Macroeconomic Determinants of In-Work Poverty in Europe: Evidence from Panel Data

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Abstract:

The determinants of poverty have been examined from various perspectives in many studies and much has been suggested to break the vicious circle of poverty. While employment opportunities are regarded as crucial for poverty reduction, experiences in the last decades have shown that they do not ensure such reduction. Combining poverty and labor market status, in-work poverty (IWP) has gained rising interest; yet, the topic is mostly examined from the micro perspective. However, macroeconomic and institutional determinants are at least as important as micro factors for IWP. In this respect, this study explores macroeconomic determinants of IWP in 30 European economies over the period 2008-2019 using panel data analysis. The macroeconomic determinants of interest included in the analysis are economic growth, GDP per capita, unemployment, income inequality, employment status, and sectoral composition of the economy. A set of institutional and demographic control variables such as union density, social expenditures, education, and dependency ratio are also included in the analysis. The findings are crucial as it particularly examines the European economies. Even though some of these economies are known for their tight labor markets, part-time and temporary jobs have increased in number in many of them. Thus, the findings are critical to present the overall outcome of macroeconomic and institutional factors on IWP. The study also paves the way to policy recommendations as it empirically examines the difficulties European economies have faced in their labor markets such as precariousness and rising temporary jobs in the post-crisis period. Lastly, the study considers the expected future impacts of COVID-19 on the topic as the pandemic changed the composition of employment severely in many economies.

Keywords: In-Work Poverty, Working Poor, Panel Data Analysis, Europe

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