



**Moving in and out of Poverty: the Impact of  
Welfare Regimes on  
Poverty Dynamics in the EU**

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## ABSTRACT

Though many of the debates around social exclusion and cumulative disadvantage relate to processes that occur across time, there has been relatively little research into poverty dynamics except in a few notable countries such as Britain, the US and Germany. This neglect is almost entirely because of the absence of comparative longitudinal data on income for other countries, but is regrettable given the central importance of this area. By studying poverty dynamics we not only get a better insight into the processes leading to patterns of disadvantage and inequality, but can also understand better the influence of different welfare state regimes on the social risks experienced by different types of individuals and households. The extent to which different national contexts protect their citizens from poverty persistence, or vary in the factors leading to it tells us a great deal about the workings of their socio-economic systems and welfare regimes.

In this paper we use the recent availability of five waves of the European Community Household Panel Survey to outline the nature of poverty persistence and poverty dynamics across a large number of countries. In doing so we ask three important questions. First, is poverty a more common experience when viewed longitudinally rather than cross-sectionally and how is this affected by the income poverty line used? Second, can we identify a tendency toward poverty persistence and does this vary in its extent across countries? Third and lastly, what types of events are more likely to lead to entry into and exit from poverty and does the importance of these events differ between countries? The paper shows that the experience of poverty is far wider than is appreciated from cross-sectional data, but also tends to be more concentrated on a particular population than would be expected from cross-sectional rates. Moreover, the pattern of poverty persistence is congruent with welfare regime theory. The importance of country institutions and welfare regimes is also underlined by the finding that social welfare and market incomes play different roles in poverty transitions across countries and that Southern European, or residualist welfare regimes focus poverty risks on the experience of the household's primary earner to a far greater extent than do Northern European Welfare States.

## *1. Introduction*

Following several decades of poverty research we have a relatively clear idea about the extent of, and trends in poverty in European countries (c.f. Atkinson, Rainwater, & Smeeding 1995; Gottschalk & Smeeding 1997), but much less is known about poverty dynamics except in a few notable countries<sup>1</sup>. This is regrettable given that many of the current debates around social exclusion and social disadvantage revolve around longitudinal processes and poverty persistence, though much of the evidence used to substantiate them comes from cross-sectional data on poverty risks (Layte & Whelan 2002). Leaving definitions of poverty aside for a moment, it must be true that, however unwelcome, the temporary experience of low income is much less likely to damage life-chances and lead to serious deprivation than is repeated or long term exposure to low income. Moreover, the extent to which different national contexts protect their citizens from poverty persistence, or vary in the factors leading to it tells us a great deal about the workings of their socio-economic systems and welfare regimes.

One of the primary reasons for the lack of attention given to poverty dynamics is the shortage of suitable data in the form of panel surveys of income information. These data have been available in the US, Germany, Great Britain and the Netherlands for some time, but have become available only recently for a larger number of countries in the form of the European Community Household Panel Survey (ECHP). In this paper we take advantage of the availability of five waves of these data to ask three important questions about poverty persistence and dynamics in E.U countries: first, is poverty a more common experience when viewed longitudinally rather than cross-sectionally and how is this affected by the income poverty line used? Second, can we identify a tendency toward poverty persistence and does this vary in its extent across countries? Third and lastly, what types of events are more likely to lead to entry into and exit from poverty and does the importance of these events differ between countries? The paper opens with a discussion of the importance of dynamic poverty research before attempting to lay out theoretically what factors should influence poverty moves and in particular, the role of different welfare regimes. In the third section we review the poverty dynamics literature and discuss the methodological choices made there before outlining our own approach. This is followed by an overview of the ECHP data in the fourth section, before we turn in sections five and six to the empirical analysis of our three questions. In section seven we attempt to summarize the findings of the paper and extract some general conclusions.

## *2. Understanding Poverty Dynamics*

Although most poverty research is cross-sectional, measuring the proportion of people or households below a set poverty line at a particular point in time, poverty itself is not a static phenomenon. In the population of people poor at any one time there will be some who have only recently dropped below the poverty threshold and whose living standards are almost identical to previous years. On the other hand there will be others who have been poor for a great deal longer, whose resources have been depleted over time and whose standard of living and future life chances are now at serious risk of being damaged. Being able to understand what factors influence the probability of experiencing a longer spell of poverty is crucial both

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<sup>1</sup> For the US see Bane & Ellwood 1986 and Stevens 1995; for Great Britain see Bradbury et al 2001 and Jenkins & Rigg 2001; for Germany see Heady et al 1994; for poverty dynamics in Ireland see Layte et al 2001 and Whelan et al 2000 and for a US, German and Dutch comparison see Goodwin et al 1999.

for an academic understanding of how different individual and household characteristics interact with varying socio-economic systems and institutions, but also for the development of more effective social policy interventions. Only the dynamic analysis of poverty can give us an understanding of these processes, a point well made by the American researcher and policy reformer David Ellwood:

*As a tool for understanding human behaviour, dynamic analysis brings to bear a great deal more richness and texture...[F]or life is experienced as a series of events, not a series of static positions. As a tool for policy, dynamic analysis is especially potent, for it inevitably points towards helping people to reshape the events in their future. By contrast, static analysis more commonly leads to remediation of the overt manifestations of the current situation (Ellwood 1998, p49).*

Assumptions about the long-term nature of poverty have been central to debates about the 'culture of poverty' and the existence or not of an 'underclass' (Gans 1990; Wilson 1987) which revolve around the impact of 'vicious circle' processes and the effect of welfare benefits in undermining people's capacity to cope and inclination to work. However, more recent research based on panel data (Bane & Ellwood 1986; Heady, Krause, & Habich 1994; Jenkins & Rigg 2001) has shown that movements into and out of poverty are a great deal more frequent in US, British and German data than had been supposed and moreover, that a far greater proportion of the population experience poverty than revealed by cross-sectional data. Using these findings and their own research based on German data on social assistance claimant spells Leisering & Leibfried (1999) have gone on to argue that most poverty spells are actually of a very short duration, tend decreasingly to be associated with structured disadvantage and are actively overcome by most people experiencing them.

Before we can go on to examine the empirical questions of this paper, we first need to develop a theoretical framework that we can use to guide the subsequent analysis. To do this we first need to understand at the individual and household level what groups of factors influence poverty status. At its simplest, a household's living standard can be said to be the result of the balance between the *resources* of the household and the *needs* of the household across time. The level of resources is a fairly simple concept to understand and most commonly operationalised, though not always<sup>2</sup>, as money income from different sources. The 'needs' of a household on the other hand can be more varied and are affected by a broad range of characteristics such as the age, sex or health status of the individuals in the household and the nature of the housing itself to name just a few. Poverty then is the outcome of a longitudinal process of accumulation and erosion as the flow of resources into the household and the level of needs fluctuates. Changes in poverty status over a given period may thus be the result of a change in either resources (the numerator) or demographic composition and needs (the denominator).

If we 'unpack' this simple picture further, it is quickly apparent that we also need to understand the context within which households and individuals live if we are to explain their risk of poverty. Though we can identify the characteristics of the individuals in the household that determine the level of resources available at any one point in time, these will vary depending on the context, most obviously between countries where different socio-economic structures and welfare regimes may well 'decommodify' individuals to varying degrees and smooth income flows (Esping-Andersen 1990; Gallie & Paugam 2000). Thus the extent to which a particular socio-economic status not only provides information about current

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<sup>2</sup> Though income consumption measures and 'direct' measures of household resources are also used (c.f. Whelan et al 2001).

demands or resources, but also serves as a proxy for longer-term imbalances between obligations and economic capacity, will be crucially influenced by the degree to which mechanisms that buffer the cash nexus are in place. Evidence of this effect can be found in recent research (Layte et al. 2001) which shows that the relationship between current lifestyle deprivation and socio-economic factors influencing the level of resources available to households varies systematically across countries in a manner that is broadly consistent with welfare regime theory. Moreover, the relationship between current income and lifestyle deprivation also varies in the same manner being weak in Northern European countries such as Denmark, the Netherlands and Germany, moderate in Liberal welfare regimes such as the UK and Ireland and strongly related in the residualist regimes of the Southern European countries.

The question in the context of this paper is - how would these different welfare regimes impact upon poverty dynamics? A great deal of work has shown that cross-sectional poverty rates vary systematically across different regime types and that certain regimes are more effective at decreasing the incidence of poverty (Nolan, Hauser, & Zoyem 2000; Whelan et al. 2001), but is the same true of poverty persistence? This is the third of the general questions that we outlined at the beginning of the paper, but in the light of the discussion above we can be more specific about our expectations of different welfare regimes:

1. Different welfare regimes influence the bundle of incomes received by individuals and households – their income package, with Southern European households receiving a smaller proportion of their incomes from state transfers (Esping-Andersen 1990; Bison & Esping-Andersen 2000). We could hypothesize then that a smaller proportion of transitions will be due to changes in this type of income in these countries compared to ‘liberal type’ regimes with the largest proportion being in corporatist (or ‘employment centred’ in the nomenclature of Gallie & Paugam 2000) and social democratic type regimes.
2. On the other hand, the order of the regimes should be reversed for poverty transitions associated with earnings given the lower level of decommodification in Southern European countries and lower level means tested benefits in liberal regimes.
3. The ‘familial’ welfare regimes in Southern European countries are accompanied by strong employment protection of the main breadwinner, who is usually male with high rates of unemployment among young people and women. Given this, we hypothesize that changes in the income of the main earner of the household will be more important in these countries compared to liberal, corporatist and particularly social democratic regimes.

We will return to these hypotheses in the sixth section of the paper, but in the meantime there are a large number of outstanding methodological questions that we need to discuss about the practical business of analyzing poverty dynamics. This is the subject of the next section.

### *3. Previous Poverty Dynamics Research*

The growing availability of longitudinal data on poverty dynamics in the 1990s has led to a substantial growth in the number of papers on the subject. The consistent finding across research from the US, Britain, Germany and the Netherlands has been that there is substantial movement over poverty thresholds between years and that poverty spells are shorter than research based upon cross-sectional data had previously thought. However, different

methodologies allow different questions to be examined, thus in this section we summarize the main approaches used and their consequences.

Early US research into poverty dynamics examined defined poverty persistence as being below the poverty line for a set number of years out of the total observed (Coe 1978; Duncan 1984) and though simple and descriptive, this approach has some merit. When referring to a finite period, say childhood (c.f. Ashworth et al 1994), it gives a clear measure of disadvantage, but as Rodgers & Rodgers (1993) have argued, even in an arbitrary observation period, it is still valid to talk of chronic or persistent poverty as being poor in a large number of the years observed. Using poverty year counts Duncan et al (1994) found that though a far higher proportion of the population were poor in at least one of the years observed than is found in cross-sectional statistics, only a small minority of people (5%) experienced persistent poverty.

The main problem with this method however is that people who begin or end the period of observation in poverty may be starting or ending a long poverty spell yet the descriptive method only shows them having one or two years in poverty. This inevitably leads to an understatement of poverty persistence as no control is made of the censoring of longer spells of poverty at the beginning and end of the period.

Although a number of US researchers examined movements from poverty (Hill 1981; Levy 1977), it was Bane and Ellwood (1986) in what has become a classic article that brought the field forward through the adoption of the more sophisticated method of hazard rate analysis for their examination of the PSID dataset. This technique naturally controls for right censoring by excluding censored cases from the denominator of the hazard rate function whilst making it possible to derive estimates of exit rates at a given spell duration and mean duration for someone entering poverty. Moreover the technique also makes it possible to examine the individual/household characteristics or 'events' associated with transitions into poverty using time-varying covariates. Bane and Ellwood found that most people who were ever poor experienced short spells in poverty, but although the probability of exit from poverty was high in the first year (45%), the rate of exit dropped quickly to 21% the fourth year and just 7% by the eighth. This 'state dependency' meant that most people found in poverty at anyone one point in time were actually in the midst of a long poverty spell, particularly those from disadvantaged groups.

Since Bane and Ellwood (1986) their methodology has been enhanced in a number of ways, including the estimation of multiple spells of poverty for the same individuals (Stevens 1995) and the joint estimation of entry and exit controlling for unobserved heterogeneity (Jenkins and Rigg 2001). Given the large amount of data at our disposal and the absence of previous literature on poverty dynamics across a large number of European countries, in this paper we aim to provide a first overview of poverty dynamics whilst answering the questions outlined at the beginning of the paper. In doing so we use two main methods. In the fifth section we begin the analyses with a descriptive analysis of poverty persistence using the now well-established count methods before turning in section six to an analysis of transitions both into and from poverty so as to understand the main factors associated with poverty dynamics. Following Bane and Ellwood (1986) we develop a typology of 'events' using the conceptual structure developed in section two that allows us to unpack the complex interplay of factors that may precipitate a household's fall into poverty or help them move out again. Using this typology we then examine transitions into or from poverty over the period of observation and establish the incidence of different causes as well as investigating the hypotheses set out in



section two. Due to space constraints we are only able to untangle the factors to a limited degree and leave detailed modeling of the effects of individual and household characteristics to a separate, but sibling paper. In that paper we build upon these analyses by using duration models to examine exit and re-entry rates to poverty and their implications for average durations of poverty experienced and types of poverty histories.

#### 4. The ECHP Data

The results presented in this paper are based on the User Data Base (UDB) containing data from Waves one to five (1994 to 1998) of the ECHP as released for public use by Eurostat.<sup>3</sup> Since a given level of household income will support a different standard of living depending on the size and composition of the household, we adjust for these differences using an equivalence scale.

	1994	1995	1996	1997	1998	Present 94-8
Denmark	5903	5503	4994	4628	4187	3168
The Netherlands	9407	9151	9277	9089	8826	6332
Belgium	6710	6454	6145	5741	5339	4445
France	14333	13306	13051	12143	11209	9629
Ireland	9904	8531	7487	6868	6324	5186
Italy	17729	17780	17736	16594	15934	13189
Greece	12492	12271	11602	10968	9985	8233
Spain	17893	16263	15640	14819	13779	10785
Portugal	11621	11858	11706	11625	11412	8835
Germany	12233	12542	12295	12059	11562	9368
United-Kingdom	9028	8825	8949	8932	8868	6543
Total	127253	122484	118882	113466	107425	85713

The scale we employ is often termed the “modified OECD” where the first adult in a household is given the value 1, each additional adult is given a value of 0.5 and each child a value of 0.3.<sup>4</sup> We calculate the number of equivalent adults in each household using this scale, and construct equivalised income by dividing household income by this number. The equivalised income of the household is then attributed to each member, assuming a common living standard within the household, and our analysis is carried out using the individual as the unit of analysis<sup>5</sup>.

Table 1 gives the numbers of individuals available for analysis in each country by wave after attributing equivalised income to each individual in the household in each year. Although the full ECHP UDB data file includes data for fifteen countries we made the choice in this paper to select only those countries that contributed respondents to the data file in each year between 1994 and 1998. This means that we have to drop Luxembourg, Austria, Finland and Sweden from the analyses leaving us with eleven countries. Table 1 shows a total of 127,253 respondents in 1994 across all eleven countries falling to 107,425 in 1998<sup>6</sup> with 85713 individuals being available for analysis across the five waves from 1994 to 1998<sup>7</sup>. Such attrition has been shown

<sup>3</sup> For a discussion of the quality of the ECHP data see Whelan *et al* (2000).

<sup>4</sup> The level of measured income inequality can vary depending on the choice of equivalence scale (see e.g. (Coulter, Cowell, & Jenkins 1992)).

<sup>5</sup> In this paper we use a balanced panel of respondents present in all four years and the 1997 base weight as recommended by Eurostat.

<sup>6</sup> Using the cross-sectional weight in each year.

<sup>7</sup> Using the base weight in 1998.

to not effect the reliability of the data, which remains representative of the country populations for the years in question. For discussions of the quality of the ECHP data set see Eurostat 1999b; Eurostat 1999a, Watson & Healy 1999 and Watson 2002.

The income measure employed is total disposable income, including transfers and after deduction of income tax and social security contributions, with the household taken as the income recipient unit. The principal accounting period for income employed in the ECHP is the previous calendar year, thus to match income information with the characteristics of the household in that year (such as the equivalence scale) we lag the income information by one year. Unfortunately this means that we cannot use the income information for 1994 as this refers to 1993 and we have no household characteristics for this year and so are left with four waves for analysis for the years 1994 to 1997 (the lagged years 1995 to 1998).

As in all poverty research we need to define both a yardstick upon which we can measure the concept and a threshold at which it can be said to begin. Throughout the paper we operationalise poverty as income poverty and set the poverty threshold as 50, 60 and 70% of median income poverty based, as just discussed, on total equivalised disposable household income.

### 5. Poverty Persistence 1994-8

Having laid out our conceptual approach to poverty dynamics and outlined the data that we will be using, we can now move onto the first of our substantive questions outlined at the beginning of this paper - to what extent is poverty a more common experience when viewed longitudinally rather than cross-sectionally and how is this affected by the income poverty line used?

	50			60			70		
	A	B	Ratio	A	B	Ratio	A	B	Ratio
Denmark	4.3	9.2	2.15	9.4	20.1	2.14	16.8	31.9	1.90
The Netherlands	6.6	13.5	2.06	11.1	20.7	1.86	19.8	32.6	1.65
Belgium	10.1	23.1	2.30	16.6	33.2	2.00	24.2	41.3	1.71
France	10.0	19.4	1.94	17.0	28.3	1.67	24.7	38.4	1.55
Ireland	8.5	22.3	2.62	19.1	36.4	1.91	28.5	45.7	1.60
Italy	12.8	26.2	2.04	19.2	35.0	1.82	26.6	44.2	1.66
Greece	15.3	31.0	2.02	21.6	38.2	1.77	28.5	45.9	1.61
Spain	13.3	28.2	2.12	19.5	36.0	1.85	26.7	44.1	1.65
Portugal	15.7	28.2	1.80	22.6	38.7	1.72	29.5	48.5	1.65
Germany	8.9	15.7	1.77	15.4	23.0	1.49	22.5	32.8	1.46
United-Kingdom	14.4	28.4	1.97	21.1	36.6	1.74	28.6	45.1	1.58

N Yrs Under Line	DK	NL	BE	FR	IRE	IT	GR	ES	PT	DE	UK
0	90.8	86.5	76.9	80.6	77.7	73.8	69.0	71.8	71.8	84.3	71.6
1	6.9	8.4	12.6	8.8	13.8	12.5	14.1	13.3	9.7	8.2	12.9
2	1.3	2.5	3.4	3.3	5.1	6.0	7.2	7.9	7.2	3.3	6.6
3	0.8	1.5	4.7	3.5	2.2	4.4	4.9	4.5	5.1	1.8	5.7
4	0.2	1.1	2.6	3.9	1.2	3.4	4.7	2.5	6.3	2.5	3.2
Total	100	100	100	100	100	100	100	100	100	100	100

N Yrs Under Line	DK	NL	BE	FR	IRE	IT	GR	ES	PT	DE	UK
0	79.9	79.3	66.8	71.7	63.6	65.0	61.8	64.0	61.3	77.0	63.4
1	12.7	9.5	13.5	9.4	13.3	14.7	13.7	13.6	13.9	10.4	13.1
2	3.6	5.3	6.7	5.3	9.1	6.9	7.8	10.4	6.4	5.0	8.8
3	2.1	3.3	7.6	4.1	6.3	6.1	7.8	6.3	7.2	3.7	7.2
4	1.7	2.6	5.4	9.4	7.6	7.3	8.9	5.8	11.2	3.9	7.4
Total	100	100	100	100	100	100	100	100	100	100	100

N Yrs Under Line	DK	NL	BE	FR	IRE	IT	GR	ES	PT	DE	UK
0	68.1	67.4	58.7	61.6	54.3	55.8	54.1	55.9	51.5	67.2	54.9
1	18.1	11.4	14.5	10.5	11.4	13.9	13.6	13.5	14.8	13.3	13.0
2	4.1	6.7	8.2	7.0	9.0	9.7	9.8	11.3	9.0	6.6	10.0
3	4.2	7.2	7.7	6.7	9.4	8.3	9.2	9.4	9.3	4.8	9.1
4	5.6	7.4	10.9	14.1	15.9	12.3	13.3	9.9	15.4	8.2	13.0
Total	100	100	100	100	100	100	100	100	100	100	100

N Yrs Under Line	DK	NL	BE	FR	IRE	IT	GR	ES	PT	DE	UK
0	47.8	41.3	33.0	32.1	26.1	29.0	26.1	28.9	24.7	36.1	27.8
1	38.7	40.9	42.2	42.2	41.7	42.1	41.7	42.1	41.4	41.9	42.0
2	11.8	15.1	20.2	20.8	25.0	22.9	25.0	23.0	25.9	18.2	23.7
3	1.6	2.5	4.3	4.6	6.7	5.5	6.7	5.6	7.2	3.5	6.0
4	0.1	0.2	0.3	0.4	0.7	0.5	0.7	0.5	0.8	0.3	0.6
Total	100	100	100	100	100	100	100	100	100	100	100

N Yrs Under Line	DK	NL	BE	FR	IRE	IT	GR	ES	PT	DE	UK
1	29.6	15.0	14.8	10.4	9.4	13.0	11.9	13.0	12.1	18.0	11.6
2	13.3	17.7	16.8	13.9	14.8	18.1	17.2	21.8	14.6	18.0	17.8
3	20.6	28.4	23.7	19.8	23.3	23.2	24.2	27.2	22.9	19.4	24.4
4	36.5	38.9	44.7	55.9	52.5	45.7	46.7	38.1	50.4	44.5	46.2
Total	100	100	100	100	100	100	100	100	100	100	100

Table 2 provides some evidence on these questions by showing for each poverty line, the mean poverty rate in each of the eleven countries of the ECHP between 1994 and 1997 (column A)<sup>8</sup>, the proportion experiencing one or more years in poverty in these years (column B) and lastly, the ratio of these two numbers<sup>9</sup>.

The order of the countries on each of the poverty lines in column A follows a pattern familiar to any poverty analyst with Denmark and the Netherlands having the lowest poverty rates followed by the 'employment centred' regimes of Germany, France and Belgium. These are followed by the liberal regimes countries of the UK and Ireland (though Ireland has a low proportion under the lowest income poverty line) and the Southern European countries, which have the highest levels of income poverty. This pattern is only complicated by Italy, which tends to group with the employment centred countries. In the context of this paper however, the more interesting statistic is the relationship of column A to column B and the question of whether poverty is a more common experience when measured longitudinally. Table 2 shows clearly that it is with the longitudinal figure being roughly twice the size of the cross-sectional estimate with the ratio decreasing the more generous the poverty line used. Interestingly, although the country ordering of longitudinal poverty is similar to that of cross-sectional poverty, the country order of the ratio of the two is more variable. For example, though a far smaller proportion of Danes experience poverty in any one year, the ratio of this to those having ever experienced poverty over the four years is actually the highest of all countries using the 70% line.

The reason for this strange reversal is, as we will go onto see in subsequent analyses, because the burden of poverty is spread far more widely in Danish society (i.e. a greater proportion of people experience a spell of poverty), but fewer people experience persistent poverty. We can see this pattern clearly if we look at Tables 3 to 5 which show the proportions experiencing a given number of years poor using the 50, 60 and 70% median income poverty lines for our eleven countries. Looking across all three tables it is clear that the majority of people in all countries avoid poverty completely over the four year period, though as we would expect given the results in Table 2, this proportion falls the more generous the poverty line and varies considerably across countries. More interestingly however, if we define persistent poverty as those experiencing three or more years in poverty<sup>10</sup>, it ranges widely from one in a hundred in Denmark to around one in ten in Greece and Portugal using the 50% income poverty line. The variation between countries falls the more generous the poverty line we use, but even using the 70% line, there is still a considerable range running from one in ten in Denmark to over one in four in Ireland. As in US research the numbers experiencing persistent poverty are quite small, particularly if we use the lower poverty lines. Only at the 70% income line do we see proportions experiencing four or more years poor comparable to the cross-sectional figures. Given this, it seems sensible in the forthcoming analyses to concentrate on the 70% income poverty line since this reveals similar patterns to lower lines but the higher number of cases of persistent poverty (particularly in countries like Denmark) makes the analyses more robust.

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<sup>8</sup> The cross-sectional rates within countries change between 1994 and 1997, but the use of the mean does not significantly alter the patterns observed.

<sup>9</sup> In this section the cross-sectional poverty rates are derived from individual waves weighted by the cross-sectional weight whereas the poverty year 'counts' are derived from a balanced panel weighted using the base weight in 1997.

<sup>10</sup> The European Commission has accepted a definition of persistent poverty based upon being currently poor and being poor in two of the previous three years (though not necessarily the last). This is very much a cross-sectional definition of persistent poverty and thus we do not adopt it here.

In answer to our second question stated at the beginning of this paper, it does seem that countries differ widely in terms of the persistence of poverty, but how can we quantify this tendency to persistence net of the overall level of poverty in the country in question? If a country has a high level of relative income poverty, this implies a greater level of income inequality in the country and thus the 'gap' between those under the poverty line and the line itself could be larger in these countries leading to greater persistence of poverty. However, we can carry out a useful test of the degree of poverty persistence if we compare the proportions experiencing different numbers of years poor to the proportions that we would expect *if* the experience of poverty in any one year, based on the cross-sectional average between 1994 and 1997 was independent of that in other years. That is to say, net of the average level of poverty across the period, is the experience of poverty more concentrated on some individuals rather than others? Table 6 shows the expected proportions poor for N years based on the mean 70% cross-sectional poverty rates between 1994 and 1997. This shows that on the basis of independence we would expect a far lower proportion of people in every country to avoid poverty than we actually observed in Table 5, around 50% lower in most countries with figures ranging from around 30% in Denmark to 48% in Ireland, Greece and Portugal. The corollary of this difference is that far fewer people experience one or more years of poverty than would be expected. However, it is the difference in the actual persistent poverty experienced when compared to that expected that is striking. Across the countries the expected proportion experiencing three or more years poor is never more than 34% of the actual proportion and in Denmark this drops to just 17%.

These results show that far fewer people experience any poverty and far more experience persistent poverty than we would expect given cross-sectional poverty rates. This suggests that there is some 'inertia' to the experience of poverty that tends to lead to multiple, rather than single years in poverty. Another illustration of this is given in Table 7 which gives the aggregate number of years spent in poverty by individuals taken as a whole that are made up by different combinations of years, once again using the 70% income poverty line.

If we compare Table 7 to Table 5, it is clear that the groups experiencing more than one year of poverty over the four contribute more to the overall 'burden' of income poverty than the group experiencing a single year. For instance, although in France the proportion of individuals experiencing one year of poverty and the fraction of the total number of years made up by this group is the same at around 10%, the 14% of individuals who experience four years of poverty contribute 56% of all poverty years, clearly suggesting that a particular group carry a significantly heavier burden of poverty. Ireland and Portugal are close to France in the degree of polarization observed in the number of years poor, whereas Denmark, as we would expect from earlier findings in this section, is least polarized with those experiencing four years of poverty contributing 37% of the aggregate number of years in poverty.

The findings of this section show that countries differ widely in the extent of poverty persistence with Ireland, the UK and the Southern European countries showing high rates, particularly when compared to countries such as Denmark, the Netherlands and Germany. This is a familiar pattern which is suggestive of the welfare regime arguments made earlier in the paper and may point to different processes of entry and exit from poverty across countries. It is to this that we now turn.

## 6. *Explaining Poverty Transitions*

So far we have addressed the first two of the questions outlined at the beginning of this paper and now have a reasonably clear picture of the way that persistent poverty rates differ from cross-sectional poverty rates and how this varies by the measure used and country observed. Yet our focus so far has been on the country and not the factors at the individual and household level that lead to entry and exit from poverty. The national context is, as we have already seen of undoubted importance in shaping the experience of poverty, but this context must also interact with individual and household factors in complex ways. In this section we adopt an incidence based approach to see which factors explain poverty transitions, how this varies by country and what this tells us about the interaction between state welfare regimes and individual characteristics. In doing this we seek to answer the third of the questions set out in the introduction to this paper - what type of events are more likely to lead to entry into and exit from poverty and does the impact of these events differ between different countries?

In answering this question we need to move away from the analysis of individuals to the analysis of transitions, of which a particular individual may have several<sup>11</sup> so that we can understand what factors are more likely to lead to poverty transitions. Thus, rather than following a single individual for the observation period we look at each pair of years that a given individual is present in the data, their characteristics in each year and whether they either entered or exited poverty. This then allows us to discuss the incidence of a particular factor in the population of poverty transitions during the observation period.

In doing this however, it is necessary to think more deeply about how different ‘events’ can lead to poverty transitions<sup>12</sup>. For example, we know that certain characteristics make a person more likely to experience poverty such as being from a manual working class, having a low education or having a larger than average number of children, but these are general risk factors and not the ‘triggering’ event that leads to poverty. Instead we need the specific changes in a person’s life, or in their household that leads them into poverty. This sounds simple enough, but such events may themselves actually be highly complex and difficult to analyze. For example, a person may become poor because the income of their household fell and this in turn occurred because the number employed in the household fell. Yet the separation or divorce of the married partners in the household and the exit of one employed adult may have triggered this train of events.

In attempting to clarify some of this complexity we return to the conceptual discussion from earlier in the paper and divide transition events into those associated with changes in the income numerator and those more associated with the needs, or demographic denominator. Change in either of these factors could lead to a poverty transition and we can begin the analyses by tabulating the variables after they have been grouped into decreasing, increasing or unaltered categories<sup>13</sup>.

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<sup>11</sup> Unfortunately it is not possible to control for censoring using this approach, thus, as in the first section of the analyses in this paper, here we use a balanced panel of those in the ECHP database from 1994 to 1997 weighted appropriately.

<sup>12</sup> As we are using relative income poverty lines it is also possible that a person could enter or leave poverty without any form of change if median income and thus the poverty line moves around them. Income measures are also prone to random fluctuation that can also lead to poverty transitions.

<sup>13</sup> We attempt to minimize the influence of random error in income change by only taking changes of 10% or more in income as indicative of change.

	Income < & Needs Same	Income < & Needs >	Both Same	Income Same & Needs >	Other	All
Denmark	76.85	9.37	12.46	0.33	0.99	100
The Netherlands	56.72	16.88	20.85	4.14	1.41	100
Belgium	72.02	16.33	8.68	0.96	2.01	100
France	68.11	15.02	11.27	2.39	3.21	100
Ireland	53.93	23.69	12.52	4.17	5.69	100
Italy	75.34	14.50	6.40	1.32	2.44	100
Greece	71.17	16.28	7.76	1.96	2.83	100
Spain	76.74	13.37	6.38	1.23	2.28	100
Portugal	70.03	13.98	8.59	2.75	4.65	100
Germany	75.77	12.81	9.45	1.12	0.85	100
United-Kingdom	62.88	22.70	10.47	1.13	2.82	100

Rather than show all the possible categories of this cross-classification, Table 8 gives the results of those that cover the overwhelming majority of transitions for the eleven countries of the ECHP database for transitions into 70% median income poverty between 1994 and 1997. What is immediately clear is that the majority of transitions occur because of decreases in income rather than increases in the level of needs, varying between 54% in Ireland and 77% in Denmark and Spain. The impact of changes in the level of needs only becomes important when accompanied by income decreases, this category making up between 9% of transitions in Denmark and 24% in Ireland. Is the same pattern true of movements out of poverty?

	Income > & Needs >	Income > & Needs Same	Income > & Needs <	Both Same	Other	Total
Denmark	23.3	54.1	16.1	6.5	0.0	100
The Netherlands	6.6	79.0	13.3	1.1	0.0	100
Belgium	10.6	75.0	10.4	3.7	0.3	100
France	6.4	71.3	19.1	2.9	0.3	100
Ireland	17.1	60.1	21.2	1.3	0.3	100
Italy	8.4	77.5	10.4	3.0	0.7	100
Greece	6.5	80.0	12.7	0.7	0.1	100
Spain	8.2	75.7	13.2	2.4	0.5	100
Portugal	6.4	74.3	16.7	2.4	0.2	100
Germany	4.1	75.5	14.1	6.0	0.3	100
United-Kingdom	7.9	73.5	17.5	1.1	0.0	100



Table 9 shows a comparable table to Table 8, except this time we examine transitions out of 70% income poverty. If anything, the dominance of changes in income is clearer here than in Table 8 with between 54% of Danish exits and 80% of Greek exits stemming from income changes alone. In fact, in Denmark over 23% of transitions from poverty occur where income increases, but the level of needs is increasing as well.

### *6.1. Poverty Transitions and Welfare Regimes*

If transitions both into and from poverty tend to be more strongly associated with changes in income rather than demographic changes, are different sources of income of greater importance across countries and if so what does this tell us about the effects of welfare regimes? In section two we outlined two hypotheses on these issues:

*Hypothesis 1:* Our first hypothesis about poverty transitions in section two was that a smaller proportion of transitions will be due to changes in state transfers in sub-protective and liberal regimes as compared to employment centred and particularly social democratic regimes.

*Hypothesis 2:* On the other hand, our second hypothesis held that the order of regimes will be reversed in terms of the importance of earnings in poverty transitions with earnings being of greatest importance in sub-protective regimes.

	Earnings	Social Welfare	Pension	Private	Earnings & Social Welfare	Earnings & Private	Other	Total
Denmark	11.6	21.9	6.3	2.3	18.0	1.0	38.9	100
The Netherlands	24.9	18.0	8.2	2.3	18.6	0.1	27.9	100
Belgium	18.0	13.0	12.6	4.5	19.1	0.7	32.1	100
France	16.7	11.5	6.1	1.9	24.6	1.7	37.5	100
Ireland	30.5	12.5	3.5	1.3	27.6	1.0	23.6	100
Italy	43.2	5.8	11.3	2.4	10.4	4.7	22.2	100
Greece	45.9	2.2	5.9	4.9	10.3	4.4	26.4	100
Spain	43.4	4.9	3.7	1.9	12.4	3.4	30.3	100
Portugal	41.6	5.0	4.2	3.9	25.0	6.7	13.6	100
Germany	24.1	4.8	6.8	4.7	19.7	1.5	38.4	100
United-Kingdom	21.7	13.4	5.4	3.6	16.4	1.0	38.5	100

	Earnings	Social Welfare	Pension	Private	Earnings & Social Welfare	Earnings & Private	Other	Total
Denmark	16.9	20.1	7.0	2.7	13.8	16.1	23.4	100
The Netherlands	26.3	12.9	9.7	1.7	21.8	9.2	18.4	100
Belgium	15.4	11.0	12.1	6.9	18.5	8.3	27.8	100
France	17.0	15.7	13.1	5.2	22.2	3.9	22.9	100
Ireland	19.1	9.5	7.7	3.7	20.5	8.7	30.8	100
Italy	22.7	13.7	6.5	1.9	20.2	7.9	27.1	100
Greece	21.0	8.2	3.4	1.0	37.3	7.3	21.8	100
Spain	41.4	4.1	11.9	2.1	10.3	8.5	21.7	100
Portugal	37.6	1.7	9.7	3.6	10.5	12.4	24.5	100
Germany	32.2	3.4	4.8	2.3	16.9	16.3	24.1	100
United-Kingdom	39.5	2.4	6.4	1.8	24.0	3.7	22.2	100

We can examine these hypotheses in Tables 10 and 11, which show the proportion of transitions into and from poverty made up by changes in different types of household incomes (only transitions where income is changing).

Across both tables there is a clear differentiation between the countries, and more importantly the groups of countries in terms of the importance of social welfare transfers and incomes from earnings. Whereas in Denmark 22% of transitions into poverty are as a result of decreases in social welfare payments, this type of income is implicated in only 2% of transitions in Greece, and 5% in Spain and Portugal. The Netherlands is not far behind Denmark with 18% of transitions into poverty due to social welfare with Belgium, France, Ireland and the UK making up an intermediate group.

The patterning of countries for the importance of social welfare payments for transitions from poverty is almost as clear except for the smaller role that this type of income play in Dutch exits (falling from 18% to 13%) and the greater role it plays in France, Greece and Italy, the figure for exits in Greece being over three times as large as that for transitions into poverty and the figure in Italy over twice as large. These changes are interesting since we could expect that in most contexts social welfare payments would be more important in poverty exits than entries since this income type is assumed to replace others that have fallen, whereas in Denmark we can see social welfare transfers as a consistent and important constituent of the incomes of a large proportion of the population. With Denmark our representative of the social democratic regime and the Southern European states the sub-protective, this patterning clearly supports hypothesis one, although the usual definition of Italy as a sub-protective state could be questioned given the importance of social welfare in poverty exits.

When we turn to the importance of earnings across states we see almost the opposite picture with earnings decreases making up over 40% of all transitions into poverty in the four Southern European states, whereas earnings are implicated in only 12% of Danish entries. On the other hand earnings are of more importance in the Netherlands at almost 25% of entry transitions, a higher figure than the UK, France, Germany and Belgium, though lower than Ireland (30%). One would expect that a similar patterning would emerge for exits from poverty, but there are actually a number differences that are substantively interesting. For example, though earnings in the UK were of lesser importance than in Germany and the Netherlands for entries, an unexpected result given our theoretical framework, nearly 40% of UK transitions from poverty are due to changes in earnings alone, second only to Spain. In contrast, the exit figure for Ireland is substantially lower than for entries, but crucially, as in Greece, France and the UK, the proportion experiencing increases of earnings combined with social welfare in Ireland is large at over 22% (over 37% of exits in Greece are from combined earnings and social transfers).

This combined effect of earnings and social welfare in Ireland, France and the UK is interesting since all these countries have substantial 'workfare' elements (as its known in the US) to their benefits systems, i.e. the Family Income Supplement in Ireland, the 'New Deal' in the UK and the Revenu Minimum d'Insertion (RMI) in France along with various schemes for the young unemployed (Lødemel and Trickey 2000). Workfare is not a large component of the Greek social welfare system, but there is a system of wage subsidy to employers and grants to the self-employed, though neither of these schemes covers a large number of individuals (OECD 1996: p83).

The differential importance of earnings across the countries for entry into poverty supports hypothesis two, though is less clear for exits from poverty. In the latter case, though earnings play a smaller role in Denmark and Belgium and an important part in Spain and Portugal, both as we might expect, against expectations, earnings increases have a larger role in the Netherlands, the UK, particularly when combined with some form of social transfer.

*Hypothesis 3:* The third of our hypotheses in section two centred on the importance of different types of individuals in households and how this may vary across states given greater ‘familialism’ in residualist welfare states combined with high employment protection for ‘insider’ groups who tend to be older males. Given this, we hypothesized that changes in the incomes of the main earner in the household will be more important in the residualist states of Southern Europe compared to all other types with liberal and employment centred regimes being moderate in this respect.

Tables 12 and 13 give the proportion of transitions into and from 70% median income poverty made up by changes in the earnings of different types of household members across countries. Main earner here is defined as the ‘household reference person’ (HRP) in the ECHP survey, the person responsible for the accommodation, or if this is true of two or more people, the oldest person. In households based round a couple this tends to lead to the HRP being male, but since we could see very different patterns for male and female led households we differentiate between these types of households in Tables 12 and 13. In interpreting these tables it is important to remember that they refer to changes in earnings since it is often difficult to attribute state transfers to one person in particular. As a consequence we see large proportions in the ‘None’ category, particularly in states such as Denmark where social welfare plays a larger role.

Looking first at the differences between male and female led households, in both Tables the earnings of HRPs play a much larger role in male led households across the states, though the difference varies across countries and for entry and exit transitions. This reflects differential participation and earning power between men and women across states and the greater role of state transfers in female led households.

Looking at entry and exit patterns across country the patterns seem to support hypothesis three that HRP’s earnings will have a greater role in the sub-protective states as the countries where HRB earnings make the largest contribution are Greece, Italy and Spain, though Ireland follows close behind, whilst the lowest proportion is found in Denmark for entry and Belgium for exits (all where the HRP is male). The patterning is rather different for households where the HRP is female, though in Greece once again the HRP’s earnings are crucial, but France now comes close to Greece. Interestingly, in households with a female HRP, the contribution of ‘others’ are far more important than in male HRP households particularly in Portugal, Ireland and Italy.

Table 12: Proportion of transitions into 70% Median Income Poverty By Person Who's Earnings Are Decreasing by Country and Sex of Household Reference Person (HRP)											
	DK	NL	BE	FR	IR	IT	GR	ES	PT	UK	DE
	Male										
HRP	20.2	28.3	26.0	26.7	37.4	43.1	48.3	37.5	30.6	29.9	22.8
Spouse	8.5	8.3	6.2	11.9	5.0	5.8	7.7	7.6	7.3	8.6	10.4
Other Person	4.3	12.6	12.5	13.3	21.8	14.0	8.0	21.3	24.9	12.3	8.2
HRP & Spouse	14.4	12.8	14.0	15.7	4.8	6.8	8.3	7.9	10.3	9.0	14.5
Other Combination	10.9	9.9	6.2	7.9	13.2	7.5	10.4	12.7	12.1	20.6	9.8
None	41.7	28.1	35.1	24.5	17.8	22.8	17.3	13.0	14.8	19.6	34.3
Total	100	100	100	100	100	100	100	100	100	100	100
	Female										
HRP	11.7	11.9	20.1	22.6	11.1	18.7	23.0	11.6	20.2	21.0	13.7
Spouse	21.6	4.8	0.4	2.1	7.6	3.6	8.9	5.6	12.1	18.7	15.7
Other Person	8.8	22.6	16.7	15.6	30.4	28.0	12.1	27.1	31.7	14.7	15.7
HRP & Spouse	11.4	2.1	5.1	0.0	1.7	3.3	3.7	5.6	9.8	7.7	5.4
Other Combination	6.2	6.5	3.9	4.1	12.2	4.0	19.3	20.3	10.8	9.0	6.2
None	40.3	52.1	53.8	55.6	37.0	42.4	33.0	29.8	15.4	28.9	43.3
Total	100	100	100	100	100	100	100	100	100	100	100

Table 13: Proportion of Transitions Out of 70% Median Income Poverty By Person Who's Earnings Are Increasing by Country and Sex of Household Reference Person (HRP)											
	DK	NL	BE	FR	IR	IT	GR	ES	PT	UK	DE
	Male										
HRP	20.0	25.3	12.0	23.3	29.4	37.2	46.5	30.7	22.2	30.0	18.7
Spouse	5.9	7.4	2.7	11.7	4.0	5.0	3.9	8.2	8.9	8.0	8.1
Other Person	4.5	10.9	41.6	15.7	20.3	16.2	8.4	18.3	22.4	11.6	7.9
HRP & Spouse	9.6	11.7	5.2	13.1	11.6	6.9	10.7	8.2	10.2	5.9	17.6
Other Combination	20.7	14.2	5.6	9.7	20.8	13	12.4	21.7	16.5	13.9	17.5
None	39.3	30.5	32.9	26.5	13.9	21.7	18.1	12.9	19.8	30.6	30.2
Total	100	100	100	100	100	100	100	100	100	100	100
	Female										
HRP	17.4	18.9	9.0	24.3	19.0	17.7	22.5	13.9	10.2	16.0	15.2
Spouse	2.7	9.2	0.0	2.0	8.5	2.9	4.4	5.8	5.3	12.2	9.4
Other Person	7.7	13.3	33.7	14.3	27.3	30.3	15.9	31.9	38.7	13.1	13.6
HRP & Spouse	11.7	3.3	1.4	1.5	0.7	2.7	4.2	2.7	3.8	6.1	8.5
Other Combination	14.9	15.1	3.9	10.8	19.4	4.9	11.8	15.6	26	12.9	14.8
None	45.6	40.2	52.0	47.1	25.1	41.5	41.2	30.1	16.0	39.7	38.5
Total	100	100	100	100	100	100	100	100	100	100	100

This section has used a general framework to shed light on the main generic types of events that lead into and from poverty and in doing so has illuminated the impact of different welfare regimes on these processes. We have seen that changes in levels of resources are of more importance in precipitating poverty transitions than changes in the needs of the household and that within the set of sources of resources, it is earnings from work that are crucial. However, the importance of earnings and the person associated with it in the household varied a great deal by country in a manner that we hypothesized would result from different welfare regimes.

## 7. *Summary and Conclusions*

In spite of the importance of poverty dynamics for a range of debates around social exclusion, social disadvantage and inequality, analyses have been restricted to a limited number of countries with available data. However, the recent availability of five waves of the ECHP data set makes it possible for the first time to examine poverty dynamics processes across a number of countries. As such, this paper has attempted to provide a first analysis of poverty dynamics across eleven countries.

The paper addressed three basic questions: first, to what extent is poverty a more common experience when viewed longitudinally rather than cross-sectionally and how is this affected by the income poverty line used? Second, can we identify a tendency toward poverty persistence and does this vary in its extent across countries? Third and lastly, what type of events are more likely to lead to entry into and exit from poverty and does the impact of these event differs between different countries?

Section five of this paper addressed the first question using descriptive methods to examine the extent of poverty persistence across countries. The first conclusion from this section was that poverty is experienced by a far higher number of individuals when viewed longitudinally rather than cross-sectionally, but that this difference was larger the less generous the income poverty line used. Thus, using 50% of median income poverty, the ratio between the longitudinal and cross-sectional numbers was between 1.8 and 2.6, whereas using 70% of median income this decreased to between 1.5 and 1.9.

However, though more people experience poverty than when compared to cross-sectional figures, if we extrapolate from the mean cross-sectional poverty line to an *expected* experience of poverty on the basis of independence between years in poverty, what we actually see are far fewer people experiencing poverty and a polarization of persistent poverty. This is important since it suggests an ‘inertia’ to the experience of poverty that can ‘trap’ individuals and households, but the effect varies between countries with those from more social democratic and employment centred regimes being less polarized and closer to expectations based solely on probability theory.

The difference in the polarization of poverty across countries was the first confirmation in the paper of the theoretical framework set out in the fourth section of the paper which used welfare regime theory to set out some expectations about how institutional differences between states may lead to different experiences of poverty on behalf of their citizen’s. Using the general concept of ‘decommodification’ we set out three hypotheses about this relationship that we pursued in section six. By disaggregating transitions into and from poverty in section six by the ‘events’ leading to transition we found that changes in the level of income were of vital and prime importance. However we hypothesized that the sources of

income and the person responsible in the household would differ dramatically across countries given different regime characteristics and these hypotheses were confirmed by analysis. Similarly, when we turned to the interaction of individual and household characteristics with regime type in the last section we found that changes in both the ability of the household to generate resources and the level of need led to transitions into and from poverty, though the patterning by regime type was clearer for factors affecting resources.

There are several overall conclusions that we can draw from this paper. First of all, as the sixth section showed, transitions into poverty tend to be associated with decreases in income rather than changes in the demographic make up of households. Though a rather simple finding it runs against recent research from an ‘individualisation’ perspective that has suggested that the experience of poverty has become increasingly ‘biographised’ (Leisering & Leibfried 1999) in the sense that it is due to life cycle changes rather than the more traditional factors such as occupational position, social class and education (c.f. Layte forthcoming). Unfortunately, lack of space did not permit us to explore the interplay of individual, household and welfare state characteristics, but we will be exploring these issues in a subsequent paper using hazard rate duration analyses. From a social policy perspective, one of the conclusions from this paper must be that the policies adopted by nation states in terms of social protection and the institutions of social welfare are of vital importance in influencing the outcomes for individuals and households when different labour market events and demographic changes occur. Though some states obviously have lower levels of poverty due to the lower income inequalities in those countries, the tendency for particular events to push people into poverty in these countries is also more limited because of the greater availability and higher level of social welfare payments and other welfare services which cushion the impact of events. This does not mean that the simple minded application of these policies to other countries will necessarily improve outcomes since countries such as Denmark (where outcomes were consistently better) also have well developed active labour market programs, macro-economic policies and a greater history of redistribution and social justice, but it does mean that other countries should look to improve protection systems for their citizen’s if they wish to avoid the long term damage that poverty inflicts both on individuals and national social cohesion.



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