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Child poverty in Britain and Germany

Stephen P. Jenkins, Christian Schluter and Gert G. Wagner

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Stephen P. Jenkins
Institute for Social and Economic Research, University of Essex, DIW Berlin, CHILD Turin, and IZA Bonn

Christian Schluter
University of Bristol, and CASE, London School of Economics

Gert G. Wagner
European-University Viadrina (Frankfurt/Oder) and DIW Berlin

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Anglo-German Foundation for the Study of Industrial Society/
Deutsch-Britische Stiftung für das Studium der Industriegesellschaft
17 Bloomsbury Square, London WC1A 2NH
Tel: +44 (0)20 7404 3137 Fax: +44 (0)20 7405 2071
www.agf.org.uk

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The research led to a number of academic papers. This report includes substantial amounts of new material that is not in any of the papers, together with much reworking of existing material in order to ensure that a consistent set of definitions was used throughout. The report was prepared by Jenkins, drawing on materials produced by the project team. A longer version of the report (Jenkins *et al.* 2001) also contains *inter alia* citations to project research papers, discussion of sensitivity analyses, and an analysis of the relationship in Germany between income during childhood and school choice at age 14. The longer report can be downloaded from
http://www.diw.de/english/publikationen/materialien/.

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Executive summary

The UK government has set itself the target of halving child poverty by 2010, and eliminating it altogether by 2020. Strategies to reach these ambitious goals call for a detailed understanding of the phenomenon of child poverty in the UK. They also benefit, we suggest, from illumination by reference to experience elsewhere.

This report studies patterns and trends in child poverty in Britain and Germany. Unusually, it uses not only a cross-section approach (measuring how many are poor at any given time, and comparing patterns of poverty at different dates) but also longitudinal analysis of individuals' poverty 'careers', examining the main events that are likely to trigger movements into and out of poverty. We used specially constructed comparable data from the British Household Panel Survey and the German Socio-Economic Panel, covering the period 1991–98.

For the purpose of this study we defined individuals to be poor if the income of their household was less than 60% of the national median.

Our principal findings are as follows:

- In both countries, rates of child poverty remained more or less constant throughout the period 1991–98.
- In both countries, children are more likely than other groups to be poor (a third more likely than the population as a whole in the UK, a quarter more likely in Germany).
- In Germany, this disproportionate incidence of poverty among children has developed in the new Länder since the demise of the German Democratic Republic, under which children were no more at risk of poverty than the population as a whole.
- In Britain 30% of children are in poverty, compared to 19% in Germany.
- These differences are explained in part by the greater frequency in Britain of poverty-triggering events such as household dissolution and parental loss of employment.
- A more significant explanation lies in the superior performance of the German welfare state in ameliorating the effects of these negative trigger events, and in reinforcing the impact of positive ones (such as an unemployed household member getting a job).

British anti-poverty policy since 1997 has had three principal components:

- adjustments to the tax and benefit system;
- active labour-market policies promoting transition from welfare to work; and
- measures to tackle long-term disadvantage (Sure Start, national child-care strategy, etc.).

Since our data extend only to 1998, they cannot be used to support judgements about the effectiveness of this three-pronged approach. Some recent assessments (by Piachaud and Sutherland) suggest significant early success in reducing numbers of children in poverty. Interestingly, however, they also suggest that it is the first prong which has proved by far the most effective. This finding supports our own: that Germany does better than Britain at protecting its children from poverty mainly because its welfare, tax and benefit systems work more effectively in this direction.

Clearly there is for British policy-makers something to be gained in studying the German experience.

German policy-makers are challenged in particular by the third finding listed above. Although in the years directly after reunification poverty in the new Länder was widespread, children were no more at risk of poverty than the population as a whole. Yet in less than a decade as citizens of the Federal Republic, children in the new Länder had acquired the same risk of poverty as their fellows in the West (25% higher than the population as a whole).

1 Introduction

1.1 Background and motivation

Germany and the UK are the two largest and most economically successful nations in the European Union. However, Germany does better than Britain in protecting children from the problems of low income. In 1993, for example, 13 per cent of German children lived in poor households, compared to 32 per cent in Britain (Eurostat 1997); the average for the 12-member EU was 20 per cent. Trends in child poverty have also been more favourable in Germany than in the UK. Between 1983 and 1996, there was relatively little change in the child poverty rate in western Germany (and a decline in the eastern German rate), whereas in Britain the child poverty rate increased by at least half (Jenkins *et al.* 2001).

These statistics suggest that Britain has something to learn from Germany about protecting children from poverty. There are also potential cautionary lessons for Germany as pressure increases on it to introduce economic and welfare reforms similar to those instituted in Britain over the last two decades. Furthermore, there is in one important sense a common lesson for both countries: they each have a child poverty problem inasmuch as poverty rates are higher for children than for 'all persons' in both Germany and the UK. Thus both nations could improve their protection of one of the most vulnerable groups of citizens.

Child poverty is, of course, already perceived as an issue in both Britain and Germany, and the topic has received headline news coverage. In Britain the child poverty problem has long been recognised by some, and led for example to the formation of specialist pressure groups such as the Child Poverty Action Group more than 20 years ago. But at the same time there was an ongoing debate about the extent or indeed existence of poverty. For example, a former Conservative government minister stated during the 1980s that there was no such thing as poverty in Britain. Official attitudes have changed remarkably in the last few years, however, particularly since the election of the Labour government in 1997. Now UK government ministers use the word 'poverty' explicitly and have established procedures to monitor it annually using low income thresholds related to average incomes (Department of Social Security 1999). More specifically with reference to child poverty, the Prime Minister has stated, in his 1999 Beveridge Lecture, that 'Our historic aim will be for ours to be the first generation to end child poverty' (Blair 1999: 17) and the Chancellor of the Exchequer has referred to child poverty as 'a scar on Britain's soul' (Brown, 1999: 8). The current government has pledged to halve the number of poor children by 2010 and to eliminate child poverty altogether by 2020 (Department of Social Security 1999). The Budgets of 1998–2001 have been notable for measures explicitly aiming to help children.

By contrast, children's poverty is not a top political issue in Germany at present; this is perhaps not surprising, given the differences in the extent of problem. But there is interest in the topic nonetheless. For example, a recent parliamentary commission on the economic well-being of children, the Kommission zur Wahrnehmung der Belange der

Kinder (Kinderkommission), drew attention to child poverty and the insufficiency of benefits for children (1997: 2). The Kinderkommission also cited the relative lack of information about children and argued the need for a special-purpose child welfare survey. In April 2001, the federal government published a new report on poverty and affluence (Bundesregierung 2001) which cited relatively high poverty rates for children, but no substantive action was precipitated by the report.

1.2 Distinctive features of the research

Against this background, the present report provides a detailed study of child poverty in Germany and Britain in order to highlight cross-national similarities and differences and thence draw out potential lessons relevant to policy. Our research has three distinctive features: an emphasis on longitudinal perspectives on child poverty, the use of consistently comparable cross-national data for each country, and the examination of the socio-economic correlates of poverty patterns.

The statistics that we have cited so far refer to poverty rates at a point in time or trends in these annual poverty rates. Such statistics cannot tell us how long poor children stay poor, or how often they become poor. Policy-makers have started to appreciate the importance of information about the longitudinal dimension of poverty. In Britain, the philosophy of anti-poverty policy has shifted away from income supplementation of those currently poor and towards providing routes out of poverty and preventing the fall into poverty. The motivation is that: 'In the past, analysis … has focused on static, snapshot pictures of where people are at a particular point in time. Snapshot data can lead people to focus on the symptoms of the problem rather than addressing the underlying processes which lead people to have or be denied opportunities' (Treasury 1999: 5).

If one takes the dynamic perspective, the salient research questions change from 'which children are most likely to be poor at the moment?' to 'which children are most likely to remain poor and which ones are most at risk of becoming poor?'. This is not to say that the dynamic perspective should totally supplant the cross-sectional perspective. On the contrary, the two perspectives complement one another, as we shall demonstrate later. But the cross-sectional view has predominated so far, and our emphasis on the dynamics of child poverty is, in part, simply a redressing of the balance between the two approaches.

The consistent cross-national comparability of the data underpinning our analysis is a feature of our report. Differences of opinion about the importance of the (child) poverty problem – and how it differs between nations – may arise simply because of differences in definitions and types of data. Recognising these problems, we investigate cross-national similarities and differences in child poverty using definitions and data sets which are properly comparable. Getting the facts about child poverty straight should assist in clarifying the debates about child poverty *vis-à-vis* poverty among other groups in the population and thence policy priorities.

The data sets that we use are the British Household Panel Survey (BHPS) and the German Socio-Economic Panel (GSOEP) together with associated sub-files from the Cross-National Equivalent File database that contain cross-nationally comparable income and other data

for Britain and western Germany. The pre-eminent features of the data sets for our purposes are the combination of longitudinal data (so that we can analyse child poverty dynamics) together with cross-national comparability (so that we can do so on a consistent basis). The period we focus on is 1991–98. Although the GSOEP began in 1984, the first interview wave of the BHPS was only in 1991, and 1998 is the last year for which we had data when the project began. See the Appendix for more discussion of the BHPS and GSOEP.

Documenting facts and comparing patterns is one important part of this report, but not the only one. A substantial part of our research is devoted to analysis of the socio-economic correlates of child poverty – examining the role of (differences in) the labour market, demographic characteristics and welfare states in explaining poverty patterns. We do this for the most part by relating poverty patterns to cross-national differences in work status and household type (cross-section analysis) and cross-national differences in changes in work status and household type (dynamic analysis).

Much of the analysis focuses on comparisons of Britain with western Germany. By 'Britain' we mean the countries of England, Wales and Scotland. By 'western Germany', we mean individuals living in the regions (*Länder*) comprising the former West Germany (Federal Republic of Germany). This focus reflects, to a large extent, a constraint imposed by our data sets. In particular, the BHPS does not survey Northern Ireland. Moreover, the GSOEP has income data for residents of eastern Germany (the regions comprising the former German Democratic Republic) only for 1992 onwards. Comparisons between Britain and all Germany (i.e. eastern and western Germany combined), are potentially muddied by the huge changes in the economy and social institutions of eastern Germany after reunification. Nonetheless, we recognise that a study of child poverty in Germany that omitted any consideration of the experience of a significant proportion of its inhabitants, those living in a region whose changing situation is of considerable interest to many, would be seriously deficient. We therefore supplement the main cross-sectional analysis contrasting child poverty trends in Britain and western Germany (using data for 1991–98) with additional analysis that compares trends in eastern and western Germany and all Germany combined (using data for 1992–98).

1.3 Anglo-German poverty comparisons: previous literature

Our systematic analysis of Anglo-German differences in child poverty along a range of dimensions is the first such study. Most previous Anglo-German studies have analysed poverty in the population as a whole rather than focusing on children. Among the relatively few analyses of child poverty, the majority are country-specific – examining either the UK or Germany, but not both. Furthermore, virtually all these studies have looked at who is poor in a given year or years (a cross-section snapshot perspective) but have not looked at changes in each child's income and poverty from one year to the next (a longitudinal perspective).

Representative examples of country-specific studies of poverty trends include, for the UK, Goodman and Webb (1994), Jenkins (1994), and the official statistics on low income (Department of Social Security 2000). For Germany see, for example, Hauser and Hübinger (1993), Hanesch (1994) and Hanesch *et al.* (2000). These also provide some separate

breakdowns for dependent children. However, the events and processes associated with child poverty have received little attention. Gregg *et al.*'s (1999) study is a notable UK exception, analysing both cross-sectional trends in child poverty and some of the associations between the experience of child poverty and later outcomes.

Country-specific studies of poverty dynamics for the population as a whole (without a child focus) include Jarvis and Jenkins (1997a) for Britain and Krause (1998) for Germany. There are two studies with a dynamic focus that do focus on children: Hill and Jenkins (2001) for Britain, and Schluter (2001) for Germany. The research reported here is a substantial development of our earlier work. Not only does our current research examine a wider range of topics, but it is avowedly comparative – we carry out explicit cross-national comparisons on a common set of topics, rather than country-specific studies of different topics.

There are a number of cross-national studies of poverty which include Britain and Germany among the countries analysed, most of which are based on surveys that form part of the Luxembourg Income Study database; see, for example, Bradshaw and Chen (1996). But these are all based on cross-sectional rather than longitudinal data. Cross-national research on child poverty dynamics is rare. Perhaps the best-known study is that by Duncan *et al.* (1993), though they use families with children as the unit of analysis rather than children themselves, as we shall. Another study is Bradbury *et al.* (2001), which documents patterns of child poverty dynamics across seven nations, including Britain and Germany. Our research is more wide-ranging in scope and more detailed than either of these two studies – one of the advantages derived from restricting analysis to only two countries.

1.4 Some key definitions

We define a *child* as a person aged less than 17 years; an adult is aged 17+ years. An individual is counted as *poor* if the needs-adjusted real income of the household to which he or she belongs is below the poverty line. *Income* refers to all money income coming into the household less payments of employee social insurance contributions and income taxes. Incomes were adjusted for differences in needs across households using an *equivalence scale* that depends on the number of adults and children in the household. The *poverty line* used in most of the analysis was 60 per cent of median income in the relevant year and country (a relative poverty line), but we also report some results based on a poverty line equal to 60 per cent of median income in Britain in 1991 (an absolute poverty line). The Appendix provides more precise details about each of these definitions.

1.5 Outline of the report

Our research comparing child poverty in Britain and Germany has two main parts. The first (Chapter 3) is a comparison of the levels and trends in child poverty during the 1990s – a cross-sectional perspective. This includes comparisons of poverty among children with

poverty among the population as whole, and breakdowns by household composition and household labour-market attachment. The second and main part of the research (Chapters 4–5) takes a longitudinal perspective. Chapter 4 provides descriptive information about the dynamics of child poverty using a range of different perspectives. Chapter 5 is a detailed study of why child poverty exit rates are lower, and child poverty entry rates are higher, in Britain than in Germany. We relate differences in poverty patterns to differences in the incidence of a number of important 'trigger events', and differences in their consequences. The trigger events considered correspond to major events for the individuals in the household in which a child lives. Examples include a household member getting or losing a job, and household formation or dissolution.

The other chapters in the report provide background information for the central analysis chapters, and reflect on the implications of our findings. Chapter 2 provides a introduction to the institutional setting, briefly reviewing differences in the macro-economy (such as unemployment and economic growth) and in the welfare state (the nature of social assistance and social insurance benefits available, particularly for families and children). This is relevant to explaining the poverty patterns that we subsequently describe. A summary and conclusions, with brief reflections about the policy relevance of our results, appear in Chapter 6.

2. The institutional setting

In the Introduction, we motivated our research by drawing attention to initial evidence suggesting that child poverty was much less of a 'problem' in Germany than Britain. The rest of the report confirms and documents this statement in more detail, and then explores why the differences might arise. In Chapter 4, and more especially in Chapter 5, when discussing the factors underlying the observed Anglo-German differences in child poverty, we shall refer to relevant differences in labour markets, marriage markets and welfare states. The aim of this chapter is rather more straightforward: simply to provide a very brief sketch of differences in the 1990s between Britain and Germany in their macro-economic conditions and their social security systems (in so far as they refer to children). In other words, our idea here is to fill in a few background facts, rather than provide a detailed examination of the differences in institutional settings between the two countries. For an extensive discussion elaborating upon the key distinguishing characteristics of the British and German welfare states, the reader should look elsewhere; see, for example, Daly (2000, especially Part II). We should also say at the outset that cross-national comparisons of this type are difficult because of a lack of statistics in the same form and based on the same definitions.

The philosophies that underpin the welfare state regimes in Britain and Germany differ. Both countries rely on a mixture of social assistance and social insurance programmes, but there are differences in the mixture of the two elements and in emphasis. Put bluntly, in Britain the aim is more to minimise state intervention and the cash benefit system is characterised by a heavy and increasing reliance on means-tested social assistance benefits. By contrast, the German social security system is more comprehensive and relies more than Britain on social insurance benefits (including unemployment benefits, the payment of which is related to former earnings). Even a cursory examination suggests that the German welfare state is more comprehensive and generous that the British one (see also Daly, 2000: 87).

In the rest of this chapter, we provide an overview of Anglo-German differences in family benefits and unemployment benefits, and briefly compare them. We then consider differences in macro-economic conditions. The discussion of benefits relies on information derived mostly from a new database compiled by an international team of experts for the Bertelsmann Foundation.[1] In both Britain and Germany, there were no substantial changes to institutions before the end of the 1990s, and so our description of the current system in each country will suffice for the entire time under investigation in the report (1991–98). There were some major changes in Britain at the very end of the 1990s, but as they are after the period covered by our data, we shall not discuss them in this chapter. There is some discussion in Chapters 5 and 6.

If one looks at 'family benefits', a complex picture is revealed. Table 1 shows that Britain spends a slightly bigger share of GDP (2.29 per cent) on family benefits than Germany does (2.01 per cent). Daly (2000: 80) points out that in the case of divorce and lone

[1] See http://www.reformmonitor.org. We thank C. Katharina Spiess for valuable help in preparing the statistics.

Table 1
Expenditure on family benefits (1995) and labour-market policy (1998), as a percentage of GDP

	UK	Germany
Family cash benefits	1.87	1.23
Family services	0.48	0.78
All family benefits	2.29	2.01
Labour-market policy	1.19	3.56

Source: Bertelsmann Reformmonitor.

parenthood, the means-tested benefits available in Britain are slightly more generous than in Germany. For families, however, it is not only the benefits which are directed to families *qua* families that are important, but also other benefits (and taxes). In particular, unemployment benefits are particular relevant for the living standards of children, because many are paid to parents of young families. (By contrast, the more generous pension system in Germany does not matter very much for assessing children's experiences.) In Britain about 1.2 per cent of GDP is spent on labour-market policies, whereas the corresponding figure for Germany is 3.6 per cent.

2.1 Family benefits

Let us first consider cash benefits, and then maternity benefits. Observe that in Britain benefits are typically assessed as amounts per week, whereas in Germany the usual time period is the month. We follow that practice here but, to ease comparability, we have also expressed amounts as percentages of the relevant national poverty line. Note, too, that during the 1990s £1 was worth just over DM 3.

2.1.1 Britain

In the UK a universal cash benefit is paid in respect of children up to the age of 16 (18 for children still in full-time non-advanced education). In 1999 the amount of benefit paid for the eldest or only child of a couple was about £14.40 per week, an amount that corresponds to some 10 per cent of the poverty line we use later. (For the eldest or only child in a lone-parent family the payment was about £17.10 per week, or about 15 per cent of the poverty line.). The amount paid for each additional child was £9.60 per week (less than 10 per cent of the poverty line).

Means-tested benefits are also available for low-income working families. In the early 1990s this was the Family Credit programme, but from October 1999 – i.e. after the period that our data span – Family Credit was replaced by the Working Families Tax Credit. To be eligible for Family Credit, parents had to be responsible for at least one child under 16 (or under 19 in full-time non-advanced education); they had to work at least 16 hours a week; and not have savings of over £8,000.

Maternity benefits amount to 90 per cent of average earnings for 6 weeks. After this period, insured mothers receive a flat-rate benefit for an additional 12 weeks, while those not insured receive a lower flat-rate benefit for 18 weeks. Regarding the ease of combining work with bringing up children, there have been some new measures to assist employed lone parents get help with child-care costs under Family Credit.

There is little affordable public day care for pre-school children in Britain. However, for school-age children, schools provide almost a full day of 'care'. School begins at age 5, one year earlier than in Germany.

All in all, in 1995 the share of GDP spent on family cash benefits was 1.87 per cent and the share on family services 0.48 per cent.

2.1.2 Germany

In Germany child benefits can be claimed for children under 18 years of age (under 21 if unemployed and under 27 if in educational training; there is no age limit for disabled children) regardless of the parents' income. In 1999 the amount payable under the child benefit programme was DM 250 per month each for the first and second children (amounts that correspond to about a fifth of the poverty line used below), DM 300 for the third child (about 24 per cent of the poverty line) and DM 350 for the fourth and each additional child (about 28 per cent of the poverty line). Additionally, when assessing income tax, the tax office checks that the amount of child benefit paid satisfies the constitutional rule on tax relief (in other words, that the parents have received enough child benefits to cover the tax refund due to them). If not, their tax bill is reduced by the tax-free allowance for children less the child benefit they have already received.

Statutory maternity leave begins 6 weeks before the child is due and ends 8 weeks after childbirth (12 weeks after a premature or multiple birth). The maternity benefit paid by the statutory health insurance is 100 per cent of the female worker's net earnings payable during the statutory maternity leave. Maternity benefit is not subject to tax and social security contributions (in 1999, after the period of investigation, new rules made it possible for a mother and a father to be on parental leave simultaneously). For each child under 12 years of age, a working parent may take up to 10 days' leave to care for a sick child (this requires certification by a doctor). Parents may take a maximum of 25 days per year to care for sick children.

One parent per child without gainful employment or who works less than 19 hours per week is entitled to a federal child-care allowance (*Erziehungsgeld*) until the child is 24 months old. The amount is DM 600 per month (about 48% of the poverty line). Regarding the ease of combining work with bringing up children, since 1997 every child 3 years of age and older has been entitled to kindergarten care. But the slot which is guaranteed by law is a part-time one only and does not cover lunchtime. When school begins at age 6 it is part-time school which stops at lunchtime.

All in all, in 1995 the share of GDP spent on family cash benefits was 1.23 per cent and the share on family services 0.78 per cent.

2.1.3 Anglo-German comparison

Total government expenditures on cash benefits (the sum of universal and means-tested benefits) is greater in Britain than in Germany (Table 1) However, the universal scheme in Germany (*Kindergeld*) is more generous than in Britain, though not tailored to low-income parents. Looking at the compatibility of work and bringing up children reveals different pictures for different ages of children (cf. Europäische Kommission 1996; Rostgaard and Fridberg 1998). The proportion of children below the age of 3 in both countries who can get care is small (about 2 per cent in Britain and 3 per cent in western Germany, but about 50 per cent in eastern Germany). For children between age 3 and school entry the provision of day care is higher in Germany (78 per cent in western Germany, about 100 per cent in eastern Germany) than in Britain (about 60 per cent, which is not provided by the state and is costly). However, children start school one year later in Germany than in Britain, and most German schools are half-day schools that do not supply lunch or teaching or other activities in the afternoon (cf. Kreyenfeld *et al.* 2000; Spiess 1997). Taking into account all age groups of children, the British system seems to be better suited to combining work and bringing up children of school age, but not pre-schoolers (age 0–4).

2.2 Unemployment benefits

2.2.1 United Kingdom

Unemployment insurance benefits and income support for the unemployed were replaced by the Job Seeker's Allowance (JSA) in 1996. (Payment amounts remain unrelated to former earnings.) The unemployed can claim either a personal allowance of contribution-based JSA for up to 6 months (corresponding to the earlier social insurance) or an income-tested JSA (social assistance) for themselves and their dependants for an unlimited period that also automatically entitles them to assistance with high housing costs (via the benefit and council tax benefit programmes). The basic amount of the JSA is £48 per week for a single person. According to Daly (2000), the amount corresponds to less than a third of the average earnings for a typical production worker.

2.2.2 Germany

Unemployment insurance benefit is an insurance benefit that is paid monthly and set at 67 per cent of the recipient's last net wage or 60 per cent if the claimant has no child for whom he or she can claim tax relief. (These rates refer to those for the average production worker.) Unemployment benefits are paid for a period of 6–32 months, depending on the recipient's age and length of membership in the insurance system. After a means test and asset test of both the claimant and his or her spouse, unemployment assistance can be paid as a follow-up benefit. Unemployment assistance amounts to 57 per cent of net wages (only 53 per cent if the claimant has no child for whom he or she can claim tax relief). It is granted for an unlimited period, but eligibility has to be proven every year.

2.2.3 Anglo-German comparison

Unemployed people, especially those who raise children, are very much better off in Germany than in Britain. The Organisation for Economic Co-operation and Development (OECD) recently calculated that in 1997 an unemployed married couple in Germany with two children received, if on unemployment insurance, a net income out of work that was 73 per cent of net income at work (assuming average earnings), whereas the replacement rate for the corresponding UK family was 64 per cent (OECD 1999). Ditch *et al.* (1996: 74) estimate the net replacement rate in 1995 for a couple at half average earnings with one child aged 2 to be 93 per cent in Germany and 62 per cent in the UK. For a couple with two children, the corresponding ratios were 101 per cent and 69 per cent.

2.3 Macro-economic conditions

Macro-economic conditions differed in Britain and Germany during the 1990s. Since 1993, the annual rate of growth in real GDP has been higher in Britain (see Table 2). German reunification makes comparisons somewhat difficult: an overall growth rate for Germany is not available for 1991, given unification in 1990 (and no reliable GDP figures were available for the German Democratic Republic).

Macro-economic growth has an impact on unemployment, which in turn has an important impact on the well-being of families. In fact in Britain the unemployment rate declined in the 1990s, whereas in Germany it increased. But the picture is more complicated than it appears at first glance, for several reasons.

First, the unemployment rates which are measured by the statistical agencies in Britain and Germany are not strictly comparable. They are defined differently and the survey methods used to derive them also differ. In order to compare the figures they need to be standardised. In Table 3 we show estimates derived on a standardised basis from OECD material. The table shows that after 1996 the unemployment rate in Britain was much lower than in Germany. However, the difference is smaller than the difference that may be calculated using the 'raw' figures of both national statistical agencies. For the early 1990s there is no OECD figure available for the unified Germany. Looking at the raw data

Table 2
Annual rate of growth in real GDP (%)

Year	UK	Germany
1991	–1.5	
1992	0.1	2.2
1993	2.3	–1.1
1994	4.4	2.3
1995	2.8	1.7
1996	2.6	0.8
1997	3.5	1.5
1998	2.1	2.2

Source: DIW Berlin.

Table 3
Unemployment rates (%)

	OECD standardised rate		National definition		
	UK	Germany	All Germany	Western Germany	Eastern Germany
1991	8.8		6.5	5.7	
1992	10.1		7.4	6.0	14.4
1993	10.5	7.9	8.5	7.4	15.1
1994	9.6	8.4	9.2	8.3	15.1
1995	8.7	8.2	9.0	8.3	13.9
1996	8.2	8.9	9.9	9.1	15.7
1997	7.0	9.9	11.5	9.8	18.3
1998	6.3	9.4	11.1	9.3	18.1

Source: DIW Berlin.

(not shown), it seems plausible that the unemployment rate was lower in Germany than in Britain. For our analysis the numbers for western Germany are of particular interest. But the OECD does not provide standardised figures for only western Germany. The national figures show a considerable increase in western German unemployment, but the standardised difference from Britain should be small, even in the most recent years when the rate fell in Britain.

2.4 Summary and conclusions

In this chapter we have provided a brief sketch of the differences between the German and British welfare states and macro-economic conditions. Comparisons were bedevilled by difficulties of obtaining statistics that were properly comparable, particularly for aspects of family policy. (One of the advantages of using comparable survey data, as we do in the later chapters, is that we are able to construct cross-nationally comparable definitions.)

Our broad conclusion is that an Anglo-German comparison of benefits for families and children provides a mixed picture about which country has the more generous system. By contrast, unemployment benefits – also of relevance to families with children – are clearly more generous in Germany. Comparisons of macro-economic conditions suggest that unemployment rates were much the same in Germany and Britain taking the 1990s a whole, but this average hides an upward trend over the period in Germany and a downward trend in Britain.

3. Trends in child poverty rates during the 1990s

In this chapter we compare child poverty rates in Britain and Germany during the 1990s using a cross-sectional perspective, addressing a number of questions: How much higher are child poverty rates in Britain than in Germany, and how do they compare to poverty within the population as a whole? Have trends over time been similar? What has been the experience of children in eastern Germany? Finally, we consider how Anglo-German differences in child poverty rates relate to differences in patterns of household composition and labour-market attachment.

3.1 Poverty rates in Britain and western Germany, 1991–98

Table 4 shows estimates of British and western German poverty rates over the period 1991–98, based on two alternative poverty lines (defined in Section 1.4), and also contrasts the rates for all children with the rates for all persons. The trends in rates for all children are summarised in Figure 1.

Four main findings are apparent. First, patterns are very similar regardless of whether one uses the relative or the absolute poverty line – because the shape of the income distribution changed little over the period in either country. Our discussion of Table 4 and subsequent tables focuses on the results for the relative poverty line.

The second finding is that poverty rates were much higher in Britain than western Germany whichever year is considered. The proportion of British children with an income below the relative poverty line was about 30 per cent (if one pools the data for the period as a whole), whereas for western Germany the corresponding figure was 19 per cent.

Third, child poverty rates in each year, and for each country, were higher than the poverty rates for all persons. In Britain the child poverty rate was one-third higher than the all-persons rate (pooled data), whereas in western Germany the corresponding differential was a quarter.

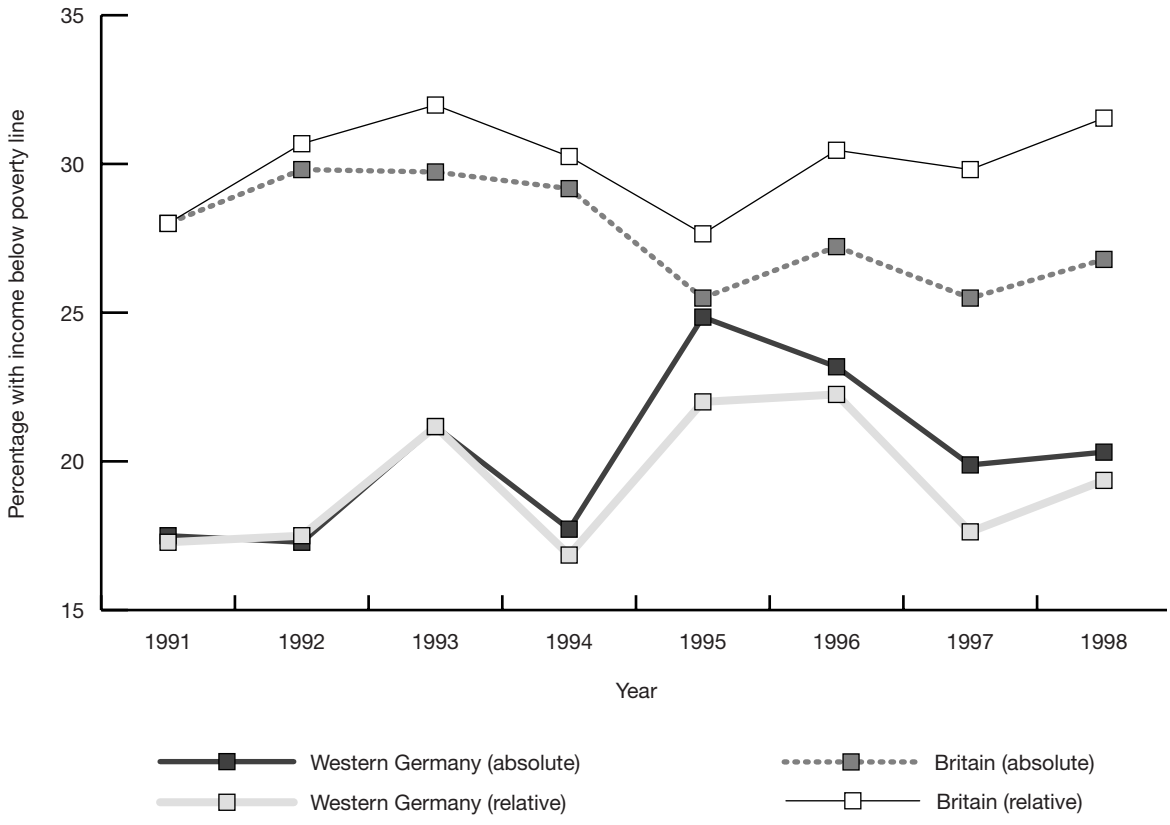
Fourth, over the eight-year period, poverty rates hardly changed at all in Britain and only slightly in western Germany. In the latter case, they increased in the mid-1990s as the recession bit and then fell again; nevertheless, the variation was small, especially once one takes sampling variation into account. On these grounds it is reasonable to take the stability of cross-sectional rates over time as a working assumption – the starting point of our analysis of movements into and out of child poverty in Chapter 5.

Table 4
Poverty rates (%) in Britain and western Germany, children and all persons, by survey year and type of poverty line

	Relative poverty line				Absolute poverty line[a]			
	Children		All persons		Children		All persons	
Year	Britain	Western Germany	Britain	Western Germany	Britain	Western Germany	Britain	Western Germany
1991	27.9	17.5	19.2	13.4	27.9	17.8	19.2	13.7
1992	30.7	17.7	20.2	13.6	30.0	17.5	19.6	13.4
1993	32.1	21.3	21.0	15.7	29.7	21.3	19.3	15.7
1994	30.4	17.1	20.4	14.2	29.3	17.9	19.0	14.5
1995	27.8	22.1	20.4	15.6	25.5	25.1	17.4	17.8
1996	30.6	22.5	19.5	15.3	27.4	23.3	17.0	16.0
1997	29.9	17.7	19.5	13.7	25.7	20.2	16.2	15.0
1998	31.6	19.4	20.2	14.5	27.0	20.4	16.3	15.2
Pooled	30.1	19.4	20.0	14.5	27.9	20.4	18.1	15.2

Source: authors' calculations from BHPS and GSOEP data.
[a]The absolute poverty line for Germany was converted to DM using the 1991 OECD purchasing power parity (£1 = DM 3.29)

Figure 1
Child poverty rates (%) in Britain and Western Germany, 1991–98, by poverty line type



3.2 Poverty rates in western and eastern Germany, 1992–98

We now consider child poverty within Germany over the period 1992–98. Table 5 shows poverty rates for eastern and western Germany and all Germany combined, using both the relative and absolute poverty line definitions. The rates for western Germany are the same as those reported in Table 4. We used the same relative poverty line in all cases (that for western Germany) because western income levels were and are widely thought to reflect the aspirations of those in eastern Germany.

The most striking finding concerns the rapid reduction in the prevalence of poverty in eastern Germany, from about two and a half times the western rate at the beginning of the 1990s to a rate that was much the same towards the end of the 1990s. (Again, it makes little difference to patterns whether the relative poverty line or the absolute one is used.) For example, the child poverty rate in eastern Germany was 43 per cent in 1992 compared to the western German rate of 18 per cent. In 1998, the corresponding rates were 19 per cent in both regions. The reason for the reduction in poverty rates was the large rise in average incomes in eastern Germany after reunification, reflecting large financial transfers from western Germany. Observe too that, whereas in the early 1990s poverty rates for all children and all persons were much the same in eastern Germany, by the end of the period, the children's rate was higher than the all persons one (as in western Germany).

The picture for all Germany increasingly coincided with that for western Germany as the decade progressed. It was higher at the start, reflecting the much higher eastern German poverty rates (though the contribution of these to the all-German figure was reduced because there were relatively few individuals in that region compared to western Germany), but this differential diminished as eastern German poverty rates fell.

3.3 Who is most likely to be poor?

When one takes a cross-sectional perspective, one obvious route to explaining cross-national differences in poverty rates is to compare differences in the prevalence of 'problem groups' and the incidence of poverty within each of these groups. Table 6 displays this type of information for Britain and western Germany, with calculations based on the pooled data set for 1991–98. Child poverty rates and population shares are broken down by the child's household type (lone-parent household, married-couple household, or 'other' household).[2] Estimates are also shown for selected subgroups characterised by different levels of work attachment in order to highlight 'problem' characteristics.

Table 6 shows that there were marked Anglo-German differences in the numbers of children in each of the three main household types. Some 15 per cent of British children and 9 per cent of western German children lived in lone-parent households. About 81 per

[2] See the Appendix for precise definitions of the subgroups.

Table 5
Poverty rates (%) in all Germany, western and eastern Germany, children and all persons, by survey year and type of poverty line

	Relative poverty line[a]						Absolute poverty line					
	Children			All persons			Children			All persons		
Year	All	Western	Eastern	All	Western	Eastern	All	Western	Eastern	All	Western	Eastern
1992	23.2	17.7	43.0	19.5	13.6	43.4	23.0	17.5	42.6	19.3	13.4	42.9
1993	22.5	21.3	27.1	17.9	15.7	27.3	28.5	21.3	27.4	18.0	15.7	27.4
1994	18.5	17.1	23.8	15.2	14.2	19.6	19.2	17.9	24.4	15.6	14.5	20.3
1995	22.1	22.1	22.2	15.6	15.6	15.3	25.1	25.1	25.2	17.8	17.8	17.5
1996	22.1	22.5	20.7	15.4	15.3	15.6	23.3	23.3	23.0	16.2	16.0	17.2
1997	17.9	17.7	18.4	13.6	13.7	13.1	20.4	20.2	21.3	15.0	15.0	15.0
1998	19.3	19.4	18.7	14.3	14.5	13.5	20.2	20.4	19.7	15.1	15.2	14.3
Pooled	20.9	19.4	25.7	16.0	14.5	21.4	22.0	20.4	27.0	16.7	15.2	22.4

[a]60% of western German median income.

Table 6
Numbers of children and child poverty rates in Britain and western Germany, by child's household type (pooled data, 1991–98)

	Population share[a] (%)		Poverty rate[b] (%)	
Household type	**Britain**	**Western Germany**	**Britain**	**Western Germany**
All children	100.0	100.0	30.1	19.4
Lone parent household	15.0	8.7	68.1	49.1
Lone parent household, no workers	9.7	3.8	89.6	80.8
Married couple household	81.3	89.5	22.4	16.3
Married couple household, no worker	7.7	1.8	84.3	81.1
Married couple household, 1+ full-time worker(s)	65.0	82.0	11.1	7.5
'Other' household	3.8	1.8	46.4	33.3
'Other' household, no workers	0.7	0.4	87.2	74.2

[a]Number of children in subgroup as a fraction of the total number of children.
[b]Poverty line = 60% of contemporary national median income.

cent of all children lived in married-couple households in Britain and 90 per cent in western Germany.

There were also striking cross-national differences in the numbers of children when the groups are broken down by work attachment. In Britain the proportion of all children who belonged to lone-parent households in which no one was working was roughly double the western German figure: 10 per cent against 4 per cent. There were even larger differentials in the case of married-couple households. Among this group, about 8 per cent of all British children were in households with no workers, compared to only 2 per cent in western Germany. More than four-fifths of children in western Germany were in households with at least one full-time worker, but only two-thirds of British children.

If above average poverty rates are used to identify 'problem' groups, then there were some similarities between Britain and Germany. In both countries poverty rates were well above the national average for children in lone-parent and 'other' households regardless of work status. And across all three household types, living in a household in which work attachment is low raised poverty rates substantially above the national average, though lack of work had a higher association with poverty in Britain. For example only about one-tenth of the children in workless lone-parent households were not poor in Britain, whereas in western Germany the figure was one-fifth. Among children in workless married-couple households, the corresponding proportions were similar, however, about four-fifths. The importance of work for preventing low income is underlined by the case of children living in married-couple households with at least one full-time worker. Only 11 per cent of this group were poor in Britain and 8 per cent in western Germany (compared to the overall average poverty rates of 30 per cent and 19 per cent, respectively).

Table 7
Numbers of children and child poverty rates in all Germany, western and eastern Germany, by child's household type (pooled data, 1992–98)

	Population share[a] (%)			Poverty rate[b] (%)		
	All	Western	Eastern	All	Western	Eastern
All children	100.0	100.0	100.0	20.9	19.6	25.7
Lone-parent household	8.9	8.9	9.1	50.5	49.4	56.5
Lone-parent household, no workers	3.6	3.9	2.3	82.3	81.8	87.0
Married-couple household	89.1	89.3	88.5	17.4	16.4	22.8
Married-couple household, no workers	1.9	1.9	2.1	81.2	82.2	78.0
Married-couple household, 1+ full-time worker(s)	81.3	81.5	80.7	9.2	7.3	16.6
'Other' household	2.0	1.8	2.5	42.5	34.3	68.0
'Other' household, no workers	0.3	0.4	0.1	74.4	73.2	88.1

[a]Number of children in subgroup as a fraction of the total number of children.
[b]Poverty line = 60% of contemporary western German median income.

In sum, from a cross-sectional point of view, it appears that the higher incidence of workless households in Britain (e.g. a higher proportion of children in lone-parent households), and the higher poverty risk associated with being in such a group, together provide a plausible explanation of why child poverty rates were higher in Britain than in western Germany during the 1990s.

Table 7 reports similar breakdowns for eastern and western Germany and the two regions combined. Interestingly, the proportions of children in each of the different population subgroups was remarkably similar in each region, even when broken down by work attachment. There were some differences – for example, the proportion of children in married-couple households with no workers was higher in eastern Germany than in western Germany – but when sampling variation was taken into account, these differences were not statistically significant.

The source of the higher child poverty rate in eastern Germany than in western Germany therefore lies in differences in poverty rates within population subgroups. Observe that the picture was not one of uniformly higher poverty rates. For example, poverty rates among children in workless married couple households were slightly lower in eastern Germany than in western Germany. What really drove the East–West child poverty differential was the difference in poverty rates for children in married-couple households with at least one full-time worker (some four-fifths of all children in both regions). The eastern German poverty rate for this group was 17 per cent, more than double the corresponding western German rate of 7 per cent.

4. The dynamics of child poverty during the 1990s

Poverty has many dimensions when one takes a dynamic perspective (Ashworth *et al.* 1994). One may look at entry and exit rates and at how long each spell of poverty lasts. One may also look at poverty spell repetition, counting the number of spells over some interval of time, or the total time spent in poverty over that interval. Given the multi-dimensional nature of poverty from a longitudinal perspective, we undertake our Anglo-German comparisons using a number of different types of calculation.

First we take time intervals spanning three consecutive years, and examine the number of times that individuals were poor over those intervals, comparing children with all persons, for example.[3] We also briefly consider an eight-year measurement 'window'. This is a more appropriate measure of the total time that individuals spend in poverty over a longer time interval. On the other hand, it has the disadvantage that it can only be calculated for individuals who are present in the panel for eight consecutive waves, and they may be an unrepresentative sample. Moreover, it is harder to classify individuals since characteristics change over time. Even differentiating 'children' is not without problems, since over a long panel sequence many children may turn 17, the start of adulthood according to our definition.

Second, we compare rates of exit from and re-entry to poverty between one year and the next. We discuss estimates of conditional exit rates – the exit rates that apply in the first, the second, the third, and subsequent years of a poverty spell for individuals beginning a spell of poverty. Similarly, we also calculate conditional poverty re-entry rates – the rates of entry to poverty that apply in the first, second, third, etc., year of a spell of non-poverty for individuals who have ended a spell of poverty.

The conditional exit rate for a given year of a poverty spell is a 'conditional' rate because it refers only to individuals who have remained in poverty until the beginning of the year in question. This may be contrasted with the unconditional poverty exit rate, which is the exit rate among all persons who are poor in a given year, regardless of how long they have already been poor. Similarly, the conditional poverty re-entry rate for a given year of a poverty spell refers only to individuals who have remained out of poverty since the end of their last spell until beginning of the year in question. This rate may be contrasted with the unconditional poverty entry rate, which is the entry rate among all persons who are not poor in a given year, regardless of whether they have ever been poor before. We finish the section with Anglo-German comparisons of unconditional poverty exit and entry rates. As we explain in Chapter 5, it is these transition rates – together with the numbers of children who are already poor – which determine whether the cross-sectional poverty rate increases or decreases from one year to the next. We shall analyse cross-national differences in poverty rates via analysis of differences in (unconditional) exit and entry rates.

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[3] A similar indicator is used by the British government to monitor poverty persistence among children (and other groups): see Department of Social Security (1999).

4.1 Poverty persistence: number of times poor over a three-year period

Table 8 shows the distribution of numbers of years poor out of three, for all children, all persons, and a range of other subgroup partitions. The results are based on the average of all the possible three-year observation 'windows' that could be derived from the eight-wave panel. Personal characteristics, such as whether the respondent is a child or not, refer to characteristics measured at the second of the three annual interviews.

The first and second rows of Table 8 contrast poverty persistence among all children and all persons in the population. In both Britain and western Germany, children were more persistently poor than adults were, a finding that echoes the results from each cross-section. But the differential was much greater in Britain. Forty per cent of British children experienced at least one year in three of poverty over an 'average' three-year period, compared to less than 30 per cent of all western German children. (The corresponding statistics for all persons in each country were 30 per cent and 21 per cent.) Thus, compared to British children, not only were fewer western German poor at a point in time, but also fewer were touched by poverty over a three-year period. Observe too that some 17 per cent of British children were poor in all three years in an average three year period, whereas the corresponding figure for Western Germany was about half that (9 per cent).

Table 8 also provides breakdowns by age group. The statistics show that children of pre-school age (those aged less than 6 years) had a much higher prevalence of poverty persistence than older children in Britain, but in Germany this was not the case to the same degree. For example, more than one-fifth (21 per cent) of British pre-school children

Table 8
Distribution of number of years poor out of three (row percentages), Britain and Western Germany (pooled data, 1991–98)[a]

	Number of years poor out of three							
	0		1		2		3	
	Britain	Western Germany	Britain	Western Germany	Britain	Western Germany	Britain	Western Germany
All persons	70.1	78.7	11.2	9.7	8.8	5.1	9.9	6.6
All children	58.7	72.9	12.5	11.8	11.9	6.8	16.9	8.5
Age group								
0–5	53.2	70.2	12.3	13.8	13.2	6.3	21.4	9.7
6–16	61.4	74.1	12.7	10.9	11.2	7.1	14.8	8.0
17–59	77.3	81.2	9.7	9.2	6.7	4.6	6.3	5.0
60+	62.9	76.7	13.9	9.0	11.1	4.9	12.2	9.4
Child's household type								
Lone parent	20.6	35.8	14.1	20.8	22.4	19.8	42.9	23.5
Married couple	66.6	76.8	12.0	10.9	9.4	5.2	12.0	7.1
Other	35.8	51.9	18.6	14.5	23.6	25.2	22.0	8.4

[a]Characteristics were measured at the second interview in the three-year period.

were poor three years out of three on average, compared with about 15 per cent of children aged 6–16. For western Germany the estimates were 10 per cent and 8 per cent. Another Anglo-German contrast is that the prevalence of persistent poverty (the proportion poor three years out of three) among children was, in Britain, greater than among the elderly (those aged 60+), whereas in western Germany the prevalence rates for the two groups were much the same.

The high poverty rates of young children in Britain compared to western Germany are perhaps no surprise given the low employment rates of lone parents. This may be related to the lack of affordable day care for pre-school children (see Chapter 2).

Finally, Table 8 shows that rates of child poverty persistence differed markedly by household type in Britain and western Germany. The proportion of children in lone-parent households that were poor three years out of three was more than double the rate for all children in both countries. And, again in both countries, the proportions for children living in married-couple households were slightly lower than the national all-children proportions.

The 'window' of observation is stretched to eight years in Table 9. As it happens, many of the patterns observed with the three-year window are also apparent here. In particular, persistence poverty rates were substantially higher for children in Britain than for children in western Germany, and in both countries persistent poverty rates were higher for children than for all persons. (Observe that in this table, 'child' refers to individuals who were children in 1991. The sample used for the calculations therefore also included some individuals who were no longer children at the end of the observation window.) Almost 12 per cent of British children were poor seven or more years out of eight, a rate twice that in western Germany (6 per cent).

Table 9
Distribution of number of years poor out of eight (column percentages), Britain and western Germany (pooled data, 1991–98)[a]

	All children[b]		All persons	
Number of times poor	Britain	Western Germany	Britain	Western Germany
0	42.9	62.2	56.3	70.1
1	11.5	11.5	10.9	10.0
2	8.9	7.5	7.5	5.2
3	7.2	4.8	5.4	4.0
4	6.8	4.6	4.6	3.2
5	4.5	2.3	3.7	2.2
6	5.8	1.4	4.2	2.1
7	5.5	4.0	3.3	1.4
8	6.9	1.9	4.1	1.8
All	100	100	100	100

[a]Balanced panel of individuals present in all eight waves: *n*(GB) = 7,524, *n*(WG) = 7,470.
[b]Children are defined in this table as those who were children in 1991 (note that those aged 9+ years in 1991 became adults over the panel window).

4.2 Poverty exit and re-entry rates, conditional on elapsed duration

We now consider how rates of movement out of poverty vary with how long a child has been poor, and how rates of re-entry to poverty vary with the length of time spent out of poverty since the end of the previous poverty spell. With information about the duration dependence of these transition rates, one can derive estimates of the length of time spent poor for a child beginning a poverty spell, and of the length of time between poverty spells for those who have already had one. The number of years since the start of the relevant spell that we can provide estimates for is, of course, constrained by the total length of the panel. In addition, taking account of the small numbers of individuals with relatively long spells means that we were able to report estimates for spell durations only up to five years.

4.2.1 How poverty exit rates vary with duration

Table 10 provides estimates of poverty exit rates broken down by spell length, together with the associated estimates of the percentage of persons still poor one year after starting a poverty spell, two years after, and so on. We find that exit rates at each poverty spell duration were higher in western Germany than in Britain in the first three years of a spell, but differences were much less after three years. This is true whether considering all children or all persons. (Observe that within each country there was no clear-cut ranking of conditional exit rates for children compared to all persons – this contrasts with the clear-cut rankings in cross-section poverty rates.)

Table 10
Conditional poverty exit rates and proportion remaining poor, by spell duration, Britain and western Germany[a]

Number of years since start of poverty spell	All children[b]		All persons	
	Britain	Western Germany	Britain	Western Germany
Conditional exit rate (%)				
1	35.4	41.6	37.5	40.1
2	32.4	35.7	30.6	30.0
3	21.3	32.2	24.4	24.4
4	13.9	7.7	15.7	15.1
5	9.2	4.8	11.3	8.6
Percentage of entrants remaining poor				
0	100.0	100.0	100.0	100.0
1	64.6	58.4	62.5	60.0
2	43.7	37.5	43.4	42.2
3	34.0	25.5	32.8	31.9
4	29.6	23.5	27.6	27.1
5	26.9	22.4	24.5	24.7

[a]Kaplan–Meier estimates pooling all spells over the period 1991–98 (except left-censored spells).
[b]Children are defined in this table as those who were children throughout the poverty spell.

Table 11
Conditional poverty re-entry rates and proportion remaining out of poverty, by spell duration, Britain and western Germany[a]

Number of years since end of last poverty spell	All children[b]		All persons	
	Britain	Western Germany	Britain	Western Germany
Conditional re-entry rate (%)				
1	31.8	24.1	25.4	20.2
2	16.5	18.3	13.9	13.7
3	12.6	14.4	9.9	11.0
4	9.9	4.4	7.8	5.0
5	10.5	1.8	6.7	2.3
Percentage of exiters from poverty remaining non-poor				
0	100.0	100.0	100.0	100.0
1	68.3	75.9	74.6	79.8
2	57.0	62.1	64.3	68.9
3	50.0	53.1	57.9	61.3
4	44.9	50.8	53.4	58.2
5	40.2	49.9	49.3	56.9

[a]Kaplan–Meier estimates, pooling all spells over the period 1991–98 (except left-censored spells).
[b]Children are defined in this table as those who were children throughout the spell of non-poverty since the end of their last spell.

These differentials in conditional poverty exit rates imply that poverty spell lengths were longer in Britain than in western Germany. About 44 per cent of British children entering poverty had a spell lasting at least two years, whereas for western German children the figure was 38 per cent. Put another way, 27 per cent of British children beginning a poverty spell were still poor after five years, compared with only 22 per cent of western German children. (In Britain 73 per cent of children had left poverty after four years, compared with 78 per cent in western Germany.)

4.2.2 How poverty re-entry rates vary with duration

We now compare re-entry rates to poverty. The spell duration variable here refers to the length of time between poverty spells (the length of time spent not poor since the end of the last poverty spell). Table 11 summarises the estimates in the same format as Table 10.

We find that poverty re-entry rates were generally lower, and poverty recurrence times longer, in western Germany than in Britain, whether considering all children or all persons. And in both countries, conditional re-entry rates were greater for children than for all persons.

The results imply that the time between poverty spells for those who have already experienced a poverty spell was shorter for British children than for German children. For example five years after finishing a poverty spell, 50 per cent of German children remained out of poverty (50 per cent had fallen back in) but only 40 per cent of British children (60 per cent had fallen back in). Median recurrence times were about 3 years for British children and about 4 years for German children.

4.3 Poverty exit and entry rates

Our final description of Anglo-German differences in poverty dynamics concerns annual poverty exit and entry rates for children. These are the unconditional transition rates and may be interpreted as a form of average over spell durations of the rates presented in Section 4.2. The poverty exit rates were calculated simply as the number of poverty exits between one year and the next expressed as a percentage of the total number of persons who were poor in the first year (regardless of how long those people had been poor). Similarly, the poverty entry rates were calculated as the number of poverty entries between one year and the next expressed as a percentage of the total number of persons who were not poor in the first year. These unconditional rates are of particular interest because it is changes in these that drive changes in the (cross-sectional) poverty rate from one year to the next. (We explain and exploit this relationship in the next chapter.)

Table 12 shows our estimates of poverty entry and exit rates, for all children and broken down by child's household type in the year prior to the potential transition. For reference we also show the corresponding rates for all persons at the foot of the table, and we reproduce the cross-sectional poverty rate estimates from Table 4, as we shall refer to them again shortly in Chapter 5.

We find that child poverty exit rates were lower and child poverty entry rates were higher in Britain than in western Germany. The difference in exit rates (25 per cent compared to 36 per cent) was much larger in absolute terms than the difference in entry rates (11 per cent compared to 7 per cent), but in proportional terms the differential was larger for the entry rate (and more than four-tenths in both cases).

The all-children differentials in transition rates were echoed when we considered children in each of the three household type subgroups separately. At the same time there were some cross-national similarities. For example, in both Britain and western Germany, children from lone-parent households had below (national) average poverty exit rates and above average poverty entry rates. Children from married-couple households in both countries had below average poverty entry rates (poverty exit rates are about average).

Table 12
Annual poverty rates and poverty exit and entry rates for children, Britain and western Germany (pooled data, 1991–98)[a]

	Poverty rate (%)		Exit rate (%)		Entry rate (%)	
Child's household type	Britain	Western Germany	Britain	Western Germany	Britain	Western Germany
All children	30.1	19.4	25.0	36.1	11.3	7.1
Lone-parent household	68.1	49.1	20.4	33.4	24.9	17.1
Married-couple household	22.4	16.3	27.3	36.2	9.9	6.4
'Other' household	46.4	33.3	27.1	51.2	23.1	16.7
All persons	20.0	14.5	31.3	35.5	8.3	5.6

[a]Transition rates calculated as the number of poverty transitions between years $t-1$ and t, divided by the number of children at risk of a transition in year $t-1$ (sample restricted to individuals who are children at years $t-1$ and t; child's household type measured at $t-1$). Poverty line = 60% of contemporary national median income.

Another Anglo-German similarity was that in both countries – with one exception – children had lower poverty exit rates and higher poverty entry rates than all persons in the population. The exceptional case was the poverty exit rate in western Germany, which was much the same for children and all persons (36 per cent). This echoes the earlier finding that poverty persistence (defined in terms of numbers of time poor over a period) for children and all persons was more similar in western Germany than in Britain.

We repeated the calculations shown in Table 12 for eastern and western Germany and all Germany. The results (not shown) revealed that there was greater poverty turnover among children in eastern Germany than in western Germany: exit rates for children (and all persons, as it happens) were higher in eastern Germany, and so too were entry rates. The results were driven by the experience of children in married-couple households. Among children in lone-parent and 'other' households, poverty turnover was actually smaller in eastern Germany than in western Germany (exit rates were lower and entry rates higher), but these groups accounted for a relatively small proportion of all children.

4.4 Summary

Compared to German children, British children experienced a higher degree of persistent poverty (more years poor over a three-year interval), and lower poverty turnover (annual exit rates from poverty were lower and annual entry rates to poverty were higher). British children experienced longer poverty spells than German children, and recurrence times were shorter. Thus it appears that Germany appears to do better for its children than Britain does, not only from a cross-sectional perspective but also from a dynamic one.

The next chapter makes an explicit link between dynamic and cross-sectional perspectives. We explore why it is that poverty entry and exit rates differed, and show how this information helps explain why poverty rates differed.

5. Why Anglo-German child poverty transition rates differ: a 'trigger event' analysis

5.1 Introduction

In this chapter we address the question of why child poverty rates differ between Britain and Germany by analysing differences in rates of movement into and out of poverty, and decomposing differences in poverty transition rates into differences in the prevalence of 'trigger events' precipitating poverty transitions and differences in the chances of making a poverty transition conditional on experiencing a trigger event. The lessons to be learned from our Anglo-German comparisons depend on how differences in German and British poverty patterns relate to differences in labour markets, marriage markets and welfare states. We shed light on these issues using decompositions of transition rates.

Why take a longitudinal perspective to explaining child poverty rates? If one uses a cross-section perspective, there is a natural temptation to explain cross-national poverty differences in terms of differences in the prevalence of 'problem groups' such as lone-parent families or workless households, and differences in the risk of poverty for each group. This is precisely what we did in Chapter 3. Arguably this strategy is problematic because there are substantial movements into and out of problem groups between one year and the next – households form and split; people gain and lose jobs – so the policy target is a moving one. When constructing explanations of poverty patterns it is more natural to relate behaviour to transition probabilities rather than to the (state) probability of being poor, particularly since the factors which determine entry (or re-entry) to the ranks of the poor differ from the factors determining escape from poverty (as we show below). Recognising the relevance of the dynamic dimension to explanations of poverty also has implications for anti-poverty policy, changing its emphasis from supplementing incomes towards providing routes out of poverty and preventing falls into poverty (see Chapter 1).

The relevance of a longitudinal perspective can also be seen from consideration of the identity summarising the evolution of the poverty rate: this year's child poverty rate (p_t) is equal to last year's child poverty rate times the retention rate (one minus the exit rate, x_t), plus the entry rate (e_t) times one minus the proportion of children not poor last year. If the poverty rate is constant at some steady-state level, then it equals the entry rate divided by the sum of the exit and entry rates:

$$p_t = \frac{e_t}{e_t + x_t} \tag{5.1}$$

Thus cross-national differences in poverty rates depend only on cross-national differences in poverty entry and exit rates if there is no trend in poverty rates in either country.

The relevance of equation (5.1) as an organising principle for analysis is underscored by the fact that cross-sectional child poverty rates were stable during the 1990s in both Britain and western Germany. We demonstrated this in Chapter 3, showing that trends in child poverty rates for each country were flat, for both a relative and an absolute poverty standard.

To try and pinpoint why Britain has a higher child poverty entry rate and a lower child poverty exit rate than western Germany, the key idea that we employ is that

- household income changes between one year and the next, and poverty transitions in particular, were precipitated by 'trigger events' such as changes in household members' labour-market attachment and earnings, or changes in their household composition; and
- these events had different impacts on the risk of a poverty transition.

It is these two dimensions that we isolate in our decompositions. We relate differences between Britain and western Germany in child poverty transition rates to cross-national differences in probabilities of trigger events, and differences in probabilities of a poverty transition conditional on event occurrence.[4] The trigger events considered were:

- changes in the number of workers in a child's household (working full-time and in total);
- changes in an child's household labour earnings, holding the number of workers fixed;
- movements into and out of a single-adult household; and
- changes in the number of household members, holding household type fixed.

We find that it is cross-national differences in the chances of making a poverty transition conditional on experiencing a trigger event, rather than differences in the prevalence of trigger events *per se*, that explain why child poverty exit rates in Britain were lower and poverty entry rates were higher than in western Germany. The results point to the importance of the welfare-state-related differences as the principal source of Anglo-German differences in child poverty rates. In particular, relative to British children, German children during the 1990s were better protected against the consequences of adverse labour-market events, and positive labour-market events were reinforced to a greater extent.

The rest of this chapter is structured as follows. In Section 5.2 we set out our analytical framework. We briefly discuss in Section 5.3 what existing evidence suggests are the main sources of Anglo-German differences in child poverty transition rates, considering differences in labour and marriage markets and the welfare state. In Sections 5.4 and 5.5 we briefly explain key definitions and recall the main Anglo-German differences in child poverty transition rates that are to be explained. The decomposition and analysis of child poverty transition rates follow in Sections 5.6 for poverty exits, and in Section 5.7 for poverty entries. Section 5.8 provides concluding comments.

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[4] Other papers using the trigger-event concept include Bane and Ellwood (1986), DiPrete and McManus (2000), Duncan *et al.* (1993), Jenkins (2000), and Picot *et al.* (1999). Gottschalk and Danziger (2001) provide some decompositions of child poverty exit probabilities.

5.2 A framework for examining cross-national differences in poverty transition rates

To fix ideas, suppose that there is a set of mutually exclusive events $j = 1,\ldots, J$, which trigger exits from poverty. Then, among those children in a given country at risk of exit from poverty between one year and the next, the probability of exit is given by the sum of the probabilities for children who exit by each of the different events:

$$\Pr(\text{exit poverty}) = \sum_{j=1}^{J} \Pr(\text{exit poverty via event } j). \tag{5.2}$$

Each term on the right-hand side can be written as the product of the probability of each event and the probability of exit conditional on event occurrence:

$$\Pr(\text{exit poverty}) = \sum_{j=1}^{J} \Pr(\text{exit poverty} \mid \text{event } j)\Pr(\text{event } j). \tag{5.3}$$

By similar arguments, one can relate the probability that an at-risk child will enter poverty due to a set of mutually exclusive trigger events $k = 1,\ldots, K$, to the probabilities of each event and the probability of poverty entry conditional on event occurrence:

$$\Pr(\text{enter poverty}) = \sum_{k=1}^{K} \Pr(\text{enter poverty} \mid \text{event } k)\Pr(\text{event } k). \tag{5.4}$$

It follows that the cross-national differences in child poverty exit rates can be decomposed into a weighted sum of cross-national differences in event prevalence probabilities and cross-national differences in event-conditioned poverty transition probabilities:

$$\Delta\Pr(\text{exit poverty}) = \sum_{j=1}^{J} \Delta\Pr(\text{exit poverty} \mid \text{event } j)w_j + \sum_{j=1}^{J} \Delta\Pr(\text{event } j)z_j, \tag{5.5}$$

where Δ is the cross-national difference operator, $w_j = \theta\Pr(\text{event } j)_{WG} + (1 - \theta)\Pr(\text{event } j)_{GB}$, $z_j = (1 - \theta)\Pr(\text{exit poverty}|\text{event } j)_{WG} + \theta\Pr(\text{exit poverty}|\text{event } j)_{GB}$, and $0 \leq \theta \leq 1$. A similar expression can be derived for cross-national differences in poverty entry rates.

In our empirical application we focus our discussion on the various Δ terms *per se*, rather than providing exact numerical disaggregations using (5.5) and its poverty entry rate counterpart. There are three reasons for this. The first is that it is difficult to compile an exhaustive set of mutually exclusive trigger events. A number of events may occur simultaneously and, although one could treat each joint occurrence as a separate event, there are practical limits to implementing this. An alternative might be to define a set of mutually exclusive events using a predefined hierarchy of event 'importance' (cf. Bane and Ellwood 1986), but the assumptions required are debatable. Our response to these issues is to focus on a subset of the most important events and to look at each of these one at a time, but also to examine an important joint event (changes in labour-market attachment combined with household formation/dissolution). Second, and related, with this strategy we can also compare cross-national differences in probabilities that children are born poor – equation (5.3) only refers to the experience of existing children.

The third reason for focusing on decomposition components is that it is important to calculate these separately for different groups of children at risk of a poverty transition.

(For example the outcomes and processes affecting exits from poverty by children in lone-parent households differ from those for children in married-couple households – (re)marriage is a potential route out of poverty for the former group but not the latter.) Aggregation of within-group differences over at-risk subgroups would be possible in principle, but the value added is relatively low. The strengths of our analytical approach derive from its transparent focus on the sources of the differences within each group.

The decompositions help to uncover the relative importance of the three key types of institution – labour market, marriage market and welfare state – in explaining cross-national poverty differences. The effects of differences in labour-market or marriage-market institutions (for example, differences in the nature and extent of active labour-market policies, or differences in matrimonial law) are revealed most obviously through differences in the probabilities of the relevant trigger events. By contrast, differences in welfare states are most obviously revealed by cross-national differences in income changes among those experiencing particular event. The primary goal of western welfare states is to directly modify the outcomes associated with various events using cash transfers (social assistance and social insurance benefits, and taxes).

5.3 Anglo-German differences in child poverty transition rates: some priors

Existing evidence provides mixed suggestions about why Britain has lower child poverty exit rates and higher child poverty entry rates than Germany does. The reasons are that some factors offset each other, the sources of the stylised facts are diverse, and the information does not necessarily refer to families with children.

5.3.1 Differences in the prevalence of labour-market and demographic trigger events

Consider first the relative prevalence of labour-market and demographic trigger events. Britain is typically cited as having a more 'flexible' labour market than Germany, and greater turnover between employment and unemployment; see, for example, Nickell (1997). On this basis one might expect earnings mobility among persons not changing jobs to be greater in Britain than Germany, but this may not be so: it is now well established that Germany has higher earnings mobility than the USA (Burkhauser *et al.* 1998; Schluter and Trede 1999). One expects higher rates of both job loss and job gain in Britain than Germany, but this has ambiguous implications for poverty. Higher risks of job loss lead to higher poverty entry rates, other things being equal, but higher risks of job gain lead to higher poverty exit rates.

A similar argument applies to marriage-market events – again existing evidence suggests that turnover is higher in Britain.[5] But higher risks of divorce and separation are consistent with a higher child poverty entry rate, whereas a higher marriage risk is

[5] The number of legal marriages per 1,000 people in 1995 was 5.3 in Germany (eastern and western) but 5.5 in the UK, and the number of divorces per 1,000 people was 2.1 and 2.9, respectively (Eurostat 2000).

consistent with a higher child poverty exit rate. Fertility rates are lower in Germany than in Britain (Eurostat 2000), a factor contributing to a smaller proportion of children born into poverty.

5.3.2 Differences in financial consequences for those experiencing trigger events

The expected Anglo-German contrast is more clear-cut if one considers the financial consequences associated with trigger events, but here too there are factors that complicate conclusions. The standard view is that the German welfare state provides a better financial cushion against adverse events such as job loss than the British welfare state (at least in the short term). For instance, Germany provides earnings-related unemployment insurance and unemployment assistance, whereas in the UK unemployment insurance is flat-rate (see Section 2.2).

Just as a high replacement ratio may be taken as evidence that one country provides a better cushion against adverse events such as unemployment, a high ratio also suggests that the financial returns to the average unemployed person from taking a job are lower. If this disincentive effect is sufficiently strong, then the only people who take jobs will be those with sufficiently high financial gains from taking a job. In this case the probability of moving out of poverty conditional on taking on more work is likely to be higher in the high replacement ratio country (Germany rather than Britain in this case).

Large negative income changes associated with divorce and separation have been documented for a range of countries. Burkhauser *et al.* (1990; 1991) drew attention to similar impacts in Germany and the USA, and Jarvis and Jenkins (1997b) reported findings for Britain that were in the same range. The most plausible explanation for cross-national similarities is that gender inequalities in the labour market and home that are common across countries are more important than differences in structure and coverage of the welfare state; see Holden and Smock (1991) for elaboration. Whether the positive income effects associated with (re)partnering by a lone mother are larger in Germany or Britain is also not clear. On the one hand, the German tax system provides strong financial rewards to marriage especially through its income-splitting rules that reduce the progressivity of the tax system for dual-earner couples. The UK has independent taxation of men and women. On the other hand, these features of the German tax system also provide an incentive for a married woman not to work. If (re)partnering is with someone who is unemployed (and who remains so), then the reduction in the risk of poverty associated with (re)partnering may be relatively low, because the tax system would be less relevant in this case.

In sum, the most clear-cut hypotheses about Anglo-German differences are as follows:

- The probability of job gain, and the associated conditional probability of exiting poverty, are each higher in Britain than in Germany (having offsetting impacts on differences in the overall poverty exit rate).
- The probability of job loss, and the associated conditional probability of entering poverty, are each higher in Britain than in Germany (having reinforcing impacts on differences in the overall poverty exit rate).
- The probability of household formation is higher in Britain than Germany (contributing to a higher poverty exit rate).

- The probability of household dissolution is also higher in Britain (contributing to a lower poverty exit rate).

The evidence concerning Anglo-German differences in the conditional probabilities of poverty transition associated with demographic changes is less clear-cut. Overall, the fact that there are many factors potentially at work, some of which may offset others, underlines the need for a systematic disaggregated analysis.

5.4 Some definitions

The BHPS and GSOEP samples used in the analysis are as described earlier. So too are the definitions of income and the poverty line. Various alternative definitions were also used but the results were robust to these alternative choices (Jenkins *et al.* 2001). Before proceeding to the findings, we need to explain some concepts – how we defined trigger events and the various reference periods.

5.4.1 The definition of trigger events

Trigger events were identified from year-on-year changes in demographic and labour-market characteristics of each child's household. For example, 'demographic' events included a change in household size (conditioning on no change in household type), and entry to and departure from a lone-parent household. 'Labour market' events included a change in the number of workers (full-time and in total), and a change in real household labour earnings (unadjusted for differences in household size and composition) of at least 20 per cent conditioned on there being no change in the total number of workers in the household. Our aim was to distinguish between job gains and losses and 'pure' earnings changes, where the latter are driven primarily by changes in the annual work hours of household members which did not involve job change(s). The threshold of 20 per cent was chosen to ensure that transitory earnings variations were not counted as events. Each event was considered independently, one at a time, though we also considered some jointly occurring events.

5.4.2 The reference periods for income, household characteristics and trigger events

Age, sex, and thence household type and composition, were variables measured at the date of interview in each survey year – typically in the autumn for BHPS respondents (October is the modal interview month) and in the spring for GSOEP respondents (March is the modal interview month). The reference period over which annual household income and labour earnings are calculated is, for the BHPS, the 12 months up to 1 September of the survey year (for example, from 1 September 1996 to 31 August 1997 for survey year 1997) and, for the GSOEP, the reference period was the calendar year prior to the survey year. In both surveys, household incomes were derived by aggregating the incomes of all the household members present at the time of the interview (incomes of members who left during the year are not counted).

There is, therefore, a potential mismatch in timing between demographic events over the year $t - 1$ to t and changes in annual income. In particular, the reference period for annual

income for households surveyed in year *t* partially overlaps the survey date at year *t* – 1. As a result, authors such as Burkhauser *et al.* (1986; 1990; 1991) and DiPrete and McManus (2000) have taken events measured between interviews at *t* – 1 and *t* and compared them with annual household incomes at years *t* – 1 and *t* + 1. The problem with this convention is that calculations of incomes at *t* + 1 may be based on a different set of individuals than those present at *t*: there is substantial flux in household membership over time. Hence the income change calculation may reflect this subsequent change rather than the trigger event of interest. Observe too that trigger events relating to arrivals and departures of household members already have some impact on year *t* income, because household incomes are calculated only for the individuals forming the household at the year *t* interview.

In our view, therefore, the appropriate choice of observation window width for income changes is not clear-cut (and may depend on the particular event under consideration). In order to check the robustness of results, we considered income changes both between years *t* – 1 and *t*, and between years *t* – 1 and *t* + 1.

5.5 Anglo-German differences in child poverty transition rates

The cross-national differences that we seek to explain are precisely the differences that were set out in Table 12 at the end of the preceding chapter. Recall that we showed that child poverty exit rates were lower and child poverty entry rates were higher in Britain than in western Germany, and that the all-children differentials in transition rates were echoed when one considered children in each of the three household type subgroups separately.

5.6 Trigger events and movements out of child poverty

We analyse exits from poverty by children in lone-parent households separately from those by children in married-couple households. The 'demographic' trigger events considered were a fall in the child's household size (this corresponds, for example, to an older sibling becoming non-dependent or leaving home) and, for the former group, leaving a lone-parent household (for example, by (re)marriage of the custodial parent). The other trigger events analysed were labour-market ones: an increase in the number of workers, full-time workers in particular, and increases in labour earnings with no change in the number of workers.

5.6.1 Exits from poverty by poor children in lone-parent households

The estimates for poor children from lone parent households are shown in Table 13. The first row of the table shows the exit rates for this group as a whole over a one-year interval (*t* – 1 to t) – as shown earlier in Table 12 – whereas the second row shows the exit rate for the period *t* – 1 to *t* + 1). With a longer observation window exit rates were slightly higher in both countries, but the cross-national differential persisted. The

Table 13
Poverty exits by poor children in lone-parent households (pooled data, 1991–98)[a]

	Britain (%)	Western Germany (%)
All children at $t-1$ at risk of poverty exit		
Pr(not poor at t)[b]	20.4	33.4
Pr(not poor at $t+1$) [c]	25.8	43.7
Household size fell		
Pr(event)	1.3	0.0
Pr(not poor at t|event)	3.1	–
Pr(not poor at $t+1$|event)	17.7	–
Left lone-parent household		
Pr(event)	17.0	12.6
Pr(not poor at t|event)	46.0	48.6
Pr(not poor at $t+1$|event)	40.8	56.6
Gained full-time worker(s)		
Pr(event)	8.9	14.6
Pr(not poor at t|event)	74.1	82.2
Pr(not poor at $t+1$|event)	65.3	68.1
Both of above		
Pr(event)	6.0	5.3
Pr(not poor at t|event)	83.5	91.7
Pr(not poor at $t+1$|event)	65.3	75.6
Labour earnings increased by 20% or more (number of workers unchanged)		
Pr(event)	65.2	50.0
Pr(not poor at t|event)	11.1	32.3
Pr(not poor at $t+1$|event)	17.3	48.0

[a]Expressions Pr(·) are defined in the main text. Events refer to changes between years $t-1$ and t. Sample restricted to individuals who were children at years $t-1$ and t, and poor children in lone-parent households at year $t-1$. Total (unweighted) number of children at risk of poverty exit = 1,668 (Britain), 394 (western Germany). Poverty line = 60% of contemporary national median income.
[b]Poverty exit refers to change in poverty status between years $t-1$ and t.
[c]Poverty exit refers to change in poverty status between years $t-1$ and $t+1$.

remaining rows of Table 13 report the estimates of the two types of statistics for five trigger events: Pr(event) defined over the period $t-1$ to t, and Pr(poverty exit | event) for each of the two observation periods. Decreases in household size were very rare, so we did not consider this event further.

We look first at the cross-national differences in the probability of trigger events. Table 13 shows that the chances of moving out of a lone-parent household over a one-year interval were higher in Britain than in western Germany (17 per cent compared to 13 per cent). The cross-national relativity was reversed, however, for the chances of gaining a full-time worker. In Britain the probability was about 9 per cent, but it was almost 15 per cent in western Germany. On the other hand, the probability of the joint occurrence of these two events was much the same in the two countries, 5–6 per cent. Put another way, of those children with gains in the number of full-time workers, in Britain the majority also moved out of a lone-parent household, whereas a minority did in western Germany.

The most striking cross-national difference in trigger-event occurrence was in the prevalence of an increase in real household labour earnings, experienced by almost two-thirds of British children, but only by about half of western German children. Both estimates were much larger than the probability of increases in the number of full-time workers. Thus it appears that, in both countries, increases in annual work hours (for households already working) were more common among poor lone-parent households than were moves into full-time work.

When we considered the probabilities of exit from poverty conditional on having experienced a trigger event, we found that cross-national differences were relatively small for departures from lone parenthood, though the estimates themselves were quite high in each country: just under half. When the observation period was extended a further year, a cross-national differential appeared, with the conditional poverty exit rate becoming markedly higher for western Germany than for Britain.

The size of these effects was dwarfed, however, by the reductions in poverty risk that were associated with an increase in the number of full-time workers: the conditional exit probability in this case was some 74 per cent in Britain and even higher in western Germany, 82 per cent. Extension of the observation period moderated these estimates somewhat, to a probability of around two-thirds in both countries. Experience of both events increased the conditional poverty exit rates, as expected, though by less in Britain than in western Germany. By contrast, increases in household labour earnings had a much smaller association with poverty exits, particularly in Britain. About one-third of the German children experiencing this event left poverty over the same period (almost half if we look a year later), compared to only 11 per cent of British children (or 17 per cent a year later).

Assembling the evidence from the decompositions, we conclude that there were several related reasons why poverty exit rates for children in poor lone-parent households were higher in western Germany than in Britain. In Germany the likelihood of a move into full-time work was higher, and when this did occur it had a greater poverty reduction impact than in Britain. Increases in labour earnings due to increases in work hours among households already working were relatively common in both countries (though more so in Britain than in Germany), but the associated poverty reduction was somewhat smaller in Britain. Thus the cross-national difference in child poverty exit rates appears to be explained more by the differences in what happened to income conditional on more work, than by more work *per se*. Other factors such as the rate of departure from lone parenthood (higher in Britain) or the positive financial consequences of repartnering – about the same in both countries – were less important.

This in turn suggests the key importance of the German tax and benefit system for reinforcing the income impact of more work – whether through longer hours for parents already working, or by taking up a job. In this light, the results suggest that recent British active labour-market policies such as the New Deal for lone parents, intended to increase employment rates, will indeed have an anti-poverty effect, particularly if they increase the proportion of lone parents working full-time, but these policies will be significantly reinforced if the rewards from working are also increased. Thus other recent British policy initiatives in the late 1990s that raised the benefits paid to parents working full-time (first via Family Credit and, since October 1999, the Working Families Tax Credit) are measures likely to reduce the cross-national differential in child poverty exit rates in future. The national minimum wage, introduced in October 1999, is likely to make a positive

contribution as well but, given the relatively low rate at which it was set, the in-work benefit initiatives are likely to have a larger impact; see Piachaud and Sutherland (2001a; 2001b).

5.6.2 Exits from poverty by poor children in married-couple households

Anglo-German differences in poverty exit rates for poor children in married-couple households were large: around 27 per cent in Britain compared with about 36 per cent in western Germany. This differential remained when the observation period was extended a further year (the exit rates were then 36 per cent and 42 per cent, respectively). See Table 14, which also displays probabilities broken down by types of trigger event.

Decreases in household size were again so rare that they played virtually no role in explaining the cross-national poverty exit rate differential. The fraction of children in households with an increase in the number of workers was one-third higher in Britain than in western Germany (20 per cent compared with 15 per cent). There was an even larger differential in the prevalence of increases in the number of full-time workers: the rate in Britain is 15 per cent, whereas it was one in ten in western Germany. Much more common in both countries were increases in household labour earnings among households already working and, as for poor lone-parent households (Table 2), the proportion was higher in Britain than in western Germany, 41 per cent compared with 32 per cent. Other things equal, these differences would have led to higher poverty exit for Britain, which of course was not the actual case. Working in the opposite direction were the cross-national differences in the financial consequences of the trigger events.

Among western German children with an increase in the number of household members working, half also exited poverty; among British children experiencing the same event, the fraction was only 40 per cent. The cross-national differential was similar when children with an increase in the number of full-time workers were considered. Some 57 per cent of western German children in this group also left poverty, but only 50 per cent of British children. When the observation window was extended one year further, these differentials increased: the British estimates remained much the same, but the proportion of German children not in poverty increased. The cross-national difference in the reduction in poverty rates associated with an increase in household labour earnings among households already working was particularly striking. Almost two-thirds of German children experiencing this event left poverty after a year (63 per cent), compared with less than one-third of British children (28 per cent). Another year later the cross-national differential was smaller but still large (the proportions not poor were 57 per cent and 36 per cent, respectively).

Overall, the estimates shown in Table 14 suggest that, as was the case for children in lone-parent households, Anglo-German differences in child poverty arose from differences in the financial consequences associated with events, rather than from differences in event prevalence. Indeed, by themselves the latter would have implied higher exit rates in Britain. The potential importance of policies recently introduced in Britain, such as the Working Families Tax Credit – available to all low-income working parents, not only lone parents – is again underlined.

Table 14
Poverty exits by poor children in married-couple households (pooled data, 1991–98)[a]

	Britain (%)	Western Germany (%)
All children at $t-1$ at risk of poverty exit		
Pr(not poor at t)[b]	27.3	36.2
Pr(not poor at $t+1$) [c]	35.6	42.4
Household size fell (and remain in married-couple household)		
Pr(event)	1.7	2.2
Pr(not poor at t|event)	34.2	37.9
Pr(not poor at $t+1$|event)	75.0	55.7
Gained 1 + worker(s)		
Pr(event)	20.1	15.1
Pr(not poor at t|event)	41.0	50.0
Pr(not poor at $t+1$|event)	42.5	62.7
Gained 1 + full-time worker		
Pr(event)	15.4	10.9
Pr(not poor at t|event)	50.0	56.5
Pr(not poor at $t+1$|event)	51.8	63.0
Labour earnings increased by 20% or more (number of workers unchanged)		
Pr(event)	40.8	32.0
Pr(not poor at t|event)	28.3	62.9
Pr(not poor at $t+1$|event)	36.2	56.8

[a]Expressions Pr(·) are defined in the main text. Events refer to changes between years $t-1$ and t. Sample restricted to individuals who were children at years $t-1$ and t, and poor children in married-couple households at year $t-1$. Total (unweighted) number of children at risk of poverty exit = 3,410 (Britain), 2,464 (western Germany). Poverty line = 60% of contemporary national median income.
[b]Poverty exit refers to change in poverty status between years $t-1$ and t.
[c]Poverty exit refers to change in poverty status between years $t-1$ and $t+1$.

5.7 Trigger events and movements into child poverty

We now consider entries to poverty. We only analyse what happened to non-poor children from married-couple households as sample numbers for non-poor children in other household types were small. The estimates are reported in Table 15. The first row shows that poverty entry rates among all children in the at-risk group were higher in Britain than western Germany (10 per cent compared with 6 per cent) and this differential was slightly larger still if a two-year interval is used (12 per cent compared with 6 per cent).

To what extent can cross-national differences in trigger-event prevalence account for these differences? The probability of a decrease in household size (but no change in household type) – arising, for example, via birth of an additional sibling – was about one-twentieth in both countries. The chances of joining a lone-parent household were very slightly higher in Britain than in western Germany, but the probability was small in both cases (3 per cent compared with 2 per cent), so this factor cannot be responsible for the

Table 15
Poverty entries by non-poor children in married-couple households (pooled data, 1991–98)[a]

	Britain (%)	Western Germany (%)
All children at $t-1$ at risk of poverty entry		
Pr(poor at t) [b]	9.9	6.4
Pr(poor at $t+1$) [c]	11.7	6.3
Household size rose (but remained in married-couple household)		
Pr(event)	6.0	4.8
Pr(poor at t|event)	18.0	9.0
Pr(poor at $t+1$|event)	20.2	11.0
Joined lone-parent household		
Pr(event)	3.2	1.6
Pr(poor at t|event)	61.8	58.9
Pr(poor at $t+1$|event)	48.4	23.6
Lost 1+ worker(s)		
Pr(event)	18.0	8.7
Pr(poor at t|event)	23.0	20.0
Pr(poor at $t+1$|event)	21.9	12.7
Both of above		
Pr(event)	1.9	1.4
Pr(poor at t|event)	64.7	65.1
Pr(poor at $t+1$|event)	49.4	23.8
Lost 1+ full-time worker(s)		
Pr(event)	17.0	8.3
Pr(poor at t|event)	22.0	21.5
Pr(poor at $t+1$|event)	20.5	12.8
Labour earnings fell by 20% or more (number of workers unchanged)		
Pr(event)	8.4	8.0
Pr(poor at t|event)	27.7	19.3
Pr(poor at $t+1$|event)	27.1	12.7
Children newborn at t		
Pr(household with newborn) [d]	4.3	1.0
Pr(poor at t|newborn child) [e]	27.2	25.9

[a]Expressions Pr(·) are defined in the main text. Events refer to changes between years $t-1$ and t. Sample restricted to individuals who were children at years $t-1$ and t and non-poor children in married-couple households at year $t-1$. Total (unweighted) number of non-poor children at $t-1$ at risk of poverty entry = 11,630 (Britain), 12,682 (western Germany). Poverty line = 60% of contemporary national median income.
[b]Poverty entry refers to change in poverty status between years $t-1$ and t.
[c]Poverty entry refers to change in poverty status between years $t-1$ and $t+1$.
[d]Proportion of married-couple households at t containing a newborn child. (The German figure is an underestimate – see text.)
[e]Proportion of newborn children at t who were poor at t.

cross-national difference in poverty entry rates. Moreover, the incidence of falls in household labour earnings (for example, because of working hours reductions that do not involve job loss itself) was the same in both countries, 8 per cent. But what did play a marked role were differences in job loss rates. In Britain almost one-fifth (18 per cent) of children experienced a decrease in the number of workers, and about the same

proportion a decrease in the number of full-time workers (17 per cent). These estimates were roughly twice the corresponding fractions for western Germany (9 per cent and 8 per cent, respectively).

Turning now to the poverty outcomes for children experiencing the various trigger events, we see that the choice of the observation period for income change now makes a noticeable difference to the conclusions that might be drawn (compared to the exit rate decompositions). For both countries, extension of the interval from one year to two leads to a reduction in the proportion entering poverty and for all the trigger events (with the exception of increases in household size, and newborn children, discussed below). Although the conditional poverty entry rate associated with each trigger event was broadly similar in the two countries, the fall in entry rate with lengthening the observation period was greater for western Germany, thereby revealing a cross-national differential in entry rates after two years.

Among children moving into a lone-parent household between the interviews in years $t - 1$ and t, for example, about 60 per cent of children entered poverty between income years $t - 1$ and t, in both countries. But the poverty entry rate for the interval $t - 1$ to $t + 1$ was about 48 per cent for British children, twice the corresponding entry rate for German children (24 per cent). It seems that there is a sharp short-term reduction in income associated with family dissolution in both countries, but after a period of adjustment in which circumstances improve, the net effect is that greater protection against poverty is provided to German children than to British children. A similar pattern arose with the loss of one or more workers from the household (whether full-time or not), though the poverty risks involved were somewhat smaller. Approximately one-fifth of children entered poverty in the short run in both countries; however, when the two-year observation window was used, the entry rate was around 13 per cent in western Germany but still one-fifth in Britain. The interval-length effect was more muted for the estimates of poverty entry rates for children who experienced decreases in household labour earnings, but it remains the case that protection against joining the ranks of 'working poor' households was less in Britain than in western Germany.

The last two rows of Table 15 provide information about the contributions to the child poverty rate by children born into already poor households. (All the calculations reported so far were based on samples of children already present in the household at year $t - 1$.) It appears that the proportion of households with a newborn child in an average year was rather higher in Britain than in western Germany: just over 4 per cent compared to just 1 per cent. This is, however, an overestimate of the true differential arising from the way these children are identified in the surveys.[6] In addition, the proportion of newborn children that were born into poor households was much the same in both countries, about one-quarter. Both sets of statistics suggest that differences in fertility and the experiences of newborn children contributed little to Anglo-German differences in child poverty rates.

Overall, the picture for child poverty entries was not symmetric to that for poverty exits. In particular, the greater prevalence of trigger events in Britain than in western Germany

[6] Newborn children are those aged zero in year t. Age in the GSOEP is calculated as survey year minus birth year (birth month data are not available, as they are in the BHPS). But GSOEP interviews typically occur in March each year, and BHPS interviews in October, so the chances of observing a newborn child (as defined) are lower in the GSOEP than in the BHPS.

(for most events) now contributes to the cross-national differential in the poverty transition rate rather than offsetting it. The other main difference from the exit rate analysis is that the largest conditional poverty entry rate was for the trigger event 'joining a lone-parent household', whereas the largest conditional poverty exit rate was associated with increases in the number of full-time workers. These results are consistent with earlier research about the population as a whole for the USA (Bane and Ellwood 1986) and Britain (Jenkins 2000), showing that the impact of 'demographic' events was greater for poverty entries than for poverty exits.

What the entry rate decomposition analysis shares with the exit rate analysis, though, is the finding of the Anglo-German differential in the financial changes associated with given events, and this suggests once more the important role of the German welfare state. The German tax and benefit system provided better protection to children's incomes against adverse events than the British system did, not just better reinforcement of positive events. This is unsurprising given the greater role played by social insurance than by means-tested social assistance in the German welfare state, and the better public day care for pre-school children, enabling mothers to combine paid work and child care more easily.[7] The greater demographic and labour-market turnover in Britain brought these effects more into play in the context of poverty entries – intensifying the effects of welfare state differences – rather than offsetting them as for exits. Recent British active labour-market initiatives have concentrated on increasing movements from unemployment into work and making work pay (see earlier). Our results for poverty entries highlight a potential pay-off to policies in Britain that prevent job loss and promote job retention rates for those individuals who already have or who get a job.

5.8 Concluding comments

Our aim has been to provide a longitudinal perspective on why child poverty rates are higher in Britain than in western Germany. We argued that it was relevant to rephrase the question in terms of poverty transition rates: why are child poverty exit rates lower, and child poverty entry rates higher, in Britain than in Western Germany? To address these issues we used a form of decomposition analysis, comparing cross-nationally the prevalence of events that trigger poverty (changes in household composition and household labour-market attachment or earnings) and the chances of making a poverty transition conditional on experiencing a trigger event. The latter type of difference turns out to be the most important, for both poverty exits and poverty entries. Consistent with the arguments rehearsed in Section 5.2, these findings reflect differences between the German and British welfare states, in particular the German one providing a greater cushion against adverse events and better reinforcement of positive events. Differences in the prevalence rates of trigger events did, of course, also play a role, a notable example being the greater risk of job loss in Britain than in western Germany.

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[7] The greater role of social insurance cannot be the full story. As DiPrete and McManus (2000) and others have pointed out, eligibility among lone parents is relatively low: means-tested social assistance is particularly important for this group (as in Britain). Generosity of payments aside, greater income protection for children in households that split in Germany also comes from larger child support payments from the non-coresident parent.

6. Summary and conclusions

This report has produced a number of robust findings about the nature of child poverty in Britain and Germany during the 1990s. We have confirmed that British children experienced higher poverty rates than German children, and that this difference stems from higher poverty entry rates and lower poverty exit rates. British children experienced longer poverty spells and shorter times between poverty spells. More generally, poverty persistence was greater for British children than for German children.

In seeking explanations for these patterns, we have drawn on two complementary perspectives, the cross-sectional and the longitudinal. Using the former, we have shown that the Anglo-German differences in child poverty rates could be explained in terms of differences in the relative size of 'problem groups' and higher poverty rates within groups. In Britain there were relatively more children in families without work (including a greater fraction of children in lone-parent families). Among these groups – indeed among all groups – child poverty rates were higher than in Germany.

This explanation was complemented and substantially extended by the trigger-event analysis of differences in child poverty from a longitudinal perspective. As in the cross-section analysis, we drew attention to the roles played by differences in labour markets and 'demography'. (For example, in Britain there were greater flows into and out of employment, and a greater prevalence of household formation and dissolution.) But, in addition, the methodology enabled us to say more conclusively than before how differences in the British and German welfare states were related to differences in child poverty rates. We conclude that in the 1990s the German tax and benefits system provided both better protection to children's incomes against adverse events and better reinforcement of positive events than the British system did. Part of the story also seemed to be the better public day care system in Germany for pre-school children (though even this is far from ideal).

These substantive findings may come as no surprise to many readers, having been foreshadowed by earlier empirical studies and simple comparisons of eligibility and generosity of the two welfare states. We would emphasise the value of our results nonetheless. Ours is the first study that has compared Anglo-German differences in child poverty in such a systematic manner along a number of dimensions, while using properly comparable data and a range of sensitivity checks.

As we asked in the Introduction, can Britain learn from Germany how to protect children from poverty, and are there cautionary lessons for Germany from the British experience? The answers are clearly affirmative.

The questions are particularly relevant given the UK government's avowed intention to substantially reduce, and eventually eliminate, child poverty. The Labour government's strategy has not been to move towards a German model. Instead, the British approach has had three components (Piachaud and Sutherland 2001a; 2001b). First, policies have been introduced that alter incomes directly, through the tax and benefit system: the amount of money paid in respect of children has increased in, for example, both the universal child

benefit and the child allowances paid as part of other means-tested benefits and tax credits. Second, active labour-market policies have been pursued. 'Welfare to work' measures to promote paid work have been emphasised as a means to help people to return to or find paid work (for example, the New Deal for lone parents) and also to make work pay (particularly through the Working Families Tax Credit, introduced in October 1999 to replace Family Credit). The third component of the anti-poverty strategy has been tackling long-term disadvantages through a number of diverse measures (for example, the Sure Start programme in disadvantaged areas and the national child-care strategy).

Will these measures enable the UK government to meet its stated child poverty reduction targets according to plan? Recent assessments (Piachaud and Sutherland, 2001a; 2001b) point to some notable success so far, suggesting that by 2002 these policies may have reduced the number of poor children by 1 million. But on the other hand, this would leave about 2 million children still poor. Micro-simulation analyses by Piachaud and Sutherland suggest that changes in tax and benefit policies have had by far the greatest effect in reducing child poverty over this period, compared to policies promoting work. These findings suggest that the role that active labour-market policies can play should not be over-sold as a means to reduce child poverty. (They may help meet other societal goals – but that is a different issue.)

It is unlikely that the UK government will change course and embrace, say, a more German-like strategy to protecting children against poverty. But Germany's relative success does remind us that alternative approaches may work. This is not to argue that the German system is perfect. We have not considered other alternatives (for example, a Scandinavian model) and, in any case, one needs to assess welfare state performance for all citizens, not just children.

Germany might also learn something from its own experience. Note our finding that in eastern Germany at the beginning of the 1990s, children were no more at risk than all persons of being poor (the risk was universally high). But after reunification, by the end of the 1990s, child poverty rates for children in eastern Germany were higher than the all-person rate, as in western Germany (though the differential was still somewhat smaller than that for Britain). It would be interesting to unravel the reasons for these trends and how they were related to changes in institutions.

Appendix: Data sources and definitions

A.1 The British Household Panel Survey and the German Socio-Economic Panel

We use eight waves of data, survey years 1991–98, of the British Household Panel Survey (BHPS) and the German Socio-Economic Panel (GSOEP); see Taylor (2001) and Wagner *et al.* (1993) for further details. The BHPS and the GSOEP are of similar design. The first wave of each survey (1991 for the BHPS, 1984 for the GSOEP) was a nationally representative sample of the population living in private households, in the German case also including an over-sample of 'guest workers' (foreign-born residents and their children) recruited abroad mainly during the economic booms of the 1960s and 1970s. Original sample respondents (and coresident adults) have been interviewed at approximately one-year intervals subsequently. Children in original sample households have also been interviewed in their own right when they became adults. We use survey weights in our analysis in order to account for differential non-response and attrition (and the differential sampling probabilities of GSOEP guest worker sample members).

We use the full BHPS sample and several German samples depending on the topic addressed. The main focus is on western Germany – individuals residing in the *Länder* (provinces) that comprised the former West Germany. In the poverty trends analysis we also consider eastern Germany (individuals residing in the former East Germany), and all Germany, which is eastern and western Germany combined.

Household income measures (described below) are based on variables available in the 2001 edition of the Cross-National Equivalent File, a derived variable subfile of comparable cross-national data from the GSOEP and the BHPS (as well as the US Panel Study of Income Dynamics and the Canadian Survey of Labour Market and Income Dynamics); see Burkhauser *et al.* (2001) and Bardasi *et al.* (1999) for further details.

A.2 Definitions of key variables

A.2.1 Poverty as low income

We count an individual as being poor if the needs-adjusted real net annual income of the household to which he or she belongs – 'income' for short – is less than the poverty line. Household net income is the sum across all household members of cash income from all sources (income from employment and self-employment, investments and savings, private and occupational pensions, and other market income, plus cash social security and social assistance receipts), minus direct taxes. Incomes were deflated to 1998 prices using a national price index derived from the IMF's *Financial Statistics*.

A.2.2 Equivalence scale(s)

The needs adjustment of incomes was done using an equivalence scale according to which each household income was deflated by a

$$\text{household equivalence factor} = [(\text{number of adults}) + \alpha \times (\text{number of children})]^{\beta},$$

where $\alpha = 0.7$, $\beta = 0.75$. In order to consider the sensitivity of results to changes in the equivalence scale, we repeated our analyses using three other scales: $(\alpha, \beta) = (0.7, 0.5)$, $(0.5, 0.75)$, $(0.5, 0.5)$. Patterns of cross-national differences were hardly affected at all, whether looking at trends or at dynamics (see Jenkins *et al.* 2001).

A.2.3 The poverty line

The poverty line that we use in most of the analysis is 60 per cent of contemporary national median income, a threshold recommended by the Eurostat Task Force (1998) for cross-national poverty comparisons. For Britain, the 60 per cent of median poverty line in 1991 was £4,665 per annum, with slightly higher cut-offs in each successive year, and in 1998 £5,166, some 11 per cent higher than in 1991. These changes reflect the economic growth over the decade as the economy came out of recession after 1991. Germany's recession came later, starting around 1992–93, with recovery not until the end of the period that we consider. As a result, median income in Western Germany followed a relatively flat trend over time. The poverty lines are DM 15,195 for survey year 1991 and DM 15,008 for 1998 (about 1 per cent lower than the 1991 level), varying in between by at most 5 per cent. We measure eastern Germany's poverty rates using the western Germany poverty line as well. Arguably after reunification the benchmarks in the East for living standards and aspirations became those of western Germany rather than those of the former East Germany.

Our use of a poverty line that varies in value according to the distribution being considered – a 'relative' poverty line, in contrast to an 'absolute' poverty line which is fixed in real terms across years and countries – is potentially controversial. We repeated all our analysis using an absolute poverty line set equal to 60 per cent of the 1991 British median income (£4,665, or DM 15,355 when converted at the 1991 OECD purchasing power parity). Our results changed little. The reason is that, over the 1990s and in both countries, not only was secular growth in median income relatively small, but also the shape of the income distribution changed hardly at all.

A.2.4 Demographic and labour-market variables

Children are those individuals aged under 17 years; adults those aged 17+ years. We defined a 'lone-parent household' to be a household containing one adult plus one or more children. A 'married-couple household' was a household containing two or more adults with or without children, where the spouse of the head of household is present. ('Married' refers to both legal marriages and cohabiting unions.) The remaining group of 'other' households comprised two or more adults living together with or without children and where the household head had no spouse present. Included under this heading may have been a lone parent and her children sharing the household with unrelated adults (for example another lone-parent family) or the lone parent's own parents. Thus our 'lone-parent household' group did not include all lone parents and their children. The fraction of all children in the 'other' group is small: 4 per cent in Britain, 2 per cent in western Germany.

We defined an adult household member to be a 'worker' if his or her annual labour earnings were positive, and he or she worked at least 52 hours over the reference year. Full-time workers were those who worked 1,500 or more hours per annum. For each child we calculated the number of workers and the number of full-time workers in his or her household.

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