

Longer-Term Trends in Income Poverty in the OECD Area*

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Abstract: This article reviews trends in income poverty in 26 OECD countries, including the most recent trends up to the early 2000s. Despite rather modest changes in overall poverty indicators over the long run, the structure of poverty has shifted over the years in all OECD countries, leading to higher poverty risks among younger age groups and consistently very high poverty levels among single parents – especially if they are without employment. Demographic changes have influenced these poverty trends, but they do not fully account for cross-country differentials. In turn, direct taxes and public transfers play a significant role in reducing market-income poverty, with considerably higher reduction rates in some of the European OECD countries; country differences are especially pronounced in the case of households with children. The poverty alleviation effect of tax/transfers increased in almost all OECD countries during the 1980s and early 1990s but slightly declined over the second half of the 1990s. Notwithstanding the efforts and effects of tax/transfer policies, employment remains a key factor for escaping the risk of poverty, underlining the importance of employment-oriented social policies and labour market policies that help ‘make work pay’.

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1. Introduction

Governments have long cared about reducing or eliminating poverty, but as a policy objective poverty has rarely had such a high profile as it now enjoys. Most OECD governments can now point to having anti-poverty targets or anti-poverty strategies (albeit varying in comprehensiveness and ambition).

There are a number of reasons for this. The improvement of the labour market has reduced the profile of the efforts to tackle unemployment. Yet, reductions in unemployment often have not been accompanied by reductions in poverty to the

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** The opinions expressed are those of the author and do not engage the OECD or its member countries. Errors are the sole responsibility of the author. Direct all correspondence to: Michael F. Förster, e-mail: michael.forster@oecd.org

same extent, leading to greater focus on the latter as a policy target. Indeed, the greater emphasis on policy outcomes is in itself one of the reasons for the increased profile of poverty: rather than arguing over the share of the public budget going to different areas of policy, spending departments throughout the developed world are increasingly expected to explain both to finance ministries and to the public what they intend to achieve with the money they seek. Reducing poverty ranks high in most political programmes, and this is increasingly translated into quantifiable targets.

A further impetus to the focus on poverty comes from international processes and conventions. The first of the UN Millennium Goals is to halve financial poverty. Within the European Union a travelogue of agreements and processes (Lisbon, Laeken...) has set the reduction of poverty as one of the principle objectives of both European institutions and national governments, leading to agreements that indicators of poverty and social exclusion should be defined on a common basis across the twenty-five countries, and monitored through an 'open method of co-ordination' (essentially, an exchange of views across countries based on evidence about what has worked well in a particular area of policy through a discussion of the 'national action plans').

Since the early 1990s the OECD has published a series of reports on income distribution and poverty in its thirty member countries.¹ This work is now incorporated in a larger system of social indicators, produced every two years (see OECD [2003]). These social indicators cover many other aspects of equity, self-sufficiency, social cohesion, and health, and permit a broader view of the social situation and social policies in countries than can be obtained by focusing on any one indicator, even one as important as poverty.

Some sense of perspective is necessary because, whilst there is much interest in poverty as a concept, it means different things to different people. Worse, the most widely accepted concept of poverty – the inadequate command of resources, where the adequacy or otherwise of a household income level is determined with respect to the norms prevailing in the particular community in which the household is based – is not directly observable. Instead, when making international comparisons, a series of questionable assumptions have to be made. First, we look only at the income of a household, not at wealth or the provision of services in kind, including health care. Second, we look at only a single point in time. Most households can cope reasonably well with a short period of low income. Only if this is sustained over time does it lead inexorably towards distress. Third, we use an entirely arbitrary poverty line – 50% of the median household income in a country, adjusted for household size.

These are clearly simplifications and compromises. But for the purposes of international comparisons over time, they may not be as limiting as they seem at first sight. Although poverty is not *just* about low incomes, it is about low incomes *to a large*

¹ See Atkinson et al. [1995], Burnieaux et al. [1998], Förster and Pelizzari [2000], and Förster and Pearson [2002].

extenti, so examining how these vary over time, across age groups, and in different family types does in all probability indicate deeper underlying trends in poverty. Furthermore, the main policy levers that governments can pull to influence poverty levels relate to income – either direct cash transfers, or delivering help in finding work.

This article provides evidence of levels, trends, and driving factors in income poverty in twenty-six OECD countries, using data that correct many of the comparability issues that plague cross-country comparisons in this field. Section 2 discusses the overall trends in incidence and intensity of poverty during the past twenty years. Section 3 considers the changes that occurred to the profile of poverty, in particular how groups at risk of poverty have changed over time, focusing on the period since the mid-1980s. Section 4 puts forward the main determinants that have influenced these changes and that are particularly important for formulating poverty alleviation policies: trends in social spending and tax/transfer policies; the importance of labour markets and employment; and changes in the population structure. Section 5 offers conclusions.

2. Overall trends in income poverty

Levels of poverty with regard to equivalised household disposable income is a natural starting point for assessing the prevailing poverty patterns at the beginning of the century in OECD countries.² Figure 1 displays one widely used summary indicator of income poverty – the ‘headcount’ ratio, i.e. the percentage of people with an income below 50% of the median disposable income threshold in each country – in twenty-six OECD countries. Clearly, there is wide disparity in the extent of relative income poverty across OECD countries. Figure 1 makes it possible to distinguish four groups of countries in terms of ascending levels of poverty in the most recent year:

- The four Nordic countries (Denmark, Sweden, Finland, and Norway) together with the Czech Republic, the Netherlands and Switzerland display poverty rates below 7%.
- Other continental European countries, including Hungary and Poland, show poverty rates between 7% and 10%, i.e. slightly below the overall OECD average.
- Most Anglo-Saxon countries (Australia, Canada, New Zealand, and the United Kingdom) and Southern European countries (Greece, Spain, Portugal and Italy) record poverty rates slightly above the OECD average, i.e. between 10% and 14%.
- A disparate group, including Ireland and the United States, together with Japan, Mexico and Turkey display the highest poverty rates, between 15% and 20%.

² Disposable household income lumps together all market income sources of household members (gross wages and salaries, capital income and rents) with private and public transfers and deducts income taxes and social security contributions. This income measure is adjusted for household size, using as equivalence elasticity the square root of the household size.

How has poverty evolved over time? Longer-trend data dating back to the mid-1970s are available for a sub-set of just seven OECD countries. These data, confirmed by evidence from national studies, suggest that poverty rates were slightly falling between the mid-1970s and mid-1980s. This was indeed the case in five of the seven countries considered here. During the following decade, between the mid-1980s and mid-1990s, the (un-weighted) overall OECD average poverty rate slightly increased by half a percentage point, to 10% of the total population. More significant changes (greater than 2.5 percentage points) took place in only a few countries: Australia, Belgium (downwards), Germany, Italy, the Netherlands and the United Kingdom (upwards). Finally, in the most recent period, from the mid-1990s to 2000, the overall OECD rate increased by another half a percentage point, while larger changes were recorded only in Ireland (upwards).³

There has been a slight convergence in the levels of relative poverty across countries over time,⁴ brought about by increases in the 'headcount' measure in low-poverty countries and stability or decreases in higher-poverty countries.

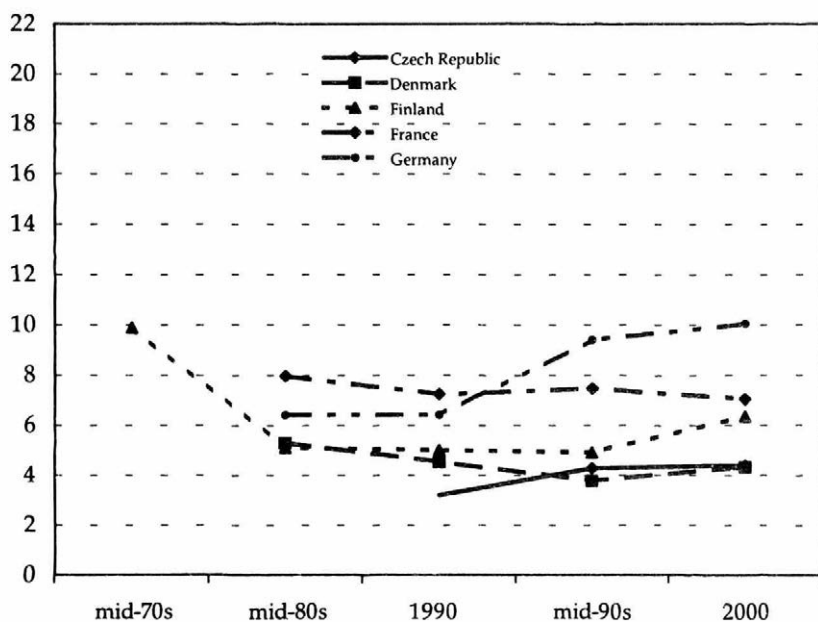
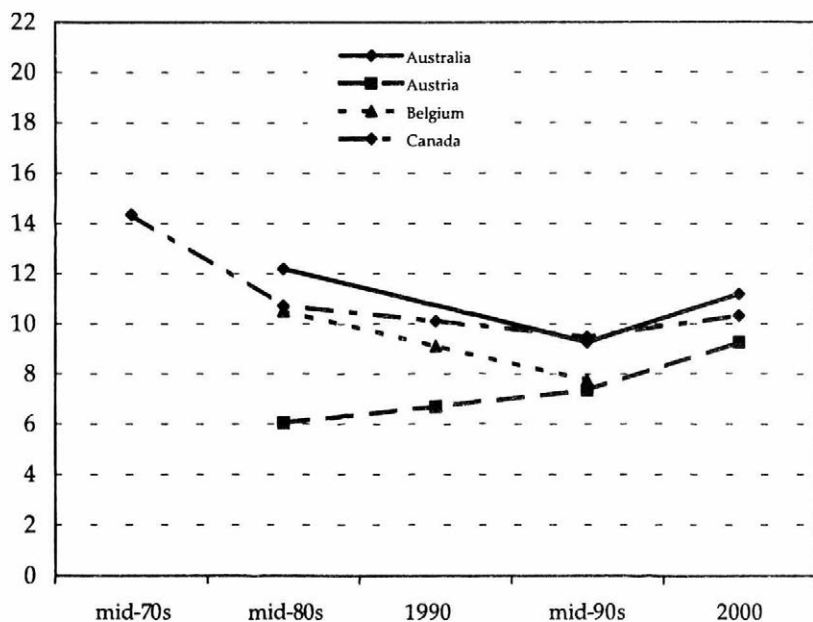
Longer-term trends in poverty rates have therefore appeared to be rather stable, though slowly rising on average and with a few exceptions. This contrasts with the somewhat more volatile changes in income distribution as a whole [OECD 2004]. Indeed, poverty – even when measured in relative terms – can display more stable patterns, and it does not necessarily move in the same direction as income inequality if the driving force behind increased inequality stems from the top part of the distribution while policies targeting vulnerable groups maintain their structure of income [Förster and Vleminckx 2004].

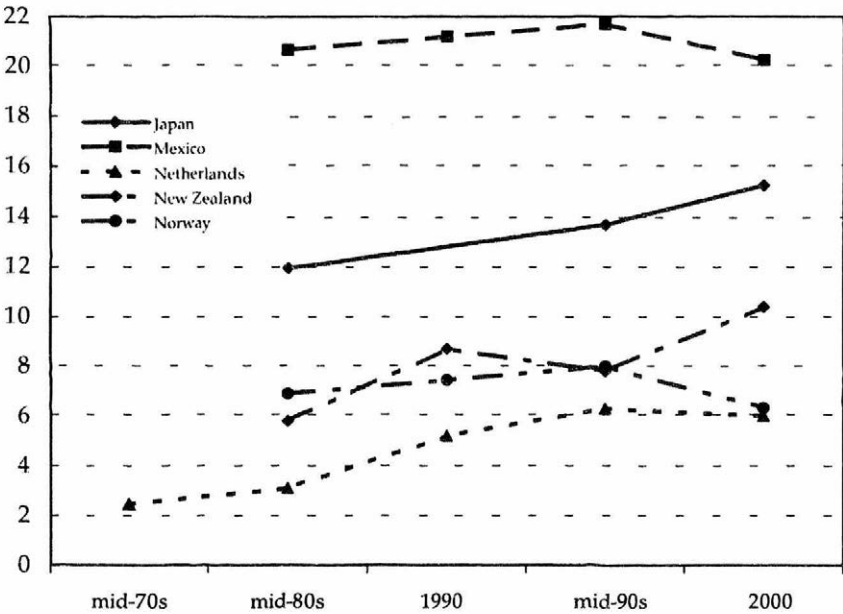
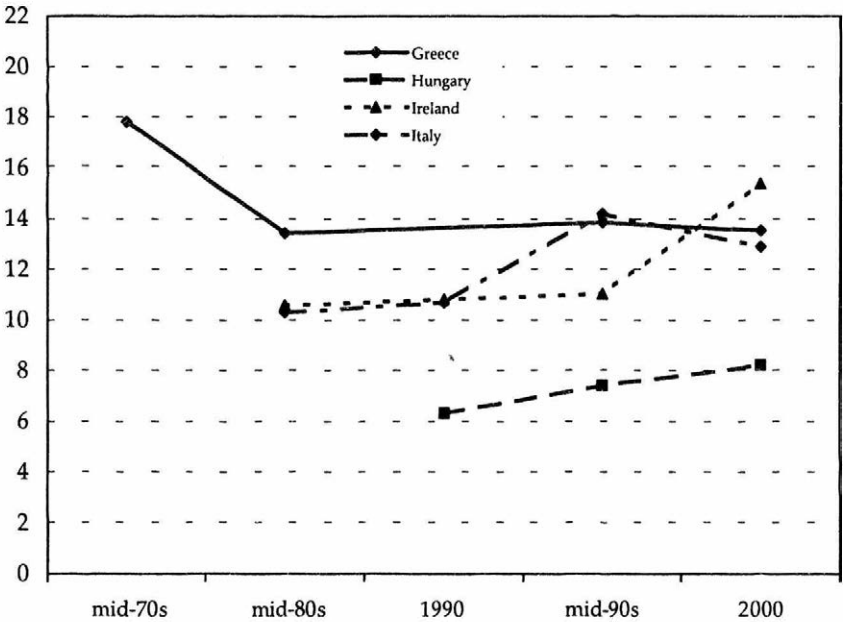
Data on poverty are measured in relation to an arbitrary threshold: 50% of the median income. When large proportions of the population are clustered just around this threshold, small changes in their income can lead to large changes in headcount rates. It is therefore important to look at alternative choices of poverty lines, specifically a higher threshold at 60% of median income – a line that is now commonly used by EUROSTAT as one of their main indicators ('at-risk-of-poverty rate'). Estimates obtained on this basis suggest that, in all OECD countries reviewed, a significant share of the population (5% to 7% in most countries, but 9% to 10% in Australia and New Zealand) is clustered between the 50% and 60% thresholds. In Germany, Hungary and the United States, the increase in poverty rates measured in relation to the 50% threshold over recent years was largely a reflection of the decline in the number of persons with income between 50% and 60% of the median; conversely, in Australia, Denmark and many other countries, the increase in poverty (measured with the 50% threshold) recorded in the second half of the 1990s reflected increas-

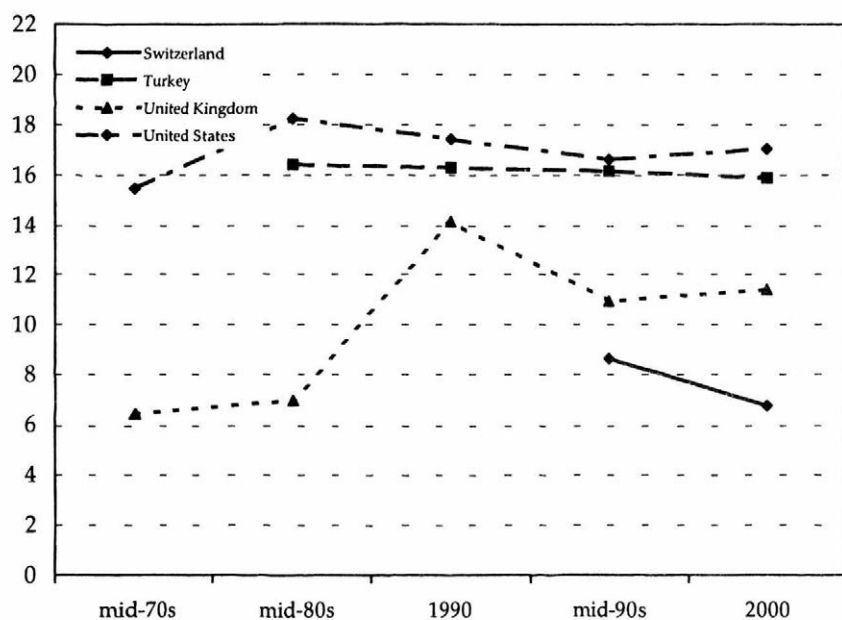
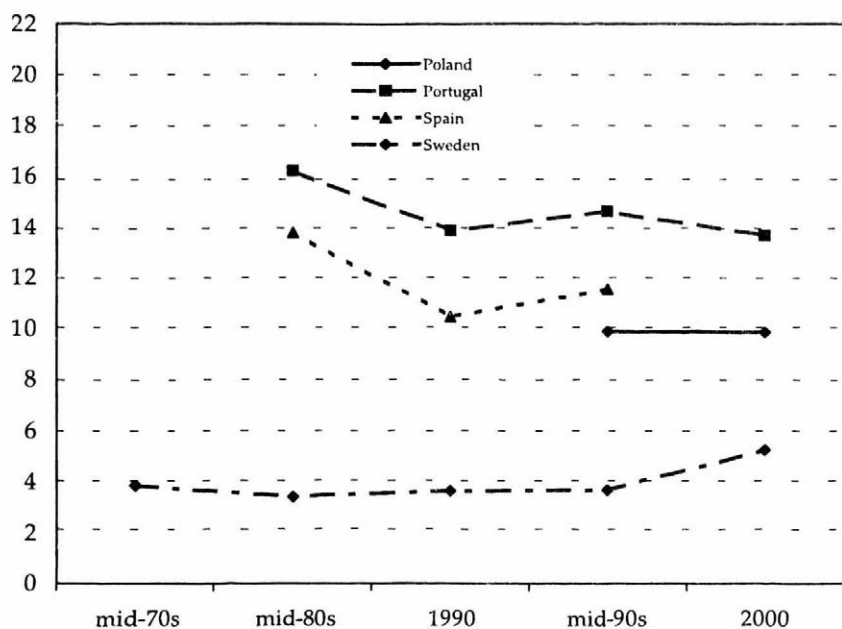
³ These and the following considerations refer to *relative* poverty, i.e. poverty in relation to a threshold (50% of the median) in a given country and given year. Estimates holding the poverty threshold *constant* in the real money terms of the mid-1980s show that poverty below such constant thresholds would have decreased in almost all OECD countries.

⁴ On the basis of two alternative poverty thresholds (50% and 60% of the median income), the standard deviation of poverty rates declined by approx. 10% over the past 15 years.

Figure 1. Longer-term trends in poverty rates in 26 OECD countries
Equivalence scale elasticity=0.5







Note: Poverty rates are measured as the share of individuals with equivalised disposable income less than 50% of the median for the entire population. Data for Canada and Sweden for the mid-1980s are adjusted to take into account breaks in the series in the mid-1990s.

Source: Calculations from the OECD questionnaire on income distribution indicators [OECD 2004].

es occurring throughout the distribution. Persons with equivalised disposable income below 60% of the median may not be counted as poor when assessed in relation to more conservative thresholds, but still face difficulties in making ends meet. The proportion of people that fall below the 50% threshold, as a share of those falling below the 60% line, provides some indication of the severity of poverty in a country. This share is between 50% and 60% in most OECD countries, ranging from 50% or less in the Nordic countries and the Netherlands to 70% or more in Japan, Mexico, Turkey, and the United States.

The headcount ratio is just one dimension of poverty. Also important is the income level of individuals who are below the poverty line. Poverty gaps – the extent to which the average income of the poor is below the 50% income threshold – declined in the second half of the 1990s in about one-half of the OECD countries (by more than 5 percentage points in Australia, New Zealand, Portugal, and Switzerland), while they increased in the other half (considerably so in Germany and Ireland). Overall, on the OECD average for 2000, the average disposable income of the poor was 28% lower than the poverty line. The values range from 20% and below (Czech Republic, Finland) up to around 36% (Italy, Japan, Mexico, Switzerland). In general, countries with a low incidence of poverty (headcount ratios) tend to also have less intense poverty (poverty gaps) – but there are a number of notable exceptions: Belgium, the Netherlands, and Switzerland, with below-average rates and above-average gaps, and Ireland, Portugal, and the United Kingdom, where the reverse is true.

A synthetic measure of poverty, which takes into account both poverty risks and gaps (the product of the poverty rate and the poverty gap), indicates that the income transfer needed to raise all those living below the poverty line to the level of the poverty line ranged in 2000 from a high of 7% of (equivalised) disposable income in Mexico to a low of less than 1% in the Czech Republic. In eighteen of the twenty-six OECD countries, this hypothetical measure of the necessary spending effort is between 2% and 4% of total disposable income.

3. Changes in poverty profiles

Despite rather modest changes in overall poverty indicators, the structure of poverty has shifted over the years in all OECD countries. This notably concerns the changes in poverty risk for particular age groups and family constellations. Policies aimed at designing successful anti-poverty programmes need to identify the vulnerable groups at risk of having insufficient resources and must accurately trace how these risks evolve.

The first issue refers to the *age structure* of the poor population and the possible 'childrenisation' of poverty, sometimes put forward in national poverty debates. Past OECD studies have indeed highlighted steady gains in the relative incomes of prime-aged and elderly persons – especially those around retirement-age – in all

OECD countries, along with declines in their poverty rates both in absolute terms and relative to other age groups [Förster and Pearson 2002]. The poverty population, which in most OECD countries was disproportionately elderly in the 1970s, changed during the 1980s and 1990s to one that is more weighted towards younger households with children.

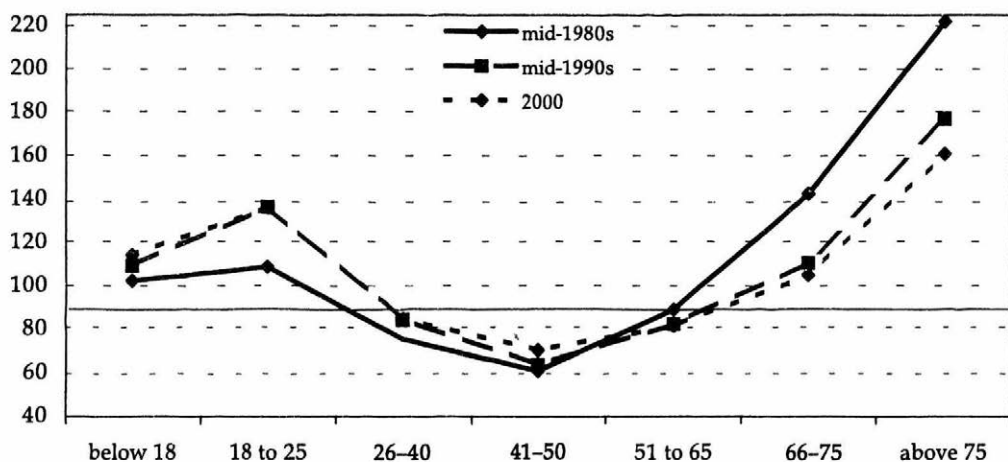
Changes in the second half of the 1990s broadly confirm this trend, but also suggest a few departures from these long-term patterns. Figure 2 and Table 1 summarise the data on poverty indexes of individuals by age for the average of the OECD countries in 2000 and changes in that profile for the mid-1990s and the mid-1980s. Persons of prime age, in particular those aged 41 to 50, face the lowest poverty risk, while younger age groups (in particular youth between 18 and 25) and older age groups are at above average risk; this relates in particular to older senior citizens aged 76 and above. While this shape of age-related poverty is well established, changes since the mid-1980s suggest that:

- Child poverty is on the rise, slowly but steadily. While children's poverty rates were not too different from that of the total population, they are now almost 20% higher.
- Youths (18 to 25) experienced a sharp increase in poverty between the mid-1980s and mid-1990s, from close to average values to 1.4 times that of the total population. Their poverty index remained at this high level but did not increase much further during the past five years.
- The poverty index of prime-age adults (aged 41 to 50) somewhat increased, especially during the past five years – but these persons continue to have the lowest poverty risks.
- Elderly persons (66 to 75) and the very old (76 and over) recorded significant declines in their poverty indexes between the mid-1980s and mid-1990s. This trend has continued further, but at a much lower pace in the last five years. Poverty rates of persons 76 and over were more than twice those of the total population in the 1980s and fell by 1.6 times in 2000 – still the highest risk among the population.

Equally important for policy considerations are trends in the relative importance of specific groups in poverty: poverty shares. Around one-fourth of the poor are children and one-fifth are elderly. The share of both age groups in the poor population actually *decreased* during the past 15 years. In turn, the percentage of poor comprising persons aged between 26 and 49 increased from 24% to 28%, which highlights the importance of programmes targeting people of prime working age.

Country averages obviously conceal important variations across countries. In the Central-Eastern European countries, for instance, child poverty rates increased significantly during the 1990s (they more than doubled in the Czech Republic and Hungary), while poverty rates among the elderly decreased by almost threefold. Similar trends, though less pronounced, occurred in Austria, France, Germany, and New Zealand. In other countries, child poverty decreased or remained stable, while elderly poverty increased (Finland, Ireland, Sweden, United States). In the Nordic countries, the share of children among the poor population is well below 20% (but

Figure 2. Poverty indexes for age groups (total poverty = 100), OECD average



Note: Poverty indexes are defined as the group-specific poverty rate divided by the total poverty rate. An index of 200 for an age group thus indicates that the poverty rate is twice that of the total population.

Source: Calculations from the OECD questionnaire on income distribution indicators [OECD 2004].

increasing), while this share is above 30% in Canada, the Czech Republic, the Netherlands, New Zealand, Poland, the United Kingdom, and the United States, and close to 50% in Mexico and Turkey (but decreasing there).

Another consideration relates to poverty risks according to different *family structures* among the working-age population. Table 2 shows that persons in two-or-more-adult households without children have the lowest poverty rates, while single parents feature by far the highest: three times the average for the working-age population. This risk increased further in the past five years, and single parents now constitute 15% of the poor working-age population. The poverty rates among two-or-more-adult households with children also slightly increased, but their share in the poor population decreased from over 50% to 46%.

In more than one-third of the OECD countries there is no major difference in poverty rates between households with children and households without children. Significantly higher poverty risks for persons in families with children occur only in Austria, Hungary, Italy, Portugal, the United Kingdom, the United States and, in particular, Mexico and Turkey. The other extremes are Belgium and the four Nordic countries, where childless families have a considerably higher poverty risk.

Poverty rates for single parents are high throughout all OECD countries, but they are close to 40% and above in Australia, Canada, New Zealand, the United Kingdom and the United States, and over 50% in Ireland, Japan, Spain and Turkey.

Table 1. Levels and trends in poverty rates and poverty shares by age groups, OECD average

	Poverty rates								Poverty shares						
	below 18	18 to 25	26 to 40	40 to 49	51 to 65	66 to 75	above 75	total	below 18	18 to 25	26 to 40	40 to 49	51 to 65	66 to 75	above 75
Level 2000	12.0	12.0	8.7	7.5	9.0	11.8	16.4	10.4	27.3	13.7	18.5	9.9	13.0	8.9	8.7
Change mid-80s to mid-90s	1.4	2.6	1.3	0.7	0.2	-1.4	-0.8	0.6	-1.2	1.7	1.4	1.6	-1.5	-2.0	-1.3
Change mid-90s to 2000	0.9	0.9	0.4	0.9	0.5	0.2	-0.3	0.6	-0.7	-0.9	-0.2	1.2	1.0	-0.4	0.1

Table 2. Levels and trends in poverty rates and poverty shares among the working-age population by family types, OECD average

	Poverty rates					Poverty shares			
	2 adults with children	Single parents	2 adults without children	Single persons without children	Total working-age population	2 adults with children	Single parents	2 adults without children	Single persons without children
Level 2000	8.7	31.7	5.9	18.2	9.9	47.1	15.1	18.2	20.0
Change mid-80s to mid-90s	0.9	-0.4	0.4	0.8	1.1	-5.1	0.8	1.2	2.9
Change mid-90s to 2000	0.5	1.4	0.2	-0.7	0.5	-0.7	1.1	0.5	-0.6

Note: Poverty rates: percentage of persons in households below 50% of total household disposable income. Poverty shares: percentage shares. Changes refer to percentage point changes. Two adults refer to two or more adults.

Source: Calculations from the OECD questionnaire on income distribution indicators [OECD 2004].

The largest increases in poverty risks for this group were, however, recorded in France, the Netherlands, New Zealand and the United Kingdom, while some of the Nordic countries managed to considerably reduce poverty rates for single parents over the past 15 years.

4. Driving factors for changes in poverty patterns

4.1 Social spending and tax/transfers policies

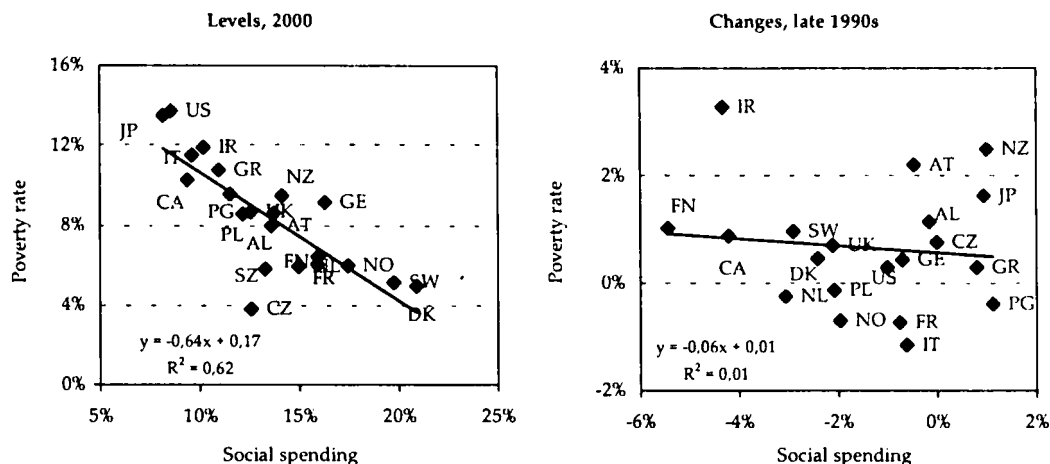
Government policies play a significant role in accelerating or moderating trends in income poverty among the population of working age. The most direct and visible way in which they perform this role is through the tax and welfare systems.⁵ An indicator of the importance of the tax and transfer system in moderating income poverty can be obtained by comparing poverty before and after taking account of taxes and transfers, i.e. poverty on the basis of market incomes and on the basis of disposable incomes. Taxes and public transfers reduce market-income poverty among the *working-age population* by around 60% on average, with the size of this reduction ranging between around 20% in Japan and the United States to 70% or more in Belgium, the Czech Republic, Denmark, France and Sweden. The effect of taxes and transfers in moderating poverty among the working-age population increased in almost all OECD countries during the 1980s and the early 1990s. This effect, however, slightly declined – in most countries and on average – over the second half of the 1990s.⁶

The impact of taxes and transfers is significantly affected by the presence of children. While taxes and transfers reduce poverty among households with children, their effect is lower than in the case of households without children. On the OECD average, taxes and transfers lift close to 70% of persons in households without children out of market-income poverty, but only 43% of those in households with children. The effects of taxes and transfers in reducing poverty among households with children are especially weak in Italy, Japan, and Portugal, and strong in Nordic countries. The impact of taxes and transfers in reducing poverty also varies across different types of households with children. In most countries, taxes and

⁵ Other means whereby governments influence poverty and income inequality include policies aimed at changing the distribution of skills among the population (in particular, at increasing the earnings potential of those most exposed to poverty risks), at supporting the earnings of workers at the bottom of the pay scale (for example through minimum wage provisions), and at addressing the specific barriers to labour force participation faced by disadvantaged groups.

⁶ It should be emphasised that these results reflect only first-order effects. Simple comparisons of poverty rates before and after accounting of net transfers do not recognise that taxes and transfers and changes to these may influence behaviour with regard to both family structure and labour market participation.

Figure 3. Poverty among the working-age population and social spending



Note: Poverty rates: percentage of persons in households below 50% of total household disposable income. Social spending refers to public and mandatory private social spending to the population of working age (i.e. total spending less spending for old-age and survivors), as a share of GDP. Negative changes in poverty rates (Panel B) denote reductions over the period.

Source: OECD social expenditure data base; calculations from the OECD questionnaire on income distribution indicators [OECD 2004].

transfers have the largest poverty-reducing effect on households with children where no one is working (with the exception of Italy and the United States in the case of single parents).

The reductions in inequality and poverty achieved through the tax and transfer system depend on both their degree of concentration and their size. Figure 3 points to a significant negative relation between levels of social spending and poverty rates among the population of working age (countries with higher levels of social spending achieve lower levels of income poverty).⁷ When looking at the changes in social spending and poverty that occurred in recent years, however, no significant relationship appears to hold; some of the countries that made the most reductions in social spending on the population of working age in the second half of the 1990s also achieved an above-average reduction in poverty rates in the same period.

Given their weight in determining the disposable income of *elderly* people, public pensions play a major role in shaping income adequacy and poverty risks for

⁷ Because of the importance of levels of social spending, the effect of greater targeting of spending for poverty outcomes may be ambiguous (if greater targeting towards those most in need – by reducing support for welfare among ‘median’ voters – leads to less generous programmes overall).

this group of the population. When considered together, public transfers and taxes reduced inequality and poverty among the elderly in 2000 by more than they did with regard to the population of working age. However, in a majority of countries this effect has weakened in recent years (with the exceptions of France, Greece, Italy and Portugal).

The outcomes in terms of poverty and distribution among the elderly are affected by several features of public pension systems. The amount of spending on old-age pensions, however, does little by itself to influence poverty outcomes among the retirement-age population: in fact, some of the countries with higher public spending on old-age pensions (e.g. Italy, France, and Germany) experience higher poverty rates among the elderly than countries with much lower spending levels. This lack of association between pension spending and poverty outcomes reflects the importance of earnings-related pensions, and differences in the ceilings that are applied to high earnings. Indeed, where pension benefits increase in line with previous earnings, they may have a regressive impact on income distribution and relative poverty among the elderly.

Other features of pension systems are likely to matter more for poverty outcomes among the elderly than aggregate spending.⁸ Among the features that are most obviously related to poverty outcomes are the pension 'floors' provided in first-tier public systems. OECD countries, however, vary significantly in the tools they use to minimise poverty risks among the elderly: some rely on 'minimum pensions', limited to persons with contributory records, others use 'basic' pensions, provided to all elderly citizens irrespective of past contributions (but often subject to residence and means tests), and still others use general social assistance schemes that apply to the entire population.

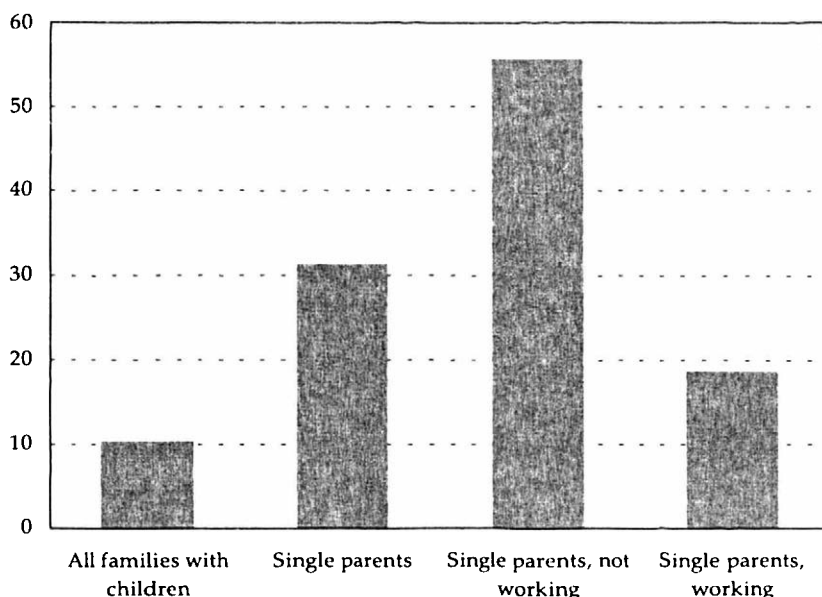
4.2 The influence of labour markets and employment

International comparative poverty studies underline the importance of the factor of 'employment' for the formation and alleviation of poverty risks [e.g. European Commission 2003]; the absence of paid work has been identified as the main cause of poverty among those of working age.

Above, single parents were described as a specific group at risk of poverty. In many countries, however, it is not the fact of living in this family form *per se* that increases the poverty risk, but rather the degree of labour market attachment. Figure

⁸ Among these pension parameters is whether benefits are indexed to prices, earnings, or some combination of the two. In order to control expenditures, several OECD countries moved over the 1990s from wage to price indexation, a move which may tend to increase relative poverty among the elderly over time. To offset this effect, some countries have introduced specific measures to protect those more exposed to poverty risks (e.g. the Minimum Income Guarantee in the United Kingdom).

Figure 4. Poverty rates among families with children and single parents with and without employment



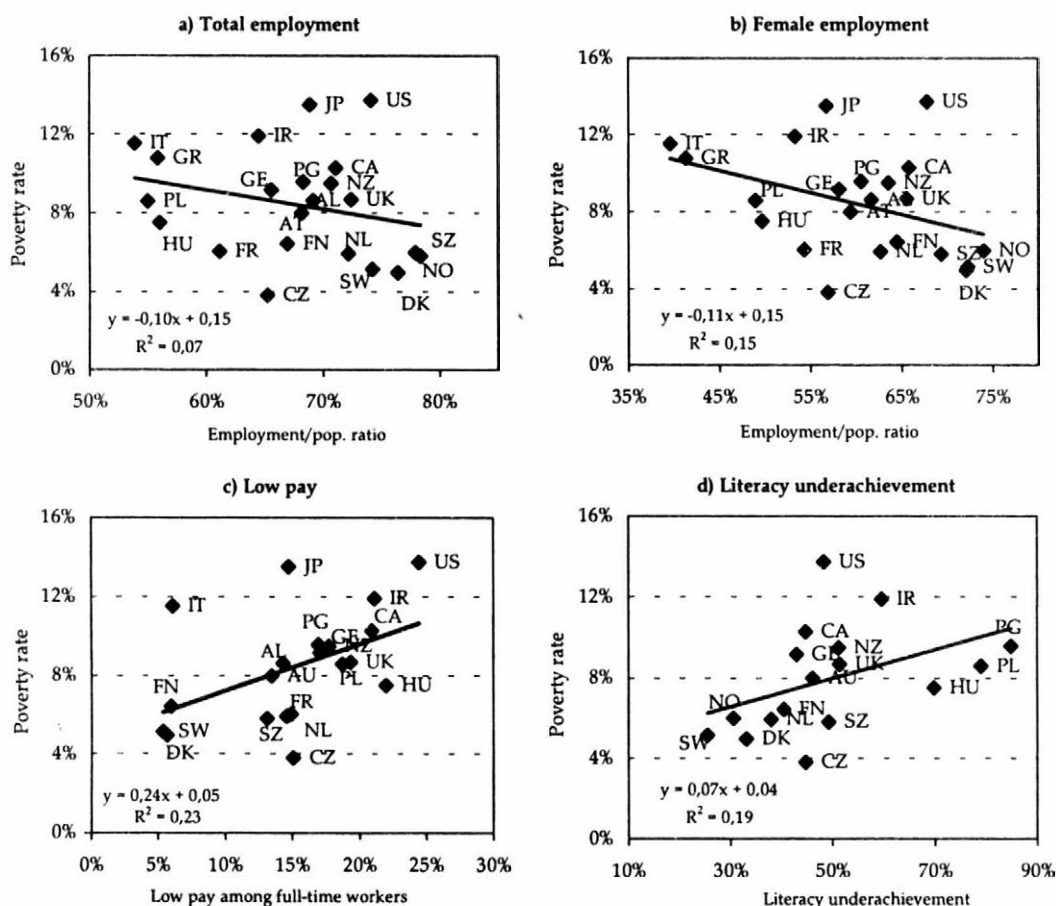
Note: Poverty rates: percentage of persons in households below 50% of total household disposable income.

Source: Calculations from the OECD questionnaire on income distribution indicators [OECD 2004].

4 shows that, on the OECD average, the poverty rate for single parents is three times as high as for all families with children at 31%. Nevertheless, among those single parents who do not have employment, the poverty rate is as high as 56%. Having a job reduces this risk by two-thirds to 18.5%. In fact, in a number of countries, notably the four Nordic countries and Australia, Italy, and Switzerland, the poverty rate among working single parents is not that much different from the overall rate for families with children.

The relationship between labour markets, on the one hand, and poverty, on the other, is crucial for social policies, as higher employment raises the well-being of individuals at greatest risk of social exclusion and poverty. The relationship between employment and income poverty *at the level of disposable income*, however, does not follow such simple patterns. This is because, beyond levels of employment, there is a range of other variables at play at the same time. In addition to the policy variables (public transfers and taxes) discussed above, these include the characteristics of jobs and workers. Figure 5 shows simple correlations between poverty rates among the working-age population and four variables that are good candidates for explaining poverty outcomes in all OECD countries: the level of employment among

Figure 5. Poverty rates among the working-age population and employment, low pay and literacy underachievement



Note: Poverty rates among people of working age: individuals aged 18 to 65. Employment rates of persons aged 16 to 64, from the OECD Labour Force Data. 'Low pay' is the proportion of full-time employees who earn less than two-thirds of the median earnings for all full-time employees: the rates are based on earnings surveys and refer to the mid- to late-1990s, as published in the OECD [2001a] *Society at a Glance*. 'Literacy underachievement' is the percentage of active persons aged 25 to 65 who score at literacy levels 1 or 2 on the document scale; such low levels are judged by experts as insufficient for performing the elementary tasks necessary for daily living. The rates are based on the International Adult Literacy Survey and refer to years between 1994 and 1998, as published in the OECD [2001b] *Education Policy Analysis*.

Source: OECD 2004

both the total population and among women; the extent of low pay; and literacy under-achievement among the population of working age. Although these factors are partly related to each other (e.g. 'long tails' in the distribution of skills increase the proportion of workers with low pay), Figure 5 suggests some consistent patterns:

- Countries with higher employment to population ratios, particularly for women, have less poverty among the population of working age, but the relationship is weak (Panel A and B). When looking at changes in employment, some of the countries that achieved the strongest gains in employment to population ratios over the most recent years also experienced reductions in poverty rates (e.g. Norway and the Netherlands), although there are several exceptions.
- Poverty rates among the working-age population are higher in countries with a greater incidence of low pay among full-time employees and lower levels of literacy among the adult population (Panel C and D). While the dispersion in country experiences continues to be high, the degree of association with poverty rates is higher for low pay than it is for employment levels.

A range of factors account for the differences among countries in the strength of the relationship between levels of employment and poverty rates.

- First, while higher employment in low-income households will reduce poverty, the opposite may occur when employment growth is concentrated among second-earners in better-off families. In all OECD countries the earnings of spouses are more unequally distributed than the earnings of household heads – as the probability of spouses being employed is higher among households with high income – although this pattern weakened in the second half of the 1990s in the majority of countries.
- Second, there is much variation among countries in the share of the working-age population living in households where no one has a job for a given level of labour force participation at the level of individuals. As a result, despite higher employment to population ratios since the mid-1990s in most OECD countries, the share of persons living in non-working households was broadly stable across the majority of OECD countries, while it increased further in a few countries (Czech Republic, Germany, Hungary and Poland).

4.3 Demographic changes

The trends in government tax and transfer policies and the labour-market trends described above provide most of the information necessary in order to obtain an understanding of the overall picture of income poverty. But a final piece in the puzzle remains to be inserted: changes in the demographic structure of the population.

There are considerable differences between countries and country groups as to the age and family structure of households: in most of the Nordic and the continental European countries and in Japan, children make up around 20% to 25% of the population; in the Anglo-Saxon countries and in Poland, they account for around

25% to 30%, and in Mexico and Turkey the proportion of children in the population is much higher at around 35%. The average household size of the population in some of the Nordic and continental European countries is close to being just two people. The average household size is closer to three in the Southern European countries, Japan and Ireland, and still above four in Mexico and Turkey

At the same time, there have been large changes in the structure of populations in OECD countries. In nearly all countries, the proportion of children in the total population decreased over the last 15 years, on average by around 4 percentage points. It is worth noting that the reductions have been highest in countries with a higher proportion of children in the population. Similarly, the share of young people – those aged 18 to 25 – in the population fell in most countries, on average by 2 percentage points. On the other hand, the proportion of persons aged 65 and over increased in all countries but Sweden, on average by over 2 percentage points.

The changes do not stop here. These fewer children are much more likely to be in households where there is only one adult: the proportion of single-parent families has been increasing, on average from 6% to almost 9%. In the Anglo-Saxon countries (except Canada and Ireland), Germany, and the Nordic countries (except Denmark), between 10% and 17% of those in households with children live in single-parent households. In the continental European countries this figure is just below 10%, and in the Southern European countries, Japan, Mexico and Turkey it is below 5%. Among the working-age population, fewer people live in households without children than in households with children, but the proportion of the former group increased from one-third to over 40% in fifteen years from the mid-1980s to 2000. Furthermore, mainly as a consequence of population aging (but also reflecting an increased preference for living alone among younger age groups), the average household size has also been falling for the last ten to twenty years throughout the OECD area.

Such changes may not sound too significant. In fact, taken together, they amount to a huge change in the structure of the population, in many countries to an extent unprecedented in recent times, outside of war, famine or epidemic. These demographic trends directly affect trends in poverty.⁹

However, the influence that the huge differences in population structure across countries may have on cross-country variations in overall poverty (e.g. higher shares of single parents 'by definition' implying higher overall poverty in a country) is sometimes overstated. Table 3 juxtaposes actually observed poverty rates for the working-age population with re-weighted estimates that assume a 'common' (OECD average) household structure for each country. Column 3 applies a common family structure, in terms of single-adult households with children and without children and two-or-more-adult households with children and without children, while

⁹ If older people tend to have less income than younger people, then, as there are more of them in the population, so poverty below a constant or 'absolute' threshold will widen. The effects on relative income poverty are, however, ambiguous: a larger share of lower incomes in the population will lower the poverty threshold, and whether overall relative poverty will increase or decrease depends on the shape of the income distribution.

Table 3. Unweighted and weighted poverty rates for the population living in working-age households

	Unweighted	Weighted with common family structure	Weighted with common work- attachment structure
Australia	9.4	9.2	7.6
Austria	9.4	9.7	9.5
Belgium	6.6	4.6	4.0
Canada	10.9	11.1	14.8
Czech Republic	4.5	4.6	4.5
Denmark	4.1	3.5	4.7
Finland	5.5	4.4	5.2
France	6.4	6.4	5.9
Germany	9.2	9.2	7.0
Greece	10.6	11.3	9.7
Ireland	13.3	14.0	13.7
Italy	12.3	13.1	10.4
Japan	13.2	15.1	15.9
Mexico	19.8	17.9	20.2
Netherlands	6.8	6.3	6.2
New Zealand	11.8	10.6	11.8
Norway	5.3	3.7	4.1
Poland	10.4	10.7	8.3
Portugal	10.9	12.1	13.8
Spain	11.1	12.9	9.8
Sweden	4.7	3.0	4.6
Switzerland	8.2	8.3	8.8
Turkey	15.4	15.3	19.0
United Kingdom	10.9	9.4	9.8
United States	15.9	15.1	19.5

Note: Poverty rates defined with regard to 50% of the median disposable income of the total population. Data refer to the population living in households with a head of working age (18-65). Reweighted poverty rates build on the assumption of an OECD (unweighted) average household structure.

Source: Calculations from the OECD questionnaire on income distribution indicators (OECD 2004).

column 4 applies a common work-attachment structure, in terms of single-adult and two-or-more-adult households and the number of earners. Clearly, it can be seen that assuming an OECD average family structure would in general change poverty rates only slightly, in most countries by less than one percentage point, and in no country by more than two percentage points. In contrast, applying an average work-attachment structure would affect countries' poverty rates more, exceeding changes of two percentage points in one-third of OECD countries. Under both assumptions, the ranking of countries as well as the variation in overall poverty would not decrease.¹⁰ Cross-country differences in poverty rates among the working-age population therefore do not seem to reflect variation in the household structure but are rather to be found within each family and household group.

5. Conclusion

Five 'stylised' facts emerge from the analysis of income poverty in OECD countries above:

- There is wide disparity in the extent of relative income poverty across OECD countries, ranging from 5% or below of the total population in the Czech Republic, Denmark, and Sweden to around 20% in Mexico. Overall trends over the longer term indicate slightly falling poverty rates in the 1970s and part of the 1980s, and slight but steady increases thereafter: in the OECD the poverty rate increased on average by one percentage point between 1985 and 2000.
- Despite such broad overall stability over the long run, major changes occurred in the structure of poverty. Child poverty is slowly but steadily on the rise. A sharp increase in poverty among youths (18 to 25) took place between the mid-1980s and mid-1990s. Conversely, significant declines in the poverty indexes among elderly persons (66 to 75) and the very old (76 and over) have been recorded since the mid-1980s, although at a much lower pace in recent years. Across family types, single parents are by far the highest poverty risk – especially if they do not have employment. Only some of the Nordic countries have succeeded in considerably reducing poverty rates for single parents during the past 15 years.
- Demographic changes have influenced these poverty patterns: the average household size generally decreased, the proportion of children and young people in the population fell, and the fewer children are more likely to live in households where there is only one adult. Nevertheless, the large variation in household structure in OECD countries seems to have only a minor influence on the inter-country differences in poverty levels and trends.
- Government policies play a significant role in accelerating or moderating country-specific trends in income poverty. Taxes and public transfers significantly re-

¹⁰ As a matter of fact, the standard deviation of the poverty rate would increase by one-tenth in the case of a common family structure, and by one-fourth in the case of a common work-attachment structure.

duce market-income poverty, with lower reduction rates in Japan and the United States and higher ones in Belgium, the Czech Republic, Denmark, France, and Sweden. Country differences are especially pronounced in the case of households with children. The effect of taxes and transfers in moderating poverty increased in almost all OECD countries during the 1980s and early 1990s, but slightly declined over the second half of the 1990s.

- Notwithstanding the efforts and effects of tax/transfer policies, employment remains a key factor for escaping the risk of poverty, which only serves to underline the importance of employment-oriented and ‘make-work-pay’ social policies. In general, countries with higher employment ratios, particularly among women, a lower incidence of low pay, and higher levels of literacy experience less poverty among the working-age population.

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