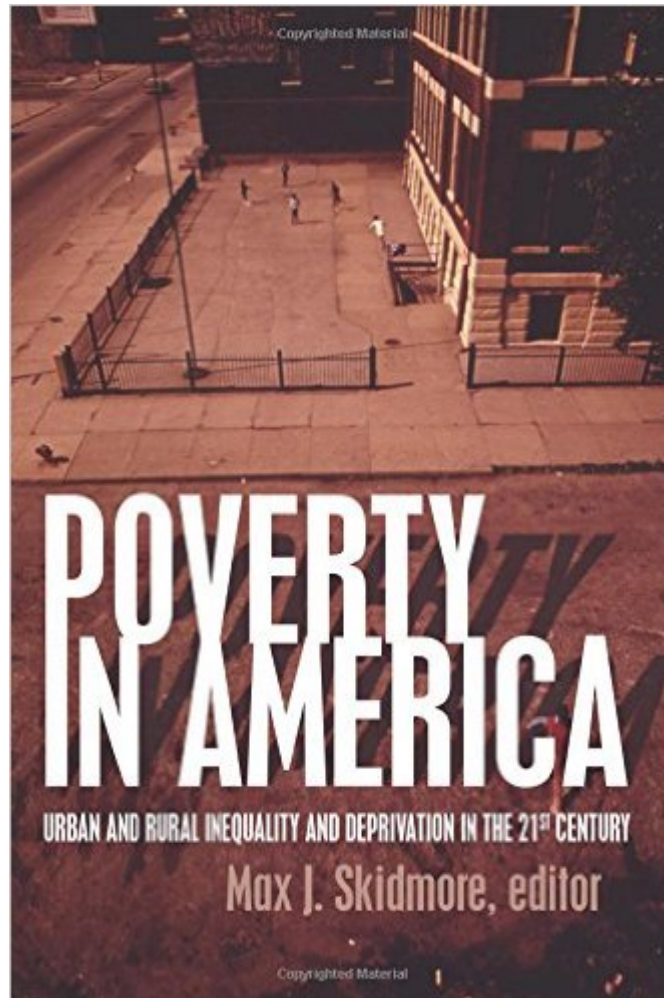


Source: K. Caminada and M. Martin (2016), 'A cross-Atlantic descriptive policy analysis of differences in anti-poverty approaches in Europe and the United States', in: Max J. Skidmore (eds.), *Poverty in America: Urban and Rural Inequality and Deprivation in the 21st Century*, Westphalia Press, pp. 278-297.



# A CROSS-ATLANTIC DESCRIPTIVE POLICY ANALYSIS OF DIFFERENCES IN ANTI-POVERTY APPROACHES IN EUROPE AND THE UNITED STATES\*

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## Abstract

Poverty alleviation is an important objective of European countries and of the United States. If these 'rich' states offer elaborate systems of income maintenance, why is there still a considerable amount of poverty? And why are anti-poverty outcomes so different in the United States compared to European countries?

This paper completes a trilogy of cross-country research papers on anti-poverty policy. Two former papers analyzed the effects of social transfers on both poverty levels and poverty alleviation through tax and social transfer systems. These papers marked the United States as an outlier: high poverty rates, low public social spending but high private social expenditures, a rather strong belief that people are poor because of laziness or lack of will, and remarkable differences across the Federal States caused by state discretion. Therefore, this paper discusses differences in anti-poverty approaches between the European Union and the United States.

JEL-codes: H53, H55, I32

Keywords: welfare reform, poverty

\* This is a cross-Atlantic coproduction. Both authors study welfare regimes in the U.S. and in the European Union on both sides of the Ocean. This is an update and extension of K. Caminada and M. Martin, 'Differences in Anti-Poverty Approaches Between Europe and The United States: A Cross-Atlantic Descriptive Policy Analysis', *Poverty & Public Policy*, vol. 3, Issue 2, Article 3, 2011, pp. 1-17. This study is part of the research program 'Reform of Social Regulation' of Leiden University: [www.hsz.leidenuniv.nl](http://www.hsz.leidenuniv.nl).

# 1 INTRODUCTION

The European Union (EU) strongly encourages member states to combat poverty, which is a persistent problem among states in the EU.<sup>1</sup> The poverty problem is also striking in other highly developed welfare states, such as the United States. Industrialized countries spend a large share of their budget on income maintenance, but poverty has not been eradicated. A sizable proportion of the population lives in poverty in all industrial welfare states. According to the most common standards used in international poverty analyses, on average roughly one in ten households live in relative poverty in OECD countries.<sup>2</sup> The persistence of poverty in industrial welfare states calls for an explanation. If these welfare states offer elaborate systems of income maintenance, why is there still a considerable amount of poverty? And why are antipoverty outcomes so different in the United States compared to those in European countries?

This paper is a follow-up to other papers published in *Poverty & Public Policy* in the period 2009-2011: one on U.S. Welfare Reform<sup>3</sup> and another on cross-country research of antipoverty policy.<sup>4</sup> The latter analysis reports some profound differences between EU15 and non-EU15 countries, with the United States as a special case. Additional research points to the United States as an outlier in several respects.<sup>5</sup> Government policies and social spending have lesser effects in the United States than in any other rich nation, and both low spending and low wages have a great impact on the final income distribution, especially

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<sup>1</sup> See European Commission on Poverty and Social Exclusion via <http://ec.europa.eu/social/main.jsp?catId=751>; and K. Caminada and K.P. Goudswaard, "Effectiveness of Poverty Reduction in the EU: A Descriptive Analysis," *Poverty & Public Policy* 1 (2) (2009), Article 5: 1-51.

<sup>2</sup> OECD, *In It Together. Why Less Inequality Benefits All* (Paris: OECD, 2015), and OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries* (Paris: OECD, 2008).

<sup>3</sup> M.C. Martin and K. Caminada, "Welfare Reform in the United States: A Cross-Atlantic Descriptive Policy Analysis," *Poverty & Public Policy* 3 (1), Article 8: 1-38.

<sup>4</sup> Caminada and Goudswaard, "Effectiveness of Poverty Reduction in the EU: A Descriptive Analysis."

<sup>5</sup> T.M. Smeeding, "Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective," *Social Science Quarterly* 86 (supplement) (2005a): 955-983; T.M. Smeeding, "Poor People in Rich Nations: The United States in Comparative Perspective," Luxembourg Income Study Working Paper Series #419, 2005b; T.M. Smeeding, "Poor People in Rich Nations: The United States in Comparative Perspective," *Journal of Economic Perspectives* 20 (1) (2006): 69-90;; and K. Caminada and K.P. Goudswaard, "How Well is Social Expenditure Targeted to the Poor?" in *Social Security, Poverty and Social Exclusion in Rich and Poorer Countries*, International Studies on Social Security, volume 16, eds. P. Saunders and R. Sainsbury (Mortsel, Belgium: Intersentia, 2010), 97-112

among the non-elderly.<sup>6</sup> Smeedings' analysis points to American institutions and a lack of spending effort on behalf of low-income working families. Indeed, the United States stands out in the relative position of those at the bottom of the income distribution. Moreover, Smeedings' thorough analysis shows that countries with higher levels of government spending (as in Scandinavia and northern Europe) and more careful targeting of government transfers at the poor (as in Canada, Sweden, and Finland) produce lower poverty rates. Smeeding finds that the effects of the income package accounted for over 90 percent of the differences in income inequality across nations. He claims that the U.S. redistributive package is the prime explainer of the differences.

In this paper we highlight why the United States is an outlier among "rich" countries: high poverty rates, low public social spending but high private social expenditures, a rather strong belief that people are poor because of laziness or lack of will, and remarkable differences across the federal states due to state discretion.

## **2 POVERTY IN THE EUROPEAN UNION AND IN THE UNITED STATES—IS THE UNITED STATES DIFFERENT?**

This section highlights some of the differences with regard to social spending and poverty reduction between the United States and the other OECD countries. Clearly, national preferences play a role in explaining the differences in social spending across countries, but there may be other factors as well, such as the structure of the labor market, the level of fractionalization (race), country size, and so on. In their timely study of the different approaches taken by America and Europe to address the problems of domestic inequality and poverty, Alesina and Glaeser describe just how different America and Europe are in the level of state engagement in the redistribution of income.<sup>7</sup> They discuss various possible economic explanations for the difference, including different levels of pre-tax income, the openness of the economy, and social mobility. Moreover, they survey politico-historical differences such as the varying physical size of nations, their electoral and legal systems, and the character of their political parties, as well as their experiences of war. Finally, they examine sociological explanations which include different attitudes to the poor and notions of social responsibility, as well as, most importantly, attitudes about race. Alesina and Glaeser conclude that the Americans and Europeans differ in their choices regarding the welfare state and redistribution as a result of their different history and culture. No simple economic

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<sup>6</sup> Smeeding, "Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective," 955.

<sup>7</sup> A. Alesina and E.L. Glaeser, *Fighting Poverty in the US and Europe: A World of Difference* (Oxford: Oxford University Press, 2004).

theory provides a one-line answer. Instead, ethnic heterogeneity and political institutions seem to explain most of the differences. The importance of ethnic fractionalization is emphasized by Alesina and Glaeser. Compared to Europe, the United States is a highly heterogeneous society that is particularly distinguished by a disproportionate representation of visible and socially distinct minorities living in poverty. As such, it has always been easy for opponents of welfare to use racial and ethnic divisions to attack redistribution (p. 181). Estimates of Alesina and Glaeser show that racial fractionalization can explain approximately one-half of the differences in the degree of redistribution between the United States and Europe (p. 13).

### 3 POVERTY RATES

In the European Union people are said to be at risk of income poverty if their incomes are below 60 percent of the median disposable income of households in their country, after adjusting for household size (equivalence scales). For comparison, the official U.S. poverty line was just about 30 percent of median U.S. disposable post-tax household income.<sup>8</sup> Based on the EU agreed-upon definition, the proportion of the European population who was at risk of poverty in 2013 is 17 percent (85 million people). The comparable figure for the United States is higher: 24 percent.

The U.S. poverty threshold is based on an absolute poverty standard, which remains fixed over time in real terms. According to the U.S. definition of poverty, 14.5 percent of the population was living in poverty in 2013 (45 million people). The 2013 poverty rate was 2.0 percentage points higher than in 2007, the year before the most recent recession.<sup>9</sup> The U.S. official measure of poverty is typically in the form of the cost of a basket of goods and services required to assure minimum living conditions and indexed for price changes over time. While the threshold is adjusted annually based on inflation using the Consumer Price Index (CPI-U), the measure is absolute and has been essentially unchanged since it was developed by Mollie Orshansky at the United States Social Security Administration in 1964 (National Poverty Center, University of Michigan). The poverty threshold estimates the rate of poverty in the United States by determining

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<sup>8</sup> R. Haveman, R. Blank, R. Moffitt, T. Smeeding, and G. Wallace, “The war on poverty: measurement, trends, and policy”, *Journal of Policy Analysis and Management*, 34 (3) (2015): 593–638. U.S. Census Bureau reports for 2013 a poverty threshold for a four-persons family (weighted average) of \$23,834; median disposable income amounts to \$51,939.

<sup>9</sup> C. DeNavas-Walt and B.D. Proctor, U.S. Census Bureau, “Current Population Reports, P60-249, Income and Poverty in the United States: 2013” (Washington, DC: U.S. Government Printing Office, 2014).

the number of households whose annual income is below the set threshold for the household's size. The determination of poverty is made based solely on income and cash benefits. Non-cash benefits, such as food stamps and housing subsidies, are not included in the determination of a household's poverty.

Many countries use *relative* poverty measures with thresholds that are based on a percentage of median income. Using poverty thresholds based on 50 percent of median income rather than the official U.S. poverty thresholds would increase the overall poverty. Reports on *relative* poverty profiles for OECD countries for the latest data year available consistently show, in general, that Scandinavian, Czech Republic and the Netherlands have the lowest poverty rates, followed by continental European countries. Anglo-Saxon welfare states have relatively higher poverty rates. Among them, the level of poverty is highest in the United States.<sup>10</sup>

Using the official *absolute* poverty measurement from the United States (Orshansky poverty) alters the picture to some extent. Notten and De Neubourg estimate, according to the Orshansky methodology for years 1996 and 2000, that while the United States has a high poverty rate, it is not significantly different from the rate established in most European countries using the Orshansky measure, while Greece, Spain, and Portugal have figures four times higher than the United States.<sup>11</sup> It should however be noted that their result is rather sensitive for the purchasing power parity rates used to convert the U.S. poverty lines to country-specific thresholds of EU15.

Wang, Caminada, Goudswaard and Wang measured *relative* poverty rates for Europe as if it was a single country with an European-wide poverty line of 60 percent instead of national thresholds.<sup>12</sup> Their analysis consists of 20 (out of 28) European countries. The relative poverty rate reached 22 per cent in 2012 with an European-wide poverty line at 60 per cent of the median income, whereas it was only about 14 per cent with poverty lines equal to 60 per cent of the national median income. So, an Europe-wide relative poverty indicator is much higher

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<sup>10</sup> See, for details, OECD, *In It Together. Why Less Inequality Benefits All* (Paris: OECD, 2015); Caminada and Goudswaard, "Effectiveness of Poverty Reduction in the EU: A Descriptive Analysis," 1-51; K. Caminada and K.P. Goudswaard, "How Well is Social Expenditure Targeted to the Poor?" in *Social Security, Poverty and Social Exclusion in Rich and Poorer Countries*, International Studies on Social Security, volume 16, eds. P. Saunders and R. Sainsbury (Mortsel, Belgium: Intersentia, 2010), 97-112; and K. Caminada and K.P. Goudswaard, "Social Income Transfers and Poverty Alleviation in OECD Countries," *Leiden University Research Memorandum Department of Economics* #2010.01.

<sup>11</sup> G. Notten and C. de Neuborg, "Relative or Absolute Poverty in the US and EU? The Battle of the Rates," MPRA Working Paper #5313, 2007.

<sup>12</sup> J. Wang, K. Caminada, K. Goudswaard and C. Wang. 2015. "Decomposing income polarization and tax-benefit changes across 31 European countries and Europe wide, 2004-2012", forthcoming

compared to the average of national poverty rates. Moreover, figures for the United States (24 percent) and Europe-wide (22 percent) seem not to be significantly different.

In spite of differences in the measurement of poverty, most studies have consistently found that there is a large difference in poverty rates between (most) European countries and the United States.

## **4 ANTIPOVERTY POLICY**

Poverty alleviation has been a European objective since the Treaty of Rome in 1957. In 2000 the European Council adopted the goal that in addition to economic growth, social cohesion should be strengthened in the EU (the Lisbon Agenda). The open method of coordination was introduced as the means of spreading best practices and achieving greater convergence toward the primary EU goals. Social indicators were developed to monitor the improvements with respect to social cohesion. The Europe 2020 strategy has renewed the interest in poverty alleviation across member states. Europe 2020 builds on lessons learned from the earlier strategy, but addressing its weaknesses. The meeting of European Union heads stated on 17 June 2010 that fighting poverty and social exclusion remains as one of five headline targets, with the aim to lift at least 20 million people out of the risk of poverty and exclusion. A multi dimensional indicator of poverty and social exclusion was introduced. The population is defined through three indicators: at risk of poverty (the current EU definition of 60% of median income); material deprivation (defined as persons lacking four or more – not three or more as in the real EU indicator – of a list of nine items) and people living in jobless households (meaning those aged 0-59 in households where nobody works or where there is low work attachment). Using these definitions, those at risk of poverty or social exclusion in the EU number some 120 million (24 percent of population). The EU target to reduce by 20 million is a reduction of 16.7%. The fight against poverty and social exclusion is at the heart of the Europe 2020 strategy for inclusive growth. Today, EU countries are far from reaching the 2020 target and the worsening social situation caused by the economic crisis is undermining the sustainability of social protection systems. Still a sizable proportion of the European population living in poverty (17 percent), although both poverty structure and poverty rates vary across countries from 12-14 percent in the Czech Republic, Denmark and the Netherlands to about 22 percent in Spain and Greece. Moreover, the average at-risk-of-poverty rates—an official EU social cohesion indicator—have risen since the adoption of the Lisbon Agenda.

The income poverty reduction goal for the United States was officially declared by President Johnson in 1964: “We cannot and need not wait for the

gradual growth of the economy to lift this forgotten fifth of our Nation above the poverty line.”<sup>13</sup> President Johnson’s 1964 State of the Union speech emphasized structural factors as primary causes of poverty, including “...our failure to give our fellow citizens a fair chance to develop their own capacities, in a lack of education and training, in a lack of medical care and housing, in a lack of decent communities in which to live... .” The prevailing view at that time was that the poor did not work because of excessive unemployment or, if they did work, they earned an insufficient amount in less-skilled jobs. In spite of the pronounced “War on Poverty,” income poverty was not eliminated by 1980, as planned. Even today, the United States is far from fulfilling the vision of the “War on Poverty” declared by President Johnson.<sup>14</sup> What went wrong? Broadly speaking, most social scientists point at three “causes.” (1) Critics have blamed the growth of antipoverty programs themselves. Especially the Reagan administration which criticized the adverse incentives for welfare recipients to accept (low-) paid jobs. (2) Other critics argued that eliminating income poverty was not as important a goal as changing the personal behaviors of the poor. (3) Several macro-economic circumstances (oil shocks, the Great Recession) failed to deliver the benefits of economic growth among U.S. society equally.

Haveman, Blank Moffitt, Smeeding and Wallace present a 50-year historical perspective of the U.S. antipoverty efforts since 1965. The initial reliance on cash income support to poor families has eroded; increases in public support came largely in the form of in-kind (e.g., Food Stamps) and tax-related (e.g., the Earned Income Tax Credit) benefits. Work support and the supplementation of earnings substituted for direct support. These shifts eroded the safety net for the most disadvantaged in American society. Moreover, the effectiveness of government antipoverty transfers is debated, although their findings indicate that antipoverty policies has reduced the overall level of poverty in the U.S.

It should be mentioned that the European Union has emphasized the multidimensional nature of deprivation, and has developed supplementary indicators of poverty based on social indicators and the broad concept of social exclusion. The European Union has defined common objectives on social indicators—based on Atkinson et al.—to be benchmarked by the streamlined Open Method of Coordination.<sup>15</sup> Both data and measurement techniques have

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<sup>13</sup> S.H. Danziger, “Fighting Poverty Revisited: What Did Researchers Know 40 Years Ago? What Do We Know Today?” *Focus: Institute for Research on Poverty* 25 (1) (2007): 3.

<sup>14</sup> R. Haveman, R. Blank, R. Moffitt, T. Smeeding. and G. Wallace, “The war on poverty: measurement, trends, and policy”, *Journal of Policy Analysis and Management*, 34 (3) (2015): 593–638.

<sup>15</sup> T. Atkinson, B. Cantillon, E. Marlier, and B. Nolan, *Social Indicators. The EU and Social Inclusion* (Oxford: Oxford University Press, 2002).



been developed in order to capture a variety of dimensions of deprivation beyond money income (poverty). On the contrary, the United States solely focus on the income dimension of poverty, although influential scientists argue that moving toward broader measures of poverty that take into consideration indicators of material deprivation and social exclusion has a number of advantages.<sup>16</sup>

## 5 SOCIAL SPENDING AND ANTIPOVERTY EFFECTS

Table 1 provides a picture of poverty rates and several social expenditure ratios for European countries and the United States. In what follows, poverty rates are estimated for the whole set of European countries, divided by West-EU15 countries and CEE NMS countries. The division is asked for by different geography, different resource endowments, different initial conditions and regional social policies. These have resulted in different income levels and distributions across regions. Poverty rates are from the Luxembourg Income Study<sup>17</sup> and from OECD.<sup>18</sup> Three *relative* poverty lines are applied, and income is adjusted using equivalence scales. The figures show that the United States combines relatively high poverty rates with rather low social spending, albeit depending on the social spending indicator used.

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<sup>16</sup> R. Haveman, “What Does It Mean to Be Poor in a Rich Society?” Institute for Research on Poverty Discussion Paper (Madison) #1356-08, 2008.

<sup>17</sup> Luxembourg Income Study, *LIS Key Figures on Poverty* (Luxembourg, 2015).

<sup>18</sup> OECD, *In It Together. Why Less Inequality Benefits All* (Paris: OECD, 2015).

Table 1: Poverty rates and social spending in European countries and in the United States

	Poverty rate total population					Social expenditure in % GDP, 2011		
	LIS (around 2010)			OECD (2010-2012)		Gross public	Gross public and private	Net public and private
	PL40	PL50	PL60	PL50	PL60			
<i>West EU-15</i>	4.7	8.9	15.9	9.9	16.8	26.4	28.8	24.9
Austria	3.4	7.1	13.4	9.0	15.2	27.7	28.8	24.3
Belgium	3.7	8.1	16.1	9.5	17.5	29.4	31.5	27.4
Denmark	3.2	6.3	13.5	6.0	13.2	30.1	35.0	26.1
Finland	2.8	7.2	15.0	7.5	14.7	28.3	29.5	23.4
France	4.7	9.1	15.5	8.0	14.5	31.4	34.7	31.3
Germany	4.6	9.5	16.4	8.7	15.0	25.5	27.5	25.3
Greece	7.6	13.5	20.9	15.2	22.3	25.7	27.6	23.7
Ireland	4.6	9.4	16.6	9.7	16.4	22.3	24.2	21.9
Italy	7.5	12.5	19.1	12.6	20.0	27.5	28.3	25.4
Luxembourg	2.8	6.1	13.1	8.1	15.6	22.5	23.4	19.1
Netherlands	2.7	5.2	11.1	7.5	13.5	23.5	30.3	25.8
Portugal	n.a.	n.a.	n.a.	11.9	18.2	24.8	26.4	24.0
Spain	9.8	15.2	22.4	15.1	21.8	26.8	27.3	24.8
Sweden	2.6	5.6	12.0	9.7	17.4	27.2	30.0	24.6
United Kingdom	5.3	9.8	17.4	9.5	17.0	22.7	28.0	26.1
<i>CEE NMS</i>	5.2	9.3	15.5	9.4	16.1	20.3	20.7	18.4
Czech Republic	2.9	6.3	11.3	5.9	11.5	20.1	20.3	19.3
Estonia	7.0	11.8	19.4	11.7	20.4	16.8	16.8	14.2
Hungary	6.2	10.4	16.8	10.4	16.9	22.6	22.8	20.6
Poland	4.9	9.5	16.2	11.1	17.8	20.1	20.1	16.8
Slovak Republic	4.5	8.0	13.4	8.3	14.9	18.1	18.9	17.6
Slovenia	5.7	9.8	15.6	8.9	14.7	24.0	25.2	21.6
<i>United States</i>	10.9	16.9	23.9	17.1	24.2	19.0	29.5	28.8

Source: LIS (2015), OECD (2015), and SOCX OECD (2015).

In all OECD countries, public cash benefits and taxes significantly reduce poverty. As reported by OECD, most of the redistribution toward people at the bottom of the income scale is generally achieved through public cash benefits—with the main exception being the United States, where a large part of the support provided to low-income families is administered through the income tax system

(Earned Income Tax Credit, EITC).<sup>19</sup> These cross-country differences in the scale of redistribution partly reflect differences in the size and structure of social spending. OECD countries redistribute in a variety of ways—some through universal benefits, others with more targeted programs, some primarily relying on transfers, others primarily granting tax rebates to low-income families.

We calculate the reduction of poverty rates of market income and disposable income across 32 OECD countries.<sup>20</sup> West-EU15 countries generate an antipoverty effect of 19.1 percentage points on average, CEE NMS countries show an antipoverty effect of 17.6 percentage point on average, while non-EU countries produce on average a lower antipoverty effect of 7.3 percentage points among their population; see Table 2. On the bottom of the country rankings, we find seven countries with an antipoverty effect of less than 9 percentage points; among them the United States.

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<sup>19</sup> Ibid., 291-292.

<sup>20</sup> Updated figures from K. Caminada and K.P. Goudswaard, “How Well is Social Expenditure Targeted to the Poor?”

Table 2: Targeting effect of gross total social expenditures on poverty reduction in 32 OECD countries, 2011

	Poverty rate total population (poverty line at 60% of median income)			Gross total social spending, % GDP	Poverty reduction per point GDP social spending
	Before taxes and transfers	After taxes and transfers	Reduction		
	(1)	(2)	(3)	(4)	(3) : (4)
<i>West EU-15</i>	35.9	16.8	19.1	28.8	0.66
Ireland	45.1	16.4	28.6	24.2	1.18
Luxembourg	36.3	15.6	20.7	23.4	0.88
Germany	35.9	15.0	20.9	27.5	0.76
Portugal	37.5	18.2	19.3	26.4	0.73
France	39.8	14.5	25.2	34.7	0.73
Austria	36.1	15.2	20.9	28.8	0.73
Finland	35.7	14.7	21.0	29.5	0.71
Spain	40.5	21.8	18.7	27.3	0.68
Greece	39.6	22.3	17.3	27.6	0.63
United Kingdom	34.4	17.0	17.5	28.0	0.62
Belgium	35.6	17.5	18.1	31.5	0.57
Italy	35.8	20.0	15.8	28.3	0.56
Netherlands	29.5	13.5	16.0	30.3	0.53
Sweden	29.7	17.4	12.3	30.0	0.41
Denmark	27.4	13.2	14.2	35.0	0.40
<i>CEE NMS</i>	33.5	15.9	17.6	20.3	0.87
Czech Republic	33.1	11.5	21.5	20.3	1.06
Slovak Republic	32.8	14.9	17.8	18.9	0.94
Estonia	35.7	20.4	15.3	16.8	0.91
Slovenia	33.6	14.7	18.9	25.2	0.75
Poland	32.3	17.8	14.5	20.1	0.72
<i>Non-EU</i>	28.3	20.9	7.3	18.2	0.40
Mexico	33.2	27.6	5.7	7.9	0.72
Norway	29.3	13.3	16.0	22.7	0.70
Iceland	24.9	10.2	14.7	22.7	0.65
Canada	29.6	19.0	10.5	22.0	0.48
Australia	30.5	21.2	9.3	20.7	0.45
New Zealand	28.2	18.8	9.4	21.2	0.44
Chile	28.8	24.8	4.0	11.4	0.35
Israel	33.2	27.8	5.4	17.7	0.31
United States	33.0	24.2	8.8	29.5	0.30
Switzerland	18.6	16.3	2.3	20.3	0.11
Korea	22.1	20.9	1.1	10.5	0.11
Turkey	28.1	27.1	1.0	12.2	0.08
Mean OECD-32	32.7	18.2	14.5	18.2	0.61

Source: OECD (2015), SOCX OECD (2015), and own calculations

Each percentage point of gross total social expenditure alleviates poverty in European countries by 0.7 percentage points on average. A much lower score is found for the United States (0.30). The targeted effectiveness of the United States is remarkably low, and lies below half of the average of all countries. Two specific factors seem to be of importance. First, a poverty threshold of 60 percent of median income is applied, while U.S. social policies target lower levels of income to lift people out of poverty. Second, the United States devotes the smallest share of its resources to *public* antipoverty income transfer programs across the countries examined.<sup>21</sup> However, when *private* social expenditures are also taken into account, this picture changes. In that case, the United States ranks sixth when all 32 countries are ordered on the basis of their level of *total* social expenditures. Therefore, public versus private social expenditures may have opposite antipoverty effects.<sup>22</sup> In any case, the large cross-country differences in the antipoverty effect of social transfers and taxes—with exceptionally low scores for the United States—call for further investigation.

Between 1975, the first year the EITC existed, and 2012, total spending on all means-tested cash and in-kind transfers rose from 1 percent to 4 percent of GDP.<sup>23</sup> However, in 2012, 40 percent of that spending was dedicated to Medicaid. This is important because while the growth in spending for health care programs (primarily Medicaid) stemmed from greater spending per participant, growth in spending for other means-tested programs resulted primarily from increases in the number of participants due to changing economic conditions – most significantly the recession that occurred between 2007 and 2009 and the slow recovery that followed. In other words, the U.S. has not made significantly greater investments in anti-poverty programs, there has however, been an increase in need.

Why has U.S. antipoverty spending been low and relatively stable given its persistent and high poverty rates? The contrast in levels in social expenditures between the United States and other OECD countries is striking. Smeeding calculates a consistent set of social expenditures (including cash, near-cash, and housing expenditures) as a percentage of GDP for five groups of countries—Scandinavia; Northern Continental Europe; Central and Southern Europe; “Anglo” (Australia, Canada, and the United Kingdom); and the United States—between 1980 and 1999.<sup>24</sup> Spending ranges between 2.7 and 3.6 percent of GDP

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<sup>21</sup> Smeeding, “Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective.”

<sup>22</sup> K. Caminada and K.P. Goudswaard, “Are Public and Private Social Expenditures Complementary?” *International Advances in Economic Research* 11 (2) (2005): 175-189.

<sup>23</sup> Martin and Caminada, “Welfare Reform in the United States: A Cross-Atlantic Descriptive Policy Analysis”.

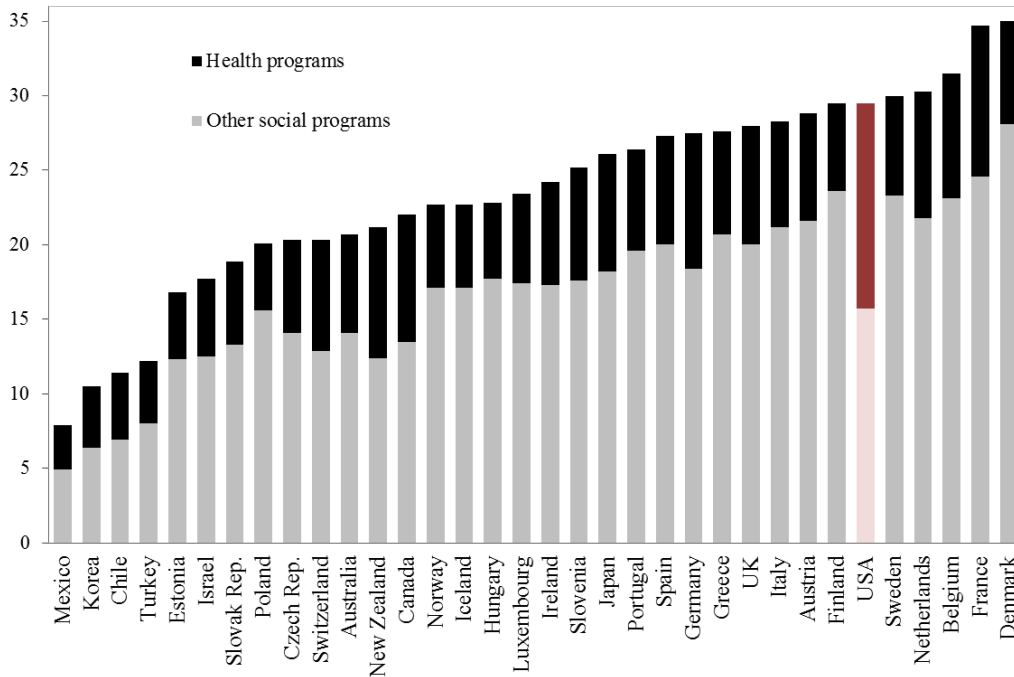
<sup>24</sup> T.M. Smeeding, “Poverty, Work, and Policy: The United States in Comparative Perspective,” in *Social Stratification: Class, Race, and Gender in Sociological Perspective*, ed. David Grusky. Third Edition. (Westview Press, 2008), 327-329.

in the United States, a far lower level than every other country group. The other Anglo countries averaged between 4.8 and 7.8 percent of GDP, similar to the Central and Southern European countries. Northern Europe and the Scandinavian countries averaged between 8.1 and 15.3 percent of GDP. The trends across country groups vary, though most country groups increased expenditures as a share of GDP between 1980 and 1999. The United States did not.

## **6 THE IMPACT OF SOCIAL EXPENDITURES FOR HEALTH PROGRAMS**

Quantitative studies have found a strong negative relationship between poverty rates and the level of social expenditure over the last 25 years (see Caminada and Goudswaard 2010b for a review). In other words, countries with a higher level of welfare expenditure are likely to have lower poverty rates. However, cross-national comparison of social spending is rather sensitive with respect to expenditures related to healthcare programs, especially when (west) European countries and non-EU15 countries are evaluated. For example, among all countries the United States spends the most on health programs (47 percent of public and private social expenditure), while figures for Europe are much lower, ranging from 20 percent in Denmark to 33 percent in Germany (European average is 26 percent); see Figure 1.

Figure 1: Composition of gross social expenditure, 2011



Source: SOCX OECD (2008) and own calculations.

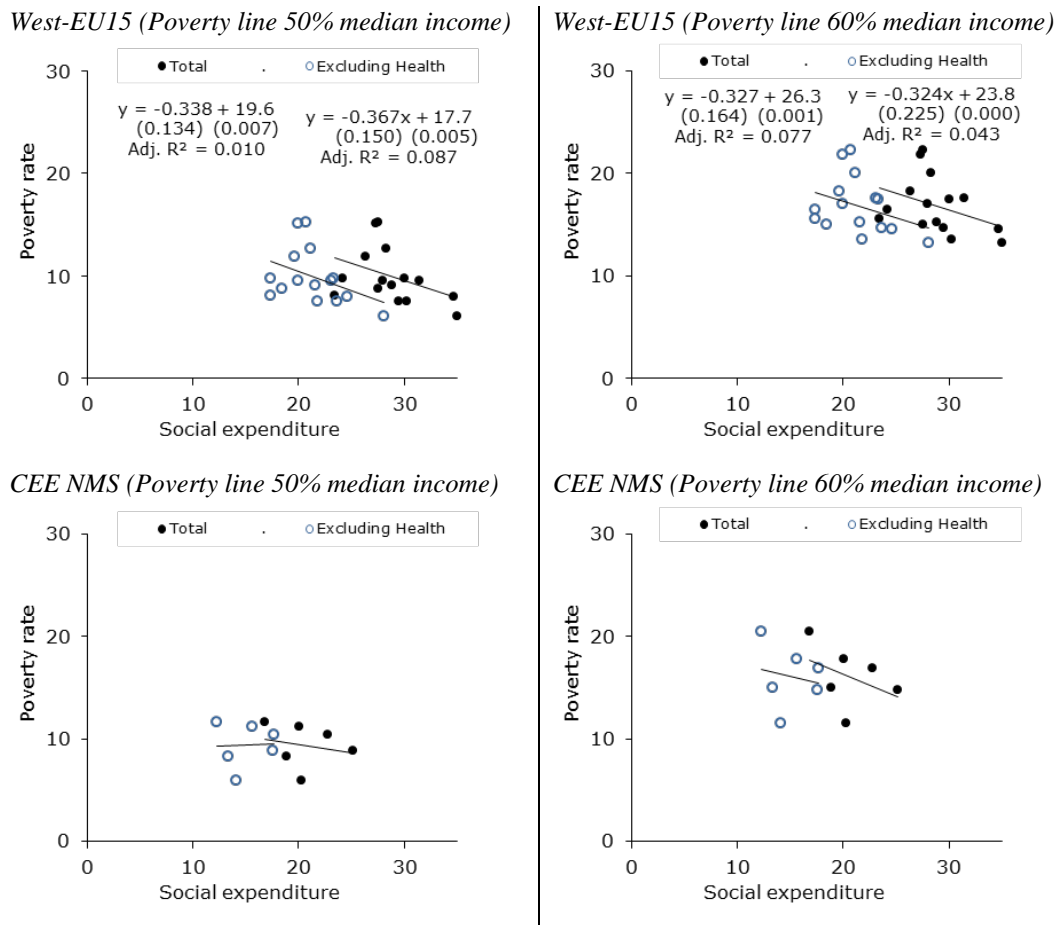
One could argue either way: health expenditures generally do not qualify as income transfers; at the same time health programs are an important element of the safety net in most countries, probably generating large antipoverty effects through benefits in-kind and taxes (contributions). We undertake a pragmatic approach, because including or neglecting health expenditure will affect our empirical analysis on the relationship between poverty rates and social spending across countries to a large extent. We employ a sensitive analysis for social spending other than for health programs as well; see Figure 2.

We analyze the relationship between gross total social expenditure (including and excluding social expenditures for health programs) and relative income poverty. A vast literature claims that high social effort goes along with low poverty levels across countries. Social expenditure ratios are generally used as a proxy for social effort. We find quite a strong negative relationship between the level of gross total social expenditure and relative poverty across 34 OECD countries, but the linkage between social effort and poverty levels is much weaker (insignificant) across

European countries, while the linkage is significant across non-EU countries. Thus, the familiar claim must be toned down.<sup>25</sup>

Moreover, for West-EU15 countries the treatment of health expenditures does not alter the result much, independent of the *relative* poverty line applied (50 or 60 percent of median income). However, excluding health expenditures generates considerable better fits (higher adjusted  $R^2$ ) for non-EU countries, especially because the United States is an outlier with relatively high social expenditures for (private) health programs.

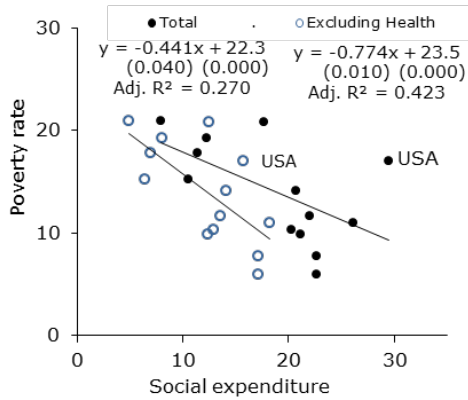
Figure 2: Linkage between gross total social expenditure (excluding health) and OECD poverty rates across 34 countries, 2011



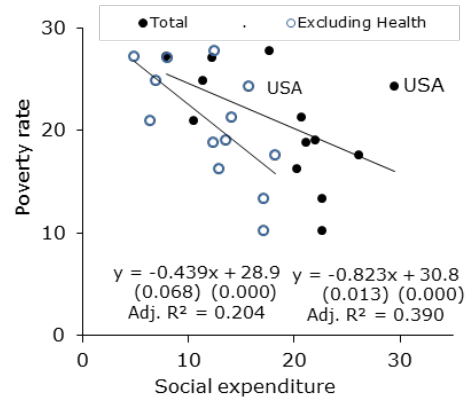
<sup>25</sup> See K. Caminada, K. and K. Goudswaard, "The relationship between alternative measures of social spending and poverty rates", *International Review of Business and Social Sciences* 1 (5) (2012): 1-16.



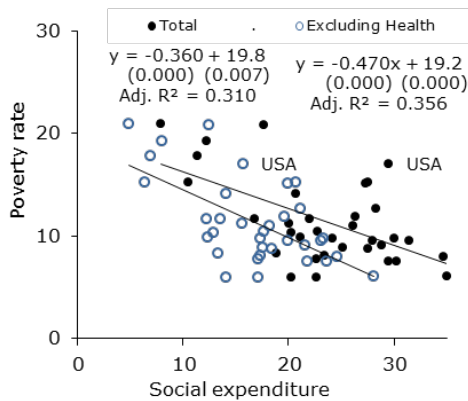
Non-EU (Poverty line 50% median income)



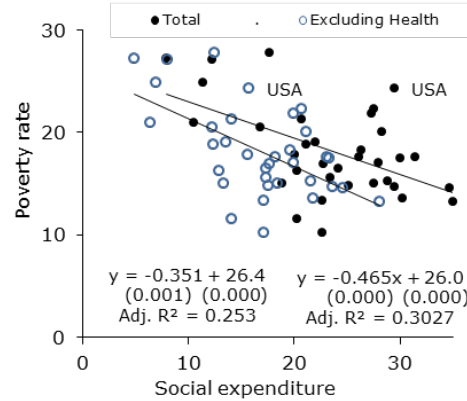
Non-EU (Poverty line 650% median income)



OECD 34 (Poverty line 50% median income)



OECD 34 (Poverty line 60% median income)



Regression analysis for OECD poverty rates (around 2011) and gross total social spending 2011. Dependent variable: OECD poverty rate (poverty line 50 or 60 percent of median income). N = 34. Simple OLS-regression; standardized regression coefficients are reported; p-values in parentheses. Adj R<sup>2</sup> refers to the adjusted correlation coefficient.

Selected countries: (1) West-EU15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom; (2) CEE NMS countries: Czech Republic, Estonia, Hungary, Poland, Slovak Republic, and Slovenia; (3) Non-EU countries: Australia, Canada, Chili, Iceland, Israel, Japan, Korea, Mexico, New Zealand, Norway, Switzerland, Turkey, and the United States

Source: OECD (2015), SOCX OECD (2015), and own calculations.

## 7 NATIONAL PREFERENCES FOR SOCIAL SPENDING

National preferences for social protection differ substantially across countries. Anglo-Saxon countries do not seem to be prepared to sustain the high protection

levels prevailing in other countries with the same levels of income. Swabish et al. assembled data to examine the cross-national effects of income inequality and trust on social expenditures.<sup>26</sup> Their results suggest that as the “rich” become more distant from the middle and lower classes, they find it easier to opt out of public programs and to buy substitutes for social insurance in the private market. These cultural differences within the group of OECD countries could point to variance in the antipoverty nature of social systems as well. Anglo-Saxon welfare states (especially the United States) rely more heavily on private social arrangements in regard to pensions, healthcare, and other programs.<sup>27</sup> However, private social programs may generate a more limited redistribution of resources than public ones, and tax advantages toward private pension and health plans are more likely to benefit the rich. Moreover, the burden of poverty on individuals and families depends not just on its size but also on how others in society view its nature, in particular whether poverty is perceived as the result of individual attitudes or of the way society is organized.<sup>28</sup> Figure 3 shows the share of respondents who believe that people are poor because of laziness or lack of will, on one side, or because society is unfair, on the other. In general, the share of respondents who believe that poverty reflects laziness is greater in the United States than in the Nordic and Continental European countries.<sup>29</sup>

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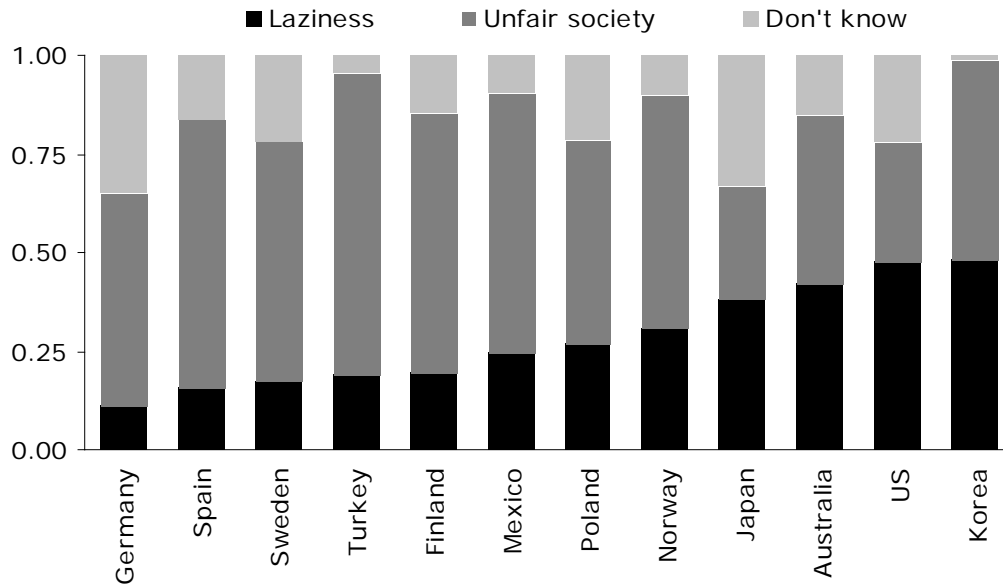
<sup>26</sup> J. Swabish, T.M. Smeeding, and L. Osberg, “Income Distribution and Social Expenditures: A Cross National Perspective,” in *The Distributional Effects of Government Spending and Taxation*, ed. D.B. Papadimitriou (Northampton, MA: Edward Elgar Publishing, 2006), 247-288.

<sup>27</sup> D.A. Super, “Privatization, Policy Paralysis, and the Poor,” *California Law Review* 96 (393) (2008): 393-469.

<sup>28</sup> OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, 131.

<sup>29</sup> For more details on why Americans hate welfare, see the thorough analysis of M. Gilens, *Why Americans Hate Welfare: Race, Media, and the Politics of Antipoverty Policy* (Chicago: University of Chicago Press, 1999). Gilens reviews survey data to suggest that Americans supported the welfare retrenchment of 1996 based on the mistaken assumption that most welfare recipients were not trying to achieve personal responsibility in regard to work and family. Moreover, Gilens’s work punctures myths and misconceptions about welfare policy, public opinion, and the role of the media in both. The public’s views on welfare seem to be a complex mixture of cynicism and compassion; misinformed and racially charged, they nevertheless reflect both a distrust of welfare recipients and a desire to do more to help the “deserving” poor.

Figure 3: Subjective attitudes to poverty—share of respondents attributing poverty to different reasons



Source: OECD (2008, 131).

## 8 POLICY COORDINATION MECHANISM TO COMBAT POVERTY

In December 2000, the Nice European Council launched the open method of coordination on social inclusion (soft law). This governance methodology was modeled on the treaty-based European Employment Strategy and includes agreement on common EU objectives and (income poverty) indicators, the adoption of National Action Plans on Inclusion, and periodic monitoring and peer review. It should be noted that “coordination” is a mercurial term in the context of OMC; however, policy competence remains with the member states.<sup>30</sup> Key actions asked for by the European Commission consist of (a) monitoring of EU countries' economic and structural reforms through the European Semester, and (b) all EU member countries have to translate the Europe 2020 targets into national targets. These individual efforts need to be coordinated to achieve the desired effect on better social cohesion (less poverty).

<sup>30</sup> K.A. Armstrong, “The ‘Europeanisation’ of Social Exclusion: British Adaption to EU Co-ordination,” *British Journal of Politics & International Relations* 8 (1) (2006): 79-100.

In the United States, responsibility for antipoverty policy has shifted since 1996 from the antipoverty agencies of the federal government to the individual U.S. states and to the tax code (EITC). The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provides block grants to states with few restrictions. States were required to spend at least 75 percent of their previous level of welfare spending, and states had to meet targets for moving recipients into work activities. Thus, the European Union employs “soft law” as a policy coordination mechanism, while in the United States “hard law” is applied. Furthermore, while the majority of welfare funding is provided by the federal government in the United States, an above-state budget for poverty alleviation is lacking in Europe, based on the principle of subsidiarity. Finally, policy actions for reducing poverty rates are rather vague and do not aspire to a specified target on either side of the Atlantic. For example, the Europe 2020 poverty target acts only as an incentive for developing a stronger focus on social issues, because lack of policy responses by EU countries can not be enforced by the European Commission.

## 9 CONCLUSION

Poverty alleviation is an important objective of European countries and of the United States. However, while these wealthy states have highlighted poverty as a serious problem, and while they have established varied systems in an attempt to address it, significant poverty remains. While poverty is witnessed in both the United States and Europe, the United States remains an outlier; with high poverty rates and low social spending. The difference between the U.S. and Europe is both policy-based and ideological. Throughout this paper we have attempted to offer a primer in the differences between poverty definitions and the subsequent poverty rates, and antipoverty policies in the United States and Europe.

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