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From poverty to well-being

What policies are available to reduce child poverty? *

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To begin with, it is worth asking – particularly in light of recent efforts to move the measurement of social progress from growth (GDP) and income (poverty) in to area of well-being – if poverty reduction should remain the priority for families in developed economies in the 21st century. What makes for a happy and productive family life? How important is measuring poverty today when we can measure outcomes like well-being, happiness, and stability? And perhaps more acutely, given the inability of many governments to reduce poverty over recent decades, have we reached a point where income poverty, as we see it today, is an acceptable level of income poverty in developed countries?

Partly a continued focus on poverty is acceptable because it is a prominent and agreed international measure of family living standards. It can be used to monitor how families fare now, and due to its comparability across countries over time, it is a powerful outcome measure for detailed policy evaluations of the success of government efforts to support families, which facilitates lesson-drawing between countries in terms of what works.

There is also a good deal of evidence on the links between a range of negative family outcomes and experiences of poverty. Evidence across developed countries generally agrees that children from poor households are more likely to grow up poor, experience unemployment, to have lower levels of education, and to experience a range of poor health outcomes and engage more often in many risk factors. Poverty has been linked to family breakdown, parental (particularly maternal) depression, social exclusion, and the take up of publically provided family services.

Nevertheless, it is important to be aware of the limits of the income poverty measure. First, the relative poverty line used to measure income poverty in developed countries [1] can split families between 'non-poor' and 'poor' categories on the basis of a single dollar's difference. Second, poverty only increases the risks outlined above, it does not guarantee these experiences – there are more factors that need to be accounted for. Third, it is not fully known how non-poor families share/spend their money, intra-household spending will moderate any success associated with living in a non-poor household. Fourth, if we aspire to lives of equality of opportunity (or outcomes in and from childhood), and healthy functioning families, interventions should focus on building capacities and resilience, rather than making up differences in income.

Moreover, there are many families that live in extreme poverty that are not included in many of the cross national statistics. Indigenous families or Roma families, homeless families, or families where the parents or children are institutionalized often do not make it into the household surveys. Often these families are at the most acute risk of poverty. For instance, evidence would suggest that risk of poverty and deprivation in Roma families in Europe can be 4 to 6 times higher than that of the general population (Frazier and Marlier, 2011).

Have we reached a point where present levels of income poverty in developed countries are acceptable levels of income poverty? What might be an effective level of child poverty eradication; a rate below 5% measured at 50% or 60% of the median household income?[2] Five percent still means one in 20 children living in poverty; the most recent figures show that at the mo-

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*Extract of the paper presented to the European Expert Group Meeting (Brussels,6-8 June 2012) by Dominic Richardson (OECD). *Cfr. http://www.family2014.org/egmb.php*

[1] 50 or 60 percent of the median equivalised household income.

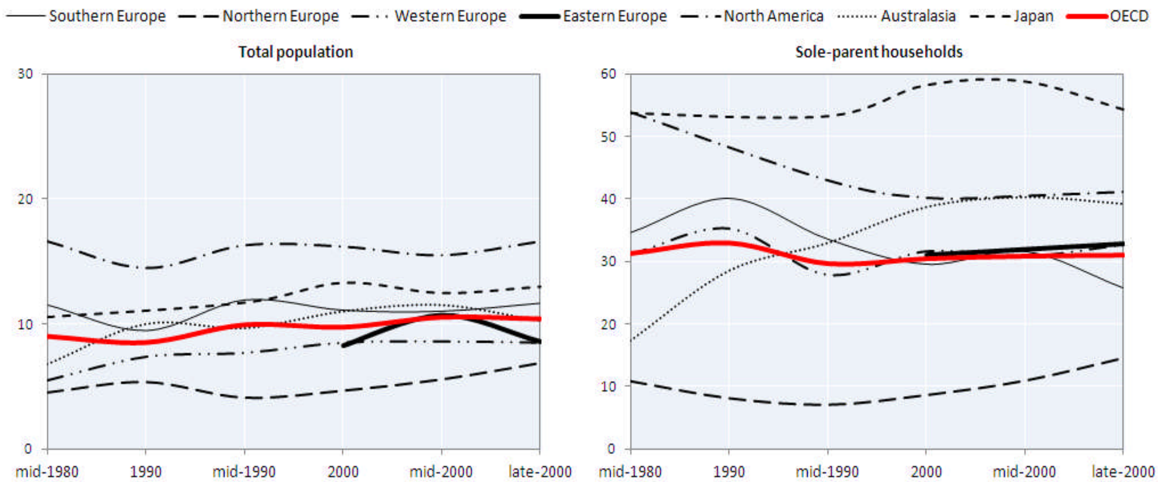
[2] The UK government, in the late 1990's, stated a goal to eradicate child poverty by 2020. A European Commission report states that by 'eradicate' the UK government said this could be interpreted as being at a level amongst the lowest in Europe (see EC, 2008: 120). In 2010 the country with the lowest income poverty rate for households with dependent children, as reported by EUROSTAT, was Norway at 9.2%.

ment child poverty on this measure stands at nearer 1-in-5 in Europe (60% threshold), and on the basis of the OECD measure (50%) the number is nearer 1-in-8 children in poverty.

Although it is inappropriate to suggest any number of families or children should live in poverty, in light of the limitations of the measure, truly eradicating poverty will not mean much if all it achieves is to leave families living in the same conditions, but just above an arbitrary line of acceptable income standards (for thoughts on the limitations of child income poverty measures see Richardson & Bradshaw, 2012). On the other hand, many would acknowledge that because we know that income poverty measured in this way links to so many other poor outcomes in developed economies, a rate of 1-in-5 to 1-in-8 children living in poverty is unacceptably high.

Figure 1 outlines the trends in income poverty rates in all families with children (left-hand chart) and in sole parent families. With the exception of Eastern Europe, and in the OECD as a whole, poverty rates among all families have been creeping up. The picture is mixed for sole parent families, with rates in Australasia and Northern Europe rising from low levels over the period, and above average rates in North America and southern Europe showing falls. Note however, the scales on both graphs, around 1 in 3 sole parents in the OECD live in poverty (rates are around 30%), in all families the average is less than one in ten.

Figure 1: Trends in poverty rates in OECD regions, mid-1980 to late-2000



Data refers to the unweighted average of all countries in the region for which data are available. The regions are defined as follows: Southern Europe includes Greece, Italy, Portugal and Spain; Northern Europe includes Denmark, Finland, Iceland, Norway and Sweden; Western Europe includes Austria, Belgium, France, Germany, Ireland, Luxembourg, the Netherlands, Switzerland and the United Kingdom; Eastern Europe includes the Czech Republic, Estonia, Hungary and Poland; Australasia includes Australia and New Zealand. Source: OECD Income distribution and poverty database (www.oecd.org/els/social/inequality).

Income poverty remains a focus in 21st century developed economies because it remains a problem despite many efforts to reduce it, and will continue to be a focus even if a change in direction (in terms of policy goals) takes place. For one, income poverty in families reduces the efficiency of efforts put into services – such as education or health – to improve the living standards of families in developed economies. Moreover, building capacities and resilience takes time, and for many families the window of optimal opportunity may already have passed. For future families, there is time to reconsider the priorities, in the meantime reducing income poverty remains an important social goal, and a priority for many of today's families.

At the national level, comparisons of spending on family specific policies in developed countries categorize policies into:

- Cash benefits including: family allowances, designed to support families with the costs of raising children, which can vary on the age of their children, family size and the income of the family (universal or mean-tested). In some countries both universal family benefits and working family tax credits (or another work or income conditional benefit) are available. Parental leave benefits to support families to care for the youngest children, such as maternity, paternity and extended home care leave benefits (e.g. child raising allowances) are paid either on the basis of social contributions, or universally for a limited number of weeks or months most often at a percentage of earned income (sometimes to a cap). Parental leave benefits are sometimes conditional on health checks or meeting residency conditions. Birth grants in one-off or multiple payments (such as in France), can also be paid conditionally on the basis of health checks at or around the time of birth. And finally, other cash benefits can be paid – separately from those above – to help meet specific needs of groups such as sole parent families or families with disabled children (child support/maintenance, travel, food, accommodation costs, household items). These benefits can be paid either periodically or in grant form.
- Family specific tax breaks or allowances: are relatively new forms of family intervention for reducing poverty, gaining in popularity since the early 2000's across OECD countries as welfare to work schemes became more popular. They are received by working families in the form of reductions in their income tax bill. Sometimes 'non-wastable' – that is the differ-

ence in cash is paid to working families whose tax bill is lower than amount of the tax break – and on rare occasions (as in Japan) paid at different levels depending on the age of the child dependent.

- Services delivered in kind including: childcare and afterschool care services delivered free at the point of consumption or subsidized, with families becoming eligible on the basis of children's ages, family income or parental employment status. Other benefits in-kind can include home help or accommodation services, and services for transport, holidays or child protection purposes. These contribute to subsidizing family costs, combating forms of deprivation and exclusion, and in extreme cases housing or re-housing families or children at risk. Services, unlike most family cash benefits, have capacity considerations and time considerations (opening hours), and are often delivered at the local authority/municipality level.

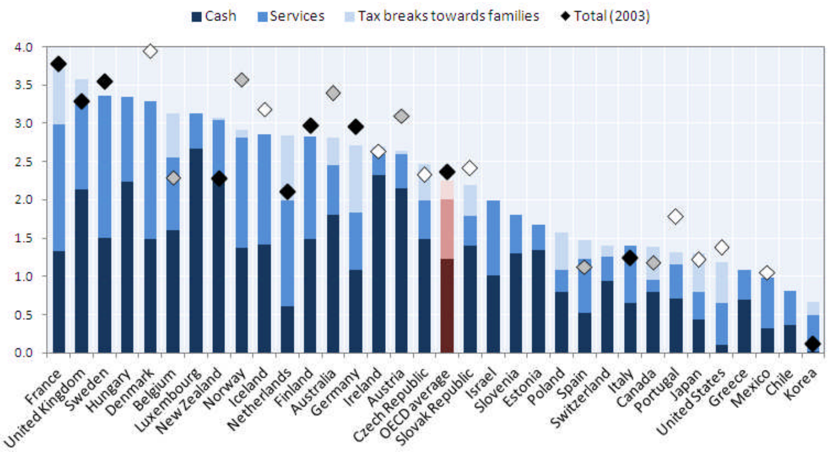
Other benefits that form part of the anti-poverty package, but are not paid solely to families with children, include: pensions, housing benefits, social assistance benefits, unemployment allowances, and general earned income tax breaks or allowances. In a number of cases these will include supplements for children, which can vary in amount by age or family size, and in some cases be subject to means-tests which can include or exclude income earned by children in the household. Active labour market policies, for parents and young people (sometimes targeted), could also be included here.

The inclusion of services such as education and health in the family package is also necessary to appropriately review the impact of anti-policies in the broadest public welfare context. In Japan for instance, the birth grant is sometimes needed to pay the hospital costs around birth because they are not provided for free. In the United Kingdom the compulsory school day ends at least an hour before it does in France, meaning out-of-school care is in greater demand (although in France Wednesday is not a school day, in the UK it is). Moreover when adding education and health concerns, spending on families with children increases dramatically, and mainly through the costs of providing for public education (on average across the OECD, 3 in every 5 dollars spent on the average child goes through the education system).

On occasion, due to limited budgets or places, full coverage of the eligible population of any benefit may not be possible. Under-optimal levels of coverage can restrict the anti-poverty effects of these benefits, and should be considered when assessing the overall value of the policy. Childcare services can be oversubscribed, for instance, or cash benefits may be paid out of block grants meaning that later applicants, though eligible, may not receive the benefit (although the latter is rarely seen in mainstream family benefits and not in those paid on the basis of social contributions). Moreover, due to error, stigma or lack of information, take-up rates of these benefits may be less than optimal also. Though not discussed in detail here, these issues reflect on the more complex considerations of what makes for a good anti-poverty policy beyond discussions of 'how much', 'how often', 'how' and 'for who'.

How these policies interact to reduce family poverty should also be considered. Families in receipt of certain benefits may be 'passported' directly to another benefit (in the UK receipt of housing Benefit makes a family eligible for Council Tax Benefit). In some cases income from one benefit can be treated as applicable income in the means-test for another benefit. The results of these types of interactions can be compared using poverty estimates before and after tax, or by comparing the net incomes for different model family at different earnings levels.

Figure 2. Public spending on family benefits in cash, services and tax measures, as a percentage of GDP, 2003* and 2007

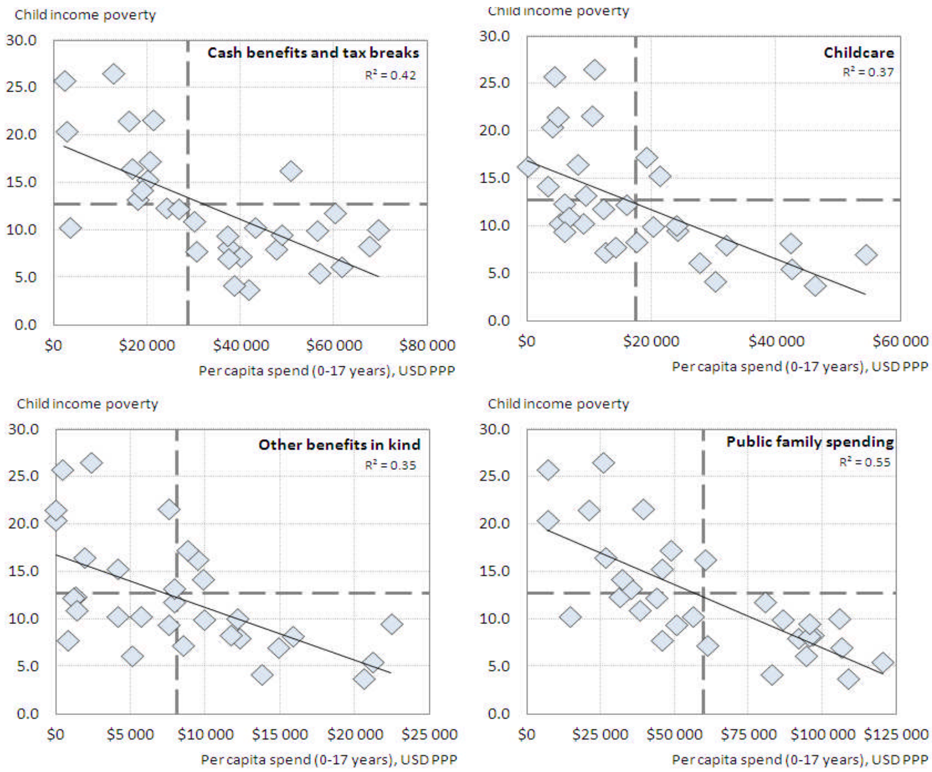


*Note: *White diamonds = largest increase/smallest decrease in spending in Cash transfers from 2003 to 2007; Black diamonds = largest increase/smallest decrease in spending in Services from 2003 to 2007; Grey diamonds = largest increase/smallest decrease in spending in Tax breaks for families from 2003 to 2007. Cash benefits include family allowance, maternity and paternity leave and other cash benefits. Services include day-care / home-care help service and other benefits in kind. Public support accounted here only concerns public support that is exclusively for families (e.g. child payments and allowances, parental leave benefits and childcare support). Spending in other social policy areas such as health and housing support also assists families, but not exclusively, and is not included here. Data on tax breaks towards families is not available for Chile, Estonia, Greece, Hungary, Israel and Slovenia. Coverage of spending on family services (including childcare) may be limited as such services are often provided, and/or co-financed, by local governments. This can make it difficult to get an accurate view of public support for families across, especially but not exclusively, in federal countries.*

Source: OECD Social Expenditure Database (www.oecd.org/els/social/expenditure).

Figure 2 shows the spending on policies for families with children in OECD countries in 2003 and 2007 (the latter broken down by spending type). OECD countries spend around 2.3% of GDP on family policies on average[3], around two thirds of which is delivered in cash benefits and tax breaks. There is not much consensus in terms of spending patterns in either the high or low spending range; for instance Sweden spends over 3% GDP on family benefits, a similar amount to the UK and France, but concentrates more effort on in-kind benefits, as oppose to cash or tax break interventions. Low spenders, such as the US, Greece and Mexico spend around 1% of GDP on families, but do so in different ways. There is more of a consensus in terms of how spending has changed in recent years. The diamonds on the charts show spending rates in 2003, and are colour coded to show which policies have seen the biggest shifts in spending. Low spending countries on the right-hand side of the chart are experimenting with cash policies, the high spenders are experimenting with changes to services policies. Australia, Austria and Norway, have all substantially lowered family spending, with cuts to tax break policies leading the way. New Zealand, the Netherlands and Belgium, are now above average spenders, for the formers two countries this expansion favoured service expansion, for the latter, tax breaks made the gains.

Figure 3: Associations between spending types and risks of poverty during childhood



Source: OECD 2011.

Figure 3 shows how the raw level of investment on families matters for reducing poverty rates. Increasing levels of cash payments, childcare and benefits in-kind in dollar terms per child, all associate with lower child income poverty rates. The differences in the association strengths can be explained, in part, by the nature of these transfers, and importantly how income poverty is calculated. For instance, cash benefits directly affect measureable income in all families, whereas families with low incomes before benefits cannot free-up disposable income by accessing services that they would otherwise not take-up because of lack of money (childcare, accommodation etc.). Because of this, the poverty reduction impact of these measures is not directly (but rather, broadly) comparable, and so cautious interpretation of the result is required.[4]

[3] To put this in context average education spending is around twice as high, and total social spending – including pensions, social assistance and so on – is around ten times as high (OECD, 2011).

[4] Add to this that these associations say nothing about causality, nor about the long-term impact of the service provision on poverty rates, moreover they do not indicate the extent to which these types of interventions can impact on other measures of living standards such as deprivation or subjective perceptions of poverty.