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# Luxembourg Income Study Working Paper Series

Working Paper No. 21

**Poverty, Affluence and the Income Costs of Children:  
Cross National Evidence from the LIS**

Timothy Smeeding

August 1988

*(scanned copy)*



**"Poverty, Affluence and the Income  
Costs of Children:  
Cross National Evidence from  
The Luxembourg Income Study (LIS)"**

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**August 8, 1988**

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# ABSTRACT

The purpose of this paper is to look into the relative economic condition of families with children - their place in the size distribution of income - in the U.S. and in nine other industrial nations around the turn of the decade using data from the Luxembourg Income Study. We compare the economic status of childless couples to that of both single and two-parent families with children. We find evidence that after adjusting for the differential income needs of larger families, there is a substantial material affluence cost to having large families with children in each of the nations studied.

## I. INTRODUCTION

Have children become economic liabilities instead of assets? Would a "modern" woman want children? Joan Huber (1985) suggests a very pessimistic answer to the declining fertility rates in the U.S.A. in particular, and in modern western society in general:

"First, the direct costs of child-rearing continue to rise, exceeding \$175,000 for the first child. Second, the psychic costs of having children increase as parents face friends, peers and professional advice contradicting their beliefs. (Huber points to studies showing mothers at home with preschoolers to be the most unhappy group in the population.) Third, the economic rewards of childbearing decline as Social Security wipes out the economic bonds of parents to children. Fourth, as women's education level and job opportunities rise, the cost of staying home also increases. Fifth, husbands have become primary advocates of working wives, having learned (as did husbands in the Soviet Union) that the added income, in practice, costs them almost nothing in terms of extra housework. And sixth, the dramatic rise in the divorce rate since 1965 has suppressed the desire for children, by increasing women's risks of being saddled with the children alone."

The purpose of this paper is to look into the economic condition of families with children - their place in the size distribution of income - in the U.S. and in nine other industrial nations around the turn of the decade. In particular, we will compare the economic status of childless couples to that of both single and two parent families with children. The next section of the paper describes the Luxembourg Income Study database which allows this comparison. The third section of the paper explains the basis of the choices of analytic perspective which we make in examining the well-being of families with children. The next section presents the results of these analyses while the fifth and final section discusses the policy implications of our findings.

The implicit perspective espoused in this paper is that having enough children to maintain a steady-state country population (i.e. "replacement" or "zero-population-growth" levels of fertility) is a desirable end for public policy, and further, that once children are born into society, their well-being becomes a public, social and moral as well as a private, personal and family obligation. In other words, the long term economic well-being of a society is dependent to some extent upon the quality and quantity of its offspring, and children are therefore not merely the private consumption goods of the family that beget them.

The total fertility rates of women (age specific birth rates weighted by the share of the population within the reproductive lifespan) among the countries studied here sets the stage for our discussion. A replacement fertility rate of 2.1 babies per woman is a rough guide to a stable long run population for a country, absent any significant population in- or out-migration. Among the countries studied here, we find that only Israel has a total fertility rate above replacement (roughly 2.6, we estimate). Among the other countries studied, Australia at 1.9 has the highest and Germany and Netherlands at 1.5 have the lowest total fertility rate.<sup>1</sup> The United States, United Kingdom, and Canada are near 1.8, while Norway, Sweden, and Switzerland are at about 1.7 (Teitelbaum and Winter, 1985, Appendix). Should these "baby bust" fertility trends continue or even if they modestly increase, and are not offset by net population in-migration, each of these countries (except for Israel) will see a slowing of the growth of their populations and possibly even an absolute decline early next century.

As a result, each of these countries will experience a significant rise in the median age of the population by early next century (Teitelbaum and Winter, 1985; 144-145), and with it, the concomitant social expenditure pressures of an increasingly aging and retired population (Office of Economic Cooperation and Development, (OECD) 1988).

Viewed from one perspective, this paper should not be interpreted as being alarmist. To quote the title of an excellent book on this topic, the fear of population decline (Teitelbaum and Winter, 1985) need be seen in much longer and broader context than that presented here. We only seek to document the relative economic status of families with children at one point in time, and to compare the economic status of the childless with the childful at the turn of the decade. Alternate social, political and economic futures might reverse or change the findings of this paper. But fears of population aging, baby busts, and the implicit social costs of an aging society, are of major international policy concern. The topic is in large part at the base of the "generational equity" debate which, in the United States, has generated a great deal of political interest and policy analysis (e.g., Preston, 1984; Longman, 1987; Kingson, Hirshorn and Cornman, 1986). While we are among a group which believes that a more careful consideration of the facts is in order before jumping to radical policy conclusions (e.g. see Palmer, Smeeding, Torrey, 1988), and while this paper is designed to add to this factual base, the results of our analyses, should they prove robust, do provide some cause for policy concern.

## II. LUXEMBOURG INCOME STUDY (LIS)

Under the sponsorship of the government of Luxembourg, the LIS experiment was begun in Summer 1983. The purpose of the project was to gather in one central location, the Center for Population, Poverty and Policy Studies, and International Networks for Studies in Technology, Environment Alternatives and Development (CEPS/INSTEAD) in Luxembourg, sophisticated microdata sets which contain comprehensive measures of income and economic well-being for a set of modern industrialized welfare states. Because of the breadth and flexibility afforded by the LIS microdata, researchers are free to make several choices of perspective: identification of unit (family, household, etc.); measure of income; and population to be studied, e.g., younger and elderly households or families with and without children - the groups which we compare here - within the same research paper. This truly comparable microdata creates a potentially rich resource for cross-national policy research.

The LIS databank currently covers ten countries -- Australia, Canada, Israel, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States, and West Germany -- with data for 1979, 1981, 1982, or 1983. The basic procedure used to prepare the datasets is contained in Smeeding et al. (1985), while the basic description of the dataset can be found in the "LIS Information Guide" (Buhmann, et. al., 1988a).<sup>2</sup> Table 1 contains an overview of these datasets: country, dataset name and size, income year, data sampling frame, and representativeness of the population.

### TABLE 1 HERE



TABLE 1  
An Overview of LIS Datasets

Country	Dataset Name, Income Year (and Size <sup>1</sup> )	Population Coverage <sup>3</sup>	Basis of Household Sampling Frame <sup>8</sup>
Australia	Income and Housing Survey 1981-82 (17,000)	97.5 <sup>4</sup>	Dicennial Census
Canada	<u>Survey of Consumer Finances</u> , 1981 (37,900)	97.5 <sup>4</sup>	Dicennial Census
Germany	<u>Transfer Survey</u> , 1981 <sup>2</sup> (2,800)	91.5 <sup>7</sup>	Electoral Register and Census
Israel	<u>Family Expenditure Survey</u> , 1979 (2,300)	89.0 <sup>5</sup>	Electoral Register
Netherlands	<u>Survey of Income &amp; Program Users</u> 1983 (4,833)	99.2	Address Register of the Postal & Telephone Cos.
Norway	<u>Norwegian Tax Files</u> , 1979 (10,400)	98.5 <sup>4</sup>	Tax Records
Sweden	<u>Swedish Income Distribution Survey</u> , 1981 (9,600)	98.0 <sup>4</sup>	Population Register
Switzerland	<u>Income and Wealth Survey</u> , 1982 (7,036)	95.5 <sup>9</sup>	Electoral Register & Central Register for Foreigners
U.K.	<u>Family Expenditure Survey</u> , <sup>2</sup> 1979 (6,800)	96.5 <sup>6</sup>	Electoral Register
U.S.A.	<u>Current Population Survey</u> , 1979 (65,000)	97.5 <sup>4</sup>	Dicennial Census

<sup>1</sup> Dataset size is the number of actual household units surveyed.

<sup>2</sup> The U.K. and German surveys collect subannual income data which is normalized to annual income levels.

<sup>3</sup> As a percent of total national population.

<sup>4</sup> Excludes institutionalized and homeless populations. Also some far northern rural residents (inuits, eskimos, laps, etc.) may be undersampled.

<sup>5</sup> Excludes rural population (those living in places of 2,000 or less), institutionalized homeless, people in kibbutzum, and guest workers.

<sup>6</sup> Excludes those not on the electoral register, the homeless, and the institutionalized.

<sup>7</sup> Excludes foreign-born heads of households, the institutionalized, and the homeless.

<sup>8</sup> Sampling Frame indicates the overall base from which the relevant household population sample was drawn. Actual sample may be drawn on a stratified probability basis, e.g., by area or age.

<sup>9</sup> Excludes nonresident foreigners but includes foreign residents and the institutionalized.

The LIS database which emerged from this procedure consists of country income microdata sets prepared to a common plan, based on common definitions of income sources (including several sources of taxes and transfers) and family and household characteristics. Already the LIS database has been used to study income poverty, the relative economic status of one parent families and of the elderly, and the overall distribution of government cash transfers vs. direct taxes (Smeeding, O'Higgins, and Rainwater [1988]; Smeeding, Torrey, and Rein [1988]).

Through funding initially from the Government of Luxembourg and from the Ford Foundation, and, subsequently, through an international jointly financed consortium of science foundations from member countries, LIS has now moved beyond the initial experimental stage to provide a databank which can be perpetually updated and expanded to include the most recent data available for any and all nations with high quality income microdata sets which choose to participate. Additional country datasets from Finland, Poland, France, Luxembourg, and Italy are expected to be added to LIS over the next year, while negotiations to include Japan, Hungary, and other countries remain in the planning stages. The entire LIS dataset will be updated during 1989 at which time income year 1985 and 1986 datasets will be added for most current LIS countries and those listed above.

### III. MEASURING THE ECONOMIC WELL-BEING OF FAMILIES WITH CHILDREN

Because of the availability of the LIS microdata, researchers are allowed a wide degree of breadth in selecting measures of income, demographic unit of aggregation, and perspectives for comparison across and

within countries. The unit of aggregation chosen here is the family - all persons living together and related by blood, marriage, or adoption. In this paper we have selected disposable family income adjusted by an adult equivalence scale or "adjusted income" as our measure of economic well-being. Disposable income includes all forms of cash and near cash income<sup>3</sup> including earnings, realized capital income, and government transfers, net of income and payroll taxes. This is the most commonly accepted measure of net ability to consume goods and services. It differs from the U.S. Census money income definition used to measure family income and poverty in the U.S. since 1947 (e.g., U.S. Bureau of the Census, 1987, 1987a) in that we subtract direct taxes and include food stamps as near cash income. Hence, direct comparisons between the U.S. estimates in Table 2 and the rest of the estimates in the subsequent tables should be made with caution<sup>4</sup>. Adjusted income makes allowance for the differential needs of different size families by using the median value of the equivalence scales implicit in the poverty lines of eight of the ten countries studied to adjust disposable income for family size<sup>5</sup>. This adjustment is made by dividing the income of a given size unit by the relative number of equivalent adults normalized to a family of size three. Hence, a childless couple's income is divided by .83, a couple with one child (or a single parent with two children) has its disposable income divided by 1.0, and a family of four by 1.24, five by 1.42, etc.

Our reasoning for using adjusted income can be explained by considering Table 2. Here we find official U.S. Bureau of the Census estimates of poverty among families in the U.S. and adjusted and

unadjusted Census family income for 1985. Estimates are presented for married couples, for married couples with from one to six or more children, for all married couples with children and for all female-headed single parent families with children.

TABLE 2 HERE

The first noteworthy item is the official U.S. estimates of poverty. Overall in 1985, only 4.8 percent of childless couples were poor as compared to 8.9 percent of couples with children and 45.4 percent of single parent families headed by a female. Hence, couples with children are at nearly twice the risk of poverty as are childless couples. Single parent females with children were roughly 10 times as likely to be poor in 1985. Among families with children the poverty rate increases continuously and dramatically going from 6.1 percent for couples with one child to 44.6 percent for families of six or more. While these figures are based on U.S. Census income definitions using the official poverty line for 1985 and are hence not directly comparable to those which have been calculated from LIS, the same general pattern is found in the 1979 LIS data for the United States (Smeeding and Torrey, 1988). Moreover, the official rate of poverty among married couple families with children grew from 6.1 percent in 1979 (the year of the LIS data) to 8.9 percent in 1985, nearly a 50 percent increase.

Coupling this trend with the continuing high rates of poverty among single parent females with children and their high numbers in the U.S., poverty rates for all families with children in the U.S. rose from 12.6 to 16.7 percent in 1985 (U.S. Bureau of the Census, 1987a, Table 3). The increase in poverty among single mother families over this same

TABLE 2

Poverty Rate, Unadjusted and Adjusted Family Income  
in the United States in 1985

Married Couples vs. Married Couple Families with Children

<u>Row</u>	<u>Type of Family</u>	<u>Poverty Rate<sup>1</sup></u>	<u>Unadjusted Income Level</u>	<u>As Percent Row 1</u>	<u>Adjusted Income Level<sup>2</sup></u>	<u>As Percent Row 1</u>	<u>Per Capita Income Level</u>	<u>As Percent Row 1</u>
1.	Married Couple No Children	4.8	\$29,387	(100)	34,985	(100)	14,694	(100)
Married Couple Plus:								
2.	One Child	6.1	34,009	(116)	34,009	( 97)	11,336	( 79)
3.	Two Children	8.3	32,582	(111)	25,455	( 73)	8,146	( 55)
4.	Three Children	13.5	30,310	(103)	19,941	( 57)	6,122	( 42)
5.	Four Children	20.5	27,216	( 93)	15,916	( 45)	4,536	( 31)
6.	Five Children	33.6	24,185	( 82)	13,002	( 37)	3,455	( 24)
7.	Six or More Children <sup>3</sup>	44.6	24,814	( 84)	11,930	( 34)	2,919	( 20)
8.	All Married Couple Families With Children	8.9	32,631	(111)	27,048	( 77)	11,380	( 77)
9.	All Single Parent Families With Children	45.4	13,660	( 46)	11,412	( 33)	4,844	( 33)

Source: U.S. Bureau of the Census, 1987 (Table 18); 1987a (Tables 3,14)

Notes:

1. Poverty Rate is percent of families of each type who are poor.
2. Income is adjusted using the U.S. poverty line equivalence scale normalized to the income of the modal family, a couple with one child.
3. The average family size is 6.48 persons in families with six or more children.

period was from 39.6 to 45.4 percent. Of the 5.6 million poor families with children in the U.S. in 1985, 3.1 million or 55 percent of them were single mother families.

Table 2 also presents three different measures of income for families in 1985: unadjusted (Census) income, income adjusted using the U.S. poverty line equivalence scale, and per capita income. These three measures represent three different philosophies of looking at the economic well-being of families with children. Unadjusted income implicitly assumes that children are consumption goods, that the decision to have children is a completely rational economic decision. No adjustments for family size or costs of additional children are made; nor, according to this point of view, should such adjustments be made.

Equivalence adjusted income takes account of the extra consumption needs due to having children. It assumes that well-being is measured by income relative to needs and that these needs should be counted in judging the economic status of families with children regardless of the rationality of deciding to have (or not have) children. The U.S. poverty line equivalence scales used to in Table 2 make this adjustment have been criticized elsewhere (e.g., Jencks and Mayer, 1987) as being too generous, i.e., over-adjusting for family size. Yet in the world of equivalence scales, the size of these allowances for extra children are not so great as those used by those concerned with family budgets, e.g., OECD and the U.S. Bureau of Labor Statistics (Buhmann, et al., 1988, Table 2). Finally, the elasticity of the U.S. poverty line equivalence scale with respect to family size is .56, nearly identical to the .55

mean elasticity of the equivalence scales used to measure low income in eight of the ten countries examined here.<sup>6</sup>

The final perspective, that of per capita income, ignores all economies of scale in providing consumption goods to additional children and implicitly assumes that each person's well-being is measured by their share of household income. From a "needs adjusted" perspective, per capita income adjusts most fully for family size, the exact counterpoint to disposable income which makes no such adjustment. While disposable income makes no adjustment for needs, per capita income overadjusts because it fails to recognize economies of scale in producing household goods and services such as food, living space, and heat. Equivalence adjusted income, our choice of perspective, falls somewhere in the middle of the two.

The philosophical basis of the comparisons in Table 2 is to present the income (or well-being) of a couple without children and, at a point in time, to compare it to that of families with one, two, three, etc. children. The unadjusted income estimates in Table 2 indicate that in 1985 married couple families with one, two, or three children had higher incomes than those who had none. Beyond three children, however, family income fell below that of couples. Unadjusted income increases and then decreases with family size (as measured by additional children in married couple families at a point in time). However, the equivalence adjusted and per capita income estimates both indicate that family economic well-being, as measured by income relative to needs, consistently declines as the number of children increase. That is, married couple families with children have lower income to needs ratios

than married couples without children, and this ratio continuously declines as additional children are added to the couple. For instance, the average person in a married couple family with two children is only 73 percent as well off as a person in a childless couple family according to equivalence adjusted income, and only 55 percent as well off on a per capita basis. In general, married couple families and single parent families with children have only 77 and 33 percent the adjusted incomes of married couples, respectively.

Granting all of the measurement problems posed by such comparisons as these, if money income relative to needs adjusted by a reasonable equivalence scale is an acceptable measure of family economic well-being, there appears to be a substantial economic sacrifice involved in having children. Moreover, Table 2 indicates that the greater that number of children, the greater the sacrifice, in the United States. How the U.S. situation compares with that in other countries, and how these comparisons vary over the income spectrum is the topic of the next section of the paper.

#### IV. RESULTS: WELL BEING OF FAMILIES WITH CHILDREN ACROSS TEN COUNTRIES

This section of the paper presents estimates of the relative economic status of families with children across the ten LIS countries. Ranking families by the adjusted income concept to find the median family we have divided the population according to the cumulative percent of persons living in families below or above given fractions of median income in each country. We have selected three fractions of median income and have constructed a table (Table 3) which presents



estimates for five groupings of persons in families: all persons in families or total families including the elderly; and four groups with heads age 60 or less: childless couples, couples with one child, couples with two or more children, and single parents living with their

TABLE 3 HERE

children.<sup>7</sup> Estimates are presented for the ten country average of each measure as well.

The three levels of well-being which we have chosen to focus on in Table 3 are percent below half median (adjusted) income, percent below median income, and percent above 150 percent of median income. The first and last of these groups can roughly be interpreted dividing the poor and the affluent, respectively. Those living in families with adjusted incomes below the median for all families presents a measure of how many persons in such families are not quite middle class. The analysis will be conducted by considering each of the three living standard indicators in turn.

Poverty. The largest variance across countries and groups is found in the estimate of the percent of persons in families with adjusted incomes below half the median. Because of the widely differing tax and transfer policies in these ten countries, this should come at no surprise to those who have studied cross national social policy. However, the specific results should surprise most analysts.

With respect to overall poverty in general, and child poverty in particular, the countries fall into roughly four groups: The Scandinavians (Norway, Sweden) and Germany with the lowest poverty rates, near 5 percent overall, and lower for couples with children.

TABLE 3

Income Position of Persons In Various Types of Families  
Ranked by Adjusted Income

<u>Country</u>	<u>Couples No Children</u>	<u>Couples with Children One Child</u>	<u>Two + Children</u>	<u>Single Women With Children</u>	<u>Total All Families</u>
<u>1. Percent Poor (Below Half Median Income)</u>					
Australia	2.7	6.2	10.3	55.0	12.3
Canada	4.0	5.1	12.0	48.5	13.2
Germany	2.2	1.7	3.4	-b-	5.2
Israel	2.9	2.9	11.4	-b-	12.1
Netherlands	6.1	8.5	7.4	-b-	8.0
Norway	4.1	2.1	3.1	18.3	5.1
Sweden	2.6	3.1	4.7	10.6	5.4
Switzerland	2.0	2.2	6.2	21.4	8.5
United Kingdom	1.7	1.9	6.7	28.5	11.4
United States	4.2	5.4	13.0	55.2	18.1
Average	3.3	3.9	7.8	33.9	10.1
<u>2. Percent Not Quite Upper Middle Class (Below 100 Percent Median Income)</u>					
Australia	15.4	32.4	59.6	85.2	50.0
Canada	21.8	33.3	61.2	86.8	50.9
Germany	25.2	46.2	63.3	-b-	50.8
Israel	25.7	25.7	56.2	-b-	50.7
Netherlands	23.4	49.5	65.5	-b-	50.8
Norway	18.0	31.3	54.6	80.8	51.2
Sweden	17.8	31.1	51.6	79.9	50.9
Switzerland	20.1	38.5	64.3	72.7	50.6
United Kingdom	16.7	36.4	57.9	73.9	51.6
United States	18.9	32.1	55.6	87.6	50.1
Average	20.3	35.8	59.0	81.0	50.8

Table 3--continued

<u>Country</u>	<u>Couples No Children</u>	<u>Couples with Children One Child</u>	<u>Two + Children</u>	<u>Single Women With Children</u>	<u>Total All Families</u>
<u>3. Percent Affluent (Above 150 Percent Median Income)</u>					
Australia	59.4	30.9	10.5	3.5	22.1
Canada	50.5	25.5	9.8	8.1	19.4
Germany	35.0	13.2	8.7	-b-	17.0
Israel	47.4	40.3	18.2	-b-	23.6
Netherlands	48.6	22.5	10.3	-b-	22.8
Norway	46.3	17.9	7.7	5.2	13.1
Sweden	35.3	14.2	6.0	0.8	10.1
Switzerland	37.8	16.7	7.4	12.4	16.9
United Kingdom	47.8	24.8	9.6	2.1	19.8
United States	49.3	30.1	12.5	1.7	28.3
Average	45.8	23.6	10.1	4.8	19.3

Source: LIS database

Note: Families weighted by number of persons; income adjusted using eight country average poverty line equivalence scale; total includes all types of families: one person families, elderly units as well as those shown above. Averages are the simple mean of the estimate over all countries with estimates. Couple families include families with parents living together regardless of marital status; single women with children are families with only one adult and children under 18 in the household.

(-b-) = less than 3.0 percent of all persons

These are followed by the Swiss and Dutch in the 8 percent range but still below the overall average rate of 10.1 percent. Slightly above average are the third group: the Canadians, Israelis, Australians, and UK, all in the 11-13 percent range. The U.S. has by far the highest overall rate at 18.1 percent, forming a group of one at the bottom of the heap.

In all countries, childless couples and couples with children do better than average.<sup>9</sup> In fact, if we only look at couples with children, the U.K. joins the below average group while the Dutch move closer to the group average. In families with two or more children, four countries have double digit poverty rates, with the U.S. again highest, but more closely followed by Canada, Australia and Israel than in the overall figures. Countries with large geographic boundaries and with diverse economic conditions across the fiscal subjurisdictions of those boundaries (e.g., U.S., Canada, Australia) are more likely to have high poverty rates than smaller, more homogeneous countries like those in Scandinavia and Europe.

In general, and as expected, persons in single parent families with children have relative poverty rates which are at least twice as high and up to eight to ten times as high, as persons living in married couple families. On average, a third of persons in single parent families are poor, compared to rates of less than 8 percent for two parent families with children. While single parenthood creates a severe economic burden on the persons involved, some countries cope better with poverty and single parenthood than do others. For instance, consider the U.S., Canada, and Australia with rates near or above 50 percent.

They do measurably less well than the United Kingdom or Switzerland which are below average but still in the 20-30 percent range. The Scandinavian countries do best, with Norway and Sweden at 18.3 and 10.6 percent respectively. This result is in large part due to differences in the social protection systems and in the labor force behavior of single parents across these countries (Smeeding and Torrey, 1988).

Looking across family types more closely, the decision to have one child appears to only slightly increase the poverty rate for couples, from 3.3 to 3.9 percent on average. However, the decision to have two or more children exactly doubles the chances of poverty to 7.8 percent (compared to the one child family). Explanations for poverty among large families are numerous. Among married couple families with children, economic conditions in labor markets, i.e. unemployment, relative wage levels and the like, are liable to influence low income as much as tax and transfer policy. One factor to consider is labor force participation. The earnings levels of married women in LIS drop precipitously in virtually all countries when two or more children are present, hence reducing family income levels. While we have no evidence on trends in husband vs. family earnings in other countries, Levy (1987) has recently documented the falling relative wages of husbands and the necessity of having two earner families to maintain a "middle class" standard of living. While the figures in Table 3 suggest that such a pattern may extend to poverty as well in the U.S., we have no similar studies for the other countries involved. Still countries with stronger stronger union involvement, countries which may be said to be more concerned with the "family wage" and hence having more equal wage

structures (e.g., Germany and Scandinavia) tend to have the lowest poverty rates among larger families. Another factor is the depth and breadth of the social insurance and income transfer systems. For instance, the only countries studied which do not have a child allowance as a part of their income transfer policies are the U.S. and Switzerland. Among poor families with children, the U.S. has by far the lowest percentage of families receiving social insurance transfers such as unemployment compensation (Smeeding and Torrey, 1988).

Middle Class and Affluence. While one must take careful note of the variance in poverty rates across family types and countries and their explanation, the patterns of living standards for various family types as measured by percent below median and percent above 150 percent of the median are much more consistent, with a much smaller range across countries. Looking first at the percent of persons in families with adjusted incomes below the median<sup>9</sup>, only 20 percent of childless couples fall into this group. The range across countries for this group is only from 15.4 percent in Australia to 25.7 percent in Israel. Having one child increases ones chances of falling below the median to nearly 36 percent, with the range from 25.7 in Israel to 41.2 in Germany and 49.5 in Netherlands - but with all other countries within the 31-36 percent range.

Having two or more children increases the chances of being below the median to nearly 60 percent. All countries have a greater percent of larger couple families with children below the overall median than the percent of persons in all types of families combined below the median (last column of Table 3). In all countries the chances of

falling into this "not quite middle class" group increase consistently and substantially as we move from childless couples to couples with one, then two or more children and finally to single parents. In this latter group, ones chances of being below the median average more than 80 percent. In virtually all countries the chances of being below the median at least double and on average triple when we compare a childless couple to a family of two or more.

The final panel is in many ways the flip side of the other two, relative affluence and not relative poverty or middle class standing is the issue here. Only in Sweden and Norway where overall levels of inequality are very low do we find less than 17 percent of persons being above 150 percent of the median. The United States - which has the greatest degree of inequality among the countries studied (Buhmann, et. al., 1988) - has 28.3 percent of the population living in relative affluence. On average about 20 percent of all persons in the countries studied are affluent by this measure. But almost half, 45.8 percent, of childless couples are in this position. Only Germany, Sweden and Switzerland pull the average down.

Perhaps most apparent is the affluence cost of having large families in these countries. As expected single parents have a very small chance of being affluent, less than 5 percent. Only in Switzerland, where child support and alimony payments are both high and strictly enforced do we find a figure above 10 percent (Smeeding, Torrey, Rein, 1988). For couples with children, the average odds of affluence fall from 46 to 24 percent with one child and all the way to 10 percent if two or more children are present. Again the pattern is

continuous and consistent across each of the countries studied. Excluding the outliers - Israel, due to its high birth rate an anomolous country to begin with, and Sweden, where equality is the norm - the percentage of large two parent families which are affluent varies only from 7.4 to 12.5 percent across the remaining eight countries. In short, having children in general, and large families in particular, severely reduces ones ability to live in relative affluence in modern societies such as those studied here.

#### V. IMPLICATIONS

In a recent paper, we have used the LIS data to show that poverty and low income among families with children can be largely offset by effective social policy (Smeeding and Torrey, 1988). Among the countries shown here, the risk of poverty among families with children can be greatly reduced via government tax and transfer policy. While in some countries, e.g., the U.S., Canada, and Australia, the fear of becoming a poor single parent may be a real deterrent to the decision to have children, this is not universally the case. A single parent with children in Sweden is less likely to be poor by our definition than is a married couple with two or more children in the U.S., Canada or Israel. Most well-developed western welfare states, those in Europe and Scandinavia, have well targeted child allowances and other tax-transfer benefits which reduce the risk of poverty to large families. But the evidence presented here suggests that perhaps the low fertility rate among adults in the countries studied has more to do with reduced chances of affluence than with increased risk of poverty.



U.S. feminists are said to argue that "modern" women want it all: job, family, status and income. But recently Dr. Joyce Brothers (1988) argued that while perhaps "you can have it all, you cannot have it all all of the time." The evidence in this paper suggests that indeed you cannot have it all, all of the time. It suggests that the low birthrate in modern western societies correlates well with the universal and strong inverse relationship between having children and being affluent. Recalling the quote which began this paper, the quest for affluence and societal status appears to be at odds with having children in general and with large families in particular. In Israel, the country with the largest percent of affluent families with two or more children, the high birthrate may be better explained by national security arguments than by socioeconomic choices. Unlike the other countries studied here, the desire for state and religious survival (i.e., national defense) provides a strong impetus to have children in Israel. Among the others studied, the comfortable material status and affluence of DINKS (Double Income No KidS) family units seem clearly influenced by the material cost of children. If the suggestions in this paper are borne out by additional research on this topic<sup>10</sup>, universal child allowances, better social safety net systems and other "pro-natalist" policies such as those now firmly entrenched in Western Europe (e.g., see Teitelbaum and Winter) may prevent poverty among large families. Surely there is need for such policies in the U.S. given its inordinately high rate of child poverty. But if the tradeoff between material affluence, job status and children is really at the heart of low birthrates in western societies, the emerging proclivity not to have children will not be much

affected by such measures. Despite their liberal policies for subsidized child care and parental leave for childbirth, Western European and Scandinavian countries have large family incomes which follow the same relative pattern of declining affluence as do those in the U.S., Canada, and Australia. These countries also have the lowest fertility rates of those studied here.

Should these trends toward low birthrates continue, the high social cost of an aging society will loom large in all of these countries within a quarter of a century (OECD, 1988). To the extent that fewer working adults and dwindling payroll tax revenues early next century will force governments to better target their social retirement benefits to those with little else in the way of resources, the incentive not to have children, but instead to have greater affluence in middle ages so that one can save for older ages will increase, further exacerbating the income patterns apparent in Table 3. If broad payroll tax support for social retirement is a major goal of western society, greater reliance on immigration to provide younger workers and taxpayers may be required by major western societies.

### Notes

1. These estimates are taken from Teitelbaum and Winter (1985), Appendix A. The Israeli total fertility rate is estimated using the Teitelbaum and Winter estimates for other countries and average numbers of children per country as reported in the LIS data.
2. Copies of the "LIS Information Guide" can be obtained by writing to LIS at CEPS/INSTEAD; BP#65; L-7201 Walferdange, Luxembourg.
3. Near cash income is that which is nominally in-kind income but which has a cash equivalent value that is identical to its market value. For instance, "food stamps" in the U.S. and "housing allowances" in Sweden and the U.K. are included here.
4. For instance, the official U.S. estimate of the percentage of families with children below the official U.S. poverty line in 1979 is 12.6 percent; the comparable LIS disposable income estimate for 1979 is 13.8 percent.
5. These include all countries but Israel and Norway which do not have national estimates of poverty lines or low income cutoffs.
6. Other equivalence scales could and have been used and the results shown below may be somewhat sensitive to this choice. For more on this topic the reader should consult Buhmann, et. al., 1988.
7. This latter group is referred to as single women with children because 90 percent or more of this group are mothers living alone with their children. Because of sample size problems in some of the smaller datasets this category is further limited to only those countries with at least 3 percent of the population living in such units (see Appendix A-1).
8. In the U.S. families with children (including single parent families) have had above average poverty rates since 1973, but this is largely due to the high rates among female single parents as shown in Table 2.
9. The careful reader will note that after adjustment for needs the percent of persons in families below adjusted median income is slightly above 50 percent. The figures would only be exactly 50 percent (as in Australia) if equal numbers of larger and smaller families were above and below the family median so that 50 percent of persons were in each family group.
10. Future extensions of this type of research will include updating these data to 1985, further exploring the labor force participation and earnings of female spouses and single parents in each type of family, and further breaking down the age groupings of couples and families with children. While the average age of heads in childless couples is not much different from that of heads in families with children, the age distribution of heads in the former may be different from that of the latter. However, these refinements are not expected to change the basic trends evident in Table 3.

Table A1

**Persons In Families With and Without Children  
as a Percent of Total Persons**

<u>Country</u> (1)	<u>Married Couples No Children</u> (2)	<u>Couples</u>		<u>Total</u> (5=3+4)	<u>Single Parents</u>		<u>Total</u> (8=6+7)	<u>Total, Families With Children</u> (9=5+8)
		<u>One Child</u> (3)	<u>Two + Children</u> (4)		<u>One Child</u> (6)	<u>Two + Children</u> (7)		
Australia	14.5	13.1	41.8	54.9	2.2	3.1	5.3	60.2
Canada	15.0	16.1	37.0	53.1	2.0	3.4	5.5	58.6
Germany	12.2	11.0	34.1	45.1	1.4	1.5	2.9	48.0
Israel	16.4	19.4	30.0	49.4	1.2	1.2	2.4	51.8
Netherlands	8.9	12.3	54.7	67.0	2.0	0.6	2.6	69.6
Norway	18.5	17.0	37.0	54.0	1.4	1.6	3.0	57.0
Sweden	6.0	11.7	44.4	56.1	2.7	2.3	5.0	61.1
Switzerland	12.1	12.9	27.5	40.4	2.6	2.5	5.1	45.5
United Kingdom	14.8	14.9	38.4	53.3	1.4	3.0	4.4	57.7
United States	13.3	14.8	33.6	48.4	3.1	6.3	9.4	57.8

Source: LIS Datafile

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