

First Draft  
May 18, 2006  
Not for Quotation

Conditions of Social Vulnerability, Work and Low Income:  
Evidence for Spain in Comparative Perspective \*

Teresa Munzi  
Luxembourg Income Study

and

Timothy Smeeding  
Center for Policy Research, Maxwell School, Syracuse University  
and  
Luxembourg Income Study

Prepared for the

**Instituto de Estudios Fiscales / Institute for Fiscal Studies Conference**

“INCREASING WORK AND INCOME AMONG LOW-INCOME HOUSEHOLDS:  
DRAWING LESSONS FROM EU AND US REFORMS

Madrid Spain  
June 1-3, 2005

\*The authors would like to thank Karen Cimilluca and Kati Foley for their help in preparing this manuscript, and Luis Ayala for helpful suggestions. The authors thank the Luxembourg Income Study member countries, especially Spain and the Institute for Fiscal Studies for their support. The conclusions reached are those of the authors alone.

# **Conditions of Social Vulnerability, Work and Low Income, Evidence for Spain in Comparative Perspective**

## **Abstract**

Social vulnerability due to insufficient income and earnings may come from many sources, both demographic and economic, in a globalizing world. This paper examines the problems of population aging, low wages, growing inequality, low work hours and insufficient social spending in Spain. Vulnerable groups such as children and the aged are considered. The paper will look at the United States, Canada, and Europe using the LIS (Luxembourg Income Study) database, and especially with a focus on Spain. For the first time we compare the similarities and differences between a set of Mediterranean LIS nations: Spain, Italy and Greece, compared to their European and OECD counterparts. We will assess the net effects of existing policies on poverty and inequality, and particularly the United Kingdom's recent program to reduce child poverty. While best practices may be identified, each nation must create its own set of mutually supportive policies which provide protection against global economic forces while at the same time encouraging self effort and efficient behavior, especially in the labor market. In the end, policy can make a difference in outcomes, as shown by the recent British success in fighting child poverty.

## I. Introduction

Many nations have a long tradition of measuring income inequality and poverty and weighing the effectiveness, successes, and failures of government policies aimed at poverty reduction and at offsetting the instability effects of globalization of labor markets.

One can find many types of ‘social policy reforms’ in rich nations, e.g., 1996 United States Welfare Reform Act which shrunk the AFDC/TANF (Aid to Families with Dependent Children/Temporary Assistance for Needy Families) rolls from over 5.0 million units and 11 million persons in 1994 to under 2.0 million cases (and less than 4.8 million persons) by June 2004. Or one could look at the series of child poverty reducing reforms introduced by the Blair government in 1999 (see Hills and Waldfogel 2004). These two cases, compared later in the paper, help us understand the question of whether and to what extent dramatic changes in program caseloads lead to better antipoverty outcomes. And there is still room for serious policy debate over poor elders and their prospects for better conditions under impending Social Security and social retirement reforms in all nations.

For the most part, examinations of domestic antipoverty policy in any country are inherently parochial, for they are based on the experiences of only one nation in isolation from the others. The estimation of cross-nationally equivalent measures of poverty and inequality, and the comparison of programs that help reduce them, provide a unique opportunity to compare the design and effectiveness of one nation’s social policy and antipoverty policy with the experiences of other nations. The Luxembourg Income Study database, which undergirds this paper, contains the information needed to construct comparable poverty and inequality measures for more than 30 nations. It allows comparisons of the level and trend of poverty and inequality

across several nations, along with considerable detail on the sources of incomes and public policies that in large part shape these outcomes.

In this paper we use cross-national comparisons to examine differential experiences in fighting poverty and inequality in the face of substantial and rising economic inequality, in a cross-national context. In so doing, we compare the effectiveness of anti-poverty and inequality policies to similar nations elsewhere in the industrialized world. Spain was one of the most recent additions to the list of the LIS member countries, and this paper is the first to compare the situation of Spain with that of Greece, Italy (the other LIS Mediterranean nations) and with that of other richer nations using the LIS micro data.

Thirty five years ago, Spain was still under a dictatorship and had just joined the EU. It was a country of emigration not immigration, and the welfare state was minor and insignificant (Ferreira, 2005). While economic growth has benefited Spain enormously over the past 30 years, it is still at a relatively low standard of living (along with Greece and Portugal) in real income terms compared to northern and central Europe. Spain continues to be an underdeveloped welfare state in the European sense, yet it also seek to avoid some of the mistakes and poverty traps of the larger and more mature EU welfare states to which we compare it in this paper. Not only must Spain deal with the old risks of old age, disability and unemployment (Overbye,1997), but it must also deal with the ‘new risks’ to working families (divorce, child care, job flexibility) as well as low wages, job tenure and instability and globalization. Indeed this entire conference is about trying to find a ‘better’ way to support families and children while at the same time encouraging work and self sufficiency (Matsaganis, et al, 2003)

We believe that there are lessons about antipoverty policy that can be learned from cross-national comparisons. While every nation has its own idiosyncratic incentives and policies,

reflecting its values, culture, institutions, and history, wide differences in success and failure are evident from the comparisons which follow. And while there is evidence that such policies are becoming internationalized in their spread and evaluation (Banks et. al. 2005), they do in fact still differ substantially. Issues of globalization, job instability, immigration and population aging are becoming more important throughout the rich and developing world, threatening safety nets and basic income supports. And there is growing evidence that the welfare states in Mediterranean nations are also undergoing similar changes (Sapir, 2005; Wolf, 2005; Ferriera, 2005)

We begin by reviewing international concepts and measures of poverty and inequality. In so doing, we identify a number of markers that we can use to examine the success and failure of antipoverty policy in a cross-national context. We examine the effects of work, education, family structure, and social policy in achieving these outcomes. We also look at immigration and the ways in which it affects poverty and is affected by policy. We conclude with a discussion of the relationship between policy differences and outcome differences among the several countries, and consider the implications of our analysis for research and for antipoverty policy in Spain.

While all nations value low poverty, high levels of economic self-reliance, and equality of opportunity for younger persons, they differ dramatically in the extent to which they reach these goals. Most nations have remarkable similarities in the sources of national social concern: births outside of wedlock and lone parent families (especially in Anglo - Saxon nations—less so at this time in Mediterranean countries); poverty in old age, especially among older women; unstable employment; low fertility rates; low wages; rising immigration rates, and the questionable sustainability of social expenditures in the face of rapid population aging and rising medical care costs. They also exhibit differences in the extent to which working age adults mix

economic self-reliance (earned incomes), family support, and government support to avoid poverty.

The correct course or set of policies for Spain depends on the poverty policy issues which it deems to be most important. When comparing the social situation across European nations, the numbers suggest that low employment rates, especially for women, and low rates of job creation are two important issues to address in the Spanish context (European Communities, 2004). Specific studies about poverty in Spain (see Ayala, 2000) show that its poverty is closely associated with low educational qualifications, and, to a lesser extent, lack of employment. Clearly, the ‘right’ solution depends on the institutions, culture, politics, and feasibility constraints under which it finds itself.

## **II. Cross-National Comparisons of Poverty and Inequality: Methodology and Measurement**

There is considerable agreement on the appropriate measurement of poverty in a cross-national context. Most of the available studies and papers share many similarities that help guide our methodological strategy. Differing national experiences in social transfer and antipoverty programs provide a rich source of information for evaluating the effectiveness of alternative social policies in fighting 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 (or measures of “low income” status) exist in very few nations. Only the United States (U.S. Bureau of the Census 2003b) and the United Kingdom (Department of Social Security 1996; Department of Work and Pensions 2005) have regular “official” poverty series. 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 on “social exclusion” (Atkinson et al.

2002). Most recognize that their social programs already ensure a low poverty rate under any reasonable set of measurement standards (Björklund and Freeman 1997). Instead they concentrate their efforts on social mobility and inequality (Erikson and Goldthorpe 2002). While rapid economic growth in Spain has lessened the incidence of poverty, it has not been eradicated. Greece, Italy and to a lesser extent, Spain are the lowest income nations in Europe and they must continue to grow in real terms in ways that benefit all of their population

While there is no international consensus on guidelines for measuring poverty, international bodies such as the United Nations Children's Fund (UNICEF), the United Nations Human Development Report (UNHDR), the Organization for Economic Cooperation and Development (OECD), the European Statistical Office (Eurostat), the International Labor Office (ILO) and the Luxembourg Income Study (LIS) have published several cross-national studies of the incidence of poverty in recent years. A large subset of these studies is based on LIS data.<sup>1</sup>

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, we use the 50 percent of median income standard to establish our national poverty lines. We could have selected 40 percent of national median income as our relative poverty threshold because it is closer to the ratio of the official United States poverty line to median United States household (pre-tax) cash income (35 percent in 1997 and below 30 percent of median since 2000)<sup>2</sup>, but we have decided to stay with the conventional level in most of our analyses. Alternatively, the United Kingdom and the European Union have selected a poverty rate of 60 percent of the median income (Eurostat 2000; Atkinson et al. 2002; Bradshaw 2003). The results we show at the 50 percent poverty standard can be generalized to the lower poverty standard of 40 percent (see Smeeding, Rainwater, and Burtless 2001). The differences between

the United States and other nations are much larger at the 60 percent of median line, which is more than 50 percent above the United States poverty line in relative terms.

While some nations like to think of themselves as using an “absolute” poverty measure, there is no one absolute poverty measure. All poverty measures are, in some sense, relative and are chosen to be appropriate for the context in which they are used. The World Bank and the United Nations Millennium Development movement define poverty in Africa and Latin America using an income threshold of \$1 or \$2 per person per day, and in Central and Eastern Europe a threshold of \$2 or \$3 per day (Ravallion 1994; 1996). In contrast, the absolute United States poverty line is six to 12 times higher than these standards and the European poverty line is another 70 percent higher than the United States line (Smeeding, 2006). But in order to have a picture of how the different countries’ poverty levels compare in absolute terms, we had to pick some type of absolute poverty line. And, because real incomes change not only across countries but also over time, we also present comparisons of trends in poverty rates in a set of countries, where the poverty line is fixed or “anchored” at the level of an initial year relative poverty standard, and then changed only by prices. Comparisons of poverty in later years using this ‘fixed’ line allow us to see the effects of economic growth on poverty rates

As far as inequality is concerned, this study uses the most widely used summary indicator of income inequality, the Gini coefficient of income concentration. But because the Gini coefficient is just one measure of income concentration which only looks at the overall income distribution, other indices will also be analyzed in order to have a more complete picture of different segments of the distribution.

## Measurement Issues

Comparisons of poverty and inequality across nations with LIS are based on many choices. A poverty line, a measure of resources such as (market and disposable) incomes, an equivalence scale to adjust for family size, and in some cases exchange rates for conversion to real terms are all important precursors to accurate cross-national measurement of poverty status. We assess both the poverty rate (percent of persons who are poor) and overall levels of inequality using several measures in this paper. We measure trends in poverty using two measures: relative poverty and a poverty line anchored at half of median income in the mid 1980s (or earliest consistent LIS year for Greece and Spain, while inequality will be looked at using both the Gini coefficient and percentile ratios.

Other choices include:

- Poverty and inequality measurement is based on the broadest income definition that still preserves comparability across nations. The best current definition is disposable cash and near cash income (DPI) which includes all types of money income, minus direct income and payroll taxes and including all cash and near cash transfers, such as food stamps and cash housing allowances, and refundable tax credits such as the earned income tax credit (EITC).<sup>3,4</sup> In determining the antipoverty effects of social transfers and tax policy, we also use a measure of “before-tax-and-transfer” market income (MI), which includes earnings, income from investments, private transfers, and occupational pensions.<sup>5</sup>
- In tracing the effects of income transfer policy from MI to DPI poverty and from MI to DPI inequality, we determine the effects of two bundles of government programs: Social Insurance and Taxes (including all forms of universal and social insurance benefits, minus income and payroll taxes) and Social Assistance (which includes all forms of income-tested benefits targeted at poor people, including the EITC). Again, in making these poverty comparisons for all persons and for groups, we use poverty lines of half of median DPI anchored or fully relative, for all persons throughout.<sup>6</sup> We use the Gini coefficient, decile ratio and ratio of the 10<sup>th</sup> and 90<sup>th</sup> percentile to the median income to measure inequality.
- For international comparisons of poverty and inequality, the “household” is the only comparable income-sharing unit available for almost all 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 persons of each type who are members of households of each type with incomes below the poverty line. In some cases we also calculate the poverty rate for elders (65 and over) and children (17 and under) regardless of their living arrangements. Further, we use the available LIS data to separate annual hours worked (according to weekly hours last year and full time-part time status), marital status and standardized education level of the household head (reference person).

- 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. In the United States poverty literature, a set of equivalence scales is implicit in the official poverty lines, but these are neither consistent nor robust (Citro and Michael 1995). For the cross-national analysis of *relative* poverty rates, however, we use a consistent scale, which is much more commonly used in international analyses. After adjusting household incomes to reflect differences in household size, we mostly compare the resulting adjusted incomes to the 50 percent of median poverty line. The equivalence scale used for this purpose, as in many cross-national studies, which include both children and elders, is a single parameter scale with a square-root-of-household-size scale factor.<sup>7</sup>

In measuring “anchored” poverty changes in prices within nations are measured by their own country change in the CPI (Consumer Price Index) as published by OECD (2005).

We do not address mobility in or out of poverty across or within generations. Researchers have shown that both income and family structure affect children’s life chances and thus, the real income level of children and their parents is of serious social concern (Sigle-Rushton and McLanahan 2004; Duncan et al. 1993). The question of mobility in and out of poverty requires the use of longitudinal microdata. All of the comparisons in this paper are based on cross-sectional data, not longitudinal data. In fact, several recent cross-national poverty studies suggest that mobility in and out of poverty is lower in the United States than in almost every other rich country (Bradbury, Jenkins, and Micklewright 2001; Goodin et al. 1999; Duncan, et al. 1993).

### **III. The Literature, Data ,Countries and Macroeconomic Comparisons**

#### **Poverty and Inequality in Spain: A Brief Tour of the Landscape.**

There is a fairly large and recent literature on poverty and inequality in Spain and the southern European welfare state (e g see Van den Bosch and Marx. 1996; Arriba and Moreno, 2002; Dennis and Guio, 2003; Micklewright and Stewart, 2000; Barcena-Martin and Cowell, 2006) up until the ECHP in the early 1990's. Of course, data to follow the measurement of poverty and inequality was slow to come to Spain in the 1980's and then 1990s. Poverty levels, of course, depend on the standards to which it is measured. We rely on Spanish incomes not consumption to measure poverty (see Gradin, Canto and el Rio. 2004, on consumption poverty in Spain). We also cannot and do not measure 'social exclusion' here (see Arriba and Moreno, 2002; Dennis and Guio, 2003). Also, having a below EU average income, Spain looks better when comparing poverty relative to the Spanish median income (as we do below) than to the EU wide median income (Kangas and Ritakallio, 2004). Inequality and income dynamics in Spain are not very different from those in the other Mediterranean nations, but need to be compared to those in a wider range of nations (Barcena-Martin and Cowell, 2006). As far as the welfare state is concerned, emergence of elder safety nets helped this group enormously, but left families and children at risk (Canto, del Rio, and Gradin, 2006; Canto-Sanchez, and Mercader-Prats.1998; Sutherland, 2000). Studies of the level and dynamics of Spanish poverty suggest that labor market issues, especially high and persistent unemployment and short term job contracts are as much of a problem as are low wages (Amuedo-Dorantes, and Serrano-Padial. 2005). Low number of single parents and low immigration to date (as far as we can measure it using the ECHP) have so far helped stabilize child poverty in Spain (Canto, del Rio, and Gradin.2006;

Canto-Sanchez and Mercader-Prats, 1998). Spanish poverty dynamics are not very different from those in other EU nations (Perez-Mayo,2004). But Spanish poverty may bring higher levels of difficulty in making ends meet especially for children, compared to other EU nations (eg see Micklewright and Stewart, 2000; 2001)

## **Data**

Up until the ECHP in the early 1990's, Spain and LIS relied on income from consumption surveys (eg for Spain, 1980 and 1990) .Other Spanish data was not so robust (Cowell and Mercader-Prats, 1999) Now we are able to use the ECHP (1995 and 2000) and soon the EU's 2004 onwards Survey of Income and Living Conditions (SILC) data and we can do a better job of comparatively charting Spanish poverty

The data we use for this analysis are taken from the Luxembourg Income Study database, which now contains over 140 household income data files for 30 nations covering the period 1967 to 2002 ([www.lisproject.org](http://www.lisproject.org)). We can analyze both the level and trend in poverty and low incomes, as well as inequality patterns, for a considerable period across a wide range of nations. A broad league table showing all LIS nations is first presented. But, because we are computing the level and trend in relative poverty and inequality for several major policy relevant groups, we have decided to focus on just thirteen nations for the remainder of this paper, each with a recent 1999-2000 LIS database. These include four Anglo-Saxon nations (the United States, Canada, Ireland, and the United Kingdom), four Continental European nations (Austria, Belgium, Germany, and the Netherlands), three Southern European or "Mediterranean "countries (Greece, Italy and Spain), and two Nordic nations (Finland and Sweden). These nations were chosen to typify the broad range of rich countries available within LIS and to simplify our analysis.<sup>8</sup> We

include all of Germany, including the eastern states of the former German Democratic Republic (GDR), in most of our analyses.<sup>9</sup>

## **Macroeconomic Comparisons**

We begin to gain perspective by comparing living standards and labor market differences. First, in the top half of Table 1, three features of the economic and social institutions of each nation: standard of living (as measured by Gross Domestic Product (GDP) per capita in 2000 PPP adjusted dollars); unemployment (as measured by OECD Standardized unemployment rates), and cash and near cash social expenditures for the non-elderly in the 13 nations (Table 1; Panel A).

The United States is far and away the richest nation that we observe among our set, with 2000 GDP per capita of \$35,650.<sup>10</sup> Excluding Spain and Greece, the other OECD nations lie within a tight 12 percentage point GDP per capita range, from 69 to 81 percent of the United States level. Spain and Greece are more accurately classified as “middle income” countries, with GDP per capita that are 57 and 46 percent of the United States level, respectively. With the exception of Austria and the Netherlands, the United States also enjoyed the lowest unemployment rate of all nations in 2000. All of the Mediterranean nations; Italy, Spain and Greece, had unemployment rates more than twice the United States rate, with the variance in unemployment far exceeding the differences in incomes across these select nations.<sup>11</sup> And Spain had the highest unemployment rate of all at 11.4 percent. This is not to say that balanced economic growth has not or will not help Spain solve its poverty problems (Immervoll, et al, 2006), but that the gap between Spain and most of the other nations here is a fairly large one.

While the United States is unique in both its high standard of living and its low unemployment rate, it is also unique in the small amount of its resources devoted to cash and near cash social transfer program. In 2000, the United States spent less than 3 percent of GDP on cash and near cash assistance for the nonelderly (families with children and the disabled). This is less than half the amount (measured as a percent of GDP) spent by Canada, Ireland, or Greece; less than a third of spending in Austria, Belgium, Germany, or the United Kingdom; and less than a quarter of the amount spent in the Netherlands, Finland or Sweden; only Italy and Spain spends less than twice as much as the US. While there is a rough correlation between social spending and unemployment, the differences we see here are not cyclical, but are rather structural in nature (see also Garfinkel, Rainwater, and Smeeding 2005, for more on these differences and health and education benefits in kind).

The second half of table 1 compares several labor market variables based on an analysis by Alesina, Glaeser and Sacerdote (2005). One initial warning about this paper is that these figures are not separately computed for men and women, and so differences gender specific participation rates heavily effect differences in the estimates.

Gornick, et al (2006) shows that Spanish men who are employed, work 44 hours per week while Spanish women who are employed 37.0 hours per week The Alesina, et. al. (2005), estimate in Table 1,panel B is 39 hours <sup>12</sup>

On average, nations are remarkably similar in their usual weekly hours of work for those who are employed (last column, Table 1, Panel B). Nations differ much more in weeks per year worked and in employment to population ratios (owing for instance to lower labor force participation rates for women —about 58 percent for Spanish women in Table 1, Panel B.

Combining all these measures, Spanish workers are at 18.14 hours per person per week in the aggregate, above Italy, below Greece and about the same as Belgium and Germany.

#### **IV. Results: Level and Trend in Inequality and Poverty**

Much of the concern over social and economic vulnerability in Spain as well as elsewhere is driven by the high and growing levels of economic inequality found in all the countries studied here. Thus, we begin with a broad view of cross-national inequality and later the effect of government on reducing inequality by means of tax-transfer policy. Then we move to comparisons of poverty. In addition to overall poverty rates, we examine many subgroups. We separately estimated poverty among two vulnerable populations, children and the aged.<sup>13</sup> We examine the antipoverty effect of government policy for each of these groups. We examine poverty status according to the amount of amount of work, family status, and education level of parents for low-income children in each nation. We conclude with a brief summary of what we have learned about how government support affects poverty and inequality for the vulnerable in comparative perspective.

##### **Inequality in Comparative Perspective**

A wide range of inequality is apparent in the rich and middle income countries contained in LIS. Figure 1 presents a “bird’s eye” view of these inequalities using four different measures of inequality in 30 nations. Countries are ranked by the adjusted income ratio of the 10<sup>th</sup> person to the 50<sup>th</sup> person in each nation ( $P_{10}$ ). A different ranking can be observed by using the ratio of the 90<sup>th</sup> to the 50<sup>th</sup> person ( $P_{90}$ ). In fact, concerns over inequality, vulnerability and social protection need to consider both the low income ( $P_{10}$ ) and also the high income ( $P_{90}$ ) population.

The difference between the two is summarized by the decile ratios ( $P_{90} / P_{10}$ ) in the next column and the Gini coefficient in the final column. While all four measures provide slightly different rankings, broad patterns are apparent. The least inequality is found in Continental European nations and Nordic/Scandinavian nations. Central and Southern Europe has more inequality, but not as much as the Anglo Saxon nations, especially the United States. Eastern European nations show large differences (compare Czech Republic and Estonia), but are all significantly more equal than is Mexico or Russia. The 13 countries we have selected, marked by (\*), fairly well span the wide range in the table. Spain ( bold in Figure #1) ends up ranked with the Mediterranean nations right between Greece and Italy, and pretty much towards the end of the pack of nations according to all four inequality measures. Amongst the EU countries in this figure, only Ireland has a demonstrably higher level of inequality than Spain .

### **Relative Poverty Levels**

Relative poverty rates in the thirteen nations we cover in this paper are given in Figures 2a, 2b, and 2c. The overall poverty rate for all persons using the 50 percent poverty threshold varies from 5.4 percent in Finland to 17.0 percent in the United States, with an average rate of 10.9 percent across the 13 countries (Figure 2a). Spain is above average at 14.3 percent poor, just below Greece and just above Italy. And using a lower relative poverty rate (such as the 40 percent of median rate) makes little difference in terms of overall poverty rate rankings for Spain.

Higher overall poverty rates are found in Anglo-Saxon nations with a relatively high level of overall inequality (United States, Canada, Ireland, and the United Kingdom), and in Mediterranean countries (Greece, Spain and Italy). Canadian and British poverty are both about

12 percent and are, therefore, far below the United States levels. The lowest poverty rates are more common in smaller, well-developed, and high-spending welfare states (Sweden, Finland) where they are about 5 or 6 percent. Middle level rates are found in major continental European countries where unemployment compensation is more generous, where social policies provide more generous support to single mothers and working women (through paid family leave, for example), and where social assistance minimums are high. For instance, the Netherlands, Austria, Belgium, and Germany have poverty rates that are in the 8 to 9 percent range.

On average, child poverty rates at 11.9 percent (Figure 2c) are a lesser problem than is elder poverty at 16.1 percent (Figure 2b) based on incomes alone. However, consumption poverty and wealth poverty might produce an entirely different picture among the elderly who do better than children (and their families) on both grounds (Johnson, Smeeding, and Torrey 2005). Single parents and their children and single elders generally have the highest poverty rates, while those in two-parent units, mixed units, and the childless experience the least poverty (not shown). In some nations elders live with their children, and in these cases, living arrangements reflect the economies of scale gained by sharing living arrangements in multigenerational and cohabiting partner households. Privacy is sacrificed for lower cost of housing.<sup>14</sup> A high elder poverty could reflect living arrangements, which are favorable to the formation of many low income single elder households, as in the United States and the United Kingdom, but clearly not in Spain or other Mediterranean nations, where many more elders live with their children.

Another factor explaining this result might be the fast pace of economic growth: this is particularly true for Ireland, where the elders are relatively poor because with respect to a rapidly growing economy, pensions are fixed in real terms, and while the rest of society enjoys an increasingly higher standard of living due to economic growth, the elderly truly do live on “fixed

incomes”; this could to some extent also explain the Spanish elder poverty rate. And obviously, another important factor is the generosity of the welfare state towards the elderly, and even more so its efficiency in reducing poverty among them. Spain seems to do relatively better at the 40 percent poverty level for its elders, with its poverty rate well below that in Greece ( but still above Italy’s ).

Child poverty rates are highest in countries with many single parents and low wages and low levels of transfer support. In Spain, child poverty seems to be a slightly less important problem than is elder poverty, not least because of the low percentage of single parent households. Spanish child poverty rates are above average, slightly better than those in Italy, but worse than those in Greece (Figure 2c).

The United States is among the three countries with the highest poverty rate in each category. Poverty rates in the richest nation, the United States, for children are almost 90 percent above the average rate. In most cases, Ireland, also a very rich nation (Table 1), has the highest or second highest poverty rate (e.g., for elders and children) but is also rapidly growing. This observation brings up the issue of real income change and how these affect trends in poverty to which we now turn.

## **Trends in Poverty**

The trend in poverty is shown in Tables 2 and 3, reflecting between 5 and 17 years of history in each nation. The first year for which LIS has comparable data available for Spain is 1995, thus the figures reflect a very short trend. We present two types of trends. First, trend findings based on relative poverty, which are similar to those in other recent LIS papers with different percentage of median poverty rates and wider ranges of countries (e.g., see Smeeding,

Rainwater, and Burtless 2001), are presented. Next, trend measures based on a poverty line which is ‘anchored’ or fixed in real terms at the mid 1980s (1995 for Spain and Greece) poverty measure, but then using poverty lines adjusted to the most recent year using each nation’s CPI (Smeeding, 2006). We also list beginning and ending rates to give the reader some idea of starting points in each nation. In all nations we show simple (percentage point) changes in poverty rates.

In general, relative poverty is higher in most nations at the end of the period compared to the beginning, even at the end of the relatively prosperous 1990s. (This trend does not conflict with the observation that many nations’ relative and absolute poverty rates, including those in the United States, rose in the early 1990s and fell in the later 1990s and then rose again after 2000). The decrease in relative poverty in Greece from 1995 to 2000 might be a ‘short trend’ example. The drops in relative poverty over longer periods in the United States and Sweden are exceptions, but starting from vastly different level of relative poverty (though by 2002 the United States relative poverty rate has risen back to 17.7 percent). Four nations: Ireland, Belgium, the United Kingdom and the Netherlands experienced a rapid increase in relative poverty over this period (Table 2).

The story of changes in anchored (absolute) poverty is very different, and perhaps more relevant for countries like Ireland, Greece, and Spain. In each nation, shown in Table 2, poverty falls in absolute terms, and in some rapidly growing nations such as Ireland, it fell by 9.9 points (or by over 80 percent) albeit over a 13 year period. Spain and Greece also exhibited very large drops in anchored rates, but because the rates were high in the beginning, and even more so because the trend covers only a five-year period, they also exhibited high anchored rates by the end of the period. Still in terms of reduction per year anchored poverty, both Greece and

especially Spain have done remarkably well over the 1995-2000 period, with anchored poverty falling more than 1.0 points per year in both nations. The United States, which experienced a large fall in anchored poverty, still had the highest anchored poverty rate (13.5 percent) by a wide margin by 2000—with, among the countries with longer trends, only Canada and Italy having anchored rates above 5.6 percent by periods end.

In general, child and elder poverty also increased in relative terms over this period (Table 3, bottom row ) while both fell in absolute terms, especially elder poverty, in most countries. Among the nations for which the trend covers at least a decade, the only one to experience a drop in relative child poverty was the United States—but it also had the highest rate of child poverty at both the beginning and end of this period. The rise in relative child poverty in many nations has also recently been reported by UNICEF (2005) and Chen and Corak (2005). Relative elder poverty rose in all but four nations; absolute elder poverty increased by less than a percentage point in the UK and Netherlands—the former from an already high base. But elderly poverty fell in real terms in all other nations, including Spain. Both relative and absolute child poverty fell in Spain over this period .And here Spanish and Greek performance differed from that found in Italy.

We hasten to mention that the trends noted in poverty are different from the changes found in inequality (e.g., using the Gini index and the LIS key figures, available at [www.lisproject.org](http://www.lisproject.org)) over this same period in these same nations. In many of the more equal nations, most of the rise in inequality noted over this period has taken the form of higher incomes at the top of the distribution rather than by falling lower incomes at the bottom. Hence, relative poverty changed by much less than did overall inequality (Förster and Vleminckx 2004; Brandolini and Smeeding 2005).

## The Anti-Inequality and Antipoverty Effect of Taxes and Transfers

In every nation, benefits from governments, net of taxes, reduce inequality and relative income poverty (Figures 3 and 4, and Table 4). Countries are more similar in their levels of pre-government or Market Income (MI) inequality than in their “after tax and transfer” Disposable Personal Income (DPI) inequality. The United States has the highest level of DPI inequality and a high level of MI inequality as well, as taxes and transfers only reduced inequality by a further 22 percent (owing to a relatively small sized welfare state). Spanish MI inequality levels are about the same as are those in the United States in 2000, but the DPI level is lower than the US (with both still higher than the average), and, with a 28 percent reduction from MI to DPI inequality, the Spanish welfare state has roughly the same effectiveness in reducing inequalities as does Italy, Greece, Ireland and Canada. In the more equal nations of Scandinavia, Northern and Central Europe, taxes and transfers produce around 40 percent drops in MI inequality.

As with inequality, poverty rates computed using household MI do not differ among countries as much as do those calculated after-taxes-and-transfers DPI (Figure 4). Furthermore, with an average of 60 percent decline in MI poverty for all countries considered, the drops in poverty due to the taxes and benefits are much higher than those in inequality. This means that taxes and benefits tend to redistribute more income towards the low income population rather than away from the high income ones, so that poverty is decreased more than inequality; and this is true in all countries examined. We also find that, while Spanish *before-tax-and-transfer* poverty rate is above average, the percent reduction in poverty is actually just about average. The MI and DPI poverty rates in Spain are again very similar to those in Italy and Greece as well. This finding implies that different levels and mixes of government spending have sizable effects on national DPI poverty rates, but not so much on MI poverty rates (Smeeding, Rainwater, and

Burtless 2001; Smeeding 2006). Primary income distribution seems to be more favorable to the low income in the US with respect to Spain (the high Spanish unemployment rates and relatively low employment rates in Table 1 obviously account for a large part of this difference). But because the welfare state in Spain is more efficient for poverty reduction than the American one, the final DPI poverty rates are higher in the US. Still, the efficiency of all of the Mediterranean welfare states in terms of poverty reduction are far from being as high as in Continental European and Scandinavian countries. In fact, MI based poverty rate in Spain is one of the highest (after Belgium, and tied with Austria), and the reduction of 55 percent due to the effect of the tax benefit system (which brings poverty down from 31.8 to 14.3 percent) is still far from being sufficient to lower the poverty at a level comparable to that of the richer European nations. All in all, it seems that in Spain there is scope for poverty reduction both in the sphere of primary income distribution (through changes in earnings), and in that of the secondary one (through taxes and transfers).

Detailed analysis shows that higher levels of government spending (as in Scandinavia and Northern Continental Europe) and more careful targeting of government transfers on the poor (as in Canada, Sweden, and Finland), produce lower poverty rates (see also Kenworthy 1998; Kim 2000), while unemployment is not well correlated with either market income poverty or disposable income poverty (Table 1). Rather, earnings and wage disparities are important in determining both market income and disposable income poverty rates, especially among families with children (Jäntti and Danziger 2000; Bradbury and Jäntti 1999). 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.

Greater detail as to the effects of different types of spending on poverty rates is shown in Table 4. Here we split the antipoverty effect into two components: social insurance (including also universal benefits) and taxes, and social assistance. The former is not income or means tested and includes, besides the insurances against the risks of old-age, disability, death or unemployment, also universal benefits such as child allowances and child tax credits; the latter is targeted to the otherwise poor using income tests.

One can see that most nations make effective use of both types of instruments. As one might expect given that we started with the below average MI poverty rates and ended with the highest DPI based poverty rates, the United States shows the least antipoverty effort of any nation. The United States reduces poverty by 26 percent compared to the average reduction of 60 percent. The nations closest to the United States in terms of overall effect are Ireland and Canada. But even there, government programs reduce market income-based poverty by 44 and 46 percent, respectively. As far as the first component is concerned, we see that the United States social insurance and direct tax system is weakly redistributive, as are the United Kingdom and Irish systems, while its safety net and social assistance system produces another 10 percentage points of poverty reduction (including the effect of the EITC in the social assistance category). Most nations get at least a 50 percent poverty reduction from social insurance, and in heavily insured countries like Austria, Belgium, and Germany, social insurance reduces poverty by 62 to 75 percent. In the case of social assistance, large effects of targeted programs are evident in Finland (34 percent) and the United Kingdom (33 percent reductions), and lower ones (under 10 percent) in the more socially insured nations where the heavy lifting has already been done (Austria, Germany, Belgium, the Netherlands, and Canada). Among the heavily socially insured countries, the Mediterranean nations, especially Greece but also Spain and Italy exhibit the

lowest additional effect (if any) of social assistance on poverty reduction, suggesting either low spending on these programs or low benefit levels or both .

It should be apparent that different nations use different instruments and different “income packages” to achieve their antipoverty effects. There is no one program or one type of policy instrument that is universally generous and common across these thirteen nations. Clearly, the countries with the most and least effective antipoverty systems are evident in Table 4. The United States does not compare well. In comparison, the Spanish social welfare system – especially the social insurance and tax system, is definitely more redistributive, but because of a very high MI poverty and inequality, Spain still has high DPI poverty and inequality. As MI is primarily composed of earnings from labor, the causes of a high MI poverty and inequality should be looked for in the labor market sphere, namely the low employment rates. This, in conjunction with a welfare system which is not particularly redistributive, leads to DPI poverty rates that are still much higher than average by international standards. As Spain continues growing, it should aim at designing a tax transfer system that keeps MI inequality low while improving the distribution of MI towards low income units. One hopes for a system which will to decrease MI poverty (by acting on employment rates and wage levels), but also strengthen the effect of the welfare state (taxes and transfers) in terms of both poverty and especially inequality reduction (Matsaganis, et al, 2003).

### **Antipoverty Effects for the Children: Education and Work Effort among Parents**

As already mentioned several times in this paper, the children are a group at higher than average risk of poverty in modern populations. Therefore, we turn now upon the effects of tax transfer systems on families with children, and the factors that most influence them. None of us

live in a world where all parents are well educated high earners - not in any of the countries studied here. And since none of our nations will soon be in this situation, it is important to ask how policy deals with the world in which we do live: with single parents, undereducated parents, and parents who work but who do not make enough to escape being poor. In the United States, where less than 2.0 million families with children are still on welfare, we still have 12 to 15 million families who work, but are poor (Shapiro and Parrott 2003). How do benefits for families with children vary according to the educational situation and work status of the parent?

In order to isolate a parental education effect, we have focused on households with children only and now present poverty rates for children by education level of the parents (Table 6). Due to education coding differences, our comparisons are reduced to twelve nations.<sup>15</sup> We separate those children whose parents have the least education (lowest level) in the second grouping. This comes down to households where at least one has not finished secondary school. These children are compared to all other children whose parents have had more education in the other grouping of Table 5.<sup>16</sup>

The results of this exercise show that, even more than in all other aspects of poverty, when it comes to child poverty the United States are extremely different from all the other nations. As expected, in all nations, market and even disposable income poverty rates are much higher for the poorly educated as for the highly educated. But the poverty rate of the children of the American parents who did not finish high school (about 16 percent of the population) is over 50 percent, even after taking account of taxes and benefits (which again produce little effect on their incomes in the United States).<sup>17</sup> American children with more highly-educated parents in the last grouping have much lower market and disposable income poverty rates, but their disposable income poverty rates are still the highest among the nations shown.

In the other nations, the after government, disposable income poverty rates for poorly-educated parents are also different from those found among highly-educated parents, but still the poverty situation of children is not so dependent on the education level of their parents. Indeed the percent reduction in poverty rates are similar regardless of education level in most nations, but because the lower educated start at such market income high levels, the poverty rates are higher among the lower educated. In Spain, the high unemployment rates for both the less educated and other educated groups produce above average MI poverty rates, and rates higher than those in Italy and Greece.

We can begin to understand whether it is wages or hours that lie at the heart of the MI poverty problem in Table 6. Clearly we want to separate the problem of low wages (but many work hours) from high wages and few work hours. In so doing, we are limited to 9 nations where we have reasonable quality annual hours of work in the LIS data at this time.<sup>18</sup> We find that in almost every case, poor non aged Americans work much longer hours than do most any other nations' workers in Table 6 (see also Osberg 2002; Alesina, et. al., 2005 ). Spanish, Italian and Austrian heads also seem to work longer hours amongst the DPI poor, but not amongst the MI poor. The differences between American and other workers are the largest among low-income single parents. Market income poor American single parents average over 1,000 hours per year— almost twice as much as those in seven of the other eight countries shown here (Spain being the only country with higher single parent hours, a factor perhaps due to the fact that many Spanish single parents live with their extended families).

## **Absolute Poverty Rates**

Before concluding with the possible explanations on the causes and conditions of the levels of inequality and poverty, some observations about the effect on those figures of inequalities of income between the different nations here considered should be made. The level and trends of inequality and poverty as measured above all refer to income thresholds defined at the level of each state. But, as seen in Table 1 above, income differences between the countries chosen for this study are quite large, especially when comparing the United States to Spain or Greece. For this reason, it is important to examine how the countries' ranking in terms of poverty changes when switching from a relative concept to an absolute concept of poverty. Table 7 reports both relative and absolute poverty rates for the overall population, the children and the aged. While the relative rates are calculated with the same methodology as in the rest of the paper, the absolute ones change with respect to the poverty line used for the calculation. The 2000 US official poverty line by household size was converted using PPP's into the national currencies of the other countries and used to determine the poverty status. The ranking of the countries in term of poverty changes considerably, with Greece presenting by far the highest absolute poverty rates for each category, then followed in every case by Spain. And even though these rankings can change considerably according to the absolute level of the poverty threshold chosen (with higher levels pushing down the rates of the more unequal countries and up those of the most equal ones) But still high poverty rates in poorer countries that are produced by absolute measures would not be an artificial definitional construct but would reflect real inadequacies in standards of living and quality of life in those countries, including pronounced feelings of deprivation (Fahey 2005) and also inability to make ends meet ( Micklewright and Stewart 2000).

## **Immigrant and Minority Poverty**

In all rich nations, especially in Europe, there is growing concern about the status of immigrant and other minority groups (Parsons and Smeeding, 2006). Here we briefly examine this question with respect to poverty. One major issue that one confronts in this exercise is the definition of ‘immigrant’. While most countries define immigrants as foreign born, this is not true in all nations. In Spain and Greece they are defined as “non national” populations. Indeed when we count minorities in this way, Spain and Greece have the smallest fractions of all nations shown here –almost too small to measure (Table 8, first column). On average minorities in every nation are more likely to be poor than are majorities. But this is not true in every country. In Ireland and Italy (as well as Austria and Finland) the rates are very close and elder minorities in Italy (think Brits and Europeans who retire to sunny Italy) and Finland have much lower poverty rates than do natives.

The effects of social transfer systems on these two groups are shown in Table 9 and Figure 5. Surprisingly, poverty reduction rates are almost the same on average, for majority and minority MI poor. While minority poverty reduction in Greece and Spain is lower than majority poverty reduction, there seems to be a greater difference across welfare state systems than across majority-minority groups within welfare states. Figure 5 suggests that indeed poverty reduction is more correlated with benefit generosity with higher reductions for big spending nations than lower spending nations.

## **Summary**

Comparative cross-national relative poverty rankings suggest that the 13 nations we picked form two distinct groupings in terms of poverty and inequality, with the Anglo-Saxon and

Southern European countries belonging to worst half of the ranking, and the North-Continental European countries and the Scandinavian ones to the better half, and this both for the overall population and for the groups at higher risk of poverty, namely the children and elderly. Among the worst performing group, Spain, Greece are near the top of the absolute poverty range, and above average on relative poverty grounds. The Mediterranean nations are all closely clustered in terms of inequality and poverty rankings and anti poverty effects. Still when one looks at anchored poverty, it seems that great progress has been made in both Spain and Greece over the brief period which we can observe here. On the other hand, the United States' poverty rates are at or near the top of the range for all three groups of population (overall, elder and children), with their relative child poverty rates being particularly troublesome. What seems most distinctive about the American poor is that they fail to help the least skilled in terms of education, and they work more hours than do the resident parents of most other nations where we can observe work hours. They also receive less in transfer benefits than in other countries.

## **V. Towards Explanations**

In the following section, we will concentrate on finding explanations for the different levels of non-elderly poverty. A substantial fraction of the variance in non elderly cross-national poverty rates appears to be accounted for not by the variation in work or in unemployment, but by the cross-national variation in the incidence of low pay (Figure 6). Because the United States has the highest proportion of workers in relatively poorly paid jobs, it also has the highest poverty rate, even among parents who work half time or more (Smeeding, Rainwater, and Burtless 2001). On the other hand, other countries that have a significantly lower incidence of low-paid employment and also have significantly lower poverty rates than the United States.<sup>19</sup>

Spain is amongst the nations with a higher than average number of low paid workers .But the prevalence of low-pay workers is, in fact, not the only reliable predictor of poverty rates. High unemployment and many short term contracts in Spain also do not help the Spanish poor, even if it is less of a factor in other nations (Amuedo-Dorantes and Serrano-Padial, 2005).

While low pay is a good predictor of poverty rates, and while poorly-educated workers do not do well at keeping their families from poverty based on earnings alone, other factors, such as the antipoverty efforts of the government, are also important predictors of the poverty rate (Figure 7). Social spending reduces poverty, as we have seen. And as a result of its low level of spending on social transfers to the non-aged, the United States again has a very high poverty rate, as do Spain and other lower spending nations.

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 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 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. 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 situation of those workers. For over a decade, United States unemployment has been well below the OECD average, and until recently 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 child poverty reduction in recent years.

What lessons can Spain take from this exercise? The first is to note that high employment produces lower levels of MI inequality and poverty (as even the United States data suggests). But also we must note that a large number of workers with relatively low wages are not a good sign, especially if they are lowly educated workers whose wages and jobs are at risk due to globalization and trade. While Spain obviously needs a set of policies that provide incentives for higher participation in the labor market, it must also be aware of those whose education and thus wages lag, especially because a large share of the population is still lowly-educated. Next to work incentive or active labor market policies, perhaps an EITC-like program for low wage Spanish workers may help them avoid the “working, but poor” syndrome evident in the United States (Arriba and Moreno, 2002 ).

### **Discussion: A Tale of Two Countries**

While acknowledging that the United States has greater poverty than other industrialized nations, many defenders of American economic and political institutions have argued that inequality plays a crucial role in creating incentives for people to improve their situations through saving, hard work, and investment in education and training. Without the powerful signals provided by big disparities in pay and incomes, the economy would operate less efficiently and average incomes would grow less rapidly. In the long run, poor people might enjoy higher absolute incomes in a society where wide income disparities are tolerated than in one where law and social convention keep income differentials small (Welch 1999). According to this line of argument, wide income disparities may be in the best long-term interest of the poor

themselves.<sup>20</sup> But, of course, there is no evidence that this is true (Burtless and Jencks 2003). Ayala and Sastre (2002) make the same claim for Spain

Moreover, recent studies suggest that Americans do NOT have exceptionally high rates of economic mobility which may make up for its higher poverty and inequality. Indeed a recent careful cross national study (Jantti, et al., 2006, page 2) summarizes the situation as follows: “Comparative studies of socio-economic mobility have long challenged the notion of ‘American exceptionalism’ and its belief in high rates of social mobility. The sociological approaches (Erikson and Goldthorpe, 2002) suggest that the United States is fairly unexceptional .The economics literature (including Solon, 2002) suggests that the US may indeed be exceptional not in having “*more* mobility” but in having “*less* mobility”.

In recent years, the United Kingdom and especially the United States economies have, in fact, performed better than other western economies where income disparities are smaller. Employment growth (even since 2001) has been relatively faster, joblessness lower, and economic growth higher than in many other OECD countries where public policy and social convention have kept income disparities low. However, the evidence that lower social spending “caused” higher rates of growth is not found in the literature (e.g., Arjona, Ladaique, and Pearson 2001; Lindert 2004). United States lower-income citizens’ real incomes are at or below the incomes that most poor people receive in other rich countries that have less inequality (Rainwater and Smeeding, 2004). The supposed efficiency advantages of high inequality have not accrued to low-income residents of the United States, at least so far. While the real incomes of families with children did rise in the latter 1990s (Blank and Schoeni 2003), most of the gains since 2000 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.

The attached Figure 8 compares child poverty in the and in the United States using the same poverty standards—the United States poverty line (about 38 percent of United States median income in 1997) with the United Kingdom poverty line set at 60 percent of United Kingdom median income in 1996-1997. In the United States we show Census Bureau poverty estimates. Because United Kingdom incomes are about 69 percent of United States incomes in 1996 (and in 2000; see Table 1), this turns out to be just about the same poverty standard.<sup>21</sup>

We noted earlier that these nations were the top ranked nations in terms of child poverty (Figure 2a). We also note that 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 (Figure 8). In 1997, Blair announced his policies against child poverty; and in 1999 they began to be implemented. By 2000-2001, child poverty in the United Kingdom (15 percent) was just about the same as in the United States measured against this same 'real' resource level. But as we entered the 21<sup>st</sup> century, and when both economies, especially that of the United States became less vigorous, the United Kingdom continued to have policy driven reductions in child poverty while the United States poverty decline stopped and even reversed. The poverty rate for United Kingdom children had fallen to 11 percent by 2003-2004, while the official United States child poverty rate was 17.8 at percent in 2004 according to the most recent United States Census Bureau estimates (U.S. Bureau of the Census 2005).

Five years earlier, these low-income United Kingdom kids were worse off than were United States kids in real terms (Rainwater and Smeeding 2004). The reason for the absolute and relative UK improvement is that they have a leader 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 and continuing fiscal effort that has already had an important impact (Bradshaw 2003; Walker and Wiseman 2001; Micklewright 2001). In Britain, Prime Minister Blair has spent an extra .9 percent of GDP for low-income families with children since 1999 (Hills 2003). Nine tenths of a percent of United States GDP is about \$100 billion. This is more than we now spend on the EITC, food stamps, and TANF combined. The result of this spending in Britain is that child poverty rates in 2003 were 23 percent below their 1996 level and, as evident, real living standards for these children also rose (United Kingdom Department of Work and Pensions 2005; Bradshaw 2003).

## **VI. Summary and Conclusions**

The experience of the United States can give many lessons to other nations' domestic anti-poverty and inequality policies, including Spain. 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 adults. While Spain needs to set in place a number of policies aimed at increasing its employment rate, and thus go towards the direction of relying more on the job market to generate income for working-age families, it should also be aware of low wage incomes, especially among the unskilled. Welfare reform in the United States has pushed many low-income women into the labor market and they have stayed there as TANF roles continue to fall. Even with the \$25.4 billion spent on TANF today, only \$11.2 billion is in the form of cash assistance; the rest is now in the form of child care transportation assistance,

training and other services (Pear 2003). 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 still exist, especially in the child care arena (Smolensky and Appleton Gootman 2003) and in family leave policy (Gornick and Meyers 2003). Still, 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 will 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, so the arguments discussed above are, at best, suggestive. United States poverty rates among children and the aged 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. As the British have demonstrated, carefully crafted public policy can certainly reduce poverty. Implementing the policies that would achieve lower poverty rates would also have budgetary costs and perhaps, some efficiency costs that are yet to be unearthed.

Of course, the direct and indirect costs of antipoverty programs are now widely recognized (and frequently overstated) in public debate.<sup>22</sup> The wisdom of expanding programs targeted at children and poor families and older women depends on one’s values and subjective views about the economic, political, and moral tradeoffs of poverty alleviation. For many critics of public spending on the poor, it also depends on a calculation of the potential economic efficiency losses associated with a larger government budget and targeted social programs. It is hard to argue that the United States cannot afford to do more to help the poor; particularly low-skilled lowly paid workers. 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). There is already evidence that such programs produce better outcomes for kids (Clark-Kauffman, Duncan, and Morris 2003).

Spain can ill afford to adapt United States policies wholesale, and it may not be able to afford such an effort as has been mounted in the United Kingdom. But it can and should begin to institute active labor market and education policies for the younger members of its populations while at the same time encouraging work for the unemployed and wage subsidies when pay alone is not enough to keep a family from poverty.

## Endnotes

1. See for UNICEF (2000), Bradbury and Jäntti (1999; 2005); Chen and Corak 2005; for the United Nations (1998; 1999); for the OECD, see Förster and Pellizzari (2005); for the European Union, see Eurostat (1998), Hagenaars, deVos, and Zaidi (1994); and, for LIS, Jäntti and Danziger (2000), Smeeding (2005), Kenworthy (1998), Smeeding, O'Higgins, and Rainwater (1990), and Rainwater and Smeeding (2003).
2. In 1998 the ratio of the United States (four-person) poverty line to median *family* income was 38 percent .Since then both ratios have fallen to the 30 percent level (Smeeding 2005) while the ratio to median *household* income was 31 percent. Median household income (\$38,855) is far below median family income (\$47,469) because single persons living alone (or with others to whom they are not directly related) are both numerous and have lower incomes than do families (U.S. Bureau of the Census 2003a; 2003b). Families include all units with two or more persons related by blood, marriage, or adoption; single persons (unrelated individuals) are excluded. In contrast, households include all persons sharing common living arrangements, whether related or not, including single persons living alone. Different adjustments for family or household size might also make a difference in making such comparisons. See also Betson (2005) on this topic.
3. See Atkinson, Rainwater, and Smeeding (1995) and Canberra Group (2001) for more on this income definition and its robustness across nations. Note that the use of this “LIS” disposable income concept is not unique to LIS alone. Eurostat and OECD have independently made comparisons of income poverty and inequality across nations using identical or very similar measures of net disposable income.
4. This income definition differs from the Census income definition used in most poverty studies. Still, the internationally comparable measure of income does not subtract work-related expenses or medical care spending. In particular, there is no account for provision of or costs of child care. The EITC and similar refundable tax credits and nearcash benefits such as food stamps and cash housing allowances are included in this income measure, however, as are direct taxes paid.
5. Market income includes earnings, income from investments, occupational (private and public sector) pensions, child support, and other private transfers. For the calculation of poverty rates, MI refers to gross income in all countries but Austria, Belgium, Greece, Ireland, Italy and Spain, where MI is net of taxes and social contributions.
6. Of course, our measures of the antipoverty effects of benefits are partial equilibrium in nature. That is, poverty measured before government taxes and benefits (using MI) is not the same as poverty in the absence of government, if tax and transfer programs affect ones level of MI. In the case of benefit programs for the elderly, we expect and find larger effects as the size of benefits (percent of GDP spending on cash benefits for the elderly) is correlated 35 with MI poverty. But in the case of the nonelderly, the

correlation between MI based poverty and nonelderly social spending is only 14. Thus, we conclude that for the nonelderly general equilibrium effects are modest. For an excellent discussion of behavioral effects and benefit incidence, see Reynolds and Smolensky 1977.

7. Formally, adjusted disposable income (ADPI) is equal to *unadjusted* household income (DPI) divided by household size (S) raised to an exponential value ( $e$ ),  $ADPI = DPI/S^e$ . We assume the value of  $e$  is 0.5. To determine whether a household is poor under the relative poverty measure, we compare its ADPI to 50 percent of the national median ADPI. National median ADPI is calculated by converting all incomes into ADPI and then taking the median of this “adjusted” income distribution. The equivalence scale which we employ is robust; especially when comparing families of different size and structure (e.g., elders and children). See Atkinson, Rainwater, and Smeeding (1995) for detailed and exhaustive documentation of these sensitivities.
8. Adding another Northern European or Scandinavian nation (Denmark, Norway) would mimic Sweden and Finland. LIS does not yet have year 2000 data from France or Australia. Italy and Ireland are not well enough reported data to include in measures of real well-being (Table 8). The Central and Eastern European nations have much lower living standards than the others and are, therefore, excluded.
9. We present LIS data on the Unified Germany for 2000. However, trend data for Germany (Table 2) are still restricted to West Germany. The LIS West German poverty rates tend to be 0.9 to 1.2 percentage points below those for all of Germany.
10. Earlier comparisons of microdata based real incomes per equivalent adult and GDP per capita (not shown) reveal a similar ranking and relationship of microdata based and macro data based income levels across these 13 nations. See Smeeding and Rainwater (2004).
11. Unemployment is, of course, cyclical and business cycles differ across nations. However, the 1999-2000 period was one of strong economic performance in every nation studied here. In previous research on this topic, Atkinson, Rainwater, and Smeeding (1995) found no consistent effect of unemployment on overall inequality measured at a point in time. Rather, they concluded that institutional factors were more likely to explain the cross-sectional relationship between unemployment and inequality (or poverty) than were cyclical conditions. Smeeding (2005) found the same result. Still, we must conclude that economic cyclicality probably affects MI based poverty via its effects on wages and employment. However, we do not know how much difference economic conditions make in a cross-national study such as this.
12. Gornick, et al. (2006) shows that Spanish men who are employed, work 44 hours per week while Spanish women who are employed 37.0 hours per week. The Alesina, et. al. (2005), estimate in Table 1, panel B is 39 hours.
13. Children are all persons under age 18; elderly are all persons age 65 or over.

14. Were there more time and space, it would be interesting to see how many single parents and elders live in such arrangements and if they would be poor if they lived independently on their own income.
14. The only exception is Finland, but this is most likely due to the fact that the bulk of pensions in Finland have been classified as occupational pensions (even though mandated by the State), and hence are included in market income.
15. The United Kingdom does not have education codes that are comparable to the other nations.
16. Education is coded into low (less than high school), median (high school degree), and high (some college or university) by LIS and OECD. The reader can find this code in LIS at <http://www.lisproject.org/dataaccess/educlevel.htm>.
17. In fact, United States families for rich children whose MI is below the poverty level pay higher net taxes (even after the Earned Income Tax Credit) than do families in other nations. These taxes are mainly payroll taxes which mean more poverty today, but which may also contribute to reduced poverty in old age or in case of disability. This treatment of payroll taxes in current income, not as payments toward future benefits, should be noted by the reader.
18. Unfortunately, the United Kingdom and Sweden are not among the nations we examine due to lack of hours data. In both cases, other research shows that British lone parents do not work very many hours, while Swedish women work a substantial amount of hours (Smeeding 2002; McLanahan and Garfinkel 1994).
19. Unfortunately it was not possible to add a comparable figure for incidence of low pay in Greece.
21. A lucid presentation and analysis of this viewpoint can be found in Okun (1975). See also Welch (1999).
22. Notice that these estimates are entirely consistent with those presented in Figures 2a and 3 earlier for the United Kingdom 1999 and United States 2000, using the LIS data. The difference is that we can go beyond the LIS to later years now using these comparable figures.
23. The efficiency costs of public programs are debatable. The recent increase in market work among single mothers who would otherwise be on public support after the 1996 Welfare reform is taken by many to be strong evidence that labor supply responded in part to changes in this program. However, the literature debates the importance of TANF vs. the EITC and the strong labor market of the late 1990s as primary causes of greater market work among low-income mothers. See Grogger (2003) and Lindert (2004).