Why Contemporary Capitalism Needs the Working Poor[1]

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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[3]) 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

[3] 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,[4] 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.

[4] 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).

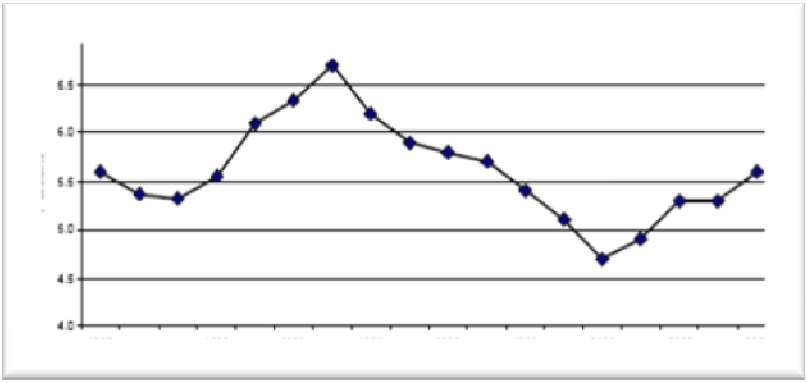


Table 1 below gives the overall range and evolution of the EU definition ("In-work at-risk-of-poverty[5] rate after social transfers") from 1995 to 2006, for 12 countries. Estimates are given for EU–15 during the whole period (and include the initially missing Denmark, Sweden, and Finland). An average 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.

[5] 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 (s)	8 (s)
EU (15 countries)	8 (s)	8 (s)	8 (s)	7 (s)	7 (s)	7 (s)	8	8	8	8	7 (s)	7 (s)
Belgium	6	6	5	4	5	5	4	:	6 (b)	4 (p)	4	4
Bulgaria	:	:	:	:	:	:	7 (i)	6 (i)	7 (i)	7 (i)	6 (i)	6 (i)
Czech Republic	:	:	:	:	:	:	3 (i)	:	:	:	3 (b)	3
Denmark	:	:	:	:	:	:	3 (i)	:	5 (b)	5	5	4
Germany	6	5	5	4	5	4	4	:	:	:	5 (b)	5
Estonia	:	:	:	:	:	10 (i)	10 (i)	9 (i)	10 (i)	9 (b)	7	8
Ireland	5	5	5	5	5	7	7	:	7 (b)	7	6	6
Greece	15	15	15	13	14	13	13	:	14 (b)	13	13	14
Spain	10	10	11	10	9	8	10	10 (bi)	10 (i)	11 (b)	10	10
France	7	7	7	7	7	8	7 (bi)	7 (i)	:	5 (b)	6	6
Italy	11	11	11	9	9	10	10	:	:	9 (b)	9	10
Cyprus	:	:	6 (i)	:	:	:	:	:	6 (i)	:	7 (b)	7
Latvia	:	:	:	:	:	13 (i)	:	:	:	:	9 (b)	11
Lithuania	:	:	:	:	:	14 (i)	14 (i)	:	:	:	10 (b)	10
Luxembourg	8	6	7	7	9	8	8	:	7 (b)	8	9	10
Hungary	:	:	:	:	:	6 (i)	5 (i)	4 (i)	6	:	10 (b)	7
Malta	:	:	:	:	:	6	:	:	:	:	5 (p)	5 (p)
Netherlands	7	6	6	6	6	6 (ip)	5 (ip)	5 (ip)	6 (ip)	:	6 (b)	4
Austria	8	7	7	7	7	6	6	:	8 (b)	7	7	6
Poland	:	:	:	:	:	11 (i)	11 (i)	:	:	:	14 (b)	13
Portugal	16	15	14	14	14	14	12	:	:	13 (b)	12	11 (p)
Romania	:	:	:	:	:	14 (i)	14 (i)	14 (i)	14	: (i)	: (i)	: (i)
Slovenia	:	:	:	:	:	5 (i)	5 (i)	4 (i)	4	:	5 (b)	5
Slovakia	:	:	:	:	:	:	:	:	:	:	9 (b)	6
Finland	:	3	4	4	5	5	4 (bi)	4 (i)	4 (i)	4 (b)	4	4
Sweden	:	:	:	:	:	:	5 (i)	:	:	6 (b)	5	7
United Kingdom	7	7	5	6	7	6	7	7	7	:	8 (b)	8
Croatia	:	:	:	:	:	:	:	:	9 (i)	:	:	:
Turkey	:	:	:	:	:	:	:	23 (i)	23	:	:	:
Iceland	:	:	:	:	:	:	:	:	:	7 (b)	8 (p)	7 (p)
Norway	:	:	:	:	:	:	:	:	4 (b)	4	5	6

Source: Eurostat

(:) Not available
(s) Eurostat estimate
(b) Break in series
(p) Provisional value
(i) 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[6] (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.

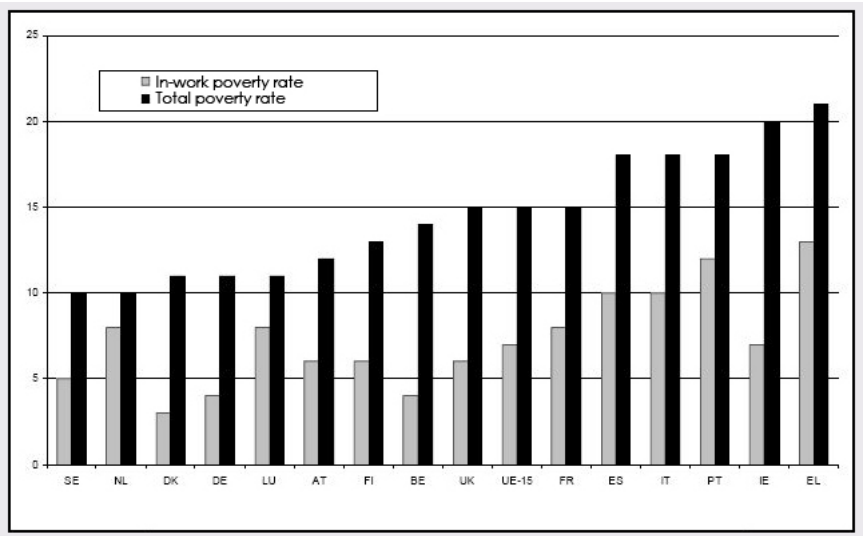
ii. As evoked above, the work intensity of households and its internal distribution. An important case to consider is the polarization of different work experiences among households: some of them, being composed of two adults working part-time, may contribute in a disproportionate way to both in-work and global poverty.

iii. The way each group of active or inactive populations, such as salaried, self-employed, unemployed and inactive persons, are exposed to the risk

[6] 35 hours per week or more

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 durableness 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.

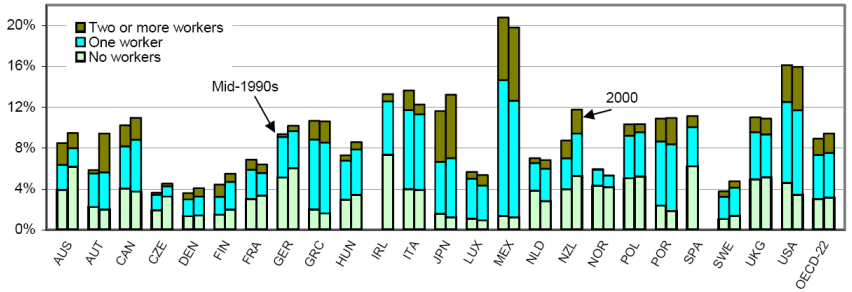
II.1. Stylized facts

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 in this country: most of the Belgian adult poor do not qualify (so to speak) as working poor. Belgian adult poor are characterized by high non-employment rates, a strong concentration of non-employment in the same households and a strong connection

between unemployment and poverty. In other countries such as the Netherlands, the activity and employment rates are much higher, and this explains why there is only a small gap between the total and in-work poverty rates. In connection with the household structure and work attachment, one, of course, also need to consider the transfers it can benefit from, which vary a lot according to the wealth of each country and the structure and aim of its social protection. The following table sums up the main differences in the composition of the working poor in Europe according to the work intensity of households.

Table 2 – Distribution of poor employed working-age people by the work intensity of households, EU–15, 2001. Source: Bardone and Guio 2005, p. 8

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU15
Households with no dependent children																
0 < WI < 1	19	:	18	27	14	16	9	24	17	:	16	12	25	:	24	19
WI = 1	24	:	30	16	7	18	19	8	15	:	25	17	39	:	25	20
Households with dependent children																
0< WI < 1	28	:	35	39	70	41	64	59	53	:	31	40	15	:	31	44
WI = 1	29	:	17	18	9	24	8	9	14	:	28	31	22	:	21	17
	100		100	100	100	100	100	100	100		100	100	100		100	100

This table shows that in EU-15, 37 per cent of the in-work poor live in a household where all working-age adults have full-time employment; this confirms the strength and variability of the ties between work and poverty.

II.2. An international comparison of the dynamics of poverty and income distribution

I turn now to analyses that provide more systematic international and inter-temporal comparisons. I will focus on two important OECD studies. They each explore a different avenue: national aggregate data at two points in time on one side, individual longitudinal data on the other.

Förster and Mira d'Ercole (2005) perform a wide international comparative analysis of income distribution and poverty in 27 OECD countries based on homogeneous data. They assess trends in income inequality and poverty in the second half of the 1990s, comparing data for 1994–95 and for around 2000. The interest of

their study lies in the use of homogenized data for numerous countries and the special attention paid to the various sources of income: earnings from work, but also self-employment, income from capital, and taxes and transfers. For defining poverty, they classically use the relative threshold of 50 per cent of median equivalized income (and provide some information at the 60-per-cent threshold). They do not, however, directly analyse the working poor; instead, they devote a section to the population of households headed by a person of working age (18 to 65 years). This allows them to emphasize the importance of non-employment (either unemployment or inactivity) as a factor of poverty. Two main results emerge. The first is a comparative analysis of pre-transfer poverty for this category, named here "market income poverty". It shows that, referring to previous works, a bettering trend occurred between the 1980s and 90s in most OECD countries. After the situation worsened during the 1980s, many efforts were made for combating unemployment and low employment rates, and for improving access to the labour market. Such a process led to a pause in the overall tendency towards more pre-transfer poverty for the working age population. The second result is that an opposite tendency appeared with the transfers whose effectiveness appears to have diminished during the same period.

These results are confirmed from a shift-share analysis between the mid-1990s and the turn of the century, with three distinct processes: changes in market income poverty, changes in the effectiveness of taxes and transfers, and changes in the population structure: "… while reforms to taxes and transfers systems introduced in the second half of the 1990s may have contributed to higher employment and lower market-income poverty in several countries, their effects were often offset by a smaller impact of taxes and transfers in reducing poverty." (*ibid.*, p. 31). From a methodological point of view, the authors underline the limits of direct aggregate data regression, which may show results that are "typically unstable and sensitive to the specification used" (p. 30, footnote 35). Beyond these overall trends, the differences between countries are striking here: while transfers and taxes lift out of poverty one-fourth of the population at risk in the USA, they do so for two-thirds of the corresponding population in Denmark (*ibid.*, p. 28). This poverty reduction is strongly correlated to the importance of non-health social spending (p. 29).

Published earlier, but also focussing on the 1990s, Chapter 2 of the OECD 2001 *Employment Outlook* (OECD 2001) explores "the dynamics of poverty in OECD countries" from individual longitudinal data. The study uses panel data: the European

Community Household Panel (ECHP) for 12 EU countries and 3 waves (1993–5), and equivalent panel data for the USA (Panel Study of Income Dynamics – PSID) and Canada (Survey of Labour and Income Dynamics – SLID). This short-term longitudinal analysis is completed by a mid-term analysis, considering six to eight years for only four countries: Germany (1990–97), the UK (1990–97), and again Canada (1993–98) and the USA (1985–92). Poverty is again defined as the relative threshold of 50 per cent of the median equivalized household income.

The general results of the study confirm the well-known paradox of longitudinal analyses of poverty: while an important and sometimes dominating part of poverty is transitory, made of short spells (less than one year), another important component is made of groups seemingly trapped into long-lasting poverty.[7] Focussing on the working poor, one observes that flows in and out of poverty are more dependent on work than they are for cross-series data, but they are also more dependent on its quality: access to employment is not enough; one should also consider if people keep their jobs or not, as well as if they have opportunities to progress up the skills and earnings ladder.

The main outcome of the logit multivariable regressions performed on the three waves panel data (1993–95) is that taking into account individual traits (as identified above, household composition, skills level, work attachment) and their national distribution does not eliminate country effects. Among the institutional traits that may explain country effects, the study mentions union density, and observes that the differences in employment and unemployment rates do not seem important in explaining the gaps in the persistence of poverty (*ibid.*, p. 40).

Regarding the mid-term data (six to eight years) for the four countries, the descriptive analysis underlines the importance of the working poor population for the USA compared to the three other countries: computing the share of the total number of years spent in poverty over the considered period, it finds that it is much more important for households to have at least one working member at the beginning of the period: 77.4 per cent in the USA, 58.1 per cent in Germany, 49.5 per cent in the UK and 48.0 per cent in Canada (*ibid.*, p. 70).

[7] This is the "paradox of the hospital beds" (Pollak and Gazier, 2008): while most poverty situations appear to be temporary and affect an important number of persons (possibly rotating in and out of poverty), a small number of permanent poor account for a large share of the total poor population.

The ordered logit regressions made for these four countries estimate the expected number of years spent in poverty according to individual traits. They show an important negative influence of work, but not for all categories. Low-skilled and isolated parents exhibit a strong likelihood of remaining in poverty. When considering the poverty odds of an individual cumulating all the aggravating traits identified in the study, the model shows, for the four countries, a strong probability of being poor at least half of the time, but in the USA, with the same probability, the poverty spell rises to 7 years in the total considered period of 8 years.

II.3. From clusters to a more systematic discussion of institutional channels of influence

Lastly, I will consider two exploratory studies that regroup countries into clusters: Peña-Casas and Latta (2004), and Lohmann (2008). Inspired by the work of Gøsta Esping Andersen (1990), some researchers have connected the size, composition and fate of poor groups to the existence of different welfare regimes in Europe (see, for example, Layte and Whelan, 2002; Fouarge and Layte, 2005). Their central hypothesis is that the degree of decommodification – the distance to market dependency – plays a central role in shaping the trajectories of the poor. Typically, one can oppose a liberal type of welfare system – which puts the emphasis on individual responsibility, sets the state as a last-resort player, and tends to limit taxes as well as benefits – to a social-democratic type – which develops a more egalitarian perspective and organizes an important re-distributive role for the state with high levels of taxation and transfers. Between these polar types, the corporatist welfare state regime appears as intermediary, relying on a core of long-lasting employment arrangements that secure integrated workers, the state playing a complementary role. In this last case, social protection is itself segmented, the workers out of the central institutions and social protection schemes benefiting from less protection. A last regime – the "Mediterranean" one – appears in some analyses. It is similar to the corporatist type, but has a smaller core, and there is more inequality between central and periphery workers.[8]

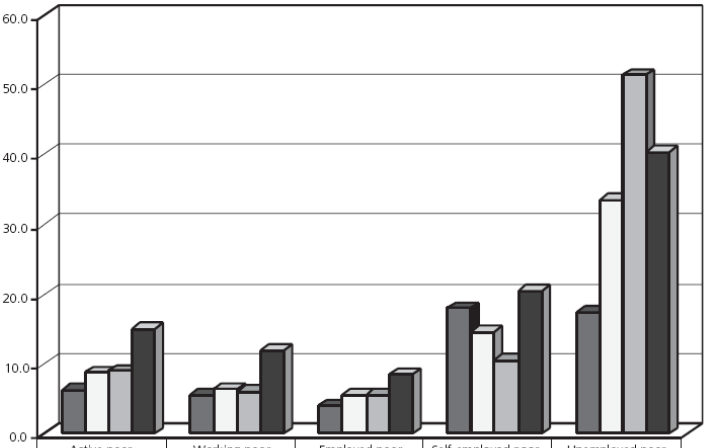
[8] Liberal countries are the UK and Ireland; Social-democratic countries are the Nordic countries; Corporatist countries are represented by France, Germany, the Netherlands and Belgium; Mediterranean countries usually comprise Italy, Spain, Greece, but also Portugal.

As regards overall poverty, clustering countries into welfare regimes is clearly connected to the observation of different sizes of poor groups and different moves in and out of poverty. The poverty rate is typically lower in social-democratic countries, higher in liberal and Mediterranean countries, and intermediate in corporatist countries. Social-democratic countries appear to be successful in preventing short-term as well as long-term poverty, while liberal and Southern countries suffer from more frequent and durable poverty. The corporatist countries appear to be in an intermediate position. The probabilities of exiting out of poverty appear to be initially strong in such countries, but quickly decrease with time, while in liberal and southern countries, they are moderate, but more constant over time. This may be interpreted as the existence of a possible "trap" for poor persons in the corporatist regimes (Pollak and Gazier, 2008).

The study of Peña-Casas and Latta (2004, pp. 61–76) checks, in the simplest way, the meaning of this clustering for the working poor. It simply groups countries according to the Esping Andersen categories, computes the arithmetic mean of poverty rates for each group, and compares them using the "most frequent activity status" data for distinguishing "active poor", "employed poor", "unemployed poor" and "self-employed poor" (see Figure 4 below).

The clustering appears to be relevant for the working poor, especially in the case of the Mediterranean and social-democratic groups, less so for the liberal and corporatist groups. Two points deserve special attention. The case of the self-employed working poor seems difficult to interpret, with a very strong incidence in some countries, such as Sweden, and a much more limited incidence in "liberal" countries. There is also strong diversity inside the Mediterranean group, with Greece and Portugal suffering more from working poverty than Spain and Italy. All in all, the influence of welfare regimes seems important. Nevertheless, this analysis leaves open two important questions. The first relates to the main field of influence: pre- or post-transfer poverty. Do these institutional features (possibly with others) affect mainly the intensity of transfers and their effectiveness, or also the situation before transfer? Second, what are the main channels of influence? An interesting study by Henning Lohmann (Lohmann 2008) attempts to clarify these issues.

Figure 4 – At-risk-of-poverty rates by most frequent activity status and welfare clusters, 1999. Source: Peña-Casas and Latta (2004), p. 64.



	Active poor	Working poor	Employed poor	Self-employed poor	Unemployed poor
Social democratic	6.3	5.5	4.0	18.0	17.5
Corporatist	8.8	6.4	5.6	14.6	33.6
Liberal	9.0	6.0	5.5	10.5	51.5
Mediterranean	15.0	12.0	8.5	20.5	40.5

Source: ECHP, 1999, Eurostat, 2003, authors' calculations.

Lohmann performs a two-level statistical analysis, with individual data being "nested" into countries. The study remains static; the observation year is 2004. The individual data come from the EU SILC panel (following the ECHP) for 20 European countries, and the macro-level data mainly come from the OECD. Lohmann classically uses the 60-per-cent threshold.[9] What is original about his study is that he systematically distinguishes between pre-transfer and post-transfer in-work poverty. Accordingly, he sets two thresholds and examines for each one separately how the same set of variables affects the likelihood of being poor. This leads to connecting mainly welfare institutions to a process of poverty reduction through transfers. It raises some difficult questions, however, because the interplay of taxes and transfers may push some households that were above the pre-transfer poverty line under the post-transfer line. Nevertheless, this contribution to a poverty increase appears to be modest, with post-transfer poverty being logically lower, and often much lower than pre-transfer poverty. He expects partly differing channels and effects and identifies

[9] He defines "worker" as someone working at least seven out of 12 months of the considered year.

influence channels through a coherent set of hypotheses and numerous two-level logistic regressions. This type of statistical analysis makes it possible to control for the country specificities in the composition of workers (age, sector, skill level) and their households, as well as for general country effects.

As regards the hypotheses, the author relies on previous studies and discusses two main macroeconomic traits possibly affecting pre-transfer working poverty: union density and the degree of centralization of wage bargaining. He argues that union density is not as relevant as bargaining centralization. He keeps this last variable, indicating that he expects not only an overall effect, but also a stronger effect regarding low-skilled workers who may benefit more from the egalitarian stance associated with a centralized determination of wages. Regarding post-transfer in-work poverty, he starts from Esping Andersen's theses and carefully discusses the possible influence of two processes: de-commodification and de-familialization. The first is defined as the reduction of an individual's reliance on the market, the second as the reduction of an individual's reliance on the family. De-commodification and de-familialization indicators comprise, among others, the generosity of unemployment insurance and the existence of dual-earners policies (providing care for children and allowing more independence for women). His hypotheses set indirect influences on pre-transfer poverty (through incentives and reservation wages and through easier access to work for women), and more direct influence on post-transfer in-work poverty (through additional income and services).

The main results can be summarized as follows. The degree of poverty reduction (that is, the difference between pre- and post-transfer poverty) differs more by country than the importance of pre-transfer poverty. Regarding post-transfer poverty, individual-level variables explain only 11 per cent of the country-level variance, leaving considerable room for the influence of institutions. The analysis shows a robust effect of wage bargaining centralization on pre-transfer in-work poverty, this effect (logically) vanishing when one considers post-transfer in-work poverty. As expected, the final post-transfer poverty level closely depends on unemployment insurance replacement rates and family benefits, and confirms quantitatively the intuition of clusters, but the influence of family benefits and services is not robust in the more elaborate models tested.

This careful and suggestive study appears successful in its attempt to distinguish between pre-transfer and post-transfer in-work poverty and in confirming the

important role played by wage bargaining centralization. Some of the statistical models show how it protects the less-skilled, thus combining macro-level influence with cross-level influence, that is, influences combining macro influences with group composition and individual data. The influences of de-commodification and de-familialization appear to be more complex, however, and often do not go in the expected direction. As I suggested in the introduction, the possibility that some poverty situations are lessened, but not suppressed, and are even generated by some social policies requires further discussion, but this is not done here.

As a provisional conclusion for this section, one can observe that comparative analyses of in-work poverty are suggestive, but are not yet numerous enough to bring detailed and dynamic results. The role of institutions has been largely acknowledged beyond the simple existence and importance of transfer schemes, but the consensus appears to be ambiguous: in most of the studies examined, their role is simply to lift, with more or less effort, and with more or less success, some households out of monetary poverty. Some of the studies, however, take into account the question of incentives and consider a much more complex picture. Excessive generosity could lead to more poverty from a dynamic point of view, some poor being trapped in low levels of work effort. This could lead to less generous transfers, leaving untouched some poverty situations. A symmetrical option is to consider that some transfer policies may implicitly aim at guaranteeing some low level of income, under the poverty threshold, in order to push poor workers into part-time and unstable jobs, taking the risk of trapping them into low-quality jobs.

III. The working poor in our societies: A reassessment

Up to now, little consideration has been given to theoretical aspects of in-work poverty. Most of the studies reviewed above are inductive, problem-driven and, of course, dependent on the datasets used. They attempt to identify and evaluate the role of personal traits and collective determinants within these perspectives, and then jump to policy prescriptions. It is worthwhile to get some distance from statistical and econometric research in order to briefly discuss the theoretical frameworks. Although they remain scattered and underdeveloped, the theories of poverty have a long and complex history (see, for example, Gazier, 1981, and Gazier, 1996). To begin, I will identify the main currents, results and uncertainties and disagreements. I will then

show how theories of poverty have developed over time and their possible change of focus. In this second part I will identify important changes in these currents that have led to both the over-emphasis and undue neglect of key issues.

Bargaining centralization is a good starting point. This institutional trait seems to have a considerable influence on the extent of (pre-transfer) in-work poverty. Behind it lie industrial relations, union and employer strategies, and the organization of the firm. All these elements were mostly absent from the studies reviewed in the two previous sections, although it would seem logical to question the role of the demand for labour and of productive choices and constraints. Such questioning was central to theories of poverty during the nineteenth and twentieth centuries. I shall argue that the present trends may have created a blind spot by placing the emphasis on the supply side: it would be a major error to ignore the role played by firms and the productive system. Exploring this orientation, in the section that follows, I shall first briefly discuss the present state of the theories of poverty. I will then explore some recent results about the behaviour of firms and sectors regarding low-wage workers. This will lead me to outline a more balanced view of the working poor.

III.1. Theoretical perspectives on the working poor

For a long time, the theoretical discussions in political economy fell into two diametrically opposed points of view, but with both currents insisting on the key role played by low-skilled and low-paid workers in the economy. Labourers' wages were conceived as being set at a vital minimum, reflecting the value of labour and the overall scarcity. This orientation left little leeway for the poor to take responsibility for their situations. On one side, the classic school insisted on the role played by the "law of population" as a regulating device. This view was fatalistic, as any improvement in the poor's situation was seen to lead to an increase in population, thus leading to overpopulation and to a (re-equilibrating) worsening of their situation, mainly through an increase in the mortality rate of children. Authors such as Thomas Malthus developed this analysis and advocated for a limitation on the number of poor children as a better controlling device.

On the other side, authors focussing on the critical analysis of capitalism, and especially Karl Marx, opposed two forms of poverty: the integrated poverty of the working class, and the *lumpenproletariat*, disaffiliated very poor persons belonging to

the "industrial reserve army". This last group was considered as unstable and dangerous, unable to stand by the labour movement and the working class.[10] The poverty of the proletariat was considered as a central and stable characteristic of capitalism, reflecting the exploited position of the workforce in the production and reproduction process. Absolute and relative pauperizations were considered as the consequence of the capitalist system regarding workers. The two categories of poor were thought of as interactive, the pressures from the socially constructed overpopulation of "industrial reserve army" playing a disciplining role in the factories and in the labour market. The intuition of a functional role played by poverty in the capitalist system originates here.

On the first side, authors such as Alfred Marshall mitigated the classic view by taking into account the tie between wages and productivity. He developed at the end of the nineteenth century a residual conception of poverty, the poor being perceived as immature and dominated by immediate, unsatisfied needs. Marshall advocated for pedagogical and authoritarian treatment of the poor. As not all poor were able or willing to follow Marshall's plans, the group of poor persons had to be split into two sub-groups: the more motivated and able should be integrated into the middle class, while those left over, the "residue", should benefit from durable and strictly controlled welfare provisions. An optimistic sequence was expected regarding the poor able to take and keep a job: their shift from the low-skilled labour market to the skilled labour market should decrease the number of low-skilled workers. With fewer workers in the low-skilled market, the remaining workers should, in turn, benefit from better wages. Both conceptions were greatly transformed during the twentieth century, shifting the emphasis towards the rationality of the poor and their ability to act. First, the progressive rise in standards of living and purchasing power suggested that some increase in productivity could benefit even the least-skilled poor. In the post-Marxist perspective, the exploration of the "relative value added" and its sharing suggested that the "pauperization" mechanisms were not as univocal as previously supposed. Second, a new idea appeared: a poor person, as an active economic agent, was able to make deliberate decisions. The initial polarization in views subsisted, but was reformulated in a different way.

Some new concerns emerged towards the middle of the twentieth century and became central to all economic theory: imperfect information, learning processes,

[10] Marx distinguishes between the latent, stagnant and floating overpopulations.

coordination problems, expectations, strategic behaviour, and so on. The inter-temporal choices of the poor illustrate this point. From the first perspective, the poor are now perceived as more, if not fully, rational, even if they are subject to severe constraints. Some of them may perform rational optimizations, choosing to live on welfare and minimizing their productive efforts. The incentive problem no longer lies in the existence of irresponsible groups, but in the identification of a preference for leisure as a possible taste of rational agents. This view did not remain unchallenged. Numerous authors insisted on the strong constraints stemming from imperfect markets (for example, the market for further training), obliging the poor to make short-term, biased choices.

The currents centred on the domination and conflicts of capitalism witnessed a similar shift in concerns, although they focused not on the choices made by the poor, but on the conditions of their choices. In this domain, the key author does not belong to the Marxist tradition: Amartya Sen developed his concept of "capabilities" as a radical criticism of the freedom to choose too often attributed to the poor, insisting on the truncated opportunity set they suffer from, and on the preconditions of any long-term rational choice. This perspective is easy to connect to the sociological analyses of multidimensional domination (see, for example, the works of Pierre Bourdieu) focussing on cumulative and polarized disadvantages in economic, but also educational and symbolic "capitals". One can also introduce here interiorization processes, leading the poor to accept their position. This perspective converges with the view insisting on biased expectations, for example, poor persons may overestimate small social risks and underestimate big social risks (Schmid, 2006). Individual choices are conceived as partly autonomous, but also partly dependent on the position and fate of dominated groups. Such cognitive concerns have led to a paradoxical inversion of the theoretical currents postulating, or not, some functionality of the working poor. In market-dominated theories, the importance of learning, the role of trial and error in economic innovation and growth, suggest that the working poor, as losers of the market game, should be helped, but not too much: they should feel the consequences of their failure and reorient their activity, looking for a better fit with consumers' preferences. This perception of the usefulness of the working poor (automatically punished until they adapt to the market) is central to the theses of Friedrich Hayek. On the other side, the poor are often analyzed as the excluded, as being useless to society, and they are marginalized even if they work.

Let us now ponder these views by recalling some of the results of the longitudinal data mentioned above. Even if some authors maintain an over-rational perception of the lazy poor who speculate on the availability of welfare payments, most empirical analyses show the importance of the constraints affecting the poor, trapped in bad careers or even anti-careers. This leads one to reconsider the role played by firms and labour-market segmentation processes.

III.2. Low wages, firms and sectors: renewed empirical relevance

In this section, I will present some results of the Russell Sage Foundation European project[11] on low wages. The ambitious comparative research conducted by the foundation presents coordinated and homogeneous studies of low-wage workers in five European countries (Germany, France, the UK, the Netherlands and Denmark), following an initial study devoted to the USA (Appelbaum, Bernhardt, Murnane (eds), 2003).

The starting point of these studies was the downgraded situation of low-skilled workers in the USA since the 1970s, especially regarding their relative earnings. Numerous possible causes have been discussed, and among them the main culprit seems to be "biased" technical progress playing against the less-skilled. Other factors may have contributed, such as international trade, the decline of union influence and immigration. The US study (Appelbaum *et al.*, 2003) shows some degree of freedom in firms' management of the less-qualified segment of their workforce. The research focuses on several sectors: banking, hotels, hospitals, call centres and food-processing industries. It concludes that some (minority) firms could develop "high-road" strategies to organize better careers for the low-skilled, even if the majority remained on a low road, keeping those workers in low-paid and no-prospect jobs. An important institutional trait is associated with the high-road option: the active presence of unions.

Organized under the scientific patronage of Robert Solow, the European project that followed this first study intended to replicate these results in the case of five European countries. The researchers combined a general overview of low-wage workers (defined here as earning less than two-thirds of the median hourly wage) with

[11] Bosch and Weinkopf (eds), 2008; Caroli and Gautié (eds), 2008; Lloyd, Mason and Mayhew (eds), 2008; Salverda, Van Klaveren and Van der Mer (eds), 2008; and Westergaard-Nielsen (ed.), 2008.

in-depth case studies of selected professions, following a common protocol: operators in the food processing industry, nurses' aids and hospital housekeepers, hotel housekeepers, cashiers in large retailers, and call centre workers. The quantitative comparative outcome confirms for low-wage workers the highly differentiated picture observed for the working poor. While the overall rate of low-wage workers was (around 2005) 25 per cent in the USA, the corresponding figures were 23 per cent for Germany, 22 per cent for the UK, 18 per cent for the Netherlands, 10 per cent for France and 8 per cent for Denmark. For the countries with high rates, the evolution shows a tendency towards worsening, while France and Denmark exhibit a tendency towards stability, or bettering.

Institutions play a prominent role: inclusive systems such as the Danish one based on strong unions, or the French one, based on strong government (for example, through the setting of a high minimum wage) appeared able to limit the spread of low-wage work during the considered period (1990s and the first half of the 2000s). The case of Germany, at the opposite end, suggests that its traditional branch bargaining organization, with no legal extension of collective agreements or mandatory minimum wage, was unable to prevent the country from taking the low road.[12] Numerous firms in some sectors initially characterized by high wages and good career prospects adopted low-road strategies, ceasing to sign collective agreements and hiring migrant workers instead.

The degrees of freedom are also visible inside specific sectors. While the situation of housekeepers appears to be similar in every studied country, the situation of call centre operators, hospital housekeepers and operators in the food processing industries differed greatly. In the case of food processing, the Danish firms seem to have chosen a high-road strategy (automation, high skills and almost no low wages). German and British firms, on the other hand, have implemented a direct cost-reduction strategy through the hiring of agency and migrant workers.

The overall focus of these comparative studies includes job quality and the sustainability of the identified national and sector practices. For France, relatively favourable hourly wages (due to the existence of a comparably high mandatory minimum wage) coexist with high-intensity work and bad working conditions. Thus, the progression of wages inside firms is modest, adding to the problems faced in this

[12] Of course, the changes and pressures stemming from the integration of former East Germany are central in this case. The low road is by no means, however, reserved to the eastern part of reunified Germany.

country: persistently high levels of unemployment, coupled with flat career perspectives in an environment that places semi-skilled workers under great pressure.

Low wages are only part of the working poor story, which also includes low pay, short working hours and unstable jobs. The incidence of family composition and the intensity and orientation of transfer policies must also be considered, as already noted above. The low-wage story strongly suggests that even if labour market segmentation appears to vary in size and composition, it is a permanent characteristic of our societies, depending on the interplay of past trajectories, productive choices, multiple institutions and previous policy choices. This leads one to go back and re-examine the old question of the functions performed by the working poor.

III.3. In-work poverty: from functions to policies

Several functions were identified in the theories reviewed above. Here, I will consider them in a more systematic way. To do that, I will take an adapted overall theoretical point of view provided by the "Régulation School" (Boyer, 2004; Amable, 2003). This current has the advantage of focussing on institutional diversity and change by identifying the key role played by the labour–capital nexus in diverse accumulation regimes based on institutional complementarities. In this perspective, the ways in which labour is kept under control are central, and they can be connected to the existence of the working poor and some of the policies affecting them.

In an authoritative book, two welfare sociologists, Richard Cloward and Francis Fox Piven (1971), analyze the history and functions of the US welfare system and argue that welfare policies have played two very different roles depending on the economic and social context. During recessions, the counter-cyclical and cushioning role dominates and the welfare rolls increase to protect the most vulnerable and prevent social upheaval. When expansion returns, the system "regulates" the poor by sending the able poor back to the labour market, by contracting welfare payments and by tightening the corresponding obligations. Although this policy- and power-centred representation may seem simplistic, it has the advantage of focussing on some diverse and changing functions performed by the existence of persistent poverty. Depending on the context, these functions may be facilitated or combated by existing public policies, and this can be deepened using the institutionalist perspective. The following paragraphs provide a short preliminary analysis, with some illustrations.

One must first distinguish between explicit and latent functions. The idea that low-paid workers, and in the end the working poor, may act as a disciplining device for normal workers is an old one, and it corresponds to a latent function. At the opposite end, the idea that part-time and low-paid jobs may provide some poor persons with the opportunity to earn some income during difficult times corresponds to an explicit function of absorbing the excess workforce and cushioning to some extent the effects of unemployment.

In Table 3 below, I have identified six different functions that are more or less explicit or latent. The studies concluding that the working poor do not perform any function in our society often focus on one function, whose importance may have decreased or changed in some national/historical contexts, leaving aside the other functions. The main hypothesis here, however, is that these functions are changing over time and are not independent from each other. They interact in a specific way in a given country and at a given period. The list can be read from a simple historical angle. The first two functions are typical of the nineteenth century. The next three appeared progressively towards the end of that century and the first half of the twentieth century, through the birth and rise of labour market policies. At the beginning, in-work poverty contributed to cushioning the effects of recessions by ill-paid temporary jobs, generating the need for controlling possible inflationary repercussions. Then the market discipline function partly replaced the factory discipline, and its long-lasting interaction with labour market policies led to the durable absorption function, stemming from the workfare and activation concerns typical of the late twentieth century. There is also the possibility, already mentioned, that some public policies cushion and maintain segments of low-paid workers and the working poor. Last, a Hayekian or Schumpeterian function, relying on the cognitive considerations presented above, suggests that the temporary failure of the working poor should push them into other occupations.

Table 3 – Some functions performed by in-work poverty

Functions	Main channels and mechanisms
F1. Ensuring low-cost production	Providing competitiveness through a low-cost workforce
F2. Factory discipline	Creating competition at the lower end of the workforce Threats of downgrading limiting union action Contractual variety and wage modulation
F3. Temporary absorption	Preserving social peace through public jobs and/or subsidized private jobs, providing minimal income and work to the unemployed in recession periods
F4. Market discipline	The existence of a lower segment in the labour market contributes to the lowering of reservation wages and the lowering of wage inflation pressures
F5. Durable absorption	Workfare and activation policies, creating a durable status between minimum full-time earnings and welfare payments to the inactive
F6. Pressures towards innovation	Reflecting and penalizing low performance Pushing the losers away from unsuccessful occupations

The enumeration in Table 3 shows that in-work poverty has performed and still performs multiple and evolving functions. The second step is to consider how these functions may interact. They may be complementary, or opposing. For example, function 2, "factory discipline", is one of the oldest functions, mainly performed by unemployment threats and external control over workers' efforts. Today it relies on more internalized control of the work effort (obligation of results; peer pressure; corporate culture). Implemented now through contractual variety and earnings variability, "factory discipline" depends less on open unemployment and more on the development of some stable and partly cushioned in-work poverty, thus connecting

itself to function 5 (durable absorption). The temporary absorption function weakens market discipline (function 4) and the pressures towards innovation (function 6). A possible hypothesis, which remains to be more elaborated and monitored, is that all functions are present today, but with varying priorities depending on national institutions and possibly on sector composition.

In the case of France, the 2008 debate about the *Revenu de Solidarité Active* (RSA) illustrates well how existing policies and reform proposals can take over functions 2 and 5. The downgraded situation of the labour market, with strong segmentation and persistently high levels of unemployment, has led to the multiplication of short-term jobs and to policies intending to develop part-time employment. As presented above, the number of working poor remains relatively modest compared to other countries, this being largely due to the existence of the minimum wage and of family-oriented public transfers. Created in 1988, the *Revenu Minimum d'Insertion* (RMI) set a reference level of minimum income at around half of the minimum full-time monthly minimum wage, which is well under the poverty threshold. The RSA intends to reform the RMI by setting a systematic incentive mechanism to encourage poor workers to accept any kind of work, even piecemeal. Far from some optimistic titles (for an example, see the review *Regards Croisés sur l'Economie*, 2008), numerous analyses (for a recent critical view, see Clerc, 2008) have shown that such a reform is expected to reinforce the intermediate norm implicitly set by the RMI rather than to combat it. These functions are not tied, however, in a unique way to in-work poverty. A third step may be to introduce the possibility of functional equivalents, that is, mechanisms or channels that may achieve, at least partly, the same result through other means. Such consideration of mechanisms and policies to mitigate the role of in-work poverty may be complementary to the explanation of the variety of forms and treatments of in-work poverty.

The list of some possible substitutes or functional equivalents comprises diverse elements. Some of them depend on long-term developments. For example, a country's competitiveness and its place in the international division of labour have an obvious influence on the first function (ensuring low-cost production). The importance of low-cost sectors in an economy can be lessened if the country has achieved a solid position in innovation. The possible complementarities between a core of high-skilled workers/firms, and less-skilled workers/firms may leave little room for the working poor to contribute to competitiveness. Another possible substitute in the case of function

1 is to organize some services, for example, family care through public services. This costly de-commodification strategy has been implemented in the Nordic countries; depending on their overall choices of welfare systems and their favourable place in the international division of labour.

As regards factory discipline, it was already observed that it may take different forms, some being only loosely connected to the threat of in-work poverty and thus relying on other forms of social control and motivation-creating devices. The same perspective applies to the four remaining functions, centred on the changing needs of market discipline and market control. Labour market policies are often viewed as reinforcing the bargaining power of workers, thus leading to wage inflation. Intensive training policies may, however, increase the skills level for a given wage, thus lowering it. High levels of social control, together with collectively organized "transitions"[13] are observed in some countries paying generous unemployment insurance. Here again, it must be observed that such partial alternatives or substitutes closely depend on precise economic, social and political conditions.

In the case of France, the ambiguous role played by the minimum wage and the policies accompanying it has been highlighted by studies focussing on low-wage careers (Caroli, Gautié and Azkenazy, 2008). Set in the absence of well-organized recruitment channels and ambitious training policies for the less-skilled, in a context of weak social control (that is, with little exploitation of possible substitutes for the functions performed by in-work poverty), the minimum wage appears to be very costly to employers. Its effect on firms' strategies has been largely compensated by a policy of costly permanent wage subsidies that lower the cost of the low-skilled workforce. As a result, the integrated low-skilled workers appear to be stabilized and above the poverty level, but in flat and fragile careers. This suggests that, despite numerous efforts at improving career and mobility management, there are, in the present and foreseeable state of affairs, few integration prospects for the working poor in France.

This pessimistic appraisal can, of course, be reinforced and generalized in the context of the 2007–2008 financial crisis and the downturn that is still following. The recession will probably lead to a dynamic process that will revitalize the role of most of the functions played by in-work poverty, confirming its place at the heart of our society.

[13] From a normative point of view, a systematic approach in favour of the development of these substitutes through organized careers can be found in the "Transitional Labour Market" perspective (Schmid and Gazier, 2002; Schmid, 2006).

The probable extension of temporary jobs as emergency responses to the rise of unemployment will most likely trigger more intense pressures towards market discipline. In the absence of major political changes – which, after all, remain possible during such a troubled period – the research for and implementation of functional equivalents and possible substitutes may be slowed down or even halted, at least temporarily.

Conclusion

This contribution has focused on the persistence and diversity of in-work poverty in developed countries. The analysis was exploratory. It suggests that, even if they are mitigated or transformed to some extent, the functions performed by in-work poverty remain central in our society. In some national contexts, partial substitutes have been found and implemented. Such a perspective may provide an explanation for the variability of low-wage incidence in different countries and beyond for the differences in in-work poverty. Even if this perspective appears plausible and grounded on empirical evidence, it remains a set of hypotheses, which deserves further elaboration and confirmation.

As noted in the introduction, the aim of this text was not to discuss policy options, but rather to look at the available and possible room for action. It does exist, but depends on two heavy constraints. The first is to look for and organize substitutes to the old and more recent functions performed by in-work poverty at the bottom end of the wage distribution. This is a complicated task, because it may concern different dimensions of economic and social interactions. This task seems easier in some national configurations. The second constraint involves further extensions, requiring more theoretical and applied research centred on three main domains. The first is refining and combining indicators of the working poor in order to grasp a better image of their trajectories and of the risks they incur; the first section showed that some new indicators go in this direction. The second domain is job quality. The EU has already made some important steps in that direction, but its approach remains incomplete and fragile. Set out at the beginning of the century, it was put aside in 2005, in the context of the new "Lisbon Strategy", and resurfaced in 2006 with the "flexicurity" concerns. The third domain is our understanding of careers and transitions in and around the labour market, and the evaluation of policy devices aimed at organizing them.

Even if this first set of constraints is satisfied, a second set remains: the elaboration and feasibility of policy options. That will first depend on imaginative social experiments, and, second, on the existence and stability of political coalitions at a national level, ensuring that the long-term interest of these ill-represented groups is taken into account.

The challenge of today is unfortunately not yet to eradicate in-work poverty, especially in the context of a worldwide recession. Such a project would be naïve. More modestly, the challenge could be to explore the range of institutional and policy changes in order to help us alleviate in-work poverty and to make it more transitory.

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