



Child poverty, joblessness and welfare reform - an OECD perspective

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* The views expressed are not those of the
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Outline

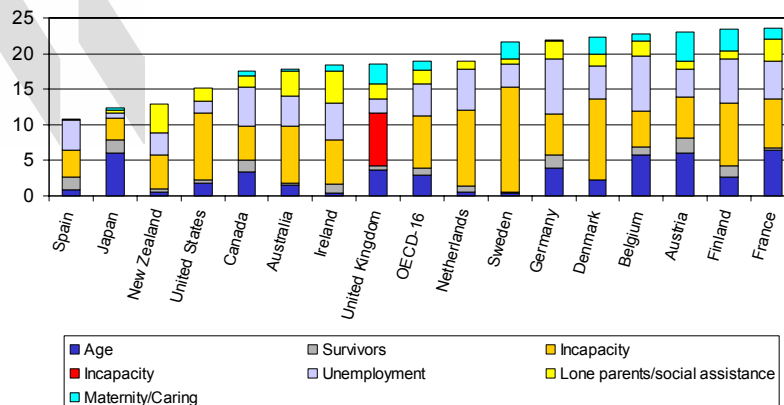
- Child poverty is on the policy agenda in all OECD countries. What can the UK learn from other countries and from international comparisons?
- What are the links between joblessness and child poverty?
- How effective would reducing joblessness be in reducing child poverty?
- What factors explain variations in joblessness across OECD countries?
- What types of welfare reform are likely to be effective?

Introductory points and caveats

- Largely based on recent OECD Working paper - *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?*
<http://www.oecd.org/dataoecd/30/44/38227981.pdf>
- Paper uses income definition of poverty - children in households with equivalised incomes less than 50% of population median. No consideration of social exclusion or indirect measures of poverty.
- Paper uses OECD Income Distribution Study – information supplied by national authorities to standardised questionnaire.
 - There are differences between OECD and LIS results. OECD estimates of child poverty are those used by UNICEF (2007).
- Different poverty lines produce different results – higher lines will show more working poor, and lower lines show a higher share of jobless poor. Equivalence scales make a significant difference to results.
- Emphasis is on comparisons across countries as a way of assessing alternative approaches. Some results refer to 2000, but new figures will become available later this year.
- Focus is on lone parents, although couples with children included, and many policy conclusions apply to both.

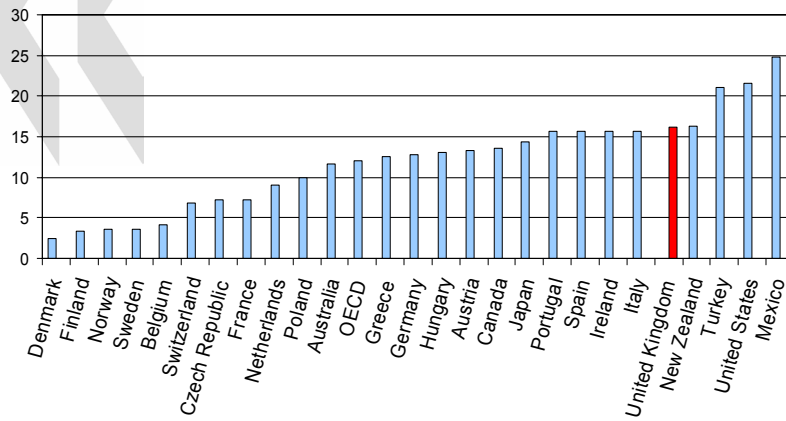
Benefit receipt in the UK is just below the OECD average

% of working age population in receipt of income replacement benefits, full-time equivalents, 2004



But child poverty is above the OECD average

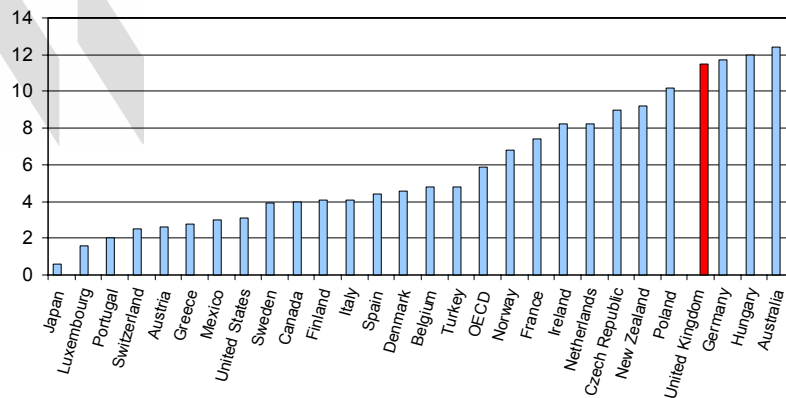
Percentage of children in poverty, OECD countries, 2000



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So is family joblessness

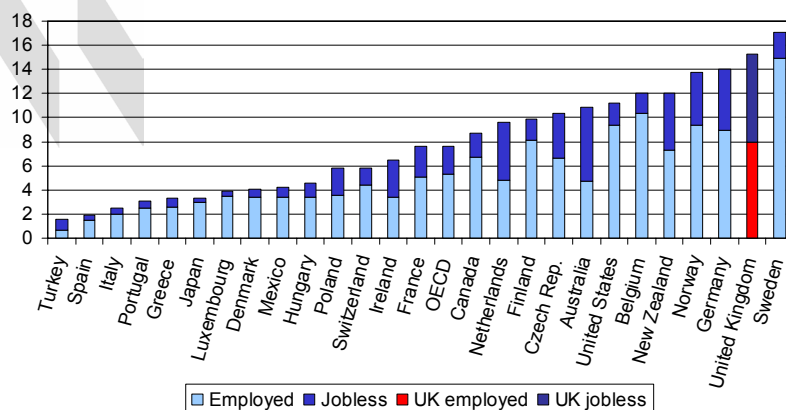
Jobless households as percentage of all households with children



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Lone parenthood is also high

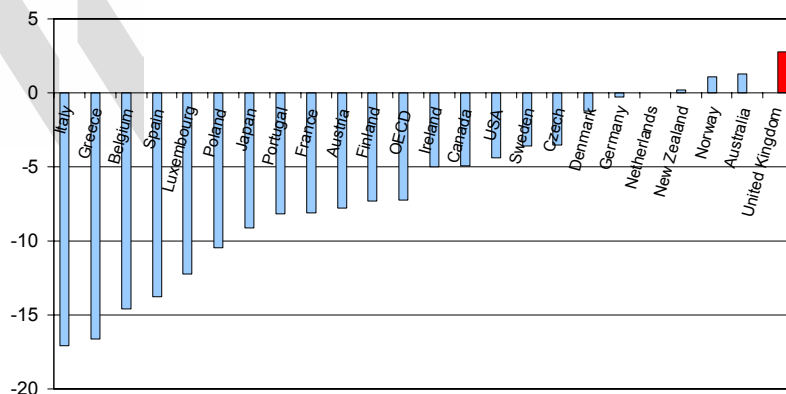
Lone parent households as % of all households with children



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Relative to its high overall employment, the UK does worst for families with children

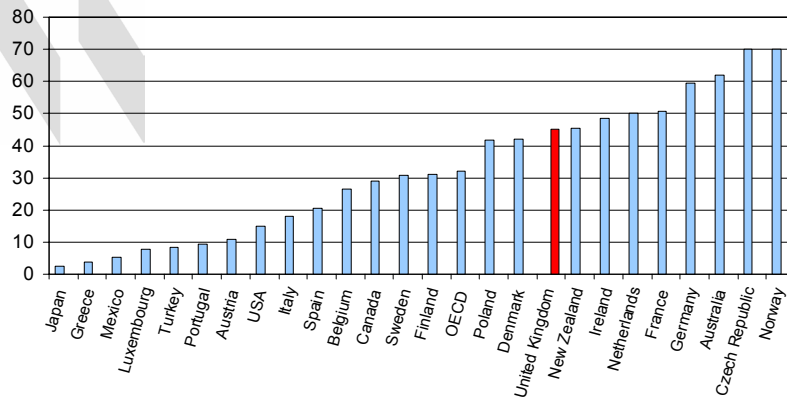
Percentage point difference between actual and predicted joblessness among families with children, 2000



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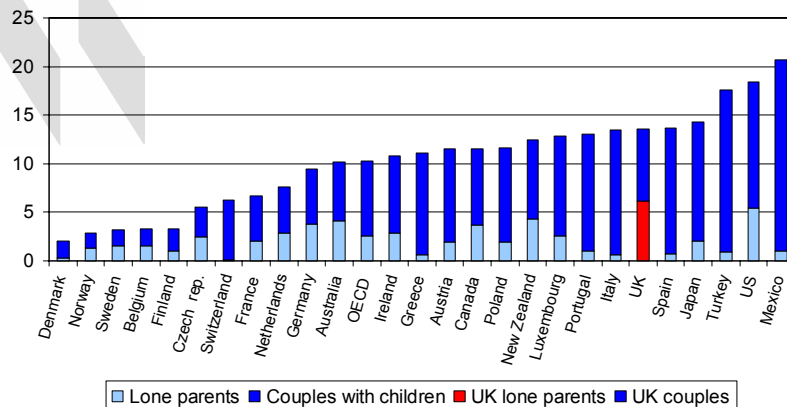
Nearly half of all poor children in the UK live in jobless households

Jobless households as percentage of all poor households with children



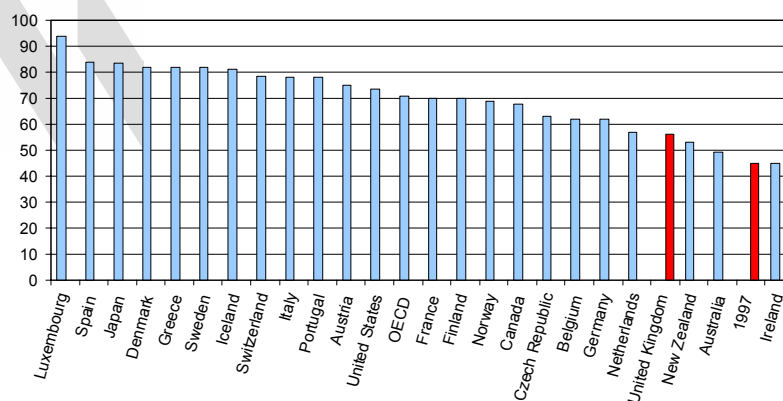
Most poor children live in couple households - but less so in the UK

% of households with children who are poor – by household type



Despite recent increases, employment of lone parents is relatively low

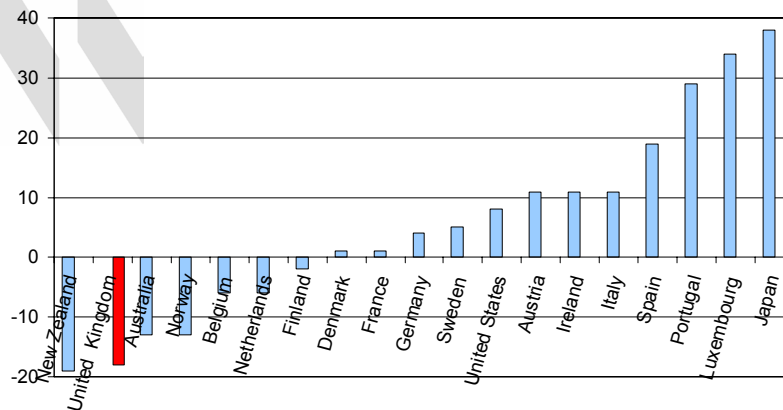
Employment to population ratio, lone parent families, 2001-2005



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In many countries – not the UK - lone mothers are more likely to be employed than partnered mothers

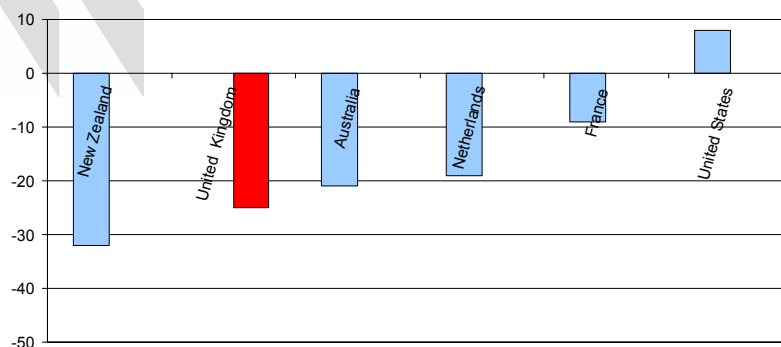
Employment gap – employment rate of lone mothers minus the employment rate of partnered mothers, 2001-2005



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The gap is wider for mothers with young children

Mothers with a child under school age – employment rate of lone mothers minus the employment rate of partnered mothers, 2001-2005

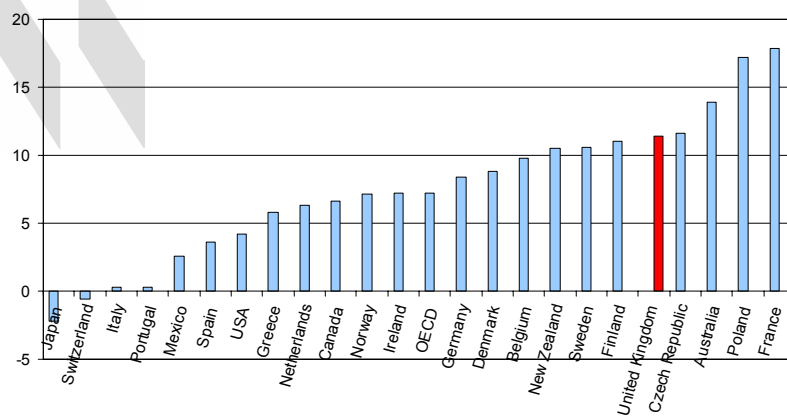


Joblessness and poverty – what are the links?

- Jobless families are the most disadvantaged families
 - The average incomes of jobless families is about half that of all families with children.
 - They are everywhere at a high risk of child poverty (five times higher than their population share, on average).
- But, on average only one-third of poor families in OECD countries are jobless (ranging from 4% in Greece to 70% in Norway - 45% in the UK).
- Only one-quarter of poor households with children are lone parents, but this ranges from under 5% in Switzerland, Mexico, Italy and Turkey to about 45% in the UK, Norway and Belgium.
- But, in all countries with low child poverty (<5%), joblessness is also low (although Norway has 7% joblessness).
- Countries with high child poverty mostly tend to have low joblessness (except UK, New Zealand and Ireland).

The UK reduces child poverty significantly

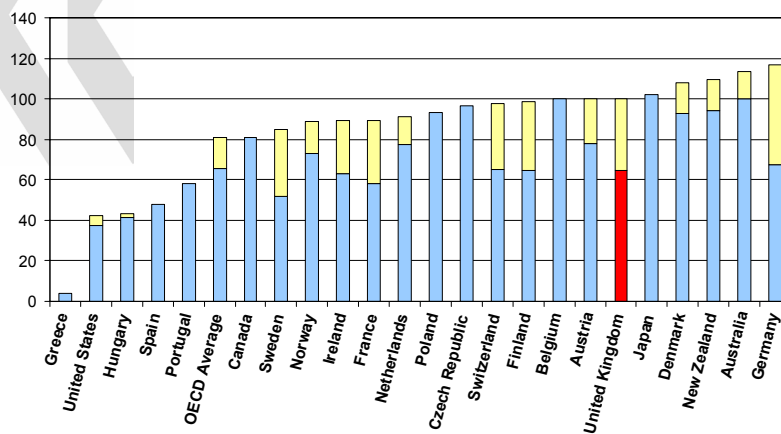
Difference between market and disposable income poverty
for families with children
% points



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In some countries, benefits for jobless families would have to be increased significantly to reach the poverty line

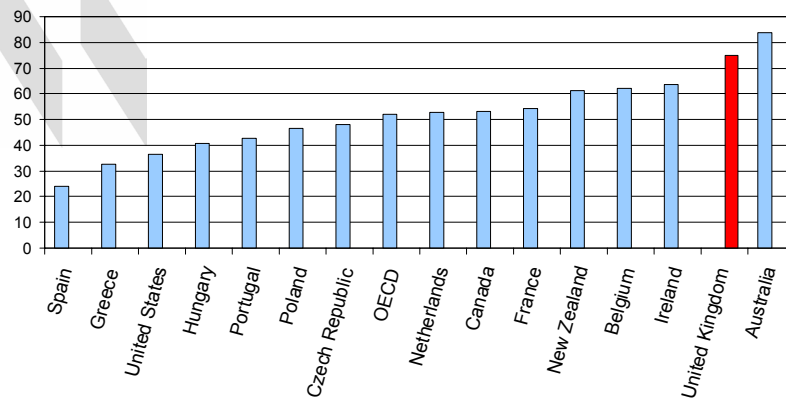
Benefit entitlements including housing benefits for lone parents as percentage of 50% median poverty line, 2003



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Lone parent families working full-time at the minimum wage would be above the poverty line in the United Kingdom

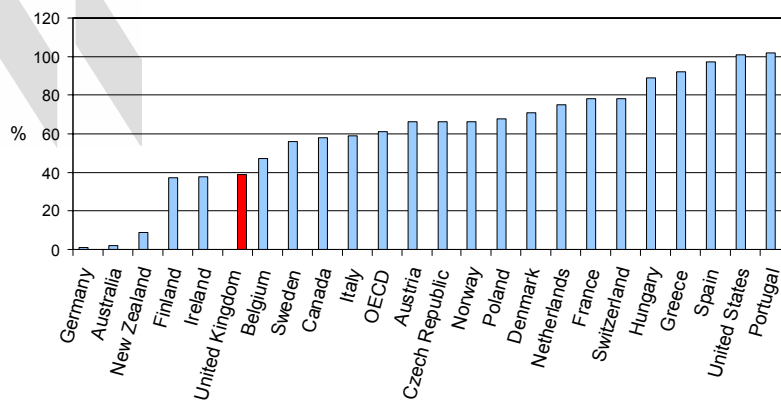
Disposable income as % of median income, 2003



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In-work earnings required to reach the poverty line (60% of median disposable income)

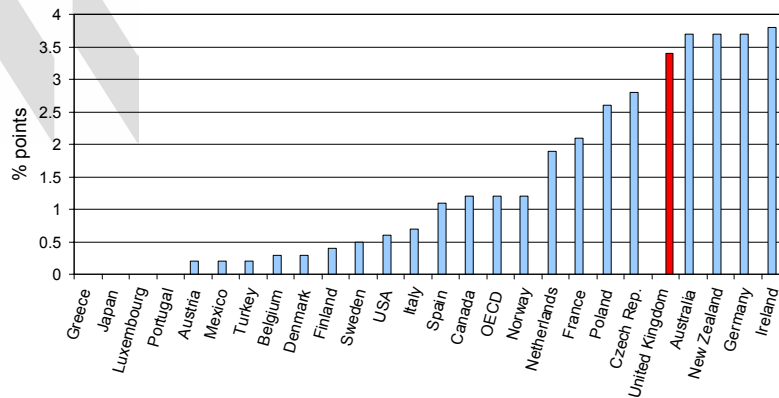
Per cent of average production workers wage (APW)



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Reducing joblessness – how effective in reducing child poverty?

% point difference in poverty rate if joblessness reduced to level of 3rd best performing country



Caveats

- Poverty line held constant, even though changes in joblessness and employment would shift the line.
- Assumes people who get jobs on average are paid as much as people who already have jobs.
- Would require very large increases in employment – for lone parents by 30 percentage points in Australia, Ireland and the Netherlands and more than 20 percentage points in New Zealand and the United Kingdom.

Why does the UK have such high family joblessness?

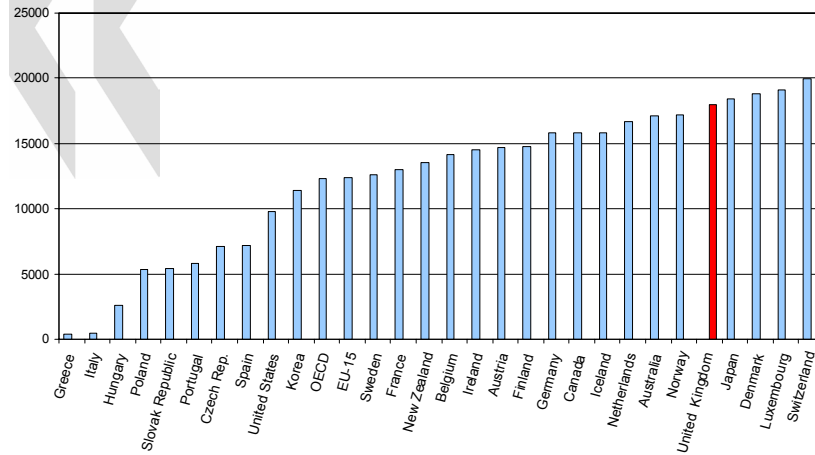
- Characteristics of parents – own age, age of children, number of children, own and children's health, educational attainment.
- Over-generous benefits?
- Poverty traps and high effective tax rates – work doesn't pay?
- Child care costs and availability.
- Nature of benefit system and eligibility criteria for benefits.

How do circumstances and characteristics contribute to joblessness?

- In 2004 there was no difference between the full-time employment rates of partnered mothers and lone parents – all of the difference was due to lower part-time employment (16 percentage points).
- 25% of lone mothers less than 25 years of age are employed in the UK, compared to 62% of lone mothers aged 35 to 49 years. Lone parents in the UK are younger than in many other countries – 20% under 30 compared to 3-5% in Italy, Greece and Spain.
- 34% of lone parents with a youngest child 0-4 years were employed compared to 65% with a youngest child aged 11-15 years (59% and 80%, respectively for partnered mothers).
- In the UK, twice as many lone mothers as couple mothers report their health as 'not good' (15% and 8% respectively). Disability is more common among children in lone parent families.
- Families who do not contain a parent with any academic or vocational qualifications are more likely to be lone parent families (21%) than couple families (4%). Families where no parent was working 16 or more hours per week were also more likely to contain no qualified parent (32% of lone parent families and 19% of couple families).

Levels of social assistance for lone parents are towards the upper end of OECD countries

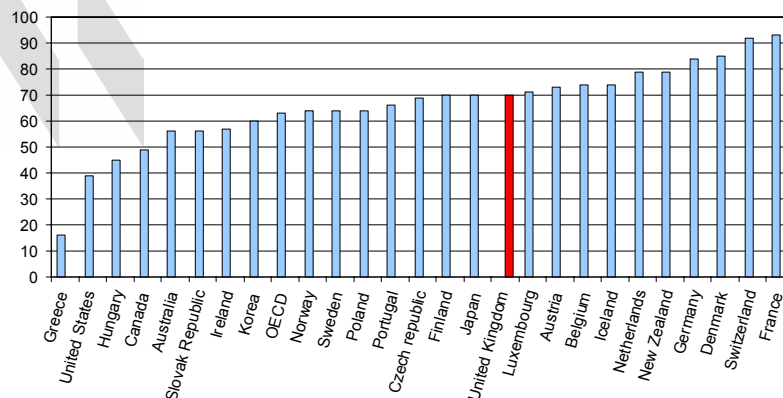
USD PPP, 2003



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Effective tax rates are above average for lone parents seeking full-time work

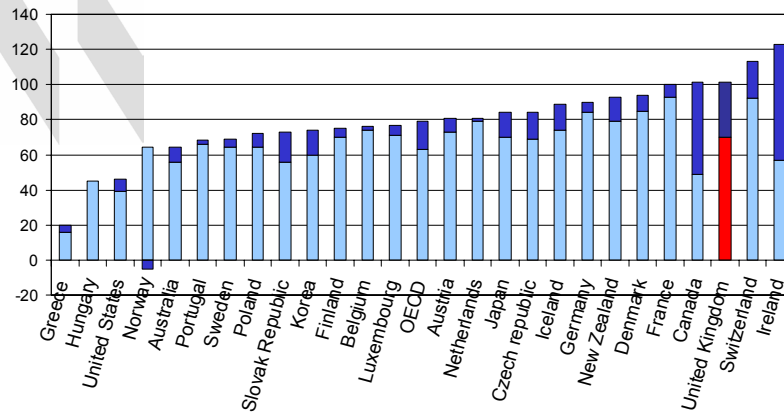
AETR from zero to 67% APW, 2004



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Child care costs further increase effective tax rates

AETR from zero to 67% APW, plus child care costs, 2004



The role of benefit systems

- In contrast to many European countries – but like Australia, New Zealand and Ireland – the UK predominantly relies on income-related benefits rather than social insurance benefits. In Europe, those with caring responsibilities are covered by more generous maternity, parental or child care leave – but with shorter durations of entitlement.
- Insurance systems tend to have different dependency problems, i.e. disincentives from UI (or other social insurance benefits) and more early retirement.
- Social assistance in many European countries is much more residual than in the UK. Benefits are administered at municipal or provincial levels, and much more discretion is available to administrators. The UK and Australia, New Zealand and Ireland have centralised systems with strong rights of appeal. In a number of European countries, assistance benefits are repayable or can be reclaimed from other family members (parents or children). Assets tests are more restrictive.
- The UK, New Zealand and Ireland – and until recently, Australia – do not require lone parents and partnered parents to actively look for work until their youngest child is a teenager.

Work tests for lone parents, 2005

No work test	Work test	
	Independent of child age	Dependent on child age (age limit in years)
Portugal Spain	Belgium ¹ (Discretion) Denmark (subject to childcare) Finland Japan ⁵ (Discretion) Sweden	Ireland (18 or 22 if in full-time education) New Zealand ² (18) United Kingdom ³ (16) Australia ⁴ (16/7) Luxembourg (6) Canada ⁶ (0.5 - 6) Netherlands ⁷ (5) Czech Republic (4) Austria (about 3) France (3) Germany (3) Norway (3) Switzerland (3) United States ⁸ (0.25-1)

Conclusions and policy directions

- Countries with high child poverty rates are diverse, but all countries with low child poverty have low joblessness.
- Reducing joblessness is particularly important in the UK, and also Germany, Australia, New Zealand, Czech Republic and Poland.
- A number of countries already appear to have many of the policy levers they need to alleviate child poverty – Australia, UK and perhaps New Zealand; others may need to develop new programmes or significantly expand those they have (e.g. in-work benefits).
- However, the UK may need more services to support families in making the transition to work, including child care, intensive case management (e.g. building motivation, referrals to well-targeted jobs), and basic remedial or vocational training in relevant cases.



Conclusions and policy directions

- The UK's high joblessness among families with children appears to reflect a combination of factors – differing characteristics of lone parents, benefit levels are above average, and effective tax rates are high, particularly because of relatively high child care costs.
- Eligibility conditions appear to be important – most countries with higher employment rates for lone parents require parents to look for work when the youngest child is in primary school or younger.
- What else do we need to know – role of part-time work, how to increase wages for those in work, how to help parents stay in work.