LABOR MARKET: COVID-19 PANDEMIC AND WORKING POVERTY

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Abstract
Socio-economic inequality has always accompanied the development of human society. However, the problem of inequality could intensify in certain periods. Given study aims to understand why do people who get income, salary or wage remain to be poor? Why does working poverty exist? How various extraordinary phenomenon like COVID-19 pandemic influence employed population and heir material situation. The article determines four groups of poverty reasons: Society level objective reasons, Society level subjective reasons, Individual-level subjective reasons, and Individual-level objective reasons. Discussing the issues of the reasons for working poverty, the paper mentions such as Changes in labor market policies, Long-term structural changes in the economy of developed countries; Strengthening the globalization process and structural changes in the national economies; Low wage of working people caused by personal specifics of an employed person like his/her human capital i.e. education or qualification, ability to appropriated use own skills and knowledge and manage own life; Unequal socioeconomic position of different demographic groups of population; Household characteristics. Out-of-the-ordinary phenomena such as COVID-19 further complicate the situation with the working poor. The labor market also has reacted to the changes caused by the spread of COVID-19 by adaption of specific programs aimed to keep employment unchangeable, by protection against unemployment, changes of work regimes, changes in labor legislation, etc. Increasing employment is a necessary but not sufficient condition for overcoming working poverty. Therefore, overcoming in-work poverty is necessary along with the increase of the number of jobs to improve the quality of these jobs. Good public policies can limit and truly reverse the rise in working poverty.

Keywords: Labor Market, Working Poverty, In-Work Poverty, Employment, Unemployment, Wage, COVID-19, coronavirus crisis

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1 INTRODUCTION

The World has never been equal and socioeconomic disparity was and continues to be a problem the societies are facing. Poverty and material inequality are the most acute challenges of modern society that have no territorial boundaries. The eradication of poverty is one of the most important problems of modern reality.

The concept of poverty primarily comes from its monetary understanding, that is, poverty is identified with low income, which cannot satisfy the basic physiological needs of people. Such an understanding of the poverty essence is usually presented in the concept of absolute poverty (Proudhon, 1888 (1846)), (Stiglitz, 2012), etc. Absolute poverty is at the center of the attention of economists, sociologists and political scientists, politicians, and government officials. Compared to other forms of poverty (Arnania-Kepuladze & Kepuladze, 2021, p. 21), absolute poverty as a phenomenon and as a field of scientific interest historically emerged earlier than other forms of poverty like moderate poverty, relative or deprivation poverty, and from the very beginning attracted the attention of scientists and politicians. Absolute poverty is seen as an extreme form of poverty, which is characterized by significant difficulty in overcoming.

At the 25th session of the United Nations Committee on Economic, Social and Cultural Rights, it was mentioned that poverty often was defined as “insufficient income to buy a minimum basket of goods and services”, but in the recent time the term “poverty” is considered in a broader sense and as “the lack of basic capabilities to live in dignity” (UN, 2001). The World Bank provides a more specific definition of poverty and since 2015 links absolute (extreme) poverty to income and consumption less than $1.9 per person per day.

In the scientific literature, there is a widespread opinion (Leibenstein, 1957), (Nurkse, 1953), etc.), that poverty is a sign of self-production. It is believed that the poorer a country is, the more likely it is to fall into a “vicious circle of poverty”.

According to statistics, absolute poverty has been steadily declining since the end of the last century. This was achieved largely thanks to the efforts of such authoritative international organizations as the World Bank, Organization of Economic Cooperation and Development, International Monetary Fund, International Labor Organization, and many others. Programs developed and implemented by these organizations which aimed at fighting poverty, periodically faced new challenges, including climate warming and recurring conflicts in different parts of the world.

But the end of the second decade of the 21st century reversed this common positive trend in the process of poverty alleviation and attempts to end poverty, faced a new challenge. Such a challenge became the emergence and rapid spread of COVID-19 infection.

Thus, in the first quarter of the 21st century, COVID-19 infection became a new source of poverty for the world's population including the employed population. The poverty of the employed population got the name Working Poverty or In-Work Poverty.

2 CAUSES OF POVERTY

It is obvious, that the eradication of poverty depends on overcoming the sources that cause poverty. This, in turn, requires identifying the reasons for poverty.

Among the reasons why countries fail to achieve economic growth, J. Sachs (2005) considers the following: the poverty trap, physical geography, fiscal trap, governance failures, cultural barriers, demographic traps, trade barriers.

Based on the different theories of poverty (Kepuladze & Arnania-Kepuladze, 2018), the poverty reasons can be divided into two criteria: according to the scale of poverty revealing which can be considered on individual or micro level, and societal or macro level, and according to the character of poverty revealing which can be divided into the subjective and objective character of revealing (see Figure 1.).

Objective reasons mean the reasons that are independent of the will of a person i.e. when poverty is caused by external factors. Subjective reasons mean poverty caused by reasons which mostly depend on a person and his/her decision-making and/or person-dependent activities.

Thereby, the following four groups of poverty reasons can be determined:
- **Society-level objective reasons** i.e., macroeconomic level objective reasons which include adverse economic conjunctures like economic crises, political instability and different conflicts, ecological cataclysms, and climate worsening. Decrease for one reason or another in the overall level of income in the region or sector of the economy and/or the existence of regions and sectors of the economy with traditionally low income, etc.

- **Society-level subjective reasons** i.e., macroeconomic level subjective sources of poverty are highly dependent on decisions made by different officials and the bureaucratic mechanism they created and includes a wrong policy of economic activity regulation, absence or malfunctioning of the income redistribution mechanism, etc.

- **Individual-level objective reasons** i.e., microeconomic level objective reasons that include factors like an impossibility for reasons independent of the individual to obtain a good education, a person's health condition, or his/her advanced age do not allow him/her to fully engage in activities aimed at generating income, self-reproduction of poverty due to the impossibility of receiving assistance from outside, etc.

- **Individual-level subjective reasons** i.e., microeconomic level subjective reasons like low level of education caused by unwillingness to learn and gain knowledge, oldness, and the inability of a person to provide for his/her old age, self-reproduction of poverty due to unwillingness or impossibility of an individual to overcome the vicious circle of poverty, low level or lack of social and family ties who can provide material support, person's unsocial features and behavior, etc.

**Figure 1. Reasons of Poverty**

*Source: Created by authors*

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Thus, there are many reasons for the existence and persistence of poverty, and this requires careful study of this issue. Poor strata of society should be grouped according to the causes of poverty and concrete actions to combat poverty should be applied to specific groups. Such an approach is not aimed at fighting the results of poverty but is directed to eliminate its “roots”.

Despite the multiplicity of the causes of poverty, they have in common a lack of material/financial means to live and meet the basic needs of a person.

Usually, poverty is associated with a lack of money, with the impossibility to earn money, and therefore, with unemployment. To be more precise, poverty is associated predominantly with poor unemployed, and poor populations outside the labor force.

Nevertheless, poverty is not alien to the employed population as well.

The employed population contains earned workers and the self-employed population. The question is why do people who get income, salary, or wage remain to be poor? In other words, why does working poverty exist?

### 3 Working Poverty

During the historical development of a society and along with progress in scientific understanding of the poverty phenomenon, different types of poverty (Arnania-Kepuladze & Kepuladze, 2021, pp. 24-27) were studied. Among these types of poverty, a special place belongs to working poverty.

As a phenomenon, working poverty has always existed. It’s enough to recall the discussion on the size of workers’ wages which the founders of classical political economy William Petty, Adam Smith, and David Ricardo were talking about two hundred years ago. But as an economic concept, working poverty investigation began relatively recently, and the first in-work poverty-related scientific works appeared in Europe at the end of the 1990th (Andreß & Lohmann, 2008). Interest in this problem is gaining momentum in the 21st century.

Therefore, Working Poverty, or In-Work Poverty, or Working Poor - is a relatively new scientific conception and a notion.

The Institute of Public Policy Research (IPPR) considers working poverty as poverty in households where one or more people are at work (McNeil, Parkes, Garthwaite, & Patrick, 2021, p. 3). The US Bureau of Labor Statistics (U.S. BLS, 2020) defines working poor as individuals who during the calendar year for 27 weeks or more were labor market participants or in other words belonged to the labor force (that is, were worked or looked for work) but their income was below the official poverty level. According to the International Labor Organization definition, the working poor is employed people who live below an accepted poverty threshold (ILO-stat, 2020).
Employment is perceived as a tool for income-earning in the form of wage or salary and therefore to avoid poverty. Such opinion was popular until recent times. The increase of employment was considered as fundamentals to reduce the risk to fall into poverty and as a possibility for overcoming poverty. Nevertheless, labor market participation, employed status, and receiving wages do not guarantee that a person will not go fall into poverty. Some researchers have shown that there is not any stable correlation between employment growth and poverty reduction (Andreß & Lohmann, 2008). As the ILOStat data has shown, among all employed persons in the World about 8% are in extreme poverty i.e., live on less than $ 1.9 a day, while an additional 13% of all employed fall to moderate poverty. The reasons for working poverty existence are very broad and different authors concentrate their attention on the different aspects of this phenomenon. All reasons for working poverty also can be divided into objective and subjective ones which act on the micro or macro levels.

Among the reasons for working poverty are the following:

- **Changes in labor market policies**, adopted at the end of the 20th and beginning of the 21st century (Andreß & Lohmann, 2008, p. 1). At the end of the 20th, 35 million people were unemployed in OECD countries and additional 15 million people were looked up for jobs or had part-time jobs (OECD, 2002, p. 4). (Gammarano, 2019). In this time cyclical unemployment was added by structural unemployment which reducing is more problematic. High unemployment rates in most European countries have given rise to the idea of the possibility of overcoming unemployment by creating new jobs, especially for low-skilled and low-paid workers. During the ten years from 1997 to 2007, 18 million new jobs were created (Barroso, 2014, p. 132). But these new jobs did not provide a sufficient level of earnings for the employed population.

- **Long-term structural changes in the economy** of developed countries (Andreß & Lohmann, 2008, p. 1) and movement of labor to the service sector. The structural changes in the economy caused the differentiation of jobs and their polarization, which was manifested on the one hand, in the emergence of high-paying jobs with stable and attractive employment, and on the other side in the creation of low-paid jobs with unfavorable employment conditions.

- **Strengthening the globalization process and structural changes in the national economies.** Globalization causes growing interdependence of countries’ economies. Globalization promotes the increasing of labor migrants’ movement from developing countries to countries with developed economies (OECD, 2002). This increases the supply of labor force in the labor market of developed countries and creates tension in this market when low-skilled migrant workers and low-skilled local workers compete. Such competition leads to lower wages for both migrant and local workers. This trend is exacerbated by discriminatory measures against migrants, which also contributes to a decrease in workers’ wage levels.

- **A low wage of working people.** This factor is considered as a main or fundamental cause of working poverty (Andreß & Lohmann, 2008) (Herman, 2014), (Perry, et al., 2006). The low wage can be produced by a few reasons in particular: incomplete inclusion in the workflow, that is, the presence of temporary employment or part-time employment or self-employment (Dafermos & C, 2012), (Heyes, 2013), (Olsthoorn, 2013); personal specifics of an employed person like his/her human capital i.e. education or qualification, ability to appropriated use own skills and knowledge and manage own life.

- **Unequal socioeconomic position of different demographic groups of the population** when women and young people place a disadvantage position on the labor market.

- **Household characteristics** are one more factor of in-work poverty. Households with jobless members, single-parent households, large families, and many dependents, are most susceptible to fall into the category of working poor. As the Institute for Public Policy Research (IPPR) has found, over the past quarter-century the number of poor working households increased from 13% in 1996-1997...

Of course, all these factors of in-work poverty differ by country and historical period and various phenomena can aggravate this situation. One such phenomenon is the COVID-19 pandemic.

4 WORKING POVERTY AND COVID-19

To prevent the spreading of the COVID-19, the governments of most countries made certain actions such as close airports, halt tourist and other travels, stop local transport, change work regimes in most spheres of the economy.

The spread of the COVID-19 pandemic and related restrictions resulted in an economic crisis, the so-called coronavirus crisis. This crisis is unusual because it was caused by non-economic reasons. In the conditions of the coronavirus crisis, organizations were forced to curtail their activities, not because of their economic inefficiency, but because they are belonging to those industries and/or sectors of economies as well as regions that were most affected by the lockdown. Among the economic sectors most affected by the negative impact of the COVID-19 pandemic can be named the hotel and food industry, manufacturing, and retail where employment fell by 20 percent (OECD, 2002), (ILO-stat, 2020). At the same time, employment in the information and communication, financial and insurance industries, and in some others, has increased.

Different countries have responded to the coronavirus crisis differently. The labor market also has reacted to the economic, political, and social changes caused by the spread of COVID-19. The activities, directed on the labor market situation improvement, were done in various ways, particularly,

- by the adaption of specific programs aimed to keep employment unchangeable or to save workplaces through to forced holidays compensated by government or/and employees.
- by protection against unemployment which was done through expanding and simplifying access to unemployment benefits, increasing the size of the benefits, and extending their duration until the end of the crisis.
- by changes of work regimes that allowed employers to adapt to restrictions imposed by governments due to the spread of the COVID-19 virus. Among the ways, employers adapt to the crisis, are part-time employment, a shorter working day or week, distance employment, hybrid work formats, etc.
- by changes in labor legislation and intensive initiation of new labor laws, allowing to include distance work in the employment contract for both employed staff as well new employees. Many countries and organizations are preparing to make changes in labor legislation regarding pay, work quality control, and the efficiency of working time usage.

5 WORKING POVERTY IN GEORGIA

Recent experience has shown that due economic crisis of 2008 in the recovery period 2008-2012 working poverty increased in many countries, including Georgia. After 2013 the general economic situation and the situation on the labor market in Georgia began to improve. This was manifested in a gradual increase in the number of the employed population and a slow decrease in the number of unemployed (Figure 2).

A decrease in the level of economic activity of the Georgian population was noticed before the onset of the coronavirus crisis but the crisis hurt employment and unemployment. So, from 2019 to 2021, the employment rate of the population decreased by 1.3%, while the unemployment rate increased by 4.5% and amounted to 22.9% in the second quarter of 2021.

A comparison of the unemployment rate during the coronavirus crisis with the 2008 crisis shows that the scale of unemployment caused by the spread of the coronavirus virus infection was less than the previous crisis period (Figure 3). This can be explained by several reasons, in particular, the fact that people on forced leave are formally considered employed and are not recorded as unemployed.

In addition, the poorly developed mechanism of assistance to the unemployed and the lack of programs for providing unemployment benefits does not encourage people, who have lost their jobs, to apply to employment services.
Employment in most types of economic activity has declined since the outbreak of the pandemic. However, these reductions were not equal, and some sectors of the economy were affected more significantly than others (Figure 4).

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**Figure 2.** The Ratio of Employed and Unemployed Population in Georgia  
Source: Created by authors based on (Geostat, 2021) data

**Figure 3.** Labor Force Indicators  
Source: Created by authors based on (Geostat, 2021) data

**Figure 4.** Change in number of employment by type of economic activity (comparison of 2019 and 2021/I)  
Source: Authors’ calculation based on (Geostat, 2021) data
Employment fell the most in the arts, entertainment, and leisure sectors, where the number of employees decreased by 70.94%, and in construction, where the number of employees decreased by 66.9%. Another depressive area of economic activity is Administrative and support service activities where the number of employees falls by 36% and professional, scientific, and technical activities that show a decrease in employment by 21.6%. Relatively smaller decrease in the number of employees was noted in such spheres of economic activities as Wholesale and retail trade, transportation, and warehousing, Rural, forestry and fish farming, Real Estate Activities where the number of employees decreased by 19.24%, 18.9%, 17.7%, 13.9%, respectively. Unlike other countries, employment in Georgia also decreased in the health sector, where the number of employees decreased by 369%. At the same time, there are areas of activity where employment has increased somewhat ahead of the pandemic. This primarily applies to such areas of employment as information and communication, as well as education, where employment during the coronavirus crisis increased by 3.18% and 3.13%, respectively. But if we consider that wages in education are one of the lowest in Georgia, then a slight increase in employment in this area cannot positively affect the well-being of people working in the education system.

### Table 1. Average monthly nominal salary

<table>
<thead>
<tr>
<th>Year</th>
<th>Wage GEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1 101.3</td>
</tr>
<tr>
<td>2019</td>
<td>1 161.7</td>
</tr>
<tr>
<td>2020/ I</td>
<td>1 202.7</td>
</tr>
<tr>
<td>2020/ II</td>
<td>1 150.1</td>
</tr>
<tr>
<td>2020/ III</td>
<td>1 239.5</td>
</tr>
<tr>
<td>2020/ IV</td>
<td>1 314.7</td>
</tr>
<tr>
<td>2021/I</td>
<td>1 256.2</td>
</tr>
<tr>
<td>2021/II</td>
<td>1 256.2</td>
</tr>
</tbody>
</table>

*Source: Authors’ calculation based on (Geostat, 2021) data*

Compared to January 2020, in January 2021, wages increased by 8.1%. But the fact of nominal wage growth does not mean the improvement of the situation with working poverty. The comparison of wage growth and inflation has shown that the increase in nominal wages was significantly discounted due to the larger increase in consumer prices that was raised by 12.8% at the same period. This means a decrease in real wages and a reduction in the purchasing power of the working population. Thus, working poverty continues to grow despite the fact of the slight increase in wages of employed people.

### 6 CONCLUSION

Increasing employment is a necessary but not sufficient condition for overcoming working poverty. Therefore, overcoming in-work poverty is necessary along with the increase of the number of jobs to improve the quality of these jobs. Good public policies can limit and truly reverse the rise in working poverty.

In the face of declining global and national economic activity, the global as well as the national labor markets of most countries responded to the COVID-19 pandemic with reduced workweeks or working hours and/or forced holidays. Employment turns into a latent form of unemployment when people who are formally cleaned by the employed, given the conditions created, do not have the opportunity to fully fulfill their work obligations and, accordingly, to receive wages. Thus, the poverty of the unemployed or “out of work poverty” will be further supported by the poverty of the employed or “in-work poverty”. Not infrequently workers run into the fact of being fired. Under these conditions, workers are more likely to agree to work for lower wages or to stay in the job without work and salary in the hope of improving the employment situation, and before that, they remain to be “employed without work”.

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