

Expert seminar

# Working Poor

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ICSW Europe, ICSW Denmark

## **Background note on in-work poverty**

Until now in-work poverty has not received much attention among social workers in Europe. However, in recent years, the working poor have become a growing topic for debate, especially in light of the economic crisis and insecurity on the labour market. Also opening of the labour markets in the European Union means keen competition on jobs and wages. In-work poverty is an important element of poverty and social exclusion in general and conditions for social mobility.

The working poor are working people whose incomes fall below the poverty line. While work is often the best pathway out of poverty or reducing risk of poverty, employment does not always guarantee an adequate living standard or maintain the income of the household in which a person live. Although poverty is often associated with joblessness, a significant proportion of the poor are actually employed. This challenges the overly simplistic notion that access to employment is a sufficient condition for escaping poverty.

### **Global in-work poverty**

Referring to ILO's Global Employment Trends 2012 there are 900 million working poor below US\$2 a day poverty line (30 per cent). 456 million workers are living in extreme poverty below the US\$1.25 a day poverty line (15 per cent).

Because of growth and economic development in East Asia, not least China, the number of extreme working poor has declined since 2000 by 233 million workers. However, there has been a marked slowdown in the rate of progress in reducing in-work poverty since the crisis began in 2008, and in-work poverty remains widespread in many countries. A projection of pre-crisis trends shows 50 million more working poor in 2011 that expected on the basis of pre-crisis trends. Many workers have lost their job or work fewer hours, two situations that raise the risk of poverty. For the most vulnerable groups, working full-time does not always provide a solid pathway out of poverty.

### **Working poor in EU and OECD**

In-work poverty is not only a problem in poor countries. In EU, 8.6 per cent of the employed population is working poor in the sense of having an income below 60 per cent of the national median income (2008), representing 15 per cent of the at-risk-of-poverty in EU.

Since most working-age people are employed, the working poor constitute the largest target population for anti-poverty policies in all OECD countries. On average they account for more than 60 per cent of all working-age poor in the OECD countries. The working poor often have short part-time work or short employment spells over the year. In the context of the current economic crisis, where workers face substantial reductions in working hours, extended leaves or are simply losing their jobs, the rate of in-work poverty may rise significantly, particularly for those on the margins of the labour market. A new facet in in-work poverty has recently emerged: Migrant workers have become a new group of working poor in Europe. In many cases they don't have access to welfare schemes and social benefits.

### **Globalisation and redistribution**

Due to internationalisation and globalisation, labour markets undergo a transformation with a growing polarisation between low or unskilled work and high skilled work and growing integration of global labour markets. Negotiated labour markets are under threat from open competition and

during the last 30 years there has been a decline in the income labour share and increasing earning inequalities. Figures on undeclared work are rather sparse but are quite high in some countries.

### **Who they are**

Young people account for a disproportionate share of poor workers. Low education is typically associated with a higher risk of in-work poverty. Often the working poor are trapped in a vicious circle of low levels of education and low-productivity employment. Single parents with dependent children face a higher risk of in-work poverty. Also some specific features of the labour market such as low pay, precarious employment and inability to find full-time work is linked with in-work poverty. Those on temporary contracts or in part-time jobs are facing a much higher risk of poverty.

### **Social transfer**

Social transfers play a key role in reducing poverty among jobless people and, to a lesser extent, among those who are working. In some countries, high income compensation in case of unemployment means a solid barrier against in-work poverty. However, more than half of OECD countries now offer in-work benefits. That means transfer payments that top-up earnings of low income workers. These benefits do not only redistribute resources to low-income families, they also make employment more attractive for workers with low earnings and they strengthen financial incentives to work.

### **Trade unions**

Trade unions are important players to counteract in-work poverty through collective agreements that lift minimum wages above poverty level. Discussions about alleviation of in-work poverty are politically charged. Some attribute in-work poverty to overregulation and over-taxation which they claim constricts job growth. To reduce in-work poverty they advocate reducing welfare benefits and enacting less stringent labour laws. Others argue that in-work poverty can only be solved through government intervention and reforms such as a decent minimum wage, living wage laws, job training and life long learning. Often the political debate about working poor is mixed with a debate on welfare dependency.

## **Recommendations to combat in-work poverty:**

Combating in-work poverty rests on bargaining between the social partners and legislation or a combination of both. The situation on in-work poverty in ICSW's member countries varies, the labour markets are different and the influence of trade unions is different. The specific strategy to combat in-work poverty must vary from country to country. ICSW will support independent trade unions in their fight to abolish and reduce the growing numbers of working poor. We urge, in countries where the trade unions are relatively well grounded, the unions and member organisations to contribute specific to strengthening and setting up independent trade unions in countries, where independent trade unions still are in the making. ICSW can not interfere in the activities of sovereign trade unions, of course, but wants hereby to make clear what ICSW thinks should be done. ICSW encourages other NGOs to contribute to this effort. ICSW wants to be actively engaged for promoting an understanding of the fight against in-work poverty nationally as well as internationally, and that in particular trade unions must be in the lead of showing concrete international solidarity.

*Below are listed some general recommendations:*

### **Strengthening the social dialogue**

Strong and competent organisations of interests and a proper social dialogue is a prerequisite for a regulated and negotiated labour market with law and order. This is primarily a task for trade unions and employers' associations to develop negotiating procedures and to organise members of the labour market as well as to qualify the arguments to solve conflicts of interests. However, society in general has an interest in the conditions on the labour market, and social dialogue between the social partners and governments should be the driving force behind the modernisation of the labour markets and strategies of growth and employment, respecting human rights. Open labour markets and mobility should not be at the costs of workers' right, bargaining and social dialogue. Combating in-work poverty is a shared responsibility of the social partners, the member states and the European Union and should be an integrated part of the European employment policy. The European Union should facilitate well-functioning labour markets with effective institutions to solve conflicts between the partners as a foundation for employment and economy. The European labour markets must solve two conflicting interests: competition and adequate protection of the employed. The conditions of employment should be improved through a well-organised labour market, not by weakening employees' protection and weakening of negotiations procedures.

### **Social dumping**

Social dumping are disruptions in the labour market. They create tensions and conflicts among the employed and between the member states but also between employers who follow agreements and employers who don't. Social dumping leads to an increasing informal labour market. Fair competition is a necessary condition for progress and development of the economy and for acceptance of the European Union. Grey, black and illegal activities on the labour market should be combated with determination. The Union and the member states need better instruments to register proper companies for serious business and to control and prosecute companies that exploit the employees. High social standards on the labour market are incentives to productivity and innovation, and the single market and free movement of labour must not cause weaker standards in the member countries. Any jobs should fulfil some basic demands such as right to health insurance, paid holidays, unemployment benefit, pension and healthy conditions and safety. Concerning working conditions, there should be minimum standards reflecting the dignity of man. Countries

and social partners that want better conditions should have the freedom to pursue these. To avoid social dumping, the instrument of chain-responsibility is effective: The main contractor is responsible for the wage and working conditions also for sub-contractors.

### **Decent minimum wages**

In-work poverty means living conditions below the poverty line. This is against the nature of work and jobs. In agreement with the social partners, there should be a minimum, decent wage in all member countries, that keeps the employed free of poverty and stop a race to the bottom of wages in free competition. The minimum wage should reflect the level of costs in each individual country and allow a life in dignity.

### **Minimize temporary work**

Temporary work is associated with in-work poverty. Often these jobs are precarious and of low quality with no further education and labour market pension schemes and no insurance against unemployment, and the attachment to the labour market institutions in general is weaker, for instance access to a shop steward. Temporary contracts are natural for some jobs that are time limited or seasonal. However the number of temporary workers is rising as a way to reduce costs and avoid rules and regulations on the labour market for bigger groups of workers. Employment policy should focus on secured jobs of high skills making Europe more competitive on quality jobs. A competition strategy on low wages will not be successful since other parts of the world can compete with even lower wages.

### **Education and Lifelong learning**

Education and lifelong learning is crucial for combating in-work poverty. Low- or unskilled workers are particular at risk of poverty, and quality jobs should allow for valorising existing skills and provide the employees with opportunities to further develop their skills and professional competences through access to training as part of work life. Education reduces the risk of in-work poverty and poverty in general, but many young people don't start or finish a youth education leaving them vulnerable to unemployment and exclusion from the labour market. Europe has a great challenge in motivating and preparing children and young people to a learning society, characterised by research, innovation and high technology, taking into account that some social groups are unfamiliar to education and need special attention.

### **“Fair-work”**

The concept of “Fair-work” is inspired by the concept of “fair-trade” and means the consumers are ensured the employees have been paid a fair wage when they buy a product with a “fair-work” stamp. A “fair-work” stamp is raising awareness on the social conditions under which production takes place, and fair-work is an element of the company's ethical accounting.

### **Better statistics**

Surveys show that in-work poverty is a growing phenomenon in many EU-countries. However, better national and European statistics are needed to combat in-work poverty. Often information is missing, for instance on part time workers. Labour market decision should be based on solid knowledge and facts, not on assumptions or even ignorance. Also it is important to be specific on terms used to describe in-work poverty which is something different from low income or poverty in general.

### **Family policy**

Family or household conditions play an important role for experiencing in-work poverty. A low wage does not necessarily mean poverty. However, a household with no employed means a much higher risk of poverty. Single bread winners face a high risk of poverty. To promote a dual earning system and develop family policies, care institutions are an important instrument in combating in-work poverty. Also social services to children can take a family out of poverty, for instance free school meals, free dental services and free glasses as well as a generous health care policy. Also equal paying for equal jobs could mean a better economy for a family.

### **Redistribution and social welfare**

In the name of fiscal consolidation, the social welfare states are being cut back. However, redistribution of income and social welfare are among the most important factors in combating in-work poverty and compensating inequalities on the labour market. Therefore, generous social service is an important instrument to combat in-work poverty and alleviate the impact of poverty. A generous social welfare is keeping up wage on a level of non-poverty on the labour market and increases social mobility. The need for social welfare is increasing during the crisis and high unemployment, and smart social welfare and welfare investment could be an instrument to reinvigorate the European economies and enhance employment and jobs. However, because of austerity measures, social welfare is being cut down leaving a great part of the population with increased pressure, insecure and precarious work, exclusion, inequality and poverty. Fiscal policy should be refocused to reduce unemployment as a priority of the EU.

### **Declining labour share**

The need for social welfare must be perceived in the light of a decline in the labour share of income (wages, salaries and benefits) during the last 30 years, not least for the unskilled sectors. The gap between labour and capital's share of income has widened. The distribution of wealth is a question of social power, the basis of which is control and ownership of capital and resources. Against this, popular movements and trade unions must defend the welfare state as an important instrument against poverty.

### **Taxes**

Taxes should be employment friendly and their redistributive effect progressive to the benefit of employees with low income. The European Union must co-ordinate a common action against tax evasion and fraud.