Global Workplace Law & Policy

In-Work Poverty: Is the EU Up to the Challenge?

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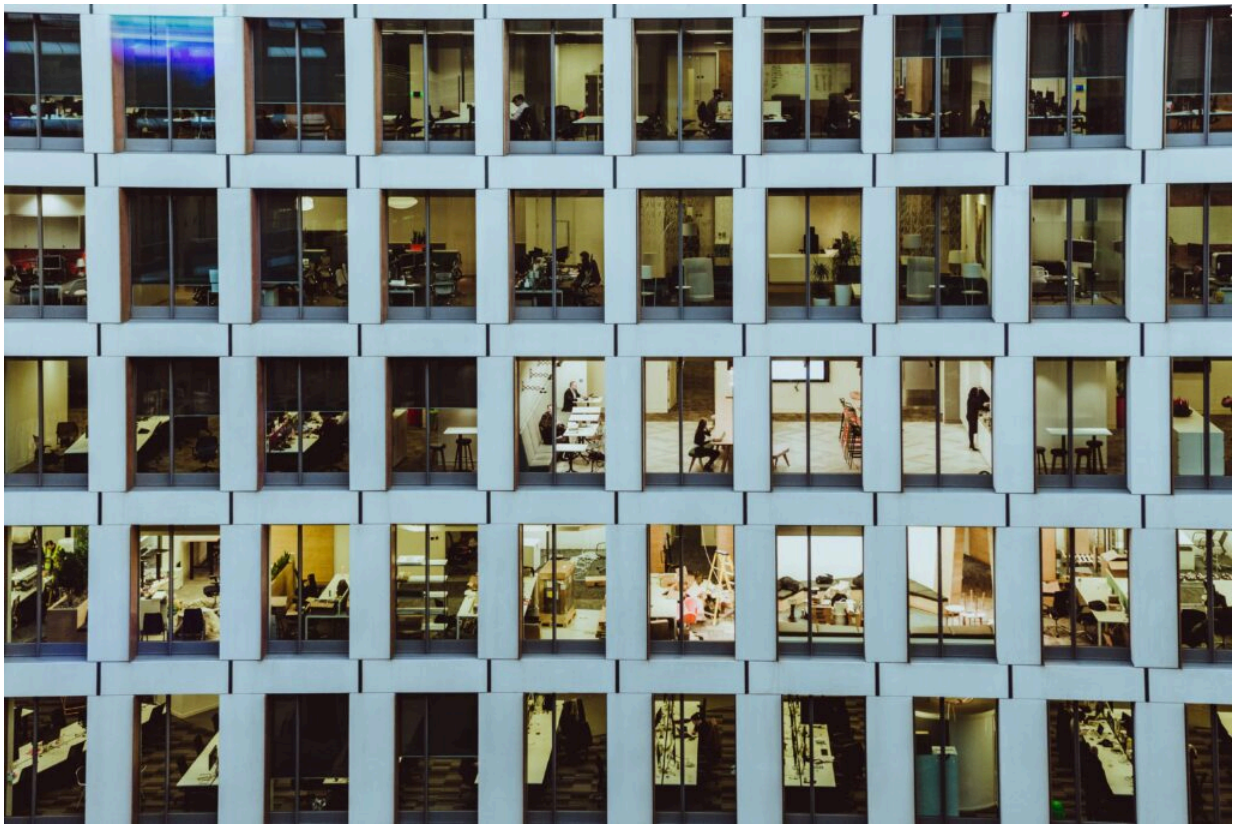

A growing body of research is devoted to in-work poverty. This should not come as a surprise. If poverty was long perceived as a problem associated with worklessness, the stubborn reality of high rates of poverty among workers in poor countries and the increasing inequalities in the growth of earnings in richer countries has changed this vision.[1]

In the EU, the fight against in-work poverty was not, until very recently, distinguished from the overall goal to reduce poverty. Reducing poverty was one of the overall objectives of the Lisbon strategy, with a strong focus on workfare models advocating for job creation.[2] In this vision, entering the job market was seen as the way out of poverty, and any job, though precarious, was seen as a better option than no job. This equation, however, clashed with a changed economic reality. Getting people into work proved not to be enough, as shown by empirical data on the incidence of in-work poverty in the EU.[3] In 2021, almost one in every ten workers in the EU was at risk of poverty.[4]

Increased Awareness

Although a first step to increase awareness of in-work poverty in the EU was the adoption in 2003 of the 'in-work at-risk-of-poverty' indicator as part of the EU's set of social inclusion indicators,[5] the qualitative change in the perception of in-work poverty has been the adoption in 2017 of the European Pillar of Social Rights (EPSR). It is in the Pillar where, for the first time, in-work poverty is recognised as one of the problems that the EU must address. Since then, in-work poverty features high in the EU policy agenda.[6]

But addressing the problem of in-work poverty is not an easy task. To assess whether the actions adopted by the EU are up to the challenge, one must first understand where the roots of the problem are. This is a complex endeavor, since in-work poverty is, indeed, a multidimensional phenomenon. Part of the complexity stems from the way we measure in-work poverty. In the EU, we use the 'in-work at-risk-of-poverty' indicator, which offers a monetary measurement of poverty showing disposable (this is, after taxes and social transfers) equivalised incomes at household level.

The In-Work at-risk-of-poverty Indicator

The in-work at-risk-of-poverty indicator combines an individual dimension, which considers the incomes of individual workers, and a household dimension, since the disposable income is measured at household level. It takes into account the size and composition of the household, by applying the OECD equivalence scale(hence, measuring equivalised incomes). The indicator offers a relative measure of poverty, establishing a threshold relative to median incomes in a given society below which poverty occurs; this threshold being set at 60% of the median equivalised disposable income.

The combination of the individual and household dimensions captures the real fact that workers are not isolated and live in households where economies of scale occur. But it also creates important difficulties, adding complexity to the picture. For instance, despite the fact that women are in a more precarious position in the labour market and the existence of gender pay gaps in all European countries, the risk of in-work poverty is higher for men than for women. This apparent paradox is explained when the household dimension is considered, since many women are second earners, thus hidden by their partners' contribution to the household[7].

Likewise, being a relative measurement of poverty, the meaning of the indicator changes in different national contexts: it is not the same to be working poor in Greece or in Luxembourg, although in-work poverty levels are higher in the latter. When looking at absolute measures of poverty, such as material deprivation, a different picture appears. Finally, beyond the niceties of the measurement, there are many factors with an influence on the risk of in-work poverty, from individual factors, such as the employment situation of individuals and their socio-demographic characteristics, to household (size, composition and work intensity of the households where the individual worker lives) and institutional factors, such as social transfers and benefits, public services and labour market institutions.[8] Given this complexity, any policy response aimed at tackling in-work poverty must necessarily adopt a multidimensional perspective combining different measures across several regulatory fields.

The EU Pillar of Social Rights as Game Changer

How has the EU responded to the problem of in-work poverty so far? First of all, by

acknowledging it. The EPSR mentions now in its Principle 6, devoted to wages, that '*in-work poverty shall be prevented*'.

Although this is the only explicit mention, other principles of the Pillar, such as Principle 12 on social protection or Principle 14 on minimum incomes, are also called to have an influence on the fight against in-work poverty.

Furthermore, the European Commission has adopted an action plan for the implementation of the Pillar which so far has resulted in a number of initiatives that are likely to have an impact.

The Role of Adequate Minimum Wages

Firstly, the adoption of the directive on adequate minimum wages on 19 October 2022 is an important step. Although the correlation between low wages and in-work poverty is weak,[9] the risk of in-work poverty is higher for those with low salaries. Despite its shortcomings, the Directive will likely have a positive impact in several EU Member States, particularly those where minimum salaries are still too low or not universally applicable, and where social partners still struggle to influence wage setting[10]. Minimum wages are not, however, a silver bullet to end in-work poverty, and they need to be understood, when settled at an adequate level (arguably, around 60% of the median wage), as one instrument among many others that complement each other to tackle the problem.

Expanding Access to Social Protection

The 2019 Council Recommendation on access to social protection for workers and the self-employed must also be welcomed. It can be argued that the Recommendation, not being a legally binding instrument, falls short in implementing Principle 12 of the EPSR. Nonetheless, its content must be positively assessed. Importantly, the recommendation adopts a broad personal scope that clearly includes in the field of social protection the self-employed, precisely one of the groups of workers with higher risk of in-work poverty. Likewise, in September 2022, the Commission issued a proposal for Council Recommendation on adequate minimum income ensuring active inclusion, aiming to implement Principle 14 of the EPSR. The aims of this proposal are explicitly aimed at fighting poverty and social exclusion. The importance of safety nets and minimum incomes in attenuating in-work poverty is evident, since they impact especially those households with lower work intensity. The effectiveness of this initiative will largely depend on how the situation of need is defined in practice as well as on how active inclusion and labour market integration is understood.

Holistic Approach to Tackle a Multi-Dimensional Phenomenon

The described initiatives, and the fact that in-work poverty is now acknowledged as a self-standing problem that must be tackled, are steps in the right direction. They complement each other and can potentially contribute to the diminution of in-work poverty levels in the EU by protecting the most vulnerable workers and households. However, their final impact will very much depend on how they are implemented. Active collaboration of the Member States to make the most of them will be crucial. Likewise, coordination with existing policies at national level must be strengthened and further developed. Last, these actions would need to be complemented with other initiatives, such as improvements on unemployment protection, child benefits, access to public services or more redistributive and just tax policies.

The fight against in-work poverty may be long and difficult. The EU has a role to play. The first steps have been taken, but they are only the beginning. Much more needs to be done to help those in need that, despite contributing to our societies with their work, are excluded of the benefits due to their situation of poverty. It is a matter of social justice where dignity is at stake.

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References

[1] Lohmann, H, 'The concept and measurement of in-work poverty' in Lohmann, H; Marx, I., *Handbook on In-work poverty*, Edward Elgar, 2019.

[2] European Commission, COM (2005) 24 final, *Working together for growth and jobs. A new start for the Lisbon Strategy*.

[3] Eurofound, *In-work poverty in the EU*, Publications Office of the European Union, 2017, p 4.

[4] The in-work at-risk-of-poverty rate for 2021 is 8.9%. See data at Eurostat (ILC_IW01)

[5] Marx, I; Nolan, B, *In-work poverty*, GINI discussion paper 51, 2012, p 11.

[6] See for example the Resolution of the European Parliament of 10 February 2021 on reducing inequalities with a special focus on in-work poverty (2019/2188 (INI)).

[7] More on the gender paradox on https://workingyetpoor.eu/deliverables/.

[8] Ratti, L; García-Muñoz, A; Vergnat, V, 'The challenge of defining, measuring, and overcoming in-work poverty in Europe: an introduction' in Ratti, L (Ed), *In-work poverty in Europe. Vulnerable and Under-represented Persons in a Comparative Perspective,*Bulletin of Comparative Labour Relations, vol. 111, Wolters Kluwer, 2022.

[9] Bennet, F., *Rethinking low pay and in-work poverty*, IPPR Progressive Review, Volume 24(4), 2018. Accessible here.

[10] This is at the basis of the recent proposal by the EU Commission for a Council recommendation on strengthening the social dialogue (https://ec.europa.eu/commission/presscorner/detail/en/ip_23_290).

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