

Combating Poverty and Exclusion through Work

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Introduction

All OECD governments attach importance to combating poverty and exclusion, and for good reason. Poverty and exclusion are evidence of a society that wastes human resources, opportunities and life-chances, both now and for the future. Failure to tackle the poverty and exclusion facing millions of families and their children is not only socially reprehensible, but will also weigh heavily on countries' capacity to sustain economic growth in years to come.

Traditionally, governments have tried to minimise the consequences of poverty and exclusion through "passive" income support for those in need. However, people who are very dependent on such benefits are badly served by systems that often are not generous enough to provide adequate income and, at worst, make it more difficult for recipients and their families to escape poverty on a lasting basis.

Experience over the past decade has shown that "active" social policies can change this perspective and help achieve lasting reductions in poverty and exclusion. "Active" policies go beyond providing cash benefits to alleviate poverty to focus on helping benefit recipients support themselves and their families. Active social policies help people overcome obstacles to getting a job, whether through training, providing childcare or helping match people to job vacancies. They focus on better integrating the services available to help benefit recipients, and redefine the relationship between clients and providers of social support so as to make them partners in a common project, with a mutual obligation to co-operate in the rehabilitation process. Another key element has been reforms of benefit systems to remove disincentives to work. This *Policy Brief* summarises what governments can do to tackle poverty through getting people into work. ■

How is poverty measured?

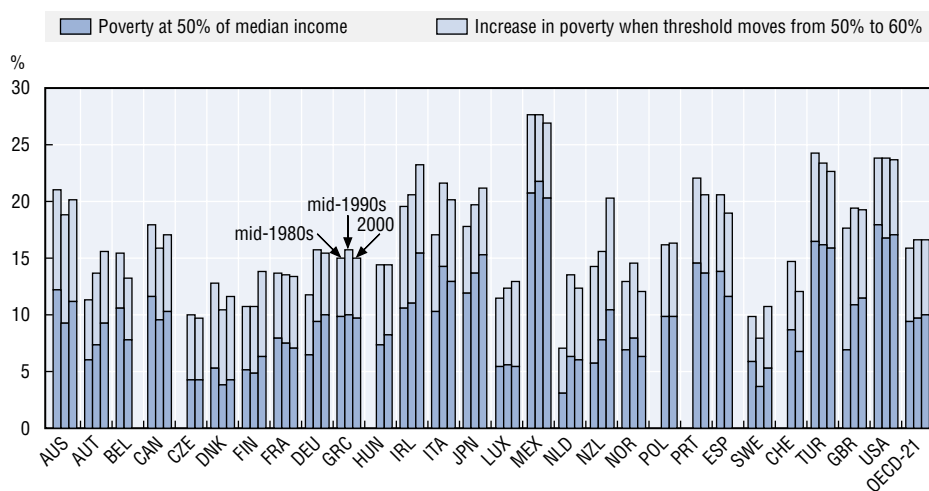
Poverty is not simply a question of income. People may experience a temporary loss of income; they might have assets; or they might be students who can expect to earn a lot in the future, and in neither case would most people consider them poor. But while more comprehensive measures of poverty are beginning to be developed, income remains the measure that is best suited for comparisons between countries and across time. The main concept used for assessing poverty is that of the disposable income (income after taxes) of a household, adjusted for differences in household size.

There are two basic approaches to the notion of poverty, which are reflected in two standards of measurement: “absolute” and “relative” thresholds. Both provide important and complementary information to policy makers.

“Absolute” poverty thresholds consider people to be living in poverty if their income is not enough to cover the costs of a given basket of goods in a particular year, updated annually for inflation. There are various ways that absolute poverty can be measured. One measure (based on a relative income threshold in a base year, kept unchanged in real terms) shows that absolute poverty in OECD countries declined on average by more than 40% between the mid-1980s and the mid-1990s, and by a further 25% in the following five years.

“Relative” poverty thresholds consider people to be living in poverty if their income is below a certain percentage of middle-level (or median) household income. Relative poverty measures indicate how far individuals and families

Figure 1. RELATIVE POVERTY RATES AMONG THE ENTIRE POPULATION, MID-1990S AND 2000



Note: Relative poverty rates are measured as the share of individuals with equivalised household disposable income less than 50% and 60% of the median for the entire population. “2000” data refer to the year 2000 in all countries except 1999 for Australia, Austria and Greece; 2001 for Germany, Luxembourg, New Zealand and Switzerland; and 2002 for the Czech Republic, Mexico and Turkey. “Mid-1990s” data refer to the year 1995 in all countries except 1993 for Austria; 1994 for Australia, Denmark, France, Germany, Greece, Ireland, Japan, Mexico and Turkey; and 1996 for the Czech Republic and New Zealand.

are deprived of the goods and services that are customary in a given society and they are relevant when assessing the broader notion of “social exclusion”. Relative poverty has been rising in many OECD countries. In the mid-1980s, the proportion of the population with disposable income less than half of the median was around 9% on OECD average, and this proportion had risen to over 10% by 2000. A further 6 or 7% of the population on average has incomes between 50 and 60% of the median. ■

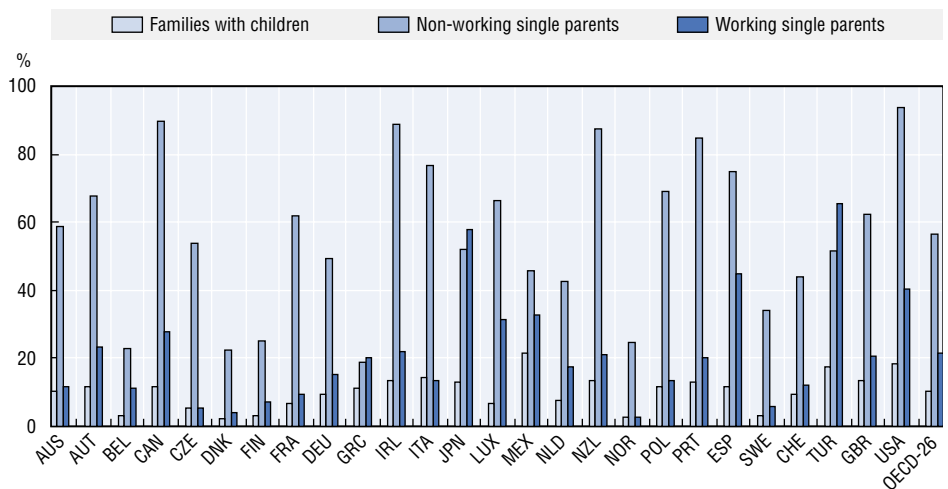
Does more work mean less poverty?

A wide range of factors affect poverty. These include technological progress and changes in structural conditions in product markets, as well as policies in areas such as education, housing and taxes. At the individual level lack of skills and other personal characteristics such as disability and lone parenthood can bring people into poverty or prevent them getting out of it. While all these factors are important, getting people back into the labour market – and the education and training that can help them find jobs – is key, because it is the one dynamic factor capable of changing individuals’ conditions and enabling them to become self-sufficient on a lasting basis.

Jobless households are poorer households in all OECD countries. The risk of low income for people living in jobless households is on average five times higher than for households where some of its members have jobs.

Having a job is especially important for families with children, including for single-parent families. The relative poverty rate of single-parent families is three times higher than for families with children in general. However, when the lone parent has a job the risk of falling into poverty is close to 20%, compared to 60% for single-parent families where the parent

Figure 2.
RELATIVE POVERTY RATES IN HOUSEHOLDS WITH CHILDREN AND SINGLE-PARENT, 2000



Note: Relative poverty rates are measured as the share of individuals with equivalised household disposable income less than 50% of the median for the entire population. Exact years are those specified in the note to Figure 1.

is jobless. Having a job also reduces the probability of falling into poverty for couples with children, by almost three-quarters in the case of couples where both parents work. Because of these patterns, OECD countries where employment rates of mothers are higher also record lower rates of child poverty. ■

How to get back to work?

Bringing people at higher risk of poverty and exclusion back into the labour market, and into jobs, seemed a very optimistic goal just a few years ago. But today, nearly all OECD countries have put such employment integration at the very heart of their policies for tackling poverty and exclusion. Active policies to get people back into the job market, first introduced for unemployed job-seekers, have been extended to other benefit recipients without easily-identifiable obstacles to work. They typically combine tailored interventions by public agencies while the person is receiving benefit; better service delivery by the public sector; an obligation on clients to participate in labour market programmes; and (sometimes) benefit sanctions for failing to co-operate in programmes designed to get them back into the workforce.

These same principles are finding their way into disability programmes, in the form of vocational rehabilitation and training, special employment programmes for disabled people and specific in-work benefits while, in some cases, also tightening access to, or reducing the level of, benefit payments.

Some of the countries that implemented such policies have experienced large drops in benefit caseloads. The number of people receiving certain key welfare benefits fell by more than half from their peak levels in the mid-1990s in the United Kingdom and the United States, by one-third or more in Canada and the Netherlands, and by one-fourth in Finland. In the United States, a majority of people who have left the benefit lists are working, often full-time, and at wages that are close to those of similar groups in the labour force. Some reforms of disability programmes (*e.g.* *Pathways to Work* pilots in the United Kingdom) look as if they are being successful as well. These reductions in welfare caseloads are all the more significant when compared to previous claims that the number of welfare recipients would naturally increase during recessions, but would not fall back to previous levels during economic recoveries. In a number of countries, this so-called “ratchet effect” is no more. ■

How to make work pay?

That said, getting people off benefit and into work is only part of the solution. Even in countries that have successfully reformed their system, for every 100 people who leave welfare, around one third may not get a job. And not all people get good jobs. Many jobs are low-paid and precarious and provide

little protection from poverty. Indeed, households with one or more workers account for a very substantial proportion of the income-poor in all OECD countries. Even households with two or more workers are not immune from risks of inadequate income in some countries. While this partly reflects the inclusion among households with workers of the self-employed, whose income is often under-recorded in surveys, as well as of people with part-time and part-year jobs, it also points to the importance of addressing working poverty.

As a result, all OECD countries confront the dual challenge of promoting both “welfare-to-work” and “welfare-in-work”. One solution to this is to implement “make-work-pay” policies. These take two main forms:

- The first is to support the *supply* of low-skilled workers through tax credits or benefits that are only available to those in employment. In-work benefits are long-standing pillars of the social protection system in the United Kingdom and the United States, where they reach, respectively, 5% and 20% of all households; both programmes are directed at families with low earnings, particularly those with children, and provide quite generous benefits administered through the tax system. Similar programmes have been introduced in other OECD countries (*e.g.* Australia, Belgium, Canada, France, Germany the Netherlands and New Zealand) in recent years.
- The second is to increase firms’ *demand* for low-skilled workers, through a combination of general subsidies covering all those in low-paid work (as in Belgium, France and the Netherlands) – most commonly in the form of reductions in employers’ social security contributions for low-paid workers – and of specific subsidies targeting less easily employable groups and aimed at favouring their employment in the public (*e.g.* Ireland and the Netherlands) or private sector (*e.g.* Spain).

Both approaches have proved effective in encouraging entry or return to employment for lone-parent families, households where no-one works and less skilled workers. Because they are tied to the characteristics of families, rather than of individuals, employment-conditional tax credits have proved to be effective tools in cutting poverty among working families.

The big challenge now is getting low-skilled people not just into work, but into good *careers*. While evidence is limited as to what might be cost-effective in helping low-paid workers keep and progress in their jobs, there has been a shift towards more comprehensive and individually-tailored schemes that pay attention to the career development of disadvantaged workers. Early evaluations suggest that a balanced approach is effective in relieving poverty and increasing employment among the less skilled, especially when combined with a broader set of interventions to improve their skills and earning potential. ■

How to make social programmes more effective?

Beyond the level and quality of jobs, government policies play a significant role in reducing the risk of poverty and exclusion. The relationship between public social spending and poverty outcomes is striking: relative poverty rates among the working-age population are lowest in countries where (non-health) social spending on the working-age population is highest. On average, the combined effect of the tax and benefit systems is to lift more than half of the at-risk population out of relative income poverty.

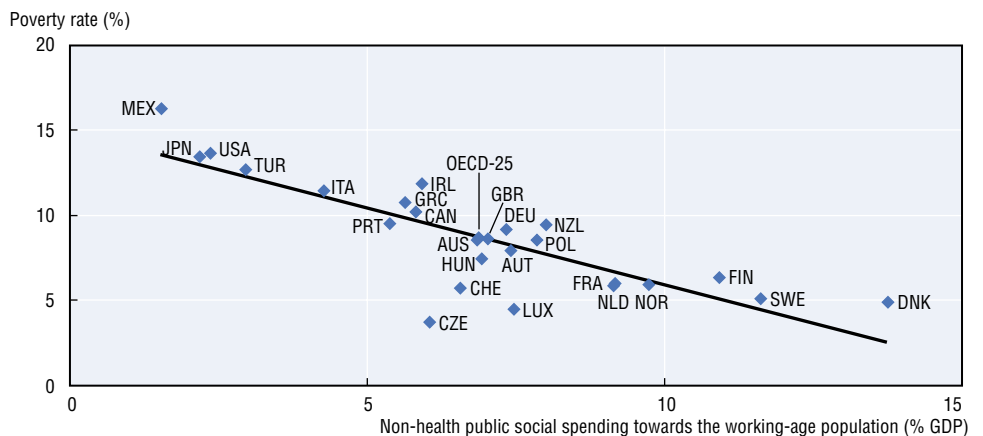
What matters to individuals, however, is not so much the overall amount of spending, but rather who is covered by social programmes, the extent to which those entitled to a given benefit actually receive it and whether adequate support is provided to escape poverty and exclusion.

Social programmes do not cover all those who are unemployed, or have disabilities. More than one-third of all non-employed persons reporting a disability in OECD countries in the late 1990s declared that they did not receive benefit income; in Europe, only one-third of those classified as unemployed in labour force surveys in 2001 said they had received unemployment benefit over the same period; and in the United States, around 9% of lone mothers without jobs in 2001 reported that they did not receive any benefit income in the 12 months preceding the interview.

Estimates of *take-up* of benefits are between 40% and 80% of those eligible in the case of social assistance, and 60% to 70% in the case of unemployment benefits. Sometimes, benefit entitlements are very small, and so people take a rational decision that it is not worth claiming them. Other causes of non-take-up, such as ignorance of entitlement, stigma, and long, complex claims procedures, should worry policymakers more.

The success of policies in reducing poverty and exclusion depends critically on the *adequacy* of the benefits provided. Only rarely do last-resort benefits provide an income level high enough to escape relative income poverty, although this becomes more common in households with children. ■

Figure 3. PUBLIC SOCIAL SPENDING AND POVERTY RATES AMONG THE POPULATION OF WORKING AGE, 2000



Note: Public social spending is defined as social spending excluding health, old-age and survivor benefits, as a share of GDP. Poverty rates are measured with respect to a threshold set at half of the median equivalised household disposable income. Exact years are those specified in the notes to Figure 1.

Can we make policies more coherent?

To make policies aimed at reducing poverty and exclusion more effective, they need to be more coherent at the local, national and regional levels. This is important because single types of intervention are unlikely to suffice to eradicate poverty and exclusion, a task which rather calls for comprehensive strategies and for the setting of explicit poverty targets either for the whole population (e.g. Ireland) or for selected sub-groups such as children (e.g. the United Kingdom).

One dimension of the drive to strengthen the coherence of policies affecting poverty and exclusion relates to co-ordination within governments. A proliferation of different social programmes, each focused on a specific problem such as joblessness, disability or poor housing, may lead to insufficient attention being paid to the needs of the individual client as a whole person. If the social support system is fragmented, eligible clients will distrust it and choose not to take advantage of programmes designed to help them.

Some countries have taken steps to improve policy coherence. In Ireland, the *National Action Plan Against Poverty and Exclusion* is designed to ensure that social inclusion is central to all policy-making. To achieve this, the government adopted a “poverty-proofing” system whereby all major policy proposals must indicate their impact on groups at greater risk of falling into poverty. Other countries have taken measures to bring under one roof the functions of job placement, benefit payment and service provision; to bring closer the financing and delivery of different services; and to align eligibility requirements among programmes. Another group of countries has taken measures to improve co-ordination between central and local government, for example through social inclusion partnerships that closely involve the private and not-for-profit sector. ■

For more information

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For further reading

For recent evidence on income distribution and poverty in OECD countries, see Förster, M. and M. Mira d'Ercole (2005), "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s", *Social, Employment and Migration Working Paper No. 22*, OECD, Paris.

For more evidence on the impact of social programmes on work incentives and income adequacy, see OECD (2004), **Benefits and Wages – OECD Indicators**, ISBN: 92-64-01515-9, OECD, Paris.

For more discussion of the range of policies aimed at lowering poverty and exclusion, see OECD (2005), **Extending Opportunities – How Active Social Policy Can Benefit Us All**, ISBN: 92-64-00794-6, OECD, Paris.

For more discussion on policies to promote work and income security for disabled people, see OECD (2003), **Transforming Disability into Ability**, ISBN: 92-64-19887-3, OECD, Paris.

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The OECD Policy Briefs are prepared by the Public Affairs Division, Public Affairs and Communications Directorate. They are published under the responsibility of the Secretary-General.