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FOR BETTER OR FOR WORSE: ECONOMIC POSITIONS OF THE RICH AND THE POOR 1985-1995

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For Better or for Worse

Economic positions of the rich and the poor 1985-1995

by

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Introduction

The adage in the title of the paper refers to the marital vow by which the bride and groom promise to love each other throughout their lives, for better or for worse. In principle, one can think that a similar contract has been signed between citizens and the state. In that contract, the state has promised to "love" her citizens when they are ill, unemployed, young or old, and that love should be fair in the sense that all are entitled to social security on similar terms. However, the validity of that contract has been questioned. It has been argued that the contract was written during the golden age of prosperity and that slackening economic growth will hollow out earlier promises. The state is loosing both its capacity and willingness to help all its citizens. Because of fiscal and economic constraints it is more likely that the welfare state has grown to its limit (cf. Flora 1986) and instead of continuous expansion we are likely to see a "re-period", i.e., a period of retrenchment, reorientation and programmatic reformulation in social policy.

Economic factors also play an important role when it comes to the ebbing willingness to expand social policy programs. The prevailing political discourse, instead of emphasising social rights and redistribution, nowadays stresses more social duties and obligations. Consequently, the conceptualisation of the relationship between social policy and economic growth has essentially changed. During the Keynesian period of economic policy-making social policy and redistribution through social policy measures were regarded as an important factor in enhancing stable economic growth. Now, equality and redistribution are often seen as obstacles to economic growth, especially in Europe, where the high level of social protection is regarded as one important reason why the European economic and employment performance is lagging behind its American counterpart. Instead of income equality, there are more demands for income inequality in order to increase incentives to work and thereby to enhance economic growth, and when the economy is booming the worst-off sections in society will also get their share of the rising economic tide.

In economic discourse, this idea is presented in the form of the so-called trickle-down theory. According to this theory, we must create incentive structures that encourage people to take individual responsibility, to work harder and to contribute to economic growth as much as they can. In societies where people have such incentives – i.e. where there are real income differences and threat of poverty, where the welfare state has not taken away individual responsibility and weakened the incentive structure – the economy will grow more rapidly and this economic tide will also lift the worst-off boats (For a discussion, see e.g., Saunders 1994; Schmidtz 1998; and for empirical analyses see e.g. Gottschalk & Smeeding 1997; Bradbury & Jäntti 1999). Thus, the theory predicts, growing inequalities – which at the first glance seem to be harmful for the poor – are in the long run also the best medicine to help the poor.

The central idea in the trickle-down theory has certain similarities with John Rawls's (1972 and 1996) ideas of distributive justice. The so-called Rawlsian difference principle states that the division of all primary goods, including income and wealth, should be equal unless there are reasons why the unequal distribution of those benefits will help the worse-off. Since there are severe incentive problems in strictly equal distribution, it is unreasonable to stop at absolute equality (Rawls 1996, 282-283). Social institutions responsible for the distribution of societal goods must be designed to create incentives and gradually these incentives will also help the worse-off.

This principle of justice would allow economic inequalities as long as these differences improve everyone's situation. Special care must be taken of the lot of the worse-off. Income differences, for example, are acceptable on condition that they cause people to work harder, and because of this hard work national wealth is increased more rapidly and the increase will gradually diffuse also to the worse-off. Thus inequalities generate growth and improve the circumstances of the poor. According to Rawls, inequalities are therefore permissible if they make a functional contribution to the situation of the poorest.

These two interlinked theories have been used to different degrees in different disciplines. Economists have been more inclined to emphasise, in line with the trickle-down theory, the role of economic growth, whereas sociologists and social-policy analysts have been more interested in the distributive-justice side of the coin (see e.g., Arthur and Shaw 1991).

The central ideas presented in the two aforementioned approaches serve as a heuristic starting point for this essay on income distribution in a handful of advanced countries. The purpose of the article is to present preliminary considerations of how Rawls's ideas and trickle-down theory could be used in empirical comparisons of the distribution of financial rewards in the

West between 1985 and 1995. The first part of this period, the late 1980s, was characterised by high economic growth, while slackening economic performance cast a shadow on the early 1990s. Therefore, the comparison of these periods is an interesting way to examine how the blessings of prosperity and the burdens of the recession were distributed among population groups in different countries. At a more general level the two questions the paper seeks to answer are as follows:

1) To what extent is the difference principle respected in different countries as measured by cross-sectional analyses of poverty? To justify higher poverty levels we should find a positive relationship between the incidence of poverty and the economic well-being of the poor.
2) To what extent did the economic tide lift, or economic ebb lower all boats? Here we could justify higher income levels for the rich provided that in countries where the rich are considerably richer than the poor, the position of the poor is better or has been improved more than in countries with smaller income disparities.

The first research task maps the cross-sectional situation, while the second one is more dynamic and concentrates on changes. At a more precise level we study the extent to which economic growth and decline have affected the income level of the poor (those whose OECD equivalent income is less than 50% of the median), the median income and income of the rich (those whose income is more than three times the median). Moreover, the study seeks to give a general picture of how economic growth, the distribution of "richness" and poverty, either improve or worsen the lot of the worst-off in OECD countries.

The data is from the Luxembourg Income Study (LIS). The selection of countries is partially dictated by the availability of data. Despite the fact that more than 30 countries are included in the LIS, data for several points in time is available only for a limited number of nations. These countries are included in our sample. There is also a socio-political motive: the countries represent different kinds of welfare states or welfare regimes. Therefore, it is interesting to see how the economic tide or ebb has affected the poor and the rich in different types of welfare state.

In the first section of the study, we analyse the cross-sectional relationship between poverty rates and the income level of the poor. Thereafter, we take a close look at changes in time:

how poverty and "richness" rates and changes in the income of the poor and the rich are related to each other. Unfortunately in this section, we must restrict our analyses to a smaller number of countries for which data for 1985, 1990 and 1995 is available. To be more precise, since observation years in the LIS data base vary from country to country, observations from the mid-1980s, late 1980s/early 1990s and mid 1990 have been adjusted to 1985, 1991 or 1995 values, respectively, by using national consumer price indices. Thereafter national figures for each of the three years have been changed to US Dollars by using purchasing power parities (PPP) and exchange rates. To start off, the first part of the study is a cross-sectional inspection of the situation in 1991. Both PPPs and exchange rates are used.

The second part of the paper illustrates how the economic tide has improved the lot of the middle-income earners, the worse-off and the best-off. Have the rich taken all the money and run? Is there anything left for the poor? For space considerations and for the sake of clarity, we will only use PPP-based income data in this section. The last section of the paper discusses the fairness of income distribution and presents some tasks for future research on the topics.

Relative poverty rates and the absolute income level of the poor

The Rawlsian difference principle as well as the trickle-down theory allow inequalities if those inequalities improve the lot of the worse-off. In other words, the difference principle would allow higher proportional poverty rates for a country if the real income level of the poor in that country is higher than in a country with lower proportional poverty.

The same idea is expressed from another perspective in the trickle-down theory. It argues that the economic tide is not an external and independent force but people themselves form and contribute to the tide. In countries where there are real incentives to work, economic growth will be stronger, and in the long run, the standard of living of the poor will be higher than in those countries where such incentives are weakened or totally destroyed by redistributive policies. Therefore, it is just to let income differences grow, and in fact, this expansion is also the most effective way to help the poor (Schmidtz 1998, 6).

We can try to operationalise these statements in a couple of different ways. (1) We can think that the fulfilment of these criteria demands that income levels of the poor should be higher in countries with high relative poverty rates, or to put it more technically, the correlation between poverty rates and the absolute income levels of the poor should be positive. The higher the poverty rates the higher the level of income of the worse-off. Only then can we accept higher relative poverty rates as just.

(2) Alternatively we can approach the situation from the other end of the income ladder and take the rich as our starting point. Let us suppose that there are two societies, A and B. In society A there are lots of rich and poor people, and all income distribution indices display high levels of inequality. Due to a strong incentive to work, the average income levels both for the rich and the poor are high. In society B income distribution is very egalitarian and differences are very small but the average income level is low (no incentive to work). According to our ideas, we can say that society A is just and it fulfils the difference principle and proves the validity of the trickle-down theory.

The issue is tentatively assessed in Table 1. The table presents both relative poverty rates (the poor are defined as all those people whose OECD-equivalent incomes are below 50% of the national median) and absolute income levels of the poor (measured as the median income for those persons who are classified as poor according to the aforementioned criteria)[2] in 18 OECD countries. Moreover, we have also calculated "richness" rates (percentage of those whose income is more than 300% of the national median) and the median income for those classified as rich. The absolute income levels are converted into a common currency – U.S. Dollars – by using two different methods: 1) current exchange rates and 2) purchasing power parities (PPP). To put the rich, the middle-income earners and the poor in a wider context we also display the Gross Domestic Products per capita for each country. Also GDP figures for 1991 are converted to U.S. Dollars both using exchange rates and purchasing power parities.

[Insert table 1 about here]

There are substantial variations both in the poverty rates between nations – the rates vary from 3.3% in Luxembourg to 17.3% in the U.S. – and in the absolute income levels of the poor. As

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[2] Another possibility has been to use income deciles and calculate the medians for the lowest, middle and the highest deciles. This approach has been used e.g. in Rainwater and Smeeding (1995). Since we are here also interested in changes in the shares of the best and the worst-off, the approach used here serves our purposes better than the decile approach used in previous studies.

can be seen in Table 1, the picture of the absolute level of income depends heavily on the method of converting national currencies into U.S. dollars. As a rule, all other countries will lose in comparison to the U.S. if PPPs are used instead of exchange rates. PPP-transformations also reduce cross-national differences.

In some cases, the PPP and exchange rate calculations give substantially and strikingly different results. For example, according to the exchange rates, the income of the poor in the Nordic countries is 1.5 times higher than that of the poor in the United States, whereas in the PPP comparisons the American poor perform as well as their Nordic “colleagues”[3]. In another words, in PPP comparisons the difference between Scandinavia and the U.S. is expressed in the prevalence of poverty instead of the depth of poverty. According to both absolute measures the situation of the Canadian and Luxembourgeois poor is very good in comparison to the other countries, and these results are not sensitive to currency transformations. Indeed, the poor in Luxembourg seem to be very bourgeois!

This “embourgeoisment” also applies to for rich people living in Luxembourg: comparatively speaking they are rich on all measures. The same goes for the Northern Americans and Norwegians, whereas the heavy purses of the Finnish and Swedish rich are much lighter if we use PPPs comparisons.

Table 1 also presents bivariate correlations[4] between various indicators. The GDP measures, the median income and the income levels for the rich are negatively related to the incidence of poverty. Amongst plenty, poverty is an uncommon phenomenon. Due to the rising tide all boats float. However, the validity of our interpretation depends heavily on two factors. First, the method to convert national currencies to the U.S. Dollars plays a decisive role. According to current exchange rates, rich countries, especially Sweden, Norway, Finland and Luxem-

[3] Obviously the exchange rate conversion tend to neglect high costs of living and exaggerate the material well-being in the Scandinavian countries, while PPPs tend to work in the other direction. Moreover, PPPs are based on a certain basket of goods and the underlying assumption is that the consumption of the basket is evenly distributed in society and between nations. In reality this is seldom true. The more uneven the income distribution, the more inaccurate the basket procedure is to describe the situation of the worst-off. The true picture of purchasing power is probably found somewhere in between the two currency conversions. (for a closer discussion, see Bradbury & Jäntti 1999)

[4]Since the number of countries is small, correlation coefficients are used as a heuristic device to get the most out of the data. An alternative, and perhaps a better and clearer option, is to use bivariate scatterplots, but due to space considerations we will only use correlation coefficients (the story told by these two methods is exactly the same).

bourg, have eradicated poverty, whereas PPP inspections clearly suggest a non-significant – yet negative – relationship. Second, our results are sensitive to the sample of countries. If we omit such poor countries as Hungary, Poland and Spain our results produce a slightly different conclusion. Exchange rates still confirm our previous interpretation: the richer the country, the less poverty, but now the PPP evidence is more ambiguous. The wealth of a nation seems to have nothing to do with the prevalence of relative poverty. Some boats float, some boats sink, and the high tide is not that important.

In the Rawlsian spirit, it is very hard to justify our first statement that we could forgive a high incidence of poverty if the absolute level of the poor is high enough. Correlation coefficients go in the opposite direction as anticipated and instead of a positive relationship we find a negative one: the correlation coefficient between the poverty rate and exchange-rate-based income levels for the poor (POORUD) is -.45 and -.57 without Poland, Hungary and Spain. Neither does the inspection of the PPP-based correlations improve the fit of the theory (r = -.28 or -.21 if we exclude the three outliers). The trickle-down theory does not seem to work that well in a cross-sectional analysis of poverty. The absolute income level of the poor is not improved if the poverty rate is high; on the contrary, the results hint that the lower the poverty rates the better the absolute position of the poor. Moreover, the incidence of poverty and "richness" goes hand in hand (correlation between "richness" and poverty rates is .89). Thus, on the basis of cross-sectional data we must reject our first hypothesis.

An alternative way to look at the same situation would be to study the relationship between the income of the poor and the general affluence of society e.g. as measured by the GDP or the median income for the total population. Furthermore, the prevalence of "richness" in a society provides opportunities to assess the validity of the trickle-down theory. Increases in GDP, and in the medians for the total population and the rich are supposed to lift the poor out of their destitution. Therefore, we should expect a positive relationship between the various indicators of affluence (GDP, medians for the total population and medians of the rich) and the income level of the poor. Indeed, this is precisely what we find. The higher the GDP and the more affluent the median population and the richer the rich, the more affluent the poor. So far so good. Our results seem to give qualified support to the trickle-down theory and they also seem to fulfil the Rawlsian criteria for just distribution.

The only problem is how to put our results together. On the one hand, economic prosperity does not eradicate poverty but on the other hand prosperity is strongly associated with the income level of the poor. The solution is pretty simple and obvious. The high absolute income levels of the rich and the poor are overall indications of high prosperity in a country (here our hypothesis 2 is true), but the overall high-income level does not automatically guarantee high economic well-being to the poor. Qualifications apply: a closer inspection of Table 1 reveals that the path to secure high absolute incomes for the poor combines the overall wealth of the population with a low incidence of relative poverty and "richness". Table 2 which presents results from regression models based on cross-sectional data for 1991 tells the same story. Models – that are only tentative and due to a small number of cases very senstive to sampling – have been used as heuristic devices to visualise relationships between different indicators.

[Insert Table 2 about here]

In our equations, median income for the total population has been used as a measure of the overall prosperity of a nation. In addition, we have included the poverty rate and the absolute income level for the rich in regression models. The significant and positive coefficients for the median income indicate that a high national income level is a decisive factor determining the level of economic well-being of the worst-off[5]. That is the main story, but it is not enough. The relative poverty level has some impact upon results. The higher the incidence of poverty the lower the absolute income level of the poor. To use the tide metaphor: the rising tide is necessary to lift the boats but the worst boats must be in such a condition that they can float.

The cross-sectional analyses presented above are static in the sense that they only map the situation at one point in time, whereas the Rawlsian idea and the trickle-down theory are more dynamic in their orientation. We should also concentrate on changes of economic well-being and not only study a static cross-sectional picture of one point in time. Therefore, it is interesting to take a short look at the correlation between poverty rates / changes in poverty rates and changes in the economic well-being of the poor in different countries at different periods in time (Diagram 1). The time period studied is from the mid-1980s to the mid-1990s, but unfortunately, due to the limited availability of data, we must here restrict the number of countries.

[5] A tentative path analysis showed that the volume of social transfers (as a percentage of the GDP) is significantly associated with the incidence of poverty (the bigger the transfer budget, the lower the poverty rate) but transfers had no direct association with the absolute income of the poor.

Numbers after country labels refer to the period under inspection, e.g. LUX85-91 pertain to changes that took place in Luxembourg from 1985 to 1991.

Again, as previously, we would expect a positive correlation between the poverty indicators and the improvement in the income level: the higher the poverty rate and the bigger the increase in poverty, the bigger the increase in the income of the poor. Otherwise, it is hard to justify higher poverty rates by reference to the difference principle. However, Diagram 1 does not lend much support to the hypothesis that a higher incidence of poverty is linked to bigger improvements in the standard of living of the poor. Correlation between changes in the PPP adjusted median income of the poor and poverty levels is negligible (r = -.24). As is evident from upper panel of the diagram, Luxembourg is a deviant case that may determine the direction of the relationship. The exclusion of Luxembourg changes the relationship close to zero (-.03). But, if we exclude the Luxembourgeois case, Italy, the U.S., the U.K. and due to their developments in the 1990s also Finland and Sweden become outliers, and the simultaneous removal of these influential observations with Luxembourg will turn the coefficients to be clearly negative (-.50).

In the lower panel we are interested in the relationship between changes in poverty levels and changes in the economic position of the poor. The story told by this inspection is very much in concordance with the testimony presented above. However, the correlations are more strongly negative: r = -.27 among the total sample, r = -29 if the deviant cases Luxembourg, Italy and the U.K. are excluded, and finally, if we additionally omit Sweden and Finland, the association turns out to be significantly negative (r = -.48). In sum, our results seem to be sensitive to the choice of countries included in the analysis but we may nonetheless conclude that it is hard to apply the difference principle to motivate higher poverty levels.

[Insert Diagram 1 about here]

Economic tide and the position of the poor

The emphasis in the trickle-down theory and the difference principle is on dynamic changes or increases that economic growth causes in the income level of the poor. The former, in particular, emphasises the decisive role of growth. In order to evaluate the validity of the theory, in the subsequent section we will concentrate on the impact of economic growth upon the economic well-being of the poor. The economic tide is operationalised as the GDP growth in a given period of time (economic indicators are derived from OECD 1987). The effects of the tide are measured by changes in the median income of the poor, the rich and the total population. These analyses are based on absolute changes when it comes to the income of the poor and percentile changes for the GDP growth. Numbers after country labels again pertain to the period under inspection for each individual country.

Diagram 2 clearly indicates that the improvement in the position of the poor is highly dependent on overall economic growth (r = .70). This is true for both absolute (in PPPs) and relative (in percentiles) changes. Economic development has been impressive in Luxembourg and consequently, the poor there have improved their lot much more than in any other country included in our study. At the other end of the continuum, we find Finland (91-95) and Sweden (92-95), where economic performance was very bad and the deterioration of the lot of the worst-off was most severe.

[Insert Diagram 2 about here]

Because of its extreme values, Luxembourg again is an outlier that determines the strength and the direction of the relationship between the variables. Indeed, the exclusion of Luxembourg will weaken the correlation but the exclusion does not change the direction of the relationship (r = .31). As in the previous correlations, the exclusion of Luxembourg indicates that we also have to omit Finland and Sweden because of their exceptionalism in the 1990s. If these two cases are excluded from the analysis, the correlation turns out to be non-significant, yet positive (.10).

We could then read at least two contradictory stories from Diagram 2. The first one, based on the sample of all countries, speaks strongly in favour of the tide hypothesis. The flow is necessary to lift the poor boats, while the second story, based on a smaller sample, hints that economic growth is not that important. National experiences, especially from Finland and Sweden, provide more evidence for the former hypothesis: the economic ebb will also lower the poor boats. The results are very much in accordance with cross-sectional results from Tables 1 and 2. Economic growth is necessary but insufficient to improve the income level of the poor. The lifting capacity of the tide may vary between nations. In some countries, economic growth may benefit all sections of the population, whereas in other countries some social groups reap all the benefits of growth. In Diagram 3 we try to visualise the increase of the income level of the poor and rich, and the median income of the total population. The countries included in the analysis represent different types of welfare state regimes.

The bars in the diagram represent changes in these three variables. The higher the bar rises above the zero-line, the more rapidly the median income or the GDP have improved, and similarly, the further the bar descends below the zero-line the more severe the decline in median incomes. The first group of bars for each country represents growth in the late 1980s, the second one in the early 1990s and the last one depicts changes over the whole period.

A couple of interesting patterns can be distinguished. First of all, the Luxembourgeois case is extraordinary – so extraordinary that it is omitted from the visual presentation (This is mainly for scale reasons. If the high Luxembourgeoise growth rates had been included in the figure, they would have flattened the bars for the other countries and the whole point of the bar presentation would have been missed.) In Luxembourg, there is a slight tendency for the poor to lag behind the average, but nevertheless, the position of the poor both in relative and absolute terms has improved more rapidly than in any other country. Luxembourg, perhaps better than any other nation, lives up to the Rawlsian difference principle. GDP growth has increased economic well-being in all income groups and the improvement of the lot of the best-off has also improved the lot of the poor; in other countries this is not self-evident.

[Insert Diagram 3 about here]

In Australia, USA, Norway and Germany, there are some disparities between GDP growth and changes in income of the population. Especially in Australia and Norway, economic growth has been strong but the boats have not been lifted to the same extent. It seems to be the case that smaller Norwegian fishing boats are lagging behind fancy cruisers. A similar pattern is present in Germany where economic growth has not improved the position of the poor, while the median income of the total population has increased somewhat. One explanation for these descrepancies is the unification of Germany and the lower income levels in the Eastern part of the country.

In the North American countries increases in the GDP and the median income have been slow compared to the other countries. Only the improvement of the position of the richest stratum in Canada has been quite satisfactory. Since the Northern American countries have often been portrayed as “American job machines” and examples of successful employment policy, the situation is somewhat surprising. To exaggerate a bit: the Americans seem to work hard but that hard work does not create economic growth, whereas the Europeans have not been that successful in creating full employment but nevertheless the economic performance has been as good as in the U.S. or even better. In Europe, there was growth without employment, whereas in the U.S. there was employment without growth.

Finland and Sweden form their own interesting group. Economic recession hit these countries most severely and the effects of this recession can be seen in decreasing median incomes. Up to the early 1990s, the poor in these countries did pretty well in comparison to other groups and, during the recession, the relative position of the poor did not deteriorate that much. Here our finding contradicts to some extent previous studies (Heikkilä et al. 1999) which argue that in Sweden the recession hit the poor more severely than in Finland. In Sweden, the greatest losers seem to be the rich, but on average they had maintained, and from 1987 to 1995, they had even increased their lead compared to other population categories.

In Finland, despite the fact that the median for the poor decreased during the deepest recession of the early 1990s, the income level of the poor in 1995 was about the same as it was ten years earlier (see also Heikkilä et al. 1999). Moreover, the poor managed to maintain their income level as well as the population on average, while the contrary is true for most of the other countries. However, by and large, the rich managed to weather the recession better than other groups and their income in 1995 was clearly higher than it was in 1987. There are also indications that the rapid economic growth during the latter part of the 1990s has changed the picture: now the tide has lifted the best boats, while the poor are left behind and, consequently, income differences in Finland have increased and they are back at the level they were 25 years ago (Uusitalo 1999).

Discussion

The aim of the paper was to try to evaluate from the Rawlsian distributive justice perspective how just or unjust societal development in a number of OECD countries has been. Rawls's difference principle, which has many ideas in common with the economic trickle-down theory, states that we can accept higher inequalities providing that those inequalities benefits the worse-off. Consequently the economic trickle-down theory argues that by introducing stronger incentives, e.g., in the form of greater income inequalities, people are encouraged to be more enterprising and thus they contribute more to economic growth, and this economic high tide will gradually lift all boats. Thus the worse boats will also be helped.

The main conclusion of our examination was that it is very hard to justify social inequalities by referring to their beneficial effects on the poor. The absolute level of the well-being of the poor is not higher in countries with higher poverty rates, neither is their position improving more rapidly than in countries with smaller inequalities. In that aspect the trickle-down theory is definitely refuted. Neither are the conditions for the Rawlsian difference principle fulfilled.

Previous discussions can be summarized in a form of "qualitative path analysis" displayed in Diagram 4. The thickness of the arrow indicates the hypotetical strength of the posited impact. As suggested by the diagram, the position of the poor is heavily dependent on the median income level, which in turn is positively associated with the GDP and the income of the rich. In this instance, the trickle-down theory emphasising the priority and importance of economic growth in relation to distributional issues is definitely supported. However, our results indicated that the economic tide does not lift all income groups similarly, and it is here that distributional issues enter the picture. First, the proportion of the rich is positively linked with the poverty rate, which in turn tends to decrease the absolute income level of the poor. Second, social security transfers will decrease the proportion of the poor and hence indirectly increase the economic well-being of the worse-off. Third, interestingly enough, there is no significant connection between the poverty rates and the indicators of the absolute income levels (such as the GDP per capita, or the median income or the income of the rich). There are huge national variations in the lifting capacity of the tide and that capacity depends on the set-up of national social policy programs (see, e.g., Björklund & Freeman 1997; Korpi & Palme 1998). In the Western hemisphere the incidence of poverty is more associated with (socio-)political factors than with economic prosperity, and for this very reason, there is misery and want amongst plenty.

[Insert Diagram 4 in here]

In the dispute between hard-boiled economists and soft-boiled social scientists, we must take a middle position. Economists are correct in arguing for the beneficial effects of economic growth for the poor, whereas social scientists are right in their arguments on distributive issues. In other words, the absolute income level of the poor is heavily dependent on what is happening in the national economy, while the incidence of poverty in advanced countries is not so much associated with economic factors but is a result of national social-policy solutions, which, in turn, are political artefacts, dependent on political will.

The survey presented above is very preliminary and tentative and it suffers from a number of problems. First, our comparisons say nothing about the composition of the poor in different countries. We don't know who the poor are. On the basis of previous studies (e.g. Jäntti & Ritakallio 2000; Kangas & Palme 2000) we know that the incidence of poverty in the Nordic countries is highest among the age bracket 18-25. In some countries (especially in the U.S. and the U.K.) families with children and the elderly are most exposed to poverty. It is a task for future studies to figure out in what way the incidence of low income has changed during the ebb and flow of growth in different countries. Particularly from a social-justice perspective, it is important to study the extent to which poverty is only a transitional phase e.g., for young people or the fate of certain groups of people (Goodin et al. 1997 and 1999). In the former case an increase in the poverty rate would simply indicate that there are more young people studying and therefore on low incomes, whereas in the latter case, elements of social injustice may be involved. During the economic high tide some boats seem to float nicely, whereas some boats are desperately stuck in the mud and cannot be freed by the tide alone.

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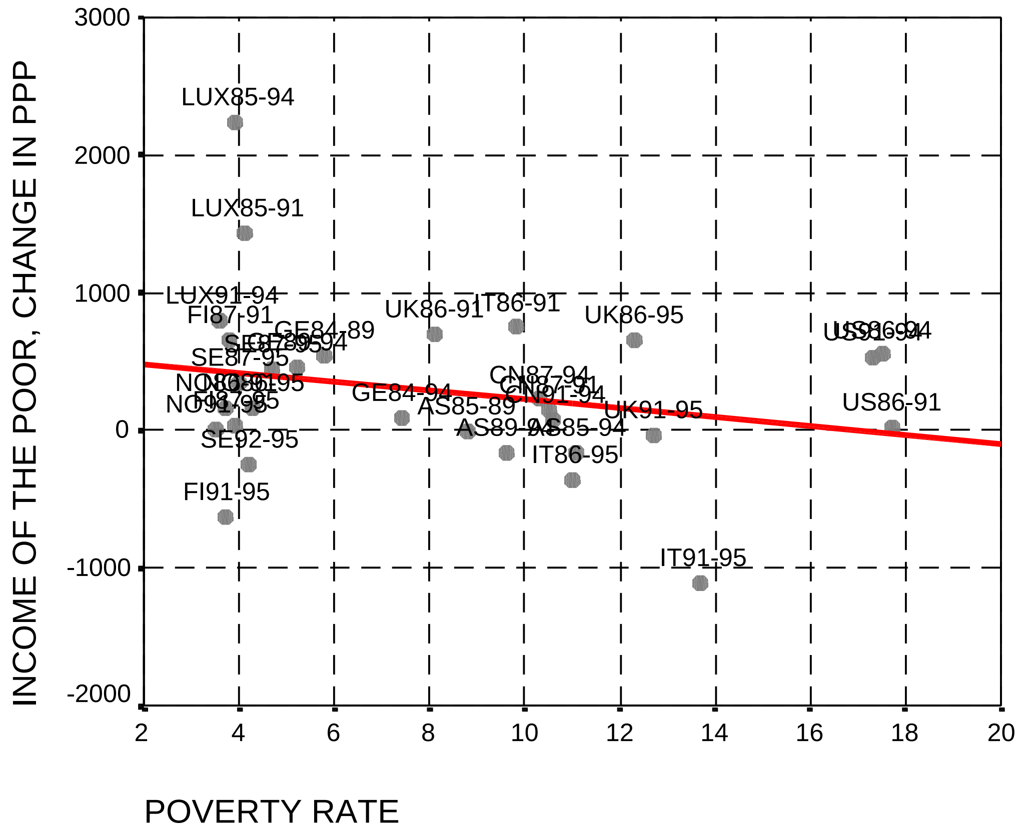
Diagram 1. Poverty rate (%) and change (from the mid-1980s to the mid-1990s) in the median income for the poor.



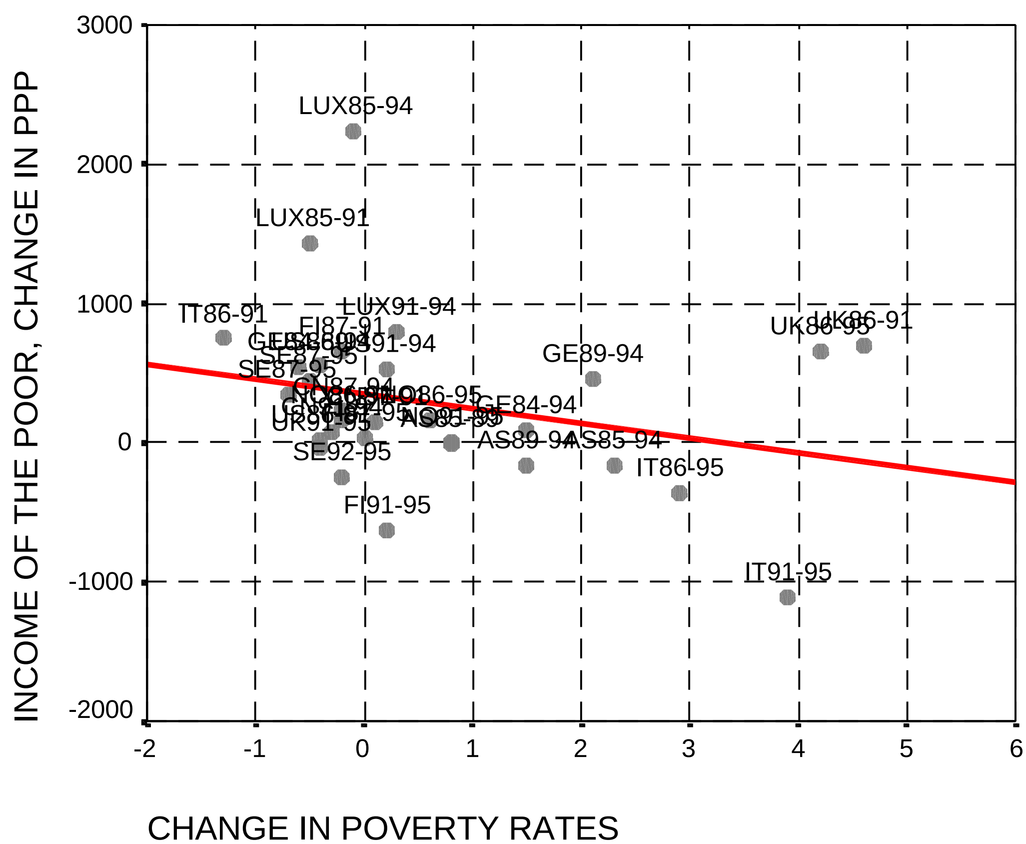


Diagram 2. The growth of the GDP and the change of the median income for the poor 1985-95.

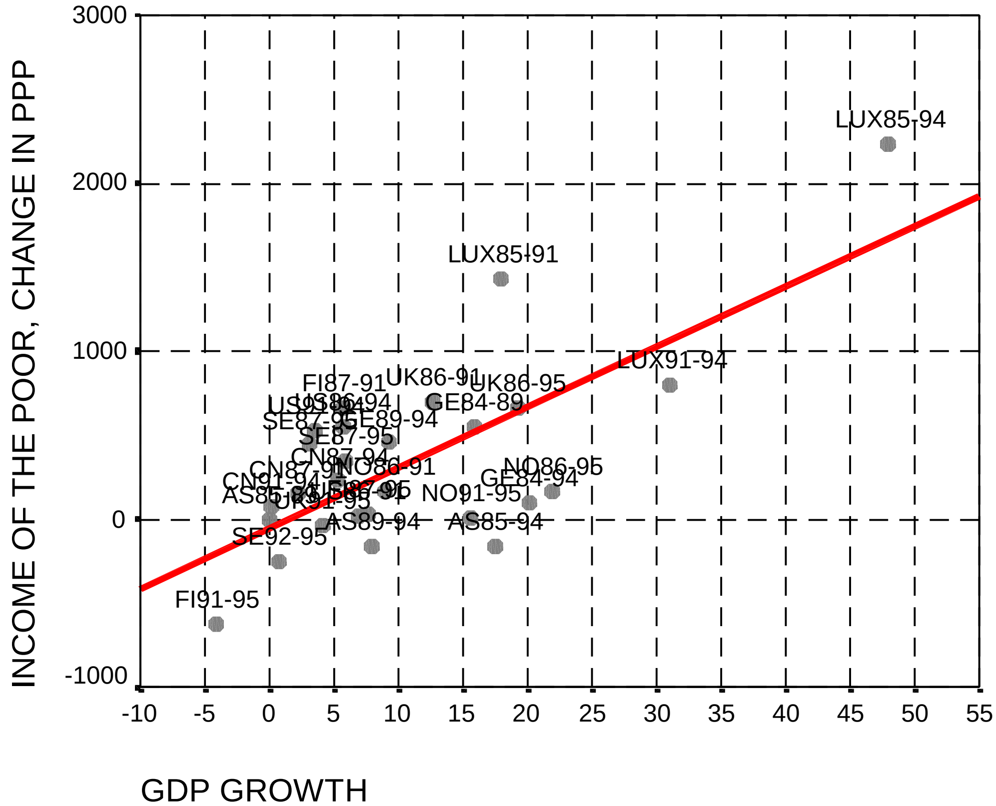


Diagram 3. Growth (%) of GDP and changes (%) in the median for the total population, median for the poor, and median for the rich.

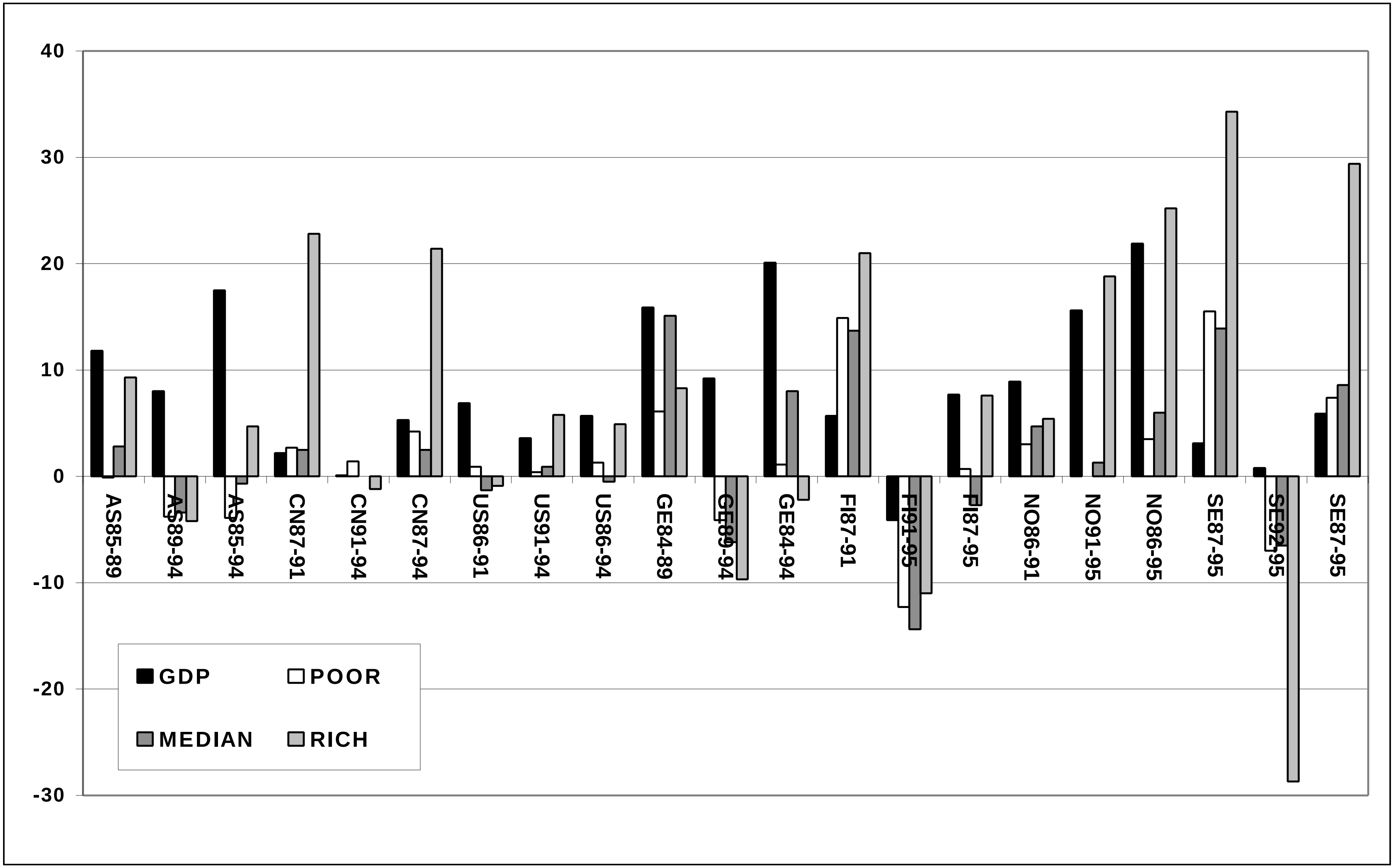


Diagram 4. Hypothetical presentation of the determinants of the income level of the poor.

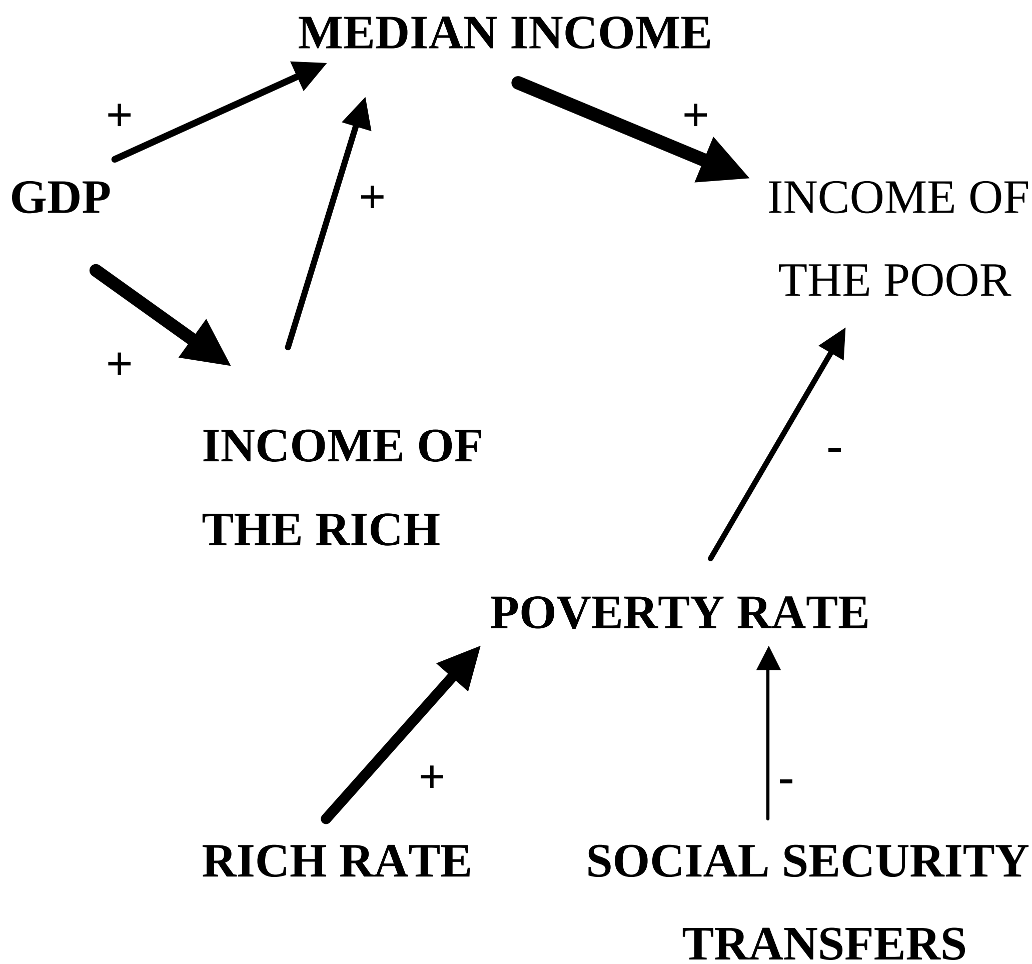


Table 1. GDP per capita (GDPUD = US Dollars; GDPP = in PPs) , median income (MDUD = US Dollars; MDPP = in PPs), relative poverty rates (%, POVRAT) and the median income levels for the poor (POORUD = US Dollars; POORPP = in PPs), richness rates (%; RICHRAT; rich = income more than 3*median) and the median income levels for the rich, 1991.

Country	**GDPUD**	**GDPP**	**MDUD**	**MDPP**	**POVRAT**	**POORUD**	**POORPP**	**RICHRAT**	**RICHUD**	**RICHPP**
Australia	16879	16192	10583	9919	9.6	4219	3080	1.7	37868	35491
Austria	21114	17576	12097	9947	4.1	5335	4387	0.3	43538	35799
Belgium	19925	17540	10384	9046	4.5	4653	4060	0.3	36923	32923
Canada	19976	18579	14054	12485	10.6	5445	4837	1.3	50497	44860
Denmark	26235	18133	15661	10912	5.3	5844	4072	0.6	67772	47219
Finland	24966	15543	16267	10442	3.7	6726	4317	0.3	57104	36656
France	21115	18245	10543	9138	8.3	4163	3608	1.9	38742	33577
Germany	21087	17045	12759	10171	5.2	5026	3992	1.0	43921	34885
Hungary	3046	7396	1626	3727	7.6	547	1258	1.9	6068	13912
Italy	19493	17197	10041	8517	9.8	4032	3423	1.4	37344	31652
Luxemb	28377	24378	16593	14345	3.3	7398	6396	0.9	59327	51288
Netherl	19254	16491	10812	9274	4.7	3946	3369	1.6	41117	35270
Norway	27933	18663	16779	11331	3.6	6455	4359	0.9	65573	44282
Poland	1435	4532	1121	2497	10.4	314	711	1.9	4965	2141
Spain	12926	12784	6324	5974	9.6	2485	2350	2.9	22258	21043
Sweden	26365	16891	16674	10144	5.2	6376	3879	0.4	57869	35205
UK	16541	15636	10404	9290	12.7	4335	3871	3.0	38291	34191
USA	21765	22605	12605	12605	17.3	4414	4414	3.9	44023	44023
Mean	19357	16413	11407	9431	7.5	4540	3688	1.5	41844	34092
St.dev	7441	4594	4659	2927	3.8	1915	1285	1.0	17530	11905
R-Poverty	-.40	-.10	-.38	-.15	-	-.45	-.28	.89	-.40	-.20
R-poorUD	.97	.83	.98	.90	-.45	-	.92	-.52	.96	.89
R-poorPP	.89	.93	.88	.96	-.28	.92	-	-.32	.85	.93

(Source: LIS, GDPs, exchange rates and PPPs are derived from OECD 1998)

Table 2. The relationships between the absolute level of the poor and some indicators of richness, regression coefficients.

Variable	U.S. Dollar Convertions				PPP Convertions			
	18 OECD countries		15 OECD countries		18 OECD countries		15 OECD countries	
	Coeff.	T-statistics	Coeff.	T-statistics	Coeff.	T-statistics	Coeff.	T-statistics
Constant	460	1.48	907	1.52	92	.26	116	.167
Median for the total	.55	6.04***	.52	4.76***	.54	4.08***	.57	3.50**
Poverty rate	-49.30	-2.28*	-56.50	-2.28*	-51.67	-2.28*	-53.19	-2.11
Median for the rich	-.04	-1.81	-.04	-1.56	-.03	-1.00	-.04	-.97
Adj. R sq	.97		.91		.93		.77	