

Poorer by Comparison

Poverty, Work, and Public Policy in Comparative Perspective

By Timothy M. Smeeding

The United States is a famously parochial and “exceptional” country, but nowhere is it more parochial and exceptional than in its treatment of domestic antipoverty policy. By examining cross-nationally comparable measures of income and poverty, we can shed some of that parochialism and come to appreciate how our poverty compares to that of other nations, why we’ve embarked on the path we have, and where we might go in the future. Comparing recent trends in poverty rates across several nations can also help us understand the relative effectiveness of American social policy and, even more importantly, how it might be made more effective.

While every nation has its own idiosyncratic institutions and policies, reflecting its values, culture, institutions, and history, wide differences in success and failure in fighting poverty are evident from the comparisons that follow. All nations value low poverty, high levels of economic self-reliance, and equality of opportunity for young people, but they differ dramatically in the extent to which they realize these goals. In examining these differences, the United States does not always look very supportive of low-income families. Moreover, we could do much better at reaching these goals if we made it a national priority to help those who try to escape poverty through their own work efforts.

What Is Poverty?

While most rich nations share a concern over low incomes, poverty measurement began as an Anglo American social indicator. In fact, “official” measures of poverty exist in only the United States and the United Kingdom. In Northern Europe and Scandinavia, the debate centers instead on the level of income at which minimum benefits for social programs should be set and what level of income constitutes exclusion from everyday society, not on measuring poverty. Because Northern European and Scandinavian nations recognize that their social programs already ensure a low poverty rate under any reasonable set of measurement standards, there is no need to calculate poverty rates.

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 the average family’s income. The official United States poverty line was 28 percent of this level in 2000, though it was 50 percent of this level in 1963 when it was first employed. I define poverty rates in the analyses that follow using this standard relative concept. The measurement utilized here is based on disposable cash income (DPI), which includes all types of money income, minus direct

income and payroll taxes and including all cash transfers, such as food stamps and cash housing allowances, and refundable tax credits such as the Earned Income Tax Credit (EITC).

What Do We Find?

Across twenty-one countries with fully comparable data, the overall poverty rate for all persons using the 50 percent poverty threshold varies from 5 percent in Finland to 20 percent in Mexico. The poverty rate is 17 percent in the United States, the second highest of all nations and the highest of all rich nations. The average rate of poverty is 10 percent across the twenty-one countries we observe here (Figure 1). Higher overall poverty rates are found, as one might expect, in Mexico, but also in Anglo-Saxon nations (United States, Australia, Canada, Ireland, and the United Kingdom), and southern European nations (Greece, Spain, Italy) with a relatively high level of overall inequality. But even so, Australian, Canadian, and British poverty remain below U.S. levels.

The lowest poverty rates are more common in smaller, well-developed, and high-spending welfare states (Sweden, Finland), where they are about 5 or 6 percent. Moderate rates are found in major European countries, where social policies provide more generous support to single mothers and working women (through paid family leave, for example), and where social assistance benefits are high.

On average, the percentage of children under age 18 who are poor is a slightly larger problem than is overall poverty in these nations, but the cross-national patterns are very similar (Figure 2). After Mexico, the U.S. child poverty rate is at 22 percent compared with the 12 percent average over these twenty-one nations. European child poverty rates are lower and Anglo Saxon rates higher among these nations, but the U.S. child poverty rate is more than 4 percentage points higher than in any other rich nation.

Many in America believe that the story of child poverty is one of poor immigrants, given the idea that immigrants are more likely than native citizens both to have low incomes and many children. But two nations with substantially higher fractions of children born to foreigners, Canada and Australia, both have substantially lower child poverty rates than the United States.

Why Are Persons Poor?

But what explains these differences? The short answer is that they result from two main causes: the amount of support we give to the poor (especially the working poor) and the level of wages paid in the United States compared to other nations. Redistributive social expenditures vary greatly across

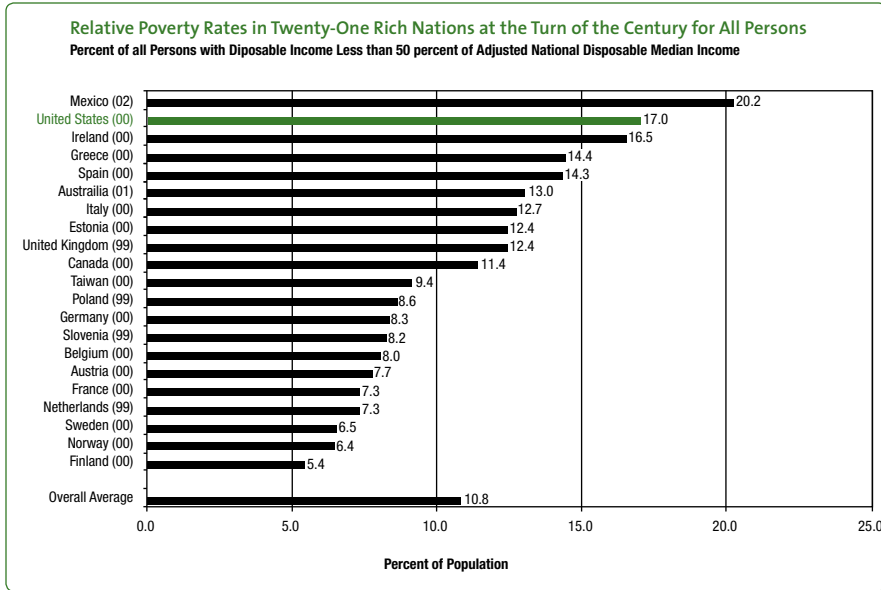


Figure 1

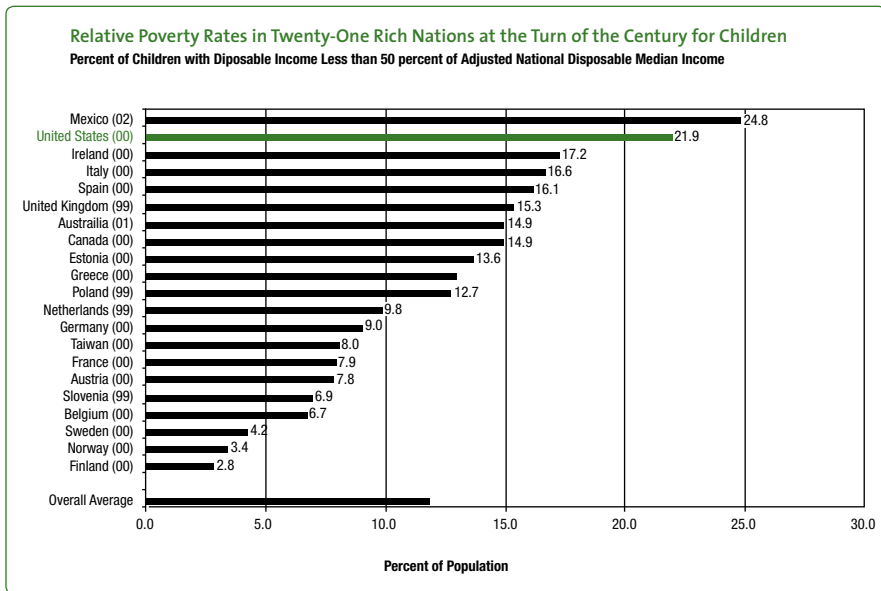


Figure 2

nations. Social expenditures (health, education, cash, and near cash support) as a fraction of total government spending in Organisation for Economic Co-Operation and Development (OECD) nations ranges from 67 percent in Australia to 90 percent in Denmark and Sweden. That is, 67 to 90 percent of all government spending is made up of redistributive cash or in-kind (health, education) benefits. Therefore, social expenditure constitutes most of what most governments actually do. The United States is significantly below all these others in levels of cash spending on the nonelderly and families with children. We spend about 3 percent of national income on benefits for these groups, a level closer to Mexico (which is at 2 percent) than to

any of the richer OECD nations (which are all spending at least 6 percent of national income on family benefits).

The United States also has the highest proportion of workers in poorly paid jobs, and the highest number of annual hours worked by poor families with children. Thus despite the larger work effort in the United States, our poverty rates are higher for two reasons: because our jobs pay low wages and because, even with high levels of low-wage work, U.S. antipoverty policy does less to compensate low-wage workers and lift them out of poverty than do other nations.

Of course, antipoverty and social insurance programs are in most 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 benefits (such as child allowances or refundable tax credits) and targeted social assistance transfer programs for low-income populations are mixed in different ways in different countries. 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 or the family situations of those workers. For over a decade, U.S. unemployment has been well below average, and until recently American job growth has been much

faster than the average. A strong economy coupled with a few specific antipoverty devices (like the expanded support for low income workers through the EITC) has produced most of the poverty reduction of recent years. Despite these factors, the United States does not spend enough to make up for lower levels of pay, and we therefore end up with a relatively higher poverty rate than is found in other nations.

When There Is a Will

As Emmanuel Saez shows in this issue, the real incomes of Americans across the income spectrum did rise in the late 1990s, but they fell again after 2000. Most of the gains in

recent years have been captured by Americans much further up the income scale, producing a conspicuously wide gap between the incomes of the nation's rich and poor children, elders, and adults. In recent years, the U.K. and especially the U.S. economies have performed better than many other economies where income disparities are smaller. Employment growth has been relatively faster, joblessness lower, and economic growth higher than in most other rich countries where public policy and social convention have kept income disparities low. But if we compare child poverty in the United States with the United Kingdom, using the exact same poverty standards, we see a large difference in recent trends.

Child poverty in both nations began to fall without the help of policy from the mid- to the late 1990s, owing mainly to the strong wage growth and tight labor markets in both countries. Then, after 2000, the patterns of child poverty trends diverged, falling by about half in the United Kingdom as U.S. child poverty actually rose by several percentage points.

Why so? In 1997, Prime Minister Blair announced his nation would rid itself of high child poverty, and in 1999 he instituted a wide and deep set of policies to reduce child poverty. These included high-quality child care and extensive work supports, programs that combine welfare and work (not forcing low-income mothers to give up benefits and survive on work alone), and a working family tax credit (similar to the U.S. EITC program) to increase the return to going to work. As we entered the twenty-first century, when both economies turned sour, the United Kingdom continued to have policy-driven reductions in child poverty while the U.S. poverty decline stopped and even reversed. The poverty rate for U.K. children fell to 11 percent by 2004–2005, while the official U.S. child poverty rate was 18 percent in 2005, according to U.S. Census estimates.

The reason for the big improvement in the United Kingdom is that they had a leader who set a national goal of improving living standards and eradicating child poverty in Britain over the next decade, one who then matched that political rhetoric with large measures of real and continuing fiscal effort to reduce poverty, improve living standards, and support work. In Britain, former Prime Minister Blair spent an *extra* .9 percent of national incomes since 1999 for low-income families with children. Nine-tenths of a percent of U.S. national income is about \$120 billion. This is substantially more than we now spend on the EITC, food stamps, child care support, and other targeted programs combined. The result of this spending in Britain is that child poverty rates in 2000 were 45 percent below their 1999 level, while children's real living standards and the employment levels of their mothers also rose. Meanwhile, children in the United States enjoyed no such gains.

Where to Go From Here?

As long as the United States relies almost exclusively on the job market and low wages to generate incomes for working-age families, economic changes that reduce the earnings of

less-skilled workers will inevitably have a big negative effect on poverty among children and prime-age adults. Welfare reform has pushed many low-income women into the labor market and they have stayed there as welfare rolls continue to fall. Even with the \$25.4 billion spent on Temporary Assistance for Needy Families today, less than \$10 billion is in the form of cash assistance. The rest is now in the form of child care, transportation assistance, training, and other services, which do increase work, but do not address low pay. While the switch from cash to services has undoubtedly helped account for higher earnings among low-income parents, it has not helped move many of them from poverty. In fact, serious gaps with work assistance policies still exist, especially in the child care arena, family leave policy, and health insurance provision.

Labor markets alone cannot reduce poverty because 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 all face significant challenges earning an adequate income, no matter how much they work. The relationship between antipoverty spending and poverty rates is of course complicated, but the evidence discussed above is very suggestive. U.S. poverty rates, especially among children, are high when compared with those in other industrialized countries. Yet U.S. economic performance has also been good compared with that in most other rich countries. As the British have demonstrated, carefully crafted public policy can certainly reduce poverty if the policy effort is made.

Of course, the high direct and indirect costs of our child poverty are now widely recognized in public debate. The wisdom of expanding programs targeted at children and poor families depends on one's values and subjective views about the economic, political, and moral trade-offs of poverty alleviation. It is hard to argue that the United States cannot afford to do more to help the poor, particularly those that also help themselves via their work efforts. But it has not done so thus far. 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. There is already hard evidence that such programs produce better outcomes for kids.

If the political history of the United States is any guide, a 5 percent overall relative poverty rate is not a plausible goal. But a gradual reduction in the overall poverty rate from 17 percent overall and 21 percent for children to a level under, say, 12 percent is certainly feasible. This rate would represent a considerable achievement by U.S. standards, but it is worth remembering that this “target” poverty rate is higher than the average poverty levels in the twenty-one nations examined here and would still leave us just below the poverty levels of our Irish, Australian, British, and Canadian counterparts. ■

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