

O'Connor, Inge; Smeeding, Timothy Michael

Working Paper

Working But Poor - A Cross-National Comparison of Earnings Adequacy

LIS Working Paper Series, No. 94

Provided in Cooperation with:

Luxembourg Income Study (LIS)

Suggested Citation: O'Connor, Inge; Smeeding, Timothy Michael (1993) : Working But Poor - A Cross-National Comparison of Earnings Adequacy, LIS Working Paper Series, No. 94, Luxembourg Income Study (LIS), Luxembourg

This Version is available at:

<https://hdl.handle.net/10419/160766>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Luxembourg Income Study Working Paper Series

Working Paper No. 94

**Working But Poor
A Cross-National Comparison of Earnings Adequacy**

Inge O'Connor and Timothy Smeeding

April 1993

(scanned copy)



DRAFT
Comments Welcome
April 12, 1993

"Working but Poor - A Cross-National Comparison of Earnings Adequacy"

Inge O'Connor
Department of Economics
Syracuse University

and

Timothy M. Smeeding
Professor of Economics and Public Administration
Syracuse University
and
Overall Project Director
Luxembourg Income Study

*We wish to thank the Syracuse University Graduate Student Seminar for helpful comments. The research underlying this paper was supported in part by a grant from the Russell Sage Foundation. The authors alone are responsible for errors of omission and commission.

I. Introduction

It is widely believed that people who work do not fall into poverty. In fact, most Americans believe that people who work hard can guarantee themselves and their families an acceptable standard of living. The popular characterization of poverty and the poor is that its ranks are filled by those who do not work, those who cannot work, and the dependents of people in these categories.

In the past decade, public awareness and support for the poor who are unable to work, such as the disabled and the elderly, has increased. At the same time, awareness of those who people feel should work more but do not (e.g. single parents) has increased. There has also been a growing concern about the number of children who are born into and raised in poverty. Largely ignored during the 1980's, the fraction of poor families (with and without children) in the United States that actually contains an able-bodied adult who works full-year and full-time has been growing as well, due in large part to falling real wages. (Center on Budget and Policy Priorities, 1992) This concern has led to recent legislation to make work pay, that is to expand targeted wage supplements (like the earned income tax credit or EITC) to earnings such that families with full-year, full-time workers can reach some acceptable level of income, for example, enough to make sure the family is not poor.

Most of the attention paid to the "working poor" phenomenon has been from a purely domestic point of view (Danziger and Weinberg, 1986, 1992; Bane and Ellwood, 1990; Levitan and Shapiro, 1987). Cross-national research has approached this question from a different perspective, concentrating on the family "income package" --the set of earnings net of taxes plus other benefits--welfare, social insurance, universal coverage--which help bring a given family to

a socially acceptable minimum standard of living (Rainwater, Rein, Schwartz, 1987). Recent domestic research on child care subsidies, (refundable) earned income tax credits and refundable personal income tax credits (family or child allowances) in the United States follows this same general outline (Hendrickson and Sawhill, 1991). However, we know of no comparative cross-national studies on the adequacy of labor market earnings per se, particularly none which use the Luxembourg Income Study (LIS) database.

We attempt to fill this void by comparing the adequacy of full-year, full-time earnings in the United States for prime age (age 25-55) able-bodied workers to similar groups in Canada, the United Kingdom, Sweden and the Netherlands. We ask the following six questions for the prime age population of each of these nations. First, how important is work to avoiding poverty? Second, do the poor work? Third, if you work full-year, full-time, do you earn enough to keep your family from being poor? Fourth, because family size is in many ways endogenous, do you earn enough to keep an average family of three from being poor? Fifth, how is your poverty status effected when earned income from other family members is included? And finally, if you still do not earn enough to escape poverty, what is the package of benefits which is made available to you, and is it enough to keep your family from being poor? The next section of this paper discusses the database as well as income and household concepts employed. The third section examines the evidence and the final section discusses the implications of these findings for public policies targeted at the working poor.

II. Database, Countries, Measurement Concepts and Definitions

The data used in this paper are drawn from the Luxembourg Income Study (LIS), a cross-national database of over 25 household income surveys from thirteen nations. The five nations'

data which we use here are outlined in Appendix Table A-1. This set of five nations was chosen because of the similarity in their databases, because of the similarities in the two time periods during which we observe them, and because of their comparable survey nature.¹

The income sharing unit of analysis employed in this paper is the household--all persons sharing the same living quarters. Two of the five nations studied here, Canada and Sweden, employ different units. In Canada we are forced to use the economic family (all related members living together and sharing resources), while in Sweden we must use the tax unit--persons age 18 or over plus related children. While the Canadian differences are negligible, the Swedish differences will understate true household size, since those age 18-20 are not recorded as living in the family, thus overstating earnings adequacy. In the text, however, we use family and household interchangeably.

Each country's data is annual income measured for a one year period with the exception of the United Kingdom where we must employ current income (income last month) as the income measure. The income concepts we use are three:

1. Head's earnings - all forms of wage and salary income plus family self-employment income gross of employee social security (or payroll) taxes but net of employer taxes for the head of the household.²
2. Family earnings - all forms of wage and salary income plus self-employment income gross of employee social security (or payroll) taxes but net of employer taxes for all members of the household.
3. Disposable personal income (DPI) - earnings plus occupational pensions, interest rent and dividends, and other types of private income (e.g., alimony and child support) as well as government cash or near cash benefits minus direct income and payroll taxes.³

We examine prime age, able-bodied heads who work full-year, full-time. We exclude households with heads who are identified as disabled in each survey.⁴ Hence, we attempt to

look at people whom society would most likely say should work: those age 25-55 who are no longer in school, have not yet retired and are not disabled. In general, full-year, full-time is defined to be those who work at least 35 hours a week at least 48 weeks a year, though this varies slightly by survey. Our analysis is also concerned with the effect of family composition on the ability to keep one's family out of poverty. Our main measure of poverty is taken from international conventional usage: we define a household as poor if their adjusted income (as defined below) is less than one-half of the national adjusted median income of all households of all ages. This measure has been used by the European Commission, the OECD, and other bodies in cross-national comparative research (Hagenaars, De Vos and Zaidi, 1992; Forster, 1992; Atkinson, 1991; Eurostat, 1990; Van Praag, Hagenaars and van Weeren, 1981). We also employ a more severe definition of poverty: all households with incomes below 40 percent of the median. This measure is very close to the U.S. poverty definition which is about 38-40 percent of adjusted household disposable income (as defined here) depending on the year of comparison (Smeeding, 1992). The United Kingdom supplemental benefits standards are also close to 40 percent of adjusted median income (Smeeding, Rainwater and O'Higgins, 1990).

The number of households in each family category and the fraction who work full-year, full-time can be found in Appendix Table A-2. We are concerned with families with children (couples and single parents) and families who have no children. The fraction of all families with a head who works full-year, full-time varies from 65 percent in the United States to 83 percent in Sweden in 1987. As expected it is higher for couples (72 to 91 percent) than for single parents (11 to 49 percent), with childless households falling somewhere in between (63 to 78 percent).

We employ two concepts in measuring household poverty rates. The first question we

look at is whether the head's earnings are adequate to keep his/her own family out of poverty. To make this calculation, all income variables are adjusted for family size (f) by a factor of f^5 . So, for example, a family of size three would require 1.73 (3^5) times as much income as a family of size 1. We also ask whether the head's earnings are adequate to keep an average family of three out of poverty. For this calculation, no adjustments are made to the income variables. Rather, earnings, regardless of family size, are compared to those required to keep a three person family out of poverty. Actual average family sizes are shown in Appendix Table A-3.

III. Results

A. How important is work for avoiding poverty?

Although families where the head works full-year, full-time (FYFT in Table 1) cannot be guaranteed the ability to stay out of poverty, they do fare better than families who are not so situated (Table 1). For example, in the United States in 1986, 14.1 percent of the able-bodied people aged 25-55 fell below half of the median income while only 4.6 percent of those

(Table 1 here)

containing a head working full-year, full-time did so. Elsewhere, from 4.7 percent (Netherlands) to 11.1 percent (Canada) of households overall had less than half of the median income, while only from 2.7 percent (Netherlands) to 5.9 percent (United Kingdom) of households containing a head working full-year, full-time did so. In general those with a less than full-year, full-time working head (<FYFT or no work at all) did worse than those who had one, though the differences vary substantially by country. And so, it appears that working full-year, full-time lowers your chances of being poor but does not entirely prevent it.

B. Do the poor work?

TABLE 1
How important is work for avoiding poverty?

Poverty Rates^a based on DPI by Working Status of Head

	Overall	FYFT	< FYFT	No Work
United States 1986				
All Households	14.1	4.6	25.0	42.3
All Households with Children	18.0	6.7	31.2	52.0
Couples	11.3	5.9	na ^b	29.6
Singles	51.1	19.1	na	82.3
All Households No Children	9.4	1.9	18.4	29.8
Canada 1987				
All Households	11.1	3.4	23.5	43.6
All Households with Children	11.8	3.8	26.2	48.8
Couples	8.6	3.7	na	34.7
Singles	51.1	12.1	na	88.5
All Households No Children	10.3	2.8	21.4	37.8
United Kingdom 1986				
All Households	7.7	5.9	9.0	12.5
All Households with Children	9.1	6.9	11.3	14.0
Couples	9.2	7.6	na	15.3
Singles	14.6	11.1 ^c	na	15.0
All Households No Children	5.7	4.6	5.2	9.6
Sweden 1987				
All Households	5.4	2.8	8.5	27.5
All Households with Children	2.7	1.9	4.2	17.1
Couples	2.4	2.0	na	12.0
Singles	4.2	0.9	na	22.9
All Households No Children	7.7	3.7	0.9	30.4
Netherlands 1987				
All Households	4.7	2.7	2.7	14.1
All Households with Children	4.7	3.7	5.5	8.7
Couples	4.0	3.4	na	9.2
Singles	5.3	na	na	3.4
All Households No Children	4.9	1.4	0.6	19.0

Notes:

a Poor is defined as own household dpi below half of the adjusted median income

b na indicates that sample size was too small

c n = 54

Our first set of answers indicate that working full-year, full-time lowers your chances of being poor. However, there are still many people who work full-year, full-time yet cannot keep their family out of poverty. Among those who are poor, a large fraction of the households that do not have even half of the median income contain a full-year, full-time working head in every country (Table 2, Panel A). This portion ranges from 21.1 percent in the United States in 1986

(Table 2 here)

to 60.2 percent in the Netherlands in 1983. Of course, poverty rates vary across countries as well, so the 21.1 percent of the U.S. poor who work full-year, full-time are 3.0 percent of all households (21.1 percent times an overall poverty rate of 14.1 percent, final column Table 2), while the 60.2 percent of the Netherlands poor in 1983 who work full-year, full-time are also about 3 percent (3.3 percent to be exact) of all households (60.2 percent times 5.5 percent). Regardless of the overall poverty rate, it therefore appears that simply working hard is not enough to keep your household out of poverty. In fact, of those non-disabled working age households that are poor, only from 24.9 percent (United States 1979) to 53.4 percent (United Kingdom 1979) contain a head that does not work at all.

Despite the fact that many of the poor households contain a full-year, full-time working head, fewer do so than in the overall population (Table 2, Panel B). Overall, from 65.0 percent (United States 1986) to 79.8 percent (Netherlands 1983) contain a full-year, full-time working head and only 5.5 percent (United States 1979) to 24.8 percent (United Kingdom 1986) of households contain a head that does not work. For households with heads who work less than full-year, full-time, the poor look much more like the population at large. In this paper, however, we focus on those families that do contain a full-year, full-time working head.

TABLE 2
Do the Poor Work?

**Working Status of Head and Overall Poverty Rates
for All Households with Head Age 25-55**

A. Working Status of Head for Poor¹ Households

	FYFT²	< FYFT³	No Work⁴	Poverty Rate⁵
US79	31.8	43.3	24.9	13.3
US86	21.1	37.7	41.2	14.1
CN81	29.2	31.2	39.6	10.4
CN87	22.2	31.3	46.5	11.1
UK79	39.0	7.6	53.4	6.0
UK86	52.3	7.6	40.1	7.7
SW81	42.0	10.7	47.3	4.4
SW87	39.5	26.1	34.4	5.4
NL83	60.2	3.5	36.3	5.5
NL87	41.7	5.0	53.3	4.7

B. Working Status of Head for All Households

	FYFT²	< FYFT³	No Work⁴	
US79	75.1	19.4	5.5	
US86	65.0	21.3	13.7	
CN81	74.8	16.6	8.6	
CN87	73.4	14.8	11.8	
UK79	78.5	6.1	15.4	
UK86	68.7	6.5	24.8	
SW81	76.2	15.3	8.5	
SW87	76.5	16.7	6.8	
NL83	79.8	5.0	15.2	
NL87	73.3	8.7	18.0	

Notes:

1 Poor is defined as own household dpi below half of the adjusted median income

2 A head is defined to work full-year, full-time (FYFT) if they work at least 35 hours a week at least 48 weeks a year

3 Head worked some, but less than full-year, full-time (<FYFT)

4 Household head had zero earnings

5 Overall poverty rate is the percent of households whose adjusted household dpi is below half of the adjusted median income

Our data also permit some analysis of trends among the working poor. In all of the countries except Sweden, the percent of heads who work full-year, full-time has decreased over time for all households as well as for those that are poor. (In Sweden this was true only for poor households, overall the percent of households with a head working full-year, full-time was about the same in the two years we studied). For example, in the United Kingdom in 1979, 78.5 percent of households contained a head working full-year, full-time while in 1986 only 68.7 percent did. In most countries, this decline in full-year, full-time work corresponded to only a small increase in part-time work and a larger increase in households with a head not working. In the United Kingdom, for example, the percent of households with a head working part-time increased from 6.1 percent in 1979 to 6.5 percent in 1986 while those households with a head who did not work increased from 15.4 percent (1979) to 24.8 percent (1986). While the trends were similar looking either at the entire population or only at those families that did not have half of the median income for most of the countries, there was one exception. In the United Kingdom the percent of all poor families with a full-year, full-time working head increased from 39.0 percent (1979) to 52.3 percent (1986), while the overall rate of full-year, full-time work decreased. This anomaly is not further explained here.⁵ In general then, it appears that while fewer poor households contain a full-year, full-time working head, the trends in working status among the heads are similar to those in the overall population.

C. Can a head who works full-year, full-time support their own family?

Because so many poor households do contain a working head, we now focus on the question of whether a head working full-year, full-time can earn enough to support his/her own family. Table 3 contains poverty rates based only on the head's earnings for households in which

(Table 3 here)

the head works full-year, full-time. Using the 50 percent of median poverty measure, from 1.2 percent (Netherlands 1987) to 16.7 percent (Canada 1981) of families are poor based solely on the head's full-year, full-time earnings.

As would be expected due to larger average family sizes, families with children have a harder time staying out of poverty. Families with children on average contain 3.9 members (Appendix Table A-3) while those without children have only 1.7 members on average. So, in the United States, for example, 11 percent of households with children who have a head working full-year, full-time are poor as compared to only about 4 percent of similar work status households without children. This pattern holds for all of the countries except the Netherlands in 1983 where 5.2 percent of households with children were poor while 6.5 percent of those without children were poor.

Single parents with children who work full-year, full-time appear to have the most difficult time avoiding poverty in the United States, Canada and the United Kingdom based on their earnings alone. Using the 50 percent of median poverty measure, from 20 to 24 percent of single families with children that contain a head working full-year, full-time in these countries are poor. It is somewhat surprising that these results are so much larger than the poverty rates for couples with children even granted that we are looking only at poverty based on the heads earnings where most heads are women--a group with lower wages to start (Gornick, 1992), because couples with children on average have larger families (4.0) than do single families with children (2.7).⁶

It appears that over time, it has actually become easier for a head working full-year, full-

Table 3
If you work full-year, full-time, do you earn enough to keep your own household from being poor?

Poverty Rates^a Based on Head's Full-Year, Full-Time Earnings^b Alone

	US79	US86	change	CN81	CN87	change	UK79	UK86	change	SW81	SW87	change	NL83	NL87	change
All Households	8.4	8.2	-0.2	16.7	10.1	-6.6	6.6	11.5	4.9	5.0	5.4	0.4	5.6	1.2	-4.4
All Households w/ Kids	11.2	11.4	0.2	20.0	11.5	-8.5	7.8	12.4	4.6	6.0	6.6	0.6	5.2	1.9	-3.9
Couples	8.4	9.5	1.1	18.4	10.1	-8.3	7.0	12.4	5.4	6.1	6.8	0.7	0.8	1.7	0.9
Singles	20.9	17.9	-3.0	19.8	23.3	3.5	12.9 ^c	24.1 ^d	-11.2	5.2	4.2	-1.0	na ^e	na	1
All Households No Kids	4.4	4.3	-0.1	11.4	8.4	-3.0	4.2	10.2	6.0	3.9	4.2	0.3	6.5	0.4	-6.1

Notes:

a Poverty rates are the percent of households whose heads adjusted earnings are below half of the adjusted median income

b Head's Earnings includes self-employment income

c n=62

d n=54

e n=20

time to support his/her household in many of these countries. Poverty rates have fallen quite substantially in Canada (by 6.6 percentage points) and the Netherlands (by 4.4 percentage points). There was little change in the United States and Sweden. Only in the United Kingdom where the poverty rate rose by 4.9 percentage points does it appear to have become more difficult to support a household by working full-year, full-time. It should be noted that overall unemployment rates differed markedly across countries as well (Appendix Table A-5). Most likely nations with higher or rising unemployment rates are also likely to have slower rates of growth in wages thus making it harder to escape poverty based on heads earnings alone. In the United Kingdom, unemployment rates rose from 5.6 percent in 1979 to 11.2 percent in 1986. On the other hand, unemployment rates fell in the Netherlands from 13.7 percent in 1983 to 9.6 percent in 1987. In the United States and Canada unemployment rates rose slightly while in Sweden they fell slightly. Thus, movements in poverty among full-year, full-time workers are correlated with large changes in unemployment rates.

D. Can a head who works full-year, full-time support an average family?

A related question we asked was whether a head's full-year, full-time earnings were enough to keep an average family of three out of poverty. This question may be important to the issue of whether or not families without children can afford to have them, given heads earnings alone. The results in Table 4 are not very surprising. Overall, the ability of a head's earnings

(Table 4 here)

to support their own vs. an average size family is almost the same. For countries with larger families such as the United Kingdom (see Appendix Table A-3), it is slightly easier to support an average family of three. For countries with a smaller average family size, such as Sweden,

TABLE 4

Do you earn enough to keep an average household of 3 from being poor?

Poverty Rates^a Based on Head's Full-Year, Full-Time Earnings^b:
Own Household vs. Average Household of 3

	own	average	difference
United States 1986			
All Households	8.2	9.0	0.8
All Households with Kids	11.4	8.0	-3.4
All Households no Kids	4.3	10.1	5.8
Canada 1987			
All Households	10.1	10.1	0.0
All Households with Kids	11.5	9.0	-2.5
All Households no Kids	8.4	11.3	2.9
United Kingdom 1986			
All Households	11.5	10.8	-0.7
All Households with Kids	12.4	10.9	-1.5
All Households no Kids	10.2	10.7	0.5
Sweden 1987			
All Households	5.4	6.2	0.8
All Households with Kids	6.6	5.5	-1.1
All Households no Kids	4.2	6.9	2.7
Netherlands 1987			
All Households	1.2	1.6	0.4
All Households with Kids	1.9	1.6	-0.3
All Households no Kids	0.4	1.5	1.1

Notes:

a Poverty rates are the percent of households whose head's adjusted earnings are below half of the adjusted median income

b Head's Earnings includes self-employment income

it is somewhat harder to support an average family of three. Hence earnings among full-year, full-time workers are correlated with family size.

Although the overall difference in ability to support one's own vs. an average family is small, some variation exists when looking at different types of families. For example, families with children (with average family sizes of 3.6 to 4.1) have a harder time supporting their own families than they would supporting an average family. On the other hand, families without children (average family sizes from 1.3 to 2.0) find it easier to support their own family than an average family of three. These results would be expected simply due to average family size differences. Because the difference in ability to support one's own family vs. that of an average family are so small and predictable, the remainder of the analysis will focus on the ability to keep one's own family out of poverty.

E. Are family earnings enough to keep a family out of poverty?

Since a full-year, full-time head's earnings alone are often inadequate to keep a family out of poverty, we next include the entire family's earnings (Tables 5).⁷ As would be expected,

(Table 5 here)

the inclusion of all earnings substantially lowers the poverty rate (by from 0.2 percentage points in Sweden to 5.2 percentage points in Canada). However, despite the fact that we continue to look only at families in which the head works full-year, full-time, there are still a large fraction of households that do not even earn half of the median once other family members earnings are added in.

It appears to be easiest to support your family by working in the Netherlands where only 1 percent of families do not earn at least half of the median income. Hard work alone does not,

TABLE 5
What is the effect of including family earnings and government benefits on poverty rates?

Poverty Rates^a: Head's Full-Year Full-Time Earnings^b, Household Earnings and DPI

	Head FYFT	Household Earnings	change	DPI	change
United States 1986					
All Households	8.2	4.1	-4.1	4.6	0.5
All Households with Kids	11.4	5.8	-5.6	6.7	0.9
Couples	9.5	4.4	-5.1	5.9	1.5
Singles	17.9	17.9	0.0	19.1	1.2
All Households No Kids	4.3	1.9	-2.4	1.9	0.0
Canada 1987					
All Households	10.1	4.9	-5.2	3.4	-1.5
All Households with Kids	11.5	5.3	-6.2	3.8	-1.5
Couples	10.1	4.8	-5.3	3.7	-1.1
Singles	23.3	22.5	-0.8	12.1	-10.4
All Households No Kids	8.4	4.3	-4.1	2.8	-1.5
United Kingdom 1986					
All Households	11.5	8.0	-3.5	5.9	-2.1
All Households with Kids	12.4	9.9	-2.5	6.9	-3.0
Couples	12.4	10.6	-1.8	7.6	-3.0
Singles ^c	24.1	24.1	0.0	11.1	-13.0
All Households No Kids	10.2	5.4	-4.8	4.6	-0.8
Sweden 1987					
All Households	5.4	3.0	-2.4	2.8	-0.2
All Households with Kids	6.6	3.0	-3.6	1.9	-1.1
Couples	6.8	2.8	-4.0	2.0	-0.8
Singles	4.2	4.2	0.0	0.9	-3.3
All Households No Kids	4.2	3.1	-1.1	3.7	0.6
Netherlands 1987					
All Households	1.2	1.0	-0.2	2.7	1.7
All Households with Kids	1.9	1.5	-0.4	3.7	2.2
Couples	1.7	1.4	-0.3	3.4	2.0
Singles ^d	na	na	na	na	na
All Households No Kids	0.4	0.4	0.0	1.4	1.0

Notes:

a Poverty rates are the percent of households whose adjusted income is below half of the adjusted median income.

b Head's earnings include self-employment income

c n=54

d n=20

however, guarantee you will stay out of poverty. This is evident in the United Kingdom where 8 percent of families with a full-year, full-time worker earn less than half of the median income, even when other family members earnings are included. Single parent families with children have a particularly difficult time, with poverty rates as high as 24.1 percent in the United Kingdom, 22.5 percent in Canada and 17.9 percent in the United States, even with more than one full-year, full-time earner in the household. The numbers are very similar if we define poverty to be below 40 percent of the median income (Appendix Table A-4). Using this definition, the Netherlands still has the lowest poverty rate at 0.9 percent, and the United Kingdom the highest at 7.0 percent, but the same general patterns persist.

F. Do government benefits help families stay out of poverty?

Because so many workers and their families cannot earn enough to keep out of poverty, even when total hours worked exceed full-year, full-time, governments may step in to help alleviate these difficulties via tax and transfer policy. In three countries, Canada, the United Kingdom and Sweden, the government package of taxes and transfers reduces poverty (Table 5 final 2 columns). Although the overall effect of the government is small (from a low of a 0.2 percentage point reduction of poverty in Sweden to a high of a 2.1 percentage point reduction in the United Kingdom), public benefits do seem to help those who need it the most, particularly single families with children. In these three countries, the government is able to help lower the poverty rates of lone parent families by 3.3 percentage points in Sweden, 10.4 percentage points in Canada, and 13.0 percentage points in the United Kingdom.

The effect of the government, however, is not as beneficial in the remaining two countries: the Netherlands and the United States. The tax and transfer system in the Netherlands

does not seem to have much of an effect. However, families were generally not made substantially worse off and poverty rates were very low to begin with. In the United States, on the other hand, the net government tax and transfer package appears to have a detrimental effect on poverty rates. Although the tax and transfer system in the United States has little overall negative effect on poverty rates, families with children are most consistently hurt by it. For couples with children, the poverty rate grew 1.5 percentage points from 4.4 percent to 5.9 percent when government taxes and transfers were included. For single families with children it grew 1.2 percentage points to 19.1 percent.

IV. Discussion

These results may serve to dispel some of the myths about who constitutes the poor and their work status. Large numbers of families that are poor contain a head that works full-year, full-time. While the ability of workers to avoid poverty varies across countries, a head's full-year, full-time earnings alone are not enough to keep his/her family out of poverty in many nations. The addition of other family member's incomes, though helpful, still leaves a substantial portion of families below half of the median income, particularly in the United Kingdom, but also in the United States and Canada.

Although the ability of a family to earn enough to keep themselves out of poverty in the United States was somewhere in the middle of the five countries we examined, government tax and transfer policy was least apt to help working poor families in 1986. While governmental assistance in the United States had no overall effect on families without children, for all other families, poverty rates were actually higher when government tax and transfers were included. And so, while working full-year, full-time may lower your chances of being poor, it in no way

guarantees it, particularly in nations where the tax-transfer policy does not produce a package of benefits which keeps such families from poverty.

REFERENCES

- Atkinson, A.B. (1991)
"Comparing Poverty Rates Internationally: Lessons from Recent Studies in Developed Countries," *The World Bank Economic Review*, Vol. 5., No. 1, pp. 3-21
- Bane, Mary Jo and David T. Ellwood. (1989)
"One Fifth of the Nation's Children: Why are They Poor?" *Science*.
- Center on Budget and Policy Priorities (1992)
1990 Poverty Tables, Washington, D.C.
- Danziger, Sheldon H. and Daniel H. Weinberg, eds. (1986)
Fighting Poverty: What Works and What Doesn't. Cambridge, MA: Harvard University Press
- (1992).
"Market Income, Income Transfers and the Trend in Poverty" prepared for the conference
"Poverty and Public Policy: What Should We Know, What Should We Do?" Madison, WI. May.
- Eurostat. (1990)
"Poverty in Figures: Europe in the early 1980's," Theme 3 Series C, Office of Official Publications of the European Communities, Luxembourg.
- Forster, Michael. (1992)
"Low Income Families in OECD Countries." Presented to the LIS Summer Workshop. Mimeo. Office of Economic Cooperation and Development.
- Gornick, Janet. (1992)
"The Economic Position of Working-Age Women, Relative to Men: A Cross-National Comparative Study." Bremen, Centre for Social Policy Research.
- Gottschalk, Peter and Mary Joyce. (1991)
"Changes in Earnings Inequality--An International Perspective."
- Green, Gordon, John Coder and Paul Ryscavage. (1991)
"International Comparisons in Earnings Inequality for Men in the 1980's."
- Hagenaars, A.J.M., K. De Vos and M.A. Zaidi (1992)
Poverty Statistics based on microdata. Results for nine Member States of the European Community, Report to the statistical office of the European Community, Doc. No. POV. 50/92.

- Hendrickson, Susan E. and Isabel V. Sawhill. (1989)
"Assisting the Working Poor."
- Levitan, Sar A. and Isaac Shapiro. (1987)
Working But Poor: America's Contradiction. Baltimore, MD: The Johns Hopkins University Press.
- Rainwater, Lee, Martin Rein and Joseph E. Schwartz. (1986)
Income Packaging in the Welfare State: A Comparative Study of Family Income. New York, NY: Oxford University Press.
- Shapiro, Isaac. (1989)
Laboring for Less: Working but Poor in Rural America. Washington, DC: Center on Budget and Policy Priorities.
- Smeeding, Timothy. (1992)
"Why the U.S. Antipoverty System Doesn't Work Very Well." Challenge, Jan/Feb: 30-35.
- Smeeding, Timothy, Michael O'Higgins and Lee Rainwater. (1990)
Poverty, Inequality and Income Distribution in Comparative Perspective. The Luxembourg Income Study. Harvester Wheatsheaf, New York.
- Van Praag, B.M.S., and A.J.M. Hagenaars and J. van Weeren. (1981)
"Poverty in Europe," *Review of Income and Wealth*, vol. 28, pp. 345-359.

ENDNOTES

1. Other possible LIS nations which could be included here were Australia, Germany, Norway, Israel, Italy, Luxembourg and Belgium.
2. Self-employment income is usually reported only as an aggregate amount, not separated by head or other earner. We have assumed that household self-employment income accrues to the head. Based on the U.K. data file, which does separate self-employment income by source, over 90 percent of these earnings accrue to the head of the household in the U.K.
3. Near cash benefits are income transfers which are intended to be used for a particular purpose, e.g. cash housing allowances or student scholarships, or are noncash benefits which are measured in currency terms and which have a value to the household which is nearly the same as an equivalent amount of cash. For instance, food stamps in the U.S. are such a benefit.
4. In all countries we use questions on disability status to eliminate heads from the universe. In the U.S. and Netherlands we can also separately identify disability benefits permitting an additional screen for disability status.
5. The U.K. experienced a severe widening of inequality of wage rates during the 1980's (Gottschalk and Joyce, 1991). Thus it could be that larger numbers of the poor are working full-time but are unable to keep their families from poverty.
6. We take no account of the fact that fewer single parents are likely to work full-year, full-time due to government mandated child support benefits or other special benefits reserved for single parents.
7. We take no account of family labor supply choices. Heads who work full-year, full-time are less likely to have other family members--spouses, older children--who also work, and vice versa.

Table A-1

AN OVERVIEW OF LIS DATASETS AND UNITS DEFINITIONS USED IN THIS PAPER

Country	Dataset Name, Income Year (and Size) ^a	Population Coverage ^b	Basis of Household Sampling Frame ^c	Unit of Analysis ^d
Canada	<i>Survey of Consumer Finances</i> , 1981 and 1987 (37,900)	97.5 ^e	Decennial Census	Economic Family ^f
United States	<i>Current Population Survey</i> , 1979 and 1986 (65,000)	97.5 ^e	Decennial Census	Household ^g
Sweden	<i>Swedish Income Distribution Survey</i> , 1981-1987 (9,600)	98.0 ^e	Income Register	Administrative Unit ^h
Netherlands	<i>Survey of Income and Program Users</i> , 1983 and 1987 (4,850)	99.2 ^a	Address Register of the Postal and Telephone Companies	Household ⁱ
United Kingdom	<i>Family Expenditure Survey</i> , ^j 1979 and 1986 (6,800)	96.5 ^a	Electoral Register	Household ^l

^aDataset size is the number of actual household units surveyed.

^bAs a percent of total national population.

^cSampling 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.

^dUnit definition used in this paper. All unit definitions are the same in both periods.

^eExcludes institutionalized and homeless populations. Also some far northern residents (Inuits, Eskimos, Laps, etc.), may be undersampled in Sweden.

^fThe United Kingdom survey collects substantial income data.

^gExcludes those not on the electoral register, the homeless, and the institutionalized.

^hThe economic family in Canada includes all related members which share resources. Unrelated persons living in the same unit are considered as separate units even though they share the same household.

ⁱAll persons living together and sharing the same living arrangements (housing unit).

^jPersons age 18 or over plus related children, if there are any, are regarded as one unit. Older children living with their parents are therefore treated as separate units and not as cohabitating members of a single household.

TABLE A-2

Total number of households by Type of Family

	US79	US86	CN81	CN87	UK79	UK86	SW81	SW87	NL83	NL87
All Households	8078	7098	8787	6973	3686	3937	6364	5810	2793	2550
All Households with Kids	4817	3964	5624	4136	2453	2338	4225	3131	1749	1479
Couples Singles	3189 680	2576 596	4010 518	2993 444	1836 203	1700 268	3559 666	2866 265	1323 115	1216 82
All Households no Kids	3261	3134	3163	2837	1233	1599	2139	2679	1044	1071

Number of households where the Head works Full-Year Full-Time by type of Family

	US79	US86	CN81	CN87	UK79	UK86	SW81	SW87	NL83	NL87
All Households	6003	4579	6438	4777	2894	2703	5069	4806	2220	1975
All Households with Kids	3629	2599	4186	2868	1915	1544	3399	2749	1433	1202
Couples Singles	2615 306	1867 239	3148 224	2213 160	1537 62	1257 54	3105 294	2618 131	1166 13	1041 13
All Households no Kids	2374	1980	2252	1909	979	1159	1670	2057	787	773

Households where the Head Works FYFT as a Percent of All Households

	US79	US86	CN81	CN87	UK79	UK86	SW81	SW87	NL83	NL87
All Households	0.74	0.65	0.73	0.69	0.79	0.69	0.80	0.83	0.79	0.77
All Households with Kids	0.75	0.66	0.74	0.69	0.78	0.66	0.80	0.88	0.82	0.81
Couples Singles	0.82 0.45	0.72 0.40	0.79 0.43	0.74 0.36	0.84 0.31	0.74 0.20	0.87 0.44	0.91 0.49	0.88 0.11	0.86 0.16
All Households no Kids	0.73	0.63	0.71	0.67	0.79	0.72	0.78	0.77	0.75	0.72

TABLE A-3

Mean Household Size by Family Type

	US79	US86	CN81	CN87	UK79	UK86	SW81	SW87	NL83	NL87	average
All Households	3.1	3.0	3.2	3.0	3.4	3.2	2.4	2.3	3.3	2.9	3.0
All Households with Children	4.1	4.0	4.1	4.0	4.1	4.0	3.6	3.6	3.7	3.9	3.9
Couples	4.0	4.0	4.0	4.0	4.1	4.0	3.8	3.8	4.0	3.9	4.0
Singles	3.0	2.9	2.8	2.8	2.8	2.8	2.5	2.4	2.6	2.6	2.7
All Households no Children	1.6	1.7	1.8	1.8	2.0	2.0	1.3	1.3	2.0	1.7	1.7

TABLE A-4
What is the effect of including family earnings and government benefits on poverty rates?
Poverty Rates^a: Head's Full-Year, Full-Time Earnings^b, Family Earnings and DPI

	Head FYFT	Household Earnings	change	DPI	change
United States 1986					
All Households	4.7	2.3	-2.4	2.3	0.0
All Households with Kids	6.0	3.1	-2.9	3.2	0.1
Couples	5.1	2.6	-2.5	2.9	0.3
Singles	5.6	5.3	-0.3	6.4	1.1
All Households no Kids	3.1	1.3	-1.8	1.1	-0.2
Canada 1987					
All Households	6.7	3.1	-3.6	1.8	-1.3
All Households with Kids	7.7	3.2	-4.5	1.8	-1.4
Couples	6.7	2.8	-3.9	1.6	-1.2
Singles	17.5	16.7	-0.8	4.7	-12.0
All Households no Kids	5.5	3.1	-2.4	1.8	-1.3
United Kingdom 1986					
All Households	10.2	7.0	-3.2	4.7	-2.3
All Households with Kids	10.6	8.2	-2.4	5.3	-2.9
Couples	10.7	8.8	-1.9	5.8	-3.0
Singles ^c	22.2	22.2	0.0	9.3	-12.9
All Households no Kids	9.7	5.3	-4.4	3.8	-1.5
Sweden 1987					
All Households	3.9	2.3	-1.6	1.8	-0.5
All Households with Kids	4.4	2.1	-2.3	0.9	-1.2
Couples	4.6	2.0	-2.6	1.0	-1.0
Singles	2.9	2.9	0.0	0.3	-2.6
All Households no Kids	3.5	2.5	-1.0	2.6	0.1
Netherlands 1987					
All Households	1.1	0.9	-0.2	1.4	0.5
All Households with Kids	1.7	1.4	-0.3	2.1	0.7
Couples	1.6	1.3	-0.3	1.9	0.6
Singles	na ^d	na	na	na	na
All Households no Kids	0.4	0.4	0.0	0.5	0.1

Notes:

a Poverty rates are the percent of households whose adjusted income is below 40percent of the adjusted median income

b Head's earnings includes self-employment income

c n = 54

d n = 20

Table A-5

STANDARDIZED UNEMPLOYMENT RATES
1977-1989¹

Country	Year												
	'77	'78	'79	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89
U.S.	7.1	6.0	5.8	7.0	7.5	9.5	9.5	7.4	7.1	6.9	6.1	5.4	5.2
U.K.	5.8	5.7	5.6	6.9	10.6	12.3	13.1	11.7	11.2	11.2	10.3	8.5	6.9
Canada	8.1	8.4	7.4	7.4	7.5	10.9	11.8	11.2	10.4	9.5	8.0	7.7	7.5
Netherlands	4.9	5.0	5.4	6.0	8.6	11.4	13.7	11.8	10.6	9.9	9.6	9.2	8.3
Sweden	1.8	2.2	2.1	2.0	2.5	3.1	3.5	3.1	2.8	2.7	1.9	1.6	1.4

Source: OECD (1990), pp. 44-45

Note: ¹ highlighted years are those used in this paper