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Less Income Inequality and More Growth – Are they Compatible? Part 5. Poverty in OECD Countries

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LESS INCOME INEQUALITY AND MORE GROWTH - ARE THEY COMPATIBLE?
PART 5. POVERTY IN OECD COUNTRIES

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by Mauro Pisu

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ABSTRACT/RÉSUME

Less income inequality and more growth – Are they compatible?
Part 5. Poverty in OECD countries

Poverty is an important policy issue in OECD countries and the recent crisis has made it even more pressing. This paper highlights poverty rate differences across countries and reviews the various policies to tackle it. The OECD-wide poverty rate has drifted up, reaching around 11% in the late 2000s. In the majority of OECD countries, children suffer from a higher poverty rate than working-age people and poverty is more wide-spread among women than men. Albeit boosting employment is essential to reduce poverty rates durably, work alone does not suffice to eliminate it as in-work poverty is a problem in many countries The redistribution system is effective in reducing poverty. Countries achieving a greater reduction in market-income poverty tend to redistribute more towards people at the bottom of the income distribution. Policies aiming at facilitating paid work along with employment-conditional cash transfers to top-up the income of low-wage workers can offer effective ways to combat poverty. Child poverty is also a major concern because of its adverse long-term effects. Countries with low levels of child poverty combine low levels of joblessness among parents with effective redistribution policies towards children. This suggests these two policy approaches are complementary and relying exclusively on only one of them is likely to be insufficient to reduce poverty among children significantly.

JEL classification: I32; I38
Keywords: Poverty; income inequality; child poverty; OECD

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Moins d'inégalités de revenu et plus de croissance – Ces deux objectifs sont-ils compatibles ?
Partie 5. La pauvreté dans les pays de l'OCDE

La pauvreté est une question importante pour les pouvoirs publics dans les pays de l'OCDE et la récente crise a donné une plus grande acuité encore à ce problème. Ce document fait ressortir les écarts de taux de pauvreté entre les pays et examine les diverses mesures qui permettraient de remédier à cette situation. Le taux de pauvreté dans l'ensemble de la zone OCDE a augmenté pour s'établir autour de 11 % à la fin des années 2000. Dans la majorité de pays de l'OCDE, la pauvreté touche davantage les enfants que les personnes d'âge actif et elle est plus répandue parmi les femmes que parmi les hommes. Il est certes essentiel de développer l'emploi pour réduire durablement les taux de pauvreté, mais le travail seul ne suffit pas pour éliminer ce fléau car le problème des travailleurs pauvres touche de nombreux pays. Le système de redistribution est efficace pour lutter contre la pauvreté. Les pays qui arrivent à réduire davantage la pauvreté définie par le revenu marchand redistribuent généralement davantage de revenu à ceux qui se situent au bas de l'échelle. Des politiques visant à faciliter le travail rémunéré, avec des transferts subordonnés à l'exercice d'un emploi pour compléter le revenu des travailleurs à bas salaire, peuvent offrir des moyens efficaces de lutte contre la pauvreté. La pauvreté chez l'enfant pose aussi un problème majeur en raison de ses effets néfastes à long terme. Les pays où les taux de pauvreté chez l'enfant sont bas ont à la fois des taux peu élevés de chômage des parents et des politiques efficaces de redistribution en faveur des enfants. Cela donne à penser que ces deux approches sont complémentaires et que le recours à une des deux seulement ne suffit probablement pas pour réduire sensiblement la pauvreté parmi les enfants.

Classification JEL : I32 ; I38
Mots-clés : Pauvreté ; inégalité de revenu ; pauvreté chez l'enfant ; OCDE

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LESS INCOME INEQUALITY AND MORE GROWTH – ARE THEY COMPATIBLE?

PART 5. POVERTY IN OECD COUNTRIES

By Mauro Pisu[1]

1. Introduction and main findings

Very few people in OECD countries now fall below the absolute poverty line of $2 a day defined by the World Bank. Still, relative poverty remains a pressing policy issue. In the late-2000s, the average relative poverty rate in OECD countries stood at around 11%, up by around one percentage point since the mid-1990s.[2] The recent crisis and the fiscal consolidation efforts risk increasing poverty further, making it an even more pressing policy issue. In developed countries, attention has progressively shifted to relative poverty as it has become clear that improving absolute living standards does not guarantee that all people can afford the goods and services modern life has made necessities. Also, the concept of relative poverty is more closely aligned to that of capabilities' deprivation (Sen, 1983) as people's capabilities (*i.e.* what people can choose to do) are partly determined by their position in the income distribution.

This work uses the OECD Income Distribution and Poverty Dataset, which provides comparable cross-country poverty measures and reviews the various policies implemented to reduce poverty.[3] The main findings emerging from the analysis are:

- In the late-2000s, the poverty rate in OECD countries varied greatly, ranging from 6% in the Czech Republic, Denmark, Hungary and Iceland, to above 15% in Turkey, the United States, Chile, Israel and Mexico. On average, working-age people record the lowest poverty incidence (10% of them are poor) followed by children (13%) and people of retirement age (16%).[4] Over the past decades, poverty shifted away from retirement-age people towards children and working-age people as governments in many OECD countries ensured an adequate retirement income.

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1. The author is a member of the Economics Department of the OECD. This is one of the background papers for the OECD's project on Income Distribution and Growth-enhancing Policies. The author would like to thank Peter Hoeller who co-ordinated the project, Jean-Marc Fournier, Kaja Fredriksen, Isabelle Joumard, Isabell Koske for their useful comments and suggestions and Susan Gascard and Debra Bloch for excellent editorial and statistical support.

2. The poverty rate is defined as the share of the population with an income lower than or equal to the national poverty line, which is set at 50% of the median equivalised household disposable income. The percentage increase in poverty is calculated for a subset of OECD countries (29 countries) for which data are available.

3. For an analysis based on the mid-2000s data and a thorough description of the dataset see OECD (2008).

4. The poverty rate for population subgroups, such as children, retirement-age people and women, are calculated as the percentage of the individuals in each subgroup with an equivalised household disposable income lower than or equal to the national poverty line.

- Poverty is more wide-spread among women than men because of their longer life expectancy and shorter working life. Women are more likely to survive their spouse and thus more likely to live alone in the late part of their lives. In addition, they are less likely than men to have gained full pension rights, because of their shorter employment histories, which increases women's poverty risk, noticeably during old age.

- Households with children suffer from higher poverty rates than those without. On average, the poverty rate among households with a head of working age and with children was 11% in the late 2000s against 9% for the childless ones. The United States, Israel, Estonia and Mexico are the countries where the difference in poverty rates between households with children and without is largest, whereas it is lowest in the Nordic countries, Poland, Chile and Korea.

- Although work is the best antidote against poverty, it alone is not enough to guarantee a life without it. On average, in the late 2000s, the poverty rate of the households with a head of working age and with no workers was about 42% against 15% and 3% for those with one and two or more workers, respectively. In-work poverty is especially pronounced in Mexico, Israel, Chile and the United States where more than 20% of people in households with one worker are poor. It is lowest in Germany, Norway and the Czech Republic. From the mid-1990s to the late 2000s, in-work poverty rose on average by about 2.5 percentage points for households with one worker whereas it remained stable for those with two or more workers.

- Redistribution through taxes and transfers reduces poverty but differently across countries. For instance, the United States and Sweden have similar pre-tax and transfer poverty rates, but the latter has a post-tax and transfer poverty rate significantly lower than the former Those countries achieving a greater reduction in poverty via taxes and transfers tend to redistribute more towards people at the bottom of the income distribution. Net transfers benefit some types of households more than others. On average, net transfers are less effective in reducing poverty among households with children than among households without.

- Targeting cash transfers to the people most in need enhances their effectiveness while limiting their size. Cash transfers are more strongly targeted towards the poor in Australia, New Zealand and Denmark where the population in the lowest income quintile receives more than 35% of all cash transfers. Conversely, they are less well targeted in Italy, Luxembourg, Portugal and Spain where the share is less than 15%. As regards household taxes, the share paid by the individuals in the lowest quintile is lowest in some English-speaking countries (Australia, Ireland and the United States) plus Italy, where it is below 2%, and highest in Switzerland, at above 12%. The degree of targeting and the size of gross public cash transfers explain much of the cross-country variation in poverty reduction among OECD countries, while taxation plays a minor role.

- Policies aiming at facilitating paid work along with employment-conditional cash transfers to top-up the income of low-wage workers are effective in topping up the income of low-wage earners and reducing in-work poverty. Today, more than half of all OECD countries provide some form of in-work benefits (IWB) or employment-conditional tax credits. Although some studies suggest that the *per*-job costs of IWBs are high, when considering the effect these policies have on inequality and poverty IWBs they appear to cost little.

- Minimum wages are most effective in reducing poverty, if set at a judicious level and when complemented by IWB schemes. Setting a wage floor precludes employers from appropriating the value of IWBs by reducing salaries. Successful poverty-reducing work strategies cannot be based on the minimum wage alone. They suffer from poor targeting as they cannot account for specific family characteristics associated with poverty, such as the presence of children or adults working part-time. The eventual effect of the minimum wage on poverty is also ambiguous as it depends on several country-specific economic and social factors, as the level of the minimum wage with respect to the poverty line, the elasticity of demand for labour, the degree of intra-family income sharing between the employed and unemployed and the degree of societal poverty aversion. If set too high, minimum wages are likely to result in higher unemployment.

- The evidence suggests that countries with a low child-poverty rate combine policies facilitating employment among parents along with redistribution programmes targeted towards children. These two sets of policies are complementary and relying exclusively on only one of them is likely to be insufficient to lower child poverty. Pro-employment policies for parents include active labour market policies providing education and training, provision of subsidised child care and out-of-school care. Public spending on early childhood education is also crucial as there is evidence of a causal relationship running from family income to educational and cognitive outcomes, which is stronger early in life.

- Cash income may not be the best measure to assess poverty as governments provide in-kind transfers. However, measuring their impact on poverty is challenging as it is difficult to quantify how much such transfers benefit people in different parts of the income distribution. The available cross-country comparable evidence suggests that in-kind transfers are not pro-poor as they appear to be nearly uniformly distributed across the income distribution.

The remainder of this paper is structured as follows. Section 2 provides an overview of poverty rates and trends across countries. Section 3 compares the poverty rates of different age cohorts, namely children, working-age and retirement-age individuals. Section 4 focuses on poverty-rate differences by gender whereas section 5 distinguishes between households with and without children. In-work poverty is analysed in section 6 and a preliminary assessment of the recent crisis on poverty is provided in section 7. The following sections focus on the policies issues. Section 8 compares the effects of taxes and transfers across countries, section 9 reviews work strategies, while policies to combat child poverty are discussed in section 10. Section 11 provides a brief review of the effect of in-kind transfers on poverty. Finally, section 12 concludes.

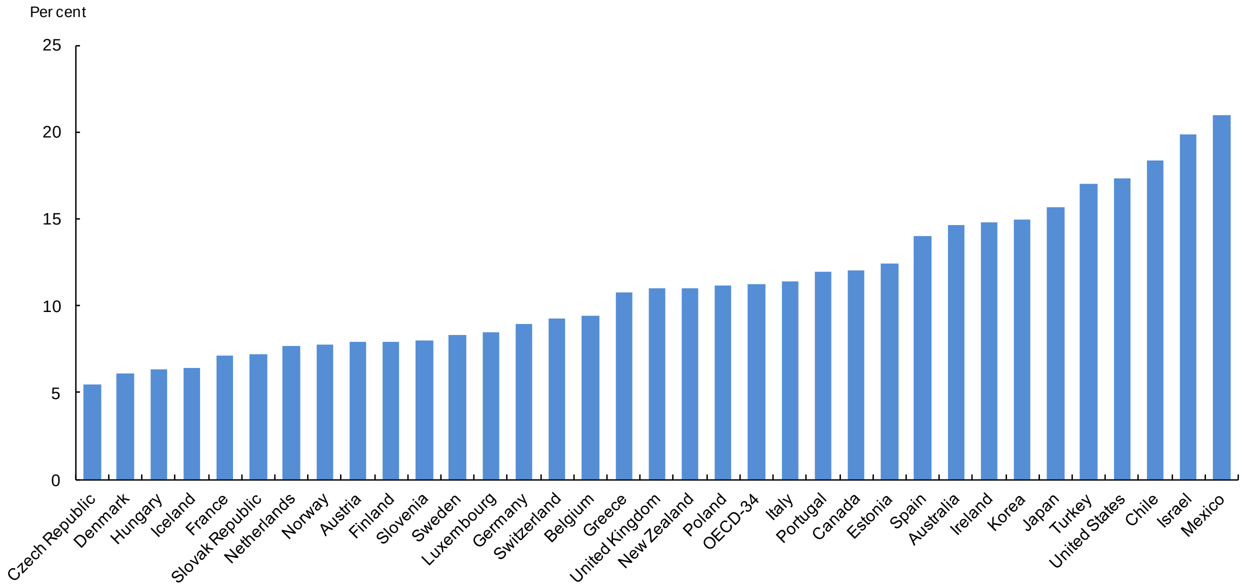
2. International comparisons and poverty trends

At around 11% on average in the late-2000s, the relative poverty rate in OECD countries is not negligible. However, this figure masks a wide variation across countries (Figure 1). Poverty rates range from around 6% in the Czech Republic, Denmark, Hungary and Iceland to above 15% in Turkey, the United States, Chile, Israel and Mexico. This ranking is robust to alternative measures of the relative poverty threshold, set at 40% or 60% of median income (OECD, 2008).

Several OECD countries also compute poverty rates using absolute measures based on the cost of a basket of goods and services deemed to guarantee a minimum standard of living. According to this measure absolute poverty has trended down in most OECD countries in the last 20 years, although relative poverty has generally increased (OECD, 2008). Comparisons based on absolute poverty indexes are problematic as what is considered a minimum standard of living can vary greatly across countries (Box 1). Furthermore, in higher-income countries the concept of relative poverty is closely connected to that of social exclusion and capability deprivation. In this paper, only relative poverty measures will be used.

Figure 1. **Relative poverty rates**

In the late 2000s



Note: The relative poverty rate is defined as the share of individuals with equivalised disposable income less than 50% of the median income of the whole population. Data for France, Ireland and the Netherlands refer to mid-2000s.

Source: *OECD Income Distribution and Poverty Database* and OECD calculations.

Low poverty rates are generally accompanied by low overall inequality and vice-versa (Atkinson and Marlier, 2010). Indeed, poverty and inequality were highly correlated across countries in the late 2000s (Figure 2).[5] However, within countries, poverty and inequality does not always change over time in the same direction (Table 1). Some of them, namely France, experienced a reduction in the poverty rate since the mid-1990s, although inequality did not change during the same period. In Turkey, on the contrary, inequality decreased considerably while poverty increased. This suggests that policy and macroeconomic conditions do not necessarily affect poverty and inequality in the same way and that poverty-reducing policies may be effective even in a context of rising overall inequality. Rising inequality driven by a sharp increase in top earners' incomes can take place at the same time as poverty is falling. Although no country pursues explicitly low poverty/high inequality policies, some of them may tolerate rising inequality if accompanied by declining poverty rates. This was epitomised by the UK Labour Government's focus on reducing child poverty accompanied by an "intensely relaxed" attitude towards rising overall inequality.[6] Feldstein (1998) maintains that the real policy issue is poverty and not inequality. He argues that focusing on inequality and not just on poverty is inappropriate as it violates the Pareto principle and is equivalent to using a welfare function putting negative weights on increments in income of better-off individuals.

5. The correlation coefficient is 0.86 and is statistically significant at 1%.

6. See the article "The Rich and the Rest" in *The Economist* edition of 20 January 2011.

Box 1. **Absolute and relative poverty**

Should measures of poverty focus on absolute or relative poverty? Absolute poverty rates are estimated using a cut-off income line below which individuals are not supposed to be able to afford a bundle of pre-defined basic goods, such as food and clothes. Typically, the poverty line is calculated in an initial year and is then adjusted to allow for price changes. Relative poverty, on the contrary, is defined with respect to the current standard of living in a country, with the relative poverty line defined as a percentage (usually 50 or 60%) of median income.

These two concepts of poverty have been at the centre of a lively research and policy debate for the last 50 years. The first attempts to rigorously measure poverty relied on absolute poverty lines (Bowley and Burnett-Hurst, 1915; Bowley and Hogg, 1925). In the early 1960s, this approach started to be challenged (Townsend, 1962), as it became clear that the share of people who could afford basic necessities such as food, clothes and shelter had increased enormously since poverty measurement had started, but many people could still not afford goods or services that modern life had made necessities. Since then, a consensus has slowly emerged favouring the use of relative poverty measures at least in the context of developed countries (Sen, 1983). The United States is the most notable exception in this regard, as its official poverty statistics are based on an absolute poverty line developed in the 1960s. More recently, the Census Bureau has started calculating and publishing supplemental poverty measures based on the recommendation of the 1995 National Academy of Science's report *Measuring Poverty* (Citro and Michaels, 1995)*,* which rely on alternative poverty lines but fall short of adopting the relative poverty approach.

One of the purported advantages of the relativistic approach when compared to the absolutist one is that it relates more closely to the concept of capability deprivation advanced by Sen (1992). Already Adam Smith in the *Wealth of Nations* linked pauperism to capabilities when he defined the absence of poverty as the ability to appear in public without shame.[1] Townsend (1962) has made a similar point when defining poverty as the lack of resources needed to participate in the activities of the community, which in turn echoes the concept of social exclusion.

Sen (1983) argues that the right approach for assessing the standard of living is to focus not on basic commodities or utility but on capabilities or functionings, which can be loosely interpreted as what people can do. Possession of material goods or services may not say much about what people can do with them. For instance, in societies with limited public transport car ownership enables the capability of travelling to work whereas in others car ownership may be irrelevant for this type of functioning. Following this notion, poverty can be thought of as an economic and social state with a level of capabilities that is unacceptably low from the point of view of the members of a society. There is uncertainty of what constitutes those basic capabilities whose lack can be associated with being poor, but they can be reasonably thought of as involving the ability of participating in the activities of the community without shame (Townsend, 1962) and of having self-respect (Rawls, 1971). It is clear that the resource requirements needed to have these capabilities increase as countries develop. In the poorest societies, the necessary resources to escape poverty (*i.e.* participating in the activities of the community) are likely to involve meeting nutritional needs plus some others, such as being clothed and free from disease. As societies become more affluent, these needs will be more easily met, but others will arise that may depend on the relative position of individuals in the income distribution. These arguments lend support to the use of relative poverty measures, although mapping relative poverty to capabilities remains challenging.

1. In the *Wealth of Nations* Adam Smith defined necessities as "…not only those commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even in the lowest order, to be without". Taking the example of leather shoes in 18th century England, he remarked that "The poorest creditable person of either sex would be ashamed to appear in public without them", although the same was not true in France or Scotland.

3. Children and the elderly are more likely to be poor than the working-age population

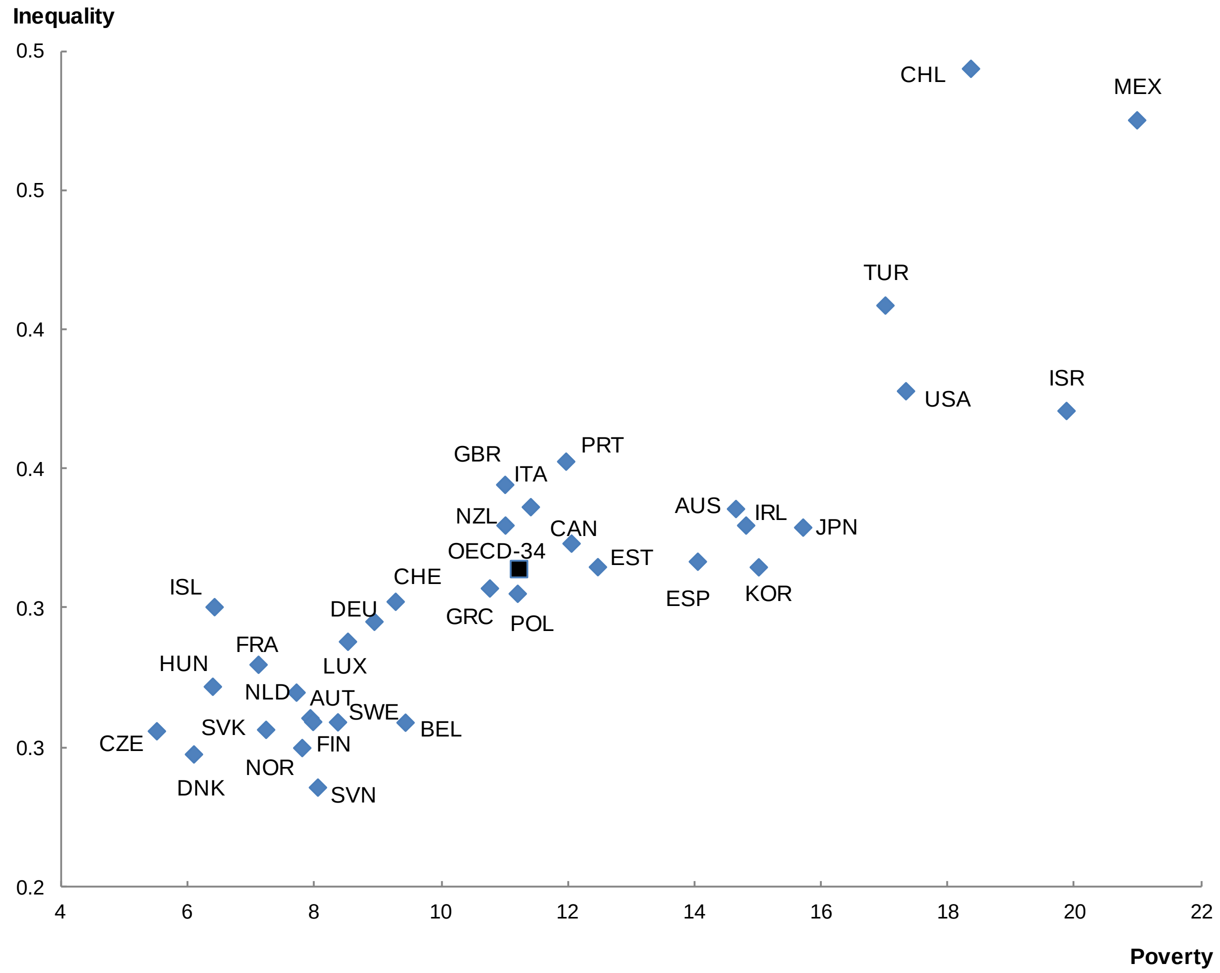
Within countries, poverty rates vary considerably across age groups. On average, across the OECD, working age people record the lowest poverty incidence (10% of them are poor) followed by children (13%) and people of retirement age (16%).[7] The majority of OECD countries have a higher poverty rate among children than among working age people, the exception being Denmark, Sweden, Finland, Norway, Korea, Germany and Iceland (Figure 3). Chile, Israel, Mexico, Turkey and the United States, on the other

7. The poverty rate does not reflect house ownership and associated imputed rents which may be high for pensioners and in- kind transfers (health care services or public transport) are sometimes provided at a lower price or for free for pensioners. The poverty rate of older people may thus be overestimated in some countries.

hand, feature high poverty among children and working-age people. Across the OECD, the poverty rate of retired people exhibits the largest degree of variation followed by that of children and working age people.[8] This pattern suggests that across countries policies to combat poverty among the most vulnerable age groups (*i.e.* children and over 65-year-old people) are more heterogeneous than those targeted at working-age people. For instance, one of the main determinants of the vastly different retirement-age poverty rates is the level of old-age safety-net benefits. In Australia and Ireland, the old-age public pensions in 2005 were lower than the respective poverty threshold.[9] For Korea, the markedly higher poverty rate among the elderly can be attributed to the public pension scheme that was implemented in 1988, leaving retirees in the late-2000s with little or no entitlements.

Figure 2. **Poverty and household income inequality**

In the late 2000s



Note: The relative poverty rate is defined as the percentage of individuals with equivalised household disposable income less than 50% of the median income of the whole population. Inequality is measured by the Gini index of equivalised household disposable income inequality. Data for France, Ireland and the Netherlands refer to the mid-2000s.

Source: *OECD Income Distribution and Poverty Database* and OECD calculations.

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8. The standard deviation to mean ratio for the three groups is 0.6, 0.5 and 0.3, respectively.

9. In 2005, in Australia, the full public pension was equivalent to 86% of the poverty line. In Ireland, the gap was even bigger with the full public pension at around 82% of the poverty threshold (OECD, 2009*b*).

Table 1. **Percentage point change in poverty and inequality from the mid-1990s to the late 2000s**

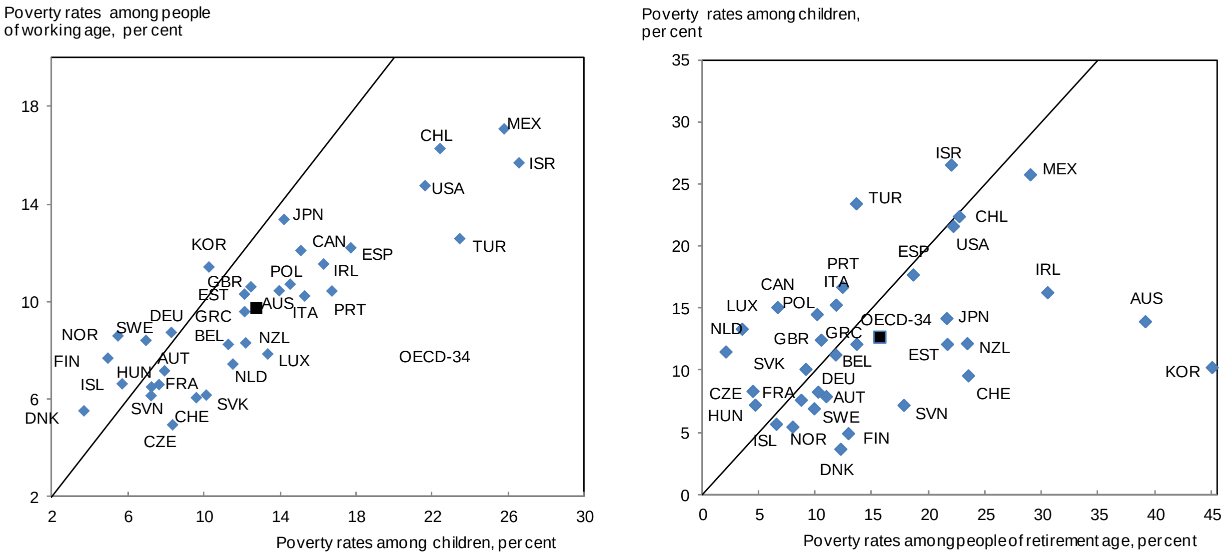
	Poverty	Inequality
Australia	3.23	2.68
Canada	1.31	3.45
Chile	-1.89	-3.31
Denmark	1.38	3.29
Finland	3.06	3.16
France	-0.40	0.00
Germany	1.77	2.95
Greece	-3.10	-2.82
Hungary	-1.02	-2.14
Israel	6.03	3.31
Italy	-2.80	-1.13
Japan	1.95	0.58
Luxembourg	3.01	2.92
Mexico	-0.73	-4.31
Netherlands	1.40	-0.01
New Zealand	2.60	-0.50
Norway	0.69	0.71
Sweden	4.66	4.80
Turkey	0.85	-8.10
United Kingdom	0.10	3.31
United States	0.63	1.76
OECD-21	1.08	0.51

Note: Poverty is measured as the percentage of individuals with equivalised household disposable income less than 50% of the median income of the whole population. Household disposable income inequality is measured by the Gini index multiplied by 100. Data for France and the Netherlands refer to the mid-2000s instead of the late 2000s.

Source: *OECD Income Distribution and Poverty Database*.

Figure 3. **Poverty rates among people of working age, retirement age and children**[1]

In the late 2000s



1. Poverty is measured as the share of individuals with equivalised household disposable income less than 50% of the median income of the whole population. Children are individuals being 17 years old or younger, working age people are those between 18 and 65 years old, and retired people aged 66 years and above. Data for France, Ireland and the Netherlands refer to the mid-2000s instead of the late 2000s.

Source: *OECD Income Distribution and Poverty Database*.

From the mid-1990s to the late-2000s, poverty shifted away from retirement-age people towards children and working-age people. During this period, the OECD median poverty risk among under 17-year-old individuals and working age people increased by 0.5 and 1.4 percentage point respectively whereas it decreased slightly for retired people (Table 2). The improvement in the incidence of poverty among the retired reflects the policy actions governments in many OECD countries have undertaken to ensure an adequate retirement income (OECD, 2009*b*). From the mid-1990s to the late 2000s, old age poverty fell markedly in Greece (15 percentage points), Turkey (10) and Norway (8). Bucking this trend, Australia and New Zealand experienced a remarkable increase in old-age poverty, because earnings rose faster than pensions.

Table 2. **Percentage point change in poverty rates from the mid-1990s to the late 2000s**

	People of working age	Children	People of retirement age
Australia	1.5	1.0	16.9
Canada	1.2	0.7	5.3
Chile	-1.0	-3.8	6.4
Denmark	1.6	1.7	0.1
Finland	2.3	2.9	5.5
France	-0.6	0.3	-3.0
Germany	2.4	0.2	0.6
Greece	-0.9	-0.2	-15.5
Hungary	0.3	-3.1	-2.5
Israel	4.2	12.1	-3.6
Italy	-2.5	-3.6	-3.2
Japan	1.4	2.1	-1.4
Luxembourg	3.0	5.5	-1.3
Mexico	-0.2	-0.2	-3.6
Netherlands	0.6	1.0	0.7
New Zealand	0.7	-0.5	22.2
Norway	2.4	1.8	-7.8
Sweden	4.2	4.4	6.3
Turkey	-0.7	3.9	-9.6
United Kingdom	2.6	-4.9	-1.0
United States	1.3	-0.6	1.1
OECD-20 (median)	1.4	0.5	-0.1

Note: Poverty is measured as the share of individuals with equivalised disposable income less than 50% of the median income of the whole population. Individuals of working age include those between 18 and 65 years old, children are below 18 years and the retirement age is set above 65 years. Data for France and the Netherlands refer to mid-2000s instead of the late 2000s.

Source: *OECD Income Distribution and Poverty Database*.

4. Women are more likely to be poor then men

Poverty rates also differ by gender, with women suffering from a poverty risk, which is one percentage point higher than that for men (OECD, 2008). The gender difference in poverty rates is partly related to the different age profile and working life of men and women. Women are more likely to survive their spouse/partner and consequently more likely to live alone in the late part of their lives (Box 2). In addition, they are less likely than men to have gained pension rights, because of their shorter employment histories, which increases women's poverty risk noticeably during old age (Figure 4). Countries having large gender differences in old-age poverty rates tend not to be same as those having a large gap for working-age adults.[10] There is also evidence that the gender-gap in poverty rates rises with age even among retirement-age persons (OECD, 2009*b*). Different factors can explain this phenomenon. One has to do with the increasing labour market attachment of younger women and the consequently higher pensions

10. The correlation coefficient between these gender poverty gaps is indeed very low (0.05).

they have gained. Another concerns the higher life expectancy of women with respect to men and that many women are married to older men. This implies that within the retirement-age group widowed women living on survivors' benefits, which are limited in many countries, are overrepresented with respect to men.

Box 2. **The gender poverty gap**

Women are often under-paid (as they tend to earn less than males for the same job) and overqualified (as they have jobs not corresponding to their ability level, while bearing a disproportionate share of household duty). Promoting gender equality will not only have direct effects on poverty and inequality, but also result in higher growth. Despite the vast progress made in the last decades, women are still more likely to be poor than men. Gender equality does not necessarily mean complete equality of income for men and women as unequal outcomes may result from personal and rational choices. Rather it refers more broadly to equality of opportunities and the ability to make informed choices in the labour market and concerning family issues. Although nowadays in OECD countries young women have broadly the same educational attainment as men, women still suffer from discrimination and lower opportunities with respect to men in the labour market. This tends to perpetuate poverty among women.

Demographics will also affect the income gap between men and women. Buvinic *et al*. (2008) argue that the rapid population ageing OECD countries will experience in the future due to persistently low fertility rates and declining mortality rates, will strain public and private resources to support the elderly, of whom a disproportionate number are women as they typically live longer than men. The share of women living in poverty is thus likely to rise by more than that of men in the future.

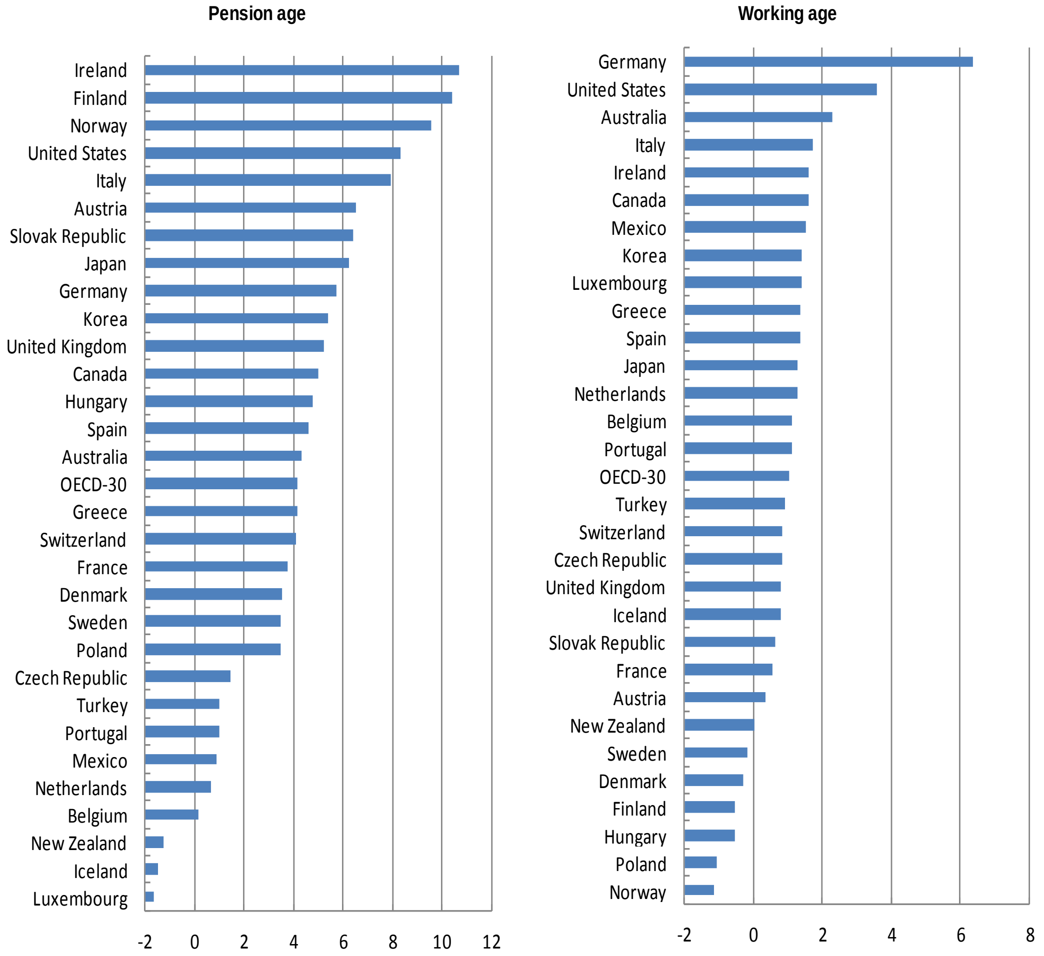
In addition to improving employment opportunities for women, furthering their access to entrepreneurship and self-employment is key to enhance women's contribution to society. For instance, some recent studies report that in Italy and Eastern Europe, women are at a disadvantage in obtaining finance from commercial banks (Alesina *et al*., 2008; Sabarwal and Terrell, 2008). Women are also much more likely to exit the labour market when they have children. In this case, policies to promote maternity and paternity leave and child care can help to ensure a stronger attachment of women to the labour market.

5. Households with children are poorer than those without

The presence of children in a household is generally associated with a higher poverty risk. Across the OECD, the poverty rate among households with children and with a head of working age was 11% in the late 2000s against 9% for their childless counterparts (Figure 5). The cross-country dispersion in poverty rates among household with children (and with a head of working age) is larger than those without. In addition, the correlation between the two series is not strong, being 0.30, thus suggesting that the factors that affect the poverty rates of these two types of households differ. The larger cross-country variation in the poverty rate among households with off-springs is likely to depend on several factors, such as the effectiveness of social programmes aiming at reducing the financial burden of having children. Countries where having children is linked to large increases in the poverty risk are the United States (13 percentage points), Israel (12), Estonia (11) and Mexico (10). On the other hand, households with children have a markedly lower poverty incidence than those without in the Nordic countries, Poland, Chile and Korea and to a lesser extent in Japan and Germany.

Figure 4. **Difference in poverty rates by gender**[1]

In the mid-2000s, difference in percentage points

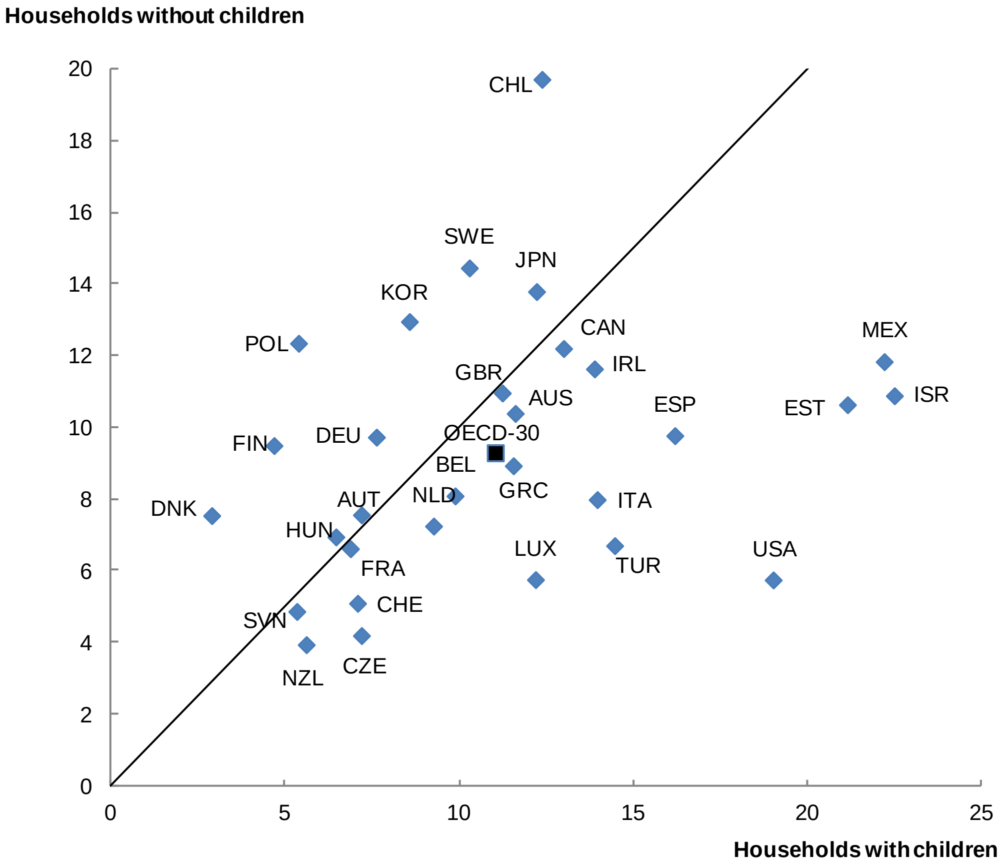


1. Poverty is measured as the share of individuals with equivalised disposable income less than 50% of the median income of the whole population.

Source: *OECD Income Distribution and Poverty Database*.

Figure 5. **Poverty rates of households with a head of working age with and without children**

In the late 2000s



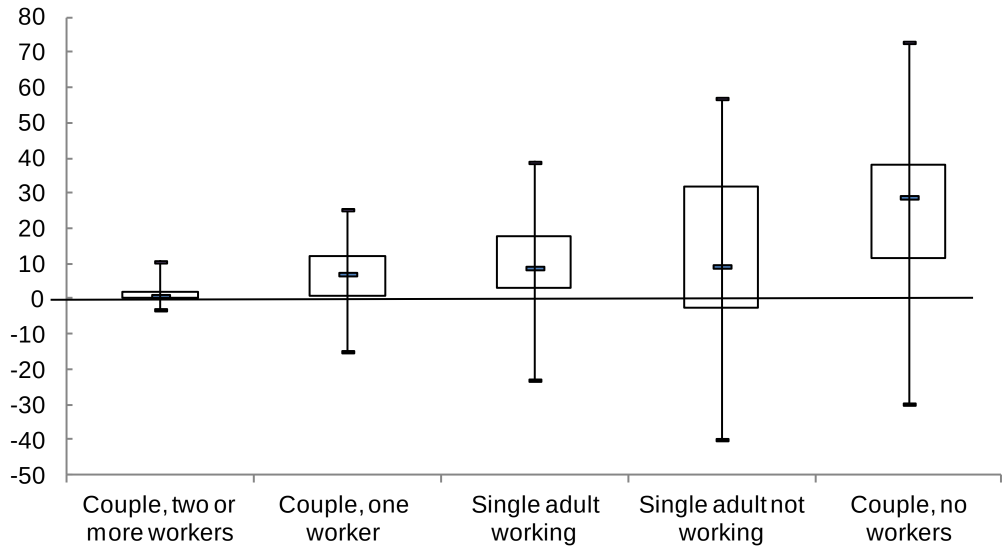
Note: Poverty is measured as the share of individuals with equivalised household disposable income less than 50% of the median income of the whole population. Data for France, Ireland and the Netherlands refer to the mid-2000s.

Source: *OECD Income Distribution and Poverty Database*.

The labour market participation of parents has a considerable effect on child poverty (Figure 6). Overall, poverty rate differentials between households with and without children are largest for non-working couples and non-working single adults. In other words, the presence of children increases the poverty rate for these two types of households the most. In all OECD countries, non-working couples with children have higher poverty rates than the same type of households without children. Also, single parents with no job have in general higher poverty rates than non-working single adults. The difference in poverty rates between these two types of households is highest for some Mediterranean countries, namely Italy (57 percentage point difference), the Czech Republic (51), Luxembourg (46), Portugal (41) and Greece (39). Yet, in some countries the reverse is true. In Korea, Norway Estonia, Chile and Switzerland the poverty rate for single parents with no job is more than 10 percentage points lower than for non-working single adults. Overall, having children does not seem to raise significantly the poverty risk of couples with two or more workers.

Figure 6. **Difference in poverty rates between households with children and without**

In the late 2000s



Note: The graph shows the Box-Whisker plot of the differences in relative poverty rates of each household type with and without children. Differences are expressed in percentage points. The lowest mark corresponds to the minimum value whereas the highest to the maximum. The lower and upper sides of the rectangle represent the 25th and 75th percentiles, respectively. The countries covered are all OECD countries except Estonia, Ireland, Israel, Slovenia and Switzerland. Data for France, Ireland and the Netherlands refer to the mid-2000s.

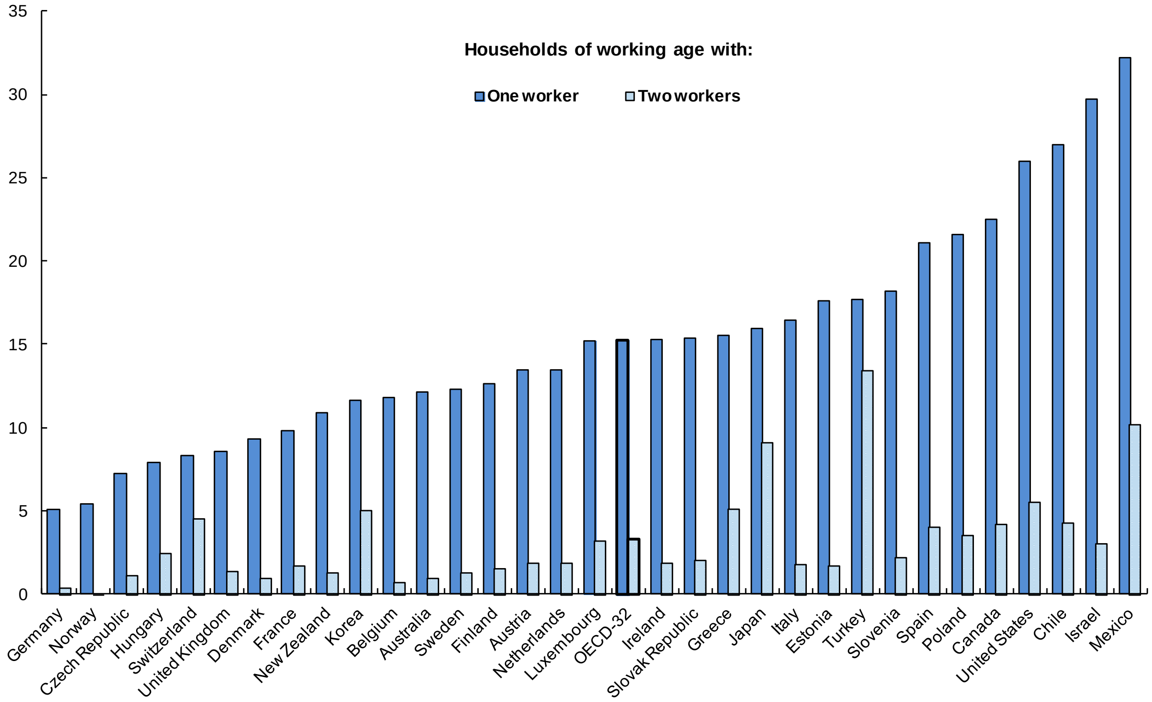
Source: *OECD Income Distribution and Poverty Database.*

6. Paid work reduces but does not eliminate poverty

Although work is the best antidote against poverty, it is not a panacea. OECD-wide, jobless households are six times as likely as working households to be poor. Still, 60% of the poor live in households with at least a worker (OECD, 2008). On average, in the late 2000s, the poverty rate of households with a head of working age and one worker was around 15% and 3% for those with two workers (Figure 7). The corresponding figure for households with no worker was 42%. In-work poverty is especially pronounced in Mexico, Israel, Chile and the United States where more than 20% of people in households with one worker are poor. It is lowest in Germany, Norway and the Czech Republic. The in-work poverty-reducing effect of an additional worker is substantial in all countries, with a few exceptions. Labour market participation appears to reduce the likelihood of poverty especially in some English-speaking countries, to wit New Zealand, Australia, Canada and the United States plus Israel, Chile and Estonia. Overall, the percentage point decrease in poverty rates associated with the presence of workers is higher the larger the poverty incidence among households without workers (Figure 8).

Figure 7. **In-work poverty**

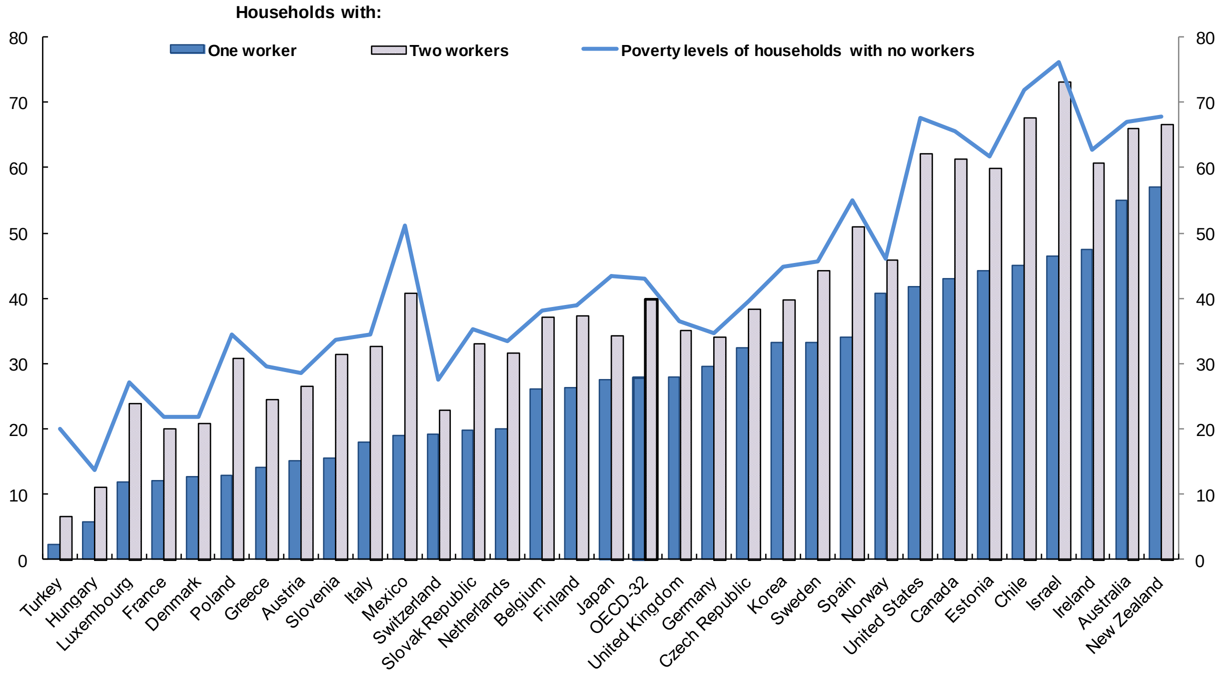
In the late 2000s



Note: Figures refer to households with a head of working age only. Data refer to the late 2000s except for France, Ireland and the Netherlands where data refer to the mid-2000s.
Source: OECD Income Distribution and Poverty Database.

Figure 8. **Difference in poverty rates between households with workers and those without**

In the late 2000s, difference in poverty rates in per cent



Note: Figures refer to households with head of working age only. Data refer to late 2000s except for France, Ireland and the Netherlands where data refer to mid-2000s.
Source: OECD Income Distribution and Poverty Database.

From the mid-1990s to the late 2000s, in-work poverty rose on average by about 2.5 percentage points for households with one worker whereas it was virtually unchanged for households with two workers. In-work poverty for a household with one worker increased the most in Luxembourg, Canada and Mexico whereas it dropped most noticeably in Hungary and to a lesser extent in Italy, the United Kingdom, Germany and the United States.

Table 3. **Reduction in in-work poverty rates from the mid-1990s to the late 2000s**

In percentage points

	One worker	Two workers
Australia	4.8	0.4
Canada	7.5	1.1
Denmark	2.5	0.5
Finland	4.2	-0.1
France	0.1	-0.7
Germany	-0.5	-0.5
Greece	1.5	0.7
Hungary	-3.2	-1.9
Italy	-0.9	-2.2
Japan	3.2	0.2
Luxembourg	7.5	1.5
Mexico	5.9	-3.0
Netherlands	4.4	0.9
New Zealand	0.0	-2.4
Norway	1.6	0.0
Sweden	5.7	0.5
Turkey	0.6	0.1
United Kingdom	-0.7	0.6
United States	-0.1	-0.1
OECD-19	2.3	-0.2

Note: Figures refer to households with a head of working age only. Data for France and the Netherlands refer to mid-2000s instead of the late 2000s.

Source: *OECD Income Distribution and Poverty Database.*

7. The effect of the recent crisis on poverty has been mild so far

It is still early to make an overall assessment of how the recent crisis has affected poverty levels. Yet, the data available to date suggest that the crisis has affected countries' poverty rates differently (Figure 9). Between 2008 and 2010, the poverty rate increased most in the United States and Slovakia (by around two percentage points). It rose by more than one percentage point in Denmark Spain and Luxemburg. In stark contrast, Finland and the United Kingdom experienced a drop by more than one percentage point. On average, across the 23 OECD countries for which data are available, the poverty rate increased by 0.12 percentage point between 2008 and 2010, suggesting that overall the immediate impact of the crisis on poverty was muted.[11]

11. This average excludes the United States for which only absolute poverty rates are available. See also Jenkins *et al*. (2011) for an assessment of the effect of the crisis on poverty for 21 OECD countries reaching broadly the same conclusion and containing in-depth case studies for six countries.

Figure 9. **Relative poverty rates for recent years**

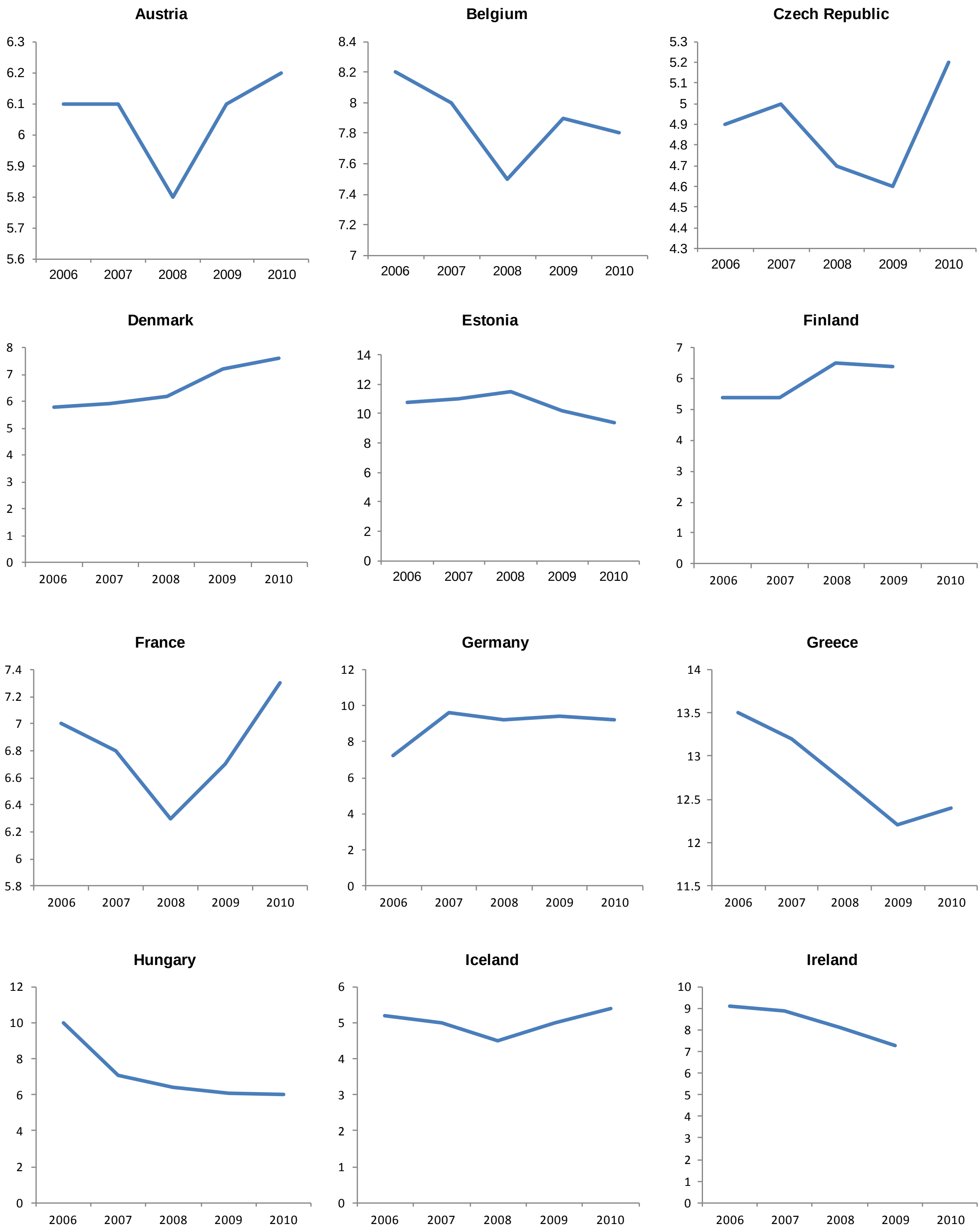
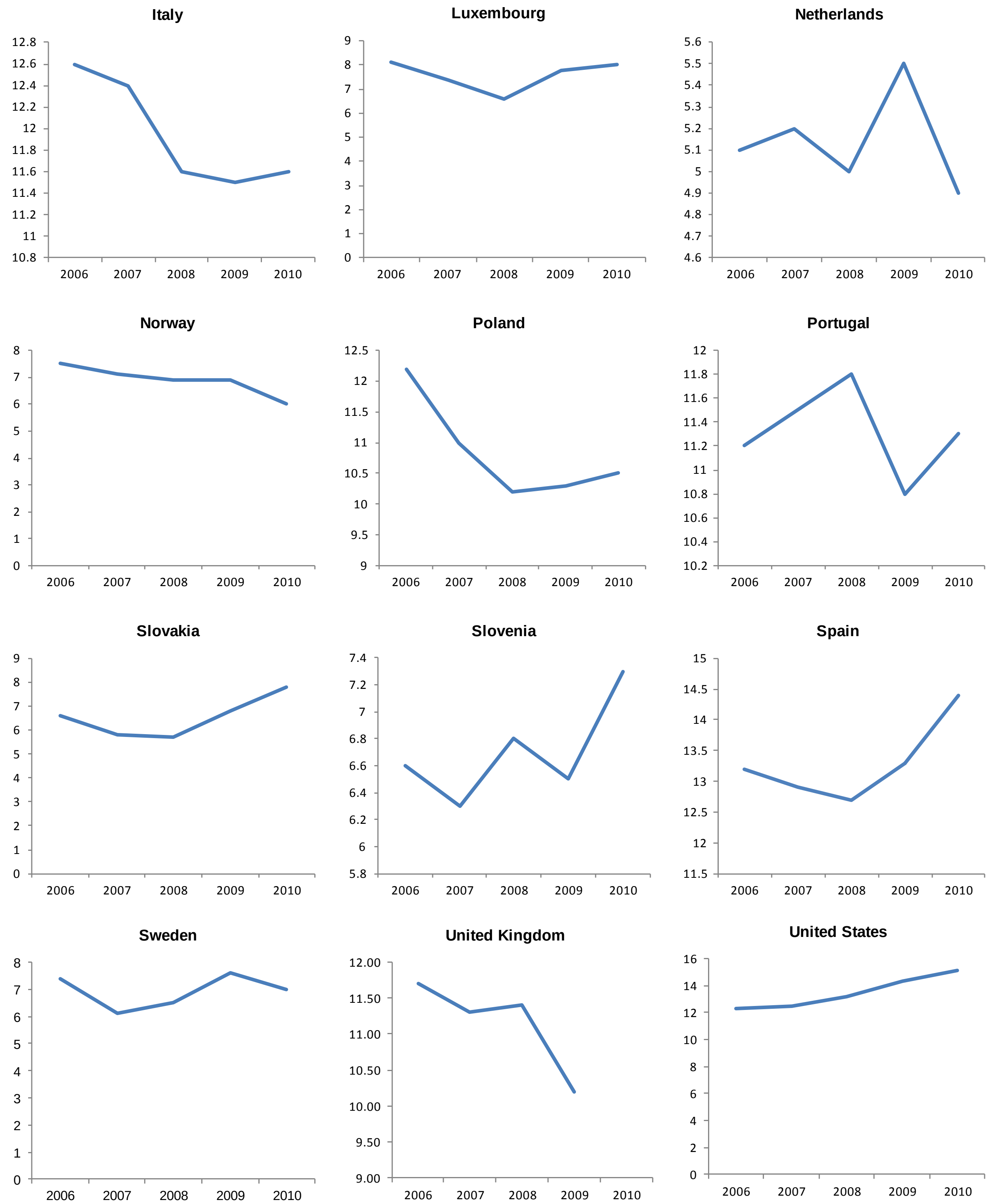


Figure 9. **Relative poverty rates for recent years** (continued)



Note: Poverty threshold is 50% of the median income. The data for the United States refer to absolute and not relative poverty rates.
Source: Eurostat, and the Census Bureau data for the United States.

The crisis hit single parents with dependent children hardest (Table 4). The change in the poverty risk between 2008 and 2010 for this household type was about three and half percentage points higher than the change between the two preceding years, with Iceland, Greece and Germany recording the largest difference between the two time periods. Single males were more severely affected than single females. This is consistent with the evidence presented in OECD (2010, 2011*b*) showing that the rise in unemployment was particularly pronounced among male and young workers. The recent crisis also confirmed that households with dependent children are more vulnerable to large negative economic shocks than those without. The countries where the crisis had the largest negative effect on households with children are Luxemburg, Slovakia and Spain.

Table 4. **Percentage point change in the relative poverty rate between 2008 and 2010 relative to the preceding two years**

	Total	Single parent with dependent children	Single female	Single male	Two adults, at least one aged 65 years and over	Households without dependent children	Households with dependent children
Austria	0.7	4.3	1.9	0.3	2.0	0.5	0.3
Belgium	1.0	-4.3	-3.3	-2.2	-2.1	-0.6	1.0
Czech Republic	0.7	2.6	-0.7	-2.5	-0.6	-0.5	1.6
Denmark	1.0	4.5	1.8	3.1	2.5	2.0	0.7
Estonia	-2.8	-6.5	-20.8	-8.3	-0.5	-5.0	0.4
Finland	-2.1	-6.5	-2.0	-1.1	-2.3	-0.5	-1.6
France	1.7	7.4	0.5	2.3	-1.1	0.9	1.1
Germany	-2.0	6.8	-1.3	2.3	-0.2	-0.7	0.8
Greece	0.5	9.1	-2.8	0.0	-1.6	-1.0	0.6
Hungary	3.2	-1.7	-1.1	-2.0	-0.5	-0.7	-0.1
Iceland	1.6	9.8	-1.1	-1.4	-1.1	-0.3	1.8
Ireland	0.2	-9.4	-1.8	-2.0	0.7	0.8	-1.8
Italy	1.0	2.3	-6.2	-0.9	-1.9	-1.3	1.3
Luxembourg	2.9	-3.4	-3.4	0.9	1.7	-0.3	2.8
Netherlands	0.0	0.5	3.3	0.9	-2.1	-0.6	0.4
Norway	-0.3	4.7	-8.2	-0.3	-1.0	-2.3	0.6
Poland	2.3	3.5	4.1	3.3	1.2	1.6	-0.5
Portugal	-1.1	-2.7	-2.7	-2.4	-2.1	-0.2	-0.7
Slovakia	3.0	6.3	0.4	6.0	0.9	1.2	2.8
Slovenia	0.3	4.0	-1.7	-8.1	-3.7	-0.4	1.0
Spain	2.2	4.8	-1.8	2.1	-7.7	0.6	2.7
Sweden	1.4	6.6	3.1	1.3	-0.7	0.7	0.4
United Kingdom	-0.9	-7.5	-5.1	-1.6	-1.2	-1.5	-1.0
OECD-23	0.7	3.5	-1.7	-0.3	-1.0	-0.4	0.6

Note: The data show the poverty rate change between 2008 and 2010 and that between 2006 and 2008. A positive (negative) figure corresponds to a larger (lower) poverty rate change in the 2008-10 period than in the previous one. OECD-23 refers to the median.

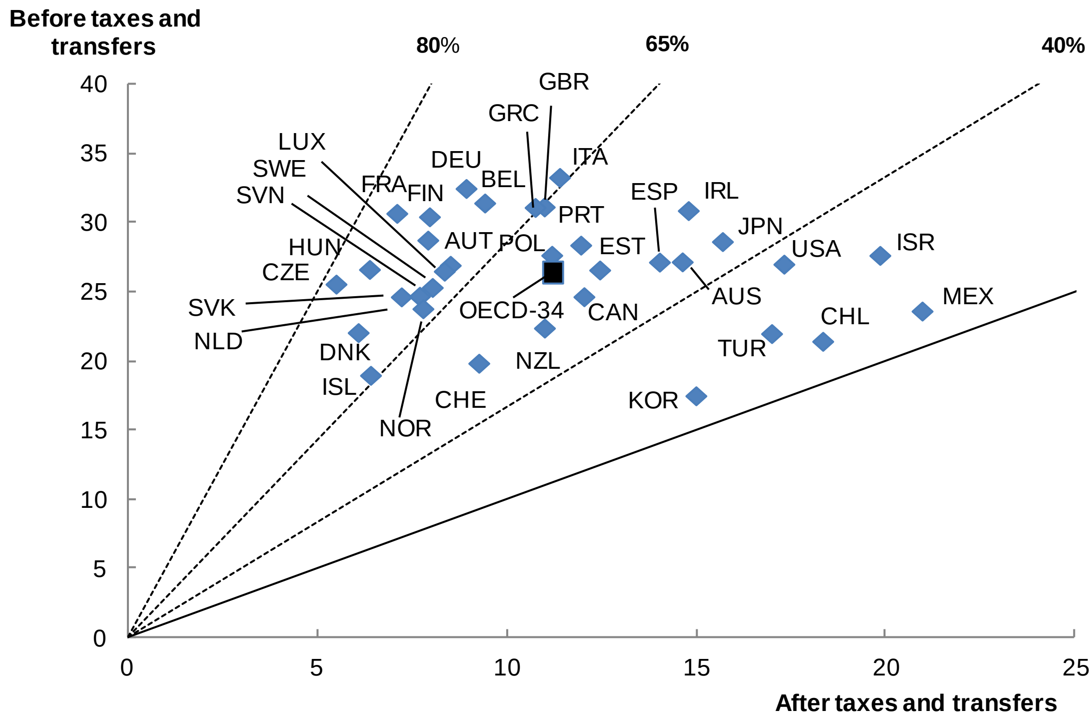
Source: Eurostat.

There are some country-specific assessments of the behaviour of poverty during the recent crisis. Smeeding *et al*. (2011) show that in the United States, the young and the less educated have recorded the largest increase in poverty rates. They also report that over the 2008-09 period, the share of adjusted after-tax household income of the bottom quintile experienced the largest drop amongst all quintiles. They warn that efforts to stem the increase in poverty may be undermined by looming budget cuts. In the United Kingdom, the effect of the crisis on poverty is yet to be felt (Jin *et al*., 2011). In 2009-10, the before-housing-costs poverty rate fell whereas the rate after housing costs remained broadly stable. Poverty amongst children and pensioners dropped because of above-inflation increases in pensions, benefits and tax credits. On the contrary, poverty amongst working-age adults without children rose, possibly reflecting rising unemployment, and reached its highest level ever recorded. The planned cuts in benefits, tax credits and public services that have yet to be implemented are likely to impinge negatively on poverty among children and the elderly.

8. Redistribution strategies

Taxes and transfers are effective policy instruments in reducing poverty. Countries starting with the same proportion of people living in poverty before taxes and transfers are taken into account may end up with markedly different after-tax and transfers poverty rates. For instance, Figure 10 shows that the United States has a pre-tax and transfer poverty rate comparable to that of Sweden, but the latter reduced it by more than twice than the former through taxes and transfers. Also, although Australia has a market income poverty rate that is 10 percentage points higher than that of Korea, they have a similar share of people living in poverty when taxes and transfers are taken into account.

Figure 10. **Before and after taxes and transfers poverty rates**



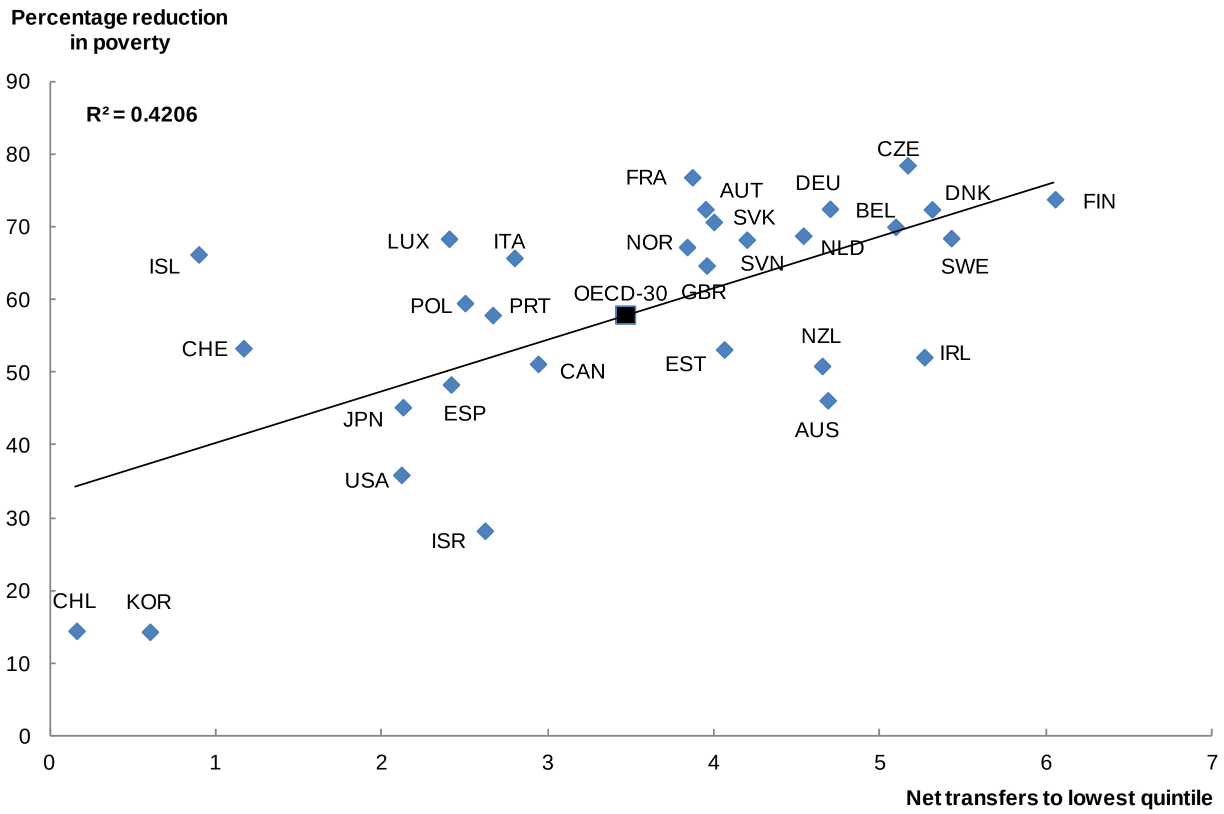
Note: The after-tax and -transfers poverty rate is measured as the share of the population with equivalised household disposable income less than or equal to the national poverty line, which is set at 50% of the median equivalised household disposable income. The before-taxes and -transfers poverty rate is computed as the share of the population with equivalised household market income less than or equal to the national poverty line. The dotted lines show different per cent reductions in poverty rates due to taxes and transfers. Data refer to the late 2000s, except for France, Ireland and the Netherlands where data refer to the mid-2000s. Greece, Hungary and Mexico report income net of taxes, so that their before-tax and transfer poverty rate is before transfers only.

Source: *OECD Income Distribution and Poverty Database.*

Countries that achieve a greater reduction in poverty through taxes and transfers redistribute more towards people at the bottom of the income distribution (Figure 11). Sweden, Denmark, Finland, the Czech Republic and Belgium are the countries that redistribute most towards the poor, whereas the opposite is true for the United States, Chile and Korea. However, net transfers benefit some individuals more than others. Overall the reduction in poverty is larger for retirement-age individuals than for working-age people and children. After taxes and transfers, the poverty rate for people over 65 drops by

77%, whereas that for working-age individuals and children falls by only 50% and 46%, respectively (OECD, 2008). This partly reflects the large role public pensions play in most OECD countries.

Figure 11. **Net transfers to the lowest quintile and reduction in the poverty rate**



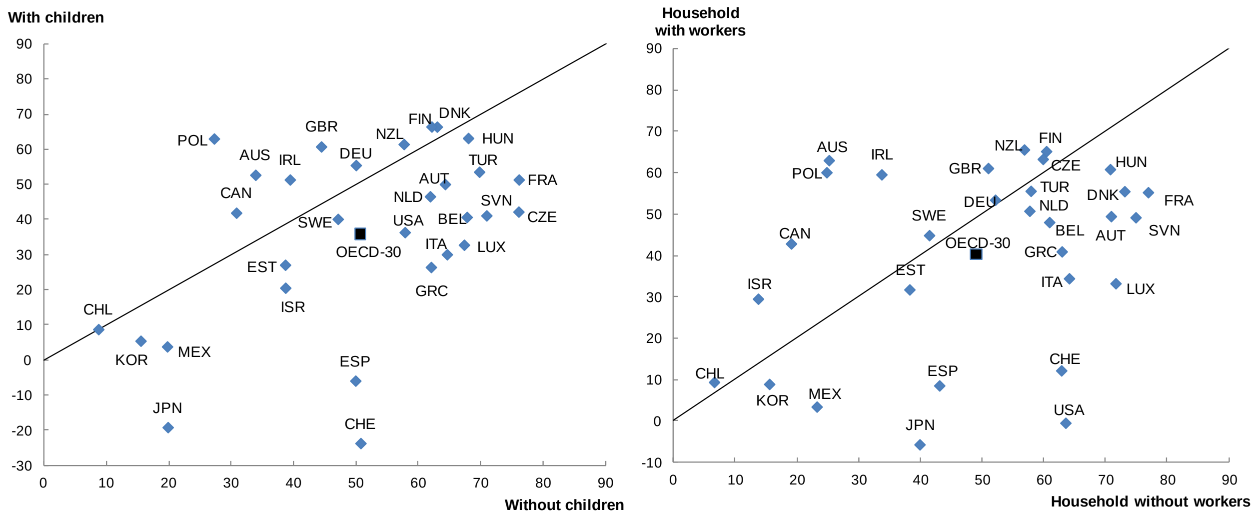
Note: Net transfers are gross public cash benefits minus household taxes as a share of equivalised household disposable income. The lowest quintile refers to the distribution of equivalised household disposable income. The reduction in the poverty rate is computed as the percentage difference of income before and after taxes and transfers. Data for France, Ireland and the Netherlands refer to the mid-2000s.

Source: OECD Income Distribution and Poverty Database.

Taxes and transfers are less effective in reducing poverty among households with children or with one or more workers than among those with neither of them (Figure 12). On average in the OECD, for households with a head of working age, net transfers reduce the poverty rate of such households with offspring by about 36% and by around 51% of those without. This pattern holds true for the majority of OECD countries. Exceptions are Australia, Canada, Poland, the United Kingdom, Ireland and to a lesser extent Germany, New Zealand, Denmark and Finland. Poor households with children are especially disadvantaged as compared to childless ones in Switzerland, Spain and Japan. As regards poor households with workers, net transfers reduce their poverty rate by about 50% on average against 41% for those households comprising one or more workers. Only in Australia, Poland, Canada and Israel poor households with workers benefit markedly more from redistribution than those without them.

Figure 12. **Reduction in the poverty rate among different types of households due to net transfers**

Late 2000s, percentage reduction



Note: Net transfers are gross public cash benefits minus household taxes as a share of total equivalised household disposable income. Households with a head of working age only. Data for France, Ireland and the Netherlands refer to the mid-2000s. For Greece, Hungary and Mexico, the figures refer to the reduction in the poverty rate due to gross transfers and not net transfers.

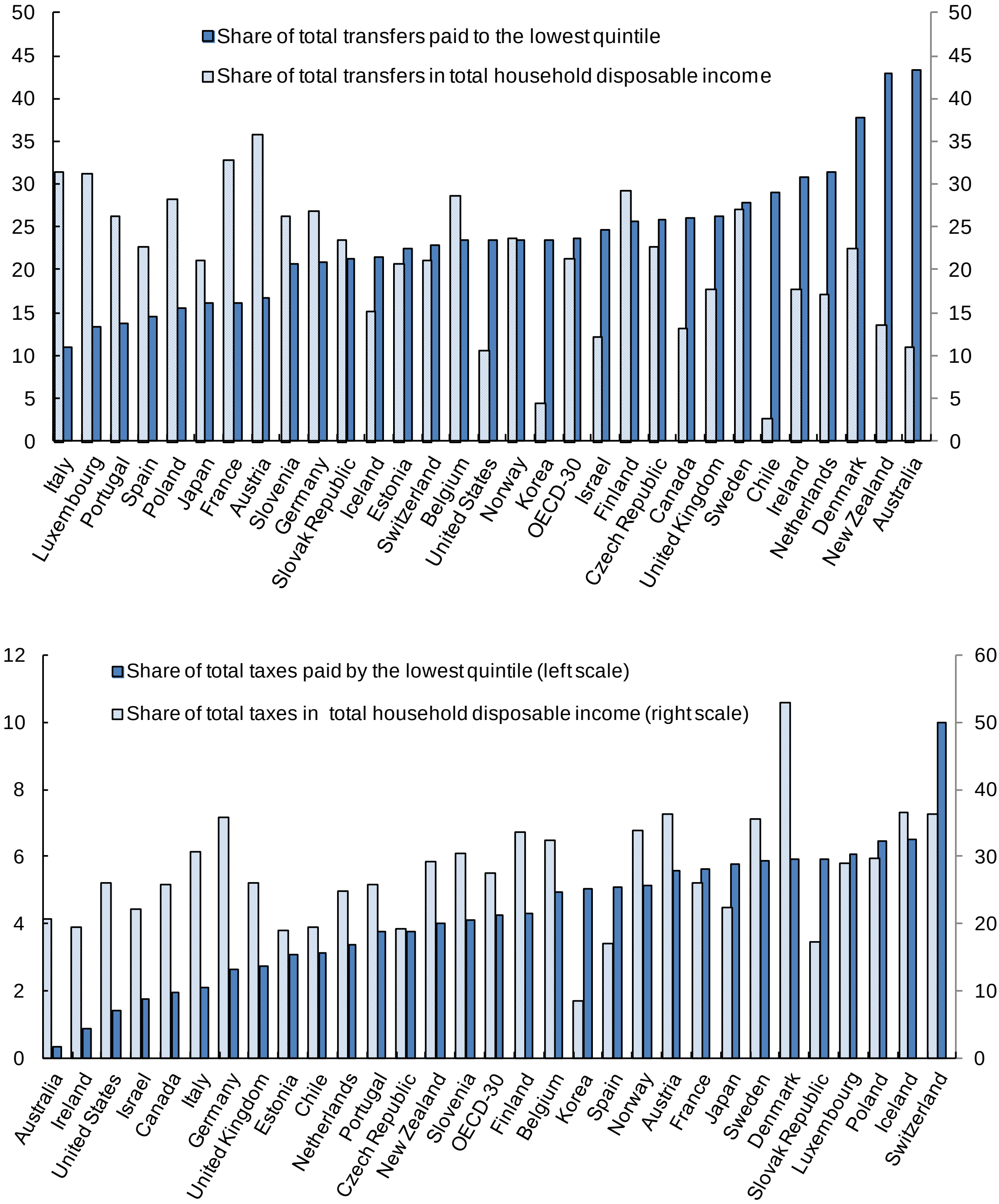
Source: OECD Income Distribution and Poverty Database.

Targeting cash transfers to the people most in need enhances their effectiveness while limiting their size. There is a great degree of variation across OECD countries in how effectively they target the poor (Figure 13). Cash transfers are more strongly targeted towards the poor in Australia, New Zealand and Denmark where the population in the lowest income quintile receives more than 35% of all cash transfers. Conversely, they are less well targeted in Italy, Luxembourg, Portugal and Spain where the share is less than 15%. Overall, there is a negative relationship between the degree of targeting of cash transfers and their size (as a share of total household disposable income).[12] As regards household taxes, the share paid by the individuals in the lowest quintile is lowest in some English-speaking countries (Australia, Ireland and the United States) plus Italy, where it is below 2%, and highest in Switzerland, at above 12%. In general, countries with the most targeted cash transfer programmes are not the same as those collecting the lowest share of taxes from the same individuals.

12. The correlation coefficient is 0.53 and is statistically significant at 1% level.

Figure 13. **Size and targeting of cash transfers and household taxes**

In the late 2000s



Note: Household taxes include employee social security contributions. The lowest quintile refers to the distribution of household disposable income. Data for France, Ireland and the Netherlands refer to the mid-2000s.

Source: *OECD Income Distribution and Poverty Database.*

The degree of targeting and the size of gross public cash transfers explain much of the cross-country variation in poverty reduction among OECD countries, with household taxes having no effect. Simple regression analysis reveals that countries that are more successful in reducing poverty have larger and better targeted public transfer programmes (Table 5). The point estimates suggest that a one percentage point rise in the percentage of gross public cash transfers in total household income is associated with an additional two percentage points reduction in poverty rates, while a one percentage point increase in the degree of targeting (share of total gross public transfers accruing to the poorest 20%) leads to 0.7 percentage point reduction in poverty.[13]

Table 5. **The effectiveness of the size and progressivity of taxes and transfers in reducing poverty**[1]

Dependent variable	Reduction in the poverty rate
Public gross cash transfers	
Size	1.98**
	[0.34]
Targeting	0.69*
	[0.29]
Household taxes	
Size	-0.22
	[0.28]
Targeting	-0.24
	[0.75]
Constant	-5.50
	[9.42]
R-squared	0.77
Observations	30

1. The reduction in the poverty rate is the percentage difference between pre- and post- tax and transfer poverty rates. The size of gross public transfers (household taxes) is the ratio of gross public transfers (households' tax payments) to total household income times 100. The targeting of gross public transfers (household taxation) is the share of total gross public transfers paid to (household taxes collected from) the poor. The poor are people in the lowest income quintile of equivalised household disposable income. The data refer to the late 2000s. The countries in the regression are the same as in Figure 13. ** denotes statistical significance at 1% level; * denotes statistical significance at 5% level. Robust standard errors in brackets.

Source: *OECD Income Distribution and Poverty Database* and OECD calculations.

Although net social transfer programmes can be effective in reducing poverty, they can undermine work incentives and introduce economic distortions. Ideally, governments should aim at developing and introducing poverty-reducing strategies that limit distortions in economic activity so as to minimize deadweight losses. Such measures are likely to include in-work benefit programmes as employment-conditional cash transfers to low-paid workers varying according to family characteristics, lower pay-roll taxes on employers that hire or retain low-paid personnel, flexible work arrangements permitting to reconcile working and parenting duties and up-skilling policies allowing low-paid workers to move to better jobs.

9. Work strategies

Helping people to move from benefits to work is the central aim of active labour market policies. These policies are based on the premise that governments should not just remedy the consequences of poverty through redistribution but also prevent poverty through facilitating access to paid work (OECD, 2005). Introducing welfare-to-work policies has featured prominently in reforming social programmes in several OECD countries and their outcomes in terms of moving people from welfare rolls to employment

13. Using as dependent variable the percentage difference in the poverty gap, rather than the head-count poverty, before and after taxes yields qualitatively and quantitatively similar results.

have sometimes exceeded expectation, though there are also programmes that are ineffective (OECD, 2009*a*).

Policies aiming at facilitating paid work along with employment-conditional cash transfers to top-up the income of low-wage workers can offer effective ways to combat poverty. A large number of countries have introduced in-work benefits (IWB) or employment-conditional tax credits as a core element of "make-work-pay" programmes and now more than half of all OECD countries provide some form of IWBs (Immervoll and Pearson, 2009). Although narrow assessments of their per-job-created costs suggest IWBs are rather expensive, evaluations considering also the effect these policies have on inequality and poverty indicate that IWBs cost little per dollar transferred. Immervoll *et al.* (2007) found that among 15 European countries the cost for taxpayers of redistributing one euro through an IWB could be small, because they raise employment. In general, IWBs are more likely to be an efficient redistributive measure in countries characterised by a wide income dispersion at the bottom of the income distribution and a high tax burden. However, some studies caution about the effectiveness of IWBs as an income redistribution tool. The labour-supply increase and the ensuing decline in wages generated by IWBs can markedly reduce the actual transfer received by beneficiaries of such programmes, with a large part of them accruing to employers. Overall, the share of transfers employers are able to capture is larger, the more elastic the supply of labour and the less elastic the demand for labour are. Rothstein (2008), studying the expansion of the United States' earned income tax credit (EITC) in the mid-1990s, found that one dollar spent on the EITC generated a transfer of USD 0.70 for the recipient with the remaining part captured by employers. In addition to this, employers also benefit from an additional transfer of USD 0.42 coming from the lower wages of non-eligible workers, who compete in the labour market with EITC beneficiaries.

If set at an appropriate level, the minimum wage can be a valuable policy instrument to alleviate in-work poverty, especially for working-age adults having full-time jobs. A minimum wage is set in several OECD countries, while in many others, collective agreements provide wage minima. Yet, the relationship between poverty and minimum wages is ambiguous (Freeman, 1996). The "labour economist's view" maintains that a high minimum wage leads necessarily to an increase in poverty because of higher unemployment whereas the "trade unionist's view" reaches the opposite conclusion because of the income sharing through family and social links. Yet, both views are incomplete as the impact of the minimum wage on poverty depends on several economic and social factors, which vary across countries. Based on a theoretical model, Fields and Kanbur (2007) argued that these are the level of the minimum wage with respect to the poverty line, the elasticity of demand for labour, the degree of intra-family income sharing between the employed and unemployed and the degree of societal poverty aversion. Minimum wages have the drawback that they do not effectively target the individuals and households most at risk of poverty as they cannot account for specific family characteristics associated with higher poverty rates, such as the presence of children or adults working part-time. Also, if set too high, minimum wages are likely to lead to less employment opportunities. As a result, effective policies to alleviate in-work poverty cannot be based on the minimum wage alone (OECD, 2009*a*).

Minimum wages are most effective in reducing poverty if set at a judicious level and complemented with IWB schemes (Freeman, 1996; Immervoll and Pearson, 2009). Establishing a wage floor precludes employers from appropriating the value of IWBs by reducing salaries. Yet a too high minimum wage renders the implementation of IWB programmes that do not involve a steep benefit phase-out challenging and make them more expensive.

10. Policies to reduce poverty among children

Child poverty is especially important not only because children are the most vulnerable members of society but also because of the pernicious long-term consequences it entails. Higher child poverty is linked to higher intergenerational inequality as poor children are more likely to be poor when adult (D'Addio, 2007; OECD, 2009*c*). The classic family investment model by Becker and Tomes (1986) points to the role of financial constraints, whereby poor parents are unable to borrow to invest in their children's human capital. Also, low family income might affect long-term income prospects adversely through heightened parental stress, which in turn can impinge adversely on child well-being, affecting educational and cognitive outcomes negatively (Mayer, 1997, 2002; Duncan, 2006).

Various redistribution instruments exist. These include birth grants, child benefits and tax credits for working parents. Broadly speaking, they can be divided into "benefit strategies", involving cash transfers or tax credits for poor families so as to ensure a minimum income level to non-working parents or to supplement the income of those working and "work strategies", aiming at increasing the employment rate of parents. Overall, all the countries with very low levels of child poverty combine low levels of joblessness with effective redistribution policies towards children, suggesting that these two policy approaches are complementary and relying exclusively on only one of them is insufficient to reduce child poverty (Whiteford and Adema, 2006).

Increasing the income of poor families with children through the tax and benefit system is the most direct way of reducing child poverty. Such spending can overcome the financial constraints poor parents face in investing in their children because of credit market imperfections. As there is evidence of a causal relationship running from family income to educational and cognitive outcomes that is stronger early in life (Heckman 1999, 2007), governments should focus on spending on early childhood education and care. One unresolved issue is how much of transfers should be spent on children. Some argue that the effect of such policies on the well-being of children is limited as poor and dysfunctional families will spend the money they receive on consumer goods that do not benefit children. Yet, there is evidence that if mothers receive the transfer a large share of them will be spent on children (Lundberg *et al*., 1997).

Evidence suggests that parental employment is a first step on the route out of poverty (Morris *et al*., 2004; Grogger and Karoly, 2007). Pro-employment policies for parents include active labour market policies providing education and training, provision of subsidised child care and out-of-school care. Evidence also suggests such work-based strategies are effective in lowering child poverty, although their effects on other important aspects of the well-being of children and their future income are less clear cut.

11. In-kind transfers and poverty

When considering in-kind transfers, it is important to distinguish between pro-poorness and progressivity. Transfers are progressive when their share of individual income disproportionately goes to the lower end of the distribution. A special case of this is when in absolute terms they are higher at the bottom of the distribution, in which case transfers are said to be pro-poor. OECD (2008) suggests that in-kind transfers are for the most part progressive, but not pro-poor. The value of most in-kind benefits households receive appear not to vary with income, though they still narrow income differences between individuals because they constitute a higher addition to the cash income of the poor relative to the rich. However, the low progressivity of in-kind transfers may also result from the methodological difficulties in identifying the households who actually benefit from them and allocating the value of such transfers accordingly. Such calculations may then underestimate the role of in-kind transfers in reducing poverty in those countries where such benefits are effectively targeted to poor households.

12. Conclusions

Despite OECD countries' high average standard of living, relative poverty is still a pressing issue. In the late-2000s, the OECD-wide poverty rate stood at around 11%, up by around one percentage point from the mid-1990s.

Work is key to combat poverty but on its own does not suffice to eliminate it. Poverty rates for households with workers are substantially lower than for those without, but they are not negligible. On average in the late 2000s they stood at 15% for households with one worker and 3% for those with two or more. Redistribution through taxes and transfers is effective in reducing poverty. Countries achieving a greater reduction in poverty tend to redistribute more towards people at the bottom of the income distribution. Targeting cash transfers to the people most in need enhances their effectiveness while limiting their size. The degree of targeting and the size of gross public cash transfers explain much of the cross-country variation in poverty reduction among OECD countries, while taxation plays a minor role.

Today, more than half of all OECD countries provide some form of in-work benefits (IWB) or employment-conditional tax credits. Such policies are effective in topping up the income of low-wage earners and reducing in-work poverty. Minimum wages are most effective in reducing poverty if set at a judicious level and when complemented by IWB schemes. Setting a wage floor precludes employers from appropriating the value of IWBs by reducing salaries.

Child-poverty rate is especially important for the long-term consequences it entails. Countries with a low child-poverty rate combine policies facilitating employment among parents with redistribution programmes targeted towards children. The role of in-kind transfers for reducing poverty deserves further investigation. The available cross-country evidence suggests that in-kind transfers, although being for the most part progressive, are not pro-poor. However, several methodological problems beset these studies and ultimately for those countries that target these benefits most effectively to the poor, the role of in-kind benefits in reducing poverty may be underestimated.

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