

UNICEF  
Innocenti Research Centre

Report Card No.6

# Child Poverty in Rich Countries 2005

**The proportion of children living in poverty has risen in a majority of the world's developed economies**

For every child  
Health, Education, Equality, Protection  
ADVANCE HUMANITY

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This publication is the sixth in a series of *Innocenti Report Cards*, designed to monitor and compare the performance of the OECD countries in meeting the needs of their children (see inside back cover). It is also the first in what will be an annual *Innocenti Report on Child Poverty in Rich Countries*.

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The UNICEF Innocenti Research Centre in Florence, Italy, was established in 1988 to strengthen the research capability of the United Nations Children's Fund (UNICEF) and to support its advocacy for children worldwide. The Centre (formally known as the International Child Development Centre) helps to identify and research current and future areas of UNICEF's work. Its prime objectives are to improve international understanding of issues relating to children's rights and to help facilitate the full implementation of the United Nations Convention on the Rights of the Child in both industrialized and developing countries.

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*Protecting children from the sharpest edges of poverty during their years of growth and formation is both the mark of a civilised society and a means of addressing some of the evident problems that affect the quality of life in the economically developed nations.*

## KEY FINDINGS

At the top of the child poverty league are Denmark and Finland with child poverty rates of less than 3 per cent. At the bottom are the United States and Mexico, with child poverty rates of more than 20 per cent (Figure 1).

Over the latest ten-year period for which comparable data are available, the proportion of children living in poverty has risen in 17 out of 24 OECD countries (Figure 2).

Norway is the only OECD country where child poverty can be described as 'very low and continuing to fall'.

Higher government spending on family and social benefits is clearly associated with lower child poverty rates

Four out of 13 OECD countries for which 1990s data are available saw a decline in earnings for the lowest-paid 25 per cent of fathers. Seven countries saw a decline in earnings for the lowest-paid 10 per cent (Figure 6).

On average, government interventions reduce by 40 per cent the rates of child poverty that would theoretically result from market forces being left to themselves (Figure 9).

Governments in the countries with the world's lowest levels of child poverty reduce 'market poverty' by 80 per cent or more. Governments in the countries with the world's highest poverty rates reduce 'market poverty' by only 10 per cent to 15 per cent (Figure 9).

Variation in government policy appears to account for most of the variation in child poverty levels between OECD countries.

No OECD country devoting 10 per cent or more of GDP to social transfers has a child poverty rate higher than 10 per cent. No country devoting less than 5 per cent of GDP to such transfers has a child poverty rate of less than 15 per cent.

There is no fixed ratio between levels of government support and child poverty rates. Many OECD countries appear to have the potential to reduce child poverty below 10 per cent without a significant increase in overall spending.

In most OECD countries, increases in social spending over the decade of the 1990s appear to have been allocated mainly to pensions and to health care (Figure 11).

Agreed definitions and measures of poverty are essential if policy targets are to be set and met. Relative income poverty measures need to be supplemented by direct measures of material deprivation.

## INTRODUCTION

This 2005 review of child poverty in rich countries, from the UNICEF *Innocenti Research Centre*, finds that the proportion of children living in poverty in the developed world has risen in 17 out of the 24 OECD nations for which data are available. No matter which of the commonly-used poverty measures is applied, the situation of children is seen to have deteriorated over the last decade.

UNICEF believes that reversing this trend is a priority for the OECD countries. Allowing the kind of poverty that denies a child the opportunities that most children consider normal is a breach of the United Nations *Convention on the Rights of the Child* to which almost all OECD countries are committed (Box 2). Reducing child poverty is also a measure of progress towards social cohesion, equality of opportunity, and investment in both today's children and tomorrow's world.

### League table

At the top of the new child poverty league (Figure 1) are Denmark and Finland where the proportion of children in poverty is now less than 3 per cent. At the bottom are the United States and Mexico where child poverty rates are higher than 20 per cent.

Such variation in itself demonstrates a central point of this report: there is nothing inevitable or immutable about child poverty levels; they reflect different national policies interacting with social changes and market forces. Significant variation therefore equals significant scope for improvement.

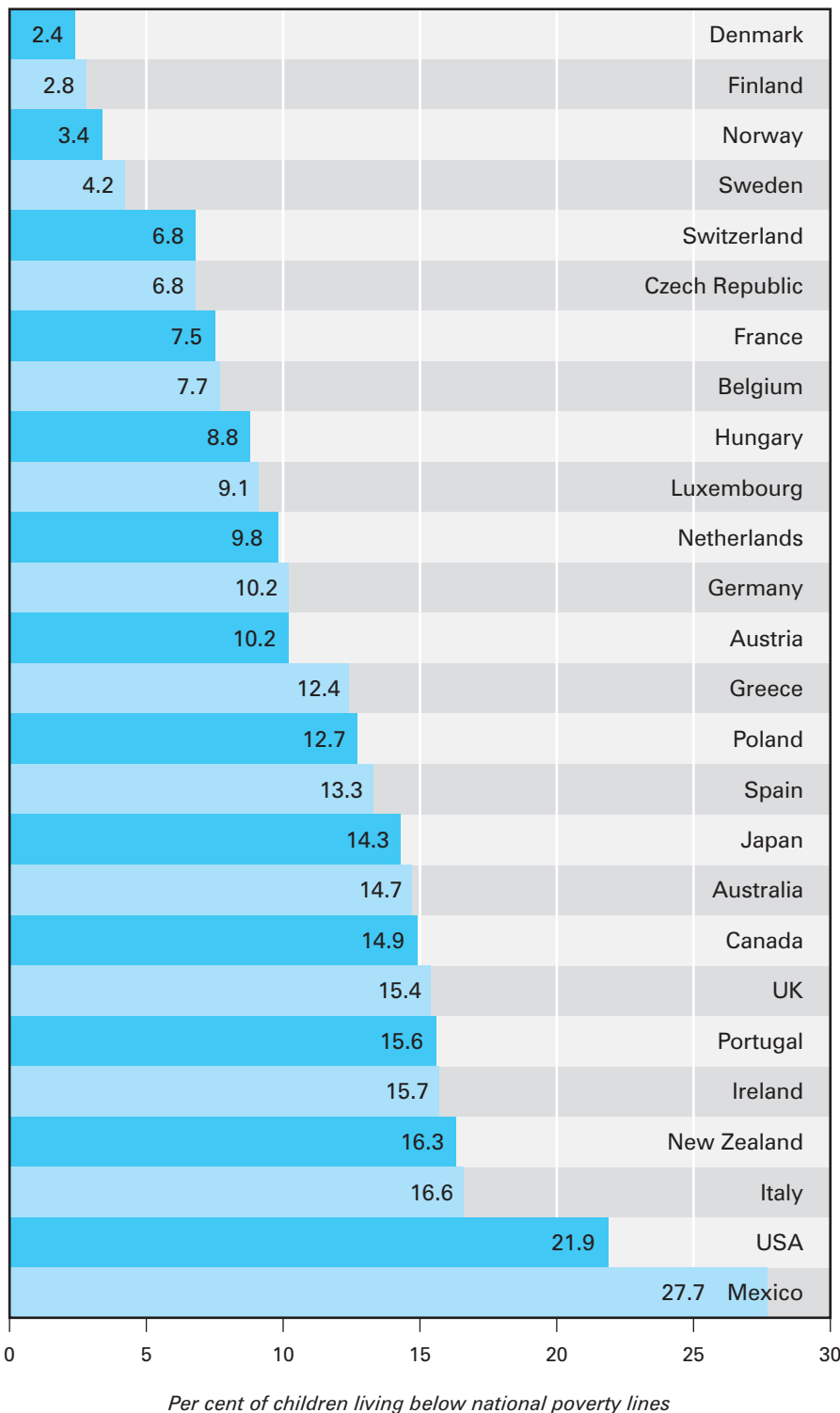
It is apparent from Figure 1 that most progress has been made in the Nordic countries, all four of which have child poverty rates below 5 per cent. There follows a broad band of middle-ranking nations with rates between 5 and 15 per cent, including all of the most populous European countries except Italy (which has the highest child poverty rate in Europe).

Below this group are to be found five countries – the United Kingdom, Portugal, Ireland, New Zealand, and Italy – all with exceptionally high rates of child poverty (15 per cent to 17 per cent).

Two other striking features of the rankings are that all six non-European nations – Australia, Canada, Japan, Mexico, New Zealand, and the United States – are to be found in the bottom half of the table. It may also be significant that the five countries with the lowest child poverty rates all have small populations (4 to 9 million). The average population size for the top half of the table is approximately 16 million as opposed to 60 million for those in the lower half of the table. That small nations may have advantages in solidarity and cohesiveness, or that poverty may be less tolerable and more manageable in smaller economies, are notions that await further inquiry.

### Change over time

Although it is widely assumed that child poverty in rich countries is on a steady downward track, Figure 2 clearly shows this is not the case. Tracking child poverty rates over the most recent ten-year period, the chart shows that child



**Figure 1 The Child Poverty League**

The bars show the percentage of children living in 'relative' poverty, defined as households with income below 50 per cent of the national median income (details of the calculations and years to which data refer are given on page 32).

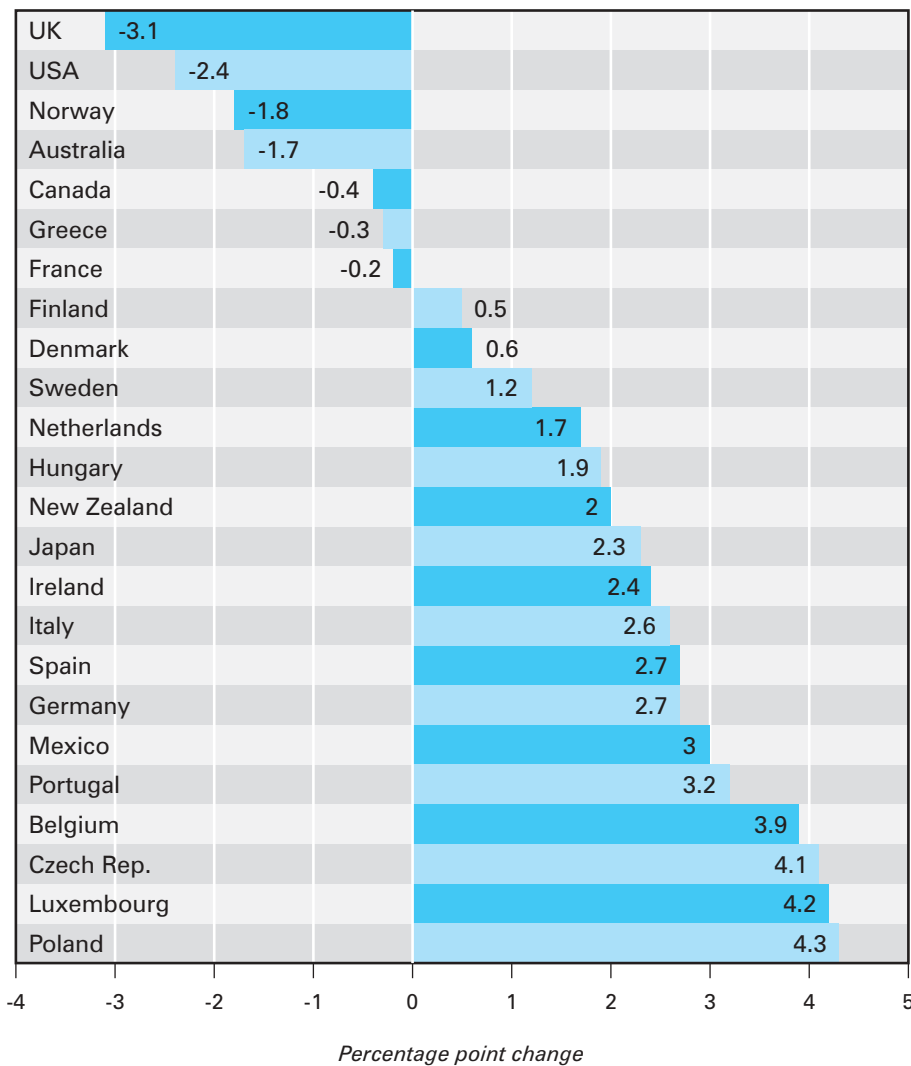
poverty has risen in 17 of the 24 OECD countries for which data are available.

In only four countries has there been a significant fall. Three of those four – Australia, the United Kingdom and the United States – began the period with child poverty rates that offered much scope for improvement. In only one of the countries with low child poverty at the beginning of the period has the rate been further reduced: Norway therefore takes the accolade as the OECD nation where

child poverty can be described as 'very low and continuing to fall'. Special mention might also be made of the United Kingdom where a commitment has been made to reducing the exceptionally high child poverty rate and where the first target – a 25 per cent reduction by 2004–2005 – is likely to have been met (Box 4).

### **The challenge to government**

While acknowledging the power of labour market conditions and social changes, this report emphasises the



**Figure 2 Changes in child poverty rates during the 1990s**

The bars show the rise or fall in child poverty rates in each country during the 1990s. (Details of the calculations and the years to which data refer are given on page 32.)

capacity of governments to bring downward pressure on child poverty rates. It shows, for example, that higher government spending on family and social benefits is clearly associated with lower child poverty rates (Figure 10). But it also shows considerable variation in poverty rates – from 3 per cent to 15 per cent – even in countries with broadly similar levels of government spending. This suggests that poverty rates depend not only on the level of government support but on the manner of its dispensation; many OECD countries would appear to have the potential to reduce child poverty below 10 per cent without a significant increase in overall spending.

Poverty levels are the result of a complex and sometimes difficult-to-predict interplay between government policy, family efforts, labour market conditions, and the wider forces of social change. It is therefore essential to have an up-to-date and evidence-based awareness of how government policy plays out in the real world. This is mostly a matter of detailed national analysis, but this report explores one means of making more visible the real impact

of government tax and transfer policies on children in low-income families, and warns that in some countries the net result of current policies may be to support early retirement over investing in children.

Most fundamentally, the report urges all OECD governments to establish credible targets and timetables for the progressive reduction of child poverty. For most of those countries, a realistic target would be to bring child poverty rates below 10 per cent. For the six nations that have already achieved this, the next aim might be to emulate the Nordic countries in bringing child poverty below 5 per cent.

‘To change something, first measure it’ remains an axiom of evidence-based policy making. This report therefore begins by drawing on recent OECD experience to suggest ‘best practice’ in defining and monitoring the problem. In particular it suggests the use of both ‘fixed’ and ‘moving’ poverty lines to help lock in gains, prevent slippage, and begin a progressive ratcheting down of child poverty.

## M E A S U R I N G C H I L D P O V E R T Y

This brief summary of current status and recent trends is issued at a time when child poverty is of growing political and public importance to many OECD countries.

In part this reflects a here-and-now concern for the human rights and the well-being of the 40 to 50 million children who are growing up below national poverty lines in some of the world's wealthiest countries. In part, also, it reflects a new concern over child rights and the awareness that child poverty is standing in the way of further progress towards the equality of opportunity that remains a defining ideal of developed societies.

Over the last two centuries, much progress has been made towards the idea that every child ought to have the chance to be all that he or she could be, and that the opportunities of life ought not to be determined by the circumstances of birth. But the evidence of both social statistics and everyday experience indicates that those who grow up in poverty are at a marked and measurable disadvantage. No-one would suggest that this is in some way the fault of the children concerned. High rates of child poverty are therefore an unambiguous contradiction of equality of opportunity.

Reinforcing all this is a strong pragmatic element. Many of the more intractable social problems facing economically developed societies can be seen to be in some way related to poverty, disadvantage, and denial of opportunity during the early years of life.

Uniting all such worries is the statistical association between poverty in childhood and a well-catalogued variety of later-life outcomes. Care is required here to avoid stigmatising low-income families with high levels of parenting skills. But as the *Innocenti Report Card* series has regularly shown, there is a close correlation between growing up in poverty and the likelihood of educational under-achievement, poor health, teenage pregnancy, substance abuse, criminal and anti-social behaviour, low pay, unemployment, and long-term welfare dependence. It is acknowledged that such problems may arise from circumstances that are associated with, but not necessarily

caused by, low income (for example low levels of parental education or parenting skills); nonetheless, child poverty appears to be a consistent and catalytic element in the mix of circumstance that perpetuates such problems from one generation to the next.

A great deal is therefore at stake in this discussion, and recent years have seen a ferment of research and debate on child poverty – its causes, consequences, and potential remedies. This annual *Innocenti* report on *Child Poverty in Rich Countries* will monitor that debate from an international perspective.

### Measuring poverty

The first challenge for any government seeking to reduce child poverty is to establish a consensus on how it may best be defined and measured. Does poverty mean the inability to buy essentials like food, clothing, shelter and health care? Or does it mean falling more than a certain distance behind the incomes and life-styles of the community in which one lives? Where should the line be drawn between the poor and non-poor? And how should poverty lines be updated?

Such questions provoke controversy not only among academics and researchers but among politicians, press and public. Yet without answers – and answers that can command a degree of consensus – indicators cannot be established, targets cannot be set, progress cannot be monitored, and policy cannot be evaluated.

In general, the United States has favoured an 'absolute' poverty line defined as the ability to purchase a defined quantity of goods and services (Box 5). Most other OECD members, including those in the European Union, have leant towards relative poverty lines drawn at a given percentage of median national incomes.

In most respects this is a false polarisation. All practicable definitions of poverty are ultimately definitions of *relative* poverty. Most of the poor in OECD countries today, for example, would be judged rich by the 'dollar-a-day' definition widely used to measure poverty in the



developing world (Box 3). Similarly, the poor of the OECD today – judged by standards of nutrition, sanitation, water supply, health care, housing, heating, clothing, education and transport – are richer than the wealthiest lord or merchant of the Middle Ages.

A workable definition of poverty will therefore always be related to time and place. It follows that income-based poverty lines need to be drawn in relation to typical incomes and that they should be regularly updated. Poverty then becomes defined as falling below the median income of the society by more than a certain degree. Hence the definition of child poverty used in this report and widely accepted by policy-makers in many OECD countries: a child is to be considered poor if the income available to that child, assuming a fair distribution of resources within the family and making allowances for family size and composition, is less than half the median income available to a child growing up in that society.

## Limitations

This ‘moving’ poverty line, changing in step with median income, is not without its limitations.

First, it measures only income poverty. And whereas it may be true that the principal difference between the rich and the poor is that the rich have more money, it is also true that poverty, and especially child poverty, has many dimensions: children can be rich or poor in family love and security, in parental time and skills, in community and friendships, and in the quality of their environment. Income poverty may affect all of these factors; but it is not a perfect proxy for them.

Secondly, measuring income at a specific point can provide only an approximate guide to the economic capacity of parents to provide for their children. A family’s economic resources, its feelings of security and its spending power, are based not only on the income of a given month or year but also on savings and pension funds, home ownership and house values, previous years’ earnings and future economic expectations.

Third, relative income poverty may tell us very little about actual material standards of living. According to Figure 1, for example, the Czech Republic and Hungary have lower child poverty rates than Germany or the Netherlands; Poland has a lower rate than Canada, Japan, or the United States. This, it may be argued, reflects ‘only’ the greater degree of income equality in former communist countries where most children are, in a material sense, obviously poorer. Essentially the same problem may also arise when

relative income is used to measure changes in poverty rates over time. In the 1990s, for example, the Republic of Ireland saw sustained economic growth that brought a near doubling of average incomes. Clearly, child poverty has in one sense been reduced. But *relative* poverty remained largely unchanged. There is no surprise in this; if the incomes of the poor do not rise faster than the average for the population as a whole then, by definition, relative poverty will not decline.

All of these limitations point to the need for other measures to capture other dimensions of poverty. But they do not invalidate income and its distribution as the leading indicator of poverty and as a central focus of political and public concern. Apart from being the one poverty measure for which consistent data are widely available for all OECD countries, income poverty remains the most telling single indicator of child well-being. As the American sociologist Susan Mayer has written, “*income is positively correlated with*

## The OECD

# 1

The term ‘rich countries’ as used in this report is defined by membership of the Organization for Economic Cooperation and Development (OECD).

The OECD, founded in 1960, is the international organization of the industrialized, market-economy countries. As comparable statistics are available for most OECD countries, and as most have achieved near-universal basic health care and education for children, its membership constitutes a convenient group for the analysis of problems facing the children of economically developed societies.

As at 2005, the following 30 countries are members of the OECD:

Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, the Republic of Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom of Great Britain and Northern Ireland, the United States of America.

Data sets necessary to calculate child poverty rates are available for 26 of these countries. Data were unavailable for Iceland, the Republic of Korea, Turkey, and the Slovak Republic.

## The Convention: a commitment to children

# 2

The United Nations *Convention on the Rights of the Child* contains 54 articles covering almost every aspect of the human rights and well-being of children. It is a comprehensive legal text negotiated over ten years and agreed to by 192 governments. But above all it is a commitment made to the children of the world. Is this promise being honoured by the developed countries?

This *Innocenti Report on Child Poverty in Rich Countries* attempts to answer this question by focusing particularly on the two articles of the Convention relating directly to the material well being of children.

Article 27 states that governments “*recognize the right of every child to a standard of living adequate for the child’s physical, mental, spiritual, moral and social development.*” The case outlined in these pages for defining poverty as a relative concept, and as one dimension of the broader problem of social exclusion, directly addresses this right.

Article 27 also makes clear that parents or others responsible for the child “*have the primary responsibility to secure ... the conditions of living necessary for the child’s development,*” but that governments should assist parents “*to implement this right and shall in case of need provide material assistance and support programmes, particularly with regard to nutrition, clothing and housing.*”

Much of this report addresses this fundamental provision of the *Convention on the Rights of the Child* – requiring all ratifying governments to put in place the economic safety nets to ensure freedom from want and to protect children from the kinds of deprivation that can damage the child’s development.

Article 4 notes that these rights shall be fulfilled by each nation “*to the maximum extent of available resources.*” This question is also directly addressed by the last section of the report which examines the priority afforded to children in government budgets and in tax and transfer policies.

Overall, the report discusses the three main practical challenges that all governments face if the promise of the *Convention on the Rights of the Child* is to be honoured: first, to define a minimum standard of living compatible with the child’s dignity and necessary to secure children’s normal physical, mental, spiritual, moral and social development; second, to understand the capabilities and limits of families and markets in providing this standard of living; and third, to move rapidly towards an evidence-based awareness of the impact that government budgetary decisions have on the lives of children.

Sources: see page 34

*virtually every dimension of child well-being that social scientists measure, and this is true for every country for which we have data.”<sup>1</sup>*

### Best practice

Not all OECD countries have yet cleared this first hurdle of defining and measuring child poverty.

In Canada, the all-party promise made 15 years ago to “*seek to eliminate child poverty by the year 2000*”<sup>2</sup> has run into the sands of definitional debate and has not been followed by agreed yardsticks and clear targets (Box 6). In the United States, where there has been an official definition of poverty since the 1960s, there is today little consensus on its merits, much debate over how it should be revised, and no official target for its reduction (Box 5). In Australia and New Zealand the first steps are only now being taken towards defining and monitoring the problem.

Other countries have made considerable progress. The Republic of Ireland has pioneered a combination of relative income measures and direct monitoring of material deprivation. Similarly, the United Kingdom has established a range of indicators to monitor changes in children’s health and nutrition, clothing and housing, and participation in social activities (Box 4). In the European Union as a whole there is broad agreement that low-income should be defined as ‘below 60 per cent of median income’ and that this measure should be updated annually. The EU also tends to see income poverty as but one aspect of the broader problem of social exclusion – to be monitored by a range of national indicators (Box 7).

As many more governments are likely to engage with this issue at policy level in the years immediately ahead, the following ‘six principles’ draw on OECD experience so far to offer a brief guide to ‘best practice’ in defining and monitoring child poverty.

### 1. Avoid unnecessary complexity

For the purposes of public advocacy and consensus building, the more complex the indicator the less useful it tends to be. The first principle of measurement must therefore be to avoid unnecessary complexity.

Measuring all dimensions of child well-being is an almost impossible task, especially given the need for regular review of both definitions and data. In developed market economies, where basic health care and education for all have largely been achieved, *income* is the most useful single guide to poverty levels and to changes in those levels over time. Data are readily available from the many representative surveys administered by the OECD, and income levels can be measured, compared, and updated with reasonable reliability.

### 2. Measure material deprivation

Measuring family income in a specific year may not always be a reliable guide to the economic resources available to the child. The longer a family stays poor, and the lower the level of past savings and future expectations, the harder it will be to sustain expenditures on essential goods and services. Direct measures of material deprivation are therefore also needed.

Such indicators will necessarily vary from country to country and should aspire to being revealing and manageable rather than exhaustive. The guiding principle should be to monitor the circumstances likely to deprive children of the goods, services and opportunities necessary for normal physical, mental, and social development.

### 3. Base poverty lines on social norms

Whether based on income or on direct measures of deprivation, poverty is a relative concept and the child poverty rate should be defined as the proportion of children whose access to economic resources falls so far below the norm for their societies that they cannot afford the things those around them consider to be normal.

For practical purposes, this means that economic poverty should be expressed as a proportion of median income (the income point at which half the population has more income and half has less). Our main child poverty league table (Figure 1) draws the child poverty line at 50 per cent of current median income. Poverty lines drawn at different points may also be useful in refining the picture, and in determining trends.

### 4. Establish a regular monitoring system

Tracking progress over time is necessary to fuel advocacy, inform policy, and sharpen accountability. Poverty indicators

therefore need to be regularly updated, and data requirements and collection systems need to be designed with an eye to their sustainability over time.

Updating of the national poverty picture should also be timely enough to guide policy-making. This is necessary during periods of rapid economic growth when the standard of living that is considered normal may change rapidly. It is equally necessary in periods of economic recession when governments have a clear responsibility to protect the most vulnerable and need to be aware of the impact on children not five or ten years after the event but in time to take protective action.

### 5. Establish a 'backstop' poverty line and set targets

It is further recommended that incoming governments publish the child poverty rate prevailing at the time of taking office – and make a commitment that under no circumstances will this rate be allowed to increase. The 'backstop' poverty line should be updated only for inflation. In other words, it is a 'fixed' poverty line that relates to the norms and standards of a particular point in time. Care is needed in the use of such an indicator. It represents a minimum test for governments, and reducing the 'backstop' poverty rate should not be proclaimed as a significant achievement; failure to reduce child poverty, so defined, would mean either a) that poor children were not sharing, even proportionately, in economic progress or b) that the most vulnerable were not being afforded any special protection from the effects of economic downturn. Nonetheless, a fixed or backstop poverty line has a part to play. Used in conjunction with a moving relative poverty line based on current median incomes, it can encourage a 'ratchet' approach to reducing child poverty rates by which incoming governments commit themselves to preserving past gains while setting targets for further reductions. Such targets should also include interim goals to be reached within the expected lifetime of the government. More ambitious targets pitched beyond the time-scale of electoral accountability are otherwise of limited use.

### 6. Build public support for poverty reduction

This 'ratchet' approach to reducing child poverty requires long-term political commitment and leadership. In effect this means that the commitment must be able to survive changes in government. This in turn requires the building of public consensus behind the long-term goal of reducing child poverty. Ireland's poverty reduction targets, for example, have already survived a change of administration; the commitments and achievements of the United Kingdom government have yet to face that test (Box 4).

## Poverty and income

# 3

*“Children living in poverty experience deprivation of the material, spiritual and emotional resources needed to survive, develop and thrive, leaving them unable to enjoy their rights, to achieve their full potential or participate as full and equal members of society.”*

The State of the World’s Children Report, UNICEF, 2005

The limitations of income as a poverty measure are widely acknowledged.

First, and most important, there are many dimensions of poverty, and especially of child poverty, that are not necessarily captured by low income. Poverty of expectation, of education and stimulus, of time and love and care, may all leave a child deprived in ways that have profound effects in both the short and long term.

Nor can income statistics measure what some have described as the culture of poverty and others believe is more accurately represented as an ecosystem – an interaction between individuals, families, government services, housing, transport, economic opportunities, and environmental factors such as fear, squalor and violence – that helps to explain poverty’s persistence and retentiveness.

Further research is therefore required to develop poverty measures that will provide a better guide to the mental, physical and social well-being of the young – and to the progress each society is making towards meeting the needs and ensuring the rights of all of its children.

### **Income measurement**

Income data therefore offer nothing more than a guide to the material resources available to children. And even in this context, they must be interpreted with some caution.

First, a family’s economic resources and security are based not only on family income in any given year but

on considerations such as previous earnings, savings, home ownership, and economic expectations. Duration of economic poverty is therefore an important dimension that single-point income statistics fail to capture.

Second, international income comparisons cannot take into account the different levels of expenditure that may be required by different families to maintain a broadly similar standard of living (for example differences in child care or transport costs, or in whether health services are free or charged for).

Third, the child poverty statistics used based on family incomes assume a well-functioning family within which income is allocated equitably and reasonably, with necessities taking priority. A child who is seriously deprived of resources by a parent’s drug or alcohol habit, for example, will not be classified as poor if the family’s income is above a certain percentage of the median income; conversely a child in a low-income family who is cared for by relatives who make outstanding sacrifices to meet the child’s needs will be classified as growing up in poverty.

There are also technical problems to be overcome. An ‘equivalence scale’ must be applied in order to establish the ‘equivalent income’ for children in families of different sizes (necessary because costs such as housing and heating do not increase pro rata with the number of people in the household). The particular conversion scale chosen can affect the calculation of poverty rates.

Finally, income poverty levels in most OECD member countries are susceptible to sampling errors and to problems of under-reporting. It is not uncommon for surveys to find that total family spending does not correspond to total income.

Source: see page 35

## INTERNATIONAL COMPARISON

The *Innocenti* report on *Child Poverty in Rich Countries* will seek to apply these same principles, where possible, to the task of monitoring child poverty in the world's developed economies. And as this first report shows the results are often surprising and, in the case of certain countries, alarming.

The principal measure of child poverty used in our main league table (Figure 1) is a poverty line drawn at 50 per cent of current median income for the country concerned. This avoids unnecessary complexity and offers the best single yardstick for comparing poverty rates over time and across different OECD countries. It may reasonably be interpreted as the point below which children cannot afford the things that those around them consider normal and necessary.

By this standard, child poverty rates can only fall when children living in low-income families share disproportionately in the benefits of economic progress. But this does not mean that a relative poverty line measures only

inequality. If incomes above the median rise but those below do not, then inequality would obviously rise; but the median – and therefore the relative poverty rate – would remain unchanged. Reducing poverty defined as 'income below 50 per cent of current median income' implies only a reduction in inequality in the lower half of the income distribution scale.

As 50 per cent may be considered an arbitrary threshold, Figures 3 and 4 show what would happen to our child poverty league table, and to changes in poverty levels over time, if the poverty line were to be re-drawn at 40 per cent and 60 per cent of median income. As can be seen, neither the rankings nor the direction of change is significantly altered. All but one of the nine countries showing a more than one percentage point rise in child poverty when the poverty line is drawn at 50 per cent of median income also show a rise when the line is re-drawn at 40 per cent and 60 per cent. The one exception is Hungary where the

**Figure 3 Child poverty rates using different poverty lines**

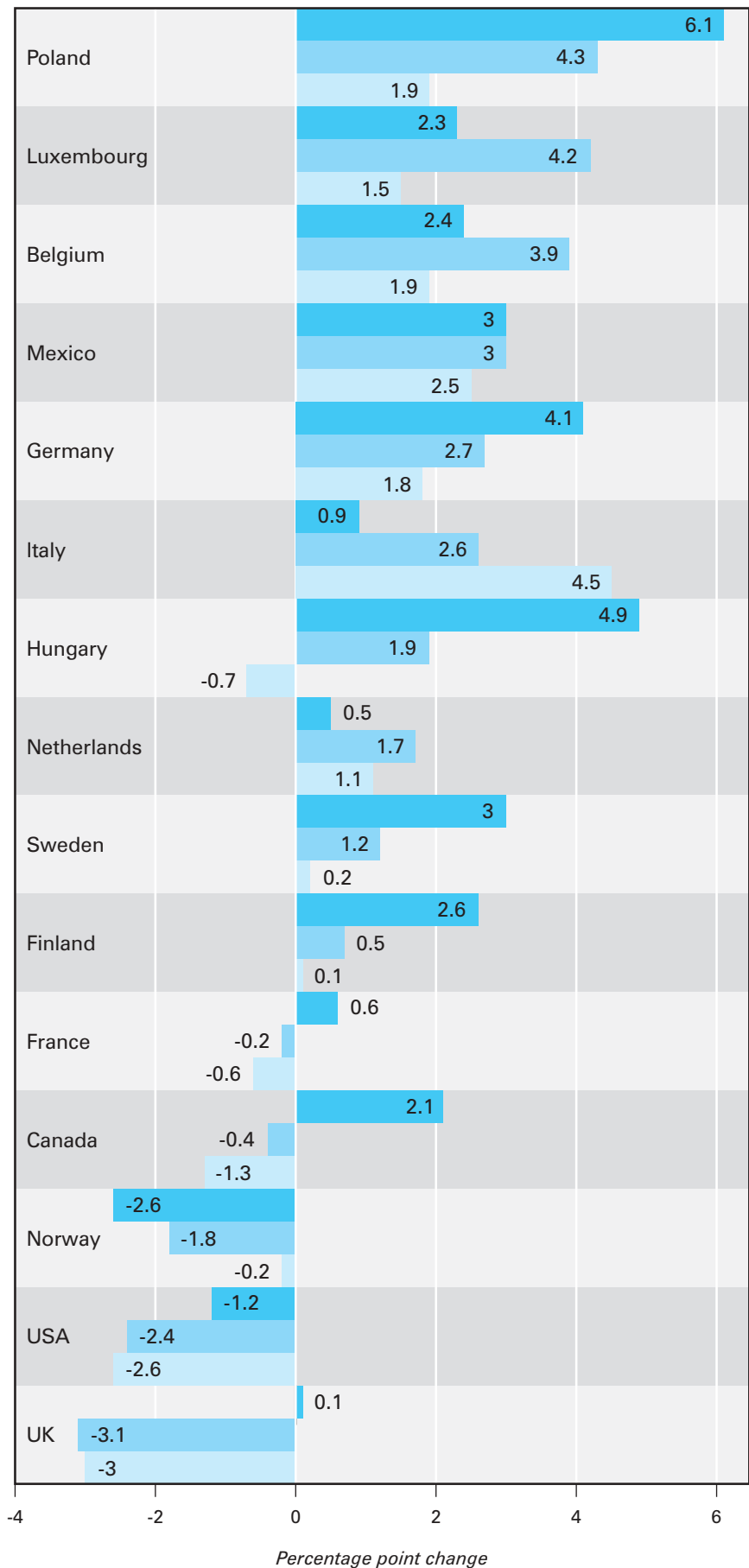
The table shows the variation in the child poverty rate when the definition of poverty is set at different levels in relation to average income. The first column gives the percentage of children living in households with incomes below 50 per cent of the national median income (as in Figure 1). The second and third columns give the percentage below 40 per cent and below 60 per cent of the national median. Dark blue denotes the best performing countries, mid-blue the average performers and light blue the worst. The countries are selected according to the availability of data.

	Percentage of children living below of median national income		
	50%	40%	60%
Finland	2.8	1.3	8
Norway	3.4	1.6	7.5
Sweden	4.2	1.8	9.2
Belgium	7.7	3.2	13.7
Hungary	8.8	4.4	16.9
Luxembourg	9.1	2.1	18.3
Netherlands	9.8	5.9	14.2
Germany	10.2	6.2	16.9
Austria	10.2	6.1	21.4
Poland	12.7	6.5	17.3
Canada	14.9	7.7	23.3
UK	15.4	5.5	27
Italy	16.6	10.6	26.5
USA	21.9	14.1	30.2
Mexico	27.7	20.9	35

**Figure 4 Changes in child poverty rates during the 1990s by different poverty lines**

The bars show the rise or fall in child poverty rates when different poverty lines are used. The light blue bars show the change in the rate of children living in households with income below 40 per cent of the national median (the very poor). The mid-blue bars show the change in poverty rates when the poverty line is drawn at 50 per cent of national median income and the dark blue show the change in rates for those living below a poverty line drawn at 60 per cent of the national median. The data are for selected OECD countries.

- 60% of median income
- 50% of median income
- 40% of median income



child poverty rate rose when measured at 50 per cent and 60 per cent of median income but fell slightly when the poverty line was re-drawn at 40 per cent, indicating that some threads of a safety net remain in place.

Of the five countries showing a fall in child poverty since the early 1990s, the United States and Norway both record a decline whichever poverty threshold is applied. The significant fall in the US child poverty rate is thereby confirmed. Norway again earns the distinction of being the only country where poverty is low and continuing to fall no matter whether the poverty line is drawn at 40 per cent, 50 per cent, or 60 per cent of median income.

Varying the poverty line does however show a more detailed picture for the other three countries registering a fall – Canada, France, and the United Kingdom. Canada shows a steeper fall in child poverty when the poverty line is drawn at 40 per cent of national median income, indicating that those at the very bottom of the income scale have benefited most. In France the changes produced by drawing the poverty line at different points are not statistically significant. In the United Kingdom, a fall of 3 percentage points in child poverty has been achieved whether the poverty line is drawn at 40 per cent or 50 per cent of median income, but there is little or no change when the threshold is raised to 60 per cent, indicating again that the measures taken have benefited the poorest most.

These data demonstrate the usefulness, for analytical purposes, of using more than one measure of child poverty. They also boost confidence in the story told by our chosen ‘best single’ poverty line – drawn at 50 per cent of median income.

**Backstop**

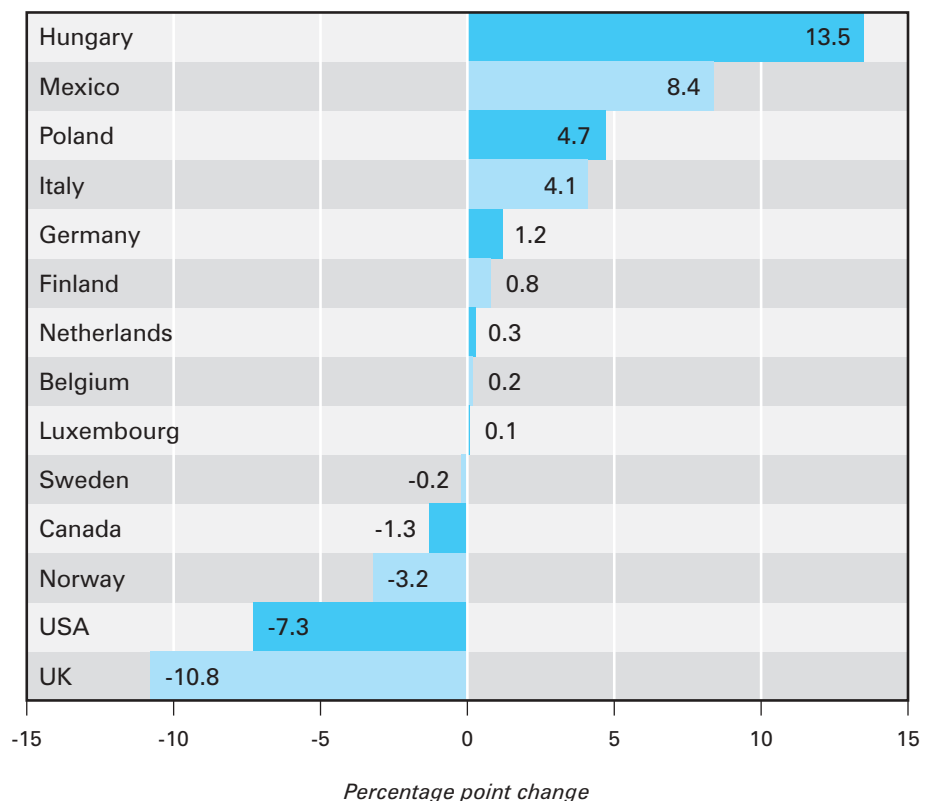
Unfortunately, there can be no international equivalent of the various national measures of material deprivation. ‘Can you afford to heat your home adequately?’ is a question that does not have the same resonance in Greece as in Finland.

It is however possible to devise an international equivalent of the proposed ‘backstop’ measure of child poverty – using a relative poverty line frozen at a consistent point in the recent past.

Figure 5 attempts to do this by means of a poverty line fixed at 50 per cent of each country’s median income at the beginning of the 1990s. This date, chosen for the practical reason that income data from this period are available for a large number of OECD countries and for the symbolic reason that it was in 1990 that the *Convention on the Rights of the Child* came into force, is in effect an international ‘reference poverty line’ (and an equivalent of the baseline poverty rate used to measure progress towards the *Millennium Development Goals* in the developing world). It judges children to be poor if the economic resources

**Figure 5 Changes in child poverty rates against a ‘backstop’ poverty line**

The bars show the rise or fall in child poverty rates when measured against a poverty line fixed at 50 per cent of median income in the early 1990s.



available to them are less than 50 per cent of the median income in 1990. Updated only for inflation and unaffected by changes in median income over the last decade and a half, it represents a ‘minimum test’ – and an international equivalent of the backstop child poverty rate recommended to incoming national governments.

Figure 5 shows that almost three-quarters of the OECD countries for which data are available fail this minimum test; in other words child poverty rates have increased even when judged by the standards of the late 1980s and early 1990s.

For countries experiencing economic growth, this means that children living in poverty have not only failed to share proportionately in the benefits of that growth but have fallen further behind in the decade or so since the *Convention on the Rights of the Child* came into effect (Box 2).

For countries experiencing economic decline, the backstop poverty line is obviously a more challenging test. But it is still a legitimate one; in difficult economic times, the most vulnerable should have first call on governments’ powers of protection; and it is a clear contradiction of this principle if poverty increases disproportionately among poor children when economies turn downwards.

Hungary offers the most dramatic example. Based on current median incomes, Hungary’s child poverty rate rose only slightly from almost 7 per cent to almost 9 per cent. Based on the ‘frozen’ poverty line of a 1991 median income, it rose

13 percentage points to more than 20 per cent. Clearly the early 1990s were a period of economic decline for most Central European countries and median income in Hungary fell steeply; but the statistics show that poor children were asked to bear a disproportionate share of this burden and, as a result, their situation has unambiguously worsened.

Similarly, Germany, Italy, Mexico, and Poland all experienced different degrees of economic turbulence in the 1990s and all failed the backstop child poverty test. Belgium, Finland, Luxembourg, the Netherlands, and Sweden saw very little change, indicating that poor children benefited less than proportionately from economic growth over the decade as a whole.

Only 3 countries – Norway, the United Kingdom and the United States – saw child poverty rates decline significantly when judged by the ‘backstop’ measure. Based on a poverty line drawn at 50 per cent of median income in the early 1990s, Norway more than halved its child poverty rate (from an already very low level). The United States reduced its rate by about a third (from 24.3 per cent to 17 per cent) and the United Kingdom by more than half (from 18.5 per cent to 7.7 per cent).

Future issues of the UNICEF *Innocenti* report on *Child Poverty in Rich Countries* will return to these measures, tracking progress by both ‘backstop’ and current poverty lines, whenever the data allow.

## THE DETERMINANTS OF POVERTY

This report concludes that a majority of OECD nations appear to be losing ground against child poverty, both in relation to annually-updated median incomes and in relation to the median incomes prevailing in the early 1990s.

What is driving child poverty rates upwards in so many of the world’s wealthiest nations? And why are some OECD nations doing a much better job than others in protecting children at risk of poverty?

Each country can offer a different context for changes in its child poverty rate. But in all countries poverty levels are determined by some combination of the same three forces –

social trends, labour market conditions, and government policies. These are the shifting tectonic plates that support the material well-being of children, and it is to their interplay that we must look for answers.

Social and family changes, first of all, are influencing poverty rates in all countries. The average age of parents is slowly rising, as is the average educational level. Meanwhile the average number of children per family is tending to fall. All of these forces tend to increase the economic resources available to children. On the other hand the incidence of single parenthood has risen in many countries – increasing the risk of child poverty.



## The UK: so far so good

# 4

Until the late 1990s, the United Kingdom had one of the highest child poverty rates in the OECD. Even today, its rate is one of the highest in Europe. But over the last six years, the UK government has pioneered an approach to the monitoring and reduction of child poverty that seems to be working.

The basis of recent progress has been a government commitment, at the highest levels, to halving child poverty by 2010 and eliminating it by 2020.

This commitment both followed and fuelled a public debate involving many children's advocacy groups. Building in part on pioneering efforts in Ireland, where a range of poverty indicators has recently been established, the UK government decided to deploy three related methods of measuring progress towards the commitments made.

The first is a 'backstop' measure tracking the proportion of children living below 60 per cent of median income in 1998/1999 when the child poverty promise was first announced (i.e. a 'fixed' relative poverty line, updated only for inflation). The second tracks the proportion of children living below 60 per cent of current median income; this is updated annually and is intended to show progress in

increasing the living standards of the poor relative to the moving average for the UK as a whole. The third measure is designed to reveal 'material deprivation' by recording the proportion of families who are living on less than 70 per cent of median income *and* who are unable to afford a list of specific goods and services. Those specifics include details of the quality of housing, clothing, and social engagement, with no less than eight of the nine child-specific items referring to social activities. This material deprivation measure will be reviewed "every few years", though details have not been issued.

These measures appear transparent, credible and not so complex that the monitoring of progress becomes either impossible or ensnared in too much detail. The overall aim is to see all three measures moving in the right direction.

Independent research suggests that the approach is working and that the interim target of a 25 per cent reduction in the number of children living in households below 60 per cent of median income by 2004/2005 is likely to have been met.

Sources: see page 35

The second determinant – the labour market – is even more volatile. For many OECD countries, the early 1990s were marked by economic recession, by continued technological innovation, by an increasing premium on knowledge and adaptability, by the migration of low-skill, low-pay jobs, and by the trend towards privatisation and globalisation. Overall, the market has tended to assume a larger role in the lives of citizens of OECD countries. Two-income households have become the norm in many countries, and the opportunities of the unqualified to earn an adequate living have generally diminished. These movements in turn have brought changes in the lives of children, and made new kinds of demands on the state.

Finally, there have been significant changes in the policies and spending priorities of many OECD governments. Revisions to the rules and conditions governing access to, and value of, welfare benefits have affected family incomes and altered the balance of deterrents and incentives by which families make decisions. All of these changes have

also affected the positioning and effectiveness of the safety net by which governments seek to prevent children from the worst of poverty.

In the middle of these forces stands the child.

### Fate of the low-paid

A detailed analysis of how these forces interact is available in the background papers to this report (see Sources page 33). Figure 6 summarises what the data can tell us for 13 OECD countries during the 1990s.

Among the recorded changes in family and social life, two changes affecting mothers stand out. The first is the steep rise in the numbers of children whose mothers have a university degree (although this may in some countries reflect the re-classification of institutions). The second and related change is the rise of the proportion of children whose mothers are in paid employment – up in 10 of the 13 countries and by around 10 percentage points or more

**Figure 6 Changes in family life, labour market conditions and government policies**

The table summarises the data available on key aspects of family life, labour market conditions and government policies for selected OECD countries during the 1990s.

	COUNTRIES WITH FALLING CHILD POVERTY RATES									
	United Kingdom		United States		Norway		Luxembourg		Belgium	
	1991	1999	1991	2000	1991	2000	1991	2000	1988	1997
<b>1. Family and Demographic Factors</b>										
Average age of parents	36.7	37.9	37.2	38.4	36.8	37.8	38.8	38.9	35.0	38.1
Children living with fathers with a university degree (per cent)	NOT AVAILABLE	NOT AVAILABLE	24.4	28.8	27.3	34.4	7.0	16.4	11.9	13.1
Children living with mothers with a university degree (per cent)	NOT AVAILABLE	NOT AVAILABLE	16.4	23.2	19.5	33.9	3.7	7.3	5.3	6.8
Average number of children per household	2.2	2.3	2.37	2.36	2.1	2.2	2.0	2.1	2.1	2.2
Children living with a single parent (per cent)	17.8	23.8	23.4	23.2	23.7	17.3	10.0	7.1	5.3	10.7
<b>2. Labour Market Factors</b>										
Children living with father in paid employment (per cent)	57.4	55.3	67.0	70.6	76.2	77.5	79.3	84.9	86.3	67.7
Children living with mother in paid employment (per cent)	48.4	52.2	61.7	66.8	73.4	83.2	37.1	50.5	50.4	52.0
<b>Change in annual earnings of parents:</b>										
Fathers on average (per cent change)	7.0		27.4		21.0		14.8		5.3	
Fathers among lowest paid 10% (per cent change)	-8.2		11.2		5.8		-0.8		7.2	
Fathers among lowest paid 25% (per cent change)	1.6		5.6		10.5		-6.9		8.0	
Mothers on average (per cent change)	28.2		28.0		84.4		5.8		11.1	
Mothers among lowest paid 10% (per cent change)	29.2		59.9		95.7		81.9		7.2	
Mothers among lowest paid 25% (per cent change)	34.2		36.1		51.9		22.2		8.2	
<b>3. Social Transfers</b>										
Change in average amount received by children in households receiving government transfers (per cent)	39.1		-6.4		33.6		-60.3		19.1	

in 4 countries. Both of these changes would tend to increase the economic resources available to children. But they must be set in the balance with other labour market changes, including changes in employment opportunities and wage levels.

Figure 6 therefore also looks at what happened in the 1990s to children living with parents on wages at the bottom end of the income scale. Of the 13 countries for which data are available, 4 saw a decline in earnings for the lowest-paid 25 per cent of fathers and 7 saw a decline for the lowest-paid 10 per cent. Mothers appear to have compensated to some extent for declining employment and wage levels among low-income fathers, but the opportunities for doing so have been limited and average earnings for low-income mothers have stagnated in most countries. In Hungary, Italy and Mexico earnings among the lowest-paid 10 per cent of mothers show significant declines.

The decline in earnings in Hungary has been particularly steep with the poorest quarter suffering a drop in income of about one third for men, and almost 40 per cent for women. Italy is the only other OECD country in which the decline in incomes for the poor has affected both fathers and mothers; for the poorest 10 per cent, the fall has been about a third for mothers and about a fifth for fathers; for the lowest-paid 25 per cent, the decline was approximately 4 per cent for fathers and 20 per cent for mothers.

Finally, Figure 6 also shows potentially significant changes in government intervention – our third major determinant of child poverty rates. It shows, for example, that the average amount of state transfers to those children living in households in receipt of welfare payments fell in 8 of the 13 OECD countries for which data are available. Of this, more later.

COUNTRIES WITH RISING CHILD POVERTY RATES												COUNTRIES WITH LITTLE OR NO CHANGE IN CHILD POVERTY RATES			
Mexico		West Germany		Italy		Hungary		Netherlands		Sweden		Canada		Finland	
1989	1998	1989	2000	1991	2000	1991	1999	1991	1999	1992	2000	1991	2000	1991	2000
40.2	39.7	37.9	39.0	40.1	40.4	37.5	37.5	37.6	38.9	37.6	39.0	37.2	38.8	37.7	38.9
5.1	5.6	13.4	17.2	9.5	10.7	13.2	13.1	21.4	29.3	26.5	30.9	16.8	18.8	11.7	18.9
1.6	3.1	6.0	11.8	7.2	9.9	13.1	16.8	12.4	23.2	22.9	32.3	11.9	17.0	8.7	16.8
3.5	3.1	2.0	2.1	1.9	1.9	2.1	2.0	2.3	2.2	2.2	2.2	2.3	2.2	2.2	2.3
11.9	13.7	10.4	12.4	6.1	5.7	13.9	9.6	9.5	8.6	17.9	20.9	15.4	17.0	11.5	15.0
59.0	55.7	79.5	74.7	65.9	63.0	78.5	54.9	80.0	77.9	77.5	73.3	73.3	73.5	80.3	75.3
13.4	19.4	48.0	57.5	31.7	37.8	62.0	50.9	37.0	62.1	83.6	82.7	66.0	69.0	82.8	75.3
-3.4		5.8		-1.3		-24.0		0.6		29.3		15.2		12.5	
-22.4		-22.7		-17.5		-76.5		-1.0		61.2		22.0		13.1	
-20.0		1.4		-4.1		-29.6		1.5		19.5		13.3		9.4	
-9.4		4.8		-7.1		-22.6		23.4		29.1		21.4		8.9	
-40.9		-2.7		-34.8		-62.3		91.0		42.2		26.9		-0.5	
-44.6		-13.9		-21.0		-42.3		59.0		35.8		27.0		-1.6	
-65.5		86.4		-9.2		-41.1		-26.8		-2.9		-12.2		19.4	

Meanwhile, what do the data have to say about the interplay and relative weights of these three principal determinants of child poverty rates – social change, market change, and policy change?

A detailed analysis is offered in the background papers; but the experiences of two countries – the United States and Norway – summarise how these forces can play out in very different ways. The United States illustrates the conditions under which declines in state support can be associated with declines in child poverty; Norway offers an example of further reductions in child poverty being achieved by increases in state support.

### The United States

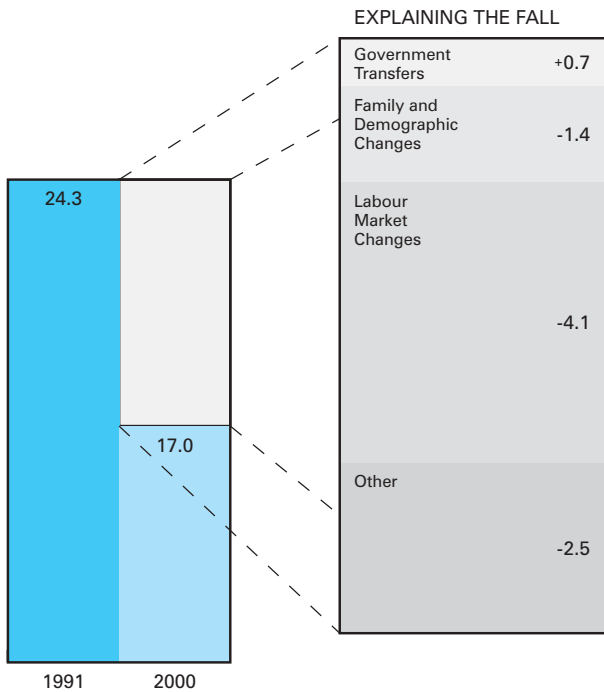
Figure 7 abstracts the story of the sharp fall in the child poverty rate in the United States during the 1990s.

This was a period of radical welfare reform that has been described as “a revolution in public-assistance within the United States.”<sup>3</sup>: federal government support to non-working families was halved to US\$13 billion while support for working families increased six-fold to US\$66.7 billion. But it was also a decade of robust and sustained economic growth bringing rising wages and employment opportunities.

The net outcome of this combination of ‘push’ and ‘pull’ was an unambiguous fall in the US child poverty rate, albeit from very high levels at the beginning of the decade. Using a fixed poverty line based on median income in 1991, the fall amounted to 7.3 percentage points over the decade. Calculations made for this report, detailed in the background papers and summarised in Figure 7, suggest that over half of this fall can be accounted for by labour market changes and that by far

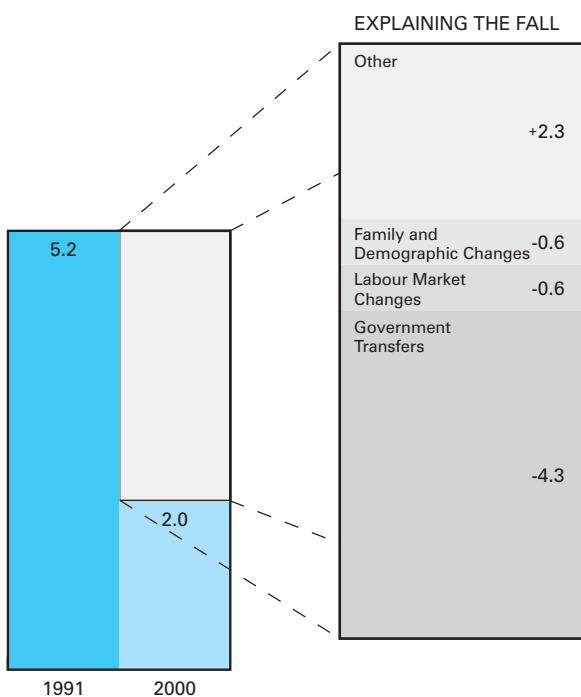
**Figure 7 Contributing factors to the decline in child poverty in the USA since the early 1990s**

The right hand scale indicates the relative importance of each of the factors bringing about a decline of 7.3 percentage points in the child poverty rate in the USA between 1991 and 2000. The change in the poverty rate represented here is against a fixed poverty line drawn at 50 per cent of national median income in 1991.



**Figure 8 Contributing factors to the decline in child poverty in Norway since the early 1990s**

The right hand scale indicates the relative importance of each of the factors bringing about a decline of 3.2 percentage points in the child poverty rate in Norway between 1991 and 2000. The change in the poverty rate represented here is against a fixed poverty line drawn at 50 per cent of national median income in 1991.



the most important factor was the increase in earnings among mothers. The average annual earnings of mothers rose by almost 30 per cent over the decade, and by 36 per cent for those in the lowest quarter of the earnings distribution. (It should not, however, be assumed that all of the children of parents moving from welfare to work are escaping from poverty.)

Social trends made only a small contribution. The average number of children per family and the proportion of children growing up in lone-parent families remained reasonably stable. Meanwhile, the average age of parents rose only slightly, although average educational levels rose significantly.

This brief overview allows us to see the relative weights of the factors that brought down the child poverty rate in the USA over the 1990s. But it leaves unanswered several important questions.

First, has the net effect of the forces that have reduced income poverty improved the lives of children? This is clearly an area where additional research – and additional indicators – are needed.

Second, what has happened in families who have been unable, for whatever reason, to increase their incomes by finding adequately paid work? Again, indicators other than the monetary are needed to answer the question. But income statistics alone make it clear that dependency on the state has offered cold comfort to the unemployed poor of the United States over this period. Welfare rolls may have been cut in half, but the children of families who remain dependent on government support have seen the average value of that support fall from US\$2969 to US\$2779 per child.

Third, rapid and sustained economic growth has created jobs for the more than 2 million people who have disappeared from welfare rolls so far, but what will happen when the new welfare rules are applied during an economic downturn – when there is ‘push’ without ‘pull’?

### Norway

Norway also achieved a clear reduction in its child poverty rate over the decade but by very different means. Judged by the percentage of children growing up in families with less than 50 per cent of *current* median income, Norway’s child poverty fell by about a third from 5.2 per cent to 3.4 per cent. Against a fixed poverty line drawn at 50 per cent of median income at the beginning of the 1990s, the fall was even steeper – from 5.2 per cent to just 2 per cent

## The USA: re-drawing the poverty line

5

The United States is one of the few OECD countries to have an official definition of poverty and a long record of regularly publishing a wide range of indicators of poverty and inequality, including information on children.

However, the official US poverty line dates back to concepts and judgments made in the 1960s, and the extent to which it continues to represent the reality of the disadvantaged in contemporary US society has been the subject of a good deal of recent discussion. In August 2000, 40 prominent scholars sent an open letter to senior government officials stating that unless *“we correct the critical flaws in the existing measure, the Nation will continue to rely on a defective yardstick to assess the effects of policy reform.”*

The US poverty line was proposed by the US Department of Agriculture in 1961, using survey data from 1955. It sets the poverty threshold at three times the cost of a nutritionally adequate diet (or ‘thrifty food budget’ as it was then called) and makes appropriate adjustments for family size. This was adopted as the nation’s official poverty line in 1969 as part of the ‘War on Poverty’.

Over the last 35 years this definition of poverty, adjusted only for inflation, has been used to draw the line between poor and non-poor. It therefore fails to reflect changes in US society and changing perceptions of what constitutes a minimum acceptable standard. In particular, it does not recognise the need for new goods and services – such as child care and health care costs – that reflect new realities for US families today. As a 1995 report by a panel of experts appointed by the National Academy of Sciences/National Research Council concluded: *“The current measure needs to be revised: it no longer provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time. The current measure has remained virtually unchanged over the past 30 years. Yet during that time, there have been marked changes in the nation’s economy and society and in public policies that have affected families’ economic well-being, which are not reflected in the measure.”*

Sources: see page 35

## Canada: children still waiting

6

In 1990, an all party resolution committed the government of Canada to *“seek to eliminate child poverty by the year 2000”*. That promise has not been kept, nor has any official definition or measure of child poverty been adopted.

Canada has a long history of publishing at least two different measures of ‘low income’. The first defines a family as poor if basics like food, shelter, and clothing take up a much higher percentage of its income (20 per cent more) than the average Canadian family would expect to spend. In regular use since 1967, this definition is re-balanced every five years as new surveys on family expenditures become available.

The second is a relative poverty indicator that defines an individual as poor if his or her income is less than half of the median income. This is updated annually to reflect changes in median income, and has been in regular use since 1991.

Despite the availability of comprehensive and timely statistics to support the use of both these poverty measures, there has been no official recognition of either.

In 2003 the government released a brand new measure of poverty based on the cost of a specific basket of goods including food, clothing, footwear, shelter, transport, and other household necessities. The specific choices involved were meant to represent *“community standards”* of expenditure, and the new poverty line was drawn at the level of income required to purchase this basket of goods. It has not been made clear how or how often the basket will be updated.

In 2000, applying all three of these measures yielded a similar child poverty rate; but according to the government *“it is not possible to say with certainty whether the incidence of low income for children using the Market Basket Measure is higher or lower than in the years prior to 2000.”*

Amid these definitional uncertainties, Canada’s target year 2000 came and went without agreement on what the target means, or how progress towards it is to be measured, or what policies might be necessary to achieve it.

Sources: see page 35

(as shown in Figure 8). This achievement is made all the more significant by being brought about in an unfavourable economic climate and in a country where the child poverty rate was already one of the lowest in the world.

Figure 8 attempts to quantify the relative importance of the factors involved.

Like other Nordic economies, Norway suffered a recession during the early 1990s which meant that the decade as a whole saw little economic advance. Labour market changes alone would therefore have made only a small contribution to lowering the child poverty rate (see Figure 8).

Social change had a slightly larger effect. The increasing average age and education of parents, and the decline in the percentage of children living in lone parent families, might have been expected to reduce child poverty by about half of one percentage point (from 5.2 per cent to 4.6 per cent).

This leaves the rise in government support for families as the significant factor, accounting for most of the fall in Norway's child poverty rate and reversing what would otherwise have been an increase in the child poverty rate of more than two percentage points. Over the decade, the

average increase in state transfers to children in households reliant on state benefits rose by about a third. Social benefits as a whole were reduced (as a proportion of GDP), but benefits specifically directed to families were increased.

Norway and the United States illustrate the very different combinations of economic circumstance and government policy under which child poverty rates may rise or fall. Equivalent analyses for all of the countries featured in Figure 6 suggest that in some countries, market forces and government policies have worked together to reduce child poverty. In others, market forces have turned against low-income children and governments have attempted to compensate and to protect the poorest – with varying degrees of commitment and success. In the worst cases, both market forces and government policies have worked against the poor.

Such examples also clearly point to one of the recurring themes of this report – that government attempts to reduce child poverty must focus not on policy alone but on the net outcomes of the interplay between changes in government policy, changes in the family and society, and changes in labour market conditions.

## PUBLIC RESOURCES FOR CHILDREN

Some overall conclusions may be drawn from the changes in child poverty rates in the developed nations over recent years.

As Figure 9 shows, the efforts and earnings of families keep most children above the poverty line in all OECD countries. But in no country except Switzerland do family efforts alone bring the child poverty rate below 10 per cent.

Figure 9 also shows that all OECD governments make significant interventions to reduce the levels of poverty that would theoretically result from market forces being left to themselves. For the most part, this intervention takes the form of cash or other benefits to the unemployed or the low-paid. On average, the result is a more than 40 per cent reduction of 'market poverty rates'. But this average blurs significant differences between countries.

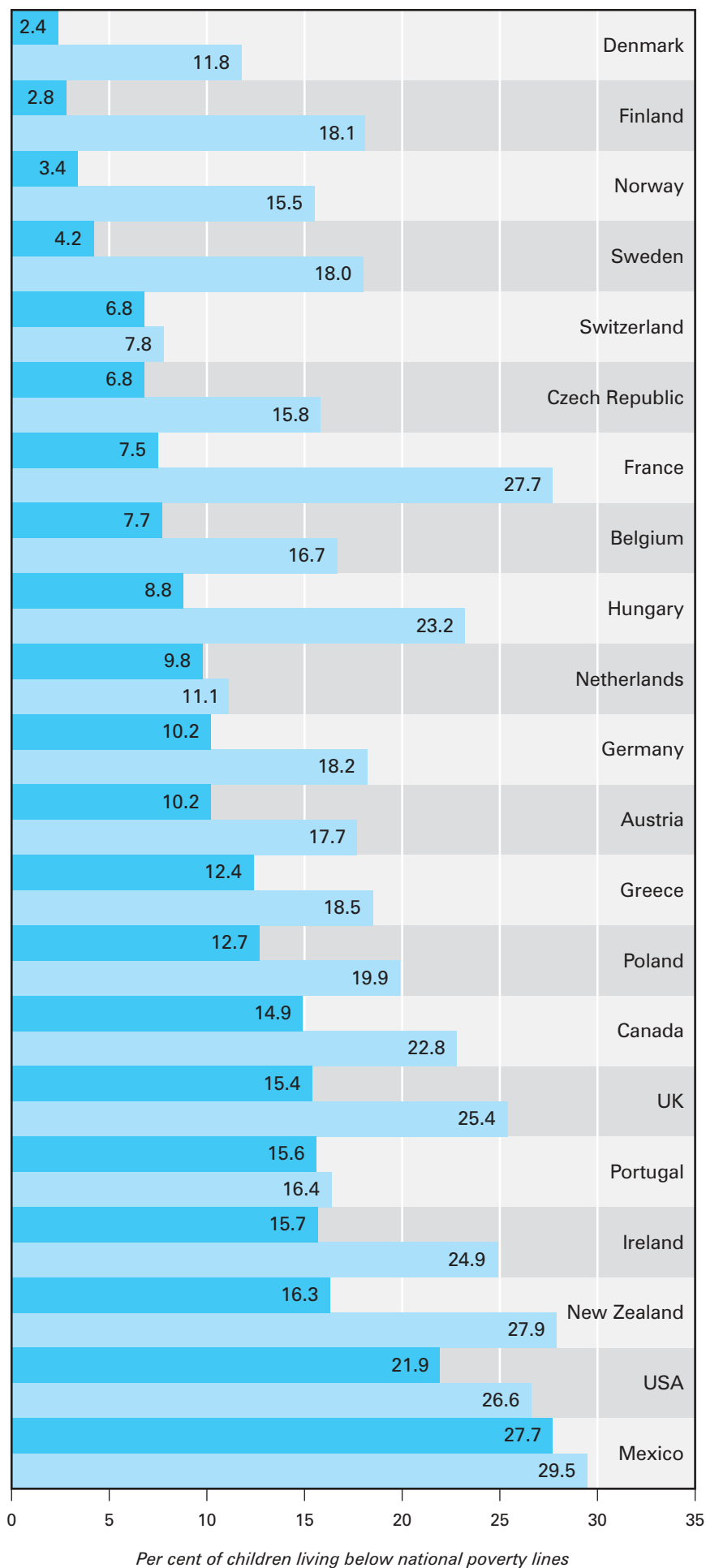
Such a schematic presentation of poverty rates 'before and after' government intervention is of course too simple a construct. In practice, if there were to be no expectation of government support, then no doubt the decisions of parents and employers would be different, as would patterns of employment and income. Nor does Figure 9 take into account the fact that 'market poverty rates' may already reflect such government interventions as training schemes, employment protection laws, and minimum wage legislation.

Nonetheless it is instructive to see the different degrees by which this hypothetical 'market poverty rate' is mitigated in different countries.

It is immediately noticeable, for example, that the countries with the world's lowest child poverty rates – Denmark, Finland and Norway – all reduce 'market poverty rates' by 80 per cent or more, whereas at the

**Figure 9 The impact of taxes and transfers**

The light blue bars show child poverty rates based on household incomes before government taxes and transfers while the dark blue bars show the rates after taxes and transfers (as in Figure 1). The poverty line in both cases is 50 per cent of median post-tax and transfer income.



## Europe: child poverty and social exclusion

7

Of the 30 OECD countries covered by this report, 19 are members of the European Union (EU). All have agreed, at the 2002 EU Summit in Nice, to show significant and measurable reductions in poverty and social exclusion by the year 2010.

To help achieve this, the EU has also agreed on an Open Method of Coordination (OMC) designed to allow EU members to learn from each other in monitoring the problem of social exclusion and evolving more effective policies against it. OMC therefore requires the development of agreed EU-wide indicators.

Overall, there is considerable consensus within the EU that the income poverty line should be drawn at 60 per cent of each country's median income (updated annually). But there is also wide agreement that social exclusion is a broader concept than poverty, and that direct measures of deprivation and exclusion are required in addition to income data. In total, 18 such indicators have so far been developed, all of them intended to be compatible and comparable between Member States of the European Union.

This broader approach is important in all countries and may reveal significant problems among particular communities even in countries where relative income poverty has been reduced to low levels. It may also be particularly important for countries in which, for whatever reason, incomes are known to have declined. If in a given country, for example, the incomes of the poor were to fall while the incomes of the non-poor were to rise or remain the same, then median income would not change and nor would the relative poverty rate; in these circumstances other indicators would clearly be necessary to reveal what was happening to the poor.

Meanwhile the accession of 10 new and significantly poorer countries to membership of the EU has added a

new dimension to the challenge. Figure 1 illustrates the problem. Relative income poverty rates in the newly-acceding countries are comparable with those in the EU as a whole; but in less economically developed countries living below the relative poverty line may mean something much closer to absolute deprivation with even the most basic needs not being met. In the poorest countries of the enlarged community, nationally appropriate direct measures of deprivation are therefore also essential.

In Europe as a whole, there are as yet very few widely-deployed indicators designed to monitor trends in poverty and social exclusion among children. As this report argues, this is critical information for any government. An age breakdown of EU data on poverty and social exclusion is therefore now under discussion, along with the possible introduction of indicators of specific relevance to the young.

At the same time, this report has also argued that the process of measuring and monitoring poverty should not be allowed to become too complex. Already, some EU countries have suggested that the recommended indicators are so numerous that it is difficult to obtain clear signals about either changes in well being or the impact of policy. There is therefore much work to be done to develop a limited, manageable range of agreed indicators which will measure progress and inform policy and budgetary decisions. A clear start has been made in placing child poverty high on the EU's common *Social Policy Agenda*. But in practice progress is still very uneven, with some Member States making the elimination of poverty and social exclusion a clear political priority, others just starting to address the issue, and some countries not yet recognising its seriousness.

Sources: see page 35

other end of the scale the United States and Mexico can manage only 15 per cent and 10 per cent respectively.

Finland and Portugal, to take another example, can be seen to have very similar 'market child poverty rates' of 18.1 per cent and 16.4 per cent respectively. But after government intervention Finland's rate falls to under 3 per cent while Portugal shows almost no change. Similarly, the United Kingdom and the United States begin with 'market poverty

rates' of 25.4 and 26.6 per cent, but government intervention reduces this by 10 percentage points in the United Kingdom and by only 5 percentage points in the United States.

Overall, child poverty rates resulting from markets 'alone' vary by roughly a factor of three (from approximately 10 per cent to approximately 30 per cent). After government intervention, the rates are more sharply differentiated,



varying by roughly a factor of nine (from around 3 per cent to around 28 per cent). Variation in government policy therefore seems, on this basis, to account for most of the variation in child poverty levels between OECD countries.

### Taxes and transfers

These estimates of poverty levels before and after government support may exaggerate the effects of that support in the sense that many families would no doubt act independently to increase incomes if there were no expectation of help. But there is also a sense in which they may *underestimate* the effects of that help: poverty is a wider concept than can be measured by income at a fixed point, and state benefits can also bring security, peace of mind, and the ability to survive temporary loss of income without undue psychological and material distress.

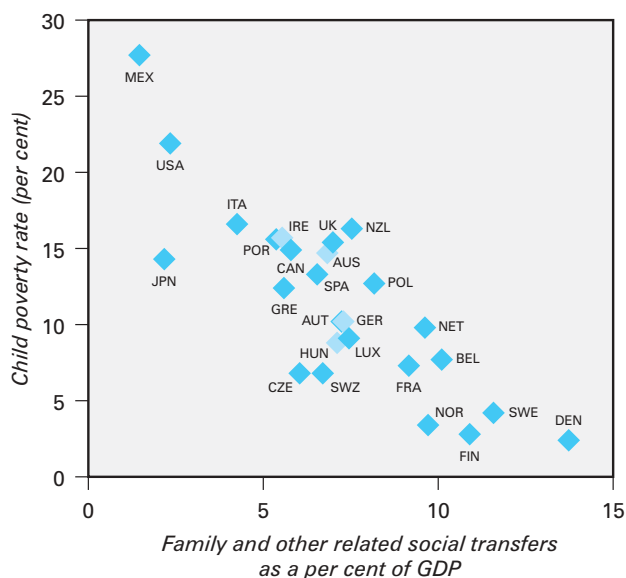
With this in mind, Figure 10 sets each country's child poverty rate against the level of support that governments provide for the specific purpose of improving family security – family allowances, disability and sickness benefits, formal day care provision, unemployment insurance, employment promotion, and other forms of social assistance.<sup>4</sup>

It is immediately obvious that the greater the proportion of GDP devoted to these purposes the lower the risk of growing up in poverty. No OECD country devoting 10 per cent or more of GDP to social spending, so defined, has a child poverty rate higher than 10 per cent. And no country devoting less than 5 per cent of GDP to such benefits has a child poverty rate of less than 15 per cent. (The exception is Japan, where the transfers are in practice likely to be considerably higher as social support is in some cases provided by employers.)

It is of course to be expected that countries redistributing a higher percentage of the national income will have a more equal income distribution and lower relative poverty rates. But Figure 10 reveals more than this. First, it shows that there is no fixed ratio between levels of government support and child poverty rates. Of the 26 countries featured, 10 devote similar proportions of GDP to social transfers (between 7 and 10 per cent) but have child poverty rates that vary from 3.4 per cent in Norway to over 15 per cent in New Zealand and the United Kingdom. To some extent this is also to be expected given that government support in each country is dispensed in different ways and in different contexts and with different degrees of targeting. Plotting social expenditures against child poverty rates, as in Figure 10, cannot therefore be used as a simple means of calculating how much more

**Figure 10 Social transfers relating to family economic security**

The graph sets each country's child poverty rate (as in Figure 1) against its level of government social transfers. Social transfers in the graph are those going towards family allowances, disability and sickness benefits, formal day care provision and unemployment insurance. Government expenditure on health and education is not included.



social expenditure is required in order to reduce a country's child poverty rate to a given level. But it can and does demonstrate that the relationship between social expenditures and child poverty rates depends not only on the level of government support but on the manner of its dispensation and on the priorities governing its allocation. And some countries are clearly achieving more bang-per-buck than others.

### Feeling the squeeze

How have such spending patterns – and the priorities embedded in them – changed in recent years?

Figure 11 attempts to answer this question by disaggregating total social spending into different categories for the 28 OECD countries with available data. Overall, it shows that more than half of those countries increased the percentage of GDP devoted to social expenditures – some of them very considerably – over the decade of the 1990s; however when these increases are broken down by category it becomes clear that most of the extra spending has been allocated to pensions and to health care.

Of the countries showing a more than one percentage point rise in social spending over the decade (Figure 11a), the average increase is just over 4 percentage points; but of this increase very little (0.05 of a percentage point) was

**Figure 11 Changes in allocation of government social spending in the 1990s**

The table shows changes in the proportion of GDP devoted to government social transfers during the 1990s. The columns on the right disaggregate the rise or fall in total social expenditure by different spending categories. The column marked 'Other' refers to support to the working age population including incapacity, unemployment, housing, labour market programmes and other transfers. Government expenditure on education is not included.

	Social transfers as a proportion of GDP (per cent)		Change during 1990s (percentage points)	Contribution to total change by expenditure category (percentage points)			
	1990	2000		Old age	Health	Family	Other
<b>11a Countries increasing their share of social spending</b>							
Switzerland	17.9	25.4	7.5	3.65	1.47	0.14	2.2
Poland	15.5	21.9	6.4	4.67	-0.61	-0.87	3.2
Portugal	13.9	20.5	6.6	3.57	2.12	0.16	0.8
Mexico	3.8	9.9	6.1	5.29	0.63	-0.05	0.2
Turkey	7.6	13.2	5.6	3.13	1.72	-0.14	0.9
Japan	11.2	16.1	4.9	2.95	1.49	0.17	0.3
Germany	22.8	27.2	4.4	1.44	1.47	0.25	1.2
Australia	14.2	18.6	4.4	1.94	0.95	1.38	0.1
Czech Republic	17.0	20.3	3.3	1.26	1.67	-0.87	1.2
Iceland	16.4	19.7	3.3	1.09	0.80	0.06	1.3
Greece	20.9	23.6	2.7	1.21	1.32	0.26	-0.1
Korea	3.1	5.6	2.5	0.81	0.86	0.05	0.8
Austria	24.1	26.0	1.9	0.77	0.15	0.30	0.7
UK	19.5	21.3	1.8	1.01	0.85	-0.16	0.0
France	26.6	28.3	1.7	1.07	0.50	0.08	0.1
<b>11b Countries with less than a one percentage point change in their share of social spending</b>							
USA	13.4	14.2	0.8	-0.11	1.10	-0.09	-0.1
Italy	24.8	25.6	0.8	1.72	-0.37	-0.12	-0.5
Spain	19.5	19.9	0.4	0.85	0.09	0.17	-0.7
Belgium	26.9	26.7	-0.2	0.70	-0.41	-0.05	-0.4
Finland	24.8	24.5	-0.3	0.44	-1.32	-0.17	0.8
Denmark	29.3	28.9	-0.4	-0.33	-0.15	0.41	-0.4
<b>11c Countries decreasing their share of social spending</b>							
Canada	18.6	17.3	-1.3	0.53	-0.32	0.18	-1.7
Norway	24.7	23.0	-1.7	-0.77	0.05	0.30	-1.3
Luxembourg	21.9	20.0	-1.9	-1.49	-0.88	1.15	-0.6
Sweden	30.8	28.6	-2.2	0.48	-0.40	-1.69	-0.6
New Zealand	21.9	19.2	-2.7	-2.40	0.42	-0.35	-0.4
Ireland	18.6	13.6	-5.0	-1.93	0.26	-0.01	-3.3
Netherlands	27.6	21.8	-5.8	-1.81	0.10	-0.49	-3.7

allocated to child-and-family-related expenditures. Ageing populations and the rising costs and expectations of health care, it seems, absorbed almost all of the increases in social expenditures that electorates were prepared to accept. In five of these countries, overall social spending allocated to child-and-family-related expenditures actually declined between 1990 and 2000 (although in the case of the United Kingdom this may since have been reversed). Only in Australia has a significant share of the increase in social spending been devoted to child-and-family-related support.

Of the countries showing little or no increase in overall social spending (Figure 11b), only Denmark can be said to have given increased priority to family-related expenditures. In the other five countries making up the

'little or no change' category, the share of spending on family related benefits has fallen to accommodate increased spending on pensions and, in the case of the United States, on health care.

Of the seven OECD countries where there was an overall decline in social spending (Figure 11c) all maintained or increased the share devoted to child-and-family-related benefits (except Sweden where falls in family-related benefits accounted for most of the overall decline in social spending).

This more detailed breakdown of social expenditures gives some idea of the changing patterns and priorities of OECD governments over this period. Yet it too must be treated

with caution. Increases in government spending on pensions, for example, reflect not only government priorities but the ageing of populations. It is also the case that children may benefit from other kinds of government expenditures as well as those that can be labelled as child-and-family-related: spending on free or subsidised child care or on subsidised transport systems, for example, can bring material benefits to families with children. Nor do these figures capture the effects of income tax allowances and tax credits by which some OECD governments seek to benefit low-income families.

### Priorities by age

Governments have often been called upon to spell out the impact of such budgetary decisions on children. Most have hesitated to do so, not necessarily through an aversion to

transparency but because the waters are unavoidably muddy. The impact of policies and budgets on the very young is mediated by families, and depends on how parents or guardians respond to incentives and on how resources are shared within the family. Simply labelling government spending as being directed towards reducing child poverty, therefore, does not automatically mean that poor children will benefit. Conversely, children may benefit from government programmes and expenditures that are not specifically directed towards them.

Our analysis, set out in detail in the background paper,<sup>5</sup> overcomes this problem to some extent by breaking down the effects of government tax and transfer policies by age group (using the *Euromod* micro-simulation model which is described in detail in the Sources given on pages 33/34).

## Child poverty in Germany



Child poverty in Germany is higher today than a decade ago.

The picture over time is complicated by German re-unification in 1990, but this cannot disguise a significant increase in poverty levels over recent years. Using data from former West Germany only, the child poverty rate has more than doubled from a low of 4.5 per cent in 1989 to 9.8 per cent in 2001. The rate for former East Germany is even higher at 12.6 per cent. For the country as a whole, the 2001 child poverty rate stands at more than 10 per cent.

German children are also now at greater risk of poverty than adults. In 2001 a child living in Germany faced a more than one-in-ten risk of living in poverty; for adults in households without children the risk was noticeably lower at 8.8 per cent. This is a change from earlier in the decade when the child poverty rate was little different from the overall poverty rate.

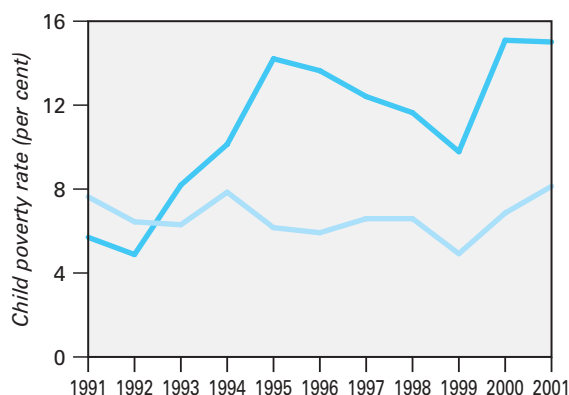
Many factors may have contributed, but the risk of poverty is very significantly affected by citizenship status. As shown in Figure 12, for children in households headed by German citizens, there was no significant rise in relative poverty levels during the 1990s. For children living in households headed by non-citizens, on the other hand, the poverty level has almost tripled from about 5 per cent at the beginning of the decade to 15 per cent at the end.

Broadly speaking, the more recent the arrival the greater the likelihood of poverty. Children of the older, 'guest worker' generation of immigrants have higher rates of poverty than citizens, but lower rates than all non-citizens. Children of more recent immigrants have the highest poverty rates of all (more than 15 per cent in every year since 1995, rising to more than 20 per cent in 1996).

Source: see page 36

**Figure 12 Poverty and citizenship status in Germany**

The pale blue line tracks the change in the child poverty rate for children living in households headed by German citizens during the 1990s. The dark blue line tracks the change for children living in households headed by non-citizens.



The results are shown in Figure 13, setting out the taxes paid and transfers received (as a percentage of disposable income) by each age group in 15 nations of the European Union in 2001. (To calculate ‘taxes paid’ and ‘income received’ by children, the analysis assumes that the incomes and tax obligations of each household are shared equally among its members. So, for example, a child living in a three-generation household is allocated a share of any pension income received. The mediating role of the family, and differences in family structures and living arrangements, are therefore explicitly recognised but with the assumption that every member of the household shares equally in its resources.)

These sets of charts therefore offer a nation-by-nation portrait of the priority accorded to children as revealed in the structure of government budgets. To take one example, the two graphs for Denmark show that children under the age of 5 receive approximately 30 per cent of their ‘income’ from government sources and that for children of low-income families this proportion rises to almost 80 per cent. In France, the equivalent figures are closer to 15 per cent and 60 per cent, and in Greece 5 per cent and 15 per cent.

Figure 13a features the four countries that allocate 10 per cent or more of GDP to the kinds of social transfers associated with reducing child poverty (as in Figure 10). All have succeeded in bringing the child poverty rate below 10 per cent. Benefits received, as a percentage of disposable income, are roughly the same at all ages, only rising for those aged over 65 as pension payments come into play (and these should really be regarded as a mixture of government support and enforced savings). In all except Belgium, the structure of government budgets shows a slightly higher level of support for those under the age of 18. Moreover, this priority for the young becomes much more noticeable when we look at only the low-income population. In all 4 countries, the proportion of benefits is highest for pre-school age children and falls away by the age of 18.

Figure 13b applies the same lens to the 6 EU countries in the intermediate band of social spending – those that allocate between 7 per cent and 10 per cent of GDP to transfers aimed at increasing family economic security. Despite this relative uniformity in social transfers, the child poverty rates of the countries in this group are seen to vary significantly – from a low of 7.3 per cent in France to a high of 15.4 per cent in the United Kingdom (as shown in Figure 1). It seems likely, therefore that differences in levels of child poverty are a result of the different priorities at work *within* social expenditures rather than of the overall level of social spending.

The contrast revealed between, for example, France and the United Kingdom illustrate the choices and the trade-offs that governments must make. The French tax and benefit system does not favour any particular age group until pension payments begin to make themselves felt. The UK tax and benefit system, by contrast, favours young children – and especially children of low-income families. Despite this, the child poverty rate in the United Kingdom is double that of France, suggesting that the problem in the UK is not lack of governmental concern but the fact that low-income parents receive a very high proportion of their income from government and a very low proportion from paid employment.

This highlights a central dilemma. Highly targeted social expenditures focus limited government resources on those most in need, but may mean that beneficiaries have little to gain by moving from welfare to work. This is the ‘poverty trap’, and when allowed to become established it can make it less likely that families will act independently to lift themselves out of poverty. In some circumstances, welfare payments can therefore contribute to long-term unemployment and feed the culture of poverty they were designed to prevent. Benefits universally provided, though apparently more expensive, avoid this trap.

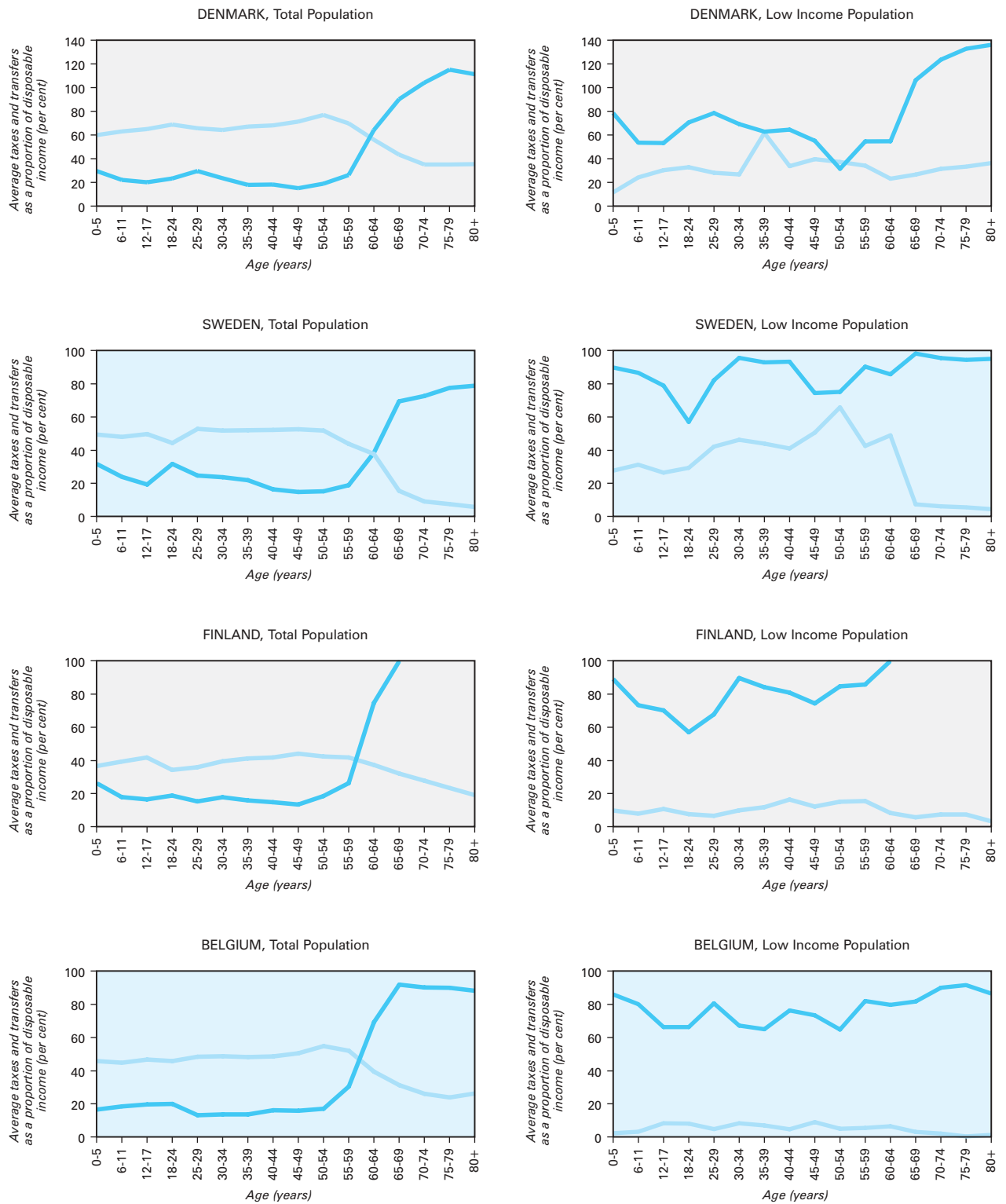
Finally, Figure 13c offers the same analysis for the five countries – Greece, Ireland, Italy, Portugal, and Spain – that allocate the lowest proportion of GDP to social transfers. In all of these countries, the government plays a much smaller role in protecting low-income families and in all the child poverty rate is higher than 10 per cent. As the graphs show, the government resources available to those on low incomes appear to be concentrated on older age groups, even those still in their 50s. In Portugal, for example, benefits provide half of disposable income for those over 40 and this proportion continues to rise with age. Ireland is the exception to the pattern in this group, with low-income children receiving more than 70 per cent of income from benefits.

The pronounced common feature of these four southern Mediterranean countries is the minimal role played by the state in protecting low-income groups. It may be argued that these are countries in which the family and community, rather than the state, still assume ultimate responsibility for economic security, but this cannot be taken as given. Changes in patterns of family life and in labour markets are now having a profound effect on all countries, and it is not inconceivable that traditional safety nets may be failing at a time when government support is not sufficiently well-developed.

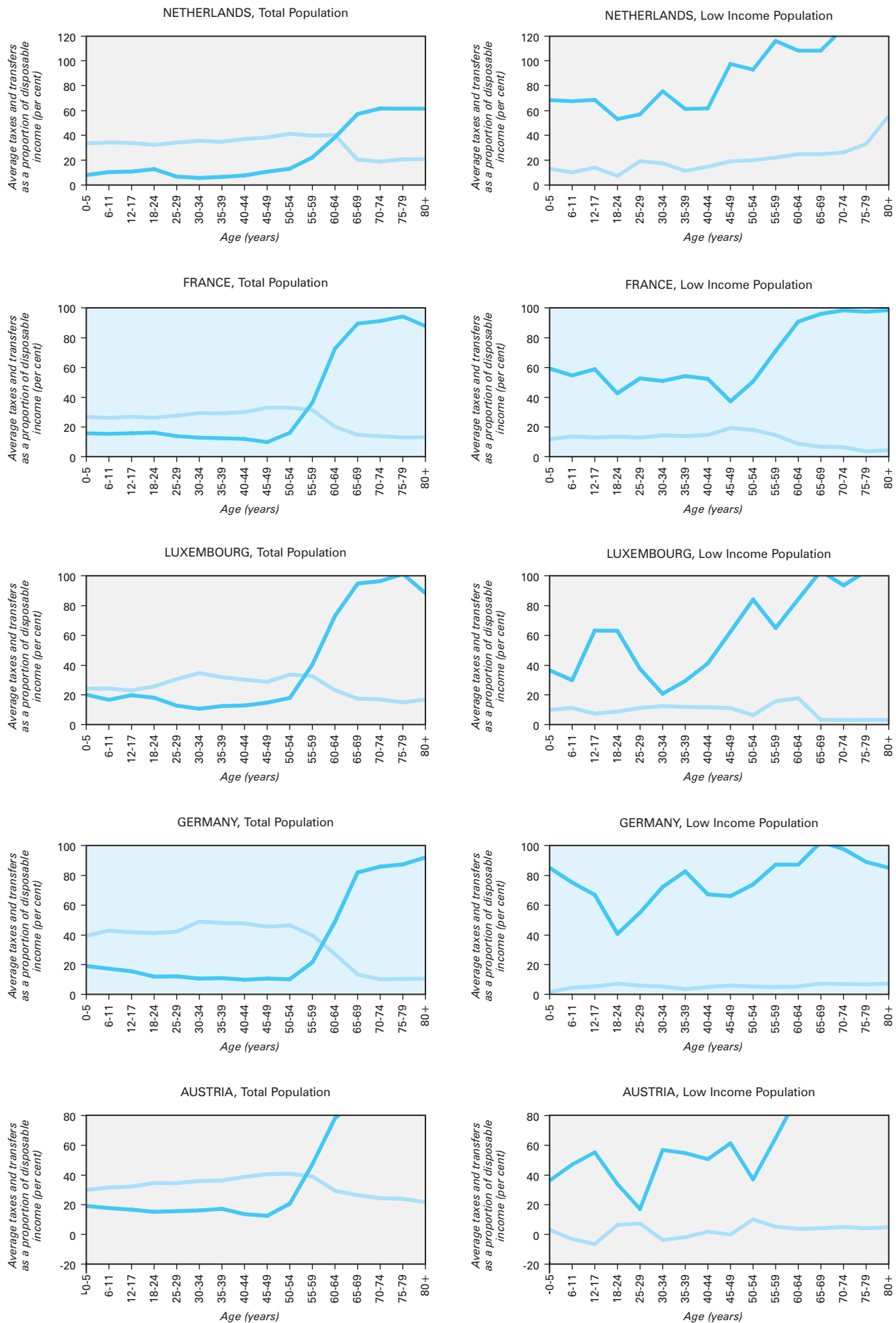
**Figure 13 Resources for children**

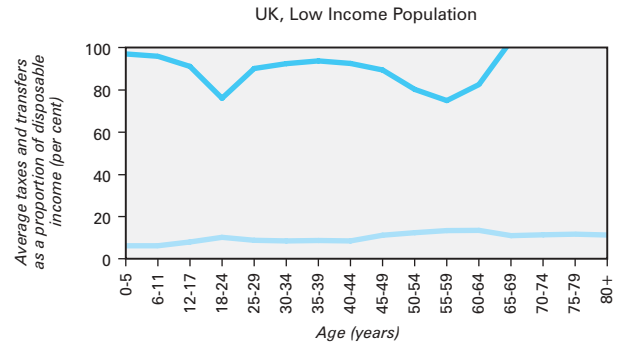
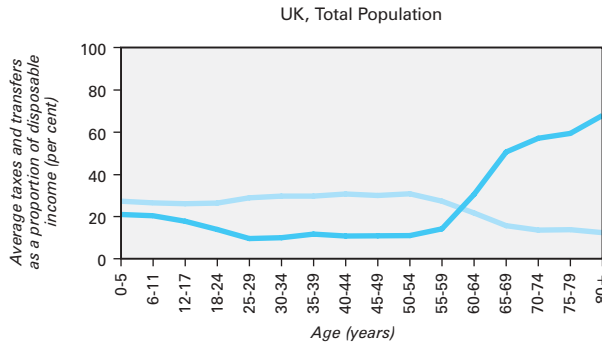
The series of graphs show the distribution of taxes and transfers across different age groups in 15 nations of the European Union. Taxes and transfers are shown as a proportion of disposable income for each age group throughout the total population (left hand graph) and among the population with low income (defined as 50 per cent of median income).

**13a The distribution of taxes and transfers across age groups in countries with high levels of social spending**

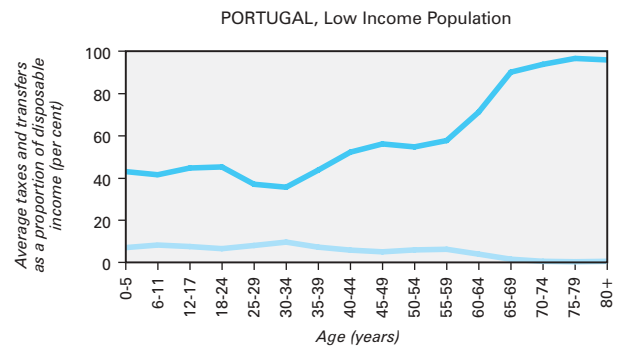
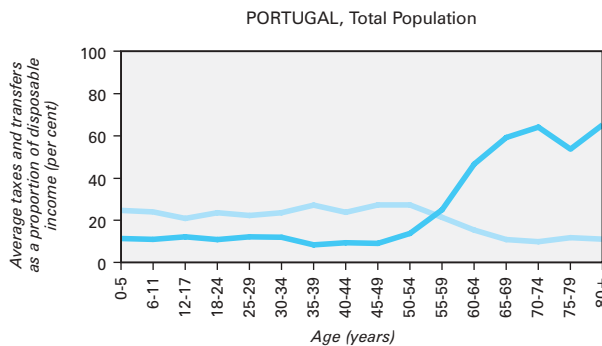
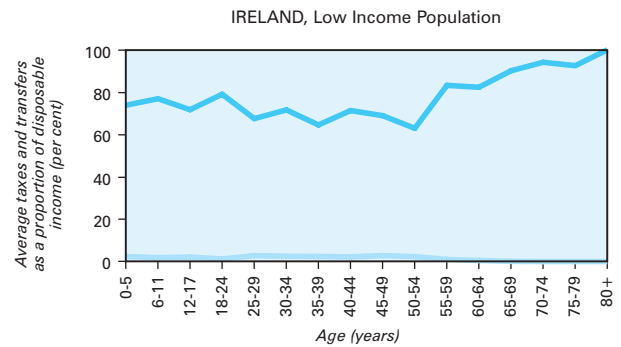
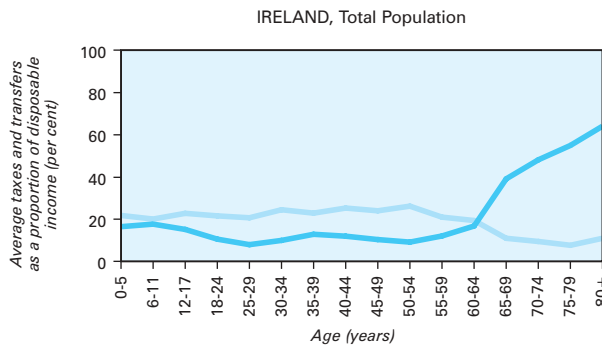
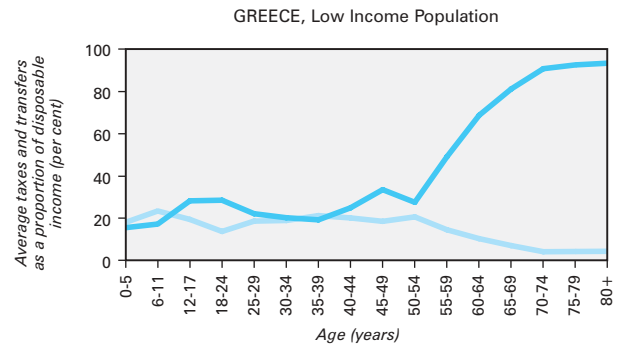
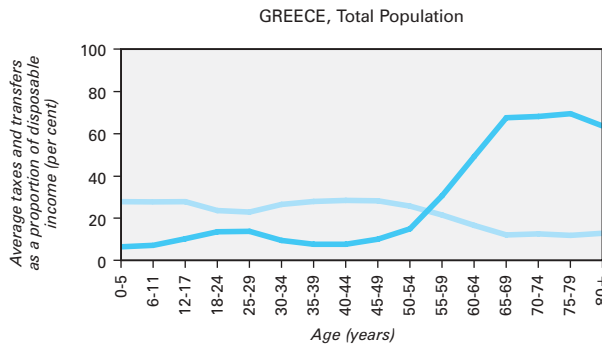
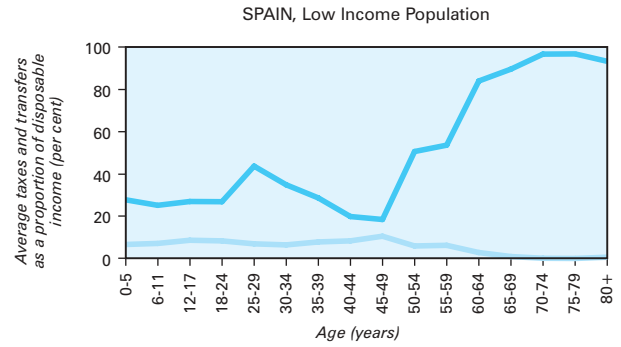
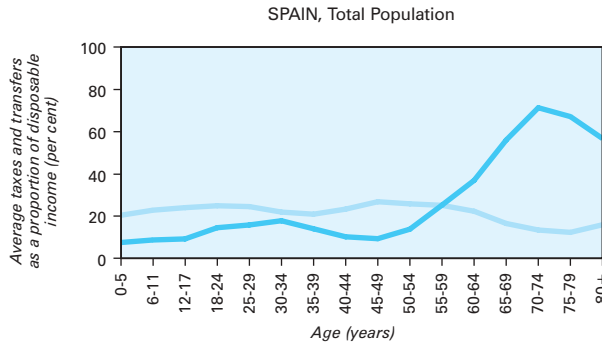


**13b The distribution of taxes and transfers across age groups in the countries with moderate levels of social spending**

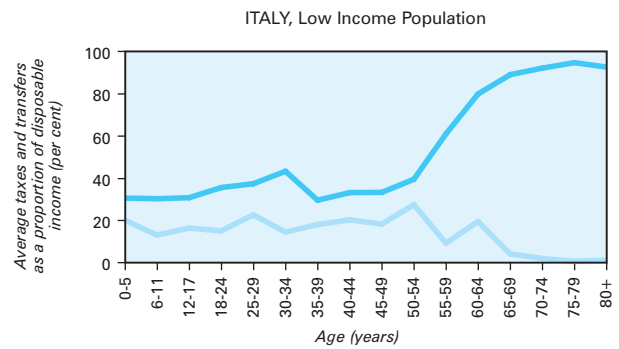
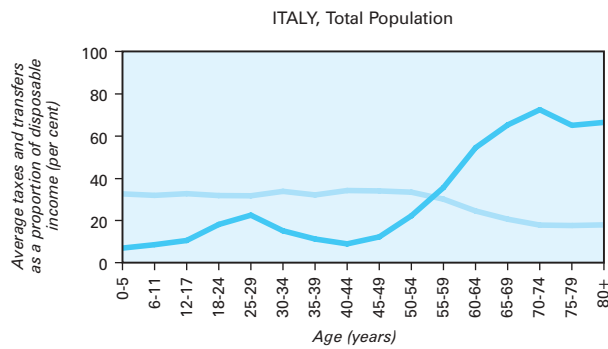




**13c The distribution of taxes and transfers across age groups in countries with low levels of social spending**



### 13c The distribution of taxes and transfers across age groups in countries with low levels of social spending



The pattern in Ireland reflects a different reality. A child poverty rate of 15.7 per cent puts Ireland close to Portugal (15.6 per cent) at the bottom of the child poverty league. But the problem in Ireland has been principally one of preventing income inequality from widening during a period of sustained economic growth and rising median incomes. A child poverty rate based on a percentage of median income will increase unless low income groups share equally in the benefits of growth. Faced with this challenge, the appropriate response would seem to be a more active policy for developing the skills and

opportunities of low-income parents to enable them to capture a higher share of the benefits of economic progress.

This analysis therefore does not suggest that there is a universally applicable right or wrong way of structuring government budgets. Rather, it makes explicit the net impact of tax and transfer policy on different age groups within the population. It therefore allows policy-makers to see the trade-offs that are being made, to make comparisons with other OECD nations, and to ask the questions – is this the intended effect? And could we do better?

## Poverty relative to what?

9

If poverty is to be defined as relative poverty, what is the most useful basis of comparison? Should poverty be measured in relation to the median for the nation state, or the OECD, or the European Union? Or should it be defined more locally in relation to the particular province, city, or community in which the child lives?

A case can be made for all of these ideas. And all would yield different results. The child poverty rate in Sicily, for example, would be more than halved if the basis of comparison were to be Sicily itself rather than Italy as a whole. Similarly, the child poverty rate in America's richest state, New Jersey, would rise by more than 50 per cent if the unit of comparison were to be only New Jersey as opposed to the United States as a whole.

But just as it can be argued that people live in communities and compare themselves with their neighbours, so it can be argued that the power of today's media means that people can almost as easily make their comparisons across international

boundaries. It seems extremely likely, for example, that discontent with economic conditions in the former East Germany was based more on comparison with living standards in West Germany than on comparisons made within the former Eastern Bloc. Increasingly, children everywhere are exposed to the same lifestyles, clothes, and entertainment opportunities. All of this has a bearing on the question of relative poverty. And of course the same examples and potential comparisons are now also widely available to the children of Africa, Asia, and Latin America.

But whereas it is possible to argue for both an enlarging and a contracting of the basis of comparison, in practice the most widely-used unit of comparison is likely to remain the nation state – the unit at which comparable statistics are gathered, policies made, and resources collected and deployed.

Sources: see page 36



## CONCLUSION

In the last few years, many OECD governments have expressed concern over child poverty and several have committed themselves to its reduction. But in practice the record is mixed. The level of rhetoric has risen across the OECD – but so has the level of child poverty.

The analysis made in this first *Innocenti* annual report on child poverty in rich countries leads to some fundamental recommendations.

First, the problem of defining and monitoring child poverty must be dealt with vigorously from the outset – enabling targets to be set, progress to be monitored, and policies to be evaluated. This is only just beginning to happen in a number of the OECD countries. There are technical difficulties, but they should not become a sand-trap. Drawing on OECD experience over recent years, this report has suggested basic principles governing best practice.

In summary, the report recommends that governments:-

- Define and monitor child poverty in relation to current median incomes.
- Monitor material deprivation directly – using nationally appropriate indicators.
- Set time-bound targets for the progressive reduction of child poverty, and begin building public consensus behind the achievement of those targets. For most OECD countries, a realistic target would be to bring child poverty rates below 10 per cent.
- Establish a backstop child poverty line, based on median income at the time a government takes office, and make a commitment that under no circumstances will this be allowed to increase.
- Focus research and policy-making on the *interplay* between the broader forces that determine the economic well-being of children – family, market, and state.
- Recognise explicitly that child poverty is affected by the priorities implied in the structure of government budgets and in tax and benefit policies. Granted the difficulty of

determining what proportion of government spending is directed towards protecting children, it is nonetheless the case that rhetorical commitments to reducing child poverty are often not matched by resources. In some OECD countries where social spending by governments is increasing, children are seeing their share fall. And where social spending is falling, the losses for children and families are often disproportionate.

### First call

There are many demands for priority on the time and resources of government. And the case for children therefore bears repeating. It is the fundamental responsibility of government to protect the vulnerable and to protect the future. Children are both. Protecting children from the sharpest edges of poverty during their years of growth and formation is therefore both a mark of a civilised society and a means of addressing, at a more than superficial level, some of the evident problems that affect the quality of life in the economically developed nations.

The moving spirit of the UN *Convention on the Rights of the Child* is that children should have ‘first call’ on societies’ concerns and capacities in order to protect their vital, vulnerable years of growth from the mistakes, misfortunes and vicissitudes of the adult world. Their right to grow up with a level of material resources sufficient to protect their physical and mental development, and to allow their participation in the life of the societies into which they are born, is a right to be protected in good times and in bad. Guaranteeing that right should not depend on whether economies are in growth or recession, or on whether interest rates are rising or falling, or on whether a particular government is in power or a particular policy in fashion. This is what is meant by the principle of ‘first call’. And reducing child poverty rates is perhaps the single most meaningful and measurable test of how well the governments of the developed world are living up to that ideal. ■

## NOTES

1 S. Mayer, 'Parental income and children's outcomes', Ministry of Social Development, Wellington, NZ, 2002.

2 Government of Canada, Hansard, November 24, 1989.

3 R. Blank, 'Evaluating Welfare Reform in the United States', *Journal of Economic Literature*, Volume 40, 2002 (pp. 1105-66).

4 Expenditures on education and health care, although essential to child well-being and development, are specifically excluded because they are not directed towards short-term economic security and helping families survive difficult economic times (although it should be noted that spending on education is a one of the principal longer-term means of attacking the child poverty problem).

5 M. Corak, C. Lietz, and H. Sutherland, 'The impact of tax and transfer systems on children in the European Union', UNICEF Innocenti Research Paper No. 2005-04 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

## SOURCES AND BACKGROUND INFORMATION

### Introduction

Figure 1 and Figure 2 are based upon four sources. For the majority of countries the data are from the Luxembourg Income Study (LIS), Key Figures, accessed at [www.lisproject.org/keyfigures.htm](http://www.lisproject.org/keyfigures.htm) on June 8, 2004. The information for Denmark, Switzerland, Czech Republic, Greece, Spain, Portugal, Ireland, and New Zealand was provided by the Social Policy Division of the Directorate for Employment, Labour and Social Affairs at the Organization for Economic Co-operation and Development (OECD) with the assistance of Mark Pearson and Marco Mira d'Ercole. These data are available in M. Mira d'Ercole and M. Förster, 'Income distribution and poverty in OECD countries in the second half of the 1990s', Paris: OECD, Directorate for Employment, Labour and Social Affairs, 2005.

The information for Australia is provided by the Social Policy Research Centre, University of New South Wales with the assistance of Bruce Bradbury. The information for France is provided by the Direction des Statistiques Démographiques et Sociales of INSEE (the Institut National de la Statistique et des études économiques) with the assistance of P. Chevalier and also Christine Bruniaux of the Conseil de l'Emploi, des Revenus et de la Cohésion sociale.

All calculations use the methodology outlined on the LIS web site and are based upon total household income

after taxes and transfers and expressed as equivalent individual income using the square root of household size as the equivalence scale. The low income line is 50 per cent of the median income for the entire population.

The poverty rates in Figure 1 refer to the following years: 2001 (Switzerland, France, Germany, New Zealand), 2000 (Denmark, Finland, Norway, Sweden, Czech Republic, Luxembourg, Japan, Australia, Canada, Portugal, Ireland, Italy, USA), 1999 (Hungary, Netherlands, Greece, Poland, UK), 1998 (Mexico), 1997 (Belgium, Austria) and 1995 (Spain).

In Figure 2 the changes in child poverty rates are measured from the years 1991 or 1992 except in the case of Belgium (1988), Germany (1989), and Australia (1993/94).

### Measuring child poverty

For complete details and analysis of the information in this section see M. Corak 'Principles and practicalities in measuring child poverty', UNICEF Innocenti Working Paper No. 2005-01 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

A broad overview of country experiences in the measurement of poverty and the setting of targets is also given in Conseil de l'Emploi, des Revenus et de la Cohésion Sociale, 'Estimer l'évolution récente de la pauvreté,' Paris: Un dossier du CERC, 2002, available at [www.cerc.gouv.fr](http://www.cerc.gouv.fr).

More background on the UK and the Irish approaches to poverty measurement is available in B. Nolan and C. Whelan, *Resources Deprivation, and Poverty*, Oxford University Press 1996. The discussion also draws on B. Nolan 'The Meaning and Measurement of Child Poverty: Recent UK and Irish Experience', unpublished note prepared for the UNICEF Innocenti Research Centre Experts Meeting, 2004. A discussion of the measurement of poverty in Ireland is offered at [www.combatpoverty.ie/downloads/publications/FactSheets/Factsheet\\_MeasuringPoverty.pdf](http://www.combatpoverty.ie/downloads/publications/FactSheets/Factsheet_MeasuringPoverty.pdf)

The reference to New Zealand draws from Ministry of Social Development, 'New Zealand's Agenda for Children', 2002 available at [www.msd.govt.nz](http://www.msd.govt.nz). Further references for discussion on Canada, the EU, the USA and the UK are given in the sources to the appropriate Boxes on page 35.

### International comparison

For complete details and analysis of the information in this section see W. Chen and M. Corak, 'Child Poverty and Changes in Child Poverty', UNICEF Innocenti Working Paper No. 2005-02 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

Figures 3, 4 and 5 are drawn from this source, and are based upon data from the Luxembourg Income Study with the exception of the data for Germany which are from the German Socio Economic Panel Survey as described in M. Corak,

M. Fertig, and M. Tamm, 'A portrait of child poverty in Germany', UNICEF Innocenti Working Paper No. 2005-03 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

### The determinants of poverty

Figures 6, 7 and 8 are based on calculations made by W. Chen and M. Corak, 'Child Poverty and Changes in Child Poverty', UNICEF Innocenti Working Paper No. 2005-02 using information from the Luxembourg Income Study. The paper, which also provides complete details and analysis of the information in this section, is available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

The calculations in Figure 6 of the percentage changes in earnings and social transfers are only for those individuals reporting some earnings or transfers. The relative contribution of changes in demographics, labour markets and social transfers on changes in low income rates among children, as depicted in Figures 6, 7 and 8, relies upon a methodology that does not fully recognize that these three broad sets of influences interact with each other. As such our estimates of the magnitudes of the relative influences on changes in low income rates, such as those provided in these Figures, should be taken as indicative only, and offer a starting point for more a more detailed discussion.

The major source for the discussion of the impact of US welfare reform is R. Blank, 'Evaluating Welfare Reform in the United States', *Journal of Economic Literature*, Volume 40, December 2002 (pp.1105-66), and R. Blank, 'Selecting Among Anti-Poverty Policies: Can an Economist be Both Critical and Caring?', *Review of Social Economy*, Volume 61, 2003 (pp 447-69). Non monetary measures of the well being of low income children are discussed in C. Jencks, S. Mayer, and J. Swingle 'Who has benefited from economic growth in the United States since 1969? The case of Children', in *What Has Happened to the Quality of Life in the Advanced Industrialized Nations?* edited by Edward Wolff. Edward Elgar Publishing, 2004.

### Public resources for Children

For complete details and analysis of the information in this section see M. Corak,

C. Lietz, and H. Sutherland, 'The impact of tax and transfer systems on children in the European Union', UNICEF Innocenti Research Paper No. 2005-04 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

Figure 9 is based upon LIS information and uses the same definition and methods as Figure 1, namely the low income rate is defined in terms of 50 per cent of contemporaneous national median using an equivalence scale of the square root of household size. In addition, Figure 10 uses information from the provisional version of OECD (2004), Social Expenditure database, [www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure). This is also the source for Figure 11.

The data in Figure 13 are derived using calculations from EUROMOD – a tax-benefit model covering the 15 Member States of the pre-May 2004 European Union. Using household survey data from each of the 15 countries, *EUROMOD* calculates disposable income for each sample household using simulated taxes and transfers. The results are then combined to represent the nationwide population.

*EUROMOD* is used as the major research tool for examining the impact of government budgets on children as reported in M. Corak, C. Lietz, and H. Sutherland, 'The impact of tax and transfer systems on children in the European Union', (op-cit) from which the discussion in this report and the information in Figures 13a, 13b, and 13c is drawn. The data-sets used are listed below. Although they include information collected at various points in time from 1993 to 2001, all data have been adjusted to 2001 prices and incomes. Government policies used in the simulation model are those prevailing in mid-2001.

In all cases, it is assumed that the legal rules are applied and that the costs of compliance are zero. The calculations therefore do not reflect either non-take up of benefits or tax avoidance and evasion. In some countries (for example, Greece) *EUROMOD* over-estimates the taxes collected and in others (for example, the UK and Ireland) it over-estimates the amount of means-tested benefits paid. This is obviously more of an issue in countries which rely more heavily on such benefits.

The calculations shown in Figures 13a, 13b and 13c measure household tax liabilities and benefit entitlements according to the age of each person. They assume a sharing of income, taxes and benefits within the household (so a child, for example, would benefit from a proportion of the pension of a grandparent living under the same roof). Taxes (which include income taxes and employee and self-employed social insurance contributions) and benefits (which include public pensions) are expressed as proportions of household disposable income. In the case of Sweden, it should be noted that income is aggregated over the family unit (single person or couple plus children aged under 18) rather than the household. For other countries the data allow the use of the wider household – meaning all people living in one dwelling and sharing some of the cost of living. The fact that many 18 to 24 year olds in Sweden do in fact live in with their parents and have little income of their own is reflected in the low level of tax paid by this group, as shown in Figure 13a.

The calculations define the 'low income population' as people in households with incomes below 50 per cent of the median – after allowing for household size – using the simulated distribution of household disposable income calculated by *EUROMOD*. Figures 13a, 13b and 13c use this data to show taxes and benefits for both 'all' families and 'low income' families in the 15 nations.

In some countries – particularly those with low poverty rates or small populations – the sizes of the data samples for some age groups are not large enough for the estimates to be considered statistically significant. (This applies particularly to Belgium, Denmark, Ireland, Luxembourg and the Netherlands.) Nevertheless the general shape of the age profiles can be considered as having a valid story to tell.

*EUROMOD* was constructed and is maintained and used by a consortium of some 45 individuals in 18 institutions across the European Union. The version of the model used here was created as part of the MICRESA (Micro Analysis of the European Social Agenda) project, financed by the Improving Human Potential programme of the European Commission (SERD-2001-00099). The analysis was supported by a grant from

the Nuffield Foundation in the UK. EUROMOD relies on micro-data from twelve different sources for fifteen countries. These are the European Community Household Panel (ECHP) User Data Base made available by Eurostat; the Austrian version of the ECHP made available by the Interdisciplinary Centre for Comparative Research in the Social Sciences; the Panel Survey on Belgian Households (PSBH) made available by the University of Liège and the University of Antwerp; the Income Distribution Survey made available by Statistics Finland; the Enquête sur les Budgets Familiaux (EBF) made available by INSEE; the public use version of the German Socio Economic Panel Study (GSOEP) made available by the German Institute for Economic Research (DIW), Berlin; the Living in Ireland Survey made available by the Economic and Social Research Institute; the Survey of Household Income and

Wealth (SHIW95) made available by the Bank of Italy; the Socio-Economic Panel for Luxembourg (PSELL-2) made available by CEPS/INSTEAD; the Socio-Economic Panel Survey (SEP) made available by Statistics Netherlands through the mediation of the Netherlands Organisation for Scientific Research - Scientific Statistical Agency; the Income Distribution Survey made available by Statistics Sweden; and the Family Expenditure Survey (FES), made available by the UK Office for National Statistics (ONS) through the Data Archive. Material from the FES is Crown Copyright and is used by permission. Neither the ONS nor the Data Archive bear any responsibility for the analysis or interpretation of the data reported here. An equivalent disclaimer applies for all other data sources and their respective providers cited in this acknowledgement. EUROMOD is continually being improved and updated and the results presented

here represent work in progress.

For more on EUROMOD see H. Immervoll, C. O'Donoghue, and H. Sutherland, 'An Introduction to EUROMOD', EUROMOD Working Paper EM0/99, 1999 at [www.econ.cam.ac.uk/dae/mu/publications/emwp0.pdf](http://www.econ.cam.ac.uk/dae/mu/publications/emwp0.pdf) and D. Mantovani and H. Sutherland, 'Social Indicators and other Income Statistics using the EUROMOD Baseline: a Comparison with Eurostat and National Statistics', EUROMOD Working Paper EM1/03, 2003 at [www.econ.cam.ac.uk/dae/mu/publications/emwp103.pdf](http://www.econ.cam.ac.uk/dae/mu/publications/emwp103.pdf) and H. Sutherland, 'EUROMOD', in A. Gupta and V. Kapur (eds.), *Microsimulation in Government Policy and Forecasting*, Elsevier, 575-580, 2000.

For more information about EUROMOD see: [www.econ.cam.ac.uk/dae/mu/emod.htm](http://www.econ.cam.ac.uk/dae/mu/emod.htm)

Country	Base Dataset for EUROMOD	Reference time period for incomes
Austria	Austrian version of European Community Household Panel (W5)	annual 1998
Belgium	Panel Survey on Belgian Households	annual 1998
Denmark	European Community Household Panel (W2)	annual 1994
Finland	Income distribution survey	annual 2001
France	Budget de Famille	annual 1993/4
Germany	German Socio-Economic Panel	annual 2000
Greece	European Community Household Panel (W3)	annual 1995
Ireland	Living in Ireland Survey	month in 1994
Italy	Survey of Households Income and Wealth	annual 1995
Luxembourg	PSELL-2	annual 2000
Netherlands	Sociaal-economisch panelonderzoek	annual 1999
Portugal	European Community Household Panel (W3)	annual 1995
Spain	European Community Household Panel (W7)	annual 1999
Sweden	Income distribution survey	annual 1997
UK	Family Expenditure Survey	month in 2000/1

## Box 2 The Convention: a commitment to children

The full text of the UN Convention on the Rights of the Child is available at [www.unicef.org](http://www.unicef.org). The discussion also draws on R.Hodgkin and P. Newell, *Implementation Handbook for the Convention on the Rights of the Child*, Fully revised edition, New York: United Nations Children's Fund, 2002 (chapters on Articles 4 and 27). The exact wording of Articles 4 and 27 is:

### Article 4

State Parties shall undertake all appropriate legislative, administrative

and other measures for the implementation of the rights recognized in the present Convention. With regard to economic, social and cultural rights, State Parties shall undertake such measures to the maximum extent of their available resources and, where needed within the framework of international co-operation.

### Article 27

1. States Parties recognize the right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development.  
2. The parent(s) or others responsible for the child have the primary responsibility

to secure, within their abilities and financial capacities, the conditions of living necessary for the child's development.

3. States Parties, in accordance with national conditions and within their means, shall take appropriate measures to assist parents and others responsible for the child to implement this right and shall in case of need provide material assistance and support programmes, particularly with regard to nutrition, clothing and housing.

4. States Parties shall take all appropriate measures to secure the recovery of maintenance for the child from the parents or other persons having financial

responsibility for the child, both within the State Party and from abroad. In particular, where the person having financial responsibility for the child lives in a State different from that of the child, States Parties shall promote the accession to international agreements or the conclusion of such agreements, as well as the making of other appropriate arrangements.

### Box 3 Poverty and Income

Box 3 draws on M. Corak 'Principles and practicalities in measuring child poverty', UNICEF Innocenti Working Paper No. 2005-01 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org). The State of the World's Children Report, UNICEF, 2005 is available at [www.unicef.org](http://www.unicef.org)

### Box 4 The UK: so far so good

Box 4 is based on research reported in H. Sutherland, 'Poverty in Britain: the impact of government policy since 1997. A projection to 2004-5 using microsimulation', Microsimulation Research Note MU/RN/44, Microsimulation Unit, University of Cambridge, 2004 available at <http://www.econ.cam.ac.uk/dae/mu/publications/murn44.pdf>

Prime Minister Blair's speech declaring the government's intention to end child poverty and papers by various authors commenting on different issues relating to this aim are in R. Walker (ed.) *Ending Child Poverty*, The Policy Press, Bristol, 1999.

The specific definition of poverty used by the UK government is described in Department for Work and Pensions, 'Measuring child poverty', 2003 available at [www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp](http://www.dwp.gov.uk/consultations/consult/2003/childpov/final.asp)

In developing the measure of material deprivation "adult deprivation" is measured on the basis of whether families have or are able to afford adequate housing (keeping the home adequately warm, in decent state of repair, furniture and electrical goods such as refrigerator or washing machine), certain social activities (a holiday way from home for one week

not staying with relatives, having friends or family for a meal once a month), some assets (a small amount to spend on oneself and regular savings) and adequate clothing (two pairs of all-weather shoes for each adults). The nine measures of deprivation for children include one measure relating to housing (enough bedrooms for every child over 10 of different sex to have their own room). The remainder deal with social activities and include: a one family week holiday away from home every year, swimming at least once a month, a hobby or leisure activity, friends visiting once every two weeks, leisure equipment, celebrations on special occasions, play group activities at least once a week for pre-school age children, a school trip at least once a term for school aged children.

Department for Work and Pensions, 'Measuring child poverty consultation: preliminary conclusions', 2003 describes the public consultation process and is available at <http://www.dwp.gov.uk/consultations/consult/2003/childpov/index.asp>

### Box 5 The USA: re-drawing the poverty line

In the United States there is an extensive literature on the definition poverty. Some of the sources for the discussion in this box (and in the main commentary) include: C. Citro and R. Michael (eds.), *Measuring Poverty: A New Approach*, Washington DC: National Academy Press, 1995 and the following papers all available at [www.census.gov/hhes/poverty/povmeas/papers](http://www.census.gov/hhes/poverty/povmeas/papers): G. Fisher, 'An Overview of Developments since 1995 Relating to a Possible New U.S. Poverty Measure', 1999; G. Fisher 'Is There Such a Thing as an Absolute Poverty Line over Time?' 1995; K. Short and T. Garner, 'A Decade of Experimental Poverty Thresholds 1990 to 2000', 2002.

Specific reference is made to 'An Open Letter on Revising the Official Measure of Poverty', Conveners of the Working Group on Revising the Poverty Measure, August 2, 2000, available at [www.ssc.wisc.edu/irp/povmeas](http://www.ssc.wisc.edu/irp/povmeas) and also to the 1995 report by a panel of experts appointed by the National Academy of Sciences/National Research Council by C. Citro and R. Michael (eds.), op-cit.

### Box 6 Canada: children still waiting

A descriptive overview of the measures of low income produced by the Canadian statistical agency, Statistics Canada, is offered by M. Skuterud, M. Frenette and P. Poon, 'Describing the Distribution of Income: Guidelines for Effective Analysis', Statistics Canada, 2004, Catalogue No. 75F0002MIE, No.010. A summary of the first set of findings from the Canadian Market Basket Measure of Low Income is available at [www.hrsdc.gc.ca/en/cs/comm/news/2003/030527.shtml](http://www.hrsdc.gc.ca/en/cs/comm/news/2003/030527.shtml), while the specifics of the construction of the basket are presented in M. Hatfield, 'Constructing the Revised Market Basket Measure', Ottawa: Human Resources Development Canada 2002. The quotations in the text are taken from these sources.

The all party resolution committing the government of Canada to "seek to eliminate child poverty by the year 2000" can be found in Government of Canada, Hansard, November 24, 1989.

The reference for the government quote "it is not possible to say with certainty whether the incidence of low income for children using the Market Basket Measure is higher or lower than in the years prior to 2000." is [www.hrsdc.gc.ca/en/cs/comm/news2003/030527.shtml](http://www.hrsdc.gc.ca/en/cs/comm/news2003/030527.shtml)

### Box 7 Europe: child poverty and social exclusion

The list of 18 common indicators used by the EU is available at [europa.eu.int/comm/employment\\_social/news/2002/jan/report\\_ind\\_en.pdf](http://europa.eu.int/comm/employment_social/news/2002/jan/report_ind_en.pdf). These include additional income based measures like the distribution of income, the persistence of low income, the amount by which the typical individual falls below the 60 per cent threshold. But they also include other measures of labour market and social outcomes: the long term unemployment rate, people living in jobless households, early school leavers not in further education, life expectancy at birth, and self perceived health status. For background on their development see T. Atkinson, B. Cantillon, E. Marlier, and B. Nolan, *Social Indicators: The EU and Social Inclusion*, Oxford University Press, 2002. The rationale for the use of a 60 per cent cutoff as the low income

threshold is discussed in Eurostat Task Force, 'Recommendations on Social Exclusion and Poverty Statistics', Paper presented to the 26-27 November Meeting of the EU Statistical Programme Committee, 1998.

For specific reference to children in the EU see P. Hoelscher, 'A thematic study using transnational comparisons to analyse and identify what combination of policy responses are most successful in preventing and reducing high levels of child poverty', draft of a final report submitted to the European Commission, DG Employment and Social Affairs 2004

and Commission of the European Communities, 'Joint Report on Social Inclusion summarizing the results of the National Action Plans for Social Inclusion (2003-2005)', Brussels, COM(2003)773 final, 2003, page 6. On child poverty in the EU see also [europa.eu.int/comm/employment\\_social/social\\_protection\\_committee/spc\\_report\\_july\\_2003\\_en.pdf](http://europa.eu.int/comm/employment_social/social_protection_committee/spc_report_july_2003_en.pdf)

### Box 8 Child Poverty in Germany

The fuller analysis of child poverty in Germany from which this Box draws can

be found in M. Corak, M. Fertig, and M. Tamm, 'A portrait of child poverty in Germany', UNICEF Innocenti Working Paper No. 2005-03 available at [www.unicef.org/irc](http://www.unicef.org/irc) and [www.unicef-irc.org](http://www.unicef-irc.org)

### Box 9 Poverty relative to what?

The discussion draws on L. Rainwater, T. Smeeding and J. Coder, 'Poverty Across States, Nations and Continents', prepared for the 1999 LIS Child Poverty Conference and available from <http://lissy.ceps.lu/CPCConf/agnd.htm>

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