

Individual Labour Market Poverty Polarisation in Eastern and Western Germany, 1984-2013

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Abstract

Income poverty is strongly connected with work intensity. To analyse causes of poverty, several studies have explored whether non-employment and non-standard employment are polarised, i.e., clustered within certain households. However, rising poverty rates among full-time full-year workers show that the protective function of standard employment has eroded, which makes it worth to look at the polarisation of poverty directly. Considering poverty as the phenomenon of interest, I ask whether individual labour market poverty, defined as individual gross labour market incomes below the poverty line, is clustered in Eastern and Western German households, how polarisation has developed in the context of demographic change and the major labour market and social policy reforms (*Hartz* reforms), and what role shared socio-demographic characteristics and employment patterns have played. Using data of the German Socio-Economic Panel from three decades, I have calculated a polarisation index that measures differences between observed household labour market poverty and rates that would occur if individual labour market poverty was randomly distributed across households. Descriptive trend analysis show negative polarisation in Western Germany and positive polarisation in Eastern Germany. Since the consolidation of the labour market and social policy reforms, polarisation has increased in the western part, while staying stable in the eastern part. Index decompositions reveal that polarisation in both parts can be primarily attributed to intra-household differences (west) and similarities (east) in work intensity, and that increased polarisation in Western Germany was mainly driven by a rising share of single-adult households, growing inequalities between two-adult households, and households where all adults were inactive.