

# **The impact of changes in employment on poverty trends in the European Union in times of economic recovery**

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The decade prior to the Great Recession (GR) was marked by a strong growth in employment rates across Europe, reaching historically high levels just before the crisis. However, it became clear that the growth in employment in and of itself did not produce the desired outcomes in terms of poverty reduction and other aspects of social inclusion. The proportion of people at risk of income poverty stagnated between 2005 and 2010 at an average of 16.5 percent across the EU-27 countries. This is implicitly reflected in the Europe 2020 Agenda, which recognizes that the relationship between employment and poverty reduction is not straightforward. It includes explicit poverty and social inclusion targets, and the European Commission identified social protection as an essential cornerstone alongside growth and employment in order to effectively combat poverty and social exclusion in Europe (European Commission 2010, Marx et al. 2013).

Empirical evidence on the pre-crisis period shows that, despite rising employment, the stagnation in poverty rates is due to polarized employment growth across households: employment growth benefited in particular households that were already integrated in the labour force, while jobless households benefited only partially. In addition, income protection for the working-age population out of work has become less adequate as social policies and social redistribution have become less pro-poor (Cantillon 2011). This was followed by a sharp increase in all poverty measures in the European Union and in most of the Member States. The EU-27 poverty rate increased from 16.5 percent to 17.3 percent between 2010 and 2016. Changes in employment varied widely across EU countries. The majority of countries saw declines in employment, but the magnitudes varied widely (Eurofound 2017). Empirical evidence suggests that the relationship between employment and poverty became remarkably stronger compared to pre-crisis years (Corluy and Vandenbroucke 2014, Marx et al. 2013, Gábos et al. 2019). The share of jobless households rose in most of the countries during this period, which had a strong impact on the overall increase in poverty (Gábos et al 2019).

Overall, poverty rates stagnated with rising employment, while the decline in employment during the GR was accompanied by a significant increase in poverty rates.

Our research question is whether the relationship between employment and poverty became weaker after the GR and whether this is again due to an “uneven” distribution of rising employment across households.

We expect that employment remains negatively correlated with poverty trends also in times of recovery, but that this relationship is weaker in the post-crisis period compared to the crisis years, similar to the pre-crisis period. Furthermore, we hypothesise that the rise in employment during the recovery has again benefited households that were already well integrated in the labour market, while the most vulnerable households with low labour market attachment benefited the least.

We use the EU-SILC cross-sectional UDB on the EU-27 countries and the UK between 2005 and 2017 and distinguish between three periods; pre-crisis (2005-2008), crisis (2008-2013), and post-crisis (2013-2017). We perform macro country-level fixed-effects-regressions based on indicators retrieved from the microdata and indicators retrieved from Eurostat to estimate the elasticity of poverty rates across the EU and during periods prior to, during, and after the GR. Using decompositions, we can determine to what extent changes in the proportions of households with low and high work intensity and their group-specific poverty risk have contributed to the (missing) decline in poverty during economic recovery.

Our descriptive analyses support most recent Eurostat data, which shows that, similar to the pre-crisis period, rising employment rates are associated with a standstill in poverty rates in EU member states. However, poverty rates are overall higher than prior to the GR, and the picture is very mixed across Europe. Preliminary results from FE-regressions further strengthen this finding: individual employment and post-transfer poverty still correlate negatively during economic recovery, but the strength of this relationship is weaker than during the crisis. The poverty-reducing impact of welfare states decreased during the recovery compared to the crisis period.

This pattern could indicate a link between employment and poverty that requires a particular focus in social policy, by promoting employment growth also in households with low work intensity during economic upswings, and by meeting the needs of vulnerable groups who are the first to suffer employment loss during economic downturns.

Understanding these dynamics will also be of considerable importance given the decline in employment in the current economic crisis related to the COVID-19 pandemic. Initial estimates suggest that, again, the most vulnerable will experience job and income losses, which could exacerbate relative income poverty and inequality across Europe (Almeida et al. 2020).

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