

PART III
Chapter 5

**Poverty in OECD Countries:
An Assessment Based on Static
Income***

Poverty rates have increased over the past decade, especially among children and people of working age. Most of this rise reflects the lower redistribution towards people at the bottom of the income scale. As a result of these changes, the risk of poverty has shifted from the elderly towards youths. Work is very effective to avoid the risk of poverty, nevertheless most poor people belong to households with some earnings.

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Introduction

Concerns about income inequality have special salience when they relate to people at the bottom of the income distribution. This reflects both the shared commitment of all OECD governments to fight poverty within their borders and the fact that, while a range of factors shape the well-being of individuals, household income is the most obvious way to assess whether individuals are at risk of falling below the minimum standard of living that is considered acceptable in each country. While minimum standards will differ across countries, and are shaped by national traditions and by the political process of each country, benchmarking countries' performance on common arbitrary thresholds allows identifying patterns that are common to all OECD countries and patterns that differentiate their experiences in the field of poverty.

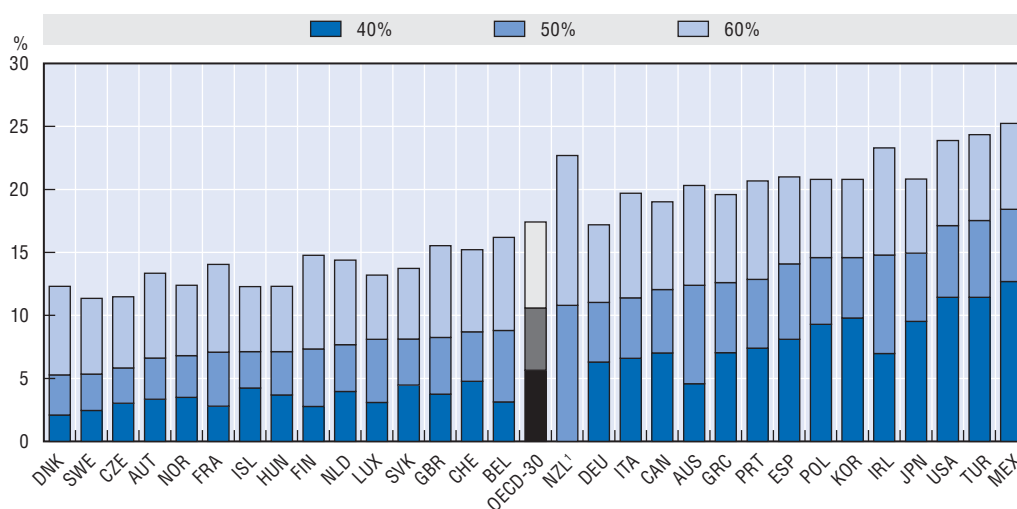
This chapter presents evidence on poverty based on a measure of households' annual income at a given point in time. Poverty is assessed relative to the income of a typical middle-class family in each country but also based on measures that reflect the absolute income gains for people at the bottom of the distribution. After having described levels and trends in different poverty measures for the entire population, this chapter looks at the experience of people of working age, of children and of the elderly in order to assess how poverty risks have shifted among them and to identify the factors that most contribute to these risks. The chapter then looks at the role of public transfers and household taxes in reducing poverty in each country, and presents a simple decomposition of how different factors have affected changes in the poverty rates of households with a head of either working age or retirement age. While a number of patterns, summarised in the concluding section, emerge from the analysis, their robustness is affected by measurement problems that are especially severe at the bottom end of the income scale. These data features explain the significant differences in poverty estimates across various surveys for a few countries (see Table 5.A2.1 in the Annex); further, as large proportions of the population in each country are clustered around the thresholds used here, very small changes in their income can sometimes lead to large swings in poverty measures.¹

Levels and trends in overall income poverty

Relative income poverty

A natural starting point for assessing patterns of income poverty in various OECD countries is represented by the level of different summary measures, based on thresholds set at different proportions of median equivalised household disposable income. Figure 5.1 displays one widely used indicator – the “headcount” ratio, i.e. the share of people in each country with an income below 40%, 50% and 60% of median income² – with countries ranked (in increasing order) by the level of this indicator for the 50% threshold. “Absolute” values of these thresholds (in national currencies and in USD at PPP rates) are shown in Table 5.A1.1 in the Annex.

Figure 5.1. **Relative poverty rates for different income thresholds, mid-2000s**
Relative poverty rates at 40, 50 and 60% of median income thresholds



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Note: Poverty rates are defined as the share of individuals with equivalised disposable income less than 40, 50 and 60% of the median for the entire population. Countries are ranked, from left to right, in increasing order of income poverty rates at the 50% median threshold. The income concept used is that of household disposable income adjusted for household size.

1. Poverty rates based on a 40% threshold are not available for New Zealand.

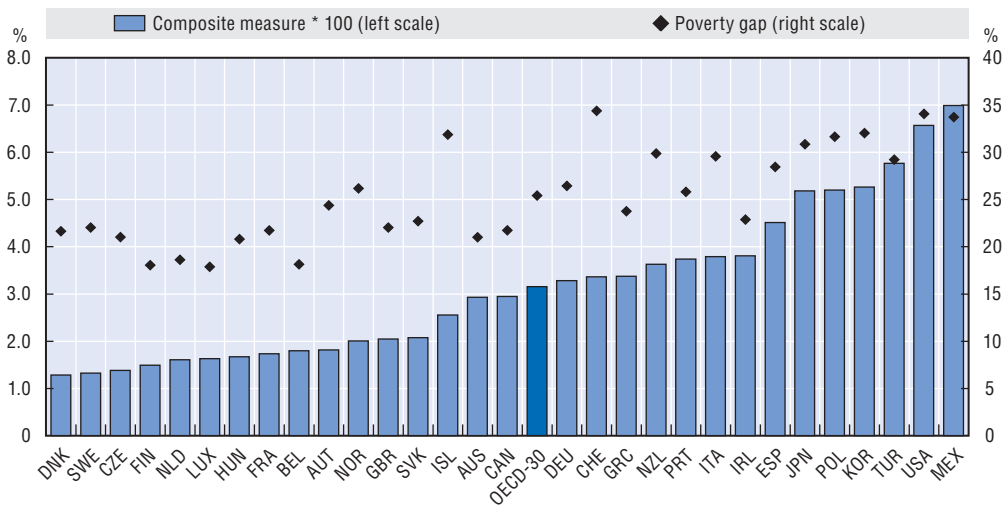
Source: Computations from OECD income distribution questionnaire.

In the mid-2000s, around 6% of the population in the 30 OECD countries had an equivalised income of less than 40% of the median, a proportion that rises to 11% when the income threshold is set at 50% of the median and to around 17% for a threshold of 60%. There are wide disparities across countries in this measure of relative income poverty – with cross-country differences ranging between 2 and 13% for the 40% threshold, between 5 and 18% for the 50% threshold, and between 11 and 25% for the 60% threshold. These disparities remain significant even after excluding “outliers” at both ends of the distribution.³ Cross-country dispersion (as measured by the standard deviation) rises with the threshold used.

Despite large absolute differences in headcount rates depending on the threshold used, the ranking of countries is remarkably consistent across the three measures.⁴ Relative poverty rates are always lowest, whatever the threshold used, in the Czech Republic, Denmark and Sweden, while they are always highest in the United States, Turkey and Mexico. Poverty rates are below average in all Nordic and several Continental European countries, and above average in Southern European countries as well as Ireland, Japan and Korea. In Austria, Denmark, Finland, New Zealand and Sweden, the share of people with income between 50% and 60% of the median is at least as large as that below half the median, while in Japan, Korea, Mexico, Poland, Turkey and the United States this share is much smaller (less than 30%). The use of the higher income threshold would therefore increase poverty headcounts by more in the first group of countries than in the latter.

The headcount ratio is one measure of the number of poor people in each country (i.e. the frequency of poverty). Also important is the amount by which the mean income of the poor falls below the poverty line, measured as a percentage of the poverty threshold (i.e. the “poverty gap”). This gap (shown as a diamond in Figure 5.2) was – on average, across the OECD – 29%, ranging from about 20% in the Belgium, Luxembourg, Finland and the

Figure 5.2. **Poverty gap and composite measure of income poverty, mid-2000s**



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Note: The poverty gap (shown on the right-hand axis) is calculated as the distance between the poverty threshold and the mean income of the poor, expressed as a percentage of the poverty threshold. The composite measure (shown on the left-hand axis) is the product of the poverty rate and the poverty gap. Countries are ranked (from left to right) in increasing order of the composite poverty measure. Data refer to the mid-2000s for all countries except for Canada (2000). The income concept used is that of household disposable income adjusted for household size.

Source: Computations from OECD income distribution questionnaire.

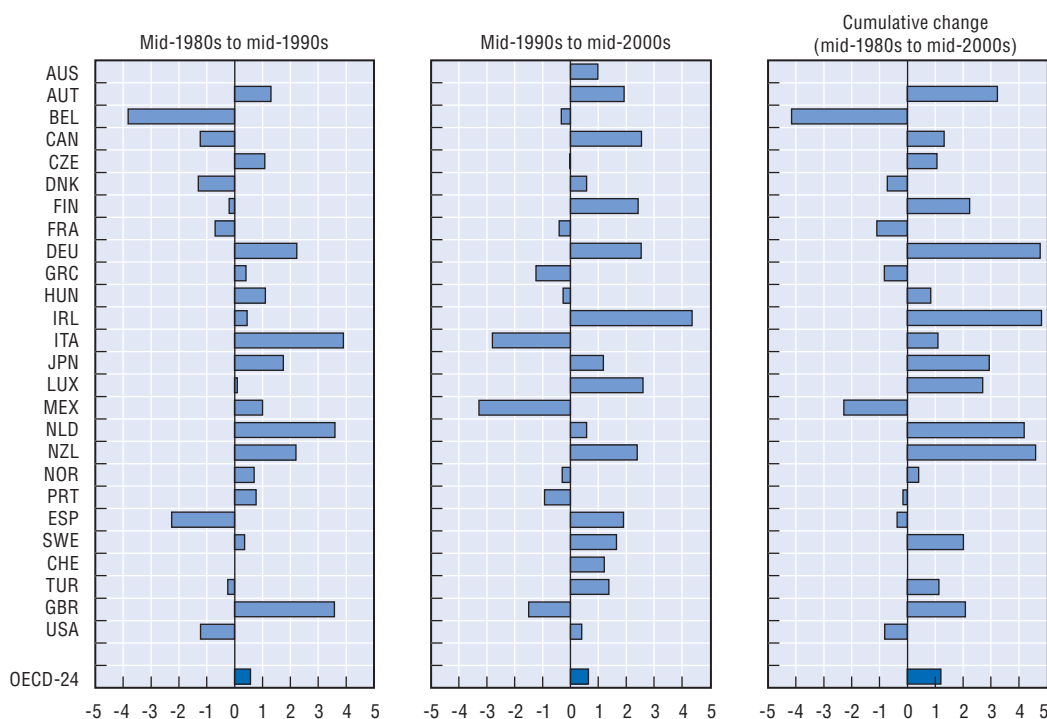
Netherlands to almost 40% in Mexico, Switzerland and the United States.⁵ In general, countries with a lower incidence of poverty (headcount ratios) also record lower poverty gaps, but the correlation is rather weak (0.60) and there are several exceptions: Norway, Iceland and especially Switzerland, with below-average poverty rates, have above-average poverty gaps, while Australia, Canada, Greece and Ireland, with above-average poverty rates, have below-average poverty gaps. A composite measure of poverty – which takes into account both how many poor there are in each country and the distance between their income and the poverty line (shown as bars in Figure 5.2) – was around 3%, on average, in the mid-2000s, ranging between 1.3% in Denmark and 7% in Mexico.⁶

Changes in the poverty headcount based on the 50% median income threshold since the mid-1980s highlight several patterns.

- From the mid-1980s to the mid-1990s (Figure 5.3, left-hand panel), the unweighted average of poverty rates across 24 OECD countries increased by 0.6 percentage point. Larger (2 to 4 points) rises were recorded in Germany, Italy, the Netherlands, New Zealand and the United Kingdom, while in Belgium and Spain poverty rates fell by a similar amount.⁷
- In the decade from the mid-1990s to the mid-2000s (middle panel), poverty rates increased again in a majority of countries, with the average rate across 24 OECD countries edging up by 0.6 point to almost 11% of the population. This rise extended earlier trends for Austria, Germany, Ireland, Japan, Luxembourg, the Netherlands, New Zealand and Sweden, while it reversed earlier progress for Canada, Denmark, Finland, Spain and the United States. In this decade, only Greece, Italy, Mexico and the United Kingdom experienced declines in the poverty headcount of around 1 point or more.

Figure 5.3. Trends in poverty headcounts

Point changes in income poverty rate at 50% median level over different time periods

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Note: Data in the first panel refer to changes in the poverty headcount from around 1990 to mid-1990s for Czech Republic, Hungary and Portugal; no data are available for Australia and Switzerland. Data in the second panel refer to changes from the mid-1990s to around 2000 for Austria, Belgium, Czech Republic, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not comparable with those for earlier years); and to changes from 2000 to 2005 for Switzerland. OECD-24 refers to the simple average of OECD countries with data spanning the entire period (all countries shown above except Australia and Switzerland).

Source: Computations from OECD income distribution questionnaire.

- Over the entire period from the mid-1980s to the mid-2000s, the poverty headcount increased in two-thirds of the OECD countries (exceptions being Belgium, Denmark, France, Greece, Mexico, Portugal, Spain and the United States). The increase was largest in Austria, Finland, Germany, Luxembourg, the Netherlands, New Zealand, Sweden and the United Kingdom (from a lower base) as well as in Ireland and Japan (from a higher base). Across the 24 OECD countries for which data are available, the cumulative increase was around 1.2 points (i.e. 13%) with changes of similar magnitudes in each of the two decades.^{8, 9}

Changes in a broader range of poverty measures for the same countries suggest that while poverty headcounts for different thresholds typically moved in the same direction, changes in poverty rates and poverty gaps often offset each other (see Figure 5.A2.1 available at <http://dx.doi.org/10.1787/424402577838>).

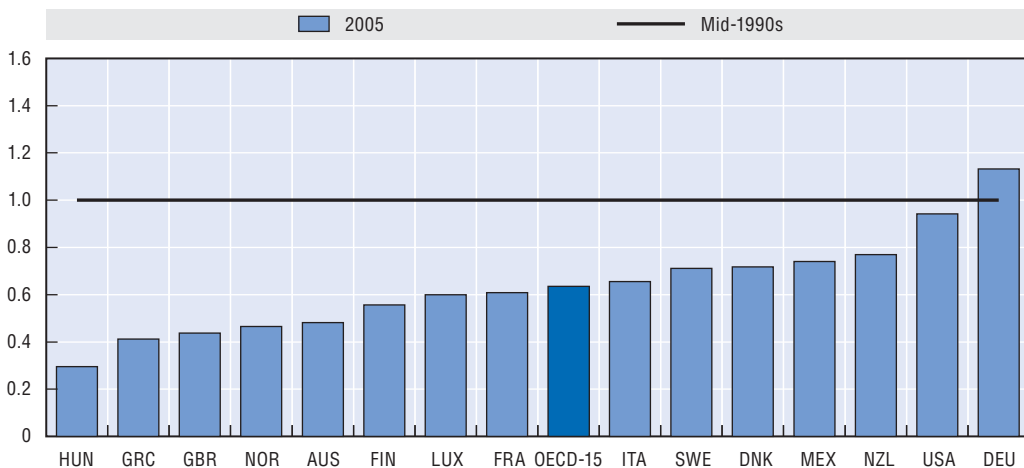
Changes in “absolute” poverty


The estimates shown above refer to “relative” income poverty, i.e. with a threshold set as a percentage of the median income in each country in each of the years considered. Several OECD countries, however, have “official” measures of poverty that rely on “absolute” standards, typically in the form of the cost of a basket of goods and services

required to assure minimum living conditions and indexed for price changes over time (e.g. United States). While the use of “absolute” thresholds poses difficult methodological issues for cross-country comparisons (Förster, 1994), one way to illustrate how “absolute” poverty has changed over time is to use a relative threshold in a base year which is kept unchanged in real terms in later years.¹⁰ One such measure, based on a threshold set at half of median income in the mid-1990s, shows that – even when relative income poverty is rising – most OECD countries achieved significant reductions in absolute poverty between the mid-1990s and mid-2000s (Figure 5.4). On average, across the 15 OECD countries for which this information is available, absolute poverty rates fell by about 40% during the last decade, with larger reductions (of 60% or more) in those countries (such as Greece, Hungary) that experienced economic transformations and stronger economic growth over that period and rises since around 2000 only in Germany.¹¹ While there is continuing controversy about the extent to which subjective attitudes towards poverty are influenced by the actual scale of poverty in society (as measured by either absolute or relative income poverty rates), it is also clear that, in any case, these attitudes matter for the people affected and for the willingness of voters to fund programmes to alleviate poverty (Box 5.1).

Figure 5.4. Trends in “absolute” poverty

Threshold set at half of median income in the mid-1990s kept constant in real terms in later years, mid-1990s = 1.0



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Note: Countries are ranked, from left to right, in decreasing order of the reduction in “absolute poverty” from its mid-1990s level (e.g. in Hungary, “absolute” poverty in the mid-2000s was only 30% of the level it had reached in the mid-1990s, while in Germany it was 13% above that level).

Source: Computations from OECD income distribution questionnaire.

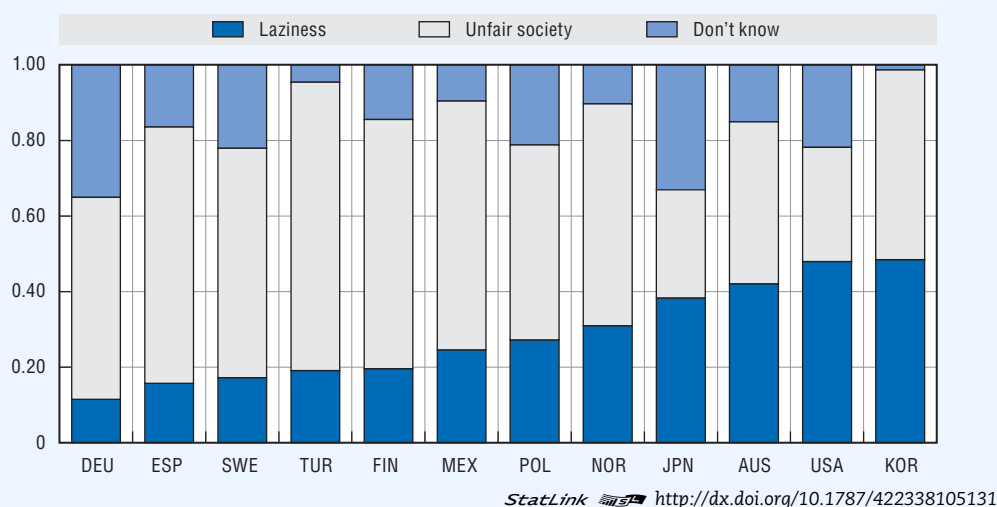
Poverty risks for different population groups

Poverty risks within each country vary depending on individual and household characteristics, and they have shifted significantly over time. The most significant of these shifts has been away from the elderly and towards younger people. On average – across the 23 OECD countries covered by the left-hand panel of Figure 5.5 – the poverty risk of people aged 75 and over has fallen from a level almost twice as high as that of the population average in the mid-1980s to 1.5 times by the mid-2000s. For people aged 66 to 75 this risk is now lower than for children and young adults.¹² This improvement, which appeared to have stopped in the early-2000s (Förster and Mira d’Ercole, 2005) has resumed in recent years. The reduction in the poverty risk of elderly people is even larger when looking, in a

Box 5.1. Subjective attitudes to poverty

The burden of poverty on individuals and families depends not just on its size but also on how others in society view its nature, in particular whether poverty is perceived as the result of individual attitudes or of the way society is organised. The chart below shows the share of respondents who believe that people are poor because of laziness or lack of will, on one side, or because society is unfair, on the other. In general, the share of respondents who believe that poverty reflects laziness is greater in the Asian and Anglo-Saxon countries than in the Nordic and Continental European countries. Beyond these cross-country differences in levels, attitudes towards poverty also change over time within individual countries. Paugman and Selz (2005) note that fewer people believe that poverty is based on laziness in times when unemployment rises, as more people are exposed to risks of job losses; they also note that “laziness” explanations of poverty have become more prevalent in most European countries in recent years.

Share of respondents attributing poverty to different factors



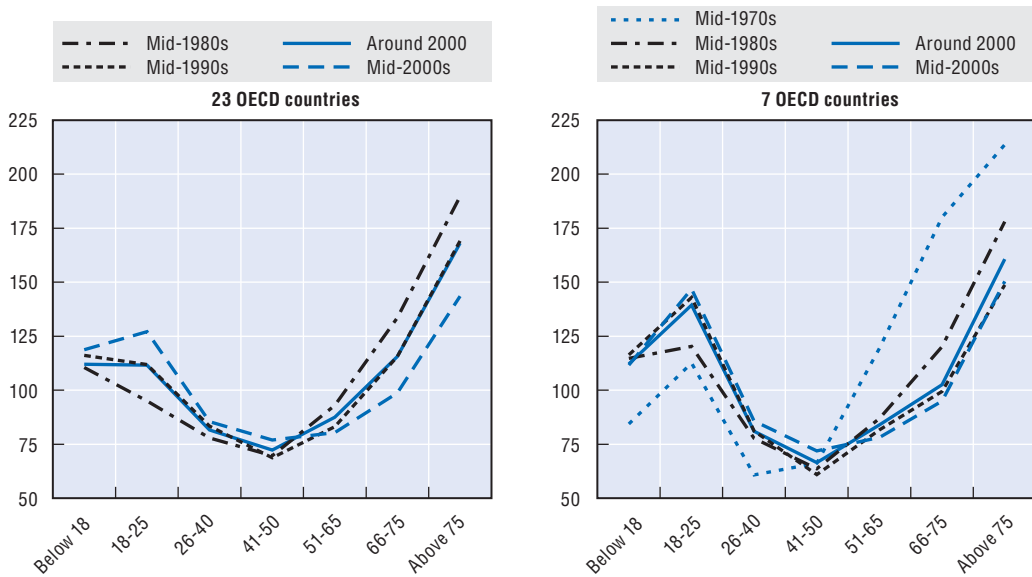
Source: World Values Survey referring to the mid-1990s.

smaller number of OECD countries, at changes since the mid-1970s (right-hand panel). In general, poverty risks for all age groups above 50 have declined, while those for people below that age have risen. By 2005, children and young adults had poverty rates about 25% above the population average, while they were close to and below that average, respectively, 20 years ago.¹³

Poverty rates also differ by gender, despite the assumption of equal sharing of resources within households. Poverty rates of women are, on average, about 1 point higher than for men (with the only exceptions being Hungary, New Zealand and Poland, where they are less than that) but 2 points or more in Australia, Germany, Greece, Ireland, Italy, Japan, Korea and the United States. These gender differences in poverty rates are closely related to the age of individuals (Figure 5.6). Women are more likely to be living alone following the death of their spouses; and – as fewer women have gained pension rights during their working age – the risk of being poor for elderly women is one-third higher than that for men of the same age. As more women head single-parent families, the risk of poverty for prime-age women is also

Figure 5.5. **Risk of relative poverty by age of individuals, mid-1970s to mid-2000s, OECD average**

Poverty rate of the entire population in each year = 100



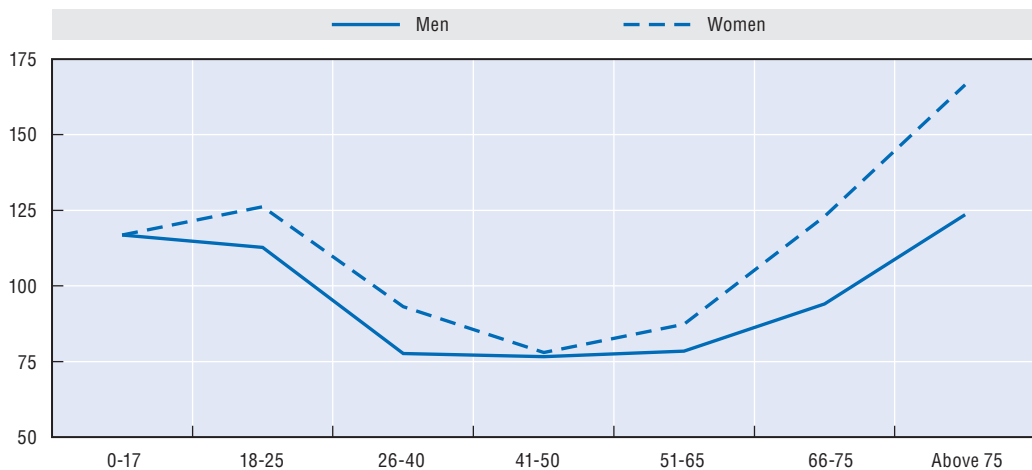
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Note: Relative poverty risk is the age-specific poverty rate divided by the poverty rate for the entire population times 100. The poverty threshold is set at 50% of median income of the entire population. OECD-23 is the average poverty rates across all OECD countries except Australia, Belgium, Iceland, Korea, Poland, the Slovak Republic and Switzerland. OECD-7 is the average for Canada, Finland, Greece, the Netherlands, Sweden, the United Kingdom and the United States. Data for mid-1980s refer to around 1990 for the Czech Republic, Hungary and Portugal; those for mid-2000s refer to 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not comparable with those for earlier years). Data based on cash income (see note 12 for the implications of this).

Source: Computations from OECD income distribution questionnaire.

Figure 5.6. **Risk of relative poverty of men and women by age, OECD average, mid-2000s**

Poverty rate of the entire population = 100



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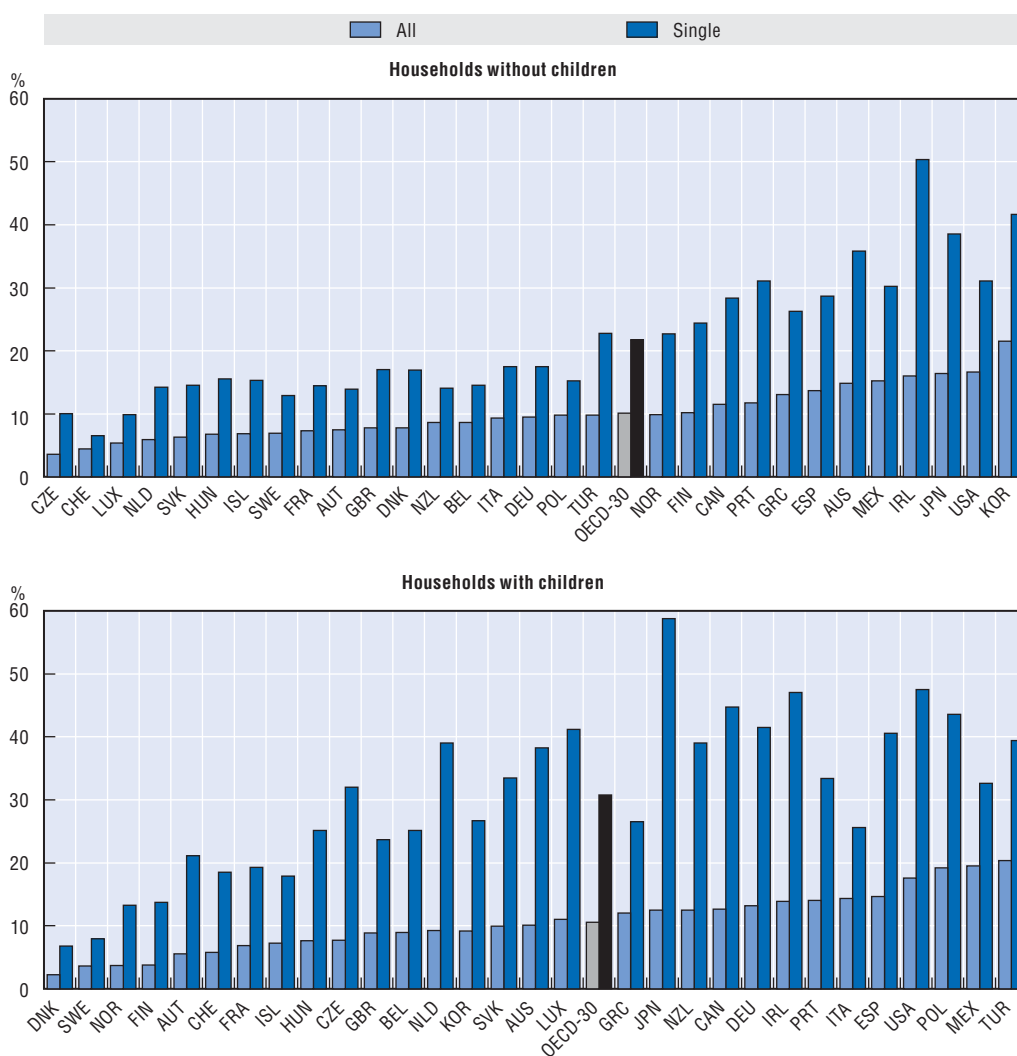
Note: Relative poverty risk is the age-specific poverty rate of men and women divided by the poverty rate for the entire population times 100. The poverty threshold is set at 50% of the median income of the entire population.


Source: Computations from OECD income distribution questionnaire.

above that for men with the exception of the age group 41 to 50. By contrast, women below the age of 18 have no higher risk of being poor than men of the same age.

What are the differences in poverty risks across household types? In general, households with children do not face significantly higher poverty risks than those without children (10.6% in the first group, a little over 10% in the second), and in one-third of OECD countries this risk is even lower; this is especially the case in Australia, Korea and the four Nordic countries. In Poland and Turkey and, to a lesser extent, the Czech Republic, Italy and Luxembourg, however, households with children face a much higher risk of falling into poverty. Among households without children, persons living alone generally have a much higher poverty risk – twice as high on average, *i.e.* 22%. Poverty rates for persons living in single-parent families are three times higher than for the average of all households with children, and exceed 40% in one-third of OECD countries (Figure 5.7).

Figure 5.7. **Poverty rates by household type, mid-2000s**



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Note: Countries are ranked, from left to right, in increasing order of the poverty rate of households without children (in the top panel) and of those with children (in the bottom one). Data refer to all households, irrespectively of the age of the household head. Poverty thresholds are set at 50% of the median income of the entire population.

Source: Computations from OECD income distribution questionnaire.

Changes in poverty risks by household type over time have been small and mainly limited to single persons. On average, and in most OECD countries, the poverty risk of couples without children is around half that of the total population, while that of couples with children is slightly below average. Conversely, lone parents have a probability of falling into poverty that is around three times higher than average, with little change in the past decade. The situation for single persons without children (including both working-age and retirement-age adults) improved over the past decade.

Poverty among people of working age: the role of paid work

Across the OECD area, around 9% of people of working age had a household disposable income below the 50% threshold in the mid-2000s, a share that has increased by 0.6 point in the past decade. Poverty rates have decreased recently only in seven OECD countries, and then only slightly. While poverty rates among people belonging to this group depend on a range of factors, the most important is whether household members have a paid job. Table 5.1 shows that among all those belonging to a household with a head of working age, those living in households where no one works have a poverty rate of 36% on average, i.e. almost three times higher than in households with one worker, and 12 times higher than households with two or more workers. The poverty rate of households with no workers is above 50% in Australia, Canada, Ireland, Korea, and the United States but below 20% in Denmark, Hungary, Luxembourg, Switzerland and Turkey. Moreover, during the past decade the poverty rate among non-working households has increased considerably (by more than 3 percentage points on OECD average), while it increased by much less (by 1.6 points) for households with one worker, and remained almost at the same level for households with two or more workers.

Because households with workers have lower poverty rates than other households, countries with a higher employment rate for people of working age also tend to record a lower poverty rate among the same group (Figure 5.8, left-hand panel), although with a large variation across countries. Some countries such as Japan or the United States combine high employment rates with above-average poverty rates, while the inverse is the case in Hungary.

The effect of paid work in reducing poverty among households with a head of working age is also evident when looking at the type of job held, i.e. whether working full or part time. Among single adult households (with and without children), 46% of people in jobless households have, on average, income below the 50% threshold. This proportion declines to 28% when the single adult in these families works part time and to 8% when the person works full time. Among people living in couple families, around 33% have income below the 50% poverty line when no one in the household has a paid job. The poverty rate is thus lower for jobless couples than for singles, especially when they have children, reflecting the more generous out-of-work transfers available. The poverty rate falls to 19% when one household member is working part time and to around 4% when at least one is working full time.

Despite the importance of paid work for reducing poverty, many households with workers have income below the 50% poverty line. On average, people living in households with workers account for around 60% of the income poor, with this share ranging from around 25% in Australia and Norway to 80% or more in Japan, Greece, Luxembourg, Turkey, Iceland and Mexico (Figure 5.9). While most of these poor households have only one working member, those with two or more workers account for as much as 17% of all the income poor on average, and for more than one-third in Japan, Turkey, Iceland and Switzerland. While such large cross-country differences may partly reflect differences in the way different sources define “workers”, they also suggest that other factors beyond

Table 5.1. **Poverty rates for people of working age and for households with a working-age head, by household characteristics**

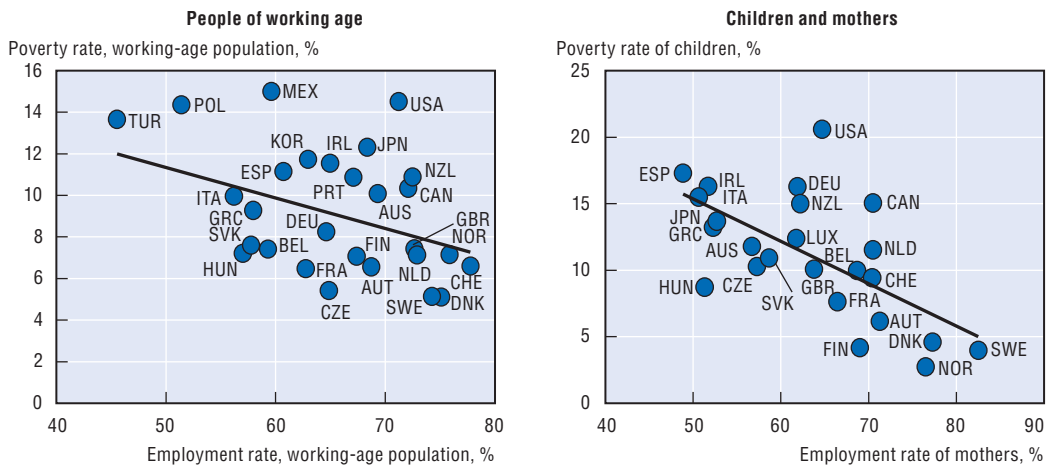
Poverty among people of working age			Poverty in households with a head of working age													
			All	No workers	One worker	Two workers	All	No workers	One worker	Two workers	Single			Two or more adults		
Mid-2000s	Point changes since 1995	Level, mid-2000s				Point changes since mid-1990s				Level, mid-2000s						
		Not working	Working part-time	Working full-time	Not working	Only working part-time	At least one working full-time									
Australia	10	1.2	10	55	7	1	0.4	9.0	-0.5	0.2	72	12	2	42	13	2
Austria	7	2.2	6	22	6	3	3.6	1.3	1.7	6.1	31	17	5	35	4	4
Belgium	7	0.5	8	25	8	2	0.0	6.7	0.7	-0.8	29	18	6	22	20	3
Canada	10	0.9	13	66	21	4	2.5	6.2	6.1	1.2	79	50	11	54	23	4
Czech Republic	5	0.7	6	38	7	0	0.9	2.9	-2.0	0.1	56	[.]	6	28	[.]	2
Denmark	5	1.2	5	18	8	1	1.0	4.8	1.5	0.3	22	28	1	15	6	0
Finland	7	1.7	6	34	10	1	1.8	13.4	1.2	-0.2	47	13	2	16	13	1
France	7	-0.6	7	22	10	2	0.1	7.6	0.1	-0.7	31	8	6	18	4	4
Germany	8	0.8	12	40	7	1	3.4	4.7	1.9	-0.1	49	32	5	32	25	2
Greece	9	-1.2	10	26	18	3	-0.5	4.7	3.6	-1.2	33	34	9	22	25	8
Hungary	7	1.0	7	19	6	4	0.2	-4.9	-4.6	-0.7	39	[.]	[.]	15	11	2
Iceland	7	..	7	28	19	4	..	..	..	..	23	25	10	40	13	5
Ireland	12	3.3	13	63	15	2	..	..	..	..	75	36	7	55	29	3
Italy	10	-2.8	11	36	16	1	-3.1	-2.2	-1.3	-3.1	40	50	4	36	33	8
Japan	12	0.4	12	42	14	9	0.8	2.2	1.3	-0.3	57	..	..	31	..	..
Korea	12	..	11	58	13	4	..	..	..	..	53	..	..	61	..	..
Luxembourg	8	2.8	9	19	15	3	3.3	7.3	7.3	1.6	28	35	12	14	28	10
Mexico	15	-2.2	18	37	26	10	-2.9	-3.5	-0.2	-3.5	30	..	..	41	..	..
Netherlands	7	0.7	8	34	13	2	1.4	6.5	5.9	1.0	40	..	..	27	..	..
New Zealand	11	3.3	12	46	19	4	2.5	15.2	8.5	0.1	51	41	9	42	[.]	6
Norway	7	1.0	6	38	4	0	0.9	1.0	0.0	0.2	47	[.]	[.]	22	..	..
Poland	14	..	16	33	23	5	..	..	..	..	40	..	..	31	..	..
Portugal	11	-0.4	11	37	24	3	0.0	-2.4	3.3	0.2	58	31	16	33	26	8
Slovak Republic	8	..	9	38	15	1	..	..	..	..	35	21	20	40	21	6
Spain	11	-0.4	11	49	18	4	-0.2	9.6	1.5	1.5	62	27	18	46	26	9
Sweden	5	1.0	5	23	9	1	1.4	7.6	2.6	0.2	23	16	1	21	[.]	1
Switzerland	7	0.5	6	19	4	5	0.5	4.2	3.7	-1.4	21	[.]	[.]	18	[.]	[.]
Turkey	14	0.4	17	19	17	18	1.8	-11.5	-0.1	4.2	33	[.]	[.]	18	[.]	[.]
United Kingdom	7	-0.3	8	33	7	1	-2.1	-2.7	-1.9	0.0	38	11	3	28	22	2
United States	15	1.0	16	71	25	5	0.0	-3.2	-0.8	-0.4	80	54	14	63	12	7
OECD	9	0.6	10	36	14	3	0.7	3.4	1.6	0.2	46	28	8	33	19	4

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Note: Poverty thresholds are set at 50% of the median income of the entire population. Data for changes refer to the period from the mid-1990s to around 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not comparable with those for earlier years); and to changes from 2000 to 2005 for Switzerland. [.] indicates that the sample size is too small. Data for Switzerland in columns 4 to 17 refer to households without children.

Source: Computations from OECD income distribution questionnaire.

Figure 5.8. **Poverty and employment rates, around mid-2000s**

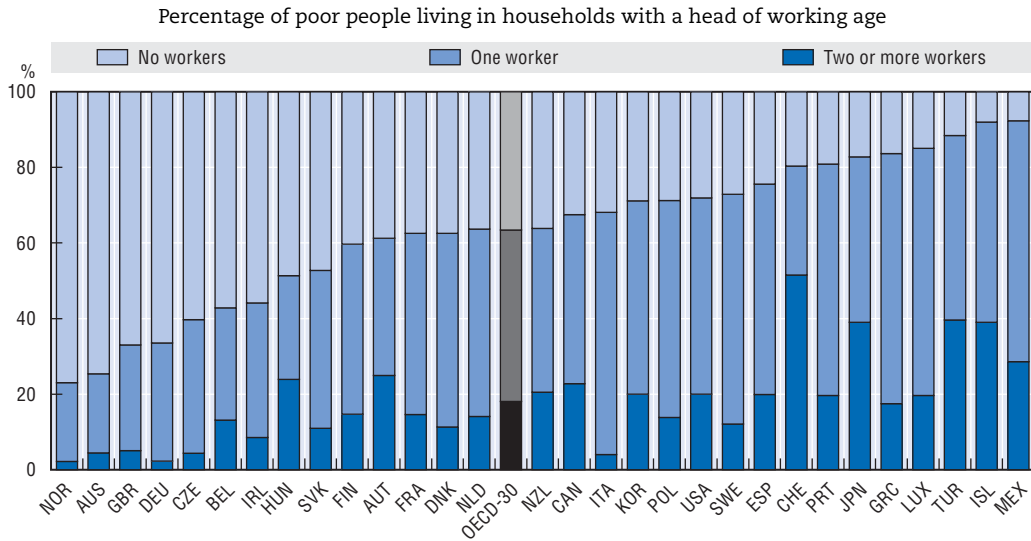


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Note: Poverty thresholds are set at 50% of the median income of the entire population of working age in 2003; employment rates of mothers in 2002.

Source: Computations from OECD income distribution questionnaire.

Figure 5.9. **Shares of poor people by number of workers in the household where they live, mid-2000s**



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Note: Poverty thresholds are set at 50% of the median income of the entire population. Countries are ranked, from left to right, in increasing order of the share of poor people living in households with no workers. Data for Switzerland refer to households without children.

Source: Computations from OECD income distribution questionnaire.

access to paid work – such as the number of hours worked each year and the hourly wage received – contribute to the risk of insufficient economic resources. Indeed, out of the 18 OECD countries where wages are subject to statutory minima, only in 8 (Luxembourg, the Czech Republic, Japan, New Zealand, Poland, Ireland and Australia) the net income of minimum wage earners with inactive spouses in the 2005 was high enough to keep a family with two children out of poverty (OECD, 2007).¹⁴

Poverty among families with children: maternal employment and number of children

In the mid-2000s, one child out of eight (12.4%) lived in households with equivalised income below the 50% median threshold, with a slightly lower share for people in households with children (i.e. including adult members). Both shares increased in the past decade by more than for the population as a whole. Child poverty increased by 4 points or more in Austria, Germany, Luxembourg and Turkey, while it declined slightly in Australia, Belgium, Hungary, and the United States and, more strongly, in Italy, Mexico and the United Kingdom.

Both the living arrangements and the employment status of parents shape the poverty risks of children, as can be seen in Table 5.2. Children living with a single adult have a higher probability of being in poverty than those living with two adults, and this holds for both working and non-working parents, although there are some exceptions and differences are not always large. Conversely, children whose parents are employed have much lower poverty than those in jobless households. Among single-parent families, the poverty rate of those in jobless households is 2.6 times higher than that of households with workers (Figure 5.10, top panel); among couples with children, the poverty rate of jobless households is three times higher than for one-worker households, and 12 times higher than for households with two or more workers (bottom panel). OECD countries with a larger share of mothers in paid work also record lower poverty rates among children (Figure 5.8, right-hand panel).

The risk of falling into poverty also depends on the number of children in the household. Poverty rates generally increase monotonically with the number of children present, although there are exceptions (Table 5.2, final three columns). In general, poverty rates of families with two children are only slightly above those of families with only one child. Poverty rates, however, increase more substantially when a third (or more) child is present in the family, especially in Ireland, Mexico, Poland, the United Kingdom and the United States. Conversely, in Australia, Austria and the Nordic countries, no significant increase occurs. While the general pattern of poverty rates increasing with the number of children may to some extent reflect the arbitrary nature of the elasticity of household needs to household size used here (i.e. a greater increase in household needs for each additional member than is actually the case), it may also reflect genuine strains on the household finances of larger families due to rising child costs.

Poverty among the elderly: the impact of earnings and living arrangements


Recent trends in poverty for elderly persons (those aged over 65) contrast with those for other age groups. On average, the poverty rate of elderly people fell slightly (by 0.5 percentage point), with a similar fall for persons living in households with a head of retirement age. Country experiences were, however, diverse. In five countries (Austria, the Czech Republic, Greece, Norway and Turkey) the decrease in income poverty was particularly pronounced (at 5 points or more), while sizeable increases were recorded in Australia, Finland, Sweden, Switzerland and particularly in Ireland.

In many OECD countries, the effective retirement age has risen recently. Nevertheless, at 27%, the share of elderly people who work (or live with persons who work) has remained remarkably stable over the past ten years. Poverty rates among elderly households with work are much lower than for those without (7% and 17%, respectively, Table 5.3), especially in Australia, France, Germany, Greece, Ireland, Italy, Norway, Portugal and the

Table 5.2. **Poverty rates for children and people in households with children by household characteristics**

Percentages

Poverty among children			Poverty in households with children									
Mid-2000s	Poverty rate	Point changes since mid-1990s	All		Single		Couple			By number of children		
			Level, mid-2000s	Change from 1995	Not working	Working	Level, mid-2000s			One	Two	Three and more
							No workers	One worker	Two and more workers			
Australia	12	-1.2	10	-1.0	68	6	51	8	1	9	10	11
Austria	6	6.0	6	6.1	51	11	36	4	3	6	5	6
Belgium	10	-0.8	9	0.1	43	10	36	11	3	7	9	11
Canada	15	2.2	13	1.6	89	32	81	22	4	11	13	18
Czech Republic	10	1.7	8	1.4	71	10	43	9	1	8	6	[.]
Denmark	3	0.8	2	0.7	20	4	21	5	0	2	2	4
Finland	4	2.1	4	1.9	46	6	23	9	1	5	3	3
France	8	0.3	7	-0.2	46	12	48	12	2	6	7	10
Germany	16	5.1	13	4.2	56	26	47	6	1	13	13	14
Greece	13	0.9	12	0.9	84	18	39	22	4	8	13	19
Hungary	9	-1.6	8	-1.1	44	16	22	6	3	5	6	14
Iceland	8	..	7	..	23	17	51	29	4	7	6	10
Ireland	16	2.3	14	..	75	24	55	16	2	12	12	19
Italy	16	-3.4	14	-3.1	[.]	16	78	24	1	..	..	..
Japan	14	1.6	12	1.2	60	58	50	11	10	..	..	..
Korea	10	..	9	..	29	26	65	10	4	..	..	..
Luxembourg	12	4.5	11	3.8	69	38	27	16	5	7	13	14
Mexico	22	-3.8	19	-2.4	30	34	53	27	11	11	16	26
Netherlands	12	1.0	9	1.2	62	27	65	12	2	..	..	..
New Zealand	15	2.3	13	1.5	48	30	47	21	3	..	..	..
Norway	5	0.9	4	0.6	31	5	29	4	0	4	2	6
Poland	22	..	19	..	75	26	51	28	6	15	18	31
Portugal	17	0.0	14	0.4	[.]	26	53	34	5	10	17	[.]
Slovak Rep.	11	..	10	..	66	24	66	18	2	..	..	..
Spain	17	1.9	15	1.1	78	32	71	23	5	10	16	29
Sweden	4	1.5	4	1.5	18	6	36	14	1	4	3	3
Switzerland	9	1.2	6	1.3		22		8		..	..	..
Turkey	25	5.0	20	3.6	44	32	28	19	20	..	..	..
United Kingdom	10	-3.6	9	-3.7	39	7	36	9	1	4	6	20
United States	21	-1.7	18	-1.1	92	36	82	27	6	14	15	26
OECD	12	1.0	11	0.8	54	21	48	16	4	8	10	15

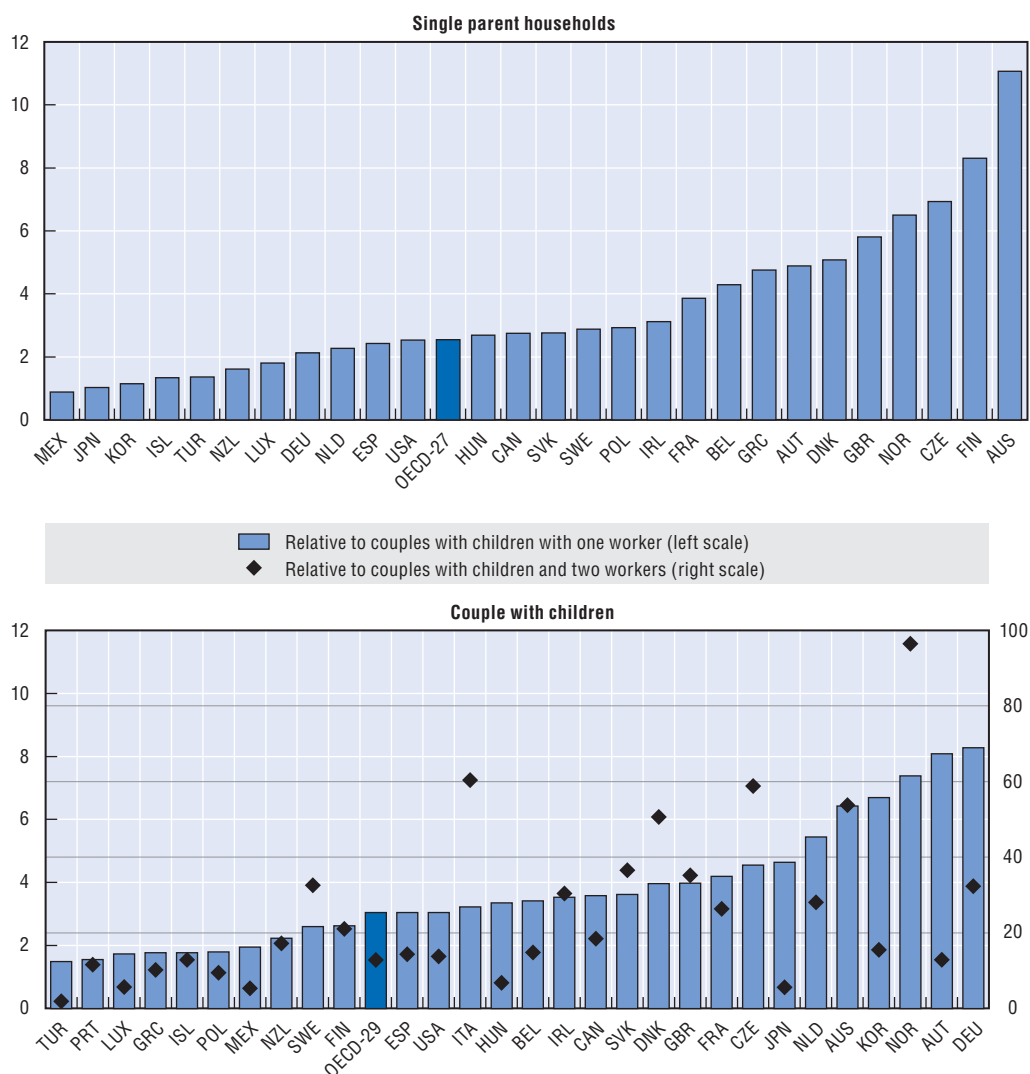
StatLink  <http://dx.doi.org/10.1787/422456583733>

Note: Poverty thresholds are set at 50% of the median income of the entire population. Data for changes refer to the period from the mid-1990s to around 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not comparable with those for earlier years); and to changes from 2000 to 2005 for Switzerland. [.] indicates that the sample size is too small. Data based on cash income (see note 13 for the implications of this).

Source: Computations from OECD income distribution questionnaire.

United Kingdom. Differences are much lower in Austria, Finland, the Netherlands, New Zealand and Poland, while in Turkey non-working elderly households have lower poverty rates than working ones.

Different living arrangements also affect poverty risks among the elderly. Elderly persons living alone – very often widowed women – face a much higher risk that income will fall below 50% of the median than elderly persons living with others. In the first case,

Figure 5.10. **Poverty risk of jobless households relative to those with workers, mid-2000s**

StatLink  <http://dx.doi.org/10.1787/422228452208>

Note: The poverty risk is defined as poverty rate of non-working households divided by poverty rate of working households.

Source: Computations from OECD income distribution questionnaire.


poverty rates exceed 40% in Australia, Ireland, Japan, Korea, Mexico and the United States, countries with more limited public pension schemes. However, poverty rates have declined more significantly among the single elderly than among multiple-person households.

The role of household taxes and public cash transfers in reducing income poverty

In all OECD countries, public cash benefits and household taxes significantly reduce poverty. One measure of this is the difference between poverty rates based on disposable incomes (the income concept used so far) and those based on market income.¹⁵ The left-hand panel of Figure 5.11 highlights differences across countries in the role of government taxes and cash benefits in reducing poverty. The point differences range from less than 10 points in Korea, Switzerland and the United States to more than 23 points in Belgium

Table 5.3. **Poverty rates among the elderly and people living in households with a retirement-age head by household characteristics**

Poverty among people of retirement age			Poverty in households with a head of retirement age									
			All		Working		Not working		Singles		Couples	
Mid-2000s	Point change since mid-1990s		Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s
Australia	27	4.6	27	5.6	4	3.2	32	5.4	50	-4.8	18	9.8
Austria	7	-5.7	8	-6.0	7	5.3	9	-7.6	16	-11.6	4	0.2
Belgium	13	-3.5	12	-2.3	4	-0.6	13	-3.7	17	-6.8	10	0.1
Canada	4	1.5	7	3.2	2	0.7	10	4.8	16	7.3	4	1.8
Czech Rep.	2	-6.5	3	-5.8	[.]	[.]	3	-6.2	6	-19.1	2	0.5
Denmark	10	-2.1	10	-2.2	2	0.6	12	-2.3	17	-4.4	4	0.3
Finland	13	5.3	14	5.9	11	7.7	14	5.5	28	12.5	4	2.3
France	4	-0.2	9	-2.1	1	-5.9	9	-1.4	16	0.2	4	-2.4
Germany	10	-0.6	8	-1.6	2	-4.7	9	-1.2	15	0.2	5	-1.8
Greece	23	-6.6	21	-7.0	7	-10.5	31	-3.1	34	-4.5	18	-7.1
Hungary	5	-2.5	5	-2.9	[.]	[.]	5	-5.2	11	-6.9	1	-2.7
Iceland	5	..	5	..	3	..	7	..	10	..	2	..
Ireland	31	18.8	25	..	5	..	36	..	65	..	9	..
Italy	13	-2.3	13	-2.1	3	0.4	17	-4.5	25	-7.5	9	-1.2
Japan	22	-1.0	21	-1.1	13	-1.8	30	-7.6	48	-7.9	17	-1.5
Korea	45	..	49	..	35	..	69	..	77	..	41	..
Luxembourg	3	-1.8	3	-1.6	[.]	[.]	4	-5.4	4	-5.6	3	-6.4
Mexico	28	-4.6	23	-8.6	19	-9.1	39	-7.9	45	-5.9	21	-9.2
Netherlands	2	0.9	2	0.8	2	1.1	2	0.7	3	-0.1	2	1.3
New Zealand	2	0.2	4	2.5	1	-3.8	2	1.6	3	2.1	1	-0.1
Norway	9	-6.8	9	-7.1	1	-1.1	10	-7.9	20	-13.8	1	-2.1
Poland	5	..	6	..	6	..	6	..	6	..	6	..
Portugal	17	-1.1	20	-2.2	5	-4.6	25	-1.0	35	-4.8	16	-2.0
Slovak Rep.	6	..	4	..	[.]	[.]	7	..	10	..	3	..
Spain	17	-1.1	27	16.8	12	-4.3	32	23.3	39	32.7	24	12.6
Sweden	8	4.0	6	2.7	3	1.1	7	3.2	13	5.8	1	0.5
Switzerland	18	4.3	18	-1.8	[.]	[.]	[.]	[.]	24	6.1	15	3.4
Turkey	15	-8.1	18	-4.1	20	0.6	16	-16.4	38	-6.2	17	-4.0
United Kingdom	10	-2.1	10	-0.8	1	0.1	12	-2.5	17	-0.9	7	-1.3
United States	24	2.9	24	3.2	9	1.4	34	5.0	41	3.0	17	3.2
OECD	13	-0.5	14	-0.7	7	-1.2	17	-1.4	25	-1.6	9	-0.4

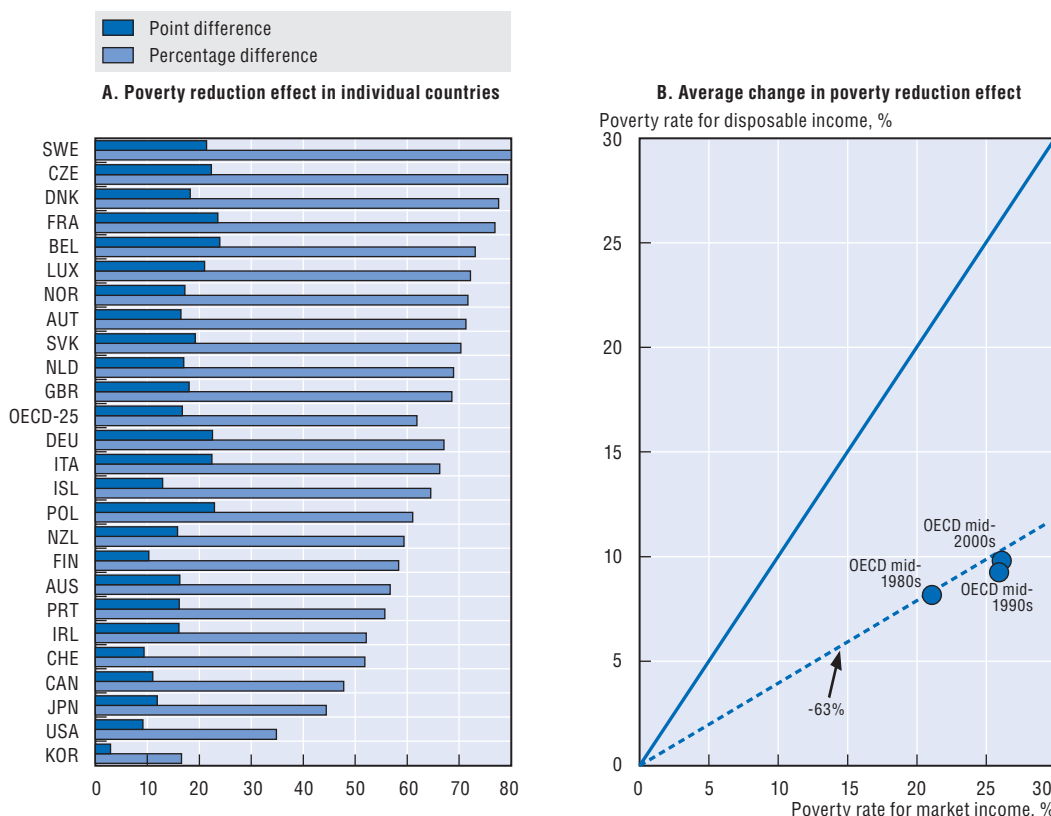
StatLink  <http://dx.doi.org/10.1787/422457006467>

Note: Poverty thresholds are set at 50% of the median income of the entire population. Data for mid-2000s refer to around 2000 for Japan and Switzerland. Data for changes refer to the period from the mid-1990s to around 2000 for Austria, Belgium, Czech Republic, Denmark, France, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not comparable with those for earlier years). [.] indicates that the sample size is too small. Data based on cash income (see note 13 for the implications of this).

Source: Computations from OECD income distribution questionnaire.

and France, while the percentage difference in poverty headcounts due to the combined effect of household taxes and public cash transfers ranges from 12% in Korea to 80% in Denmark and Sweden, and is a little over 60% on average. These large cross-country differences in the poverty-reducing effects of public cash transfers and household taxes – and the significant negative correlation between disposable income poverty and the poverty-reduction effects of net public transfers – imply that countries with higher market-income poverty are not necessarily those with higher poverty based on final income.

Figure 5.11. **Effects of taxes and transfers in reducing poverty among the entire population, mid-2000s and changes since mid-1980s**



StatLink <http://dx.doi.org/10.1787/422271727828>

Note: In Panel A, countries are ranked in decreasing order of poverty reduction in percentages. In Panel B, data refer to the simple average across 17 of the OECD countries shown in Figure 5.3 (except Austria, Iceland, Ireland, Korea, Luxembourg, Slovakia and Switzerland). Data for mid-2000s refer to 2000 for Belgium, Czech Republic, Denmark, France, Ireland and Portugal (where 2005 data, based on EU-SILC, are not comparable with those for earlier years). Poverty thresholds are set at 50% of the median disposable income of the entire population.

Source: Computations from OECD income distribution questionnaire.

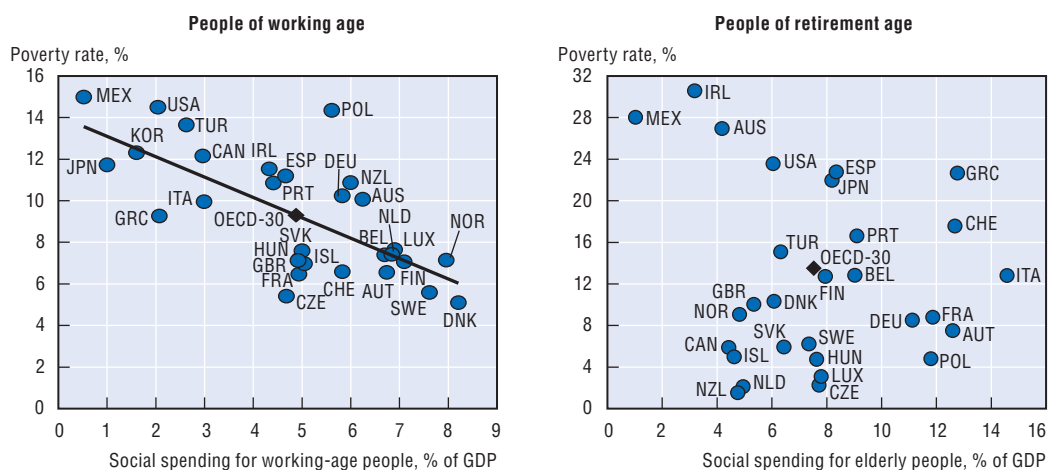
The role of household taxes and public transfers in reducing poverty has also changed over time. Panel B of Figure 5.11 – which plots changes in the extent to which net public transfers have lowered poverty, on average, for the 17 OECD countries for which information over time is available – points to a large increase in market-income poverty from the mid-1980s to the mid-1990s (from 21% to 26%), which was only partly offset by a higher poverty-reducing effect of taxes and transfers (from 61% to 65%). Conversely, from the mid-1990s to the mid-2000s, market-income poverty stopped rising, while the effect of household taxes and public transfers in reducing poverty (at 63%) almost fell back to the level that prevailed in the mid-1980s, leading to higher poverty rates based on disposable income.

In all OECD countries, the reduction of market-income poverty achieved through taxes and transfers differs significantly across population groups and over time. This is shown in Figure 5.12 (countries situated above the diagonal recorded a decrease in poverty-reduction effects of net transfers). Because of the importance of public pensions, the effect is much greater for people of retirement age, ranging between 80% and 100% in most countries, but lower in Ireland, Finland (where occupational pensions are not classified as public

some countries. For single parents, the effect of net public transfers in reducing poverty is highest in Nordic countries and lowest in Italy, Japan, Portugal and the United States – and it declined in most countries over the past decade, with the main exception of Germany. This large cross-country variation partly reflects differences in the share of lone parents who are working, rather than relying on benefits. The effect of net transfers is reducing poverty among single parents who do not work is in all countries higher than in the case of single parents as a whole, although the extent to which this is true has diminished in a majority of countries during the past decade. For persons in jobless households in general (single parents or others), the effect of net benefits in reducing poverty is lowest in Australia, Canada, France, Japan and the United States, and larger reductions (above 70%) are limited to the Czech Republic, Denmark and Sweden.¹⁷

These cross-country differences in the poverty-reducing effects of net public transfers partly reflect their overall size, and, as people at the bottom of the income scale typically pay few taxes, mainly the size of cash transfers to households. The poverty-reducing effect also depends on the nature of these programmes and on the characteristics of their recipients. Figure 5.13 plots cash social transfers (both public and mandatory private ones) as a share of GDP, against the (disposable income) poverty rate, based on a threshold set at half of the median, separately for people of working age and retirement age. The left-hand panel suggests a significant negative relation between the two variables, with countries spending more on social transfers towards people of working age also achieving lower poverty rates, although with large differences in poverty outcomes among countries with higher levels of social spending.¹⁸ No similar relation exists for elderly people. While this pattern reflects the earnings-related nature of old-age pensions in most OECD countries, it

Figure 5.13. **Poverty rates and social spending for people of working age and retirement age, mid-2000s**



StatLink  <http://dx.doi.org/10.1787/422333665216>

Note: Poverty rates based on a threshold set at half of median household disposable income. Social spending includes both public and mandatory private spending in cash (i.e. excluding in-kind services). Social spending for people of working age is defined as the sum of outlays for incapacity, family, unemployment, housing and other (i.e. social assistance) programmes; social spending for people of retirement age is the sum of outlays for old-age and survivors benefits. Social spending is expressed in percentage of GDP at factor costs. Data on poverty rates refer to the mid-2000s for all countries; data for social spending refer to 2003 for all countries except Turkey (1999).

Source: Computations from OECD income distribution questionnaire and OECD Social Expenditure database (SOCX).

also suggests that larger inroads into reducing poverty could be achieved by redirecting spending from pension programmes towards programmes targeted to people of working age and their children at the bottom of the income scale.

Accounting for changes in poverty rates since the mid-1990s

Although both taxes and public transfers reduce poverty at a point in time, they also distort decisions of private agents in terms of employment and work efforts. Marginal effective tax rates, which are one cause of these distortions, are typically high at the lower end of the income distribution, and they may contribute both to poverty traps among people relying on benefits and to a reduced work effort by low-paid workers. Reforms implemented by several OECD countries during the second half of the 1990s (generally in the form of earnings top-up or working tax credits for low-paid workers, and of help to persons relying on benefits to move to employment) have aimed at reducing these distortions so as to improve work incentives for individuals with low income.

How have these reforms affected changes in poverty? Efforts to address this question have typically followed two tracks. The first uses individual records to assess what poverty rates would be today if the structure of wages, working hours and government benefits had remained at some base-year level; while this approach does not account for behavioural changes following reforms, it allows tracking the same individual over time.¹⁹ A second approach, which is easier to implement when comparing a large number of countries, relies on aggregate data.²⁰ This approach is used here to account for changes in relative poverty rates (based on a 50% of median income threshold), separately for people living in households with a head of working age (65 or less) and of retirement age (66 or more). A simple shift-share analysis allows decomposing changes in poverty rates of each household type into three components:

- the part due to changes in market-income poverty for each of several groups within the two household types, while keeping constant both the structure of the population and the effect of taxes and transfers in reducing poverty for each group;
- the part due to changes in the effect of taxes and transfers in reducing market-income poverty for each group, for a given population structure and market-rate poverty for each group; and
- the part due to changes in the structure of the population by both household type and number of workers in each household, for a given market-income poverty rate and level of effectiveness of tax and transfers in reducing poverty in that group.²¹


While decompositions of this type do not reflect the complex links between each pair of variables,²² they do provide a convenient summary of the role of various factors; at the same time, because of the detailed breakdown used, results may be affected by the small sample sizes of some surveys.

Table 5.4 shows results for changes in poverty rates for persons living in households with a head of working age in the period from the mid-1990s to the mid-2000s for selected OECD countries. In addition to the total change in the poverty rate of all people living in households with a working-age head (shown in the third column), the table shows the results from a decomposition based on all household categories (ten groups overall, in Panel A), and then separately when controlling only for changes in the number of workers in each household (distinguishing between no worker, one and two workers, in Panel B) and in the living arrangement of each household (single and couples, with and without

Table 5.4. **Decomposition of the change in poverty rates among people living in households with a working-age head by selected components**

Point changes

Total change in poverty rate			Controlling for changes by:								
			A. Work attachment and household type			B. Work attachment only			C. Household type only		
			Due to changes in:								
			Market-income poverty	Taxes and public cash transfers	Change in weights	Market-income poverty	Taxes and public cash transfers	Change in weights	Market-income poverty	Taxes and public cash transfers	Change in weights
Australia	1995-2004	0.4	0.6	0.7	-0.9	0.4	0.9	-0.9	-0.6	0.2	0.7
Canada	1995-2005	2.5	0.7	2.4	-0.7	0.3	2.6	-0.4	0.0	2.1	0.3
Denmark	1995-2005	1.0	-0.2	1.1	0.1	-0.2	1.3	0.0	-0.3	1.1	0.2
Finland	1995-2004	1.8	-1.0	2.2	0.5	-0.9	2.0	0.7	-0.7	2.2	0.3
France	1996-2005	0.0	0.5	-0.3	-0.2	1.0	-0.5	-0.4	0.2	-0.4	0.2
Germany	1995-2004	3.4	0.2	0.6	2.6	0.1	1.6	1.7	1.3	0.7	1.5
Italy	1995-2004	-3.1	2.1	-3.5	-1.7	1.5	-3.7	-0.9	0.1	-3.3	0.1
Japan	1994-2003	0.8	0.2	-0.2	0.8	0.9	-0.4	0.3	0.7	-0.5	0.5
Netherlands	1995-2004	0.7	0.3	0.8	-0.4	0.6	1.0	-0.9	-0.9	1.1	0.6
New Zealand	1995-2003	2.5	1.9	2.4	-1.7	1.5	2.6	-1.6	0.0	2.9	-0.4
Norway	1995-2004	0.9	-0.6	0.6	0.8	-0.5	0.7	0.7	0.1	0.5	0.3
Sweden	1995-2004	1.4	-0.6	2.2	-0.1	-0.8	2.3	0.0	-0.9	2.2	0.1
United Kingdom	1995-2005	-1.6	-1.0	0.0	-0.6	-0.9	-0.2	-0.5	-1.6	-0.1	0.2
United States	1995-2005	0.0	-0.4	0.1	0.2	-0.7	0.0	0.6	0.1	0.0	-0.2
OECD-14		0.8	0.2	0.7	-0.1	0.2	0.7	-0.1	-0.2	0.6	0.3

StatLink  <http://dx.doi.org/10.1787/422458127850>

Note: Poverty rates are based on a threshold set at 50% of equivalised household disposable income. The data shown are based on a shift-share analysis applied to the population living in households with a head of working age, broken down by both work attachment and household types (ten groups, in Panel A) as well as by work attachment only (distinguishing between households with no workers, with one adult working, and with two or more adults working, in Panel B) and by household type (distinguishing between singles and couple families, with and without children, in Panel C). Within each panel, the sum of the three components (changes in market-income poverty, changes in the poverty-reducing effect of net public transfers, and changes in weights) is equal to the total change in poverty rate (shown in Column 3). The analysis is limited to countries for which the data allow distinguishing between market- and disposable-income poverty.

Source: Computations from OECD income distribution questionnaire.

children, in Panel C). In the case of Australia, for example, the poverty rate of persons living in households with a head of working age increased by 0.4 point from 1995 to 2004 (from 10% to 10.4%) as a higher market-income poverty for each group and a lower poverty-reducing effect of taxes and transfers raised poverty (by 0.6 and 0.7 point each) while changes in population structure (towards household groups with a lower poverty rate) lowered it (by 0.9 point).

On average, across the 14 countries included in Table 5.4, poverty rates of people living in a household with a head of working age increased by around 1 percentage point over the past ten years, while the rates declined in the United Kingdom and, more significantly, in Italy. The largest part of the increase in poverty rates reflected lower net public transfers to households at the bottom of the income scale (in most countries except France, Italy and Japan).²³ There are greater differences across countries in the extent to which changes in market-income poverty for each group contributed to developments in the poverty headcount, with rises in market-income poverty both on average and in most countries (especially in Italy, New Zealand, Australia and Canada) and declines in the Nordic countries as well as the United Kingdom and the United States. Changes in the structure of


the population dampened the rise of the poverty headcount in most countries (shifting towards groups with lower poverty rates), with several exceptions, the most significant being Germany. Panels B and C of the table also suggest that this poverty-reducing effect of changes in population structure mainly reflected changes in work attachment (with a shift from households with no workers towards households with workers), which more than offset the poverty-increasing effect of changes by household type (from couples with children towards singles and single parents). In Germany, where changes in population structure accounted for most of the rise in the poverty rate, these structural effects mainly reflected the higher weights of people in jobless households and of singles.

A similar analysis is applied in Table 5.5 to changes in poverty rates for households with an elderly head. The previous section had shown that trends were diverse across OECD countries, with as many countries recording increases as decreases in poverty rates, a diversity that is also found across the sub-set of 13 countries in Table 5.5.²⁴ Where increases in poverty rates of retirement-head households occurred, this mainly reflected a smaller effect of net public transfers in reducing poverty, which more than offset the positive effect of changes in household structure (more people living in households with workers and as couples) and a small improvement in the market-income poverty rate of various groups. For those countries that recorded larger changes in poverty headcounts

Table 5.5. Decomposition of the change in poverty rates among people living in households with a retirement-age head by selected components

Point changes

Total change in poverty rate			Controlling for changes by:								
			A. Work attachment and household type			B. Work attachment only			C. Household type only		
			Due to changes in:								
			Market-income poverty	Taxes and public cash transfers	Change in weights	Market-income poverty	Taxes and public cash transfers	Change in weights	Market-income poverty	Taxes and public cash transfers	Change in weights
Australia	1995-2004	5.6	-0.7	6.1	0.2	-0.3	5.3	0.6	-0.3	5.9	0.0
Canada	1995-2005	3.3	0.0	3.4	-0.1	-0.1	3.7	-0.3	-0.1	3.3	0.1
Denmark	1995-2005	-2.2	-0.3	-1.2	-0.6	-0.4	-1.4	-0.4	-0.4	-1.4	-0.4
Finland	1995-2004	5.8	-2.3	8.9	-0.8	-3.4	9.1	0.1	-2.1	8.6	-0.7
Germany	1995-2004	-1.6	-0.3	-0.8	-0.5	-0.5	-1.2	0.1	-0.2	-0.8	-0.5
Italy	1995-2004	-2.1	0.3	-3.5	1.2	0.4	-3.5	1.0	0.9	-3.5	0.5
Japan	1994-2003	-1.1	0.6	-4.8	3.1	1.2	-5.1	2.8	3.7	-5.9	1.1
Netherlands	1995-2004	0.7	0.0	0.7	0.0	0.0	0.7	0.0	0.0	0.7	0.0
New Zealand	1995-2003	2.4	-0.4	2.7	0.1	-0.5	2.7	0.2	0.0	2.4	-0.1
Norway	1995-2004	-7.1	0.0	-7.1	0.0	-0.3	-7.1	0.2	0.0	-7.1	0.0
Sweden	1995-2004	2.7	0.1	2.6	-0.1	0.0	2.7	0.0	0.1	2.6	-0.1
United Kingdom	1995-2005	-1.0	-0.3	-0.8	0.1	-0.6	-1.0	0.6	0.0	-0.8	-0.2
United States	1995-2005	3.2	0.3	3.1	-0.2	0.6	3.0	-0.3	0.1	3.1	0.1
OECD-13		0.7	-0.2	0.7	0.2	-0.3	0.6	0.3	0.1	0.6	0.0

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Note: Poverty rates are based on a threshold set at 50% of equivalised household disposable income. The data shown are based on a shift-share analysis applied to the population living in households with a head of retirement age, broken down by both work attachment and household types (ten groups, in Panel A) as well as by work attachment only (distinguishing between households with no workers, with one adult working, and with two or more adults working, in Panel B) and by household type (distinguishing between singles and couple families, with and without children, in Panel C). Within each panel, the sum of the three components (changes in market-income poverty, changes in the poverty-reducing effect of taxes and public cash transfers, and changes in weights) is equal to the total change in poverty rate (shown in Column 3). The analysis is limited to countries for which the data allow distinguishing between market- and disposable-income poverty.

Source: Computations from OECD income distribution questionnaire.

(rises in Australia, Canada, Finland, New Zealand, Sweden and the United States, and declines in Denmark, Germany, Italy, Japan, Norway and the United Kingdom), changes in the poverty-reducing effect of net public transfers played the most significant role.

Conclusion

Cash income in a given year is an imperfect yardstick to assess poverty. While households with net income below a certain threshold may face a greater likelihood of falling into poverty than others, they (or the community where they live) may not perceive themselves as being “poor” in the way the term is commonly used. Further, the difficulties in measuring income are much larger for those at the bottom of the income scale than for people in the central part of the distribution. But, despite these limits, the measures of household income used in this chapter highlight several patterns that are important for assessing the conditions of the poor population and for improving the design of anti-poverty programmes.

- In the mid-2000s, the share of people at risk of poverty in OECD countries was 6%, for a threshold of 40% of median household income, 11% for a threshold of 50% and around 18% for a threshold of 60%. Differences across countries are large, with relative income poverty rates always lowest – whatever the threshold used – in Denmark, Sweden and the Czech Republic, and highest in the United States, Turkey and Mexico. The ranking of countries does not change much based on a measure that combines both the incidence and depth of poverty.
- Poverty rates (for a threshold of half of median income) increased on average by 0.6 point in the decade from the mid-1980s to the mid-1990s, and by another 0.6 point from the mid-1990s to the mid-2000s, with individual countries often experiencing contrasting developments over these two periods. In the most recent decade, poverty rates increased in a majority of OECD countries, while they declined only in Greece, Italy, Mexico and the United Kingdom, by around 1 point or more. Poverty with a threshold “anchored” in time fell, on average, by 40% since the mid-1990s, with larger declines in some countries and rises since 2000 in Germany.
- The risk of poverty varies by individual and household characteristics. The U-shaped relationship between age and poverty has shifted over the past two decades from people above 50 years of age to people below that age. Women have higher poverty risks than men, as more of them live alone in old age or head lone-parent families. The poverty risk of single persons is twice as high as that of the population as a whole, and the risk for single-parent families is three times as high.
- While both living arrangements and the employment status of household members affect the poverty rate of various population groups, work is far more important. Countries where the share of people of working age in paid employment is higher also display lower poverty rates; and the same holds for the levels of employment of mothers and child poverty.
- Work is, however, not the only factor shaping poverty. Across countries, there are large differences in the poverty rates of jobless households and, on average, a majority of the income poor in the OECD area belong to households with workers. In several countries, even households where one member is working full time or households with more than one person in work are not shielded from the risk of falling into poverty.

- There are large differences across countries in the extent to which household taxes and public cash transfers lower poverty rates. Changes in government redistribution dampened the rise in poverty in the decade from the mid-1980s to the mid-1990s, but amplified it in the following one. Countries with higher spending in social programmes targeted to people of working age record lower poverty headcounts, while no such relation is evident for programmes benefitting the elderly.

Notes

1. For example, while 4.6% of Australians have equivalised household disposable income of less than 40% of the median in 2003-04, this proportion rises to 5.3% using a 41% cutoff and to 6.9% using a 43% cutoff.
2. A threshold of 60% of median income is used as a benchmark for at-risk-of-poverty at the EU level, while the (absolute) poverty line used in the United States is closer to 40% of median income. As a mid-point between these two levels, this chapter will mainly focus on a poverty threshold of 50% of median equivalised household disposable income.
3. For example, for a threshold of half of median income, the country with the 6th highest rate – Ireland – has a poverty rate more than twice as high as the country with the 6th lowest rate – France.
4. The cross-country correlation of poverty headcounts based on different thresholds is 0.96 for thresholds set at 50% and 60% of the median as well as those set at 40% and 50% of the median, and 0.90 for thresholds of 40% and 60%.
5. Figures presented refer to the average poverty gap. Estimates for the median poverty gap generally result in lower values – some 23% on average across OECD countries. The correlation coefficient between the two measures is 0.68.
6. This measure is sometimes taken to illustrate the size of the transfer of equivalised income needed to raise all those living below the poverty line to that level. This interpretation neglects, however, behavioural changes due to, for instance, work disincentives.
7. Data for Belgium in 1983 and 1995 are based on fiscal data and are not strictly comparable with those for later years. First, the unit of analysis is that of households filling a tax declaration. Second, the method used to integrate information on households who do not fill a questionnaire differs in the two years. Alternative estimates based on household surveys from the University of Antwerp suggest broad stability of the poverty headcount in the late 1980s and a slight increase in the first half of the 1990s.
8. Changes in poverty headcounts based on a threshold set at 60% of median income (the one used by EU countries) show a cumulative rise (across 24 OECD countries) of 1.7 points (i.e. above the rise based on a 50% threshold), with a stronger rise in the first decade than in the second one.
9. Data on poverty headcounts going back to the mid-1970s are available for seven OECD countries. These data show a decline in the 50% poverty headcount from the mid-1970s to the mid-1980s in Canada, Finland and Greece, stability in the Netherlands, Sweden and the United Kingdom, and small rises in the United States (see Figure 5.A2.1 available at <http://dx.doi.org/10.1787/424402577838>).
10. The EU set of social inclusion indicators includes a measure of the at-risk-of-poverty rate “anchored” in year $t-3$ and updated by inflation over the following three years.
11. Real income growth will cause a greater reduction of “absolute” poverty rates in countries where the level of *relative* poverty was higher at the beginning of the period (Freeman, 2001). Estimates for additional countries based on two different set of data and therefore not strictly comparable suggest that “absolute” poverty has fallen by some 32-40% in Austria, Belgium and the Czech Republic and by 60% or more in Ireland, Portugal and Spain.
12. The estimates of the elderly poverty rates shown in this report are very sensitive to methodological assumptions. First, the *cash income* definition used here exaggerates poverty rates of the elderly compared to other groups: in Denmark, for example, the inclusion of imputed rents in the income definition lowers the poverty headcount of the elderly from around 10% to around 4%, as compared to a reduction from 5.3% to 4.7% for the entire population. Second, as old-age pensions are often the main (or only) income source of the elderly, their cash income is typically clustered

around the prevailing pension rates, leading to high sensitivity of poverty estimates to small changes in the income threshold used: in Australia, for example, the income-poverty rate falls from 26% for a threshold of 50% of median income, to 18% for a threshold of 47%. Third, estimates are very sensitive to the equivalence scale used: in Australia, the elderly poverty rate at 50% of median income falls from 26% based on the 0.5 equivalence scale used in this report, to 17% based on the “modified OECD equivalence scale” (where the first adult has a weight of 1.0, the second and subsequent adults a weight of 0.5, and dependent children a weight of 0.3, which is closely approximated by an equivalence scale of 0.6) conventionally used by the Australian Bureau of Statistics.

13. In some countries, however, the opposite pattern prevails. In particular, the poverty rate of children and/or young adults fell during the most recent decade in Australia, Spain and the United States while that of elderly people increased (see Table 5.A2.2 available at <http://dx.doi.org/10.1787/424402577838>).
14. These estimates are based on a threshold of 50% of median income in the early 2000s, uprated for inflation to 2005.
15. OECD measures of market-income poverty refer to the share of people with market income below a given threshold of household *disposable* income. Because of this definition, the difference between the poverty rates based on market and disposable income will reflect both the absolute size of household taxes and public cash transfers, and the extent to which these are targeted to the poor (see chapter 4).
16. Reforms implemented in this period in several OECD countries seem to have sheltered children (and their families) from the decline in the poverty-reducing effect of net benefits that affected other families. This effect was felt fully in Australia, Germany, the Czech Republic and the United States and partially in most other countries. Conversely, there has been a trend for net transfers to reduce poverty less among children than for people of working age in Italy, Japan, Norway, Denmark and Sweden, as well as Belgium and Portugal (where time series data are limited to 2000).
17. In most OECD countries, benefits of last resorts paid to people of working age in 2005 were lower than the threshold of half of median income (as defined in endnote 14), although this varied depending on whether additional housing benefits were available as well as on specific family arrangements. In the case of a married couple with two children, the net income of social assistance clients was above the threshold of half of median income only in Australia and Norway under the assumption of no housing costs and benefits; when including additional benefits conditional on rental expenditures, the list of OECD countries where the net income of social assistance clients was above that threshold also included Austria, Denmark, Finland, Germany, Ireland, Sweden and the United Kingdom (OECD, 2007).
18. For example, the Czech Republic has the same poverty rate as Sweden with a level of social spending that is 40% lower, while Poland’s poverty rate is twice as high as Hungary’s with the same spending level.
19. Based on this approach, Dickens and Ellwood (2001) argue that demographic conditions (*e.g.* a greater incidence of single-parent households), the earnings structure (*e.g.* wider earnings distributions) and work efforts (*i.e.* the combined effect of changes in activity rates and hours worked) account for comparable shares of the increase in relative poverty in the United Kingdom from 1979 to 1999, while greater generosity in government benefits contributed to reducing poverty rates over the same period. In the United States, the increase in relative poverty over the same period mainly reflected demographic changes and, to a lesser extent, changes in the earnings structure; greater work efforts contributed to reducing poverty, while changes in government benefits did not exert a significant influence in either direction.
20. Most often, studies using aggregate data regress poverty rates against a range of possible determinants, and use results to compare situations at two points in time. However, results from this type of analysis have typically been found to be unstable and sensitive to the specification used.
21. In this exercise, the aggregate poverty rate, at the level of disposable income, is defined as the weighted sum of group-specific poverty rates, with these rates expressed as the product of market-income poverty and of a coefficient indicating the effect of taxes and transfers in reducing market-income poverty.

$$PR_t = \sum PR_t^i \alpha_t^i = \sum [PR(MI)_t^i * (1 - \beta)_t^i] * \alpha_t^i$$
 where PR is the (disposable income) poverty rate of all people living in household with a head of working age at times t , PR_t^i is the (disposable income) poverty rate of the different groups i within all households with a head of working age; $PR(MI)_t^i$ is the poverty rate at times t at the level of

market income, for each group; $(1 - \beta)_t^i$ is the poverty-reducing effect of taxes and transfers for each group; and α_t^i is the population share of each group. When analysing changes over time in the poverty headcount, changes in one variable are multiplied by the average value (between two points in time) of the other two variables (to avoid explicit consideration of the interaction between each pair of variables).

22. Changes in benefit level, for example, may encourage previously inactive individuals to take up jobs, leading to positive effects (i.e. a reduction in poverty) for both household structure (decline in workless households) and market-income poverty (higher earnings as former benefit recipients enter employment).
23. It should be noted that a smaller poverty-reducing effect of net public transfers may reflect a smaller increase in real benefits than in median income, and/or lower benefit take-up, rather than an absolute reduction in the real value of benefits.
24. France is excluded from the analysis because of the small number of observations in some of the household categories considered here.

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ANNEX 5.A1


Low-income Thresholds Used in the Analysis

Table 5.A1.1 shows the values of poverty thresholds used in this chapter. Thresholds are expressed as levels of annual income for various family types, in both national currencies (left-hand panel) and in US dollars – based on purchasing power parities for “actual” consumption (i.e. the costs of a common basket of consumer goods that are either purchased on the market or provided for free or at subsidised prices by governments), right-hand panel. For example, a couple with two children will be considered as being at risk of poverty, based on a threshold of half of median income, when their annual income is below USD 23 000 in Australia and below USD 27 000 in the United States. These estimates do not take into account the under-reporting of income at the bottom of the income scale. Also, the PPP rates used may not be fully representative of the consumption patterns of the poor across countries. The table highlights large differences between income benchmarks across countries. For a 40% threshold, a couple with two children in the United States have an income that is six times higher than a similar couple in Mexico, but 25% lower than in Luxembourg, and similar to the Netherlands, Norway and Switzerland. For a single person, the poverty threshold at 50% median income represents between 30% and 50% of the national average net wage (take-home pay) in most countries, but this share is significantly lower in Turkey and higher in the United States.

Table 5.A1.1. **Low-income thresholds used in the analysis**

2005 values in USD, at PPP rates for actual consumption

Country	Currency unit	In national currency						USD at PPP rates for actual consumption						
		50% of median					40% of median	60% of median	50% of median				40% of median	60% of median
		Single person		Childless couple	Couple with one child	Couple with two children	Couple with two children	Couple with two children	Single person	Childless couple	Couple with one child	Couple with two children	Couple with two children	Couple with two children
		as % of take-home pay												
Australia	AUD	14 770	38	20 888	25 582	29 540	23 632	35 448	11 509	16 276	19 933	23 017	18 414	27 621
Austria	EUR	9 964	42	14 091	17 258	19 927	15 942	23 913	12 292	17 383	21 290	24 584	19 667	29 500
Belgium	EUR	9 159	43	12 953	15 864	18 318	14 654	21 981	11 163	15 786	19 334	22 325	17 860	26 790
Canada	CAD	15 049	50	21 283	26 066	30 098	24 078	36 118	12 671	17 919	21 946	25 341	20 273	30 410
Czech Rep.	CZK	76 733	46	108 516	132 905	153 465	122 772	184 158	6 176	8 734	10 696	12 351	9 881	14 821
Denmark	DKK	94 376	49	133 467	163 463	188 751	151 001	226 501	11 465	16 213	19 857	22 929	18 343	27 515
Finland	EUR	10 060	45	14 227	17 425	20 121	16 097	24 145	10 505	14 856	18 195	21 010	16 808	25 212
France	EUR	8 691	40	12 291	15 053	17 382	13 905	20 858	10 330	14 608	17 892	20 659	16 528	24 791
Germany	EUR	9 109	38	12 882	15 777	18 218	14 574	21 861	11 010	15 571	19 070	22 020	17 616	26 424
Greece	EUR	5 657	36	8 001	9 799	11 315	9 052	13 578	8 639	12 217	14 963	17 278	13 822	20 734
Hungary	HUF	544 482	45	770 014	943 071	1 088 964	871 171	1 306 757	4 887	6 912	8 465	9 775	7 820	11 730
Iceland	ISK (000s)	1 045	47	1 478	1 810	2 090	1 671 962	2 507 943	11 307	15 991	19 584	22 614	18 091	27 137
Ireland	EUR	10 775	44	15 239	18 664	21 551	17 241	25 861	11 204	15 845	19 406	22 409	17 927	26 890
Italy	EUR	7 004	42	9 905	12 131	14 008	11 206	16 809	8 394	11 871	14 539	16 788	13 430	20 146
Japan	JPN (00s)	14 975	37	2 118	2 594	2 995	2 396	3 594	11 394	16 114	19 735	22 788	18 231	27 346
Korea	KRW (000s)	7 818	30	11 056	13 541	15 636	12 509	18 763	9 707	13 728	16 813	19 414	15 531	23 297
Luxembourg	EUR	16 171	53	22 870	28 010	32 343	25 874	38 812	18 131	25 641	31 404	36 262	29 010	43 515
Mexico	MXN	15 675	..	22 167	27 149	31 349	25 079	37 619	2 307	3 263	3 996	4 615	3 692	5 538
Netherlands	EUR	11 484	44	16 241	19 891	22 968	18 374	27 562	14 017	19 823	24 278	28 034	22 427	33 640
New Zealand	NZD	13 040	41	18 442	22 587	26 081	20 865	31 297	9 633	13 623	16 684	19 265	15 412	23 118
Norway	NOK	118 294	44	167 293	204 891	236 587	189 270	283 905	13 312	18 825	23 056	26 623	21 299	31 948
Poland	PLN	6 924	36	9 793	11 994	13 849	11 079	16 619	4 056	5 736	7 025	8 111	6 489	9 734
Portugal	EUR	4 197	40	5 936	7 270	8 394	6 715	10 073	6 139	8 683	10 634	12 279	9 823	14 735
Slovak Rep.	SKK	67 213	40	95 053	116 416	134 426	107 541	161 311	4 410	6 236	7 638	8 820	7 056	10 584
Spain	EUR	6 345	39	8 973	10 989	12 690	10 152	15 227	8 990	12 713	15 571	17 979	14 384	21 575
Sweden	SEK	89 832	41	127 042	155 594	179 665	143 732	215 598	10 358	14 648	17 940	20 716	16 573	24 859
Switzerland	CHF	23 141	43	32 727	40 082	46 283	37 026	55 539	13 771	19 475	23 851	27 541	22 033	33 049
Turkey	TRY (000 000s)	2 067	19	2 924	3 581	4 135	3 308	4 962	2 532	3 581	4 386	5 065	4 052	6 078
United Kingdom	GBP	7 038	33	9 953	12 190	14 075	11 260	16 890	12 326	17 432	21 350	24 652	19 722	29 583
United States	USD	13 495	57	19 085	23 374	26 990	21 592	32 388	13 495	19 085	23 374	26 990	21 592	32 388

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Note: When the nominal income values of different countries, as available in the OECD income distribution questionnaire, refer to a year different from 2005, these values are first adjusted to a 2005 basis by the change in consumer price inflation, and then converted to USD with the PPP rate for actual consumption in 2005.

Source: Calculations based on the OECD questionnaire on distribution of household incomes.

ANNEX 5.A2


Alternative Estimates of Main Poverty Indicators

Table 5.A2.1 shows alternative estimates of main poverty indicators from international sources (Eurostat and Luxembourg Income Study): poverty rates for the entire population at 50% and 60% of median income thresholds and child poverty rates at the 50% median income threshold, respectively. Differences in methodology are minor. The concept of disposable income is quasi-identical between the three data sources.* The equivalence scale used by Eurostat differs only slightly from that used by the OECD and LIS, giving a somewhat higher weight to additional household members and distinguishing between adults and children. For most countries, differences in poverty rates between the OECD and the alternative sources do not exceed 1 percentage point. There are, however, two exceptions (Germany and the United Kingdom), especially for estimates of child poverty.

* The Eurostat definition, for instance, defines inter-household transfers as transfers received minus transfers paid, while in the OECD questionnaire definition these are defined as transfers received only. Nevertheless, this will have no impact on estimates of overall poverty.

Table 5.A2.1. **Comparisons of main estimates between the OECD questionnaire and alternative data sources, latest available year**

	Reference years (incomes)			Poverty rate 50% median			Poverty rates 60% median			Child poverty rate 50% median		
	OECD questionnaire	Eurostat	LIS	OECD questionnaire	Eurostat	LIS	OECD questionnaire	Eurostat	LIS	OECD questionnaire	Eurostat	LIS
Australia	2004	..	2003	12	..	12	20	..	20	12	..	14
Austria	2004	2004	2000	7	6	8	13	12	13	6	6	8
Belgium	2004	2004	2000	9	8	8	16	15	16	10	9	7
Canada	2005	..	2000	12	..	12	19	..	19	15	..	16
Czech Republic	2004	2004	..	6	5	..	11	10	..	10	9	..
Denmark	2004	2004	2004	5	6	6	12	12	13	3	5	4
Finland	2004	2004	2004	7	5	7	15	12	14	4	3	4
France	2004	2004	2000	7	6	7	14	13	14	8	6	8
Germany	2004	2004	2000	11	7	8	17	12	13	16	6	9
Greece	2004	2004	2000	13	13	14	20	20	21	13	13	13
Hungary	2005	2004	1999	7	7	6	12	13	13	9	11	8
Iceland	2004	2004	..	7	5	..	12	10	..	8	6	..
Ireland	2004	2004	2000	15	11	16	23	20	22	16	15	16
Italy	2004	2004	2000	11	12	13	20	19	20	16	16	17
Japan	2000	..	..	15	..	..	21	..	..	14	..	..
Korea	2005	..	..	15	..	..	21	..	..	10	..	..
Luxembourg	2004	2004	2000	8	7	6	13	13	12	12	10	9
Mexico	2004	..	2002	18	..	20	25	..	27	22	..	25
Netherlands	2004	2004	2000	8	6	5	14	11	11	12	9	6
New Zealand	2003	..	..	11	..	..	23	..	..	15	..	..
Norway	2004	2004	2000	7	7	6	12	11	12	5	5	3
Poland	2004	2004	1999	15	15	13	21	21	19	22	22	18
Portugal	2004	2004	..	13	13	..	21	19	..	17	17	..
Slovak Rep.	2004	2004	..	8	8	..	14	13	..	11	12	..
Spain	2004	2004	2000	14	13	14	21	20	21	17	16	15
Sweden	2004	2004	2000	5	5	7	11	9	12	4	5	4
Switzerland	2001	..	2002	7	..	8	12	..	14	8	..	7
Turkey	2004	2002	..	18	18	..	24	26	..	25	..	..
United Kingdom	2005	2004	1999	8	12	12	16	19	21	10	13	17
United States	2005	..	2005	17	..	17	24	..	24	21	..	21

StatLink  <http://dx.doi.org/10.1787/422525733036>

Note: Equivalence scale used is the square root of household size for the OECD questionnaire and LIS and the modified OECD scale for Eurostat (which gives a weight of 1 to the first person, 0.5 for each additional adult and 0.3 for each additional child). Children are defined as persons below age 18 in all three data sources.

Source: Calculations based on the OECD questionnaire on distribution of household incomes. Eurostat (as at 6 February 2008); LIS key figures (as of 31 December 2007).

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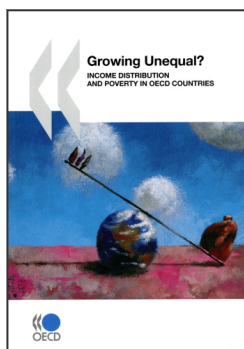


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