



## No Child Left Behind?

**Author/Contributor:**

Smeeding, Timothy M.

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## **NO CHILD LEFT BEHIND?**

By Timothy M. Smeeding

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Sheila Shaver, Jenny Chalmers and Saba Waseem  
Editors

About the Author:

Timothy Smeeding is the Director of the Luxembourg Income Study, and a Professor at the Centre for Policy Research, Syracuse University. Professor Smeeding wrote this paper while a visitor at the Social Policy Research Centre.

Correspondence to: Timothy Smeeding

Email: [tmsmeed@maxwell.syr.edu](mailto:tmsmeed@maxwell.syr.edu), or

Postal Address: Professor Timothy Smeeding  
Center for Policy Research  
426 Eggers Hall  
Syracuse University  
Syracuse, NY 13244-1020

# 1 Introduction<sup>1</sup>

The title of this article is taken from the inspirational slogan of President George W. Bush, whose recently passed Elementary and Sunday Education Act bears this title. In this bill, as in the 1996 Welfare Reform Act, accountability won the day over federal fiscal support for low-income families. Of course, the 1996 Welfare Reform Act is a major ‘accountability’ success story, with the AFDC/TANF caseloads (households) falling from over 5.0 million in 1994 and 4.5 million in 1996 to 2.2 million cases by June 2000, about one third of the 6.6 million households which benefited from the SSI program in that same year (U.S. Department of Health and Human Services, 2002; Smeeding 2001).

But, what is the larger context is within which we should interpret these programmatic changes and slogans? The slogan clearly challenges us to judge a society by how well it treats its children. But when we compare the well-being of American children Canadian or European kids, can we really say that the United States not left any of its children behind? What can we say about equality of opportunity or fair life chances for America’s children compared to their counterparts in other rich countries?

The rest of this paper summarizes the poverty status of American children and then the variance in their ‘real’ standard of living. The we briefly look at the reason why low-income American children and their parents are in such straits and conclude with a few low cost policy suggestions on how to improve the living standards of poor children, so that their greater accountability and better labor market for performance is rewarded by better family outcomes.

The United States has a long tradition of measuring income poverty and weighing the effectiveness of government policies aimed at poverty reduction. While this analysis has been of value to policymakers, it rests on a foundation that is inherently parochial, for it is based on the experiences of only one nation. The estimation of cross-nationally equivalent measures of poverty and living standards provides an opportunity to compare United States poverty rates and the effectiveness of American antipoverty policy with the experiences of other nations. The Luxembourg Income Study (LIS) database contains the information needed to construct comparable poverty measures for about two-dozen countries. In this paper we use cross-national

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1 The author would like to thank Lee Rainwater and Gary Burtless for their contributions to the longer technical papers upon which this paper is based. Mary Santy and Kati Foley provided excellent assistance with manuscript preparation. Partial support was provided by the Ford Foundation, the MacArthur Foundation Network on the Family and the Economy, the Social Policy Research Centre at the University of New South Wales, Sydney, Australia, and the LIS member countries

comparisons made possible by the LIS to examine America's experience in fighting child poverty and to examine the real living standards of America's children as well.

If lessons can be learned from cross-national comparisons, there is much that can be learned about antipoverty policy by American voters and policymakers. We will find below that the United States has the highest child poverty rates of all the rich OECD countries participating in the LIS, when poverty is measured using comparable relative standards for determining who is poor. Although the high rate of poverty in the United States may come to many as no surprise, given the country's well-known tolerance of wide economic disparities, the real living standards of America's low-income children should be even more troubling. After Luxembourg, the United States has the highest average income in the industrialized world, but our low-income children are at a serious economic disadvantage compared to their counterparts in other nations.

## **2 Poor Children Rich Countries: Measurement and Data Issues**

Differing national experiences in designing and implementing antipoverty programs provide a rich source of information for evaluating the effectiveness of alternative policies. Policymakers in most of the industrialized countries share common concerns about social problems such as widening wage disparities, family dissolution, and child poverty. The availability of information from a number of countries makes it possible for us to compare the experience of one country to the experiences of others. This comparison can shed light on our own situation and help us understand the successes and failures of United States policy.

While poverty measurement is an exercise that is particularly popular in the English-speaking countries, most rich nations share the Anglo-Saxon concern over distributional outcomes and the well-being of the low-income population. Few West European nations routinely calculate low income or poverty rates, however. Most recognize that their social programs would ensure a low poverty rate under any reasonable set of measurement standards (Björklund and Freeman 1997). While there is no international consensus on guidelines for measuring poverty, there is considerable informal agreement on the appropriate measurement of poverty and living standards in a cross-national context. Most of the available studies share many similarities that help guide our research strategy here.

For purposes of international comparisons, poverty is almost always a relative concept. A majority of cross-national studies define the poverty threshold as one-half of national median income. In this study, I use both 40

and 50 per cent of median income to establish my national poverty lines. I select 40 per cent of national median income as our relative poverty threshold because it is closest to the ratio of the official United States poverty line to median United States household (pre-tax) cash income (42 per cent in 1997).

While the United States likes to think of itself using an ‘absolute’ poverty measure, there is no one absolute poverty measure. All poverty measures are in some sense relative and must be chosen to be appropriate for the context in which they are used. The World Bank defines 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 1994, 1996). In contrast, the absolute United States poverty line is 6 to 12 times higher than these standards. The World Bank poverty thresholds are obviously too low for use in OECD countries. Scandinavian countries and Eurostat have ‘minimum income standards’ that are as high as 60 per cent of median national incomes in Europe. This would translate into a poverty standard that is roughly 40 per cent higher than the official United States poverty line, depending on the average standard of living of a particular European country (European Community 2000; Eurostat 2000). To satisfy the desire for ‘real income’ comparisons, I instead turn to measures of the real living standards of poor children in each nation.

Relative poverty rates are important, but there is also interest in the ‘real standard of living’ for children. To compare real incomes amongst families with children, researchers must convert national currencies into units of equal purchasing power or ‘purchasing power parity’ (or PPP) (Summers and Heston 1991; OECD 2001). Construction of PPP adjusted levels of living across countries are problematic, because the results are sensitive to the quality of the microdata and to the specific PPP that is chosen. My estimates of real income distributions are based on a single set of PPP rates, the most recent set benchmarked by the OECD for year 1996, extended back or forward to cover the period from 1992 to 1997. I use the OECD estimates of PPP exchange rates to translate household incomes in each country into 1997 United States dollars adjust for family size and then compare income distributions for families with children relative to the United States median disposable income per equivalent adult. For 1997, this figure is \$28 005 per equivalent United States adult.

The PPP rates calculated by the OECD are accurate for overall aggregate national consumption including consumption spending by governments as well as by households (Castles 1996). Thus, the PPP rates are appropriate for comparing market baskets of all final consumption, including government-provided healthcare, education, and housing. These goods are paid for in different ways in different nations, however. In most countries, health care as

well as some rental housing, childcare, and education are subsidized more generously by those governments than is the case in the United States. Thus, disposable incomes in countries with publicly financed health and higher education systems reflect the fact that health and education costs have already been subtracted from households' incomes (in the form of direct tax payments to the government). One implication is that in countries where in-kind benefits are larger than average, real incomes may be understated because citizens actually face a lower effective price level for privately purchased goods than is reflected by OECD's estimates of the PPP rate. The opposite is true for those countries whose citizens must pay larger amounts for health care and education out of their disposable incomes. Since on average other nations spend slightly more on noncash benefits than does the United States (Smeeding and Rainwater 2001, Table 1), the United States real incomes are likely to be overstated in the comparisons that follow. In contrast, European countries (Sweden, France, and Germany) provide higher levels of tax-financed health care and education benefits, and so their real incomes are likely understated.

Poverty measurement and real living standards are based on the broadest income definition that still preserves comparability across nations. The best current definition is disposable cash and nearcash income (that is, 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). This is The LIS definition of income which I use everywhere below.

My measure of real living standards is based only on disposable incomes, but that allows me the luxury of examining incomes for children at various levels of living in society. Comparing points in the distribution allows me to examine differences across children within nations as well as across nations, all expressed in 1997 United States PPP dollars and all relative to the median disposable income in the United States in 1997. I use these data to compute the real income of a low-income child and a high-income child in each nation. The low-income child is measured at the 10<sup>th</sup> percentile (median of the bottom quintile) while the high-income child is measured at the 90<sup>th</sup> percentile (median of the top quintile).

I refer to the difference between persons with high and low incomes as 'economic distance' in making comparisons here. This distance can be measured in ratio format (e.g., The income of the 90<sup>th</sup> relative to the 10<sup>th</sup> child), in bar graph format, or with the real income distance between these points measured in PPP-adjusted dollars per child. I like to think of the measure of economic distance as a measure of equality of opportunity within each nation. Nations with smaller economic distances (or smaller decile ratios) have higher levels of 'equal opportunity' across the population of

children. I also like to focus on the distance between the middle-income child and the low-income child as a measure of ‘fair chance’. While measure of equality of opportunity captures the real economic distance between the high- and low-income children, I am also vitally interested in the absolute level of resources available to the low-income child, relative to similar children in other nations. Children in nations with relatively higher real income levels for ‘low-income children’ have given their poor kids more of a ‘fair chance’ in that nation, when compared to similar children in other nations. It will be instructional to see which nations leave their children behind, which ones give them a good start, and by how much.

For international comparisons of poverty and inequality, the household is the single best unit for income aggregation. It is the only comparable income-sharing unit available for most nations. While the household is the unit used for aggregating income, the person is the unit of analysis. Household income is assumed to be equally shared among individuals within a household. Poverty rates are calculated as the percentage of all children who are members of households with incomes below the poverty line.

A variety of equivalence scales have been used in cross-national comparisons in order to make comparisons of well-being between households with differing compositions. Equivalence scales are used to adjust household income for differences in needs related to household size and other factors, such as the ages of household members. After adjusting household incomes to reflect differences in household size, I compare the resulting adjusted incomes to either the 40 or 50 per cent of median poverty line. I also use an equivalence scale to adjust for differences in household size when I make real income comparisons of children.

## **2.1 Database**

The data I use for this analysis are from the Luxembourg Income Study (LIS) database, which now contains 100 household income data files for 28 nations covering the period 1967 to 1997 ([www.lisproject.org](http://www.lisproject.org)). In computing the trend of relative poverty, I have selected the 19 nations that are the largest and richest in the world and include all of the G7 nations, Scandinavia, Canada, Australia, and most of Europe. I also include all of Germany, including the eastern states of the former German Democratic Republic (GDR). I do not include Mexico or any of the former Soviet bloc nations.



### 3 Results: Poverty Rates and Living Standards for the United States Children in Comparative Perspective

The methodological explanations prepare me for analysis of the results. I begin with the poverty comparisons before turning to real incomes.

#### 3.1 Poverty

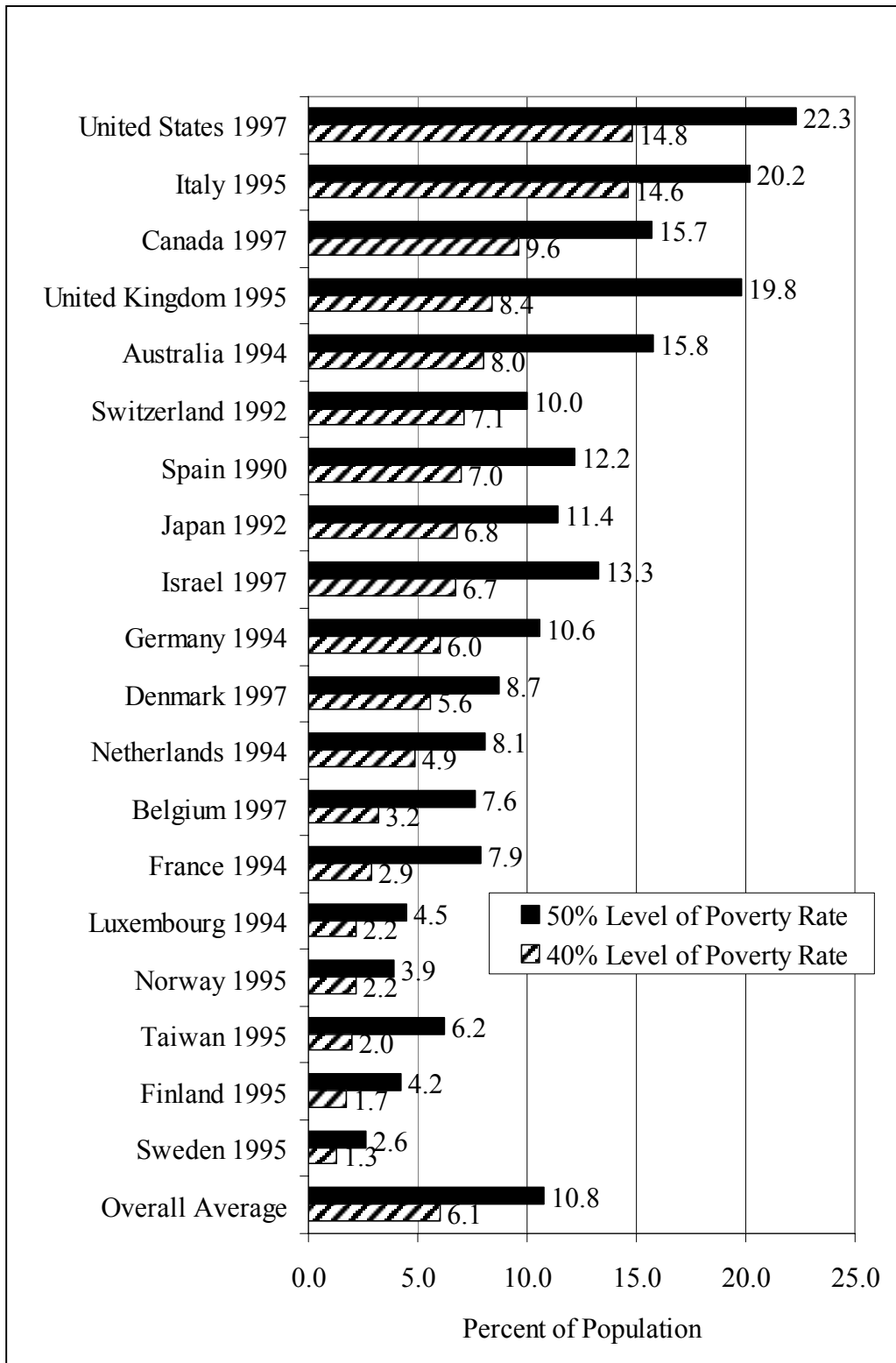
In order to first consider a broad range of countries in my analysis and to compare poverty as it is commonly measured in cross-national studies, I begin by examining relative poverty rates. A range of relative poverty standards is used in cross-national comparisons. One-half of national median adjusted income is the most commonly used poverty threshold for international comparisons. In fact, it is hard to find a study that does *not* use this standard. But other standards are also used, if for no other reason than for sensitivity tests. In this paper I concentrate mainly on the 40-per cent-of-median line because of its proximity to the United States poverty line, though I also provide poverty estimates using a threshold of 50 per cent of national median income.

Relative child poverty rates in 19 rich nations, using both thresholds, are displayed in Figure 1. All poverty rates are based on 1990-1997 data. The poverty rate using the lower (40 per cent) poverty threshold varies between 1.3 per cent in Sweden (1995) and 14.8 per cent in the United States (1997), with an average rate of 6.1 per cent across the 19 countries. A quick glance at children with incomes below the poverty line is obviously sensitive to where the line is drawn. Even though national poverty rates are sensitive to the level of the threshold, the ranking of the 19 countries is affected only modestly by the change in the relative poverty threshold. Poverty in the United States stands out most clearly even when the poverty threshold is set at 40 per cent of median income, though we have the highest poverty rate at the 50 per cent level as well.

At this lower threshold, almost 15 per cent of the United States children are poor, more than are below the *50-per cent* threshold in 13.4 of the other nations shown! More poor children in the United States suffer from extreme relative poverty than is the case in other high-income countries. Only Italy is closer (at 14.6 per cent poor). The next highest child poverty rate at the low standard is Canada with 9.6 per cent of children poor. At the higher poverty threshold, 22.3 per cent of United States children are poor—with only Italy and the United Kingdom being close by.

Higher poverty rates are found in countries with a high level of overall inequality (United States, Italy), in geographically large and diverse

**Figure 1: Poverty Rates for Children in 19 Rich Nations in the 1990s**



countries (United States, Canada, Australia), in Anglo-Saxon nations, and in countries with less well-developed national welfare states (Spain, Israel, and Japan). Low poverty rates are more common in smaller, well-developed, and high-spending welfare states (European Community, Scandinavia) and in 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.

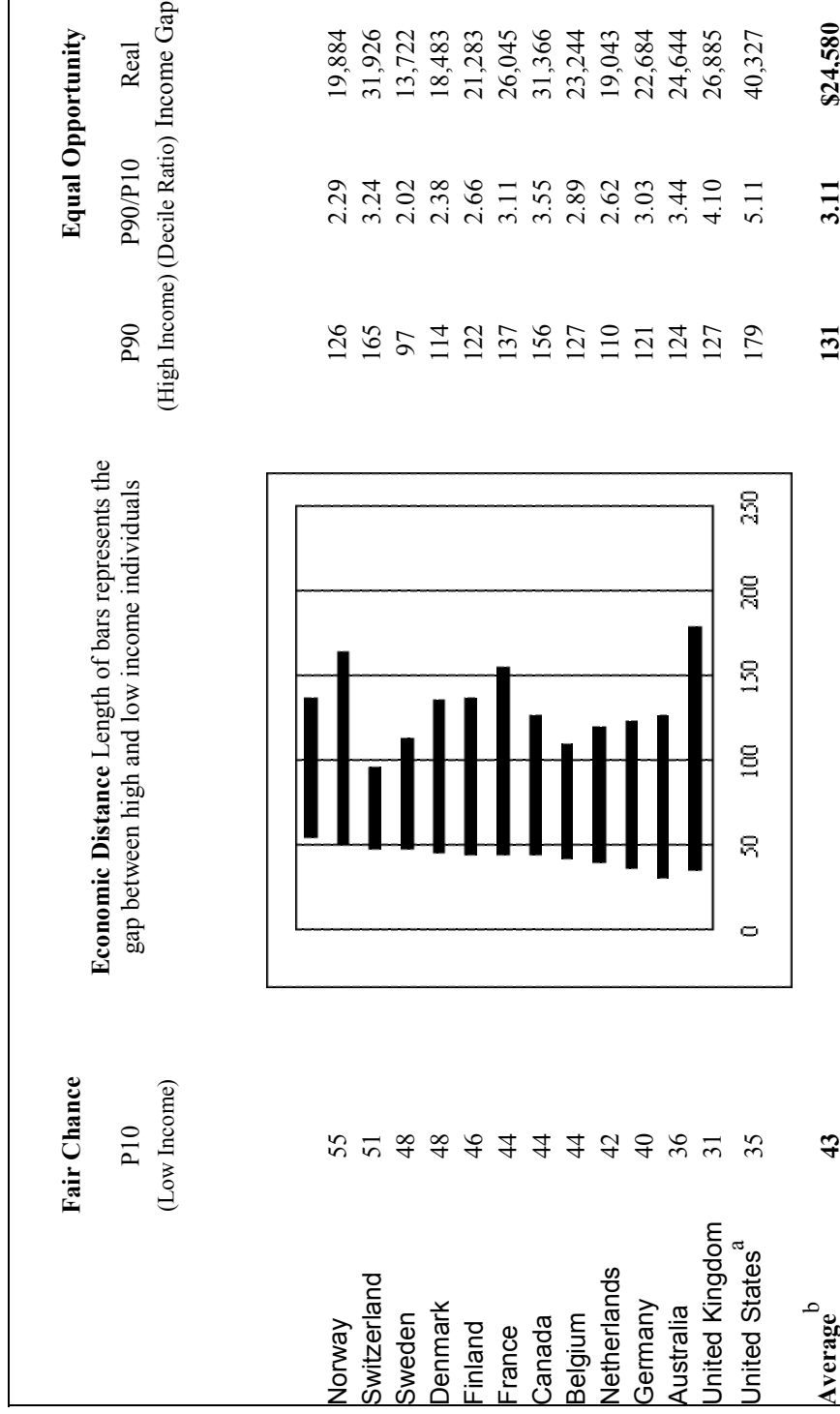
Poverty rates computed using before-tax-and-transfer household income (not shown) do not differ among countries as much as those calculated after taxes and transfers. This finding implies that different levels and mixes of government spending on the poor have sizable effects on national poverty rates (Smeeding, Rainwater and Burtless 2002). In fact, detailed analysis shows 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) produce lower poverty rates (Kenworthy 1998; Kim 2000), a finding that I verify below. Earnings and wage disparities are also important in determining poverty rates, especially among families with children (Jäntti and Danziger 2000; Bradbury and Jäntti 1999; Smeeding 1997). Countries with an egalitarian wage structure tend to have lower child poverty rates, in part because the relative poverty rate among working-age adults is lower when wage disparities are small.

#### **4 Real Incomes of Children**

Although most would argue that economic well-being (at least in developed countries) is most crucially a function of the individual's relative position in the distribution of income, real levels of living are also important in comparing living standards and well-being across nations. Interest in real income for children goes beyond the situation of poor children alone—in comparative studies one also wants to know about the real standard of living of average and well-off children as well when we assess equality of opportunity. These measures can be also understood as measures of the types of life chances that low-income parents can provide for their children. Figures 2, 3, and 4 therefore address the issue of real incomes for children.

First of all, Figure 2 is constructed by ranking the population of children from poorest to richest, then taking the child at the 10<sup>th</sup> and then 90<sup>th</sup> percentiles and using PPP's to convert these incomes into United States dollars. Six nations for whom OECD has no PPP or where the overall quality of the microdata are suspect have been dropped, leaving 13 nations for us to observe. All amounts are expressed as a fraction of the 1997 United States overall median adjusted disposable income (\$28 005).

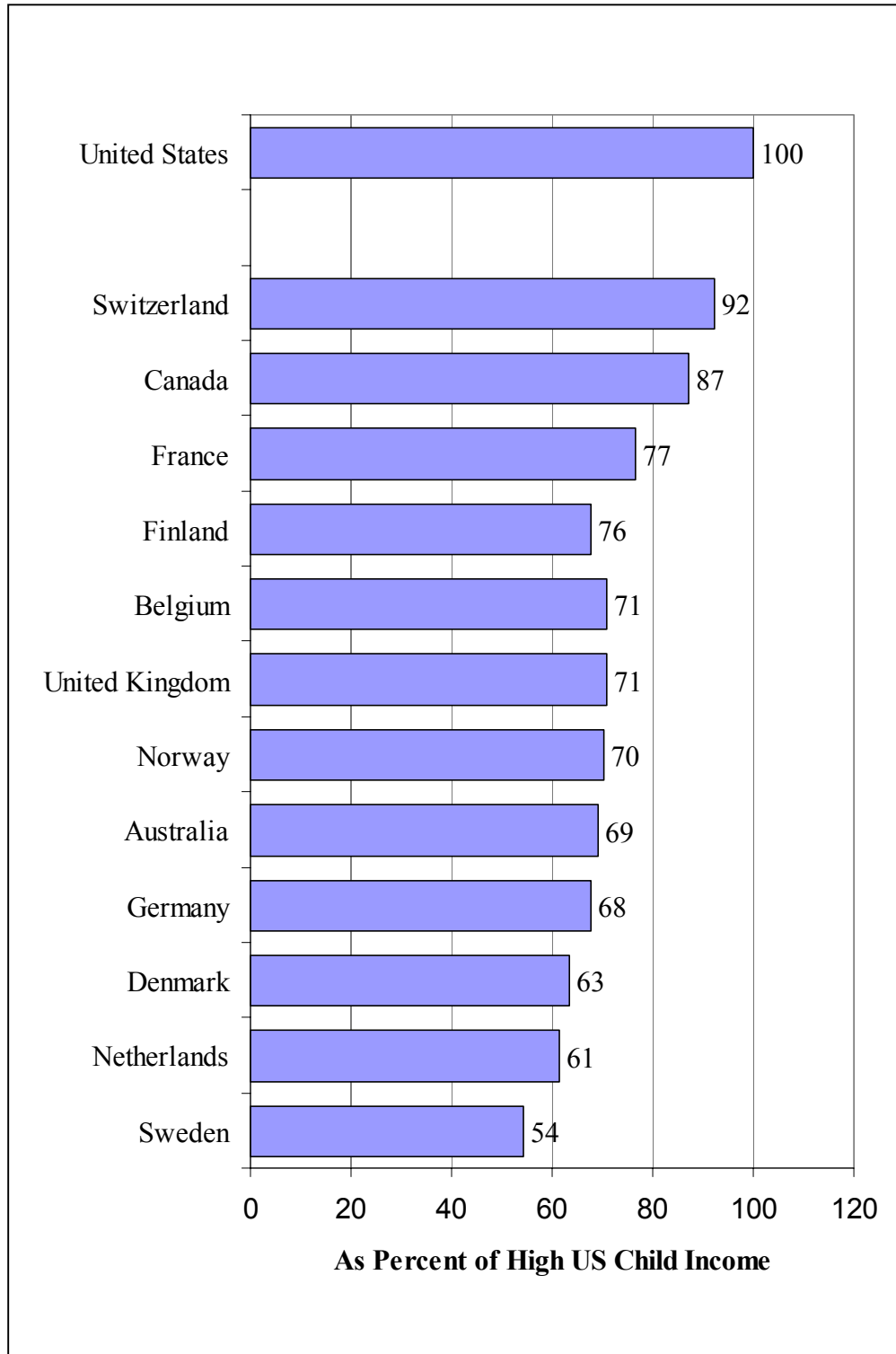
**Figure 2. Equal Opportunity and Fair Chance: Economic Distance and Real Standards of Living for Children (Numbers given are per cent of overall US 1997 Median Equivalent Income in PPP terms)**



**Notes:**

- Figures given are 1997 USA PPP adjusted dollars per equivalent person, weighted for the number of children in each unit size.
- Simple average.

Source: Luxembourg Income Study and author's calculations.

**Figure 3: Supra Chance: Real Incomes of the High Income Child**

\* Child in a household at the 50th percentile (median) of the U.S. equivalent income distribution for households with children, all other currencies converted to 1997 US dollars using Purchasing Power Parities.

Source: Figure 2, P90 column.

On average, children's real incomes at the 10<sup>th</sup> percentile are 43 per cent of the median while the 90<sup>th</sup> percentile child lives in family with an income of 131 per cent of the median, producing a decile ratio of 3.11. The real income gap or 'economic distance' between low and high-income children averages almost \$25 000 per child in Figure 2.

Looking first at my measure of 'fair chance,' the nations with the highest P<sub>10</sub> offer their children the best economic chance for future success. I agree with Mayer (1997) and others that income alone is a poor proxy for life chances for middle class households with children. Another \$100 or \$1000 per child for middle income or well-to-do families makes little difference to their children's overall life chances compared to other influences (such as parents, schools, communities, and peers). But I also agree with Duncan et al. (1998) that a child being born into a family with very low income (roughly P<sub>10</sub> of 33 to 38 per cent of the median) significantly decreases that child's overall life chances. Thus, I believe that the P<sub>10</sub> for children is a meaningful and important indicator of a fair life chance.

On this basis, only a child in the United Kingdom has a less fair chance, at 31 per cent of the median, than does a child in the United States, at 35 per cent of the median. Australian children are at roughly the same level of living as the United States kids while the next nearest is the unified Germany at 40 per cent. All other nations have children's living standards that are above the average standard of 43 per cent, which is 8 percentage points above the United States level.

At the other end of the scale, United States children in prosperous United States households have living standards 179 per cent above the median United States person. Swiss children are also relatively much better off (at 165 per cent of the median) than average. The average incomes of the best off children are 132 per cent of the median, while United States children are 44 percentage points above this level. In Sweden, the high-income child actually has a living standard (measured by cash income) just below that of the average United States person.

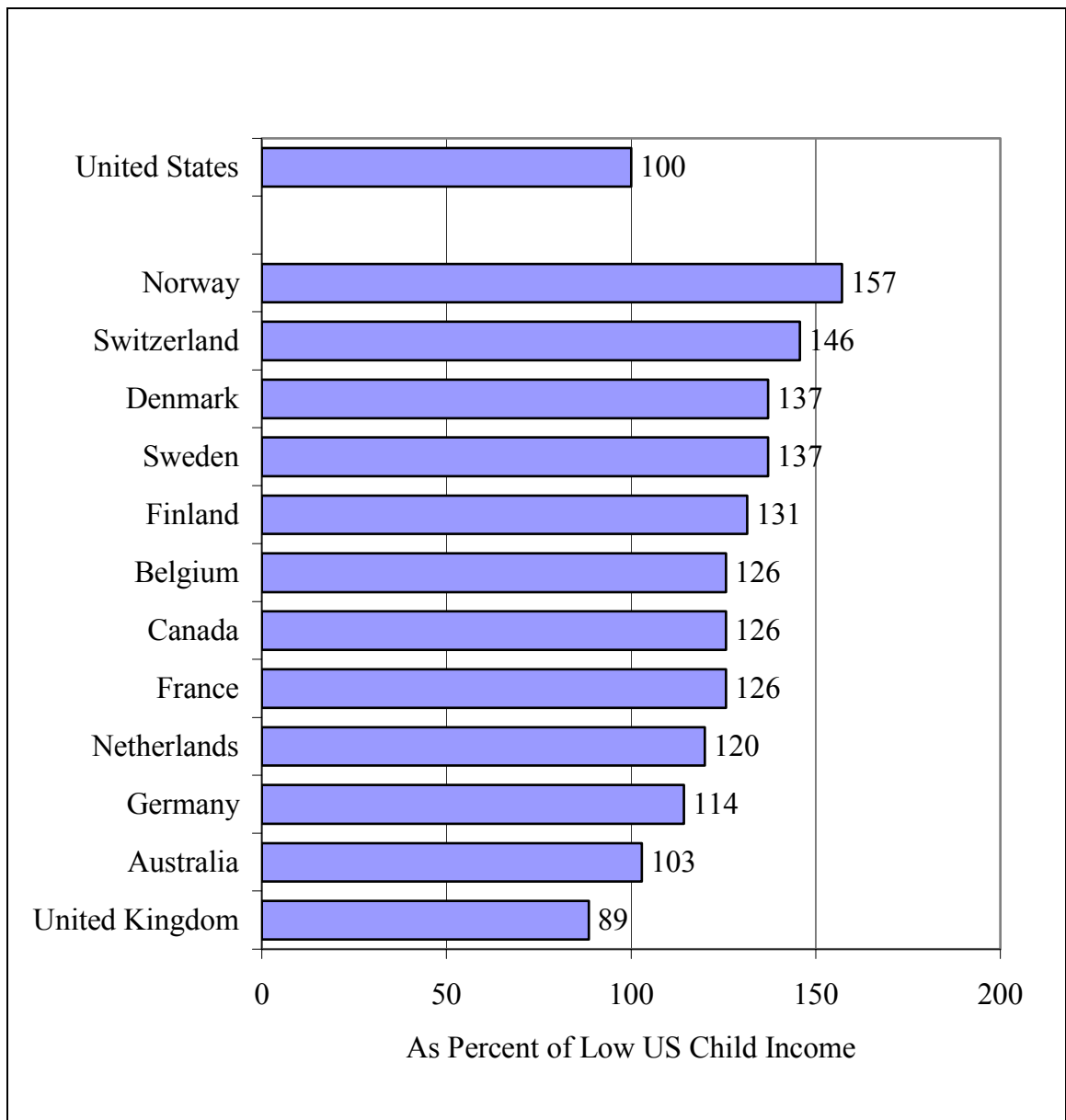
Here I interpret the economic distance measure as a measure of equality of opportunity. Nations with smaller economic distances (or lower real income gaps) between rich and poor kids provide more equal chances for their children, both high- and low-income children. The United States rich child has 5.11 times as much income at her (or his) disposal as does the typical poor child. Only one other nation (the United Kingdom) has a ratio above 4.00. The real income gap or economic distance between rich and poor children in the United States of \$40 327 per child is by far the largest, with Switzerland and Canada

the only others above the \$30 000 level, and with the other nations near or below the \$24 580 average difference. The above average gaps between poor and rich kids in these two nations must be seen in light of the fact that both have above average  $P_{10}$  ratios as well. The real income gap of \$40 327 in the United States means that low-income families have resources of \$9802 per child, assuming all resources are evenly split among household members. In contrast, high-income families have \$50 129 to spend on each child.

#### **4.1 For Every Dollar...**

Perhaps an easier way to fully grasp these differences across nations is to compare children at high and low income levels directly. Figure 3 presents the ‘supra-chance’ or the average standard of living for the high-income United States child compared to the high-income child in 12 other nations. For every dollar the average high-income United States child has at his or her disposal all other nations rich children have far less. Only Swiss and Canadian children are nearby, with 92 and 87 cents per dollar, respectively. All other rich children have less in spendable income by a wide margin. Parents of rich children in Sweden have resources less than 55 cents on the dollar compared to a well-to-do child in the United States. Our high-income children are truly advantaged by this measure of living standards. Smaller family sizes, higher earnings for married women with children, and assortive mating all help raise the standard of living among high-income United States children (Gottschalk and Smeeding 1997, 2000). The United States is likely the best place to be born a rich child.

What about a low-income child in the richest nation on earth? While our poverty rates are much higher than average (Figure 1), surely the richness of our nation should outweigh this poverty rate, so that even poor children in the United States are better off than are their counterparts in other nations. Figure 4 should come as something of a surprise to observers with these beliefs. For every dollar available to a low-income United States child, the low-income children in *every* nation but one (the United Kingdom) are better off in real income terms. Swiss, Norwegian, Danish and Swedish children are 37 to 57 per cent better off, while other European low-income children (Canada, Belgium, France, The Netherlands), are at least 20 per cent better off. Even Australian children have a 3 per cent higher living standard than do United States children in real spendable dollar terms. To be born to a low-income family in the United States is not as advantageous as to be similarly situated in other rich nations.

**Figure 4: Fair Chance: Real Incomes of the Low Income Child**

\* Child in a household at the 50th percentile (median) of the U.S. equivalent income distribution for households with children, all other currencies converted to 1997 US dollars using Purchasing Power Parities.

Source: Figure 2, P10 column.



Clearly the high overall living standards in the United States must be balanced by the fact that these advantages do not translate directly to low-income children. Race, ethnicity and single parenthood play roles in explaining these differences, but low parental wages and lack of social income support are the two most important factors that explain this result as we now observe (Smeeding, Rainwater, and Burtless 2001).

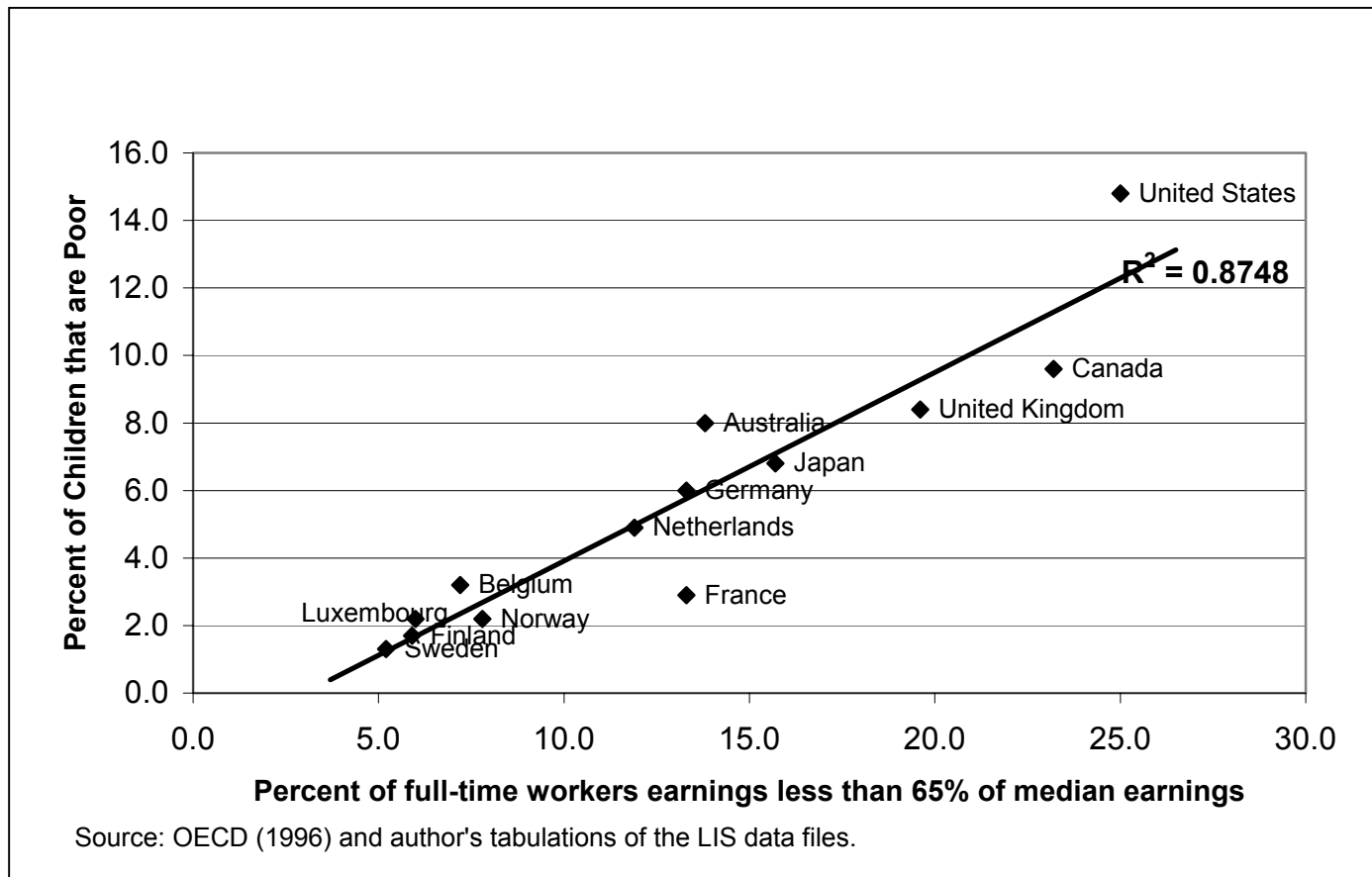
## **5 Poverty Correlates and Some Policy Lessons for the United States**

Poverty and inequality are higher in the United States than in other countries with similar (and indeed much lower) average incomes. American inequality differs noticeably from that in other rich countries primarily because of differences in relative income levels in the lower tail of the American income distribution. As we have observed, an American child at the 10<sup>th</sup> percentile of the United States income distribution has an adjusted disposable income that is just 35 per cent of United States median income. And child poverty is also higher in the United States than in other nations.

The relative size of the low-income child population in the United States is larger than in other rich countries for two main reasons: low market wages for those parents with few skills and limited public benefits for low income families with kids. The relationship between the prevalence of workers with low wages and child poverty is highlighted in Figure 5, which shows cross-national estimates of the incidence of child poverty and the prevalence of low-paid employment in 13 OECD countries (OECD 1996). The estimates of low-paid employment reflect the percentage of a nation's full-time workers earning less than 65 per cent of national median earnings on full-time jobs. These estimates refer to the period 1993-1995 for most nations. The estimates of the child poverty rate are based on the 40-per cent-of-median-income threshold and are taken from the first column of Figure 1.

Figure 5 shows a very strong association between low pay and national poverty rates. The straight line shows the predictions from the regression line of the child poverty rates on the incidence of low-paid employment. Countries with values above the line have higher poverty rates than are predicted by the incidence of low relative wages; countries below the line have lower poverty

**Figure 5: Relationship of Low Pay and Child Poverty Rates in Thirteen Industrialised Countries in the 1990s**



rates. A substantial fraction of the variance in cross-national child poverty rates appears to be accounted for by the cross-national variation in the incidence of low pay. Because the United States has the highest proportion of workers and parents in these relatively poorly paid full-time jobs, it also has the highest child poverty rate. On the other hand, Canada has a lower child poverty rate than its unequal wage distribution would lead one to expect. Other countries have a significantly lower incidence of low-paid employment and also have significantly lower poverty rates than the United States.

The prevalence of low pay workers is, in fact, not the only reliable predictor of poverty rates, however. While low pay is a good predictor of the Dutch, Japanese, and German child poverty rates, other nations with similar fractions of low pay workers (Australia and France) lie further from the prediction line. Other factors, such as the antipoverty efforts of the government, are also important predictors of the poverty rate.

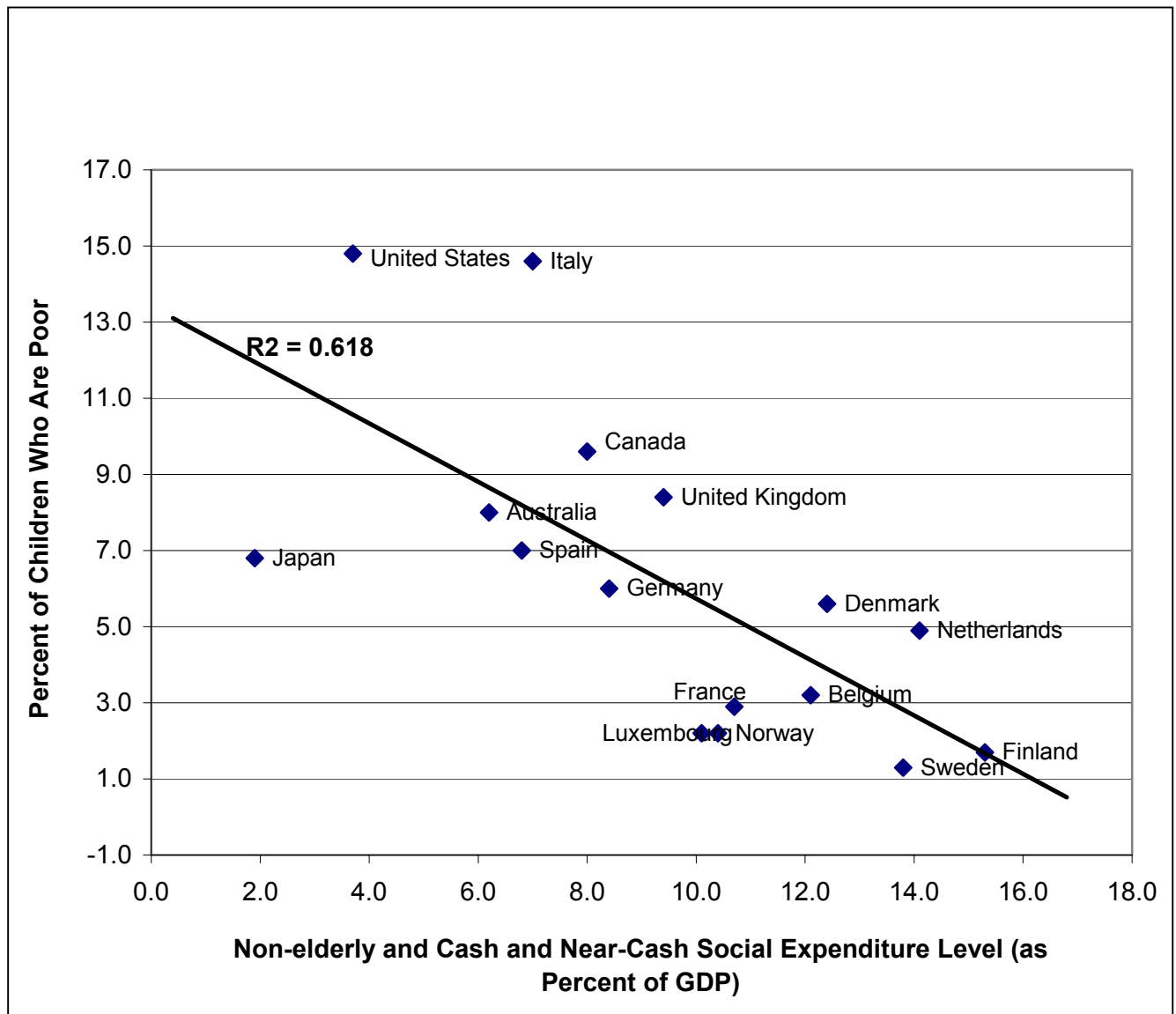
Social spending also clearly affects the prevalence of child poverty. To measure each country's antipoverty efforts, we collected OECD

statistics on the fraction of gross domestic product (GDP) spent on cash and near-cash social transfers for the nonaged (including refundable tax relief, such as the EITC). Measured in this way, social spending is negatively correlated with national child poverty rates. Figure 6 displays the cross-national relationship between social expenditures and child poverty rates. The solid line in Figure 6 shows the predicted line from a linear regression of child poverty rates on social spending. The correlation is not as high as in Figure 5, but the relationship is still very strong. As a result of its low level of spending on social transfers to the nonaged, the United States has a very high child poverty rate, one that is far higher than predicted by the regression (as in Italy, the United Kingdom, Canada and other nations above the regression line). In contrast, Japan, Luxembourg and Norway do better than predicted, having poverty rates below the regression line. Nearly all of the high-spending nations in northern Europe and Scandinavia have child poverty rates of five per cent or less.

Even though social spending in general has an inverse correlation with poverty rates, different patterns of social spending can produce different effects on national poverty rates. Antipoverty and social insurance programs are in many respects unique to each country. There is no one kind of program or set of programs that are conspicuously successful in all countries that use them. 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 (Smeeding, Rainwater, and Burtless 2001). So, too, are minimum wages, worker preparation and training programs, work-related benefits (such as child care and family leave), and other social benefits. The United States differs from most nations that achieve lower poverty rates because of its emphasis on work and self-reliance for working-age adults, regardless of the wages workers must accept. For over a decade, United States unemployment has been well below the OECD average, and for almost three decades American job growth has been much faster than the OECD average. The strong economy coupled with a few specific antipoverty devices (like the expanded EITC) has produced most of the United States poverty reduction in recent years, even if those poverty rates remain at very high levels.

As long as the United States relies almost exclusively on the job market to generate incomes for working-age families, changes in the wage distribution that affect the earnings of less skilled workers will inevitably have a big effect on poverty among children and prime-age

**Figure 6: Relationship of Cash Social Expenditures and Child Poverty Rates in Sixteen Industrialised Countries in the 1990s**



adults. Reductions in wages at the bottom of the earnings distribution between 1979 and 1993 eroded the living standards of a large and vulnerable population, just as real wage gains among these families since 1995 have reversed some but not all of the previous trend (Burtless and Smeeding 2001). Improvements in the social safety net for these families were too small to offset the adverse effects of wage developments from 1979 to 1993, although the recent expansion of the EITC has added greatly to the anti-poverty effectiveness of United States anti-poverty policy for females with children (Scholz and Levine 2000).

## 6 Discussion and Conclusion

This paper has tried to broaden the economic concepts of ‘poverty’ and ‘standard-of-living’ to compare them across a wide range of nations. Poverty rates measured in a relative basis convey a picture which gives pause to those who might feel that no United States child has been left behind. And when we take the incomes of families with children—both rich and poor—and translate all incomes into ‘real’ PPP-adjusted incomes, we find that rankings of countries and living standards for children can be quite different depending on where in the income distribution we focus. Clearly the United States, and the nations with the highest real GDP per capita (except for Luxembourg) and the highest real disposable equivalent income per person is also the most unequal. And this inequality manifests itself in terms of both relatively and absolutely lower living standards for children at the bottom of the United States income distribution, and exactly the opposite for rich United States kids.

The international comparisons in this paper contain important lessons for understanding the high child poverty rate, and low living standards in poor children in the United States. The relationship between low wages and poverty is direct and obvious. Tight labor markets in the United States can help reduce poverty as the wages received by less skilled workers are bid up. There are two important limits to this effect, however.

Not all of the poor can be expected to ‘earn’ their way out of poverty. Single parents with young children, disabled workers, and the unskilled will all face significant challenges earning a comfortable income, no matter how low the unemployment rate falls. A second, more uncertain limit on the benefits of low unemployment is the possibility of a recession, as in recent times. Declines in employment and hourly wages are likely to be bothersome for low-income breadwinners, boosting the poverty rate, especially among children.

The relationship between antipoverty spending and poverty rates is complicated, so the simple correlations discussed in the previous section are at best suggestive. United States poverty rates among children are high when compared with those in other industrialized countries. Yet United States economic performance has also been outstanding compared with that in other rich countries. Carefully crafted public policy can certainly reduce American child poverty. And in the still strong American economy of the late 1990s and early 2000s, it hard to argue that the United States cannot afford to do more

to help the poor, particularly those who are working in the labor market.

A partial solution to the poverty problem that is consistent with American values lies in creating an income package that mixes work and benefits so that unskilled and semi-skilled workers, including single parents, can support their families above the poverty level. Such a package could include more generous earnings supplements under the EITC, combined with refundable child and day care tax credits (e.g., Sawicky and Cherry 2001) and the public guarantee of assured child support for single parents with an absent partner who cannot or will not provide income to their children. Targeted programs to increase job access and skills for less skilled workers could also help meet the booming labor demand in the United States economy. In the long run, a human capital strategy that focuses on improving the education and marketable job skills of disadvantaged future workers, particularly younger ones, is the approach likely to have the biggest payoff. If the nation is to be successful in reducing poverty, it will need to do a better job of combining work and benefits targeted to low-wage workers in low-income families (e.g., see Ellwood 2000; Danziger, Heflin, and Corcoran 2000).

A prolonged economic expansion and modest improvements in income supplements for low-wage breadwinners (through the expansion of the EITC) have recently pushed the United States poverty rate in the right direction. Given the political disposition of the American public, a near 0 per cent poverty rate is not a plausible goal. A gradual reduction in the overall poverty rate to 8 per cent using the 40 per cent standard is certainly feasible, however. Although this rate would represent a considerable achievement by the standards of the United States, it is worth remembering that an 8 per cent poverty rate is higher than the rate in all but four of the 19 other countries I have considered here.

And crossnational comparisons show that these policies can, in fact, be enacted. The United Kingdom children had the lowest real living standards of any of the children observed here in the mid 1990s (Figure 2). But they also have a Prime Minister who has set a national goal of improving living standards and eradicating child poverty in Britain over the next decade, and who has matched his political rhetoric with some measure of real fiscal effort that has already had an impact (Bradshaw 2001; Walker and Wiseman 2001; Micklewright 2001). In contrast, the United States is led by a President whose slogan 'leave no child behind' seems rather hollow when measured against the facts shown here and whose fiscal stance is to use income tax

reductions for the rich and fiscal stringency for the poor to most likely further increase the overall gap between rich and poor United States children. As we have seen, the gap between American rich and poor children is already the highest, even accounting for the effect of the EITC that has increased the income of United States children in the 10<sup>th</sup> percentile by a noticeable amount since the early 1990s.

Reducing welfare dependence has been a primary goal of the American social system over the past decade and this objective has been reached. However, child poverty has not decreased nearly to the extent that welfare rolls have been trimmed. If we judge the United States by how well we treat our children, we do not measure up well at all. In order to meet the goal of reducing child poverty and improving the living standards of poor American children, the United States needs to make this goal a top priority for its political and economic agenda. The realization of this goal will contribute to the integrity of our democratic values and enrich the cultural and economic fabric of our society. The question is not one of affordability, but rather one of priority.

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## Appendix A: Poverty Rates for Children under 18

**Table A1: Poverty Rates for Children (Persons Under 18), Non-elderly and Cash and Near-Cash Social Expenditure Levels, and Percent of Full-time Workers Earning Less than 65 per cent of Median Earnings**

Country	40% Level of Poverty for Children (Persons Under 18)		Non-elderly and Cash and Near-Cash Social Expenditure Level (as Percent of GDP) <sup>1</sup>		Percent of full-time workers earnings less than 65% of median earnings	
		Rank		Rank		Rank
United States	14.8	1	3.7	15	25.0	1
Italy	14.6	2	7.0	12	n/a	n/a
Australia	8.0	5	6.2	14	13.8	5
Japan	6.8	8	1.9	16	15.7	4
Canada	9.6	3	8.0	11	23.2	2
United Kingdom	8.4	4	9.4	9	19.6	3
Spain	7.0	7	6.8	13	n/a	n/a
Israel	6.7	9	n/a	n/a	n/a	n/a
Netherlands	4.9	12	14.1	2	11.9	8
Sweden	1.3	19	13.8	3	5.2	13
Germany	6.0	10	8.4	10	13.3	6
Switzerland	7.1	6	n/a	n/a	n/a	n/a
Denmark	5.6	11	12.4	4	n/a	n/a
France	2.9	14	10.7	6	13.3	6
Norway	2.2	16	10.1	8	7.8	9
Austria	2.6	15	n/a	n/a	n/a	n/a
Finland	1.7	18	15.3	1	5.9	12
Belgium	3.2	13	12.1	5	7.2	10
Luxembourg	2.2	16	10.4	7	6.0	11
Overall Average	6.1		9.4		12.9	

Notes:

<sup>1</sup>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. Non-elderly benefits include only those accruing to household head under age 65.

Source: OECD (2001) (non-elderly and cash and near-cash social expenditure level); OECD (1996) (percent of full-time workers earnings less than 65% of median earnings); and authors' tabulations of the LIS data files.