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**CONTRADICTORY FINDINGS?  
THE CONNECTION BETWEEN STRUCTURAL FACTORS,  
INCOME TRANSFERS AND POVERTY IN OECD COUNTRIES**

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**by**

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## **Abstract<sup>1</sup>**

The purpose of the article is to find out what kind of impact different structural factors have on the one hand, poverty and, on the other hand, income transfers. These structural factors have been operationalised as changes in economy, employment and demography. The countries under comparison represent different welfare state models. The analysis shows that when we look at the impact of structural factors on poverty, we find out the difference between demographic variables used: the rate of under 15 years old increases poverty, while the rate of persons 65 years and older decreases it. If the dependent variable - instead of poverty - is income transfers, the result is the opposite. This can be explained by the fact that social policy has primarily been pension policy and this has improved especially the situation of old people. In many countries the development of family policy is just beginning and at present poverty is a threat to quite new society groups such as single parents and families with children.

## **Introduction**

Comparative welfare state research has been flourishing for a couple of decades, but yet the picture it has produced of the very welfare state is not that clear. There have been many contradictory findings and conflicting results. One reason for this is the way the welfare state is defined - in other words the theoretical background, and another reason is, the outcomes that studies seek to measure: social expenditures, social rights, poverty or income equality.

On the basis how these factors have been dealt with, it is possible to divide the earlier comparative welfare state studies into different 'generations' (Esping-Andersen, 1989: 18-20). Studies belonging to the first generation can be divided into two different categories according to what are the crucial

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determinants for the welfare state expansion. Some studies stress the importance of structural changes, whereas the others underline the importance of political factors.

Studies emphasising the relative role of big structural changes are often labelled as a structural functional approach, where the development of the welfare state is seen as a functional - more or less automatic - response to the changes brought about industrialisation. Technological development, urbanisation and industrialisation change the social structure and create new needs and problems. Solutions to these problems are necessary for the smooth functioning of a society. The state takes over the responsibility for organising social security, health services, education and so on. (Wilensky and Lebeaux, 1965: Wilensky, 1975.) The structural functional approach is not a homogeneous school but different variations e.g. the Durkheimian and the Marxist versions can be distinguished (for a close survey, see Gough, 1979: Mishra, 1981).

Despite differences in emphasis all former structural-functionalist approaches share the assumption that political processes are strictly determined by structural constraints: politics hardly matter. However, in some first generation studies, the welfare state is examined from the viewpoint of political factors (see Stephens, 1979: Castles, 1982: Hicks and Swank, 1984: Korpi, 1980: Shalev, 1983: Huber, Ragin and Stephens, 1993). The strength of these studies is that they point out the importance of one necessary precondition of the welfare state: political decision-making. For example, if pension expenditures grow due to the increased number of the aged, this growth is silently accepted by political process. Political explanations have also been criticised. It is said that the political theories tend to subjectify the making of the welfare state and do not give enough credit to economic and other structural factors that make politics possible but also constrain them. (Gough, 1979: Mishra, 1981: Uusitalo, 1984.)

The first generation of comparative studies assumed that the level of social expenditure adequately reflects a state's commitment to welfare. By scoring welfare states on spending, they thought that all spending counts equally. When ranking countries according to their social expenditures levels, an implicit assumption was that higher spending leads to more comprehensive social protection. Countries have been classified as the welfare leaders and laggards. According to critics this ex-

penditure approach suffers from the bigger the better syndrome. (Mitchell, 1991: 168: Korpi, 1980: 197, 220: Shalev, 1983: 324-325: Therborn, 1987.)

Despite the critics, results from the first comparative studies can be considered as pathbreaking (e.g. Wilensky, 1975). Using social expenditures share of GDP as an indicator of welfare state effort can be defended by the fact that this measure was the most easily available - or only available - quantitative indicator of state intervention in the field of income redistribution (Castles and Mitchell, 1991). This welfare effort indicator is proved to be valid when we are comparing countries with a very wide range of socio-economic development.

In the second generation of comparative welfare state studies, the focus has moved from the black box of expenditures towards the contents of the welfare state. These studies have - instead of costs - focused on the instruments and means, that produce welfare. The second generation's studies have produced a number of different welfare state typologies, which have been classified according to the level of benefits, eligibility criteria, whether social policy is universal or residual, gender equality and commitment to full-employment and so on.

Probably one of the most quoted typology of trichotomy is developed by Esping-Andersen (1990). Regimes are considered as ideal types whose 'pure', empirical representatives are hard to find. The new idea in Esping-Andersen's classification was the combination of means to obtain welfare (the degree of 'de-commodification') and the ends achieved. In general there seems to be a gradual shift to examine the results, which the different regimes have produced in terms of poverty rate, social rights and income equality.

In other words, the third generation's welfare state studies have gradually realised that the core of the welfare state is its outcome as poverty and income inequality, not the welfare effort. This approach summarises earlier generation's viewpoints, but the main interest is what kind of results can be received with certain expenditures and means. So these studies offer a more comprehensive picture of the way the welfare state acts.

When comparative welfare state studies are divided in to different generations it helps us to understand that the conflicting findings are in some amount dependent on the choices researcher makes. When we know what has been measured and if the measurement has been valid we are able to analyse more profound these - often contradictory - results (Castles, 1988). Therefore this article's aim is to examine, what are the linkages between welfare effort, welfare instruments and welfare outcomes. However, a few words of warning may be sufficient. Earlier studies have shown that there is no automatical connection between means and ends. To crystallise this Castles (1994) uses the old English adage: 'There are more ways than one to skin a cat!' This means that policy outcomes are almost invariably more similar than they seem, because there are basically different routes to the same goal.

One can argue that the above mentioned theories represent the time of fordist society. At that time it was typical that there were enough resources and that the general welfare also increased as a result of dividing these resources. This Golden Age of the welfare state seems to be over and we live in post-fordist society where increasing needs are combined to meagre resources. Nowadays in the post-fordist society the social expenditures still increase but this growth does not automatically connect to better welfare and lower poverty rates as it did in the fordist society. This can be explained by the fact that the number of needy people is still increasing. Rising long-term unemployment increases the social expenditures, but at the same time it also decreases the tax revenue. Besides the long-term unemployment also the demographic burden will be crucial, when we think about the future of the welfare states.

This article aims to examine how structural changes effect, on the one hand, poverty and, on the other hand, income transfers. These structural changes are operationalised as changes taking place in economy, labour market and demography during the 1980's in some OECD-countries. Structural changes will also cause changes in needs and this is important to remember when we analyse particular country-specific welfare results. The greater the percentage of the aged, of the unemployed, of single parents and of children dependent on any of these categories, the greater the inputs a government needs to make to obtain a high level of post-transfer, post-tax equality (Gilbert and Moon, 1988: 326-340: Castles and Mitchell, 1992: 4).

The effects that economic changes have on social policy have been a contested terrain. Some studies have pointed out that when the economy is booming it is easier to find extra resources which increase social expenditure's share of the GDP (see Cutright, 1965; Wilensky, 1975; Alber, 1982; Garrett and Mitchell, 1995). The other viewpoint is that in recession, social expenditure's share of the GDP will grow automatically regardless of social security cuts. For example Finland's situation in 1990's is a clear indication of this. When unemployment in Finland grew to - and beyond - European levels, the share of public expenditures jumped significantly above the OECD-Europe despite cuts in social security (Andersson et al. 1993: 30-31). The economic problems that have confronted the welfare state are usually identified in terms of the unemployment problem. Welfare state crisis is considered - more or less - as unemployment crisis (Stephens et al. 1997). Therefore it is more than natural to study the effects of unemployment.

Besides economic problems also demographic burden is seen as decisive for the future welfare state. The combination of low fertility and longer life expectancy will engender burdensome dependency ratios. The ageing problem is said to depend mainly on births. It is often feared that female employment will jeopardise fertility, and thus aggravate the ageing crisis. However, the welfare state makes a decisive difference because female employment with fertility is possible if social services and liberal provisions for leave are available. They are in Scandinavia, but not in most of continental Europe. To the extent that women's economic independence is a defining element of post-industrial society, the contemporary family needs the welfare state in order to harmonise work and family objectives; but also the welfare state needs children for the sake of its own future. (Esping-Andersen, 1996.) The demographic burden is possible to divide into two parts: aged population puts pressure on pension policy, and children and women make demands on family policy. This pressure is in the subsequent analyses measured as the proportion of elderly (those who are 65 years and over) and the proportion of children (those who are below 15 years).

## Data and Compared Countries

Availability of new datasets has improved in many ways the practice of comparative cross-national welfare state research. One of the new datasets is the Luxembourg Income Study (LIS) -database (see Atkinson et al. 1995: Smeeding et al. 1990: Mitchell, 1991.) Poverty rates used here are derived from LIS-data and the poverty is determined by using the relative income method. This measure counts as poor those whose net income is below 50 percent of the median income. In this article, income levels of household having different structures and sizes have been made comparable by dividing income by the OECD equivalence value of the household. However, the individual is the research unit of this study. Data on social security transfers is from OECD Historical Statistics. Also the other structural variables are from OECD publications.

The countries compared in this article have been selected to represent different welfare state models which have traditionally been classified on bases like what is the relative role of family, state and market as a producer of the welfare (Titmuss, 1974: Esping-Andersen, 1990). In this article Korpi's and Palme's (1997) division of welfare state models is used. Since that typology deviates from the 'traditional' Esping-Andersian typology a few words of explanation are needed.

The first welfare state model examined is the 'basic security model' in which the eligibility of social benefits is based either on contributions or on citizenship - meaning in this connection the residence time in particular country. The coverage of the benefits is universal and benefits are also flat rate meaning that, they are given to everybody at the same rate regardless of citizen's earnings and work career. For the better-off citizens it is possible to raise the level of benefits through voluntary insurances. The basic security welfare states are included UK, Canada and USA.

Korpi's and Palme's second welfare state model is the 'targeted' one. Targeted programs are based on means-testing giving flat rate or relatively similar benefits to the needy below the poverty line. A representative of the targeted model is Australia, in which targeting has come to be focused on excluding top-income earners rather than on including only the poor. Targeted model can be said to follow the Robin Hood strategy of taking from the rich and giving to the poor. The better-off citizens have furthermore a possibility to ensure their living standard with private insurances. As a conse-

quence of targeting it is logical to suppose that the social security expenditures stay modest - comparing to the other welfare state models.

In the next 'corporatist' model the programs are directed to the economically active part of the population, i. e. this model excludes housewives and other categories outside the labour force as well as high-income earners. Corporatist model can be said to be based on the deserving-principle, taking part in paid work, a citizen gradually deserves his own social benefits and rights. From active labour force only those whose earnings are below certain income ceiling are eligible for benefits. Benefits are earnings-related. Institutions providing corporatist income security have typically been governed by bi- or tri-partite boards with representation from employers, employees and the state. Eligibility criteria for benefits are firmly connected to work; the longer the citizen has participated in the labour market, the better benefits he is going to get. In this model social insurance programs can be seen as segmented; different occupation groups get different kinds of social security. However wealthy citizens can improve their social security with private solutions. The end corporatist model can be simply said to follow the Matthew Principle of giving more to those who already have high incomes. In the corporatist model is included France, Germany and the Netherlands.

Last but not least is the 'encompassing' welfare state model. Characteristic of this model is the universal coverage and also the high level of the benefits. The target group of the social policy is not only the poor but also middle class and high income earners. Besides the basic security this model gives earnings-related benefits to the economically active part of the population. The purpose of this is to decrease the demand for private insurance and to encompass all citizens and bring them together within the same social insurance institutions. The encompassing model has however its own weaknesses and the main one is the expensive costs. To act properly this model needs a high taxation and high social security payments. This all is possible only via high employment. Based on early research it can be argued that in countries belonging to encompassing model, income inequality is small and poverty rates are also low (Uusitalo, 1988: Mitchell, 1991: Atkinson et al. 1995). Sweden and Finland are here representatives of the encompassing model.

## **Poverty**

The development of poverty is examined in table 1. From that table we notice that in the early 1980's poverty was most common in the USA and in Canada which both represent the basic security model. Also Australia had a comparatively high poverty rate and this indicates that the targeted model's principle - helping only the most needy - did not in practice work. The lowest poverty rates were found in two corporatist countries i.e. in Germany and in the Netherlands. At the beginning of the 1980's the encompassing countries did not place so well. For example, in Finland the poverty was as big problem as in the UK.

**Table 1. Poverty rates in 1980-1990, %**

	Poverty (50 % md) in 1980, %	Poverty (50 % md) in 1990, %	Change, %-units
<b>Basic security</b>			
Canada	11.3	10.6	-0.7
UK	6.7	12.7	+6.0
USA	15.2	17.2	+2.0
<b>Mean</b>	<b>11.1</b>	<b>13.5</b>	<b>+7.3</b>
<b>Targeted</b>			
Australia	9.3	9.6	+0.3
<b>Corporatist</b>			
France	8.1	13.0	+4.9
Germany	4.5	8.1	+3.6
Netherlands	4.0	4.7	+0.7
<b>Mean</b>	<b>5.5</b>	<b>8.6</b>	<b>+3.1</b>
<b>Encompassing</b>			
Finland <sup>2</sup>	6.7	4.1	-2.6
Sweden	4.7	5.2	+0.5
<b>Mean</b>	<b>5.7</b>	<b>4.7</b>	<b>-2.1</b>
<b>All countries:</b>			
$\bar{x}$	7.8	9.5	+1.6
s	3.7	4.4	2.8
CV	0.5	0.5	1.7

source: LIS

As a common trend it can be said that poverty normally increased during the time period studied - despite of the welfare state model. The strongest increase occurred in the UK, but also in France and in Germany poor citizen's share of population increased more than was the average of the poverty rate. In the UK and in France increased poverty is connected to the heavy rise in the unemployment. It is interesting to notice that in the USA, where development of employment was dur-

<sup>2</sup> In the case of early 1980's results are based on national Household Budget Survey.

ing the researched time period better than in Europe, poverty - despite that - increased. One explanation for this is that the rate of single mothers has increased and also the lowest wages have gone even lower. Many full-time employees have fallen below the poverty line and as a consequence of this all, working poor form a new class of American society. (see Wilson, 1994: 49-65.) Increase of poverty was modest in Australia, which in this context has a better position than for example the corporatist countries. One reason for this is that unemployment increased in Australia least of all compared countries. Poverty decreased during the researched time period only in two compared countries namely in Canada and in Finland. On the basis of table 1 one indeed can state that in the countries classified into same welfare state model the development of poverty is not necessarily parallel. Instead of slavishly analysing the welfare state models, from the viewpoint of the research results, it would be more fruitful, to examine features which are characteristic of the individual countries.

## **Social security transfers**

How are the changes in poverty rate connected to the development of social security transfers? From table 2 we find out that social security transfers increased most in two encompassing countries namely in Sweden and in Finland. Also in Canada which belongs to the basic security welfare state model, income transfers share of the GDP rose more than the average. For Canada it can be explained, that the social expenditures increased due to the improving of the pension policy, but at the same time poverty also diminished.

**Table 2. Social security transfers of GDP (%) in 1980-1990**

	Social security transfers of GDP (%) in 1980	Social security transfers of GDP (%) in 1990	Change, %-units
<b>Basic Security</b>			
Canada	10.2	14.7	+4.5
UK	11.4	12.9	+1.5
USA	10.4	12.3	+1.9
<b>Mean</b>	<b>10.7</b>	<b>13.3</b>	<b>+2.6</b>
<b>Targeted</b>			
Australia	9.0	8.8	-0.2
<b>Corporatist</b>			
France	22.7	21.1	-1.6
Germany	17.4	15.7	-1.7
Netherlands	28.8	26.0	-2.8
<b>Mean</b>	<b>23.0</b>	<b>20.9</b>	<b>-2.0</b>
<b>Encompassing</b>			
Finland	11.7	24.3	+12.6
Sweden	18.7	23.4	+4.7
<b>Mean</b>	<b>15.2</b>	<b>23.9</b>	<b>+8.7</b>
<b>All countries:</b>			
$\bar{x}$	15.6	17.7	+2.1
s	6.8	6.1	4.8
CV	0.4	0.4	2.3

source: OECD Historical Statistics 1983; 1995a

If we compare tables 1 and 2 we notice that the situation was advantageous to Canada and Finland. In both countries increasing expenditures also decreased poverty. The Swedish experience was the reverse one: in Sweden the increasing transfers did not lead to decrease of poverty. Same kind of situation was also in the USA and in the UK, where poverty increased rapidly with the increase of the transfers. In Australia, France, Germany and in the Netherlands social security transfers share of the GDP decreased, but also poverty increased. On the basis of tables 1 and 2

one can state that the compared countries are not placed according to the division required by the welfare state model.

**Table 3. Social security scheme's effects on poverty in the early 1980's**

	Poverty rate (50 % md) before transfers	Poverty rate (50 % md) after transfers	Absolute reduction, %-units	Reduction coefficient %*
<b>Basic Security</b>				
Canada 81	21.5	11.3	10.2	47.0
UK 79	24.8	6.7	18.1	73.0
USA 79	24.1	15.2	8.9	37.0
<b>Mean</b>	<b>23.5</b>	<b>11.1</b>	<b>12.4</b>	<b>52.0</b>
<b>Targeted</b>				
Australia 81	21.2	9.3	11.9	56.0
<b>Corporatist</b>				
France 79	30.7	8.1	22.6	74.0
Germany 81	22.5	4.5	18.0	80.0
Netherlands 83	27.3	4.0	23.3	85.0
<b>Mean</b>	<b>26.8</b>	<b>5.5</b>	<b>21.3</b>	<b>80.0</b>
<b>Encompassing</b>				
Finland 81	22.1	6.7	15.4	70.0
Sweden 81	27.4	4.7	22.7	83.0
<b>Mean</b>	<b>24.8</b>	<b>5.7</b>	<b>19.1</b>	<b>77.0</b>
<b>All countries:</b>				
$\bar{x}$	24.6	7.8	16.8	67.0
s	3.2	3.7	5.5	16.8
CV	0.1	0.5	0.3	0.3

source: OECD Historical Statistics 1983; 1995a

\*poverty rate before transfers - poverty rate after transfers / poverty rate before transfers \* 100

Next we can examine the efficiency of the social security scheme in 1980-1990. From table 3 we find out that in the beginning 1980's the transfer schemes worked most efficient in the Netherlands,

where income transfers removed 85 % of the poverty that existed before income transfers. Also in Sweden and in Germany income transfers played an important role. In the USA income transfers had the least impact, and also in Canada and Australia they played a minor role. Table 3 shows that the effectiveness of the income transfers scheme varied also inside different welfare state models and that the effect of the individual models remained trivial in this relation.

From table 4 we see that in the beginning of 1990's income transfers scheme was most efficient in two encompassing countries i.e. in Sweden and in Finland. In both countries income transfers removed 85 % of the factor income poverty. The subject of the examination being welfare state models, we noticed that the importance of the income transfers was minor in the countries of basic security and of targeted welfare state models. If instead we examine the situation of the individual countries inside different welfare state models, some interesting exceptions also can be found in table 4. For example, in the USA the income transfers scheme operated much more ineffectively than in the Canada and in the UK which belong to the same welfare state model. The situation was opposite in the Netherlands in which the income transfers scheme operated considerably more effectively compared to France's and Germany's system. Also on the basis of table 4 one can be said that in the countries belonging into same welfare state model the development is not necessarily similar.

The individual countries do not settle in the table 4 in the way required by the welfare state models. On the basis of this table one can however state, that in the beginning of 1990's there was a clear connection between social security transfers and poverty; in countries where social security transfers played important role also post-transfers poverty stayed low, and vice versa.

**Table 4. Social security scheme's effects on poverty in the early 1990's**

	Poverty rate (50 % md) before transfers	Poverty rate (50 % md) after transfers	Absolute reduction, %	Reduction coefficient, %
<b>Basic Security</b>				
Canada 91	26.2	10.6	15.6	60.0
UK 91	32.0	12.7	19.3	60.0
USA 91	28.0	17.2	10.8	39.0
<b>Mean</b>	<b>28.7</b>	<b>13.5</b>	<b>15.2</b>	<b>53.0</b>
<b>Targeted</b>				
Australia 89	23.8	9.6	14.2	60.0
<b>Corporatist</b>				
France 89	37.1	13.0	24.1	65.0
Germany 89	27.2	8.1	19.1	70.0
Netherlands 91	28.6	4.7	23.9	84.0
<b>Mean</b>	<b>31.0</b>	<b>8.6</b>	<b>22.4</b>	<b>73.0</b>
<b>Encompassing</b>				
Finland 91	26.9	4.1	22.8	85.0
Sweden 92	34.9	5.2	29.7	85.0
<b>Mean</b>	<b>30.9</b>	<b>4.7</b>	<b>26.3</b>	<b>85.0</b>
<b>All countries:</b>				
$\bar{x}$	29.4	9.5	19.9	68.0
s	4.4	4.4	5.8	15.3
CV	0.2	0.5	0.3	0.2

source: LIS

However, the effect of social security scheme on poverty is not that straightforward if we separate e.g. aged for the analysis. In the table 5 is described the same situation in the case of aged population. From that table we notice some countries in which the pre-transfer poverty seems to be surprisingly high. As a common denominator in those countries - Finland, Sweden and the Netherlands - can be found the very generous pension replacement rates. They have partly led to the situation where many future pensioners do not save for old age precisely because they can anticipate ade-

quate public pensions. For the same reason, their pre-transfer income stays extremely low because they do not work during old age.

**Table 5. Social security scheme's effects on poverty in the case of over 65 years old in the early 1990's**

	Poverty rate (50 % md) before transfers	Poverty rate (50 % md) after transfers	Absolute reduction, %-units	Reduction coefficient, %
<b>Basic Security</b>				
Canada 91	67.1	2.6	64.5	96.0
UK 91	77.2	17.3	59.9	78.0
USA 91	66.9	16.1	50.8	76.0
<b>Mean</b>	<b>70.4</b>	<b>12.0</b>	<b>58.4</b>	<b>83.0</b>
<b>Targeted</b>				
Australia 89	70.9	7.3	63.6	90.0
<b>Corporatist</b>				
France 89	85.4	8.4	77.0	90.0
Germany 89	84.1	5.5	78.6	93.0
Netherlands 91	90.7	2.5	88.2	97.0
<b>Mean</b>	<b>86.7</b>	<b>5.5</b>	<b>81.3</b>	<b>93.0</b>
<b>Encompassing</b>				
Finland 91	93.1	4.2	88.9	96.0
Sweden 92	88.8	2.1	86.7	98.0
<b>Mean</b>	<b>91.0</b>	<b>3.2</b>	<b>87.8</b>	<b>97.0</b>
<b>All countries:</b>				
$\bar{x}$	80.5	7.3	73.1	90.4
s	10.2	5.7	13.9	8.2
CV	0.1	0.8	0.2	0.1

source: LIS

Table 5 indicates distinctly the pitfalls of using reduction coefficient as the only reliable indicator of redistributive effects of welfare state.

## Economical and demographical factors

From poverty and social security transfers we move to examine the development of some economical and demographical factors. First, we analyse the development of unemployment. When we study individual countries we notice that during the 1980's unemployment has risen rapidly in the UK (+ 3.8 %-units) and in France (+3.6 %-units), whereas in Australia (+0.4 %-units) and in the USA (+0.8 %-units) the growth has been much more modest (OECD 1994). This can be explained by the fact that especially in the USA there are less regulated and therefore more flexible labour markets. The wide service sector has employed low-wage workers and the costs of this have been a deterioration in economic position of these less skilled workers. (Blank, 1995: 1-21: Esping-Andersen, 1996.) This is also obvious when examining the poverty rate in the USA. Despite the good development of unemployment the poverty rate was highest among the OECD-countries and it even increased during the 1980's. From compared countries unemployment decreased only in the Netherlands (-5.0 %-units) which succeeded in bringing down mass-unemployment. As one decisive tool the Netherlands used the active labour market policy. As a conclusion one can state that from every welfare state model it can be distinguished countries of lower and of higher unemployment. On the basis of this it cannot be assumed that unemployment would be only the trouble of an individual welfare state model.

From the development of unemployment it is easy to move to examine the other economical changes. During the 1980's, economy grew most rapidly in Australia (3.5 %), but also in Canada (2.5 %), in France (2.4 %) and in the Netherlands (2.7 %) the real annual GDP growth was more than the average (2.3 %). Results based on this study indicate that using social security transfers as an indicator of the welfare effort is very sensitive to the changes occurred in GDP. A good example of this is the situation in Finland in 1991: GDP decreased - compared to previous year - 7 %-units and at the same time also GDP-share of social security transfers increased rapidly. Furthermore, correlation analysis shows that changes which occurred in GDP in 1980-1990 are statistically significantly ( $r = -.89^{***}$ ) connected to the decreasing of the social security transfers share of GDP.

In demographic structure two changes typical for the western societies have taken place also as regards compared countries: elderly people's share of the population has increased, while children's share has decreased. 65 years and older share of population increased during the 1980's in all other compared countries except in France. The growth was most rapid in Canada (+1.9 %-units), but also in Finland (+1.5 %-units) the share of old people increased rapidly (OECD, 1995a).

The development of children's share of population was opposite to the development of elderly's share. Below 15 years old's share of population decreased in all compared countries. The decrease was most rapid in Australia (-2.9 %-units), but also in Germany (-2.6 %-units) decrease was notable (OECD 1995a). At the beginning of 1990's children's share of population was smallest in Germany, where the one child -norm has also been predominant. This has also led to European lowest birth rates. Decreasing of children's population share is in Germany and in Australia connected to increasing of female labour force participation (OECD, 1995b).

## **Main results of analysis**

Analyses presented above were based on bivariate inspection of relationships between two variables. While being illuminative, the relations found in bivariate analysis may be spurious ones i. e. they are caused by other factors. In order to check to what extent the bivariate correlations will change we employ a multivariate approach and control for the effects of additional variables.

One of the main problem in comparative welfare state research is that there are just few comparable cases available (e.g. OECD-countries). This usually leads to situation, where there are more variables than cases. As a methodological solution to this problem so-called pooled regression analysis is used, where data from different cross-sections is combined to one big dataset. As a consequence of this the number of cases increases, allowing us to conduct multivariate analyses not possible in single cross-section data. That is why we pool our cross-sections. (see Hicks, 1994: 169-188; Pampel and Williamson, 1989.)

**Table 6. Path analysis with pooled data (T-values within parenthesis)**

	Social security transfers (direct effect)	Poverty rate (direct effect)	Poverty rate (indirect effect)
-15 population	-.17 (-.68)	.35 (1.52)	.10 (.67)
+65 population	.41 (1.48)	.21 (.80)	-.23 (-1.32)
GDP per capita	-.06 (-.32)	.08 (-.51)	.03 (.32)
unemployment rate	.38* (1.92)	.31 (1.59)	-.21 (-1.60)
social security transfers of GDP (%)		-.55** (-2.89)	
R <sup>2</sup>	.31	.44	
Errorvar.	.69	.56	

N=27

\*p&lt;0.05 \*\*p&lt;0.01

Testvalues are based on chi-square test. Each parameter is fixed to 0 at once a time, and the asterisks indicate the change in the parameter (see Schumacker & Lomax 1996: 44).

In table 6 the connection between structural factors, income transfers and poverty is displayed. The coefficients are obtained from path analysis (see Loehlin 1987: de Vaus, 1991: 225-230). First, we can examine the effect of demographic variables on income transfers. Results indicate that children's share of population is connected to decreasing social security transfers. In the case of older population, results are just the opposite. This can be explained by the fact that social policy has in many countries primarily been pension policy and the lionshare of transfers are usually directed to the old people. As a consequence of this, the elderly are considered as citizens enjoying well-being. Compared to pension policy, family policy has stayed modest (see Palme, 1990: Wennemo, 1994.) These findings indicate - not that surprisingly - that the greater the share of aged in the

population, the greater also are social security transfers. However, these demographic factors turned out not to be statistically significant independent variables.

In the case of the unemployment rate, it seems to increase social security transfers share of GDP. This is easily explained by the fact that mass unemployment demands also more from social security. This result turned out to be also statistically significant.

Next, we examine how these same demographic variables affect poverty. From table 6 we see that demographic pressures - the share of the young and the old and unemployment - increase poverty. When we move from direct to indirect effects we notice that the share of 65 years and older connects to decreasing of poverty, while children's share is further connected to increasing poverty. This is explainable by the fact that good pension schemes diminish the immediate poverty risk of the aged. As an interaction of pensions and income transfers, well-being of elderly increase and consequently also the overall poverty rate will be reduced. In many countries the development of family policy is just beginning and now poverty is a threat to such groups as single parents and families with children. Nowadays the poverty risk of families with many children is greater than poverty risk of the aged household. (see O'Higgins, 1988: Forssén, 1998.)

One explanation for the low level of family benefits compared to pensions is that pensions are in most countries index-bound, whereas family policy benefits are not. Therefore pensions follow automatically general income development, whereas the improvement of family allowances is dependent on political decision-making which allows savings without making any political decisions. This is a convenient way of reducing public spending during harsh times. (Wennemo, 1994.)

Table 6 indicates that income transfers are strongly - also statistically significantly - connected to the decreasing of poverty. The variable, which describes the development of economy did not prove to be very significant on the basis of the analysis. Changes of GDP caused decreases in social security transfers GDP-share, but it's effect on poverty was the opposite. The obtained results show that poverty even increased despite the rapid GDP growth. The best example of this is Australia and the Netherlands in which poverty increased in spite of relatively good economic develop-

ment. This indicates that the so called trickle down theory hardly gets - in this connection - any support. Theory argues that the most effective way to improve the circumstances of the poor is through economic growth which raises income overall. Rising tide does not necessarily lift all boats to an equal extent. In a time of relatively high economic growth, the gap between rich and poor has even widened. (see e.g. Danziger and Gottschalk, 1986: 1992: Saunders, 1994: 146.) In practice this means that income inequality increases; rich ones become richer and poor ones poorer. When it comes to unemployment, the path-coefficient shows that unemployment is connected to increasing of income transfers, whereas the effect on poverty is not that straightforward. Directly impacts of unemployment seem to increase poverty, but the indirect effect finally decreases poverty. Unemployment's indirect effect on poverty is not so efficient as is being in the 65 years and older share of population. It is obvious that in the future unemployment will be the more important determinant of poverty.

Table 6 also crystallises why the different generations of welfare state studies result in so divergent results. If we examine social expenditures - which is a typical approach for the first generation's studies - structural factors (unemployment, demographic factors) seem to have the connections presented in Wilensky's (1975) study. When instead of expenditures we examine the welfare outcomes (poverty) - which is in the core of the third generation's studies - then the connection is not that clear. For example, unemployment has, on the one hand, direct effect on poverty and, on the other hand, it increases social expenditures, which relieve poverty and the overall effect has been mixed. Thus, one explanation for the contradictory findings is that the studies belonging to the different generations of welfare state studies have examined different phases of the process illustrated in figure 6.

## **Conclusion**

The purpose of the article was twofold. First, we examined welfare states from the viewpoint of the so called third generation studies. According to third generation's research criteria - means, costs, outcomes and their interaction should be in focus. Our results show that in Finland the growth of

income transfers acts as a counterbalance to reduction of poverty. The situation was not so favourable to UK, USA and Sweden, where growth of income transfers was connected to the increase poverty. Decline of income transfers led in every country to the increase poverty. As a common trend it can be said that during the 1980's poverty increased despite the development of income transfers. The only deviations from this general pattern were Finland and Canada.

Another aim of the article was to examine what is the effect of different structural factors, on the one hand, on poverty and, on the other hand, on income transfers. Obtained results indicated that demographic variables play an important role in the development of poverty and income transfers. In the case of poverty the share of aged seems to be connected to reduction of poverty whereas the proportional share of the young (0-15 years old) increases the poverty rate. When it comes to income transfers, results are just the opposite. This can be explain by the fact that social policy in many countries has primarily been pension policy, and investments in the aged bear fruit. Compared to other society groups - single mothers or families with many children - the elderly can be considered as quite well-off citizens. In the future the aged will be in a more decisive role when it comes to sharing of the common good.

Besides the demographic factors, an analysis also contained information from the effects of GDP changes and unemployment. It seems to be that the relative importance of GDP growth is somewhat negligible. Somewhat surprisingly the GDP growth seems, on the one hand, to decrease income transfers, but on the other hand, to increase poverty. However, these results were not significant. One reason for these results may be that the incidence of poverty is more a function of income transfers system than the economic growth per se. The growth of economy does not improve the livelihood of citizens as such but it depends on those division mechanisms with which the 'general good' is divided. In that case the effectiveness of income transfers scheme will rise to a central position.

When it comes to unemployment, obtained results showed that the unemployment rate is connected to the growth of income transfers, but it's effect on poverty is not so straightforward. Directly unemployment seems to increase poverty, but controlling for the indirect effect, it slightly reduces it.

Unemployment is also in a crucial position when we think about the welfare state's future. Apart from the national level, unemployment also has some ill-effects on international level. The rate of the working-poor is going to increase and also the growth of long-term unemployment will narrow the differences between welfare state models. This means that poverty and inequality will become a much more common problem - also in Scandinavian welfare states. Much will also depend on how the unemployment crisis can be solved. There are several ways to deal with these high unemployment rates. Some of them have a real effect on reduction of unemployment (e.g. active labour market policy). However, there are also ways that do not alleviate the basic problem, but just change its nature. An example of this is when the unemployed receives, instead of unemployment benefits - as a consequence of early retirement - pension or disability pay. Unemployment rates will be better, but the basic problem does not disappear. This action may even increase the transfers burden.

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