Articles

Poor Children in Rich Countries

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Every wealthy, industrial country has children who are living in poverty. The United States, the wealthiest country of six studied, has a higher poverty rate among children than the other five countries. Each 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, but within the wealthy countries, there are still a number of children who live in poverty. The United States, which is the wealthiest country of six studied, had the highest poverty rate among children and the second highest poverty rate among families with children.

From 1970 to 1987, the poverty rate for children in the United States increased from 15 to 20 percent. This occurred at the same time that the poverty rate for the elderly in the United States decreased from 25 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 expected at the beginning of the 1970s, and the divergence of the two groups was not carefully documented until the 1980s (*2, 3*).

Many of the countries studied provide similar amounts of income benefits to their poor families as are provided in the United States. The other countries, however, reduce the percentage of families in poverty more than does the United States. Because patterns of poverty and poverty reduction result from complex interactions among economic and social trends in each country, conclusions about social programs in one country cannot be automatically applied to another. But international comparisons may reveal universal patterns of poverty as well as problems specific to each country.

In this article data from the Luxembourg Income Study (LIS) are used to compare the poverty rates of families with children in six industrial countries (Australia, Canada, Sweden, United States, United Kingdom, and West Germany) for the years 1979 and 1981. First, the post-tax and transfer poverty rates (defined below) of children are examined, and then the poverty rates of families with children before they receive income and tax benefits are described. Next the correlations of sources of income and family structures with pretax and transfer poverty are discussed, poverty rates of these families after they receive taxes and transfers are compared, and the effect of participation and benefit levels on these rates are examined. Because of their growing numbers and high level of economic disadvantage, single-parent families with children are highlighted as a group of particular interest.

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Definition of Income and Poverty

Two definitions of income are used: pretax and transfer income, which is earned income and property income before payment of taxes or receipt of government benefits, and post-tax and transfer income, which is the income after paying taxes and receiving government benefits. Post-tax and transfer income includes the cash value of food stamps in the United States and housing allowances in the United Kingdom and Sweden (*4*). Income estimates (both pre- and post-tax and transfer income) also are adjusted for differences in family size and composition with the use of the U.S. poverty line equivalence scale (*5, 6*).

Poverty can be defined in relative or in absolute terms. For ease of comparison, the definition we use is the absolute definition of poverty used by the U.S. government. In 1979, the U.S. poverty line for a family of three was $5763. Families with lower adjusted incomes were in poverty. The dollar amount of the U.S. poverty line was converted into the currencies of the other countries by using the purchasing power parities developed by the Organization for Economic Cooperation and Development (OECD) (*6, 7*). These equivalent poverty lines vary from 39.4 percent of adjusted median income in Canada to 55.8 percent in Germany; the U.S. poverty line is 42.1 percent of the median income in the United States (Table 1).

Other family and income definitions, equivalence scales, and currency conversion techniques could be used. Different definitions and adjustment scales would change the level of poverty rates in most countries. But, the United States had more poor children and more poor families with children than virtually every other country in the study regardless of the definitions and adjustments made (*6, 8*).

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 (*9*). But if noncash income factors were included in these comparisons, they would be unlikely to improve the relative position of the United States because most countries provide more noncash benefits to their children than does the United States.

The sources of the LIS data are national household income surveys taken by the governments of each country between 1979 and 1981. Because the data from these surveys are adjusted for definitional differences in income and household composition, the level and composition of families and their incomes across countries can be compared accurately (*10*).

Table 1. Post-tax and transfer poverty rates among children. (Children are persons 17 years or under.)

Measure	Australia (1981)	Canada (1981)	West Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)
	Rate (%)					
	Poverty rates of all children					
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
	Below 75 percent of poverty line					
Poor children	43.1	45.8	30.8	42.4	35.2	57.7
All children	7.3	4.4	2.5	2.2	3.8	9.8
U.S. poverty line as a percentage of adjusted median income	51.4	39.4	55.8	50.1	52.9	42.1

Poverty Among Children

The United States and then Australia have the highest rates of poverty among children of the countries studied (Table 1). This poverty rate 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. These extended families are usually a young, single parent with children living in a relative's home. Perhaps the most striking figures are those that show the percentage of all children and of all poor children who are living in families with incomes below 75 percent of the U.S. poverty line. Here we find that U.S. poor children are the worst off of children in any country, including Australia, with almost 10 percent existing at an income level at least 25 percent below the official U.S. poverty standard.

Government programs give income support to families, not to children. Therefore, in order to understand the patterns of poverty among children, the poverty of families, particularly single-parent families, and governments' response to this poverty are examined.

Family Poverty Rates Before Taxes and Income Transfers

The magnitude of the problem faced by governments in addressing the poverty of children is described by the pretax and transfer poverty rates and gaps. The pretax and transfer poverty rate measures how many families with children have incomes below the poverty line before they receive government benefits or pay taxes; the poverty gap measures how far below that poverty line the families are. (Family-based measures of child poverty may differ from child-based measures because poor families may be larger or smaller than all families with children.)

The United States has the highest pretax and transfer poverty rate for families with children, except Australia, which has the lowest median family income of the countries studied (Table 2). Germany has less than half the poverty rate of the United States. The pretax and transfer poverty gap (the poverty gap is expressed as the difference between the income and the poverty line as a percentage 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, between 59 and 68 percent of their poverty lines.

One group of particular interest in both the United States and in the other countries studied is single parents and their children (*11, 12*). These families have poverty rates and gaps that are much higher than those in other families. Although the rates are indeed higher for single parents, before taxes and transfers, U.S. single-parent families had near average poverty rates and gaps, below those in Australia and close to those in the United Kingdom and Canada.

There are a number of possible explanations for the differences in the pretransfer poverty rates and gaps among the countries and groups. Two important factors that vary by country and were correlated with pretransfer 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. Yet, the average earnings of poor families in the United States were only about two-thirds those in Germany, Sweden, and the United Kingdom (Table 3). In Australia earnings were two-thirds the level in 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.

Poor families have more earnings in countries that rely more on social insurance benefits than on welfare benefits to relieve their poverty. Social insurance programs are either universal, such as child-related benefits that go to all children, or related to work, such as unemployment insurance. Welfare programs are related to economic need and therefore are reduced when beneficiaries increase their income from earnings. This reduction of welfare benefits with increases in earned income creates an implicit tax rate on earned income, which tends to reduce labor force participation and hours worked (*13, 14*).

Among the six countries studied, there are considerable differences in the reliance on social insurance and welfare programs. Three countries (Germany, Sweden, and the United Kingdom) provide more than 60 percent of their transfer income to poor families through social insurance programs; Canada relies equally on social insurance and welfare programs to provide benefits. The United States and Australia provide most of their benefits to poor families through welfare 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, although these benefits are universal, they also are relatively small. The levels of child benefits vary from 6 to 13 percent of the U.S. poverty line for families with children in the five countries that provide them. In Germany child benefits are larger than welfare benefits for families with children, but in no country are they a major source of income 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 income transfer system, they are related to the structure of poor families. Single-parent families have lower earnings than two-parent families in every country. And the United States has more children in single-parent families than the other countries, except Sweden.

Family structure. In every country, poverty rates vary by the structure of the family. Children in single-parent families have poverty rates that are much higher than those in two-parent families in every country (Tables 1 and 2). Single-parent families begin with higher pretax and transfer poverty rates and higher poverty gaps (the latter in every country but Sweden; Table 2). And after tax and transfers, single-parent families still have higher poverty rates than other families (Table 4). On this basis the United States has the second highest poverty rate and the highest remaining poverty gap for single-parent families among the countries.

The high percentage of children in single-parent families in the United States, together with the high U.S. single-parent poverty rate, does contribute to the high child poverty rates in the United States. If the other countries 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 the 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 overall child poverty rate than the United States.) Although 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 single-parent families are so much more economically vulnerable (as measured by their poverty rates) 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 Australia, Canada, and the United States, may have higher poverty rates than more homogeneous countries. The Australian, Canadian, and U.S. surveys described in this article collected data on separate minority subgroups within those populations. Sweden and the United Kingdom do not make much differentiation, whereas the German data set excludes foreign-born heads of households.

In the United States, black families with children are particularly economically disadvantaged relative to white (nonblack and non-Hispanic) families. The poverty rates among black children are three times as high as the rates of white children. Poverty rates of Hispanic children in the United States are double those of white children as well (*15*). But the poverty rate of U.S. white children is still 11.4 percent. This poverty rate of white children in the United States alone is higher than the poverty rate of all children in the other countries except in Australia (Table 1). The poverty rate of non-

Table 2. Pretax and transfer poverty rates and gaps for all families with children and for single-parent families with children. (The gap is the difference between the average income of poor families and the poverty line divided by the poverty line. Single-parent families with children are those with only one adult present. Group averages are the simple mean of the estimates for the six countries.)

Measure	Australia (1981)	Canada (1981)	West Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)	Group averages
			All families with children				
Poverty rate	17.6	13.6	7.9	10.4	14.1	16.6	13.4
Poverty gap	68	59	50	63	47	63	58
			Single-parent families with children				
Poverty rate	67.6	48.0	37.2	33.1	53.1	49.3	48.1
Poverty gap	84	77	68	60	72	74	73

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

Measure	Australia (1981)	Canada (1981)	West Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)
			Source of income (1979 U.S. dollars)			
Earnings	1210	2075	2593	2760	2766	1902
Income transfers less taxes	2593	2766	2420	4944	2864	2237
			Distribution of transfers (percentage)			
Social insurance						
Employment-related	0	39	69	44	37	29
Child-related	13	13	20	19	24	0
Welfare	87	48	11	37	39	71
Total	100	100	100	100	100	100

minority and minority populations in Canada (both 9.6 percent) is lower than that of U.S. white children alone. The Australians, on the other hand, have more poverty among the native-born and foreign-born population than the United States does among its white population.

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 explain fully the high poverty of U.S. children in general, or even white children in particular.

Family Poverty Rates After Taxes and Income Transfers

Tax and transfer benefits reduce the poverty of families with children in every country studied, but none of these countries has eliminated poverty among families with children entirely (Table 4). In fact, the difference in poverty rates among the six countries was larger after accounting for government taxes and transfers than the differences in poverty rates before taxes and 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, both for single-parent families and for all families. 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 for both family types. On average U.S. income transfers represent 64 percent of the pretax and transfer poverty gap for all families and 58 percent for single-parent families. These are a smaller percentage of the poverty gap than in any country, including Australia (Table 4). This helps explain why the pretax and transfer poverty rates and gaps for both kinds of families improved relatively less in the United States than in other countries after taxes and transfers (Tables 2 and 4).

Overall, the U.S. transfer system reduces the pretransfer 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. Two important factors are the level of participation in income transfer programs and the income support these programs provide.

Participation in income transfer programs. One of the reasons why many children in the United States are poor is that 27 percent of all poor families with children and 23 percent of single-parent families receive no public income support from the programs studied. In every other country at least 99 percent of both types of families that were defined as 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 welfare programs. All the countries, except the United States, have child allowances that reach at least 80 percent of poor children. Social insurance programs other than child allowances are based on employment history. All countries studied but Australia have these types of programs. Among the U.S. pretax and transfer poor, only 25 percent received social insurance as compared to at least 40 percent in the other four countries with such programs.

Welfare program rules in the United States restrict participation of poor families. For example, two-parent families in 27 states still are not eligible for cash income transfers. Even in programs where all families with children are eligible for benefits, such as food stamps, welfare program rules may discourage some people who are eligible from applying. One reason the U.S. social insurance and welfare programs decrease pretax and transfer poverty less than in other countries is simply because they reach a smaller percentage of the poverty population.

The poverty rates of children would decline if all families with poor children in the United States received income support. If we assume that the 27 percent of poor families with children currently without benefits in the United States receive some type of support, and that because of this support 17 percent of the new recipients were removed from poverty (which is the same rate of poverty reduction in current U.S. transfer programs), then the U.S. poverty rate among families with children could be reduced from 13.8 to 13.1 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 10 percent.

Taken together, the differences in family structure, racial heterogeneity, and the differences in participation rates may explain 64 percent of the difference between the post-tax and transfer poverty rate of children in the United States and of the average poverty rate in the four other countries with lower poverty rates (*16*). Increased earnings by the U.S. pretransfer poor 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. The level of income support to poor families in U.S. dollars is shown in Table 3. Sweden provides almost twice the transfers net of taxes as the other countries provide to their poor families with children. For the other five 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 does the United States,

Table 4. Post-tax and transfer poverty rates and gaps for all families with children and for single-parent families with children. (The gap is the difference between the average income of poor families and the poverty line divided by the poverty line. Single-parent families with children are those with only one adult present. Government transfers are measured as a percentage of the pretax and transfer poverty gap. Group averages are the simple mean of the six country estimates.)

Measure	Australia (1981)	Canada (1981)	West Germany (1981)	Sweden (1981)	United Kingdom (1979)	United States (1979)	Group averages
			All families with children				
Poverty rate	15.0	8.6	6.9	4.4	8.5	13.8	8.4
Poverty gap	32	32	24	28	21	38	29
Government transfers	71	85	106	176	117	64	64
			Single-parent families with children				
Poverty rate	61.4	35.3	31.9	7.5	36.8	42.9	36.0
Poverty gap	31	33	28	30	23	40	31
Government transfers	70	75	84	203	90	58	97

but reduces the pretransfer 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 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 as a percentage of GDP instead of in absolute dollar amounts, the difference among countries increases. The OECD has recently estimated family income benefits, including both universal and means-tested benefits for children, and has separately estimated tax credits and tax relief for children (*17*). Combining the two calculations provides a composite estimate of the two forms of income support for children. These estimates are presented as a percentage 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 to children, about half of what the four 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 of GDP, still half or less the allocation of Sweden, the United Kingdom, Australia, and Canada. If these estimates of transfers and taxes as a percentage of GDP allocated to children are adjusted by the percentage of the population 0 to 17 years of age relative to the United States, the differences between the United States, which has a relatively young population, and the other countries would increase still further.

The OECD also has estimated educational expenses as a percentage of GDP. And in educational expenses, the United States spends a higher percentage of its GDP than Germany and the same as the United Kingdom (5.3, 4.6, and 5.3, respectively). Canada, Sweden, and Australia spend at least 5.9 percent of GDP on education. The relative difference in the percentage of GDP spent on education among the six countries is much less than the differences for income transfers. Separate estimates for health care expenditures developed at LIS indicate even less variance in health care expenditures per child across these six countries, with the range being from 1.1 to 1.7 percent of GDP and with the United States at 1.4 percent, the average of the six countries studied. It appears, therefore, that although the United States is as willing to provide education and health care to families with children, as are the other nations examined here, we are less willing to provide direct income support to families with children.

Concluding Remarks

Child poverty rates in the United States have increased from 16 percent in 1979 to 20 percent in 1987 (*18*). A great deal has now been written about the reluctance of the U.S. public to support public assistance to families with poor children. Moynihan has described U.S. policy as one more focused on individuals than on families (*19*). This focus encourages us to help the individual child through education but not the family of the child through income support. Jencks *et al.* however, have warned that we cannot depend exclusively on our educational system to provide equal economic opportunity for all children (*20*).

International comparisons across many countries may be instructive, but they are not necessarily proscriptive. Every country's welfare and other tax-transfer programs reflect their own cultural and social philosophies, just as differences in child poverty rates across countries reflect individual country differences in family structure and population heterogeneity. Any changes in tax and transfer policies must be done within the national context of the country's social philosophy. But international comparisons of the poverty of today's children raise long-term questions. To the extent that poverty of children is related to their poverty as adults (*21, 22*), the quality of our future work force may be affected by the present poverty of our children. And the poverty of our children today may affect our long-term competitiveness with other wealthy countries who tolerate much less child poverty than does the United States.

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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.
5. Adjusted income is calculated by dividing the income of a given size family unit by the relative number of equivalent adults in that unit, normalized to a family of size three. A single mother and one child's income is divided by 0.84, a couple with one child (or a single parent with two children) has its disposable income divided by 1.0, a couple with two children by 1.28, and so on. Once income is adjusted and normalized in this way, it can be compared to any three person poverty line.
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9. C. Jencks and B. Torrey, in (*3*), pp. 229–273.
10. The LIS data base currently includes ten countries, the six studied here and Israel, Netherlands, Norway, and Switzerland. Previous analyses [for instance, Smeeding, Torrey, and Rein (*6*) and Buhmann, Rainwater, Schmaus, and Smeeding (*8*)] indicate that including these countries would not affect the results shown below. Therefore, in the interest of space we restricted our analysis to those countries that provided the most contrast and also the most insights in comparison with the U.S. situation.
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15. Table 5.9 in (*6*) and table 16 in (*1*).
16. The difference in poverty rates of all U.S. families and the average poverty rates of all families in Canada, Germany, Sweden, and the United Kingdom is 6.7 percentage points (13.8 percent minus 7.1 percent). If we consider the poverty rates of only two-parent white families in each country, then the difference shrinks to 2.8 percentage points (8.8 percent minus 6.0 percent). This is a 58 percent reduction in the original differences between the United States and the other countries. If we assume that increasing participation in income transfer programs would reduce U.S. two-parent white families in poverty by the same amount as we estimated for all families (4.6 percent), this would further reduce the difference between the United States and other countries another 0.4 percentage points (8.8×0.046) to 2.4 percentage points. This represents a 64 percent reduction from the original differences in poverty rates (6.7 minus 2.4 divided by 6.7).
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18. See data in (*1*), table 16.
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