

The ranks of the working poor

Despite rising employment in many western economies, poverty is not declining. What's wrong with labour-market policies?

By Justine Doody

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Since the Great Recession, the countries of the Organization for Economic Co-operation and Development (OECD) and the European Union have returned to growth. Investment and trade are up and labour markets have followed suit. Even in crisis-hit countries such as Spain and Italy, unemployment is falling.

But the jobless rate masks a harsh reality: employment is rising but poverty is not declining. A key finding of the 2019 report *Social Justice in the EU and OECD*, recently published by the *Bertelsmann Stiftung*, is that being in work is no longer a guarantee of comfortable living standards.

Social safety nets, eroded by the crisis, have not kept pace with changing employment structures. With a new recession potentially on the horizon, governments need to examine labour-market policies, if the poorest are not yet again to bear the brunt of the next downturn.

In 2017, 9.4 per cent of EU workers lived in households at risk of poverty, earning less than 60 per cent of national median income—a figure which had risen from 8.3 per cent in 2010. In the United States, as shown in Bertelsmann's latest Sustainable Governance Indicators (SGI) data, 24.5 per cent of workers earned less than two thirds of the country's median earnings in 2017 and 17.8 per cent of people were at risk of poverty in 2018, despite an unemployment rate of only 3.9 per cent that year. It has been estimated that as much as \$6 billion dollars is paid in federal food assistance to full-time US workers who cannot subsist on the wages they receive.

Minimum wages insufficient

In many countries, household earnings have not recovered since the crisis: in Spain, for example, the downturn led to a freeze on wages and, with unemployment remaining high, salaries have rarely risen since, meaning that real wages have fallen. A minimum wage has been seen as a potential answer: Spain hiked its minimum wage by 22 per cent in 2019, Romania has introduced different minimum wages for different sectors of the economy and the United Kingdom's living-wage campaign has influenced a steady rise in that country's minimum wage since its first introduction in 1998.

However welcome they may be, minimum wages cannot solve the whole problem. As an EU report on in-work poverty points out, even when such wages are adequate, they are set at a rate to support one person, and are insufficient to support a single-wage family.

Moreover, the minimum wage is designed to support someone with a full-time job and in today's world of work these are diminishing. In the UK, for example, only one in 40 jobs created since the recession has been full-time.

In Spain, as the 2019 SGI country report notes, despite employment growth, 'most jobs created have been unstable and of inferior quality, as shown by the high temporal increase in unemployment in August 2018 (the biggest since 2011)'—91 per cent of employment contracts in the first half of 2018 were temporary, with 38 per cent lasting under one month, even though 80 per cent of temporary workers would like to find a full-time job. Across the EU, the number of involuntarily

temporary workers is lower but it is still higher than it was in 2008, with 7.4 per cent of workers involuntarily working on temporary contracts and 4.7 per cent holding involuntarily part-time jobs.

In the US, 4.4 million people are working fewer hours than they would choose, out of a total workforce of 131.7 million. And even those who do secure a full-time job cannot be certain that it means security: half of all new positions created there are eliminated within the first year.

More at risk

Perhaps intuitively, temporary and part-time workers are more at risk of in-work poverty than permanent workers. In the EU, 16.2 per cent of those on temporary contracts and 15.6 per cent of those in part-time employment are among the in-work poor.

The self-employed are at even higher risk, with 22.2 percent in in-work poverty. Many are ‘independent contractors’—which is often a way for companies to use their labour without having to put them on the books as employees and provide the accompanying benefits. A side-effect of such classification is that it removes opportunities to rise up the economic ladder: when those on the lowest rung are not direct employees of the company, they cannot be promoted within it.

In the US, healthcare is frequently tied to full-time employment, meaning a full-time job can

literally mean the difference between life and death. While other comparatively rich countries have better options for those who rely on the state for healthcare, welfare systems in general have been battered by the crisis and its aftermath.

Housing, energy and childcare costs are high and rising in many countries, and they affect the poorest most. Ten per cent of people in the EU spend more than 40 per cent of their income on housing (the so-called overburden) but 40 per cent of the poorest households do. In Greece, the average overburden is 72 per cent of monthly income.

Austerity policies

Labour-market policies which ignore these needs in favor of a dogged emphasis on job creation will not succeed in lifting people out of poverty. The UK, for example, has virtually full employment. But after years of austerity policies, rough sleeping rose 165 per cent between 2010 and 2018, and the country has 2,000 food banks, compared with 29 before the crisis.

Decent jobs, with regulated, regular hours and opportunities for advancement, must be part of the solution. And so must the creation, or reinstatement, of the social safety net for those whom work leaves behind.

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