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Abstract
The Nordic welfare model in a European perspective
Social assistance and minimum income benefits are important indicators for assessing the very basic objective of social policy, namely to mitigate financial hardship and alleviate poverty. The Nordic countries have succeeded well from a comparative point of view in terms of poverty alleviation. However, last-resort safety-nets are changing. Scattered evidence indicate that Nordic social assistance have become less generous. Perhaps are the Nordic countries becoming more similar to the welfare models of Continental Europe or the United Kingdom? This study analyses central dimensions of Nordic social assistance, such as the generosity, scope and effectiveness of benefits. Data for the empirical analyses are from SaMip and LIS. We show that Finland and Sweden, particularly, have suffered from welfare decline, including less generous and effective benefits.

Sammanfattning
Den nordiska välfärdsmodellen i ett europeiskt perspektiv
De behovsprövade bidragen är viktiga för att säkerställa socialpolitikens grundläggande funktion att minska ekonomiska problem och fattigdom. Det svenska ekonomiska biståndets utformning och effekter är ett exempel. De nordiska länderna har åtminstone tidigare lyckats väl med denna uppgift. De behovsprövade bidragen har emellertid förändrats, inte bara i Sverige utan även i de andra nordiska länderna. Kanske har de nordiska länderna närmat sig de välfärdspolitiska modeller som praktiseras i övriga Europa? I den här studien analyseras centrala dimensioner av de nordiska behovsprövade bidragen, såsom generositet, omfattning och effektivitet. Här använder vi data från the Social and Minimum Income Protection Interim Dataset (SaMip) och Luxembourg Income Study (LIS). Analyserna visar att bidragen har försämrats i framförallt Finland och Sverige, något som inkluderar minskad generositet och lägre fattigdomsbekämpning. I dessa avseenden är det idag svårare att finna en distinkt nordisk välfärdspolitisk modell på de behovsprövade bidragens område.

The Nordic welfare model in a European perspective

Means-tested social assistance and minimum income benefits are important indicators for assessing one of the very basic objectives of social policy, namely to mitigate financial hardship and alleviate poverty. Whereas social insurance aims to provide income security for losses in work income and child benefits are intended to compensate households for increased economic burdens, one objective of social assistance is to provide a minimum safety net for households not qualifying for other types of public support. Several scholars point to the necessity of a system of well-functioning minimum income benefits. Marshall (1950) stated that the provision of a certain minimum income for all members of society defines the very nature of social citizenship. Rawls (1971) acknowledged the role of social minimums for the creation of just societies. Here, minimum income benefits guarantee that short-term basic needs are realized. More recently Leibfried (1993) argues that the most appropriate test for the functioning of social citizenship is to ask what the welfare state does for the poor and destitute citizens. Thus, the provision of social assistance and minimum income benefits should be one of the main areas for comparative welfare state research. Nonetheless, broad empirical comparisons, both cross-nationally and temporally, of such last-resort safety nets are rare.

This study assesses the unique characters of Nordic social assistance since the early 1990s up to the end of 2010 in Denmark, Finland, Norway and Sweden. The Nordic countries are compared to three European countries; Germany, the Netherlands and the United Kingdom. Since comparative analysis is quite sensitive to the choice of benchmarking countries, in parts of the institutional analysis we do also compare the Nordic countries to a larger set of industrialized welfare democracies. Both institutional dimensions and outcomes are analyzed in order to provide a comprehensive understanding of the functioning of minimum income benefits. The paper raises several questions. Is Nordic social assistance moving in a specific direction, which is in accordance with the traditional encompassing model? In this model social assistance plays a marginal role in the welfare state machinery, both in terms of expenditure and case loads. Even so, benefits are comparatively generous and effective for poverty alleviation. Or is Nordic social assistance becoming more similar to that of other industrialized welfare democracies? Have institutional conformity in both set-up and outcomes of social assistance occurred across a broader spectrum of advanced welfare states? Such processes of social policy convergence are continuously subject for discussion (European Commission, 1998; Threlfall, 2003; Nelson, 2008, 2010a).

This paper is structured as follows. Next follows two sections describing some major trends in the Nordic welfare states and reviewing earlier comparative work on Nordic social assistance.

Data is discussed after this, followed by a presentation of the main empirical results. The paper ends with a concluding discussion.

Changing social policy and labor markets

Social assistance and minimum income benefits are perhaps not the first to come in mind when we think about Nordic social policy and the Nordic welfare model. With the expansion of social insurance and child benefits in the first decades after the Second World War, social assistance became a rather peripheral component of Nordic social policy (Korpi, 1975; Esping-Andersen and Korpi, 1984; Lødemel, 1997). For example, before the Swedish old age pension reform and the introduction of universal child benefits in the late 1940s, social assistance accounted for 16 percent of social policy expenditure. After the reforms this share was down to 4 percent (Korpi, 1975). Similar developments occurred also in other Nordic countries, such as Norway (Lødemel, 1997) and Finland (Kuivalainen, 2004). Compared to other countries social assistance expenditure in the Nordic countries have traditionally been remarkably low (Eardley *et al*. 1996). The process of crowding out the need for social assistance in the Nordic countries should not solely be viewed as the result of an expansion of universal and income-related provisions. Also important is the close focus on full employment and active labor market policy, which was introduced in Sweden during the 1960s and subsequently has come to characterize Nordic labor market policy.

In the early 1990s and along with the economic crisis at that time, changes were introduced both in Nordic social policy and in Nordic labor market policy. Attempts were made to re-organize social policy and shift focus of labor market policy. Perhaps these processes are most apparent in Finland and Sweden, where the economic downturn of the early 1990s were particularly manifested. This re-organization of social policy involved for example cut-backs in legislated public benefits, tighter eligibility criteria, and a re-emphasis on means-tested policies. Also private and occupational social security schemes became more prominent, such as supplementary social insurance schemes decided upon in agreement between the social partners and member insurances provided solely by the labor unions (Sjögren Lindquist and Wadensjö, 2006). Macroeconomics and labor market policy also started to change and there was a shift in focus from full-employment to low inflation.

Today the Nordic welfare states are characterized by higher unemployment rates and increased dispersion of income than what was common during the heydays of welfare state growth from the Second World War and up to the 1980s. Of course there are some differences in developments between the Nordic countries. In Finland and Sweden the unemployment rate has fallen compared to the levels recorded precisely after the economic crisis in the mid-1990s, but at the turn of the new millennium unemployment levels were still higher than

before the crisis in the early-1990s. Due to the global financial crisis in 2008 unemployment increased again from about 6 to 8 percent in Finland and Sweden. Denmark and Norway have performed better judged by this indicator and here the unemployment rate were lower in 2000 compared to 1990 (Saint-Paul, 2004). Particularly Denmark has gradually introduced a system of social protection and labor market policy characterized by the principle of flexicurity, in part with the intent to stimulate economic growth and labor market mobility. In short flexicurity means less stringent or even weak employment protection combined with elaborate wage protection. However, also in Denmark and Norway labor markets were affected by the global financial crisis in 2008. In Denmark unemployment increased from about 3 to 6 percent between 2007 and 2008. Due in part to extensive oil revenue the economic downturn in the early 1990s did not reach the same depth in Norway as in Finland and Sweden. Throughout the last two decades the unemployment rate has also been much lower in Norway compared to the other Nordic countries, increasing only from 2 to 3 percent in 2008.

Welfare State Modeling and Social Assistance Regimes

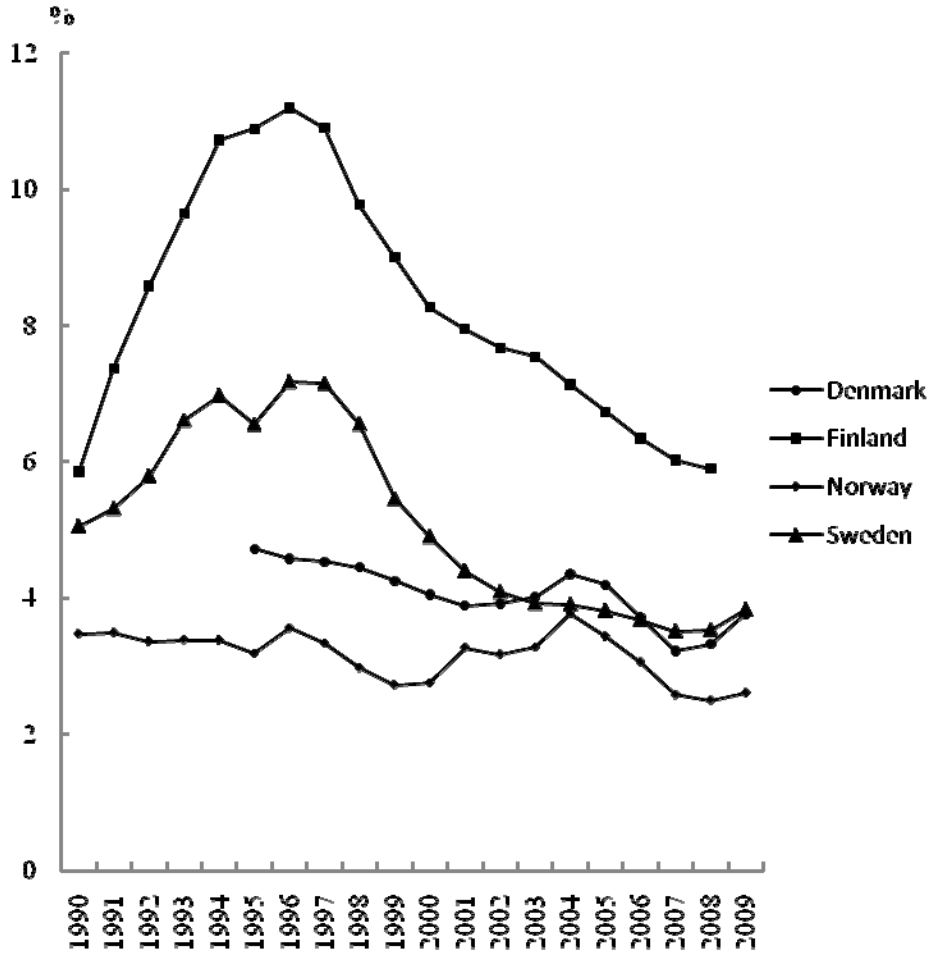
Comparative welfare state research has flourished during the past decades and has occupied increasingly with typologies. This literature has categorized the Nordic countries as a specific welfare regime, which is characterised by a strong degree of decommodification, universalism and benefit quality (e.g. Esping-Andersen, 1990; Korpi & Palme, 1998). The egalitarian element is to a large extent the practice of universalism combined with income security: everybody enjoys the similar rights with close connection to performance on the labour market. The combination of the two redistributive strategies contrasts with the Beveridge heritage of liberal welfare states and the Bismarckian legacy characterizing still much of social policy in continental Europe. The coverage of entitlements is typically high also in the United Kingdom, in part due to low contribution fees for major social insurance programs. Benefit levels, however, are comparatively low resulting from the nearly sole emphasis placed on basic security. In Germany core social insurance programs are fragmented across occupations and lacks coverage, even though earnings-related income protection provide high entitlement levels for those who have access. The Netherlands is an interesting borderline case sometimes classified as belonging to the conservative or corporatist model and sometimes grouped into the basic security welfare state cluster. The Nordic countries share similarities also in outcomes. Low levels of income inequality and poverty are often referred to here, as well as the comparatively high degree of gender equality (Kautto *et al*., 2001).

Welfare state typologies are usually based on distinct and often separate parts of the welfare state machinery, such as social insurance (Esping-Andersen, 1990), old age pensions (Palme, 1990), old age pensions and sickness insurance (Korpi and Palme, 1998), unemployment

insurance (Carroll, 1999) and family policy (Korpi, 2000; Ferrarini, 2006). Sometimes the categorization of countries into different social policy types differs extensively between these modelling attempts, especially if comparisons are made between program types, such as social insurance and social assistance (Lødemel and Schulte, 1992; Leibfried, 1993; Eardley *et al*., 1996; Gough *et al*., 1997; Gough, 2001). Social policy typologies are always difficult to conduct, in part because of the amount of differences and similarities that often have to be taken into consideration. Particularly troublesome are characterizations of social assistance, which simultaneously can show high degrees of country specific characters as well as substantial variation within countries (Ditch, 1999). Lødemel and Schulte (1992) were among the first ones to classify social assistance schemes. They labeled the Nordic countries as the residual poverty regime; characterized by relatively generous social assistance benefits provided to small proportions of the population. *Figure 1* shows the number of social assistance beneficiaries above 18 years in Denmark, Finland, Norway and Sweden 1990-2009. Benefit case loads have fluctuated the most in Finland and Sweden, where the number of beneficiaries increased strongly during the economic crisis of the early 1990s. Since then the number of beneficiaries have declined. At the end of the period the share of beneficiaries in Sweden is approximately at the same level as in Denmark and Norway, whereas Finland continues to have slightly larger shares than the other Nordic countries.

In another study Eardley *et al*. (1996) identified eight types of social assistance schemes using five different indicators; coverage, organization, benefit level, the nature of means-testing, disregards and discretion. The Nordic countries composed a distinct residual social assistance regime, fueled by a strong tradition of full employment and universal welfare provisions. Also the harshness of means-testing in Nordic social assistance is emphasized, which places focus on the financial capital of claimants in addition to income. The high degree of individual discretion in Nordic social assistance at the time, whereby national law only provided rough guidelines of the rights and duties of beneficiaries, was emphasized as well. Nowadays, however, benefit levels are more centralized in the Nordic countries. Finland was a forerunner among the Nordic countries in this regard, introducing national social assistance scale rates already in 1989 and with a five year transitional period. Denmark tied social assistance benefits to the maximum unemployment benefit in 1994 and Sweden introduced a national standard for social assistance in 1998. Norway strengthened the centralized coordination structures in 2001 when national guideline rates for social assistance were introduced.

Figure 1. Share of Social Assistance Beneficiaries (age 18 and above) as Percentage of Population 18 Years and Above in Denmark, Finland, Norway and Sweden, 1990-2009.



Note: Kontanthjælp and starthjælp in Denmark, Laki toimeentulotuesta in Finland, Ekonomiskt bistånd in Sweden and okonomisk stonad in Norway.

Source: Nososco, Statistics Denmark, Statistics Finland, Statistics Norway and Statistics Sweden.

To a varying extent, the categorization of countries into social assistance regimes is in line with expectations generated by more abstract system level regime theory. For example, social assistance is expected to play a marginal role in the distributive process of social-democratic welfare states compared to more liberally oriented countries. Social assistance is anticipated also to be fairly generous in the Nordic countries (Nelson, 2006). Nevertheless, the organization of social assistance involves also inconsistencies to more general regime theory, such as Esping-Andersen's threefold distinction between social-democratic, liberal and conservative welfare states. Nordic social assistance still shows high degrees of local discretion, despite increased centralized coordination in recent years. The harshness of the means-test is another example noted above. Lødemel (1997) refers here to a welfare paradox between general and selective redistributive principles embodied in liberal and social-democratic welfare states. Lødemel argues that the Nordic countries have implemented a residual type of social assistance that more resembles welfare state structures of liberal countries than traditional encompassing ideas of social democracy. The high stigma associated with Nordic social assistance is one consequence of this development. Perhaps another effect is that social assistance in the Nordic countries still shows strong similarity to the old poor relief, which often was highly localized and less rights-based than contemporary minimum income benefits.

Also Bradshaw and Terum (1997) identify some specific features of Nordic social assistance, in particular the close relationship between cash and care. Traditionally the Nordic countries place strong emphasis on the requirements of beneficiaries to take part in treatment, rehabilitation and training when possible. This close respondence between cash and care is probably due to the specific target group of Nordic social assistance, which for a long time consisted of the very poorest of the able-bodied population (Fridberg *et al*., 1993). Besides low income alone, many of these individuals suffered also from problems in other areas of living. Thus, in the Nordic countries social assistance recipients often had complex social problems, involving for example the combination of low income and ill health (Korpi, 1975). Due to the increase of unemployment in the 1990s this residual character of Nordic social assistance has become less manifest, although benefits still often are considered mainly as a system of last-resort in the overall design of Nordic social policy.

The Nordic countries have succeeded well from a comparative point of view in providing minimum income through social assistance to citizens (e.g. Eardley *et al* 1996; Nelson 2003; Kuivalainen 2004). Poverty among the Nordic countries is also low by international standards, even though the prevalence of low income increased in the 1990s (OECD, 2008).

The encompassing model adopted by the Nordic welfare states places strong emphasis on equality of outcomes, something that have influenced also minimum income benefits, such as social assistance. However, social assistance is changing, not only in Continental Europe and the Anglo-Saxon countries, but also in the Nordic welfare states. Being a last resort benefit, social assistance does not exist in isolation from other welfare state structures; its role and importance is contingent upon the organization and success of other forms of social protection. This is one reason why comparisons of social assistance should focus on both institutional structures and outcomes, where benefit levels and poverty alleviation are two crucial dimensions. Denmark, Finland, Norway, and Sweden have all introduced changes in social assistance legislation over the past 20 years or so. The most significant reforms were introduced in the 1990s. In Denmark, for example, social assistance was heavily affected by reformed tax and labor market policies in the 1990s. The Danish labour market reforms strengthened the activation principles of labour market policy and tightened the eligibility criteria for membership of an unemployment insurance fund. Also social assistance was influenced by this emphasis on activation, thus, increasing elements of individual moral choice into the delivery of benefits (Cox, 2001). The changes in the tax system intended in part to strengthen work incentives by increasing the financial returns from employment income. Along with the changes in the fiscal system social assistance became taxable in 1994 and tied to the level of unemployment insurance. The strong focus on activation in connection with social assistance is not confined to Denmark, but can be observed in many other European countries (Hanesch and Balzter, 2001; Hvinden, 2001a, 2001b; Ditch and Roberts, 2002; Kazepov, 2002). In the 1990s, for example, principles of activation was introduced and enforced into Swedish social assistance, particularly in connection with young people (Salonen, 2000; Johansson, 2000). Similar developments occurred in Norway and mostly in connection with long-term social assistance recipients (Lorentzen and Dahl, 2005). This new activation paradigm that has swept across Europe and influenced also social assistance in the Nordic countries tends to stress the obligations of beneficiaries. Several measures to increase activation also tend to be preventive in character, thus involving harsher assessments of availability, reduced duration of benefits, increased use of sanctions and wider redefinitions of what are deemed to constitute suitable jobs (Serrano Pascual, 2007). Perhaps we can add to this arsenal of activation measures also benefit curtailments, either deliberately introduced by policy makers to cut benefits in absolute terms or due to so-called non-decisions and an insufficient updating of benefits over the longer run (Nelson, 2010b).

Besides placing stronger demands on the individual to participate in work-related activities in return for receipt of benefit, another tendency of Swedish social assistance in the 1990s is that benefit levels have been adjusted downwards in absolute terms. For example, due to fiscal constraints in the 1990s several Swedish municipalities began to exclude some of the

budgetary items included in the national guideline norms for the *Social Welfare Allowance*. Although the revisions made to social assistance in 1998 strengthened the right to benefit by introducing nationally defined standards, some budgetary items that previously were included in the recommendations issued each year by the *National Board of Health and Welfare* were still excluded from national regulations. It should be added, however, that many municipalities continued to pay for these excluded budgetary items almost at a regular basis. Also in Finland the most substantial changes to social assistance occurred in the 1990s, exemplified by the new social welfare act introduced in 1989 and gradually implemented in the early 1990s. Another major change of relevance for the provision of minimum income benefits is the introduction of a third means-tested tier in the unemployment benefit system in 1994, initially intended to have a strong active dimension. Due to the massive in-flow of participants into this program the link to labour market activation was later downplayed in reality. In the first half of the 1990s social assistance also gradually became an important top-up to basic and means-tested unemployment benefits, something that partly explains the comparatively high rates of social assistance beneficiaries shown above for Finland (OECD, 1998).

What are the consequences of the changes introduced to Nordic social assistance since the beginning of the 1990s? One perhaps provocative rundown is that the Nordic countries during the latest two and a half decade or so have moved towards the liberal welfare regime described by Esping-Andersen (1990), where state provisions are less well developed and where social assistance plays a more prominent role in the overall system of social protection. Indeed, some changes seem to be 'commodifying' in character and show some resemblance to neo-liberal ideas about the trust in markets. Below we will assess whether it is possible to find any empirical evidence of such tendencies of a liberalization of Nordic social policy and if Nordic social assistance has moved closer to its European counterparts.

Data

There are a number of institutional features and outcomes that potentially should be included in a study of this kind. Here we are rather restricted to the type of information and databases already existing. At the institutional side focus is on benefit levels, whereas outcomes are measured in terms of the prevalence of low income and poverty alleviation. In addition we focus on means-tested benefit expenditure. Social spending is not used to measure the quality of social protection. Rather it gives us the opportunity to study the extent to which countries rely on minimum income benefits in the overall distributive system. This central dimension of social assistance cannot be assessed simply by an inspection of benefit levels or anti-poverty effects. Another related indicator is the number of beneficiaries of such benefits.

Unfortunately, however, there is no such comparative data readily available, besides the figures on the Nordic countries shown above.

Data on benefit levels are from the *Social Assistance and Minimum Income Protection Interim Dataset (SaMip)* and data on anti-poverty effects are from the *Luxembourg Income Study (LIS)*. SaMip includes comparable indicators reflecting the level of social assistance and related minimum income benefits available to households lacking work income and entitlements to contributory benefits, such as social insurance. SaMip includes 34 countries and covers the years 1990-2009. Data in SaMip is based on a type-case approach, where benefit levels for pre-constructed families are calculated from national legislation (see Nelson 2007). Three typical household types are used: a single person, a two-parent family and a lone-parent with two children. The benefit package used in this study includes standard social assistance benefits, child benefits, housing benefits, and refundable tax credits where relevant. All benefits are calculated net of taxes. Social assistance typically constitutes the largest single source of financial resources for low-income families of the type noted above. However, in order to increase comparability across countries with different types of systems, also associated programs such as housing benefits and child benefits must be taken into consideration. The data for Norway in the institutional analysis below should be treated with caution. For the years 1990-2000 the Norwegian data is based on social assistance expenditure levels. Since 2001 it is based on national social assistance guidelines rates.

Luxembourg Income Study (LIS) is a collection of household income surveys that are harmonized in order to enable comparative studies (see Smeeding, 2002). The database contains national micro-level income data for more than 30 countries at various years. About 2,000 to 57,000 households are included in the national samples. The LIS datasets are used to analyze changes in poverty rates among households receiving minimum income benefits and the ability of such benefits to alleviate poverty i.e. the poverty reduction effect. The relative approach is used to measure income poverty. Poverty is defined as household income below 60 percent of the median disposable equivalent income in the total population. To adjust for family size the square root of household size is used. Unfortunately it is not always possible to disaggregate the anti-poverty effect of single programs in the LIS datasets, especially for earlier waves of income data. In this study we therefore use the pre-constructed LIS income variable *MEANSI*. Where possible we have also used the variable *v25s1i*, which is intended to capture only general social assistance benefits, such as *Income Support* in the United Kingdom and *Ekonomiskt bistånd* in Sweden. Substantial changes to the results are noted in the text. The anti-poverty effect of means-tested benefits is measured using standard methods. The actual poverty rates are compared to the counter-factual case of an income distribution lacking means-tested benefits. Thus, it is assumed that an absence of means-tested benefits

has no behavioral effects, which of course is un-realistic. Nevertheless, this assumption is common among scholars that do assess the impact of social policy on poverty and income inequality. The relative reduction in poverty is the percentage decline of the poverty rate after means-tested benefits are included in disposable income. The LIS dataset have income data for Denmark, Finland, Norway, Sweden and the United Kingdom at various years from the early 1990s to the mid-2000s. Data for Germany and the Netherlands cover the years from the early to the late 1990s.

Results

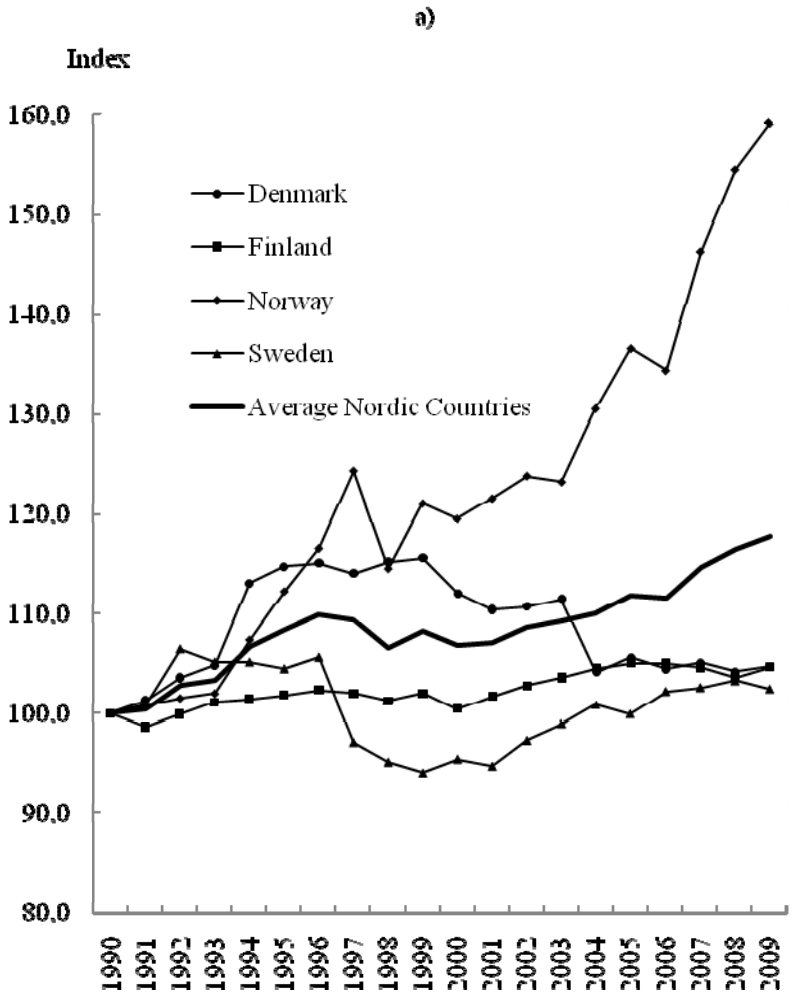
In order to assess the unique characters of Nordic social assistance we will take two aspects into consideration; trends and levels. Trends show the extent to which Nordic social assistance has followed a unique path of developments over the last one and a half decade or if Nordic social assistance developments rather follow an international pattern. Levels are important to assess the impact of these trends, that is, whether Nordic social assistance still is different. We will start this presentation by an analysis of the generosity of benefits and expenditure, and thereafter shift focus to the prevalence of low income and poverty alleviation.

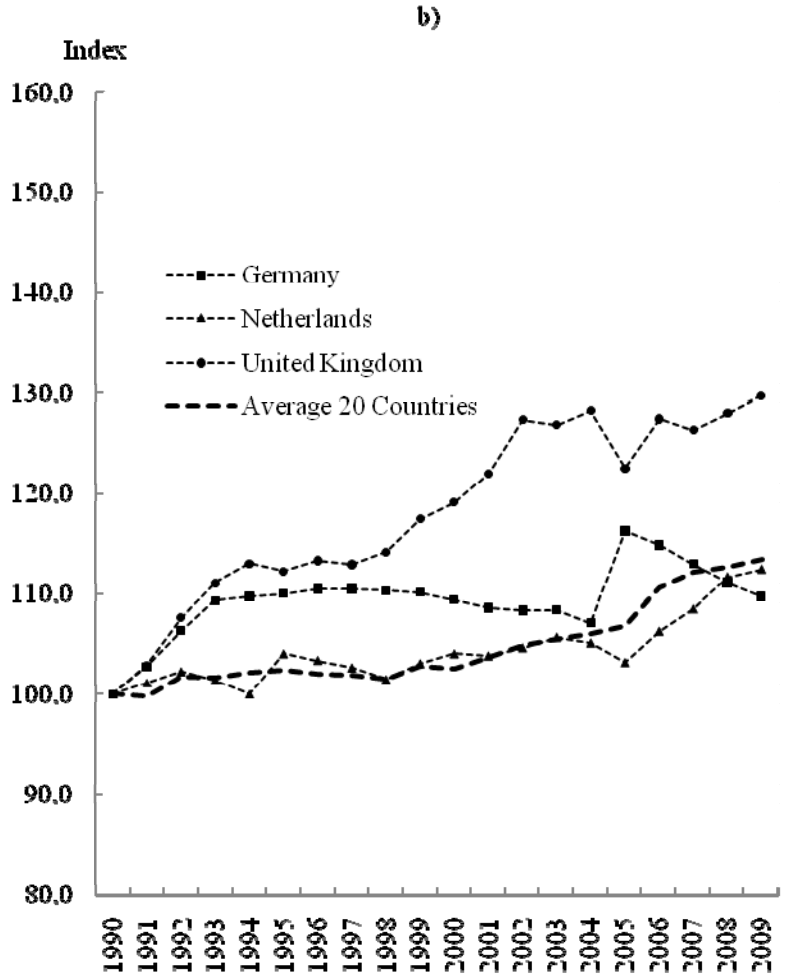
Benefits and Expenditure

Figures 2a-b show changes in the level of minimum income benefits as averages of three family types for seven countries 1990-2009. Since we have data on benefit levels for a greater number of countries we have also included an average for 20 industrialized welfare democracies. Benefits are indexed for price development and the base year is set to 1990. Benefit levels have increased faster than prices in all countries over the whole period, particularly in Norway and the United Kingdom. The increase for the Nordic countries is above the 20 country average, but heavily inflated by the Norwegian case, which should be treated with caution for reasons stated above. Denmark, Finland and Sweden score below the average increase for this larger group of countries. The decline in Swedish benefit levels in the second half of the 1990s is in part related to the new social service act introduced in 1998, something that involved changes in the basket of goods used for benefit calculation and reduced benefits for some items in this basket. Another continuous decline in the real value of benefits occurs in Germany in the most recent years. The so-called Hartz IV reform in Germany in 2005 replaced the former general social assistance program (*Sozialhilfe*) and the former benefit for the long-term unemployed (*Arbeitslosenhilfe*) with a new means-tested benefit, *Arbeitslosenhilfe II*. Initially, benefits were established at levels slightly above that of *Sozialhilfe*, but lower than the scale rates of *Arbeitslosenhilfe*. Since the introduction of *Arbeitslosenhilfe II*, however, it is evident that benefits have fell short of the development of

prices four years in a row. In 2009, benefits are approximately back at the levels provided precisely before the Hartz IV reform.

Figure 2a-b. Changes in the Level of Minimum Income Benefits Indexed for Price Development. Averages of Institutional Data for Three Family Types: Single Person, Lone Parent and Two-Parent Family, Index 1990=100.





Note: The 20 country average includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, New Zealand, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States.

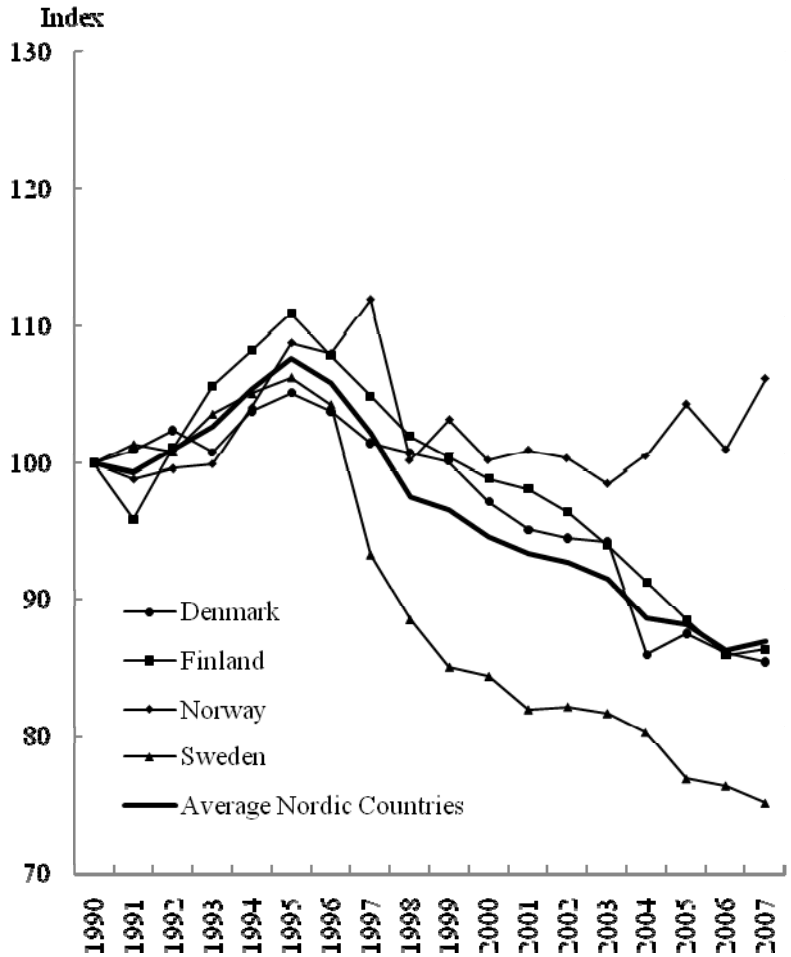
Source: SaMip.

It is not straightforward to determine the extent to which social assistance and minimum income benefits has greater potential to reduce poverty simply by an inspection of inflation adjusted benefit levels. Most countries have some kind of formal adjustment mechanism in place that more or less automatically compensate households for increased prices and thus stabilizes the purchasing power of social assistance over the longer term, although governments occasionally bypass such indexation and change benefits according to ad-hoc decisions (Cantillon *et al.*, 2004). Sweden and the United Kingdom, for example, update benefits according to the development of consumer prices, whereas Denmark, since the reforms in the mid-1990s, and the Netherlands index benefits to wages. Also Germany changed indexation measures in the 1990s and nowadays social assistance is in part related to

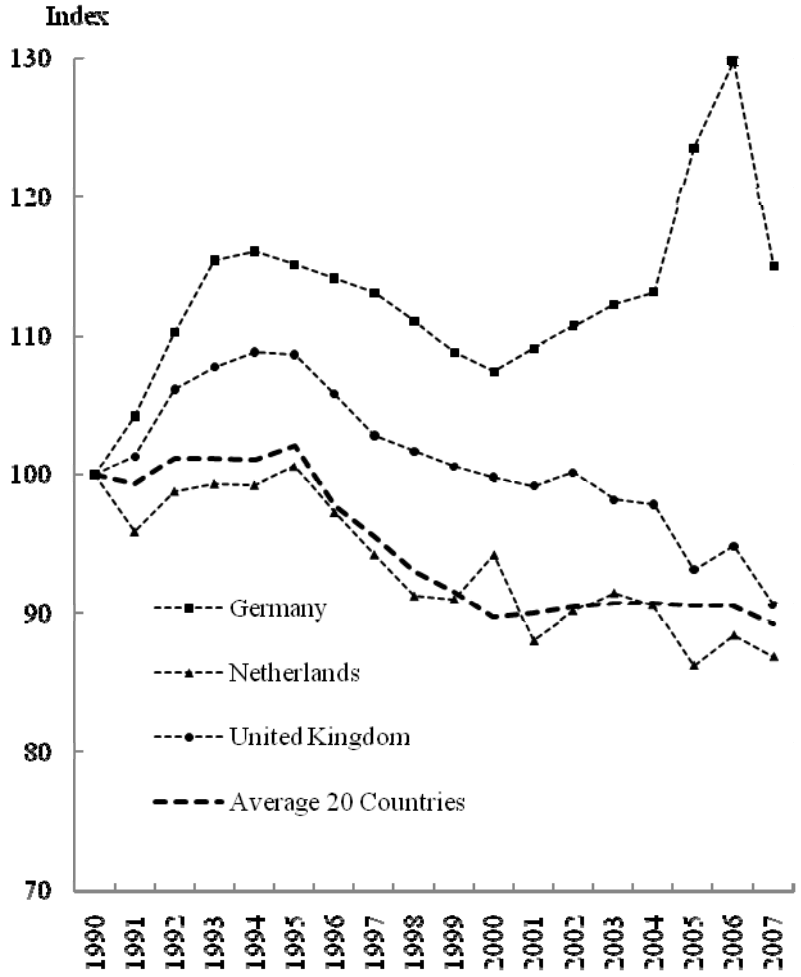
changes in income and consumption patterns. Despite that benefits have kept phase with inflation, and in some countries increased much faster than prices, it is not certain that social assistance and minimum income benefits have become more successful to move people out of poverty. The reason may be that wages and living standards more generally have increased even faster, thus placing beneficiaries in a more precarious position in the overall income distribution. One way to explore this aspect of minimum income benefits is to relate the benefit package of low-income households to median incomes, which is strongly influenced by wage development. *Figures 3a-b* show such adequacy rates of minimum income benefits for the years 1990-2007. The adequacy rate is the equivalized level of benefits for three typical family types as percentage of the median disposable equivalent income in total population. Once again we use an average of the benefits for a single person, a lone parent and a two-parent family. The square root scale is used here to standardize income to household size.

Figure 3a-b. Changes in Adequacy Rates of Minimum Income Benefits 1990-2007. Average of Institutional Data for Three Family Types: Single Person, Lone Parent and Two-Parent Family. Index 1990=100.

a)



b)



Note: Adequacy reflects the percentage of the level of equivalized minimum income benefits to the level of median equivalized disposable income in total population. The square root equivalence scale is used. The 20 country average includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, New Zealand, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States.

Source: SaMip.

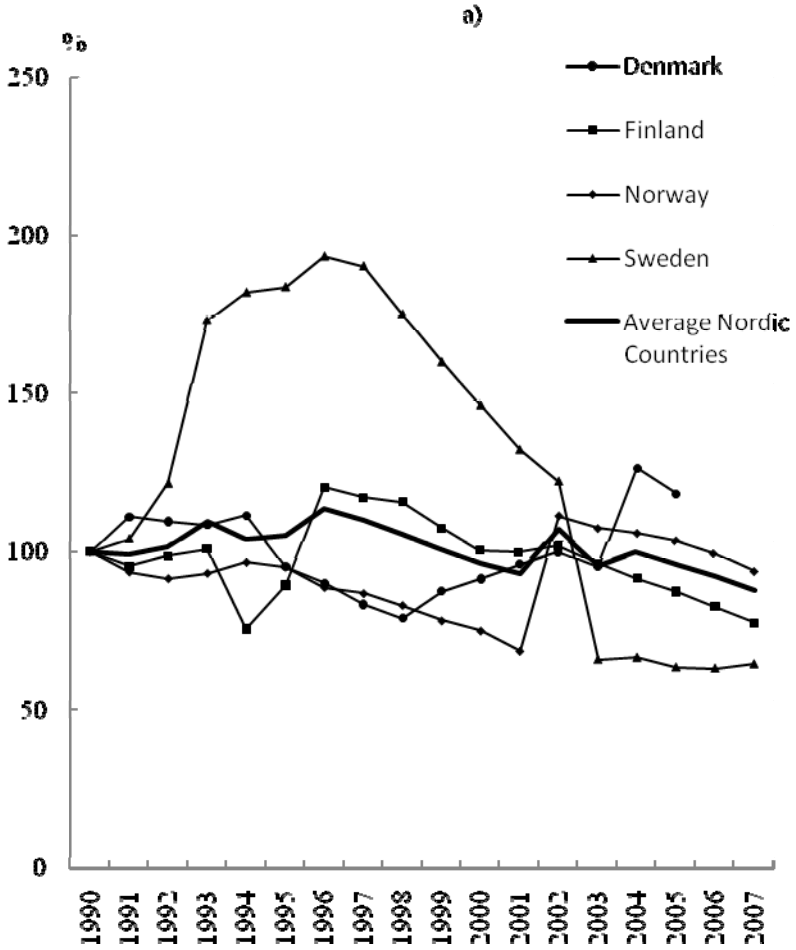
Although minimum income benefits in most countries keep up with price developments and in a few countries even increased more than prices, wages in most occasions increased even faster. Adequacy rates thus decreased in Denmark, Finland and Sweden after the mid-1990s. Norway shows a distinct path and a more stable pattern, similar to that of Germany for much of the period. We may add that the corporatist social policy structures of continental Europe sometimes are believed to be rather resistant to cutbacks and decline (Palier, 2000; Palme *et al*., 2009). Whether the corporatist character of first-tier insurance benefits in Continental Europe increases the resilience of second-tier assistance benefits is beyond this study to explore in detail. Nonetheless, we can show that benefit adequacy in the Netherlands have had a much worse track record than that of Germany. Could this pattern perhaps be related to the less marked corporatist structures of the Dutch welfare state, which borrow the fragmented principles of Bismarckian social insurance and the universalism and flat-rate structure of social insurance outlined by Beveridge in the United Kingdom a long time ago? It appears as if the stability of corporatist welfare states is sometimes exaggerated. The most recent development of social assistance and minimum income benefits in Germany is one example of this. In 2007 German adequacy rates are going down sharply. This downward trend probably continues in 2008 and 2009 due to the insufficient updating of benefits revealed above. An interesting question for future research is to assess whether such a development would change the overall trend of adequacy rates in Germany over the period 1990-2007 from a slight increase to a decrease for the period 1990-2009.

It is otherwise difficult to predict how benefit adequacy will develop over the most recent years. If the current financial crisis cause a slowdown of wage increases coupled with low inflation, adequacy rates might improve. The development of minimum income benefits in the early 1990s illustrates such a scenario. The adequacy of benefits in the Nordic countries improved during much of the economic downturn in the early 1990s, something that is due mostly to a slowdown of wage increases and low inflation during the economic crisis years and not primarily related to improvements in the basic rates of benefits *per se.* Similar developments occur in Germany and the United Kingdom in the first half of the 1990s, but not in the Netherlands and in the larger group of 20 countries.

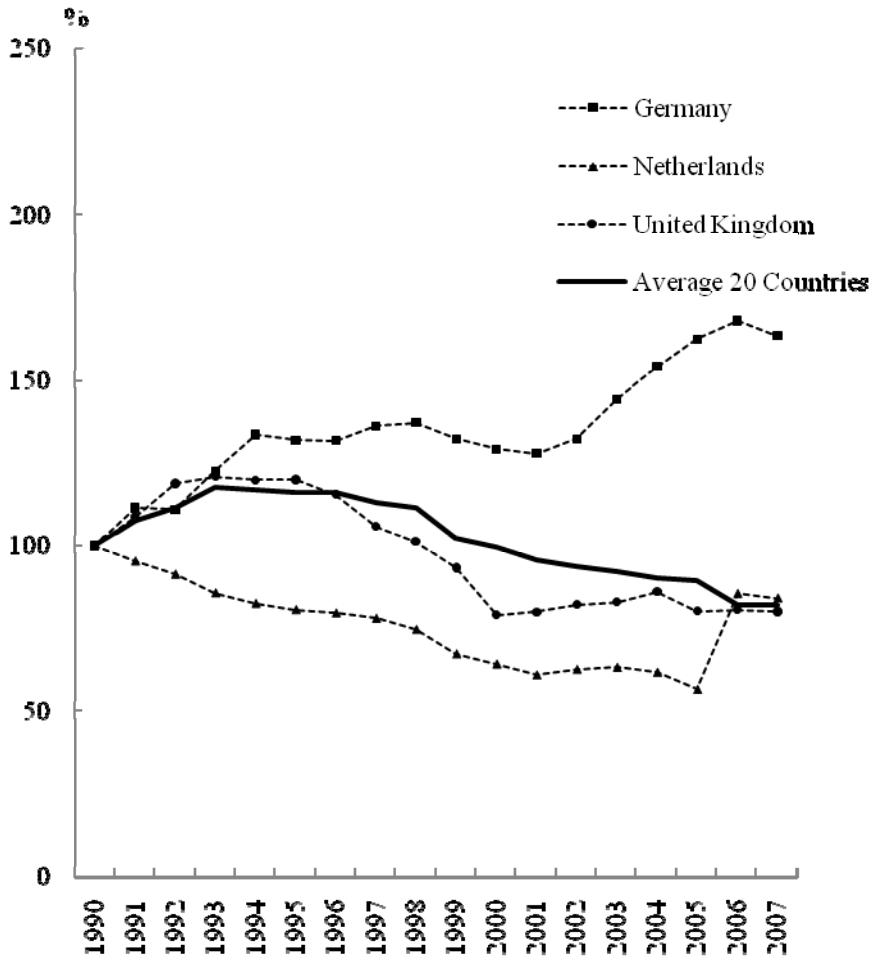
Next we turn to the extent of social assistance and minimum income benefits, something that is measured in terms of means-tested benefit expenditure. *Figures 4a-b* show means-tested benefit expenditure as percentage of total social benefit expenditure for the period 1990-2007. The role of means-tested benefits in the overall system of social protection is rather stable over the years, although the composition of social spending in some countries seems to be somewhat tied to business cycles. One example is Sweden, where the share of means-tested benefit expenditure increased along with the financial crisis of the early 1990s. Germany and

the United Kingdom share this development of increased means-tested benefit expenditure in the early 1990s. Despite some differences between countries some general patterns emerge. In most countries means-tested benefit expenditure tend to decrease over the period, especially since the turn of the new millennium. This development probably reflects the favorable business cycles of those years, which most likely reduced the demand for means-tested benefits. Germany is the most notable exception to this pattern, where means-tested benefit expenditure is on the rise basically throughout the entire period. Here we can only speculate about the reasons for this extraordinary development of German social expenditure patterns. Two factors that have created increased demands on social assistance are the German unification and the increase and persistence of mass-unemployment (Leibfried and Obinger, 2010).

Figure 4a-b. Means-Tested Benefit Expenditure as Percentage of Total Social Benefit Expenditure 1990-2007, Index 1990=100.



b)



Note: The 20 country average includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, New Zealand, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States.

Source: EUROSTAT and OECD Social Expenditure Data.

Have the changes introduced to social assistance and minimum income benefits moved the Nordic welfare model closer to that of other countries? Can we still speak about a distinct Nordic cluster of welfare regimes? To investigate such issues in closer detail we turn next to absolute differences between countries in terms of benefit levels, adequacy rates and expenditure. Is there any convergence, divergence, or "status quo", when the Nordic countries are compared to international patterns? *Table 1* shows the level of minimum income benefits standardized for purchasing power in 1990 and 2009. Also adequacy rates and means-tested benefit expenditure are shown in the table. The most recent data on the two latter dimensions are from 2007. The crucial point for our purpose is whether the differences between the Nordic welfare states and the other countries have become less apparent over the years or if any shifts in country rankings have occurred? Based solely on this descriptive analysis it is difficult to identify any strong institutional convergence and the country averages reveal no substantial changes in rank orders. Initial differences in benefit levels, adequacy rates and expenditure seem to prevail, something that by large is due to similar processes of social change among the countries of study. Comparatively speaking, the Nordic countries still provide generous and adequate minimum income benefits, while spending relatively low shares of total social benefit expenditure on means-tested benefits.

There are of course differences among the Nordic countries. Developments in Sweden and Finland are particularly striking, with eroded benefits as the main hallmark of recent welfare reform. For example, in 1990 Sweden together with Finland were ranked at the top when benefit levels are concerned. Swedish benefit levels were provided clearly above those of the Netherlands, Germany and the United Kingdom. By 2009 this ranking of countries disappears and now Sweden provides less generous benefits than these three countries. Such changes in country rankings appear also for Finland. Even more conspicuous is the developments in benefit adequacy, where both Sweden and Finland have had problems to keep up with the other countries. In the early 1990s Sweden was actually one of the few European countries that provided benefits above the so-called EU "at-risk-of" poverty threshold, which is agreed by the member states to be equivalent to 60 percent of median disposable income. By 2009 Sweden joins the rest of European countries by providing benefits clearly below that threshold (Nelson, 2010b). By now, Swedish adequacy rates are also below those of Germany and the Netherlands. The Finish decline in adequacy rates is less marked than the Swedish development, although adequacy rates in Finland drops below those of Germany at the end of the period. Similar but less distinct results are obtained if instead 1995 or 2000 are used as the first year of observation.

Table 1. Minimum Income Protection Benefit Levels, Adequacy Rates, and Means-Tested Benefit Expenditure, 1990 and 2009.

		Benefit Levels (PPPs)	Adequacy Rates	Expenditure
Denmark	1990	11645	56.4	4.3
	2009	18784	48.2	5.1
Finland	1990	10808	56.4	7.2
	2009	16048	48.7	5.6
Norway	1990	9729	44.0	7.2
	2009	23567	46.7	6.8
Sweden	1990	11213	61.5	2.9
	2009	16173	44.1	1.9
Average Nordic Countries	1990	10849	54.5	5.4
	2009	18643	47.5	4.8
Germany	1990	10008	49.5	5.5
	2009	18849	55.8	9.0
Netherlands	1990	9458	53.9	10.2
	2009	17045	46.9	8.6
United Kingdom	1990	8180	42.8	12.7
	2009	17128	38.8	10.2
Avarage 20 countries	1990	9294	47.8	10.3
	2009	15459	42.7	8.5

Note: The 20 country average includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, New Zealand, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States. Adequacy rates and means-tested benefit expenditure is shown for the years 1990 and 2007.

Source: SaMip, EUROSTAT and OECD Social Benefit Expenditure Data

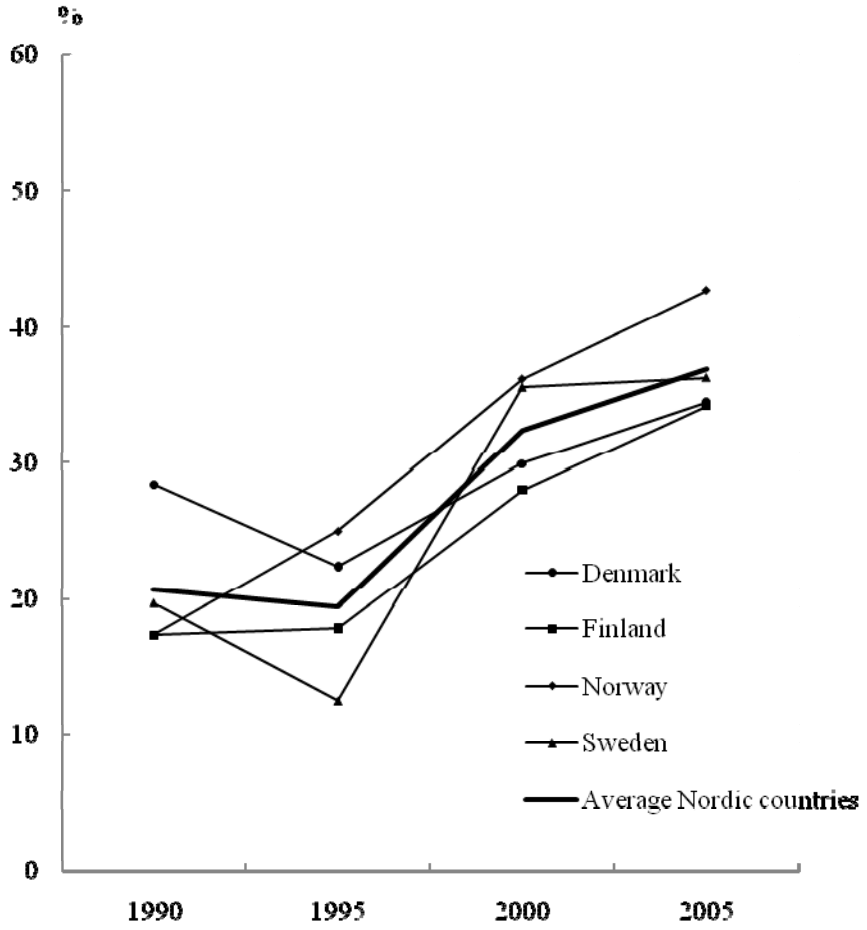
Prevalence of Low Income and Poverty alleviation

Next we will perform a similar type of two-step analyses, but where focus is on outcomes. *Figures 5a-b* show the poverty rate among recipients of means-tested benefits at four years 1990-2005. For the Netherlands there is no LIS data for years after the new Millennium. Most countries have an increasing trend for the period. Poverty among recipients of means-tested benefits has increased from around 20 percent to nearly 37 percent in the Nordic countries. On average every fifth recipient in the Nordic countries could be defined as poor in the early 1990s, whereas in the mid-2000s the share of recipients living in poverty increased to one third. The Netherlands and Germany show a pattern very similar to the Nordic countries with

increased poverty rates among recipient households. The United Kingdom deviates from the other countries, particularly in the latter period when poverty among recipients of means-tested benefits declined substantially. The poverty rate in the United Kingdom drops from slightly above 50 percent in 1999 to about 25 percent in 2004. This extraordinary development is not due to changes in general social assistance benefits particularly, such as *Income Support*. The increased effectiveness of means-tested benefits in the United Kingdom is instead the result of a complex set of factors. One example is the introduction of various forms of in-work tax-credits, which are accessible to low-income earners and to parts of the traditional social assistance clientele in the United Kingdom. The first wave of such in-work benefits in the United Kingdom occurred in 1999. In 2003 a second wave of in-work benefits was introduced. For the United Kingdom it is possible to disaggregate the analysis further and include only those households that receive general social assistance benefits. The poverty rate among this more narrowed group of recipients has not declined to similar extent. Instead the poverty rate among recipients of general social assistance benefits in the United Kingdom has been very stable since the mid 1990s. Approximately every second recipient of general social assistance benefits in the United Kingdom can be defined as poor, something that is slightly above corresponding levels in the Nordic countries (not shown here).

Figure 5a-b. Poverty Rate Among Recipients of Means-Tested Benefits at Four Years 1990-2007.

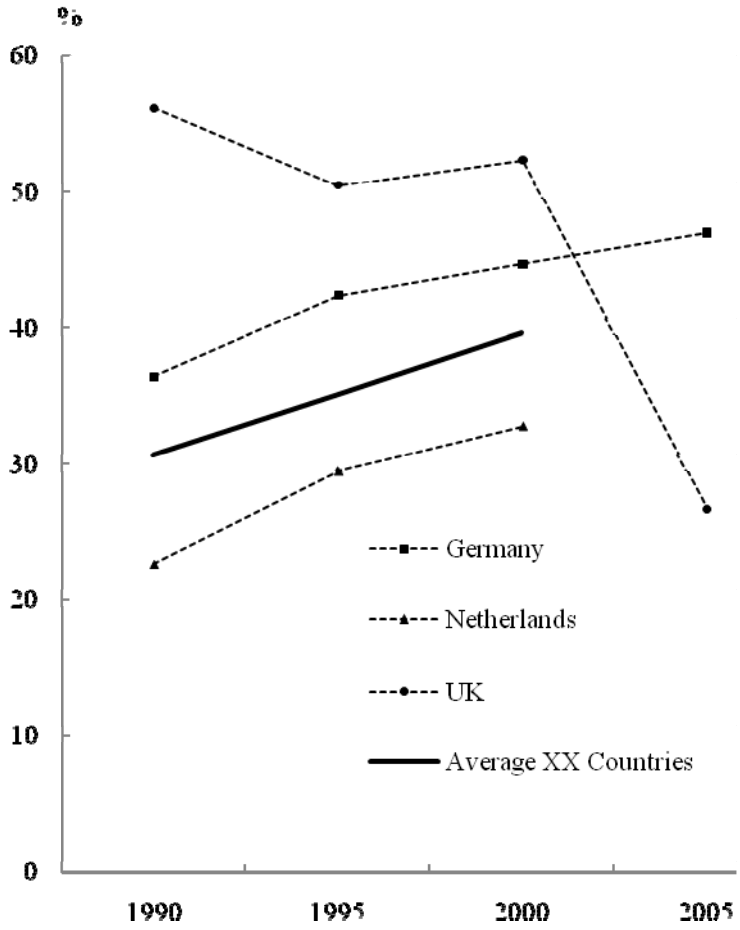
a)



Note: Denmark (1991, 1995, 2000, 2004), Finland (1991, 1995, 2000, 2004), Germany (1989, 1994, 2000, 2004), The Netherlands (1991, 1994, 1999), Norway (1991, 1995, 2000, 2004), Sweden (1992, 1995, 2000, 2005) and The United Kingdom (1991, 1995, 1999, 2004).

Source: Luxembourg Income Study.

b)


%
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40
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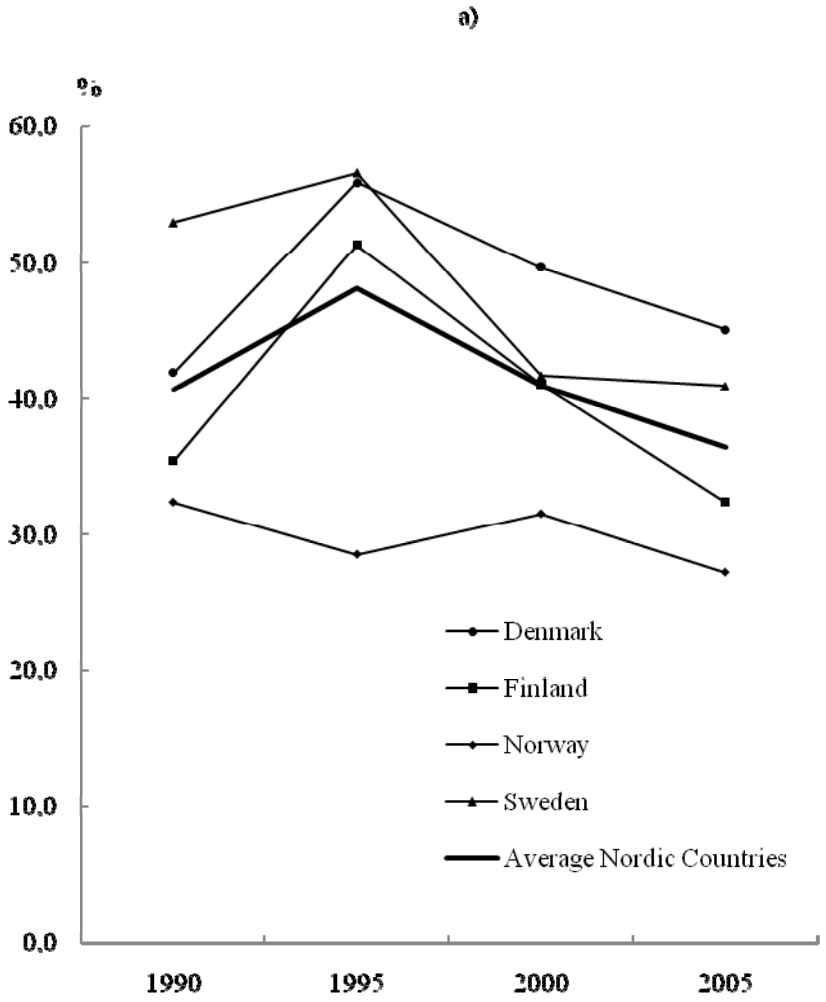
1990
1995
2000
2005
Germany
Netherlands
UK
Average XX Countries

Apart from Norway, poverty among recipients of means-tested benefits did not increase in the early 1990s. Quite the contrary, in Denmark, Finland and Sweden the poverty rates decreased, something that may seem quite odd considering the deep economic recession of especially the Finnish and Swedish economies in the early 1990s. One possible explanation is that the economic crisis influenced the level of the median income to potentially counteract any poverty increases among the recipients of means-tested benefits. Later on in the second half of the 1990s when the economies of the Nordic countries had improved, poverty shows the similar increasing trend as observed in the Netherlands and Germany. It should also be recapitulated that the real value of minimum income benefits increased in the early 1990s in the Nordic countries, as did the adequacy of benefits.

The second trend in outcomes to be monitored here is poverty alleviation linked to means-tested benefits. *Figures 6a-b* shows the anti-poverty effect of means-tested benefits among the recipient population at four years 1990-2005. In the early 1990s, poverty alleviation generally increased in the Nordic countries. The only exception to this pattern is Norway, where effectiveness went down somewhat. Perhaps more interesting, means-tested benefits have become substantially less effective to reduce poverty among the Nordic countries since the mid-1990s. Besides Norway where changes to anti-poverty effectiveness of means-tested benefits are rather small, poverty alleviation declined by about 15 percentage points between the mid 1990s and the mid 2000s in the Nordic countries. In Finland the effectiveness of means-tested benefits even went down by more than one third, from a reduction of poverty by 51 percent to a reduction by about 32 percent. The similar result appears if anti-poverty effectiveness of means-tested benefits instead is measured in total population. An analysis based on the total population produces somewhat lower reduction coefficients. The general increase of poverty alleviation in the early 1990s and the following decline in anti-poverty effectiveness over subsequent years are according to expectations based on the institutional analysis above. Nevertheless one should be careful linking poverty alleviation of means-tested benefits to the organization of social assistance. One reason is that the final distribution achieved by the social transfer system is dependent on a number of factors, such as labor market behavior, demographic patterns and the distribution of first-tier social insurance benefits. In this regard it should be noted that the share of poor households, before means-tested benefits have entered the distributive process, has notably increased during the past decades.

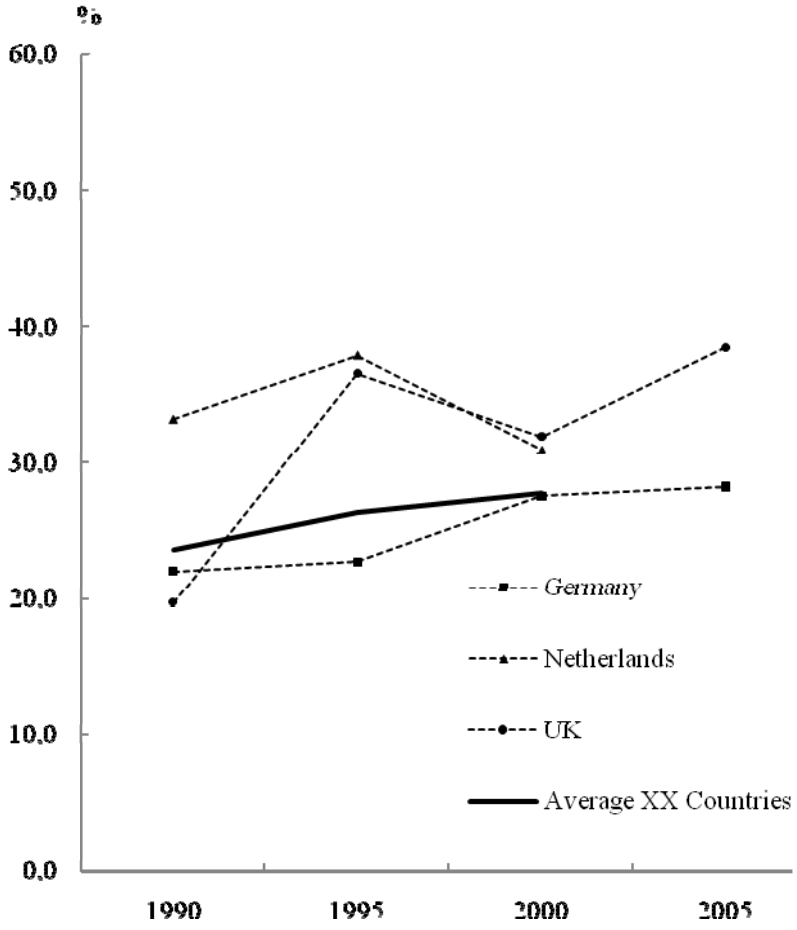
Figure 6a-b. Effectives of Means-Tested Benefits to Reduce Poverty at Four Years 1990-2005.



Note: Denmark (1991, 1995, 2000, 2004), Finland (1991, 1995, 2000, 2004), Germany (1989, 1994, 2000, 2004), The Netherlands (1991, 1994, 1999), Norway (1991, 1995, 2000, 2004), Sweden (1992, 1995, 2000, 2005) and The United Kingdom (1991, 1995, 1999, 2004).

Source: Luxembourg Income Study.

b)


%
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20,0
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0,0
1990
1995
2000
2005
Germany
Netherlands
UK
Average XX Countries

Since the mid 1990s the general trend among the Nordic countries is the opposite to that of Germany and the United Kingdom. Whereas poverty alleviation in the Nordic countries decreased after the mid-1990s, anti-poverty effectiveness of means-tested benefits increased in Germany and the United Kingdom. Even though the figures for the United Kingdom become less impressive if focus instead is on the effectiveness of general social assistance benefits rather than means-tested benefits as such, the results above at least make it interesting to analyze levels instead of trends. In order to make this part of the analysis more transparent, *Table 2* shows the poverty rate and anti-poverty effects of means-tested benefits in the beginning of the 1990s and at the mid 2000s. Once again the most recent data for the Netherlands is 1999. If the results for the United Kingdom and the Netherlands are interpreted with caution for reasons stated above, it is difficult to find any stronger evidence of changes in country rankings. The Nordic countries seem still to have comparatively effective means-tested benefits and the prevalence of poverty among recipients of means-tested benefits is also low by international standards. Perhaps the most striking developments have occurred in Norway, where the poverty rate at the end of the period is above that of Germany. Accordingly, the effectiveness of means-tested benefits in Norway is below the German ones. Nonetheless, it is clear that in terms of outcomes, the Nordic countries do not so clearly as before form a distinct group. If we do take into consideration developments in both the Netherlands and the United Kingdom, there are shifts in the ranking of the Nordic countries, besides that differences between countries have been reduced.

Table 2. Poverty and Poverty Alleviation of Means-Tested Benefits, Around 1990 and 2005.

		Poverty	Poverty Alleviation
Denmark	1990	28.4	41.9
	2005	34.5	45.1
Finland	1990	17.3	35.4
	2005	34.2	32.4
Norway	1990	17.3	32.4
	2005	42.7	27.3
Sweden	1990	19.7	53.0
	2005	36.3	41.0
Average Nordic Countries	1990	20.7	40.7
	2005	36.9	36.4
Germany	1990	36.4	22.1
	2005	47.0	28.2
Netherlands	1990	22.7	33.2
	2005	32.8	30.9
United Kingdom	1990	56.2	19.7
	2005	26.7	38.5
Avarage 20 countries	1990	30.7	23.6
	2005	39.6	27.8

Note: For the Netherlands the most recent year is 1999. Denmark (1992 and 2004), Finland (1991 and 2004), Germany (1989 and 2004), The Netherlands (1991 and 1999), Norway (1991 and 2004), Sweden (1992 and 2005) and the United Kingdom (1991 and 2004).

Source: Luxembourg Income Study.

Discussion

Our main purpose was to examine the unique characters of social assistance and minimum income benefits in the Nordic countries and we have done this by comparing Denmark, Finland, Sweden and Norway with developments in other countries on selected indicators, involving both institutional characteristics and outcomes. The results are both promising and disappointing, if not alarming to some extent. Even if the Nordic countries are not so different after all, social assistance is at least of sound quality by international standards and poverty among recipients of means-tested benefits is generally low. However, comparative analysis can only improve the Nordic development by creating international benchmarks. The institutional and outcome oriented analyses above provide enough evidence for concern about the present state of the Nordic welfare model. On most, if not all, dimensions analyzed here, the situation in the Nordic countries has deteriorated. Social assistance benefits have become less generous and they are far from providing sufficient protection against low income and

poverty. Consequently, poverty has also increased among households receiving means-tested benefits. In the early 1990s, 1 out of 5 households in receipt of means-tested benefits were poor in the Nordic countries. At the turn of the new millennium this share had increased to every third household. A few years later almost 40 percent of households receiving means-tested benefits were poor in the Nordic countries. Such developments raise serious concern for the future. The development of social assistance and minimum income benefits can to some extent be regarded as a failure for Nordic social welfare.

It is of course possible to find some further aspects of recent developments adding to the positive side of social assistance developments in the Nordic countries. Benefits have become more rights based by the introduction of national social assistance standards or national guideline norms. Notably, this development makes it even more difficult to identify a distinct Nordic social assistance cluster. Remember that high degrees of local discretion and benefit generosity used to be two important trademarks of Nordic social assistance. One might argue that the analyses presented in this paper are too vague to grasp the true nature of the Nordic welfare model. Indeed, there are a number of important dimensions that are missing from this study. One such aspect is activation and the increased pressures placed on beneficiaries to engage in work-related activities in return for the receipt of benefit. Unfortunately there is no comparable data yet available on this dimension to facilitate empirical analyses of the sort presented here. However, previous case studies of multiple countries do not indicate that the Nordic countries deviate from broader international trends in activation policy, in particular concerning young persons (Serrano Pascual and Magnusson, 2007).

The complexity of social benefits and the absence of indicators are two caveats that should be kept in mind when we interpret results based on the institutional structure and outcome of minimum income benefits. In this study we have not analyzed interdependencies in the overall system of social benefits. Perhaps most important is the interplay between social insurance and social assistance in the distributive process. Besides making it more difficult to account for outcomes of means-tested benefits more generally, the relationship between social insurance and social assistance makes it more complicated to provide meaningful expectations on future developments and to generate policy recommendations. The broader configurations of welfare states are often necessary to consider in order to provide accurate predictions. For example, whether social assistance and minimum income benefits will become even more important redistributive instruments in the nearby future is to some extent determined by the evolution of first-tier social insurance benefits. The development in Finland is illustrative at this point, where insufficiencies in basic unemployment benefits caused a major spillover to social assistance, thus contributing to escalating beneficiary ratios. Relevant policy advice often also necessitates consideration to institutional complexities. For example, the most

obvious recommendation to improve the adequacy of social assistance is to increase the level of benefits. In reality, however, this can only be accomplished if the organization of social insurance first is attended to. The distance of legitimacy that often exists between social insurance and social assistance often makes it problematic to raise assistance above insurance levels. This has been one obstacle for improvements of social assistance benefit levels in the United Kingdom (Veit-Wilson, 1992). The Finnish development may here be the exception that proves the point. In other countries social insurance may not generate enough cross-class interests in support of strengthened redistribution to the poor. In such instances improvements of social assistance and minimum income benefits may necessitate increased income security of social insurance benefits.

The consequences of the current financial crisis urge us to reconsider the redistributive strategies of the Nordic welfare states. In the short term perspective projections indicate that high unemployment rates are here to stay for at least a few more years. Experience gained from the economic downturn in the early 1990s show that high unemployment rates may last well into the 2010s, maybe even beyond 2015. Thus, the demand for social protection is expected to be continued high. In this scenario social assistance is an important safeguard for all those who slip through the net of first-tier benefits, often the long-term unemployed and young people with less strong foothold on the labor market coupled with insufficient contribution records. In order to provide a more effective system of redistribution, the Nordic governments need to redefine current interests and develop strategies to improve the adequacy of minimum income benefits. The results presented in this study show that benefits are far from providing enough money for families to escape poverty. If the deterioration of benefits continues we will most likely experience increased poverty rates of similar magnitude to those in several liberal and corporatist welfare states. Thereby one of the most significant trademarks of the Nordic welfare states disappears.

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