



# A Comparative Study on Life Course Changes and the Dynamics of Poverty in Germany and the United Kingdom

Saara Marika Hämäläinen

Thesis submitted for assessment with a view to  
obtaining the degree of Doctor of Political and Social Sciences  
of the European University Institute

[Florence, 26 June 2017]

European University Institute

**Department of Political and Social Sciences**

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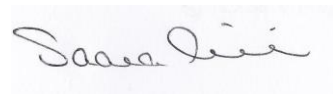
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## **ABSTRACT**

Despite the vast research on poverty, little is known about poverty transitions at a cross-European level, particularly in a longer run. The aim of this research is to analyse the interrelation between the welfare state and poverty transitions in Germany (East and West Germany) from 1993 to 2013 and in the United Kingdom from 1991 to 2006. This study updates and extends existing comparative works on both trends and dynamics of poverty linking the cross-sectional poverty research to a longitudinal approach in Germany and the United Kingdom by employing data from Cross-National Equivalence Files (CNEF) which provides nationally representative panels. This data is used on description of poverty transitions and spells of poverty both pre-and post- transfers to evaluate the effectiveness of the social transfer of different welfare systems. Following the tradition of most comparative analyses of poverty, the poverty is measured as a relative terms and the analysis is supplemented by a measure of the sensitivity of the chosen poverty indicator. Furthermore, exit and entry rates and the duration of poverty are added to the analysis by applying discrete time event history analysis.

The results of this study indicate that when poverty hit rates were compared findings followed a pattern familiar from previous studies. Most of the people never experience poverty in their life. The amount of those never facing poverty was higher in Germany than in the United Kingdom. For most of the people poverty experiences were fairly short for one or two years. The characteristics associated with shorter poverty spells and higher exit rates can be summarized as follows: having fewer children in the household, having additional adults in the household, having a household head older than 30 years, having completed high school or higher education and having a household head or partner in employment. Also, a shorter duration of poverty spell was found to be connected to a higher likelihood of leaving poverty.

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## LIST OF ACRONYMS AND ABBREVIATIONS

BHPS	British Household Panel Survey
CNEF	Cross-National Equivalence File
ECHP	European Community Household Panel Survey
ESS	European Social Survey
Eurostat	Statistical Office of the European Union
EU	European Union
EU-SILC	European Union Statistics on Income and Living Conditions
GDR	German Democratic Republic (East Germany)
G-SOEP/	SOEP German Socio-Economic Panel
OECD	The Organisation for Economic Co-operation and Development
UKHLS	Understanding Society: The UK Household Longitudinal Study

# **1. Introduction**

## **1.1 Research Problem and Motivation**

The alleviation of poverty has been one of the main goals of the welfare states from the beginning; nevertheless, poverty is still a challenge, and about 80 million people are living in poverty even in Europe alone. Poverty has become an issue of widespread interest and attention in recent years, even in many advanced European welfare states, despite the continuous rise of living standards in most of these countries. Yet, simultaneously with the increase in standards of living and well-being, there have been several changes in labour force participation. Furthermore, cuts in social benefits and the gap between those living in wealth and those in poverty has widened.

European welfare states have been challenged by the increased pressures from the demographic change, globalisation, high unemployment rates, changing labour market and shift in social structures. Therefore, the traditional aims and positions of the welfare states need to be reviewed. Although welfare arrangements are rather stable over time, and most of the changes are influenced by the path dependency, we can observe a remarkable change in both British and German welfare states over time. The role of the welfare state in reconciling employment and family responsibilities has been a target of growing interest in both Germany and the UK. Hence, policies designed to balance between family and work life, such as services for childcare, care leaves, and reduced or flexible working hours have been subject to several reforms. (Lewis, Knijn, Martin and Ostner 2008, 262.) Furthermore, there have been several employment policy reforms in both countries. Therefore, this research aims to question the link between social policies and poverty over time.

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Poverty research in Western welfare states often focuses on relative poverty. Therefore, independently of the level of the country's welfare, a certain amount of the population lives below decent standards of living compared to their peers in their country. However, in comparison to the level of living or incomes in other countries, they would belong to the group of those not in poverty. Changes, particularly the increase, in income poverty rates have been raising concerns among policy-makers and researchers. Policy-makers have been looking for adequate poverty measures to tackle the question of poverty and social exclusion in their own societies, while researchers have focused on the indicators across the countries.

Despite the vast research on poverty, little is known about poverty transitions at a cross-European level, particularly in a longer run, due to the lack of available data. The aim of this research is to present a unique view of the interrelation between the welfare state and poverty transitions in Germany (East and West Germany) from 1993 to 2013 and in the United Kingdom from 1991 to 2006. There are three main reasons to compare Germany and the United Kingdom.

First, these countries present different welfare state regimes and, therefore, the comparison of these countries can increase our knowledge of the diverse outcomes of the different welfare systems. According to the welfare regime typology of Esping-Anderssen (1990), Germany represents a conservative welfare regime, while the United Kingdom embodies the liberal regime. These characteristics are strongly tied to national histories. Instead of being characterized only by their institutional arrangements, these welfare states have different moral and functional logics behind their actions. The historical perspectives on the main priorities of the welfare states differ in Germany and Great Britain. Whereas the British state has focused mainly on poverty, social questions in Germany were tangled more around the industrial working class (Diewald 2016, 682-683) and status attainment (Böhnke and Delhey 1999, 7).

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The second reason to compare these countries is the difference in the allocation and level of poverty, as poverty is more widespread in the UK than in Germany. The countries differ in their standards of living, as well as in the structure of their labour markets and wage level. Irrespectively from the relative income poverty measure or equivalence scale used, a greater share of population is affected by poverty in the United Kingdom (Böhnke and Delhey 1999, 7). In addition, Fouarge and Layte (2005) and DiPrete (2002) suggest that the countries belonging to the liberal regime are characterised by both high rates of poverty entry and the longer duration of poverty while the continental regime has average rates of short-term and persistent poverty.

Third, at the time of this study, both countries are members of the European Union, and have legislation that allows individuals to choose their living arrangements and personal relationships freely. They also provide support against events such as divorce and lone parenthood that may increase the risk of poverty decreasing the household incomes to different degrees. These countries have a similar level of economic development and political and legal systems, with the exception of the former East Germany, which has a completely different pathway. Furthermore, Germany and the United Kingdom differ in social, cultural and political characteristics, as well as in their family policies and female employment patterns.

In addition to the comparison between Germany and the United Kingdom, the comparison is extended to inspect the differences between the former East and West Germany, due to their different historical backgrounds and questions regarding the differences between life courses in the East and West. Under the state socialism, poverty was seen as a rare phenomenon and was rarely reported. After the unification the living standards improved for the majority of the population, but compared to the higher standards of West Germany, a quarter of East German population was considered poor in the East (Böhnke and Delhey 1999, 7). Hence, measuring poverty differences in the former East and West Germany indeed is challenging insofar as the two states have very different economic and social histories, and as little is known about the

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comparative poverty rates before Germany's reunification. The comparison of the years following the reunification has faced the problem of choosing relevant poverty measures due to the rapid changes in the income level in former East Germany. (Krause 1998, 161.)

This thesis contributes, not only to the literature on Germany, both unified and as East and West Germany, and the United Kingdom, but more broadly on the literature on income poverty in mature welfare states. In particular, this thesis addresses the gaps in the literature related to the identification and understanding of changes in income poverty over time, as well as the duration of poverty. It especially contributes to German poverty research, which has been vivid and rich over many decades, but for some reason has been less active during past twenty years. Therefore, additional information about the past 20 years not only in the Germany we know as a unified state, but also separately for both former East and West Germany after the reunification is provided. Hence, this thesis also supplies information about differences that should be taken into account when social policies are applied in these areas.

The comparison of these welfare states is used to identify what kinds of factors, systems or institutions affect the allocation of poverty. The focus of this thesis is on those individuals and households whose poverty status has changed over time. The present study, aims to fill the gap on long-term changes in poverty trends and individual trajectories over twenty years observation window by addressing the following questions: How have poverty trends changed over time? What is the role of social transfers in poverty reduction in Germany and the UK? Is the convergence of the worlds of welfare being reflected in poverty rates in Germany and the UK over time? Furthermore, one of the scopes of this thesis is to explore if the poverty patterns are highly individualised or is there a set of underlying poverty patterns, such as persistent poverty or non-poverty. In addition, how do these trajectories relate to the life events or situations and individual characteristics.

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The questions will be answered by using the Cross-sectional Equivalence Files (CNEF) that have been compiled from the longitudinal data of the national authorities (the German Socio-Economic Panel for Germany and the British Household Panel Survey data for the United Kingdom) by applying methods of discrete-time event history analysis. The results are presented for individuals aged between 18 and 64 years.

Despite the general agreement on the differences between static and dynamic research on poverty, and the growing importance of the longitudinal perspective on poverty, poverty is still researched in both manners today. Hence this study will provide both cross-sectional and longitudinal information. On the one hand, it will tribute for those who have built the foundation for current research on poverty by using cross-sectional data and providing information on poverty trends over time. On the other hand, it participates in a discourse on poverty dynamics.

## **1.2 Outline of the Thesis**

The thesis is structured as follows: Chapter 2 presents the research design and provides an introduction to the definition and measure of poverty and the hypotheses (2.1), motivation for poverty research (Chapter 2.2), data and variables (Chapter 2.3), the income poverty measure and equivalence scale used in this study (Chapter 2.4), as well as the research methods used in the following chapters (Chapter 2.5). The limitations of the data are summarized in Chapter 2.6. The data, variables and methods are presented in a separate chapter to avoid repetition of the description of chosen data and measures as well as methods in the subsequent chapters.

The third chapter will focus on changes in societies and welfare state structures during the past decades. It sets the framework of the research by introducing the classification of the welfare states by Esping-Anderssen (1991) in Chapter 3.1 and by describing the interplay between the life course

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and welfare states in Chapter 3.2. It also presents the framing of this research by introducing the British and German welfare states, their main goals and brief history from the 1950s to present day policies in Chapter 3.3. The major changes in family and employment related policies in Germany and the UK have been presented in Chapter 3.4 (see also summary of these reforms in Appendix 6.) The redistributed effect of the welfare state in Germany, East and West Germany and the UK is presented in Chapter 3.5.

Chapter 4 discusses the poverty and the life course and definitions in Chapter 4.1 and links previous poverty research to life course research by presenting the study of Rowntree (1902). Chapter 4.2 presents the change from a traditional, cross-sectional approach to a dynamic approach to poverty. The results of the life course approach to poverty and poverty related to age are presented in Chapter 4.3.

This is followed by an introduction of the changing patterns of poverty in Germany, East and West Germany and the UK in Chapter 5. The findings of previous literature are presented in a comparative perspective in Chapter 5.1, and separately for Germany (Chapter 5.2) and the United Kingdom (5.3).

Chapter 6 provides descriptive information on the lengths of poverty spells and the annual poverty exit and entry rates (6.1). Moreover, hazard rates over time are discussed separately for Germany, East and West Germany and the United Kingdom in Chapter 6.2.

Chapter 7 concludes the findings of this study and links them to the previous research tradition. A need for future research, as well as this study's limitations, are presented in Chapter 7.1.

## **2. Research Design**

### **2.1 Poverty Measures, Definitions and Hypotheses**

It is almost impossible to define the concept of poverty comprehensively. Definition and chosen poverty measure are closely linked to the surrounding society. Therefore, one should be very cautious while comparing poverty rates or experiences. The research problem in question frames the poverty measure as well as the availability of the data and the method in use. The most common measure of poverty in modern welfare states is relative income poverty, as used in this study. However, relative income poverty is sufficient to explain only part of poverty, as it can grasp neither the level of true standards of living in everyday life, nor experiences of poverty or social exclusion. Yet, the relative income poverty measure does explain the trends of poverty, and offers a tool for more in-depth studies on poverty. In addition, the eligibility to receive social benefits is often measured with a monetary measure, such as low incomes or incomes that are insufficient to provide for the family. Hence, a relative income poverty measure indeed is suitable to study the link between social transfers and allocation of poverty.

Besides relative poverty measure, poverty can be studied as absolute poverty, which threatens one's physical well-being and existence. Definitions of poverty have changed from the experience of misery to more complex and therefore varied dimensions, such as the depth of poverty are required (Kangas and Ritakallio 2003, 9-10). A long duration of poverty and its impact on particular groups also changes the nature of poverty and the influence on the quality of measures used for poverty reduction. Even though forms of absolute poverty are often linked to issues that have become marginal in modern welfare states, such as insufficient nutrition or housing, some forms of absolute poverty, such as homelessness or breadlines, still exist. These issues are closely linked to the duration of poverty and cumulative risky life course events, such as unemployment or sickness.



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Peter Townsend (1979) presented four different perspectives on poverty. According to him, poverty can be identified as hunger and a lack of necessary resources, or poverty can be defined in relation to the overall standard of living in a given society. The most common characterization of poverty, however, is a situation in which the necessities of life cannot be achieved, or a condition in which particular groups with low-incomes (such as the retired or the unemployed) face the risk of becoming poor. At the risk of poverty are also large families, young people, and individuals without education. According to Townsend, poverty therefore should be determined as a relative deprivation, which leads to a situation in which individuals and families experience a lack of opportunities to integrate into their society. If they do not have any or have only prohibited access to the conventional resources, they can be defined as poor (Townsend 1979, 913-914; Ritakallio 1994, 116-117.)

The definition of poverty includes at least four indicators. The first indicator is an increase in the frequency of poverty associated with defined historical events, such as changes in social assistance or level of unemployment. The second indicator is the duration of poverty at the individual level and the long-term dependency on social benefits. The concentration of poverty creates the third indicator; it is linked closely with the potential change of those at risk of poverty in different stages of their life. The fourth marker is related to the previous one and it indicates the appearance of new social risks that call for additional benefits and responses from the welfare state. These risks are not focused on marginal groups, but are more widespread, i.e. risks related to core societal institutions such as housing, finance and domestic consumption market or, for example, to the family sphere in form of partnership dissolution and the consequences of such an event. (Leisering and Leibfried 1999, 43-47). Therefore, the trend of poverty is linked to changes of the societies and welfare states.

In the most straightforward case, a person's experience of his own economic situation can define him as subjectively poor. The subjective perspective allows a multidimensional analysis of

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poverty, but is not sufficient by itself to describe the entire phenomenon. (Kangas and Ritakallio 2005, 47-48; Ritakallio 1994, 23.) Since the subjective experience of poverty can be linked to both the actual experience of multidimensional poverty and an experience of poverty as measured merely by a personal evaluation, it is not a sufficient indicator for means of welfare state benefits and hence other indicators, such as relative income poverty approach are needed.

Markus Jäntti (1993) describes relative poverty as choices and opportunities, bounded by a lack of economic resources. A lack of resources may limit social participation and access to education or lead to social exclusion. The use of one-dimensional poverty measure can conduct to misleading results. However, it is challenging or almost impossible to develop multidimensional measures that would be stable over time and could provide accurate measures of trends in poverty rates. (Tomlinson, Walker and Williams 2008, 614.) As an example, the use of and access to material goods have changed drastically, from having a telephone at home to the ownership of a mobile phone and the use of the Internet, which is a common necessity for education, job searches and the use of online services.

The simple relative income poverty index, commonly used percentage of equivalence median income as in this study, calculates the percentage of poor out of the total population in a given society. Income poverty is often measured by using a threshold of 40, 50 or 60 percent of the median income of a household. By this definition, those whose incomes are below the currently used threshold are considered poor. (OECD 2008, 126.) When different types of households are compared, the scale advantages in consumption and commodities should be taken into account. A household income can be made comparable by dividing household income per consumption unit.

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(Penttilä, Kangas, Ritakallio and Nordberg 2003, 22.) The use of a variety of equivalence scales<sup>1</sup>, however, can cause different results concerning the types of households that are classified as poor (Burkhauser, Smeeding and Merz 1994, de Vos and Zaidi 1997, Forssén and Ritakallio 2009, 81-82). Also, the poverty threshold has varied over time and research tradition and hence the results may differ according to the measure and scale used.

Due to the increased use of the income poverty measure and its problems, some researchers have tackled the issue of reliability of the relative income poverty approach. Bradshaw and Finch (2003, 521) list reasons why the income measure of poverty could be considered as an unreliable measure: it can be seen as outdated, the used threshold is arbitrary, the assumption of equal distributions within households can be questioned and the approach relies on the unreliable recall of household incomes. However, as Jenkins (2015) states, monetary income is the preeminent tool to measure individuals' command over their resources. In addition, income poverty as a measure is valid when the effectiveness of social policy and social transfers are studied, since particularly means-tested benefits are related to the income level of the individual, family or household. Hence, the threshold to be eligible for these benefits can be, among other criteria, having low incomes; therefore those who suffer from poverty measured by an insufficient level of income belong to the target group of these benefits. It is also important to remember that even if low incomes as a measure of poverty can be criticized, they are often linked to other forms of poverty and thus present one approach to it that can indeed grasp a part of the phenomenon.

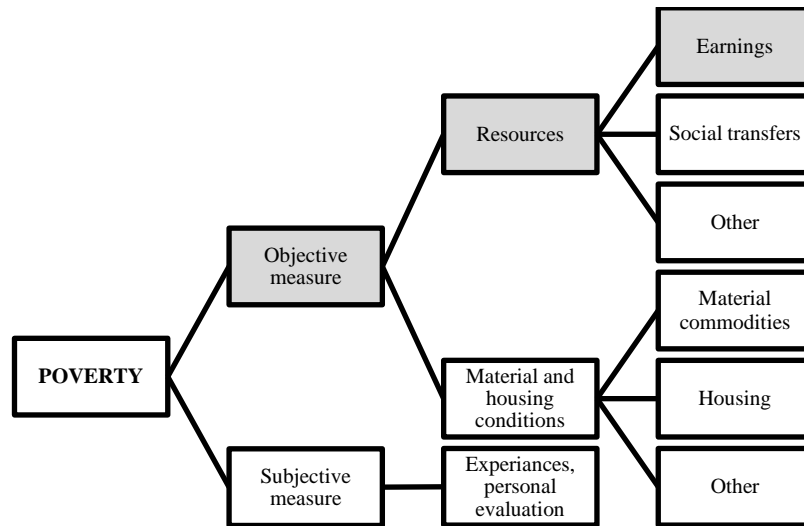
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<sup>1</sup>Different household types demand different equivalence scales to be comparable. The scale used in this research is the scale by the OECD, in which the first adult in the household will have value 1, other household members aged at least 13 years old get value 0,5 and children have value 0.

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Household and family income measures often assume that resources in the household are divided between its members, and that the household forms an economic unit. Therefore, some members of a household cannot be worse off than others, since unequal market incomes are converted to equal household incomes. (Holden and Smock 1991, 52.) Cancian and Reed (2008,4) state that a household with two adults in general has higher opportunities to avoid poverty, since the second adult adds more to potential incomes through earnings than to needs, as the needs are compensated through economies of scale. Therefore changes in marriage and divorce rates are closely related to changes in poverty. However, it is challenging to measure the true division of income in a household, since there indeed is a large variation in the consumption habits as well as earning patterns, saving practices and the hierarchical customs and power relations related to families' and households' finances. Nevertheless, the common assumption of the equal share of resources is used in this study as the social transfers are also based on this reasoning and not on the actual share of the resources.

The poverty measures and concepts used are summarized in Figure 1 (also see Chapter 2.2 for more detailed definition of the relative income measure used in this study). In a simplified example, poverty can be measured in subjective and objective terms. Subjective measure is based on personal evaluation and experiences of poverty and is often assessed with the question of “how difficult it is to make ends meet” or whether the person would classify them self as poor.



**Figure 1** Definition and concept of poverty

The measure used in this research has been marked with a light grey box in Figure 1. The measure is objective and can be further divided into poverty measured through resources or material and housing conditions. The latter measure can be evaluated through access to an adequate level of housing, housing conditions, a list of necessities in the household or through other material measures. Resources also can be measured through earnings, social transfers (i.e. the use of social assistance or certain benefits) or through other resources related measures. The income measure further can be divided into relative income poverty or to be measured in absolute terms.

There are several reasons to justify the use of relative income measure in this study. With the criticism of Bradshaw and Finch (2003, 521) and statement of Jenkins (2015) in mind, the relative income measure is used in this research for following reasons. First, following the reasoning of Jenkins (2015), the measure can be justified by the particular interest set in the effectiveness of the social policy and welfare state. The eligibility to receive benefits is often measured with a lack of resources and rarely with a subjective evaluation of the need. Second, even though the distribution of the resources can be questioned, the social transfers still take into account the incomes of all

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family members with care responsibilities in the household. Third, the income measure is particularly useful in the longitudinal approach as the measure has been collected as part of the used data in a similar manner over time, while some other poverty measures have been changed during the survey collection. The material and housing conditions may change over time and hence it is challenging to use them as a reliable poverty measure in longitudinal research. The resource approach, however, allows the same measure, the level of earnings or incomes, over time. Therefore the choice of poverty measure used in this study is reasoned with the claim for a need of objective measure and a measure that allows longitudinal approach.

The choice of the relative income poverty measure used in this study, does not imply an absence of absolute poverty, i.e. the homeless, illegal migrants or those whose resources are not sufficient to cover their basic needs, such as adequate nutrition, hygiene, medication or housing, in these societies. However, it does suggest that the risk of relative poverty is more common both in Germany and in the United Kingdom compared to the absolute forms of poverty. The measure of relative poverty stems also from the availability and the collection of the longitudinal data. Those without permanent address have not been included in the data and hence the studies on these vulnerable groups are designed in different manner than studies using large, longitudinal datasets.

The study of poverty trajectories implies that poverty is seen as a process. The change and stability of these poverty processes is captured over time and the importance of the chronological dimension of poverty is highlighted. Therefore poverty is understood to result from variation of life stages (*the life cycle hypothesis*), social stratification (the class or persistence hypothesis) and individual (*individualization hypothesis*). (McDounough 2005, Heeb and Gutjarh). Short-term poverty, which is linked to the risky life course events, is more independent from social inequalities than persistent poverty as events such as unemployment or having a child occur in all social classes.

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*The life cycle hypothesis* builds up on the work of Rowntree (1901) suggesting that poverty is linked with different stages of life such as having young children in the household or old age. However, poverty is not seen as an end-state, but something that can be overcome during different stages of life or when household composition or labour market status change (Kangas and Palme 2000). Since the risk of poverty is related to various life course changes, it reflects both individual and structural aspects. Hence, the welfare systems can influence the risk of poverty by allocating resources for those with increased risk.

The class hypothesis or persistence hypothesis is based on the location of the individuals and groups within a given society and their risk of poverty is determined according to their position. Therefore poverty is linked with the social inequalities and it is reproduced by the intergenerational transmission of social patterns. (Heeb and Gutjahr 2012, Gallie et al. 1994, Ritakallio 1991.) However, *the individualization hypothesis* suggests that poverty has been detached from the social structure as biographies and life courses have become more diversified and the influence of social structure has declined. Hence, this hypothesis abandons the idea of classical class hypothesis in which poverty was seen as a consequence of the location of individuals and groups within the society (Layte and Whelan 2002) and therefore poverty is seen less predictable. The risk of poverty is seen independent from the social structure and more linked with various life course events. The less predictable nature of poverty can be explained by democratization and temporalization of poverty (Leisering and Walker 1998).

Clearly, the separation of these hypotheses is not clear-cut and they may coexist. However, these different approaches are relevant to understand the poverty dynamics and the reasons for these dynamics.

## **2.2 Reasoning for Dynamic Poverty Research**

Research on reasons for poverty, poverty trends and measures of poverty has a long tradition. However, research on poverty dynamics and persistence has increased in the last 30 years, mostly due to the data available. Different approaches on poverty present different realities, as the measure of poverty in one point in time is not sufficient to grasp the information of those who are poor from year to year, only during the measured time, or whether they experience poverty for shorter or longer durations. The realities for those who face poverty only once are different from those who are living in poverty for a longer time, in long-term or persistent poverty, or from those who keep on falling into recurrent poverty. Recurrent poverty feeds uncertainty of life, dampening long-term life planning, such as ownership of a home or family planning. Longer poverty experiences are further linked to social exclusion and deprivation.

In addition to the shift in poverty research from a cross-sectional poverty to a more dynamic approach, the discussion of poverty reduction has shifted from a static to a dynamic model. Hence the focus has moved from those currently in poverty to those who are experiencing the transition into or out of poverty. (Jenkins 2011, 205-206.) The idea behind this shift is not only to provide income supplementation for those who have already fallen into poverty, but to catch those who are at risk of falling into poverty, or who could be lifted from poverty with support. Furthermore, the aim is also to reduce poverty by emphasizing transitions out of poverty and decreasing the transitions into poverty, also known as exits from and entries into poverty.

The traditional approach to poverty has focused on low incomes or measures in one point in time. The outcome has therefore neglected change over time. Table 1 summarises the difference between definitions of poverty as a static state and as a process over time. When poverty is defined as a static situation, the common measures are low incomes that are transferred to income poverty or as a relative deprivation, while the dynamic definition of poverty focuses on impoverishment and



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social exclusion implying that there is a process over time. Berghman (1997, 6) suggests that the definitions should differ by name and hence, poverty would refer to a static phenomenon, while impoverishment should be used to refer to the process of poverty over time. Following the common use of the poverty set in many previous studies, this study uses the word poverty in both its static and dynamic meanings.

**Table 1** Conceptualization of poverty

	<b>Static outcome</b>	<b>Dynamic process</b>
<b>Income</b>	Poverty	Impoverishment
<b>Multidimensional</b>	Deprivation	Social exclusion

Source: Berghman, 1997

One might ask why a longitudinal approach to poverty during the life course should gain more importance. The cross-sectional approach to poverty explains poverty through the lens of groups with a higher risk of poverty, but cannot capture the movement into or out of poverty for these more vulnerable groups, and hence is not able to explain the impact of movement from one state to another. Thus the impact of movements such as unemployment to employment or partnership dissolution to new partnership formation are not captured. Another reason for the increased need for a dynamic poverty approach rises from poverty policies and their structure. As Walker (1998, 46) explains, the policy response for dynamic poverty calls for different tools than for cross-sectional poverty, as the statement the “poor are always with us” is not valid since poverty occurs in spells and new actions are needed more to prevent than to alleviate poverty. Van Oorschot (1998, 101) additionally claims that the response to income poverty should be to target financial benefits, especially for people in the greatest need.

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Leisering (2003, 1) denotes two contrary uses for the dynamic approach to poverty research: one that focuses on poverty transitions emphasizing the opportunity of poor individuals to move out of poverty, and one that focuses on cumulative deprivation and decline. Bradshaw and Finch (2003, 518-519) apply the cumulative approach in their research on Britain, assuming that persons who are poor according to all three dimensions of poverty – on the relative income measure, subjective poverty measure and material deprivation scales – are more likely to be poor than those who experience only one of these dimensions. The cumulative poverty is more likely to occur in women, lone parents, large families and unemployed or no-earner households. Due to the limitations of data used in this study and its focus on monetary welfare benefits, the focus is set on the poverty transitions measured with relative income poverty, particularly on the poverty exits that are at the core of the anti-poverty policies, and on the duration of poverty, instead of cumulative deprivation. The cumulative deprivation approach was not possible with the CNEF data as it did not include variables that would have allowed study on subjective experience of poverty or material deprivation.

Different welfare states have organised their benefits systems and benefits eligibility in a different manner. Public transfers, as well as other in kinds of transfers, affect the poverty outcomes of individuals. This study focuses on governmental transfers, as they create the foundation of the public sphere of the welfare states. These transfers create a safety net against certain demographic and labour market-related events that decrease the income of an individual and hence increase the risk of poverty entry. Hence comparison of poverty rates before and after public transfers might help us understand the effectiveness of the welfare systems, as well as the groups that are dependent on these benefits.

Muffels, Fouarge and Dekker (1999, 3) explain that the research on the dynamics of poverty and longitudinal approach are illustrated when the terms social exclusion and impoverishment are used as a reference for lower consumption levels and low incomes. In addition to the static approach on

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poverty studied at a certain point in time, the longitudinal approach adds the time dimension and the sequence of life events related to poverty transitions to the concept of dynamic poverty. Furthermore, the time dimension of the definition of poverty is crucial, as the experience of those in short and in long term poverty are different, as well as the experience of those who have a single or few poverty experiences compared to the ones in repeated poverty phases. The coping mechanism for those in short and for those in longer durations of poverty differ, as the ones in short-term poverty may have the possibility to rely on their savings or to make changes in the expenditure of their household. However, those in persistent or recurrent poverty may be less flexible in the adjustment of their expenditure, or they may not have a buffer to reduce the effect of income changes. Another aspect of duration linked to poverty spells is linked to social exclusion and the poverty experience itself, as persistent poverty is very unevenly spread across the population and hence should be in the interest of policymakers as well as researchers (Muffels, Fouarge and Dekkers 1999, 15).

### **2.3 Introduction to the Data and Variables**

This research will analyse the duration and the spells of poverty, as well as the factors that can be used to explain these transitions. A result of this study is to have improved comprehension of both poverty dynamics and the effectiveness of social security systems in four different cases: Germany as a single case, as well as divided into two units; (former East and West Germany), and the United Kingdom.

The countries under examination portray different types of social policy models according to the classification of Esping-Andersen (1990, see also Chapter 3.2 for a more detailed description of the classification of the welfare states). Germany presents the corporatist welfare model, and the United Kingdom exemplifies the Liberal model. Welfare states differ in the organization and principles of their welfare arrangements, as well as in the structure of their policies and institutions;

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therefore, the analysis of how countries cluster, such as Esping-Andersen's (1990) classification of the welfare regimes, can be useful for framing the research (Uunk 2004, 256). However, due to the historical differences between former East and West Germany, analysis has also been made separately to evaluate whether the welfare policies adopted from the western part to the East have similar effects.

This study updates and extends existing comparative work on both trends and dynamics of poverty, linking the cross-sectional poverty research to the longitudinal approach. The data used in this study for the United Kingdom is provided by the Cross-National Equivalence Files (CNEF) of the British Household Panel Survey (BHPS) data, and the data for Germany derives from the CNEF of the German Socio-Economic Panel (SoeP) data. The CNEF data files were created to support and increase the use and accessibility of the harmonised panel data among cross-national researchers. The data files can be used as an independent data files, as they are used in this study, or combined with the original data from the national data providers to provide more variables that have not been included in the harmonized data. The CNEF files include several constructed variables, such as pre- and post-governmental household incomes that have not been directly available in the original datasets (Burkhauser, Butrica, Daly, and Lillard 2001), hence the use of the data in comparative poverty research can be justified instead of using the original data files.

The CNEF BHPS file is based on the British Household Panel Survey that has been collected from the year 1991 until 2009, however the CNEF BHPS files available include only years 1991 to 2008<sup>2</sup>. However, the examination of the data revealed large amount of missing information on the

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<sup>2</sup> There has been a plan to combine CNEF BHPS files with the Understanding Society data, but the data was not available for this study.

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income variables for the years 2007 and 2008, and hence the data in this study has been limited for the years 1991 to 2006. The sample for the year 1991 consisted of over 5,500 households and approximately 10,000 individuals in England, Wales and Scotland. (Burkhauser, Butrica, Daly, and Lillard 2001.)

The CNEF file for Germany includes data from the German Socio-Economic Panel (GSoeP). Although the SoeP data has been collected since 1984,; this study uses data only from the year 1993 onwards until the year 2013 with the purpose of comparing differences in poverty trends and duration in both East and West Germany. The German sample includes observations from East and West Germany, as well as an oversample of foreign-born guest workers. However, since there is no income data for the East Germany prior to year 1992 in the CNEF and we need information for the previous years' incomes to be able to calculate the poverty transitions, data for Germany is used only from 1993.

This data is used in the description of poverty transitions and spells, both pre-and post- transfers, to evaluate the effectiveness of the social transfer of different welfare systems. Following the tradition of most comparative analyses of poverty, the poverty is measured as relative poverty; in addition, the analysis is supplemented by a measure of the sensitivity of the chosen poverty indicator. Furthermore, the measure is extended from a yearly income measure with measure of persistent or chronic poverty, which relies on longer terms of the income flows. The descriptive statistics for the data have been presented in the appendices 1 (Germany), 2 (East Germany), 3 (West Germany) and 4 (United Kingdom).

The CNEF files include household incomes before and after government transfers and taxes, hence the aim of this study is to grasp the poverty dynamics of the individuals with certain characteristics. The household incomes are divided by using the modified OECD equivalence scale to account for the intra-household consumption. The pre- and post-transfer incomes are referred to as a “market

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income” and “disposable income” in the analysis, similarly to the study by Valletta (2006). More information on the modified OECD scale and the limits of selection of the scale can be found in Chapter 2.3. An example of the effect of partnership dissolution on the index of need in the household to portray the effect of having dual or single earner, or children in the household will be presented in the same Chapter.

Furthermore, there were substantial differences in income levels and standards in East and West Germany in the early years of the reunification<sup>3</sup>, so the use of a common poverty line over time could influence the poverty estimate of poverty. Therefore, the income values have been adjusted with separate consumer price indices (Appendix 5) and the incomes have been converted to the prices of 2013. The used consumer price indices have been calculated separately for the East and the West until 2001, and for unified Germany from after 2001 to 2013. The use of a common poverty line is necessary, as one of the aims of this study is to analyse whether the picture of poverty in Germany would differ when its eastern and western parts are compared separately. Hence the use of one common poverty measure is justified.

The selection of respondents has been limited for those at age 18 to 64 to study poverty among the working age population and to avoid the effect of social transfers of those who have retired. The effect of children on the family is studied only as a part of household characteristics, but not as a separate question of the poverty among child population. The effect on having children in the household has been calculated separately for those who have dependent children in the household

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<sup>3</sup> Terms unification and reunification of Germany are used in this study to refer to the unification of East and West Germany after year 1989, not to the Unification of Germany in 1871 following common use of the terms in previous literature (see Hauser et al.1993; Kolinsky and Nickel 2003; Matheja-Theaker 2003).

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and for those who have dependent children under the age of four in the household to separate the effect of having younger children who are in need of care and not yet at the school age.

The dependent variable of the study, relative income poverty, is presented in more detailed in the Chapter 2.2, as well as the use of the chosen equivalence scale. Other variables that are linked to the poverty transitions are the variables mentioned earlier on the number of children in the household, the number of children under four years of age in the household, the number of adults in the household, the education of the household head<sup>4</sup>, the household head in paid work, the partner in paid work and the age of the household head under 30 years, 30 to 39 years, 40 to 49 years or over 50 years of age. The effect of the duration of poverty spell in years also is included in the analysis.

The explanatory variables listed in the previous paragraph refer to the characteristics that are measured at a particular point in time (survey year) and not as changes in characteristics. Jenkins (2015, 301) lists reasons to justify this approach. The first argument refers to the use of the results as the predictions about spell lengths may be used to indicate policy measures at those at highest risk of poverty and hence the information should be based on similar characteristics available for those who use this information. Second reason explains that trigger event variables cannot be treated as exogenous. Both trigger event variables and point-in-time variables are potentially endogenous when used as explanatory variables. Hence they both carry the concern of unobserved heterogeneity as both types of variables can be jointly determined with the poverty transition by a common unobservable factor. Third, some previous studies suggest that it is difficult to identify a

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<sup>4</sup> Only measured in Germany as the CNEF-BHPS files do not include variables linked to the education level or years at school.

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statistically significant association between poverty transitions and changes in characteristics variables if other characteristics at a point of time are controlled for (see also Stevens 1995, 21; Jenkins 2000; Devicienti 2001). However, the actual difference in the use of point of time and trigger variables should be acknowledged and studied more carefully in the future research.

Additionally, poverty rates are compared according to the age of individuals and in different life stages, such as in young adulthood without children, at the stage of family life with children and at the “empty nest” stage, without dependent children in the household, to follow the idea of the poverty cycle by Rowntree (1901).

## **2.4 Measure of Relative Income Poverty and the Equivalence Scale**

The dependent variable measuring the spell duration in poverty has been conducted by using annual incomes to measure income poverty. The poverty variable is categorical and has two distinct values (yes/no). However, the spell measure takes only positive integer values ( $t=1,2,3,4,\dots,21$  for Germany and  $t=1,2,3,4,\dots,16$  for the United Kingdom). To evaluate the sensitivity of different poverty lines, levels of 40, 50 and 60 percent of equivalent national median incomes are used, similar to several previous studies that have tested the level of sensitivity of the measurement (Kangas and Palme 2000, 339).

Incomes are measured on a yearly level. For simplicity, the poverty variable is referred to as the “years in poverty” instead of the number of interviews in which an individual was considered to be in poverty or non-poor. The poverty transitions are measured with the change in poverty status in year  $t+1$  from non-poverty into poverty, poverty into non-poverty, or as a non-changing status



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in poverty. The income variables for the household pre<sup>5</sup> -and post<sup>6</sup> -government incomes have been conducted as follows (Grabka 2014):

**Pre-government income**= Household labour earnings + household asset incomes+ household private transfers+ household private retirement income

**Post-government income**= pre-government income +household public transfers +household social security pensions – total household taxes

The factors that have an impact on a person's socioeconomic status vary at different stages of life. The influence of factors related to parents is strongest in childhood, and the parental effect remains in an individual's life during the life course, since it has an effect on educational and occupational choices. After the childhood years, the role of a person's own life choices, such as education, occupation, environment and partner, is more significant. (Galobardes et al. 2006.) Poverty transitions are a function of both demographic characteristics, such as age, marital status and

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<sup>5</sup> Labour earnings used in this variable include wages and salaries from employment, including training, incomes from self-employment, profit sharing, bonuses and overtime. Assets flow incomes consist of interest, dividends and rents. Private transfers include child support payments and alimony paid by the individuals outside the household. (Grabka 2014, 41.)

<sup>6</sup> Post-government incomes are the sum of pre-government incomes (see footnote 22), household public transfers and social security pensions minus total family taxes. The household public transfers include housing allowances, child benefits, subsistence assistance and special circumstances benefits from the Social Welfare Authority, government student assistance, maternity benefits, unemployment benefits and assistance and unemployment subsistence allowance. The social security pensions consist of old age, disability and widowhood pension schemes. The total family taxes include income taxes and payroll taxes, such as health, unemployment, retirement insurance and nursing home insurance taxes. (Grabka 2014, 42.)

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gender, and of other factors, such as employment status and education. The covariates included in the estimation are associated with poverty transitions in a given time,  $t$ .

The variables measuring an individual's household composition are the gender of the household head, the number of children in the household, the number of children under the age of 4 in the household, the number of adults in the household, the age of the household head (under 30 years, 30 to 39, 40 to 49 and over 50 years), the education of the household head (only for German data), the employment status of the household head, the employment status of the spouse and the duration of the poverty spell. The measure for poverty spell is 21 years for Germany and 16 years for the United Kingdom.

The economic consequences of maintaining two households instead of one and the existing financial resources determine, among other factors, the living standard of individuals after partnership dissolution, hence an example of the effect of partnership dissolution on the index of need is presented. Due to the loss of economies of scale, maintaining two households is more costly. Cancian and Reed (2009, 21) state that the second adult in the household reduces the risk of potential poverty in two ways: the additional adult increases the likelihood of having a second earner, and simultaneously the increase of the needs standards is fairly modest as each additional person in the household adds less than proportional needs through economies of scale.

In general, a household with two adults has a lower risk of poverty because the potential dual-earnings and needs are compensated partly with scale benefits, since some of the expenses and equipment can be shared between family members. The risk of poverty is thus increased by divorce and decreased by marriage or cohabitation, even though sharing resources within cohabitation is, especially legally, less certain than within marriage. (Cancian and Reed 2009, 94-96.) Thus, the household structure is closely linked to poverty, as household poverty is often counted on the basis of equivalent household income (Iacovou and Skew 2010, 1).

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**Table 2** Change in index of need after partnership dissolution

BEFORE DISSOLUTION		AFTER DISSOLUTION			
Household composition	Index of need	Household 1	Household 2	Index of need	Change in index of need (%)
2 adults	1,5	1 adult	1 adult	2	33,3
2 adults, 1 child <14	1,8	1 adult	1 adult + 1 child <14	2,3	27,8
2 adults, 1 child > 14	2	1 adult	1 adult + 1 child >14	2,5	25
2 adults, 2 children <14	2,1	1 adult	1 adult + 2 children <14	2,6	23,8
	2,1	1 adult + 1 child <14	1 adult + 1 child <14	2,6	23,8
2 adults, 1 child <14, 1 child >14	2,3	1 adult	1 adult + 1 child <14, one child >14	2,8	21,7
	2,3	1 adult + 1 child <14	1 adult + 1 child >14	2,8	21,7
2 adults, 2 children >14	2,5	1 adult	1 adult + 2 children >14	3	20
	2,5	1 adult + 1 child >14	1 adult + 1 child >14	3	20
2 adults, 3 children <14	2,4	1 adult	1 adult + 3 children <14	2,9	20,8
	2,4	1 adult, 1 child < 14	1 adult, 2 children < 14	2,9	20,8
2 adults, 2 children <14, 1 child >14	2,6	1 adult	1 adult, 2 children <14, 1 child >	3,1	19,2
	2,6	1 Adult, 2 children<14	1 adult , 1 child >14	3,1	19,2
	2,6	1 adult 1 child<14, 1 child >14	1 adult, 1 child <14	3,1	19,2
2 adults, 1 child <14, 2 children>14	2,8	1 adult	1 adult + 1 child <14, 2 children >14	3,2	14,3
	2,8	1 adult + 1 child <14	1 adult + 2 children >14	3,3	17,9
	2,8	1 adult + 1 child >14	1 adult + 1 child <14, 1 child >14	3,3	17,9
2 adults, 3 children >14	3	1 adult	1 adult, 3 children >14	3,5	16,7
	3	1 adult, 1 child > 14	1 adult, 2 children > 14	3,5	16,7

Table 2 demonstrates the additional income needed when a household is divided into two separate households by using the modified OECD equivalence scale. The first adult of the household has a

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value equal to 1, each additional adult or child over 14 years of age has a value of 0.5, and a child less than 14 has a value of 0.3. The elasticity of this scale is therefore 53 percent.

The expenses involved in establishing a new additional household varies between 20 to 33 percent, and the percentage varies between different household types. In other words, to maintain a similar living standard, incomes should either be a certain amount higher than the poverty line, or increase by around one-fifth to one-third to avoid a transition to poverty after a division of the household that was above the poverty line before the dissolution. Table 2 shows that the larger the household is, the less costly it is relatively to create an additional household, and vice versa. Therefore, the index needed to replace the loss of economies of scale is highest for a two-adult household, which will need 33 percent more income to compensate the change in need.

Some household types, such as single elderly people or households with children, are especially sensitive to the choice of equivalence scale used, whereas the ranking of countries according to their overall poverty rates is more robust to changes of equivalence scale used in comparisons of the member states of the European Union (in the article called the European Community<sup>7</sup>). The composition and the size of the household were found to be quite sensitive to the choice of scale, as the small households were overrepresented when the subjective scale was used and, on the contrary, large households were overrepresented when the OECD scale was used. (De Vos and Zaidi 1997.)

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<sup>7</sup> Comparison included 12 member countries.

## 2.5 Methods

Chapter 3.5 presents descriptive statistics on the poverty trends over time, as well as the redistributive effect of the welfare states and the trend of this effect over time. The redistributive effect of social transfers has been calculated using the following formula adapter from Muffels, Fouarge and Dekker (1999, 4):

$$\text{Governmental redistribution (\%)} = \frac{\text{pre-government income} - \text{post-government income}}{\text{pre-government income}} \times 100$$

The poverty risk regarding age and life stage are presented in Chapter 4.3. In addition to the poverty trend over time, descriptive information on the duration of poverty spells, as well as the poverty exit and entry rates over time, are presented in Chapter 6.1. The poverty exit and entry rates, as well as the duration of poverty over time, are calculated by creating a lag of poverty variable that measures the percentage of individuals who have moved between states of poverty and non-poverty. The lag variable takes the value of poverty  $t-1$  at a time point  $t$  ( $Ly_t = y_{t-1}$ ).

The research method in Chapter 6.2 is the discrete time hazard model to analyse the change in the risk of poverty. The discrete time model has been chosen due to the nature of the dependent variable (annual household incomes), which are measured at a yearly level. The fact that the data has been collected annually gives reasons to use the discrete time methods rather than continuous time event history methods (Blossfeld, Hamerle and Mayer 1989, 104-105; Box-Steffensmeier and Jones 2004, 195; Andreß, Golsch and Schmidt 2013, 248-249; Jenkins 2011, 291-314).

The method used in the analysis is the discrete time proportional hazard model with the complementary log-log (cloglog) transformation of the hazard rate as a dependent variable. The baseline hazard function  $f(d)$ , which describes how the hazard rate in a given year varies with the

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duration of poverty, has the same shape for all individuals, despite their characteristics. However, following Jenkins (2011, 294-295), the function is fitted by using the spell-year-specific dummy variables<sup>8</sup>, and as a result of using 21 survey years, the maximum length is 20 years for Germany and 16 years for the United Kingdom. The hazard rate for poverty exit for a given year is the probability of exiting poverty in that year; it is conditional for staying in poverty until that year and on different characteristics of the individual. Hence the model can be written in following form (Jenkins 2011, 293-294):

$$\text{cloglog}(h_{id}) = f(d) + \beta' X_{id}.$$

In which a non-linear transformation of the yearly hazard rate  $h_{id}$  is the sum of spell-year specific constant and linear index function of the person's characteristics in the vector  $X_{id}$  for each person  $i=1, \dots, N$  and for each year during the spell  $d=1, \dots, D$ . (Jenkins 2011, 293-294.)

The personal characteristics during the year in question  $d$  are incorporated in the vector  $X_{id}$ . The regression coefficients with negative signs are associated with the larger hazard rates and hence with the shorter poverty spells when all other characters are equal, while the coefficients with positive signs are linked to the smaller exit rates and hence with longer durations of poverty.

Attrition, which means that a respondent drops out of the panel permanently, might cause challenges in the used research data, since it might give rise to selectivity problems. Another challenge related to missing data is censoring, which means that some periods are unobserved

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<sup>8</sup> $\delta_d, d = 1, \dots, D$  in which  $d$ th year is set equal to 1 and other wise 0.

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because the period of observation time is limited and therefore the information of certain episodes is partially or completely incomplete (Andreß, Golsch and Schmidt 2013, 252). This research data has both left and right censored cases, since some of the respondents have experienced poverty before entering into the data and the starting time, the length of poverty or previous experiences of poverty are unknown and some respondents will enter poverty during the observation period, but the information of the exit date will remain unknown or they will experience poverty in the future. However, the analysis takes into account only those whose poverty spells start after the first observation year. Hence, we do not know if the poverty they experience is their first experience of poverty, or if the poverty is recurrent.

## **2.6 Challenges and Limitations of the Data**

The long duration of datasets challenges and limits both the reliability and interpretations of the estimates conducted with the data. The CNEF file of the data used for Germany consists of 21 years between 1993 and 2013, and covers a time over several decades. The CNEF data for the United Kingdom has fewer waves, as the data used in this study covers the time between 1991 and 2006. The long duration of the data in question allows for the examination of persistence of poverty, as well as of trends in poverty over time. It also allows for studies on poverty that are more persistent than the often used measures of four, or six, years in poverty (Valletta 2006, 261). However, the long duration of the data also challenges the reliability of the results, as the sample of those in the data for over 21 years may be less representative than data collected over a shorter period. Additionally, the characteristics of individuals are more likely to change during long observation periods and hence, the estimation of the sub-groups in the data may be difficult. Yet, as many changes in the life course have a longer duration or the change is rather slow, the longer duration of the data is needed to catch the variety of different life courses. (See also Jenkins 2011, 210-211.)

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The annual measure of incomes – and the poverty status – is not sufficient to observe short periods of poverty, and hence the change between year+1 may not be able to grasp the actual poverty transitions.



### **3.The Role and Functions of the Welfare States**

The study of welfare states demands historical and longitudinal perspectives, as Daly (2000, 2) states: “Welfare state models require one or two generations to come to fruition.” This chapter concentrates on the thesis’ theoretical background by introducing the main concepts and literature regarding the comparative welfare state of research. The aim of this chapter is to answer the questions: how have societies changed over time and what are the differences between the welfare state in Germany and the United Kingdom?

The main characteristics of the British and German welfare states are summarized and, hence, the contextual framework for the empirical part of this study will be presented. The chapter provides a historical reflection on the early stages of these welfare states, as well as the aims of the different welfare arrangements. Chapter 3.4 presents the redistributive effect of the German and British welfare states, and the poverty rates calculated from market and disposable incomes.

#### **3.1 The Reasoning and the Classification of the Western Welfare States**

The task of social security is to help citizens to cope with social risks from cradle to grave. According to Taylor-Gooby (2006, 271), social policy concentrates on needs that are not met through work and employment or the private sphere, such as the family and household. The management of social risk, as a part of welfare state policies related to the life course, occurs in divergent life courses that are not covered by the traditional paths and safety nets. (Leisering and Leibfried 1999, 29). Life courses have been a subject to several changes over the past 50 years, such as the emergence of cohabitation, the postponement of childbearing or voluntary and involuntary childlessness, the increased instability of marriage combined with changes in the

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educational and labour markets. These educational and labour market changes include for instance prolonged education, gender equalization, higher rates of job instability and occupational mobility, women's labour market participation and delayed entries into the labour market. (Callens and Croux 2009, 370.)

One of the main functions of the welfare state is the distribution and flattening of incomes over the life course. This function has gained more importance due to the instability of incomes and demographic changes (Falkingham and Hills 1995c, 1). In other words, the welfare state shifts resources from times of "plenty" to times of "want" across the life cycle (Falkingham and Hills 1995b, 101). Industrial welfare states have developed different types of systems to redistribute incomes to protect individuals from loss of earning with social insurance benefits that are typically not means-tested, but also with means-tested benefits. The purpose of social insurance benefits is to cover a variety of incidents, such as old age, sickness, invalidity and unemployment, on the basis of previous payments and contributions or other conditional elements. However, if the level of social insurance benefits is insufficient or the benefits otherwise do not provide adequate levels of to cover the needs of the household, they can be balanced with means-tested benefits that are supposed to provide protection from poverty in case of a risky life event. (Behrendt 2000, 24-25.)

Welfare states provide protection against interruption of incomes, among which we can mention retirement or unemployment, services needed in societies, like education and health care, or in times during which there is a mismatch between incomes and needs. These events are often referred to as old social risks in the literature, and they are connected to a family's responsibility for the care of its members. However, the welfare states have changed over time, as have societies

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and needs.<sup>9</sup>The transitions to post-industrial society and different levels of both living standards and institutions have created the so-called “new social risks.” Taylor-Gooby (2004, 2-3) describes four different processes related to the new social risks: the growing participation of women in paid work and the decrease in the proportion of economically active men; the absolute and relative growth of ageing population; changes in the labour market and employment; and the expansion of the private sector. These processes are closely linked to variations in families and the needs of family members, as well as to the demand for state-provided support for families. In addition, these changes challenge the male breadwinner model and the traditional gender role of the female caregiver at home. Hence, childcare facilities, state support for families with small children and the time of childbearing have a growing importance for women working outside of the home, especially in the case of single parents, who often are the mothers.

The question of the new and old social risks has been tangled with a broader paradigm of the “new welfare state” that consist on three dimensions (Vandenbroucke and Vleminckx, 2001). The first dimension relies on the idea of new social risks which should be addressed by new welfare state programmes. The second element of the new welfare state includes the allocation of the investments. The public investments should be spent on human capital rather than on passive cash transfers. The third aspect presents the service dimension and suggests that the welfare states should become more service-oriented and less transfer-oriented, following the example of Scandinavian welfare states. (See also Van Vliet and Wang 2015, 613-614). Van Vliet and Wang

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<sup>9</sup>According to Taylor-Gooby (2004, 5), there are new needs in three areas: relation to changes in the family and gender roles (balancing paid work and family, care responsibilities or lack of family support when in need); in relation to changes in the labour market (lack of necessary skills, outdated skills or training or troubles with lifelong learning); in relation to welfare state change (insufficient services or inadequate benefits provided by private provision).

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(2015, 615) summarise that the social investment policies have contributed to an increase in employment rates, but not to the alleviation of poverty. The employment growth has benefited more the work-rich households than work-poor households, and hence the income inequality between these two groups has grown. This could be explained by the shift towards less distributive welfare programmes that would benefit mainly work-rich households while the income protection of the work-poor households has declined. (See also Vandebroucke and Vleminckx 2001.)

Van Vliet and Wang (2015, 616) follow the idea presented by Vandebroucke and Vleminckx (2011) of classification of welfare state expenditure according to the new and old social risks. According to their classification, new social expenditures include parental leave, elderly care (residential care and home-help services), child care, active labour market policies (ALMPs) and primary and secondary education. The old risk related social expenditures include public health expenditures, retirement pensions and other social transfers, such as family benefits, incapacity related benefits, unemployment benefits, income maintenance and other cash benefits.

Pierson (2006, 18-33) presents four theses on welfare states. The first suggests that the welfare state is a consequence of needs as well as new resources produced by the development of industrial societies; this idea is also known as the “industrialism thesis.” The second thesis proposes that in the context of individualization, the welfare state is a product of successful political mobilization to attain full citizenship. According to the third thesis, the welfare state is an invention of industrial and political mobilization. It exemplifies the successes of the social democratic political project in the gradual alteration of capitalism. The fourth thesis claims that the welfare state’s generosity and expansivity is an expression of the strength of forces of the working class, and that it is a product of the battle between the political powers of social democracy and the economic powers of capital markets. These changes in societies have also changed the role of families and the division of work in households, as well as the need for new legislation related to the changes in support of social reproduction and welfare (Ruspini 2013, 7).

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According to the liberal theory of industrialism, social mobility rates and the level of upward mobility are higher, opportunities for social mobility are more equal, and the mobility rates, as well as the level of equality, tend to increase in industrial societies in comparison with pre-industrial societies. These differences have been explained by the development of technology and the change of societies from agricultural to service societies through a manufacturing phase, creating “middle-mass” societies where the proportion of individuals belonging to the middle class is increased. (Erikson and Goldthorpe 1992, 5-6.) Social change has drawn life courses of men and women closer, both on the structural level, i.e. in education, employment, entry into adulthood and family life, and through the construction and planning of the life course at the individual level (Ruspini 2013, 5).

Welfare state systems have developed and enlarged in all industrial nations in a different variation of institutions. The development of social policies and the institutional deviation among countries provide an explanation for the source of variation in, among other issues, poverty risk over time and across countries. (Kangas and Palme 2000, 336) According to Ringen (1987, 5-9), the purpose of the welfare state is to re-allocate resources that have once been distributed in the market through political means. The goal of the welfare state is to increase equality, in terms of welfare, through social interventions. Hence the interaction between the welfare states and individuals occurs on multiple levels.

Pierson (2006, 15-16) summarises that the most important factors on societal developments were the impact of industrialization and population growth; the changing social composition of the population; the emergence of national states; and the growth of political democracy and political citizenship. With the impact of industrialization, Pierson refers to extensive urbanization, the need for a skilled labour force and long-term economic growth and the composition of the population to the changing patterns of families, increased life expectancy, and decreased child mortality. (Pierson 2006, 15-16.) The social risks that occurred in different phases of the evaluation of the

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welfare state were also changing. Hence Mayer (2001) divides risk according to three life course regimes. Under the traditional life course regime, social risks were debt, poverty and morbidity<sup>10</sup>; in the industrial regime, social risks were poverty, unemployment, disability and large family size; and under the post-industrial regime, social risks are low-skills unemployment, single motherhood and early adult marginality. (Mayer 2001, 95.)

The transition from the educational system to work, from origin family to destination family and the transition to independent living compose the main elements of youth transitions (Vickerstaff 2006, 183). These transitions are connected to alterations of the labour market, such as the demand for a more qualified and highly educated labour force and, more generally, the change in economies in Western countries (Abbott, Jones and Quilgars 2006, 235). The crisis of the welfare state involves three simultaneous elements: rising demand, limited resources and the constrained capacity of governments to settle between these two (Taylor-Gooby 2004, 6).

Changing gender roles and the increased proportion of women's employment and labour market opportunities have changed the way that families are formed, and increased the economic independence of women; women stay in education longer, postpone marriage and have fewer children. This has created demands for new types of family policies, such as parental leaves, affordable childcare and child support payments, addressed to public policies and services but also employers. (Cancian and Danzinger 2009, 7-8.) Moreover, choice in respect to mating, family formation and intimate relationships has changed. (Lewis and Sarre 2006, 141.) Especially parental leaves and their cost to the employer, often addressed to the employer of the mother, are under discussion about equal opportunities for men and women, and female employment. Becker (1993,

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<sup>10</sup> Childbirth created an increased risk of death for women.

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55) claims that increased female labour market participation has contributed to conflict between the sexes in employment and marriage. The gain from marriage has been reduced due to the higher earnings and labour market participation of females, and hence divorce can be seen as a more appealing option.

However, to be able to recognize the divergence between welfare state arrangements and systems, the similarities and differences of these states should be studied. Ringen (1987, 11-14) presented quantitative and qualitative divisions between welfare states. In the quantitative approach, welfare states differ in their relative size; countries can be labelled as small or large welfare states, i.e. according to their public spending on the welfare state. The qualitative method divides welfare states into marginal and institutional types. Marginal welfare states use more selective and income-tested policies in poverty reduction, while institutional welfare states have more universal programs, and their aim is to emphasize unity in society. In marginal welfare states, services and benefits might have a stigmatizing effect on the users. Also, Ringen (1987, 202-206) portrayed that taxes and transfers were significant when the impact of the income distribution was studied, and the type of welfare state made a difference in equality after these transfers and taxes. Large welfare states were found to be more effective regarding redistribution than smaller welfare states. However, the larger welfare states were also found to suffer from economic inefficiencies, such as a larger public service sector and a higher level of taxation.

Welfare states are under constant pressure, and hence the effectiveness of the welfare state arrangements is crucial. Yet the study of effectiveness of social benefit schemes is not as simple as it would be in the ideal situation, in which those who are entitled to receive benefits would claim them, and there would be no abuse of the system. However, in addition to the abuse or misuse of the benefits in the form of over-consumption, the under-consumption of the rights to receive benefits also occurs for one reason or another. The non-take-up of the benefits is interconnected with the means-tested benefits. As the importance of the means-tested benefits in European welfare

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states is growing, more research on the reasons for under-consumption of the benefits is needed. (Van Oorschot 1998, 101,104-105.) The reasons for non-take-up varies from insufficient knowledge of benefits or fear of stigmatizing effects from receiving the benefits to a personal decision to not apply for the benefits for one reason or another. However, if the social benefit schemes cannot meet the need of those eligible for the benefits, their efficiency is questionable.

In spite of changing risks and societies, Western welfare states have matured and created the foundation for social security systems. Welfare states can be classified into different types of regimes according to policies pursued by the states, systems of distribution, or actors of the welfare state. Well-being outcomes can also be used for classification of the welfare states (Ritakallio 1994, 1-3). Dewilde (2002, 83-84) argues that welfare states have three different re-distribution arrangements for resources: the welfare state, the market and the family. The interaction between these systems sustain the traditional positions of females and males as dependent and independent economic actors as well as their dependency on their partner, public sector or their incomes from the labour market. Hills (2014) explains that welfare states do not simply redistribute income from those who are well-off to those in need, but they assist in large extent families and individuals in smoothing incomes in times of higher incomes to periods when incomes are lower (unemployment or retirement) or when needs are higher (after having a child or other care responsibilities). The first objective has been labelled as a “Robin Hood” objective and the latter as a “Piggy Bank” objective (Barr 2001).

Hills (2014, 2-3) summarises the main aims and constrains of the welfare state as follows: vertical equity, horizontal equity, life-cycle redistribution, insurance, efficiency and externalities. Vertical equity refers to the more favourable treatment of those with lower incomes in order to reduce poverty or inequality while vertical equity denotes the compensatory treatment of those with greater needs, such as large families or disabilities. The redistribution over life-cycle indicates the cash and other benefits in the times when market incomes are lower, such as childhood and old



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age with net contributions in the primary working age, when incomes from the market are higher. Other activity of the welfare states stems from the insurances which are meant to provide protection in times of unemployment, sickness or increased need for care or services. Two last aspects are efficiency and externalities. Efficiency means both financial efficiency of the welfare state as well as minimising the side-effects of the system, such as disincentives in labour market due to high taxation. Externalities refer to encouraging activities with positive effects while discouraging the activities with negative outcomes to others.

These domains vary between different areas. The vertical and horizontal equity are important in social security systems to reduce poverty and inequality as the private charity would not be sufficient to keep them in the adequate level. However, as the majority of the welfare spending is used to the pensions and other benefits and services for the elderly, much of the interest of social security is in the redistribution over life-cycle. This redistribution is particularly important for those with low-incomes or otherwise not able to achieve sufficient security for old age through saving or private pension arrangements. In addition, population change, change in life patterns and increase in life expectancy have challenged these aims and constrains. The need for income maintenance and care in old age has been growing in scale and the quality demands have changed due to the rise in income levels. (Hills 2011, 2-3.)

Esping-Andersen's (1990) welfare regime typology establishes one of the best-known and most widely used systems of classification of different welfare states. Regimes differ in the level of de-commodification and stratification, i.e. how independent individuals' social rights are from the market, and how society is divided into social classes. The classification consists of three regimes with certain kinds of political power structure that have shaped the available benefits and created a framework for who is entitled to receive benefits and services, and on what terms. In a social democratic regime, the level of de-commodification is higher for the reason that one of the state's roles is to release the individual's dependence on the market or the family. The public sector has

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a strong position, and the objects of the system are the citizens. The model is characterized by universalism, in other words, all citizens are covered by the social policy.

In a liberal or residual regime, the level of de-commodification is lower, since the state will support the market dependency by guaranteeing only a minimum of care. Users of the system are the disadvantaged. The state is responsible only for the risks from which individuals are not able to protect themselves through the market. Benefits are means-tested and often have a socially stigmatizing effect. In a corporatist or conservative model, benefits and services are tied to the employee's position, and the family is more important in relation to state-guaranteed payments. (Esping-Andersen 1990, 26-28, 48-54.) Leisering and Leibfried (1999,6) supplemented Esping-Anderssen's welfare regimes with the idea that life course regimes, as welfare states, produce the temporal structures and life-plans of individuals, and that these vary between different types of welfare regimes. Esping-Andersen's classification will be used later in this study, as the United Kingdom presents the liberal regime and Germany the conservative model. As the West German model was transferred to East Germany after the reunification, both areas are considered presenting the conservative model.

The generosity of the welfare state has an effect on the allocation and level of poverty. In welfare states where benefits are lower, poverty is more common because citizens are less secured against risky life course events, and because the distribution of economic resources does not favour the poorest citizens. Generous welfare states provide universal welfare services, even when they are liable to employment, such as public healthcare that impacts the cost of risky events like a sickness. Both the political context of an individual's society and individual characteristics outline the structure of poverty. (Brady, Fullerton and Cross 2009, 274-275, 292.) Non-insured social risks increase the risk of poverty and social exclusion for individuals who do not have sufficient private resources (Dewilde 2003, 121). However, the low level of benefits, combined with repeated spells of poverty, may create a circle of poverty that turns into persistent poverty.

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According to Leisering and Leibfried (1999, 43), social risk, among others a risk of poverty, is particularly problematic from four different perspectives: when the frequency of the occurrence of these events increases, when the duration of risk occurrences grows, when the risk clusters at a particular phase of the life course and when new risks emerge or worsen old risks. Brady, Fullerton and Cross (2009, 291) state that the welfare state decreases the influence of some individual characteristics, especially the impact of low education and the number of children. According to Callens and Croux (2009, 392), welfare regimes have an impact on poverty entries, but not on poverty exits. Fritzell and Henz (2001, 2017), however, state that the welfare state redistribution function does smooth income trajectories and equalize the distribution of risk of relatively low income in Sweden. Previous studies have also shown that there is both cross-national and temporal variation among different age groups (Kangas and Palme 2000). Nonetheless, reasons for cross-national variation in inequality and poverty among age groups are still a puzzle.

However, generous welfare payments may create a disincentive to work, as the income from the low-paid job is not necessarily higher than that from the welfare benefits; this phenomenon is also known as the 'welfare trap.' Therefore, lower levels of social welfare, such as in the United States, could encourage employment for welfare-dependent individuals. Yet, the lower level of social welfare in the United States is closely related to the structure of the female labour market and employment opportunities for women; the effect of low payment levels is different in countries where women have fewer opportunities in labour markets, as in Greece or Spain. (Uunk 2004, 255.)

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## **3.2 Welfare State and the Life Course**

In addition to welfare state regimes, Mayer (2001) presents the evaluation of life course regimes<sup>11</sup> that have been constructed theoretically. The development of life course regimes occurred in three phases: as a traditional/pre-industrial regime (before c. 1900), an industrial regime (1900- c.1973) and a post-industrial regime (c.1973 onwards). In the traditional regime, life was family-centered, educational opportunities were limited and life was unpredictable and closely linked to harvesting and farming. The second phase, the industrial life course regime, was characterized by industrialized work, compulsory schooling, small family size and a short term of economic safety in the working age. The third phase, the post-industrial life course regime, brought distinct life phases, such as schooling, training, working life and retirement, as well as increased economic security across the lifetime. This regime is depicted by stable employment and benefits linked with employment and social insurance systems. Life transitions in this regime were delayed or prolonged. Structures of families were diversified and the number of divorces increased. (Mayer 2001, 93-95.)

Mayer (2005) explains that the term life course is a sequence of activities, states and events in a person's life between cradle and grave. The study of life courses tries to map and describe an individual's position across their lifetime in surrounding society. The nature of life course is in temporal order, and it is dependent on institutions, such as educational systems. The study of life courses is strongly related to time and aging, which can be seen as a sequence of life phases. Research on life courses should thus involve a combination of social structure, institutions and

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<sup>11</sup>Industrial regimes are labelled also as Fordist life cycles, or the standardized life course, and post-industrial regimes as post-Fordist life cycles, or de-standardized life courses (Mayer 2001, 93).

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longitudinal design, as well as methodological knowledge. Life course research focuses on the interrelationship between individuals and societies across time, showing how institutional and structural changes affect individuals' lives. (Heinz, Huinink, Swader and Weymann 2009, 15.) As stated previously, life courses are structured and secured by the state. They are also framed and standardized by the welfare states: the temporal structure and order of events and episodes are defined partly by their institutions (Leisering and Leibfried 2001, 36- 41).

Welfare state arrangements are entangled with an individual's life course in several ways, both in times of plenty and in times of need. The welfare states have institutionalized life courses in three dimensions: the welfare state structures or differentiates the life course by defining different stages of life, such as "childhood" or "old age." The welfare state also has an influence on life chances, security of expectations and continuity, and thus influences the integration of the life course. The welfare state affects the formation of the life course, development of an individual's life and social, economic and gender-related patterns of inequalities and differences. The effect of these dimensions varies between different welfare states. (Leisering and Leibfried 1999, 26.). Changes in welfare policies and structures and the impact of these changes are related to gender roles, as women are more likely to bear higher care responsibilities, not only for children, but also for the elderly, thus being less mobile than their male counterparts (Ruspini 2002, 16-17).

In addition, Glennerster (1995, 16-18) states that some features and trends, such as the length of schooling and the events in middle and in later life cycle are common for different social groups and genders. The life cycles of middle life are more variable and vulnerable as a consequence of postponed entry into the labour market, the uncertainty of labour markets, rising health care costs relative to average earnings, more complex patterns of partnering and less stable marriages. However, families have fewer children, and the time when families are with young children is hence shorter. Furthermore, female employment opportunities have increased as well, and women can obtain rights to their own pension, so there is more selection of market instruments and

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insurance policies. Finally, the increase of owner occupation enables households to move capital income over a lifetime. In later life, the expectation of the life standards and level of well-being have grown, as well as the life expectancy in years, changing the need for long-term care and posing the question of financial responsibility for the increased need for this care.

Cross-sectional studies of the redistributive effect of social security schemes are not sufficient to reveal the impact of these systems over a lifetime. Redistribution on a cross-sectional basis might be less equal than income distribution taken over a lifetime, since those with lower incomes at the moment, in other words, retirees, may have had higher previous incomes, while students may have higher expected future incomes. (Falkingham, Harding and Lessof 1995; Falkingham and Hills 1995d, 108.) However, the impact of lifetime incomes of those who are retiring and those still in education entail significant differences. The uncertainty of future income has increased, and at the same time those who are retired have fewer opportunities to change the lifetime incomes than the younger ones, as their pensions are often based on the amount of their previous contributions and the duration of their participation in paid employment.

Living arrangements often change at different stages of life. A traditional scenario of a family life cycle consist on leaving parental home, family formation, children leaving home and widowhood in later life. However, there is more variety in these patterns in current societies, and some of these life stages, such as partnering or partnership dissolution, can be repeated or avoided. Iacovou and Skew (2010, 16) state that changes in family and household structures are sometimes reversible. For example, young people can leave their parental home and then return, or partnership breakdown can be temporal. Related to the increase in young adults participating higher education in the UK, there has been a change of their living arrangements, as young adults postpone their partnership and family formation, return to their parental home after finishing a degree and live in shared accommodations or alone outside of the parental home (Stone, Berrington and Falkingham 2011, 652). In the UK, young adults move from their parental home around their twenties and form

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their own family through partnership or parenthood in their late twenties. Women tend to form their families earlier than men, but by the age of 30, similar amounts of both men and women are living with a partner (Stone, Berrington and Falkingham 2011, 641).

Structural changes in families are interrelated, as, for example, the changes in marriage patterns interact with changes in childbearing, and both of them simultaneously have an impact on the risk of poverty. The composition of the poor as the decline in marriage rates coincides with smaller family size due to fewer children and therefore resources needed to avoid poverty are reduced. However, children born outside of marriage have a higher risk of poverty, as more children are likely to live in a household with only one potential earner. (Cancian and Reed 2009, 22.) The structural changes of families also affect the division of work in families, since the resident parent is responsible for financing the household as well as for the caregiving responsibilities. The division of labour within the family increases the productivity of the couple and among other factors, such as pooling of (welfare) risks, economies of scale, public good and positive externalities increases the gains of marriage in economic perspective. However, these gains and benefits vary among couples and depend on the characteristics of each couple. (Lehrer 2003, 56.). In partnership dissolution, some of these gains are lost, such as the spouses' responsibility for each other, especially in case of unemployment or sickness, and there will be need for more than one shared good, such as apartment or car.

The changing structure of families has also challenged the definition of family. The nuclear family as a definition includes the biological parents and their children. Philipov (2006, 22) defines child in a family as a child - biological, step or adopted but not foster - who lives at least with one parent and does not have a partner living in same household and the age of child is not included in his definition. Horizontally extended families consist of nuclear families and additional members, such as partners of children or siblings of the parents and vertically extended family has additional members, such as grandparents, grandchildren or both in the family. Vertically extended family is

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in other words family with members from several generations. Lone-parenthood can be a result of several different events including having a child without a partner, separation or divorce or being widowed. The reasons for single parenthood vary between countries as well as attitudes towards lone-parenthood (OECD 2011). Children have a higher probability to grow up in lone-parent families or family with step-parent than before and that have caused challenges to family policies and policy makers (Mooney, Oliver and Smith 2009, 1). The creation of patchwork family creates a question how to pool resources and care responsibilities. In these cases the definition of family can differ for the children and their parents as the children can be part of several families.

Mooney, Oliver and Smith (2009, 21) highlight that family breakdown should be approached as a process, not a single event, and that the contemporary family life is of a dynamic nature. Family events can also have repeated forms, which means that the formation of the original family can be followed by separation or divorce and the formation of a new family. The dominant pattern of lifelong marriage has been partly replaced by repeated marriages, and remarriage following divorce or separation. At the same time, remarriages have a higher likelihood of dissolution than the first ones. (Amato 2000, 1269.) However, for children, separation from their original parent is an important event that affects their life course and decisions. Hence the events of divorce or separation result in different experiences for children than for their parents.

Andreß and Hummelsheim (2009, 9-10) have identified four risk factors in case of an early break-up: 1) the earning capacities of the resident parent, usually the mother, are restricted, especially if childcare facilities are insufficient; 2) the child maintenance payments from the non-resident parent are deficient; 3) economic support from the market incomes of the former partner were high and are not compensated adequately with maintenance payment after partnership dissolution; 4) economic loss might be high when material wealth is divided and one of the partners is paid off. However, these risks can be claimed to be outdated, especially since the number of consensual



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unions has been increasing and partners are more independent economically, and not contractually regulated, as they would be in a marriage.

Women who have children out of wedlock or become single parents after divorce are more likely to experience financial difficulties, even before they become single parents. Single parenthood is expected to reduce family income due to the lack of another earner and lower earnings of females compared to males (McLanahan and Percheski 2008, 267). Partnership dissolution was found to increase the risk of poverty when poverty trajectories and the poverty duration were studied in Denmark, Germany, Spain and the United Kingdom. The risk of long-term poverty was lowest in Denmark, and highest in Germany and the United Kingdom. Country differences were explained by the residual welfare state in the United Kingdom, and as a mainly female phenomenon in Germany, highlighting the importance of the male breadwinner model. (Vandecasteele 2010, 274-275.) Avellar and Smock (2005) studied the economic consequences of relationship dissolution in the US by comparing married couples to cohabiting couples. Their research highlights the vulnerability of females after separation or divorce when compared to males. This is a concern in the case of females with children cohabiting with their partners, since their access to their former partner's resources is more limited than of divorced women with children.

According to Uunk (2004, 252-253), most of the cross-country comparisons of the economic consequences of divorce have been limited to a rather small number of countries. Furthermore, the countries studied are usually countries which have available longitudinal data (Canada, Germany, the Netherlands, Sweden, the United Kingdom and the United States). Dewilde (2002) compared the financial consequences of relationship dissolution by comparing different types of welfare states. He used Denmark as an example of Beveridgean high spending countries (protestant social-democratic welfare state), the United Kingdom as an example for Beveridgean low-spending countries (protestant liberal welfare states), Belgium and Germany as representing Bismarckian high spending countries (advanced Christian democratic welfare states), and finally Italy as a

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Bismarckian low spending country (late mobilization welfare states) by using the data from the European Community Household Panel (ECPR). According to this study, the welfare state and the position of the women in the welfare state have an effect on the economic consequences of the partnership dissolution. The risk of poverty is higher for those women who do not have a job or do not join another household after the dissolution, as compared to the population in general (2002, 102).

In his research Uunk (2004, 257-258) presents several assumptions regarding the welfare state by showing that the negative consequences of divorce are slighter in the socioeconomic welfare state regime compared to the other regimes, as the state compensates the income declines and promotes female employment more intensively than other regimes, both during and after divorce. Liberal and conservative regimes, however, have similar outcomes of divorce, since the support of female employment is stronger in the liberal regime, but the level of welfare support is lower than in the conservative regime. Countries belonging to the southern regime are more likely to be worse off in comparison to other regimes. The comparison of 14 European countries and the short-term economic consequences of divorce for women in these countries revealed that the negative economic consequences differ between countries. The income-related welfare provisions were more effective than employment-related arrangements. Income-related welfare provisions, such as social welfare benefits, targeted at single parents or child custody payments and alimony, were aimed directly to improve the post-divorce economic situation as the employment related arrangements, i.e. child care provision, child custody arrangements, activation policies or support for re-entry to labour market were organized through employment support. (Uunk 2004, 253.)

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#### **3.3 Introduction to the British and German Welfare States and Poverty Policies**

The analysis of the political history of poverty in Germany, written by Leisering and Leibfried (1999, 176-181), provides an excellent summary of the changes in poverty in post-war (West) Germany, describing the change from experiencing a physical form of poverty, such as hunger and cold, to the poverty defined by the 1990s society. In the first years after the Second World War, poverty was widespread. As a response to this mass poverty, economic policies were set to aim at reconstruction, increases in productivity and growth with additional distributive elements of social policy that were targeted at those who could not immediately share the results of economic policies. However, the priority was set on those who were officially recognized as poor: the war victims who had personal injuries or losses, the disabled, widows and orphans and those who had lost their possessions as a consequence of the war, including those who had lost their homes in bombing, were evacuated and exiled, and refugees from the previously German territories in the east and the Sudetenland.

The other groups in poverty were those who had not officially recognized claims, such as workers, large families and the unemployed. However, the reasons for which the claims to receive state support for those who were officially considered poor and those who were not, were partly overlapping. For example, those people who were refugees from former German territories in the east were also more likely to be unemployed. The large part of payments consisted of maintenance and pension payments, and the key principles behind the practiced policies were based on need and merit. The shortcomings of the German social security system were highlighted in the discussion of the 1950s. The three leading themes were a simplification of the legal welfare entitlements, reallocation of resources for those “most deserving” of the benefits and the inadequate level of benefits. However, the debate focused still on those officially recognized as poor, and not on the unmet need of those who did not have recognition. In 1961, the Federal Social

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Assistance Act (Bundessozialhilfegesetz, BSHG) was enacted, and it came into force in 1962, ending the mass poverty that characterized the 1950s. (Leisering and Leibfried 1999, 176-181.)

At the same time, the British welfare state was directed to a different path, and the challenges faced by the British state were different than the ones faced by Germany. The British welfare state in the post-Second World War period has been characterized as comprehensive, and policies introduced during this period were universal. The Beveridge report on social insurance in 1942 had an influence on the evolution of the British welfare state. The main reforms of the Beveridge report were free education for those under 15, full employment secured by the government, public rental housing, free use of the National Health Service (NHS) and several social security benefits, such as national insurance (NI), family allowances and social assistance. (Mitton 2009, 478-479, Daly 2000, 76.) The eligibility to receive these benefits was hence different than that of the German system, which did not have a similar universal aspect.

In the mid-1970s the British welfare state was challenged with the economic crisis, rising unemployment and the “Winter of Discontent”. As a consequence, the political power shifted from the Labour party to the Conservative party that was led by Margaret Thatcher. The criticism of the welfare state was growing in five main areas. The first critique was based on economic claims that stated that welfare state took a disproportioned share of resources and hindered economic investment and performance in more productive areas. The second critique was related to the role of social benefits in reducing incentives, particularly incentives to work instead of receiving benefits. The third concern was based on the misuse of the benefits, benefit frauds and the welfare state being too generous with certain groups. The bureaucracy of administration of the welfare state was the fourth problem, particularly in the NHS. The employees of the welfare state were claimed to have created a culture of producer rather than consumer and the expectation of the public on delivery of the welfare services where not met in the level they demanded. The fifth criticism tackled the question of the Beveridge idea of the uniform society that was based on a

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tradition family structure. The welfare state was not flexible enough to respond the changing family and social patterns, such as the increase in divorce and lone-parent families or the changing role of women in society, and the various needs of modern society. (Fraser 2003, 280-282.)

In West Germany in the 1960s, the existence of material poverty continued, even though the nature of the poverty was different than in the 1950s. In addition to the elderly population, the unsettled and single homeless people, so-called *Nichtseßhafte* (translated as the “unsettled”) and those living in low-standard housing or without legal rights as tenants or other residents, *Obdachlose* (translated as “homeless”) were considered a disadvantaged group. The focus was set on socialization problems, unusual behaviour and stigmatization instead of material deprivation or income policies. (Leisering and Leibfried 1999, 181-182.) The safety net against poverty in Germany, the *Sozialhilfe*, was introduced in 1961, and it provided public assistance for all citizens (Daly 2000, 77).

In the 1970s, poverty policies in West Germany continued to target the marginal groups and their problems, following the development of poverty policies in the 1960s. Additionally, the measurement of poverty and material deprivation rose in the public debate in the mid-1970s. Simultaneously, poverty was related to a more equal income distribution, and, for the first time, to active life course policies. The range of eligible persons was extended in the year 1974 with the extension of Social Assistance to those whose own capacity was not enough to meet the demands of society. Special attention was given to marginal groups; however, the problems of these groups were presented as exceptions. In the years 1969 and 1974, the state introduced new minimum benefits and simultaneously extended existing benefits, as the new program for life-course policies was introduced. The aim of this new program was to increase equal opportunities and broader access to education, among other acts. The decade was characterized by both continuity and change that continued to the 1980s. (Leisering and Leibfried 1999, 183-187.)

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In the mid-1980s, the focus of poverty in Germany was connected to poverty and unemployment. The focus was set on these new groups as a consequence of several social changes, such as increased unemployment rates and changes in family structure due to the declining birth rate, and increase of divorces, single-person households and single parent families. The 1980s also brought many changes in social benefits: credits for the child-raising years were introduced to the statutory pension scheme and *Erziehungsgeld*, a Parents' or Education Benefit, was launched. This increased the position of the single parents for the first two years of their parenthood in comparison to other Social Assistance recipients. The negative consequences of poverty on families were raised as a key issue in the poverty debate, as well as the relationship between poverty policies and family policies. However, as a consequence of cuts in social security benefits, the amount of Social Assistance applicants increased and a new group of poor, the unemployed, gained more attention in poverty discussions. The concepts of the "two-thirds society," which describes the increasing structural division in society due to poverty and under-privilege, and the "New Poverty", which describes the newly-found association between unemployment and poverty, were launched in 1984. At the same time, poverty risk among other groups, such as foreigners, lone parents, children, refugees and immigrants of German origin from the communist countries and the Soviet Union (USSR), was increasing. (Leisering and Leibfried 1999, 187-189.)

Simultaneously, in the United Kingdom, several major changes were made in the welfare service arrangements with the aim of restoring British international economic competitiveness. One of these renewals was to increase the role of the private sector and the marketization of the welfare state. The latter renewal, marketization, can be divided into two parts: first, encouraging individuals to take responsibility on financing their own welfare arrangements, by saving for individual pensions or having a private health insurance scheme for instance, and second, by contracting a provision of previously publicly-organized services to commercial or voluntary not-for-profit suppliers. (Mitton 2009, 479.)

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In the 1990s, the face of poverty changed once again after the formal reunification of the two Germanies. On the one hand, there was the new poverty (described in the previous paragraph) in the West of Germany, with a newly-found emphasis on child poverty and a critical approach to the poverty of the immigrants who were recipients of Social Assistance. This led to public debate that was partly coloured with xenophobic opinions and led finally to legislative restrictions on the flow of asylum seekers in 1993. At the same time, in the East of Germany, the legal system and the institutions of the West were, in principle, imposed on the area, which suffered from mass poverty and the transition phase. (Leisering and Leibfried 1999, 189-192.)

The unification of Germany gave rise to many changes in the life-course of people, as well as in the institutional framing of their lives. In the East, the protection from cradle to grave promised by the state vanished. Hence, the area had to face new challenges, such as a high level of unemployment that had been unknown for decades; chances of finding life-long employment decreased particularly for women. Simultaneously, the number of single-earner households increased in East Germany. The earner in such a household was more likely to be a man. Furthermore, the women in the East volunteered less to leave paid employment than women in West Germany. (Leisering and Leibfried 1999, 205-209.) Therefore, the integration of the single-earner women was more challenging for the women in East Germany, as they had participated to the labour market before.

In addition, completely different gender models were developed in East and West Germany. In West Germany, the long-term focus of social and family policies was set on the male breadwinner model of married couples. The women, particularly married women with children, were responsible for the care, and therefore they were expected to withdraw from the labour market, at least temporarily. The gender model in the East Germany was different with a much higher rate of labour market participation of women including mothers. While the progress of the public childcare infrastructure was very slow in the West, in the East the participation of mothers was

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supported with a very high level of child care facilities. However, after the reunification of Germany, the Western model was applied in the whole country, and the East German women were confronted with the expectations of the male breadwinner model. Nevertheless, the coverage of childcare is still much more comprehensive in former East Germany than in the West. Hence, many parents, particularly in West, are challenged by the availability and flexibility of public child care. (Klammer and Letablier 2007, 274-275.)

Goedicke (2006, 59) summarizes the changes that arose due to the integration into the West German welfare state in 1990 with three paradigmatic shifts. First, the link between employment and the general insurance system shifted from a system that covered all the employees independently of their social status, to job-determined insurance schemes, making them a part of career planning. Second, the former East German model had treated men and women individually, while the new system shifted to be more focused on the family unit. Third, the commitment to participate in employment had provided security against social exclusion in the GDR, but the new system challenged the East Germans with risks such as unemployment, poverty and homelessness.

Diewald, Goedicke and Mayer (2006, 303-306) explain that the fall of the Wall had a different impact on individual life courses regarding their age, birth cohort and gender. The older cohorts had been more protected regarding their career prospects in the GDR than the younger ones, but this situation was reversed during the reunification. Those who were over 54 years of age in 1989 were released from the labour market, and hence they could not benefit from the change in labour markets as much as the younger ones, who could on the one hand be protected by labour law (45- to 54-years-old), and on the other hand were more attractive to employers due to their qualifications or possibility to be retrained (those between 18 to 40 years of age in 1989). However, the retirement system protected the older population due to the considerable rises in pensions. Gender differences were entangled with age, as the effects of changes in employment were especially drastic for older women, who had difficulties to find another job after unemployment.



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Women were unemployed for a longer time, as their re-entry was more difficult for them. The GDR model had supported the dual-earner model and the participation of women in paid employment, but the West German model was supporting the male breadwinner model, challenging the role of East German women.

One of the differences between the German Democratic Republic (GDR) and the Federal Republic of Germany (FRG) was the opposite gender models they promoted, as the FRG focused on a male breadwinner model, in which particularly married women with children would not participate in work outside of the household permanently or temporarily, whereas the GDR developed a model with higher labour market participation of women, both with and without children, which was supported with a high level of public childcare. Simultaneously, public childcare was less developed in the FRG, where the emphasis on the male breadwinner policies was settled in matrimonial tax-splitting, health and long-term care systems for unemployed spouses and other tax and transfer systems that supported state family policies. After reunification in 1990, the Western model was transferred to the eastern parts, and the women in the former GDR were challenged by the male breadwinner model and particularly by support for married women. By the end of the 1990s and the beginning of 2000, the modified male breadwinner model has been presented with the addition of the part-time work of the women in the household. However, this has been challenged by insufficient public childcare, especially in the country's western parts. (Klammer 2010, 97-99.)

The reasons for being a lone mother, such as being widowed, divorced or separated or having never been in a relationship with the father of her child(ren), have changed over time and vary between East and West Germany. As a consequence of the Second World War, most of the lone mothers in the 1950s and 1960s were widowed, but this trend has changed towards lone motherhood being caused by separation or divorce. However, East and West Germany differ in these trends, as divorce or separation was the most common reason for lone motherhood in the

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West 2003, whereas in the East, lone mothers have an equal share of those who are separated or divorced (48.1 percent) and those who were never married (47.1 percent) as a consequence of the higher financial independence and different role of women in the East. However, divorce and separation have different effects on the spouses, as the mothers are more likely to stay with their children in the same household and hence create a lone-parent household. (Klammer 2010, 101-102.).

The structural differences between the systems in the East and West were also mirrored in the level of incomes and wealth. Before the reunification of Germany, the incomes were much lower in East Germany than in West Germany. Simultaneously, there was less inequality in the Eastern part. The incomes increased steadily in the East between 1990 and 1994, despite the drastic growth in the level of unemployment, while the real income levels remained almost unchanged during those four years in West Germany (Krause 1998, 174).

In Britain from 1994 onwards, Blair's Labour Party, later re-named the New Labour Party, set an agenda of welfare reforms with several actions, such as creating plenty of jobs as a consequence of the strong economy, tackling the social exclusion of those who lacked sufficient income and access to social institutions and increasing the help aimed at poor families in employment, particularly in the form of tax credits. Policies between England, Wales and Scotland started to diversify as a consequence of the reform in 1997. The reform increased the responsibility of the "home countries" in some areas of social activities, especially in the area of healthcare and education. (Mitton 2009, 479-480.) In addition to social transfers, employment was often presented as the best protection against poverty. However, as many workers with low pay in full-time or part-time work had been below the poverty line, the New Labour presented two solutions to solve in-work poverty in Britain by setting a national minimum wage level and by providing a set of in-

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work benefits called Working Families Tax Credit<sup>12</sup>. Nevertheless, these solutions were not suitable for those whose poverty was caused by other barriers to work, or insufficient levels of childcare.

Behrendt (2000) suggests, that means-tested transfers have a larger role in British welfare state than in German welfare arrangements, and thus it is effective in mitigating harsh poverty<sup>13</sup>. In comparison to Germany and Sweden, Britain was found to have the highest poverty rate before means-tested transfers. However, the poverty gap that should be covered by the means-tested transfers was even larger in Germany than in Britain. On the contrary, Germany had lower poverty rates, but a larger poverty gap, thus the effectiveness of means-tested transfers was lower and the impact of the distribution of market incomes and social insurance were higher. Hence, the overall performance of the German welfare state was rather effective in terms of protection from poverty. (Behrendt 2000, 36-37.)

Böhnke and Delhey (1999, 6) list characteristics behind German and British welfare states by stating that the purpose of the British welfare state from the beginning was to fight against poverty, while the German welfare state was designed to preserve the status differential. Therefore, social assistance in Britain is mainly demand-oriented, compared to the assistance in Germany, which relies on previous incomes and therefore is related to class and status. The welfare arrangements in East and West Germany differed from each other, however, after reunification, as West German

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<sup>12</sup> The set of benefit was originally named Working Families Tax Credit and later Child Tax Credit and Working Tax Credit.

<sup>13</sup> The data used in this study was the Luxemburg Income Study.

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welfare institutions were transferred to the East. The British welfare state is a combination of flat-rate social insurance benefits supplemented by private provisions, and the role of means-tested benefits is high, as a large share of the population relies on them to be able to make ends meet. The level of benefits is rather low, and they are characterized by strong entitlements. In Germany, the role of means-tested benefits has grown. However, the role of means-tested benefits is to supplement the social insurance benefits that are based on prior earnings and contributions, instead of on the needs of individuals. (Behrendt 2000, 25.)

The evaluation of the British and German welfare states has led to the current situation, in which the British welfare state could be classified as a liberal and the German welfare state as a conservative one. The main focus of the German welfare state is those in paid employment, and the role of welfare services for those not in paid employment is supplementary, hence the close link between social services and the working life and the rights of spouses and dependent children who are tied to the employment of a family member. Social services, such as pensions, health insurance and unemployment insurance, are dependent on the former contributions. However, some benefits, such as social benefits or housing allowances, are based on “citizenship” or “family,” and the criteria are oriented towards need. The family benefits, nevertheless, are not regulated by incorporation into the labour market, and they focus on the protection of the family and the male breadwinner model, even though there has been an evolution in equal parental benefits, such as long-term paternity leave. (Hegelich and Meyer 2009, 125-126.) The emphasis of the British welfare state, however, is different, as it is coloured with a need-based provision and the reduction of poverty (the Elizabethan Poor Law followed by the New Poor Law in 1834) and means-tested benefits (Daly 2000, 75-76).

Germany presents a model in which lifetime employment is rewarded and benefits entitlement is tied closely with labour market status and earnings. The United Kingdom, on the contrary, presents a system with a low level of security with flat-rate or meagre benefits and a share of publicly-

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provided social services and general health services. However, even though these countries have different manners of organizing their welfare states, they both have the productive participation in the labour market as a centre of their welfare distribution. They do share similar challenges and problems regarding those who are not able to provide sufficient well-being for themselves or how the integrate families, who in both states are treated as independent units. Often the main breadwinner is seen as the head of the household unit, and the interaction with the welfare state is connected to this individual. Both of these frameworks – the insufficient capability to gain economic well-being and the effect of state interactions — will be tackled in the empirical part of this research.

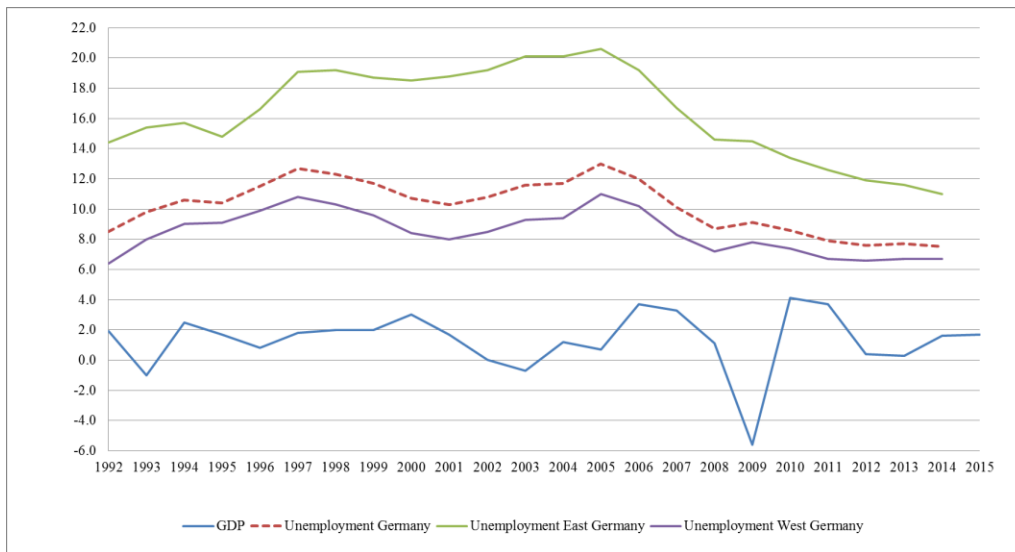
The German welfare state can be characterized in terms of selectivity, compensation and institutionalization. Selectivity is related to the content, of the welfare system, for instance in the German case employment. Also, compensation is related to paid work, and thus the index of decommodification is low because social contributions are only exceptions to, and not alternative options for, paid employment. On the other hand, the level of institutionalization is high due to both the autonomy of the welfare state and the obvious statism. However, social security is not seen only as an instrument of welfare implementation, but also as a topic of political debate. (Hegelich and Meyer 2009, 133-134.) In comparison, the British welfare system over the past 20 years can be characterized by the marketization of the welfare state and the combination of contributory and non-contributory benefits, which can be further divided into means-tested and contingent benefits. The eligibility for these benefits is related to a sufficient payment of national insurance (NI), principally an employment tax. Eligibility for means-tested benefits, such as Income Support, is dependent on individuals' incomes and assets, while contingency benefits are related to certain characteristics of framings, such as benefits for children or certain disability benefits (Mitton 2009, 481). Social security is financed mainly through national taxation, and the value of the security is generally low (Adelman and Cebulla 2003, 139).

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In addition to the national level of development of social policy and the welfare state in Britain and Germany, the engagement with the European Union has added flavour to the supra-national level by introducing, for example, a framework to working time and anti-discrimination. The increased pressure of economic competition and welfare state arrangements that challenge each other as a provision of welfare state increases the salaries and taxes. Hence some employers are pressed to move their production elsewhere and forced states to respond to this battle between the welfare state and employment. Britain has reacted to this challenge by having a flexible labour market by keeping the social security benefits at a certain level and resisting the extension of the rights of workers, as well as by practicing careful macroeconomic management. (Mitton 2009, 481.) It is yet to be seen what kind of effect the result of the elections in June 2016 will have on this supra-national level, and what type of impact the possible exit of the United Kingdom from the European Union will have on the economic competition and the welfare arrangements in both the United Kingdom and the other member states.

Tables 2 and 3 illustrate some macroeconomic indicators; the trends in real GDP growth rates and unemployment rates between 1992 and 2015 in Germany (Figure 2) and the United Kingdom (Figure 3). The unemployment rates are presented also for East and West Germany. The figures show that the economic growth was small but steady in Germany in the 1990s, after the economic decline in 1993. Nevertheless, at the beginning of the 2000s, the growth rate decreased below the level of the 1990s, and there was a sharp decline in the growth rate in 2008 and 2009. Similar declines can also be found in the United Kingdom in the 2000s. However, while the growth rate decreased in Germany in 1993, it was increasing in the United Kingdom. The growth was maintained at a higher level compared to Germany until 2006, and returned to a higher level in 2012.

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**Figure 2** Trends in real GDP growth rate and unemployment rate in Germany, 1992-2015  
(Source: Eurostat 2016a and Bundeszentrale für politische Bildung 2016)



**Figure 3** Trends in real GDP growth rate and in unemployment rate in the United Kingdom, 1992-2015 (Source: Eurostat 2016a)

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Nonetheless, the unemployment rate did not follow the trends of the economic growth in Germany, as the unemployment rate increased in the years following the reunification, reaching the highest level of 11.2 percent in 2005. Since then, the trend has been decreasing, despite the economic crisis, which could be explained by the extension of part-time or temporary jobs in the 2000s. Simultaneously, the trend of the unemployment rate has been more in line with the economic growth in the United Kingdom, where the unemployment rate was decreasing until the beginning of the 2000s, and increasing sharply after 2007. The trend has been decreasing since 2013. The unemployment rate remained lower in the United Kingdom between the years 1995 and 2009 compared to Germany, indicating differences in the labour markets and labour market policies in these countries. In addition, the changes in the unemployment rates in Germany reflect the drastic measures taken during the Hartz reforms. The employment rate increased from 64.9 percent to 72.4 percent between 2004 and 2012, while the amount of economically active population increased by 4.9 percent between 2011 and 2014. The labour force participation rate increased among older workers by 16.2 percent. The reforms were followed by the creation of 2.5 million jobs in the German economy. Simultaneously, part-time work increased by a third. (Gaskarth 2014, 41, see also Engbom, Detragiache and Raei 2015.)

The differences between East and West Germany are remarkable. Even though the unemployment rate in West Germany was increasing after the reunification, the unemployment rates rose more rapidly in East Germany, and the trend grew from 1992 to the mid-2000s. After that unemployment started to decrease, but the differences in the unemployment rates have still remained significant between East and West Germany. Furthermore, in East Germany, the male unemployment rate increased from around 10 percent to more than 20 percent over one decade. This rise in male unemployment rate during the 1990s was a consequence of the sectoral dynamics in the East Germany and the job losses were particularly concentrated on the manufacturing and agriculture sectors that were male dominated. (Goedicke 2006, 54-55.) The changes in unemployment rates are in particular interest of the poverty research as unemployment creates a risk for poverty. Hence



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high unemployment rates could indicate higher rates of poverty, particularly in cases in which the welfare state does create a sufficient buffer against loss of incomes.

Biewen and Jenkins (2002, 15) posit that there is a dilemma between a high employment rate and a highly scattered distribution of incomes, compared to a more equal income distribution combined with higher unemployment. For example, the German welfare state system with its multiplicity of benefits, tax regulations, and transfers seems to provide a buffer against the risk of poverty caused by unemployment, a lower level of education or a large number of children; however, gender differences, as well as education and higher employment rates, are due to the more flexible labour market.

Despite the fact that employment rates in many European countries have increased, poverty rates have simultaneously stagnated or even increased. Cantillon (2011) argues that these disappointing poverty trends may partly be related to the introduction of social investment policies for two reasons. First, there has been a shift of resources from traditional redistributive welfare state policies to social investment policies that are relatively less redistributive. Second, traditional welfare state programs have focused more on the activation policies, and hence they have become less generous. However, the results of Van Vliet and Wang (2015, 633) do not find convincing empirical evidence on the relationship between the disappointing poverty rates in Europe and greater focus of new welfare state programs.

As mentioned before, welfare states indeed have a common goal to reduce poverty, and hence they share the burden of some income-related risks. However, some of these risks vary between men and women, and therefore it is important to notice these differences when the incomes of families and different family structures are compared. The income-related risks occurring to men are often related to interruption or loss of earned incomes due to illness, accident, unemployment or old age, whereas women have additional risks, such as loss of male income in the family due to widowhood,

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divorce or separation. Especially if women are financially dependent on their partner, due to the risks related to the biological characteristics of women, such as childbirth, but also those risks related to the social construction of women as a the primary caregiver of their children and the elderly. The coverage of the welfare state and the entitlement to benefits also vary between welfare states, from universal to more restricted benefits, and most of the welfare states are internally stratified.

The funding of the welfare states, as well as the characteristics of the users and services needed in society, are closely linked together as the services of the welfare state can be funded in several ways, for example through tax payments, user fees or insurances. Furthermore, the eligibility to receive the services can be based on several features, such as employment status, previous contributions or citizenship. Hence, the share of those of working age or in employment relative to those who are not counted as a labour force, such as children or the retired, is crucial to the funding of the welfare state.

In most countries, individuals are forced to balance between family formation and work, especially when it comes to childbearing. Thus, many countries provide compensation for lost incomes during and after childbearing, as well as for childcare for young children. These parental and family benefits, as well as work-family policies, have effects on poverty. However, some of these work-family policies seem to reflect traditional gender roles, which consider females as caregivers and males as breadwinners. (Misra et al. 2007, 822.) Chzhen, Hämäläinen and Vargas (2014, 12-13) state that the family-related benefits format an important source of incomes for single parent families with low wages. These types of household often are also at a higher risk of poverty, and therefore cuts made to these benefits are likely to increase child poverty

The post-war British welfare state was based on a division between genders, and women were financially dependent on men, who were full-time workers, even though the welfare state has

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changed from a “familistic” toward a more “individualistic” one due to the increased labour market participation of women and demographic changes (Finch 2008, 129). In Germany, there were two separate types of family policies historically, as the male breadwinner model dominated in West Germany and the dual-earner model in East Germany, leading to the combination of these models where female participation in the labour market is supported at the same time with an increase of birth rates (Leitner, Ostner and Schmitt 2008, 176).

Kilkey and Bradshaw (1999, 172-178) divided countries into six categories regarding the employment rate of single mothers, combined with the poverty rates<sup>14</sup> of single mothers. They attempted to analyse in which degree women can maintain a socially acceptable living standard independently from men in different welfare states. These groups disaggregate more than the classification made by Esping-Andersen (1990), suggesting that the welfare state arrangements affecting women have more variation than other policy elements. Gornick (1999, 234) had similar findings regarding the gendered policies and outcomes that challenge the usefulness of the standard welfare state regime typology (see also Sainsbury 1999a, 245-246). The classification of Kilkey and Bradshaw (1999, 172-178), however, is as follows:

**Group 1** consists of countries in which over 50 percent of lone mothers are in paid work, and the poverty rate is below average when compared to other countries in their study,

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<sup>14</sup>In poverty are those whose disposable incomes are less than 50% of the average equivalent disposable income in their country. The data used in this study was LIS data, with the exception of Luxembourg (Kilkey and Bradshaw 1999).

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whether lone mothers are in paid work or not. Countries in this group are Belgium, Denmark, Finland, Luxembourg, Sweden (and Norway).<sup>15</sup>

**Group 2** includes France and *Germany*, in which lone mothers are primarily in paid work, and the poverty rate is above average when not in paid work, but below the average when in employment.

**Group 3** contains Austria (and the United States), in which lone mothers are primarily in paid work, and the poverty rate of lone mothers is below average for both those in paid work as well as not in paid work.

**Group 4** includes one country, Ireland, where the poverty rate for lone mothers is below average, whether in paid work or not, and the lone mothers are for the most undertaking care on a full-time basis.

The Netherlands presents **Group 5**, in which lone mothers are predominantly responsible for care on a full-time basis similarly to Ireland, but the poverty rate of lone mothers in employment is below the average rate, but above average for those lone mothers not in employment.

Countries included in **Group 6** are *the United Kingdom* (Australia and Canada). In these countries, lone mothers have a poverty rate above average whether or not in paid work, and they are primarily responsible for care on a full-time basis.

Kilkey and Bradshaw's (1999, 174-177) classification of welfare states regarding lone mothers, their rate of poverty and employment status, presents Germany as a country with a below-average poverty rate for lone mothers in employment, but an above-average rate when not in paid work, with the characteristic of lone mothers being primary in paid work. This can be explained with

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<sup>15</sup>Countries in parentheses did not have a data matrix in the study made by Kilkey and Bradshaw (1999, 173), but were added tentatively by the writers into these groups.

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comparatively high earnings and comparatively generous child benefits packages. The level of child care provision is low and the purpose of day care is predominantly educational, instead of assisting the employment of mothers. However, the benefits of lone mothers are means-tested, as mothers are expected to participate in or seek part-time employment when the youngest child is three years old, and full-time when the youngest child is 14. The United Kingdom represents the group in which lone mothers are responsible for full-time care, and their poverty rate is above average, whether in paid work or not. Their earnings are comparatively high, and the in-work benefits are relatively generous, especially for the low-paid individuals. Child care costs are very high, and the lone mothers do not have to seek paid work until their youngest child is 16.

The study of Kilkey and Bradshaw (1999, 160-162) suggests, that the degree of poverty, as well as the impact of employment on the level of poverty, varies across countries. Nevertheless, in a comparison of 15 countries, lone parents had higher poverty rates compared to two-parent families, varying from 56 percent poverty of lone parents in the United States to less than 10 percent in Denmark, Finland, Norway and Sweden. However, employment decreases the risk, and on average, lone mothers in paid work are almost three times less likely to be in poverty compared to those not in paid work. This variation on the impact of employment and poverty on lone mothers suggests that welfare states have different manners and degrees of defamilisation via paid work and social security arrangements. (Kilkey and Bradshaw 1999, 160-162)

Ruspini (2009, 95-96) states that there are two assumptions that describe the German welfare system from a gendered perspective: first, household well-being is guaranteed by income transfers to men, and second, households distribute their incomes equally among their members. In comparison, the British welfare state relies on means-testing in the distribution of benefits and, therefore, lone parents rely heavily on Income Support. Germany and Great Britain also differ in the structure of child care, as in Germany, women are seen as the presupposed providers of welfare in families, and therefore some elements of the welfare state, such as inadequate facilities for full-

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time childcare, make the combination of work and family especially challenging for women with children and emphasize a more conservative division of labour in families. In Britain, the challenge of combining family and work occurs due to poor public day-care with a high cost, causing problems especially for lone mothers who are less likely to be economically active or employed compared to lone mothers in many European countries. (Ruspini 2009, 96.)

As mentioned before, welfare states have the common goal to reduce poverty, and hence they share the burden of some income related risks. However, some of these risk vary between men and women and therefore it is important to notice these difference when the incomes of the families and different family structures are compared. The income related risk occurring to men are often related to interruption or loss of earned incomes due to illness, accident, unemployment or old age. Women have additional risks such as loss of male income in the family due to widowhood, divorce or separation especially if they are financially dependent on the partner, risks related to biological characteristics of women such as birth-giving but also those risk related to social construction of women as a primary caregiver for their children and the elderly.

According to Gornick (1999, 211-212), there are still substantial gender gaps from the early 1990s in all industrial labour markets. Women are less likely to be employed and to have a full-time job than men. Occupational and industrial segregation between men and women exist as well as lower hourly salaries of women combined with the likelihood of women working fewer hours. In addition, the share of care and housework is often unequal.

### **3.4 Converging Worlds of Welfare in Germany and the United Kingdom 1990-2013?**

The major changes within British and German welfare systems presented in this chapter consist on employment and family policy reforms from 1990 to 2013. More detailed information on these policy changes has been summarized in Appendix 6. In addition to the reforms in the employment

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and family policies, one of the major changes of the German system has been the Unification of Germany and the transfer of the legal, political and economic institutions of the former Federal Republic in the former East Germany.

During and after the post-WWII period, the welfare states in Germany and the UK had considerable differences in their structure and principles. However, despite these differences both welfare systems have been challenged by similar questions such as demographic ageing and growing economic internationalisation since 1990s. Hence we may assume that these welfare states have become more similar to each other over time in the domains of i.e. family and employment policies.

The development of the welfare state in the United Kingdom has focused on two main themes: strengthening the market orientation of the welfare system and providing more state support for individual citizens to perform as market actors. The first theme was particularly in the interest of the Conservative government from 1979 to 1997. Entitlements of social benefits were made stricter, and the level of benefits was subject to cut backs. In 1996 the insurance based unemployment benefits were replaced with means-tested assistance with time limited and conditional Job Seeker's Allowance. (Burkhardt, Martin, Mau and Taylor-Gooby 2011, 21.)

During the 1990s the focus of the labour market policies shifted to the 'active' policies, such as training and intensive support for job search in many European countries. When the composition of these active programs is studied, Germany has been following the trend of 'work first' policies which started earlier in the United Kingdom. However, despite this common trend towards activation policies, the labour market policies in Germany and the United Kingdom are still different. First, the German spending on 'active measures' has traditionally been higher compared to the UK. Nevertheless, there has been a convergence from the mid-2000s as a result of a decline in the spending in Germany and an increase in the UK. The second difference stems from the generosity of the benefits as the replacement rate has been higher in Germany than in the UK. The replacement rate was rather stable in Germany from 1980s to mid-2000s, and it declined only after

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2003 from 28 to 24 percent, while the replacement rate decreased more gradually over time in the UK from 22 to 14 percent. (Clasen 2011, 267-268.)

Similar topics that were raised in the political agenda in Germany, such as private provisions and responsibility and social investments, generated an increased interest of the Labour Government from 1997. The unemployment benefit reforms continued to limit the entitlements, access to the benefits were tied to conditionality and to commitment to work. The Labour government emphasised the importance of the social investments as a part of the public policy by increasing the resources aimed at welfare, particularly in education and training, which lead to the expansion of the education system and increase in the participation rates. The aim of these investments was to develop the national competitiveness and human capital by using means of the welfare system. The entitlement of the benefit was linked more closely to the training programs, such as the “New Deal” programmes which became compulsory for most of those who were unemployed more than six months. (Burkhardt, Martin, Mau and Taylor-Gooby 2011, 21.)

The reforms of the Labour Government aimed to make work more attractive for the low-skilled and low-paid with introduction of the minimum wage and the tax credit benefits. The welfare reforms were based on the idea of “Third way” policies that were grounded on the partnership between public and private and on the philosophy of the work being the best way out of poverty. (Fraser 2003, 289-290).The purpose was to improve the living standard of those with low wages, particularly those with young children, and provide childcare to offer an opportunity for more mothers to participate in the paid work. Simultaneously further reforms were made to strengthen the work-life balance by extending the parental leave entitlements and workplace rights. (Burkhardt, Martin, Mau and Taylor-Gooby 2011, 21-22.) In its first budget, the New Labour announced a National Minimum Wage, presented in 1999 and a more generous system of in-work tax credits for those in low-paid work (Sefton, Hills and Sutherland 2009, 21).



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The benefit system for unemployed people in the UK has consisted in two parts from 1996: contributory –based Jobseekers Allowance (CB JSA) and income based or means-tested Jobseekers Allowance (JSA). However, the benefit levels of these two tiers have never diverged much, unlike in the German system. During the 1990s the eligibility requirements to receive these benefits were made stricter, the maximum benefit entitlements were reduced and the contributory benefit support during unemployment declined. As the rates of these benefits were modest, many recipients claimed additional benefits, particularly if their partner was not working or if they had dependent children in the household. In addition, the “New Deal “ programmes were introduced in 1998 and after certain period of unemployment , the claimants were offered training, education or temporal employment as an alternative to the benefit receipt. This reform was followed by the “Flexible New Deal” in 2009 which provided different type of support for those under and over 25 years of age. In 2010 requirement for long-term Jobseekers Allowance was introduced to improve their skills and activate them in return for benefits with full-time employment with a special “work for your benefits” phase. (Clasen 2011, 271-273; O’Dea, Phillips and Vink 2007.)

The German welfare state has faced a comprehensive modification of active and passive labour market policies after 2002 as a result of the *Hartz reforms*, which were implemented gradually in 2003 (Hartz I and II), 2004 (Hartz III) and 2005 (Hartz IV). The reform strategy consisted of three parts: improving employment services and policy measures, activating the unemployed and fostering employment demand by deregulating the labour market. (Jacobi and Kluge 2006, Gaskarth 2014, Engbom, Detragiache and Raei 2015, Czada 2004; Lewis, Knijn, Martin and Ostner 2008.) Particularly the integration of unemployment and social assistance schemes in Hartz IV reform can be seen as a conservative path of welfare towards the Anglo-American model with largely means-tested, flat rate unemployment benefits. However, the idea of securing the social status and the previous living standards that had been a key element of the conservative welfare state was restricted for those in short-term employment. (Fleckenstein 2008). In addition, as a result of the activation policies, the increased labour market supply was planned to be absorbed

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with more flexible arrangements, such as new start-ups, temporary agency work, and part-time and minor jobs. However, despite the drastic changes in the German employment policies due to the Hartz reforms, Ebbinghaus and Eichhorst (2006, 8) argue that German employment protection, unemployment insurance, and active labour market policies still show considerable continuity and stability.

The recommendations made by the Hartz commission are summarized as follows in three categories: job creation, improved placement, and reform of the BA (Federal Labour Office). Creation of jobs consisted of the introduction of “Personal Service Agencies”, the promotion of part-time employment in domestic services (Minijobs), the introduction of self- or family-employment with tax incentives and grants, the encouragement to employ previously unemployed individuals with “Job Floater” loans with low-interest and the creation of company employment “balance sheets” to trace positive employment development. Improved placement in turn concluded on the creation of job centres, the simplification of labour law, the expansion of the availability of child-care facilities, the implementation of stricter conditions in which individuals could refuse the job, the support of younger and older people by promoting the employment and training in early careers stage and supporting the shift to retirement for older people. Finally, recommendations made for the reform of the Federal Labour office consisted of the simplification of instruments for promoting employment, combining the unemployment benefit and welfare benefits and creating a more effective organization of workflows and control activities. (Gaskarth 2014, 13-15, Engbom, Detragiache and Raei 2015, 8-10, Czada 2004, Lewis, Knijn, Martin and Ostner 2008.)

The approach on families has been traditionally different in Germany and the UK. In Germany, families have been supported through a wide array of transfer programs while in the UK family was seen more as a private matter. Some similarities have been found in these systems as the childcare was seen as a family responsibility, particularly organised by mothers. Particularly

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family policies have gone through expansion in the past decade with an increased interest in reconciliation of family and work life, support to parents and parenthood and consideration of children as a category to and for social policy. Yet, a significant number of differences have still remained. The focus of family policies is more universal in Germany compared to the UK where family policies have been targeted more to the more socioeconomically disadvantaged population. For example, the childcare services were primarily aimed for those living in the poorer areas while in Germany the access was based on general entitlements for the access to the place in child care. In addition to differences in approaches, different policy choices can partly be explained by the institutional policy legacies and the socioeconomic context. In Germany the focus of the policies has been on improving early childhood education for all the children and increasing the fertility rates while in the UK the main aim was to reduce and to avoid poverty and improve the situation of children with disadvantaged backgrounds. (Clasen; Mau, Meyer, & Seeleib-Kaiser 2011, 287-290).

Historically the public commitment to the provision of childcare has been rather low in both Germany and the United Kingdom. The reconciliation of the work and family responsibilities has been mainly based on short part-time employment of women. However, since the 1990s both the UK and German governments have formed a goal to increase the child-care provision outside home. (Evers, Lewis and Riedel 2005). Daly (2011, 79) presents four common trends in family policies in Germany and the United Kingdom; 1) a move towards services for families with children, 2) the consideration of children as a category of and for social policy, 3) work and family life balance and 4) the increase in state support for parenthood and parenting. The first theme refers mainly to the childcare related services. In Germany the childcare and education out of home has been a subject of major expansion, especially among children under three years of age. The German system traditionally favoured the home care of the younger children and the new policies aimed to encourage the parents to rely on kindergarten as a provider of care through the provision of financial investment. Simultaneously, the childcare policies moved from the marginality to the

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centre of the political interest. The Day Care Expansion Act in 2005 required the municipalities to provide day-care for children under three years old if their parents are employed or enrolled in education or training. Simultaneously in the United Kingdom, the services for families with children were subject of several acts to enhance the family functions and stability and provide education and care-specific services. The Sure Start Programme<sup>16</sup>, later replaced with Children's Centre Programme, was launched in 1998 and aimed to improve family practises and outcomes by improving the governance and renewal of the neighbourhoods. The families living in the 20 percent of the most "risky" areas in the UK had access to local child- and family-focused services including health care, family support, early learning services as well as services to improve both parenting and childhood and increase the opportunities for parental employment. The Sure Start and the Children's Centre programs were closely linked with the anti-poverty and social inclusion policy objectives. Even though Germany, and particularly former East Germany, had an infrastructure of provision of these services aimed to the young children, the focus set on the family policies was innovated in both Germany and the United Kingdom. Both countries were also similar in their preferences for diversity of service providers, through the increase or continuation of the strong role of the voluntary or not-for-profit sector and in lesser extend provision by employers. (Daly 2011, 79-81.)

The second trend refers to a consideration of children as a category of and for social policy in Germany and the United Kingdom. Therefore some individual rights for children, such as the right to a child care, were introduced and there was an increase of the services oriented towards the development of children, among them improved access to pre-school, other educational and health services and the acts to reduce poverty among children. However, the improvement of children's

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<sup>16</sup> The Sure Start Programme followed the model of the US Head Start programme.

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academic and other achievement was a stronger motivator for policy reforms in the United Kingdom than in Germany. (Daly 2011, 81.)

The increased emphasis on the reconciliation of work and family life constructs the third common trend. As the family-based claims had been more legitimated historically in Germany, the recognition of the family related needs as a counter claim for the employment based rights and responsibilities was more profound in the UK, where work and family reconciliation was considered mainly as a private family responsibility until the late 1990s (Hantrais 2004). The work-family life balance was countered with two major policies. The employed parents received support and incentives in more general and more targeted form to, in the one hand, take time off from the employment to provide care for their children personally and, in the other hand, to outsource the care of their children. Hence in the UK the leave programs were extended, while the focus of these programs was reset in Germany in terms of income replacement and shorter duration. Both parents were seen as potential employees and hence the fathers were encouraged to take short periods of leave from the employment to take care for their young children. The major reform of the parental leave took place in 2000 in Germany. The new system focused on flexibility by allowing both parents to take leave at the same time and by putting more value on increasing the return of the women to work. This was made by cutting the duration of the leave and increasing the level of replacement of earnings for this shorter duration of leave. In the United Kingdom similar changes were made of more generous and extensive leave from employment to family care for both mothers and fathers. The duration of paid maternity leave was extended from 14 to 39 weeks as well as the leave was made more generous. Part of this leave was made transferable from mothers to fathers. Simultaneously a paid paternity and adoption leaves were introduced. The reconciliation of work and family life was emphasized also with the introduction of an opportunity to request a flexible working for parents of young or disabled children. In addition, the family-based tax credits were introduced to encourage parental employment. The other side of the work-family reconciliation was the encouragement of both mothers and fathers to participate in paid work in Germany and

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the UK. Particularly in the UK, the two-earner household was seen as the best solution for the economic existence and success. Hence tax credits were introduced in 1999 as part of the New Labour's "make work pay" strategy to make employment more feasible and attractive for families. (Daly 2011, 81-83; Sefton, Hills Sutherland 2009, 21-22.)

The fourth trend relates to the move away from the male breadwinner family model, as it focuses on the state support on parenting, parenthood and biological responsibilities over the status and relationship associated with marriage and partnership. Particularly the role of fathers and their obligations were reinforced. This included the changes in taxes privileging married couples and the tendency to give to non-married couples similar rights and responsibilities as to the married ones. In both countries the welfare states set their focus more on support of activities, such as parenting and caring and less on status of family or employment. (Daly 2011, 83; Warth 2011.)

The reform in parental benefits in January 2007 marks a significant change in German family policy since the target of this reform was to compensate the loss of incomes for working parents and not focus only on the help of poor parents. The reform also increased significantly the spending in families. The new parental benefit was not financed through the social security contributions but through general taxes and hence it can be seen as a change in the structure of the German welfare state. While the reform changed the funding of the parental leave as well as shifted the focus from needy parents to working parents, the motivation of this reform was based on the low fertility rates of particularly well-educated women. Therefore the compensation of the loss of incomes from employment was considered to give incentive particularly for these women with higher education to have children, as a growing number of them remained childless in Germany. (Klammer and Letablier 2007, 675.)

Jüttner, Leitner and Rüling (2011, 92-93) explain that until recently the public investment in early childhood education and care (ECEC) has been low both in (West) Germany and Britain. The

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reasons for this vary according to the underlying ideologies of the welfare states as in a liberal regime, state does not intervene within the private family sphere<sup>17</sup> and in the conservative regime, state support to the families with children under the age of three is provided with transfer payments rather than offering institutional childcare since the care has been traditionally seen as a responsibility of the mothers. However, in the past ten years, several reforms have challenged these traditional settings. In the 1990s the public child care was organised for pre-school children aged 3 to 6 in Germany and 3 to 5 in the UK and the care was later extended for children under three years of age with the *Tagesbetreuungsbausgesetz* (TAG) 2004 in Germany and in 2006 with the Childcare Bill in England<sup>18</sup>. The Childcare Bill stated that the public childcare should be provided for children of all age groups and sufficient care for children below the age three if their parents were in employment, training or with special needs. In Germany, the TAG, was the forerunner of the childcare policies, as the state took for the first time the responsibility of organising the childcare for children under age 3. Simultaneously, the childcare was considered as part of the education of children. (Jüttner, Leitner and Rüling 2011, 95-98.)

The main driver of the expansion of the childcare in England was tangled with reduction of child poverty and enabling the parents to return to employment. The latter is linked to the strong poverty reducing effect of employment and, therefore, the opportunity for parents to return to employment was regarded as an important step towards the elimination of child poverty. Policies also aimed to increase the employment opportunities of unemployed parents and increase the female

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<sup>17</sup> The state intervention does happen in the case of child neglect or abuse.

<sup>18</sup> The child care bill was introduced in England, hence the reference is made for England and not the United Kingdom. However, similar policies were developed in Wales, Scotland and Northern Ireland.( Jüttner, Leitner and Rüling 2011)

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employment rates, especially in the case of single mothers. Therefore the expansion of childcare is an important element of welfare-to-work policy, particularly targeted for low-income parents. The objective to reduce child poverty is also related to socially inclusive policies aimed at children that are more disadvantaged as these actions can break or reduce the effect of poverty cycle or welfare dependency. The drivers of German childcare policies were somewhat different than the ones in Britain. The change in the UK stemmed from the questions of child poverty while the problem addressed in Germany was the low birth rates. The issues of ageing society were channelled to the themes of pre-natal policies and the child care policies were re-framed as “sustainable family policies” covering the issues of how to balance work and family life and the employment of mothers with the extension of the childcare. The aim of these policies was to increase the birth rates and hence tackle the demographic issues. (Jüttner, Leitner and Ruling 2011, 96-101, Warth 2011, 126, Klammer and Letablier 2007, 672.)

In addition Jüttner, Leitner and Ruling (2011, 101) argue that the development of the child care policies mirror the focus of the different welfare regimes as the emphasis is set on the poverty prevention in the liberal model while the conservative model in Germany tackles the issues of changing the traditional gender roles. However, Warth (2011) states that the comparison of the family-friendly working time policies in Germany and the United Kingdom does not reveal clear convergence or divergence of these policies, but a parallel shift towards policies to reconcile paid work and family life.

The status preserving character of the German welfare state has weakened because of the recent reforms in the system, and there is a greater emphasis on social investment, private provisions and individual responsibility. Hence the individuals carry more and more the responsibility of maintaining the status they have achieved in case of unemployment or in the time of retirement. Particularly, similarities with the Anglo-Saxon welfare traditions can be observed in the area of unemployment, in which there is less stress on status preservation and more on basic provision. In



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addition, Germany started to emphasise the importance of activation measures in case of unemployment by tightening the eligibility and conditionality criteria. The traditional character of German welfare state and the status preservation was particularly challenged with reforms on the unemployment insurance in Hartz IV reform. (Burkhardt, Martin, Mau and Taylor-Gooby 2011, 19-20.) Similar changes have been made in the German health insurance in which most of the medical and hospital expenses are covered by the statutory insurance, and as the consequence of the recent developments, patients are expected to make co-payments for a number of services increasing their personal responsibility and the role of private provisions. The reforms in family policies in Germany have, however, followed a different path to respond to the low fertility rates and support the care responsibilities of the fathers of young children. (Burkhardt, Martin, Mau and Taylor-Gooby 2011, 20-21.)

Traditionally German and British labour market policies have been very different in benefit principles, funding structure, governance, institutional design and orientation within labour market programs. However, the reforms in the German system have shifted their labour market policies towards the British model, narrowing the gap between these systems even though some fundamental differences remain. Compared to the two-tier system of the UK, the German system consisted of three types of benefit support, training scheme and other labour market programmes which were replaced with the Hartz reform in 2005. These changes included the decrease of the insurance-based transfers particularly in the length of entitlement, the growth of means-testing, and the reorientation towards activation and active labour market policies. This also indicated an alteration of the system towards the British approach. (Clasen 2011, 274-275.)

While the German labour market policies have shifted towards the British model, particularly in the number of people receiving the insurance-based unemployment benefit as one-fifth of unemployed people in both country receive such benefit, some differences remain in the generosity

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of the benefits and the recipient rates. The first difference is the aspect of unemployment insurance being employment-related in Germany, but not in the UK. Hence the system is more egalitarian in the UK at a modest level while, in the German system, different groups of unemployed have different policy structures, based on the type of benefit they receive. The replacement rate of the benefit is also higher in Germany and there has not been a decline relative to wages, while there has been an attrition of the relative value of the contributory -based Jobseekers Allowance in the UK. (Clasen 2011, 277, 280.)

German and British labour market policies have become more similar since the 1990s, particularly due to the reforms in Germany. Similarities can be seen in the increased flexibilization and deregulation of the labour market as well as in the gradual expansion of the low-wage segment in Germany. The shift towards the British model in Germany can also be seen in the move away from qualification and training to active job search and short-term “work first” schemes. However, remarkable differences have remained, particularly in the case of social rights of short-term unemployed individuals for whom the German model still provides particular protection with earnings-related benefits and elements of status preservation. (Clasen; Mau, Meyer, & Seeleib-Kaiser 2011, 294-295). One of the common goals of the British and German welfare states has been the increasing promotion of mother’s employment and the promotion of work/family policies. However, even though the labour market behaviour in Germany and the UK is not dissimilar, the attitudes in the UK tend to be less traditional and therefore there are differences in the presentation of the policy goals and instruments. The aim has been to enhance the parental choice by both promoting childcare services and improving (maternity) leave system and flexible working to benefit employers and the parents. Yet, it is important to notice that the care work of the grandparents, who have remained the most popular source of care in the UK, has not been acknowledged in term of payment of the care. (Lewis, Knijn, Martin and Ostner 2008, 271-272). Despite these differences, the contrast between German and British labour market policies is less sharp than it used to be.

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The German welfare state has faced considerable amount of change in policy goals, and as a result, several reforms have been introduced. Germany has shifted from positive support for traditional gender division of the labour towards greater de-familization and increased incentive for female labour market participation. Hence, these reforms have resulted in the change from cash for the care of children benefits to child-care outside of the home with publicly funded childcare facilities. This differs from the British approach with cash subventions to the parents or private or voluntary sector care providers. (Lewis, Knijn, Martin and Ostner 2008, 267.)

To sum up, the German and British welfare states have had a clear policy aspiration of employment with respect to female labour market participation. In the United Kingdom, the focus has been set on mothers' (particularly lone mothers) employment, to tackle child poverty. In Germany the reforms have shifted from the work/family policies within the context of male breadwinner model towards employment policies within the context of adult worker model family. The aim of these policies is two-folded as they can be seen as an instrument of promotion of gender equality in the early 2000s and later as an instrument of help for women to have more children while working. (Lewis, Knijn, Martin and Ostner 2008, 275-276.)

### **3.5 The Redistributive Effect of the Welfare State in Germany and the UK**

This section focuses on the general trends of poverty, with different poverty trends in Germany, East and West Germany and the United Kingdom, and hence gives a descriptive overview of the phenomenon. Furthermore, the ability of a cash transfer system reduce poverty as an example of the effectiveness of the social welfare system is presented as an addition and important dimension of the poverty comparison. Poverty is measured, as described in more detail in Chapter 2.3, with the measure of 40 percent (see Table 5), 50 percent (see Table 4) and 60 percent (Table 3) of the

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median of equivalence annual household income before<sup>19</sup> and after<sup>20</sup> the governmental transfers. The poverty rates of the former East and West Germany have been accomplished from the level of the whole of Germany to gain information on how these rates compare both with each other and with the level of Germany as one unit. The incomes have been adjusted by consumer price index (see Appendix 5), separately for East and West Germany. Poverty is measured for the population aged 18 to 64 to avoid the specificity of the impact of the benefits for those with retirement benefits and the particular issues related to child poverty.

The trend of poverty measured with a 60 percent threshold in Germany and the former West Germany followed a similar level and direction, while the trend increased sharply in the beginning of the 2000s in the former East Germany. The findings of the poverty rates suggest that poverty has indeed changed over time. Poverty rates measured with a 60 percent rate had an increasing trend in Germany, while the trend was the opposite in the United Kingdom. However, the level of poverty was lower in the former West Germany than in Germany as one unit, and on the contrary higher in former East Germany (Table 3).

Hills (2013, 10,30) divides the main policies that affected the cash incomes in 1997-2010 in the UK into four groups: reforms in transfers to families with children, pension reforms, changes to direct tax system and wider changes, such as the National Minimum Wage. The reduction of the poverty line (measured with 60 percent threshold) between 1996-1997 and 2010-2011 was a result of reforms in the tax and cash transfer system. Hence, as a result of these reforms particularly child poverty rates were almost 8 percent lower than they would have been without the reformed system

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<sup>19</sup> Market income

<sup>20</sup> Disposable income

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in 2008-2009 compared to the unreformed system from 1996-1997. However, without the reforms in policies targeted to working-age adults without children, their poverty rate would have been lower than after the reforms, which suggests that promotion of work and making work pay was not sufficient to reduce the poverty of this group. (Sefton, Hills and Sutherland 2009.)

The poverty rate of 50 percent (Table 4) reveals a similar increasing trend of poverty over twenty years with lower levels of poverty in the former West Germany compared to the overall level. However, this measure reveals lower levels of poverty in the former East Germany in the mid-1990s over several years, compared to the poverty level in both West Germany and Germany in general. The rate of poverty in East Germany rose sharply at the end of 1990s, to a level that was significantly higher than in Germany or the Western counterpart. A similar increase was found with the poverty rate of 40 percent (Table 5); however the poverty rate was lowest in East Germany over the 1990s compared to the other cases, suggesting that there were specific policies aimed for those with low incomes in this area. In the United Kingdom, poverty rates were less stable with the 50 and 40 percent threshold, and hence the poverty trend did not follow similar patterns compared to the measure of 60 percent, suggesting that the actions aimed at those with the lowest incomes were not as straightforward as in Germany.

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**Table 3** Pre- and post-government income poverty measured with 60 percent threshold and welfare state redistribution (in percent) in Germany, East and West Germany and the United Kingdom

	Germany			East Germany			West Germany			UK		
	Pre	Post	Redist.	Pre	Post	Redist.	Pre	Post	Redist.	Pre	Post	Redist.
<b>1991</b>	:	:	:	:	:	:	:	:	:	25.4	14.9	41%
<b>1992</b>	:	:	:	:	:	:	:	:	:	25.6	15.3	40%
<b>1993</b>	19.1	9.0	53%	31.3	13.0	59%	16.0	8.0	50%	25.4	14.8	42%
<b>1994</b>	19.2	8.5	56%	31.6	13.4	58%	16.0	7.3	54%	25.4	14.9	42%
<b>1995</b>	21.3	10.6	50%	30.3	12.4	59%	19.1	10.1	47%	25.7	14.5	44%
<b>1996</b>	21.2	9.7	54%	32.2	10.8	66%	18.6	9.5	49%	26.3	14.6	45%
<b>1997</b>	21.8	9.1	58%	32.8	10.8	67%	19.2	8.7	55%	27.5	15.3	44%
<b>1998</b>	22.4	9.1	59%	32.8	11.0	66%	19.9	8.6	57%	25.8	15.2	41%
<b>1999</b>	21.2	8.7	59%	31.9	11.1	65%	18.7	8.1	57%	27.8	14.3	49%
<b>2000</b>	21.6	9.7	55%	32.8	12.9	61%	19.1	9.0	53%	27.5	14.7	46%
<b>2001</b>	21.8	10.2	53%	32.1	12.8	60%	19.5	9.6	51%	27.3	15.7	42%
<b>2002</b>	25.9	14.2	45%	38.5	20.5	47%	23.1	12.8	44%	26.6	13.7	49%
<b>2003</b>	25.6	14.8	42%	38.5	20.3	47%	22.7	13.5	40%	26.1	12.2	53%
<b>2004</b>	26.1	15.2	42%	38.8	22.4	42%	23.2	13.5	42%	25.0	10.8	57%
<b>2005</b>	25.6	16.4	36%	39.3	25.2	36%	22.6	14.4	36%	25.8	11.6	55%
<b>2006</b>	25.6	16.6	35%	38.8	26.1	33%	22.3	14.2	36%	26.1	11.8	55%
<b>2007</b>	24.8	16.0	36%	37.5	26.0	31%	21.7	13.5	38%	:	:	:
<b>2008</b>	24.7	15.7	36%	36.2	24.5	32%	21.9	13.6	38%	:	:	:
<b>2009</b>	23.0	15.6	32%	33.3	23.8	29%	20.5	13.6	34%	:	:	:
<b>2010</b>	23.2	16.1	31%	32.3	24.5	24%	21.0	14.1	33%	:	:	:
<b>2011</b>	23.1	15.3	33%	32.4	22.9	29%	20.8	13.5	35%	:	:	:
<b>2012</b>	22.4	15.2	32%	31.9	23.8	25%	20.0	13.1	35%	:	:	:
<b>2013</b>	21.5	13.6	36%	29.2	19.1	35%	19.6	12.3	37%	:	:	:

Notes: Poverty rates are calculated for those aged 18 to 64, there are no negative incomes in the data. Data weighted by individual weight for all samples.

Source: CNEF-Soep 1993-2013 and CNEF-BHPS 1991-2006

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Table 4 Pre- and post-government income poverty measured with 50 percent threshold and welfare state redistribution (in percent) in Germany, East and West Germany and the United Kingdom

	Germany			East Germany			West Germany			UK		
	Pre	Post	Redist.	Pre	Post	Redist.	Pre	Post	Redist.	Pre	Post	Redist.
<b>1991</b>	:	:	:	:	:	:	:	:	:	20.2	9.5	53%
<b>1992</b>	:	:	:	:	:	:	:	:	:	21.1	10.5	50%
<b>1993</b>	14.2	4.2	70%	20.8	4.8	77%	11.5	4.0	65%	21.2	10.35	51%
<b>1994</b>	15.2	4.5	70%	22.6	5.5	76%	12.3	4.1	67%	20.9	10.12	51%
<b>1995</b>	16.3	5.5	66%	21.3	5.3	75%	14.5	5.6	61%	21.6	9.85	54%
<b>1996</b>	16.3	4.9	70%	21.8	4.2	81%	14.2	5.2	64%	21.1	9.78	54%
<b>1997</b>	16.3	4.6	72%	21.5	3.8	82%	14.4	4.9	66%	22.8	10.02	56%
<b>1998</b>	17.4	4.5	74%	22.7	4.5	80%	15.5	4.5	71%	21.3	10.33	52%
<b>1999</b>	16.5	4.4	74%	22.5	4.2	81%	14.4	4.5	69%	23.3	9.12	61%
<b>2000</b>	17.7	5.2	70%	24.9	5.5	78%	15.5	5.2	67%	23.2	9.41	59%
<b>2001</b>	17.9	5.4	70%	25.7	6.1	76%	15.0	5.1	66%	22.7	10.33	54%
<b>2002</b>	18.0	6.0	67%	27.1	8.4	69%	14.3	5.3	63%	22.0	8.61	61%
<b>2003</b>	18.0	6.5	64%	27.0	8.8	67%	15.3	5.8	62%	21.1	7.74	63%
<b>2004</b>	17.9	6.4	64%	26.3	8.7	67%	15.3	5.7	62%	20.0	6.81	66%
<b>2005</b>	17.9	7.0	61%	27.1	10.0	63%	15.1	6.1	60%	20.9	6.99	67%
<b>2006</b>	18.6	8.0	57%	28.3	12.5	56%	15.7	6.7	57%	21.7	7.38	66%
<b>2007</b>	18.2	7.6	58%	26.9	11.4	58%	15.5	6.4	59%	:	:	:
<b>2008</b>	17.5	7.6	57%	25.4	10.9	57%	15.1	6.5	57%	:	:	:
<b>2009</b>	16.9	7.9	53%	23.9	12.3	49%	14.8	6.6	56%	:	:	:
<b>2010</b>	17.2	8.0	54%	23.2	12.4	47%	15.4	6.7	57%	:	:	:
<b>2011</b>	18.9	8.4	55%	25.4	12.4	51%	16.0	7.3	55%	:	:	:
<b>2012</b>	18.1	8.1	56%	25.7	12.5	51%	15.9	6.8	57%	:	:	:
<b>2013</b>	19.2	8.3	57%	24.5	10.8	56%	18.1	7.7	57%	:	:	:

Notes: Poverty rates are calculated for those aged 18 to 64, there are no negative incomes in the data. Data weighted by individual weight for all samples.  
Source: CNEF-Soep 1993-2013 and CNEF-BHPS 1991-2006

### 3.The Role and Functions of the Welfare States

**Table 5** Pre- and post-government income poverty measured with 40 percent threshold and welfare state redistribution (in percent) in Germany, East and West Germany and the United Kingdom

	Germany			East Germany			West Germany			UK		
	Pre	Post	Redist.	Pre	Post	Redist.	Pre	Post	Redist.	Pre	Post	Redist.
<b>1991</b>	:	:	:	:	:	:	:	:	:	16.0	5.3	67%
<b>1992</b>	:	:	:	:	:	:	:	:	:	17.0	6.4	63%
<b>1993</b>	10.8	1.9	82%	14.3	1.7	88%	9.4	2.0	78%	17.2	6.7	61%
<b>1994</b>	11.8	1.8	84%	17.0	1.7	90%	9.7	1.9	81%	17.4	6.3	64%
<b>1995</b>	13.1	2.7	80%	16.8	1.7	90%	11.7	3.0	74%	17.6	6.1	65%
<b>1996</b>	13.2	2.4	82%	17.7	1.3	92%	11.5	2.8	76%	17.3	5.8	66%
<b>1997</b>	13.6	2.0	85%	17.5	1.3	92%	12.1	2.2	82%	18.5	5.7	69%
<b>1998</b>	14.6	2.2	85%	19.3	2.0	90%	13.0	2.3	82%	17.8	6.1	66%
<b>1999</b>	14.0	2.1	85%	19.1	1.6	92%	12.1	2.3	81%	19.0	5.2	73%
<b>2000</b>	15.0	2.6	82%	20.6	2.6	88%	13.3	2.7	80%	18.5	5.1	72%
<b>2001</b>	14.7	2.7	82%	21.0	2.5	88%	12.7	2.7	79%	18.4	5.9	68%
<b>2002</b>	14.1	3.0	79%	22.2	3.7	84%	11.8	2.8	77%	17.9	5.0	72%
<b>2003</b>	15.0	3.2	78%	22.5	3.6	84%	12.7	3.1	75%	17.2	4.5	74%
<b>2004</b>	14.7	2.9	80%	21.8	3.3	85%	12.5	2.8	78%	16.2	3.9	76%
<b>2005</b>	14.9	3.3	78%	22.5	4.1	82%	12.6	3.1	76%	17.0	4.3	75%
<b>2006</b>	15.8	4.1	74%	23.8	6.1	74%	13.4	3.5	74%	17.4	4.2	76%
<b>2007</b>	15.2	3.7	76%	22.0	5.0	77%	13.1	3.3	75%	:	:	:
<b>2008</b>	14.5	3.6	75%	21.4	5.2	76%	12.4	3.1	75%	:	:	:
<b>2009</b>	14.2	4.0	72%	21.2	5.6	73%	12.3	3.4	72%	:	:	:
<b>2010</b>	14.2	4.1	71%	20.1	6.2	69%	12.4	3.5	71%	:	:	:
<b>2011</b>	15.1	4.0	74%	21.4	5.9	73%	13.2	3.4	74%	:	:	:
<b>2012</b>	15.3	3.7	76%	22.3	5.9	74%	13.2	3.1	76%	:	:	:
<b>2013</b>	16.1	4.0	75%	21.5	5.4	75%	14.9	3.7	75%	:	:	:

Notes:Poverty rates are calculated for those aged 18 to 64, there are no negative incomes in the data. Data weighted by individual weight for all samples.

Source: CNEF-Soep 1993-2013 and CNEF-BHPS 1991-20



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The trend of poverty measured with a 60 percent threshold in Germany and the former West Germany followed a similar level and direction, while the trend increased sharply in the beginning of the 2000s in the former East Germany. The findings of the poverty rates suggest that poverty has indeed changed over time. Poverty rates measured with a 60 percent rate had an increasing trend in Germany, while the trend was the opposite in the United Kingdom. However, the level of poverty was lower in the former West Germany than in Germany as one unit, and on the contrary higher in former East Germany (Table 3).

The poverty rate of 50 percent (Table 4) reveals a similar increasing trend of poverty over twenty years with lower levels of poverty in the former West Germany compared to the overall level. However, this measure reveals lower levels of poverty in the former East Germany in the mid-1990s over several years, compared to the poverty level in both West Germany and Germany in general. The rate of poverty in East Germany rose sharply at the end of 1990s, to a level that was significantly higher than in Germany or the Western counterpart. A similar increase was found with the poverty rate of 40 percent (Table 5); however the poverty rate was lowest in East Germany over the 1990s compared to the other cases, suggesting that there were specific policies aimed for those with low incomes in this area. In the United Kingdom, poverty rates were less stable with the 50 and 40 percent threshold, and hence the poverty trend did not follow similar patterns compared to the measure of 60 percent, suggesting that the actions aimed at those with the lowest incomes were not as straightforward as in Germany.

The poverty trends over time measured with disposable incomes are not sufficient to explain the effectiveness of social transfers, and hence poverty rates before these transfers were calculated to measure the difference between market and disposable income poverty. Table 3 describes the poverty rates measured with a 60 percent threshold pre- and post-governmental income, and the percent of the welfare state distribution in Germany, East and West Germany and the United Kingdom over two decades.

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The high level of pre-governmental poverty in East Germany indicates that people with low incomes are more prone to be dependent on state transfers to make ends meet, and hence the redistributive effect is higher than in Germany or in West Germany. The effectiveness of the welfare state distribution measured in percent has been decreasing over time, from around the 50 percent level in Germany and West Germany and the over 60 percent level in East Germany in the 1990s, to the level under 40 percent by the mid-2000s. The trend in redistribution has been decreasing in all of these areas, however, the change has been sharper in East Germany, where the level of redistribution was at a higher level in the 1990s than in Germany and West Germany. Yet, the level decreased at the lower level in the East in the mid-2000s. However, the redistributive effect of the British welfare state was found to be lower than in Germany in the beginning of the 1990s, and higher in the early 2000s. The trend was found to be increasing, while the redistributive effect has been decreasing in Germany over time. This can be explained by the means-tested transfers, which play a larger role in the British system and make the poverty-reducing effect higher. The findings are similar to Behrendt's (2000, 36-37) study, in which poverty rates as well as the redistributive effect were found to be lower in Germany than in the United Kingdom. However, as the trend in redistribution has been opposite in Germany and the United Kingdom, the importance of the benefits has increased in the United Kingdom, while their effectiveness has decreased in Germany.

The effect remained the same when measured with a 40 and 50 percent threshold; however, the redistributive effect was particularly high in the East Germany of the 1990s, measured with the level of severe poverty of 40 percent.

### **3.6 Conclusions**

Based on the findings presented in the previous chapter, poverty rates were indeed found to be higher in the United Kingdom than in Germany with the measures of a 60, 50 and 40 percent

### 3.The Role and Functions of the Welfare States

poverty threshold. The findings also reveal that when the poverty rates in East and West Germany are compared to Germany as one unit, the poverty rates are highest in the East, suggesting that these areas differ and hence should be studied separately. When the poverty trends are compared to the trends in Germany as a single unit, East and West Germany follow a similar increasing trend over time, while the poverty rates have been decreasing in the United Kingdom over time. The redistributive effect of the welfare state, on the contrary, was increasing in the UK and decreasing in Germany, East and West Germany.

The redistributive effect was particularly high when severe poverty rates were analysed, suggesting that the transfers are particularly effective in reducing poverty measured with a 40 percent threshold, particularly in the East Germany of the 1990s, implying that there were several policies targeted at those whose level of living was low in the years after the reunification.

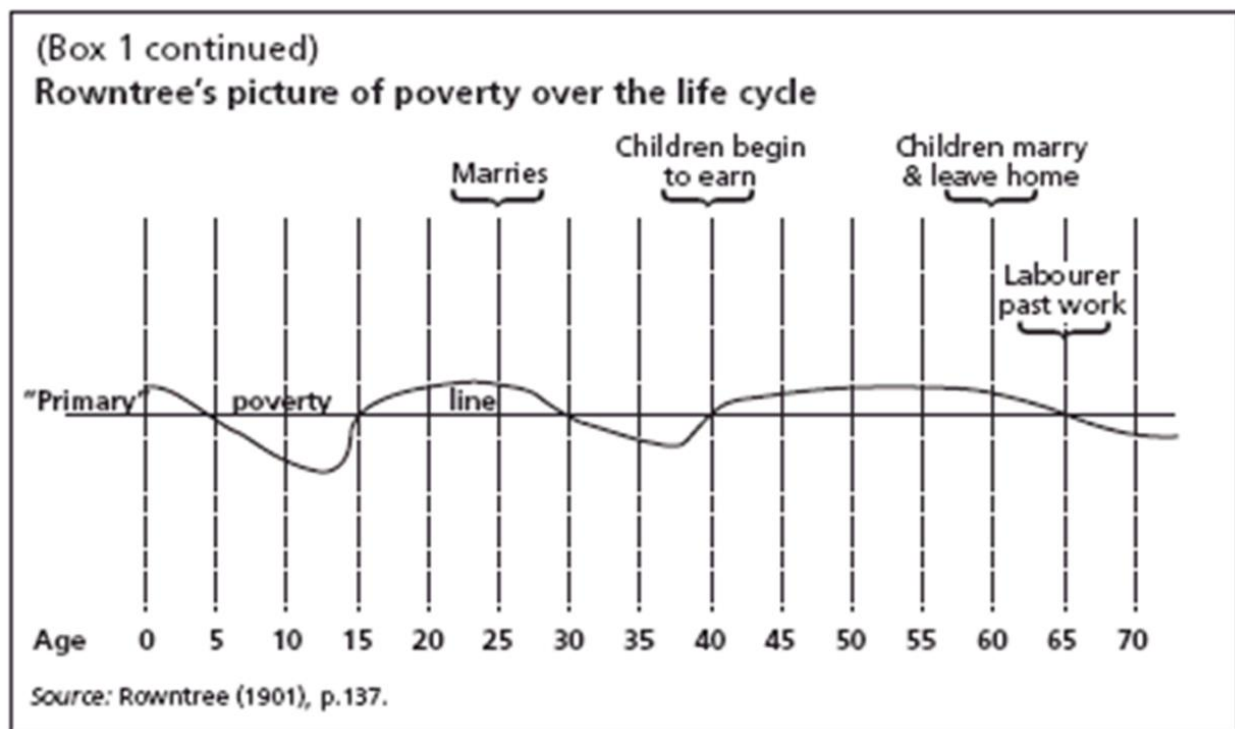
## **4. The Concept, Measure and Dynamics of Poverty**

This chapter presents an overview of existing poverty research and illustrates why poverty should be studied as a dynamic phenomenon. Chapter 4.2 links poverty to the life course and introduces the theory of the life cycle of poverty by Seebohm Rowntree (1901) and the critics of the theory. It will also address the question of the persistence of poverty. The change from a cross-sectional approach on poverty to a dynamic research tradition is presented in Chapter 4.3, as well as the findings of previous literature. Moreover, Chapter 4.4 presents descriptive information on the life course of poverty in Germany, East and West Germany and the UK regarding age and different life stages.

### **4.1 Rowntree's Legacy, Poverty and the Life Course**

The dynamic poverty approach is not a new idea. More than one hundred years ago, Rowntree (1901) already illuminated that poverty is a dynamic phenomenon (Figure 11) over the life cycle. The first cycle of poverty was situated in childhood, when parental income was not enough to support all dependents in the household and to cover all needs. The youth phase of the life cycle lessened poverty when a young person or his/her siblings moved away from the parental home and started to earn their own incomes. The period of family formation and child bearing deteriorated the economic situation when incomes were again divided between an increased number of household members. This phase continued until children left their parental home and created an “empty nest” chapter in their parents' life. The last phase of poverty was experienced in old age, due to the lowered working capacity and incomes. (Rowntree 1901.)

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**Figure 4** Rowntree's life cycle of poverty (Source: Rowntree 1901, 137)

What has changed since Rowntree's time? Glennerster (1995, 15) lists five reasons why the life cycle approach is flourishing. First, the life cycle is less stable than in Rowntree's definition, because of the changes in family structures and labour market. Second, the state interventions have impacted the life cycle by adding the time of dependencies, such as early retirement or single parenthood. The third aspect is the economic consequences, such as reduced savings for retirement, of these state interventions. The fourth aspect adds fiscal irresponsibility, as one generation of voters had the incentive to vote in a way that gained them higher pensions at the cost of the next generation among other electoral implications of life cycle finance through taxation. Fifth, the means of private market redistribution of incomes, such as insurance schemes, became more reachable for more people.

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Rowntree's poverty cycle and the existence of this cycle in advanced industrial nations have been studied by many researchers, with mostly cross-sectional and cross-national data. According to a study made by Falkingham and Hills (1995b, 97-98) that questions the five life stages found in Rowntree's research, the pattern of want and plenty has changed. Falkingham and Hills argue that the time of young adulthood does not appear as a phase of comparative plenty and that the time of family with dependent children between the ages of 30 to 40 has a less noticeable effect on living standards. However, the "empty nest" phase still appears as the most defined time of comparative plenty. The differences in results were explained by the change in wages in relation to age and experience, as well as the smaller family sizes and the impact of the welfare state that evens the differences through taxation and social security systems. However, despite the impact of the welfare state on incomes and their distribution on a lifetime basis, there are substantial differences between individuals and their lifetime living standards (Falkingham and Hills 1995d, 136).

Similar results were found by Kangas and Palme (2000, 349-350). The cyclical poverty model, similar to Rowntree's poverty cycle in York (1901) was still adequate in the 1960s, as poverty was rare among young people without children. Families with children had a higher risk of poverty that was decreased at the "empty nest" phase and the elderly were living in poverty. However, the changes and development of welfare states and the level of benefits, especially family benefits and pensions, affected poverty cycles, and young people have replaced the old as the lowest income group. The poverty cycle in general has flattened out. Compared to Rowntree's (1901) research, the income structure over the life cycle has not only changed, but has also become more diverse (Rigg and Sefton 2006, 414). Therefore, the outcomes of these changes, such as leaving the parental home, family formation, childbearing, partnership dissolution and widowhood, are important issues in social demography (Callens and Croux 2009, 370).

However, some researchers have questioned Rowntree's (1901) analysis of poverty in York and the primary poverty line study he used. The results of the analysis made by Gazeley and Newell

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(2000) suggest that the primary poverty head-count rate was considerably lower, around 5 to 6 percent compared to the 10 percent found in Rowntree's (1901) study. The differences in these poverty rates are explained by the overestimation of the primary poverty rate in the original study due to the equivalence scale used between adults and children. Therefore, the results of Rowntree were found to be about 11 percent too high for the chosen reference family: a man, woman and three children, the overestimation being even higher for those with larger families (Gazeley and Newell 2000, 197).

However, the inheritance of Rowntree's (1901) study reminds us that the risk of poverty is closely linked to the life course and different life course events. Leisering and Leibfried (1999, 239-243) describe poverty as an experience or phase in the life course, not as a fixed condition or characteristic related to a certain person or group. Therefore, present-day poverty can be defined by the temporalisation, biographisation and democratisation or transcendence of poverty. The temporalisation of poverty is related to the duration and spells of poverty that vary from a short-term experience to a longer duration or repeated spells of poverty. Both duration of poverty and the location of poverty in a person's life history are important. A longer duration has a different level of impact on one's life as well as on the degree of poverty compared to a shorter period of poverty, and the location of poverty affects the life course in a different manner if a poverty spell is experienced during the childhood years, years in education, years in the labour market (both in work poverty and poverty due to unemployment) or in the elderly years. Transcendence or democratisation of poverty refers to the situation in which a larger share of the population shares the risk of poverty and hence the events that increase the risk of becoming poor, such as unemployment or divorce, do not indicate marginality. Biographisation refers to the subjective experience of temporal poverty and the impact of this experience on the perspective of the whole life course. (Leisering and Leibfried 1999, 239-241.)

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Leisering and Leibfried (1999, 24-25) present a model of the institutionalisation of the life course by the welfare state. Three components of the welfare state – education, old-age pension and risk management – rule over the life course, thus setting a temporal order to citizens' lives. These have an effect during the life cycle from childhood and young life to employment, family life and old age. The component of education creates a pathway from the beginning of life to employment opportunities. The level of future incomes and old-age pensions provide security on life after employment. Risk management component, on the other hand, provides security over the life span for other life events, such as sickness, unemployment or disability. Hence, employment is linked to life changes and a hidden curriculum, as well as old-age pension is to the security of expectations and the standard life course and risk management are to continuity.

Certain life course events, such as partnership formation or children leaving the parental home, particularly those who leave home to live with a partner, are associated with rising income trajectories. Yet, some other life course changes are linked to decreasing income trajectories, due to, for instance, the increased demand on household resources. This increased demand can be caused by childbirth, changes in activity or working hours in the labour market, or retirement. However, leaving the parental home is related to other, less stable trajectories, but in the longer run, the incomes in this period rise due to partnership formation and upward career development (Rigg and Sefton 2006, 422-423). Therefore, the time of lower incomes during the time in education or in independent living before partnership formation, differ from the situation where the income patterns are more stable and easily predicted. This phase is defined by temporality, especially when it occurs at the age that follows typical trajectories in society, and hence individuals experiencing them can expect an upward trajectory in future.

Nonetheless, families and changes in family structure are also related with poverty transitions. Particularly during the years of childhood, the impact of parental incomes plays an important role, as well as other characteristics of the parents, such as their marital status, education and



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employment level. Later, young adults' own life choices, for example leaving the parental home, partnering, finishing education and entering to employment market, gain more importance. These family and career choices are partly structured by the state via school systems, the regulation of job markets and pension systems (Leisering and Leibfried 1999, 23). Thus, individuals tend to follow the same patterns in their life courses – they grow up in their parental homes, graduate, start their work life and create their own families with or without children, lose their family members due to death, partnership dissolution or when a child moves away from the parental home, face unemployment or change jobs and finally retire.

Leisering and Leibfried (1999, 6-7) underline the link between the welfare state and life course as they produce and sustain temporal life structures through institutions. Individual life plans and expectations and the continuation of biographies is secured with publicly provided education, pension system and risk management. Therefore, the needs and the timing of these needs during the life course have changed. Additionally, Diewald (2016, 678) claims that welfare states have different approaches to risky life course events, as some welfare states try to discourage individuals from making risky life course decisions (such as divorce), while other welfare states create buffers against negative consequences after the choice has been made.

Le Grand (1995, 22) divides life course events that influence the fluctuation of an individual's incomes throughout their lifetime as predictable or highly anticipated events, such as marriage, childbearing, and retirement, or unpredictable events, such as unemployment or sickness. To smoothen the financial impact of predictable events, individuals can save or borrow money; for unforeseen events, the economic effect can be flattened with insurances. However, there are arguments in favour of state interventions, as poor people with low lifetime incomes cannot afford to save or buy an insurance in case of an unexpected event. This argument would favour interpersonal distribution instead of intrapersonal distribution over the lifetime.

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### **4.2 From Traditional Poverty to Dynamics of Poverty**

Poverty has traditionally been studied as a static phenomenon, mostly as a cross-sectional event. Research on welfare states and social assistance has also been examined predominantly by using cross-sectional data because of limitations in the availability of longitudinal data. Andreß, Golsch and Schmidt (2013, 3-4) state that panel data is needed when poverty transitions and dynamics are studied, but it is not necessary when the level or trend of poverty rates are under examination. Panel data indeed can be used to answer research questions that traditionally have been answered with cross-sectional data. The dynamic aspect of poverty has mostly been lacking in poverty research, even though the need for a dynamic approach as well as longitudinal data has been recognized since 1945 (Plewis 1985, 1). This is problematic, as poverty research has mainly studied how well welfare institutions have succeeded in poverty reduction. Hence, without longitudinal data, a study of the effectiveness of social policy is incomplete.

Biewen (2003, 2) states three reasons why persistent poverty should gain more attention than the temporal one: firstly, long-term experiences of poverty lead to larger welfare losses of individuals and a larger impact on self-perception and self-confidence compared to shorter poverty experiences. Secondly, the existence of long-term poverty suggests that poverty is experienced by few individuals and therefore is unequally distributed, compared to short-term poverty spells experienced by a larger proportion of the population. Thirdly, individuals who are persistently poor consume a large part of the resources of anti-poverty programs and policies. Depending on the duration of poverty, and whether poverty is increasingly transitory or permanent, either policies protecting from entries to poverty or enabling exits from poverty are needed. A better understanding of those socioeconomic groups more likely to enter or stay in poverty would also help tailor policies to meet the needs of these groups to increase the effectiveness of these actions.

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However, repeated spells of poverty, according to Biewen (2003), can be counted as a form of “chronic” poverty, as the effects of these repeated spells can be similar to the experiences of long-term poverty. Household type had an impact on chronic poverty, as both single-adult and single-parent households had a higher risk of being chronically poor, as well as retired persons, whose status is likely time-invariant. Therefore, their poverty status might be more likely to stay the same. Education seems to have a protective effect against chronic poverty, as there were no individuals experiencing long-term poverty in households with a university-educated head of household, in contrary to those with a household head who had low educational qualifications and a higher risk of chronic poverty.

Furthermore, a dynamic perspective to poverty targets the problem in a more advanced way than the static perspective, as it increases knowledge about the length and repetition of poverty spells. The dynamic viewpoint broadens awareness of poverty processes, for the reason that diverse lifecourse events produce different kinds of poverty risk and exits and entries to poverty may have different causes. The dynamic approach of poverty focuses on longitudinal patterns of poverty. The stability of poverty, life course events that trigger poverty and processes of impoverishment and social exclusion are major questions when poverty dynamics are studied. (Muffels, Fouarge and Dekker 2000, 7–8.) According to Tomlinson, Walker and Williams (2008, 598), transient, recurrent and permanent poverty may differ in their effects and their nature, and the events related to poverty are more relevant than the spells of poverty.

Muffels, Fouarge and Dekker (1999, 20-12) state that a longitudinal approach to poverty reveals two different stories about poverty. First, poverty should be seen as a more widespread phenomenon in the long run, as more people are likely to experience poverty compared to a shorter snapshot, and those experiencing poverty are not only those with low incomes. Second, poverty is more transient in the long term, as many people are likely to have a single experience of poverty and there is more economic mobility than suggested by the cross-sectional approach among those

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with lower incomes because some of them are very close to escaping poverty or avoiding poverty with some assistance. However, the economic mobility of those with lower incomes and persistence of poverty are closely linked to each other, as similar characteristics, such as household formation and labour market-related events, are associated with both poverty transitions and the duration of poverty.

Leisering and Leibfried (1999, 17) define three different approaches to the dynamic analysis of poverty: a macro-sociological study into inequalities, a micro-sociological analysis of marginalized groups and a social policy-oriented descriptive study of poverty. The macro-sociological perspective focuses on class structures, stratification, social mobility and processes of ascent and descent. The analysis of marginalized groups focuses on the dynamics of marginalization and the impact of institutions on these processes, as well as on the relationship between the welfare state and life course. The social policy-oriented perspective follows Rowntree's (1901) footsteps by linking poverty and the life-cycle or different life stages together. This last approach is used in this study to reveal the role of social policy in poverty reduction in Germany and the United Kingdom.

In addition to the lack of dynamic poverty analysis, there is relatively little research on the relation between life course events and poverty (Dewilde 2003, 111). Besides, there are hardly any country comparisons with a large number of countries, particularly with a longer time span. The lifecourse event perspective creates a broader viewpoint on poverty research than the life cycle perspective because the concept is more flexible, wider and more likely to take individual variation into account (Dewilde 2003, 115).

Research into poverty transitions began in the 1960s in the United States with the Panel Study of Income Dynamics (PSID) database (Dewilde 2003). Longitudinal research arrived in Europe in the 1980s, when data comparable to the PSID became available. However, there's limited research

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focusing only on few countries, namely Germany, the United Kingdom and the United States due to the lack of data for other countries. This also justifies the case selection of this study.

The study of poverty dynamics has proven to be relevant for revealing little known aspects of poverty. Thus, the findings of previous studies will be presented in this chapter.

One of the most influential studies on poverty dynamics was made in the 1980s by Bane and Elwood (1989). Their results have highlighted that most of the people who enter poverty have short poverty experiences. However, a long duration of poverty undermines the likelihood of a positive transition out of poverty (Bane and Elwood 1986). Stevens (1994) updates Bane and Elwood's (1986) study with the spell-based approach on how to study the poverty dynamics and duration over the period from 1970 to 1987. Her findings suggest that the transitions out of individual poverty spells do not imply permanent transitions, as half of those who experienced poverty will enter into poverty again within five years. (Stevens 1994, 37.)

Furthermore, Headey, Krause and Habich (1994, 11) state that poverty is a more widespread phenomenon than is often expected, insofar as a quarter of the population experience poverty at least once during a six-year period. Stevens (1999, 583-584) shows that the transitory or permanent nature of poverty in the United States is related to the characteristics of individuals, such as low education or having a female household head. Poverty is more transitory for households with two parents, whereas the experience is more permanent for households with a head who is a single female or has less than a high school education. Rank and Hirschl (2001) compared the occurrence of poverty across early, middle and later adulthood by comparing the likelihood of experiencing poverty between the ages of 20 to 40, 40 to 60 and 60 to 80 by using The Panel Study of Income Dynamics (PSID) data. According to their study, the risk of poverty is higher during the early and later adulthood years. A significant percentage of individuals will experience poverty during their

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adulthood. The risk of poverty is also higher for those who had previous poverty spells. However, poverty experiences are often fairly short in duration. (Rank and Hirschl 2001, 749-751.)

Especially labour market events have been found to trigger poverty when poverty profiles are analyzed. Those profiles indicate whether an individual belongs to the group of permanently poor, transient poor, recurrent poor or never poor. Poverty appears as a widespread phenomenon when its dynamics are studied because in the longer run, it has an effect on more people than from a static perspective. Therefore, income mobility and the persistence of poverty occur in mature welfare states. (Muffels, Fouarge and Dekker 2000; Tomlinson, Walker and Williams 2008, 598). Both transient-recurrent poverty and long-term poverty are stratified by gender, educational level and social class, but the effect is less strong in the case of transient-recurrent poverty (Vandecasteele 2010, 273). In other words, shorter-term poverty experiences are relatively more widespread in the population compared to persistent poverty experiences.

Besides spells and duration, the dynamics of poverty can be approached from the life event perspective. Anxo, Bosch and Rubery (2010) set an evaluation framework for important events, such as transition from school to work, independent living, parenthood, employment stability in prime age and retirement. The first three of these are important events, especially in young adulthood. The transition from school to work can be evaluated from the aspect of equality: are there opportunities for those who are less able academically and for both genders. Educational and training opportunities could be used as tools for empowerment so that a creation of new, possibly long-term disadvantaged group would be avoided. Additionally, demand for lifelong learning has provided second chances for those who dropped out of education and can provide an opportunity for promotion in later life. Some events, such as lone parenthood can be related to both annual and lifetime poverty whereas some characteristics, such as being in full-time education, are often related more to temporal poverty than poverty for the lifetime. Women tend to have lower lifetime incomes compared to men and the difference is reduced by pooling resources within the family

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and by interventions of tax and benefit system (Falkingham and Hills 1995d, 136). The impact of deprivation and incomes might be multiplied during the life cycle, and they might influence an individual's social status (Berney, Blane, Smith and Holland 2000, 79).

The occurrence of poverty experienced during the years of young adulthood has inspired several researchers (Aassve et al. 2007). The young adulthood is a vulnerable phase in the life course, because it is a time of important changes. Aassve et al. (2007, 316) claim that the transition from childhood to adulthood has become more complex, and in many countries more prolonged than it was before. Young adulthood is a stage when several potential poverty-triggering life events, such as leaving the parental home, partnership formation, having children, education and employment happen. Leaving the parental home has a causal effect on poverty entry, especially in the Scandinavian countries. This is not startling, since poverty is often measured as equivalent to household income. The higher risk of poverty in Scandinavian countries can be explained by housing arrangements – in these countries, it is more common for young people to live alone after departing from their parental home. In other countries young people are more likely to live together with a partner after leaving their home of origin. However, when poverty is studied in a dynamic context by comparing the difference before and after leaving the parental home for those who were not poor before the transition and who became poor after moving, the probability to become poor is higher in the Southern European countries than in the Northern European countries (Aassve et al. 2007, 319).

According to Iacovou and Skew (2010, 16), young people leave their parental home earliest in the Northern European countries, and latest in the Southern European countries; 50 percent of females have left their parental home by age 20 in Finland and Denmark, while the corresponding age is 27 or 28 in many of the Southern European countries. The patterns of living with a partner imitate the results of leaving the parental home, as living with a partner occurs earlier in the Nordic countries and later in the Southern countries. The difference between the average age of leaving

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the parental home and moving in with a partner is higher in the Nordic countries, while the period of living alone is shorter in the Southern countries. Leaving the parental home can be due to several reasons, such as entry into marriage or cohabitation, the formation of a one-person household or the continuation of education in another community (Philipov 2006, 25).

The years of young adulthood are often followed by the years of family life which also carry different risks. The probability of leaving poverty is lower in families with an unemployed family member or in families with many children. Longer durations of low-income periods increase the likelihood of entering poverty. However, having a spouse reduces the risk of a negative shift. (Lyytikäinen 2003, 55; Fouarge and Layte 2005, 417–423.) The higher risk of poverty for large families with three or more children can partly be explained by the different characteristics of the parents. Besides, it is also argued that family policies and child benefits packages have effect on the risk of poverty (Bradshaw et al. 2006, 47).

The economic vulnerability and higher risk of poverty are linked to households' ability to merge employment and parenthood; joblessness increases the poverty risk, especially in lone-parent families (OECD 2011, 40). Finding a balance between work and parenthood is related, for example, to the age of the youngest child. The eligibility to and amounts of some social benefit or payments vary according to the age of the youngest child. Furthermore, the size of the sole parent family is related to entitlements to these payments and the share of cost and care in the household. (OECD 2011, 216.) Furthermore, family structure may have an influence on poverty transitions, and life course events have an impact on the household level. (McKernan and Ratcliffe 2002, Lyytikäinen 2003, 55; Fouarge and Layte 2005, 417–423, Muffels et al. 2000, 26–31.) According to Rigg and Sefton (2006, 424) household income trajectories rise when children become independent for several reasons, i.e. leaving the parental home increases a household's equivalised income, creating the state of 'empty nest' or contributing to a household's income.



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The difficulty of studying poverty in families stems from the pooling of the resources within the families and households. According to Bauman (1999, 316) resource sharing could be measured in several ways; shared accounts, the spending of money, power over resources or their use to affect other member's wellbeing. The incomes of non-family household members, those not related or married to the household head, have an impact on the poverty of families, especially on young adults and single-parent families. When incomes of a cohabiting partner or other non-family members are accounted for in the resource base for calculating poverty, 55.6% of cohabiting families would not be counted as poor anymore, and approximately 60 percent of families with non-cohabiting housemates would not be counted as poor. (Bauman 1999, 315-319.)

Family life has many different forms and divorce or separation changes resources in the household. Single parent families are less likely to be poor than they were fifty years ago, but the number of single-parent families has increased, and therefore they still account for a large share of all poor families (Cancian and Reed 2009, 92). Partnership dissolution is associated with declining incomes for women, especially with children, but has less of an impact on men's income trajectories (Rigg and Sefton 2004, 424). Misra et al. (2007, 814-821) found out that having children increases the risk of poverty, particularly when children are young. Single mothers are in a more vulnerable position compared to families with two resident parents. The age of children has an effect on mothers' participation in the labour market, directly affecting their incomes, which are often compensated with a parental allowance for a certain time period. The employment of women protects them from poverty, as well as state provision for child care for young children under three years old, which is particularly important for single mothers.

Callens and Croux (2009, 383-387) note that marriage reduces the risk of becoming poor; while divorced women have five times higher probability of becoming poor compared to those who did not experience divorce. The effect was the opposite when poverty exit was studied. However, for men, the association was of little or no importance. The larger impact of divorce for women could

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be partly explained by the presence of children who usually stay with their mother and, therefore, the burden of household needs is larger for women. Fritzell and Henz (2001, 199) found out that marriage had a similar impact on exits from low income for males and females in Sweden. Nevertheless, the effect of divorce differs for men and women as the odds are higher for women. Callens and Croux (2009) state that changes in employment-related events are important factors for the poverty transitions of women, and even more important for men. However, demographic events have an influence only on women. However, these studies did not aim to explain what the impact of social transfers on poverty dynamics is.

According to Chapple (2009, 24), parental separation or divorce often causes a direct loss of a family earner, but it also often leads to loss of shared parental assets, such as a house in shared ownership. Divorce and separation do not only lead to the loss of one parental earner, but they also change the dynamics of the family and therefore can increase the cost or difficulties of combining work and family life and generating income. From children's perspective, there can also be non-material costs, such as a reduction of contact with the non-resident parent.

Single women and their children have a higher risk of entering into poverty when compared to other groups. Living in a single household does not increase the risk of poverty only for women, but also men. The single households have higher risk of poverty in the United Kingdom, Ireland, Germany, France, Finland and Denmark when compared to couple households with male heads. The effect is not the same in Southern European countries. (Vandecasteele 2007, 177.) Chapple (2009, 24) states that children living in single-parent families are more likely to have lower incomes than those living with two parents. Lone parent families tend to have more financial difficulties when compared to two-parent families, and these difficulties are often consequences of parental separation. Other changes related to family breakdown are among others changing the form of housing that can increase the negative outcomes for children. (Mooney, Oliver and Smith 2009, 2.)

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According to Vandecasteele (2010, 272), the risk of both transient-recurrent poverty and long-term poverty is higher for those who have a female household head one year after partnership dissolution. The families with a female head with dependent children are more vulnerable compared to the ones with a male household head or with an adult male in the household. These female-headed households are often formed after separation or divorce and they may have increased the risk of poverty, because of the women's caring responsibilities for children and the home combined with a possible economic dependency on the male breadwinner. However, due to the higher rates of separation and divorce, an increased number of lone mothers and delayed marriages mean that the effect of male incomes on the incomes of women and children in the household has decreased, as the amount of households without an adult male has decreased and simultaneously the economic dependency of women on market incomes has increased. Thus the traditional assumption of the male breadwinner and the male income as a protection towards poverty in a household fails in some western societies. (Ruspini 2002, 14-17.) Evandrou and Falkingham (1995, 179-183) found out that the duration and timing of lone motherhood has an impact on lifetime incomes, as a longer duration of lone motherhood decreases lifetime incomes. However, the effect of age on lifetime incomes is less clear, as the mothers who experience dissolution in older age have a less severe negative effect of divorce. Also, access to the labour market can diminish with the absence of a partner.

A study by the OECD (2011, 217) illuminates the impact of time spent in sole parenthood on poverty. Even short periods of lone parenthood increase the risk of poverty, as well as joblessness. Poverty is most persistent for those who do not re-partner. (OECD 2011, 213-217.) Dewilde and Uunk (2008) tested if remarriage helps to overcome the post-divorce financial burden in a comparative context in 11 European countries by using the European Community Household Panel (ECHP). They found out that re-partnering has a positive effect on incomes and that women with low incomes before divorce are more likely to remarry if the divorce is immediately followed by an income decline. However, repartnering is not more important way to exit poverty in countries where women are less economically independent than elsewhere.

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Some researcher have combined the risk of poverty with several characteristics that could explain the poverty transitions instead of focusing on poverty in one specific life stage. When poverty dynamics<sup>21</sup> were compared in eight countries– Canada, France (Province of Lorraine), the Federal Republic of Germany (excluding the former East Germany), Ireland, Luxembourg, the Netherlands, Sweden and the United States — during the 1980s, poverty rates were found to vary widely across countries and according to certain characteristics of individuals and households. (Duncan, Gustafsson, Hauser, Schmauss, Messinger, Muffels, Nolan and Ray 1993, 217-218.) When events related to poverty exits and entries were studied, transitions out of poverty were associated with events such as marriage, employment<sup>22</sup> and the receipt of social insurance benefits. The impact of these events varied between the countries. Marriage accounted for one–tenth of poverty exits in Canada, Germany and Sweden; the beginning of the receipt of social insurance benefits was an important factor in Canada, Ireland, Sweden and the United States<sup>23</sup>. Nonetheless, employment was found to be the most common cause of poverty exit in all countries. The causes for entering into poverty were closely linked to the events reducing the risk of poverty, as the

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<sup>21</sup>Poverty was defined in two ways: as a median income based on threshold of 50 percent of equivalence national median income with equivalence scale of 1= first adult, 0.75= subsequent adult, 0.5= children. The transition out of poverty is measure with an ‘escape from median-income-based poverty’ to at least 60 percent of the national median one year later. The second approach used is ‘bottom decile’ approach in which the poverty threshold is set as where the same equivalence scale is used but the families belonging to the bottom 10 percent of income distribution in a country are defined to be in poverty. The transition is measured as movement to the at least 20 percent higher decile in following year. Data used were The Longitudinal Administrative Database for Canada, The Socio-Economic Panel (SOEP) for Germany, a two-wave household panel study managed by the Economic and Social Research Institute for Ireland, the Liewen zu Letzebuerg household panel for Luxembourg, the Lorraine Household Panel for France (Lorraine), the Dutch Socio-Economic Panel Project (SEP) for the Netherlands, the Household Income Survey (HINK) for Sweden and the Panel Study of Income Dynamics (PSID) for the United States. (Duncan et al. 1993, 229.

<sup>22</sup> Change in the number of working family members or increase in working hours.

<sup>23</sup> In United States the findings were valid for those defined “black” in the survey.

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employment-related events are the most significant event related to poverty entrance, as the loss of work or reduced working hours accounted for more than half of the poverty entries in Canada, the United States and Luxembourg and for at least one-fourth in other countries. The termination of social insurance benefits was linked to 7 to 19 percent of the poverty entries, and the change in family structure in the form of divorce or separation accounted for 6 to 19 percent. However, the effect of separation or divorce was found to be less prominent in the United States than in other countries in comparison (Duncan et al. 1993, 224-227).

McKernan and Ratcliffe (2002) discovered that poverty transitions can be interpreted in several ways. Changes in household labour market status, functional abilities and family structure have a significant impact on both negative and positive poverty transitions. McLanahan and Percheski (2008, 270-271) argue that the family structure should be seen as a consequence of income inequality, as well as a cause of future inequalities of income. Moisio (2004) examined longitudinal poverty in 13 European Union countries from the late 1990s to early 2000s. Moisio's study established that the probability of experiencing poverty varies between different groups in the population, and that even one period of poverty increases the likelihood of recurrence. The length of poverty and frequency related to a population were similar to poverty rates. Research by the OECD (2008, 171) revealed that the risk of long-term poverty is higher for the elderly, women and unemployed households. In cross-country comparisons, family-related changes were more significant in Europe and decrease in income-related factors in the United States. Poverty was more likely to occur for those whose previous period of poverty had been long-term or who had experienced poverty in the past (McKernan and Ratcliffe (2002, 21).

Vandecasteele (2010) has examined poverty transitions and the impact of social status on these in relation to childbirth, changes in labour market positions and divorce or separation. Her research reveals that the birth of a child increases the likelihood of poverty for those in a poorer position, but its effect was not seen in other groups in Europe. The risk of poverty is high especially for

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single mothers and households with long-term unemployment. Divorce or separation increase the risk of a negative shift to poverty, especially among women, while unemployment increased the likelihood of negative poverty transition for all groups. Vandecasteele (2010) showed that poverty risk after experiencing a life course event is not evenly large and long in duration in comparison between Germany, Spain, Denmark and the United Kingdom.<sup>24</sup>

According to some studies, the probability of poverty entry is higher for those who have lost their jobs, retired, ended up as single parents or have lost their health (Bane and Ellwood 1986; DiPrete and McManus 2000; Jenkins 2000; Cappellari and Jenkins 2004). European countries are different from a welfare regimes point of view: countries with a Social Democratic regime have a lower risk of short- and long-term poverty than countries with other regimes. In Liberal and Southern European welfare regimes, the risk of poverty is higher and the duration of poverty longer when regimes are compared. (Fouarge and Layte 2005, 423.) DiPrete (2002) made similar findings when Sweden, Germany and the United States were compared.

Previous studies indicate that changes in labour market status, social status or family structure affect poverty transitions. (OECD 2008, Penttilä et al. 2003; McKernan and Ratcliffe 2002; Lyytikäinen 2003; Vandecasteele 2010.) According to Tomlinson and Walker (2010, 29), the risk of poverty is highest for those who are less educated, single parents or unemployed. The duration of poverty has also been found to hamper the transition out of poverty (Bane and Elwood 1986; Fouarge and Layte 2005, 417–418; Lyytikäinen 2003). Changes both in society and family structures have a great impact on poverty, and increase the need for updated research on these new social risks. It appears that social security systems have not been able to respond to these changes

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<sup>24</sup>Data used in this study was the European Community Household Panel.

#### 4. The Concept, Measure and Dynamics of Poverty

in labour market and family structure, or to challenges caused by ageing. (Kangas and Ritakallio 2005, 57–58; Dewilde 2003, 109.) However, these studies do not show what factors secure individuals or cause greater risk in certain life course events that trigger poverty transitions for some individuals more than others.

The study of poverty dynamics can go beyond the individual life course by reaching the link between generations. Johnson and Reed (1996, 135) reported that there is a clear, intergenerational transmission related to unemployment. Those who have a poorer background and have an unemployed father are more likely to end up unemployed. As a consequence, the poverty can be inherited from one generation to the other.

### 4.3 The Life Course of Poverty in Germany and the UK

Figure 6 presents the variation in the poverty rates with age<sup>25</sup> in Germany, East and West Germany and the United Kingdom with 60 percent poverty threshold (see also figures 7 and 8 for poverty rates of 50 and 40 percent threshold). The poverty rates in the UK follow similar pattern with all the thresholds. The years of young adulthood between 18 and 24 are the years of highest risk of poverty. After these years the risk of poverty decreases with a modest decrease in the early 30s and later in early 60s. The risk of poverty is lowest in the years of primary working age. Therefore,

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<sup>25</sup> The poverty rates are calculated as a rolling average to smooth sharp changes between years that could be caused by the differences in the sample of the data. Hence the poverty rates are calculated as follows:  $Poverty\ rate = \frac{(t-1)+t+(t+1)}{3}$ , for the all the observation years except the first and last year in the data. For the first year the average is calculated:  $Poverty\ rate\ 1st\ year = \frac{t+t+(t+1)}{3}$  and for the last year of the data:  $Poverty\ rate\ last\ year = \frac{t+t+(t-1)}{3}$ . The data sources are the CNEF BHPS data for years 1991-2006 and CNEF SoeP data for years 1993-2013.

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we can summarise that in the United Kingdom, poverty patterns follow the expected pattern based on the life-cycle of poverty theory, even though the variation in age is more modest than in original theory. Overall, we can also say that the poverty risk in general has decreased over time.

The poverty patterns in Germany and West Germany follow similar patterns with each other, since the poverty rates are highest for young adults in their mid-20s and lowest for the primary working age. The risk of poverty increases slowly after age 50. However, in the years 1993-1994 the risk of poverty of those in their mid-50s and early 60s increases drastically within all the areas. The increase is biggest in the East Germany. We can assume part of this increase was linked to the years following the unification of Germany, changes in the labour market and growing unemployment. This group was too young to retire, and at the same time, their employment opportunities could have been lower. In the following years, we cannot observe similar risk among this age group. Nevertheless, when we compare the risk of poverty over time in Germany, East and West Germany, the differences very clear as the risk of poverty in West Germany has followed similar patterns over time while the differences in East are striking. Unlike in the UK, the risk of poverty has increased over time and therefore the poverty rates are highest in years 2011-2013.



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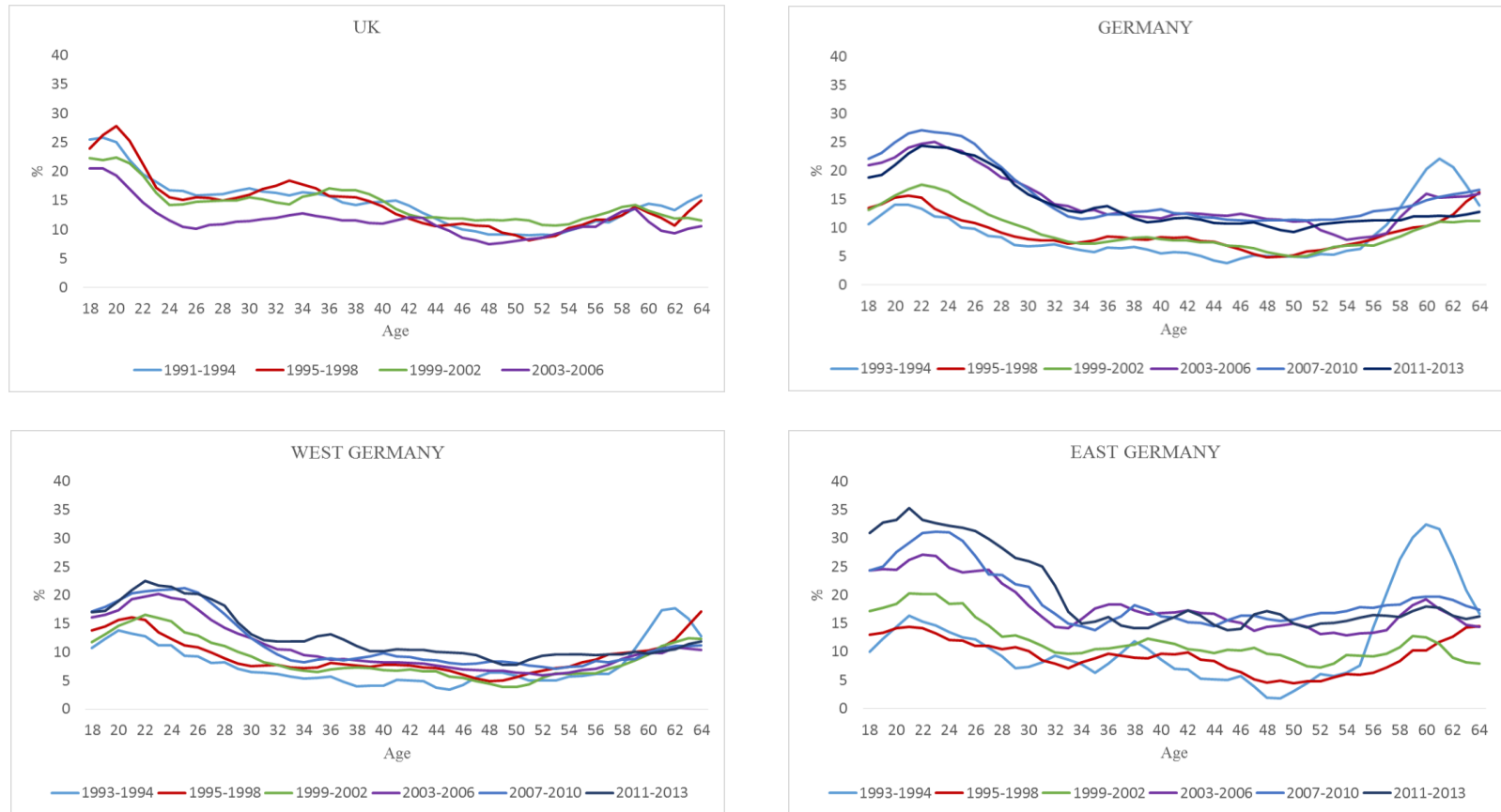


Figure 5 Poverty rates and age in Germany, East and West Germany and the UK measured with 60 percent threshold, (%)

#### 4. The Concept, Measure and Dynamics of Poverty

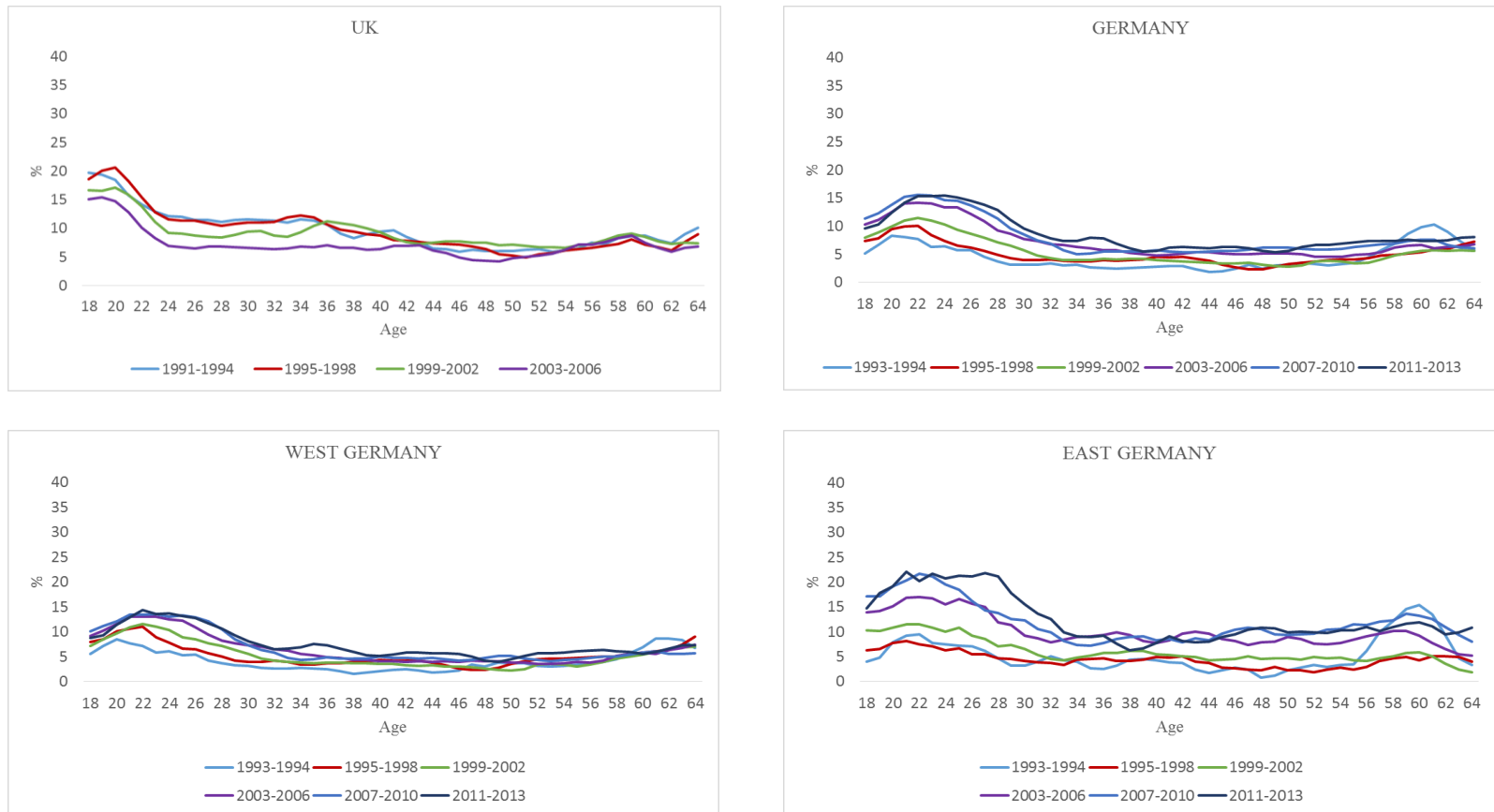


Figure 6 Poverty rates and age in Germany, East and West Germany and the UK measured with 50 percent threshold, (%)

#### 4. The Concept, Measure and Dynamics of Poverty

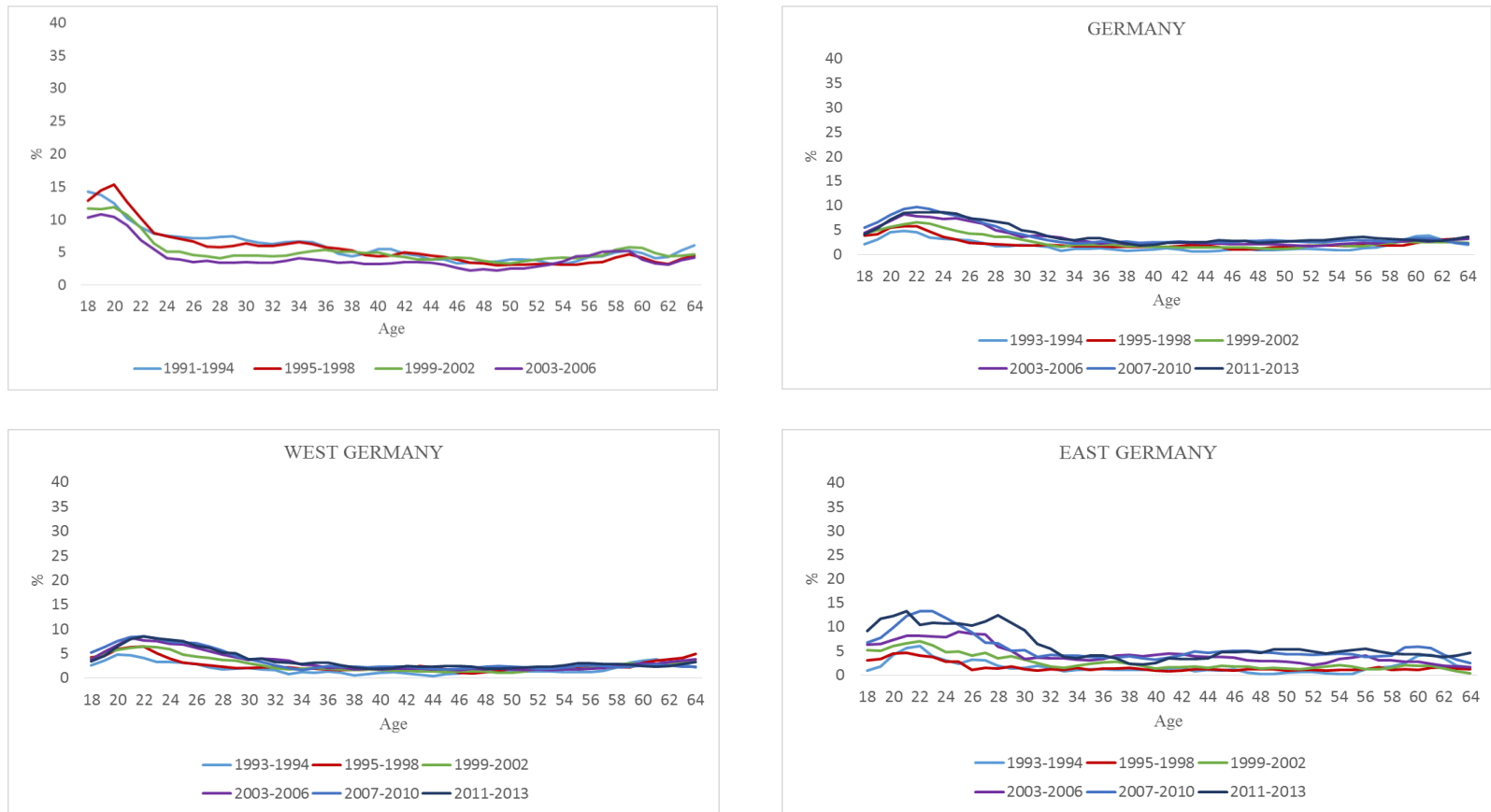


Figure 7 Poverty rates and age in Germany, East and West Germany and the UK measured with 40 percent threshold, (%)

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In addition to the variation of poverty according to the age, the life stage has important effect on the poverty risk. Figures 5, 6 and 7 tests the theory presented in Rowntree's (1901) study of times of need and plenty by presenting three different life stages: young adulthood from 18 to 25 years of age without children (*Youth*), family life of those aged 25 to 40 with children (*Family*), and those over 40 with the phase of "empty nest" (*Empty nest*) in a similar manner with the study made by Kangas and Palme (2000).

Figure 5 shows that poverty risk indeed varies depending on the life stage in Germany, East and West Germany and the United Kingdom from the early 1990s to the 2010s. However, only the UK seems to follow the pattern presented in Rowntree's (1901) study. Poverty experiences are less common in the phase of youth without children, while the risk increases in the stage of family life and again is lower in the phase of "empty nest." In Germany, the patterns of poverty in different life stages are similar in all cases, but the level of poverty is higher in East Germany. The poverty risk is highest in youth, and decreased in the family and empty nest phases. These findings are similar to the ones made by Kangas and Palme (2000, 341-343), however, they do reveal differences between German and British poverty experiences, as the patterns reveal that youth is not a stage of "plenty," but a stage of "need" in Germany.

The findings of the poverty rate of 50 (Figure 10) are similar with the 60 percent threshold, however, the measure of 40 percent (Figure 11) follows a similar pattern in Germany, East and West Germany, but the pattern is different in the UK compared to the previous measures. The stage of youth remains at the highest risk of poverty, but the stage of family does not present increased risk and the risk declines with the empty nest. The link between the life stage and poverty risk can be explained with the changes in needs and resources in the household.

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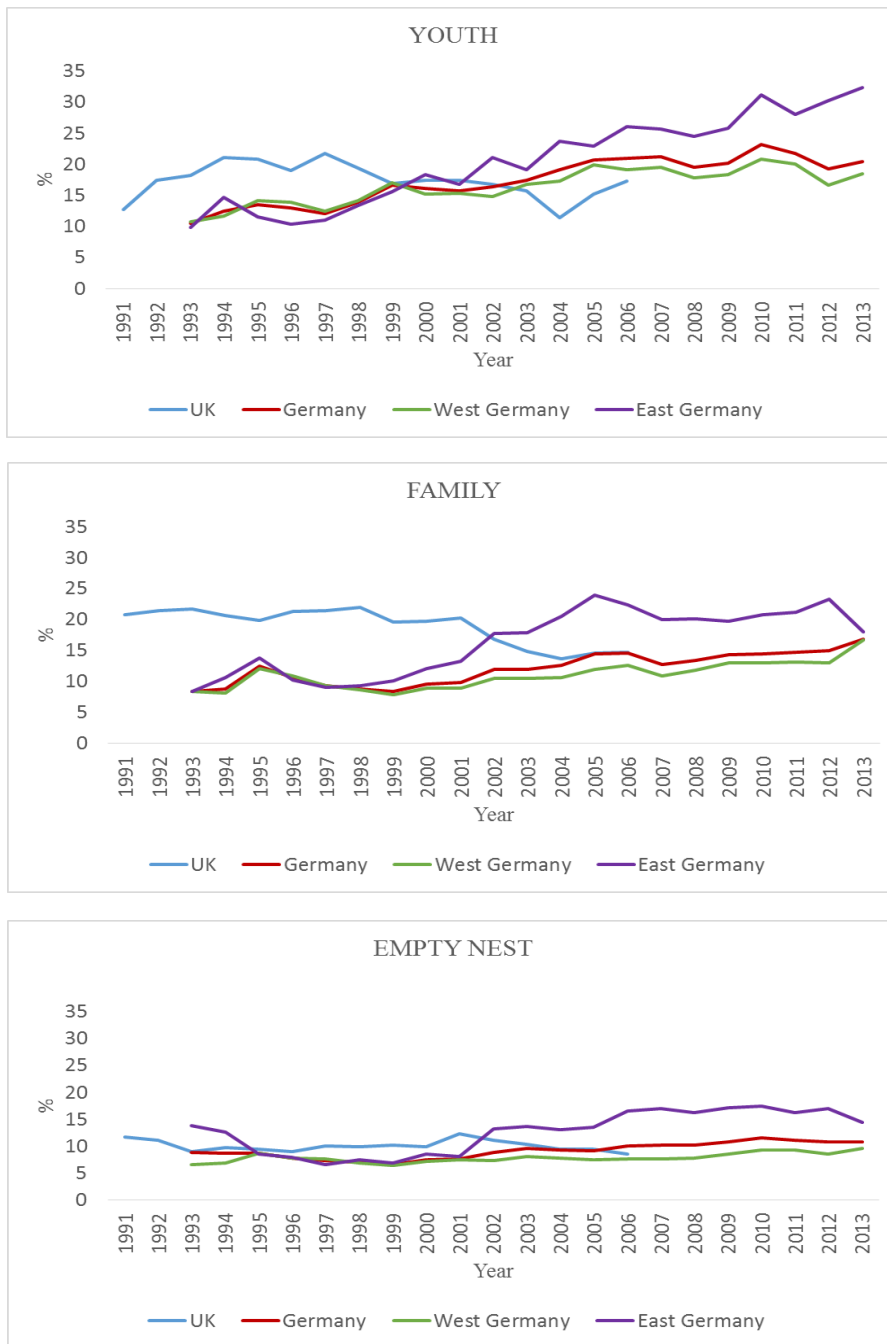


Figure 8 Poverty rate measured with 60 percent threshold according to the life stage in Germany, East and West Germany and the UK, (%)

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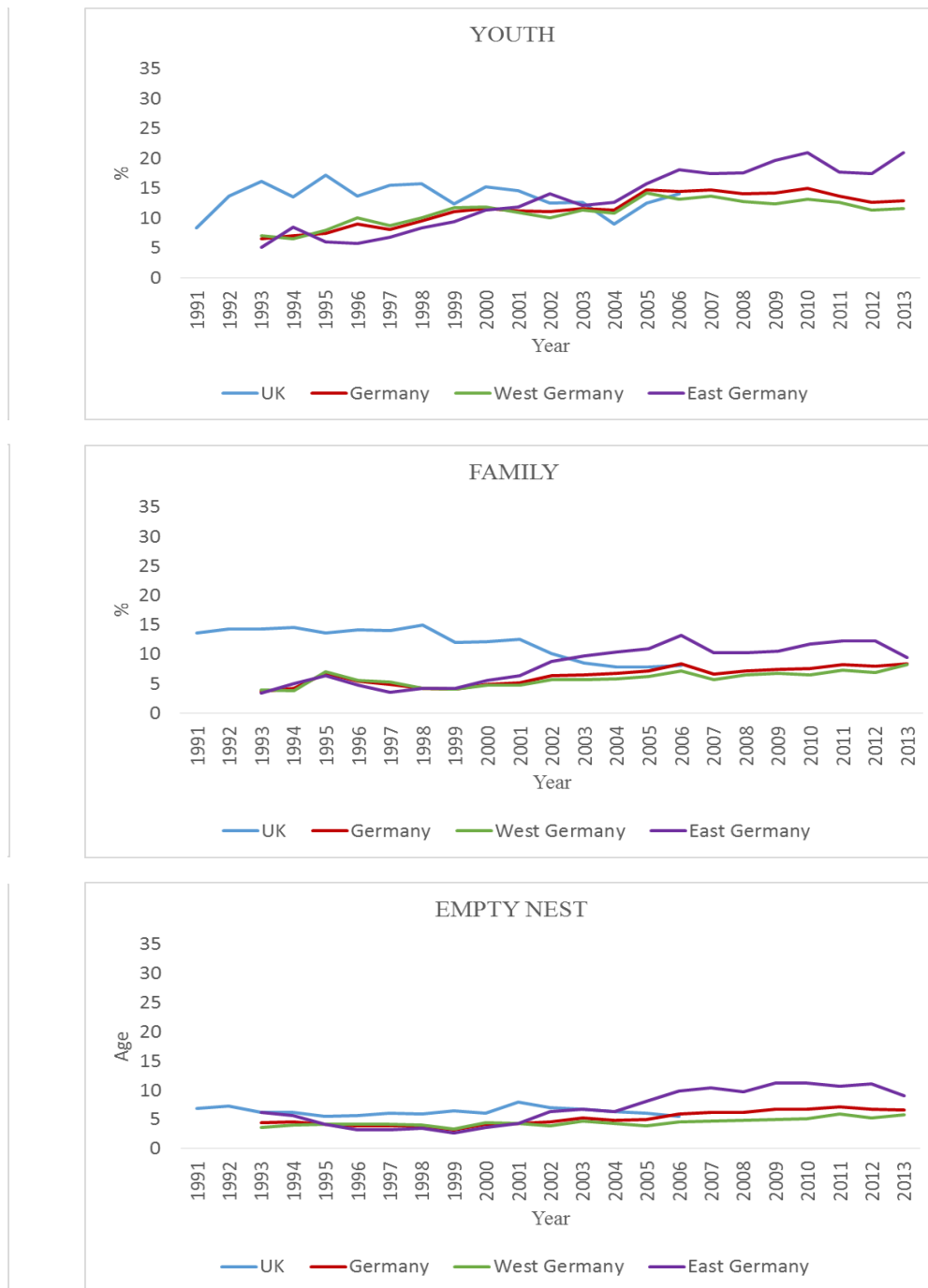


Figure 9 Poverty rate measured with 50 percent threshold according to the life stage in Germany, East and West Germany and the UK, (%)

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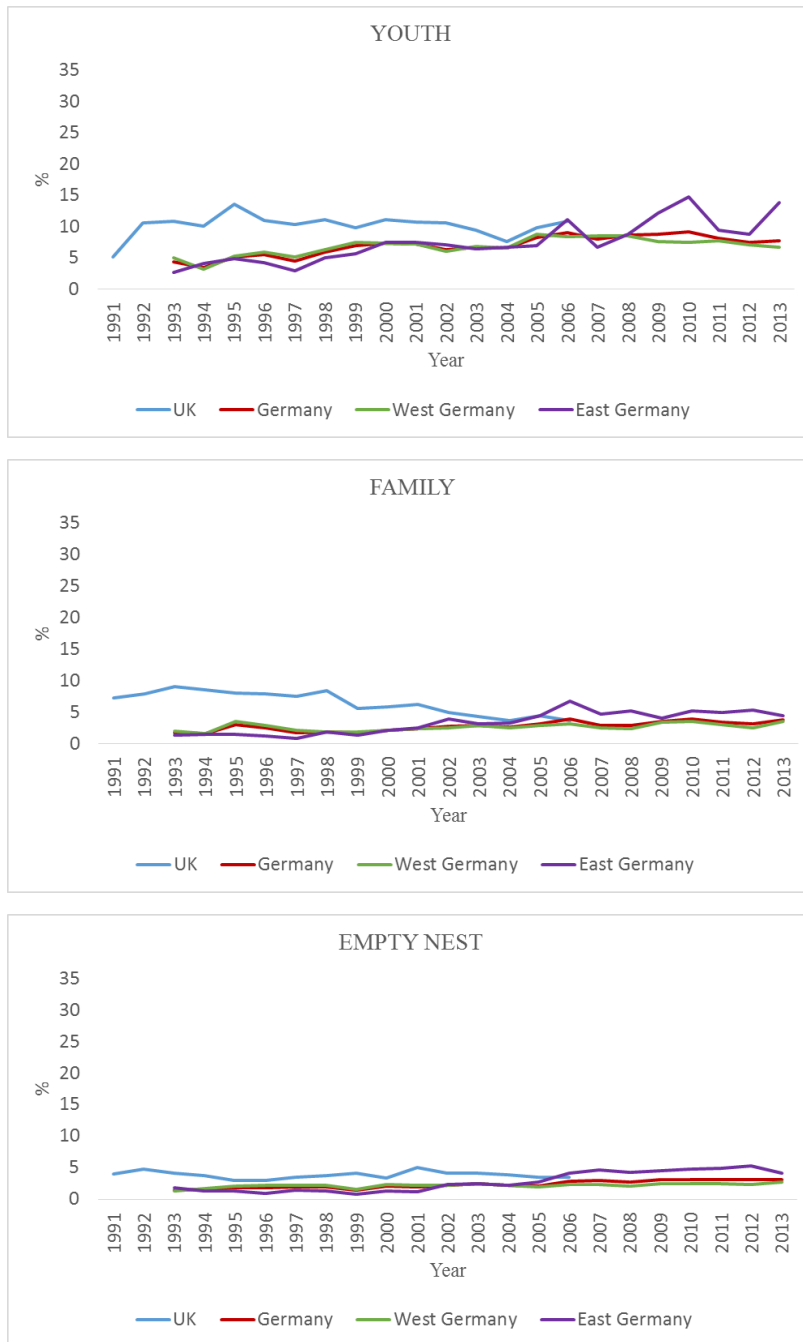


Figure 10 Poverty rate measured with 40 percent threshold according to the life stage in Germany, East and West Germany and the UK, (%)

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However, when poverty rates by life stage are compared over time, the trends in the UK and Germany differ as the poverty trends are decreasing in the UK and increasing in Germany. Hence, we can assume that the policies aimed to those in need have been successful in the UK.

### **4.4 Conclusions**

This chapter's results confirm that the United Kingdom follows the expected pattern of the theory of life cycle of poverty with a more modest variation of the original theory when impact of age and life stage were studied. The poverty risk varied depending on the life stage in Germany, East and West Germany and the United Kingdom from the early 1990s to the 2010s. Poverty experiences are less common in the phase of youth without children, while the risk increases at the stage of family life and again is lower at the phase of "empty nest." In Germany, the patterns of poverty in different life stages are similar in all three cases, but the rate of poverty was found to be higher in East Germany. Young people experience the risk of poverty, and the rate is decreased in the family and empty nest phases. These findings are similar to the ones made by Kangas and Palme (2000, 341-343), however, they do reveal differences between German and British poverty experiences, since the patterns reveal that youth is not a stage of "plenty," but a stage of "need" in Germany.

The findings of this chapter challenge the theory of Rowntree, as the stage of young adulthood is not linked to the phase of comparative plenty, similar to the findings of Falkingham and Hills (1995b, 97-98). Similar results were found in the analysis of links between poverty and age. Poverty indeed seems to be shifted and experienced particularly in younger age. Also, a similar effect is observed of the family stage with less noticeable impact as the empty nest phase remains as a phase of comparative plenty like in the study of Falkingham and Hill (1995, 97-98). Furthermore, the sensitivity of the chosen poverty rate was found to be linked to the most severe measure of poverty, while the poverty lines of 50 and 60 followed a similar trend.



#### 4. The Concept, Measure and Dynamics of Poverty

## **5. Changing Patterns of Poverty in Germany and the United Kingdom**

This chapter summarizes some of the existing poverty research in Germany and the United Kingdom, first by presenting the comparative studies (Chapter 5.1) and after that with national perspective for Germany (Chapter 5.2) and the UK (Chapter 5.3). Chapter 5.2 presents the differences between East and West Germany and hence explains why these cases should be studied separately.

### **5.1 Comparison of Poverty in Germany and the United Kingdom**

Several researchers have included Germany and the United Kingdom in their studies either in larger country comparisons or by comparing these two countries with each other. The case selection can be explained in several ways. First, it can be data driven and hence based on the availability of comparable data. The second reason raises from the theoretical interest to compare different outcomes of these welfare states.

The foundation of comparative poverty research, as the example in hand, is built on the hypothesis that poverty transitions and duration are linked to the welfare states and, therefore, different countries differ in the degree and allocation of poverty. Similar assumptions motivate the study of multidimensional poverty<sup>26</sup> in Germany and the United Kingdom by Böhnke and Delhey (1999).

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<sup>26</sup>The data used in this research was the Cross-National Equivalent File (CNEF) combined with information from the Panels Study for Income Dynamics (PSID) for the US, the British Household Panel Survey (BHPS) for Great Britain and the German Socio-Economic Panel (GSOEP). The cross-sectional approach was based on the year 1993 and the comparison of poverty trends during the 1980s and 1990s. The poverty threshold was set to the relevant country

## 5. Changing Patterns of Poverty in Germany and the United Kingdom

They state that different welfare systems and social policies are likely to cause dissimilar deprivation risks. Additionally, the study combines income poverty with the concept of deprivation to find those who are more likely to be poor both with low income and a low standard of living. Especially in Britain, the low level of income<sup>27</sup> was found to be connected to the high level of deprivation, measured by a list of necessities in the country. The level of deprivation was found to be much higher in each income group in Britain than in East or West Germany. However, the structure of the deprivation is similar in both countries as unemployed, single parents and families with more than two children are more likely to be exposed to deprivation. (Böhnke and Delhey 1999, 12, 19.)

Some previous studies have coupled poverty transitions with several characteristics. In comparison between Canada, unified Germany, Great Britain and the United States the characteristics related to poverty entries were found to be quite similar. However, some characteristics differed when countries were compared: the households with a young household head had a higher risk of poverty entry in Great Britain and the U.S. than in Canada and Germany. Furthermore, a low level of education of the household head had a higher impact on poverty transition in the U.S. when compared to those with a higher level of education. Unemployment, the loss of the job of the household head or the spouse were found to have a higher impact on poverty entry than any other factors. In general, the effect of divorce was observed to be high in all the countries in comparison because those who were divorced had a three to six times higher risk of poverty entry than those whose marital status did not change. However, when poverty exits were compared, the effect of

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specific poverty line, equal to 60 percent of the contemporaneous national median income; the equivalence scale used was the square root scale. (Biewen and Jenkins 2002, 5-7).

<sup>27</sup> Incomes were measured as an average household income on the basis of an equivalent scale.

## 5. Changing Patterns of Poverty in Germany and the United Kingdom

marriage on poverty exit was acknowledged to be smaller in Germany than in other countries (Valletta 2006, 279-280).

Some other researchers set a special focus on the comparison of one life stage or characteristic such as family phase, divorce, lone parenthood or gender. Casper, McLanahan and Garfinkel (1994) compared the poverty rates by gender in the United States, Canada, Australia, the United Kingdom, West Germany, Sweden, Italy and the Netherlands by focusing on six demographic characteristics related to both individuals' family incomes and the ratio of dependents to earners in the family (dependency ratio). These characteristics were age, level of education, employment status, marital status, parental status and a combination of marital and parental status as a measure of describing single parenthood. The three first ones are related to the person's earnings capacity and the last ones are linked to the dependency obligations. The highest poverty rates were found in the United States, varying from 18.2 percent for women and 12.9 percent for men, and the lowest poverty rates were in Sweden, Germany and the Netherlands. Men had lower poverty rates than women in all other countries, except Sweden, where the poverty rates were 8.6 for women and 9.6 for men in 1987. (Casper, McLanahan and Garfinkel 1994, 594-599.)

Some researchers have focused on the poverty in families or child poverty. Partnership dissolution of the parents increased the risk of poverty for children in both Germany (51 % of those whose household became a lone parent household) and the United Kingdom (41% moved into poverty after becoming a lone parent household) (Jenkins, Schluter and Wagner 2000, 10-11).

## 5. Changing Patterns of Poverty in Germany and the United Kingdom

Jenkins, Schluter and Wagner (2000) compared the poverty<sup>28</sup> of children in Germany and the United Kingdom from 1992 to 1997 by using the data from the British Household Panel Survey and the German Socio-Economic Panel. Their results reveal that child poverty was more persistent in Britain and the poverty exit rates lower compared to Germany. Poverty had a particularly persistent nature among the children living with lone parents, and the dissolution of a parental partnership and labour market attachment had an impact on exits from and entries into poverty. However, a large fraction of poverty transitions were associated with changes in parental labour earnings, such as a reduction in working hours that did not involve a job change and were not accounted for with events of dissolution or labour market attachment. Children living in a household with a household head in full-time work or at with at least one secondary earner in the household are less likely to never experience poverty over a four-year period in both Germany and the United Kingdom. However, employment of the household head does not protect all children from poverty: almost one third of the children living in these types of households in the UK and one quarter in Germany had at least a one-year poverty spell during the four-year research period. Jenkins, Schluter and Wagner (2000, 13) summarize the results of their study as follows: In the United Kingdom, children experience longer poverty spells and shorter recurrence times than children in Germany. However, in both countries, poverty is more persistent for children compared to the whole population, and the children in lone parent households as well as households with a non-working household head are more likely to experience persistent or chronic poverty.

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<sup>28</sup>The equivalence scale used was the so-called “square root” scale, which divides each household’s income by the square root of the household size and the poverty line of 60 percent of the contemporary national income (Jenkins, Schluter and Wagner 2000, 3).

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Jenkins and Schluter (2003) compared the child poverty<sup>29</sup> rates in Britain and West Germany during the 1990s by focusing on poverty transition rates in these countries. In addition, they explored the poverty-triggering events and the differences in the impact of these events. In Britain, children had lower rates of exit from poverty and higher rates of poverty entries when compared to Western Germany. These differences are related to the prevalence of poverty-triggering effects, such as changes in the family form or activity in the labour market. However, chances of poverty transitions are also conditional to the occurrence of these triggering effects. These differences in child poverty transition rates also reflect differences between the British and German welfare states and the impact of the policies they provide. The German system moderates more the adverse events and simultaneously reinforces the positive events. (Jenkins and Schluter 2003, 462-464.)

Lone parent families were proven to have higher risk of poverty in many studies. Biewen and Jenkins (2002, 8-9) state that individuals in lone mother households have a higher risk of poverty in the United States compared to Germany and Great Britain. However, when further variables, such as additional children or employment status of the lone mothers, were studied, the risk of poverty among the lone mothers varied in all countries according to their characteristics. Lone mothers with additional children in the family – two or three children instead of one child — have a higher poverty risk in Britain than in Germany. In Britain, the poverty risk of lone mothers was reduced by 3.2 percentage points if the lone mother had more than a high school degree, whereas the difference in Germany was 17.3 percentage points. Unemployment increased the poverty rates

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<sup>29</sup> Jenkins and Schluter (2003, 448-451) used eight waves of the British Household Panel Survey (BHPS) and the German Socio-Economic Panel (GSOEP) from the survey years 1991-1998; the household income measures are from the Cross-National Equivalent File 2001 edition. The equivalence scale is one of the two-parameter scales recommended by the U.S. national Research Council Panel on Poverty and Family Assistance, and in addition to this scale where  $m = [(number\ of\ adults) + \alpha * (number\ of\ children)]^\beta$  in which  $m$  is the household equivalence factor. The poverty threshold is 60 percent of contemporary national median income.

## 5. Changing Patterns of Poverty in Germany and the United Kingdom

in Britain by 42.6 percent compared to those in employment, and in Germany by 34 percentage points. Additionally, non-employed lone mothers had a higher risk of poverty of 39 percentage points in Britain and 25.6 in Germany compared to lone mothers in employment. An older age of lone mothers was found to decrease the risk of poverty more in Germany (11.8) than in Britain (4.8) when mothers aged 42 to 64 were compared to those between 18 to 41 years old. When lone fathers were compared to lone mothers with similar characteristics, they were less likely to be in poverty, as their probability of being poor was 7.6 percentage points lower than that of mothers in Britain and 5.8 percentage points lower in Germany.

According to Valletta (2006, 280), single-headed households with children were discovered to have a high risk of chronic poverty in Canada, Germany, Great Britain and the U.S. However, the effect of having a single household head is smaller in Germany than in other countries. This can be explained by the social policies targeted at the well-being of this type of families in Germany. The likelihood of poverty is also particularly high among those families with no full-time worker in the household, especially in Canada and the U.S. Family stability and attainment to the labour market are key characteristics in poverty alleviation, as well as policies, such as childcare subsidies, which strengthen these characteristics. Therefore, the persistence of poverty in the U.S. despite the high association between government transfers and exits from poverty suggest that the existing policies were inadequate. However, in Germany and Great Britain, the direct government transfers were found to reduce the persistence of poverty successfully. (Valletta 2006, 282-283.) In addition, poverty<sup>30</sup> was observed to be more persistent in North America compared to Great

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<sup>30</sup> Valletta (2006, 262-265) used data from the Cross National Equivalent Files (CNEF), which include information from national household panel data, such as the Canadian Survey of Labour and Income Dynamics (SLID), the German Socio-Economic Panel (GSOEP), the British Household Panel Survey (BHPS) and the United States Panel Study of Income Dynamics (PSID). The six-year panel data was constructed for each country, for Canada in/for? 1993-1998 and for Germany, Great Britain and the United States in 1991-1996. The poverty threshold is set as 50

## 5. Changing Patterns of Poverty in Germany and the United Kingdom

Britain and the unified Germany, where the tax and transfer policies were observed to be more effective in the reduction of persistence of poverty. However, there were also similarities between the characteristics influencing both poverty transitions and the occurrence of chronic poverty in all four countries, as employment instability and family dissolution were found to be associated with the prevalence of poverty dynamics and duration (Valletta 2006, 261).

Lone mothers' risk of poverty was discovered to be higher for lone mothers in Britain compared to Germany. The British lone mothers were also found to be more likely to be dependent on state support. Part of the higher poverty risk in Britain can be understood through the weak position of lone mothers in the labour market due to minimal assistance with childcare and highly effective marginal taxes. In Germany, the risk of poverty for lone mothers can be explained through the dependency of women on their spouses, as the system provides incentives for the traditional division of labour via tax transfers that favour married and one-earner couples. Lone mothers in Britain and Germany have rather high rates of mobility into and out of poverty<sup>31</sup>. Hence, poverty can be seen as a permanent situation for a minority of lone mothers. However, the spells of poverty are longer compared to married mothers (Ruspini 2009, 104-7.)

The spells of poverty were in the interest of Muffels, Fouarge and Dekker (1999, 10-11). They revealed that one fifth of the people are at risk of poverty in Germany during the five year observation period between 1991 and 1995, while the amount of people prone to poverty in the

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percent of equivalence national median income for each country and the equivalence scale used is the square root of household size. The results for the United States will be presented also with the official U.S. poverty threshold.

<sup>31</sup> Poverty was measured with a 50 percent poverty threshold and in short term poverty were those with a single spell of poverty lasting for 2 years or less, in persistent poverty those with a single spell of poverty lasting at least 3 years and recurrent poverty as more than one spell of poverty (Ruspini 2009, 106).



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UK at the same time was almost one third. In the medium term, which refers to a duration of five years in poverty, individuals are more likely to face poverty in the UK compared to Germany. However, in both countries studied, the majority of people are never poor, a significant proportion experiences poverty once, but the countries differ when those in persistent poverty were studied. Persistent poverty is more common in the UK compared to Germany in a given time period. When poverty profiles were compared, the findings suggested that the level of *transient poverty* (referring to a single year in poverty), *recurrent poverty* (referring to poverty experienced more than once but never for longer than two years) and *persistent poverty* (referring to the experience of at least three consecutive years in poverty) were higher in the UK than in Germany. (Muffels, Fouarge and Dekker 1999, 11-12.)

When the duration of poverty spells were compared pre- and post-government, poverty spells were similar in Germany and in the United Kingdom. However, as one of the tasks of the welfare states is to reduce poverty, the spells were shorter after governmental interactions, suggesting that the market fails to prevent the occurrence of persistent poverty. (Muffels, Fouarge and Dekkers 1999, 12.) To summarise their findings, most of the poverty spells end after one or two years. Most poverty spells end within the first three years, but the likelihood of escaping poverty after three years in poverty is low. When the duration of poverty is compared pre- and post-governmental interventions, the duration is shorter after governmental involvement.

### **5.2 The Picture of Poverty in Germany**

Poverty in Germany has been vastly researched as a part of comparative poverty studies, but also in studies focusing on poverty in Germany. Comparative studies of Germany have mostly considered Germany as one unit, or only West Germany has been included in the research. This is partly due to the limitations of the data available for East Germany, as well as the historical background of East Germany. This chapter sheds light on those studies by focusing on the

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differences between East and West Germany in addition to the research conducted in Germany after its reunification.

To summarize, the changing face of poverty, its definition as well as the approach to poverty have transformed significantly in Germany from the 1950s to the current day. Leibfried and Leisering (1995, 231) presented the evolution of the poverty definition and measure from the 1950s to the 1990s. The allocation of poverty, in other words the groups afflicted by poverty, have evolved from the poverty of the population to individual poverty, and from the poverty of certain groups to a more mobile understanding of those who are affected by the poverty experience. The causes of poverty have also changed over time, from poverty caused by structural reasons, such as a consequence of war, to more individually-based explanations. Poverty was linked to the fate of a person and hence as the fault of an individual. The fate-based explanation was replaced by the idea of poverty being a consequence of the actions of the welfare state in the 1970s and 1980s as a result of structural elements, such as unemployment. The time element of poverty can be seen as temporary or long-term, because the understanding of poverty as a phenomenon that exists in society for a longer duration changed in the 1970s onwards. Therefore, poverty was seen as a long-term challenge that was not likely to disappear from society. This can also be linked to different measures of poverty, as the concept of relative poverty has become more common than the absolute form of poverty.

*“Poverty did not appear to exist in the GDR,”* states Matheja-Theaker (2003, 132), as *“the GDR society did not perceive them (low living standards for some groups) as a problem”* (2003, 132). The lower level of living standards was closely linked to the everyday life of those who could have been considered working poor, as their work incomes were maintained below average. However, due to the subsidy system to cover basic needs such as food, housing, employment and childcare, the poverty characterised by malnutrition, homelessness and unemployment was not considered

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existing. Mayer (2006, 39-40)<sup>32</sup> adds interesting findings on social inequality in the GDR by stating that the degree of the socioeconomic and sociocultural differences within the GDR were low. Hence, small exceptions on the norm had a large subjective significance, as the opportunities to show status differences, such as ownership of a car, house or clothing were very limited. The contrast between studies made before the reunification of West and East Germany can be seen in the poverty definition used in these studies. In West Germany and prior to the reunification, poverty was often measured as income poverty, while the few unofficial poverty studies made in the East emphasized a more relative approach in the form of different life situations and multiple deprivation. (Voges and Jürgens 2003, 72.)

Hauser and Semrau (1989, 1-15) explain that the lack of poverty research in West Germany, compared to countries such as the United States, is related to the limitation set by the official statistics in West Germany (FRG) that did not allow for extensive poverty research. Hence their research was aimed at filling the gap in the literature for the two decades from the 1960s to the 1980s. Their study focuses on the extent and trends of poverty in the Federal Republic of Germany from 1962/63 to 1986.<sup>33</sup> The findings suggest that poverty decreased significantly between 1962/63 to 1973 and increased from 1973 to the mid-1980s. However, the trends of poverty were different for different groups; the poverty risk of the elderly has decreased, while the risk has increased for children, young adults and lone parents. However, differences between men and women were found to decrease, suggesting that there has not been a feminisation of poverty in

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<sup>32</sup> Findings are based on the GDR Life History Study on cohorts born between 1929 and 1961 (Mayer 2006).

<sup>33</sup>The data used in this study was derived from the Social Assistance Statistics, the Income and Expenditure Survey for the years from 1962/63 to 1983 and the German Socio-Economic Panel from 1983 to 1986.

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West Germany. Poverty, measured at the 40 and 50 percent of the weighted average disposable equivalent income, decreased from the beginning of the 1960s to 1973, and rose again from 1973 to 1983, for both poverty lines. Households with gainfully employed household heads were found to be below average measured with both thresholds, with the exception of young, gainfully employed male household heads with significant increase in the poverty risk in 1983. This can be explained with the reduced working hours or unemployment or unavailability of the employment of the second earner in such households. (Hauser and Semrau 1989, 15.)

Households with non-active or female household heads were found to have a higher risk of poverty in West Germany between 1963 and 1983 compared to the households with a male head. The poverty risk of lone parent families was consistently higher than the risk of the average. However, the risk of married couples with two or more children also was found to be higher than average, especially with the 50 percent threshold, suggesting that social transfers, such as child allowances and tax reductions for families with children, are not sufficient to prevent the poverty of those families with low incomes. (Hauser and Semrau 1989, 17.) The findings from the German Socio-Economic Panel for the years from 1982 to 1986 suggest similar results for a risk of poverty of lone parents and married couples. Particularly the risk of poverty of married couples with two or more children rose with the 40 percent threshold, from 28.8 percent in the year 1983 to 44.9 percent in the year 1986. The risk of poverty of those aged 65 and over declined from the 1960s to the 1980s with the 40 and 50 percent poverty thresholds. The trend diverted for those less than 50 years old, as their poverty risk started to increase from 1973. (Hauser and Semrau 1989.)

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Headey, Krause and Habich (1994) tested the “two-third society” hypothesis, according to which one third of the society is in poverty<sup>34</sup> or near poverty and two thirds enjoy the benefits of mainstream society in Western countries, with the case of West Germany between 1984 and 1989. Their results revealed that Germany appears to be a society where 75 percent are not poor, 15 percent are occasionally poor with incomes that are generally adequate and 10 percent are in poverty or near poverty with inadequate incomes. While using a 50 percent poverty line, 25 percent experienced poverty at least once and only 2.7 percent was poor every year. However, around 50 percent of foreigners were poor at least once and 6.4 percent were considered poor every year.

The comparative study by Hauser, Frick, Müller and Wagner (1993, 23-24) summarizes several differences in the poverty rates between East and West Germany. The distribution of the equivalent adjusted income was more equal in East Germany than in West Germany before their reunification. Nonetheless, after reunification, inequality in the East rose but remained lower than in its Western counterpart. A couple’s household with children under 18 was below the average of income in West Germany, while their incomes were above average in East Germany. The difference remained the same over two years after the unification. The relative position of lone-parent families decreased in the eastern states after the reunification, while their position had been better in the East before reunification. Well-being measured by their equivalent incomes improved after reunification for the elderly population, especially those over age 70, while their position was significantly worse prior to the reunification in the East. However, in both states, the position of older women was worse than that of older men. (Hauser, Frick, Müller and Wagner 1993, 23-24.)

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<sup>34</sup>Poverty was defined as less than 40, 50 or 60 percent of average household income to evaluate the severity of the poverty, as 40 percent can be considered “very poor,” 50 percent “poor” and 60 percent “near poor.” However, most of the analyses use the poverty line of 50 percent. The data used in this research was from the German Socio-Economic Panel Study (SOEP). The equivalence scale used in this research was the official German Social Assistance scale in which weight are: head of the 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 and 0-7 years old=0.45 (Headey, Krause and Habich 2004).

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Voges and Jürgens (2003) compared poverty and deprivation in the eastern and western parts of Germany by using the European Community Household Panel (ECHP). The main risk groups in their study were lone parents, retired people and young adults. The first half of the 1960s in the former West Germany was a time of full employment and economic growth, also characterised as the “West German economic miracle,” which mirrored a decrease in poverty rates. However, by the mid-1970s, the poverty trend reversed as a consequence of increased unemployment and economic changes, such as the oil crisis in 1973. Poverty rates more than doubled in twenty years from 1973 to 1993 when measured with a 40 percent of average income poverty line, doubled when measured with a 50 percent poverty line and increased a quarter with a measure of 60 percent of the average income measure. However, foreign residents, who were more likely to have lower incomes as well as a higher probability of unemployment, were included in the data only in 1993; therefore, their poverty risk is not visible in these results. (Voges and Jürgens 2003, 64.) Hence these differences between poverty measures portray the effectiveness of social policy and the function of social security systems for different wage groups. When poverty rates in the years 1993 and 1998 were compared with the level of 40, 50 and 60 percent of the median equivalised household income, the proportional growth of poverty between these years was higher in Eastern Germany than in the Western part. (Voges and Jürgens 2003, 65-66.)

Voges and Jürgens (2003, 72-73) studied different types of material deprivation in the eastern and western parts of Germany. The measure of material deprivation was conducted by using three indicators that measured household living conditions: household amenities, household durables and household necessities<sup>35</sup>. Their findings suggest that few households were deprived of

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<sup>35</sup> The amenities measured, among other things, the existence of running hot water and an own kitchen, a bath and a toilet in the household. Household durables were measured by studying the availability of items such as a car, television and telephone in the household. Necessities of the household were measured through a list of items such as housing with adequate heating and the possibility to replace furniture or clothing when necessary.

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household amenities in the West (3 percent), while the rate in the East was significantly higher. When comparing between different waves of the data, the percentage of those who were considered poor with this measure did not change in the western part, but it declined in the eastern parts, from 17 percent to 13 percent. When deprivation of durables was studied, the rate varied in the year 1995 in the West to 1996 in East. However, the poverty rate measured with durables increased more in West Germany than in East Germany up to 1996. The deprivation measured through necessities showed a different trend in the East and West, as the poverty rate increased in the West from 8 to 9 percent and decreased in the East from 15 to 12 percent between the years 1995 and 1996. Hence the measure of deprivation in Germany as one unit would not have been able to observe these differences between the eastern and western parts of the country, and the picture of deprivation would not have been sufficient.

After the reunification of Germany, socioeconomic changes affected the everyday life of citizens and consequently the risk of poverty and deprivation increased. However, different life course events and transitions had different types and levels of effect on the risk of poverty for those in the East compared to those in the West. The findings suggest that childcare played a different role in the East and West; while lone mothers in the West had an increased risk to enter poverty due to the inadequate day care that created a barrier to their participation in the labour markets, in the East, lone mothers had a sufficient level of childcare. The increased poverty risk was a consequence of the limited labour market opportunities. (Voges and Jürgens 2003, 76.)

According to Matheja-Theaker (2003, 131-132), women faced a higher risk of unemployment and loss of income in the new *Länder* and reunified Germany than men. Women's experience of unemployment has been related to the fear of uncertainty of pension entitlements, psychological shock and issues related to self-esteem and social networks, as well as to their abilities to combine work and parenthood. Compared to the women in western Germany, the East German women remained more focused on the labour market, while other solutions, such as part-time employment,

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voluntary work or domestic activities were used as a coping mechanism against the shock caused by unemployment and the decrease of income. Unemployment was initially considered a short-term challenge. Hence, it was expected to decrease, as it had done in the post-war years, if the actions taken after the reunification, both in transitions and in economic terms, would have been successful. However, unemployment remained a long-term challenge. This was especially challenging for women who grew up in the GDR, insofar as many of them did not succeed in finding new employment after having a gap between jobs to stay at home and on benefits. The economic conditions had changed meanwhile and their own assumptions were linked to the combination of working life and motherhood and having employment. (Matheja-Theaker 2003, 147.)

As a consequence of these different histories and expectations, some researcher have studied the differences in the poverty rates in East and West Germany. Hauser (2003, 20-21) states that poverty rates are different when Germany is studied as one instead of comparing between East and West Germany. When the poverty rate for the united Germany between 1993 and 1998 was studied, poverty increased only slightly from 10.1 to 10.4 percent during the observation period. However, when the eastern and western parts were studied separately, the poverty trend in the East was decreasing from 18.4 to 14.9 as a consequence of a “catching up” process that was highly emphasized at the beginning of the 1990s. Simultaneously, in West Germany, the poverty trend rose from 8.1 percent to 9.3. This can be explained by the change in income average, which decreased after the reunification and as a consequence of this, those in the highest and lowest income groups appear to have been relatively better off, even in the situations when their relative income level remained the same. Hence it is justified to study Germany as a combination of two distinct units, as they differ from the results often presented for Germany as one unit.

Voges and Jürgens(2003, 80) studied income poverty, measured with the 60 percent of the median of the weighted monthly equivalence income, over time for three waves of the European



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Community Panel Survey (ECHP) between the years 1993 and 1995. Their findings suggest that the best predictor for being in poverty at  $t_3$  was a person's poverty status at  $t_2$ , as six out of ten of those in poverty in the previous year remained in poverty during the following year; the results were similar for the observation time of three years, as 67.3 percent of those in poverty in  $t_1$  and  $t_2$  experienced poverty also in  $t_3$ . For those who did not experience poverty in the two first years, only five percent became poor in the last observation year. A person's employment status affected their poverty status as well as economic activity; those who were active in wave two had a higher risk of poverty compared to retired people due to the generosity of the pension system in Germany. Employment status, measured by having a full-time or part-time job, was found to be related to the risk of becoming poor because the ones with less than a full-time job were more likely to enter poverty compared to those with a full-time work. Also, a decrease in household size, which often is due to separation, divorce or loss of a partner, was found to increase the risk of becoming poor. However, when a hazard rate model was used, the traditional target groups were found to be protected against the transition into poverty because of the social security system. However, there are differences between East and West Germany, as young adults, families with children and large families have a better situation in the East than in the West, while the retired are less likely to experience poverty in the West. The difference between East and West is small for those who are disabled or sick, as their risk of poverty is not very high compared to other groups. (Voges and Jürgens 2003, 84-84.)

Böhnke (2001, 18) summarizes that West and East Germany differ in terms of the risk of social exclusion, as 54 percent of West Germans did not face any risk of social exclusion, while the percentage was 44 percent in East Germany. Similar results can be found when distributional differences in these areas are studied. The distribution of resources can explain the differences in experience of social exclusion when long-term unemployment, housing conditions, low incomes and standard of living are analyzed.

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However, some researchers have studied Germany without focusing on the differences between East and West Germany. Biewen (2003, 10) found out that female-headed households are more likely to experience persistent or chronic poverty, as are workless households. Also, Corak, Fertig and Tamm (2005, 13) found out that in Germany, lone parents had a poverty rate<sup>36</sup> of 38 percent compared to the poverty rate (17 percent) of single adults without children. Nevertheless, the presence of children does not raise the likelihood of poverty in two-adult households, as the differences between households with less than three children and those without children were not significant. Therefore, they suggest that having children does not per se constitute poverty (see also Biewen 2003, 11), but that having children might be explained by a positive selection mechanism, as only those who can afford it have children. When the duration of a spell of poverty is studied, single-parent households experience longer durations of poverty compared with children in general and the duration for the entire country was 1.4 years. Fertig and Tamm (2007, 10) support these findings, and additionally study the effect of parental education as well as parents' age on their results. The duration of non-poverty is longer for those with highly-educated parents. The older age groups experience longer non-poverty spells compared to those households with a household head up to the age of 30. Böhnke and Schöder (2010) studied inter-temporal changes in poverty<sup>37</sup> in Germany from the year 1978 to 2003 by using six waves of the German Sample Survey of Income and Expenditure. According to their study, lone parents have the highest poverty rates and there has been only little improvement across the observation period, thus the

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<sup>36</sup>Measured as 50 percent poverty line in Germany between the early 1980s and 2001. The data used in this research was the German Socio-Economic Panel data.

<sup>37</sup>Poverty is measured in both relative and absolute form: the poverty line is set at 60 percent of median equivalent income with a modified OECD equivalence scale, and the absolute poverty line as region-specific indices adjusted with purchasing power (CPI-PP) corrected Euro-equivalent of the 2003 relative poverty line (RPL) as it presents at-risk-of-poverty rate anchored at a fixed moment in time.

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challenges that lone parents face, such as earnings of one person, or difficulties to combine work and family life, are understood well.

Klammer (2010, 102-107) explains the higher poverty risk of lone mothers using several factors, such as unemployment, and insufficient public childcare, so-called in-work poverty as a result of insufficient income from work, insufficient parental and welfare state support, low levels of cash benefits, educational level and immigration background. The challenges linked to people with an immigration background are related to their higher average of number of children compared to their German born counterparts. Furthermore, they may have a lack of support networks, lack of financial support from their partner, who might have a lack of resources or information on their responsibilities, difficulties related to the employment or language skills and, in some cases, the residence permit if their permit had been linked to that of their husbands. Hence if the duration of the marriage in Germany is not sufficient or the wife is not independent from welfare at a given time, she might lose her right to stay in the country.

The economic difficulties of lone mothers can also be linked not only to their marital status, but also to social class, lower educational level and hence lower labour market prospects. The lone motherhood in Germany has been found to associate with social class and other social factors correlated with poverty, insofar as the ones with lower education are more likely be lone mothers than those with a higher level of education. In addition to the other factors related to the unemployment of lone mothers, a lack of public and affordable childcare hinders the employment of single mothers, for the reason that the provided care hours might not be sufficient or because they may not be flexible enough to cover the working hours, particularly for those with unusual working hours. Part-time work and so-called “mini jobs” are more attractive to those who are married or have another earner in the household, and welfare policies still support the male breadwinner model. Therefore, the income from part-time employment combined with the gender pay gap between the incomes of men and women explain part of the insufficient incomes from

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work for single mothers. The non-resident parent is obliged to support the child who lives with the custodial parent through payments that are related to the income of the absent parent and the age of a child. However, as Klammer (2010, 104) states, approximately one out of four mothers in Germany do not receive all or part of these payments from the absent father, and hence their risk of poverty increases. Single mothers can claim the benefit as a tax-financed benefit in case they do not receive the payment from the former partner, or if the father is unknown, with certain limitations on the duration of the payment and the age of the child receiving the payment. In addition to the payments to the child from the former partner, single mothers are eligible to receive cash benefits or other support from the state to compensate the missing income. They are allowed to receive a child allowance like all other families, as well as a compensation to “make work pay” for those whose incomes from work are not sufficient in addition to other welfare state benefits.

According to Klammer (2010, 94), the measurement of the median household income compared to the average household income fails to capture the growing income inequality as long as the incomes of the person in the middle do not change significantly, as the measure is insensitive to changes on both ends of the income distribution. Klammer (2010, 96) discusses the “infantilization of poverty” in German poverty research. The concept refers to the two major shifts in poverty risk, from the native German population to immigrants and from elderly people to young families and children. When the poverty risk of these groups was studied in the years between 1998 and 2003,<sup>38</sup> immigrants without German citizenship were found to have a higher poverty risk than individuals with citizenship. The difference between these groups has grown and the poverty risk of immigrant women was discovered to be almost twice as high as the risk of poverty of those with German citizenship. The poverty risk of the elderly was observed to be below the average poverty rate in

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<sup>38</sup> The poverty rate used was 60 % of the median net equivalent income adjusted with the modified OECD scale. The data used was from the Income and Expenditure Survey (Einkommens- und Verbrauchsstichprobe).

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the year 2003, as the existing pension system seems to provide a relatively good living standard, however, there are considerable differences when men and women are compared because women, and especially those with certain characteristics, have a higher risk of poverty in older age compared to their male counterparts.

Kyzyma (2014, 327-329) suggest that over the last two decades, poverty<sup>39</sup> has become more persistent and recurrent in Germany as the conditional probabilities to exit poverty after one, two or three years in poverty have declined just as the probability of re-entering poverty has increased. Those living in lone-parent households, aged over 55 years, with a household head with a disability or with incomplete education have become more likely to re-enter poverty in 2004-2009 compared to 1992-1997. The spells are also more likely to be longer in duration for those in pre-retirement age or with a household head with incomplete education as they re-enter to poverty. On the contrary, those with a household head who is an EU citizen, with general education or vocational training, are less likely to re-enter poverty and more likely to exit poverty faster than 20 years ago. Card and Blank (2008, 387-391) had similar findings in their research on the changing incidence and severity of poverty<sup>40</sup> spells among female-headed families in the United States, where single women were more likely to enter poverty at the beginning of the early 2000s compared to the early 1990s; however, poverty rates simultaneously decreased and earnings rose. Poverty spells were found to be more frequent, but less persistent.

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<sup>39</sup>Data used in this research was from the German Socio-economic Panel data (SOEP) and the poverty line used was 60 percent of national equivalenced income.

<sup>40</sup>Data used in this research was German Socio-economic Panel data (SOEP) and the poverty line 60 percent of national equivalenced income.

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### 5.3 A Portrait of Poverty in the United Kingdom

As mentioned in the earlier chapters, the United Kingdom has been a forerunner in research on poverty and deprivation. Therefore, many of the results of those studies made in the United Kingdom have already been presented in the previous chapters and will not be repeated in this chapter. However, studies using the British Household Panel data are presented here to portray the previous findings made with the data used also in the empirical part of the study at hand.

Jarvis and Jenkins (1997) analysed low income dynamics in Britain in the 1990s. Their results revealed that getting a job is associated with escaping from a low income. They also found that some demographic events, such as marriage or divorce, were linked to exits from, and even more to entries into, poverty. Furthermore, Cappellari and Jenkins (2002, 63) raised the question of who stays poor and who becomes poor in their study<sup>41</sup> on poverty dynamics in the United Kingdom. The poverty persistence rates were found to be higher for those individuals with a female household head, multi-family households or households with more children aged 3-11 years. Similar characteristics of households were also associated with poverty entry rates, which were higher for those living in a lone-parent household or in a household with many children. Devicienti (2001, 13) confirms the negative impact of the number of children on the probability of leaving poverty<sup>42</sup> in Britain. The reasoning for this is that many individuals have children before reaching the peak of their earning power, the challenges proposed by combining family life with work and

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<sup>41</sup> Data used in this study was the British Household Panel Survey waves 1-9 from years 1991-1999 with a 60 percent poverty line adjusted with the McClement's equivalence scale. Incomes were measured as post-tax, post-transfer current household incomes in August 2001 prices without deducting housing costs.

<sup>42</sup> Data used in the analysis was the British Household Panel Data waves 1 to 7.

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therefore reducing their working hours and for the effect of household incomes being adjusted for the household size.

The risk of income poverty<sup>43</sup> among young people in the UK was discovered to be highest among those who were unemployed, economically inactive or participating in education or training. Additionally, young people who lived alone, with or without children, had a higher risk of poverty compared to those still living in their parental home or with a partner in a childless household. A high educational level was not observed to decrease the risk of poverty for those with third-level education, but the effect was found with second-level education. However, third-level education was detected to be linked to a decreased risk of entering poverty for all adult populations, and hence it suggests that the impact for adults will appear in later life. When poverty exits were studied, the educational level was not found to have any effect on leaving the state of poverty for young people. (Adelman and Cebulla 2003, 141-143.)

The poverty transitions and the risk of income poverty of lone mothers were observed to be linked to employment. The highest risk of poverty was found with those lone mothers with low levels of education. When compared to the partnered mothers, lone mothers with similar characteristics had a higher risk of poverty. However, lone mothers who were divorced were less likely to move into poverty compared to other lone mothers. (Adelman and Cebulla 2003, 146-147.)

The study made by Tomlinson, Walker and Williams (2008, 603) describes the measurement of multidimensional poverty in Britain from 1991 to 2003 by using the British Household Panel data.

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<sup>43</sup> Data used by Adelman and Cebulla (2003) is the European Community Household Panel (ECHP) for the years 1995 and 1996. The poverty line is set at 60 percent of the median of total net equivalized household income for the total population (including children).

## 5. Changing Patterns of Poverty in Germany and the United Kingdom

Poverty was measured with the variables related to incomes, benefits and finances, financial strain or stress, material deprivation, characteristics related to housing and neighbourhood, social exclusion and civil participation. The findings suggest that the relative income poverty, measured as 60 percent of median income, was stable or slightly increasing in Britain from 1992 to 1997 (during the period of John Major) and declining from 1997 onwards (under the office of the New Labour). However, the absolute measure of the income poverty implies a constant and continuous decline during the period in question. The decline in poverty between the years 1991 and 2003 was found to be driven by the decrease in material deprivation, especially because of the reduced financial strain in the early 1990s. (Tomlinson, Walker and Williams 2008, 597, 612.)

The results of Tomlinson, Walker and Williams (2008, 613) on Britain between 1991 and 2003 echo the findings of the previous research on the groups with a higher risk of relative income poverty. Single parents with dependent children were detected to be the most vulnerable group, as well as elderly single households, which have a high risk of poverty. The couples without dependent children were found to have the lowest risk of poverty. The probability of experiencing a long poverty spell was relatively lower and the exit from poverty easier for those with a high level of education. On the contrary, unemployment of the head of the household, a retired head of the household or the presence of a disabled or otherwise non-working household head caused lower exit rates compared to those living in households with an employed household head. In addition to exit rates from poverty, the re-entries were studied. The results reveal that the households who moved out of poverty are at a higher risk of re-entering poverty or to repeat the poverty spell for similar reasons that we identified in the case of poverty exits. Also, a large number of children increases the risk of re-entry into poverty. However, the presence of children less than six years of age decreases the risk, suggesting that there are poverty-alleviating measures targeted particularly at households with children. (Devicienti 2001, 14-16.)



## 5. Changing Patterns of Poverty in Germany and the United Kingdom

Worts, Sacker and McDonough (2010) studied persistency and poverty-associated<sup>44</sup> risk factors as well as the efficacy of social transfers in the United States and Britain between 1993 and 2003, in other words, in the period of welfare reform in which both countries introduced major reforms of safety nets. In comparison to the United States, the British system seemed to provide more protection to those at risk of poverty, after accounting for the measurement error, socio-demographic characteristics and the effect of redistributive programs.

In addition to income poverty research, several British poverty studies have been applying multidimensional poverty measures. Bradshaw and Finch (2003) studied the overlaps in dimensions of poverty<sup>45</sup> in Britain. They compared the overlap of three different measures of poverty: lacking socially-perceived necessities, being subjectively poor and having relatively low income. They discovered that there's little overlap in these dimensions, for the reason that the different measures were used to define different people as poor. According to their results, two thirds of the respondents were found to be poor with at least one measure, while only 5.7 percent were considered poor in all three measures. This can be explained in several ways. First, different proportions identifying as poor with different measures can cause a small overlap in the statistic.

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<sup>44</sup> Data used in this study were 1993-2003 waves of the Panel Study of Income Dynamics (PSID) and the British Household Panel Survey (BHPS). Poverty is measured with adjusted household incomes with poverty threshold set at 60 % of equivalent national median and the equivalence scale is the square root scale, where the household incomes are divided with the square root of the household size.

<sup>45</sup>The data used in their research was the Survey of Poverty and Social Exclusion in Britain 1999. This survey was follow up for the 1300 respondents of 1998/99 General Household Survey. The income poverty rate is measured by using 60 percent of the equivalence national median income and the equivalence scale used was the modified OECD scale. Subjective poverty was measured with variable on the feeling of poverty with the question: "How many pounds a week, after tax, do you think are necessary to keep a household such as the one you live in, out of poverty? How far above or below that level would you say your household is?" The options for an answer varied from a lot above that level of income to a lot below that level of income in scale 5. Those a little or a lot below the level were considered a subjectively poor. The deprivation is measured with lack of socially perceived necessities.

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Second, some people are in a transition phase, such as recently retired or unemployed, and hence do not yet lack resources or, on the contrary, have recently found employment and still lack resources, though they do not feel subjectively poor in their current situation. Third, some respondents may have a so-called “false consciousness” and may feel subjectively poor though they are not in other dimensions or, again on the contrary, do not feel poor because of a lack of information about the living standard or because they do not want the items regarded as necessities by the surrounding society. Other reasons for the small overlap in the poverty measures could be the measurement of incomes, as they are measured before the housing cost, or the unequal distribution of resources in households, particularly in one-earner households where incomes are not shared (Bradshaw and Finch 2003, 517-518).

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## **6. Results**

Chapter 6.1 tackles the question of poverty hit rates and duration, as well as the poverty exit and entry rates. This is followed by an analysis of the multivariate hazard rate model to evaluate characteristics related to the poverty exits in Chapter 6.2.

### **6.1 Persistence and Mobility of Poverty in Germany, East and West Germany and the United Kingdom**

As stated before, the experience of poverty is very different according to the duration of the spell of poverty. Most people never experience poverty, or they experience poverty only once and the duration of poverty is rather short. Table 6 provides descriptive information on the duration of poverty and the spells from 1993 to 2013 in East, West and the unified Germany. The measure is presented as a number of years in poverty measured over the survey period. In the unified Germany, around 65 percent of individuals were found to be never in poverty between the years 1993 to 2013, however, in both East and West Germany, the number was lower as around half of the people had never experienced poverty.

Around 10 percent of individuals experienced poverty only once during the period 1993-2013, and around 5 percent twice. However, individuals in former East Germany were found to be more likely to spend six to eight years in poverty during the observation time, though the difference is smaller for those in poverty for 10 or more years, as more than eight percent experiences poverty either very recurrently or with a longer duration in both East and West Germany. Muffels, Fouarge and Dekkers (1999,13) support the findings, as their study on the duration of poverty had similar results on most of the poverty spells ending within the first three years in poverty and the likelihood of escaping poverty after three years was low.

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**Table 6** Duration of Poverty in Germany, East and West Germany and the UK

Poverty hit rate	Germany	East Germany	West Germany	The United Kingdom
<b>Never</b>	65.58	59.34	57.38	56.67
<b>Once</b>	10.5	10.28	10.07	12.3
<b>2x</b>	5.06	6.17	6.64	6.71
<b>3x</b>	3.03	1.9	3.75	5.23
<b>4x</b>	3.23	3.48	4.04	3.25
<b>5x</b>	2.07	2.37	2.94	2.87
<b>6x</b>	1.83	2.85	1.47	2.45
<b>7x</b>	1.16	2.06	1.25	2.66
<b>8x</b>	1.4	5.53	1.32	1.57
<b>9x</b>	0.96	0.47	:	1.3
<b>10x or more</b>	5.22	8.55	8.54	3.75

Notes: Poverty is measured with a threshold of 60 percent of post-governmental annual income. Poverty hit rates for a duration of 10 or more years are not directly comparable for Germany and the UK as the duration of the German data is 21 years and the British data 16 years.

Source: CNEF-Soep 1993-2013, CNEF-BHPS 1991-2006

When poverty is studied as a dynamic phenomenon, it is crucial to examine poverty transitions and both exits and entries into poverty. Figure 11 depicts the entry rates from the state of non-poverty to poverty between two consecutive years, from 1994 to 2013. The exit rate denotes the number of people leaving poverty expressed as a proportion of those who were in poverty, while the entry rates indicate the number of individuals entering into poverty expressed as a proportion of those who were not poor in the previous year. The information is gained with a simple poverty lag estimation on the change of poverty status between  $t+1$ . The change was measured by using

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four different statuses: those whose status did not change between  $t+1$  and those who experienced transition.<sup>46</sup> The options were the following:

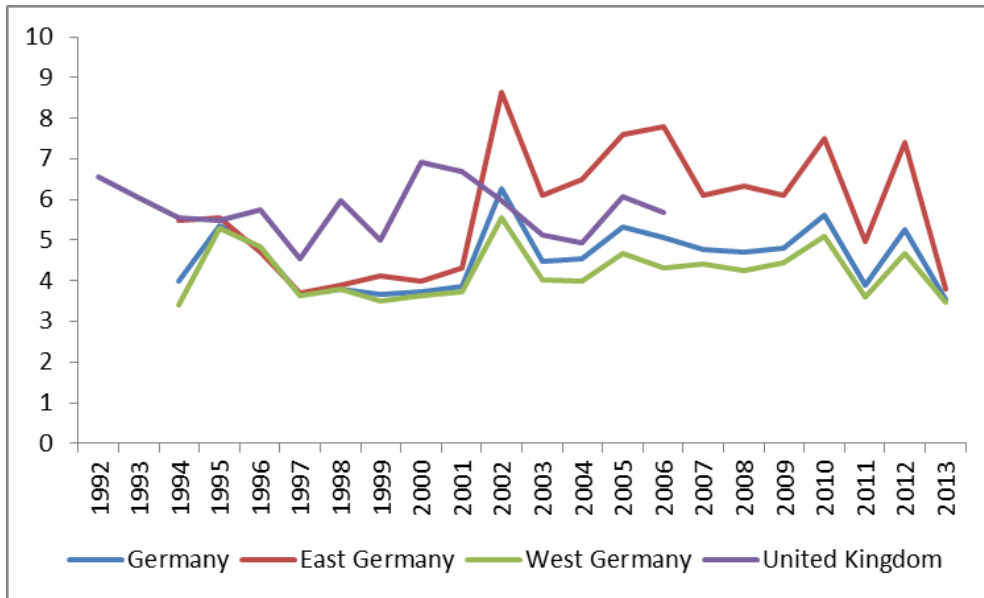
- 1) Poor in year 1  $\rightarrow$  Poor in year +1
- 2) Not poor in year 1  $\rightarrow$  Not poor in year +1
- 3) Poor in year 1  $\rightarrow$  Not poor in year +1 (*Exit*)
- 4) Not poor in year 1  $\rightarrow$  Poor in year +1 (*Entry*)

The unified Germany and West Germany follow similar paths, while the entry rates in the former East Germany are higher. From the 2000s onwards, the difference in the trend has been growing over time between areas, and the likelihood of entering poverty has increased during the observation time. However, the level of entry rate between areas seems to converge after 2012 and the trend is decreases. In addition to the entry rates, it is as important to study the trends of exits from the state of poverty to non-poverty over time (Figure 12).

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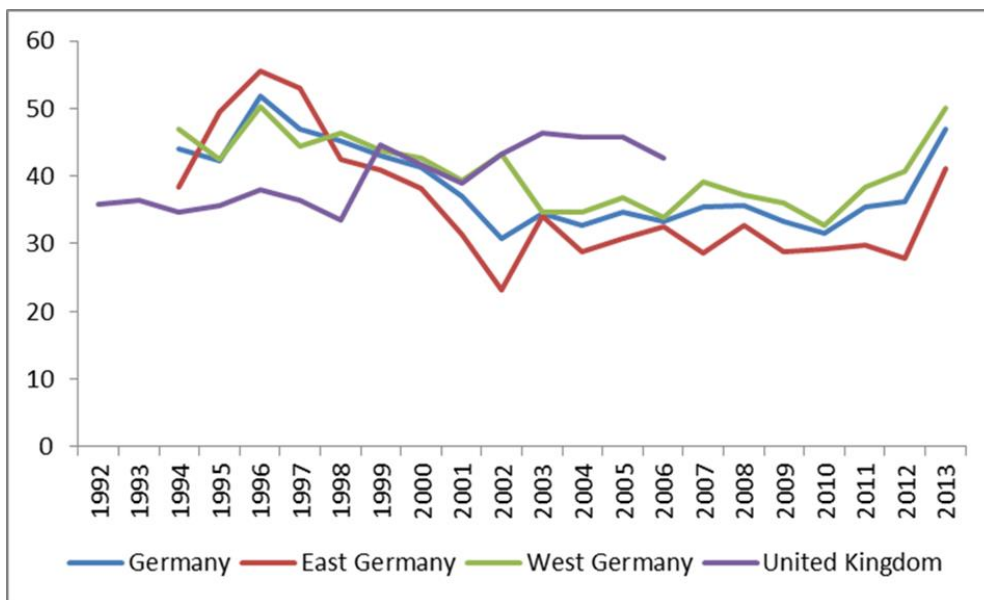
<sup>46</sup> The exit and entry rates are sensitive to the number of people in poverty or not in poverty and therefore the entry rates tend to be smaller than exit rates, since the number of those not in poverty in year 1 is larger than the number of those in poverty and hence at risk of poverty exit) (Jenkins 2011, 223).

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**Figure 11** Entries to poverty between t-1 in Germany, East and West Germany and the UK, (%)

Source: CNEF-Soep 1993-2013, CNEF-BHPS 1991-2006



**Figure 12** Exit rates from poverty between year t-1 in Germany, East and West Germany and the UK, (%) Source: CNEF-Soep 1993-2013, CNEF-BHPS 1991-2006

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The exit rates follow a similar pattern as the entry rates, as the former East Germany differs from West Germany and unified Germany. The exit rates increased in the mid-1990s, and decreased over the 2000s until the change of trends in the 2010s. The trend over time has been less stable in East Germany over time, indicating that it has been more difficult to escape poverty in East Germany than in the western counterparts. However, since these figures show only general trends in the entry and exits rates, they are not sufficient to show which groups have more difficulties in exiting poverty or which ones are more likely to enter poverty.

However, the exit rate in East Germany in the mid-1990s suggests that it was indeed easier for East Germans to escape from poverty compared to West Germans. The findings support the study made by Krause (1998, 176-177) on the impact of income volatility on the poverty exits in East and West Germany.

## **6.2 Results for Germany, East and West Germany and the UK**

The estimates from the multivariate hazard rate model (Table 7) are closely connected to the estimates of poverty exit and entry rates in the previous chapter, as they present a complementary approach to poverty transitions by assessing poverty spells for those who entered poverty after 1993. However, it is not possible to estimate poverty transitions before the first survey year, as the income information is missing for those in East Germany. Following common practice in poverty research, this chapter models poverty exits separately from poverty entries and recurrent poverty.

The hazard regression method used in this chapter, as well as the selection of characteristics connected to poverty exits, follow the example set by Jenkins (2011, 292-303). The findings of the estimates vary between Germany, East and West Germany for some characteristics (see Table 7, Table 8 and Table 10). However, having a female household head does not have a significant association in the general model, while other characteristics related to the presence of children,



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education and employment are controlled for. Hence, the effect of gender has been excluded from the analysis, as the effect omitted after education and employment and the age of household head over 50 years were controlled for. This is surprising in light of several previous studies that suggest that female headship, and hence households with a lone mother, indeed increases the risk of poverty (Adelman and Cebulla 2003, 145-149). However, similarly to the findings of Jenkins (2011, 303), the effect seems to be connected to other characteristics of the household, such as presence of children and employment.

The number of members of the household has an effect in different directions, as a larger number of children is linked to the decrease of the poverty exit rate and additional adults in the household have an increasing effect. In other words, households with additional adults are more likely to exit poverty, while those with a larger number of children are less likely to do so when other characteristics are controlled for. This can be explained with the additional incomes of other household members, while additional children in the household do not provide similar increase in the household incomes. However, having children under the age of four in the household was found to increase the poverty exit rate, suggesting that policies targeted at families with young children are effective in poverty reduction in Germany and West Germany. In East Germany, having children under four years old had the opposite effect that was not found to be significant with the threshold of 60 or 40 percent. However, when the poverty threshold was set to 50 percent, a similar increasing effect was also found in the East (Appendix 12 and 13). In other words, those at most severe poverty threshold in the East with children under 4 years old are more protected from poverty than those with older children.

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**Table 7** Multivariate models of the hazard rate of poverty exit in Germany, East and West Germany, 60 percent threshold

Explanatory variable	Germany		East Germany		West Germany	
	Coeff.	s.e.	Coeff.	s.e.	Coeff.	s.e.
Number of children in household	0.144	0.01 ***	0.094	0.03 ***	0.152	0.014 ***
Number of children under 4 in household	-0.112	0.03 ***	0.034	0.07	-0.137	0.033 ***
Number of adults in household	-0.500	0.01 ***	-0.765	0.03 ***	-0.435	0.015 ***
Household head education	-0.711	0.03 ***	-0.589	0.07 ***	-0.752	0.036 ***
Household head in paid work	-1.669	0.03 ***	-1.369	0.06 ***	-1.744	0.038 ***
Partner in paid work	-1.923	0.05 ***	-1.826	0.10 ***	-1.944	0.060 ***
Household head under 30	1.620	0.04 ***	1.283	0.09 ***	1.693	0.046 ***
Household head aged 30-39	0.810	0.05 ***	0.554	0.11 ***	0.868	0.053 ***
Household head aged 40-49	0.817	0.05 ***	0.601	0.11 ***	0.866	0.052 ***
Household head over 50	0.877	0.04 ***	0.647	0.08 ***	0.927	0.042 ***
Spell year 1	-1.641	0.04 ***	-1.120	0.09 ***	-1.779	0.046 ***
Spell year 2	-2.134	0.05 ***	-1.470	0.10 ***	-2.306	0.054 ***
Spell year 3	-2.199	0.05 ***	-1.497	0.11 ***	-2.384	0.058 ***
Spell year 4	-2.698	0.06 ***	-2.254	0.13 ***	-2.802	0.069 ***
Spell year 5	-2.780	0.07 ***	-2.123	0.13 ***	-2.955	0.075 ***
Spell year 6	-2.807	0.07 ***	-2.238	0.14 ***	-2.951	0.078 ***
Spell year 7	-2.822	0.07 ***	-2.139	0.14 ***	-3.008	0.084 ***
Spell year 8	-2.583	0.07 ***	-1.880	0.14 ***	-2.779	0.081 ***
Spell year 9	-2.763	0.08 ***	-2.115	0.16 ***	-2.938	0.092 ***
Spell year 10	-2.701	0.08 ***	-2.334	0.18 ***	-2.784	0.092 ***
Spell year 11	-2.556	0.08 ***	-1.920	0.16 ***	-2.725	0.095 ***
Spell year 12	-2.551	0.09 ***	-1.918	0.17 ***	-2.720	0.101 ***
Spell year 13	-2.407	0.09 ***	-1.732	0.17 ***	-2.596	0.104 ***
Spell year 14	-1.752	0.07 ***	-0.902	0.13 ***	-2.031	0.089 ***
Spell year 15	-2.465	0.11 ***	-1.796	0.21 ***	-2.650	0.136 ***
Spell year 16	-2.495	0.12 ***	-1.780	0.22 ***	-2.708	0.150 ***
Spell year 17	-2.442	0.13 ***	-1.638	0.22 ***	-2.706	0.163 ***
Spell year 18	-2.401	0.14 ***	-1.869	0.26 ***	-2.537	0.159 ***
Spell year 19	-2.134	0.13 ***	-1.828	0.27 ***	-2.195	0.146 ***
Spell year 20	-1.915	0.13 ***	-1.151	0.21 ***	-2.181	0.161 ***
Log-likelihood	-31994		-7673		-24234	
Nro of observations in person years	337628		80853		256775	

Notes: \*\*\*  $p < 0.01$ ; \*\*  $0.01 \leq p < 0.05$ ; \*  $0.05 \leq p \leq 0.10$ . Reference categories with dummy variables are household head with education more than high school and household head or the partner in paid work. Estimates are derived from discrete time proportional hazard regression (see also Jenkins 2004, 302-304). Source: CNEF- Soep, survey years 1993-2013

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**Table 8** Multivariate models of the hazard rate of poverty exit in Germany, East and West Germany, 50 percent threshold

Explanatory variable	Germany		East Germany		West Germany	
	Coeff.	s.e.	Coeff.	s.e.	Coeff.	s.e.
Number of children in household	0.132	0.02 ***	0.140	0.02 ***	0.108	0.04 ***
Number of children under 4 in household	-0.085	0.04 **	-0.134	0.04 ***	0.127	0.08
Number of adults in household	-0.732	0.02 ***	-0.655	0.02 ***	-1.019	0.04 ***
Household head education	-0.591	0.04 ***	-0.663	0.05 ***	-0.400	0.09 ***
Household head in paid work	-1.712	0.04 ***	-1.741	0.05 ***	-1.531	0.09 ***
Partner in paid work	-2.054	0.07 ***	-2.111	0.08 ***	-1.952	0.13 ***
Household head under 30	1.483	0.05 ***	1.585	0.06 ***	1.041	0.11 ***
Household head aged 30-39	0.585	0.06 ***	0.711	0.07 ***	0.091	0.14
Household head aged 40-49	0.649	0.06 ***	0.703	0.07 ***	0.388	0.14 ***
Household head over 50	0.508	0.05 ***	0.595	0.06 ***	0.142	0.11
Spell year 1	-1.202	0.05 ***	-1.424	0.06 ***	-0.392	0.12 ***
Spell year 2	-1.958	0.06 ***	-2.212	0.07 ***	-1.095	0.13 ***
Spell year 3	-2.272	0.07 ***	-2.514	0.08 ***	-1.442	0.14 ***
Spell year 4	-2.607	0.08 ***	-2.786	0.09 ***	-1.955	0.16 ***
Spell year 5	-2.941	0.09 ***	-3.149	0.11 ***	-2.214	0.18 ***
Spell year 6	-3.058	0.10 ***	-3.244	0.11 ***	-2.383	0.20 ***
Spell year 7	-3.122	0.11 ***	-3.480	0.13 ***	-2.098	0.19 ***
Spell year 8	-3.179	0.11 ***	-3.356	0.13 ***	-2.537	0.23 ***
Spell year 9	-3.261	0.13 ***	-3.476	0.15 ***	-2.520	0.24 ***
Spell year 10	-3.252	0.14 ***	-3.461	0.16 ***	-2.528	0.26 ***
Spell year 11	-3.394	0.15 ***	-3.645	0.18 ***	-2.569	0.28 ***
Spell year 12	-3.259	0.15 ***	-3.422	0.18 ***	-2.654	0.31 ***
Spell year 13	-3.315	0.18 ***	-3.560	0.21 ***	-2.508	0.32 ***
Spell year 14	-3.532	0.21 ***	-3.731	0.25 ***	-2.839	0.39 ***
Spell year 15	-3.188	0.21 ***	-3.346	0.25 ***	-2.588	0.42 ***
Spell year 16	-3.466	0.26 ***	-3.953	0.36 ***	-2.293	0.39 ***
Spell year 17	-3.362	0.27 ***	-3.542	0.32 ***	-2.719	0.51 ***
Spell year 18	-3.227	0.27 ***	-3.412	0.32 ***	-2.566	0.51 ***
Spell year 19	-3.245	0.29 ***	-3.487	0.36 ***	-2.470	0.51 ***
Spell year 20	-3.750	0.41 ***	-3.960	0.50 ***	-3.045	0.72 ***
Log-likelihood	-19946		-14925		-4954.3	
Nro of observations in person years	337628		256775		80853	

Notes: \*\*\*  $p < 0.01$ ; \*\*  $0.01 \leq p < 0.05$ ; \*  $0.05 \leq p \leq 0.10$ . Reference categories with dummy variables are household head with education more than high school and household head or the partner in paid work. Estimates are derived from discrete time proportional hazard regression (see also Jenkins 2004, 302-304). Source: CNEF- Soep, survey years 1993-2013

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**Table 9** Multivariate models of the hazard rate of poverty exit in Germany, East and West Germany, 40 percent threshold

Explanatory variable	Germany		East Germany		West Germany	
	Coeff.	s.e.	Coeff.	s.e.	Coeff.	s.e.
Number of children in household	0.038	0.03	0.115	0.06 **	0.023	0.03
Number of children under 4 in household	-0.049	0.05	0.072	0.12	-0.085	0.06
Number of adults in household	-1.164	0.03 ***	-1.372	0.06 ***	-1.108	0.03 ***
Household head education	-0.551	0.06 ***	-0.380	0.13 ***	-0.601	0.06 ***
Household head in paid work	-1.794	0.06 ***	-1.737	0.13 ***	-1.804	0.07 ***
Partner in paid work	-2.530	0.11 ***	-2.796	0.24 ***	-2.458	0.13 ***
Household head under 30	1.142	0.06 ***	0.827	0.14 ***	1.215	0.07 ***
Household head aged 30-39	0.172	0.08 **	-0.404	0.20 **	0.306	0.09 ***
Household head aged 40-49	0.205	0.08 **	0.133	0.18	0.203	0.10 **
Household head over 50	-0.088	0.07	-0.443	0.16 **	0.011	0.08
Spell year 1	-0.747	0.06 ***	-0.204	0.15	-0.894	0.07 ***
Spell year 2	-1.514	0.08 ***	-1.278	0.18 ***	-1.577	0.09 ***
Spell year 3	-2.047	0.09 ***	-1.484	0.19 ***	-2.211	0.11 ***
Spell year 4	-2.235	0.11 ***	-2.042	0.24 ***	-2.282	0.12 ***
Spell year 5	-2.326	0.11 ***	-1.751	0.22 ***	-2.504	0.13 ***
Spell year 6	-2.588	0.13 ***	-2.310	0.28 ***	-2.658	0.15 ***
Spell year 7	-2.797	0.15 ***	-1.837	0.25 ***	-3.208	0.20 ***
Spell year 8	-3.004	0.18 ***	-2.675	0.36 ***	-3.092	0.20 ***
Spell year 9	-2.849	0.18 ***	-2.268	0.33 ***	-3.032	0.21 ***
Spell year 10	-2.777	0.19 ***	-2.195	0.34 ***	-2.961	0.22 ***
Spell year 11	-2.799	0.20 ***	-3.228	0.59 ***	-2.730	0.21 ***
Spell year 12	-3.156	0.26 ***	-2.790	0.52 ***	-3.254	0.30 ***
Spell year 13	-2.697	0.23 ***	-1.412	0.32 ***	-3.435	0.36 ***
Spell year 14	-3.133	0.31 ***	-2.395	0.52 ***	-3.393	0.38 ***
Spell year 15	-4.041	0.58 ***	-2.684	0.72 ***	-4.948	1.00 ***
Spell year 16						
Spell year 17	-3.193	0.45 ***	-1.988	0.59 ***	-3.904	0.71 ***
Spell year 18	-3.289	0.50 ***	-2.244	0.72 ***	-3.785	0.71 ***
Spell year 19	-2.743	0.41 ***	-2.141	0.72 ***	-2.941	0.50 ***
Spell year 20	-3.662	0.71 ***	-2.715	1.01 ***	-4.119	1.00 ***
Log-likelihood	-11439		-2618.2		-8782.4	
Nro of observations in person years	337628		80853		256775	

Notes: \*\*\*  $p < 0.01$ ; \*\*  $0.01 \leq p < 0.05$ ; \*  $0.05 \leq p \leq 0.10$ . Reference categories with dummy variables are household head with education more than high school and household head or the partner in paid work. Estimates are derived from discrete time proportional hazard regression (see also Jenkins 2004, 302-304). Source: CNEF- Soep, survey years 1993-2013

## Results

Having a household head with an education of high school or more, as well as an employed household head or employed partner, increases the poverty exit rate and hence alleviates the risk of poverty, confirming the finding of previous literature. The effect of employment is particularly high compared to households with a non-employed household head or to households with a non-employed partner. A similar association between education and poverty and employment was found when the estimates were conducted by using 50 and 40 percent thresholds.

The effect of the age of the household head supports findings of previous literature, as the households with heads under 30 years old (but older than 18 years) were found to have lower poverty exit rates with all the thresholds compared to the households with an older head. However, households with a household head older than 50 years were also found to have lower exit rates than those with heads between 30 and 50 years old. In other words, those who are in the primary working age are more likely to exit poverty compared to those at the beginning of their careers. Furthermore, having a household head aged 30 to 39 or older than 50 years (but less than 64) was found to increase the poverty exit rate in East Germany with the measure of 40 percent poverty rate. The lower exit rates of households with the household head less than 30 years old can be linked not only with the policies, but also larger variation of life stages in the young age. Some of these households are likely to have household head or other member in education or in transition to the labour market. In addition, the incomes are often lower in the beginning of the employment career as well as having a temporal employment, and hence the risk of poverty can be higher.

The estimated coefficients for the dummies for duration intervals can be used to describe the baseline hazards of poverty, suggesting that there is a sharp decline in the poverty exit rates after the first year in Germany and West Germany, while the association is less defined in East

## Results

Germany.<sup>47</sup> Similar association between longer duration of poverty and lower exit rates were found with the poverty thresholds of 40<sup>48</sup> and 50 percent. Therefore, the longer the duration of poverty, the more difficult it is to exit poverty.

In a similar manner as the previous chapter on poverty exits in Germany, East and West Germany, this chapter presents the estimates of poverty exits in the United Kingdom by following the method presented by Jenkins (2011, 292-303). The poverty exits are presented for those who entered poverty after 1992, as the data does not include information for poverty transitions prior to 1991.

The estimates for poverty exit in the United Kingdom from 1991 to 2006 with a 60 percent poverty threshold (Table 10, see Table 11 for 50 percent and Table 12 for 40 percent threshold) suggest that several characteristics, such as composition of the household, employment and duration of the poverty spell, are linked to poverty exits. Similarly to the effect of the gender of the household head in Germany, gender has been omitted in the analysis also in the United Kingdom because the effect of gender was not found to be significant when other characters where controlled for. The CNEF-BHPS data did not include a variable measuring education, and hence the effect of education was not included in the analysis.

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<sup>47</sup> Less negative, i.e. larger values, indicate higher hazards.

<sup>48</sup> For the estimates on 40 percent threshold spell year 16 has been excluded from the analysis as there were no events observed at that point in time.

## Results

**Table 10** Multivariate models of the hazard rate of poverty exit in the United Kingdom, 60 percent threshold

Explanatory variable	United Kingdom	
	Coeff.	s.e.
Number of children in household	0.196	0.01 ***
Number of children under 4 in household	-0.051	0.04
Number of adults in household	-0.054	0.02 ***
Household head in paid work	-1.183	0.04 ***
Partner in paid work	-1.133	0.06 ***
Household head under 30	1.259	0.05 ***
Household head aged 30-39	0.346	0.06 ***
Household head aged 40-49	0.049	0.06
Household head over 50	0.186	0.05 ***
Spell year 1	-3.052	0.06 ***
Spell year 2	-3.699	0.07 ***
Spell year 3	-4.001	0.08 ***
Spell year 4	-4.029	0.08 ***
Spell year 5	-3.487	0.07 ***
Spell year 6	-3.149	0.07 ***
Spell year 7	-3.967	0.10 ***
Spell year 8	-2.952	0.07 ***
Spell year 9	-4.395	0.13 ***
Spell year 10	-4.482	0.14 ***
Spell year 11	-4.212	0.14 ***
Spell year 12	-4.134	0.14 ***
Spell year 13	-4.160	0.14 ***
Spell year 14	-4.086	0.15 ***
Spell year 15	-3.363	0.12 ***
Spell year 16	-1.630	0.07 ***
Log-likelihood	-19080	
Nro of observations in person years	177576	

Notes: \*\*\*  $p < 0.01$ ; \*\*  $0.01 \leq p < 0.05$ ; \*  $0.05 \leq p \leq 0.10$ . Reference categories with dummy variables are household head or the partner in paid work. Estimates are derived from discrete time proportional hazard regression (see also Jenkins 2004, 302-304). Source: CNEF- BHPS, survey years 1991-2006

## Results

**Table 11** Multivariate models of the hazard rate of poverty exit in the United Kingdom, 50 percent threshold

Explanatory variable	United Kingdom	
	Coeff.	s.e.
Number of children in household	0.175	0.02 ***
Number of children under 4 in household	-0.089	0.05 *
Number of adults in household	-0.090	0.02 ***
Household head in paid work	-1.449	0.05 ***
Partner in paid work	-1.399	0.08 ***
Household head under 30	1.469	0.06 ***
Household head aged 30-39	0.463	0.07 ***
Household head aged 40-49	0.138	0.07 *
Household head over 50	0.187	0.06 ***
Spell year 1	-3.255	0.07 ***
Spell year 2	-3.928	0.08 ***
Spell year 3	-4.256	0.09 ***
Spell year 4	-4.272	0.10 ***
Spell year 5	-3.732	0.09 ***
Spell year 6	-3.473	0.09 ***
Spell year 7	-4.254	0.12 ***
Spell year 8	-3.313	0.09 ***
Spell year 9	-4.753	0.17 ***
Spell year 10	-4.866	0.19 ***
Spell year 11	-4.517	0.17 ***
Spell year 12	-4.333	0.16 ***
Spell year 13	-4.493	0.18 ***
Spell year 14	-4.497	0.19 ***
Spell year 15	-3.619	0.14 ***
Spell year 16	-2.018	0.09 ***
Log-likelihood	-13963	
Nro of observations in person years	177579	

Notes: \*\*\*  $p < 0.01$ ; \*\*  $0.01 \leq p < 0.05$ ; \*  $0.05 \leq p \leq 0.10$ . Reference categories with dummy variables are household head or the partner in paid work. Estimates are derived from discrete time proportional hazard regression (see also Jenkins 2004, 302-304). Source: CNEF- BHPS, survey years 1991-2006



## Results

**Table 12** Multivariate models of the hazard rate of poverty exit in the United Kingdom, 40 percent threshold

Explanatory variable	United Kingdom	
	Coeff.	s.e.
Number of children in household	0.086	0.02 ***
Number of children under 4 in household	-0.124	0.07 *
Number of adults in household	0.016	0.02
Household head in paid work	-1.591	0.07 ***
Partner in paid work	-1.616	0.12 ***
Household head under 30	1.652	0.07 ***
Household head aged 30-39	0.626	0.09 ***
Household head aged 40-49	0.231	0.09 ***
Household head over 50	0.195	0.08 ***
Spell year 1	-3.865	0.09 ***
Spell year 2	-4.551	0.10 ***
Spell year 3	-4.856	0.12 ***
Spell year 4	-5.000	0.12 ***
Spell year 5	-4.500	0.11 ***
Spell year 6	-4.192	0.11 ***
Spell year 7	-4.950	0.15 ***
Spell year 8	-4.020	0.11 ***
Spell year 9	-5.563	0.23 ***
Spell year 10	-5.226	0.21 ***
Spell year 11	-5.279	0.22 ***
Spell year 12	-4.825	0.19 ***
Spell year 13	-5.369	0.26 ***
Spell year 14	-5.135	0.24 ***
Spell year 15	-4.506	0.20 ***
Spell year 16	-2.820	0.12 ***
Log-likelihood	-9465	
Nro of observations in person years	177579	

Notes: \*\*\*  $p < 0.01$ ; \*\*  $0.01 \leq p < 0.05$ ; \*  $0.05 \leq p \leq 0.10$ . Reference categories with dummy variables are household head or the partner in paid work. Estimates are derived from discrete time proportional hazard regression (see also Jenkins 2004, 302-304). Source: CNEF- BHPS, survey years 1991-2006

## Results

A larger number of children was found to decrease the poverty exit rate and hence increase the duration of the poverty spell, while the number of children under four has no significant effect. This could be explained with the policies aimed at households with younger children that might be more effective compared to those that target families with children older than four years. The younger children are in need of more care and hence their impact of parental working patterns are higher than older children. However, families with young children are eligible to receive benefits and support to provide adequate care, while families with older children do not receive same type of support. Hence the policies that have supported the return to the employment of younger children and the balance between work and family life seem to work among parents with younger children. Additionally, families with a larger number of children are more likely to have longer poverty spells compared to families with fewer children. The impact of the number of children in the household is similar when the poverty threshold is set at 50 and 40 percent. The link between poverty duration and number of children in the household could be explained not only with the amount of household members sharing available resources but also with the parental employment opportunities. Larger number of children creates more care responsibilities and hence more breaks in (particularly) mothers' employment career.

Having additional adult members in the household was found to increase the exit rate and hence diminish the likelihood of being in poverty; however, when poverty rate was set at 40 percent, the number of adults in the household had the opposite, yet not statistically significant effect. A similar increasing effect was found with employment of the household head and employment of the spouse. Having a younger household head was found to be linked to lower poverty exit rates, while the households with a household head over 50 had shorter spells of poverty. The effect of these characteristics was similar when measure with optional thresholds.

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The duration intervals describing the baseline hazards of poverty<sup>49</sup> suggest that there is a decline in the poverty exit rates after the first years in the United Kingdom. Similar associations between a longer duration of poverty and lower exit rates were found with the poverty thresholds of 40 and 50 percent. Hence a longer duration of poverty is linked to lower poverty exit rates.

### 6.3 Conclusions

By exploring the dynamics and duration of poverty in East and West Germany, Germany and the United Kingdom, this study has demonstrated that the experience of poverty is widespread even in the western welfare states. However, most poverty experiences are rather short, though longer and more permanent poverty experiences do exist. The changes in poverty rates can be explained both with the amount of people entering and exiting poverty. Hence the decrease in the poverty rates can be understood either with the fall of the number of people entering to poverty or because of the number of the people leaving poverty has risen.

The focus of Chapter 6.2 is on explaining the differences between individuals and their characteristics by using a multivariate hazard regression model. Shorter poverty spells and hence higher exit rates were linked to the following characteristics: having fewer children in the household, having additional adults in the household, having a household head older than 30 years, having completed high school or higher education and having a household head or partner in employment. Furthermore, the shorter duration of a poverty spell was found to be connected to the higher likelihood of leaving poverty.

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<sup>49</sup> Less negative, i.e. larger values, indicate higher hazards.

## Results

The lower likelihood of leaving poverty when there are more children in the household is not surprising: many people have children before their income level has reached its peak, the care responsibilities can limit the parental opportunities to work full-time, and for the reason that the household incomes are adjusted for the household size and therefore the household incomes fall when there are children. Therefore, more support for the families with larger number of children would be needed. However, we can assume that the family policies targeted to families with younger children have been successful in reducing poverty as the effect of having children under four years of age was opposite.

Some of the findings of the analysis are indeed surprising, as the gender of the household head was not found to have a significant association with poverty exits when other characteristics, such as the presence of children, education, age, employment and education, were controlled for. This suggests that the female-headed households that have been found to be more prone to poverty according to many studies are actually poor due to the other characteristics, supporting the findings of Jenkins (2011, 303). Indeed, since lone parents are commonly women, the effect of the missing additional adult in the household and presence of children has more of an impact on their poverty risk.

## **7. Concluding Remarks**

The objective of this study was to contribute to the understanding of poverty dynamics in Germany and the United Kingdom in three ways: by understanding the poverty hit rates, exits, and entries to poverty and the characteristics related to these transitions out of poverty. The previous chapters have underlined the importance of the role of the public transfers in poverty outcomes of individuals by providing safety against income losses due different demographic and labour market related events. These events increase the risk of poverty entry by changing the balance between needs and resources in individual or household level (Layte and Whelan 2003: Callens and Croux 2009.) This study complements many previous studies, with a cross-sectional and longitudinal approach, by providing information over two decades on relative income poverty and poverty dynamics in the United Kingdom and Germany. Furthermore, this study asked whether the use of one poverty line of in Germany is sufficient, or whether differences between former East and West Germany should be considered.

The importance of the persistence of poverty is indeed a topic that many previous studies have failed to examine as their approach, or data available, has been cross-sectional. However, there are substantial degrees of mobility in poverty over time. The experience of poverty of those who stay in poverty for one year differs significantly from those who have longer poverty experiences. The results of this study indicate that there was a vast amount of mobility into and out of poverty over the past two decades. The majority of poverty experiences are for a short term. Nevertheless, a significant part of the population experiences poverty for a longer term.

These queries around were answered with several approaches that allow us to understand the phenomenon from different viewpoints. First, poverty rates in Germany, and the United Kingdom were presented in Chapter 3.5 with the redistributive effect of the welfare state. Second, the variation of poverty according to the age and life stage were studied in the Chapter 4.3. Chapter

## Concluding Remarks

6.1 focused on the persistence of poverty by comparing the poverty hit rates and entries and exits from poverty. That was followed by the analysis on the characteristics that are linked to the poverty exits.

Poverty rates were indeed found to be higher in the United Kingdom than in Germany with the measures of a 60, 50 and 40 percent poverty threshold. When the poverty rates in East and West Germany were compared to Germany as one unit, the poverty rates are highest in the East, suggesting that these areas differ and hence should be studied separately. In addition, two recommendations could be made based on this result. First, the studies including Germany should take into account this regional variation and second, the studies including only West Germany are not sufficient to explain poverty in Germany as they might underestimate the level of poverty.

In comparison of the poverty trends over time Germany as a single unit, East and West Germany follow a similar increasing trend, while the poverty rates have been decreasing in the United Kingdom. The redistributive effect of the welfare state, on the contrary, was increasing in the UK and decreasing in Germany, East and West Germany. The redistributive effect was particularly high when severe poverty rates were analysed, suggesting that the transfers are effective in reducing poverty measured with a 40 percent threshold, especially in the East Germany of the 1990s. This suggests that there were several policies targeted at those whose level of living was low in the years after the reunification. The study of the redistributive effect of the welfare state also highlights the importance of chosen poverty threshold. The welfare systems seem to be more successful in reducing the severe poverty. More analysis should be made to reveal the actual differences between poverty experiences of those in poverty measured with different thresholds and how these measures are actualised in the individual level.

Poverty was observed to vary with age in Chapter 4.3. The risk of poverty is highest for those under 30 years of age, the trend decreases at the primary working age and increases slowly after age 50.

## Concluding Remarks

The poverty patterns in Germany and West Germany follow similar patterns and the trend is similar with the 60 and 50 percent thresholds. However, the trend of a 40 percent poverty rate differs from the other measures, as the poverty rate flattens after the mid-30s and is not higher in older age, as it was for those aged around 60 in the East Germany. Hence, this age group seems to be more protected from the most severe poverty. In the United Kingdom, young adults experience higher poverty rates compared to other age groups and the risk decreases between 20 and 30 years of age. After those years, the poverty risk increases modestly and the poverty risk is lowest during the 40s and early 50s. That is followed by an increase in the risk of poverty. However, this effect disappears with the measure of a 40 percent poverty rate.

Hence the patterns of want and plenty from Rowntree's study indeed seem to be challenged by similar findings as those of the study by Falkingham and Hills (1995b, 97-98); neither do the years of young adulthood at the age of 18 to 30 seem to appear as a time of plenty, nor is the age of the head of the household at the time when children are expected to leave their parental home 50 to 64. However, as Falkingham and Hill state, this might be linked to smaller family size, income differences and the impact of the welfare state. Furthermore, the changes might be linked to the older age of parents in childbirth and the older age of children who leave the parental home.

When poverty hit rates were compared, the findings of this study followed a pattern familiar from previous studies. Most of the people never experience poverty in their life. The amount of those never facing poverty was higher in Germany (66 percent) than in the United Kingdom (57 percent). When Germany was divided into East and West Germany, the analysis, surprisingly, revealed that a slightly higher amount never experiences poverty in the East (59 percent) compared to West Germany (57 percent). For most of the people, poverty experiences were fairly short, and they continued for one or two years. However, as the duration of the data allows us to study longer poverty hit rates, we can claim that a significant number of people experiences poverty more than five years. The results reveal that 13 percent has higher than five years poverty hit rate in Germany,

## Concluding Remarks

22 percent in the East Germany, 16 in West Germany and 15 in the United Kingdom following the results of the study by Muffels, Fouarge and Dekker (1999, 11-12) for Germany and the United Kingdom. The results of this study are similar with Fouarge and Layte (2005): the patterns of poverty exits are in the one hand rather similar in Germany and the UK, while the poverty rates are higher and duration of poverty longer in the UK than in Germany. The higher poverty hit rates in East Germany suggest that the poverty experiences indeed are different in East and West Germany for the reason that the duration of poverty seems to be more severe in the East. If the regional element is missing, the poverty hit rates would be underestimated. This study provides additional information on previous poverty studies made with shorter duration of data, such as commonly used Data on European Survey on Income and Living Conditions. Hence, the findings of the studies made with the EU-silc data are not sufficient when longer durations of poverty are analysed.

The results of the poverty hit rates have an important policy relevance. On the other hand, they draw our attention on those who experience longer duration of poverty as the unfortunate majority who is less likely to escape poverty and hence may be dependent on welfare benefits. On the other hand, the results do suggest that more people are affected by the poverty than the annual poverty rates can tell us. Therefore a universal experience of poverty should also be taken into account in tax and benefit policies. Previous research has shown that welfare regime theory has been relatively successful in explaining both cross-sectional and longitudinal poverty rates. The findings of Gallie and Paugam (2000, 4-5) suggest that the poverty rates should be lower and exits quicker in countries in which the universal income support payments are at relatively high replacement rate and wide entitlement in the population than in countries where the access to benefits is more limited and the replacement rate is lower. In addition, more active labour market policies were also found to decrease the transitions in the poverty and increase the exit rates.



## Concluding Remarks

If we consider that there is a relationship between poverty exit and entry rates and poverty rates, the association would be the following: higher poverty rates mean a higher likelihood to enter into poverty and lower chances to exit from poverty, and vice versa. This assumption seems to hold in the comparison between Germany, East and West Germany and the United Kingdom. The poverty rates were found to be higher in East and lowest in West Germany when compared to Germany as a whole. The exit rates, however, were found to be simultaneously lower and the entry rates higher in the eastern parts compared to the West. However, the poverty rates in the United Kingdom were found to be highest compared to other cases, and the exit rates were lower while the entry rates were higher, confirming the hypothesis. When compared to the overall poverty rate measured with a 60 percent threshold, that shows an increasing trend over time in Germany, the analyses suggest that the increase in poverty rate over time is established more to the increase in the entries into poverty than to the increase in the exit rates from poverty, except in the last years of the observation period.

The results of the poverty exit rates and characteristics associated with these transitions were made separately for Germany and the United Kingdom due to the differences in the duration of the data – 21 years for the CNEF-Soep and 16 years for the CNEF-BHPS – and the missing education variable in the CNEF-BHPS data. However, due to the harmonized data structure, I will summarize the results of both data, as well as compare their outcomes in following paragraphs.

The characteristics associated with shorter poverty spells and higher exit rates can be summarized as follows: having fewer children in the household, having additional adults in the household, having a household head older than 30 years, having completed high school or higher education and having a household head or partner in employment. Also, a shorter duration of poverty spell was found to be connected to a higher likelihood of leaving poverty. The findings are similar to those of Böhnke and Delhey (1999, 12, 19), who revealed the impact of larger amounts of children

## Concluding Remarks

and unemployment on higher poverty rates and Valletta (2006, 279-280) who highlighted the influence of having a young household head as well as having another adult in the household.

The poverty-reducing effect of having completed high school or an even higher level of education remained the same with all poverty thresholds in Germany, East and West Germany, as did the influence of having a household head or spouse in paid employment. Furthermore, households with a head under 30 years old were found to have a lower likelihood of leaving poverty than those with older household heads. However, with the poverty threshold of 40 percent, having a household head aged 30 to 39 or over 50 years was found to increase the hazard of leaving poverty, hence suggesting shorter poverty spells.

Some characteristics, however, were found to have more variation. The number of children was found to decrease the hazard of leaving poverty with thresholds of 60 and 50 in all areas, while the effect was found to be the opposite in the East Germany with 40 percent poverty rate. Also, the impact of having children under four years old had a significant, increasing effect only in East Germany and Germany with 60 and 50 percent poverty measures.

The results of this study suggest that the association between social policy and poverty dynamics is twofold, as the number of individuals or households is not only linked to exits from poverty but also entries into poverty. Therefore, anti-poverty policies should not only focus on those who are in poverty to help them exit their current state, but also on those who are in danger of entering into poverty. The duration of poverty also adds a challenge to anti-poverty policies, as poverty is experienced by many people, but only few are exposed to long-term poverty. However, as a longer duration of poverty is linked to a higher risk of severe social exclusion, special focus should be set on those who are in persistent poverty.

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In the light of these conclusions, some policy implementations can be discussed, as the welfare states indeed seem not to be able to ensure security and well-being for some groups as well as for others. Having a household head under 30 years old as well as being in a young household without children was found to have a higher risk of poverty. Additionally, those who were economically inactive or with low education were found to have a higher risk of poverty. As some of the poverty experienced by the younger population may be considered a temporal state that is linked to their participation in education or movement from education to the labour market (and hence lower income at the beginning of their career), the temporal nature may hinder the severity of the poverty for those who have long poverty experiences at a young age. Hence the importance of education and availability of work for young people should be the main focus of policymakers. A higher level of education has been found to decrease the risk of poverty in many studies, as well as in this study in the case of Germany, East and West Germany, as well as employment; they both are linked to individuals' future earning capacity.

Furthermore, policies aimed at promoting family-friendly careers and easing the combination of employment and family life buffer the effect of having children in families and support the availability of affordable childcare. This is especially crucial for families with one parent, often only the mother, to secure the possibility of participating in employment. However, sufficient levels of child support and social security should also be provided for lone parents and parents with low incomes who have chosen to take care of their children at home, or who do not have the possibility to work due to family commitments.

## **7.1 Limitations and Future Research**

There are several limitations and challenges that are still to be tackled in future research. First, given the nature of the data used in this research, some characteristics, such as level of education in Britain, have not been included in the analysis. The CNEF files of both SoeP and the BHPS

## Concluding Remarks

include a limited amount of information and, given the value of the variables constructed for the CNEF files, the maximum value of the data would be raised by combining the files with original data files. Additionally, the CNEF BHPS files should be updated to include the Understanding Society (UKHLS) data. However, a combination of the CNEF BHPS data and the CNEF UKHLS data was not available for this study. In future research, the availability of these data files would provide an opportunity to provide more up-to-date information on poverty dynamics in Britain. Nonetheless, the combination of these data could challenge the method used in this study. The gap between the BHPS and UKHLS data is more than 12 months, as it has been for the data used in this study, and therefore the use of discrete time event history analysis could be questioned.

The second limitation of this study is related to the availability of up-to-date data. Longitudinal design allows for causal analysis having data prior to and post life cycle change, such as divorce or childbirth, and also on the level of incomes pre- and post-transfers. However, due to the time needed for the data collection, processing and analysing the microdata, such as EU-SILC data, there might occur a lag between the year of data collection and data release and, as a consequence of this lag, the availability of the data and research purposes do not meet. Thus there are methods to “nowcast” the current level of poverty for i.e. evaluation of the effectiveness of the policies’ base on the estimation of current income distribution, combined with other information, such as available macroeconomic statistics (Navicke, Rastigina and Sutherland 2013, 2). The time lag in both data used in this study are relatively modest and as the issues in question – such as families, societies, and policies as well as the allocation of poverty – change rather slowly. Therefore, the results of this study are not likely to be outdated and hence the methods of “nowcasting” or microsimulation have not been used. However, there would be a need for research combining the information from longitudinal research and microsimulation data, such as Euromod, to evaluate the changes in the social policies and the changes in the composition of household incomes.

## Concluding Remarks

The third limitation of the research is connected to the comparative aspect of this study. The comparison of four cases – East and West Germany, Germany and the United Kingdom – allows for more in-depth comparisons of each of these cases. However, additional information on the patterns in different welfare states could be provided by increasing the cases in the study. Therefore, the CNEF files would provide an opportunity to bring more cases into the study. In addition to Germany and the United Kingdom, the data is harmonised for Australia, Korea, the United States, Russia, Switzerland, and Canada. This question could be analysed in future research.

Another limitation of the study at hand stems from the selection of the sample including only those between 18 and 64. Therefore, some important groups in higher risk of poverty, such as children, retired and teen mothers in the United Kingdom, cannot be researched. Children are studied in this research only as a part of their parent's household, but the special characteristics or needs of the children are not taken into account. However, children are dependent on their parent's incomes, and the social transfers of the children are often based on these earnings, and consequently it is justified to frame the age as it has been done in this study. This reasoning does not diminish the importance of study of child poverty. On the contrary, it emphasizes the need to study the impact of child poverty in the future life courses as a separate topic. Another group that has not been studied in this study are the elderly people. This is justified with the complicity of pension systems in Germany, particularly for those who worked in East Germany. Therefore, the poverty in later life will be tackled in future research.

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Appendices

### **3. Appendices**

## Appendices

### Appendix 1 Descriptive statistics for Germany 1993-2013, (%)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gender	Female	49.8	50.0	50.2	50.3	50.3	50.2	50.2	50.5	50.7	50.5	50.8	50.8	51.1	51.2	51.4	51.4	51.2	51.4	52.1	52.2	52.0
	Male	50.2	50.0	49.8	49.7	49.7	49.8	49.8	49.5	49.3	49.5	49.3	49.2	48.9	48.8	48.7	48.6	48.8	48.6	48.0	47.8	48.0
Number of children in the household	0	54.7	54.5	54.0	54.5	55.1	57.0	57.3	57.9	58.0	59.0	59.6	60.7	61.2	62.3	62.7	64.3	64.6	65.7	65.7	65.7	59.8
	1	22.9	23.2	23.3	23.5	23.2	22.2	22.3	21.4	21.3	21.1	20.7	20.2	20.2	19.3	19.4	18.6	18.6	18.0	18.0	18.2	20.5
	2	16.2	16.0	16.7	16.1	15.7	15.5	15.2	15.3	15.2	14.7	14.4	14.2	14.0	14.0	13.8	13.2	12.8	12.5	12.6	12.5	14.2
	3+	6.2	6.3	6.1	5.9	6.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
	Number of children under 4 in the household	0	85.0	85.6	86.0	86.0	86.5	86.6	86.9	87.3	87.2	88.5	88.7	89.5	89.7	89.3	89.4	89.8	89.6	90.5	90.4	90.4
	1	12.6	12.1	11.7	11.7	11.1	11.0	11.0	10.6	10.6	9.9	9.6	8.9	8.7	9.0	9.1	8.8	8.7	7.9	8.0	8.1	10.4
	2+	2.4	2.4	2.3	2.3	2.5	2.4	2.1	2.2	2.3	1.7	1.7	1.7	1.6	1.7	1.5	1.5	1.7	1.6	1.6	1.5	2.2
Number of adults in the household	1	9.1	8.9	9.2	9.6	9.7	10.7	10.7	12.3	12.1	11.4	11.8	11.9	12.7	13.2	13.4	13.6	13.7	14.0	14.9	15.8	13.8
	2	55.3	56.7	57.2	57.3	57.7	57.4	58.0	58.0	57.6	57.6	56.8	56.5	55.4	56.2	55.2	54.5	54.9	54.5	55.5	55.9	56.1
	3+	35.6	34.4	33.6	33.0	32.7	31.9	31.3	29.6	30.3	31.0	31.4	31.7	31.9	30.6	31.4	32.0	31.4	31.5	29.6	28.3	30.1
Household head education high school or more		66.6	66.3	66.2	65.4	64.8	64.5	63.2	58.6	59.0	58.5	58.5	58.4	58.3	57.5	57.2	56.9	56.7	56.2	56.4	55.5	62.0
Household head in paid work		61.7	62.0	62.2	61.8	61.9	62.2	61.4	60.6	60.6	60.5	60.6	60.8	61.0	60.7	60.5	59.5	59.2	59.1	58.9	58.0	69.3
Partner in paid work		76.2	76.6	76.2	75.7	76.5	76.8	76.0	77.1	76.2	75.3	75.3	75.4	75.9	76.3	75.8	75.9	76.6	76.4	76.9	76.8	83.0
Household head under30		8.6	8.8	8.7	8.1	7.7	7.2	7.1	6.3	6.0	5.1	5.5	5.8	6.3	6.4	6.4	6.2	6.0	5.7	5.7	5.7	6.9
Household head aged 30-39		12.1	12.7	13.3	13.9	14.1	14.2	14.4	13.9	13.7	12.5	12.4	11.7	11.3	10.8	10.3	10.1	9.7	9.4	9.0	9.1	11.1
Household head aged 40-49		10.5	10.3	10.9	11.2	11.5	11.7	11.6	12.7	12.9	13.7	13.9	14.2	14.5	14.8	14.7	14.8	15.0	14.6	14.3	14.4	13.6
Household head over 50		15.4	15.2	14.6	14.5	14.5	15.3	15.5	16.7	16.6	17.2	16.9	17.0	16.9	17.4	18.0	18.4	19.0	20.2	21.5	22.0	18.5
N		11,782	11,953	12,196	11,935	11,709	12,866	12,333	21,164	18,974	20,410	18,966	18,345	17,436	18,402	17,065	15,901	16,876	15,227	16,855	16,527	20,706

Notes: Descriptive statistics calculated for those 18-64 years old Data source: CNEF-Soep 1993-2013



# Appendices

## Appendix 2 Descriptive statistics for East Germany 1993-2013, (%)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gender	Female	50.6	50.6	50.8	50.9	50.7	50.3	50.8	50.3	50.4	50.1	50.0	50.7	50.5	50.8	50.6	50.5	50.2	50.9	51.6	51.6	51.7
	Male	49.4	49.4	49.2	49.1	49.3	49.7	49.2	49.7	49.6	49.9	50.0	49.4	49.5	49.2	49.4	49.5	49.8	49.2	48.4	48.5	48.3
Number of children in the household	0	50.1	51.5	52.5	53.4	56.3	57.6	58.8	60.6	61.8	62.7	64.9	66.4	66.5	67.2	69.2	70.6	70.4	71.2	70.9	70.8	68.2
	1	25.9	25.6	24.4	25.6	24.7	25.6	25.3	23.7	23.6	23.9	22.2	21.8	21.6	20.7	19.5	18.1	17.9	16.5	16.0	16.5	18.0
	2	19.1	18.2	18.9	16.9	15.3	13.5	12.8	12.3	11.5	10.5	10.3	9.5	9.6	9.4	9.0	8.9	9.3	9.9	10.3	10.1	9.9
	3+	4.8	4.7	4.1	4.0	3.8	3.3	3.0	3.3	3.1	2.9	2.7	2.4	2.4	2.7	2.4	2.5	2.4	2.5	2.8	2.6	3.9
Number of children under 4 in the household	0	87.7	90.4	91.7	91.6	92.4	91.8	92.0	91.8	91.6	91.0	90.9	90.8	89.6	88.2	88.8	88.6	89.2	90.6	89.8	90.3	89.6
	1	11.2	8.9	7.4	7.5	6.7	7.2	7.2	6.8	7.0	8.1	8.4	8.4	9.2	10.2	9.7	10.0	9.0	7.7	8.5	8.3	9.4
	2+	1.1	0.7	0.9	0.9	0.9	1.0	0.8	1.4	1.4	0.8	0.8	0.8	1.2	1.6	1.5	1.3	1.9	1.6	1.7	1.4	1.0
Number of adults in the household	1	7.2	7.2	7.7	8.3	8.9	9.4	9.9	11.7	11.7	11.6	11.5	11.8	12.6	13.8	13.7	14.4	14.9	15.5	17.3	18.5	17.7
	2	60.7	59.2	58.7	58.6	56.6	55.6	56.2	55.2	54.0	53.6	53.3	53.3	51.8	52.5	51.5	50.8	52.5	55.0	56.0	57.5	59.7
	3+	32.1	33.7	33.6	33.1	34.5	35.0	34.0	33.1	34.4	34.9	35.3	34.9	35.6	33.7	34.8	34.8	32.6	29.6	26.7	24.0	22.6
	Household head education high school or more	59.2	59.1	58.7	58.3	58.0	58.3	57.5	56.0	56.6	56.4	56.8	56.6	56.4	55.6	55.5	54.7	53.9	52.8	52.0	51.0	53.0
Household head in paid work	63.3	64.6	64.0	63.4	63.7	64.0	63.4	63.2	63.4	63.2	63.3	63.5	63.7	63.2	62.8	61.1	60.1	59.1	58.8	57.8	61.1	
Partner in paid work	71.1	72.4	71.9	71.6	73.1	73.4	73.4	74.8	74.6	74.4	74.5	74.9	75.6	75.9	75.3	75.6	76.0	75.5	75.5	75.8	78.0	
Household head under30	6.9	6.8	6.8	7.0	6.8	6.9	6.9	6.5	6.2	5.7	6.2	6.9	7.0	7.5	7.1	6.6	6.3	6.2	6.7	6.7	6.5	
Household head aged 30-39	14.5	14.1	13.9	13.8	13.2	12.7	12.6	11.8	11.7	11.0	10.6	10.0	9.6	9.6	9.7	10.3	10.1	9.7	9.5	9.8	10.6	
Household head aged 40-49	11.1	10.9	11.7	12.2	13.0	13.2	13.4	14.1	13.9	14.8	14.7	14.6	15.2	14.8	14.0	13.7	13.5	13.3	13.2	12.9	12.8	
Household head over 50	14.9	15.3	15.2	15.0	14.9	15.2	15.4	16.7	16.9	17.0	17.0	17.3	16.9	17.8	18.6	19.5	20.9	22.6	23.5	24.9	24.4	
N		3,400	3,334	3,226	3,213	3,188	3,379	3,275	4,976	4,558	4,609	4,417	4,294	4,103	4,273	4,004	3,775	3,959	3,544	3,828	3,734	3,764

Notes: Descriptive statistics calculated for those 18-64 years old      Data source: CNEF-Soep 1993-2013

# Appendices

## Appendix 3 Descriptive statistics for West Germany 1993-2013, (%)

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gender	Female	49.5	49.7	49.9	50.0	50.2	50.2	50.0	50.5	50.8	50.6	51.0	50.8	51.3	51.4	51.6	51.7	51.5	51.6	52.2	52.4	52.1
	Male	50.5	50.3	50.1	50.0	49.8	49.9	50.0	49.5	49.2	49.4	49.0	49.2	48.7	48.6	48.4	48.3	48.5	48.4	47.8	47.6	47.9
Number of children in the household	0	56.7	55.7	54.6	54.9	54.6	56.8	56.8	57.0	56.8	58.0	58.1	58.9	59.5	60.8	60.7	62.3	62.8	64.1	64.2	64.2	57.9
	1	21.6	22.3	22.8	22.8	22.7	21.0	21.1	20.6	20.6	20.3	20.2	19.8	19.8	18.9	19.4	18.8	18.9	18.5	18.6	18.7	21.1
	2	15.0	15.1	15.9	15.8	15.8	16.3	16.1	16.3	16.4	15.9	15.7	15.6	15.3	15.4	15.3	14.6	13.9	13.3	13.2	13.2	15.3
	3+	6.7	6.8	6.8	6.6	6.9	6.0	6.0	6.1	6.3	5.9	6.1	5.7	5.3	5.0	4.6	4.4	4.5	4.1	4.0	3.9	5.7
Number of children under 4 in the household	0	83.8	83.7	83.9	84.0	84.2	84.7	85.0	85.9	85.8	87.7	88.1	89.1	89.7	89.6	89.6	90.1	89.8	90.4	90.6	90.5	86.9
	1	13.2	13.3	13.2	13.3	12.7	12.3	12.4	11.8	11.7	10.4	9.9	9.0	8.6	8.6	8.9	8.4	8.5	8.0	7.9	8.0	10.6
	2+	3.0	3.0	2.9	2.7	3.1	3.0	2.6	2.4	2.5	1.9	2.0	1.9	1.7	1.8	1.5	1.5	1.7	1.6	1.6	1.6	2.5
Number of adults in the household	1	9.8	9.6	9.7	10.1	10.0	11.1	11.0	12.5	12.3	11.4	11.9	11.9	12.7	13.0	13.3	13.3	13.3	13.6	14.2	15.0	13.0
	2	53.1	55.7	56.7	56.8	58.1	58.1	58.7	58.9	58.7	58.8	57.9	57.5	56.6	57.4	56.3	55.6	55.6	54.3	55.3	55.4	55.3
	3+	37.1	34.7	33.6	33.1	32.0	30.9	30.3	28.6	29.0	29.8	30.2	30.7	30.7	29.7	30.4	31.1	31.1	32.1	30.5	29.6	31.7
Household head education high school or more		69.6	69.1	68.9	68.0	67.3	66.7	65.2	59.4	59.8	59.2	59.0	59.0	58.9	58.1	57.7	57.6	57.6	57.3	57.7	56.9	64.0
Household head in paid work		61.1	61.0	61.5	61.2	61.2	61.5	60.7	59.9	59.7	59.7	59.8	60.0	60.2	60.0	59.8	59.0	58.9	59.1	58.9	58.1	71.1
Partner in paid work		78.3	78.2	77.7	77.3	77.7	78.0	76.9	77.9	76.7	75.5	75.5	75.6	76.0	76.4	75.9	76.0	76.7	76.6	77.3	77.0	84.1
Household head under30		9.3	9.6	9.3	8.6	8.0	7.4	7.2	6.2	5.9	5.0	5.3	5.5	6.1	6.1	6.2	6.0	5.9	5.5	5.4	5.4	7.0
Household head aged 30-39		11.1	12.1	13.0	13.9	14.4	14.7	15.0	14.5	14.4	13.0	13.0	12.2	11.9	11.2	10.5	10.1	9.6	9.3	8.8	8.9	11.3
Household head aged 40-49		10.3	10.1	10.6	10.8	10.9	11.2	10.9	12.3	12.5	13.4	13.7	14.1	14.3	14.8	15.0	15.2	15.4	15.0	14.6	14.9	13.7
Household head over 50		15.6	15.2	14.4	14.3	14.4	15.3	15.6	16.7	16.5	17.2	16.8	16.9	16.9	17.3	17.8	18.0	18.4	19.5	20.9	21.2	17.2
N		8,382	8,619	8,970	8,722	8,521	9,487	9,058	16,188	14,416	15,801	14,549	14,051	13,333	14,129	13,061	12,126	12,917	11,683	13,027	12,793	16,942

Notes:

Descriptive statistics calculated for those 18-64 years old Data source: CNEF-Soep 1993-2013

Appendices

**Appendix 4** Descriptive statistics for United Kingdom 1991-2006, (%)

## Appendices

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gender	Female	50.9	50.9	51.0	50.6	50.7	51.0	51.2	51.5	51.4	51.4	51.7	51.5	51.3	51.4	51.7	51.5
	Male	49.1	49.2	49.0	49.4	49.3	49.0	48.8	48.5	48.6	48.6	48.3	48.5	48.7	48.6	48.3	48.5
Number of children in the household	0	56.3	57.0	57.0	57.7	57.4	57.4	56.6	57.0	57.2	55.7	55.2	55.6	56.1	56.0	55.7	56.5
	1	17.6	17.5	18.4	17.9	18.5	18.6	18.5	18.1	17.7	18.8	19.0	18.9	18.6	19.0	19.1	18.6
	2	18.1	17.4	16.7	16.3	16.2	16.4	16.6	16.3	17.0	17.4	16.9	17.4	17.5	17.4	17.3	17.5
	3+	8.0	8.1	7.8	8.1	7.9	7.6	8.2	8.5	8.1	8.1	8.9	8.2	7.9	7.7	7.9	7.4
Number of children under 4 in the household	0	82.0	82.6	82.7	82.7	83.2	84.0	83.1	83.2	83.5	82.8	83.1	83.4	84.4	84.2	84.3	84.7
	1	12.2	11.8	12.5	12.6	12.7	12.3	13.1	12.9	12.2	12.8	12.5	12.6	11.7	12.1	12.4	11.8
	2+	5.8	5.6	4.8	4.7	4.2	3.7	3.8	3.9	4.3	4.3	4.4	3.9	3.8	3.7	3.3	3.5
	3+	8.0	8.1	7.8	8.1	7.9	7.6	8.2	8.5	8.1	8.1	8.9	8.2	7.9	7.7	7.9	7.4
Number of adults in the household	1	11.2	10.9	11.5	11.4	11.4	11.2	12.4	12.1	13.2	13.5	13.4	12.9	12.9	12.7	12.4	12.2
	2	60.6	59.5	57.9	57.6	58.5	58.1	58.7	59.8	59.9	59.5	58.1	58.0	57.1	58.5	57.9	57.7
	3+	28.3	29.5	30.6	31.0	30.1	30.7	28.9	28.1	26.9	27.0	28.6	29.1	30.0	28.8	29.7	30.0
	4+	8.5	8.8	9.2	8.9	8.6	8.7	8.4	8.0	8.6	8.6	8.1	7.7	7.4	7.2	7.1	7.2
Household head in paid work		64.9	66.2	67.6	67.1	66.8	66.4	65.8	65.1	66.0	65.8	66.9	67.0	66.5	66.6	66.6	67.5
Partner in paid work		80.0	80.9	81.6	81.1	80.8	80.7	80.5	80.8	81.9	81.6	82.1	82.2	81.8	82.1	82.4	83.1
Household head under30		8.5	8.8	9.2	8.9	8.6	8.7	8.4	8.0	8.6	8.6	8.1	7.7	7.4	7.2	7.1	7.2
Household head aged 30-39		13.4	13.1	12.8	13.0	13.4	13.4	13.5	13.7	13.5	13.1	13.0	12.8	12.6	12.1	11.6	11.1
Household head aged 40-49		12.6	12.4	12.7	12.7	12.4	12.0	12.2	12.0	12.2	12.6	12.6	12.6	12.8	13.2	13.4	13.3
Household head over 50		14.0	13.9	13.6	13.5	13.8	14.0	15.1	15.4	15.6	15.8	15.9	16.1	16.3	16.6	16.8	16.9
N		8,455	8,141	8,180	8,031	7,839	7,992	9,173	9,061	13,152	13,130	16,164	14,375	13,832	13,586	13,354	13,175

Descriptive statistics calculated for those 18-64 years old Data source: CNEF-BHPS 1991-2006

## Appendices

### Appendix 5 Consumer Price Index in Germany 1993-2013

	<b>West Germany</b>	<b>East Germany</b>
<b>1993</b>	74.5	68.9
<b>1994</b>	77.1	76.2
<b>1995</b>	79.2	79
<b>1996</b>	80.5	80.5
<b>1997</b>	81.5	82
<b>1998</b>	83.1	83.9
<b>1999</b>	83.8	84.8
<b>2000</b>	84.4	85.1
<b>Germany</b>		
<b>2001</b>	85.7	
<b>2002</b>	87.4	
<b>2003</b>	88.6	
<b>2004</b>	89.6	
<b>2005</b>	91	
<b>2006</b>	92.5	
<b>2007</b>	93.9	
<b>2008</b>	96.1	
<b>2009</b>	98.6	
<b>2010</b>	98.9	
<b>2011</b>	100	
<b>2012</b>	102.1	
<b>2013</b>	104.1	

(Source: Grabka 201)

## Appendices

### Appendix 6 Summary of Changes in Family and Employment policies in Germany and the UK 1990-2013

Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1990	Reform in unemployment support policy <sup>4</sup>	* Introduction of "back to work plans" by Employment Service. * Reductions in Income support for those unemployment claimants who failed to attend Restart interviews.	German unification <sup>8</sup>	The legal, political and economic institutions of the former Federal republic were imposed on East Germany following German unification on 3rd of October 1990.
	Reform in benefit for people on Low Incomes <sup>5</sup>	* Housing benefit was introduced to help with rents for those on low incomes. * Community Charge Benefit was introduced to rebate for local taxes.	Reform in family policy <sup>4</sup>	* Increase in child raising leave and benefit period to 15 months. * Rise in Child tax allowance.  * Changes in Child benefit: no change to minimum guarantee, but increase of means-tested element for second child.
1991	Reform in family policy <sup>4</sup>	Increase in child benefit of £1 per week and decision to index the benefit in line with inflation.	Legislative change in unemployment support policy <sup>4</sup>	Increase in contribution rate to 6.8 percent.
1992	Reform in unemployment support policy <sup>4</sup>	* Unemployment benefit disqualification condition were made stricter. * Reductions of Unemployment benefit for recipients of occupational pension over 55 years of age.	Health Care Structural Reform Act <sup>2</sup>	New regulatory instruments, such as to monitor more close by access to medical practise, re-organise health funds governance and to cap medical cost and prospective hospital payments.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1992 (continues)	Reform in family policy <sup>4</sup>	Definition of full-time work reduced in Family Credit from 24 to 16 hours/week.	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Raise in Child tax allowance.</li> <li>* Increase in Child raising pension credit from 1 to 3 years per child.</li> <li>* Increase in Child benefit level.</li> <li>* Increase in leave entitlement for sick children to 10 days from previously 5 years per child.</li> <li>* Introduction of Tax allowance for care work provided within family.</li> <li>* Plan to entitle a place in kindergarden for all 3 years old children from 1997 (fully implemented in 1999).</li> </ul>
1993	Reform in family policy <sup>4</sup>	Introduction of 14 weeks minimum maternity leave to all pregnant employees apart from their length of service or hours of work by (following EU directive).	Changes in labour-market law (Arbeitsmarktförderungsgesetz AFG) <sup>2</sup>	The changes in AFG allowed unemployment insurance funds to be used into major job-creating programs in the Former East Germany.
	Reform in benefit for people on Low Incomes <sup>5</sup>	Council tax benefit was introduced to replace the community charge benefit from year 1990.	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Extension to Child raising leave to 3 years and child raising benefit to 2 years.</li> <li>* Improved benefits for those lone parents whose absent parents contributions are not sufficient.</li> </ul>

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1994	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Statutory Maternity Pay (SMP) with higher rate after 6 months of continuous employment instead of previous condition of 2 years. Value of lower rate increased to correspondence to sickness pay.</li> <li>* Maternity Allowance for those who are not eligible to receive SMP but earn more than lower earnings limit was increased at the same level as lower rate of SMP.</li> <li>* Increase in maximum period for which women must have been employed to be eligible to receive Maternity pay from 52 weeks to 66 weeks.</li> <li>* Introduction of Child care allowance as a part of Family Credit to disregard child care cost up to £40 per week.</li> </ul>	<p>Addition on compulsory insurance for all employed<sup>2</sup></p> <p>Legislative change in unemployment support policy<sup>4</sup></p> <p>Reform in family policy<sup>4</sup></p>	<p>Separate fund was added to the compulsory insurance for all employed for nursing care in addition to other funds for pensions, health, unemployment and occupational accidents.</p> <p>Decrease of Arbeitslosengeld (ALG) and Arbeitslosenhilfe (ALH) rates by 1 point and -3 for those without children. Limitation in entitlement of ALH for 1 year for those without prior receipt of ALG (indefinite before).</p> <p>Introduction of income testing in Child raising benefits also for first 6 months higher earnings</p>

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)



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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1994 (continues)			Legislative employment amendment <sup>7</sup>	Local authorities were required to create jobs for beneficiaries capable of work.
1995			Legislative employment amendment <sup>7</sup>	Authorities were allowed to deduct 25 percent of the social welfare payment if the claimant refuses a work that been offered by the local authorities.
1996	Reform in family policy <sup>4</sup>	Child care disregard increased to £60 per week with a £10 bonus for claimants of Family Credit working 30 hour or more per week.	Constitutional Court ruling of tax cuts <sup>2</sup>	Introduction of tax cuts for low-income groups.
	Reform in unemployment support policy <sup>4 &amp; 5</sup>	* Unemployment benefit and Income support were replaced with Jobseekers allowance (JSA): introduction of contributory JSA and income-related JSA. In addition it is possible to top-up contribution based JSA with income based JSA. * Limitation of maximum duration of contributory benefit was set from 1 year to 6 months. *Benefit rate for claimants aged 18 to 24 was reduced by 20 percent. *All remaining dependent additions under Unemployment benefits were removed. *Obligatory jobseekers' directions introduced. (continues on next page)	Reform in health insurance fund <sup>2</sup>	With this reform wage earners were free to choose their health insurance fund.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1996 (continues)	(continues)	<ul style="list-style-type: none"> <li>* Contributory benefit rights were reduced for those receiving occupational pension of all ages.</li> <li>* Requirement to sign a jobseeker's agreement introduced.</li> <li>* Permitted period of 13 weeks for restriction of job search introduced.</li> <li>* "Work project" pilots introduced for long-term unemployed with 13 weeks compulsory supervised job search followed by 13 weeks of work experience.</li> </ul>	<p>Legislative change in unemployment support policy<sup>4</sup></p> <p>Reform in family policy<sup>4</sup></p>	<p>Decrease in benefit rate claimants ALH by 3 points/ year of claim. Stricter work test imposed to AHL recipients and possibility for employment office to request participation to low paid seasonal work.</p> <ul style="list-style-type: none"> <li>* Ending of dual system that consisted of child benefit plus child tax allowance and instead parent could claim the one that would be more beneficial for them (child benefit for 80-95 percent of the parents).</li> <li>* Increase in Child benefit rates and income testing of this benefit was abolished.</li> <li>* Increase in Child tax allowance.</li> </ul>

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1996 (continues)			Child Care Reform <sup>11</sup>	Introduction of entitlement to childcare place for children over 3 with more attention to the development of early childhood education.
1997	Reform in family policy <sup>4</sup>	Child care disregard increased to £100 per week for 2 or more children.	Reform in family policy <sup>4</sup>	Increase in Child raising pension credit gradually from 75 percent to 100 percent of average wage (fully in effect in year 2000) for current pensioners as well as once entering to retirement. These credits became additional to the actual contributions that had been made.
1998	1) White paper: Fairness at work <sup>1</sup>  2) Framework document: Meeting the Childcare Challenge <sup>1</sup> Consultation document: Supporting families <sup>1</sup>	1) Statutory framework for family-friendly employment rights such as minimum rest and vacation period, expansion of maternity leave, protection of part-time workers from discrimination and limitation of excessive working hours. 2) Promoting best practices by employers to enable parents to spend time with their children.  Promoting minimum standards of family-friendly employment rights and encourage firms to provide benefits beyond these rights.	New Third Book of the Social Security Act <sup>13</sup>  Action Programme: Women and Work <sup>1</sup>	Tighter sanctions, eligibility and availability criteria for unemployment insurance benefits. Requirement for longer employment record.  Strengthening the legal framework for equal opportunities and revision of the parental leave scheme outlined coalition proposals.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1998 (continues)	Reform in unemployment support policy <sup>4</sup>	New Deal programs were introduced for young people under 25 (NDYP), long-term unemployed (NDLTU) who had been out of work for 2 years and lone parents (NDLP).	Legislative change in unemployment support policy <sup>4</sup>	<p>* New suitability criteria introduced: suitable job offers defined purely in monetary terms, relevance of previous qualification abandoned, after six months any job considered suitable with net earnings higher than benefits. Also stricter benefit sanctions were introduced, benefit for claimants with redundancy money were restrained and proof of active job search were required.</p> <p>* New criteria on the longer duration of ALG: set only for those over 45 years old from the previous age limit of 42 and the maximum duration of 32 months was restricted for those over 57 years of age (previously 54 years of age).</p> <p>* Participation in approved training did no longer establishes benefit eligibility.</p>
1999	Document: Caring about Carers <sup>1</sup>	Discussion on the flexible employment policies and needs of carers (National Strategy for carers).	Reform in family policy <sup>4</sup>	*Increase in Child benefit
	Employment Relations Act <sup>1</sup>	Started as a provision of code of act for employers to facilitate mobility between part- and full-time work. The plan was abandoned in the policy process and as a result only voluntary guidance was provided in the government web site.	Child and Youth Act (from year 1992) <sup>11</sup>	<p>*Introduction of Child care tax allowance (Betreuungsfreibetrag).</p> <p>The Child and Youth Act from year 1992 was implemented with a right to childcare for children aged 3-6. Children begin their school by age of 7 in Germany.</p>

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
1999 (continues)	Reform in unemployment support policy <sup>4</sup>	New Deal was introduced for partners (NDP) with a joint claim that was required for those with partners claiming JSA over 6 months for those without children and less than 25 years of age.		
	Reform in family policy <sup>4 &amp; 5</sup>	* Increase in Child benefit. Family Credit was replaced by the Working Families Tax Credit (WFTC).  * Introduction of unpaid maternity/ parental leave for 13 week of parental leave per parent and child up to age of 5 and 2 weeks of unpaid parental leave for fathers.		
	Reform in benefit for people on Low Incomes <sup>5</sup>	Disability working allowance was replaced by the Disabled person's tax credit.		
2000	Discussion document: Changing patterns in a Changing World <sup>1</sup>	Promoted flexible working arrangements, particularly through free consultancy to employers. The campaign runs until 2005.	Legislative change in unemployment support policy <sup>4</sup>	Additional regular earnings, such as overtime pay or holiday money are included for calculating benefit levels, except for the calculation of ALH. This reverses the legislation from 1982. *ALH eradicated for those without prior receipt of ALG.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2000 (continues)	Work and Parents review <sup>1</sup>	Review on maternity and parental rights to help parents to balance work and family life.	Reform of the Child Raising Benefit Act (Bundeserziehungsgeldgesetz - BerzGG) <sup>1 &amp; 9</sup>	Reform to make the existing parental leave scheme more flexible. Both parents received entitlement to take up their leave (36 months) at the same time and reduce their working hours to between 15 and 30 hours per week, returning to full-time hours after parental leave.
	Green paper: Work and parents: Competitiveness and Choice <sup>1</sup>	Discussion on the introduction of a statutory right for reduced-hours working for the first time.	Part-time Work and Fixed-Term Contracts (Teilzeit- und Befristungsgesetz - TzBfG) <sup>1</sup>	Implemented an Act that introduces general right to reduce working hours for employees in firms with more than 5 employees and more than 6 months of service (Clause 5 of the European Directive on Part-time Work).
	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Increase in maternity leave to minimum of 18 weeks of ordinary maternity leave.</li> <li>* Expansion on the maternity allowance to women earning below lower earnings limit. This is conditional on employment or self-employment for at least 26 weeks during past 66 weeks and an earning test of average earnings that are at least £30 a week.</li> <li>* Maternity Grant replaced by Sure Start Maternity Grants. The grants is conditional on consultation with a health visitor/ professional. Grant rose from £200 to £300.</li> </ul>		

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2001	Reform in unemployment support policy <sup>4</sup>	<p>* New Deal for long-term unemployed (NDLTU) was changed to ND25+ and it became compulsory after 18 months of unemployment in past 21 months.</p> <p>* Voluntary New Deal program was introduced for disabled people (NDDP).</p>	Reform in family policy <sup>4 &amp; 10</sup>	<p>* Changes in child raising leave (Erziehungsgeld) and child raising benefit. Increase in cut-off point to receive child raising benefit for the first 6 months to about 250 percent of average earnings for couple and 200 for single parent. Parents could choose to receive the child raising benefit either 24 months (at maximum 307 euros per month) or 12 months (with maximum 460 euros per month).</p> <p>* Term child raising leave was replaced with term parental time (Elternzeit) with a permission for both parents to take parental leave at the same time and both allowed to work up to 30 hours per week instead of previous 19 hours. Flexibility of this benefit was increased as the parents can use up to 12 months of the maximum 3 years flexibly until the child reaches the age of 8 if agreed by the employer. In addition parents are allowed to switch to part-time work during the parental leave in companies with at least 15 employees.</p>
	Reform in unemployment support policy <sup>5</sup>	Introduction of Work-Focused Interviews by the government. These interviews were compulsory for all new claimants between ages 18 and 60 of certain benefits, such as income support benefit, incapacity benefits, carer's allowance and bereavement benefits.	Reform in family policy <sup>4</sup>	Several changes in the tax and benefits have improved the parents' average income by the year 2005.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2001 (continues)	Reform in family policy <sup>4 &amp; 5</sup>	<ul style="list-style-type: none"> <li>* Married couple's allowance and additional pension allowance were replaced with Children's Tax Credit (CTC). The tax break was taken away for couples without children and the tax break was doubled for parents at least with one child under 16. Tax withdrawal rate of 6.7% is included for higher rate taxpayers (40%).</li> <li>* Increase in the basic rates of credit in Working Families Tax Credit by £5 per week.</li> <li>* Increase in the child care limits in Tax Credit to £135 and £200 per week.</li> <li>* Increase in Children's personal allowances in Income Supplement (IS) and Jobseekers' Allowance (JSA) by £1.5.</li> <li>* Increase in Means-tested Sure Start Maternity Grant to £500.</li> </ul>	Voluntary Agreement on the Promotion of Equal Opportunities for Women and Men in the Private Sector <sup>1</sup>	Improvement of equal opportunities for women and men, including family-friendly working time arrangements. This agreement replaced the planned Equal Opportunities Act for the private sector.
	Work and Parents Taskforce report: About time: Flexible working <sup>1</sup>	Negotiation on a right to request flexible working. These recommendations were accepted and added in the Employment Bill.	Reform of Equal Rights Act for the Public Sector (Gleichstellungsdurchsetzungsgesetz - DGleigG) <sup>1</sup>	Specify the provision of family-friendly working time arrangement, part-time work and family-related leave for employees in public sector unless there was a compelling reason to oppose it.
			Reform of works Constitution Act (Betriebsverfassungsgesetz - BetrVG) <sup>1</sup>	Strengthening the work councils to negotiate family-friendly working time arrangements on behalf of the employees.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)



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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2001 (continues)			Universal entitlement to reduced working time <sup>12</sup>	Introduction to universal entitlement to reduced working time.
2002	Reform in unemployment support policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* New Deal for lone parents (NDLP) was updated with compulsory job-related interview and interview with personal advisor in every 6 months.</li> <li>* New Deal for Partners (NDP) became mandatory for JSA claimants without children and under 45 of age.</li> </ul>	Legislative change in unemployment support policy <sup>4 &amp; 13</sup>	<ul style="list-style-type: none"> <li>* Job-Aktiv legislation is introduced with the stronger emphasis on the activation, such as training, profiling job search, temporary work options, job rotation and job placement.</li> <li>* If the claimant of ALH takes part in relevant training course, automatic annual deduction of 3 percent is suspended.</li> <li>* Increase in Child benefit.</li> </ul>
	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Increase in Income Supplement (IS) and income related Jobseekers' allowance by £3.50.</li> <li>* Increase in lower rate of Statutory Maternity Pay (SMP) and Maternity Allowance from £60.20 to £75.</li> </ul>	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* A Total child tax allowance was introduced after separate child care allowance (Betreuungsfreibetrag) and educational tax allowance (Ausbildungsfreibetrag) were merged.</li> <li>* Child raising pension credits were extended to cover child raising for the time child being 4 to 10 years of age. Parents who were not working and with 2 or more children were also eligible for this credit with value at a level equal to contributions based on a third of average earnings. For widows and widowers cut in survival pension was more than compensated by child-related benefits.</li> </ul>

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2002 (continues)	Flexible working regulations 2002 <sup>1</sup>	Parents with children under age 6 and parents of disabled children up to 18 years of age received a right to request flexible working arrangements and their employer were obliged to consider these requests.		
2003	Reform in unemployment support policy <sup>4</sup>	The start of a New Deal for young people and ND25+ after 3 months of unemployment was piloted in some areas.	Hartz reform I and II <sup>2&amp;13</sup>	Also called "Commission on Modern Services in the Labour Market". Training vouchers, new measures promoting employment of older workers and new start-up grant (Me Inc.) were launched. Stricter sanctioning and mobility requirements were introduced. Requirement with early registration with Public Employment Services (PES) in case of unemployment.
	Flexible working regulations 2002 <sup>1</sup>	Right to request flexible working arrangements describe in December 2002 came into force.	Agenda 2010 <sup>2</sup>	Comprehensive social policy package introduced by the government to solve the long term problems of the German welfare state. Hartz reforms are included in the reform package, but listed here separately for January 2003, 2004 and 2005.

Sources:

1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007)  
 (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007)  
 Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

6 Brewer, Browne and Jin  
 11 Evers, Lewis and Riedel (2005) 12 Lewis,

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2003 (continues)	Reform in family policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Working Families Tax Credit (WFTC) replaced by the Working Tax Credit. Children were no longer basis of eligibility of the tax credit.</li> <li>* Introduction of Child Tax credit to combine previous children's tax credit, child credits in Working Families Tax Credit and child additions to means-tested and non-means-tested benefits into a single payment.</li> <li>* Introduction of child trust funds, "baby bonds".</li> <li>* Extension of Statutory Maternity Pay and Maternity Allowance from 18 to 26 weeks.</li> <li>* Introduction of Statutory Paternity Pay (SPP) with same work conditions as SMP and payable for fathers at lower rate of SMP for two weeks.</li> </ul>	Legislative change in unemployment support policy <sup>4</sup>	<ul style="list-style-type: none"> <li>* Suitability criteria made tighter for younger unemployed. Introduction of new job placement and counselling tools, new options for business start-ups and temporary work placements.</li> <li>* Responsibility to proof acceptability of job offer shifted from employment office to job seeker.</li> </ul>
	Reform in unemployment support policy <sup>5</sup>	Those age 60-65 must claim pension credit instead of Jobseekers' allowance (JSA).	Alliance for the Family <sup>1 &amp; 10</sup>	Wide range of societal partners allied to promote family-friendly actions in employment. The development of a "sustainable family policy" was based on three assumptions: 1) Need of higher fertility rate, 2) need for qualified workers and higher labour market participation of women, and 3) need for better education for children in their early years.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2003 (continues)			Assessment 2003 <sup>1</sup>	Assessment of the voluntary agreement set in July 2001 which revealed there was no longer the political will to introduce equal opportunities legislation for the private sector. Lower age threshold (52 years of age) was set for fix-term employment without reason. Introduction of broader definition of marginal jobs.
2004	Work Search Premium Scheme (WSP) <sup>5</sup>	Pilot project on introduction of additional £20 for lone parents who are actively looking for employment and who have been receiving income support or Jobseekers's Allowance for at least a year and who have joined the New Deal for Lone Parents. The maximum duration of the programme is six months.	Hartz reform III <sup>2 &amp; 13</sup>	* Stronger emphasis on effectiveness and cost efficiency by reorganization of public employment. Reduction of the role for social partners. Strengthening the quasi-market/private service providers. Unemployment and insurance benefit and benefits during training were integrated. Introduction of reforms of direct job creation schemes. * Additional sanctioning reasons were introduced. Reduction of the duration of unemployment insurance benefit for older workers from 32 to 18 months. * Higher threshold was set for dismissal protection and narrow selection criteria were introduced. Simultaneously far-reaching liberalization of temporary agency work and exchange for equal treatment or first time collective agreements.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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2004 (continues)			Local Alliances for the Family <sup>1</sup> Legislative change in unemployment support policy <sup>4</sup>	Alliance initiative to promote cooperation for family-friendly actions at the local level. * New criteria for entitlement of ALG: entitlement restricted for those age 55 or older and entitlement was restricted from maximum 32 months to 18 months. * Reference period before unemployment of required contribution is shortened from 3 to 2 years. * Participation in subsidized employment does no longer qualify as benefit qualification period. * Unemployed who are over 50 years of age and accept lower paid job receive wage subsidy and pension credits.
2005	Consultation document: Work and Families: Choice and Flexibility <sup>1</sup>	Discussion about extending the right to request flexible working arrangements described in December 2002 that came into force in April 2003 to carers of adults and parents of older children.	Hartz reform IV <sup>2 &amp; 13</sup>	* Stricter availability criteria set. Earnings-related assistance was replaced with flat-rate unemployment assistance with emphasis on activation. * Launch of new governance for activation of long-term unemployed and flexible institutional arrangements such as public employment opportunities.

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2005 (continues)			Legislative change in unemployment support policy <sup>4</sup>	Introduction of ALG II: * One single scheme merged from ALH and social assistance for employable claimants was created (with abolition of employment related benefits and lower rates for majority of previous ALH claimants). * Job suitability criteria were tightened for ALG II recipients with any legal work and wage level being suitable even if it was below collective or standard wages paid in locality. * Eligibility criteria changed for young unemployed under 25 years of age: they were eligible for ALG II if they accept suitable employment, training or other job integration measures.
			Day Care Expansion Act <sup>9</sup>	Municipalities were required to provide day care for all children under three years of age whose parents are in employment or enrolled in education or training.
2006	The Work and Families Act 2006 <sup>5 &amp; 12</sup>	Set a plan for increasing the length of paid maternity leave from six months to nine months (from April 2007) to all women claiming statutory maternity pay or maternity allowance.	Hartz reform IV <sup>3</sup>	Stricter activation policies. Introduction of prolongement of longer unemployment benefits for older workers.
			Legislative change in unemployment support policy <sup>4</sup>	ALG duration was fixed at maximum standard of 12 months.

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)

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2007	Consultation document: Work and Families: Choice and Flexibility <sup>1</sup>	The flexible working regulations discussed in February 2005 were extended to carers of adults.	Reform in parental leave <sup>10</sup>	Parents who interrupt their employment to care for their new-born child are allowed to receive parental leave benefit that replaces 67 percent of their net income from employment with a maximum of 1800 euros a month for 14 months. Two of these months are reserved to the father.
	Work-related Activity Premium scheme <sup>5</sup>	Pilot project on introduction of additional £20 for lone parents who have children aged 11 or over and who are actively looking for employment or transition back into labour market by improving their skills and opportunities such as writing a CV or planning child care.		
2008	Reform in family policy <sup>5</sup>	Lone parents with no children under 12 are no longer qualified for income support only based on their status as lone parents. If eligible, they can apply for Jobseeker's allowance or other benefits.	Reform in family policy <sup>14</sup>	Introduction of new law on public childcare (Kinderförderungsgesetz) with individual entitlements to children to receive public childcare and launch of home care allowances (Betreuungsgeld) by year 2013.
	The Green Paper Welfare reform 2007 <sup>5</sup>	Number of changes to the delivery of Jobseekers Allowance, such as: * If job search for preferred employment in three month on benefit is not successful, the job search will be expanded based on travel to work, wage and type of job. (continues on next page)		

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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2008 (continues)	(continues)	<ul style="list-style-type: none"> <li>* "Gateway state" after 6 months on benefit with formal review with a personal adviser and back-to-work action plan. If the plan is not followed, the claimant will have sanctions.</li> <li>* After 12 months on benefit, claimant will be advised to "return-to-work" provider from public, private or voluntary sector.</li> <li>* Requirement to undertake a period of full-time work experience in the community or with a regular employer after being on benefit "a defined period".</li> <li>* Partners of JSA claimants with children will have mandatory work-focused interviews every six months.</li> </ul>		
2009	Consultation document: Work and Families: Choice and Flexibility <sup>1</sup>	The flexible working regulations discussed in February 2005 were extended to parents of children under 16.		
2010			Reform in family policy <sup>14</sup>	Increase in child benefit, child tax allowance and child maintenance payment (Unterhaltsvorschuss). Decrease in parental insurance allowance (Elterngeld).
2011	Work Programme <sup>3</sup>	Offers financial rewards for providers for helping people furthest from the labour market bases on the needs of individuals and providers' freedom to design this support.		

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)



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Year	United Kingdom Policy document/measure	Action	Germany Policy document/measure	Action
2011 (continues)	Improving the Access to Psychological Therapies project <sup>3</sup> Participation Strategy: Building Engagement, Building Futures <sup>3</sup>	Funding for tackling behavioural problems caused by poor mental health for services meant for children and young people. Reforms to schools, vocational education, skills and welfare provision to help to increase the number of young people in education, training and work.		
2012	UK Government publication Social Justice: Transforming Lives <sup>3</sup>	Outline for new strategy to tackle poverty in all its forms. New set of principles is presented: focus on prevention and early intervention, concentrating interventions on recovery and independence, promoting work for those who are capable as a most sustainable route away from poverty while offering support for those who cannot work, importance of actions in the local level and ensuring the fairness of these actions to the taxpayers.		
2013	Universal Credit <sup>6</sup>	Introduction of the Universal Benefit for those who are either working and on a low income or those who are out of work. It replaced some previous benefits and tax credits such as Income-related jobseeker's Allowance, Income-related Employment and Support Allowance, Income Support, Child Tax credit, Working Tax Credit and Housing benefit.	Reform in family policy <sup>14</sup>	Home care allowance was introduced (Betreuungsgeld).

Sources: 1 Warth (2011;113, 120) 2 Czada (2004) 3 Department for Work and Pensions (2012) 4 Clasen (2005) 5 O'Dea, Phillips and Vink (2007) 6 Brewer, Browne and Jin (2011) 7 Lange and Shackleton (1998) 8 Leisering and Leibfried (2000) 9 Daly (2011) 10 Klammer and Letablier (2007) 11 Evers, Lewis and Riedel (2005) 12 Lewis, Knijn, Martin and Ostner (2008) 13 Ebbinghaus and Eichhorst (2006) 14 Nygård, Campbell-Barr and Krüger (2013)