

How to better monitor in-work poverty

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Online Workshop "In-work poverty in Europe: is the EU indicator still fit for purpose?"

Outline

- Recap of main limits of the IWP indicator
- Remarks on what an IWP indicator should capture, also to provide better guidance for policymakers
- What changes when alternative views of the IWP phenomenon are considered? Data about (mostly) Italy and EU countries on:
 - Alternative definitions of workers
 - Measures of low-pay risk and its determinants
 - Cross-cutting between individuals' and household conditions

N.B. I do not discuss pros and cons of relative poverty indicators, a crucial issue too...

What the IWP indicator captures

- **Indicator of AROP among those who are defined as workers according to a certain definition**
- => very limited (or rather null) concern to what happens to the individuals in the LM, that is maybe what an IWP concept should mostly refer
- Both limits should be overcome by a truly proper IWP indicator (or by a better suited analysis)
- **Is it theoretically unambiguous what IWP means?**
- Should IWP mostly focus on individuals LM risks or merely on the AROP risk?
- Should it capture the affordability of living alone?
- Should it measure how many individuals would be poor if they lived alone?

Limits of the IWP indicator

- The arbitrary definition of who a worker is risks **excluding the individuals more at risk**, thus impairing the capacity of monitoring trends related, e.g., to an increase in workers' precariousness
- The reference to the household only as the unit of analysis produces well-known **paradoxical outcomes**, e.g. about the 'gender paradox' or the 'precarisation paradox'
- => **all that matters is the household condition** and the number of income recipients (mostly the extensive margin), but **is the household composition endogenous?**
- Usual problem of equivalence scales when the reference is to household

Main policy suggestions from the IWP indicator

- The **main suggestion** provided by the indicator is to rise the LM participation within the household (i.e. to increase the work intensity), rather independently of the LM conditions (wages, contractual arrangements)
- When the focus is on the household, the number of income recipients is clearly the most important driver of the AROP
- Means tested benefits at the household level become also crucial

Biased guidance for the policy

- Monitoring IWP might engender **biased suggestions for policymakers**, e.g.
 - IWP may reduce when precariousness rises
 - IWP reduces when the youngsters (or separated individuals) cannot afford to leave the origin households because of too limited wages
 - IWP reduces when household members are forced to increase their labour supply – also accepting not decent jobs! – to contrast very low wages, even if it might be negatively associated with individual wellbeing
 - A reduced strength of workers in the LM (e.g. due to flexibilisation) may be associated to a large IWP drop when the number of workers rises, impairing to assess drivers of that drop

What an indicator should capture (a)

- IWP is a **multifaceted concept that should jointly consider individual and household condition** => clear **limits** when a **single indicator** is requested to provide exhaustive information on both dimensions
- As all distributive issues, **IWP should be assessed by considering the joint action of 3 interacted channels** to provide proper guidance for policies:
 - a. Individual outcomes in the LM, in terms of wages, working hours and worked weeks
 - b. Household (equivalised) market incomes (where the number of income recipients mostly matters)
 - c. Household (equivalised) disposable incomes, to capture redistribution

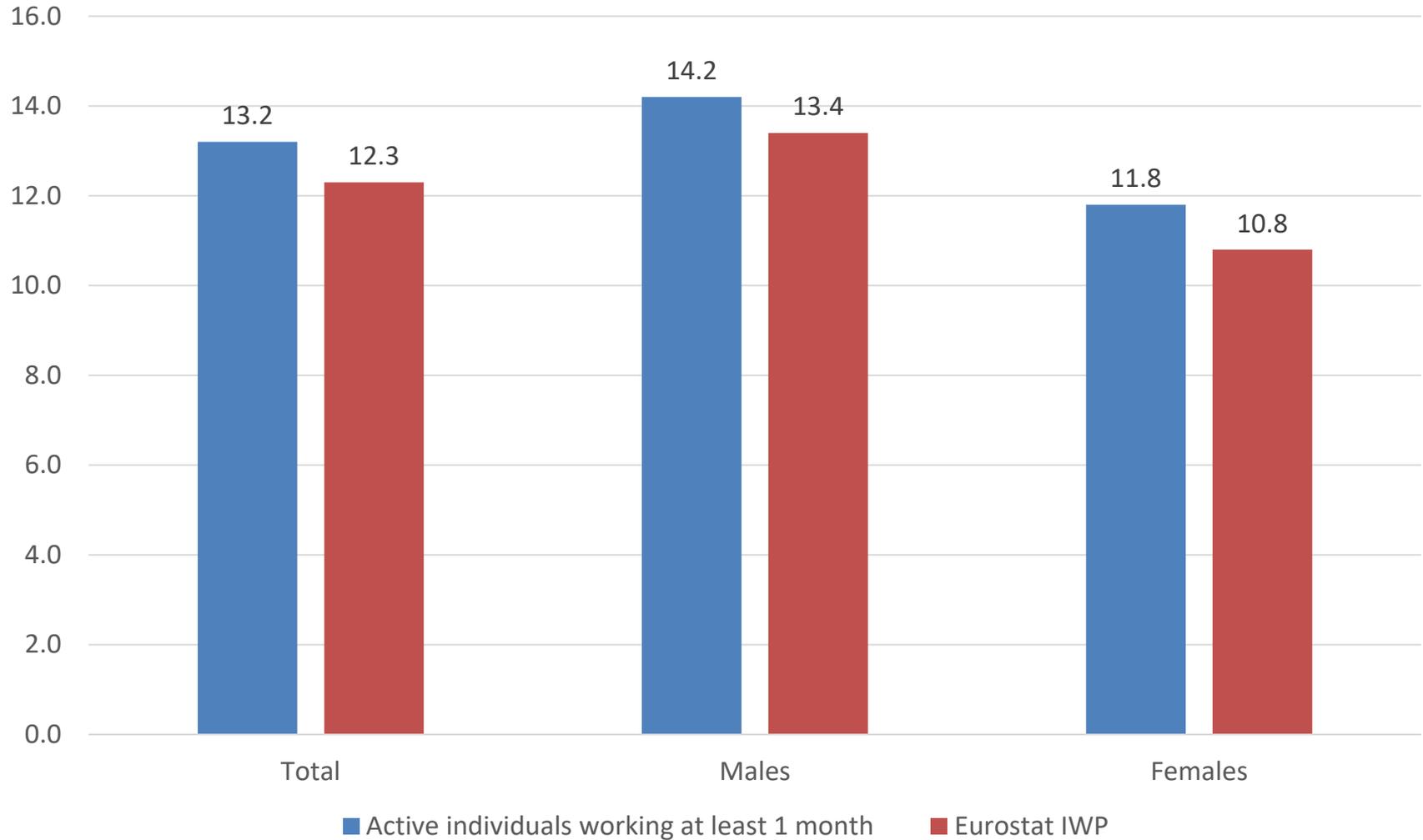
What an indicator should capture (b)

- An effective indicator/analysis of IWP should be able to **disentangle what is changing along all these 3 channels** for a better policy guidance and assessment
- It should be able to disentangle the effects related to individuals' outcomes in the LM (also distinguishing 'price' and 'quantity' effects) and those related to households' resources and needs
- **Maybe impossible to find out a synthetic indicator summarising all these mechanisms**

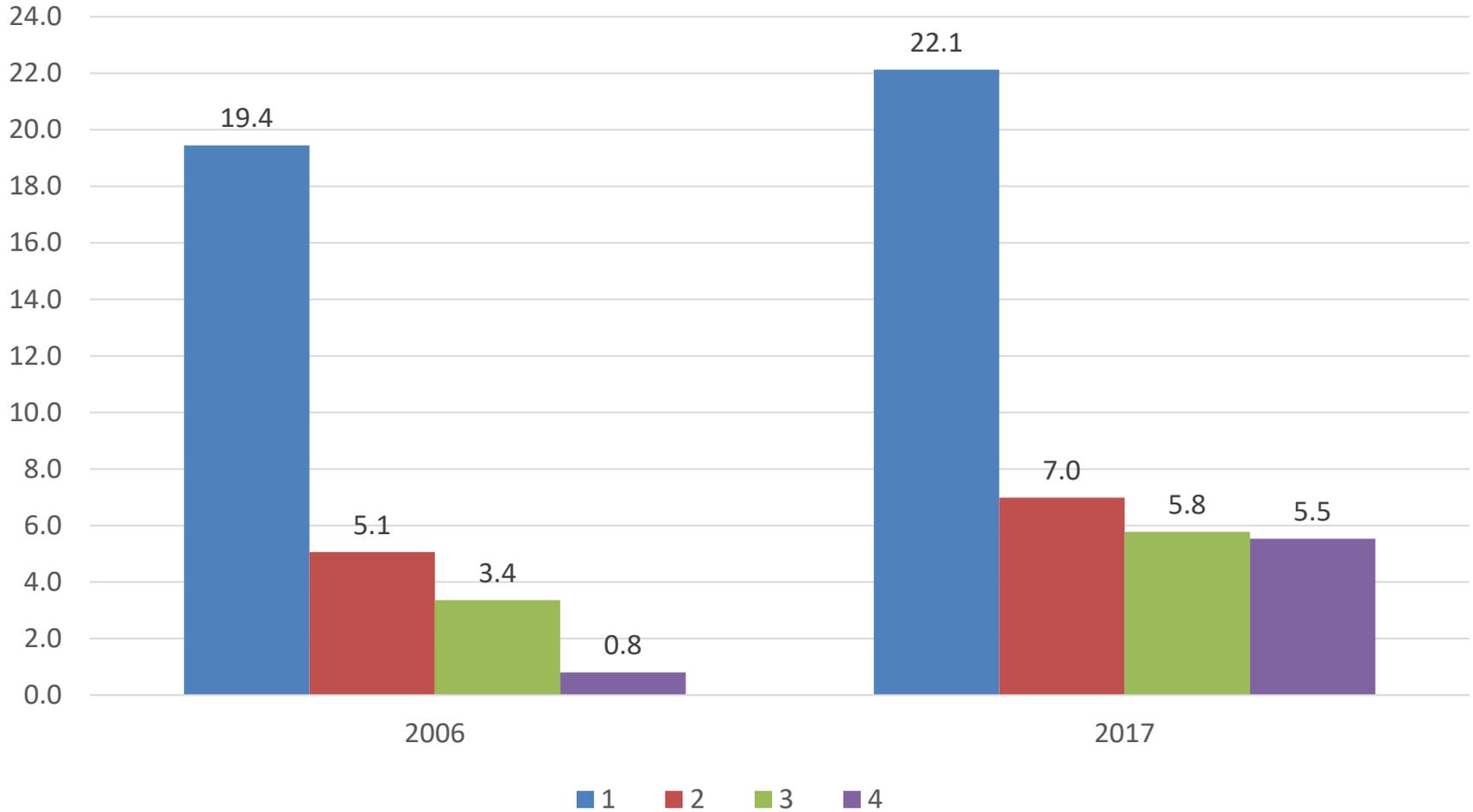
What an indicator should capture (c)

- => **IWP should be analysed as a process** disentangling individuals' labour market risks (e.g., related to unitary wages and working times) and the effect on household composition (possibly on both market and disposable incomes)
- Highly **imperfect correlation between low-pay risk and AROP**
=> both analyses are crucial to assess determinants of risks and different policies are needed to deal with 3 possible risks emerging from the cross-cutting of low-pay and AROP
- ***A synthetic indicator capturing only a limited portion of a complex phenomenon is not always the best strategy to monitor a complex phenomenon and provide a guidance for policy!***

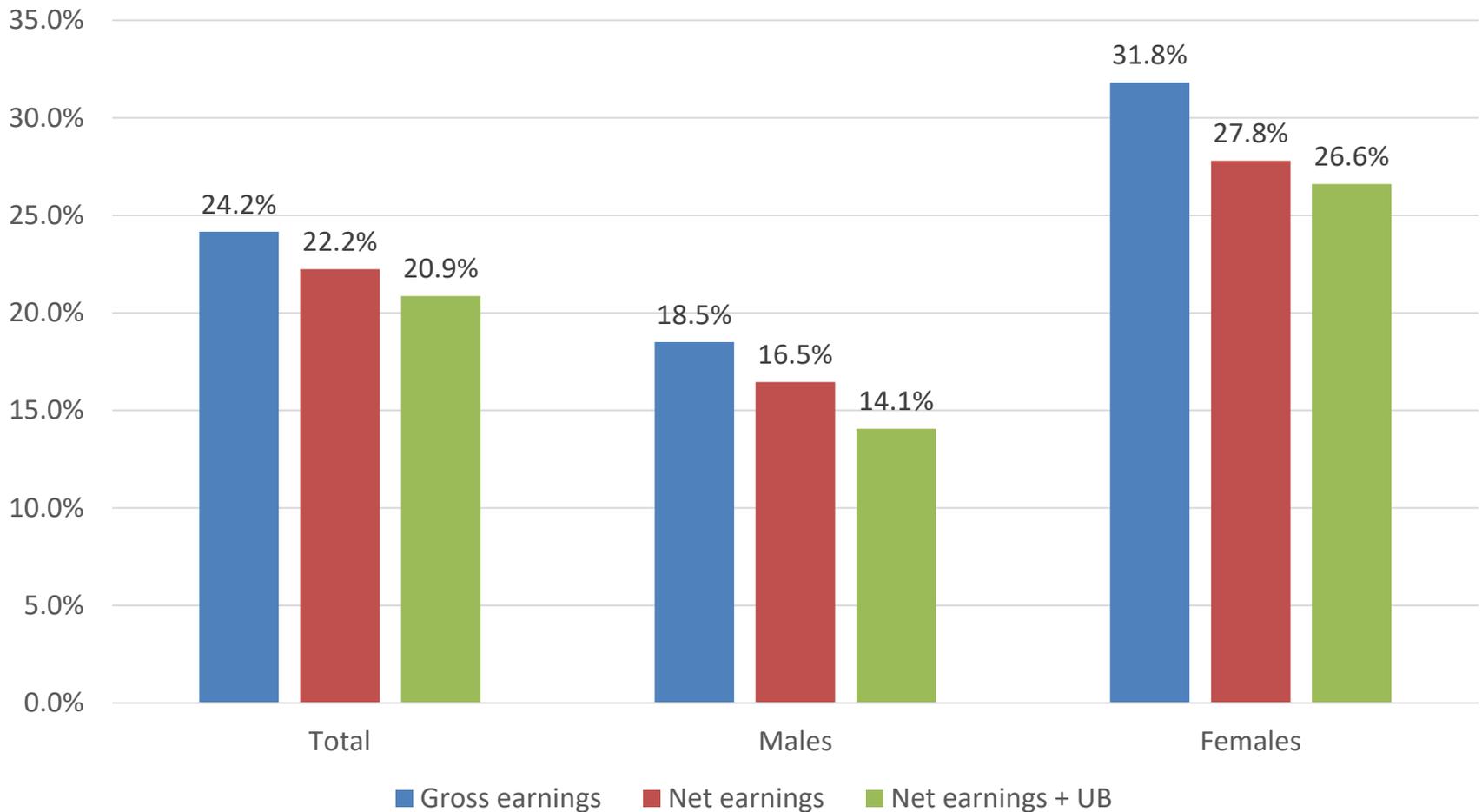
Sensitivity to workers' definition in Italy



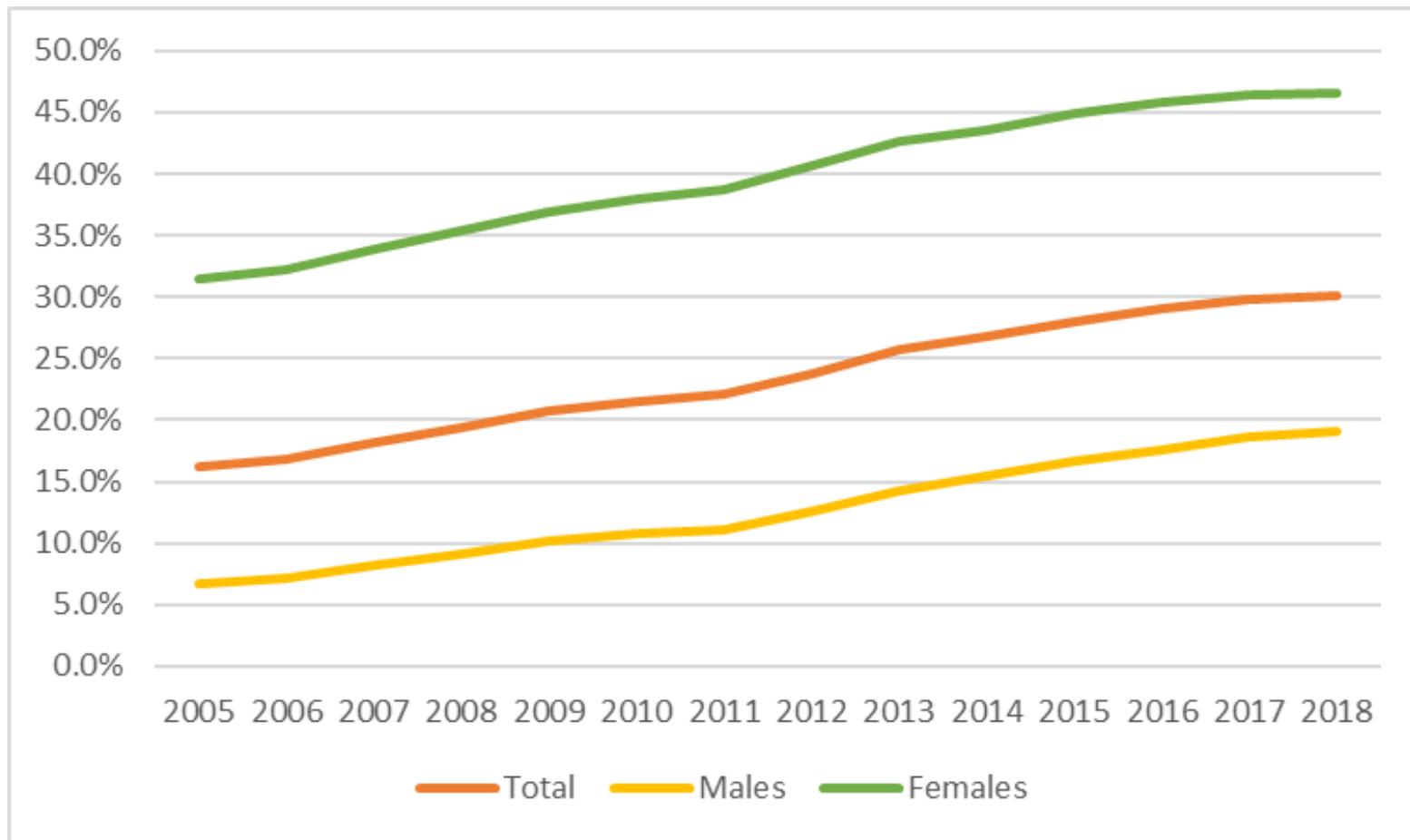
IWP by number of income recipients in Italy



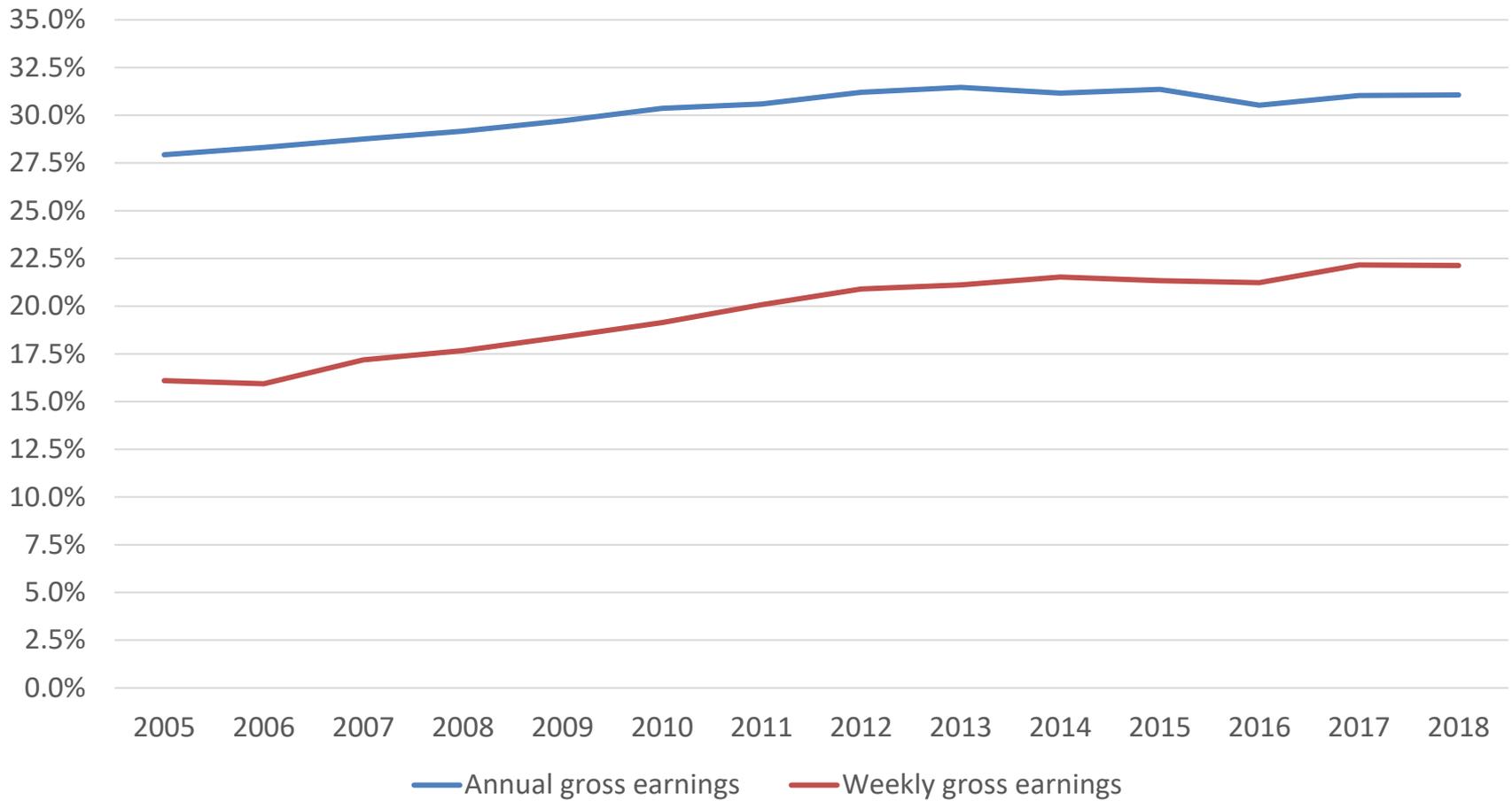
Low pay risk in Italy (line at 60% of the median)



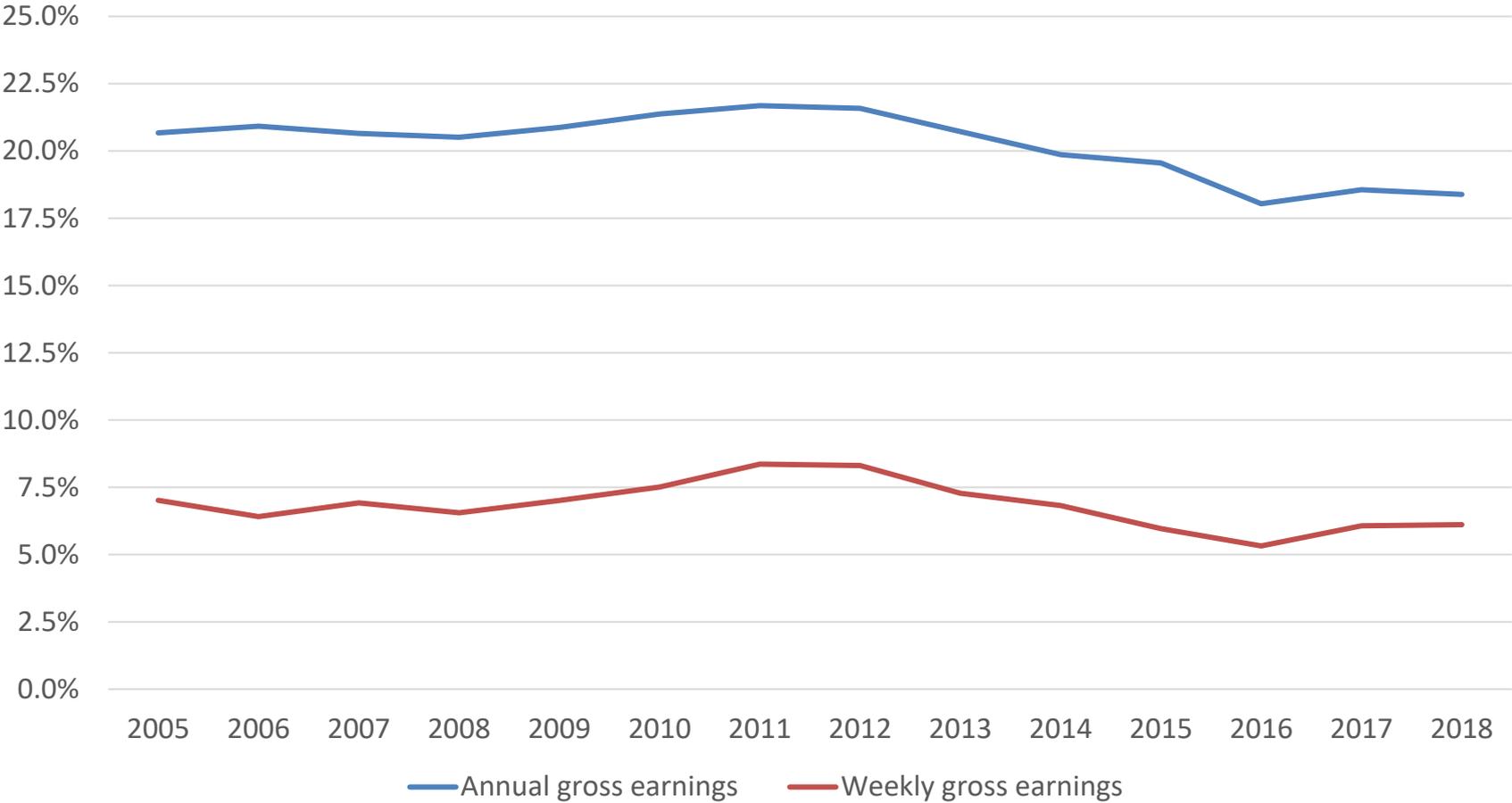
Share of part-time employees in the Italian private sector



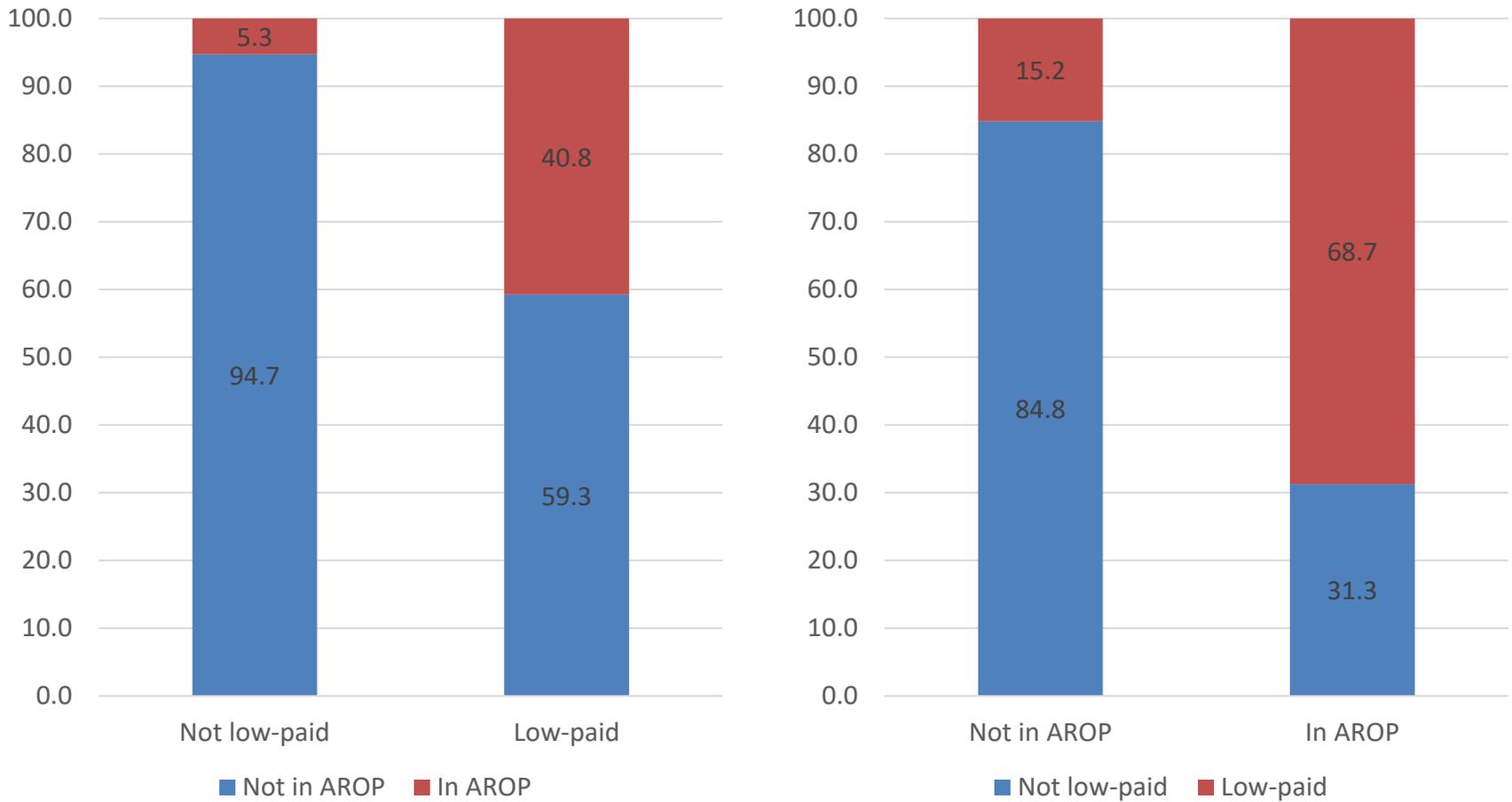
Trend of low pay risks in Italy among private employees



Trend of low pay risks in Italy among full-time private employees



Crossing between IWP and low-pay risks in Italy



Incidence of IWP and Low-pay risks

	Eurostat IWP definition			Incidence of Low-pay risk		
	Total	Men	Women	Total	Men	Women
AT	8.0	8.4	7.4	27.4	17.9	37.8
BE	5.1	5.8	4.4	11.0	8.9	13.3
BG	10.1	11.5	8.6	24.2	23.6	24.8
CY	7.4	8.0	6.8	26.8	21.6	32.9
CZ	3.5	3.2	3.8	13.5	8.7	19.2
DE	9.0	8.0	10.1	22.7	15.6	29.7
DK	6.1	6.3	5.9	25.3	22.6	28.0
EE	9.5	9.8	9.2	22.9	20.8	25.1
EL	10.9	12.4	8.7	10.6	6.8	15.7
ES	13.0	13.5	12.3	29.8	25.2	35.2
FI	3.1	3.1	3.0	24.5	22.4	26.7
FR	7.1	7.7	6.4	24.0	20.0	28.0
HR	5.2	6.1	4.3	18.1	16.2	20.4
HU	8.5	8.0	9.0	25.9	21.8	30.1
IE	4.8	5.4	3.9	24.2	19.4	29.6
IT	12.3	13.4	10.8	20.2	15.3	26.6
LT	8.2	7.8	8.6	22.2	19.4	25.0
LU	11.5	10.7	12.5	15.9	10.0	22.9
LV	8.3	8.5	8.2	20.6	18.0	23.0
MT	6.4	7.6	4.5	13.9	9.6	20.3
NL	6.1	6.1	6.1	27.8	22.2	33.7
PL	9.7	11.1	8.3	14.1	12.9	15.5
PT	9.6	10.4	8.9	13.1	10.1	16.1
RO	15.0	17.7	11.0	16.3	16.5	15.9
SE	7.1	7.5	6.7	22.9	19.6	26.3
SI	6.0	7.6	4.2	26.5	24.3	29.1
SK	6.0	6.3	5.8	9.9	8.6	11.5

Crossing between IWP and Low-pay risks

	Total		Men		Women	
	Not household poor among individual poor	Not individual poor among household poor	Not household poor among individual poor	Not individual poor among household poor	Not household poor among individual poor	Not individual poor among household poor
AT	77.3%	28.1%	68.7%	34.3%	81.8%	21.2%
BE	73.5%	51.1%	67.1%	54.9%	78.3%	45.8%
BG	61.5%	29.1%	56.5%	30.4%	66.8%	27.2%
CY	76.8%	31.2%	75.9%	44.1%	77.5%	15.3%
CZ	81.4%	43.9%	75.6%	49.9%	84.5%	37.7%
DE	71.4%	34.6%	68.1%	43.8%	73.2%	27.1%
DK	61.4%	15.3%	61.9%	16.5%	61.0%	14.4%
EE	64.9%	28.4%	58.3%	28.2%	70.6%	28.7%
EL	65.1%	68.6%	55.0%	76.9%	71.0%	53.1%
ES	61.3%	28.0%	59.5%	36.8%	62.8%	17.7%
FI	73.3%	9.9%	69.9%	8.0%	76.1%	11.9%
FR	73.3%	29.2%	70.5%	38.2%	75.3%	18.9%
HR	69.7%	39.5%	63.8%	42.8%	75.4%	34.2%
HU	69.6%	24.9%	63.9%	22.7%	74.0%	27.2%
IE	82.4%	23.2%	80.2%	28.4%	84.1%	17.6%
IT	61.1%	41.2%	55.4%	51.7%	65.3%	25.8%
LT	63.8%	30.6%	60.0%	33.4%	66.7%	27.7%
LU	63.3%	51.9%	56.5%	61.7%	66.8%	41.6%
LV	63.5%	31.4%	57.9%	28.7%	67.9%	33.9%
MT	76.3%	56.7%	72.6%	69.2%	78.8%	31.9%
NL	70.8%	16.6%	66.7%	22.4%	73.8%	10.7%
PL	65.8%	45.6%	56.7%	46.4%	75.3%	44.3%
PT	70.5%	57.7%	65.5%	64.0%	73.7%	50.4%
RO	29.4%	25.0%	21.2%	27.7%	41.9%	18.7%
SE	66.2%	21.0%	60.5%	23.5%	70.7%	18.1%
SI	78.0%	29.6%	75.0%	36.9%	80.7%	17.8%
SK	79.4%	66.7%	74.9%	67.0%	83.3%	66.3%

Conclusions

- **Too many limits of the IWP indicator** to capture a multifaceted concept as in-work poverty and its various dimensions
- **Risks of biased policy suggestions**
- **Avoid to define a single synthetic indicator**
- **Focus on the whole process of AROP formation** for workers
- **Focus on all 3 groups of risks** from the cross-cutting of low-pay and AROP since they all deserve (different) policy measures

Thanks for the attention! 😊