Social Inequality and Integration. Aspects of migration, social inequality, and integration are core WZB research topics that cut across disciplines and units. The study of migration takes place mainly in the Research Area on Migration and Diversity. Inquiry into matters relating to the welfare state and inequality is pursued in the Research Area on Education, Work, and Life Chances. A common denominator of this work is the interplay of policies, institutions, and attitudes. Most of the projects are cross-nationally comparative and include quantitative, qualitative, and experimental methods.

The Politics of Security How Germany and the United States Protect Their Citizens from Slipping into Poverty

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Summary: The German and the American welfare state differ much in terms of the strategies applied to avoid poverty after adverse life events. The actual impact of such events depends on the nature of the event. In addition, the consequences of the events change over time. Unemployment results in poverty more often than family breakup or retirement in both countries. However, the risk of entering poverty in the U.S. depends to a greater extent on the economic cycle than in Germany.

All modern welfare states share one minimum goal: they want to protect their citizens from falling into poverty because of major life events, such as family breakup, job loss, or retirement. Social scientists use the term *critical life events* to refer to such periods of crisis. However, if we compare the ways in which the various welfare states seek to accomplish that minimum goal, we find strategies that could hardly be any more different. Two examples of this diversity are the liberal and the conservative welfare state.

The liberal welfare state encourages individuals to take matters into their own hands. This strategy intentionally accepts the fact that critical life events may lead to a severe loss of income in the short term. It is precisely this loss of income that, according to the liberal welfare state model, serves as an incentive for people to show initiative. Because they need money, individuals affected by critical life events are assumed to go out and find ways of liberating themselves from their precarious situation. To find new opportunities after losing their job, for example, people will put up with longer travel times to work or lower-quality jobs. Direct welfare state benefits are provided only for a short amount of time and cover only the bare minimum, with the single exception of those groups of whom it would be utterly impossible to expect efforts of their own.

The conservative welfare state, by contrast, is based on helping individuals to maintain their status. The goal is to avoid a severe loss of income following critical life events as much as possible. Persons affected by such events should have the opportunity to re-order their lives without any hurry and without any further financial loss. After losing their job, for example, individuals receive public social security benefits to balance out their loss of income over a longer period of time. As a result, job seekers are better able to turn down job offers that would involve disadvantages compared to their previous situation.

To be successful, the liberal strategy of fighting economic hardship due to critical life events would have to enable individuals to quickly make up for the loss of income caused by such critical events. We refer to this ideal-typical income trajectory following a critical life event as the "dream of liberal social policy." The opposite scenario, the nightmare as it were, would feature a trajectory that also involves a severe loss of income due to critical life events, but that situation would continue for a prolonged period of time, for instance because the affected individuals do not get on their feet to change it, or do so unsuccessfully. The "dream of conservative social policy," conversely, would involve a situation in which a person's loss of income after a critical life event were initially less severe than in the liberal system and would be made up for in the medium term. The nightmare would be if the conservative system were to undermine individual initiative. In that case, welfare recipients would remain in that status for a long time, meaning that although they suffer less severe losses in the short term, they are unable to recover in the long term.

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To what extent do these ideal-typical income trajectories following critical life events actually occur? This is the question that researchers in the WZB research unit Inequality and Social Integration recently explored in an article to be published by *Kölner Zeitschrift für Soziologie und Sozialpsychologie*. The study compares the United States, as an example of the liberal welfare state, and Germany, as an example of the conservative welfare state. The question is whether or not each of these two welfare policies produces the desired effect on citizens' income trajectories. Using data from both countries, we explored whether people formerly well-protected against poverty become poor as a result of one of the following critical life events: job loss, retirement, and family breakup. Poverty was defined by referring to the household net income, taking account of household size. According to a widely used definition, individuals are defined as poor if their income is below 60 percent of the median. We wanted to know how many of those who were not poor for three consecutive years fell into poverty as a result of one of these three life events. In contrast to comparable studies, we also examined the ways in which the consequences of these events have changed over the course of the past thirty years.

Incorporating this temporal comparison is important, as we cannot assume the economic consequences of life events to remain the same over prolonged periods of time. On the one hand, this is simply because welfare states keep evolving. In fact, our study has shown that at least one social policy reform was adopted each year over the past thirty years. On the other hand, the general macroeconomic conditions keep changing as well. The liberal welfare state model in particular relies on the market when it comes to overcoming economic hardship. This suggests that the extent to which people suffer from loss of income depends, among other things, on market trends.

Our comparison of Germany and the United States produced the following results. The economic consequences of critical life events are strongest with regard to job loss, followed by retirement, whereas the least pronounced effects were found to occur in connection with family breakups. In the case of job loss, the risk of falling into poverty in the United States goes up steeply at first, and then drops again. In Germany, by contrast, the risk of poverty rises somewhat less steeply initially but then even tends to increase slightly. This pattern by and large corresponds to the liberal dream and the conservative nightmare outlined above. It is with regard to retirement that the U.S. data most strongly diverge from the liberal dream. As expected, the risk of falling into poverty in the year of the event is much stronger in the United States than it is in Germany; yet instead of decreasing in subsequent years, it can even be seen to increase somewhat. And finally, family breakup: again, the U.S. trajectory is one of initially strong and then decreasing loss of income. The original loss of income is so strong, however, that even three years after the event, U.S. citizens are still more likely to be poorer than most Germans immediately after the breakup. Even though the liberal welfare state may provide incentives for people to take matters into their own hands, this is not sufficient for avoiding poverty to a degree similar to that achieved in Germany.

The temporal comparison revealed that the consequences of losing one's job have become more severe in both countries since the 1980s. In Germany, however, this trend is only marginal, whereas in the United States, we see a steep increase starting roughly in the year 2000. This comparison leads us to a more sophisticated diagnosis of the dreams and nightmares of social policy. The fact that Germany used to see a slight increase in poverty after people lost their jobs even at a time when the welfare state still provided unchanging benefits suggests that it is not so much a lack of incentives that leads to this development (as in the nightmare scenario) but rather the adverse situation on the labor market. The same may be said about the United States, where unemployment goes up rapidly in times of economic recession. In other words, the liberal welfare state only succeeds in protecting its citizens against the effects of critical life events in times of favorable economic conditions.

The economic effects of retirement have gone in opposite directions in Germany and the United States. In Germany, the risk of falling into poverty has decreased somewhat, whereas the United States have seen strong fluctuation and, at least since the 1990s, a pronounced increase. This can be explained with the stronger role of private retirement schemes in the United States, which make people's post-retirement income more subject to market fluctuations. Regarding the temporal evolution of the risk of poverty due to family breakups, no systematic trend could be observed, but again, stronger fluctuation was found in the U.S. time series.

How do modern welfare states perform in terms of protecting citizens affected by critical life events against poverty, and which of these events involve a particularly high risk of becoming poor? The study has produced the following answers to these questions. First, neither Germany nor the United States offer complete protection against poverty. At least events such as losing one's job or going into retirement involve a significant increase in the risk of poverty for previously economically stable groups; the same is true of family breakups in the United States. Second, poverty is permanent. There is a small trend for Americans affected by critical life events to escape from poverty after a few years, but even three years after the event, their economic situation is still worse than it would have been had the event not happened.

Now which of the two countries, Germany or the United States, provides better protection against poverty to its citizens? This question cannot be answered in general terms. Over the past thirty years, it seems that Americans on average enjoyed better protection after losing their jobs, whereas Germans fared better with regard to the other life events. However, the degree of protection was much more subject to fluctuation in the United States than it was in Germany. Regarding all three types of life events, there were periods in which Americans were better or at least as well protected against poverty as Germans. At other times, Americans had less, or even dramatically less, protection. It seems that what causes these phases is not so much welfare state reform but a complex interplay of economic and other historical factors. One key achievement of the German welfare state is to have made the protection of its citizens much more independent of the unstable economic conditions under which they experience a critical life event than the U.S. welfare state.

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