

# Child Poverty: A comparative analysis

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# Synopsis

- [Relative] Child poverty a serious problem in all OECD countries
- Child Poverty incidence in NZ = OECD average
- No single social indicator explains child poverty
- Netherlands, Sweden and Germany have 'best practice'
- Low market income poverty and high effectiveness of tax and benefit policies
- But still 13-15% children poor
- Many countries introduced policies to reduce child poverty
- Data not always compatible

# The Incidence of Income Poverty

- Looking at a subset of OECD countries: Anglo, northern Europe, southern Europe, and Czech as a new emerging OECD country
- Using a relative measure of income poverty, based on 50% and 60% median income
- MSD analysis uses a constant-value measure, updating 1998, 2007 60% level by CPI
- Living standards of people at the poverty level will differ based on GDP per capita
- No systematic relationship between child and 65+ poverty rates
- NZ and OZ large difference aged/children poverty using relative or constant value updating

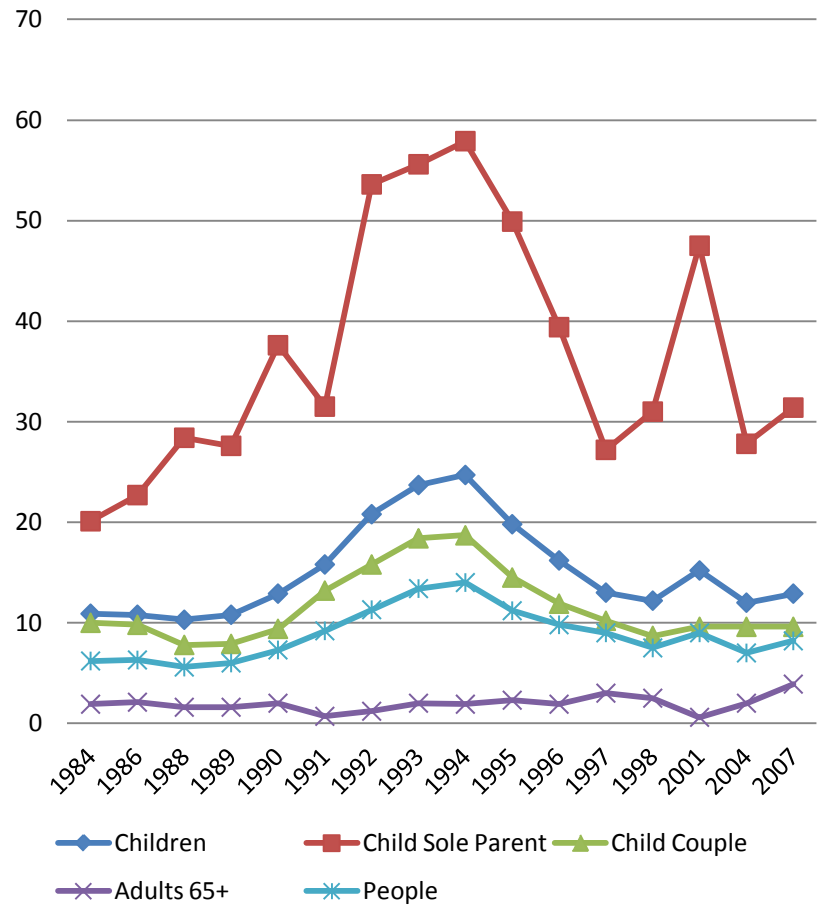
COUNTRY	POPULATION		CHILDREN		ADULTS 65+	
	50%	60%	50%	60%	50%	60%
OECD/EU average	11	16	12.3	20	15.1	18
<b>New Zealand – RELATIVE</b>	<b>11.0</b>	<b>18</b>	<b>12.2</b>	<b>20</b>	<b>23.5</b>	<b>36</b>
<b>-CV (1993 base)</b>		<b>8.2</b>		<b>12.9</b>		<b>3.9</b>
Australia	14.6	20	14.0	22	39.2	45
UK	11.3	17	13.2	21	12.2	22
USA	17.3	24	21.6	29	22.2	
Canada	11.4	20	14.8	25	4.9	
Ireland	9.8	15	11.0	19	13.4	17
Germany	8.9	16	8.3	15	10.3	15
Sweden	8.4	13	7.0	13	9.9	18
Netherlands	7.2	11	9.6	15	1.7	8
Spain	13.7	20	17.2	24	20.6	25
Italy	11.4	18	15.3	24	8.9	20
Czech	5.4	9	8.8	13	3.6	7

# Constant Value and Relative Measures

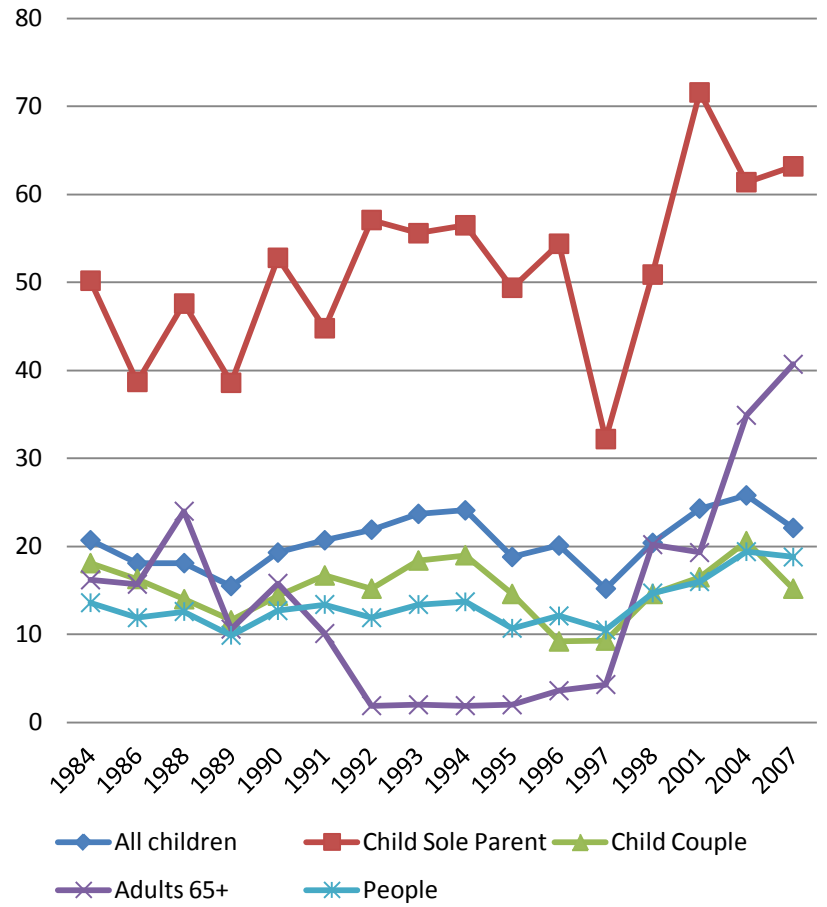
- Updating of poverty line has large effect on:
  1. Trends in incidence of poverty (in NZ)
    - Constant value shows economic cycle
    - But means poor get no benefit economic growth
  2. Structure of poverty – age 65+, children
    - Sole parents poor either measure
    - Few 65+ poor on CV, but many on relative in periods of growth: NZS on knife edge
    - Impact on policy of different measures

# Comparison Constant Value and Relative Value Measures of Poverty, New Zealand, 1984-2007

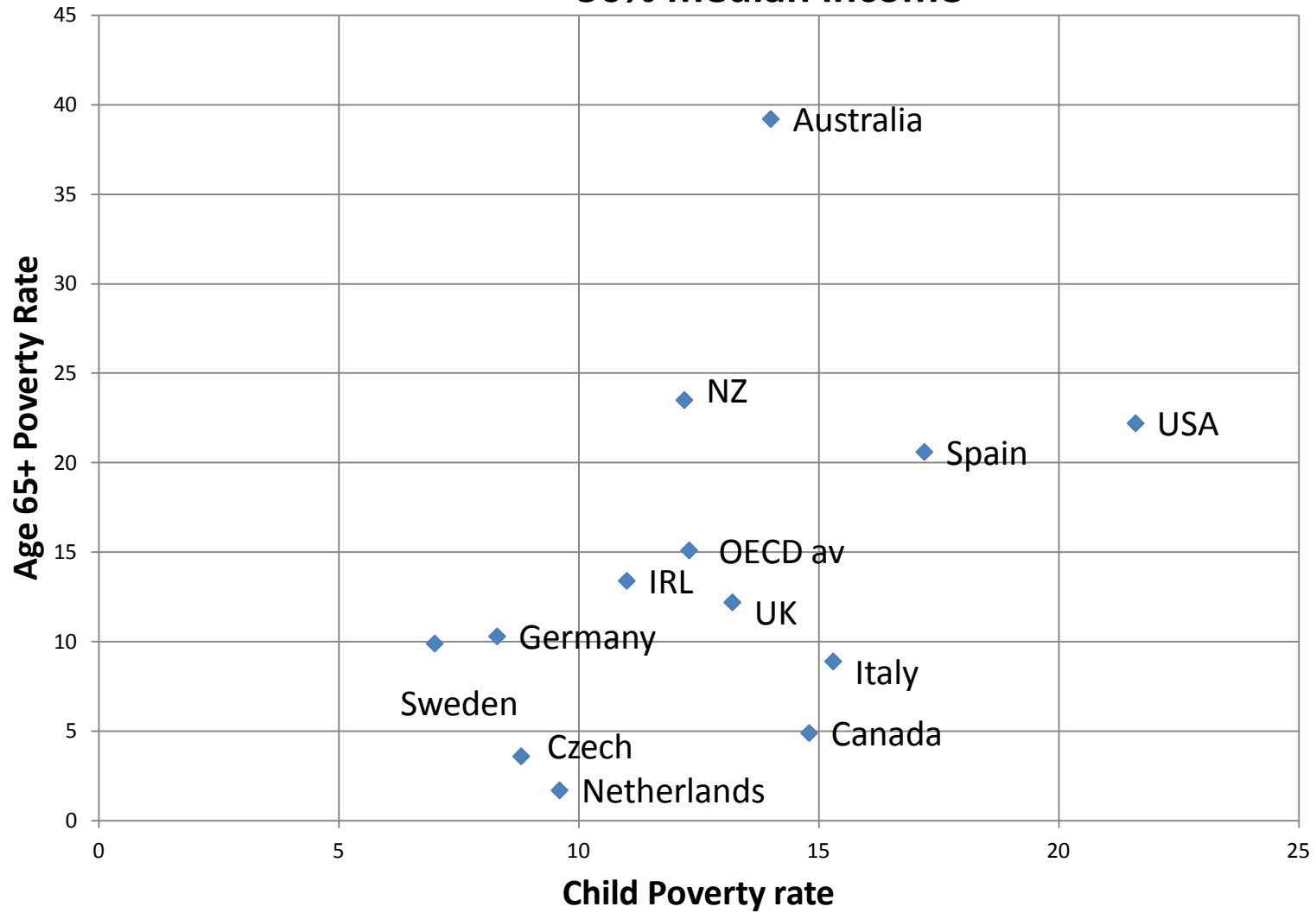
## Constant Value Poverty, 1993



## Relative Value Poverty 60%



## Child and Age 65+ Poverty Rates: 50% median income



# Government Expenditure on Children

- NZ relative high cash expenditure on children at average wage
  - Child tax credits included as cash, not tax reduction
  - First child tax credit larger than 2<sup>nd</sup>+
  - WfF less tightly targeted
- NZ high total expenditure, mainly cash
- Sweden, Dutch – low cash expenditure, high services (child care), services not in disposable income
- Mmm – USA??



# Family Cash Benefits, OECD data

Indicator Country	Child Pov 60	Cash 1 child % av wage	Public Spending on Family Benefits, %GDP			
			Cash	Services	Tax Breaks	Total
OECD Average	20	na	1.22	0.78	0.25	2.20
<b>NZ</b>	<b>20</b>	<b>10*</b>	<b>2.26</b>	<b>0.79</b>	<b>0.02</b>	<b>3.07</b>
Australia	22	14	1.80	0.65	0.36	2.81
UK	21	6	2.13	1.11	0.33	3.58
USA	29	3	0.10	0.55	0.53	1.19
Canada	25	8	0.80	0.16	0.42	1.38
Ireland	19	6	2.32	0.28	0.11	2.70
German	15	8	1.09	0.75	0.88	2.71
Sweden	15	4	1.49	1.86	0	3.35
N'lands	15	3	0.61	1.38	0.85	2.84
Spain	24	1	0.52	0.71	0.24	1.47
Italy	24	5	0.65	0.75	0	1.40
Czech	13	3	1.49	0.50	0.47	2.46

# Some Explanatory Variables

- NZ higher than OECD average inequality, inequality matters – northern Europe
- Higher than average lone parent families, no longer largest in OECD
- NZ relatively low unemployment – but see OZ, N'lands
- Work as (partial) solution: employment rate indicate ability to raise female work effort
  - NZ low % lone parent work (but increasing), but N'lands, Germany cf. Sweden
- Benefit cf. median income: raise benefit level to offset beneficiary poverty (or part-time earnings)
  - NZ = N'lands, Sweden, < OZ, Germany, UK

Indicator Country	Inequality Gini	% Kids lone parent families	Unempl Rate: 2010 data	Employment Rates [2005]:		Benefit/60% median income:	
				Mother Couple	Child Lone	Families Couple	2 Kids Lone
OECD Av	0.31	15.8	8.1	na	70	na	na
<b>NZ</b>	<b>0.33</b>	<b>21.4</b>	<b>6.3</b>	<b>47</b>	<b>53</b>	<b>81</b>	<b>74</b>
Australia	0.34	16.8	5.7	48	50	90	91
UK	0.34	20.9	7.8	56	56	109	104
USA	0.38	25.8	9.4	58	74	40	43
Canada	0.32	22.1	8.4	63	68	64	59
Ireland	0.30	23.3	12.2	56	45	101	113
German	0.30	14.5	7.8	45	62	89	89
Sweden	0.21	16.2	8.5	76	82	80	82
N'lands	0.29	11.8	3.9	70	57	81	75
Spain	0.31	8.8	18.1	48	84	47	41
Italy	0.34	10.9	7.9	49	78	3	3
Czech	0.26	14.5	6.8	35	63	74	79

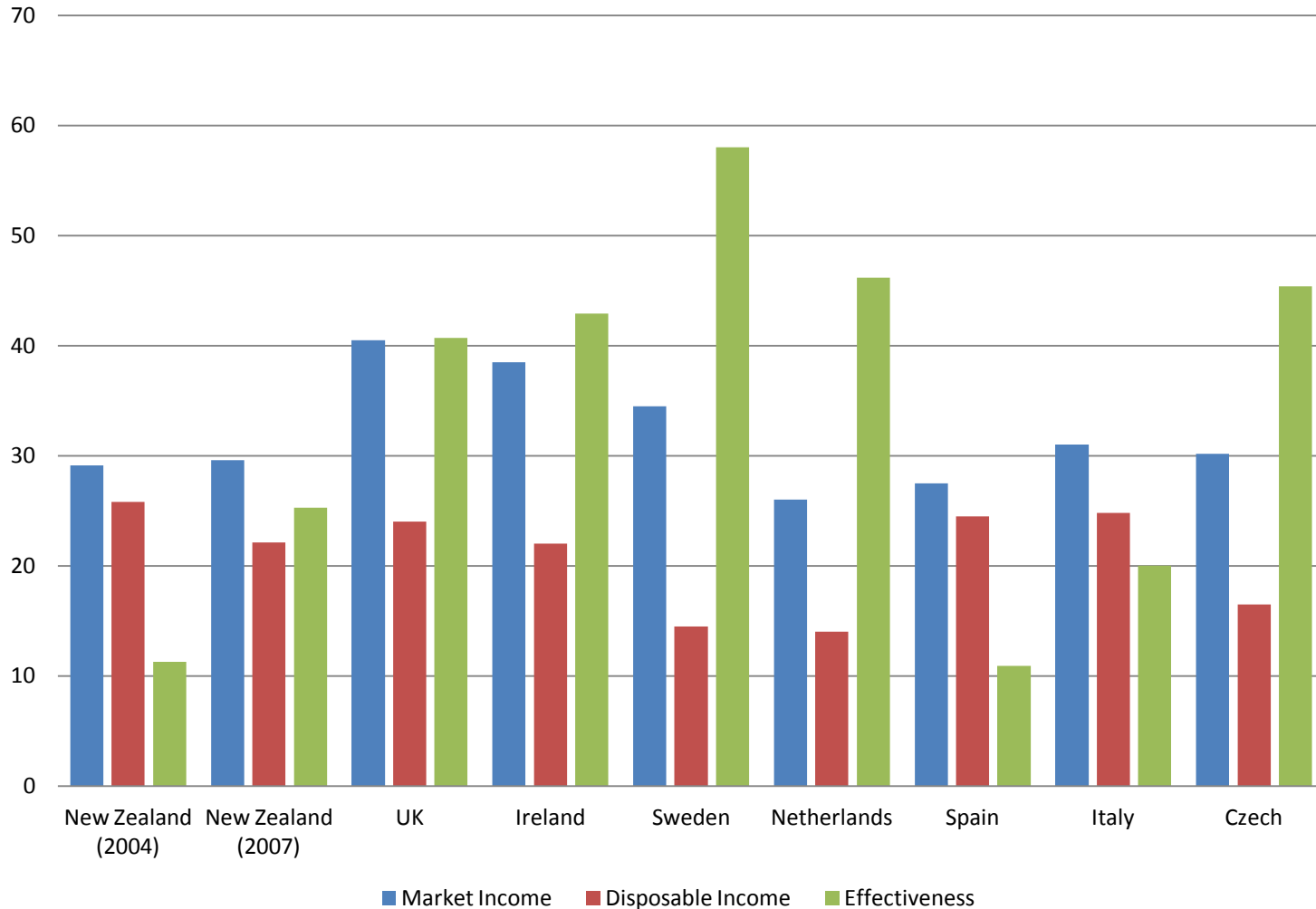
# The Impact of Household Status and Work on Poverty in Households, 2008. 50% median income

	All children	Single		Couple		
		No work	In work	No work	1 worker	2 workers
OECD av.	11.1	61.1	21.3	53.1	17.1	3.7
<b>NZ</b>	<b>9.6</b>	<b>75.7</b>	<b>14.0</b>	<b>68.6</b>	<b>9.3</b>	<b>1.0</b>
Australia	11.6	74.7	16.8	68.0	13.5	1.0
UK	11.2	47.8	6.7	31.5	9.7	1.4
USA	18.7	91.5	35.8	84.1	30.6	6.6
Canada	13.0	84.9	29.3	73.7	27.5	4.9
Ireland	9.7	62.4	10.8	21.8	9.0	1.2
Germany	7.6	46.2	11.6	23.2	3.7	0.6
Sweden	6.0	54.5	11.0	46.0	18.5	1.4
N'lands	7.8	57.9	23.8	64.7	14.6	1.9
Spain	16.2	68.8	26.7	88.8	29.3	5.2
Italy	14.0	87.6	22.8	79.3	22.5	2.7

# Effectiveness of government tax/benefit policies to reduce poverty

- Assume market income not affected by policy
- WfF no impact market [though NZ relatively low] but reduce disposable income poverty -> greater effectiveness,
- But effectiveness still low
- N'lands 'gold standard': low market and high effectiveness
- Sweden – high market poverty, but welfare state effective

# Child Poverty: Market and Disposable Income: Tax/Benefit Effectiveness



## Impact of Income Redistribution, Work on Poverty Rates, circa 2000

- What would be impact on poverty if each country in OECD used Swedish income redistribution, work levels?
- Simulating Swedish tax/benefit system levels for all OECD countries, child poverty rates fall
- In 2000, NZ tax/benefit system reduced poverty 28.7% to 14.6%: using Swedish, fall to 6.4%
- Highest (with UK) in OECD: note USA
- NZ employment rate at Swedish level, lowers poverty rate 13.6% to 9.9%.
- More two income households changes rate to 12.6%
- Combined effect of reform: incidence of 9.1%
- NZ still high by OECD standards
- Employment has smaller impact than redistribution [but 2000 data, before WfF]

	Impact redistribution on Child Poverty rate			Household Poverty Rate			
	Before	After	Counterfactual	Actual	More jobs	More 2 earners	Combined
OECD	20.5	12.1	4.3	10.2	9.0	8.7	7.0
NZ	28.7	14.6	6.4	13.6	9.9	12.6	9.1
OZ	26.6	11.6	6.0	10.2	6.5	9.9	5.8
UK	29.1	16.2	6.5	13.6	10.2	12.4	8.8
USA	26.6	21.7	6.0	18.4	17.8	16.9	15.6
Canada	21.1	13.6	4.7	11.5	10.3	11.1	9.1
Ireland	24.9	15.7	5.6	13.5	9.7	10.9	6.0
German	19.9	10.9	4.5	9.5	5.8	7.8	4.2
<i>Sweden</i>	<u>16.1</u>	<u>3.6</u>	<u>3.6</u>	<u>3.2</u>	<u>2.7</u>	<u>3.2</u>	<u>2.7</u>
N'lands	16.1	9.0	3.6	7.6	5.7	7.0	4.8
Spain				13.7	12.6	9.8	7.3
Italy	15.9	15.7	3.6	14.3	13.6	7.7	4.9
Czech	21.4	7.2	4.8	5.6	2.8	5.2	2.7



# Deprivation Indicators

- EU data, with NZ added (MSD)
- 9 item EU index (not by choice: lack phone, colour TV, washing machine, car, meal with meat, week holiday, pay mortgage/rent/utilities, cover unexpected costs \$NZ1500)
- Enforced lack 3+ items
- Child deprivation exceeds aged 65+ and for total population
- NZ material hardship high for children, low for aged 65+
- New EU countries have high rates of deprivation

# Deprivation Rates: % 3+ enforced lacks, using 9 item EU index

	Children 0-17	Aged 65+	Total Population
New Zealand	18	3	13
UK	15	5	10
Ireland	14	4	11
Germany	13	7	13
Sweden	7	3	6
Netherlands	6	3	6
Spain	9	11	11
Italy	18	14	14
Czech	20	17	20

# Assistant to Families with Dependent Children

- International study, using 'model' families, 4 studies, first 1993. NZ 'laggard', 'miserly'
- WfF improve NZ, but other country also improve
- One/two parents, number of children and age, work force status, income levels, 22 OECD countries, national informants, 2008 data US \$
- Social assistance, after social insurance, lone mother with 2 year old
- Different mix universal & child benefits (NZ cf. Sweden), child benefits & parental (NZ cf. UK), difference in disposable income from a couple (NZ cf. USA)

**Composition of Family Assistance: Lone Mother with 2  
year old, Social Assistance. PPP USA**

	NZ	Aus	UK	Can	USA	Swed	Germ	N'land	Italy	Spain
<b>Parent Benefit</b>	<b>9083</b>	<b>9778</b>	<b>4837</b>	<b>3693</b>	<b>8076</b>	<b>7427</b>	<b>10142</b>	<b>12868</b>	<b>3462</b>	<b>7677</b>
<b>Universal Child Benefit</b>	<b>0</b>	<b>0</b>	<b>1503</b>	<b>983</b>	<b>0</b>	<b>1394</b>	<b>0</b>	<b>930</b>	<b>0</b>	<b>0</b>
<b>Income-tested</b>	<b>2971</b>	<b>5513</b>	<b>4041</b>	<b>2731</b>	<b>2688</b>	<b>0</b>	<b>4422</b>	<b>1202</b>	<b>571</b>	<b>695</b>
<b>Child Ben % Parent Ben</b>	<b>32.7</b>	<b>56.3</b>	<b>134</b>	<b>100</b>	<b>33.3</b>	<b>18.8</b>	<b>43.6</b>	<b>16.5</b>	<b>16.5</b>	<b>9.0</b>
<b>Disposable Income</b>	<b>12055</b>	<b>15292</b>	<b>10383</b>	<b>7768</b>	<b>10764</b>	<b>10331</b>	<b>14565</b>	<b>15002</b>	<b>4051</b>	<b>8372</b>
<b>% Income diff Couple</b>	<b>14.1</b>	<b>9.5</b>	<b>36.7</b>	<b>138.0</b>	<b>177.7</b>	<b>_**</b>	<b>56.3</b>	<b>-22.5</b>	<b>16.5</b>	<b>9.0</b>

## Half Average Earnings, Lone mother, 2 year old

- In-work benefits (NZ, OZ, USA, Italy)
- Abating income-tested (Canada, Germany, N'lands, Spain), NZ relative high child benefit
- Offset by income and social security tax (NZ, Sweden cf. Germany)
- NZ, UK – highest income difference cf. couple,
- But net child care costs very high
- NZ high EMTR going from social assistance to  $\frac{1}{2}$  average earnings

## Composition of Family Assistance: Lone Mother with 2 year old, Half Average Earnings. PPP USA \$

	NZ	Aus	UK	Can	USA	Sweden	Germ	N'land	Italy	Spain
<b>Earnings</b>	<b>17285</b>	<b>20521</b>	<b>19412</b>	<b>21827</b>	<b>20430</b>	<b>17986</b>	<b>25496</b>	<b>22102</b>	<b>20748</b>	<b>14709</b>
<b>Universal Child Benefit</b>	<b>0</b>	<b>0</b>	<b>1503</b>	<b>786</b>	<b>1000</b>	<b>3078*</b>	<b>2270</b>	<b>930</b>	<b>0</b>	<b>0</b>
<b>Income-tested</b>	<b>5037</b>	<b>8202</b>	<b>4041</b>	<b>2315</b>	<b>2946</b>	<b>0</b>	<b>0</b>	<b>1202</b>	<b>2426</b>	<b>695</b>
<b>Child Benefit % Earnings</b>	<b>29.1</b>	<b>40.0</b>	<b>28.6</b>	<b>14.2</b>	<b>19.3</b>	<b>17.1</b>	<b>8.9</b>	<b>9.7</b>	<b>11.6</b>	<b>4.7</b>
<b>Income tax</b>	<b>2841</b>	<b>2438</b>	<b>623</b>	<b>1955</b>	<b>1654</b>	<b>3958</b>	<b>1900</b>	<b>3956</b>	<b>4918</b>	<b>0</b>
<b>Social security</b>	<b>241</b>	<b>0</b>	<b>1211</b>	<b>1600</b>	<b>1563</b>	<b>0</b>	<b>5220</b>	<b>0</b>	<b>1687</b>	<b>933</b>
<b>Net Disposable Income</b>	<b>19240</b>	<b>26285</b>	<b>23122</b>	<b>23129</b>	<b>21159</b>	<b>17106</b>	<b>20646</b>	<b>23662</b>	<b>17480</b>	<b>14471</b>
<b>% Income diff Couple</b>	<b>35.5</b>	<b>30.6</b>	<b>34.6</b>	<b>17.0</b>	<b>14.6</b>	<b>22.0</b>	<b>2.4</b>	<b>14.8</b>	<b>16.6</b>	<b>5.0</b>
<b>MTR Social Assist -&gt; ½ AE</b>	<b>58.4</b>	<b>46.4</b>	<b>34.4</b>	<b>29.4</b>	<b>49.1</b>	<b>62.3</b>	<b>76.1</b>	<b>50.2</b>	<b>35.3</b>	<b>58.5</b>
<b>Net child care</b>	<b>3225</b>	<b>1420</b>	<b>2260</b>	<b>836</b>	<b>2357</b>	<b>495</b>	<b>985</b>	<b>1000</b>	<b>2142</b>	<b>2295</b>

Couple, 2 & 7 year olds, av. earnings, 1 worker

- Child benefit increased with number of kids, but abatement for all income-tested
- NZ high child benefit cf. earnings
- NZ low average tax rate,
- Relatively low EMTR going  $\frac{1}{2}$  to average earnings – lack of progressivity of tax schedule and slow abatement of family assistance
- Largest income difference with couple on same earnings

## Composition of Family Assistance: Couple with 2 year old and 7 year old, One Worker. Average Earnings. PPP USA \$

	NZ	Aus	UK	Can	USA	Swed	Germ	N'land	Italy	Spain
Earnings	<b>34570</b>	41042	38824	43654	40860	35982	50992	44204	41496	29418
Universal Child Benefit	<b>0</b>	0	2506	984	2000	2920	4540	2060	0	0
Income-tested Child Benefit	<b>5066</b>	5022	2577	1536	1046	0	0	808	713	0
% Earnings	<b>14.7</b>	12.2	13.1	5.8	7.5	8.1	8.9	6.5	1.7	0
Income tax	<b>7439</b>	8935	7877	5786	4056	21950	5744	10681	8576	260
Social security	<b>484</b>	0	347	3225	3126	0	10441	0	3373	1868
Disposable Income	<b>31713</b>	37111	32711	37163	36714	29176	39349	36733	30261	27292
Average Net Tax Rate %	<b>8.3</b>	9.5	15.9	14.9	10.1	18.9	22.8	16.9	27.1	7.2
% Income diff Couple	<b>16.0</b>	9.7	15.5	7.7	8.5	10.0	12.7	8.7	6.5	7.4
MTR Half -> Av Earning %	<b>27.9</b>	46.5	48.4	32.1	33.6	23.5	33.9	38.2	38.8	10.9