ECONSTOR
Make Your Publications Visible.

A Service of

ZBW Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Pressman, Steven

Working Paper

Keynes, family allowances and post Keynesian anti-poverty policy

LIS Working Paper Series, No. 525

Provided in Cooperation with:
Luxembourg Income Study (LIS)

Suggested Citation: Pressman, Steven (2009) : Keynes, family allowances and post Keynesian anti-poverty policy, LIS Working Paper Series, No. 525, Luxembourg Income Study (LIS), Luxembourg

This Version is available at:
https://hdl.handle.net/10419/95617

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.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

Luxembourg Income Study Working Paper Series

Working Paper No. 525

Keynes, Family Allowances and Post Keynesian Anti-Poverty Policy

Steven Pressman

December 2009

Luxembourg Income Study (LIS), asbl

KEYNES, FAMILY ALLOWANCES AND POST KEYNESIAN ANTI-POVERTY POLICY

Steven Pressman, Department of Economics & Finance, Monmouth University, West Long Branch, NJ 07764; pressman@monmouth.edu

1. Introduction

Family or child allowances are regular payments made to families on behalf of their children. They can be made either by the government or by private firms. Usually allowances are universal, made without regard to family income; all households with children below a certain age qualify for them. The payments are made to assist families with children by raising their income, and they are intended to help families support their young dependents.

Another way to think about family allowances is that it is a policy that keeps families from being penalized because they have a large number of children and many mouths to feed. It is well-known that poverty rates rise with the number of children in the household. According to the US Census Bureau (2008), for 2007 the official poverty rate for households without children was just 4.6%. In contrast, households with one child had a poverty rate of 12.5% and households with two children had a poverty rate of 16.9%. My own calculations for the United States, using the Luxembourg Income Study (LIS) and a relative definition of poverty, give similar results. The poverty rate for US households with just one child in 2004 was 15.8% and 18.3% for households with 2 children; but the poverty rate jumps to 30.7% for households with three children and to 44.9% for households with four children.

Keynes advocated family allowances as a way to help households raise their children. Rather well known are two long articles supporting family allowances as a way to help finance the war effort. These were published in *The Times* in November 1939, and then expanded into a small book, *How to Pay for the War*, in 1940 (Keynes 1972). But, as this paper shows, contrary to the claims of Toye (2000) and others, Keynes supported family allowances well before the late 1930s. It argues that Post Keynesians should support family allowances as a means of mitigating poverty. To provide some empirical support

for this, it examines the poverty-reducing impact of family allowances in developed nations and some possible family allowance plans for the US.

We begin with some historical background.

2. A History of Family Allowances

Glass (1940, p. 86) claims that the ancient forerunners of family allowances were the pro-natalist clauses in the Babylonian Code of Hammurabi and three laws passed by Roman Emperor Augustus between 18 BC and 9 AD that encouraged marriage and raising children. Another important forerunner, according to Glass (1940, p. 92) was the French Edict of 1666, which sought to encourage population growth in France by various means. To take just one example, fathers with at least ten legitimate children were exempt from paying all taxes, as long as none of the children were priests or nuns.

The British "Speenhamland system", introduced in England in 1795, is usually regarded as the first system of family allowances in the modern world. Speenhamland was a response to the end of feudalism in England. Because landowners no longer accepted responsibility for their serfs, there was a sharp rise in malnutrition, in poverty, and in begging on the streets. As Block & Somers (2005, p. 16) describe it: "Speenhamland refers to a town in Berkshire County, England, where the country squires decreed in May 1795 that the poor should be entitled to a specific quantity of assistance depending upon the price of bread and the size of the family." To deal with the problem of poverty, the town provided more assistance to larger families and thereby tried to put a floor under family living standards.

What we regard today as family allowances, however, began in France. Around 1870, a private firm, Val-des-Bois Works, began making a special payment to their workers who had children to support. From a social perspective, this was regarded as a fringe benefit to workers with larger families. But from the point of view of the firm, the plan was seen as a means to keep wage costs down in an era of high inflation and great pressure for higher wages in France (Haanes-Olsen 1972, p. 18). Thus, the main goal

in establishing this program was *not* to help families with children as much as it was to control firm payroll. Rather than increasing the wages of all workers, family allowances let firms increase the wages of just some workers (i.e., those with many children) and raise the incomes of households with children to subsistence levels.

Another path to family allowances arose from special birth bonuses that firms in France began offering their workers in 1890. This is actually closer to contemporary family leave policies or maternity benefits; but the bonuses soon became family allowances. In 1910, French firms began extending payments beyond the birth of the child, making them annually to households with children (Vadakin 1968, p. 45).

Regardless of how they developed historically, it soon became clear that a system of payments for children made by individual firms generated several problems. Those firms that did *not* pay allowances gained a competitive advantage over their rivals, while firms that *did* pay their workers child allowances faced higher production costs. In addition, employers became reluctant to hire people with large families or those who were likely to have large families, thus discriminating against young workers and those with large families.

The initial solution to these problems arose at the industry level. Employer associations began to require that *all firms* contribute to a child allowance fund based on the number of their employees. The fund then made payments to individual households based on the number of children in the household. Firms could no longer gain a competitive advantage in the industry by not paying child allowances, since every firm had to make contributions to the industry fund. The tendency for firms to discriminate against workers with large families was reduced for a similar reason-- employers were required to contribute to the fund, regardless of the number of children supported by their employees.

Austria can lay claim to the first employer system of family allowances; it was set up by druggists throughout the country in 1908 (Douglas, 1925, p. 119). But France was really at the forefront here. The

first industry-level program in France began in May 1918 (Douglas, 1925, p. 54); by 1924, France had 120 such employer associations (Vadakin, 1968, pp. 46-7).

Still, prisoner's dilemma problems arose with the family allowance systems run by employer associations. Industries providing family allowances were at a competitive disadvantage relative to those industries lacking such a program. In particular, newer industries tended to not have an association and they benefited; conversely, the established industries in the nation that were providing family allowances incurred additional costs per worker. A further problem was that younger workers and workers with large families naturally were attracted to industries with a family allowance program. New industries had difficulty attracting young workers. All this put pressure on the industry-wide family allowance system. And since younger workers with lots of children were attracted to industries paying family allowances, it also put pressure on industry associations to increase their assessments on firms. Any such assessment, of course, would generate even bigger competitive disadvantages for the industry. The solution slowly became obvious after years of experience with employer associations—nations needed a system in which *all industries* would have to pay family allowances to their workers.

This requires that the government establish a *national* family allowance program and oversee this system. A first step in this direction was taken by the Netherlands in 1912, when it granted family allowances to postal employees. It soon extended family allowances to teachers, and then in 1920 to all civil servants (Douglas, 1925, p. 129). But a full national family allowance program did not develop until after World War I, with France and Belgium taking the lead. Following the war, many European countries faced inflationary pressures. Real wages were falling. Using the model of the Val-des-Bois Works, firms looked at family allowances as an alternative to paying higher wages to all workers. In an attempt to control labor costs, they focused on giving wage increases based on need (i.e., family size) rather than providing across the board pay increases. Generally, payments were made monthly to the mother of the child (Vadakin, 1968, p. 47).

Another force pushing for family allowance programs at the national level after World War I was concern about population growth. France was worried about their low birthrate and the consequences of this if they found themselves in another war with Germany. Family allowances became a way to increase the birthrate in France so it would keep up with, or exceed, the birthrate in Germany. Germany, of course, was worried about France, and responded by launching its own family allowance program in 1935—for the express purpose of increasing the birthrate in Germany (Haanes-Olsen 1972, p. 18).

In August 1930, Belgium became the first country to provide a national system of family allowances. France followed suit in March 1932 (Vadakin, 1968, pp. 51-2). One by one, countries throughout the world followed the lead of Belgium and France, including most less-developed nations. When Japan introduced a family allowance system in 1972 (Kirkpatrick 1972), the US became the only major industrial nation without such a policy.

3. Keynes and Family Allowances

Keynes was an early advocate of family allowances. He knew of this policy through several different avenues and supported it many times.

First, Keynes certainly was aware of the work of Eleanor Rathbone, a tireless advocate for family allowances, and he supported her efforts to help large families with children. Rathbone championed many causes throughout her life—the Spanish Civil War, the rights of colored women in the British colonies, Czech refugees, anti-Nazism, and housing reform. She had been involved in the woman's suffrage movement, and she saw family allowances as an extension of the fight for economic justice for all women (Stocks, 1949, pp. 115-8). Her iconoclastic and idiosyncratic views on the political and social issues of the day probably appealed to Keynes.

In 1917, Rathbone founded the Family Endowment Committee, which became the Family Endowment Society in 1938. She became a member of Parliament from 1929 to 1946, in an attempt to

influence policy making. Rathbone and her followers also wrote newspaper articles, attended political meetings, and lobbied Parliament in support of family allowances (Macnicol, 1980, pp. 26-7).

Rathbone began by supporting separation allowances. These were payments made by the British government during World War I to women and children of men serving in the British army. The payments were made based on family size, making them a forerunner of family allowances. An article by Rathbone on this topic was published by Keynes in the *Economic Journal*. In that article Rathbone (1917, p. 68) also argued for "the continuation of something resembling the present system of separation allowances" in the interests of justice. She felt that for ethical reasons the government should help families with more mouths to feed.

Even more influential were a couple of books Rathbone ([1924], 1940) wrote advocating a policy of family allowances for Britain, and arguing that these payments would value women's work as caretakers. They explained how family allowances could pull large families out of poverty, and made a case that family allowances be made part of economic and social policy in the UK.

Rathbone's 1924 book was reviewed, rather favorably, in the *Economic Journal* while Keynes was its editor. Phillips (1925, p. 94) called it "a contribution of enduring importance to one of the major issues of our time." In addition to Rathbone's 1917 paper, numerous papers on family allowances appeared in the *Economic Journal* during the 1920s (MacGregor 1926; Heimann 1923; Campbell 1927; Richardson 1924), including several that described family allowance programs outside the UK. One such article (MacGregor, 1926) was selected by Keynes to be the lead article for the year. Many other pieces appearing in the *Economic Journal* during the 1920s and early 1930s discussed family allowances as part of the article and analyzed their impact on things like wages, birth rates, poverty and industrial production (Davison 1930; Grier 1925; MacGregor 1933; Vlasto 1926).

By contemporary standards, one might not be able to conclude that Keynes supported family allowances just because he was publishing favorable book reviews and articles in the *Economic Journal*.

But Keynes was not your ordinary journal editor. He frequently published his own work in the journal. Moreover, as Moggridge (1990) notes, Keynes used referees sparingly; indeed, when he first assumed the post as editor in 1912 he did not use referees at all (Moggridge 1992, pp. 208-9). When he did send papers out for review, he would frequently tell his referees what he thought about the paper he sent them, and he often included the draft of an acceptance or rejection letter. Going a bit further, Aslanbeigui & Oakes (2007) point out that Keynes used the *Economic Journal* for his own political purposes—to recruit disciples and allies, and actively manage the definition and dissemination of knowledge in economics. Keynes also frequently solicited articles from others. What he solicited and what he published concerned topics of interest to him and supported positions he agreed with and that he wanted to promote. From this perspective, Keynes was clearly interested in family allowance proposals in the 1920s, if not before; and it seems that he used the *Economic Journal* to give this idea a good deal of publicity and support.

Second, family allowances were first introduced in the UK in the 1920s and were being discussed seriously in the UK throughout the 1920s. In the early 1920s Prime Minister Lloyd George and his cabinet were concerned about the consequences of high unemployment. To deal with this problem, he established a cabinet committee to make recommendations about how to lower unemployment and mitigate its negative consequences for Britain. One result was the 1921 Unemployed Workers' Dependents' Act, which established a dependent allowance on a temporary basis for six months. In March of 1922 it was decided to continue them and in February 1923 the cabinet decided to make them permanent (Macinol, 1980, p. 108). Thus, there was some support for a system of family allowances for the unemployed.

Mainly due to the efforts of Rathbone, support grew for a family allowance program in the UK that everyone would be eligible for. As Macnicol (1980, p. 9) notes, by 1924 "the discussion of family endowment in Britain had already manifested itself in as many as five different forms: apart from the

newly-formed Family Endowment Society … there were the State Bonus Plan, Beatrice Webb's equal wage and child endowment proposals, Seebohm Rowntree's interest in a minimum wage plus family allowances, and a continuing discussion of motherhood endowment…".

Third, family allowances are consistent with the revolutionary economic theory Keynes was working on during the late 1920s and early 1930s. Keynes had come to recognize the importance of effective demand in generating economic growth and employment, and was working on providing the theoretical foundations for his policy proposals.

Part of the problem was great income inequality. The poor received too little income and could not spend a lot; the rich received too much income to spend. The standard view at the time was that the rich would save and that this money would thereby flow into new investment. Keynes, however, saw that investment decisions depended on animal spirits or psychological factors, and that inequality would reduce spending, profits, business expectations and investment. The trick was how to generate more consumption spending without generating either inflation or great disincentives due to high taxes. Family allowances were one solution to this problem.

"The Question of High Wages," published in 1930, is the first place Keynes advocated family allowances in print. It is a work that anticipates some of the policies that Keynes advanced at the end of *The General Theory*. In this remarkable paper, Keynes argued for higher wages in the UK in order to increase effective demand at the beginning of the depression. However, he noted that there were some problems with using this policy in a global economy. In particular, British exports would be priced out of the global market and imports would become cheap. In addition, higher wages would make businesses less profitable and so would reduce business investment. Keynes [1930, p. 12] was opposed to this: "In short, we must not starve the goose that lays the golden eggs before we have discovered how to replace her. We must tax her eggs instead." By this he meant taxing business profits and using the tax revenues to support the incomes of the working classes. He advocated social insurance, pensions, and "useful

expenditures by the state on health, recreation, and education, and the facilities for travel," an anticipation of his call for a "socialization of investment" in *The General Theory*. Then he moved on to support family allowances: "In this case I believe that the trade union movement is actively hostile on the express ground that it fears such allowances would be what I wish them to be, namely, an alternative to higher wages. It would be much better than a man with heavy family burdens to support should receive assistance out of taxation, which is thrown on profits generally, than that an attempt should be made to raise wages paid by his employer to a disproportionate level" [Keynes, 1930, p. 14].

Finally, Keynes learned about family allowances, and came to support this policy proposal, through his long association with William Beveridge. After World War I, the two collaborated on an historical publishing project (Toye, 2000, p. 174). Both men attended the Liberal Party Summer Schools in the early 1920s, which sought to provide progressive policy solutions to the key issues of the day. Beveridge was one of its founders, and Keynes spoke at one of the first summer schools-- in August 1922.

Rathbone convinced Beveridge to support family allowances in the early 1920s. Her book converted Beveridge, who wanted to prevent further declines in fertility in the UK and thought that family allowances would help in this regard. Also, he thought it would help hold down domestic wages and make goods produced in the UK more competitive in the world economy (Toye, 2000, p. 178). Beveridge wrote a positive review of Rathbone's book *The Disinherited Family* for the journal *Weekly Westminster* (Macnicol, 1980, pp. 29-31) and then was made President of the Family Endowment Society.

Beveridge served on the Royal Commission on the Coal Industry (also known as the Samuels Commission) from 1925 to 1926. The commission argued for family allowances as a means of keeping wages down and ensuring that the British coal industry competitive in world markets. Its report supported family allowances. It argued that family allowances would reduce absenteeism among single

men in the coal mines because with lower wages (due to the tax necessary to support family allowances), they would have to work more (Macnicol, 1980, pp. 33-34). In October 1927, he organized a conference at the London School of Economics on the subject, which then became a book—*Six Aspects of Family Allowances*.

In the early 1940s, Beveridge headed up his own government commission. The famous Beveridge Report (Beveridge 1942) advocated a program of family allowances in the UK. It made family allowances part of a comprehensive social safety net.

At this time Keynes was working for the Treasury, and was responsible for keeping the British budget deficit within manageable proportions. The Beveridge Report, in advocating more government programs and benefits, would of course have consequences for the British budget. Beveridge struck a deal with Keynes regarding his plan. Keynes agreed to support the plan, including the provision for family allowances, as long as the cost to the Treasury was kept to £100 million a year for the first five years. After that, Keynes thought that rising Treasury revenues would be able to cover the costs of the plan (Beveridge, 1953, p. 309). To achieve this, Beveridge suggested there should be no family allowances paid for the first child in each family; only subsequent children would be eligible. Beveridge felt this was justified because existing wages could support a family with one child, but not a family with more than one child.

On June 15, 1945 a bill was passed by Parliament and the first family allowances were paid in the UK on August 6, 1946. They were paid to women each Tuesday through the local Post Office (Fleming 1973).

4. Family Allowances and Post Keynesian Economics

Besides being supported by Keynes, other Post Keynesians have advanced a family allowance program as a means to mitigate poverty. John Kenneth Galbraith (1964, p. 26) seemed to be supporting family allowances when he called for “modest educational grants to families to feed and clothe children for

school and to compensate for their earnings." Galbraith, of course, grew up in Canada, got his undergraduate degree there, and had a father who was active in the Liberal Party. Through these various venues, he must have been familiar with the Canadian system of family allowances (Blake 2009). And Pressman (1992a, 1992b, 1993) has argued for family allowances as a means of generating greater income equality and lower poverty, without generating any of the negative consequences usually associated with income support programs.

Family allowances should appeal to Post Keynesians for a number of reasons, all of which follow from the main tenets of this economic school (see Holt & Pressman 2001). Four of these are relevant to the case for family allowances, and are probably some of the reasons Keynes was favorably disposed towards this policy.

First, for Post Keynesians the world is driven by uncertainty rather than calculable risk, and people must make decisions not knowing the consequences of their actions. Animal spirits, habits, conventions, and other rules are thus used to make decisions.

From the point of view of the household, family allowances reduce uncertainty by providing a fixed source of income to families with children. This income source is available to families in good times as well as in times of high unemployment. It also reduces uncertainty about the economic consequences of having more children. By providing additional income to households with additional children, family allowances make household living standards more secure. And like any social safety program, such as unemployment insurance and social security, this should encourage consumption by the family and stimulate demand for the whole economy. This additional spending, in turn, reduces uncertainty for firms, which can now be more confident of future sales and will be more likely to invest.

Second, for Post Keynesians income effects are more important than substitution effects. This, in a nutshell, is the theory of effective demand, and the basis for Keynes [1964: Ch 2] rejecting Say's Law in *The General Theory*. It is Keynes's argument that to end mass unemployment we must increase

spending rather than reduce wages. The incentive for firms to hire workers is not lower wages as much as it is the likelihood of good sales and profits due to robust demand.

An emphasis on income effects has two main implications for antipoverty policy. First, family allowances provide income to households that will likely be spent. Second, family allowances redistribute income from more affluent households to those with less income. This result arises for two reasons. Fixed payments per child, no matter what the household income level, do more to help low-income households than wealthy ones. In addition, these payments need to be financed somehow. In all nations this is done through general tax revenues. Since most national tax systems are progressive in nature, tax burdens are greatest on wealthier households. Since it does redistribute income from likely savers to likely spenders, family allowances should increase effective demand. This view receives considerable empirical support.[1] In addition, as we saw above, households with large numbers of children are more likely to be poor than households with a small number of children. They also have lower per capita incomes. Since family allowance give greater benefits to households with more children, even if funded by an equal assessment on each household, the plan overall would be progressive in its incidence.

Third, rather than focus on equilibrium analysis, which takes place in a timeless world, and where the process of arriving at points of stability get ignored, Post Keynesians see economies moving through historical time. In historical time where you are and how you move determines where you wind up. One good example of this is the notion of hysteresis, where unemployment undermines job skills, and so unemployment makes it harder to get jobs and harder to get good jobs.

Likewise, growing up poor has many negative long-run consequences. Child development takes place in stages; childhood poverty retards development and how well one does later in life. During the

---

[1] For example, see Alesina & Rodrik 1992, 1994; Brown 2004; Clarke 1995; Deininger & Squire 1998; Lundberg & Squire 2003; Perotti 1996.

very early and formative years of life, poverty is most damaging. It reduces educational attainment; it is detrimental to the physical health and intellectual development of the child; and it is detrimental to the emotional or psychological state of the child (Busby & Busby 1996, p. 70). These negative consequences continue throughout childhood, and into adolescence and adulthood. Those experiencing child poverty are more likely to bear children out of wedlock as a teenager, to experience unemployment as an adult, and to commit crimes and spend time in prison (see Scott & Pressman 2010).

By providing a secure source of income to large, low-income households, family allowances should also reduce the stress experienced by low-income households. Considerable research has found that income inequality contributes to stress for those at the bottom and the middle of the income distribution (Marmot 2004; Wilkinson 1994, 1996, 2000). Stress, in turn, leads to problems with one's immune system, cardiovascular system and glucose metabolism, and it can destroy brain cells involved in memory. Stress triggers "fight or flight" responses-- chemical reactions in the body that were designed for emergency situations where an individual had to fight or flee. These responses helped save the lives of our ancestors, as well as other animals, during times of immediate threat. But with repeated stress, these chemicals remain in the bloodstream, disrupt normal body functions, and increase the probability of health problems (Sapolsky 1998). There is also some evidence that once the body experiences stress, the brain develops pathways that tend to get replicated through time by making us look for stressful situations, finding them, and by reacting in inappropriate ways that lead to long-term harm (Kishiyama et al. 2008).

Taking historical time seriously also means looking at historical data, especially what other countries have done over time, and how family allowances actually affect households after they have been introduced. It means that in adopting a family allowance program, we will not make assumptions about individual maximizing behavior, model those assumptions, and then calculate the optimal level of family allowances per child. Rather, we must experiment as we move through historical time. We need

to provide family allowances, examine their impact, and then adjust the size of the allowances based upon their actual real world impact.

Finally, Post Keynesians emphasize that there is a social rationality that is not the sum of individual rationality or the result of individual rationality achieved through some invisible hand process. Most economists assume that people are rational, that they know the utility they will get from each possible choice, and that they will make decisions to maximize their utility. Going even further, they argue that when people can choose freely, the final outcome will be Pareto Optimal. Rationality requires that individuals be self-interested, consistent, and smart. A good deal of empirical research in psychology has called these assumptions into question. One problem with this view is what psychologists have called "preference reversal" (Tversky & Thaler, 1990; Slovic & Lichtenstein 1983); another problem is status quo bias (Kahneman et al. 1991)[2].

But there are other problems with the standard economic notion of rationality. Consider the classic prisoner's dilemma. Given the logic of this situation, economic rationality says that the only appropriate decision for each prisoner is to defect or confess. Both thus serve short terms in prison. This is also a Pareto Optimal outcome, one that neither player can improve upon since if either prisoner fails to confess, it is likely that he will get a large prison term and the other person will go free. But this situation is something we can improve on.

The good news for the human species (given that the prisoner's dilemma is also at the heart of the nuclear arms race) is that people tend to cooperate when faced with situations like the prisoner's dilemma. This is true even in single-play prisoner's dilemma experiments, where people have no reason to cooperate in the hope of enticing their opponent to cooperate in the future (Frank 1988, pp. 140ff.; Ostrom et al. 1992). Evolutionary game theory (Axelrod 1984, 1987; Field 2002) attempts to explain how and why this is the case. It argues that cooperators will tend to survive because mutual cooperation is

---

[2] For more on these problems and the contributions of Kahneman here, see Pressman (2006).

better than mutual defection, the only viable alternative. Among cooperators, norms or values will develop, be reinforced and then passed on to future generations as a sort of social rationality.

Social rationality dictates that children are a national resource, rather than just a good providing utility to their parents. Treating children as a private good leads to problems that are like the prisoner's dilemma. Attempting to aid my children so that they have an advantage over other children will benefit my children relative to others, just as my saving money benefits me relative to others who do not save. In both cases, such behavior has negative aggregate consequences. For saving it is what Keynes called "the paradox of thrift"; a similar paradox arises when parents seek to support their own children in order to give them an edge over other children.

One practical, real world example of this is the phenomenon known as "red-shirting" or having one's children start school one year later than possible. Red-shirting is driven by a belief on the part of many parents that it gives their children a developmental edge over other children at school. If this is so, by delaying their education, my children will do better compared to other children, due to their increased intellectual and emotional development when they start school. Using this logic, parents enroll their children in pre-kindergarten, although they are eligible for kindergarten. Even if individual children do benefit from being older than their peers in school, if *everyone* sends their children to school later, there will be no individual gains. Even worse, there are aggregate losses. While there is no evidence that this practice has long-term benefits for the child that starts school later, there is good evidence that it has negative aggregate effects such as reduced educational attainment, increased high school dropout rates and reduced labor force participation during one's lifetime (Deming & Dynarski 2008).

Children are responsible for future economic and productivity growth. The future productivity of our children will determine the viability of pension programs throughout the world in an era of declining

population growth. Because they help all children and reduce child poverty, child allowances improve our future of living.

5. The Impact of Family Allowances on Poverty: An International Perspective

This section uses the Luxembourg Income Study (LIS) to estimate the impact of family allowance programs on poverty in several developed nations throughout the world. The LIS is an international database containing extensive income as well as socio-demographic information on 35 countries and stretching over a period of 30 years.[3] LIS databases center around particular years, called "waves". Each wave is around 5 years apart, with Wave #1 beginning in the early 1980s. The most recent data, Wave #6, centers around the year 2004.

Somewhat surprisingly, there has been only one previous attempt to estimate the poverty-reducing impact of family allowances using the LIS (Cantillon & van den Bosch, 2003), despite the fact that the LIS database contains data on family allowances for many countries.

To analyze the impact of family allowances on poverty we need to start by defining poverty lines for each household. A first step involves adjusting household income to account for differences in household size. A $24,000 income will be able support a single individual in the US reasonably well. In 2008, it would have provided more than twice the poverty-level income for a single person. But for a family of 5, an income of $24,000 provides each person with just $4,800 on average. Certainly, this would not support the same lifestyle as $24,000 for a single individual; in fact, according to the US Census Bureau, a family of five would have been considered poor in 2008 with this income.

We can deal with differences in household size by treating the income needs of all household members identically and looking at per capita household income. But this ignores important economies

[3] More information is available at the LIS homepage at www.lisproject.org.

of scale in living arrangements. Two people can live together better on a given sum of money than apart, and they will have a higher standard of living by doing so.

In what follows, we adjust household incomes using the OECD recommendations regarding equivalence scales for household size (Lyngstad et al. 1997). According to this standard, income requirements for each child are 50 percent of the requirements of the household head, and income needs for additional adults in the household are 70 percent of the requirements of the household head. These are actually close to the implicit household adjustments incorporated into the official US poverty lines developed by Mollie Orshanksy (1965, 1969). Orshankshy followed the methodology pioneered by Seebohm Rowntree (1901, Ch. 4; 1918, pp. 123-9), who examined the actual nutritional needs of families of different sizes and poverty lines for families of different sizes in the UK, and (as noted above) also supported family allowances in the UK in the early twentieth century. The Orshansky poverty lines likewise came from surveys of food consumption and expenditures for different households. As such, they provide a good empirical foundation for using the EU standards when adjusting income to account for household size. However, not a great deal rests on this decision. Other adjustment formulae have been suggested and tested, and empirical studies have found that this decision makes little difference to the broad results that one gets when using the LIS (Smeeding, Buhmann & Rainwater 1988); obviously, the actual figures will differ with different adjustment rules.

Once we adjust household incomes based on household size, we need to define poverty lines for each household. Here we follow common practice and use a relative definition of poverty, defining households as poor if their adjusted household income falls below .5 of median adjusted household income (for that country at that time).[4]

---

[4] There are many good reasons for employing a relative definition of poverty, especially in cross-national studies. See Pressman (2002, pp. 20-1).

Using the LIS databases, our household income adjustments, and our relative definition of poverty, Table 1 provides estimates of national poverty rates as well as estimates of poverty without family allowances for nine developed countries. These are all the LIS Wave #6 databases for Western industrial nations available in the early fall of 2009. To compute poverty rates without family allowances, I subtracted family allowance payments from household income and then recalculated the national poverty rate.

It should be noted that this calculation assumes no secondary effects on poverty rates as a result of introducing family allowances. Two such effects are potentially important. First, family allowances may lead to an increase in birth rates-- something that Keynes worried about a great deal, according to Toye (2000)-- and therefore an increase in family size. Since, as we have seen, poverty rates increase with family size, ignoring this factor leads us to overestimate the poverty-reducing impact of family allowances.

Fortunately, this measurement error is not likely to be large. Several empirical studies have found that existing family allowances programs have had a very small impact on birth rates, and many government programs providing additional income for each additional child have had virtually no impact on birth rates. For example, Gauthier & Hatzius (1997) find that a rather large 25% increase in the value of family allowances would increase fertility by only around .07 children per woman. According to Ermisch (1988a, 1988b), family allowances mainly change the timing of child bearing; they do *not* lead to larger families. And Furstenberg (1976) and Rank (1989) find that welfare mothers did not change their reproductive behavior very much as a result of larger government payments for each child.

Furthermore, any impact of family allowances on family size will be countered by the second effect of family allowances on poverty. Since family allowances increase income equality, this should increase spending, thus spurring economic growth and employment (see fn 1). This, in turn, will help those at the bottom of the income distribution most and tend to lower poverty rates, as typically occurs

during periods of economic growth. For these reasons, ignoring secondary changes due to the introduction of family allowances probably should not lead to any significant bias or an incorrect measure of the impact of family allowances on poverty rates.

The last two columns of Table 1 provide estimates of how effective family allowances are in reducing poverty. Column 3 subtracts the poverty rate in Column 2 from the aggregate rate in Column 1. The difference between the two figures measures the poverty-reducing impact of family allowances in each nation, or what percentage of households gets removed from poverty due to family allowances. As Column 3 shows, the average decrease in poverty for families with children is only 1.5 percentage points. Excluding the US, which has no family allowance policy, the reduction is close 2 percentage points. It is worth noting that in some countries (Australia and Luxembourg) the poverty-reducing impact of family allowances is quite large—more than 3 percentage points. Finally, the last column in Table 1 calculates the percentage of poor households with children that get removed from poverty as a result of family allowances--another way to measure the effectiveness of family allowances in mitigating national poverty. Here we see that, on average, family allowances remove 16% of otherwise poor families from the ranks of the poor. Excluding the US, which has no family allowance policy, family allowances remove nearly one-fifth of all households that would have poor without family allowances.

Table 2 repeats our analysis, but looks at an important sub-group of the entire population--families with children. Since poverty rates are much higher for these families, and since family allowances are targeted to families with children, we would expect to find a much larger impact on poverty here. And this is exactly what we see. Family allowances reduce poverty rates for households with children by nearly 5 percentage points and by nearly 6 percentage points for those nations that have such a policy (i.e., excluding the US)[5]. This policy removes more than one-third of otherwise poor

[5] As with all survey data, you always will get a few strange responses. The US responses indicating receipt of family allowances may have been child support payments erroneously thought to be child

families with children from the ranks of the poor. Again, for Australia and Luxembourg the impact is substantially larger.

Table 3 looks at child poverty rates. The figures here are greater than in Table 1 because of what was pointed out earlier in this paper—households with more children are more likely to be poor. In Table 1 each family gets counted once no matter how many children in the family; in Table 3 each child gets counted once. Again we subtract family allowances and recalculate poverty rates for children in column 2; and again, column 3 shows that the poverty-reducing impact of family allowances is quite large. Child allowances reduce the percentage of children in poverty from around 19 percent to around 12 percent on average (unweighted), and approximately 40 percent of otherwise poor children escape poverty due to family allowances. Excluding the US, the decline in child poverty is even greater. And yet again, in some nations (Canada as well as Australia and Luxembourg) the decline is even greater-- child poverty is reduced by close to 12 percentage points in these nations.

One final point that should be noted-- without child or family allowances, the US looks pretty much like Luxembourg and the other Anglo-Saxon nations. All these nations have child poverty rates of around 25% without child allowances. In fact, the US does a little bit better than Australia and Luxembourg when we subtract child allowances; and its child poverty rate is not significantly different from the child poverty rate for Canada. The big difference between the US and these countries, as Table 3 makes clear, is what happens to child poverty when we take family allowances into account and make them part of household income. Here, the US does considerably worse than all these countries, and does much worse than the four Scandinavian countries (as do Luxembourg and the other Anglo-Saxon countries).

---

allowances. They also may have been actual child allowances received while residing in another country during part of the year. In any event, this small change probably should be regarded as a sort of sampling error and thought of as effectively 0.

Finally, we simulate the impact of three possible family allowance programs for the US. We first look at a $1000 allowance made to all children aged 18 and under. This is the amount of the child allowance proposed by the National Commission on Children (1991) in the early 1990s. Then we look at a $2000 allowance for each child, roughly the present value of this proposal. Finally, we look at a $3000 child allowance. This is close to what child allowances would need to be in the US if they were around the same percentage of US disposable income as family allowances in the UK are a percentage of UK disposable income. Even at this level family allowances would be rather meager. As we have seen, child poverty rates in the UK are quite high compared to other developed nations, despite this level of allowances. In addition, it should be noted that a $3000 allowance still only provides $250 per month per child.

These child allowances (of $1000, $2000 and $3000, respectively) are presumed to be refundable; that is, they are paid to all households, even if the household has no tax liability for the year. In all three cases, we increase median adjusted household income to account for the extra money received through family allowance payments and thus increase our poverty threshold. Then we recomputed national poverty rates. A $1000 per child allowance would reduce the poverty rate for US households only slightly, from its present rate of 17.2% to 16.7%. A $2000 allowance would reduce poverty to 16.2%, and a $3000 allowance would reduce poverty to 15.8%. The gains from these three programs would be even greater for households with children. A $1000 allowance would reduce poverty for households with children from 21% to 18.8%, a $2000 allowance would reduce it to 16.8% and a $3000 allowance would give the US a 14.8% poverty rate for households with children.

Overall, a $1000 per child allowance would still leave the US far behind the rest of the developed world in term of child poverty rates. With a $2000 allowance the US would *start to* look similar to Luxembourg and the other Anglo-Saxon nations, while a $3000 allowance would actually reduce child poverty rates in the US to the levels found in these countries.

There were nearly 40 million children in the US in 2004. A $1000 allowance per child would thus cost a little less than $40 billion. Costs for the more generous plans can be derived by just multiplying by the appropriate number. How can such expenditures be financed, especially in an era of very large budget deficits?

One way to fund family allowances would be through eliminating tax exemptions for children. Since the poor and near poor in the US effectively pay no taxes, this means of finance would not take money away from the poor with one hand while giving it back to them with the other hand. Poor households would be net gainers from this policy switch. Alternatively, the allowances can be partly financed by making them taxable. Since low-income households pay no taxes, this would not hurt them; middle class and wealthy households would wind up paying some of the allowances back to the government in the form of higher taxes. Finally, we can fund these programs through general tax revenues and look at them, following Keynes, as a form of public investment. Holzer *et al*. (2007) calculate that childhood poverty costs the US $500 billion per year, or nearly 4 percent of GDP. It does this through lowering productivity (and hence income), increasing crime rates and raising health expenditures. Each of these factors contributes around one-third of the overall loss according to the authors. A family allowance program that cut child poverty by one-third (close to the outcome of the $3000 plan) would thus save more than $150 billion annually. This is actually a bit *more than* the cost of a $3000 per child family allowance.

6. Summary and Conclusion

Family allowances should be part of any Post Keynesian program to reduce poverty and increase income equality. Keynes supported family allowances for a good part of his adult life. The policy is consistent with the main tenets of Post Keynesian thought. And at the practical level, family allowances have the potential to substantially reduce poverty rates in the US, which at present are the highest in the developed world. They are clearly effective in reducing child poverty in most developed nations and do

not have the negative sorts of incentives associated with other redistributive policies. In addition, family allowances are well targeted on those who need the money the most—poor households with children.

Adopting a family allowance policy in the US would require dealing with a number of practical policy issues—the size of the allowance, whether allowances should vary with age or the number of children in a family, whether there should be a means test to receive it, whether it should be subject to taxation, and how to finance such a program (see Burns 1968). Then there is the issue of whether we should provide family allowances to older children enrolled in school or vocational training programs, as many European nations do. Also, we will need to address the problem of how allowances get increased over time. Should they be indexed to inflation and increased annually, the way that US Social Security payments are increased every year? Or should the government have to vote for periodic changes in the value of the family allowance? It is to these practical issues that we need to turn.

References

Alesina, A. & Rodrik, D. (1992) Distribution, Political Conflict, and Economic Growth: A Simple Theory and Some Evidence, in: A. Cukierman, Z. Hercowitz & L. Leiderman (Eds) *Political Economy, Growth, and Business Cycles* (Cambridge, MA: MIT Press), pp. 23-50.

Alesina, A. & Rodrik, D. (1994) Distributive Policies and Economic Growth, *Quarterly Journal of Economics*, 109, pp. 465-490.

Aslanbeigui, N. & Oakes, G. (2007) The Editor as Scientific Revolutionary: Keynes, *The Economic Journal*, and the Pigou Affair, *Journal of the History of Economic Thought*, 29, pp. 15-48.

Axelrod, R. (1984) *The Evolution of Cooperation* (New York: Basic Books).

Axelrod, R. (1997) *The Complexity of Cooperation* (Princeton: Princeton University Press).

Beveridge, W. (1942) *Report on Social Insurance and Allied Services: The Beveridge Report* (New York: Macmillan).

Beveridge, W. (1953) *Power and Influence: An Autobiography* (London: Hodder & Stoughton).

Blake, R. (2009) *From Rights to Needs: A History of Family Allowances in Canada, 1929-92* (Vancouver: UBC Press).

Block, F. & Somers, M. (2005) In the Shadow of Speenhamland: Social Policy and the Old Poor Law, in: K. Widerquist, M.A. Lewis & S. Pressman (Eds) *The Ethics and Economics of the Basic Income Guarantee* (Aldershot, UK: Ashgate), pp. 13-54.

Brown, C. (2004) Does Income Distribution Matter for Effective Demand?, *Review of Political Economy*, 16, pp. 291-307.

Burns, E. (1968) Childhood Poverty and the Children's Allowance, in: E. Burns (Ed.) *Children's Allowances and the Economic Welfare of Children* (New York: Citizens' Committee for Children of New York), pp. 3-18.

Busby, W. & Busby, F. (1996) Children in Poverty: The Fundamental Issue, *Journal of Children and Poverty*, 2, pp. 65-91.

Campbell, R.M. (1927) Family Allowances in New Zealand, *Economic Journal*, 37, pp. 369-383.

Cantillon, B., Marx, I. & van den Bosch, K. (2003) Social Policy Strategies to Combat Income Poverty of Children and Families in Europe, in: P. Krause, G. Bäcker & W. Hanesch (Eds) *Combatting Poverty in Europe—The German Welfare Regime in Practice* (Aldershot, UK: Ashgate), pp. 317-329.

Clarke, G. (1995) More Evidence on Income Distribution and Growth, *Journal of Development Economics*, 47, pp. 403-427.

Davison, R. (1930) Unemployment Relief in Germany, *Economic Journal*, 40, pp. 140-146.

Deming, D. & Dynarski, S. (2008) The Lengthening of Childhood, *Journal of Economic Perspectives*, 22, pp. 71-92.

Deininger, K. & Squire, L. (1998) New Ways of Looking at Old Issues: Inequality and Growth, *Journal of Development Economics*, 57, pp. 259-287.

Douglas, P. (1925) *Wages and the Family* (Chicago: University of Chicago Press).

Ermisch, J. (1988a) Econometric Analysis of Birth Rate Dynamics in Britain, *Journal of Human Resources*, 23, pp. 53-76.

Ermisch, J. (1988b) Economic Influences on Birth Rate, *National Institute Economic Review*, November, 71-81.

Field, A. (2002) *Altruistically Inclined*? (Ann Arbor, MI: University of Michigan Press).

Fleming, S. (1973) *The Family Allowance Under Attack* (Bristol, UK: Falling Wall Press).

Frank, R. (1988) *Passions within Reason* (New York: W.W. Norton).

Furstenberg, F. (1976) *Unplanned Parenthood: The Social Consequences of Teenage Childbearing* (New York: Free Press).

Galbraith, J.K. (1964) Let Us Begin: An Invitation to Action on Poverty, *Harper's Magazine*, March, pp. 17-26.

Gauthier, A. & Hatzius, J. (1997) Family Benefits and Fertility: An Econometric Analysis, *Population Studies*, 51, pp. 295-306.

Glass, D.V. (1940) *Population Policies and Movements in Europe* (London: Frank Cass & Co.).

Grier, L. (1925) The Meaning of Wages, *Economic Journal*, 35, pp. 519-535.

Haanes-Olsen, L. (1972) Children's Allowances: Their Size and Structure in Five Countries, *Social Security Bulletin*, 35, pp. 17-28.

Heimann, E. (1923) The Family Wage Controversy in Germany, *Economic Journal*, 33, pp. 509-515.

Holt, R. & Pressman, S. (2001) *A New Guide to Post Keynesian Economics* (New York & London: Routledge).

Holzer, H., Schanzenbach, D., Duncan, G. & Ludwig, J. (2007) *The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up in Poverty* (Washington, DC: Center for American Progress).

Kahneman, D., Knetsch, J. & Thaler, R. (1991) Anomalies: The Endowment Effect, Loss Aversion and the Status Quo Bias, *Journal of Economic Perspectives*, 5, pp. 193-206.

Keynes, J.M. [1930](1981) The Question of High Wages, in *The Collected Writings of John Maynard Keynes*, *Vol. 20: Activities 1929-1931: Rethinking Employment and Unemployment Policies* (London: Macmillan), pp. 2-16.

Keynes, J.M. [1936](1964) *The General Theory of Employment, Interest and Money* (New York: Harcourt Brace & World).

Keynes, J.M. [1940](1972) *How to Pay for the War*, in *The Collected Writings of John Maynard Keynes*, *Vol. 9: Essays in Persuasion* (London: Macmillan), pp. 367-439.

Kirkpatrick, E. (1972) Children's Allowance in Japan, *Social Security Bulletin*, 35, pp. 39, 43.

Kishiyama, M., Boyce, W., Jiminez, A., Perry, L. & Knight, R. (2008) Socioeconomic Disparities Affect Prefrontal Function in Children, *Journal of Cognitive Neuroscience*, 21, pp. 1106-1115.

Lundberg, M. & Squire, L. (2003) The Simultaneous Evolution of Growth and Inequality, *Economic Journal*, 113: 326-344.

Lyngstad, J., Keilman, N., Bojer, H. & Thomsen, I. (1997) Poverty and Economic Inequality: Concepts, Measures, and Methods, in: N. Keilman, J. Lyngstad, H. Bojer & I. Thomsen (Eds) *Poverty and Economic Inequality in Industrialized Western Societies* (Oslo: Scandinavian University Press), pp. 3-31.

Macnicol, J. (1980) *The Movement for Family Allowances, 1918-45: A Study in Social Policy Development* (London: Heinemann).

MacGregor, D.H. (1926) Family Allowances, *Economic Journal*, 36, pp. 1-10.

MacGregor, D.H. (1933) Taxation of Co-operative Dividend, *Economic Journal*, 43, pp. 40-55.

Marmot, M. (2004) *The Status Syndrome: How Social Standing Affects Our Health and Longevity* (New York: Times Books).

Moggridge, D. (1990) Keynes as Editor, in: *A Century of Economics: 100 Years of the Royal Economic Society and the Economic Journal*, ed. J. Hay & D. Winch (Oxford: Basil Blackwell), pp. 143-157.

Moggridge, D. (1992) *Maynard Keynes: An Economist's Biography* (New York & London: Routledge).

National Commission on Children (1991) *Beyond Rhetoric: A New Agenda for Children and Families* (New York: National Commission on Children).

Orshansky, M. (1965) Consumption, Work and Poverty, in: B.B. Seligman (Ed.) *Poverty as a Public Issue* (New York: Free Press), pp. 52-84.

Orshansky, M. (1969) How Poverty is Measured, *Monthly Labor Review*, 92(2), pp. 26-41.

Ostrom, E., Walker, J. & Gardner, R. (1992) Covenant with and Without a Sword: Self-Government is Possible, *American Political Science Review*, 86, pp. 404-417.

Perotti, P. (1996) Growth, Income Distribution, and Democracy: What the Data Say, *Journal of Economic Growth*, 1, pp. 149-188.

Phillips, H. (1925) Review of *The Disinherited Family* by Eleanor F. Rathbone, *Economic Journal*, 35, pp. 92-96.

Pressman, S. (1992a) Child Exemptions or Child Allowances?, *American Journal of Economics and Sociology*, 51, pp. 257-272.

Pressman, S. (1992b) The $1000 Question: A Tax Credit to End Child Poverty?, *Challenge*, 35, pp. 49-52.

Pressman, S. (1993) Tax Exemptions for Child Exemptions: A Poor Policy to Aid America's Children, *Journal of Economic Issues*, 27, pp. 699-719.

Pressman, S. (2002) Explaining the Gender Poverty Gap in Developed and Transitional Economies, *Journal of Economic Issues*, 36, pp. 17-40.

Pressman, S. (2006) *Fifty Major Economists*, 2nd ed. (London & New York: Routledge).

Rank, M (1989) Fertility among Women on Welfare: Incidence and Determinants, *American Sociological Review*, 54, pp. 296-304.

Rathbone, E. (1917) The Remuneration of Women's Services, *Economic Journal*, 27, pp. 55-68.

Rathbone, E. [1924](1947) *The Disinherited Family* (London: Allen & Unwin).

Rathbone, E. (1940) *The Case for Family Allowances* (Harmondworth, UK: Penguin).

Richardson, J.H. (1926) The Family Allowance System, *Economic Journal*, 34, pp. 373-386.

Rowntree, B.S. (1901) *Poverty, A Study of Town Life* (London: Macmillan).

Rowntree, B.S. (1918) *The Human Needs of Labour* (London: Thomas Nelson).

Sapolsky, R. (1998) *Why Zebras Don't Get Ulcers* (New York: W.H. Freeman & Co).

Scott, R. & Pressman, S. (2010) Consumer Debt and Child Poverty, mimeo.

Slovic, P. & Lichtenstein, S. (1983) Preference Reversals: A Broader Perspective, *American Economic Review*, 73, pp. 596-605.

Smeeding, T., Buhmann, B. & Rainwater, L. (1988) Equivalence Scales, Well-Being, Inequality and Poverty: Sensitivity Estimates Across Ten Countries Using the Luxembourg Income Study (LIS) Database, *Review of Income and Wealth*, 34, pp. 115-142.

Stocks, M. (1949) *Eleanor Rathbone* (London: Gollancz).

Toye, J. (2000) *Keynes on Population* (Oxford & New York: Oxford University Press).

Tversky, A. & Thaler, R. (1990) Anomalies: Preference Reversal, *Journal of Economic Perspectives*, 4, pp. 201-211.

US Census Bureau (2008) *Poverty in the United States: 2007* (Washington, DC: Government Printing Office).

Vadakin, J. (1968) *Children, Poverty, and Family Allowances* (New York: Basic Books).

Vlasto, O. (1926) Family Allowances and the Skilled Worker, *Economic Journal*, 36, pp. 577-585.

Wilkinson, R. (1994) Health, Redistribution and Growth, in: A. Glyn & D. Miliband (Eds), *Paying for Inequality: The Economic Cost of Social Injustice* (London: Rivers Oram Press), pp. 24-43.

Wilkinson, R. (1996) *Unhealthy Societies: The Afflictions of Inequality* (London & New York: Routledge).

Wilkinson, R. (2000) *Mind the Gap* (London: Weidenfeld & Nicolson).

TABLE 1
THE IMPACT OF FAMILY ALLOWANCES
ON POVERTY RATES FOR HOUSEHOLDS

COUNTRY	Poor Households As a Percentage of All Households	Poor Households As a Percentage of All Households (After Subtracting Child Allowances)	Poverty-Reducing Impact of Family Allowances	Percentage of Poor Households with Children Removed from Poverty Due to Child Allowances
AUSTRALIA	8,9%	12,5%	-3,6%	28,8%
CANADA	13,0%	14,5%	-1,5%	10,3%
DENMARK	4,1%	4,9%	-0,8%	16,3%
FINLAND	4,7%	6,1%	-1,4%	23,0%
LUXEMBOURG	7,8%	10,9%	-3,1%	28,4%
NORWAY	6,6%	7,7%	-1,1%	14,3%
SWEDEN	4,9%	5,6%	-0,7%	12,5%
UK	9,8%	11,4%	-1,6%	14,0%
US	17,2%	17,2%	0,0%	0,0%
AVERAGES (unweighted)	8,6%	10,1%	-1,5%	16,4%

Source: Author's calculations from the Luxembourg Income Study

TABLE 2
THE IMPACT OF FAMILY ALLOWANCES ON POVERTY RATES FOR HOUSEHOLDS WITH CHILDREN

COUNTRY	Poor Households with Children As a Percentage of Households with Children	Poor Households with Children As a Percentage of Households with Children (After Subtracting Child Allowances)	Poverty-Reducing Impact of Family Allowances	Percentage of Poor Households with Children Removed from Poverty Due to Child Allowances
AUSTRALIA	12,8%	23,5%	10,7%	45,5%
CANADA	16,3%	21,2%	4,9%	23,1%
DENMARK	3,5%	6,4%	2,9%	45,3%
FINLAND	4,1%	9,6%	5,5%	57,3%
LUXEMBOURG	15,2%	23,6%	8,4%	35,6%
NORWAY	4,5%	8,4%	3,9%	46,4%
SWEDEN	5,4%	8,1%	2,7%	33,3%
UK	13,7%	19,1%	5,4%	28,3%
US	21,0%	21,1%	0,1%	0,5%
AVERAGES (unweighted)	10,7%	15,7%	4,9%	35,0%

Source: Author's calculations from the Luxembourg Income Study

TABLE 3
THE IMPACT OF FAMILY ALLOWANCES ON CHILD POVERTY RATES

COUNTRY	Child Poverty	Child Poverty Without family Allowances	Poverty-Reducing Impact of Family Allowances	Percentage of Poor Children Removed From Poverty Due to Family Allowances
AUSTRALIA	14,7%	27,1%	12,4%	45,8%
CANADA	13,2%	25,0%	11,8%	47,2%
DENMARK	5,0%	9,3%	4,3%	46,2%
FINLAND	5,4%	13,4%	8,0%	59,7%
LUXEMBOURG	17,1%	28,5%	11,4%	40,0%
NORWAY	5,9%	10,8%	4,9%	45,4%
SWEDEN	6,6%	10,8%	4,2%	38,9%
UK	16,7%	23,4%	6,7%	28,6%
US	25,3%	25,4%	0,1%	0,4%
AVERAGES (unweighted)	12,2%	19,3%	7,1%	39,1%

Source: Author's calculations from the Luxembourg Income Study

APPENDIX

COUNTRY	SURVEY
Australia	Survey of Income and Housing Costs, 2001 and 2003
Canada	Survey of Labor and Income Dynamics, 2000 and 2004
Denmark	Income Tax Register, 2000 and 2004
Finland	Income Distribution Survey, 2000 and 2004
Luxembourg	Community Statistics on Income and Living Conditions (SILC) for
Mexico	Household Income and Expenditure Survey, 2000 and 2004
Norway	Income Distribution Survey, 2000 and 2004
Sweden	Income Distribution Survey, 2000 and 2005
Taiwan	Survey of Famly Income and Expenditure, 2000 and 2005
UK	Family Resources Survey, 1999 and 2004
US	2004