 2017). The definition of in-work material deprivation used here is: a state where a person is classified as being in work (as above) and lives in a household that is experiencing material deprivation, which refers to 'the enforced inability to afford at least three [...] of nine [...] items' (Eurostat, 2016b). In Chapter 1, the study also considers low work intensity as a risk factor for in-work poverty. Together with the at-risk-of-poverty and material deprivation

measures, this forms the basis of the headline Europe 2020 indicator, AROPE, which monitors the target to reduce the number of people at risk of poverty or social exclusion by 20 million.

In short, this report aims to capture the continuing debate as to whether poverty should be measured by income or material deprivation, and whether the reference level should be held constant or tied to the well-being of the average citizen (Townsend, 1974; Sen, 1983; Atkinson, 1989; Glennerster et al, 2004).

Finally, for most analyses in this report, the age definition of the in-work poverty risk indicator has been extended to cover the population aged 16–64 instead of those aged 18–59.

# 1 Factors influencing in-work poverty

In order to better understand the development of in-work poverty during the crisis years, which is the subject of Chapter 2, this chapter presents an overview of the main factors that influence in-work poverty. The academic literature has paid much attention to identifying particular groups that are more likely to face in-work poverty. Individual, household and institutional factors all play a part in explaining in-work poverty in Europe (Lohmann, 2009). Spannagel (2013), for example, looks at in-work poverty by relating individual and household factors to the three core pillars of welfare provision: employment, family and public welfare. The employment dimension relates to labour market institutions, family policies relate to household composition, and public welfare to benefit and transfer policies. According to Crettaz (2013), this essentially boils down to three key mechanisms: wage rates, actualisation of work potential and household needs. These mechanisms and the interaction between them can explain why particular groups of workers face an increased risk of poverty.

Hence, the roots of in-work poverty lie in the interaction of a variety of factors at different levels, as depicted in Figure 1. The box on the left lists factors at the individual level, consisting of education, gender, age, the number of hours the individual works and the contract type, and household factors comprising the size and work intensity of the household and the presence of dependants. The box on the right lists

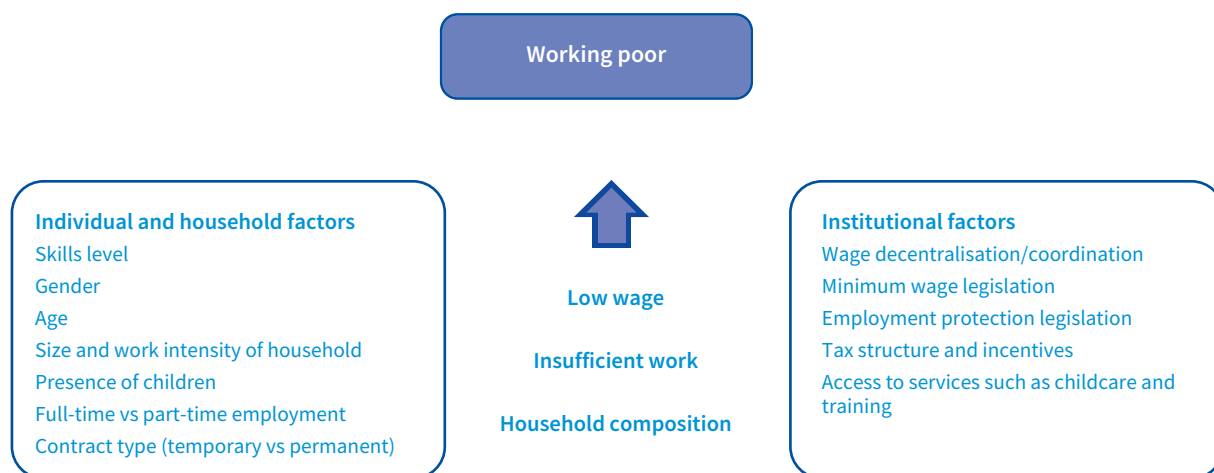
institutional factors that influence the risk of in-work poverty.

## Individual factors

Having a low wage is the most straightforward link to in-work poverty. Yet, while most individuals at risk of in-work poverty are low paid, relatively few low-paid workers experience in-work poverty. The impact of low pay on an individual's risk of in-work poverty often depends on the composition of their household. If the low-paid person is also a single earner with dependants, then the risk is high. However, if the low-paid person is the secondary earner in the household and has taken the job in order to supplement the household's income, then the risk is likely to be low (Marx and Nolan, 2012; SPC, 2014).

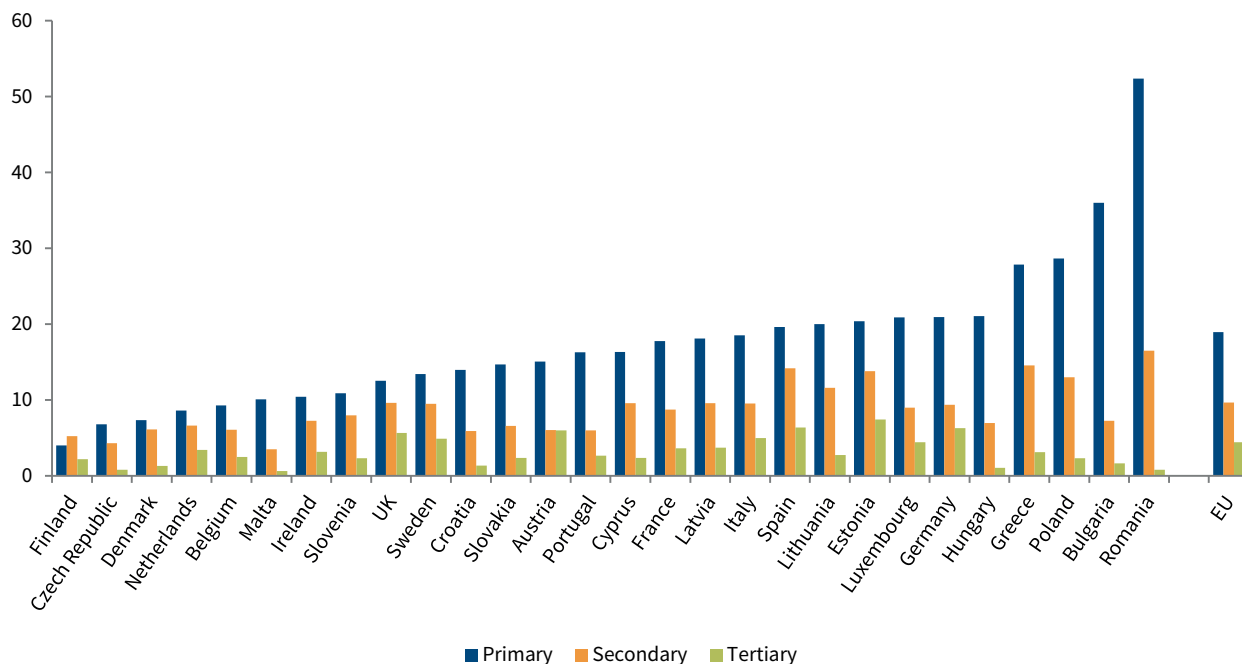
Being poorly educated increases the risk of earning low wages: 'the lower the level of qualification obtained, the higher the risk of earning low wages and, in turn, the higher the risk of being in-work poor' (Spannagel, 2013, p. 4). Figure 2 highlights the importance of education, indicating that in all EU countries except Finland, the at-risk-of-poverty rate is highest among people with the lowest level of education. The differences on the basis of education are largest in Romania, where 52% of those with primary education only are at risk of in-work poverty, compared with just 1% of those who have completed tertiary education.

Figure 1: Factors influencing in-work poverty



Source: SPC (2014)

Figure 2: Proportion of workers at risk of in-work poverty (%), by educational level, EU Member States, 2014



Source: EU-SILC 2014 microdata, weighted by PX200, all working-age people

In-work poverty risk in the EU also differs according to age and gender, but no uniform patterns exist across Member States with respect to these two characteristics. Women, for instance, tend to have a weaker labour market position. However, when they work, even as secondary earners, they contribute to the household income and so may lift insufficient main breadwinner earnings above the poverty line. Yet, because of their weaker labour market position, all other things being equal, single women typically face an increased poverty risk compared with single men (Peña-Casas and Ghailani, 2011).

Another individual factor that matters is having a migrant or ethnic minority background (Álvarez-Miranda, 2011). A recent study sheds light on the increased risk factors among first-generation migrants (Branyiczki, 2015). It shows that the average age of working immigrant heads of households is slightly lower than their native counterparts, and there are somewhat more dependent and fewer full-time employed members among immigrant households. Part-time jobs and temporary job contracts, particularly, are more widespread among foreign-born workers. The study also shows that a much greater proportion of

immigrants have elementary occupations, especially among those migrants that come from outside the EU.

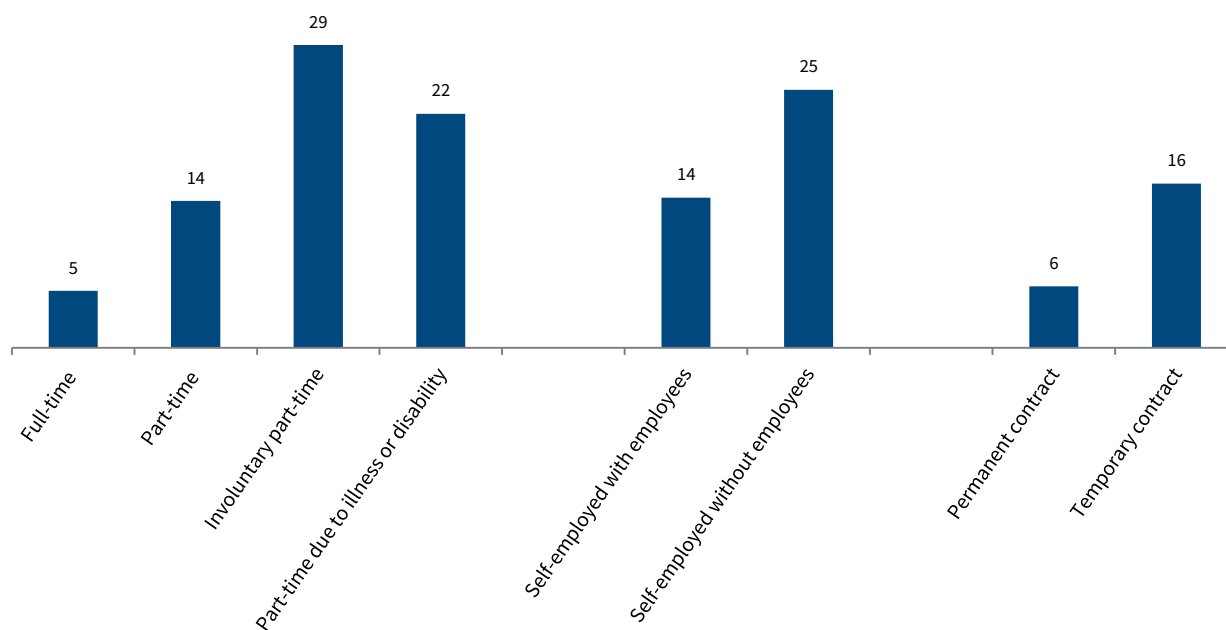
### Labour market attachment

The work intensity of the individual and the type of contract they hold are significant factors (Marx and Nolan, 2012; Horemans et al, 2016). Working part time, having a temporary contract or being self-employed increases the risk of in-work poverty. Although there is substantial cross-country variation, part-time workers face a higher poverty risk on average than full-time workers (Horemans and Marx, 2013). Part-time workers can face additional difficulties because they are precluded from many social benefits that are designed to incentivise work by limiting eligibility based on the number of hours worked (Leschke, 2007). This is especially true in countries such as the UK that emphasise ‘make work pay’ policies (Marchal and Marx, 2015).

As can be seen from Figure 3, full-time workers and those with permanent contracts are on average least likely to be at risk of in-work poverty. The highest risk is found among involuntary part-time workers (29%) and self-employed workers that do not employ staff (25%).



Figure 3: Proportion of workers at risk of in-work poverty (%), by contract type, EU, 2014



Source: EU-SILC 2014 microdata, weighted by PX200, all working-age people

Individuals who move into and out of employment also face significant risks. In fact, there are concerns that in-work poverty is mainly an underemployment problem, as the risk of poverty among individuals who are full-time employed without interruption is very low (Halleröd et al, 2015). Recent work by Horemans (forthcoming), furthermore, shows that periods spent out of work contribute especially to the difference between temporary and permanent workers.

## Household factors

The composition of the household is one of the main factors behind in-work poverty (Crettaz, 2015). The bottom part of Table 1 shows that people at risk of in-work poverty are more likely to live in a household with children than working-age people on average. In particular, they are more often single parents or coupled parents with three or more children. The upper part of Table 1 shows that in households without children, people at risk of in-work poverty are more likely to be living alone and less likely to live with one or more adults.

Table 1: Breakdown of working poor and total working-age population by household composition, EU, 2014

	Working, at risk of poverty %	Working-age population %
<b>Households without children</b>		
One-person household	18.5	12.5
Two adults, no dependent children	14.8	22.8
Other household without children	10.0	15.1
<b>Total</b>	<b>43.3</b>	<b>50.4</b>
<b>Households with children</b>		
Single-parent household	6.4	4.1
Two adults with 1 or 2 children	28.0	28.4
Two adults with 3 or more children	8.0	4.9
Other household with children	13.6	11.7
<b>Total</b>	<b>56.0</b>	<b>49.1</b>

Note: A small proportion of other household types are not shown in the table. These households are excluded from at-risk-of-poverty calculations.

Source: EU-SILC 2014 microdata, weighted by PB040 or PB060, all working-age people

What particularly influences the risk of in-work poverty is the number of adults working in the household and the household’s overall work intensity (see Figure 4), as well as the ratio between the number of working adults and the number of dependants in the household. The ability to pool different types of income at the household level is an important factor in reducing in-work poverty. However, changes in family structure over the last few decades – and especially the growing number of single-parent families – have reduced the redistributive impact of the household (Nolan et al, 2014). This also explains why single-parent households and large families (with three or more dependent children) face such a high risk of in-work poverty, as well as why the work intensity of household members matters so much.

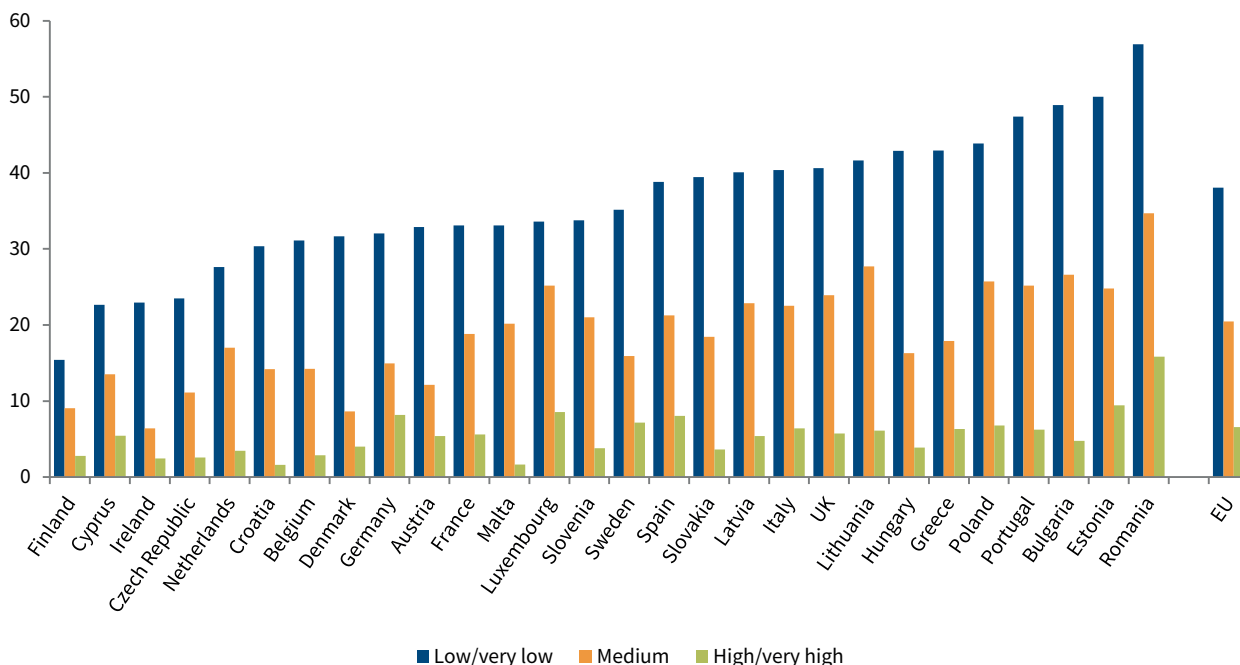
Variations between countries are more strongly related to there being a single earner and low work intensity than to low pay as such (Marx and Nolan, 2012). Two important factors that prevent households from working as much as they would like are the limited availability and affordability of childcare and the lack of access to flexible working arrangements (Frazer and Marlier, 2010). For other individual and household

factors, features specific to individual countries may influence the magnitude of their relevance and hence our understanding of why in-work poverty levels differ between countries. This is discussed in more detail below.

### Institutional factors

The list of institutional factors that potentially have an impact on in-work poverty is long, and for each of these factors there are large variations between countries. An approach based on a typology of welfare regimes aims to bundle some of the factors as an analytical tool. Two mechanisms are key in this analytical framework to come to a typology of welfare regimes: decommodification and defamilialisation. The processes of decommodification and defamilialisation identify the institutional characteristics that impact on individual and household risk factors, and by extension influence in-work poverty levels.<sup>5</sup> As institutional difference results in different in-work poverty proportions and profiles, this is important to keep in mind when considering policy options to address in-work poverty. Not all policies will work everywhere

**Figure 4: Proportion of workers at risk of in-work poverty (%), by household’s work intensity, EU Member States, 2014**



**Note:** The work intensity of a household is the ratio of the total number of months that all working-age household members have worked during the income reference year to the total number of months the same household members theoretically could have worked in the same period. The thresholds are as follows: very low work intensity: below 20%; low: 20%–45%; medium: 45%–55%; high: 55%–85%; very high: 85%+.

**Source:** EU-SILC 2014 microdata, weighted by PB040 or PB060, all working-age people

<sup>5</sup> For an overview of the ways in which decommodification and defamilialisation have been operationalised in the social policy literature, see Podestà and Marzadro (2016).

precisely because of country-specific drivers of in-work poverty (Marx et al, 2012).

### Decommodification and defamilialisation

Decommodification refers to the degree to which the individual relies on the labour market to provide for their welfare. Generally, higher levels of decommodification – meaning that the individual is less dependent on the market for their welfare – are correlated with lower levels of in-work poverty. There are three avenues through which decommodification influences in-work poverty: social transfers, labour market opt-outs and labour market regulations. Social transfers can augment the incomes of households that would otherwise be below the poverty threshold. For example, the UK combats its prevalent low wages with negative taxes for low-income workers (Connolly, 2008). Poverty alleviation for workers can also be achieved through social transfers to non-working members of the household, especially when they are not subject to means testing. In addition to directly providing income to poor households through social transfers, decommodification also gives workers an alternative to accepting low wages, allowing them to opt out of the labour market. This influences in-work poverty by changing both the incidence of low pay as well as the composition of the working population.<sup>6</sup>

Employment protection regulation influences the employment chances – and therefore the risk of in-work poverty – of particular groups. Specifically, labour market ‘insiders’ such as prime-aged men have an advantage over ‘outsiders’ such as women and young people. Furthermore, labour market institutions affect in-work poverty through their impact on wage inequality.

Defamilialisation refers to the extent to which the individual relies on the family in order to provide for their welfare. The term was initially used to understand the exclusion of women from the labour market as a result of their care obligations. More recently, defamilialisation has been applied to other groups who are sometimes marginalised by family structures, including youth and the elderly. There are two channels through which defamilialisation can influence in-work poverty – having a single earner in the household and intergenerational dependency. As discussed above, single-earner households with multiple dependants have one of the highest risk profiles for in-work poverty. One of the reasons that households with two parents and children have a single earner is the care obligations that prevent women from participation in the labour market. Therefore, welfare policies that lower barriers to female participation in the labour force (such as state-subsidised childcare) increase the number of dual-earner households, and so lower in-work poverty. Defamilialisation also influences in-work poverty through its impact on intergenerational dependency. The effect of intergenerational dependency on the overall amount of in-work poverty is somewhat unclear. As younger individuals who lack work experience fall back on their parents, they shift the in-work poverty risk to the older, often male, breadwinner. Conversely, young people leaving home and entering the workforce at a younger age puts them at higher risk, but alleviates pressure on their parents. Therefore, intergenerational dependency can shift the generational composition of the working poor.

Grouping EU Member States according to their levels of decommodification and defamilialisation yields five country clusters,<sup>7</sup> termed here Nordic, Anglo-Saxon, Continental, Southern, and Post-socialist. Table 2 provides an overview.

<sup>6</sup> Although the intent of decommodification is to protect the individual from the market, some would argue that strong social systems adversely affect poverty by reducing work incentives, leading to unemployment and inactivity traps. It is beyond the scope of this report to settle this debate. However, for an overview of the relationship between social transfers and labour supply incentives, see Moffitt (2002).

<sup>7</sup> The country classifications are taken from Van Lancker (2012), with the exception of countries in square brackets in Table 2, which are contributed by the authors. The expected in-work poverty level is taken from Lohmann and Marx (2008).

**Table 2: Influence of decommodification and defamilialisation on in-work poverty by country cluster**

Cluster	Countries	Extent of defamilialisation	Extent of decommodification	Expected in-work poverty level
<b>Nordic/social democratic</b>	[Denmark] Finland Sweden	State policies allow for extensive female labour market participation; young people are less reliant on family at early age.	Strong union density and bargaining centralisation create a compressed wage structure; the powerful social benefits system allows opt-out of labour market.	Low
<b>Anglo-Saxon/liberal</b>	Ireland UK	Lack of funding for childcare and family policy results in low female labour force participation despite availability of low-paying service sector jobs.	A weak social benefits system does not allow for labour market opt-out; weak bargaining and a deregulated labour market lead to prevalence of low-paid work.	Mixed results
<b>Continental/conservative</b>	Austria Belgium France Germany [Luxembourg] Netherlands	Wide variation of family policies; insider–outsider structure of the labour market creates barriers for women.	Strong collective bargaining protects labour market insiders; weak universal social benefits; social security based on level of contributions.	Medium
<b>Southern/familialist</b>	[Cyprus] Greece Italy [Malta] Portugal Spain	Lack of state-sponsored childcare inhibits female employment and reduces dual-earner households; intergenerational dependency puts pressure on older workers.	Labour market regulation creates an insider–outsider division; lack of employment opportunities for women and young people puts pressure on male breadwinners.	High
<b>Post-socialist</b>	Bulgaria [Croatia] Czech Republic Estonia Hungary Latvia Lithuania Poland Romania Slovakia Slovenia	Strong female labour force participation despite lack of spending on family policy for Baltic states.	Baltic states have little labour market regulation; central and eastern European states in practice have unregulated labour markets.	Mixed results

## Nordic

The group of Nordic countries (sometimes referred to as northern or social democratic) most often includes Denmark, Finland and Sweden. The group is characterised by high decommodification and defamilialisation and has the lowest levels of in-work poverty among any of the clusters. The Nordic countries have high union density and bargaining centralisation. As a result, low pay is rarely a problem, and there is comparatively little income inequality.

The Nordic cluster also combines favourable labour market conditions with a powerful social benefits system. Social benefits are universal, meaning that they are not explicitly designed to combat in-work poverty. However, they provide an opt-out of the labour market for the most vulnerable individuals who might otherwise be poor. Social transfers to non-employed household members also raise household income. Both of these factors reduce in-work poverty.

High levels of defamilialisation in the Nordic countries drive down in-work poverty by encouraging dual-earner households. Governments in the Nordic cluster encourage high levels of employment through high spending on labour activation policies. Additionally, women face comparatively few barriers to enter the workforce thanks to state-sponsored childcare systems and generous career interruption benefits. As a result of these policies, dual-earner households are prevalent within the Nordic cluster, contributing to low levels of in-work poverty. Defamilialisation not only explains why in-work poverty is low for the Nordic states, but also sheds light on the generational distribution of in-work poverty within the Nordic cluster. Specifically, in-work poverty rates are slightly higher for young people within this cluster than otherwise might be expected. Families in the Nordic welfare regime have comparatively more employment opportunities for young people, resulting in less intergenerational dependency. While the departure of young people from the family home earlier to pursue employment reduces the strain on older generations, it also increases the risk to youth of in-work poverty.

## Anglo-Saxon

The Anglo-Saxon cluster consists of Ireland and the UK and is characterised by the lowest levels of decommodification among the five clusters. For this reason, the Anglo-Saxon countries are often thought to have the highest levels of in-work poverty, although the empirical evidence suggests that they are lower than expected in both Ireland and the UK. The institutional factors that are most related to in-work poverty here are low wages combined with a social protection system aimed at minimum income protection only. The Anglo-Saxon cluster has a deregulated labour market, and collective bargaining – at least in the UK – is weak and decentralised. The Anglo-Saxon approach to reducing poverty emphasises labour activation. This is problematic since the Anglo-Saxon countries are often criticised for having weak social benefits systems. This is not to say that there are no areas in which Anglo-Saxon countries provide generous social benefits. For example, the UK provides fairly substantial in-work benefits. However, this does not provide a labour market opt-out for workers who can obtain only very low-paid work. This raises in-work poverty by pushing vulnerable groups into the labour market who otherwise would not participate in the labour force.

The Anglo-Saxon countries are also characterised by low levels of defamilialisation. Compared to the Nordic countries, there is very little spending on family policies. One could argue that the deregulation of the labour market might reduce in-work poverty by inadvertently boosting dual-earner households. The idea is that a highly deregulated labour market would create low-paid service sector jobs that allow women to participate in the workforce as the second earner in a dual-earner household. However, empirical research demonstrates that this is simply not the case, as participation rates for women in the labour force are still comparatively low, particularly in Ireland. While low-paid service sector jobs are prevalent, the lack of state-funded childcare creates a major barrier to female participation in the labour force. As a result, there is still a lack of dual-earner households, especially among the lower-skilled, with a low earnings potential to bear the cost of private childcare.

## Continental

The Continental cluster usually includes Austria, Belgium, France, Germany and the Netherlands. There is a great deal of heterogeneity, with diverse national idiosyncrasies, in this cluster, meaning that analysing the institutional features that influence in-work poverty can be messy. Countries in the Continental cluster typically have lower levels of defamilialisation but considerable decommodification. They generally understand that the state should play some role in alleviating gender-based barriers to entering work. However, there is inconsistency in the extent to which the state effectively acts on these ambitions. Often,

there are contradictory forces as breadwinner-biased taxation and social security schemes exist simultaneously with childcare and career interruption provisions. Furthermore, there is a great deal of diversity in the family policies of these countries. There is wide variation in spending on family policies, and not all states favour the male breadwinner model in their tax and social security systems. These conflicting forces make it difficult to draw a final conclusion about defamilialisation in this cluster, and muddy the observations on the institutional influences on in-work poverty.

Esping-Andersen (1996) argues that countries in the Continental regime over-reacted to the economic downturn in the 1990s and underwent reforms that protected male breadwinners at the expense of marginalised groups. The continuing relevance of the male breadwinner model contributes to generally lower levels of defamilialisation in the Continental cluster compared with the Nordic countries. The male breadwinner model is in fact part of a larger insider–outsider dynamic that characterises decommodification in these countries. Welfare benefits and labour market regulations privilege those who are already employed and adequately paid, at the expense of labour market outsiders such as young people, women and migrants. Consequently, in-work poverty levels for marginalised groups are expected to be higher in this cluster.

In terms of wages, the Continental welfare regime is somewhere in between the Anglo-Saxon and Nordic clusters. There is strong and pervasive collective bargaining, which results in a relatively low incidence of low-paid work. However, this does not apply to the low-skilled and temporary contract work that goes to labour market outsiders. While income maintenance is fairly strong, it is often tied to labour market status. Similarly, labour market regulations are very beneficial for full-time workers, but the labour market is relatively unregulated for the type of work that is common for labour market outsiders. Overall, the Continental cluster has a great deal of labour market segmentation. Although there is a universal safety net, it is not strong enough to provide an effective opt-out of the labour market. In fact, social security benefits have negligible redistributive power because they are tied to contributions, which vary with earnings.

## Southern

The Southern cluster usually contains Greece, Italy, Portugal and Spain and tends to have some of the highest in-work poverty levels in Europe. Some aspects of the labour market, such as dismissals, are strongly regulated in a way that protects those who already have a job. However, as is the case with the Continental cluster, other aspects of segments of the labour market that are typically inhabited by marginalised workers – young people, low-skilled workers and women, for instance – are much less protected. This creates the

same kind of insider–outsider effects that are observed in the Continental cluster. The structural advantages for labour market insiders, combined with a relative lack of spending on labour activation policies, make it relatively difficult for women and young people to enter the workforce. This depresses the level of dual-earner households and can put more strain on household breadwinners, thus increasing the risk of in-work poverty.

Although the Continental and Southern clusters are similar in terms of decommodification policies, the Southern states are characterised by lower levels of defamilialisation. They spend less on family policies and lack adequate affordable childcare provision. Combined with cultural norms, this makes it more difficult for women to enter the labour force. Throughout the Southern cluster, female workforce participation rates are low, and single-earner households are prevalent, increasing the risk of in-work poverty. The insider–outsider labour market division, combined with a limited welfare system, means that young workers are often forced to fall back on their parents. This intergenerational dependency is demonstrated quantitatively by the fact that Southern countries tend to have larger households than their Nordic counterparts. While it is clear that having a single earner increases in-work poverty, the effects of intergenerational dependency are more ambiguous. While family solidarity can lead to a so-called accumulation of breadcrumbs, as family members benefit from pooling resources (Trifiletti, 1999), increased intergenerational dependency can also put more strain on household breadwinners. Unlike the Nordic cluster, in which young people experience higher risks as a result of early independence, the Southern

cluster is characterised by higher risks for both men and older workers. Thus, the lack of defamilialisation in Southern countries shifts the risk of in-work poverty from younger generations to older ones.

### Post-socialist

The Post-socialist classification is the most recent addition to the typology of welfare regimes. It is the largest and most diverse group, typically including Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These countries share a common history of communist rule and have all experienced a process of deregulation and labour flexibility reforms (Cerami, 2008). However, researchers tend to differentiate between the central and eastern European countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) and the Baltic states (Estonia, Latvia and Lithuania) (Bohle and Greskovits, 2007; Fenger, 2007). The Baltic states have followed the example of the liberal Anglo-Saxon economies, with comparatively low levels of decommodification and a focus on labour market deregulation. Despite the absence of significant spending on family policies and childcare provision, the Baltic states achieve relatively high levels of female employment. The central and eastern European countries cannot be easily aligned with any of the other welfare regimes. While they have social benefit policies, they are combined with Anglo-Saxon-style privatisation (Cazes and Nešporová, 2003; Cerami, 2008). They have decommodification in the form of strong employment protection legislation for standard workers. However, these provisions are often ignored by employers (Saar, 2005). The result is a peculiar mix of decommodification in law, but Anglo-Saxon-style deregulation in practice (Van Lancker, 2012).

## Summary

This chapter has described the constellation of individual, household and institutional factors that influence in-work poverty and make it a complex issue that requires careful analysis. Among the individual factors, low pay would appear to be the most obvious cause of in-work poverty, but relatively few low-paid workers experience poverty. The composition of the household is a key determinant: if the low-paid person is also a single earner with dependants, then the risk is high.

What influences the risk of in-work poverty particularly is the number of adults working in the household and the household's overall work intensity as well as the ratio between the number of working adults and the number of dependants in the household.

Two key concepts in assessing the role of institutional factors on in-work poverty are decommodification and defamilialisation. Decommodification is the degree to which the individual does not rely on the labour market to provide for their welfare, while defamilialisation is the extent to which the individual does not rely on the family for their welfare. Generally, higher levels of both are correlated with lower levels of in-work poverty.

## 2 The development of in-work poverty since 2007

### Impact of the economic crisis on in-work poverty

When Eurofound examined the situation of the working poor in Europe in 2010, the early days of the financial and economic crisis, the full scale of the latter's impact was still largely unknown. Unsurprisingly, the study found differing situations between countries because the starting point and extent of the crisis was not the same in each country. A study by Marx and Nolan (2012) confirmed this, finding no significant increase in in-work poverty between 2006 and 2010. Furthermore, the authors pointed out that only 6 of the 27 Member States experienced a marked increase in the in-work poverty rate, while it fell in a number of others.

So far, few studies have analysed in-work poverty during the economic crisis and 'little is known about the impact the crisis has had on working poverty with a few notable exceptions' (Crettaz, 2015, p. 312).<sup>8</sup> The general paucity of research on in-work poverty during the economic crisis is itself an important finding and underlines the value of further research on this topic.

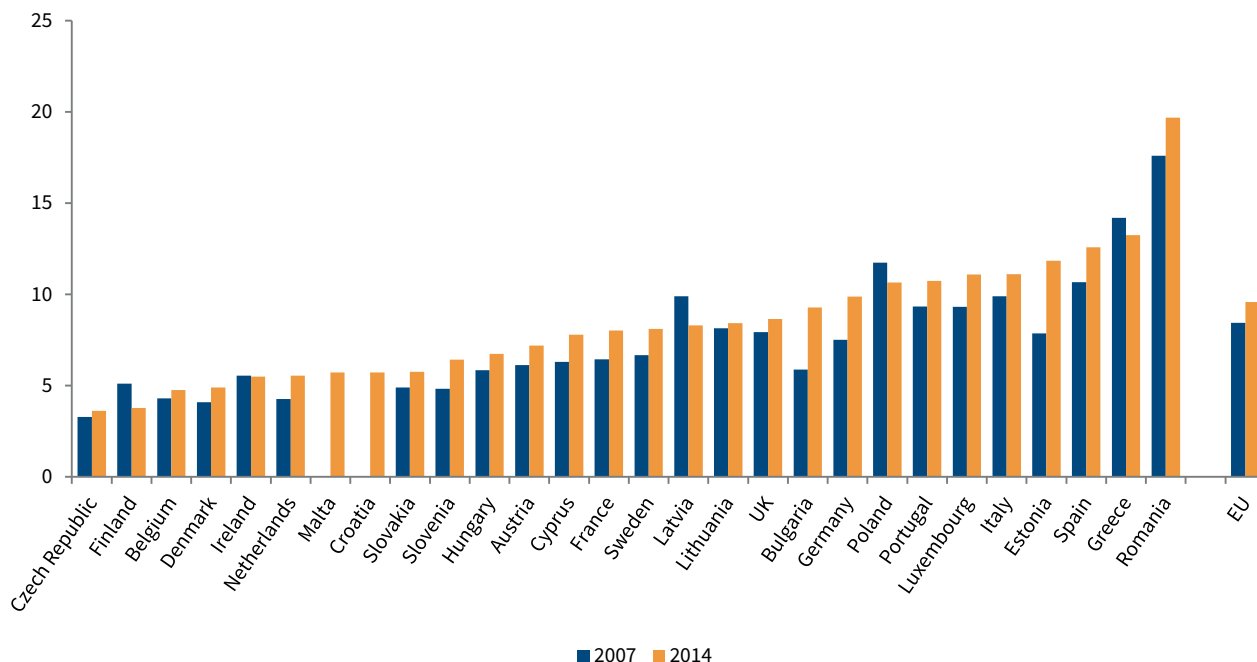
This report picks up where the previous Eurofound report ended and begins with a comparison of in-work poverty levels in 2007 and 2014. Although 2007 data were also covered by the previous report, it was decided to pick up the story from here because the 2007 data capture the situation of workers in 2006, just before the crisis began. And 2014 data were chosen because at the time of writing 2015 data were not yet available for all Member States; the 2014 data reflect the income situation for workers in 2013. In some countries, the financial crisis had ended by that point, while in others it had not, and employment and social impacts were still evident, but in all countries, the crisis had, to various degrees, left its mark.

Given the mechanisms that drive in-work poverty – including low wages and low work intensity – one would expect to have found it increasing during the crisis. An economic downturn could depress wages and decrease the number of hours employers pay for work, both of which would increase in-work poverty. Rises in unemployment would also adversely influence in-work poverty by decreasing the number of earners in a household. Furthermore, austerity measures could lead to the reduction of social transfers, further decreasing household income (Crettaz, 2015). Yet, even post-crisis, and despite the seemingly obvious relationship between (in-work) poverty and hard economic times, the story of in-work poverty during the crisis years is far from simple.

There are many reasons for this complexity. For one, during the crisis many people went from being in-work poor to being unemployed. Where no rise was noted, it could be that the people who generally lost their jobs were already in-work poor (Marx and Nolan, 2012; Crettaz, 2015). Another reason is that actual rises in in-work poverty may be hidden when using the relative at-risk-of-poverty measure because this fails to account for changes in the poverty threshold that come from falling national income levels. When one holds the poverty threshold at the pre-crisis level, then a general increase in in-work poverty across the EU is found (Horemans et al, 2016). When increases in the proportion of workers who are at risk of poverty are noted, this may be due to a reduction of people's working hours and type of work as a consequence of the crisis rather than a large increase in unemployment. In other words, the work of these people became more marginal, and the difference between unemployment-related poverty and in-work poverty becomes less distinct.

<sup>8</sup> In-work poverty is not in itself a crisis-induced phenomenon but rather a by-product of processes of globalisation and changing demographic composition and labour market policies (for example, Branyiczki, 2015; Giesselmann, 2015). The focus of this section, however, is on developments since the onset of the crisis.

Figure 5: Proportion of workers at risk of in-work poverty (%), by EU Member State, 2007 and 2014



Note: Croatia and Malta were not included in the survey in 2007. EU values exclude these countries. Source: EU-SILC 2007 and 2014 microdata, weighted by PB040 or PB060, all working-age people

### Changes in in-work poverty risk, 2007–2014

Figure 5 shows changes in the relative in-work poverty risk indicator between 2007 and 2014 for each Member State.

As can be seen from Figure 5, in most countries, the risk of in-work poverty in 2014 was higher than it was in 2007, but there is no particular pattern in the direction of changes in in-work poverty across the EU. The largest increases occurred in Estonia (4%), Bulgaria (3.3%) and Germany (2.4%), of which Bulgaria and Estonia in particular saw large rises in median-equivalised net income levels between 2007 and 2014 (Eurostat, 2016a). The fact that in-work poverty was lower in 2014 than it was in 2007 in countries such as Greece and Ireland reflects the significant drop in median incomes rather than an improvement in the situation of those classified as working poor. In other words, while holding a job may have become more important for people’s relative income situation in these countries, their actual living standards may have reduced in a similar way as for the entire population. What it means in reality to be working and poor is further discussed in Chapter 3.

### Moving beyond the relative measure of in-work poverty

An often-used method to account for the effect of a general drop in median incomes during the crisis is to anchor the poverty threshold at pre-crisis levels, that is, to adjust the pre-crisis threshold for inflation and apply it to post-crisis data. Using a fixed poverty threshold provides a more comprehensive picture of the development of in-work poverty during the crisis, showing that in the countries hit hardest by the crisis, poverty went up (Horemans et al, 2016).

As noted in the Introduction, the relative in-work poverty risk indicator is complemented in this report by the in-work material deprivation indicator. When measured by relative income, data for 2014 show that the proportion of workers experiencing in-work poverty in the EU was 9.6% (Figure 5). However, if deprivation is used to measure in-work poverty, considerably more workers are included (12.8%).

Figure 6 shows developments for both indicators between 2007 and 2014. The rate of material deprivation among workers fell most in Bulgaria, while the risk of in-work poverty increased. Conversely, Greece and Ireland witnessed the largest increases in the rate of material deprivation among workers, whereas the risk of in-work poverty barely changed.



**Figure 6: Percentage point change in the at-risk-of-poverty rate and material deprivation rate for workers, EU Member States, 2007–2014**



**Note:** Croatia and Malta were not included in the survey in 2007. EU values exclude these countries.

**Source:** EU-SILC 2007 and 2014 microdata, weighted by PB040 or PB060, all working-age people

Even though there are countries where the situation for both indicators is worse in 2014 compared with 2007, what becomes clear is that for the majority of Member States, the development of in-work poverty during the crisis differs depending on which indicator is selected. By its absolute nature, the material deprivation indicator is less affected by changes in the median income, whereas the relative poverty risk indicator does not show decreases or increases over time if the majority of the population is affected.

### Changes in in-work deprivation, 2007–2014

There are also diverging trends in changes in the rate of in-work material deprivation between 2007 and 2014 (Figure 7). In some countries, where deprivation was relatively common among workers, such as Bulgaria, Latvia, Poland, Romania and Slovakia, the rate decreased. Unlike the picture provided by the in-work poverty risk indicator, the continuing crisis resulted in an increase in deprivation among the working

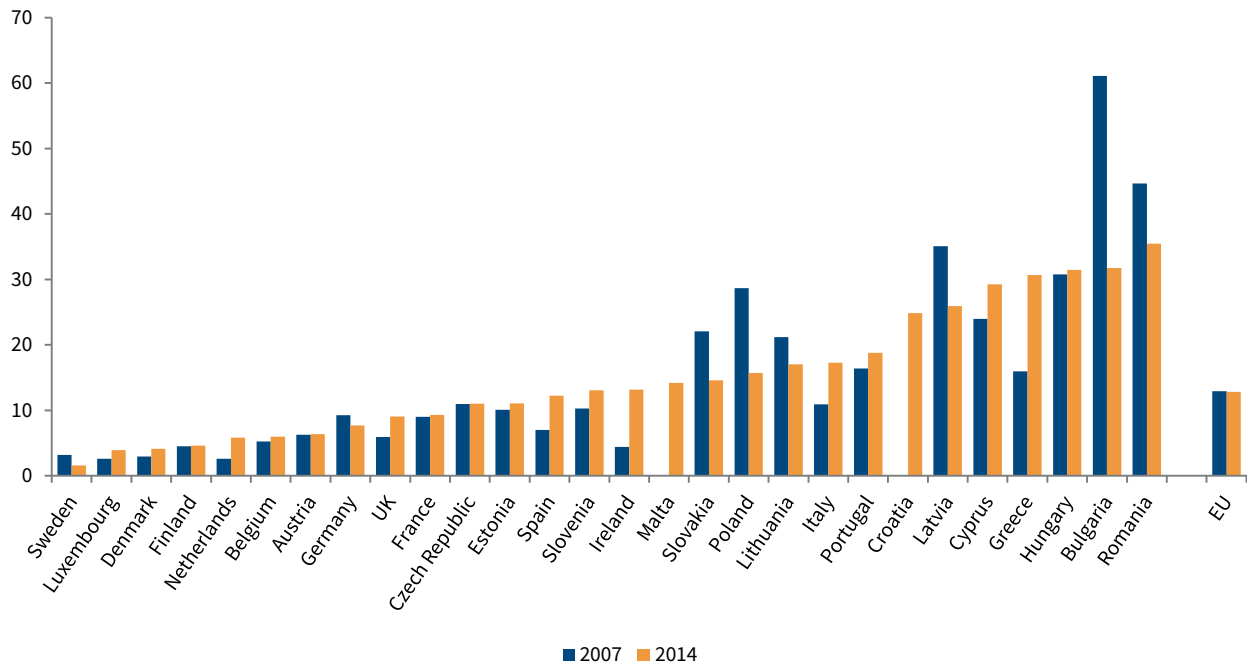
populations of Greece and Ireland. Other countries where deprivation among workers increased by 3 percentage points or more between 2007 and 2014 are Italy (+6.3 percentage points), Spain (+5.3 percentage points), Cyprus (+5.2 percentage points), the Netherlands (+3.2 percentage points) and the UK (+3.1 percentage points).

### Changes in non-standard employment and self-employment

In many countries increases have been recorded in non-standard employment and self-employment<sup>9</sup> which may have contributed to the divergence in the evolution of in-work poverty seen during the crisis. Research shows that the in-work poverty trends can be explained by looking at changes in the structure of the labour market. Hence, the increased incidence of non-standard

<sup>9</sup> This report follows the distinction made between non-standard employment and self-employment applied by the European Social Policy Network, which distinguishes a) salaried employment comprising standard employment (full-time, permanent contracts) and non-standard employment (for example, part-time work, temporary contracts and zero-hour contracts); and b) self-employment (see Spasova et al, 2017, p. 20).

Figure 7: Proportion of workers experiencing material deprivation (%), EU Member States, 2007 and 2014



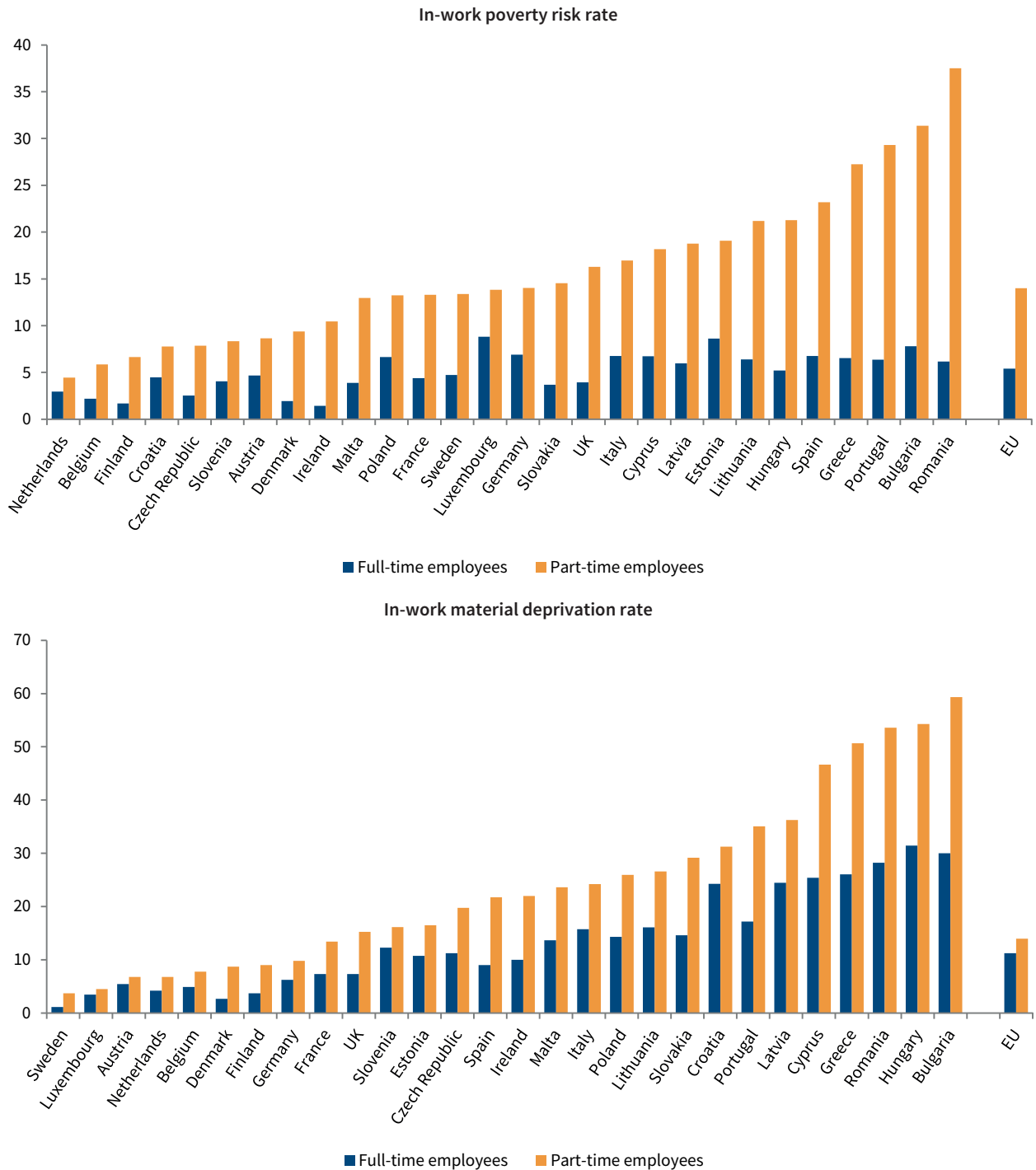
Note: Croatia and Malta were not included in the survey in 2007. EU values exclude these countries.  
 Source: EU-SILC 2007 and 2014 microdata, weighted by PB040 or PB060, all working-age people

employment and self-employment is especially relevant (Herman, 2014; Heyes and Lewis, 2014; Halleröd et al, 2015). Moreover, these forms of employment tend to be clustered in certain households (Horemans, forthcoming). This section explores changes in non-standard employment and self-employment during the crisis years among three specific groups of workers – (involuntary) part-time workers, people on temporary contracts and the self-employed – and looks at changes between 2007 and 2014 in in-work poverty levels for each group. Before doing so, there is a comparison between the in-work poverty situation of non-standard workers and the situation of those working under standard conditions.

### Comparing in-work poverty according to employment contract

The two panels of Figure 8 show the proportion of employees at risk of in-work poverty and experiencing material deprivation, respectively, broken down by full- and part-time workers. In all countries, part-time workers are more likely than full-time workers to be at risk of in-work poverty and to report being materially deprived.

Figure 8: In-work poverty risk and material deprivation rates (%), by full-time and part-time status, EU Member States, 2014

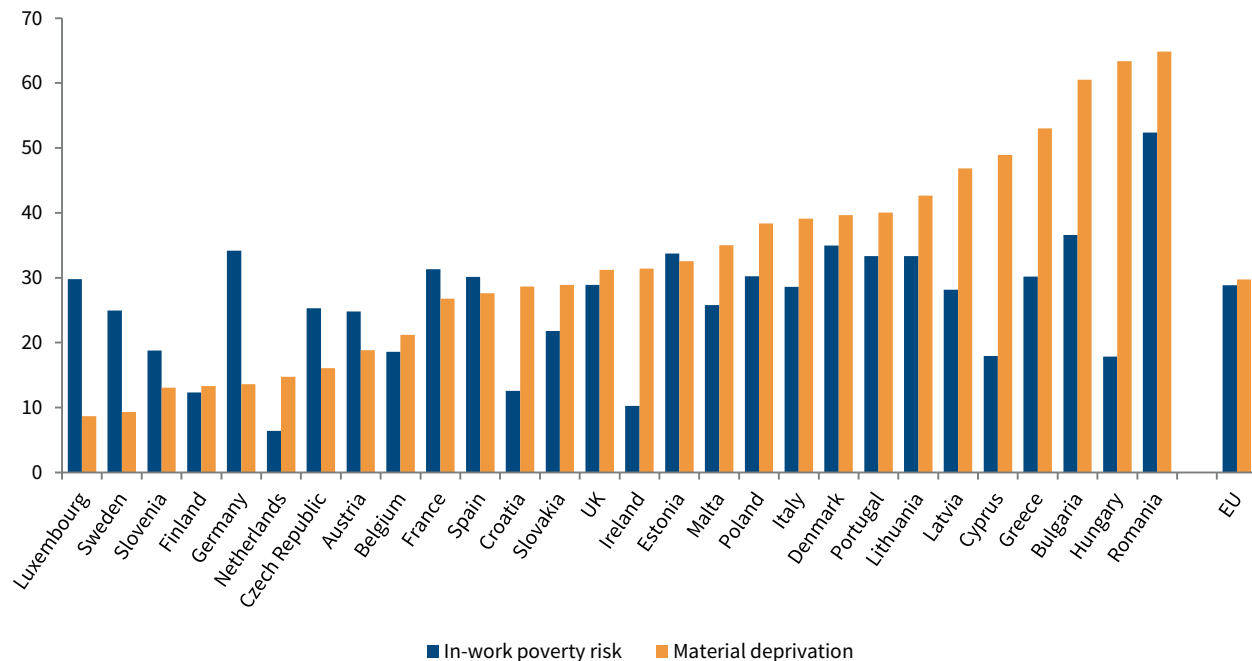


Source: EU-SILC 2014 microdata, weighted by PX200, all working-age people

Figure 9 shows the at-risk-of-poverty rate and the material deprivation rate among involuntary part-time workers. ‘Involuntary part-time work’ is defined as

working part time when one would prefer to work full time but is unable to find a full-time job.

**Figure 9: In-work poverty risk and material deprivation rates (%), involuntary part-time workers, EU Member States, 2014**



Source: EU-SILC 2014 microdata, weighted by PX200, all working-age people

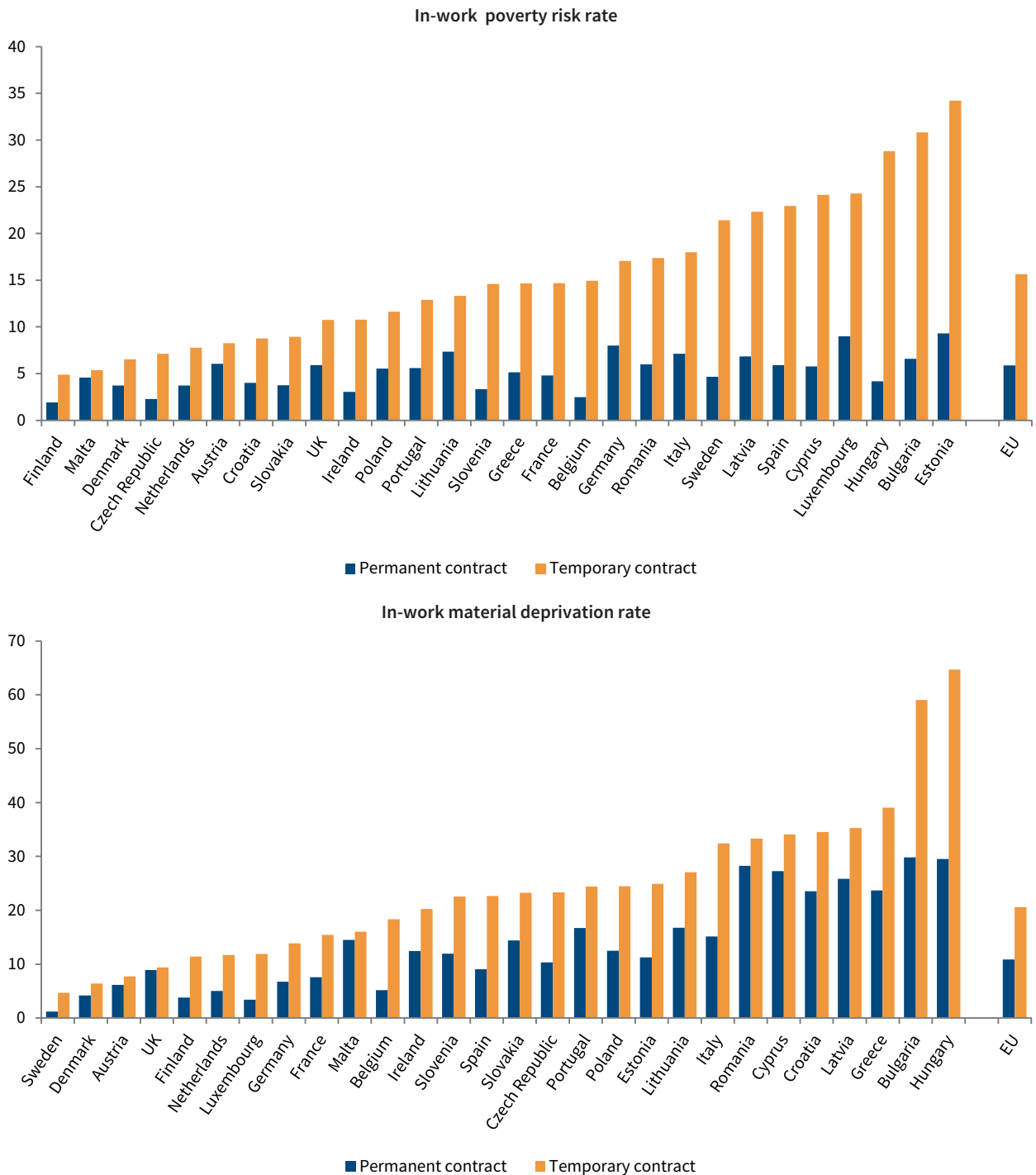
Figure 9 indicates a high at-risk-of-poverty rate for involuntary part-time workers in many of the northern and continental countries, such as Austria, Denmark, France, Germany, Luxembourg and Sweden, which is much higher than the average in-work poverty risk rate in these countries. The deprivation rate among involuntary part-time workers is highest in Bulgaria, Hungary and Romania, and also affects around half of these workers in Cyprus and Greece. Bulgaria and Romania also have the highest at-risk-of-poverty rates.

The at-risk-of-poverty rate among workers on temporary contracts is higher than it is for their counterparts on permanent contracts in all Member

States (Figure 10, upper panel). The rate is particularly high in Estonia (34%). The figure also shows that in countries such as Luxembourg and Sweden, the at-risk-of-poverty rate is much higher among temporary workers than it is on average for workers in these countries.

In all Member States, workers on temporary contracts are also more likely to experience material deprivation than their counterparts on permanent contracts (Figure 10, lower panel). The frequency of material deprivation is particularly widespread among temporary workers in Bulgaria (59%) and Hungary (65%).

Figure 10: In-work poverty risk and material deprivation rates (%), by contract type, EU Member States, 2014



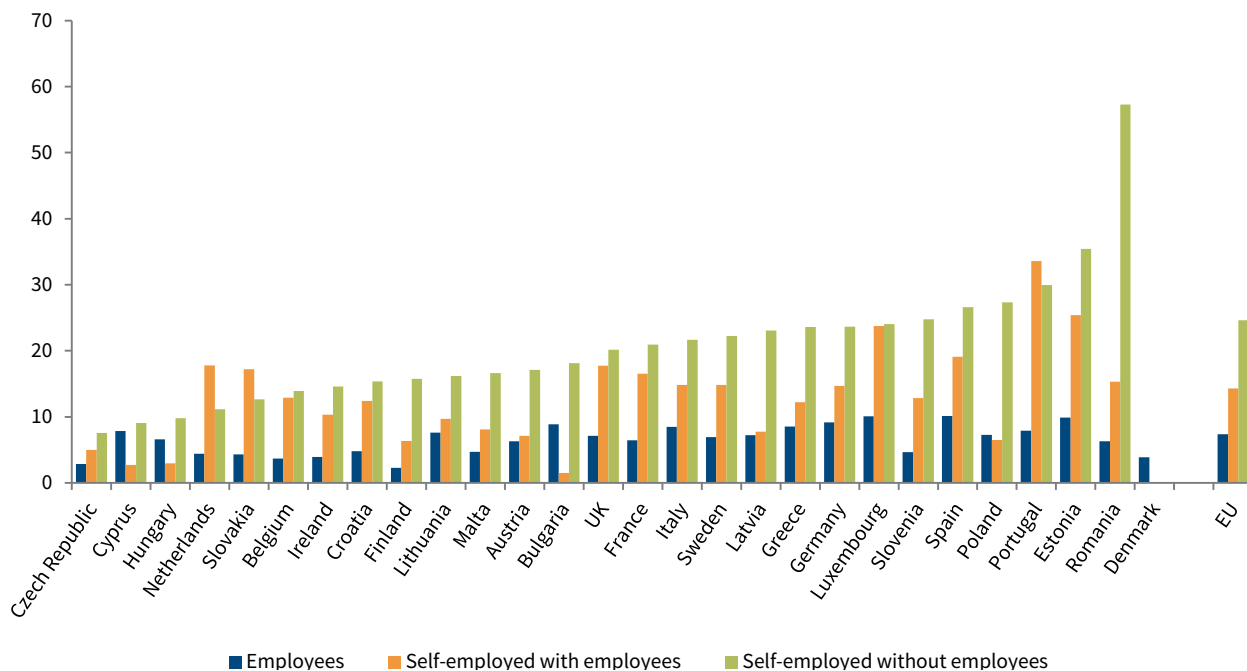
Source: EU-SILC 2014 microdata, weighted by PX200, all working-age people

Finally, when looking at self-employed workers and using the in-work poverty risk indicator, Figure 11 shows that in all countries, the self-employed are more often at risk of in-work poverty than employed workers.<sup>10</sup>

In the majority of countries, self-employed workers without employees are more likely to be at risk than self-employed workers with employees. The exceptions are the Netherlands, Portugal and Slovakia.

<sup>10</sup> Material deprivation is a problematic measure for the self-employed because wealth accumulation, which is often intertwined with business income, is not taken into account in the indicator, yet it increases spending power and this limits material deprivation. Studies show that when material deprivation instead of relative income poverty is used as a metric of poverty, the self-employed are identified as a smaller share of the poor. This could suggest that income levels are less valid measures of poverty for the self-employed (Marx and Nolan, 2012; Johansson Sevä and Larsson, 2015).

Figure 11: In-work poverty risk rates (%), self-employed and employees, EU Member States, 2014



Note: Denmark has no information on self-employed workers in the dataset.  
 Source: EU-SILC 2014 microdata, weighted by PX200, all working-age people

### Involuntary part-time work

With the onset of the economic crisis, Europe witnessed a combination of growing levels of part-time work and diminishing levels of full-time work. Exceptions aside (for example, Germany), the shift to part-time work was most extreme in countries that were hardest hit by the crisis (Horemans and Marx, 2013). In part, the explanation for this development is structural: growing service sectors tend to have more diversified work-time requirements and tend to employ more part-time workers. There is also evidence of a cyclical component as employers hire or retain staff on a part-time basis in a context of reduced labour demand (Eurofound, 2017a).

Furthermore, the contraction of employment during the crisis created a dramatic increase in involuntary part-time work (European Commission, 2014). The proportion of workers in the EU who reported that they were working part time involuntarily increased from 23% in 2007 to 30% by 2013. As Figure 12 shows, a diverging trend can be observed. In Belgium, Estonia and Germany, the rate decreased between 2007 and 2014, whereas in most other countries, it increased substantially. Note that in several countries, such as Denmark, Estonia, Germany, Hungary, Ireland, Latvia, Lithuania, Slovenia and the UK, there was a small decline between 2013 and 2014, whereas in many countries it continued to increase. However, these changes are rather small and have occurred over too limited a time period to speak of a structural change in the trend.

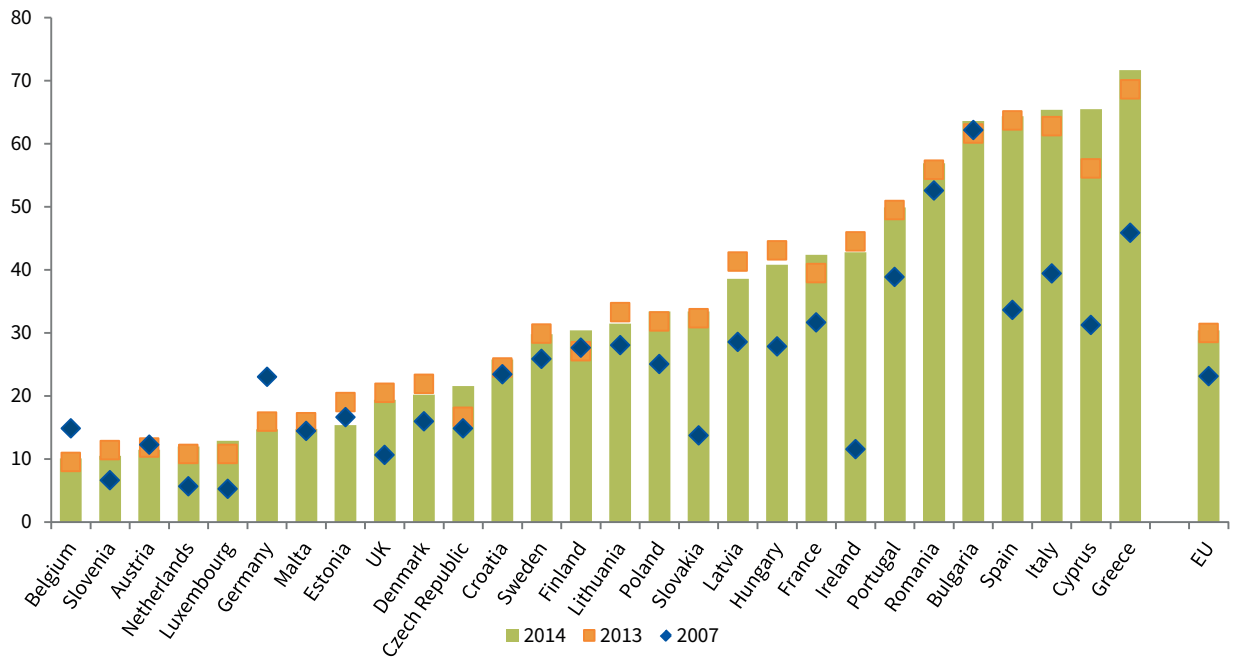
Figure 12 illustrates that the countries that suffered the most as a result of the economic crisis also saw the

largest growth in involuntary part-time employment (Leschke, 2012; Horemans et al, 2016). Recent research by Eurofound, based on data from the EU Labour Force Survey data from 2008 to 2015, corroborates these findings (Eurofound, 2017a). This research shows that in countries where the unemployment rate increased most (Cyprus, Greece and Spain), there was a strong likelihood that the involuntary part-time share also grew significantly. Similarly, the Member State with the largest fall in unemployment – Germany – saw the sharpest decline in the proportion of involuntary part-time workers. The same Eurofound study also examines the job characteristics of involuntary part-timers, showing that they are more likely to have started their current job within the last year and to work in basic or lower-level service occupations and sectors (for example, household work) and that when controlling for other factors, they are more likely to be male than female (Eurofound, 2017a).

On average, the at-risk-of-poverty rate among involuntary part-time workers increased by 5 percentage points between 2007 and 2014, from 24% to 29%. However, there are large variations between countries, and as Figure 13 shows, there is only a weak correlation between the two measures. Figure 13 highlights the issues that arise when comparing countries using the relative in-work poverty measure in times of rapid change.

The relative poverty risk of involuntary part-time workers increased most in Bulgaria (+19 percentage points), Estonia (+15 percentage points), Germany (+13 percentage points) and France (+12 percentage

Figure 12: Involuntary part-time work as a share of all part-time work (%), EU Member States, 2007, 2013 and 2014

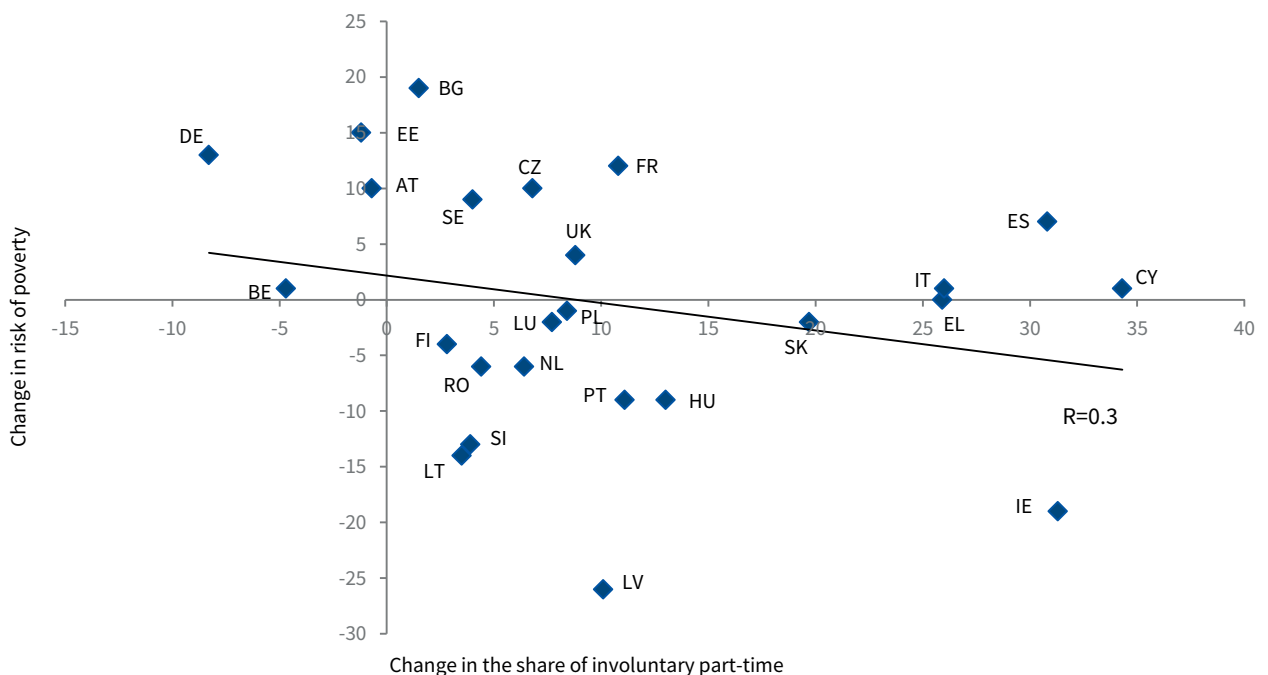


Note: Data refer to 20–60 year-olds.  
Source: European Commission (2016), chart 2.4

points), with five other countries registering an increase of between +4 percentage points and +10 percentage points. Conversely, the most significant improvement was recorded in Latvia, where the risk of in-work poverty fell from 54% in 2007 to 28% in 2014. Other

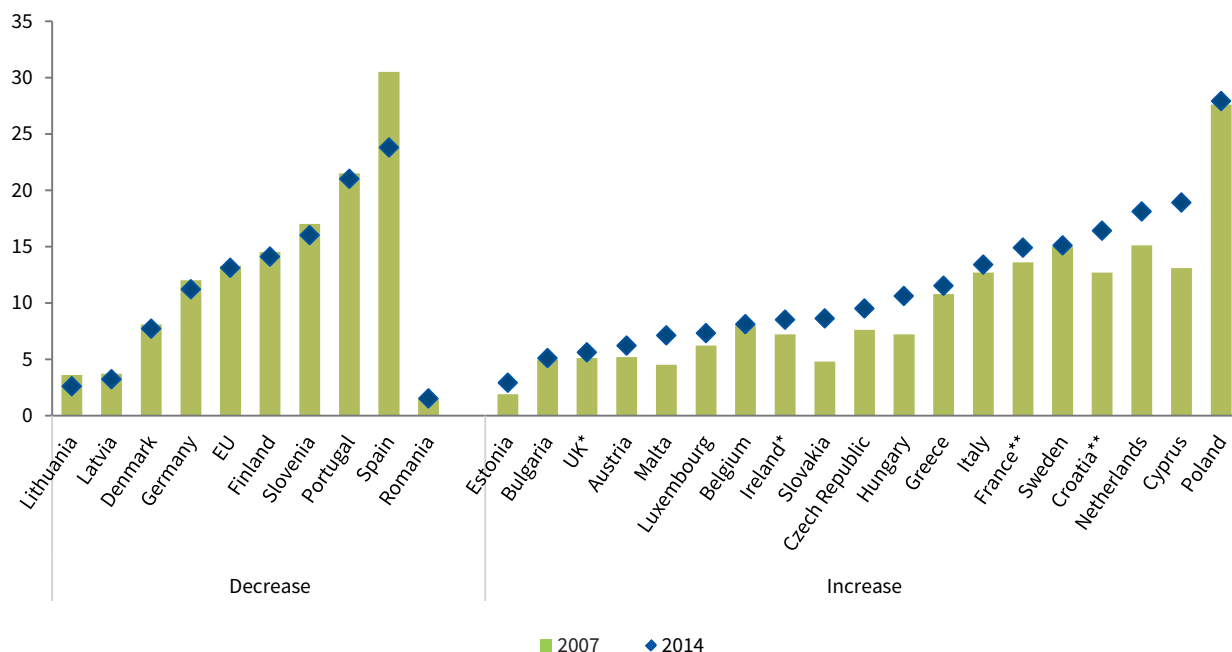
countries where the relative poverty risk decreased significantly are Ireland (-19 percentage points), Lithuania (-14 percentage points), Slovenia (-13 percentage points), Hungary and Portugal (both -9 percentage points), Romania (-6 percentage points) and Finland (-4 percentage points).

Figure 13: Percentage point change in the share of involuntary part-time workers and the risk of poverty for involuntary part-time workers, EU Member States, 2007–2014



Note: No data for Croatia, Denmark and Malta.  
Source: EU-SILC, authors' calculations

Figure 14: Temporary employment contracts as a share of all employees (%), EU Member States, 2007 and 2014



Note: \* Break in time series in 2007; \*\* Break in time series in 2014.  
 Source: European Commission (2016), chart 2.7

An examination of changes in the material deprivation indicator between 2007 and 2014 for involuntary part-time workers again points to a great deal of divergence between countries. There are 10 countries where the proportion of involuntary part-time workers reporting material deprivation increased between 2007 and 2014, with the largest increases reported in Greece (+32 percentage points), Hungary (+17 percentage points) and the UK (+10 percentage points). In some of these countries, as shown earlier, involuntary part-time work increased during the crisis. However, there are also countries where involuntary part-time work increased but where material deprivation among this group fell. Spain is a case in point: despite the rise in involuntary part-time work, the material deprivation rate among these workers fell from 21% in 2007 to 14% in 2014.

### Temporary employment contracts

In 2014, 14% of all employees had temporary contracts, but the prevalence of temporary work varies widely. Although overall the proportion of workers with temporary employment contracts slightly decreased in the EU between 2007 and 2014, Figure 14 shows that increases were recorded in 19 of the 28 Member States. The largest increases are found in Croatia, Cyprus, Hungary and Slovakia. The largest decrease occurred in Spain (-6.7 percentage points), which is likely to be due to the fact that many workers on temporary contracts lost their jobs at the beginning of the crisis (European Commission, 2016).

Overall, the in-work poverty risk rate among temporary workers increased from 13% in 2007 to 16% in 2014. The largest increases were recorded in Estonia (+25 percentage points), Bulgaria (+17 percentage points) and Hungary (+16 percentage points), and in 10 further Member States, increases of 4 percentage points or more were recorded. The relative at-risk-of-poverty rate among temporary workers was more than 3 percentage points lower in 2014 than in 2007 in Finland, Greece and Lithuania (all -4 percentage points).

Material deprivation among temporary workers increased most in Greece between 2007 and 2014, from 14% to 39%. Increases of more than 10 percentage points occurred in Hungary (+18 percentage points), Spain (+12 percentage points), and Italy and Ireland (both +10 percentage points).

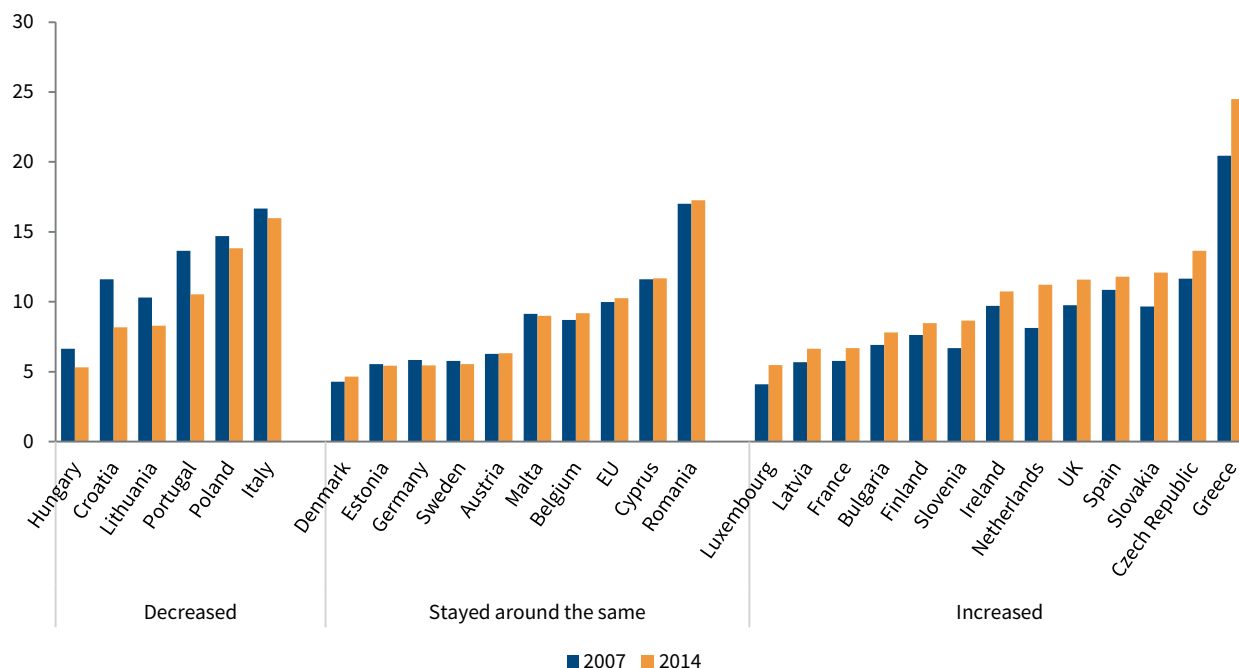
The strong overall improvements in the in-work material deprivation rates in Bulgaria and Romania also benefited temporary workers. In both countries, the proportions of these workers reporting material deprivation fell significantly between 2007 and 2014 (both -18 percentage points).

### Self-employment

Eurofound (2017a) shows a link between self-employment and involuntary part-time work: 16% of involuntary part-time workers working very short hours are self-employed, and this share has increased by 4 percentage points since 2008.



Figure 15: Self-employed workers without employees as a share of all workers (%), EU Member States, 2007 and 2014



Source: Eurostat, Labour Force Survey 2007 and 2014

The proportion of self-employed workers without employees as a share of all workers did not change between 2007 and 2014 in the EU. However, as Figure 15 shows, in about half of Member States, the proportion of self-employed workers without employees as a share of all workers rose, with the largest increases in absolute terms recorded in Greece (+4 percentage points) and the Netherlands (+3 percentage points). It is this group that on average faces the most substantial poverty risk (Conen et al, 2016).

Studies consistently demonstrate a strong and positive link between self-employment and in-work poverty. An increased prevalence of self-employment is seen as one of the main determinants of in-work poverty during the crisis (Lohmann and Marx, 2008; Crettaz, 2011; Herman, 2014; Halleröd et al, 2015).<sup>11</sup> In fact, Halleröd et al (2015) report that the self-employed make up almost 40% of Europe's working poor. On average, the relative poverty risk of the self-employed is three times higher than that

of salaried workers, and in some countries (for example, Finland, Romania and Slovakia), it is more than six times as high (Spasova et al, 2017).

On average, the risk of in-work poverty among self-employed workers without employees went up from 23% in 2007 to 25% in 2014, with increases of 3 percentage points or more recorded in Bulgaria (+13 percentage points), Romania (+11 percentage points), Germany (+9 percentage points), Luxembourg (+8 percentage points), Slovenia (+6 percentage points), Austria (+5 percentage points), Belgium and Cyprus (both +4 percentage points), and Italy, Portugal and Sweden (all +3 percentage points). However, once again a pattern of divergence is visible as there are also countries where the risk of in-work poverty among the self-employed without employees fell by 3 percentage points or more. These countries are Lithuania (-8 percentage points), Hungary (-5 percentage points), Finland and the Netherlands (both -4 percentage points), and Spain (-3 percentage points).<sup>12</sup>

<sup>11</sup> It is widely recognised that studies need to distinguish self-employment from normal wage employment. This is because in-work poverty among the self-employed has distinct characteristics, as well as the fact that survey data on wages and hours are less reliable for the self-employed (Marx and Nolan, 2014).

<sup>12</sup> Author's own calculations from Eurostat EU-SILC, data missing for Croatia, Denmark and Malta.

## Summary

This chapter has provided an insight into how in-work poverty developed across EU Member States during the crisis years, looking at both the relative in-work poverty risk measure and the absolute material deprivation measure. When measured by relative income, data for 2014 show that the proportion of workers experiencing in-work poverty in the EU was 9.6%. However, if deprivation is used to measure in-work poverty, the figure rises to 12.8%. The in-work poverty risk indicator, because it is relative, does not show change over time if the majority of the population is affected. The material deprivation indicator, however, because of its absolute nature is less affected by changes in the median income.

In the majority of Member States, the development of in-work poverty during the crisis differs depending on which indicator is selected, although there are countries where the situation for both indicators was worse in 2014 compared with 2007.

Three groups of workers are particularly at risk of in-work poverty: involuntary part-time workers, workers on temporary contracts and self-employed workers without personnel. During the crisis, the incidence of non-standard work and self-employment increased in many countries, which sheds further light on how in-work poverty developed during the crisis years as well as on the diverging trends between Member States.

### 3 The social situation of the working poor

While many of the studies that compare in-work poverty across the EU look at the characteristics of those affected, very little attention has been paid to what it means to be in work and poor. This chapter focuses on the well-being and social situation of people experiencing in-work poverty (as measured by both relative income and deprivation) in comparison with the working-age population.<sup>13</sup> Aspects of well-being examined include subjective well-being, mental well-being, accommodation and living environment, and relationships and social exclusion, based on data from the EU-SILC 2013 module on well-being. Data from 2014 are used to provide additional accommodation-related variables, while data from the fourth European Quality of Life Survey (EQLS), carried out in 2016, provide further data on social exclusion. A broad picture of well-being and the social situation of workers at risk of poverty and experiencing material deprivation is presented, starting with their subjective and mental well-being, relationships and social exclusion. The focus then widens to examine the quality and cost of workers' accommodation, and their broader living environment.

#### Subjective well-being

Subjective well-being is measured in the EU-SILC by self-reported life satisfaction and meaning of life. Meaning of life is a concept that measures the respondent's feelings 'regarding the value and purpose of life, important life goals, and for some, spirituality' (Eurostat, 2015). Respondents base their responses to both measures on a scale of 0–10. Results of these two indicators show that working people living in households at risk of poverty have a lower subjective well-being on average than the working population and the working-age population (Table 3). Moreover, living in deprivation is more strongly associated with lower well-being than low income. This result holds true for both workers and people not at work (results not shown).

**Table 3: Average life satisfaction and meaning of life scores among the working poor, working population and working-age population, EU, 2013**

	Life satisfaction	Meaning of life
Working, at risk of poverty	6.5	7.2
Working, in deprivation	6.1	6.9
Working population	7.3	7.6
Working-age population	7.1	7.5

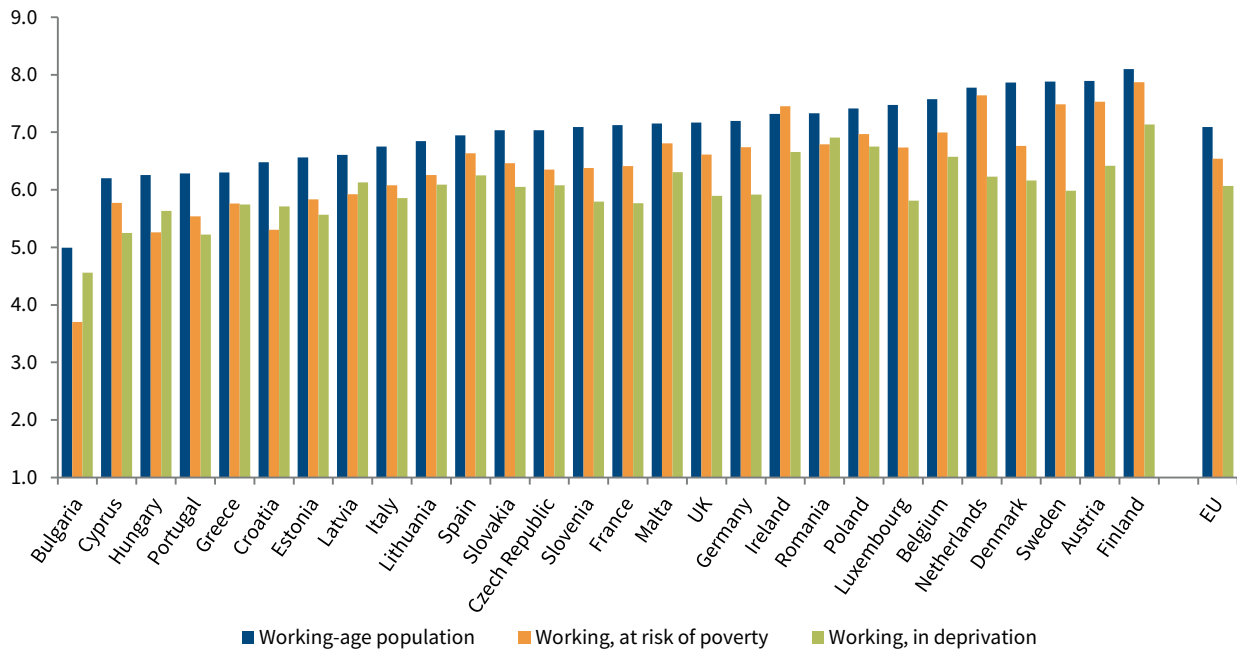
**Note:** Data based on all working-age people (16–64 years). Life satisfaction and meaning of life are measured on a scale of 0–10. **Source:** EU-SILC 2013 microdata, weighted by PX200, all working-age people

Figure 16 compares life satisfaction for people experiencing in-work poverty with that of the average working-age person in their country. Lower life satisfaction is associated with in-work poverty and especially with material deprivation in all countries. The shortfall in life satisfaction associated with in-work material deprivation is largest in some of the highest-income countries, such as Denmark, Luxembourg and Sweden. In others (for example, Greece, Hungary, Ireland, Latvia, Poland and Romania), reduced life satisfaction associated with in-work material deprivation is relatively small.

Workers experiencing material deprivation in higher-income countries, where material deprivation is uncommon, have lower life satisfaction than those at risk of poverty. In lower-income countries, life satisfaction scores for workers at risk of poverty and for workers experiencing deprivation are more similar.

<sup>13</sup> The analysis is restricted to this age group (16–64 years) because older people report significantly higher or lower well-being depending on country.

**Figure 16: Average life satisfaction scores among the working-age population and the working poor, EU Member States, 2013**



**Note:** Life satisfaction is measured on a scale of 0–10.  
**Source:** EU-SILC 2013 microdata, weighted by PX200, all working-age people

Similarly, meaning of life is lower for people experiencing in-work poverty, although the difference with the working-age population is somewhat smaller on average than for life satisfaction and most substantial in higher-income countries such as Belgium, Germany and Sweden (results not shown).

**Effect of employment status on life satisfaction**

On average, people with a job have higher subjective well-being than people who are not at work. This is also true for people living in poverty. The reasons for this are many. The non-working poor could be more likely to live in a household with lower household income than the working poor. Put differently, the depth of poverty may lead to especially low subjective well-being among the non-working poor. On the other hand, it could be

that a job has a genuine positive effect on life satisfaction, even if the person lives in a low-income household.

A simple linear regression was used to predict life satisfaction based on employment status, while controlling for household income and country effects (Table 4). It was found that when controlling for income, the effect of being employed is significant for life satisfaction. Workers’ life satisfaction is on average 0.5 points higher (on a scale of 0–10) compared with people not at work. The correlation is higher in households experiencing deprivation and especially in households at risk of poverty. This suggests that being employed in itself correlates with a higher level of life satisfaction, although workers who are poor do have a lower well-being score compared with the working-age population, as noted above.

**Table 4: Coefficients for life satisfaction among the working-age population and workers experiencing poverty and deprivation**

Variable	Working-age people living in ...		
	All households	Households at risk of poverty	Households in deprivation
Employed (versus not employed)	0.515	0.676	0.578

**Notes:** Working-age population. Dependent variable: Overall life satisfaction. R squared: 13.7%, 12.4% and 13.3%, respectively. All results shown are significant at 0.001 level. Income and age were controlled for in the regression. Country effects were also included in the model.

## Mental well-being and happiness

The EU-SILC survey includes four questions relating to mental well-being and one relating to happiness.

Respondents are asked about the frequency of feeling very nervous, down in the dumps, calm and peaceful, downhearted or depressed, and happy over the past four weeks. Responses are measured on a five-point scale from 'all of the time' to 'none of the time'.

Table 5 provides an overview of the results. It demonstrates that happiness and feeling calm and peaceful are substantially lower for the working poor, especially if in-work poverty is measured by deprivation. Less than half of workers experiencing deprivation feel happy or calm most of the time. Nervousness is common among this group, with nearly one-quarter feeling nervous most of the time. Feeling downhearted or depressed or down in the dumps is less

frequent among the working-age population, but remains significantly above the average for workers experiencing poverty or deprivation, especially when compared with other workers.

People affected by in-work poverty have slightly better mental well-being than inactive people in poverty (results not shown). The difference is highest for the depression-related variables, where workers have significantly better outcomes.

As with life satisfaction, considerable differences exist between countries in relation to the mental well-being of workers at risk of poverty and experiencing deprivation. Happiness has the strongest correlation with material deprivation and the largest variance across countries (Figure 17). The largest disparities in happiness associated with material deprivation are seen in Sweden, Belgium and Luxembourg.

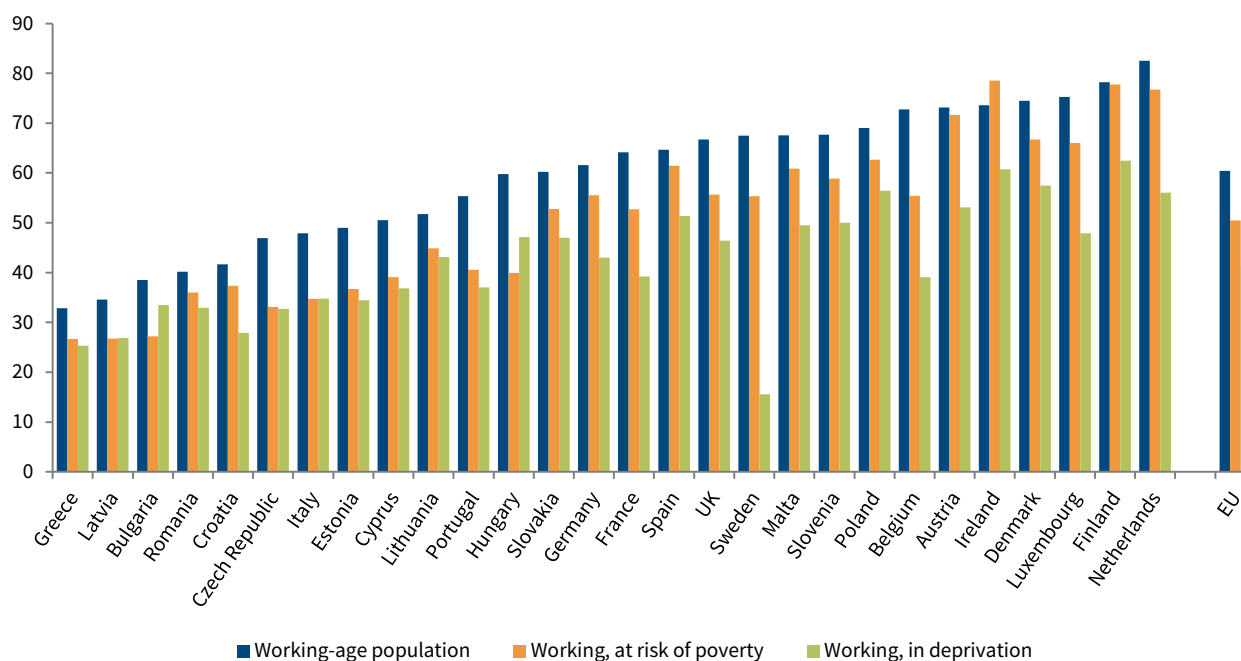
**Table 5: Mental well-being indicators among the working poor, working population and working-age population, EU, 2013**

	All or most of the time feels ...				Is happy all or most of the time %
	Very nervous %	Down in the dumps %	Calm and peaceful %	Downhearted or depressed %	
Working, at risk of poverty	18.2	9.7	50.6	10.5	50.5
Working, in deprivation	23.3	14.1	44.2	14.1	41.1
Working population	13.1	5.7	60.4	5.9	63.4
Working-age population	15.2	7.9	58.1	8.2	60.4

Note: Data based on all working-age people (16–64 years).

Source: EU-SILC 2013 microdata, weighted by PX200, all working-age people

**Figure 17: Proportion who report being happy most of the time among the working-age population and the working poor (%), EU Member States, 2013**



Source: EU-SILC 2013 microdata, weighted by PX200, all working-age people

Chapter 2 detailed the rise of non-standard employment, which, at least in some countries, may have contributed to increases in poverty and material deprivation among workers. Looking at the mental well-being of workers on different types of contracts indicates that among workers facing material deprivation, those on temporary contracts are more likely to report feeling downhearted and depressed most of the time than people on permanent contracts (16% and 13%, respectively), and there is a similar difference in nervousness (26% and 22%, respectively).

A similar picture arises when self-employed people experiencing deprivation and employees experiencing deprivation are compared: downhearted and depressed feelings are more common among the former (18%) than the latter (14%). The self-employed are also more likely to report nervousness than employees (26% and 23%, respectively).

## Relationships and social exclusion

This section looks at workers' relationships with others and possible support networks. From the EU-SILC, satisfaction with personal relationships and trust in other people are examined; both are measured on a scale of 0–10. Questions on support are also relevant: whether they have at least one person to discuss personal matters with and whether they have the opportunity to ask for help (for example, moral, material or financial help) from relatives, friends or neighbours.

Workers at risk of poverty and those experiencing deprivation have lower satisfaction with their personal relationships and lower trust in other people (Table 6). They are less likely to have somebody with whom to discuss personal matters and receive less help from relatives, friends or neighbours. However, as with life satisfaction, they report better support and personal relationships than the non-working poor.

The ability to ask for help from others if needed is important as it has a strong association with subjective and mental well-being outcomes. For working-age people who have help available, depression is 19 percentage points less prevalent than for those who do not have such help (14 percentage points for workers at risk of poverty and 17 percentage points for workers in deprivation). Similarly, happiness is 30 percentage points more prevalent for working-age people with access to help (23 percentage points for workers at risk of poverty and 19 percentage points for workers experiencing deprivation).

Figure 18 shows the proportions of people across Member States who say they have no help available. There are again large differences between countries, and this variation is especially strong among workers who report material deprivation. In countries where people are on average less likely to say that there is nobody to turn to for help, this is also the case for workers experiencing deprivation. For example, in Finland, Hungary, Ireland, Lithuania and Slovakia, fewer than 5% of workers who report material deprivation lack support. Conversely, when on average more people report a lack of help, the situation of people experiencing deprivation tends to be particularly problematic. In Belgium, Italy, Luxembourg and Portugal, more than 20% of the materially deprived say they have no help from others.

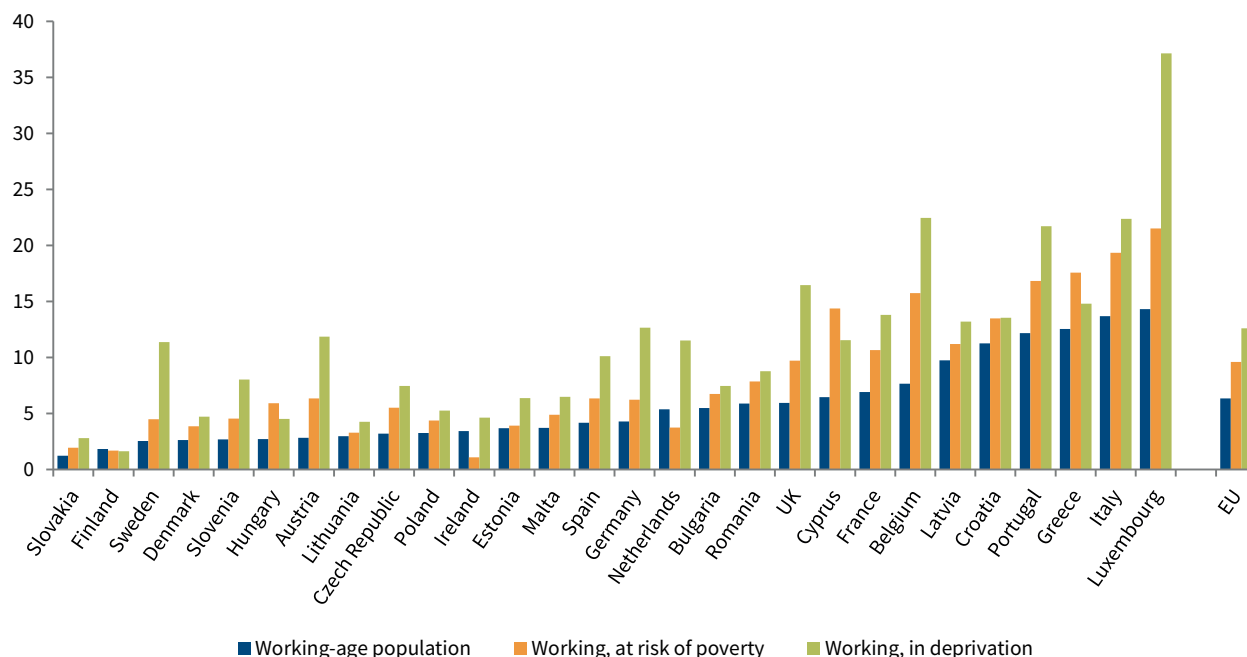
**Table 6: Relationships, trust and support among the working poor, working population and working-age population, EU, 2013**

	Satisfaction with personal relationships (scale of 0–10)	Trust in others (scale of 0–10)	Nobody to discuss personal matters with	No help from others
Working, at risk of poverty	7.5	5.4	9.6%	9.6%
Working, in deprivation	7.2	5.2	11.2%	12.6%
Working population	7.9	5.9	5.2%	5.0%
Working-age population	7.8	5.8	6.3%	6.4%

**Note:** Data based on all working-age people (16–64 years).

**Source:** EU-SILC 2013 microdata, weighted by PX200, all working-age people

**Figure 18: Proportion who report lack of help from family and friends among the working-age population and the working poor (%), EU Member States, 2013**



**Note:** The variable refers to the respondent's opportunity to ask for help (moral, material or financial) from relatives, friends or neighbours living outside their household, whether they need it or not.

**Source:** EU-SILC 2013 microdata, weighted by PX200, all working-age people

Working people at risk of poverty and especially those experiencing deprivation are more likely to experience social exclusion, as shown by data from the EQLS (Table 7).<sup>14</sup> Over a third of materially deprived workers do not feel recognised by others, and over a quarter say that people look down on them due to their job situation or income. Feeling left out of society is also more common than in the working-age population.

In Figure 19, the four indicators on feeling left out of society, losing one's way, lack of recognition and feeling

looked down upon are combined into a social exclusion index, measuring perceived social exclusion on a scale of 1–5. In all countries, being a worker who experiences material deprivation is strongly associated with perceived social exclusion, while being a worker at risk of poverty is moderately associated with perceived social exclusion, on average. The difference in perceived social exclusion between the working-age population and those reporting material deprivation is highest in Estonia (0.8 points), Belgium (0.7 points) and Italy (0.6 points) and lowest in Portugal (0.1 points). For

**Table 7: Feelings of social exclusion among the working poor, working population and working-age population, EU, 2016**

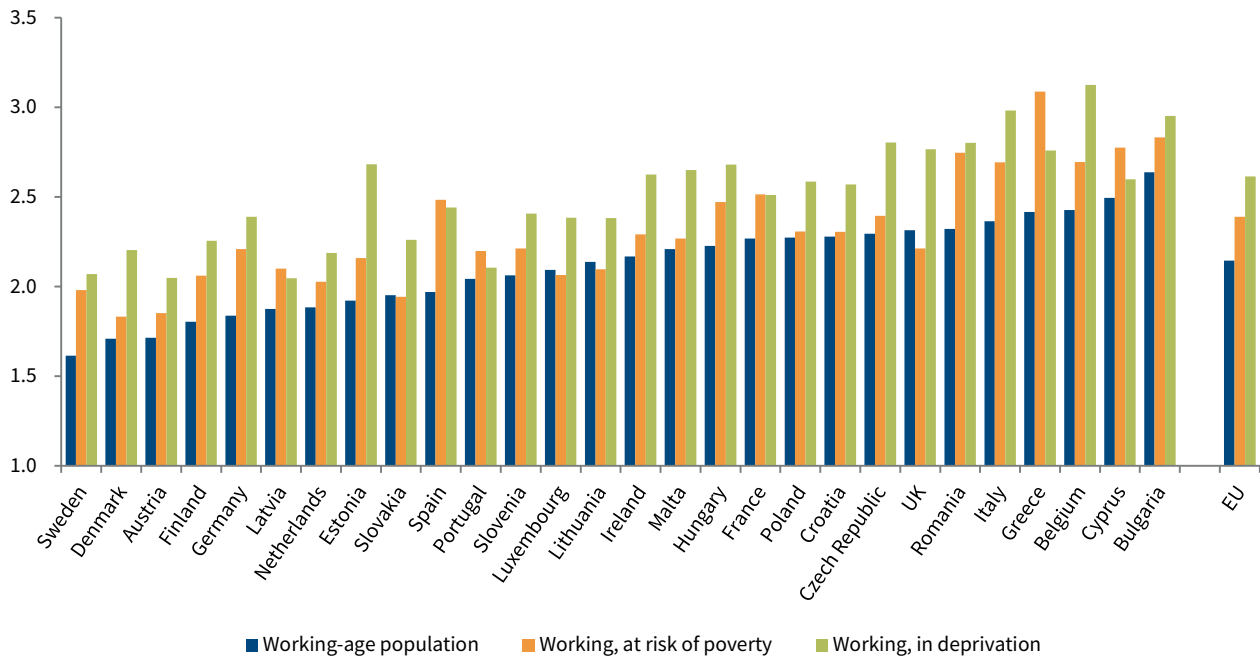
	I feel left out of society %	Life has become so complicated today that I almost can't find my way %	I feel that the value of what I do is not recognised by others %	Some people look down on me because of my job situation or income %
Working, at risk of poverty	12	21	29	21
Working, in deprivation	12	30	34	28
Working population	5	12	18	13
Working-age population	7	16	20	15

**Note:** Data based on population aged 18–64 years.

**Source:** EQLS 2016 microdata

<sup>14</sup> Note that in the EQLS, poverty and material deprivation are calculated slightly differently from the method used in the EU-SILC. Risk of poverty is calculated based on median-equivalised household income in purchasing power parity (PPP) euros, as measured by EQLS data. Deprivation is defined as not being able to afford at least two of the following: keeping the home warm; paying for a week's annual holiday; a meal with meat, chicken or fish every second day if wanted; arrears on rent or mortgage payments; consumer loans or informal loans.

**Figure 19: Average scores on social exclusion index among the working-age population and the working poor, EU Member States, 2016**



**Note:** Social exclusion is the average score of four statements relating to social exclusion measured on a scale of 1–5: ‘I feel left out of society’; ‘Life has become so complicated today that I almost can’t find my way’; ‘I feel that the value of what I do is not recognised by others’; and ‘Some people look down on me because of my job situation or income’.  
**Source:** EQLS 2016 microdata

workers at-risk of poverty, the disparity is highest in Greece (0.7 points) and Spain (0.5 points), whereas in Lithuania, Luxembourg, Slovakia and the UK, there is no significant gap.

In the EQLS, people were asked how often they had felt particularly tense, lonely, or downhearted or depressed in the two weeks prior to the survey on a scale of 1–6, ranging from all of the time to at no time. Similar to the findings regarding nervousness, tension is very common among workers living in households at risk of poverty or in deprivation. Feelings of loneliness and depression are relatively uncommon among workers in general, but those in deprived households are three times as likely to report having these feelings in the two weeks prior to the survey (Table 8).

## Accommodation and living environment

The final elements of well-being considered here are accommodation and living environment, using data from the EU-SILC. For accommodation, this section looks at objective circumstances such as overcrowding. (Additional analysis on home ownership and the burden of housing cost can be found in Chapter 5.) It also examines subjective opinions on accommodation, recreational and green areas, and respondents’ living environment. Finally, it looks at problems in the environment that are mostly relevant to urban areas, such as crime, pollution, noise and the dwelling being too dark, in the context of workers at risk of poverty or experiencing deprivation.

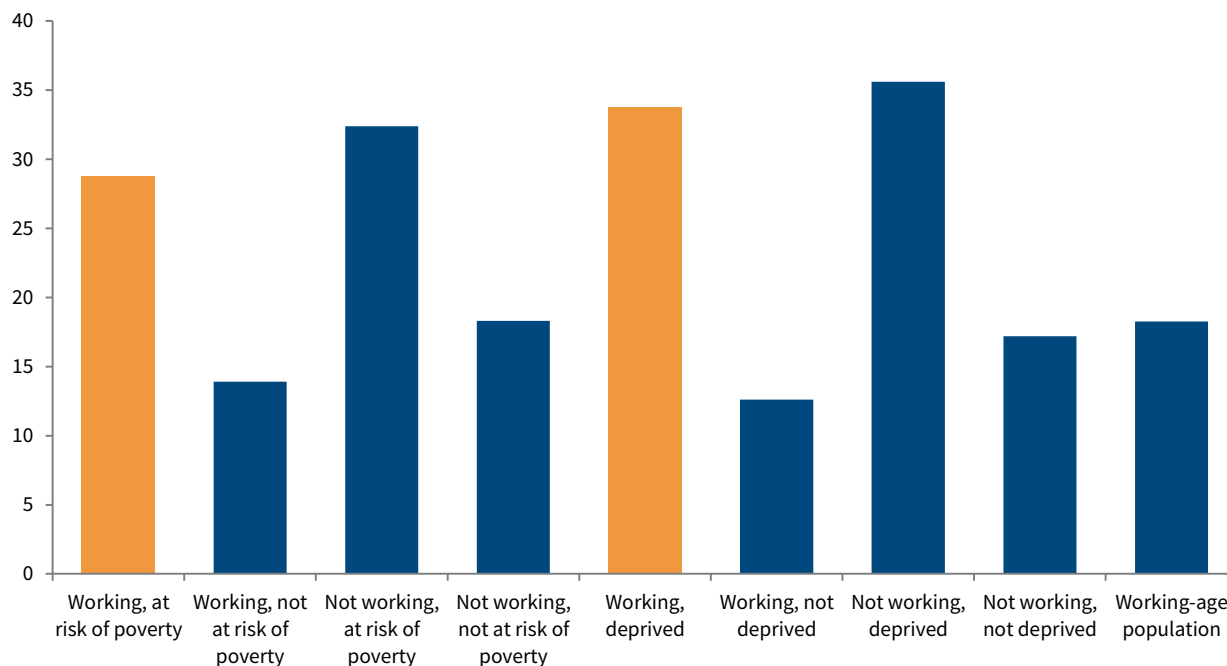
**Table 8: Mental well-being among the working poor, working population and working-age population, EU, 2016**

	Over the last two weeks, I have most of the time felt ...		
	Tense %	Lonely %	Downhearted or depressed %
Working, at risk of poverty	17.3	7.9	7.3
Working, in deprivation	22.0	11.8	11.5
Working population	10.5	4.3	3.9
Working-age population	11.9	5.5	5.7

**Note:** Data based on population aged 18–64 years.  
**Source:** EQLS 2016 microdata



**Figure 20: Proportion of people in overcrowded households, by risk of poverty or deprivation, according to employment status and compared with working-age population (%), EU, 2014**



Source: EU-SILC 2014 microdata, weighted by PB040 or PB060, all working-age people

Given that households with many children are especially at risk of poverty, working people at risk of poverty or in deprivation are nearly twice as likely to live in an overcrowded household as the working-age population.<sup>15</sup> Figure 20 shows the proportion of people in overcrowded households by employment, risk of poverty and deprivation. Over 30% of workers experiencing deprivation live in an overcrowded household. Overcrowding among this group is most common in Romania (63%), Poland (58%) and Hungary (54%).

Table 9 indicates that, compared with the working-age population, workers at risk of poverty or in deprivation

are less satisfied with their accommodation, the recreational or green areas in their neighbourhood and their living environment. However, additional analysis shows again that workers are more satisfied than people in a similar situation but not working.

In addition, the working poor are more likely to report that their home is too dark and that they experience crime, violence or vandalism in their neighbourhood (Table 10). Issues with crime, pollution and noise experienced by workers are more prevalent among the deprived, while their association with in-work poverty risk is smaller.

**Table 9: Average scores on satisfaction with accommodation and environment among the working poor, working population and working-age population, EU, 2013**

	Satisfaction with ...		
	Accommodation	Recreational or green areas	Living environment
Working, at risk of poverty	6.8	6.7	6.9
Working, in deprivation	6.5	6.3	6.6
Working population	7.5	7.2	7.4
Working-age population	7.4	7.1	7.2

Note: Data based on population aged 16–64 years. Satisfaction is measured on a scale of 1–10.

Source: EU-SILC 2013 microdata, weighted by PX200, all working-age people

<sup>15</sup> According to Eurostat, a person is considered as living in an overcrowded household if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; and one room per pair of children under 12 years of age.

**Table 10: Prevalence of problems with accommodation and environment among the working poor, working population and working-age populations, EU, 2014**

	Crime, violence or vandalism %	Pollution %	Noise %	Dwelling too dark %
Working, at risk of poverty	14.9	15.7	20.2	8.5
Working, in deprivation	19.9	20.0	24.6	11.5
Working population	13.4	14.0	18.6	5.3
Working-age population	14.3	14.7	19.2	6.0

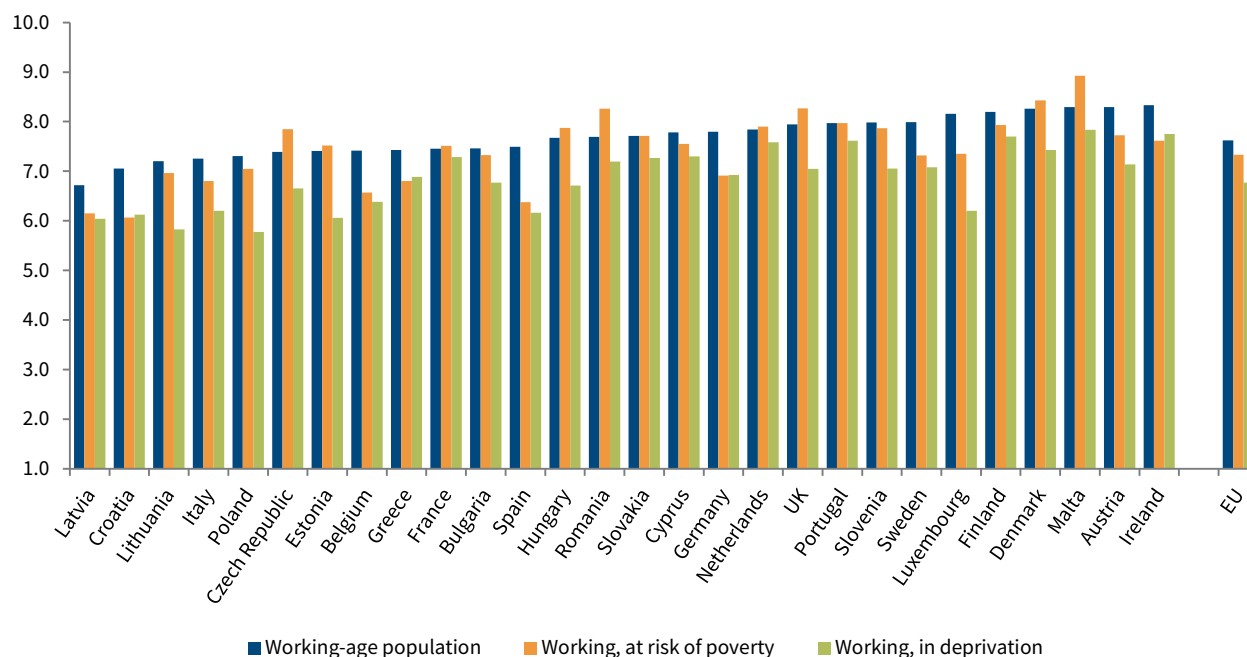
Note: Data based on population aged 16–64 years.

Source: EU-SILC 2014 microdata, weighted by PB040 or PB060, all working-age people

Figure 21 shows satisfaction with accommodation by country. Being at risk of in-work poverty is associated with lower satisfaction with one’s accommodation overall, but this is not true in all countries. For example, in the Czech Republic, Malta and Romania, and to a lesser extent in a few other countries, people at risk of in-work poverty score their satisfaction with their accommodation higher than the population as a whole.

This could be related to historically high levels of home ownership in many of these countries. However, perceived housing quality is lower in this group than in the working-age populations in Belgium, Croatia, Germany and Spain. Material deprivation is everywhere associated with lower satisfaction of accommodation, especially in Estonia, Lithuania, Luxembourg and Poland.

**Figure 21: Average scores on satisfaction with accommodation, working-age population and working poor, EU Member States, 2013**



Note: Satisfaction with accommodation is measured on a scale of 1–10.

Source: EU-SILC 2013 microdata, weighted by PX200, all working -age people

## Summary

What does it mean to be in-work poor in Europe? This chapter has shown that working poverty is associated with various social problems, including lower levels of subjective mental well-being, problems with accommodation and living environment, and poor relationships and feelings of social exclusion. While a job improves people’s well-being in general, when facing poverty, working alone is far from enough. This finding is consistent by indicator of poverty used. Yet, on average, among workers, the various aspects of well-being are especially problematic for those facing material deprivation, and are slightly lower for workers at risk of in-work poverty. In sum, an increase in in-work poverty during the crisis has a broad social impact and is not merely a statistical issue.

## 4 Policy discourse on in-work poverty

This report began by highlighting growing concerns about in-work poverty at EU level. Since the onset of the economic crisis, in-work poverty has increased in a number of Member States, which is why the SPC urges countries to address the problems of the working poor (SPC, 2014). In its report on the working poor, Eurofound (2010) noted that in most countries, policies addressing this group were difficult to separate from more general policies aimed at combating poverty and social exclusion. This chapter examines the extent to which in-work poverty has been a policy priority in Member States by looking at what governments and social partners have done since 2010.

### Governments

The previous Eurofound study (2010) noted that with the exception of Bulgaria, Cyprus, Germany, Ireland and the UK, the issue of in-work poverty was not seen as a policy priority in Member States. With unemployment on the rise, governments' main concern at that time was to support employment and to combat unemployment rather than to improve the conditions of the working poor.

Six years on, based on the replies from Eurofound's Network of European Correspondents, it appears that governments, especially in countries where the incidence of in-work poverty remained low, have tended not to address in-work poverty as a specific issue. Rather, the focus lies on combating poverty in general and targeting other specific groups seen to be

most at risk (that is, children, young people, large families and single parents). Guided by the Europe 2020 targets (European Commission, 2010) and the European Semester country-specific recommendations, much of the policy attention is now aimed at getting people into employment and making work pay. In response to the recommendation to reduce financial disincentives to work, Belgium, for instance, has taken action to make work pay by decreasing labour costs as of 1 January 2016, with the result that workers' net income will rise. For wages below €1,500 gross per month, that rise in income will reach €140 per month in 2019.

Eurofound's 2010 report pointed to a conflict between reducing the number of working poor and increasing the number of employed people in Greece, Ireland, Slovenia and the UK. In the UK, this is still the case, with measures to reduce in-work poverty and improve the quality of jobs conflicting with the 'work-first' welfare-to-work approach to reduce unemployment. The UK government largely holds the view that work remains the best route out of poverty, despite evidence showing that many of these jobs are low skilled and low paid, and offer limited or no opportunity for progression (Department for Work and Pensions, 2014).

Especially in countries where the crisis led to a severe deterioration in labour market conditions, the number of the working poor is expected to increase further, and their situation is expected to become worse if the problem is not specifically addressed. Greece is a case in point (see Box 1).

#### Box 1: Greece – Effects of the economic crisis on income

Since 2009, Greece has seen a drastic reduction in minimum wages and incomes as a whole. At the same time, taxes increased for both employees and the self-employed, and social security contributions for the self-employed increased. Furthermore, a series of measures have been introduced to facilitate labour flexibility. All this has resulted in reduced incomes and spending power for workers, as well as a fall in both the average disposable income and the poverty line. Specifically, minimum wages in Greece have fallen as a result of legislation in 2012 (Law 4046) by 22% (from €751 per month to €586 per month) and by 32% for young people under 25 (to €510 per month).

The rise in flexible forms of employment (with the main effect being the conversion of full-time employment to part-time employment or job rotation) has significantly reduced income from salaries. The General Confederation of Greek Workers (GSEE) estimates that 500,000 part-time employees are paid net salaries less than the minimum unemployment benefit, which comes to €360 per month.

In terms of the taxation of employees and the self-employed, under a series of laws enacted since 2010, the tax-free threshold has been reduced, tax breaks have been abolished, indirect taxation (VAT) has been increased, and taxation of housing has been increased, all having the effect of drastically reducing income from work. For example, Law 4387/2016 reduced employees' tax-free threshold of €9,545 to €8,636. Other categories of workers

(freelancers and business owners) are taxed on every euro earned. Moreover, the average social security contributions for the self-employed and freelancers increased by 20%.

Although the relative at risk of in-work poverty measure – as noted in Chapter 2 – shows no increase, as has been shown (Figure 7), the number of materially deprived workers increased significantly in Greece between 2007 and 2014.

Ideological changes in some countries led to policy shifts that are likely to increase in-work poverty. In Slovenia, for instance, ideological drivers lie behind the reform of social policy. Successive amendments to the Social Assistance Benefits Act (*ZSVarPre*) and related laws have restricted access and introduced many reasons for exclusion, of which several are related to work. Data from the Slovenian Statistical Office point to a clear upward trend in in-work poverty during the crisis and even during the last two years of economic recovery, despite a moderation of the strict access criteria since 2014. Furthermore, policy shifts have supported non-standard employment, and as indicated in Chapter 2, people in non-standard employment are much more exposed to in-work poverty than regular employees.

Examples are also noted where business interests have been predominant. In the Czech Republic, reducing working hours was one of the ways companies overcame economic difficulties during the crisis years. Where this happened, companies were required to negotiate with the relevant trade unions and to apply to the Public Employment Service for approval. From November 2008 to January 2010, approximately 55,000 workers (more than 1% of the labour force) were affected by this measure (Sirovátka, 2010). A new amendment to the so-called partial unemployment contribution, based on the German model of *Kurzarbeit* (short-time working), was approved in July 2015. Employees whose working time is reduced due to crisis situations are entitled to receive 70% of their normal salary; however, only 50% will be paid by the employer, with the other 20% being reimbursed by the government. In comparison with the original legislation, this amendment has lowered the burden on employers by 10%.

Overall, the information provided through Eurofound's Network of European Correspondents shows that in-work poverty is seldom explicitly on the government agenda. There are, however, some exceptions. In Bulgaria, in-work poverty is perceived as a serious socioeconomic challenge for the country. The government's focus is on increasing the minimum wage, as well as improving education and qualification programmes for workers with few qualifications and

low educational attainment. The Estonian Welfare Development Plan 2016–2023 explicitly – though briefly – discusses the fact that, although employment decreases the risk of poverty, 12.1% of permanently employed people were still at risk of poverty in 2013. In Portugal, in-work poverty is a well-recognised economic and social problem. Although there is no specific programme in place to combat in-work poverty, the centre-left government has introduced a set of measures since it was elected in 2015. This represents a significant turn in the policy approach of the preceding period. During the crisis and until 2015, several labour market reforms entered into force that negatively impacted workers, affecting civil servants particularly (due to the loss of disposable income and the rise of insecurity and precariousness). Major policy measures were more focused on financial stability and budgetary consolidation, such as the revision of dismissal regulation; the reduction of unemployment benefits; working time increases in the public sector; the freezing and reduction of wages and career progression in the public sector; and the freezing of the national minimum wage.

The Romanian National Strategy on Social Inclusion and Poverty Reduction 2015–2020 presents people-centred policies and area- and sector-based policies aimed at increasing labour market participation by the poor. This reduces the seasonality of their employment and augments their income either by increasing their earnings or by allowing the working poor to combine their relatively low earnings with financial assistance. Under the devolved system in the UK, the Scottish government has explicitly looked into policies to reduce in-work poverty. It has proposed an integrated strategy of improving pay, increasing work intensity, and implementing complementary tax and welfare reforms (Scottish Government Social Research, 2015).

It may well be that in-work poverty becomes an issue in the November 2017 German elections. It is already on the agenda of the current opposition parties. The Left (*Die Linke*) and the Alliance 90/Greens (*Bündnis 90/Die Grünen*) both addressed the issue of the working poor by focusing on low-income workers eligible for the so-called Hartz IV benefit income supplements.<sup>16</sup> Workers receiving this form of benefit are called 'income

<sup>16</sup> The Hartz reforms are a series of reforms to the German labour market that have been implemented in stages since 2003.

supplementers' (*Aufstocker*). The law was introduced in 2005 and has been adjusted several times since. In 2011, the wage limit for employees increased. Since 2016, the supplement can also be paid to vocational trainees. According to federal government information to the Left party in September 2015, income supplementers accounted for 1.9% of all workers liable for social security contributions (about 200,000 in absolute figures); sectors employing the most supplementers were retail, industrial cleaning, gardening, temporary agency work and care homes (Deutscher Bundestag, 2016). Some 391,000 supplementers held marginal part-time jobs (mini-jobs) not liable for social security contribution.

The 2010 Eurofound report pointed to a tendency to focus on particular subgroups. In nine Member States, policies were targeted either exclusively or at least partly on families.<sup>17</sup> In some countries (for example, Ireland, Malta and the UK), policies were also directed at individual workers. Others targeted ethnic minorities (Bulgaria) or migrants (Portugal). This focus on specific categories of more 'at-risk' workers continues. People with very low work intensity are targeted in Austria, for instance, through increased tax refunds. Newly arrived immigrants receive special attention in Germany and Sweden. The precarious situation of young people is on the agenda in Portugal, where the government in 2017 continues its strategy of combating precariousness and promoting a better balance in labour relations by seeking to avoid the excessive use of fixed-term contracts and other atypical forms of employment. Acknowledging the high risk rate among single parents, the German government has introduced several measures to enable a better combination of work and family life, such as parental allowances and family time (see Chapter 5).

Romania, the country with the highest in-work poverty risk rate, has developed policies that target the groups that are specifically at risk, namely the self-employed and part-time workers in the agricultural sector. The situation of the self-employed and other workers on non-standard contracts is also on the political agenda of several other Member States. Part of the debate concerns their differential treatment when it comes to social protection and pension rights. Social protection systems tend not to cater to non-standard forms of employment. One of the countries where these issues

are now on the political agenda is the Netherlands. The country has a high share of self-employed workers, ranking just above Italy, Greece and Portugal, which have large informal economies. While the self-employed pay less tax than employees in the same gross income bracket, they are not covered by disability benefits and occupational pension schemes. Their fiscal treatment is therefore one of the issues currently being assessed. Another topic that is being debated is a minimum income for the self-employed, although a bill that seeks to extend the Minimum Wage Act to certain groups of the self-employed has been pending for some years now. There are also discussions as to whether collective labour agreements could contain a minimum tariff for the self-employed, or whether such a tariff would violate legislation on free competition.

After Portugal and Spain, the Netherlands has the largest proportion of workers on temporary contracts. These workers are more likely to be young, to have a migrant background, to be female or to have low educational attainment than people with a permanent position, although the differences are small and the likelihood that higher-educated people also work on temporary contracts has increased (Kremer et al, 2017).

In Poland, an amended labour code came into force on 22 February 2016 to reduce the share of fixed-term contracts in the total number of employment contracts. Under the new regulations, the number of fixed-term employment contracts between the same parties is limited to three, and their total duration cannot exceed 33 months.<sup>18</sup> If it does, the contract automatically becomes permanent. Prior to the amendments, the limitation was two fixed-term contracts, but with no time limitation and with various legal loopholes (for example, if there was a gap of over one month between the first and the second fixed-term contract with the same employee, the time was re-set to zero) that imposed far fewer restrictions on employers. In the same vein, the new labour code in Lithuania that came into force on 1 July 2017 aims to modernise labour regulation and balance employment protection between flexibility and security, in order to encourage employers to create more (legal) jobs.

These actions are in line with calls from the European Commission in the European Pillar of Social Rights to ensure that all workers in Europe have the same social protection rights (European Commission, 2017c).

17 These were Belgium, Estonia, Germany, Italy, Latvia, Malta, Spain, Poland and the UK.

18 There are three exceptions where the time limit does not apply: when the employer wants to hire temporary or seasonal workers; when the employer wants to hire a person to replace an employee who is temporarily absent; and when a fixed-term contract is signed for tenure work (for example, of a management board member).

## Social partners

In 2010, Eurofound noted that Finland was the only country where the social partners were in agreement on the topic of the working poor. Although the natural differences in the objectives of trade unions and employer organisations intensified during the crisis years, with the former mostly calling for better jobs and the latter for more jobs, collective agreements containing measures that will benefit the in-work poor have been reached in some countries. In Slovenia, for instance, following discussions with the social partners, measures were adopted to prevent the illegal use of atypical forms of work. In Denmark, agreement was reached between the government and the social partners to ensure better integration of refugees into the labour market. In some countries, social dialogue improved. In February 2016, Lithuania adopted an action plan for strengthening social dialogue, including the implementation of capacity-building measures in 2017. In Romania, a public consultation was launched in November 2015 on a national strategy on social dialogue to clarify the role of the social partners, to

review legislation in the field, and to build the capacity of the social partners and to increase their involvement in employment policies. Furthermore, in the context of improving access to social protection in all forms of employment, the social partners carried out a first phase of consultation in the framework of the European Pillar of Social Rights. The consultation notes, for instance, that in many Member States the self-employed have lower levels of health coverage unless they obtain voluntary insurance, which is often far more expensive than in-work insurance cover (European Commission, 2017c).

According to the information provided by Eurofound's Network of European Correspondents, the trade unions have been more active than employers when it comes to the in-work poor. However, even among trade unions, aside from minimum wage discussions, in-work poverty is rarely explicitly on the agenda. Table A3 in the Annex highlights some exceptions. The study has identified only a few examples of actions taken by employer organisations. These can also be found in the Annex (Table A4).

### Summary

Noting the strong commitment to alleviating in-work poverty at EU level, this chapter has shown that policy developments are less apparent at the level of individual Member States. There are many factors that can contribute to this difference. In some countries, in-work poverty is conceived as too small a problem – as the statistics have shown – and other issues are seen as more pressing. In most countries, it seems that the belief that employment is the best protection against poverty prevails, among both policymakers and social partners. However, the limited attention paid to in-work poverty nationally may in part be linked to its complex nature. As has been shown in Chapters 1 and 2, the averages mask large differences between groups, and even in the countries that perform well, some groups of workers are at significantly higher risk of in-work poverty than others.

## 5 Addressing in-work poverty

There is a tendency to think of the working poor as low-skilled, low-paid workers, often in precarious jobs. Policies to alleviate in-work poverty, therefore, often target individual workers – increasing the minimum wage being a case in point. However, it is well-known that the majority of relatively low-paid workers do not live in poor households as they tend to be part of multi-earner households. What policymakers often do not consider is the large impact of overall household circumstances on in-work poverty. In addition, as noted in Chapter 1, both de-commodification and defamilialisation are key elements of the institutional context, an understanding of which is necessary to recognise the drivers of in-work poverty.

These considerations may also explain why, as Chapter 4 has shown, policy in most Member States does not specifically aim to combat in-work poverty itself, and rarely do governments pay specific attention to the working poor. Instead, government attention goes to policies aimed at combating poverty in general, and increasing employment is often assumed to be the main instrument to do so. They may also help to explain why much of the research to date on in-work poverty has looked at the impact of direct measures, including social benefits. However, there are also instruments that have an indirect impact on income that could be useful when thinking about how in-work poverty can best be addressed.

This chapter begins by looking at direct measures and then considers the role of a number of indirect measures, including childcare and housing support.

### Direct measures

The main direct measures used in Member States to alleviate in-work poverty are minimum wages and the living wage, taxes and social contributions, family benefits and social assistance, and in-work benefits.

#### Minimum wages and the living wage

As already noted in the 2010 Eurofound report on in-work poverty, the impact of minimum wages on in-work poverty is debatable. Trade unions consider wages to be an important means of improving the standard of living of workers, and nearly all Member States now have a national statutory minimum wage. In 2017, the rises in minimum wages inside the EU accelerated in comparison with 2016 (Eurofound,

2017b), although differences in minimum wage levels remain between Member States.

The amount a household receives from a minimum wage tends to be enough to protect a single adult against the risk of in-work poverty but is often not enough to support more than one person (for example, in the case of single-breadwinner households or single-parent families). Furthermore, because most low-paid people are not poor, minimum wages protect only a minority of households from poverty. Finally, micro-simulation exercises show that even if minimum wages are increased to levels that do not impact negatively on job creation, the poverty-reducing effects of minimum wage increases remain small. Overall, the evidence suggests that the minimum wage on its own is not an effective measure to reduce in-work poverty (Marx and Nolan, 2012; Marchal et al, 2017).

Amid rising concerns that statutory minimum wages are too low, discussion about the living wage has reappeared on the political agenda. A joint report from the UK think tanks the Resolution Foundation and the Institute for Public Policy Research provides the following definition of a living wage:

*[Living wages] focus on the wage rate that is necessary to provide workers and their families with a basic but acceptable standard of living. This minimum standard of living is socially defined (and therefore varies by place and time) and is often explicitly linked to other social goals such as the fulfilment of caring responsibilities.*

(Lawton and Pennycook, 2013, p. 10)

The concept has been part of worker compensation discussions in the United States since the late 19th century. Since then, ‘the living wage has ... largely ceased to be a relevant concept for skilled labour and now appears almost exclusively within attempts to raise minimum wages, efforts that primarily effect [sic] unskilled, low-income workers’ (Stapleford, 2008, p. 1). Advocates of the living wage typically emphasise the roles of workers beyond the workplace, for example, as parents and members of a community, and call for a wage rate that will ensure that workers do not have to work for excessive hours in order to achieve an adequate income. The potential impact on employment or the effect on employers is given little if any consideration.<sup>19</sup>

19 Eurofound will publish a guide for policymakers on the living wage in 2018.

## Box 2: Hungary – Effects of the public work scheme on in-work poverty

In-work poverty has greatly increased in Hungary since the onset of the economic crisis and further deteriorated in 2015, with an increase from 6.7% in 2014 to 9.3% in 2015, according to Eurostat data. Unlike most other countries, in-work poverty in Hungary is far more likely to affect employees (rather than self-employed), many of whom work in the public sector. This is mainly due to the public work scheme (PWS), first introduced by the government in 2008 and expanded significantly in 2011. Through this scheme, the availability of unemployment benefit was reduced to three months, after which job-seekers have to be involved in the PWS to continue to receive the benefit. They work primarily in agriculture, infrastructure and construction jobs, either for a short term (4 hours per day for a maximum of 200 days) or over a longer term (6–8 hours per day for a maximum of 12 months). Workers engaged in the PWS are paid less than the national minimum wage, with net wages ranging from €95–€123 per month for short-term and €186–€226 per month for long-term work. In 2016, around 250,000 workers were involved in the PWS out of the roughly 4 million employed. This raised the employment rate, but also increased the in-work poverty rate.

Another contributing factor has been the large number of workers paid the minimum wage, which has been lagging behind the subsistence minimum. In addition, budget restrictions have kept salaries in most of the public sector at the same level for almost eight years as well as leading to a reconsideration of social benefits.

Figures by household type show a positive impact of the government's family policy: although the risk of in-work poverty is still higher for households with children, their situation has deteriorated relatively less than that of households without children.

**Sources:** Koltai, 2012; Eurofound's Network of European Correspondents

As part of a series of policy briefs on the future of work, the OECD has looked at basic income as a policy option, noting that the growing interest is linked to, among other things, the rise in atypical forms of employment and the risk of job losses due to automation. One important conclusion of the OECD study is that 'the basic income is not necessarily an effective poverty alleviation tool, even if it would provide improved support to those who are not currently covered by social benefit provisions' (OECD, 2017, p. 6).

### Taxes and social contributions

A recent study by Marchal et al (2017) shows that rather than pushing for higher minimum wages, many governments have undertaken measures to increase the net incomes of employees paid at or around the minimum wage. There are several ways in which taxes and social contributions can be reduced in order to combat in-work poverty. One approach is to provide payroll tax relief. However, this strategy is not ideal because a great deal of the aid would spill over into households above the poverty line. Reducing income taxes presents more potential for targeting, but as already noted most of the working poor already pay very little in tax. Since social contributions are often larger than taxes for low-income households, it seems that the targeted reduction of social contributions is a viable approach to reducing in-work poverty. However, this policy option is limited by the fact that social

contributions are necessary to access social security benefits. While each of these approaches has various benefits and drawbacks, they miss the point that there are certain households that are so far below the poverty line that they would still be poor if they paid zero taxes (Marx and Nolan, 2014).

### Family benefits and social assistance

Providing adequate family benefits is important because these cash transfers supplement the income of households. However, family policies differ considerably across Europe, and this has an impact on the risk of in-work poverty for families with children. In Portugal and Spain, for example, workers with children are most likely to be at risk of in-work poverty. These two countries are in stark contrast with Sweden, where the composition of the household plays little role (European Commission, 2016).

Social assistance top-ups ensure that the income people obtain through work is higher than what they would receive if they did not work. In quite a few countries, these mostly means-tested benefits are available to low-income households, but again there are large differences across Member States. During the financial crisis, many countries implemented austerity measures that resulted in less cash and fewer tax benefits for families, often by way of more targeted means-tested support (Eurofound, 2014).



## In-work benefits

In-work benefits seek to simultaneously boost income and promote employment. This goal is accomplished by providing employment-conditional financial support to households with low earnings. Examples of in-work benefits in Europe include Denmark's Working Tax Credit (*beskæftigelsesfradrag*), Finland's Earned Income Allowance, France's Activity Bonus (*prime d'activité*), Ireland's Family Income Supplement and the UK's Working Tax Credit.

In-work benefits are one of the most important aspects of the UK's approach to combating in-work poverty. However, the positive impact of in-work benefits in the UK is not necessarily generalisable to the rest of Europe (Marx et al, 2012). Other European countries, particularly the continental and northern ones, have more wage compression (that is, there is less deviation around the average wage) than the liberal UK economy. The different institutional and socioeconomic settings of other countries could make this approach less effective. The French Employment Bonus (*prime pour l'emploi*) had little effect on poverty and has since been replaced by the Activity Bonus (see Table A2 in the Annex). Micro-simulations in southern Europe found that in-work benefits have limited anti-poverty effects, as well as reducing in-work incentives for household second-earners (Figari, 2011). More recent simulations for four EU countries show that spending 1% of GDP on in-work benefits would reduce in-work poverty by 1.19 percentage points in Belgium, 1.13 percentage points in Italy and 2.59 percentage points in Sweden, while the impact would be more limited in Poland (at most, a poverty reduction of 0.83 percentage points) (Vandelannoote and Verbist, 2017).

## Indirect measures

Marx and Nolan (2014) have identified five categories of indirect measures that can help address in-work poverty. These are:

- the provision of affordable childcare;
- flexible working time arrangements or other measures that make it easier for people to combine work with other care duties (for example, measures to work from home);

- measures that promote job advancement or improve people's skills;
- measures that help improve the living standards of low-income earners;
- measures that create inclusive work environments to improve opportunities for migrants, people with disabilities or other groups of disadvantaged workers.

While these kinds of measures are potentially important tools in the fight against in-work poverty, they have received relatively little attention to date. This section explores the use and potential of some of these measures.<sup>20</sup>

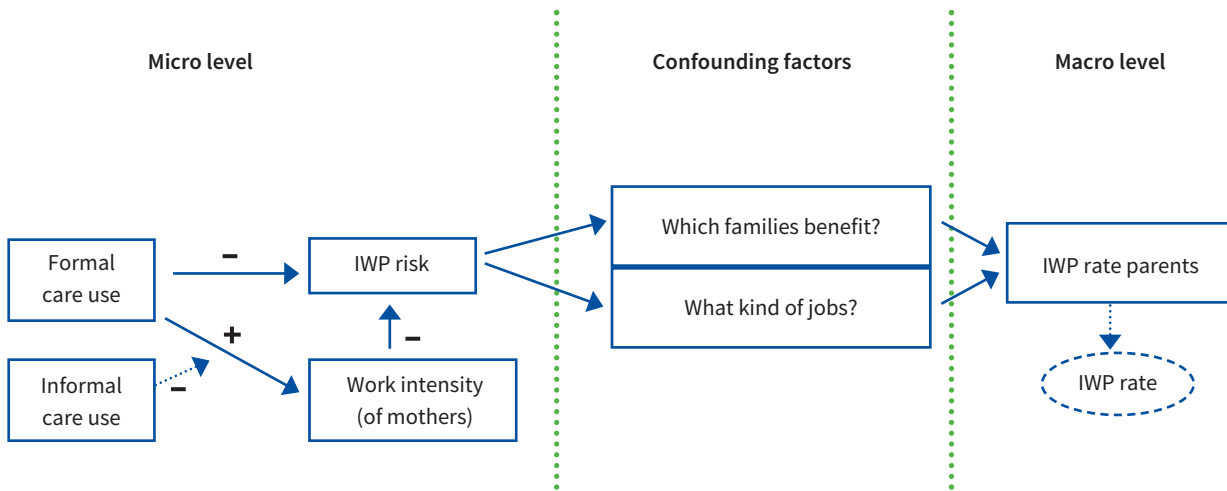
### Provision of affordable childcare

Evidently, policies to promote more childcare are not being developed with a specific focus on poverty, and rather their primary aim is to encourage female employment. That said, research shows that childcare provision does have an impact on poverty (European Commission, 2016). Subsidised childcare that increases the availability and use of affordable childcare enables parents to work and, by doing so, increases the number of earners in a household and/or the number of hours worked. The assumption is that providing childcare in this way indirectly contributes to lower in-work poverty.

However, new research questions the effectiveness of childcare provision as a policy instrument to combat in-work poverty. This research shows that while formal childcare provision is related to a reduced risk of in-work poverty at the individual level, no relationship can be established between formal childcare usage and in-work poverty at the country level. In part, this is because families that use formal care tend to be families with higher levels of work intensity. Furthermore, in the context of in-work poverty, it is important to distinguish between formal and informal childcare. Arrangements of the latter kind are related to higher levels of in-work poverty, probably because they are often not compatible with a full-time stable job (van Lancker and Horemans, forthcoming). Figure 22 provides an overview of the mechanisms that impact on the relationship between childcare use and in-work poverty rates.

<sup>20</sup> Much of the discussion in this section is based on information provided by Eurofound's Network of European Correspondents and is not exhaustive. Very few of the measures described here have undergone a proper evaluation. With regards to the last method (indirect measures that create inclusive work environments), the study identified very few examples. It is therefore not elaborated upon in this report.

Figure 22: Mechanisms impacting on the relationship between childcare use and in-work poverty rates



Note: IWP = in-work poverty.  
 Source: Van Lancker and Horemans (forthcoming)

The diagram shows that, while the expected impact of childcare on in-work poverty operates through an increase in the number of earners with young children, there are two confounding factors: the types of families affected and their position in the income distribution, and the kind of jobs that people take on and the pay they receive. For childcare to be an effective tool in the fight against in-work poverty, it must reach the target group – in this case, workers with young children who have lower levels of household work intensity and less stable jobs associated with lower earnings (van Lancker and Horemans, forthcoming).

Intuitively, it would seem that the best way of reaching the target group is to ensure that childcare is free of charge. Yet an initial assessment of the extension of free childcare in England for eligible parents of 3–4-year-olds to 30 hours a week reflects some of the concerns raised by the new research. Despite childcare being provided free of charge, the assessment shows that take-up is lower in more deprived areas (NAO, 2016). It could be that offering free childcare alone is not sufficient; making parents aware of the availability and helping parents overcome negative attitudes towards childcare may also be required if the target group is to be reached.

### Flexible working time arrangements

Many Member States provide flexible working time arrangements to workers, and many have taken steps towards improving these types of arrangements in recent years. These can help to increase household work intensity and solve work–life balance difficulties. For instance, the Czech Republic is preparing a new approach to family policy to improve the reconciliation of family and working life for employees with children and to promote gender equality in the labour market (Jahoda, 2016). One such measure is embedding

job-sharing in the labour code as a new flexible form of work that presents an alternative to part-time working arrangements. Another significant measure is a reduction in social security contributions for those employers who provide part-time contracts or job-sharing opportunities to employees caring for children under 6-years-old (or under 18-years-old where a child has disabilities). Both these measures could have a major impact on the functioning of the Czech labour market. Through minor adjustments to the labour code, another amendment targets the better protection of workers, especially after parental leave. Amendments to the State Social Support Act aim to improve flexibility in drawing parental benefits in order to take better account of the specific situations of families.

Even in the Nordic countries, where flexible working arrangements are most common, some workers are more likely to benefit than others. According to data from the Swedish Work Environment Survey, flexible working time arrangements in Sweden are a lot more common among people with a university education than among those with an upper secondary school education or lower attainment (Arbetsmiljöverket, 2016). For instance, out of those with a higher education qualification, 50% reported that they have flexible hours and 34% stated that they work from home a couple of hours a week. Among those with an upper secondary school qualification or lower, only 23%–25% worked flexible hours and only 10%–15% worked from home a few hours a week.

### Promoting career advancement and skills improvement

Measures that fall under this heading seek to increase individual earnings potential through upskilling or training. Several examples of this type of indirect measure for reducing in-work poverty exist.

The ‘I can do more 2015–2020’ programme in Bulgaria provides education vouchers for employees and self-employed people with low-level qualifications that can be used for professional training purposes. Since 2009, Estonia has benefited from the European Social Fund supported programme ‘Work-related training and development of adult education’. In the framework of the programme, free work-related training courses are provided to those with low-level qualifications and those whose qualifications have become outdated. An evaluation of its effect in 2010–2011 showed that the training courses had a modest positive effect on later labour market outcomes. The effect was higher for people with lower qualification levels, and the estimated average effect of training on monthly wages was about €30–€40 per month one or two years after the training, a 5%–6% increase compared with pre-training wages (Leetmaa et al, 2015).

In Romania, the labour code stipulates the right of all employees to receive employment-related training. Thus, employers are obliged to ensure, at their own expense and in consultation with the union, participation in training programmes for all employees, as follows: at least once every two years if the company has 21 or more employees, and at least once every three years if the company has fewer than 21 employees. In 2014, a volunteering law came into effect (Law 78/2014), which permitted volunteer work to be considered as professional experience; hence volunteers can acquire experience in order to gain access to better-paid positions.

In Sweden, from 2017, all adults will have the right to complement their previous studies and obtain an upper secondary qualification that gives access to higher education and improves their chances in the labour market.

In the UK, a small-scale programme, the UK Commission for Employment and Skills (UKCES) Futures Programme, was designed to address key questions about UK productivity, including how pay and career progression could be improved in the UK retail and hospitality sectors (UKCES, undated). The programme focused on seven case studies and evaluated what works. While the project provided examples of best practice, it was not intended to have nationwide implications. An evaluation of the programme found that establishing progression pathways can facilitate pay and career advancement opportunities for staff in hospitality and retail (UKCES, 2016). Large companies can build internal pathways, whereas smaller companies may need to

establish and use employer networks to enable employees to move between companies. Employers and line managers should be engaged in the process, and evidence of ‘return on investment’ (that is, presenting progression pathways as an investment rather than a cost) can help to convince employers, but no quantitative evidence was presented. Convincing shareholders to invest in staff development did not appear to be effective, and difficulties were found in translating best practice examples into company strategy. Similarly, other research has found little robust evidence showing that initiatives targeting work progression are effective (PPIW, 2016), and highlights the need for more research in this area.

### Improving the living standards of low-income earners

A range of measures can be seen to indirectly improve the living standards of low-income earners. Housing support is perhaps the most obvious measure. Through housing support, the cost of housing is lowered, thereby improving the living standards of low-income households.<sup>21</sup>

Rising housing costs pose a serious financial burden to many European households. Eurostat data show that in 2014, 29% of Europeans spent over a quarter of their total disposable income on housing costs.<sup>22</sup> Around half of people in working poverty and 69% of the workers experiencing deprivation say that total housing cost is a heavy burden. This is also the case in some of the countries with high home ownership: 88% of people in in-work poverty in Poland and 87% in Croatia say that housing cost is a heavy financial burden. But how does this relate to housing support?

Table 11 shows whether workers at risk of poverty and those experiencing deprivation are more worried about high housing costs compared with workers not in these situations. In addition, it shows average gross monthly housing allowances received. People who are not working and at risk of poverty or experiencing deprivation, on average, receive considerably higher amounts in housing allowances than workers who are at risk of poverty or experiencing deprivation. Perhaps as a result of lower amounts of benefits received if people are in employment, slightly more workers report housing cost as a heavy burden in some of the countries where housing allowances are generous: this is true, for example, in Germany, Denmark and Finland, but is not the case in France, the Netherlands, Sweden and the UK, perhaps because of the availability of social housing. However, in countries with low amounts of

21 Despite the high burden that housing costs impose on European households, few countries take this into account when measuring poverty. In the UK, the standard indicators of social reporting are calculated before and after housing costs are taken account of. In Estonia, upon calculation of a subsistence benefit, housing costs take into account the limits of the acceptable standards for dwellings. The subsistence level represents the minimum guaranteed income that a person should have after payment of housing costs (see also Salvi del Pero et al, 2016).

22 There are large variations: in Greece, the housing cost burden is most severe, but also in Denmark, Germany and the Netherlands, for over 40% of the population, housing costs represented more than a quarter of their total disposable household income.

allowances (or none), housing costs remain the heaviest burden. Croatia, Cyprus, Italy, Poland and Spain are examples. In Bulgaria and Romania, no housing allowance is received by any of the groups,<sup>23</sup> but

housing cost is less of a burden for people in in-work material deprivation in these countries than on average in the EU. This is because many of them are living in a house owned without a mortgage.

**Table 11: Burden of housing cost and housing allowances, EU Member States, 2014**

	Working, at risk of poverty		Not working, at risk of poverty		Working, in deprivation		Not working, in deprivation		Working-age population	
	Housing costs a heavy burden %	Housing allowances €	Housing costs a heavy burden %	Housing allowances €	Housing costs a heavy burden %	Housing allowances €	Housing costs a heavy burden %	Housing allowances €	Housing costs a heavy burden %	Housing allowances €
Austria	29	119	34	270	53	132	60	371	15	55
Belgium	50	25	63	24	68	17	75	28	30	5
Bulgaria	62	0	68	0	62	0	69	0	42	0
Croatia	83	13	88	75	87	5	89	64	66	16
Cyprus	76	35	90	117	91	150	96	253	77	159
Czech Republic	42	70	65	602	60	62	75	557	27	65
Denmark	27	351	24	425	44	445	36	871	13	215
Estonia	30	17	47	70	63	29	69	89	24	15
Finland	26	490	32	2,063	60	641	50	2,194	21	443
France	46	1,367	51	1,964	61	1,108	68	1,955	29	535
Germany	27	482	31	1,843	45	671	40	2,527	19	347
Greece	62	0	70	0	70	4	72	4	47	4
Hungary	60	43	75	89	61	28	73	60	36	23
Ireland	50	139	58	405	76	284	79	1,060	41	335
Italy	73	12	81	20	88	30	90	33	60	15
Latvia	52	42	66	67	58	30	74	62	36	20
Lithuania	44	8	56	19	60	3	65	13	31	4
Luxembourg	55	260	63	311	82	323	80	417	36	250
Malta	66	54	69	174	86	97	87	217	56	54
Netherlands	25	493	28	778	54	817	62	1,231	12	216
Poland	74	21	83	45	88	26	91	46	64	12
Portugal	54	11	58	9	63	15	72	12	40	15
Romania	46	0	55	0	57	0	65	0	38	0
Slovakia	47	0	73	3	70	1	80	2	33	7
Slovenia	50	19	64	83	71	22	80	73	36	12
Spain	70	11	82	29	86	15	92	45	59	18
Sweden	11	487	21	1,148	36	941	51	1,363	7	211
UK	43	651	57	2,502	72	1,394	73	4,171	30	791
EU	50	345	61	818	69	344	74	959	37	248

**Notes:** Housing allowances refer to means-tested interventions by public authorities to help households meet the cost of housing. These include rent benefits and benefits for owner-occupiers, but exclude social housing policy through tax benefits and capital transfers. Gross amounts are shown for the income reference period (12 months).

**Source:** EU-SILC 2014 microdata, weighted by PB040 or PB060, all working-age people

<sup>23</sup> Romania has a heating-aid benefit – see Box 3.

The OECD notes that most countries, including the majority of Member States, provide means-tested housing allowances to assist low-income households with their rent and other housing costs (Salvi del Pero et al, 2016). Furthermore, countries often have more than one measure in place, mostly in the form of housing allowances, tax deductions or rent control (for full details, see OECD, 2016).

Heating costs also represent a significant cost for households. Findings from the EQLS show that in 2016, there are still Europeans who cannot afford to keep their house adequately warm. This problem is particularly persistent in Romania, with 22% of respondents there reporting this problem. The country has developed a measure to assist low-income households with the cost of heating (see Box 3).

Another way of helping to increase the spending power of low-paid workers is assistance with transport costs. In Belgium, for instance, legislation ensures that if the distance between the employee's home and the workplace is more than 5 kilometres, employers reimburse transport costs. Since 2016, unemployed people in Bulgaria have been mobilised to seek work outside their place of residence, and families are supported in less-developed economic regions. People who have completed their education have the right to receive assistance covering expenses for rent, kindergarten, nursery and the internet in cases where they start working at a distance of more than 50 kilometres from their place of residence for a period of one year.

### Box 3: Romania – Heating allowances

Heating costs make up a significant share of total household costs in Romania (12.8% compared with an average of 7.2% in the EU) due to high gas prices. To support people with these costs, a heating benefit was introduced by law for the first time in 2003. The heating benefit programme as an indirect measure to reduce the risk of in-work poverty should be analysed, taking into consideration that social transfers in Romania do little to reduce poverty in general. A World Bank study (2015) shows that, in 2013, 35% of people in the lowest income quintile received the heating-aid benefit, while 12% received minimum income support and/or 11% received family support allowance (VMG). Yet, the ratio of the transfer amount received by those in the lowest income quintile over the total welfare aggregate of the beneficiaries is only 10% for the heating-aid benefit compared with 28% for VMG.

As such, the heating-aid benefit represents an important social measure and indirectly also acts as a measure to reduce the risk of in-work poverty. Within the context of the expected price rises in electricity, heating and gas in a free market, compensation for vulnerable families will be an important measure to reduce the risk of poverty.

### Summary

This chapter has examined what kinds of measures are in place in Member States to address the issue of in-work poverty. The varying use of direct measures highlights the importance of institutional factors when it comes to understanding and combating in-work poverty. The chapter has also identified a number of indirect measures, but finds that too few of these measures have been properly evaluated to fully understand their impact on in-work poverty.



## 6 Conclusions and policy pointers

Since the 2010 publication of the Eurofound study on the working poor, and in the context of the financial and economic crisis that began in 2008, the European labour market has undergone significant change. Not only have there been huge job losses, there have also been reductions in the number of hours that people work and increases in non-standard forms of employment, such as temporary work and self-employment. By examining trends in in-work poverty since the onset of the crisis, this study offers some insight, emphasising that the risk of in-work poverty is disproportionately higher among people who are obliged to work part time because they cannot secure a full-time job and among the self-employed without employees. The crisis years have also seen the development of more marginal work situations, where owing to an increase in temporary contracts, more people are more often in and out of employment. The study shows that people in this situation face a higher risk of in-work poverty.

The impact of the crisis on in-work poverty is not fully understood. This is partly due to the general lack of academic research on the impact of economic change and unemployment on in-work poverty. In line with earlier research, this report shows that different outcomes are obtained when in-work poverty is analysed in terms of material deprivation among workers as an alternative to using the EU-SILC in-work poverty risk indicator. Material deprivation seems to be a good complementary measure to understanding in-work poverty because it is more responsive to changes in economic growth, unemployment and social protection (Crettaz, 2015). At the same time, the composition of the measure also presents analytical limitations because of the small number of people that are materially deprived in Europe's wealthier Member States. However, as with the in-work poverty risk indicator, workers in non-standard employment in particular are identified as poor when the material deprivation indicator is used. Further research is needed to improve the applicability of the in-work poverty risk and material deprivation indicators in a comparative setting.

This report has also described the well-being and living conditions of the working poor. It shows that the working poor face significantly more social problems than the working-age population as a whole, pointing out how important it is to pay specific attention to this group and to better document the social situation of people at risk of in-work poverty. Irrespective of the measurement issues that exist, it is clear that a significant proportion of workers in many Member States face severe social problems. Furthermore, in the majority of countries, the 'usual suspects' are most at

risk, such as single parents, large families and migrant workers.

The report shows that in-work poverty is higher among people in non-standard employment and among the self-employed without employees. During the crisis years, the number of involuntary part-time workers, temporary workers and self-employed workers increased in many Member States. Although it is difficult to discern clear trends for both in-work poverty indicators used in this report at country level, these developments indicate that the proportion of Europeans at risk of in-work poverty is set to increase rather than decrease.

This calls for policy action to be strengthened. As it stands, however, the report has shown that at country level, in-work poverty has not received the attention it deserves. In many of the examples provided in this report, governments and social partners have approached in-work poverty through broader discussions of poverty, and much of the current debate is framed in terms of getting people into work. Despite early warnings, targeted policies that specifically address the needs of the working poor are rare. As the SPC noted in 2014, this generic approach does not help in the already difficult mission for countries to meet the Europe 2020 poverty targets.

The report has tried to provide some explanations for this situation. As highlighted above, in-work poverty is a complex problem that is difficult to capture. This may explain the lack of policy attention at country level and calls for more in-depth national research. It may also be that the crisis increased countries' focus on getting people into work and that the belief that work is the best protection against poverty prevails. Of course, ultimately, policy choices are derived from societal norms. Within the complexity of in-work poverty, this may be even more the case. Take the example of a two-adult household with two dependent children and only one adult working. The male breadwinner, in this particular example, is paid well above the minimum wage. Yet, he and his family are poor. Whether, and to what extent, their poverty status is construed as a problem of insufficient breadwinner earnings, or as a problem of non-participation or under-participation in the labour market by his partner, or indeed as a problem of insufficient childcare support, marks a fundamental difference as to what type of policy action is to be examined and favoured (Marchal et al, 2017).

Much of the policy focus has been on minimum wages because the assumption is that holding a job provides the best protection against poverty if individual wages are high enough. As has been pointed out in other studies (for example, Eurofound, 2017b), many

countries have increased their statutory minimum wages. While an adequate minimum wage is a core pillar of any model of social protection for the working poor, the link between minimum wages and in-work poverty is complex. In any case, focusing only on minimum wages is not sufficient to address the problem of in-work poverty because of the strong evidence that their impact on reducing poverty is slight (Matsaganis et al, 2015). It is clear that social protection is also important: in other words, policy attention should rather be on minimum household income.

Academic research has provided evidence about the effectiveness of social transfers as a way of combating in-work poverty. Overall, it suggests that in-work benefits and tax credits are good redistributive measures. At the same time, no strong link has been found between levels of means-tested benefits and in-work poverty. The relative in-work poverty indicator has often been used in such analyses, suggesting that this finding may in part be a measurement issue. It may also be because these benefits are based on individual earnings that do not take the overall household income into account. Again, this highlights the complexity of in-work poverty.

The report has also explored the deployment of indirect measures to combat in-work poverty, which to date have not received much policy attention. One advantage of these measures is their broad coverage – in other words, they can be seen to help in-work poor households without necessarily having these households as their main focus. Unfortunately, this can also be a disadvantage because of the risk that these measures will not reach the working poor. Skills improvement is a good example: while it is a widely implemented and effective measure to help people improve their chances in the labour market, for various reasons those in the most precarious jobs often do not have access to training measures.

By mapping the existence and implementation of different indirect measures across Europe, this report attempts to provide an initial overview. However, their impact has not been easy to assess and there is a need for more specific evaluation.

## Policy pointers

- An increase in in-work poverty during the economic crisis has had a broad social impact and is not merely a statistical issue. In-work poverty is a genuine problem across Europe that requires specific policy attention.

- In most Member States, the focus lies on getting people into work. While having work improves people's circumstances, it is not a remedy in itself for poverty. In fact, the focus on getting people into employment can lead to more in-work poverty if no attention is paid to the wages these workers receive and the households in which they live.
- The vulnerability of people in non-standard forms of employment appears to have increased during the recession. It is important that developments in in-work poverty among these workers and their households are carefully monitored to better assess their needs and the risks they face. It is also important that these workers have the same rights and access to social protection as workers with standard contracts.
- Considering the poverty risks workers face during spells of unemployment, measures are needed that facilitate the transition between jobs and that provide financial support during these periods.
- Countries could learn from policies developed to assist vulnerable groups, such as involuntary part-time workers; for example, measures that support their spending power or provide indirect help to raise living standards.
- It is important to take into account housing and childcare costs when measuring in-work poverty. In the UK, for instance, housing costs are integrated into standard indicators of social reporting so that household income before and after housing costs is calculated.
- For childcare to be an effective tool in combating in-work poverty, it must reach the target group – workers with young children who have lower levels of household work intensity and less stable jobs associated with lower earnings.
- Another important factor to consider is the impact of education. Considering the growing trend towards more high-skilled professions, investing in lifelong education should help to reduce in-work poverty in Europe in the long term.
- More policy evaluations are needed to understand better the effectiveness of measures that can help to address in-work poverty indirectly.
- In-work poverty is not easy to define and measure. In times of rapid economic change, especially, this makes it difficult to understand divergent developments between different groups of workers and between countries. Anchored poverty thresholds or material deprivation may provide a more simple approach for comparing in-work poverty trends over time.



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# Annex

## Country tables – Contributions from Eurofound’s Network of European Correspondents

**Table A1: Examples of alternative ways of measuring in-work poverty**

Country	Alternative way of measuring in-work poverty
<b>Estonia</b>	In addition to the EU-SILC definition, the absolute poverty concept is used. The absolute poverty rate indicates the share of people with equalised disposable income that is lower than the absolute poverty threshold. Absolute poverty is thus the estimated minimum income required for subsistence.
<b>France</b>	France frequently uses the threshold of 50% of median income instead of the EU-SILC threshold of 60%. Furthermore, the National Institute of Statistics and Economic Studies (Insee) uses an alternative definition of employment to that used by Eurostat, which is ‘an individual who is active for six months and has been employed for at least one month’.
<b>Germany</b>	The Socio-Economic Panel (SOEP) and the Income and Consumption Survey (EVS) use the same definition of the at-risk-of-poverty rate as the EU-SILC: where net income per household divided by the total of the equivalence weightings of members of the household, according to the OECD scale, is less than 60% of the median household income in Germany. However, the EU-SILC does not consider owner-occupied residential properties as income, whereas the SOEP and EVS do.
<b>Italy</b>	In addition to the EU-SILC definition, the National Institute of Statistics estimates the share of household reference people employed and self-employed living in absolute or relative poverty. Other estimates have used the net median hourly income.
<b>Netherlands</b>	<p>Both Statistics Netherlands and the Netherlands Institute for Social Research (SCP) consider poor people to be in-work poor when paid work is their main source of income. Poverty is measured principally using data from the Income Panel Survey (IPO), which in turn is largely based on tax data. This database has no information on the number of months or the number of hours worked.</p> <p>The Dutch government uses figures based on absolute poverty measures. The ‘low-income threshold’ indicator from Statistics Netherlands is equal to the social assistance benefit for a single person in 1979, after adjustment for price inflation. (In 1979, the purchasing power of this social security benefit was at its highest.) The SCP uses a budget approach based on the minimum expenditure needed for food, clothing, housing and social participation, as calculated by the National Institute for Family Finance Information (Nibud). This latter threshold is called the ‘modest but adequate’ criterion. For more information on both indicators, see Vrooman et al, 2014.</p> <p>Calculation methods tend to differ between local authorities, who are responsible for the implementation of welfare policies at the municipal level.</p>
<b>Romania</b>	<p>In addition to the EU-SILC measure, Romania uses the Survey on Family Budgets (ABF) to analyse the risk of in-work poverty. The ABF indicators are based on the concept of ‘precarious prosperity’, which describes the state of the population who have an income ranging between 70% and 90% of the median income per equivalent adult. This approach is relevant to in-work poverty since median income is much closer to the minimum wage than the average wage. The accelerated growth of the minimum wage in the past two years has led to even stronger representation of wages around the minimum wage level and to greater uniformity of employees falling into the large category of precarious prosperity.</p> <p>It is important to note that Romania has large territorial disparities in socioeconomic development, unemployment, self-employment in subsistence agriculture, poverty and in-work poverty, and both EU-SILC and ABF data are representative for the country as a whole.</p> <p>The project ‘Implementation of a system for the development of public policies on social inclusion at the Romanian Ministry of Labour and Social Justice (2016–2018)’ (SIPOCA 4) aims to collect local data. As part of this project, an alternative measure of poverty and in-work poverty was developed, based on data extracted from the heating-aid beneficiaries list (NIER, 2016). The beneficiaries are grouped into nine income brackets, covering the accepted minimum and maximum income for eligibility for the grant. With the exception of the highest income bracket, all other beneficiaries fall under the relative poverty limit.</p> <p>Based on the number of benefiting families in each income bracket and on the number of members of each family, one can estimate the poverty rate for the adult equivalent in each locality. It is necessary, however, to transform the income per person into incomes on adult equivalent, according to the modified OECD scale.</p> <p>The required information on the number of adults, and children over and under the age of 14 (data needed for the transformation from person to adult equivalent) is filed for each family requiring a heating grant. Data on occupation status can also be accessed for estimating the poverty rate at a local level. The poverty rate is calculated based on the number of people in the household. The in-work poverty rate is measured by intersecting the category of those in poverty with the category of employed persons.</p>

Country	Alternative way of measuring in-work poverty
Romania (Cont'd)	There are important differences in the manner of evaluating income based on analysis of a representative sample and the administrative procedure described above. While the first considers only the income available at a given time, the administrative procedure also takes into consideration assets that could be converted to income, for example, by selling or monetising assets. Eligibility for the heating grant and other social benefits may be affected, for example, by ownership of a second house, a car under 10 years old or land.
UK	There is no single definition of in-work poverty in the UK, but those that are used by government departments are conceptually similar to the Eurostat definition. Differences include whether the poverty line is adjusted for inflation (absolute) or not (relative), and whether housing costs are taken into account (before or after housing costs) (Department for Work and Pensions, 2016).

Table A2: Government action

Country	Government action
Austria	The Austrian tax reforms of 2015–2016 entered into law on 1 January 2016 and focused on reducing the taxation of labour mainly by decreasing marginal tax rates and so stimulating growth in consumption. Most notably, the tax rate within the first bracket of personal income tax was reduced from 36.5% to 25%, while tax credits for employees as well as the non-wastable tax credit for low earners were raised. The lower band of the 50% tax rate bracket was increased from €60,000 to €90,000.
Bulgaria	One of the levers for reducing the number of working poor in Bulgaria is the increase in the minimum wage. In 2016, the minimum wage was BGN 420 (around €215 as at 12 July 2017), an increase of 13.5% compared with 2015. The government's primary criterion in determining the minimum wage is that the net amount should be higher than the official poverty threshold, which also serves as a proxy for minimum living standards. In 2016, the official poverty threshold was BGN 300 (€153), and the net amount of the minimum wage was BGN 329 (€168). In the fourth quarter of 2016, an average wage of BGN 990 (€506) was reported, with yearly growth of 8.2% compared with the same quarter in 2015. The average wage for 2016 rose by 9.6% compared with 2015 and reached BGN 962 (€491). The rise in the average wage is mainly due to the growth of average wages in the private sector by 10.5% year on year, which thus reached BGN 954 (€488). For 2016, the minimum wage constituted 43.7% of the average wage.
France	<p>Since 2007, several policies focusing on in-work poverty have been implemented in France. The Activity Bonus (<i>prime d'activité</i>) was introduced in 2016. It aims to support the purchasing power of workers from the first euro of a worker's income. It also aims to alleviate the administrative burden. For a single person, the allowance is paid until it reaches €1,400 (net). The measure replaces the tax credit Employment Bonus (<i>prime pour l'emploi</i>, PPE) and the Active Solidarity Income (<i>revenu de solidarité active</i>, RSA). While still very new, it seems that in comparison with the previous measure, take-up of the Activity Bonus has improved (probably because of better public communication of the measure and because claiming is easier). In August 2016, 2.3 million households received the Activity Bonus, representing 4.7 million people. Unlike the RSA, young people (under 25 years) are eligible. One criticism is that the amount of support is limited, so the maximum it is possible to receive is €165 per month on average, depending on the type of household.</p> <p>In 2016, around 250,000 young people were employed under Future Prospects Contracts (<i>contrats d'avenir</i>), which are a form of subsidised jobs, coupled with a tax exemption. Even though recruitment decreased in 2014, the number of workers on subsidised contracts increased by 15% (Insee, 2016) (Future Prospects Contracts are not the only form of subsidised jobs). Women generally represent two-thirds of workers in subsidised jobs.</p>
Hungary	<p>Hungary's in-work tax credit has been replaced by broad but well-targeted tax incentives in employers' social contribution tax. The Job Protection Act (JPA) offers a significant reduction of the tax burden for categories of disadvantaged workers, such as those aged under 25 or over 55, the low-skilled, long-term unemployed and mothers with small children. This support, provided through employers' social contribution taxes, contributes to labour market demand for the target groups. By the end of 2016, the programme had reduced the tax burden for more than one-third of the sector's employment (public sector employers are not eligible).</p> <p>The introduction of the JPA has resulted in tax expenditure being better targeted and has boosted employment of the most disadvantaged socioeconomic groups. JPA tax expenditure provides the greatest benefit to households belonging to lower and lower–middle income categories, as opposed to the former general in-work tax credit, which provided most benefits to middle- and middle–high income categories. The JPA has proved marginally more cost-effective in the long run than a general tax credit for the same static fiscal cost.</p> <p>The former in-work tax credit, which was phased out above a certain income threshold (therefore increasing marginal tax rates), affected the labour supply negatively. Tax reliefs in the JPA do not have to be phased out above a threshold because targeting already ensures that it reaches low-productivity workers. Therefore, the JPA leads to greater work intensity and higher GDP in the long term than the in-work tax credit, even though their effect on the level of employment is similar.</p>
Ireland	A combination of policy measures has been adopted in Ireland to address the issue of in-work poverty. These include tax reforms such as tax credits, increasing the national minimum wage, maximising job creation and providing social welfare benefits. Under the new system of tax credits, all 'pay as you earn' (PAYE) employees are entitled to a tax credit known as the PAYE tax credit. Another important fiscal policy measure aimed at the working poor was to remove those earning the national minimum wage and less from the tax net. A further significant policy measure has been the eligibility of the working poor to in-work social welfare benefits, for example if their working hours fall below a certain threshold.

Country	Government action
<b>Italy</b>	<p>In Italy, several recent measures have the potential to lower in-work poverty. The Budget Law 2015 introduced incentives to create new permanent jobs with social contributions set at zero for the first three years and reductions in regional taxes (IRAP) on permanent labour costs. Further tax exemptions were introduced for productivity-related wage increments, and extended by the Budget Law 2017. These apply a 10% flat-rate tax to a maximum bonus of €3,000.</p> <p>The Budget Law 2017 includes exemptions from social contributions for farmers and professional workers in the agricultural sector aged under 40 (for a maximum of three years and with a reduction from the second year) whose farms are in disadvantaged areas. The Budget Law 2017 also reduced the contribution rate for the self-employed to 25%.</p> <p>A measure co-financed by the European Structural and Investment Funds provides €530 million to employers in southern regions who offer permanent contracts to young people aged under 24 and older workers who have been unemployed for at least six months. This comes with exemptions from social contributions of up to €8,060, reduced to €3,020 in the case of fixed-term contracts.</p>
<b>Latvia</b>	<p>A number of tax changes have been implemented in Latvia since 2013 in order to reduce the tax burden on low-paid workers. The tax rate was lowered by 1.7 percentage points from 43.6% in 2012 to 41.9% in 2015. The non-taxable share of the personal income tax was increased from €64 (LVL 45) in 2013 and 2014 to €75 in 2015. Since 1 January 2016, this share varies depending on a number of factors. The personal income tax rate was reduced from 24% in 2013 and 2014 to 23% in 2015 and 2016. Social insurance contribution rates were lowered in 2013 and 2014.</p>
<b>Luxembourg</b>	<p>The government has announced a major tax reform for 2017 that aims to improve the situation of low-income earners and reduce childcare costs. The tax credit for wage earners and for single-parent households with children will be doubled, which has a direct impact on in-work poverty. However, this measure will exclude part-time workers. In addition, a new 2015 law has introduced a housing grant.</p>
<b>Portugal</b>	<p>The 2016 National Programme of Reforms combats segmentation and precariousness through the creation of specific incentives for hiring the young unemployed or those looking for their first job, and the establishment of progressive measures to eliminate the use of precarious work and occupational type programmes in the public sector.</p> <p>The XXI Government Programme (2015-2019) includes a set of public policies that contribute to reversing the loss of income of families and workers; stimulating job creation and combating precariousness in the labour market; and protecting and strengthening social policies aiming at reducing poverty and inequality. Some of these measures were implemented at the beginning of 2016 (e.g. the update of the increase in the amount of the child benefit, the increase of the national minimum wage and the reversal of the nominal wage cuts in the public sector).</p> <p>Also in the draft law of the Major Planning Options 2017 it is recognised that the labour market continues to present worrying levels of segmentation and precariousness, especially among young people. In this perspective, in 2017, the government will continue the agenda of combating precariousness and promoting greater balance in labour relations, avoiding the excessive use of fixed-term contracts, ‘bogus’ self-employed and other atypical forms of work.</p>
<b>Romania</b>	<p>As the country with the highest risk of in-work poverty, Romania has developed policies that target the group most at risk, namely part-time workers in the agricultural sector. The National Strategy on Social Inclusion and Poverty Reduction 2015–2020 presents both people-based and area/sector-based policies.</p> <p>People-based policy measures concentrate on encouraging formal employment, implementing social assistance programmes, and improving the skills and professional abilities of low-paid workers and their ability to negotiate better pay deals.</p> <p>Area/sector-based policies target disadvantaged areas where the risk of in-work poverty is high (rural areas and the agricultural sector). Policies to alleviate poverty among workers include increasing their labour market participation, reducing the seasonality of their employment, and augmenting their income either by increasing their earnings or by allowing them to combine their relatively low earnings with financial assistance.</p>
<b>UK</b>	<p>The UK recently reformed its benefits and tax credit system into a single payment, called Universal Credit, which brings together in-work and out-of-work benefits. Universal Credit is currently being rolled out and is expected to reach full coverage by 2021. Since April 2017, new claims for Universal Credit are paid only in respect of the first two children in the family.</p> <p>A novel component is the focus on in-work progression and in-work conditionality to improve job prospects (House of Commons Work and Pensions Committee, 2016), but its effectiveness has yet to be evaluated. Furthermore, some benefits have been cut (for example, the benefits cap, which limits the total amount that can be gained from benefits, was introduced from November 2016), and working-age benefits, tax credits and local housing allowances were frozen for four years from 2016–2017 (HM Treasury, 2015 and 2016).</p> <p>Short-to-medium-term evaluations of Universal Credit pilots suggest that single unemployed claimants (the first group with which Universal Credit was trialled) were 8 percentage points more likely to move into employment within the first nine months of making a claim compared with a similar group of Jobseekers’ Allowance claimants (Department for Work and Pensions, 2015). This likelihood fell to 3 percentage points after nine months of making a claim, but remained positive and significant for men and women and across different age groups. The effects of Universal Credit on earnings also appear to be positive and significant, although small, and the data on this are less reliable because of variations in claimants’ past earnings. Evaluation has so far been restricted to single unemployed people, and does not mention the impact on incomes of households or the effect of Universal Credit on in-work poverty.</p>

Table A3: Trade union action

Country	Trade union action
Austria	According to the Austrian Trade Union Federation (ÖGB), the best protection against in-work poverty is full-time employment. Its campaign 'Down with the income tax' resulted in a lowering of taxes for low-paid workers.
Bulgaria	The Bulgarian Confederation of Independent Trade Unions (CITUB) insists on policies aimed at increasing the net income of the lowest-paid workers through the introduction of a tax-free threshold and progressive taxation. Also, the Bulgarian social partners – the Bulgarian Industrial Association (BIA) and the Confederation of Labour Podkrepa (CL Podkrepa) along with CITUB – are trying to extend the use of sectoral collective bargaining in order to implement measures to stop the growth in the numbers of working poor through, for example, insurance thresholds for positions and categories of staff, and by negotiating a wage formula based on 'labour productivity plus inflation'.
Croatia	Trade unions in Croatia state that one of the aims of raising the minimum wage from around 40% of the average wage currently to a proposed 50% is the elimination of poverty among the working population. A priority is therefore to obtain information on the share and profile of poor workers.
Czech Republic	In the Czech Republic, in-work poverty has become a key theme for the trade unions over the last two years, especially in the context of their intensive national campaign, 'End to cheap labour'. In 2015, the Czech economy witnessed strong growth, with an increase in GDP of 4.3% compared with the previous year. Economic growth in 2015 was the fastest in the previous eight years, and the number of unemployed people dropped significantly. Despite the continuous increase in wage levels, trade unions have highlighted that wage increases have not corresponded to the pace of economic growth. The aim of the campaign was to highlight the fact that wage levels lagged behind those in the rest of the EU and, consequently, to recommend that trade union members demand a minimum increase in wages of 3%–5% in collective agreements for 2016 and beyond.  Czech trade unions often mention the long-term underestimation of labour in terms of salaries. Generally, wage levels are very low. The low-pay threshold is defined as two-thirds of the gross national median wage. In 2013, the wages of 26% of women and 15% of men were below this threshold. Moreover, the concentration of people in the Czech Republic living just above the poverty threshold is high.
Estonia	In 2015, the Estonian Employer Confederation (ETKL) stated that reducing poverty is just as important as increasing wealth and improving the living standards of unskilled workers and retaining skills within Estonia. The chairman of the ETKL also pointed out that in-work poverty is the biggest challenge for Estonia, noting that the poverty line and minimum wage level are just too close to each other. However, he did not support a rapid increase in the minimum wage; instead, his position was that, firstly, the qualifications and education levels of low-wage earners should be improved and, secondly, job creation should be made cheaper for employers, for example by lowering employers' social contribution rates. The ETKL also argued that collective bargaining is an important tool for reducing in-work poverty.
Hungary	Trade unions in Hungary have put the fight against in-work poverty high on their agenda, taking into consideration the effects of the economic crisis and changes in taxation. The debate they have initiated is primarily about those working poor whose net wage income is less than the subsistence minimum. Trade unions have a clear stand: in-work poverty (in the above sense) has to be abolished. Should this happen, the situation of roughly one million workers (a quarter of the employed) will improve profoundly.  The most important trade union policy proposal is the 'Programme against in-work poverty' ( <i>Program a dolgozói szegénység ellen</i> ). It was developed by the Hungarian Trade Union Confederation (MASZSZ) in 2014, but the Democratic League of Independent Trade Unions (LIGA) also had a similar initiative. Their shared goal is that no full-time worker should earn less in net terms than the subsistence minimum. The essence of the policy proposal is a three-year (2015–2018) catch-up programme, to be agreed on a tripartite basis, that would raise the minimum wage by 47.7%. This requires annual 10% net wage increases on average. In 2015, neither the government nor the employer organisations supported negotiations towards this. However, the trade unions have not given up their endeavour, and the three major national confederations (MASZSZ, the National Federation of Workers' Councils (MOSZ) and LIGA) have fully adopted the programme, and continue to demand the minimum wage increase in two steps up to 2018.
Latvia	The Free Trade Union Confederation of Latvia (Latvijas Brīvo Arodbiedrību savienība) has started a pilot to test the re-introduction of in-work benefits.
Malta	Malta's social partners tend to advocate that rather than increasing the minimum wage itself, policies should be directed towards reducing the number of workers earning a minimum wage via education and better quality jobs.
Romania	The Romanian National Trade Union Confederation, Cartel Alfa, has expressed its concern for the high rate of in-work poverty in Romania compared with that in other EU countries, as well as the persistence and severity of this phenomenon. In order to redress this situation, Cartel Alfa has asked the government to develop public policies that reduce inequality and to develop a fair redistribution system, a progressive tax system, public investment and wider access to healthcare services and high-quality education.
Sweden	Although Swedish trade unions have so far not presented any policies explicitly to combat in-work poverty, sectors such as retail, cleaning, and hotel, restaurants and catering (Horeca) are active in the debate. Workers in these sectors are more vulnerable to a lowering of the minimum wage, mainly because a large proportion are low paid and working part-time or on fixed contracts. The Swedish Commercial Employees' Union (Handels) published a report on the issue of in-work poverty, pointing out the importance of a high minimum wage to ensure living conditions and economic independence, particularly for the large proportion of women and young people (Handels, 2013).



Country	Trade union action
UK	<p>The Trades Union Congress (TUC) is committed to tackling in-work poverty by encouraging employers to provide decent jobs (TUC, 2015) and to pay a living wage (TUC, 2014). Their interests are aligned with those of employers who voluntarily sign up to pay the living wage. Research suggests that employers are likely to pay the living wage for motives of ‘enlightened self-interest’ (Poverty Alliance, 2016), while trade unions are bargaining for higher wages on behalf of their members. It should be noted that in the two industries where low pay is most prevalent, unionisation is low in Horeca but is considerable in the wholesale and retail trade, where the representative union, USDAW, is one of the largest in the UK.</p> <p>The change in the TUC’s actions since the economic crisis has not been targeted at the reduction of in-work poverty specifically, but has instead been aimed at counteracting the government’s approach to austerity (for example, to strengthen Universal Credit: see Table A2). The TUC routinely publishes policy proposals in relation to in-work poverty under the ‘Britain needs a pay rise’ campaign. These encourage employers to pay the minimum wage or the living wage.</p>

Table A4: Employer organisation action

Country	Employer organisation action
Bulgaria	<p>Bulgaria’s social partners unanimously agreed that the net amount of the minimum wage should not be below the official poverty line for the country.</p> <p>The government’s most recent tax package (November 2016) aims to reduce the general tax burden on workers while increasing the minimum wage for skilled and unskilled workers. This measure was supported by both employers and employees; it was accepted by the private sector and the government’s Permanent Consultative Forum (VKF).</p>
Romania	<p>Despite being affected by the financial crisis, most of Romania’s employers tried, some with success, to ensure decent wages and working conditions for their employees, but they also hold responsible the inefficient bureaucracy of local communities and the lack of political vision regarding economic stimulation and development. They supported the government’s measures on tax exemptions and subventions for any new employee or graduate, and participated in collective bargaining for the minimum wage. With respect to this issue, employers requested an equitable social security system, claiming that a large share of companies’ income goes on salaries and taxes, and that employees should be excluded from social assistance schemes if their minimum gross salary will increase in the future. Employers oppose undeclared work, saying that it should be reduced using active measures such as tax reductions applied directly to employment. Some employer representatives required changes to the labour code by stipulating fixed work periods, simplified recruitment and dismissal procedures, flexible working time, and regulations on working at home. Also, by the end of 2015, most employers supported various training programmes for low-paid workers that had been initiated by the unions, but without consistent job growth they have found these to be ineffective.</p>





The ‘working poor’ are a substantial group, the latest estimate putting 10% of European workers at risk of poverty, up from 8% in 2007. This report describes the development of in-work poverty in the EU since the crisis of 2008, picking up where an earlier Eurofound report on this subject, published in 2010, ended and looks at what countries have done to combat the problem since. This endeavour is complicated by the policy focus on employment as a route out of poverty, underplaying the considerable financial, social and personal difficulties experienced by the working poor. The increase in non-standard forms of employment in many countries appears to have contributed to rising in-work poverty. The report argues the case for greater policy attention and action on the part of governments, employers and social partners, not only through direct measures associated with both the minimum and living wage, progressive taxation, in-work benefits and social assistance, but also and more importantly through indirect measures such as more flexible working arrangements, housing, upgrading of skills and childcare.

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**The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social, employment and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75, to contribute to the planning and design of better living and working conditions in Europe.**