



Child poverty in cross-national perspective: Lessons from the Luxembourg Income Study

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ABSTRACT

This paper draws on the Luxembourg Income Study (LIS) microdata to paint a portrait of child poverty across a diverse group of countries, as of 2004–2006. We will first synthesize past LIS-based research on child poverty, focusing on studies that aim to explain cross-national variation in child poverty rates. Our empirical sections will focus on child poverty in 20 high- and middle-income countries – including three Latin American countries, newly added to LIS.

We will assess poverty among all households and among those with children, and using multiple poverty measures (relative and absolute, pre- and post-taxes and transfers). We will assess the effects of crucial micro-level factors – family structure, educational attainment, and labor market attachment – considering how the effects of these factors vary across counties. Finally, we will analyze the extent to which cross-national variation in child poverty is explained by families' characteristics and/or by the effects of (or returns to) those characteristics. Those returns encompass both market and state-generated income.

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1. Introduction and background

Few social and economic problems are more compelling than child poverty. While poverty is evident throughout the life cycle – affecting children, prime-age adults and the elderly – poverty among children has particular resonance. Child poverty captures our attention for several reasons: it is widely held that children need and deserve protection from hardship; most children have no control over their economic circumstances; deprivation during childhood can have lifelong consequences; and some of the effects of child poverty have spillover effects. Child poverty in rich countries is especially compelling, because it is rooted not so much in scarce aggregate resources but mainly in distributional arrangements, both private and public.

It is well-established that, within most industrialized countries, children's likelihood of being poor is shaped, in part, by their family demography and by their parents' attachment to the labor market. It has also been established that child poverty varies widely across countries, and a substantial share of that variation is due to cross-national diversity in core institutions, including labor market structures and tax and transfer policies. A voluminous body of research, much of it drawing on the Luxembourg Income Study (LIS), demonstrates that upper-income countries report remarkably different poverty outcomes. Stark variation is evident in child poverty rates based on both market income and post-tax-and-transfer income.

As we report in this paper, for example, using a relative poverty framework and after accounting for taxes and transfers, fewer than 6% of children in Denmark, Finland, Norway and Sweden live in poor households. In comparison, 7–9% of children are poor in Austria, the Netherlands and Switzerland; 10–15% in the Czech Republic, Germany, Australia, Luxembourg, and the United Kingdom (UK); 16–20% in Estonia, Ireland, Canada and Poland; 21% in the United States (US), and fully 30–32% in Guatemala and Brazil. Two countries with much in common, the UK and the US, provide a telling illustration of the powerful role played by both labor market patterns and public policy. In the UK, before accounting for taxes and transfers, 33% of children are poor; after taxes and transfers, 14% (fewer than half as many) are poor. In the US, before taxes and transfers, 27% are poor (a lower rate than in the UK) and, after taxes and transfers, 21% (well higher than in the UK).¹ While market outcomes clearly matter, for many children, their risk of living in poverty is strongly shaped by the design of their countries' instruments of redistribution.

In this paper, we draw on the resources of LIS, a cross-national microdata archive, to sketch a portrait of children's poverty across a large number of upper-income countries. In Section 2, we survey the large LIS-based literature on child poverty that has been reported in scores of articles and books. We focus on research that seeks to explain cross-national variation in child poverty levels and synthesize in detail findings from three especially comprehensive studies of child

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¹ The poverty outcomes reported in the paragraph are taken from Table 2, presented later.

poverty. We describe our data and our use of country clusters in Section 3.

In Section 4, we present our cross-national empirical findings, focused on 20 upper-income² countries as 2004–2006.³ We begin with a descriptive overview of poverty among all households and among households with children. In these comparisons, we present multiple poverty measures – relative and absolute, pre- and post- taxes and transfers – and we report the magnitude of poverty reduction due to taxes and transfers. Drawing on lessons from the LIS-based literature on the determinants of child poverty (including our own earlier work), we assess, within countries, the association between child poverty and three consequential characteristics: the type of family in which a child resides, parents' level of educational attainment, and parents' engagement in paid work. We supplement a series of bivariate analyses with a multivariate analysis that, using the US as a base case, poses two counterfactual questions across our comparison countries: What would the child poverty rate be in each country if we imposed the characteristics of American children and their families? And, likewise, what would the child poverty rate be in each country if we imposed “American returns” to these countries' own characteristics? In Section 5, we synthesize our findings.

2. The LIS literature: explaining cross-country variation in child poverty outcomes

The issue of child poverty has attracted considerable attention among scholars using the LIS microdata. Over the last twenty-five years, nearly fifty LIS Working Papers have included child poverty outcomes; in many of these, child poverty is the *central* concern of the paper.⁴ These studies are diverse with respect to conceptual approaches, poverty measures, countries included, years covered, and substantive focus. Several focus on cross-national variation in within-country poverty determinants; many aim to identify and decompose the determinants of cross-national variation.

Several LIS-based studies have assessed child poverty outcomes in general, often with a focus on measurement standards and methods (see, e.g., Brady, 2004; Corak, 2005; Findlay & Wright, 1992; Marx & Van den Bosch, 1996; Smeeding & Rainwater, 1995). Many studies have focused on the effects of household composition on children's likelihood of being poor (see, e.g., Bane & Zenteno, 2005; Beaujot & Liu, 2002; Gornick & Pavetti, 1990; Pixley & Tai, 2008; Rainwater & Smeeding, 2003; Redmond, 2000; Weinshenker & Heuveline, 2006); throughout these studies, single motherhood has received the most sustained attention. Other studies have focused on the effects of parents', especially mothers', employment and earnings (see, e.g., Bradbury & Jäntti, 1999; Misra, Budig, & Moller, 2006; Moller & Misra, 2005; Munzi & Smeeding, 2006; Smeeding et al., 1999; Solera, 1998). Not surprisingly, a central theme cutting across LIS studies on child poverty is the impact of country-level institutions, primarily income tax and transfers policies (see, e.g., Bäckman, 2005; Bradshaw & Chen, 1996; Brady, 2005; Brady, Fullerton, & Cross, 2008; Cantillon & Van den Bosch, 2002; Crettaz & Bonoli, 2010; D'Ambrosio & Gradin, 2000; Hakovirta, 2010; Jäntti & Danziger, 1992; Jeandidier & Albiser, 2001; Kuivalainen, 2005; Makines, 1998; Orsini, 2001; Scott, 2008;

Skinner, Bradshaw, & Davidson, 2008; Smeeding, 2005; Smeeding & Torrey, 1988; Smeeding, Rainwater, & Danziger, 1995; Waddoups, 2004).

Three especially comprehensive studies of child poverty, all using the LIS data, shaped our analyses: a 1999 UNICEF report by Bruce Bradbury and Markus Jäntti, a 2003 book by Lee Rainwater and Timothy Smeeding, and a 2008 journal article by Wen-Hao Chen and Miles Corak. In each of these three studies, the core questions concern explanations for cross-country variation in child poverty outcomes.

Bradbury and Jäntti (1999) studied child poverty across 25 LIS countries as of the early and middle-1990s. One of their central goals was to analyze the sources of cross-national variation, using both relative and absolute measures of poverty. First, Bradbury and Jäntti found that the Nordic and Western European countries usually have low rates of child poverty, whereas Southern European and English-speaking countries typically report high rates. They noted that, while the country rankings differ somewhat between results using relative versus absolute poverty measures, this broad grouping of countries was robust across these two approaches. In contrast, the rankings of most of the transition countries (mainly the former Eastern bloc countries) with respect to child poverty rates depended on which poverty measure was used – a result that is not especially surprising, given that average real incomes in the transition countries are markedly lower than in most of the other study countries. They also found that, across the upper-income countries studied, those with higher levels of national income tended to have lower real poverty rates – although the US emerged as a marked exception, with a substantially higher level of child poverty than its national income would predict. Finally, Bradbury and Jäntti reported that, while much literature appropriately focuses on variation in welfare state institutions when accounting for the diversity of child poverty outcomes across countries, variation in the market incomes received by the families of disadvantaged children was an even more powerful explanatory factor.

Rainwater and Smeeding consolidated much of their earlier LIS-based research on child poverty, and expanded it, in their 2003 book *Poor Kids in a Rich Country: America's Children in Comparative Perspective*. The book is organized around several lines of inquiry, among them: cross-national variation in child poverty rates, the effects of inequality and population characteristics on poverty, and the role of different forms of income in alleviating child poverty in both one-parent families and two-parent families.

Focused on the middle-1990s, Rainwater and Smeeding assessed child poverty variation across fifteen countries: Australia, Canada, the US, and twelve diverse European countries. Overall, they found the same country clusters reported by Bradbury and Jäntti. A primary focus in Rainwater and Smeeding's study is the role that demography plays in explaining variability in child poverty rates, where demography includes the household's age composition, gender composition, and size, as well as the earning status of the head, spouse and other household adults. With their eye on explaining the exceptionally high US child poverty rates, they concluded that demography is by no means destiny: the demographic composition of the US contributes to its higher child poverty with respect to only half of their study countries and, in most of those cases, its contribution is modest.

Finally, Chen and Corak, in a 2008 *Demography* article, “Child Poverty and Changes in Child Poverty”, assessed child poverty trends during the 1990s in the US and eleven European countries. Chen and Corak draw three lessons. First, family and demographic shifts played a relative minor role in explaining child poverty trends throughout the 1990s (partly because these factors evolve slowly). That said, in eleven of the twelve study countries, to the extent that changes in parental characteristics had an effect, they lowered child poverty rates. Second, changes in employment and earnings mattered much more. In nine of the twelve countries in their study, the increased labor

² The World Bank classifies countries into four income categories – high, upper-middle, lower-middle, and low – based on per capita GDP. As of the 2010, 17 of our 20 study countries are classified as “high income”. Two, Brazil and Colombia, are classified as “upper-middle”, and one, Guatemala, as “lower-middle”. Throughout this chapter, we use the term “upper income” to refer to both high and middle-income countries.

³ This article updates an earlier study of child poverty in 13 countries, as of approximately 2000. That study was published as: Gornick, Janet C. and Markus Jäntti, 2010. “Child Poverty in Upper-Income Countries: Lessons from the Luxembourg Income Study.” In Sheila B. Kamerman, Shelley Phipps and Asher Ben-Arieh (eds). From Child Welfare to Child Wellbeing: An International Perspective on Knowledge in the Service of Making Policy. New York: Springer Publishing Company, 339–368.

⁴ All LIS Working Papers are available on-line; see <http://www.lisdatacenter.org>.

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