

Research Note

Unemployment and Poverty in the Contemporary Welfare States*

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All over Western Europe unemployment has for a considerable number of years been at a very high level, thus presenting social policy with increasing difficulties in securing satisfactory living conditions for the long-term unemployed. Austerity programmes have generally reduced public financial transfers to the unemployed, while at the same time the average duration of unemployment has increased sharply. Therefore, the long-term unemployed experience increasing risks of poverty, partly because income replacements have declined and partly because the individual length of the period of unemployment has grown. At the University of Copenhagen a research project is being carried out with the aim of investigating which social mechanisms of segmentation and selection determine the 'poverty-careers' of the long-term unemployed.

Finally, the relationship between politics and poverty within the welfare state will be discussed

1. A presentation of the project: 'Poverty, unemployment and marginalization'

The aim of the project is to examine to what extent present mass unemployment increases risks of poverty, and to estimate the effects of public unemployment policies and social policies on poverty amongst long-term unemployment. The analysis will comprise the development of unemployment from the mid 1970s to 1985, with special focus on the trends after 1979 when long-term unemployment grew heavily. The analysis will primarily focus on the Danish unemployment situation, but in some respects it will be related to the similar situation in Great Britain. Here, the very high rate of unemployment and the failure of the social

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policies to cope with the rising needs of income compensations has produced an extensive and well-documented poverty. It is a question whether Denmark, as a consequence of a persistent long-term unemployment and the cuts in the social expenditure which the government has implemented in the last few years, will follow the British example.

A centrepiece of the study is the ability of the unemployment and social policies to maintain normal incomes for the unemployed (the effect of income replacement policies) and to secure a reintegration of the long-term unemployed into the labour market. This analysis of the policy effects aims at evaluating the extent to which these policies reduce risks of marginalization and poverty.

Another important part of the project consists of a qualitative interview survey of long-term unemployed who do not receive insurance-based unemployment benefits and, therefore, have to rely on social assistance or have gone on early retirement. The selection of respondents will be carried out on the basis of a so-called 'typology of poverty careers', that is a generalization of the typical personnel course within different risk-groups in and out of the labour market and in and out of the social assistance scheme. The interviews are designed to illustrate which dominating factors determine the transformation of poverty risks (like low income or lack of stable association with the labour market) into a situation of actual poverty. It is hoped that the survey will also document the respondents' subjective experience of their 'poverty career'.

2. The relations to contemporary research in unemployment, welfare policy and poverty

A study of the influence of welfare policies on the relationship between unemployment and poverty must incorporate contemporary research on unemployment, welfare policies and poverty. Unemployment research has examined those mechanisms which cause the concentration of unemployment in specific groups and strata, that is the relationship between *unemployment* and *marginalization*. Poverty research has – to some extent – examined the relationship between *marginalization* and *poverty*. Welfare policy research can furnish evidence on how the welfare state affects the total relationship: *unemployment–marginalization–poverty*. The project will rely heavily on international poverty research in relation to both the empirical study and to theory development. It is intended to generate – by means of a presentation and discussion of particularly the extensive Anglo-Saxon poverty research tradition from Charles Booth and Seebohm Rowntree to Peter Townsend – a frame of reference for a Danish research programme on marginalization and poverty.

Until Henning Friis in 1981 published his EEC-sponsored report *Nederst ved Bordet* (Friis 1981), poverty in a strict sense had no place in post-war Danish social science. It was widely believed that poverty was decreasing, hunger and distress were abolished, and the remaining residual poverty would vanish completely in step with the unfolding welfare policies. The inferior position of certain marginal groups has been examined to a greater or lesser degree (mainly by the Danish National Social Research Institute), but these studies did not contain explicit sociological discussions of the mechanisms that constitute or counteract poverty.

In the late 1960s, though, it was recognized that patterns of systematical inequality still existed in spite of the welfare state and the political slogans which had dominated post-war social policy. The documentation of inequality in income and the evident fact that not everybody benefited equally from the welfare state, resulted in a debate on inequality within the labour movement (cf. Bent Hansen 1969). Since then the Danish National Institute of Social Research has carried out a general survey study of living conditions in Denmark (Erik Jørgen Hansen 1979), and in 1976 the Social Democratic government consequently initiated a commission which was assigned to examine the living conditions of low income families in respect of jobs, income, occupational welfare, tax, education, housing, and so on. Owing to the fact that they published their final reports before the 1979–80 recession, when unemployment figures rose dramatically, none of these studies sufficiently related poverty to the growth in mass unemployment.

3. The concepts of marginalization and poverty

By marginalization the project denotes a labour market selection where, in effect, specific groups in the labour force are expelled from the labour market and systematically disfavoured when trying to attain re-employment. The result of marginalization is an accumulated long-term unemployment.

By poverty the project denotes a social situation of accumulated bad living conditions in terms of a scanty personal command of social, physical and psychical resources. This concept is a parallel to the definition of very severely and extremely disadvantaged persons, which was used in the Danish welfare study (Erik Jørgen Hansen 1979), and it is in agreement with the relative definition of poverty which Peter Townsend has elaborated. In his *Poverty in the United Kingdom* (Townsend 1979) he indicated that certain levels of income exist for different types of families, under which deprivation and the lack of social resources grow disproportionately to the fall in income.

As stated above, the main object of the project is to examine to what extent a relationship between marginalization/long-term unemployment and risk of poverty exists. Our main hypothesis suggests that only when unemployment is permanent and concentrated on certain groups and persons (and when long-term unemployment is combined with small income replacements which are not otherwise compensated for) is there a real risk of poverty.

It is important to stress, however, that an actual increase in poverty can only be identified by examining a multi-varied pattern of circumstances, such as the savings of the unemployed, their access to support from family and social networks, and the extent to which obligations to provide for children etc. exercise economic pressure on the unemployed. Poverty must, therefore, be analysed and explained within a highly complex framework. Often unemployment itself is only a contributing factor towards generating severe deprivation.

Measuring poverty therefore raises a particular problem. If poverty as a social circumstance has multifarious backgrounds, the standard of measure itself must be a multi-variable indicator. In a recent article in *Acta Sociologica* Stein Ringen has discussed this problem of measurement in poverty research and stressed the importance of the relative approach developed within Scandinavian living conditions

research (Ringen 1985). The project has not yet defined the standard of measure which will be used in the empirical analysis. But we agree with Stein Ringen about the necessity of a multi-variable standard of measure in poverty research. On one particular point we do, however, disagree with both Stein Ringen and Scandinavian living conditions research. Their approaches do not distinguish between variables directly causing poverty risks and variables, which must be examined as a diverted consequence. Small incomes have much more significance for an estimation of poverty risks than e.g. housing facilities. Bad housing can be improved if you have money, but the lack of income can only to a certain degree be compensated by other living condition variables. The project wishes to use a standard of measure developed on the basis of a theory of how different social variables affect each other, and which variables have a determining influence on the risk of poverty.

4. The background of poverty in contemporary labour market and welfare state development

The existence of poverty in the present Danish society, the so-called 'new poverty' (EEC 1981), must primarily be explained by recent developments in the labour market and in welfare policies. The long enduring crisis of employment has sharpened the mechanisms of selection and stratification operating in the labour market. When labour demand decreases in proportion to labour supply, the labour power that is least able to adapt to the demands of market competition is marginalized. The hard-to-employ, the workers lacking flexibility, those with only few job experiences and no adequate skills, are the first to be made redundant – and they will have considerable difficulties in finding new jobs.

For an important section of the unemployed, though, the unemployment is only temporary. But since the early 1970s a growing section of the unemployed experience prolonged spells of unemployment. This development has been very characteristic since 1979, when unemployment figures in Denmark and in Great Britain doubled and the number of long-term unemployed grew simultaneously.

The rise in unemployment in Denmark from 161,000 in 1979 to 280,000 in 1983–4 was not just a consequence of a growing number of people experiencing unemployment. It was also caused by a growth in average unemployment duration. These two factors, the total numbers of unemployed and the relative duration of their unemployment, contributed equally to the growth in the unemployment figures (Arbejdsministeriet 1983).

In Denmark the portion of all insured full-time unemployed who were entitled to a publicly subsidized job offer rose from 9 per cent in 1979 to 25 per cent in 1984. These unemployed have been out of work for at least 1½ years, and to maintain their qualification for unemployment benefit they have to go through a minimum period of 7 months' work under the job offer scheme. In addition, a growing number of registered unemployed do not qualify for unemployment benefit in any case, and consequently they do not receive a job offer (Arbejdsdirektoratet 1985).

This unemployment development has increased the pressure on the state's employment measures and benefit schemes. It is a common feature of both the Danish and the British labour market policies, that they:

- have not been able to prevent a dramatic rise in long-term unemployment;
- that the replacement ratio of unemployment benefits has been declining;
- that a large number of unemployed are dependent on social assistance or private relief;
- that a steadily growing number of mostly elderly workers are expelled from the labour market and forced to go on early retirement or pension.

5. An analysis of the policy effects

The centrepiece of the project will be an analysis of the capability of the public social and employment policies to prevent marginalization and poverty. The following policies will be examined:

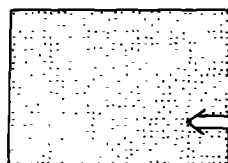
- *Income replacement policies*: Includes all benefits to unemployed to which the condition is attached that the unemployed are available for work.
- *Reintegration policies*: Includes different kinds of special placement measures for long-term unemployed like subsidized employment (including job creation programmes, job offer schemes, and so on), training programmes and rehabilitation programmes.
- *Policies of transition to early retirement*: Includes pension-like benefits, when entitlement is not conditioned by availability for the labour market, and when replacement in the labour market has been given up.

Marginalization and poverty are affected by a very large range of measures and systems of distribution and are, in fact, an outcome of the total interaction between these mechanisms and policies. To this end market forces, economic policies, the tax system, education policies, industrial relationships, labour market policies, social policies and so forth act and counteract together with many other public and private actions and create, in a very complicated manner, a certain distribution of life chances and well-being among the individuals. For reasons of necessity, the project confines its field of research to the above-mentioned employment and social policies, which directly affect the relationship between unemployment, marginalization and poverty. Also, the project defines its subject of analysis as the unemployed who have been out of work longer than the average national unemployment duration.

As illustrated in Fig. 1, there exist three qualitatively different labour market policies. One group of policies is meant to *lead people back to the labour market* (reintegration policies) thereby modifying the risk of unemployment becoming permanent for certain groups of workers. The effectiveness of these policies determines the movement from short to long term unemployment. If a high, and evenly distributed, circulation between unemployed and employed is obtained, an accumulation of long-term unemployed is avoided. On the contrary, an unevenly distributed circulation between the two groups will necessarily lead to an increase in long-term unemployment.

The other group of policies is meant to *lead people out of the labour market* (policies of transition to early retirement) thereby leaving more room for alternative employment on the market. In Denmark and Great Britain measures of this kind have, to a great extent, been directed towards the elderly in the form of pension

Former long-term unemployed whose connection to the labour market has been abandoned, and who are now permanently supported on early retirement programmes



Employment policy measures

Policies of transition to early retirement. E.g. Early Retirement Pension, long-term Social Assistance rate

Registered unemployed

Short-term unemployed

Long-term unemployed

Income replacement policies. E.g. unemployment insurance, and short-term Social Assistance rate

Employed wage-earners

The "regular" labour market

Publicly subsidized employment

Reintegration policies. E.g. Job Creation programmes, Youth Training measures, Job Offer Scheme

Fig 1. Illustration of the effects of employment policy measures on the circulation between the labour market, unemployment, and retirement.

programmes. In this context it is important for us to decide whether these policies actually succeed in 'clearing' the group of long-term unemployed, and which *benefit level* they were consequently offered.

The third group of policies we have termed *income replacement*. They determine the degree of wage replacement obtained when leaving the labour market; and they vary both over time, and with reference to the degree of long-term unemployment.

It is the purpose of this project to investigate the relationship between – and the various emphases on – the different labour market measures. It is, of course, obvious that measures meant to guide people out of the labour market are relevant for the elderly. On the other hand, measures meant to lead people into the labour market carry most weight for the young. Likewise, it is important to investigate how the income replacement is interrelated with the other two. For instance, the Danish Job Offer Scheme illustrates this interrelation. The seven months of employment automatically offered every one when their benefits are about to expire

serves a double purpose; it tests the person's ability to rejoin the labour market, and it restores his or her eligibility for another period of benefits. Likewise, job training schemes for the young both test their 'general wage earner qualifications', and successively enable them to collect unemployment benefits thus transferring them from the social assistance system (with very low benefits) to the unemployment insurance system (with its *relatively* high benefit levels).

The most important indication of the success of the labour market policies is the development in the number of long-term unemployed supported on the lowest benefit level (social assistance or private relief). Not only the size of the group, but also the *length of time* spent in unemployment, is an important indication of the degree of marginalization and poverty risk. By comparing the development of long-term unemployment with benefit levels and the ability to lead people back to the labour market, we will be able to determine to what degree the group of unemployed are threatened by actual poverty.

6. Poverty and the welfare state

'Services specially designed for poor people always tend to be poor services' is an often used expression when the relationship between social policy and poverty is discussed (see e.g. Donnison 1982:11–12). Social policies have always been concerned with the poor, but always in a poor way. This seems to be a historical fact. But in theory social policies can be much more. The 'Poor Law Welfare state' is – in Titmuss's term (1974) – one of many welfare state models: *The Residual Welfare State*. Titmuss used this 'ideal type' in order to describe those welfare states in which the public only marginally intervenes in the private reproduction. Generally it is up to either *the family* or *the market* (e.g. via insurances) to deal with social problems. In this type of welfare state the public responsibility is limited to conditions of certain marginal groups: the very poor, those who are physically unable to work, and families with many children might receive some public support, while all other groups have to depend on themselves. The United States is a good approximation to this ideal type, and the United Kingdom is, at present, developing in a way that fits this description better and better. Opposed to this Titmuss discussed *the Institutional Welfare State*; an ideal type describing public provisions distributed by central and local government to – in theory – all members of the community that, at one time or another, are in need of help. Here universal instead of selective policies will dominate, and public intervention in the private reproduction is viewed as necessary and positive. The Scandinavian welfare states – specially Sweden – have been seen as a fair approximation to the ideal type of the institutional welfare state.

In relation to the different welfare state models, there also exist various strategies to combat poverty:

1. The market strategy, which corresponds with marginal social policies.
2. The corporate strategy, which corresponds with institutional welfare policies.
3. The militant mobilizations strategy, which corresponds with efforts of workers control and societal changes

Re. 1. Within neo-classical and monetarist crisis management the strengthening of the free market forces is essential. And with regard to the solution of poverty problems the strategy consists of the following two components:

First: dismantling of (at least part of) the public responsibility for the population concerning its financial security and general well-being, hand in hand with a strengthening of the responsibility of individuals and social networks – first and foremost the family – towards the handling of social problems.

Second: strengthening of economic growth leading to an increase in the demand for labour power within the private sector. The power of organized labour – the unions – is seen as obstructive in the process of adjusting wages to their 'natural' level; i.e. being so low that it becomes profitable for employers to employ more people.

In so far as problems of poverty are recognized at all, the central idea in neo-classical thought is that the market powers are the best guarantee against large scale poverty. Herein lies also an acceptance of *growing inequality* as a means of securing the effectiveness of the entire system.

Re. 2. Opposed to the neo-classical strategy the corporate (or reformist) = strategy does not involve a dismantling of the welfare state developments of the 1960s and 1970s. Efforts are directed towards a 'socially balanced' rationalization and restructuring of existing programs, allowing minor reductions in benefit levels. In regard to problems of poverty the emphasis is still placed on social and employment policies. Within a 'controlled' market economy the strategy tries to maintain principles of equality and solidarity, thereby contrasting the differentiation and inequality created by the market systems. In this way this strategy differs from the one of the neo-classics. But they correspond in believing that it is possible to restore the primary system of distribution – the market economy – to such a degree that mass poverty is avoided in the coming decades. They also agree upon the choice of traditional political channels for implementation of changes.

Re. 3. The third strategy that will be dealt with here does not relate to any society formation, as has been the case with the other two. Nevertheless, it has proved very effective at certain times and in certain places. The central thesis of the militant *mobilization strategy* is that improvements in reproduction relations for the poor, and most working people for that matter, are only obtainable by 'rocking the boat', i.e. if the poor succeed in extracting concessions from the commanders of wealth by means of threats. Historical reference to prove this point does not have to date back to the looting and rioting of impoverished peasants in seventeenth-century Europe. A present reference is the development in black/poor neighbourhoods in the United States in the latter part of the 1960s. (See e.g. Piven & Cloward 1971, 1977.)

7. Conclusion

During the last couple of years we have seen a general tendency towards believing that problems of unemployment and poverty can be solved by setting free the market forces. Likewise, relative deprivation (poverty) seems to be a direct result

of recent changes in social and labour market policies in the case of Great Britain and Denmark.

Despite a number of differences between the Danish and the British welfare state we can identify the following common tendencies:

1. A declining rate of coverage concerning the primary – insurance-based – support systems: among the registered unemployed more and more are supported outside the unemployment insurance system, either because they do not qualify for collecting benefits, or because they have already exceeded the maximum period of duration.
2. A growing number of unemployed are therefore left with the residual systems of social policy (social security, supplementary benefits); systems that – in general – operate with the lowest benefit levels. Hence, the average income of the unemployed is declining.
3. In order to control the increase in public expenditures all benefit levels are cut, which, of course, also contributes to the declining consumption power of the unemployed.
4. Both Britain and Denmark are experiencing a dramatic increase in the length of unemployment periods. This leads to a growing need for forms of social intervention other than income transfers.
5. More and more persons from 18 to 65 (67) years of age are being transferred to various forms of pension programmes. Hence they lose contact with the labour market, and diminish any chance of ever returning to employment.
6. The growing unemployment – especially the long-term unemployment – puts a growing pressure on the existing public employment programmes. Because employment programmes are more expensive than income transfers, and because of the fiscal crises facing the governments, the employment programmes cannot develop proportionately to the increase in unemployment.

Though we can identify parallel forms of development within Danish and British social and labour market policies, it is important to stress that these developments take place within very different historical frameworks. Despite the similarities, the British and the Danish support systems and labour markets are different, so the consequences of the above-mentioned tendencies will vary. Nevertheless, the important similarities indicate – to us – that a comparison will prove fruitful.

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