

**CHILD POVERTY AND FAMILY ASSISTANCE IN
SOUTHERN EUROPE**

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Abstract

The drive to reduce child poverty is of particular interest in southern Europe, where the subsidiary role of the State in matters of family policy has implied that programmes of public assistance to low-income families with children are often meagre or not available at all. The paper examines the effect on child poverty of income transfers to families in Greece, Italy, Spain and Portugal, using the European microsimulation model EUROMOD. The distributional impact of existing family transfer programmes is shown to be weak, hence the scope for reform great. By way of illustration, universal child benefit programmes similar to those in Britain, Denmark and Sweden are simulated. The impact of such schemes on child poverty is shown to be considerable, but their fiscal cost correspondingly substantial. The paper concludes with a discussion of key findings and policy implications.

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1. Introduction

Child poverty has risen to prominence as a distinct issue of social policy over the last few years. There is a variety of reasons for this development. On the one hand, concern with child poverty seems to appeal to all. It is a matter of fact that the distinction between the “deserving” and the “undeserving” poor (as old as social policy itself, but arguably never quite forgotten) is not applicable to a view on child poverty. Therefore, policies against child poverty enjoy much wider support than general anti-poverty policy can ever hope to muster. On the other hand, there is sufficient evidence that the social costs of child poverty and the benefits of early intervention can be very substantial [Esping-Andersen et al (2002), Kamerman et al (2003)]. In the light of this, policy measures to combat child poverty can be justified on the grounds of future returns to human capital investment.

In view of the above, the recent emphasis on child poverty on the part of policy makers looking to establish new areas of consensus on social policy can hardly be surprising. In the United States, the Clinton administrations greatly expanded the scope of Earned Income Tax Credit, which has now become the main instrument for the provision of income support to families [Moffitt (2002)]. In Britain, the Labour government has committed itself to halving child poverty by the year 2010. A variety of policy instruments have been employed, including substantial improvements to universal Child Benefit and of the child supplements to means-tested Income Support, as well as the extensive use of in-work benefits [Piachaud & Sutherland (2001), Brewer (2003)].

Nearer home, from a south European perspective, the European Commission’s contribution to the Lisbon summit in March 2000 included a proposal to halve child poverty by 2010. Although eventually this proposal was not endorsed by the European Council, the Social Inclusion Process confirmed the greater visibility of anti-poverty

policy at the level of the EU. Moreover, the elaboration of biennial National Action Plans since May 2001 has been in many countries, including those examined here, the occasion for initiatives specifically targeted to children [CEC (2003), Ruxton & Bennett (2002), Ferrera et al (2002)].

The drive to reduce child poverty is of particular interest in the context of southern Europe. If anything, "familialism" has long been identified as a special ingredient of south European welfare states. At first glance, it might be thought that in such a context families and children are well looked after. Rather paradoxically perhaps, this is not always the case. On the one hand, family activism in the domain of social policy has proved far from fully effective in terms of preventing child poverty. The mobilisation of family resources to bail out relatives at risk of poverty requires that such resources are adequate in the first place, even when the existence of families or their willingness to help is not an issue. On the other hand, the "subsidiary" role of the State in matters of family policy has often implied that formal programmes of public assistance to poor families with children are meagre or not available at all [Ferrera (1996), Rhodes (1996), Matsaganis et al (2003)].

The limited role of social assistance for low-income families with children in the countries of southern Europe is in sharp contrast to the extensive (and, from a political point of view, rather "unproblematic") reliance on tax benefits. Fiscal welfare, mostly taking the form of non-refundable income tax credits for dependent children, seems to be alive and well and causing the same regressive outcomes predicted by Titmuss many years ago [Alcock et al (2001)]: tax benefits target tax payers, but poor families are often too poor to pay tax. The combination of limited social assistance and the extensive recourse to fiscal benefits results in uneven coverage, with gaps where protection is needed most. The provision of categorical family allowances on a contributory basis compounds such fragmentation.

This paper aims to assess the impact of family transfers on child poverty in Greece, Italy, Spain and Portugal. The term "family transfers" is used broadly to include non-

contributory child benefits, contributory family allowances and tax credits or allowances for dependent children¹. The analysis relies on EUROMOD, a cross-country comparative benefit-tax model for all 15 members of the EU. Microsimulation models like EUROMOD allow users not only to evaluate the impact of existing tax and benefit measures but also to simulate the impact of alternative policy reforms. Both features are brought to use here.

The structure of the paper is as follows. The next section briefly describes the data and methodology. Section three reviews the incidence of child poverty in southern Europe. Section four offers an account of family transfer programmes and assesses their distributional impact in the four countries. Section five simulates the effects of alternative reforms. The paper concludes with a discussion of key findings and their policy implications.

2. Data and methodology

This paper relies on the output of EUROMOD, a cross-country comparative benefit-tax model. The model simulates a variety of taxes and benefits in each of the 15 countries of the EU. The policy instruments simulated here include income taxes and social insurance contributions on the one hand, social assistance benefits, unemployment benefits, family benefits, housing benefits and some social insurance benefits on the other.

EUROMOD simulates policy rules as of 1998, applied on the original micro-data sets drawn from family income surveys. The data used in this paper are derived from the Bank of Italy Household Income Survey (1995) and from the European Community Household Panel for Greece (1995), Portugal (1996) and Spain (1996). Income data have been updated to the year 1998, using appropriate adjustment factors by country and by income source².

The advantages of a microsimulation model such as EUROMOD are quite obvious. Even though benefit information is normally collected as part of family income surveys, the

policies of interest (here family transfers) are often difficult to identify because of aggregation. Besides, income taxes cannot be read off the original data. Furthermore, on the basis of income surveys alone it is impossible to estimate the effect of policies introduced or modified after the data were collected. For these reasons, microsimulation models constitute a powerful tool for research on the effects of taxes and benefits in a comparative perspective.

Equally obvious are the disadvantages. EUROMOD is a static model, based upon purely arithmetical calculations. As such, it cannot account for behavioural responses, such as those related to labour supply decisions, when simulating the effects of policy changes. Moreover, due to data limitations, in-kind benefits and publicly provided services are not included in the analysis. This is an important omission: non-cash benefits have a significant effect on family and child welfare and figure prominently in the policy debate in many countries.

A further set of methodological problems is potentially more amenable to treatment. The application of policy rules to a given population raises the question of whether these rules are fully adhered to. Of course, this is not the case in the real world. On the one hand, not all individuals claim the benefits they are entitled to. It is known that non-take up is caused by incomplete information about entitlements, administrative errors, fear of stigma and other reasons. It is also known that the extent of non-take up is often large with respect to means-tested benefits, though not with respect to universal benefits [Hernanz et al. (2004), Sutherland (2003)]. However, non-take up of social benefits in the countries of southern Europe is neglected as a policy issue and relatively overlooked as a research topic. Conversely, there may be "leakage" of means-tested benefits to non-eligible households or individuals. For the purposes of this paper, the impact of family transfers is assessed as if all benefits were perfectly targeted, in the sense of being fully taken up by all legitimate claimants and received by no illegitimate ones.

On the other hand, not all individuals pay the taxes they are liable to. Tax evasion is known to constitute a serious issue, all the more so in the countries of southern Europe.

Again, no adjustment is made to the data, as if the incomes reported in the surveys the model relies upon were the same as the incomes declared to the authorities for the purposes of assessing both liability to income tax as well as eligibility to income-related benefits. The implications of the twin assumptions of perfect tax compliance and perfect targeting are discussed in the conclusions.

3. Household composition and child poverty

The importance of the family has long been identified as an outstanding feature of southern Europe. In this part of the world, families function as an informal but effective social safety net, across a whole range of policy areas (including child care, care for the elderly, unemployment assistance, housing and social assistance).

Resource pooling between family members needs not operate within households, but it often does. As a matter of fact, the common assumption of equal sharing of resources on which most current research on poverty – including the research presented here – rests may not fully capture what actually goes on inside many south European families. There is evidence that low income families go to very considerable lengths to ensure that their children appear less “different” to their peers than might have been expected on the basis of family income alone (for example, by spending a large share of the family budget on expensive clothing and footwear)³.

As youth joblessness remained high or increased such resource pooling intensified. For instance, the proportion of young persons aged 25-29 still living with their parents rose between 1987 and 1996 from 39 to 50 per cent in Greece, from 39 to 59 per cent in Italy, from 49 to 62 per cent in Spain and from 39 to 52 per cent in Portugal. In 1996, the equivalent figure in the EU as a whole was a mere 32 per cent [Fernández Cordon (1997), Ferrera et al (2000)].

Moreover, as much of current research has emphasised, social change has undermined the assumption of a working husband supporting a housewife and their children, or the

“male breadwinner model” on which welfare state building in the post-war period implicitly relied. The decline of the traditional family and the rise of atypical family forms have exposed certain population groups to a higher poverty risk, single mothers and their children being the most widely discussed case [Lewis (2001), Saraceno (1997)].

In the light of the above, one must always distinguish between poverty rates (i.e. the proportion of children in a certain household type that are below the poverty line) and poverty shares (i.e. the number of poor children in that household type as a proportion of all poor children), since the latter is also a function of the population share of each household type⁴.

[Table 1]

This distinction is brought out clearly in Tables 1 and 2. As Table 1 shows, child poverty rates are highest in large and lone parent families. In this sense, there is nothing remarkable about child poverty in southern Europe compared to the rest of Europe. In terms of child poverty shares, as shown in Table 2, a different picture emerges. The relative weight of lone parent families is clearly limited (from about 8 per cent of all poor children in Italy to 15 per cent in Portugal). Large families account for a larger number of poor children. Yet, a very substantial proportion of children in poverty (ranging from 29 per cent in Portugal to 48 per cent in Greece) live in “standard” families of mother, father and their one or two children.

[Table 2]

The estimates presented above imply that nearly 5.5 million south European children live in poverty. Obviously, this figure would have been higher in the absence of income transfers to families with the children. By the same token, had such transfers been more generous and more comprehensive in coverage, child poverty would have certainly been lower. The impact of family transfers on child poverty is discussed in the next section, preceded by a brief account of the relevant policies in each of the four countries in turn.

4. Family transfers and child poverty

In all four countries of southern Europe income transfers to families include occupational family allowances, non-contributory benefits and tax relief for dependent children.

In Greece, substantial assistance to large families is provided through the "3rd child benefit" and the "large family benefit", funded out of general taxation. Since 2002, these are no longer income tested. "Unprotected child benefit" is another non-contributory benefit of lower value, aimed to low-income single parent families or households caring for orphans born to relatives (i.e. foster families are not eligible). Civil servants receive family allowances as salary supplements, while similar but lower allowances are paid to private sector employees conditional on adequate contributory record. Finally, child tax credits reduce the tax bill of eligible tax payers at a flat rate and on a non-refundable basis. In 2002, a new refundable tax credit was introduced, targeted at low-income families with children at school aged 6-16.

In Italy, the main transfer to households with children is "family allowance", a contributory benefit reserved for dependent workers (active or retired). The amount of benefit increases with household size and is inversely related to household income (since 1983). Two non-contributory schemes were introduced in 1999: a "benefit for large families" for households with three or more children and a "maternity allowance" for mothers not covered by social insurance. Eligibility to these is tested with the Indicator of Economic Situation (ISE), an instrument combining information on household income and wealth. While the benefit for large families can be claimed by the self-employed too (unlike the contributory family allowance), the only scheme providing nearly universal support to children is the income tax credit for dependent children. Since 2001, the tax credit rises with the number and age of children, while it decreases moderately beyond a certain level of taxable income.

In Spain, families with children below 18 may be eligible for income-tested child benefit. The benefit is targeted at families with very low incomes, though the income threshold increases with the number of children. Approximately 13 per cent of all children received

this benefit in 2001. On the other hand, child tax deductions in Spain took until 1998 the form of a non-refundable child tax credit that rose more than proportionally with the number of children. In 1999, the tax credit was replaced by a child tax allowance (i.e. a reduction of taxable income rather than of tax due), whose level per child rises with the number of children and diminishes with their age. In 2003, a refundable tax credit for working mothers was introduced for working women with children aged less than 3.

In Portugal, assistance to families is provided under the "child and youth family benefit" programme. Benefit rates are inversely related to family income. Income brackets are set at multiples of the minimum wage. Within each bracket, allowances vary by the age and number of children. Moreover, special supplements apply in case of disability. While eligibility for the "child and youth family benefit" is limited to children of dependent workers covered by social insurance, the scheme is open to the self-employed on a voluntary basis. Low-income families without social insurance coverage may have access to the child benefit provided they meet a more stringent income test. Furthermore, a system of tax credits for dependent family members operates within the income tax system: each tax unit may credit a certain amount per dependent family member against its gross tax liability.

Not all of the above programmes were taken into consideration in assessing the impact of family transfers on child poverty. The year of reference for this paper is 1998. New programmes have been introduced in the meantime, while changes to older programmes have also taken place. While a full discussion of such these is clearly beyond the scope of this paper, note that cash benefit increased across the board in Portugal and Spain, but only selectively in Italy and Greece⁵. Changes to tax relief for dependent children brought about large gains to families in the upper part of the income scale in Italy and Spain. Improvements to the value of tax relief were less marked in Portugal and Greece, though the large family bias was somewhat reinforced further in the latter case.

The above account of family transfer arrangements in southern Europe indicates that, in spite of a certain degree of institutional variation, common patterns are not hard to spot.

This is brought out clearly in Tables 3 and 4, where stylised entitlements to cash benefits and tax relief respectively are explored. Families with one, two and three children of various ages and at various points in the income scale (€5 000, €10 000, €25 000 and €100 000 per annum) are taken as typical cases.

[Table 3]

As seen in Table 3, the amount of assistance per child provided through cash benefits rises with the number of children in Greece, to a more limited extent in Italy and in Portugal, while it remains flat in Spain. On the other hand, benefit levels are inversely related to income over a certain range, though less clearly so in Greece. Such effect is quite linear in Portugal. In Spain, benefits are withdrawn fully at relatively low levels of income. In Italy, low-income families with one or two children risk being ineligible for benefit, while the amount of assistance is maximised around the €10 000 income mark and then declined steeply. In both Italy and Greece, the structure of transfers leaves a large number of children in low-income families exposed to poverty. The fragmentation of contributory allowances along occupational lines adds quite an exceptional element of regressivity in the allocation of family transfers.

[Table 4]

Turning to the treatment of dependent children by the income tax system, as shown in Table 4, regressive outcomes seem to be the rule. To start with, low-income families derive little or no benefit from the child tax relief, as they would have paid little or no income tax in any case. At low incomes, tax relief is entirely worthless in Italy and Spain irrespective of number of children, while the resulting gross tax liability is lower than the tax credit itself in Greece and Portugal. In general, as families begin to pay tax, the value of tax relief per child increases and then remains constant in all four countries. Overall, income transfers to families with children through the tax system are lower than through social security. In Spain, a clear dichotomy seems to apply between taxpayers (entitled to tax relief for dependent children but not to family cash benefits) and poor families with children (entitled to cash benefits but not to tax relief).

What is the distributional impact of existing arrangements of family transfers in southern Europe? Table 5 presents some estimates on the first-order effect of family transfers, in terms of children lifted over the poverty line, produced with the aid of the tax-benefit model EUROMOD.

[Table 5]

Family transfers appear to be much more effective in Portugal and Italy (reducing child poverty by about 20 per cent) than in Greece and Spain (7 to 8 per cent). Clearly, this pattern is – at least partly – a function of the relative weight of family assistance in each of the four countries. As shown later in the paper, family assistance accounts for 1.5 per cent of aggregate disposable income in Portugal, 1.3 per cent in Italy, 0.9 per cent in Greece and a mere 0.5 per cent of aggregate disposable income in Spain.

With respect to household types, poverty reduction is in all four countries relatively more pronounced among large families. On the contrary, existing arrangements seems to fail one-child families – except in Italy, where the anti-poverty effect of family transfers seems to be distributed more evenly between household types. Lone parent families, especially those with grown up children, fare no better.

On the whole, existing family transfer programmes seem to perform better in Portugal and Italy than in Greece and Spain but rather modestly overall. Conversely, the scope for improving the redistributive performance of income transfers to families with children through redesigning the structure of social benefits seems ample. This is examined next.

5. Reforming family transfers

The previous section shows that a common feature of actual family transfer programmes throughout southern Europe is that many families with children at risk of poverty are left with little or no income support. An obvious response to the problem of coverage gaps is the introduction of a universal child benefit. This is a contentious solution, but has the advantage of being easy to explain and simple to implement. For the sake of good policy design, not to mention fiscal prudence, such a benefit is assumed to substitute (rather than be added on to) existing family transfer programmes.

What would be the implications of a universal child benefit, introduced at the same time as actual programmes of family transfers are abolished? Using a tax-benefit model like EUROMOD enables us to provide specific answers to the effect of such a policy change.

Universal child benefits appear straightforward enough. However, one still has to define parameters such as the value of benefit and eligibility conditions with respect to age. In this section, five variations to the general theme are explored. All five involve replacing existing family transfers for children aged 0-17 by a universal child benefit. In the case of reforms I-II, the (flat) rate of benefit in each country has been chosen so as to match existing family transfers exactly in terms of impact on child poverty and on fiscal costs respectively, i.e. they are "poverty neutral" and "budget neutral".

Reforms III-V simulate "actually existing" child benefits: the British, Danish and Swedish schemes respectively. The three schemes were chosen to illustrate the effect of different benefit structures. The British child benefit scheme pays a higher rate to the eldest child in the family and a single (lower) rate to all other children. The Danish scheme pays variable rates with respect to age: the benefit rate is highest for children aged 0-3 and falls somewhat for older children. The Swedish scheme is more similar to the British in that benefit rates vary with the number of children in the family, but in reverse: more generous benefits are paid for the third and subsequent children than for the first two. In order to account for variations in living standards across the four countries, the level of

each benefit is fixed as a proportion of average earnings⁶. The benefit amount payable under each variation is presented in Table 6.

[Table 6]

Would universal child benefits of various kinds be more effective than current policies at fighting child poverty? Table 7 shows that the impact of those reforms simulated here would be rather mixed. Reform II (budget neutral UCB) would not affect the headcount child poverty rate in Greece, but would increase it by nearly 1 percentage point in Spain and by around 2 percentage points in Italy and in Portugal. Reform IV (Danish CB) would reduce the headcount rate by over 3.5 percentage points in Portugal and Spain and by 1.5 point in Greece, but would raise it by 0.5 percentage point in Italy. The effect of reforms III (British CB) and V (Swedish CB) would be to reduce headcount poverty in Spain and Greece, but raise it in Italy and – though only slightly – in Portugal.

[Table 7]

These results make it clear that, provided it is pitched at a level high enough, a universal child benefit could have a considerable redistributive impact in southern Europe. At this point, a question arises: would there be enough political support for such a policy shift? Clearly, a proper answer to this question lies beyond the scope of this paper. However, the distribution of winners and losers following such reform might reveal some of the difficulties involved. By way of illustration, our findings for reforms II (budget neutral UCB) and IV (Danish CB) are presented by income decile in Figures 1 and 2 respectively.

[Figure 1]

Figure 1 shows that, following such reform, there would be more losers than winners in Italy (particularly in the bottom 40 per cent of the distribution), while a majority within all income deciles would be worse off in Spain. On the contrary, under reform II, winners would outnumber losers in Greece (except in decile 9, i.e. the second richest) and in Portugal (throughout the income distribution).

Calculating winners and losers under a policy change that is not budget neutral can be misleading, as it raises the question of how the extra cost is to be financed. A reasonable answer to that would be "by raising taxes". Various tax policy designs are conceivable and can be easily modelled. While none is in Figure 2, the relevant results are shown nevertheless because indicative of the effect of benefit generosity on the distribution of winners and losers.

[Figure 2]

As a matter of fact, reform IV (Danish CB) would drastically reduce the number of losers to less than 5 per cent in Greece, Portugal and Spain (where there would be no losers at all). However, a significant share of the Italian population (29 per cent) and a majority of the lowest three deciles would remain worse off compared to the status quo.

That raises the question of costs. Clearly, the fiscal effect of introducing a universal child benefit would be a function of the level and scope of the benefit itself. However, it would also depend on the demographic profile of each country and the generosity of the family transfer programmes it would replace. The fiscal implications of existing programmes and simulated reforms are all presented in Table 8 below.

[Table 8]

Since the current cost of family transfers is low (0.5 to 1.5 per cent of aggregate non-equivalised disposable income), the reforms simulated here appear costlier. Reform IV (Danish CB) would be the costliest of all, raising expenditure to between 1.8 and 2.3 per cent in the four countries – except in Italy, where reform I (poverty neutral UCB) would be more costly. Reforms III (British CB) and V (Swedish CB) would have a softer fiscal impact, bringing expenditure on income transfers to families with children to between 1.4 and 1.8 per cent of disposable income.

6. Conclusion

The purpose of the paper was to evaluate the impact of existing family transfers in four south European countries, taking into account both social security transfers and income tax benefits, and to simulate the effects of reforms in the shape of variants of a universal child benefit. The results presented above provide useful insights to the question under consideration. These are discussed in turn.

To start with, existing arrangements in this policy area leave much to be desired. Too many poor families with children are ineligible for income support (as in Greece and Italy) or receive low benefits (as in Spain and Portugal). Needless to say, tax benefits compound coverage gaps, as non-refundable schemes exclude poor families by design⁷.

On the other hand, our results show that replacing current policies by universal child benefits would not reduce the number of children in poverty by much – and could even increase it. This can happen if current policies provide relatively generous benefits to a substantial proportion of families on low incomes – as in Italy, where family transfers are both income tested and categorically targeted.

Moreover, the headcount ratio is a particularly harsh criterion by which to judge the anti-poverty performance of universal benefits. Where existing policies leave coverage gaps, universal child benefits will improve the position of families at the bottom of the income scale but ineligible for current assistance. Headcount ratios, concerned with movements across the poverty line, cannot capture such improvement⁸.

Among the child benefits simulated that are actually in operation elsewhere in Europe, the Danish scheme clearly emerges ahead of the others in terms of generosity: it would be the costlier, but also the one with the highest impact on child poverty in all countries of southern Europe. On the other hand, the British and Swedish schemes, although very different in terms of internal logic (the former paying a higher rate to the elder child, the latter rising in value with family size), would have quite similar effects on child poverty and fiscal costs in the four countries studied.

In general, a basic trade off between fiscal cost and poverty reduction is at work: more generous universal child benefit schemes have a stronger distributional impact at higher fiscal cost⁹. In a sense, this is so obvious it hardly needs mentioning. However, spending on family transfers in southern Europe is currently so low that it would be unreasonable to expect significant improvements in terms of poverty reduction through a reallocation of resources within this policy area.

In any case, this contest of universal child benefits vs. existing family transfers is less than fully fair due to imperfect targeting. The implicit rate of benefit take up assumed here is 100%. This may be a reasonable approximation of the real world with respect to universal benefits, but take up of means-tested benefits is often significantly lower. As a consequence, allowing for imperfect targeting would tilt the balance of the assessment firmly in favour of universal child benefits. The same holds for other features associated with such programmes (e.g. significantly lower administrative costs compared to means-tested benefits).

Moreover, the case for universal benefits rests on wider considerations than anti-poverty effectiveness. Such benefits strengthen work incentives, promote individual autonomy and embody social citizenship. Universal child benefits, in particular, act as mechanisms of horizontal redistribution, from single taxpayers to families with children. If children are viewed, at least partly, as a public good, then shifting some of the costs involved to the society at large enhances social welfare.

What of the policy implications? In a certain sense, the work presented here, restricted as it is to income transfers alone, starts with a handicap. It is true that ignoring benefits in kind and their distributional effect is, with few exceptions [Smeeding et al (1993)], common practice in current research on incomes and wealth. Indeed, the methodological complexities of accounting for the distributional impact of benefits in kind ought not to be underestimated. However, the omission is regrettable. Arguably, a concerted policy effort to combat child poverty in Europe must assign a higher priority to universal family services than to universal cash benefits. To mention an obvious example, access to good

quality affordable child care to allow mothers to have careers [Esping-Andersen & Sarasa (2002)] could be a much more promising route out of child poverty than relying on cash benefits alone, however generous.

Naturally, care should be taken to avoid the other extreme, too: family services and cash benefits are complements, not substitutes [Atkinson (1998)]. A penniless family will be poor no matter how broad the range of services it has free access to. In other words, the design of income transfers to families with children matters. Taking into consideration all previous discussion, a two-pronged approach combining a universal (if low) income base with more targeted but non-categorical policies could be an effective way to reduce child poverty in southern Europe at a reasonable cost to the tax payer.

The final conclusion concerns the methodology applied here. Significant policy questions such as the one posed here (“what would be the effect on child poverty and fiscal costs of a universal child benefit introduced in place of existing programmes of family transfers?”) are so complex and to a certain extent counterfactual that cannot be fully answered without recourse to a benefit-tax model such as EUROMOD. Microsimulation models are not immune from limitations of their own, some of which were discussed earlier. Nonetheless, they do have a unique advantage, which is precisely the ability to simulate the impact of policy reforms.

In this sense, the contribution of microsimulation can best be thought as an input in the policy making process: informing policy questions and thereby promoting a more rational and dispassionate political debate on benefit-tax reform. There is little doubt that these goods are in relatively short supply in southern Europe. Whether this paper appreciably adds to their stock remains to be seen.

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Table 1

Child poverty rates

	Greece	Italy	Spain	Portugal
couple with 1 child 0-17	10.0	13.0	12.5	11.3
couple with 2 children 0-17	14.9	20.7	15.6	16.1
couple with 3+ children 0-17	12.0	37.0	33.8	35.7
lone parent with all children 0-17	42.2	49.0	45.2	56.6
lone parent with at least 1 child 18+	30.0	67.7	41.6	34.4
couple with at least 1 child 18+	18.3	36.0	30.2	21.2
other households with children 0-17	28.5	27.6	19.5	27.4
child poverty rate	17.0	26.5	21.6	23.1
total poverty rate	20.5	20.7	18.3	22.0

Note: Estimates for the year 1998. The modified OECD equivalence scale is used, assigning a value of 1.0 to the first adult, of 0.3 to children below 14 and of 0.5 to other household members. The poverty line is equal to 60% of national median equivalent disposable income. The child poverty rate is the headcount ratio. Children are defined as individuals below 18 years of age.

Source: EUROMOD.

Table 2

Child poverty shares

	Greece	Italy	Spain	Portugal
couple with 1 child 0-17	8.6	7.8	8.4	7.9
couple with 2 children 0-17	39.3	30.7	29.6	21.4
couple with 3+ children 0-17	8.7	24.2	19.9	19.6
lone parent with all children 0-17	7.2	5.2	5.4	13.5
lone parent with at least 1 child 18+	2.1	3.0	3.1	2.0
couple with at least 1 child 18+	10.3	20.0	24.7	13.7
other households with children 0-17	23.8	9.3	9.0	21.9
total	100.0	100.0	100.0	100.0

Note: See the Note to Table 1.

Source: EUROMOD.

Table 3

Stylised entitlement to family transfers: cash benefits

family size	family income	Greece	Italy	Spain	Portugal
1 child aged 7	5 000	0	0	216	251
	10 000	39	1 568	0	177
	25 000	39	186	0	177
	100 000	211	0	0	166
2 children aged 7 & 3	5 000	0	0	216	251
	10 000	64	1 503	0	177
	25 000	64	344	0	177
	100 000	211	0	0	166
3 children aged 11, 7 & 3	5 000	492	0	216	293
	10 000	612	1 436	0	198
	25 000	81	707	0	198
	100 000	282	0	0	180

Note: All values are annual benefit per child in 1998. Average full-time earnings of male employees were €10 253 in Greece, €17 300 in Italy, €14 212 in Spain and €9 441 in Portugal.

Source: Own calculations.

Table 4

Stylised entitlement to family transfers: tax relief

family size	family income	Greece	Italy	Spain	Portugal
1 child aged 7	5 000	36	0	0	40
	10 000	73	174	150	97
	25 000	73	174	150	97
	100 000	73	174	150	97
2 children aged 7 & 3	5 000	18	0	0	20
	10 000	73	174	180	97
	25 000	73	174	180	97
	100 000	73	174	180	97
3 children aged 11, 7 & 3	5 000	12	0	0	13
	10 000	103	174	159	98
	25 000	103	174	220	98
	100 000	103	174	220	98

Note: All values are annual tax relief per child in 1998. See the Note to Table 3.

Source: Own calculations.

Table 5

Impact of family transfers on child poverty

	Greece	Italy	Spain	Portugal
couple with 1 child 0-17	0.0	17.6	2.7	5.9
couple with 2 children 0-17	3.3	25.6	9.2	17.6
couple with 3+ children 0-17	32.0	23.4	7.8	34.6
lone parent with all children 0-17	4.1	14.1	8.4	9.8
lone parent with at least 1 child 18+	0.0	0.0	2.3	4.0
couple with at least 1 child 18+	5.5	10.1	5.7	14.4
other household types	9.4	8.1	9.4	24.1
all households with children	8.1	19.0	7.3	20.8

Note: Percentage reduction in the number of poor children due to family transfers. The poverty line is held constant at the actual level.

Source: EUROMOD.

Table 6

Simulated reforms

	Greece	Italy	Spain	Portugal
reform I : poverty neutral UCB	204	912	198	350
reform II : budget neutral UCB	197	582	135	284
reform III : British child benefit	401	676	555	369
eldest child				
all other children	326	551	452	300
reform IV : Danish child benefit	594	1 003	824	547
children aged 0-3				
children aged 3-7	540	912	749	498
children aged 7-18	422	711	584	388
reform V : Swedish child benefit	354	597	490	326
first two children				
third child	448	756	621	413
fourth child	637	1 074	883	586
fifth+ children	707	1 194	981	651
average earnings of male f-t employees	10 253	17 300	14 212	9 441

Note: All values are annual amounts in 1998. All reforms involve the replacement of existing family transfers for children aged 0-17 by a universal child benefit. In the case of reforms I-II, the (flat) rate of benefit in each country matches exactly (in terms of impact on child poverty and on fiscal costs respectively) existing family transfers. In the case of reforms III-V, the level of benefit in each country is exactly equivalent to the British, Danish and Swedish child benefits as a proportion of average earnings of male full-time employees.

Source: EUROMOD.

Table 7

Impact of simulated reforms on child poverty

	Greece	Italy	Spain	Portugal
existing family transfers	17.0	26.5	21.6	23.1
reform I : poverty neutral UCB	17.0	26.5	21.6	23.1
reform II : budget neutral UCB	17.1	28.4	22.5	25.4
reform III : British CB	16.0	28.1	18.9	23.5
reform IV : Danish CB	15.5	27.1	17.9	19.6
reform V : Swedish CB	15.9	28.1	18.9	23.2

Note: The poverty line is held constant as reforms are simulated. Poverty rates are headcount ratios.

Source: EUROMOD.

Table 8

Fiscal implications of simulated reforms

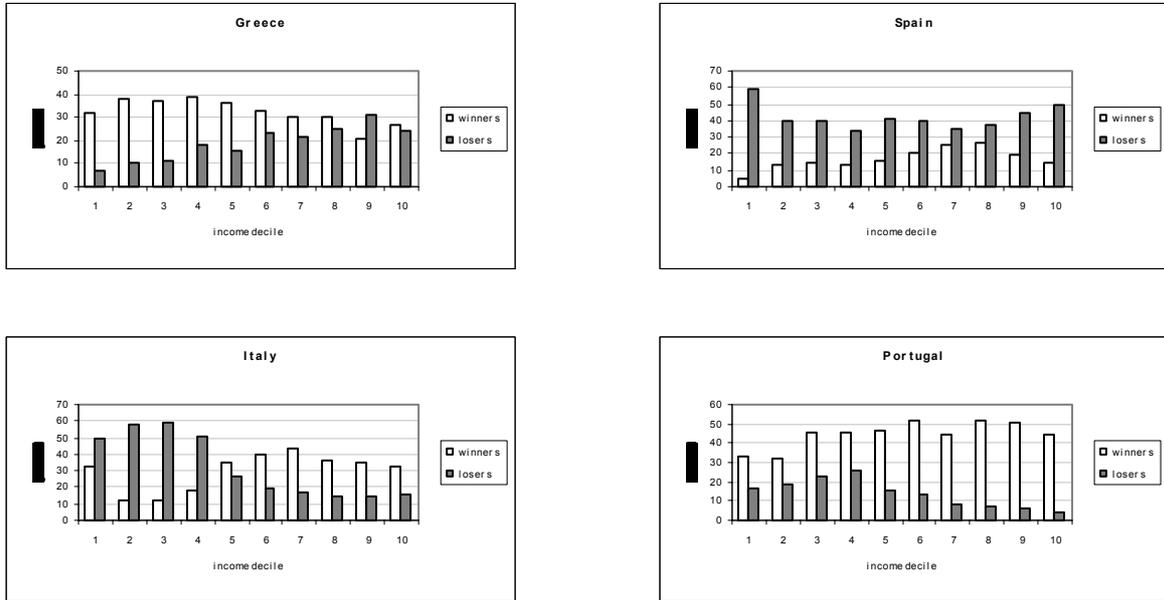
	Greece	Italy	Spain	Portugal
existing family transfers	0.9	1.3	0.5	1.5
reform I : poverty neutral UCB	0.9	2.2	0.7	1.9
reform II : budget neutral UCB	0.9	1.3	0.5	1.5
reform III : British CB	1.6	1.4	1.8	1.8
reform IV : Danish CB	2.1	1.8	2.4	2.3
reform V : Swedish CB	1.7	1.4	1.8	1.8

Note: Fiscal costs are estimated as proportion of aggregate (non-equivalised) disposable income. For more detail on the reforms simulated see Table 6.

Source: EUROMOD.

Figure 1

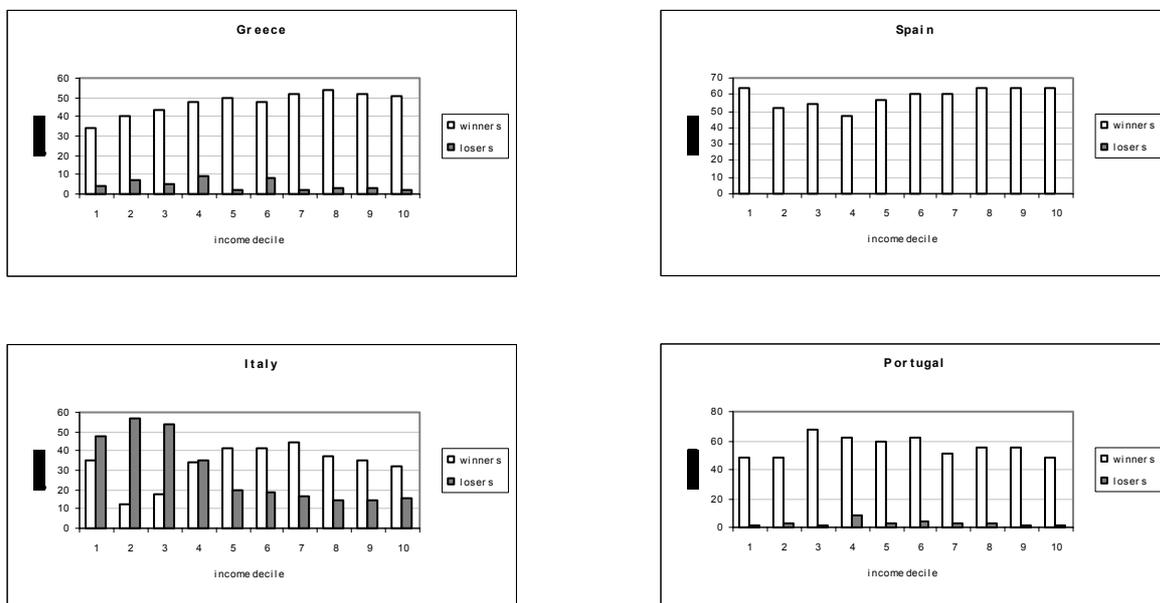
Winners and losers of reform II



Note: "Winners" and "losers" are defined as individuals made better off and worse off respectively by the reform. Reform II involves the introduction of a **budget-neutral** universal child benefit in place of all existing family assistance.

Figure 2

Winners and losers of reform **IV**



Note: "Winners" and "losers" are defined as individuals made better off and worse off respectively by the reform. Reform IV involves the replacement of all existing family assistance by a universal child benefit chosen so as to be exactly equivalent (as a proportion of average earnings of male full-time employees) to the **Danish** child benefit. No adjustment to tax policies in order to fund such reform is simulated.

Notes

¹ In a recent study, Levy (2003) adopted a still broader definition of family transfers, one that included all child-related instruments anywhere in the social benefit system. Given that the practice of adding special allowances for dependent children to instruments as diverse as old age pensions, unemployment benefits, housing benefits and so on is quite diffuse in southern Europe, this approach is promising. However, a more conventional approach is followed here, restricted to transfers specifically targeted to children.

² The model is being currently updated for the year 2001. See the relevant country reports in the EUROMOD website (<http://www.econ.cam.ac.uk/dae/mu/emodcty.htm>).

³ See Ginsborg (2001: chapter 3) for an excellent analysis of family and consumption in contemporary Italy. Incidentally, in the absence of a theory and more robust evidence of how family budgets are actually allocated between family members, replacing the rule of equal sharing of resources by any other would risk introducing a greater dose of arbitrariness. Nevertheless, if poor families really spend a disproportionate amount of their scarce resources on their children, the position of southern Europe in the child poverty league would have to be revised upwards.

⁴ Note that any estimate of child poverty by household type is sensitive to the equivalence scale used. Other things being equal, the lower the household economies of scale implicit in the equivalence scale used with respect to children, the higher the headcount poverty rate and poverty share of children living in larger households.

⁵ In Italy, the introduction of the means-tested "benefit to large families" in 1999 favoured low-income families with three children or more. In Greece, the abolition of the income tests for family allowance for private sector employees and, especially, "3rd child benefit" in 1999 and 2002 respectively had the opposite effect.

⁶ For example, the eldest child rate under reform III (British CB) is 3.9 per cent of average male full-time earnings in all four countries, as in Britain in 1998.

⁷ More recently, refundable tax credit schemes were actually introduced in Greece in 2002 (for low-income families with children aged 6-16 at school) and in Spain in 2003 (for working mothers with children aged below 3). A full estimation of their effect is the subject of future research. However, these schemes seem unlikely to alter the regressive nature of tax relief for dependent children in the two countries, since the number of beneficiaries is limited and the amount of benefit paid low.

⁸ For an illustration, our estimation (not reported here) of the effect of reform IV (Danish CB) on the Foster-Greer-Thorbecke index for $\alpha=2$ (a poverty indicator attaching greater weight to larger poverty gaps) is a considerable reduction in all countries, ranging from 7 per cent in Italy to 21 per cent in Greece through to 28 per cent in Portugal and Spain.

⁹ The cost estimates presented in Table 8 take no account of the fact that universal benefits are usually taxed as normal income. Taxing benefits progressively would reduce fiscal costs without weakening their anti-poverty impact. On another note, since gross domestic product is higher than disposable income, the estimated cost of the reforms simulated here would be a lower proportion of GDP.