In-work poverty in the Czech Republic and Slovakia: The role of work intensity

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Abstract

This study examines the in-work poverty in the Czech Republic (CR) and Slovakia (SK) with a focus on the impact of work intensity. Their common history makes these two countries interesting to compare. Since the split, the less advanced Slovakia has caught up with the Czech Republic in terms of GDP. The nowadays comparable economic situation in the two countries might reflect in the level, as well as the perception of household poverty. Two indicators of poverty are used: First, the commonly used at-risk-of-poverty indicator (objective) and second, the ability of households to make ends meet (subjective). The analysis utilises EU-SILC 2006 and 2010. The data for the most recent period, the year 2013, were obtained from the Czech Statistical Office and the Statistical Office of the Slovak Republic.

Both the objective and the subjective way of assessing poverty are complicated by combining the point of view of an individual with one of the household. The risk of poverty is measured at the household level and assigned to all household members. The poverty of working individuals is therefore influenced by their own but also by other household members' financial situation. Three main reasons were identified with a capacity to put a working individual to risk of poverty: low earnings, low work intensity, and low work intensity of other household members which counterbalances the individual's sufficiently high own earnings, or a combination of all.

The factors that contribute to poverty of working individuals measured by the two indicators are estimated by logistic regression. The first, at-risk-of poverty indicator, is a dichotomous variable. It is a "yearly" indicator, as the reference period of household income in EU-SILC for the CR and SK is the previous calendar year. The second, ability to make ends meet, utilises the question "*Thinking of your household's total income, is your household able to make ends meet, namely, to pay for its usual necessary expenses*?" with "current" reference period. The answers are recorded on a 6-point scale (from "with great difficulty" to "very easily") and rescaled into dichotomous variable. It equals one if the answer is "with great difficulty" or "with difficulty" and zero if the answer ranges from "with some difficulty" to "very easily".

As the reference periods of the two poverty indicators differ, the concepts of regression models and explanatory variables differ as well. The explanatory variables of the "yearly" poverty

indicator comprise the three above mentioned poverty threats. First, the workers' earnings are implied in job characteristics, which influence the wage level (similarly to common wage regressions). Second, individual work intensity is shown by the number of months in (self-)employment in the previous calendar year. Third, the work intensity of other working-age household members is derived as a sum of their number of months in (self-)employment divided by the total number of months they could work in the previous calendar year (i.e. number of these members times twelve).

The preliminary results show a significant impact of the individual's work intensity on decreasing the risk of poverty in both CZ and SK. The effect seemed more profound in the CR, where individuals who worked the whole year were by about 90% less likely to be at risk of poverty than individuals who worked less than half a year in 2006 (compared to roughly 70% in Slovakia). However, over the next years the effect weakened in the CR and strengthened in SK. In both countries the likelihood of being at-risk-of poverty also significantly decreases with growing work intensity of other working-age household members. A substantial decrease of the risk occurs especially if the other household members worked more than half a year. This effect was the strongest in 2006 in the CR and receded later, while SK saw quite the opposite.

The explanatory variables in the model estimating the factors of "current" poverty indicator capture only two of the above mentioned poverty threats. First, job characteristics are included in the same way as in the previous model. Second, own work intensity is not applicable in this model. Third, work intensity of the other working-age household members is limited only to current economic activity and, hence, it simplifies to the share of working members. The work intensity of other members has a significant influence on the decrease of the probability of becoming poor; however, compared to the previous model, the effect is much weaker.

The results might help to clarify the difference between the two indicators of poverty applied. The first, i.e. the objective one is based on household income with expenses involved only through the equivalence scale which is applied uniformly to households with the same number of members and age structure. Under the second, the subjective one, not only household income is taken into account, but also the individual's expenses, loans and other factors which influence their assessment. The results indicate a different impact of various factors, e.g. the presence of children, on the probability of poverty threat in the two models, which might open the question of the accuracy of the equivalence scale.

The main limitation of the analysis is that in assessing work intensity it does not distinguish part-time from full-time work. This would be possible if the international EU-SILC datasets were used despite their slight shortcomings, namely, missing the exact number of weekly working hours for the whole calendar year. In the CR and SK, the approximation that part-time job represents 20 working hours per week could be justified because it is the modal value for part-time workers. However, the information on part-time work in the calendar year is not available in the Czech national dataset and, thus, a more accurate evaluation of the work intensity uniform for all the analysed periods will only be possible after the international EU-SILC dataset 2013 is made available to researchers.