



Analysis of the issue of in-work poverty Malta

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ABSTRACT

The risk of in-work poverty (IWP) in Malta in 2017 was significantly lower than the EU average. In spite of the overall positive situation, a gradual yearly increase in IWP can be noted since 2016 in Malta. An analysis of some of the contributing factors for the increase is provided in this article, using Goerne's theory (2011). The paper argues that the issue of low work intensity in specific households, the inadequacy of the minimum wage, and the soaring prices of property may all be contributing towards the increase in the number of persons experiencing IWP in the Maltese islands.

WHAT IS IN-WORK POVERTY?

Persons are considered to be at risk of in-work poverty if they are in employment or self-employment for more than half the year and live in a household that is at risk of poverty. A household is considered to be at risk of poverty if its equivalised disposable income is below 60% of the national equivalised disposable household median income (Eurostat, 2018).

In-work poverty is based on an evaluation that goes beyond the pay of one person. It takes into consideration the broader circumstances of the working household, including earnings derived from other members of the family, minus taxes and the expenses incurred within the same household for example for food, housing, fuel, clothing and medicine. The family earnings are also affected by the number of persons working in the household, their hours of work, and the support offered by government (in cash or in kind), for example through tax credits and other social and in-work benefits (Hick & Lanau, 2017). In-work poverty occurs when the net income of the household, derived from various sources, is not sufficient to meet their needs.

WHAT IS THE SITUATION OF IN-WORK POVERTY IN MALTA?

In 2017 the overall in-work at-risk-of-poverty rate of employed persons (employees and self-employed) in Malta, stood at 5.9%. This is significantly lower than the EU average of 9.6%. However, between 2012 and 2017 an increase of 13.5% in the number of employed persons (employees + self-employed) who are risk of in-work poverty, can be noted (Eurostat, 2018).

Between 2012 and 2017 the risk of in-work poverty was similar on average, between those on a temporary (4.7%) and permanent contract (4.2%). However, during the same six year period, the risk on average was consistently and significantly higher for self-employed persons (12.9%) when compared to employees (4.7%). The risks were also higher for those who work part-time (13.3%) when compared to those who work full time (4.9%). On average, during the same period, the risk was also consistently higher for males (7.1%) when compared to females (3.1%). However, in all cases, the risks on average were lower than those of the EU (Eurostat, 2018).

When assessing how age affects in-work poverty, persons aged 25-54 were found to be mostly affected (6.1%) by in-work poverty when compared to the younger cohorts of 18-24 (3.7%) between 2012 and 2017. This may be due to the younger cohorts still likely to be living at home with their parents at that age and having fewer expenses. However, whilst across all age cohorts the rates were lower than the EU average, a substantial increase from 3.3% to 5.2% can be noted in the 55 to 64 year cohort during the same years, indicating that older workers are at a higher risk of in-work poverty as they approach retirement age (Eurostat, 2018).

The risk of in-work poverty mostly affected those households with low work intensity. At 38.1%, this was slightly higher than the EU average of 37.3% during 2017. These were followed by households in medium work intensity, which at 25.9% were also above the EU average of 21.5%. However, things were significantly better in Maltese households with very high work intensity (1.4%), or high work intensity (6.2%), when compared to the EU at 5.4% (very high work intensity) and 11.2% (high work intensity) respectively, during 2017 (Eurostat, 2018).

Work intensity, or the lack of it, also had a significant impact on households both with and without dependent children. Households with medium (12.1%) or low (22%) work intensity without children had on average lower risk of in-work poverty than the EU, at 13.6% and 28.2% respectively. On the other hand, the risk for households with dependent children in low-work intensity (53%) was higher than the EU average (46.5%) in 2017. In both Malta (11.6%) and the EU (21.4%), the risk of in-work poverty in 2017 was highest in households with single persons with dependent children, although the risk was significantly lower in Malta. This may be due to the in-work benefits scheme and the tapering of benefit schemes, which

were launched in recent years to encourage more people, and especially mothers, to enter into the formal labour market (Eurostat, 2018).

When comparing the risk of in-work poverty by country of birth, the risk was highest for non-EU28 nationals working in Malta (13%), and lowest (7.6%) for EU28 nationals, during 2017. A similar trend was noted at EU level, although the rates for Malta, in both cases, were significantly lower than those in the EU.

In contrast to the positive trends depicted above, a study carried out by Piscopo, McKay, and Bonello (2016) which looked at the issue of adequacy for different types of families living on the minimum wage or on a pension, highlights significant disparities between the income derived, when compared to the 60% Median National Equivalised Income (NEI). This suggests that the overall national positive trends may not be applicable to all, and some categories of workers may be more prone to suffer from in-work poverty than others. In order to understand which categories are most affected by in-work poverty, it is essential to look at the contributing factors that lead to it.

LOOKING AT THE MAIN CONTRIBUTING FACTORS THAT LEAD TO IWP

Goerne (2011) indicates that there are three main contributing factors that lead to in-work poverty. These are: 1) work intensity or the lack of it within the household; 2) the remuneration levels; and 3) the household expenditure and costs incurred by its dependents. In the next section, I will use Goerne's simple framework (2011) to assess which categories of persons in Malta are likely to be affected most from these three contributing factors.

LOW WORK INTENSITY

In recent years a stronger emphasis has been placed on activation policies that make-work-pay. This has led to various incentives by government, the most notable of which is the in-work benefit scheme. This scheme encourages more people, especially low-earning couples and single parents with children under the age of 23, to seek paid work by providing a monetary top-up on top of their wages. The schemes also specifically reward those who opt for higher work intensity with the top-up going up accordingly (See calculator for full explanation on how the top-up is calculated for the different categories of workers in relation to work intensity: <https://dssservices.gov.mt/BenefitPaymentRates.aspx>).

According to the National Report Programme (NRP) 2017, the in-work benefit scheme reduced the overall at-risk of poverty by "around 0.09 percentage points" and "was particularly successful in reducing the at-risk-of-poverty amongst households with children, where it decreased by 0.31 percentage points and households that are economically active by 0.15 percentage points" (NRP, 2017 p.15). Whilst noting

the positive outcome of this policy, the in-work benefit scheme may have indirectly caused a few casualties. This is because those who are not eligible for this activation scheme do not receive any top-up and those who are not able to increase their work intensity, receive a lower benefit. Who is most prone to low-work intensity?

The rate of persons in Malta suffering from IWP due to very low work intensity (53%) is higher than the EU average (46.5%). Undocumented migrants coming from sub-Saharan African countries and asylum seekers seem to be amongst those categories that are most prone to low or very-low work intensity. A study conducted with asylum seekers in Malta found out that only 54.2% of asylum seekers were gainfully employed for at least six months of the year between January and December 2015. Furthermore, less than a quarter (23.6%) of their heads of households, were employed full-time during the same period (Caruana, 2016). Sporadic work intensity, abuse and the blatant discrimination levelled against migrants make them more prone to in-work poverty. These are not the only category of persons who are at risk of poverty due to low work intensity. Persons with social or mental health problems, persons suffering from addictions, persons (especially women) suffering from domestic violence and single parents with young children, may also struggle to remain in paid work and/or to increase their work intensity.

THE REMUNERATION LEVELS

Apart from the issue of low work intensity, Goerne (2011) also mentions the remuneration levels of the workers. When looking at the minimum wage in Malta between 2010 and 2017, this saw a decrease of 1.4 percentage points in real terms (Eurofound, 2017). It was only in 2017 that measures were taken to remedy the situation after the minimum wage had remained the same for 27 years, only keeping up with the effects of inflation (Times of Malta, 2017). From 2017, government and the social partners agreed that employees receiving the minimum wage, upon completion of the first year of employment with the same employer, will receive an increase of €3 per week in the second year of employment. Upon completion of the second year, employees will be entitled to an additional €3 per week. This increase is over and above the yearly Cost of Living Adjustments (COLA). Employees earning more than the basic minimum wage are also entitled to the portion of the increases during the second and third year of employment (DIER, 2018). Whilst this was a positive step, the upward adjustment is half of what social campaigners led by Caritas have been asking for (Times of Malta, 2017). Furthermore, it is amongst the smallest increases granted (1.9%) in the last year across the EU (Aumayr-Pintar & Rasche, 2019). In contrast, the overall national average salary increased by 3% between 2017 and 2018 (Malta Independent, 2018). It must be noted that around 5% of the working population

(amounting to about 12,000 workers) are on the minimum wage (C. Caruana, personal communication, November 11, 2018). Could the smaller salary increase for minimum wage earners in contrast to the national increase be putting them at a higher chance of in-work poverty?

THE SPIRALLING COST OF PROPERTY

Finally, Georne (2001) mentions household expenditure and costs incurred by its dependents as a contributing factor towards in-work poverty. One of the most pressing costs experienced in recent years in Malta has been the rising prices in property and rentals. Whilst noting that 78% of families in Malta are home owners (Sansone, 2018), the Federation of Estate Agents claimed that prices of property, both for rental and for sale in Malta, have now increased to beyond that which the average Maltese can afford (Grech, 2018). For example, while the minimum wage was €747.54 monthly (in 2018), there was a shortage of affordable rental properties within the €400–€700 monthly rent range (Sansone, 2018).

This makes it rather difficult for low and even middle income, local and foreign workers, to cope with this expense, thus increasing their chances of in-work poverty. This has led some foreign workers to live in overcrowded apartments in groups of eight or more in order to survive whilst others are being pushed into homelessness (Martin, 2018). Low income Maltese workers may also fall victims of these soaring prices. Unfortunately, the stock of social housing in the last years has not been replenished and for example statistics from the Parliamentary Secretariat for Social Accommodation show that, in 2017, only 210 of 3,290 people were taken off the waiting list for social housing (Grech, 2018).

CONCLUSION

The issue of in-work poverty does not seem to be a major concern in Malta for the time being. The issue is rarely mentioned in the press or by the trade unions, and there is only one reference to it in the 2017 National Reform Programme (NRP). The reason for this low interest needs to be analysed in the context of a booming economy, low unemployment rates, and a lower in-work poverty rate than the EU average. However, since the problem is increasing, the situation merits more attention to identify why this is happening. The issue of low work intensity in some households, the adequacy of the minimum wage, and the soaring prices of property may be good places to start looking into, if the country wants to stem this increase.

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