

Opinion of the European Economic and Social Committee on 'Work and poverty: towards the necessary holistic approach' (Own-initiative opinion)

(2009/C 318/10)

Rapporteur: Ms PRUD'HOMME

On 24 February 2009 the European Economic and Social Committee decided to draw up an own-initiative opinion, under Rule 29(2) of its Rules of Procedure, on

'Work and poverty: towards the necessary holistic approach'

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 1 September 2009. The rapporteur was Ms Nicole PRUD'HOMME.

At its 456th plenary session, held on 30 September 2009 and 1 October 2009 (meeting of 30 September 2009), the European Economic and Social Committee adopted the following opinion by 173 votes to two with seven abstentions.

1. Recommendations

For employees as well as some self-employed workers, in-work poverty is a complex issue involving many inter-related criteria. A holistic approach would help identify effective mechanisms to overcome the challenges.

1.1 A core objective of the European project should be quality jobs for all.

1.2 The working poor should be a regular topic on the agenda of the European social dialogue.

1.3 Research tools should be finalised as soon as possible in order to refine our understanding of these situations, showing European divergences, but also convergences.

1.4 New ways of combining social protection and jobs should be explored and introduced in order to secure decent incomes for all workers and thus create the conditions to enable them to meet their basic needs (housing, healthcare and education for themselves and their children, etc).

1.5 Effective initial and lifelong vocational training for quality jobs should be ensured; measures should be taken at various levels (national, regional) to create an environment that discourages young people from dropping out.

1.6 Efforts and discussions concerning flexicurity should be pursued in order to find a new balance between flexibility (essential for businesses) and the real means to provide

greater security (protection for workers) and stem the rise in in-work poverty with a view to its eradication.

1.7 The year 2010, declared 'European Year for Combating Poverty and Social Exclusion' by the Commission, should be an opportunity to foster awareness and action on these issues at EU and Member State level.

2. Context

2.1 A body of learned research, proposals and innovations developed at EU level and aimed at the 'working poor' illustrates how work is not necessarily a safeguard against poverty, especially in the current socio-economic framework.

2.2 In its Proposal for the Joint Report on Social Protection and Social Inclusion 2009 ⁽¹⁾, based on the new National Strategic Reports, the Commission stressed the importance of the working poor and quality jobs. The topic and the concrete issues it sets out are well in line with EU-level action on 'active inclusion'. We have the double concern of fighting pauperisation and supporting the development of quality jobs for all.

2.3 The issue becomes twice as important in a crisis due to the substantial resurgence of unemployment and growing tensions over public finances. Nevertheless, we need to step back from the immediate situation and view this issue as one that needs to be tackled in the light of current exceptional circumstances, naturally, but also as a structural issue at the heart of positive and desirable medium and long term developments in social protection and employment policy.

⁽¹⁾ COM(2009) 58 final.

2.4 The Commission, which is working on a document on work and poverty, has declared 2010 the European Year for Combating Poverty and Social Exclusion. Indeed, 80 million people in the EU, i.e. 16 % of its population, are directly affected by poverty. They include a substantial number of 'in-work poor'; 8 % of people in work are living below the poverty line ⁽¹⁾.

2.5 In its opinion on the *European Year for Combating Poverty and Social Exclusion (2010)* ⁽²⁾, the Committee pointed out that alongside the usual indicator of relative income poverty, other measures of poverty, showing its persistence and the actual deprivation suffered, are necessary to fully appreciate the extent of the problem. Beyond these technical details, comparisons, which are now possible thanks to an agreed definition at the European level, provide a clear picture of the trends.

3. Definition

3.1 When using the term 'in-work poor', we need to define both terms, i.e. 'in-work' and 'poor'. A worker's 'poverty' depends partly on individual earnings over the period of the employment contract (remuneration for work) and partly on the family's overall material resources. Work constitutes an individual's professional activity. Poverty constitutes the inadequacy of resources to cover the entire household's needs. Sometimes people who are not poor and/or not apparently poor may be unexpectedly precipitated into poverty.

3.2 Poverty is defined at the household level, whereas work is defined at the level of the individual. We are therefore mixing two levels of analysis. In-work poverty first depends on the employment situation of individuals and the characteristics of their employment and then on their household's standard of living. This double evaluation leads to difficulties. Individuals may be badly paid but not considered as poor (because the other family resources are more substantial). On the other hand, individuals may be qualified as poor even though their remuneration is close to the average national income and considered adequate by the society of which they are part. Some may be out of work (unemployed) but in receipt of benefits well above the poverty line. Others may, on the other hand, be very actively employed, but poorly remunerated and with many dependents, and therefore find themselves living below the poverty line.

3.3 It therefore follows that addressing in-work poverty at the political level simultaneously involves employment, welfare and social insurance, and family policies.

⁽¹⁾ Eurostat, *Statistics in focus*, 46/2009.

⁽²⁾ EESC opinion of 29.5.2008 on the *Proposal for a decision of the European Parliament and of the Council on the European Year for Combating Poverty and Social Exclusion (2010)*, rapporteur: Mr Pater, co-rapporteur: Ms Koller, (OJ C 224, 30.8.2008).

3.4 Under the European Employment Strategy, itself part of the Lisbon Strategy, reducing the number of people in working poverty has become an EU priority. It was therefore necessary to set an indicator in 2003 for purposes of evaluation and comparison. In July 2003, in the context of its work on the Social Inclusion Process, the Social Protection Committee of the European Union adopted a common indicator to assess the proportion of working poor in the EU as well as some of their key socio-demographic characteristics.

3.5 According to the Social Protection Committee's definition, the working poor are those individuals who have mainly been employed during the reference year (either in wage and salary employment or as self-employed) and whose household equivalised disposable income is below 60 % of national median equivalised income. Individuals need to have been in work for more than half the year. The 'at risk of working poverty' indicator in fact identifies anyone who has been in work for at least seven out of twelve months during the reference period as being in work ⁽³⁾.

4. Statistical evaluation

4.1 At the end of 2008, the Commission published its annual report on social trends in the Member States in the context of the common goals of the EU social protection and inclusion strategy (see appendix) ⁽⁴⁾. It reveals that at the end of 2006, 16 % of Europeans were at risk of poverty. 8 % of workers in the EU were living below the poverty line. These figures range from 4 % or less (Czech Republic, Belgium, Denmark, the Netherlands, and Finland) to 13 % or 14 % (in Poland and Greece respectively) ⁽⁵⁾. In-work poverty is linked to low pay (defined as 60 % below the average), low qualifications, low job security, low pay for some self-employed workers, and (often involuntary) part-time employment. This type of poverty is also linked to the economic status of other household members. The Commission notes that in the case of households with children, a single income is no longer enough to ward off the risk of poverty.

4.2 The monetary poverty indicator is often criticised because it does not accurately reflect the many different forms of pauperisation. Income poverty is clearly only one aspect of poverty. Other indicators are being developed in the European Union and present a different and complementary picture of the realities of poverty.

⁽³⁾ For further details and significant developments, see Guillaume Allègre, *Working poor in the EU: an exploratory comparative analysis*, OFCE working document No 2008-35, November 2008; Sophie Ponthieux, *The working poor as a statistical category - Methodological difficulties and exploration of a notion of poverty in earned income*, INSEE working document, No F0902, March 2009.

⁽⁴⁾ Joint Report on Social Protection and Social Inclusion 2008. http://ec.europa.eu/employment_social/spsi/joint_reports_en.htm. See all data relating to the work of the open method of coordination: http://ec.europa.eu/employment_social/spsi/the_process_en.htm. For a recent European perspective, and scenarios and concerns in some EU countries, see Hans-Jürgen Andreß, Henning Lohmann (dir.), *The Working Poor in Europe. Employment, Poverty and Globalization*, Cheltenham, Edward Elgar, 2008.

⁽⁵⁾ It should be noted that national monetary poverty thresholds have been applied. A European monetary poverty threshold would completely overturn the ranking in which countries appear.

4.3 In addition to the monetary measurement of poverty, other measurements of poverty relating to 'living conditions' are being developed. At EU level, material deprivation (see appendix) is therefore measured. The indicator takes account of the proportion of people living in households lacking at least three of the following nine elements: 1) the ability to meet unexpected expenses 2) one week's annual holiday 3) ability to pay off loans 4) a meal including red meat, chicken or fish at least every other day 5) adequately heated accommodation 6) a washing machine 7) a colour television 8) a telephone 9) a private vehicle. All these material conditions are naturally questionable as indicators. It is their aggregation that presents an interesting picture. Deprivation rates show wide divergences ranging from 3 % in Luxembourg to 50 % in Latvia. These divergences are far more substantial than those for monetary poverty (ranging from 10 % to 21 %).

4.4 The material deprivation approach radically transforms the poverty classification of Member States. Nevertheless, it refers to poverty in general and not to in-work poverty. We will soon have to be able to show the situation of the working poor in terms of material deprivation for each country. In essence, in-work poverty is not just about low incomes, it is about quality of life (i.e. working, family and social life).

5. Factors leading to in-work poverty

5.1 One of the key factors leading to in-work poverty is worker insecurity. Several actors including the European Trade Union Confederation and European trade unions are concerned about job insecurity, which continues to escalate. With over 19.1 million on fixed-term contracts ⁽¹⁾ and about 29 million in 'false' self-employment (mostly in construction and public works), about 48.1 million workers are living with some degree of instability. Needless to say, these people form a very heterogeneous group within single countries, and even more between countries. However, the magnitude of the problem has to be measured in tens of millions of people in employment facing some form of insecurity that puts them at risk of in-work poverty.

5.2 Employers stress the complexity of in-work poverty, first of all by pointing out the link between poverty risk and poor education. Education and training systems must be more effective and fairer. Moreover, it is essential to make work pay ⁽²⁾, i.e. to find a way to ensure an effective balance between tax and benefit systems.

⁽¹⁾ European Union Labour Force Survey-Annual results 2008; http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-09-033/EN/KS-QA-09-033-EN.PDF.

⁽²⁾ *Making work pay* - Study undertaken by the Employment Committee and the Social Protection Committee on interplay of tax and benefit systems. See also the EESC opinion on *Social protection: making work pay*, rapporteur: Ms St Hill (OJ C 302, 7.12.2004).

5.3 Working poverty is based on low pay (often not commensurate with the work involved) and changes in family models. Changing family trends, affecting different Member States to different degrees, are characterised by growing instability, more separations, more single parent families, and therefore single income households at greater risk of poverty. In the Joint Report on Social Protection and Social Inclusion (2007) ⁽³⁾ the Commission had already pointed out that a 'job is the best safeguard against poverty and social exclusion, but a job does not guarantee a life free from poverty'. As a result, we need to adopt or strengthen vital solidarity-based support measures for families, women, young people, students, people with disabilities, the elderly, migrants - the most vulnerable social categories. Moreover, the extent to which working poverty determines child poverty needs to be stressed.

5.4 The rise in the cost of transport, housing, healthcare, etc. also undermines the security of workers. Those earning close to the minimum wage and the lower middle classes are specially affected by these increases since they are usually on the fringes of employment zones.

5.5 In-work poverty can result from low skills or low education levels and from being under-qualified for adequately remunerated jobs, or from substandard working conditions. The most vulnerable groups are often older workers, the young, women, large families, those with a disability, early school leavers and migrants. Thus it is vital to provide all people with a disability with appropriate workplace conditions and to give every child a good start in life through early years education, but also by tackling the school dropout rate, which, at the current level of 15 % in Europe, is still too high.

5.6 At a deeper level, in-work poverty is very often an outcome of underemployment. For employees as well as some self-employed workers, in-work poverty is a complex issue involving many inter-related criteria. A holistic approach is required to identify effective mechanisms to overcome the challenges. Without comprehensive growth policies aimed at adapting to globalisation, and now at economic recovery, there can be no effective programmes for combating in-work poverty.

6. Proposals for a comprehensive approach to fighting in-work poverty

6.1 We first need to think in macroeconomic terms in order to fight in-work poverty. Ad hoc measures will not adequately serve to check the dynamics, especially in a period of crisis. Employment and self-employment, and more specifically quality employment for all, should be the priority of all EU institutions.

⁽³⁾ http://ec.europa.eu/employment_social/spsi/joint_reports_en.htm#2007.

6.2 *Reliable indicators*: the process of developing common and reliable indicators for the working poor must continue. Major advances have been made thanks to European investment and the open method of coordination. We now need to go further and build our knowledge on the basis of more complete data, taking account simultaneously of the number of working poor, the intensity of this poverty and the unequal distribution of income among the poor (within the same country and from country to country).

6.3 Technically speaking, with respect to these statistical issues, we need national data, based on national thresholds, as well as wholly European data, based on a European threshold. This would facilitate other classifications and other perspectives in addition to those provided today by the only indicator established.

6.4 *Fair and decent pay, backed by strengthened social dialogue*: Fighting in-work poverty must also involve an ambitious wage policy. We should increase and support all initiatives aimed at reverting to the formula: inflation + appropriate share of productivity gains. In this context, wage negotiations, the cornerstone of social dialogue, should play a preponderant role in fighting in-work poverty. At sectoral, national, and European levels, there is no real financial impact on businesses when negotiations go smoothly and therefore there is no 'premium' to be paid for genuine social dialogue. Progress towards decent work is achieved through social dialogue, the investment of the social partners, corporate responsibility and public authority incentive and corrective measures, and now through the role of banks vis-à-vis SMEs. Fighting undeclared employment is also a decisive factor in combating in-work poverty, partly because it affects the most vulnerable members of society (migrants, people in unstable situations) but also because it can lead to quasi-slavery, in violation of the Charter of Fundamental Rights.

6.5 *Entrepreneurship and self-employment mechanisms*: many entrepreneurs and the self-employed suffer from in-work poverty, especially in the early days of establishing businesses. Support mechanisms need to be provided as many of these SMEs go on to be job creators. Although 80 % of the growth in the economy comes from the SME sector, many entre-

preneurs take little or no pay whilst establishing their businesses, putting their families at risk of poverty.

6.6 *Adjusted vocational training systems*: Lifelong training, especially for less qualified workers, is a prerequisite for improving these workers' skills and their access to fairly and decently paid jobs.

6.7 *Adapted social protection*: Beating in-work poverty entails rationalising the measures in operation. Social services should be able to interact more effectively with new childcare and mobility support services (mobility, as well as work, must pay), which enable the working poor to get back into better paid jobs.

6.8 With regard to housing, since it appears that in some countries a not inconsiderable number of homeless people are in work, it is important to use social housing resources to give priority to those who have jobs but risk losing them and the stability they provide because they have poor housing, or no housing at all.

6.9 *Taking working conditions and the job into account*: In concrete terms, since in-work poverty is largely linked to working conditions, it is vital to impact on levers linked to the working environment: support for voluntary job mobility, subsidised meals for workers, housing conditions, childcare facilities. Furthermore, employers should be in a position to assess what measures they could take to offer greater job security in their employment contracts and how their employees could further and improve their qualifications.

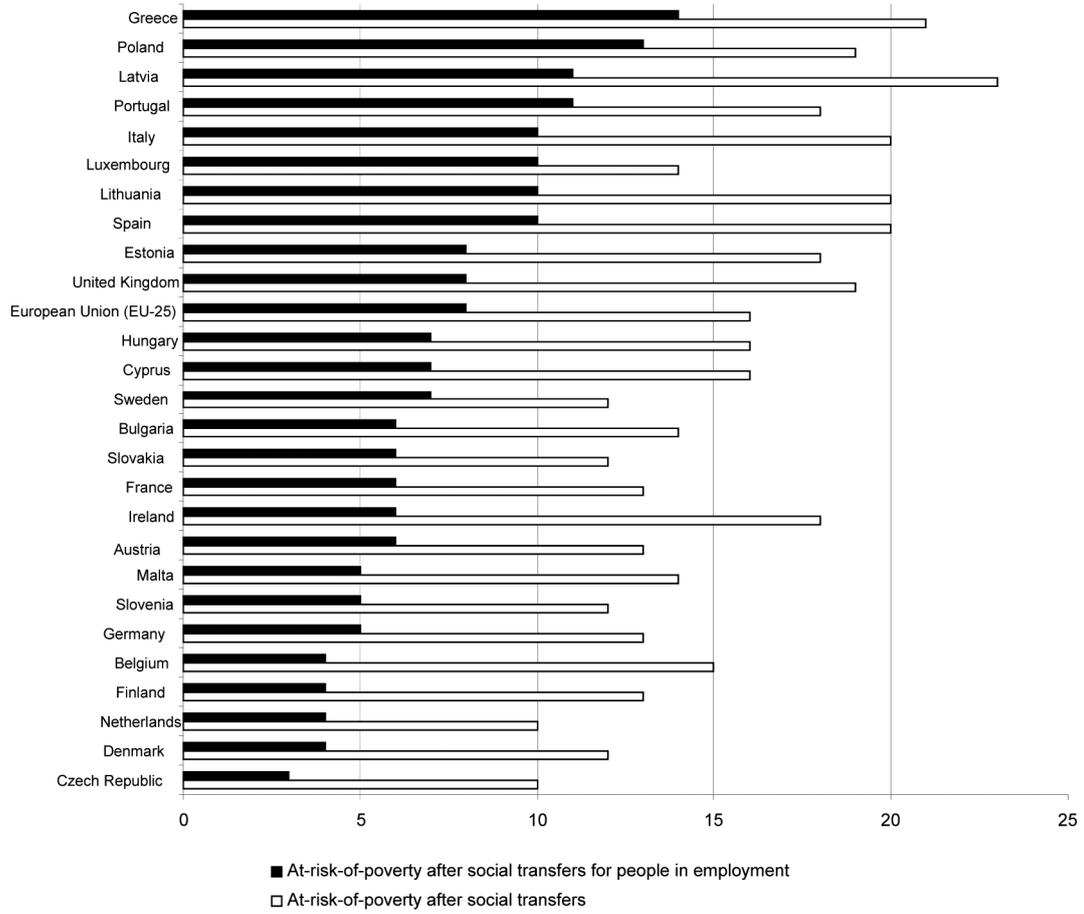
6.10 *Fostering awareness and action*: Finally, we need to mobilise public opinion and the media during the European Year for Combating Poverty and Social Exclusion. Analysing in-work poverty, speaking out about the degrading situations it creates for human beings and mobilising public opinion in the EU could put an end to the distress suffered by some workers and so help to restore their compromised dignity. Rather than talking in terms of compassion, we should be talking in terms of action to ensure quality jobs for all in order to promote an ethically superior European social model.

Brussels, 30 September 2009.

The President
of the European Economic and Social Committee
Mario SEPI

Appendix

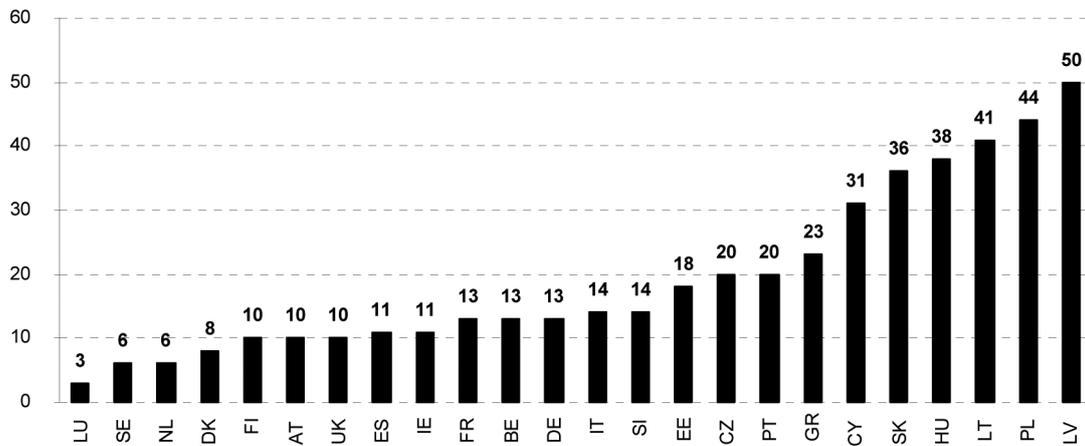
Figure 1. Poverty and in-work poverty in the European Union in 2006



Source: Eurostat, EU-SILC

Figure 2. Material deprivation in the EU

Percentage of people living in households that lack at least three of the listed elements (2006)



Source: Eurostat, EU-SILC