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Short term poverty dynamics in Europe: A comparative analysis

Abstract

Since the pioneering work of Bane and Ellwood (1986), there has been a gradual shift in emphasis in poverty research from static to dynamic analysis. This shift can be attributed, on the one hand, to the well-documented policy relevance of the dynamic analysis and, on the other hand, to the increasing availability of the necessary for this type of analysis longitudinal data sets. Until the late 1980s, the only adequate longitudinal data set in the world for dynamic poverty analysis was the PSID, while in Europe no such data sets existed. Around that time, longitudinal date sets were made available in a number of European countries (Germany, UK, etc.). However, until recently, no longitudinal income data sets existed in most EU member-states.

The picture changed dramatically with the advent of the European Community Household Panel (ECHP) in the mid-1990s. The present paper attempts to explore issues of poverty dynamics in EU member-states using the information of the first seven waves of the ECHP (1994-2000). The first part of the paper presents dynamic descriptives in the Bane and Ellwood fashion, in order to get the grip of the poverty dynamics in Europe and the socio-economic factors that are associated with these dynamics. The circumstances within the household that are associated with the poverty exit and entry probabilities are classified into two mutually exclusive categories of demographic and labour market changes. In the second part of the paper we use transition probability modelling (duration models and two-state first order Markov transition models) in order to investigate more formally the socio-economic covariates of the poverty dynamics without having to make the compromises of the Bane and Ellwood approach and allow for various demographic and labour market events to occur simultaneously. Using these results, we draw conclusions on similarities and differences on dynamic poverty patterns and events that *ceteris paribus* tend to be associated with these patterns in Europe.