

Nelson, Kenneth

**Working Paper**

## Adequacy of social minimums: Workfare, gender and poverty alleviation in welfare democracies

LIS Working Paper Series, No. 474

**Provided in Cooperation with:**

Luxembourg Income Study (LIS)

*Suggested Citation:* Nelson, Kenneth (2008) : Adequacy of social minimums: Workfare, gender and poverty alleviation in welfare democracies, LIS Working Paper Series, No. 474, Luxembourg Income Study (LIS), Luxembourg

This Version is available at:

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# **Luxembourg Income Study Working Paper Series**

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## **Adequacy of Social Minimums: Workfare, Gender and Poverty Alleviation in Welfare Democracies**

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**February 2008**



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**Luxembourg Income Study (LIS), asbl**

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## **Adequacy of Social Minimums: Workfare, Gender, and Poverty Alleviation in welfare democracies**

**Kenneth Nelson**

**Swedish Institute for Social Research  
Stockholm University  
S-106 91 Stockholm  
kennethn@sofi.su.se**

**Abstract:** In the Western countries poverty has increased along with the resurgence of low-income targeting and the increased conditionality of social assistance. This paper provides new evidence on the relationship between social minimums and income adequacy by examining the extent to which social benefits distribute income at levels necessary to escape poverty. The empirical analyzes combine macro-level institutional data and micro-level income data for 17 industrialized welfare democracies. It is shown that the period 1990-1995 is characterized primarily by stagnation, whereas social assistance adequacy declined in the latter half of the nineties. In most countries, social assistance fails to provide income above the poverty threshold, something that makes it difficult to conceive benefits as just redistributive instruments.

It is widely recognized that receipts of social assistance has become conditional on work related activities. It is less well acknowledged that the increased conditionality of social assistance has been coupled with benefit curtailments, either deliberately induced by governments or due to an insufficient updating of benefits. Workfare is therefore not only about work activities for the involuntary unemployed as commonly understood, but it also concerns a downsizing of benefits and increased incentives to take on even low-paid employment. These changes in the content of social citizenship may not only have had profound consequences for poverty alleviation. It may also have contributed to more unjust societies, where the right of reasonable access to a decent minimum income is severely weakened.

It is by no means a straightforward matter to determine the exact amount of a decent minimum income. Although poverty alleviation is central for most industrialized welfare democracies, governments differ in aspiration and welfare efforts (Veit-Wilson, 1998). Nevertheless it is necessary to agree on some yardstick against which welfare policies can be compared and evaluated. In this paper I will use the relative definition of poverty adopted by the European Union to evaluate whether social assistance guarantees an income level compatible with an egalitarian and liberal understanding of social justice. In so doing we will examine the adequacy of social assistance, which shows whether benefits are provided at levels above the poverty threshold.

Large-scale and systematic analyses on social assistance benefit levels have been very difficult to achieve, mainly because the lack of good quality institutional data. For this reason I have established a new macro-level dataset on social assistance benefits, which gives exceptional possibilities to study social assistance both in a longitudinal and in a comparative perspective. An additional advantage of this dataset is that it includes indicators on the financial situation of lone parents. Since the majority of these households are mothers it brings issues of the gendering welfare state into the forefront of analysis. Questions concerning the equal treatment of men and women have become increasingly important to recognize in connection with the greater conditionality of social assistance, which often is based on pre-conceptions of a full adult worker model family.

The adequacy of social assistance indicates how far up on the income scales benefits reach. This analysis, thus, combines into one theoretical and empirical framework two strands of

welfare state research that often are conducted separately: institutional macro-level analyses on the organization of social policy, and outcome related micro-level analyses on income distributions. This xenogamy of different types of data and perspectives provides new knowledge in connection with anti-poverty strategies. In conjunction with more traditional studies on poverty alleviation it complements information on the redistributive welfare state.

The paper is structured as follows. Next we relate ideas of justice with poverty alleviation. Thereafter we discuss how workfare and gender may contribute to our understanding of the relationship between social assistance and poverty. These sections are followed by two analyses discussing methodological considerations and the data used in the empirical analyses. Thereafter the results are presented. The paper concludes by a discussion of the main findings.

### **Just Societies and the Social Minimum**

Means-tested social assistance benefits are central for the achievement of just societies. Social assistance does, however, not receive this prominent position within the organization social policy due to its leveling effects on the overall income distribution: universal and earnings-related social insurance provisions generally have greater impact on aggregate poverty and inequality rates (Nelson, 2004). The importance of social assistance for the functioning of advanced welfare states has more to do with the capacity to mitigate severe income shortfalls among citizens falling through the net of first-tier social insurance provisions. In his theory of justice, Rawls (1971) argues that in just societies where institutions are organized to maximize the lifetime expectations of the most disadvantaged typical person, the social minimum guarantees that the short-term basic needs of citizens are satisfied. This is the second principle of justice (the difference principle) formulated by Rawls (1971). The first principle concerns the guaranteeing of equal basic liberties. To the extent that social minimums provide individual resources necessary to realize political and civil rights, the guaranteeing of a social minimum has priority over the first principle of justice (Schaller, 1998).

Rawls does not detail how social minimums can be construed, except that he referred specifically to the possibility of using some kind of graded negative income tax (Rawls, 1971: 275). The original ideas of a negative income tax elaborated by Friedman (1962) already in the early 1960s have not yet been realized at national level in any industrialized welfare democracy. Neither is there any other form of refined guaranteed minimum income or basic

income at operation in these countries. Although the impact on actual policy making seems to be weak, there is nevertheless a lively debate at least in the academia about the construction of both unconditional and graded minimum and basic incomes (see Haveman, 1988; Parker, 1989; Walters, 1989; van Parijs, 1995; Barry, 1996; Fitzpatrick, 1999; Murray, 2006).<sup>1</sup> Perhaps the closest we get to a social minimum is probably social assistance, which at least in some respects resembles the type of social minimum discussed by Rawls (1971). Social assistance often defines the minimum income standard offered by the state or local governments. Benefits are generally designed to cater for a broad range of individual needs and social assistance programs are more or less exclusively designed to assist the most disadvantaged citizens. The trend of reforms towards more active approaches to deliver cash benefits also indicates that social assistance is increasingly viewed as temporary rather than long-term financial support.

Whether increased work obligations of welfare recipients are compatible with the basic requirements of a just social minimum is not always clear from the most recent social assistance debate. Rawls (1971) was also somewhat reluctant discussing the work-related aspects of the social minimum in greater detail. Nonetheless, he did seem to endorse some kind of fairness based work-ethic, where everyone should contribute to the total amount of labor produced (White, 2004). On this account, increased work obligations may be compatible with just societies. However, the exact institutional prerequisites that have to be fulfilled for a fair work-test to apply are continuously subject to debate. Next, we will discuss in more detail how the increased conditionality of social assistance may interfere with the establishment of just social minimums.

### **From Passive to Active Welfare**

The transition from passive to active welfare policies in recent decades has intensified the ongoing discussion about the construction of just societies. The tendency in Western Europe and in the Anglo-Saxon welfare states to require able-bodied recipients to take on job-related activities, whether this may be job search, education, training, or actual work, have introduced important changes in the way social assistance is provided (Lødemel and Trickey, 2001). Before this transition from passive to active welfare policies took place, activation policies

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<sup>1</sup> There are certainly several reasons why governments seem to be unwilling to implement an unconditional guaranteed basic income for all citizens. One such reason is probably the relationship between basic income and work incentive, which may turn out negative. This potential unintended effect of social policy is also recognized in much of the basic income literature.

were generally targeted at citizens covered by unemployment insurance. One unique feature of many workfare schemes is that obligations to participate in job related activities are applied specifically to social assistance recipients (Handler, 2004).

Workfare programs have certainly helped people to move from dependency on the welfare state into employment. For many observers there is also something logically appealing about the idea of workfare. First and foremost citizens should work, or at least show that they are willing to take on paid employment. Only if this cannot be arranged social welfare may be an option. This work-related character distinguishes workfare programs from the unconditional and non-targeted basic income guarantees discussed in the academia. There are reasons for concern in relation to the widespread tendency of linking social assistance and activation. Most schemes tend to be preventive in character, thus focusing more on dependency and reinforcement of individual responsibilities than on structural forces operating at societal level (Trickey, 2001). The whole idea about workfare is therefore to change the nature of workers, it has been argued, not to stimulate the development of flexible labor markets and to enhance the quality of work life (Gilbert, 2005). This property distinguishes workfare from the employment strategy characterizing labor market policy in the Nordic countries during much of the post-war period. In Sweden, for example, active labor market policy combined measures to stimulate both the demand and supply of labor. In addition emphasis was placed on job matching.

The development of passive cash benefits towards workfare is not only distinctively different from the traditional Nordic work strategy, it also marks a departure from the less stigmatizing and repressive principles that played part in the abolishment of the old poor relief. This seems especially to be the case if work related activities are used more as a means to force citizens of the welfare rolls than to strengthen the human capital of recipients (Torjman, 1996).<sup>2</sup> One might even argue that in cases where work-related requirements are used more as sticks than carrots, workfare can to some extent be viewed as the old poor relief in new disguise. Note that one prominent objective of the British Poor Law of 1834 was to make relief for the undeserving and able-bodied poor so unpleasant that citizens stopped from claiming it; the so-called less eligibility approach (Stitt, 1994). This resemblance between workfare and the old poor relief becomes even more evident if social assistance benefits in addition have been

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<sup>2</sup> The positive effects of workfare on the employability of social assistance recipients is also inconclusive at best (Lödemel, 2002).

curtailed (as observed elsewhere, see Nelson, 2008), thus giving recipients increased motives to take on even low-paid employment.

If activation is used in conjunction with downsized benefits to cut social expenditure and increase work incentives (rather than to provide resources to bridge structural gaps between supply and labor market demand); workfare may discriminate the idea of just social minimums. White (2003: 134), for example, includes income adequacy as the first requirement to be present in order for a fair work-test to apply.<sup>3</sup> Income adequacy refers here to the degree to which citizens have access to benefits provided at levels sufficient to escape financial poverty. If workfare translates into lower social benefits for welfare recipients, the increased emphasis on activation in connection with social assistance may have had negative consequences for the construction of just social minimums. In the empirical analyses that follow we will assess the extent to which social assistance provide adequate payments.

### **Gender Dimensions of Social Minimums**

There seems to be consensus in the literature that welfare states more broadly tend to reproduce and reinforce existing gendered divisions of labor (Meyer, 1990; Lewis, 1992; Orloff, 1993; Gordon, 1994; Sainsbury, 1996). More recently it has been argued that the trend toward selectivity and individual responsibility in the provision of social protection also involves important gender dimensions. Orloff (2002) argues that activation is one part of a wider policy package that is built around the assumption of a gender neutral distribution of paid and unpaid work. In this adult worker model both women and men are believed to be working on the formal labor market.<sup>4</sup> For some women, especially lone mothers, gainful employment can be troublesome. Especially if the associated issue of care is not publicly recognized and provided for. Countries also differ extensively on this dimension. Whereas care work in the Nordic countries to large extent has been moved to the formal labor market,

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<sup>3</sup> Workfare may conflict with the construction of just social minimums on even more accounts. Several scholars have argued that one of the most fundamental consequences of workfare is the subsequent transformation of social citizenship, which instead of an equality of status is changed into a contract (Ferrera and Rhodes, 2000; Handler, 2005). Since part of this contract stipulates that welfare clients repeatedly have to prove that they are unable to get a job, welfare contractualism may in its most extreme versions cause detrimental damage to self-respect and self-worth (Wolff, 2003). Workfare may in this respect conflict with justice-based considerations on the design of social policy. Potential damage to welfare recipients' mental well-being is here more appreciated than contributions made to the common good (White, 2004). Remember here that Rawls defined five primary goods that are to be distributed by the principles of justice: liberty, opportunity, income, wealth, and self-respect. Among these primary goods the social basis of self-respect are held to be the most important (Rawls, 1971: 440).

<sup>4</sup> The adult worker model is associated with at least two problems. The problem of limited child care facilities is recognized above. Another problem is the increased or doubled burden placed on working mothers, which often do the majority of unpaid care work in the family (Giullari and Lewis, 2005).



the development of public child care facilities in Continental Europe and the non-European English speaking welfare democracies is still limited (Korpi, 2000).

The move from passive to active social assistance policies is sometimes believed to be detrimental for the emancipation of women and especially for solo mothers (Michaud, 2005). For example, Chunn and Gavigan (2004) argue that workfare principles change the perception of single mother recipient households from deserving to undeserving poor. Poverty is mainly viewed as an individual problem with individualized solutions, basically located in the labor market by working full-time hours without necessary considerations to caring responsibilities. In most industrialized welfare democracies lone mothers are expected to work (Lewis and Hobson, 1997). Work tests for lone parents are also increasingly being implemented in social assistance regulations. Among a group of 22 OECD countries in 2000, lone parents were exempt from work obligations only in 7 countries (Bradshaw and Finch, 2005). Perhaps one could say that the major alternative for lone mothers to escape poverty in the era of workfare is marriage. Of course, in reality lone parenthood is not always associated with poverty. Even for lone parents applying for social assistance and related minimum income benefits formalized work tests may in some countries only apply when children reaches certain ages. In some countries the work test for lone parents concerns only part-time work, and so forth. Nevertheless, lone parents do face increased poverty risks in most industrial welfare democracies (Smeeding and Sandström, 2005; Brady and Kall, 2007; Mishra et al., 2007). Lone parents are also disproportionately represented in the social assistance category in several countries (Ruspini, 1998).

In some countries, most notably the English speaking welfare states, the undeserving lone mother has been a prominent feature of the poverty debate for many years. Single mothers are stigmatized in various ways. Sometimes lone mothers are accused of receiving excess amounts of social benefits. Alternatively un-married mothers are described as morally decayed and lazy (see Thomas, 1998). The extent to which apprehensions such as these are manifested in program regulations is unclear. Of course, workfare for lone parents can be seen as one formalized expression of the moral conceptions that often do exist in connection with lone motherhood.<sup>5</sup> It is less clear whether governments in addition to increased work obligations have introduced special social assistance rates for lone parents. If lone-parents are

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<sup>5</sup> Typically the development from passive to active welfare policy is described in relation to high unemployment and tightened budget constraints.

viewed as less deserving or even undeserving groups, we would expect social assistance to be less protecting towards the financial needs of lone mothers than towards groups in possession of more positive images.

In this paper we will subject this hypothesis of more deeply rooted institutional gender inequalities of social assistance standards to empirical tests. By this token we will disaggregate the larger issue of benefit adequacy into questions pertaining to the treatment of different family constellations. This allows us to investigate the extent to which social assistance regulations take into account the varying needs of households of different types and size. The strength and weakness of social assistance in connection with lone motherhood is thereby assessed.

### **Replacement Rates and Benefit Adequacy**

Evaluations of social benefits are often based on levels of entitlement. One common strategy to make benefit levels comparable across countries and over time is to use so-called replacement rates, which are calculated by relating the level of statutory entitlements to some measure of income from work. Replacement rates have been used both to compare the level of social insurance (see Korpi, 1989; Palme, 1990) and the level of social assistance across countries (see Eardley et al., 1996; OECD, 1998a, 1998b, 1999; Kilkey and Bradshaw, 1999; Behrendt, 2002; Bradshaw and Finch, 2002).

Whereas the theoretical basis for using replacement rates in connection with social insurance is quite evident, the strategy to relate social assistance to work income is less obvious. Social insurance aims to provide income security for lost wages. Social assistance is not necessarily intended to uphold standard incomes. Instead one core objective is to provide levels of subsistence that facilitates moves from poverty. Often there is a ‘distance of legitimacy’ between insurance and assistance, where citizens in receipt of insurance provisions are better off than those receiving social assistance (Nelson, 2006). Social assistance replacement rates are sometimes interpreted differently compared to social insurance replacement rates. Since there is no natural link to losses in work income, social assistance replacement rates concern more the unintended consequences of social benefits rather than the intended effects of policy reform. The former interpretation is also used by the OECD (2002) and concerns potential negative and incremental effects of benefits on work incentives and labor supply. Such comparisons with work income can in some instances be very misleading. Whereas social

insurance rights are established at the individual level in most countries, social assistance entitlements are generally designed to cater for household needs. If social assistance is evaluated in relation to work income, benefit entitlements should accordingly be compared to the earnings potential of the whole family, which is not that common in the literature.

In order to evaluate whether social assistance fulfill one core objective to mitigate economic hardship it can be more appropriate to analyze benefit entitlements in relation to certain pre-defined poverty thresholds. Although replacement rates can be computed for households at different income levels and thus show how well specific social protection programs respond to the needs and demands of households across different socio-economic strata, the alternative strategy proposed in this paper is to compare benefit levels to the overall income distribution. This exercise evaluates how far up the income distribution social assistance reaches. Whereas replacement rates show the extent to which social insurance entitlements are sufficient to mitigate losses in normal earnings, the distance between social assistance and the poverty threshold shows the extent to which last-resort safety nets provide adequate protection against poverty.

### **Data: SaMip and LIS**

Analyses on the adequacy of social assistance in this paper combines data from two sources; the *Social Assistance and Minimum Income Protection Interim Dataset (SaMip)* and the *Luxembourg Income Study (LIS)*. SaMip contains various comparable indicators on the level of social assistance and related minimum income benefits, which have been collected on the basis of a type-case approach (Nelson, 2007a). Benefit entitlements are established by consulting national regulations and three typical household types are used; a single person, a two-parent family and a lone-parent with two children. In this paper we use an updated version of the SaMip dataset, which includes also the southern European countries. In its present state the dataset includes 21 countries and it covers the years 1990-2005. In the empirical analyses below, housing benefits, child benefits, and refundable tax credits for which the household types may be eligible are included together with social assistance standard rates. In countries where housing benefits are related to the rent expenditure of the household, financial assistance toward housing costs are calculated on the basis of actual rents for respective household type.

LIS includes national micro-level income surveys, which have been harmonized to allow cross-country comparisons (Smeeding, 2002). The harmonized national datasets includes income information for at least 2800 households. The specific variable of interest in LIS is household net disposable income, which is pre-constructed in the database. Household net disposable income is defined as the sum of employment income, occupational pensions, transfer income less income taxes and mandatory social security contributions. In the calculation of median incomes we follow the standard procedure to use both population and household weights. In order to adjust income across households of different size we use the so-called square root equivalence scale, where household disposable income is divided by the square root of the number of household members. Nowadays, the square root scale is the most common procedure to adjust income estimates for differences in household size and needs. The adequacy of social assistance is measured by relating the size of benefits of the three type-cases included in SaMip to the national equivalized disposable income in total population. More information regarding data and method is given in Appendix A.

## Results

Welfare state expansion came to a halt in the mid-1980s. Although the most basic welfare state structures remain intact, most countries have to various degrees introduced social policy cutbacks (Montanari et al., 2007). Social assistance is no exception to this development (Nelson, 2007b). The precise consequences of welfare state retrenchment on the adequacy of social assistance are less apparent. Based on the theoretical discussion above the effects of inadequate social assistance standards are clearer. If social assistance is provided at levels insufficient for effective poverty alleviation, it is difficult to conceive fairness and justice as important signatures of contemporary welfare states.

## Benefit rates and Income Poverty

Is social assistance adequate for effective poverty alleviation? *Figure 1* shows the adequacy of social assistance in 2000 for the single person type-case, the lone-parent household, and the two-parent family.<sup>6</sup> Results based on the old and modified OECD equivalence scales do not significantly alter the main conclusions. Consult the sensitivity analyses reported in appendix B. Benefits are often far from providing sufficient protection against poverty. On average

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<sup>6</sup> Greece and Portugal, which are included in the most recent version of the SaMip dataset, are not analyzed here. Greece has not implemented any generalized minimum income benefits of the type considered in this analysis, whereas Portugal is not covered by the Luxembourg Income Study.

social assistance is provided at levels between 40 and 45 percent of median income, which is below the poverty thresholds of 50 percent most often applied in comparative income distribution studies. There are quite large differences between countries. For the family with two children, for example, benefits ranges between 59 percent of the median income in Denmark and Norway, and 23 percent in the United States.

[Figure 1 about here]

Social assistance guarantees an income above the 60 percent poverty threshold in Norway only. The single person type case is here granted benefits reaching 65 percent of the median income. In the remaining countries benefits are most often below the 60 percent poverty threshold. This result is quite remarkable, especially considering the European countries. Since the early 1990s at least the European Union has increasingly become engaged in the fight against poverty and social exclusion in the member states. Subsequently the 60 percent poverty threshold has been adopted as one of the benchmarks to evaluate the functioning of social policy across the Union.<sup>7</sup> The results presented here must be considered as partial failures for Social Europe and for the attempts made at the supranational level to place social questions higher on the European political agenda.

It is evident that social assistance in the three none-European countries also fails to raise household income above the 60 percent poverty threshold. The results for the United States are in line with those of Spain, with adequacy rates far below the average.<sup>8</sup> The situation in Australia is somewhat improved, with adequacy rates around average. Canada is located in between Australia and the United States on this rank-order, thus providing adequacy rates slightly below average.

If we lower the expectations somewhat and concentrate on the 50 percent poverty threshold the results gets more promising, although many countries still are far from providing benefits

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<sup>7</sup> The 60 percent income threshold used to be defined as the low income rate (Social Protection Committee, 2001). After the revision of the commonly agreed indicators on poverty and social exclusion it is referred to as the “at risk of” poverty rate (European Commission, 2006). Since this statistics includes not only families with income slightly below this rate, but also households with income well below 60 percent of median income, the term “at risk of” poverty is somewhat misleading.

<sup>8</sup> In the income matrix for the SaMip dataset the single person type-case in the United States is only eligible for food stamps, which results in an extremely low adequacy rate. Low-income households with children in the United States receive an additional benefit. Since it is assumed that households lack work-income, the US type-cases in SaMip are not eligible for the earned income tax credit.

at levels sufficient to reduce poverty. Considering differences between household types the two-parent family receives on average the most adequate benefits, although the difference compared to the lone parent and the single person household is quite small. At least for the difference between the two-parent family and the single person type case this result is intuitively reasonable. Families with children are generally seen as more deserving for public support than households without caring responsibilities. Similarly, childless families are more often perceived capable of earning their way out of poverty (van Oorschot, 2000). However, this potential influence of public opinion seems not to have benefited lone parents. Judged by the average there is no large difference between the lone parent and the single person household.

In order to more thoroughly evaluate the treatment of lone parents and potential gender dimensions in the level of benefits we can compare the situation of the lone parent household with that of the two-parent family (Nelson, 2007a). This exercise reveals that most governments do not treat lone parents much differently than the two-parent family. Only in five countries is the adequacy rate of the lone parent household more than five percentage points below that of the two-parent family. Included in this group are Australia, Denmark, Ireland, Norway, and Sweden.<sup>9</sup> Among these countries Australia, Denmark and Norway are clearly three extreme cases where the difference between the lone parent type-case and the two-parent family is more than ten percentage points.<sup>10</sup>

The results presented in this section have both been disappointing and promising. They are disappointing from the perspective of poverty alleviation since social assistance has hard troubles of reaching the poverty thresholds most often used in this type of analysis. If income adequacy is one pre-condition for a fair work test to apply, social assistance fails to achieve this goal. Just social minimums are therefore absent in the social security machinery of contemporary welfare states. The findings are more promising in terms of the treatment of particular household categories. Lone parents, among whom the clear majority is solo mothers, are provided the least adequate benefits in a few countries only. Moral judgments about the

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<sup>9</sup> The two alternative equivalence scales above strengthen the position of lone parents somewhat but does not impact the overall findings.

<sup>10</sup> The figure for Norway may be somewhat misleading in comparison with the other countries. Instead of program regulations, minimum income benefit rates in the Norwegian case are estimated on the basis of expenditure data supplied by Statistics Norway.

deservingness of lone mothers therefore seem not to have had any major influence on the differentiation of social assistance standards in the majority of countries.

### **Dismantled Protection against Poverty**

Social Assistance is not as generous as it used to be. Since benefits have been curtailed in most countries it is possible to observe a development towards less adequate benefits. However, there has not been a steady and continuous decrease in benefit adequacy since 1990. *Figure 2* shows changes in social assistance adequacy rates since the early 1990s.<sup>11</sup> Changes in social assistance adequacy rates are determined by movements in disposable income and entitlement levels. *Figure 2* also shows how the numerator and denominator have changed since the early 1990s. Country averages are used and the base year is set around 1990. For social assistance entitlement levels and benefit adequacy, unweighted averages of the three type-case households are used.

[Figure 2 about here]

The most significant changes in adequacy rates occurred in the second half of the 1990s, when disposable income increased faster than the level of benefits. During the first half of the 1990s benefit adequacy rates were more stable. During this period social assistance increased even faster than disposable income, although the rise in benefits was not enough to actually provide strengthened protection against poverty. The unvaried adequacy levels in the first half of the nineties has less to do with institutional improvements than to slower growth of disposable income in the aftermath of the global economic recessions of the late-1980s and early-1990s. Benefits were not up-rated to a substantially greater degree in the first half of the 1990s than in the second half. It was rather wage development that changed, where the years 1990 to 1995 is characterized by less improvement in disposable income in the total population than the period 1995-2000.

There are some noticeable differences between countries. *Figure 3* shows changes in the adequacy of social assistance for two time periods; 1990-1995 and 1995-2000, for respective country. There are no substantial differences between household types and once again an un-weighted average of benefits for the three type-cases is used. Italy is the only country with

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<sup>11</sup> Since this evaluation concerns changes in adequacy rates, the results are less sensitive for the scale of equivalence used.

positive figures for both periods. However, the Italian case should be evaluated with considerate caution due to large regional differences in benefit amounts. The Italian figures reported in this paper are only valid for Milan. In some parts of Italy there are still no general means-tested social assistance benefits in operation.

[Figure 3 about here]

Developments in the other countries have not been as promising as in Italy. In a large number of countries, adequacy rates improved during the first half of the nineties, where after they started to deteriorate. Included in this group are Australia, Finland, Germany, the Netherlands, Norway, Sweden, and the United Kingdom. Austria and France show the opposite development with strengthened protection against poverty in the latter period 1995-2000, but decreased adequacy rates in the first half of the nineties. Five countries have negative figures during both periods and included in this cluster are Belgium, Canada, Denmark, Ireland, and the United States. However, both Canada and the United States are very close to the cross-over point for the period 1990-1995.

Some countries have had particularly noticeable developments. Ireland is one example where benefit adequacy decreased more than 15 percentage points during both periods. The figures for Ireland are quite remarkable since the Irish government substantially increased the scale rates of the *Supplementary Welfare Allowance* and the *Lone Parent's Allowance* in the 1990s. For example, between 1990 and 2000 the Supplementary Allowance was raised by 52 percent in Ireland for a single person. The increase was 38 percent for the lone parent. Among the other countries the average benefit increase was 6 percent for the same household types in this period. The main reason why benefit increases in Ireland does not translate into strengthened protection against poverty is that wages have increased even faster during the economic boom of the Irish economy in the 1990s. Over this decade Irish wages more than tripled in absolute terms (OECD, 2006). This type of explanation is also valid for Spain, where the adequacy of social assistance also deteriorated in the 1990s. In Spain, wages almost doubled during this decade.

Canada and Sweden are two other countries with exceptional developments, albeit not to the same extent as in Ireland. In both Canada and Sweden adequacy rates were reduced by about 13 percentage points in the second half of the 1990s. The developments in Sweden and



Canada differ from Ireland in so far as benefits were curtailed in absolute terms in the two former countries. In Sweden the *Social Welfare Allowance* was subject to major reform in 1998. In Canada *General Assistance* was substantially reduced in 1995 and few years later when *Ontario Works* replaced the former system of benefits (Nelson, 2003).

## Discussion

Is social assistance organized in accordance with an egalitarian and liberal understanding of social justice? This was the question raised in the introduction to this paper. Obviously, there is more to this question than offered by the empirical analyses in this paper. Nevertheless, we can conclude that the need to fight poverty and economic hardship continues to be a major challenge of contemporary welfare states. Despite the implementation of extensive systems of social protection poverty has not been eradicated or transformed into a marginal problem. It is estimated that almost 16 percent of European Union citizens are now poor or at risk of poverty (EUROSTAT, 2006). In the English speaking welfare democracies outside Europe this figure is even higher (LIS, 2007).

Low-income targeting is still by many welfare state observers considered to be an effective strategy to reduce poverty (see Freeman et al., 2006). It is therefore puzzling to note that poverty has increased in many countries, despite the growing emphasis on low-income targeting within the overall design of social protection. Among the seventeen countries analyzed in this paper poverty increased on average by about 5 percentage points from the early 1990s and up to the turn of the new millennium (LIS, 2007). These new patterns in the distribution of income force us to re-consider the role of social assistance for poverty alleviation, particularly if the fight against poverty should continue to be a main government objective of the industrialized welfare democracies.

In this paper we have shown that social assistance often is insufficient for effective poverty alleviation. Although social assistance is explicitly designed to cater for the needs of the poorest income segments, benefits seldom reach the poverty threshold. If citizens have to rely on benefits for a whole year, they are in most countries condemned to live in poverty, at least in relative terms. This finding gives no affirmative testimonial for the continued reliance on low-income targeting as an important redistributive instrument for the advanced welfare democracies. It is also doubtful whether benefits that fail to bring households out of poverty can be equated with the social minimums which Rawls (1971) originally had in mind.

Although Rawls does not specify how much income the social minimum was to guarantee, it seems fair to assume that it at least should move recipients above the poverty line. This requirement has not become less important along with the increased conditionality of social assistance. Income adequacy is one important condition that has to be accomplished for a fair work test to apply. Today social assistance in several countries is far from satisfying this criterion. In order for social assistance to be truly effective in reducing poverty, benefits must be substantially increased. In some countries they have to be raised by at least 20-40 percent. Just social minimums are on this account absent from the social policy arsenal of the advanced welfare democracies.

One obstacle against improvements in the level of social assistance is institutional restrictions in first-tier social protection programs, most notably social insurance. First-tier social insurance benefits often place restrictions on how far social assistance can be improved (Nelson, 2006). For example, the “distance of legitimacy” between social insurance and social assistance imply that assistance benefits cannot easily be paid at levels above social insurance. In countries where social insurance provisions are provided in the form of flat-rate amounts or in countries where insurance provisions are only weakly earnings-related, it may thus require more substantial social policy reforms before social assistance can become an effective instrument in the fight against poverty. This could, for example, involve a re-design of safety nets whereby the degree of income security is substantially improved. Such a re-organization may have additional benefits. For example, it may strengthen social protection over the longer run by increasing the public support for redistributive policies, may it be either horizontal or vertical in character. This would most likely spill-over also to social assistance, whereby governments may find it easier to allocate funds necessary to raise benefits also for the lower income segments of the population.

Another reflection on the results presented in this study concerns the long-term development of social assistance. One reason why social assistance has become less adequate to reduce poverty is that wages and disposable income have increased faster than benefits. To avoid an erosion of benefits in the long term-perspective, benefits should subsequently be tied to the development of wages. Today, most countries have instead indexed benefits to price development, which makes little sense as far as relative poverty is concerned. This holds also for other types of adjustment mechanisms that instead of prices have linked benefits to consumption patterns often among the lowest income segments of the population. One

common misunderstanding of social assistance standards is that they are established with reference to absolute levels of living and thus cannot be evaluated by using relative poverty measures. This standpoint, however, is not accurate even in countries where social assistance is based on a basket-of-goods approach.

Most basket-of-goods are established with close reference to accustomed living standards in society as a whole. Also the consumption items included in the basket-of-goods often reflect living standards of more broadly defined income groups. In Sweden, for example, the consumption items included in the basket-of-goods for the *Social Welfare Allowance* and its predecessor the *Poor Relief* have changed several times along with increased living standards in total population. License fee for public television is one clear example. Another example is the inclusion of costs for newspapers. During the 1990s and in order to reduce social expenditure some countries also removed certain goods from this basket or down-rated the amount of household expenditure devoted to each consumption item in this basket of goods. This down-rating and re-basing of benefits have also occurred in countries where social assistance standards are based on other approaches than the basket-of-goods. In Germany, for example, benefits for *Sozialhilfe* were curtailed when the government decided to move from a basket-of-goods approach to a consumption-based approach. Together with the introduction or strengthening of workfare principles in connection with social assistance receipts, this cutting of benefit levels may reflect that governments tend to view the new forms of conditional social assistance programs more as preventive rather than integrative measures for social inclusion.

In the literature focusing on the negative consequences of workfare there is some concern related to the treatment of women and lone mothers. Some arguments are based on recognitions that workfare programs tend to be non-adoptive to the caring responsibilities of lone parents and fears are being raised that activation policies increasingly will place single mothers in the less deserving group of the welfare clientele. In this paper we have added new information to this discussion by investigating the extent to which social assistance differentiates between the needs of lone parents and other family constellations. Generally, we do not find any stronger evidence that social assistance gives lone parents less generous levels of benefits than two-parent families. Other institutional aspects of social assistance may of course negatively influence the well-being of lone parents. For example, the increased emphasis on activation may prevent lone parents from claiming benefits in the first place.

The results presented above on potential gender dimensions in social assistance designs should not be confused with more general arguments relating to the way in which welfare states structure life chances of women and men differently. Social assistance concerns only the residual part of modern systems of social protection. Much of the gender based inequalities that exists in the industrialized welfare democracies are present already before these schemes of last resort are activated. Social assistance can do little to influence these fundamental forces of socio-economic stratification in society.

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## Appendix A

In the SaMip dataset social assistance standard rates include *Special Benefit* in Australia, *Sozialhilfe* in Austria, *Minimex* in Belgium, *General Assistance* and *Ontario Works* in Canada, *Social Bistand* in Denmark, *Living Allowance* in Finland, *Revenue Minimum d'Insertion* in France, *Sozialhilfe* in Germany, *Supplementary Welfare Allowance* in Ireland, *Minimo Vitale* in Italy, *Public Assistance* in Japan, *Algemene Bijstand* in the Netherlands, *Unemployment Assistance* in New Zealand, *Sosialhjelp* in Norway, *Socialbidrag* in Sweden, *Aide Sociale* in Switzerland, *Income Support* in the United Kingdom, *Food Stamps* and *Aid to Families with Dependent Children*, and *Temporary Assistance to Needy Families* in the USA.

In some countries the standard rates of social assistance shows some regional variation. This applies to Germany, where the average level of social assistance guaranteed by the provinces is used here. Madrid is used to calculate social assistance benefits in Spain. In both Sweden (until 1998) and Switzerland, the level of social assistance is based on national guidelines. In Austria and Canada benefit scale rates reflect those in Vienna and Ontario, whereas Michigan is used for the United States. The Italian data on social assistance should be treated with extra caution due to extensive regional differences. Here, data refers to benefit rates effective in Milano. The scale rates of social assistance vary geographically also in Finland and Japan. In the present study the highest rated bands are used. Beside social assistance standard rates, another important part of the benefit package of low income households is various forms of housing benefits. In countries where housing benefits are related to the rent expenditure of the household, entitlements for housing benefits are estimated on the basis of actual rents for respective family type.

The rent levels in SaMip are based on Eardley *et al.* (1996), who asked national informants and experts in various countries to report the rent level for different sized apartments in 1992. For the one-person household, a one bedroom apartment is used. For the lone parent type-case, a two bedroom apartment is used. Finally, for the two-parent family, a three bedroom apartment is used. In order to get data for each year between 1990 and 2000, these rent levels have been adjusted in line with movements in the rent indices published by ILO Bureau of Statistics.

Following LIS datasets are used in the empirical analyses: Australia (1989, 1995, 2001), Austria (1994, 1995, 1997), Bel (1992, 1995, 2000); Canada (1991, 1994, 2000); Denmark (1992; 1995, 2000), Finland (1991, 1995, 2000), France (1989, 1994, 2000), Germany (1989, 1994, 2000), Ireland (1994, 1995, 2000), Italy (1991, 1995, 2000), Netherlands (1991, 1994, 1999), Norway (1991, 1995, 2000), Spain (1990, 1995, 2000), Sweden (1992, 1995, 2000), Switzerland (1992, 2000), United Kingdom (1991, 1995, 1999), and the United States (1991, 1994, 2000).

There are some comparability problems with Swedish income data, which relates to the treatment of adults who not yet have established an independent living. In the original Swedish income surveys, all people over 18 years of age and still living with their parents are treated as independent households. Since these persons often are students with no or limited income, the number of Swedish households with low income is overestimated. To reduce this problem we have for each country excluded households where the head is below 25 years of age.

## Appendix B

The sensitivity analysis reported in Table A1 indicates that equivalization of disposable income does not alter the main conclusions to any larger extent. Table A1 shows social assistance adequacy rates based on the old and modified OECD scales. The old OECD scale gives the first household member a weight of 1. Each additional adult receives 0.7, whereas each child receives weight of 0.5. The modified OECD scale differs on the treatment of additional adults and children, who instead are assigned weights of 0.5 and 0.3, respectively.

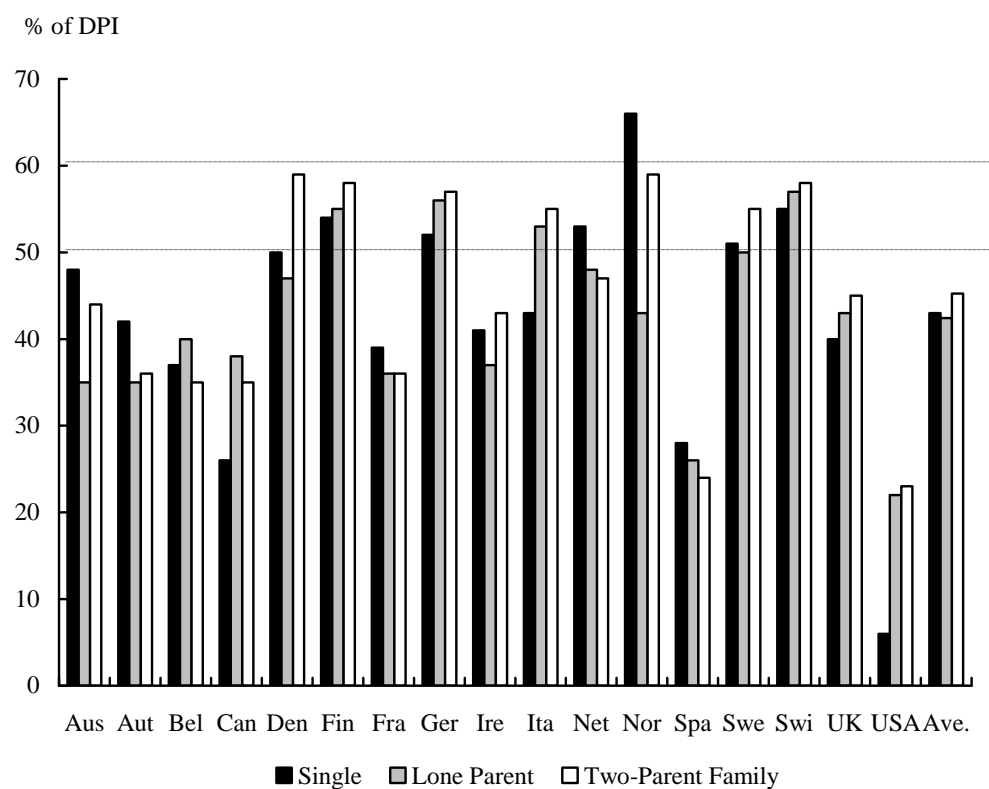
Compared to the square root scale used above, the old and modified OECD scales improve the results somewhat, insofar as a few more countries have adequacy rates above the 60 percent poverty threshold. However, social assistance still fails to reach the 60 percent poverty threshold in the majority of the countries subject for comparison. Among the 51 instances analyzed (17 countries and 3 type-cases), the adequacy of social assistance is above 60 percent only in six cases when the modified OECD scale is used to equivalize income. When the old OECD scale is used, 10 cases have adequacy rates above 60 percent. Compared to the square root scale used above, the two OECD scales somewhat strengthen the position of lone parents, which supports the idea that lone parents generally are not disadvantaged as far as social assistance benefit rates is concerned.

**Table A1.** Social Assistance Adequacy Rates for three Household Types in 17 countries.

|     | Old OECD Scale |             |            | Modified OECD Scale |             |            |
|-----|----------------|-------------|------------|---------------------|-------------|------------|
|     | Single         | Lone Parent | Two-Parent | Single              | Lone Parent | Two-Parent |
| Aus | 64             | 41          | 44         | 52                  | 41          | 46         |
| Aut | 55             | 39          | 35         | 46                  | 41          | 38         |
| Bel | 48             | 45          | 33         | 40                  | 46          | 35         |
| Can | 35             | 43          | 34         | 29                  | 45          | 36         |
| Den | 64             | 52          | 56         | 53                  | 54          | 60         |
| Fin | 69             | 61          | 55         | 58                  | 63          | 59         |
| Fra | 51             | 41          | 35         | 42                  | 42          | 37         |
| Ger | 65             | 61          | 53         | 55                  | 65          | 58         |
| Ire | 58             | 46          | 45         | 45                  | 45          | 45         |
| Ita | 57             | 61          | 54         | 47                  | 63          | 58         |
| Net | 69             | 54          | 46         | 56                  | 55          | 48         |
| Nor | 85             | 48          | 56         | 70                  | 50          | 59         |
| Spa | 40             | 31          | 25         | 32                  | 32          | 27         |
| Swe | 64             | 54          | 51         | 54                  | 57          | 55         |
| Swi | 71             | 63          | 55         | 59                  | 66          | 59         |
| UK  | 52             | 48          | 43         | 43                  | 50          | 46         |
| USA | 8              | 25          | 22         | 7                   | 26          | 24         |

Source: SaMip and LIS.

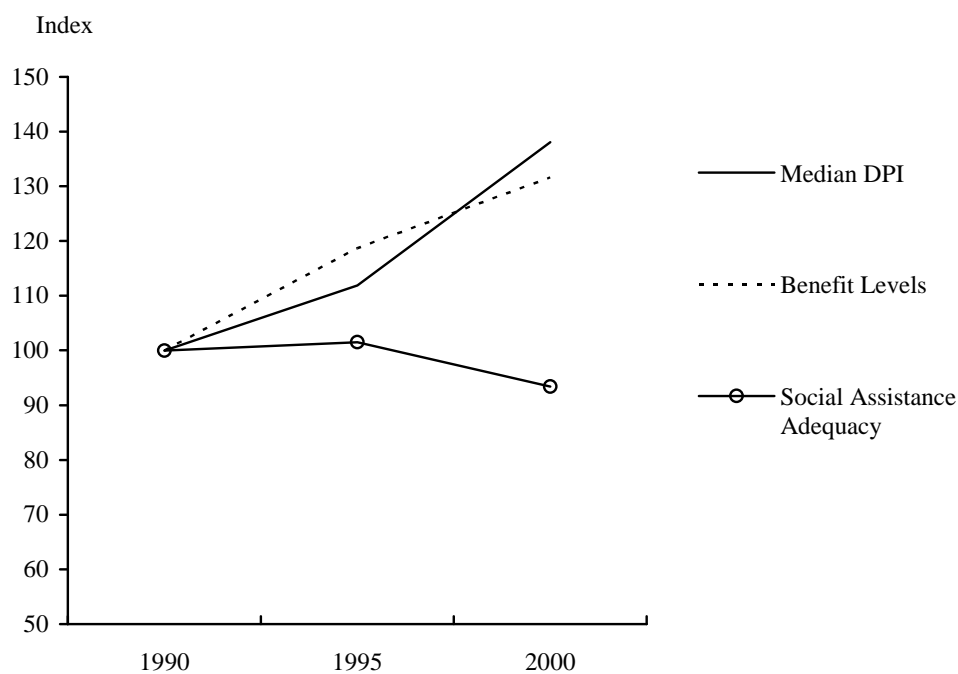
**Figure 1.** Adequacy of Social Assistance for three Household Types in 17 countries, around 2000.



Note: Adequacy = (Equivalentized Social Assistance Benefits for respective Household Type / Equivalentized Disposable Income in Total Population) \* 100.

Source: SaMip and LIS.

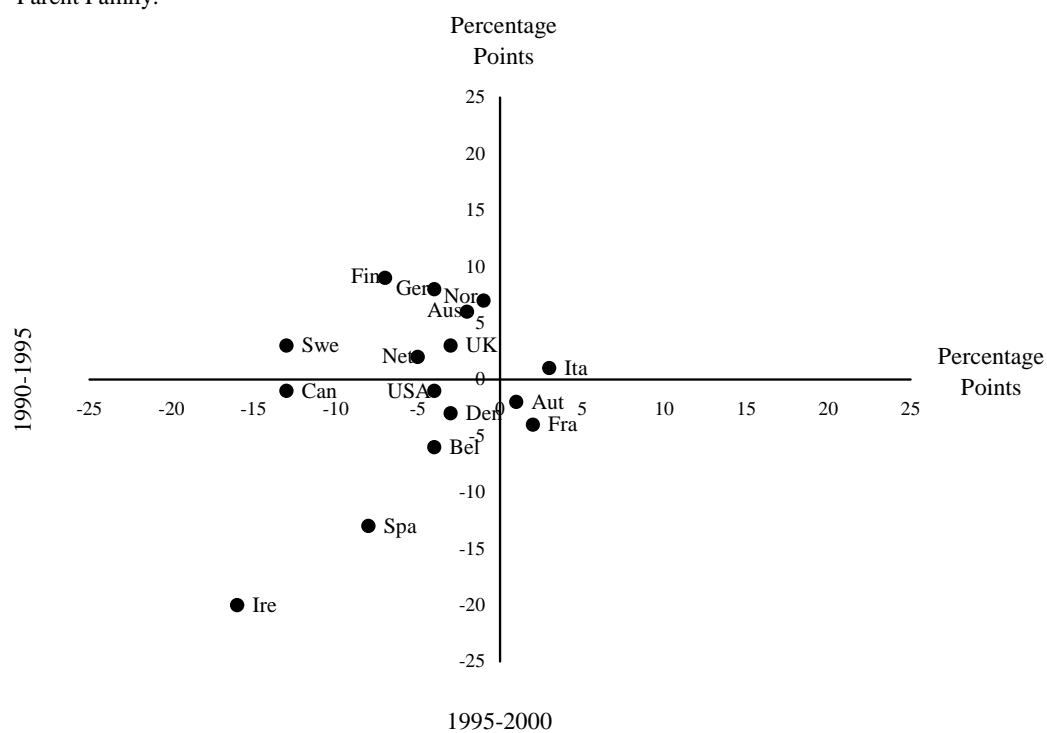
**Figure 2.** Changes in Social Assistance Adequacy Rates, the Equaivalized Disposable Median Income in Total Population, and Benefit Levels in 16 Countries, 1990-2000. Index 1990=100.



Note: Median DPI and Adequacy rates are estimates around 1990, 1995, and 2000. LIS lacks income data for Switzerland in the mid-1990s.

Source: SaMip and LIS.

**Figure 3.** Changes in Adequacy of Social Assistance in 16 Countries, 1990-1995 and 1995-2000. Average of Benefit Adequacy for Three Household Types: Single Person, Lone Parent, and Two-Parent Family.



Note: Estimates around 1990, 1995, and 2000. LIS lacks income data for Switzerland in the mid-1990s.

Source: SaMip and LIS.