

Headey, Bruce; Krause, Peter; Habich, Roland

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Diskussionspapiere
Discussion Papers

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**The Two - Thirds Society:
Social Fact or Fiction?**

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Bruce Headey, Peter Krause and Roland Habich

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Deutsches Institut für Wirtschaftsforschung

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Bruce Headey, Peter Krause and Roland Habich

Berlin, December 1991

Deutsches Institut für Wirtschaftsforschung, Berlin
Königin-Luise-Str. 5, 1000 Berlin 33
Telefon: 49-30 - 82 991-0
Telefax: 49-30 - 82 991-200

THE TWO-THIRDS SOCIETY: SOCIAL FACT OR FICTION?*

Bruce Headey
University of
Melbourne

Peter Krause
D.I.W.
Berlin

Roland Habich
W.Z.B.
Berlin

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The Two-Thirds Society: Social Fact Or Fiction?

ABSTRACT - Social scientists and media commentators have expressed concern that Western countries are becoming ``two-thirds societies`` in which two-thirds enjoy the benefits of affluence, while one-third are locked into poverty or near-poverty. This paper, based on economic panel data, tests the two-thirds society hypothesis in the case of (West) Germany 1984-89. The main finding is that poverty (defined as receiving less than half of average net household equivalent income) is mostly short term and that nothing like one-third are locked into poverty. On the other hand, far more people than had previously been thought are at risk of poverty. In 1984-89 only 3% were poor every year but about 25% were poor in at least one year. Germany appears to be a 75-15-10 society: 75% not poor, 15% occasionally poor but with generally adequate incomes, and 10% frequently poor or near-poor with incomes that may be considered inadequate. Analysis is based on the German Socio-Economic Panel Study (SOEP) and relates to the 8,000 people who were interviewed each year from 1984 to 1989.

There has been much discussion in sociology, political science and the media about the possible development in the West of ``two-thirds societies``. The concept of the two-thirds society is that, as economic growth has continued for most of the 1970s and 1980s, most people have become materially better-off. However, unemployment has remained persistently high in most countries and this may have led to a situation in which a significant part of the community - perhaps up to a third - has been ``forgotten``, has not been able to enjoy the benefits of mainstream society, and has been locked into poverty or near-poverty.

Germany provides an appropriate test case to assess claims about the two-thirds society. It is one of the richer countries of Western Europe and during the 1980s enjoyed reasonable but not exceptional rates of economic growth. But, as in most countries, unemployment remained above 5 percent for most of the decade. Clearly, too, Germany may be regarded as a modern welfare state in which substantial policy efforts are made to counteract poverty. It is a country in which, according to the Luxembourg Income Study, income inequality is about average for the West (Buhmann, Rainwater, Schmaus and Smeeding, 1988).

The phrase “the two-thirds society” was introduced into German political debate by the Social Democrat politician, Peter Glotz, in a book (1984) attacking the social policies of the Kohl Government. Sociologists have discussed the concept in the context of analyses of the “new poverty” and the New Social Question (Bäcker, 1987; Balsen et al., 1984; Bethusy-Hus and Beckmann, 1989; Döring, Hanesch and Huster, 1990; Geissler, 1976; Habich and Riede, 1989; Heinze, 1981, 1983; Henkel, 1985; Leibfried and Tennstedt, 1985; Lompe, 1987a, 1987b; Muhr, 1984). However, in reviewing the literature, we found a certain self-protective vagueness. Most writers believed they saw tendencies towards a two-thirds society and they disapproved. However they avoided directly claiming that a two-thirds society already existed. Some believed with Bäcker (1985) that “Poverty today has reached a new quality and quantity but that there are no rigid limits between elimination and a secure employment and social position, like the thesis of the two-thirds society suggests”.

In this paper, while respecting the caution of colleagues, we treat the concept of the two-thirds society *as if* it were a specific hypothesis about persistent poverty. We take it to mean that one-third of people have household incomes which persistently leave them below socially defined poverty lines (see below).

In order to assess whether poverty is persistent or short term, it is essential to have access to panel data, i.e. data based on successive interviews with a panel of respondents over several years. Previous European research, including research in Germany, has relied primarily on cross-sectional data, on surveys collected at one point in time (on German poverty see Bäcker, 1987; Glatzer, 1990; Hauser, 1989; Hauser and Semrau, 1989). Cross-sectional results can be extremely misleading. They may show that about the same percentage are poor each year. From this it is easy to infer that the same people remain poor, that poverty is mostly long term. This inference accords with views about the nature of poverty held by many social workers and sociologists. However it is clearly a possibility that, while the percentage remains constant, the individuals and families who are actually poor from year to year keep changing.

The major American panel study of income dynamics showed that in the United States most people who become poor only remain so for a short time (Duncan, 1984). However the duration of poverty has increased somewhat in the 1980s (Duncan, Smeeding and Rodgers, 1991). Without refuting these findings, Bane and Ellwood (1986) used a technique called spell analysis to show that there is another side to the story. At any given time Americans who are poor are medium or long term poor. To clarify this apparent paradox Bane and Ellwood (1986) made a telling analogy. Imagine visiting a hospital. Most of the beds are currently occupied by medium or long term patients. In a minority of beds there is rapid turnover of short term patients. It is the same with poverty; most people who enter poverty soon leave, but at any given time most of the poor are medium or long term.

Clearly, what is true of the United States may or may not be true of Western Europe. Panel data are only now becoming available in Europe (Berghman et al., 1990; Headey, Habich and Krause, 1990). This paper is an initial attempt to assess the nature of poverty and test the hypothesis of the two-thirds society in a major West European country.

METHODS

The German Socio-Economic Panel (SOEP)

The SOEP began in 1984 with a national representative sample of West Germans (9114 individuals aged 16 and over in 4528 households). Additional samples were drawn from the five main groups of foreigners living in the country; Greeks, Italians, Spanish, Turks and Yugoslavs (4805 individuals in 1393 households). It may be noted that in 1990 the panel was extended to East Germany, though East German data are not used in this paper.

A major problem in most surveys of poverty is that the poor are under-sampled. They are hard to contact initially and, in a panel study, are hard to retain for successive interviews. In the SOEP considerable efforts are made to avoid under-sampling. Checks with census data indicate that in the first wave in 1984 the poor were not under-represented.⁽¹⁾ However, poor people did tend to drop out of the panel at the second wave at a higher rate than average.

Since then their drop-out rate appears to have been no higher than for better-off people (Rendtel, 1990). In this paper, following conventional procedures, the slight under-representation of the poor is, as far as possible, compensated for by weighting results, using as weights variables which define or are associated with poverty, including household income, age, sex, and the occupational status of the head of household (Rendtel, 1990).

All results are based on interviews with the 8,000 individuals in households which answered questions about their income in all six waves of the survey so far available (1984-89). Children under 16, who were not interviewed but whose existence was of course recorded, are included in the poverty estimates. Foreigners (guest-workers) are also included with the results weighted so that Germans and the major foreign populations are represented in correct proportions.

Defining and measuring poverty

Most researchers now prefer to use *relative* definitions of poverty rather than absolute definitions. That is, a person is regarded as poor if he/she has too low an income, relative to others, to participate in a reasonably wide range of social activities. People who have much lower incomes than most of their compatriots, and whose social participation is consequently restricted, generally feel poor and are regarded by others as poor (van Praag, Hagenaars and van Weerden, 1982; Hagenaars, 1986; Rainwater, 1974; Townsend, 1979). It no longer seems appropriate in modern societies to use a definition of poverty based on absolute standards regarding ability to purchase a minimum diet or minimally adequate housing.

In this paper we use three relative poverty lines. People are regarded as poor if they receive below:

40% of average household equivalent income

50% of average household equivalent income

60% of average household equivalent income.(2)

Most of the analysis is based on the 50% line, which is most commonly used in Germany and the European Community. The 40% line may be regarded as

defining the ``very poor''. Below 50% may be regarded as ``poor'' and below 60% as ``near poor''.

A person's material standard of living depends primarily on household income, rather than his/her personal income. Clearly, too, it depends on *disposable* income i.e. income net of tax and inclusive of government transfer payments. However, household income needs adjusting for the number of household members. The obvious approach is to use household per capita income, but this makes no allowance for economies of scale or for the fact that children cost less to maintain than adults. To deal with these two factors the concept of *household equivalent income* has been developed. Household members are weighted differently according to their ``needs''. There is no international agreement, however, on equivalence scales and designation of which households are in poverty depends to a considerable extent on the weights assigned to children (Buhmann et al., 1988). The official German Social Assistance scale, for example, assigns fairly high weights to children with the result that larger families are somewhat more likely to be defined as poor in Germany than elsewhere (Hauser and Semrau, 1989). However, in practice, alternative weights make little difference to estimates of the overall incidence of poverty or to international comparisons (Buhmann et al., 1988). The official German weights are:

Head of household	1.00
16-21 years old	0.90
22 and over	0.80
12-15 years old	0.75
8-11 years old	0.65
0-7 years old	0.45.

Use of a measure of equivalent income implies that household income is shared, so that everyone in the household has the same material standard of living, or ``real'' income.

A significant problem in much research is under-reporting of income. Under-reporting is considerably less in surveys than on tax returns, but it can still be substantial. The very rich and the poor are most prone to under-reporting. The

rich are perhaps used to disguising their incomes and some may not know how much they receive. The poor, in many cases, rely heavily on transfer income and this tends to be under-reported, in part because people tend not to think of it as income.

To minimize under-reporting in the SOEP respondents were asked detailed questions about all sources of income in the last year and the last month. Each person was asked about his/her own income as well as household income. It was therefore possible to compare estimates of total household income with the sum of individual incomes. Because income tends to be under-reported, the larger of the two figures was accepted as more likely to be valid and used in analysis.

Last, the accounting unit. We have relied on respondents' estimates of income in the *last month* rather than the last year. In principle it would probably be desirable to use annual figures but, pragmatically, annual estimates require such detailed checking by data managers that to date only results for 1983-86 are available. Since a key aim of our research is to estimate the duration of poverty, it is clearly preferable, other things being equal, to use six data points rather than four. It might be supposed, however, that differing estimates of the incidence and duration of poverty would be obtained from monthly and annual data and that, in particular, monthly data might over-estimate turnover among the poor. In practice, as Appendix 1 shows, the two sets of estimates are virtually identical, so it seems reasonable to use the longer monthly time series (see also Rendtel, 1991).

RESULTS

The incidence of poverty

Table 1 gives estimates of poverty for 1984-89, using the 40%, 50% and 60% lines. For the 50% line a breakdown is given between Germans and foreigners.

Table 1 Estimation of the Incidence of Poverty

Poverty Lines		1984	1985	1986 % Poor	1987	1988	1989
`Very poor` 40%-line		5.1	4.4	5.3	4.9	5.2	4.4
`Poor` 50%-line	All	11.0	11.0	12.4	10.6	10.7	10.7
	Germans	10.3	10.2	11.5	9.9	10.1	8.8
	Foreigners	24.1	24.8	29.4	24.4	22.9	24.3
`Near poor` 60%-line		20.8	20.0	22.0	20.3	20.2	19.3

A `natural` but, as we shall see, quite incorrect inference to make from these stable poverty rates is that the same people were poor year after year. Using the central 50% poverty line, the incidence of poverty varied only between 10.6% in 1987 and 12.4% in 1987. If one uses the 40% (`very poor`) line, poverty was in the 4.4-5.3% range, whereas the 60%(`near poor`) line puts it in the 19.3-22% range. Foreigners were two to two-and-half times as likely to be poor as Germans. Clearly, the stability of poverty rates in this period was due to steady economic growth, coupled however with an unemployment rate between 7.3% and 8.7%.

The main aim of the paper is to analyze the duration of poverty, but it is of interest to summarize results about the social characteristics of the poor (see also Hauser and Semrau, 1989). Obviously, households with a non-active head (including the involuntarily unemployed) were more likely to be poor than those with an employed head. However, older people in Germany (65 and over) were no longer at greater risk of poverty than younger people, due to the (in international perspective) reasonably generous provisions of the Pension Reform of 1957. Single parent households with two or more children had the highest poverty ratios (over 50%) but, compared with most countries, they represented a very small proportion of the population (Hauser and Semrau, 1989:24). Also at considerable risk were single people and married couples who have two or more children. In general, children were more likely to be poor

than adults, but differences in poverty rates between men and women were slight. The ``feminization of poverty'', an important phenomenon in the United States and some other Western countries, appears not to have occurred in Germany (Hauser and Semrau, 1989).

Last, it may be noted that the poverty estimates in Table 1 are rather higher than estimates obtained from annual Income and Expenditure Surveys (which tend to under-sample low income people), but lower than previous estimates obtained from the SOEP by Hauser and Semrau (1989). Hauser and Semrau used somewhat higher estimates of average household income obtained from alternative sources and, therefore, had higher poverty lines. We preferred to use the estimates of average income obtained directly from the SOEP. Overall, it appears that the estimates given above are in the middle of the range of previously published results.

The duration of poverty

We now inquire into the frequency and duration of poverty in the late 1980s. Table 2 gives the percentage who were never poor, the percentage who were poor once, twice-----through to the percentage who were poor in all six years. Again, for the 50% line results are given separately for Germans and foreigners.

Table 2 Is Poverty Mainly Long Or Short Term?

Poverty lines		N Times poor in %						
		0	1	2	3	4	5	6
Poverty Lines								
40%-line		86.7	7.0	2.7	1.0	1.1	1.1	0.4
50%-line		c.75%	c.15%		c.10%			
	All	74.7	10.6	4.2	3.6	2.3	1.8	2.7
	Germans	76.2	10.3	4.0	3.5	1.9	1.6	2.5
	Foreigners	49.7	15.2	8.6	6.8	8.0	5.3	6.4
60%-line		60.6	11.8	6.5	5.3	3.8	4.9	7.1

It now becomes clear that most people who became poor in these years were short term or intermittently poor. Focussing on the the 50% line, it can be seen that 25% were poor at least once, whereas only 2.7% were poor every year. In short more people than is usually thought were at risk of poverty, but fewer were long term poor. The figures for foreigners were substantially different. Fifty percent of foreigners were poor at least once and 6.4% were poor every year. It should be remembered that the large majority of foreign (guest-worker) households were headed by first generation immigrants.

The preliminary evidence indicates that Germany is not a two-thirds society but might better be described as 75-15-10 society; 75% never poor, 15% intermittently poor and 10% persistently poor. Fifteen percent were poor in just one or two of the six years, whereas 10% were poor for half the period or more, and, as we shall see, had incomes for the entire period which were close to the poverty line. Of course the 75-15-10 characterisation only applies if the 50% poverty line is used. Using the 40% line, it appears that only 3.6% were poor half the time or more. If the 60% line is used, 21.1% were persistently poor. No reasonable estimate suggests anything close to a two-thirds society.

As well as asking how persistent poverty is for different individuals (or really households), we can change the unit of analysis and ask how long the typical *spell* (period) of poverty lasts. American data indicate that spells of poverty typically last more than one year but less than two (Bane and Ellwood, 1986). It is not appropriate yet to apply the formal technique of spell analysis to the German data, since only a 6 year period is covered (compared with 13 years for the U.S. data). However, preliminary analysis indicates that typical spells are shorter in Germany. Suppose we focus on the people who began a spell of poverty in 1985 (50% line), having not been poor in 1984. Assume that 1984-85 were typical years and that the people who became poor (3.6% of the panel) were a "representative" sample of people becoming poor for the first time in their lives, the second time, the third time and so on. It transpires that 69.4% were not poor when interviewed in 1986 (an estimated spell of one year)(3), another 13.9% were no longer poor by 1987 (a 2 year spell), 2.8% were not poor by 1988 (a 3 year spell), and 5.6% were not poor by 1989 (a 4 year spell). The remaining 8.3% were still poor in 1989 and, of course, we have no way of telling how long their spell of poverty was going to last.

Results for people who entered and exited from poverty in later years indicate a similar pattern. Table 3 compares German and American results. The German results cover 1984-89, the American results are for 1970-82.

Table 3 Poverty Spell Exit Probabilities: Germany and USA(a)

	Germany Probability of not being poor(b)	USA Probability of not being poor(b)
After 1 year	.66 (736)	.45 (5872)
After 2 years	.81 (152)	.60 (3220)
After 3 years	.89 (56)	.70 (2145)

(a) American data recalculated from Bane and Ellwood (1986). Their data cover only people under 65.

(b) Sample sizes in parentheses.

These preliminary results suggest that poverty spells are shorter in Germany than in the U.S. In Germany 89% of those who became poor had ceased to be poor three years later and 66% had exited within one year (see also Appendix 1). In the U.S. 70% exited within three years and 45% in one year. In the U.S. it is clearly true that the longer one remains poor, the worse are the chances of leaving poverty in the near future (Bane and Ellwood, 1986). This is also probably the case in Germany, although sample sizes are too small to be sure.(4)

What happens to people who are intermittently poor in years when they are not poor?

The tentative inference that Germany may be described as a 75-15-10 society would be misleading (and callous) if it transpired that, in the years when people who are intermittently poor are not actually below the poverty line, they are really only just above it. In that case it might be more sensible to speak of a 75-25 society.

Table 4 Equivalent Income Relative to Poverty By Number Of Times Poor
1984-89

N Times Poor	\bar{X} Income 1984-89		\bar{X} Income in years when poor		\bar{X} Income in years not poor	
	50%-line	(60%-line)	50%-line	(60%-line)	50%-line	(60%-line)
0	2.25	(1.87)	-	-	2.25	(1.87)
1	1.51	(1.26)	0.97	(0.80)	1.64	(1.37)
2	1.26	(1.05)	0.86	(0.71)	1.74	(1.45)
3	1.13	(0.94)	0.84	(0.70)	1.44	(1.20)
4	0.98	(0.82)	0.83	(0.69)	1.28	(1.06)
5	0.85	(0.71)	0.77	(0.64)	1.30	(1.08)
6	0.74	(0.61)	0.74	(0.61)	-	-

People who were poor for one or two years had average incomes for the entire period which were substantially above the 50% poverty line and were, indeed, above the 60% line. People who were poor for three of the six years had average incomes above the 50% poverty line but below the 60% line. Those who were poor for four years or more averaged below the 50% line for the entire period. These results also suggest that it is reasonable to speak of a 75-15-10 society. In making this assessment, we include the 'borderline' cases (i.e. the three times poor) in the 10% who, taking the period as a whole, had an income that was less than adequate.

The results in the third column are a little surprising. It transpires that, in the years when they were not poor, all groups which sometimes escaped poverty had average incomes above the 60% line. Even the people who only escaped in one year (i.e. they were five times poor) had average incomes in that year which were about 30% above the 50% poverty line.

On the other hand, one should not exaggerate the margin by which people manage to escape poverty. All groups who were sometimes poor, even those

who were poor just once, had average incomes for the entire period and average incomes for the years when they were not poor which were well below (18% below) the national average income for the period.

The constraints on escaping poverty can also be inferred by comparing the seven groups and observing the symmetry of the figures in each column. The more frequently people were poor, the lower their incomes overall, the lower their incomes in the years when they fell below the poverty line, and the lower their incomes in the years when they were not poor.(5)

The risk of ordinary middle income people becoming poor

Results given so far could be viewed as having conservative implications. If poverty is mainly short term, it could be argued, why be especially concerned about it? A possible answer, a politically significant one perhaps, is that ordinary middle income people are at considerable risk of poverty. The corollary of the finding that most poverty is short term is that many people are sometimes poor. Poverty is much more widespread than might have been expected. It has already been shown that about a quarter of the population were poor (below the 50% line) at least once in the six year period. The risk for ordinary people can be further assessed by asking what proportion of people who had middle incomes in 1984 subsequently experienced poverty between 1985 and 1989.

Table 5 Are Ordinary People At Risk?

	<u>% of people earning 80-120% of x HH income in 1984 who in 1985-1989 were...(a)</u>		
	Never poor	At least once poor	Poor more than 1/2 the time
All	91.1	8.9	1.8
Germans	91.7	8.3	1.8
Foreigners	77.7	22.3	3.8

(a) Percentages do not add to 100 because people who were poor half the time or more (column 3) include people who were poor at least once (column 2).

Table 5 indicates that 8.3% of Germans and 22.3% of foreigners whose household incomes ranged between 80% and 120% of average income in 1984 experienced at least one subsequent period of poverty. This was in just five years, and five years is quite a short period in a lifetime of seventy to eighty years. It can be inferred that a rather high proportion of the population can expect to be poor at least once, and perhaps several times in the course of their lives.

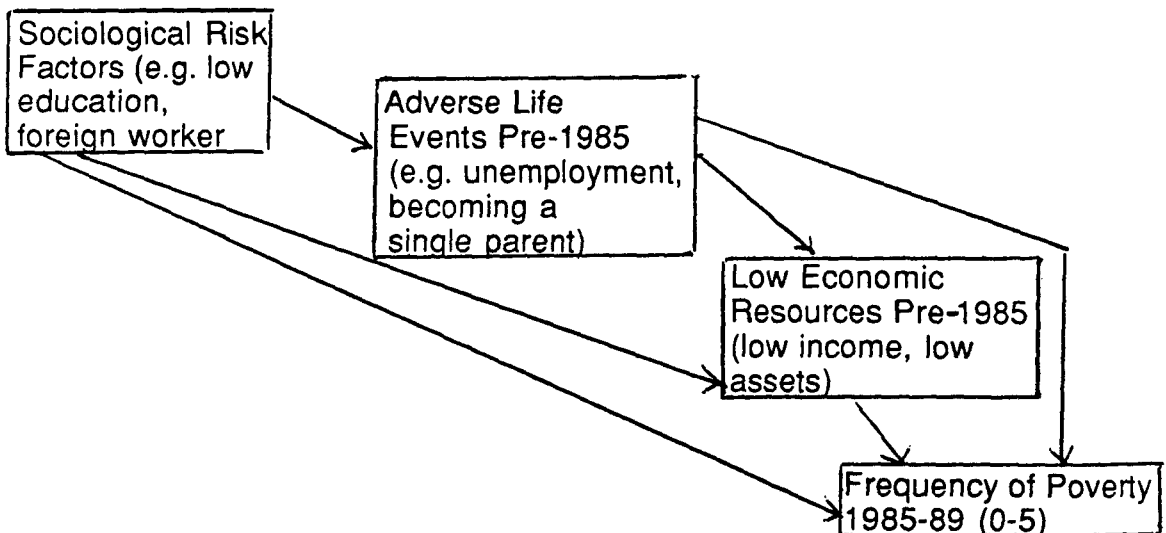
Explaining poverty: a framework

Having described the extent and duration of poverty the next steps are to try and explain:

- why some people are frequently poor, others intermittently poor, and others never poor.
- what causes people to move in and out of poverty.

In this paper we outline a framework for answering these questions and give some preliminary analyses.

Figure 1 A Framework For Explaining Frequency Of Poverty.



This model is intended to be predictive. It suggests that frequency of poverty in 1985-89 (0-5 times poor) can be predicted from three sets of factors: sociological risk factors, adverse life events which occurred before 1985, and a low level of economic resources before 1985. Sociological risk factors (e.g. being a foreigner) may be thought of as directly influencing frequency of poverty and as indirectly influencing it via increasing the probability of adverse life events (e.g. unemployment) and via having a low level of previous economic resources. The characterisation of 'life events' in the model is perhaps somewhat unusual. However it seems crucial to an understanding of poverty to distinguish between stable sociological factors (e.g. sex and being foreign born) and variables which reflect previous life events (e.g. becoming unemployed, birth of children, becoming a single parent). In formulating the model, previous life events are treated as causally prior to economic resources measured in 1984.

Only heads of households are included in the regression analyses presented below. However, they may be regarded as 'representing' the entire sample because the incomes attributed to them (and hence their frequency of poverty) are equivalent incomes based on household size and composition.

Some measurement issues: regression analysis was used, with the dependent variable being number of times poor 1985-89. This variable is not normally distributed since over 75% were never poor. However various transformations which tended to normalize the distribution (including a logarithmic transformation) yielded essentially the same regression coefficients. The use of logit analysis also yielded similar results. The coefficients reported below are metric (unstandardized) regression coefficients. Each coefficient can be interpreted as showing the impact of the variable in question on frequency of poverty (0-5 times poor), net of the effects of other variables in the equation.

We have used Alwin and Hauser's (1975) method of decomposing effects in path (regression) analysis. Table 6 shows the *total effect* (right hand column) of each explanatory variable on frequency of poverty. Total effects are decomposed into direct effects and causally meaningful indirect effects (Alwin and Hauser, 1975). For example, the first row of Table 6 shows the effects of being foreign (Foreign = 1, German = 0) on frequency of poverty. The total

effect of 0.61 means that foreigners (and their families) averaged over half a year longer in poverty than Germans. This was partly (0.23) a direct effect of being foreign; a result one might perhaps interpret as discrimination against foreigners. It was also partly an indirect effect because foreigners are more likely than Germans to experience adverse events that lead to poverty ($b = 0.26$) and also more likely to have a low previous level of economic resources (0.12).

The sociological risk factors included in the analysis, all of which relate to *heads* of households were: foreign (foreign = 1, German = 0), level of education (6 levels where 6 = university educated), gender (m = 1, f = 2) and age in years. The life events associated with subsequent poverty were: number of children in 1984, head of household unemployed in 1984 (unemployed = 1, employed = 0) and single parent (single parent = 1, non-single parent = 0). Finally the economic resources included were: log income 1984 (natural logarithm) and net assets in 1984 (i.e. assets minus debts) (6). As the framework in Figure 1 implies they should be, the three sets of explanatory variables were entered sequentially in blocks.

Table 6 Effects Of Sociological Risk Factors, Adverse Life Events And Low Economic Resources In 1984 On Frequency of Poverty 1985-89(a)

Antecedent Variables	Direct effects	Frequency of Poverty (0-5)		Total effects
		Indirect effects via adverse events	Indirect effects via low economic resources	
<u>Sociological Factors</u> (household heads)				
Foreign	.23	.26	.12	.61 (10.6)
Education	-.04	-.02(ns)	-.12	-.18 (10.0)
Gender (m=1, f=2)	.16	-.13	.12	.15 (2.5)
Age	.00(ns)	-.01	.00(ns)	-.01 (-5.1)
				<u>R =9.0%(b)</u>
<u>Adverse Life Events</u>				
Number of children	.24		.19	.43 (19.2)
Unemployed	.50		.52	1.02 (8.4)
Single parent	.23		.17	.40 (3.0)
				<u>R =23.8%(b)</u> (Added R =14.8%)
<u>Economic Resources</u> in 1984				
Log income 1984	-.89			-.89 (-17.3)
Net assets 1984(b)	-.02			-.02 (-2.2)
				<u>R =32.6%(c)</u> (Added R =8.8%)

- (a) Metric coefficients (Betas). All total effects are significant at the .05 level; t values in parentheses
- (b) Each successive R shows the effect of adding an additional block of variables to the analysis. n.s. Not significant at the .05 level.
- (c) Many sociologists would include occupational status under this heading. We prefer to omit it, since measures of occupational status invariably take account of income received whether explicitly or implicitly. If the Treiman occupational status measure is included, it has a total effect of $b = -.01$ ($t = -2.0$)

The model does a satisfactory job of *predicting* frequency of poverty, 1985-89. Sociological risk factors account for 9.0% of the variance, adverse life events occurring before 1985 account for most variance (an additional 14.8%) and a low level of economic resources in 1984 accounts for 8.8%, so that in total 32.6% of the variance is accounted for.

Given that there is a fairly rapid turnover of poor people, it follows ineluctably that life events must be crucial. The results in Table 6 indicate that having a head of household who is unemployed, having more rather than fewer children and being a single parent are all strongly associated with poverty. There are both strong direct effects and strong effects via a low level of initial economic resources. Despite these strong effects, it is certain that Table 6 *understates* the importance of life events because no account is taken of events that occurred between 1985 and 1989 (but see below). (7)

Given that there is a fairly rapid turnover in the poverty population, it follows that sociological factors could not have very strong *direct* effects. After all, sociological background factors are either completely stable (gender, being foreign born), or only change occasionally or gradually (e.g. level of education and age). Thus sociological factors exert most of their effects on poverty indirectly. Being foreign (a guest-worker) is related to poverty via having more children, being at greater risk of unemployment and having a low level of initial economic resources in 1984. Education is related to poverty primarily via a low level of initial resources. Being a female head of household is negatively related to poverty via having fewer children than male heads but positively related via low initial economic resources. The negative relationship between head of household's age and poverty is almost entirely due to the fact that older heads have fewer children.

The finding that economic resources in 1984 are only moderately predictive of future poverty - 'only' an additional 8.8% of variance is accounted for - may surprise some readers. It might have been expected that previous income would be overwhelmingly the strongest predictor of poverty(8). Not so. This result confirms that widespread beliefs on the lines of 'once poor, always poor' are not well founded.

We noted earlier that the regression model understates the effects of life events by not taking into account events occurring during the 1985-89 period. In order to get a better understanding of the impact of events, we now look at the immediate impact of the following pairs of events, one of which tends to move people into poverty, with the other moving them out. The event pairs are: losing or gaining an earner in the family (including involuntary unemployment); gaining or losing a member of the household ('an extra mouth to feed' versus 'one less mouth to feed'); and marital separation or remarriage (repartnering). These are the events which previous research has shown to have most effect on poverty status (Duncan, 1984; Headey, Habich and Krause, 1990). We consider their effects on movements in and out of poverty for the last two years for which data are available, 1988 and 1989.

Statements about the two-thirds society usually rely quite heavily on the view that unemployment is a major cause of poverty. Table 7 indicates that in 1989 the percentage of the poor living in households in which the head was involuntarily unemployed was just 10.1%. Clearly this is not inconsiderable, but it means that unemployment is by no means the dominant cause of poverty. On the other hand just over a quarter of the families in which the head was unemployed were poor; the remaining three-quarters were either collecting earnings-related unemployment benefits which kept them above the poverty line, or were in households where others worked. Unemployment also appears modestly related to movements in and out of poverty. Of those families who became poor between 1988 and 1989 5% had a head who had become unemployed, while of those whose head had become unemployed 11.2% had also become poor. Shifts in employment also help to account for movements out of poverty. In those families which escaped poverty in 1989, 7.4% had heads who had found a new job. Finally, of families whose head found a new job, 16.6% ceased being poor.

Table 7 Unemployment And Poverty

(1)	% of the poor in families with an unemployed head (1989)	10.1%
(2)	% of families with an unemployed head who were poor (1989)	26.5%
(3)	% of families who became poor between 1988 and 1989 whose head became unemployed	5.0%
(4)	% of families whose head became unemployed between 1988 and 1989 who also became poor	11.2%
(5)	% of families who ceased to be poor between 1988 and 1989 whose head became re-employed	9.4%
(6)	% of families whose head became re-employed who ceased being poor	16.6%

Table 8 shows the effects of overall changes in labour force participation within the household. In other words, we include here not just involuntary unemployment, but changes like stopping work to have a baby and retiring from work. These changes occur quite frequently in many households and American research has shown their impact on poverty (Duncan, 1984; Burkhauser, 1989).

Table 8 Impact Of Changes In Household Labour Force Participation On Poverty 1988-89(a)

Households changed from not poor to poor		
Loss of earner	No change	Gained an earner
20.2%	70.3%	9.5%
Households changed from poor to not poor		
Loss of earner	No change	Gained an earner
3.9%	68.8%	27.3%

(a) Includes involuntary unemployment.

It appears that in 1988-89 20.2% of those households who became poor had lost an earner, whereas 27.3% of those who ceased being poor had gained an earner. Further analysis is required to identify the specific impact of husbands, wives, single parents and teenage children entering or leaving the labour force.

A change that quite frequently occurs in families is that someone moves in or out of the family home. When a baby is born there is an extra mouth to feed, when teenagers move out there are fewer mouths to feed.

Table 9 Impact Of Changes In Household Composition On Poverty 1988-89

Households changed from not poor to poor		
Loss of household member	No change	Gain of household member: 'more mouths to feed'
13.0%	67.8%	19.2%
Households changed from poor to not poor		
Loss of household member: 'fewer mouths to feed'	No change	Gain of household member
8.1%	89.3%	2.7%

Table 9 indicates that, of those who ceased to be poor in 1988-89, 8.1% were in households that had 'lost' a member, whereas of those who became poor, 19.2% were in households that had gained a member.

The work of Burkhauser et al. (1990) has shown that marital separation brings an even heavier loss of income in Germany than the U.S. for ex-wives and the children who live with them. American ex-wives, on average, were 24% worse off in equivalent income one year after separation than they had been while married. German ex-wives and children in their care were 44% worse off, and thus probably at greater risk of poverty(9). However, separation and divorce in Germany is much less common than in the United States, especially in families with dependent children. It should also be noted that Burkhauser et al's (1990) data only relate to the first year after marriage splits when, in both countries,

only a minority of ex-husbands transfer funds to ex-wives. It is probably true that, once divorce proceedings are finished, a higher rate of transfer occurs in Germany.

CONCLUSION

Our main conclusion is that the two-thirds society does not exist; it is a social fiction rather than a fact. Germany in the late 1980s was something like a 75-15-10 society; 75% never poor, 15% intermittently poor but with generally adequate incomes, and 10% persistently poor with inadequate incomes. No reasonable measure of poverty suggests that anything like one-third of society is locked into poverty or near-poverty.

The German results, coupled with earlier American results, indicate that the nature of poverty has been seriously misunderstood. Most social scientists, social workers and media commentators appear to believe that poverty is usually long term. The folk wisdom which says that ,`the poor are always with us`, captures this viewpoint. In fact it appears that poverty is much less long term but much more widespread - many more people are at risk - than was previously believed.

German and American results appear different in one important respect. In both countries most people who are poor are short term poor. However typical *spells* of poverty seem to be shorter in Germany. About 65% of spells in Germany last a year or less, and nearly 90% last less than three years. In the U.S. the equivalent figures are 45% and 70%. Of course the results are time dependent. If the German economy had performed differently in the 1980s - if there had been lower levels of unemployment or, alternatively, a major recession - then poverty outcomes would have been different. In general, though, in the last forty years the German economy has performed more consistently than the American economy, so it is somewhat plausible that, even if data were available for a longer period, German spells of poverty would still be shorter. It may also be the case that the welfare state in Germany (including assistance for job retraining) helps people who are at risk of poverty more than do American policy programs. However such generalisations are risky. American programs differ greatly from state to state, and it also has to be said

that the German Federal Government probably does not have much direct effect through transfer payments in keeping people above the 50% poverty line. In general, Germany's means-tested social assistance benefits provide a guaranteed income around the 40% poverty line (Burkhauser et al., 1990). Investigation of the role of the state in increasing or reducing poverty is a complicated task which requires a separate paper.

Results given in this paper may have some significant implications for both social science and public policy. Many social scientists have been accustomed to regarding society as rather static, at least with regard to inequalities. Some sociologists and political scientists appear to regard it as almost self-evident that society is characterized by cumulative and persistent inequalities. Nothing in this paper suggests that society is a random walk or a lottery, or that social stratification is a figment of the sociological imagination, but it does appear that there is more change, less stability with regard to incomes and specifically poverty than many have assumed.

The public policy implications of our results are non-obvious, but may be considerable. It may be true that policy has generally been based on the view that most poverty is long term. Some programs, like social (public) housing and the provision of other benefits in kind, are presumably designed for the long term poor. Quite different programs may be required to minimize and relieve short term poverty. What are the policy instruments needed to move people out of short term poverty? If people are only going to be poor for a short time, might it not be better to provide immediate relief by paying cash rather than (alternatively or additionally) providing expensive programs involving benefits in kind? Such suggestions should be regarded as highly tentative; it would be naive to suppose that implications for policy flow straightforwardly from research results.

Plainly, this paper only scratches the surface in explaining why some people are poor and others not, and what causes people to move in and out of poverty. Panel studies, including the German SOEP, provide an excellent continuing data source to address these issues.

NOTES

1. However homeless people, estimated at about 100,000, are not represented, and people in institutions are under-represented.
2. Some researchers (e.g. Hauser and Semrau, 1989) use the percentages of mean equivalent income to calculate poverty lines. Other researchers (e.g. Duncan et al., 1990) prefer to use the median. We chose to use the mean, which gives slightly higher annual estimates of the incidence of poverty, but virtually identical estimates of the frequency of poverty and the duration of poverty spells.
3. This assumes they were poor on average for 6 months before the 1985 interview and ceased to be poor 6 months before the 1986 interview.
4. The odds of leaving poverty in successive years in Germany were 0.66 in the first year, 0.45 in the second and 0.44 in the third. In the U.S. the equivalent odds were 0.45, 0.29 and 0.25.
5. There are minor exceptions to this generalization in Table 4.
6. Assets were in fact measured in the 1988 survey not 1984. For present purposes we have assumed that asset levels are stable and that the 1988 measure can serve as a proxy for 1984.
7. These could not readily be fitted into the predictive regression model because the same event (e.g. birth of an extra child) occurring later rather than earlier in the 1985-89 period would have a different (i.e. lower) expected effect on frequency of poverty.
8. The coefficient of 0.89 linking log income 1984 with frequency of poverty in 1985-89 is less 'imposing' than first appears. One unit of difference below the mean in log income 1984 represents a difference in equivalent income of about DM 831. In other words people who received DM 421 (compared to a mean equivalent income of DM 1252) were poor 0.89 of a year more in the 1985-89 period.
9. Burkhauser et al. (1990) do not actually give poverty rates for ex-wives and their children. The very small number of separations and divorces in Germany in 1984-87 would have made calculation of a poverty rate dubious.

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Appendix 1

Table 1 Comparison Of Annual And Monthly Income Results: Incidence And Frequency Of Poverty

Incidence of Poverty 50%-line				Number of Time Poor (0-4)(a)				
1984	1985 (%)	1986		0	1	2 (%)	3	4
Monthly	11.0	11.0	12.4	78.0	10.4	4.7	3.1	3.9
Annual	11.7	11.8	11.1	78.5	9.4	5.3	3.6	3.1

(a) The comparison is not exact because the monthly data relate to 1984-87, whereas the annual data relate to 1983-86. However these were all years of moderate economic growth, so it seems reasonable to compare poverty for the two periods.

Table 2 Comparing Spells of Poverty: Annual And Monthly Data (a)

Probability of not being poor	Monthly	Annual
After 1 year	.66 (736)	.56 (240)
After 2 years	.81 (152)	.78 (96)

(a) Only estimates for up to 2 years of poverty are available using annual data.

Appendix 2

Poverty Line 1984-1989 (DM per month) At the 40%, 50% And 60% Levels
(Current DM)

	1984	1985	1986	1987	1988	1989
Mean	1251.9	1281.1	1324.8	1416.1	1463.4	1535.1
40%-line	500.8	512.4	530.0	566.4	585.4	614.0
50%-line	626.0	640.6	662.4	708.1	731.7	767.6
60%-line	751.1	768.7	794.9	849.7	878.0	921.1

Appendix 3

Correlations, Means and Standard Deviations for the Variables in Table 6

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	X(a)	s.d.(a)	
Frequency of poverty 85-89	(1)	1.00									.52	1.20	
Foreign	(2)	.21	1.00								—	—	
Education	(3)	-.18	.03	1.00							2.47	1.27	
Gender	(4)	.02	-.15	-.09	1.00						—	—	
Age	(5)	-.10	-.17	-.17	.29	1.00					46.38	14.55	
Un-employed	(6)	.16	.05	-.03	-.02	-.06	1.00				—	—	
Number of children	(7)	.39	.29	.02	-.23	-.33	.01	1.00			.82	1.08	
Single parent	(8)	.14	-.01	-.05	.31	-.10	.01	.12	1.00		—	—	
Log income 84	(9)	-.53	-.20	.33	-.01	.08	-.21	-.46	-.15	1.00	7.04	0.50	
Assets	(10)	-.16	-.27	.15	-.21	.12	-.12	.02	-.11	.20	1.00	2.50	2.12

(a) Means and standard deviations are not given for dummy variables.