



EU NETWORK  
OF INDEPENDENT  
EXPERTS ON  
SOCIAL INCLUSION

# IN-WORK POVERTY AND LABOUR MARKET SEGMENTATION IN THE EU: KEY LESSONS

**HUGH FRAZER AND ERIC MARLIER**

*(SOCIAL INCLUSION POLICY AND PRACTICE, CEPS/INSTEAD)*

DECEMBER 2010

## SYNTHESIS REPORT



On behalf of the  
European Commission  
DG Employment, Social Affairs  
and Inclusion

*Disclaimer: This report reflects the views of its authors  
and these are not necessarily those of either the  
European Commission or the Member States.  
The original language of the report is English.*





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Overview based on the national reports  
prepared by the EU Network of Independent  
Experts on Social Inclusion



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# Content

<b>List of acronyms</b>	<b>3</b>
<b>Countries' official abbreviations and weighted averages</b>	<b>4</b>
<b>Preface</b>	<b>5</b>
<b>Key findings, conclusions and suggestions</b>	<b>8</b>
A. Key Findings	8
A.1 Introduction	8
A.2 Extent of the challenge	9
A.3 Main explanatory factors for in-work poverty and labour market segmentation	10
B. Analysis of policies in Member States	12
B.1 Policies to address in-work poverty	12
B.2 Policies to address labour market segmentation	13
B.3 Role of social partners in policy development	14
C. Conclusions and suggestions	14
C.1 Raising public awareness and political priority	15
C.2 Enhancing data and analysis	15
C.3 Improving monitoring and reporting	16
C.4 Enhancing social inclusion mainstreaming	16
<b>1. Presentation of the current situation</b>	<b>17</b>
1.1 Statistical overview	17
1.2 Relevance of available indicators	20
<b>2. Main explanatory factors for in-work poverty and labour market segmentation: literature review</b>	<b>23</b>
2.1 Explanatory factors for of in-work poverty	23
2.1.1 Structure of the economy/labour market	24
2.1.2 Family/household composition and low work intensity	28
2.1.3 Individual/personal characteristics	29
2.1.4 Institutional factors	31
2.2 Explanatory factors for labour market segmentation	32
2.2.1 Exploitation and discrimination	32
2.2.2 Promotion of insecure employment and irregular work	35
2.2.3 Low skills and education	36
2.3 Political debate	37

<b>3.</b>	<b>Analysis of policies in Member States</b>	<b>39</b>
3.1	In-work poverty	39
3.1.1	Overall approaches	39
3.1.2	Policies to increase low net wages	41
3.1.3	Addressing low work intensity	47
3.2	Labour market segmentation	50
3.2.1	Job retention and advancement	50
3.2.2	Enhancing working conditions and promoting employee friendly flexibility	51
3.2.3	Life-long learning, in particular specific on-the-job schemes for the low-skilled	52
3.2.4	Non-discrimination policies and inclusive work environments, including through awareness raising campaigns	53

## List of acronyms

DG EMPL	Directorate-General for “Employment, Social Affairs and Inclusion” of the European Commission
EES	European Employment Strategy
EU	European Union
EU-15	The 15 “old” EU Member States, before the May 2004 Enlargement (AT, BE, DE, DK, ES, FI, FR, EL, IE, IT, LU, NL, PT, SE, UK)
EU-25	The 25 EU Member States before the January 2007 Enlargement to Bulgaria and Romania
EU-27	All 27 EU Member States
EU-SILC	Community Statistics on Income and Living Conditions
ESF	European Social Fund
MI	Minimum income
MIS	Minimum income scheme
NAP/inclusion	National Action Plan for social inclusion
NCT	Network Core Team
NGO	Non-Governmental Organisation
NMS-10	The 10 “new” EU Member States, who joined the EU in May 2004 (CY, CZ, EE, HU, LT, LV, MT, PL, SI, SK)
NMS-12	NMS-10 plus the 2 “newest” EU Member States, who joined the EU in January 2007
NRP	National Reform Programmes for Growth and Jobs
OMC	Open Method of Coordination
PROGRESS	Community Programme for Employment and Social Solidarity
SME	Small and medium size enterprise
Social OMC	OMC for social protection and social inclusion
SPC	EU Social Protection Committee
SPSI	Social Protection and Social Inclusion

## Countries' official abbreviations and weighted averages

"Old" Member States (EU-15)		"New" Member States (NMS12)	
AT	Austria	<b><i>May 2004 Enlargement (NMS10)</i></b>	
BE	Belgium	CY	Cyprus
DK	Denmark	CZ	Czech Republic
FI	Finland	EE	Estonia
FR	France	HU	Hungary
DE	Germany	LV	Latvia
EL	Greece	LT	Lithuania
IE	Ireland	MT	Malta
IT	Italy	PL	Poland
LU	Luxembourg	SK	Slovakia
NL	The Netherlands	SI	Slovenia
PT	Portugal		
ES	Spain	<b><i>January 2007 Enlargement</i></b>	
SE	Sweden	BG	Bulgaria
UK	United Kingdom	RO	Romania

Weighted average: EU-27 figures commented on in the text refer to the weighted average of the 27 national figures, in which each country figure is weighted by the country's population size. The same logic applies to the EU-15, NMS10 and NMS12 averages.

## Preface

On 3 October 2008, the European Commission adopted a Recommendation on the active inclusion of people excluded from the labour market<sup>1</sup>, containing common principles and practical guidelines on a comprehensive strategy based on the integration of three policy pillars, namely: adequate income support, inclusive labour markets and access to quality services. This Recommendation was accompanied by Commission Communication COM(2008) 639 final<sup>2</sup>. A couple of months later, on 17 December 2008, the EU Council of Ministers<sup>3</sup> endorsed “the aim of designing and implementing comprehensive and integrated national strategies to promote the active inclusion of people excluded from the labour market, combining adequate income support, inclusive labour markets and access to quality services on the basis of the common principles and guidelines identified in the Commission’s Recommendation”.

The common principles that the Commission suggested in its 2008 Recommendation highlight the need for continuous support where needed, in order to make employment a sustainable and effective way out of poverty and social exclusion. Two common principles under the "inclusive labour markets" pillar concern explicitly in-work poverty and labour market segmentation:

- *promote quality jobs, including pay and benefits, working conditions, health and safety, access to lifelong learning and career prospects, in particular with a view to preventing in-work poverty; and*
- *tackle labour market segmentation by promoting job retention and advancement. [2008/867/EC, § 4(b)(i)].*

These common principles are also elaborated in particular in one of the “practical guidelines”:

- *promote adaptability and provide in-work support and a supportive environment, including attention to health and well-being, non-discrimination and the application of labour law in conjunction with social dialogue. [2008/867/EC, § 4(b)(ii)]*

The importance of inclusive labour markets with reduced labour market segmentation and in-work poverty is also highlighted in the 2008-2010 “Guidelines for the employment policies of the Member States”<sup>4</sup>:

- *Improving quality and productivity at work: Efforts to raise employment rates go hand in hand with improving the attractiveness of jobs, quality at work, labour productivity growth; substantially reducing segmentation, gender inequality and in-work poverty. Synergies between quality at work, productivity and employment should be fully exploited.*

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<sup>1</sup> See: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:307:0011:0014:EN:PDF>.

<sup>2</sup> See: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0639:FIN:EN:PDF>.

<sup>3</sup> Council Conclusions of 17 December 2008 on *Common active inclusion principles to combat poverty more effectively*.

<sup>4</sup> See: <http://register.consilium.europa.eu/pdf/en/08/st10/st10614-re02.en08.pdf>.

More recently, the “Proposal for a Council Decision on Guidelines for the Employment Policies of the Member States: Part II of the Europe 2020 Integrated Guidelines”, endorsed politically by the EU Council of Ministers in June 2010, states that:

- *Member States should step up social dialogue and tackle labour market segmentation with measures addressing precarious employment, underemployment and undeclared work. Professional mobility should be rewarded. The quality of jobs and employment conditions should be addressed. Member States should fight in-work poverty and promote occupational health and safety. Adequate social security should also be ensured for those on fixed-term contracts and the self-employed.[Guideline 7]*
- *Empowering people and promoting labour market participation for those furthest away from the labour market while preventing in-work poverty will help fight social exclusion. [Guideline 10]*

The Directorate-General for “Employment, Social Affairs and Inclusion” of the European Commission (DG EMPL) is committed to monitoring and reporting on the on-going implementation by Member States of the Recommendation on active inclusion. The EU Network of Independent Experts on Social Inclusion<sup>5</sup> has already assisted the Commission in this process with its 2009 report on minimum income schemes.<sup>6</sup> This current “Synthesis Report” on in-work poverty and labour market segmentation has been written by the Network Core Team at the request of the Commission. It is intended as a further contribution to the monitoring of the active inclusion process. It is based on individual country reports on in-work poverty and labour market segmentation by the national experts.<sup>7</sup>

The experts’ reports cover three elements. First, they present a general statistical overview of the situation in their country in a comparative perspective, presenting some of the agreed indicators used to monitor the Social Open Method of Coordination (OMC) and European Employment Strategy (EES) objectives.<sup>8</sup> This is then complemented with any available national data.

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<sup>5</sup> The Network consists of independent experts from each of the 27 Member States as well as from Croatia, Former Yugoslav Republic of Macedonia (FYROM), Iceland, Serbia and Turkey. For more information on the Network members and reporting activities, see: <http://www.peer-review-social-inclusion.eu/network-of-independent-experts>.

And for more information on the overall project “Peer Review on Social Protection and Social Inclusion and Assessment in Social Inclusion”, see: <http://www.peer-review-social-inclusion.eu>.

<sup>6</sup> The experts’ individual country reports for the 27 EU Member States and the overall Synthesis Report based on these 27 reports, *Minimum Income Schemes across EU Member States*, (H. Frazer and E. Marlier) are available on the Peer Review and Assessment in Social Protection and Social Inclusion and Assessment in Social Inclusion web site at: <http://www.peer-review-social-inclusion.eu/network-of-independent-experts/2009/minimum-income-schemes>.

<sup>7</sup> In this report, the term “labour market segmentation” is used in a *pragmatic* way to describe differences in working conditions and outcomes regarding the allocation of different socio-economic groups within a given structure of jobs, which goes ahead with a (more or less) unequal distribution of chances and risks. The report does not follow a *specific* theoretical concept of labour market segmentation, as put forward in the literature on labour market theory (see for instance [http://www.sfb580.uni-jena.de/typo3/uploads/tx\\_publicationlist/heft-16.pdf](http://www.sfb580.uni-jena.de/typo3/uploads/tx_publicationlist/heft-16.pdf) for a discussion of different models of labour market segmentation - i.e., the models by Doeringer/Piore; Sengenberger; Lutz; Petit and others).

<sup>8</sup> The EU definition of in-work poverty used in the context of the Social OMC and the EES is: “Individuals who are classified as employed” (distinguishing between “wage and salary employment plus self-employment” and “wage and salary employment” only) and who are at risk of poverty\*\*.”

\* Individuals classified as employed according to their most frequent activity status, which is defined as the status they declare to have occupied for more than half the number of months in the calendar year; \*\* the poverty risk threshold is set at 60% of the national household equivalised median income.

Secondly, they examine the main explanatory factors for in-work poverty and labour market segmentation by undertaking a critical review of national studies by Governments and researchers, focusing on the factors that have been identified for both in-work poverty and labour market segmentation. They also highlight the political debate at national level on these issues. Thirdly, they present and analyse policies in Member States to address in-work poverty and labour market segmentation. The structure of this Synthesis Report follows the three parts of the national experts' reports but it also contains some overall conclusions and suggestions on the way forward.

It should be noted that in this report, where the experience in one or more individual Member States is highlighted, this is either because the independent experts from these countries have emphasised the particular point or because we think they represent a good illustration of the issue under discussion. Consequently, the fact that a particular country is mentioned does not necessarily mean that the point being made does not apply to other countries. In producing their reports, experts cite various different sources and reports in support of their analysis. These have not been included in this report. Readers wishing to follow up the original source should go to the individual experts' reports.

## Key findings, conclusions and suggestions

### A. Key Findings

#### A.1 Introduction

The experts report that in most countries there has been relatively little political debate or academic research on in-work poverty. They find no evidence that the European Commission Recommendation on Active Inclusion has so far changed this and led to increased awareness or raised public or political debate on the issues of in-work poverty and labour market segmentation. There has been little change in policies in this area since the Recommendation was agreed. They point out that the policy discourse has been dominated in most countries by the question of how to improve the chances of the unemployed to find employment and not on the question of in-work poverty. Indeed, several suggest that one of the impacts of the economic and financial crisis has been to move the issue of in-work poverty still lower on the policy agenda. The impact of rising unemployment due to the crisis has reinforced the already predominant policy focus on measures to protect employment and to create employment opportunities without necessarily addressing the issue of low wages and in-work poverty. This is in spite of the fact that there is growing evidence in several Member States that the impact of the crisis may be leading to an increase in in-work poverty and labour market segmentation.

It is thus clear that questions of poverty and social exclusion tend to get very much framed as a problem of labour market integration and thus employment is seen as the best route out of poverty. It is certainly true that the risk of poverty is very high for jobless households and that unemployment greatly increases the risk of poverty. It is also true that the risk of poverty is much lower for those in employment. However, as the experts' reports clearly demonstrate, the focus on these overall figures tends to have hidden the reality that those who are in work but at risk of poverty make up a very significant proportion of those at risk of poverty. This challenges the overly simplistic notion that access to employment is a sufficient condition for escaping poverty. It puts the focus on the equal importance of ensuring that employment is of good quality and that work pays sufficiently to provide an income allowing for a decent living. The experts' reports also show the strong (and in some Member States growing) correlation between labour market segmentation and in-work poverty. This highlights the need to adapt our model of economic development in ways which will reduce segmentation. It also gives added justification for the June 2010 European Council's decision to make inclusive growth one of the European Union's key priorities for the next decade. Inclusive growth will be necessary if one of the other key goals of the Union in the context of the Europe 2020 Strategy, i.e. to improve social inclusion through a reduction of poverty and social exclusion by 20 million (out of a total of 120 million) by 2020, is to be achieved.<sup>9</sup>

<sup>9</sup> See European Council (2010), *European Council 17 June 2010: Conclusions*, Brussels: European Council. For a discussion of key *Europe 2020* challenges, including the EU poverty/ social inclusion target which is based on 3 indicators (at-risk-of-poverty, severe material deprivation and very low work intensity), see for example:

- Frazer, H., Marlier E. & Nicaise, I. (2010), *A social inclusion roadmap for Europe 2020*, Antwerp/Apeldoorn: Garant;
- Marlier, E. & Natali, D. (editors) with Van Dam, R. (2010), *Europe 2020: Towards a more Social EU?*, Brussels: P.I.E. Peter Lang;
- Chapters 1 and 5 in Atkinson, A.B. & Marlier, E. (editors/2010), *Income and Living Conditions in Europe*, Luxembourg: OPOCE. This book can be ordered or downloaded for free from: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-31-10-555/EN/KS-31-10-555-EN.PDF..](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-31-10-555/EN/KS-31-10-555-EN.PDF..)

## A.2 Extent of the challenge<sup>10</sup>

In-work poverty is a very extensive problem. In the EU, 8.6% of people at work live below the poverty risk threshold in 2008. More concretely, this means that out of the 81 million income poor in the Union 17 million are workers. So, the working poor represent 15% of the 120 million people included in the new Europe 2020 social inclusion target.

There is a very wide variation in the national in-work poverty rates across the EU. The countries with the highest rates are Romania (17%), Greece (14%), Poland and Portugal (12%) and Latvia and Spain (11%). The countries with the lowest rates are the Czech Republic (4%) and Belgium, Denmark, Hungary, Malta, Netherlands, Slovenia and Finland (5%). In general, countries with high at-risk-of-poverty rates have high in-work poverty rates and vice versa. Overall men (9%) have a slightly higher risk than women (8%). Even though there are a few exceptions, this higher risk for men is present in most countries where the gender differences are significant. The in-work poverty rate across the EU is slightly higher for 18-24 year olds (10%) compared to 25-54 year olds (8%) and 55-64 year olds (8%). It also varies significantly by household type. It is highest for single parent with dependent children (20%) and lowest for households consisting of two or more adults without dependent children (5%). There is a strong variation in the rate by educational level and by type of work contract – the rate for those on temporary contracts is 13% whereas it is only 5% for those on permanent contracts. Rates are much higher for part-time workers (12%) than full-time workers (7%). Rates also vary significantly depending on the work intensity of households. They are highest when the work intensity is 0 and lowest when the work intensity is 1. It is striking that the tax rate on low wage workers (low wage traps) has increased in recent years though with very wide variations across Member States.

The experts' reports suggest that there is little evidence of labour market segmentation decreasing in most countries and in some it appears to be increasing. However, there are very wide variations across Member States. For instance, in 2008 the gender pay gap is 18% at EU level, with seven Member States having less than 10% gaps and seven more than 20%. Gender segregation reaches 26% in occupations and 20% in sectors. The percentage of employees in non-standard employment (part-time and/or fixed-term) as a proportion of the total number of employees is 29% while the total self-employed as a percentage of total persons in employment is 15%. Figures on undeclared work are rather sparse and often not very recent, but numbers appear to be quite high in some countries. Inactivity and part-time work due to lack of care services for children and other dependants is 30% (of all persons with care responsibilities), with 6 Member States being between 4% and 14% and 6 Member States ranging between 50% and 90%. In the total population, the percentage of persons who would like to work but are not searching for a job/who work part-time due to their care responsibilities is 4.5%. In 2004, which are the most recent data available, access to flexitime varies widely from under 11% of total

<sup>10</sup> In-work poverty (risk) data presented in this Synthesis Report are available from the web-site of Eurostat, the Statistical Office of the European Union:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_results/search\\_results?mo=containsall&ms=in-work+poverty&saa=&p\\_action=SUBMIT&l=us&co=equal&ci=,&po=equal&pi=](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_results/search_results?mo=containsall&ms=in-work+poverty&saa=&p_action=SUBMIT&l=us&co=equal&ci=,&po=equal&pi=)

For the other EES indicators, see the "Compendium of indicators for monitoring the Employment Guidelines and employment analysis" available from the web-site of DG EMPL:

<http://ec.europa.eu/social/main.jsp?catId=477&langId=en>. This document gives a fairly detailed explanation of transition indicators and other EES indicators. It also provides recent figures.

A detailed description of the commonly agreed Social OMC indicators that have been adopted to date (September 2009 updated portfolio) can be found at: <http://ec.europa.eu/social/main.jsp?catId=756&langId=en>.

All the Social OMC indicators (national results plus various breakdowns) can be downloaded from:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_and\\_social\\_policy\\_indicators/omc\\_social\\_inclusion\\_and\\_social\\_protection/social\\_inclusion\\_strand](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_and_social_policy_indicators/omc_social_inclusion_and_social_protection/social_inclusion_strand).

employees in Cyprus, Bulgaria and Romania to between 50% and 62% in Finland, Germany Sweden and Denmark.

### *A.2.1 Relevance of available indicators*

Experts point out that the available indicators depend mainly on EU-SILC or the Labour Force Survey and they highlight a number of limitations. For instance: there are significant time lags in the availability of data (especially in the case of EU-SILC); there are no indicators and statistics for monitoring low pay; the indicators are too static and do not allow for sufficient monitoring of inflows and outflows; there is a need to allow for better linkages between data sources such as EU-SILC and national labour force surveys.

### **A.3 Main explanatory factors for in-work poverty and labour market segmentation**

In only a few countries (ES, FR, IE, SE, UK) has much attention been given to developing additional indicators and collecting/ analysing data on in-work poverty in particular and, to a lesser extent, on labour market segmentation. In some others (e.g. AT, BE and PT), interest is increasing.

#### *A.3.1 Explanatory factors for in-work poverty*

The explanatory factors for in-work poverty that emerge from the experts' reports reveal the interaction of a very complex set of factors. The main factors can be grouped under four headings: structure of economy/labour market; family/household composition and low work intensity; individual/personal characteristics; institutional factors (i.e. minimum wage, tax and social protection).

The prevalence of extensive low quality and insecure employment combined with low wages greatly increases the risk and extent of in-work poverty in some Member States. This is especially, but not exclusively, evident in those Member States with high levels of in-work poverty (EL, ES, IT, LV, PL, PT, RO). The key factor explaining the high levels of in-work poverty in these countries seems to be widespread low wages combined with extensive low quality and insecure employment. Several experts also link low quality employment with the effects of economic globalisation and its role in creating a segmented labour market. One of the effects of segmentation is to increase the risk of in-work poverty. Highly segmented labour markets trap people in poorly paid jobs and result in low upward mobility. The prevalence of low wages and insecure employment is particularly evident amongst certain sectors of the economy, especially farmers and the self-employed. In several countries, there is significant regional variation in the risk of in-work poverty.

The frequency of non-standard forms of employment and in particular the use of subcontracting, short-term and fixed term contracts, part-time working contribute significantly to in-work poverty. However, the impact of part-time work on in-work poverty appears rather uneven and in many cases the majority of working poor are in full-time employment. However, in some countries it can be a significant factor as it is often associated with poorly paid and insecure jobs.

While low wages play a very important role in causing in-work poverty, their significance as an explanatory factor for in-work poverty varies across the EU. Indeed, in several countries the correlation between low wages and in-work poverty is not very strong. Many experts note that while most people experiencing in-work poverty have a low wage not everyone on a low wage experiences in-work poverty. Thus they suggest that the focus needs to be on the interaction of several different factors: the number of hours worked, the level of wages, the level of direct tax and the level of in-work benefits.

In view of the way the indicator is constructed, household composition, and in particular the work intensity of households, is obviously a critical factor in determining the risk of in-work poverty. In many Member States, in-work poverty is linked to having children and this is particularly evident in relation to lone-parents. Lying behind the link between children and the risk of in-work poverty is the issue of low work intensity. In general, the higher the work intensity of a household, the lower the in-work poverty rate is. Two key factors influencing low work intensity are the limited availability and affordability of child care and the lack of access to flexible working arrangements.

The risk of in-work poverty can be greatly increased by certain personal factors such as low education, poor health and nationality which interact with other risk factors. Low levels of education and qualifications increase the likelihood of in-work poverty as this leads workers towards low paid sectors and to insecure work. In many countries, being a migrant or from an ethnic minority can greatly increase the risk of in-work poverty. Age is also a factor and in many countries young people face particular risks of in-work poverty.

Institutional factors such as the lack of regulations establishing an adequate minimum wage, relatively high taxes on low wages, the lack of in-work benefits, the forcing of people off benefits and into low paid work, inadequate child income support, the lack or high cost of essential services (e.g. child care and public transport) can contribute to in-work poverty. To put it more positively, in several Member States with low rates of in-work poverty it is clear that factors such as low wages and insecure employment have been mitigated by positive institutional arrangements which ensure that the net income of households is adequate. Another important institutional factor in several Member States is the role played by adequate minimum wage arrangements.

### *A.3.2 Explanatory factors for labour market segmentation*

Three interconnected themes emerge to explain labour market segmentation. These are: exploitation and discrimination, the promotion of insecure employment and irregular work and low levels of education and skills.

Discrimination against migrants and ethnic minorities is highlighted as a significant factor in labour market segmentation in several countries.

Most experts also highlight the persistence of gender segregation in the labour market and identify a range of explanatory factors including: the under-valuation of 'women's work'; occupational segregation with women more often in jobs (e.g. service sector) where low pay is more frequent; discrimination leading to women getting paid less than men even when working in the same positions; the constraints of caring responsibilities which are linked to the preservation of traditional gender roles and to women's attempt to improve reconciliation of work and family life. Segmentation can also result from discrimination against disabled people.

In several countries, there is a growing trend to segmentation between different sectors of national economies. Moving from one segment to another is becoming harder and, most importantly, the transition from unemployment to employment occurs in the most precarious parts of the labour market, particularly for young people, women, people of foreign origin and the least qualified. The growing segmentation between industries is linked to the process of globalisation and labour markets which are developing new forms of salary relationships, characterised by a stronger liberalisation of employment relationships. In several countries, there is a growing risk of segmentation increasing during the current crisis with wages being driven down in some sectors and a tendency to job retention in core competencies and great volatility in peripheral jobs. Also, the growing use of subcontracting is increasing segmentation between core jobs and peripheral jobs. In addition, the advent of information technology and the fierce competition from low income countries has further worsened the labour market position and working conditions of low-skilled workers who have not managed to keep up with the technological developments.

## **B. Analysis of policies in Member States**

### ***B.1 Policies to address in-work poverty***

Policies specifically developed to tackle/prevent in-work poverty are relatively uncommon. However, in most countries there are aspects of more general labour market, tax and social protection policies that contribute to this goal. In a few Member States (e.g. CY, IE, UK), although not necessarily a major priority, there is some specific policy attention given to addressing in-work poverty.

A strong theme from the experts' reports is the importance of developing a **comprehensive approach** to the issue of in-work poverty and the importance of addressing it as part of a wider approach to addressing poverty more generally and to developing an effective welfare state.

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

#### *B.1.1 Policies to increase low net wages*

Tackling the issue of low net wages requires a combination of actions: raising the level of minimum wages, reducing taxes on low wages and providing additional income transfers.

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

*Reducing taxes and introducing tax credits for low-wage/income workers:* An important way of boosting the net income of people on low wages can be through the tax system and interesting examples are highlighted in a number of Member States (e.g. BE, CY, CZ, FR, IR, LT, LU, MT, PO, PT, SE, SI, SK, UK).

*In-work (top-up) benefits:* In many countries, an important role is played by social benefits in helping to lift the net incomes of those on low pay and several interesting developments are highlighted (e.g. BE, CZ, DE, FI, IE, IT, MT, PT). However, in some countries (e.g. ES, PL) in-work benefits are too low or not taken up sufficiently to have much impact.

### *B.1.2 Policies to address low work intensity*

*Activation/support measures:* Measures to increase access to employment are widespread, particularly in response to the economic and financial crisis. However, in several Member States they are not well targeted at those most distant from the labour market. Such measures can contribute to increasing the work intensity of households when the second earner benefits from them. Other measures aim at increasing work intensity by addressing issues such as precarious employment, including involuntary part-time work and intermittent careers and increasing access to better paid jobs.

*Child care:* The importance of developing policies to ensure access to affordable and high quality child care services emerges as being of key importance in most countries, though the scale and quality of provision varies widely. Such provision is seen as vital in order to facilitate parents' participation in work, especially the second earner, and thus increase the work intensity of households. The availability of child care is also seen as vital in helping those working part-time to increase their working hours. Some interesting improvements in provision are highlighted in several countries (AT, BE, CY, IE, LU, NL, PL, SI, SK, UK).

*Flexible working arrangements:* Increasing access to flexible working arrangements is highlighted as an important factor in enabling people with care responsibilities to increase labour market participation and several experts highlight developments in this area (e.g. AT, PL, PT, UK).

*Affordable transport:* Some experts highlight that access to affordable transport can be an important factor in encouraging people to take up work or extend their working hours. In particular, access to transport is key for potential second earners. The complexities for couples with children of reaching work and childcare venues mean that reducing time costs is crucial

### **B.2 Policies to address labour market segmentation**

The main policy areas that emerge as being important for addressing labour market segmentation are: policies to promote job retention and advancement; policies to promote better working conditions and employee friendly flexibility; lifelong learning policies; and policies to promote non-discrimination and inclusive work environments.

*Job retention and advancement:* Increased efforts to promote job retention, especially in light of the economic and financial crisis, are highlighted in several countries (e.g. AT, PL, PT, UK).

*Enhancing working conditions and promoting employee friendly flexibility:* Interesting measures to improve working conditions and lessen the frequency of insecure work including the use of temporary contracts and to address the issue of unregistered employment are evident in several countries (e.g. AT, PL, PY, UK).

*Life-long learning, in particular specific on-the-job schemes for the low-skilled:* The importance of increasing skills and qualifications as a way of increasing access of the low-skilled to decently paid jobs and thus helping to reduce labour market segmentation is highlighted and several interesting examples are identified (e.g. AT, DK, FR, IE, PT). One of the positive side effects of the crisis in some Member States has been to increase the emphasis on education and training for those who are temporarily unemployed - thus, in the longer term increasing their chances of job mobility. However, too often life-long learning opportunities fail to reach the most disadvantaged.

*Non-discrimination policies and inclusive work environments, including through awareness raising campaigns:* The important role played by EU Directives on equal treatment, equal employment conditions and non-discrimination and several interesting initiatives in countering discrimination in the labour market are widely highlighted (e.g. AT, DK, FR, IE, LU, NL, PT). Also the importance of raising awareness of rights is important and there are interesting examples of information campaigns and awareness raising initiatives in a number of countries (e.g. CZ, PL, PT).

### **B.3 Role of social partners in policy development**

The important role that social partners play in negotiations about minimum wage and working conditions is evident in many countries. Sometimes, trade unions play an important role in raising the issue of in-work poverty though with rather mixed results. At times, this can be an area of disagreement between social employers and trade unions. In general, it seems that employers tend to put the emphasis on creating jobs per se whereas trade unions put more emphasis on improving wage levels and working conditions.

## **C. Conclusions and suggestions**

In-work poverty emerges from this study as a major but under recognised element in the delineation of poverty and social exclusion in the EU. To a large extent, the differences in the scale of in-work poverty across the EU can be explained by structural differences in economies and the extent of labour market segmentation. However, it is also clear that the extent to which Member States intervene both to limit/regulate the amount of labour market segmentation and specifically to alleviate its worst effects (through minimum wage, tax and social protection policies) plays a very significant role. Yet, it appears from the experts' reports that these are issues that have, until recently, received too little attention and insufficient academic analysis in many Member States.

This Synthesis Report highlights that effective prevention and alleviation of in-work poverty cannot be solved by just one policy solution. It requires a complex and multi-dimensional approach that encompasses the three strands of active inclusion: supporting access to decent quality employment, ensuring access to enabling services and providing adequate and effective income support systems. It is clear from the success of some countries that there is much that can be done in the short to medium term to develop better policies in these areas. However, in the longer term, if the scale of the problem is to be fundamentally reduced it will be necessary to

ensure that both the EU as a whole and individual Member States alter the existing model of development which is leading inexorably towards greater labour market segmentation. They will need to develop more inclusive and sustainable economic and employment policies which themselves promote greater social inclusion and are supported by effective social policies.

In the light of the experts' reports and in the context of the 2008 European Commission Recommendation on active inclusion (see above), we would suggest that progress needs to be made in four main areas: raising public awareness and political priority; enhancing data and analysis; improving monitoring and reporting; and enhancing the mainstreaming of social inclusion goals in economic and employment policies. We make twelve suggestions as to how progress might be made in relation to these areas.

### ***C.1 Raising public awareness and political priority***

1. The issue of in-work poverty and its connection to labour market segmentation could be inserted as a key message in the political conclusions of the 2010 European Year for Combating Poverty and Social Exclusion.
2. Addressing in-work poverty could be formally identified as a "signature issue" for the EU's flagship initiative, the European Platform Against Poverty. It could specifically be highlighted in any future work that is undertaken on Active Inclusion including the development of work on establishing criteria in relation to an adequate minimum income and also in work developed around the theme of child poverty and well-being.
3. In-work poverty and employment segmentation could also be given more attention in the EU's employment process and be a required focus of National Reform Programmes.
4. Greater use could be made of PROGRESS, the Community Programme for Employment and Social Solidarity, to develop a systematic process of exchange and learning (including peer reviews) on how to prevent and tackle in-work poverty and labour market segmentation and to support policy studies in this area.

### ***C.2 Enhancing data and analysis***

5. The EU Social Protection Committee (SPC) and its Indicators Sub-Group, in conjunction with Eurostat (the Statistical Office of the EU) and the EU Employment Committee (EMCO) could develop indicators/data for monitoring low pay and promote further analysis in this field. They could also complete static data with information on dynamics and duration.
6. The SPC and its Indicators Sub-Group, in conjunction with Eurostat and EMCO could explore ways of improving the timeliness of data on in-work poverty and labour market segmentation and the coverage of the different sub-populations that need to be more closely monitored in this context. This may be best addressed by a combination of different statistical instruments including both survey data and administrative/ register data.<sup>11</sup>

<sup>11</sup> The most obvious way of supplementing the data from a single survey is via linkage to administrative/ registers' records. In a number of Member States, notably though not only the Nordic countries, EU-SILC data are indeed derived in part from administrative/ register information. The survey data is augmented from administrative/ register sources by other information about the same household. It is important to examine how far administrative/ register data can be used in a wider number of countries, and whether they can be a vehicle for

### **C.3 Improving monitoring and reporting**

7. As part of their regular reporting on the implementation of the Europe 2020 agenda, and especially on progress made towards the recently agreed EU target on social inclusion, Member States could be asked to report annually in the context of their National Reform Programmes (NRPs) on the extent of in-work poverty and labour market segmentation and the measures they are taking to prevent and reduce them. EMCO and the SPC, in their monitoring of the implementation of NRPs – especially the Europe 2020 Integrated Guidelines No. 7 and 10 (see above) - could give particular consideration to assessing progress on in-work poverty and labour market segmentation.
8. In the context of the on-going implementation of the European Commission Recommendation on active inclusion and the annual reporting mechanisms that will be established as part of the European Platform Against Poverty, the Commission and the EU Social Protection Committee could ensure that a section of their Joint Report to the Spring European Council specifically covers the progress being made in addressing in-work poverty and labour market segmentation.
9. Closer attention could be given, in the monitoring of the social impact of the economic and financial crisis and in the monitoring of Member States' responses to the crisis, to in-work poverty and labour market segmentation. In particular, there is a need to monitor the impact of reductions in wage rates, reductions in working hours, reductions in work intensity resulting from increasing unemployment, cut backs in in-work benefits, changes in the tax system, increases in gender and ethnic discrimination, increases in insecure employment and increased labour market segmentation and increases in undeclared work on in-work poverty.

### **C.4 Enhancing social inclusion mainstreaming**

10. The Commission's Impact Assessment Process could be developed to specifically include a section which considers the potential impact of all proposed policies on in-work poverty and labour market segmentation.
11. The issues of in-work poverty and labour market segmentation could be given a high priority in efforts to ensure that social inclusion goals are mainstreamed across all EU, national and sub-national policy areas and that there are greater synergies between economic, employment and social policies (i.e. enhanced "feeding in" and "feeding out").
12. Much more use could be made of the EU Structural Funds to systematically support Member States' efforts to counter in-work poverty and labour market segmentation. This would be an important way of ensuring that the EU's social inclusion objectives are mainstreamed into Structural Funds' allocations.

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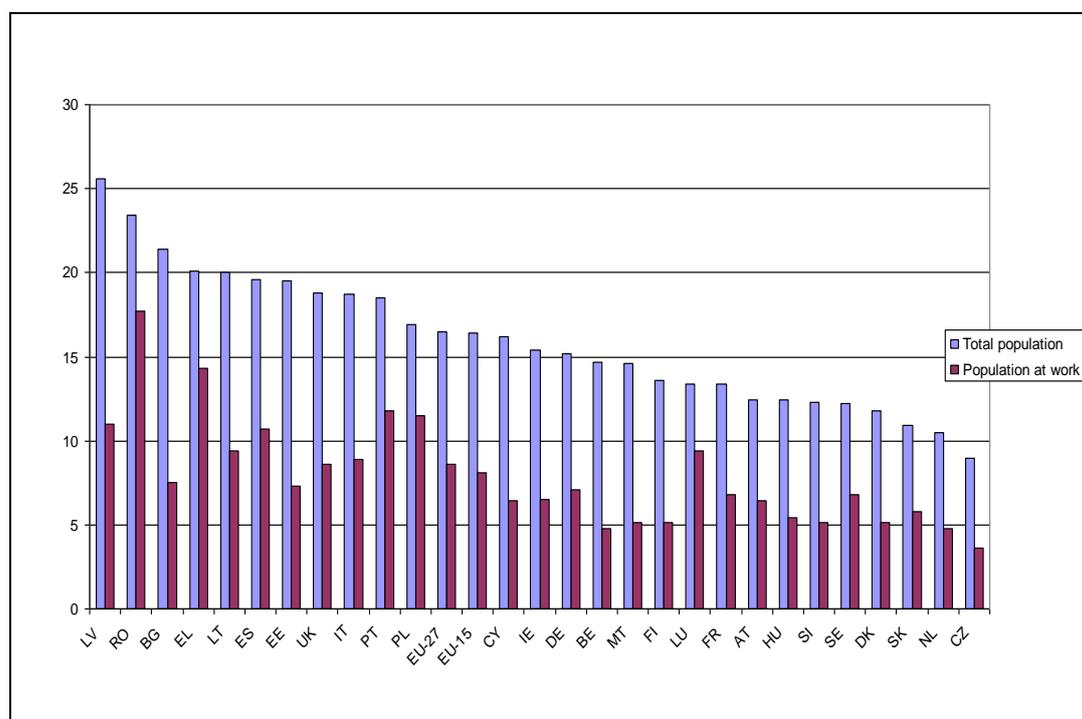
adding the wider set of variables necessary to better measure in-work poverty and labour market segmentation. Where administrative/ register data cannot be used, it is necessary to consider the combination by means of statistical matching of different surveys, such as not only EU-SILC, LFS, but also the European Quality of Life Surveys, the European Social Survey and the Eurobarometer surveys.

# 1. Presentation of the current situation

## 1.1 Statistical overview

In their reports, each expert presented a general statistical overview of the situation in relation to in-work poverty and labour market segmentation in their Member State in comparative perspective with other Member States. In particular, they analysed: in-work at-risk-of-poverty rate (generally referred to hereafter simply as “in-work poverty”) by gender, age, educational level and household type; tax rate on low wage workers: low wage traps; gender pay gap; gender segregation; inactivity and part-time work due to lack of care services for children and other dependants; transitions by pay level; transitions by type of contract; diversity and reasons for contractual and working arrangements; undeclared work; overtime work and hours of overtime; and access to flexitime. This analysis was undertaken on the basis of the agreed indicators used to monitor the Social OMC and the European Employment Strategy (EES).<sup>12</sup> However, it should be noted that given the impact of the economic crisis the situation may well have changed significantly in many Member States. As the Greek expert puts it “although hard data is not available, the recent sharp deterioration of the overall fiscal position has already begun to trigger an increase of in-work poverty and overall poverty, which is expected to worsen further in the future”.

**Figure 1.1: National at-risk-of-poverty rates in EU-27, total population and population at work, 2008**



Source: EU-SILC 2008, Eurostat calculations (28 July 2010). The income reference year is the calendar year prior to the Survey Year except for the UK (Survey Year) and Ireland (twelve months preceding the survey)

Note: The income on the basis of which these indicators are calculated includes private pensions as a result of an EU agreement in June 2010. They may therefore not be identical to the ones commented on in other places in the text (though the differences, when any, are minimal: only 1/10 or 2/10 decimal points)

Reading note: Countries are ranked according to the total at-risk-of-poverty rate

<sup>12</sup> For information on where to find the definition and source of the Social OMC and EES indicators, see Section A2 above.

It is not the task of this Synthesis Report to undertake a full comparative analysis of all this EU data<sup>13</sup>. However, the experts' reports demonstrate that both in-work poverty and labour market segmentation are significant problems in many Member States. Some of the overall findings in relation to the levels of in-work poverty (risk) across the EU and which were reflected in the experts' reports are summarised below (except if stated otherwise, figures are 2008 EU-27 weighted averages<sup>14</sup>).

1. In-work poverty is a very extensive problem, with 8.6% of people at work in the EU living below the poverty risk threshold. More concretely, this means that out of the 81 million income poor in the Union 17 million are workers. So, the working poor represent 15% of the 120 million people included in the new Europe 2020 social inclusion target
2. There is a very wide variation in the national in-work poverty rates across the EU. The countries with the highest rates are: Romania (17%), Greece (14%), Poland and Portugal (12%) and Latvia and Spain (11%). The countries with the lowest rates are: Czech Republic (4%) and Belgium, Denmark, Hungary, Malta, Netherlands, Slovenia and Finland (5%).
3. In general, countries with high at-risk-of-poverty rates have high in-work poverty rates and vice versa (see Figure 1.1). For instance, 5 of the 8 Member States with the lowest in-work poverty rates have overall at-risk-of-poverty rates between 9% and 12% and the other 3 rates of 14% and 15%. All 6 Member States with the highest in-work poverty rates have total population poverty rates significantly above the EU average except for Poland (16.9%) which is almost identical to the EU average (16.5%). The two main exceptions, combining a high overall at-risk-of-poverty rate and a below EU average in-work poverty rate, are Bulgaria (21.4% and 7.5%) and Estonia (19.5% and 7.3%).
4. Across the EU as a whole, men (9.0%) have a slightly higher risk of in-work poverty than women (7.9%). This higher risk for men is present in most countries where the gender differences are significant. However, in 3 Member States the risk for women is at least 1 percentage point higher than that for men: the Czech Republic (4.2% for women and 3.2 % for men), Germany (7.7% vs. 6.5%) and Estonia (8.6% vs. 6.0%).
5. The in-work poverty rate across the EU is slightly higher for 18-24 year olds (10%) compared to 25-54 year olds (8%) and 55-64 year olds (8%). The gap is much higher in some countries notably Germany and the three Nordic Member States. However, in Greece and Portugal the rate is much higher for 55-64 year olds than for the other two age groups.
6. The in-work poverty rate varies significantly by household type. It is highest for single parent with dependent children (20%) and lowest for households consisting of two or more adults without dependent children (5%).
7. There is a strong variation in the in-work poverty rate by educational level: from 17% for those with just pre-primary, primary and lower secondary level education, to 8% for those

<sup>13</sup> Recent analyses of in-work poverty in Europe can be found in:

- Chapter 14 (by Sophie Ponthieux) in Atkinson and Marlier (eds.), *Op. Cit.*;
- the report *Working Poor in Europe* issued in 2010 by the European Foundation on Living and Working Conditions: <http://www.eurofound.europa.eu/docs/ewco/tn0910026s/tn0910026s.pdf>.

<sup>14</sup> For the countries' official abbreviations and the calculation of the weighted EU averages, see above.

with upper secondary and post-secondary non tertiary level, and to 3% for those with tertiary level education.

8. In-work poverty rates vary significantly by type of work contract with a rate of 13% for those on temporary contracts and only 5% for those on permanent contracts.
9. In-work poverty rates vary significantly depending on the work intensity of households, a useful variable which varies from 0 (i.e., households in which none of the working age adults has been in paid employment during the income reference period) and 1 (households in which all the working age adults have been in full-time paid employment throughout the income reference period). It is highest when the work intensity is 0 (31% for households without dependent children and 63% for those with dependent children) and lowest when the work intensity is 1 (5% for households without dependent children and 8% for those with dependent children). Households where the work intensity is between 0.5 and 1 fall in between (8% for households without dependent children and 21% for those with dependent children).
10. The in-work poverty rate across the EU-27 is consistently higher for people working part-time (12%) compared to those working full-time (7%). However, the gap varies significantly across the EU and is generally higher in the newer Member States. For instance, for EU-15 it is 4 percentage points on average (i.e. 7% and 11%) while for the 10 "new" Member States that joined the EU in 2004 it is 10 points (8% and 18%). In view of the figures registered in Bulgaria (6% vs. 20%) and – primarily - in Romania (14% vs. 58%), the two countries which joined the EU most recently (in 2007), the average gap for all 12 new Member States is 19 points (9% and 28%).
11. There are also significant differences in in-work poverty by duration of work. The rate for those working a full year is 8% while for those working less than a full year it rises to 16%.

There is little evidence of labour market segmentation decreasing in most countries and in some it appears to be increasing. Some of the factors underpinning this which were reflected in the experts' reports are summarised below.

12. At EU level, the tax rate on low wage workers (low wage traps)<sup>15</sup> has increased between 2004 and 2008 from 59% to 65% for a one earner couple with 2 children (ranging from a negative value (-5%) in Italy and 3% in Estonia to 100% or more in Finland and Luxembourg); and from 47% to 50% for a single person with no children (ranging from 19% in Malta to 79% in Denmark).
13. The gender pay gap, that is the difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings (for paid employees), is 18% at EU level in 2008. It is less than 10% in seven Member States (BE, IT, MT, PL, PT, RO, SI) and above 20% in seven (AT, CY, CZ, DE, LT, SK, UK); because of the break in the statistical data series, we cannot satisfactorily comment on the evolution of this important indicator at EU level.

<sup>15</sup> i.e., the marginal effective tax rate on labour income taking into account the combined effect of increased taxes on labour and in-work benefits withdrawal as one increases the work effort (increased working hours or moving to a better job). Calculated as the ratio of change in personal income tax and employee contributions plus change (reductions) in benefits, divided by increases in gross earnings, using the "discrete" income changes from 34-66% of the "average worker" (AW).

14. Gender segregation<sup>16</sup> reaches 26% in occupations and 20% in sectors in 2008. This EU average has remained quite stable over the last years.
15. For the EU as a whole, inactivity and part-time work due to lack of care services for children and other dependants<sup>17</sup> have risen from 26.7% to 29.9% (of all persons aged 15-64 with care responsibilities) between 2006 and 2008. The variation between Member States is very wide, with 6 countries being between 4% and 14% (CZ, DK, FI, NL, SE, SK) and 6 countries (EL, ES, LT, LV, RO, SI) ranging between 50% and 90%. In the total population aged 15-64, the percentage of persons with care responsibilities (defined as the share of persons who would like to work but are not searching for a job/who work part-time due to their care responsibilities) is 4.5%.
16. The percentage of employees in non-standard employment (part-time and/or fixed-term) as a proportion of the total number of employees is 29% (across the EU this ranges from 2% to 56%) while the total self-employed as a percentage of total persons in employment is 15% (ranging from 8% to 30%); there has been little change since 2005.
17. Figures on undeclared work, that is the size of undeclared work in national economy (e.g. as a share of GDP or persons employed), are rather sparse. However, the data that are available suggest that the numbers are particularly high in some countries.
18. Overtime work and hours of overtime<sup>18</sup> is 4.4% in 2008, with percentages ranging from 1.0% or less (BG, EE, EL, LV, LT) to more than 10% (FI, SE).
19. Access to flexitime<sup>19</sup> in 2004, which are the most recent data available at EU level, range from under 11% of total employees (BG, CY, RO) to between 50% and 62% (DK, DE, FI, SE).

## 1.2 Relevance of available indicators

Several of the experts raise issues that may be worth taking into account in developing further comparative indicator/ analysis in the fields of in-work poverty and labour market segmentation. These include the following:

- **Timeliness:** Most EU indicators used for monitoring the EES follow EU or international recommendations and are primarily based on EU-SILC or the Labour Force Survey, which means that the last figures available are (at least) 2 years old or 1 year old respectively. As pointed out by the Belgian experts, “there is thus a lack of indicators to closely monitor poverty and the labour force. This is due to the fact that up-to-date information is often selective (e.g. information on Active Labour Market Policies) or not readily accessible (e.g. Crossroads Database for Social Security).”

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<sup>16</sup> i.e., gender segregation in occupations/sectors, calculated as the average national share of employment for women and men applied to each occupation/sector; differences are added up to produce a total amount of gender imbalance presented as a proportion of total employment.

<sup>17</sup> i.e., share of persons (age groups 15-64) who would like to work but are not searching for a job/who work part-time due to their care responsibilities and lack of suitable care services.

<sup>18</sup> i.e., employees for whom overtime is given as the main reason for actual hours worked during the reference week being different from the person's usual hours worked as a % of total employees.

<sup>19</sup> i.e., total employees who have other working time arrangements than fixed start and end of a working day as a % of total employees.

- **Need to invest in register/administrative data sources and to link various data sources:** Some experts highlight the insufficient linkage between the different statistical instruments available in countries, including both survey data (such as EU-SILC and the Labour Force Survey) and administrative/register data. For instance, the Irish expert points out that in Ireland “at the moment EU-SILC is not linked to other relevant sources and analytical tools. In particular, it is not linked to the Quarterly National Household Survey (which tracks changes in employment patterns but mostly at the level of the individual and collects only information about earnings)”. Referring to a scientific review conducted in 2007, she points out that “it should be made possible to use EU-SILC and the results from the National Employment Survey together to understand much more about the relationships between low pay at the level of the individual and low income (relative to needs) at the level of the household, among other things”.
- **Limitations of at-risk-of-poverty indicator:** A broad point that several experts highlight is the complications that arise from combining two different levels of analysis: the individual and the household. Another point, which is made by the Austrian expert, is that the use of at-risk-of-poverty rates may be misleading in certain cases, as groups with a high at-risk-of-poverty-rate may be rather small groups in absolute numbers, and groups at risk but with comparatively low at-risk-of-poverty-rates may at the same time be rather large groups in absolute numbers.
- **Lack of low pay indicator:** Directly related to this issue of combining individual and household information in a single indicator, the need to complement the in-work poverty indicator with a low-pay indicator is also highlighted by different experts. For instance, the Irish expert notes that “there is no statistic or monitoring of ‘low wage employment’ although the National Employment Survey provides very detailed information about individual earnings (from the employer) and characteristics (from the employee)”.
- **All indicators are static:** Some experts suggest that it would be interesting to have some indication of unemployment inflow and outflow or poverty inflow and outflow and that these indicators could be developed on the basis of national databases or EU-SILC.
- **Limitations of indicators on gender segregation:** The Austrian expert suggests that “both indices for gender segregation (i.e. the one on segregation according to sectors and the one on segregation according to occupations) are rather crude and highly aggregated measures. In principle, these indices can be interpreted as the proportion of the workforce (persons in employment) which would need to change jobs in order to remove segregation - considering the female and male shares of jobs within different sectors (segregation according to sectors) or of occupations (segregation according to occupations). When calculating these indices, different shares of both sexes (according to sectors and occupations) are added up and rather equal shares in one sector (or occupational level) may for this reason compensate for very unequal shares in another sector (or occupation level). In this context, it appears that in the case of Austria these aggregate measures for gender segregation to some degree underestimate the concentration of women in sectors and occupations with rather unfavourable working conditions.”
- **Lack of data on illegal migrants and small self-employed:** The Maltese expert points out that data on two specific sub-groups of the population, illegal migrants and small self-employed, who are generally considered to be less well-off are not available for a number of reasons.

In their reports, the experts also presented and commented on any national indicators and data produced by the National Statistical Offices to monitor in-work poverty and labour market segmentation, highlighting the definitions used at national level (including, and crucially, "low wage employment"). The key overriding impression is that in most Member States very little attention has been given to developing additional indicators and collecting and analysing data on in-work poverty in particular and, to a lesser extent, on labour market segmentation. One of the reasons for this is that the issue can fall between the stools of employment and social protection.

In reality, most data are as a result of EU and international initiatives. First, there are those indicators agreed by the Council of Ministers (2001) to measure efforts made in the field of quality of work by the Member States within the framework of the implementation of the EES. Secondly, there are indicators proposed by the ILO "Tripartite Meeting of Experts" (2008) about decent work in EU-countries. As the Belgian experts point out, "from this the following themes are relevant for our purpose: (1) employment opportunities, (2) adequate earnings, (3) decent hours, (4) combination of work, family and personal life, (5) stability and work security and (6) social security".

One interesting example of national data is highlighted by the Dutch experts who report that "since 1997, the Netherlands Institute for Social Research (SCP), in collaboration with Statistics Netherlands (CBS), have regularly published the Dutch Poverty Monitor. In 2008 a new, budget-related, poverty line was introduced which has two variants. These thresholds were applied empirically for the Netherlands for the period from 1985 to 2007. All in all the most recent Dutch Poverty Monitor report of 2008 used three different indicators: the low-income threshold; the 'basic needs' variant (budget-related indicator); and the 'modest, but adequate' variant (budget-related indicator)."

## 2. Main explanatory factors for in-work poverty and labour market segmentation: literature review

Network experts undertook a literature review in order to identify the main explanatory factors for in-work poverty and labour market segmentation in their countries. In undertaking this review, only a few experts (ES, FR, IE, SE, UK) found that quite extensive research and important studies on the topic of in-work poverty and/or labour market segmentation were available in their country. Yet, a few (e.g. AT, BE and PT) point to a growing research interest. For instance, the Belgian experts note that “the phenomenon of the working poor has not attracted much attention in Belgium, either at academic or political level, partly due to the limited number of cases. However, in recent years, the working poor have become a growing topic for debate, especially in light of the economic crisis.”

In most Member States, in-work poverty and labour market segmentation are very under researched areas. For example, the Polish expert notes that “the problem of working poor is not in the main line focus of scholarly research and analyses”. Similarly, the Czech expert comments that “literature on the causes of in-work poverty and labour market segmentation is rather rare in the Czech Republic. In fact, no study has focused explicitly on this topic, and we must refer to studies that have dealt with other related problems/topics.” In Lithuania, the experts consider that “the analytical literature and political debate on both in-work poverty and labour market segmentation is very poor”. The Dutch experts note that “in-work poverty is often overlooked or only mentioned briefly”. The Hungarian expert reports that “apart from sub-sections of international comparative studies no national studies focusing primarily on in-work poverty could be found”. The Austrian expert comments that “literature dealing with the *causes* of labour market segmentation and in-work poverty in Austria in the narrow sense is rare. Most work and information available is *descriptive*, i.e. it describes the respective phenomena and the characteristics of people affected, but it does not explain the respective rather structural causes.” Likewise, the Greek expert comments that in relation to in-work poverty “only a few studies focusing on this particular issue have been conducted” but he does note that “the literature on the issue of labour market segmentation, in contrast to that of in-work-poverty, is rather abundant”.

In spite of the limited literature, most experts highlight findings from more general research on poverty and on the labour market that are relevant to and throw significant light on the issues of in-work poverty and labour market segmentation. For instance, the Latvian expert notes that “although there has been no research in Latvia specifically dedicated to the analysis of in-work poverty, still there are some labour market studies that include problems of the working poor”.

### 2.1 Explanatory factors for of in-work poverty

The explanatory factors for in-work poverty that emerge from the experts’ reports reveal the interaction of a very complex set of factors. The balance of these varies in importance from country to country. These factors can be grouped under four main headings: structure of economy/labour market; family/household composition; individual/personal characteristics; institutional factors (i.e. minimum wage, tax and social protection).

### *2.1.1 Structure of the economy/labour market*

The structure of the economy and labour market is seen by many experts as a key factor in determining the extent of in-work poverty. In particular, they stress that the impact of low quality employment and low wages, the importance of highly segmented labour market and low upward mobility, the persistence of non-standard forms of employment, the extent of low net wages, the high risk associated with agriculture and self-employment and the significance of geographical segregation all need to be taken into account.

#### *2.1.1.1 Low quality employment and low wages*

The prevalence of extensive low quality and insecure employment combined with low wages greatly increases the risk and extent of in-work poverty in some Member States. This is especially, but not exclusively, evident in those Member States with high levels of in-work poverty (RO, EL, PL, ES, PT, LV, IT). The key factor explaining the high levels of in-work poverty in these countries is widespread low wages combined with extensive low quality and insecure employment and several experts also link this with the effects of economic globalisation. For instance, the Spanish expert stresses that “the spread of low wages is a key factor in explaining the hard fact of the working poor. Since the second half of the 1990s, the growth of employment in Spain has been accompanied by ever greater moderation in real salaries, and this has had most effect on those groups working in the most precarious sectors of the labour market. It is the very nature of one’s participation in the labour market which in the last resort accounts for the phenomenon of in-work poverty. While it is true that the household and its characteristics (size and composition) modulate the degree of poverty, it is ultimately employment status and the form of labour market participation which set the conditions for a worker’s poverty.” He also links this with the effect of globalisation on the labour market when he argues that “in many ways, in-work poverty is a consequence of the model of economic globalisation based on labour market segmentation and wage restraint, if not actual wage reduction. To put it another way, it is through the analysis of the labour market in relation to global capitalism that in-work poverty may, in the last instance, be explained, even if such an explanation is not sufficient to account completely for such a complex phenomenon.” The Portuguese expert also highlights the same problem when she points to the persistence in Portugal of an economic model which is based on low salaries. She stresses that “the persistence of low-quality employment in Portugal translated into low salaries, low-qualified jobs, insecure labour relationships and a high proportion of atypical jobs is one of the well-known structuring characteristics of the Portuguese labour market which has a strong and direct impact on the characteristics of poverty in Portugal”. She also emphasises that “undeclared forms of work, atypical contract arrangements and other non-regular forms of labour market integration also ‘contribute’ to job insecurity, in-work poverty and reduced prospects of employment advancement”. However, the situation is complicated as “the large majority of the working poor have full-time jobs, written contracts and are covered by social protection raises some challenges in terms of policy implications”. Similarly, the Italian expert emphasises that “vulnerability to poverty risk can therefore be associated to a combination of low wages and precariousness in the labour market, the latter including transition from any type of employment to unemployment”. Likewise, the Greek expert highlights the extensive use of fixed term contracts, precarious employment, unpaid employment by workers in family enterprises, self – employment. The Romanian expert points out that the “employed mostly exposed to the risk of being working poor are in particular those that cumulate: flexible/atypical forms of work (self-employed, no labour contract, short-term contract etc.), which are more insecure and precarious than the typical

employment; those active in the economic sectors with the highest risk of informal economy (agriculture, construction, trade, tourism and catering); the unskilled and poorly educated; and those living in the least developed areas of the country (villages and small towns from the Eastern and Southern regions)".

The significance of low wages is not limited to just the Member States with the highest levels of in-work poverty and several point to a growth in low wages. For instance, the Dutch experts report that "the most obvious cause of in-work poverty is of course earning a low wage" and go on to highlight a study showing that "over the last decades the number of employees with a low salary, which means a wage of less than two thirds of the median hourly wage, grew substantially". In Germany, the experts note that "the high and long-lasting mass unemployment has led to wage agreements which have fallen behind the productivity growth and the inflation" and "Germany is the only MS where the wages have not risen in real terms since 2000". In Slovenia, a low level of minimum wage was identified as one of four reasons for in-work poverty.

#### *2.1.1.2 Highly segmented labour market and low upward mobility*

The issue of low quality employment is linked by many experts to the impact of a segmented labour market. It is clear from their reports that one of the effects of increased segmentation of the labour market is to increase the risk of in-work poverty and to undermine the approach that suggests a job is always the best route of poverty. As the Spanish expert puts it: "there is a broad consensus that the best means of reducing or avoiding poverty and social exclusion is employment. But it is not always enough: the employment may not be of sufficient quality or form part of highly segmented labour markets where employment is characterised by precariousness and poor working conditions." The Italian expert concludes that "there is a clear correlation between this kind of poverty and labour market segmentation. (...) The main causes of in-work poverty in Italy appear to be low wages and flexi-insecurity (or better, precariousness). These causes are linked to labour market segmentation, whose causes are embedded in the division of labour linked to economic specialisation, technological advancement, demographic change and social roles assigned to the components of the family and community." The Austrian expert points to "strong labour market segregation according to gender". In Luxembourg, "in-work poverty has strong links with labour market segmentation, educational attainment and gender equality (segregation, pay gap...)".

Experts also stress that highly segmented labour markets trap people in poorly paid jobs and result in low upward mobility. For instance, in France the expert highlights that "overcoming poverty through work is not easy in a highly segmented labour market. Civil servants enjoy strong job stability and guarantees, and employees of large firms in economic sectors with high added value or strong growth also have relatively good situations. However, independent trades' people, self-employed people and small businesses with fewer than 10 employees have much more limited protections. Likewise, people who are younger, less qualified, in short contracts, interns, in subsidized jobs or temporary work alternate between periods of unemployment and precarious employment." The Portuguese expert points out that "the analysis of the social mobility of Portuguese individuals shows that those coming from vulnerable families have the lowest chances to move upwards compared to individuals from the same background living in the other EU25 countries". The same is evident in Poland.

### 2.1.1.3 Non-standard forms of employment

Another explanatory factor for in-work poverty that is frequently highlighted by experts and that is closely linked to low quality employment is the frequency of non-standard forms of employment; in particular, the use of sub-contracting, short-term and fixed term contracts, part-time working. For instance, the Finnish experts note “the prevalence of in-work poverty due to non-standard forms of employment, as in-work poverty appears to be significant among workers hired under these forms of employment”. The French expert emphasises that “increased work flexibility contributes to the development of in-work poverty by promoting forms of employment other than full time”. In Luxembourg, the expert notes that “workers with a fixed term contract have a greater risk of poverty than permanent contract workers. But, 82% of the working poor have a permanent contract.” In Bulgaria, the experts stress the high risk associated with working in the informal economy as “individuals working in the formal sector faced a much lower risk of poverty than did those eking out a living in the informal sector”. Putting it more positively in the case of Cyprus, the experts point out that “there is no evidence in the data that in-work poverty in Cyprus has been affected by labour market transitions, except for a falling percentage of employees in part-time and/or fixed-term contracts. This and the relatively lower percentage of employees in non-standard employment appear to help towards keeping in-work poverty low compared to other EU countries. Overtime work and transition across contract types and income deciles, however, are less evident in Cyprus than other EU countries.”

The impact of part-time work on in-work poverty appears rather uneven and in many cases the majority of working poor are in full-time employment. However, in some countries it can be a significant factor as it is often associated with poorly paid and insecure jobs. In Poland, the experts points out that the vast majority of working poor (89%) work full time, and the remaining 11% part time. On the other hand, in Greece the experts note that “the in-work poverty rate is very high for part-time workers, almost double than the poverty rate of full-time workers”. Similarly, in Austria the experts note that “the group of full-time employed having a job during the whole reference year makes up for no less than 52% of all working poor. Only 21% are persons who were in part-time employment during the whole reference year (and 27% not employed during the *complete* reference year).” However, they also note “a rising share of part-time employment which is extremely concentrated on women and a rather ‘familialised’ model of care work (for dependent children as well as for other relatives in need of long-term care), whereby the bulk of respective work is performed by women”.

### 2.1.1.4 Low net wages

While low wages play a very important role in causing in-work poverty in several Member States, it is important to recognise that they are only part of the problem and their significance varies across the EU. In many countries, the correlation between low wages and in-work poverty is not very strong. Many experts note that while most people experiencing in-work poverty have a low wage not everyone on a low wage experiences in-work poverty. Thus they stress that it is the interaction between several different factors (i.e. wage levels, hours worked, level of direct tax and the level of in-work benefits). For instance, the French expert stresses that “the working poor are primarily poor not due to insufficient salaries but because they are not working enough hours” or because of “intermittent employment alternating with periods of unemployment”. The focus thus needs to be not just on low wages per say but on low net wages. The UK experts stress that they are a function of part-time employment, the level of wages, the direct tax system and the

level of in-work benefits. Similarly, the Polish expert points out that the major factor is low net wages of low earners resulting from high differentiation of wages, low level of minimum pay and high taxation of low wages. The Swedish experts go further and conclude that “that the majority of the working poor were poor because they had been partly out of work during the observation year, and that in-work poverty as a consequence of low wages is, by all measures, a very small problem in Sweden”. They warn that “the concept of in-work poverty is diverting our attention from the real problem, i.e., unemployment and unsecure labour market attachment, to a problem of lesser magnitude, i.e., low wages”. Rather similarly, the Belgian experts comment that “there is limited overlap of in-work poverty and low pay in Belgium. Only a minority of the in-work poor are poor because of low pay and, inversely, most low-paid workers are not poor. Consequently, all measures aiming at increasing the lowest net wages will have a limited effect.”

#### *2.1.1.5 High risk occupations: agriculture and self-employed*

Many experts highlight that the prevalence of low wages and insecure employment is particularly evident amongst particular sectors of the economy, especially farmers and the self-employed. For instance, in Poland the “high incidence of poverty among farmers’ households is related to low productivity in agriculture”. In Romania, “the dominance of the working poor in subsistence agriculture is specific for Romania. It is estimated that more than two million people in the Romanian economy are working in and living on subsistence agriculture, mostly as self-employed or unpaid family workers (which can therefore be termed as ‘working poor’ because they receive no earnings).” Also it is striking that “in 2006, the at-risk-of-poverty rate for employed persons was 3.9%, while it stood at 37.5% for self-employed persons (including agriculture)” which was very similar to that for unemployed people (36.9%).” In France, employees with very low incomes, mostly agricultural workers or self-employed people are one of three main groups. In Greece, “the ‘skilled agricultural and fishery workers’ category presents an in-work-poverty rate 3 times higher than the respective one of the total number of employees”. One-third of the ‘working poor’ in Ireland are self-employed or farmers. In Lithuania, “with regard to people with earnings of less than 60% of median earnings who also had income less than 60% of the median, self-employed people are most exposed to poverty”.

#### *2.1.1.6 Geographic location*

Several experts stress that the risk of in-work poverty can be greatly increased depending on where one lives. For instance, in Poland poor persons most often live in rural environments and in small towns. In Spain, a further risk factor is residence in regions with high poverty rates such as Andalusia, Extremadura, Murcia and Castile-La Mancha. In Italy, a clear regional division is evident, with low employment levels and low wages characterising the South and thus this is the regional area where in-work poverty is more concentrated. In Germany, it is especially in East Germany where the risks like long-term unemployment, precarious employment, and low-wage prevail. As a result, there are many people who are poor even though they are employed. In Romania, there is a higher risk of in-work poverty in the least developed areas of the country: villages and small towns from the Eastern and Southern regions.

### 2.1.2 Family/household composition and low work intensity

Household composition emerges as a key factor in determining the risk of in-work poverty and this is closely related to the work intensity of households.

#### 2.1.2.1 Children

In many Member States, in-work poverty is linked to having children. For instance, the UK experts point out that “in-work poverty is associated with having children; being a low-paid and part-time employed lone parent; being a couple with children with only one person employed on low pay”. In Ireland, the expert comments that “63% of the overall ‘working poor’ population were in households with children. Only 8% were lone parents with children and 55% were in households with two or more adults and children. The largest share of ‘working poor’ (26%) was in households with three or more adults plus children.” In Luxembourg, “for households with children, and more so as the number of children increases, the at-risk-of-poverty rate increases. This is due to the combined effect of increasing costs and the decreasing activity rate of women in these households.” The in-work poverty risk among single parents is 39%. In Romania, the expert notes that “having children makes single parents and to some extent couples more vulnerable to in-work poverty than the overall population in employment. If households without dependent children show lower in-work poverty risk (14%) when compared to households with children (20%), single people in employment are faced with an in-work poverty risk equal to lone parents (26%).”

Many experts specifically point to the position of lone parents. For instance, in Lithuania the experts note that “single parents with dependent children are at the highest risk of in-work poverty”. The Dutch experts highlight that single parents who often only work a limited number of hours are especially affected. In Sweden, the experts note that “the group in which we find the highest risk of in-work poverty is among single parents (which have a high risk of being poor even if they work full time)”. Likewise, in Hungary the expert comments that “11% of the children of lone parents employed full-time live in poverty” and “a full-time job quarters and a part-time job halves the poverty risk of children”. The Maltese expert comments that those most likely to be the working poor in Malta are “single persons, especially if they have to care for children as single parents, families with more than two children, and persons whose formal education does not extend beyond the primary or the lower secondary level”. In Finland, the expert notes that increasingly “one needs to have two working adults with an income in a household” to avoid in-work poverty. The Romanian expert notes that “lone parents are particularly vulnerable to in-work poverty as 26% of lone parents who work are poor in Romania”.

#### 2.1.2.2 Low work intensity of household

Lying behind the link between children and the risk of in-work poverty is the issue of low work intensity. In Hungary, the expert notes that “the higher the work intensity of a household, the lower the in-work poverty rate is”. The Polish expert points out that “at the level of households, a major cause of in-work poverty, in addition to household size (households of five or more persons make up no less than 38% of ‘working poor’ households), is the low intensity of work. A characteristic feature of poor households is that work is being done by only one person – this situation applies to more than twice as large a population of working poor (39%) than working

non-poor (16%).” However, in spite of this she points out that “in-work poverty is not as closely related as in average of EU-27 with low work intensity of households”.

In Sweden, the experts note that “a substantial part of the working poor are poor because they share household with an unemployed person”. In France, low-income earners when only one spouse works and employees with low incomes, especially working part time are two of the three main groups experiencing in-work poverty. In Spain, while the expert stresses that the impact of low wages is critical, he also notes that “the work intensity of a given household, that is to say, the participation of its members in the labour market, and the existence or otherwise of dependent persons also condition the poverty of the household and its members”. In the Netherlands, the experts note that “a group with a relatively high risk of in-work poverty caused by low work intensity are employees with a flexible labour contract. They do not only earn relatively less per hour than their colleagues, they also sometimes have short periods without work and thus without salary. Furthermore, working non-western migrants are relatively often poor due to low work intensity: many of them only work part of the year. Another group with a high risk of poverty that is caused by low work intensity are the self-employed. (...) However, the group that is most susceptible to in-work poverty are single wage earners. This is the case for single-person households, households with young children in which only one of the parents is employed and especially for single parents. Single parents often find it difficult to combine work and care. Because of this, they work only a limited number of hours a week and thus earn a small wage.” In Ireland, the expert points out that “for all those at work the average number of people in the household in work is 2.0, whereas for the households of the ‘working poor’ the average number of people in work was only 1.3. The gap was even greater for those in full-time work: an average of 1.6 people in households of all those at work and 0.8 in households of the ‘working poor’. (...) the majority of men who are working poor are employed in full-time jobs whereas among the working poor women part-time jobs predominate. The women are also more likely than the men to be located in the service sector, in which poor pay and a general low skill level of workers raises the odds of being in poverty.” In Luxembourg, “for other households (except lone-parent households of course), the risk of poverty depends largely on the income of the partner. If the partner works, the at-risk-of-poverty rate drops at 6%, in the other case it rises up to 17%.” Similarly, in Belgium the experts note that “labour force participation of second earners in the household is the main key to avoiding in-work poverty”.

As several experts point out key issues in relation to low work intensity are the limited availability and affordability of child care and lack of access to flexible working arrangements. For instance, the Polish expert points out that “lack of access to child care and to flexible work organisation arrangements negatively impacts the work intensity of households with small children”. In the UK, the experts consider that “it is debatable whether part-time work is genuinely involuntary for women with caring responsibilities. It is also often mothers in the UK who have intermittent careers.” In Belgium, the experts point out that “four out of ten individuals with care responsibilities were inactive or working only part time due to a lack of child-care facilities. Part-time work is mostly chosen to take account of caring responsibilities.”

### *2.1.3 Individual/personal characteristics*

The risk of in-work poverty can be greatly increased by certain personal factors such as low education, poor health and nationality which interact with other risk factors. The Czech expert highlights the interaction when he writes that the in-work risk of poverty is most evident among those “with basic education, poor health, people living in households with low work intensity,

among the self-employed, especially when working part-time, and above all single parents and couples with three or more children”. Similarly, the Irish expert points out that “overall, two sets of factors emerge from the literature as risk factors for in-work poverty. The first set relates to the personal characteristics of the individuals who tend to be low-skilled and poorly educated. Secondly, there are job-specific factors, including whether the job was full or part-time and which sector it was located in. However, I would like to draw attention to a third factor which is household/living arrangements.”

### *2.1.3.1 Low education/qualifications*

Many experts stress that low levels of education and qualifications increase the likelihood of in-work poverty as this leads workers towards low paid sectors and to insecure work. For instance, the Portuguese expert notes that “a sectoral concentration of low-qualified workers is also obvious in the manufacturing, construction, wholesale and retail trade and agriculture and fishing sectors, whereas training opportunities to improve job skills seem to be much lower for low qualified workers than for the other categories of workers”. The Polish expert reports that “low qualifications are claimed (by government) to be the main factor leading to in-work poverty”. In Latvia, the expert notes that “poor persons, who have worked, usually (36%) belong to the unskilled labour”. The Greek experts point to the importance of the level of educational attainment. The Danish experts note that Denmark’s flexicurity system means that “specific ‘flexible’ arrangements such as those involving time-limited contracts, temp agency workers or part-time work are little used”. And they add: “Consequently, the vulnerability of Danish workers is mainly defined by their skill level, labour market history and employability rather than by their contractual employment arrangements. Those with good skills and employability will generally have good employment prospects regardless of whether they are employed on permanent or temporary contracts, whereas people with out-of-date or inadequate skills and low employability will find themselves at risk even if they are employed in permanent jobs and have high seniority.” In Ireland, the expert notes that “in general, the ‘working poor’ had much lower levels of education than all those at work”. In Lithuania, “low educated people were found to be most exposed to in-work poverty. A comparison shows that the gap between in-work poverty risk among employees with the lowest education and those with highest education is much wider in Lithuania than in the EU as a whole.”

### *2.1.3.2 Nationality*

In many countries, being a migrant or from an ethnic minority can greatly increase the risk of in-work poverty. As the Spanish expert notes, “another important factor is nationality: the rate of in-work poverty among Spanish and EU nationals tripled by that among workers from non-European countries”. The Dutch experts note groups with a relatively high risk of in-work poverty include non-western migrants. The Finnish experts comment that “the work related poverty of immigrants in Finland is twofold: firstly there is the general labour market position and difficulties in employment and secondly the segregation of professions into ethnic and non-ethnic varieties”. The Italian expert points out that migrants are very often employed in unskilled jobs.

### 2.1.3.3 *Being young*

In several countries, young people seem to face particular risks of in-work poverty. This is particularly highlighted by the Slovenian expert who notes that “the major segmentation of the Slovenian labour market is the division on safe permanent employment (generally characteristic for the older part of the labour force) on the one hand, and a considerably less safe flexible employment (fixed-term or temporary, prevailingly for the young who are first job seekers or perform work through student work brokerage service) on the other”. Likewise, the Italian expert points out that “young persons are very often employed in precarious jobs”.

### 2.1.4 *Institutional factors*

Several experts point to the fact that institutional factors such as the lack of regulations establishing an adequate minimum wage, relatively high taxes on low wages, the lack of in-work benefits, the forcing of people off benefits and into low paid work, inadequate child income support, the lack or high cost of essential services (e.g. child care and public transport) can contribute to in-work poverty. For instance, the Latvian expert notes that often, even where an inadequate salary is insufficient to lift someone out of poverty “it still doesn't allow the person to qualify for different benefits provided by the government”. The Dutch experts point out that social security reforms since the 1990's have helped to ensure that labour market participation has increased substantially but that “in-work poverty increased correspondingly. Transitions from incapacity, unemployment or social assistance benefit to a job often led to periods of in-work poverty.” However, more positively they note that “it also appeared that in most cases in-work poverty usually does not last very long, while people who are unemployed relatively more often have a low income for a longer period. This implies that in the long run employment is still the best way to achieve a durable higher living standard in the Netherlands.”

To put it more positively, some risk factors such as low wages and insecure employment can be mitigated by positive institutional arrangements to ensure that a household's net income is adequate. For instance, the Belgian experts, while reporting that low household work intensity and to a lesser extent also low-wage work have been identified as the main explanatory factors for in-work poverty, emphasise that “within the Belgian welfare system, these factors have been kept quite well under control. On the one hand, elements such as relatively low inequality in the wage structure and emphasis on strong social security support to breadwinners have limited the incidence of low-wage work. On the other hand, extensive child-care services turned this conservative welfare system into what was called a system of ‘optional familialism’, supporting the labour force participation of second earners.” In Finland, the experts highlight that regardless of the amount of workers (one- or two-earner households) or whether there are children, working households had much lower poverty rates than households overall. They conclude that “the income redistribution system of Finland seems to effectively reduce poverty that would occur if only market-based incomes were taken into consideration. In other words, a large share of households (about half of them in the year 2000) that did not have an adequate level of living only with their market incomes was lifted above poverty line because of social income transfers.” On the other hand, the Spanish expert points to a study covering four different welfare regimes (Spain, Germany, Sweden and United Kingdom) where the before social transfer levels of poverty are very similar but where after transfers there are very big poverty differences. He concludes that “the combination of primary incomes and social benefits translates into different models of in-work poverty. Spain is a country where the low intensity of its social benefits generates the greatest incidence of in-work poverty among the four models of welfare regimes analysed.”

The importance of adequate minimum wages is highlighted by some experts. For instance, in Bulgaria the experts highlight a World Bank analysis showing that minimum wages are set fairly high and indeed in some low-wage sectors of the economy, such as agriculture and forestry, estimate that the minimum wage is about 65% of the average wage. The World Bank considers that while such high minimum wages may keep some SMEs in the informal sector but they are good for alleviating poverty. In Malta, the expert points to both the importance of informal support systems that alleviate/hide income poverty and to the fact that “a minimum wage structure has been in place for many years, and cost of living increases are automatically reflected annually through the COLA system, a mechanism emanating from a social pact that in every annual budget the government declares the amount by which all salaries paid in Malta, whether by public or private employers, have to be increased. Thus cost of living increases are automatically reflected, albeit with a year’s lag, in people’s wages and salaries. Besides, a number of schemes provide for additional benefits to enable specific segments of the population to benefit from transfer payments. After such payments the proportion of persons at risk-of-poverty in Malta declines substantially.”

## **2.2 Explanatory factors for labour market segmentation**

Three interconnected themes emerge to explain labour market segmentation. These are: exploitation and discrimination, the promotion of insecure employment and irregular work and low levels of education and skills.

### *2.2.1 Exploitation and discrimination*

Many experts highlight exploitation, discrimination and the lack of enforcement of people’ rights as key factors in causing and deepening labour market segmentation. In particular, they highlight ethnic discrimination and gender discrimination and to a lesser extent discrimination in relation to disability.

#### *2.2.1.1 Ethnic discrimination*

Discrimination against migrants and ethnic minorities is a significant factor in labour market segmentation in several countries. For instance, the Italian expert highlights that in Italy migrants “are discriminated against in relation to the continuous search for a low cost labour supply. This creates a category of workers in the lowest and most vulnerable area of labour market without social protection and on the fringes of black economy. (...) Italy, for example, is affected by a kind of ‘ethnic division of labour’, in which a large number of immigrant workers are employed in unskilled jobs (generally refused by Italian workers) and, especially in the case of women, in home care services to dependant persons, generally the elderly. Therefore, demographic change (an ageing society) co-evolves with economic specialisation and division of labour.” In the UK, “when employed, nearly all other groups have hourly pay less than white British men – though some groups have similar hourly wages after controlling for differences in age, occupation and qualifications. Women, disabled people and members of ethnic minorities are likely to be lower paid and in lower status jobs even with equivalent qualifications; and experimental studies (e.g. mock job applications with minority ethnic names or listing disabilities) – have shown a causal link with discrimination.” The Czech expert notes that “the hidden in-work poverty risk among legal and illegal immigrants would deserve more research: their position is extremely vulnerable, and

this issue has remained neglected by policy makers and in political and public discourse. Agency workers from third countries are exposed to sub-standard employment conditions and illegal practices, and laid off during any crisis in large numbers without effective protection by public bodies.” The Danish experts highlight that “immigrants form a disadvantaged group in Danish society in relation to in-work poverty and labour market segmentation, as immigrants are often self-employed or employed in unstable production industries. The reasons for this segmentation are thought to be the immigrants’ lower language skills and less experience with social norms in a professional environment. In addition, discrimination can play a part.” They highlight a growing impact of “social dumping” as a threat to Denmark’s flexicurity system (see Box 2.1). In Slovenia, the expert reports that migrants are twice as likely as Slovenian citizens to have a fixed-term employment and that “migrant workers frequently occupy jobs that the Slovenians do not want to take, mainly due to bad working conditions and low pay, but also due to low occupational prestige and low possibilities for job promotion”. The Irish expert reports on research showing that “immigrants earned between 15 and 18% less, on average, relative to native workers, controlling for factors such as education and length of labour market experience. For immigrants from non-English speaking countries, this wage gap was over 30%.” In Cyprus, the expert notes that occupational segregation “also exists between indigenous and immigrant workers, especially those from non-EU countries, who mostly concentrate in low-skilled and low-paid jobs”. The German experts consider that “the labour market in Germany can be described as ‘ethnically segregated’” and note that “the unemployment rate of migrants is above average and they often work in jobs with low skill requirements, like in the service sector, catering, and cleaning”.

#### **Box 2.1: Social dumping in Denmark**

Social dumping challenges the existing Danish labour market model, as the use of cheap foreign labour undermines the general agreements, according to the trade union 3F (among others). Especially within the fields of farming, gardening and transportation the employers make use of lower-wage labour primarily from the new EU Member States. Social dumping is only possible if employers choose to stand outside a general agreement, as they are otherwise obliged to follow the terms and conditions of the agreement no-matter the nationality of the employees. Currently no legislation regulates the salary of workers, whose employers have not entered an agreement with the relevant union. A recent news story presented a migrant worker from Latvia, who was working in the farming industry for 90 DKK per hour, which is substantially below the agreed minimum wage of the industry. 3F argues that allowing companies that employ migrant workers – or any other type of workers for that matter – to stand outside the general agreements creates an A-team and a B-team within the labour market. In relation to in-work poverty and labour market segmentation, it is clear that the so-called B-team among workers, consisting primarily of migrant workers or other vulnerable groups, will be at risk.

*Danish Experts*

#### *2.2.1.2 Gender discrimination*

Most experts highlight the persistence of gender segregation in the labour market and identify a range of explanatory factors. For instance, the UK experts identify the main factors for women’s labour market disadvantage as including “the under-valuation of ‘women’s work’, occupational segregation, part-time working and the constraints of caring responsibilities”. The Belgium experts highlight research showing that the labour market was particularly disadvantageous for the participation of women with low education levels. The Estonian expert notes that segregation on the Estonian labour market “is revealed in the so-called men’s and women’s occupations and fields of activity, whereas the pay in positions more frequently held by women (education, trade, health care) is smaller than average. Due to the discrimination on the ground of sex, women get paid less than men even when working in the same positions as men. (...) In addition to low-paid

jobs, women's poverty is increased by unequal distribution of economic power in the household. This is linked to the preservation of traditional gender roles and to women's attempt to improve reconciliation of work and family life. Women are significantly more involved in the so-called unpaid labour – they deal more with organising domestic affairs and child care.” In Finland's case, the experts report that “the gender pay gap is largely explainable by the segregation of the Finnish labour market, often depicted as deeply segregated, with 50-60 % of the segregation being explained by gender segregation”. The German experts highlight that “even though young women have higher formal qualification, their vocational training concentrates – in the non-academic area – on the service sector and – among the academic area – on professions within the public sector. The reasons for this are the possibilities to work part-time and therewith the better reconciliation of family and employment. Among the 100 largest banking houses only 2.6% and among the 62 largest insurance companies only 2.8% of all executive committee members are women.”

In Italy, the expert points out that women are discriminated against due to “three interconnected aspects: attribution of non-paid household responsibilities and tasks (that exclude them from actively participating in the labour market); gender segregation in low paid and unskilled occupations; gender gap in wages and professional career”. In Ireland, the expert points to research showing that at least part of gender segregation “is due to factors outside the labour market and in particular the still low availability and high cost of childcare facilities”. In Cyprus, the experts note that there is a very high gender pay gap and this is “largely attributed to discrimination/segregation in the labour market”. The Polish expert highlights “the existence in Poland of strong cultural and structural barriers to combining employment with family duties. These include: decidedly unequal division of household duties, which leads to overburdening women with various chores, particularly intensive when the household faces the necessity of providing care to a person requiring such, mainly children, especially small ones; limited access to care institutions, particularly for children up to 3 years old and in pre-school age, and also for older children after school hours, which is due to the cultural environment, limited supply of such services (in terms of quality, structure, access due to feasibility and time of reaching the facility) and their relatively high (compared with incomes) prices; and inflexible organisation of working hours and dominance of full time jobs in employment offers frequently completely prevent reconciling family and job duties, and in consequence resignation from activeness in the latter field”. Rather similarly, the Romanian expert highlights the complex and interrelated set of explanatory factors for gender segregation in the labour market which explain why “it is more probable for a woman to be employed in a low-paid job and requiring lower skills”. These include: “the undervaluing of women's work, segregation in the labour market (as women tend to work in different occupations and industries than men such as agriculture, light industry, services and trade etc.), culture and education which continue to transmit gender stereotypes (with women and men following traditional training or career paths) and problems in balancing work and private life. The gender pay gap is the consequence of all these factors and inequalities in the labour market. Although the principle of equal pay for women and men applies to work of equal value, in reality the difference in wages still persists as it is difficult to identify direct or indirect gender wage discrimination or to interfere in internal pay formation within companies.”

### *2.2.1.3 Disability discrimination*

A few experts point to segmentation as a result of discrimination against disabled people. In Ireland, the expert points out that the rate of employment of people with disabilities is low at 37%. In Cyprus, the experts note that “disabled persons feature prominently among the low paid

workers; and are inconvenienced by the lack of adequate child care services – an issue also of particular concern to single parents”.

### *2.2.2 Promotion of insecure employment and irregular work*

Many experts highlight a growing trend to segmentation between different parts of national economies. For instance, the German experts note that “the labour market segregates increasingly – not only in Germany” and highlight that “general segregations occur among and between the secondary and tertiary sector on national level as well as between national economies”. The Greek expert highlights that “pronounced labour market segmentation also remains today a distinctive feature of the employment system of all SE countries, which is reproduced by the concentration of employment insecurity and irregular work on the young labour force participants and the migrants who have massively staffed the underground economy”. The French expert comments that “the French labour market has become more segmented and less permeable over the last three decades. Moving from one segment to another is becoming harder and, most importantly, the transition from unemployment to employment occurs in the most precarious fractions of the labour market, particularly for young people, women, people of foreign origin and the least qualified.”

#### *2.2.2.1 Globalisation processes and impact of financial and economic crisis*

Many experts see the growing segmentation between industries as being linked to the process of globalisation. They also see a risk of the segmentation being increased during the current economic and financial crisis. For instance, the Portuguese expert comments that “in a context of growing competitive pressure brought about by recent globalisation processes, the issue of labour security is faced with new challenges: job security and ensured rights are now being replaced by instability and threat or in other words by increased vulnerability and risk” and that “in Portugal – as overall in Europe – labour markets are developing new forms of salary relationships, characterised by a stronger liberalisation of employment relationships”. The German experts point out that “the standard employment relationship is eroding (full-time, permanent, subject to social insurance contribution), precarious employments are becoming more important, the low-wage sector is increasing and the disadvantaged groups are growing”. This trend seems to have escalated further as, for instance, in the Czech Republic “since the crisis the minimum wage has been frozen and many people have had to accept shorter working days and lower salaries, or have not been reimbursed by companies going bankrupt”. The French expert concludes that “in many ways, in-work poverty is a consequence of the model of economic globalisation based on labour market segmentation and wage restraint, if not actual wage reduction”. Furthermore, he highlights research which shows that in times of economic and financial crisis “flexibility occurs on the fringe and not in the core competencies” and emphasises that “the study shows strong job retention in core competencies during downturns, and great volatility in peripheral jobs. In certain sectors, the decline in temporary employment was accompanied by an increase in overtime hours. In times of crisis, stable jobs are preserved whenever possible, emphasizing the duality of the labour market.”

The Dutch experts point out that “in the recent past the advent of information technology and the fierce competition from low income countries have further worsened the labour market position of low-skilled workers who have not managed to keep up with the technological developments. The result of this is that the working conditions (such as pay, type of contract and company training

schemes) of these low-skilled workers worsened.” The Italian expert notes that “labour market segmentation is closely connected to labour market internationalisation, intended as fairly endless extension of labour demand and supply matching within limits determined by national and local protectionism”.

#### *2.2.2.2 Growing use of subcontracting and temporary jobs*

Several experts highlight how the growing tendency to subcontracting is leading to segmentation between core jobs and peripheral jobs. The UK experts point out that “over 80% of employers now subcontract parts of their business. Insecure, low-paid work and the use of temporary contracts have been linked to the increased prevalence of subcontracting by private and public sector organisations.” In Sweden, the experts point out that “an increasing share of the Swedish labour force is employed on temporary contracts (about 10-15% among men and 15-20% among women), which is one reason that we can see a slight increase of in-work poverty in Sweden during the last decades”. In Slovenia, the expert points out that a “recent novelty among precarious employment is forced self-employment. The employers force their employees to assume the status of a self-employed person and then sign a business contract with them. This releases the former employer of responsibility for the former employee, but the self-employed persons takes a great risk of losing the contract. Such arrangements can mostly be found in construction, often affecting foreigners.” In Finland, the experts note that the “transitional labour market is clearly becoming a more central feature in the Finnish system. According to The Central Organisation of Finnish Trade Unions (SAK), in the first three months of 2008, a total of 56.9% of new work contracts were atypical or temporary. It may thus be argued that in some cases the atypical work is increasingly becoming the norm, which is likely to have important repercussions also on the poverty and low-income issues.” The Polish expert points out that undeclared work is relatively common in Poland and that there is also a high proportion of people working involuntarily on temporary contracts. However, in Slovakia the expert points out that “despite gradual increase in proportion of temporary contract since 1994 Slovakia still belongs to the EU countries with a primacy of permanent contracts”.

#### *2.2.3 Low skills and education*

Several experts point out that low levels of skills and education tend to lead to increase labour segmentation as those affected become concentrated in certain sectors. For instance, the German experts point out that “in Germany, formal educational attainment is extraordinarily important for the entrance into working life. For this reason, particularly those social groups have big problems on the labour market, which have only low graduations or no training qualification.” In Poland, the expert highlights that labour market segmentation concerns mostly people with low educational achievement, including farmers and the chances of improving the income situation of low-earners are relatively weak compared to other groups of workers. In Slovenia, the expert points out that “hotels and restaurants, fishing and agriculture are labour intensive activities with prevailing low qualified labour force and consequently high concentration of below-average earnings”.

### 2.3 Political debate

In most countries, there has been, until recently, relatively little political debate on in-work poverty. As the Portuguese expert puts it: “the issue of the working poor has not traditionally been a hot issue on the political agenda”. Similarly, the Czech expert notes that “in-work poverty has not been the subject of political debate; instead, consideration of policy at the lower end of the labour market have been associated with ‘welfare dependency’, quite frequently mentioned by policy makers and echoed in media”. The Austrian expert notes that “on the whole, up to recently the whole policy discourse on poverty of people at employment age very much concentrated on the question of how to improve the chances of the unemployed to find employment and not on the question of in-work-poverty. Questions of poverty and social exclusion tended to get very much framed as a problem of labour market integration at first instance. In the words of the current Austrian minister for social affairs, labour and consumer protection, Rudolf Hundsdorfer: ‘employment is the most important key to tackle poverty’.” In Estonia, the expert notes that “there has been no political debate whatsoever over in-work poverty as such. It may be said that the public lacks awareness of such phenomenon”. Of course, in some countries issues of poverty more generally have not even been a political priority. For instance, the Latvian expert comments that “in Latvia, poverty reduction has not been a political priority. No specific measures have been planned for in-work poverty reduction. The working poor are not singled out as an at-poverty risk group in the context of poverty and social exclusion reduction. Projected measures are general and targeted towards raising the income level of the population in general. Concepts of ‘working poor’ and ‘in-work poverty’ are not used in policy documents at all.” In Greece, the expert concludes that “given that there has not yet been elaborated and accepted a national definition of both working poor and low-paid employees by successive Greek governments, these issues still remain almost invisible in political and academic debates in Greece. On the contrary, the issue of labour market segmentation has attracted more attention by policy makers and academics alike. In particular, as regards the issue of labour market segregation by gender it has attracted certain interest mainly due to the establishment in the 80s of a General Secretariat in the Ministry of Interior (currently named Ministry of Justice and Human Rights) for the Gender Equality issues.”

However, in some countries there has been some debate and this has taken different forms. The UK experts note that “political debate about in-work poverty has concentrated more on ‘making work pay’ (via wages and in-work benefits) and getting second earners into work than on the quality and conditions of employment. There has also been lively campaigning for a ‘living wage’.” As regards debates about labour market segmentation these “focus largely on the degree of regulation of the labour market, but also on the effectiveness of enforcement mechanisms. (...) Two topical developments have sharpened these arguments: growing migrant labour (argued by some to lead to lower wages and worse conditions, and by others to be in part the result of these) and the current recession (making any real or perceived trade-off between employment levels and pay/working conditions more stark).” In France, the expert suggests that a key part of the debate on in-work poverty is whether it is “a transitional state, allowing people to start on an upward trajectory that must be reinforced by support or activation measures or by moments of tension on the labour markets. In both cases, poverty is transitory. Other analyses seek to show that forms of in-work poverty are in fact lasting structural situations that result from choices on the economic and financial markets.” The German experts point to quite a polarised political debate (see Box 2.2)

**Box 2.2: Political debate in Germany**

There is a consensus on the analysis that the German economy is in *European and international competition*. However, almost oppositional are the consequences from this situation: Free-market liberal politicians and scientists speak for a lower increase of unit labour costs and ask for more wage inequality e.g. by extending the low-wage sector. Furthermore, they call for a lower tax charge particularly concerning the “elite”. Despite detail differences these positions can be found more frequently in the current governing parties CDU/CSU (Christian Democrats) and FDP (Liberals). On the contrary, pro-labour stakeholders argue that higher wages lead to higher economic demands while wage cuts cause a precarious dependency on export trade. Aside from the trade unions – and, again, despite differences in the details – especially the current opposition parties SPD (Social Democrats), Bündnis90/Die Grünen (The Greens) and Die Linke (the Left) share this view.

*German Experts*

The Portuguese expert points out that in a political context of rising unemployment levels, the debate around in-work poverty has basically been fuelled by non-governmental actors, namely regarding the very low levels of salaries among the working population, the low level of the national minimum salary, the proliferation of precarious forms of contractual arrangements and the impacts of the crisis on families’ incomes and quality of life. She suggests that the impact of the financial and economic crisis and trends to reduce/limit salaries has contributed to more awareness/debate about low pay and poverty. In the Netherlands, the experts report that “over the last years, the largest Dutch labour union, the FNV, has been one of the driving forces in putting the issue of in-work poverty on the public agenda. An example of this is the actions they are undertaking at the moment for higher wages in the cleaning sector. The left-wing parties are the ones that pay most attention to the issue of in-work poverty in the Dutch parliament.” On the other hand, in several countries, with the rise in unemployment due to the economic and financial crisis, experts suggest that the focus on getting people into (any) employment has again become dominant and its quality has not been a concern. The Austrian expert suggests that: “since 2008, it seems that in the political sphere the question of in-work-poverty and labour market segmentation has to some degree been superseded by more general and economic problems, due to the financial and economic crisis. In other words: keeping people in employment and bringing people into employment appears to have top priority.”

The experts provide no evidence that the Communication on Active Inclusion has done anything to increase awareness or raise public or political debate on the issues of in-work poverty and labour market segmentation.

### 3. Analysis of policies in Member States

#### 3.1 In-work poverty

##### 3.1.1 Overall approaches

###### 3.1.1.1 Few specific policies to tackle in-work poverty

Most experts emphasise that policies specifically developed to tackle/prevent in-work poverty are relatively uncommon. However, most also point out that there are aspects of more general labour market, tax and social protection policies that contribute to this goal. For instance, the Belgian experts comment that “in-work poverty has not been the subject of explicit policy intervention in recent years (since 2008). Nonetheless, we found a number of measures in the federal and regional employment plans, as well as in the federal poverty relief plan, that could directly or indirectly influence the incidence of in-work poverty. These are measures on income protection, job stability, activation policies and training in order to promote mobility.” The Danish experts note that “there are no policies that directly address the issue of in-work poverty in Denmark. However, there are policies that indirectly affect the issue. For instance, policies and legislations regarding social benefits, taxation, health, and family, help to avoid in-work poverty, although none of these policies are originally initiated as a counteraction towards this specific issue. These policies focus on the basis of income, irrespective of an individual’s labour market status.” The Estonian expert points out that “there are no systematic measures and activities that would cover different spheres (starting from child care and education to employment relations etc.) to solve the problem. Neither direct national policies nor measures have been developed to reduce in-work poverty and labour market segmentation that would focus just on these two problems. Still, in-work poverty is reduced by policy measures for the general combat against poverty and labour market policy for the labour market segmentation etc.” The Finnish experts note that “poverty is seldom discussed in Finnish policies in relation to work”. However, they go on to point out that “the policy tools for fighting poverty in general and poverty among those active on the labour market have been many”. In Italy, the expert points out that “in Italy, policy measures addressing the working poor cannot be clearly separated from policies aimed at fighting poverty and social exclusion as a whole”. Similarly, the Maltese expert comments that “the issue of the working poor in Malta has not been addressed directly and explicitly. But through a combination of fiscal and other measures, targeted at low income groups, the plight of those who receive minimum payments has been improved.” The Irish expert comments that “in-work poverty is not targeted officially in Ireland. In particular, there are no targets to reduce in-work poverty - indeed in-work poverty is hardly mentioned in the *National Action Plan for social inclusion 2007-2016*. This entire document shows that the dominant anti-poverty approach is for more employment.” However, she notes that notwithstanding this “there have been initiatives to raise the income levels of those in employment and the employees’ representatives and also the ‘social pillar’ have for quite a while been concerned to improve the conditions of those in work”. In Poland, the expert comments that “decreasing in-work poverty is not a primary objective of the Polish government. Poverty continues to be seen mainly in the context of unemployment and inactivity. The issue of the working poor was given recognition in certain government strategic documents but there is no consistent political response to the problem until now.” Likewise, in Hungary the expert comments that “the government and its social and employment policy measures are focused on people without work and living in jobless households and also on increasing (now preserving) employment levels”. Some experts go further and stress that there is a lack of any real policy effort, direct or indirect, to address in-work poverty. For instance, the Greek expert concludes that “despite the fact that the rate of working poor in Greece remains high over recent years,

public policy action and initiatives to alleviate this situation are still missing and no resources have been directed, so far, to those working people who are locked in low paid and low quality jobs, both in the secondary and in the informal labour markets”.

While most experts do not consider that in-work poverty is a specific policy priority there are a few Member States (e.g. CY, IE, UK) where experts suggest that, although not necessarily a major priority, there is some specific policy attention given to addressing in-work poverty.

### *3.1.1.2 Increasing focus on unemployment and maintaining employment*

Many experts comment that one of the impacts of the economic and financial crisis has been to move the issue of in-work poverty lower on the policy agenda. The impact of rising unemployment due to the crisis has reinforced the already predominant policy focus on measures to protect employment and to create employment opportunities without necessarily addressing the issue of low wages and in-work poverty. For instance, in Portugal the expert reports on the Employment 2010 Initiative comprising a set of seventeen short term measures aiming at fostering job creation, tackling unemployment and facilitating the transitions of young unemployed in the labour market. She reports that the General Confederation of Portuguese workers argues that this programme is “enhancing precarious low paid jobs, and contributing to what they consider to be ‘the generalisation of the idea that it is better to have a precarious job than no job at all’”. In this context she also highlights the findings of a report which argues that the “prevalence of low qualified workers in the Portuguese labour market has been considered as one of the most important constraints to national competitiveness and development”. The Spanish expert points out that “since summer 2008 it is Spain’s high rates of unemployment which have led public policies to focus on two objectives: social protection for the unemployed and fomenting entry into the labour market. That is why Spain, strongly conditioned by rampant unemployment, is tackling the situation of the working poor either indirectly or within the package of general measures intervening in the labour market and improving social protection.”

### *3.1.1.3 Importance of comprehensive and multi-dimensional approach*

A strong theme from experts’ reports is the importance of developing a comprehensive approach to the issue of in-work poverty and the importance of addressing it as part of a wider approach to addressing poverty more generally and to developing an effective welfare state. For instance, the Belgian experts “plead for a holistic approach to in-work poverty, in conjunction with the general question of social inclusion, emphasising the importance of support both for access to labour market participation and domestic caring responsibilities”. They identify “the further development of child-care services, the restructuring of the labour market to promote small and medium-sized businesses, direct support to carers, and targeted activation measures as the actions with the greatest potential effect”. The Czech expert highlights that “the low in-work at-risk-of poverty rate in the Czech Republic is among other things the result of the redistributive effectiveness of the Czech welfare state. Since the early nineties the protection of large population groups against the social risks of transformation has become one of the main political concerns. Policies were aimed at compensating for the living costs of low income groups through the creation of a new safety net (a minimum income guarantee) and through social security schemes providing low replacement rates on average but with sufficient protection against poverty. The concern about risk of poverty (mainly with respect to the working population) is still influential, although the emphasis has shifted towards ‘activation’.” The Finnish experts point to broad mix of policies that have

contributed to low levels of in-work poverty when they highlight that “the current government programme (of 2007) includes horizontal programme instruments that seek to address the question, i.e. *policy programme for employment, entrepreneurship and work life* and policy programme for children, the young and families. Amongst the objectives of the first programme has been the development of the package consisting of social security, an active labour policy, labour legislation and adult education and the promotion of flexicurity arrangements. Measures have been developed to improve the position of workers in atypical working relationships and the reconciliation of work and family life.” Likewise, the Spanish expert stresses that “the complexity of social protection for the working poor means that if public policies are to be successful, they have to join forces and tackle simultaneously labour market inclusion, guaranteed household incomes and quality services”. The UK experts highlight the importance of looking at the combined effect of several different factors when they comment that “there are 4 major elements (amongst others) that determine the net income of people in employment: 1. The hours they can work (dealt with under ‘low work intensity’ below). 2. The level of the National Minimum Wage (and other remuneration). 3. The tax/National Insurance threshold and the tax (and National Insurance contributions) rate. 4. The level of in-work benefits.”

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

### 3.1.2 Policies to increase low net wages

It is clear from the experts’ reports that tackling the issue of low net wages requires a combination of actions. These involve raising the level of minimum wages, reducing taxes on low wages and providing additional income transfers. A good example of such a policy mix is provided by France where the French expert points out that “State intervention in terms of low wages uses three main instruments: a) the regulation of minimum wage and salary negotiations, b) exemptions from social charges and c) income support: Active Solidarity Income (*revenu de solidarité active*), earned income credit (*prime pour l’emploi*), overtime hours.” Similarly, the Irish expert points out that “from the perspective of incomes, three main sets of reforms/issues have been advanced to deal with in-work poverty: the national minimum wage, changes to the tax system and changes to the benefit system”. The Latvian expert warns of the negative consequences of not considering these different element together when she points out that “raising the minimum monthly wage without linking it to the non-taxable minimum, tax reliefs, social insurance contribution payments or other support instruments for low wage earners do not, in themselves, reduce the poverty risk of low wage earners, nor does it stimulate low wage earners to work more or more intensively”.

#### 3.1.2.1 Minimum wages

The majority of Member States have national minimum wages set by government (often following negotiations with the social partners), whereas a minority (AT, DK, FI, DE, IT, and SE) regulate minimum pay rates just through collective agreements on a sectoral basis. There is a significant variation in the level of minimum wages as a proportion of average monthly earnings though in all cases minimum wages appear to be set below the at-risk-of-poverty line. It is thus not surprising

that their impact on reducing in-work poverty varies significantly across Member States. Many experts (e.g. AT, BG, CY, CZ, DK, FR, HU, LT, MT, PT, SI, UK) stress that minimum wage provisions and/or collective agreements are an important element in reducing in-work poverty, or at least its intensity though in the case of Cyprus the minimum wage, while set at a high level, applies only to eight specific occupations (sales staff, clerical workers, auxiliary healthcare staff, auxiliary staff in nursery schools; in crèches and in schools, security guards and caretakers). Many experts also stress the importance of regularly updating minimum wages in line with the cost of living. However, the Slovenian expert points out that increases in the minimum wage “will not necessarily decrease in-work at-risk-of-poverty rate in Slovenia since the income of persons/families living on minimum wage will most probably remain below 60% of the equivalent median income in the country. However, a decrease in in-work poverty gap may be expected.”

In several Member States (e.g. BG, EL, LV, PL, RO), experts comment that minimum wage levels are set so low that they have quite a limited impact on addressing the problem of in-work poverty. For instance, the Greek expert points out that although there is a statutory minimum wage and relatively high employment protection legislation “wages and salaries are not adequate to raise a large number of working people and their households above the poverty threshold”. The Hungarian expert probably reflects the mixed view of many experts on the impact of minimum wage arrangements when she reports that the “statutory minimum wage is a measure that can be considered as directly combating in-work poverty or low-paid work” and that it “has been very important for employed people not covered by any collective agreement and/or having weak individual bargaining power due to their position in the labour market”. However, she reports that “the amount of minimum wage is still lower than the amount of the subsistence level calculated by the Statistical Office”. In Romania, the expert considers that “minimum wages (second lowest in EU27) offer little support as many people on low wages are still dependent on (means tested) social assistance benefits, in particular the working poor who cannot find a full-time job”. In some cases, experts point out that where there are collective agreements on an industry by industry basis and where there is no overall minimum standard agreed this can result in very wide disparities between different sectors.

Some examples of efforts to increase minimum wage provisions highlighted by experts include the following:

- In Austria, in 2009 a national minimum wage of EUR 1,000 gross (however implemented via collective agreement and not via law) was introduced.
- In the Czech Republic, the minimum wage was increased each year between 2001 and 2007 reaching 39% of the replacement rate for the average wage by 2006 though falling back to 34% in 2008 continues to play an important role in the low levels of in-work poverty.
- In Hungary, the statutory minimum wage was increased in 2006, 2007 and 2008 and in 2008 a two-tier statutory minimum wage was introduced: the guaranteed wage for people working in jobs that require at least secondary school level qualifications was 125% of the minimum wage, provided that the individuals have at least two years of work experience.
- In Lithuania, the main policy instrument protecting employed population is the monthly minimum wage (MMW) which the Government usually fixes after consultations with representatives of employers’ organizations and trade unions at the Tripartite Council of the Republic of Lithuania. In Lithuania, MMW for all groups of employees is the same.

- In the Netherlands, collective labour agreements (CAO's) between businesses and sectors of the labour market, labour unions and employers' establish working conditions (including wages) and cover about 74% of employees in the private sector. Thus the Dutch experts consider that "CAO's can be seen as the most essential institutions regarding low-wage work in the Netherlands".
- In Portugal, as part of a governmental initiative leading to a tripartite agreement with all social partners in 2008, agreement was reached on the progressive increase of the Minimum Monthly Guaranteed Remuneration (national minimum wage) above the expected growth of prices and salaries every year until 2011.
- In Slovenia, the amount of minimum wage was considerably increased in March 2010.

### 3.1.2.2 Reducing taxes and introducing tax credits for low-wage/income workers

Many experts (e.g. BE, CY, CZ, FR, IR, LT, LU, MT, PO, PT, SE, SI, SK, UK) stress that an important way of boosting the net income of people on low wages can be through the tax system. This can both involve making sure that those on the lowest wages are outside the tax system and/or boosting their incomes through tax credits. Examples highlighted by experts include the following:

- In Belgium, sectors have been allowed to increase tax-free fringe benefits and taxes on fringe benefits have been reduced and personal income taxes for workers have been reduced with the aim of reducing inactivity traps.
- In Cyprus, in-work poverty is primarily combated by setting a very high tax-free income, rather than by income tax credits and deductions. The high tax-free income ensures that nobody with a low wage pays income tax.
- In the Czech Republic, since 2005 more emphasis has been placed on incentives to work, which means that changes in the personal income tax have favoured low-income working families. In 2005, joint taxation of dependent couples with children was introduced, which has mainly benefited families with one earner, or where the difference between the earnings of spouses is high.
- In France, the earned income credit (*prime pour l'emploi, PPE*) is a tax credit awarded to employed persons with low income. The draft budget law of 2006 stated a desire to "transform the PPE into income support for low income people to encourage the return to work". The PPE was therefore significantly increased for those working part-time or for part of the year, to strengthen the incentive to return to work, including part-time work.
- In Ireland, in recent years one of the main measures introduced to improve the income situation of the working poor is the system of tax credits. All 'pay as you earn' (PAYE) taxpayers are entitled to a tax credit known as the PAYE Tax Credit. This was worth €1,830 in 2009. Another important fiscal policy measure aimed at the working poor has been to remove those earning the national minimum wage and below from the tax net.
- In Lithuania, from 1 January 2009 24% common rate of income tax of individuals was replaced by rate new 15% rate. In order to protect people with the lowest income, a tax-

exempt amount of income (hereinafter – TEAI) is applied to alleviate the tax burden. The higher the income the lower the TEAI.

- In Luxembourg, from 2008 onwards a child bonus has been payable to all families in receipt of child benefit. It represents an automatic tax rebate, payable in the form of a benefit, as opposed to the previous system of a reduction in the amount of tax payable. The bonus is thus both a tax measure and a family benefit which assists those families on the lowest incomes, whose earnings are below the tax threshold.
- In Malta, complete there is complete exemption from Income Tax for workers on low gross incomes and January 2007, social security contributions due by employees working eight or more hours a week were adjusted to 10% of what they earn from such work instead of a flat rate tied to the national minimum wage. This has made it more attractive for many to join the gainfully occupied on a part-time basis without seeing most of their income absorbed in Income Tax.
- In the Netherlands, tax regulations have been introduced that are especially aimed at increasing the disposable income of working people (see Box 3.1).
- In Poland, tax reforms reducing the tax burden on wages implemented from 2007 have resulted in reducing in-work poverty (particularly in families with children). However, the Polish expert points out that “their effectiveness is rather limited, due to the fact, that they are less advantageous to people with the lowest earnings than to other workers”.
- In Portugal, specific measures have been taken in order to increase the support to families in their expenses with housing costs which include an increase in the fiscal deductions in the Income Tax for families in the three lower levels of Income Tax and the extension of the number of years that families may be exempted from the payment of the Municipal Tax on Housing.
- In Slovakia, an “employee’s premium” has been introduced with effect from January 2009 and is provided to low-wage earners (employees) who worked at least six months and their income is under the level of minimum wage. Tax credit is received with a year’s delay.
- In Slovenia, from 2010 personal tax allowances have been increased for low-income tax payers as well as increases in the minimum wage.
- In Sweden, The government’s job-tax-deduction is a reform that gives low wage earner relatively more money in the wallet. However, the Swedish experts point out this reform has rarely been discussed as a measure to address in-work poverty; it is mainly seen as measure that ideally should have a positive effect on the labour market supply side.
- In the UK, the impact of income tax and National Insurance contributions is balanced by a set of in work-benefits (child benefit, housing benefit Council tax benefit) and including tax credits (Child Tax Credit and Working Tax Credit). However, the experts point out that “one problem with these in-work benefits, and an important contributor to in-work poverty, is that apart from Child Benefit (which has almost, but not quite, complete take-up) they are not claimed by all those eligible”.

**Box 3.1: Dutch tax regulations to increase income of working people**

In the Netherlands, there are tax regulations that are especially aimed at increasing the disposable income of working people. An important example of this is the tax relief for people receiving income from employment (*arbeidskorting*), which means a deduction of the payable income tax. Furthermore, in the last period of government a number of measures have been taken especially aimed at reducing the poverty trap for persons with a low paid job:

- *Strengthening the income dependence of the tax relief for people receiving income from employment.* Due to this measure, the difference between income from a low paid job and from social security increases.
- *Introduction of the income-dependent combination tax credit.* This measure is aimed at combining work and care. When single parents (or both partners in a two-earner household) work while they have children under the age of 12, they can claim this tax credit. Because of this, the difference in income between working and non-working parents has grown.
- *Lowering the contribution employees have to pay on behalf of the Unemployment Insurance Act (WW) to 0 per cent.* Formerly, the employer and the employee were both charged to contribute for the WW. In the new situation, the employees' contribution has been rescinded, resulting in a benefit especially for working single parents and single wage earners.
- *Changing the child reduction into a child supplement.* Before 2008, parents with a low income could not profit from this regulation because they did not pay enough income tax. By changing the measure from a tax relief into a supplement, the child benefit became accessible to all parents. The supplement could amount to 900 euros a year, resulting in an increase of the difference between income from work and from social security. In 2009, the measure was adapted once again. From this moment, the supplement was given per child instead of per household, so households with more children and thus more costs receive a higher amount.

*Dutch Experts*

### 3.1.2.3 In-work (top-up) benefits

Several experts (e.g. BE, CZ, DE, FI, IE, IT, MT, PT) emphasise the important role played by social benefits in helping to lift the net incomes of those on low pay. However, some experts (e.g. ES, PL) point out that in their country in-work benefits are too low or not taken up sufficiently to have much impact. For instance, the Polish expert comments that “social benefits for working age population, topping-up their wage incomes, take the form of family allowances, social assistance benefits and housing allowances. Taking up work does not mean surrendering eligibility to such benefits, provided that work does not result in generating income exceeding the threshold criteria of eligibility. Yet, since the thresholds are set low, taking up work or increasing labour market involvement very quickly results in forfeiting the right to such benefits.” The Spanish expert highlights the lack of social protection catering specifically for the in-work poor beyond the general framework of social benefits for individuals and households. He points out that “the take-up of such benefits by households with poor workers is lower than for other types of household, whether poor households, households with workers in general or non-poor households with working members. This situation is compounded by the lower protective intensity of social benefits for households with working poor than for other types of household, a fact which, together with low salaries, explains why it is so difficult to emerge from poverty”. Over complexity can be another problem as is pointed out by the Irish expert who reports that “the Department of Social and Family Affairs has recognised the multiplicity of payments, especially those which are means tested for people of working age as a problem. A study is underway in the

Department on introducing a single working age assistance payment to replace the range of payments currently in place.”

The following are some of the recent positive developments highlighted by experts:

- in Belgium, extension of the existing benefits related to temporary unemployment or working time reduction and enhancement of social security benefits for employees and self-employed (pensions and family allowance and extension of reduced fuel, gas and electricity tariffs);
- in the Czech Republic, although the role of social benefits has become less prominent due to their decreasing generosity over time, from the perspective of the working poor, in the long term they represent a crucial factor towards low in-work risk of poverty. The Czech expert notes that one of the most important measures in designing the current system of social transfers was that family benefits were revised in the mid-nineties, and retargeted as income-tested payments mainly benefiting working families with children;
- in France, the Active Solidarity Income (*revenu de solidarité active, RSA*) created by the Law of 1 December 2008 consists of two measures. The first, called the basic RSA, is similar to a minimum income. The second, known as the in-work RSA, is income support for people who work. In February 2010, 36% of all RSA recipient households, received the RSA in addition to their earned income;
- in Finland, since 2006 a low-wage support system has been introduced, whereby an employer receives support for 44 % of the wage of a new employee, for the share of wage above 900 euros/ month (maximum 220 euros/month);
- in Germany, in 2005, a children’s allowance was introduced for households whose earned income would be high enough if there were not children entitled to maintenance and in 2008 the original law was amended so that the number of beneficiaries could be extended and the time limit was removed. Parents now can choose between the basic security benefits for jobseekers and the children’s allowance;
- in Italy, a series of in-work benefits, both in kind and in-cash, exist and are usually regulated by collective bargaining (e.g. social assistance, bonuses for transportation and health care, education and scholarship). A series of allowances for low-income households concerns low-wage workers according to monetary parameters established by annual acts. The focus is therefore on the risk of family poverty according to household dimension and to specific hardships;
- in Ireland, the Family Income Supplement has increased the amount of in-work social welfare benefits availed of by some of the working poor population;
- in Portugal, the Government has announced the intention to introduce a specific state support for working families with under-aged children that will allow them to rise above the poverty threshold;
- in the UK, there is an increased focus on sustainability and progression in work, including the introduction of transition to work benefits and extended payments of out of work benefits. The welfare to work targets for job sustainability have been extended to 26 weeks.

### 3.1.3 Addressing low work intensity

#### 3.1.3.1 At individual level

Measures to increase access to employment seem to be quite common particularly in response to the economic and financial crisis though several experts comment that they are not always very well targeted at those most distant from the labour market. Such measures can contribute to increasing the work intensity of households when the second earner benefits. Other measures aim at increasing work intensity by addressing issues such as precarious employment, including involuntary part-time work and intermittent careers and increasing access to better paid jobs.

Examples of recent developments highlighted by the experts include the following: instance:

- in Austria, special programmes have been introduced within active labour market policy, with the goal to increase the employment of women in sectors that are traditionally dominated by male employment;
- in Belgium in Flanders (Employment and investment plan, 2009), “tailor-made” guidance for unemployed people in their search for work during the crisis are planned while in the Walloon region the existing counselling services will be continued, with specific attention to the young;
- in the Czech Republic, although measures aimed at low work intensity are rather modest some steps have been taken towards a system of life-long training and measures helping those threatened by job losses, with the use of ESF resources;
- in Germany, the programme “Erfolgsfaktor Familie” (“success factor family”) aims to make working conditions more compatible with the family life. Also the new “parental allowance” represents a step in this direction. In 2008, the Federal Government has envisaged a new programme to reintegrate women into the labour market.
- in the Netherlands, when an employee is involuntary working part-time he can make use of the Working Time Adjustment Act (*WAA*). This act gives employees that are working for more than one year for the same company the right to have their working hours increased or decreased at their request, on the condition that there are no serious objections on the grounds of company interests such as, for example, a lack of available work;
- in the UK, the Government has increasingly focused on policies to encourage second earners, primarily as a means of tackling child poverty. Minority ethnic groups are less likely to be in employment (e.g. 44% of Pakistani and 49% of Bangladeshi women are economically inactive because of looking after the family/home, compared with 20% or less of other groups). The Partners Outreach for Ethnic Minorities (POEM) initiative provided tailored support in a voluntary programme to those at a distance from the labour market. Extending some welfare to work services to partners of people in work was also intended to do this.

#### 3.1.3.2 Child care

Most experts highlight the importance of policies to ensure access to affordable and high quality child care services in order to facilitate parents' participation in work, especially the second earner, and thus increase the work intensity of households. For instance, the Danish experts point out that “one major thing that prevents low work intensity at household level is the fact that

every child in Denmark is offered day care. All Danish municipalities are obliged to ensure day care facilities for all children born in their area. This is the so called care guarantee [pasningsgaranti] that covers all children from 26 weeks of age until school. Furthermore, the municipalities are able to give an economic grant [fripladstilskud] to parents, whose income is below a certain limit of income, fixed by the ministry of Social Affairs, in order to help them pay for their children's day care." However, several experts point to the high cost of such services as a key barrier.

Several experts highlight efforts to increase access to child care. For instance:

- In Austria, recent reforms have included some extension of childcare facilities.
- In the Walloon region of Belgium, measures have been specifically designed to improve child-care services, creating 500 work places in child care.
- In Cyprus, in order to help more women (re)enter into full-time employment the government implemented a programme between 2005 and 2008 called 'Expansion and Improvement of Care Services for the Children, the Elderly, the Disabled and other Dependents' providing low cost care for dependents. This intervention was co-funded by the ESF. In addition, in 2008 compulsory maternity leave was increased from 9 to 11 weeks and the paid maternity leave from 16 to 18 weeks.
- In Ireland, the first National Childcare Strategy in 2006 built on existing (inadequate) provision and targeted the creation of an additional 50,000 childcare places, broadly equivalent to enough places to provide childcare for every child born in a single year. It has led to a substantial increase in the childcare capacity, both in terms of facilities and the availability of qualified staff.
- In Luxembourg, a childcare voucher has been introduced in order to offer for free a number of hours of childcare in public childcare for people at-risk-of-poverty. The objective is to support active inclusion initiatives. Also, the possibilities for after-school-care have been increased in order to facilitate the labour market participation of women.
- In the Netherlands, in order to stimulate labour market participation of parents of young children, the government subsidises a large part of the costs of day care for children. Moreover, to secure the supply of day care, the government actively encourages entrepreneurship in this sector for example by means of a guarantee fund. Due to these policies, the use of child care (and subsequently the labour market participation of women) has increased considerably over the last decade. However, it is still much lower than in the Nordic countries where child care is generally free of charge.
- In Poland, with its very low provision of pre-school care, all the measures bolstering the access to child care, including facilities for establishment of infant and pre-school day care centres by employers (tax allowances), development of alternative forms of child care in rural communities, financed with ESF allocation are very important. In addition, starting with the 2009/2010 school year, there will be successive extension of the obligatory pre-school care centre coverage of children aged 5.
- In Slovakia, in order to increase flexibility of parents new child care allowance has been adopted. The allowance covers the costs of child care of working parents (to the level of parental benefit).

- In Slovenia, childcare services are affordable due to high means-tested subsidies from public sources. Pre-school childcare subsidies are by far the highest single transfer to families in Slovenia. They make it easier for single and other mothers of pre-school children to take the decision regarding getting a job. All approved programmes of public and private day-care centres/providers are entitled to a subsidy.
- In the UK, childcare has been developed from a low base, with the childcare element of the Working Tax Credit, free nursery early years provision for 3- and 4-year-olds and a doubling of formal childcare places from 1997-2006. Use of childcare is increasing, especially because of additional out-of-school provision.

### 3.1.3.3 Flexible working arrangements

Increasing access to flexible working arrangements is also seen as an important factor in enabling people with care responsibilities to increase labour market participation and several experts highlight developments in this area. For instance:

- in Austria there has been a reform of childcare benefits which may lead to shorter and – from a gender perspective – somewhat more equally distributed career breaks;
- in Poland, some improvements can be observed in relation to the promotion of employment of women caring for children with the introduction in 2009 of measures facilitating return to work after parental leave (reliefs in social insurance contributions paid by employers for parents returning from maternity or parental leaves) and measures increasing work security for parents (mainly women) reducing the work day hours to allow for child care. There also incentives for changing the traditional, male breadwinner family model in the direction of a partnership model (individualized paternity leave);
- in Portugal family and work life reconciliation has been encouraged though a new law enlarging the period of parental leave up to one year (up to 5 months fully paid), opening the possibility to a further period of 3 months (25% paid); extension to 60 days/year of justified absences for family support); for the first time this concession is extended to grandparents;
- in the UK Rights to ask for flexible working have been extended and it may include flexitime, annualised hours, term-time working, job sharing and working at home, as well as part-time working.

### 3.1.3.4 Affordable transport

Some experts highlight that access to affordable transport can be an important factor in encouraging people to take up work or extend their working hours. For instance, the UK experts point out that “this is key for potential second earners. The complexities for couples with children of reaching work and childcare venues mean that reducing time costs is crucial. Research suggested that poor women need sustained, integrated support services at neighbourhood level; transport and the location of childcare facilities are crucial issues for employment sustainability, and structure ‘geographies of choice’ for many women in particular. Travel to work times has increased, and children are now escorted to/from school more often. Yet planning and other policies do not necessarily take these issues fully into account.”

## 3.2 Labour market segmentation

Many experts suggest that there is more specific policy effort being made to address issues of labour market segmentation than in-work poverty. However, it is also clear that a strong policy focus on getting into work more people who are low-skilled and distant from the labour market can create tensions as at time there appears to be a tension between reducing the costs to employers and raising the quality of low paid jobs. The main policy areas that are highlighted in the experts' reports as being important for addressing labour market segmentation are: policies to promote job retention and advancement; policies to promote better working conditions and employee friendly flexibility; lifelong learning policies; and policies to promote non-discrimination and inclusive work environments

### 3.2.1 Job retention and advancement

Several experts highlight increased efforts to promote job retention, especially in light of the economic and financial crisis. In some cases, initiatives have also been taken to promote advancement. For instance:

- in Austria, schemes in the field of job retention and advancement have been upgraded (see Box 3.2);
- in the Czech Republic, during 2008 and the first half of 2009 about 57 thousand employees from more than 900 enterprises have participated in the project 'Get Educated'. This project, financed by the European Social Fund, has enabled support for the wages of workers threatened by job losses while working part-time, and enabled them to participate in labour market training aimed at improvement of their employability. The project is continuing at a similar level;
- in Germany, the entitlement to short-time compensation has been extended March 2012;
- in Ireland, in June 2009, the Government announced the introduction of the Employment Subsidy Scheme (Temporary) to support the retention of jobs in viable exporting enterprises that might otherwise be rendered redundant as a result of the impact of the global and financial economic crises;
- in Poland, programmes co-financed by structural funds are to contribute to improving the offer of jobs outside agriculture in rural areas;
- in Slovenia, in January 2009, the Partial Subsidising of Full Working Hours Act was approved which grants subsidies if full working hours are shortened to 32-36 per week and in July 2009 the duration of receiving subsidy was prolonged by 6 months (lasting 12 months altogether). In September 2009, the Partial Refund of Wage Compensation Act was adopted so that rather than being dismissed, up to 50% of (currently) redundant employees may "temporary wait for work" (be temporarily laid off) receiving wage compensation amounting to 85% of his/her average wage in the last three months;
- in the UK, there is an increased focus on sustainability and progression in work, including the introduction of transition to work benefits and extended payments of out of work benefits. The welfare to work targets for job sustainability have been extended to 26 weeks.

**Box 3.2: Active labour market policies in Austria**

Active labour market policies have been substantially expanded in Austria during the last ten years. As a result (and especially from an international comparative point of view), Austria now has a rather dense net of measures for active inclusion designed for vulnerable people

First, respective measures by the Public Employment Service (PES) include programmes for qualification - for unemployed as well as for people in active employment. The so-called "employment promotion" is a second group of measures. This includes amongst others so-called integration allowance, short-term work benefits and employment projects, e.g. within so-called "social economic companies" (Sozialökonomische Betriebe; SÖBs). A third group of measures is termed "support". Examples are consulting for people with particular problem situations and debts advice. Furthermore, the PES offers labour market related counselling in the regional offices around the theme of employment referral. Several measures within the portfolio of PES are targeted to specific groups, especially young unemployed and women. For young people there is the "apprenticeship guarantee" whereby additional apprenticeships are provided at special training institutions to those young people who have not been successful with finding an apprenticeship or job at private companies. Under "Action future for youths" (*Aktion Zukunft Österreich*) young people in the age of 19 to 24 are guaranteed to receive an offer in the form of a job, of further training or a subsidised job within 6 months. For women there is a special qualification programme called "women in technical professions" (Frauen in Handwerk und Technik). The goal is to increase the employment of women in sectors that are traditionally dominated by male employment.

Until now, persons without access to benefits from unemployment insurance have not been well covered. However, under the reform of the minimum income benefit it is planned to structurally integrate recipients of this benefit into training measures of the Employment Service if they are all in all "fit for work" in terms of mental, social and physical means.

Special measures are offered to people with disabilities within the job retention and advancement schemes operated by the Federal Social Office and its regional branches (Bundessozialämter), which are partly implemented in cooperation with the regional offices of the PES and other regional stakeholders. Work assistance is an initiative which has been systematically carried out since 1996, and has the goal of integrating disabled persons into the first or the second labour market.

*Austrian Expert*

### 3.2.2 *Enhancing working conditions and promoting employee friendly flexibility*

Several experts highlight measures to improve working conditions and lessen the frequency of insecure work including the use of temporary contracts and to address the issue of unregistered employment. For instance:

- In Denmark, several policies and legislations make it relatively easy for the Danish employees to take advantage of the high degree of flexibility. For instance, the legislation regarding maternity leave makes it possible for both parents to stay home in a certain period of time in relation to the birth of a child, as pointed out earlier. This leave is flexible in the sense that if a parent chooses to return to the labour market before using all the weeks of leave that he or she is entitled to, the remaining leave can be saved and used later – as long as the child is under the age of nine;
- in Poland, reduction of taxation on low incomes may contribute to curtailing the magnitude of unregistered employment and individual measures, such as reducing the possibilities for resorting to temporary work contracts may to some extent curtail the magnitude of irregular work and incomes;
- in Portugal, since 2009 a New Labour Code has among other things introduced measures to restrict the use of fixed term contracts, encourage the use of open-ended contracts and to

control the use of false independent work as a means of avoiding social costs associated with regular contracts;

However, some experts highlight policies which are actually forcing people into poor and insecure working conditions. For instance, in Bulgaria the experts comment that “workfare policies, which have become very popular in Bulgaria, have the main goal of chasing people out of social safety nets and forcing them to take any job, which generally means low-paid jobs with uncontrolled working conditions and no legal enforcement of labour contracts”.

### 3.2.3 *Life-long learning, in particular specific on-the-job schemes for the low-skilled*

The importance of increasing skills and qualifications as a way of increasing access of the low-skilled to decently paid jobs and thus helping to reduce labour market segmentation is highlighted by many experts. For instance:

- in Austria, there has been the expansion of training schemes for people with special needs;
- in Denmark, there has long been a very high investment in lifelong learning and in 2007 a national strategy on lifelong learning was published. In this, significant emphasis is put on adult education and training. The experts conclude that “this significant focus and investment in lifelong learning is in accordance with the Danish flexicurity model. High participation in adult education and training will improve the Danish workers’ mobility, flexibility and competences, which supports them to advance within the labour market. Therefore, the high degree of lifelong learning is a positive action against in-work poverty.”
- in France, on 1 January 2010 a single integration contract replaced the previous systems. This is an employment initiative contract in the market sector (fixed term or permanent employment contract of 24 months maximum) with monthly assistance from the government up to 47% of the minimum wage, and an employment support contract (*Contrat d’accompagnement dans l’emploi, CAE*) within the non-market sector. While the intentions of training in the non-market sector are higher and involve 71% of the contracts, the rate remains much lower in the market sector;
- in Ireland, *The National Skills Strategy (NSS)*, launched in March 2007, set out clear long-term objectives for the lifelong learning of those in the workforce and for developing Ireland’s human capital through up-skilling, training and education for the period to 2020. While the Strategy has a universal labour market range, it has a key focus on targeting the lower skilled.
- in Portugal, the government has launched some major initiatives in the field of vocational training, including youth and life-long learning for adults including the “New Opportunities” Initiative (since 2005) which combines enhancing the system of recognition of qualifications acquired during working life (CRVCC) with the reinforcement of lifelong access to vocational training.

On the other hand, several experts highlight that too often life-long learning opportunities fail to reach the most disadvantaged. For instance, the Polish expert comments that “low vocational qualifications represent one of the most significant dimensions of labour market segmentation in Poland. As evident from statistical analyses, employees with low qualifications stand very limited chance of job advancement. One of the reasons here is the limited accessibility of vocational training for persons with low educational status.” She, like several other experts, points out that

“there is particularly low participation of low qualifications employees in life-long learning, including training in their workplace”. The Irish expert highlights recent evidence showing that “those people with low educational attainment have a much lower prevalence of participation in education and training as compared with the better educated”. Likewise, the UK experts point out that “those in temporary posts are less likely to get training, and those in less well-paid jobs get fewer opportunities to acquire more skills. Other groups outside the labour market who suffer inequality in skills training provision include minority ethnic learners, offenders and disabled people.” The German experts also point out that “in practice the labour-market authorities target those who are close to the labour market to a greater extent than those who are further away”. Similarly, the Greek experts point out that “active labour market measures are targeted almost exclusively at the unemployed and at the vulnerable groups, while the segment of the workforce who is trapped in low quality and insecure jobs – let alone those employed in the ‘black’ economy – are being hardly benefited from any kind of active labour market measures”. Rather similarly, the French expert notes that “although ‘flexicurity’ policies are being studied, although more is being done to combat gender and ethnic discrimination, and although lifelong training is being developed, these measures are insufficient to have a trickle-down effect on all low-income earners”. The Luxembourg expert notes that “activating measures seem not to reach sufficiently the most vulnerable people (especially women) depending on the minimum income scheme”.

#### *3.2.4 Non-discrimination policies and inclusive work environments, including through awareness raising campaigns*

Given the contribution of discrimination to deepening labour market segmentation it is not surprising that several experts highlight this as a key policy issue. For instance, the Irish expert highlights that workplace discrimination is a persistent problem in Ireland. A survey of persons aged 18 years and over carried out in 2004 found that 18.3% of people reported discrimination on gender grounds, 15.9% cited discrimination on age grounds and 17.4% on grounds of race, ethnicity or nationality. This leads many experts to stress the important role played by EU Directives equal treatment, equal employment conditions and non-discrimination. However, some highlight weaknesses in implementation and enforcement. For instance, the Czech expert comments that “discrimination on the labour market is recognised to some extent as a problem in the Czech Republic, evident among other places in gender employment and the gender pay gap”. He reports that the Czech Republic has adopted two EU directives – the Directive on Equal Treatment and Directive on Equal Employment Conditions, but that it has broadly neglected their enforcement and application. He also highlights delays in adopting the Anti-Discrimination Act which has finally been transposed into legislation. However, he concluded that “nevertheless, enforcement and application remain a challenge for the future”. The French expert notes that “though the anti-discrimination system has grown significantly since its creation, there is still a gap between workplace realities and the legal protection system”. The German experts point out that “even though the German social reporting has identified migrants as a group threatened by social exclusion, the topic is not paid much attention”.

Some interesting examples of approaches to addressing discrimination issues are highlighted by experts. They include the following:

- In Estonia, the Labour Inspectorate has an important role in preventing breaches of employment rights (inspections controlling implementation of labour law). Employees can lodge complaints to the labour dispute committee or in case of equal treatment disputes, to the Chancellor of Justice.

- In France, the High Authority against Discrimination and for Equality (HALDE) helps people identify and fight against discriminatory practices. It provides advice on legal procedures and helps establish proof of discrimination. It can press charges itself for any discriminatory practices it is aware of. It has investigative powers to investigate cases. It can demand documents and evidence that the victim is unable to obtain, make on-site inspections and hear witnesses.
- In Germany, most efforts on the integration of migrants are concentrated on the promotion of the language skills. For instance, in relation to qualification of adults the ESF-BAMF-programme offers opportunities for further vocational training for people with a migration background and aims to promote the integration of migrants into the labour market. The spectrum includes linguistic and subject-specific offers.
- Ireland adopts a broad-brush equality approach, which includes nine possible grounds of discrimination backed by legislation is favoured. While the Equality Authority (which has seen a significant cut in its finances recently) oversees equality in general, a National Framework Committee for Equal Opportunities at the level of the Enterprise promotes equality in the workplace. This is a committee grounded in the social partnership agreement and is charged with developing and disseminating practical supports for planned and systematic approaches to equality.
- In Luxembourg the government has set up a dedicated unit for gender-related issues in every ministerial department. It has also extended the range of gender-related training courses offered by the National Administrative Training Institute, which organises all forms of training for public employees at state and municipal level.
- The Netherlands has put in place a range of measures directed at equal treatment and combating the pay gap between men and women (see Box 3.3.).
- In Romania, the Romanian National Council for Combating Discrimination is responsible for applying Romanian and European Union anti-discrimination laws. The Council investigates the reported cases of discrimination and rule on whether anti-discrimination laws were breached. The anti-discrimination law covers discrimination based on: race, nationality, ethnicity, language, religion, social category, beliefs, sex, sexual orientation, age, disability, HIV/AIDS status, and any other criteria which restrict human rights, equalities and fundamental liberties.
- In Slovakia, the Slovak National Centre for Human Rights monitors cases of unequal treatment against people of Roma ethnic origin, chiefly in areas of labour relations (hiring and firing) and in how goods or services are provided. The 2007 report mentions one successful out-of-court reconciliation (with financial compensation for the person discriminated against) and three unfinished trials on workplace racial discrimination in 2007.
- In the UK, the Equality Act 2010 brings together equalities legislation, and also introduces a new duty on central and some local public bodies to take account of socio-economic inequalities in strategic decisions. Carers will have more legal protection (for example, in recruitment processes). A Select Committee suggested that disability required a different approach from other equality strands. More effort is being put into strategies to try to stop people having to leave work for good when they have health problems; and a feature of the Green Paper on welfare reform which attracted praise was the proposed doubling of the money for adaptations in work to help disabled people ('Access to Work'). The Equality Act

lays down that companies with more than 250 employees will have to conduct a gender pay audit if they have not voluntarily done so by 2013. Public bodies with over 150 workers would also have to report on gender pay differentials, and provide other data, including information on minority ethnic employees.

**Box 3.3: Equality and anti-discrimination measures in the Netherlands**

In the Netherlands, there are a range of measures directed at equal treatment and combating the pay gap between men and women. First, there is the Equal Treatment of Men and Women Act which is based on EU Directives. Besides equal pay, this Act also regulates equal access to jobs, pension facilities and training. Because a large part of the female work force works part-time, women have also benefited substantially from measures aimed at strengthening the legal position of part-timers that have been introduced over the last 15 years. The Dutch law includes for example measures that prohibit discrimination based on working hours and the influence of this on salary and bonuses. There is also a legislation that prohibits making distinctions in employment conditions between part-time and full-time employees.

In addition to measures aimed at equal pay for equal work (equal pay for women), the government also tries to reduce the unfavourable position of women in terms of occupational positions. One of the ways the government tries to achieve this is by diversity policies in the public sector. The goals for 2011 in this regard are that 50% of the influx of new employees in the public sector should consist of women and the influx of women in high-ranked positions should be 35%. Besides measures focusing on women, there are also diversity policies aimed at migrants and elderly employees. Measures to achieve more diversity in the public sector are for example positive discrimination and diversity quotas. There are also sectors, for example the local authorities, where diversity agreements are part of the collective labour agreement.

The Law No. 116/2002 on the prevention and fighting the social marginalisation contains provisions on guaranteeing effective access of women and men, especially for youth, to elementary and fundamental rights such as right to a job, housing, medical assistance, education. There are also provisions for setting up measures to prevent and fight social marginalisation and to mobilise institutions with duties in the area.

*Dutch Experts*

The importance of raising awareness of rights is highlighted by several experts. Several give interesting examples of awareness raising initiatives. For instance:

- in the Czech Republic, in January 2010 a project for raising awareness of the issue of poverty and social exclusion was started (the “National Action Plan on Social Inclusion Together”) with the participation of five leading NGOs in the country. The key ambition of the project is to involve people experiencing poverty and social inclusion in preparation for measures aiming to alleviate poverty and exclusion;
- in Poland, the government has carried out ESF-financed anti-discrimination campaigns in the media and on billboards, addressing such issues as employment of the handicapped and employment of women with small children. Numerous non-government organisations are active in Poland in the area of eliminating discrimination. Among the best known are the Helsinki Human Rights Foundation, Association for Legal Intervention and organisations fighting for women’s rights. They occupy themselves with monitoring compliance with the law, legal counselling, providing training, and organising media campaigns. The principles of gender equality are also promoted by the trade unions organisations;
- in Portugal, the High Commissioner for Immigration and Inter-cultural Dialogue has signed a protocol with one of the two major Trade Union’s Federation (UGT) aiming at promoting the unionization of immigrants, as a means to enhance the knowledge of their rights and duties in

the field of labour integration. This protocol involves the creation of dissemination material addressed at immigrant workers and training sessions promoted by both entities;

- in Romania, actions under the priority objective 3 to improve the quality of life for the Roma in the 2008-2010 National Strategy Report on Social Protection and Social Inclusion view the development of national programmes aiming at the Roma inclusion in the formal economy including through national awareness campaigns promoting anti-discriminating policies.

### 3.3 The role of social partners

Many experts point to the important role that social partners play in negotiations about minimum wage and working conditions though the UK experts note that “in the UK the role of social partners is not as institutionalised as in some EU countries. Unions have also found it difficult to organise the lowest paid and most marginal workers.” The trade unions in particular sometimes play an important role in raising the issue of in-work poverty though with rather mixed results. At times this can be an area of disagreement between social employers and trade unions. In general, experts suggest that employers tend to put the emphasis on creating jobs per se whereas trade unions put more emphasis on improving wage levels and working conditions.

Some of the examples of social partner involvement highlighted by the experts include the following:

- in the Czech Republic, social partners play a crucial role in collective bargaining: mainly in bargaining on wages (annual wage growth, wage tariffs in various professions, severance pay) and employment conditions. Bargaining is being carried mainly at the company/plant level and on the industry level. In general, the results of bargaining on wage growth are commensurate with the economic situation and labour market performance. The Czech expert goes on to point out that “it is possible that during the economic crisis the suppression of wage growth could threaten low skilled workers with in-work poverty (nevertheless, we experienced an average 3% real growth of wages in 2009!)”;
- in Denmark, the social partners play an important role in assuring the Danish low income workers against poverty, through their negotiations and general agreements, affecting minimum wages and other decisive topics related to the work conditions of their members. Also, the Danish Trade Union Federation (LO) brings attention to poverty in general by actively debating the topic;
- in France, two recent government measures are likely to give greater weight to the social partners. First, the law of 31 January 2007 on modernizing the social dialogue created an obligation for the government to consult with the social partners before any proposed amendment to the Labour Code, and the law of 20 August 2008 on renovating the social democracy and changing union representativeness rules introduced a workplace election criterion and required a majority vote for the conclusion of collective agreements. A study by the ONPES on “trade union action against in-work poverty” shows that the unions do not directly address this issue other than by making global demands for more social rights and increases in low wages, and demanding stronger local social action to assist employees in difficulty;
- in Germany, the social partners not only negotiate the labour agreements and therewith the conditions of employment (wages, labour time, safety at work etc.), but also contribute to the

social policy debate. They represent the interests of their members towards the policy makers and influence the shaping of public opinion and the decision-making process by making concepts and preparing information. In addition, they counsel the policy makers directly and are engaged in lobbying activity. Regarding minimum wages, the Confederation of German Trade Unions (DGB) argues that it is necessary to extend the existing law on the posting of workers to all branches and thereby implementing a nationwide agreement on minimum wages. Besides that, the DGB aims to improve the compatibility of family and working life. By offering information and schooling to staff and workers' councils the DGB project "Vereinbarkeit von Familie und Beruf gestalten!" ("design the compatibility of family and working life") wants to place the topic on the agenda within the companies. The creation of additional training places is another issue for the DGB. In cooperation with the Confederation of German Employers (BDA), the DGB has summoned all companies to train more apprentices. The BDA also focuses on the field of education and vocational training. Several BDA projects (e.g. the initiative "SchuleWirtschaft" – "School Economy") support the cooperation between schools and economy and aim a practical "economic education" in the schools;

- in Ireland, the role of the social partnership process has been a vital part of Ireland's strategy for economic and social progress up to the relatively past. However, the Irish expert considers that "it could be said to be 'in limbo' at present and this does not help here as it was the trade unions and the social pillars who championed issues of job quality and in-work poverty during the 20+ years of social partnership";
- in Malta, a militant trade union movement in Malta has sought to ensure that cost of living increases are offset through the Cost of Living Allowance (COLA mechanism), which provides for obligatory increases through the annual budget. Among employers, this mechanism is not always seen positively since automatic increases add to costs and not necessarily to productivity, thus making Maltese products less competitive. The Maltese expert predicts that the issue is likely to be hotly debated in the coming months, especially now that the governor of the Central Bank has explicitly expressed himself against the automatic Cost of Living Allowance (COLA) mechanism;
- in the Netherlands, the role of the social partners regarding in-work poverty and labour market segmentation is very substantial. This is not only because many appointments regarding job quality (including wage) are captured in collective labour agreements, but also because they can influence labour market developments by tri-partite meetings representatives of labour unions and employers' federations have with the government;
- in Poland, trade unions play an important role in minimum wage negotiations. They are also engaged in the limitation of the scale of temporal employment – however, the Polish expert comments that "their role in preventing low work intensity and segmentation of labour market is negligible";
- in Portugal trade unions have argued for more efforts to address in-work poverty and labour market segmentation (see Box 3.4);
- in Slovakia, abolition of the institute of minimum wage is long-term strategic objective of important representative of the employers' organisation Republic Union of Employers (RUZ). During the preparation of the new Bill on minimum wage, employers' representatives attempted at least to introduce regional variation in minimum pay and to warrant social

partners' entitlement to agree on lower minimum wage than the wage set for the given year. These proposals were refused by trade unions as well as experts.

**Box 3.4: Portuguese trade unions argue for more efforts to address in-work poverty and labour market segmentation**

The General Confederation of Portuguese Workers (CGTP) considers that, given the low level of wages in Portugal, the problem of the working poor should be specifically dealt with. Actual proposals have been submitted to all political parties, consisting of a set of "10 strategic themes to change policy". Two specific proposals are worth mentioning:

- The need to strengthen the supervision of and to curtail employment contracts of limited duration for temporary work in the private and public sectors. CGTP calls for a serious effort in the fight against precariousness and in the promotion of employment stability. According to the trade union confederation, permanent jobs should be filled by means of permanent employment contracts;
- Promoting an increase in real wages, namely in the national minimum wage in order to reach €500 in 2011 and €600 in 2013.

The General Union of Workers (UGT), in the evaluation made to the Portuguese NRP report (PNACE), reaffirms the need for a strong integration of economic and employment policies, the enhancement of job quality, the reinforcement of the micro-economic situation and the crucial need for a stronger partnership. UGT argues that the Lisbon Strategy should incorporate guidelines to improve the quality of employment and social cohesion, as well as the evaluation of precariousness at work. The trade union also calls for reintroducing the objective of reducing the number of working poor and low wages.

Among UGT's 2009–2010 priority demands we highlight the following:

- Improvement of real wages, namely the minimum wage in order to reach €600 by 2013;
- Improvement of job quality and combat precariousness;
- tax reductions for families with lower incomes.

*Portuguese Expert*





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## **In-work Poverty and Labour Market Segmentation in the EU: Key Lessons**

Until now in-work poverty and labour market segmentation have not received sufficient attention in the EU's efforts to tackle poverty and social exclusion. However, given that the 17 million working poor in the EU represent about 15% of the new Europe 2020 social inclusion target, this is likely to become a more important issue in the future. The analysis of in-work poverty and labour market segmentation presented here is a first step to fill this gap and to suggest how progress can be made on this issue. It is also intended as a contribution to the monitoring of the EU "Active Inclusion" process, which was launched at the end of 2008 and which is a crucial part of the EU's efforts to tackle poverty and social exclusion.

The Network Core Team's Synthesis Report is based on individual country reports prepared by members of the EU Network of Independent Experts on Social Inclusion. The experts' reports cover three elements. First, they provide a general statistical overview of the situation in their country in a comparative perspective, presenting some of the agreed indicators used to monitor the Social Open Method of Coordination and European Employment Strategy objectives. This is complemented with any available national data. Secondly, they examine the main explanatory factors for in-work poverty and labour market segmentation by undertaking a critical review of national studies by Governments and researchers. They also highlight the political debate at national level on these issues. Thirdly, they present and analyse policies in Member States to address in-work poverty and labour market segmentation.

The structure of the Synthesis Report follows the three parts of the national reports. It also contains overall conclusions and suggestions on the way forward. It suggests that progress needs to be made in four main areas: raising public awareness and political priority; enhancing data and analysis; improving monitoring and reporting; and enhancing the mainstreaming of social inclusion goals in economic and employment policies. For this, it makes twelve proposals for action at the country and/or EU level as to how progress might be made in relation to each of these areas.