



## Policy packages for families with children in 11 European countries: Multiple approaches

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### **Family Packages in 11 European Countries: Multiple Approaches**

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All member countries of the European Union have developed programmes for providing financial support to families. Complete family packages of cash benefits, tax breaks, exemptions from charges, various subsidies, and/or services in kind are all being directed toward assisting parents with the costs of raising children. Moreover, this framework has been developed to favor the long view, guaranteeing the well-being of future generations (Bradshaw, 2006) and serving to reinforce the shared bond between generations. Clearly, the responsible authorities have recognized, more or less explicitly, the fundamental role families play in upholding the social cohesion (Esping-Andersen, 1999).

It goes without saying, however, that levels of spending in this domain differ considerably between various EU member states (Bradshaw, 2006). The remarkable generosity of the Nordic countries, for example, contrasts sharply with the modest contributions made by countries in the southern bloc of member states: Greece, Portugal, Italy and Spain. These disparities can no doubt be traced back to cultural differences as to what in fact constitutes family responsibility. Where children are concerned, marked differences emerge on how caring responsibility should be divided between State, market and family.

With these considerations in mind and using the model family method, we compared the social and fiscal systems in 11 EU member states for providing financial resources to households with children. We then used these comparisons to answer the following questions: After the impact of various benefits and taxes, what is the difference in the net disposable income of a childless couple compared with a family with children where both families have the same income? To what extent are certain systems of transfers utilized as

an instrument of horizontal redistribution and, in particular, how does the level of assistance vary according to the number of children concerned? To what extent are certain transfers used as a means of vertical redistribution, in other words, to what extent they target the most in need? How do transfers for families with an identical number of children vary according to the families' income levels?

The first part of this paper offers a general overview of expenditures devoted to the social protection system and within this the family/children benefits in each country. The structure and principal features of the transfer systems to families, i.e. cash benefits and tax breaks, is the subject of the second part, along with results of our calculations based on the model family method.. Particular attention is paid to France and Germany because both have a long-standing and explicit family policy overseen by public authorities (Fagnani, 2007). The paper concludes with some general reflections on the links that exist between various family packages and poverty rates among families with children, and the effects these have on the fertility rates of the countries we studied.

## **1. Background and problematic**

Family policies are for the most part inextricably linked to state intervention in other aspects of public policy. Also, support to families is based on numerous historical and social rationales including assisting parents with the costs of raising children, fighting against social inequality, tackling market-driven poverty and unemployment, supporting lone parents, helping parents combine family and working life, and encouraging families to have more children. All these rationales are arranged hierarchically by their level of importance which can vary considerably according to the country concerned.

It is often said that the devil is in the details and this is true of any effort to paint a truly comprehensive picture of the different types of assistance public authorities dispense to families with dependent children. Public policies are further complicated by their place within a broader set of institutional arrangements which aim to benefit parents active in the workforce, particularly when it comes to public or market-driven child care provision,

child care subsidies, public programmes for young children (including nursery schools and out-of-school activities) and parental leave. It is well-known, for example, that along with the Nordic countries, France leads the European Union in public child care provision and benefits aimed at reducing child care costs for families (Fagnani and Letablier, 2006; Leira, 2002). Nevertheless, because of the constraints imposed by the subject matter of this chapter, we must limit ourselves to an investigation into the actual cash benefits provided to families.

In order to provide a relatively in-depth comparison we limited our study to 11 European countries which share an equal level of economic development as well as a willingness to allocate a significant percentage of GDP to social protection programs. The southern bloc member states of Spain, Italy, Greece, and Portugal all show little willingness to commit funds to policies that favor families. With only 3-5% of social spending dedicated to families, they have thus been excluded from our comparison.

With the exception of Norway, all countries included in the comparison are EU members. These countries can be divided into three major groups, which we describe using the sometimes criticized typology of social protection systems elaborated by G. Esping-Andersen in the 1980s and published in 1990.

- France and Germany are part of the cluster of countries whose welfare regimes are qualified 'conservative-corporative', sometimes also termed 'Christian democratic', 'continental', 'corporatist', or 'Bismarckian' (Arts, Gelissen, 2002). Notable features are high levels of spending and payroll tax financing with most benefits dependent on previous contributions and socio-professional status. As far as the main social insurance programmes are concerned, e.g. pension, health care and disability, the French and German welfare states are consistent with this description (Arts, Gelissen, 2002; Pierson, 2001). Their respective family policies also have much in common. Both are linked in several ways to employment policy and both are explicit, clearly defined, and generous in terms of cash benefits. In each country the appointment of a minister responsible for family issues demonstrates the importance given to this issue. Family policy in the two

countries still bears many traces of earlier history. For France this translates into a system of transfers with their roots in a long-established *natalist* tradition which continues to favour large families. In Germany, legislators have increasingly distanced themselves from the traditional model of the male as 'sole breadwinner' and recently introduced radical changes in the domain parental leave and child care provision (Fagnani, Math, 2007). As in France, the taxation system still favours married couples where only one of the spouses is in paid work. However, France strongly differs from Germany with regard to child care policy and public support to working mothers (Fagnani, 2007).

- The United Kingdom (UK) and Ireland are classified as 'liberal welfare' regimes, sometimes also termed 'Anglo-Saxon' (Leibfried, 2000). Taxes and spending have long remained low compared to those of other affluent democracies. Many transfer programmes are still means tested. These welfare state arrangements operate in the context of liberal market economies.

- The Nordic or 'social democratic' cases include Denmark, Norway, Sweden and Finland (Arts, Gelissen, 2002). The basic characteristics of this welfare state configuration are well known (see chapter ... in this book). They place particular emphasis on public social services which are by any definition extensive when compared to other countries. The issue of gender equality is high on their policy agenda and they provide crucial support for women's participation in the labour force. Research has shown, however, that the national schemes developed by Nordic countries to support parents of young children differ from each other in several important aspects (Eydal, 2005, Leira, 2002).

- Austria, the Netherlands and Belgium are classified as 'advanced Christian-democratic' regimes or as 'Bismarckian' in some typologies (Arts and Gelissen, 2002, Pierson, 2001), whereas in Esping-Andersen's typology they are clustered among the 'social democratic' regime.

As far as our countries and types are concerned, consensus has become stronger that

hybrid cases are far more numerous than was initially assumed. Indeed, none of the countries, and in particular France and the Netherlands, actually fit the prototype definition of a specific ‘ideal-type’. Nevertheless, this typology is somewhat useful for its heuristic and descriptive value.

### **1. Family targeted social protection spending: distinct divergences and variations between countries**

In the affluent democracies we selected, public spending on social security policies varies by country. With Ireland a notable exception, all countries devote more than 26% of GDP to their systems of social protection. Denmark, Sweden and France are particularly distinguished in this area, devoting more than 30% of national spending to these systems. Within the aggregate of social protection expenditures, the portion devoted to family/children benefits varies from 19.9% in Ireland to only 4.5% in the Netherlands. When it comes to expressing family/children expenditures as a percentage of GDP, Denmark tops the table at 3.9% while the Netherlands and the UK, both allocating less than 2% of GDP, bring up the rear. See Table 1.

**Table 1. Social protection expenditure and share of family/children benefits as a percentage of GDP - 2004**

	Total social protection expenditures	Family/children benefits	
	as % of GDP	as % of GDP	as % of total social protection
Denmark	30.7	3.9	12.7
Ireland	17.0	3.4	19.9
Norway	26.3	3.1	11.6
Sweden	32.9	3.0	9.3
Austria	29.1	3.0	10.4
Germany	29.5	3.0	10.1
Finland	26.7	3.0	11.1
France	31.2	2.5	8.0
Belgium	29.3	2.0	6.7
United Kingdom	26.3	1.7	6.6

Netherlands	28.5	1.3	4.5
UE 25	27.3	2.1	7.8

*Source: European System of integrated Social Protection Statistics - Eurostat*

The simple label ‘family/children benefits’ can be somewhat misleading and masks the heterogeneous nature of individual measures as well their underlying logic and final outcomes. For example, the family-related decisions made by parents, particularly regarding child care arrangements and employment preferences, have different implications. We have therefore proposed three sub-categories within the aggregate of family/children benefits for the purposes of this study:

- 1. Benefits in kind, which include all social protection expenditures devoted to public child care provision, e.g. *creches and kindergartens*, as well as public services targeted at families and children coping with hardship in their everyday lives (see Chart 1).
- 2. Cash benefits related to paternity, maternity and parental leave schemes (see Chart 2).
- 3. Cash benefits other than leave benefits, particularly child benefits including *allocations familiales* in France and *Kindergeld* in Germany (see Chart 3).

*The Nordic countries: priority given to public provision of services*

The Nordic countries have broadened the scope of their welfare services and child care provision in tandem with Nordic women’s increasing participation in the labour force (Eydal, 2005, Leira, 2002). Therefore, they top the table in the category of benefits in kind: from 1.3% of GDP in Norway to over 2% in Denmark (see Chart 1). These benefits in kind are governed by the principle of universality which provides families with access to services regardless of income.

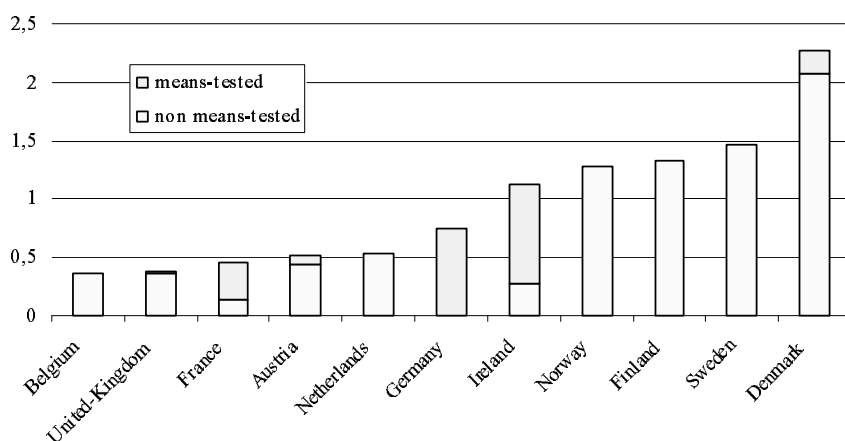
The Nordic countries also devote a much larger share of their resources towards cash benefits related to funding parental leave, more than any other country in the comparison

(see Chart 2). As a matter of fact, thanks to comprehensive public support of parental leave for parents of young children, payment for care leaves is by European standards very generous and functions on a social insurance basis (Math, Meilland, 2004). In Sweden, for instance, the logic underlying parental leave is different from that of France. French parents taking leave receive only a low flat-rate (530 Euros per month in 2007 \_if the parent on leave stops completely to work) while Swedish parents taking leave receive 80% of their earnings. The Swedish wage-related benefit is explicitly aimed at promoting gender equality at home and in the workplace. It is, however, an anti-redistributive policy from the point of view of cash transfers to families because well paid workers receive more than the poorly paid. Nevertheless, this effect is offset by the Swedish fiscal system which is entirely devoted to vertical redistribution as opposed to the French fiscal system which fuses both vertical and horizontal redistributions. As a result, well-off Swedish families pay much more income tax than their French counterparts (Bradshaw and Finch, 2002).

On the other hand, the share of GDP devoted by Nordic countries to cash benefits other than leave benefits is comparatively low, only around 1% of GDP compared to 2.4 % in Austria (see Chart 3). Only the Netherlands devotes a lower proportion of its GDP in this domain.

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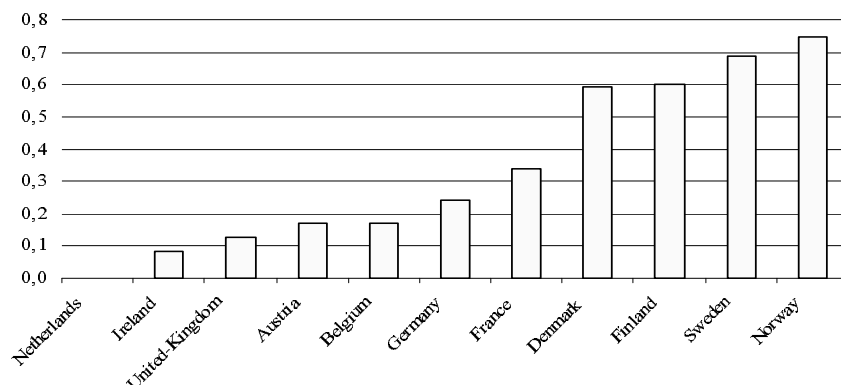
**Chart 1. Family/children benefits in kind – expenditure as a % of GDP – 2004**





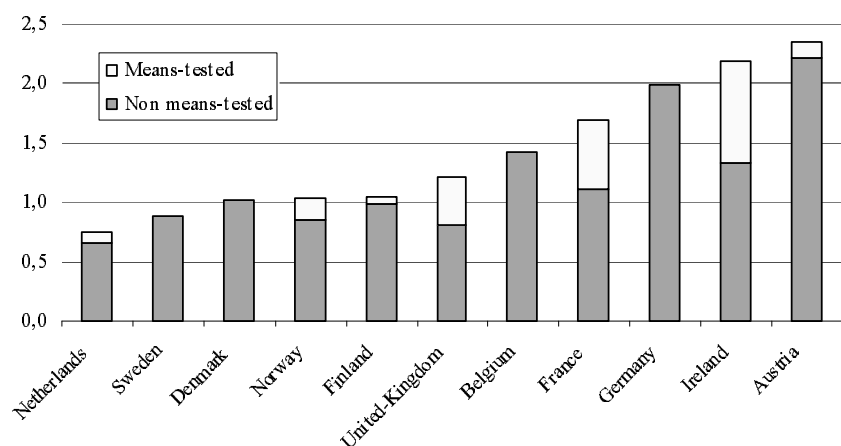
*Source: European System of integrated Social Protection Statistics (Eurostat)*

**Chart 2. Cash benefits for leaves – expenditure as a % of GDP - 2004**



Source: European System of integrated Social Protection Statistics (Eurostat)

**Chart 3. Cash benefits other than leave benefits (child benefit, *allocations familiales*, or *Kindergeld*) – expenditure as a % of GDP - 2004**



Source: European System of integrated Social Protection Statistics (Eurostat)

*Austria, Germany, France and Belgium: generous and universal child benefits*

A second group comprising Austria, Germany, France and Belgium is characterized by its generous allocation of funds to universal child benefits (see Chart 3). France operates rather differently from the other three, however, in that a large proportion of actual cash

benefits, about 35%, are means tested, in other words, based on the resources of the individual families concerned.

The levels of family/children benefits in kind as a component of GDP in both Belgium and France lag far behind that of other countries (see Chart 1). These levels are somewhat misleading, however, and do not take into account the important financial contributions the French and Belgian policies have earmarked for funding public nursery schools.<sup>1</sup> Moreover, generous cash subsidies covering the cost of private child care arrangements by nannies or registered child minders are not included in our definition of benefits in kind. These programmes, which allow many parents to provide care for their children by qualified individuals meeting standards laid down by the responsible authorities, are defined as cash rather than benefits in kind.

*UK, Ireland and the Netherlands: the lowest share of GDP devoted to cash benefits for parental leave*

The UK and Ireland have in common the fact that the share of GDP each devotes to remuneration of maternity, paternity, or parental leave, despite improvements since the latter end of the 1990s, remains among the lowest in our study (see Chart 2). In their expenditure of cash benefits other than leave benefits, however, the similarity ends: Ireland is one of the most generous countries while the UK finds itself in the middle of the pack, slightly above the Nordic countries (see Chart 3). At the same time, cash benefits in the UK and Ireland are more likely to be means tested than in most other countries in our study. Nevertheless, to rely strictly on data collected by Eurostat is to underestimate the importance of the UK's reliance on the income tax system as a means of distributing resources to families with children. Its Tax Credits system is especially important to low-income families. The policies of the Netherlands are again distinguished by their lack of generosity towards families, whatever the type of benefit, and in this

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<sup>1</sup> More than a third (38%) of children in France aged between two and three and 99% of those aged three to six now attend free *écoles maternelles* with on-site cafeterias either on a full time or part time basis. Furthermore, local authorities have used financial assistance from the local Family Allowance Funds to considerably develop a recreational infrastructure that keeps schoolchildren occupied after school and on lesson-free Wednesday afternoons.

respect more closely resemble the policies of southern European countries.

Financial support for families is multi-faceted and family/children benefits systems are by no means the only avenue that must be explored in order to understand the full range of measures in place. The tax system as well as housing benefits have a particularly large impact in certain countries. Data which presents simply the total levels of spending on family benefits can only ever give a partial picture and often provide little indication of the redistributive effect of public policies when taken as a whole. How are efforts shared out and adjusted according to different family profiles? By number of dependent children? By income level? Relying solely on Eurostat data imposed limits on our ability to compare countries' benefits systems and ensure that as far as possible like was being compared to like. We therefore utilized the model family method which aspires to overcome these limitations.

## **2. Comparison of family packages using the model family method**

The intrinsic value of the model family method is that it allows us to evaluate targeted cash support to family on grounds of dependents. Additionally, this method grants insight into the redistributive effects of these transfers. The goal of our analysis is not to provide an exhaustive inquiry but rather to evaluate how certain transfer systems specifically target families based on the families' configuration and/or income levels.

The method consists of calculating and examining the structure and level of the family benefit package for a range of families by taking into account both number of children and levels of earnings. The family benefit package is therefore the supplement made to a household's net disposable income and how it compares to a childless couple on the same earnings (see Box 1) after the main transfers and taxes for the family with children have been taken into account. This difference represents the contribution of public policies in respect to children (and being a lone parent)

**Box 1. The model family method**

This method was used to identify a specific range of model families varying in family size and earnings, to calculate net income.<sup>2</sup>

A number of model families were selected as follows:

- A childless married couple
- A divorced parent with one child, aged 3, receiving full-time formal child care
- A lone parent with one child aged 7
- A couple with one child aged 7
- A couple with two children aged 7 and 14
- A couple with three children aged 7, 14 and 17, all at school

This choice enabled us to compare childless couples and families with children, and variations in couples by the number of children.

For each family a variety of income cases was specified as follows:

- Income case 0: No earners, receiving social assistance
- Income case 1: One earner, wages one-half national average ( full-time wage earners only) or, if higher, the minimum wage for a 35-hour week (In France, half-average earnings are slightly higher than full-time employment at minimum wage.)
- Income case 2: One earner, average earnings (In France, about twice the minimum wage.)
- Income case 2 + 1: Two earners, average and half-average earnings (In France, twice and equal to the minimum wage respectively.)
- Income case 2 + 2: Two earners both average earnings (In France, two salaries each at two times the minimum wage.)

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<sup>2</sup>We would like to thank Professor Jonathan Bradshaw, University of York, for providing access to data used in this study. Data specific to France have been calculated through the work of A. Math and C. Meilland of IRES.

Using these income cases allowed us to compare variations in family packages according to the level of earnings and the number of workers in the household. We included a family with no earners, receiving social assistance (Income case 0). Twenty-six families from each of the 11 EU countries studied were selected for the comparison.

Net income for each family model was calculated by adding or subtracting the following transfers and taxes from earned income:

- Income taxes
- Social insurance contributions
- Local taxes
- Family cash benefits (means-tested and non means-tested)
- Housing benefits
- Social assistance
- Guaranteed child support

The family package was calculated as the difference between the net income after transfers and taxes for a household with children and the net income of a childless couple where both families receive the same earnings. The situations described are from January 2004.

Figures are per month, and expressed using the purchasing power parity (PPP) system. PPP takes into account some of the variations in cost of living among countries, increasing our ability to make accurate comparisons. PPP figures are based on the purchasing power of one euro in France.<sup>3</sup>

The data relate to 2004 but this is likely to be reasonably representative of the current situation given the slowness with which changes in taxes and transfers, as well as the

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<sup>3</sup> Compared to a conversion with real exchange rates, the decision to use PPP as a basis for our calculations actually changes very little when dealing with the majority of countries studied. The impact is most notable in the countries where the cost of living is markedly higher and has the effect of diminishing in percentage terms the figures in the following countries to the order of: 20% in Denmark, 17% in Norway and 9% in both Sweden and Ireland.

distribution of earnings tend to occur.

### **2.1 Family income : A minor or non-existent role in the level of family benefits**

The complete package of family cash benefits (excluding income-related or means-tested benefits and guaranteed child support) almost always increases according to the number of children, but variations exist in the way these benefits are distributed.<sup>4</sup> Chart 4 highlights the significance of earnings when calculating the level of cash benefits for a family of two school-age children.<sup>5</sup> Family policies in the Nordic countries, Germany, the Netherlands and the UK are all guided by a desire to provide equal support to all children regardless of the income levels of their parents, thus family revenues have no effect on the amount of cash benefits allocated.<sup>6</sup> Belgium would also fall into this category were it not for the fact that families on welfare receive more generous assistance than others. Austria provides the highest levels of assistance for families, regardless of family income or makeup, until we consider its reduction in cash benefits for families with three or more children.

France is notable in that families with higher incomes are excluded from access to certain cash benefits which, unlike those of many other countries, are means tested. In Ireland, all income cases receive equal assistance aside from the working poor who receive an extremely generous Family Income Supplement.

Overall, it is clear that when it comes to family cash benefits the public policies of the countries we studied do not, or little, target or favour one group over another.

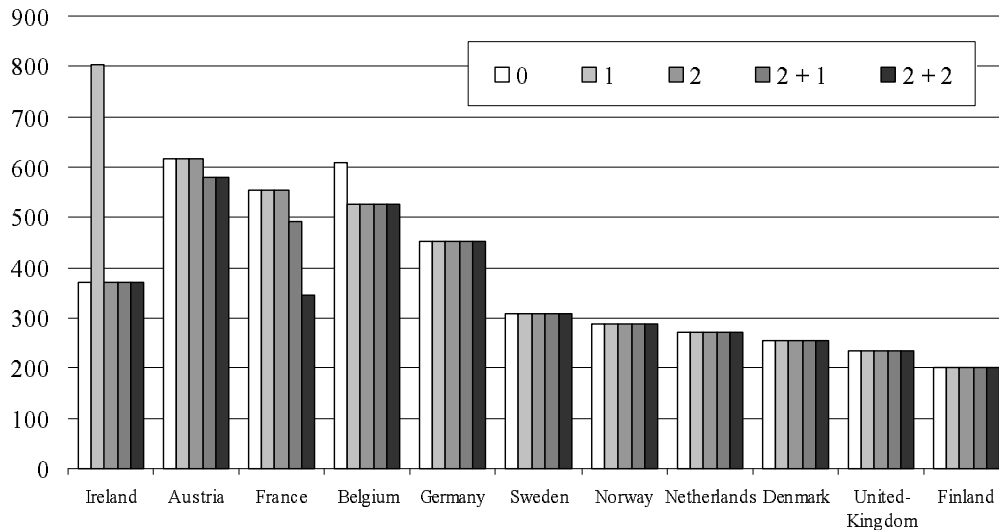
#### **Chart 4. Cash benefits by earnings for a couple plus two children (7 and 14 years old) in Euros PPP per month**

<sup>4</sup> The level of *allocations familiales* (child benefit) may also vary according to the rank and age of children, like in France.

<sup>5</sup> Similar conclusions were reached regardless of the makeup of the family being considered

<sup>6</sup> No benefits in Norway are subject to means testing with the sole exception of those directed at single parents with young children.

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Countries are classed in descending order based on Income case 1. € PPP corresponds to the purchasing power of €1 in France.

- Income case 0: No earners, receiving social assistance
- Income case 1: One earner, wages one-half national average (full-time wage earners only) or, if higher, the minimum wage for a 35-hour week (in France, half-average earnings are slightly higher than full-time employment at minimum wage)
- Income case 2: One earner, average earnings (in France, about twice the minimum wage)
- Income case 2 + 1: Two earners, average and half-average earnings (in France, twice and equal to the minimum wage)
- Income case 2 + 2: Two earners, both average earnings (in France, two salaries at two times the minimum wage)

Source : International family model database (January 2004)

## 2.2 Income taxes: A means of support to families utilized in only certain countries.

When it comes to providing financial support to families, public authorities have a number of measures at their disposal beyond what we classify simply as cash benefits. These include housing benefits, income tax credits, and, for families on social assistance, guaranteed minimum incomes. On the other hand, social contributions and levies are imposed on families across the board with no regard to family makeup. Similarly, in all 11 countries we studied, the presence of children in a family had little effect on how local tax regimes were organized. The level of housing benefits for low-income families,



however, was significantly impacted by the presence of children for families in Denmark, the UK, France, Germany, Sweden and Norway (ranked in descending order by level of support provided).

*The Nordic countries: The presence of children plays no role in how income tax is calculated.*

Income tax systems in all countries studied are progressive, i.e. tax rates increase with the level of income, but it should come as no surprise that in the Nordic countries, where tax regimes were created with the sole objective of vertical redistribution, it makes little difference whether a family has children or not. All other countries in the study account for the presence of children to varying degrees by employing a number of different measures. Tax credits, tax deductions, and the French *quotient familial* are some examples, and all can vary according to family makeup and size as well as the age of the children.

For those families that fall into the category sometimes termed ‘the working poor’ (Income case 1), only the UK offers any significant support by means of the Working Family Tax Credit, which is reserved for those in paid employment. For families in higher income brackets, the presence of children provides significant tax advantages in the UK as well as the five continental European countries in our study.

In France and Germany, two countries which practice systems of joint taxation, preference is still given to families with a sole breadwinner whatever the level of household income.<sup>7</sup> The problem is exacerbated in Germany where the splitting system continues to rely on the male-breadwinner model.<sup>8</sup> In France, the *quotient familial* gives priority to couples (whether married or not) with children, particularly three or more, which satisfies the aim of horizontal redistribution, an objective still supported by

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<sup>7</sup> In Germany, however, married couples are offered the choice between joint or individual assessment, which is not the case in France.

<sup>8</sup> A married couple’s income is added together, then divided by two and taxed separately.

numerous politicians at both ends of the political spectrum (Bachel and al., 2005).<sup>9</sup> This contrasts sharply with the policies in Nordic countries where taxes are assessed on an individual basis with the result that the partner earning least, usually the woman, is not penalised for this fact.

### 2.3. The family package: Austria in a class of its own

In order to provide a more general picture of the various transfer systems, we have calculated the average whole family package for 15 model couple types with school age children (one, two and three children for five levels of earnings) and three lone-parents with one school age children (for three levels of earnings) (see Table 2).

**Table 2: Overall average family package - €PPP per month**

<b>Couples with children</b> (Average calculated on the basis of 15 model family types)		<b>Lone parent families</b> (Average calculated on the basis of 3 model family types)	
Austria	514	Austria	385
United Kingdom	411	United Kingdom	260
Belgium	388	Denmark	196
Germany	373	Finland	142
France	357	Ireland	139
Ireland	335	Norway	123
Denmark	296	Sweden	111
Sweden	282	Netherlands	101
Finland	266	France	70
Norway	250	Belgium	-34
Netherlands	181	Germany	-55

<sup>9</sup> The *quotient familial* (family splitting) operates as follows: every household pays income tax on the basis of its total income divided by a number relating to its size (an “adult equivalent” for the household). A progressive rate is applied to this income per adult equivalent. For the same income level, a family with three children will pay less than a family with only one child.

€ PPP corresponds to the purchasing power of €1 in France.

For each model family, the family package is calculated as the difference between the net income after transfers and taxes for a household with children and the net income of a childless couple where both families receive the same earnings

Source : International family model database (January 2004)

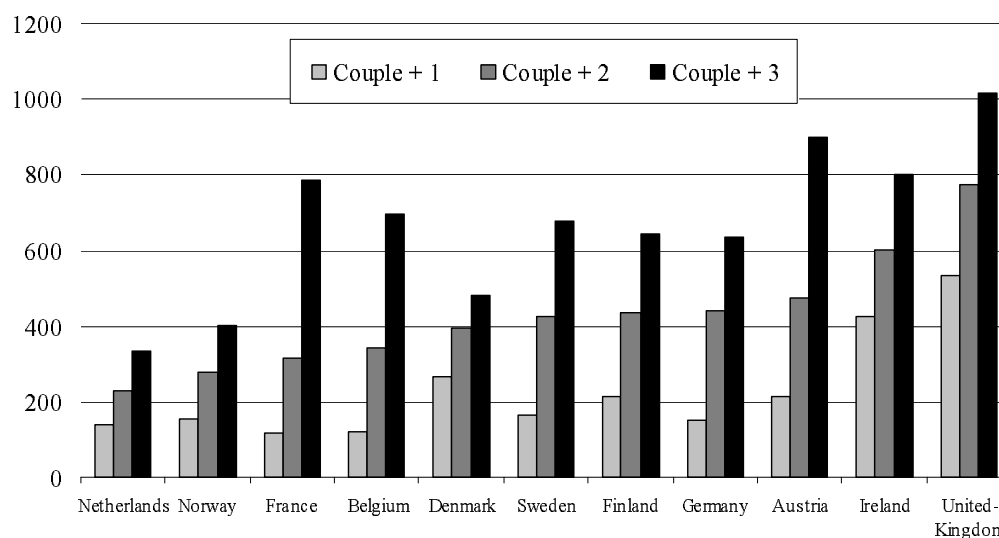
Austria clearly leads the pack providing the most generous family packages on average to both couples with children and lone parent families. The UK also distinguishes itself as one of the most generous countries when it comes to families. This stands in marked contrast to the dearth of financial support the Netherlands provides to couples with children. Germany, Belgium and France are all at the top of the table in providing support to couples with children, but slip to the bottom when it comes to lone parent families. Table 2 also confirms that for the Nordic countries actual cash benefits are of little importance when placed within the overall context of other measures used to assist families.

#### **2.4 The family package by number of children: A means of horizontal redistribution**

In all the countries we studied, policy makers clearly took pains to ensure that policies resulted in horizontal redistribution from families with no children to those with children. It goes without saying that the family package is adjusted upwards as the number of children in a family increases. Nevertheless, the way these packages are calculated can vary significantly between countries when we take into account the income levels of the families concerned (see Charts 5 and 6).

Whatever the size of the family, the UK is by far the most generous in terms of providing assistance to low earnings families (Income case 1). Once again, we can observe how the policies of France, Belgium and Austria all tend to favour larger families. Among all the countries concerned, France and Belgium are particularly modest in providing assistance to families with only one child.

**Chart 5. Family package by number of children – low-income families\* – in €PPPs**

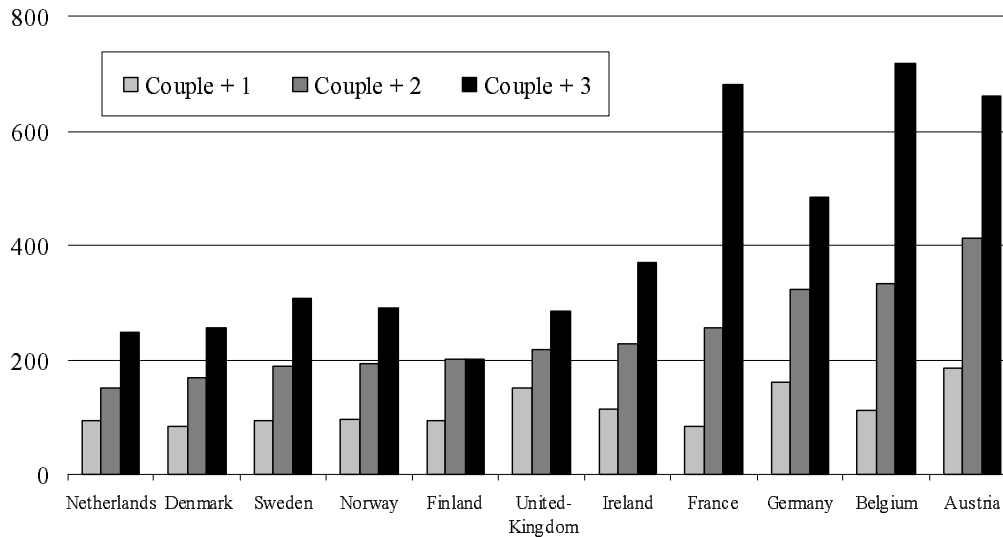


Countries are classed in ascending order based on a couple with two children. € PPP corresponds to the purchasing power of €1 in France.

- Income case 1: One earner, wages one-half national average (full-time wage earners only) or, if higher, the minimum wage for a 35-hour week (in France, half-average earnings are slightly higher than full-time employment at minimum wage)

When looking at higher-income dual earner families (Income case 2 + 2), we can observe a distinct change in the ranking of countries (see Chart 6). Large families (three or more children) at the top of the income scale in France, Belgium, Austria, and to a somewhat lesser degree Germany, all receive extremely generous family packages, whereas other countries are rather more modest in assisting this group. .

**Chart 6. Family package by number of children – Higher-income dual-earner couples\* – in €PPP**



Countries are classed in ascending order based on a couple with two children.

- Income case 2 + 2: Two earners, both average earnings (in France, two salaries at two times the minimum wage).

It is clear when observing Charts 5 and 6 that the UK, and to a somewhat lesser degree Ireland, have made decisions favouring the working poor and, in particular, have used their system of transfers as a means of redistributing wealth to families of more modest means.

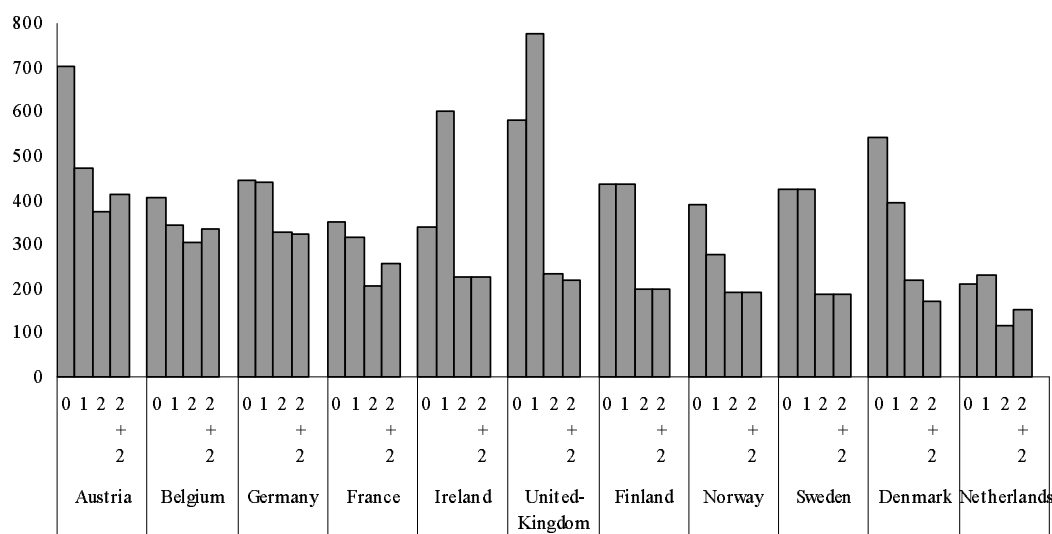
## 2.5. The effect of revenue on levels of benefits: A sharp emphasis on vertical redistribution in the UK

The data in Chart 7 provides a picture of how family packages vary with earnings for the same family type (in this case a couple with two school-age children). The UK and Ireland are notable in that while both provide high levels of benefits to those at the lower end of the economic scale, they place greater emphasis on aiding families classed as the working poor (Income case 1) than those living on social assistance (Income case 0), even though the latter have fewer resources. In the UK, this is accomplished using the Working Families Tax Credit and in Ireland the Family Income Supplement. Additionally, once the family income surpasses a certain level, and a rather modest one at that, these benefits are no longer available and the total family package is sharply

reduced. Still, this does not mean that families are left completely empty-handed.

The UK is also the country where we see the sharpest contrast between family packages for working poor families (Income case 1) and those for the well-off families. The Nordic countries, along with Ireland and the Netherlands also provide low levels of benefits to well-off dual earner families. In the Netherlands, the family package is comparatively miniscule for all income brackets. Denmark, Finland, Sweden and Norway provide very low income families with social assistance and housing benefits. In contrast, France, Germany, Belgium (and Austria if we leave aside the category of families receiving public assistance), are all distinguished by offering family packages that vary little according to family income.

**Chart 7. Family package by earnings -- couples with two children – in €PPP**



Countries are classed in descending order based on Income case 1. € PPP corresponds to the purchasing power of €1 in France.

- Income case 0: No earners, receiving social assistance
- Income case 1: One earner, wages one-half national average (full-time wage earners only) or, if higher, the minimum wage for a 35-hour week (in France, half-average earnings are slightly higher than full-time employment at minimum

wage)

- Income case 2: One earner, average earnings (in France, about twice the minimum wage)
- Income case 2 + 1: Two earners, average and half-average earnings (in France, twice and equal to the minimum wage)
- Income case 2 + 2: Two earners, both average earnings (in France, two salaries at two times the minimum wage)

Source : International family model database (January 2004)

### **Discussion and conclusion**

The overlapping nature of the measures contained within different family packages along with the number of model family types contained in our study makes drawing any definitive conclusions problematic. Rather, the aim of our comparison and its results is to provide a snapshot from a clearly defined perspective of the current political realities inherent in public policies affecting support for families. The model family method does not allow us to take into account the importance of numerous other measures, such as parental leave or community services for families with children, and the critical role these play in any analysis of cross-country variations.

In France, for instance, the range of measures to help working parents has been expanded yet again (Fagnani, Letablier, 2005). Public expenditures towards the development of child care arrangements and parental leaves have dramatically increased over the last two decades. Despite the overall background of cost containment, the system of public crèches has suffered no funding cutbacks. Similarly, in the Nordic countries, there exists a clear political will to further develop the already high level measures designed to support parents with children. In the UK, long languishing at the bottom of European league tables in most aspects of family policy such as provision of parental leave or child care, the policies pursued by the Blair government have made a significant improvement in the work/family balance, particularly in child care provision (Lewis and Campbell, 2007). Germany has also made significant strides forward through the recent adoption of new regulations on parental leave, which share many similarities to those found in Sweden, as well as the Day-Care Expansion act in force since 2005 (Fagnani, Math, 2007).

### **Table 3. Social inequalities, poverty rates for children and fertility rates**

COUNTRY*	Social inequalities: GINI INDEX**	Poverty rate for children*** (around 2000)	Total Fertility Rates (1) (TFR) <sup>o</sup> (2004)****	Completed Fertility Rates (1) (CFR) for women born in 1962****
Denmark	24.7	2.4	1.78	1.92
Sweden	25.0	3.6	1.75	2.02
Norway	25.8	3.6	1.81	2.09
Finland	26.9	3.4	1.80	1.94
Germany	28.3	10.9	1.37	1.60
Austria	29.1	13.3	1.42	1.67
Netherlands	30.9	9.0	1.73	1.82
France	32.7	7.3	1.90	2.08
Belgium	33.0	-	1.64	1.82
Ireland	34.3	15.7	1.99	2.30
UK	36.0	16.2	1.74	1.93

\*Countries are classed by levels of social inequality : from those with the lowest levels to those with the greatest.

\*\* Source: World Bank. 2006. *World Development Indicators 2006*. Washington, D.C. The Gini index measures the extent to which the distribution of income diverges from equality, with 1 being the extreme value when a single individual has all the income.

\*\*\* Source: OECD, 2007

\*\*\*\* Source : EUROSTAT, 2006

(1) Total Fertility Rate (TFR) is the sum of fertility rates by age for a given year and Completed Fertility Rate (CFR) is the average number of children born to women of the same generation who have reached the end of their reproductive life. TFR may differ for long periods when fertility timing (or birth calendar) changes: for example, a delay in timing leads to a drop in the TFR even if the completed fertility of the generation is eventually not modified.

Despite the previously noted limits of our methodology, distinctive and identifiable trends can be clearly identified in the results of our comparison. Our results also raise important questions about the relationships and interactions between transfer systems, social inequalities, poverty rates, and fertility behaviour.



Austria, and to a slightly lesser degree the UK, are far and away the most generous countries when it comes to cash provision to families. Bringing up the rear at the opposite end of the spectrum is the Netherlands. Following their strong traditions of horizontal redistribution, France, Belgium, Austria, and to a lesser degree, Germany all tend to favour large families with France and Belgium becoming rather less favourable than the other two when it comes to providing assistance to couples and lone parent families with only one child. The Nordic countries, the UK and Ireland are all distinguished by a strong emphasis on vertical redistribution, favouring families with modest revenues.

Research has shown that financial support to families plays an undeniable role in reducing the proportion of children growing up in poor households (Bradshaw, 2006). A look at child poverty rates, however, exposes the UK as the worst performer, by a considerable margin, in this area which seems to fly in the face of the fact that it is one of the most generous countries when it comes to providing financial support for the working poor. Clearly, the goal to increase social justice while decreasing child poverty depends on providing more than simple cash benefits, which need to be complemented by other systems of support. The Nordic countries, where social inequality is less marked and child poverty is virtually non-existent, provide a perfect illustration of this point (see Table 3). Financial support is modest but benefits in kind such as community facilities and services are considerable (see Part 1). Additionally, they offer a coherent, generous and supportive set of provisions to dual-earner families, and this goes hand in hand with high employment rates for mothers with children (Eurostat, 2006). Research indicates that in nearly all European countries child poverty rates are significantly higher in single-earner families than those with two earners (Bradshaw, 2006, Whiteford, Adema, 2007). From this perspective, it is not surprising that a recent study carried out by the OECD argues in favour of a more appropriate balance between the so-called 'benefits strategy' and the so-called 'work-strategy' which promotes policies to increase employment among poor families, in particular (Whiteford, Adema, 2007).

As for the level of the family package, Austria stands head and shoulders above other countries. Nevertheless, despite significant financial support to families, levels of fertility

remain low resembling those of Germany and the southern European countries: Total Fertility Rates (TFR) have fluctuated between 1.50 in 1993 and 1.42 in 2004 (see Table 3). Generous financial support has seemingly failed to motivate Austrian families to increase their fertility rate to a level sufficient to adequately replace previous generations. State policies that favour the work/family balance remain modest, particularly in the domain of public child care provision. Despite recent efforts to improve this situation, they pale in comparison to the vast array of measures which make up family policies in France and the Nordic countries. Also, in stark contrast to the Nordic countries, Austria performs rather poorly in terms of social inequalities and its poverty rate for children. These observations, along with those made of the UK, seem to confirm arguments in favour of promoting measures that place greater emphasis on benefits in kind over simple cash benefits.

France finds itself firmly planted in the middle of the standings when seen through the prism of various model families used throughout our study (discounting the example of families with three or more children). Its system of transfers is less redistributive than those of the Nordic countries, and in terms of eliminating social inequality it remains one of the least efficient. Yet its fertility rate remains among the highest of the countries studied along with Norway and Ireland (see Table 3). Through the results of other studies, we have attempted to explain this phenomenon by emphasizing the influential role of explicit child care policies along with the importance of measures supporting the “working mother” model (Fagnani, 2007).

Descriptions of the systems of transfers within various countries sometimes fit rather uneasily into our assumed notions of how the social protection systems we identified previously would function (See page 2). The UK and Austria, the two most generous countries, fall into different social protection systems while the Netherlands, the country with the most modest contribution, is often categorized alongside France, Germany and Austria. On the other hand, the so-called ‘social democratic’ welfare states of Scandinavia would seem to justify their inclusion in the same social protection category as all exhibit similar characteristics. Their extensive and highly developed systems of

social protection, particularly coherent where family policy is concerned, stand in contrast to the hybrid nature of the French system. Thus, prudence must be used when attempting to classify countries according to their system of social protection in order to account for a certain degree of heterogeneity. Further, because family policies can overlap with other initiatives, results reflect a certain degree of variation according to the logic used to create the measures at work in each country.

In conclusion it is clear that in each of the countries contained within our comparative study public authorities have acknowledged more or less explicitly that the future wealth of any society is its children. States as well as other social actors have recognized that children represent a common good and that responsibility for their well being is far from being a strictly private affair. Indeed investing in children might be a long term profitable strategy for society as a whole (Kamerman and Kahn, 2002, Klammer, 2006, Esping-Andersen, 1999). Guaranteeing the well being of the children as well as ensuring each has the opportunity to reach his or her full potential requires a multidimensional and systematic approach which extends beyond the simple provision of cash benefits, generous as they are. Guaranteeing a living wage and promoting policies that help parents achieve a more balanced work and family life; placing limits on non-standard work schedules<sup>10</sup> and ensuring access to adequate housing are all necessary if we are to truly make a difference and work together in the best interest of future generations.

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<sup>10</sup> Strazdins and al. (2006) have demonstrated that non-standard work schedules have detrimental effects on children's well-being and on the quality of interactions within the family.

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## Abstract

The aim of our comparison is to provide a snapshot from a clearly defined perspective of the current political realities inherent in public policies affecting support for families. Using the model family method, we compared the social and fiscal systems in 11 EU member states for providing financial resources to households with children. We then used these comparisons to answer the following questions: After the impact of various benefits and taxes, what is the difference in the net disposable income of a childless couple compared with a family with children where both families have the same income? To what extent are certain systems of transfers utilized as an instrument of horizontal redistribution? To what extent are certain transfers used as a means of vertical redistribution? How do transfers for families with an identical number of children vary according to the families' income levels?

Austria is far and away the most generous country when it comes to cash provision to families. Nevertheless, levels of fertility remain low resembling those of Germany. Bringing up the rear at the opposite end of the spectrum is the Netherlands. France, Belgium, Austria, and to a lesser degree, Germany all tend to favour large families with France and Belgium becoming rather less favourable than the other two when it comes to providing assistance to couples and lone parent families with only one child. The Nordic countries, the UK and Ireland are all distinguished by a strong emphasis on vertical redistribution, favouring families with modest revenues. Our results confirm arguments in favor of promoting measures that place greater emphasis on benefits in kind over simple cash benefits.

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