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Ritakallio, Veli-Matti

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Finnish Poverty: A Cross-National Comparison

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Finnish Poverty: A Cross-National Comparison

Veli-Matti Ritakallio

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FINNISH POVERTY: A CROSS-NATIONAL COMPARISON[1]

Veli-Matti Ritakallio
University of Turku
Department of Social Policy
FIN-20500 Turku
Finland
Veli-Matti.Ritakallio@utu.fi

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[1]This paper is part (Chapter 7) of a larger work: Ritakallio, V-M. 1994. Köyhyys Suomessa 1981–1990. Tutkimus tulonsiirtojen vaikutuksista. (Poverty in Finland 1981–1990. A Study of Effects of Income Transfers). Research Report 39: National Research and Development Centre for Welfare and Health, Finland.

1 Introduction

One of the main goals of all welfare systems is to alleviate poverty. How well have welfare states succeeded in this task? And how have they realized it? Is there any correlation between economic poverty and the way in which income transfer systems operate? Furthermore, do there occur major differences between countries in terms of the poverty risk faced by different population groups? In other words, do different welfare states treat different groups equally, or are there significant differences between the systems for women, children, and elderly people? These are the questions which I shall attempt to answer in the present analysis, with a focus on Finland -- a latecomer into the LIS databank -- with other countries that have earlier been included in LIS.

In terms of successful welfare policies, Sweden has outperformed the other Scandinavian countries (see e.g. Smeeding, Rainwater, Rein, Hauser & Schabel 1990; Mitchell 1991). This is also reflected in comparative welfare state studies. Sweden is usually included in international comparisons and the other Scandinavian countries: Denmark, Finland and Norway have been shadowed by the Swidish shine.

In cross-national comparisons focusing on the extent of welfare spending and the institutional development of the welfare state, however, many differences emerge between Sweden and other Nordic countries. In a comparative study of the extent of welfare expenditure, for example, Alestalo and Uusitalo (1992) suggest that the welfare state developed in similar ways in Finland and Norway, and by the end of the 1980s, these countries, together with Denmark, represented the 'middle band' in the Scandinavian welfare state, while Sweden emerged as the leading welfare state.

One additional reason why Finland has been largely overlooked in wider international comparative poverty studies, is that she joined the Luxembourg Income Study only in 1993. The only significant exception is an article by Björn Gustafsson and Hannu Uusitalo (1990b), in which poverty in Sweden and Finland in the early 1980s is subjected to cross-national comparison. Gustafsson and Uusitalo find that poverty

diminished rapidly in Finland and Sweden between the mid-1960s and mid-1970s; towards the end of the 1970s, no drastic changes occurred in either country, but from the early 1980s the trends of development in the two countries began to diverge. In Finland, poverty continued to diminish, whereas in Sweden it gradually began to increase again. By international standards, during the early 1980s there was less poverty in Finland and Sweden than in other Western countries, and the main reason for this is found to be the income transfer system.

The present study complements Gustafsson and Uusitalo's work in a number of ways. Firstly, the cross-national comparisons here are based upon two 'snapshots', cross-sections taken at two points in time: the early and the mid-1980s; this makes it possible to compare the trends in different countries. For Finland, material is also available for 1990. Secondly, in contrast to earlier studies, the cross-national comparisons are made in terms of differentiated population groups. The aim here is to explore how the structure of poverty may differ between countries practising different kinds of welfare policies. The central focus of the study lies on a comparison of the poverty-alleviating impacts of income transfer systems. This is thus an analysis of welfare state outcomes, and represents a significant contribution to the study of the development of social rights and the level of social expenditures, since it enables us to examine groups within the population separately, and establish whether the welfare state treats different groups of its citizens differently. The greater the equity of the welfare state, the more equally it will alleviate poverty in distinct sections of the population.

1.1 The welfare state, social transfers, and welfare state models

The welfare state is an institution characteristic of the Western industrial democracies, its aim being the redistribution and equalization by political means of the welfare of the citizens. Governmental actions with redistributory effects can be classified on the basis of the phase of the distributory process in which their impact occurs. Stein Ringen (1987) draws a distinction between 'regulatory' and 'redistributory' actions:

regulatory actions occur in the initial phases of the distributory process; they are intended to regulate those mechanisms which generate inequality and welfare deficits. Typical examples of regulatory actions are income and employment policies. Redistributory actions, on the other hand, come into play at a later phase of the process, following initial distribution by the market, and have the intention of evening out the unequal results of market-driven distribution. Central elements in redistributory policies consist of taxation, cash benefits, and social services.

Greater clarity concerning the role of public actions in the distributory process is provided by the systematic model proposed by Walter Korpi (1983: 188-190). Here he describes how buying power (disposable income) is created as a result of interaction between wages and political effects at many different stages of the distributory process. In the present study, the term 'welfare state' is used in a narrow sense, as a synonym for welfare policies: in other words, the welfare state is seen as a redistributory system working essentially through progressive taxation and income transfers payable to citizens, together with the provision of publicly subsidized services (cf. Ringen 1987). The analysis of the impact of the welfare state is focused mainly upon the analysis of the redistributory effects of direct taxation and income transfers payable directly to citizens, especially in terms of poverty alleviation.

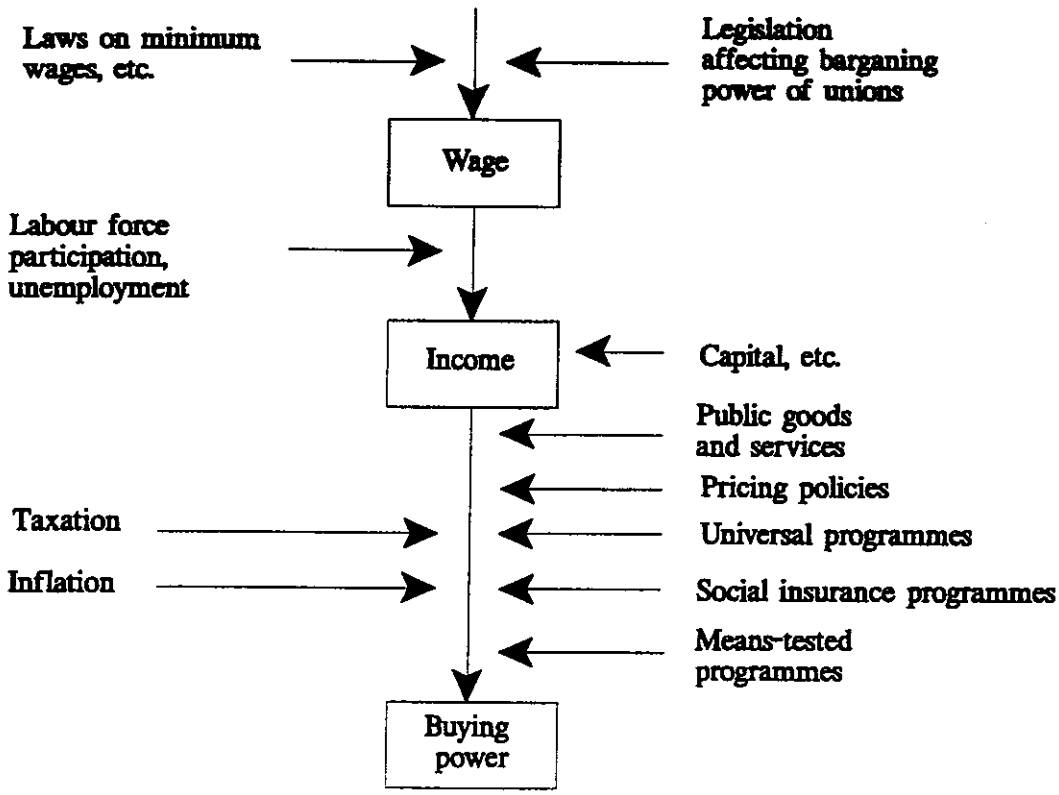


Figure 1 Public interventions at different stages of distribution of buying power (Korpi 1983, 190)

The means used in social policies, and the underlying principles, can be used as a basis to differentiate alternative models of the welfare state. For the comparative analysis here, six countries representing examples of different ideal types of social policies were selected (Table 1). This approach is based on a fourfold division proposed by Walter Korpi and Joakim Palme (1993), into 'means-tested', 'corporatist', 'minimum-security' and 'institutional' models (cf. Titmuss 1958; Esping-Andersen 1990; Castles & Mitchell 1990; Leibfried & Ostner 1991).

Table 1 Characteristics of sociopolitical models

Dimension	Sociopolitical models			
	MEANS-TESTED (USA and Australia[1])	MINIMUM SECURITY (UK)	CORPORAT-IST (Germany)	INSTI-TUTIONAL (Sweden and Finland)
Target group	poor	citizens	labour force	citizens
Means-testing	important	not important	not important	not important
Minimum level of income security	not defined	tolerable	not defined	reasonable
Earnings-related benefits	non-typical feature	non-typical feature	typical feature	typical feature
Role of the state	minimal	medium	medium	large

The **means-tested** model is represented here by the United States and Australia. According to the ideology of liberalism, the role of the State should be kept to a minimum, both in the provision of services and in ensuring income security. The role of the State is thus restricted to assisting those who are unable to meet their needs through other channels. One of the fundamental principles underlying the means-tested model is the concept of personal responsibility. In the field of income security, this is seen in the prominent role played by private insurance. Public social policy is characterized by being the instance of last resort, by means-testing, and by a relatively low level both of benefits and of services. The inclusion of Australia in this comparison is justified by the higher levels of public assistance provided in Australia than in the US, thus enabling a comparison of the outcomes of two distinct means-tested systems.

The United Kingdom represents here a **minimum-security** model of welfare policy, in which universal social policies cover to the entire population, irrespective of income, but the role of public social policies is seen as ensuring merely a tolerable minimum standard of living. Any benefits over and above this minimum level must be obtained from the market. In the UK, the universal principle applies primarily to pensions and

health care. It must be borne in mind, however, that welfare benefits were cut back considerably in the UK during the 1980s, representing a gradual shift away from the minimum-security principle towards a means-tested model (see Alcock 1993, 214-238; Townsend 1993; Oppenheim 1994). Scrutiny of the development of welfare policies in the UK during that decade therefore permits an assessment of the impact of neoliberal social policies.

Corporatist social policies are characteristic of many of the countries in continental Europe, where the main emphasis in public welfare policies is placed on income transfers; services are largely provided by the private sector, and in particular by the Church. Corporatist social policies are characterized by the linking of social security to performance or status on the labour market. Income security does not extend to the entire population, but only to those in employment, and social benefits are seen as linked to earnings. The guarantee of a minimum subsistence on the basis of citizenship is not typical of corporatist models. In a number of analyses, the corporatist model has been interpreted as being constructed around the concept of the male breadwinner (Leibfried & Ostner 1991): the family's social security is derived from the husband's employment status, and women are encouraged to remain at home. There is, for example, little provision of daycare centres for children, which make it easier for women to enter the labour market (Orloff 1993). The country selected here to exemplify a corporatist model in the 1980s is West Germany.

In the **institutional** model of social policy, the State's responsibility for meeting the needs of its citizens extends very far indeed. In addition to maintaining a comprehensive statutory income security system, the State also provides public services. The overall objective is the achievement of social integration through providing access to high-quality but moderately-priced public services for all who need them. In this model, income-security systems are characterized by a 'reasonable' standard of benefits, a central role for the State, and the universalist principle: all citizens are included within the range of social benefits. The definition of a 'reasonable' level of benefits is derived on the one hand from minimum-security levels, but on the other from the earnings-related principle. The aim of the minimum-

security element is to guarantee all citizens, irrespective of their working careers, a reasonable level of subsistence, while the earnings-related element ensures the maintenance of levels of consumption achieved through employment following the individual's withdrawal (for whatever reason) from the labour market. This institutional model of the welfare state is particularly characteristic of the Scandinavian countries (Esping-Andersen & Korpi 1987), and in the following analysis it is exemplified by Sweden and Finland.

1.2 Data

The research material has been derived from the database of the *Luxembourg Income Study* (LIS) (see Smeeding, O'Higgins & Rainwater 1990). The LIS is an international project with the central objective of promoting the comparative investigation of income distribution and poverty. The basis of the LIS is a databank, containing microdata of income formation by households. Each dataset contains about sixty income and background variables, which have been coded according to uniform criteria. At present, there are about twenty countries participating in the LIS project, and three waves of data are currently available, comprising information relating to several different countries for around 1980, 1985 and 1990. This means that the LIS data now permit the assessment of trends occurring during the 1980s: data for that decade from different countries are now available permitting the reliable analysis of trends in poverty and income inequality, for example. Since spring 1994, the income transfer statistics for Finland for 1987 and 1991 have been available through the LIS. In the following analysis, however, the data for Finland are based on household survey data for 1981, 1985 and 1990, where the classification has been modified to harmonize it with the LIS definitions of income (see Uusitalo 1989: 95-96).

Table 2 Sets of data used in the comparative study

Country and Year	*Name and size of the dataset (number of households)*[1]
USA 1979	Current Population Survey, 15 225
USA 1986	Current Population Survey, 11 646
Australia 1981	The Income and Housing Survey, 15 985
Australia 1985	The Income and Housing Survey, 7 560
UK 1979	The Family Expenditure Survey, 6 888
UK 1986	The Family Expenditure Survey, 7 178
Germany 1981	German Transfer Survey, 2 727
Germany 1984	The German Panel Survey: wave 2, 5 174
Sweden 1981	The Swedish Income Distribution Survey, 9 625
Sweden 1987	The Swedish Income Distribution Survey, 9 421
Finland[2] 1981	Household Budget Survey, 7 368
Finland[2] 1985	Household Budget Survey, 8 200
Finland[2] 1990	Household Budget Survey, 8 258

[1]Institutionalized and homeless people are not represented in any set of data.

[2]The Finnish data has been made comparble with LIS data according to the directions of Uusitalo (1989).

1.3 Poverty lines

According to the relative income method, the poverty line is defined as 50 % of the median income; i.e. all those whose income is below half of the median disposable equivalent income are classified as in poverty. The consumption unit scale used here is the same as is used by the OECD. The poverty line has been calculated separately for each country and for each point in time.

In comparing the results of the following analysis with earlier findings reached on the basis of LIS data, it should be borne in mind that the research unit used here is the individual, whose income is defined as the sum income of the household divided by the OECD consumption unit coefficient. The data for households were converted into data for individuals by entering the material for each household into the data as many

times as the number of members in the household. Some earlier studies used the household or family as the research unit, whose income was defined as the sum total income of the household divided by the consumption unit coefficient (e.g. Mitchell 1991). The research unit deployed here, however, provides a better picture of the relative positions of different groups within the population (see Gustafsson & Uusitalo 1990a: 80). The different method deployed here produces slight differences from previous findings; what this means in practice is that a somewhat more positive picture is obtained for those living alone, and a somewhat more negative picture for those living in larger households. These differences emerge most clearly in the examination of poverty profiles.

It has been necessary to exclude the UK from this comparison of groups, since the classifications used in the UK data do not permit a systematic comparison with the data for the other countries. The study of the UK during the 1980s is problematic in other ways, too, since an income level defined by reference to the relative poverty method has repeatedly been shown to have been inadequate to avoid real poverty in Britain. Many British scholars have pointed out that a poverty line derived from the relative poverty criterion lies clearly below the 'real poverty' level in the UK (f. ex. Veit Wilson 1994, 24-25). The poverty line comparison in Figure 2 illustrates how the relative poverty line for the UK in the mid-1980s was the lowest among the countries in this survey. Moreover, in calculating the poverty line, it is important to bear in mind that in other countries households will need funds to buy services which in the Scandinavian countries will be provided as public services virtually free of charge (e.g. education, health care, services for the elderly, etc.). A comparison of the poverty lines shows that the poverty lines in the countries studied were all defined at broadly speaking similar levels, with the exception of that for the UK. With reference to the higher poverty line calculated for the US, on the other hand, it should be borne in mind that services such as education or health care have to be paid for privately, and are moreover expensive.

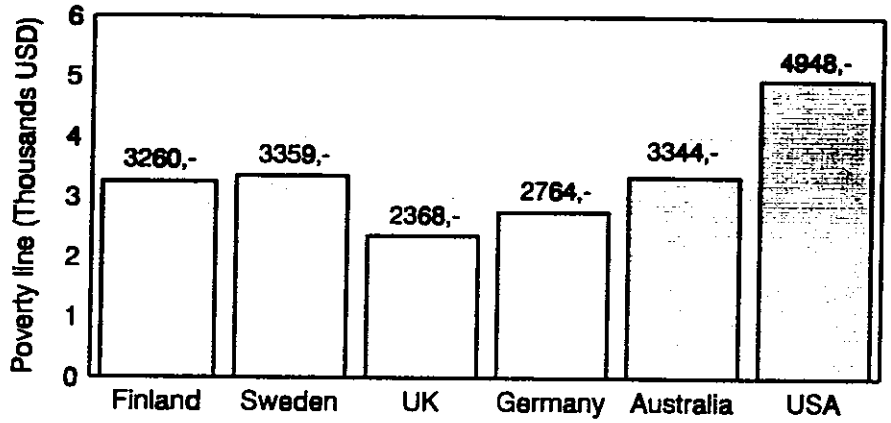


Figure 2 Poverty lines, at half of median income, for one consumption-unit households in the mid 1980's, in US Dollars

[1]Poverty line for each country has first been converted to 1985 money values using the consumer price index of the country in question. The figures have then been converted to USD's using the relevant exchange rates. The coefficients have been taken from the LIS Institutional Database.

1.5 The poverty rate and the poverty gap

Once the criteria for poverty have been determined, the investigator needs to decide how the information relating to poverty can be collated. Quantitative poverty studies are typically based on a poverty rate ('headcount') definition, i.e., the poverty rate expresses the percentage of the population remaining below the poverty line (see Sen 1981: 32-34).

The information which can be extracted from the poverty rate is very limited, however. All it really tells us is what proportion of the population is either above or below the poverty line. What is also worth knowing, however, is just how poor the poor really are, and this information is expressed by means of a different indicator, the poverty gap. The poverty gap, expressed in the relevant currency — crowns, dollars, marks, etc. — can be calculated for every individual who is below the poverty line: it is the difference between the poverty line and the individual's income. By collating all the individual poverty gaps, we can then obtain the aggregate poverty gap, and it is this indicator which is usually of most interest, since it in effect expresses the amount of cash needed to raise the entire population above the poverty line.

In the literature, many proposals have been made as to how poverty gaps could be expressed in order to be able to compare the gaps for different countries or examine changes between different points in time within the same country. For this purpose, it is clearly necessary to abstract the poverty gap from expression in currency. Many alternative solutions have been suggested (see e.g. Sen 1981: 32-34; Beckerman 1979 & 1982; Mitchell 1991). For the present study, Mitchell's method has been used, in which the poverty gap is calculated in relation to the economic resources for the country in question at the point of time in question, expressed as Gross Domestic Product (GDP).

The problem with using the poverty rate method to examine poverty trends over time or between countries is that it is extremely sensitive to modifications in the level of definition of the poverty line. For comparisons both over time and cross-nationally, the impact on research findings of shifts in the definition of the poverty line can be studied by means of a sensitivity analysis. By expressing the results in parallel on an ordinal scale, it can be explored whether setting the poverty line at for example 40 %, 50 % or 60 % of the median income gives convergent or divergent findings concerning changes over time or comparisons between countries. Unambiguous interpretations of poverty trends can only be achieved in situations where all alternative definitions of the poverty line generate convergent findings. Research has shown that methods relying upon the poverty gap are far less sensitive than poverty rate methods are to such modifications in the definition of the poverty line (see Atkinson 1989; Mitchell 1991).

A second crucial problem encountered in analyses making use of the poverty rate emerges when attention is focused on the poverty-alleviating impact of the welfare state. The poverty rate indicator does not react to 'post-transfer poverty'; i.e. it ignores income transfers made to those still remaining below the poverty line even after income transfers have been carried out. To put this another way, the poverty rate indicator fails to register the relative poverty-alleviating impact of income transfers; it only records poverty alleviation for those whose post-transfer income has been raised above the poverty line (see Sen 1981: 32-34). One might express this as saying that

the poverty line indicator registers poverty elimination, but not poverty alleviation. For example, let us consider persons living at a minimum subsistence-benefit level, who are entirely dependent for their income upon income transfers, taking USD 5000 per year as the minimum subsistence-benefit level, and USD 6000 as the poverty line. In such cases, the poverty rate indicator would not register any poverty-alleviating impact at all of social security, since all those on minimum subsistence benefit would still be living in poverty irrespective of the social security benefits which they had received. Using a poverty gap indicator, on the other hand, we would find an 80 % reduction in the extent of poverty experienced by these individuals.

The problems outlined here are crucial justifications for the use of poverty gap analyses alongside poverty rate indicators in attempting to analyze the poverty-alleviating impact of income transfers.

Is there any need for poverty rate studies at all, if the poverty gap method is more informative? According to Mitchell (1991, 46) the best and most informative approach is to carry out poverty rate and poverty gap analyses side by side. She justifies the significance of poverty rate analysis by the political relevance of the method:

> "If we concede that poverty alleviation is an aim common to the income transfer systems of the LIS countries, then an estimate of the number of families or individuals who remain in poverty post-transfer is an inescapable requirement of the study, irrespective of the methodological flaws associated with head-counts."

In this study poverty rate and poverty gap methods have been used side by side.

2 Models of social policy and the poverty rate

The poverty rate decreased in Finland alone in the early 1980s

In all of the countries studied, with the sole exception of Finland, the poverty rate rose during the first half of the 1980s (see Figure 3), with particularly drastic increases in the UK and the USA. In the UK, cuts in social security benefits, and a sudden rise in unemployment during this decade, led to a rapid increase in the poverty rate, reflecting a shift in British social policies towards a means-tested model. In Finland, however, the poverty rate continued to decline right through to the end of the 1980s, and this finding is not affected by modifying the definition of the poverty line: at all definitions used (40 %, 50 % and 60 % of median income), the poverty rate in Finland fell at the same time as it was rising in other countries (see Appendix Table 1).

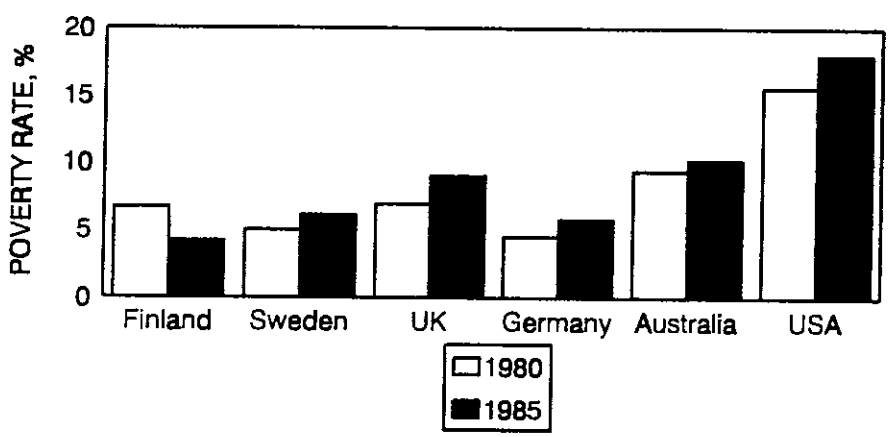
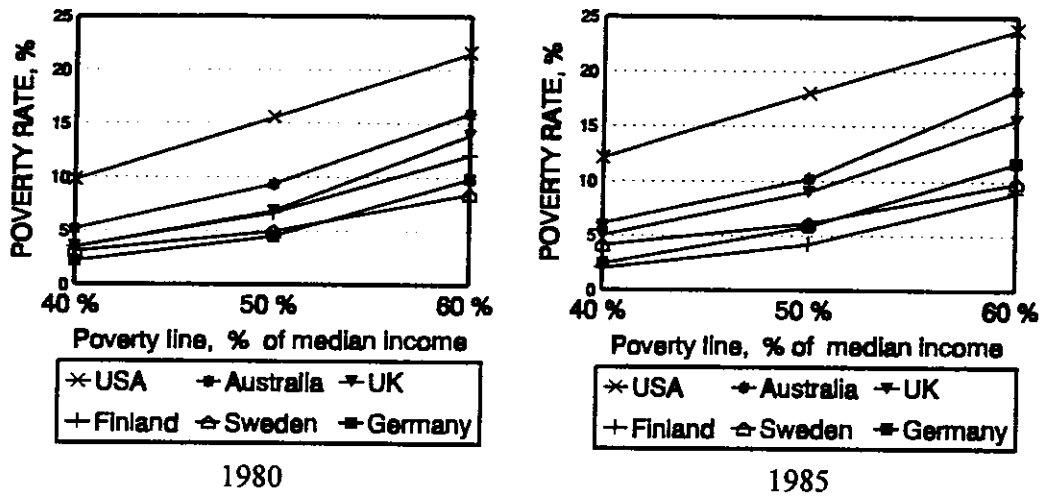


Figure 3 Poverty rate in the studied countries in the early 1980's

The poverty rate is highest in countries with means-tested social policies

Figures 4 and 5 allow us to rank the poverty rates found in the countries studied, and also to see what changes in this ranking occurred in the course of the early 1980s. The overall poverty ranking for different countries is unambiguous only where the graph curves do not intersect each other (see Atkinson 1989).



Figures 4 and 5 Poverty rate orderings in the early 80's for the countries studied

The high figures shown for the United States reveal the obverse side of the 'American dream'. Over 15 % of the US population were living in poverty in the early 1980s, and by mid-decade this figure had risen to almost 20 %. During the first half of the decade, the differential between the USA and other countries was increasing. In Australia, poverty was considerably less common than in the USA. Figures 4 and 5 show, nevertheless, that poverty was strikingly more prevalent in these two countries, both of which practised means-tested 'poorhouse' social policies, than in countries following other approaches to welfare. The weaker impact of means-tested welfare policies in alleviating poverty is also seen in Britain, where the shift towards a more means-tested approach coincides with a steep rise in poverty. For Finland, Figures 4 and 5 reveal that in 1980, poverty was still more prevalent than in either Sweden or Germany; but by 1985, this position had been reversed. If the absence of poverty is taken as a criterion for evaluating the welfare state, then by the mid-1980s Finland was in the lead.

The findings concerning poverty trends during the 1980s can also be interpreted in relation to the economic policies being practised. Both in the USA and in the UK, thinking during this period was dominated by neoliberal economic theory, with an emphasis upon the responsibility of the individual and upon freedom from excessive State interference. The role of the State should be reduced to a minimum, and social policy should be targeted only at persons in the very poorest circumstances. The

number of such persons in the countries practising neoliberal policies, however, appears to have been very considerable, higher than those in countries following different policies, and rising, for poverty can be seen to have increased faster in the UK and USA during this period than in other countries. For Finland, the comparatively positive trend seen throughout the 1980s shows that Finnish society was passing through a more positive phase of development, which persisted up to at least 1990.

3 Models of social policy and the poverty gap

The poverty gap in the United Kingdom: a sharp increase during the Thatcher era

Similarly, a poverty gap analysis also reveals the contrasted trend which occurred in Finland during the 1980s. Even more vividly than a poverty rate analysis, a poverty gap approach reveals the rapid rise in poverty during the 1980s in countries practising means-tested welfare and neoliberal economic policies. In Britain, the poverty gap expressed in relation to GDP actually doubled during the first half of the 1980s, after having at the beginning of the decade been on a level comparable with that in Sweden and Finland. For West Germany, on the other hand, a poverty gap analysis offers a more favourable picture than that obtained from a poverty rate analysis: measured in terms of the poverty gap, poverty does not appear to have increased in Germany during the first half of the 1980s. The picture obtained here of the poverty gap trends is not dependent upon modifications in the definition of the poverty line (see Appendix Table 1). Towards the end of the decade, the poverty gap in Finland (expressed in relation to GDP) fell even further, and by 1990, it had reached a mere 0.22 %.

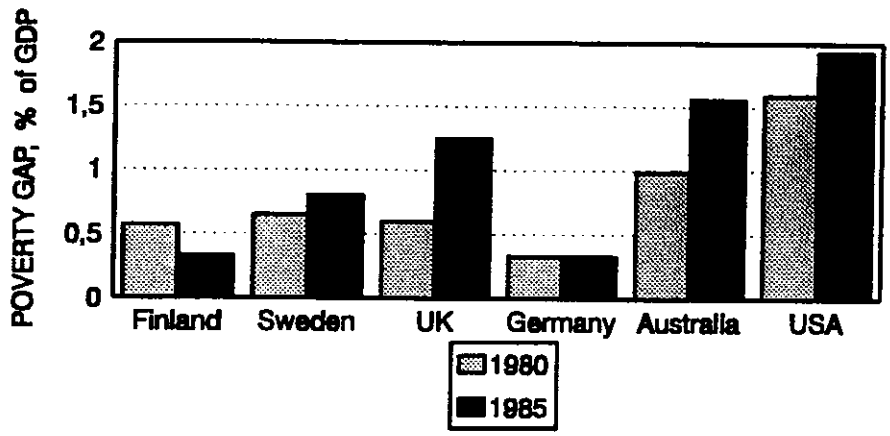
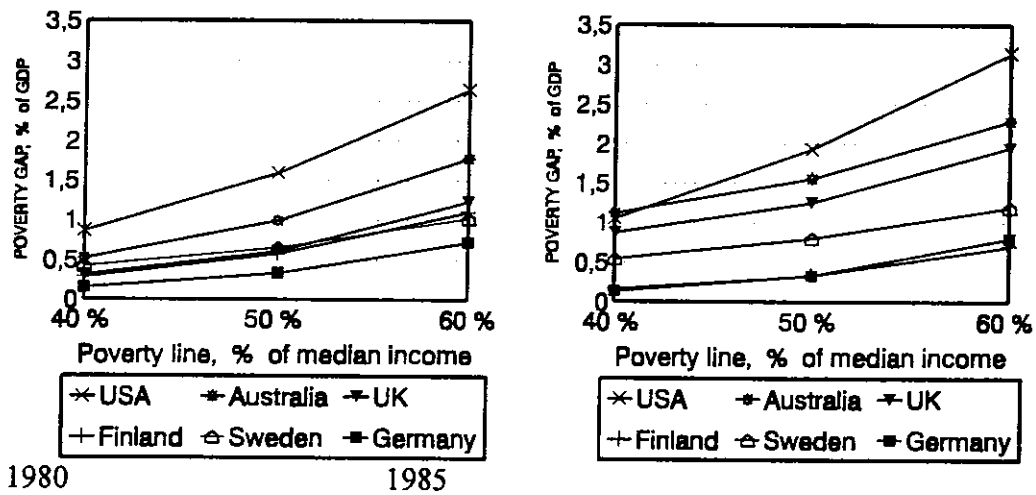


Figure 6 Poverty gaps in the early 1980's in the countries studied, as a proportion of GDP

Figures 7 and 8 allow us to rank the countries studied here in terms of the poverty gap, and what changes in ranking occurred during the first half of the decade.



Figures 7 and 8 Poverty gap orderings in the early 80's for the countries studied

In 1980, the occurrence of poverty in the USA as measured by the poverty gap was worse than in the other countries. Five years later, however, the curves for the USA and Australia intersect, and they were also rapidly being caught up by the UK, whereas in 1980, no significant differences can be seen between Britain, Sweden and Finland. On the poverty gap analysis for 1980, West Germany clearly wins; but five

years later, Finland has parted company with Sweden and the UK, and shares position with West Germany as the countries with the lowest poverty gap.

4 Poverty-alleviating effects of different welfare states

The following analysis concentrates on the question as to how far the poverty differentials found between these countries can in fact be explained by differences in the extent of income transfers. The poverty rate and poverty gap methods will be used to complement each other, using a reduction coefficient to measure the extent of the reduction achieved by income transfers against market-generated poverty. This analysis of the poverty-alleviating impact of income transfers is ultimately derived from the proposition by Seebohm Rowntree (1901) that poverty-alleviating impact is equivalent to the difference between poverty determined on the basis of factor incomes and poverty determined on the basis of disposable income.

Table 3 Poverty-alleviating effects of social transfers in the early 1980s in the countries studied

Country and Year	*Decrease in Poverty Rate*[1]	*Decrease in Poverty Gap*[1]
USA 1979	36,1 %	65,0 %
USA 1986	31,6 %	62,1 %
Australia 1981	55,9 %	80,7%
Australia 1985	57,7 %	69,3 %
UK 1979	72,4 %	89,8 %
UK 1986	74,0 %	84,6 %
Germany 1981	80,0 %	93,7 %
Germany 1984	76,8 %	93,9 %
Sweden 1981	81,8 %	88,5 %
Sweden 1987	79,2 %	85,2 %
Finland 1981	69,7 %	87,1 %
Finland 1985	80,7 %	92,7 %
Finland 1990	87,1 %	95,9 %

[1]Decrease in Poverty Rate: Poverty rate pre-transfers minus poverty rate post-transfers divided by poverty rate pre-transfers.
Decrease in Poverty Gap: Poverty gap pre-transfers minus poverty gap post-transfers divided by poverty gap pre-transfers.

The results of the US income transfer system in the 80s match those of the Finnish system in the 60s

There has been an on-going debate as to the appropriate size and functions of the welfare state. On the one hand the wide-scope institutional welfare state model is defended on the grounds that it is claimed to generate greater equality. Those who oppose this extensive model, on the other hand, argue that benefits should be concentrated on those who are in need, in order to achieve better 'targeting' and 'efficiency' in social policy (see f. ex. Oppenheim 1994). As has been shown in the foregoing analyses, however, means-tested social policies alleviate poverty measurably less effectively than other methods of income transfer. In Finland, the trend in the impact of income transfer systems during the 1980s was clear and favourable, whether it is measured in terms of the poverty rate or the poverty gap.

The impotence of means-tested income transfer systems in alleviating poverty can also be evidenced from the trends found in Finland between the 1960s and the 1980s. During this period, Finnish social policy was relatively undeveloped, and operated in a more means-tested fashion. The shift from means-testing to an institutional social policy, however, produced results, and as the welfare state evolved, poverty decreased markedly. The poverty rate in Finland in the mid-1960s was similar to that currently found in the United States (see Gustafsson & Uusitalo 1990b; Jäntti, Kangas & Ritakallio 1994). By 1990, the problem of economic poverty had virtually been eradicated in Finland. If the poverty rate and the poverty-alleviating impact of income transfer systems are used as a criterion, then by the end of the last decade Finland would appear to have emerged as the leading welfare state.

As can be seen from Table 3, it is common to all these systems that they are more effective in alleviating (reducing) poverty than in transferring the poor population out of poverty altogether. In addition, some further light is thrown on the findings obtained using the poverty rate indicator, since the poverty gap analysis places the UK in the same category as West Germany, Sweden and Finland.

In both Australia and the UK, the poverty-alleviating impact of the income transfer systems increased during the early 1980s, despite the fact that the poverty rate was simultaneously rising. The explanation for this lies in the fact that in both countries the early part of the decade saw a rapid increase in market-driven income differentials. Market-generated poverty increased faster than did disposable-income poverty: in other words, there would have been an even more drastic increase in the poverty rate if poverty had not been alleviated as a result of income transfers.

To sum up the findings from these poverty analyses, it can be stated that extensive poverty is associated with the practice of means-tested social policies. The ostensibly attractive principle that income transfers should be targeted at those in real need has not in fact produced satisfactory results; in those countries practising means-testing, poverty is both more prevalent and more acute than in countries employing a corporatist or institutional approach to social policies. The comparative analysis here reveals how by the end of the 1980s poverty was lower in Finland than in the other Western countries included in this study, and this is attributable to a well-functioning welfare system in conjunction with the elimination of long-term unemployment by means of effective manpower policies.

5 The extent of social transfer programmes and poverty

Finnish social policy performs well in a cross-national comparison of inputs and outputs

How does the effort invested in social policies correlate with the results achieved? As can be seen from Figures 9 and 10, Finnish social policy brought about impressive results at relatively moderate cost. In point of fact, Finland in the 1980s actually breaks the received wisdom, according to which the results of social policies will be in proportion to welfare expenditure. The contrast with Sweden in this respect is striking, for although Finland and Sweden are normally grouped together as typical instances of the Nordic welfare state, there are in fact significant differences between them, not

least in terms of expenditure. The good results achieved in Finland were brought about at crucially lower costs than in either Sweden or Germany.

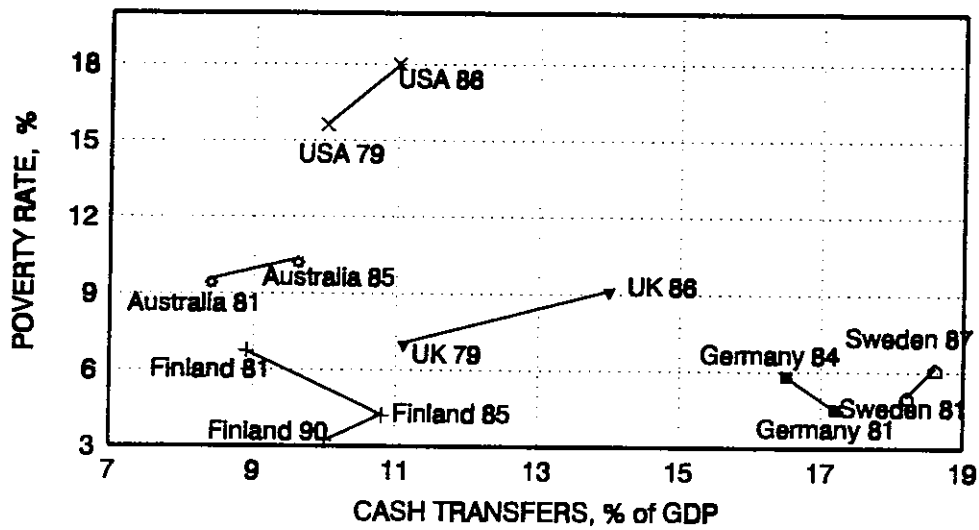


Figure 9 Poverty rate and cash transfers in the early 1980's in the countries studied, as a proportion of GDP[1]

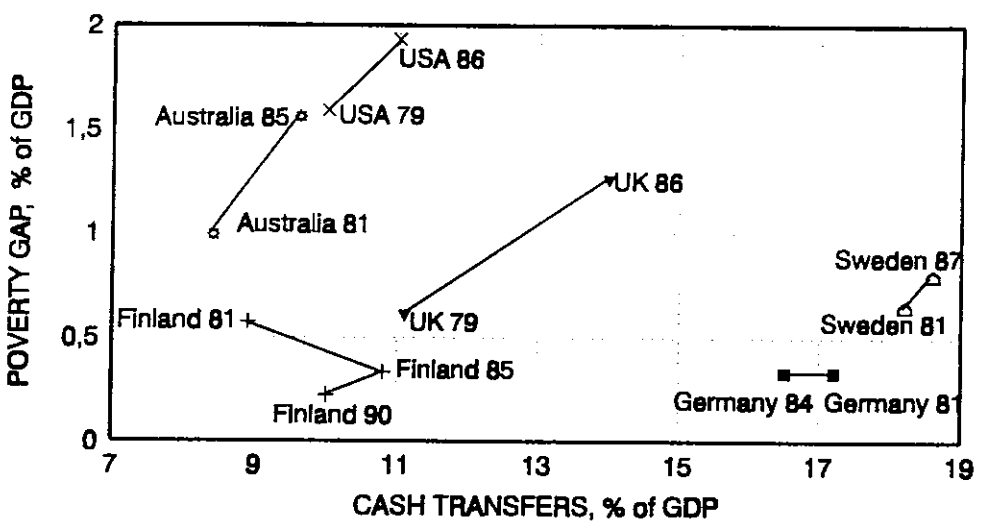


Figure 10 Poverty gap and cash transfers in the early 80's in the countries studied, as a proportion of GDP[1]

[1]Source: LIS Institutional Database (OECD Historical Statistics)

The data on social transfers expressed as a proportion of GDP are derived from OECD statistics. It should be noted that for Finland, the definitions used here do not include legislated earnings-related pension-schemes; correspondingly, for Australia, West Germany, Sweden, the UK and the USA, the statistics do not include the impact of occupational pensions, the significance of which is considerably greater in these countries than in Finland (see Esping-Andersen 1990: 84; Kangas & Palme 1992). If the impact of these various pensions systems is included in the calculations for Figures 9 and 10, it has the effect of shifting all countries further to the right. In Finland, the proportion of GDP accounted for by employment-related pensions in 1981 amounted to 2.6 %; in 1985, 3.7 %; and in 1990, 3.8 % (Statistical Yearbook of the Social Insurance Institution 1991; Statistical yearbook of Finland 1991). The incorporation of employment-related pensions for Finland therefore would not necessitate any modification of the interpretations put forward above.

The trends observed in the UK during the period under scrutiny are the most negative of those examined, since both poverty and welfare spending rose rapidly in Britain. Prior to the 1980s, in fact, the minimum-security model practised in the UK would appear to have functioned very adequately: both poverty, and welfare expenditure, were still at a low level at the end of the 1970s. The cuts made in welfare benefits in the UK during the 1980s did not in fact lead to savings: rather the contrary. During the first half of the decade, however, rising welfare expenditure is found in all of the countries studied here, with the sole exception of West Germany; only in Finland, however, was rising welfare expenditure associated with a fall in poverty.

6 Differentiated pictures of poverty

In Tables 4 - 9, the differences in poverty between the countries examined in this study are related to individuals' position on their lifespan, market dependence, and social status. From a social policy perspective, what this approach reveals is the impact of pensions and family policies. The findings which the Tables indicate can be

summarized in a few generalizations. Firstly, it appears that in Western countries poverty is not a problem specific to the elderly; in Australia and Sweden, the incidence of poverty among the elderly is actually lower than the mean incidence for the population as a whole. The risk factors for poverty common to all these countries relate to large families, persons aged below 30, and the lack of vocational training.

Table 4 Poverty risk in selected population groups in the mid-80's in the countries studied, %

	USA	AUS	GER	SWE	FIN
Whole Population	18,0	10,2	5,8	6,1	4,2
Type of household					
Single parent	57,4	49,0	23,1	4,7	4,0
Couple with children	16,1	11,8	5,7	4,5	3,4
Couple without children	6,2	5,6	2,5	2,9	2,4
Single	14,6	8,0	6,6	17,0[1]	11,9
Elderly hosehold	17,2	5,5	5,3	1,4	4,7
Others	18,3	6,4	6,6	-	3,2
Number of children					
No children	10,6	5,1	5,5	7,3[1]	4,7
One	13,5	7,6	3,9	3,3	2,2
Two	19,1	10,9	5,5	4,4	2,6
Three	29,7	20,8	10,0	5,7	5,9
Four or more	59,2	25,3	41,3	10,9	17,7
Age					
Under 30 years	26,8	14,3	12,7	17,0[1]	8,6
30-64 years	16,3	10,2	5,0	4,5	3,3
65 years or more	17,2	6,0	5,7	1,4	5,0
Labour force participation by adults of the household					
All working	10,4	4,8	1,6	6,7	2,3
Others	28,0	15,7	7,7	4,2	6,1

[1]In Sweden, persons aged over 18 and living in their parents' households are classified as separate households, and this results in an exaggerated figure for poverty in single-person households and among those aged under 30; moreover, it produces a higher figure for poverty risk in the population at large.

In all the countries studied, the lowest poverty risk is found among childless couples and families with only one child. The most powerful common risk factor is family size (high numbers of children), with the impact rising strikingly from the third child. Sweden was the most successful in counterbalancing the effect of family size on household expenditure. In Finland, there appears to be a particularly sharp up-gradient in poverty risk from the fourth child onwards. It should be pointed out that the position of families with children improved in Finland very considerably during the latter 1980s (Ritakallio 1994).

Table 5 Differencies[1] in poverty risk in the mid-80's between population groups in the countries studied

	USA	AUS	GER	SWE	FIN
Whole Population	1	1	1	1	1
Type of household					
Single parent	3,2	4,8	4,0	0,8	1
Couple with children	0,9	1,2	1	0,7	0,8
Couple without children	0,3	0,5	0,4	0,5	0,6
Single	0,8	0,8	1,1	2,8[2]	2,8
Elderly hosehold	1	0,5	0,9	0,2	1,1
Others	1	0,6	1,1	..	0,8
Number of children					
No children	0,6	0,5	0,9	1,2[2]	1,1
One	0,8	0,7	0,7	0,5	0,5
Two	1,1	1,1	0,9	0,7	0,6
Three	1,7	2,0	1,7	0,9	1,4
Four or more	3,3	2,5	7,1	1,8	4,2
Age					
Under 30 years	1,5	1,4	2,2	2,8[2]	2
30-64 years	0,9	1	0,9	0,7	0,8
65 years or more	1	0,6	1	0,2	1,2
Labour force participation by adults of the household					
All working	0,6	0,5	0,3	1,1	0,5
Others	1,6	1,5	1,3	0,7	1,5

[1]In relation to the average poverty rate in each country

[2]See Table 4

Except in Sweden, participation in the labour market explain the incidence of poverty. In Sweden, on the other hand, minimum subsistence is not in fact dependent upon employment (see Table 5). This phenomenon of 'decommodification' evidently goes so far in Sweden that poverty is actually more prevalent in households where all the adults are in employment than it is in households where none of them are. This effect is in part explained, however, by the frequency of part-time employment among mothers in Sweden (see Jensen & Saporiti 1992).

The Nordic model is woman-friendly

The position of single parents was weakest in the United States, Australia, and West Germany. In addition to institutional factors, one reason for the relatively weaker position of single parents in these countries was that they were less likely to go out to work than is the case in the Nordic countries. In the mid-1980s, the proportion of single parents engaged in employment varied widely, from 42.3 % in Australia, 53.3 % in West Germany, and 66.2 % in the US, to 89.6 % in Finland and 95.6 % in Sweden (calculated from LIS data).

Table 6 Differencies in pre-transfer poverty rates in the mid-80's between selected population gropus in the countries studied, %

	USA	AUS	GER	SWE	FIN
Whole Population	26,3	24,1	25,0	29,3	21,8
Type of household					
Single parent	61,6	72,0	50,3	37,4	21,7
Couple with children	15,5	12,8	8,4	8,4	7,3
Couple without children	12,9	20,1	13,2	8,7	23,1
Single	23,5	29,1	29,0	28,1[1]	29,2
Elderly hosehold	68,8	81,8	91,3	86,6	93,9
Others	24,3	16,1	15,9	..	15,1
Number of children					
No children	29,1	33,7	37,8	42,9[1]	35,2
One	16,5	14,7	8,2	10,1	6,9
Two	19,5	13,4	9,1	9,3	6,4
Three	28,1	22,5	14,0	14,9	12,2
Four or more	58,6	30,4	43,2	41,0	39,7
Age					
Under 30 years	27,4	19,9	21,6	24,1[1]	14,5
30-64 years	19,1	16,7	11,9	12,8	12,7
65 years or more	62,8	72,6	83,3	86,6	88,0
Labour force participation by adults of the household					
All working	11,2	5,3	3,6	12,6	3,3
Others	46,2	43,1	34,3	81,8	40,4

[1]See Table 4

In all of the countries studied, most single parents were women. In Nordic countries, full employment and a highly-developed childcare system made it relatively easy for women to go out to work; and this high level of economic activity for Nordic women explains the much lower incidence even of earnings-based poverty among Finnish and Swedish single parents than is found in the other countries in the study (Table 6). Subsequent to income transfers, the cross-national differences become even more marked. In the Nordic countries, the incidence of poverty among single parents hardly diverges from that for the rest of the population. In countries practising marginal

social policies, on the other hand, such as Australia and the United States, the poverty rate among single parents is exceptionally high (49.0 % and 57.4 % respectively) (Table 4).

For families with children, subsistence is arranged in very different ways in different societies. The income distribution models prevalent in continental Europe are constructed on the assumption of the 'male provider'; and in West Germany, one person's earnings offered a noticeably firmer foundation for the subsistence of an entire household than in the other countries examined. In the Nordic countries, on the other hand, one person's earnings alone are less adequate to avoid poverty. The relatively low incidence of poverty among families with only one wage earner in the Nordic countries is thus the result of income transfers (Table 7).

Table 7 Pre- and post transfer poverty rates in the mid-80's for couples with children, by parents' labour force participation, in the countries studied, %

	Both parents in wage labour				
Poverty rate	**USA**	**AUS**	**GER**	**SWE**	**FIN**
Pre-transfers	9,4	5,5	2,2	6,5	2,8
Post-transfers	9,8	6,2	1,6	4,0	2,4
Share of families with two parents and children	69,1	59,1	36,6	94,5	73,7

	One parent only in wage labour				
Poverty rate	**USA**	**AUS**	**GER**	**SWE**	**FIN**
Pre-transfers	24,4	13,9	7,6	39,2	16,5
Post-transfers	26,8	12,3	5,8	12,7	5,3
Share of families with two parents and children	29,0	36,3	56,5	5,1	25,0

In the United States, a high incidence of poverty is found in families with two wage earners. Furthermore, the income transfer system in the USA actually raises the poverty rate for families with children, since they can fall into poverty through paying taxes, but receive relatively little benefits back. The United States and Japan are the

only advanced industrialized countries with no kind of universal child allowance system (Smeeding 1991: 8) (see Table 9).

What kinds of differences can be found in the structure of poverty between different countries? As can be seen from Table 8, in Australia and the United States poverty is a problem facing families with children.

Table 8 Profile of poverty in the mid-80's in the countries studied, %

	USA	AUS	GER	SWE	FIN
Type of household					
Single parent	19,2	17,1	5,0	4,1	2,6
Couple with children	31,1	51,3	30,3	28,3	30,1
Couple without children	4,0	6,3	5,6	8,0	7,5
Single	4,2	4,0	8,6	55,0[1]	28,4
Elderly hosehold	8,0	5,3	12,4	4,6	10,0
Others	33,4	16,1	38,1	..	21,4
Together %	100	100	100	100	100
Number of children					
No children	24,9	20,5	50,6	67,5[1]	54,9
One	20,5	11,3	14,5	8,4	10,3
Two	21,6	26,3	16,5	13,5	13,1
Three	8,7	27,1	10,6	6,8	10,7
Four or more	3,1	14,8	7,7	3,8	11,0
Together %	100	100	100	100	100
Age					
Under 30 years	22,0	19,1	19,8	48,8[1]	27,5
30-64 years	65,1	73,9	63,3	46,6	58,3
65 years or more	13,0	13,1	16,8	4,6	14,2
Together %	100	100	100	100	100
Labour force participation by adults of the household					
All working	32,8	23,3	8,2	83,3	27,8
Others	67,2	76,7	91,8	16,7	72,2
Together %	100	100	100	100	100

[1]See Table 4

In the Nordic countries, good results have been achieved as a result of family policies in conjunction with a highly developed daycare network for children, full employment, and a high level of economic activity among women. Family costs did not force Nordic families into poverty to anything like the same extent as elsewhere. The striking feature of poverty risk in the Nordic countries, as compared with other countries, is its concentration among persons living alone.

Nordic social policy treats different groups evenly

How evenly or equitably do social policies in different countries treat different groups in the population? How do countries differ in this respect? The coefficients given in Table 9 are expressions of poverty alleviation: the larger the coefficients, the more effectively market-generated poverty has been alleviated, while the smaller the range of variation between the coefficients within each country's column, the more evenly it alleviates poverty for different categories of its citizens.

Table 9 Poverty-alleviating effects[1] of income transfers in the mid-80's in different population groups in the countries studied, %

	USA	AUS	GER	SWE	FIN
Whole Population	32	58	77	79	81
Type of household					
Single parent	7	32	54	87	82
Couple with children	-4	8	32	46	53
Couple without children	52	72	81	67	90
Single	38	73	77	40	59
Elderly hosehold	75	93	94	98	95
Others	25	60	58	..	79
Number of children					
No children	64	85	85	83	87
One	18	48	52	67	68
Two	2	19	40	53	59
Three	-6	8	29	62	52
Four or more	-1	17	4	73	55
Age					
Under 30 years	2	28	41	29	41
30-64 years	15	39	58	65	74
65 years or more	73	92	93	98	94
Labour force participation by adults of the household					
All working	7	9	56	47	30
Others	39	64	78	95	85
Coefficient of variation	108	63	41	28	28

[1]This coefficient expresses what proportion of pre-transfer poverty is alleviated as a result of income transfers.

Table 9 shows that except in the United States, pensions schemes are highly effective in alleviating poverty. A warning should be made, however, against drawing excessive conclusions about outcomes of social and pensions policies on the basis of the figures in this Table, since with reference to poverty (again, with the exception of the United States) the pensions schemes do not differ very greatly between these countries. If the perspective is broadened to look at mean incomes for pensioners in relation to those of

the population in general, the more ambitious target set for pensions policies in the Nordic countries emerges: i.e., to ensure the maintenance of achieved levels of consumption even after discontinuation of economic activity (see Hedström & Ringen 1990).

In addition to the elderly, other groups facing major poverty risk prior to income transfers are large families and single-parent households. The differentials which emerge between income transfer systems for these groups are considerably greater than those in the case of the retired. Table 9 reveals how little security is offered by the Australian or American systems to the population of working age. In the United States, as mentioned previously, income transfers may actually contribute to increasing poverty in families with many children. The differences in the capacity of welfare systems to alleviate poverty can indeed be seen most clearly in the field of family policies. Nordic social policies may with justification be described as supportive of single parents, and equitable. In the other countries, family policies have not been successful or effective in equalizing family costs. Moreover, it should be noted that in the Nordic countries, there are benefits of family policies which affect families directly even prior to income transfers: for instance, the highly developed system of daycare for children, which enables more women to go out to work and thus reduces market-generated poverty risk as well.

7 Summary

Cross-national comparisons for the early 1980s reveal a highly favourable picture of the effectiveness of the Finnish welfare state; indeed, in terms of the poverty-alleviating impact of welfare policies, Finland overtook Sweden in this period to become the leading Nordic welfare state.

Similarly, the poverty trends in Finland also diverged from those for other countries. During the first half of the 1980s, while poverty was on the increase in the United States, Australia, the UK and Sweden, and remained approximately constant in West

Germany, Finnish poverty diminished. In absolute terms, the sharpest increase in poverty occurred in the United States and United Kingdom, where one of the targets in public policy was to minimize the role of the welfare state in society.

The comparisons carried out here show an unambiguous association between a high incidence of poverty and means-tested welfare policies. The principle (excellent in itself) underlying means-tested approaches, i.e. the targeting of the available resources at the very poorest, was not nearly as effective in eliminating or alleviating poverty as were the alternative approaches. In this cross-national comparison, the United States and Finland represent opposite ends of the spectrum. At the middle of the 1980s, in the United States 18.0 % of the population were living in poverty, compared with a mere 4.2 % in Finland; and the crucial explanation for this difference is precisely the impact of the income transfer systems, since in Finland, the net effect of income transfers was to raise 18 % of the population above the poverty line, whereas the income transfer system operating in the United States achieved a similar shift out of poverty for no more than 8 % of the American population.

A comparison of the poverty risk between different categories in the population reveals relatively little variation between groups within the Nordic countries; Nordic social policies treat all sections of the population very evenly. In the United States, Australia and West Germany, on the other hand, a different picture emerges; the position in those countries of large families, and of single parents, was especially weak, largely as a result of these countries' lower levels of family support, and of women's lower levels of economic activity, than those found in the Nordic countries.

The analyses presented here provide strong evidence of the capability of the Nordic welfare model in alleviating poverty equitably among all sections of the population, with Finland actually overtaking Sweden in this regard. Nonetheless, the even more striking difference between Finland and Sweden was that the Finnish results were achieved at significantly lower costs than those in Sweden.

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Appendix Table 1 Sensitivity analysis of poverty rate and poverty gap in relation to GDP in the early 1980's in the countries studied

	Poverty rate			**Poverty gap % of GDP**		
	Poverty line % of Md-income			Poverty line % of Md-income		
	40 %	50 %	60 %	40 %	50 %	60 %
USA 79	9,8	15,6	21,6	0,86	1,59	2,64
USA 86	12,1	18,0	23,8	1,05	1,93	3,14
Australia 81	5,2	9,4	16,0	0,52	0,99	1,78
Australia 85	6,1	10,2	18,3	1,12	1,56	2,29
UK 79	3,5	6,9	14,0	0,31	0,60	1,23
UK 86	5,0	9,0	15,6	0,87	1,25	1,95
Germany 81	2,2	4,5	9,9	0,15	0,33	0,72
Germany 84	2,4	5,8	11,6	0,13	0,33	0,80
Sweden 81	3,1	5,0	8,5	0,42	0,65	1,02
Sweden 87	4,1	6,1	9,8	0,54	0,80	1,19
Finland 81	3,5	6,7	12,1	0,28	0,57	1,10
Finland 85	2,0	4,2	8,9	0,16	0,33	0,70
Finland 90	1,3	3,2	7,7	0,10	0,22	0,52

9 ENGLISH SUMMARY

Ritakallio, V-M. **Poverty in Finland 1981-1990.** A Study of Effects of Income Transfers. Research Report: National Research and Development Centre for Welfare and Health (STAKES), 1994.

Starting Points

The defeat of poverty, or at least the alleviation of its worst aspects, constitutes one of the fundamental functions of the modern welfare state (Ringen 1987b, 141; Gustafsson & Uusitalo 1990b, 249). The present study offers an investigation of how far Finnish social policy succeeded in this basic task during the 1980s. In addition, developmental patterns in Finnish poverty are compared with the experience in other countries. Attention has been paid both to internal factors, and also to the validity for the depiction of contemporary poverty of various alternative poverty indicators. One of the weaknesses of earlier poverty studies in Finland has been the lack of historical and international comparisons, nor has Finland been included in international poverty studies carried out elsewhere.

The evolution of Finnish social policy since the Second World War has been described as a shift from the 'marginal' to the 'institutional' welfare state. Marginal (or 'residual') social policy pertains to such a welfare state model where benefits are meager and the eligibility is often conditioned by means-testing. The characteristics of the institutional social policy model, on the other hand, are a reasonable minimum standard for all citizens, adequate income-related benefits and the central role of the State in the provision of welfare. The purpose of minimum subsistence provision is to ensure all citizens, irrespective of their previous employment history, an acceptable standard of living, while the purpose of income-related benefits is to guarantee individuals the maintenance of their achieved standards of consumption. (E.g. Esping-Andersen & Korpi 1987, 39-74.)

The basic legislation establishing the present income transfer systems in Finland was set up during the 1950s and 1960s, starting with the National Pensions Act of 1956, and proceeding during the following decade with the establishment of an adequate unemployment insurance scheme, income-related pensions, and sickness insurance. The improvements in minimum pension and the gradual maturing of the income-related pensions system since the 1960s have shifted Finland in the direction of an institutional, Scandinavian social policy model. By the 1980s, Finnish social policy fulfilled the high quality standards of Scandinavian welfare, in terms of the level of social benefits and the breadth of coverage, yet (in comparison with Sweden) the

model had been implemented with significantly lower relative welfare costs. (See Kangas 1993, 237–238.)

In Finland, Norway, and Sweden, one of the preconditios for social policy during recent decades has been the economic growth and full or nearly full employment. During the period under investigation here, 1981–1990, this precondition was met, whereas the economic situation during the early 1990s has drastically deteriorated. The unemployment rate in Finland is currently around 20 %, long–term unemployment is rising rapidly, and welfare has been subjected to many cuts. In many respects, the present investigation offers a history of the achievements of the Finnish welfare state during the 1980s, and offers a benchmark for future studies examining the effects for welfare of societal changes in the 1990s.

Research material

This study is based on the three Household Budget Surveys (HBS) undertaken in Finland during the period 1981–90. The HBS describes the income and consumption of households, and has been carried out at five–year intervals since 1966. For purposes of comparative analysis, the Luxembourg Income Study (LIS) has been used alongside the Finnish Household Budget Surveys. The research unit is the individual, but household income is also taken into account in estimating her/his economic welfare: i.e. the individual's 'equivalent income' is calculated by dividing household incomes by consumption unit coefficients. The size of the sample was in 1981 about 10 000 people, in 1985 about 12 000 people, and in 1990 about 11 756 people.

Operationalizations of the poverty line

In this study, I have used four poverty operationalizations in parallel:

Method	Persons defined as in poverty
Relative income method	Individuals whose annual equivalent income is below half of the median equivalent income
Relative expenditure method	Individuals whose equivalent consumption expenditure is below half of the median equivalent consumption expenditure
Politico–administrative method	Individuals whose annual equivalent income is less than the current guaranteed minimum pension
Social assistance method	Individuals who are clients of last–resort social welfare during the year

The concept of income used is primarily that of disposable annual income, and the equivalence scale used is essentially the consumption unit classification used by the

OECD. In the analysis of poverty, parallel use was made of the poverty rate and poverty gap methods, where the poverty rate refers to the proportion of the total population subsisting below the poverty line, and the poverty gap is the sum of all individual poverty gaps (i.e. the difference between income and the poverty line).

Poverty trends in Finland during the 1980s

Throughout the 1980s the poverty rate in Finland, measured by the relative income method, decreased steadily. The proportion of the population living below the poverty line in 1981 was 4.9 % (233 000 persons), whereas ten years later, the corresponding figure had fallen to 2.5 % (126 000 persons). These figures are difficult to match either within national or international history; nor is the trend they describe in the poverty rate dependent upon the level of the poverty line used, since whether the line is drawn at 40 %, 50 %, or 60 % of median income, the positive trend during the 1980s is confirmed. Measured in terms of minimum pension levels, which is often held as an official poverty line, the poverty rate fell even more sharply than poverty measured by the relative income method: by 1990, the poverty rate as defined by minimum pension levels was no more than one per cent.

Poverty as measured by low consumption, on the other hand, is revealed by the Household Budget Surveys to be somewhat more widespread than low incomes, and the downward trend in low-consumption poverty is less marked than that in low-income poverty: from approximately six per cent at the beginning of the decade, to five per cent by 1990 (246 000 persons).

The trend during the 1980s in the numbers of persons in receipt of social assistance, on the other hand, is in contradiction with the poverty trends measured by other indicators. The clientele virtually doubled during the decade, to reach 6.5 % of the total population by 1990. This growth in last-resort social welfare is, moreover, in opposition to the thinking behind the entire thrust of development in Finnish welfare policy since the 1960s, in which the aim has been to organize social security in such a way that the need for systems of means-tested support to individuals would be eliminated. This situation is explained by the fact that the minimum level of un-employment benefit, specifically, did not rise during the 1980s as fast as that for last-resort welfare. Nonetheless, this situation does not represent a rise in overall welfare dependency, since in 1990 many clients for last-resort welfare assistance were not in poverty as defined by relative annual income. Long-term last-resort clienthood,

however, would in general mean decline into poverty, since last-resort welfare levels are below the poverty line as defined by the relative income method.

The overall correlation between findings based on the various poverty indicators is in fact surprisingly weak. The relative income method, the relative consumption criterion, and the recipiency of social assistance identify three quite distinct populations as being in poverty. The consumption indicator emphasizes poverty in the households of the elderly, whereas the social assistance indicator, in contrast to the other criteria, highlights poverty among single parents and young people. Despite these disagreements, the overall observation is that by 1990 poverty as traditionally measured (whether by low income, or in relation to minimum pension levels) had been effectively alleviated in Finland, and that income differences had been significantly reduced. However this favourable picture is to some extend changed if we take into account the high housing costs in Finland.

The Finnish housing market is heavily dominated by owner-occupation, and many families, especially younger ones, carry a heavy burden of mortgage payments. When the relative poverty line was defined in terms of income remaining after deduction of housing expenses (inclusive of mortgage payments), it was found that the poverty category contained 6.0 % of the population, i.e. more than twice the proportion as defined in terms of overall annual income. In other words, in 1990 there were very large numbers of people in tight circumstances as a result of housing costs. Moreover, the true situation may be even worse, since many young families have other loans to repay as well (e.g. study loans). The proportion of the population below the poverty line as defined by income after deduction of all housing and loan costs amounted in 1990 to 10.2 %, compared to 2.5 % if loans are not taken into consideration.

These research findings reinforce the view that modern poverty is such a complex phenomenon that identifying it by means of a one single indicator may lead to biased results of the severity of poverty. By 1990, 'traditional poverty', characterized by continuous subsistence on low income, had effectively been overcome, only to be replaced, however, by new modes of poverty. The alleviation of traditional poverty has largely been achieved through effective income transfer systems, which now guarantee reasonable security for persons outside the labour market; the pensions system, in particular, has proved effective. For the active population, on the other hand, the reduction of traditional poverty during the 1980s was mainly a consequence of the elimination of long-term unemployment.

Poverty-alleviating effects of income transfer systems

The impact of income transfer systems on the reduction of poverty were examined in a conventional manner, by measuring the difference between poverty before and after income transfers. In the analysis of the impact of the welfare state, the poverty line was defined by the relative income method, which is particularly effective in revealing traditional poverty e.g. low incomes. In terms of factor incomes, the poverty rate rose throughout the decade, but despite this the overall poverty rate decreased. This means that the poverty alleviating impact of income transfer systems increased even faster than the poverty rate fell. During the 1980s, even to maintain the poverty rate at its previous level would have required increasing impact from income transfer systems. In 1981, income transfers eliminated 76.2 % of the pre-transfer poverty rate; by 1990, the corresponding impact amounted to 89.7 %. These findings concerning the impact of the welfare state are moreover independent of the level used in defining the poverty line.

In 1990, the poverty rate after market-based factor income was 24.2 %, but after welfare state income transfers, only 2.5 %. In practice, this means that income transfer systems lifted approximately a fifth of the population above the poverty line, and very nearly eliminated poverty. These figures are a clear evidence of the massive impact of the welfare system, and justify the statement that by 1990 the Finnish welfare state had fulfilled its basic mission to alleviate poverty. The analyses also show that this task was performed logically, by extracting people from poverty without shifting others to poverty trap.

The so called poverty gap measure is an alternative way to evaluate the poverty alleviating impacts of the welfare state. The poverty gap analysis reveals an even more positive picture of the impact of income transfer systems than that provided by the poverty rate analysis, since income transfers close the poverty gap more effectively than they raise people above the poverty line: in other words, even those who after income transfers are still below the poverty line are brought very close to it. Since the poverty rate analysis cannot identify this impact, the poverty gap analysis is in this sense a more revealing approach. In 1981, income transfers eliminated 89.7 % of the poverty gap obtaining prior to income transfers; by 1990, the corresponding impact had risen to 96.0 %. The major element in these income transfers consisted of payments to elderly households, mainly in the form of pensions.

Differences in poverty risk between population groups

Changes in the poverty rate within various population groups were, with few exceptions, similar in tendency to those for the population as a whole. Measured in terms of annual income, poverty fell during the 1980s in all groups except the self-employed (small businesses), among which it remained approximately constant. Relatively speaking, the poverty risk fell most sharply among single parents, large families, and the elderly. For single parents, the poverty risk fell in the course of the decade to one fifth of its previous level, and for families with many children and for the elderly, to one third. By 1990, the overall risk of low-income poverty was extremely low, and the risk differentials between various groups in the population had been sharply reduced: in that year, poverty risk levels above six per cent applied only to persons living alone (6.0 %), families with four or more children (6.0 %), and the self-employed in small businesses (9.0 %). The best defence against poverty was provided by salaried employment and a high level of education.

For those with families, poverty has traditionally correlated closely with participation in the labour market. In Finland, women's participation in employment is very widespread: during the period under investigation, for example, 85-90 % of single parents were in employment. In 1981, half of those single parents not in employment, were still living in poverty; by 1990 this figure had fallen to 5.1 %. Correspondingly, among single parents in employment, the poverty rate fell from 3.7 % in 1981 to 1.4 % ten years later. Moreover, during the 1980s the link between poverty and employment also fell for two-parent families with children. In families with only one parent in employment, the poverty rate in 1981 was 9.2 %, whereas by the end of the decade it had fallen to 4.1 %. Non-participation in employment is a factor increasing poverty risk, but in the course of the decade this link was weakened. These findings offer clear evidence of the positive results obtained from the foregrounding of the family in Finnish social policies during the 1980s.

These analyses demonstrate that differences between population groups in the incidence of poverty (as measured by the conventional poverty line) had almost been eliminated. As poverty risks are equalized, the demographic composition of those in poverty will automatically come to match that of the overall population increasingly closely. Accordingly, irrespective of the poverty indicator applied, the majority of those in poverty live in households supported by a middle-aged person. A second dominant factor in poverty is non-participation in employment by some adult members of poor households. All forms of poverty also characteristically affect persons with insufficient education. Although the changes in the composition of

poverty have been minor, they match the observations made for poverty risk. If the poverty line applied is raised, however, the traditional ranking of groups in terms of mean income levels quickly becomes apparent, since in terms of their disposable income, a large proportion of the elderly, of young people, of single parents, and of families with many children are found in the income bracket immediately above the poverty line.

The least predictable change during the last decade with reference to social assistance was a reduction in regional variations in the demographic composition of the clientele. Dependence upon last-resort assistance, which has traditionally been regarded in Finland as an urban form of poverty, became more widely distributed, the major reason for this being the welfare reforms of 1984, which introduced standardized criteria for the award of means-tested assistance. Previously there had been major regional differences in the criteria used.

An analysis of the data for 1990 reveals one group which clearly stands out above the others: single parents. According to the 1990 Household Budget Survey, over a quarter of those living in single-parent households had needed to rely upon last-resort assistance. This category of assistance is also more age-linked than other poverty indicators, since the highest risk of needing social assistance is found among persons living in households dependent upon persons aged below 30.

Although the various poverty indicators identify different groups, in 1990 there were five categories which displayed higher-than-average incidence of poverty on all three indicators: those with low education; those living alone; people in northern Finland; families with three or more children; and those not in employment. On the other hand, six categories also emerged with a poverty risk below the average level for the population as a whole: couples with no children; households dependent upon a middle-aged provider; households in which all the adult members were in employment; people in southern Finland; administrative and clerical workers; and persons with at least some post-compulsory education. Households economically dependent upon a middle-aged provider are thus not at greater risk on these grounds, despite the fact that the numerically largest group of people in poverty live in such households, since this is simply the largest group in the population.

Finnish poverty in a comparative perspective

The purpose of the international survey was to compare the poverty trends found in Finland during the 1980s with those in some other Western countries. The societies chosen for comparison were selected on the basis of the four-way classification of social policy models proposed by Walter Korpi and Joakim Palme (1993). Means-testing social policy was represented by the United States and Australia. In 1979, the United Kingdom represented a minimum-security model; however, the shift in British welfare policy in the early 1980s towards a more means-testing model offered an opportunity to examine the impact of this shift on poverty. West Germany was selected as an example of corporatist social policy, and Sweden and Finland as countries with institutional welfare policies.

The research material consisted of the Luxembourg Income Study database (LIS). The Finnish data were derived from the 1981 and 1985 Household Budget Surveys. For comparative analysis, the Finnish definitions of income were revised in accordance with those used in the LIS. For the purposes of the international comparison, poverty was defined using the relative income method: persons are in poverty if their disposable income per OECD consumption unit is below half of the median annual income. The poverty line for each country was separately defined, using national material, for 1980 and 1985.

The findings from this comparative poverty analysis strongly support the theory that both the incidence and severity of poverty are linked to means-tested social policy. The principle of means-testing (in itself an attractive one), i.e. that the resources available for income transfers should be targeted at those in the weakest position, in fact fails to produce good results. Poverty is clearly more widespread and more severe in those countries with means-testing welfare policies than under corporatist or institutional social policies. In addition, the analysis showed a very rapid rise in poverty in those countries which during the 1980s practised neo-liberal economic policies (the USA, the UK, and Australia). In Britain during the early 1980s, for instance, in relation to GNP the poverty gap actually doubled.

The falling trend in poverty in Finland throughout the 1980s diverges from the trends found in other Western countries. In 1981, poverty was more widespread in Finland than in either Sweden or West Germany, whereas by 1985 this position had been reversed. In terms of the minimization of poverty, by the mid-1980s Finland had risen to the leading position among the welfare states, and this positive trend continued down to the end of the decade. In 1990, the poverty rate in Finland, in

terms of LIS definitions of income, was 3.2 %, and the poverty gap in relation to GNP 0.22 %. This situation is explained by the combination of a functioning social security system with the reduction of long-term unemployment through effective labour policies.

The comparison of poverty risk in different population groups also revealed major differences between different social policy models. Groups at risk in all countries were families with many children, young people, and those with low education. Both the means-testing and the corporative models appear to ignore single parents: in the United States, for example, 57.4 % of those in single-parent households were living below the poverty line. In means-tested systems, the impact of income transfers on reducing poverty among single parents in the mid-1980s was virtually nil. In these countries, however, the vulnerable situation of single parents is due not only to inadequacies in the social security systems, but also to single mothers' noticeably lower levels of participation in employment than in the Nordic countries. In countries with institutional social policies, single-parent poverty does not significantly occur, its alleviation being in part attributable to high levels of labour market participation, this in turn being promoted by the provision of daycare facilities as a public service. The Scandinavian female labour force participation rates also explains why even on the basis of earnings Swedish and Finnish single parents had significantly lower poverty levels than in the other countries. The difference after income transfers is yet more marked: in the Nordic countries, post-transfer poverty levels among single parents no longer significantly differ from those among the rest of the population. A striking feature in the Nordic countries, on the other hand, is the high poverty rate among those living alone.

The pros and cons of Finnish social policy during the 1980s, and future threats

By 1990, traditional poverty, i.e. long-term subsistence on very low income, had thus been extensively alleviated in Finnish society. For those not active in the labour market, traditional poverty had been reduced through income transfer systems, especially the pensions system, while for the active population, it was the result of effective action taken against long-term unemployment. In the early 1980s, the alleviation of poverty through the income transfer system had affected different population groups rather unevenly. The pensions system was already functioning smoothly and effectively, but for the active population, the poverty-alleviating effect of income transfers was still relatively weak, whereas by 1990, the income transfer system treated different groups within the population in a much more even manner than it had done ten years earlier. The emphasis placed on family policy during the 1980s can also be shown to have produced good results (poverty among the elderly had effectively been addressed earlier). It is also important to note that, by international standards, these good results were achieved at low cost. With a healthy economy, Finland did not need to fund social security by raising loans abroad; the Finnish public foreign debt remained fairly steady throughout the period under investigation, at between ten and fifteen per cent of Gross National Product.

The major mistake in social policy during the 1980s was that the minimum level of primary social security lagged behind the level of means-tested social assistance, and this factor contributed to doubling the assistance clientele during the decade. If last-resort assistance is considered in isolation, however, favourable trends emerge: regional inequalities in the criteria for awards and in levels of assistance were evened out, and the real level of assistance rose noticeably in relation to the minimum pensions level.

The domination of the Finnish housing market by owner-occupation, which is deeply rooted in Finnish culture, places a heavy economic burden on young families at the time when the children are small. This problem was aggravated during the decade by a steep rise in housing prices.

It is to the credit of the Finnish social security system, which stands up well in international comparisons, that the current severe economic recession has not generated serious social suffering. It is well established that unemployment becomes a poverty problem in the traditional sense only when it becomes persistent. Since 1990, the situation has changed radically, especially in terms of manpower policy. The mechanisms for the prevention of long-term unemployment have been weakened,

and more generally, the priority formerly accorded to averting unemployment has been overshadowed by other objectives in public policy. The basic unemployment daily allowances are currently set at only about 75 % of the poverty line level. During 1994 and 1995, the numbers in long-term unemployment will grow rapidly, as will those whose entitlement to income-related unemployment benefit (payable for 500 days) will expire, throwing them to the basic allowance. All the evidence suggests that during the next few years, the dominant factor in Finnish poverty will be long-term unemployment. It remains to be seen how seriously the fundamental mission of the welfare state – the alleviation of poverty – will be taken. The only means by which this can be achieved are through statutory measures to combat long-term unemployment, and/or raising the minimum levels of unemployment benefit.

Under the current regulations, long-term unemployment automatically leads to long-term dependence upon social assistance, since the minimum unemployment benefit is set below the assistance threshold; yet this, in turn, is defined by reference to the minimum pensions level, which is below the official poverty line. Finland therefore faces the threat that a large group of the population may be forced into dependence upon welfare and subsistence in permanent poverty. Such a development would be a major setback for Finland's 'welfare society', and would reinforce a division of the Finnish people into the haves and the have-nots.