

CHILD BENEFIT PACKAGES IN 22 COUNTRIES

Jonathan Bradshaw

Introduction

Every industrial country has a 'package' of tax allowances, cash benefits, exemptions from charges, subsidies and services in kind, which assist parents with the costs of raising children. This package plays a part, along with labour market income, in tackling market driven child poverty. Parts of the package assist parents in employment: by subsidising low earnings, subsidising childcare costs, creating or structuring financial incentives or disincentives to be in employment or to work part-time or full-time or, in couples, have one parent or two parents working. Other parts of the package assist parents to stay out of the labour market, enabling them to stay at home to care. The package may influence the number of children a women will have and the birth spacing. It may also have an impact on family form making it more or less easy for a parent to separate or bring up a child alone.

This chapter is an investigation of variations in the structure and level of this package in 22 countries as at July 2001¹. The data was obtained by national informants who provided data on family demography and labour supply and details of their tax benefits, cash benefits and services in their countries. They also completed a matrix, which simulated how families of varying types and at varying earnings levels would be treated by the child benefit package in their country. The analysis updates earlier work on the child benefit package undertaken in a series of studies (Bradshaw and Piachaud 1980, Bradshaw et al 1993, Bradshaw et al 1996, Ditch et al 1995, 1996 and 1998).

Of course policies that help parents with the costs of child rearing operate in the context of varying national family patterns, varying labour market conditions and variations in the level of earnings from employment.

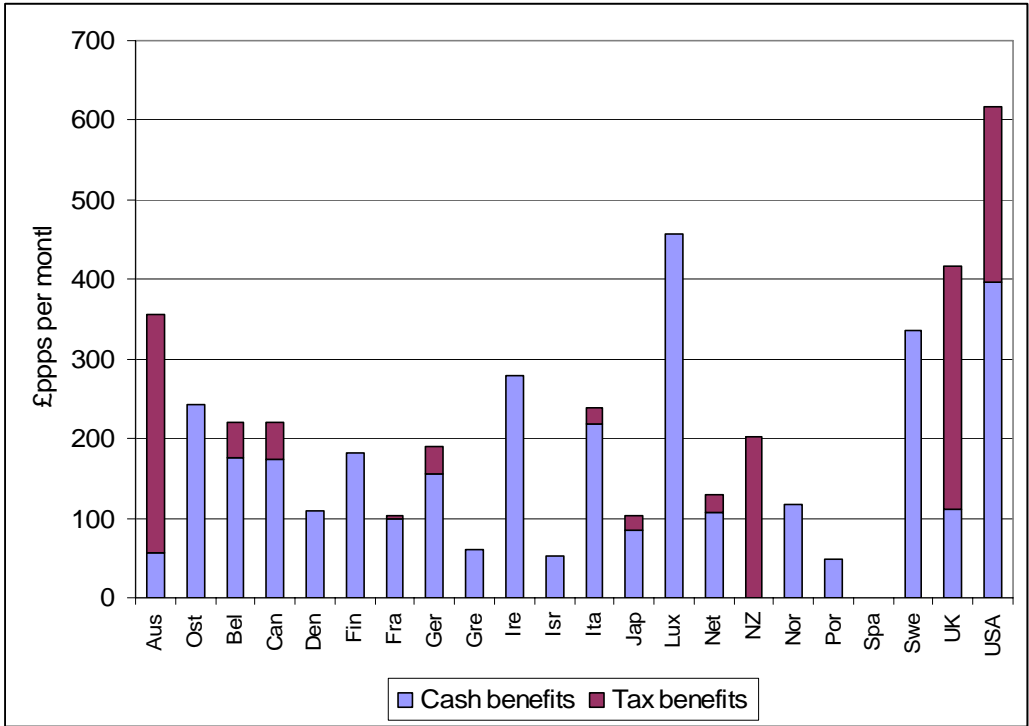
Tax benefit and cash benefits for children

In most countries the most important parts of the child benefit package are tax benefits and cash benefits, income-related and non-income related. Countries use different mixes of these mechanisms for delivering help to families and the value of that help varies by family type and size, the age of the child and by earnings level. Chart 1 summarises the value of tax benefits and cash benefits for a couple plus two children for one earner on half average male earnings. Chart 2 is for the same family type but for two earners on average male and half average female earnings. In Chart 1 at this low earnings level it is the Anglophone countries that tend to make most use of tax benefits, however among the EU countries Belgium, Germany and the Netherlands also have tax benefits. At this level of earnings, perhaps surprisingly the package in the USA, Luxembourg and the UK are the most generous. In the

¹ This chapter is a summary of a study originally published as Bradshaw, J. and Finch, N. (2002) *A Comparison of Child Benefit Packages in 22 Countries*, Department for Work and Pensions Research Report No.174, Corporate Document Services: Leeds <http://www.dwp.gov.uk/asd/asd5/rrep174.asp> Data for Ireland and the Netherlands has been corrected since the original data was produced.

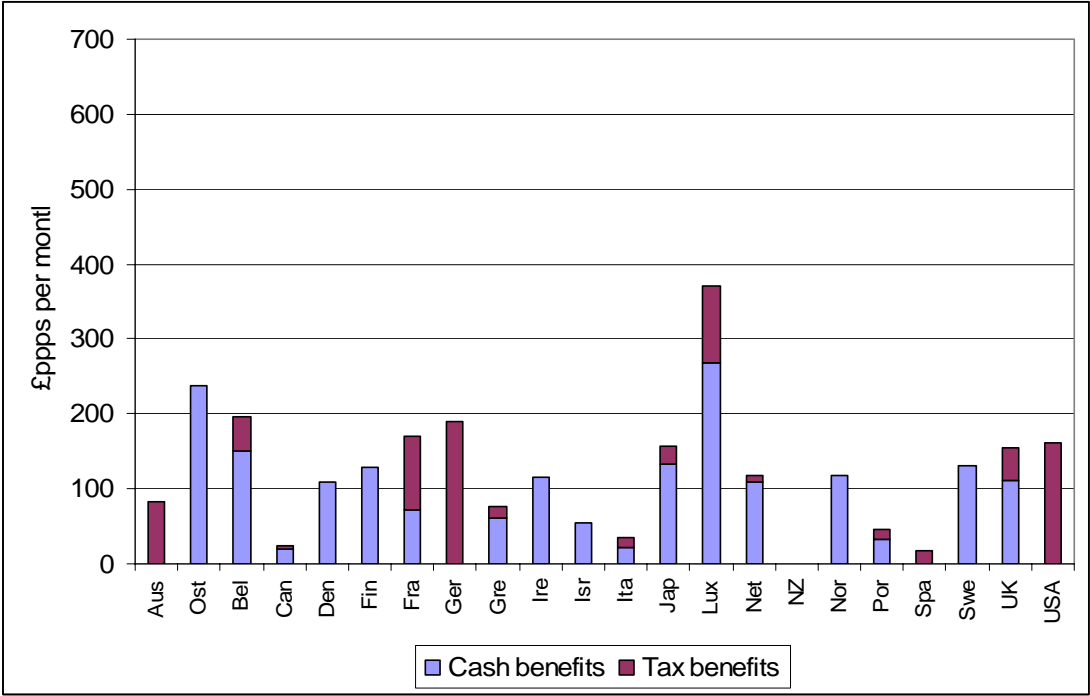
USA a two child family at this income level receives more than £600 per month more than a child less couple with these earnings – in Food Stamps and Earned Income Tax Credit. Spain has no child benefit package at this earnings level.

Chart 1: Cash benefits and tax benefits for children: Couple plus two children aged 7 and 14 July 2001. One earner half average earnings.



The family in Chart 2 has two earners and is much better off. Now New Zealand no longer pay any child benefit, generally the Anglophone countries have lower support than in the previous chart and some of the EU countries, Belgium, France, Germany and Luxembourg have the most generous support. More countries also have tax benefits at this level of earnings – child tax allowances that only benefit and are of most benefit to higher earning families.

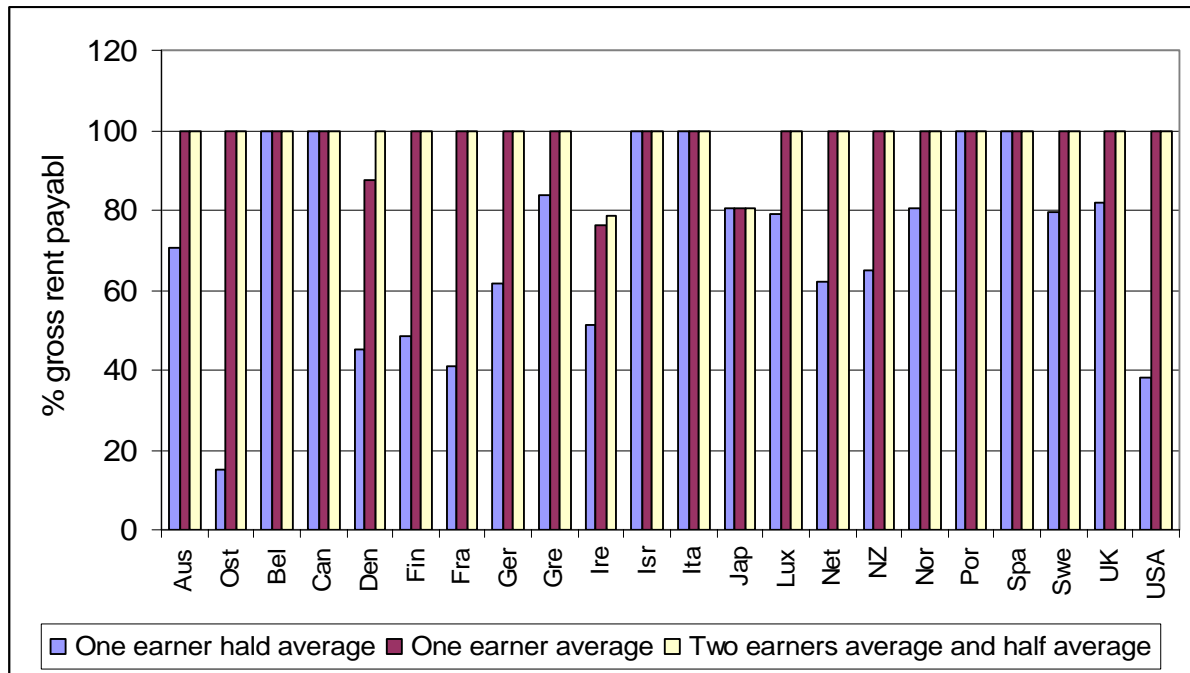
Chart 2: Cash benefits and tax benefits for children: Couple plus two aged 7 and 14. July 2001. Two earners average male and half average female.



Housing costs

So far we have only compared the cash benefit and tax benefit parts of the package. Housing costs are an important element of the child benefit package. The majority of countries (all but six) have a demand side subsidy or housing benefit scheme that reduces the gross rent paid by low income households and in the majority of these the amount of rent reduction is greater when there are children in the household. So housing benefits are an important component of the child benefit package but also one which is very difficult to deal with in comparative studies (Bradshaw and Finch 2004, Kuivalainen 2002). It can be seen in Chart 3 that housing benefit systems make a substantial contribution to reducing housing costs for a low income couple with two children in Australia, Austria, Denmark, Finland, France, Germany, Ireland the Netherlands, New Zealand and the USA and they make a smaller contribution in Greece, Luxembourg, Norway, Sweden and the UK.

Chart 3: % gross rent paid by family type: Couple plus two children. July 2001



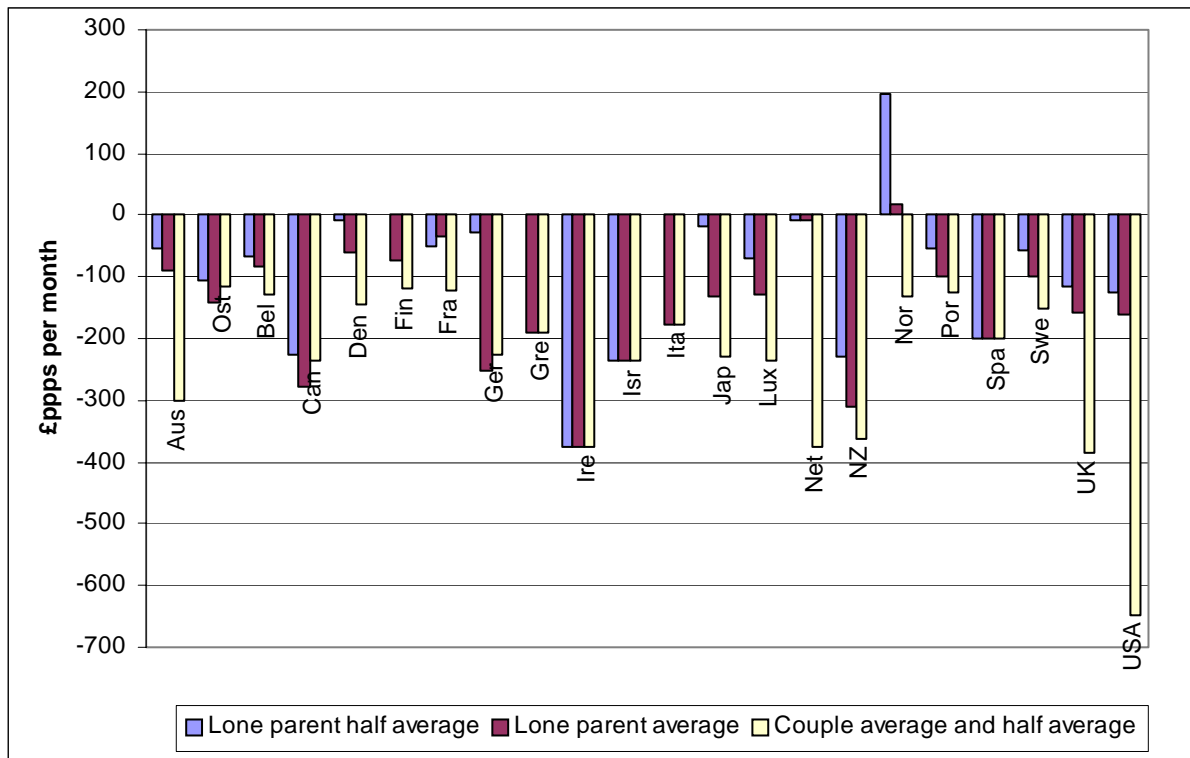
Childcare

Subsidies towards the costs of childcare are also important. The study took account of the costs of full-time, formal pre-school childcare of the most prevalent type in each country. The costs of preschool childcare are shown in Chart 4² which shows the net costs of pre-school childcare for a lone parent with one preschool child at low and average earnings and for a couple who are both earning average earnings. For two earner couples, the cost of childcare falls heavily upon the parents and more than wipes out the value of the child benefit package for some families in some countries. Countries use a variety of different methods for helping parents with the costs of preschool childcare. Only Ireland, Israel and Spain have no subsidy of any kind towards these costs. The level of help depends on income in many countries. For the better off couple the highest levels of net childcare costs are found in the Ireland, New Zealand, the Netherlands, UK and the USA.

Out of school provision for children with working parents has not been a policy priority for most of the countries in this study. However, demand is high and countries are beginning to acknowledge this, especially for the younger age groups. In many countries fees are being reduced in much the same way as for pre-school childcare.

² Net childcare costs here are represented as positive amounts. Norway shows a negative childcare costs because of benefits paid for a preschool child.

Chart 4: Costs of fulltime childcare after subsidies per month. July 2001



The costs of schooling (and value of benefits like free school meals) were explored in the original study but where they exist do not have a major impact on the child benefit package and they will not be the focus of analysis here although they are taken into account in the analysis below.

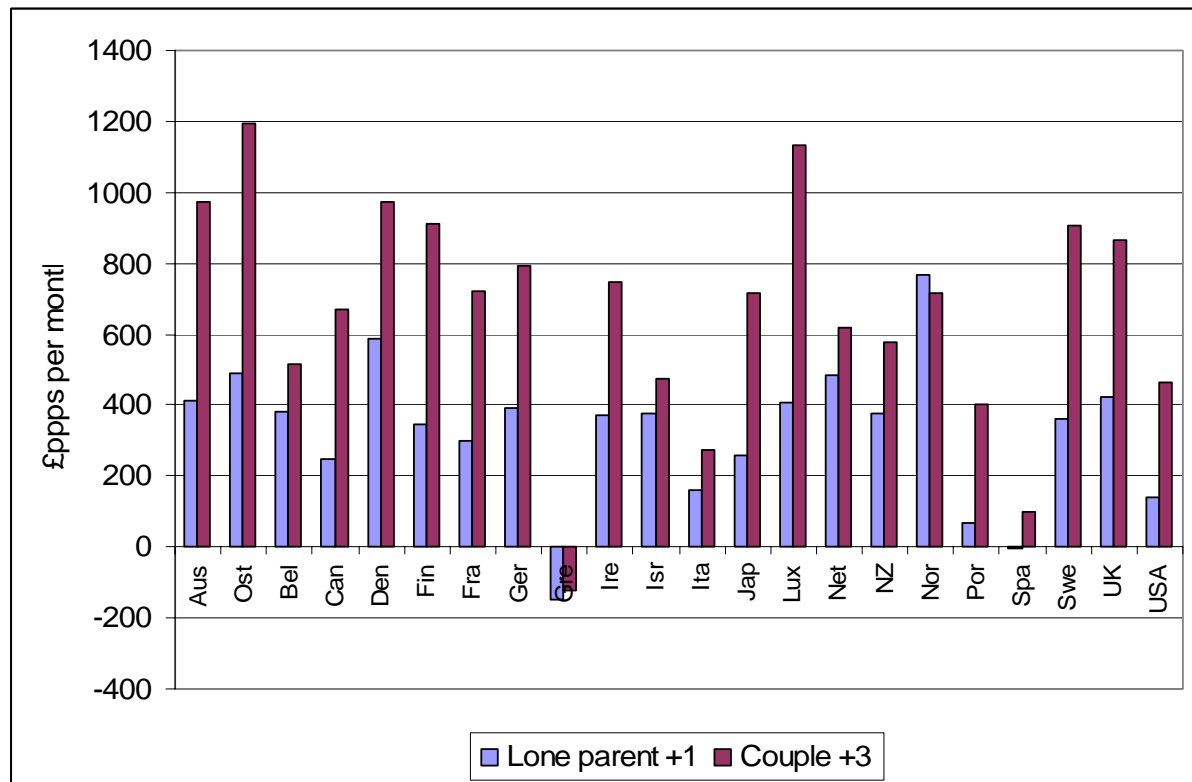
The study also included the costs of a standard package of health care. Most countries have either free health care for children or they mitigate charges at low earnings levels. There are only two countries in which health charges represent a substantial drain on the child benefit package – the USA and the Netherlands. In Australia, Canada and Ireland they represent a lesser yet significant drain on the child benefit package.

Maternity leave, paternity leave, parental leave and leave to care for sick children are all important parts of the child benefit package and closely linked to childcare policy for the under threes. However although such provision was covered in the original study it will no be dealt with here.

Social assistance

The package discussed so far is what is paid to families with earnings. To obtain a perspective on the value of benefits paid to families out of employment we compare the level of social assistance paid in our 22 countries. There is considerable variation between countries in what they consider to be the appropriate level of their social assistance benefits and also in how they evaluate the relative needs of families of different sizes and types. It can be seen from Chart 5 that after housing costs and services the overall level of the social assistance package is highest for lone parents with one child in Austria, Denmark, Netherlands, Norway, and the UK and lowest in Portugal and Spain (there is effectively no social assistance in Greece). For couples with three children it is highest in Austria, Australia, Luxembourg, and Sweden and lowest in Spain and Italy.

Chart 5: Net income on social assistance per month after housing costs and services. July 2001.



The structure and level of the child benefit package

In our previous study based on the situation in 1992 (Bradshaw et al. 1993), the main vehicle for delivering the child benefit package was non income related child benefits. At that time the contribution of income related child benefits had grown in importance, but child tax benefits had diminished in importance, and were being employed by fewer countries – perhaps because they tended to be of most benefit to better off families in the countries that had them.

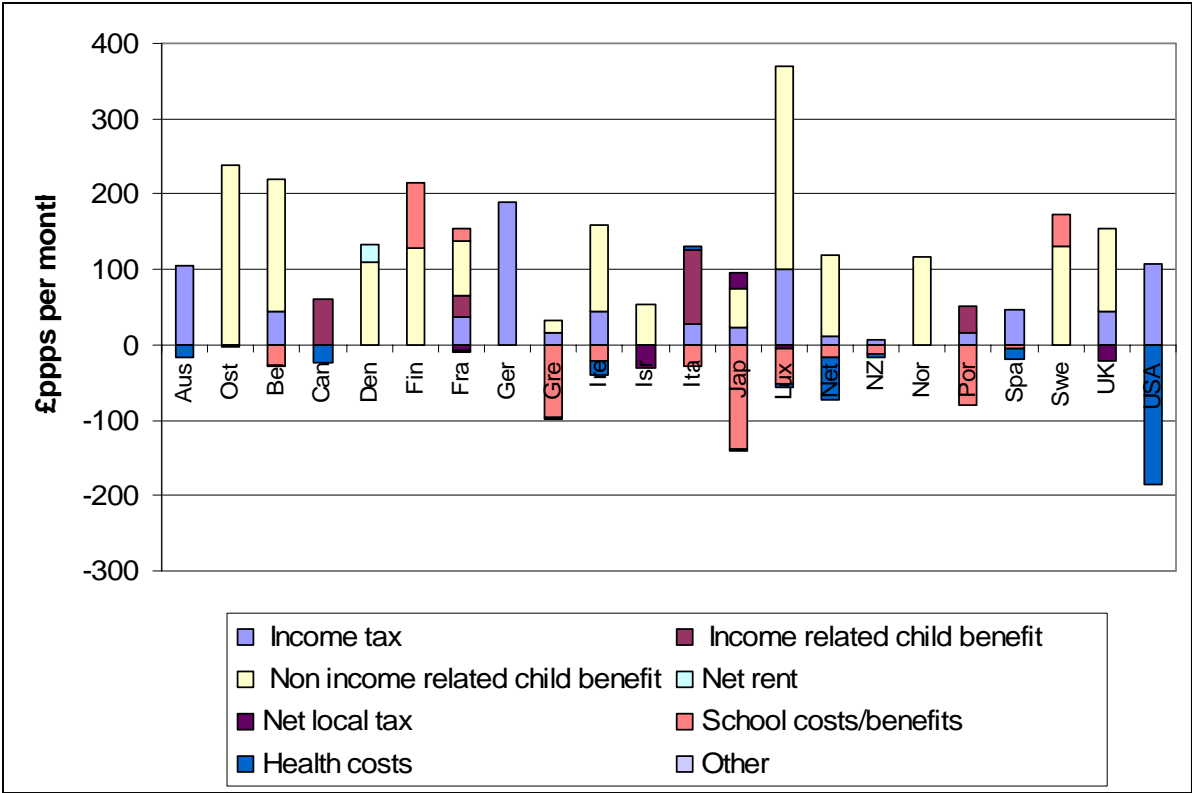
In this study (which includes more countries) non income-related child benefit is still the most popular vehicle for delivering the child benefit package. Only seven countries do not have any non income related child benefits – Canada and Germany have abandoned theirs, and the Australian scheme which was effectively universal is no longer so except for lone parents. In addition to these New Zealand, Portugal, Spain and the USA lack a non income-related child benefit.

One country, the UK, has abandoned its income-related child benefit and now 13 countries have income related child benefits or social assistance for employed families.

The main shift has been towards using the income tax system to distribute resources to families with children. The Anglophone countries have all introduced or developed tax credits for children. For low income families they are now an important element of the package. Out of all the countries only Austria, Denmark, Finland, Ireland, Israel, Norway, Portugal and Sweden have no recognition of the needs of children in their income tax arrangements.

Housing benefits are an important component of the package at low-income levels in some countries. Education costs and health costs in most countries reduce the value of the package but only by modest amounts. As long as childcare costs are not involved the child benefit package is a positive contribution to family incomes in most countries. Chart 6 presents a summary of the structure of the package for a couple with two school age children with one earner on average male earnings.

Chart 6: Structure of the child benefit package for a Couple plus two children with one earner on average earnings. July 2001



However this for just one family and the most important conclusion of the comparisons of the levels of the child benefit package is that they vary within and between countries by family size and type, by earnings and by whether the comparison is made of the tax and cash benefit system only or after housing and service costs and benefits. This is illustrated for selective cases in Charts 7 to 9. Chart 7 shows how the package varies by family size. France for example comes well down the league table in its child benefit for small families but is much more generous to families with three or more children. The UK in contrast is unusual in having a package that benefits one child families relatively more generously and Finland does not pay anything extra for the third and subsequent child in a family.

Chart7: Value of the child benefit package by number of children. One earner on average earnings. July 2001.

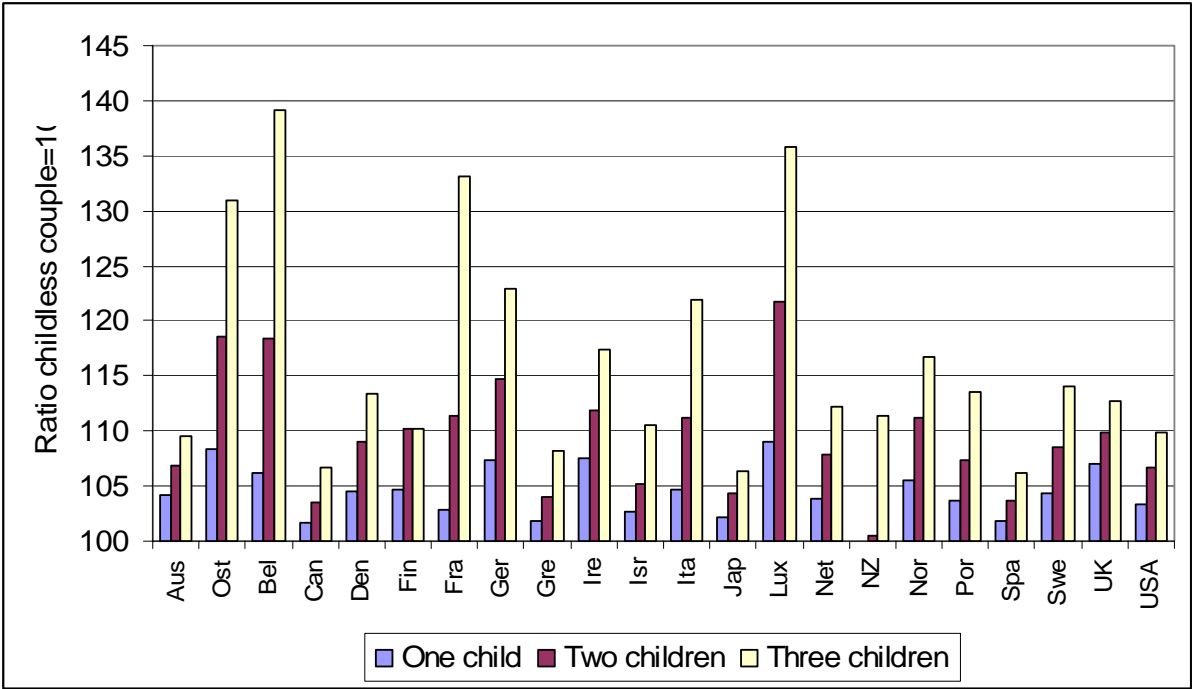


Chart 8 takes a standard family and shows how the child benefit package varies by earnings. The Anglophone countries have considerably larger packages for low earning families, a number of countries have a standard amount regardless of earnings and in France, Greece and Japan the value of the package increases with earnings.

Chart 8: Value of the child benefit package by level of earnings. Couple with two children. July 2001.

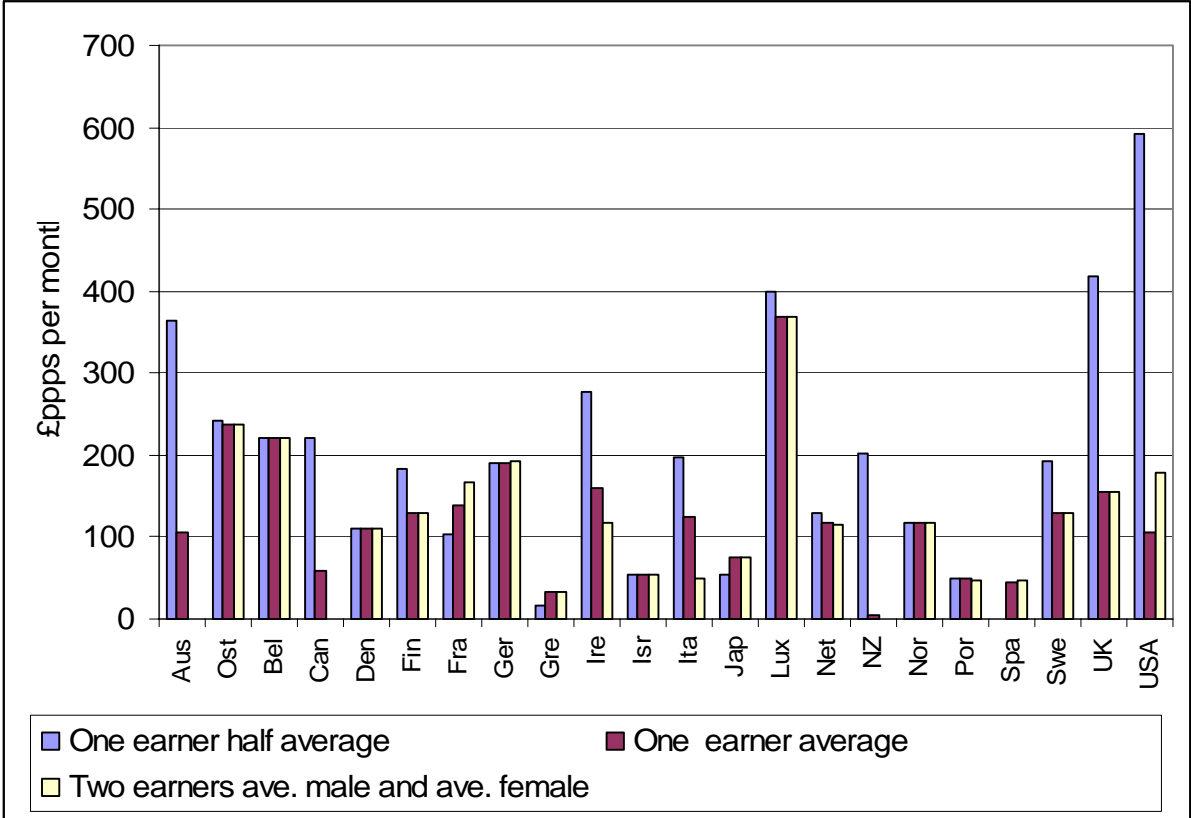
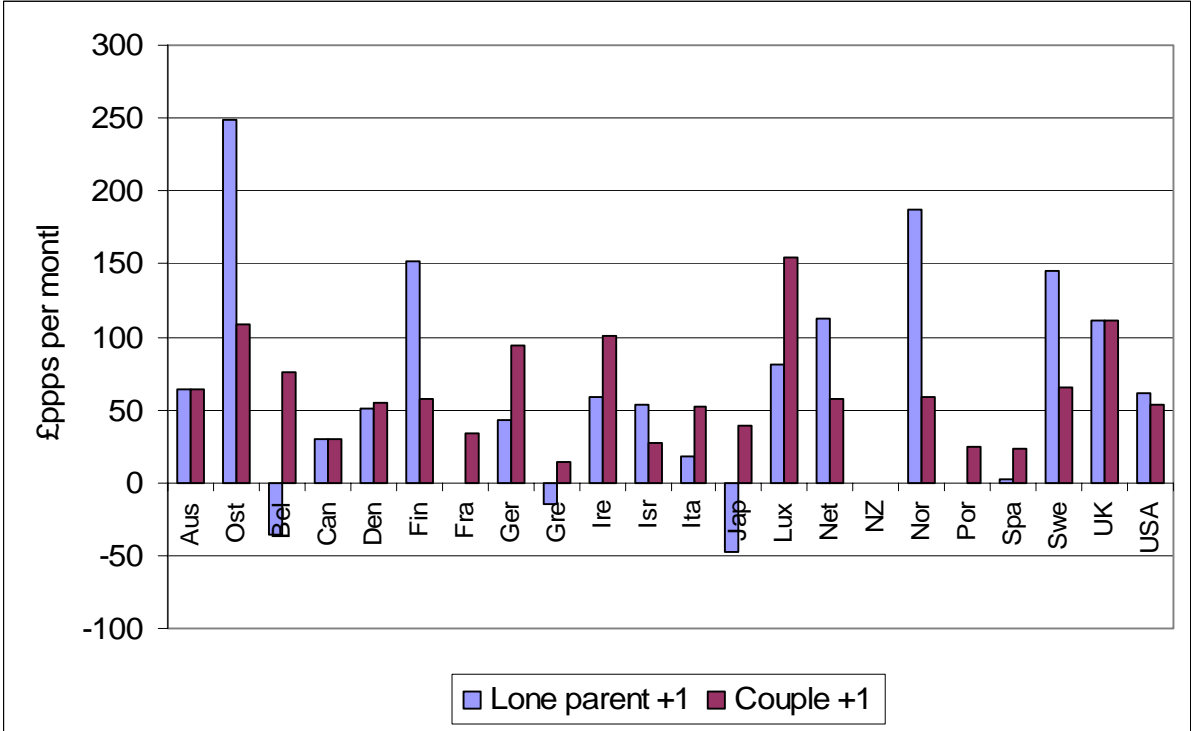


Chart 9 shows how the package varies by family type. Luxembourg for example has the most generous child benefit package for couples with children but it does not have the most generous package for lone parents. Some countries are neutral to lone parents including Australia, Canada and the UK, others favour lone parents over couples - Austria is most generous to lone parents and most of the Nordic countries are also, Denmark is the exception. Others favour couples over lone parents including many of the continental EU countries with the notable exception of the Netherlands.

Chart 9: Value of the child benefit package by family type. One earner average earnings. July 2001.



The implications of these variations is that it is unsafe to take one or a few standard families to represent a country’s child benefit package. This is one of the drawbacks of the OECD series Benefits and Wages (OECD 2004) which includes only couples and single parents with two children.

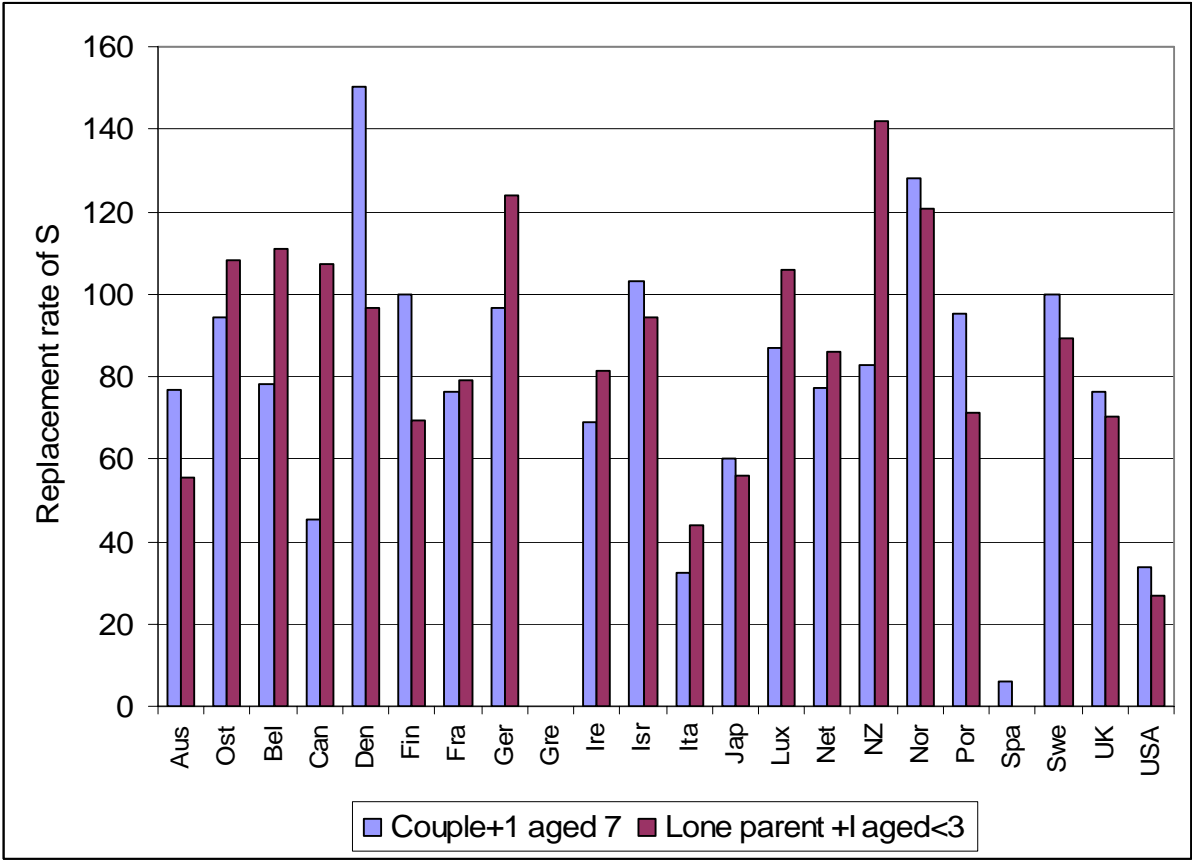
Replacement rates³ and marginal tax rates⁴

The data on the tax benefit package for families in work and on social assistance can be used to assess replacement rates and marginal tax rates. Some countries have very high replacement rates and they do not tend to be the countries that are most anxious about incentives to work. It can be seen in Chart 10 that Australia, the UK, the USA and Canada have comparatively low replacement rates for couples. They are higher for lone parents who need childcare in Canada, Ireland New Zealand. However there are countries like Denmark, Germany, Israel, Luxembourg, New Zealand and Norway, who are managing with very high replacement rates.

³ Here the proportion of net in-work income that would be “replaced” by social assistance.

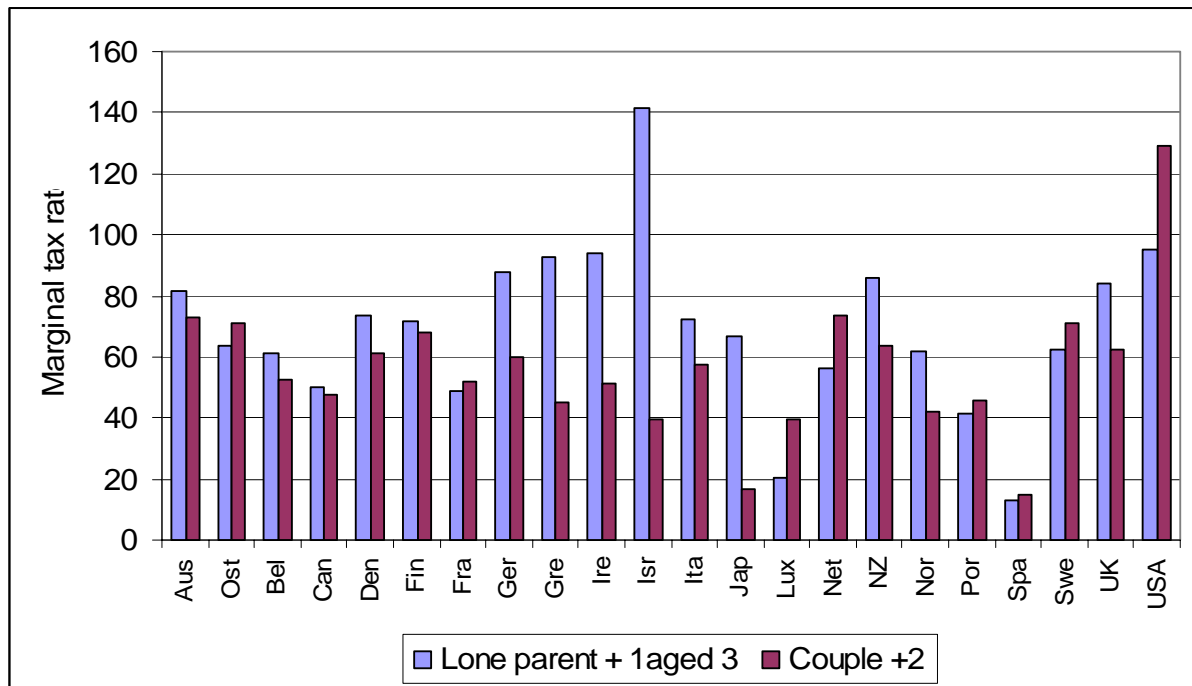
⁴ The proportion of extra earnings that would be foregone in extra direct taxes, loss of income related benefits and extra charges.

Chart 10: Notional replacement rates – net income in employment at half average earnings as a % of net income on social assistance.



The Anglophone countries which are most anxious about the impact of work incentives on labour supply do have comparatively high marginal tax rates at the lower end of the earnings distribution. This is because they rely more than other countries on income related benefits and tax credits, which are withdrawn as earnings increase. The loss of childcare benefits is a particular cause of high marginal tax rates for lone parents as can be seen in Chart 11.

Chart 11: Marginal tax rates on moving from half average to average earnings



Summary rankings

Given the finding that there is considerable variation in the child benefit package by family type, number of children, level of earnings and whether the comparison is made before or after housing costs, and the costs and benefits of services it was not easy to produce and overall comparison of the level of the child benefit package. Chart 12 presents the overall ranking of the average child benefit package paid to a ‘representative’ sample of families. The selection is of course not representative in the real sampling sense because the mix of family types and earnings levels varies from country to country. Ideally we would like to be able to adjust the child poverty package to the general pattern of family types/earnings levels of each country – but that is a considerable challenge for comparative work, though the European Social Survey may be an excellent basis for it in the future, at least for European Countries.

Austria has a package which is considerably more generous than any other country. The negative child benefit package for some countries is because housing costs and charges for services cancel out the values of tax and cash benefits for children. There appear to be four groups:

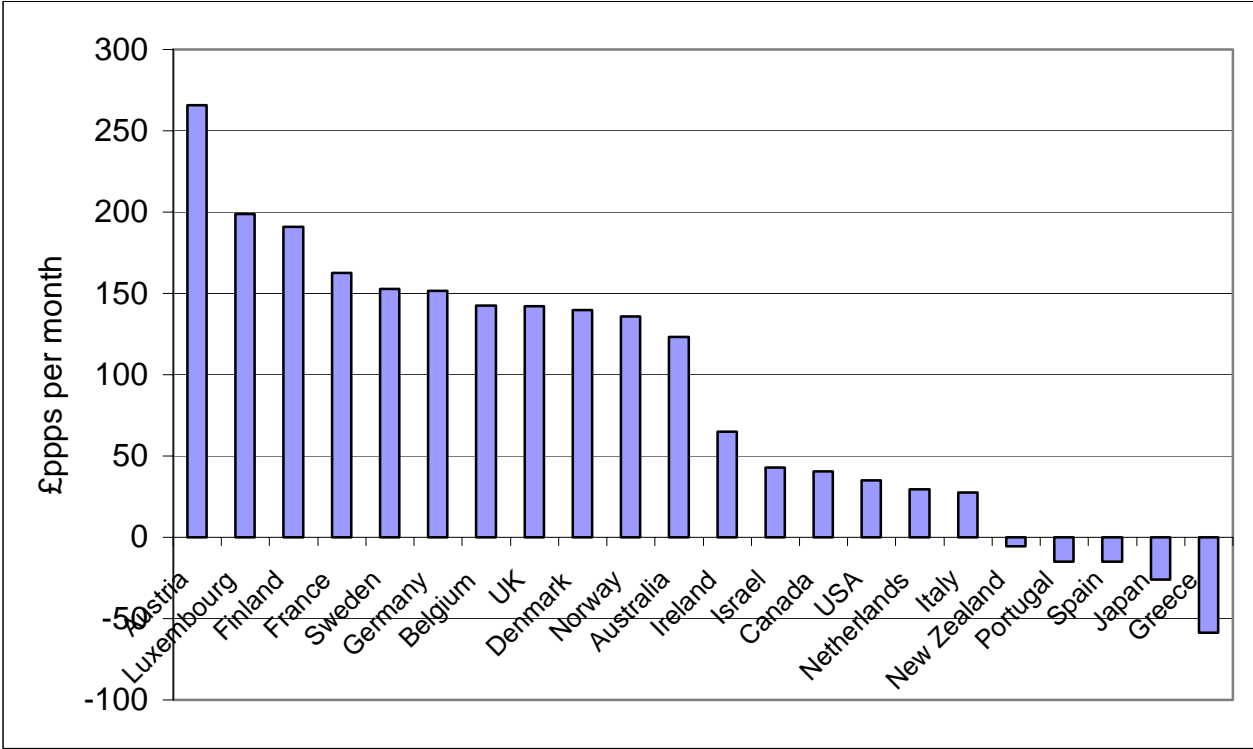
Leaders: Austria, Luxembourg, Finland.

Second rank: France, Sweden, Germany, Belgium, UK, Denmark, Norway, Australia.

Third rank: Ireland, Israel, Canada, USA, the Netherlands and Italy.

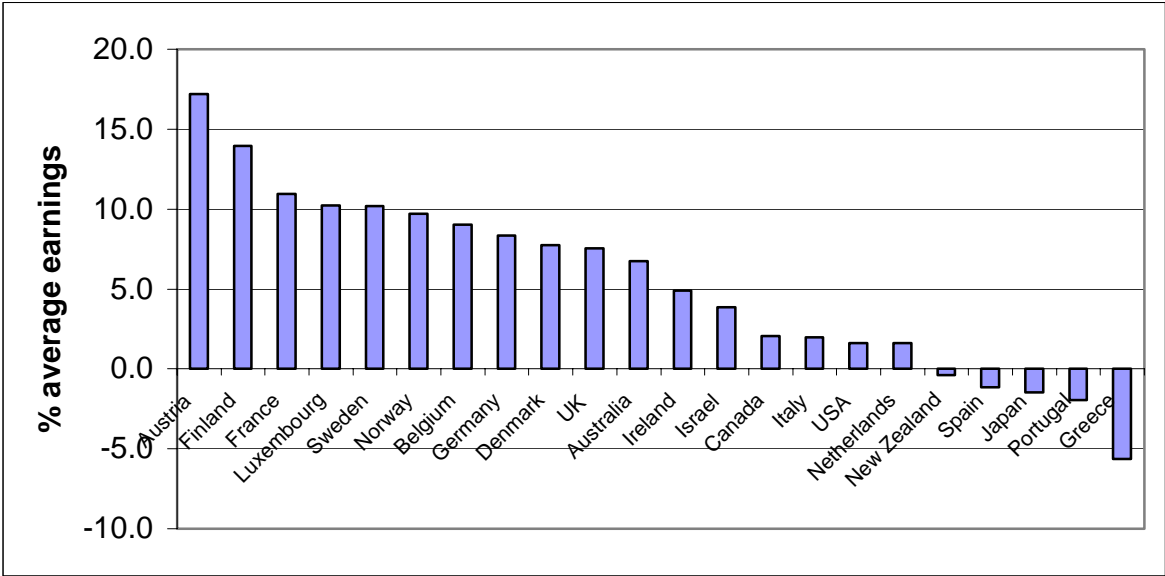
Laggards: New Zealand, Portugal, Spain, Japan, and Greece.

Chart 12: Ranking of the child benefit package.



This ranking is expressed in purchasing power parities and it is somewhat different if it is expressed as a proportion of average earnings. Chart 13 does this and it can be seen that there are some rerankings. France moves up the league table for example and the UK moves down. However in broad terms the classification is sustained - Austria is an outlier at the top of the distribution, Finland is very good, and many of the EU countries have generous child benefit packages. The Netherlands does not given its circumstances and resources and Italy and the southern European countries are clearly laggards.

Chart 13: Rankings of the child benefit package as % average earnings.



Conclusion

The countries with the most generous overall child benefit package are not those countries which employ a substantial element of targeting, either through tax credits, or income related benefits. They are the countries that deliver most if not all their value as a non-income related child benefit.

The rankings that have been obtained bear little relationship to the rankings that would be inferred using Esping-Anderson's (1991) regime types. The social democratic (Nordic) welfare states tend to come in the top half of the table but they are not the leaders and Denmark and Norway are well down the rankings. The liberal (Anglophone) welfare states are distributed throughout the rankings with the UK and Australia in the second rank. New Zealand is consistently towards the bottom of the rankings. The conservative (corporatist) countries tend to be found in the upper half of the table but the Netherlands is a big exception. Austria is something of an outlier with considerably more generous child benefit package than any other country after housing costs and services. The southern EU countries are in the bottom half of the table but spread, with Italy somewhat above the others. Japan, our only representative of the Pacific Rim/Confucian model, is found towards the bottom.

In the original study we undertook some analysis which sought to explain the variation in the rankings. There is scope for further work on the association between the child benefit package and the characteristics of countries – both their inputs and their outcomes. There may also be potential for some multivariate analysis, though the number of countries is a constraint on this. It appears that it is not the level of the wealth of a nation, nor the character of its labour market, nor the level of earnings but rather its social expenditure and especially the share of its social expenditure going to families, as against the elderly, that determines the child benefit package. The level of the child benefit package achieved is also associated with success in reducing market-generated levels of child poverty and it is also possibly also associated with higher fertility rates. Those countries that make most effort to transfer resources horizontally have the most generous child benefit packages. Nations make choices. The policies that they choose have an impact on the financial burdens born by parents raising children.

References

Bradshaw, J. and N. Finch, (2002), *A Comparison of Child Benefit Packages in 22 Countries*, Research report 174, London: Department for Work and Pensions, www.dwp.gov.uk/asd/asd5/rrep174.asp, 30 April 2005.

Bradshaw, J. and N. Finch (2004), 'Housing benefits in 22 countries', *Benefits*, **12** (2), 87-94.

Bradshaw, J. and D. Piachaud (1980), *Child Support in the European Community*, London: Bedford Square Press.

Bradshaw, J., S. Kennedy, M. Kilkey, S. Hutton, A. Corden, T. Eardley, H. Holmes and J. Neale (1996), *Policy and the Employment of Lone Parents in 20 Countries, The EU Report*, European Observatory on National Family Policies, York: EU/University of York.

Bradshaw, J., J. Ditch, H. Holmes, and P. Whiteford, (1993), *Support for Children: A Comparison of Arrangements in Fifteen Countries*, Department of Social Security Research Report 21, London: HMSO.

Bradshaw, J, N. Finch and E. Mayhew (2005), 'Financial incentives and mothers' employment: a comparative perspective', in P. Saunders (ed.), *Welfare to Work in Practice: Social Security and Participation in Economic and Social Life*, International Studies in Social Security, Volume 10, Aldershot: Ashgate Publishing.

Ditch, J., H. Barnes and J. Bradshaw (1996), *A Synthesis of National Family Policies in 1995*, York: European Observatory on National Family Policies, CEC.

Ditch, J., H. Barnes, J. Bradshaw, and M. Kilkey (1998), *A Synthesis of National Family Policies*, European Observatory on National Family Policies, EC/University of York.

Ditch, J., H. Barnes, J. Bradshaw, J. Commaille and T. Eardley (1995), *A Synthesis of National Family Policies in 1994*, York: European Observatory on National Family Policies, CEC.

Kuivalainen, S. (2003), 'How to compare the incomparable: an international comparison of the impact of housing costs on levels of social assistance', *European Journal of Social Security*, 5 (2), 128-149.

OECD (2004), 'Purchasing Power Parities, Main Economic Indicators, April 2004', www.oecd.org/std/ppp, 30 April 2005.

OECD (2004), 'Income distribution and poverty in OECD countries in the second half of the 1990s', Mimeo.

OECD (2004) *Benefits and Wages*, Paris: OECD.