

Reforming Child Benefit

Paper delivered at Dublin Economics Workshop, October 12 2012

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This paper will look at the current discussion around the reform of Child Benefit (CB), beginning with the Department of Social Protection's review of Child Income Supports and proposals to means-test or tax CB, followed by a presentation of *Cúram*'s proposal for reform. The paper concludes with a request to consider reforming Child Benefit with regard to outcomes rather than treating the benefit simply as a target for cuts.

1 Background to reform of Child Benefit

Many have commented on the 'need' to 'better target' (i.e. tax or means-test) Child Benefit, including the late Minister for Finance Brian Lenihan and more recently the International Monetary Fund in their latest staff report.² Interestingly, and although we arguably undertake many high-cost initiatives in this country, the IMF report only uses the word 'expensive' once: in relation to spending on Child Benefit. At €2.4bn, welfare spending on children is indeed a big-ticket item, but the use of the word 'expensive' implies that there is an accepted norm beyond which this country has gone, or that there is a poor return on spending. Is this in fact the case?

1.1 Departmental review: report

The Department of Social Protection has been considering reforms to Child Income Supports for some time, and has undertaken studies and consultation with interested non-governmental organisations on this topic. The report *A Policy and Value for Money Review of Child Income Support and Associated Spending Programmes*³ concludes that a universal component of child income support should be retained, with a second top-up payment available to low-income families. The report defines child income supports in terms of primary objectives:

Child income support payments provide (i) universal assistance with the cost of child-raising to all families ("horizontal redistribution") and (ii) targeted child-related assistance to families who are at risk of poverty ("vertical redistribution"). (p. 9)

The report also refers to secondary objectives, including

...the reduction of financial disincentives for parents to take up work; financial assistance with specific costs such as the cost of paid childcare and the provision of an independent income source for women in the home. (p. 9)

The report considers whether supports are effective and efficient, and concludes that they are effective in terms of the main objectives and moderately efficient. Perhaps counterintuitively, a universal benefit can be efficient because it gets to children in particular need without costs being incurred in trying to identify them. (An unfortunate corollary of this is that cuts to the universal payment will also impact immediately on children in particular need where there is no access to

¹ *Cúram* is an Irish NGO part-funded by the Department of Justice under the Equality budget. Contact: withcare@eircom.net

² www.imf.org/external/pubs/ft/scr/2012/cr12264.pdf, p. 22

³ www.welfare.ie/EN/Policy/CorporatePublications/Finance/exp_rev/Pages/CISReviewFinal.aspx

alternative sources of income.) The report highlights that the system could be made more coherent, flexible and targeted towards anti-poverty goals.

1.2 Means testing or taxing?

According to the report, reforming income supports through means testing alone would have

...some potential to make overall spending more targeted [but] would suffer from considerable policy, legal and administrative difficulties without any guarantee of improved outcomes or coherence of policy instruments. (p. 18)

Means-testing, in other words, would be a costly process which would certainly divert Department of Social Protection staff from current duties, and which could render the supports less rather than more effective or efficient.

Taxing CB would be technically easier and fairer to implement. It is not straightforward, however, since if it is considered income, whose income is it? Does it create an employer-employee relationship within the family or between the State and the parent(s)? At what levels would it be appropriate to tax? Would it open the State to potential legal or Constitutional challenge (e.g. on the basis of discrimination legislation, under article 41.2 of the Irish Constitution or indeed the proposed new article on children's rights, if passed)? Currently Child Benefit is normally paid to mothers; if taxed under current arrangements, it would mean that the mothers of larger families would not qualify for the Home Carer Credit, while the mothers of fewer children would. It might also act as a disincentive to these women's employment or other earnings, since they would pass the threshold at which they pay the higher rate of tax at a lower level of earnings from employment.

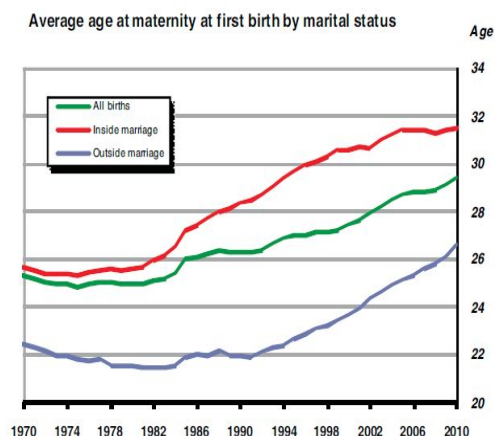
1.3 Debt, benefits and demography

One aspect which is missing from the public discussion around Child Benefit and other supports – and from the Departmental report – is a consideration of the levels of household debt and rising costs on families. How many recipients of CB have an unsustainable mortgage or other debt and are struggling as it is to meet their basic costs? For larger families Child Benefit may make up a large proportion of their income: what impact would a 28% cut (reported as being considered during the last weekend in September 2012) have on them? There is also the question of caregiver poverty, which affects many women, especially as they age or in the case of divorce, and single parents. Tax individualisation has gradually eroded the financial situation for single-income married (and now cohabiting) families, without providing compensatory tax credits or other benefits to offset the costs to families of dependents who require care and those with none.⁴ Importantly, the relationship between cash benefits and the demographic balance of the country is also absent from the public debate; although the Department's report does include some discussion on demographics, the focus is somewhat different and is limited to estimating the level of demand for supports and services rather than the link between benefits and fertility rates.

Ireland, France and Sweden have the highest levels of fertility in Europe. That having been said, Ireland and France tend to provide a mix of cash benefits and services to families, with Sweden focusing more on the latter, but at a higher total cost. Fertility rates are generally considered sensitive to socioeconomic policy initiatives and incentives: Finola Kennedy, in her 2001 book *From*

⁴ NB: exception to this are the tax credit for paid carers for incapacitated adults and the Home Carer credit. In 2012 the former was worth a maximum of €50,000 (at the marginal rate), the latter €810 per annum. See www.revenue.ie/en/tax/it/tax-chart.html.

Cottage to Crèche argued convincingly that this is also the case in Ireland. During the first years of the crisis, it seemed that Ireland was in the midst of a baby boom. There is indeed a large cohort of women of childbearing age, but it would seem that Irish women are increasingly delaying having families, a trend that seems now to be well-established:



(source: CSO, Statistical Yearbook of Ireland 2011, p. 64.⁵)

A majority of births in Ireland (63%) are to mothers who are over thirty. This upward trend cannot continue indefinitely without there being implications for total fertility rates. There is evidence that suggests that this delay is not as a result of personal preference; rather, it may be associated with other factors resulting ultimately in women not having the number of children that they want. At just under replacement rate currently (defined as 2.1 children per woman – but NB: rates appear to be dropping back), Irish people would on average prefer to have three children, according to a survey undertaken by Eurobarometer in 2006.⁶ This represents the greatest gap in Europe between the number of children women actually have and the number they would like to have. Are children being priced out?

1.4 The impact of children on family economic stability: opportunity costs, gender and unpaid work

Returning to the analysis that Child Income Support can be viewed from the perspective of vertical or horizontal transfers, is it actually the case that a clear distinction can be made between the two, or does the presence of children influence the economic stability of the parents to a greater or lesser degree? In the United States, for example, the greatest predictor of whether a woman will apply for bankruptcy during her lifetime is if she has children.⁷ According to Rank and Hirschl (2009),⁸ child food poverty results in lasting negative impacts on child health and outcomes; nearly 50% of all children in the US will receive food stamps at some time in their lives before they reach the age of twenty. (Approximately 25% of children are on food stamps in the US at any given time.) Olli Kangas, head of KELA, the Social Insurance Institute of Finland, presenting on poverty in Scandinavia at the ESRI in 2010, highlighted the continuing exposure of single parents to poverty, the effects

⁵ www.cso.ie/en/media/csoie/releasespublications/documents/statisticalyearbook/2011/c4vitalstatistics.pdf

⁶ http://ec.europa.eu/public_opinion/archives/ebs/ebs_253_en.pdf

⁷ Elizabeth Warren, 2003. *The Two-Income Trap*. New York: Basic Books

⁸ <http://cce.wsu.edu/media/112467/foodstampuse-fa09.pdf> for discussion

of which he expected to increase due to cuts likely to be imposed on transfers as a result of the recession.⁹ Ireland has an individualized tax system and cuts to social welfare are likely: do parents have sufficient net income to cover the cost of meeting their children's basic needs?

Beyond the question of actual costs to parents in raising children, there is also the question of opportunity costs, borne especially by mothers. There is clear evidence of the amount of unpaid work undertaken by mothers whether 'employed' or on 'home duties' in Ireland (two examples of Principal Economic Status [PES] relevant to the collection and analysis of statistics by the Central Statistics Office). A report from 2008, based on time-use statistics collected in 2005 in Ireland, by McGinnity and Russell,¹⁰ shows quite clearly the amount of unpaid work undertaken by different categories of parents:

Extracts from Table 4.7: Caring by weekday day (data in HH:MM)

| PES/Activity | Childcare 1 (physical care, supervision) | Childcare 2 (Play, talk, homework, etc.) |
|----------------|--|--|
| Home Duties | 2:29 | 0:49 |
| Employed women | 2:03 | 0:47 |
| Employed men | 0:19 | 0:23 |

Extracts from Table 4.8: Caring by weekend day (data in HH:MM)

| PES/Activity | Childcare 1 (physical care, supervision) | Childcare 2 (Play, talk, homework, etc.) |
|----------------|--|--|
| Home Duties | 2:37 | 0:45 |
| Employed women | 1:56 | 1:03 |
| Employed men | 0:36 | 0:31 |

Extracts from Table 4.10: Housework by PES and weekday/weekend day (data in HH:MM)

| PES/day | Weekday day | Weekend day |
|----------------|-------------|-------------|
| Home Duties | 5:18 | 4:14 |
| Employed women | 2:45 | 3:11 |
| Employed men | 0:51 | 1:48 |

Their unpaid work (including adult care and other types of voluntary work, not considered here) takes as long or longer for women to complete than would be expected in most full-time paid positions. That represents a significant opportunity cost since this work is unrecognised, unpaid – and therefore untaxed (an opportunity cost feeding into and throughout the system). Even with a better gender balance in care, this will remain a significant issue, creating a divide between those

⁹ www.esri.ie/docs/Deprivation_SeminarJune2010_Ec_Recession.pdf

¹⁰ <http://esri.ie/UserFiles/publications/20080612164547/BKMNEXT113.pdf>

who take up unpaid care and those who do not (and notwithstanding the fact that ‘a better gender balance’ assumes the presence and availability of fathers, who tend instead to take on more paid work when they have children). There are still nearly 500,000 women in Ireland included in the ‘on home duties’ category; the ‘employed’ category includes both full-time and part-time employees.¹¹

1.5 Unpaid work in Ireland: Cúram rationale for reform of CB

Unpaid work is a significant sector, even in developed countries. The various bodies in the United Nations system use a working estimation of the value of unpaid work, based on analysis of time-use surveys and other statistics and research, of between approximately 30% and 50% of a given country’s GDP.¹² Despite the many Irish government commitments to implement the Beijing Platform for Action, which specifies that the State should put in place methods of accounting for unpaid work in satellite GDP accounts and in all other relevant statistics¹³, unpaid work, for the most part, is still not included. This in turn makes it extremely difficult to discuss issues relevant to unpaid work, or contribute effectively to policy formation, given the lack of data generally available.

Many parents (in fact, many more fathers than mothers in recent years) have contacted Cúram to seek information about supports for parental care. They highlighted many issues with both the tax and social welfare systems, asking how they can afford to balance care and paid work when there is little recognition and support for unpaid care. Cúram decided to look at the issue of reforming Child Benefit to see if we could help progress the discussion and seek more effective, efficient and coherent supports for families with different kinds of care needs.

Cúram decided that any reform should benefit key stakeholders in light of outcomes identified as being positive. Over a period of approximately a year, we worked on developing a reform to CB¹⁴; what follows is a brief summary of what was discussed, decided and finally accepted by the membership.

2 Care and Education Credits

2.1 Principles behind reform of Child Benefit

The discussion centred at first around principles underpinning any reform. Primarily, the child should be identified as the key stakeholder; and a level of poverty and deprivation should be identified below which no child can fall. Quality child care and education should be accessible and affordable for all families. Parents should retain responsibility for allocating CB and in deciding on the best mix of paid and unpaid care and education for their children individually and collectively. The opportunity costs to mothers and other unpaid caregivers, resulting in their greater exposure to risks of poverty, especially as they age, should be addressed. Supports for families should not disincentivise participation in the paid workforce. This proposal should be analysed and costed

¹¹ see www.cso.ie/en/media/csoie/releasespublications/documents/latestheadlinefigures/qnhs_q22012.pdf for more information

¹² see, inter alia, UNDP Human Development report 1995, Chapter 4 http://hdr.undp.org/en/media/hdr_1995_en_chap4.pdf

¹³ see, inter alia, Strategic Objective H3 www.un.org/womenwatch/daw/beijing/platform/institu.htm

¹⁴ While Cúram did have the proposal for reform costed and independently verified, the macroeconomic situation has been so transformed, and government policies have changed so much, it would be necessary to reconsider many of the assumptions on which the costings were based. For that reason, Cúram does not propose to include costings in this paper but instead focus on the key issues of developing a policy focused on outcomes within a specific budgetary framework.

by relevant research and government bodies before being piloted. Importantly, there should be agreement in Ireland as to the level of funding, expressed as a percentage of GDP (or GNP), which could and should be devoted to such a programme.

2.2 Universal or targeted?

With those principles in mind, Cúram considered whether access to such a system should be highly tailored to individual circumstances, and means tested, or if it were more appropriate to continue it as a universal system which could be better tailored to individual circumstances than at present. Since there is no direct comparator, Cúram looked at a variety of universal and non-universal programmes in different countries, focusing especially on the relationship between spending, system structures and outcomes in maternity care and education. Ireland has a near-universal provision of basic ante-natal and maternity care, which is free to the end-user (albeit with some private provision or extra payment for private or semi-private accommodation in public hospitals), even though some women in the public system could afford to pay the whole economic cost of their maternity care. The United States, by contrast, has no such universal system, with total spending on maternity care outstripping that of Ireland, but with far poorer outcomes. Ireland always ranks well internationally on assessments of maternal outcomes, while the US scores far lower on important indicators such as perinatal mortality and morbidity.

Ireland also has a near-universal system of provision for primary and secondary education. Although there are some private schools, and most parents are expected to contribute by purchasing textbooks and materials, making financial donations and fundraising, Irish parents do not fund the economic cost of their children's education in full, nor is there evidence that such an approach would improve outcomes. In countries with better results in OECD PISA¹⁵ studies than Ireland, Finland, South Korea and Singapore have developed educational systems which ensure that every child is put on a path to progress towards particular learning outcomes. This entails not lock-step progression for all students together but a personal learning plan for each within a given group, tailored to specific needs, which is designed to build towards certain outcomes from the start. It is not inexpensive to do this but by dedicating a sufficient percentage of GDP to education and by providing appropriate structures for the initial and ongoing training, education and collaboration of teachers, against a backdrop of social and parental goodwill and support, children in these countries are able to get better results individually and collectively.

While in retrospect it would have made sense to reform Child Benefit when Ireland was in a better financial situation, neither universal maternity care nor secondary education was introduced in Ireland during cash-rich periods. Sierra Leone, a country with many socioeconomic challenges, has in recent years introduced a universal system of maternity care as the best option for improving outcomes. It is a reality under the conditions of the bailout that any reforms have to take place within current spending limits: that should not, however, mean that no reform can or should take place. The rates of child poverty alone should be enough to focus minds on this issue.¹⁶

Cúram concurred with the Department's conclusion concerning means-tested initiatives, but not for all of the same reasons. During the Celtic Tiger period child poverty remained a significant issue, although spending by public and philanthropic sources increased greatly. Targeting children

¹⁵ see www.oecd.org/pisa/ for more information

¹⁶ Children are the group most at risk of poverty in Ireland. See e.g. www.cso.ie/en/media/csoie/releasespublications/documents/silc/2010/silc_2010.pdf

who most need support is an extremely important priority; but there does not appear to be any country which has achieved the eradication of child poverty, even those which dedicate ever greater resources to it as a specific goal. Secondly, and this is based on feedback from members and from people who contact us because they are unable to qualify for supports, means tests should not just consider income and assets, but debts: Ireland is in an unprecedented situation with regard to debt and many families are in an entirely unsustainable situation. Debt is now impacting on the ability of families to meet their basic needs, including feeding their children; some method of including the existing debt burden in any plan to means test income would have to be considered for it to be meaningful and effective.

2.3 Universal but flexible supports for children

Cúram ultimately concluded that reducing child poverty, providing quality child care and education, and ensuring sufficient family income were outcomes more likely to be met via a universal programme rather than a more limited and means-tested one. As with current proposals in the health sector where supports are to follow the patient, Cúram decided that the best way to ensure that all children would be covered is a system where basic supports followed the child, with an ability to add extra supports as necessary (for children with a disability, for example). The design also aims to address the current lack of recognition and support for unpaid caregivers, and their increased exposure to poverty and deprivation, within a framework that does not discriminate against different types of families or present obstacles to labour force participation, while at the same time widening the tax net.

2.3.1 Transferable credits

The proposal is for Child Care and Education Credits to be awarded to each child, and allocated by the parent(s) to caregivers and educators. The Credits are structured as an indirect payment to the person who cares for, supervises or educates a child, and which could be increased in the case of children who require specialist care or longer hours of care (cf. personal budgets). Paid on an hourly basis (i.e. eight hourly credits per day), they would be fully transferable between parents or other relatives providing care and education, teachers or child care workers. The Credits could be based on a paper system, but it would be much less expensive to use a virtual system: the Irish government intends eventually to make all welfare transfers via electronic banking, so it would be possible to bring in a system of Credits at the same time as this is being introduced. The PPS number of the child would be required, as would the PPS number of each caregiver/educator, whether a parent or other relative, a teacher or caregiver in an educational institution, or other.

2.3.2 Taxable income for care

On encashment, the caregiver/educator would state that an hour of care, supervision and/or education has been delivered. Credits would be subject to a flat tax and social insurance and pension deductions, deducted automatically on payment. (For institutional education or care, the credits would be funnelled through the employer.) In order for Credits not to impact negatively on parents' labour force participation, these deductions should run in parallel with the existing tax system: income from Credits would then not mean that parents or other caregiving relatives would pay tax on income from employment at the higher rate sooner than those who do not have income from caregiving. The fund from which the payments would be made should be linked to an indicative percentage of GDP (or GNP), and could be made up of contributions from general taxation or other sources (e.g. capitation grants, payments by parents, a national bond, a child care levy, etc.) It would

be necessary to hold a national discussion on what would be a reasonable amount to spend in order to ensure minimum outcomes for children individually and collectively. (Such a system would also make it far more straightforward to include women's – and men's – work within their families in the GDP, in fulfilment of the commitments given by successive Irish governments at the UN.)

2.3.3 Research and improved child safety

The Child Care and Education Credit system would also make it possible to improve data collection on, for example, care, health or educational outcomes. The database of PPS numbers of caregivers and children would provide robust data from which populations could be identified (with the relevant permissions of course, and within an appropriate ethical framework) and trends and causality investigated. It should facilitate long-term and cohort studies, and at a lower cost than would otherwise be the case. The use of caregiver PPS numbers would also improve child protection by providing a record of those who act as caregivers. It would also be possible to build further safety measures into the system.

2.3.4 Flexibility

This system could also allow for the better targeting of enhanced payments or services to those who most need them and decrease the risk of exposure to poverty and deprivation of both children and their caregivers. Some ill and disabled children have particularly high care needs, and require more than eight or nine hours of supervision and/or care in a day; this could be addressed in part by assigning them more hourly credits. Also, meeting children's health or other needs could be integrated into this system by attaching health or disability services onto the child's PPS number. This should also help identify children at risk of poverty, living in consistent poverty, or exposed to different types of deprivation, and therefore clarify what further interventions or supports could be provided to individual children and their families.

3 Conclusion

The current focus on Child Benefit as a target for cuts of one type or another does not take into account its effectiveness in supporting children and families. Cúram asks not just for consideration of the Child Care and Education Credit proposal, but that Ireland agree on a budget and a plan which works towards ending child and caregiver poverty. Cúram would welcome the opportunity to discuss this further with interested parties. Ireland is still facing a difficult few years, but unless clear goals and budgets are determined in this area, and if proposed cuts are imposed without reforms, it may well be tantamount to simply accepting increases in child poverty: more children who do not have enough to eat, whose health and ability to learn suffer. This would not be an acceptable approach. We must continue to work towards ensuring that families have sufficient net income and supports to meet their basic needs.