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Societal Shifts and Changed Patterns of Poverty

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by

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Summary

This paper uses data from the Luxembourg Income Study to analyse cross-national and cross-temporal poverty risks in eleven western countries. Our analyses are embedded in the tradition of welfare state research. Despite a hundred years of welfare state efforts, at the beginning of the 21st century the question of poverty is still highly relevant. It remains today Europe's most fundamental social problem.

In the first empirical section we present the situation overall and show that poverty risks have tended to increase from the early 1980s to the present day. We also show that the cross-national variation is largely in line with what we would expect from the international discussion about welfare regimes. Furthermore we show that the proportion of the national population with a market income below the poverty threshold has increased in all countries and that the cross-national variation in market income poor is not apparently related to type of welfare state regime. Our analysis shows that the poverty increase chiefly can be explained by increased structural pressures rather than retrenchment of the redistributional systems.

In the second empirical section we present a simulation analysis to test whether structural, i.e. compositional differences in age, family and labour market behaviour can account for the cross-national variation found. Our results demonstrate the increasing importance of household labour market attachment for alleviating poverty risks, as well as for explaining the cross-national variation in these risks. In this sense the low poverty rates in the Scandinavian countries are not only due to generous systems of social protection but also favourable socio-economic and demographic structures.

Key words poverty, redistribution, welfare regimes, cross-national research

Introduction

The most elementary intention of the welfare state has been the elimination of poverty. According to Seebohm Rowntree's (1901) classic study of working-class families, a worker's risk of poverty was especially high during three stages of his life-cycle: childhood, child-rearing, and old age. Since then, welfare states and social programs have sought to combat these risks. Comparative studies of poverty in the early 1980s revealed that in some countries these efforts had been very successful; pension and family schemes in particular had been effective in mitigating the life-stage-dependent incidence of poverty (Mitchell 1991; Kangas and Palme 2000). Increased female labour force participation and smaller family size have been other significant structural changes which have reduced the relevance of Rowntree's theory (Kangas and Ritakallio 2000).

Nevertheless, at the beginning of the 21st century, after a hundred years of effort, the question of poverty is still the most central issue of the social dimension of Europe (Atkinson et al. 2002). Furthermore, there is no sign of this problem being overcome in the foreseeable future. New social risks, such as changes in the family and in the labour market have emerged to challenge the traditional welfare institutions. At the same time, most western countries have witnessed a halt in the century-old efforts to strengthen welfare institutions. Welfare state retrenchment has been the keyword of the period (see for instance Pierson 2001; Korpi and Palme 2003). Some recent comparative studies of inequality and poverty have shown a generally greater income inequality and increase in poverty in most western countries in the same period (see Fritzell 2001; Smeeding 2002; Ritakallio 2002).

In this paper we will present cross-national and cross-temporal poverty analyses from a number of countries based on data from the Luxembourg Income Study (LIS). We present updated poverty trend figures and attempt to identify the reasons for the changes in poverty from 1980 to 2000: social policy retrenchment, structural shifts, or both? Our analyses are embedded in the tradition of comparative welfare state research. We thus test hypotheses stemming from both older and more recent discussions about poverty and the welfare state, with a particular interest in cross-national variations by welfare state model. We investigate how permanent the differences in patterns of poverty have been, both between countries and between different social policy models: Has any convergence or regrouping taken place? And what proportion of inter-country differences is due to differences in the outcomes of their redistributive systems or socio-demographic structures?

The paper is structured in the following way. First, we briefly summarise the present debate about welfare state changes. Our aim is not to give a full account of recent discussions, but rather to extract from these discussions testable hypotheses about poverty trends and cross-national variations in these. We then present our more specific research questions. After a presentation of the data and of our analytical strategy, the empirical section starts with a presentation of aggregate national trends in poverty head counts. This includes a comparison of changes in pre- and post- tax and transfer poverty and an estimation of the impact of cash redistribution systems on eradicating poverty. We look in particular at the extent to which one can see differences by welfare state model. Before the concluding remarks, we assess how much cross-national differences in poverty are linked to structural or socio-demographic differences in labour force participation, age structure and family status.

We do this by applying a reweighting methodology (see e.g. Fritzell 1993; Rainwater and Smeeding 1998; Kangas and Ritakallio 2000).

Welfare states and new pressures

The preoccupation with typologies in welfare state research was of course boosted by Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990), in which he identified three ideal-typical regime models. But, as pointed out by Abrahamson (1999), the practice of modelling was further fostered by new discussions about how welfare states adapted to a number of internal and external pressures in the late twentieth century.

In recent decades we have witnessed a series of societal shifts which put pressure on welfare (systems) in a variety of ways: globalisation, labour market changes, the influence of supranational organisations (e.g. EU, IMF), population ageing and rapid changes in family patterns and structure (Kautto et al. 2001; Myles and Quadagno 2002; Pierson 2001). The proportion of the population able to support itself from the market alone has fallen continuously (Ritakallio 2002). At a time of increasing demands on welfare systems in western European countries, these same systems have faced growing criticism, and the trend in social policy making has commonly moved from growth to maintenance or even to downsizing.

In the welfare state literature we find a number of somewhat contradictory hypotheses about these pressures. It is often suggested that the scope of national policies has become severely restricted. This, in turn, means that the old controversial, and seldom supported, idea of a convergence has once again become a leading research issue. Many arguments put forward in the 1950s or 1960s have suddenly

reappeared. However, despite the many similarities in argumentation, one difference should be stressed: whereas the old hypotheses about convergence were mainly concerned with the growth and expansion of the welfare state, the new ones focus on restructuring and even cut-backs (Montanari 2001). Not surprisingly, the idea of convergence has been much contested. It has been counter-argued that what we are witnessing is parallel trends in many welfare states, but not necessarily convergence (Kautto et al. 2001). Most empirical studies seem to suggest that although there may be many pressures for change which are common to many countries, there is still scope for national policy responses (Atkinson 2000).

A different view is expressed by the so-called "new politics of the welfare state" school (Pierson 2001). Pierson argues that welfare states are, by and large, institutionally resilient to change. The role of social class or partisan politics has continued to diminish and, in their place, powerful interest groups with an interest in the status quo prevent any fundamental retrenchment. Pierson acknowledges Esping-Andersen's regime typology. Consequently there is not just one new politics, but rather welfare state restructuring looks very different depending on institutional and political settings. Korpi and Palme (2003) contradict this to some extent when they claim that class politics continue to be an important factor in explaining cross-national variations in social rights in the post-golden era of the welfare state that we are addressing here.

Research questions and hypothetical outcomes

What, then, should we expect to find out about poverty on the basis of these pressures and on the basis of recent discussions in welfare state research? A first research question obviously relates to the supposed diminishing scope for national policies. In

other words, is it possible to trace convergence in this issue? If the widespread ideas about the pressures faced by contemporary welfare states are correct, a second hypothesis is that poverty figures have increased. The main rationale behind these hypotheses is that welfare state programs in most countries were constructed in a different historical setting and that these programs are less effective in combating poverty now that family patterns and labour market relations etc. have changed.

In our analysis we will in particular look at variation and similarity within and across different types of welfare states. How much evidence is there that some countries seem to have adapted better than others to recent changes? It is also possible that most countries and regimes demonstrate similar trends and changes but yet at the same time also demonstrate a large cross-national variation when one looks at aggregated and disaggregated poverty risks at a specific point in time. In other words, when we look at poverty in general and among certain groups we may well see parallel changes but no convergence. Many results reported by Ritakallio (2002) support this line of reasoning.

Evidence of systematic differences in poverty rates between different types of welfare regime obviously does not prove that this necessarily has anything to do with policies adopted by those welfare states. However, by looking at the proportion of the population with incomes below the poverty threshold both before and after welfare state redistribution we are better able to relate the outcome to policies adopted by individual welfare states. With our simulation analysis, which transplants one country's socio-demographic structure to that of another, we aim to further test this proposition. Is social policy or structure the determining factor (Kangas and Ritakallio, 2000)?

Data and limitations of the study

Comparative poverty research has flourished over the past two decades, largely due to the Luxembourg Income Study (LIS) project (for a presentation, see e.g. Atkinson et al. 1995). So far, with a few exceptions, comparative poverty analyses have been based on a single year (but see Ritakallio 2002). Notably few comparative studies have carefully documented changing patterns of poverty. However, the now mature LIS databank makes such an analysis possible.

In this study we analyse and describe the main shifts in poverty in Europe and North America from around 1980 to 1990 and 2000 using data from the LIS database. The countries under scrutiny are Belgium, Canada, Finland, Germany, Italy, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. The national sources of these data and sample descriptives are presented in Appendix A (see further LIS homepage at http://www.lisproject.org).[1]

These countries also represent different welfare regimes; earlier research has documented many correlates with welfare outcomes. For example, Mitchell (1991) presented results (based on 1980 data) showing that countries representing the social democratic regime lead in terms of welfare, while countries representing the liberal regime lagged behind on the basis of poverty risks. Corporatist countries ranked somewhere in between the other two regime types. We look at whether patterns of poverty and changes in patterns of poverty correlate with these models (see also Fritzell 2001). Finland, Norway and Sweden represent the institutional (social democratic) welfare model. Belgium, Germany and the Netherlands belong to the corporatist regime. The liberal regime type is represented by Canada, the UK, and the

US, while Italy and Spain represent a Mediterranean type social policy model (Fererra 1996).

Although our data source is commonly regarded as the most comparable and authoritative source for comparative analyses of income inequality and poverty, it has certain limitations. First and foremost, it has limited us to what has been called an income, or monetary, poverty approach (Jäntti and Danziger 2000). We acknowledge that poverty is theoretically a more profound concept that is not fully captured by income (for a recent review and empirical application of different approaches to global poverty studies, see Ruggeri Laderchi et al. 2003). Particularly in Europe, following Townsend (1979), there is now ample research which more directly measures deprivation and its relation to income (see e.g. Nolan and Whelan 1996; Gordon and Townsend 2000).

A second restriction of our analysis is that the LIS-database does not contain yearly observations. It is for example possible that the survey years in question are at a different stage of the national business cycle in different countries. Insofar as the business cycle is related to poverty risks, this divergence could well result in erroneous conclusions. A further restriction of our analysis also concerns time, but on the micro level. We do have access to micro level data but they are not longitudinal, so we are restricted to repeated cross-sectional analysis. Poverty, and perhaps even more so its recent European cousin social exclusion, naturally has a time dimension which is important. A 10 percent child poverty rate, for example, might either imply that over a ten year-period all children experience poverty for one year, or that every tenth child lives in permanent poverty. Needless to say this difference is profound,

and the reality is always somewhere in between (Bradbury et al. 2001, Bradshaw 2003).

However, in spite of these limitations, we do believe that cross-national, cross-temporal analyses are able to identify important underlying patterns that would not necessarily change with a more longitudinal approach. In fact, several longitudinal income studies have concluded that cross-national patterns resemble those identified by earlier cross-sectional studies (e.g. Aaberge et al. 2002).

Poverty measurement and adopted methods

All poverty analyses must obviously define a poverty threshold which divides the poor from the rest of the population. In line with almost all comparative poverty research we do this by taking a relative perspective, whereby one establishes a poverty line in relation to a social reference. If, as is normally the case, this reference is the nation as a whole, the poverty line is set at a fraction of either the mean or the median income. We chose to use 60 per cent of median income as our poverty threshold. The main reason for using the median rather than the mean is that changes in the incomes of the rich affect the poverty line if one uses the latter (Smeeding and Jesuit 2002).

Our choice of poverty threshold concurs with the low income definition adopted by the European Union in 2001 in their common indicators for social inclusion. Thus, we extend the use of the 60 % poverty threshold to the earlier waves of LIS. The indicators were developed by a group of European social scientists (see Atkinson et al. 2002; and Politica economica No. 1/2002). It should be stressed that we fully acknowledge the distinction made by Atkinson et al. between poverty and the

risk of poverty. People below a specific income level in a specific year are at risk of financial poverty and of not being able to participate in the society in which they live.

Our income measure is based on the disposable income of the household, i.e. after tax and transfers. We follow the Luxembourg Income Study's definition of disposable income. However, in order to compare households of different size and structure one must adjust the income by means of an equivalence scale. We chiefly use the traditional OECD-scale, which gives a weight of 1 to the first adult, 0.7 to other adults, and 0.5 to children. To test how robust our results are we also apply the modified OECD-scale to our data. This latter scale gives a weight of 0.5 to other adults and 0.3 to children younger than 18. The choice of equivalence scale can undoubtedly have a great impact on who is counted as having a low income or as being poor. In this paper we are primarily interested in changes over time and between countries, which renders the choice of equivalence factor generally less important.

Poverty risks over the life course

As we pointed out earlier, some of Rowntree's observations on poverty risks over the life course are now outdated. Nevertheless, numerous recent studies have indeed shown that poverty risks continue to vary significantly over the life course. In our analyses we will make use of four different but related factors to highlight this, namely age, marital status, children and labour market participation. We have created a life cycle variable which simultaneously incorporates these aspects. This variable has 21 categories which are listed in Appendix Table 2a. We will use this variable to disaggregate poverty figures. Our main aim, however, is to use the distributions of the life cycle categories in our simulation by transposing one country's distribution according to the most recent data wave to that of all the other nations and across time.

Cross-national and cross-temporal variation

We will begin by presenting the head count poverty rates in around 1980, 1990 and 2000 (Table 1). It should be borne in mind that we, in line with the suggestion of the EU, use 60 per cent of the median in each country and year as a cut-off value. We present ratios using two different equivalence scales, the traditional and the modified OECD-scale (within brackets in Table 1). These differ insofar as children have a greater weight in the old scale. In other words, the assumed costs of having children are lower in the modified scale. We also give pre-tax and transfer rates in the two following columns. The difference between these two can be seen as a rough indicator of the importance of welfare state redistribution in alleviating poverty[2]. However, for several reasons it is only a rough indicator; first and foremost because it totally neglects all behavioural effects of taxes and transfers. Moreover, a comparison between nations or within a nation over time of this redistributive "effect" might be highly related to the proportion of elderly people in the population, who often have a very low market income. Nevertheless, we believe that by looking at specific cross-national patterns when comparing pre and post welfare state redistribution we can gain a considerable understanding of the overall role played by different welfare states.

In the bottom panel of the table we present overall estimates of the cross-national variation at these three time periods as given by two standard measures of dispersion: the standard deviation and the coefficient of variation. We also present unweighted rates per type of welfare state. These two last rows of the table are of course particularly interesting for discussions of the welfare state. Are there any clear

signs of convergence in these poverty rates? Are differences between different types of welfare regime becoming less and less evident?

Table 1 about here

Poverty risks do prove to vary quite markedly across the affluent nations looked at here – a by now well-established fact. More interesting is perhaps the development over time. It is evident that poverty risks have increased rather than decreased, contrary to expectation. The only country with a clear reduction in poverty between 1980 and 2000 is Finland. However, that decline took place in the 1980s, and rates rose again in the 1990s. The unweighted average increase in poverty rates in these eleven countries between the first and last data point is 1.8 percentage units (from just below 13.3 % to 15.1%). Rises in poverty rates are particularly large in the UK and in the Netherlands. However, the cross-national correlation and variation in these overall risks are fairly stable over time. This is further reinforced by our dispersion measures on aggregate level. When we compared data for the 1980s with data from around 2000 we found a slight increase in the standard deviation in the national rates, while we found a slight reduction according to the coefficient of variation. In other words, we saw no clear indication of a general convergence between the countries in our study. However, the changes in these estimates are fairly small and we would rather stress the relative stability of the overall cross-national variation.

For welfare state research it is of course changes within and across groups of countries that are of particular importance. We accordingly calculated the unweighted averages of these rates within each type of welfare state (see the bottom of Table 1). To calculate averages on the basis of so few cases, the variation within each group

must be relatively small. And indeed this is what we find; the countries group themselves very clearly by type of welfare regime. One could even argue that each welfare state model has a more distinct outcome now than at the beginning of the 1980s. The gap in differences in poverty rates is also somewhat larger today than twenty years ago. In the early 1980s there was no difference between Nordic and Continental countries in these averages. In contrast, we found a substantial difference for 2000. Average poverty rates in the three Continental countries were 3.4 percentage units higher than in the three Nordic countries at the latest data wave. Over the same period, the Mediterranean countries and the Anglo-Saxon countries constituted a group of countries with much higher national proportions of poor people. Most of these overall findings on cross-national and cross-temporal poverty patterns are robust with regard to choice of equivalence scale, such as the overall increase in poverty risks and the distinct pattern by welfare state type.

The pre tax and transfer rates reveal a rather different story. We can summarise our findings in two overall conclusions. First, there is a clear general tendency towards rising proportions of poor over time.[3] This is no doubt the result of at least two processes: the ageing of society, and a looser labour market attachment for a relatively large proportion of people of working age. This means that the structural pressures on the redistribution systems are now much greater than they were only twenty years ago. The average rise in pre tax and transfer poverty rates for the ten countries for which we have comparable data was as much as six percentage units (from 28.3 % to 34.5 %) between 1980 and 2000. The second general outcome is the total lack of association between type of welfare regime and the figures presented in these columns. In other words, a result quite opposite to what we find when we take

welfare state redistribution into account. The exception is that these rates are much higher in the two Mediterranean countries. This, however, is an artefact produced by the fact that incomes in these countries are measured net of taxes. The lack of a distinct pattern indicates that the large differences in poverty risks we find when we compare countries with different welfare state models are not explained by the distribution of market incomes. They are, rather, largely explained by welfare state redistribution.

On the basis of Table 1 we can also analyse the causes of the increase in actual poverty rates in our eleven countries. Is it a consequence of retrenchment (weakened relative effectiveness of the redistribution systems) or increased structural pressures (increase in pre transfer poverty rates) or both? The table gives little support for the retrenchment hypothesis. In fact the overall unweighted average relative reduction in poverty in 2000 was higher than twenty years before (54.3 % vs. 56.2 %). Even in the UK, where the most dramatic increase in actual poverty has occurred, the effectiveness of the redistributive system in alleviating poverty was at the same level at the start and end of the period under scrutiny.[4] The most remarkable exceptions seem to be Belgium and the Netherlands. In these two countries the power of the redistribution systems has weakened. The lack of any general support for the retrenchment hypothesis can however be qualified somewhat by comparing the changes during the 1980s with those in the 1990s. While these poverty rate reductions increased in eight out of ten countries during the 1980s, they decreased in the majority of cases in the 1990s. Consequently, if we focus on the 1990s only, the findings are more congruent with welfare state cut-backs. Finally, it should be underlined that a change in these rates of reduction did not necessarily coincide with any institutional

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changes in redistributional programs. If more people are poor before welfare state benefits come into play it may affect the calculated reduction in poverty. The same line of argument might be relevant for any cross-national comparison (Nelson 2003).

Nevertheless, we conclude in this section that the increase in actual poverty in western capitalist countries in recent decades can mainly be accounted by increased structural pressures.

Structures or policies?

The poverty risk estimates we present in Table 1 are of great interest in themselves, but for our purposes they are also a baseline for the analysis to follow. So far we have treated all cross-national differences in the distribution of life cycle groups as more or less given.[5] We will examine the extent to which cross-national differences are dependent on the variation in demographic and labour market structures as captured by our life cycle variable. We do this by means of a simulation exercise in which we take the socio-demographic structure in one country at one point in time and then reweight the data so that the observations for all other countries have the same distribution of this life cycle variable. However, we allow the poverty risks within each category to remain the same as the estimated one. The observation we have chosen as counterfactual is Sweden in the year of 2000.

Simulations of this kind are associated with the danger of simplified conclusions. A counterfactual is necessary, and the choice of counterfactual can influence the results. Furthermore, counterfactual analyses are naturally attempting to establish what would happen if facts were other than they are in reality. In our case, when we are trying to distinguish between structures and policies, it seems likely that if a country's demographic structure changes, it would, in turn, change its politics

(even though it is hard to predict exactly how). We are fully aware of these shortcomings but feel nevertheless that such an exercise can provide interesting and meaningful insights into how and why we observe cross-national variations.

We present the estimates of how poverty risks would have changed in Table 2. We include our first and last observations only and further restrict our results to estimates based on the traditional OECD-equivalence scale. The first columns give the new hypothetical estimates, which correspond to the real one observed for Sweden in 2000, since this is our reference case. The third and fourth columns show the change in percentage points produced by our simulation. For example, in the case of Belgium we find that in the most recent wave (in 1997 for Belgium), our simulation gives rise to a marked decrease of 4.1 percentage points, or in other words a fall of about 30 per cent from the real figure.

Table 2 about here

It seems to be the case that most countries in our study would have had lower poverty rates at the turn of the new century if they had had Swedish demographic and labour market structures. There is also a typical Nordic pattern here, in that Finnish and Norwegian rates hardly change at all (this also holds for Germany and Canada) while they decline in all other countries. This "effect" of our simulation is even more evident when one looks at the hypothetical rates of the first data period around 1980. It turns out that poverty rates decline in all countries (except Finland),[6] Given how the countries cluster in this respect, it comes as no surprise that some of the observed cross-national variation also declines when structures are held constant. This is also evident from our overall measures of cross-national variation presented at the bottom of the table. If we take the change in the standard deviation literally it would mean

that around 15 per cent of the observed cross-national variation depends on the fact that the population share of these life cycle groups varies from one country to another.

On the other hand it is also evident that strong differences remain between different welfare regimes. Canada, UK and the US still have markedly higher poverty rates in our simulation analysis, even though the gap narrows somewhat. Some of the continental European countries, however, become much more like their Nordic neighbours. In fact, both the Netherlands and Belgium have slightly lower hypothetical rates than Finland and Sweden.

Does this in turn mean that the politics of the corporatist countries in reality have the same egalitarian impact on poverty rates as the policies of the Nordic countries? Although this is quite possible we hesitate to draw such a conclusion. Politics, both intentionally and unintentionally, do influence what we have here labelled structures, i.e. people's demographic and labour market behaviour. However, it is of course interesting to scrutinize more exactly what produces the outcomes we observe in our simulation. We therefore compare Belgium and the Netherlands on one hand, and Finland and Sweden on the other, and concentrate on the most recent survey year. The results must be related to life cycle groups that are more common in the Nordic countries and have low poverty risks, and vice versa.

Seven of our 21 categories are much less prevalent in Belgium and the Netherlands than in Finland and Sweden. Together these groups constitute 44.5 per cent of the Swedish population, while their total population share in Belgium only reaches 16.5 per cent. The respective population share and poverty risks of these seven categories are listed in Table 3. In the Belgian case we find that they all have a lower poverty risk than the population at large; for the Netherlands this is evident in

five out of seven cases. Thus it is not surprising that poverty rates in our simulation fall substantially both in Belgium and the Netherlands when we impose the Swedish population shares.

Table 3 about here

The most interesting question is perhaps whether or not we can trace a specific pattern in which the population share of the demographic/labour market groups differs the most. Household labour market behaviour appears to be the key issue here. It is not the case that couples with children, for example, constitute a much larger share of the total population in the Nordic countries. It is rather double earner households that are much more prevalent there. Although this is well known from official labour market statistics, the size of the difference is remarkable and the impact on our poverty estimates strong. To exemplify this further we show in figures 1 and 2 the poverty risks and the relative population share of one common family type, namely couples over forty years of age with one or two children. In both figures we have divided this family type by number of earners and so the relative size is here calculated within this family type.

Figure 1 and 2 about here

Figure 1 shows that the poverty risk is very low if you belong to a double earner family, particularly in Belgium and the Netherlands. However, the poverty risk increases dramatically if neither or only one of the spouses works. Yet the key to why the poverty risks become higher in Belgium and the Netherlands is the relative population share of these two family types. As seen in Figure 2, families with one or no earner constitute a large fraction of this segment of the population (couples, 1-2 children, 40+ years of age). In contrast, in both Finland and Sweden working couples

constitute more than 87 per cent of this group. So while poverty risks in these groups are about the same (in fact they are somewhat higher in the Nordic countries), the relative population share size explains why, in the end, the Nordic countries have a lower prevalence of poverty. It is, however, important to note that our data indicates that this marked difference between types of welfare regime seems to be diminishing. We thus see a very great shift in these relative sizes over time, in particular in the Netherlands. In other words, double earner couples also seem to have become the norm in Continental Europe.

Nevertheless, it is clearly in the nexus of family and welfare state we find the most marked difference between the Nordic countries and the continental ones. Esping-Andersen (1999) argues that there is a high societal cost with familialism today, both in terms of family formation, fertility, welfare and poverty. Our results confirm at least the latter.

Conclusions

Poverty alleviation is often seen as the most fundamental social policy issue of all. In this study we have compared cross-national and cross-temporal income poverty rates in a number of affluent Western nations. We scrutinized whether or not we could find any evidence of convergence. Our analysis also aimed to establish whether different welfare regimes persist in producing different outcomes. We do this not only by comparing head count rates as such but also by examining the proportion of the population with an income below the poverty threshold before welfare state redistribution, i.e. pre tax and transfer income. Moreover, we study to what extent the cross-national variation seems to be linked to specific national socio-demographic

structures. We do this by simulating hypothetical poverty rates after transposing the structure of one country onto all the other nations and across time.

Our conclusions are the following: First, just like twenty years ago, fairly large segments of these populations are relatively poor today and profound cross-national differences in poverty rates exist in the affluent Western world. Second, this variation follows fairly accurately the types of welfare regime so much discussed in the welfare state literature, perhaps even better today than earlier. Third, in contrast, the pre-tax and transfer prevalence of incomes below the poverty line is quite unrelated to welfare state model. Fourth, socio-demographic and labour market structures are important and have an impact on poverty rates and their cross-national variation. Fifth, most of the inter-country variation remains when structural differences have been controlled for.

We find that over a period of twenty years from around 1980 to 2000, poverty risks have remained at a high level in affluent societies. If anything, head count ratios reveal that poverty risks have actually increased. Poverty rates do vary, and we see no sign of a convergence in these rates among the countries included in our study. Thus, despite new discussions about the end of class politics, the reduced influence of national strategies, the pressure for a harmonisation of policies arising from the internationalisation of trade and capital and from supranational organisations like the EU, we find that the cross-national variation in poverty rates is at least as large today as it was some decades ago.

These differences agree with the general discussion about welfare regimes. Variations within each type of welfare state are as small, if not smaller, today as in the past. At the same time, the variations between types are as large, if not larger, than

earlier. As for the proportion of the national population with a very low factor income, we find that it has increased in all countries. This is likely to be the result of societal changes such as ageing populations, as well as changes related to the labour market. Interestingly, we find that these proportions are about the same irrespective of welfare state model.

The main reason for the increase in poverty rates in our eleven countries was not social policy retrenchment (measured by the weakened relative poverty reduction caused by the redistribution systems), but rather increased structural pressures (measured by the increase in pre transfer poverty rates). Thus, at any point in time inter-country differences in poverty can be accounted for by social policy, while the common increase in poverty over the past two decades of the 20th century is chiefly explained by the increased structural pressures on redistribution systems.

In the latter part of our study we investigated the influence of politics on poverty risks by taking socio-demographic structure into account. When one applies the Swedish structure for the year 2000 ((i) age, (ii) marital status, (iii) children, and (iv) labour force participation within households) to other countries one finds that hypothetical poverty rates fall in most cases. All simulated poverty rates fell in the earlier period studied (except Finland). Belgium and the Netherlands actually have lower hypothetical poverty rates than the Nordic countries in our simulation analysis. More detailed analysis showed that this has to do with differences in (female) labour market behaviour. In other words, if two-earner households, or single working persons, were as common in these countries as they are in the Nordic countries, poverty rates would decline dramatically.

Finally, some of the cross-national variation in poverty rates in our data persists even when differences in demographic structures and labour market participation have been taken into account. Moreover, our indicators of structural change do not fully explain the increase in market income poor in Western societies It seems plausible that wage structures and (labour) market regulations are part of the answer, although we have not directly tested this assumption. Such factors are of course also influenced by political factors such as the relative strength of trade unions. In conclusion, our analysis strongly supports the contention that policies matter.

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Table 1. Overall pre and post transfer poverty rates and the relative effectiveness of income redistribution systems in poverty reduction around 1980, 1990 and 2000. Poverty threshold = 60 per cent of median equivalent disposable income. Equivalence scales: Oecd and modified Oecd (within brackets)

Country	Poverty rates Wave			Pre-tax and transfer rates [s] Wave			The relative effectiveness of income redistribution system in reducing poverty		
	I ~1980	*III ~1990*	*V ~2000*	*I~1980*	*III~1990*	*V ~2000*	*I~1980*	*III~1990*	*V ~2000*
Finland	12 (13,5)	8,3 (10,2)	9,8 (11)	25,3	30,2	34,2	52,6	72,5	71,3
Norway	8 (11,3)	8,6 (10,4)	8,4 (10,6)	23,1	26,6	28,7	65,4	67,7	70,7
Sweden	8,2 (8,3)	9,2 (10,9)	9,6 (10,9)	30,8	38,5	34,1	73,4	76,1	71,8
Belgium	10,9 (9,5)	10,4 (10,2)	13,1 (13,2)	--	32	34,2	--	67,5	61,7
Germany	9,9 (10,4)	10,9 (10,3)	12,5 (12,6)	25	28,1	33,8	60,4	61,2	63,0
Netherlands	7,8 (7)	9,1 (10)	12,4 (12,9)	28,8	30,2	30,2	72,9	69,9	58,9
Italy*	17,8 (16,9)	17,6 (17,7)	19,4 (19,2)	*(35,4)*	*(36,4)*	*(42,6)*	49,7	51,6	54,5
Spain*†	19 (19,2)	16,2 (16,4)	20,7 (19,0)	*(32,8)*	*(36,8)*	*(40,4)*	42,1	56,0	48,8
Canada	17,1 (17,9)	15,4 (15,9)	17,1 (17,0)	25,6	30,1	30,3	33,2	48,8	43,6

United Kingdom	13,9 (16,2)	20,7 (21,7)	19,5 (19,5)	28,2	35	39	50,7	40,9	50,0
United States	21,2 (21,1)	24,1 (23,6)	23,6 (23,3)	27,8	32,2	31,2	23,7	25,2	24,4
Std‡	4,83	5,45	5,16	5,13	3,83	4,50	16,70	15,40	14,25
CoV‡	,364	,398	,342	,174	,118	,131	,308	,266	,254

Unweighted average

Nordic countries	9,4	8,7	9,3	26,4	31,8	32,3	63,8	72,1	71,3
Continental c.	9,5	10,1	12,7	31,4	30,1	32,7	68,8	66,2	61,2
Mediterranean c.	18,4	16,9	20,0	34,1	36,6	41,5	45,9	53,8	51,7
Anglo-saxon c.	17,4	20,1	20,1	27,2	32,4	33,5	35,9	38,3	39,3

Data source: Luxembourg Income Study, the exact survey year is given in Table 1Appendix.

∗ The pre-tax and transfer incomes (market incomes) for Italy and Spain are only available net of taxes, i.e. they are really post-tax, pre-transfer incomes.

† Spanish data for the year 2000 comes from ECHP.

‡ Cross-national variation (Std = standard deviation, CoV = Coefficient of variation) calculated from poverty rates with traditional OECD-scale.

§ Pre-tax and transfers rates calculated with traditional OECD-scale.

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Table 2. Hypothetical poverty rates assuming Swedish 2000 demographic and labour market distribution according to life cycle categorisation

Country	Hypothetical poverty rates		Difference from actual rates	
	I~1980	*V~2000*	*I~1980*	*V~2000*
Finland	12,3	9,7	+0,3	-0,1
Norway	6,9	9,1	-1,1	+0,7
Sweden	7,4	9,6	-0,8	—
Belgium	6,6	9	-4,3	-4,1
Germany	8,3	12,6	-1,6	+0,1
Netherlands	4,8	9,4	-3,0	-3,0
Italy	11,9	12,9	-5,9	-6,5
Spain	14,4	—	-4,6	—
Canada	16,8	17,4	-0,3	+0,3
United Kingdom	11,8	14,3	-2,1	-5,2
United States	20	22,4	-1,2	-1,2
Std *	4,85	4,41		
CoV *	,454	,349		
Unweighted average				
Nordic countries	8,9	9,5	-0,5	0,2
Continental c.	6,6	10,3	-3,0	-2,3
Anglo-saxon c.	16,2	18,0	-1,2	-2,0

***** Overall Std's and CoV's calculated excluding Spain.

Table 3. Population shares and poverty rates among life cycle categories which are substantially more prevalent in the Nordic countries. Comparison between Belgium, the Netherlands, Finland and Sweden in 2000

|	Belgium		Netherlands		Finland		Sweden	
Life cycle categories	Population share %	Poverty rate	Population share %	Poverty rate	Population share %	Poverty rate	Population share %	Poverty rate
One adult, 18-39, working	1,9	8,6	3,9	12,4	4,7	13,2	7,6	25,1
One adult, 40-64, working	1,7	3,2	2,3	0,3	4,2	6,9	5,2	3,0
Two adults, 40-64, both working	2,4	2,2	3,9	0,4	8,0	1,5	8,2	1,0
One adult, working, with children	1,8	6,2	1,8	17,5	3,9	14,0	6,0	11,8
Two adults, 18-39, both working, 3 or more children	2,2	-	2,3	10,0	4,1	14,9	3,6	7,9
Two adults, 40+, both working, 1-2 children,	5,0	1,6	9,0	1,0	10,1	2,7	10,1	2,3
Two adults, 40+, both working, 3 or more children	1,5	7,2	3,5	7,6	4,1	11,1	3,8	8,2

Figure 1. Poverty risks among couples, 40+, with 1-2 children by number of earners.

Belgium, Netherlands, Finland and Sweden
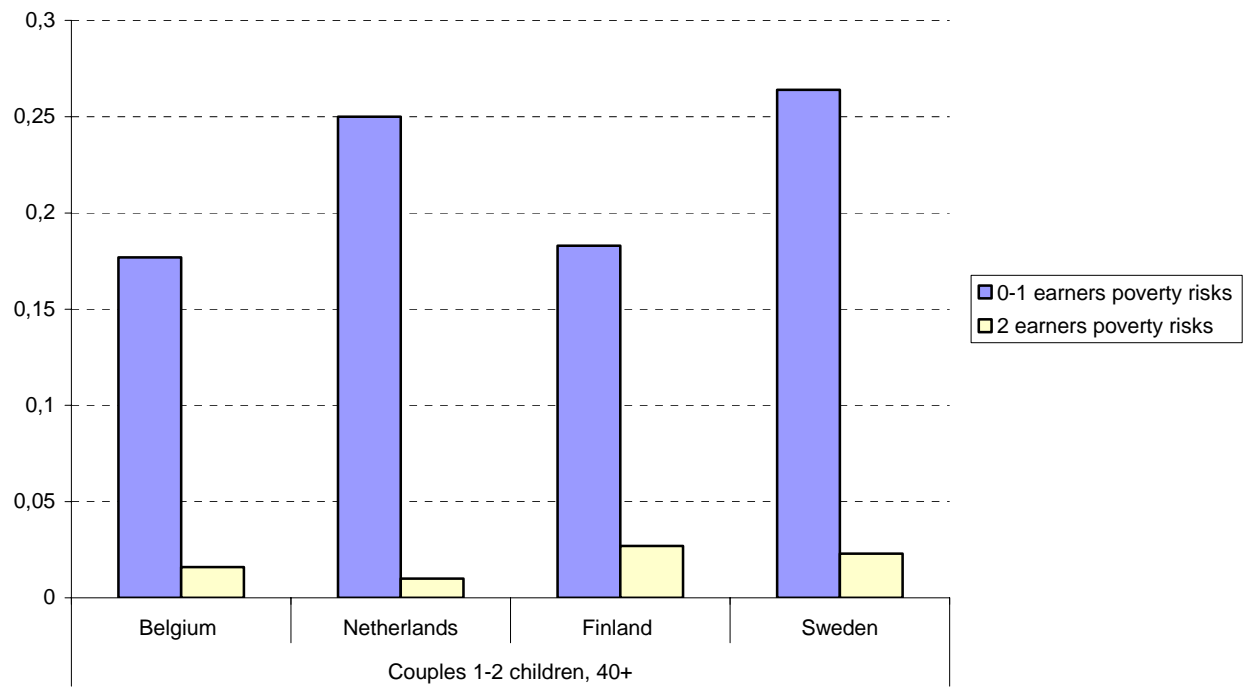
Figure 2. Relative population size of couples, 40+, with 1-2 children by number of earners.

Belgium, Netherlands, Finland and Sweden
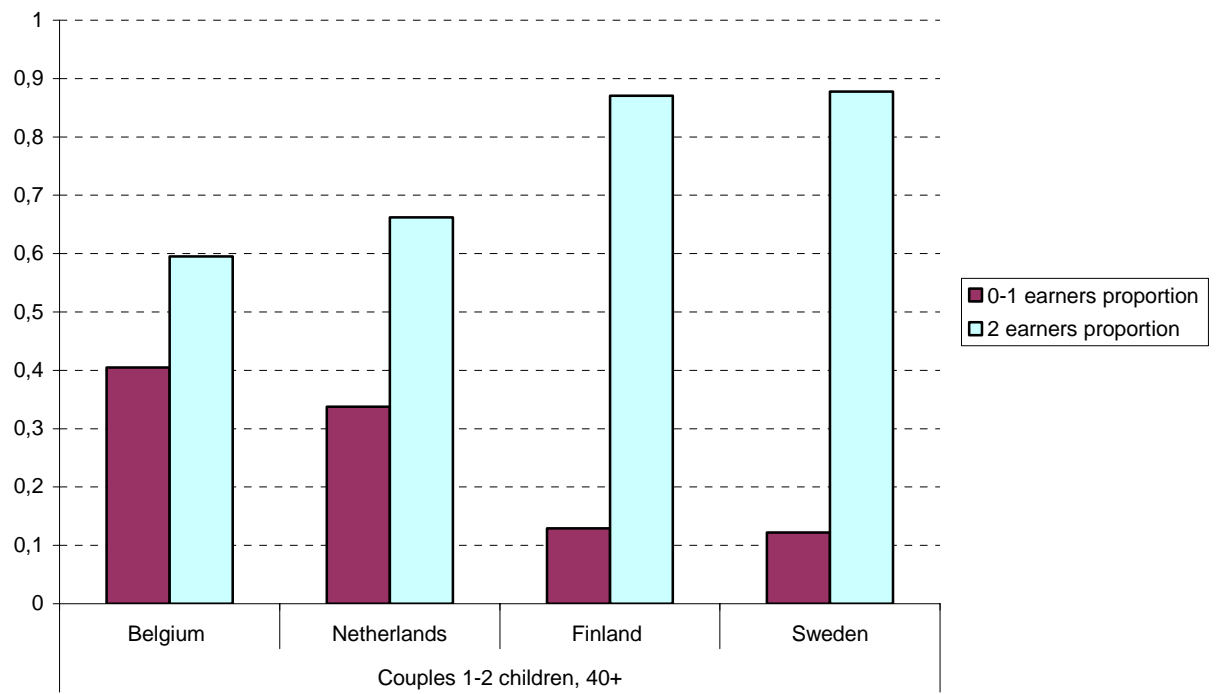
Appendix

Table A1. Lis-datasets used in the analyses

Country and year		Name and actual size of the dataset (number of households)
Sweden	1981	Income Distribution Survey, 9 625
	1992	Income Distribution Survey, 12 484
	2000	Income Distribution Survey, 14 491
Finland	1981*	Family Expenditure Survey†, 7 368
	1991	Income Distribution Survey, 11 749
	2000	Income Distribution Survey, 10 423
Norway	1979	Income and Property Distribution Survey, 10 414
	1991	Income and Property Distribution Survey, 8 073
	2000	Income Distribution Survey, 12 919
Germany	1981	The German Transfer Survey, 2 862
	1989	German Social Economic Panel Study, 4 187
	2000	German Social Economic Panel Study, 6 367
Netherlands	1983	Additional Enquiry on the Use of (Public) Services, 4 833
	1991	Socio-Economic Panel, 4 378
	1999	Socio-Economic Panel, 5 007
Belgium	1985	Panel Survey of the Centre for Social Policy, 6 471
	1992	Panel Survey of the Centre for Social Policy, 3 821
	1997	Panel Survey of the Centre for Social Policy, 4 632
Italy	1986	The Bank of Italy Survey, 8 022
	1991	The Bank of Italy Survey, 8 188
	2000	Survey of Household Income and Wealth, 8 001
Spain	1980	Expenditure and Income Survey, 23 972
	1990	Expenditure and Income Survey, 21 153

	2000	ECHP, 16 574
United Kingdom	1979	The Family Expenditure Survey, 6 777
	1991	The Family Expenditure Survey 7 056
	1999	Family Resources Survey, 24 988
Canada	1981	Survey of Consumer Finances, 15 136
	1991	Survey of Consumer Finances, 21 647
	2000	Survey of Consumer Finances, 28 970
USA	1979	March Current Population Survey, 15 928
	1991	March Current Population Survey, 16 052
	2000	March Current Population Survey, 49 633

* From the Turku Centre for Welfare Research (TCWR) Data Archives.

† Harmonised with other Finnish and LIS datasets.

Table A2. Life cycle categorisation used in the composition and simulation analysis

(1) One adult, 18-39 years of age, not working

(2) One adult, 18-39, working

(3) One adult, 40-64, not working

(4) One adult, 40-64, working

(5) One adult, 65+

(6) Two adults, 18-39, 0 or 1 working

(7) Two adults, 18-39, both working

(8) Two adults, 40-64, 0 or 1 working

(9) Two adults, 40-64, both working

(10) Two adults, 65+ years of age

(11) One adult, not working, with children

(12) One adult, working, with children

(13) Two adults, 18-39, 0 or 1 working, 1-2 children

(14) Two adults, 18-39, both working, 1-2 children

(15) Two adults, 18-39, 0 or 1 working, 3 or more children

(16) Two adults, 18-39, both working, 3 or more children

(17) Two adults, 40+, 0 or 1 working, 1-2 children

(18) Two adults, 40+, both working, 1-2 children

(19) Two adults, 40+, 0 or 1 working, 3 or more children

(20) Two adults, 40+, both working, 3 or more children

(21) Others

ENDNOTES

[1] For Spain we only have LIS-data for the years 1980 and 1990. For the year 2000 we used Spanish data from the ECHP.

[2] The last three right-hand columns reveal the relative reduction in poverty rates resulting from the income redistribution system in respective country. Reduction factor = ((pre transfer poverty rate-post transfer poverty rate)/pre transfer poverty rate)*100.

[3] In only two out of the 21 consecutive changes in pre-tax and transfer rates we report in Table 1 do we find a declining proportion. The declining Swedish rate has to do with the severe economic recession in Sweden in the early 1990s, which meant that employment rates fell dramatically (Palme et. al. 2002). The slight declining figure for the US is on the contrary likely to be an effect of the tremendous job growth in the US economy in the 1990s.

[4] Of course, this is not to say that cutbacks have not occurred.

[5] It is indeed a startling observation that cross-national income and poverty statistics and analyses are invariably presented without taking differences in national demographic structures into account. This does not occur in other fields of research. For example, nobody would dream of presenting cross-national mortality statistics on, for example, without age standardisation.

[6] It is often claimed that new family behaviours have led to higher pressures on welfare states. In contrast to that one could interpret our finding regarding hypothetical poverty proportions in the 1980s as showing that peoples actions with regard to demographic and labour market have counteracted an otherwise increasing trend.