

SGI Sustainable Governance
Indicators 2009

Social Affairs

Social cohesion report



Indicator **Social policy**

Question **To what extent do social policies prevent poverty and limit socioeconomic disparity?**

30 OECD countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels:

- 10-9 = Poverty is rare, and socioeconomic disparities limited.*
- 8-6 = Poverty is rare, but policies do not limit socioeconomic disparities.*
- 5-3 = Policies limit socioeconomic disparities, but fail to prevent poverty.*
- 2-1 = Policies exacerbate socioeconomic disparities, and fail to prevent poverty.*

Norway

value 10

Like other Scandinavian countries, Norway is a relatively equitable society. Poverty rates are among the lowest in the world. The Norwegian government has assumed responsibility for supporting the standard of living of disadvantaged or vulnerable groups. As a result, expenditures for social policy are well above the EU average. Government-provided social insurance is strong in almost all areas. Family support exceeds 3 percent of GDP, in the form of child allowances, paid leave arrangements and child care. Social insurance spending related to work incapacity (disability, sickness and occupational injury benefits) is also generous.

Denmark

value 9

Denmark is a very egalitarian country. High taxes allow for generous transfers to people who are less well-off, making poverty very limited. Furthermore, welfare programs have strong legitimacy, and a high percentage of people are happy with their lives. As American sociologist John Campbell has shown, social cohesion is a national priority for the Danes, who enjoy greater income and social equality than most other OECD countries. This translates into more social trust and collective commitment to national goals, which in turn allows the state to adapt flexibly to globalization.

Nevertheless, Denmark is not void of social problems. The main problems are related to immigration and education. Immigrants (and particularly women) from low-income countries tend to have low employment rates and to bunch together in certain urban areas, which has raised some concern as to whether there is an ongoing process of ghettoization. Moreover, there is a particular problem associated with educating the children of immigrants. In general, this group has severe problems in the educational system (e.g., poor reading proficiency and high dropout rates), which

lead to dismal prospects for future employment. The fact that about one-fifth of any given age cohort is not receiving any education beyond basic schooling combined with the labor market's increasing skill bias promises significant social and economic consequences.

Annotation: John Campbell, "Note to Denmark: Don't Change a Thing,"

<http://www.dartmouth.edu/~vox/0506/0417/denmark.html> (accessed June 15, 2008).

Finland

value 9

Social policy has largely prevented poverty in Finland. The country has low poverty rates and high rankings of life satisfaction. Its income equalization system has proved to be one of the European Union's most efficient in terms of poverty reduction. Still, although there is no absolute poverty in Finland, relative poverty prevails. The share of the population suffering from relative poverty was exactly the same in 1981 as in 2003 (11 percent), with single-parent households, long-term unemployed persons and immigrants especially affected. Of those who have experienced poverty, this state of affairs has proved permanent for one-third of individuals, occasional for another third, and an on-and-off experience for the final third. During recent years, the number of people exposed to long-term unemployment has been increasing, and this has of course added to poverty.

Luxembourg

value 9

Social cohesion is highly valued as a public goal in all parts of the society, and is seen as one of Luxembourg's primary competitive assets. Consequently, Luxembourg's society appears to be very egalitarian, in comparative terms. Many instruments have been put into place to ensure cohesion, including a minimum wage, a guaranteed minimum income (set at €1098 for individuals and at €1647 for a household of two adults) and child support mechanisms. Disparities have increased over the last 20 years, but Luxembourg as a whole successfully prevents poverty and limits social inequalities.

Netherlands

value 9

Although there have been some noticeable reductions in recent years, the welfare state in the Netherlands is still rather comprehensive. Within the Dutch social security system a distinction is made between social insurance programs and social welfare provisions, but both are based on the concept of solidarity. Social insurance

benefits are financed by compulsory contributions, and premiums are determined under a pay-as-you-go system. Social provisions are financed by general revenue and intended to prevent households from falling into poverty.

Wage-replacement schemes are in place that cover employees in case of loss of earnings due to unemployment, sickness or disability, thereby maintaining their standard of living. There are also national welfare programs that safeguard the subsistence levels of citizens affected by old age, the death of the household breadwinner and insufficient means. The most important welfare provision aims to boost benefit incomes to the level of a general social minimum.

The progressive tax system in the Netherlands systematically levels off large income disparities. The disparities in terms of disposable income underwent only marginal changes between 2000 and 2005. During that period, the richest 20 percent of the Dutch population had an income of over four times that of the poorest 20 percent, which can be considered a relatively modest disparity.

According to a newly established definition of poverty, 4.3 percent of the Dutch population lived below the poverty line in 2004. But according to the European definition of relative poverty, the figure was closer to 12 percent.

The risk of poverty is highest for single-parent households, the elderly and non-Western immigrants.

Annotation: Sociaal en Cultureel Planbureau, and Central Bureau voor de Statistiek, "Armoedebericht 2006,"

http://www.scp.nl/publicaties/boeken/9035718518/Armoedebericht_2006.pdf
(accessed February 13, 2008).

Sweden

value 9

The Swedish welfare state is based on the principle of universalism, whereby all residents are included in the welfare state. As a result, the welfare state includes only a very small proportion of means-tested programs, and a large proportion of the population is covered by welfare programs. Furthermore, Sweden has traditionally been dedicated to the principle of social citizenship rather than the principle of social insurance, for which eligibility results from prior contributions.

On the one hand, following this principle has been effective at reducing poverty and socioeconomic differences between different segments of the population, particularly when compared with other countries. On the other hand, however, to a large extent, Sweden remains a segregated society, in which immigrants and people living on welfare dwell in suburbs with uncertain and bleak life prospects, while members of the middle class lead better lives in every respect. The limits of this social policy can be seen in that fact that there are homeless people in Sweden, although their numbers are limited.

Austria

value 8

Austrian society has no major social tensions. Nevertheless, Austria's reputation for being an income-balanced country where wealth is shared by all citizens has undergone some transformations. The poverty rate is still relatively stable, and some experts estimate that about 13.2 percent of all residents live on an income below 60 percent of the median income and can, therefore, be considered poor. Neither the minimum pension nor the average compensation for unemployed people meets the EU poverty threshold. The main components of the variation in poverty rates are ethnic origin, number of children and employment qualifications. Despite these problems, measures against poverty have failed to receive high priority in recent government policies. Instead, national action plans to fight poverty and social exclusion have merely followed decisions at the EU level.

Belgium

value 8

Belgium's social security system is essentially a Bismarckian system. It is financed by contributions from employees, employers and state subsidies. The amounts of contributions are calculated based on an individual's gross salary. Self-employed people can also participate in the system.

Deep poverty is rare in Belgium. Generous unemployment benefits, minimal income protections as well as financial and material help from local groups, such as the so-called Public Social Help Centers, help to curb poverty well. Belgium's poverty rate (the share of people living in households with an equivalent disposable income of less than 60 percent of the median income) is relatively low at 15 percent of the total population. However, this figure represents an increase of 5 percentage points over the last 10 years, showing that poverty and socioeconomic disparities are on the rise.

While socioeconomic disparities are limited in Belgium, social mobility remains fairly limited as well. In addition, there are social groups with low education skills, who have almost lost contact with the labor market, especially in big cities. Immigrants are strongly over-represented in this group.

Growing costs and the increasing economic disparities between Flanders and Wallonia constitute major problems for the social security system. Therefore more and more Flemings have demanded a complete regionalization of the system, so that Flemish money stays in Flanders. A respective systems change, however, would be detrimental to social cohesion in Wallonia.

Czech Republic

value 8

Quantitative indicators of social cohesion point in different directions. Measures of associational activity and claims of satisfaction with life suggest significant exclusion. The exceptionally low level of relative poverty suggests less of a threat. This follows from low levels of inequality in the communist past, a fairly even spread of economic activity across the country during that period, the nature of the subsequent economic transformation and the effects of social and regional policies. There is reasonably high employment among individuals below the pension age as well as adequate regulations, including a minimum wage, to protect the employed. Excluded ethnic and social groups, and particularly the Roma population, are a small proportion of the population. State benefits systems modeled on those of neighboring Western European countries protect the unemployed.

The most visible problems of social exclusion are in old industrial regions, where education levels are lowest and where there was past immigration in response to labor shortages that no longer exist. These parts of the country have the weakest social networks. However, high pay levels for the employed obscure the extent of the regional differences. The recent National Action Plan on Social Inclusion (2004 – 2006) aimed at coordinating institutions and policies aimed at combating social exclusion, but no funding and little effort were invested in its implementation.

New Zealand

value 8

New Zealand's welfare state, developed in the 1930s, was maintained until economic reforms were introduced in the 1980s and 1990s. Today, socioeconomic disparities are present, but do not dominate society. Most New Zealanders care deeply about family and community values, and do not hesitate to support the local community. Approximately 436,000 New Zealanders do voluntary work in nonprofit organizations, or four times more people than the total number of these organizations' employees.

Social policy itself underwent major reforms in 2005 and 2007. Poverty in particular is regarded as a problem for families with children who rely on a low income or on social assistance. More than 30 percent of all children live in families whose income is less than 60 percent of the median family income.

In response to these problems, the government introduced the Working for Families program in 2005 to support this population with tax credits, child care and accommodation supplement payments. In 2007, the criteria for unemployment benefit eligibility were changed substantially, aiming to provide incentives to push unemployed individuals back to work. The conditions are quite strict. Applicants for unemployment benefits are required to undertake work or to engage in training-related activities. Furthermore, they have to look for and accept any offer of suitable work. Failure to do so may cut benefit levels by 50 percent. Furthermore, it is the

government's goal to keep all 15- to 19-year-olds engaged in employment, training or education.

Switzerland

value 8

Social cohesion and levels of life satisfaction are relatively high in Switzerland. However, contrasting trends can be seen in efforts to combat poverty. The country has an effective social security system, with a pension system that successfully prevents or hinders poverty. Nonetheless, income redistribution is low, meaning that socioeconomic differences relating to income can be only minimally improved by public policies and the Swiss tax system. As a consequence, poverty rates have not fallen despite the overall growth in GDP. Most at risk here are low-skilled young people and single mothers.

Australia

value 7

Australia maintains a means-tested, targeted system of social protection to deal with socioeconomic inequalities that cannot be resolved by the operation of the free market. Changes in social policy have broadly kept pace with changes in the labor market, such as the proportion of dual-income families, the proportion of women working part-time and the greater incidence of single-parent families. This has been aided by the government's minimum wage policy. A particular focus of social policy has been support for middle-income families with school age children. This has been achieved through changes to the tax system to ensure that women returning to the labor force are not financially disadvantaged.

While the welfare system provides benefits with no time limit, payment levels are quite low, particularly for unemployment benefit recipients. This policy thus has only limited beneficial effects. Family payments, by contrast, have grown in recent years and have been very successful in reducing poverty among families with dependent children.

In education, policy broadly promotes social cohesion, although not all policies in this area are positive contributors. Federal government subsidies to non-government primary and secondary schools have grown substantially since 1996, and the proportion of higher education seats subject to substantial upfront fees has increased after policy changes – most notably in 2005 – gave higher education institutions greater freedom to charge such fees. Nonetheless, access to quality education at all levels is reasonably good in Australia. For example, the Higher Education Contribution Scheme has been successful in increasing the share of the cost of higher education borne by students without adversely affecting access to higher education by students of relatively low socioeconomic status.

Canada

value 7

Social policy in Canada is aimed both at reducing socioeconomic disparities and at preventing poverty. While it is relatively successful at the former, it is not as efficient at the latter, as child and aboriginal poverty remain significant policy issues. Some groups have seen significant improvement, most notably (female) single-parent families, which benefit from the Canada Child Tax Benefit and the National Child Benefit Supplement. Nevertheless, the incidence of poverty among persons under 18 was still higher in 2005 than it was in 1981. Among the 30 OECD countries, Canada ranks only 20th in terms of child poverty.

The challenge of poverty is compounded by Canada's high levels of immigration, which increase the number of low-income families. While integration programs (e.g., language courses) are provided to help newly arrived immigrants succeed in the labor market, immigrants generally earn less than other Canadians. The aboriginal population also faces poorer labor market outcomes and a much higher incidence of poverty than other Canadians.

Germany

value 7

In Germany, public social security expenditures are high. These are financed by a constantly rising proportion of tax transfers, and by growing social insurance contributions. The latter causes increasing non-wage labor costs. At the same time, the population's total share of income from public transfers has risen considerably, and still accounts for a significant part of German incomes across all levels. However, the poverty rate rose during the economic downturn between 2000 and 2005. Government policy has seemed unable either to prevent poverty or limit socioeconomic disparities. This has contributed to a controversial political debate about a new German underclass. According to a 2006 study from the Friedrich-Ebert-Stiftung, a foundation close to the Social Democratic Party (SPD), about 6 million people (8 percent of the German population) belong to the "alienated precariat." This new term, a mixture of "precarious" and "proletariat," was introduced by this study to categorize the poorest and most demoralized group within society. While there is a consensus in this debate that unemployment is the chief cause of poverty and social disintegration, experts disagree about the effect of recent labor market reforms. The government has announced several initiatives to tackle the problem of poverty, with a particular focus on the educational system.

Iceland

value 7

Income distribution has become markedly more unequal in recent years. According to the Internal Revenue Directorate, the Gini index measuring inequality of total income before taxes and transfers increased from 27 in 1993 to 38 in 2005. Among OECD states, this represents an unprecedented increase in inequality in the span of just 12 years.

The Gini index measuring inequality of total disposable incomes – i.e., incomes after taxes and transfers – increased even more markedly, from 21 in 1993 to 35 in 2005, highlighting the regressive nature of the government's fiscal policy during this period. The source of increased inequality is mainly twofold.

First, the level of incomes at which low-income households are exempted from paying income tax has been allowed to decrease in real terms, falling behind increases in wages and prices. This has significantly increased low-income wage earners' tax burden, since inflation has been rather high.

Second, the government has favored a growing class of wealthy businessmen and entrepreneurs, taxing capital income at a significantly lower rate than labor income. This has further skewed income distribution in the direction of increased inequality. However, low-income groups were able to increase their purchasing power by up to 30 percent in the last 10 years, despite these trends.

Ireland

value 7

According to the 2006 EU Survey on Income and Living Conditions (EU-SILC), which provides the most recent statistics on poverty in Ireland, the rates of both "consistent poverty" and "risk of poverty" in the population have decreased since 2003. Nonetheless, the exceptionally rapid growth in national income and the increased income inequality it has generated have left the level of relative poverty fairly high. This state of affairs indicates that the benefits of economic growth have been somewhat unevenly distributed throughout Irish society, and explains in part why, in recent years, government policy has veered away from a redistributive approach. Furthermore, additional data from the EU-SILC indicates that non-nationals are significantly more likely to experience consistent poverty in Ireland, where a relatively laissez-faire approach to integration has prevailed.

However, recent increases in expenditures on social security (e.g., pensions, family income support and unemployment benefits) have lifted many of those dependent on such income sources out of absolute poverty. Changes in the social welfare and income tax codes have also increased incentives to accept paid employment, and the fall in the unemployment rate has dramatically reduced the proportion of households without at least one member in paid employment.

Irish education policy – while nominally providing free primary, secondary and

tertiary education and also including several initiatives aimed at redressing social inequalities – does not provide tertiary education that is equally accessible to all segments of society. The urban working class, for example, is particularly absent from the tertiary level.

Annotation: “Consistent poverty” is the official, government-approved poverty measure used in Ireland. It identifies the proportion of people whose income is below 60 percent of median income and who are deprived of two or more goods or services out of a list of 11 such goods considered essential for social inclusion and participation in society. More details are available at

<http://www.socialinclusion.ie/poverty.html#consistent> (accessed November 28, 2007).

Japan

value 7

Japan, once considered a model case of growth with equity, has in recent years experienced increasing social disparities (Tachibanaki 2006). According to the OECD, Japan’s Gini coefficient measure has risen significantly since the mid-1980s from well below to slightly above the OECD average, and the at-risk-of-poverty rate in Japan is now one of the highest in the OECD area (EU Social Report 2007). The relative poverty rate – defined as income that is less than 50 percent of the median – rose to 15.3 percent of the total population in Japan and was thus nearly 5 percent higher than the OECD average in that year. Population aging is partly responsible for boosting inequality, as it raises the proportion of the labor force in the 50- to 65-year-old age group, which is characterized by greater wage variation. However, the key factor appears to be increasing dualism in the labor market. The proportion of non-regular workers in the labor force has risen from 19 percent of employees a decade ago to more than 30 percent today. Part-time workers earn on average only 40 percent as much per hour as full-time workers do (OECD 2006). Social spending in Japan, which is lower in relative terms than the OECD average, is moreover also less devoted to the poorest quintile of the population than in the average OECD nation, and has thus contributed less to reigning in growing social disparities.

Annotation:

OECD, “OECD Economic Survey Japan,” Volume 2006/13, July 2006. http://www.oecd.org/document/55/0,2340,en_33873108_33873539_37127031_1_1_1_1,00.html (accessed June 20, 2008)

European Commission, “EU Joint Report on Social Protection and Social Inclusion 2007,” Annex 1C, p. 139.

http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2007/joint_report_en.pdf (accessed June 20, 2008)

Toshiaki Tachibanaki, "Inequality and Poverty in Japan," *Japanese Economic Review*, 57, no.1 (March 2006): 1-27.

Slovakia

value 7

Income disparities have grown since 1989, but remain limited in absolute terms. There are also some regional disparities, with the eastern regions of the country (e.g., Košice, Prešov) lagging behind. With the exception of the Roma minority, however, poverty is relatively limited. While some of the Dzurinda government's reforms were criticized as undermining social principles, most notably the cuts in social spending and the 2004 tax reform, their overall impact on inequality and poverty has been less clear and appears modest. When the Fico government came into power, it promised to correct the "neoliberal" bias of its predecessor and to restore social cohesion. To date, however, changes have been moderate.

France

value 6

Whereas social cohesion policy has played a large role in public debate for several years, the recent spates of social unrest in Parisian suburbs have enhanced public awareness of integration problems. In 2005, a law was created that contained various measures and programs to help combat social exclusion. These measures focused on schooling, access to the job market and equal opportunities in general. Nonetheless, the multitude of single measures has once again meant that financial resources are not applied effectively and efficiently.

South Korea

value 6

Social policy effectively prevents extreme poverty, but has failed to limit socioeconomic disparities. South Korea has historically been one of the most successful countries in reducing poverty. Absolute poverty, in the sense of lacking basic needs, still exists but is within OECD standards.

However, Korea is becoming an increasingly unequal country, with the gap between poor and rich widening. Today, Korea's Gini coefficient indicates inequality above the OECD average. Many Koreans can be considered relatively poor, having less than half of the median income. This does not necessarily lead to social exclusion, however. Korea remains an often surprisingly traditional society in which families, friends, and peer groups take care of the socially underprivileged.

However, this "private welfare system" also underscores a social hierarchy that leads to dissatisfaction. The widening income gap creates major dissatisfaction among Koreans that have been brought up in a poorer, but more egalitarian society, in which

economic wealth was more equally distributed. Thus, it is not surprising that Koreans' level of life satisfaction is very low, as surveys show.

By improving the social security system, the government has made major steps toward mitigating the deterioration of social cohesion. Until the Asian financial crisis of 1997 – 1998, a public social security system was practically nonexistent: Protection was provided only through family support.

As traditional families are eroding, the government has stepped in; since the crisis, social security spending has increased from 9 percent to 15 percent of government revenues. However, unemployment insurance and programs of livelihood protection remain weak and are not able to cover even the most basic needs. The unemployed thus have to accept jobs even if the conditions are much worse than in their previous job.

This trend towards irregular employment has led to increasing levels of precarious working and living conditions that contribute to the low level of life satisfaction and the high levels of suicide and divorce. Social inequality is widely criticized by a public that claims the issue has not been efficiently addressed by the government. On the other hand, the notion that economic growth will solve all social problems remains strong, even though this is disproved by the empirical evidence.

United Kingdom

value 6

During the 1980s and early 1990s, the United Kingdom became one of Europe's most unequal countries in terms of the Gini Index. Although the Labour government has made combating social inequality a core challenge over the last ten years, poverty and inequality levels have not changed much since the mid-1990s. Income gaps are widening, as the top 10 percent have seen their earnings rise by almost 60 percent from 2004 to 2007. The top 1 percent of income earners accounted for 13 percent of total income in 2000.

Homelessness, which is an indicator of absolute poverty, is high compared to other European countries. There are also high social class differentials in infant mortality and other health indicators.

The government has placed the reduction of (especially child) poverty high on its agenda, using both support programs (e.g., changes in benefits) and the tax system to do so. As noted under "labor market policy" and "tax policy," the tax system has achieved substantial redistribution toward the bottom income quintiles. However, results have been mixed, as the child poverty rate, which is down from 33 percent in 1996/97, remains high at 28 percent; and poverty among households of working-age adults without children is largely unchanged at 13 percent (2003/04).

Poverty reduction efforts have succeeded in raising incomes among the poorest. However, there have been hardly any attempts made to address inequality more generally, which is in line with the government's policy of encouraging growth at the top income levels.

Hungary

value 5

Poverty and socioeconomic disparities have increased since 1989. Levels of poverty and social exclusion are highest among the unemployed and families with many children. While social policy has limited the rise in poverty rates, its effects on socioeconomic disparities have been less clear. In education and health care, one might even speak of a "perverse redistribution" in favor of the better-off.

Social exclusion has a very strong spatial dimension. Significant economic, social and infrastructural differences across and within Hungarian regions have given rise to social segregation.

The Gyurcsány government has undertaken some attempts at addressing the poverty issue by reforming labor market and family policy. The costs of the austerity program launched after the 2006 elections have been distributed relatively equally among the different strata of the population.

Italy

value 5

Socioeconomic disparities are addressed mainly through the country's progressive tax system and a complex set of deductions and benefits for low-income earners. Italy's poverty rate is relatively high when compared to the OECD average, and poverty is more common in southern Italy, among the elderly and in families with more than one child and where only one parent is employed. However, there are relatively few targeted measures that are aimed at preventing poverty. Although Italy's welfare state is generous, current measures can't be considered well-suited for the prevention of poverty outright, as most redistribution policies are targeted at low-income earners through tax benefits while little is done for those who don't pay taxes at all, as they earn less than the minimum taxable income. The lack of significant provisions for the unemployed, low pension levels for some important groups and weak allowances toward the cost of supporting a family do little in the prevention of poverty nationwide.

Poland

value 5

Poland is one of the poorest countries in the European Union. Social policy spending about matches the EU average, but efforts are not very effective in preventing poverty and limiting socioeconomic disparities. Poverty and social exclusion are highest among the unemployed and in families with many children. In contrast, poverty among the elderly is among the lowest in the European Union. Strong regional disparities between cities and the countryside, as well as between the

western and eastern parts of the country, prevail. In the fall of 2006, the PiS government, which had stressed its commitment as part of its party program to a “solidarity-based state,” approved two major strategy papers on social cohesion. The adopted measures largely focused on improving support for families. Less attention was paid to the situation of the unemployed and to social integration through improvements in the labor market.

Spain

value 5

Continuous economic growth has facilitated Spain’s process of convergence with the European Union. Yet, the number of Spaniards living under the poverty line has grown (4 percentage points over EU average) and territorial disparities should not be overlooked. Per capita income in Madrid, Basque Country or Navarre is 20 percentage points over the EU average while in Andalusia or Extremadura per capita income totals only 80 percent of the European average. Spanish authorities at local, regional and central levels try to deal with issues of social exclusion each by their own means and plans.

This notwithstanding, Spain lags behind average European levels in terms of social policies and social cohesion, although the previous below-average levels of public spending on social policies has increased year over year under the legislature during the time of writing. In 2007, social expenditure represented 13.4 percent of GDP, a rise of 8.4 percent from 2006. Spain still has a long way to go in terms of social cohesion and in the fight against poverty.

According to the Conditions of Life Survey 2005 by the National Statistics Institute (Encuesta de Condiciones de Vida, INE), 19.8 percent of Spaniards live under the poverty line of €6,346 per year. The law for the promotion of personal autonomy and attention to people in a dependent situation (Ley de Dependencia) passed in December 2006 and is the biggest attempt by a Spanish government to close the gap with Europe in terms of social cohesion policies. This law gives every Spanish citizen in need for whatever reason (health, age or accident) the right to be provided for and attended to by the state.

United States

value 5

Compared to other OECD countries, the welfare state in the United States is relatively underdeveloped. Government welfare programs were particularly downsized during the administrations of presidents Ronald Reagan and Bill Clinton. The kindergarten and school system contributes little to social cohesion and a reduction of socioeconomic disparities. Strangely enough, when it comes to poverty rates, the world’s most highly developed economy shares characteristics with emerging-market countries, such as Mexico and Turkey. From 2005 to 2006, the

poverty rate declined slightly from 12.6 percent to 12.3 percent, but there remained large gaps between whites (8.2%), blacks (24.3%) and Hispanics (20.6%), respectively.

The poverty rate thus remained below its peak in the mid-1980s and mid-1990s. However, despite the fact that it lifted 5 million Americans above the poverty threshold, the most effective tool against poverty – the Earned Income Tax Credit, which works as a wage subsidy – is not counted in the poverty measurement. The other social-policy tool is minimum-wage legislation.

In January 2007, the new Democratic majority in Congress vowed to increase the minimum wage. In July 2007, the new law increased the hourly rates from \$5.15 to \$5.85, and it is scheduled to go up to \$7.25 by 2009. Nevertheless, many states and communities have their own higher levels.

Annotation: Gary Burtless and Christopher Jencks, “American Inequality and Its Consequences,” in *Agenda for the Nation*, edited by Henry Aaron et al. (Washington, D.C.: Brookings, 2003), 61-108. On the minimum wage, see Congress Report, 22 No. 2 (2007), No. 2, 4 f.

Mexico

value 4

Mexico is a highly fragmented society, with social structures that sharply contrast with the normative principles of an equitable society. With regard to income distribution, Mexico ranks among the world’s most unequal societies. Other cleavages also provide serious threats to social cohesion, including ethnic discrimination, strong regional heterogeneity with regard to socioeconomic development and persistent discrimination against women.

Recent administrations’ economic and social policies have rested on the principle that socioeconomic disparities can only diminish through economic growth based on fiscal sustainability. The 2006 presidential election showed that a good portion of the electorate has begun to lose patience with this guiding principle, demanding instead a clear agenda to increase productivity and growth and diminish the country’s abysmal income disparities. Nonetheless, beyond its clear and important commitment to fiscal sustainability, the new government has not yet offered a clear agenda to promote economic growth.

Portugal

value 4

Portuguese social policy effectively prevents poverty but does not limit socioeconomic disparities. Several government policies have effective anti-poverty components (as evidenced by the significant increase of social transfers in terms of

GDP since the 1990s), including above-inflation increases in the minimum wage, relatively generous unemployment benefits and a preferential taxation regime for pensions (e.g., even low-income pensions saw above-inflation increases). This commitment to fighting poverty is also reflected in the share of the population's "at-risk-of-poverty rate after social transfers." Even after the very significant increase in unemployment since the early 2000s, this rate has remained stable. In 2005, it stood at 20 percent, which is admittedly higher than the EU-25 average of 16 percent.

At the same time, however, there have been increases in social disparities in Portugal as measured by the share of income received by the top two deciles of the population (which reaches 8.2 percent, considerably above the EU-25 average of 4.9 percent, having increased by 30 percent since 2000,). Thus, Portugal remains one of the EU countries with a higher level of social and economic inequality. Measures taken in the period under review aimed at increasing social cohesion include a revision of the "guaranteed minimum income" (now called "social income for inclusion") introduced in the late 1990s to improve coverage and fight abuses as well as the creation of a "solidarity complement for old-age," which is aimed at people over 65 with very low pensions. At this point in time, it is too early to assess the impact of these measures.

Greece

value 3

While poverty has not dramatically worsened over the last ten years, it has remained a serious problem. About 20 percent of Greece's population lives below the poverty line, and antipoverty policies have not been effective. Many among the poor are elderly, members of the long-term unemployed, or residents of mountainous or isolated areas in northern Greece.

As shown by the Gini coefficient for Greece, socioeconomic disparities are among the worst in the European Union. Disparities persist despite social policy reforms attempted by successive governments. New policy measures are often inefficiently implemented, with policies frequently modified by incoming governments or overturned as unconstitutional by court decisions, before bearing results and without being evaluated. In practice, poverty is addressed through meager cash transfers, and nonmonetary social services are hardly available. In times of social and economic crisis, the church and voluntary associations have substituted for the state in offering social services to people in need. However, voluntary associations' social care activity is not large enough to substitute for the deficiencies of public social services.

Turkey

value 3

As national statistics show, poverty is still a significant social ill. Rural poverty leads to increased rates of migration to urban centers, which only expands existing slum

areas, creating problems of integration and escalating already severe levels of unemployment. From 2002 to 2005, the Gini-coefficient for Turkey fell from 0.44 to 0.38.

This progress, however, was not achieved as a result of targeted socioeconomic policies but as a by-product of economic growth. Economic progress also led to a slight improvement of income distribution, with the Turkish middle class benefiting the most. For the first time, however, low-income groups (villagers and the urban lower classes) ceased to be the majority group of the Turkish population.

Absolute poverty during the period under review, however, has remained unchanged and has not been addressed by governmental efforts but only through the incoherent and often disjointed activities of municipalities, administrative districts and local NGOs. Poverty affects particularly the youngest generation. One-third of Turkey's 2.5 million children under 6 years old live with the threat of poverty, and 100,000 children are assumed to live in families that earn less than \$2 per day.

The established economic chasm between the wealthier provinces in the west and poorer neighbors in the northeast and southeast (as confirmed by the Human Development Index) combined with the ethnic dimension of poverty was neither on the government's agenda nor a subject of public debate. Enthusiasm over the retrogression of the national Gini-index eclipsed the perception of poverty in the country and effectively dismissed any discussion of the issue.

This report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states.

More on the SGI 2009 at www.sgi-network.org

Contact

Andrea Kuhn, Dr. Leonard Novy, Daniel Schraad-Tischler

Bertelsmann Stiftung

Carl-Bertelsmann-Straße 256

33311 Gütersloh

www.bertelsmann-stiftung.de