CHILD POVERTY AND CHILD INCOME SUPPORTS: IRELAND IN COMPARATIVE PERSPECTIVE

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1. Introduction

NESC's (2005) characterisation of the developmental welfare state emphasises three overlapping areas of welfare state activity: services, income supports and activist or innovative measures. In this paper we focus on the income support domain, especially as it relates to children.

There has been particular concern in Ireland, as in many other countries, about the effects of poverty on children. The impact of poverty during childhood, and especially in early childhood, may be especially difficult to reverse. For this reason, a key question is how policies can be made more effective in supporting the incomes of families with children. In order to explore this question we examine evidence on how child poverty rates vary across a wide range of countries and the role of policy differences in helping to explain these differences in outcomes for children. We then focus more closely on the Irish system of child-related income supports. We examine how it has evolved in recent years, and the impact of such changes on child poverty. The implications of introducing a "second tier" of income-tested child income support, replacing Child Dependant Additions and Family Income Supplement, are then examined. Such a change has been under consideration as part of the Ending Child Poverty Initiative under *Sustaining Progress* and remains on the agenda in the most recent partnership agreement, *Towards 2016*.

2. Child Poverty and Welfare Policies: Cross-country Comparisons

2.1 CHILD POVERTY IN INTERNATIONAL PERSPECTIVE

The most comprehensive recent study of rates of child poverty in rich countries is reported in UNICEF (2005). Overall results for child income poverty (the risk of living in a household with an income below 50 per cent of median income per adult equivalent) are reported in Table 1. The lowest rates of child poverty were found in the Scandinavian countries, where the risk of income poverty was between 2 and 4 per cent. Almost all Continental European countries, along with some of the new member states, had child poverty rates of between 7 and 13 per cent. Ten countries had higher child poverty rates – the highest in the US and in Mexico, with the others at levels of between 14 and 17 per cent. It is striking that all of the English speaking countries had poverty rates well above the average. The six English speaking countries occupied six of the nine worst positions in terms of the prevalence of child poverty. Micklewright (2004) extends this analysis with further comparisons and finds that the English-speaking countries also perform poorly on other indicators of child welfare.

Table 1: Rates of Income Poverty for Children in Rich Countries, Around 2000

Country	Rate of Child Poverty (Relative Income Poverty, 50% of Median Equivalised Income)
Denmark	2.4
Finland	2.8
Norway	3.4
Sweden	4.2
Czech Republic	6.8
Switzerland	6.8
France	7.5
Belgium	7.7
Hungary	8.8
Luxembourg	9.1
Netherlands	9.8
Austria	10.2
Germany	10.2
Greece	12.4
Poland	12.7
Spain	13.3
Japan	14.3
Australia	*14.7*
Canada	*14.9*
UK	*15.4*
Portugal	15.6
Ireland	*15.7*
New Zealand	*16.3*
Italy	16.6
USA	*21.9*
Mexico	27.7

Source: UNICEF (2005), *Child Poverty in Rich Countries 2005*, Innocenti Report Card No. 6.
Note: The poverty rates in Figure 1 refer to the following years: 2001 (Switzerland, France, Germany, New Zealand), 2000 (Denmark, Finland, Norway, Sweden, Czech Republic, Luxembourg, Japan, Australia, Canada, Portugal, Ireland, Italy, USA), 1999 (Hungary, Netherlands, Greece, Poland, UK), 1998 (Mexico), 1997 (Belgium, Austria) and 1995 (Spain).

More recent information on the incidence of child and overall poverty is available for EU countries. This is of particular relevance given the emphasis on trying to match EU best practice in social policy, as set out in the Lisbon strategy. Table 2 reports "at risk of poverty" measures for the total population and for children, for EU countries in 2004. The cut-off used is 60 per cent of median income per adult equivalent, one of the key "Laeken" indicators.

Table 2: At Risk of Poverty Rates for EU15 Countries, 2004

(Cut-off point: 60 Per Cent of Median Income Per Adult Equivalent)

Country	Total Rate	Child Rate
Norway	11	8
Denmark	11	9
Finland	11	10
Sweden	11	11
Luxembourg	11	18
Netherlands	12	18
Austria	13	15
France	14	14
Belgium	15	17
Germany	16	20
UK	18	22
Italy	19	26
Greece	20	20
Spain	20	24
Ireland	21	22
Portugal	21	23
Unweighted average of EU15	16	18

Note: Figures for Netherlands and for the UK are for 2003.
Source: Eurostat web site, http://www.epp.eurostat.cec.int.

The Scandinavian countries had the lowest rates of overall income poverty, and rates of child poverty which were, if anything, somewhat lower (child poverty rates of 8 to 11 per cent). This makes them stand out from Continental European countries where the child poverty rates were between 14 and 20 per cent. The UK and Ireland had child poverty rates of 22 per cent, with higher rates of up to 26 per cent in a group of "southern" countries (Portugal, Spain and Italy).

For the most part, child poverty rates were close to overall poverty rates.[1] Norway, Denmark and Finland were the only countries with child poverty rates below the overall poverty rate. There were two countries, Luxembourg and the Netherlands, with low overall poverty rates but substantially higher child poverty rates.

[1] This is in line with Brady's (2004) finding that, for 18 rich Western countries, child poverty is very strongly correlated with overall poverty. Brady finds, on the other hand, that elderly poverty is only moderately correlated with overall poverty.

2.2 CHILD POVERTY AND CHILD INCOME SUPPORT POLICIES

The lowest rates of child poverty and of overall poverty shown in Table 2 are for the Nordic countries – Denmark, Finland and Sweden among the EU countries, and Norway. The logic of the "best practice" approach dictates that special attention should be paid to these countries in order to understand how they have achieved low rates of child and general poverty, and what lessons may be learned from their experience. This is all the more so because the child poverty outcomes for children achieved in theses countries represent "best practice" not just within the EU but in global terms. In seeking to "end child poverty" a closer look at the Scandinavian experience is clearly warranted.

We begin by considering how income support paid by the state in respect of children varies across countries: clearly this has the potential to affect child poverty outcomes. Child income supports can vary according to the age and number of the children concerned, and may also depend on whether one or two parents are present in the household, and on the labour force status and income of the parent(s). Bradshaw and Finch (2002) examine child income support packages for a wide range of family types and labour market/income situations. They choose a subset of these cases, giving greater weight to those occurring more commonly. While this does not provide a fully representative picture of families in any one country, this approach provides a standardised framework with which to assess the nature of the income support packages across countries. Key results are set out in Table 3.

Table 3: Ranking of the Child Support Package for 22 Countries, 2001

Country	Value of Cash Child Income Supports as % of Average Wage	Country	Value of Child Income Support Package Including Housing and Non-cash Services as % of Average Wage
Austria	16.3	Austria	17.2
Luxembourg	14.2	Finland	13.9
IRELAND	13.2	France	10.9
Belgium	12.1	Luxembourg	10.2
UK	11.6	Sweden	10.2
France	10.4	Norway	9.7
Norway	9.6	Belgium	9
Germany	9	Germany	8.3
Finland	8.7	Denmark	7.7
USA	8.5	UK	7.5
Australia	7.6	Australia	6.7
Israel	7.3	IRELAND	5.3
Sweden	6.7	Israel	3.9
Portugal	6.6	Canada	2
Denmark	6.2	Italy	2
Canada	5.8	USA	1.6
New Zealand	5.2	New Zealand	-0.4
Japan	4.9	Spain	-1.1
Italy	4.8	Japan	-1.5
Spain	2.3	Portugal	-2
Greece	1.9	Greece	-5.6

Source: Bradshaw and Finch (2002). Figures for Ireland incorporate revisions (http://www.york.ac.uk/inst/spru/research/summs/childben22.htm).

The package of cash income supports offered in Ireland, as of 2001, was among the most generous across countries. Ireland ranked third in terms of the value of the cash package of income supports for children – mainly child benefit and child dependant additions. The total value of the package, averaged over a wide range of family situations, was just over 13 per cent of the average industrial wage, compared with 15 per cent for the country with the most generous package. The value of the package in most countries – including the four Scandinavian countries – was between 5 and 10 per cent of the average wage.

The value of Ireland's overall child support package, taking into account housing benefits and provision of non-cash services such as subsidised childcare, was towards the lower end of the international spectrum in 2001. Increases in child benefit since then, and the introduction of the Early Childcare Subsidy will have boosted Ireland's overall child support package, and its position in the country rankings of child supports. Because this support is delivered through a cash mechanism, while other countries typically use non-cash mechanisms for childcare, Ireland's position in the ranking of cash income supports will be further enhanced, while its low ranking in terms of directly provided services will remain unchanged.

It is striking that the four Scandinavian countries, which have the lowest child poverty rates, had child income support packages of between 6 and 10 per cent, in the middle of the international ranking. Thus, their exceptional performance in terms of reducing child poverty is *not* due to exceptionally high child income supports. Indeed, both Ireland and the UK have higher valued cash supports – but as we have seen, child poverty rates in Ireland and the UK are close to the highest in the EU, while those in the Scandinavian countries are among the lowest.

2.3 WELFARE REGIMES

How then have the Scandinavian countries managed to achieve such low rates of child poverty? A key factor in explaining this is that the income situation of children depends on the *total* income package received by their parents, not just on the elements which are related to the presence of children. The Scandinavian societies combine high employment rates with a welfare regime which gives high levels of payment to those on social protection. Table 4 below illustrates for Ireland, the UK and the four Scandinavian countries:[2]

a. the unemployment benefit paid to a single person as a proportion of the EU at risk of poverty threshold (60 per cent of median income per adult equivalent);

[2] While individual examples of this type might not be representative we know (e.g., from Callan and Nolan, 2004) that an analysis taking into account the full range of welfare recipients points in a similar direction. Callan and Nolan show that over half of the gap between the overall poverty rate in Ireland and that in Denmark can be accounted for by differences in welfare policies.

b. the poverty threshold as a proportion of the average industrial wage; and
c. unemployment benefit as a proportion of the average industrial wage.

Table 4: Poverty Thresholds, Average Wages and Unemployment Benefits, 2004

	Unemployment Benefit as % of Poverty Threshold	Poverty Threshold as % of Average Wage of Production Worker	UB as % of Average Wage of Production Worker
Denmark	147	29	43
Finland	121	34	41
Sweden	89	37	33
Norway[1]	70	42	29
Ireland	65	39	26
UK	40	34	14

Notes: 1. As UB is earnings related, and can be payable in respect of quite low levels of earnings, social assistance provides a higher floor – similar to the UB payable to an individual on half the average wage. The minimum wage in Ireland is just over half the average industrial wage.
Source: Poverty threshold from Eurostat web site cited in Table 2. Wage for average production worker from OECD *Taxing Wages 2003-2004*. Unemployment benefit for a single person from OECD (2006) *Benefits and Wages: OECD Indicators 2004* and associated online country files.

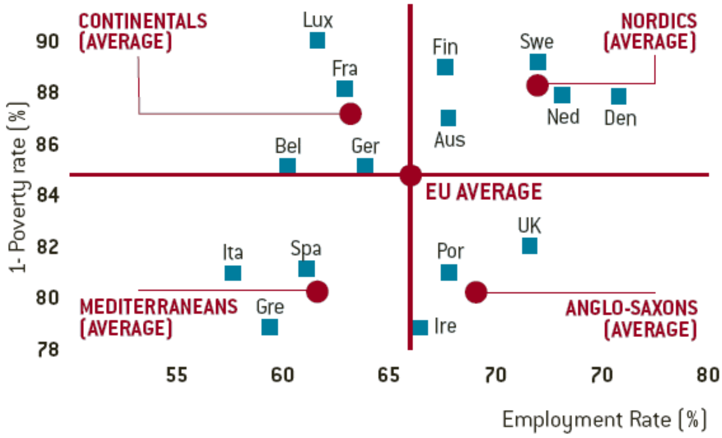
In Ireland, the rate of Unemployment Benefit in 2004 was about two-thirds of the at-risk-of-poverty threshold for a single person. For Sweden the ratio was almost 90 per cent, while the payment rates in Finland and Denmark were well above the at-risk-of-poverty threshold in those countries. In the UK, by contrast, the payment rate was 40 per cent of the at-risk-of-poverty threshold.

The poverty thresholds represent varying proportions of the average industrial wage across countries. Is this ratio particularly high in Ireland, causing particular labour market difficulties in paying a welfare rate which is high in relation to the at-risk-of-poverty threshold? The Irish rate is 39 per cent, higher than that in Denmark, Finland and the UK. It is also somewhat above the rate in Sweden (37 per cent) but below that in Norway (42 per cent).

Sapir (2005) provides a further perspective on the issue of whether the achievement of a low risk of poverty measure in the Scandinavian countries is at the expense of a trade-off between equity and efficiency. Figure 1, drawn from Sapir, plots the EU15 countries in terms of an equity goal (the probability of avoiding poverty, measured by 100 minus the percentage risk of poverty measure) and an efficiency goal (the employment rate, which takes into account not just unemployment but also labour market participation).

Sapir argues that this evidence indicates that the Scandinavian economies and welfare regimes are attaining both equity and efficiency goals. Ireland and the UK score well on the efficiency front, but not on the equity goal. The Continental economies, by contrast, score well on equity but not on efficiency; while the Mediterranean or southern EU countries, by and large, achieve neither efficiency nor equity.

Figure 1: Employment Rates and Probability of Avoiding Poverty, EU, 2004



Source: Sapir (2005).

3. Restructuring Child Income Supports: Policy Impacts, Policy Options

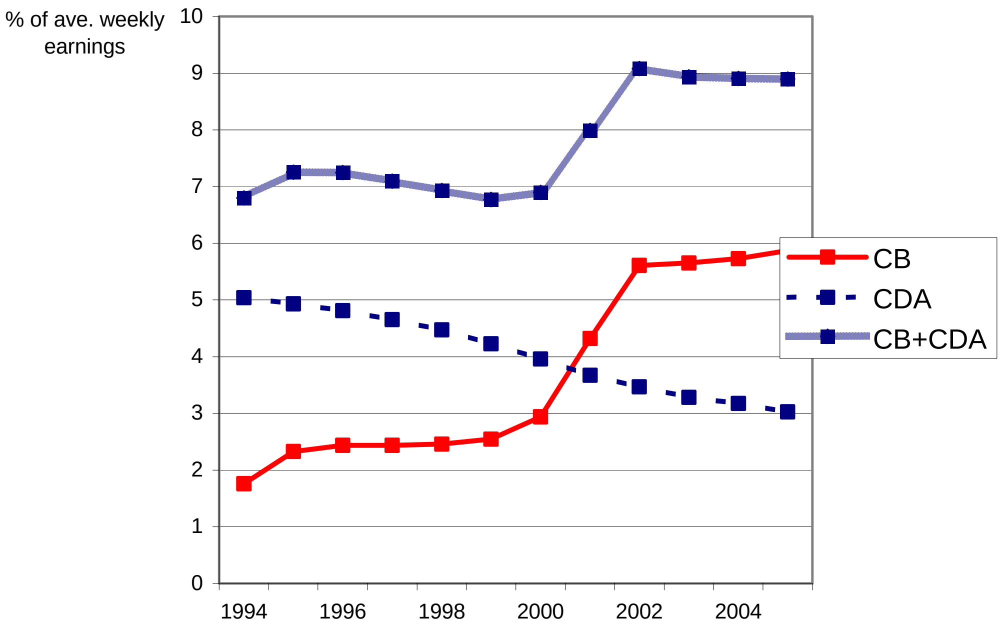
The clear message from these international comparisons is that, to date, the most effective policy regimes in countering both child poverty and general poverty have been those of the Scandinavian countries. Furthermore, the success in countering child poverty is *not* due to especially high child income support payments, but to the more general income support regime and to the extent to which the welfare state more broadly reconciles equity and efficiency goals and underpins a high employment rate. However, welfare state expenditures have to be financed. If Ireland, like other English-speaking countries, is unwilling to finance expenditure at the levels seen in Scandinavian countries, then the question arises as to what can be achieved with a more targeted approach to the reduction of child income poverty. In this section, therefore, we concentrate on the recent evolution of policy in Ireland and in other English speaking countries, which relates to the development of more targeted child income supports. It must be remembered, however, that these supports operate in an environment where child income poverty is substantially higher than in the Scandinavian countries.

3.1 ASSESSING THE IMPACT ON CHILD POVERTY OF RECENT DEVELOPMENTS IN CHILD INCOME SUPPORT

There have been dramatic shifts in child income support over the past decade. Both the level of child income support and the way in which it is structured have changed radically in recent years. Since the mid-1990s, rates of payment for Child Dependant Additions (CDAs) – a payment received only by those in receipt of a weekly social welfare payment – have been frozen in nominal terms, while very substantial additional resources have been used to increase the rate of child benefit paid in respect of all children. The broad rationale for this approach involved a shift to child benefit as a form of support which was neutral with respect to labour market status, and away from payments conditional on being out of work.

The outcome in terms of the balance between payment rates for CDAs and Child Benefit is illustrated in Figure 2. The rate of payment for Child Benefit rose from just under 2 per cent of the average industrial wage in 1994 to a level just under 6 per cent of that wage in 2005. While CDA payment rates remained constant in nominal terms, rising real and nominal wages meant that CDA rates declined as a proportion of the average industrial wage from about 5 per cent in 2000 to 3 per cent in 2005. The total income support package rose from 7 per cent of the average wage to 9 per cent, with the net increase concentrated in the period from 2000 to 2002.

Figure 2: Rates of Child Benefit and Child Dependant Addition as a Percentage of Average Earnings in Manufacturing, 1994 to 2005



Budget 2006 introduced a further innovation in the form of the Early Childcare Subsidy. This is a cash support, allowing the parent or parents to choose whether to use the money to help purchase paid childcare or to use it as a financial support for a parent to undertake the care.

The head count measure of children living in a household "at risk of poverty" (i.e., below 60 per cent of median income) was close to 24 per cent in 2000, as measured by the Living in Ireland Survey. Latest estimates, based on the new Survey of Income and Living Conditions (SILC) conducted by the Central Statistics Office (CSO), are just above 21 per cent. But this fall of 2½ percentage points represents the impact of *all* changes over the period (as well as any effect from the change in data source). It includes the influence not only of policy changes, but also of all developments in the economy and society over the period – for example, changes in labour market participation, or in the incidence of different family types. Within the policy domain, it includes the impact of all policies, not just those relating to child income support.

Identifying the impact of changes in child income support policies on the risk of income poverty facing children requires an alternative approach. We need to hold constant the population, and all policies other than child income support. We do this using a microsimulation model – *SWITCH*, the ESRI tax benefit model. The impact of child income support policy changes between 2000 and 2006 is measured by constructing a counterfactual policy for 2006 in which child income supports are simply indexed in line with earnings from their 2000 levels. We can then simulate the impact of the child income support policy changes on the 2006 population.

This analysis suggests that changes in child income supports (including the sharp increase in Child Benefit in 2001/2 and the Early Childcare Supplement in 2006) led to a reduction of 4.2 percentage points in the incidence of child income poverty (using the 60 per cent median cut-off). This represents a fall of one-fifth in the head count measure. The "poverty gap" measure which takes account of the depth of income poverty for those experiencing it falls rather more, by about one-third, because it also takes into account those who are brought closer to but not above the poverty threshold.

3.2 RECENT INTERNATIONAL POLICY DEVELOPMENTS

Policy developments designed to improve in-work incomes relative to out-of-work benefits ("making work pay") have attracted considerable attention in OECD countries.[3] The long experience of the US and the UK in this field, and the fact that much of the evidence on the employment and labour supply effects of making work pay policies centres on US and UK experience has made policy developments in these countries of particular interest. A key feature in both countries is an in-work benefit, paid through the income tax system – Earned Income Tax Credit in the US, and (after several structural changes and renamings) the combination of Child Tax Credit and Working Tax Credit in the UK.

While the development and refinement of these schemes has been closely followed, it should be borne in mind that these are still two of the countries with the highest rates of child income poverty. By contrast, Finland achieves low rates of child and adult poverty with a system that provides generous support through social insurance; a child benefit rate which is somewhat lower than Ireland's; and no income-tested child income support.

[3] For a review of "policy transfer" in the welfare area, with a particular focus on "making work pay", see Banks *et al.* (2005).

A brief summary of how the policies evolved on either side of the Atlantic may be useful, before considering some of the analysis. In the US, the Earned Income Tax Credit (EITC), initially introduced in 1975, has been substantially expanded and revised since then. EITC is a refundable tax credit, typically paid annually in arrears, and administered by the US tax authorities. The level of the credit rises initially with the level of earned income (at a rate of about 35 per cent of earnings), then is capped at a maximum level, and is then withdrawn in gradual fashion or "phased out" (at a rate of about 15 to 20 per cent). While the level of the credit, and its aggregate cost, was initially quite low, EITC now forms a substantial part of the overall income support programme (costing almost as much as Food Stamps and Temporary Assistance to Needy Families).

In the UK, Family Credit was introduced in 1988 (replacing Family Income Supplement) has also been expanded and revised in later years. The current system involves a Child Tax Credit (CTC) and a Working Tax Credit (WTC). The child tax credit comprises two elements:

- a per-family element (UK£10.45 per week in 2003-4); and
- a per-child element (About UK£28 per week in 2003-4).

Families with annual gross incomes below £13,230 are entitled to the full credit. Entitlements are then reduced by 37 per cent of income above this level until the family is left with just the per-family element. Incomes above £50,000 per annum reduce entitlement to the per family element by 6.7p in the pound until entitlement is exhausted.

The Working Tax Credit operates in parallel. Key parameters include:

- withdrawal of benefit at a rate of 37 per cent, for incomes exceeding £5,000;
- benefits are exhausted for a lone parent or couple working full-time at an income of just under £15,000 per annum, or £13,230 if working less than 30 hours per week).

As with EITC, payment of WTC and CTC is now paid through the income tax system and operates on an annual basis. Three recent reports have detailed problems arising from "overpayment" of benefit, in some cases despite recipients' best efforts to rectify the situation. (Parliamentary Ombudsman, 2005; Citizens Advice, 2005, House of Commons Treasury Committee. 2005).

One of the aims of the UK approach has been to "make work pay" for parents with low earnings capacity, and thereby increase labour market participation and long-term attachment to the labour market. Brewer *et al.* (2005) estimated that by 2002, the Working Family Tax Credit scheme had increased the labour supply of lone mothers by around 5 percentage points, with the labour supply of mothers in couples being reduced by 0.6 percentage points, and the labour supply of fathers in couples raised by about 0.8 percentage points. Blundell and Hoynes (2001) compared the US and UK experiences. In the US, a large proportion of the dramatic rise in participation among low educated single parents in the 1990s has been attributed to the increased generosity of the EITC. But estimates suggest that the impact of apparently similar reforms has been smaller in the UK. Blundell and Hoynes argue that four factors help to account for these differences:

(a) the impact of interactions with other means-tested benefits in the UK;

(b) the importance of workless couples with children in the UK, making up almost 50 per cent of recipients;

(c) the level of income support given to non-working parents; and;

(d) the strength of the economic upturn in the US during the 1990s.

Bargain and Orsini (2006) explore the possible introduction of an in-work benefit along the lines of the UK's Working Tax Credit (WTC) to three European countries: France, Germany and Finland. One key feature is that there are substantial increases in marginal effective tax rates for individuals in low to middle income households. Bargain and Orsini's labour supply analysis finds that positive effects on the labour supply of lone parents are outweighed by withdrawals from the labour force for some married women, a reversal of the balance in the UK case. These results indicate the need for careful analysis of such proposals in the context of the national labour market and initial situation.

3.3 POLICY ISSUES

There are particular reasons for the special focus on child poverty. One major concern is that the effects of poverty on children are at a vulnerable, formative stage. Poverty may therefore have more long-lasting and damaging effects than on adults, who may be more resilient and escape from poverty with more limited after-effects. There are, however, both ethical and practical objections to the consolidation of these concerns into an income support structure strongly tilted towards the elimination of child poverty *at the expense of general poverty*. For example, if the poverty line for a single adult were €200 per week, and the child addition to the income poverty line were €66, a "neutral" structure could set welfare payment rates to be €200 for a single adult and €66 per child. But if this could not be afforded, one interpretation of an emphasis on child poverty could result in a payment of, say, €150 for a single adult, €116 for a first child and €66 for other children. This would mean that families with children were brought up to the poverty line income, whereas single adults would remain below the poverty line.

On the ethical side, one difficulty with such an approach is that many of the adults currently experiencing poverty may themselves have suffered poverty as children, with consequent damage to their later life chances. On the practical side, a structure which guaranteed an income above the poverty line for all children, but not for adults, would mean that poor childless adults would face a situation in which having a child would be a guaranteed route out of income poverty. The extent to which this would affect fertility decisions is unclear, but it seems undesirable to face poor individuals with such incentives. A further objection might be that no country seems to have achieved a low rate of child poverty while having a high rate of poverty in the adult population. Given these considerations, we do not pursue the theoretical possibility of a income support structure strongly biased towards the elimination of child poverty rather than general poverty when examining policy options.

The main child income support instruments at present include Child Benefit, Early Childcare Supplement, and Increases for Child Dependants (formerly called Child Dependant Additions). We consider two possible additions to this structure: an increased, taxable child benefit and a child benefit supplement. A refundable tax credit in respect of children would be equivalent, in real terms, to the current (untaxed) child benefit. It would involve a different delivery mechanism but delivery of child benefit is not thought to be problematic. For these reasons, a refundable tax credit for children is not considered further here.

3.3.1 An Increased, Taxable Child Benefit

One way of achieving greater "targeting" with child benefit would be to increase it while making the payment taxable. This would give a full payment to those with lowest incomes, a payment reduced by 20 per cent for those on the standard rate of tax, and reduced by 42 per cent for those on the top rate of tax. This option was debated during the 1990s, and would have had much to recommend it. At a time when the basic child benefit payment was being increased so rapidly, all those with children would have seen their Child Benefit increase despite its being made taxable, but there would have been larger net increases for those on lower incomes. This approach was not adopted, instead universal child benefit was increased but without making it taxable (while CDAs were frozen as we have seen). The taxable status of child benefit could have been changed more readily at the same time as substantial increases in payment levels were introduced. In the absence of substantial further increases in child benefit, making the payment taxable would require the "clawing back" of some of the net benefit for high earners. Making the payment taxable would also affect marginal tax rates and how they change as those with children move into the tax net or from the standard to the higher tax band. None the less, it remains a way of introducing some element of targeting to the payment without affecting its essential structure and the way it is paid.

3.3.2 A Child Benefit Supplement

A paper prepared for the Tax Strategy Group (Department of Social and Family Affairs, 2004) indicated that "…it has been agreed under the 'Ending Child Poverty' special initiative in *Sustaining Progress* to examine the possibility of combining FIS and CDAs into one payment which might be paid to low income families irrespective of their employment status." This idea – a child-related benefit which would depend on income but not on labour market status – is currently being explored by the NESC as part of the social partnership process. Key factors here include the desire to have an income-tested supplement, so as to maximise the impact on child poverty for a given level of resources; a seamless transition between child income support when out of work and when in employment, in order to facilitate those wishing to take up employment; and the low rate of take-up of Family Income Supplement (FIS), the existing in-work benefit for families with children.

What might such a payment look like? One possibility is that it could take the form of "…a tapered, employment-neutral Child Benefit Supplement".[4] This is the form of unification which is examined here. Other possible designs are not excluded, but the non-categorical, income-tested Child Benefit Supplement provides a clear starting point and benchmark against which other options can be compared.

Here we sketch what such a supplement (CBS) might look like, its likely cost and its potential impact on the risk of income poverty, on financial incentives to take up employment, Our analysis is based on *SWITCH*, the tax benefit model, which contains all the relevant information and can, therefore, calculate each family's entitlement accurately. Implicit in the analysis is that each family has the same income for each week of the year. Difficulties arising from problems of administration and take-up of such a benefit are discussed later.

There are three key parameters to be set in such a Child Benefit Supplement:

- the weekly or monthly rate of payment for CBS;
- the income level up to which a full payment is made;
- the rate of withdrawal (taper, "phase-out") applied to the benefit as income rises above that limit.

We set the level of the Supplement at a rate which bridges the gap between current child income supports and the "…child addition to the at risk of poverty threshold". Thus, the new structure, incorporating CBS, gives a child-related payment which is sufficient to cover child-related expenses (30 per cent of the at risk of poverty threshold of 60 per cent of median income). In cash terms, we estimate that a rate of CBS of €33 per week would be needed to bridge this gap – approximately double the rate of the most common child dependant addition rate. All child dependant addition rates are set to zero, as the logic of the approach is that these are replaced by the CBS.

The situation with respect to replacement of FIS is not so straightforward. A key feature of FIS is that it can provide a very high level of support for those in employment at low incomes – even if there is only one child in the family. The level of *additional*

[4] The quote is from Combat Poverty Agency (2005), which treats the unification of CDAs and FIS as quite distinct from the Child Benefit Supplement option. Our approach is to analyse the Child Benefit Supplement as one form of unification of CDAs and FIS

support in respect of second and higher order children ranges between about €12 and €20 per week, similar to the level of support provided by Child Dependant Additions. It is not possible for a fixed, per-child payment such as a Child Benefit Supplement to replicate this structure; and even the addition of a "per family" element to the CBS (equivalent to a higher rate for the first child in the family) would not fully replicate the structure of support provided by FIS.

This point was recognised in the analysis of the Tax and Welfare Working Group in its 1996 report. The approach adopted there was to allow for a "residual" FIS scheme to provide this form of income support. The success of a Child Benefit Supplement or other such scheme in "migrating" low income working families off FIS could then be gauged by the reduction in the numbers of FIS recipients and FIS expenditure. Some of the schemes examined by the working group resulted in the "residual" FIS scheme becoming very small; but, depending on the design of the scheme and the levels of payment, FIS could remain a significant feature of the overall package. Where any given package lies on this continuum is a matter for empirical investigation, using the simulation techniques employed here.[5]

A CBS set at €33 per week, with an income limit of about €500 per week and a withdrawal rate of 20 per cent is found to have the following "cash" or first-round impact (i.e., before any adjustments to behaviour, which may be induced by changes in the budget constraints caused by the policy change). First, such a policy change is estimated to cost more than €450 million per annum – equivalent to the cost of a 20 per cent rise in universal Child Benefit. The direct impact of the introduction of a CBS on this scale is estimated as reducing child income poverty (at 60 per cent of median income) by almost 4½ percentage points. Expenditure on FIS would be reduced by about one-third, leaving a substantial residual FIS scheme in place.

How is this improvement in poverty reduction impact achieved? One key difference with respect to the existing structure is that it is assumed that the new Child Benefit Supplement is paid to all those who qualify, and only to those who qualify. Thus, it is assumed that the Child Benefit Supplement does not experience the problems with take-up which have dogged the Family Income Supplement scheme On the other hand, there is also an implicit assumption that the new benefit will be given only to those who are entitled to

[5] The Child Benefit Supplement examined here is designed primarily to replace Child Dependant Additions. It will also replace some element of FIS payments, with the exact extent depending on the parameters of the scheme. An example using round numbers may help to clarify. If the FIS income limit for a one child family were €400 per week, and the family's income was €300 per week, then the FIS entitlement would be €60 per week. Now suppose a Child Benefit Supplement of €20 per week is introduced. The FIS entitlement falls to €48 per week, a reduction of €12 per week, or 60 per cent of the amount of the Child Benefit Supplement.

receive it. The UK experience with tax credits suggests that this is not easily achieved. The House of Commons Treasury Committee (2006) noted that about one-third of all tax credit awards were overpaid, at an average cost per case of about UK£1,000.

A useful point of comparison can be provided by examining what the existing income support structure would achieve, if perfect take-up of benefit could be guaranteed. Our analysis finds moving from low take up to full take up of FIS would lead to a 3 percentage point reduction in the key "at risk of poverty" indicator. Thus, while CBS involves more than just changes in take-up, a key element of its impact in poverty reduction comes from the assumed full take-up. Achieving full take-up, and avoiding overpayments and reclaiming of payment, as in the UK experience, would be vital to the success of the scheme.

4. Conclusion

There are strong links between child income poverty and the overall "at risk of poverty". In particular, the countries with the best record on the reduction of child poverty – the Scandinavian countries – also tend to have the lowest rates of overall poverty. The "best practice" approach to improving EU performance in this area suggests close attention should be given to the policies and structures of the best-performing countries. The logic of the approach is therefore that other countries should compare their approaches with those of the Scandinavian countries – which are the best performers in this regard not only in Europe but in global terms.

By contrast, much of the debate on child poverty has focused on restructuring income-tested income support for families with children, with attention centering on recent initiatives in English-speaking countries. While some reductions in poverty have been achieved by these initiatives, it is clear that rates of child income poverty in the English speaking countries remain well above those in most European countries, and well above Scandinavian levels.

This approach is associated with a tendency to view child poverty as a problem to be dealt with, in the main, through child income support. The problem with this is that children are not poor on their own – they have a parent or parents living in poverty with them. So avoidance of poverty requires that parents have adequate incomes too. As Sutherland (2005) puts it:

> One feature of the "successful" countries in Europe is that relatively large parts of their benefit systems are not child-contingent but nevertheless succeed in keeping children as well as adults out of poverty. Sutherland (2005, p.32)

Tackling child income poverty requires a strategy that takes a broad view of welfare income supports, and "activist" measures to increase participation in employment. Solutions lie not with welfare alone, or employment alone, but a combination of both.

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