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Luxembourg Income Study Working Paper Series

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of Working Parents

Lee Rainwater

April 1993

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**The Social Wage in the Income
Package of Working Parents**

by

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and

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April 1993

THE SOCIAL WAGE IN THE INCOME PACKAGE OF WORKING PARENTS

Lee Rainwater

There are important differences among countries in the poverty rates of working families. These differences are a product of differences among countries in the inequality of earnings and of differences in the size of social transfers. In the following analysis of eight LIS countries I consider first the differences in poverty rates between families with earnings and families without earnings. Then the I focus in on the income packaging of families with earnings.

The eight countries and years of income data are: Australia (1985), Canada (1987), France (1984), Germany (1984), Netherlands (1987), Sweden (1987), United Kingdom (1986), and the United States (1986).

Measuring the Social Wage

The analysis explores in detail the role of the social wage. The term has been used in several ways, but here it is taken to refer to those social protection programs which are designed to supplement the income of working parents. The social wage is contrasted with other social protection programs which provide income when adults are not earners -- the so-called exit programs (Kolberg and Esping-Anderson, 1992).

Social wage programs include temporary sickness insurance or legislated sick pay, child allowances, and other family benefits including advanced maintenance payments.

Sick pay is the closest to wages per se. In some countries, individuals receive paid sick leave through social insurance payments. In other countries the law requires employers to pay for sick days up to a certain maximum; after that the sick person is defined as entitled to long-term disability benefits. And, in other countries whether employees receive sick pay is decided by labor contracts, or by the employer unilaterally.

The handling of sick pay in the surveys we are using here adds an additional dimension of complexity to the role of sick pay. In some countries social insurance sickness benefits are included in the wages and salary variable. Indeed, of the eight countries we compare here, sick pay is a separate variable in only three. Even among these three, however, it's likely that the sickness insurance variable does not include all sick pay, since if an employer simply continues the salaries of sick workers and later settles up with the social insurance fund, the amount of sick pay in our separate sick pay variable will be only a small portion of what in fact has been paid. For example, we find that 6% of disposable income in Sweden comes from sickness and paternity insurance payments, while in France less than 1% does. Yet another source indicates that the number of paid days of sickness absence is not too different between the two countries (Kolberg and Esping-Anderson, p. 18). In the United States, whatever sick pay individuals receive they receive as part of the ordinary paycheck and therefore there is no separate accounting of this employee fringe benefit. Even for Sweden the 6% is probably an underestimate, since some employers (for example, universities) in Sweden continue the pay of sick employees and get a refund from the social insurance funds at the end of the year. I have not been able to find any estimates of how much of the total spending on sickness insurance goes to balance the books with employers as opposed to directly to employees, but estimating from national account statistics, the spending our sick pay spending the LIS data show may be somewhere between two-thirds and three-quarters of the actual spending in Sweden.

In the analysis which follows, the sick pay component of the social wage should be considered an underestimate. The most sensible way to compare across countries is to add sick pay where it is separately measured to earnings.

The second major component of the social wage is the family allowance, which exists in all countries but the United States. Again, we need to point to the fact that in some of these countries, to an unknown extent, measured earnings also includes family benefits. For example, in some countries the head of a household receives higher pay than a comparable person who is not the head of a household. Thus, when a man marries he may find his income increased by, for example, 6%, simply because his marital status has changed. Such additions to wages, for example, are common in Germany. Though not mandated by the state for private employers, family status supplements may be part of negotiated settlements between management and unions. (check this!) In the United States, of course, there is no such established practice, although probably informally some employers decide that "good old Joe" should get a raise when he has another child. In the United States, Canada, Australia and Great Britain, the more bureaucratized the compensation systems of organizations are, the less these considerations are likely to be taken into account.

In any case, data on child allowances of various kinds, some income-tested and some not, are available to us from the surveys and we can explore their role as a supplement to earnings. We know that historically child allowances were often adopted exactly to insure a "living wage", that is, a wage which would support workers with families.

State-guaranteed child support payments, often called advance maintenance payments play an increasingly important role as a part of the social wage. In several countries the state undertakes to assure that child support payments ordered by the courts are, in fact, made. In advanced maintenance systems the state pays the child support payment directly to the custodial parent and collects it from the other parent. Thus the payment is part social transfer and part mandated family transfer. Since the state does not collect all of the money it pays out, the social transfer element can be considerable.

Public assistance programs combine elements of social wage with elements of protection for those who have exited from the labor market. Even where, as by and large in the United States, a public assistance program such as AFDC does not allow recipients to have earnings while they are receiving the benefit, many families will have welfare as part of their annual income, even when in other parts of the year they had earnings. But in some countries it is assumed that persons who are eligible for a social assistance program, such as income-tested housing allowances, will also be year-round workers. The purpose of the program is not to provide income for those not working, but rather to supplement earnings to the level of the living wage. Thus in some countries it makes sense to consider social assistance programs as also part of the social wage. Even countries where the dominant social protection ideology favors universality and opposes targeting, one finds that planners have been forced to a mixture of targeted and universal programs in order to reduce the number of very low income families.

Finally, two kinds of programs designed mainly to support individuals when they exit from the labor market may also be important in the income packaging of working families.

Unemployment insurance provides an income when workers are temporarily without a job. The long-term unemployed may have effectively exited from the labor market, but everywhere most unemployed persons are unemployed for less than a year, and very few are unemployed for the whole annual period in which we measure income.

Pension income received by persons in the age range of parents is likely to go mainly to survivors who will usually also have earnings. Even where one member of the family has exited from employment, another may be earning some of the income package of the family.

The Earnings Status of Parents

We find that in all eight countries the great majority of families with children have at least one earner. Only in the United Kingdom does the proportion of families with earners drop below 90% (Table 1).¹ For couples, the percentages range upwards from 94% earners, except in the case of the United Kingdom where 12% of married couple families have no earner.²

We find a much wider range for solo mother families -- from 31% of Dutch solo mother families who have earnings, to a high of 90% for Swedish solo mother families. For this family type we note three clusters:

- very high proportions of non-earners in the Netherlands, the United Kingdom, Australia ranging upward from 56%,
- a middling group which includes Canada, Germany, and the United States, where around 70% of families have earners, and
- two countries with higher proportions, France at 83% (earnings in France also include unemployment compensation) and Sweden at 90%.

Table 1

Percent of Families with Earnings

	All Families		Two Parents		Solo Mothers	
	None	Some	None	Some	None	Some
Australia	10.0	90.0	4.3	95.7	55.7	44.3
Canada	5.5	94.5	2.1	97.9	31.2	68.8
France	3.3	96.7	2.0	98.0	16.7	83.3
Germany	4.2	95.8	2.5	97.5	30.4	69.6
Netherlands	12.3	87.7	6.0	94.0	68.9	31.1
Sweden	2.3	97.7	0.8	99.2	9.9	90.1
United Kingdom	19.7	80.3	12.1	87.9	62.7	37.3
United States	7.5	92.5	2.1	97.9	29.6	70.4

Table 2 shows that although a disproportionate amount of all transfer income goes to non-earner families, in all cases the majority of transfer income goes to families who also have annual earnings. In two countries, over 90% of the transfers to families with children go to families who also have earnings; in Canada and Germany over 80% goes to such families.

¹Some earnings includes families with earnings of over 1% of median disposable income. In this and subsequent tables families headed by a solo father are included in All Families.

²The unit of observation is the family rather than rather than the individual. In this paper, all percentages are of families, not persons.

Table 2

Percent of Total Transfer Income by Earning Status

	None	Some	Total
Australia	32.4	67.6	100.0
Canada	16.6	83.4	100.0
France	8.1	91.9	100.0
Germany	17.0	83.0	100.0
Netherlands	43.7	56.3	100.0
Sweden	5.2	94.8	100.0
United Kingdom	41.8	58.2	100.0
United States	26.6	73.4	100.0

Thus, in all countries most families have income packages that combine earnings and transfers. After considering below the poverty rates of families with and without earnings the rest of this paper is concerned only with families with earnings.

Poverty Rates Among Earners and Non-Earners

As might be expected (but with one exception) poverty rates are much, much lower in families with earnings than in families without earnings. That one exception is the Netherlands, where the poverty rates of non-earners is only slightly higher than that of earners. Both rates are extremely low (Table 3). We note that in solo mother families the poverty rate in the Netherlands is actually higher when there are earnings than when there are none, although this may be a result of small sample size.

There is, however, significant variation among countries in the poverty rates of families without earnings. Among families headed by a couple, we find poverty rates greater than 75% in Australia, Canada, France, and the United States. The rates are between 35-42% in Germany, Sweden, and the United Kingdom, and only 5% in the Netherlands. Among solo mothers, poverty is generally higher where there are no earnings, with the United States, Australia, and Canada showing more than 90% of such families poor, compared to France and Germany with around two-thirds, the United Kingdom and Sweden with around 20%, and the Netherlands with only 6%. Some countries make special efforts for solo mother families without earnings compared to couple families, so we find the poverty rates lower for solo mothers than for couples in France, Sweden, and the United Kingdom. In the other countries, the rate is either about the same (Canada and the Netherlands) or higher for solo mothers.

Among working families poverty rates range from a low of 3% in Sweden to a high of over 14% in the United States. Only the United States has a double-digit poverty rate for families with earners, although Canada comes close with 8.8%. If we focus on couple families, we find the U.S. still high with a poverty rate of 9.5%, and Canada next with a much lower rate of 6.3%. Australia, France, and the United Kingdom are in the 4-5% range, and Germany, the Netherlands, and Sweden range downward from 3.4%.

Table 3

Poverty Rates of Families with Children
by Earnings Status and Family Type

	NONE	SOME	TOTAL
All Families:			
Australia	84.2	6.5	14.3
Canada	89.9	8.8	13.3
France	69.6	5.0	7.1
Germany	51.5	2.9	4.9
Netherlands	5.3	3.8	4.0
Sweden	22.5	3.1	3.5
United Kingdom	29.8	4.9	9.8
United States	92.9	14.5	20.3
Two Parents:			
Australia	76.8	5.4	8.5
Canada	89.9	6.3	8.1
France	81.7	4.5	6.1
Germany	41.6	1.8	2.9
Netherlands	4.9	3.4	3.5
Sweden	34.9	2.6	2.8
United Kingdom	36.1	4.7	8.5
United States	84.2	9.5	11.0
Solo Mothers:			
Australia	89.7	25.3	61.1
Canada	90.0	33.4	51.0
France	64.4	10.7	19.7
Germany	67.0	26.9	39.1
Netherlands	5.9	12.3	7.9
Sweden	18.2	5.2	6.5
United Kingdom	22.3	6.8	16.5
United States	95.7	42.0	57.9

Among solo mothers there is much more variation, thus Sweden and the United Kingdom have poverty rates for solo mothers that are only slightly higher than those for couples, and the rates in the Netherlands and France are also quite low at just over 10%. Australia, Canada, and Germany have much higher rates.³

These differences in poverty rates of working parents hold up when one examines the rate for families with one or two or three or more children. (Table not shown.) In all cases, the U.S. rate is the highest and Canada's is second. In general, poverty rates are higher for the larger families, but in some countries, like Sweden, family size does not seem to make much difference, and in France poverty rates are lower as one moves from one to three children.

In the case of solo mother families, we observe that in the United States there is an enormous increase in poverty as one moves from one child (36%) to three or more children

³The German rate may be a fluke of a quite small sample.

(63%). There is a similar increase in the United Kingdom, but in the other countries increases in family size seem to increase poverty not at all or at least not very much.

In short, the disparity between the United States and other countries, which is considerable even for families with one child, grows as the number of children increases. We will consider below the role of the social wage in accounting for this disparity.

The Earning Status of the Poor

We find that in most countries the majority of poor families are also working families. This is not true in the United Kingdom and Australia, where only around 40% of poor families have earnings. But, in Canada, France, Germany, and the United States between 55% and two-thirds of poor families are working, and over 80% of the very few poor families in the Netherlands and Sweden have earnings. In the case of couple families, only in the United Kingdom do we find non-earners in the majority, and over 70% of such poor families are working in Canada, France, the Netherlands, Sweden and the United States. Among solo mothers, of course, the variation is much greater. In the United Kingdom and Australia, fewer than one-fifth of poor solo mothers have earnings, compared to 73% of the very few poor solo mothers in Sweden, and about half in the other countries. So despite the low poverty rates of families with earnings, we find that in most countries understanding poverty rates requires in the main an explanation of what accounts for the poverty of working families.

Poverty Rates of One and Two Earner Families

We consider now the prevalence of dual-earner couples, and the poverty rates of single and dual-earner families (Table 4). We find a range in the percentage of working couples who have two earners from a low of 28% in the Netherlands to around half in Australia, France, Germany, and the United Kingdom to the United States and Canada at around 70%, and Sweden with 89%.

As might be expected, the poverty rates of two-earner families are extremely low. In only two countries does the poverty rate in two-earner families reach even 3% -- Canada and the United States with 4.9%.

The poverty rates for one earner (almost always the husband) range from a high of 20% for the United States and 15% in Canada down to a low of a little less than 3% in Germany. Of course, the higher the proportion of two-earner families, the higher the median equivalent income, and therefore the tougher it is for one-earner families to make it above the poverty line. This may account for the fact that in the very few Swedish one earner families the poverty rate is higher than it is for solo mother families.⁴

⁴The other part of the explanation for this reversal of expectations has to do with the extent that there are special social programs for solo parents that would not be available as readily to married couples. This may also be the explanation for the quite similar rates of the two groups in France, where there are special programs for single parents, and in the United Kingdom.

Table 4

Poverty Rates by Number of Earners in
Two Parent Families

	Number of Earners		Poverty Rates	
	One	Two	One Earner	Two Earners
Australia	42.8	57.2	9.8	2.2
Canada	27.9	72.1	14.9	3.0
France	42.5	57.5	9.4	1.0
Germany	49.3	50.7	2.6	1.1
Netherlands	71.6	28.4	4.5	0.8
Sweden	11.0	89.0	13.3	1.2
United Kingdom	52.1	47.9	8.1	1.0
United States	30.6	69.4	19.7	4.9

Income Packaging and the Risks of Poverty

In order to understand variations in poverty rates from country to country, we need to examine the income packaging of the non-poor. To the extent that earnings and/or the social wage are high enough, we will find low poverty rates. Insight into how families avoid poverty will come from examining most particularly the income packages of families with equivalent incomes below the median. By definition, half of the families in any of the countries we are studying have equivalent incomes twice the poverty line and more. It is those individuals with incomes below the median who are in some sense 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.⁵

We noted that the U.S., Canada, and Australia have the highest working family poverty rates with the other countries all having rates of 5% or less. There is an interesting variation among these low poverty countries in the proportion of families with low, but not poverty level, incomes (between 50 and 70% of the median equivalent income). We find that the Netherlands and Sweden have very low proportion of families in this range (fewer than 7%) compared to France and Germany (with 14% and 15%). The United Kingdom is in the middle with 10%. As a result the total low-income population is almost twice as high in France and Germany (around 18%) as in the Netherlands and Sweden (around 10%).

In order to understand what elements of the income package are conducive to low or high poverty rates, it behooves us to concentrate attention on families whose equivalent

⁵Since we concentrate here on families with children it is possible for more or fewer families to have incomes above the median, depending on the distribution of equivalent income these families have compared to the distribution of those without children. The range in the proportion of families with children with above median incomes is from 47% in Germany and the Netherlands to 59% in the United Kingdom and 62% in Sweden.

incomes are below the median. Depending on how the socio-economic institutions in a given country operate, there will be more or fewer families whose incomes are not only below the median, but are also below half of the median and therefore qualify as poor.

We will examine income after taxes from six different income sources:

- 1) Factor Income -- here defined as wage and salary income, self-employment income, and asset income
- 2) Sickness and Maternity Pay
- 3) Child Allowances
- 4) Child Support -- either directly or via advanced maintenance payments
- 5) Income-Tested Transfers
- 6) Unemployment insurance
- 7) Pensions

This categorization involves a lot of approximation. The income sources available in the LIS database do not always fit neatly into the above categories, nor do the detailed income sources available to us from the original data always fit neatly into the LIS categories. I will deal with some of the details of this approximation in the following section which examines in detail the income packaging of each country.

The tables which follow present *disposable* income from each source. That is, the amounts of income in the original LIS data have been converted to aftertax income by apportioning taxed paid over taxable income sources. This is an approximation because regulations concerning tax on different sources can be quite complicated. Sources have also been converted to equivalent income by dividing income amounts by each family's need factor which is a function of size and age of head. We can then examine how weighty particular sources are in relation to a nation's median equivalent income which is used to define the poverty line by calculating the percent each source is of median equivalent income (MEI).

Factor Income. Not surprisingly, working families derive by far the greatest share of their income from earnings (and income from savings). Factor income varies as a proportion of total income from 63% in Sweden to 91% in the United States (Table 5). However, we note that it is only in Sweden that we have a significant amount of measured sickness and absence insurance. It is best to combine these two sources for purposes of comparing across countries. Here we find that Sweden still is low with 73% of disposal income coming from these market sources. France and the United Kingdom are the next lowest with around 78%. All the other countries have at least 83%.

If we consider instead the percentage each source is of median equivalent income we find that the ranking of the countries shifts slightly (Table 6). There we find that the average income from work (including sickness and maternity benefits) is really not that different across countries. Canada, France, Sweden, the United Kingdom and the United States all have average equivalent income from work of between 57-59%. Australia is slightly higher, and Germany and the Netherlands are significantly higher.

It is apparent that the income packaging of couples and solo mothers is quite different, even for this group of families with earnings.

Among solo mothers we find much greater heterogeneity. For all but two countries, the average equivalent income from work is below the poverty line and in the United Kingdom it is well below. In Germany, it is right at the poverty line; in Sweden work income amounts to 53% of MEI.

Child allowances provide around 10% of the income of all families in the Netherlands, Sweden, and the United Kingdom, and they provide 19% in France. The average share of income from child allowances in Germany and Australia is much lower, at 4%-5%, and in Canada lower still, at 3%. The United States, of course, has no child allowance.

Table 5

Percent of Disposable Income From Specified
Sources in Families with Earnings

	FI	AB	CA	CS	MN	UN	EX	EI
All Families:								
Australia	86	0	4	0	2	4	3	100
Canada	83	0	3	1	6	5	1	100
France	78	1	18	0	0	0	3	100
Germany	89	0	5	0	1	3	2	100
Netherlands	86	0	9	0	2	1	1	100
Sweden	63	10	9	6	8	3	1	100
United Kingdom	76	1	10	2	6	2	3	100
United States	91	0	0	2	3	1	3	100
Two Parents:								
Australia	89	0	4	0	1	3	2	100
Canada	85	0	3	1	5	6	1	100
France	79	1	18	0	0	0	2	100
Germany	89	0	5	0	1	3	2	100
Netherlands	87	0	9	0	2	1	1	100
Sweden	71	9	10	1	6	2	1	100
United Kingdom	80	1	9	1	4	2	3	100
United States	94	0	0	1	2	1	2	100
Solo Mothers:								
Australia	67	0	3	3	14	3	10	100
Canada	74	0	3	6	12	3	2	100
France	70	1	19	0	0	0	10	100
Germany	82	0	5	2	4	0	6	100
Netherlands	60	0	11	10	9	2	8	100
Sweden	55	11	8	12	10	3	1	100
United Kingdom	52	1	11	11	19	0	6	100
United States	79	0	0	6	8	1	5	100

Note: FI -- Factor Income; AB -- Sickness and Maternity;
CA -- Child Allowance; CS -- Child Support; IN -- Income-Tested;
UN -- Unemployment; PN -- Pension; EI -- Total Equivalent Income

The countries with higher child allowances have generally a long tradition of emphasizing child allowances. This is particularly true of France, which as we see has larger allowances than any of the other countries. The ILO has maintained statistics on spending for family allowances since World War II. Figure 1 shows the generosity of family allowance

Table 6

Specified Income Sources as a Percent of Median
Equivalent Income in Families with Earnings

	FI	AB	CA	CS	MN	UN	EX	EI
All Families:								
Australia	62	0	3	0	2	3	2	72
Canada	57	0	2	1	4	4	1	69
France	57	1	13	0	0	0	2	72
Germany	68	0	4	0	1	2	1	76
Netherlands	71	0	8	0	2	1	1	83
Sweden	51	8	7	5	6	3	1	80
United Kingdom	56	1	7	1	5	1	2	74
United States	58	0	0	1	2	1	2	64
Two Parents:								
Australia	65	0	3	0	1	3	2	73
Canada	61	0	2	0	4	4	1	71
France	58	1	13	0	0	0	1	73
Germany	69	0	4	0	1	2	1	78
Netherlands	73	0	8	0	1	0	1	83
Sweden	57	7	8	1	5	2	1	79
United Kingdom	59	1	7	0	3	1	2	74
United States	64	0	0	0	1	1	1	68
Solo Mothers:								
Australia	41	0	2	2	9	2	6	61
Canada	42	0	2	4	7	2	1	57
France	48	1	13	0	0	0	7	68
Germany	50	0	3	1	2	0	3	61
Netherlands	43	0	8	7	7	1	5	71
Sweden	44	9	6	10	8	3	1	80
United Kingdom	37	1	8	8	13	0	4	71
United States	42	0	0	3	4	0	3	53

Note: FI -- Factor Income; AB -- Sickness and Maternity;
CA -- Child Allowance; CS -- Child Support; IN -- Income-Tested;
UN -- Unemployment; PN -- Pension; EI -- Mean Equivalent Income

benefits from 1960 on. (Generosity controls for the relative size of the child population; it is indexed as the percent of children's share of GDP spent on family allowances.) We see that France has, through most of this quarter century, spent around 12% of per-child GDP on family allowances, although as we will see there has been considerable shifting in the nature of the programs. The Netherlands shows steady growth, and compared to other countries has always had generous benefits. The same is true of Sweden. The last time period for Sweden is not included in the figure because there is an anomaly in the data-- suddenly between 1983 and 1984, the amounts reported by Sweden to ILO more than doubled. This is probably a result of a changed definition in Sweden of what family benefits are included. Very likely, advance maintenance payments were added to the total in 1984. A different source which relies on Nordic Council social statistics reports a pattern of very steady growth from 1962-1987 in Swedish family benefits, based on a more inclusive definition than the ILO's (Alestalo and Uusitalo, 1992, p. 54). There we find an increase of about 4% per year in family benefit generosity ("transfer ratio") from 1982 to 1987. We see that the United Kingdom seems to have had very steady growth also. Other countries have experienced some growth but the amounts are still small relative to the three leaders.

Child support income, including advanced maintenance payments, is less clear-cut in the income surveys on which LIS relies. We find that in Sweden fully 6% of disposable income comes from this source. There are small amounts in the United Kingdom and the United States, and a small but unknown amount for France where advance maintenance payments are combined in one variable with certain other kinds of social insurance. Although the Germany program of advanced maintenance payments is included in our database, the amounts seem to be very small.

Child support is an important income source for solo mothers. Swedish solo mothers receive 13% of their income from this source. Child support amounts to 9% and 11% in the Netherlands and the United Kingdom. Child support payments may be equally important to French solo mothers, since we find that 10% of their income comes from a social insurance category that includes this kind of payment.

We find that child support amounts to 10% of median equivalent income in Sweden, 7% and 8% in the Netherlands and the United Kingdom, and is possibly as high in France, compared to 4% in Canada, 3% in the United States, and 2% in Australia.

The combination of child allowances and child support thus amounts to quite a large amount of money for solo mothers in some countries. Thus in France the two may total to 20% of MBI, and 15% or more in the Netherlands, Sweden, and the United Kingdom. Payments on behalf of children amount to 5-6% of MBI for solo mothers in Germany and Canada, and to less in Australia and the United States. Figures 2 and 3 summarize the role of child transfers in these countries. Figure 2 shows how large child allowances are (as a percent of MBI) in two parent families with one, two and three or more children. Figure 3 adds child support to child allowances to show how large child transfers are in solo mother families.

Income-tested income sources are not very important for couples in any country, although one notes that they are not insignificant in Sweden, the United Kingdom, and Canada. For solo mothers, on the other hand, income-tested sources are about 10% or more of disposable income in five countries ranging from the United Kingdom with a high of 19% down to Sweden and the Netherlands at around 10%. France and Germany make relatively little use of general income-tested programs although we will see that in France some family benefit programs are income-tested.

Figure 1

Generosity of Family Benefits: 1960-1986
(As A Percent of Childrens' (0-15) Share of GDP)

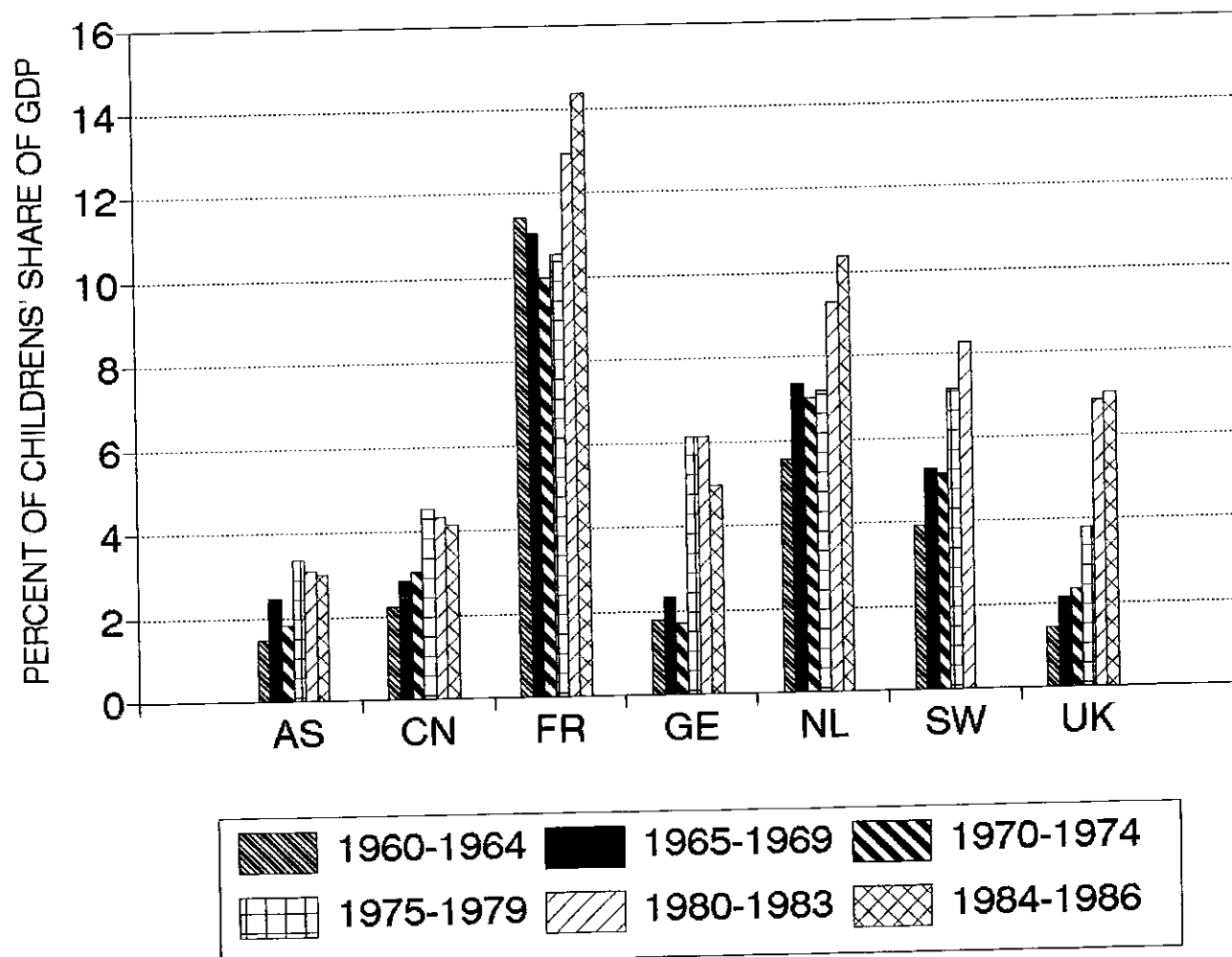


Figure 2

Child Allowances to Couples as a Percent of Median Equivalent Income

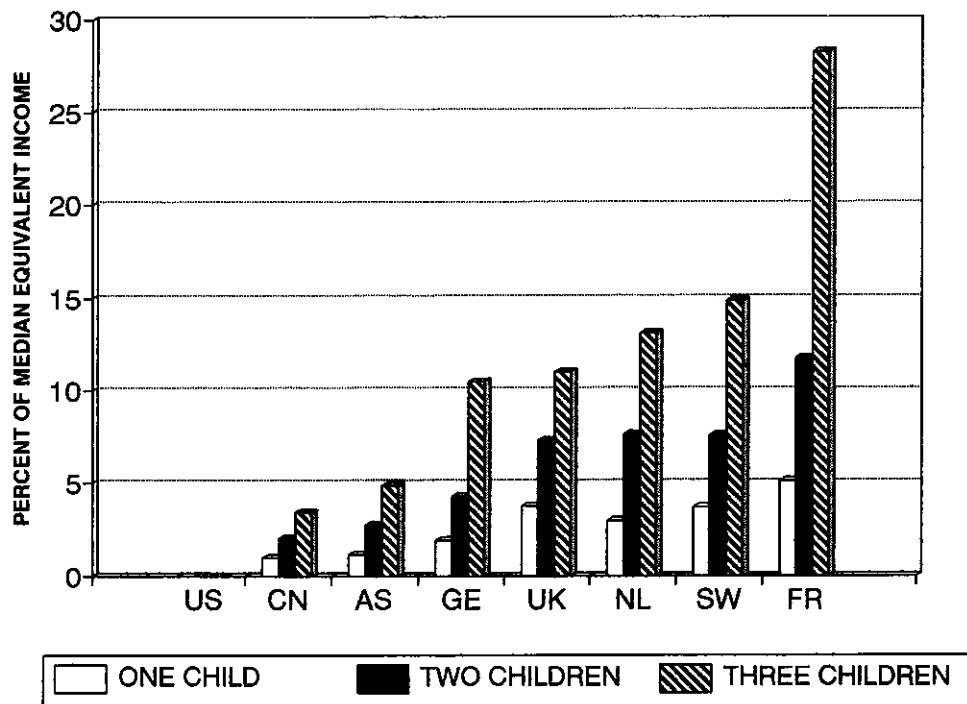
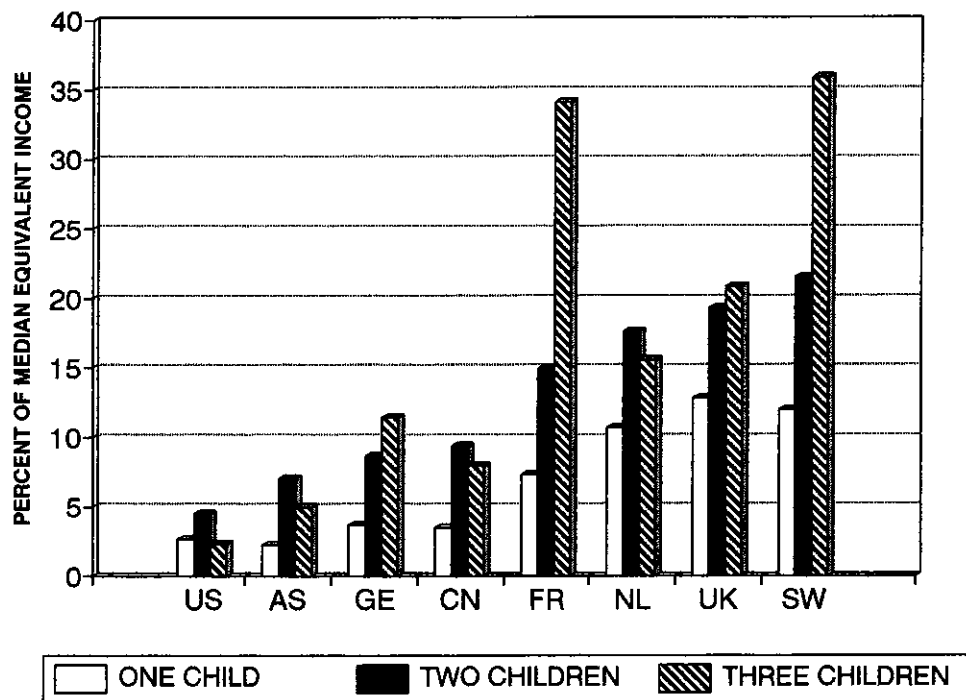


Figure 3

Child Allowance and Support to Solo Mothers as a Percent of Median Equivalent Income



Although in the United States 8% of solo mothers' income comes from income-tested sources, the average amount is quite small -- only 4% of MEI compared to 7% or more in all the other countries, except in France and Germany, which as noted make almost no use of general income-tested sources.

Taking together all income sources (other than pay for work absence), we find, as might be expected, that solo mothers receive on average about twice as much income from these sources as do couples. For couples the range is from France, Sweden, and the United Kingdom with total transfers amounting to between 14% and 16% of median family income, down to the United States with only 4%. Australia, Canada, Germany, and the Netherlands are in between with between 8-11%.

Among solo mothers the range is much wider, with the United States and Germany at the low end with 11% of median equivalent income as their average, Canada not far ahead with 15% and Australia and France with 20%. At the high end we find Sweden, the Netherlands, and the United Kingdom, with average transfer payments to solo mothers amounting to between 27-33%.

Work and the Social Wage in the Income Package. We can simplify the relationship of poverty rates to income sources by examining the average level of work income and transfers, and the degree of inequality in their distribution.

The pattern across our eight countries differs considerably for couples and solo mothers. Among couples the average level of work income for the group we are considering (families whose disposable incomes are below the median) does not seem at all related to variations in the poverty rate. For the average level of transfers we find a very modest relationship. The factor that seems to drive poverty rates for couples is the degree of inequality in their income from work.

We find a range in the standard deviation of work income (as a ratio to median equivalent income) from a little over 17 to not quite 25. (See Figure 4.) The three countries with the highest variance of work income-- U.S., Canada, and Australia--are also the countries with the highest poverty rates (the size of the graph's bubble indexes the poverty rate). The three countries with the lowest variance of work income -- Netherlands, Germany, and Sweden--are the three countries with the lowest poverty rates. France and the United Kingdom have work income variances in between. Only Canada spoils a perfect rank order correlation. We can conclude that the lion's share in the variation in couple poverty is attributable to work income inequality.

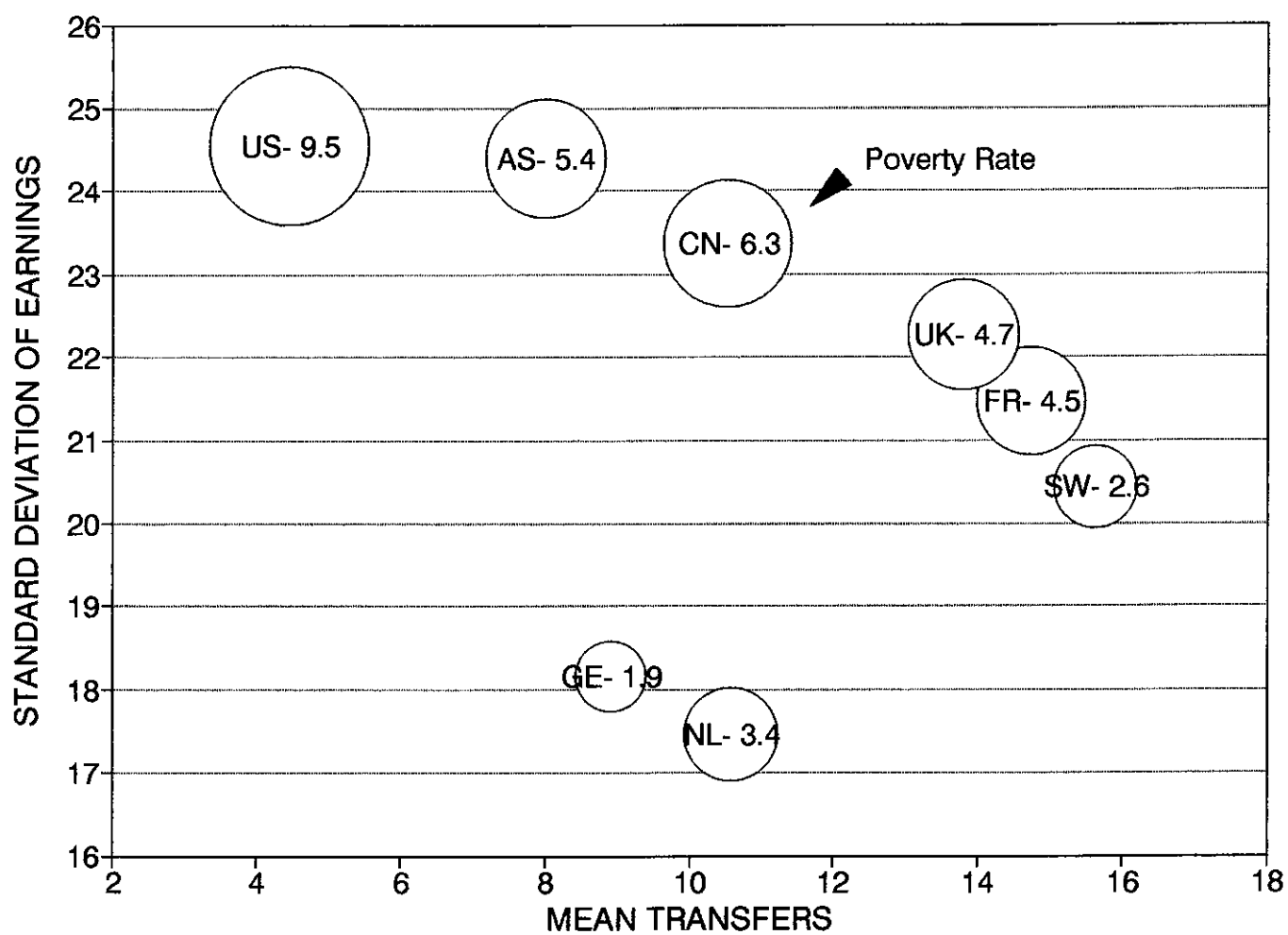
But, Figure 4 also allows us to see the effect of transfers on couple poverty given a particular level of work income inequality. For the six countries with at the top of the figure, the higher transfers are as a percent of MEI the lower the poverty rate. Germany and the Netherlands are outliers here; much less of couple's income comes from transfers than in the other countries, but because they have much more equally distributed work income their poverty rates are quite low.

Among solo mothers, the inequality of work income is unimportant, as is the inequality of transfers. It is, rather, mean work income and transfer income that track the differences. (See Figure 5.) The more solo mothers work, and the more society transfers income to them while they are working, the less likely they are to be poor. The three countries with the low mean transfers to solo mothers and low mean earnings -- the United States, Canada, and Germany -- have the highest poverty rates for this group. Sweden with both high mean earnings and high transfers has the lowest poverty rate.

The four countries where mean work income and mean transfers don't go together tell a more complex story. If we control visually for mean transfers we see that the countries

Figure 4

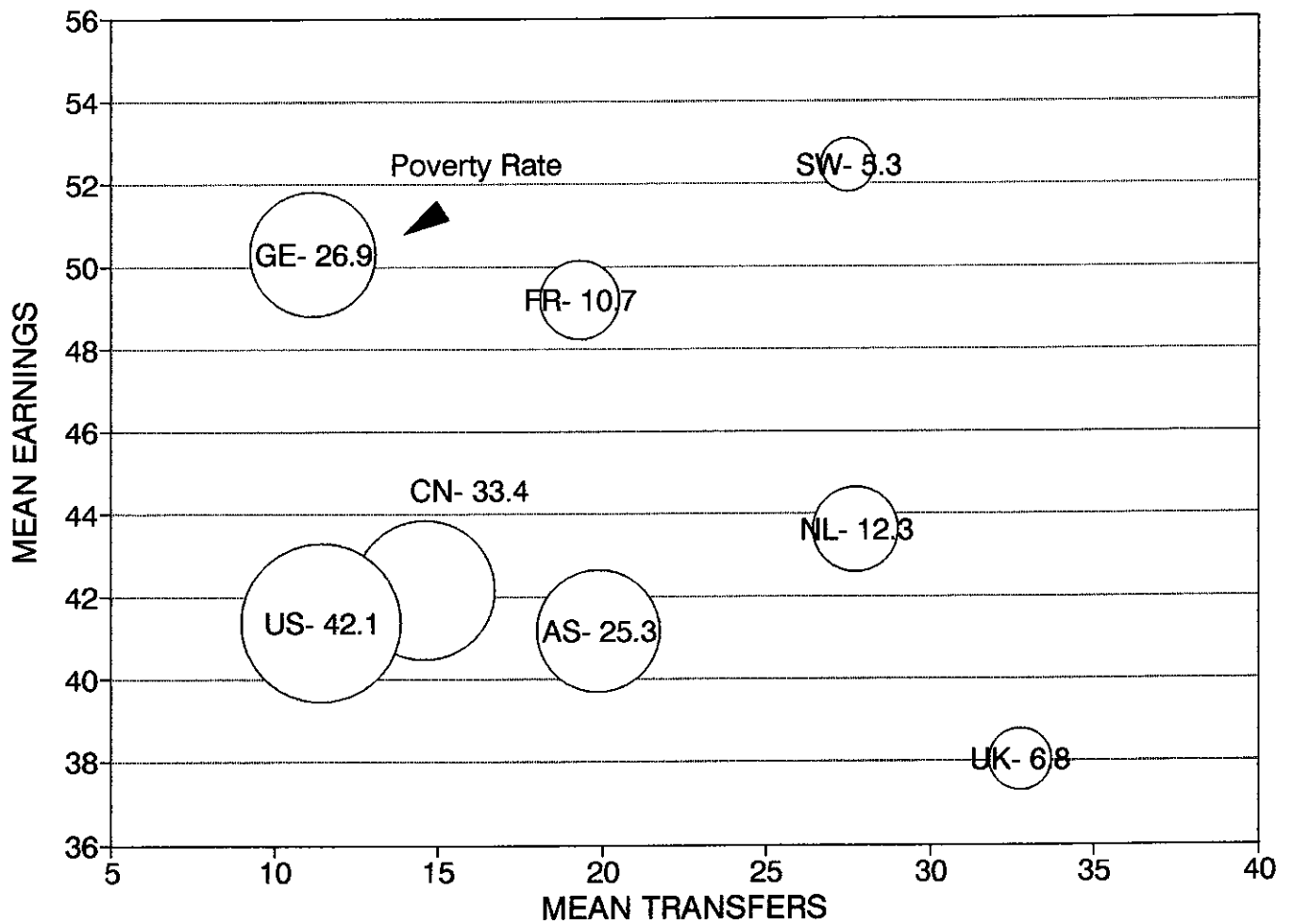
**Effect of Earnings Variance and Mean Transfers on
The Poverty Rate of Two Parent Families**



Notes: For families with equivalent incomes below the median.
Each source is aftertax and expressed as a percentage of median
equivalent income.

Figure 5

Effect of Mean Earnings and Mean Transfers on
The Poverty Rates of Solo Mothers



Notes: For families with equivalent incomes below the median.
Each source is aftertax and expressed as a percentage of median
equivalent income.

with higher mean earnings have lower poverty rates -- Germany compared to the United States and Canada, France compared to Australia, Sweden compared to the Netherlands. Controlling visually for mean earnings highlights the role of transfers. We see that Sweden has a lower rate than France, which in turn has a lower rate than Germany. The band of five countries with relative low mean earnings falls nicely in line -- increasing mean transfers produces lower poverty rates.

The United Kingdom is the real outlier here. Working solo mothers have very low mean earnings. Yet high transfers (over three times higher than in Germany and the United States) compensate for low earnings to produce a poverty rate of only 6.8%. A very significant portion (44%) of these transfers are income-tested.

U.S. Uniqueness in Poverty and The Social Wage

The diversity of income sources across countries makes it difficult to compare a large group of countries in a systematic way when one wants to move from a schematized to a fine-grained description. Therefore in this section we will consider the United States in relation to one or two other countries at a time in order to highlight the factors that differentiate the United States, with its very high poverty rate, from the other countries. To do this we will move beyond statistical analysis to consider the institutional characteristics of the social wage in each country. In the institutional analysis that follows I have drawn primarily on the LIS Institutional Database.⁶

Figures 4 and 5 above summarized the relation of poverty rates to work income and total transfer income. The transfer packages of these eight countries are summarized in Figures 6 and 7, which show the average amounts of five kinds of transfers for two parent and solo mother families. The presentation below discusses the salient transfer sources in each country and presents findings concerning the proportion of families who receive benefits of different kinds, and the average level of benefits for recipients.

Australia and the United States

These two countries along with Canada have high poverty rates, whether one focuses on families with or without earnings, on couples or single parents. Yet there is an important difference between the U.S. and the other two, in that the U.S. poverty rate is generally higher than the other two, sometimes considerably higher.

We found in examining patterns of working couple poverty that all three countries show a high inequality of earnings. The somewhat lower poverty rates for Australia and Canada seem to be accounted for mainly by the fact that couples with below median income receive higher transfer incomes than is the case in the United States. All three countries have low mean earnings by solo mothers. Again, the lower poverty rates in Canada and particularly in Australia seem principally related to a greater amount of transfers received by working solo mothers in these countries. In the United States, there are only three transfer sources with more than 5% of working couples who have below median equivalent income

⁶Janet Gornick, et. al. LIS Institutional Database, available from LIS at CEPS/INSTEAD, L-7201 Walferdange, Luxembourg. TEL: 352-33-32-33-221, FAX: 352-33-27-05, electronic mail eplisjg @ luxcep11.bitnet

Figure 6

Mean Transfers to Couples by Type of Transfer

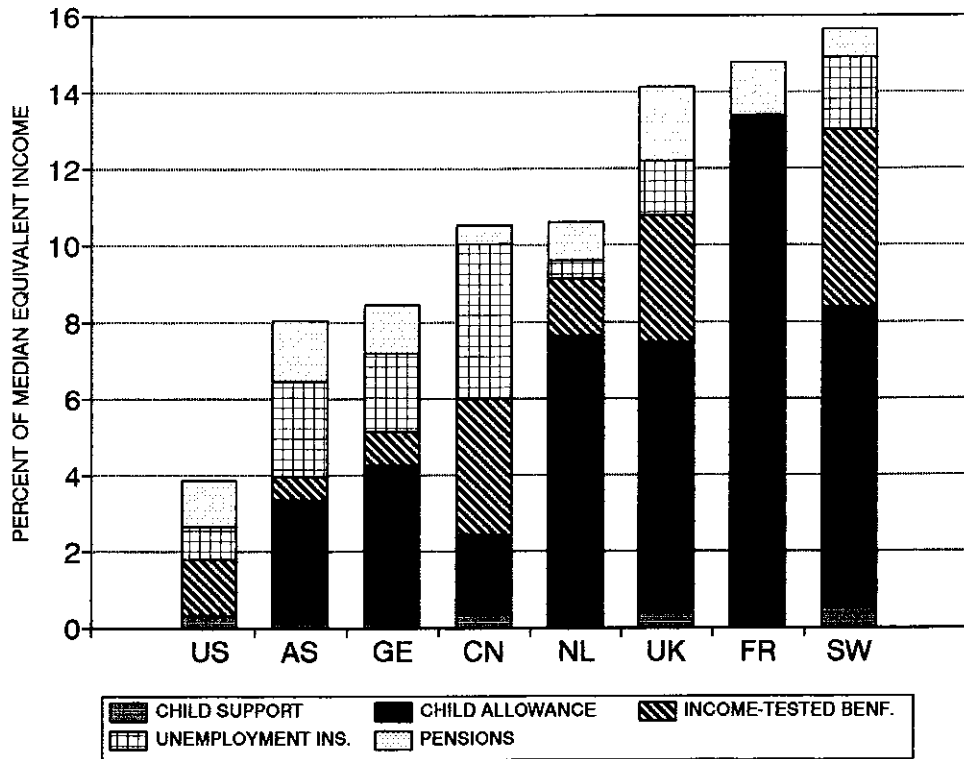
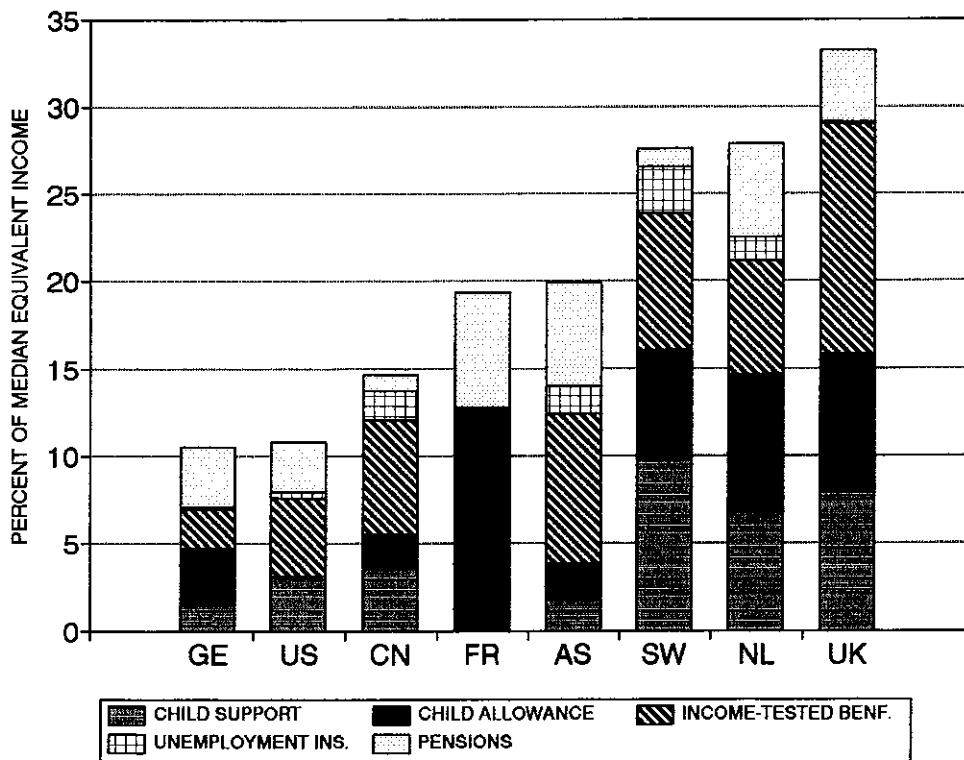


Figure 7

Mean Transfers to Solo Mothers by Type of Transfers



receiving benefits. Fifteen percent received unemployment compensation in the sample year, 13% have received AFDC or other assistance income, and 13% have received Food Stamps. The average benefit for recipients of each of these sources amounts to 6% or less of median equivalent income.

Transfers are a larger part of the income package of American solo mothers, but here, too, compared to other countries, working solo mothers are much more dependent on their earnings than is the case in most other countries. Twenty-nine percent of working solo mothers received income from AFDC or other assistance programs, 24% received Food Stamps, 31% received child support. From here, the proportions receiving other transfers drops dramatically. We find that around 10% received pension income, 7% unemployment insurance; all other transfer sources were received by fewer than 5% of solo mothers. The solo mothers who did receive transfers received quite small amounts. The average AFDC and food stamp payments to recipients were around 15% of median equivalent income, and the average child support payments were amounting to only around 10% of median equivalent income. The amounts received from unemployment insurance was very small (6%). Only pensions recipients received relatively substantial amounts -- as much as 25% of MEI.

These low benefits coupled with the fact that American working solo mothers have earnings on the low side, means that it's hard to move above the poverty line, even for those who are combining transfers and earnings. Indeed, as we have seen, only 58% of American solo mothers manage to make it above the poverty line.

Australia and Canada both have child allowances, and both have a broader range of other transfer programs than is the case in the United States. But, very few Australian couples receive transfers other than child allowances, which together with earnings account for 93% of the income of those with below median equivalent income. All transfer income other than child allowance is income-tested in Australia. The average benefits are relatively low, except in the case of unemployment benefits, which amount to close to 17% of median equivalent income.⁷

Working Australian solo mothers fare quite a bit better than either American or Canadian solo mothers. This is not because they earn more--their average earnings plus asset income is actually a little bit lower than for the other two countries. However, for them the income-tested social insurance programs of various kinds, plus a small amount of "regular financial assistance from relatives" and a very small amount for child allowance combine to keep three-quarters of Australian working solo mothers above the poverty line.

For the one-fifth of Australian solo mothers who receive pensions supplements for each child, the average payment amounts to 40% of median equivalent income--that is, to fully 80% of the poverty line income. It doesn't take much in the way of earnings to move such a family above the poverty line. The same pattern holds for the much smaller number (6%) who receive "workers compensation and road accident compensation". One-sixth of these solo mothers have received unemployment insurance; their average benefit amounts to almost 10% of median equivalent income.

Australia's general social assistance program is received by fully 42% of working solo mothers, and their average benefit 21% of median equivalent income. These assistance

⁷That income-tested benefits in Australia are quite low, although eligibility is universal given sufficiently low income, is indicated by the fact that 77% of married couples with no earnings are poor, and 90% of solo mothers with no earnings are poor. Obviously the income-tested social insurance to which they are entitled does not provide benefits sufficient to move them up above the poverty line.

programs are organized as an income-tested family income supplement, and an income-tested single parent benefit which includes child and rental supplements and a guardian's allowance. The benefits are the same as those available for the income-tested old age pension. (Unemployment benefits are also augmented by child supplements and supplements for a single parent.)

The combination of level of benefits and income-tested reductions in Australia means that for working families the country has a moderately high poverty rate, but not as high as that in the United States, which does not have the broad coverage of social programs, even for those of very low income. Modification of Australia's existing social programs could sharply reduce its poverty rate, or conversely, by cutting benefits, or increasing the degree of income disallowance, sharply increase the poverty rates. In the United States reducing poverty would require establishing new institutions.

Canada and the United States

We find a somewhat higher level of transfers to couples than was the case in Australia, and a lower level of transfers to solo mothers. Canada averages almost three times the U.S. level of transfers to working couples with below median equivalent incomes. This, combined with a slightly lower variance in earnings results in a poverty rate about two-thirds that of the U.S.

Canada not only has a child allowance, but has income-tested tax credits and provincial income supplements. There are tax credit programs both for the provincial governments and for the federal government. It would appear that a very high proportion of working couples below median income receive some tax credits--we find 83% in receipt of our income-tested variable (V25) and 51% in receipt of our V24 which includes refundable provincial tax credits. The average amounts received by recipients, however, are rather small, so that these benefits do not top up income in a very significant way.

We have observed that Canada's high solo mother poverty rate results from a combination of low earnings by these working mothers and low transfers to the group. Nevertheless, the solo mother poverty rate in Canada is about 80% that of the United States. These solo mothers receive a combination of tax credits and social assistance as well as child allowances, but for many of them this is not sufficient to move them above the poverty line even though they do have earnings. We find that over 90% receive either social assistance or tax credits (undoubtedly mostly tax credits), but unfortunately we can not determine how many in addition receive social assistance because of the way the Canadian data is organized.

In addition, one quarter receive alimony and child support payments, and 20% receive unemployment insurance or maternity and sickness benefits. We note that child allowances, however, are small, amounting to only 2% of median equivalent income. Child support payments are roughly the same size as in the United States, perhaps 13% of median equivalent income. The income-tested programs, however, amount to 7% of median equivalent income, almost twice as much as in the United States. Social insurance based exit programs (pensions and unemployment) are roughly the same size as in the United States. Thus, it would seem that by having a small child allowance program and a considerably larger income-tested program that relies heavily on child tax credits, but also universalizes access to social assistance in times of need, Canada is able to move more of its working poor solo mothers out of poverty.

The lesson from comparing these three countries, all with high inequality in earnings and low average earnings on the part of solo mothers, is that with very modest income-tested programs and very modest child allowances, it is possible to produce somewhat lower poverty

rates than the United States experiences. But, considering the full range of experience of advanced industrial democracies, the variation among these three is quite narrow.

The United Kingdom the United States

The working couple poverty rate in the United Kingdom is half that of the United States-- 4.7 versus 9.5. This lower rate is achieved by having a slightly more equal work income distribution and a much higher level of transfer income. Child allowances average 7% of median equivalent income for couples in the United Kingdom -- roughly 4% for couples with one child, 7% for couples with two children, and 11% for couples with three children.

The next most important source of transfer income is income-tested transfers, at 3% of MEI. Roughly one-fifth of these couples receive income-tested transfers in the United Kingdom, and when they do this source averages close to one-fifth of MEI.

Thus child allowances, plus income-tested transfers when the couple is eligible for them, get one halfway toward the poverty line. Overall, family assistance has more than doubled as a proportion of GDP in the United Kingdom in the 1970s and mid- 1980s. Almost all of this increase as a percent of GDP occurred in the income-tested programs.

For couples, the most important of these income-tested programs are the family income supplement and housing benefit. Both function on a kind of negative income tax principle, with maximum benefits for persons with low or no income, and decreasing benefits as income increases. These benefits go to quite a large proportion of those with below-median incomes, as we have seen.

For solo mother families, the important difference between the United States and the United Kingdom involves the average amount of transfers going to those with below median incomes. Solo mothers in the United Kingdom actually have lower mean earnings than in the United States. Despite this, however, they have a poverty rate one-sixth that of the United States because they receive three times more in transfers. Almost all of this transfer amount comes from programs directed to family maintenance -- child allowances, child support, and income-tested family benefits. Child allowances average 8% of MEI, child support payments a similar 8%, and income-tested programs 13%. The average amounts do not vary much according to the number of children in the family, since larger of child allowances payments to large families are balanced by reduced income-tested benefits.

The pattern of income packaging in the United Kingdom shares a good deal with that of Australia and Canada, particularly the reliance on income-tested supplements to child allowances. The difference lies in the greater spending in the United Kingdom for both non-income-tested child allowances and income-tested programs, some specifically tied to children (the family income supplement), and others based on broader social assistance programs which nevertheless are important components in the packages of low income couples and solo parents.

It is ironic that under the Conservative regime of Margaret Thatcher the United Kingdom markedly increased spending on both universal and income-tested family benefits. By throwing money at the problem, the United Kingdom achieved a low poverty rate both for couples and for solo mothers.

France and the United States

We find that France has a low poverty rate for working couples and a relatively low poverty rate for working solo parents. We find lower earnings inequality among couples than for the United States, Australia, and Canada. In addition, France has the second-highest mean transfers to couples of all eight countries.

French solo mothers have high mean earnings -- about the same as in Germany and only a little bit lower than in Sweden. Mean transfers to French solo mothers on the other hand are very much in the middle of the distribution, at about the same rate as in Australia and significantly lower than in the Netherlands, Sweden, and the United Kingdom. (These observations based on 1984 data might not be true of France today. We find in the aggregate statistics a large growth in transfers to families over the 1980s, and in particular growth in spending on programs for solo mothers.)

The French data do not allow us to be very precise about the role of different types of transfers in avoiding poverty. Basically, only two transfer sources in the data set are relevant to families with children. All non-income-tested as well as income-tested child and parental benefits are lumped together in one variable. Making for even greater difficulties, the pension variable (V19) also includes child support payments. Therefore, we can not compare child support in France to that in other countries.

Child allowances have been a central feature of the French welfare states since the 1930s. An alliance of employers and Social Catholicism argued successfully for child allowances as a substitute for general salary increases. Since then a variety of institutions have grown up to provide strong political support for a range of programs designed to compensate families with children, particularly those with many children, for the added financial burden of raising the next generation of French men and women. (C.E.R.C., 1989) The French family allowance system has a strong bias in favor of large families. There is no allowance for the first child; moving from two to three children doubles the benefit; moving from three to four increases the benefit by 70%. In addition, there are small supplements for older children. There is also a pre-natal allowance that covers a nine-month period and carries with it three required medical examinations. This allowance is continued as a post-natal allowance for 25 months.

There are two quite general income-tested child benefit programs. A family supplement goes to families with at least one child under three years of age or to families with three children regardless of age. The income test provides for an allowance for second earners in the household. The income test is such that families with incomes below roughly three-quarters of MEI will be eligible for the benefits. Families with children are also eligible for income-tested housing allowances.

There is a special allowance for solo mothers, which is also income-tested. In 1984, however, only women whose income was roughly one-third or less of the MEI were eligible for this program. The benefits amounted to about 20% of MEI. Thus solo mothers who had more than quite modest earnings stood a good chance of being moved out of poverty.

A combination of these income-tested benefits for solo mothers who have two or more children would mean that quite a number of them escape poverty. We find that for both couples and solo mothers, mean child benefits increase dramatically with the number of children. In one child families, child benefits amount to 5% of MEI, 12% in two child families, and 28% in families with three or more children. We observed earlier that France is the only country where poverty rates for families decline as the number of children increases. For couples, the poverty rate decreases from 5.7% in one-child families to 3%

in families with three or more children. The comparable percentages for solo mothers are from 10.5% to 8.2%.

Finally, although we have no direct measure of child maintenance payments because they are combined with pensions in our dataset, it should be noted that France advances child support payments to solo parents when there is a default by the absent parent.

In summary, we can say that France has a wide range of programs to augment the earnings of parents. However, the income-tested programs had both relatively low eligibility ceilings and relatively low benefits, so that we do not find quite as low a poverty rate for France as we do for Sweden which has a similar range of programs.

Germany and the United States

We found that Germany has the lowest poverty rate for working couples--1.9%--one-fifth the rate of the United States. The main factor seems to be how much less unequal the distribution of earnings among those with below median equivalent income is. Germany simply does not have the number of low-wage workers that one finds in the United States. Transfers to working couples are a little over twice as great in Germany, but far lower than in France or Sweden or the United Kingdom.

In the case of solo mothers, however, we find a relatively high poverty rate for Germany among those who work. The 26.9% rate is about the same as that for Australia, and far higher than for the other four European countries. Mean transfers to German solo mothers are about the same as in the United States, and in fact somewhat less than in Canada and Australia. Germany's solo mother poverty rate would be even higher were it not for the fact that the mean earnings of these solo mothers are high -- in the same league with France and Sweden.

Although Germany has a family allowance program which pays benefits for each child, the level of benefits (about 4% of MEI) was much lower than in France; Germany benefits were just a little more than a third those of France for each family size.⁸

Germany's social assistance programs including unemployment assistance operate to provide an income floor for persons not covered by regular unemployment insurance, or for persons who for other reasons have no or very low income. There are also income-tested housing allowances. But, about a quarter of solo mothers have benefits, and when they do the benefits average less than 15% of MEI.

The German advance maintenance support program provides child support when the departed parent does not pay. Only 10% of solo mothers receive payments, and those average only 14% of MEI. So despite a range of programs not too dissimilar from those in France, the Netherlands or Sweden, we find that the level of benefits is such that transfers play a relatively minor role in reducing poverty among the working low income group in Germany.

Sweden and the United States

Sweden has the second-lowest poverty rate among working couples -- a little over a quarter as high as in the United States. It has the lowest working solo mothers rate -- about one-eighth that of the United States. The low poverty rate among couples is a product of low

⁸It should be noted that Germany has the smallest portion of one-parent families of our eight countries. The sample size is also quite small, therefore our results for Germany solo mother families should be regarded as tentative.

earnings inequality and high transfers. For solo mothers it is a matter of high mean earnings combined with high mean transfers. Sweden is quite different from the United Kingdom, which also has a very low poverty rate for solo mothers, but one which is achieved with more emphasis on heavily targeted transfers in a context of relatively low mean earnings.

In this analysis sick pay has not been included with transfers because across our eight datasets sick pay is sometimes included in earnings and other times in a separate variable. However, we should note that in the case of Sweden, sick pay and paternity benefits are an extremely important part of the income packaging of Sweden's families. In the United States, as we know, whether sick pay is available for illness or to take care of family members varies enormously across work places. In Sweden the combination of sick pay and parental benefits averages 7% of MEI for couples and 9% for solo mothers -- 9% of MEI for one-child families, 7% of MEI for two-child families, and 5% of MEI for three-child families.⁹

Sweden's child allowances are quite generous. Child allowances average 4% of MEI for one-child families, 8% for two-child families, and 18% for families with three or more children.

In addition, Sweden has a vigorously advanced child maintenance program which ensures child support payments in the case of default by the departed parent. These benefits affect very few couples, but average 10% of the MEI in solo mother families -- 8% with one child, 13% with two children, and 20% with three or more children. Almost all solo mothers receive child support payments; if the father does not pay, or cannot pay because his own income is too low, the state pays. If it can, the state collects from the father. Thus, the combination of the two programs provides an income floor for working solo mothers which amounts to 12% of MEI with one child, 21% with two children, and fully 36% with three or more children.

Sweden also has a series of income-tested programs which prove an important source of support for low-income families. The most important of these is the housing allowance program. Social assistance per se is not particularly important for couples. Half of working couples and almost three-quarters of solo mothers receive income-tested transfers. When they do, the benefits amount to around 10% of MEI.

If we combine child allowances, child support and housing allowances and social assistance, we find that working couples receive an average amount equal to 13% of MEI -- 8% in one-child families, 11% in two-child families, and one-quarter in families with three or more children. Solo mothers receive an average of 24% of MEI -- 19% with one child, 30% with two children, and fully 48% (almost equal to the poverty line) with three or more children. This suggests that there should not be any poor solo mother families with three or more children in Sweden, and this is indeed what the data show, compared to a poverty rate of 4% with two children and 6% with one child.

It should be noted that even this generous level of transfers would not produce such low poverty rates were it not for the fact that Swedish working solo mothers (almost all work) have higher mean earnings than in any other country. Thus we note that the Netherlands, which has a similar level of transfers to solo mothers, has more than twice as many poor because the mean earnings of working solo mothers are much lower. In the case of couples, low poverty also requires the combination of a particular earning pattern (much less inequality of earnings) with the high level of transfers.

⁹Since these benefits do not vary by family size, the same average benefit will be smaller when converted to the equivalent income amounts for a larger family.

The Netherlands and the United States

We have seen that the Netherlands is the only country which has a lower rate of poverty among the non-working than among the working poor. Among working couples, the Netherlands' very low rate is achieved by having the least inequality in the earnings of those with below MEI, and a moderately high level of transfers.

Dutch family allowances are quite high, amounting to 8% of MEI for couples and 8% for solo mothers -- overall 3% of MEI in one-child families, 8% in two-child families, and 13% in families of three or more. In addition, child support payments are important for solo mothers. Social assistance per se is not an important program in the Netherlands, but housing allowances are, being received by 20% of couples and 52% of solo mothers -- the benefits to recipients amount to about 7% of MEI for both groups.

Thus, for couples two programs in the Netherlands account for almost all of the moderately high transfer benefits to working families -- child allowance and the housing allowance. Couples receive only 10% of MEI from these benefits. Solo mothers on the other hand receive 21% from child allowances and income-tested sources.

There has been a great deal written about the large disability program in the Netherlands. It is a surprise, therefore, to find that working parents receive very little from this program. Perhaps it goes principally to those with no earnings at all. Only 2% of working couples and 5% of solo mothers receive disability insurance. But, average benefits are high -- 43% of MEI for recipient couples and 62% for solo mothers.

Conclusion

This tour of work and welfare in other countries has shown that there are a number of different ways socio-economic institutional practices can result in low poverty rates among families with workers. To the extent work income is more equally distributed in the lower half of the distribution poverty rates will be lower. The more solo mothers work, the lower their poverty rates. Thus poverty rates are deeply affected by the labor market dynamics of a country, an observation that is at once obvious and often ignored both by policy makers and researchers. The first goal of poverty policy should be to raise the relative wages of the poorest paid workers, and to increase the amount of work by reducing unemployment and underemployment (particularly on the part of solo mothers).

The social wage plays an equally important role. Child allowance and state-backed child support are central policy instruments for maintaining low poverty rates as we have seen in the cases of France, the Netherlands, Sweden and the United Kingdom. Income-tested programs that extend benefits to a broad group in the bottom half of the distribution build on the poverty reducing effects of universal child allowance and support programs as we have seen is the case in these same four countries. These may be programs aimed at particular family situations as in the case of French programs to aid solo parents. Or, they may be targeted on particular needs as in the case of the housing allowance programs of these four countries.

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Appendix Table

Distribution of Family Types

	Two Parents	One Parent Mother	Father	Total
Australia	86.2	10.6	3.2	100.0
Canada	86.9	11.5	1.5	100.0
France	90.7	7.0	2.3	100.0
Germany	93.3	5.8	0.9	100.0
Netherlands	89.2	9.7	1.1	100.0
Sweden	82.1	15.1	2.8	100.0
United Kingdom	83.4	14.3	2.3	100.0
United States	77.9	19.2	2.9	100.0