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## Generations and the Distribution of Well-Being and Poverty: Cross National Evidence for Europe, Scandinavia and the Colonies

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# Luxembourg Income Study Working Paper Series

Working Paper No. 24

**Generations and the Distribution of Well-Being and  
Poverty: Cross National Evidence for Europe,  
Scandinavia and the Colonies**

Timothy Smeeding

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"Generations and the Distribution of Well-Being  
and Poverty: Cross National Evidence  
for Europe, Scandinavia and the Colonies"

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## I. INTRODUCTION

Concern with the relative distribution of income (or of economic well-being, more generally) and with the relative position of various generational groups (elderly, children) in the income size distribution has for some time occupied empirically oriented economists and policy analysts (e.g. Atkinson, 1975; Radner, 1985; O'Higgins, et. al., 1988). Social scientists in each country conduct studies to describe the low income population, to assess their well-being, and to evaluate the effectiveness of policies designed to improve their situation (Johannson, 1973; Townsend, 1979; Atkinson, 1985; Harrington, 1963; Roome, 1987).

As researchers in various nations have begun to be interested in these issues, limited international comparisons using microdata for two or three countries have emerged (see, for example, Smolensky, Pommerehne and Dalrymple, 1979; Ruggles and O'Higgins, 1981 and O'Higgins and Ruggles, 1980; Rainwater, Rein, Schwartz, 1987). Most recently, the rapidly evolving technology of computerized data banks has provided an opportunity to assemble a multi-national database which provides a common foundation upon which teams of social scientists can build truly long-term, comparative international research programs. The Luxembourg Income Study (LIS) database upon which this paper is based is the first such effort.

The purpose of this paper is to use the LIS database to illustrate cross national patterns of relative income position for the old, the young, and families in between at the turn of the decade and the implications of these positions for policy in a world of rapidly aging populations. The next section of the paper briefly describes LIS and the terms upon which we chose to measure poverty and well-being. In Section III, patterns of relative

income positions for various groups including those in poverty, near poverty, middle class and those who are (relatively) well-to-do are shown for eight countries individually and in three country groupings: Europe (Germany, Netherlands, UK), Scandinavia (Norway, Sweden), and the "colonies" (Australia, Canada, USA). In the fourth section of the paper we draw on these patterns and related evidence to confront the issue of the effect of demographic change (population aging) on the welfare state. Policy and budgetary implications of population aging for poverty among children and the elderly over the next decade are discussed. The results indicate that policy changes engendered by budgetary pressures should be careful to avoid the most vulnerable groups among the old and the young: children in single parent families and very elderly people (largely females) living alone.

## II. LUXEMBOURG INCOME STUDY (LIS) AND CHOICES OF RESEARCH PERSPECTIVE

The Luxembourg Income Study (LIS) project has gathered sophisticated microdata sets which contain comprehensive measures of income and economic well-being for a set of modern industrialized welfare states. The database which emerged from this project consists of country income microdata sets prepared to a common plan, based on common definitions of income sources (including several sources of taxes and transfers) and family and household characteristics. The LIS databank currently covers ten countries--Australia, Canada, Israel, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States, and West Germany--with data for 1979, 1981, 1982, or 1983. The basic procedure used to prepare the datasets is contained in Smeeding et al. (1985), while the basic description of the dataset can be found in the "LIS Information Guide" (Coder, et. al., 1988). Table 1

contains an overview of these datasets: country, dataset name and size, income year, data sampling frame, and representativeness of the population.

(TABLE 1 HERE)

For purposes of this paper, we have decided to limit our numerical analyses to eight of the ten countries, excluding Israel and Switzerland, two small countries with sufficiently different economic, political, and social situations to limit the insights which they might provide to the topic at hand.

Choice of Perspective. We intend to use LIS to illustrate three related topics:

1. average incomes of various population groups or categories relative to average national income.
2. cross national poverty rates for the elderly, for children, and for various familial groups, and
3. relative position of these key demographic groups within the income distribution.

To begin this analysis, however, we need to specify the basic elements which go into any cross-sectional analysis of inequality and poverty: the unit of analysis, period to be studied, and measure of income. Only the period to be studied is given by the data: 1979-1983. Because of our reliance on relative measure of income, we are somewhat less concerned with the exogenous effect of differences in years across our datasets on the results of these analyses than we otherwise might be.<sup>1</sup> The unit of aggregation chosen here is the family--all persons living together and related by blood, marriage, or adoption. Within LIS, all countries have data on the conventional family (as defined above) with little variation except that unmarried persons living together and sharing resources, e.g.

TABLE 1  
An Overview of LIS Datasets

| Country     | Dataset Name, Income Year<br>(and Size <sup>1</sup> )          | Population<br>Coverage <sup>2</sup> | Basis of<br>Household<br>Sampling<br>Frame <sup>3</sup>    |
|-------------|--|-------------------------------------|--|
| Australia   | Income and Housing Survey<br>1981-82 (17,000)                  | 97.5 <sup>4</sup>                   | Dicennial<br>Census  |
| Canada      | <u>Survey of Consumer Finances,</u><br>1981 (37,900)           | 97.5 <sup>4</sup>                   | Dicennial<br>Census  |
| Germany     | <u>Transfer Survey, 1981</u> <sup>2</sup><br>(2,800)           | 91.5 <sup>7</sup>                   | Electoral Register<br>and Census                           |
| Israel      | <u>Family Expenditure Survey,</u><br>1979 (2,300)              | 89.0 <sup>5</sup>                   | Electoral<br>Register                                      |
| Netherlands | <u>Survey of Income &amp; Program<br/>Users, 1983 (4,833)</u>  | 99.2                                | Address Register<br>of the Postal &<br>Telephone Companies |
| Norway      | <u>Norwegian Tax Files,</u><br>1979 (10,400)                   | 98.5 <sup>4</sup>                   | Tax<br>Records   |
| Sweden      | <u>Swedish Income Distribution<br/>Survey, 1981 (9,600)</u>    | 98.0 <sup>4</sup>                   | Population<br>Register                                     |
| Switzerland | <u>Income and Wealth Survey,</u><br>1982 (7,036)               | 95.5 <sup>9</sup>                   | Electoral Register<br>& Central Register<br>for Foreigners |
| U.K.        | <u>Family Expenditure Survey,</u> <sup>2</sup><br>1979 (6,800) | 96.5 <sup>6</sup>                   | Electoral<br>Register                                      |
| U.S.A.      | <u>Current Population Survey,</u><br>1979 (65,000)             | 97.5 <sup>4</sup>                   | Dicennial<br>Census  |

<sup>1</sup> Dataset size is the number of actual household units surveyed.

<sup>2</sup> The U.K. and German surveys collect subannual income data which is normalized to annual income levels.

<sup>3</sup> As a percent of total national population.

<sup>4</sup> Excludes institutionalized and homeless populations. Also some far northern rural residents (Inuits, eskimos, lapps, etc.) may be undersampled.

<sup>5</sup> Excludes rural population (those living in places of 2,000 or less), institutionalized, homeless, people in kibbutzim, and guest workers.

<sup>6</sup> Excludes those not on the electoral register, the homeless, and the institutionalized.

<sup>7</sup> Excludes foreign-born heads of households, the institutionalized, and the homeless.

<sup>8</sup> Sampling frame indicates the overall base from which the relevant household population sample was drawn. Actual sample may be drawn on a stratified probability basis, e.g., by area or age.

<sup>9</sup> Excludes nonresident foreigners but includes foreign residents and the institutionalized.

unmarried couples, are treated as a family unit in Netherlands, Norway, and Sweden.<sup>2</sup>

In this paper we have selected disposable family income adjusted by an adult equivalence scale or "adjusted income" as our measure of economic well-being. Disposable income includes all forms of cash and near cash income<sup>3</sup> including earnings, realized capital income, and government transfers, net of income and payroll taxes. This is the most commonly accepted measure of net ability to consume goods and services, but it does not fully account for well-being because it does not take into account exogenous differences in needs due to family size. Adjusted disposable income, the measure of well-being used in this paper, makes allowance for the differential needs of different size families by using the median value of the equivalence scale implicit in the poverty lines of seven of the eight countries studied to adjust disposable income for family size.<sup>4</sup> This adjustment is made by dividing the income of a given size unit by the relative number of equivalent adults normalized to a family of size three. Hence, a childless couple's income is divided by .80 a couple with one child (or a single parent with two children) has its disposable income divided by 1.0, and a family of four by 1.17, five by 1.32, etc. Finally, families are weighted by the number of persons per family (i.e. using person, not unit weights), the theoretically preferred system because all individuals count equally in their welfare ranking (Danziger and Taussig, 1979).

Poverty. The most sensitive policy concern when dealing with the well-being of dependent groups, e.g. elderly and children, is their degree of deprivation or poverty status. In order to investigate comparative levels of poverty, we must specify a poverty line. Definitions of poverty or low



income vary a lot across countries, and we have not undertaken a systematic survey of the exact levels of various poverty lines. For the detailed analysis which follows we will define poverty lines as equal to one half of the median adjusted income (or well-being) measure. This is a commonly accepted definition of poverty (or low income) and imposes no one country's selected level of poverty on any other one (Bronfenbrenner, 1972; Buhmann, et. al., 1988). Poverty rates are presented for persons in various types of families to be consistent with the chosen person-based weighting scheme.

Relative Economic Status. In addition to poverty, we are interested in the relative economic status of families with children, elderly families and other types of units across the eight LIS countries. Ranking all types of families by the adjusted income concept to find the median family we have divided the population according to the cumulative percent of persons living in families below or above given fractions of median income in each country. In addition to poverty, we have selected three income groupings, all defined relative to overall median income, and have constructed tables which present estimates for several categories of persons: elderly, children, and all persons in various other types of families. As is explained more fully below, these categories were chosen because of widespread policy concern over the economic status of generationally different dependent groups in society, i.e. children (and families with children, especially single mothers) and the elderly (particularly single elderly persons living alone) (Palmer, Smeeding, Torrey, 1988).

The three additional income groupings (besides poverty) are:

1. "near poverty" (adjusted incomes between .5 and .625 times median income),

2. "middle class" (adjusted incomes between .626 and 1.5 times median income),
3. "well-to-do" (adjusted incomes above 1.5 times median income).

We chose "near poverty" to highlight economically insecure groups of elderly and/or children who while not poor were very close to poverty status. Research on the economically insecure elderly in the United States and elsewhere has shown this group to be both quantitatively large and heavily dependent on social retirement income (Smeeding and Torrey, 1987; Smeeding, 1988). To the extent that the budgetary pressures of an aging society might lead a government to cut back on the real level of social retirement benefits, e.g. by not indexing them to prices or by outright benefit reductions, large numbers of near poor units which depend heavily on these types of income might therefore be pushed into poverty.

The categories of middle class and well-to-do are designed to show where the population groups who are not poor, or at risk of becoming poor, are situated in the income spectrum. These groups are also important to the budgetary realities of an aging society because budgetary demands on public entitlements may require either increased taxes or benefit reductions. To the extent that a particular family type, including children and the elderly, are relatively well-to-do, benefit reductions and/or increased taxation to support those least well off might be justified on these grounds.

Country Groupings. The final type of categorization we attempt is to group the countries into three categories: Europe (Germany, Netherlands, UK), Scandinavia (Norway, Sweden) and the Colonies (Australia, Canada, and USA). The first grouping is driven mainly by the impetus of this paper,

i.e. differences in poverty and well-being for children and elderly among European countries. While we recognize that the British social welfare tradition is distinctly different from that of Germany and the Netherlands, these are the only three European countries currently in LIS.<sup>5</sup> None of the "southern" or poorer European countries (Spain, Portugal, Greece, Ireland), nor other regionally economically diverse nations (France, Italy) are in our sample.

The other two country groups fall together more consistently. The Scandinavian countries have similar highly developed welfare states, while the colonies are all geographically large, ethnically and economically heterogeneous, with relatively underdeveloped welfare states.

Other research (Buhmann, et. al., 1988, Table 5) indicates that these country groupings fall neatly into categories with respect to overall measures of relative inequality, with the Scandinavians having the least inequality, followed by the Europeans and finally by the colonies. While some measures of overall income inequality have the Netherlands close to the colonies (mainly due to the recession of 1983), these rankings are robust across various indicators of inequality. The judgement as to whether or not these groupings make analytical sense for our purposes awaits the results of these analyses to which we now turn.

### III. RESULTS

We now turn to the results of this foray, treating each illustration in order and discussing the results. First we compare ratios of average adjusted incomes to the national mean to indicate the relative position of families with children, elderly families, and nonaged families without

children in Table 2. These comparisons serve as a backdrop to the more detailed analyses of the comparative economic well-being of the elderly, children and various other demographic groups in Tables 3, 4, and 5.

Income by Group in Relation to the National Mean Income. The first question we attempt to answer is how well off are the aged and children relative to the average family in society or relative to other "social policy sensitive" types of families? Table 2 compares adjusted disposable

(TABLE 2 HERE)

income of the aged household (a family with head age 65 or over) and nonaged families with children to nonaged families without children (couples and single persons) during the 1979-83 period in the eight countries examined.

Comparing the first and last column across the bottom row, the aged as a group appear to have slightly lower incomes than nonaged households with children but still have 90 percent of the adjusted national mean income. The countries that have relatively high average elderly incomes are also the countries that tend to have high labor force participation rates with the exception of the Netherlands (Smeeding and Torrey, 1987, and appendix Table A-3). The three countries with low average income, Australia, Germany, and the United Kingdom also have fairly low labor force participation rates. However, Netherlands, Norway, and Sweden also have low participation rates, but a higher than average relative income for people age 65 and over, suggesting that their pensions (or retirement income package) are relatively more generous.

In the United States, Germany, and Netherlands we find the elderly with higher incomes on average than younger families with children. In Canada they are equal. In all countries, but the U.K., the elderly have higher

TABLE 2

Ratio of Adjusted Disposable Income to National Mean<sup>1</sup>  
for Persons Living in Various Types of Families in Eight Countries

|                      | Nonaged Families<br>With Children |                                       |   | Elderly Families <sup>3</sup> |                    |                       |
|----------------------|-----------------------------------|---------------------------------------|---|-------------------------------|--------------------|-----------------------|
|                      | All <sup>2</sup>                  | Single<br>Parent<br>Only <sup>5</sup> | Nonaged<br>Families<br>Without<br>Children <sup>6</sup> | 65-74<br>Years                | 75 Yrs<br>and over | All<br>65 and<br>over |
| Australia            | 0.90                              | 0.59                                  | 1.30  | 0.88                          | 0.80               | 0.85                  |
| Canada               | 0.91                              | 0.63                                  | 1.22  | 0.98                          | 0.79               | 0.91                  |
| United States        | 0.90                              | 0.55                                  | 1.24  | 1.00                          | 0.82               | 0.94                  |
| Norway               | 0.99                              | 0.90                                  | 1.15  | 1.01                          | 0.79               | 0.91                  |
| Sweden               | 1.01                              | 0.85                                  | 1.05  | 0.99                          | 0.77               | 0.90                  |
| Germany              | 0.85                              | 0.86                                  | 1.36  | 0.90                          | 0.82               | 0.87                  |
| Netherlands          | 0.87                              | 0.76                                  | 1.23  | 1.14                          | 1.00               | 1.09                  |
| United Kingdom       | 0.94                              | 0.76                                  | 1.28  | 0.75                          | 0.65               | 0.72                  |
| Average <sup>4</sup> | 0.92                              | 0.74                                  | 1.23  | 0.83                          | 0.80               | 0.90                  |

<sup>1</sup> Disposable income is post-tax and transfer income. The adjustment of disposable income for family size is done by dividing actual disposable income by the equivalence scale discussed in the text. The national mean adjusted disposable income equals 1.00. The data are weighted by persons in each type of unit.

<sup>2</sup> Families with children are families with head's age less than 64 containing at least one child less than 18 years of age.

<sup>3</sup> Elderly families are those headed by a person age 65 or over.

<sup>4</sup> Average is the simple mean of each column.

<sup>5</sup> Single parent families are those with head age 0-64, one parent (males or female) only in the family unit, and at least one child less than 18 years of age.

<sup>6</sup> Nonaged Families Without Children are those with head aged 0-64 and no children in the family. They are mainly younger couples and single persons, and include adults living together as married in Netherlands, Norway, and Sweden.

adjusted average incomes than do single parent families with children. However, within the elderly, the oldest old (families age 75 and over) are less well off than single parents in Norway, Sweden, Germany, and the United Kingdom. The elderly as a group also have lower average incomes than nonaged families without children, most of whom are single persons or couples with both adults employed. The differences across these groups vary greatly by country.

Among the elderly, incomes of family heads age 75 and over are, on average, 16 percent lower than the income of the 65 to 74 age group. The adjusted incomes of these oldest-old are about 80 percent of the national average except for U.S. (.82), Netherlands (1.00) and the U.K. (.65).

Our three suggested groupings of countries: the colonies (Australia, Canada, U.S.), Scandinavia (Norway, Sweden) and Europe (Germany, Netherlands, U.K.) show some similarities within and contrasts between. For instance, single parents are least well off, with all families with children and all elderly within 5 percentage points of each other in the colonies. The Scandinavian countries show the most inter-category equality (least variance) across the several categories. Not surprisingly, the most variance within country groupings is apparent among the Europeans. The Netherlands have relatively well-to-do elderly families. The British elderly are by far the worst off of all countries studied, while Germany childless families are far and away the best off of all groups in all countries (perhaps due to the booming German economy of 1981).

As a demographic group, we conclude that the "elderly" are not as badly off as is popularly perceived. Only in the U.K. do the elderly seem drastically disadvantaged relative to families with children and childless

families. In the U.S. and in Netherlands, the elderly are on average better off than all families with children. However, the very aged are worse off than the younger aged in every country studied. In closing, we need to remember that averages are but one income picture; the variance in incomes and economic status within the elderly and children is yet to be explored.

Relative Poverty and Income Position of the Old and the Young. The next two tables present detailed group analyses of the relative economic positions of the old (Table 3) and the young (Table 4). They are presented separately so that we can look within each group before we compare them to each other and to childless, nonelderly units. Moreover, several categories of each are shown to highlight the fact that the "elderly" and "children" may be very highly heterogeneous groups depending on age, living arrangements, marital patterns and the like. We will analyze each one in turn.

Elderly. The elderly are a highly diverse and varied group. Because of interest in early retirement and because of the widely differing economic situation of single elderly persons age 75 and over, largely widows living alone, in contrast to younger, newly retired couples, we show six categories of older adults: those couples and individuals living alone who are near elderly (oldest member age 55-64), elderly (oldest member 65-74), and very elderly (oldest member 75 and over). We also show all elderly (oldest member 65+) in the final column, over three-quarters of single very elderly persons living alone (second last column of Table 3) are elderly women in all LIS countries. The small minority of elderly in other living arrangements, e.g. those living with their children or with younger relatives are not shown separately here.

(TABLE 3 HERE)

Poverty among the elderly and near elderly is very heterogeneous across countries and groups of countries, but some trends do manifest themselves. In general, poverty among the elderly is very "age-driven" in that the oldest among them tend to be the poorest, and single persons poorer than couples in every group. The levels of poverty in the colonies tend to be above average, especially for single elderly persons, while those in Scandinavia are everywhere below average. The European countries again show the most diversity, with the U.K. generally having the highest poverty rates among all countries (including the colonies), and the Netherlands having very low Scandinavian-level poverty rates. The Germans are quite distinct, somewhere between the other groups. Other research (Smeeding and Torrey, 1987) has shown this heterogeneous pattern to be a complex interaction of labor market status and availability of early retirement benefits for the near elderly; mixes of occupational pensions, public pensions and assets for the middle range (65-74) elderly, and levels of public pensions especially among the very old. For instance, among the Scandinavians and U.K. very elderly at the turn of the decade, levels of social retirement pensions were most important in determining poverty status: the Scandinavians were simply more generous, owing largely to their higher standard of living, than were the British. While distribution of elderly and near elderly within groups are not shown in this table, previous LIS based research (Smeeding and Torrey, 1987) indicates that whatever the level of aged poverty, over half of all aged poor in every LIS country are single elderly women age 75 and over living alone. Among the poor elderly this pattern is very consistent across the countries studied here.



TABLE 3

Relative Economic Position of Elderly and Near Elderly<sup>1</sup>

|                                    | Near Elderly (Age 55-64)      |   | Elderly (Age 65 and over) |      |                             |      |                                    |
|------------------------------------|-------------------------------|---|---------------------------|------|-----------------------------|------|------------------------------------|
|                                    | Couples <sup>6</sup><br>55-64 | Single<br>Persons <sup>2</sup><br>55-64 | Couples <sup>6</sup>      |      | Single Persons <sup>7</sup> |      | All<br>Persons <sup>9</sup><br>65+ |
|                                    |                               |   | 65-74                     | 75+  | 65-74                       | 75+  |                                    |
| <b>A. Poor<sup>2</sup></b>         |                               |   |                           |      |                             |      |                                    |
| Australia                          | 5.5                           | 27.6                                    | 6.8                       | 3.5  | 30.1                        | 35.4 | 14.9                               |
| Canada                             | 7.9                           | 27.8                                    | 11.3                      | 8.6  | 32.0                        | 40.1 | 18.5                               |
| United States                      | 9.6                           | 36.2                                    | 14.0                      | 21.6 | 39.6                        | 43.4 | 24.6                               |
| Norway                             | 2.2                           | 7.3                                     | 2.1                       | 4.8  | 4.9                         | 11.3 | 5.5                                |
| Sweden                             | 3.7                           | 3.7                                     | 0.6                       | 0.0  | 0.9                         | 1.3  | 1.1                                |
| Germany                            | 5.0                           | 7.9                                     | 8.7                       | 11.0 | 12.9                        | 22.4 | 11.8                               |
| Netherlands                        | 8.1                           | 3.4                                     | 2.3                       | 3.9  | 2.0                         | 7.1  | 3.4                                |
| United Kingdom                     | 4.0                           | 29.4                                    | 24.0                      | 32.3 | 51.5                        | 59.7 | 34.7                               |
| Average <sup>8</sup>               | 5.8                           | 17.9                                    | 8.7                       | 10.7 | 21.7                        | 27.6 | 14.3                               |
| <b>B. Near Poor<sup>3</sup></b>    |                               |   |                           |      |                             |      |                                    |
| Australia                          | 6.7                           | 24.0                                    | 25.1                      | 33.4 | 41.0                        | 39.9 | 30.3                               |
| Canada                             | 5.7                           | 11.9                                    | 12.7                      | 27.5 | 24.9                        | 28.9 | 18.6                               |
| United States                      | 3.7                           | 7.7                                     | 8.9                       | 12.7 | 15.0                        | 19.1 | 11.5                               |
| Norway                             | 2.5                           | 10.6                                    | 11.9                      | 21.1 | 31.7                        | 47.2 | 24.7                               |
| Sweden                             | 3.0                           | 4.5                                     | 3.5                       | 6.7  | 7.4                         | 30.4 | 10.4                               |
| Germany                            | 3.2                           | 16.4                                    | 9.1                       | 16.5 | 16.7                        | 17.2 | 13.6                               |
| Netherlands                        | 4.5                           | 0.7                                     | 4.5                       | 3.7  | 1.2                         | 0.7  | 3.2                                |
| United Kingdom                     | 5.2                           | 12.6                                    | 19.2                      | 22.5 | 26.4                        | 30.0 | 21.7                               |
| Average <sup>8</sup>               | 4.3                           | 11.1                                    | 11.9                      | 18.0 | 20.5                        | 26.7 | 16.8                               |
| <b>C. Middle Class<sup>4</sup></b> |                               |   |                           |      |                             |      |                                    |
| Australia                          | 47.0                          | 34.0                                    | 53.2                      | 50.7 | 23.4                        | 21.5 | 43.1                               |
| Canada                             | 53.0                          | 44.0                                    | 57.7                      | 54.7 | 31.3                        | 24.9 | 48.6                               |
| United States                      | 46.0                          | 38.0                                    | 55.7                      | 52.5 | 36.6                        | 31.2 | 47.9                               |
| Norway                             | 68.2                          | 63.1                                    | 69.2                      | 69.2 | 56.2                        | 38.8 | 60.1                               |
| Sweden                             | 68.1                          | 86.1                                    | 89.8                      | 91.8 | 90.3                        | 67.9 | 85.2                               |
| Germany                            | 66.4                          | 67.9                                    | 60.7                      | 53.3 | 65.5                        | 52.5 | 59.6                               |
| Netherlands                        | 56.4                          | 59.5                                    | 70.1                      | 70.8 | 78.4                        | 77.3 | 71.5                               |
| United Kingdom                     | 58.0                          | 46.3                                    | 47.3                      | 39.7 | 19.9                        | 8.4  | 36.8                               |
| Average <sup>8</sup>               | 57.9                          | 54.9                                    | 63.0                      | 60.3 | 50.2                        | 40.3 | 56.6                               |

|                                  | Near Elderly (Age 55-64)      |   | Elderly (Age 65 and over) |      |                             |      | All<br>Persons <sup>9</sup> |
|----------------------------------|-------------------------------|---|---------------------------|------|-----------------------------|------|-----------------------------|
|                                  | Couples <sup>6</sup><br>55-64 | Single<br>Persons <sup>7</sup><br>55-64 | Couples <sup>6</sup>      |      | Single Persons <sup>7</sup> |      |                             |
|                                  |                               |   | 65-74                     | 75+  | 65-74                       | 75+  |                             |
| <u>D. Well to Do<sup>5</sup></u> |                               |   |                           |      |                             |      |                             |
| Australia                        | 40.8                          | 14.4                                    | 14.8                      | 12.3 | 5.4                         | 3.2  | 11.8                        |
| Canada                           | 33.3                          | 16.4                                    | 18.3                      | 9.1  | 11.8                        | 6.1  | 14.2                        |
| United States                    | 40.8                          | 18.1                                    | 21.4                      | 13.2 | 8.8                         | 6.2  | 15.9                        |
| Norway                           | 27.0                          | 10.9                                    | 16.8                      | 4.9  | 7.2                         | 2.7  | 9.7                         |
| Sweden                           | 26.2                          | 5.7                                     | 6.0                       | 1.5  | 1.4                         | 0.4  | 3.3                         |
| Germany                          | 25.4                          | 7.8                                     | 21.5                      | 19.1 | 4.8                         | 7.8  | 15.0                        |
| Netherlands                      | 31.0                          | 36.4                                    | 22.9                      | 21.5 | 18.4                        | 14.9 | 21.9                        |
| United Kingdom                   | 32.8                          | 11.7                                    | 9.5                       | 5.5  | 2.2                         | 1.8  | 6.9                         |
| Average <sup>8</sup>             | 32.0                          | 15.2                                    | 16.4                      | 10.9 | 7.5                         | 5.4  | 12.3                        |

<sup>1</sup> Table ranks percent of persons living in families by adjusted income and by age of head or spouse, whichever is older.

<sup>2</sup> Poor are persons in families with adjusted incomes below .5 median adjusted income.

<sup>3</sup> Near Poor are persons in families with adjusted incomes between .5 and .625 median adjusted income.

<sup>4</sup> Middle Class are persons in families with adjusted incomes between .626 and 1.5 times median adjusted income.

<sup>5</sup> Well to Do are persons in families with adjusted incomes above 1.5 times the median.

<sup>6</sup> Couples include all adults in married couple families whether or not children are present. In Norway, Sweden, and Netherlands this includes unmarried couples living together as married.

<sup>7</sup> Single adults living alone.

<sup>8</sup> Average is the simple mean of each column.

<sup>9</sup> All aged are all persons living in households with at least one person age 65 and over. Near elderly (age 55-64) are excluded.

Most striking in this table is the level of elder near poverty in almost all countries (save the Netherlands). Clearly social transfer policy must address itself to the needs of the poorest elderly dependents. But on average there are as many near-poor elderly, 16.8 percent, (living between .5 and .625 median income, or between 100 and 125 percent of the poverty line) than there are poor elderly, 14.3 percent, (living below .5 median income). In some countries, e.g. Sweden, Norway, and Germany, number of near poor are very large relative to the poor. Well over half of all single elderly persons (ages 65-74 and 75+ in the colonies were poor or near poor as compared to the Netherlands (below 10 percent generally), Sweden (below 20 percent), Germany and Norway (30-40 percent). In the U.K. nearly 90 percent of single very elderly persons living alone were below 125 percent of the median.

It appears that most country social security benefits may have ignored the increased longevity of elderly women at older ages (see Table A-3). With single person poverty rates averaging 27.6 percent, near poverty rates at 26.7 percent, and with at least half of the average incomes of 75 year olds coming from social insurance and in excess of 75 percent Sweden, Norway and Germany, countries should be more aware of the effect of social retirement benefits, particularly widow and survivor pensions in the level of poverty and near poverty among the elderly.

One of the most surprising findings in this paper is the emergence of a relatively large elderly middle class, with the exception of the Netherlands, a much smaller elderly upper class. Again couples tend to do better than single persons and younger elderly better than the oldest. The British and Dutch are clearly the outliers with the lowest and highest

fractions of middle to upper income elderly, respectively. Nonetheless to be old is not necessarily to be poor in most modern countries.

In summary, the European group shows the most heterogeneity of all the elderly groups studied, with the Netherlands and U.K. the two most contrasting countries of all those shown here. For most countries the near poor are as numerous as the poor, particularly among single elderly living alone. The main policy lesson we draw from these patterns is that the solutions to elder poverty problems, and the possible effects of reduced benefits to the elderly, are liable to be very country specific. Because there does not appear to be a "European" pattern to poverty and near poverty among the elderly, one would be hard put to recommend a European solution to the aging problem. Unless these patterns have changed drastically since 1980, harmonization of European retirement systems in 1992 may prove to be a daunting task indeed.

Children. Among children (Table 4), poverty patterns are more clear and homogeneous. We split children into three major groups: those living in single female parent families<sup>6</sup>; those living with two parents (couples) as an only child, and those living in families with two parents and at least one sibling. Unless a child lives in a single female parent situation,

(TABLE 4 HERE)

their chance of poverty or near poverty status seem relatively low. Large couple families have higher risk of poverty than do families with one child. But poverty among two parent families (couples) with children only reaches double digit levels in larger families and then only in the colonies. In general, poverty rates tend to cluster by group with the colonies the highest, Scandinavians lowest, and Europeans in the middle.

TABLE 4

Relative Economic Position of Children<sup>1</sup>

|                                    | <u>All Children<sup>2</sup></u> | <u>Female Parent<sup>3</sup><br/>With Children</u> | <u>Couple<sup>4</sup></u> |                    |
|------------------------------------|---------------------------------|--|---------------------------|--------------------|
|                                    |                                 |  | <u>1 Child</u>            | <u>2+ Children</u> |
| <u>A. Poor<sup>5</sup></u>         |                                 |  |                           |                    |
| Australia                          | 15.4                            | 61.8   | 6.9                       | 10.9               |
| Canada                             | 15.2                            | 50.8   | 5.7                       | 12.1               |
| United States                      | 21.4                            | 58.7   | 6.1                       | 13.1               |
| Norway                             | 5.0                             | 8.8  | 2.0                       | 2.0                |
| Sweden                             | 5.2                             | 10.2   | 2.5                       | 4.7                |
| Germany                            | 2.8                             | 7.4  | 1.1                       | 1.4                |
| Netherlands                        | 8.0                             | 24.1   | 3.2                       | 4.1                |
| United Kingdom                     | 9.3                             | 31.9   | 2.5                       | 8.2                |
| Average                            | 10.3                            | 31.7   | 3.8                       | 7.1                |
| <u>B. Near Poor<sup>6</sup></u>    |                                 |  |                           |                    |
| Australia                          | 8.6                             | 18.2   | 4.6                       | 9.6                |
| Canada                             | 9.1                             | 12.9   | 5.7                       | 9.3                |
| United States                      | 9.0                             | 13.1   | 6.3                       | 9.2                |
| Norway                             | 5.8                             | 10.5   | 2.0                       | 2.1                |
| Sweden                             | 4.6                             | 10.1   | 3.7                       | 3.6                |
| Germany                            | 8.5                             | 6.0  | 3.7                       | 10.7               |
| Netherlands                        | 10.5                            | 25.7   | 4.7                       | 10.9               |
| United Kingdom                     | 9.7                             | 16.3   | 5.8                       | 10.5               |
| Average                            | 8.2                             | 14.1   | 4.6                       | 8.2                |
| <u>C. Middle Class<sup>7</sup></u> |                                 |  |                           |                    |
| Australia                          | 64.4                            | 26.2   | 66.7                      | 71.2               |
| Canada                             | 64.4                            | 35.1   | 68.7                      | 69.4               |
| United States                      | 57.1                            | 26.9   | 63.8                      | 66.0               |
| Norway                             | 79.7                            | 73.4   | 76.4                      | 88.2               |
| Sweden                             | 83.3                            | 78.5   | 78.6                      | 85.6               |
| Germany                            | 78.2                            | 73.6   | 83.7                      | 79.0               |
| Netherlands                        | 68.8                            | 42.3   | 74.2                      | 74.4               |
| United Kingdom                     | 69.9                            | 45.1   | 75.5                      | 73.7               |
| Average                            | 70.7                            | 50.1   | 73.5                      | 75.9               |

|                                   | <u>All Children</u> <sup>2</sup> | <u>Female Parent</u> <sup>3</sup><br><u>With Children</u> | <u>Couple</u> <sup>4</sup> |                    |
|-----------------------------------|----------------------------------|---|----------------------------|--------------------|
|                                   |                                  |   | <u>1 Child</u>             | <u>2+ Children</u> |
| <u>D. Well to Do</u> <sup>8</sup> |                                  |   |                            |                    |
| Australia                         | 11.6                             | 1.8   | 21.9                       | 8.4                |
| Canada                            | 11.3                             | 1.2   | 19.9                       | 9.2                |
| United States                     | 12.6                             | 1.3   | 23.9                       | 11.7               |
| Norway                            | 9.6                              | 7.3   | 19.6                       | 7.7                |
| Sweden                            | 7.0                              | 1.2   | 15.2                       | 6.1                |
| Germany                           | 10.6                             | 13.0  | 11.5                       | 9.0                |
| Netherlands                       | 12.0                             | 7.9   | 17.9                       | 10.6               |
| United Kingdom                    | 11.1                             | 6.7   | 16.3                       | 7.5                |
| Average                           | 10.7                             | 5.1   | 18.7                       | 8.8                |

- <sup>1</sup> Table ranks percent of children (under age 18) by adjusted family income and type of family in which they reside.
- <sup>2</sup> All children include those in all types of families, including those living with grandparents, relatives, foster parents, and other types not shown in the other three columns.
- <sup>3</sup> Female parent includes children living in families with one female adult under age 55 and no other adults in the household.
- <sup>4</sup> Couples include married couple households with both spouses present and unmarried couples living together as married in Sweden, Norway and Netherlands.
- <sup>5</sup> Poor are persons in families with adjusted incomes below .5 median adjusted income.
- <sup>6</sup> Near Poor are persons in families with adjusted incomes between .5 and .625 median adjusted income.
- <sup>7</sup> Middle Class are persons in families with adjusted incomes between .626 and 1.5 times median adjusted income.
- <sup>8</sup> Well to Do are persons in families with adjusted incomes above 1.5 times the median.
- <sup>9</sup> Average is the simple mean of each column.

While child poverty in single parent families is everywhere much higher than couple families, less than 10 percent of all children lived in these families in the year of the survey, except for the U.S. and Sweden. To the extent that children in single parent families have increased over the past eight years in the countries studied, as suggested by a recent OECD report, larger numbers are at risk. But even if the relative numbers have not changed, one must be careful to separate the economic status of single parent children from that of children in other living arrangements.

Excluding single parents, near poverty rates among children tend again to be as high as do poverty rates for children, but both at much lower absolute level than among the elderly. The combined percent of poor and near poor children in two parent families is twenty percent or below. Children in single female parent units are again the outlier, with patterns of relative deprivation which are much more like single elderly persons living alone than like other children. As could be expected given the low levels of relative poverty for most children in two parent units, the majority of children live in middle income families. Two parent families with one child tend to have a several times greater probability of being well-to-do than poor. The odds of being well-to-do are about equal to those of being poor for children in larger family units.

Young and Old, Childless and Childful. We bring our two dependent groups together in Table 5 to more fully contrast their economic situation

(TABLE 5 HERE)

with that of persons in other types of living arrangements, single persons and childless couples.<sup>7</sup> Risk of poverty and/or near-poverty status is very low while chances of being well-to-do are very high among childless couples

TABLE 5

Relative Economic Position of Persons Living in Various Demographic Groups<sup>1</sup>

|                                 | TOTAL | NON-ELDERLY <sup>10</sup> |  |                      |         | ELDERLY <sup>10</sup> |       |                |       |      |
|---------------------------------|-------|---------------------------|--|----------------------|---------|-----------------------|-------|----------------|-------|------|
|                                 |       | All Persons <sup>2</sup>  | Lone Parent With Children <sup>4</sup> | Couples <sup>3</sup> |         | Couples <sup>3</sup>  |       | Single Persons |       |      |
|                                 |       |                           |  | 0 Child              | 1 Child | 2+ Child              | 65-74 | 75+            | 65-74 | 75+  |
| <b>A. Poor<sup>6</sup></b>      |       |                           |  |                      |         |                       |       |                |       |      |
| Australia                       | 11.4  | 17.8                      | 55.4                                   | 2.3                  | 6.9     | 10.3                  | 7.3   | 3.5            | 30.1  | 35.4 |
| Canada                          | 12.3  | 19.9                      | 46.3                                   | 3.9                  | 5.7     | 11.5                  | 12.0  | 9.4            | 32.0  | 40.1 |
| United States                   | 16.6  | 19.6                      | 54.0                                   | 3.9                  | 6.1     | 12.1                  | 15.0  | 22.5           | 39.6  | 43.4 |
| Norway                          | 4.8   | 12.9                      | 8.1                                    | 1.7                  | 2.0     | 1.9                   | 2.9   | 5.8            | 4.9   | 11.3 |
| Sweden                          | 5.0   | 14.0                      | 9.8                                    | 2.3                  | 2.5     | 4.6                   | 0.6   | 0.0            | 0.9   | 1.3  |
| Germany                         | 4.9   | 9.9                       | 7.2                                    | 1.4                  | 1.1     | 1.3                   | 8.6   | 11.0           | 12.9  | 22.4 |
| Netherlands                     | 7.5   | 18.6                      | 21.0                                   | 0.9                  | 3.2     | 3.7                   | 2.3   | 3.9            | 2.0   | 7.1  |
| United Kingdom                  | 11.7  | 12.6                      | 29.3                                   | 1.1                  | 2.5     | 7.5                   | 23.6  | 32.1           | 51.5  | 59.7 |
| Average <sup>11</sup>           | 9.2   | 15.6                      | 28.8                                   | 2.1                  | 3.7     | 6.6                   | 9.0   | 11.0           | 21.7  | 27.5 |
| <b>B. Near Poor<sup>7</sup></b> |       |                           |  |                      |         |                       |       |                |       |      |
| Australia                       | 9.8   | 6.4                       | 10.1                                   | 2.7                  | 4.6     | 9.2                   | 24.7  | 33.5           | 41.0  | 39.9 |
| Canada                          | 8.7   | 8.4                       | 12.7                                   | 2.5                  | 5.7     | 9.0                   | 12.5  | 26.7           | 24.9  | 28.9 |
| United States                   | 7.6   | 7.4                       | 13.0                                   | 3.1                  | 6.3     | 9.0                   | 9.2   | 12.5           | 15.8  | 19.1 |
| Norway                          | 8.4   | 9.4                       | 9.2                                    | 1.3                  | 2.0     | 1.9                   | 11.3  | 21.0           | 31.7  | 47.2 |
| Sweden                          | 5.5   | 5.6                       | 9.4                                    | 1.4                  | 3.7     | 3.5                   | 3.5   | 6.7            | 7.4   | 30.4 |
| Germany                         | 7.7   | 8.6                       | 5.7                                    | 0.1                  | 3.7     | 10.6                  | 9.2   | 16.5           | 16.7  | 17.2 |
| Netherlands                     | 6.7   | 3.3                       | 23.5                                   | 0.7                  | 4.7     | 10.6                  | 4.6   | 3.7            | 1.2   | 0.7  |
| United Kingdom                  | 9.7   | 6.7                       | 14.8                                   | 1.0                  | 5.8     | 10.0                  | 19.1  | 22.3           | 26.4  | 30.0 |
| Average <sup>11</sup>           | 8.0   | 6.9                       | 12.3                                   | 1.6                  | 4.5     | 7.9                   | 11.7  | 17.8           | 20.6  | 26.6 |



|                                    | TOTAL                    |                             |  |                      | NON-ELDERLY <sup>1,0</sup> |      |         |      | ELDERLY <sup>1,0</sup> |      |                      |      |                |  |
|------------------------------------|--------------------------|-----------------------------|--|----------------------|----------------------------|------|---------|------|------------------------|------|----------------------|------|----------------|--|
|                                    | All Persons <sup>2</sup> | Single Persons <sup>3</sup> | Lone Parent With Children <sup>4</sup> | Couples <sup>5</sup> | 0 Child                    |      | 1 Child |      | 2+ Child               |      | Couples <sup>5</sup> |      | Single Persons |  |
|                                    |                          |                             |  |                      | 65-74                      | 75+  | 65-74   | 75+  | 65-74                  | 75+  | 65-74                | 75+  |                |  |
| <b>C. Middle Class<sup>6</sup></b> |                          |                             |  |                      |                            |      |         |      |                        |      |                      |      |                |  |
| Australia                          | 56.0                     | 48.7                        | 31.1                                   | 66.7                 | 33.4                       | 71.9 | 66.7    | 33.4 | 71.9                   | 53.3 | 50.7                 | 23.4 | 21.5           |  |
| Canada                             | 58.5                     | 47.3                        | 39.1                                   | 68.7                 | 44.7                       | 70.1 | 68.7    | 44.7 | 70.1                   | 57.6 | 55.0                 | 31.3 | 24.9           |  |
| United States                      | 53.7                     | 48.0                        | 31.2                                   | 63.8                 | 44.2                       | 66.7 | 63.8    | 44.2 | 66.7                   | 55.4 | 52.0                 | 36.6 | 31.2           |  |
| Norway                             | 73.4                     | 59.9                        | 74.5                                   | 76.4                 | 37.6                       | 88.3 | 76.4    | 37.6 | 88.3                   | 69.2 | 68.4                 | 56.2 | 38.8           |  |
| Sweden                             | 79.0                     | 75.7                        | 79.7                                   | 70.6                 | 55.9                       | 85.7 | 70.6    | 55.9 | 85.7                   | 89.9 | 91.8                 | 90.3 | 67.9           |  |
| Germany                            | 70.1                     | 57.1                        | 77.8                                   | 83.7                 | 55.4                       | 79.2 | 83.7    | 55.4 | 79.2                   | 60.9 | 53.3                 | 35.5 | 52.5           |  |
| Netherlands                        | 62.5                     | 51.0                        | 45.1                                   | 74.2                 | 37.5                       | 75.1 | 74.2    | 37.5 | 75.1                   | 50.3 | 56.4                 | 78.4 | 77.3           |  |
| United Kingdom                     | 58.5                     | 55.7                        | 47.8                                   | 75.5                 | 43.9                       | 74.7 | 75.5    | 43.9 | 74.7                   | 47.7 | 40.1                 | 19.9 | 8.4            |  |
| Average <sup>11</sup>              | 63.9                     | 55.4                        | 53.2                                   | 72.4                 | 44.0                       | 76.4 | 72.4    | 44.0 | 76.4                   | 60.5 | 58.4                 | 46.4 | 40.3           |  |
| <b>D. Well to Do<sup>9</sup></b>   |                          |                             |  |                      |                            |      |         |      |                        |      |                      |      |                |  |
| Australia                          | 22.6                     | 27.1                        | 3.3                                    | 21.9                 | 61.6                       | 8.7  | 21.9    | 61.6 | 8.7                    | 14.6 | 12.3                 | 5.4  | 3.2            |  |
| Canada                             | 20.6                     | 24.4                        | 1.9                                    | 19.9                 | 48.9                       | 9.4  | 19.9    | 48.9 | 9.4                    | 17.9 | 8.8                  | 11.8 | 6.1            |  |
| United States                      | 22.1                     | 25.0                        | 1.8                                    | 23.9                 | 48.8                       | 12.2 | 23.9    | 48.8 | 12.2                   | 20.4 | 13.0                 | 8.8  | 6.2            |  |
| Norway                             | 13.4                     | 17.8                        | 8.2                                    | 19.6                 | 59.4                       | 7.9  | 19.6    | 59.4 | 7.9                    | 16.6 | 4.9                  | 7.2  | 2.7            |  |
| Sweden                             | 10.5                     | 4.7                         | 1.1                                    | 15.2                 | 40.4                       | 6.3  | 15.2    | 40.4 | 6.3                    | 6.0  | 1.5                  | 1.4  | 0.4            |  |
| Germany                            | 17.3                     | 24.4                        | 14.3                                   | 11.5                 | 43.2                       | 8.9  | 11.5    | 43.2 | 8.9                    | 21.2 | 19.1                 | 4.8  | 7.8            |  |
| Netherlands                        | 23.3                     | 27.1                        | 10.4                                   | 17.9                 | 60.9                       | 10.6 | 17.9    | 60.9 | 10.6                   | 22.9 | 21.7                 | 18.4 | 14.9           |  |
| United Kingdom                     | 20.2                     | 25.0                        | 8.0                                    | 16.3                 | 54.0                       | 7.8  | 16.3    | 54.0 | 7.8                    | 9.5  | 5.5                  | 19.9 | 8.4            |  |
| Average <sup>11</sup>              | 18.7                     | 21.9                        | 6.1                                    | 18.2                 | 52.1                       | 8.9  | 18.2    | 52.1 | 8.9                    | 16.1 | 10.8                 | 9.7  | 6.2            |  |

<sup>1</sup> Table ranks all persons in families by adjusted family incomes according to family type.

<sup>2</sup> All includes all persons in families.

<sup>3</sup> Single persons living alone under age 64.

<sup>4</sup> Lone parent includes children living in families with one adult under age 65 and no other adults in the household.

<sup>5</sup> Couples include married couple households with both spouses present and unmarried couples living together as married in Sweden, Norway and Netherlands.

<sup>6</sup> Poor are persons in families with adjusted incomes below .5 median adjusted income.

<sup>7</sup> Near Poor are persons in families with adjusted incomes between .5 and .625 median adjusted income.

<sup>8</sup> Middle Class are persons in families with adjusted incomes between .626 and 1.5 times median adjusted income.

<sup>9</sup> Well to Do are persons in families with adjusted incomes above 1.5 times the median.

<sup>10</sup> Nonelderly are families headed by a person age 64 or younger; elderly heads are 65 or older

<sup>11</sup> Average is simple mean of each column.

in all countries. Single non-elderly persons (those under age 55 and living alone) tend to be a diverse group not easily characterized by adjusted income status. While their poverty rates are above average (bottom row of Panel A, Table 5) so is the percentage which is well-to-do (bottom row of panel D).

The most disadvantaged groups are still children in single parent households and single elderly persons, particularly the very old. Even within these groups, the relative levels of poverty across the various countries vary enormously. Within Europe, for instance, Germany tends to have a relatively low fraction of poor persons in single parent families (7.2 percent), and a much higher poverty rate among single very elderly persons (22.4 percent). The case is almost exactly reversed for the Netherlands, with 7.1 percent of very elderly single persons and 21.0 percent of persons in female headed families poor. Again generalizations among the European group are difficult to make. The final important observation to be reiterated here is the relatively large numbers of elderly persons (and also single parents) in the near poor category. While among the entire population ("All" column) there are relatively few near poor persons, significant fractions of elderly and single parents are situated in an economic position which, while not poor, certainly makes them economically vulnerable--e.g. to reduced family benefits or social security benefits.

Based on the data shown here, the risk of obverse economic circumstances appear to be greater among the old than the young, except for those in single parent families. While patterns may have changed somewhat over the past several years, the groups at most risk of poverty tend to be

children in single parent units and single very elderly persons living alone. Of course, these are also the groups which tend to be most heavily dependent on social protection systems for their economic security (e.g., see Table A-5). Poverty among other groups, including especially single younger persons, younger families with children, and the near elderly, tend to be more dependent on cyclical fluctuations and structural trends in economic activity. For the most part, their roles in the welfare state is that of the taxpayer. When unemployment is relatively high, these groups tend to do less well than in boom times. While the patterns of social protection afforded by the welfare state may ameliorate the income losses of working adults due to unemployment in downturns, they are not the prime groups of concern for a paper and session focused on demographic change and the welfare state as it affects those least well off. Of greater importance is the way in which demographic change and population aging are likely to affect benefit adequacy among the low income elderly and single parent families.

#### IV. POLICY IMPLICATIONS

The patterns of declining fertility and aging of the population will have dramatic effects on European (and other advanced) welfare states. The relatively large levels of social expenditure on the old (for social pensions and health care) as compared to those on the young (mainly for education) indicate a growing strain on resources in most modern industrialized nations. These ominous trends have resulted in several international meetings and publications, most notably the recent (July 1988) OECD meeting of social affairs ministers and the publication of Aging

Populations: The Social Policy Implications and Reforming Public Pensions (Holzmann, 1988). Current OECD estimates indicate that the ratio of per capita social expenditure on the elderly (65 and over) to that on the young (0-14) averages 2.7. According to their estimates, these ratios are 3.2 in Germany, 2.1 in the U.K., and 2.8 in the Netherlands (OECD, 1988, pp. 33-34).

Of most interest for this paper is the effects of these trends on outlays for social pensions, the largest category of cash benefits in most countries. Table 6 indicates that among the eight countries studied here,

(TABLE 6 HERE)

social pension outlays as a percent of GDP will rise from 8.1 to 10.1 percent between 1980 and 2000, an increase of 27.4 percent. In the European countries studied here, the most dramatic increases are likely to be found in Germany and in the Netherlands, with social pensions rising to 16.4 and 13.8 percent of GDP respectively, increases of 35.5 percent in Germany and 21.8 percent in Netherlands. These two countries will spend the most for social pensions (as a percent of GDP) in the year 2000.

But perhaps the most important thing to note about Table 6 is footnote #2. The OECD estimates of social pension expenditures for the turn of the century in Table 6 are based only on demographic change, i.e. on population aging, alone. They explicitly make three key assumptions: (1) constant benefit levels per beneficiary relative to national income; (2) constant labor force participation rates; and (3) constant proportions of elderly people in receipt of benefits. All three of these assumptions are contrary to recent experience.

TABLE 6

Social Pensions<sup>1</sup> as a Share of Gross Domestic Product,  
By Year for Selected Countries

(Percent)

| Country              | 1960 | 1970 | 1980 | 1985 | 2000 <sup>2</sup> | Percent Increase<br>1980-2000 |
|----------------------|------|------|------|------|-------------------|-------------------------------|
| Australia            | 3.3  | 3.1  | 4.9  | 6.0  | 6.7               | 36.7                          |
| Canada               | 2.8  | 3.2  | 4.4  | 5.4  | 7.6               | 72.7                          |
| United States        | 4.1  | 5.3  | 6.9  | 7.2  | 8.2               | 18.8                          |
| Norway               | 3.1  | 7.1  | 7.9  | 8.0  | 9.0               | 13.9                          |
| Sweden               | 4.4  | 6.2  | 10.9 | 10.9 | 12.1              | 11.0                          |
| Germany              | 9.7  | 10.6 | 12.1 | 11.8 | 16.4              | 35.5                          |
| Netherlands          | 4.0  | 7.2  | 11.0 | 10.5 | 13.4              | 21.8                          |
| United Kingdom       | 4.0  | 5.2  | 6.9  | 7.2  | 7.5               | 8.7                           |
| Average <sup>3</sup> | 4.4  | 6.0  | 8.1  | 8.4  | 10.1              | 27.4                          |

<sup>1</sup> Includes expenditures on old-age, disability, or survivors benefits and government employee pensions.

<sup>2</sup> OECD estimates includes changes due to demographic change only. They assume constant benefit levels per beneficiary relative to national income, constant labor force participation rates, and constant proportions of elderly people in receipt of benefits.

<sup>3</sup> Average is the simple mean of each column.

Source: Social Expenditure 1960-1990, Organization of Economic Cooperation and Development (OECD), Paris, 1985 for 1960-1980; Retirement Pensions: Demographic Pressures and Economic Constraints, OECD, July 1988 - Table 7 for 1985; Table 10 for 2000.

Appendix Table A-1 indicates that only Germany has been able to hold the line on social pensions as a percent of average wages since 1975. Most countries have experienced increasing social retirement pensions relative to wages due to better earnings histories of new retirees, and, unless replacement rates are explicitly changed they are expected to continue to rise (Holzmann, 1988). Table A-2 suggests that labor force participation rates are declining among men especially but also among elderly women in all countries studied. Unless this trend is halted or reversed, there will be increased pressure on social retirement budgets due to continued withdrawal from the labor force at early ages.

Perhaps most ominous are the trends in life expectancy at older ages and in retirement ages shown in Table A-3. The trend since 1960 has been for earlier retirement in modern Western countries. While some countries have managed to slow this trend, the overall effects are still toward earlier retirement. But earlier retirement is not the only trend that affects time in retirement, increased life expectancy at older ages must also be taken into account. In particular, the continuing 4-5 year positive differential between life expectancy for females as compared to males will produce ever larger numbers of single very elderly women. The combined effect of these changes on public outlays can be devastating. For instance, Smeeding (1988) estimates that in the United States, the effects of increased life expectancy at older ages combined with a drop in the median retirement age from 65 to 62 produced a 28 percent increase in social retirement benefit outlays between 1960 and 1985, over and above the independent effect of increased benefit levels for new retirees.

Taken together, these trends indicate that the pressures on social pension expenditures are likely to grow even faster than the OECD estimates in Table 6 indicate. They also indicate that continued differential life expectancy between older women as opposed to older men will result in increasing numbers of very elderly women, most of whom live alone. By the year 2000, forty percent or more of those age 65 and over will be age 75 or over in the European countries studied here according to OECD forecasts (Table A-4), thus straining resources for medical as well as for social pension outlays. Finally, as the aged move from early retirement (60-74) to true old age (age 75 and over) they tend to rely more heavily on social pensions as their major sources of income. In Germany the proportion of gross income which comes from social retirement increases from 67 to 75 percent moving from 65 to 74 year olds to 75 and over. In the U.K. the increase is from 46 to 54 percent (Table A-5). And, among those least well off, e.g., the near poor, the fraction of income from social retirement becomes even more pronounced (Smeeding and Torrey, 1987). Thus, those most dependent on social retirement income tend to be those who are in the most fragile economic and social circumstances.

The combined effect of these pressures have already led to initiatives to raise retirement ages (e.g., the U.S. raised its age for full entitlement from age 65 to 67 starting early next century); to lower social pension benefits (e.g., U.K. in 1987 voted to replace best 20 years earnings by average lifetime earnings in its benefits formula); to delay or modify benefit indexation (e.g., Germany in 1981; Netherlands in 1983 and 1984); and to place increased reliance on savings and occupational pensions in the retirement income packages (e.g., U.K. and Netherlands).<sup>8</sup> The extent to

which these changes will affect social expenditures will likely vary by country, by the effectiveness of each policy in reducing outlays, and by the willingness of younger taxpayers to shoulder higher taxes. Despite the obvious heterogeneity of European nations' retirement income systems, it is my judgement that these efforts are liable to call for some large degree of benefit restructuring in programs for the elderly and for children in most European countries over the next ten to fifteen years.

The policy implications of this restructuring seem clear. In order to protect those least able to protect themselves--the vulnerable poor and near poor very old--an effective Scandinavian type floor need be put under the social retirement incomes of European nations. These policies would be marked by a relatively high minimum benefit level which was protected against change in the cost of living. The cost of protecting the most vulnerable will be a muted second tier of social retirement benefits. Those who would seek a higher standard of living in retirement should be encouraged to work additional years and/or to save via tax favored schemes--special retirement accounts, occupational pensions, etc. In order to pay for a higher minimum benefit level and tax-deferred savings schemes, while at the same time protecting other vulnerable populations (e.g., single mothers with children), Europeans are going to force a greater degree of means testing of net benefits than they have been used to in the past. But failure to protect real benefits for these groups will produce even higher fractions of poor elderly persons and children in single parent families than those extant in this paper.



TABLE A-1

SOCIAL SECURITY OLD-AGE PENSIONS AS A PERCENT OF  
AVERAGE WAGES IN MANUFACTURING, 1969, 1975, and 1980

| Country                | Single Worker |      |      | Aged Couple |      |      | Percent Increase 1969-1980 |
|------------------------|---------------|------|------|-------------|------|------|----------------------------|
|                        | 1969          | 1975 | 1980 | 1969        | 1975 | 1980 |                            |
| Australia <sup>1</sup> | --            | --   | --   | --          | --   | --   | --                         |
| Canada                 | 24            | 33   | 34   | 41          | 47   | 49   | 19.5                       |
| West Germany           | 55            | 51   | 49   | 55          | 51   | 49   | -10.9                      |
| Norway <sup>2</sup>    | NA            | NA   | NA   | NA          | NA   | NA   | NA                         |
| Sweden                 | 42            | 57   | 68   | 56          | 73   | 83   | 48.2                       |
| Netherlands            | NA            | NA   | NA   | NA          | NA   | NA   | NA                         |
| United Kingdom         | 27            | 31   | 31   | 43          | 47   | 47   | 9.3                        |
| United States          | 30            | 38   | 40   | 44          | 58   | 66   | 50.0                       |

1 Australia has only a means-tested public old age pension system and hence replacement rates for average wages are difficult to calculate.

2 Not available at this time.

Sources: Leif Haanes-Olsen, "Earnings Replacement Rate of Old-Age Benefits, 1965-75, Selected Countries," Social Security Bulletin, January 1978, pp 3-14; and Jonathan Aldrich, "The Earnings Replacement Rate of Old-Age Benefits in 12 Countries, 1969-80," Social Security Bulletin, November 1982.

TABLE A-2

## LABOR FORCE PARTICIPATION RATES, BY SEX, FOR SELECTED AGE GROUPS AND YEARS

| Country and year      | Males             |                    |                   | Females           |                   |                   |
|-----------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
|                       | 55 to 59 years    | 60 to 64 years     | 65 years and over | 55 to 59 years    | 60 to 64 years    | 65 years and over |
| <b>Australia</b>      |                   |                    |                   |                   |                   |                   |
| 1966                  | 85.8              |                    | 23.2              | 21.0              |                   | 4.4               |
| 1970                  | 85.1              |                    | 22.1              | 23.3              |                   | 3.7               |
| 1982                  | 64.9              |                    | 9.2               | 18.4              |                   | 2.5               |
| 1966-82 change        | -20.9             |                    | -14.0             | -2.6              |                   | -1.9              |
| <b>Canada</b>         |                   |                    |                   |                   |                   |                   |
| 1961                  | 86.7              | 75.8               | 28.5              | 27.9              | 20.3              | 6.7               |
| 1971                  | 84.9              | 74.1               | 23.6              | 38.7              | 29.1              | 8.3               |
| 1981                  | 84.4              | 68.8               | 17.3              | -41.9             | 28.3              | 6.0               |
| 1961-81 change        | -2.3              | -7.0               | -11.2             | +14.0             | +8.0              | -0.7              |
| <b>West Germany</b>   |                   |                    |                   |                   |                   |                   |
| 1961                  | 88.7              | 72.5               | 22.8              | 32.2              | 21.0              | 8.4               |
| 1970                  | 86.8              | 68.8               | 16.0              | 34.5              | 17.7              | 5.7               |
| 1980                  | 82.3              | 44.2               | 7.4               | 38.7              | 13.0              | 3.0               |
| 1961-80 change        | -6.4              | -28.3              | -15.4             | +6.5              | -8.0              | -5.4              |
| <b>Netherlands</b>    |                   |                    |                   |                   |                   |                   |
| 1960                  | NA                | NA                 | NA                | NA                | NA                | NA                |
| 1970                  |                   |                    |                   |                   |                   |                   |
| 1980                  |                   |                    |                   |                   |                   |                   |
| 1960-80 change        |                   |                    |                   |                   |                   |                   |
| <b>Norway</b>         |                   |                    |                   |                   |                   |                   |
| 1960                  | 95.0              | 88.1               | 37.7              | 27.0              | 23.1              | 7.6               |
| 1970                  | 91.4 <sup>1</sup> | 73.6 <sup>2</sup>  | 15.7 <sup>3</sup> | 46.8 <sup>1</sup> | 28.0 <sup>2</sup> | 3.7 <sup>3</sup>  |
| 1980                  | 87.7 <sup>1</sup> | 62.7 <sup>2</sup>  | 12.6 <sup>3</sup> | 61.0 <sup>1</sup> | 32.2 <sup>2</sup> | 2.9 <sup>3</sup>  |
| 1960-80 change        | -7.3              | -25.4              | -25.1             | +34.0             | +9.1              | -4.7              |
| <b>Sweden</b>         |                   |                    |                   |                   |                   |                   |
| 1960                  | 92.3              | 82.5               | 27.1              | 31.8              | 21.5              | 4.6               |
| 1970                  | 88.4              | 75.7               | 15.2              | 41.1              | 25.7              | 3.2               |
| 1980                  | 84.4              | 65.9               | 8.1               | 66.4              | 41.4              | 2.6               |
| 1960-80 change        | -7.9              | -16.6              | -19.0             | +34.6             | +19.9             | -2.0              |
| <b>United Kingdom</b> |                   |                    |                   |                   |                   |                   |
| 1961                  | —                 | —                  | 24.7              | —                 | —                 | 3.4               |
| 1971                  | 95.1              | 84.4               | 19.4              | 50.7              | 27.8              | 6.4               |
| 1981                  | 91.5 <sup>4</sup> | 74.6 <sup>4</sup>  | 10.7              | 52.0 <sup>4</sup> | 22.5 <sup>4</sup> | 2.7               |
| 1961-81 change        | -3.6 <sup>4</sup> | -11.8 <sup>4</sup> | -14.0             | +1.3 <sup>4</sup> | -5.3 <sup>4</sup> | -1.7              |
| <b>United States</b>  |                   |                    |                   |                   |                   |                   |
| 1960                  | 87.7              | 77.6               | 30.5              | 39.7              | 29.5              | 10.3              |
| 1970                  | 86.8              | 73.0               | 24.8              | 47.4              | 36.1              | 10.0              |
| 1982                  | 81.1              | 57.9               | 17.7              | 50.2              | 34.2              | 7.9               |
| 1960-82 change        | -6.6              | -19.7              | -12.8             | +10.5             | +4.7              | -2.4              |

<sup>1</sup> Refers to ages 50 to 59 years.<sup>2</sup> Refers to ages 60 to 69 years

— Not available

<sup>3</sup> Refers to ages 70 years and over.<sup>4</sup> 1971-81 change.

Sources: U.S. Bureau of the Census International Data Base on Aging; International Labour Office, 1967, Year Book of Labour Statistics 1967, Geneva, table 1; OECD Yearbook of Labor Statistics, 1984; OECD Economic Studies, "Special Issue on Role of the Public Sector," 1985.

TABLE A-3

Years of Life Expectancy at Specified Ages and Retirement Ages  
(Age in parentheses)

| Country and Year            | Male              | Female                 | Female-Male<br>Difference |     |
|-----------------------------|-------------------|------------------------|---------------------------|-----|
| Australia                   | 1960              | 15.6 (60)              | 19.5 (60)                 | 3.9 |
|                             | 1970              | 15.0 (60)              | 19.5 (60)                 | 4.5 |
|                             | 1980              | 17.2 (60)              | 22.1 (60)                 | 4.9 |
|                             | 1983              | 17.5 <sup>3</sup> (60) | 22.4 <sup>3</sup> (60)    | 4.9 |
|                             | 1987 <sup>1</sup> | 14.3 (65)              | NA                        | NA  |
| Canada <sup>1</sup>         | 1961              | 10.7 (70)              | 12.6 (70)                 | 1.9 |
|                             | 1971              | 13.7 (65)              | 17.5 (65)                 | 3.8 |
|                             | 1980-82           | 14.6 (65)              | 18.8 (65)                 | 4.3 |
|                             | 1987 <sup>1</sup> | 15.2 (65)              | 20.2 (65)                 | 5.0 |
| United States               | 1960              | 12.8 (65)              | 15.8 (65)                 | 3.0 |
|                             | 1970              | 14.9 <sup>2</sup> (62) | 19.2 <sup>2</sup> (62)    | 4.3 |
|                             | 1980              | 16.1 <sup>2</sup> (62) | 20.6 <sup>2</sup> (62)    | 4.5 |
|                             | 1983              | 16.4 (62)              | 20.9 (62)                 | 4.5 |
|                             | 1987              | 16.6 (62)              | 21.0 (62)                 | 4.4 |
| Norway <sup>1</sup>         | 1960-61           | 11.2 (70)              | 12.3 (70)                 | 1.1 |
|                             | 1966-70           | 10.9 (70)              | 12.8 (70)                 | 1.9 |
|                             | 1979-80           | 13.0 <sup>2</sup> (67) | 16.3 (67)                 | 3.3 |
|                             | 1982-83           | 13.3 <sup>2</sup> (67) | 17.0 <sup>2</sup> (67)    | 3.7 |
|                             | 1987 <sup>1</sup> | 14.6 (65)              | 19.1 (65)                 | 4.5 |
| Sweden                      | 1960              | 15.2 <sup>2</sup> (63) | 17.1 <sup>2</sup> (63)    | 1.9 |
|                             | 1970              | 15.7 <sup>2</sup> (63) | 19.0 <sup>2</sup> (63)    | 3.3 |
|                             | 1980              | 17.9 (60)              | 22.1 (60)                 | 4.2 |
|                             | 1983              | 18.4 <sup>3</sup> (60) | 22.7 (60)                 | 4.3 |
|                             | 1987 <sup>1</sup> | 15.0 (65)              | 19.3 (65)                 | 4.3 |
| Germany <sup>1</sup>        | 1960-62           | 12.4 (65)              | 14.6 (65)                 | 2.2 |
|                             | 1978-80           | 15.3 (61)              | 19.6 (61)                 | 4.3 |
|                             | 1981-83           | 15.6 (61)              | 19.9 (61)                 | 4.3 |
| United Kingdom <sup>1</sup> | 1960-61           | 11.8 (65)              | 18.8 (60)                 | NA  |
|                             | 1969-70           | 12.0 (65)              | 19.7 (60)                 | NA  |
|                             | 1978-80           | 12.6 (65)              | 20.4 (60)                 | NA  |
|                             | 1981-83           | 13.0 (65)              | 20.8 (60)                 | NA  |
|                             | 1987              | 13.4 (65)              | 17.6 (65)                 | 4.2 |
| Netherlands                 | 1960              | 17.8 (60)              | 19.9 (60)                 | 2.1 |
|                             | 1970              | 16.9 (60)              | 20.7 (60)                 | 3.8 |
|                             | 1980              | 17.5 (60)              | 22.8 (60)                 | 5.3 |

Notes: <sup>1</sup> Specified Retirement Age is the median retirement age.<sup>2</sup> Based on linear interpolation of life table life expectancies.<sup>3</sup> Estimates by author based on NIA/CIR data.

Source: National Institute on Aging NIA/Center for International Research CIR; International Database on Aging

TABLE A-4

Persons 75 and Over as a Percentage of Persons  
Age 65 and Over

|                | <u>1980</u> | <u>1990</u> | <u>2000</u> |
|----------------|-------------|-------------|-------------|
| Australia      | 34.3        | 35.7        | 39.3        |
| Canada         | 35.3        | 35.6        | 38.8        |
| United States  | 36.4        | 37.2        | 41.6        |
| Norway         | 39.0        | 41.2        | 48.6        |
| Sweden         | 38.5        | 42.6        | 47.7        |
| Germany        | 36.3        | 44.8        | 40.1        |
| Netherlands    | 38.4        | 40.3        | 42.0        |
| United Kingdom | 36.9        | 41.3        | 43.8        |

Source: Social Expenditure Trends and Demographic Development (OECD, 1988).

TABLE A-5

## Composition of Gross Income of Elderly Households in Selected Countries

## COMPOSITION OF GROSS INCOME OF ELDERLY HOUSEHOLDS IN SELECTED COUNTRIES

| Country and age group<br>of household head | Earnings | Income Before Tax  |                         |  |    | Social<br>Insurance<br>Transfers | Means-<br>Tested<br>Transfers | Other<br>Income | Total |
|--|----------|--------------------|-------------------------|--|----|----------------------------------|-------------------------------|-----------------|-------|
|  |          | Property<br>Income | Occupational<br>Pension |  |    |                                  |                               |                 |       |
| <b>Australia (1981/82)</b>                 |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 52       | 19                 | 4                       |  | 0  | 24                               | 1                             | 100             |       |
| 65 to 74 years                             | 25       | 24                 | 8                       |  | 0  | 42                               | 1                             | 100             |       |
| 75 years and over                          | 16       | 22                 | 6                       |  | 0  | 55                               | 1                             | 100             |       |
| <b>Canada (1981)</b>                       |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 56       | 17                 | 6                       |  | 18 | 2                                | 1                             | 100             |       |
| 65 to 74 years                             | 28       | 22                 | 12                      |  | 35 | 2                                | 1                             | 100             |       |
| 75 years and over                          | 13       | 30                 | 8                       |  | 45 | 2                                | 2                             | 100             |       |
| <b>West Germany (1981)</b>                 |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 43       | 2                  | 8                       |  | 46 | 1                                | 0                             | 100             |       |
| 65 to 74 years                             | 17       | 2                  | 12                      |  | 67 | 1                                | 0                             | 100             |       |
| 75 years and over                          | 8        | 4                  | 12                      |  | 75 | 1                                | 0                             | 100             |       |
| <b>Norway (1979)</b>                       |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 61       | 5                  | 3                       |  | 30 | 0                                | 0                             | 100             |       |
| 65 to 74 years                             | 41       | 6                  | 7                       |  | 45 | 0                                | 1                             | 100             |       |
| 75 years and over                          | 6        | 8                  | 10                      |  | 75 | 1                                | 1                             | 100             |       |
| <b>Sweden (1981)</b>                       |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 39       | 7                  | -                       |  | 51 | 3                                | 0                             | 100             |       |
| 65 to 74 years                             | 12       | 9                  | -                       |  | 76 | 3                                | 1                             | 100             |       |
| 75 years and over                          | 2        | 13                 | -                       |  | 78 | 7                                | 1                             | 100             |       |
| <b>United Kingdom (1979)</b>               |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 54       | 7                  | 8                       |  | 28 | 3                                | 0                             | 100             |       |
| 65 to 74 years                             | 26       | 9                  | 15                      |  | 46 | 3                                | 1                             | 100             |       |
| 75 years and over                          | 17       | 10                 | 12                      |  | 54 | 7                                | 0                             | 100             |       |
| <b>United States (1979)</b>                |          |                    |                         |  |    |                                  |                               |                 |       |
| 55 years and over                          | 58       | 13                 | 8                       |  | 19 | 1                                | 0                             | 100             |       |
| 65 to 74 years                             | 32       | 18                 | 13                      |  | 35 | 2                                | 0                             | 100             |       |
| 75 years and over                          | 17       | 24                 | 12                      |  | 45 | 2                                | 0                             | 100             |       |

SOURCE: LIS Database, Smeeding and Torrey, 1987

## NOTES

1. Of the eight datasets comprising LIS which are used here, two are not for either 1979 or 1981, i.e. Netherlands (1983) and Australia (1981-82). 1983 was a recession year in Netherlands which strongly affected some groups (e.g. young earners) but not others (e.g. elderly retirees). These influences are discussed as they arise. Readers who feel that relative poverty or inequality in these countries is strongly influenced by year of analysis may also want to take this issue into account for interpreting the results.
2. In Norway and Sweden, unmarried adults age 18 or over not living as married with someone of the opposite sex are counted as separate family units. Thus an adult child or elderly parent living with a middle age couple would be counted as two separate units in Norway and Sweden, but as members of a larger family in the other countries. This treatment would generally impact a bias toward higher levels of poverty and inequality in these two countries.
3. "Near cash" benefits are transfers which are nominally defined as in-kind, but which have a cash equivalent value (Hicksian equivalent variation) equal to their market value. For instance, near cash benefits include cash "housing allowances" in the United Kingdom and Sweden and food stamps in the United States.
4. These include all countries but Norway which does not have national estimates of poverty lines or low income cutoffs. Other equivalence scales could and have been used and the results shown below, as they affect relative levels of poverty between elderly (smaller units) and children (larger family units), are sensitive to this choice. Cross national rankings of national poverty or inequality for children or for elderly are less sensitive to this choice. For more on this topic the reader should consult Buhmann, et. al., 1988.
5. The addition of Italy, Luxembourg, France, Ireland, and Denmark to the next (1985-87) wave of LIS datasets will help remedy this deficiency.
6. For instance, we concentrate on single female parents with children because 90 percent or more of all single parents are mothers living alone with their children.
7. Here we have added adults living with children to children so the percentages in Tables 4 and 5 differ slightly.
8. These and other changes can be found in Holzmann (1988).

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