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Work as an antidote to poverty? An empirical analysis for EU countries

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At the European level and in most EU member states, higher levels of labour market participation are seen as key to better social inclusion and cohesion. But what is the likely impact on income inequality and poverty? In the literature shift-share analysis has been used to address this issue (Whiteford and Adema, 2007; Fritzell and Ritakallio, 2004). This essentially consists of changing the weight of population segments, keeping their poverty rates constant, and has serious limitations. We propose a more sophisticated analysis which starts by estimating the probability of labour-force participation by a probabilistic regression, using the relevant individual (e.g. sex, age, education) and household determinants (e.g. household composition, partner's labour income, young children) available in EU-SILC. We use these probabilities to rank inactive individuals according to their chances of becoming active and finding work so that in simulations of higher participation rates those most likely to work are moved into a hypothetical job first. In a next step we estimate the wages of the newly active individuals (taking account of selection bias). In a last stage we use EUROMOD to simulate net income, including the possible repercussions of the predicted labour income on all kinds of benefits (e.g. unemployment benefits, old-age benefits). We can then simulate alternative scenarios, for example the attainment of the 70% Lisbon objective. We can assess the effect on the income distribution and on poverty. We can also see whether newly active individuals/households have a labour income high enough to escape poverty. Comparing outcome differences across countries under similar scenarios can shed light on the impact of policy.

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