What explains changes in working poverty risks across Europe? The role of institutional context, public benefits, and economic performance

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Above 9 percent of the employed population in the European Union have a household income below the poverty threshold (Pena-Casas u. a. 2019). At the individual level, low earnings either because of low hourly wages or low work intensity as well as the level of needs of the household have been identified as the core mechanisms of why working households are poor (Lohmann und Crettaz 2018). Consequently, economic circumstances and institutional context that influence households' abilities to earn sufficient wages and work sufficient hours have been shown to be important for cross-national differences in working poverty. Additionally, access to public benefits is also important in understanding in-work poverty risks and their variation across countries.

While previous studies have shown the relevance of these different dimensions of country-level contexts, the results on the contribution of specific indicators are inconsistent. The identification of robust effects has been limited by the fact that most studies use cross-sectional data or methods. Also, previous research has focused on traditional indicators of welfare state benefits that are designed to measure generosity of benefits for groups outside the labour market. I will contribute to a better understanding of the link between in-work poverty and the welfare state by using new indicators on systems of benefits to low earners and by focusing on within-country changes of macro-level indicators.

I use data from the EU-SILC to estimate multi-level linear probability models for in-work poverty. The definition of poverty is based on a threshold of 60% of the national median of net household equivalence income. Individuals who worked at least 7 months during the income reference period are included in the analysis. Models include country fixed effects to control for all time-constant differences across countries.

Preliminary results indicate that economic indicators matter for changes in working poverty risks: a higher GDP per capita decrease and high unemployment rates increase poverty risks among working households. Among the indicators on institutional contexts, employment protection legislation has a consistent negative effect on in-work poverty. Finally, both indicators of unemployment insurance generosity and benefits to low earners decrease in-work poverty risks. Further analyses shows that while the former mainly matters for households with lower work intensity, the opposite is true for in-work benefits. Thus, these types of benefits can complement traditional benefit systems.

References

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