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Social policy strategies to combat income poverty of children and families in Europe

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Luxembourg Income Study Working Paper Series

Working Paper No. 336

**Social Policy Strategies to Combat Income Poverty of
Children and Families in Europe**

Bea Cantillon and Karel Van den Bosch

December 2002



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Social Policy Strategies to Combat Income Poverty of Children and Families in Europe

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Introduction

In the EU there is growing concern about poverty among children, and among families with children. In most OECD countries, income poverty among children now exceeds that among the elderly, who traditionally were the demographic group most at risk of poverty (Jäntti and Danziger, 2000). However, the policy response of most industrialized countries in the past decades towards poverty among the elderly - extending coverage and levels of pension benefits - is less obvious as a policy option as regards poverty among families with children. There are two basic reasons for this. First of all, there is a consensus that increases in social spending are to be avoided, in view of the expected upward pressure on government budgets resulting from the ageing of the population in the coming decades. Secondly, in contrast to the elderly, families with children are supposed to be 'self-reliant', i.e. to be able - in normal circumstances - to earn sufficient income through their own efforts to escape poverty. Benefit dependency is seen as economically inefficient, as socially and morally degrading, and also as ultimately an ineffective route to escape poverty.

Given this starting point, this paper tries to reach some general policy recommendations for combatting income poverty among children and families. It is organised as follows. In the next section, I identify which families with children are most at risk of poverty. Single parents obviously belong to this category, but - what is less well known - so do families with three or more children. In the third section, I discuss some of the new social risks leading to child poverty, which are related to low skills and to the current impossibility of many parents to combine care for children and paid work. In the fourth and final section, I suggest some possible policy responses which would support families in meeting the direct and indirect costs of children.

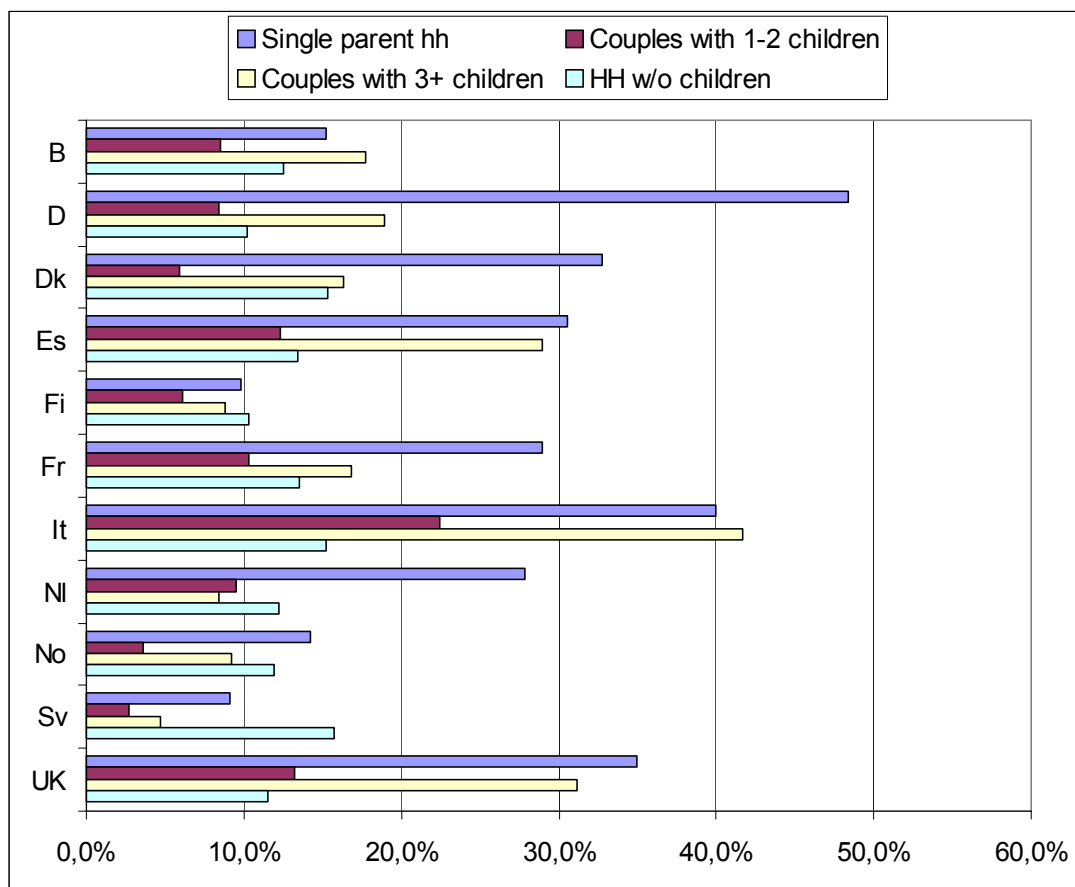
Acknowledgement: Material from the Luxemburg Income Study UK data is Crown Copyright; has been made available by the Office for National Statistics through the ESRC Data Archive; and has been used by permission. Neither the Office for National Statistics nor the ESRC Data Archive bear any responsibility for the analysis or the interpretation of the data reported here.

Incidence of poverty across family types

It is now generally well known that one-parent families (virtually synonymous with lone-mother families) tend to face a much high risk of poverty than two-parent families in almost all OECD countries (e.g. Bradbury and Jäntti, 2001a). Figure 1 confirms this once again. It also shows, however, that in several European countries, the poverty rate among large families with three or more children is equally high as that among single-parent families. This is the case in Belgium, Spain, Finland (though at a comparatively low level), Italy, and the UK. The poverty risk of large families generally exceeds that of childless non-aged families, except in the Nordic Countries and The Netherlands. By contrast, couples with only 1 or 2 children are less at risk of poverty compared to the average childless household, except in Italy and the UK.

The significance of this finding is emphasized by the fact that in many European countries, large families are (still) more numerous than one-parent families, and in addition contain more children per family. The implications of this are revealed in Figure 2, which shows the percentage distribution of poor children across family types. In several countries (Belgium, France, Spain, Italy), the proportion of poor children who live in two-parent families with 3 or more children is much larger than the proportion living in lone-parent families. The contribution of one-parent families exceeds that of large families only in the low-poverty countries Denmark and Sweden, and in Germany, where one-parent families are at a very elevated risk of poverty, both compared to other countries, and compared to other German families.

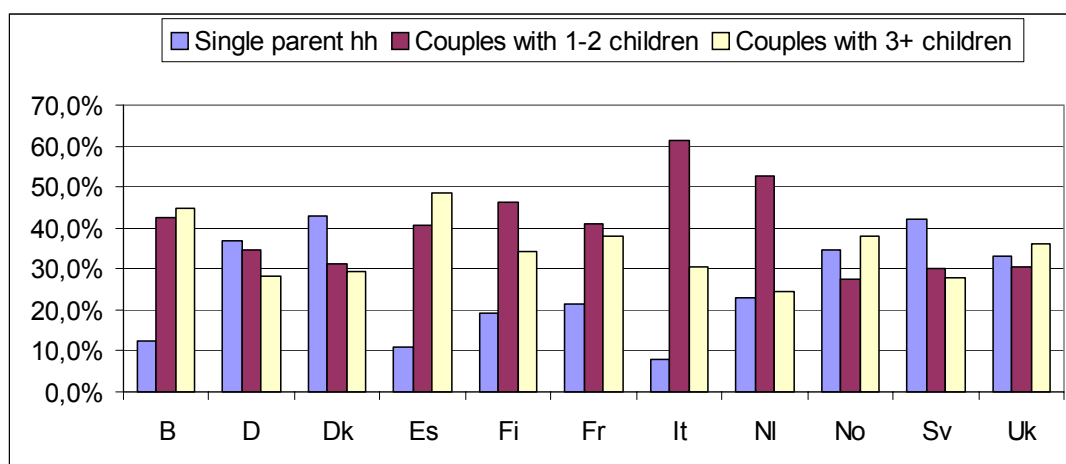
Figure 1: Poverty rates (headcount) among the non-aged in several European countries in de mid-nineties, by family type.



Note: See Appendix for details on method. B=Belgium, D=Germany, Dk=Denmark, Es=Spain, Fi=Finland, Fr=France, It=Italy, Nl=The Netherlands, No=Norway, Sv=Sweden, UK=United Kingdom.

Source: Own calculations from the Luxembourg Income Study.

Figure 2: Distribution of children in poverty across family types in several European countries in de mid-nineties.



Note: See Figure 1 and Appendix for methods and definitions.

Source: Own calculations from the Luxembourg Income Study.

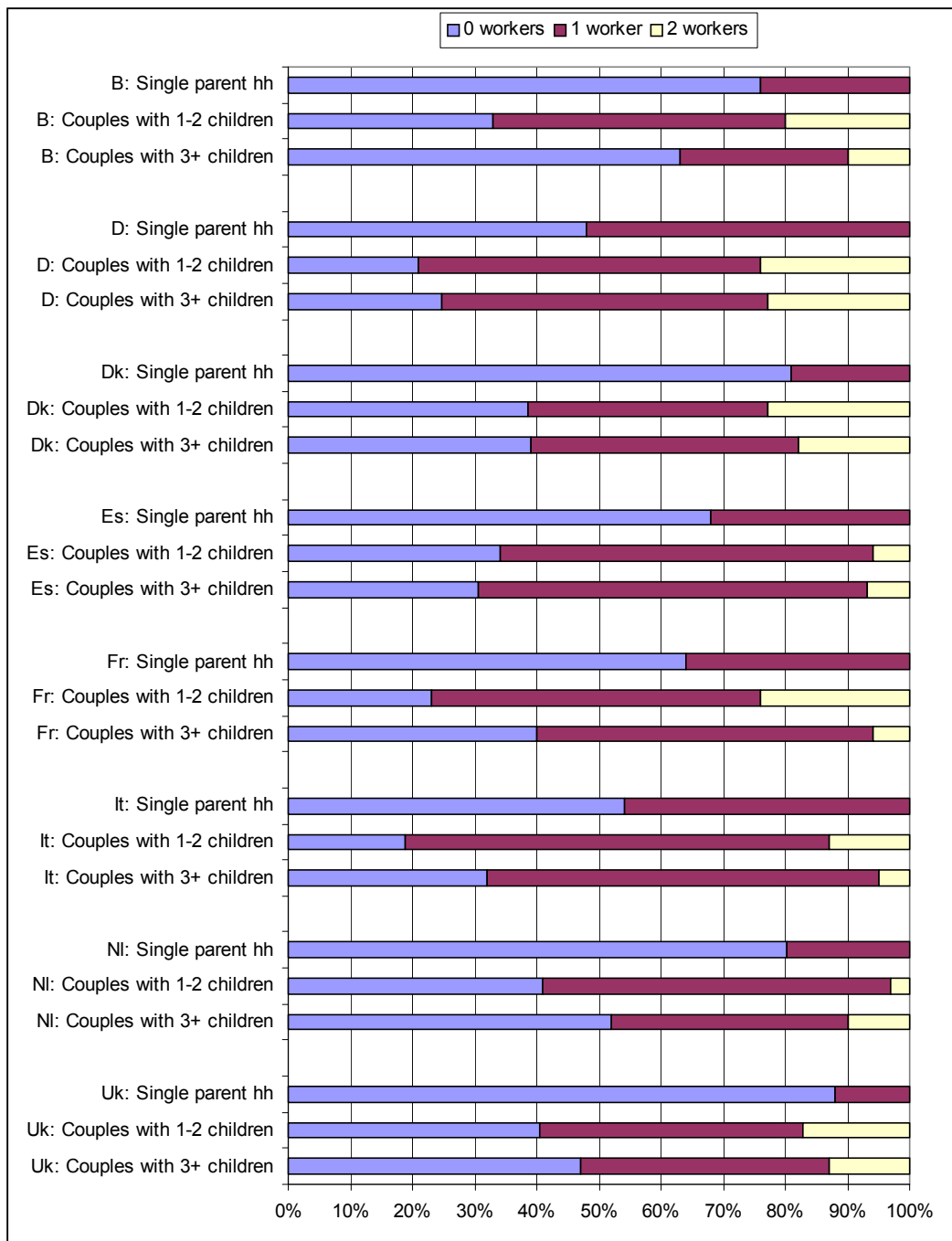
Of course, an important, if not the main proximate cause of poverty among families with children is no, or inadequate involvement in the labor market. However, as Figure 3 shows, the labor market situation of poor families with children varies drastically by family type. (Figure 3 excludes Finland, Norway and Sweden, where child poverty rates are very low.) Most of the poor single parents are not in work (with the exception of Germany), and therefore, in many countries getting them into a job may be generally an effective way to get them out of poverty. On the other hand, in most countries the majority of large families in poverty have at least one worker (Belgium, The Netherlands and the UK are exceptions). Poverty among large families without any worker is extremely high, but, fortunately, such households are relatively few in number. Most of the couples in poverty with many children are single-worker families - and this is incidentally true for all couples with children in poverty.

New social risks and the causes of poverty among families with children

In many European countries, the male breadwinner model used to be the norm, where the father went into the labor market and earned a wage which was deemed to be sufficient to support his family and cover the monetary costs of children. In this model, the mother stayed home to take care of the children. The time costs of children were therefore internalized in the household and socially 'invisible'. Poverty resulted if there were many children to feed, or if the wage-earner fell ill, became unemployed, or was otherwise incapable of working. The traditional social insurance welfare state was designed to cover these risks, through family benefits, and sickness, invalidity and unemployment social insurance schemes. Although reality nowhere and never totally conformed to the male breadwinner model, the traditional social insurance welfare state worked reasonably well in the years of nearly full employment (for men), and limited labor market participation of married women, during the sixties and seventies. Yet, benefits, especially unemployment benefits were often too low to escape poverty.

Today, these causes of poverty are still important. But they are being overshadowed by new social risks, resulting from long-term social and economic changes. The key terms here are individualization, technological development and globalization. Without entering into the difficult debate on the nature and relative importance of these phenomena, we can still identify three observable developments, which lead to new social risks for families with children.

Figure 3: Distribution of poor families with children across number of workers, by family type, in several European countries in the mid-nineties.



Note: See Figure 1 and Appendix for methods and definitions. Only workers among the head and spouse or cohabitor are counted.

Source: Own calculations from the Luxembourg Income Study.

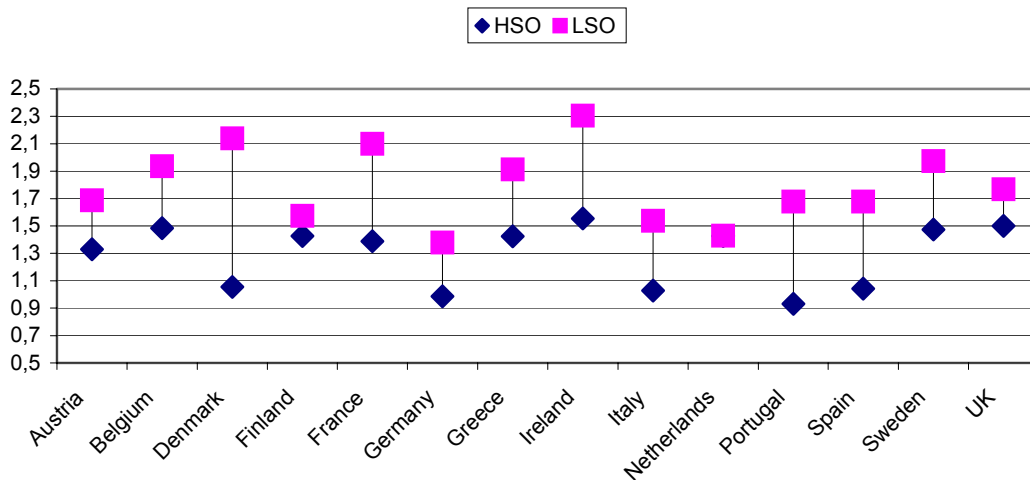
- 1) In virtually all European countries, as a result of their improved education and of the women's emancipation movement, married women and mothers are increasingly performing paid work outside the home. This implies that children are no longer self-evidently taken care of by the mother at all times during the day and during the working week. In contemporary welfare states 'care work' has become socially visible, and has a *price-tag*: care that was previously provided naturally and without remuneration by female homemakers has increasingly been commodified on the private and public service market. Conversely, a choice to take care of children within the family has now an important opportunity cost, viz. the loss of the mothers' wages. As one-earnership is (at least partly for many persons) a choice, it cannot be insured following the traditional social insurance methods.
- 2) Persons with relatively low education have an increasingly difficult time on the labor market. As the number of traditional well-paying jobs for low-skilled men in manufacturing has steadily declined, such persons are increasingly found in the service sector, where wages are lower, and job security is limited. Moreover, low skilled men tend to marry low skilled women (educational homogamy). Therefore, the action taken by many couples in response to changing economic circumstances - increased labor market participation by the wife - is less open and less effective for these persons.

These developments create a category in society, which is at very high risk of poverty in all countries. These are mothers with low education (Cantillon et al, 2001). Whereas highly educated mothers are generally in paid work, even in the most traditional European societies such as Spain and Italy, this is much less true for low-skilled mothers. The employment gap between well educated women and their less well educated sisters is conspicuously wide in the Continental and Southern European countries, although it is significant even in the social-democratic welfare states of Scandinavia. For women with few marketable skills, the opportunity costs of the care of children often exceed the relatively small wages they can command in the market. The comparison of paid work outside the home versus care work inside the home becomes even more skewed if the low-skilled mother is entitled to a social benefit, even if it is only a small one. These tendencies are reinforced by the fact that in most European countries, women with low education have on average more children to care for than women who are highly educated (Figure 4).

- 3) While lone parenthood is perhaps not more common now than in earlier decades, the proximate causes of becoming a single mother have changed. Widowhood has become less important, and divorce (and intentional lone motherhood) have become more common, implying that there are more lone parents with young children. The major cause of poverty and chronic welfare dependency among lone mothers with modest earnings-capacities is their inability to combine full-time

work and childcare. Moreover, the technique of social insurance is not well-suited to protect against the risk of divorce and one-earner ship (in contrast to the risk of widowhood).

Figure 4: Average number of children of women aged 26-45 by educational level, in a number of European countries.



Note: HSO: Higher Secondary Education; LSO: Lower Secondary Education, or less. All women aged 26-45 are included, irrespective of marital status, position in the household and whether they have children or not. Children are persons living in the same household as the woman, and are related to the woman as child, step-child or foster child (irrespective of age).

Source: European Community Household Panel, wave 1997.

Policy Recommendations

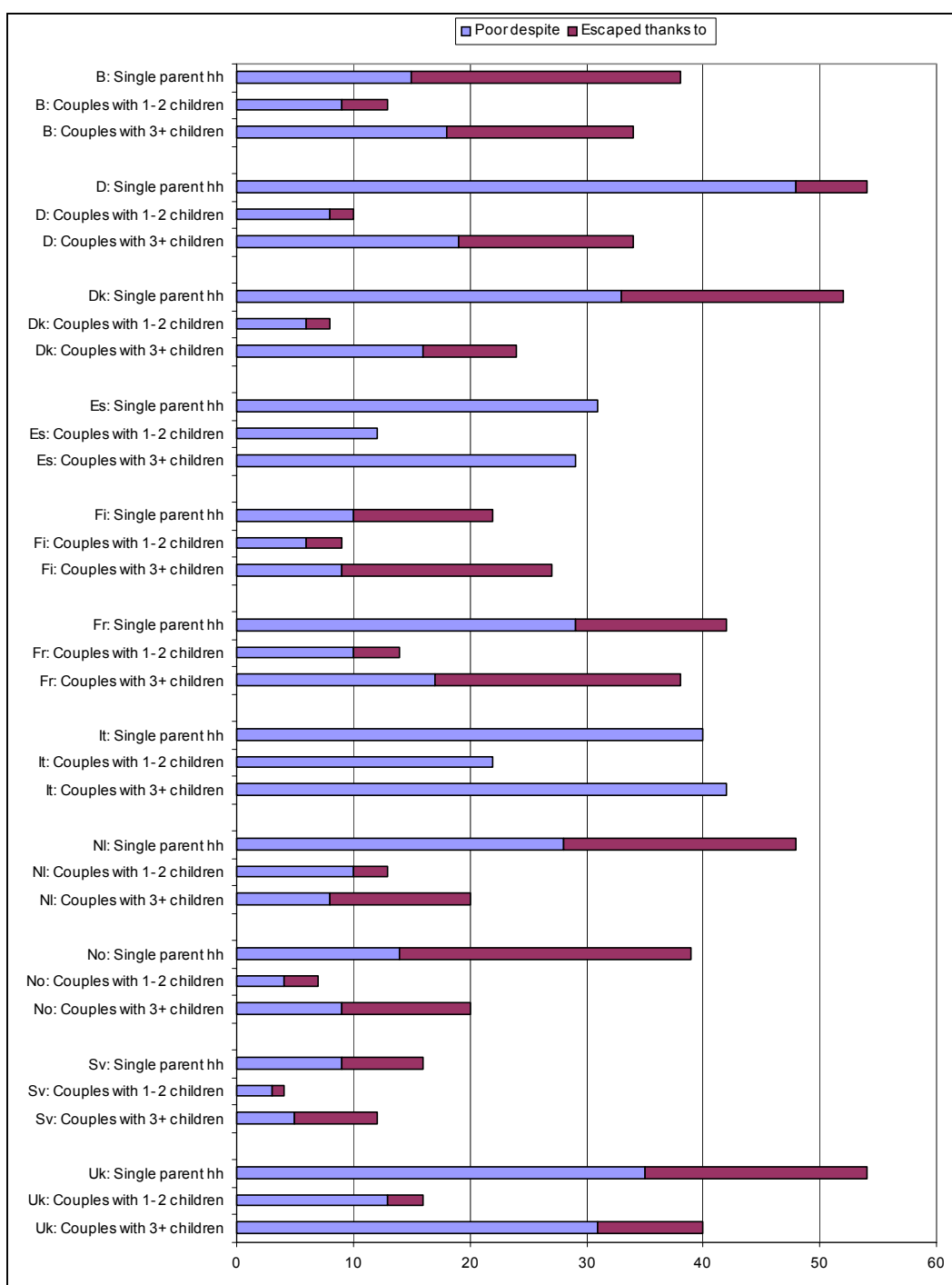
Designing a policy package to combat income poverty among children and families is not an easy matter. Policies must respond to both the old and the new social risks leading to poverty. Also, their cost must remain within reasonable budgetary limits, and measures taken should encourage, rather than discourage working.

This said, one of the most clear conclusions coming out of cross-country comparative research into poverty and welfare states is that low poverty requires high social spending (Bradbury and Jäntti, 2001b; Cantillon et al., 2002). There are some obvious, but also some less obvious reasons for this.

One of the more obvious reasons is that a generous child benefit system must be part of any anti-child poverty policy package. Child benefits should cover the direct costs of children, and should preferably depend on the number and age of children, but preferably not on the parents' income. Figure 5 shows that family allowances have an important poverty reducing effect in many countries (the main exceptions are Italy

and Spain, who at the time the data were collected had no child allowances that were not means tested, and Sweden, where poverty before family allowances is very low to begin with.) Figure 5 also reveals that the poverty reducing effect is particularly pronounced for the most vulnerable categories, viz. single parent households, and families with many children. Belgium and France manage to bring back rather high pre-family allowance poverty rates for large families to levels that are near those of families with one or two children.

Figure 5: Poverty reducing effect of family allowances: proportion of households who have escaped poverty thanks to family allowances.

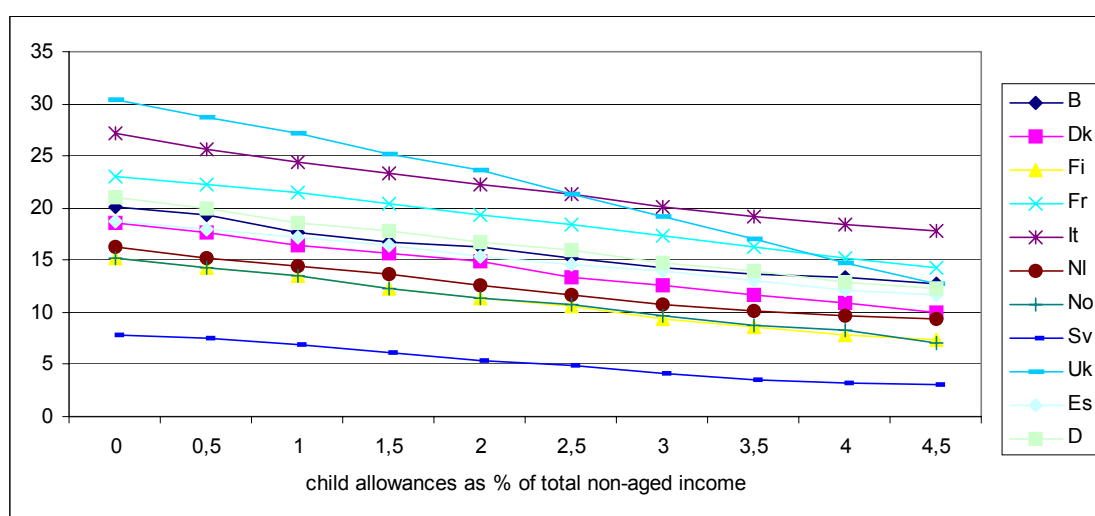


Note: Family and child allowances include any family or child related allowances, as long as they are not means tested. See Figure 1 and Appendix for methods and definitions.

Source: Own calculations from the Luxembourg Income Study.

However, introducing or raising family benefits is not the only strategy needed to combat poverty among children. This is illustrated in Figure 6, where the introduction of a universal basic child benefit is simulated. The benefit is set at such a level, that the total cost is a given percentage of aggregate income of the non-aged (the latter is shown on the horizontal axis of Figure 6). One can see that the introduction of such a benefit would substantially reduce poverty rates among children in all countries where it does not exist now (or where such benefits are small), and that, conversely, the elimination or reduction of such a benefit would significantly increase poverty rates in other European welfare states. The effect is particularly pronounced for the UK, suggesting that in that country many households with children are living near the poverty line.

Figure 6: Simulated poverty rates of children at a range of levels of a basic child benefit, in a number of European countries.



Note: Family allowances were calculated as a fixed amount per child, such that the total equals the indicated proportion of total income of the non-aged. Other income was adjusted, such that aggregate income remained constant. See Figure 1 and Appendix for methods and definitions. See also Van den Bosch (2002) for more details on the simulation method.

Source: Own calculations from the Luxembourg Income Study

Figure 6 also shows that even if all countries would increase their spending on family allowances to relatively high levels, important differences in child poverty rates between countries would remain, with Italy and the UK still having a large proportion of poor children. Partly, this reflects the inadequacy of other social transfers in a number of countries, which are either too low, or have a too limited coverage. Modern welfare states should not forget to protect their citizens against the old social risks,

such as sickness and invalidity, and in particular unemployment, through adequate replacement incomes.

However, for reasons indicated above, poverty among children cannot be eliminated by social transfers alone. Most families with children should be able to earn the largest part of their income through their own efforts. For economic as well as social reasons, the male breadwinner model is no longer tenable. This implies that policies should be designed to enable all women, including those with limited skills, to combine paid work and care, and to enter the labor market and earn a decent wage (Solera, 2001). Such a strategy would contain a number of elements.

A central element in this strategy would be the provision of child care at prices that every parent can afford. In many countries, there is a very limited supply of formal child care for pre-school children, or it is offered at market prices, which only women with high earnings potential are able and willing to pay. Many mothers rely on social networks (family, neighbours) to take care of their young children while they are working, but for those who are not so fortunate, the unavailability of childcare often keeps them at home. Expanding the supply of affordable childcare should therefore be a priority.

At the same time, it is probably wise to recognize that not every mother (or father) will want to work full-time and during all the years her or his children are growing up. It is therefore essential that employment policies "should aim at gearing working conditions to family circumstances as well as at a better distribution of work over individuals' active life span, while taking due account of the possibilities and needs of each family phase." (Cantillon et al., 2001, p. 463) This may be realised through the expansion of part time work, flexible working hours (on the mothers' terms, not only on the employers terms), and facilities to take days off work for taking care of sick children.

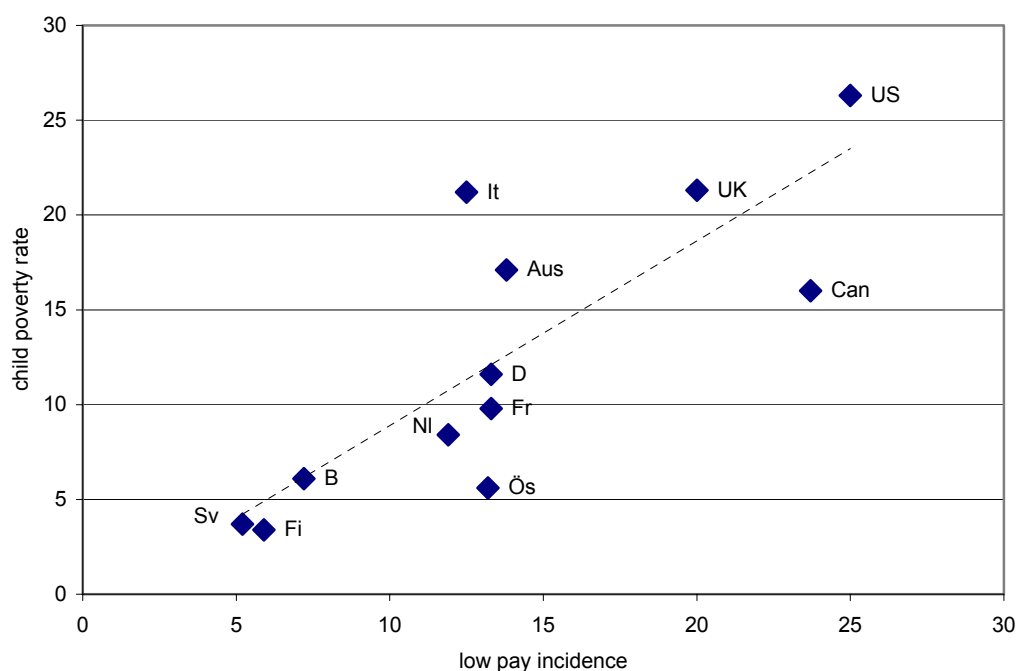
Another important element in such a policy package would be a system for parental leave, which would enable mothers (and fathers) to stay home for a number of months or years in order to look after their children, while keeping a formal link to their former job. At present, many mothers leave the labor market after their second or third child, never to return again. Parental leave systems should be designed such that parents have the right to come back to a specific job, so that they can regenerate their human capital.

Of course, those women, especially low-skilled women, who enter the labor market, should find jobs waiting for them. The private and public services sector offers the greatest opportunities for expanding the number of jobs. There is a latent market in care for the elderly, in domestic help, etc., which could be made manifest through selective policies to reduce the cost of labor (job subsidies, reductions in taxes and

social contributions). Also, in order to reconcile the needs for a decent wage with the limited market earnings potential of some mothers and fathers, refundable tax credits for families with low wages should be provided.

The need for such policies as outlined above is often recognized. What is less often recognized is that it is equally important to contain tendencies towards greater wage inequality, and a worsening position of low wage earners. As Figure 7, perhaps surprisingly shows, there is a clear positive relationship between low-pay incidence and child poverty: the fewer persons are paid low wages, the fewer children are in poverty.

Figure 7: The cross-country relationship between the incidence of low pay, and the extent of child poverty.



Sources: Low pay: OECD (1998) Employment Outlook; poverty: Bradbury and Jäntti, (2001a).

The reasons for this relationship are at this moment not entirely clear. The seemingly obvious explanation, that if many breadwinners receive low wages, their children are living in poverty, holds only very partially. Certainly in European countries, most low wage earners are not the sole breadwinner in their family, but secondary earners such as married women and older children. Another possible explanation is that extensive welfare states, which reduce child poverty, also compress the wage distribution: high taxes discourage high-wage earners from putting in many additional hours, while high benefits discourage those with low potential wages to enter the labor market at all. (Alvarez, 2001). A third possible explanation is that both a high level of social

expenditure and a compressed wage distribution emanate from widely shared value systems emphasizing solidarity and equality. Such values might at once support pay norms and collective agreements (Atkinson, 1999, p. 68), as well as universal and generous benefits. Exploring this relationship is an important task for future research.

What the cross-country comparisons certainly show is that extensive welfare states with adequate benefits and services, which are a precondition for combatting child poverty, cannot co-exist with large wage inequalities. Therefore, governments concerned with poverty among children and families should not let market inequalities increase unchecked, expecting welfare state arrangements to 'mop up' any problems that the market creates or leaves unsolved. Reducing market inequalities should go hand in hand with improving social services and benefits.

Conclusion

This paper tries to present some general policy recommendations for combatting income poverty among children and families. It starts by noting that in most European countries single parents and families with three or more children are the family types most at risk of poverty. Many of these poor families with children lack any worker, but a large proportion of poor children live in single-worker families. I discuss some of the old and new risks which lead to income poverty for families with children. The central point here is the current impossibility for many parents to combine care for children and paid work, at a time when dual earnership is become the social and economic norm. Many lone parents, but also many low-skilled married women are unable to earn a decent wage, either because jobs offering such wages are unavailable, or because they cannot reconcile a job with their caring responsibilities.

An adequate social policy package to combat poverty among families with children, would include first of all adequate child benefits and social insurance replacement incomes. Secondly, such a package should enable all women, including those with limited skills, to combine paid work and care, and to earn a decent wage. This requires affordable child care, in-work arrangements for parents, and parental leave systems to allow parents to come back to a job, after a period of staying home to look after their children. Finally, it is suggested that governments concerned with child poverty should not only develop welfare state arrangements, but also limit market inequalities.

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Appendix: Data, Methods and Definitions

Most original results in this contribution are based on the Luxembourg Income Study. The datasets used are:

Country	Year	Dataset Identification
Belgium (B)	1997	BE97
Germany (D)	1994	GE94
Denmark (Dk)	1997	DK97
Spain (Es)	1990	SP90
Finland (Fi)	1995	FI95
France (Fr)	1994	FR94
Italy (It)	1995	IT95
The Netherlands (NL)	1994	NL94
Norway (No)	1995	Nw95
Sweden (Sv)	1995	SW95
United Kingdom (Uk)	1994	UK94

See the LIS website (www.lisproject.org) for information about these datasets. LIS data for the EU countries Ireland, Austria and Luxembourg were not used. The latest Irish data are from 1987, the Austrian data appeared to lack crucial information on some income components, and Luxembourg was regarded as being too small.

Poverty is defined as equivalent disposable household income below the poverty line. The equivalence scale used is the modified OECD one, with weights of 1 for the first adult, 0.5 for other adults, and 0.3 for children. The poverty line is set at 60 percent of median equivalent disposable household income, calculated across all individuals, in each country. Households with zero or negative incomes were excluded from all analyses, as variation in the prevalence of these incomes across country is likely to reflect differences in income data collection and imputation methods, rather than in the real economic situations of households.

Children are all persons under age 18, but excluding heads and spouses. Single-parent families are defined as households where the head is without a spouse or cohabitor and there are also children present; other persons may also live in such a household. Couples with three or more children are households where the head has a spouse or is cohabiting, and there are at least three persons under age 18. Couples with one or two

children are all other families with children. Non-aged are all persons below age 65. The precise definition of a worker differs from country to country. I have tried to include everyone who is working in self-employment, or has a contract as an employee, including those that are temporary not working, (e.g., due to short-term illness).