

Poverty Monitoring AAA Program

Working Paper Working Poor in Romania

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The findings and interpretation expressed in this paper are those of the author, and do not necessarily represent the views of the World Bank.

Introduction

There are very few empirical investigations about the working poor in Europe, whereas the problem of working poor is broadly discussed in the United States of America.

In Europe it is typical to think of 'the poor' as non-working people like the unemployed, pensioners, children, or people whose ability to work is restricted, such as single parents. In contrast to this general opinion, various studies (i.e. Strengmann-Kuhn, 2002; EIRO, 2002; Peña-Casas and Latta, 2004; European Commission, 2008; regarding extreme poor in Romania, Stanculescu and Berevoescu, coord., 2004) showed that a substantial share of the poor work and that the majority of the poor in Europe live in households with at least one household member working.

The relationship between employment, work, poverty and social exclusion – and more broadly quality of life – is of particular importance with the Lisbon Strategy. A more competitive economy capable of combining efficiency and the creation of more, and better, jobs with high levels of social protection and a greater social and economic cohesion is the founding basis for the European economic and social models. Together with the introduction of the question of quality in work and employment in the field of EU employment policies (European Commission, 2001), the 'Open Method of Coordination'¹ on poverty and social exclusion has identified the 'working poor' as a particular group which is especially concerned by both poverty and quality of work (European Commission, 2002).

In Romania, as in most European countries, workers play almost no role in the public and political debate about poverty. Empirical research on working poor is also very limited, being carried out particularly in relation to the informal economy.

In the period 2000-2006, according to the World Bank Poverty Assessment 2007, absolute poverty declined considerably from 35.9% to 13.8% of the population. Unlikely, the relative poverty trend showed a rather small increase (i.e. WB, PA 2007; Stanculescu and Pop, 2008).

Economic growth has been the main overall engine of absolute poverty reduction in Romania. After 2001, the national social protection system have expanded and increasingly targeted toward the poor as result of the various reforms of the social assistance and child protection system as well as of the pension system.

However, benefits of the renewed economic growth failed to reach all segments of the population. In 2006, about 3 million people, or 13.8% of the population, lived at or below the national absolute poverty line. The majority of the poor were children and adults who had not participated in the labour force. This paper shows that more than 1 million of this group can be classified as 'working poor'.

On the other hand, about 4.33 million persons, which represent 20.1% of the population, were at-risk-of-relative-poverty. Out of these, 1.65 million persons were 'working poor'.

¹ Launched at the Nice European Council.

Table 1 Working poor rates (% of population), Romania, 2006

	Absolute poverty	Relative poverty
Working poor	4.8	7.6
Active poor	6.0	8.8
Working poor households	10.5	17.6

Data: 2006 FBS, NIS.

Notes: *Absolute poverty*: Based on CASPIS/NIS/WB methodology; Total poverty line; Self-asserted main activity status for the previous month before the survey. *Relative poverty*: EU methodology; Poverty line – 60% of the equivalised median household disposable income; 'original' OECD scale; ILO definition of employment and unemployment. See section 1.2.3.

This paper is an empirical investigation of the 'working poor' in Romania. The analysis is organized in four parts. The first part reviews the definitions of the concept of 'working poor'. The second part refers to the 'working poor' determined based on the absolute poverty approach, while the third part focuses on the 'working poor' according to the relative methodology. The quality of employment for the working poor and the impact of social protection benefits at the working poor (relative method) level are the issues addressed in the fourth part. In the end, few policy recommendations are put forward.

How the term 'working poor' is defined affects the size and composition of the group, as well as possible policy interventions to address its needs.

Using data from the Family Budget Survey (FBS), this paper examines how alternative definitions alter the size of the working poor population. The analysis is based on a broad definition of the working poor that counts a household as poor if its consumption/income falls below the total absolute/relative national poverty line and as working if it includes at least one employed member (self-asserted employed in the previous month/worked at least one hour in the previous week). At the individual level, I analyze the job characteristics of the working poor. At the household level, I examine the demographic characteristics of the working poor and compare those to the demographics of poor households that do not work and to those of non-poor household that do work. Further, the use and impact of social protection benefits for working poor households is analyzed. The geographical distribution of working poor and working poor households is also examined.

1 Defining the working poor

For many years, poverty has been considered almost synonymous with lack of work, which was both the main explaining factor and the main way out of poverty, and it could only result from laziness or disability. The first empirical studies that contradicted this common view were originated in America (i.e. Levitan et al., 1993)

In Europe, 'working poor' has been increasingly used in the public discourse in recent years. Initially, 'working poor' was mainly used by politicians and trade unionists for labeling the poor quality employment in USA and/or for justifying higher levels of unemployment in Europe (Peña-Casas and Latta, 2004). Too often, the term was used as a synonym for low-wage worker, which is not the case as a low-wage worker may escape poverty due to earnings of other household members or social welfare benefits.² Low pay is a significant, nevertheless, only one factor among others explaining poverty (EIRO, 2002).

In recent years, the rise in atypical and precarious work patterns and a growing polarisation in the labour market between low or unskilled work and high-skilled work have created new poverty risks amongst the employed population. Thus, the 'working poor' has become increasingly applicable to social and labour market realities in the European Union.

The consequences of the deregulated labour market combine with gender and ethnic inequalities and result in social exclusion, trend which, if continues into the future, could lead to the 'Brazilianization of the West' (Beck, 2000). Nevertheless, as empirical international comparative studies showed (Stanculescu, 2003), the transition to the 'post-work society' is accompanied in Western European countries (particularly in countries such as the Netherlands and Sweden) by 'flexibilization' policies and by 'family friendly' policies, which combine in an intended political project of development, aiming to manage the risks of labour flexibility and to turn the shortage of work into time prosperity for people. It might be only partially successful, however it reflects a much greater political will in this sense than is the case in the Central and South-East countries in which both the academia and the political decision-makers have paid considerable less attention to flexibilization issue, being focused on economic reforms.

Former socialist labour markets, particularly those organized as standard-work-for-everyone (like Romania), in their transition to the market economy, have turned into work-poor and work-deregulated societies in which more and more people have lost their former jobs in socialist enterprises and start working *a' la bresillienne*. Flexibility is predominantly spontaneous, being mainly related to the development of the informal economy, the risks fall almost entirely on the individuals, and it affects to a larger extent the bottom of the skills ladders, the working poor group being significantly better represented in these countries, particularly in Romania.

² "As to the factors which prevent low-paid workers from falling into the category of the working poor, in most countries the most important are: a second (or more) wage earned by a partner or other household member; and social transfers, notably housing benefits or childcare-related allowances, plus minimum income schemes in some countries. In some southern countries an important factor is a long tradition of inclusive families, with strong ties of solidarity between members (as in Spain and Greece), along with additional property income (as in Greece) or income from farming and similar additional activity in rural areas (as in Portugal)." (EIRO, 2002)

1.1 EXISTING DEFINITIONS

Any rigorous discussion of the working poor must begin by answering two basic questions: (1) who is working? and (2) who is poor? Accordingly, existing definitions of working poor in literature vary depending on the definition and measurement of (1) work of individuals and (2) poverty of households.

The only country where an official definition (endorsed by political and administrative institutions) of the working poor exists along with a tradition of research is the US (Bureau of Labour Statistics).³ The working poor are defined as persons who, during the year, spent 27 weeks or more in the labour force (working or looking for work), but whose family incomes still fell below the official absolute poverty level (BLS, 2007).

In Europe, the most detailed and precise definition⁴ is that of the National Institute of Statistics and Economic Studies (INSEE) from France, which covers workers who: have spent at least six months of the year on the labour market; have had a job for at least one month during the year; and live in a household, in which the income per 'unit of consumption' is below 50% (60-70% occasionally) of the median equivalised household income. In most of the French studies, a distinction between active poor (working or looking for work) and working poor (working at least six months) is made.

The Eurostat definition refers to persons who are paid employees (working at least 15 hours per week)⁵ or employed (including self-employed), according to the Most Frequent Activity Status (MFAS)⁶ from the European Community Household Panel (ECHIP), and live in a family at-risk-of-relative-poverty (low-income threshold: 60% of the median equivalised disposable household income).

In many countries there is no specific definition of the 'working poor'. National statistics on the working poor are rare and based on varying definitions. Only very few comparative studies based on the same methodology were done (i.e. Eurostat, 2000; Strengmann-Kuhn, 2002; Peña-Casas and Latta, 2004).

1.1.1 WHO IS WORKING

In statistical sources, work refers only to paid work, neither domestic work, nor voluntary or illegal work being taken into consideration.

The way the activity status of the poor is defined varies widely in the literature and concerns different groups of population (Peña-Casas and Latta, 2004). It ranges from 'active poor' - the full labour force, employed and unemployed (France, US, Australia), to 'working poor' - the employed population. Among those in employment, a distinction is made according to the intensity of employment: at household level based on the number of hours worked by the household in the last year (at least the equivalent of one full-time job in the household); at individual level based on the number of working hours (full-time/full year, at least part-time);

³ The U.S. Bureau of Labor Statistics began measuring the working poor in 1987 and has since reported annually on the profile of the working poor in the US (www.bls.gov).

⁴ National Action Plan for Social Inclusion 2001-2003/2003-2005.

⁵ Eurostat (2000), data for 1996. The study showed that 8% of employees in the EU-13 member states were 'working poor', with the highest rates in Germany and Italy, and the lowest in Denmark and Portugal.

⁶ Self-asserted main activity status, which is determined for the previous full year before the survey by using a 'calendar of activities'. Each household member aged 16 or more is asked to state for each month of the previous year their main activity according to a choice of 11 possibilities with different profiles of work intensity. The MFAS is determined on the basis of the number of months spent in each state. Five broad categories are created: employed, self-employed, unemployed, retired and other economically inactive.

or the number of months spent in employment in the previous year regardless of the number of hours worked (France and US). Thus, the scope of a study can vary from people employed full-time/full year or other populations in employment (full-time/part-time) for a certain number of hours or months in the previous year.

On the other hand, in some studies (i.e. Strengmann-Kuhn, 2002) the definition of working poor is extended from more or less restricted groups of workers to all household members who live in a poor household with at least one worker, which are called 'employed households'.

In most of the comparative international studies, for employment the definition of the International Labour Organisation (ILO) is used. Population aged 16 (15 - occasionally) or more is classified by main activity into:

- active (labour force), which comprise
 - o employed (people who worked at least one hour in the week before the survey) and
 - o unemployed (people who do not have a job, look for a job and available to start working in the next 15 days after the interview) and
- economically inactive (usually divided in pensioners, other inactive and children 0-15 years).

1.1.2 WHO IS POOR

There is a variety of poverty definitions and measures. Both the absolute (US, Australia) and the relative approaches are used. The relative monetary approach is the most common method among EU researchers and institutions, which has been endorsed through the work of Eurostat and policy references at EU policy level.

Household income (yearly, monthly or weekly, including or not in-kind incomes), not each individual's income, is used as welfare function in most European countries. The income concept is household disposable income.⁷ In order to allow comparisons of households of different size and composition, household income is equalized, most often using the 'original' or the 'modified' OECD equivalence scale. Household disposable income divided by the number of equivalent adults is the household disposable equivalent income. The poverty threshold is 40%, 50% or 60% of the median or average income.

Commonly used definitions include households with at least one income from full or part-time employment, whose incomes are less than half or 60% of the median income (UK), or households with a disposable income after tax below 40%, 50% or 60% of the median or average income (Norway), or households with a low income and insufficient 'social chances' (Austria).

Studies on inequality and poverty in Romania, with very few exceptions, use the population consumption expenditures as the welfare indicator. In 2002, the Anti-Poverty and Social Inclusion Commission (CASPI) the National Institute for Statistics and the World Bank developed jointly a methodology of poverty measurement (WB PA, 2003), which is currently used by the Romanian Government in the design of social policy regulations and programmes.

⁷ Total household disposable income is defined as the total net monetary income (i.e. without social contributions and withheld income tax) received by the household and its members.

1.1.3 'WORKING POOR' IN THIS PAPER

In this paper six definitions of 'working poor' are used.

	<i>Absolute poverty</i>	<i>Relative poverty</i>
	<i>Consumption expenditures</i>	<i>Disposable income (incl. in-kind)</i>
	<i>CASPIS/NIS/WB methodology</i>	<i>'Original' OECD equivalence scale</i>
	<i>Total poverty line (1060658 lei)</i>	<i>Below 60% of the national median</i>
Working poor	Self-asserted main activity status for the previous month - employed	ILO definition of employed, 15 years or more
Active poor	Self-asserted main activity status for the previous month - employed or unemployed	ILO definition of economically active, 15 years or more
Working poor households	All people living in a poor household with at least one employed member	All people living in a poor household with at least one employed member
Source of data	2003-2006 FBS, NIS	2006, FBS, NIS

Note: The 'original' OECD equivalence scale: the weight of one adult is 1, the weight of other persons aged 15 or more is 0.7, and each child (0-14 years) is weighted as 0.5.

The shares of the six groups in total population (the working poor rates) are presented in Table 1.

1.1.4 STUDY LIMITATIONS

First limitation of this study is the lack of data that would permit the use of an international definition of the 'working poor'. The definitions based on absolute poverty are in line with the US definition, but do not allow comparison. On the other hand, the definitions based on relative poverty are in line with some European studies (i.e. Strengmann-Kuhn, 2002), but differ from those of Eurostat.

Other limitations refers to the biases inherent in surveys such as the omission or inadequate coverage of informal incomes, low coverage of the poorest and the richest segments of society, underreporting and seasonality of income, which are more problematic for surveys that are designed so that households report income and expenditures for one month, such as the Romanian FBS. The major drawback of the short recall period is that usually both income inequality and poverty are overestimated. This paper, however, is based on annual income estimates that were derived from information over 12 months.

2 Working poor in absolute poverty

Source of data: 2003-2006 FBS, NIS.

Method: Compare the working poor with poor non-working and non-poor working

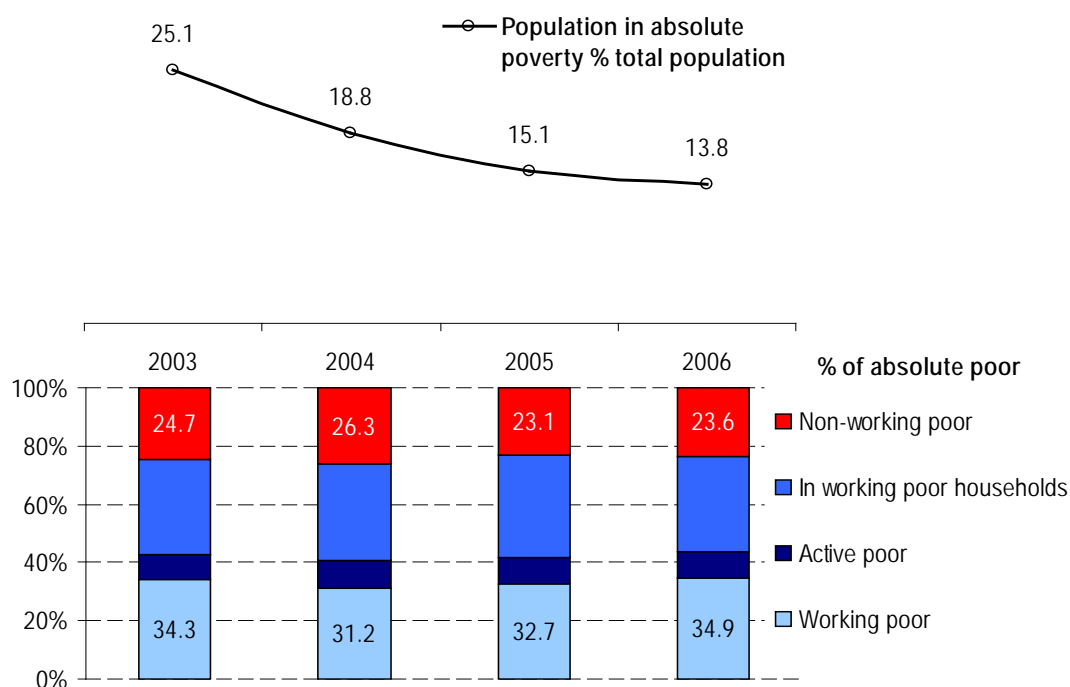
Concepts: In this section, 'working poor' is a person aged 15 or more who self-declares 'employed' as the main activity status in the month prior to the survey and lives in a household with consumption expenditure per adult equivalent below the total absolute poverty line. The 'active poor', besides 'working poor', include persons of 15 years or more who self-declare 'unemployed' in the previous month. The 'working poor households' refer to all people living in households in absolute poverty with at least one member who self-declares 'employed' as the main activity status in the month prior to the survey.

2.1 WORKING EFFORT AMONG THE ABSOLUTE POOR

The majority of the absolute poor in Romania are working poor. The absolute poverty rate has reduced from 25.1% in 2003 to 13.8% in 2006. The structure of the absolute poor, nevertheless, has not changed (Figure 1). During the entire period, about a third of the absolute poor have been working poor, more than 40% have been active poor, and more than 75% of the poor live in working poor households.

The number of working poor persons decreased from almost 1.9 million in 2003 to about 1 million in 2006. The number of persons living in working poor households followed the same trend, diminishing, between 2003 and 2006, from 4.1 to 2.3 million.

Figure 1 Absolute poverty rates and structure by working effort, Romania 2003-2006

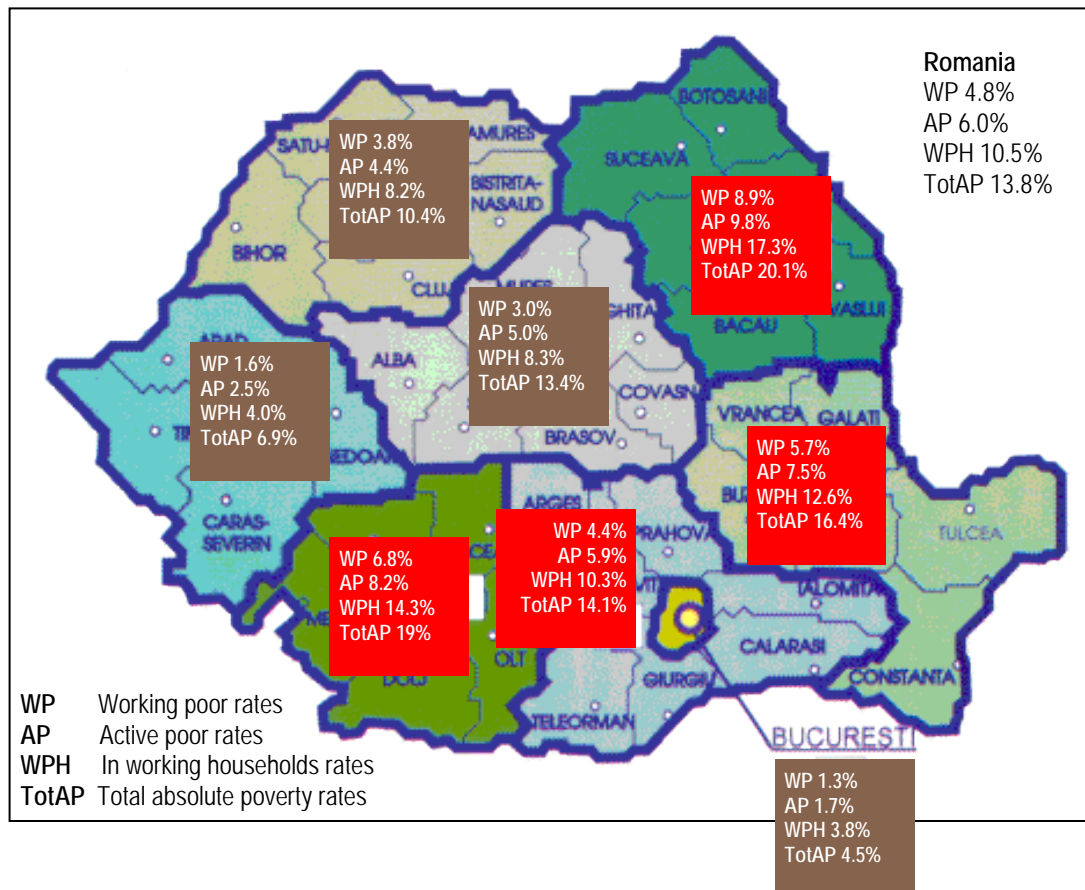


Data: 2003-2006 FBS.

2.2 GEOGRAPHICAL DISTRIBUTION

Eastern and Southern regions have substantially higher working poor rates than the other regions of the country. The distribution of the working poor by regions follows the same pattern as the one of absolute poverty. Thus, in the period 2003-2006, the North-East and South-West regions have had working poor rates considerably higher (of 9% and 7% of population respectively, in 2006) than the other regions, particularly the West and Bucharest-Ilfov regions (with working poor rates of 1-2%).

Figure 2 Working poor rates by region, Romania, 2006



Eastern and Southern regions supply most of the working poor. The share of North-East region among the working poor has increased from 29% in 2003 to 32% in 2006. The cumulated share of the Southern regions has remained fairly constant around 45-50% of the working poor.

The number of the working poor has decreased in all regions, while the number of working non-poor has increased. Between 2003 and 2006, the West and South regions have registered the largest drop in the number of working poor. The number of the non-working poor has also declined. On the contrary, the number of the non-working non-poor adults aged 15 or more has increased in all regions, except for Bucharest-Ilfov. In the same time, the number of working non-poor has increased by 10-to-34 percentage points, particularly in the North-East⁸ and South regions (Figure 3). The

⁸ The share of working non-poor has increased between 2003 and 2006 from 33 to 44 percent in the North-East region and from 31 to 41 percent in the South region.

share of working non-poor in the population of 15 years or more has been, however, the highest in Bucharest-Ilfov (51% in 2006).

Figure 3 Population aged 15 or more by region and by working poor categories, 2003-2006

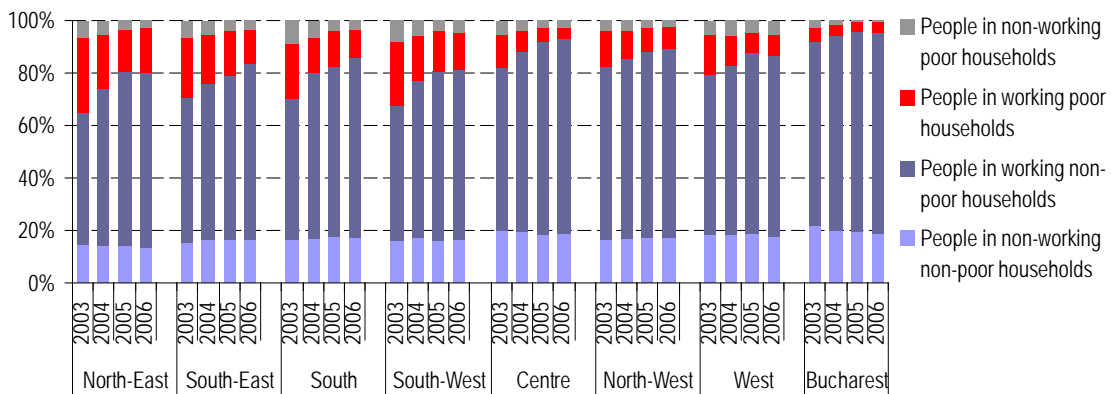


Data: 2003-2006 FBS.

The abovementioned trends are applicable also to the active poor and to the people living in working poor households. The North-East and South-West regions have registered the highest active poor/working poor households rates. Eastern and Southern regions have supplied about 73-75% of the active poor/people from working poor households in Romania, during the entire period 2003-2006. The number of active poor has sharply reduced in all regions (the largest drop was registered in the West and South regions), whereas the number of active non-poor has increased particularly in the North-East and South regions.

Also, the number of people living in working poor households has drastically declined, particularly in the West and South regions. In contrast, the number of people living in working non-poor households has grown (the highest increase was registered in the North-East and South regions). However, in 2006, the share of population living in working non-poor households ranged between 65-67% of population in the poorest regions North-East, South West and South East, 69% of population in the South and Centre regions, 73-74% in West and North-West, and 77% in Bucharest-Ilfov (Figure 4).

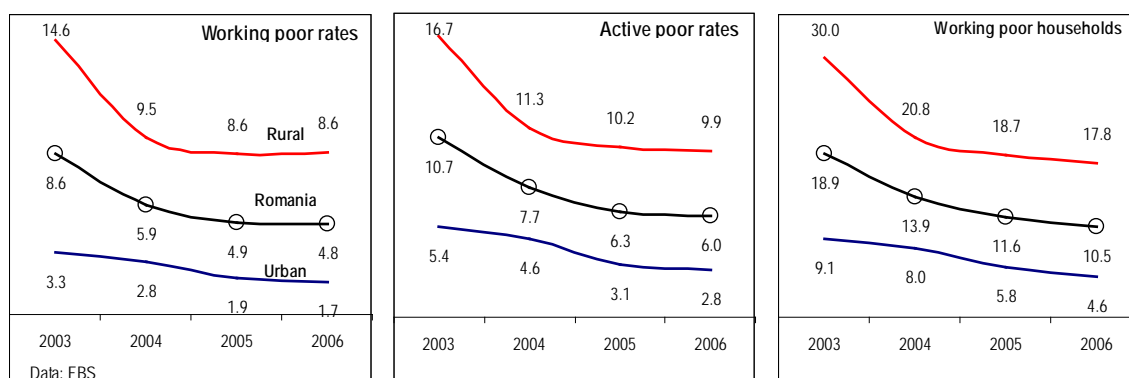
Figure 4 All population by region and by categories of working poor households, 2003-2006



Data: 2003-2006 FBS.

Working poor are concentrated mostly in rural areas (Figure 5). In the period 2003-2006, the working poor incidence of rural population was 4-5 times higher than among urban residents; the incidence of active poor as well as that of the population living in working poor households was 3-4 higher. About 80 percent of the working poor and more than 75 percent of people living in working poor households are located in rural areas.

Figure 5 Working poor rates (% of population) by residential areas, 2003-2006



In the rural areas from the North-East, South-West and South-East regions, employment is not a sure out of poverty. Although the situation has improved since 2003, in these rural areas, an important part of the employment (30% in North-East, 30% in South-West, and 26% in South-East, respectively) was working poor in 2006. In addition, 20-26 percent (in 2006) of total population located in these particular rural areas was living in working poor households.

Employment from small towns located in the North-East and South-East regions is the mostly exposed to the risk of being working poor (in absolute poverty). 'Urban' is not a homogeneous category. In the large and medium-large cities, the working poor represent less than 3 percent of employment, which is a level comparable with the EU-average. In contrast, in medium and small towns, share of the working poor in total employment almost doubles. Most worrying situation, in the small towns from the North-East region, as much as 12% of employment was working poor, in 2006. In small towns of the South-East region the share of working poor was even higher, namely 14 percent.

These results clearly indicate the need for anti-poverty programmes targeted towards rural areas and small towns from the North-East, South-West and South-East regions.

2.3 PROFILE OF THE WORKING POOR

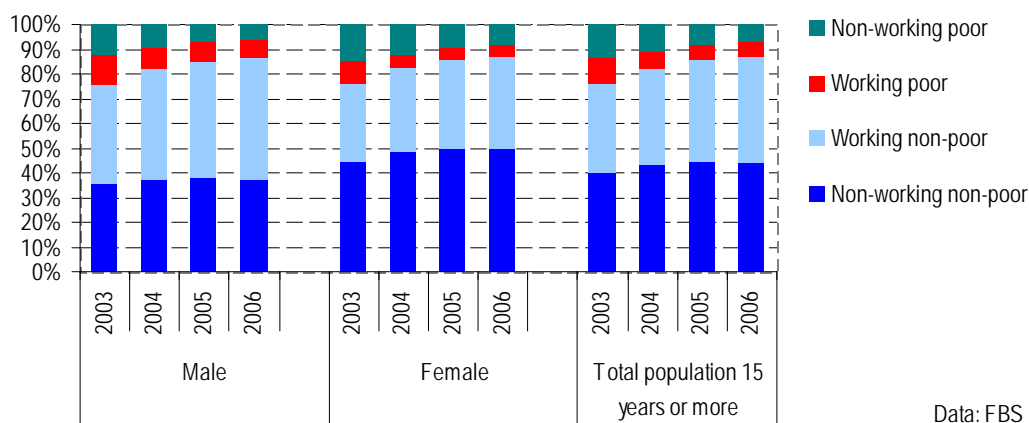
According to the definition, 'working poor' is a person aged 15 or more who self-declare 'employed' as the main activity status in the month prior to the survey and live in a household in absolute poverty.

This section examines the main individual characteristics of the working poor and compares those to the characteristics of the 'non-working poor' (person of 15 years or more who self-declare unemployed or economically inactive and belong to a poor household) and to those of 'working non-poor' (person of 15 years or more who self-declare employed and belong to a non-poor household).

Men face a higher risk of being working poor than women. The incidence of the working poor among men is higher than among women and the gender gap has grown during the period 2003-2006. The working poor rate for men declined from 12.3

percent in 2003 to 7.3 percent in 2006, which, however, was 1.7 times higher than the working poor rate of women (4.2 percent). The share of women in total population aged 15 or more is 51.7 percent, while the share of women among working poor has been about 40 percent, among working non-poor has been 45 percent, and among non-working poor has slightly fluctuated around 59 percent.

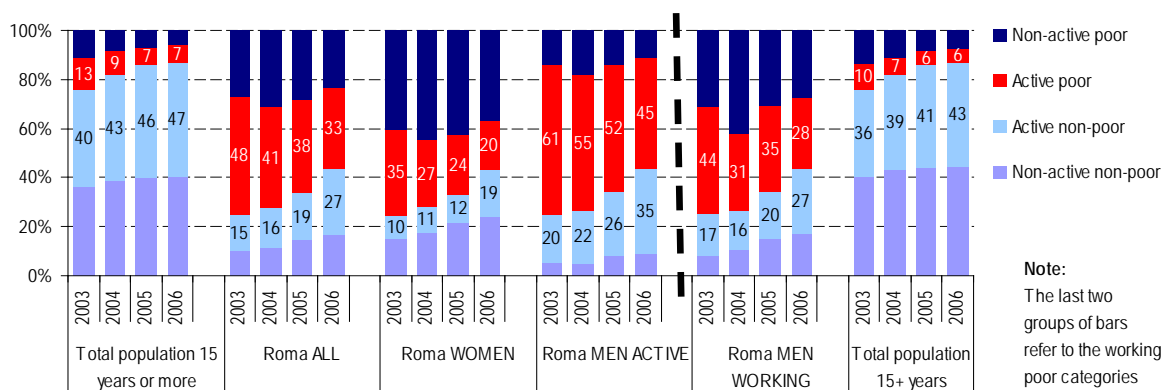
Figure 6 Population aged 15 or more by gender and working poor categories, 2003-2006



Divorce, separation, widowhood or the presence of children in household are factors that influence the risk of being working poor neither for women nor for men. Instead, living in a consensual union increases the risk for both women and men.

Among ethnic groups, Roma have a disproportionately high risk of being working poor. The distribution of population aged 15 or more with different ethnic affiliation is rather similar with one notable exception, namely the Roma. The widely spread discriminatory attitudes against Roma combined with Roma poor education determine difficult access and predominantly marginal positions for them on the labour market.

Figure 7 Roma population aged 15 or more by gender and by active and working poor categories, 2003-2006



Data: 2003-2006 FBS.

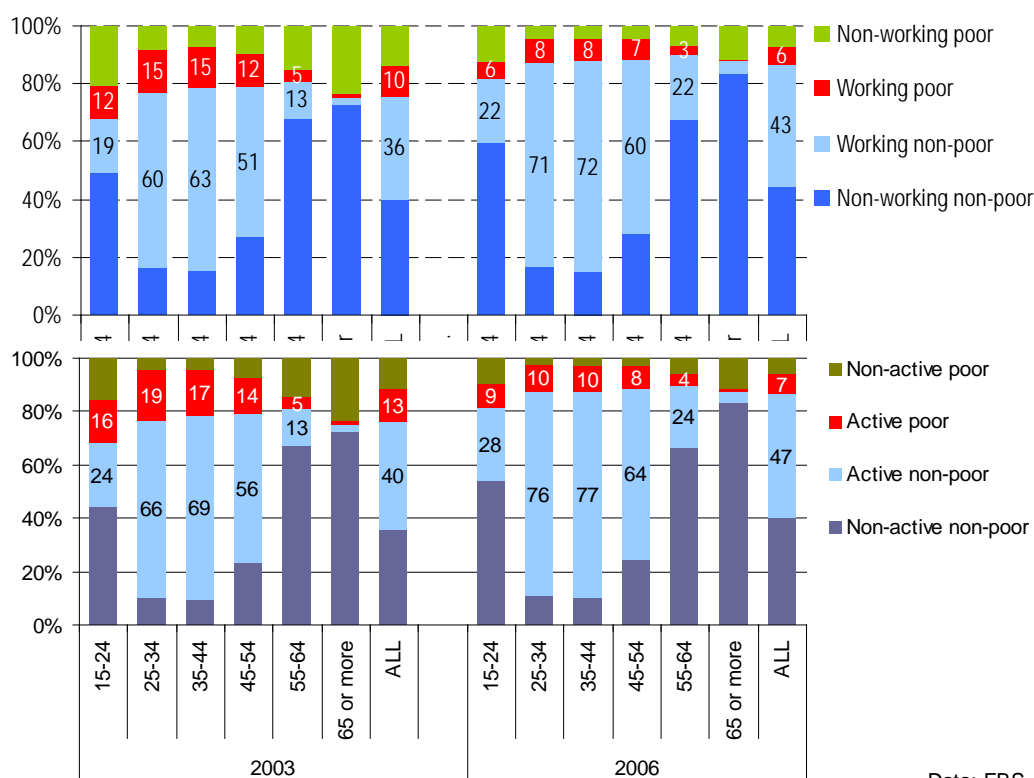
Several features of Roma situation are highlighted in Figure 7. Firstly, the Roma women have increasingly refrained from self-declaring economically active. While in 2003, 44% of Roma women aged 15 or more self-declared active, in 2006 the share

diminished to 39 percent, which was well below the share of the Romanian women (46%) who did so. This behaviour, however, seems to be common to women from all minority ethnic groups. Secondly, the Roma men tend to self-declare economically active. Every investigated year, about 80% of Roma men self-declared active, which was considerably higher than the proportion of men (and women) from other ethnic groups who did so (in proportions of about 60 percent). Nonetheless, only about 55% of them were working in the month prior to the survey, which was also the case of men from all other ethnic groups. This large share of men self-declaring unemployed is a reflection of the difficult access of those willing to work on the labour market. Thirdly, the data show that Roma's lack of commitment to work (always put forward in discourses about Roma poverty and social exclusion) is only a stereotype and not reality. Roma women have to care for large families with many children and Roma men are as willing as any other men to find job. Fourthly, the high proportion of active poor among active (and working poor among those working) indicate a real need for an effective policy for social inclusion of Roma population.

The issue of working poor in Romania is not, however, synonymous with the 'Roma problems'. Roma share among working poor has increased between 2003 and 2005 and then declined in 2006, but it has never exceeded 11 percent of the working poor from Romania. More than 85% of the working poor are Romanian ethnics.

Both women and men aged 55 or more have a substantially lower risk of being working poor mainly due to their lower participation in the labour force (Figure 8).

Figure 8 Population aged 15 or more by age groups and by active and working poor categories



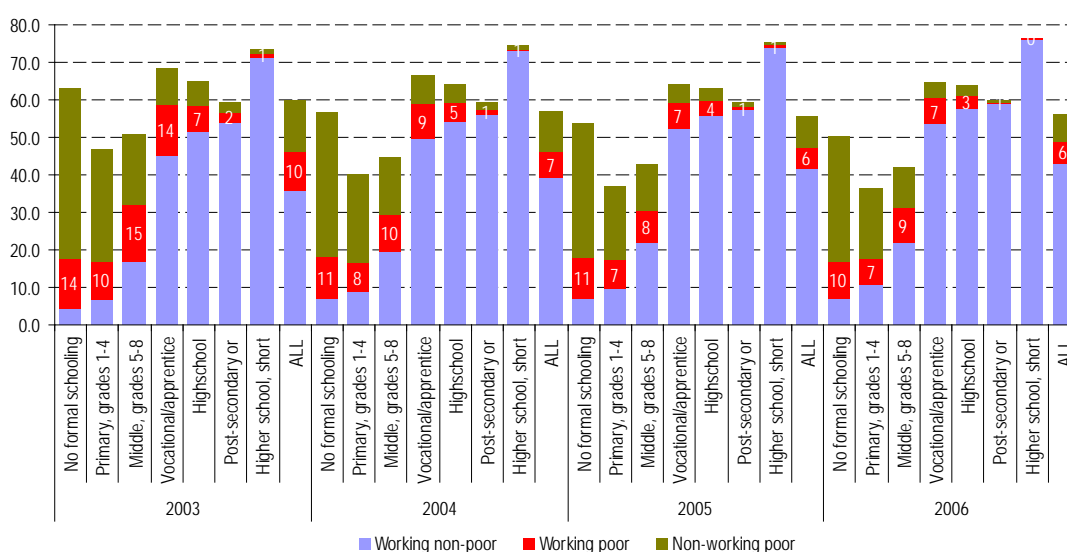
The young 15-24 years and old-age (65 or more) employment face the highest risk of being working poor. In 2006, the working poor accounted for 22% of the young employed and 19% of the elderly employed. Thus, out of the 929 thousand young employed, 205 thousands were working poor. Out of the 165 thousand elderly employed, more

than 31 thousands were working poor. Employment aged 25-64 years includes a much lower share of working poor (about 10 percent, in 2006).

A half of the working poor in Romania are 25-44 years. The young (15-24 years) and people of 45-54 years account for 20 percent each, while people aged 55-64 or 65 years and over hold significant lower shares among the working poor: 7% and 3% respectively, in 2006.

The polarization in the labour market between low or unskilled workers and high-skilled workers has grown between 2003 and 2006 (Figure 9 and Figure 10). The working poor rate of people with no formal schooling was 16 times higher than the working poor rate of university graduates. This ratio has increased to 27 in 2006. The situation is similar for people with elementary schooling, whose working poverty rate increased from 12 to 19 times higher than the one of the university graduates in 2006.

Figure 9 Population aged 15 or more by education level and by working poor categories



Data: FBS.

Note: Highschool, including low highschool, grades 9-10

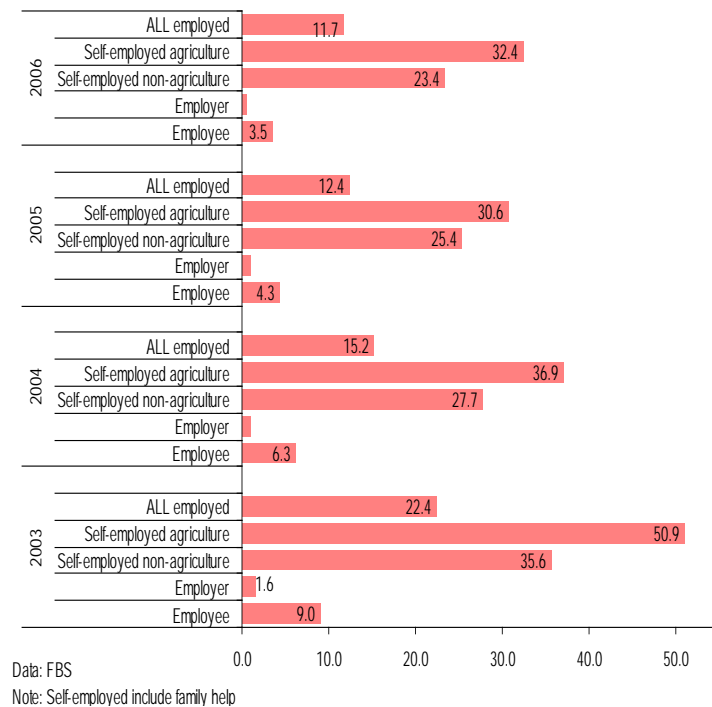
The situation of poorly educated people who succeeded entering labour market although has improved in recent years is still worrying. About 60% of employed with no formal schooling, 40% of employed with elementary education and 30% of the employed with middle education were working poor in 2006. In contrast, the share of working poor was 11 percent among employed with vocational training, 5% among employed who graduated high school and near zero for those with higher education.

Vocational training helps for entering labour market but does not protect against being working poor. Graduates of vocational training have been more successful in entering labour market than people with low or no formal schooling, during the entire period (Figure 9). Nonetheless, vocational training has been rather inefficient in protecting workers against becoming working poor. The working poor rate of the vocational school graduates has been near the rates of low or uneducated people, which is almost two times higher than that of the general high school graduates.

Most working poor are gymnasium or vocational school graduates. In 2006, out of all working poor, 41 percent were gymnasium graduates, 25 percent were vocational school graduates, 16 percent had high school, 14 percent primary education, 4 percent had no formal schooling and less than 1 percent had higher education.

Self-employed have disproportionately high risk of being working poor. The working poor rates were, in 2006, 32 percent of self-employed in agriculture and 23 percent of non-agricultural self-employed respectively, compared to 3.5 percent of employees and near zero in the case of employers.

Figure 10 Working poor rates by employment status



The incidence of working poor among self-employed in agriculture was decreasing until 2005, but in 2006 slightly increased. This highlights once again the vulnerability of the Romanian self-employed in agriculture. Work is clearly not a way out for many of them, precisely because success in escaping poverty depends more on the climatic conditions than on their own efforts.

The majority of working poor are self-employed in agriculture. The share of agricultural self-employed has constantly been higher than 60 percent. In 2006, it was 64 percent.

The share of non-agricultural self-employed has sharply increased from 9 percent in 2003 to 16 percent in 2006.

Employees are the second largest group of working poor, although the share of employees among working poor has decreased from 28 percent in 2004 to 20 percent in 2006. Thus, in 2006, more than 660 thousand self-employed in agriculture (out of more than 2 million in the country) and about 209 thousand employees (out of more than 6 million) made up 80 percent of all working poor in Romania.

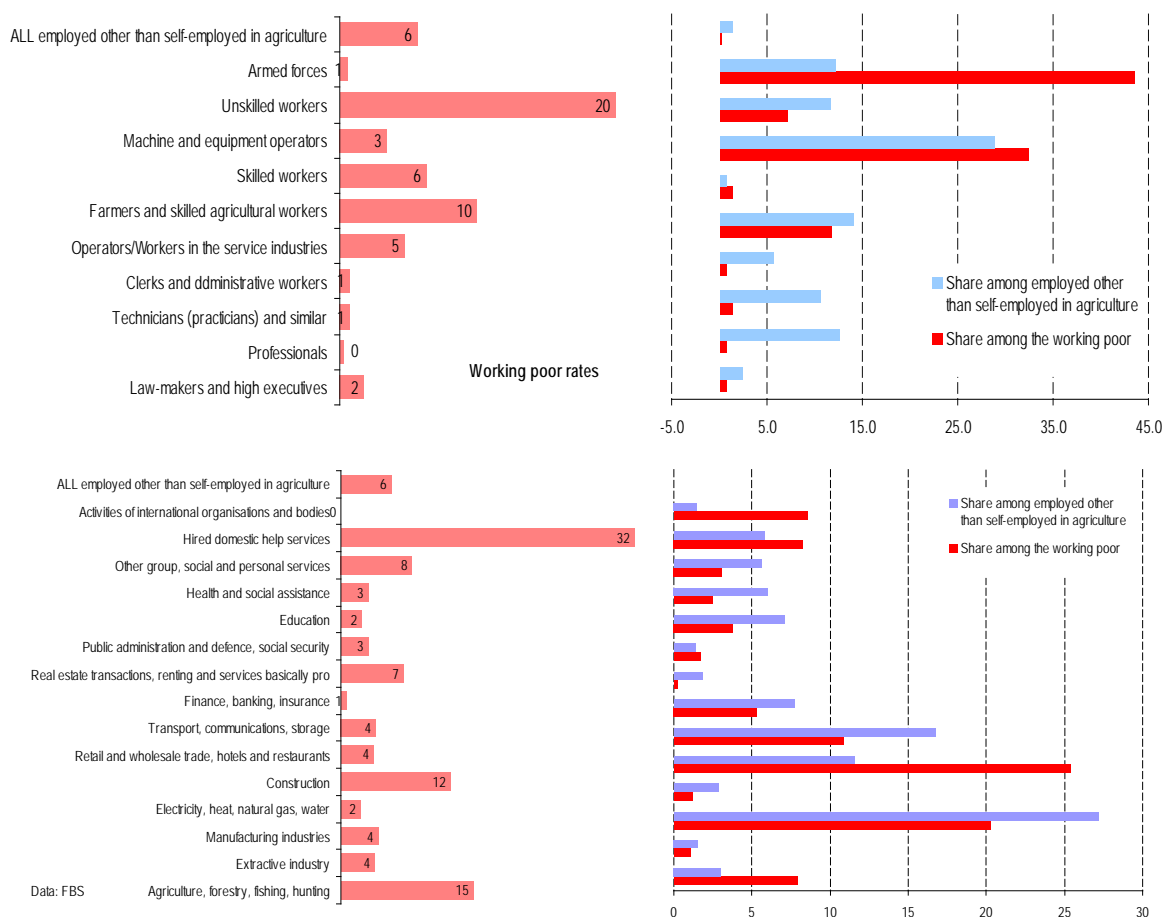
Working poor other than self-employed in agriculture are mainly unskilled workers, skilled workers and service operators/workers (Figure 11). The share of the unskilled workers among working poor other than self-employed in agriculture has continuously grown (from 30 in 2003 to 44 percent in 2006), while the share of skilled workers has followed an opposite trend, diminishing between 2003 and 2006 from 41 to 32. Workers in the service sector have continually represented some 12 percent of the working poor other than self-employed in agriculture.

Higher risk of being working poor (other than self-employed in agriculture) have unskilled workers and skilled workers in agriculture. The risk of being working poor has declined for all professional categories, but even so the working poor rate of unskilled workers was as high as 20 percent, in 2006. The working poor rate of the skilled workers in agriculture was 10 percent, which is half of that of the unskilled workers but in the same time almost double than the working poor rates of the skilled workers in industry (6 percent, in 2006) and of the service workers (5 percent, in

2006). Law-makers and high executives, professionals, technicians, clerks, and armed forces have working poor rates near zero.

Higher risk of being working poor (other than self-employed in agriculture) have employed in agriculture, forestry, fishing and hunting, construction and particularly those hired in domestic help services. Nonetheless, in 2006, most working poor were concentrated in construction, manufacturing industries, retail and wholesale trade, hotels and restaurants.

Figure 11 Working poor among the employment other than self-employed in agriculture by professional categories and by activity type, 2006



In conclusion, most of the working poor in Romania are men aged 25-44 years, graduates of gymnasium or vocational school, who works either as self-employed in agriculture or as unskilled (less frequent as skilled) workers in construction, manufacturing industry or trade, tourism and catering. Therefore, in order to have impact on working poor, a policy should improve the situation of these specific groups of people.

Nevertheless, several smaller groups of persons have disproportionately high risk of being working poor, namely Roma, young and elderly workers, very low or uneducated people, and workers hired in the domestic help services. Therefore, policies aiming improvement of the access and situation in the labour market of Roma, young and elderly workers, and low or uneducated persons may have a small impact on reducing the incidence of working poor, but address the groups in the most vulnerable situations.

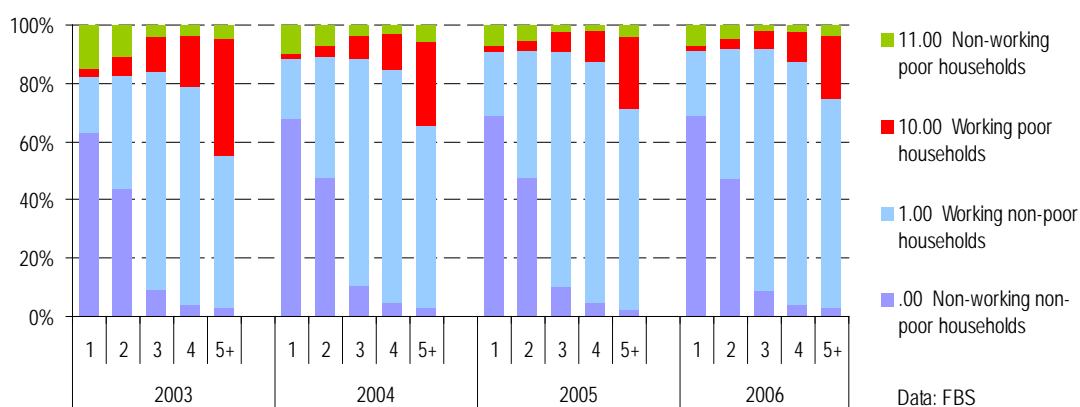
2.4 DEMOGRAPHIC PROFILE OF THE WORKING POOR HOUSEHOLDS

According to the definition, 'working poor household' is a household in consumption absolute poverty with at least one member aged 15 or more who self-declare 'employed' as the main activity status in the month prior to the survey.

This section analysis the main demographic characteristics of the working poor households and compares those to the demographics of poor households that do not work (*non-working poor households*) and to those of non-poor households that do work (*working non-poor households*).

People living in large households of five members or more in the same time face a higher risk of working poor households and represent the majority (53-55 percent) of people living in working poor households. The risk of being working poor household has been considerably higher for large households as compared with the smaller ones, during the entire period 2003-2006. In 2006, the risk of being working poor household varied between 2 percent of one-person households, 3 percent of couples, 6 percent of households with three members, 10 percent of households with four members, and 22 percent of large households of five members or more.

Figure 12 Rate of population living in working poor households by household size, 2003-2006



Most one-person households tend to be non-working non-poor (typically, old-age widow), the two-person households are almost equally divided between non-working non-poor (typically, couple of pensioners) and working non-poor households (typically, young couples). In contrast, in about 90 percent of households of three members or more at least one member works, but the larger the household, the higher its risk of being working poor.

Most working poor households are no-earner or one-earner households. Although, by definition, the working poor households have at least one working member, most of the working poor households (48 percent, in 2006) have no cash-income earner; the majority is households of self-employed in agriculture. In another 33 percent of them, there is only one cash-income earner. Less than 20 percent of the working poor households include two cash-income earners or more.

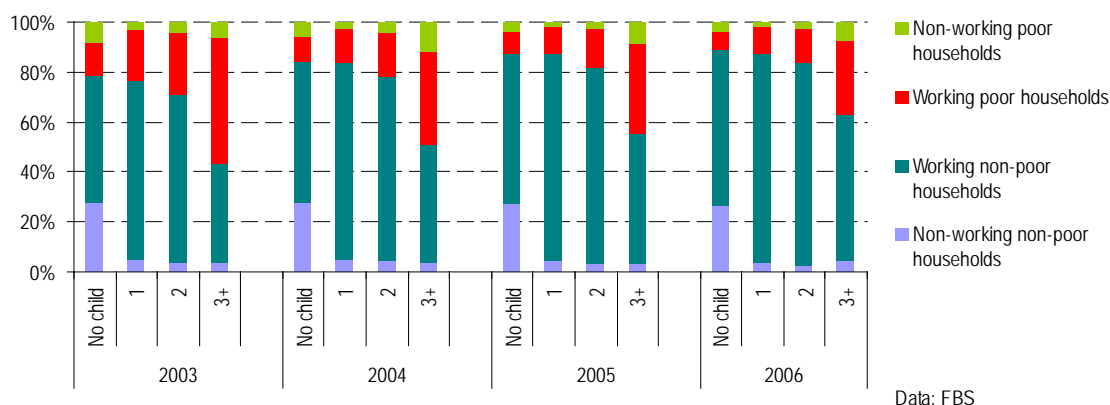
As expected, people in households of no- or one-(cash-income)-earner have a two-three times higher risk of being working poor as compared with people in households of two-(cash-income)-earner or more. In 2006, 15 percent of no-earner households and 12 percent of one-earner households were working poor.

The larger is the number of children (0-14 years) in household, the higher its risk of being working poor. People in households with three children or more have had a risk of

living in working poor households three-four times higher than the risk of people living in no-child households.

The majority of people living in working poor households (43 percent, in 2006) belong to no-child households.

Figure 13 Rate of population living in working poor households by number of children in household, 2003-2006



The number of children (0-15 years) living in working poor households has sharply decreased from 32 percent in 2003 to 17 percent in 2006. Yet, in 2006, more than 2.7 million children lived in working poor households. The majority of them (79 percent) were located in rural areas. On the other hand, the share of children living in working non-poor households increased considerably, reaching 75 percent of children in 2006.

Table 2 Distribution of children (0-14 years) by categories of working poor households

	2003	2004	2005	2006 Romania	2006 Urban	2006 Rural
Non-working non-poor households	4.0	4.6	3.8	3.8	4.5	3.2
Working non-poor households	59.6	66.6	71.6	74.6	83.1	67.8
Working poor households	31.8	22.3	20.6	17.4	8.1	24.9
Non-working poor households	4.6	6.6	4.1	4.2	4.3	4.1
Total	100	100	100	100	100	100

Data: FBS. Absolute poverty based on per adult equivalent consumption.

The risk of living in a working poor household is for elderly two times lower than for children. The share of people aged 65 or more living in working poor households has decreased from 14 percent in 2003 to 8 percent in 2006. In 2006, 820 thousand persons of 65 years and over lived in working poor households, out of which only 14 percent in urban areas.

In conclusion, both children and elderly living in working poor households are concentrated mostly in households of self-employed in agriculture, which are located in rural areas. Therefore, working poor now could have long-term consequences for more than 2.7 children (out of which 2.16 million in rural areas) in Romania. Swift action is needed, because fighting child poverty is the most effective way to prevent working poor in the future.

3 Working poor in relative poverty

Source of data: 2006 FBS, NIS.

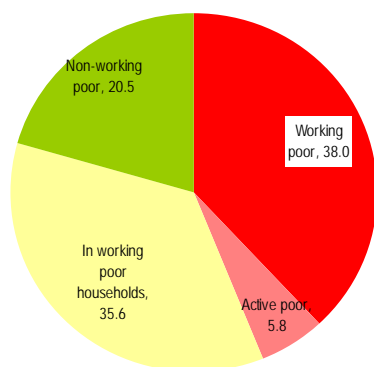
Method: Compare the working poor with poor non-working and non-poor working

Concepts: In this section, 'working poor' is a person aged 15 or more who is employed, according to the ILO standards, and lives in a household at-risk-of-relative-poverty, that is a households with total equivalised ⁹ disposable income (including self-consumption) below 60% of the national median. The 'active poor' include 'working poor' and unemployed, according to the ILO rules, living in a household at-risk-of-relative-poverty. The 'working poor households' refer to all people living in households at-risk-of-relative-poverty with at least one employed member.

So, in the next pages, I change the poverty approach from absolute to relative and turn from self-asserted occupational status to occupational status defined based on standard international rules. The main aim of this section is to examine the employment characteristics of the poor and the income of working poor households as well as the impact of social protection benefits for them.

3.1 WORKING EFFORT AMONG THE RELATIVE POOR

Figure 14 Structure of the population at-risk-of-poverty by working effort, 2006



In Romania, in 2006, 20.1% of the population was at-risk-of-poverty. The structure of the relative poor by working categories is shown in Figure 14.

The majority of the relative poor in Romania are working poor. In 2006, 38% of the relative poor were working poor, more than 44 percent were active poor, and 79% of them lived in working poor households.

A number of 1,6 million persons were working poor, and more than 3.4 million people lived in working poor households.

The main findings of the previous sections, concerning geographical distribution and profiles of the working poor and of the working poor households, do not fundamentally change. There are variations in shares in percentages, but nearly all highlighted correlations remain significant.

3.2 QUALITY OF EMPLOYMENT OF THE WORKING POOR

As we have already showed, self-employed have disproportionately high risk of being working poor. Self-employed in agriculture have the highest risk of being working poor and, in the same time, represent the largest group of working poor (be it absolute or relative poverty).

Employees have a significantly smaller risk of being working poor, but they form the second largest group of working poor. Among employees, skilled workers in

⁹ The 'original' OECD equivalence scale: the weight of one adult is 1, the weight of other persons aged 15 or more is 0.7, and each child (0-14 years) is weighted as 0.5.

agriculture and particularly unskilled workers mainly in construction, manufacturing industry and trade, tourism and catering are the mostly exposed. Thus, the working poor are in lower status occupations than their non-poor counterparts. Table 3 describes the jobs that the working poor employees hold and compares those jobs to those held by non-poor employees.

Table 3 Working poor employees and non-poor employees: indicators of quality of employment, 2006

	% of Working non-poor EMPLOYEES	% of Working poor EMPLOYEES
Full-time working program	99.2	97.1
Part-time working program	0.8	2.9
No labour contract	0.6	3.0
Long-term labour contract	96.8	88.2
Short-term labour contract	2.6	8.8
Receive in-kind benefits	23.6	8.8
Searched for a job in the previous week	1.1	2.4
Number	5,771,135	291,562

Data: FBS. Relative poverty based on per adult equivalent income (including self-consumption).

The working poor employees' jobs are less stable and provide fewer benefits as compared to those of the non-poor. The working poor are less likely to hold formal full-time jobs, are much less likely to hold a long-term contract, and are substantially less likely to receive benefits (meal vouchers, housing subvention, free transportation, cheaper electricity etc.). Consequently, the share of working poor employees looking for a new job is double as compared to their non-poor counterparts.

The third largest group of working poor consists of non-agricultural self-employed.

Figure 15 Share of non-agricultural self-employed working poor and working non-poor by residential area and type of economic activity, 2006

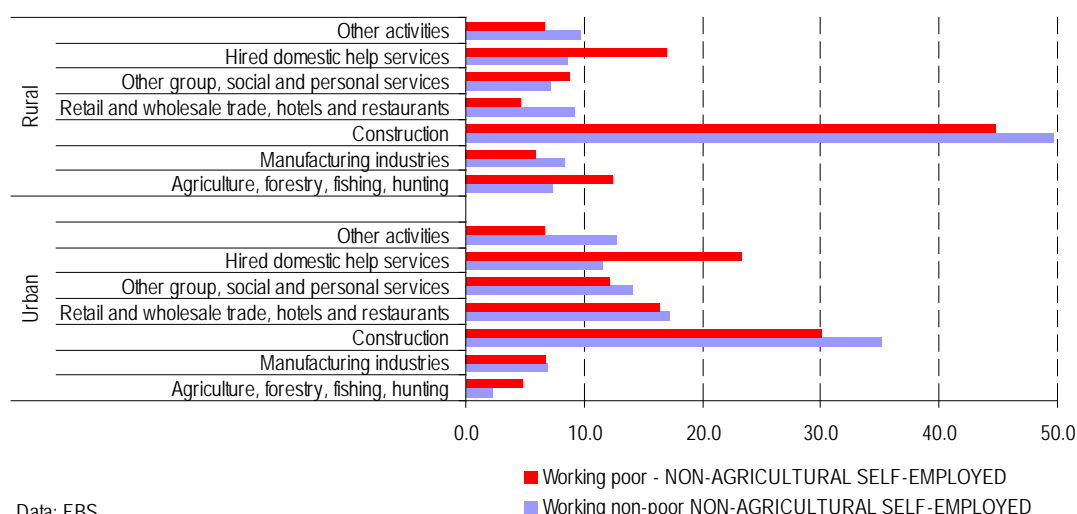


Figure 15 shows that both working poor and non-poor self-employed in non-agricultural activities concentrate most heavily in construction and in the service industry. Both in rural and urban areas, while non-poor self-employed are better represented in construction, the working poor prevail in hired domestic help services.

For the working poor, being self-employed is just a survival strategy. Working poor self-employed are low educated: both from urban and rural areas, more than a half of them graduated gymnasium at most. Due to their low level of education, most of the working poor self-employed provide low skilled services, while their non-poor counterparts supply mainly skilled and professional services. Therefore, while among non-poor self-employed genuine entrepreneurs prevail, most of the working poor adopted self-employment only as a temporary survival strategy. This explains why 20 percent of them declare that are looking for a job (as compared to 10 percent of the non-poor self-employed).

Health and safety considerations, protecting workers' rights to be safe, are important in the idea of decent work. Data on health is rather limited in the FBS. Nonetheless, the available data indicate that regarding health there is no difference between the working poor and the working non-poor. Less than one percent of both of these groups have a disability, about 6 percent suffer of a chronic illness, 6-7 percent was the victim of an accident or suffered an injury in the month prior to the survey, and 2-3 percent was hospitalized in the last 12 months. People with health problems concentrate among the economically inactive.

In conclusion, the working poor from Romania work as much as those who are better off, but for less money, for less benefits, with less predictable jobs, and in less desirable occupations. Some of these labor market imbalances can be offset, in part, through social protection programs as well as through strong family ties and cohesive communities.

3.3 THE IMPACT OF SOCIAL BENEFITS FOR THE WORKING POOR HOUSEHOLDS

Assessing the impact of government intervention on the working poor is a complex task since a broad range of government policies influences the actual living standards of households. Tax and benefit systems can redistribute income towards families by different means such as providing a minimum income level for those without paid employment (unemployment benefits, social assistance, disability allowances) or supplementing the income of specific households (such as households with children, poor households etc.) whether they are in employment or not. Therefore, I examine the social protection benefits (that are registered in the FBS data) aimed at helping low-income families with respect to the coverage of the working poor and to the role played in reducing their risk of poverty.

Pensions have a good coverage of all groups and are crucial particularly for the two groups of economically inactive.

Coverage of unemployment benefits is low particularly for the working poor and the non-working poor. In 2006, 15 percent of the working poor households included at least one unemployed, but only 2 percent of the working poor households received unemployment benefits.

The working poor households are more likely to receive children and family benefits and other social benefits than the working non-poor households. Other social benefits include scholarships, benefits for the disabled (other than disability pensions), allowances for war veterans and their widows, allowances for political persecutes, social aid (GMI), and other social assistance allowances. Due to their low level, the other social benefits are not very helpful in escaping households from poverty.

Table 4 Social benefits by categories of working poor households, (% of households), 2006

	Non-poor		Poor	
	Non-working %	Working %	Working %	Non-working %
Pensions	96.3	39.0	34.6	84.2
Unemployment benefits	1.6	2.0	1.8	2.0
Child and family benefits	3.3	45.7	61.4	7.5
Other benefits (incl. GMI, cash and in-kind)	29.4	24.2	46.6	22.3
ALL social protection benefits	98.0	74.7	84.8	95.2
At-risk-of-poverty before social benefits:				
- before all social benefits	89.5	20.0	100	100
- before social benefits other than pension	4.4	4.3	100	100
- after social benefits	0.0	0.0	100	100
Average income % of poverty line:				
- before all social benefits	0.49	2.05	0.50	0.24
- before social benefits other than pension	1.81	2.32	0.62	0.70
- after social benefits	1.96	2.39	0.73	0.77

Data: FBS. Relative poverty based on per adult equivalent income (including self-consumption).

Overall, the *national social protection system* cover the majority of the population: 75 percent of the working non-poor households, 85 percent of the working poor households and nearly all non-working households benefit of at least one form of social protection.

The contribution of social benefits to the households' welfare is quite important, In the absence of the social protection benefits (including pensions) 20 percent of the working non-poor households would fall into the working poor category. When only social benefits other than pensions are considered, 4.3 percent of the working poor households would become working poor.

Social benefits do not help working poor to overcome poverty, but narrow significantly the gap between their income and the poverty line.

4 Final remarks and recommendations

In Romania, after 2000, the number of poor people decreased substantially, mainly due to the economy revival. Nonetheless, the poverty levels are much higher than in most other European countries. Economic growth is definitely necessary but not sufficient for bringing poverty in Romania down to European levels. This paper is a proof in this sense, since it shows that the inherent market imbalances need decisive political will for being tackled.

In Romania the majority of the poor are working poor. Thus, the work effort of the poor is comparable with that of the non-poor, but working poor hold less desirable and less predictable jobs, working for less money or in exchange of in-kind earnings, for less benefits (for one, without paid social contributions). Employed mostly exposed to the risk of being working poor are precisely those that cumulate:

- (1) flexible (atypical) forms of work: self-employed, no labour contract, short-term contract etc., which are more insecure and precarious than the typical employment
- (2) active in the economic sectors with the highest risk of informal economy: agriculture, construction, trade, tourism and catering
- (3) unskilled and poorly educated
- (4) location in the least developed areas of the country: villages and small towns from the Eastern and Southern regions

In spite of economic growth, the increasing polarization of the labour market between low or unskilled workers and high-skilled workers and the increasing gap between different regions interact and result in a structural pattern which generates social exclusion. Social exclusion with long-term consequences, because it does not affect solely the 'undeserving' adult ("who did not like school") but also the children and elderly that live in the working poor households and depend upon their parents/children. 2.7 million children live in working poor households, out of which 2.16 million belong to households of self-employed in agriculture located in the rural areas. Of course, some of these imbalances can be offset, in part, through social protection programs. The actual national social protection system, although improved in recent years, provides some help but it does not have yet the capacity to protect efficiently precisely these most vulnerable groups of population.

Four policy recommendation

- the best way to prevent working poor is to fight the child poverty
- improve the system of Vocational Education and Training
- make Life Long Learning effective, particularly in the regions and for the groups highest exposed to the risk of being working poor. The SOP HRD provides both the framework and the resources needed in this respect
- make operational all labour market institution (Temporary Work Agencies, regulated atypical forms of work etc.) related to increasing flexibility, from the flexicurity perspective.

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