January 2006

Poor People in Rich Nations: The United States in Comparative Perspective

Timothy Smeeding

Timothy Smeeding is Maxwell Professor of Public Policy, Professor of Economics and Public Administration, all at the Maxwell School, Syracuse University, Syracuse, New York. He is also Director of the Luxembourg Income Study.

Most examinations of United States domestic antipoverty policy are inherently parochial, for they are based on the experiences of only our nation in isolation from the others. However, cross-national comparisons can also teach lessons about antipoverty policy. While all nations value low poverty, high levels of economic self-reliance, and equality of opportunity for younger persons, they differ dramatically in the extent to which they reach these goals. Nations also exhibit differences in the extent to which working age adults mix economic self-reliance (earned incomes), family support, and government support to avoid poverty.

We begin by reviewing international concepts and measures of poverty. The Luxembourg Income Study (LIS) database contains the information needed to construct comparable poverty measures for more than 30 nations. It allows comparisons of the level and trend of poverty and inequality across several nations, along with considerable detail on the sources of market incomes and public policies that shape these outcomes. We will highlight the different relationships between antipoverty policy and outcomes among several countries, and consider the implications of our analysis for research and for antipoverty policy in the United States. In doing so, we will draw on a growing body of evidence that evaluates antipoverty programs in a cross-national context (Banks et al. 2005). Many international bodies have publishes cross-national studies of the incidence of poverty in recent years, including the United Nations Children's Fund (UNICEF 2005; Chen and Corak 2005; Bradbury and Jäntti 2005), the United Nations Human Development Report (UNDP 2005), the Organization for Economic Cooperation and Development (Förster and Pellizzari 2005); and the Luxembourg Income Study (Jäntti and Danziger 2000; Kenworthy 2004; Rainwater and Smeeding 2003). A large subset of these studies is based on LIS data.

Comparing Poverty and Inequality across Nations

The data we use for this analysis are taken from the Luxembourg Income Study (LIS) database, available at www.lisproject.org, which now contains almost 140 household income data files for 32 nations covering the period 1967 to 2002. We can analyze both the level and trend in poverty for a considerable period across a wide range of nations. We have selected just eleven nations for this paper, each with a recent 1999-2000 LIS database. These include the United States; three Anglo-Saxon nations of Canada, Ireland, and the United Kingdom; four central European nations of Austria, Belgium, Germany, and the Netherlands; one southern European country -- Italy; and two Nordic nations of Finland and Sweden). These countries were chosen to typify the broad range of high-income nations available within the Luxembourg statistics that are most comparable to the United States.[1] In per capita Gross Domestic Product (GDP), as measured in 2000 dollars converted at purchasing power parity exchange rates, the United States sports far and away the highest income level with a 2000 GDP per capita of $35,650. All the other nations lie within a tight range of 12 percentage points in their GDP per capita, from 69 to 81 percent of the United States level (Organization for Economic Cooperation (OECD) 2005).

Comparing poverty rates across these eleven nations requires making four main choices: a poverty line, a measure of income, an equivalence scale to adjust for household size and exchange rates for conversion of absolute poverty standards across countries.

Poverty Line

Very few nations have an "official" measure of poverty. Only the United States (U.S. Bureau of the Census 2005a) and the United Kingdom (Department of Work and Pensions 2005) have regular "official" poverty series. Statistics Canada (2004) publishes the number of households with incomes below a series of "low income cutoffs" on a regular basis, Australia

does so irregularly. Northern European and Scandinavian nations do not calculate official rates of poverty or low income. In these countries, the debate instead centers instead on the level of income at which minimum benefits for social programs should be set and on the issue of "social exclusion" (Atkinson et al. 2002).

Poverty can be measured either in relative terms, usually as compared to median income, or in absolute terms, as compared to a purchasing bundle of goods deemed to be the basic necessities in a given country. The United States, for example, relies on an 'absolute' measure of poverty defined in the early 1960s by a government statistician, Mollie Orshansky, and held constant in real terms since that time (U.S. Bureau of the Census 2005a).

In international comparisons, poverty must generally be treated as a relative concept, because in looking at poverty across nations with different levels of per capita GDP, an absolute poverty standard will tend to produce either extremely high poverty rates in some countries or extremely low rates in other countries – or both. A majority of cross-national studies define the poverty threshold as one-half of national median income, and we will follow that convention in most of this paper. For comparison, the official United States poverty line was just about 27 percent of median United States family pre-tax cash income in 2000, and about 32 percent of median United States disposable post-tax household income.[2] Alternatively, the United Kingdom and the European Union have selected a poverty rate of 60 percent of the median income (Eurostat 2000; Atkinson et al. 2002). The pattern of the results we present using a 50 percent of median poverty standard is largely the same at a 40 percent level (Smeeding, Rainwater, and Burtless 2001). However, the differences in poverty rates between the United States and other nations are much larger at the 60 percent of median line, which is about twice the United States poverty line, expressed as a percent of national median income.

When poverty is defined in absolute terms, the World Bank and the United Nations Millennium Development movement define poverty in Africa and Latin America using an income threshold of $1 or $2 per person per day, and in central and eastern Europe a threshold of $2 or $3 per day (Ravallion 1996). In contrast, the United States poverty line in absolute terms is six to twelve times higher than these standards. The United States poverty line for a family of four has in fact fallen from 48 to 29 percent of median Census family income for four between 1960 and 2000.[3] To address the absolute poverty issue in United States terms, we use both the official United States poverty line and 125 percent of this line to compare our estimates with the poverty estimates employed by others. We also calculate progress against absolute poverty across nations by "anchoring" poverty rates in the mid-1980s and comparing incomes for later years against this standard updated only by domestic price changes.

Measuring Income

The best broad definition of income for which comparable data is available across these countries is "disposable cash income," which includes all types of money income, minus direct income and payroll taxes and including all cash and near-cash transfers, such as food stamps and cash housing allowances, and refundable tax credits such as the earned income tax credit (EITC) in the United States.[4]

In determining the antipoverty effects of social transfers and tax policy, we use a measure of market income before taxes and transfers, which includes earnings, income from investments, private transfers (including child support), and occupational pensions.[5] In tracing the market income to disposable income – and thus, to measures of poverty – we determine the effects of two bundles of government programs: Social Insurance and Taxes, which includes all forms of universal and social insurance benefits minus income and payroll taxes, and Social Assistance, which includes all forms of income-tested benefits targeted at poor people. Of course, our

measures of the antipoverty effects of benefits are partial equilibrium in nature; that is, poverty measured before government taxes and benefits is not the same as poverty in the absence of government, if tax and transfer programs affect the level of market income earned.

Household and Person Based Comparisons

For international comparisons of poverty, the "household" is the only comparable income-sharing unit available for almost all nations. But while the household is the unit used for aggregating income, the person is the unit of analysis. Thus, poverty rates are calculated as the percentage of all persons of each type who are members of households of each type with incomes below the poverty line. In some cases we also calculate the poverty rate for elders (65 and over) and children (17 and under) regardless of their living arrangements.

Equivalence Scale for Household Size Adjustments

An "equivalence scale" is used to adjust household income for differences in needs related to household size and other factors, such as the ages of household members, so that the poverty line for, say, a family of five people is higher than the poverty line for a family of three people. The equivalence scales that are implicit in the official U.S. poverty lines are neither consistent nor robust (though they are used with the U.S. absolute poverty estimates; see Citro and Michael 1995, for a critique). For the cross-national analysis of *relative* poverty rates, it is common to use a consistent scale, a single parameter scale with a square-root-of-household-size scale factor.[6] Formally, adjusted disposable income (ADPI) is equal to *un*adjusted household income (DPI) divided by household size (S) raised to an exponential value *(e*), ADPI = DPI/S^e. We assume the value of *e* is 0.5. To determine whether a household is poor under the relative poverty measure, we compare its ADPI to 50 percent of the national median ADPI. National median ADPI is calculated by converting all incomes into ADPI and then taking the median of this "adjusted" income distribution.

In other comparisons of households, we use the LIS data to separate annual hours worked (according to weekly hours last year and full time-part time status), marital status (married or living together as married, known as "cohabiting"), and standardized education level of the household head (reference person).

Converting with PPP Exchange Rates

A final task is to compare living standards in different countries that use different currencies. Our estimates are based on the most recent set of purchasing power parity (PPP) exchange rates estimated by the OECD (2005a) for year 1999. With this exchange rate, we translate 2000 United States dollar "official" poverty lines into other currency. One warning here: PPP exchange rates are appropriate for comparing national output or output per capita, but they are less appropriate for considering consistent income differences within and across nations.[7]

Poverty Comparisons across Nations

Levels of Relative Poverty

Relative poverty rates in the eleven nations are given in Table 1. The table also shows poverty rates for five subgroups of the population: all children; broken into children and adults in one- and two-parent households; childless nonelderly adults; and persons living in a household headed by aged persons. Persons living in households with two parents and children and childless adults are the predominating household types in each nation. Persons living with elders and single parents, two key vulnerable groups are smaller fractions in each country, with 8 to 17 percent of persons in household units headed by the elderly and 2 to 11 percent of persons in units headed by single parents across these eleven nations. The United States has the largest percent of persons living with single parents (10.6 percent), the third-lowest percent of persons

living with elders (8.7 percent), and the second-lowest fraction of childless nonelderly adults (29.8 percent).[8]

The relative poverty rate for all persons varies from 5.4 percent in Finland to 17.0 percent in the United States, with an average rate of 10.3 percent across the eleven countries. Higher poverty rates are found in Anglo-Saxon nations with a relatively high level of overall inequality like the United States, Canada, Ireland, and the United Kingdom; in Italy, with its wide north-south regional differential in income; and in geographically large and diverse countries like the United States and Canada. Still, Canadian and British poverty are both about 12 percent and are, therefore, far below the United States levels. The lowest poverty rates are more common in smaller, well-developed, and high-spending welfare states like Sweden and Finland, where they are about 5 or 6 percent. Middle-level rates are found in major European countries where unemployment compensation is more generous, where social policies provide more generous support to single mothers and working women (through paid family leave, for example), and where social assistance minimums are high. For instance, the Netherlands, Austria, Belgium, and Germany have poverty rates that are in the 7 to 8 percent range.

On average, child poverty is a lesser problem than is elder poverty in these nations.[9] But single parents and their children and elders generally have the highest poverty rates, while those in two-parent units, mixed units, and the childless experience the least poverty. In general, elder poverty rates are somewhere between single parents, who are less well off, and two-parent units, which are better off, but this is not universally the case.

The United States has the highest or second highest relative poverty rate in each category except for childless adults, where our 11.2 percent rate is third.[10] Poverty rates in the United States for persons living with children are nearly double the average rate. In most cases, Ireland has the highest or second highest poverty rate measured on a relative basis.

Levels of Absolute Poverty

Relative poverty rates are often taken as a proxy for inequality, since a more spread-out income distribution will tend to have a larger share of the population that has less than half of median income. Here, we take the income thresholds that determine the United States poverty and near-poverty rates for each different household size, and then use PPP exchange rates to convert them to poverty thresholds for nine countries (U.S. Bureau of the Census 2005a). In this comparison, we exclude Italy and Ireland, because the ratio of disposable cash income to GDP is far below the levels in other countries, which suggests that income underreporting in the data is significantly different in these countries. Because the United States poverty line is such a low fraction of median disposable income -- about 32 percent when household disposable income is used as the basis for comparison, we also use 125 percent of the United States poverty line to come closer to the standards used in other nations.

Using the official poverty line, the United States falls to second in the poverty ratings, with the United Kingdom having higher overall poverty rates using this standard, as shown in Table 2. At the 125 percent line, the United States ranks fourth among these nations. The United States looks somewhat better using either of these "absolute" measures than with the relative measure due to its higher overall standard of living, a general finding that has been confirmed in other studies (Kenworthy 2004). In terms of vulnerable groups, however poverty for United States children remains very high (ranking second by either standard) even within this set of rich nations. And poor United States residents, especially poor children, do not compare well to those in other nations based on PPP-adjusted real incomes (Rainwater and Smeeding 2003; Smeeding and Rainwater 2004).[11]

Trends in Poverty

The trend in poverty is shown in Table 3, reflecting between 14 and 17 years of history in each nation. We present two types of trends. Our trend findings on relative poverty use half of median income as the definition of poverty, and our findings are similar to those in other recent LIS papers with different percentage of median poverty rates and wider ranges of countries (for example, Smeeding, Rainwater, and Burtless 2001). We also use trend measures based on a poverty line which is "anchored" or fixed in real terms at the mid-1980s relative poverty measure, but then with those poverty lines adjusted to the most recent year using each nation's CPI (Consumer Price Index).

In general, relative poverty is higher in most nations at the end of the period compared to the beginning, even at the end of the relatively prosperous 1990s. (This trend does not conflict with the observation that many nations' relative and absolute poverty rates, including those in the United States, rose in the early 1990s and fell in the later 1990s.) The United States and Sweden are exceptions, but starting from vastly different level of relative poverty. Four nations—Ireland, Belgium, the Netherlands, and the United Kingdom—experienced a rapid increase in relative poverty over this period. This allows us to gain some purchase on the effect of real economic growth on poverty rates in all of these nations.

The story of changes in absolute or anchored poverty is very different. In each nation anchored absolute poverty fell in absolute terms, and in some rapidly growing nations such as Ireland, it fell by over 80 percent. The United States, which experienced a large fall in anchored poverty, still had the highest anchored poverty rate by a wide margin by 2000—with only Canada having an anchored rate above 6 percent by the end of the period. More detailed breakdowns show that in general, child and elder poverty also increased in relative terms over this period while both fell in absolute terms, especially elder poverty, except in the United

Kingdom.[12] No doubt, the fall in elder poverty in absolute terms in rapidly growing countries like Ireland reflects adjustments to their social retirement benefits, while the incomes of the younger Irish grow rapidly (Nolan and Smeeding 2005) The rise in relative child poverty has also recently been reported by UNICEF (2005) The trends noted in poverty are different from the changes found in inequality in these same nations. In many of the more equal nations, most of the rise in inequality noted over this period has taken the form of higher incomes at the top of the distribution – which has little effect on the median income and thus little effect on the relative poverty rate. Hence, relative poverty rose by much less than did overall inequality in most rich nations over this period (Förster and Vleminckx 2004).

The Antipoverty Effect of Taxes and Transfers

In every nation, benefits from governments, net of taxes, reduce relative income poverty. The first column of Table 4 shows relative poverty rates computed using household market income, rather than the earlier calculation that used disposable cash income after transfers and taxes. Remarkably enough, the United States relative poverty rate *before* taxes and transfers is actually below average for these countries, even though the United States ranks the highest of all the countries in this comparison group in relative poverty rates after taxes and transfers.

Given this divergence, it should be no surprise that, of the countries listed, the United States devotes by far the smallest share of its resources to antipoverty income transfer programs (final column of Table 4). In 2000, the United States spent less than 3 percent of GDP on cash and near cash assistance for the nonelderly (families with children and the disabled). This amount is less than half the share of GDP spent for this purpose by Canada, Ireland, or the United Kingdom; less than a third of spending in Austria, Germany, the Netherlands, or Belgium; and less than a quarter of the amount spent in Finland or Sweden. These differences are

primarily long-term and secular, not related to the business cycle (Osberg, Smeeding and Schwabish 2004). Given this low level of cash antipoverty spending, similar calculations for absolute poverty would show roughly the same effects.

We split the antipoverty effect into two components: social insurance and taxes, and social assistance, and we do not take account of behavioral responses to anti-poverty programs that might affect market incomes. The former type of benefit is not income- or means-tested and includes universal benefits such as child allowances and child tax credits; the latter is targeted to the otherwise poor using income tests. Most nations use of both types of instruments. Table 4 shows that the United States makes the least antipoverty effort of any nation, reducing relative poverty created by market incomes by 28 percent compared to the average reduction of 61 percent. The nations closest to the United States in terms of overall effect are Ireland and Canada. Most nations get at least a 50 percent poverty reduction from social insurance, and in heavily insured countries like Austria, Belgium, and Germany, social insurance reduces poverty by 62 to 75 percent. In the case of social assistance, large effects of targeted programs are evident in Finland (34 percent) and the United Kingdom (33 percent reductions), and lower ones (under 10 percent) in the more socially insured nations like Austria, Germany, Belgium, the Netherlands, and Canada. Detailed analysis confirms that higher levels of government spending as in Scandinavia and Northern Europe and more careful targeting of government transfers on the poor as in Canada, Sweden, and Finland produce lower poverty rates (see also Kenworthy 2004; Kim 2000).

The Working Poor and Child Poverty

The overall poverty figures can be sliced along many different dimensions: by gender, age, retirement status, ethnicity, immigration, and others. For example, great strides have been made in reducing poverty among the elderly in most high-income countries over the past 40

years. Indeed, poverty among younger pensioners is no longer a major problem. However, poverty in older old age is almost exclusively an older women's problem. Three quarters of the poor elders, age 75 or older, in each high-income nation are women; almost 60 percent of all poor age 75 and over in each nation are older women living alone. In the United States, the means-tested programs for the poor that are categorized in this paper as "social assistance"—especially Supplemental Security Income (SSI) and food stamps—have almost no effect on altering the poverty rate among the elderly, because their combined benefit levels are set so low (Smeeding and Sandstrom 2005).

However, here we will concentrate on one of the areas where poverty in the United States differs most greatly from the other comparison nations: the experience of poor families with children. In the United States, fewer than two million families with children are still on welfare, but there are 14.3 million families with children who have at least one worker, but are poor by the official poverty definition (Shapiro and Parrott 2003, Table 1).

Table 5 illustrates how a combination of labor market conditions and government programs affects poverty rates. The analysis is split between children with two adults (almost always married parents) in the unit and children in a lone-parent family. On average, lone-parent poverty rates are about three-and-a-half times larger than two-parent rates using either market income or disposable cash income. Social insurance and social assistance, on average, reduce poverty by another 23 percent each for single parents, and a slightly smaller amount for two-parent units.

The variance around these averages across nations and groups is very large. Among single parents, all nations (except Italy) begin with poverty rates based on market income of 38 percent or more. After income transfers, only three nations manage to end with poverty rates based on disposable cash income of 18 percent or lower (as shown in the Social Assistance

Column). In six of the nations listed here, at least 30 percent of children in lone-parent families are poor even after taxes and transfers. When considering the poverty reduction effects of social programs, the United States is an extreme outlier. The United States poverty rate for lone parents, based on market income, is actually below average for this group of comparison countries at 46 percent, but the corresponding poverty rate after tax and transfers is the second highest at 41.4 percent. In the United States, the impact of social insurance programs and payroll taxes largely cancel out for single parents, so poverty rates actually rise by 2.1 percentage points comparing the first two columns of Panel A. In the United States, families with children whose market income is below the poverty level pay higher net taxes (even after the Earned Income Tax Credit) than do families in other nations. These taxes are mainly payroll taxes for Social Security and Medicare. Although these taxes are treated here as reducing current income, it should be noted that they may also contribute to reduced poverty in old age or in case of disability. Even including the social assistance benefits in the next column like the Earned Income Tax Credit, the result is that tax-and-transfer programs in the United States reduce the poverty rate for low-income single parents by 10 percent. On average, the other comparison nations reduce lone parent poverty by 46 percent.

In the case of two-parent child poverty, the situation is both different and similar. It is different because most two-parent families earn enough to be non-poor to begin with, so poverty rates for this group shown in Panel B are much lower. But the pattern is similar in that the United States tax-and-transfer system reduces this market income poverty rate by only a meager half of one percentage point, from 13.7 to 13.2 percent. In fact, since most low-income two-parent households pay more in payroll tax than they receive in unemployment or workers compensation, the initial effect of the tax-transfer system is to *raise* child poverty by 10.9 percent. However, the combination of the EITC, food stamps, TANF (Temporary Assistance for

Needy Families), and other targeted programs offset this effect and producing a net 3.6 percent reduction in two-parent poverty rates. Other nations benefit systems, especially social insurance (in all but the United Kingdom) and social assistance bring about larger reductions in child poverty—on the order of 27 percent reductions on average. Overall, nations use the tax-benefit system to reduce child poverty in two-parent units by 44 percent.

The antipoverty efforts of governments, are also important predictors of the poverty rate, as shown in Figure 1. And as a result of its low level of spending on social transfers to the non-aged, the United States again has a very high relative poverty rate.

The Low-Skilled Labor Market and Poverty

In thinking about how families with low incomes might earn their way out of poverty, there are two possibilities: they might work more hours or they might earn higher wages. However, low-income families in the United States already work substantially more hours than their counterparts in the comparison countries, but because of their low skill level and more unequal distribution of wages in the United States, many of them cannot earn their way out of poverty—and so their children are much more likely to grow up in a household in poverty.

Annual hours worked by the poor, as taken from LIS data, are shown in Table 6 for three groups: all nonelderly poor households; nonelderly poor households with children; and non-elderly single-parent poor households. In each of the three groups, the number of hours worked is given both for households classified as poor according to their market income definition and according to their disposable cash income. We are limited to only seven nations where we have comparable annual hours of work in the LIS data.[13] In almost every case, poor Americans work much longer hours than do most any other nations' workers (Alesina, Glaeser, and Sacerdote 2005). Poor American single parents average over 1,000 hours per year—almost twice as much as those in the other seven nations shown here. Heads of households in two-parent units work

almost full-time (about 1600 hours per year), about the same as Austrian poor parents and more than poor parents in any of the other comparison nations.

To focus on the skill level of workers in low-income households, we use data on parental education. In Table 7, we separate those children whose parents have the least education (lowest level) in the second grouping. In the United States, this group mainly includes households where at least one parent has not finished high school. These children are compared to all other children whose parents have had more education.[14] In all nations, poverty rates as measured by either market or disposable income poverty rates are at least twice as high for the low-education parent as for the average parent. About 16 percent of all United States parents did not finish high school, and their children's poverty rate is over 50 percent even after taking account of taxes and benefits (which again produce little effect on their incomes in the United States). In the other nations, children of parents with low education levels are also more likely to be poor, but the poverty situation of children is not so dependent on the education level of their parents. Once again, American transfer programs do least of the nations in this comparison group to help low-income families with children.

A substantial fraction of the variance in nonelderly cross-national poverty rates appears to be accounted for not by the variation in work, but by the cross-national variation in the incidence of low pay, as shown in Figure 2. Because the United States has the highest proportion of workers in relatively poorly paid jobs, it also has the highest poverty rate, even among parents who work half time or more (Smeeding, Rainwater, and Burtless 2001). On the other hand, other countries that have a significantly lower incidence of low-paid employment also have significantly lower poverty rates than the United States. Of course, the lack of social spending support leaves low income American families with little recourse other than the labor market and its low earnings as a source of income for the low skilled. And without an explicit counterfactual

to the United States approach to social support, it is difficult to know how the situation would be different if this country pursued a different set of anti-poverty polices.

Concluding Thoughts: A Tale of Two Countries

Comparative cross-national poverty rankings suggest that United States poverty rates are at or near the top of the range when compared with poverty rates in other rich countries. The United States child and elderly poverty rates seem particularly troublesome. America's elders also have poverty rates that are high, particularly on relative grounds. In most rich countries, the relative child poverty rate is 10 percent or less; in the United States, it is 21.9 percent. What seems most distinctive about the American poor, especially poor American single parents, is that they work more hours than do the resident parents of other nations while also receiving less in transfer benefits than in other countries.

While acknowledging that the United States has greater poverty than other industrialized nations, some defenders of American economic and political institutions have argued that inequality plays a crucial role in creating incentives for people to improve their situations through saving, hard work, and investment in education and training. In the long run, this argument goes, those with relatively low incomes might enjoy higher absolute incomes in a society where wide income disparities are tolerated than in one where law and social convention keep income differentials small (Welch 1999). Indeed, in recent years, the relatively unequal United Kingdom and especially the United States economies have, in fact, performed better than other economies where income disparities are smaller. Employment growth (even since 2001) has been relatively faster, joblessness lower, and economic growth higher in these countries than in many other OECD countries where public policy and social convention have kept income disparities low.

However, evidence that lower social spending in the United States and the United Kingdom "caused" higher rates of growth is not found in the literature (for example, Arjona, Ladaique, and Pearson 2001; Burtless and Jencks 2003; Lindert 2004). Moreover, while the real incomes of families with children did rise in the latter 1990s (Blank and Schoeni 2003), most of the gains have been captured by Americans much further up the income scale. In 2000, the United States and the United Kingdom were the two nations in our comparison group with the highest rates of child poverty, although child poverty rates in both countries did decline in the mid- to the late 1990s owing mainly to the strong wage growth and tight labor markets in both countries.

However, the United Kingdom made a substantial push toward reducing child poverty since 1999. In 2000-2001, the child poverty rate in the United States as measured by the U.S. Census Bureau was 15 percent. If that absolute poverty rate is converted and applied to the United Kingdom, the child poverty rate in the United Kingdom was also 15 percent in that year. Both the United States and United Kingdom economies hit a sour patch in the early 2000s. However, Britain has spent an *extra* 0.9 percent of GDP for low-income families with children since 1999 (Hills 2003). Nine-tenths of a percent of United States GDP is about $100 billion, which is more than the United States government now spends on the Earned Income Tax Credit, food stamps, and TANF combined. The result of this spending in Britain is that the poverty rate for United Kingdom children had fallen to 11 percent by 2003-2004, while the official United States child poverty rate was at 18 percent in 2004 according to the U.S. Census Bureau (2005, Table 3). It seems unlikely that the United States labor market by itself will generate large reductions in poverty for families with children. Single parents with young children and those with low skills will all face significant challenges earning an income that lifts them out of poverty, no matter how many hours they work.

Of course, the relationship between antipoverty spending and reductions in poverty is complex. No one kind of program or set of programs are conspicuously successful in all countries. Social insurance, universal benefits (such as child allowances), and social assistance transfer programs targeted on low-income populations are mixed in different ways in different countries, as are minimum wages, other labor market regulations, worker preparation and training programs, work-related benefits (such as child care and family leave), and other social benefits. If the United States is to reduce poverty substantially, it will need to do a better job of combining incentives to work with an increase in benefits targeted to low-wage workers in low-income families (Ellwood 2000; Danziger et al. 2002). There is already evidence that such programs produce better outcomes for kids (Clark-Kauffman, Duncan, and Morris 2003).

Acknowledgements

The author would like to thank John Coder, Kim Desmond, Kati Foley, Mary Santy and especially Teresa Munzi for their help in preparing this manuscript. Also thanks go to Timothy Taylor, Jim Hines, Michael Waldman, Miles Corak, Hilary Hoynes, Janet Gornick, and Lee Rainwater for helpful conversations and thoughtful comments. The author thanks the Luxembourg Income Study sponsors for their support. The conclusions reached are those of the author alone.

References

Alesina, Alberto, Edward Glaeser, and Sacerdote. 2005. "Work and Leisure in the U.S. and Europe: Why So Different?" NBER Working Paper No. 11278. Cambridge, MA: National Bureau of Economic Research. April.

Arjona, Roman; Maxime Ladaique, and Mark Pearson. 2001. "Growth, Inequality, and Social Protection." Labour Market and Social Policy Occasional Paper No. 51. Paris: Organization for Economic Cooperation and Development.

Atkinson, Anthony B., Lee Rainwater, and Timothy M. Smeeding. 1995. "Income Distribution in OECD Countries: Evidence from the Luxembourg Income Study (LIS)." Social Policy Studies 18. Paris: Organization for Economic Cooperation and Development (October).

Atkinson, Anthony, Bea Cantillon, Eric Marlier, and Brian Nolan. 2002. *Social Indicators: The EU and Social Inclusion*. Oxford: University Press.

Banks, James, Richard F. Disney, Alan Duncan, and John Van Reene. 2005. "The Internationalisation of Public Welfare." *The Economic Journal* 115 (502) (March):C62-C81.

Blank, Rebecca M., and Robert F. Schoeni. 2003. "Changes in the Distribution of Children's Family Income over the 1990s." *American Economic Review* 93(2) (May):304-308.

Bradbury, Bruce; Stephen P. Jenkins, and John Micklewright. 2001. *The Dynamics of Child Poverty in Industrialised Countries*. Cambridge, UK: Cambridge University Press.

Bradbury, Bruce, and Markus Jäntti. 2005. "Child Poverty, Labor Markets, and Public Policies across Industrialized Countries." Unpublished manuscript. Social Policy Research Centre, Sydney, Australia: University of New South Wales (March).

Burtless, Gary, and Christopher Jencks. 2003. "American Inequality and Its Consequences." In *Agenda for the Nation,* edited by Henry J. Aaron, James M. Lindsay, and Pietro Nivola. Washington, DC: Brookings Institute.

Canberra Group. 2001. *Expert Group on Household Income Statistics: Final Report and Recommendations.* Ottawa, Canada: Statistics Canada.

Castles, Ian. 1996. "Review of the OECD-Eurostat PPP Program." STD/PPP (97)5, Economic Studies Branch. Paris: Organization for Economic Cooperation and Development.

Chen, Wen-Hao, and Miles Corak. 2005. "Child Poverty and Changes in child Poverty Since 1990." Luxembourg Income Study Working Paper No. 405. Syracuse, NY: Syracuse University, Center for Policy Research. http://www.lisproject.org/publications/liswps/40.pdf

Citro, Constance F., and Robert T. Michael. 1995. *Measuring Poverty: A New Approach.* Washington, DC: National Academy Press.

Clark-Kaufmann, Elizabeth, Greg Duncan, and Pamela Morris. 2003. "How Welfare Policies Affect Child and Adolescent Achievement." *American Economic Review* 93(2) (May): 299-303.

Danziger, Sheldon, Colleen M. Heflin, Mary E. Corcoran, Elizabeth Oltmans , and Hui-Chen Wang. 2002. "Does It Pay to Move from Welfare to Work?" *Journal of Policy Analysis and Management* 21(4): 671-692.

Ellwood, David T. 2000. "Anti-Poverty Policy for Families in the Next Century: From Welfare to Work—and Worries." *Journal of Economic Perspectives* 14(1) (Winter): 187-198.

Eurostat. 2000. "Recommendations of the Task Force on Statistics on Social Exclusion and Poverty." Luxembourg: European Statistical Office.

Förster, Michael, and Michele Pellizzari. 2005. "Trends and Driving Factors in Income Distribution and Poverty in the OECD Area." Social Policies Studies Division Paper No. 42. Paris: Organization for Economic Cooperation and Development (September).

Förster, Michael F. and Koen Vleminckx. 2004. "International Comparisons of Income Inequality and Poverty: Findings from the Luxembourg Income Study." *Socio-Economic Review* 2:191-212.

Goodin, Robert E., Bruce Headey, Ruud Muffels, and Henk Jan Dirven. 1999. *The Real Worlds of Welfare Capitalism*. Cambridge, UK: Cambridge University Press.

Gottschalk Peter and Timothy M. Smeeding. 2000. "Empirical Evidence on Income Inequality in Industrialized Countries." In *Handbook of Income Distribution,* edited by Anthony B. Atkinson and François Bourguignon. New York: Elsevier-North Holland Publishers, pp. 261-308.

Hills, John. 2003. "The Blair Government and Child Poverty: An Extra One Percent for Children in the United Kingdom." In *One Percent for the Kids: New Policies, Brighter Futures for America's Children*, edited by Isabel V. Sawhill. Washington, DC: Brookings Institution.

Jäntti, Markus and Sheldon Danziger. 2000. "Income Poverty in Advanced Countries." In *Handbook of Income Distribution* edited by Anthony B. Atkinson and François Bourguignon. New York: Elsevier-North Holland Publishers.

Johnson, David S., Timothy M. Smeeding, and Barbara Boyle Torrey. 2005. "United States Inequality through the Prisms of Income and Consumption." *Monthly Labor Review* 128(4) (April):11-24.

Kenworthy, Lane. 2004. *Egalitarian Capitalism? Incomes, Jobs, and Equality in Affluent Countries.* Russell Sage Foundation. New York, NY.

Kim, Hwanjoon. 2000. "Anti-Poverty Effectiveness of Taxes and Income Transfers in Welfare States." *International Social Security Review* 53(4)105-129.

Lindert, Peter H. 2004. *Growing Public: Volume 1, The Story: Social Spending and Economic Growth Since the Eighteenth Century*. Cambridge, UK: Cambridge University Press.

Nolan, Brian, and Timothy M. Smeeding. 2005. "Ireland's Income Distribution in Comparative Perspective." *Review of Income and Wealth* 51(4) (December): 537-560.

Organization for Economic Cooperation and Development. 2001. *Society at a Glance*. Paris: Organization for Economic Cooperation and Development at www.oecd.org.

Organization for Economic Cooperation and Development. 2004. "OECD Social Expenditure Database: 1980-1998." Paris: Organization for Economic Cooperation and Development at www.oecd.org.

Organization for Economic Cooperation and Development. 2005a. *Purchasing Power Parities*. Paris: Organization for Economic Cooperation and Development at www.oecd.org..

Organization for Economic Cooperation and Development. 2005b. *Employment Outlook*. Paris: Organization for Economic Cooperation and Development at www.oecd.org.

Osberg, Lars, Timothy M. Smeeding, and Jonathan Schwabish. 2004. "Income Distribution and Public Social Expenditure: Theories, Effects, and Evidence." In *Social Inequality*, edited by Kathryn Neckerman. NY: Russell Sage Foundation.

Ravallion, Martin. 1996. "Issues in Measuring and Modeling Poverty." *Economic Journal* 106 (September): 1328-1344.

Rainwater, Lee, and Timothy M. Smeeding. 2003. *Poor Kids in a Rich Country: America's Children in Comparative Perspective*. New York, NY: Russell Sage Foundation.

Shapiro, Isaac, and Sharon Parrott. 2003. "Are Policies That Assist Low-Income Workers Receiving Appropriate Priority?" Washington, DC: Center on Budget and Policy Priorities (August).

Smeeding, Timothy M. 2005. "Government Programs and Social Outcomes: The United States in Comparative Perspective." In A. Auerbach, D. Card, and J. Quigley (eds.), *Poverty, Public Policy, and the Distribution of Income.* New York, NY: Russell Sage Foundation, forthcoming.

Smeeding, Timothy M. and Lee Rainwater. 2004. "Comparing Living Standards across Nations: Real Incomes at the Top, the Bottom, and the Middle." In E. N. Wolff (ed.), *What Has Happened to the Quality of Life in the Advanced Industrialized Nations?* Northampton, MA: Edward Elgar Publishing, pp.153-183.

Smeeding, Timothy M., and Susanna Sandstrom. 2005. "Poverty and Income Maintenance in Old Age: A Cross-National View of Low Income Older Women." *Feminist Economics.*

Smeeding, Timothy M., Lee Rainwater, and Gary Burtless. 2001. "United States Poverty in a Cross-National Context." In *Understanding Poverty,* edited by Sheldon H. Danziger, and Robert H. Haveman. NY: Russell Sage Foundation; Cambridge, MA: Harvard University Press, pp. 162-189.

Statistics Canada. 2004. Statistics Canada. http://www.statcan.ca.

United Nations Development Program. 2005. *Human Development Report: Cultural Liberty in Today's Diverse World.* New York: United Nations.

United Kingdom Department of Work and Pensions. 2005. *Opportunity for All: Sixth Annual Report 2004*. London, UK: Department of Work and Pensions. (http://www.dwp.gov.uk/ofa/reports/2004/pdf/report_04.pdf)

UNICEF. 2005. *Child Poverty in Rich Countries 2005.* Innocenti Research Centre Report Card No. 6. Florence, Italy: UNICEF. (http://www.unicef-icdc.org/publications/pdf/repcard6e.pdf)

U.S. Census Bureau. 2005a. "Income, Poverty, and Health Insurance Coverage in the United States: 2004." Current Population Reports P60-229. U.S. Department of Commerce, Washington, DC: Government Printing Office. http://www.census.gov/prod/2005pubs/p60-229.pdf

U.S. Census Bureau. 2005b. "Alternative Poverty Estimates in the United States: 2003." Current Population Reports P60-227. (June), Washington, DC: Government Printing Office.

Welch, Finis. 1999. "In Defense of Inequality." *American Economic Review*, *Papers and Proceedings* 89(2):1-17.

Footnotes

1. We include all of Germany, including the eastern states of the former German Democratic Republic (GDR), in most of our analyses. We present LIS data on the unified Germany for 2000. However, trend data for Germany later in this paper are restricted to West Germany. The West German poverty rates in the Luxembourg data tend to be 0.9 to 1.2 percentage points below those for all of Germany.

2. In 2000, the ratio of the United States (four-person) poverty line to median before tax *family* income was 28 percent while the ratio to median *household* income was 29 percent. The same ratios for three-person units were 27 and 28 percent, respectively. Overall, median household income ($44,389 in 2004) is below median family income ($55,327) because single persons living alone (or with others to whom they are not directly related) are both numerous and have lower incomes than do families (U.S. Bureau of the Census, 2005a). Families include all units with two or more persons related by blood, marriage, or adoption; single persons (unrelated individuals) are excluded. In contrast, households include all persons sharing common living arrangements, whether related or not, including single persons living alone. Using the LIS household disposable income ratios (on which later analyses are based), changes the 2000 ratio of median disposable income to the poverty line to 34 percent for four person households and 31 percent for three person units. See Appendix Table 1 appended to this article at http://www.e-jep.org.

3. For a table showing these poverty rates, see Appendix Table A-1 appended to this paper at the website <http://www.e-jep.org>.

4. See Atkinson, Rainwater, and Smeeding (1995) and Canberra Group (2001) for more on this income definition and its robustness across nations. This disposable cash income concept is not unique to the Luxembourg Income Study. Eurostat, UNICEF, and OECD have independently made comparisons of income poverty and inequality across nations using identical or very similar measures of net disposable income.

5. For the calculation of poverty rates, market income refers to gross market income in all countries but Belgium, Austria, Italy, and Ireland, where market income is net of taxes and social contributions. Because benefits are taxed in many nations, the concept of net market income is difficult to calculate. For the calculations of anti poverty effects later in this paper, for the countries where gross and net data was available, and the net figure has been derived by subtracting employee taxes from the gross figure. For countries with gross income data only, the net figure has been derived by subtracting employee taxes and social contributions from the gross figure, in the same proportion as the proportion of market income in total gross income minus means-tested – that is, non-taxable – benefits. All figures are net of employer payroll taxes and employer social charges. Antipoverty effects are calculated on net market income for all countries.

6. The equivalence scale which we employ is robust, especially when comparing families of different size and structure (like elders and children). See Atkinson, Rainwater, and Smeeding (1995) for detailed and exhaustive documentation of these sensitivities.

7. We do not present comparisons of real poverty rates over time using historical sets of PPPs due to the intertemporal inconsistency of PPPs dating back to the mid-1990s and earlier. Instead we use the anchored poverty approach. For additional comments on PPPs and microdata-based comparisons of well-being, see Gottschalk and Smeeding (2000), and Castles (1996).

8. Persons living in all other mixed households, including elders living with their adult children, and three generation households of grandparents living with their children and grandchildren, average 8 percent of the population, but add little to the patterns in Table 1 and are, therefore, not shown. The basic distribution of persons by household types for each group is given in Appendix Table 2, which is appended to this paper at the website http://www.e-jep.org.

9. Remember, these poverty rates are based on income levels. Poverty rates based on consumption or wealth might produce a different picture (Johnson, Smeeding, and Torrey 2005).

10. We do not address either the well-being of the poor or mobility in or out of poverty. The question of mobility in and out of poverty requires the use of longitudinal microdata. All of the comparisons in this paper are based on cross-sectional data, not longitudinal data. However, several recent cross-national poverty studies suggest that mobility in and out of poverty is lower in the United States than in almost every other rich country (Bradbury, Jenkins, and Micklewright 2001; Goodin et al. 1999).

11 . These comparisons should be made very carefully for several reasons. In heavily taxed nations, we have already reduced market incomes by payroll taxes used to pay for social goods such as health care, but have not counted these benefits in disposable income. We also use an income concept that is not adjusted for work related costs or out of pocket health care costs. Indeed if we were to address these issues by adopting the National Academy of Sciences recommendations for both a revised poverty line and a better LIS-like income measure, United States poverty as calculated by the U.S. Census Bureau (2005b, Figure 3, page 12) would have been above the official estimates by up to 2.0 percentage points from 1998-2004.

12. The detailed breakdowns of trends in relative and absolute poverty for children and elders are appended to this paper as Appendix Table 3 as it appears at the JEP website http://www.e-jep.org.

13. Table 6 includes only those countries where the LIS data contains estimate of hours worked (LIS has no 2000 hours data for Finland, Sweden or the United Kingdom) or where LIS hours worked data lies within 25 percent of the OECD Employment Outlook (2005; Structural Annex Table F) estimates of hours worked. LIS Italian data do not match up well with OECD labor force estimates on this basis and had to be dropped. The patterns in Table 6 match well with data in Alesina, Glaeser, and Sacerdote (2005, Table 1). Unfortunately, the United Kingdom and Sweden are not among the nations we can examine in 2000. In both cases, other research shows that British lone parents do not

work very many hours, while Swedish women work a substantial amount of hours (Smeeding 2005).

14. Education is coded into low (less than high school), medium (high school degree), and high (some college or university) by LIS and OECD. The reader can find this code in LIS at http://www.lisproject.org/dataccess/educlevel/educdefcountry.htm. British education variables cannot be broken down by this code.

Table 1. Relative Poverty Rates: Percent Below 50 Percent Median Adjusted Income, by Type of Household, in Eleven Rich Countries

	Poverty Rate (percent of population poor[1] and rank)											
	Overall[2] (Rank)		Households with Children (by number of Parents)[3, 6]						Elders[4] (Rank)		Childless[5] (Rank)	
			All Children (Rank)		(1 Parent) (Rank)		(2 Parent) (Rank)					
Nation (year)												
United States (00)	17.0	(1)	18.8	(1)	(41.4)	(2)	(13.2)	(2)	28.4	(2)	11.2	(3)
Ireland (00)	16.5	(2)	15.0	(3)	(45.8)	(1)	(10.8)	(3)	48.3	(1)	13.1	(1)
Italy (00)	12.7	(3)	15.4	(2)	(20.1)	(8)	(15.1)	(1)	14.4	(6)	8.4	(6)
United Kingdom (99)	12.4	(4)	13..2	(4)	(30.5)	(6)	(9.1)	(5)	23.9	(3)	8.4	(6)
Canada (00)	11.4	(5)	13.2	(5)	(32.0)	(4)	(10.1)	(4)	6.3	(10)	11.9	(2)
Germany (00)	8.3	(6)	7.6	(7)	(33.2)	(3)	(4.4)	(8)	11.2	(7)	8.7	(5)
Belgium (00)	8.0	(7)	6.0	(9)	(21.8)	(7)	(4.3)	(9)	17.2	(5)	5.9	(11)
Austria (00)	7.7	(8)	6.4	(8)	(17.9)	(9)	(5.1)	(7)	17.4	(4)	7.0	(9)
Netherlands (99)	7.3	(9)	9.0	(6)	(30.7)	(5)	(7.6)	(6)	2.0	(11)	6.4	(10)
Sweden (00)	6.5	(10)	3.8	(10)	(11.3)	(10)	(2.2)	(10)	8.3	(9)	9.8	(4)
Finland (00)	5.4	(11)	2.9	(11)	(7.3)	(11)	(2.2)	(10)	10.1	(8)	7.6	(8)
Overall Average	10.3		10.1		(26.6)		(7.6)		17.0		8.9	

Source: Author's calculations of LIS files.

Notes:

[1]Poverty is measured at 50% median adjusted disposable income (ADPI) for individuals. Incomes are adjusted by e=0.5 where ADPI=unadjusted DPI divided by household size (s) to the power e: $ADPI = DPI/s^e$.

[2]All types of persons regardless of living situation.

[3]Households with children (under age 18, excluding ever married persons and heads and spouses) and no elderly (above 64). Children, and the non-elderly adults living with them in the same household, are further split into one- and two-parent columns.

[4]Adults aged 65 and over living in units with only elderly persons.

[5]Childless are couples or singles where there are no elderly, nor children.

[6]Other households include elderly and non-elderly persons living in the same households (often multiple generation families with children) and are omitted from this table. See footnote 8.

Table 2. Absolute Poverty Rates Using Official US Poverty Standards in Nine Rich Countries at the Turn of the Century

	Overall Poverty Rate[2]				Child Poverty rate[3]				Elderly Poverty Rate[4]			
Nation (year)[1]	Absolute[5] (Rank)		125 % Absolute[6] (Rank)		Absolute[5] (Rank)		125 % Absolute[6] (Rank)		Absolute[5] (Rank)		125 % Absolute[6] (Rank)	
United States (00)	8.7	(2)	13.9	(4)	12.4	(2)	19.5	(2)	9.2	(2)	15.9	(5)
United Kingdom (99)	12.4	(1)	23	(1)	17.5	(1)	32.8	(1)	16.1	(1)	30.2	(1)
Canada (00)	6.9	(6)	12.2	(8)	9.0	(5)	17.5	(3)	1.1	(9)	4.6	(9)
Germany (00)	7.6	(3)	13.9	(4)	9.1	(4)	17.3	(5)	7.1	(7)	15.6	(6)
Belgium (00)	6.3	(8)	12.8	(7)	7.2	(6)	12.2	(9)	8.6	(3)	22.7	(4)
Austria (00)	5.2	(9)	11.6	(9)	5.8	(7)	15.3	(7)	7.4	(5)	15.6	(6)
Netherlands (99)	7.2	(5)	13.2	(6)	10.4	(3)	17.3	(5)	1.7	(8)	7.8	(8)
Sweden (00)	7.5	(4)	15.4	(3)	5.8	(7)	13.8	(8)	7.3	(6)	23.8	(3)
Finland (00)	6.7	(7)	17.0	(2)	4.6	(9)	17.4	(4)	8.6	(3)	26.1	(2)
Overall Average	7.6		14.8		9.1		18.1		7.5		18.0	

Source: Author's calculations of LIS files.

Notes:

[1]Italy and Ireland could not be included because the fraction of national income (to which PPPs are normed) included in the household surveys was significantly less than that found in all other nations.

[2]Percentage of total population living in poor households.

[3]Percentage of children (under age 18) living in poor households.

[4]Percentage of elderly (persons aged 65 and above) living in poor households.

[5]Poverty is measured using the 2000 US official poverty line for the correct household size (CPI adjusted to right year). The poverty lines are about 32 percent of US median disposable household

[6]Poverty is measured at 125 percent US official poverty line, about 40 percent of US median adjusted disposable household income.

Table 3. Trends in Relative and Anchored Poverty in Eleven Rich Countries

		Poverty Rates			Percentage Point Change from Initial Year	
			End Year			
Nation	**Years**	**Initial Year**	**Relative[1]**	**Anchored[2]**	**Relative[3]**	**Anchored[4]**
United States	1986-2000	17.8	17.0	13.5	-0.8	-4.3
United Kingdom	1986-1999	9.1	12.4	4.4	+3.3	-4.7
Canada	1987-2000	11.4	11.4	11.0	0.0	-0.4
Netherlands	1987-1999	4.7	7.3	3.5	+2.6	-1.2
Germany[5]	1984-2000	7.9	8.7	5.6	+0.8	-2.3
Belgium	1985-2000	4.5	8.0	0.1	+3.5	-4.4
Austria	1987-2000	6.7	7.7	5.0	+1.0	-1.7
Ireland	1987-2000	11.1	16.5	1.2	+5.4	-9.9
Italy	1987-2000	11.2	12.7	10.1	+1.5	-1.1
Sweden	1987-2000	7.5	6.5	3.6	-1.0	-3.9
Finland	1987-2000	5.4	5.4	3.5	0.0	-1.9
Average		8.8	10.3	5.6	+1.2	-3.4

Source: Author's calculations with LIS files.

Notes:

[1]Relative poverty rates as calculated in Table 1 for the initial and end years. End year relative poverty rates are identical to Table 1.

[2]End year anchored poverty rates hold constant the half median poverty line in the initial year and adjust that poverty line to the end year using each nations consumer price index.

[3]Relative numbers show actual change in poverty rates at 50 percent of median (in each year) calculated as the change from the initial year (see also http://www.lisproject.org/keyfigures/povertytable.htm).

[4]Anchored numbers show actual change in poverty rates calculated as the change from the initial year (50 percent of median poverty line) to the final year.

[5]Only West Germany is included here.

Table 4. The Antipoverty Effect of Government Spending: Percent of All Persons Poor[1]

Nation (year)	Market Income[2]	Social Insurance (and Taxes[3])	Social Assistance[4]	Percent Reduction: Social Insurance[5]	Percent Reduction: Overall[6]	OECD Social Expenditures on Nonelderly[7]
United States (00)	23.1	19.3	17.0	16.5	26.4	2.3
Netherlands (99)	21.0	9.6	7.3	54.3	65.2	9.6
Sweden (00)	28.8	11.7	6.5	59.4	77.4	11.6
Germany (00)	28.1	10.6	8.3	62.3	70.5	7.3
Canada (00)	21.1	12.9	11.4	38.9	46.0	5.8
Finland (00)	17.8	11.4	5.4	36.0	69.7	10.9
United Kingdom (99)	31.1	23.5	12.4	24.4	60.1	7.1
Belgium (00)	34.6	8.9	8.0	74.3	76.9	9.3
Austria (00)	31.8	9.1	7.7	71.4	75.8	7.4
Italy (00)	30.0	13.7	12.7	54.3	57.7	4.3
Ireland (00)	29.5	21.2	16.5	28.1	44.1	5.5
Average	27.0	13.8	10.3	47.2	60.9	7.4

Source: Author's calculations from the Luxembourg Income Study; OECD (2004).

Notes:

[1]Poverty rates are for persons living in households with adjusted incomes below 50 percent of median

[2]Gross market income, including earnings, income from investments, occupational (private and public sector) pensions, child support and other private transfers. In four countries (i.e., Belgium, Austria, Italy and Ireland) market income is net of taxes and social contributions.

[3]Includes effect of taxes and social contributions as well as social insurance for countries where market income is gross, and only social insurance in countries where it is net.

[4]This is the same as poverty rate on disposable income. Refunds from the Earned Income Tax Credit (US) and the Family Tax Credit (UK) are treated as social assistance, as are near-cash food and housing benefits such as food stamps and housing allowances.

[5]Market income rate minus social insurance rate as a percent of market income rate.

[6]Market income rate minus social assistance rate as a percent of market income rate.

[7]Total Nonelderly Social Expenditures (as percentage of GDP), including all cash plus near cash spending (e.g., food stamps) and public housing but excluding health care and education spending. Numbers refer to the most recent (2000) values available from OECD (2004).

Table 5. The Antipoverty Effect of Government Spending: Poverty Rates[1] for One-and Two-Parent Households with Children, by Income Source

Nation (year)	Market Income[2]	Social Insurance (and Taxes)[3]	Social Assistance[4]	Percent Reduction: Social Insurance[5]	Percent Reduction: Overall[6]
A. One-Parent Adults and Children					
United States (00)	46.0	48.1	41.4	-4.6	10.0
Netherlands (99)	51.7	44.7	30.7	13.5	40.6
Sweden (00)	44.0	22.9	11.3	48.0	74.3
Germany (00)	53.2	46.1	33.2	13.3	37.6
Canada (00)	43.2	37.4	32.0	13.4	25.9
Finland (00)	38.1	27.4	7.3	28.1	80.8
United Kingdom (99)	73.0	70.9	30.5	2.9	58.2
Belgium (00)	53.5	24.4	21.8	54.4	59.3
Austria (00)	53.4	28.7	17.9	46.3	66.5
Italy (00)	25.9	20.6	20.1	20.5	22.4
Ireland (00)	68.5	63.5	45.8	7.3	33.1
Average	50.0	39.5	26.5	22.1	46.3
B. Two-Parent Adults and Children					
United States (00)	13.7	15.2	13.2	-10.9	3.6
Netherlands (99)	10.1	8.3	7.6	17.8	24.8
Sweden (00)	9.4	5.3	2.2	43.6	76.6
Germany (00)	9.0	6.1	4.4	32.2	51.1
Canada (00)	13.2	10.9	10.1	17.4	23.5
Finland (00)	10.7	7.1	2.2	33.6	79.4
United Kingdom (99)	17.8	17.5	9.1	1.7	48.9
Belgium (00)	13.0	4.4	4.3	66.2	66.9
Austria (00)	16.9	5.8	5.1	65.7	69.8
Italy (00)	17.1	15.2	15.1	11.1	11.7
Ireland (00)	15.7	12.5	10.8	20.4	31.2
Average	13.3	9.8	7.6	27.2	44.3

Source: Author's calculations from the Luxembourg Income Study.

Notes:

[1]Poverty rates are for all persons living in households with one or two non-aged parents, with adjusted incomes below 50 percent of median adjusted disposable income.

[2]Percent of persons whose market income is below 50 percent of median adjusted disposable income. Market income includes earnings, income from investments, occupational (private and public sector) pensions, child support and other private transfers. It is before taxes and social contributions, with the exception of four countries (i.e., Belgium, Austria, Italy and Ireland) where market income data are net of taxes and contributions.

[3]Percent of persons whose market income plus social insurance benefits after taxes and contributions is below 50 percent of median adjusted disposable income. It includes the effect of taxes and social contributions only for countries where market income is gross, and only social insurance in countries where it is net.

[4]Percent of persons below 50 percent of median adjusted disposable income, i.e., the same as poverty rate on disposable income. Refunds from the Earned Income Tax Credit (US) and the Family Tax Credit (UK) are treated as social assistance, as are near-cash food and housing benefits such as food stamps and housing allowances.

[5]Market income rate minus social insurance rate as a percent of market income rate.

[6]Market income rate minus social assistance rate as a percent of market income rate.

Table 6. Total Annual Hours Worked[1] by Head and Spouse in Nonelderly Poor Households[2]

	All Nonelderly Poor Households		Nonelderly Poor Households with Children		Nonelderly Single-Parent Poor Households	
Nation (year)	**Market Income[3]**	**Disposable Income[4]**	**Market Income[3]**	**Disposable Income[4]**	**Market Income[3]**	**Disposable Income[4]**
United States (00)	1,150	1,283	1,552	1,621	1,087	1,069
Netherlands (99)	489	741	830	891	351	311
Germany (00)	371	526	684	687	471	558
Canada (00)	947	963	1,339	1,338	626	498
Belgium (00)	463	737	1,125	1,375	219	179
Austria (00)	861	1,412	1,498	1,681	898	553
Ireland (00)	699	650	900	807	420	330
Average	711	902	1,133	1,200	582	500

Source: Author's calculations from the Luxembourg Income Study.

Notes:

[1]Annual hours of work in each nation for heads and spouses living in poor households, classified by type of households. See footnote 6 on nations not included.

[2]Households composed by persons aged under 65.

[3]Households whose market income is lower than half the median adjusted disposable income of all households.

[4]Households whose disposable income is lower than half the median adjusted disposable income of all households.

Table 7. Market and Disposable Income Based Poverty Rates for Children[1], by Education Level of Head/Reference Person

	All Children		Lowest Education Level Parents[2]			Other Education Levels Parents[2]	
Nation (year)	Market Income[3]	Disposable Income	Market Income[3]	Disposable Income	(Percent Parents in Lowest Level)	Market Income[3]	Disposable Income
United States (00)	23.3	21.9	53.3	50.8	(15.8)	17.5	16.3
Netherlands (99)	13.8	9.8	25.3	19.1	(18.4)	6.6	2.8
Sweden (00)	17.4	4.3	29.6	6.0	(17.3)	14.3	3.7
Germany (00)	16.1	9.1	35.1	24.5	(11.5)	13.1	6.5
Canada(00)	20.0	15.2	36.0	28.5	(15.2)	17.1	12.7
Finland (00)	16.2	2.8	30.2	6.2	(20.2)	12.7	2.0
Belgium (00)	19.2	6.6	34.0	12.1	(28.0)	13.5	4.5
Austria (00)	24.3	7.6	46.6	13.4	(12.1)	21.1	6.8
Italy (00)	18.8	16.9	28.7	25.8	(51.3)	8.7	7.8
Ireland (00)	25.6	17.6	31.1	20.8	(60.0)	17.6	12.8
Average	19.5	11.2	35.0	20.7	(25.0)	14.2	7.6

Source: Author's calculations from the Luxembourg Income Study.

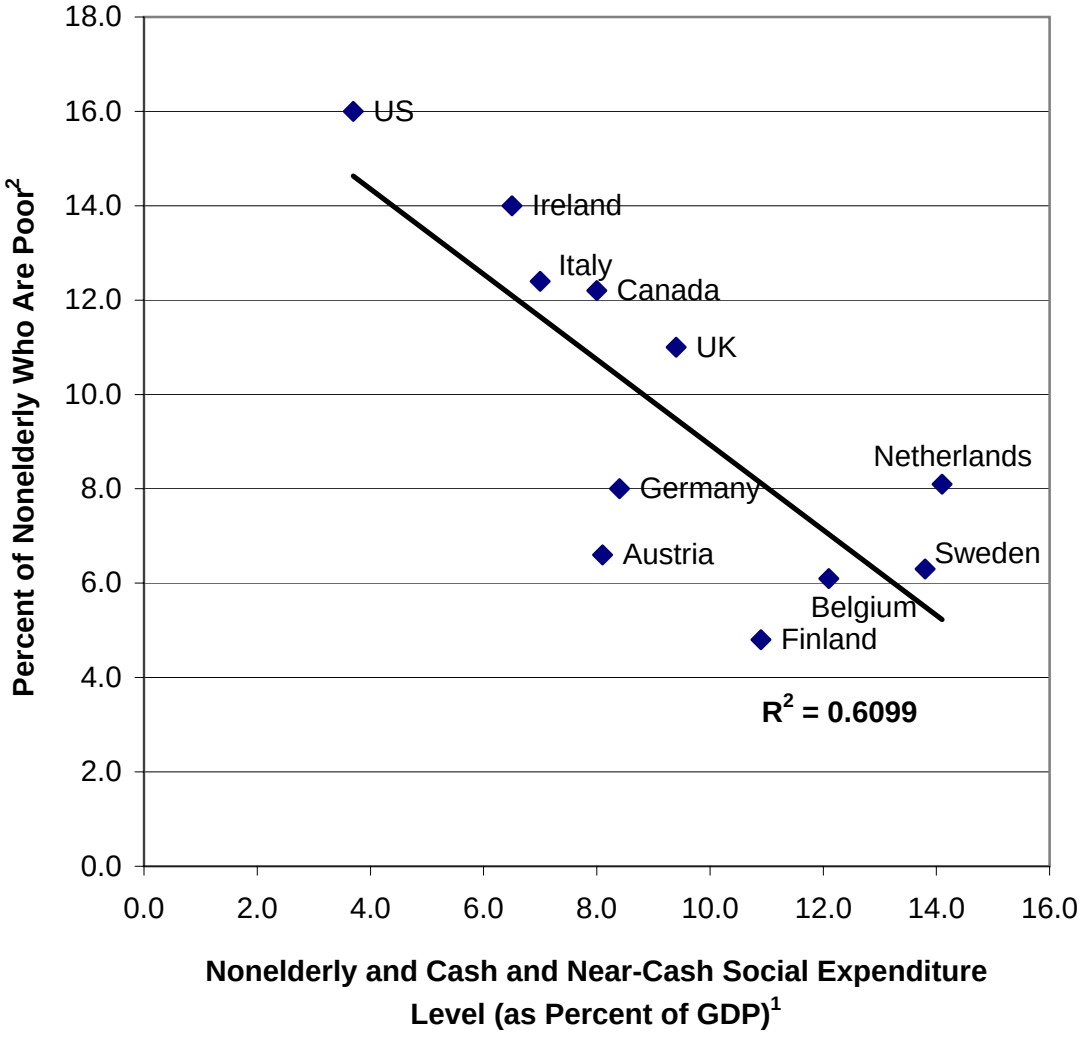
Notes:

[1]Poverty rates show percent of children living in households with adjusted market or disposable incomes below 50 percent of median adjusted disposable income.

[2]Lowest level is less than a high school degree.

[3]Poverty rates based on gross market income, including earnings, income from investments, occupational (private and public sector) pensions, child support and other private transfers. In four countries (i.e., Belgium, Austria, Italy and Ireland) we show market income after income taxes and social contributions.

Figure 1. Relationship of Cash Social Expenditures and Nonelderly Poverty Rates in Eleven Industrialized Countries circa 2000



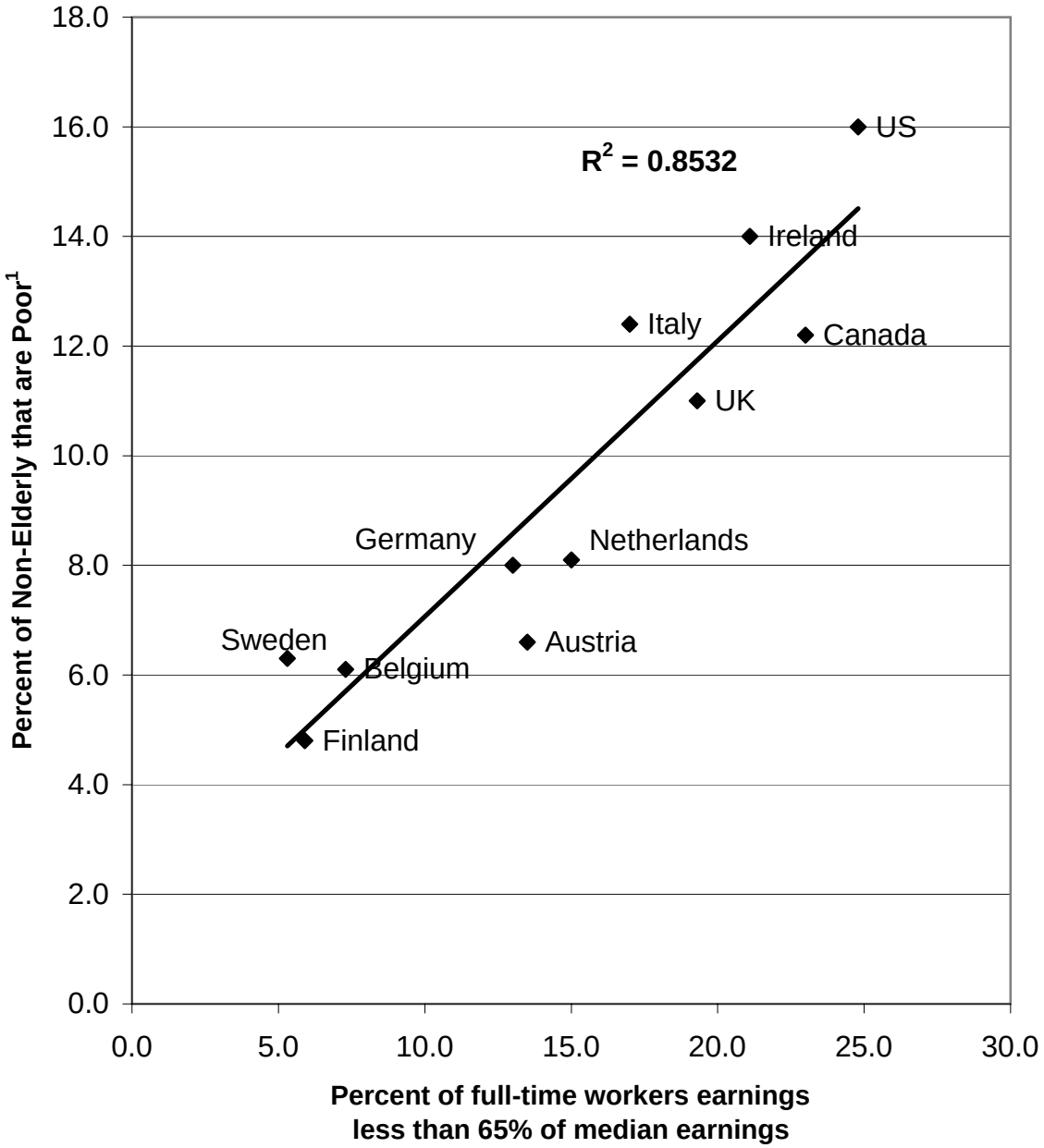
Source: OECD (2004) and authors tabulations of the LIS data files.

Notes:

[1]Cash and non-cash social expenditures exclude health, education, and social services, but include all forms of cash benefits and near cash housing subsidies, active labor market program subsidies and other contingent cash and other near cash benefits. Nonelderly benefits include only those accruing to household head under age 65.

[2]Percentage of persons below 65 in poor households.

Figure 2. Relationship of Low Pay and Nonelderly Poverty Rates in Eleven Industrialized Countries circa 2000



Source: OECD (2001, 2005b) and authors tabulations of the LIS data files.

Note:

[1]Percentage of persons below 65 in poor households.

Appendix Table A-1. US Poverty Thresholds as a Percentage of Median Incomes

A. Ratio of Poverty Line to Median US Census Gross (Pretax) Family Income for Same Size Family: 1960-2004[1]

Year	3 Persons	4 Persons
1960	40.7	48.0
1965	35.1	41.3
1970	31.0	35.5
1975	30.6	34.7
1980	30.4	34.6
1985	29.3	33.5
1990	28.4	32.3
1995	28.9	31.3
2000	**26.5**	**28.1**
2004	26.6	29.2

B. Ratio of US Poverty Line to Median LIS Household Disposable Income for Same Size Household[2]

Year	3 Persons	4 Persons
1974	37.2	40.8
1979	35.6	37.4
1986	33.4	40.4
1991	34.5	39.7
1994	36.9	40.7
1997	32.9	37.6
2000	**30.5**	**34.4**
2002	30.8	34.8

Notes:

[1]The poverty measures were based on the official poverty thresholds for 2004. These thresholds were adjusted backward to the specified years using the CPI-U-RS. Thus they are consistent over time and avoid the issues related to the changes in the makeup of the poverty matrix (past adjustments sex of head, nonfarm/farm, etc). The income measure is Census gross (before tax) money income, the official income measure for poverty determination.

[2]These were based on published official US poverty thresholds for families, and LIS disposable household income. Household income figures are not available from the CPS before 1967 and not from LIS before 1974 and "family" poverty lines were applied to households.

Appendix Table A-2. Distribution of Household Types
(percent of all persons in each type)

Nation (year)	Nonelderly Two Parents with Children[1]	Nonelderly Single Parent[2]	Nonelderly Childless[3]	Elders[4]	Mixed[5]	Total
United States (00)	42.5	10.6	29.8	8.7	8.4	100.0
United States (02)	41.9	10.9	30.1	8.8	8.3	100.0
Netherlands (99)	48.9	3.7	33.0	11.5	3.0	100.0
Sweden (00)	38.1	7.8	35.1	15.1	3.8	100.0
Germany (00)	35.4	4.4	38.6	15.1	6.5	100.0
Canada (00)	41.3	6.8	34.5	8.5	8.9	100.0
Finland (00)	39.7	5.7	36.4	11.7	6.4	100.0
United Kingdom (99)	37.5	8.9	34.5	12.0	7.0	100.0
Belgium (00)	44.2	4.7	30.2	17.0	3.9	100.0
Austria (00)	39.6	4.7	32.1	11.0	12.6	100.0
Italy (00)	39.2	1.8	30.0	12.3	16.7	100.0
Ireland (00)	52.7	7.2	22.1	7.8	10.2	100.0
Average	41.8	6.4	32.2	11.6	8.0	100.0

Source: Author's calculations from Luxembourg Income Study.
Notes:
[1]Households composed by nonelderly only (under 65), with children (under 18) and a couple.
[2]Households composed by nonelderly only, with children and no couple.
[3]Households composed by nonelderly only, without children.
[4]Households composed by elderly only (65 and above).
[5]Households composed by elderly and nonelderly (with or without children) are included in multigenerational households (not shown in Table 1).

Appendix Table A-3. Trends in Poverty in Eleven Rich Countries, by Age Group: Percentage Point Change from Initial Year

Nation	Years	Overall		Children		Aged	
		Relative[1]	Anchored[2]	Relative[1]	Anchored[2]	Relative[1]	Anchored[2]
United States	1986-2000	-0.8	-4.3	-3.2	-7.4	+1.2	-4.5
United Kingdom	1986-1999	+3.3	-4.7	+2.9	-8.5	+13.9	+0.9
Canada	1987-2000	0.0	-0.4	0.0	-0.6	-4.9	-5.5
Netherlands	1987-1999	+2.6	-1.2	+4.6	-0.6	+2.1	+0.8
Germany[3]	1984-2000	+0.8	-2.3	+0.3	-2.4	-1.7	-8.3
Belgium	1985-2000	+3.5	-2.5	+2.7	-1.5	+5.5	-8.9
Austria	1987-2000	+1.0	-1.7	+3.0	+0.2	-4.8	-10.4
Ireland	1987-2000	+5.4	-9.9	+3.4	-12.3	+21.4	-6.6
Italy	1987-2000	+1.5	-1.1	+2.9	+0.5	+1.1	-3.2
Sweden	1987-2000	-1.0	-3.9	+0.7	-1.9	+0.5	-5.5
Finland	1987-2000	0.0	-1.9	0.0	-1.1	-3.4	-7.6
Average		+1.2	-3.1	+1.6	-3.2	+2.9	-5.3

Source: Author's calculations with LIS files.

Notes:

[1]Relative numbers show actual change in poverty rates at 50 percent of median (in each year) calculated as the change from the initial year (see also http://www.lisproject.org/keyfigures/povertytable.htm).

[2]Anchored numbers show actual change in poverty rates calculated as the change from the initial year (50 percent of median poverty line) to the final year (where the poverty line is the absolute poverty line in first year CPI-adjusted to final year).

[3]Only West Germany is included here.