



What keeps young adults in permanent poverty? A comparative analysis using ECHP

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ABSTRACT

Previous studies suggest that there are strong differences in the rates of youth poverty across European countries. Rather surprisingly, it is found to be high in Scandinavian countries, and relatively speaking, lower in Mediterranean and Anglo-Saxon countries. This somewhat unexpected finding prompts the question whether the incidence of poverty is an appropriate measure of youth disadvantage. Instead of considering poverty rates we consider the length of recorded poverty spells, taking into account explicitly the temporal sequencing of the episodes of poverty. Using the European Community Household Panel, individuals are classified into different groups of poverty permanence, each reflecting severity of social disadvantage. Based on these categories we implement a generalized ordinal logit model to assess the various factors associated with social disadvantage among youth. We find that cross-national patterns differ from those found in previous studies. In particular from our findings it does not result that poverty is highest among young people in Social Democratic countries. Our analysis shows important gender differences, though they are not the same across the countries included in the study. For some countries it turns out that being a woman is a protective factor against long-term poverty. As previous studies suggests, young individuals' living arrangements matter.

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1. Introduction

There is now a well-developed literature on household poverty, including specific subgroups such as children and older people. In contrast, the literature on youth poverty is emerging only now (Iacovou and Berthoud, 2001; Aassve et al., 2005a, 2006; Iacovou et al., 2007). One of the most remarkable findings from these recent studies is that youth poverty in Social Democratic countries (represented by Denmark and Finland) are much higher than in any other European country. This is not only the case from a cross-sectional point of view, but also in the dynamic perspective: young individuals in Social Democratic countries are considerably more likely to enter poverty than is the case in any other European country. The studies also demonstrate that out of the many events that take place in young individuals' lives, such as completion of education, entering the labor force, getting married and having children, it is the event of leaving the parental home that is by far the most important driver behind youth poverty.

The fact that young individuals in Social Democratic countries face a higher poverty risk than in other countries is certainly somewhat unexpected. With generous and universal welfare benefits, one would expect youth poverty to be much lower in these countries. Why then are youth-poverty rates so high in Social Democratic countries? One important answer lies in the very fact that young individuals in these countries tend to leave home at a much earlier age than

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young adults in other countries. This raises another question, is youth poverty a reflection of a real disadvantage? In some countries there are good reasons to believe that it is not. Two other important questions have to be answered here. The first concerns the way economic disadvantage is measured. It seems clear that in terms of youth poverty the use of poverty prevalence or simple poverty dynamics may not reflect a true or realistic measure of youth disadvantage. Is it really a fact that young individuals in Social Democratic countries face stronger hardship than their European counterparts? The answer is probably no. Whereas our study does not focus on Social Democratic countries as such, the issue prompts the need for developing a more representative measure of economic disadvantage. The second question is: does leaving home lead to higher disadvantage; is this equal across all welfare regimes? and do young people leave home at an earlier age because they know that any experience of poverty will be short-lived, given strong social protection and excellent work prospects? Aassve et al. (2007) give some answers to this question: they argue that young individuals in Social Democratic countries are able to leave home earlier because they are somehow aware that any decline in their economic wellbeing is likely to be of a temporary nature.

In this paper we argue that a more appropriate measure for economic disadvantage can be provided by constructing a measure of persistent poverty. That is, experiencing poverty in any given time period may not represent a severe disadvantage if it is unlikely to ever happen again. In contrast, an extended spell of time spent below the poverty line will for most individuals be considered as economic disadvantage and drive them to social exclusion. The distinction is of course important from a social policy perspective, especially if patterns of temporary poverty diverge significantly from patterns of persistent poverty. Thus, our interest lies in whether high youth-poverty rates (from a cross-sectional point of view) are mirrored by higher rates of persistence. Moreover, do temporary and persistent poverty have the same determinants? These questions are of paramount interest to policy makers, since those experiencing several spells of poverty in a persistent manner are the ones that are most vulnerable, and therefore need policy makers' attention most.

This paper addresses the issue of measuring disadvantage explicitly by using information from the European Community Household Panel (ECHP) Survey. The survey is longitudinal and contains rich information about incomes, labor force behavior, and other demographic characteristics of the respondents. In contrast to the previous literature on youth poverty we construct here a measure of poverty permanence. It is a summary measure based on the number of time periods an individual is recorded as poor and of the observed sequences of poverty (and non-poverty) spells and we explain the main factors associated to its patterns. Given this measure, the analysis provides detailed information about dissimilarities across countries and different groups.

The paper is structured as follows. We first discuss the issue of poverty among youth, which forms the contextual framework of our analysis. We undertake a brief review of the literature concerning the permanence of poverty and its determinants. Next we introduce the ECHP and explain our definitions of poverty permanence. The empirical analysis is then undertaken by implementing a Partial Proportional Odds Ordered Logit Model (PPOOM) emphasizing the relationship between our measure of persistency in poverty and demographic characteristics, living arrangements, employment status, and other relevant individual dimensions. The analyses are carried out using a classification of 11 countries according to their social welfare regime typology.

Not unexpectedly we find that low education, living without a partner, leaving the parental home and being without work are important risk factors for permanence in poverty. However, comparing countries, we find that the Danish welfare system is the one best to smooth out any detrimental effects from these sources. In the Mediterranean welfare regime countries, there is no significant association between leaving the parental home and the experience of long-run poverty. Here, living with parents is likely to be an important factor in avoiding persistent poverty. An important finding is that economic disadvantage measured in terms of persistence does not reflect the high rates of youth poverty in Social Democratic countries as reported in the previous literature. Whereas simple poverty hit rates show that women are more likely to experience persistent poverty (OECD, 2001), and therefore economic disadvantage, this effect disappears in our statistical modeling where we control for a range of background variables.

2. Determinants of youth poverty: a review of the literature

The rather limited literature on youth poverty is comprehensively surveyed in Iacovou and Berthoud (2001) and Aassve et al. (2005a,b, 2006). We start by giving a brief summary of the main findings. The great majority of existing studies are based on either the cross-sectional Luxembourg Income Study (LIS) or the longitudinal ECHP. Iacovou and Berthoud (2001), using data from the ECHP, find that across Europe the risk of poverty falls with age over the age range 17–30 years. They find that a range of factors—being in employment, having a working partner, and living in one's family of origin—protect against poverty, and that the risk of poverty is highest for people for whom none of these protective factors is present. Young people in the Social Democratic group of countries are most likely to have no protective factors present and most likely to be poor, given the absence of these protective factors.

Kangas and Palme (2000) use LIS data to study variations in poverty rates over the life cycle in eight OECD countries. They first analyse poverty rates by age groups alone, and find high poverty rates among those under 25. They then consider a life-stage typology, based on four groups: "youth", "family", "empty nest", and "old age". Childless young adults under 25, defined as "youth", are found to be at a higher risk of poverty—though at a varying degree across countries.

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