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Minimum Standards in Old Age Security and the Problem of Poverty in Old Age

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MINIMUM STANDARDS IN OLD AGE SECURITY AND THE PROBLEM OF POVERTY IN OLD AGE

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Introduction

The prevention of poverty in old age, or positively: the securing of a basic minimum of existence is certainly a widely shared goal in social policy. It is, for instance, laid down in the second draft of the European Charter of Fundamental Social and Economic Rights (1989, No. 27):

> "Every person in retirement or early retirement shall be able to enjoy resources affording him or her a decent standard of living".

Nobody is overtly opposed to it, but there are certainly various interpretations of its contents and scope. Above all, a fundamental ambiguity exists concerning the question whether such minimum standards should be institutionalized "as of right" by standard social insurance or demogrant schemes or only by means-tested social assistance, subsidiary to other available resources. The Social Charter, as a minimalist agreement among the member states, has here opted for the second variant (1989: No. 28):

> "Any person who has reached retirement age but who is not entitled to a pension for whatever reason or who does not have other adequate means of subsistence shall be entitled to a minimum income, modulated or complemented by social protection and medical and social assistance specifically suited to their needs and as wide an access as possible to such assistance".

Moreover, there seems to be little consensus about the appropriate definition and setting the level of the "social minimum" among the EC member countries or elsewhere in Europe.

In the first part of this paper, I shall review the configurations of minimum standard regulations for old age, existing in some West European countries, and attempt to compare the respective levels of minimum income cross-nationally. In the second part, I shall present some empirical evidence regarding the

extent of poverty among the elderly based on a comparative analysis of income surveys. Certainly, poverty in old age is no longer a problem to the majority of pensioners in West European countries. But there may still exist significant differences between them regarding the efficacy of their social security systems to reach this goal. Finally, I am going to draw some tentative conclusions from the foregoing analyses relating to the conditions for an effective implementation of minimum regulations, and to the prospects for harmonization of such minimum standards within the European Community.

I. Minimum standards for old age security

Patterns of institutionalization

Among the social security systems of West European countries, a first well-known distinction can be drawn between Bismarck-type earnings-related schemes and Beveridge-type flat-rate schemes. This distinction is particularly relevant for the problem of poverty in old age. For it is the very characteristic of the benefit structure of Beveridge-type schemes that - at least in theory - they take account of basic needs which vary according to household size and structure.[1] On the other hand, benefit entitlements in Bismarck-type schemes, usually organized as insurance schemes, are in principle individual ones, based on work performance and/or contributions paid. However, none of these ideal-type models is nowadays realized in pure form. A number of mixed schemes have historically evolved, and many authors have suggested a general trend towards convergence. It seems, therefore, worthwhile to have a closer look at the pattern of existing schemes in order to evaluate their consequences and their adequacy vis-a-vis the problem of poverty in old age. Five West European countries have been chosen (Federal Republic of Germany, United Kingdom, Netherlands, Switzerland, Sweden), which comprise a fairly broad spectrum of distinct types and may serve to illustrate the particular blend of different elements.

In comparative perspective, the West German statutory pension scheme (GRV) can still be considered as the prototype of the Bismarck model. With regard to the poverty problem, there are at least two main shortcomings:

- first, it does not cover the total labour force, let alone the total population, but leaves aside some significant segments, in particular certain categories of the self-employed and those who have never been in dependent employment (or have not fulfilled the minimum contribution period)[2]- housewives being the most important group of the latter;[3]
- second, even for those groups in compulsory insurance, it is by no way ensured that even a modest living standard is attained in every case. Since benefits are largely determined by (and almost proportional to) the former income level and the length of the contribution period, this almost inevitably leads, in a large number of cases, to benefit levels which do not match even modest minimum standards. In fact, the logic of construction of this scheme which is achievement-oriented and based on the principle of equivalence (of contributions and benefits) does not allow for need-oriented minimum pensions.

The situation has been improved to some extent by the introduction of so-called "pensions according to minimum income" (Rente nach Mindesteinkommen) in 1972.[4] This regulation, however, should not be mistaken for a minimum pension stricto sensu. For it benefits only long-time low-wage earners. For them, a minimum income level of 75% of the average of all insured persons (instead of the actual income) is assumed. But it requires a minimum insurance period of 25 years (35 years as from 1992), and the actual amount of the pension benefit is still dependent on the length of the insurance period. In addition, it remains an individual entitlement, and no allowance is made for differing household needs. Likewise, widows' pensions are not paid at these rates but derived as 60% of these rates (as all ordinary widows' pensions). So, in essence it remains an earnings-related pension, albeit with assuming a fictitious income level. Although more

than 1 million pensions (and, in particular, almost 20% of women's pensions) are augmented according to these rules, they may still not reach the household-specific minimum of existence.

The task of securing the existence minimum is thus shifted to the social assistance scheme which, as a means-tested scheme, is completely separate from the statutory pension scheme. It is administered by the municipalities and local councils, although it may be labelled universal in the sense that its legal framework is laid down in federal law and is applied nation-wide.[5] The full entitlement to social assistance which can be said to constitute a quasi-official poverty line comprises

- the standard scale rates, differentiated for the head of household and his/her dependants and for children of various ages,
- in the case of pensioners, a 20% supplement for older persons (above 60 years),
- certain benefits paid in specific circumstances (so-called single payments), which on the average amount to about 15-20% of the annual scale rates,
- the costs of housing (including heating) for the respective household types, which may substantially differ, for instance, between urban and rural areas (cf. HAUSER/CREMER-SCHAEFER/NOUVERTNE 1981: 37 ff.).

The overall value of these different components has been estimated at about 800 DM for a single pensioner and at about 1200 DM for a pensioners' couple in 1985. It has been calculated that in 1987 about 275.000 persons above 60 years, most of them women, have been on the registers of social assistance; this corresponds to about 2% of all elderly and to about 12% of all social assistance beneficiaries. Both these percentage shares have been declining since the 60's (cf. BAECKER et al. 1989). For an adequate understanding of these figures, at least two additional facts should be kept in mind:

First, the take-up rate for the social assistance scheme is extremely low; it has been estimated to be only about 50% of those legally entitled, and it is probably less for the elderly who - for a variety of reasons - are more likely than others not to claim their benefits. This means that an equally large number of the elderly will actually make their living below this level.

Second, the scale rates of social assistance are not automatically indexed but usually increased on a discretionary basis according to price changes. But even this modest aim to preserve the real value of the "basic needs basket", has not always been achieved over a longer period: calculated in constant prices, the scale rates in 1985 fell short of the level already attained in 1975.

In contrast, the statutory pensions are indexed to increases in wages (so-called "dynamization"). According to the original pension formula of 1957, they even followed, with a time-lag of about 2-3 years, the development of gross wages. Even taking account of the numerous ad hoc changes in the adjustment procedure after 1977, it can be stated that the net pension level for the standard pensioner has been kept relatively stable over recent years at about 65% of actual net income of insured employees. The reported fact that a declining number of pensioners is in need of additional social assistance payments can thus largely be explained by the differing modes of adjustment for pensions and for social assistance benefits, respectively. In other words: the quasi-official poverty line, as defined by social assistance entitlements, has gradually been lowered with regard to the standard pension.

In Switzerland, we also find an earnings-related insurance scheme (AHV), introduced in 1948. But some crucial differences to the German one are apparent:

First, membership is compulsory for all employed persons, irrespective of their occupational status, thus also including civil servants and the self-employed.[6] Thus, coverage is more comprehensive than in the German system and non-categorical.

Second, the earnings-related character is mitigated by a minimum and a maximum pension, the latter being just twice the amount of the former. Moreover, while in general pensions are reduced when the maximum contribution period is not fulfilled, at least the minimum pensions are virtually independent of the length of the contribution period (so-called "extraordinary pensions").

Third, and perhaps most important, there is a strong element of need-orientation built into the insurance scheme, compared to the rather moderate degree of income gradation. Benefits for a married couple are 150% the amount of single pensioners, at any level of former income. In addition, there is a supplement of 50% for married women who have not yet reached the pensionable age themselves, but are over 55 years. Likewise, widows' pensions are fixed at a level of 80% of the insured person's pension. Although this does not strictly confirm to the needs principle (single pensioners are better off than widows by 20%), there is at least a minimum widows' pension of 552 SFr in 1985.

Because the national pension insurance was originally designed only as a basic scheme the benefits of which should be complemented by other sources of income, it came to be recognized that additional public transfers were needed to fill the gap if no other income was available. In 1966, therefore, a means-tested scheme ("Ergaenzungsleistungen") was enacted to provide supplementary benefits to those pensioners with no (or only low) other income. Thus the standard insurance scheme is backed up by a means-tested scheme specifically designed to improve the living standards of pensioners (cf. WAGNER 1985: 169 ff.).

The income ceilings relevant for an entitlement to these supplementary benefits may then conveniently be regarded as a quasi-official poverty line for the aged. They are set at a level about one third above the respective minimum pensions (in 1986 12.000 SFr p.a. for single pensioners and 18.000 SFr for couples). Moreover, the qualifying conditions for these benefits seem to be far less rigid than those for the German social assistance scheme.[7] The supplementary benefit schemes, although regulated by federal law, are set up and administered by the cantons which allows for some variation in the respective income ceilings and definition of reckonable earnings. But the cantons are partly reimbursed (75%) for their expenses by the federal government via ear-marked subsidies.

The significance of these means-tested supplements obviously depends on the level of (minimum) benefits the pension insurance scheme is supposed to provide. Since it has been written down in the Federal Constitution in 1972 that the standard pension benefits should be sufficient to cover all expenses for basic needs, those benefit levels have successively been more than doubled during the 70's so that the importance of the means-tested supplements consequently diminished. The number of the beneficiaries declined from about 16% of all pensioners at the time of the introduction to less than 10% in 1975, but remained at that level up to now.

Just as West Germany still comes close to the Bismarck-type model, the United Kingdom is still prototypical for the Beveridge-type model, with its basic characteristic of need-related flat-rate benefits. For married pensioners, there is a supplement for the spouse of about 60% of the husband's pension (category B retirement pension) unless the spouse is entitled to a pension in her own right. Though the British pension scheme as it was originally enacted in 1946 is not a truly universal, demogrant scheme in several respects:

First, although the Beveridge reforms were inspired by the idea of "social citizenship", its coverage does not extend to all citizens, but it is organized as a compulsory insurance scheme for the employed, with options for other citizens to join it voluntarily. It is universal only insofar as no distinctions are drawn between different occupational status groups (= non-categorical).

Second, the full flat-rate benefits may be reduced when certain contribution requirements are not met. In practice, however, this is of little significance, for more than 95% of the pensioners receive the full benefits.

Third, although it was one of the main objectives of the Beveridge reforms to abolish the old discriminatory poor relief system, the benefit levels for retirement pensions were not set at such a level as to fully replace means-tested social assistance.

Until nowadays, the flat-rate benefits are fixed at a level only slightly above the scale rates of social assistance or supplementary benefits, respectively[8]. The scale rates of supplementary benefits are split into a short-term rate (mainly applicable to the unemployed and the sick) and a higher long-term rate (mainly for pensioners). The Supplementary Benefit Long-Term Rate can therefore be taken as the floor for the quasi-official poverty line, as far as pensioners are concerned. The scale rates and the flat-rate basic pensions are usually increased simultaneously so that the only slight difference between them remained. This means, on the other hand, that the development of the poverty line has kept pace with the development of standard retirement benefits. Since both benefits are only adjusted in line with price increases, however, they have experienced a distinctive drop relative to net average earnings since the early 80's.

The full supplementary benefit entitlement comprises, in addition to the standard rates, also the reimbursement of housing costs (and some minor items, like heating allowances, dietary costs, home help, etc).[9] This has led to the situation that pensioners whose only income source were the flat-rate National Insurance pensions, have remained entitled to means-tested supplements called "supplementary pensions". Not surprisingly, therefore, a large number of pensioners (usually 20 - 25% of them) have had to resort to means-tested benefits to make up their living.

Although the flat-rate scheme has been supplemented by an earnings-related component and integrated into the State Earnings-Related Pension Scheme (SERPS) in 1978 and membership in occupational pension schemes has widened over the years, this has so far done little to improve the situation of pensioners at the lower end of the income scale. First of all, the new scheme does not affect at all those pensions which were already in payment at the time of its introduction. Moreover, by their own logic, the earnings-related component as well as the occupational schemes can only benefit those in employment; in addition, the gradual phasing-in of the scheme has meant that the actual benefits provided for new cohorts of pensioners (in 1985) are still too low for a large share of them to raise them above the poverty line.[10]

In 1985, there were still about 1.680.000 recipients of supplementary pensions among the elderly (= 17% of all retirement pensioners). As has been empirically investigated by a survey carried out in 1981, the take-up rate of supplementary is about 67 %. We can calculate, therefore, an additional number of more than 800.000 elderly people actually living below the quasi-official poverty line, despite existing social security entitlements (DHSS 1986: 273). Adding up both figures, we can conclude that presently about 2.5 million persons above pensionable age in the United Kingdom live on the verge of poverty.

In Sweden, a flat-rate pension scheme (Allman Folkpension = AFP) has also been introduced shortly after the War (in 1948), with the same basic characteristics as in the United Kingdom. The pension for a married couple has been set at 160% of that for a single pensioner to account for differing household needs. But in contrast to the British scheme, it was truly universal in that it covered all citizens above pensionable age, and made entitlements virtually independent of contribution conditions. So this scheme can serve as probably the best example of the institutionalization of a social right tied to social citizenship.

Although the basic idea was to provide a minimum of existence as a social right to everybody, the benefit levels originally agreed upon were hardly suffficient for that purpose. But they were successively increased already during the 50s so that their "real value" (purchasing power) rose as well as their ratio to average earnings.

In addition, already in 1960, an earnings-related scheme for all people in employment (Allman Tillagspension = ATP) was introduced on top of the flat-rate scheme. Henceforth, the flat-rate benefits of the AFP scheme provided the minimum pension in the evolving two-tier system of state pensions. Although the ATP scheme was also gradually phased in, the target earnings replacement rates were far more ambitious than in the British SERPS scheme so that total benefit levels for new cohorts of pensioners improved much more rapidly.

What is even more important concerning the problem of poverty among the aged is the fact that - in marked contrast to the British experience - a solution was sought for and found to provide adequate benefits also for those not participating in the new scheme. Alongside with rising ATP benefits for new pensioners passing into retirement, a general pension supplement (Pensionstillskott) was introduced at the end of the 60's for all those having only low or no ATP entitlements. This pension supplement

is doubled for couples (and for invalidity pensioners). By this means, the level of minimum pensions was raised concomitantly with the building-up and maturing of the fully-fledged dual system of pensions.

Of course, this pension supplement could be labelled "means-tested" insofar as it takes account of (and is eventually reduced by) existing ATP entitlements; but no account is taken of other sources of income, and no extensive examination of individual cases is necessary. So, this is a fairly simple administrative procedure which avoids all the problems usually associated with means-tested benefits. It seems more adequate, therefore, to consider this pension supplement as part of the normal pension entitlement, because together with the AFP pension it denotes the minimum pension in the overall dual state pension system.

The number of beneficiaries of this supplement has already gradually declined as the ATP scheme approached maturity, and will continue to do so when more and more pensioners receive ATP pensions. But in 1985, still more than 40% of all pensioners (old age, widows, invalidity) received this general supplement.

In addition, there exist some truly means-tested supplements for pensioners, the most important of which is the municipal housing supplement (KBT). This scheme, specifically targeted at old age, disability and widow's pensioners, is administered by the municipalities. "It is the municipalities that decide the terms on which KBT is payable" (NATIONAL SOCIAL INSURANCE BOARD 1986: 56), and the amount of the benefit consequently varies partly according to the "generosity" of local administrations, partly to regional variations in housing costs. Interestingly, however, the principles for housing supplements are laid down in pension legislation so that they can be considered by the claimants as part of their total pension rights (cf. WILSON 1979: 23). This reduces the dangers of stigmatization and social

visibility of indigence involved in a separate administrative procedure, and thereby maximizes the probability of take-up.

Similar to the general supplement, as more and more pensioners are entitled to higher benefits (AFP + ATP combined) than earlier cohorts, the social need for such special means-tested benefits diminishes. The number of recipients of the housing benefit, for instance, has declined from 1978 to 1988 by more than 200.000, but still about every third pensioner can and does claim this benefit.

In the Netherlands, the state pension schemes for old age (AOW), introduced in 1956, and for widows (AWW), drawn up along the same lines in 1960, are flat-rate schemes of the Beveridge type, whereas earnings-related schemes are exclusively left to collective bargaining between trade unions and employers' federations. The state pension scheme is formally organized as an insurance scheme ("Volksverzekeringen") financed by contributions proportional to income (up to a certain ceiling). The benefits are obviously not income-related, and may only be reduced when the full contribution requirements are not met. But this can only happen under exceptional circumstances because

- membership in the insurance scheme is compulsory,
- persons are considered insured even when they do not pay contributions because of lack of income, and
- for the entrance generation, it is sufficient to have paid contributions since the introduction of the scheme (instead of the statutory full period of 50 years).

The base line of the state pension scheme is the pension for a couple living together, which since 1980 is formally linked to the net minimum wage and, consequently, is indexed to increases in that wage. The pension for a single pensioner and a widow, respectively, is set at a level of 70% of the former - which is tantamount to say that the pension for a couple amounts to about 143% of that for a single pensioner.

Concerning the problem of poverty in old age, it is most interesting and relevant that the benefit levels of the AOW and AWW scheme are virtually identical with the standard rates of the National Assistance Scheme (Algemene Bijstandswet, enacted 1963) for the respective household types. After the scale rates had first been standardized nation-wide in 1974, this link has been formally institutionalized since 1980. These standard rates are intended "to enable the individual to live a life worthy of a human being" (MINISTRY FOR SOCIAL AFFAIRS AND EMPLOYMENT 1982: 84) and have become known as the "sociaal minimum". They can, therefore, justifiably be considered as constituting a quasi-official poverty line. They are meant to cover all general subsistence costs (food, clothing, furniture, housing, heating, etc.).[11]

This linkage between the social assistance scale rates and the pension benefit levels is sometimes interpreted in a critical way saying, for example, that state pensions are only paid at the level of the social minimum. But the essential difference is, of course, that pensioners are entitled to the full amount of these benefits "as of right" whereas other claimants of the social minimum are subject to a (standardized) means test (and hence receive only the difference to their reckonable income). Moreover, the linkage implies that (almost) no pensioner could fall below the poverty line. So, the Dutch old age pension scheme (AOW) and the widows' pension scheme (AWW) come closest to the original Beveridge concept of a flat-rate scheme with benefits generous enough to replace or make unnecessary the recourse to means-tested benefits.

Comparing minimum benefit levels

Given the different types and linkages of minimum standards between public pension schemes and social assistance schemes, the question arises how the respective benefit levels compare cross-nationally. For this purpose, we have tried

- first, to quantify the quasi-official poverty lines and the minimum pensions, as described above, in national currencies, using official social statistics, and
- then to convert them into a common currency, using the "Purchasing Power Parities (PPP)", calculated by the OECD (cf. OECD 1987, BLADES/ROBERTS 1987).[12]

about here: Table 1

The results are presented in Table 1. Despite certain ambiguities and flaws in the data, the following conclusions may be drawn with due precaution:

As regards the level of minimum pension in the standard public pension scheme, the Netherlands clearly provide by far the most generous benefits, for single pensioners as well as for couples. The difference between the benefits for both types of pensioners' households is here relatively small (+ 43%), whereas in Sweden it is rather large (+ 76%), due to the fact that here couples receive two pension supplements (see above). The latter fact is also the reason why Sweden performs better than Switzerland for couples, while the minimum pensions for single pensioners are almost the same (in terms of purchasing power).

The lowest levels are displayed for West Germany where the "pension according to minimum income", as it is paid after 25 years of insurance, falls short of the minimum pensions in all the other countries under study. This is the more striking since those pensions are usually granted under less restrictive conditions, e.g. do not require similarly long contribution periods. Even after 40 years of insurance, the "pension according to minimum income" would only amount to 1016 DM, and hence still be lower than the benefit levels for married couples in any other country. The distance is particularly wide in the case of pen-

Table 1: Minimum Standards in Old Age Security in 1985

Country	Minimum or basic pension		Social assistance 'poverty line'	
	Single DM p.m.	Couple DM p.m.	Single DM p.m.	Couple DM p.m.
Federal Republic of Germany	(635)[a]	(635)	ca. 800[c]	ca. 1200
United Kingdom	677	1084	1088[d]	1493
Netherlands	1074	1533	1074[e]	1533
Sweden	795[b]	1397	913[f]	1596
Switzerland	789	1183	1086[g]	1628

Notes:

a: "Pension according to minimum income", assuming 25 years of insurance
b: "Allmän Folkpension" including general pension supplements
c: Social assistance entitlement incl. old age supplements and housing costs
d: Supplementary Benefit Long-Term Rate incl. average "social housing"
e: "Sociaal Minimum" according to Algemene Bijstandswet (ABW)
f: "Folkpension" incl. pension supplement and municipal housing supplement
g: Income limit for Supplementary Benefits ("Ergänzungsleistungen")

sioner couples, reflecting the fact that even the "pension according to minimum income" does not provide for need-related supplements for dependants.

In the United Kingdom, the Netherlands, and Sweden, the benefit levels for single pensioners also apply to widows. In Switzerland, the minimum pension for widows amounts to 631 DM (= 80% of 789 DM) per month in 1985. In West Germany, the widow of a "pensioner according to minimum income" would only be entitled to 381 DM (60% of 635 DM) after 25 years, and to 610 DM (60% of 1016 DM) after 40 years of insurance, respectively.

Concerning the quasi-official poverty lines, fixed in means-tested social assistance schemes, differences seem to be somewhat smaller; and even the ranking of countries might be changed when more accurate account could be taken of housing costs or certain special items. But again, it is strikingly confirmed that the social assistance entitlement in West Germany is at the lower end of similar arrangements in the other countries. It is even lower than the standard benefits of the Dutch pension scheme which are provided without any means-test.

It may be objected that this method of converting national minimum standards by means of purchasing power parities does not take adequate account of differences in the general level of well-being in the countries concerned. Poverty lines and minimum pensions, respectively, should instead be related to national income per capita, or the like.

Against such objections, it can be argued, firstly, that such direct comparisons using PPP's seem best suited to exhibit differences in absolute levels of minimum standards across countries (in terms of the amount of goods and services they can buy). On the other hand, comparing minimum benefits to average national income seems apt to show the relative generosity of those benefits for pensioners, as compared to average income earners in the

national context. Given the higher level of national income p.c. in West Germany, as compared to the Netherlands or the United Kingdom, however, the use of the second method would evidence the rigidity of minimum standards for old age in West Germany even more clearly and dramatically.

It is, however, correct that these findings do not allow to draw inferences concerning the actual extent of poverty among the aged. To use some well-known imagery of social policy: they indicate the density or looseness of "the social safety net" and the level at which it is stretched, but they do not yield any information about how many people are caught up by it or falling through the meshes. Therefore, we now turn to some empirical evidence on the extent of poverty among the elderly, based on the analysis of income samples.

II. Poverty among the aged: a comparative analysis of income surveys[13]

The attempt to measure the extent of poverty in old age by using the quasi-official poverty lines explained above, and to compare these poverty rates cross-nationally, would not be very satisfactory and is even likely to lead to distorted results.

For the poverty lines institutionalized in the various countries follow different "logics of construction" which hampers their cross-national comparability. Some are designed to represent an absolute poverty line in the sense of defining a "basket" of goods and services satisfying basic needs; some aim at defining a more generous "social minimum" relative to the changing average standards in society. Concerning their development over time, some are inflation-proofed in order to maintain the purchasing power, while others are linked to earnings development. Moreover,

the supplements for spouses and children are conceived in different ways (or to put it in methodological terms: the implicit equivalence scales are different).

When these conceptual differences are not adequately accounted for, they might even give rise to misinterpretations. Empirical variations in poverty rates might then reflect differences in definition rather than in social reality. It is obvious that, for instance, the more generous the poverty lines are drawn, the higher will be ceteris paribus the resulting poverty rates.

Finally, there is the problem of take-up of means-tested benefits which is not captured by simply comparing the levels of benefits promised. This factor may lead to different efficacy of minimum standard regulations even when the benefit levels are the same.

What is required, therefore, is a poverty line which is conceptualized in a consistent manner, but equally applicable to each country in order to enhance cross-national comparability. It is here suggested to define poverty in relative terms, i.e. in relation to the prevailing standards of living in a given society at a given time-point. Individuals or families "who have incomes below this poverty line cannot be said to fully enjoy the same level of living as the typical family in any country" (SMEEDING/HAUSER et al. 1985: 12).

The income concept used here is "household net income (after tax, incl. transfers)" which has to be adjusted according to different household size. This can be accomplished by means of so-called equivalence scales which serve the purpose of defining equivalent levels of economic well-being for households of different size.[14] Here, the standard LIS equivalence scale is applied which attributes a weight of 0.50 to the head of household and of 0.25 to each additional person, so that it is normalized to a three-person household (unit weight = 1).[15]

More precisely, then, it is suggested to define the poverty line as a certain percentage of the national median equivalent income, for the following reasons:
The median income divides the population into two equal parts: 50% below, and 50% above the median income. It thereby characterizes the typical income situation better than the arithmetic mean which is likely to give a distorted picture. Because the typical income distribution curve is skewed to the left, the mean income will always be above the median income and, therefore, will be attained by sometimes substantially less than 50% of the population.[16] For this reason, poverty lines based on median income provide more cautious estimates.

Linking the poverty line to the median income in this way constitutes a relative poverty line which is comparable across nations and across time. The choice of the exact level is, of course, always subject to a certain arbitrariness. LIS researchers have used, for the sake of convenience, the level of 50% of median equivalent income. To control for this arbitrariness, we have also computed the poverty rates at the 40% and 60% levels which can be regarded as defining a more severe and a milder poverty line.[17] Applying these measures of poverty enables us not only to compare the poverty rates among the aged, but also to assess to what extent poverty is specifically a problem associated with old age.

about here: Table 2

The results shown in Table 2 exhibit dramatic cross-national differences:
First of all, poverty rates show much more diversity for the elderly than for the total population. Since the larger part of the household income of the elderly consists of social transfers everywhere, this can be taken as an indication that public transfer schemes (and their underlying principles of

Table 2: Poverty Rates for Elderly Households According to Different Poverty Lines

Age group (of head of household)	Fed. Rep. of Germany			United Kingdom			Sweden			Switzerland		
	40%	50%	60%	40%	50%	60%	40%	50%	60%	40%	50%	60%
	(of median net equivalent income)											
55 - 59	3,2	4,7	7,1	0,9	4,0	6,4	2,2	4,0	5,7	1,3	3,8	6,0
60 - 64	3,0	5,0	9,4	1,9	8,1	15,2	2,2	3,8	6,7	3,2	5,5	10,7
65 - 69	3,0	7,4	9,7	1,7	14,1	34,1	0,2	0,4	2,5	3,8	6,7	13,8
70 - 74	5,1	10,2	14,8	1,7	18,6	43,6	0	0	3,2	2,9	7,6	15,6
75 +	4,8	9,9	19,1	1,7	22,0	51,6	0	0	10,5	3,7	10,8	22,7
all elderly 55 +	3,8	7,4	11,9	1,5	12,4	27,8	0,9	1,7	6,1	2,9	6,8	13,6
all elderly 60 +	4,1	8,4	13,7	1,8	15,6	36,0	0,6	1,1	6,2	3,4	7,8	16,0
for reference: all households (total population)	2,8	5,5	10,7	2,6	8,8	17,3	3,4	5,1	9,2	4,8	8,3	14,8

construction) indeed make a lot of difference in shaping the extent of poverty among the elderly.

While poverty in old age has most effectively and successfully been eradicated in Sweden, large numbers of old people in Britain are still living below the poverty line so defined. West Germany and Switzerland fall in between. As measured by the 50% of median level, the risk for people, aged 60 years or more, of falling into poverty in Germany and Switzerland is 7 - 8 times as high, and in the United Kingdom almost 15 times as high as in Sweden (!). More than one third of the aged in Britain is living below the more lenient level of 60% of median, as compared to every sixth or seventh in Switzerland and West Germany, respectively, but still only 6% of the aged in Sweden.

Interesting enough, poverty is in Sweden no longer a specific problem of old people. Poverty rates are indeed lower than for the total population! In contrast, the elderly in West Germany and in Britain are still disproportionately threatened by this fate. In Switzerland, older people seem similarly affected by the risk of poverty as the average population, a bit less at the more rigid level, and a bit more at the more lenient level.

Broken down by age groups (of head of household), there is clear evidence that the risk of poverty increases with age in Germany, Switzerland and most extremely in the United Kingdom. This fits well with the finding that the average living standards in Britain deteriorate most dramatically with increasing age, thereby aggravating the risk of poverty.

These findings are further corroborated when we have a closer look at the "retired" households, more strictly defined as comprising only those,

- which receive at least some kind of retirement income (public or occupational) and

- where income from work contributes less than 25% of their disposable household income.

Whereas in Sweden poverty is virtually non-existent for this group of pensioners, about every tenth pensioner household in Germany and Switzerland and almost every fourth in Britain suffers from a living standard below the household-specific 50% poverty line.[18]

But how can the general pattern be explained? And how can observable cross-national differences be related to the characteristics of the minimum standard regulations discussed above?

Poverty among the aged can be conceived as determined by the interaction of intra- and intergenerational inequality. The poverty rate of any specific age group is a function of both its level of income (compared to the national average) and the distribution of income within this age group.[19] Consequently, the poverty rates among the aged tend to be higher than the national poverty rate because their average disposable income is generally lower. And since the average level of economic well-being is usually declining with age, we also expect a growing incidence of poverty among the older age groups. This is indeed the pattern we find in all countries, with the notable exception of Sweden. The Swedish case can then be explained by the very low levels of intra-age group inequality which outweigh the decline in average living standards of the very old. Even the most deprived pensioners do not dispose of less than half of the median income in the larger society.

Although it is true in general that income inequality in Sweden is lower than in any of the other countries studied, it should be pointed out that it is lowest in the highest age groups (above 70 years). That income inequality is somewhat higher among the younger age groups of pensioners is likely to be an effect of the introduction of the earnings-related ATP scheme since the 1960's.

The general pension supplements paid to older pensioners to compensate for this, on the other hand, have tended to reinforce the equalizing effects of the earlier AFP scheme and, at the same time, have raised the level of these flat-rate benefits sufficiently as to bring (or keep) them above the poverty line of 50% of the median income. In addition, the municipal housing supplements have also contributed to raise the minimum benefit levels, and it can be assumed that these means-tested benefits are almost completely taken up by those entitled to them.

The problem of poverty in old age becomes extreme, on the other hand, when the average level of benefits is low and, in addition, intragenerational inequality is more expressed. What is likely to happen then? Large numbers of pensioners will then cluster at the lower end of the income distribution of the larger society. This situation seems to prevail in the United Kingdom where the (adjusted) average household income for people above 70 years old drops by about one third below the national average (of all households). This also helps to explain why the poverty rates rise tremendously when the poverty line is only modestly increased by 10 percentage points. Indeed, more than one in three elderly households and almost every second household of the very old have to make their living with 60% or less of the median income.

It should be noted, however, that at the 40% level the British system operates fairly effectively to prevent people from falling into severe poverty (better than the Swiss or the German system). It is hypothesized that - at this rigid level - this is due to the almost universal coverage brought about by the flat-rate component. But because its benefits are so low, it does not provide adequate protection at the higher levels. Because it is not sufficiently supplemented by earnings-related components nor by occupational pensions (in 1980), the risk of poverty rises tremendously, especially for the older age cohorts. The extraordinarily high rates of about 20% of the households below

the 50% of median poverty line further suggest that the take-up rate of supplementary (means-tested) pensions is all but complete. The situation seems to improve in the 'younger' age groups of pensioners, partly because of increasing earnings-related benefits, partly because of continued employment in these age groups which can itself be understood as a reaction to the low benefit levels of the state pension scheme.

In West Germany, inequalities among pensioners are of about the same magnitude than in the United Kingdom, but the average level of living of pensioners, compared to the rest of the population, is much more favorable, and the drop in levels of living, associated with increasing age, is less pronounced. Because of the earnings-related character of the standard pension scheme (and the indexation to earnings development), the majority of pensioners, of course, receive pensions well above the quasi-official poverty line, specified in social assistance law. This contributes to the much lower poverty rates in West Germany as compared to Britain.

But it must be noted that protection against extreme poverty (at the 40% poverty line) is worse than in the United Kingdom, indeed worst of all the countries studied. In contrast to all the other countries, pensioners also run a higher risk of falling into extreme poverty than the average population. It seems that in the other countries, minimum pensions at least provide a better and fairly effective protection against extreme poverty. This, in turn, reflects the incomplete coverage of the German pension scheme as well as the lack of a minimum pension and of needs-related supplements for married pensioners. Obviously, the take-up of means-tested social assistance is also so incomplete that it cannot effectively counterbalance these deficiencies.

In Switzerland, the living standards of pensioners are characterized by the apparent paradox that the average level of retirement income (public, occupational, private) is quite high, but at

the same time there are large discrepancies among the pensioners. In fact, the high average income level is somewhat misleading because it is associated with the highest degrees of inequality among pensioners, and a high concentration of income, especially of property income. Concerning the problem of poverty, this results in medium-range poverty rates of about the same magnitude as in the total population.

Given the high level of average income, the minimum pensions paid by the state pension scheme do not suffice to keep pensioners from dropping below the poverty line. And the supplementary benefits which should in theory raise the guaranteed minimum income for pensioners, seem not to be taken up by all those entitled. But on the other hand, since most pensioners draw more than just the minimum pension and, moreover, receive considerable occupational pensions and/or returns from private property, poverty rates are much lower than in the United Kingdom and even somewhat lower than in Germany - despite the fact that inequalities among pensioners are much more expressed in Switzerland.

III. Policy consequences

Which conclusions can be drawn from this cross-national comparisons with regard to the prospects of anti-poverty policy in Western Europe?

First of all, it seems possible to abolish poverty in old age. The problem of poverty in old age can be successfully attacked by means of social policy, and - as the Swedish experience demonstrates - it can even be effectively solved. There is no evidence for an "impossibility theorem", pretending that a certain amount of poverty is just a natural condition of any society which has to be accepted and cannot be eradicated. This may be true for inequality in general; but the persistence of inequality does not

preclude securing a minimum income for every (old) citizen. Rather, it seems to be a question of the political will, i.e. of setting political priorities and the emphasis laid on this goal, and, in the second instance, of the administrative skills to implement effective policies to this end.

Which are, then, the conditions for the implementation of an effective policy coping with the problem of poverty in old age?

Whatever the level of the poverty line and the appropriate equivalence scale to take regard of basic needs, the most effective solution seems to be a demogrant scheme providing a flat-rate benefit, fixed at that level, at least for all citizens above pensionable age, as of right. Thus, the right to a minimum income is recognized and realized as a basic social right. And it avoids all the problems of unequal treatment, discriminatory practices, etc. associated with means-tested benefits (see below). But this is obviously also the most expensive solution, and is likely to be met with considerable political resistance, the more generous the poverty line or the social minimum will be. This suggests that such a scheme will be (or should be) introduced only at a moderate level of benefits.

Furthermore, there is the argument of "disincentives" for the labour market, for private savings, etc. which is often raised against such proposals. This problem is also connected with the level of benefits promised. But the validity of these objections should not be exaggerated. They hardly apply to the case of old age security, or are at least less significant there. They might perhaps arise in the case of flexible retirement age (when no actuarial reductions of benefits are made) or in the case of invalidity pensions, but can be kept in check by imposing strict eligibility conditions. Experience with the Dutch state pension scheme which is now operated for more than 30 years does not give much support to these fears.

When a flat-rate demogrant scheme (or a minimum pension in an earnings-related scheme) is not geared at what is considered an adequate poverty line, the need arises for supplementary benefits. In this case, the most effective solution seems to be a dual system of a tax-financed flat-rate scheme and a contribution-based earnings-related scheme, as it is institutionalized in Sweden. But it should be noted that there are two specific preconditions for the successful operation given in the Swedish system:

- the second-tier earnings-related scheme compulsorily covers all employed persons, whether in dependent employment or self-employed;
- general pension supplements are paid to all those who have no (or only low) entitlements in that scheme. These supplements, on top of the basic pension, then correspond to the guaranteed minimum income.

While the latter program was mainly conceived as a transitory measure for the entrance generation, it also provides effective protection for those who, for whatever reason, do not fully participate in the second-tier scheme.

Compared to a demogrant scheme providing the same level of guaranteed benefits, these "means-tested" supplements lower the visible tax costs, but of course not the total costs of the system, comprising taxes and contributions. Notwithstanding, this may still have the advantage of arousing less tax resistance.

When benefits provided by the standard pension scheme have to be supplemented by means-tested benefits to secure the desired "social minimum", the main problem is how to ensure the take-up of benefits by all those entitled, or how to minimize non take-up. Our preliminary cross-national evidence suggests that this is best achieved when the means-tested benefits are specifically designed and targeted at the pensioners, and can be claimed in the course of the same administrative procedure as their "normal" pension entitlements.[20] These conditions seem to be met in the

case of municipal housing benefits in Sweden, but less so for supplementary benfits in Switzerland and in the United Kingdom, and certainly not in West Germany. Take-up rates are also likely to be adversely affected - in particular for people in old age - by the rigidity of the means-test, for example, when all income items have to be recorded in detail, when no allowances are granted even for small properties, when the benefits have to be claimed repeatedly within a year, etc..

Finally, it should not be underestimated that even when means-tested benefits are needed to raise benefits to the poverty line, basic (or minimum) pension schemes at least provide better protection against extreme poverty, as has been evidenced by comparing the poverty rates at the 40% level. Likewise, the "poverty gap", i.e. the difference between the assumed poverty line and the available means, is certainly smaller, on the average, than in a system where no such basic floor exists.

Let me finally conclude with some considerations regarding the prospects for anti-poverty policy for the elderly within the European community:

If political integration is to be achieved among the member states of the European community, there is also a political necessity (perhaps not an economic one) for a framework of basic social and economic rights, as it is already acknowledged in the so-called Social Charter.

Insofar as there is consensus about the abolition of poverty in old age as an accepted policy goal, there is also a need for a common and coordinated policy to achieve this goal, or at least make some progress towards it.

To make such a policy operational, a common conceptualization of the poverty problem and common standards regarding the social minimum are needed. It will not be politically feasible in the

medium and long run to maintain widely diverging normative standards and rules for dealing with the problem at the national level.

A historical analogy may serve here as a reference point:
The present "poverty regimes" in the West European nation-states have evolved from locally and/or regionally different regulations. This process of standardization (which has sometimes been referred to as "nationalizing social security") has gradually limited the range of variations and of discretionary practices of local authorities, and has set minimum standards and strengthened the character of legal entitlements. In a broader socio-political perspective, this process can be understood as a corollary to the process of national integration by which the nation-state has become the dominant frame of reference for the citizens when judging their living standards and claiming their rights.

Just as it is nowadays almost inconceivable that standards for social security (and assistance) benefits vary widely within nation-states[21], it will become more and more unacceptable that - in the process of West European integration - they vary between nation-states.

This does not mean, however, that a uniform "poverty regime" must be established immediately at the community level. What is required first, is an orientation of the member states towards common goals rather than purely legal-administrative harmonization of existing institutional structures. These targets may then be pursued, departing from (and taking account of) the institutional framework, the programs and schemes which already exist and have historically developed along different lines. These goals should be - so to speak - the vantage points towards which the process of change and reform of existing schemes can be directed.

It does also not imply - at least not in the first stage - that the same absolute amounts of benefits are provided community-wide, or the same poverty line (in terms of purchasing power) be applied. Given the still large differences in levels of economic development (and hence in economic well-being) among the West European nation-states, as measured for instance by GDP or national income per capita, there is good reason to define the poverty lines with regard to the respective national socio-economic context. This seems the more justified as long as the citizens themselves assess their own living standards with regard to this frame of reference. But at least the rationale underlying the construction of minimum standards should be the same. It can no longer be sustained, for instance, that the levels of the poverty line with regard to national averages are highly different or even diverging, or that some countries provide minimum or basic pensions, while others don't.[22]

But when the frame of reference for perceiving and evaluating socioeconomic conditions is really shifted from the nation-state to the community level, this method can no longer be maintained. As a second stage, it may, therefore, be envisaged that social minima have to be harmonized "in substance", i.e. in terms of absolute levels of well-being. This will eventually become economically feasible to the extent that differences in economic productivity and in average living standards among the member states of the community will be levelled off in the process of socio-economic integration.

Annotations

1. This is also the underlying logic of social assistance schemes, except for the fact that they make entitlements contingent on a means-test.
2. The minimum contribution period has originally been 15 years, but has been reduced since 1984 to 5 years.
3. Although the scheme has been "opened" for these groups since 1972, membership is not obligatory, and those wishing to join it voluntarily have to pay the contributions completely out of their own pocket (what just the most vulnerable social groups can least afford).
4. This measure has recently been renewed as part of the so-called "pension compromise" for the 90's.
5. There are only slight differences in scale rates, taking account of regional variations in the costs of providing for essentially the same needs.
6. It is even compulsory for certain categories of the non-employed (e.g. students), the major exception being the spouses and widows of insured persons.
7. There are, for instance, rather generous allowances for property, deductions can be made for housing costs, and only two thirds of the income other than pensions are reckoned for the purpose of calculating the benefits. Thereby, the income level guaranteed by this scheme is raised beyond the income limits which serve only as a qualifying condition for entitlement.
8. The old National Assistance Assistance Scheme has been replaced in 1966 by the Supplementary Benefit Scheme, but the underlying logic and the corrrespondence of the benefit levels has remained the same.- Since our comparison refers to the year 1985, the recent substitution of the Supplementary

Benefit Scheme by the new Income Support Scheme (enacted in 1988) is not dealt with here.

9. Since some years, housing benefits are granted under a separate Housing Benefit Scheme with higher income limits; but all beneficiaries of supplementary benefits remained entitled to these benefits which may be supplemented for them by housing benefit supplements so that the overall economic effect remained very much the same.
10. This is not to say that the SERPS scheme is ineffective in protecting against poverty or in avoiding the recourse to means-tested benefits, but only that it will need a longer period to take effect.
11. They seem to be fairly high by international standards, but it should be considered that certain items are already included (housing, heating) which in other countries are covered by separate schemes or in addition to standard scale rates.
12. Using purchasing power parities for the purpose of cross-national comparisons of living standards is preferable to using official exchange rates, because the former refer to a common "basket of goods and services", while the latter are heavily biased mainly by foreign trade and financial transactions.
13. The findings reported in the following section are part of my analyses of the LIS data sets (cf. KOHL 1988). This research has been supported by a research grant of the Deutsche Forschungsgemeinschaft (DFG). I am particularly grateful to Guenther SCHMAUS and Brigitte BUHMANN for their advice and support. - Unfortunately, no data file for the Netherlands was available when these analyses were carried out.
14. For a fuller discussion of the methodological advantages and problems as well as for a comparison of different equivalence scales and their effects, see BUHMANN/RAINWATER/SCHMAUS/SMEEDING 1988.

15. The ratios remain the same, however, (and so do the statistics characterizing the distribution) when the one-person household is taken as the unit and each additional member is assigned a weight of 0.50.
16. Poverty lines based on certain percentages of mean income would, therefore, yield higher poverty rates, the extent being dependent on the degree of inequality of the overall distribution.
17. As an additional sensitivity test, we used the 50% of mean equivalent income (the results of which are not given here) which yielded, by and large, similar poverty rates as the 60% of median poverty line.
18. Cf. KOHL 1987. This analysis also demonstrated that among the elderly female one-person households (most of them widows, presumably) run the greatest risks of falling into poverty, followed by male one-person households, in all countries (except Sweden).
19. When reference is made in the following to intragenerational income inequality, the Gini index and the top and bottom quintile shares are used as indicators (cf. KOHL 1988).
20. This is, of course, no plea for categorical benefits; the argument does not refer to the level of benefits, but only to the administrative procedure to ensure full take-up.
21. Regional variations may still occur, especially in social assistance schemes, in order to account for variations in the costs of what are essentially the same basic needs (e.g. differences in housing costs).
22. The method of defining poverty lines used in this paper meets both requirements: the concept is universally applicable and it takes account of existing differences in real income of the countries concerned. So it is not merely a methodological exercise, but is also relevant for the formulation of community-wide anti-poverty policies.

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