

## **Executive summary**

The IPSWICH project is a combined effort by the HIVA Research Institute for Work and Society and the Centre for Economic Studies at the KU Leuven, the CSB Centre for Social Policy at the University of Antwerp, and the Solvay Brussels School of Economics and Management at the ULB, aiming to shed light on the issue of in-work poverty in Belgium. This two-year project was financed by BELSPO, the Belgian Scientific Policy Office, within the BRAIN-be program that is oriented at providing scientific support for federal policies.

The objectives of the IPSWICH project are to understand the causes of in-work poverty today, and the mechanisms that may prevent in-work poverty in the future. The framework we used revolves around a trilemma that forces the policymakers to give up one goal: full employment, budgetary control, or high wages. We specifically consider the issues of non-standard work, work incentives, collective bargaining, and discrimination.

## **1 The working poor in Belgium**

In-work poverty (i.e. incomes below 60% of the equivalized median household income) is at a comparatively very low level in Belgium, at 4.7% in 2016 compared to the EU28 average of 9.6%). In the Netherlands, the level is at 5.6%, in France at 8%, and in Germany at 9.5%. The increase in the rate of in-work poverty in Belgium in recent decades is still contained, but in contrast, the ten-year evolution in France (+33%) and in Germany (+73%) is much more dramatic.

Looking into individual characteristics of workers, family characteristics and job characteristics, we find that some workers have become more at-risk of poverty, but that at the same time their share decreased (e.g. young, low educated men). Turning to family characteristics, it becomes clear that the higher the ratio of dependents to earners (e.g. single parents), or, the lower the work-intensity of those who are working, the higher the poverty risk. Finally, looking at job characteristics, it appears that in-work poverty is higher in unstable, low-paid, part-time and non-supervisory jobs, and in particular occupations (personal services and sales, agricultural and industrial jobs, and elementary occupations), as well as for the self-employed without employees, and those working in small companies.

Our results indicate that part-time and temporary workers, are unable to secure a decent income to maintain themselves, not to mention their inability to sustain a family. However, their poverty risk remains remarkably limited when we take all income sources, including personal income replacement benefits, into account. Government transfers are particularly important for temporary workers as they partially compensate for periods out of work. Part-time workers are more likely to rely on the earnings of other household members to avoid poverty.

## **2 Work incentives**

In their attempts to combat poverty, policy-makers have recently been emphasizing the need to ‘make work pay’, arguing that employment offers the best protection against poverty. While this observation is supported by empirical research, there are several ways in which this can be achieved: reducing out-of-work benefits or raising (minimum) wages are just two examples. Regardless of the approach used, research has also suggested that the difference between being employed or unemployed needs to be large enough to encourage labour market participation. We examined individual changes over time between 2005 and 2012 using EUROMOD, and focused on the long-term unemployed in Belgium. During these years, there were policy changes, for example modifications in the work bonus, that affected work incentives. Results from regression analysis show that a 10 percentage point increase in the participation tax rate (i.e. the reward for work decreases) has a negative average marginal effect of around 4 percentage points on the probability of taking up work.

## **3 Collective bargaining**

A key element in safeguarding decent labour standards, and hence protection against in-work poverty, is the strong institutionalization of collective bargaining. Instead of solving poverty issues through fiscal redistribution, the wage distribution is to a large extent collectively negotiated and should guarantee fair pay and solidarity between workers. Within sectors, minimum wage floors are set by joint committees. Using administrative data for a 20-year period from 1996 to 2015, we investigate the employment effects and the distributional effects of changes in the minimum wage. Our results indicate that there is no unambiguous disemployment effect, but that minimum wages increase job dynamics and increase worker supply in low-wage jobs. However, fairly strong minimum wage increases for existing workers are needed to decrease the low-wage share in the labour market. Finally, we find that through centralized collective bargaining, wage inequality in Belgium is stable, wages are moderated, and there is no pattern of sectoral divergence in wage growth.

## **4 Diversification and discrimination**

Migrants are among the groups that are more likely to be exposed to the risk of in-work poverty. This is due to a number of reasons, including labour market segregation where migrant workers are concentrated in low-paying occupations, non-standard jobs and sectors. Although Belgian legislation has adopted a series of laws and regulations that protect workers against discriminating practices, such as paying low wages based on gender, skin colour, and religion, discrimination does occur in the labour market. However, a strict definition of wage discrimination is when the same work performance is not met by the same reward (i.e. equal pay for equal work).

Understanding that work can be quantified as productivity, we use employer-employee data on wages and labour productivity to measure discrimination against immigrants. Empirical results for Belgium suggest that there is significant wage discrimination against women and, to a lesser extent, against immigrants, except for high diversity firms in which it turns out to be very problematic. We find no evidence for double discrimination against female immigrants, which might be explained by the

similarities in the educational profile of women from foreign origin and native women. Institutional factors such as firm-level collective bargaining and smaller firm sizes are found to attenuate wage discrimination against foreigners, but not against women.

## 5 Policy recommendations

The IPSWICH project stresses the distinction that needs to be made between current in-work poverty, and future in-work poverty. This research has demonstrated why in-work poverty is low and how decent working standards could be safeguarded in the future, in light of the challenges of ‘disruptive trends’ such as technological changes, globalization, and migration. The two uncontested causes of in-work poverty today, discontinuous careers and insufficient personal income in single-parent households, demonstrate the need for decent standards. In addition, inequality levels in Belgium are stable over the long run at the aggregate level, but also at the company level if there is collective bargaining. This is because bargaining is about the value of functions, regardless of the personal characteristics of the workers (e.g. gender, ethnicity) that would otherwise define target groups at risk for poverty.

We conclude by suggesting a list of policy recommendations based on the research project’s findings that highlights the strengths and threats in Belgium with respect to in-work poverty:

- In order to maintain the work incentive, changes in out-of-work benefits and in-work compensations should be linked. Future research could study the effects of making individually-based social contribution rebates more targeted to low-income households. This would require taking into account the work incentives for (potential) second earners.
- To better protect temporary worker and agency workers against the risk of in-work poverty, fixed contracts (with the agency) and higher wages to compensate for flexibility would be helpful instruments.
- Multi-level collective bargaining, including a national minimum wage and sectoral wage floors should remain the basis of wage setting in Belgium, because collectively agreed minimum wages are adjusted to the economic market of each industry, which explains the negligible effects on employment. Work should guarantee a decent living standard, and minimum wages and employment protection legislation contribute to this.
- Collective bargaining may substitute for subsidized, sheltered employment such as service vouchers if the demand for the service is inelastic and labour legislation is enforced. Platforms of temporary or independent workers, whether virtual or tangible, should not be used to bypass social security.
- Foreigners are confronted with wage inequality and this should be tackled; the labour market is strongly segregated, with non-Belgian workers, especially from outside the EU, being employed in low-paying jobs, occupations and sectors. Efforts to curb wage discrimination should therefore not divert the attention from the more structural and very substantial issue of segregation.