M. Azhar Hussain (mh@sfi.dk) & Olli Kangas (olk@sfi.dk)
Danish National Institute of Social Research
Herluf Trolles Gade 11
DK-1052 Copenhagen

Welfare State Institutions, Unemployment and Poverty

- A comparative study of EU countries 1994-2000

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Abstract:
The aim of the paper is to study how the institutional set ups on national unemployment insurance programs affect the spell of unemployment, re-employment and the incidence of poverty among the unemployed. The paper utilizes mainly two different data-bases. Characteristics of the unemployment insurance system pertain to the level of income loss compensations (net benefits in relation to net wages) of the unemployment insurance systems, to the degree of universality (what is the proportion of labour force covered by the scheme) and the duration of the benefit period. These data come from Social Citizenship Indicators Project (SCIP) housed at the University of Stockholm. The second data-base is the European Household Panel Survey (ECHP) that contains panel data for most European Union countries for the period 1995-2000. USA is also included in the analysis by applying data from the Panel Study of Income Dynamics (PSID). Thus it is possible for us to follow the mobility of the unemployed in terms of poverty and labour market position and relate these dynamic results to the characteristics of the national unemployment insurance programs and evaluate the efficiency of those systems in terms of re-employment and poverty prevention. The paper thus goes deeper into the effect of institutions and also utilises panel structure of data, thereby reducing the institutional and dynamic deficit in welfare state studies

Institutional and dynamic deficits in welfare state studies

The inauguration of Luxembourg Income Study some two decades ago launched an avalanche of poverty studies (see e.g. Smeeding, O'Higgins & Rainwater 1990; Mitchell 1994; Smeeding & Vlemincks 2001; Smeeding 2002). As a rule, these studies relied on Gösta Esping-Andersen's (1990) influential typology of the three welfare regimes: "social democratic" – or the Scandinavian/Nordic social policy model –"conservative" or the Continental European variant of the welfare state, and the "liberal" or Anglo-American one and they have tried to see how different welfare state regimes fare in terms of poverty and poverty reduction. The main summary of these studies is that welfare states do have impact on poverty rates in all countries (Ferrarini 2003; Kangas and Palme 2000). However, the impact varies depending on the regime type applied. Almost without exception the verdict has been that the social democratic regime fares best, followed by the conservative one. The liberal regime always occupies the bottom position in terms of poverty reduction effects. As such these results are interesting and important ones. However, there are two problems attached to the results. The first problem is that these regimes-based studies treat regimes as black boxes explaining both too much and too little. Since they are based on cross-sectional data, which is what the LIS is about, they tend to be static, and that is the second problem in many studies of this brand.

Institutional deficit

The regime theory offers fruitful analytical tools to evaluate the variety of welfare arrangements over the Western hemisphere. We can see the forest, but not the trees. The black box of this or that regime does not specify specific mechanisms producing the output. What is that specific that in "social democraticness" is that "good" and what in "liberalness" is that "bad". Furthermore, as shown in a number of studies countries do not necessarily cluster as they 'should' and the clustering and characteristics of social policy arrangements vary between regimes and, more importantly, within regimes depending on social policy program and social problems in question (see e.g. Korpi and Palme 1998; Erhel & Zajedela 2004; Kangas & Palme 2005; Anttonen 2005; Ferrarini & Forssen 2005; Christiansen & a. eds. 2006). Also there may be differences if we look at welfare state institutions or if we look at consequences. Thus in many cases, as is the case

here, if we want to see the trees we run into problems with regimes. There are some approaches to try to circumvent the black box problem.

We can try to add the number of regimes as done e.g. by Castles and Mitchell (1991) and Leibfried (1992). This is only a partial solution since the problem remains: We simply have more and perhaps smaller black boxes. Another way of going around is the procedure applied by Korpi and Palme (1998) who introduced a new typology of welfare states based on the institutional characteristics of the welfare schemes. Korpi and Palme (1998; see also Korpi 2000) used criteria for eligibility to benefits (i.e. who is entitled to benefits), principles to define benefits (how much is paid), and type of governance (who controls the schemes) as classification principles. They ended up with five types of social insurance programme. 1) Targeted programs governed and financed by public authorities, with benefits based on means testing, providing the needy with minimum benefits. 2) Voluntary state-subsidized programs usually giving income-related but relatively low benefits to the members of the funds. The administration of the funds is in the hands of the members. 3) State corporatist programs, wherein entitlements are based on contributions and the claimant's membership of a specific occupational group. Benefits are clearly income related and in bi- or tripartite systems of administration, representatives of employers, and employees, and sometimes also representatives of the state participate in the running of the scheme. 4) In contrast to the three aforementioned models where eligibility to benefits is more or less limited, the basic security system, at least in principle, covers all people on the basis of their citizenship and guarantees a basic livelihood to everybody. 5) In terms of benefits levels, the encompassing model combines elements from both the basic security and the corporatist models: i.e. it guarantees basic security and homogenous income-related benefits on similar terms for most of the economically active. But in contrast to the differences between the various occupational schemes in a state corporatist system, benefits are the same for all (e.g. 80% of income to all income earners) and the administration is organized through public authorities.

The approach was a step in right direction and that approach will be utilized here, too. But still, in order to get a more nuanced picture, we have to try to use more fine-tuned tools. Instead of speaking and analyzing in terms of "encompassingness" or "corporativeness" we will use more specific indicators such as coverage (who is entitled to benefits) generosity of benefits, duration of benefits period, and qualifying conditions to explain the dynamics between labour market

statuses, the welfare programs and (low)income/poverty. More specifically, we try to relate the micro characteristic of the European unemployment protection schemes to specific outcomes.

Dynamic deficit

It is widely recognized that poverty and inequality measures based on cross section annual income data are far from revealing the whole story about the distribution of income in a society. There are some indirect possibilities to evaluate causal impacts on the basis of cross-sectional data. E.g. Kangas & Palme (2000) used various waves in LIS and related long-term development in social policy (based on SCIP, see 'data') to developmental patterns over time in cross-sectional income data. Their conclusion was that improved social policies in all countries had effects on poverty cycles. In most countries, the young have replaced the old as the lowest income group. Persistent poverty of the latter years is gone; passing poverty of early adulthood has arrived. Also, in many countries the cycle of poverty has flattened out, and the life stages are no longer significantly different. Some systematic differences, however, remain between countries. High poverty rates among families with children continue to be an Anglo-American problem, as very little improvement in this area has taken place through the years. The results on the situation of the elderly indicate first of all that poverty rates have gone down in all countries, as pension systems have matured and benefits have been improved. Second, the kinds of pension policies different countries pursue make for differences in the poverty profiles of the countries. In the 1960's, for example, the incidence of poverty among the elderly was about the same in both the Nordic countries and the United States. Three decades later, there is a marked difference between the two. Their conclusion was that the reason is to be found in the pension policies. In a similar manner some other studies have tried to use sequential cross-sectional data to construct semi-panel or trend analysis (Jäntti, Kangas & Ritakallio 1996; Kangas & Ritakallio 1999).

Neither is this approach satisfactory. On the basis of cross-sectional data we might (and do) find out considerable stability in overall income distribution despite the fact that considerable income mobility is observed in the individual level from one year to the next. Thus stability at the macro level does not imply stability at the individual level (for a closer discussion see Hussain 2005). Panel data are necessary to complete the picture of low income or poverty, so that individual developments over time can be observed. This leads to the issue of mobility, which defines

movements in and out of low income and the persistence in the low-income state. The question is whether low income is persistent, with the same people at the bottom of the income distribution or whether there is a considerable transitory income component.

From a policy point of view this is important, because temporary and therefore more equally distributed poverty may be less of a problem, because individuals are only hit for a shorter time period and not trapped in poverty. But if poverty is of a long run nature it might call for targeted policies towards the poor. The dynamic perspective is also important in comparative studies because a country with a yearly high incidence of poverty compared to another country may have a more equal distribution of lifetime income as a consequence of higher income mobility. Finally, the extent to which a low-income person moves up or a high-income person moves down is a factor that probably affects motivation and future expectations of individuals: If it is the perception that escaping poverty is a difficult and hopeless task, then, that itself might discourage individuals from even trying to do something about their economic situation. It is also a question of social justice: We can forgive a greater degree of poverty providing that mobility out of poverty is high. In sum, as shift from cross-sectional data to more dynamic research design allows us not only to better evaluate the interplay between social policy and poverty but also to address issues of social justice – that is crucial element for all social institutions.

Previous studies

There are some interesting studies on this topic. E.g. Goodin & al. (1999) find out in their study on the Netherlands, Germany, and the U.S. that the "social democratic" Netherlands fare best in eliminating poverty and poverty dynamics, whereas the "liberal" US fare the worst. When it comes to employment and employment dynamics the situation is reversed. In his longitudinal and a more sophisticated simulation model of working-age populations in Denmark, Germany and the US in 1985-1997, Hussain (2002) found out that the poverty persistence reduced considerably over time. Germany had huge drops in persistence in the two first years after poverty in 1984 (44% of the poor in 1984 were poor in 1986), whereas 64-65% of Danes and Americans were still in poverty after 2 years. In the short run poor people in Germany seems to escape poverty fairly quickly, whereas the poor in the USA seems to have more difficulties in escaping poverty. From 1988 and onwards until 1996 Germany and Denmark follow each other closely on a lower level than the USA.

However, counterfactual simulations produced interesting differences. But, he concludes that it's not very clear how transition probabilities are related to welfare state systems: Denmark belongs to the Scandinavian welfare model with a comprehensive social safety net, a publicly financed health care system and a universal right to pension with no regard to labour market status in the non-pension years. The USA has a more market-based system with lower benefits and quicker exhaustion. Germany is the middle case and belongs to the continental European model. A way to detect welfare state differences is to use the estimated parameters to calculate counterfactuals, where the "system" (as expressed by the estimated parameters) is imposed on another country. The American social structure (or combined effects of e.g. having a child, being a woman, etc.) would clearly increase poverty persistence among Danes. If the population had the characteristics of German citizens and the system of the USA, then poverty persistence would increase by almost 20%-points. On the other hand, imposing the Danish or German structure on the American population would markedly reduce poverty persistence in the USA. The main conclusion is that at the aggregate level, mobility seems to be higher in Germany and Denmark than in the USA, but with some convergence over time. Combining populations and estimated parameters of different countries to calculate counter factual conditional probabilities of poverty, lends some support to the view that the European system (represented by Denmark and Germany) promotes poverty persistence, whereas the system in the USA changes individual behaviour in order to protect them from poverty persistence.

Research questions

This paper is a part of a bigger research project that aims at analysing the interaction between welfare state institutions, labour market behaviour and income dynamics. More specifically in the bigger project we are interested in those impacts that the institutional set-ups of different welfare state programmes (unemployment, sickness, and pension insurance programmes and child / family benefits) have upon labour market behaviour and income dynamics. Particularly we are interested in how that interaction is reflected in the incidence of low income and poverty dynamics.

Since we have access to detailed institutional data on the specific characteristics of national welfare programs and individual level panel data (see "data") we have the possibility to avoid the

above described black box problem attached to many previous studies. We are interested in how changes in social statuses are mirrored in changes in poverty statuses and how national social policy institutions affect that dynamics. By combining institutional data with individual data we try to identify how different factors, including gender, age, marital status, children, education, and employment, affect the probability of transitions between low income and non-low income states.

The contribution our analysis brings is that we compare changes with changes and this gives us possibilities to analyse the impact specific social policy solutions have. Given differences in national social policy programs we have a kind of experimental research design, e.g. we can evaluate how the generosity of unemployment compensations is related to the income position of the unemployed. Furthermore, we can analyse how the generosity of the system and duration of benefit period are related to the duration of unemployment spells. It may be so that the generosity of the scheme prevents the unemployed to fall in poverty but the unemployed may be stack in a low-income position for a longer period. In some other country, offering meagre benefits, the unemployed are poor but their unemployment is shorter. Therefore, the later situation may be preferable. Usually it is assumed that the more market oriented approach in the USA implies a higher poverty rate, at the same time, though, the more flexible labour market generates greater mobility, so that over a longer period of time poverty might not be much higher in the USA compared to e.g. Denmark. A priori it would be difficult to say anything about who should have greatest poverty persistence or mobility. The USA with a more flexible labour market and low replacement rates in the social benefit system could be expected to have lower poverty persistence, because people are dissatisfied with low income while receiving social benefits, and thus would be expected to escape poverty quickly. On the other hand, poor people might have low qualifications and thus have problems escaping poverty, even when they find a job, because wages are low. In Europe one could expect higher poverty persistence because benefits are comparatively high relative to the wage rate. This might lower incentives to escape poverty. Some of these issues are also raised by Goodin et al (1999) in their regime approach.

More specifically in this paper we concentrate on unemployment protection and consequences of unemployment:

- What happens in different countries (in different unemployment regimes, if you like) in terms of poverty when a person gets unemployed (shifts in employment status -> shifts in income status)?[1]
- What is the effect of different unemployment schemes to prevent poverty?
- What happens in terms of shifts in the income status when the unemployed gets employment?
    - Here, of course the hypothesis is that the income dynamics is out of poverty
    - However, the discussion of the working poor phenomenon in the U.S. may be relevant also for the European countries:
    - Is the employment enough to raise the claimant above the poverty line?

Data

The institutional characteristics of the relevant welfare programs are derived from the Social Citizenship Indictors Project (SCIP) led by professor Walter Korpi and Joakim Palme. The SCIP is housed at the Swedish Institute for Social Research, University of Stockholm. The SCIP contains data on the major income transfer systems (unemployment, sickness, work accident insurance, family benefits, and pension) in 18 OECD countries. Countries included are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States. Data on the major social policy systems for these countries covers characteristics like qualifying conditions (who will get what on what terms), coverage (insured / relevant population), generosity (maximums, minimums, other benefit level in relation to previous wages), duration of benefit periods, waiting days, and financing (employers, the insured, the state) (for more information on SCIP, see for example Palme 1990, Kangas 1991; Carroll 1999; Ferrarini 2003; Nelson 2003; Korpi & Palme 1998; Korpi 2000). In this paper we only apply data for the European countries. Data for Luxembourg, Spain, Portugal and Greece are missing from the SCIP. Since the Southern European countries offer particularly interesting cases in the employment – welfare nexus it were pity if those cases were excluded. Therefore, extra effort was laid down to collect comparable data for Spain, Portugal and Greece. Luxembourg will be

[1] Later we will study more closely how the durations of unemployment spells, generosity (level of income loss compensations, falling compensations after certain period of unemployment, e.g. after 100 days of unemployment, etc.) affect unemployed. What are the incentives and disincentives of national unemployment protection systems and their possible impacts?

excluded from the analyses. In this paper, when calculating welfare system characteristics for the Mediterranean countries we have utilized Social Security Programs throughout the World, the 1995 version. See OECD.

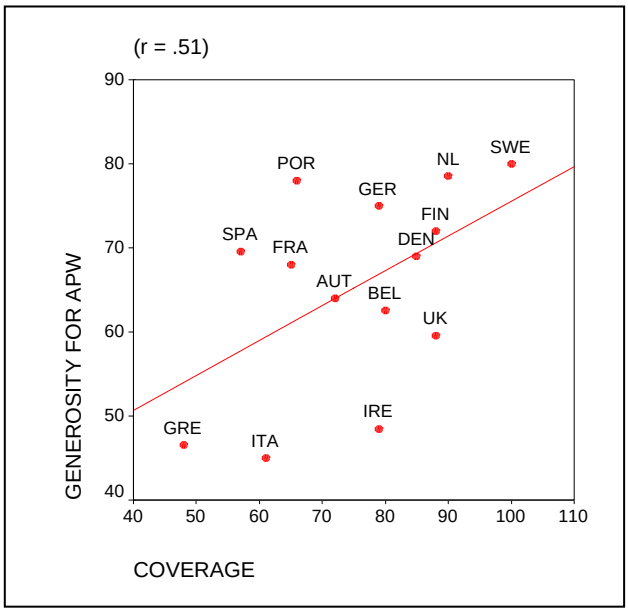
The results on income and poverty presented in this paper are based on the ECHP User Data Base (UDB) containing data from waves 1-8 covering 1994 to 2001 as released for public use by Eurostat. The income measure employed is total annual disposable household income, including transfers and after deduction of income tax and social security contributions, with the household taken as the income recipient unit. We employ the "modified OECD" equivalence scale where the first adult in a household is given the value 1, each additional adult is given a value of 0.5 and each child a value of 0.3. The equivalent income of the household is attributed to each member, assuming a common living standard within the household. While household income is used as the income concept, following standard procedures, the individual is chosen as the unit of analysis. The individual is preferred to the household because the latter is not a stable entity over time since family composition often changes fundamentally over the years for various reasons, such as birth and death, leaving home, divorce or separation and marriage and remarriage. In our analysis of dynamics we use a balanced panel of 'survivors' who remained in the sample from one year to the next and use the 'base weight' as a longitudinal weight for this group as specified by Eurostat. Although the full ECHP UDB data file includes data for fifteen countries the data required for our analysis is available for only thirteen countries. We have chosen to focus on the 60% of median income as the poverty line.

Institutional set ups of unemployment protection systems

Protection against unemployment and other social risks can take a number of different forms and a number of indicators measuring the characteristics of national protection systems have been utilized. The two most frequently used quality indicators in the case of income maintenance programs are coverage and generosity of benefits. The first indicator pertains to the extension of insurance: who are covered under the scheme and who in principle have right to claim compensations in the case of unemployment. Sometimes the dimension is also used as a measure of universality of the scheme. If the total labour force is protected then we can speak of a

universal scheme (coverage = 100%)[2]. Usually, as can be seen in figure 1 coverage (measured as percentage of labour force covered) varies form the low Greek figure to the comprehensive programs in Sweden, the Netherlands, Finland, the U.K. and Denmark.

Figure 1. Coverage (insured/labour force) and generosity (net benefits/net income, %; average income level) in unemployment insurance in 13 EU-countries 1995.



The other dimension represents generosity[3], i.e. the extent the insurance program replaces the lost income. In Figure 1 the benefit is calculated for unemployment of one year (net unemployment benefit for one year is related to the net income for one year at the average income level). Also in this dimension the European variation is substantial. Italy, Greece and Ireland deviate from the rest of the countries with their less generous benefits, while on the other end of the continuum there are Sweden, the Netherlands and Portugal. When it comes to welfare state regimes one could with a hint of sociological imagination discern "a social democratic" group with high coverage and relatively speaking high compensations. The other welfare state regime types are a bit harder to separate.

[2] Coverage is calculated on the basis of social insurance, i.e. assistance based / means-tested schemes are not considered since it is difficult to establish coverage rates in such cases. Here the coverage pertains to the ratio (%) of the insured as a share of total labor force.
[3] Benefits are calculated separately for a single worker and for a couple with two children.

The problem in generosity calculations is that in some countries benefits levels vary substantially depending on the income group the claimant belongs to. For example, in the Danish case, the income loss compensation is in principle 90% of previous income but due to the very low income ceilings for benefit purposes generosity falls rapidly when income increases. If income is about half of the average Danish production worker's wage (APW) the compensation level is close to 100%, while it falls to 80% for the APW and further to 55% for 1.5 times APW. In some other countries the income relatedness is even weaker and in some cases stronger. Despite this country variation, the congruence of different generosity measures is pretty good. Correlation of 0.67*APW to APW is as high as .77** (** indicates significance at the 1% level) and to 1.5*APW .60* (* indicates significance at the 1% level). The coefficient for APW and 1.5*APW is also high (.74**) indicating that there is some degree of one-dimensionality in the generosity measures.

As figure 1 indicates there is a positive link between generosity and universality: those schemes that are generous tend to be more comprehensive than the other programs. However, this association is broken if we instead of average incomes will use low- (a correlation coefficient r = .16) or high-income earners (r = .05) as points of reference, which indicate that the 'systemness' that was visible in income loss compensations is not that clear when it comes to the associations between various dimensions of unemployment insurance. Correlation coefficients between coverage and waiting days and coverage and the length of the benefits period are negligible(r = -.12 and .12, respectively). There is s slight tendency that countries with high compensation have longer benefits periods (r = .36) and shorter waiting days (r = -.34) but the association is anything but strong. Half of the countries (Austria, Belgium, Denmark, Germany, the Netherlands, Portugal, and Spain) do no apply waiting days at all but the benefits are payable from the very first day of unemployment. In the remaining countries the number of waiting days varies between 3 (as in Ireland and the U.K.) and 8 in France.

In most countries the duration of the benefit period is close to two years. The clearest exceptions are Austria (39 weeks) and Italy (26 weeks). However, it is hard to evaluate the factual duration since in many countries the claimant can easily renew his/her benefit period and qualify once again to benefits as e.g. in Sweden after the 60 weeks benefit period is waived it is more or less automatically renewed through a period of sheltered employment.

In sum, national unemployment protection schemes are not homogenous artefacts but where country rankings depend on the indicator we are looking at. Therefore, in the subsequent analyses we do not merge indicators together (as e.g. Esping-Andersen did in his famous index of decommodification) or we do not apply welfare state regimes as an explanatory factor.

Labour market status and poverty risk

The labour market status of individuals is presented in table 1.The status is decided upon the ILO definition of main activity at the time of interview. The picture is mixed with no clear grouping of countries. Denmark has the highest fraction of the population normally working (60%) and also the lowest fraction which is economically inactive (31%) and 3.9% are unemployed. Portugal also has many normally working (58%), but somewhat more economically inactive (36%). High unemployment is found in Spain and Italy (9.9 and 7.4%), who also happens to have lowest probability of normally working (40 and 43%), and almost half of the population economically inactive. Compared to official statistics these unemployment rates generally seem a little low.

Table 1. Labour market status of individuals, 1994-2000

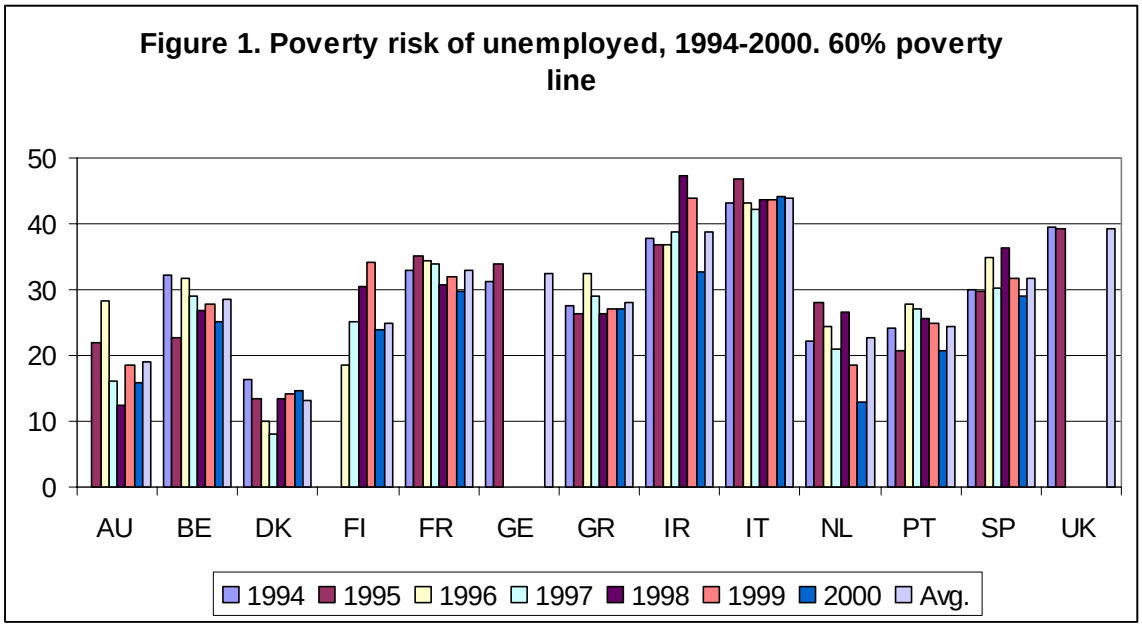
	Normally working	Currently working	Unemployed	Discou-raged worker	Economi-cally inactive	Missing	All	No. Of observa-tions, n
Austria	55.8	2.0	2.2	0.3	39.7	0.1	100	40,315
Belgium	47.6	2.5	3.1	0.7	45.8	0.3	100	40,123
Denmark	60.0	4.3	3.9	0.5	31.4	0.0	100	33,031
Finland	53.2	2.0	6.7	1.0	37.0	0.0	100	36,345
France	48.4	0.7	5.5	0.3	43.0	2.1	100	85,052
Germany	51.5	3.8	4.2	0.3	40.0	0.1	100	27,238
Greece	44.7	0.9	5.2	0.6	48.5	0.0	100	76,329
Ireland	48.3	3.3	5.6	1.3	41.5	0.0	100	49,093
Italy	42.9	1.1	7.4	1.3	47.3	0.0	100	115,759
Netherlands	50.9	8.1	2.7	0.1	38.2	0.0	100	63,533
Portugal	58.0	2.2	3.0	0.5	36.3	0.0	100	80,522
Spain	39.5	1.6	9.9	0.7	48.3	0.0	100	103,815
UK	55.8	3.8	5.6	0.4	34.4	0.0	100	25,843

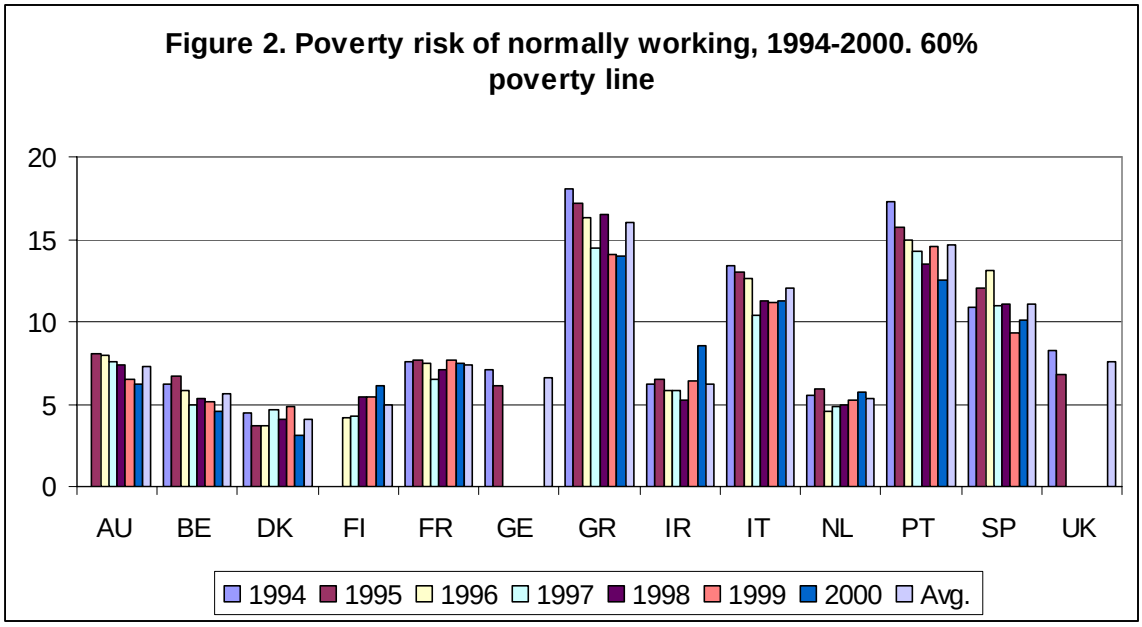
Figure 1 shows the poverty risks of unemployed persons in 1994 to 2001 when applying the 60% of median contemporaneous national poverty line. Unemployed persons' poverty risk varies between an average of 13% in Denmark and 44% in Italy. These averages represent intervals of 8-16% in Denmark and 42-47% in Italy. Unemployed persons' poverty risk in Italy is thus more than three times greater then in Denmark. Austria (19 %) and the Netherlands (23%) also have

comparatively low poverty risks for unemployed persons, but this is also true for Portugal (24%). At the top the UK (39%) and Ireland (39%) follows Italy. All in all, the unemployed persons' poverty risk in these three most affected countries is about double the one in the least affected countries (Denmark, Austria and the Netherlands).

The poverty status of the normally working part of the population is likewise depicted in figure 2. As expected, poverty risk of the working part of the population is much lower than for unemployed. Denmark (average of 4.1%, range 3.1-4.9%) again fares the best, and with Finland (5%) and the Netherlands (5.3%) right behind. At the other end are the Mediterranean countries Greece (average of 16%, range 14-18.1%), Portugal (14.7), Italy (12%), and Spain (11.1). Odds ratio between top and bottom's working population's poverty risk is 4, and 3 when comparing the top and bottom three countries. Thus, the distance between the countries poverty risk is higher than for unemployed persons.

Figure 1. Poverty risk of unemployed, 1994-2000. 60% poverty line





Comparing figure 2 with 1, the poverty rate of unemployed relative to the poverty rate of employed can be calculated. For all the countries this odds ratio is almost 4, which means that the poverty risk of unemployed is almost four times higher than for employed people. But huge differences exist between the EU countries. Ireland has the greatest odds ratio of 6.2 followed by the UK (5.2) and Belgium (5.1). In Portugal and Greece the odds ratios are 1.7 and 1.8, implying a much more equal distribution of poverty in these countries then in Ireland and UK.

Dynamics of labour market status and poverty risk

Over the period from 1994-1999 the change or combination of labour market in two consecutive years *t* and *t*+1 was recorded. The origin year *t* was either 1994, 1996 or 1998, while the destination year *t*+1 was the year after, meaning 1995, 1997 or 1999. The same individual was thus followed from 1994 to 1995, 1996 to 1997, and from 1998 to 1999. As the focus is on unemployment we have primarily focused on the statuses employment and unemployment, while labour market categories currently working, discouraged worker, economically inactive and missing are not analysed much further, but are put together in the group "other" in Table 2. Some 56 % of Danes are fully employed in two consecutive years, and the chances are 54 % in Portugal, 53 % in Austria, and 51 % in the UK. These same countries also had the highest probability of employment in a given year (see Table 1) and this is thus very much reflected in the persistence of employment. Highest risk of staying in unemployment for two consecutive

years exists in Spain (4.6 %), Italy (3.7 %), and Finland (2.8 %), while this risk is less than 1 % in the Netherlands and Austria. A large fraction (31 % in Denmark and 46 % in Belgium) stays in other states from one year to the next, which probably reflects that the economically inactive represents old age pensioners, persons with disability pension, and housewives, all of which often do not change status.

Table 2. Change in labour market status of individuals. 1994-2000 pooled. %-distribution

	Labour market status in year t … :									
	Employed	Employed	Unem-ployed	Unem-ployed	Other	Other	Other	Employed	Unem-ployed	
	… and labour market status in year t+1:									
	Employed	Unem-ployed	Employed	Unem-ployed	Other	Employed	Unem-ployed	Other	Other	
Austria	52.8	0.7	0.9	0.8	38.4	2.3	0.7	2.7	0.6	100
Belgium	45.2	0.7	1.1	1.2	45.5	2.0	1.1	1.9	1.4	100
Denmark	56.0	1.1	1.9	1.3	30.5	3.3	0.9	3.7	1.3	100
Finland	48.1	1.7	2.5	2.8	34.5	3.2	2.1	3.1	2.0	100
France	44.9	1.3	1.7	2.5	41.0	2.7	1.6	2.7	1.6	100
Germany	47.7	1.2	1.6	1.8	40.2	2.6	1.1	2.3	1.5	100
Greece	40.7	1.3	1.7	2.2	44.8	2.6	1.4	3.6	1.7	100
Ireland	43.5	0.9	2.1	2.5	40.1	4.5	1.7	2.7	2.1	100
Italy	39.6	1.1	1.6	3.7	44.9	1.8	2.5	2.4	2.4	100
Netherlands	46.6	0.4	1.1	0.8	41.8	3.6	1.3	2.9	1.5	100
Portugal	54.0	1.0	1.4	1.0	34.3	3.5	1.0	2.9	0.9	100
Spain	33.8	2.0	3.4	4.6	45.0	2.7	3.0	2.4	3.0	100
UK	51.4	1.7	2.0	2.2	33.2	2.8	1.2	4.0	1.5	100

Note: "Other" is other categories than "employed" and "unemployed" mentioned in table 1.

Poverty risk for persons with different labour market transitions can be calculated for either the initial or destination year, here both are presented in Table 3 for individuals moving between employment and unemployment. Employed persons who are also employed the year after has lowest poverty risk in Denmark, Finland and the Netherlands (3.4-4.6 %), and highest in Portugal, Greece, Italy, and Spain (10.3-14.6%) in the origin year *t*, but also in the destination year *t*+1 and with only small changes in risk.

Table 3. Change in labour market status of individuals and poverty rates, 1994-1999 pooled

	Employed in year t and employed in year t+1	Employed in year t and unemployed in year t+1	Unemployed in year t and employed in year t+1	Unemployed in year t And unemployed in year t+1
	Origin year t poverty risk			
Austria	7.4	11.8	18.6	22.6
Belgium	5.0	19.9	21.6	34.9
Denmark	3.4	6.7	10.3	10.1
Finland	4.3	9.3	11.2	24.5
France	6.5	17.9	25.7	35.7
Germany	6.1	16.7	26.8	40.6
Greece	14.5	24.9	26.9	32.8
Ireland	4.9	12.3	29.5	45.2
Italy	10.8	37.5	30.9	49.0
Netherlands	4.6	9.3	23.0	27.2
Portugal	14.6	14.8	21.7	27.5
Spain	10.3	25.8	29.1	37.5
UK	6.9	17.4	31.9	42.2
	7.6	17.3	23.6	33.1
	Destination year t+1 poverty risk			
Austria	6.4	13.9	21.9	17.1
Belgium	5.1	19.6	12.0	28.5
Denmark	3.4	10.6	8.1	8.5
Finland	3.8	20.9	12.3	24.1
France	6.3	25.3	23.3	37.1
Germany	4.7	19.3	15.7	44.7
Greece	14.8	27.0	18.8	30.6
Ireland	5.2	25.6	17.0	44.6
Italy	10.4	42.9	29.2	47.3
Netherlands	4.3	12.9	17.9	25.5
Portugal	14.6	26.5	10.9	25.5
Spain	9.4	29.4	19.9	33.6
UK	5.7	26.4	20.5	49.5
	7.2	23.1	17.5	32.0

The largest poverty risk is associated with staying unemployed in two following years, which may be caused by reduced human capital and scaring effects. In Denmark the risk is 10% in the origin year, and it is 23-27 % in Austria, Finland and in the Netherlands. In Italy, Ireland, the UK and Germany the risk is 41-49 %. Individuals who are unemployed in two consecutive years thus have a poverty that is approximately five times greater compared to individuals who stay employed in two consecutive years. In the next section we will look how this is related to the national social insurance systems.

Getting a job reduces the average poverty risk from 32 % (destination year risk for unemployed in year *t* who are also unemployed in *t*+1) to 18 %. But there are great differences in this reduction between welfare states, thus Denmark only have a reduction from 8.5 to 8.1 %, while the UK, Germany and Ireland has reductions above 27 %-points. Generally, reduction in poverty risk is greater the higher the initial poverty risk.

The stated poverty reductions are much lower if the same persons are followed from the year they are unemployed to the year they are in employment. In that case the poverty risk goes from 24 % in the initial year with unemployment to 18 % in the next year with employment. Likewise, a person who goes from employment to unemployment has an increase in poverty risk from 17 % in the employment-year to 23 % in the unemployment-year.

Comparing individuals staying in employment from one to the next and individuals going from employment to unemployment, we see that their poverty risks are 7 and 23 % in the destination year. In Denmark Austria, and the Netherlands the poverty risk increases with 7-9 %-points (2-3 times higher), while the increase in Spain is 33 %-points and about 20 %-points in the UK and Ireland.

Institutions and poverty

The two empirical sections above presented institutional characteristics and poverty rates, respectively. In this section we try to see to what extent, if any, poverty and poverty transitions due to changes in labour market statuses are related to characteristics of unemployment insurance schemes. Since insurance variables are at national level we also use aggregate country-level poverty rates in the subsequent inspections. Since the number of cases is limited we must also satisfy to use mainly bivariate analyses and scatter-plots to reveal relationships. Needless to say, this inspection only gives indicative support for associations found. We are mainly interested in connections between benefits generosity (measured separately for low-, middle-, and high-income earners), degree of program universality, the qualifying conditions (number of waiting days), and the duration of benefit periods.

All associations (Table 4) go in expected directions: the generosity of benefits is linked to lower level of poverty, waiting days tend to increase poverty rates, whereas the length of benefits period and extension of coverage is negatively associated to poverty rates. These results as such are not that strikingly new or surprising but what is interesting is that the importance of our welfare state indicators varies depending on the characteristics of poverty we are interested in. For the overall poverty levels among the unemployed the crucial factors are income-loss compensations given to low- and middle-income groups. Other indicators are not that strongly associated to the poverty level.

Table 4. Correlations between various poverty measures and indicators of unemployment insurance systems in 13 European countries in the late 1990s.

Unemployment insurance indicator	Poverty among the unemployed	Poverty among those who became unemployed	Poverty among those who unemployed in 2 consecutive years	Difference[4] in poverty rates between employed and:	
				Those who became unemployed	Those who unemployed in 2 consecutive years
Generosity for 0.67*APW	-.64*	-.28	-.61*	.32	.62*
Generosity for APW	-.56*	-.58*	-.52	.57*	.44
Generosity for 1.5*APW	-.34	-.21	-.30	.31	.34
Overall generosity	-.56*	-.39	-.52	.45	.51
Waiting days	.51	.45	.39	-.44	-.33
Duration	-.46	-.46	-.54	.34	.40
Coverage	-.23	-.70**	-.27	.41	-.02

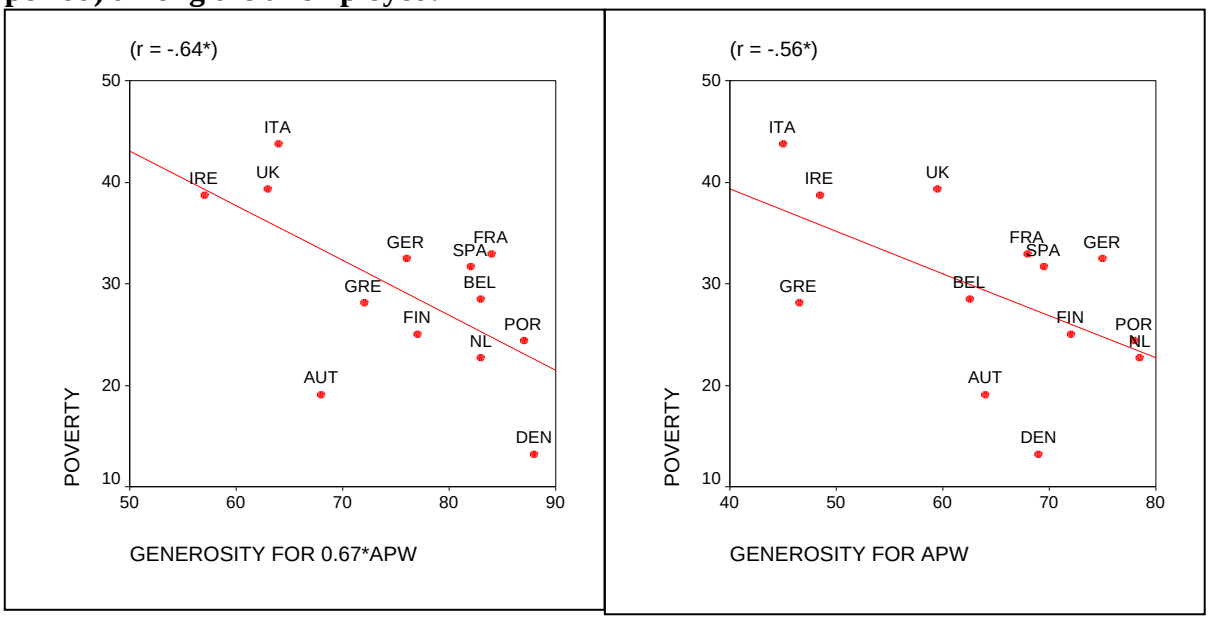
* Significant at the 5% level

** Significant at the 1% level

The numbers in table 4 conceal some interesting country-specific variation that has some bearing for the overall discussion of using hypothetical APW –calculations as an indicator of welfare state quality. The comparison of the right and left-hand side panel in the figure 4 illuminate the point. In the right-hand APW –panel the Danish, Austrian and Greek cases are outliers and display less poverty as expected. But if we look at the replacement levels in the lower end of income ladder (left-hand panel) the discrepancies are party explained by the fact that the Danish unemployment insurance scheme is one of the most generous ones, and the Greek system is relatively speaking more generous for low-income groups than for wealthier strata.

[4] Differences are negative, therefore, the interpretation of correlations must be 'reversed'.

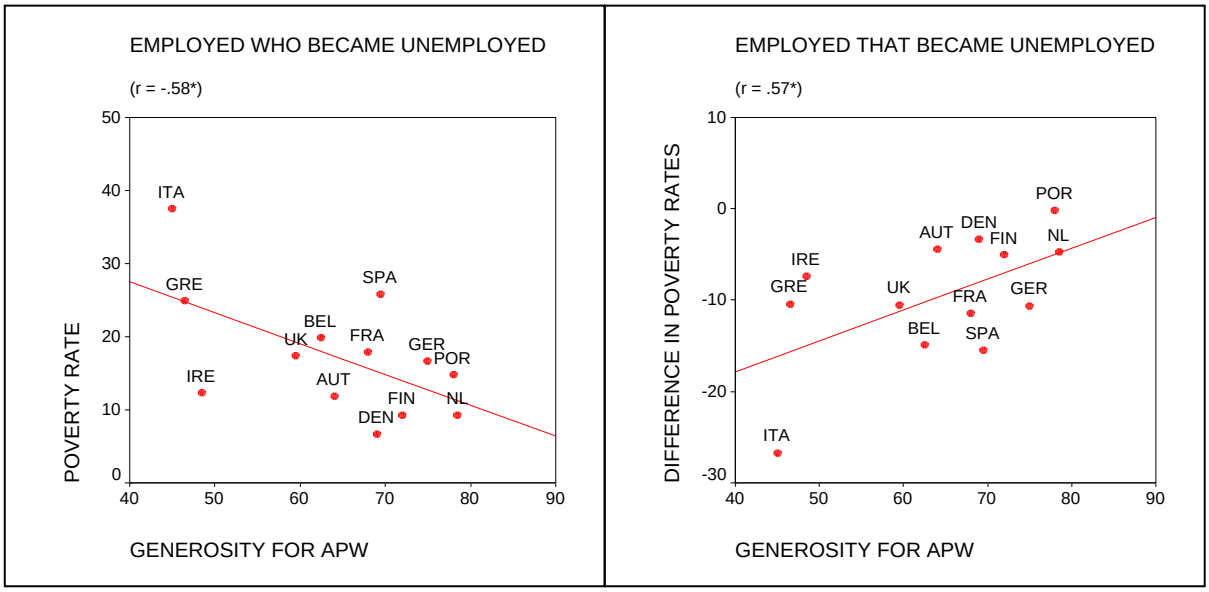
Figure 4. Generosity of unemployment insurance and poverty (%, mean for the whole period) among the unemployed.



The analyses presented in figure 4 were based on the average poverty rates for all unemployed during the whole period of inspection. In order to get a bit more nuanced and perhaps a more dynamic view of the relationships between the unemployment protection system and poverty we can look at those categories of the unemployed that at first were employed (first year situation) but then (second year situation) became unemployed. The more or less given hypothesis here is that under good unemployment insurance system that shift in the labour market status would not yield detrimental effects on the uneployed's economy. Consequently, differences between poverty rates for the regularly employed and for the first-employed-but-then-unemployed group should not be that big. The situation is depicted in figure 5.

As indicated in table 4, generosity for APW is closely linked to poverty changes in the case of employment status changes, therefore, we only plot poverty rates against that indicator to see the national variation hidden behind correlations. As seen in the left-hand panel, poverty rates among the 'newly' poor are lowest in the Netherlands, Denmark and Finland that also are among those countries that guaranteed relatively speaking high income-loss compensations for their unemployed. On the other hand Italy with its stringent insurance system has high levels of income poverty among those who have moved from employment to unemployment.

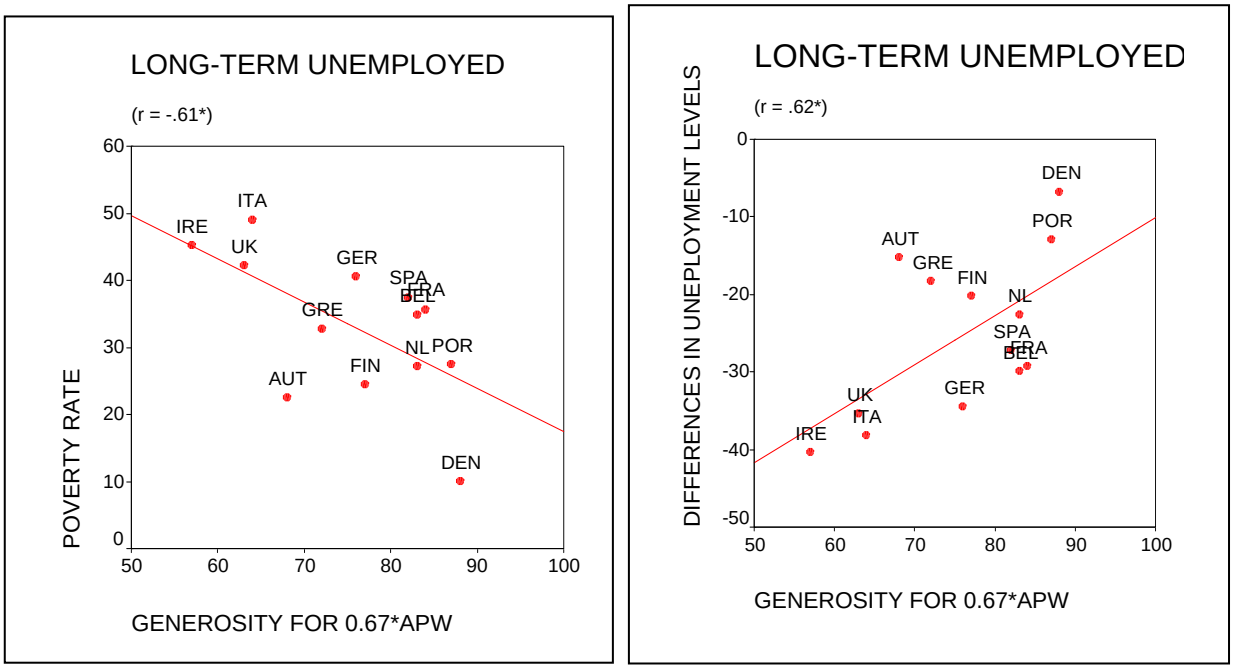
Figure 5. Generosity of unemployment insurance and poverty (%) among those who were employed but became unemployed and difference in poverty rates among the employed and those who became unemployed. Fejl!



The relationship can be approached from another and complementary angle, too. We can look at how substantial are differences in poverty rates between those who had regular employment (employed both in year *t* and *t*+1) and those who at *t* were employed but at *t*+1 were unemployed. The verdict of such an inspection is in concordance with the previous results. Countries with satisfactory generosity levels display small differences in poverty levels between those two labour-market categories. However, results are to some extent sensitive to the extreme Italian case, but the overall results are the same even if we omit Italy: Generosity matters.

On the basis of table 4 we know that association between poverty rates among long-term unemployed and unemployment insurance generosity at the lower income levels is strong, stronger than the association between the general APW compensation level and poverty. Figure 6 sheds some light over this relationship. Again the left-hand side panel contrasts the poverty rates among those who were in two consecutive years unemployed against the generosity measure for the 67% APW income group. As in previous figures, Denmark (and to some extent Austria and Finland) deviates from the other countries by low poverty rates. The more dynamic inspection that concentrates on changes – or more precisely on differences – in poverty rates between employed and long-term unemployed (unemployed in two consecutive years).

Figure 6. Generosity for .67*APW and poverty rate among long-term unemployed and changes in poverty rates (%-units) for the employed and long-term unemployed.



The panels produce almost a mirror picture to each other and fortify the general story, in this particular case on the importance of basic security for the long-term unemployed.

Discussion

The starting point of this article was in theories trying to group countries in welfare state regimes. It was argued that the regime approach involved a number of serious problems if we try to apply regimes as explanatory variables. If the regimes are used to explain differences in empirical findings we may run into problems. The first deficiency is that the regime concept is such a huge tool that we do not know what aspect is at stake and explains the observed phenomena. For example, in our particular case it was difficult to explain differences in poverty outcomes solely by referring to welfare state regimes. Our inspection on the association between poverty, changes in labour market statuses and the unemployment protection systems indicated that different sides of the insurance schemes are important when explaining different aspects of outcomes and such general level indicators as decommodification or a welfare state regime do not add that much. We need more fine-tuned tools and it is a task for future analyses to dig

deeper into the relationships between institutional characteristics of national welfare states and their impacts upon poverty and labour market behaviour.

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