

Poverty Dynamics in the Netherlands

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Introduction

In the Netherlands low incomes are found among 7 percent of the households with wages from labour as their main source of income, and 30 percent of the households with social benefits as their main income source. Finding a job would seem a very efficient way of getting out of poverty. Still, only one in five unemployed persons in low-income households find that getting a job means that the household is no longer on a low income.

Is this a paradox?

No, it means that unemployed people living on social assistance are likely to end up among the 7 percent households with a low wage income from labour when they find a job. And this is not amazing, because unemployed people tend to have lower qualifications and therefore more chance of finding low-paying jobs.

It also means that the static view of poverty statistics may give a very different picture from the dynamic view. This is why Statistics Netherlands pays much attention to the dynamics of poverty. Many of our results are published in the yearly Poverty Monitor, a co-production of Statistics Netherlands and the Social and Cultural Planning Bureau.

This paper presents some of the results of our research in recent years to give an idea of the possibilities of longitudinal poverty research.

Data

Most income statistics in the Netherlands are based on the Income Panel Survey (IPS). The IPS is a panel of approximately 75 thousand households, which have been followed since 1989. In fact, it is not the households but what we call the sample persons that are followed. The sample person basically is one person per household. Each year the emigrants and the deceased leave the panel and a sample of immigrants and newborn babies is added to the panel. In this way the IPS remains a representative sample of the Dutch population. Demographic and income information is collected for all members of the households of the sample persons. The information is based on registers. The demographic information is based on the population registration, whereas most income information comes from the tax authorities.

Statistics Netherlands uses a low income cut off for households based on equivalized, deflated disposable yearly income. The cut off point is selected in such a way that all households living on social assistance have an income below the low-income line. This has been the case for all years since 1977. As the level of social assistance is now lower in real terms than it was in 1977, the low income cut off for recent years has been quite a bit higher than the level of social assistance. For 1998 the low-income limit was approximately 9000 euro. Although Statistics Netherlands in general avoids calling the low-income limit a poverty line, it is often used as such. Also in this paper people in households with income below the low income boundary will be described as poor.

Unit of measurement

There has been some discussion on whether the individual or the household should be the unit of measurement in poverty statistics.

It is clear that in discussing poverty we should not look only at the income of the individual, because people often share income within families or households. It would be absurd to call a child without income poor when he or she is growing up in a household where other members have high incomes. To determine whether a person is poor one should look at the income of

the entire household. Therefore poverty can be considered a household characteristic. But this characteristic can also be attached to the persons in the household. A poor person is then by definition a person living in a poor household. See also the final report of the Canberra Group (2001). For descriptions of poverty based on one period, both individuals and households are valid units of measurement.

For longitudinal descriptions there is an additional complication. Households are not static entities, they may change through birth, marriage, divorce, death, children leaving home. This makes comparisons over several years difficult. One would have to define under which conditions a household is the same in each year and then restrict the analysis to households that have not changed. This would result in a very restricted population, where marriage, divorce etc. do not occur. But as the changes in the poverty status are often connected to such events, this is not an acceptable approach. So for longitudinal analysis we can only use the individual as the unit of measurement. And this has become the standard practice at Statistics Netherlands.

Transition in and out of poverty

The slow change in the number of poor persons might suggest that not many people move in and out of poverty. The opposite is true, at least for the Netherlands. In each year, one third of the poor population was no longer poor by the next year. Approximately the same number of people became poor. Table 1 shows a relation between the economic situation and the dynamics of poverty in the Netherlands. During the dip of the economy in 1993 and 1994 the inflow of poor people increased while the outflow hardly changed. The result was an increase in the number of poor people. When the economy improved in 1995 the outflow increased and the inflow decreased, resulting in a decrease of the number of poor people.

Table 1. Persons staying and moving in and out of poverty

	preceding year	outflow	stayers	inflow	this year
	<i>x 1 000</i>				
1992	1758	555	1203	553	1756
1993	1756	543	1213	611	1823
1994	1823	567	1256	673	1930
1995	1930	632	1298	563	1860
1996	1860	598	1261	613	1874
1997	1874	638	1236	581	1817
1998	1817	593	1225	551	1775

One might think that moving in and out of poverty has much to do with changes in labour participation. The Dutch government has a slogan ‘Work, work, work’, assuming that finding work is the best way to get out of poverty. Our research does not support the idea that finding work is a fast route out of poverty. During the period 1990/1995 on average 400 thousand people living in poor households received social benefits, most of them social assistance. Each year 11 percent found a job, but only 2 percent got out of poverty. This low percentage is partly because the minimum wage in the Netherlands is not much higher than the social

assistance for a couple. This means that having a job with minimum wage does not move people out of poverty.

Table 2. Poor benefit receivers finding work, average 1990/1995

	Total poor benefit receivers	Find work within one year	No longer poor through work	
x 1000	405	44	8	
%	100	11	2	

Which events may be associated with getting out of poverty? We have done some research on this topic on the IPS 1989-1995. The most striking result of table 3 is that we do not know in 60 percent of the cases. One of the problems is that the IPS has much information on income, and some demographic information but not very much else. So we do not know if someone changes job, starts working more hours, etc. That is why many of the exits out of poverty remain unexplained, especially in situations where the head of the household is working. Of the exits from poverty that can be associated with some demographic or labour event, about half have to do with demographic changes and the other half with changes in labour participation. In many cases the head of the household found a job, but nearly as often marriage was the cause of getting out of poverty.

Table 3. End events associated with getting out of poverty, 1991-1995

	labour participation head of household		
	active	not active	total
	%		
<i>Changes in household composition</i>	15	34	22
Child leaves home	5	5	5
Child returns home	1	3	2
Divorced/Widowed	1	1	1
Marriage	6	16	9
Other changes	2	6	4
Head turns 65 years of age	0	2	1
<i>Changes in labour participation</i>	8	36	18
Head finds work		29	11
Partner finds work	5	3	4
Child finds work	4	4	4
<i>Other</i>	77	30	60
<i>Total persons getting out of poverty</i>	100	100	100

Persons aged 18+ in households with head younger than 65

Gets away from a poverty period of at least two years, stays out of poverty at least one year

Hierarchical from top to bottom

Poverty period

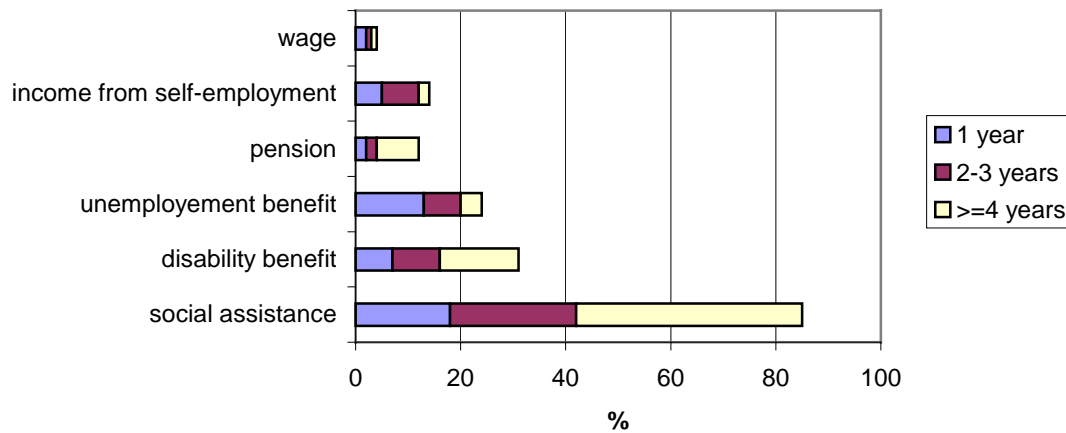
The longer a period of poverty becomes, the more serious the situation gets. A low income for one year might not be very serious. Some people have savings they can use, their clothing and other durables are probably in a rather good condition. But after some time the situation gets worse. People are running into debts and durables need replacing. This means that the length of the poverty period is an important variable. Table 4 gives a distribution of the poverty periods of people who were poor in 1998. One out of three poor persons in 1998 had been poor for at least 5 years. Another one out of three poor people had not been poor the year before.

Table 4. Persons in households with low income according to duration of poverty 1998

	total	1 year	2 years	3 years	4 years	5 years or longer
	x 1 000					
Number of persons (x 1000)	1776	551	327	195	136	567
Number of persons (%)	100	31	18	11	8	32
Stayers (%)	67	56	65	74	69	77

The probability that people stay poor for another year increases with the duration of their poverty. This is the result of two mechanisms. First, living in poverty long may make it difficult to exit. For example, employers may not want to employ a person who has been unemployed for a long time. The other mechanism is that the population of poor people changes with the length of the poverty period. The long-term poor consist of people for whom it is difficult to get out, for example the old and the disabled. Not because they have lived in poverty so long, but because people who can get out of poverty easily have done so. The distinction is important, because the line of action to improve the situation is different for the two groups. But it is not always easy to distinguish the groups.

Persons by length poverty period and income source of household, 1998



The length of the poverty period is closely related with the main source of household income. Households on social assistance are very often poor and about half of them is so for at least four years. Most of the poor pensioners have been poor for a long period. Self-employed people are often relatively poor, but hardly for a long period.

Poverty patterns

If the poverty situation is studied over a longer period, several poverty patterns emerge. For the years 1990-1998 we distinguished five patterns:

- persons who never were poor
- temporally poor persons: 1 or 2 poor periods, at most 4 poor years, not more than 2 non-poor periods
- alternately poor/non-poor persons: at least 3 poor periods and at least 3 non-poor periods
- mostly poor persons: one or two poor periods, at least 5 and at most 8 poor years, at most 2 non-poor periods
- always poor persons.
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Table 5. Poverty patterns of persons 15 years or older, 1990-1998

	x 1000	%
Never poor	6891	79
Temporally poor	1059	12
of which one year poor	626	7
Alternating poor - non poor	229	3
Mostly poor	315	4
Always poor	204	2

The poverty patterns proved to be very diverse. One in five persons over 15 were poor at least once during the period 1990-1998. More than half of them was only temporally poor. Only one in ten was poor during the whole period. One in seven continually shifted in and out of poverty. The poverty pattern is strongly related to age. Young people were often temporally or alternately poor. Old people were often poor during the whole period.

Conclusion

A dynamic description of poverty can give important additional insights in the nature of poverty. But data collection for longitudinal analysis can be more difficult than data collection for transversal analysis. If good income information is available from registers, panel information need not be more costly than transversal information. In many cases income information will have to be collected through surveys. In such cases the extra costs must be weighed against the value of the extra information.

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