

# Why Contemporary Capitalism Needs the Working Poor

**Bernard Gazier<sup>1 2</sup>**

*Prisme 14*

**December 2008**

---

<sup>1</sup> Bernard Gazier is a member of the Institut Universitaire de France. He is also a professor of economics at the University of Paris 1 (Panthéon–Sorbonne) and a researcher at the Centre for Economics MATISSE–CES (a joint research unit of the University of Paris 1 and the French National Centre for Scientific Research [CNRS]). Gazier is president of the Société de Port-Royal.

<sup>2</sup> Many thanks to Olivier Boylaud, Jean-Philippe Touffut and Eric Marlier, who helped me at different phases of my reflection on this topic. Of course all remaining errors and insufficiencies are mine.

## Summary

This short essay explores the apparent paradox of the “working poor” – persons remaining in poverty despite their working status. While it seems that the existence of the working poor is an inescapable by-product of capitalism, the size and modalities of this phenomenon vary considerably among countries.

The first section examines the various definitions of the working poor. Although great efforts have been made to gain a better statistical understanding and measurement of the working poor, researchers and governments are far from agreeing on one single definition. On the contrary, a set of different approximations, mixing low earnings, family composition and tax effects, are necessary for capturing what is a hybrid reality. The second section is devoted to a critical assessment of some selected empirical and comparative studies on Europe. They confirm the strong diversity in possible definitions, as well as in national situations and developments. They also suggest that a major role is played by institutions, not only transfers, but also the segmentation and organization of the labour market. The last section presents different theoretical perspectives on the working poor. It insists on the functional role played by low wages and the activation of social policies in jointly controlling the labour market and the workforce. Some public policy issues could contribute to mitigating this functional role.

# Introduction

In most developed countries, poverty is persisting and even increasing. The optimistic perspective of progressively reducing poverty vanished towards the end of the 1960s in the United States, and has more recently lost part of its relevance in the European Union, which has been facing a slowdown in growth and a rise in inequalities since the 1980s and 90s. The trend is especially disturbing for persons who are regularly working but unable to lift themselves out of poverty from their work earnings. The glaring contradiction of the term “working poor” – studied since the 1970s in the United States – has now become a common concern in Europe. A first step, at least in Europe, would be to examine some of the economic and social policies as possible causes, at least partial, of the increase in in-work poverty: policies aiming to develop low-quality jobs, such as part-time and/or unstable, and/or ill-paid. Some of the working poor may appear as a by-product of activation policies aimed at pushing a maximum number of persons into work. The financial turmoil that began in autumn 2007 has led to a general worsening of the situation. The emerging recession will no doubt hit the most vulnerable persons hardest, and among them the groups of working poor.

Comparative studies of comparable countries show considerable variations in the share and modalities of poverty, and in particular of in-work poverty. It has been widely acknowledged that institutions play a key role in these differences. The size and design of the welfare institutions, the organization of the labour market and firms’ strategies towards their workforce all seem to play a prominent role. If that is true, observing various national performances shows that there is room for reforms and policy initiatives, whether a country is facing prosperous or troubled times. The text that follows discusses this paradoxical situation, in which the durable existence of the working poor seems to be an unavoidable outcome of modern capitalist and welfare societies, and in which the size and modalities of that outcome vary widely among national experiences. It will not examine policy proposals, nor take a normative stance. It will rather keep a positive focus, considering existing policies as factors among others that affect the extent of and shape the modalities of poverty and in-work poverty. The argument will be developed in three parts.

First, I shall discuss the meaning of the term “working poor” and its connexion with overall poverty. I will argue that its definition, by no means self-evident, is a

hybrid concept that is not well-suited for capturing the complexity of the actual situation. Second, I shall present a meta-analysis of the available international comparative studies, identifying their main results and providing an interpretation of these results. In the third part, I shall highlight some of the shortcomings of these studies by going back to existing theories of the working poor and to recent empirical research that focuses on low wages and the role of firms and sectors in this domain. I will explore how some important neglected elements could be more systematically taken into account for gaining a better understanding of the possible room for action available to citizens and policymakers.

## I. A hybrid concept for a multifaceted reality

The most developed discussion about the definition of the working poor, to my knowledge, has been presented by Peña-Casas and Latta (2004, pp. 3–13). They give a minimum of 13 definitions of the working poor coming from six countries and one group of countries (the European Union). It is not possible within the scope of this text to discuss at length each aspect of these definitions. Their study will nonetheless be my departure point, and I will, in parallel, introduce some more recent publications in order to give a wider view. My aim is to assess the range of the available definitions and to identify the main consequences of adopting one or another.

### I.1. Defining the working poor

Any workable definition of the working poor should entail a definition of poverty (strictly monetary, multidimensional, or subjective<sup>3</sup>) and a definition of the population identified as working. The question has been debated in the United States since the 1960s, and the category “working poor” became official in 1989. The US Bureau of Labor Statistics (USBLS) defined it based on two main factors: (1) the official threshold of poverty (absolute monetary poverty) and (2) that the persons were part of the labour market (either working or looking for a job) at least six months of the

---

<sup>3</sup> The multidimensional approaches to poverty focus on living conditions. They are based on a list of unfavourable traits or events, such as being in bad health, living in unsafe housing, having insufficient or inadequate food, lacking financial and political resources, and so on. The subjective approaches rely on the self-appraisal of persons who describe themselves as poor.

considered year. A working poor is thus someone who belongs to a household living under the poverty threshold (adjusted according to its size) and who spent at least 27 weeks in the labour market the preceding year. This is not, however, the only official definition in the United States. The U.S. Census Bureau considers only households (not persons) that work the equivalent of a full-time job, or 1750 hours. Other researchers focus on adults who work, on average, at least part-time, or 1000 hours (*idem*. p. 7). These definitions highlight different yet complementary concerns. The USBLS's definition includes the unemployed and focuses on the presence in the labour market; the Census Bureau is interested in households' ability to earn their living through regular full-time work; and some researchers base their studies of the working poor on a defined number of hours worked.

In the European Union, the category "working poor" was officially acknowledged in 2003 in the report, "Guidelines for Employment". The report explicitly mentions the need for reducing the number of poor workers. As a consequence, indicators have been defined by the European Commission and implemented by Eurostat (Lelièvre *et al.*, 2004; Bardone and Guio, 2005). They use a relative monetary threshold: 60 per cent of the median equivalized household income. The person's situation regarding employment and work is captured through the "Most Frequent Activity Status" in the last year, meaning, the activity status held during more than six months of the preceding year. The definition only considers persons who were employed during at least six months of the reference year. These two examples give a first idea of the possible range of definitions, although limited, to monetary approaches. Poverty may be absolute or relative,<sup>4</sup> and work may be defined from full-time to no work at all (meaning persistent unemployment) through variable intermediate cut-offs connected to the household composition and the ages of its members.

These official definitions from both sides of the Atlantic display some similarities but cannot be compared, because they rely on different poverty concepts and thresholds, and identify different working or active populations. Figure 1 gives the overall evolution of the USBLS definition from 1987 to 2004 in the United States.

---

<sup>4</sup> Each option has its drawbacks. In the United States, most researchers take into consideration other poverty lines, over the official one, because they feel that the official one is too low. In the EU, some comparatively low-income but egalitarian countries display very low levels of poverty, for example, the Czech Republic, even if its mean standard of living remains low compared to countries of western Europe.

**Figure 1** – Poverty rates of persons in the labour force for 27 weeks or more, 1987–2004 (Source: US Bureau of Labor Statistics, May 2006, p. 2).

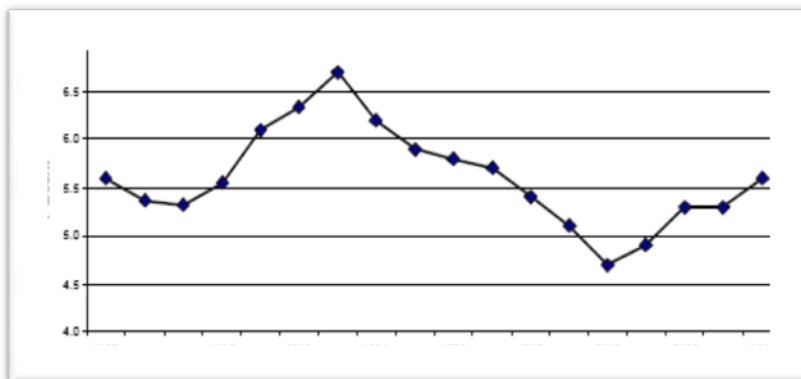


Table 1 below gives the overall range and evolution of the EU definition (“In-work at-risk-of-poverty<sup>5</sup> rate after social transfers”) from 1995 to 2006, for 12 countries. Estimates are given for EU–15 during the whole period (and include the initially missing Denmark, Sweden, and Finland). An average rate has been computed for EU–25 since 2001. The table also gives some figures for Norway, Iceland and Turkey (Source: Eurostat). One should nevertheless be careful when reading this table, because the data before and after the introduction of the Study of Income and Living Conditions (SILC) panel in 2004 are not strictly comparable.

<sup>5</sup> The expression “at-risk-of- poverty” for characterizing the situation of persons living under the monetary poverty threshold means that this one-dimensional measurement of poverty, while meaningful, may miss important dimensions.

**Table 1 – In-work at-risk-of-poverty rates after social transfers.**

The share of persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalized disposable income (after social transfers).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU (25 countries)	.	.	.	.	.	.	8	8	8	8	8 <sup>(s)</sup>	8 <sup>(s)</sup>
EU (15 countries)	8 <sup>(s)</sup>	8 <sup>(s)</sup>	8 <sup>(s)</sup>	7 <sup>(s)</sup>	7 <sup>(s)</sup>	7 <sup>(s)</sup>	8	8	8	8	7 <sup>(s)</sup>	7 <sup>(s)</sup>
Belgium	6	6	5	4	5	5	4	.	6 <sup>(b)</sup>	4 <sup>(p)</sup>	4	4
Bulgaria	.	.	.	.	.	.	7 <sup>(l)</sup>	6 <sup>(l)</sup>	7 <sup>(l)</sup>	7 <sup>(l)</sup>	6 <sup>(l)</sup>	6 <sup>(l)</sup>
Czech Republic	.	.	.	.	.	.	3 <sup>(l)</sup>	.	.	.	3 <sup>(b)</sup>	3
Denmark	.	.	.	.	.	.	3 <sup>(l)</sup>	.	5 <sup>(b)</sup>	5	5	4
Germany	6	5	5	4	5	4	4	.	.	.	5 <sup>(b)</sup>	5
Estonia	.	.	.	.	.	10 <sup>(l)</sup>	10 <sup>(l)</sup>	9 <sup>(l)</sup>	10 <sup>(l)</sup>	9 <sup>(b)</sup>	7	8
Ireland	5	5	5	5	5	7	7	.	7 <sup>(b)</sup>	7	6	6
Greece	15	15	15	13	14	13	13	.	14 <sup>(b)</sup>	13	13	14
Spain	10	10	11	10	9	8	10	10 <sup>(b)</sup>	10 <sup>(l)</sup>	11 <sup>(b)</sup>	10	10
France	7	7	7	7	7	8	7 <sup>(b)</sup>	7 <sup>(l)</sup>	.	5 <sup>(b)</sup>	6	6
Italy	11	11	11	9	9	10	10	.	.	9 <sup>(b)</sup>	9	10
Cyprus	.	.	6 <sup>(l)</sup>	.	.	.	.	.	6 <sup>(l)</sup>	.	7 <sup>(b)</sup>	7
Latvia	.	.	.	.	.	13 <sup>(l)</sup>	.	.	.	.	9 <sup>(b)</sup>	11
Lithuania	.	.	.	.	.	14 <sup>(l)</sup>	14 <sup>(l)</sup>	.	.	.	10 <sup>(b)</sup>	10
Luxembourg	8	6	7	7	9	8	8	.	7 <sup>(b)</sup>	8	9	10
Hungary	.	.	.	.	.	6 <sup>(l)</sup>	5 <sup>(l)</sup>	4 <sup>(l)</sup>	6	.	10 <sup>(b)</sup>	7
Malta	.	.	.	.	.	6	.	.	.	.	5 <sup>(p)</sup>	5 <sup>(p)</sup>
Netherlands	7	6	6	6	6	6 <sup>(p)</sup>	5 <sup>(p)</sup>	5 <sup>(p)</sup>	6 <sup>(p)</sup>	.	6 <sup>(b)</sup>	4
Austria	8	7	7	7	7	6	6	.	8 <sup>(b)</sup>	7	7	6
Poland	.	.	.	.	.	11 <sup>(l)</sup>	11 <sup>(l)</sup>	.	.	.	14 <sup>(b)</sup>	13
Portugal	16	15	14	14	14	14	12	.	.	13 <sup>(b)</sup>	12	11 <sup>(p)</sup>
Romania	.	.	.	.	.	14 <sup>(l)</sup>	14 <sup>(l)</sup>	14 <sup>(l)</sup>	14	.	.	.
Slovenia	.	.	.	.	.	5 <sup>(l)</sup>	5 <sup>(l)</sup>	4 <sup>(l)</sup>	4	.	5 <sup>(b)</sup>	5
Slovakia	.	.	.	.	.	.	.	.	.	.	9 <sup>(b)</sup>	6
Finland	.	3	4	4	5	5	4 <sup>(b)</sup>	4 <sup>(l)</sup>	4 <sup>(l)</sup>	4 <sup>(b)</sup>	4	4
Sweden	.	.	.	.	.	.	5 <sup>(l)</sup>	.	.	6 <sup>(b)</sup>	5	7
United Kingdom	7	7	5	6	7	6	7	7	7	.	8 <sup>(b)</sup>	8
Croatia	.	.	.	.	.	.	.	.	9 <sup>(l)</sup>	.	.	.
Turkey	.	.	.	.	.	.	.	23 <sup>(l)</sup>	23	.	.	.
Iceland	.	.	.	.	.	.	.	.	.	7 <sup>(b)</sup>	8 <sup>(p)</sup>	7 <sup>(p)</sup>
Norway	.	.	.	.	.	.	.	.	4 <sup>(b)</sup>	4	5	6

Source: Eurostat

- (.) Not available
- (s) Eurostat estimate
- (b) Break in series
- (p) Provisional value
- (l) See explanatory text

The lower figures from the USA do not mean that in-work poverty is less important there compared to Europe. While the EU definition of the relevant population is more restrictive, because it excludes persons unemployed during more than six months in the given year, the US poverty threshold is much lower (see Section 2 for elements of comparison between the EU and the USA).

Even when limited to monetary approaches of poverty, the range of possible operational definitions is wider. It includes more or less restrictive perception and measurement of disposable income in a given household: the minimum measurement items list includes earnings from work, either salaried or independent, and public transfers. If data is available, one may also include income from capital, from private transfers, and from non-monetary but evaluable consumption, such as housing and in-kind benefits. The definition of work may vary not only according to the time spent in a given activity status (unemployed, salaried, independent), but also according to the way mixed positions are taken into account: apprenticeship, domestic aid in independent work, for example, in agriculture, and last according to the “work intensity” of the household’s activity during the considered year.

The concept of “work intensity” (for a detailed discussion, see Lelièvre *et al.*, 2004) intends to capture the relative work contribution of a given household. It compares the total time spent working by all the adult members of that household to its maximum possible working time. The value of 1 refers to a situation where all adult members are working full-time during the whole year; the value of 0.5 may refer to two spouses working part-time or to one spouse working full-time while the other does not work at all, and so on. It can be observed that in some cases one can be a working poor with an intensity of 1 – and with perhaps an apparently acceptable income – if that person has a lot of dependents.

The possible uses of this concept are twofold. First, it makes it possible to define who is to be considered as “working poor”, because the concept may require a minimum number of hours worked during the year to be counted in this group. Second, and more importantly, it can be used as a complement if one relies on another way of identifying the concerned population, for example, belonging to the labour force or indicating working activity as the “most important activity status”. Breakdowns according to work intensity makes it possible to identify different situations, for example, people working full-time with very low pay and people working only part-time.



As a consequence, some important studies that have been carried out by the OECD (OECD 2001; Förster and Mira d'Ercole, 2005) do not focus on one single concept of the working poor. Förster and Mira d'Ercole study poverty in OECD countries and define it by a relative monetary threshold of 50 per cent. They discuss the connection to work by focussing on "households headed by a working-age head". They thus consider not only the active population, but the potential active population, and introduce a discrete scale of work intensity, for example, no work, one person working, two persons working, and so on (*ibid.*, pp. 27–28).

## 1.2. Work and Poverty: Weak or Strong Ties?

The sequence starting from work and arriving at poverty is a complex one. The first reason is because it starts at the level of the individual – either working or belonging to the workforce – and ends at the level of the household to which the individual belongs. In this sequence, work intensity and household composition are crucial, and different configurations may occur. The second reason is because work intensity and household composition matter not only for the primary income (derived from participating in economic activity), but also for the size of the net effect of taxes and transfers affecting the household. People earning little income from work may escape "working poverty" if they belong to a household with another earner who is working more and/or better paid, or if they benefit from substantial transfers lifting them out of poverty. The third reason is because the sequence leaves aside the important question of the way disposable income is shared and spent inside the household.

This complexity explains why some analyses of the "working poor", when exploring the ties between work and poverty, paradoxically put the emphasis on the distance between them. Most poor households seem to be characterized by a weak attachment to work: their adult members either do not work at all, are unemployed, or rotate from unstable and part-time jobs to unemployment.

In the US case, using the USBLS definition – which includes the unemployed (see above) – in 2004, the distance is clearly set: "In 2004, 37 million people, or 12.7 percent of the population, lived at or below the official poverty threshold, according to the Census Bureau. The majority of the Nation's poor were children or adults who had not participated in the labor force during the year. However, 7.8 million were classified

as “working poor”. (...). These individuals represented 5.6 percent of all persons 16 years or older who were in the labor force for 27 weeks or more...” (US Bureau of Labor Statistics, 2006, p. 1). Thus, the working poor represent less than one quarter of the total population living under the poverty threshold, and their poverty rate, as a percentage of the workforce, is less than half of the global poverty rate.

The same study, however, shows that a majority of this group (58.3 per cent) usually worked full-time<sup>6</sup> (*ibid.*), even if their proportion in the population “usually working full-time” is a low 3.9 percent (the corresponding figure for “poor usual part-timers” is logically higher, reaching 11.6 per cent of “usual part-timers”, but this last group is much smaller in the total population).

In the corresponding publications from Eurostat, one finds similar findings and discussion (Bardone and Guio, 2005). In 2001, 11 million workers in EU–15 were living in a household whose equivalized income was under the national poverty threshold. When all the persons living in these households are taken into account, there are 20 million persons concerned by in-work poverty: that represents 6 per cent of the total population, but 36 per cent of the total at-risk-of-poverty population. Having a job protects most workers from poverty, but a big share of poor persons is workers. An interesting additional element is given in the same study. The correlation between overall poverty rates and in-work poverty rates for the 15 EU countries seems to be weak (*ibid.*, p. 5).

Bardone and Guio mention that at least three series of interacting elements should be taken into consideration in order to account for the differences.

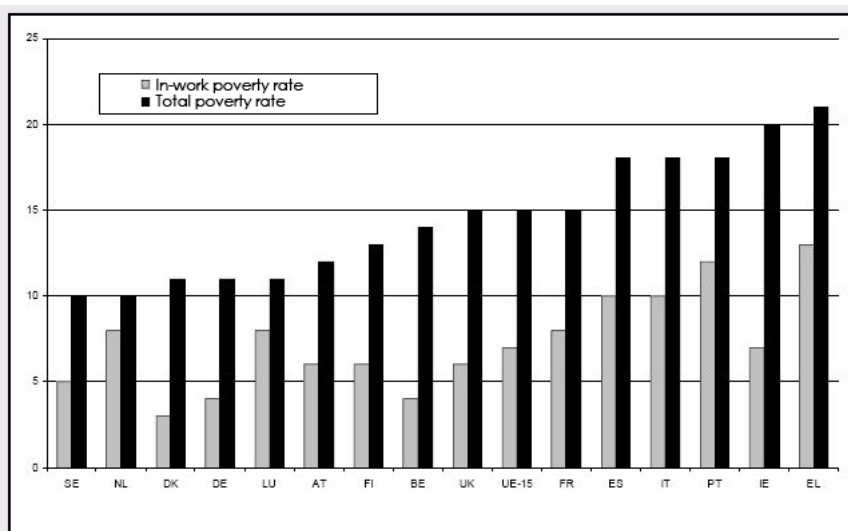
- i. The share of employed persons in the total adult population. The bigger this share, the stronger the connection between the in-work poverty rate and the total poverty rate.
- ii. As evoked above, the work intensity of households and its internal distribution. An important case to consider is the polarization of different work experiences among households: some of them, being composed of two adults working part-time, may contribute in a disproportionate way to both in-work and global poverty.

---

<sup>6</sup> 35 hours per week or more

- iii. The way each group of active or inactive populations, such as salaried, self-employed, unemployed and inactive persons, are exposed to the risk of poverty, given earnings inequality and transfer levels: a country, for example, with a high share of self-employed persons (with possibly low and irregular earnings) is more exposed to in-work poverty and global poverty.

**Figure 2 – In-work poverty and total poverty rates, EU–15 2001.** Source: Bardone and Guio (2005), p. 5.



Source: Eurostat, ECHP UDB version December 2003. For Denmark and Sweden, national submissions based on the Law Model database and the Income Distribution Survey (HEK) respectively. Reference population: (1) for total poverty rate: whole population; (2) for in-work poverty rate: people 15 years or older and employed.

This short discussion shows that the connection between work and poverty is multifaceted; the same is true for the definition of poverty, beyond the monetary dimension. This explains why in some studies (or in some sections of studies) the connection seems to be downplayed while in others (or in other sections of the same studies) the connection is accentuated. To deepen the discussion, the quality of work and employment need to be taken into account in addition to hourly earning level, the

hours worked in a household of a given composition, and the taxes and transfers affecting it. That means introducing other elements, such as precariousness, career perspectives, intensity of work effort as required by the workplace, compatibility between domestic and paid work, and so on. All these items belong to the list of dimensions and indicators of work quality currently being explored within the EU (Davoine and Ehrel, 2008a and b). They are close to some of the characteristics and indicators typical of the multidimensional definition of poverty, which includes, for example, health considerations and future prospects.

These arguments are reinforced when one introduces the dynamic dimension, up to now left in the shadows. The yearly framework adopted by all the definitions leads to computing a yearly mean as regards income, and to identifying a most frequent status in the considered year. Longitudinal studies of poverty, however, have now made it commonplace to distinguish between occasional, recurrent and persistent monetary poverty (Pollak and Gazier, 2008). In long and middle-term perspective, a discontinuous and ill-paid work experience during a given year may have very different implications: if the concerned person is an isolated and ill-protected student combining some training activities with part-time paid activities, the outcome will probably be very different from the fate of an older worker with little skills and social capital. Both could be considered as poor, but this poverty sequence should, of course, be understood differently in the individuals' trajectories: the first one as probably transitory, the second as recurrent or persistent.

The traditional analyses of in-work poverty mainly (re)integrate into the discussion the household composition and its work intensity. In order to get a satisfactory understanding of the ties between work and poverty, it appears necessary to (re)integrate, at some point of the analysis, the quality of work and to explore its dynamic dimension. A frequent complementary way of dealing with the intensity and durability of poverty is to consider poverty gaps, and a lot of data exist on the topic. Here again, however, the time dimension and the span of available choices are essential. A strong, but short-term deprivation (for example, an unemployment spell, housing or health problems), is not tantamount to a long lasting poor career. This is why the recent proposal of another complementary indicator – the economically poor workers – is worth considering, as defined and used by Sophie Ponthieux and Emilie Raynaud (2008). This statistical category captures workers at the individual – not household – level and intends to identify individual vulnerability independently from

the household composition. It measures persons with individual pre-transfer earnings from work (and other primary income) under the poverty threshold. The first results for France indicate a large majority of women, often in part-time jobs, and this is in sharp contrast with the figures for post-transfer in-work poverty seized at the household level. Many of these women are lifted out of poverty through the contribution of other members of the household and through transfers, but their vulnerability remains. This complementary indicator has the advantage of calibrating the economically poor workers), and together with the work intensity indicator, it opens up an interesting perspective.

## II. Comparative studies: an ambiguous consensus about the role of institutions

“Institutions matter.” The motto is, of course, relevant if one is dealing with post-transfer poverty, either in-work or global, that is, the observed poverty situations that remain after public intervention. The modalities and amounts of income taxes and benefits obviously affect the size, distribution and intensity of poverty. In the case of in-work poverty, however, institutions may affect (1) pre-transfer in-work poverty, for example, through the existence of a minimum wage, and (2) the relationship between pre- and post-transfer in-work poverty, for example, through the effects of incentives or disincentives. These elementary distinctions suggest that in order to be complete, a comparative analysis should deal with an enormous set of variables and processes. To my knowledge, existing analyses have up to now remained limited to one sub-set, connected to a specific target or concern. This section will present some of the most important available studies comparing either European countries or OECD countries and will discuss their main results.

Up to now, the methodology of most comparative studies of in-work poverty has been eclectic. The first step is to establish a common definition and comparable statistical data and to assess the main differences and similarities among countries concerning levels of in-work poverty. A second step is to extend the comparison to possible determinants (for early examples, see the work done by Pierre Concialdi and Sophie Ponthieux, 2000, comparing France and the USA, and more generally the comparative perspective set out by the winter issue of *Transfer* 2000; for more recent examples, see the references given in the previous section discussing definitions). While

these approaches are used by all existing studies, some of them move to a third step, which consists in computing partial correlations, at a national or global level, either from a national and inter-temporal point of view (OECD, 2005) or from a micro-dynamic longitudinal point of view (OECD 2001). A fourth possible step is to build clusters, in an attempt at re-grouping national specificities into (hopefully) meaningful sets (Peña-Casas and Latta, 2004). Lastly, a more systematic attempt has recently been made in the case of 20 EU countries (Lohmann, 2008); this study strongly distinguishes pre- and post-transfer in-work poverty and estimates separate correlations for each.

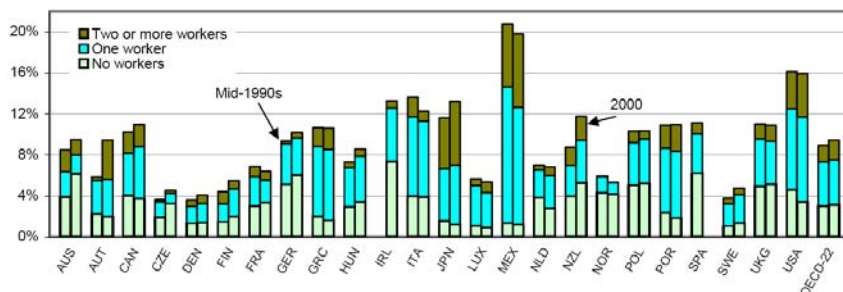
## II.1. Stylized facts

I will first consider some stylized facts and relationships set out by studies, or part of studies, elaborating data belonging to the first and/or the second step presented above. In order to illustrate orders of magnitude, I will focus on the comparison between the EU and the USA, or between the USA and other OECD countries.

I will begin with a comparison of overall poverty rates, at a threshold of 50 per cent of median equivalized income, between the EU and the USA (Marlier *et al.*, 2007, pp. 69–71). The figures are given for 2000 (states of the USA) and 2002 (countries of EU–25). The median poverty rate is 16.5 per cent for the USA, and 9 per cent for the EU. Seventeen EU countries do better than the best performing US states (Hawaii, with 11 per cent). The internal heterogeneity is much stronger in the EU (especially in EU–15) than in the USA. This overall order of magnitude is confirmed in the OECD’s 2005 study (Forster and Mira d’Ercole, 2005, p. 22), which introduces thresholds at 50 and 60 per cent of median equivalized income and compares the situations of OECD countries from the mid-1990s and 2000.

When one focuses on in-work poverty, it is more difficult to obtain direct comparisons between the EU and the USA because of the differences in definitions underlined above. In their 2005 study, Förster and Mira d’Ercole provide their own definition, which starts from the potential workforce: they focus (with the 50-per-cent threshold) on households headed by a working-age person and distinguish three degrees of work attachment: no work, one person working, two persons working (*ibid.*, p. 28).

**Figure 3** – Structure of relative poverty in households headed by a working-age head, by work attachment of household members. Source: Förster and Mira d’Ercole (2005), p. 28.



Note: The height of each bar represents the poverty rate (using a 50% threshold) of persons living in households with a head of working age in each country. Data for Germany refer to old Länder. Exact years are those specified in the note to Table 1.

Source: Calculations from OECD questionnaire on distribution of household incomes.

The USA shows the highest level after Mexico, and reaches the total level of 16 per cent, while most of the EU countries (and Canada, New Zealand and Australia as well) are between 4 and 13 per cent. It is important to remember that the similarities between the USA and Mexico do not mean equivalent poverty situations, the comparison standard being a relative one, and the (relative) threshold for the USA being much higher. The same observation holds for the EU. If one considers, on the side of apparently good performers, the cases of the Czech Republic and Slovakia, these former socialist countries show a remarkably low level of poverty, placing them at the same level as Denmark and Sweden. In parity of purchasing power, however, their (relative) thresholds are much lower, typically half of the thresholds computed for the Nordic countries. The immediate determinants of such differences can be grouped, as we already saw, into two broad categories. First, the composition and structure of the household – number of children, of adults, of working adults and its labour force patterns. Second, the importance and stability of earnings from work: importance of unemployment spells, of part-time work, of low-paid jobs.

Such elements may explain some obvious differences between countries and also, for a given country, between its total poverty rate and its in-work poverty rate. As Bardone and Guio (2005) show, in the case of Belgium (see Figure 2 above), there is a considerable gap between these rates, with the in-work poverty rate being low. The explanation lies within the strong connection between complete joblessness and poverty

















































