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Poor Children in Rich Countries

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POOR CHILDREN IN RICH COUNTRIES

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Every wealthy, industrial country has children who are living in absolute poverty. The rate of poverty among children, however, is unrelated to the country's standard of living. The United States, which was the wealthiest country of the six studied, has a higher poverty rate among children than any other country. Every country reduces the poverty of its children with government programs, but substantial differences in the effectiveness of these programs exist among countries. Understanding such differences may be useful in considering how to reduce poverty among children in the United States.

The industrial countries in the world have a higher standard of living than at any time in history. This standard of living is much higher than in the poor countries of the world today. But within the wealthy countries, there still exists a number of children who live in poverty. The United

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States, which is the wealthiest country of the six studied, had the highest poverty rate among children and the second highest poverty rate among families with children.

From 1970 to 1986, the poverty rate for children in the United States increased from 15 percent to 20 percent. This occurred at the same time that the poverty rate for other groups in the United States, such as the elderly, decreased, e.g., from 25 percent to 12 percent.[1] This reversal in the economic status of the young and old in the United States occurred without an explicit government policy favoring one group over the other. The reversal was not anticipated at the beginning of the 1970's, and the divergence of the two groups was not carefully documented until the 1980s.[2]

Many of the countries studied provide levels of income benefits to their poor families similar to the levels in the United States. But they reduce the percent of families in poverty more than the United States. The patterns of poverty and poverty reduction are the result of complex interactions among economic and social trends in each country. Therefore, conclusions about one country's poverty programs cannot be automatically applied to other countries. But international comparisons of poverty can be used to suggest what may be universal patterns of poverty versus unique problems within each country. These comparisons also can highlight issues that may be relevant to the United States, or to other countries.

This article employs data from the Luxembourg Income Study (LIS) to compare the poverty rates of families with children in six industrial countries in the years 1979 and 1981. The article first examines the poverty rates of children and then the poverty rates of families with children before they receive income and tax benefits. It then discusses how the sources of income and family structures correlate with pre-tax and transfer poverty compares the poverty rates of these families after they receive taxes and transfers, and discusses how participation rates and benefit levels affect the differences in these rates. Other studies suggest that there is a correlation between children who grow up in poverty and become dependent on welfare and those who remain in poverty or on welfare as adults.[3] Therefore, the cross-section comparisons in this article raise some possible future labor force, economic growth, and welfare dependency issues for countries such as the United States, which have high poverty rates among its children today.

Poverty Definition

Poverty can be defined either in relative or in absolute terms. For simplicity and ease of comparison, the definition of poverty in this paper is the official U.S. government poverty definition. The level of the poverty line in dollar terms is converted into other currencies using the Organization for Economic Cooperation and Development (OECD) purchasing power parities. Purchasing power parity measures the cost of buying both imports and domestic goods in each country and, therefore, is more comprehensive than other available indices used to convert currencies.

The income accounting unit is the U.S. census family; the income definitions employed are first, income before receiving transfers and paying taxes, earnings, and capital income (pre-tax and transfer income), and then disposable personal income which adds in government transfers and subtracts income and payroll taxes (post-tax and transfer income). This latter definition also includes the cash value of food stamps in the United States and housing allowances in the United Kingdom and Sweden. Income estimates (both pre- and post-tax and transfer) also are adjusted for differences in family size and composition using the U.S. poverty line equivalence scale.[4]

Other family and income definitions, equivalence scales, and currency conversion could be used. Different definitions and adjustment scales would change the level of poverty rates in most countries. But the country-by-country ranking of poverty among families with children in the six countries studied was insensitive to the different definitions used.[5] The United States had more poor children and more poor families with children than almost every other country studied regardless of the definitions and adjustments made.

Income measures provide only a partial description of the conditions of poverty. Noncash income components, such as health care, may be as important as money income in describing the true social condition of the poor.[6] But if noncash income factors were included in these comparisons, they would be unlikely to improve the relative position of the United States since most countries provide more noncash benefits to their children than the United States.

The sources of the data used in the LIS are national household income surveys taken by the governments of each country between 1979 and 1981. The data from these surveys are adjusted for definitional differences in income and household composition by the LIS staff to ensure comparability. For the first time, LIS presents an opportunity to compare the level and composition of families and their incomes across countries accurately.[7] Poverty has worsened in the countries studied since these surveys were taken. Therefore, the analyses based on these surveys are underestimating the present poverty of children in industrial countries.

Poverty Among Children

The United States, and then Australia, have the highest rate of poverty among their children of the countries studied (Table 1). This poverty rate of children measures the number of children who are living in families who are poor even after receiving income and tax benefits from the government. Child poverty rates vary enormously by the structure of the child's family. In every country, child poverty rates are at least twice as high, and usually much higher, in single-parent families than in two-parent families. Australia has the highest poverty rates in both kinds of families, but the United States has the highest rate among children in extended family structures. This extended family situation is usually a young, single parent living in a parents' home. Hence the rate of poverty among children of single parents would be even higher in the United States if these "hidden" single parents could be identified.[8]

Perhaps the most startling figures are those which show the percentage of all children and of all poor children who are severely poor, i.e. those living in families with incomes below 75 percent of the U.S. poverty line. We term these children as severely poor because after all tax and transfer programs, they have incomes which are significantly different from those near the poverty line. Among those near the poverty line, a minor change in poverty definition might radically affect the result. But for the severely poor, poverty is clearly not a statistical quirk. Here we find that U.S. poor children are by far the worst off. In fact, it is the depth of poverty among children in the United States that most distinguishes it from the other countries studied.

Government programs give income support for poor children to their families, not to the child. Therefore, in order to understand the patters of poverty among children, it is essential to examine the poverty of their families and the way that governments help them cope with inadequate incomes.

Family Poverty Rates Before Taxes and Income Transfers

The magnitude of the problem government programs face in addressing the poverty of their children is described by the pre-tax and transfer poverty rates and gaps. The pre-tax and transfer poverty rate measures how many families with children have income below the poverty line before receiving any government benefits; the poverty gap measures how far below that poverty line the families are.

The United States has the highest pre-tax and transfer poverty rate for their families with children, except Australia (Table 2). Of the countries studied, Australian families had the lowest median family incomes, only 78 percent as high as in the United States. Germany has less than half the poverty rate of the United States. The pre-tax and transfer poverty gap (the poverty gap is the difference between the income and the poverty line as a percent of the poverty line) for the families who are poor in these countries was more similar than their rates. Australia, Canada, Sweden, and the United States all had similar poverty gaps of between 59 and 68 percent.

There are a number of possible explanations for the differences in the pre-transfer poverty rates and gaps among the countries. Two important factors that vary by country and were correlated with pre-transfer poverty are the level of average earnings and transfers, and the structure of poor families. Another possible explanation is related to population heterogeneity within and across countries..

The Earned and Transfer Income of Poor Families. At the time of these surveys, the United States had a lower unemployment rate than most of the other countries, and its real wage level was generally higher. Both factors should have given the poor families in the United States an advantage relative to the families in other countries. But they did not. Poor families in the United States had only about two-thirds the average earnings of those in Germany, Sweden, and the United Kingdom (Table 3). Earnings in Australia were two-thirds the level of the United States. Australia and the United States had the lowest level of earnings among their poor families; they also had the highest poverty rates.

The importance of earnings in the income of the poor families is directly related to the structure of the income support system. Poor families have more earnings in countries that provide more benefits through social insurance programs that are not means-tested than in countries that rely on means-tested, welfare programs for the poor. The higher the absolute amount of income transfer from social insurance is, the higher the earnings are. One explanation for this correlation is that means-tested programs create high, implicit tax rates on earned income. (Beneficiaries who increase their income lose some of their means-tested benefits.) And these implicit tax rates have a substantial effect on labor market behavior.[9] Therefore, it is not surprising that pre-tax and transfer poverty rates would be higher in countries that tax implicitly earnings more than in other countries. The countries that rely primarily on means-tested programs to provide income support to poor families--Australia and the United States--have the lowest earnings levels, the lowest disposable income, and the highest before tax and transfer poverty of the six countries studied. They also have the highest after tax and transfer poverty.

Among the six countries studied, there are considerable differences in the reliance on social insurance and welfare (means-tested) programs. Three countries provide more than 60 percent of their transfer income to poor families through non-means-tested, social insurance programs; Canada relies equally on social insurance and means-tested programs to provide benefits. The United States and Australia provide most of their benefits to poor families through means-tested programs.

One might expect that in countries that have child-related benefits, such as childrens' allowances and maternity grants (or parents' allowances), these benefits would be an important source of income for poor families with children. But in fact, while the benefits are universal, they also are small. The level of child benefits vary from 6 to 13 percent of the U.S. poverty line for families with children in the six countries that provide them. In Germany, child benefits are larger than means-tested benefits for families with children, but in no country are they a major source of income or expenditure for poor families with children (Table 3). They are large enough to help remove some families from poverty and to help reduce the poverty gap, but they are not large enough to solve the child poverty problem in any country. On the other hand, employment-related social insurance benefits, unemployment, sickness, accident, and disability, are much more important in every country than are child-related benefits in those countries that have both. Employment-related and child-related benefits combined are the most important government benefits to poor families in every country but Australia and the United States.

Low earnings among poor families with children are not only correlated with the structure of the welfare system, they are related to the structure of poor families. Single-parent families have less earnings than two-parent families in every country. And the United States has more children in single-parent families than the other countries, except for Sweden.

Family Structure. In every country, poverty rates vary by the structure of the family. Children in single-parent families have poverty rates which are much higher than those in two-parent families in every country as can be seen in Table 1. Single-parent families begin with higher pre-tax and transfer poverty rates and higher poverty gaps in every country but Sweden. And after tax and transfers, single-parent families still have higher poverty rates than other families. Again, the United States has the highest poverty rates and gaps for single-parent families among the countries, except Australia.

Kahn and Kamerman have compared the income of single-parent families as a percentage of average production worker's wages.[10] They found that single parents do best in Sweden and worst in the United States, as represented by Pennsylvania. This finding is similar to our results. But their ranking of other countries differs somewhat from that produced by the LIS data. Given the differences in the populations studied and the income measures, a lack of agreement might be expected. But the fact that the United States is ranked so low in the Kamerman-Kahn studies reinforces the concerns about the United States raised by our analysis of the LIS data.

The high percentage of children in single-parent families in the United States, together with the high U.S. single-parent poverty rate, does have an influence on overall child poverty rates. If every country had the same percentage of children in single-parent families as the United States in 1979 (14.7 percent) but their own actual poverty rates by family status, the poverty rate for children of the other countries would increase everywhere but in Sweden. However, in all other countries, except Australia, the increase in child poverty would still leave those countries well below U.S. child poverty rates. (If Australia had the same fraction of children in single-parent families as the United States, it would have a higher child poverty rate than the United States.) While the proportion of U.S. children who are in single-parent families is somewhat higher than in other countries, except Sweden, what appears to distinguish the U.S. and Australian situation is that our single-parent families are so much more economically vulnerable than in other countries.

Heterogeneity. If poverty rates vary by race or ethnic groups as they do in the United States, then countries with a more diverse population, such as Canada and the United States, may have higher poverty rates than homogenous countries. Among the nations which are included in this paper, only Australia, Canada, and the United States have a culturally diverse enough population to separate minority subgroups within those populations. Sweden and the United Kingdom do not make such differentiation, while the Germany data set excludes foreign-born heads of households.

In the United States, black families with children are particularly economically disadvantaged relative to white anglo (non-black and non-hispanic) families. The poverty rates among black children are almost four times higher than the rates of white anglo children. Hispanic poverty rates for children in the United States are double non-black, non-hispanic rates as well.[11] But the poverty rate of U.S. white anglo children is still 11.4 percent. In comparison, the poverty rate of non-minority populations in Canada (9.6 percent) is lower than that of U.S. white children and the same as native-born Canadian children. The Australians, on the other hand, have more poverty among their native-born population than the United States does among its white population. Still, the 11.4 percent poverty rate among U.S. white children is higher than the overall minority and/or majority poverty rates for children in all countries but Australia (see Table 1).

Heterogeneity does matter; poverty rates are different for different populations and U.S. poverty rates are high, due in part to its social and ethnic diversity. But this diversity does not matter enough to fully explain the broad differences in poverty among nations in general and the high poverty of U.S. children, even white anglo children.

Poverty After Income Transfers

Tax and transfer benefits reduce the poverty of families with children in every country studied. But no country has eliminated poverty among families with children entirely (Table 4). In fact, the difference in poverty rates among the countries was larger after accounting for government taxes and transfers than the differences in poverty rates before transfers. The post-tax and transfer poverty rates for families with children in Australia and the United States remain the highest of the countries studied. Transfers in every country reduced the poverty gap of the families that remained in poverty. But the poverty gap after transfers was largest in the United States. The average

U.S. transfer to these families represented 64 percent of the pre-tax and transfer poverty gap, a smaller percentage of the poverty gap than in any country, including Australia (Table 4). The U.S. transfer system reduces the pre-transfer poverty population by 17 percent. But government programs reduce the number of people in poverty twice as much on average in the other countries as in the United States. Again, there are a number of possible explanations for why the U.S. transfer programs reduce poverty less than in other countries. But two factors, which are critical, are participation in income transfer programs and the level of government income support.

Participation in Income Transfer Programs. One of the reasons why many children in the United States are poor is that 27 percent of poor families with children in the United States receive no public income support from the programs studied. In every other country at least 99 percent of families that were defined poor by the U.S. poverty line definition received some type of income support. In every country except the United States and Australia the participation rate in child allowances or other social insurance programs was higher than in means-tested programs. All of the countries, except the United States, have child allowances which reach at least 80 percent of poor children. Only in the United States, where only 25 percent of the pre-transfer poor received social insurance transfers, is the relationship reversed.

Means-tested programs not only discourage work and, therefore, may increase pre- and post-tax and transfer poverty, but means-tested programs in the United States also restrict participation of poor families. For example, two-parent families in 27 states still are not eligible for income transfers. Even in cases where all families with children are eligible, Food Stamps being the prime U.S. example, means-tested programs also are invasive and, hence, may discourage some people who are eligible from applying. Therefore, one reason the U.S. Government programs decrease pre-tax and transfer poverty less than in other countries is because they reach a smaller percentage of the poverty population.

The poverty rates of children would almost certainly decline if all families with poor children in the United States received income support. If we assume that the 27 percent of families with children currently without benefits in the United States receive some type of support, and that because of this support a third of the new recipients were removed from poverty, then the U.S. poverty rate among families with children could be reduced to 12.5 percent. This would reduce the difference in poverty rates between U.S. families with children and the average of the four countries with lower poverty rates by about 20 percent.

Taken together, the differences in family structure and the differences in participation rates may explain just about one-third of the difference in the post-tax and transfer poverty rates of children in the United States and of the average poverty rate in the four other countries with lower poverty rates. Increased earnings would reduce the difference still further. And most of the remaining difference may be explained by the differences in levels of government income benefits provided to families with children in general and the poor in particular.

Amount of Income Support Provided. Table 3 shows the level of income support to poor families in U.S. dollars. Sweden provides almost twice the transfers after taxes as the other countries provide to their poor families with children. For five of the six countries, total government transfers minus taxes are within $627 of each other. The level of average transfers to poor families are more similar among the countries studied, except Sweden, than their after-transfer poverty rates. For instance, Canada provides on average only $500 more to their poor families than the United States. But they reduce their pre-transfer poverty rate 37 percent compared to the 17 percent reduction rate of the United States. This suggests that Canadian transfer benefits may be better targeted on poverty; 99 percent of poor families with children in Canada get government transfers and these transfers appear to be more efficiently distributed than in the United States. But another reason why the United States does less well with almost the same level of transfers is because the poverty gap and the percentage of severely poor children is larger in the United States than in Canada and the other countries. The larger the poverty gap the more income is needed to remove a family from poverty. And the United States, which has the biggest gap for these families provides the least income support per family.

Income Support as a Percent of Gross Domestic Product (GDP). If we compare how much income support is provided to poor families relative to GDP instead of relative to individual income, the difference among countries increases substantially. Some of the income support is provided through relatively easy-to-measure, direct income benefits. But in several countries, considerable support is provided through the tax system. The OECD has recently estimated the family income benefits, including both universal and means-tested benefits for children, and has separately estimated tax credits and tax relief for children.[12] Combining the two calculations provides a composite estimate of the two forms of income support for children. These estimates are presented as a percent of GDP; the nature of the calculations, however, means that they should not be treated as precise measures of government support, but rather as relative orders of magnitude.

Canada and the United States distribute about 0.5 percent of GDP in income transfers for children, about half of what the other countries provide. This understates the U.S. and Canadian efforts since it does not take into account their benefits provided through the tax system. When tax benefits are added to transfers, Canada's share increases considerably to 1.6 percent, but the U.S. resource allocation only rises to 0.6 percent, still half or less the allocation of Sweden, the United Kingdom, Australia, and Canada. If these estimates of transfers and taxes as a percent of GDP allocated to children were adjusted by the percent of the population 0 to 17 relative to the United States, the differences between the United States and the other countries would increase still further.

The OECD estimates of income transfers and tax credits suggests that the United States spends relatively much less of its considerable wealth on children than other countries. But the OECD also has estimated educational expenses as a percent of GDP. And in educational expenses, the United States spends more than Germany and the same as the United Kingdom (5.3, 4.6, and 5.3, respectively). Canada, Sweden, and Australia spend consistently more, at least 5.9 percent of GDP. The relative difference in the percentage of GDP spent on education among the six countries is much less than the differences for income transfers. Therefore, it appears to be less an issue of the United States refusing to invest in the young than it is an issue of how those resources are invested.[13]

Concluding Remarks

A great deal has now been written about the reluctance of the U.S. public to support public assistance to families with poor children. Senator Moynihan has described U.S. policy as one more focused on individuals than on families.[14] This focus encourages us to help the individual child through education but not the family of the child through income support. Jencks, however, warned prophetically that an excessive dependence on our educational system to provide equal economic opportunity for all children would not work.[15]

Since the 1979-81 period discussed in this paper, levels of child poverty have deteriorated. In the United States, as officially measured, child poverty has increased from 16 percent in 1979 to 20 percent in 1986.[16] In the European countries, a new poverty has developed that has almost certainly increased the poverty of their children.[17] However, U.S. children are likely today to still be disadvantaged relative to their peers.

International comparisons across many countries may be instructive, but they almost never can be proscriptive. Every country's welfare programs reflect their own cultural and social philosophies. Any changes in welfare policies must be done within the national context of each country's social philosophy. The poverty of children is not just a short-term public policy issue. To the extent that poverty of children is related to their poverty as adults[18], the quality of our future workforce may be affected by the present poverty of our children. And the poverty of our children today may affect our long-term competitiveness with the other wealthy countries in this study who tolerate much less child poverty than the United States.

Table 1. Post-tax and transfer poverty rates and severe poverty rates among children. (Rates are in percent. Children are persons 17 years or under. Severe poverty rates are percent of children who live in families with incomes below 75 percent of the U.S. poverty line.)

Measure	Australia (1981)	Canada (1981)	Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)
Poverty rates						
All families	16.9	9.6	8.2	5.1	10.7	17.1
One-parent families	65.0	38.7	35.1	8.6	38.6	51.0
Two-parent families	12.4	6.8	4.9	4.5	9.5	9.4
Extended families	10.6	5.5	12.1	0.5	1.5	16.2
Severe poverty rates of poor children	43.1	45.8	30.8	42.4	35.2	57.7
Severe poverty rates of all children	7.3	4.4	2.5	2.2	3.8	9.8

Table 2. Pre-tax and transfer poverty rates and gaps for families with children. (Rates are in percent. Gap is the difference between the average income of poor families and the poverty line divided by the poverty line.)

Measure	Australia (1981)	Canada (1981)	Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)
Poverty rate	17.6	13.6	7.9	10.4	14.1	16.6
Poverty gap	68	59	50	63	47	63

Table 3. Source of income for families with children who were poor before income transfers. (Source of income is in 1979 U.S. dollars. Distribution of transfers as a percent of total amount of transfers.)

Measure	Australia (1981)	Canada (1981)	Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)
<u>Source of income</u>:						
Earnings	1,210	2,075	2,593	2,766	2,766	1,902
Income transfers less taxes	2,593	2,766	2,420	4,944	2,864	2,237
<u>Distribution of transfers</u>:						
Social insurance	13	52	89	63	61	29
(Employment-related)	(0)	(39)	(69)	(44)	(37)	(29)
(Child-related)	(13)	(13)	(20)	(19)	(24)	(0)
Means-tested	87	48	11	37	39	71
Total	100	100	100	100	100	100

Table 4. Post-tax and transfer poverty rates and gaps for families with children. (Rates are in percent. Gap is the difference between the average income of poor families and the poverty line divided by the poverty line.)

Measure	Australia (1981)	Canada (1981)	Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)
Poverty rate	15.0	8.6	6.9	4.4	8.5	13.8
Poverty gap	32	32	24	28	21	38
Government transfers as percent of pre-tax and transfer poverty gap	71	85	106	176	117	64

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4. Because our income definition includes Food Stamps and subtracts income and payroll taxes, it differs slightly from the official U.S. poverty definition, even though LIS uses the exact same data base, family definition, and poverty definitions as does the U.S. Bureau of the Census. These differences are relatively small. For instance, in 1979, the U.S. Bureau of the Census (1) estimated that 16.0 percent of U.S. children were in families with incomes below the poverty line. Our estimate (Table 1) shows 17.1 percent poor.

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7. The LIS data base currently includes ten countries, the six studied here and Israel, Netherlands, Norway, and Switzerland. Previous analyses (for instance, Smeeding, Torrey, Rein, (5)) indicate that including these countries would not affect the results shown below.

8. See Smeeding, Torrey, Rein, (5).

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11. See Smeeding, Torrey, and Rein (5), Table 5.9.

12. O'Higgins, Michael. "The Allocation of Public Resources to the Elderly and to Children in OECD Countries," in J. Palmer, T. Smeeding, and B. Torrey (eds.), The Vulnerable: America's Children and Elderly in an Industrial World (Urban Institute Press, Washington, D.C., 1988).

13. Separate estimates for health expenditures on children developed at LIS indicate even less variance in health care expenditures per child with the range being from 1.1 to 1.9 percent of GDP with the United States at 1.4 percent, roughly the average of the six countries studied.

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