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AT WORK, BUT POOR AND WITHOUT A VOICE ?

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CONSULTANT REPORT ON IMPROVING THE SITUATION OF LOW- INCOME WORKERS

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Executive Summary

Project task

The overall aim of the current project is to examine ways of improving the situation of low-income workers in Europe. This project is an integral part of the Council of Europe's Social Cohesion Strategy. A group of experts worked for two years, culminating in the production of this report.

The main task was to take stock of existing work in this field, identify appropriate policy measures and draw up guidelines on improving the situation of low-income workers.

Intended recipients

The report and the Recommendations are designed to assist policy makers and service providers at national and local levels to develop a more in-depth understanding of low-income workers and to design and develop effective strategies to improve the situation of low-income workers in Europe.

Definition of low-income workers

For the purpose of this report, low-income workers are living in households whose remuneration from employment, together with other income sources, are not sufficient to ensure that their income is above 60% of the median national equivalised income (i.e. the at-risk of poverty level)

Structure of the report

This report covers the following topics:

- a review of definitions of low-income work and working poverty and a proposed working definition
- quantification of the phenomenon using the most up-to-date and reliable data
- presentation of a profile of low-income workers and the factors determining low-income work based on a review of international research and country contributions
- an analysis of the barriers to taking-up employment
- a review of the consequences of low-income employment
- a review of the main policy initiatives introduced at European and national levels to prevent and alleviate working poverty.

Policy Recommendations for improving the situation of low-income workers (will be incorporated in the final publication after approval by the CDCS and adoption by the Committee of Ministers)

These recommendations focus on the following key topics:

- Factors to be taken into consideration when developing policies on low-income workers
- Key aspects of an integrated response to low-income workers
- Policies to prevent low-income employment
- Rights of workers
- Measures to enhance the opportunities of low-income workers
- The role of trade unions and NGOs
- Monitoring the effectiveness of policies to reduce low-income employment.

1. Introduction

Employment is often considered a key route out of poverty, whereas unemployment is seen as a major cause of poverty and social exclusion. The European Committee for Social Cohesion (CDCS) views employment as a social right and a key element of participation in society.¹ Its revised strategy for social cohesion states that:

*access to employment for all and the promotion of decent employment are important factors in combating poverty and exclusion.*²

This reflects the social and economic human rights guaranteed in the European Social Charter, in particular:

- Article 1 The right to work
- Article 4 The right to a fair remuneration

The importance of employment for greater social cohesion is echoed in other European documents, such as the *Lisbon Strategy for Growth and Employment (2000)*. However, employment does not lift all workers out of poverty and low-income employment and working poverty are becoming important policy issues in many European countries. In-work poverty currently affects 8% of workers in the EU.³

Consequently, European policy documents are increasingly recognising that employment is not necessarily a safeguard against exclusion:

*but healthy growth and job creation do not automatically enhance social cohesion or improve the situation of those most marginalised within our societies. Active inclusion and active labour market policies are needed to target the most disadvantaged. Having a job represents the best chance of avoiding exclusion but it is not always a guarantee.*⁴

1.1 Terms of Reference

The overall aim of the current project is to examine ways of improving the situation of low-income workers in Europe. This project is an integral part of the Council of Europe's Social Cohesion Strategy. Under the authority of the European Committee for Social Cohesion (CDCS) and in relation to the implementation of the project '*strengthening social cohesion by avoiding exclusion and growing disparities*' the following terms of reference were agreed:

- To take stock of existing work in this field; in particular, collect examples of government experience relating to the situation of low-skilled, low-income workers with a view to identifying ways to improve their situation;
- To identify measures to be implemented to prevent employed people from falling into poverty, for example through quality social protection, access to affordable housing, good initial training;
- To draw up a comparison between low-skilled, low-income workers and low-skilled unemployed persons;
- To draw up guidelines on improving the situation of low-income workers.

¹ *Access to Social Rights in Europe*. Report prepared by Mary Daly, Queen's University, Belfast, with the assistance of the Editorial Group for the Report on Access to Social Rights (CS-ASR), adopted by the European Committee for Social Cohesion (CDCS) at its 8th meeting (Strasbourg, 28-30 May 2002).

² *A New Strategy for Social Cohesion: Revised Strategy for Social Cohesion approved by the Committee of Ministers of the Council of Europe on 31 March 2004*.

³ European Commission *Joint Employment Report 2007/2008*.

⁴ European Commission *Joint Report on Social Protection and Social Inclusion 2007/2008*.

1.2 Working Methods

A Committee of Experts (see Appendix) was formed in 2007 to work with consultants to prepare the report. The focus was on policy measures which could improve the situation of low-income workers.

The timescale for the project was two years. The Committee of Experts met four times. The project methodology included: reference to published research; country reports and questionnaires carried out by the national experts; and the collective knowledge and expertise of the project group. The focus of the study was on eleven Council of Europe Member States - Austria, Cyprus, Czech Republic, Finland, France, Georgia, Germany, Lithuania, Malta, Portugal and Turkey. The following analysis is mainly based on information gathered from these countries through country reports and responses to questionnaires provided by the national experts, as well as country information provided by other specialist members of the CS-LIW, for example from Albania, and also by reference to other international literature.

2 Definitions

2.1 Defining low-income workers

Low-income workers are also referred to as the working poor. According to the European Foundation, working poverty is at the intersection of work and poverty and the issue can be viewed from two angles: a) workers who are poor (a labour market perspective) or b) poor people who are working (a poverty/social exclusion perspective).⁵ In other words, workers can be poor as a result of their work (e.g. low pay) and/or as a result of their social situation (e.g. housing, health, access to public services, etc.).

The European Foundation notes that working poor households have been the subject of studies since the 1960s in the US and it is the only country that has an official definition of working poor, which was adopted by the Bureau of Labour Statistics in 1989. It is:

persons who have devoted at least half of the year to labour market effects, being either employed or in search of a job during that period, but who still live in poor families.

In 2005, a common indicator of in-work poverty was adopted by EU Member States to be used in the context of the Open Method of Co-ordination and the European Employment Strategy.⁶ The in-work poor are defined as:

*Individuals who are employed and whose household equivalised disposable income is below 60% of national median equivalised income.*⁷

Eurostat also outlines the advantages of adopting a household approach:

Measuring employment at the level of households provides a better indicator of the welfare implications associated with labour market status than individual employment rates. Furthermore, the household approach allows focusing on the forces that shape the labour supply decisions of households; from, a policy perspective, it helps placing the emphasis on helping families and households become more self-reliant and

⁵ Pena-Cases, R. and Latta, M. 2004. *Working Poor in the European Union*. Dublin: European Foundation for the Improvement of Living and Working Conditions.

⁶ Bardone, L and Guio, A. 2005. *In-work Poverty: New commonly agreed indicators at the EU level*. Brussels: Eurostat.

⁷ The employment status of individuals is measured on the basis of their most "frequent activity status", that is, the status they declare to have occupied more than half the total number of months (i.e; at least 7 months) for which information is available during the income reference period.

*reconciling income support with empowering people to participate as fully as possible in economic and social life.*⁸

A number of indicators and variables were developed to measure the phenomenon, including:

- Analysing separately for wage and salary employees and the self-employed, in order to focus on homogenous groups
- Assessing year-to-year movements in the rate of in-work poverty jointly with movements in the overall 'at-risk of poverty' rate
- Examining explanatory variables covering relevant personal, occupational and household characteristics
- Work intensity of the household.⁹

Several ministries and organisations have adopted similar definitions to that used by Eurostat. For instance, the Cabinet of Strategy and Planning of the Portuguese Ministry of Labour and Solidarity defines low income workers as those whose wages are below two-thirds of the median national income. In France, INSEE (the French national statistics office) adopted a similar definition to the US:

The working poor are individuals who spend at least six months in the labour force, working or looking for work, but whose household's standard of living is below the poverty level.

However, a distinction is made in most French studies between active poor (working or looking for work) and working poor (working for at least six months).¹⁰ Recent figures from the *Observatoire National de la Pauvreté et de l'Exclusion Sociale* in France show that persons who are unemployed for most of the year represent only 40% of the active poor. The remainder consists of people in employment for at least seven months. Among the latter only 25% work part-time, while the remaining three-quarters work full-time. A significant finding is that people working full-time throughout the year constitute a third of the active poor.

Given the challenges in defining working poverty, several of the national experts in the current study highlighted problems with the Eurostat definition, including:

- That not every low income worker is living in a household (e.g. members of the Roma and Travelling communities, homeless people, people living in institutions, etc.)
- It is important that other sources of income are included in the measurement (such as informal economic activities; benefits-in-kind, etc.)
- The effect of part-time work, full-time work and periods of unemployment should also be considered
- The 'at-risk of poverty' measure does not take into consideration different standards of living within countries (e.g. differences between cities, towns and rural areas)
- There are some problems making international comparisons using the relative 'at risk of poverty' threshold and the modified OECD equivalence scale used for the "Laeken indicators" is not relevant for all countries
- Relative income poverty is more a measure of inequality and does not consider the depth of poverty.

⁸ Ibid.

⁹ The work intensity of the household is calculated by dividing the sum of all the months actually worked by the working age members of the household by the sum of the workable months in the household – i.e., the number of months spent in any activity status by working age members of the household.

¹⁰ Ibid.

2.2 Defining low-pay

It is important to note that low-pay is a different issue to working poverty or in-work poverty. There is no standard national or international definition of **low pay**. Many countries use an hourly rate which takes into account the impact of variable working hours on weekly or annual pay. In the OECD context, the threshold for 'low pay' for fulltime workers is often taken as two-thirds of the median wage.¹¹ A similar definition was proposed in a recent UK study:

*Low pay is less than 60 per cent of full-time median hourly pay, excluding overtime.*¹²

The authors argue that this is more appropriate than a fixed proportion measure as it takes into consideration the context of the earnings of the labour force as a whole, as well as allowing scope for the number and proportion of low-paid people to rise or fall over time. Furthermore, the median measure is not influenced by the overall earnings distribution and corresponds with the internationally recognised relative poverty line.

Low pay differs from working poverty on a number of aspects:¹³

- Low pay is assessed on the basis of an *individual's* earning, poverty is based on the incomes of all members of the household
- Low pay focuses purely on *earnings*; whereas in measuring poverty *income from all sources* is relevant
- Low pay focuses on *gross* earnings, while for poverty *income after tax* (disposable income) is relevant
- Low pay criterion takes no account of an individual's family circumstances and 'needs', whereas the household's equivalent income used in measuring poverty depends not only on the income available to it but also on the number of people depending on that income
- Low pay may be measured in terms of hourly earnings while poverty is generally assessed on the basis of weekly or annual income.

2.3 Working definition

For the purpose of this report, the following definition was adopted by the CS-LIW Expert Group:

Low-income workers are those living in households whose remuneration from employment, together with other income sources, are not sufficient to ensure that their income is above 60% of the median national equivalised income (i.e. the 'at-risk of poverty' level).

¹¹ For further information see Sloane, P.J. and Theodossiou, I. 1998. 'Methodological and Econometric Issues in the Measurement of Low Pay and Earnings Mobility in Asplund, R. A. Sloane, P.J. and Theodossiou, I. (eds.). 1998. *Low Pay and Earnings Mobility in Europe*. Cheltenham: Edward Elgar.

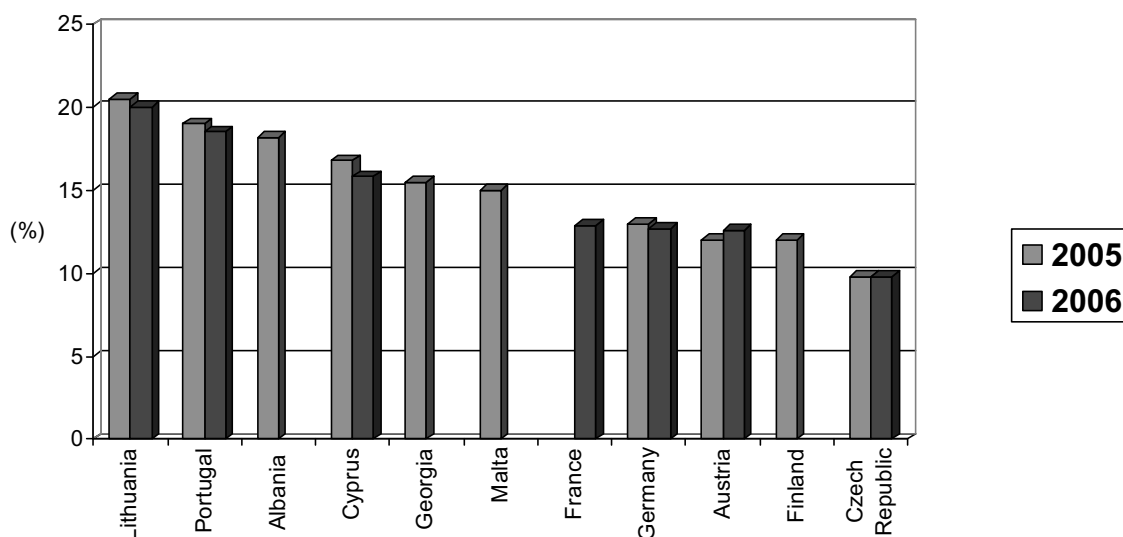
¹² Cooke, G. and Lawton, K. 2008. *Working Out of Poverty*. London: Institute for Public Policy Research.

¹³ Rocks, P. 2008. *The Working Poor in Ireland: An Analysis of EU-SILC 2005*. Dublin: Combat Poverty Agency; Nolan, B. 1993. *Low Pay in Ireland*. General Research Series, Paper No. 159, ESRI: Dublin.

3. Quantifying Low-Income Work

The European Survey on Income and Living Conditions (EU-SILC) is the main data source in Europe for collecting data on poverty. Using this dataset, Figure 1 shows that in 2005 Lithuania (20.5%) and Portugal (19%) had the highest 'at risk of poverty'¹⁴ rates, with the Czech Republic (9.8%) reporting the lowest rate. More recent analysis of the 2006 data shows that in Lithuania, Portugal, Cyprus, Germany, Austria and the Czech Republic poverty rates remained more or less static between 2005 and 2006.¹⁵

Figure 1 Percentage of individuals 'at risk of poverty' (2005; 2006)¹⁶



The EU-SILC can also be used to measure individuals living in **working poor households** (i.e. households in which members are living below 60% of that national median income and at least one member of the household's principal economic status is 'at work'). Figure 2 shows that the percentage of working poor households varies across the countries in this study, with Turkey (22.6%) reporting the highest number of individuals living in working poor households and the Czech Republic reporting the lowest percentage (4.5%). Other studies have also found that Turkey has the highest poverty risk of employed people among new Member States and candidate countries.¹⁷

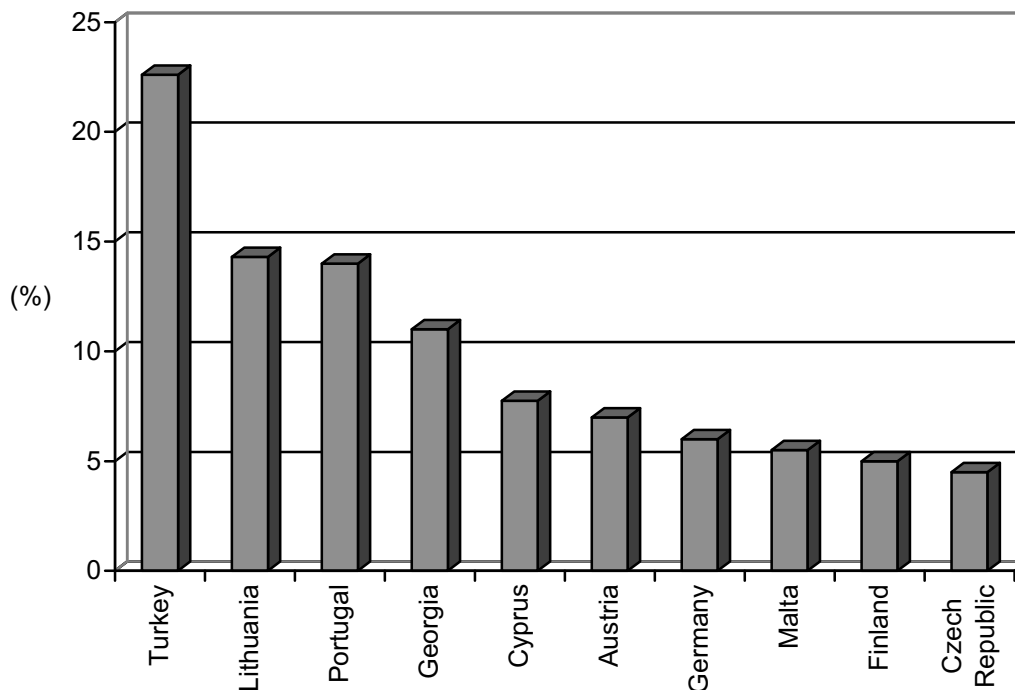
¹⁴ Individuals 'at risk of poverty' are those who have an equivalised income which is less than 60% of the median equivalised income

¹⁵ 2006 figures presented in Lelkes, O. and Zolyomi, E. 2008. *Poverty Across Europe: The Latest Evidence Using the EU-SILC Survey*. Vienna: European Centre for Social Welfare and Policy Research.

¹⁶ Figures for Albania and Georgia are not based on the EU-SILC survey but on other national surveys.

¹⁷ Bardone and Guio. op. cit.

Figure 2 Percentage of individuals living in working poor households (2005)¹⁸



Taken together, Figures 1 and 2 indicate that being in work in Malta, Cyprus and Germany reduces the risk of poverty more than in other countries. There are a number of factors which explain these national differences:

- The higher the employment share in a country the more the poverty risk rate for the total population will be determined by the poverty risk of the employed population
- The distribution of employment across households
- The incidence of poverty rate in each activity status group (e.g. employed/unemployed) of the population.¹⁹

It is also important to measure the share of individuals in working households among all those 'at risk of poverty'. According to Eurostat, even if people in employment are less exposed to the risk of poverty than other status groups, they still represent a significant share of those at-risk of poverty, since a large part of the adult population is at work.

Table 1 shows that three-quarters of individuals at risk of poverty were living in working households in Austria and over a half in Lithuania. Austria, the Czech Republic, Finland and Malta are all interesting examples of countries with low 'at-risk of poverty' rates, but where working households constitute a large proportion of those at-risk of poverty.²⁰

¹⁸ Figures for Georgia are not based on the EU-SILC survey but on an equivalent national survey.

¹⁹ Ibid.

²⁰ The figure for Austria is relatively high as it includes people who work for 1 hour per week.

Table 1 The share of individuals in working households ‘at risk of poverty’ (EU-SILC, 2005)

| Country | Percentage of individuals in working households at risk of poverty |
|----------------|--|
| Austria | 75 % |
| Lithuania | 53.7 % |
| Cyprus | 45.87% |
| Czech Republic | 45.8 % |
| Finland | 40 % |
| Malta | 36.9 % |

4. Profile of Low-Income Workers

Low-income workers are not a homogenous group. A study of the Council of Europe on access to employment showed that a range of vulnerable groups generally fall into a number of economically excluded and disadvantaged groups, such as people with disabilities, ethnic minorities and migrants, older workers and young early-school leavers.²¹

Age has an influence on low-income employment. Young workers are at risk of earning a low wage in several European countries (including Cyprus, Finland, Portugal, France and the Czech Republic). According to the European Trade Union Confederation (ETUC) this is because young workers often find themselves in precarious situations and are only being offered part-time or temporary contracts or even low-paid traineeships. Similarly, research in Portugal found that young people, apprentices and those on traineeships are at risk of low-income employment.²² Early-school leavers are a particularly at-risk group among younger people.

Older workers are also at risk of earning a low income (e.g. in the Czech Republic, Portugal and France), while in Finland workers aged between 35 and 54 years are most at risk of poverty due to low educational levels and low skills.²³ Research in the UK has found a number of life-course events impact on older people’s risk of low-income employment, including early life events (e.g. low educational attainment); adulthood events (e.g. early labour market entry; periods of unemployment); and later-life events (e.g. health and disability, individual pension savings and pension entitlements, job characteristics such as physical strains and job autonomy).²⁴

Immigrants are reported to be at-risk of working poverty in several countries experiencing net immigration (e.g. Austria, Cyprus, Czech Republic, France and Malta). Research has found that immigrants are usually over-represented in low-skilled, low-paid jobs, such as the services sector (e.g. Finland, France and Malta) and construction (e.g. France and Malta).²⁵ Yet experiences can vary for different groups of immigrants. Research in Malta distinguishes between third country nationals and migrant workers who are refugees under humanitarian

²¹ *Final Report of the Committee of Experts on Promoting Access to Employment (CS-EM)*, Council of Europe, Strasbourg, 2001.

²² Albuquerque, J.L. 1999. ‘Desigualdades salariais e trabalhadores de baixos salários’, *Sociedade e Trabalho*, 4. Lisboa: Ministério do Trabalho e da Solidariedade.

²³ Kauhanen, M. 2005. *Työssäkäynnin ja taloudellisen syrjäytymisen dynamiikka*. Helsinki: Ministry of Labour, Studies, 276.

²⁴ Blekesaune, Bryan, M. and Taylor, M. 2008. *Life-course events and later-life employment*. London: Department for Work and Pensions.

²⁵ Heikkilä, E & Pikkarainen, M. 2008. *Väestön ja työvoiman kansainvälistyminen nyt ja tulevaisuudessa*. Turku: Siirtolaisuusinstituutti 9Institute for Migration Studies. Ambrosini, M. and Barone, C. 2007. *Employment and Working Conditions of Migrant Workers*. Dublin: European Foundation for Working and Living Conditions.

protection or asylum seekers. Third country nationals are more likely to be represented in highly skilled positions such as engineers, technicians and medical doctors, whereas migrant workers are over-represented in low-skilled jobs.²⁶

Immigrants usually end up in low-paid, low-skilled jobs due to language barriers (Finland, Malta), lower educational levels (Finland, Czech Republic, Malta) and lack of qualifications (Malta). For instance, in France, INSEE has found that 46.2% of immigrants have no qualifications. However, in Malta, even migrants with good qualifications can occupy jobs for which they are over-qualified.

Research in the Czech Republic shows that immigrants end up in low paid jobs because employers can 'abuse' this section of the labour force (due to a greater supply than demand) and immigrants are often willing to work for lower wages as it is still more than their potential earnings in their country of origin.²⁷ In Malta research has found that many migrant workers are unaware of their rights in relation to employment law and regulation. In the Czech Republic and also in Malta, migrant workers often take-up jobs that local people are reluctant to do.

Germany also has inequalities in income between the local workforce and immigrant workers. SOEP studies in 2005 and 2006 show that wage inequality is higher for immigrants than for German workers, while in the 1980s it was higher for Germans.²⁸ Germany also has a high number of low qualified unemployed people. According to the OECD study on migration, even highly qualified immigrants have a higher probability of becoming unemployed than German workers with the same level of education.²⁹ Immigrants also work in the informal economy and turn to this type of economic activity in, for example, the Czech Republic, due to the difficulties in accessing working visas.³⁰

Countries of emigration, such as Turkey, are more likely to see their emigrants take up low-income employment. However, not all Turkish emigrants are at risk of poverty. Experienced and skilled Turkish emigrants have found jobs through official labour agreements whereas low-skilled emigrants from rural areas are more likely to end up in unskilled jobs due to their low educational levels, barriers to gaining access to employment, discrimination in workplaces, language barriers and difficulties with integration.

Another vulnerable group, identified by the European Commission, are those excluded from the labour market or from career progression based on their lack of access to the knowledge-based society and new information and communications technology (i.e. e-exclusion).

Other vulnerable groups highlighted in the country reports were people with disabilities (e.g. in Cyprus and France), members of the Roma and Travelling communities, drug users and also homeless people. A recent survey by Centre de Recherche pour l'Etude et l'Observation des Conditions de Vie (CREDOC) found that more than 30% of homeless people in France have a job.

²⁶ Farrugia, C. 2007. *Working and Employment Conditions of Migrant Workers – Malta*. Dublin: European Foundation of Working and Living Conditions.

²⁷ *An Analysis of immigrants' access to education and labour market in the Czech Republic*. G&C - Gabal Analysis & Consulting.

²⁸ Peters, H, 2008, *Development of Wage Inequality for Natives and Immigrants in Germany: Evidence from Quintile Regression and decomposition* Socio-economic Panel paper no. 113/ 2008, German Institute for Economic Research, Berlin.

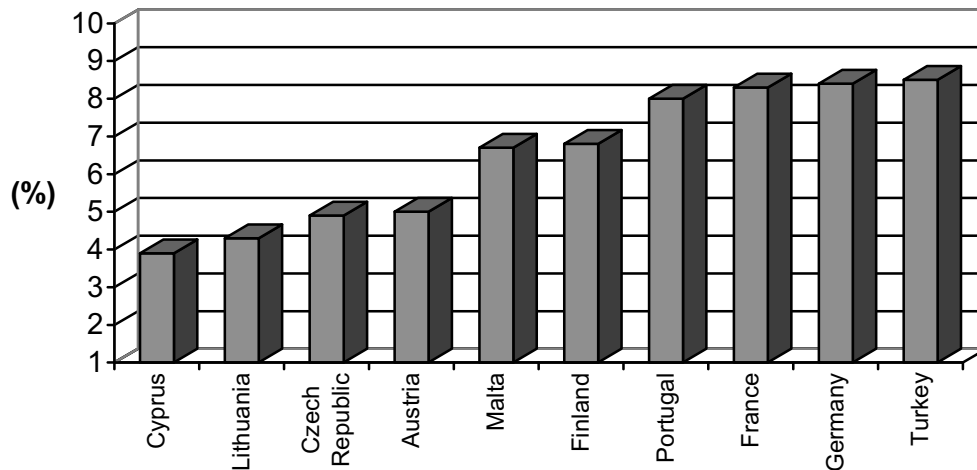
²⁹ Organisation for Economic Co-operation and Development (OECD). Annual Report, 2007.

³⁰ Drbohlav, D. (eds). 2007: *Illegal economic activities of migrants (the Czech Republic in the European context)*. Praha

4.1 Low-Income vs. unemployment

In 2007, unemployment reached its lowest level for several years in the EU (7.1% in EU-27 and 7% in EU-15). Among the countries in the current study, Cyprus reported the lowest rate (3.9%), with Turkey, Germany and France reporting the highest levels - 8.5%; 8.4% and 8.3% respectively.

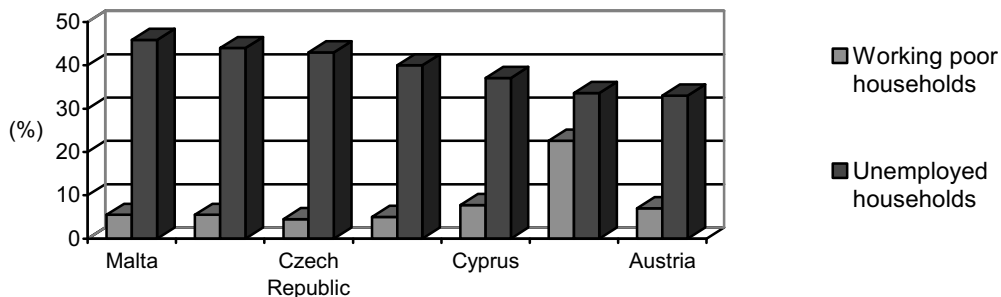
Figure 3 Unemployment rates (2007)



Source: Eurostat

There is very little research that compares those working on low incomes to the unemployed. However, evidence from the Czech Republic would indicate that those who are unemployed often have fewer skills and lower levels of qualifications than low-income workers. Figure 4 shows that, despite the precarious situation of low-income workers, unemployed people are still at greater risk of poverty in the countries where data were available.

Figure 4 'At risk of poverty' rate by working and unemployed households



Source: EU-SILC, 2005 (2006 for Germany); Turkish household Budget Survey, 2005

5. Factors determining Low-Income Work

The concept of low-income workers or ‘working poor’ is complex, depending on a range of societal and individual factors. Income is just one of these factors, as an individual’s standard of living is only partly determined by his/her wages. Other factors, such as other earners in the household, the size of the household (including children or other dependents), social protection payments and other factors such as location, education and skill levels may determine if a worker is poor or not.

All low-wage employees do not, therefore, live in low-income households. Inversely, employees whose wages are above the low-wage threshold – e.g. if they have a number of dependents – may be living in low-income households.³¹

5.1 Societal factors

Low pay and working poverty are driven by different public policies, including tax and welfare, employment and labour market policies. They are also influenced by the prevailing economic climate and the labour market (e.g. availability of jobs; the development of low paid services, etc.). Countries with high unemployment pose an additional structural risk of poverty for workers, as do those countries with flexible labour markets. These factors can also contribute to whether there is a second income in a household and, if so, the level of pay. According to Eurostat, low pay is an important factor of in-work poverty.³²

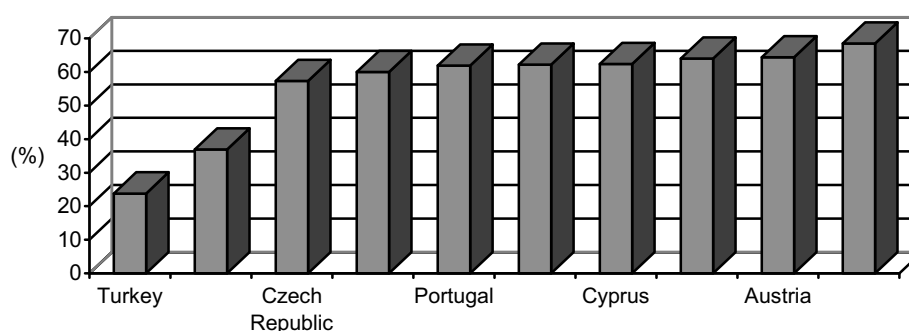
5.1.1 Gender

A low female participation rate in the labour force and a gender pay gap contribute to low pay for women. The European Commission accept that this pay gap remains a problem:

Gender gaps, though also decreasing, generally remain considerable.³³

In 2006, the female employment rate increased to 58.3 per cent in the EU-27. However, as Figure 5 shows, the female employment rates in Turkey (23.8%) and Malta (36.9%) are substantially below this EU average. Finland reported the highest employment rate (68.5%) and most of these jobs are full-time jobs.

Figure 5 Female employment rate



Source: Eurostat

Not only do women have lower participation rates than men, most European countries experience a **gender pay gap** where women earn a lower hourly income than their male

³¹ European Commission *The Social Situation in the European Union, 2003*.

³² Bardone and Guio. op. cit.

³³ European Commission *Joint Report on Social Protection and Social Inclusion, 2008*.

counterparts. In 2005 the EU gender pay gap stood at 15 per cent, with countries, such as Cyprus (25%) and Germany (22%) reporting above average rates.

Median incomes of men and women also differ. In Finland in 2007, the median income of women to men was 82 per cent. This does not mean that women get lower wages than men for the same jobs in Finland but it indicates that women are employed in jobs and in business sectors where the wages are lower.

The situation in the Czech Republic is similar. In 2005 the median income of women was 81.1 per cent that of men and this increased slightly to 81.7 per cent in 2006. Also in Malta, the recent Labour Force Survey (January–March, 2007) found that for all of the different occupation types the average gross annual salary of female employees was lower than male employees.

While, the gender pay gap explains why female workers are more at-risk of earning a low income, female workers are not more at-risk of in-work poverty because they are often second earners in the household. Indeed, some countries (e.g. Czech Republic; Cyprus) have witnessed a slight decrease in the gender pay gap, mainly as a result of women's educational levels rising and, consequently, there are more women taking up professional employment than before.

Several other factors account for the gender pay gap. Among these are the over-representation of women in non-skilled and low-skilled occupations, low-wage employment and temporary part-time work (e.g. in Cyprus; Czech Republic and Finland). The 'glass ceiling' effect is also a factor in women accessing top managerial positions (e.g. in Cyprus). Furthermore, interrupted career paths due to family and caring commitments reduces career advancement and negatively affects their remuneration levels (e.g. in Cyprus, Czech Republic and Finland).

The Research Centre on Work and Social Affairs in the Czech Republic also found that women are less likely to work overtime and, therefore, earn lower wages. It also found that women are discriminated against in job recruitment as potential employers fear family-related absences. This study also found that women with no children earn similar incomes to their male counterparts.

5.1.2 Location

Where people live and work are also important factors influencing their level of pay. Most European countries experience regional pay gaps where there is a difference in wages between different regions and also differences in the cost of living. In countries, such as Austria, Malta and Finland, regional variations in salary are not that significant. In Finland for instance the pay-gap is not an issue as the regional difference in the cost of living largely levels out wage differences.

Other countries, however, experience substantial regional pay gaps particularly between the capital city and rural areas. For instance, in the Czech Republic salaries in Prague are 145 per cent the national average, compared to 85 per cent in the mountainous regions of Karlsbade and the Massive Centrale. These differences are explained by the fact that large businesses and specialised services are located in Prague, whereas the mountainous regions depend on agricultural and construction work. In Portugal, the hourly wages in rural and interior regions are also significantly lower than in urban areas, with interior northern regions, where one third of workers are on low wages, particularly affected. In contrast, the metropolitan areas of Lisbon and the South of Portugal (Algarve) have the smallest percentage of workers with low wages.

Rural workers in Lithuania also receive lower wages than their urban counterparts. However, while the standard of living is much lower in rural areas, agricultural workers can earn up to 30 per cent (approximately) of their income in-kind. Similarly, a UK report explains regional variations by the diverse industries and occupations available in different regions as well as more limited job choice and training opportunities in rural areas which restricts wage mobility and depresses pay rates.

5.2 *Individual factors*

Low educational attainment and lack of qualifications are significant factors determining low income employment (e.g. in Portugal, Czech Republic, France, Lithuania, Cyprus and Finland). In Portugal workers with six or fewer years of schooling are at particular risk and a lack of qualifications and low educational attainment are considered the most important factors that contribute to low-income employment.³⁴

In-work poverty is strongly influenced by household characteristics. Large families increase the likelihood of a family being working poor, especially when there are no welfare payments targeted at families. Large families are particularly at risk in Cyprus, Finland, Portugal, Malta and France, whereas in Austria families with 2 or more children are at risk, because of the greater demands on household resources. For example, in France a dependent child increases the risk of poverty much more than a second non-working adult: 22 per cent compared with 9 per cent. This is also an important issue in Finland where family size is a greater risk factor for working poverty than low pay.

Single-earner households are another vulnerable group in relation to working poverty (e.g. in Finland; France; Lithuania and Malta). In France in 2002, 26 per cent of single-earner households were at risk of poverty compared to 5 per cent of dual earner households. Research carried out in Lithuania among low-income families found that 16.7 per cent of were dual earner families, compared to 49.5 per cent of single earner households.³⁵ As mentioned above, the presence of children in the household will increase the risk further as the single wage has to be distributed among a greater number of dependents.

Single earner households are, very often, **lone parent households**, which is another risk factor contributing to working poverty (e.g. in Austria, Cyprus, Portugal, Czech Republic, Finland and Malta). Interestingly, a survey carried out by UNCCAS in France found that single people without children were more at-risk of poverty than lone parents. Similarly, single adults have been identified as an at-risk group in Austria.

5.3 *Employment factors*

A worker's **occupation** is often a significant factor affecting whether they are a low income worker or not. Unskilled and low-skilled work is linked to low wages (e.g. in Portugal, Austria and Finland). In 2003, what were considered as low-skilled jobs accounted for some 33 per cent of the working age population in the EU.³⁶ In Germany those with low-skills are more likely to experience unemployment.

Services and office work in Finland is most commonly associated with low-income work. In Malta the Labour Force Survey, 2007, found that low-paid female workers were more likely to be shop and sales workers, craft and related trade workers or involved in elementary

³⁴ Albuquerque 1999 op.cit.

³⁵ Cardoso, Ana Rute. 2000. *Baixos Salários em Portugal*. Lisboa: Ministério do Trabalho e da Solidariedade.

³⁶ *Opportunities and Measures to Reduce Poverty and Social Exclusion among Children in Lithuania*.

³⁶ European Commission *Employment in Europe, 2003*.

occupations. With regard to male employees, those working in service, in shops and sales or in craft and related trades were the most at-risk of being low paid. Research in Portugal has found that less than 5 years service can have an impact on the level of wages.³⁷

The **business sector** where people work also affects their level of income. For example, important jobs such as those in the agricultural sector or the care of the elderly are currently being carried out by low-income workers, often migrants. The sectors where low pay is most common, as reported by the national experts for this study, include hospitality (e.g. hotels and restaurants) in Austria, Portugal, Czech Republic and Malta and textile, clothing and retail businesses in Portugal, Czech Republic and Malta. Other sectors mentioned include agriculture and forestry (e.g. in Austria and the Czech Republic); as well as services, office work and sales (e.g. in Malta and Finland).

Unlike other countries, low-income employment in Finland and Germany is less likely to be found in the industrial, agricultural and construction services and is more likely in the services sector (e.g. supermarkets, cleaning, hotels, restaurants, traffic, health and social services in the public sector).³⁸ Research in Portugal found that working for enterprises with fewer than 50 employees was also a risk factor for low pay.³⁹ Interestingly, the Low Pay Commission in the UK found the opposite and reported that the coverage of the minimum wage declines as the size of the firm increases.⁴⁰

Labour Force Survey, Malta.

Suban (2007) summarises data from the recent Labour Force Survey (January–March 2007) in **Malta** which shows changes from the previous survey (January–March 2006).⁴¹

In relation to male workers in 2006, the mining and quarrying and the agriculture, hunting and forestry sectors were previously the third and fifth lowest categories respectively in terms of average gross salaries. In 2007 these fell to the sixth and tenth lowest categories respectively. In relation to the agricultural sector, Suban (2007) explains that this is due to subsidies emanating from the Common Agricultural Policy which increased the average gross annual salary in that sector following accession to the EU in 2004.

With regard to female employment, the lowest category changed from private households with an employed person to the hotels and restaurant sector. Community, social and personal services activities, which were previously the sixth lowest category in terms of average gross salaries moved to the third lowest category. A number of sectors all experienced a decrease in average gross annual salaries: electricity, gas and water supply; wholesale and retail trade; repairs; hotels and restaurants; education; health and social work; and other community, social and personal services activity.

Part-time or atypical employment, as well as **contract work**, is often taken up not out of the choice of the worker and is associated with low pay (e.g. in Austria, Finland, France, Turkey and Malta). The European Trade Union Confederation (ETUC), has found that more workers, in particular women, are being offered part-time and temporary contracts which are increasing the number of low paid and working poor. Research in Finland has reported similar findings.⁴² Likewise, in France, fixed-term contracts, part-time work and work for

³⁷ Albuquerque 1999 op.cit.

³⁸ Horn *et al.* 2007. *Preiswerte Arbeit in Deutschland Auswertung der aktuellen Eurostat Arbeitskostenstatistik Report 22/2007.*

³⁹ Albuquerque 1999 op.cit.

⁴⁰ Low Pay Commission. 2007. *National Minimum Wage – Low Pay Commission Report 2007.* London: HMSO.

⁴¹ Suban, R. 2007. 'Report on the Situation of Low-Income Workers in Malta in 2007'.

⁴² Airio, Ilpo and Niemelä, Mikko. 2004. 'Turvaako työ köyhyydeltä? Tutkimus työssä olevien köyhyydestä vuosina' 1995 ja 2000. *Janus* 12(1):64-79. Sauli, Hannele. 2006. *Työssä käyvä alittaa harvoin köyhyyserajan.* Hyvinvointikatsaus 3/2006, 14-20..

limited periods of the year doubles the risk of working poverty. Figures from France reveal that 4 per cent of employees on indefinite contracts are 'at-risk of poverty' compared to 10 per cent of people with definite contracts. Local organisations in France (e.g. CCAS/CIAS) are finding increasing numbers of workers in insecure employment and in financial difficulties seeking assistance from their services.

Self-employed persons are at greater risk of poverty (e.g. in Austria, France, Malta and Finland). Eurostat found in 2001 that 16 per cent of self-employed workers were 'at-risk of poverty', compared to 6 per cent of employed workers. In 2004, more recent figures for France show that 19 per cent of self-employed people were 'at-risk of poverty'. However, Eurostat notes that income data for the self-employed can be unreliable, given the potential problem of under-reporting of income.⁴³

Informal employment is also usually associated with a low income. In Turkey informal workers working in the private sector are at risk of earning below the minimum wage and are also further excluded as they do not have the protection of the social security system.

6. Barriers to employment

Unemployment traps (where an unemployed person's income would fall if he/she took a job) still exist for people entering the labour market in many countries (e.g. Czech Republic, Finland, Georgia and Malta). It is reported that poverty traps do not exist in Austria due to the strengths of the social security system. The *Joint Report 2003/2004* noted that:

*The declining trend in the tax rate on low wage earners in the EU-15 seems to have stalled ... and non-wage labour costs remain high in several Member States with a potential negative impact on job opportunities and incentives.*⁴⁴

Due to the complexities of the Finnish social security system, there are financial disincentives, particularly related to the loss of benefits, which are specifically related to short-term, temporary work. On the other hand, low pay is seldom an obstacle for an unemployed person becoming employed in a permanent job.⁴⁵ The Maltese social security system is also complex and where poverty traps do exist it depends on a person's income, size of household and relative increases in income.

The **availability of jobs** is also a factor. In 2003, the European Commission published a Communiqué on 'making work pay' in which it addresses the question of and obstacles to the integration of people living on labour market benefits.⁴⁶ However, the Communiqué looks at the issue from a purely economic angle and considers unemployment from the point of view of 'dependency', without regard for the availability of jobs and, because of this approach, it was severely criticised by the European trade union movement.⁴⁷ However, it should also be noted that non-monetary incentives are just as important as monetary ones and generous benefit levels and incentives to work do not necessarily contradict each other.

The **accessibility to jobs** and skills training can be another barrier for low-income workers, as transport costs can place a significant financial burden on an already limited income.

⁴³ Bardone and Guio. 2005. op. cit.

⁴⁴ European Commission *Joint Employment Report 2003/2004*.

⁴⁵ Parpo, A. 2007. *Työllistymisen esteet*. Helsinki: Stakes.

⁴⁶ *Modernising Social Protection for More and Better Jobs – a comprehensive approach contributing to making work pay* Communication from the European Commission, Brussels, COM(2003)842 final.

⁴⁷ Degryse, C. and Pochet, P. 2004. *Social Developments in the European Union*. Brussels: European Trade Union Institute.

7. Consequences of low-income work

There is limited research on the consequences of low-income work. Nevertheless, the information on the participating countries, provided by the national experts, indicates that low-income workers are likely to encounter many difficulties. Overall low-income employment is likely to lead to **greater social exclusion**. The ETUC has highlighted age-related problems, such as young low-income workers becoming psychologically and economically dependent on others and unable to make long-term plans of their own. Also, older low-income workers can feel useless and frustrated, sentiments that undermine social cohesion.

Research in Portugal has found that low income workers are at risk of being stuck on **persistent low wages**. Referring to longitudinal research covering the period 1991 to 1996, the research shows that 1 in 3 workers with low wages in 1991 were still in the same situation in 1996. Among those on a low wage in 1996, 40 per cent had been in the same situation in 1991. The study concluded that a low income is not a starting point for a salary to rise, but a strong disadvantage, particular for female employees.⁴⁸ A similar conclusion was reached by research in Malta which found that low-income workers are likely to remain on low wages because of their low skills and lack of qualifications. This study also found that low-income employment could also lead to **intergenerational poverty**, as children with parents with low skills and low educational levels are most at-risk of working in similar low-income occupations.⁴⁹

Low-income workers are therefore likely to remain in low-income jobs and face difficulties progressing in employment:

Many people enter the labour market in jobs at the lower end of the pay scale and because of a lack of career progression and workforce development fail to progress and remain trapped in poverty. Parents entering lower end, often insecure work, also have increased chances of 'cycling' between benefits and work which undermines poverty reduction.⁵⁰

Low wage employment can also result in limited access to public services (e.g. health services) and care (e.g. nutrition). According to the experience of Centres communaux d'action sociale (CCAS) in France, this occurs as a result of the salary of some low-income workers increasing above the threshold for free health insurance. Médecins du Monde found that the main difficulties in access to care, referred to by patients, are financial problems and lack of knowledge about their rights.⁵¹ Similarly, the ETUC has found that low-income workers are often excluded from social support because they are unaware of the services available, as they do not receive adequate information or guidance or they encounter access difficulties.

The CCAS experience in France found that insecure employment can lead to **housing difficulties** and low-income workers are often **excluded from cultural and leisure activities**, as well as the opportunity to take holidays due to lack of income.

Low income workers are also at risk of **financial exclusion**. A recent European Commission study on financial exclusion highlighted that structural changes in the labour market, leading to greater 'flexibility' and growing job insecurity, often means less stable incomes and less

⁴⁸ Albuquerque, 1999. op. cit.

⁴⁹ Suban, 2007. op. cit.

⁵⁰ Centre for Economic and Social Inclusion (CESI). 2008. *Child Poverty and Work*. London: Centre for Economic and Social Inclusion.

⁵¹ Médecins du Monde report in 2005 of the "mission France" observatory of health-care access.

creditworthiness to access banking and credit products.⁵² Related to this issue is **over-indebtedness**. In France in 2006, L'union nationale des centres communaux ou intercommunaux d'action sociale (UNCCAS) carried out a survey of cases of over-indebtedness. The survey found that 26 per cent of those seeking help from CCAS centres because of over-indebtedness were employed and earning low or very low incomes or in insecure employment. This compared to 24 per cent of unemployed people and 13 per cent in receipt of basic social welfare.

A recent European Commission study, which compared over-indebtedness across EU Member States, using an analysis of both Eurobarometer and EU-SILC data, found that between 10 and 13 per cent of households across the EU had difficulties meeting credit and other household commitments in 2006. The level of difficulties tended to be lowest in Northern Europe and highest in Eastern and Southern Europe. The study noted that financial difficulties were more prevalent in countries where incomes were low and income inequality was high. In putting forward a number of reasons for over-indebtedness, this study notes that the main reason is persistent low incomes and adverse financial shocks, as well as over-borrowing and poor money management.⁵³

A working poor household also faces challenges **managing the household budget**. It was noted by the French national expert that recent increases in energy prices, housing costs and food are placing a huge burden on the budget of working poor households in France.

While **reconciling work and family life** can be a challenge for any working household, it is a particular issue for low-income workers who, very often, work irregular hours and shifts.

8. European and public policies: Making work pay

Many European countries have introduced numerous policy initiatives which have the potential of having a direct or indirect impact on low-income workers. However, there has been very little evaluation to assess the effectiveness of these initiatives. Indeed, in Finland, the Czech Republic, Georgia and Portugal, the issue of low-income employment is not a public policy priority.

Low-income employment and working poverty are cross-cutting social policy issues and require a joined-up government approach, because they impact on a range of policies including, tax and welfare, educational and employment policies. Yet these issues are not just a matter for national government. In some countries the social partners participate in the policy process. For example, in Portugal they participate in the Permanent Committee for Social Dialogue and other national committees (e.g. the National Committee for Child and Young People Protection, etc.). In Malta, NGOs are members of the main consulting body to the government (the Council for Economic and Social Development) and are also consulted by the Council on issues relating to sustainable economic and social development. Similarly, in Cyprus, NGOs participate in a National Technical Employment Committee, which is responsible for the formulation and monitoring of the National Employment Policy. Increasingly, national governments are also supporting the work of regional and local services provided by both public and civil society organisations. However, the challenge remains in some countries (e.g. France) for sufficient financial support to ensure that local services are provided appropriately and adequately.

European countries have introduced policies or examined ways in which tax and welfare, employment and educational policies can be reformed in order to eliminate unemployment,

⁵² European Commission. 2008. *Financial Services Provision and Prevention of Financial Exclusion*. Brussels.

⁵³ European Commission. 2007. *Towards a Common Operational European Definition of Over-indebtedness*. Brussels.

poverty and inactivity traps and to ensure that work pays. This is a particular challenge for policy makers. In many countries low-income workers are often entitled to less social support than unemployed people. For EU Member States, there is a commitment in the Lisbon Strategy to reform social protection systems to ‘underpin the transformation to the knowledge economy’ and to move towards an active welfare state to ensure that work pays.⁵⁴

8.1 Tax and Welfare Policies

Many European countries have introduced a minimum wage in order to increase employment and ‘make work pay’. The European Trade Union Institute (ETUI-REHS) considers the minimum wage as one of the instruments that can help to avoid low pay.⁵⁵ Similarly, a recent study in the UK found that the minimum wage has been instrumental in pushing wages from the bottom, has kept income inequality in check and narrowed the gender pay gap among the lowest paid.⁵⁶ Similarly, research in Ireland noted that the advantages of the minimum wage were that it prevented the exploitation of workers and promoted greater equality in earnings between men and women. However, the authors noted that the minimum wage does not necessarily address working poverty as working poor are not necessarily those on a low wage.⁵⁷

Minimum wages have been introduced in a number of countries, either through legislation or collective agreements.

While France, the Benelux countries, Spain, Portugal and Greece have a long tradition of protecting pay at the bottom of the labour market, Ireland and the UK only introduced national minimum wage systems in the late 1990s. In the remaining six EU Member States – Germany, Austria, Italy and the three Nordic Member States – as well as in Cyprus, collective agreements are the main mechanism used for regulating low pay.⁵⁸

Collective agreements have led to higher entry salaries for certain occupations as well as improvements in other work-related benefits.

Table 2 shows the countries participating in this study that have introduced a minimum wage, albeit in different ways while Table 3 sets out the level of these wages. Finland and Germany do not have a universal minimum wage but do have minimum wage agreements which apply to certain business sectors.

Table 2 Recent developments in minimum wages

| Country | Recent developments |
|----------------|---|
| Austria | The social partners have reached a new agreement on a minimum wage which covers all those working under a collective agreement, some 95% of the Austrian workforce. Approximately 30 occupations still have wages below the €1,000 threshold. These industries have to reach the minimum wage level by January, 2009, or else a general collective treaty will come into force. |
| Czech Republic | The minimum wage should reach 50% of the national median wage by 2008. Currently 2.3% of workers receive the minimum wage which is between 35% and 40% of the average salary. |
| | |

⁵⁴ Presidency Conclusions, European Council, Lisbon, March, 2000.
⁵⁵ ETUI-REHS, op. cit.
⁵⁶ Cooke and Lawton (2007) op. cit.
⁵⁷ Callan, T., Nolan, B., Walsh, J., Whelan, C. and Maitre, B. 2008. *Tackling Low Income and Deprivation: Developing Effective Policies*. Dublin: Economic and Social Research Institute.
⁵⁸ European Commission *Employment in Europe, 2003*.

| | |
|-----------|---|
| Cyprus | Similar to the Czech Republic, the Council of Ministers in Cyprus decided that the minimum wage should gradually increase so that by 2008 it reaches 50% of the national median wage. |
| Finland | Finland does not have a national official minimum wage, but in practice collective wage agreements set minimum wages for different branches. |
| France | The French minimum wage (SMIC) is negotiated by the National Collective Bargaining Commission (CNCC), a tripartite body of representatives of government, trade unions and employers. The French minimum wage is re-evaluated (based on the consumer price index) at least once a year (1 st July) and more frequently in times of high inflation. |
| Germany | In Germany the 1996 Assignment Act ensures that the construction sector abides by the prevailing wage agreements of the social partners (this covers roofers, painters, cleaners and other construction employees). The Government has also proposed a minimum wage for postal service workers, opening a debate on the introduction of a universal minimum wage. |
| Lithuania | The minimum wage is determined by government under the Labour Code and is recommended by the Tripartite Council. The wage is indexed and guarantees an income above the poverty line. The proportion of employees receiving the minimum wage has decreased from 12.1% in 2004 to 6.9% in 2008. |
| Malta | Under the Wage Regulation Order there are different minimum wages applicable to different jobs. In 2005, the Maltese minimum wage was 44% of average wages. In 2008, 4.2% of all full-time employees were earning the minimum wage. |
| Portugal | National minimum wage is currently €497 per month. |
| Turkey | The minimum wage is determined annually by the Minimum Wage Fixing Board (a tripartite body of representatives of government, trade unions and employers). The minimum wage increased by 87% between 2003 and 2008. |

Table 3 Minimum Wage levels per month for full-time employees (2008)

| Country | Minimum Wage (€) | No. of Employees covered (%) |
|-----------------------|-----------------------------|-------------------------------------|
| Czech Republic | 304.00 | 2.3 (2006) |
| France | 1280.00⁵⁹ | 9.0 |
| Lithuania | 231.70 | 6.9 |
| Malta | 612.30 | 4.2 |
| Portugal | 497.00 | 5.5 |
| Turkey | 353.80 | -- |

Source: Eurostat

An issue which is often overlooked in discussions on low pay is the impact the level of **income taxation** has on disposable incomes. The generosity, or otherwise, of tax free allowances/tax credits have an important impact on the incomes of low-income workers. In Malta those receiving the minimum wage are excluded from paying tax (the threshold is even higher for married people) and in Austria those earning less than €10,000 do not pay income tax. Under the Ministry of Finance's Measures for Social Cohesion, the Cypriot government raised non-taxable income to €19,392. However, the income tax bands are not reviewed on

⁵⁹ This figure corresponds to the gross SMIC (French national wage) which includes social security contribution paid by employees. The SMIC net is €1037.53.

an annual basis in Cyprus which could result in a minimum wage earner falling into the tax net.⁶⁰

A number of countries also have some type of **tax credit** system (e.g. Austria and France). The French government introduced a tax credit system in 2001 (the employment bonus – PPE), similar to that in the United Kingdom. The main benefit of the scheme is that low-income households who do not pay tax benefit from tax reductions. However, in 2006 the Employment Policy Council found that the redistributive effect of the scheme was limited given that it reduced inequalities by only 2.9 per cent.

In contrast, a UK study found that the working tax credit ‘is more generous, more widely available and has significant higher take-up rates than any previous system of in-work support’.⁶¹ However, the authors did recommend that it could be more effective in tackling working poverty, for example, by addressing poverty among couple families by boosting work incentives for second earners through a Personal Tax Credit Allowance and by increasing support to low-income working families.⁶²

Tax levels for those whose incomes are greater than the incomes of the lowest workers are important, as this will determine the level at which the 60 per cent median poverty threshold is set. In Turkey taxation is applied on the basis of income brackets, therefore, as income increases the rate of tax increases also.

The levels of indirect taxation also has implications for the well-being of those on low incomes, as this form of tax falls disproportionately on low income families. In Cyprus VAT (value-added tax) has been decreased to 5 per cent (the minimum allowed by the European Union) for certain basic food categories and services.

The policy of work activation is being given increasing importance in many European countries (e.g. Czech Republic; Cyprus Portugal; Turkey) and is the main goal of the German ‘Hartz Laws’. Active inclusion is now the cornerstone of EU social policy. It refers to a policy objective of moving people of working age from a social welfare payment into paid employment. This is done by supporting, encouraging or obliging claimants to participate in work, education or training. As the Council of Europe’s Committee of Social Cohesion (CDCS) noted:

*More social protection systems, in addition to their traditional role of replacing income, now try to assist as many people as possible to move from a situation of passive welfare dependence to active participation in the economy.*⁶³

The main aim of such activation measures is to address the skills shortage and low qualifications of unemployed people through further education and training and to ensure that ‘work pays’ and that potential workers are not caught in an **unemployment trap**. To this end, a special committee was set up in Finland in 2007 to prepare a total reform of the social security system which should, among other things, eliminate poverty traps. In recent years, the Czech Republic faced a problem where a person relying on social transfers could receive a higher income than working on the minimum wage. This resulted in certain groups showing a preference for unemployment. A particular challenge in other countries is also addressing the psychological barriers to employment (e.g. Malta) and passivity (e.g. Cyprus).

A number of countries have introduced in-work benefits to try to ensure that work is financially more attractive than unemployment. In Germany low-income workers are entitled

⁶⁰ Suban, 2007. op. cit.

⁶¹ Cooke and Lawton. 2007. op. cit.

⁶² Ibid.

⁶³ Council of Europe *A New Strategy for Social Cohesion*. op. cit.

to an income supplement benefit (if they meet the criteria, such as levels of income, household composition, etc.). Similar schemes exist in Cyprus, Czech Republic, Malta and Turkey.

France has introduced several schemes to make work pay. A law was passed in 2006 which offered social welfare recipients a number of incentives when returning to work. In 2007, pilot projects were launched in 30 departments of the revenue de solidarité active (RSA). This new social welfare payment replaces several others and guarantees that those returning to work earn a higher income than on social welfare. Based on positive outcomes, the French government has decided to roll out the RSA in 2009. Due to extra resources of €1.5 billion, it is expected that this initiative will reduce the number of working poor by approximately 700,000.

Reports on in-work benefits in Austria are not as positive. In 2006 an in-work benefit was introduced which was targeted at vulnerable groups, such as the long-term unemployed, young and elderly people, which was neither effective nor popular and currently the social partners are discussing replacing it with a new in-work benefit.

Some countries have introduced a range of other welfare benefits directly targeted at low-income earners. For example, the supplementary child allowance was introduced in Germany in 2005 for low-income workers and initial results show that it has reduced the risk of poverty and promotes employment. However, critics claim that not all household types benefit (e.g. married couples with two dependent children). The German government is extending this allowance and in 2009 will introduce an Employment and Child Supplement to increase work incentives and reach more children. In Turkey, low-income workers are supported with a range of social benefits (e.g. free health services, food, fuel and housing benefits, etc.).

In some countries there are restrictions on the eligibility of working families. In Cyprus a person in full-time employment is not entitled to public assistance unless he/she has four or more dependent children living with them, has a disability or is a lone parent.

Finnish research has shown that activation measures rarely help people move from low-income employment and employment in jobs tailored to support recovery from unemployment is less effective.⁶⁴ This report concludes that different measures are required depending on the current economic climate. It recommends that measures should not solely be restricted to the supply side but that the demand side must also be considered.⁶⁵ Notwithstanding the benefits, the ETUC takes the view that it is important that Member States do not move towards making unemployment benefit 'conditional' on the acceptance of work of whatever kind – what they refer to as a 'Workfare State'.

A scheme to increase employability was also introduced in Cyprus offering consultancy and training to micro-enterprises. Interestingly, a Cypriot programme on the expansion and improvement of care services for children, the elderly, people with disabilities and other dependants is based on the findings of a needs assessment carried out in April, 2006, but, in general, there is insufficient information on evaluations of the various national programmes.

In some countries specific vulnerable groups are targeted by activation measures and these are summarised in Table 4.

⁶⁴ Kauhanen, M. 2005. op. cit.

⁶⁵ Ibid.

Table 4: Activation Initiatives for Vulnerable Groups

| Vulnerable Group | Initiatives |
|---|---|
| Unemployed people/ social welfare recipients | <p>Turkey: Educational programmes offered to the unemployed in the context of the unemployment insurance; Project for the Privatisation Social Support 2</p> <p>Cyprus: Vocational Training and Promotion of Public Assistance Recipients in the Labour Market (project co-financed by the European Social Fund (ESF) and the Government of Cyprus); Scheme for the Enhancement of Computer Literacy of the Unemployed; Scheme Subsidising Employment Positions of Beneficiaries of Public Assistance in the Private Sector</p> <p>Portugal: New Opportunities Initiative; Social Employment Programme</p> <p>Czech Republic: Service Centres for Labour Force</p> <p>Malta: Employment and Training Corporation aimed at up-skilling unemployed people.</p> <p>Finland: Labour force service centres (one-stop shops) with integrated employment, social welfare, health care and social insurance services for long-term unemployed people.</p> <p>Germany: (vocational) training based on unemployment insurance, various wage subsidies etc.</p> |
| Self-employed | <p>Portugal: Programme to Stimulate Entrepreneurship and the Creation of Self-Employment</p> <p>Turkey: Entrepreneurship training courses</p> <p>Germany: programmes to support entrepreneurship and self-employment</p> |
| Job seekers | <p>Portugal: Programme to stimulate the adjustment between job offer and demand; Programme to stimulate the search for a job</p> <p>Germany: advice provided before dismissal/unemployment</p> |
| Children of low-income workers | <p>Turkey: Project of Training Apprentices in Information Technology (during the first phase, 1006 people completed the programme)</p> |
| Lone parents | <p>Cyprus: Tax benefits</p> <p>Germany: entitlement to unemployment benefit. Activation depends on age of children (under 3 years voluntary); local initiatives/pilot projects to support reconciliation of work and family life</p> |
| Women | <p>Cyprus: Pilot Project of Promoting Flexible Forms of Employment; Scheme for the Promotion of Training and Employability of Economically Inactive Women (co-financed by the ESF); Expansion and Improvement of Care Services for Children, the Elderly, People with Disabilities and other dependents</p> |
| Young people | <p>Cyprus: Continuation of the Scheme for Youth Entrepreneurship; Apprenticeship Schemes; Scheme for the Promotion of Training and Employability of Young Secondary Education School Graduates; Grant Aid for after-school projects for weak students</p> <p>Austria: a programme Give Youth a Chance is a project offering job coaching and work placements to help young people integrate into the</p> |

| | |
|--------------------------|---|
| | <p>job market</p> <p>Germany: various schemes to promote qualification/ training/formal school education and employability</p> |
| Older people | <p>Cyprus: Public Assistance and Services Law, 2006 (supplementary public assistance)</p> <p>Finland: Subsidy paid to employees of elderly people</p> <p>Austria: Special scheme for integration of elderly workers into the labour-market</p> <p>Germany: 'Pact for employment 50 +' which promotes opportunities for senior employees/unemployed people</p> |
| People with disabilities | <p>Cyprus: Public Assistance and Services Law, 2006 (supplementary public assistance)</p> <p>Turkey: Vocational education programmes and rehabilitation activities for people with disabilities</p> <p>Germany: advice by special units of local employment agencies; vocational training and rehabilitation activities</p> |
| Ex-prisoners | <p>Turkey: Activities for the vocational education of ex-prisoners</p> |
| Agricultural workers | <p>Turkey: Social support project for rural areas; local enterprise programmes</p> |

Other welfare policies have the potential of indirectly reducing or subsidising the expenditure for low-income workers. Some of the main policies include:

- Minimum Income (e.g. Czech Republic; France)
- Social Insurance (e.g. Cyprus)
- Children's allowance (e.g. Malta; Portugal)
- Free education/educational benefits (e.g. Malta; Turkey)
- Free health/health benefits (e.g. in Cyprus; Malta; France; Turkey)
- Maternity benefit (e.g. Malta)
- Housing benefits/affordable housing schemes (e.g. Cyprus; France; Turkey; Malta)
- Subsidised sports and cultural facilities (e.g. Malta)
- Food benefits (e.g. Malta; Turkey)
- Fuel benefits (e.g. Turkey)
- Energy benefits (e.g. Malta; Georgia).

Early education initiatives and crèches for pre-school children facilitate greater female employment and can help reduce child poverty. Yet there remain many challenges in providing these services in an appropriate way. They need to be child-centred, receive sufficient financial support, be geographical accessible and meet the needs of their users. An emerging need is the issue of childcare provision early in the morning and later in the evening, arising from flexible and part-time work.

In Finland, all children younger than 6 years of age have a right to day-care. In Cyprus, eleven governmental early childcare facilities are provided by the Social Welfare Services, which also provides financing for many NGOs with up to 50 per cent of their budget through the Grants Aid Scheme for the provision of such care. Pre-school education for 3 to 6 year olds is provided and inspected by the Ministry of Education and Culture.

However, in other countries, such as France, only 46 per cent of families benefit from publicly assisted childcare, which means that mothers can be forced to give up employment and/or are prevented from engaging in re-training. To address this problem, an Infant's Plan was established in 2006. It comprises nine measures to be introduced over 5 years, such as the creation of 12,000 nursery places per year, an increase in the number of nursery workers and aid to small businesses wishing to set up or operate their own crèche facilities. A further initiative undertaken by the President of France is to guarantee the right to childcare by the end of the current parliament in 2012. Section 8 of the Return to Employment Act of 23 March 2006 provides for places to be made available to the non-school age children of the recipients of certain benefits to enable them to take the necessary steps to actively seek employment.

The care of children is just one barrier, particularly for women, as many also care for older people at home. This has been addressed by the Cypriot government and co-financed by the ESF with the provision of grants for twenty care programmes developed in partnerships between NGOs and local authorities, providing care at a local level for the elderly, children and people with disabilities. As a result of this project, it is expected that more than 60 new employment posts will be developed and 250 women are seeking employment during the period 2006-2008.

Pension policy is becoming increasing importance, as it is central to ensuring that today's working poor will not become tomorrow's retired poor. In Cyprus, under the Analogical Scheme of Social Insurance, the contribution of the State to the pension scheme means that low income contributors benefit the most. According to the Cypriot trade unions this has been a significant achievement contributing to a satisfactory standard of living in retirement.

According to the European Commission Joint Report for 2008 EU Member States are engaged in a variety of reforms to encourage longer working lives. Two major policy efforts are retirement flexibility and early exit reforms:

- *Flexibility means helping those who want to work being able to do so, amending retirement rules and encouraging more appropriate jobs (like part-time);*
- *Early exit reforms involve restricting eligibility (while compensating for work that is hazardous or demanding), increasing incentives (fiscal or social contributions) and enhancing work opportunities (e.g. through training).⁶⁶*

Elderly Women's Activity Centre (EWAC) Lithuania

The EWAC carried out a project designed to help unemployed elderly women through education. During the project, a group of elderly women, dissatisfied with unemployment benefits and looking for a job, was formed and training was provided. A survey of employers was undertaken and they were asked what they could offer by way of training and computer literacy skills for elderly women.

EWAC also teamed up with Kaunas University of Technology to implement a project entitled the *Integration of Vulnerable Elderly Women into the Labour Market*, targeting 180 socially vulnerable women and carrying out additional research into this topic.

National Report on Strategies of Lithuania for Social Protection and Social Inclusion, 2006-2008.

Welfare support is also provided by regional and local services and not-for-profit organisations in different European countries. In the Czech Republic NGOs engage with low-income workers through the Centre d'aide S.O.S. NGOs also play a key role in Cyprus

⁶⁶ European Commission, *Joint Report, 2008*. op. cit.

in the development of supportive programmes and services linked to the Social Welfare Services which are provided in urban, semi-urban and rural areas. These services are offered at a low cost for low income workers or are even free for social welfare recipients who may include some vulnerable low income workers. NGOs can also apply for public funds allocated under the budget of the National Machinery for Women's Rights to promote and implement gender equality programmes (e.g. reducing gender-pay gap).

Model of good practice: CCAS-CIAS (France)
(Centres communaux et intercommunaux d'action sociale)

The CCAS (Social Action Community Centres) and the CIAS (Social Action Intercommunity Centres) are one-stop services which provide information on existing welfare measures and guarantee everyone access to their rights. Their mission is to target specific social groups as well as to fight against social exclusion. Locally elected members, designated by the town council, and representatives of non-governmental organisations, appointed by the mayor, are given equal representation on the board of directors which manages the CCAS/CIAS. This parity ensures effective action, as the CCAS/CIAS are thus representative of the community and the society in which they operate.

CCAS have noticed an increase in the number of low-income workers and people in insecure employment accessing their services. They respond to the needs of low-income workers in a number of ways, including:

- Provide policy advice (e.g. to promote a better social welfare policy)
- Tackle over-indebtedness and financial exclusion through the provision of microcredit
- Provide financial assistance both short-term (e.g. food vouchers; grants; payment of outstanding bills, etc.) and long-term (e.g. schools meal subsidy)
- Housing assistance services: liaison with municipal housing departments and public or private landlords, such as the Agences Immobilières à Vocation Sociale ("social estate agents")
- Improve access to care and carrying out prevention and health education activities
- Promote healthy eating
- Provide cultural activities to disadvantaged people (e.g. outdoor centres, accompanied holiday trips etc.).

8.2 *Employment Policy*

The **European Employment Strategy**, introduced more than 10 years ago in November, 1997, by the Luxembourg European Council, brought employment to the forefront of EU policies and introduced a process of co-ordination, through a peer-review approach and the exchange of 'good practice' on national initiatives to create jobs across the EU Member States.⁶⁷ At the European Council in Lisbon (March, 2000) the Member States further committed to the development of an active employment policy to deliver 'more and better jobs', by improving employability and reducing the skills gap; by giving a higher priority to lifelong learning; by increasing employment in the services and personal services sectors; and by furthering all aspects of equal opportunities and reducing occupational segregation.

In 2005 the European Council re-focused the Lisbon Strategy with a priority on economic growth and the goal of full employment. A new set of guidelines for the period from 2005 to 2008 were adopted and these are designed to deal with Europe's slow economic growth and weak job creation. The guidelines set out a range of actions:

⁶⁷ *Presidency Conclusions* Extraordinary European Council, Luxembourg, November, 1997.

- To attract and retain more people in employment, increase the labour supply and modernise social protection systems;
- Improve adaptability of workers and enterprises;
- Increase investment in human capital through better education and skills.

Progress has been made in moving towards meeting these targets. The most recent *Joint Report on Social Protection and Social Inclusion 2008* stated that:

*After reforms under the Lisbon strategy, growth has picked up and jobs are being created while unemployment, particularly long-term unemployment, is decreasing across Europe. Positive effects on social cohesion are visible, e.g. in decreasing long-term unemployment.*⁶⁸

However, with this focus on ‘more and better jobs’ the political priority tends towards the number of jobs created (quantity), with less emphasis on the commitment to ‘better jobs’ (quality). Consequently, there is a growing concern with the type of jobs been created and how to ensure that the European labour market does not become dominated by low pay and precarious forms of employment that are not in line with the Lisbon Strategic Goal of making Europe the ‘most competitive and dynamic knowledge-based economy in the world’.

Quality in work is defined by the European Employment Committee, through a set of ten indicators which include such measurements as skills; equality; health and safety; inclusion and access to the labour market and flexibility and security.⁶⁹ The Communiqué notes that there is a positive link between ‘employment growth and quality in work’. Key elements for the creation of sustainable employment growth should include ‘real opportunities for upward occupational mobility for those in low quality jobs, without making access to the labour market more difficult for those on the margins’:

*Quality in work is essential for both social inclusion and regional cohesion. A high risk of unemployment, social exclusion and poverty go hand in hand with poor education, low skilled, low paid, non-permanent jobs.*⁷⁰

The Communiqué further notes that a third of workers (especially women and older workers) return to unemployment after having been employed in a low-quality job, as opposed to 10 per cent of those employed in high-quality jobs.

Quality of work can also be improved through **good labour relations**, which ensure a balance between the rights of workers, the employment sector and the State. For example, in Cyprus the Ministry of Labour has a specific Department of Labour Relations which is responsible for safeguarding and maintaining industrial peace and healthy living conditions in the area of industrial relations with a view to achieving social cohesion, productivity in work, the establishment of democratic processes and the achievement of socio-economic progress. Among other things, the Department is responsible for the protection of vulnerable groups of workers (with emphasis on non-unionised employees, mainly due to their weak bargaining power and the enforcement of minimum terms and conditions of employment).

Trade unions also have a key role to play. Many countries have strong trade union movements and in some countries the right to membership is guaranteed under the constitution (e.g. Cyprus). Being a trade union member can improve the working conditions of all workers, including low-income workers. Researchers in the UK found that trade union members earn around a third more than non-unionised workers, when comparing pay within a range of sub-groups (e.g. gender, ethnicity, health status and manual vs. non-manual

⁶⁸ European Commission, *Joint Report, 2008*. op. cit.

⁶⁹ European Commission *Improving quality in work: a review of recent progress*, November 2003, Brussels.

⁷⁰ Ibid

work). The research concluded that trade union activity has a significant impact on raising pay and reducing pay differentials.⁷¹

However, there are still certain professions in different countries that do not have the right to join trade unions or are forbidden by their employers and these are often low-income workers. Again taking Cyprus as an example of good practice, shop assistants, clerks, child-care workers and home carers are not protected by trade unions but are legally protected by Ministerial Decrees.

It is accepted that permanency of work, **job security** and the traditional '40-years with one employer' working life model is rapidly disappearing in the modern labour market. According to a Communiqué from the European Commission:

*security refers to an individual's ability to remain and progress on the labour market. It includes decent pay, access to lifelong learning, good working conditions, appropriate protection against discrimination or unfair dismissal, support in the case of job loss and the right to transfer acquired social rights in the case of job mobility.*⁷²

The key focus now of the European Commission's Employment Strategy is **flexicurity**, which refers to a combination of flexibility in the labour market, social security and active labour market policies, common in Nordic countries, in particular Denmark, for many decades. In a Communiqué the European Commission summarised the four policy components of flexicurity:

- Flexible and reliable contractual arrangements
- Comprehensive lifelong learning
- Effective active labour market policies
- Modern social security systems.⁷³

As a result, flexicurity strategies have been introduced in a number of European countries with varying degrees of success (e.g. the Netherlands, Germany, France and Finland). The Commission argues that flexicurity strengthens the European Growth and Jobs Strategy which aims to reduce unemployment and create more and better jobs. Overall, trade unions have reacted negatively to this development at national (e.g. in Cyprus) and European levels (e.g. the ETUC) believing that flexicurity weakens the trade union movement and lessens the right of the employee. They also argue that the general trend towards flexible labour markets has resulted in the increase in precarious, part-time and low-paid jobs in many European countries, very often not out of a choice by the worker.

Some countries have attempted to increase security for employees, such as in Turkey with Code No.5620 which promotes the transfer of temporary workers to permanent contracts.

Other countries have introduced policies to encourage employers to create jobs (e.g. Georgia) and to employ low-income workers (e.g. France).

Many countries have **local employment initiatives** the main function of these is to encourage people to take up employment (e.g. in Austria). In Turkey, provincial employment and vocational education agencies develop provincial employment policies and determine measures for protection and developing provincial employment. In Cyprus, qualified counsellors are attached to local Public Employment Services (PES) and offer support to

⁷¹ Metcalf, D. 2003. 'Trade Unions' in Dickens, R., Gregg, P. and Wadsworth, L. (eds). *The Labour Market under New Labour. The State of Working Britain*. Basingstoke: Plagrave: Macmillan.

⁷² European Commission *Improving quality in work*. op. cit.

⁷³ European Commission *Towards Common Principles of Flexicurity: More and better jobs through flexibility and security*. Brussels, 2007.

vulnerable groups (e.g. young unemployed people; women wishing to enter the labour market, social welfare recipients and people with disabilities). Of the 2,923 people offered individual support between 2006 and 2007, 191 were placed in jobs and 646 were given guidance for training and work experience programmes. In the Czech Republic, some NGOs work specifically with people with disabilities to assist them in find jobs or employing them through social enterprises.

Work-life balance is related to the quality in work and is promoted in the *New Strategy for Social Cohesion* which states that:

*parents need help in counteracting harmful social and market pressures in reconciling the demands of work and family life.*⁷⁴

In Cyprus, the National Action Plan for Equality, 2007–2013, promotes incentives for the adoption of family friendly policies by businesses and organisations and the need for employers and trade unions to promote the balance between work and family life. The reconciliation of family and work life is also promoted in Portugal through the Social Services and Equipments Network Expansion Programme (PARES).

The *Joint Employment Report 2007/2008* found that few countries have taken concrete action in relation to the **gender pay gap** and no new targets have been set following the Commission's Communication.⁷⁵ An exception is Cyprus which has introduced Equal Pay legislation, in order to try and address the gender pay gap. This issue is also addressed in its National Action Plan for Equality, 2007- 2013. Its aim is to promote gender equality in all spheres of policy including actions for the improvement of care facilities, the conduct of research on the pay gap, support for the enhancement of female entrepreneurship and the economic empowerment of women. Similarly, Lithuania has addressed the gender pay gap through its National Programme on Equal Opportunities for Women and Men, although developments have been slow. In France in 2006, a law was passed on equal pay which obliges employers to achieve equal pay before end-December, 2010.

A number of recommendations have emerged from these different policies, including:

- The gender pay gap should be calculated more accurately and monitored. There should be reliable statistics on wage differentials by gender, sector and occupation
- Job evaluation or work value schemes need to be reviewed to identify and eliminate grading systems
- Rises in minimum wages and low-pay grades should be negotiated
- It is necessary to promote family-friendly working time policies and improve child-care facilities
- There is a need to ensure that part-time workers enjoy the same rights as full-time workers and are not discriminated against
- Training opportunities and career development for women should be improved.

8.3 *Educational and training policy*

A key aspect to the prevention of low-income employment is the need for greater access to **education and skills training**. In the context of the modern business and labour environment, the emphasis of the European Employment Strategy is to ensure that all those who participate in the labour market are employable. While *employability* was originally introduced as one of four pillars of the Employment Strategy to help unemployed people into, or return to the labour market, it is now also seen as a key aspect of keeping the most vulnerable workers in employment, through increased training and re-skilling, providing those

⁷⁴ European Commission *A New Strategy for Social Cohesion*. op. cit.

⁷⁵ European Commission *Joint Employment Report 2007/2008* op. cit.

on low incomes with the opportunity to increase their earning capacity and to improve the quality of their employment.

Few countries have reported educational and training programmes specifically targeted at low-income workers. There are also insufficient evaluations on the appropriateness of such training. However, Turkey has placed a special focus on up-skilling low-income workers (mainly atypical workers in the private sector) through the provision of a range of education and training programmes, as well as promoting equality of opportunities for vulnerable people experiencing social exclusion (through its Human Potential Thematic Operational Programme). Germany recently adopted to support the secondary school certificate for low qualified unemployed by the employment agency. Some countries target specific vulnerable groups, such as agricultural workers (Turkey) and early-school leavers (Portugal).

Lifelong learning is an important policy that could encourage low income workers to up-skill. However, the latest European Commission *Joint Employment Report, 2007/2008*, found that:
*... participation in lifelong learning in the EU barely increased between 2005 and 2006, while it actually decreased in half of the Member States.*⁷⁶

However, Cyprus has developed a Lifelong Learning Strategy, while lifelong learning is a key pillar of Portugal's National Action Plan for Employment. Finland has introduced a new programme for developing adult education which aims to create a variety of new opportunities in adult education by emphasising work related training which will be carried out together with educational institutes and employers.

8.4. Corporate Social Responsibility

Of the 11 countries in the current study, only France could identify a Corporate Social Responsibility (CSR) initiative targeted at low income workers. The AMAP commerce équitable local (relocalisation de l'économie et pérennisation des petites fermes) offers financial support to farmers to maintain a minimum income during the year. However, in Cyprus a study is currently being undertaken, co-funded by the social welfare services and the ESF which will examine, within the framework of CSR, the role of activation of vulnerable groups of the population. Experts were unsure of the potential role of CSR in addressing low-income employment and it was highlighted that CSR should not be a substitute for social security support but should rather reinforce and complement support programmes for low-income workers. It was proposed that Turkish firms could provide further training and free pre-school places for children of workers on low-incomes and could also build workplaces that foster educational opportunities for those with less skills and qualifications.

⁷⁶ Ibid

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Useful websites

Austria

- Experiences of low-income workers: www.db.arbeitsklima.at
- Minimum wage: www.sozialpartner.at
- Social protection:
www.bmsk.gv.at/cms/siteEN/attachments/1/5/1/CH0339/CMS1135953123632/sozialschutzsysteme_e_1-124.pdf

Czech Republic

- Výzkumný ústav pozemních staveb (Centre of Research on Work and Social Affairs): www.vups.cz
- Gender pay gap: www.czso.cz/csu/cizinci.nsf/kapitola/gender; www.mpsv.cz

Finland

- Report on equal wages: Samapalkkaisuohjelman seurantaryhmän (2006-2007) www.stm.fi/Resource.phx/publishing/documents/11507/index.htx
- Wage agreements: www.tyosuojelu.fi/fi/workingfinland.

Malta

- <http://www.sahha.gov.mt>
- <http://www.mfss.gov.mt>
- <http://www.housingauthority.com.mt/>
- <http://www.wsc.com.mt>
- <http://www.ird.gov.mt>

Portugal

- In work poverty: http://www.reapn.org/documentos_visualizar.php?ID=32

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