

Welfare production models and income structure

A Comparative and Longitudinal Perspective

(European Union: mid-1990s; Sweden 1963-1998)

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This paper is the fourth in a series of reports exploring the link between the institutional configuration (the three welfare delivery systems: *labour market*, *welfare state*, *family*) or '*welfare mix*', and its distributional correlates (income inequality, poverty, inequality in material living conditions related to social cleavages such as social class, generation, gender, region and family). This focus of this paper is on disposable income, including general inequality (Gini-coefficients), monetary poverty and monetary wealth. The analysis of the link between the welfare mix and income structure has a twofold perspective: *comparative* (comparing 14 EU member states) and *longitudinal* (comparing Sweden 1967-95).

The analysis is based on ECHP 1994, coordinated social surveys for Sweden, Norway and Finland, and several Swedish annual surveys 1963-98. The European union appears to be divided in three distinct and homogeneous clusters:

1. a *Nordic cluster* (Sweden, Denmark, Finland) exhibiting high labour market participation, large social expenditure, but weak family ties. Its distributional features are low poverty and wealth rates, as well as general income inequality (Gini);
2. a *Southern cluster* (Greece, Italy, Spain, Portugal) characterised by low employment, lower welfare provisions, but strong traditional families. Its distributional features are high poverty and wealth rates, as well as high levels of income inequality;
3. a *central European cluster* is in intermediate position concerning poverty and wealth, but exhibits high wealth rates. UK joins the southern cluster with high levels of income inequality and poverty.

The corresponding Swedish trend analysis establishes link between the welfare mix and changes in income structure over 35 years. The paper discusses the logic of these three patterns of European institutional configuration, with respect to the division of responsibility for welfare delivery, the emergence of these patterns, and their efficiency in limiting inequality, poverty and social exclusion.

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1. Theoretical framework

Recent studies of welfare production (Vogel 1997, 1998, 1999) build on the *regimes tradition* (welfare state regimes, employment regimes, gender regimes, family regimes²), in search for similarities and dissimilarities between nations in the *institutional preconditions* shaping the *distribution* of general living conditions. The regimes perspective of this paper is not restricted to any of the major welfare delivery institutions per se (labour market, welfare state, family), but focused on their configuration ('welfare mix'). The model of welfare production (see next page) summarises this perspective. This paper explores the link between the welfare mix and various aspects of the income distribution within and between EU-member states, including inequality of disposable income (Gini-coefficients), poverty and wealth rates, and characteristics of the poor and rich.

The distribution of disposable income is related to the institutional arrangements at national level. Exploring the link between institutions and households in a *comparative perspective* is the first objective of this paper. In short: can the degree and structure of monetary inequality and social exclusion in EU member states be empirically explained by the 'welfare mix', i.e. the national configuration of labour market, welfare state and family?

A second objective is to study this link from a *longitudinal perspective*. Is there empirical evidence of changing institutional configuration followed by changing distributional and behavioural outcome? Within Europe Sweden has earlier played a special role as a leader towards a general expansion of the welfare state, towards the 'inclusive labour market', towards a general breakdown of traditional family bonds, and towards equal opportunities. The 'Swedish model', or rather Nordic model, has also been recognised for its egalitarian policies, active labour market policies, its special features in reducing poverty and class inequality, and for promoting equal opportunities

for women and men. The second objective of this paper is to comment on the past 35 years concerning key indicators of institutional performance in Sweden, and the corresponding distributive outcomes³.

The basic assumptions of this approach are as follows:

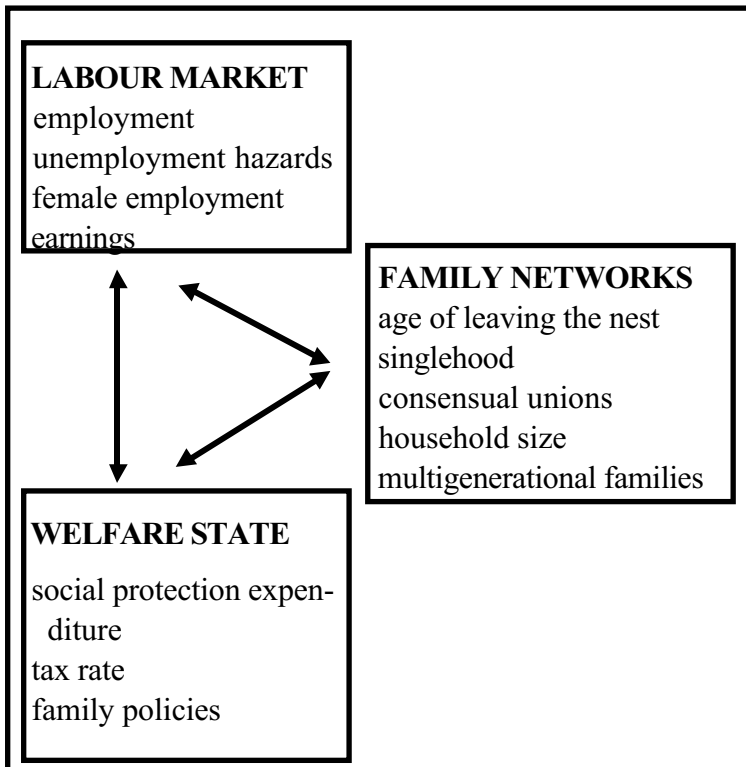
- The three welfare delivery institutions represent a functional *division of responsibility for welfare delivery* between labour market, welfare state and family (the 'welfare mix');
- The character of the *distributive outcome* will correspond to the welfare mix;
- The division of responsibility, as well as each of the three institutions, can be evaluated with respect to its contribution or *efficiency* to distribute living conditions and reducing poverty, social exclusion and general inequality;
- The *driving forces* behind the current welfare mix are external and internal factors, such as global competition, national resources, infrastructure, the historical and ideological tradition, power relations and ideological struggle;
- The 'welfare mix' will change over time and differs between nations. The welfare mix will accommodate to economic change, political cleavages and power relations;
- There is a variation of institutional forms between the EU-member states, which accordingly should produce a variation in the distributive pattern of living conditions. In fact, the European Union can be seen as a natural laboratory for analysing the institutional-individual link.
- At micro level, the people will adapt to the available options. *Coping behaviour* serves to avoid poverty and social exclusion and maximise general living conditions;
- Recent economic change involves major disruptions of the welfare mix (global competition, mass unemployment, persistent poverty, recovery policies, break-down of family ties), implying a changing institutional configuration as well as decreased overall institutional efficiency in providing material living conditions.

² E.g. Esping-Andersen (1990, 1991), Korpi and Palme (1994), Kolbjørnsen and Esping-Andersen (1992), Castles and Mitchell (1992), Lewis (1992), Duncan (1995), Hirdman (1990), Rubery, Fagan and Smith (1995) and others; see also Vogel (1999) for a summary.

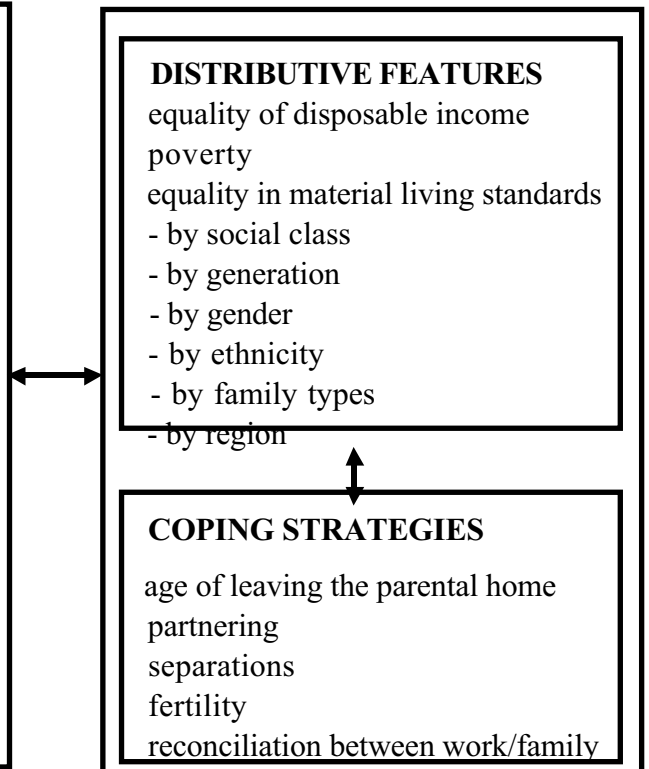
³ The corresponding statistics are presented in detail in other reports (Vogel 1997, 1998, 1999).

THE WELFARE PRODUCTION MODEL

WELFARE INSTITUTIONS: (WELFARE MIX)



DISTRIBUTIVE AND BEHAVIOURAL CONSEQUENCES:



The analysis will establish the link between the institutional configuration and the distributive outcome at the nation level. We will identify similarities and dissimilarities between 15 EU member states as well as for Sweden in a time perspective in the welfare mix as well as the distributive outcome.

The next section presents the data. Then follows a summary of the institutional arrangements and clusters of similar welfare mix among EU member states (section 3), reducing this variation towards a typology of European welfare production models⁴. Section 4 gives the findings concerning income distribution, with comparative EU-data and longitudinal Swedish data, including inequality of disposable income, poverty and wealth rates. The concluding discussion (5) again summarises these findings in the perspective of the welfare production model.

This research has been supported by the Swedish Social Research Council.

2. Data

This paper draws on two recent *General Social Reports* published in 1997 concerning *Living conditions and Inequality in the European Union - a 20-year Perspective* (Vogel 1997), and *Living Conditions and Inequality in Sweden: 1975-95*, (Vogel and Häll, editors, 1997). The European report is the first comparative general social report for the European union, based on micro data from co-ordinated comparative surveys in 15 countries, looking at the general character of social exclusion, poverty and inequalities within and between the member states. The corresponding Swedish social report gives the corresponding Swedish trends for 1975-95. This article does not fully explore these two reports, but presents some of the key findings.

⁴ Details are reported in Vogel 1997, 1999
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The comparative analysis of the distribution of living conditions is based on the European Community Household Survey (ECHP; first wave from 1994, including 12 nations). The first waves of which to date represent the best data source for comparative studies (ex ante harmonised survey data collection). In addition three contemporary social surveys in the Nordic countries (Sweden, Finland and Norway) were integrated with this data base. These four surveys have been harmonised by the author to build a social indicator data base for 15 countries⁵. The total sample size of this comparative database is 143000 adults (15-84 years). The income data relates to 1993 (Norway: 1991). Later panel waves of ECHP were available but were rejected due to panel attrition.

Up to now the early waves of ECHP represent the best quality data for comparative analysis. Two further comparative databases were considered. The Luxembourg income would have been a proper alternative; however this database is incomplete with respect to the full set of EU-member states required for the analysis of the variation between the welfare production clusters. The OECD collection of key data from national surveys by questionnaire (OECD/Förster, 2000) serves as an good complementary source for trends in a larger set of OECD-countries.

In the case of Sweden there is a series of annual surveys and social reporting since 1974 (Vogel et al, 1993). The 1997 Social Report published by Statistics Sweden (Vogel and Häll, ed., 1997) uses 156000 interviews collected over these 20 years in annually repeated cross-sectional surveys. In addition, further surveys reaching back to the 1960s were utilised.

Data concerning the institutional level come from several national sources (Sweden) and international sources (Eurostat), such as the SNA, demographic databases, ESSPROS and the harmonised labour force surveys LFS⁶.

⁵ the 16 EU-countries less Austria, and including Norway (incomplete data). Austria did not participate in the ECHP 1994.

⁶ Earlier reports and articles give a full account of the statistics sources (Vogel 1996, 1997, 1998, 1999).

3. The European welfare mix: labour markets, welfare state and family networks

3.1 *The inclusive labour market*

In modern society, the labour market is the major arena where individual living conditions are determined. It is by gainful work and pension rights the individual resources (earnings, pensions) are acquired, which then determine consumption and material living conditions in a wider sense. The key issues concern the employment level and structure for the entire adult population, unemployment features and the distribution of earnings. In short, here we are concerned with the efficiency of the market in its role as a welfare delivery institution, with respect to distributive features. Our indicators of *labour market efficiency* relate to the coverage of the adult population concerning economic resources (coming from the labour market) as well as the demographic burden. Hence, *the inclusive labour market* has a minimum of exclusion (non-employment, unemployment), insecurity (flexible and insecure employment arrangements) and confines dependency on other welfare delivery institutions (welfare state provisions, family support).

Employment regimes

Kolberg and Esping-Andersen (1992) developed a model of three major employment regimes characterising developed nations. They identified a *Nordic model* with low levels of early exit, high levels of paid absence, and high rates of public employment. Their *Continental model* has high levels of early exit, moderate levels of paid absence, and low levels of public employment. The *Anglo-Saxon model* is characterised by low levels of paid absence and early exit, as well as public service employment, but high levels of private social service employment.

Along with further national differentials related to labour market participation, such as the vast European differences in the general employment of men and women, the national unemployment history, and the transition from youth education to the labour market, these models help to understand the national environment influencing welfare

outcomes such as income inequality, poverty and wealth.

Gender Regimes

A second group of typologies is concerned with Gender Regimes (or Family Regimes), moving a gender perspective and gender-related issues such as unpaid work and role differentiation in families in a central position. These typologies are related to the labour market as well as to the family institution. One of these typologies distinguishes between strong, modified and weak breadwinner states (Lewis, 1992). In *strong (male) breadwinner states* taxation and transfers is household related. Child-raising allowances and unpaid leave encourage child care in families and support low female employment rates. In the *weak breadwinner states* taxation and transfers are related to individuals. Public child care provisions, paid leave systems and opportunity to part-time work, support female employment.

Another typology follows the status of the *informal 'gender contract'*, the unique compromise between men and women defining gender roles, rights and duties. Gender contracts define the division of labour, power relations, the legal arrangements, and the special character of female subordination. Gender contracts will vary over time and between nations. Hirdmann (1990) and Duncan (1995) discuss several types, starting with the original *Private Patriarchy* model (from which the southern countries presently are moving), towards a *Housewife Contract* (e.g. Germany), where the independent position of women in relation to marriage and domestic life is not yet established. Then follows a transitional stage towards a *Gender Equality Contract* (e.g. Sweden), where the independent role of women on the labour market is supported by legislation, public services and family transfers. A fifth model is the *Dual Role Contract* for women (France, Finland), varying over the life course and promoting paid work as well as unpaid work during child-rearing years.

In focusing on the special pathways of women on the labour market Rubery, Fagan and Smith (1995) identify three types of national patterns. Within a general European trend towards enhanced female employment rates they identify a *Continu-*

ous Pattern (entering and staying on the labour market), a *Curtailed Pattern* (cutting down working hours temporarily), and an *Interrupted Pattern* (leaving the labour market to raise children).

Findings

Among the multitude of possible alternatives a set of four indices indicators has been created (see graphs 1.A-E)⁷. They are primarily focused on the distribution of individual resources achieved on the labour market and presented as national aggregates of the performance of the national labour market. They reflect national arrangements ('employment regimes') relating to the *mobilisation of labour, equal gender opportunities, exclusion from the work force, and differentiation of earnings*.

The **labour market enrolment rate** (see graph 1.A) is defined as the total of employed persons as a percentage of the total population. It measures the burden of the inactive on the active, and thereby the demand for family or welfare state arrangements to finance the material living conditions of the inactive. These ratios are determined by the national age structure, as well as by the availability of jobs, and by the traditional gender roles. There is a large variation between member states, more or less dividing the European union along a North-South divide. The highest enrolment rates are found in the Nordic cluster (red colour), topped by Denmark and Sweden with active employment policy. It should be noted that 1995 is not representative of the normal employment levels in Sweden and Denmark. Sweden's and Finland's enrolment rates used to be much higher up to the early 1990s. Both countries suffered a sudden, rapid but temporary decline of their employment levels, due to the loss of the Russian market (Finland) and a deep recession coinciding with a radical tax reform affecting the economy (Sweden; see further comments). Towards the end of the 1990s both countries returned to normal levels placing them well above the central cluster.

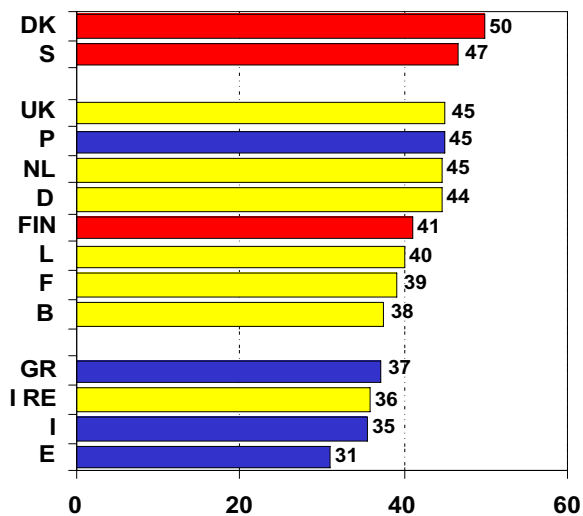
The lowest enrolment rates are found in the South (blue colour), where Greece, Italy and Spain, with early retirement and low female em-

⁷ The EU-member states are in the graphical presentations in this paper displayed in three groups according to the clustering already found in earlier reports (in three different colours).

ployment rates. Portugal has advanced into the central cluster. The (preset) central or intermediate cluster is displayed in yellow colour in all graphs included in this paper; it includes Germany, UK, Belgium, the Netherlands, Luxembourg, France and Belgium. Ireland falls into the southern cluster with respect to enrolment rates.

Increasing **female employment rates** (graph 1.B) is gradually changing the labour force structure in Europe. In the North female employment is approaching the employment rates of men. A similar pattern is on the way in the other member states, however delayed by the long-lasting labour market crisis. Female employment is the major factor improving equal opportunities, by offering economic independence as well as other personal openings to self-actualisation.

Graph 1.A Labour market enrolment (employed as a percentage of the total population).
Source: Labour Force Surveys 1995.



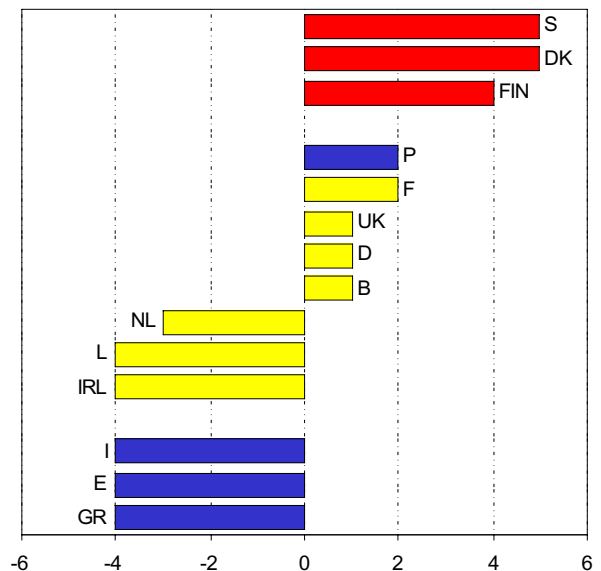
Five indicators were combined to an index, bringing together the overall female employment rate in relation to men, and the levels at some of the female marginal groups⁸. The corresponding index scores are displayed in graph 1.B. Again, we find a North-South divide and a grouping into

⁸ The female to male employment ratio, the employment rates of elderly women (45-64 years), the employment rate of mothers of children aged 0-17 years, the employment rate of mothers of children aged 0-6 years, and the employment rate among single mothers. All countries were classified on each of these five indicators into one of three groups of approximately equal size (high, medium, low) with the scores -1, 0 or +1. These scores were then summated

three clusters. The Nordic cluster, represented by Sweden, Denmark and Finland, is ranking optimal on almost every indicator. At the other end is the Southern (or catholic) cluster, joined by Ireland, characterised by strong family traditions, and larger proportions of housewives. Luxembourg with lower female employment rates also joins this cluster.

Female inactivity on the labour market puts a special responsibility on the family as well as on welfare state arrangements. Larger volumes of one-breadwinner families will demand tax rebates, but they will also limit expenses for public service. In the light of equal opportunities for men and women low female employment means limited life chances for women to combine a career with private life, including high fertility. Low fertility seems to be one of the major adaptation strategies of young women in the family welfare states.

Graph 1.B Female employment index.
Source: ECHP 1994 and Nordic Surveys.

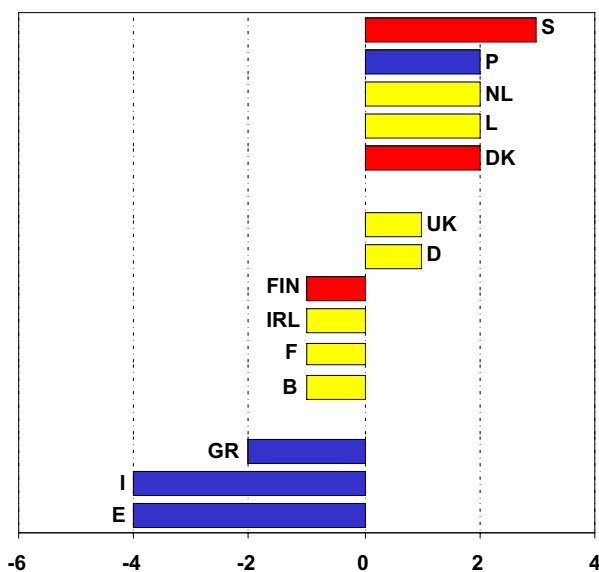


The third indicator is an **index of unemployment risk** constructed according to the same principles as in the previous section⁹. In this case the inter-country variation departs somewhat from the usual North-South clustering (Finland, Portugal and Luxembourg). Graph 1.C indicates that no

⁹ The overall unemployment rate; The long-term unemployment rate; the female excess unemployment rate (female minus male rate); the youth excess unemployment rate (20-29 yr. rate minus overall rate).

member state is in the top group on every indicator. Sweden scores best, in spite of its intermediate unemployment levels in 1995. However, Sweden has a long history of extremely low unemployment rates, and the mid 90 intermediate level is of very recent nature. Therefore Sweden scores low on long-term unemployment, as well as on excess unemployment of women and youth. Finland falls out of the Nordic cluster due its severe predicament with the loss of its Eastern market, leading to extremely high overall unemployment rates, also affecting youth unemployment. Again, Portugal joins the leading nations, as well as Luxembourg, with low unemployment rates and low long-term unemployment rates. Italy and Spain score low on all indicators, and form together with Greece the laggard cluster.

Graph 1.C Unemployment risk index
(higher level= lower risk).
Source: ECHP 1994 and Nordic surveys.



The fourth indicator of the efficiency of the labour market focuses on **earnings**. Here we are concerned with the distribution of earnings, measured by Gini-coefficients¹⁰. Graph 1.D exhibits a clear-cut clustering, indicating stronger market effects in the South, primarily as a consequence of

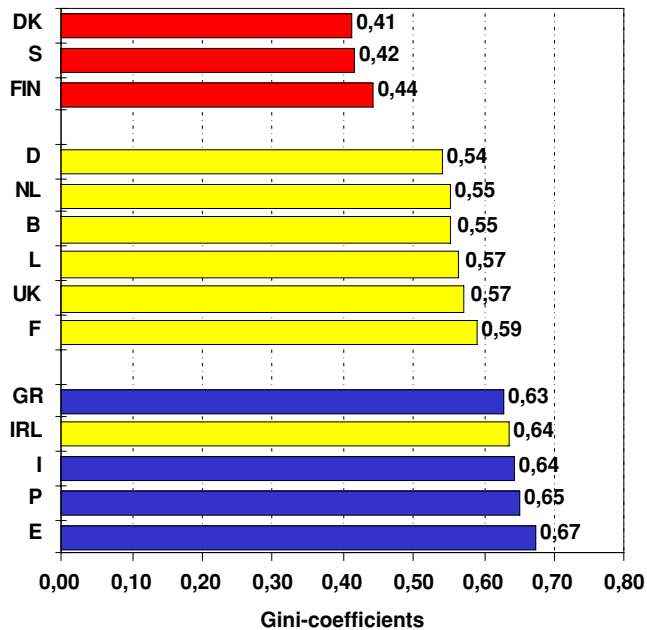
lower employment rates. The Nordic cluster again turns out to be less affected by market forces, with lower levels of inequality in earnings as well as lower average income.

3.2 Welfare state provisions

In the tradition of Titmuss and Marshall have typologies of welfare state models been developed by Esping-Andersen (1991), Castles and Mitchell (1992), Korpi and Palme (1994) and others. Models of welfare state regimes are identified by a range of different factors, such as the levels of social expenditure, institutional arrangements (e.g. the public/private mix of institutions), entitlements, compensation levels, features of taxation, the initial need structure and the final redistributive outcome, the historical tradition, actors, and present-day partisanship. Esping-Anderson (1991) identified three welfare state regimes, representing different ways of "decommodification" of labour in a capitalist economy, empirically measured by replacement rates, periods of benefits, and the financial arrangements. The *Liberal Welfare State Regime* is market-oriented in the distribution of resources and social protection benefits. Public provisions are typically modest, flat-rate, and needs/means tested, producing a residual and stigmatised group of beneficiaries. The state encourages market solution by private welfare schemes. The decommodification effect is limited, and the distribution of living conditions is closer related to the stratification created by market forces. USA is the archetype in this category, as well as Canada and Australia. In Europe UK is moving in this direction.

¹⁰ Unfortunately the European Household Panel did not measure personal gross earnings, required to identify the distribution of resources created on the labour market, separately. Only *net* earnings (post-tax) are available. Here are parts of the welfare state correctives (i.e. taxation) already included.

Graph 1.D Gini-coefficients for net earnings.
Total working age population 20-64 yrs.
Source: ECHP 1994 and Nordic surveys.



The *Conservative Welfare State Regime*, rooted in corporatism and Catholic social policy, is identified by status-preserving intervention, supporting the market logic of distribution. Family and motherhood are supported, women encouraged to stay at home, and the one-breadwinner family is supported by benefits and taxation. Germany, France, Italy, Belgium and Austria belong to this category.

The third type is the *Social-democratic Welfare State Regime*, where social policy is encompassing with high standards of material living conditions guaranteed, high levels of transfers as well as subsidised public service; hence also high levels of tax rates. The individual is the favoured unit instead of the family as in the conservative regime. Sweden is the archetype in this category, also including Finland, Denmark and Norway.

Several other welfare state regime typologies have been offered, some of them expanding the number categories, or renaming categories focusing on other core elements. A fourth missing type to be added to the threefold typology above would be the *Rudimentary Welfare State Regime*, found in countries where there is no history of full employment; but a recent history of authoritarian politics, where welfare politics is minimal and left to the household subsistence economy and a large informal sector. The southern countries (Greece,

Spain, Portugal and southern Italy) fall into this category. Castles and Mitchell (1992) defined a similar fourfold typology, adding a fourth *radical* regime.

Korpi and Palme (1997) developed a typology of five types of institutional arrangements, focusing on features of the major social insurance programs, using the eligibility for benefits and the benefit levels as the major characteristics. In the order of their historical appearance these are labelled *the targeted, the voluntary state subsidised, corporatist, the basic security, and the encompassing* model.

The general idea of welfare state regimes is to understand variation in the distribution of material living conditions, or effects of "decommodification", in terms of income inequality, poverty, and social exclusion in a wider sense. The different classifications of welfare state regimes relate to the social cleavages in unique ways. The liberal type (or basic security type) falls short of managing the class cleavage; hence, class conflict will continue to occupy political attention. The conservative (or corporatist) type creates a cleavage between insiders and outsiders not covered by social protection, including the new surplus population of unemployed. In the social democratic (or encompassing) model the gender conflict surfaces, corresponding to large female employment in the public sector, and the family's dependency on the public sector. Public services and equality by redistribution becomes a foremost female interest, moving the gender cleavage into the political arena.

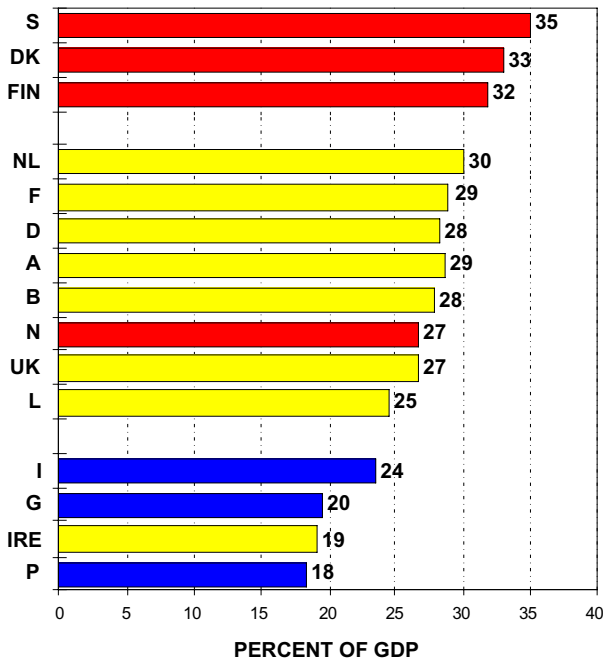
Findings

This paper is rather simple in its choice of indicators for the institutional level. The indicator selected for the comparative classification of welfare state arrangements are restricted to the size of the welfare state arrangements, available in the harmonised statistics for all 15 nations (ESSPROS), and some key indicators of family policies.

Graph 2.A displays the member states by the volume of social benefits as a percentage of GDP for 1995. We find that the Nordic countries are

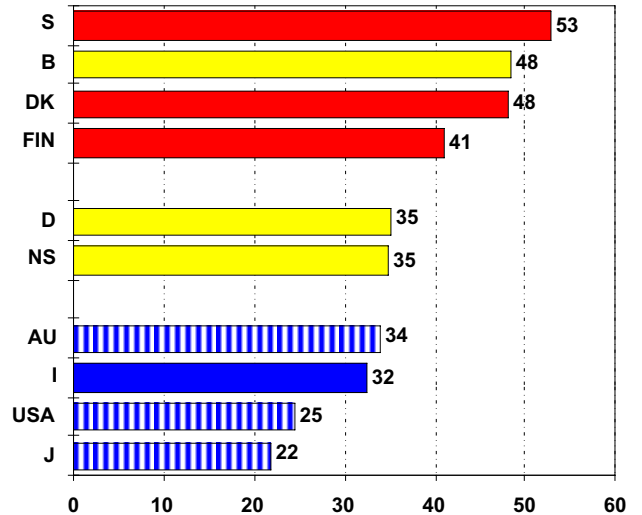
again in the lead¹¹, ahead of central Europe, while the Southern cluster stays at considerably lower levels. Note that the level of benefits again produces a clear-cut distinction between clusters.

Graph 2.A Total social benefits 1995, as percentage of GDP. Source: ESSPROS.



The effect of taxes and transfers in all of the EU-member states cannot be estimated by the ECHP¹². A recent study based on the Luxembourg Income Study published by OECD (Burniaux et al., 1998) gives the following picture for an incomplete selection of OECD-countries participating in the Luxembourg Income Study (graph 2.B). This study indicates again that the Nordic countries (and Belgium) have the most redistributive tax/transfer systems. Other representatives of the central cluster (Germany and the Netherlands), as well as Italy, the only Southern country, fall at a much lower level. USA and Japan are rated well behind all EU-member states in this study (UK was not included).

Graph 2.B Percent reduction in the inequality of equivalent disposable income (measured by the Gini-coefficient), due to taxes and transfers. Mid 1990-ies. Source: Luxembourg Income Survey (Burnieau et al. 1998).



Further analysis based on the Luxembourg income survey report indicate that nations with centralised bargaining (Germany, Sweden) display lower levels of inequality in earnings. There was a general increase in inequality in most industrial economies through out the 1980s, with the largest increase in USA and UK and the least in the Nordic countries (Gottschalk and Smeeding 1997).

In the Swedish case we can identify a clear increase in redistribution up to the early 1980s (graph 2.C). From then on we see a decline in redistribution, and in the 90s followed a period of fluctuation in the aftermath of the 1991 tax reform, further temporary changes in the tax system and reductions in the transfer system¹³.

Family policy

Welfare state provisions relating directly to family formation and child-bearing should primarily concern measures which support the reconciliation between work and family, and in particular in supporting the employment of women. This is the primary factor reducing child poverty in general as well as poverty in households with one breadwinner. A recent policy overview in this direction by the European commission (DG5, 1998; discussed

¹¹ With the exception of Norway

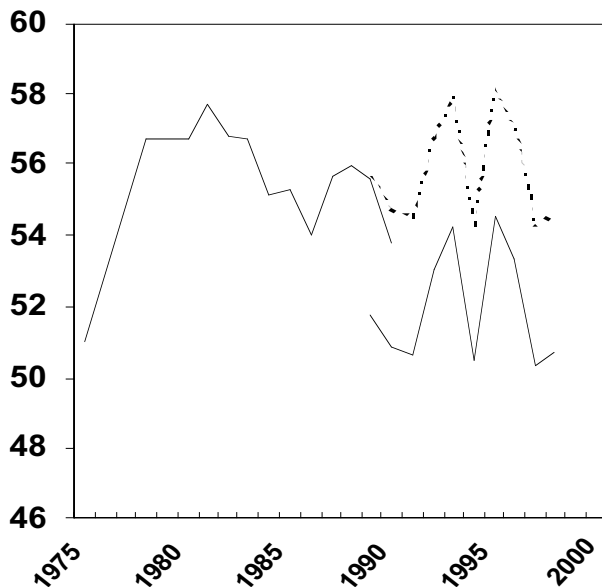
¹² The income data of ECHP have been collected post-tax only.

¹³ The income concept was changed in the 1991 tax reform (broken line= adjusted line). Peaks are effects of the tax reform (1991) and a temporary 50 percent reduction of capital taxation.

by Vogel 1998) gives a general picture of the public support in member states concerning the families' responsibilities in caring for children and elderly, respectively, addressing:

- measures to enable workers to redistribute some of their time from the workplace to the home while retaining an employment contract ("time off")
- subsidised care services
- monetary benefits, including payments during leave, social security, social assistance, tax rebates.

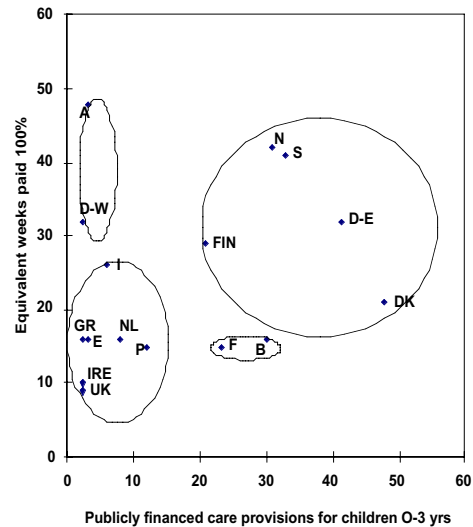
Graph 2.C Redistribution by welfare transfers and taxes in Sweden 1975-98. Percent reduction of the Gini-coefficient for factor income .



Publicly funded care services for children as well as for the elderly again follow the general pattern of the three clusters. Again the Nordic countries and the former East Germany are the best providers for **child care**, followed by France and Belgium, while the Southern countries as well as some of the central countries (Germany-W, UK, Austria and the Netherlands) perform as poorly as the Southern countries. For children of higher age (6-10 years) the variation is less pronounced. Notably the Nordic countries also have the largest proportion of **elderly people** receiving home care services (see the corresponding graphs in Vogel 1998).

Graph 2.D Public child care support: Paid maternity/paternity leave (equivalent weeks paid 100%) and publicly funded child care provisions for the first child (percentage of children attending/available places).

Source: European commission 1998.



To assure the reconciliation between parenthood (or rather maternity) and gainful employment for women, *two* elements are required in **public support of maternity**. There is a need for child care facilities as well as provisions for time off, including the right to leave, and in particular the right to paid leave. A recent study has recalculated the 'full payment period' (equivalent weeks with 100% pay) from existing replacement rates and length of periods for the first child (European Commission/DGV, 1998). Both of these conditions are of course necessary to support maternal engagement in the labour market.

Graph 2.D, displaying the EU member states on both conditions, indicates that the length of *paid* maternity plus parental leave (converted to equivalent weeks with 100% substitution) is best supported in the Nordic countries (Norway, Finland, Sweden; also Austria), while Greece, Spain, Portugal, Ireland and UK have the lowest provisions, which again is in line with the general clustering of EU-member states. Furthermore, here again we record a clear Scandinavian cluster (including East Germany; D-E) providing *both* of publicly financed child care *and* paid time off, and a Southern cluster rating low on both conditions. UK, Ireland and the Netherlands also belong to this group, with UK displaying the worst conditions in the European union. Germany-W and Austria have equally high financial provision as

the Nordic countries, but fall short on child care facilities. This certainly reduces the employment levels of mothers.

In summary, the total volume of the welfare state arrangements as well as the directed provisions reported above (public support of care of children and elderly, paid parental leave) tend to support female employment, fertility and parenthood best in the Nordic countries, with France closer the Nordic cluster, and Germany close to the Southern cluster. However, there are signs of retreat from the generous provisions in the North, while some advancement is seen in other union member states. Data seem to point towards a convergence of public provisions between EU member states.

The large variation in public family provisions in Europe should produce a very different family structure in the Southern countries, as compared to the Nordic and central clusters. The traditional family has to take on much of the responsibilities, which in the North are guaranteed by the welfare state as social rights.

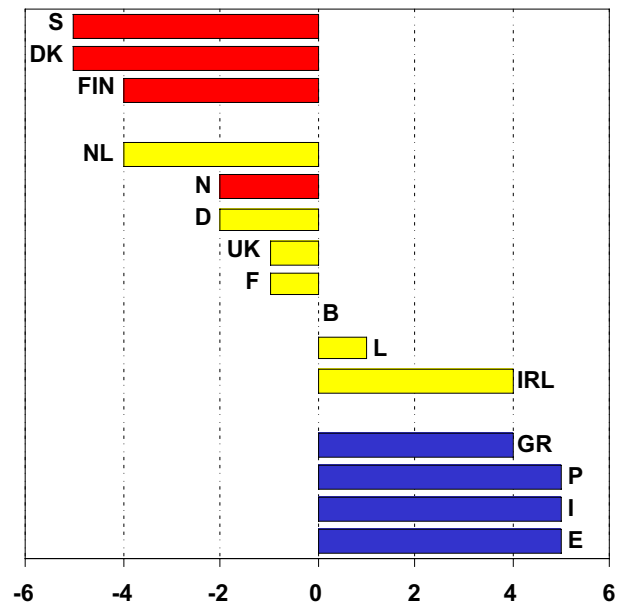
3.3 The traditional family

The traditional family system redistributes material living conditions during the course of life, between generations as well as by gender. Concurrently, the family system also distributes personal responsibilities for the welfare of family members and near relatives. In this sense the family can be seen as a welfare institution, parallel to the welfare state, but with different re-distributive features.

The gradual regression of the traditional family goes hand in hand with the evolution of the welfare state. Generous transfer systems and public services reduce the dependency on the family, supporting female employment and a life outside the family. Concurrently, the demand for a full life outside the family, including full-time employment and economic independence is a major driving force for the expansion of the public sector. The gradual destabilisation of family bonds should be understood in this light. Divorce rates are inclining, single adults and single parents are inclining in number, birth rates are declining, household sizes are declining, and the family forms are becoming more pluralized.

Graph 3.A Traditional family index (lower levels = weaker family ties).

Source: ECHP 1994 and Nordic surveys



In this section we engage micro data on the status of the traditional family, by combining several features to an index (calculated as earlier)¹⁴. Graph 3.A exhibits strong family welfare regimes in the South (Spain, Italy, Portugal, Greece) and in Ireland, all catholic countries with rather limited welfare state arrangements. This cluster distinctly differs from the other two. The other extreme is the Nordic cluster with weak family ties, including Sweden, Denmark, Finland and the Netherlands. The intermediate cluster includes again the remaining central European countries, as well as Norway. Detailed analysis indicate that the family size is smaller in Nordic countries, youth tend to leave their parents earlier, and divorces, separations and singlehood is more frequent (Vogel 1998).

3.4 Summarising the 'welfare mix'

So far, these findings have demonstrated that there are considerable *similarities within clusters* of

¹⁴ The national average household size; the percentage of single adults in the age of 30-64 years, i.e. after the family formation period, and before mortality increases the proportion of singles (we are here primarily concerned with the propensity to stay single); the percentage of adults living in a consensual union; the percentage of young adults under the age of 30 still living with their parents; the percentage of adults living in extended families, primarily three-generation families.

European member states as well as *dissimilarities between the three clusters*. There is a Nordic cluster (Sweden, Denmark, Finland) and a Southern cluster (Greece, Italy, Spain, Portugal), which are counterparts in all three welfare delivery institutions. The central region, including Germany, France, Belgium, the Netherlands, Luxembourg, UK and Ireland are in intermediate position in all respects with just a few exceptions. The EU member states included in each of these three clusters almost exclusively fall into the same institutional categories, which applies to all three institutions. This means that the member states *within* each cluster exhibits about the same 'welfare mix', and, accordingly, should display the same distributional features. The following three graphs (4.A-C), demonstrating the interrelationships between the three institutions, display the institutional configuration *pair wise*, where one key indicator represents each institution.

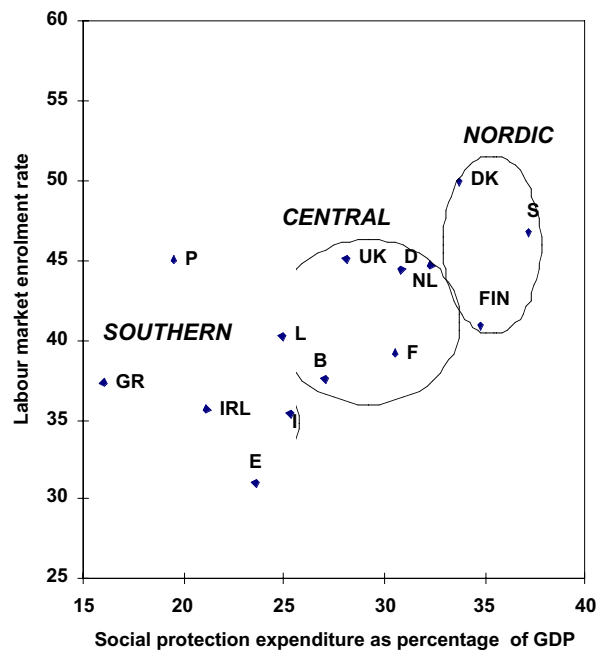
There is an important lesson to be learnt from these findings. We are again reminded of the obvious relationship between the three welfare delivery institutions, as well as by the clear similarities within clusters of institutional mix. Furthermore, these data imply there are only a very limited number of possible combinations. The labour market does not flourish where the welfare state arrangements are meagre, and the inclusive labour market is a precondition for the extensive welfare state. The most extensive families are found where the labour market and the welfare state are poor providers of welfare; or strong family traditions delay the transition towards inclusive labour markets and welfare state arrangements.

The welfare state has its largest impact in the Nordic region. All of the Nordic welfare states have simultaneously the most inclusive labour markets when it comes to its efficiency in contributing to the material welfare of the entire population. The Swedish model (or rather Nordic model) combines a strong welfare state with extensive labour market policies promoting full employment, equal opportunities and maximum dispersion of earnings. Furthermore, it is in the Nordic region the market plays its most efficient role as a welfare delivery system. Concurrently, in the Nordic countries the market also supports gener-

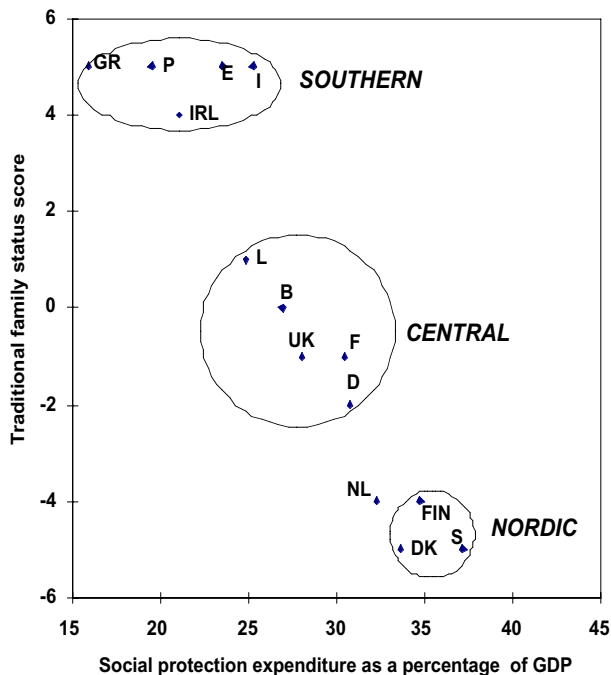
ous welfare state arrangements, since it limits the need for social intervention as well as widens the tax base.

Our data also indicate that all of the Nordic countries rate low on traditional family support. This can be seen as a consequence of the strong welfare state and inclusive labour markets, opening for a pluralisation of family forms.

Graph 4.A The European welfare mix: the inter-relationship between Labour Market and Family. EU member states 1994.

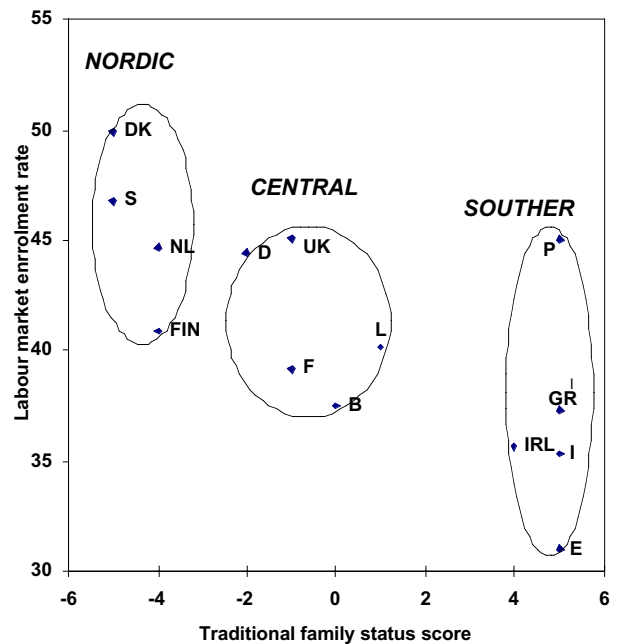


Graph 4.B The European welfare mix: the interrelationship between Welfare State and Family. EU member states 1994.



In the same vein the southern cluster combines a weak welfare state and a weak market, with strong family tradition. There is certainly a functional relationship between the need for social network support and strong families, and a weak market and welfare state. Again, the central EU countries form an intermediate cluster¹⁵.

Graph 4.C The European welfare mix: the interrelationship between Family and Labour Market. EU member states 1994.



The Swedish case

The corresponding data for the Swedish case (see graph 4.D) provide a longitudinal perspective to the institutional mix, reaching back to 1963. From our comparative data we already know that the employment rates are extremely high in Sweden for men as well as women. Sweden has over the past 30 years seen a rapid growth of female employment up to about 1990. Concurrently, male employment declined slowly due to reduced pension age and liberal openings to premature retirement. In summary, the demographic burden decreased, while it increased in most other European countries. Towards the end of the 1980s there were 2,2 persons in employment for each adult (20-84 years). From 1991 Sweden faced a new situation, with severe reduction in the overall efficiency of the labour market as well as the welfare state. A deep recession gave a sharp decline of employment among men as well as women (by 12 percent), along with a rapid growth of unemployment. This also had severe consequences for the youngest generation as well as immigrants. In summary however, throughout this period the Swedish labour market contributed more to the individual living standards than in most other EU member states: Sweden and the other Nordic countries still have the highest employment rates, as

¹⁵ The details and implications of the European welfare mix are further elaborated in Vogel 2000.

well as the most evenly distributed command over resources (earnings) relevant on other arenas as well.

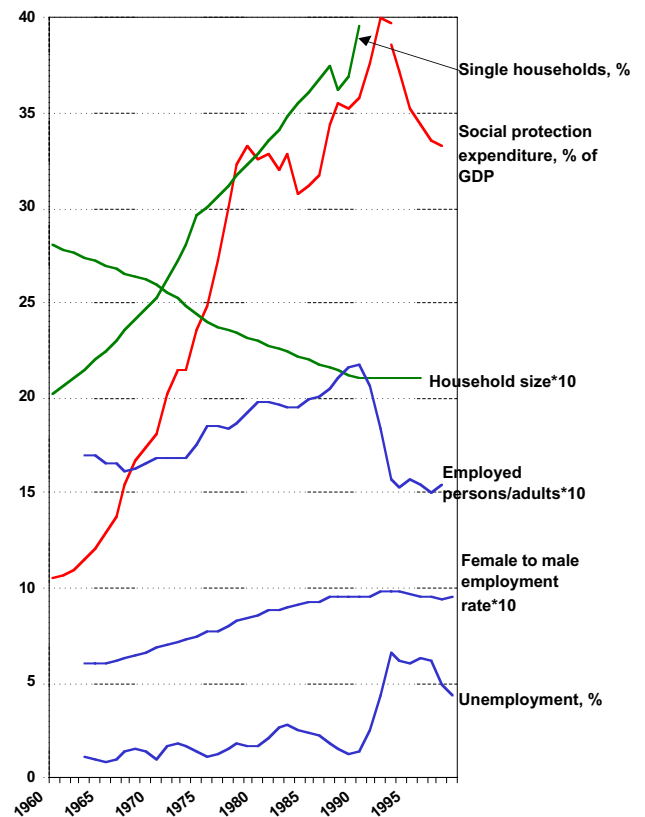
The growth in female employment equals the size of the new service jobs in the public sector created in this period, amounting to an overall increase in gainful employment by 10 percent. Hence, a large volume of unpaid work in the household sector has been transferred to the public sector. In comparative perspective this Swedish trend is outstanding. There was a gradual shift in the welfare mix, with responsibilities transferred from families to labour market and welfare state. In a period of stagnation in Western labour markets, Sweden managed to increase female employment, keep unemployment low, expand the public sector, transfers and services, and balance the public budgets as well.

However, these policies came to an end around 1990 with the coincidence of general deregulation, large non-financed tax reductions, a deep recession and decline in domestic demand. The sudden increase in unemployment had a strong impact on the budget balance in Sweden. Income maintenance systems were exhausted and eventually reduced in coverage, entitlements and compensation levels. In other words, Sweden had to face a new regressive shift in the 'welfare mix': the responsibility shifted from the labour market to the welfare state, and consequently back to the household sector. Swedish trends for social protection expenditure (GDP-share) indicate a strong increase up to the early 1990s, but then followed a decade of decline. In summary, the Swedish welfare state comes out less generous at individual level than it used to be, but in a comparative perspective public provisions are still larger than most industrial nations.

The corresponding longitudinal analysis of Swedish family formation indicates there is a long-term change towards a fragmentation of family bonds in Sweden over the last 20 years. The household size is declining, the proportion of singles is inclining, consensual unions are inclining and formal marriages declining, and pregnancies are postponed after the establishment on the labour market. This is a combined consequence of delayed family formation related to prolonged youth education and later entry in the labour market, and

a trend towards a pattern of interruption in cohabitation, i.e. higher mobility between relationships. Old people moving in with mid-aged children are almost non-existent, and there is only a minor delay of exit from the parental home. The recent economic crisis and prolonged youth education seems to counteract early moves from the parental household. In summary, the traditional family is gradually losing ground. Sweden seems to be one of the leading countries in this process deviating much in this respect from the southern EU member states.

Graph 4.D The Swedish welfare mix 1960-1999 .
Sources: Labour Force Surveys, SNA, Censuses, Income Surveys.



4. Welfare outcomes

The fourth section of this paper addresses the outcomes of the three types of welfare mix in terms of the *differentiation* of monetary disposable income, *between* and *within* nations (the comparative perspective), respectively within Sweden (a longitudinal perspective). Here we are concerned with the magnitude as well as character of inequality within the member states, looking at the levels of poverty and wealth. This section presents three types of data:

- First, *inequality of equivalent¹⁶ disposable income* (Gini-coefficients) for adults aged 20-84 years
- Second, the *poverty rate* based on the equivalent disposable household income (proportion of adults falling below 50 percent of the national average income);
- Thirdly, the *wealth rate*, which is also based on the equivalent disposable household income (proportion of adults falling above 150 percent of the national average income);

From the configuration of welfare delivery systems we should expect a variation of such welfare outcomes between clusters of nations:

- *Inclusive labour markets* support monetary equality and lower poverty rates,
- *Strong welfare states* will also contribute lower levels of monetary inequality, and lower poverty well as wealth rates,
- The *traditional family* will reduce income inequality and poverty by incorporating weak family members in larger households.

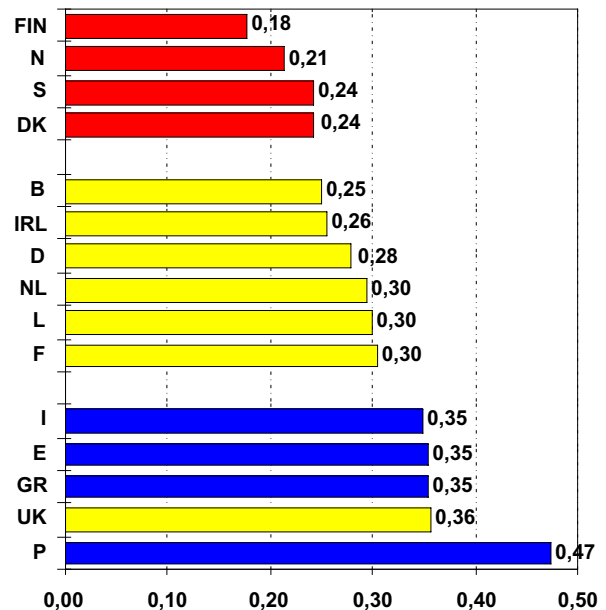
Further analyses concerning the differentiation of income and material living conditions by social class, gender, family, region and marginal groups are presented in (Vogel 1997; 1999; Vogel and Häll 1997).

4.1 Inequality of equivalent disposable income

The comparative perspective

The pattern of material inequality in each of the member states is related to the unique configuration of the three welfare delivery systems, i.e. the labour market, the welfare state and the family. Similar institutional arrangements and performance should produce similar welfare outcomes at individual level. This is clearly demonstrated in graph 5.A, where lower Gini-values indicate lower levels of inequality. The European Union is again divided into three clusters. Inequality estimates are highest in the Southern cluster, joined by UK. All of the four Nordic countries have the lowest level of inequality, as measured by the Gini-coefficient.

Graph 5.A Inequality of equivalent disposable income (Gini-coefficients).
Source: ECHP 1994 and Nordic surveys.



UK leaves the central cluster and joins the southern cluster. This can be expected from UK's social expenditure share of GDP, which is lower than all central and Northern member states (except Luxembourg), as well as from recent economic policies. This result also corresponds to earlier income statistics based on the Luxembourg income survey (Atkinson et. al. 1993), which indicate a general pattern of growing inequality in most countries, where UK displays the largest growth in Gini-estimates (see also graph 5.B).

The Swedish case

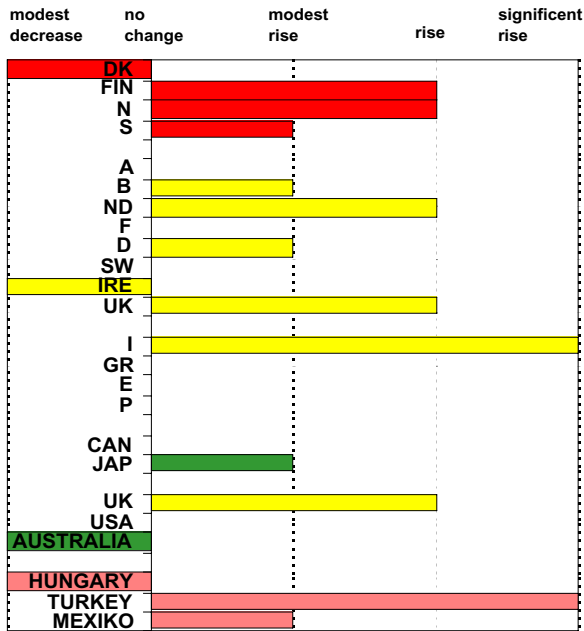
Turning to the Swedish case, annual trend data will give us the opportunity to follow income inequality over three decades, in relation to the changing institutional configuration in Sweden (graph 5.C). Over the 60s and 70s Swedish Gini-levels decreased, as a consequence of a changing welfare mix, characterised by increased employment levels as well as substantial expansion of the welfare state's taxes and transfers. However, from the early 1980s and throughout the 1990s, increasing income inequality has been measured for Sweden as well. During the 1980s employment rates and welfare expenditure were still expanding. The shift in income inequality level during the 1980s was primarily due to a rapid growth of higher incomes. In addition, the lowest incomes

¹⁶ using the OECD-modified equivalent scale
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declined during the 1990-ies, and the proportion living in poverty increased as well. The increase of inequality (and poverty) in the 1990s corresponds to a substantial decline in employment rates as well as subsequent reduction of public welfare provisions, moving Sweden towards the central cluster.

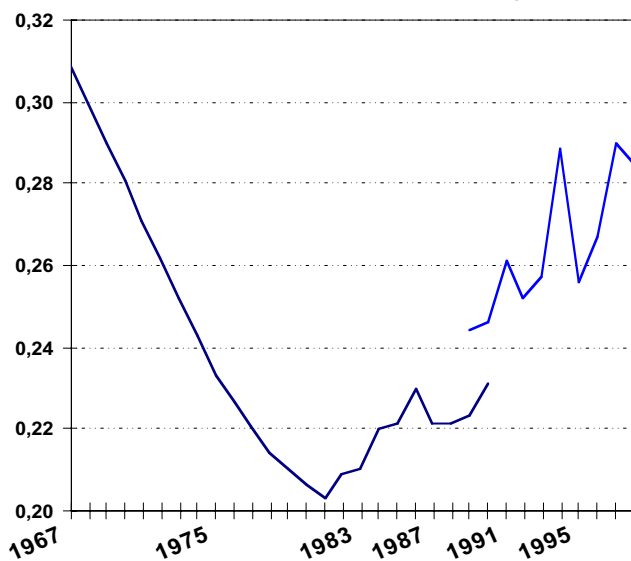
Graph 5.B Change in inequality of disposable income. OECD countries, mid 80s to mid 90s.

Source: OECD/Förster 2000.



Graph 5.C Inequality in equivalent disposable income. Sweden 1967-1998. Gini-coefficients.

Source: ECHP 1993 and Nordic surveys.



4.2 Poverty

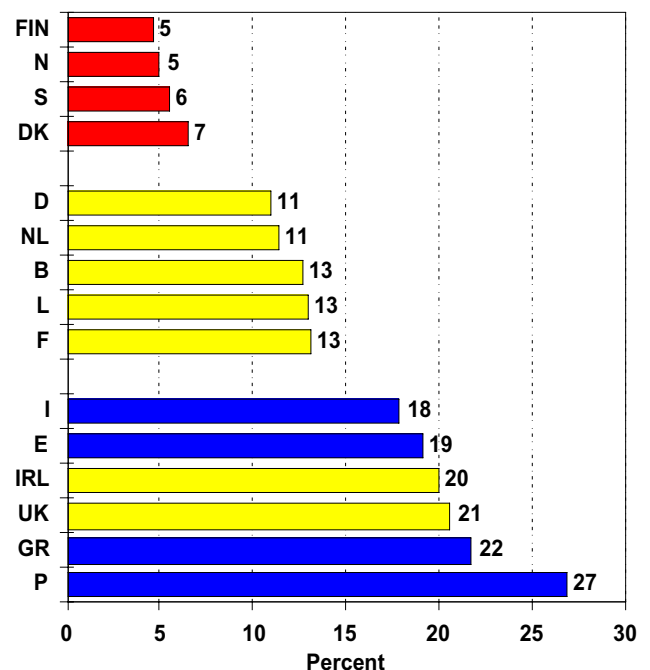
The comparative perspective

Graph 6.A gives the poverty measures for EU member states. The poverty line is here defined as 50 percent of the average national equivalent disposable household income. Again the 15 member state fall into the same three clusters identified earlier, and display three rather distinct levels of poverty rates. The lowest poverty rates are found in the Nordic welfare states (Denmark, Finland, Sweden and Norway), all of which have about 5 percent of their adult population in relative poverty according to the chosen criteria. These four countries form the Encompassing Welfare State Regime Cluster characterised by a large public sector, high levels of social protection expenditure, high tax rates, comprehensive social security schemes, high employment rates, and strong labour unions.

Graph 6.A Poverty rates in the European Union.

The poverty limit=50 % of the national average equivalent disposable household income .

Source: ECHP 1994 and Nordic surveys.



The intermediate poverty cluster has about twice as high poverty rates, well above 10 percent. This central European cluster includes Germany, France, Belgium, the Netherlands and Luxembourg. Again, UK joins the Southern cluster including Greece, Spain, Portugal and Italy with higher poverty rates, ranging between 18 and 27 percent.

Graph 6.B gives the corresponding poverty estimates, applying a common European poverty line for all countries (50 percent of the EU average adjusted disposable income), defined at equal purchasing power. This estimate is much higher in some of the member states, in particular in the South. This is of course a consequence of the much lower general income level in the South. This outcome underlines the vast variation in the material standards within the European Union. There is a variation in these poverty rates ranging from 1 to 47 percent points (Luxembourg and Portugal). Note that these differences reflect the joint effects of many different factors, including employment rates as well as wage levels, the structure of occupations, social protection expenditure and tax rates, family patterns, in other words the full variation in 'welfare mix'. It should also be noted that the extreme poverty rates are found in the Southern family welfare states.

Poverty in Sweden

Turning to the Swedish case again, again we can trace the changing welfare mix in the poverty trends. Graph 6.C shows two poverty indices for Sweden, one for *all family units* reaching back to 1975, and one index for a 'cleaned' population of *individuals* (16-84 yrs, excluding youth living with their parents, students, and self-employed). After decades of declining poverty rates, there was a distinct shift toward increasing poverty ROUND 1991¹⁷. From 1983 to 1990, the proportion of the population living in poverty declined from 8 to 3 percent, which is in line with increased employment and increasing welfare state provisions. During the 1990s, the proportion again increased to 7 percent, as a consequence of a sudden decrease in employment rates (by 12 percent) and increase in unemployment (from 2 to 8 percent), and subsequent welfare cuts. Hence, also in the

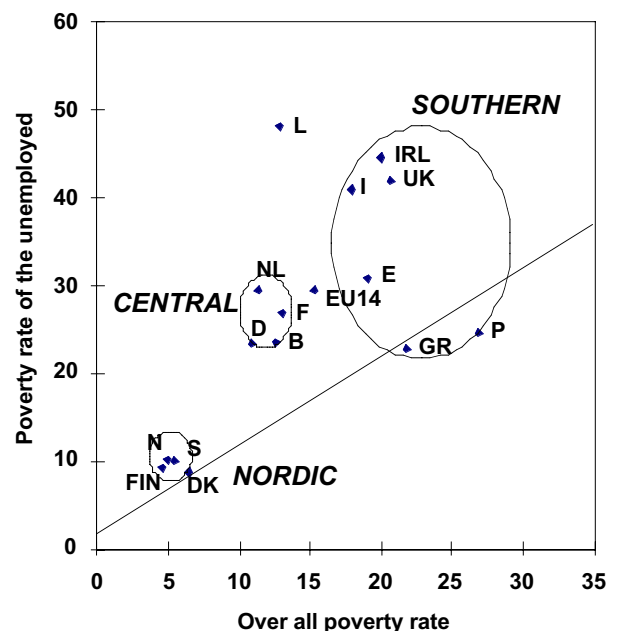
Swedish case we can trace the changing welfare mix in the poverty trends.

4.2.1 The structure of poverty

Next, we will look into the structure of poverty by identifying segments with higher and lower levels, within EU-member states and in Sweden over the past 15 years, respectively.

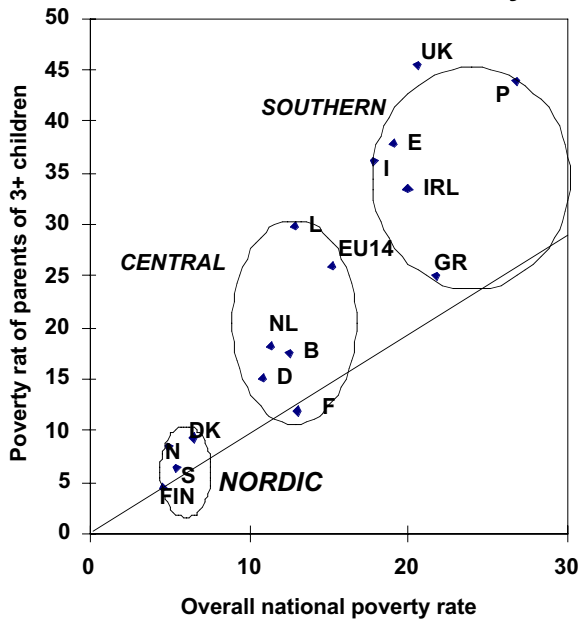
Among many problems of subsistence, poverty should be clearly related to three major problems related to the institutional conditions operating, *lack of market income* (unemployment, nonemployment), and *poor pension rights* (old age), and *dependents* (e.g. at least 3 children) In the following we will look at the relative poverty levels of these three groups, within clusters of EU-countries and for Sweden over later years. In each case we confront the poverty rates of these categories with the overall poverty rate (graphs 6.D.1-3).

Graph 6.D.1 Poverty rates among the unemployed vs the overall national poverty rate. Source: ECHP 1994 and Nordic surveys.

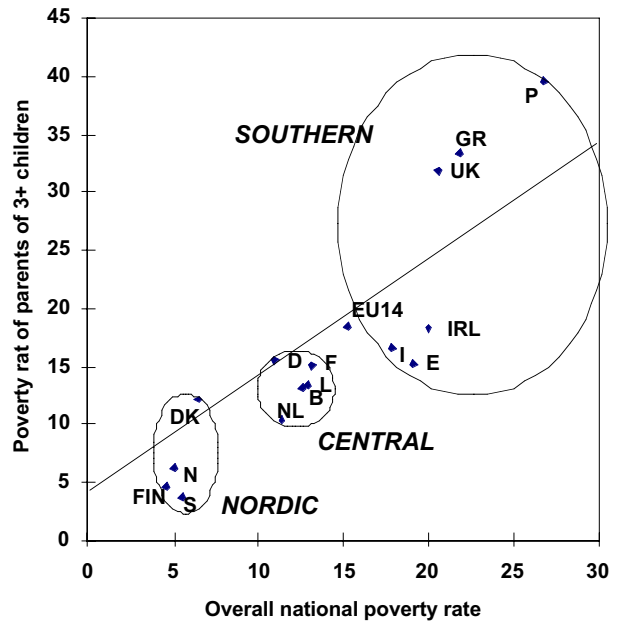


¹⁷ Poverty trends for *individuals* are calculated according to the traditional *absolute poverty line* used in Swedish statistics. This line is defined by the National Board for Health and Social Affairs based on a fixed sum defined by budget studies. Individuals living in households with disposable incomes below that standard after taxes and transfers are regarded as poor.

Graph 6.D.2 The poverty rate of persons with 3+ children vs the overall poverty rate.
Source: ECHP 1994 and Nordic surveys.



Graph 6.D.3 The poverty rate of retired persons compared with the overall poverty rate. Source: ECHP 1994 and Nordic surveys.



All of the three graphs indicate that for the Nordic countries we have not only the lowest overall poverty rates, but also low levels of *excess* poverty within these three groups (these countries are plotted near the diagonal). Again, the Nordic countries form a cluster distinctly separated from the other EU-member states.

The central cluster is also well separated, but located at higher poverty levels, with a larger tendency towards social exclusion in the case of unemployment and dependents (location towards the right of the diagonal), but not in the case of the retired. The latter is explained by the intervention of the family.

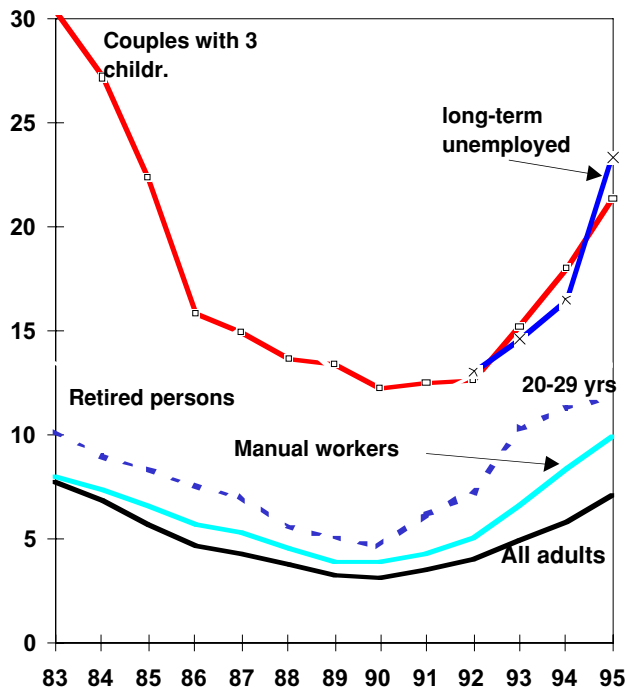
Again, UK moves out of the central cluster into the Southern cluster with much higher overall poverty level as well as excess poverty among unemployed, persons with many dependents and the retired.

The Southern cluster, on the other hand, falls apart. The overall poverty is high, but there is no *excess* poverty in some cases. Italy and Spain have no excess poverty among the retired, which could be explained by inclusion of elderly with poor pensions in larger household. This should indicate that retirement (with lower pension rights) tends to be monitored by the family in Italy and Spain. The same applies to the unemployed (primarily youth) in Greece and Portugal (graph 6.D.1).

The Swedish case

Swedish poverty trends are (for technical reasons) restricted to adult persons included in *wage-earner* households (excluding selfemployed and students), where registered income does give valid information about economic resources. Poverty levels increased sharply during the 1990s in relation to the new unemployment shock, followed by reductions in most transfer systems. This change left the well-situated population in full employment and without dependents largely untouched. Instead Sweden is facing a pattern of marginalisation related to labour market exclusion for new entrants to the labour force (youth, immigrants), households with many dependants, and diverse categories of welfare clients (graph 6.E). Fully employed households were not affected at all. It should also be noted that the retired were hardly affected (the full establishment of the comprehensive public pension system).

Graph 6.E Persons living in poverty. Sweden 1983-95. Source: ULF 1983-95



4.3 Wealth

The comparative perspective

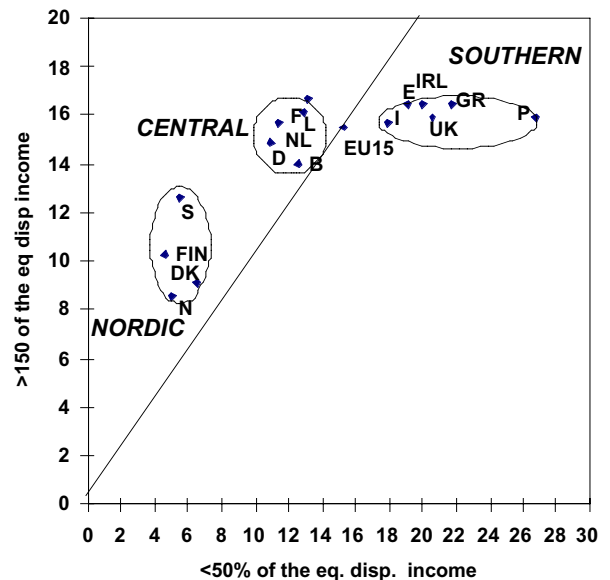
The third aspect of income distribution covered in this paper is the volume of rich people, here defined as the proportions of adults living in households with an equivalent disposable annual income above 150 percent of the national average. Wealth defined in this way is a consequence of a complex composite of earnings of all household members (contribution of the labour market), taxes and public transfers (welfare state) and the economy of scale and support of family structure). Furthermore, this indicator is a *relative* construct, and therefore affected by the entire income structure, including the volume of the lower tail. We should expect the following:

Fully employed household should more often pass the *relative* wealth line in the Southern cluster (as a consequence of higher poverty levels);

- Higher tax levels in the Nordic welfare states should limit wealth rates;
- Larger households should support higher wealth rates due to the economy of scale in the Southern cluster;
- The central cluster should fall in intermediate position.

Graph 7.A shows the wealth rates simultaneously with the poverty rates. Again we record three clear-cut clusters. We can see that wealth rates as well as poverty rates are the lowest in the Nordic cluster. However, wealth rates do not differentiate between the Central and Southern clusters.

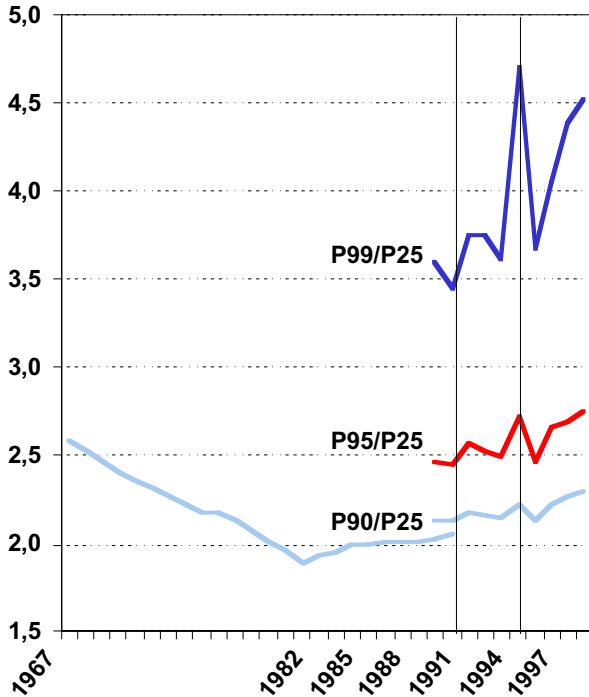
Graph 7.A Wealth vs poverty rates (>150 and <50 % of the national equivalent disposable income). Source: ECHP 1994 and Nordic surveys. Percentages.



The Swedish case

The trend data for Sweden (Graph 7.B) display a long-term change towards higher wealth rates over the past 20 years, which in the early 1980s introduced a change in the Gini-coefficients. The wealth rate is here calculated as the relation between the disposable income at upper percentiles (P90, P95 and P99) divided by the P25 income (at fixed prices). In *relative* terms the income gap between the top and bottom of the income structure has decreased up to the early 1990s (increasing marginal tax rates, centralised wage negotiations). Then followed a long period of increased relative wealth rates. In 1991 a tax reform reduced the marginal tax rate for upper income brackets as well as for capital income. The peak for 1994 is explained by a further temporary reduction of capital taxation by 50 percent.

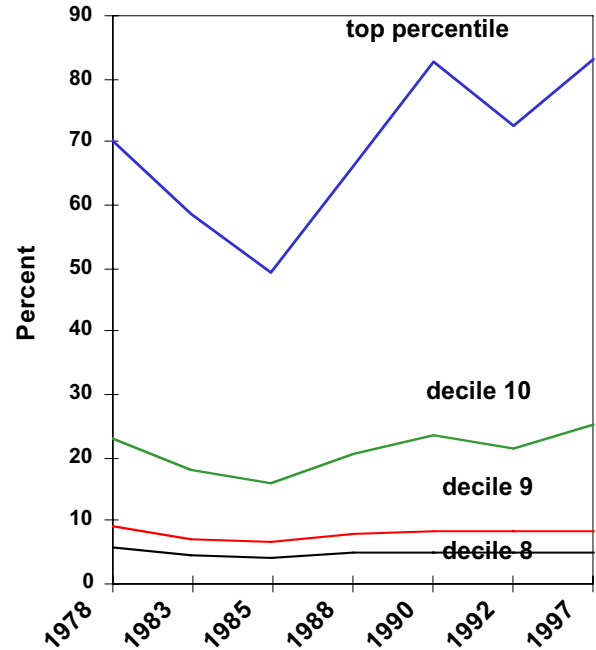
Graph 7.B Wealth rates, expressed as the ratio between the disposable income of upper percentiles and P25. Sweden 1967-98. Source: HINK.



Additional information on wealth is given in graph 7.C concerning the development of net assets. The total net assets of the upper percentile and top deciles are calculated as their share of the macro estimate of (registered) and taxed assets of the total population. We can summarise that from the mid 1980s the trend towards equality was broken and reversed in assets.

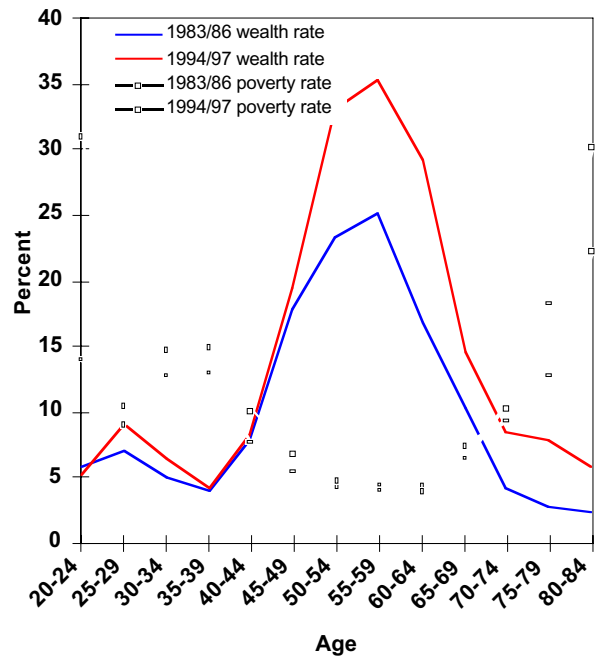
Finally, graph 7.D presents one of the major trends in the levels of wealth in Sweden. There is a general movement towards higher wealth rates as well as lower poverty rates in higher age groups, and the opposite in lower ages. The interpretation relating to the welfare mix follows in the next session.

Graph 7.C Net assets within decile groups, as a percentage of the total net assets. Sweden 1978-1997.



Graph 7.D Poverty and wealth rates for Sweden, by period and age. Poverty is defined by the minimum subsistence level, and wealth by 150% of the average adj. disposable household income.

Source: ULF. Percentage.



5. Summarizing the European welfare mix and its distributive correlates

Our data indicate that the income structure in each of the member states is related to the unique configuration of the three major welfare delivery institutions, i.e. the labour market, the welfare state and the family. Similar institutional arrangements and performance produce similar welfare outcomes at individual level. The comparative analysis of this report, which is conducted at the macro level, suggests there are three clusters of EU member states (the Nordic, the Southern, and the intermediate central cluster), each of which with distinct distributive features related to market forces, welfare state arrangements and family patterns. The countries included in each of these three clusters exhibit considerable uniformity in all three institutions. Furthermore, the longitudinal study of the Swedish welfare mix during the past 43 decades demonstrates the same co-variation between institutional configuration and distributive outcome.

This similarity within clusters, and dissimilarity between clusters, also extends beyond the income distribution addressed in this report. Other studies focusing on the distribution of material living conditions in a wider sense (Vogel 1999, 2000a), and on coping behaviour related to family formation (Vogel 1998) also demonstrate the link to the welfare mix.

These findings indicate there are *three different national strategies of welfare production*, which only can become visible with a larger set of nations, in this case 15 EU member states compared in this report. In addition, we have studied the case of Sweden over the past 30 years, tracking the evolution of the Swedish model of welfare production. The data for the European Union is summarised in graph 8.A, and for the Swedish case in graph 8.B.

The European union in the mid 1990s

In summary, our findings indicate the following:

There is a **Nordic cluster** (Sweden, Denmark, Finland and Norway) with (close to) full employ-

ment for men as well as for women, and with high levels of universal welfare state provisions. This is the combination of a rather successful co-operation between the labour market and welfare state in sharing the responsibilities for welfare delivery, equality and income security. Our data exhibit several favourable distributive features, including lower levels of general income inequality, poverty, and wealth level, as well as class and gender inequality (reported in Vogel 1997, 1999, 2000a).

The combination of the '*inclusive labour market*' (full employment, lower unemployment rates, equality in earnings) and *generous welfare state* arrangements support economic security and independence for men as well as women, youth and the elderly. Consequently, this experience of security also reduces the traditional welfare function of the family. Accordingly, our data for the Nordic cluster (Vogel 1998) indicate early exit from the parental household, early partnering, larger volumes of single adults, mobility between partnerships, consensual unions, and extra-marital child-bearing. The welfare role of the traditional large family is rather limited in the Nordic countries, and the drift towards fragmentation and diversity has proceeded farther, towards very small household size. On the other hand, recent Nordic fertility levels have been much higher than the Southern levels, which is explained by generous family policies (public child care, paid parental leave).

It should be noted that the uniqueness of the Nordic cluster extends far beyond the indicators displayed in this report, including left-wing political dominance, high levels of union enrolment, voter's support for egalitarian income policies, stronger welfare state support, high levels of voting rates and general participation in collective organisations, as well as rather homogeneous value patterns. It should be added that, in the Swedish case, some of this uniqueness was lost over the last decade.

There is a **Southern cluster** (Italy, Greece, Spain, and in most aspects Portugal) with poor labour market performance in providing earnings and economic independence (low employment rates, high unemployment rates, larger inequalities in earnings), as well as welfare state arrangement

GRAPH 8.A WELFARE PRODUCTION IN THE EUROPEAN UNION

	WELFARE INSTITUTIONS			DISTRIBUTIVE OUTCOME		
	"The inclusive Labour market"	"the extensive welfare state"	"the inclusive family"	income inequality	poverty rate	wealth rate
<i>statistical indicators:</i>	<i>employment rate</i>	<i>social expenditure</i>	<i>'traditional family index'</i>	<i>Gini-coeff.</i>	<i><50 % of mean</i>	<i>>150 % of mean</i>
NORDIC CLUSTER						
Sweden	HIGH	HIGH	LOW	LOW	LOW	LOW
Denmark	HIGH	HIGH	LOW	LOW	LOW	LOW
Finland	(medium)	HIGH	LOW	LOW	LOW	LOW
Norway	HIGH	HIGH	medium	LOW	LOW	LOW
SOUTHERN CLUSTER						
Italy	LOW	LOW	HIGH	HIGH	medium	HIGH
Spain	LOW	LOW	HIGH	HIGH	HIGH	HIGH
Greece	LOW	LOW	HIGH	HIGH	medium	HIGH
Portugal	medium	LOW	HIGH	medium	HIGH	HIGH
CENTRAL CLUSTER						
Germany	medium	medium	medium	medium	medium	HIGH
France	medium	medium	medium	medium	medium	HIGH
Netherlands	medium	medium	LOW	medium	medium	HIGH
Belgium	medium	medium	medium	medium	medium	HIGH
Luxemburg	medium	medium	medium	medium	medium	HIGH
UK	medium	medium	medium	HIGH	HIGH	HIGH
Ireland	LOW	LOW	HIGH	medium	HIGH	HIGH

(lower social protection expenditure, poor child care provisions and lower options of paid leave or family subsidies). The distributive structure in the Southern cluster displays much higher levels of income inequality, poverty and wealth. Other studies indicate that this also applies to higher levels of class inequality, but lower levels of inequality between generations (due to the incorporation of (inactive) youth and elderly in larger households).

The family plays a major role as a welfare delivery institution, supporting weak family members, in particular young adults (larger volumes of youth unemployment), women (inactivity) and the elderly (lower pension rights). Hence, our data (Vogel 1998) indicate larger family size, later exit from the parental home, later partnering, lower separation rates, lower rates of singlehood, and frequent multi-generation families, as compared to the Nordic cluster. Partnerships tend to be more

stable, but the volume of economical dependants (young adults, housewives, elderly) is higher. There should be an *increasing mismatch* between the institutional context (welfare mix) and the secular demand of economic independence and for a full life including both work and family life, in particular among younger women. Recent data indicate an increase of coping behaviour, such as postponed partnering and very low and late fertility, as compared to the Nordic cluster.

There is a **Central European cluster** in intermediate position, between the Nordic and Southern clusters, on the institutional mix as well as the distributive outcome and coping behaviour. Some countries are close to the Nordic cluster or the Southern cluster. For instance, Germany displays a rather Southern pattern of lower child care provisions and lower female employment rates; UK has a pattern of higher income inequality and higher poverty level, rather similar to the Southern

cluster; both without the support of the traditional family.

The structure of these findings is summarised in graph 8.A.

The Swedish case 1963-1998

The link between the institutional configuration and distributive established in the comparative study of EU-member states is also found in the longitudinal study of the Swedish case (summarised in graph 8.B). From the early 1960s to early 1990s Sweden had a parallel increase of employment rates¹⁸, female labour market enrolment¹⁹ and constant low unemployment rates (blue lines), indicating increasing labour market efficiency. Over this period social protection expenditure expanded from about 10 to 40 percent of GDP (red line). The role of the family declined, with decreasing household size and increasing rates of single households (green lines). In other words, here we see the gradual erection of the Swedish model or 'welfare mix'.

Graph 8.B also includes the three indicators of income structure (black lines). The data indicate that poverty rates declined until the early 1990s, but that wealth rates²⁰ already started to grow in the early 1980s, along with the Gini-coefficients.

Around 1991 a parallel international recession and an unsuccessful tax reform (reducing the marginal income tax rate as well as overall tax level) produced an unemployment choc (from 2 to 8 percent) as well as a rapid 12 percent decline of the work force. Domestic demand declined and huge budget deficits followed, along with subsequent heavy reductions in public transfers and services. The consequences are indicated by Gini-coefficients for disposable income, taking Sweden back to the level of the early 1970s, as well as by increasing poverty rates. Concurrently, the wealth rates expanded further.

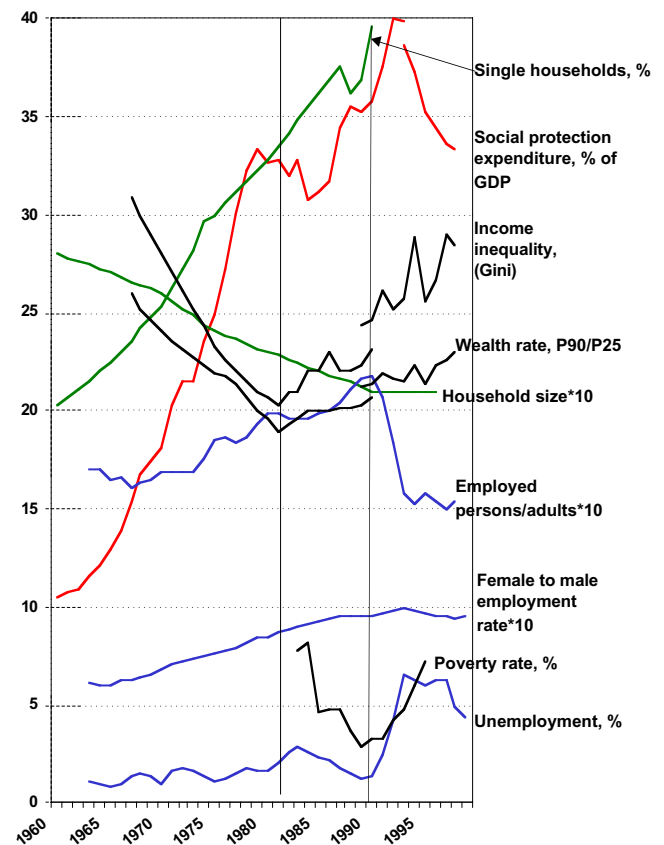
Hence, the 1990s saw a major regression from the egalitarian income structure characterising the Swedish model. However, in comparison with the

central and Southern EU member states Sweden as well as the other Nordic countries still constitute a separate cluster of successful welfare mix.

6. Concluding remarks

In summary, these findings underline the importance of the institutional configuration in shaping the distribution of income, poverty and wealth, as well as general inequality related to various social cleavages (social class, gender and generation), and coping behaviour. In short, the analysis at the macro level demonstrate the obvious: inequality is a social consequence of inadequate welfare mix.

Graph 8.B The Swedish welfare mix 1960-1999 and its distributive outcome . Sources: Labour Force Surveys, SNA, Censuses, Income surveys.



This overview also demonstrates that the institutional configuration measured in the European context consist of only three models, two distinct models and one intermediate category. All of the Nordic strong welfare states are also characterised by inclusive labour markets. Furthermore, all of them have weak family institutions. The Southern cluster includes only weak welfare states, as well as 'weak' labour markets, but all of them are on the other hand characterised by strong traditional

¹⁸ Defined as the ratio between employed adults (20-84 years) to not employed adults (to fit this graph multiplied by 10)

¹⁹ Defined as the ratio between female and male employment rates

²⁰ P90/P25, calculated on the eq. disposable income

families. The remaining members of the remaining central cluster are in intermediate position concerning all three institutions, with just a few exceptions.

This uniformity within clusters underlines the functional interrelationship between institutions, and in particular, the limitations of their compensatory role. Strong welfare states exclusively also have efficient labour markets which mobilise a comparatively large part of the working age population and deliver earnings to a larger share of adults. This symbiosis between welfare state and market is a precondition for the battle against poverty, social exclusion and general inequality. The inclusive labour market produces a larger tax base able to finance a comprehensive welfare state, as well as it limits the need for social intervention. Consequently, active and ambitious labour market policies play a major role in advanced welfare states.

Looking at our data we can conclude that there are no national cases which rate high on only one of these two institutions and not the other. We can see no exception from this rule among the EU member states; all nations displaying high tax levels and social expenditure levels, also have achieved high employment levels; and all member states with low employment levels, accordingly, have low levels of welfare state provisions. In other words: the inclusive labour market is required for the generous welfare state. And furthermore: here is no evidence that lower welfare state intervention, or 'flexibility' ('incentives' such as lower levels of job security, lower social security provisions, inequality of earnings) supports higher employment levels.

The Southern cluster illustrates the logic of the weak labour market and its consequences for the welfare state arrangements. Weak labour markets disclose generous welfare state arrangements, for three reasons. First, the mere volume of the needy will not allow generous public provisions. Second, such provisions will have to be targeted and restricted to the most needy. Hence, redistribution will only affect extreme poverty and exclusion, not inequality in a wider sense. Thirdly, with such an imbalance between needs (low employment, high unemployment) and resources (the potential tax

base), it will be difficult to mobilise political support for public provisions. Accordingly, in all of these member states the traditional family takes on a major role as a welfare institution. The household size is much larger, a larger proportion of the population lives in extended households, the exit of youth comes later, larger shares of the aged move in with their children, divorce rates are lower, and lower shares are living as singles. Hence, the traditional family is the functional alternative when market and welfare state fail to deliver basic living standards. In reverse, traditional family formation and gender roles may also lead to lower employment rates, and consequently to a weak welfare state.

The national welfare mix is usually not a conscious and coherent strategy. There is a long history of stepwise adaptation to external forces, and ideological pathways are stimulated by new examples and new options. Over the past two decades, it has become increasingly difficult to uphold the sharing of responsibility for welfare production, based on informal agreements at the national level. We have seen a gradual drift away from the post-war welfare mix: the roles of the labour market as well as the family as a welfare provider have been reduced, creating increasing problems for public welfare production. Statistics indicate a corresponding variation in distributive outcome in most EU-member states. A new welfare mix is emerging, in similar direction but various pace in different parts of Europe.

Modern capitalism has been deliberated from its national chains, as well from much of its responsibility for national welfare production. Concurrently, this creates a new pressure on the other welfare producers to fill the gap, and subsequent negative features in the distributive structure. Concurrently, with the lost community of interest in welfare production within the *national* context, there is a new conflict between the various driving forces within market economy; between short-term interests of global shareholders and far-off management on one side, and long-term sustainability of consumption, domestic human relations based on face-to-face contacts, and local cooperation and responsibility on the other.

The new independence from the national contract of co-operation between welfare providers writes a new chapter in the history of welfare production in most European countries. With persistent mass unemployment, stagnating employment, and even dramatically declining employment rates (Sweden, Finland), accelerated skill requirements, flexible work arrangements, income insecurity and increased work related stress, the balance between politics and market has changed in favour of market forces. While this process has been slow in central and Southern Europe, it was sudden and strong in the North.

Whether this transition is the end of history, or yet another chapter in the history of capitalism and the welfare state remains to be seen. Present-day main stream thinking seems to accept this development as inevitable, leaning towards adapting to the new global economy by further privatisation, de-centralisation, flexible work relations, low-pay jobs, decreased taxes, increased contributions, and limited public transfers and services. Such prescriptions can only increase inequality; in fact, this is, in this line of thinking, sometimes perceived as a goal in itself to promote flexibility and work incentives.

Within the European union there is another option, which is to recapture control over market forces within the larger context of the European union. Reclaiming the commitment of the market forces and returning to *inclusive* labour markets appears to be the only route in defence of equity. In fact, today's Europe is at a crossroad between a liberal and social-democratic route, pointing at either increasing poverty, social exclusion and class and multidimensional inequality, or, at best, towards status quo.

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