

# **SOME ASPECTS CONCERNING THE WORKING POORS ISSUE AND POVERTY IN THE CZECH REPUBLIC DURING THE CRISIS PERIOD (2008-2012)**

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## **Abstract**

In recent years the poverty in general is still worsening and become a stressed actual problem. In this article we focus on the issue of working poor. Actually the increase in poverty in the EU countries could be explained due to the neoliberal Washington consensus idea in praxis. The poverty increasing trend is not just a random fluctuation, but certain inevitable consequence of the overall concept of neoliberal economic and social policies. The evolution of recent data shows that this this trend is not just a random fluctuation, but certain inevitable consequence of contemporary economy policy. The presented paper summarizes the main tendencies and trends in the field of poverty in society in some international context and of course concentrates on the poverty issues in the Czech society. It shows the clear facts, which provide to us an eligible statement, that crisis period led to significant negative move in this regard.

**Key words:** In-work poverty, labor market, social trends

**JEL Code:** J31, J38

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## **Introduction and definitions**

The issue of in-work poverty (working poors) is a stressed topic. It actually means that in some regions of the world including the EU countries there is an increase in amount of poverty damaged workers. The evolution of recent data shows that this this trend is not just a random fluctuation, but certain inevitable consequence of the overall concept of neoliberal economic and social policies summarized through the so-called Washington Consensus<sup>1</sup>. It is

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<sup>1</sup>The author of the "Washington Consensus" is a British economist John Williamson, who in the early 80ties of the last century created a list of ten points that included economic orthodoxy OECD countries. These 10 recommendations of the Washington Consensus are the elementary fiscal discipline, to reduce subsidies to businesses, to broaden the tax base by reducing marginal tax rates, the efficient interest rates, the market creation, to create free volatile exchange rates and free capital flows, to control inflation, to reduce trade barriers, the privatization of state enterprises, to reduce bureaucracy and to protect the property rights. (Kohout, 2009).

therefore necessary to analyze this phenomenon very carefully and in particular context of worldwide situation.

Definition of poverty according to the UN:

*“Poverty is a fundamental denial of choices and opportunities, and desecration of human dignity. It means inability to participate effectively in society. Does it have a shortage to feed and clothe a family, not having a school or disease visit the hospital not to have land to grow food or work for a person to earn a living, not having access to credit.”*

A similar definition formulated by the World Bank:

*“Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Also poverty encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.*

*Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services the term 'absolute poverty' is sometimes synonymously referred to as 'extreme poverty.’”*

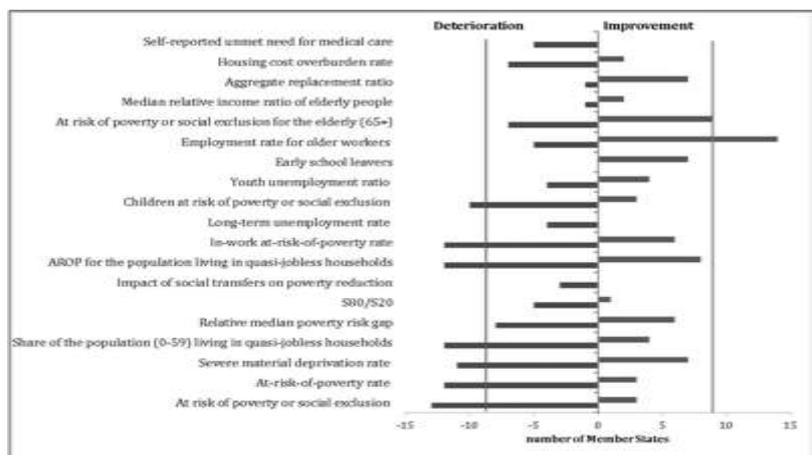
## **1 Some characteristics of poverty in international context**

According to the European Commission (EC) report with regard to development of social situation in the crisis period there is mentioned that *"facing the EU exceptional combination of economic downturn or weak growth in the many member states, declining levels of income and principal financial consolidation programs restrictive social transfers and services. The overall impact of these factors exacerbates poverty and inequality, with considerable differences between the member states, which may result in a dangerous polarization within the union."*

In 2011, poverty or social exclusion in the EU threatened 119.6 million people, i.e. 24.2 % of the population, compared with 23.4 % in 2010 and 23.5 % in 2008. Seventeen percent of the population in the EU-27 is threatened an income poverty. Severe material deprivation suffered 8.8 % of the population, which means living conditions constrained by lack of resources, such as lack of funds to pay the bills, sufficient heating their homes or inability to pay necessary expenses incidental. Ten percent of population aged 0-59 years

lived in households whose adult members work less than 20 % of their total work potential during the past year.

**Fig. 1: The main social trends in 2010-2011. Number of member states for which there was a significant improvement or deterioration in key social indicators (reference period 2010-2011)**

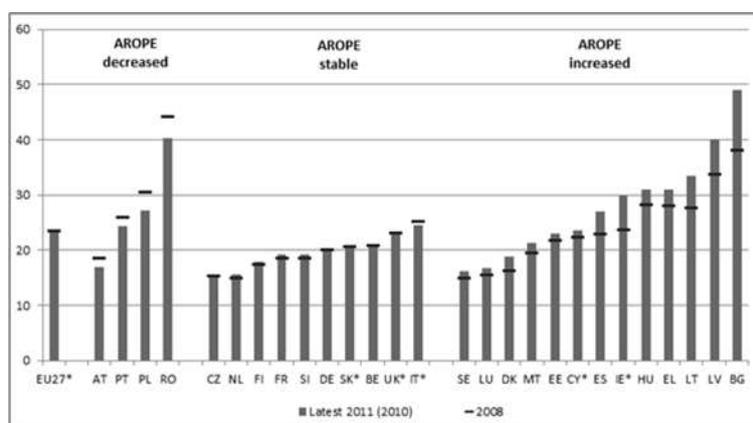


Source: Social Report of EU 2013, European Commission, Brussels

There are many other characteristics that express basic trends, which are associated with growth of poverty in the world in general and in some regions in particular. The main result is that although strong pre-crisis growth the crisis period led to significant increase in poverty.

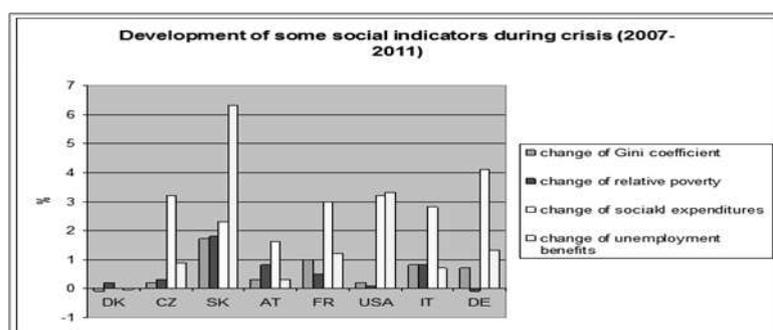
The proportion of people whose conditions are really risky with poverty or social exclusion in many member states since 2008 has increased. The number of states exceeds the number of states in which that proportion dropped. The situation in these states was particularly affected by involvement of some groups (including children, households with single parents, the working population and especially unemployed young people). Development of the poverty confirms that people at risk of poverty in many countries are still getting poorer, especially where the overall risk of poverty rate is high.

**Fig. 2: Evolution of the number of people at risk of poverty and social exclusion in the EU Member States , 2008-2011**



Source: EU-SILC.

**Fig. 3: Development of main variables in crisis period 2007-2010**



Source: Society at a Glance, 2014

## 2 Methodological notes

The Gini coefficient is a measure of statistical dispersion. It intends to represent the income distribution of a nation's residents. The Gini coefficient measures the inequality among values of a frequency distribution (for example levels of income). A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has the same income). A Gini coefficient of one (or 100 %) expresses maximal inequality among values (for example where only one person has all the income). However, a value greater than unity may occur if some persons have negative income or wealth (it is not expected).

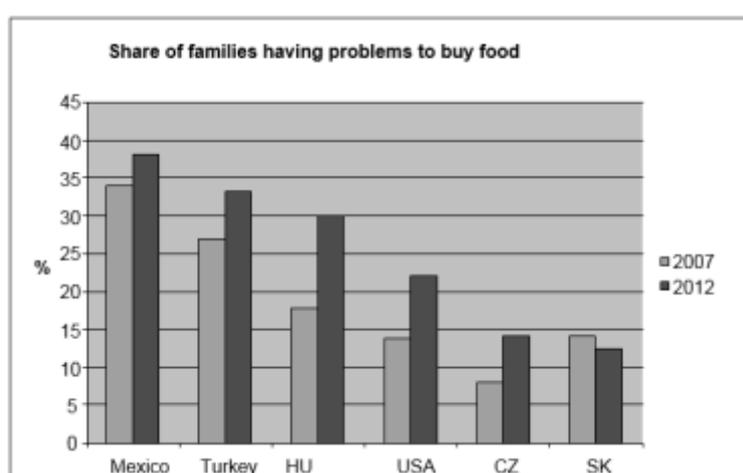
Definition of poverty:

- household income below 50 % of median of the country
- Social expenditures and provision of paid from budget

- Unemployment benefits paid on base of the social security scheme

These factors illustrate the negative evolution of some variables in selected countries the context of the crisis in the global economy during the period 2008-2010. That figures indicate also assessed qualitative characteristics, which, however, was not the consequence of the crisis, but rather its cause. This factor was an increase in income and property differentiation (here voiced by Gini growth factor). Very informative and a significant is an increase in the expenditure for social purposes (including unemployment benefits), which illustrates the social system degree of sensitivity settings and perceptions to deepen the social needs of the population.

**Fig. 4: Proportion of families who have a problem with the provision of basic food<sup>2</sup>**



Source: Society at a Glance, 2014

In EU from the empirical point of view there are the three main levels of poverty indicators, which are the **risk of poverty rate** - the proportion of persons with equivalised disposable income below the poverty threshold (60 % of national median equivalised disposable income per consumption unit - social transfers are included). At second it is the **material deprivation** - the number and proportion of people who cannot afford at least four of following nine items:

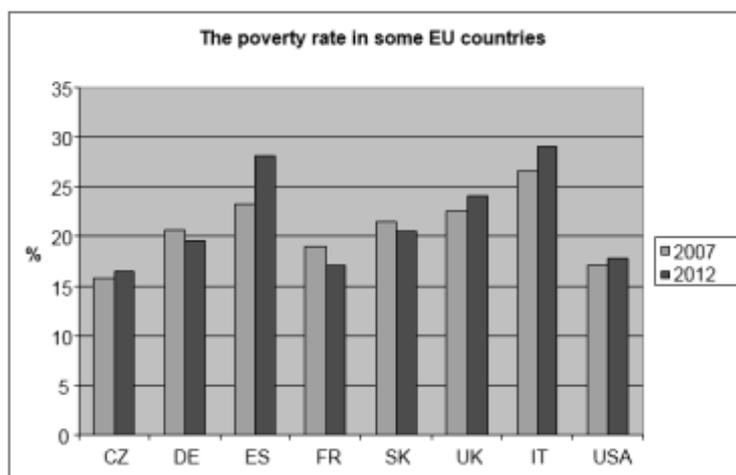
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<sup>2</sup> subjective indicator number of people who feel they cannot afford to buy sufficient food

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|---|---------------------|
| 1) to pay rent or bills,                                | 6) passenger car,   |
| 2) adequately heat the house or apartment,              | 7) washing machine, |
| 3) pay unexpected expenses in the amount specified,     | 8) color TV,        |
| 4) have meat or vegetarian equivalent every second day, | 9) phone.           |
| 5) one week holiday away from home in year,             |                     |

The third indicator is the **persons living in households low labor intensity** - the number and proportion of persons aged 0-59 living in jobless households or very low work intensity (i.e. households with adults aged 18-59 years during the past year not work at all, or for those who have used less than 20 % of their total work potential) related to the total population in the age group 0-59 years.

**Fig. 5: The poverty rate (2/3 of the median income) in some EU countries**



Source: Eurostat and OECD

### 3 Developing of poverty in the Czech Republic

**Tab. 1: At-risk income poverty between 2007-2012 (in%) in the Czech Republic**

	2007	2008	2009	2010	2011	2012	2013
Poverty threshold (CZK per year)	92 212	101 083	109 184	111 953	113 040	114 953	116 196
People below the							871.8

poverty line (thous.)	980.0	925,2	884.9	936.4	1 022.3	990.3	
The poverty rate (%)	9.6	9.0	8.6	9.0	9.8	9.6	8.5

Source: CSO

If we look at the development so called income poverty, then it seems as if its level was at least stabilized or has even declined. These figures do not show the effect of the crisis on the quantity. In this context, however, we must take into account some broader consequence with those that can contribute to a certain distortion of the statistics. Some of these confounding aspects is described in the following text:

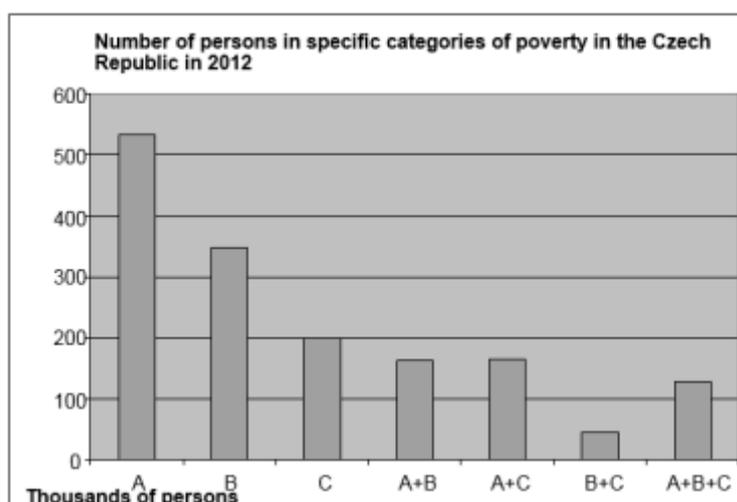
*"Poverty and social exclusion in the Czech Republic, however, is larger problem than is officially stated. Statistical investigation is carried out only in residential households. This means that only there are provided information about households in standard flats and official statistics do not include households living in the other forms of housing, for instance in shelters, dormitories, nursing homes, social institutions, etc., are not included or homeless. Due to this paradoxical situation, there is pronounced for example, that the increase in the number of homeless people or relocation of poor households in hostels can be reduced statistically. Failure to include the population residing within the bytes, however, leads to significant underestimation of the number of people at risk of poverty<sup>3</sup>. "* (Popelková, 2014)

There are some alternatives how to measure the income poverty. "Coverage" of the Czech population in different types of poverty illustrates the following graph:

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<sup>3</sup> More about citation: „Suitable data on the number of such persons and their social situation through official statistics cannot be obtained. But it is possible to use other sources, such as data about the utilization of housing payments (benefit in material need) paid to other forms of housing. In 2012, the additional payment beyond the standard flats thus provided almost 19 thousand households. There may be up to a further 80 to 100 thousand under the risk of poverty that official statistics do not include. A poverty and social exclusion are clearly at risk and homeless people who are not in poverty survey results also included. According to expert data the number of existing homeless people in the Czech Republic is closely to 30 thousand people. We estimate that official statistics is undervalued in the value of 110-130 thousand people. Despite these problems CSO data are only publicly available data, ... “ (Popelková, 2014)

**Fig. 6: Number of persons in individual categories of poverty**



Source: Perspectives, Prague 2014

A: Income poverty, B: Material deprivation, C: The low work intensity.

We can thus state that in 2012 the Czech Republic achieve the material deprivation rate in relative expression 6.6 %. The proportion of people living in households with very low labor intensity stood at 6.6 % and the risk of poverty rate was at 9.6 %. According to the aggregate indicator that was created on the basis of the above three indicators were the Czech Republic in 2012 at risk of poverty or social exclusion 15.4 % of the total population.

Poverty does not affect the vast and numerous categories of the population, but is more concentrated as the unemployed, single-parent families and multiple families. Children and families represent a substantial group significantly at risk of poverty and social exclusion. Among households with children were in poverty in 2012, most lone-parent families (risk of poverty stood at 31.3 %) and households with two adults and three or more children (22.4 %). This represents an unsatisfactory condition when children are in the Czech Republic for families in terms of income and material deprivation significant risk.

Important factors for the low rate of relative poverty in the Czech Republic are the low level of income inequality and relatively high efficiency of social transfers in combination with low levels of income median. Excluding pensions and other social transfers would be in the Czech Republic under the poverty line 37.6 % of the total population (9,6 % after transfers). Generally we can say that the efficiency of transfers is high among to the elderly over 65 years, which is due to high redistribution adjustment of pension benefits, and working households. Risk of poverty in households were employed in 2012 and 4.5 % in households of pensioners by 6.4 %. Significantly lower efficiency of social transfers for people watching

in jobless households (only 24.1 %) and households headed households with children (27 %), children, people aged 18-24 and households with three or more children

Benefits in case of material deprivation are:

1. Liberty allowances, 2. Housing allowances, 3. Benefit for specific actual aid.

**Tab. 2: Expenditure on benefits in material need**

	2007	2008	2009	2010	2011	2012	2013
<b>Total expenditure (million CZK)</b>	3287	2 794	3 089	3 882	4 982	7751	8250

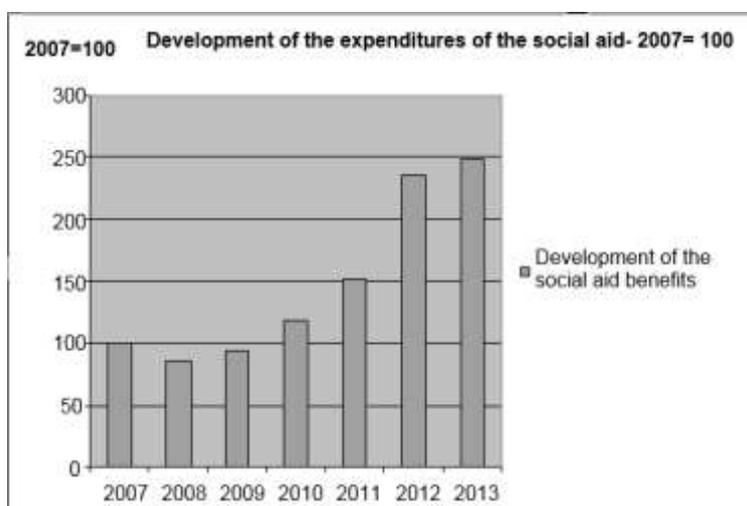
Source: MLSA

**Tab. 3: Number of recipients of social benefits in the Czech Republic (thousands of people)**

	2008	2009	2010	2011	2012	2013
<b>Housing allowances</b>	86	111	133	162	182	200
<b>Supplements for housing</b>	21	19	23	26	41	60
<b>Living Allowance</b>	66	72	91	101	116	130

Source: MLSA

**Fig. 7: Expenditure on social assistance in the Czech Republic**



Source: National Accounts of the Czech Republic

Above given data owes a clear picture that spending on support for persons in poor social situation in crisis period sharply accelerated their growth in this period and show may more instructively impact of the real situation in this field.

#### 4 Risk in work poverty

An important factor influencing the level of poverty and income situation in general in society is the employment situation. In addition, the effect of such phenomena such as unemployment epiphenomenon associated with the market economy is becoming more important and increase the extent of working poverty, a rise in the number of people who, although employed, but their income from this job is not enough for them a dignified life. This problem is mainly related to application of the precarious work.

What are the key features of "precarious" work:

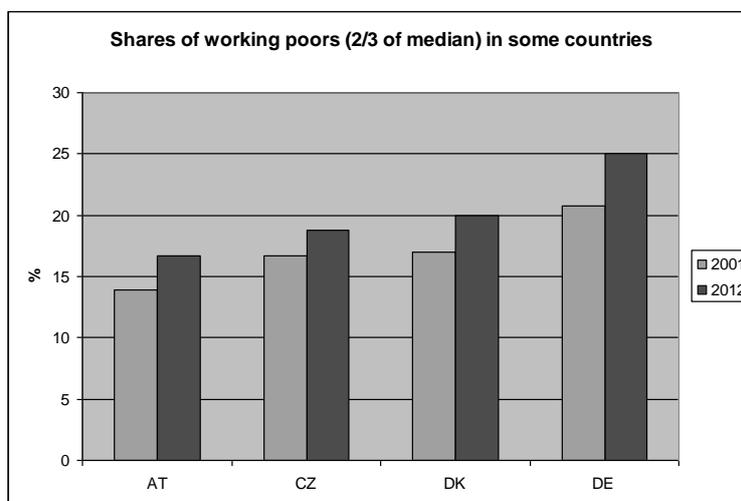
- Little or no job security
- Low or uncertain income
- No or low social protection (i.e. entitled to a pension, health insurance, unemployment benefits)
- Low or no protection against dismissal
- No retraining
- Little or no work safety in the workplace
- No trade union representation

The definition of risk in work poverty

- This includes persons who are employed and moving in the zone of risk of poverty
- They take into account the personal, professional and family characteristics.
- This indicator must also take into account the risk of poverty resulting from unemployment and inactivity

All those indicators point to an increase in the number of people that got in the zone of people at risk of poverty, even according to EU criteria. This situation describes the passage in the EC "Employment Package 2013" : *"In many Member States, increases in work poverty and social polarization. Working poor in 2011 accounted for one-third of adults of working age people at risk of poverty. In 2010, there were 8.4 % of employed people below the poverty line and in the case of families with dependent children was the threat still significantly higher (10.7 %). The incidence of working poverty among women has increased, but remains higher in men. In-work poverty in the period from 2006 to 2010 significantly increased about one third within the member states (even in more developed states)"*

**Fig. 8: Shares of working poors in some EU countries**



Source: OECD statistics

Similar data are published by the ILO about the global perspective. Here, however, there is taken into account that the global comparability is quite difficult, because the definition of "poverty" is of course dependent on the conditions of a particular region. Taking the globally used indicator of "working poor", which is the boundary \$ 1.25 per day, respectively 2.0 USD per day, the ILO report provides the following data.

**Tab. 4: Proportion of working poor to the total employment in % of global perspective**

	2007	2013	2018
<b>Borders \$ 1.25 / day</b>	16.7	11.5	8.5
<b>Limit 2 USD / day</b>	33.7	26.7	22.0

Source: "Global Employment Trends 2014", ILO 2014

Nevertheless there is expected a decline in working poverty the dramatic form (less than 1.25 USD / day). However, the report underlines that 2013 was a drop falling into this category is lower than in previous years.

## Conclusion

The facts clearly show that the critical period 2008 - 2012 was reflected in the increase in the number of people that move to the boundary defined as the level of poverty. However, it is a great challenge for theoretical analysts to explain to what extent these processes. These

started due the crisis in terms of economic and financial, and drop some income categories in society in general and the labor market in particular. The categories are mutually independent or dependent only chronologically or whether they have a deeper economic continuity. It is more and more visible, that moves towards deeper poverty situation is linked with process of differentiation in incomes. There are existing also significant mutual consequences between the poverty in general and rising disability of the labor market to provide good, stable and well paid jobs. The continuing precariousness of the labor market is important factor impacted very strongly the whole situation in society. It is thus possible to suppose, that without improvement on the labor market and without refusing all so called liberalistic attitudes that led to rise of disparities in incomes and to dominance of speculative activities this type of negative evolution of poverty will continue.

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