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The Western Welfare State in The 1990's: Toward a New Model of AntiPoverty Policy for Families with Children

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I. Introduction

The well-being of children in advanced industrialized nations is increasingly being affected by important and secularly consistent changes in family structure, changes in the global economy and in national labor markets, and changes in the political economy of social spending. In most countries, a greater number of children now live in one-parent families and families in which all parents are expected to (either desire to or need to) work in the labor market. Previous studies have documented family income packaging strategies in a cross-national perspective (Rainwater, Rein, Schwartz, 1987; Rainwater, 1995) and have described a range of policy regimes for families with children in the modern welfare state (Esping-Anderson, 1991; Wennemo, 1994; Kolberg, 1992).

For the most part, these analyses have described and classified the ways in which families have combined their own earnings and property income with government-provided benefits to support their children. Our chapter builds on these studies but aspires to be proscriptive rather than descriptive. That is, we review broad trends in family structure, labor market outcomes, and government responses to economic and family change as background for proposing the basic components of a generic model of antipoverty policy for children. While we find great convergence in the causes of child poverty in modern nations, there need not be any one single set of policies which are optimal for all nations. Rather, our goal is to use the ingredients of the generic model as a standard of comparison to judge how well nations are now doing in meeting the needs of their children, and how they might change their policies regarding family income support and child poverty in the future.

We begin by describing a series of family, labor market and public policy changes that have affected children in all advanced industrial economies. Then we review some existing mixes of these elements in various nations, and how they seem to be changing. Finally we suggest the proper components for a generic system of family income support aimed at children in two-parent and one-parent families.

II. Forces of Change

The case-studies in the previous section of this volume and many cross-national studies demonstrate that there are several inevitable forces which are systematically changing both the structure and size of families and their economic well-being. These changes are taking place, though at differing speeds, not only in most advanced industrialized countries, but also in the reforming transitional economies of central and eastern Europe. While we can describe these changes and are confident of their importance, we do not pretend to fully understand their causes or how to separate one force from another in a precise fashion.

Family Changes

The most obvious trend in family structure is the rapid increase in the percentage of all families headed by a single parent. Out-of-wedlock birth rates and divorce rates have risen in all modern nations in the 1980s and early 1990s. For example, between 1960 and 1992, the percent of all births that were out-of-wedlock increased from roughly 5 to 30 percent in the United States, the United Kingdom, France, and Canada, and from roughly 2 percent to 10 percent in the Netherlands, Spain, and Italy (Moynihan, 1995, p. 41). In most of these countries 10 to 20 percent of all families with children in any year are headed by a single parent. A much greater percentage of children in the 1990s will live in a single-parent family at some point in their childhood than did those born in the 1960s or 1970s. Bumpass (1993), for example, estimates that the **majority** of children born after 1990 in the United States will spend at least some time before age 18 in a single-parent family, or in a "blended" family (i.e., they will live with at least one adult who is not a natural birth parent). Thus, antipoverty policy for children must confront the fact that these children will have less access to parental economic and time resources than children from intact two-parent families. As a result, independent of whatever economic changes emerge this decade, all industrialized nations face pressures to provide children and custodial parents some insurance against the higher risk of poverty associated with single parenthood.

Labor Supply Changes

A second major force is the preponderance and growth of two-earner families among two-parent families. Over the past two decades, married women's employment and labor force participation has increased dramatically and consistently. For example, the percentage of married women age 15-64 in the paid labor force increased from 62 to 79 percent in Sweden and from 50 to 69 percent in the United States between the early 1970s and the early 1990s (OECD, 1994). Although married women now work in greater numbers in most countries, there is a considerable diversity of experience within individual countries. For example, in 1992, 58 and 51 percent of married women age 25 to 49 were in the labor force in the Netherlands and Italy, respectively (European Statistical Office, 1994). As a result, the two-earner couple has become more common than the one-earner couple in most modern countries, even in those where the "traditional family" model reigned until the mid-1980s.

Over the same period, the labor force participation rate of married men remained fairly stable or declined slightly in most countries. In a few nations, there were substantial declines in participation among males in late middle age (OECD, 1994a).

Women's earnings have also increased relative to men's. In the United States in 1992, for example, about 20 percent of married women earned more than their husbands (U.S. Bureau of the

Census, 1993). In 1992, 29 percent of total husband-wife earnings were accounted for by married white women age 25 to 44, and 36 percent by married African American women of the same age, as compared to 11 and 17 percent, respectively, in 1963. The movement is particularly noticeable among younger couples (Dechter and Smock, 1994). Nonetheless, married women still tend to work less and more often part-time than do their husbands, especially if young children are present in the family.

Patterns of earnings and labor force activity among lone mothers in Europe and Scandinavia are similar to those in the United States. Lone mothers in the European Community (EC) tended to work slightly more than married mothers in the EC: 54 percent vs. 48 percent, respectively, in 1989. But lone mothers were also more likely to be unemployed (12 vs. 7 percent). While lone mothers were more likely to work full-time than married mothers (40 vs. 29 percent), a large proportion still worked only part-time (16 percent of lone mothers and 18 percent of married mothers) (Roll, 1992, Table 8). Thus, by most measures, single-parent labor market activity may exceed that of married women in Europe. However, the single parent is still the main and often the only breadwinner in single-parent households.

Despite the increase in female labor force participation, there are also significant cross-country differences in the incidence of non-employment due to either unemployment or inactivity (non-participation in the formal labor market) and there is a strongly gendered pattern to these differences. During the 1980s, for example, among those of prime workforce age (25 to 54 years), around an eighth of all men and between a third and a half of all women were non-employed, on average, in many OECD countries.

Reducing the high rate of labor market inactivity for social assistance dependent parents is a key aspect of our antipoverty agenda. From the perspective of child well-being, recent trends in labor supply suggest that, in the absence of government intervention, the economic well-being of children in two-parent families has improved relative to that of children in single-parent families because single parents must both work and provide (or pay for) child care. Holding family structure constant, money income inequality has increased between children whose parents have worked more and those whose parents have worked less.

Wage Rate Changes

The major economic problem that has developed in advanced industrial countries since the late-1970s is the emergence of skill-intensive technological change that has reduced the demand for lower-skilled workers. This pattern has contributed to an increase in structural unemployment and to increased inequality in the distribution of wages and earnings. A recent report, *The OECD Jobs Study* (OECD, 1994b) suggests that most nations were slow to adapt to these technological changes and the rapid growth of the service sector in the 1980s.

Because fathers' earnings are the largest single source of income for families with children, the growing inequality in prime age men's wages in many nations (Gottschalk and Smeeding, 1995; Gottschalk, Gustaffson and Palmer, 1994) will affect the well-being of many children. The incidence of workers with relatively low pay compared to the median worker has risen in many nations in recent years (e.g., United Kingdom, Sweden). In some nations, such as the United States, Canada and Australia, wages for low-skill workers even fell in real terms over the past decade. In most European nations, real wages among employed less-skilled workers are holding constant (or growing slowly), but unemployment is both high and rising, particularly among youth (OECD, 1994b). In all advanced economies, there is an increasing shift in employer demand away from unskilled jobs toward more highly-skilled jobs.

Child poverty and inequality would the refore have increased in many countries had there not been a large increase in mothers' labor market activity and earnings. Recent studies (e.g., Australia (Saunders, 1993); Sweden (Bjorkland, 1992); the United Kingdom (Machin and Waldfogel, 1994), and the United States (Cancian, Danziger, and Gottschalk, 1993; Cancian and Schoeni, 1991)) indicate that wives' earnings produce an equalizing effect on the overall distribution of wages, compared to the situation in which only one ea rner's earnings are counted. However, these and other studies also indicate that the trend is for married women's earnings to have had a less equalizing effect in recent years (Blackburn and Bloom, 1994; Jenkins, 1993).

Taken together, the labor supply and wage rate changes reviewed here suggest that both the gross and the net (of child care) earnings of many two-earner couples may *not* be sufficient to ensure a non-poverty living standard for many children . While some two-career couples are doing very well, others, particularly those who are young and with little human capital, are not faring well. We expect these trends to continue throughout the 1990s.

Political Economy Changes

The negative effects on child well-being of these changes in family structure and labor markets have placed pressure on governments to respond. Rising inequality in mens' earnings and growing unemployment have led some countries to favor protectionist policies and others to stem the flow of international migrants. During the late 1970s and early 1980s, countries attempted to limit the growth of the labor force by subsidizing married women to stay at home (Netherlands), by limiting the hours that stores are open (Germany), or most widely, by encouraging early retirement. As unemployment rose in nations with high minimum wages (e.g., Denmark, France), these market forces also led to efforts to create public sector jobs and to increases in public employment, particularly in Europe (OECD, 1994b).

These changes in population and family structure, as well as economic changes, have also put extreme pressure on social budgets in most modern nations (OECD, 1994a). Tax revenues have risen, while at the same time expenditures for unemployment, social assistance, and particularly old age pensions have increased rapidly. The growing cost of health care, particularly for the elderly, and rising demand for additional education to meet the market demand for high-skill employees have further strained national social budgets. But while social expenditures for nonaged families in virtually all OECD countries have fallen (or risen more slowly) since 1985, they are still greater in 1991 than they were in 1980 (OECD, 1994a).

Moreover, as the number of retirees and survivors continues to increase in Europe, Japan, and elsewhere, there is increasing pressure on public budgets to meet social retirement fund commitments first, while reducing entitlement for other social benefits, particularly those that affect children. For instance, child care in Italy and the United Kingdom, once free, is now subject to user charges. Most likely because of the political power of aged voters, these demographic, political, and social forces result in a "generational bias" for social spending towards the aged and away from children.

Finally, the increase of working mothers in two-earner families has led to increased pressure for *all* mothers to work as a means to reduce social spending. In some European economies, for example Scandinavia and France, where single mothers already combine work and social assistance benefits, there is less concern. In the United States, Canada and the United Kingdom, however, pressure for low-income single parents receiving social assistance to "get off the dole" has been growing over the past decade. In these nations, greater coordination between work and welfare is sorely needed (OECD, 1994b).

Social Protection Response

Europe has not abandoned its efforts to maintain the social safety net; rather, changes in social spending in Europe can better be described as adapting to changing circumstances, including population aging, rather than weakenin g the safety net (Ploug and Kvist, 1994). The growth of long term unemployment and disability (often disguised as early retirement) benefits, the increased reliance of single parents on public assistance, rising health care costs, and ever larger numbers of older people has led to a near crisis in social protection. As we have described, the underlying problems and forces of change are similar in most nations. The responses, however, have been quite different.

In Europe, pressure to reconfigure the safety net had by the mid-1990s produced only small and targeted responses to the underlying forces. In fact, Germany, France and Belgium have *expanded* means testing for benefits, particularly benefits for single parents. Pressure to limit long-term jobless benefits via means testing and/or worker retraining programs has grown in the United Kingdom, Ireland, Belgium, Netherlands and Germany. Proposals to raise retirement ages have been addressed only in a few nations (e.g., Germany and Italy), but many nations have introduced "user charges" to control the cost of health care services, prescription drugs, and other social services such as child care. There is also increasing pressure in Europe to enact more flexible and "active" labor market policy in terms of training, education and unemployment benefit systems (OECD, 1994b). However, these developments are slower to appear (European Commission, 1993; Gottschalk and Smeeding, 1995).

The United States has historically paid less attention to labor market policies than have other nations. Yet, over the last decade it has dramatically expanded the Earned Income Tax Credit (EITC) to supplement the earnings of low-income working families with children. Pressure grows to force welfare mothers to work, and to reduce social benefits to both legal and illegal alien immigrants. Educational expenditures and college enrollments continue to grow in the United States, albeit with even higher "user charges" (tuition), particularly in publicly administered universities. And the failure to provide universal health insurance in America, even for children, remains a serious problem.

Summary

The underlying forces of an increasingly free-trade international market economy (e.g., lower wages) and family structure change (e.g., divorce) favor, and may even require, more market work over home work in economies where jobs are increasingly scarce. Some have predicted that these factors will lead to a diminution in income transfer programs in Europe, moving it toward a more generic, work-related model of child policies. But as always, the devil is in the details. Hence we now examine how a variety of countries structure their income support package for families with children, and the difficult tradeoffs which are required to achieve coherent programs of income support.

III. Current Social Policy Approaches for Families and Children

Every child-oriented family policy includes a combination of three types of resources: work (earned income and nonmarket "home" work); family support (caregiving) and government benefits and taxes to pay for them. The package includes both cash and in-kind, components (health, education); paid for or not (e.g., parental vs. market childcare). And the mix of these supports varies both over time and across nations. However, the way that these sources of family support commingle is not always synchronized.

Work

Market earnings are the cornerstone of every advanced economy and the key to long run economic well-being for all families with children, including single-parent families. As educational attainment and returns to investments in human capital have risen, more labor is supplied—both for prime age men and women. Typically, if wages stagnate or one parent is unemployed, the other parent will increase his/her labor supply. In low or falling wage societies, the earnings of two parents are necessary for keeping family incomes sufficiently high to reach a middle class living standard.

As market work has become more important, there has been a tendency to devalue non-market work. Stay-at-home mothers—in both two- and one-parent families—provide services that neither markets nor society values in the way that they did in the past. Moreover, in many societies, particularly in the United States and Canada, but increasingly in Europe as well, only paid employment provides certain types of noncash benefits, including health and life insurance and occupational pensions. In addition, attachment to the labor market offers a mother a form of "divorce insurance" that is better than what many governments provide.

Work for single parents offers the clearest example of a conflict between market and nonmarket work. One parent, usually the mother, must fulfill the roles of both earner/breadwinner and mother—i.e., both market and nonmarket work. Most single mothers cannot earn enough in the labor market to both pay for market child care and maintain a non-poverty standard of living. However, single mothers who do not work, but rely on government benefits, often face high marginal tax rates that discourage work (Atkinson, 1993). In some nations, notably Sweden, Netherlands, and France, single mothers are more likely to combine work and welfare. In others, especially the United Kingdom, United States and Australia, they are likely to either work or receive welfare, but not do both at the same time.

Interestingly, Europe and America have diverged in their treatment of market vs. nonmarket work. In Europe, the labor market provides good wages for those with jobs, but job growth has been slower and unemployment higher than in America. In the United States, jobs are plentiful and unemployment lower, but many jobs pay very low wages. In both Europe and America there is need for the welfare state to make do where the market is not performing up to the requisite level, due either to unemployment or to low pay.

Family

Families with two working parents, or one working parent in solo-parent families, have to struggle to balance the demands of child care and other nonmarket work with those of market work. The cost and availability of child care is a key determinant of the net return to market work, as are the logistics of work, child care and other activities (e.g., visits to the doctor, shopping, etc.). Two important issues are therefore (a) the *net* return from a second parent working, including earnings net of the costs of child care, replacement of home work, transportation and related work costs; and (b) workplace and work-time flexibility to meet family needs. Particularly in the case of pre-school children, and low skill-mothers in low-wage economies, the net return from work may be very low, or even negative once child care and related costs are taken into account (Danziger and Jantii, 1995).

In single-parent households these problems are more acute. Without cash and/or in-kind support from the absent parent, single parents almost always find the net return from working to be very low. Some countries, e.g., Germany and France, provide "insurance" against loss of child support from absent parents. But in most, especially in the United States, the receipt of child support is erratic and adequate child support insurance is not available.

The issue of "caregiving" for children is therefore a major concern. But the problem extends further, to include care for the infirm elderly and for other adults, for sick children, and how to integrate schooling with before and after school provisions for child care. These issues arise for all types of families with children, and as parental labor force attachment grows the issue will intensify in importance in all modern nations (e.g., see Danziger and Jantii, 1995).

A related issue concerns society's responsibility for children who may not be their own. Are childless couples who have never had (and never expect to have) their own children, and others whose children are not yet born (or whose children are grown to adulthood) willing to help provide for the economic well-being of the children of other citizens? The extent of governments' ability to provide assistance to families with children may well rest on these issues. In Europe and Scandinavia, such support is often forthcoming. In the United States, despite the high social cost of child poverty, the issue remains in doubt (Palmer, Smeeding and Torrey, 1988; Sherman, 1994; Smeeding, 1995).

Government Benefits and Institutions

Advanced economies all provide some support to families with children—directly in cash and services, and indirectly via legal institutions. Here we review some of the most common and often controversial elements of the support package.

Cash Benefits. Governments transfer cash to the parents of children, not to children themselves. These parents qualify for benefits in three ways: either as a right of parenthood (citizenship of children), due to previous contribution to specific funds, or because they are otherwise destitute. The literature on social welfare states calls these universal programs, social insurance programs, and means-tested programs respectively. Additional "targeting" requirements may be added to any program (e.g., child's age, parental contribution status, or parent's asset position or marital status). Nonetheless, all are entitlement programs, where benefits are available to all who qualify.

The most common universal benefit is a children's (or family) allowance which may vary according to the number and age of the children. In Western Europe, some nations tilt benefits to favor large (France) or small (Denmark) families (Atkinson, 1993). The United States is the only advanced western nation that does not have a family allowance. Social insurance benefits paid directly to children, other than via death of a parent, are limited in most nations, and unemployment compensation is family size-adjusted in a few nations. Still, sickness insurance and family leave provisions in most countries indirectly benefit children by providing their parents with the flexibility to meet both work and family needs.

Most nations also have means- or income-tested benefits, also known as social assistance or "welfare." The programs differ across nations, but the essential ingredient is that all other sources of money income are taken into account in determining eligibility before any benefit is paid. The family must apply and show that they are needy. Take-up problems, the invasive nature of welfare benefits, and stigma issues are common. Welfare, in most countries, is not very popular. Nonetheless, most societies have welfare programs which serve as a safety net for the families of poor children.

These "safety net" programs are often not well integrated with other forms of cash and noncash benefits. For instance, the combination of the benefit reduction rate for welfare programs with income and payroll tax rates often leads to high cumulative marginal tax rates—the "welfare trap." Such traps often make employment at low wages unattractive economically because the net return to work is very low (e.g., see Atkinson, 1993; OECD, 1994b). As a result, welfare programs encourage "off the books" work, hiding of income, and related subterfuges while also providing a substantial disincentive for absent parents to make child support payments (Edin, 1994).

Noncash Programs. Most cash programs only indirectly benefit children because the money is filtered through parents or legal guardians. In contrast, most noncash benefits or in-kind transfers are provided directly to poor children. Most countries provide two noncash universal benefits for children—health care and elementary and secondary education. A major exception is the lack of health care coverage for all children in the United States, which has a means-tested health program for the poor. Outlays for health and education programs typically dwarf outlays for children under cash programs. The major issues in these arenas are the quality of services available; differential access by region, race, and social class; the age of school attendance; and the availability of preschool programs. In education, few nations, notably Sweden, France, and Italy, have widely available publicly subsidized preschool programs. In those nations, mothers of young children—particularly, single parents but also married mothers—tend to work more than in the nations without such a system. In others, such as the United States, only a small number of low-income preschool children qualify for early school programs such as Head Start. As more families with preschool children move to labor market work, either out of necessity or choice, paying for child care generally, and specifically for funding pre-elementary schooling and early childhood day care, will become a more important and central issue.

In the areas of health care and education, quality of services, differential access (by region, race, social class, etc.), and the effect of user charges on access by low-income families are becoming key policy issues. This is particularly true in Europe, where attempts to slow the rapid growth of health care spending often takes the form of flat user charges which are not income-tested.

Low-income families are more likely to forego health care than are high-income families due flat rate charges.

Legal Institutions. In addition to cash and in kind transfers, governments affect the economic status of children and their families via legal institutions. An important example is child support determination and enforcement of payment from the absent parent. Courts decide the amount of financial responsibility and penalties for nonpayment. As divorce and out-of-wedlock birth increase,, these decisions become all the more important. Determination of paternity in the case of out-of-wedlock births) and government insurance for non-payment of child support by an absent spouse are closely related. In some nations, such as the United States and Italy, we find a large discrepancy between child support orders and child support payments. Only a few nations, Germany, France, Netherlands among them, now have government insurance for non-payment of child support.

Legal institutions also affect job status, firing practices, worker and union rights, and job interruption for child-raising (family leave). To the extent that these institutions protect jobs for parents who have other responsibilities to family, especially to children, they are an important component of social policy for children.

Government as Employer and Work-Related Benefits. The intersection between governments and labor markets is a crucial one in ways far beyond job protection and family leave. Setting of minimum wages is one traditional mechanism through which governments affect labor market outcomes. Another arena is government's role as employer—either via permanent employment in public social services, or via its role as employer of last resort. In western and northern Europe, government's role as employer has been pervasive and has grown over the 1980s (OECD 1994a; 1994b). Denmark has special public works programs for jobless youth (Ploug and

Kvist, 1994). In Germany, particularly since unification, government is heavily involved in public works employment. There are movements in a number of countries, however, to limit the role of government as employer and to "privatize" many services previously provided by the public sector. At the same time, there seems to be an increased need for government to serve as employer of last resort and as partner to training and retaining schemes in various industries as a response to trade and technological change that has reduced employer demand for low-skill workers.

Another potential area where government involvement in the labor market may increase is through the provision of work-related income transfers, such as the Earned Income Tax Credit (EITC) in the United States, or the Family Benefit in the United Kingdom. Here governments provide supplements to poor working families. As low wage jobs increase in many nations, these supplements target benefits to low-income workers while having only modest impacts on the market-based movements in the labor market.

Tax Systems. Governments also affect employment through the tax structure. High employment-related taxes on employers—to fund social retirement, disability, health care, and unemployment—discourage hiring of workers. In nations such as Spain, Italy, and France, where the employer social security contribution can be 50 percent or more of the cash wage paid the worker, thus increasing the cost of employing such a worker by 50 percent or more, the problem has reached epic proportions. Movements to shift the tax burden of social spending to a broader tax base (e.g., the value added tax) is growing in many nations (Metcalf, 1995).

IV. The Antipoverty Effects of Welfare State Policies

Before we discuss an "optimal" antipoverty policy, we need to evaluate how well the current social programs work for children. This section compares the economic well-being of children in the 1980s in 16 countries, 12 in Europe (Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland, and the United Kingdom) and 4 elsewhere (Australia, Canada, Israel and the United States). The analysis is based on the Luxembourg Income Study (LIS) database which currently provides researchers with micro data from some 45 income surveys covering various years from 1967 to the present (Smeeding, Rainwater and O'Higgins, 1990; LIS Users Guide, 1994).

By economic well-being we refer to the material resources that families use in their daily lives. We are not concerned with consumption per se, but rather with the capabilities resources give family members to participate in their societies (Sen, 1992). Thus, the possibilities to consume that income and other economic resources provide are understood as inputs to social activities. It is participation in these activities that produces a given level of well-being (Rainwater, 1990).

Measuring Poverty and Disadvantage

All industrial societies are socially stratified, though less so than most developing countries. Some individuals have more of valued resources and others less. The opportunities for social participation are vitally affected by the resources that the family controls (Rainwater, 1974). Money income is the central resource in modern societies but there are still other important kinds of resources, such as health, family structure and stability, parents' education, and other human capital. Here, however, we are concerned only with money income because the data available exclude information on other kinds of resources. For each family, we have detailed information on money income, taxes paid, and certain kinds of transfers with a cash-like character, such as housing allowances, fuel assistance, or food stamps. Unfortunately we cannot examine the major noncash benefits—health care, day care and preschool, general subsidies to housing and the like. To the extent that the level and distribution of noncash resources varies widely across the countries, our analysis of money income must be treated with some caution. (See Smeeding, et al., 1993 for an analysis that includes these benefits).

Families differ not only in terms of resources but also in terms of their needs. We take the differing needs occasioned by family size and the head's stage in the life course into account by adjusting income for family size using an equivalence scale. The adjustment for family size is designed to adjust for the different requirements families of different sizes have for participating in society at a given level. While different equivalence scales yield different distributions of well-being, several studies in Europe, the United States, and Australia point to an equivalence scale that implies rather dramatic economies of scale (Buhmann et al., 1988; Rainwater, 1990). Some studies also suggest that there are important variations in need as a function of the head of the household's age.

Drawing on these studies, we use an equivalence scale that defines need as the product of the cube root of family size multiplied by a factor which sees need as increasing roughly 1 percent a year for head's age up to the mid-forties and then decreasing at the same rate. Hence, we define equivalent income as:

$$EI = Y / (S^{.33} * .99^{|\;\;45|})$$

That is, equivalent income is defined as an individual's family disposable income (Y) divided by the product of (a) the cube root of the family's size (S) and (b) .99 compounded by the number of years difference between the head's age (A) and 45. For simplicity of exposition, we use the terms income and equivalent income interchangeably. The reader should remember that our comparative analysis is based on equivilized income calculated according to the above formula. We first determine the median equivalent income of all individuals in each country. Any child who lives in a family whose equivalent income is below 50 percent of the median in that country is defined as poor. That is, our calculations are weighted by the number of children in each family.

We examine results for three groups—(a) all children, (b) children in two-parent families and (3) children in families headed by a solo mother (that is, a family headed by a mother who is not currently living as married—there may or may not be other adults in the family).

First (Table 1), we present child poverty rates for multiple years for 11 LIS countries for which we have more than one survey, and a single year for 4 countries. Concentrating on the most recent year, we observe a wide range in child poverty rates from over 20 percent in the United States to only about 3 percent in Finland, Sweden, and Switzerland. Even though we have multiple observations that often span two decades, the cross-country pattern of child poverty rates is quite stable.

But the 1980s was not a period in which the economic well-being of children in any of these countries improved. In a few, there are hints of improvement during the 1970s (e.g., see Canada and Sweden in Table 1). But overall we have a picture of either stability, in a few cases, or deterioration in children's economic well-being. The situation for children is worsening in both the United States and the United Kingdom. Over two decades, the poverty rate increased from 5 to 10 percent in the United Kingdom and from 13 percent to more than 20 percent in the United States.

The contrast between the long-run trends in the United States and Canada, which have experienced similar economic and demographic changes, suggests the important role of government. The Canadian child poverty rate was 2 percentage points above the United States rate in 1970, but 8 points below it by 1991 due in large part to activist social policy (see Card and Freeman, 1993; Hanratty and Blank, 1992). Hence, policy can make a difference.

Real Incomes of the Poor

The reader may also be interested in comparisons across countries of the real income level of children at the lower end of the distribution. The highest relative child poverty rate we found was about 20 percent in the United States, so it is reasonable to compare the real incomes of children in the lowest quintile of each country. Table 2 makes that comparison. The Penn-World tables provide for each year the ratio of real per capita income in a country to real per capita income in the United States based on Purchasing Power Parities (PPP) (Heston and Summers, 1991). We calculate from the LIS database the median equivalent income of children in the lowest quintile as a percent of the median equivalent income of all persons. Multiplying the two ratios we have the median real income of the children in the lowest quintile as a percent of real United States median income.

We note that in the United States the average child in the lowest quintile has an income one-third of the median of all persons. The range in the low income child's real income in other countries is from 20 percent in Ireland to a high of 56.7 percent in Sweden and Switzerland.

The Role of Market Income and Income Transfers

What are the roles of market income and transfers in producing the wide range in child poverty? To what extent would children be poor in the absence of transfers? How much of the variation across countries is due to variations in market income? Market income is defined here as earnings plus asset income and is affected mainly by macroeconomic policy and employment policy. Transfer income includes all social transfers and child support payments.

Figures 1 and 2 plot the market income poverty rates of children (that is, poverty rates based on income from earnings and assets and before taxes and transfers—including private transfers) against child poverty rates based on total after-tax (disposable) income. Because the levels of poverty are so different for children living with two parents versus those living with a solo mother the two patterns are shown separately.

For children in two-parent families (Figure 1) we find a wide range in market income poverty rate, from below 5 percent (Norway, Switzerland) to over 20 percent (United Kingdom, France, and

Ireland). There is similarly a wide range in the degree to which market income poverty rates are reduced by transfers. The lines in the figure radiating from the origin indicate the extent of poverty reduction—25 percent, 50 percent and 75 percent. In three countries transfers reduce the poverty of children in two-parent families by 24 percent to 33 percent—Australia, Italy and the United States. In ten countries, the reduction ranges from a little below 50 percent to not quite 75 percent. Finally, in three countries the reductions are 75 percent or more—Finland, Belgium and France.

The result is that the extremely low disposable income rates for Norway, Switzerland, Germany and a few others, are reduced to even lower rates. For the rest of the countries there is a great deal of movement. Belgium has a higher market income poverty rate than the other countries in group C, but its transfers produce a very low disposable income rate of less that 5 percent. The shift for Canada is not as dramatic, but still considerable compared to the United States, Italy, or Australia. There are also differences in the disposable income poverty rates among the countries with the highest market rates (above 20 percent). French children in two-parent families improve their situation a great deal through transfers, much more than those in the United Kingdom and Ireland.

We find that the antipoverty effect of transfers for children in solo-mother families is quite different from that of two-parent families (Figure 2). The market poverty rates in all countries are very high. Only four have rates below 50 percent (Switzerland, Italy, Finland, Sweden) and two have rates around 80 percent (the Netherlands, United Kingdom).

The antipoverty effect of transfers varies more widely across the countries. While only three countries have reductions in two- parent poverty of 75 percent or more, six countries have that much reduction for solo mothers' children. However, there are also more countries with rates of poverty reduction around 25 percent or less for mother-only than for two-parent families.

The result of this diversity in the proportion of children moved out of poverty by transfers is a very wide range in disposable income poverty rates. The five countries with rates under 10 percent range across all levels of market income poverty rates—from Finland (35 percent) to Sweden (45 percent) to Luxembourg and Belgium (55 to 56 percent), to the Netherlands (80 percent).

Comparing two-parent and solo-mother families, we note that child poverty rates are below 10 percent in 12 of our 15 coun tries for two-parent families, and in only 5 countries for solo-mother families. Overall the correlation between market income and disposable income poverty rates is 0.73 for children in two-parent families, much higher than the 0.40 correlation for children in solo-mother families. While macroeconomic policies are more likely to affect children living with one parent rather than two, in general, children in solo-mother families with no market income are still more likely to remain poor after transfers that those in two-parent families. This may be due to the fact that men who do not work are receiving unemployment benefits while women who do not work are receiving welfare.

Transfer Income Packages

Insight into how poor families escape poverty will come from examining most particularly the income packages of families who are at highest risk of poverty. Because we define the poverty line as 50 percent of the equivalent median, by definition, half of families have equivalent incomes above twice the poverty line. We consider those individuals with disposable incomes below the median to be at risk of poverty. The income-packaging institutions of each country determine the share of this half of the population who in fact end up with incomes below the poverty line. Figure 3 charts the average amount of total transfers going to two-parent and solo-mother families in each country expressed as a percent of median equivalent income.

On average, transfers to two-parent families amount to more than 25 percent of median income (50 percent of the poverty line) in Sweden and Ireland, and to more than 20 percent in the United Kingdom, Belgium, Finland and France. At the other extreme, transfers amount to 10 percent or less in Australia, Luxembourg, Norway, the United States, Italy and Switzerland.

Average transfers to solo-mother families always comprise a greater share of disposable income than is the case for two-parent families. In four countries—The Netherlands, the United Kingdom, Sweden and Luxembourg—they amount to 40 percent or more of median equivalent income (or 80 percent of the poverty line) and they are almost that high in Ireland and Belgium. At the low end we find Switzerland, the United States, Italy, Finland, Germany and Canada at less than 25 percent.

Summary

The estimates of market and disposable income poverty presented here add factual evidence to the claims of earlier sections. There is a wide variation in level and trend of child poverty across the 11 nations studied here, and a wide variety of approaches to addressing excessive market income based poverty. While macroeconomic policy affects unemployment, wages and joblessness, and therefore market income based child poverty as well, the effectiveness of the safety net in removing children from poverty is also important to final or disposable income based poverty, and some mix of market income and transfers work more effectively than do others. Children living with single parents always do less well than children living with both parents. Most societies provide a mix of benefits that, when coupled with market earnings, reduces child poverty to very low levels. But not all: in particular, the overall high rate of poverty and its trend upward in the United States during the 1980s is troubling.

V. The Components of a Generic and Comprehensive Antipoverty Policy for Children

The previous sections of the paper described the major forces in the areas of work, family structure and government institutions that affect child well-being and the effectiveness of existing income support policies in a number of countries. It appears that the roles of family, work and government are out of balance in several nations. Many European nations are beginning to conclude that they can no longer afford the social cost of high unemployment rates and high income transfer benefits because slow economic growth means slow growth in tax revenues. Yet their macroeconomic policies fail to reduce unemployment, and the work disincentives of the transfer system must be reduced in several countries, e.g., the United Kingdom (Commission on Social Justice, 1994). At the same time, efforts to make work pay and to provide more protection against poverty that does not discourage work for families with children are needed in the United States, Canada, and Australia.

Our review of the antipoverty effects in 16 countries showed that while different nations face similar causes of child poverty, they use different instruments to deal with "packaging" work, family support and government support. In some low to medium poverty nations, work (earnings and wages) is the key to preventing child poverty; in others, the generosity of the public child benefit system produces low poverty rates, even where many mothers do not work. There are even differences in the antipoverty effects of government policies in two relatively high child poverty nations, the United States and Canada. "Small differences" in government outlays and labor market institutions have produced more beneficial child outcomes in Canada than in the United States (Card and Freeman, 1993; Hanratty and Blank, 1992). There is no one single model of comprehensive antipoverty policy for children that applies to all nations (Smeeding, 1995). Every country examined has different traditions, values and culture which prevent wholesale importation of a set of effective antipoverty activities from country A to country B. But there are still lessons to be learned from one country by another.

We now apply what we have learned and describe some overall/generic options that might comprise an optimal antipoverty strategy. Our prototypical policy package reflects the changes that are occurring with respect to labor markets (work), family structure and government policies. Our goal is to describe policies that could yield a child poverty rate of about 5 to 9 percent in most nations. Given family structure changes, this would result from a poverty rate of about 20 percent or less for children living in single-parent families and a rate of about 5 percent or slightly higher for children in two-parent units. For some nations, e.g., United States, Canada, Italy, Australia, this would require a net reduction from their current child poverty rate. For others, e.g., the Netherlands, Scandinavia, Belgium, this might even mean a *slightly higher* child poverty rate. Our notion is that these countries might adjust their safety net to promote labor market flexibility and job growth and to lower the overall tax burden without causing poverty to increase by an undue amount.

Work

The growing acceptance of market work as appropriate for all parents suggests that the major component of any income package should be earnings. The issue is more complex for mothers with very young children (e.g., children under 3), particularly for single parents but also for couples. For these mothers, it is not clear, given high infant care costs, that mother's earnings ought to be the major source of family support, especially in one-parent families. The French program for single parents, "Allocation Parent Isole," recognizes this dilemma by offering single mothers the alternative of work with smaller benefits or nonwork with larger benefits until the child is age 3 (Hanratty, 1994). Still, as educational attainment of women, the returns to human capital, and the risk of divorce have all increased, most mothers **want** to work in the market, if labor market and/or government institutions are flexible enough for them to carry out their family responsibilities. Thus we expect that market work by mothers of young children will continue to increase. However, mothers' earnings need not be the primary income source when young children are present.

Labor market flexibility does not require minimum wages or other labor protections to be discarded. However, the costs of employment need to be lower both for employers and workers. Employer taxes that fall heaviest on new or low-wage workers need be redirected to other revenue sources. Parents need greater flexibility to balance work schedules and child care arrangements. Active labor market policies of the sort outlined in the recent OECD Jobs Study (1994b) need be reviewed and acted upon so that maximum opportunities for employment are present. Policies—both macroeconomic and micro-programmatic—should encourage market work among otherwise poor parents by emphasizing full employment (at the cost of slightly higher price levels) at the macrolevel, and by activist labor market policies at the micro level. Better matching of employers and potential employees; provision of child care and other assistance to single parents; and provision of other work-related benefits to low-income/low-wage workers (e.g., parental leave for caring for sick children) should be encouraged.

Family

Parents should support their children and, together with governments, provide a nurturing environment for their growth. For absent parents, this means regular payment of child support and frequent contact with children. But both the means to provide child support—a job for unemployed absent parents—and the incentive to provide child support—less than 100 percent offsets of child support by the absent parent with government transfers received by the custodial parent—must also be present.

Parental support also means that parents of very young children should have the economic wherewithal to **not** work until the children are old enough to be placed in affordable day care. Families require flexibility to both carry out family and labor market responsibilities and maintain family stability. Many of the activist "labor market policies" mentioned here are also "family policies," and they require cooperation from and coordination with the public sector, to whom we now turn.

Government Policy

The direct and indirect, explicit and implicit role of government in public policy is large in all industrialized societies. For instance, democratic governments support universalist programs because *all* individuals in society, including here those who are unable to participate in democratic processes because they are too young, are entitled to certain rights and privileges. This philosophy supports the importance of child allowance in whatever form: family allowances, refundable tax credits, or other types of subsidies. Governments should guarantee a minimum standard of living and access to essential health and educational resources for all children. If parents cannot support their children, the government has an obligation to ensure that support on grounds of both equal opportunity and of children as "public investment" goods. Clearly the ability of children to support the social retirement of their parents, and others of their parents' birth cohort, depends on the provision of minimally acceptable levels of social services (education, health) and a minimally adequate standard of living (income) for these children. As such, child health and well-being is as much a "national investment" as are bridges, roads, and environmental protection.

For many of the same reasons, governments also need to ensure "social capital"—a safe and healthy environment for children and their families, free of crime and public health risk and conducive to healthy child development. While such goods and services are not often thought of as part and parcel of antipoverty policy, it may not be possible to guarantee equal opportunity via education or health care to children who do **not** live in safe or healthy environments.

Government must support workplace flexibility, via employment policy, family leave, and job rules as mentioned earlier. It must enforce workplace standards, minimum wages, and collective bargaining agreements. It needs to ensure the availability and affordability of child care for working parents. If work is to be valued over dependence on income transfer payments, government must make work more remunerative than welfare. This requires policies that establish a reasonable level for the minimum wage and that also supplement low wages with public funds, as do the Earned Income Tax Credit in the United States, the Family Credit in the United Kingdom, or the Family Income Supplement in Ireland.

Finally, government must provide basic cash or near cash assistance to those who cannot work due to disability or child rearing responsibilities, e.g., single parent with a very young child. Moreover, if government chooses to limit receipt of welfare assistance and to require all parents to work, then it must provide either job placement in the private sector or a minimum wage job of last resort in the public sector to those who seek employment but cannot obtain a job. For instance, Maynard (1995) estimates that up to 20 percent of single parents on welfare (AFDC) in the United States are unemployable due to disability, sickness (including addiction), and other personal issues. Thus not everyone can or will be able to maintain long-term steady employment. While many of these families live close to the poverty line, government aid in the form of jobs, job placements and other forms of aid will be needd to ensure a minimum standard of living.

Regional Implications

The ways in which governments provide a mix of cash , near cash assistance and/or employment will vary with national customs, choices, and values. Excessive means testing (poverty trap) should be avoided, but the extent of targeting and the design of the entire system *should* vary across and sometimes within nations (e.g., as the AFDC program varies in the United States). But, in order to implement a more effective antipoverty policy, most countries need to make some changes in their current programs. Here we sketch out the implications of our generic policies for two groups of nations: Europe and Scandinavia, and the United States, suggesting how some nations might adopt the elements of our package.

European and Scandinavian Nations. In most European countries, despite high unemployment rates, child poverty has remained rather low because of extensive government benefits in cash and in terms of social services. Economic and family change pressures have not yet produced a noticeable cutback in benefits for otherwise poor children. The high and rising costs of the welfare state and the negative effects of taxation and regulation on employment growth, however, have led many countries to consider ways to restrain the growth of social spending and to better target it. This has been reflected in proposals to raise the retirement age (Germany, Italy), to control eligibility for disability benefits (Netherlands) and to control eligibility for unemployment benefits (Belgium, United Kingdom). Several European governments are trying to reduce the extent of long-term unemployment by monitoring the availability of the unemployed for work, by limiting time for receipt of unemployment insurance, and by tying these benefits to retraining efforts.

There is also a need to foster job growth by increasing employer flexibility to hire and fire workers, and through other job creation strategies, even if they would reduce job security or lower minimum wages somewhat. This can be accomplished, in part by reducing high employer costs of hiring, in part by shifting from reliance on payroll taxes to general revenues (e.g., value added taxes, income taxes), and perhaps by shortening the work week and/or relying on additional part-time work.

United States Policies. While many European nations have high unemployment rates and low child poverty rates due to an exten sive system of income transfer programs and labor market regulations, the American situation is quite the reverse. America has a relatively low unemployment rate, but the highest child poverty rate among advanced economies, due to its relatively weak labor market regulations and its smaller welfare state, including both low cash outlay and limited child care, health care, and early school services. Compared to European countries, minimum wages are low, health insurance is not guaranteed, unemployment insurance is of limited duration and eligibility, and welfare benefits are low.

With regard to our generic model, the United States would have to adopt a number of initiatives, such as a child allowance, health insurance, expanded availability of child care, and child support guarantees, if it is to cut its child poverty rate in half. Recent simulations suggest such a set of policies are both feasible and affordable (e.g., Yim, Garfinkel and Meyer, 1994) because the increased work effort brought about by these policies helps reduce other costs such as cash welfare and food stamps.

While the European welfare state is now probably "too expensive," that of the United States is clearly "too cheap." Those European countries which have universal health insurance and universal child care can reduce spending by increasing income-tested co-payments for nonbasic services or by pricing services so that high-income families pay more than low-income families. This is much easier to accomplish than it is to put programs into place for the first time.

VI. Summary and Conclusions

As the economic and social realities of the 1990s become more uniform in modern rich countries, there appears to be an emerging world of economic family life in which all parents participate in the labor market, even when children are young. Moreover, single- or lone-parent families resulting from divorce or out-of-wedlock birth are the norm—not the exception. To guarantee children an opportunity to grow up in a healthy and secure environment, families and governments need to cooperate more closely to ensure the economic viability of both one- and two-parent families. The ingredients that seem generic in this package include the following:

1. **Families** that are willing and able to work in the market to support their children, and to maintain this support even when marriage and living arrangements change.

2. **Employers** that are willing to assume some of the costs of employment and training and to support flexible labor markets and family benefits.

3. **Governments** that are willing to provide basic services to all children: health care, education and preschool; and other services to parents: employment related services such as job training and retraining, and job search; and family leave for child and parental care.

4. **Transfer programs** that provide a low but significant level of support via universal child allowances; child support insurance (assurance) for single parents when an absent parent cannot or will not provide child support; and subsidies for unemployment or low wages to help working families make ends meet.

   There also needs to be a safety net program of limited duration to assist families with children who have otherwise fallen through the cracks and have no alternative means of emergency support.

5. **Tax programs** that are broad based, do not penalize employment, and when combined with safety net programs, do not provide cumulative tax rates that unduly reduce incentives for beneficiaries to work.

Even though most advanced economies have experienced similar changes in family structure and in the structure of their labor markets during the 1980s, their child poverty rates vary dramatically, from less than 3 percent to more than 20 percent. Differences in public policies account for a significant portion of this variation. Our analysis suggests that these differences reflect differing values and choices, not technical economic constraints. There is enough flexibility in the choices that can be made so that all modern advanced countries can achieve both a dynamic, growing economy and a low child poverty rate.

Table 1. Changes in Child Poverty Rates: 1967-1991

Nation	Years	Period 1 < 1971	Period 2 1972-75	Period 3 1978-81	Period 4 1982-85	Period 5 1986-88	Period 6 1990+
United States	69,74,79,86,91	13.2	17.9	18.5	-	22.9	21.5
Australia	81,85,90	-	-	14.0	14.0	-	14.1
Canada	71,75,81,87,91	15.2	13.1	13.8	-	13.7	13.5
Belgium	85,88	-	-	-	3.4	3.1	-
France	79,84	-	-	6.4	6.5	-	-
Germany	73,78,83	-	3.9	3.0	4.3	-	-
Netherlands	83,87	-	-	-	2.5	4.1	-
United	69,74,79,86	5.2	6.7	8.5	-	9.9	-
Finland	87,91	-	-	-	-	2.9	2.5
Norway	79,86	-	-	3.8	-	3.8	4.6
Sweden	67,75,81,87	5.7	1.9	3.9	-	3.0	2.7

Measure: Percentage of children living in families with disposable cash incomes less than 50 percent of the adjusted median disposable income for all families.

Nations for which we have only one point estimate and no trend estimate:

Ireland (1987)	12.6 percent
Italy (1986)	10.8 percent
Luxembourg (1985)	4.0 percent
Switzerland (1982)	3.3 percent

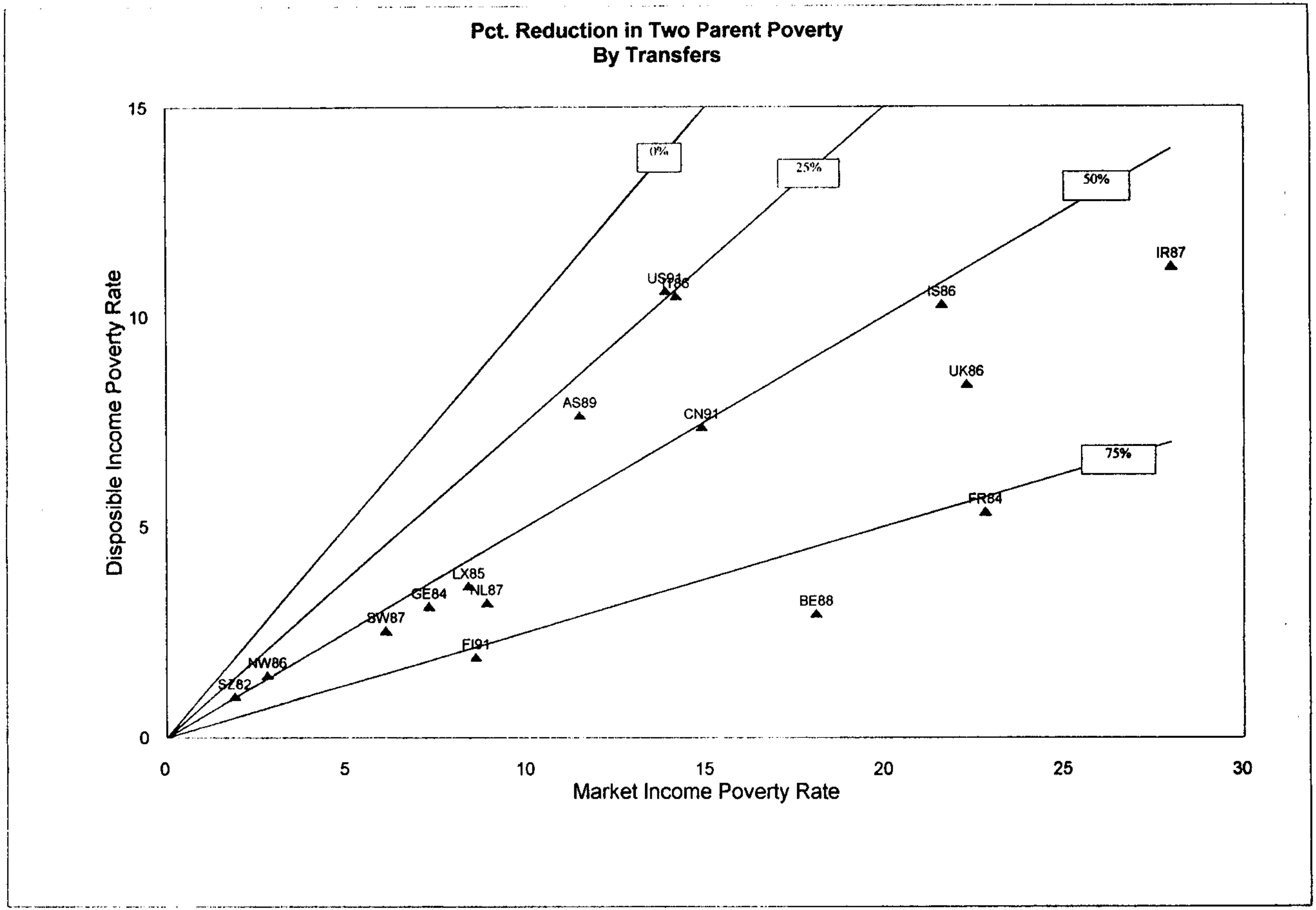
Source: Luxembourg Income Study.

Table 2. Real Incomes of Children in the Lowest Quintile as a Percent of United States Median Income

Nation (Year)	Real Income
Switzerland (1982)	56.7
Sweden (1992)	56.7
Finland (1991)	52.2
Belgium (1992)	50.3
Norway (1991)	50.0
Luxembourg (1985)	46.4
Germany (1984)	46.0
The Netherlands (1987)	43.8
Canada (1991)	41.2
France (1984)	39.2
Italy (1987)	37.9
United Kingdom (1986)	34.9
Australia (1989)	34.7
United States (1991)	33.0
Ireland (1987)	20.1

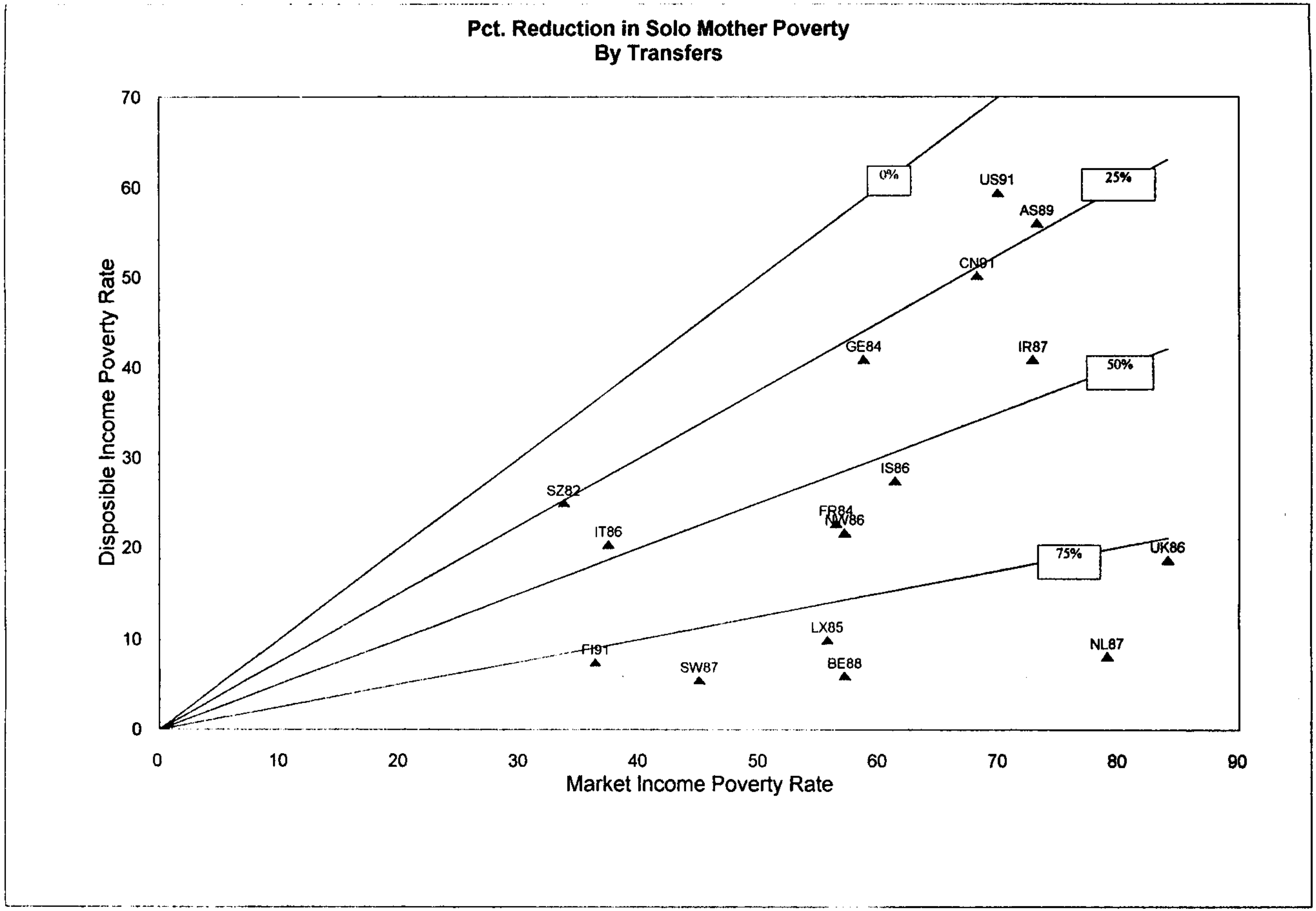
Note: Median income of lowest quintile of children expressed as a percent of United States median income using Primary Power Parities developed by Heston and Summers (1991).

Figure 1



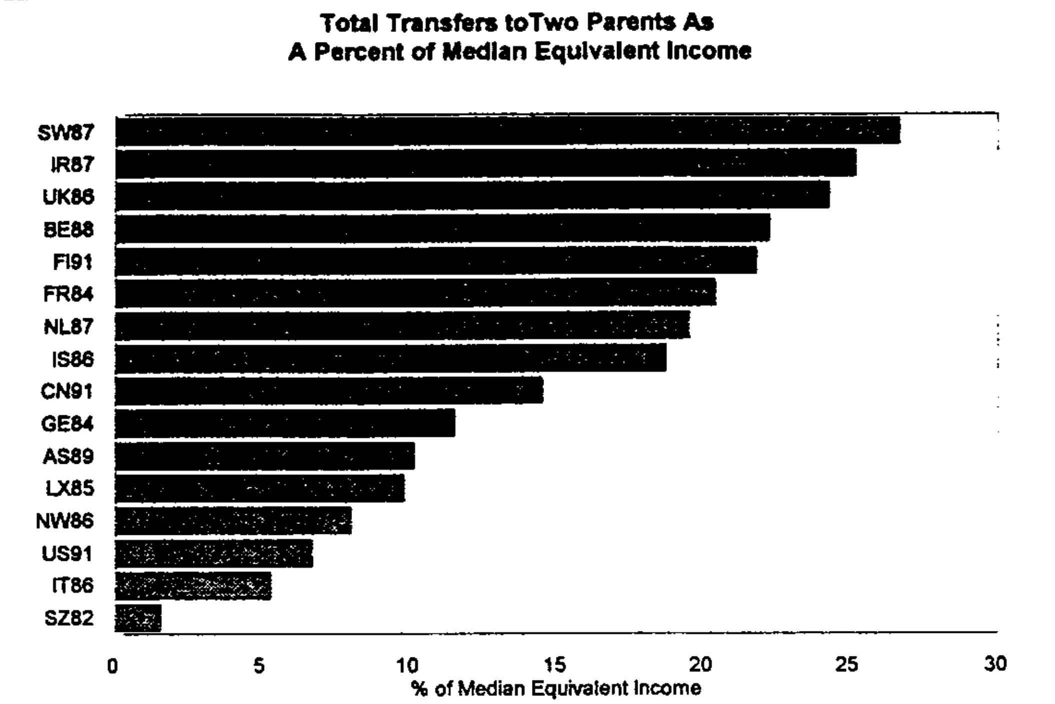
Pct. Reduction in Two Parent Poverty
By Transfers
0%
25%
50%
75%
US91
IT86
IS86
IR87
UK86
AS89
CN91
FR84
LX85
GE84
NL87
SW87
BE88
FI91
NW86
SZ82
Disposible Income Poverty Rate
Market Income Poverty Rate
0
5
10
15
20
25
30

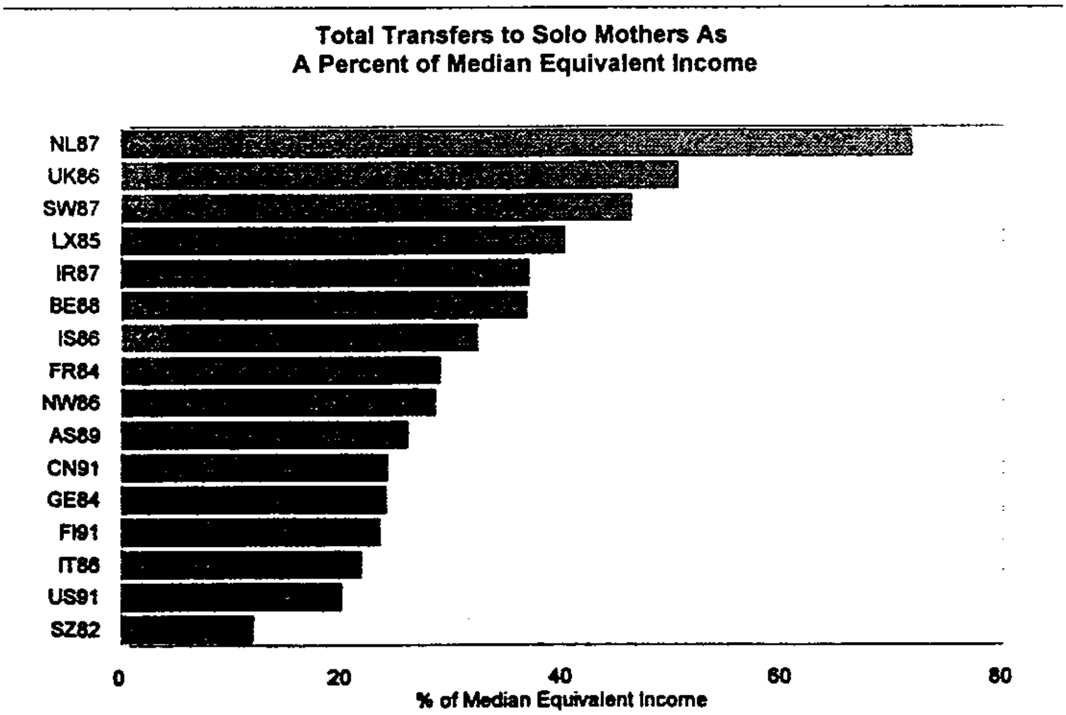
Figure 2



Pct. Reduction in Solo Mother Poverty
By Transfers
Disposible Income Poverty Rate
Market Income Poverty Rate
0%
25%
50%
75%
US91
AS89
CN91
GE84
IR87
IS86
SZ82
IT86
FR84
NW86
UK86
LX85
FI91
SW87
BE88
NL87
0
10
20
30
40
50
60
70
80
90

Figure 3





ote: Means for families in the lower half of the equivalent income dsitribution weighted
number of children.

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