

# Low wage and precarious workers in the EU: Chances of upward mobility

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*The views expressed in this presentation are solely those of the author and do not necessarily reflect the views of the European Commission*

# Outline

- **Low wage earners**
  - ✓ Motivation
  - ✓ Low wage definition & data used
  - ✓ Hourly wage in EU-SILC
  - ✓ Evidence on incidence, trend and characteristics of low wage earners
- **Transitions to higher wages**
  - ✓ Wage mobility along the whole distribution
  - ✓ Chances of exiting low wages
  - ✓ Characteristics connected with upward mobility from low wage
- **Conclusions**

# Motivation

- Disadvantages associated with low wage:
  1. Low income security → higher risk of poverty?
  2. Low wage particularly problematic when accompanied by:
    - ✓ *Low job security (non-standard contracts) → precarious jobs*
    - ✓ *Low work intensity at individual level*
    - ✓ *High household needs & low work intensity at household level*
    - ✓ *Weak chances of exiting low wage → persistent low wage*
- Causes of low wage linked to:
  1. Labour supply constrains
    - ✓ *Employer considers employee under-qualified/skilled (or skill mismatch)*
    - ✓ *Discrimination (gender, family background, unemployment spells, etc.)*
  2. Labour demand constrains
    - ✓ *High unemployment risk aversion/lower demand*
    - ✓ *Distortions in design of taxes and benefits*

# Low wage definition & data used

- Definition

- ✓ Low wage → Below 2/3 of median hourly wage in a country (Eurostat; OECD; Lucifora & Salverda 2009)
- ✓ Why hourly wage? To include part-time & temporary employees (i.e. non-standard workers)
- ✓ Alternative definitions: minimum wage (used as cut-off point); lowest percentiles

- Data

- ✓ Cross-sectional EU-SILC data 2007 & 2014
- ✓ Pooled longitudinal EU-SILC data 2011, 2012 & 2013
- ✓ Sample: All employees aged 20-64 (self-employed excluded)

# Hourly wage in EU-SILC

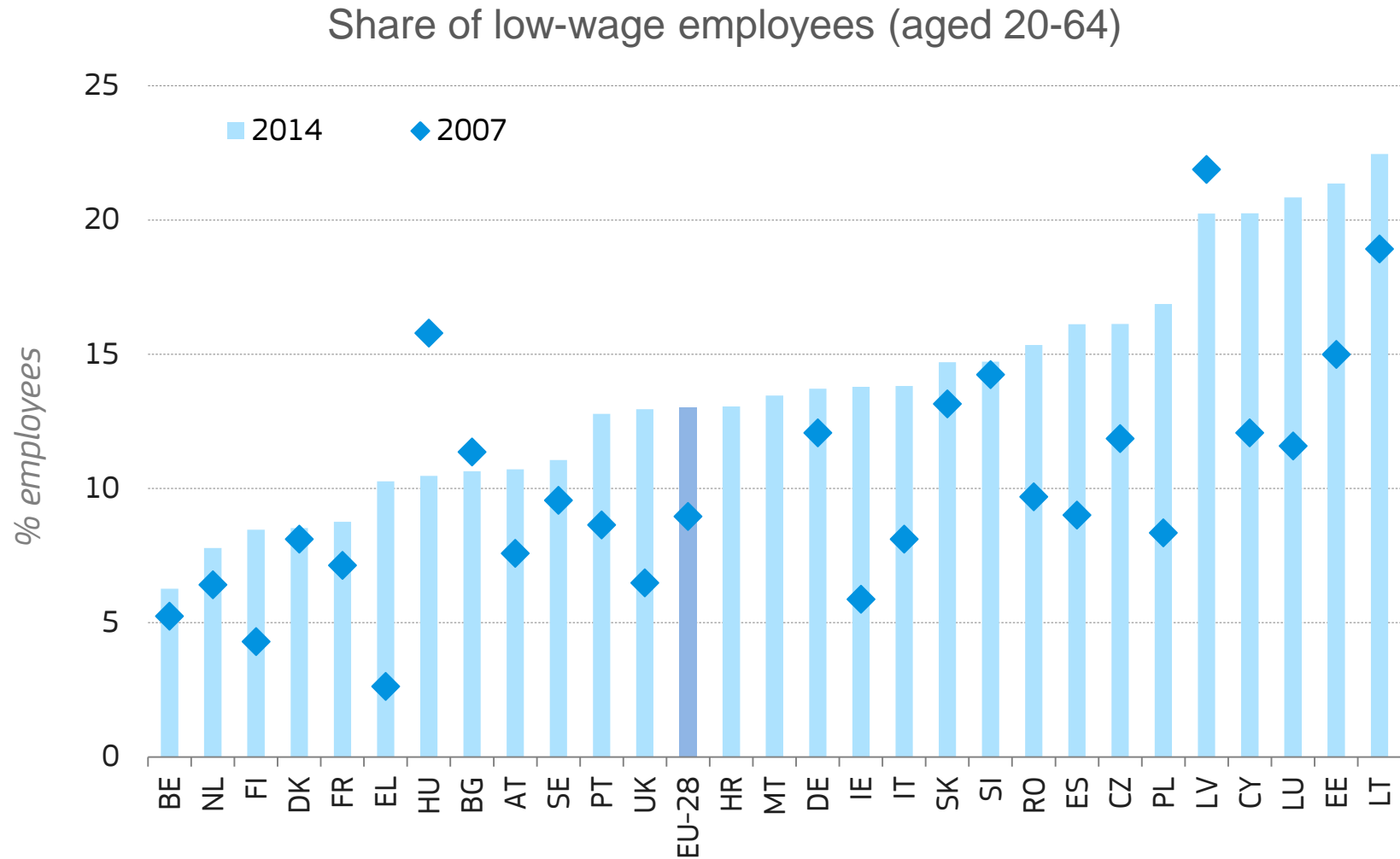
- Wages in EU-SILC available at annual level
- Hourly wage calculated as:

$$wage_{hourly} = \frac{wage_{yearly}}{weeks_{yearly} * hours_{weekly}}$$

**Caveat:** Discrepancy between income reference year & survey year

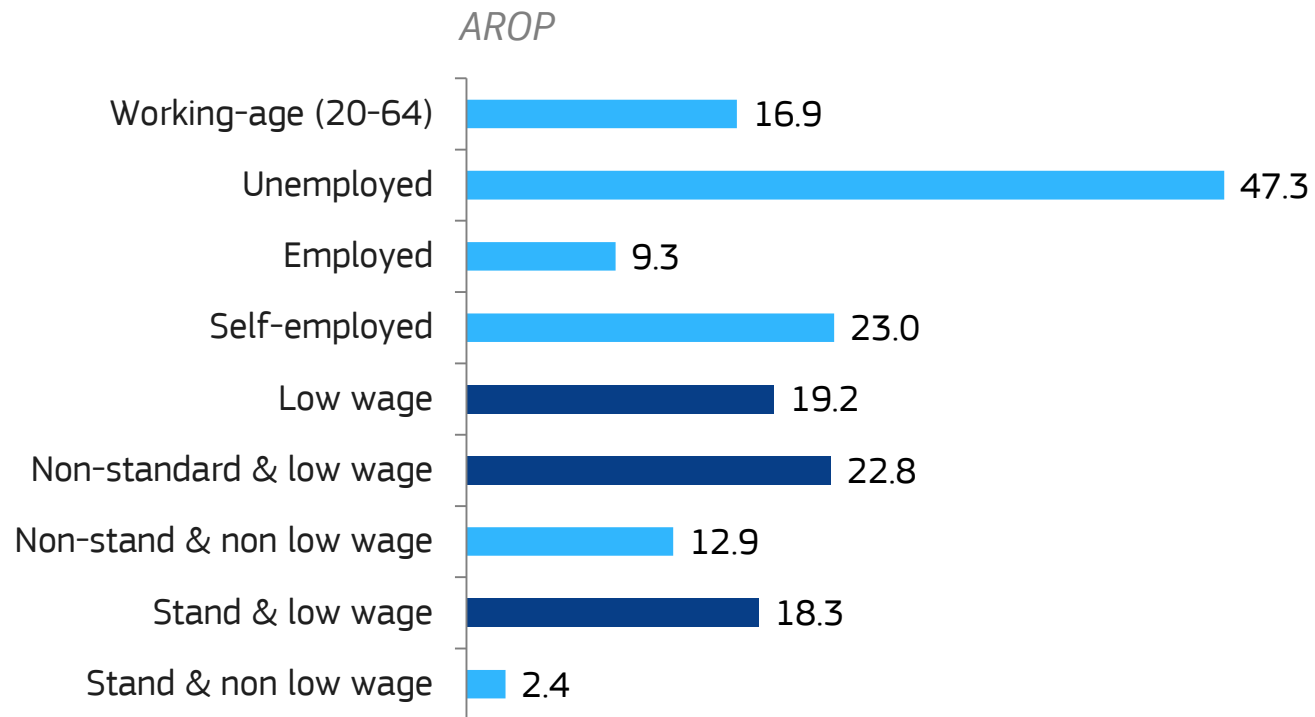
- Longitudinal data:
  - ✓ Allow to correct for discrepancy
  - ✓ But no data for DE, “small” sample size, less updated data than cross-section
- Cross-sectional data:
  - ✓ Only individuals with same labour market status 7 months or more (income reference year) are included → most stable workers → under-estimation of low wage incidence

# Incidence of low-wage differs across the EU



Source: EU-SILC cross-section 2007 & 2014 (UDB)

# Poverty risks by activity status

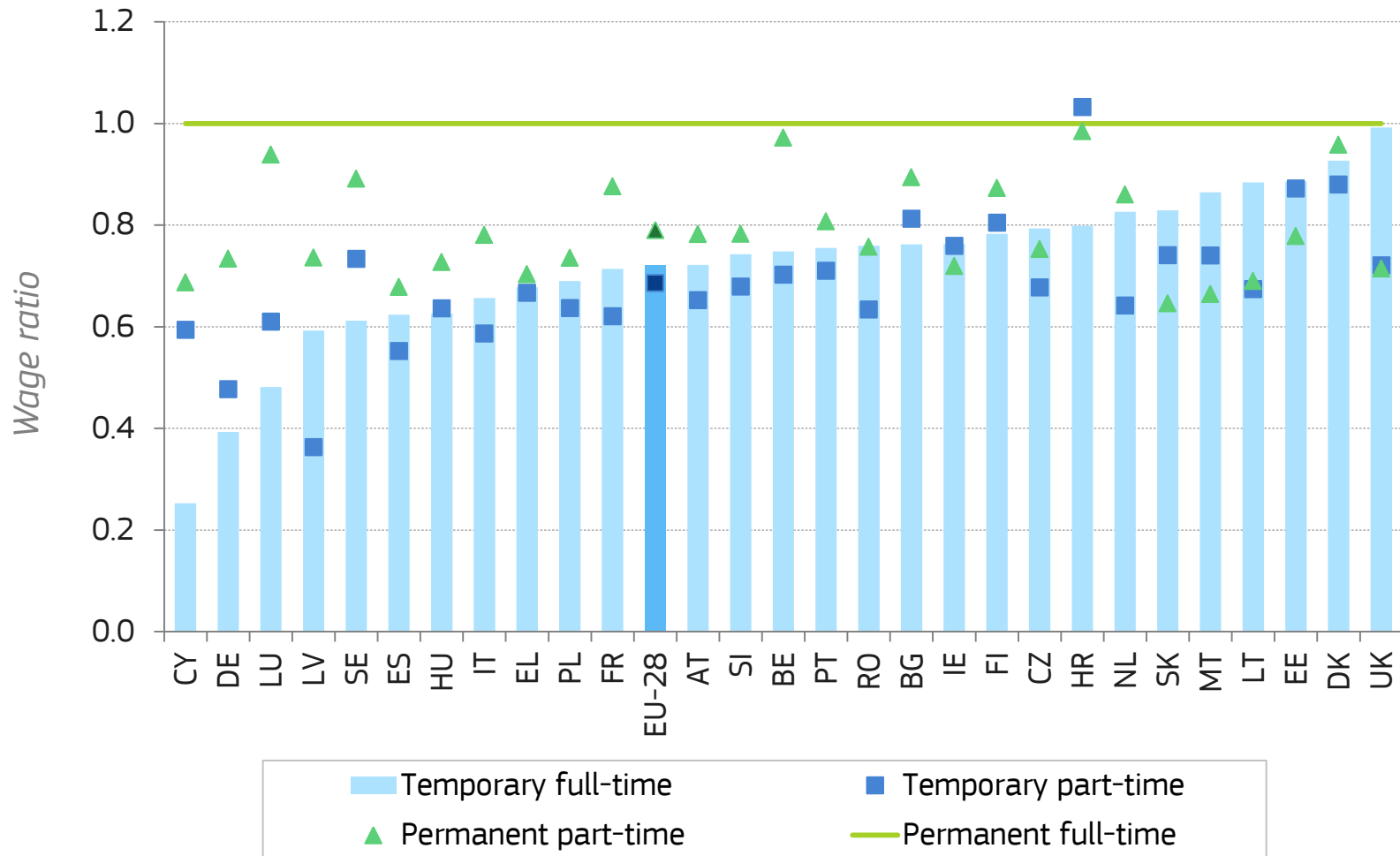


Source: EU-SILC cross-section 2014 (UDB)



# Non-standard workers face a wage penalty in comparison with standard workers

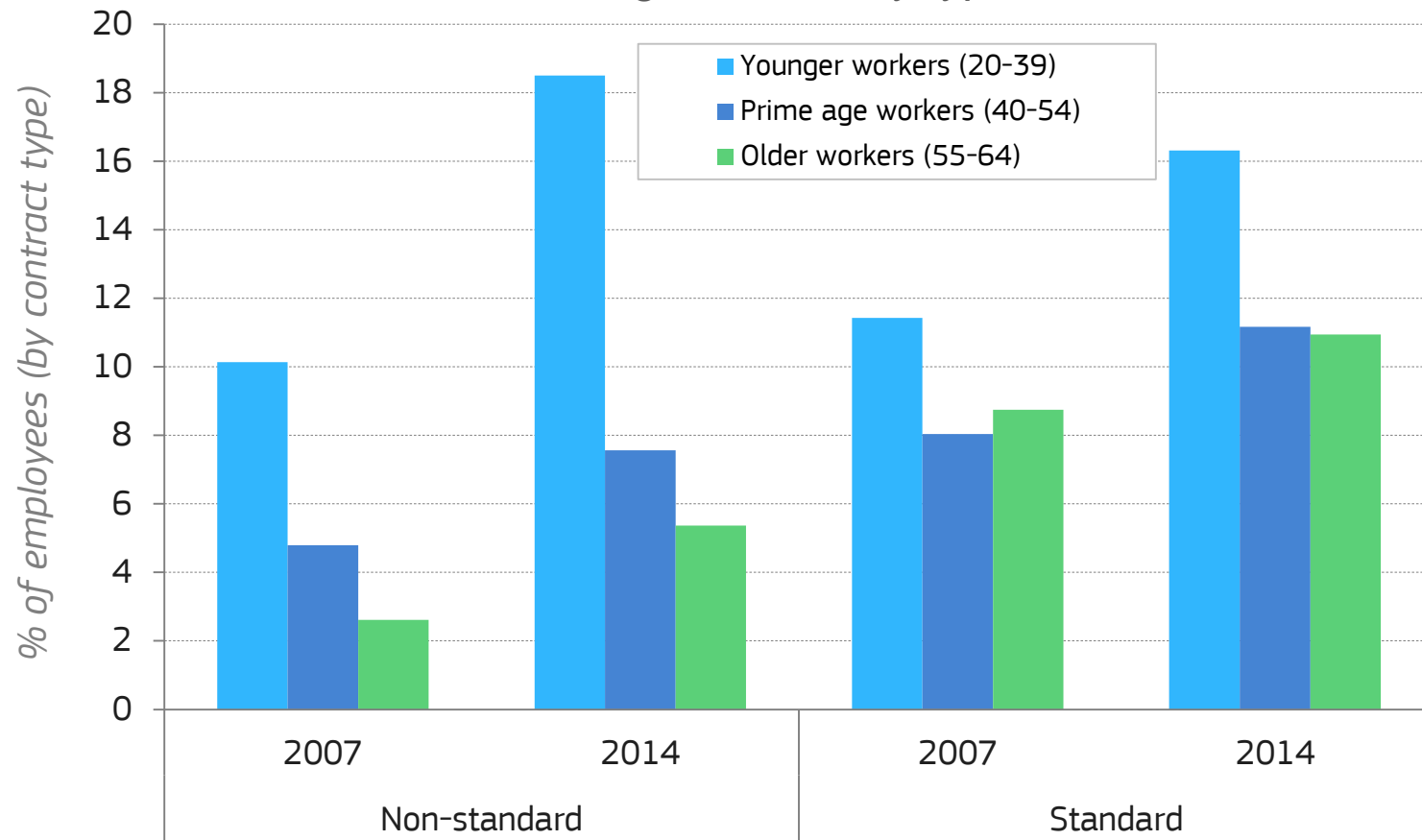
Wage ratio between non-standard & standard employees



Source: EU-SILC cross-section 2014 (UDB)

# Low wage jobs increased more among younger non-standard workers

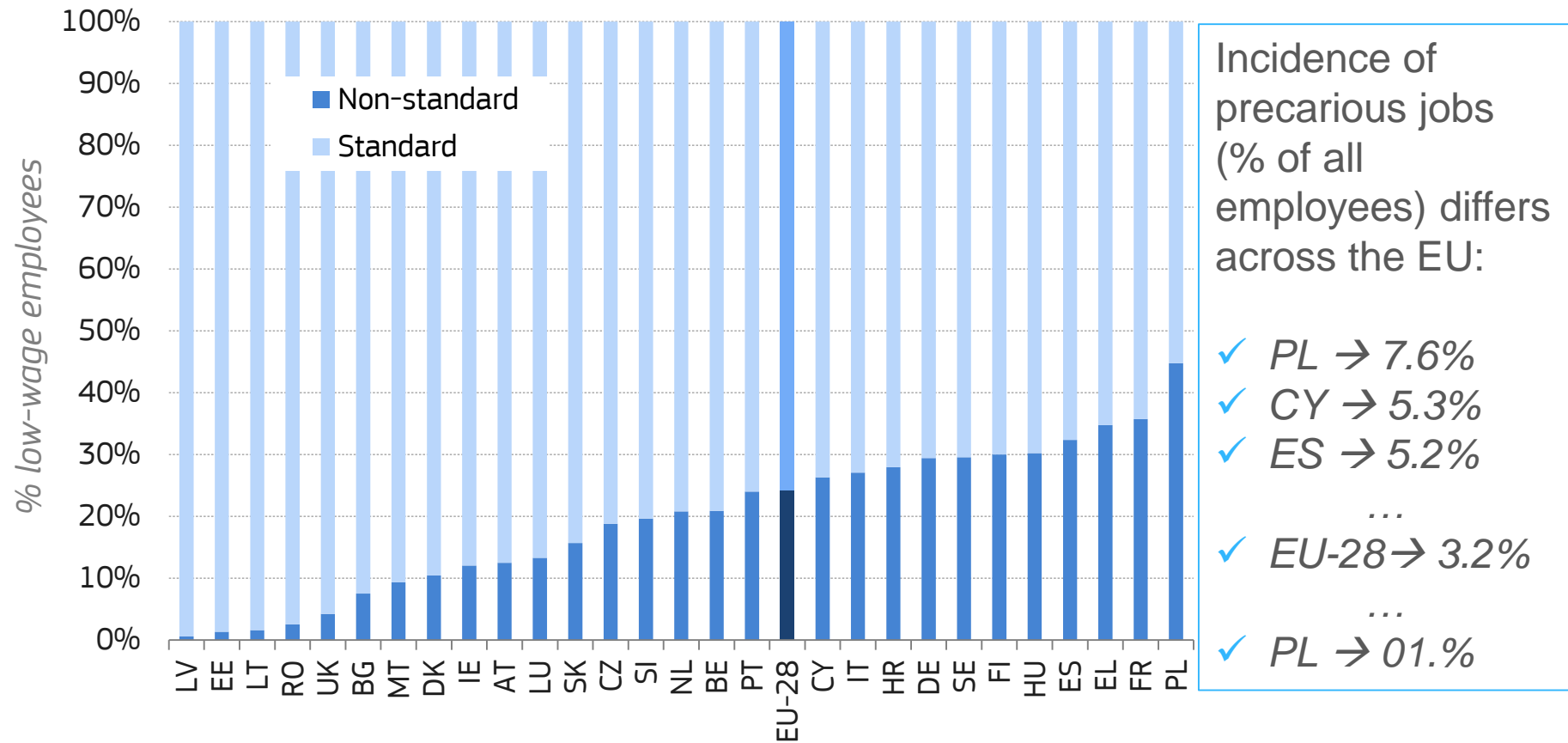
Share of low-wage earners by type of contract



Source: EU-SILC cross-section 2007 & 2014 (UDB)

# One in four low wage earners have "precarious jobs"

Share of low wage employees with non-standard/standard contracts

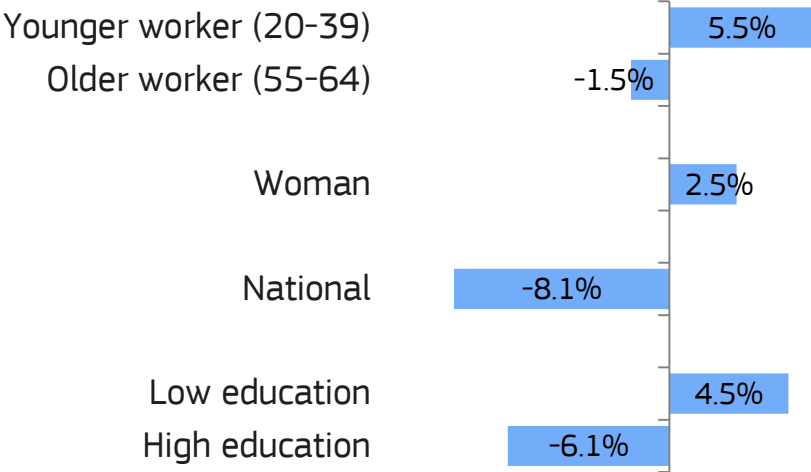


Source: EU-SILC cross-section 2014 (UDB)

# Risk of low wage & labour market precariousness

## Risk of being low-wage earner

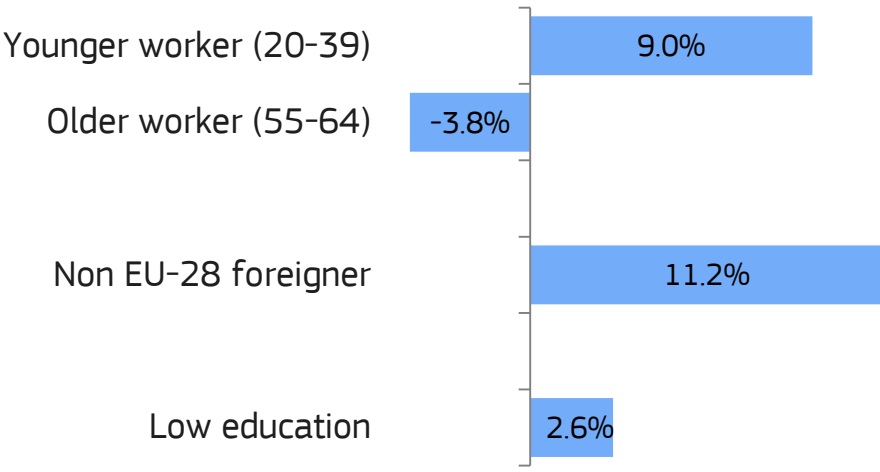
*Average marginal effects*



*Sample: all employees (aged 20-64)*

## Risk of being precarious worker

*Average marginal effects*

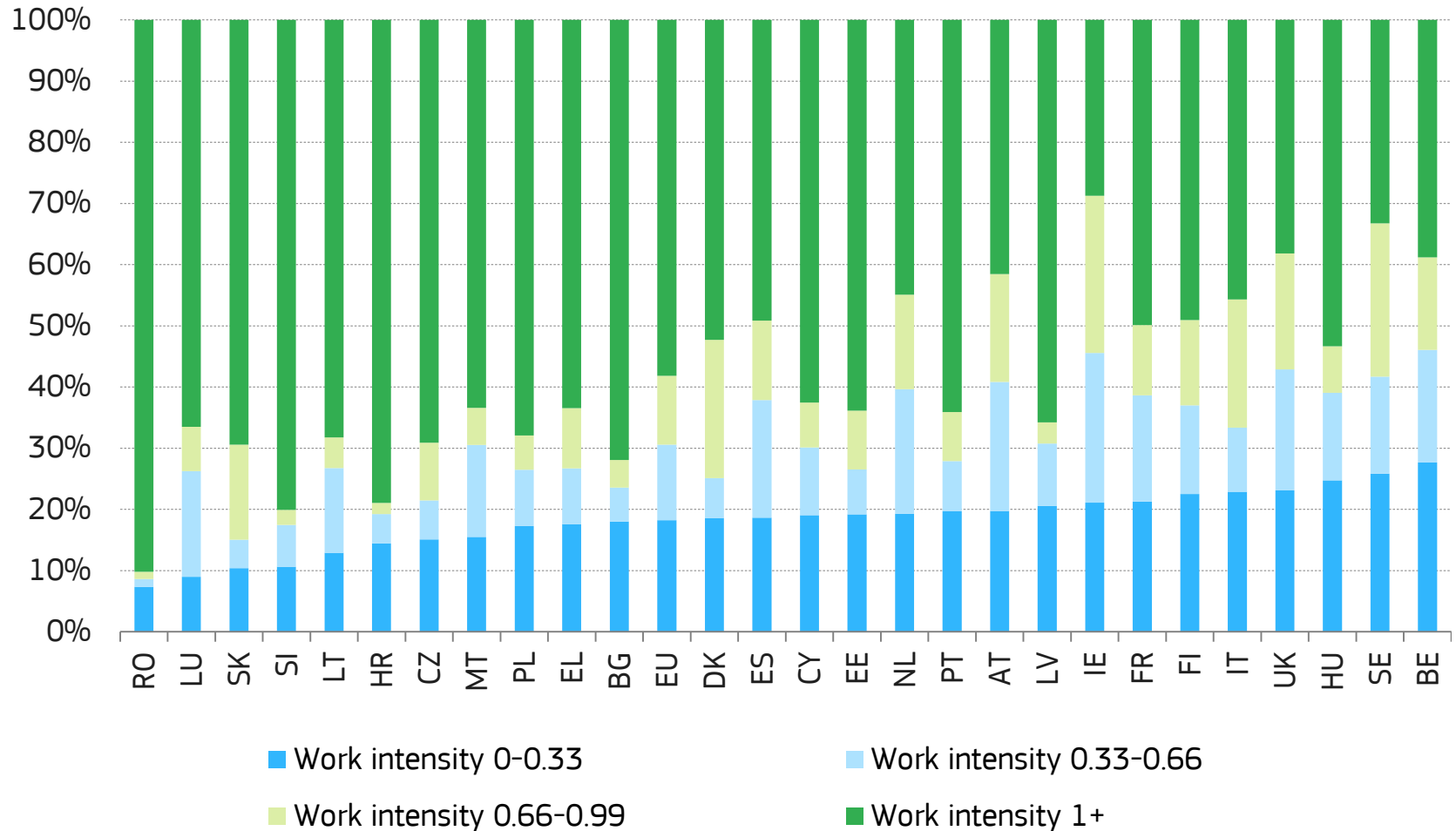


*Sample: low wage employees (aged 20-64)*

Source: EU-SILC cross-section 2014 (UDB)

# Accumulation of low-wage & low-work intensity as a cause of in-work poverty

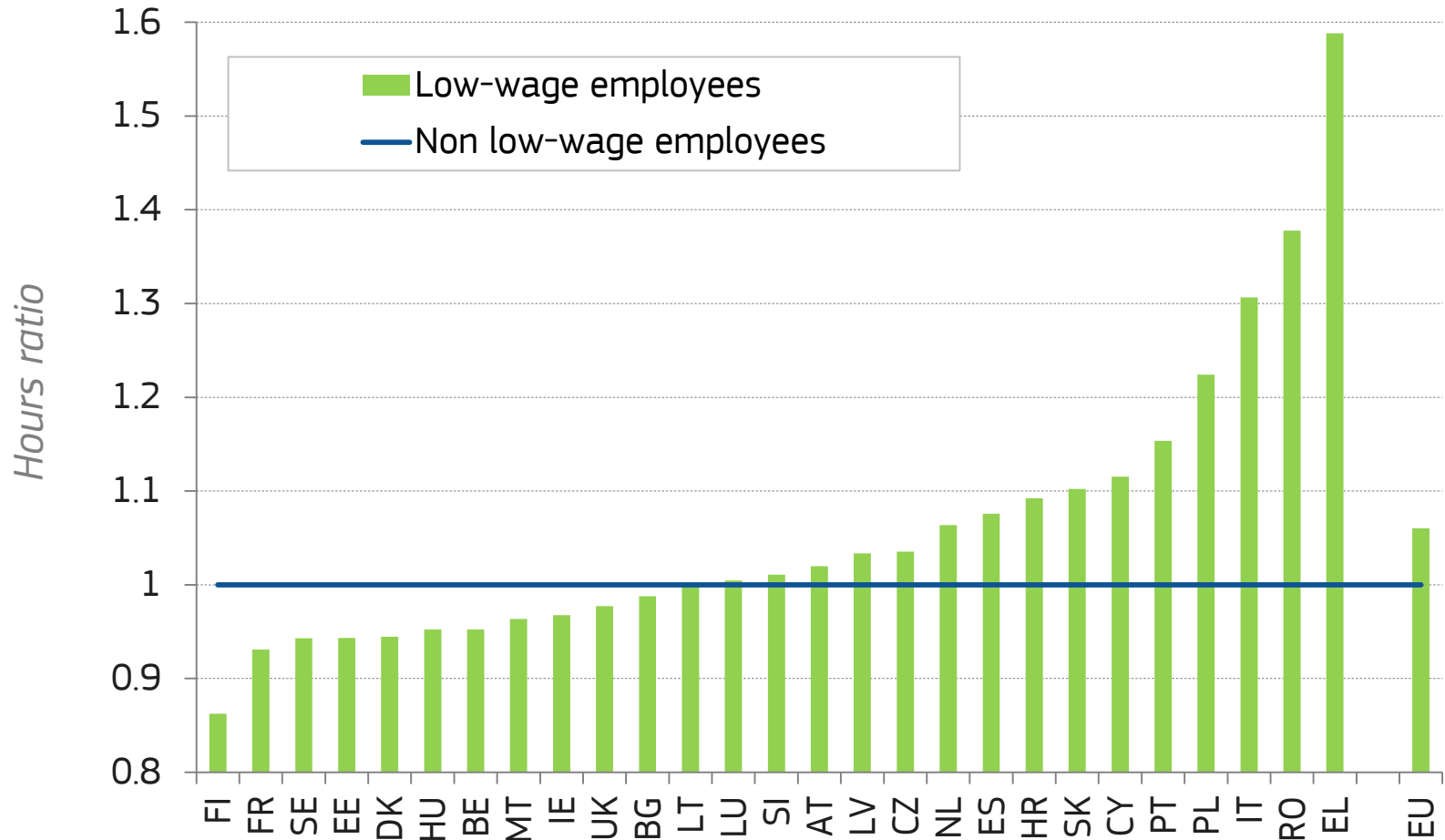
Work intensity of low wage employees



Source: EU-SILC panel data 2013 (UDB)

# Longer working time often compensates low wage

Ratio of self-reported hours worked between low-wage & non-low-wage employees



Source: EU-SILC panel data 2013 (UDB)

# Transitions to higher wages

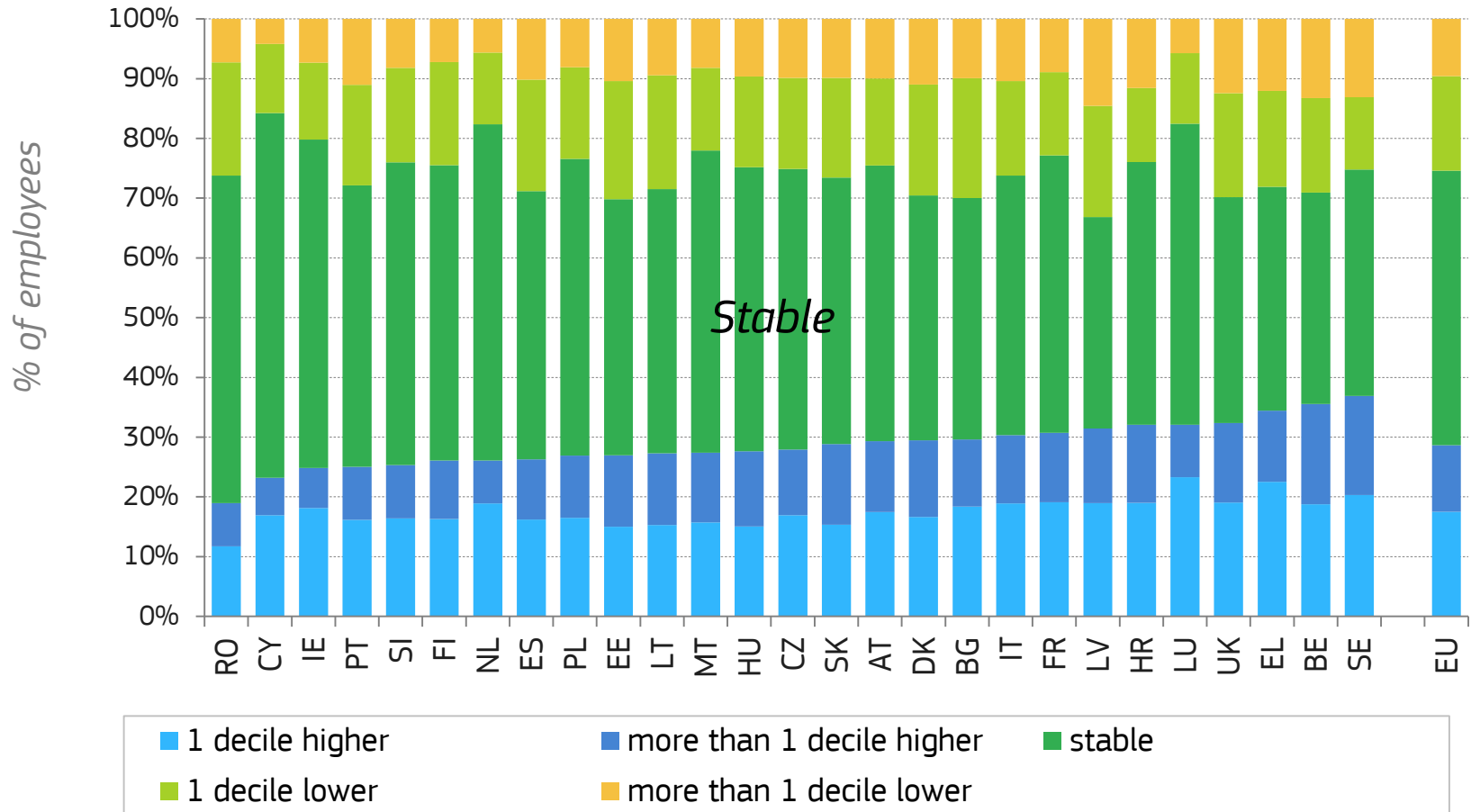
- Research questions

- ✓ What chances low-wage workers have to improve their economic situation?
- ✓ To what extent low wages are persistent?
- ✓ Which job characteristics and dynamics are connected to upward mobility at the bottom?
- ✓ Who is more likely among the low wage earners to make an upward transition from low wages?

# Wage mobility along the whole distribution (1)

Year-on-year wage transitions

Compared to t-1 wage decile in t is:

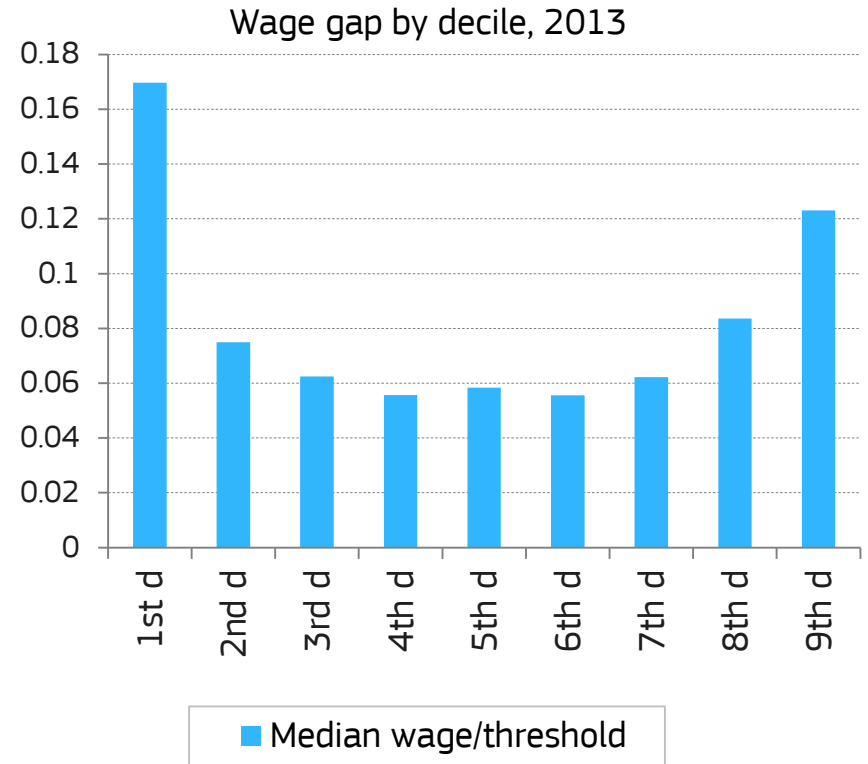
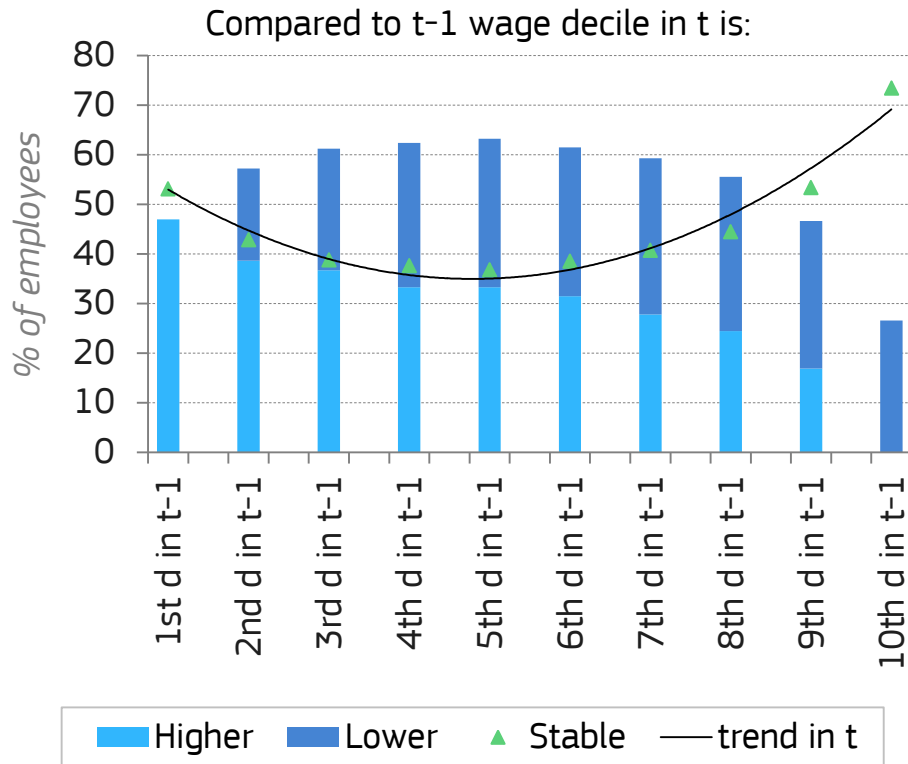


Source: EU-SILC pooled panel data 2011, 2012 & 2013 (UDB)



# Wage mobility along the whole distribution (2)

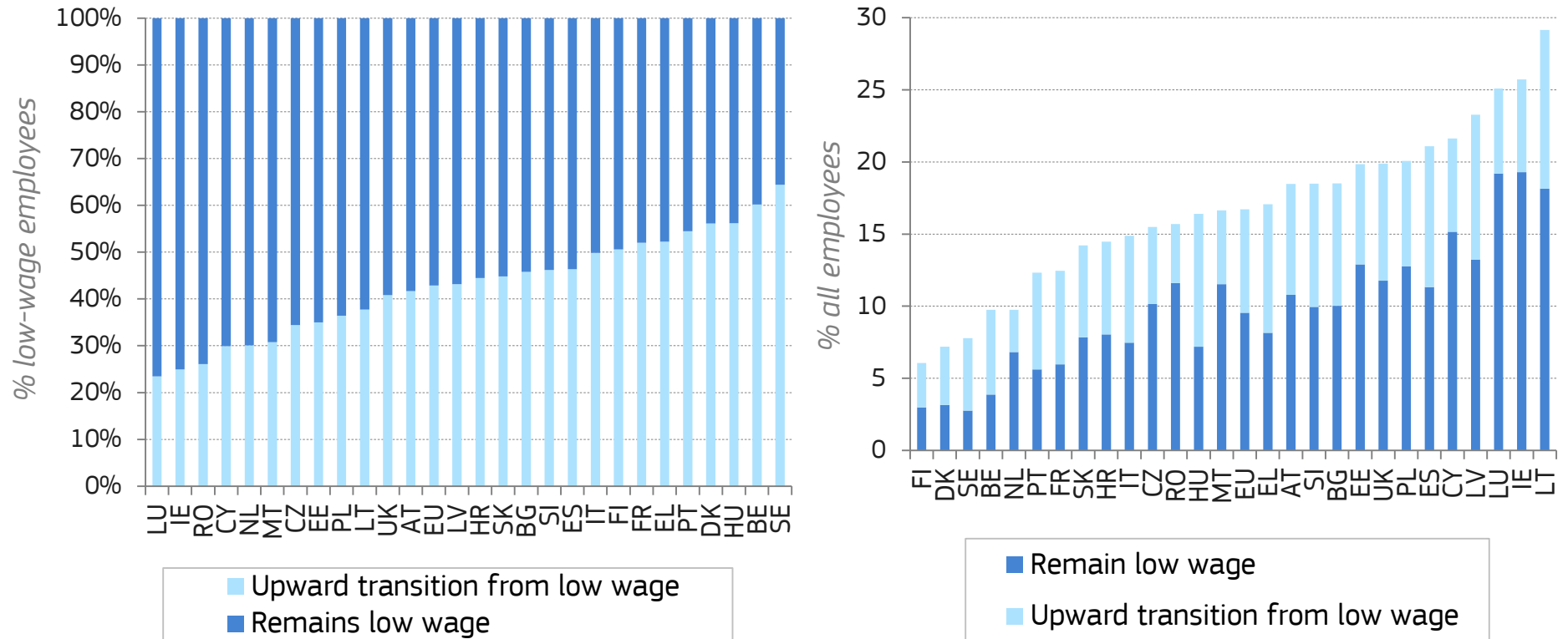
Year-on-year wage transitions by decile



Source: EU-SILC pooled panel data 2011, 2012 & 2013 (UDB)

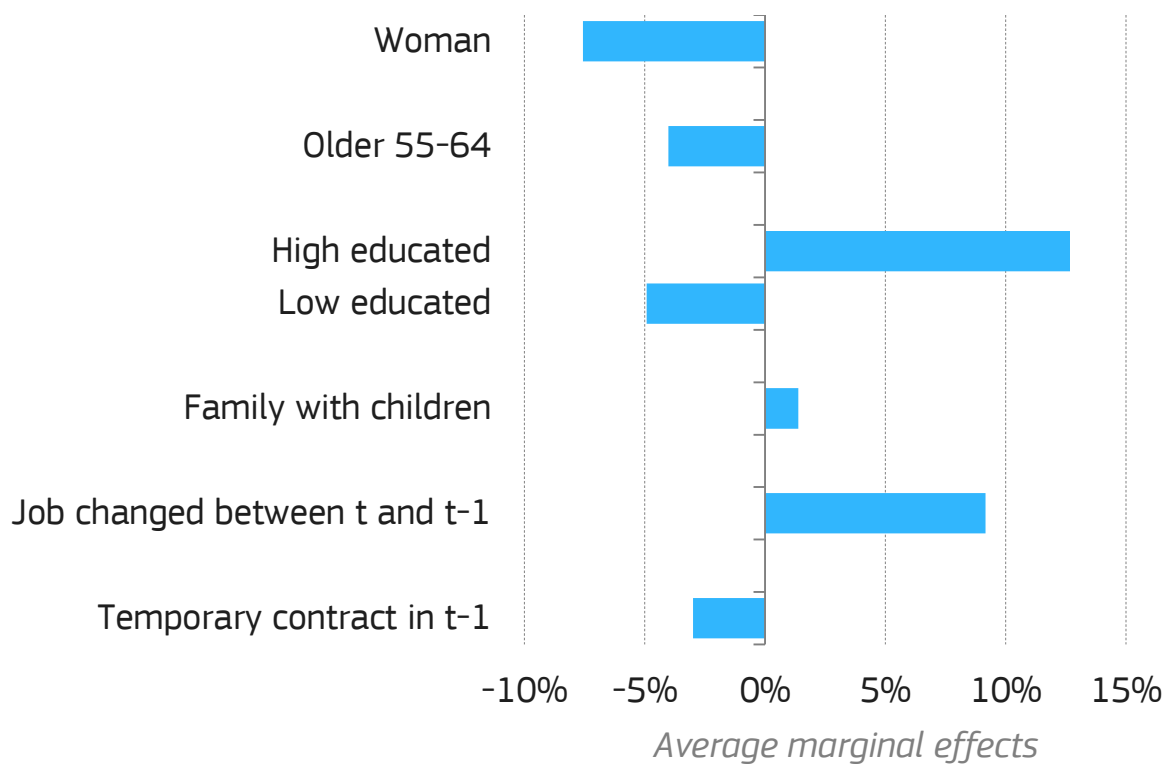
# Chances of exiting low-wages

Year-on-year wage upward transitions from a low wage and share of employees who remain low wage earners



In the EU more than 50% of those escaping low wages had wage increase above 25%

# Characteristics connected with upward mobility from low wage jobs



Source: EU-SILC pooled panel data 2011, 2012 & 2013 (UDB)

# An exploration of labour market mobility at EU level

Year-on-year transition rates between labour market states

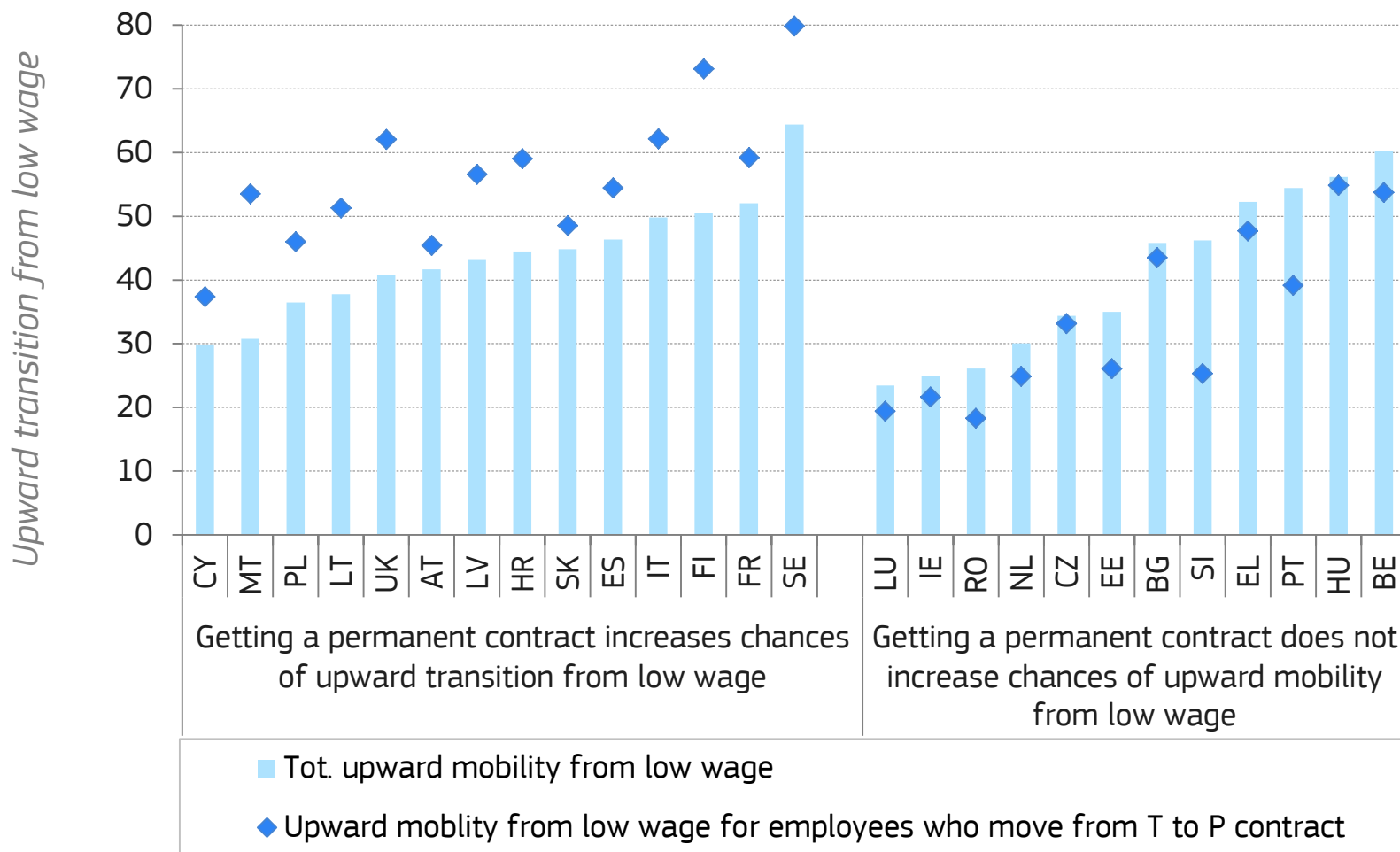
Employment states in <i>t-1</i>	Employment states in <i>t</i>							Share of group in <i>t-1</i>	Share of group in <i>t</i> (ppt change)
	Permanent full-time	Permanent part-time	Temporary full-time	Temporary part-time	Self-employed	Inactive	Unemployed		
Permanent full-time	89.5	2.4	1.7	0.2	1.0	2.7	2.7	41.9	-0.6
Permanent part-time	13.2	73.7	1.1	1.8	1.4	5.6	3.3	6.0	0.3
Temporary full-time	21.6	1.2	54.6	3.6	1.8	3.6	13.7	5.6	-0.1
Temporary part-time	5.3	10.1	11.7	47.8	1.7	8.2	15.2	1.8	0.1
Self-employed	2.8	0.6	1.0	0.4	89.0	3.8	2.5	11.0	0.2
Inactive	2.7	1.4	1.9	1.1	1.9	85.3	5.7	24.7	-0.1
Unemployed	7.7	2.1	9.9	3.4	3.5	14.1	59.4	9.1	0.3
<b>Mobility index</b>	<b>0.335</b>								

Source: EU-SILC pooled panel data 2011, 2012 and 2013 (UDB)

Labour market mobility lower (and slower) than wage mobility (year-on-year wage mobility index=0.614)

# Wage mobility at the bottom and contractual dynamics

Year-on-year wage transition from low wage by job contract change



# Summing up...

- Great variation in % of low wage earners in the EU
  - ✓ *One in five low wage earners are poor*
  - ✓ *Low wages are problematic when associated to part-time/temporary jobs (→precarious jobs, low work intensity)*
  - ✓ *One in four low wage earners have precarious jobs*
  - ✓ *But, in most EU countries low-wage earners work longer*
- Chances of exiting low wage are also very different across countries
  - ✓ *On average 44.5% chances of escaping low wage year-on-year*
  - ✓ *More than half employees exiting low wage have a wage increase of more than 25%*
  - ✓ *Low wage exit associated with change of job and achieving higher education → importance of investing in skills*