

Inequality and social contract
Outreach report

Moving in and out of in-work poverty in Spain



Credits

The Social Observatory of "la Caixa" Foundation

**"la Caixa" Banking
Foundation, 2022**
Plaza de Weyler, 3
07001 Palma

ISBN 978-84-9900-313-9
("Inequality and social contract"
collection)

**Coordination of the work, graphic
design and layout:**
Knowledge Sharing Network, SL
KSNET
www.ksnet.eu

Proofreading and translation:
Discobole, SL
www.discobole.eu

"la Caixa" Banking Foundation
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Research and preparation of report

Alba Lanau, Centre for Demographic Studies
– CERCA Government of Catalonia

Mariona Lozano, Centre for Demographic
Studies – CERCA Government of Catalonia

Curator of the collection:
Luis Ayala, UNED

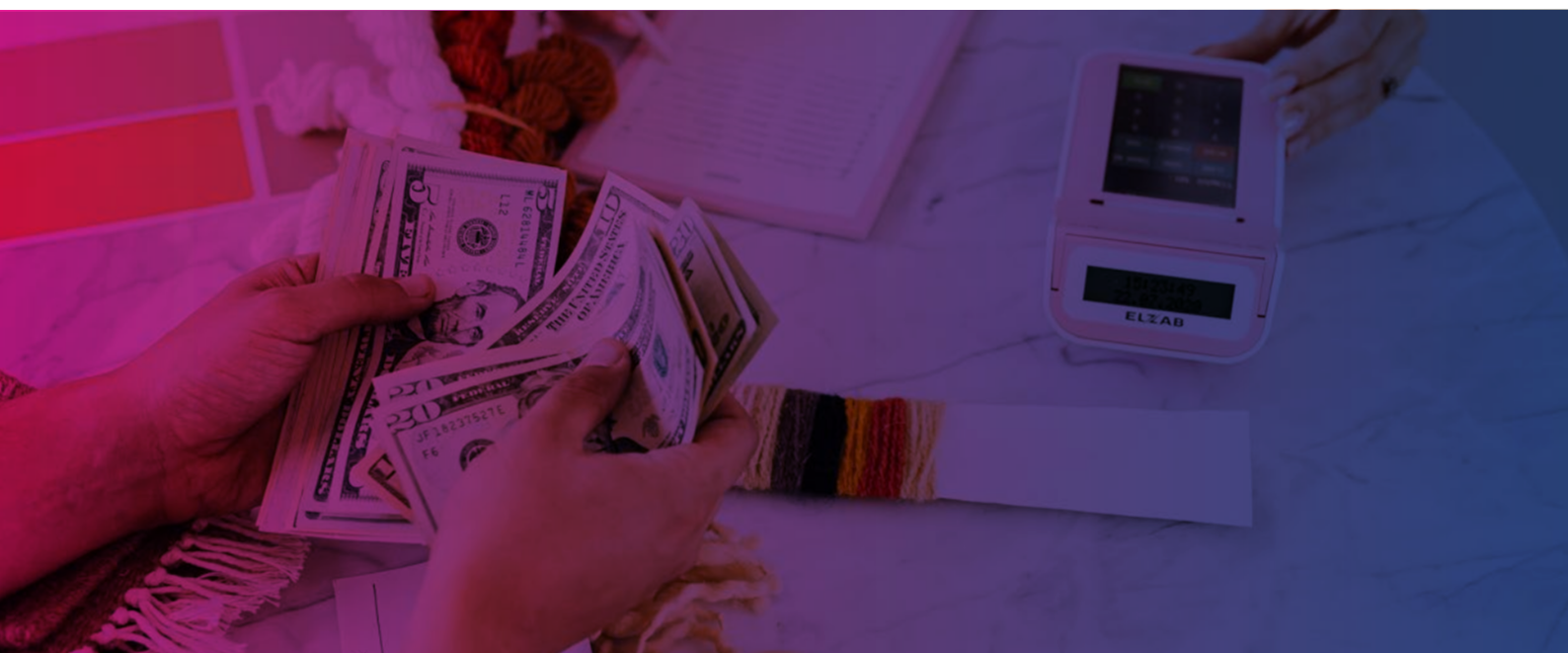
Scientific committee:
Lidia Brun (ULB), Olga Cantó (UAH), Sara de
la Rica (ISEAK), Víctor Lapuente (UG), Marga
León (UAB), Jorge Onrubia (UCM), Leire Salazar
(UNED)

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Abstract

Paid work is often described as the best way to exit poverty. But having a worker is not enough to avoid this situation for an increasing number of households. In-work poverty households are those considered to be living in monetary poverty despite having one or more workers. Spain has one of the highest in-work poverty rates in Europe, and this risk is concentrated in households with dependent children and especially in those with children and a single worker. The findings of this study suggest that in-work poverty in Spain is more related to work dynamics than to changes in household composition. Moving in and out of in-work poverty is therefore associated with low wages and periods of inactivity or unemployment of one or more household members, although only 8% of moves into poverty are associated with changes in household composition. Finally, this study highlights the need for dual income in the household in order to avoid in-work poverty.



Main ideas

1

Spain has one of the highest in-work poverty rates in Europe (affecting as it does 16% of households) and this number is increasing.

3

The risk of in-work poverty is also high in households comprising young people (21%) and in those headed by women (18%).

5

Most households entering in-work poverty (six out of ten) were non-poor households with one or more workers in the previous year. Although finding a job does not ensure exiting poverty: more than half of poor households in which one or more members join the labour market remain in poverty.

2

In-work poverty especially affects households with only one worker and dependent children: 34% of these households found themselves in situations of in-work poverty in 2018.

4

In-work poverty in Spain is the result of a combination of job instability, low wages and inadequate family policies. It is associated with low wages and/or unemployment in 65% of households, while in the remaining 35% of cases it is associated with an excessive burden on households.

6

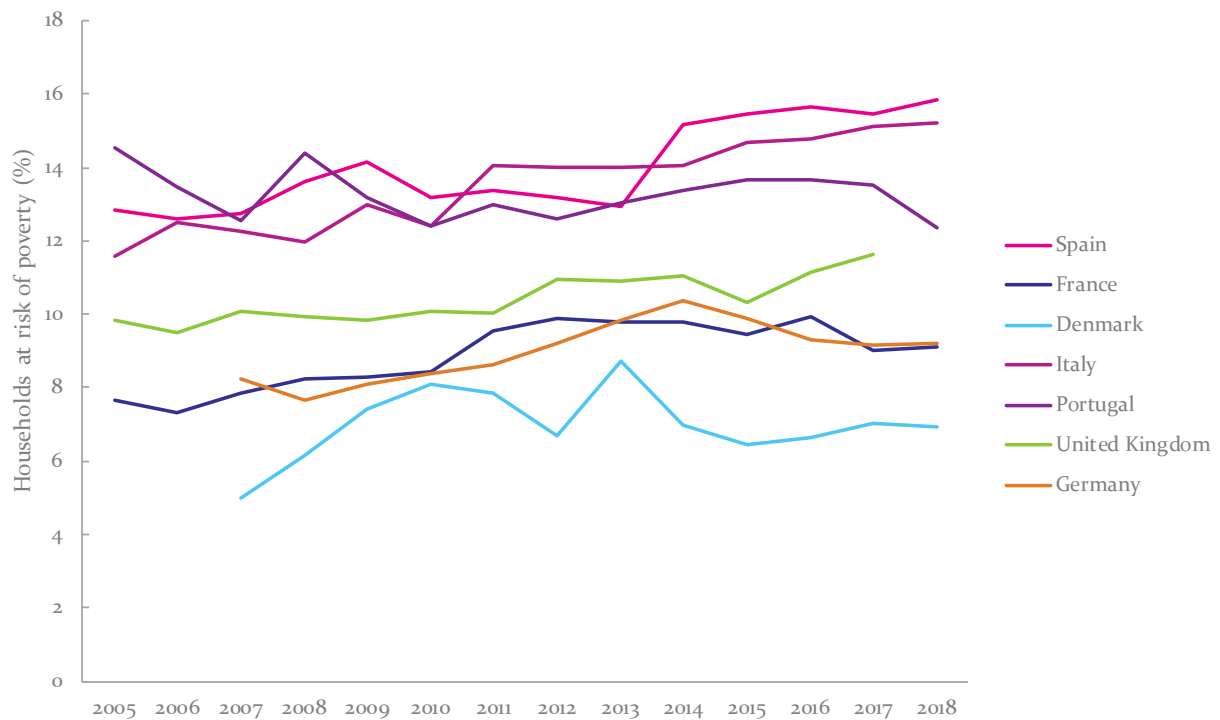
Labour market events, such as periods of unemployment, fewer working hours or wage reductions, are more significant than changes in household composition in understanding entering in-work poverty. A greater number of people in the household accounts for only 8% of the factors for entering in-work poverty.

1 Spain has one of the highest in-work poverty rates in Europe and this number is increasing

Spain is one of the European countries with the highest proportion of poor households with workers: 16% of households with at least one worker were poor in 2018. Other Southern European countries, such as Italy and Portugal, also have high rates, but they are lower than in Spain (15% in Italy and 12% in Portugal). In contrast, between 7 and 9% of households with workers are poor in Central and Northern European countries.

Figure 1: 16% of households with workers in Spain are poor, a similar percentage to that of Italy and much higher than in other European countries

Percentage of poor households among those with workers according to country, 2004-2018



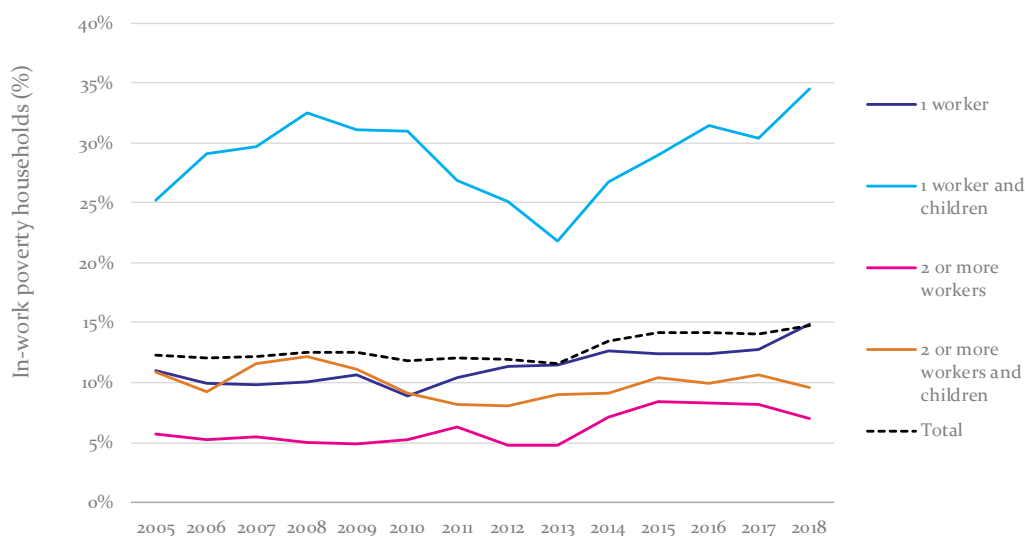
Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

2 In-work poverty especially affects households with only one worker and dependent children

The group most affected by the consequences of in-work poverty is that of minors: more than half of the households in situations of in-work poverty are those with minors. This risk concentration is explained by a combination of factors. On the one hand, they are households with higher expenses. On the other hand, it is often the case that the women leave the labour market in order to meet the demands of household care. There is therefore only one worker in these households in many cases, and thus only one income source, which increases the risk of poverty: 34% of households with only one worker and dependent children are poor.

Figure 2: Households with children and only one worker are particularly vulnerable to in-work poverty

Percentage of households experiencing in-work poverty according to number of workers and presence of children, 2005-2018



Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

Spain is one of the European countries with one of the lowest female labour participation rates, especially among women who are mothers. Women have traditionally been seen as primarily responsible for domestic work, not only during the stages of motherhood, but also during their entire life cycle. Despite a large increase in the labour participation of women in Spain since 1985, gender inequality in the household still persists. The unequal distribution of domestic tasks largely explains the gender gap in the labour market: women tend to have shorter working hours in order to be able to reconcile paid work and family care. Moreover, precarious employment, temporary employment and concentration in certain activity sectors are characteristic features of a significant portion of women's employment. On the other hand, women's participation in more responsible jobs, entailing higher salaries, is much lower than that of men. All these factors may explain the higher risk of in-work poverty in households headed by women, or in households with dependent children where either women do not work in order to be able to reconcile work and family life or where their wages are insufficient to avoid poverty.

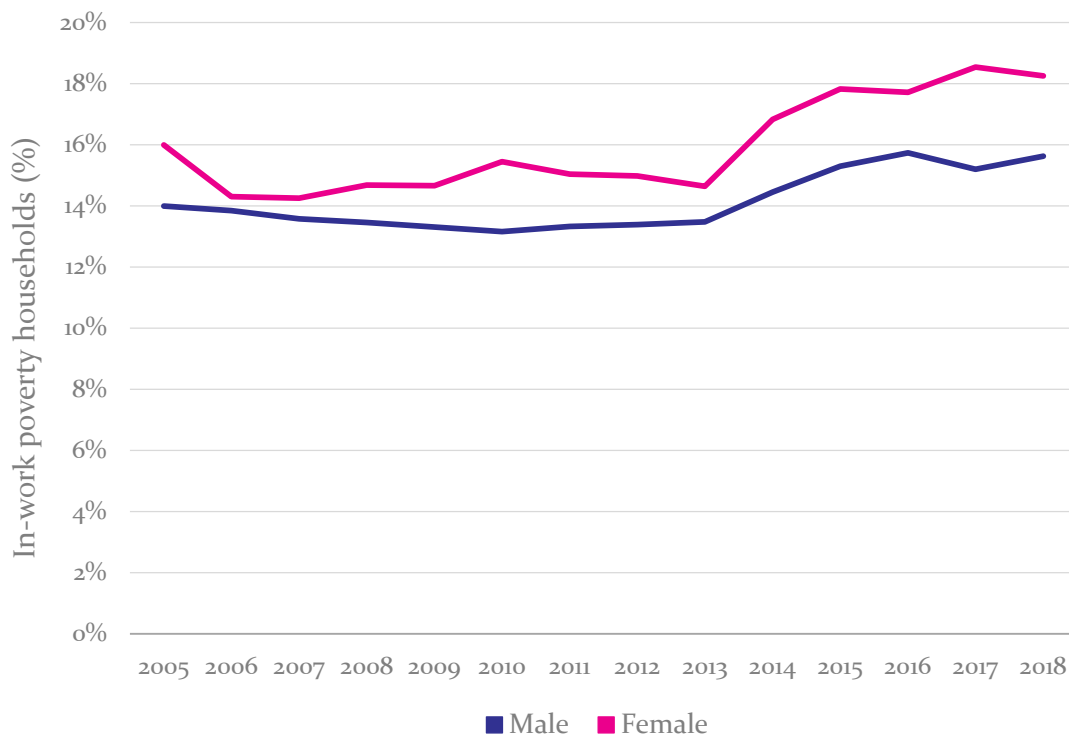
3 The risk of in-work poverty is also high in households comprising young people and in those headed by women

In-work poverty primarily affects young people, and more particularly young households with dependent children. The risk of in-work poverty in households comprising young people aged between 18 and 35 has progressively increased since 2005, when it was 13%, to reach 21% in 2018, and it is particularly high in households where the main breadwinner is under 35 (23%). Previous studies associate part of this increase to the progressive precariousness of working conditions: young people experience greater job insecurity and are often trapped in jobs with low wages and high contractual insecurity.

Households where the main breadwinner is a woman are also more likely to experience in-work poverty (18% of households) than those where the main breadwinner is a man (16% of households). These differences are small (1-4 percentage points depending on the year) and yet significant.

Figure 3: Households where the main breadwinner is a woman are at higher risk of poverty

Percentage of households experiencing in-work poverty according to gender of household head, 2005-2018



Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

On the other hand, households in which the person in charge has higher education levels, or works in higher professional categories, are better protected against in-work poverty. Nonetheless, households headed by the self-employed or by workers with a temporary contract are more likely to experience in-work poverty. Finally, living in rented accommodation is also associated with a higher risk of in-work poverty.

Table 1: Low levels of education, temporary employment, self-employment, large families and living in rented accommodation are similarly associated with a higher risk of in-work poverty

Logistic regression. Dependent variable: in-work poverty

Characteristics of household head	
Woman	+
Manager/professional	-
Unemployed	+
Low education level	++
University education	-
Temporary contract	+
Self-employed	++
Characteristics of household	
1 or 2 children	+
3 or more children	++
1 worker	++
Rental	+

Note: characteristics associated with a higher risk are identified with a plus symbol (+) and those that on the contrary tend towards a lower risk of in-work poverty are identified with a minus symbol (-). Two plus symbols have been used (++) when the risk is very high.

Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

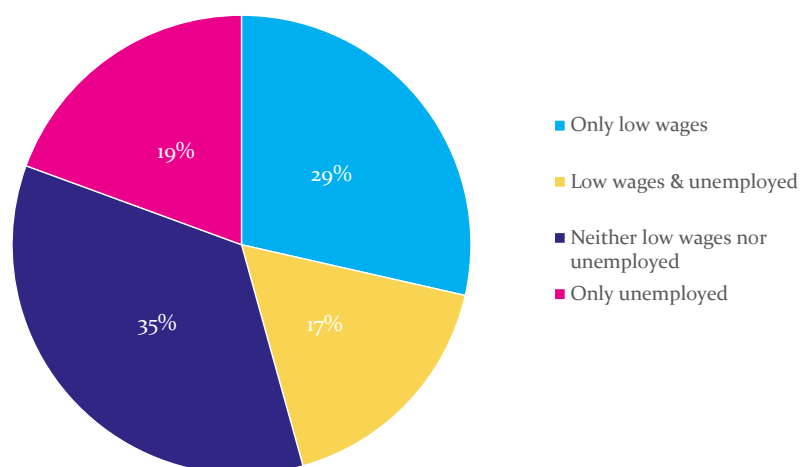
4 In-work poverty in Spain is the result of a combination of job instability, low wages and inadequate family policies

Most poor households in 2018 comprised working-age people who had been unemployed at some point during the previous year, low-paid working people or both. Spain has one of the highest unemployment rates in the European Union, in particular among the younger population. This is partly due to the high level of temporary employment and contractual instability among these young people. Many of them become unemployed after completing a temporary contract, something that is repeated when they continuously renew a series of temporary contracts.

On the other hand, 35% of poor households do not comprise people who have experienced periods of unemployment during the previous year, nor do they have low wages. Household composition and care demands are a key factor for them. In this segment, almost 8 out of 10 are single-worker households; half of them (52%) comprise dependent children, and one in three comprise young people (mostly unemancipated adult children). Part-time work also plays an important role, although relatively less so than other factors: 25% of these households comprise one or more part-time workers. The relevance of household composition and care demands in understanding in-work poverty reaffirms the importance of considering the household as a whole, and not just workers, when analysing in-work poverty. Family policies for many families – whether aimed at facilitating work-life balance or supplementing income – are insufficient when it comes to reducing the risk of in-work poverty in households with children.

Figure 4: 65% of households experiencing in-work poverty are in this situation due to low wages and/or unemployment. The remaining 35% are in a situation of poverty due to excessive household burden

Employment status of in-work poverty households, 2018



Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2018, Eurostat.

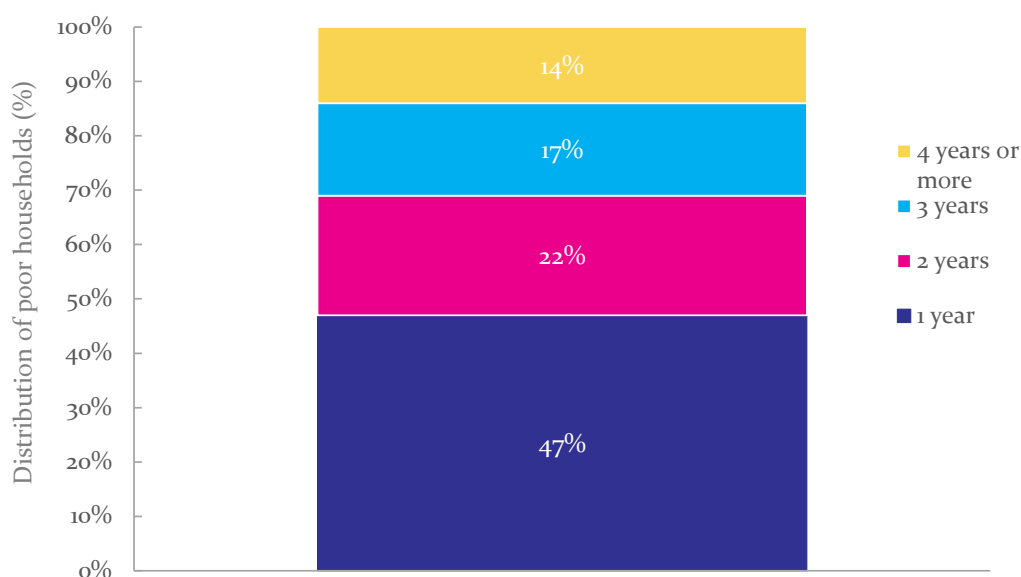
In conclusion, in-work poverty in Spain is the combined result of high unemployment rates – partly due to high temporality – low wages and excessive care burdens.

5 Finding a job does not ensure exiting poverty

In-work poverty is dynamic and displays frequent transitions. Poor households comprising workers tend to experience relatively short periods of poverty. Thus, among the households in the sample for a four-year period experiencing in-work poverty, 47% of those experience in-work poverty for one year, 22% for two years, and only 14% experience in-work poverty for all four years.

Figure 5: Most households experience short periods of in-work poverty, although 14% experience in-work poverty for 4 years or more

Percentage of poor households experiencing in-work poverty according to number of years

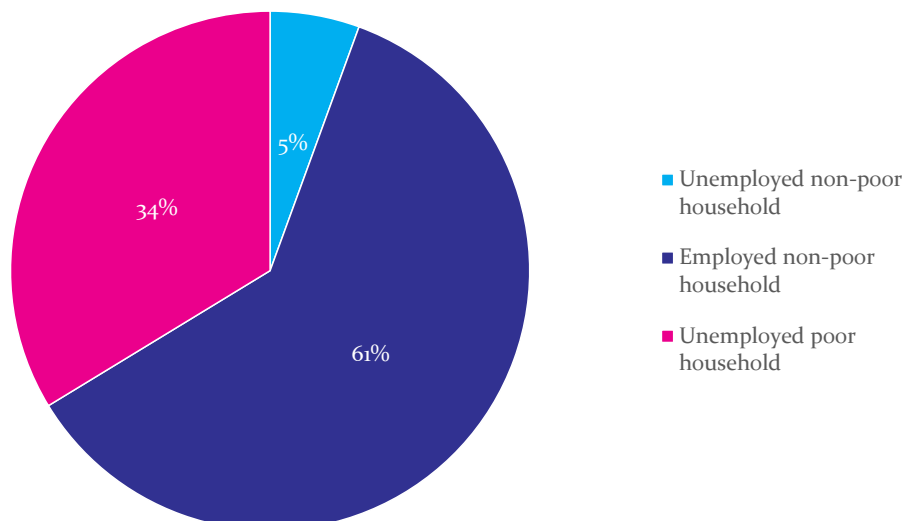


Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

The largest flow of entering in-work poverty – six out of ten transitions into – comes from working, non-poor households. The remainder had no workers during the previous year.

Figure 6: Most households entering in-work poverty are those that are still working but have entered into a situation of poverty

Households entering in-work poverty in any of the four years according to the household's situation in the previous year



Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

Entering the labour market does not translate into escaping poverty for most poor jobless households: 58% of them remain poor after one or more members have entered the labour market. Seven out of ten households in this group comprise dependent children. The precariousness of Spain's labour market conditions discussed above means that households often require a dual income in order to escape poverty.

6 Labour market events are more significant than changes in household composition in understanding entering in-work poverty

In order to understand the events associated with entering in-work poverty, the group of non-poor working households transitioning into working poor households has been studied. A distinction has been made between factors associated with the following:

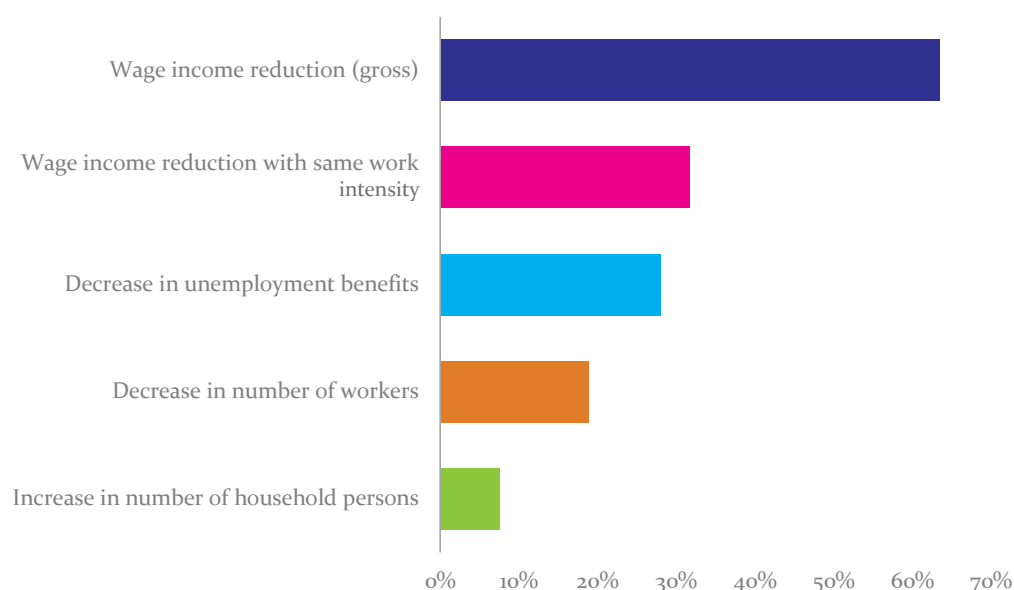
- Changes in the household's employment status, such as loss of employment by one of the household members or a decrease in the number of hours worked.
- Changes in household composition: for example, following a birth, adoption or union.
- Changes in the household's non-labour income: for example, a change in unemployment benefits or income from capital.

It should be noted that households often experience more than one event or change at a time. This is the case for many women who reduce their working hours because of care needs, with a corresponding reduction in pay, or who leave the labour market. Households implement a variety of mechanisms to cope when confronted by life or work changes. This multiplicity of events, often over relatively short periods of time, makes it difficult to establish causal relationships between events and poverty transitions. Nevertheless, analysing transitions provides us with valuable information on the relative importance of various factors in entering and exiting in-work poverty.

In line with studies in other countries, we find that labour market dynamics explain a large part of entering poverty. Sixty-three per cent of working households that enter in-work poverty experience a reduction in wage income. This reduction does not coincide with a decrease in labour intensity in about half of the cases: 32% of households entering a situation of poverty have lower incomes despite maintaining a similar degree of labour market attachment. Changes in public transfers are also a factor. The finalisation of unemployment benefits is a particularly relevant factor: 28% of households entering in-work poverty show a reduction in income through this channel.

Figure 7: Work factors are more important than the demographic composition of the household in understanding entering in-work poverty

Proportion of households entering in-work poverty that experience the following events



Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

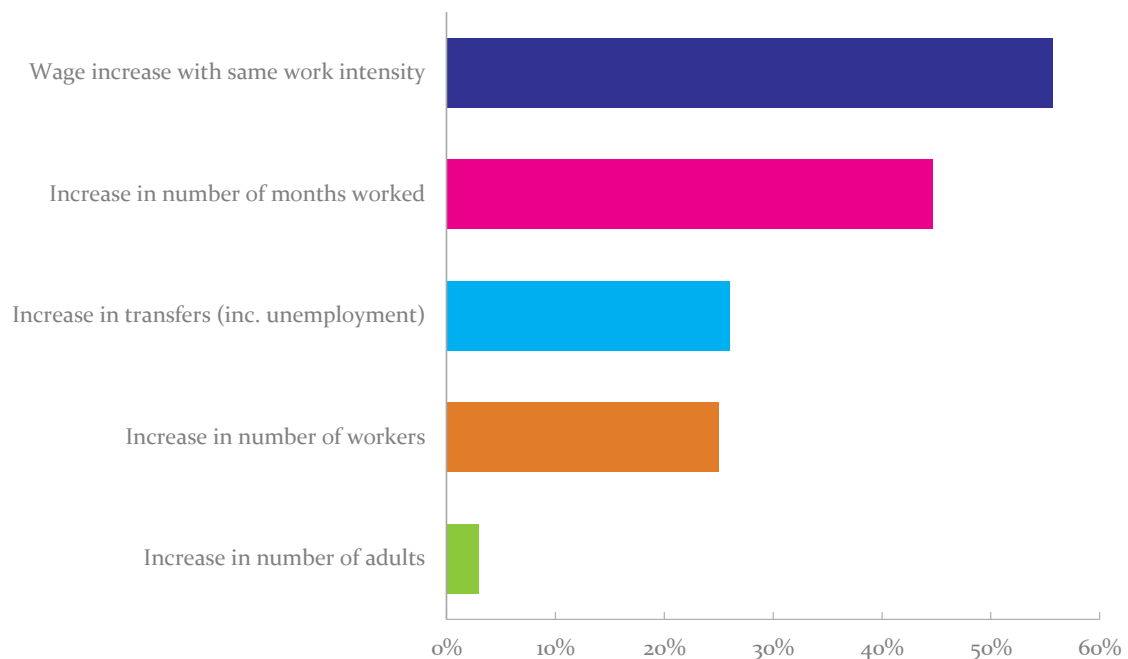
On the other hand, there are very few households that enter in-work poverty and, in turn, experience an increase in the number of members – this occurs in 8% of households – or in the number of dependent children – in 3%. This result may seem counter-intuitive, given that we have previously noted the vulnerability of households comprising children. The low relative weight of household composition factors is explained by their lower frequency in the population: births and adoptions are less common than changes in employment status. Thus, for example, one in four non-poor working households on average sees its income decrease from one year to the next, while only 3.6% of those households have more children under their care from one year to the next. In any case, it is clear that labour market-related events are crucial to understanding entering – and, as we shall see, also exiting – in-work poverty.

7

Increases in household wage income and number of months worked are crucial to understanding exiting in-work poverty

Most in-work poverty exits follow what could be categorised as a successful trajectory: employment is maintained and poverty is exited in 80% of the cases. As in the case of entering, the factors leading to exiting in-work poverty are more related to changes in the labour market than changes in household composition or public transfers (unemployment, disability and others).

Figure 8: Most households exiting in-work poverty do so because of in-work improvements
Proportion of households that become non-poor in-work households and experience the following events



Source: compiled by the authors based on EU Statistics on Income and Living Conditions (EU-SILC) 2005-2018, Eurostat.

Fifty-six per cent of in-work poverty exits are associated with increases in wage income while maintaining the same work intensity. This could be a result of finding a better job, receiving a pay rise or small increases in hours worked without changing the type of workday. On the other hand, 45% of households exiting in-work poverty do so by working more months than in the previous year, either because of an increase in the number of workers or, in most cases, because the existing workers have worked more months. The importance of this factor and frequency of in-work poverty transitions indicate the presence of a group of households living above the poverty line, but for which relatively short periods of unemployment and/or inactivity put them at risk of in-work poverty. Finally, as occurs with entering in-work poverty, household composition plays a small role: only 3% of households exiting in-work poverty show an increase in the number of adults.

8

The covid-19 pandemic has most likely increased the number of in-work poverty households

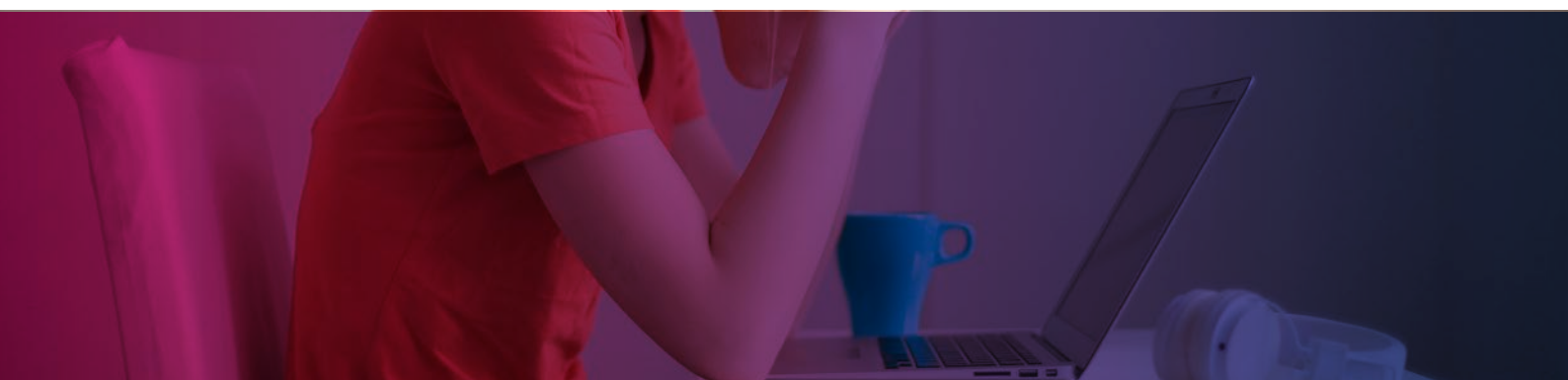
The data published so far do not allow us to analyse the impact of the covid-19 pandemic on in-work poverty. However, other research based on data from the Labour Force Survey (EPA) suggests that households with less educated workers, as well as those in lower skilled occupations, have been most affected by job losses. Furthermore, the impact of the containment measures for covid-19 is estimated to have resulted in proportionately larger wage losses for lower-paid workers. Consequently, in-work poverty households can be expected to have increased during the pandemic. On the other hand, based on current data, it is not yet known what the effect of the increase in the minimum wage (SMI) approved in 2019 by the Spanish government will be on in-work poverty transitions.

Conclusions

This paper analyses the dynamics of in-work poverty in Spain by focusing on the events associated with entering and exiting and paying attention to how in-work poverty transitions are determined by age, life cycle and gender. The presence of dependent children in households, particularly in single-worker households, emerges as a key risk factor for in-work poverty.

These results highlight the importance of low wages, in addition to periods of unemployment and inactivity, in explaining in-work poverty in Spain. This contrasts with the findings of studies at a European level, in which entering in-work poverty is mainly associated with periods of unemployment rather than low wages. It has also been found that young households, as well as households headed by women, are more likely to experience in-work poverty. There are several reasons that could explain these results. Firstly, precarious working conditions, which have affected younger generations, as well as gender inequalities in Spain's labour market. Thus, a part of in-work poverty is explained by the structure of the Spanish labour market per se. Secondly, Spain has a poor welfare system, with limited social benefits. Proof of this is that the loss of cash benefits is not apparently more relevant than labour market events in explaining entering poverty.

Because of the complexity and multiple causes of social phenomena, it is difficult to identify unambiguous policy formulas to alleviate these. Nonetheless, the results of this study can help to identify risk factors and consider what combination of measures could be developed in order to reduce in-work poverty in Spain.



Proposed actions

Reducing unemployment, especially among young people with dependent children, may be one way to reduce in-work poverty rates. There are several measures to address this challenge. For example, reducing the high level of temporary employment, which in turn leads to recurrent unemployment. Spain is one of the countries in the European Union with the highest rates of temporary employment and this is particularly pronounced among young people. It is not a question of reducing temporary contracts in sectors where this type of contract makes sense, such as tourism, but of reducing its abuse in sectors where it is not required, such as health or public administration. A successful example of this is Austria, which has created a contract with increasing rights over time, so that companies do not have to hire a worker on a permanent basis directly, but the contract can be strengthened as the company's prospects improve. This also occurs in France in companies with self-employed workers, who become permanent employees of the company as its prospects for stable demand improve.

Another measure to reduce unemployment is to increase the employability of unemployed workers through training and active employment policies. It is not simply a matter of finding jobs for the unemployed, given that active policies work when they alleviate precariousness and facilitate job transitions to better jobs. These policies could be more effective if they were more proactive, in other words, if they promoted a modernisation of the country's productive system that focuses on improving the possibilities of small and medium-sized enterprises while maintaining mechanisms for the qualification and updating of the workforce. This would lead to better quality jobs. The supply of training must also be diversified. Employment offices are not the only centres that can offer training for workers who are unemployed or in low-quality jobs, for there is a wide range of training whose potential could be explored. These include publicly owned and managed institutes, private providers, institutions offering vocational training, community-based organisations and employers conducting their own training.

In-work poverty occurs when a working household's income is insufficient to meet its financial needs. Therefore, the circumstances of the entire household must be considered when it comes to designing policy responses, not just those of the person in paid employment. The high in-work poverty rates in households comprising children, whose risk of poverty is twice that of households without children, illustrate how the scant support for households with children and the challenges of reconciliation, which cause many mothers to drop out of the labour market or to be pushed out of it, exacerbate situations of poverty. Responses to in-work poverty must therefore consider the entire household. Income guarantee or income support programmes for vulnerable households, such as the recently implemented minimum income or child guarantee currently under consideration, show great potential to reduce the risk of poverty for this group and, in turn, high in-work poverty rates.

Reducing the gender gap in the labour market could also help to lower in-work poverty rates by improving the working conditions of dual-income households and households headed by women. Evidence shows that many households, particularly those comprising children, require dual income to avoid in-work poverty. In most cases, the second income is that of the mother. Wages for women are far below those of men, and the gender gap in the labour market translates into fewer resources and fewer employment opportunities and rights for women workers. Studies have proven that programmes facilitating work-family reconciliation are successful in reducing the pay gap. Several strategies can be implemented to facilitate work-life balance: increasing spending on public childcare and care services, incorporating work-life balance in the collective bargaining of companies, promoting transparency in the selection processes and redistribution system, and combating negative gender stereotypes.

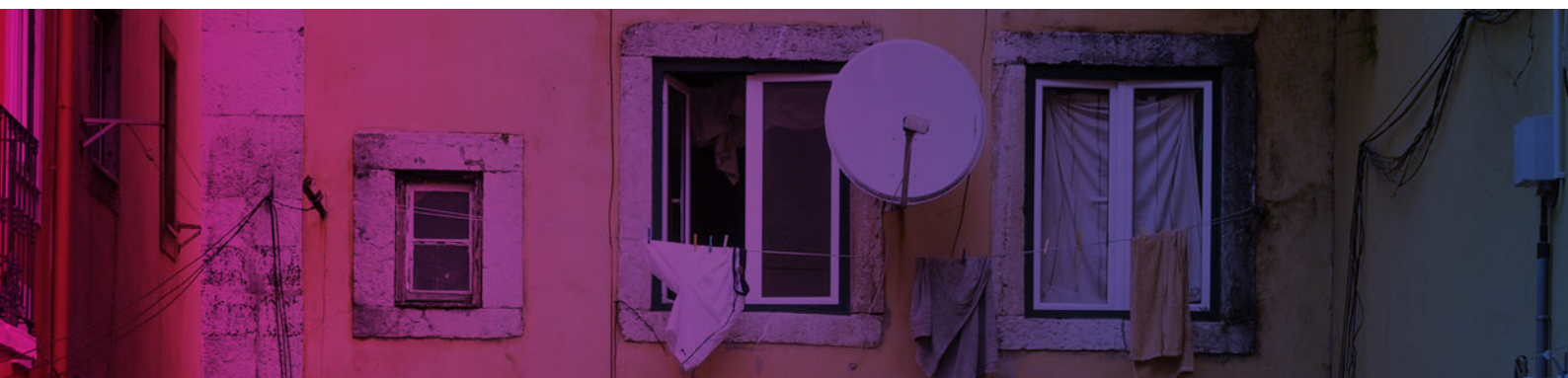


Study characteristics

Given that households share expenses and resources, in-work poverty is measured at household level. Following Eurostat recommendations, households are defined as poor if their disposable income is below the poverty line (in other words, 60% of the median adjusted for household size). In line with the EU definition, working people are those individuals of working age (aged 16-64) who have worked at least 7 out of the previous 12 months. The in-work poverty rate therefore reflects the proportion of households with one or more workers living in poverty. Reducing poverty in Spain requires reducing in-work poverty: six out of ten poor households have at least one worker.

A household may be experiencing in-work poverty because its members earn low wages or experience wage insecurity or recurrent periods of unemployment, but also because its needs are high (for example, large families or families with dependents) or because public transfers are insufficient to compensate for labour market shortcomings. Designing effective policies to reduce in-work poverty requires a closer examination of its nature, its relationship with labour market dynamics – such as low wages, unemployment and temporary work – and also the events that explain why people enter and exit in-work poverty.

This paper uses data from the European Union Statistics on Income and Living Conditions for the years 2015-2018 (the latest available at the time of this study), and it analyses changes in terms of in-work poverty on a yearly basis. It also measures the probability of entering and exiting in-work poverty from one year to the next, as well as analysing which factors are associated with these transitions.



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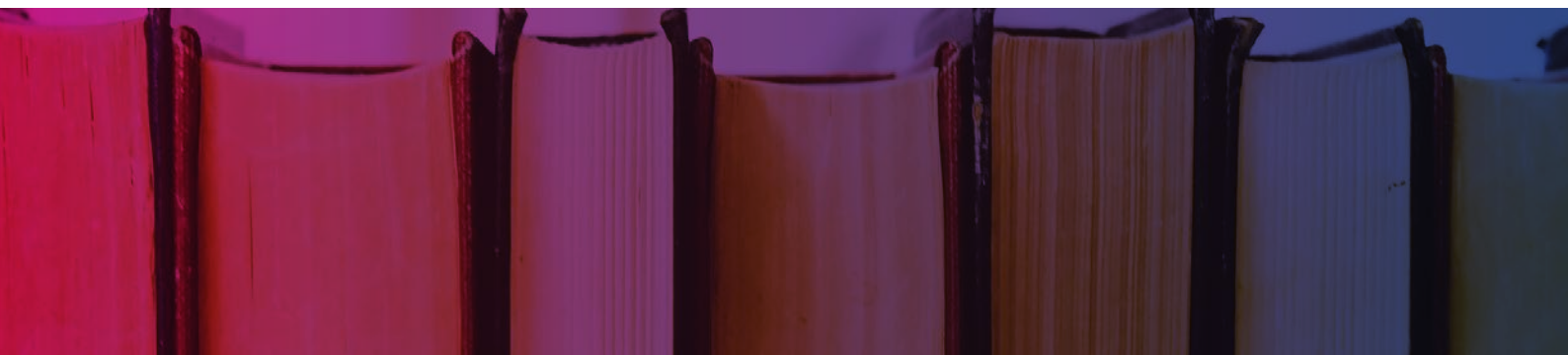
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