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Characteristic of in-work poverty – a comparison between Romania and European Union

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Abstract. The aim of this article is to analyse the characteristics of the working poor in Romania compared to other European Member States. In-work poverty is an important aspect in the discussions regarding the effectiveness of employment in preventing the risk of poverty. The in-work poverty is the result of several factors among which we mention those related to the individual characteristics, household composition, and labour market policies. In Romania, the level of in-work poverty continues to remain high for the overall employed population aged 18 years and over and this evolution is due to the part-time working program, the temporary contracts, and the low level of education. The last part of the article presents the measures identified in the scientific literature to reduce the in-work poverty.

Keywords: labour market, in-work poverty

JEL Codes: J010, J30

1. Introduction

The deterioration of the standard of living has generated an increased interest in identifying the most appropriate methods to measure the level of well-being. These concerns have been reflected in the scientific articles, in the national and European statistics and reports, as well as in the legal regulations. Starting with 2005, Romania developed primary, secondary and tertiary indicators of social inclusion, calculated annually by the National Institute of Statistics (INS). Within the European statistic framework, the indicator measuring the work-related poverty was introduced in 2003, as a result of the fact that being employed is not always sufficient to reduce the risk of poverty. [1]

The in-work poverty indicator measures the poverty rate among those who are employed (employees and self-employed) for at least half of the total working time during a reference period. The poverty rate is expressed in terms of the poverty line, the primary indicator of social inclusion that is calculated in our country by the INS. The poverty line is the level of the standard of living that every person or household is supposed to achieve in order not to be considered poor. Starting from this, poverty thresholds could be:

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- Absolute: it assumes a fixed level of purchasing power, which is enough to buy a certain fixed package, well determined of basic goods and services [2]. The absolute poverty line represents the minimum income/consumption level below which a particular individual or household is considered poor [3].
- Relative: It is the main European indicator of social inclusion (since 2001) and it is the indicator on the basis of which comparisons between countries are made (since 1980). [4] According to this indicator, a person or household with a revenue level below 40-70% of the median of available income, is considered to be poor. The thresholds of relative poverty reflect the level of economic, social and cultural development of a society. [5]

In the scientific literature it is appreciated that the difference between the absolute and the relative indicators is like that: in the case of the first ones, the income thresholds remain constant, while in the case of the second ones, the relative thresholds increase as the living standards improve. [5]

2. In-work poverty

This indicator is the share of people who work and earn 60% of the average earnings per adult equivalent (after social transfers). [6] It is appreciated that the analysis of this indicator must take into account the status on the labour market, the gender and the level of education [7]. The phenomenon of poverty affects not only those who do not have a job. The early and fast integration into the labour market, along with income from work, characterize the level of working poverty.

In-work poverty is the result of several factors ([8], [9]):

- Individual factors: age, sex, status on the labour market, educational level;
- Specifics to the household in which the employed person lives: the composition of the household, the intensity of work;
- Institutional factors: type of employment contract, length of working program, social protection system, and fiscal policy;
- The structure of the labour market.

2.1. In-work poverty rate by age, sex and labour market status

Currently, Romania continues to show a high level of working poverty for the entire working population aged 18 years and over. 17.4% in 2007 and 18.8% in 2015 of the total employed population was represented by people who were still at risk of poverty (an increase in 2015 compared to 2007, with 1.4 pp). Romania remains the European country with the highest share of the employed population with earnings below the poverty line, given that the European average of persons in a similar situation was 9.5% (2015). Other European countries accounting for more than 10% of the total employed population being at risk of poverty were: Greece (14.2% in 2007 and 13.4% in 2015), Spain (10.2% in 2007, respectively 13.1% in 2015), Italy (9.3% in 2007 and 11.5% in 2015), Luxembourg (9.3% in 2007 and 11.6% in 2015 respectively), Poland (11.7% in 2007, 11.2% in 2015), Portugal (9.7% in 2007 and 10.9% in 2015), Estonia (7.8% in 2007 and 10% in 2015).

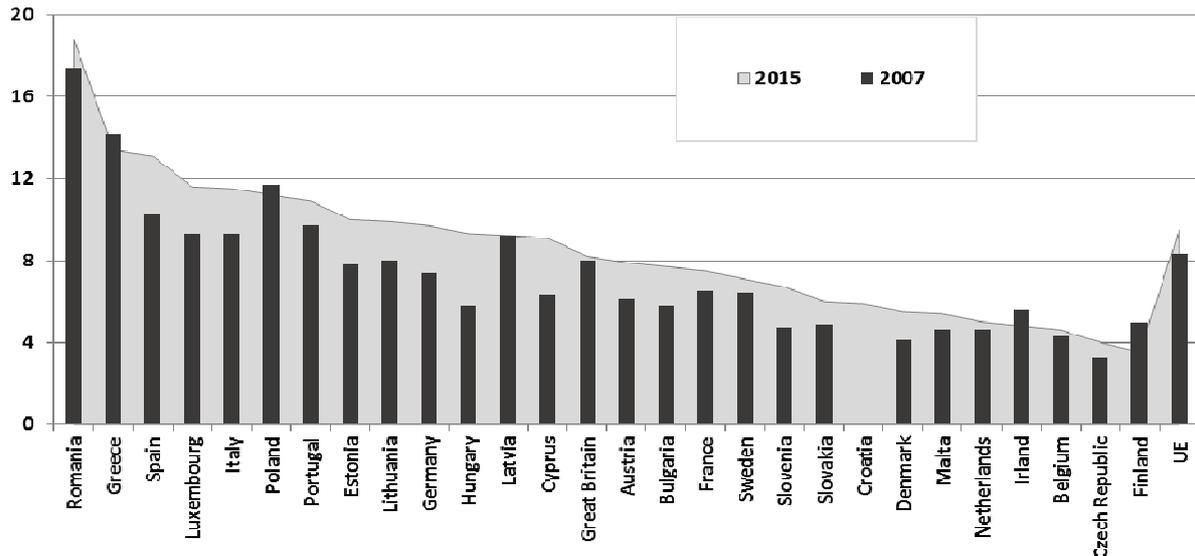


Fig.1: In-work poverty, total employed population (18 years and over)
 Source: Eurostat, online data code [ilc_iw01].

By age group, Romania has the highest poverty level for the young (18-24 years) employed population, over one third of the young people in 2015 (33.5%) being at risk of poverty, while the European average exceeded 10% (12.4%). In the case of Romania, the values continued to be high throughout the period 2007-2015, with the lowest point for this age category being recorded in 2007 (20.1%).

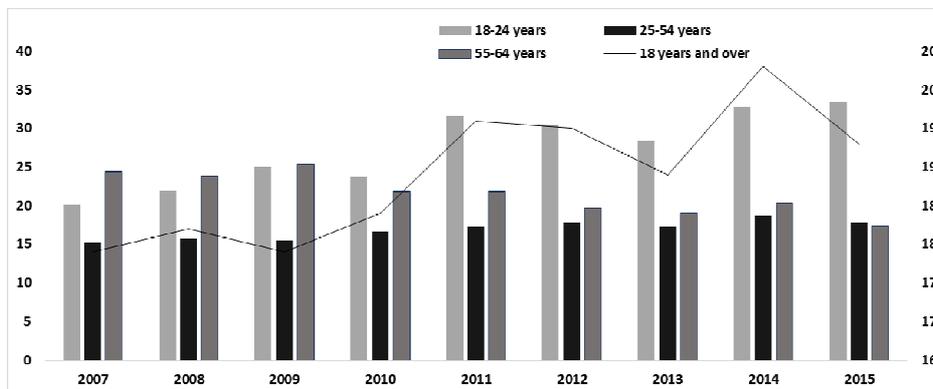


Fig. 2: In-work poverty, total employed population, in Romania
 Source: Eurostat, online data code [ilc_iw01].

The in-work risk of poverty among young people increased by more than 10% between 2007 and 2015. For the same period, no other European country has registered similar values to our country; the countries with the closest in-work poverty rate, of around 20%, being Denmark (19.3% in 2015, decreasing with 1.1 percentage points compared to 2007) and Greece (19.2% in 2015, making a 5.4 percentage points change



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compared to 2007). The Romanian older workers (55-64 years old) in-work risk of poverty represented the double of the European average in 2015 (17.4%), similar to the rate of older workers in a similar situation from Greece (16.8%). In 2015 compared to 2007, most European countries have recorded increases in the share of older workers at risk of poverty, with the exception of Ireland (1.5 percentage points decrease), Latvia (2.5 percentage points decrease), Lithuania (a decrease by 0.7 pp), Malta (down 0.8 pp), Austria (down 1.8 pp), Portugal (2.3 pp decrease), Finland (0.9 pp decrease), UK (a decrease of 0.2 pp). For the same period, Romania recorded the most significant decline in the share of older workers at risk of poverty, of 7 pp.

In-work poverty by gender is more pronounced among the 18 years old male population, for the majority of the European countries. (Fig. 3 and Fig. 4) During the period 2007-2015, the evolution of the total employed male population at risk of poverty in Romania registered an upward trend (an increase of 2 percentage points) with a peak reached in 2014 (22.6%). In 2015 compared with 2007, most of the European countries recorded increases in the male population at risk of in-work poverty, with the exception of Greece (a decrease of 0.3 percentage points), Ireland (down 0.2 pp), Poland (a decrease of 0.2 pp) and Finland (the most significant decrease - 0.4 pp).

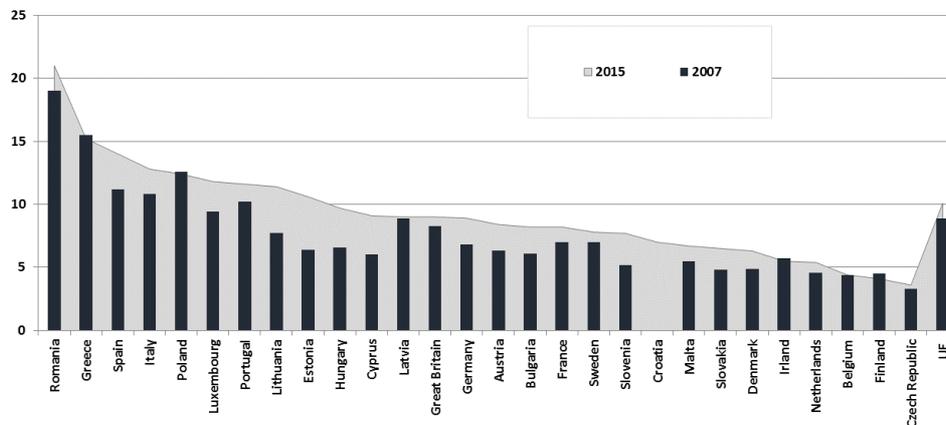


Fig.3: In-work poverty, total employed population (18 years and over), males
Source: Eurostat, online data code [ilc_iw01].

The total female employment (18 years and over) at risk of poverty in Romania increased between 2007 and 2015, but to a lesser extent compared to the male employed population. For Romanian employed women at risk of poverty the increase was of 0.4 percentage points in 2015 compared to 2007. Greece (a decrease by 1.3 pp), Ireland (a decrease of 1.3 pp), Latvia (0.1 percentage points decrease), Poland (a drop of 0.7 percentage points), and Great Britain (0.3 percentage points decrease) are those European countries that recorded reductions in the female employed population being at risk of poverty. The most significant decline was recorded in Finland, of approximately 3 pp.

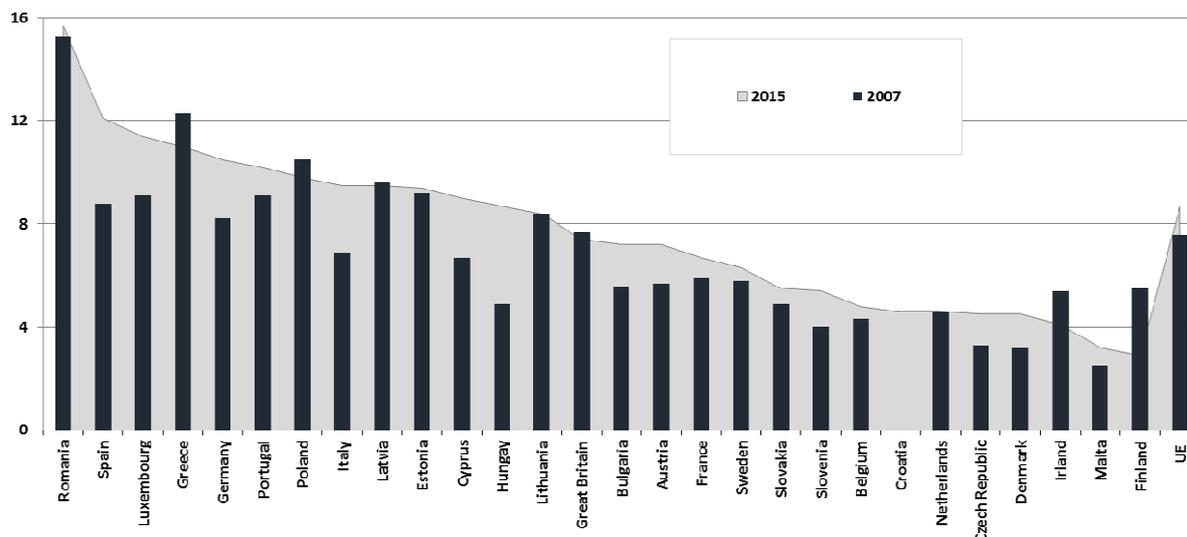


Fig.4: In-work poverty, total employed population (18 years and over), females
 Source: Eurostat, online data code [ilc_iw01].

The poverty rate for the employed persons increased nationwide between 2009-2012, amid measures to combat the effects of the crisis and reduce wages in the public system. A slight growth is registered in 2014, as a result of the legal regulations that required the gradual recovery of the reduction in wages applied in 2010(due to the economic crisis).

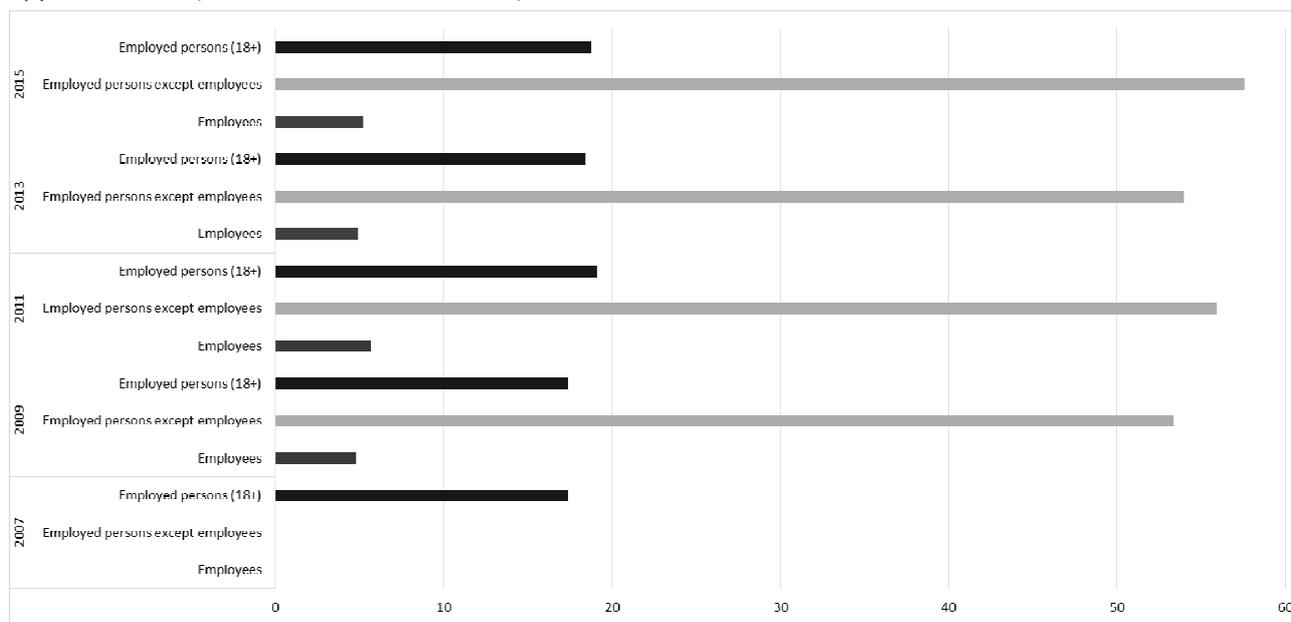


Fig.5: In-work poverty, total employed population (18 years and over) and labour market status
 Source: Eurostat, online data code [ilc_iw02].



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The in-work poverty rate remains approximately 2 times higher at national level compared to the European average for the persons employed (18 years and over) and for those employed but not employees. On the other hand, in terms of employees, the in-work poverty rate at national level is below the European average for the whole period 2009-2015. Most European countries have experienced increases in the in-work poverty rate for employees between 2009-2015, with the exception of Bulgaria, Denmark, Latvia, Austria, Slovakia and Finland. Romania is part of the group of European countries that registered increases in the poverty rate among employees - a growth of 0.4 percentage points.

2.2. In-work poverty by type of household

The single person households and households with no children were more exposed at the risk of in-work poverty, during 2007 and 2015. While 2011 and 2014 have marked depletion in the risk of in-work poverty for single persons, the households with children and those without children recorded an elevation of the risk of poverty.

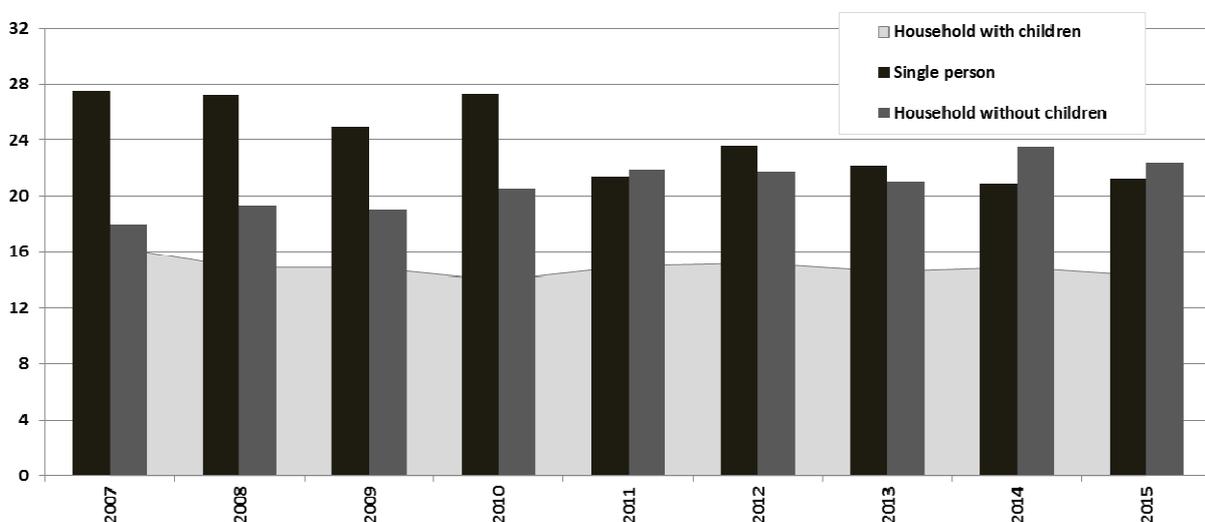


Fig.6: In-work poverty, distribution based on household type

Source: Eurostat, online data code [ilc_ iw02].

Irrespective of the size of the household, Romania accounts rates of in-work poverty that far exceed the European averages. Along with Poland, Greece, Latvia, Lithuania, the Netherlands, Portugal and Finland, Romania is part of the group of countries that registered drops in poverty rates for single-person households - the country with the most significant decrease of 6.2 pp. Romania recorded decreases in the poverty rate for households with no dependents but lower than those registered for single-person households (2.1 pp decrease). For the same period, Romania recorded an increase in the in-work poverty rate of households with children of 4.3 pp, the highest growth, followed by Estonia and Lithuania with increases of approximately 3 percentage points.



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2.3. In-work poverty by type of working contract and educational attainment

The analysis in this section concerns employees and takes into account the type of work (permanent / temporary) and the type of contract (indefinite / determined). Permanent employees are those who carry out their work under an employment contract for an indefinite period of time and temporary workers are those working on a fixed-term contract (apprenticeship, probation period, etc.) [10] The evolution of the in-work poverty rate for Romanian employees with a permanent working regime followed an upward trend during 2007-2015, with a minimum point reached in 2013 (4.9%). The values recorded in the case of the Romanian employees followed a similar evolution to other EU member states. The rates accounted for Romania have remained below the European average, with the exception of the period 2010-2012, when they were higher than the values recorded at EU level. Temporary contracts may accentuate the risk of in-work poverty. Compared to 2007, the year 2015 is characterized by an increase in the poverty rate for employees with a temporary job by 0.4 percentage points. The poverty among women with temporary jobs was higher compared to that recorded for males with similar jobs, during 2007-2015. The highest proportions of employees who worked during the period 2007-2015 based on a full-time employment contract were specific to Romania, Greece and Poland. Romania ranks first with poverty rates for full-time employees ranging from 14.1% in 2007 to 15% in 2014 and 14.7% in 2015. Most of the European countries experienced increases of the poverty rates among employees with such contracts in 2015 compared to 2007, with the exception of the United Kingdom (0.1 percentage points decrease), Finland (0.5 percentage points decrease), Greece (decrease by 1.3 pp) and Ireland (down 0.9 pp).

For employees who worked under a part-time labour contract during 2007-2015, in-work poverty rates were higher than those who worked on a full-time employment contract, regardless of country. However, Romania had the highest rate of in-work poverty for this category of employees. Over the period 2007-2015, more than a half of Romanians with part-time work contracts were at risk of poverty, no other European country having similar values. Part-time work and temporary workers have a higher risk of poverty than full-time or permanent employment contracts, regardless of country and year.

A higher level of education provides greater chances to find a well-paid job. The in-work poverty risk for people with a high level of education (ISCED 5-6) was the lowest between 2007 and 2015. The economic crisis has led to an increase in the risk of working poor - the higher the level of education has been, the lower the risk was. The incidence of poverty among persons with low levels of education (ISCED 0-2) is more pronounced in some of the Central and Eastern European countries such as Romania, Lithuania, Bulgaria, Poland, Hungary, Latvia, which recorded values of the in-work poverty rate for individuals with such an educational level that far exceed the European average for 2015 (19%). Germany, Luxembourg, and Spain are also countries that registered higher values than the European average for people with low levels of education. Compared to 2007, the most pronounced increases in the poverty rate among low-education graduates were in the case of Lithuania (increase by 17.5 percentage points), Hungary (up to 13.6 pp) and Bulgaria (increase by 10.6 pp). Romania has a low poverty rate for people with a high level of education (ISCED 5-6), far below the European average of 4.5% for 2015. However, some empiric research have shown that even in case of higher education graduates, knowledge and skills acquired are related to the field of study [11], in direct relation with the level of wage. The group of countries that exceed the European average for this level of education includes Spain, Estonia, Austria, Germany, Great Britain, Greece and Sweden.



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2.4. Measures to reduce the in-work poverty

A series of European studies ([8],[9]) emphasises that people at risk of poverty are not a homogeneous group that can easily be identified so that appropriate public policy measures could be implemented. Concerns about working poor are relatively recent, with in-work poverty being, up to a certain point in time [12], conceptualized as a labour market integration problem. In the case of Romania, references to working poor could be found in the National Employment Strategy 2014-2020, which stresses the need to develop adequate and employment-oriented social security systems, but also the necessity to implement measures that favour the balance between family and professional life, by diminishing part-time involuntary work. Indirectly, labour poverty can also be influenced by active employment measures, vocational training or the necessity to ensure greater job stability.

The scientific literature and studies conducted at EU level point a range of policy tools to reduce in-work poverty ([8],[9],and [13]):

- Policies to increase participation into the labour market (active employment measures, support to greater participation into the labour market for vulnerable groups);
- Policies to support workers (measures related to wages and income levels, job quality and stability, career counselling);
- Policies to supplement the labour income (benefits granted through the tax and social security system);
- Access to different services.

All these instruments include also fiscal measures, labour market measures (minimum wage, unemployment benefits) and family policy measures.

Policies aiming the minimum wage are an important way to reduce in-work poverty. The minimum wage is an instrument used to ensure the individual's protection against poverty and its level can favour the return of individuals to employment, as well as the employers' interest in improving labour productivity with positive effects on the long-term gains of employees. At European level, most countries have minimum wages regulations. The European statistics [14] concerning the level of minimum wage allow the group of the member states into three categories: countries with a minimum wage less than 500 Euros per month (Bulgaria, Romania, Lithuania, Hungary, Czech Republic, Latvia, Slovakia Croatia, Estonia, and Poland), countries with a minimum wage ranging from 500-1000 Euros (Portugal, Greece, Malta, Spain and Slovenia) and the rest of the European states (France, Germany, Belgium, Holland, UK, Ireland and Luxembourg) with minimum wage of 1000 Euros or more.

Benefits related to employment are intended for low-wage workers or families with low work income and imply a financial incentive to return in employment. The level of these benefits varies from one country to another, depending on the characteristics of the social protection system. Generally, these benefits are earnings-related, paid for an indefinite period. In some countries, these benefits are conditional upon the provision of a minimum number of hours of work. [15]This category includes benefits for single parents or compensatory payments for voluntary work. [8]

Benefits granted through the tax and social security system are targeted to those people or families who face the phenomenon of in-work poverty or who are at a higher risk of being affected by poverty even though the adult members of the household are employed. These types of measures should be complementary to developing and ensuring access to childcare and education services.



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Active labour market measures are most commonly implemented in the Member States and their main purpose is to sustain the employability for some disadvantaged groups of persons [16] These measures include (but are not limited to) training, supplementing employee income (employment incentives, activation subsidies), and stimulating labour mobility (installation incentives). European reports ([8], [9]) point out that these measures cannot be effective unless they take into account the fact that low-income persons and those affected by in-work poverty do not always match. The measures must take into account the size of the household, the number of persons employed within the household, the number of dependent children.

Increasing the quality and stability of the workplace is another tool that could be used to reduce the in-work poverty. The analysis of data (2007-2015) concerning the in-work poverty at European level shows that a growth of employment is not enough to avoid poverty. An explanation for this phenomenon is provided by [13] and [17], according to which employment growth during this period was the result of increasing part-time or temporary employment, so that the poverty rate for those who worked under temporary contracts was higher compared to those who were employed under a permanent contract. In many cases, part-time employment is possible for jobs requiring low levels of qualification. Increasing the quality of work involves an appropriate legal framework and collective agreements.

3. Conclusions

In-work poverty is a significant indicator of the effectiveness of employment in preventing the risk of poverty, as it measures the poverty rate among employed persons. The working poor is the result of several factors among which have to be mention those related to the individual characteristics (age, sex, labour market status), household composition, type of the contract, educational level.

Similarly to other Central and Eastern European countries, Romania has a high level of in-work poverty for the employed population (18 years and over), especially for older workers, female workers (in a larger extent if they perform a part-time work or under a temporary contract) or those with low educational level. In terms of household composition, irrespective of the size, Romania registers rates of in-work poverty that far exceed the European averages. Fighting the working poor is a national concern for the period 2014-2020 and from this perspective, complex policies measures should be designed and implement to target the most affected categories of population.

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