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EVALUATING IRISH FAMILY INCOME SUPPORT POLICY

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1. Introduction

The objective of this paper is to assess the effectiveness of the current structure of State income support for Irish families. Other papers for this conference deal with the historical development of family income support in Ireland, recent changes, and how the Irish system compares with other countries, so those are areas on which we touch only briefly. Here we concentrate on how the system as currently structured performs in meeting its objectives, and on how its effectiveness might be improved.

Before the system can be evaluated it is necessary to discuss the context in which it must operate and what it is trying to achieve. The increasing vulnerability of families with which the Irish income support system must now cope is described in Section 2, and the objectives of the system are the topic of Section 3. Section 4 sets out how family income support as currently structured attempts to meet those objectives. In Section 5 the effectiveness of the various elements and the system as a whole are evaluated. The impact of some options for the central element, Child Benefit, are then considered in Section 6, making use of the tax/benefit model developed in the ESRI. The main conclusions are then summarised.

2. The Increasing Vulnerability of Families

Without getting involved in debates about what is meant by "the family" and its changing nature, our concern is with State income support for children and the adults on whom they depend. Two major trends have served to increase the economic vulnerability of children over recent decades, in Ireland as in many other industrialised countries. The first is the changes in family structures themselves, in particular the growth in single-parent families. This much-discussed phenomenon has recently been examined in detail in McCashin (1993): here our concern is with the implications for the demands on the income support system. The second factor is the sustained increase in the level of unemployment. Largely because of these factors, the risk of poverty for families with children has risen sharply relative to others over the past two decades.

Research at the Economic and Social Research Institute using data from household surveys has shown that families with children, particularly those with three or more children, now face a higher risk of poverty than other households (see for example Callan, Nolan et al (1989), Nolan and Farrell (1990), Nolan and Callan (eds., 1994, Ch. 4)). This is illustrated by the fact that about one in four Irish children were living in households below half average income in 1987, compared with one in six adults (having adjusted incomes to take the greater needs of larger households into account). Whereas in 1973 children were about half as likely as adults to be in households below half average income, by 1987 children faced a risk about one-and-half times that of adults. This increasing risk for children was reflected in the fact that about 60% of the households below half average income in 1987 contained a child, compared with one-third in the early 1970s. The same pattern was found with poverty lines higher or lower than half average income, and making different allowances for the needs of larger families. No more up-to-date survey data is available as yet, but given the causal factors involved it is unlikely that the current situation of families gives greater cause for comfort.

Families with children now make up a much larger proportion of those on low incomes than they did twenty years ago principally because of the dramatic increase in the level of unemployment. (It is worth mentioning that the *risk* of poverty associated with unemployment did not rise: it is simply that far more households are affected.) At the same time, the position of the elderly was improving as social welfare pensions were increased in real terms and the coverage of occupational pensions widened. By 1987 households headed by an elderly person faced a below-average risk of being in poverty, whereas in the early 1970s these households had been much more likely than others to be in poverty. Although single-parent families still constitute only a small proportion of those on low incomes because of their relatively small numbers in the population, they do face a particularly high risk of being in poverty.

These trends are not unique to Ireland. Very much the same pattern of an improvement in the position of the elderly and deterioration in that of children has been seen in the UK, USA, Sweden, The Netherlands, and France. For example, the percentage of US children in families below the official poverty line has risen from 14% in 1969 to over 20% by the early 1990s, and in Britain the number of children in families on means-tested Income Support trebled between 1979 and 1993. While there are differences across countries, the improvement in old age and retirement pensions has been the key common factor for the elderly, while higher unemployment or stagnant earnings growth has adversely affected the position of families with children.

These trends have served to concentrate attention on family income support, and in particular on how best to organise that support to alleviate family poverty. Given the importance of unemployment as a cause of poverty, the solution is clearly not to be found in income maintenance or tax policies alone: employment creation is of central importance. Nonetheless, a key issue for the social welfare and tax systems is how best to alleviate poverty by improving income support for families and children. However the changes in the types of household most at risk of poverty have changed the context in which income support policies are formulated in another way. For the elderly, who are mostly outside the labour force, social welfare rates can be set without worrying about work incentives and the creation of what are commonly termed unemployment and poverty "traps". For the unemployed, low paid and single parents, however, means-tested social welfare transfers and non-cash benefits and their interaction with the income tax and PRSI systems can create such traps - situations where some unemployed people face little financial incentive to take up work (where it is available), and some of those in work gain little from an increase in their gross pay. Since social welfare recipients with children receive additional support for each child, it is there that these traps are most likely to be a problem. The possible impact of income support on incentives to work has thus become a major concern in formulating family income support policies. (This is not to imply that the changing composition of the low-income population is the sole explanation for the increased emphasis on incentive effects - other factors including ideological and academic "fashions" have clearly been important.)

3. The Objectives of Family Income Support

Helping those on low incomes is clearly a key aim of State family income support, and as argued in the previous section the importance of this role has been enhanced by recent trends. Concern about poverty affecting children, and the long-term implications for their health and development, has always played a central part in generating public support for State provision of cash transfers and other assistance to families. However, focusing entirely on poverty alleviation would miss some other important objectives which underlie the State's role in this area and which have to be taken into account in assessing child income support policy.

At the most general level, many would argue that the costs of rearing children should not be borne entirely by their parents, but should be shared by the wider community. This is not a view which is universally shared: some would agree with the UK Meade Committee on tax reform, which talked in terms of the "production of children" being "an expensive hobby", and asked "should family expenditure on children be regarded simply as a way in which parents choose to enjoy the expenditure of their income?" The fact that most industrialised countries do provide some form of generalised support to families, through cash transfers and/or the tax system, suggests that the more widespread view is that there should be some sharing of the costs of children. Such factors as the desire to counter declining birth rates and to support "the family" as an institution were part of the thinking underpinning the introduction of universal children's/family allowances in many industrialised countries in the 1930s and 1940s. The broad principle underlying current support may be that the community shares some of the responsibility with parents for the welfare of children and has an interest in them, not least as a key resource for the future.

The argument for some recognition by the State of the costs of children throughout the income range, rather than only those in poor families, may also be put in terms of horizontal equity or in terms of assisting people in matching their resources to their needs over the life-cycle. If those with children need a higher income than those without in order to attain a particular standard of living,[1] horizontal equity - often defined as "equal treatment of equals" - may require that at any income level the State provide some benefits to or take less tax from those with dependent children. More narrowly, since the costs of children have to be faced at a particular stage in people's life-cycle, the case can be made for State involvement to, in effect, redistribute income over the life-cycle by taxing when the family does not face these costs and providing support when they are heaviest. (Essentially the same life-cycle argument is widely accepted when applied to the role of the State vis-a-vis retirement/old age pensions).[2]

The impact of family income support on the labour market has always been a major consideration for policy-makers. In some countries it was employers who took the lead in setting up children's allowances schemes in the first place, in order to assist families with children while offsetting pressure for across-the-board wage increases.[3] Since wages do not take the earner's family responsibilities into account, and what is an adequate wage for a single person may not be enough to keep a large family out of poverty, income support for some of those at work may be required simply from an anti-poverty perspective.[4] The fact that benefits when out of work are higher for someone with dependants than for a single person also provides another justification for directing income support for children to those in work, in order to maintain incentives. As more and more of the working population have come into the income tax net, attention has been focused on the way in which taxes and benefits (including non-cash benefits such as free medical care) can interact to reduce or

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[1] However the logic of the approach illustrated by the quote from the Meade Committee is that parents choose to have children, who contribute to their parents' welfare (if not their "standard of living").

[2] Some would question the life-cycle argument for generalised State intervention even in the case of pensions. Dilnot, Kay and Morris (1984) for example state that low-income households require this type of help from the State because of their limited capacity to save and access to credit markets: "It is less obvious why the state should make similar provision for higher-income households, whose members can make these choices and arrangements for themselves" (p. 118).

[3] This was the case in France and Belgium (see Gordon 1988 p. 282).

[4] This was an important element in the thinking behind the introduction of children's allowances in Ireland in 1944 (see McCashin 1988, p. 22-23).

eliminate the financial incentive to take up work or work longer hours, particularly for those with large families.

Finally, another criterion against which to judge income support policy has come to the fore in recent years, namely the impact on the distribution of resources within the family and on the position of women. Children's allowances paid to the mother, as in Ireland, are seen as particularly effective in meeting the needs of children and as an important independent source of income for women working in the home. This can be contrasted with forms of income support which are directed through the pay-packet, such as tax "breaks". The treatment of dependent spouses and the whole concept of dependency in the social welfare system have also come under scrutiny, particularly following the implementation of the EC Equal Treatment Directive in the mid-1980s.

The challenge for family income support policy is to find a balance in meeting these various goals with inevitably limited resources. Choices have to be made in allocating resources between providing support for families in general and assisting those on low incomes, for example, and between providing assistance to those most in need and improving incentives. Recent developments have tended to focus most attention on family poverty and on improving incentives rather than general family support on a horizontal equity/life cycle basis. However the inter-relationships between the various goals, and between the instruments designed to meet them, are complex and apparently straightforward changes in the system aimed at promoting a particular goal can have unintended side-effects. This will be illustrated in our description and evaluation of the Irish family income support system in the next sections.

4. Irish Family Income Support Instruments and Strategies

A number of different tax and cash transfer instruments aimed at supporting families with children have been operated in Ireland, and arguments about how to structure these instruments have much in common with debates in other countries. Since the development of the Irish family income support system is the topic of other conference papers only the briefest background is necessary here. For many years, the income tax system included an allowance for dependent children, so that tax-payers with children paid less than those without children. Universal cash transfers, untaxed and paid irrespective of the income or labour force status of the parents, have been in place here since the 1940s when Children's Allowances were introduced. Child dependant additions for those relying on social welfare schemes have been paid since the 1950s. In 1984 the Family Income Supplement scheme was introduced to provide support for those at work for low earnings with child dependants. In 1986, child tax allowances were abolished and Children's Allowances were replaced by Child Benefit, a higher cash transfer for all children. In 1988, additions to the income tax exemption limits were introduced for those with children, so that some families with children who had been in the tax net were now exempt from income tax, and these have been increased in subsequent years.

The main planks of the current system of child income support in Ireland thus are:

1/ Child Benefit, paid for all dependent children at a rate of £20 per month for the first three children in a family and £25 for the third and subsequent children, that is about £4.60 and £5.75 per week respectively;

2/ Child dependant additions (CDAs) paid to those relying on the various social insurance or social assistance schemes who have dependent children, at a rate of £13.20 per child per week for most schemes (a higher rate is paid to lone parents);

3/ Child additions to income tax exemption limits, currently £450 per child for the first two children and £650 per child for third and subsequent children;

4/ Family Income Supplement (FIS), paying to those in full-time work on low earnings with dependent children an amount that depends on the level of earnings and the number of children; (for example, someone earning £150 per week with four children would receive about £14.25 per week for each child).

There has been significant growth in the numbers receiving FIS and in expenditure on the scheme, but in the context of overall family income support it still plays a minor role: about

9,600 families were in receipt at the end of 1993, and the scheme currently costs about £20 million per annum.[5] The child additions to income tax exemption limits exclude some families with low earnings from the tax net and reduce the tax paid by others through the operation of marginal relief: the annual cost in terms of revenue foregone is currently about £20 million.[6] Child Benefit, benefiting over one million children, and Child Dependant Additions, paying much larger amounts and benefiting almost 500,000 children, are thus the two major vehicles for State income support to Irish children at present.[7] It is expected that £267 million will be spent on Child Benefit and about £280 million will be spent on CDAs (excluding FIS) in 1994 - representing 7% and 7.4% respectively of total spending on social welfare this year.[8]

This system has emerged from a substantial restructuring in the 1980s, and the underlying strategy merits examination before we turn to an evaluation of the current structure. The abolition of child tax allowances means that horizontal equity/generalised support for those

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[5] This compares for example with about 6,600 families receiving FIS in 1990, when expenditure on the scheme was £8.75 million.

[6] The latest figure published by the Revenue Commissioners refers to 1990-91, when the child additions to the exemption limits were estimated to have cost £13.8 million (Statistical report of the Revenue Commissioners 1992, Table 36, p. 67). At that time there was an addition of £300 for each child.

[7] The number of children beneficiaries of Child Benefit in 1993 was 1,074,735 (Department of Social Welfare 1994, Table C17, p. 30). The number for whom full rate CDAs were paid was 374,070, and the number for whom half-rate CDAs was 115,816 (Department of Social Welfare 1994, Table A6, p. 7). Half-rate payments arise where only one parent is dependent on social welfare, or both are claiming half the child addition: the latter may give rise to some double-counting of the number of children involved.

[8] These projected expenditure figures for 1994 were kindly provided by the Department of Social Welfare. Expenditure on Child Benefit for 1993 and earlier years has been published in the Department's annual Statistical Information report - the 1993 figure was £231 million, 6.4% of total social welfare spending (Table G4, p.74). Total expenditure on CDAs is not published (though the number of child dependant beneficiaries for each scheme is): Department estimates 1993 expenditure on CDAs (excluding FIS) at about £275 million. The category "Family Income Support" used in the Statistical Report itself covers schemes for widows, lone parents, deserted wives, carers, Supplementary Welfare allowance and FIS as well as Child Benefit: here, by contrast, we are looking at expenditure on children only, across all schemes.

with children throughout the income distribution is now promoted solely though Child Benefit. Child Benefit is also seen as an instrument for assisting those on low incomes, however. Indeed the central motivation in the 1986 restructuring - as in the corresponding changes made in the UK in the 1970s - seems to have been the desire to redirect resources away from those on high incomes, who gained most in cash terms from tax allowances, towards low income families who gained from the increase in Child Benefit financed by their abolition. The 1986 Budget speech where the changes were announced talked in terms of achieving "a more selective distribution of resources", with lower-income families on social welfare or below the tax threshold benefiting while the position of standard rate tax-payers was protected.[9] The argument that mothers working in the home would receive a more substantial independent income had also featured in the National Plan which provided the basis for policy at the time.[10] (It is worth recalling that this Plan in fact envisaged a much more fundamental restructuring of child income support, with the new Child Benefit replacing not only children's allowances and child tax allowances but also CDAs and FIS and being liable to tax; the 1986 Budget speech stated that this was not yet possible "for administrative and technical reasons", apparently to do with taxing Child Benefit.)[11]

Family Income Supplement was introduced to raise the incomes when in work of those who would receive CDAs when out of work and thus alter the balance of advantage between employment and unemployment. In raising the incomes of families relying on low earnings it also contributes to the alleviation of poverty, but its explicit objective has been to promote the incentive for persons with families to remain in work. The introduction and subsequent raising of the child additions to income tax exemption limits have been justified in successive budgets in terms of helping low-income families and "restoring the reward for work" among parents of such families.[12]

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[9] Budget 1986 p. 16.

[10] Building on Reality 1985-1987, p. 105.

[11] See McCashin (1988) for a enlightening discussion of the announcement and non-implementation of this policy.

[12] Budget 1989 p. 19.

As well as the structure, the levels of support provided through the various instruments determine the effectiveness of the system in meeting its objectives. Since the 1986 restructuring the emphasis until recently has been on increasing CDAs rather than Child Benefit. By the early 1990s, CDAs had been rationalised following the recommendations of the Commission on Social Welfare (1986), with the previous profusion of different rates across different schemes and family sizes dramatically reduced, and also increased substantially. By 1992, CDAs for the unemployed were generally between 35-55% higher than in 1986, whereas Child Benefit rose by much less on average.[13] In 1993 and 1994, though, Child Benefit has been increased significantly, from £15.80 to £20 per month for the basic rate and with a higher rate of £25 now paid for the third and subsequent children. The Programme for Government contains a commitment not only to increase child benefit to £20 per month, but also to "raise Child Benefit still further over time, following integration of the tax and social welfare systems".[14] As already noted, the parameters of the FIS scheme and the child additions to the income tax exemption limits have also been made more generous in recent budgets, though the expenditure/revenue forgone involved remain relatively small.

Family income support strategy adopted in Ireland over the last decade or so can therefore be characterised as a reorientation towards greater emphasis on helping those on low incomes and promoting work incentives - objectives which can sit uneasily together - as well as a "tidying up" of the system. More radical restructuring to withdraw support entirely from middle and upper income groups by means-testing of Child Benefit has not however been implemented, although it has been under serious consideration on several occasions (and was once even officially announced only to be subsequently withdrawn). The more recent emphasis on increasing Child Benefit could be seen as a re-focusing towards the goal of

[13] Because there were so many different rates of CDA paid in 1986 - across schemes, and within schemes between first, second, and third or subsequent children - which were subsequently rationalised, the actual percentage increase seen can vary substantially. For a family with four children, the average CDA received per child would have risen by 34% in the case of UB, 47% in the case of long-term UA, and 56% in the case of short-term UA. For Child Benefit, the basic rate paid rose by only 5% between 1986 and 1992, but the higher rate was payable to the fourth and subsequent children in the latter year, rather than 6th+ in 1986, so again the increase seen can vary significantly, but for a family with four children it would be about 17%.

[14] Fianna Fail and Labour Programme for a Partnership Government 1993-1997, p. 27.

providing support to families throughout the income distribution, particularly those on "middle incomes", but may as much reflect concern about the impact on unemployment and poverty traps of increased reliance on means-tested instruments such as CDAs and FIS.

5. Evaluating Irish Family Income Support

In Ireland as elsewhere, evaluating the income support system is complicated by the absence of consensus, and indeed of clarity, about objectives and the balance to be sought between them. We begin then by assessing the system in terms of what appears to be most widely accepted as a fundamental objective, namely alleviating family poverty. Here it is useful to distinguish between effectiveness and target efficiency. Effectiveness we take to refer to the extent to which income support reduces poverty among the target group by bringing their incomes up towards the poverty line, whereas target efficiency refers to the extent to which State expenditure on income support actually goes on achieving that objective.

Our research using the 1987 ESRI Household Survey has illustrated that the results of an assessment of the effectiveness of the social welfare system as a whole in these terms are not as dependent as might be expected on where one locates the poverty line. At that time social welfare payments eliminated between 70% and 80% of the total "poverty gap" - the sum of the differences between the pre-transfer incomes of those below the poverty line and the poverty line itself - when lines ranging from 60% to 40% of average household income were applied. The measured efficiency of the system in concentrating resources on poverty alleviation was more dependent on the poverty line applied, but when the highest, 60% line was used it was seen that 77% of total spending went towards reducing poverty gaps. This reflected the fact that a high proportion of social welfare payments, from contributory as well as means-tested schemes, went towards those towards the bottom of the income distribution. About 58% of contributory benefits and 70% of means-tested ones were seen to go to those with little or no other income. Expenditure on Child Benefit, as one would expect, was much less concentrated on low incomes: between about one-fifth and one-third of expenditure on Child Benefit went to the bottom 30% of the income distribution, depending on precisely how incomes are adjusted to take differences in size and composition into account. [15]

It is useful for present purposes to develop that analysis by focusing on child income support only and comparing the distributive pattern of Child Benefit with that of CDAs and FIS. Using the ESRI tax/benefit model it is now possible to also examine how the gains from child additions to the income tax exemption limits are distributed. Table 1 shows the distributional impact of the different elements of child income support in the social welfare system.[16] Child benefit, as shown in earlier analysis, is distributed relatively evenly across the distribution: approximately 30 per cent goes to the poorest 30 per cent of families, and about half to the top half of the income distribution. Child dependant additions, as expected, are concentrated much more heavily on poorer families. Almost three-quarters goes to the poorest 30 per cent of families, with only 13 per cent of expenditure going to those who are in the top half of the distribution.[17] Family Income Supplement, aimed at supporting families with a low employment income relative to their needs, is concentrated in the lower-middle part of the distribution (the fourth and fifth deciles). The overall distributive pattern reflects the fact that child benefit and child dependant additions are the dominant elements, with almost equal weight in the total. Just under half of the expenditure goes to the bottom 30 per cent, with a little under 30 per cent going to the top half of the distribution.

[15] See Callan and Nolan (1989, 1994).

[16] There are slight differences between the current estimates of the distributive impact of Child Benefit and those published in Callan and Nolan (1989). These arise because current estimates use a model-based estimates of incomes (necessary in order to analyse CDAs) whereas the earlier estimates used reported incomes: the conclusions in the text are not affected.

[17] The heavy concentration in the second decile reflects the fact that families on Unemployment Benefit or Assistance tended to be clustered in this area; the bottom decile includes many young single people with low incomes and many self-employed or farmers with low or even negative incomes.

Table 1: *Distributional Impact of Child Income Support Schemes, 1987*

Decile	*% of tax units*	*Child benefit*	*Child dependant additions*	*Family Income Supplement*	*Total*
			% of expenditure		
Bottom	10.0	6.2	12.5	2.2	8.9
2nd	11.4	16.9	45.7	4.4	29.6
3rd	8.6	8.7	15.0	37.8	12.7
4th	9.2	9.9	8.2	52.6	10.0
5th	10.9	9.2	5.4	3.0	7.4
6th	10.0	12.1	2.2	0.0	7.2
7th	10.0	12.7	4.0	0.0	8.4
8th	10.0	9.8	3.9	0.0	6.8
9th	10.0	8.2	2.2	0.0	5.2
Top	9.8	6.4	0.8	0.0	3.7
All	100.0	100.0	100.0	100.0	100.0

Notes: 1. Tax units are ranked by disposable income per adult equivalent, using an equivalence scale of 1 for the first adult, 0.66 for a second adult, and 0.33 for all children in the tax unit.

Table 2 gives an overview of how this distributive pattern has been altered by changes between 1987 and 1993/94. The 1993/94 estimates are derived by uprating the data on which the model are based, and applying the policy parameters (tax and social welfare rates etc.) to the uprated data in the manner described by Callan, O'Donoghue and O'Neill (1994, Chapter 6). The estimates take into account the fall in the number of children and the rise in unemployment over the period. Some indication of the reliability of this approach can be gleaned from the fact that model-based estimates of expenditure on child benefit and on child dependant additions in 1993/94 are within about 5 per cent of Departmental estimates of these totals.

Table 2: *Changes in Distributional Impact of Child Income Support 1987-1993/94*

% of tax units[1]	*Child benefit*	*Child dependant additions*	*Family Income Supplement*	*Child additions to income tax exemption limits*	*Total*
1987					
Poorest 30%[2]	31.8	73.2	44.4	not applicable	51.3
Next 20%[2]	19.1	13.5	55.6		17.5
Top 50%[2]	49.1	13.2	0.0		31.2
Total	100.0	100.0	100.0		100.0
1993/94					
Poorest 30%[2]	30.7	75.2	0.0	24.6	48.4
Next 20%[2]	19.7	15.2	96.2	62.3	23.2
Top 50%[2]	49.6	9.6	3.8	13.2	28.4
Total	100.0	100.0	100.0	100.0	100.0

Notes: 1. Tax units are ranked by disposable income per adult equivalent, using an equivalence scale of 1 for the first adult, 0.66 for a second adult, and 0.33 for each child.
2. The categories are approximate because many families are "tied" on exactly the same income. In 1987 the exact values were 30, 20.1 and 49.9 per cent; in 1993/94 they were 29.2, 20.8 and 50.0 per cent.

The broad distributional pattern for the individual schemes has not altered substantially between 1987 and 1993. There was some increase in the extent to which child dependant additions were concentrated on those with the lowest incomes, arising from the increase in unemployment. The rapid rise in the income limits for the Family Income Supplement led to its extension up the income scale, and to increased payments for those already in receipt. The net distributive impact was that recipients are now clustered strongly at a somewhat higher relative income position, a little below the median level. Child additions to the income tax exemption limits are also concentrated on the lower middle reaches of the distribution. However, some benefits flow to those below, and to a more limited extent, to those above these income levels.

Looking at the overall distributive pattern of child income support, the main changes flow from the shift in the balance of policy towards FIS and child additions to the income tax exemption limits. These result in an increased share of child income support going to the lower middle reaches of the income distribution, which is where families with low pay relative to their needs are found. The share of this group rose by about 5 percentage points over the period. This share of the top half of the distribution fell by about 3 percentage points, while the share of the poorest families fell by about 2 percentage points.[18]

The way the various instruments of child income support are distributed by income shows how concentrated they are on low-income families, and thus how much scope there might be for better targeting if poverty alleviation was the sole objective. What it does not address, of course, is perhaps the most fundamental question: to what extent are families still in poverty after income support has been received? Here the choice of poverty standard inevitably makes a significant difference to the results. However, analysis of the 1987 survey showed that about 23% of households with children, containing about 26% of all children, were below half average income, and the corresponding figures for the higher, 60% poverty line were 35% and 39% respectively. Households with 3 or more children, and those comprising one adult with children, were at significantly higher risk.

Is the situation likely to have improved significantly since 1987? Here we have to consider both what has happened to family income support levels and to the principal "risk factors" associated with family poverty. Compared with the rates paid from mid-1986 to mid-1987 Child Benefit for the first two children is now £5 per month higher, which represents an increase of 33% in nominal but only 6% in real terms. However the extension of the higher rate of Child Benefit down to the third child means that payment for the third, fourth and fifth child have risen by £10 or 66% in nominal and 33% in real terms. CDAs have also generally increased substantially, mostly by between 40-65% in nominal terms and 10-33% in real terms.[19] For a family relying on social welfare, the overall increase in income support per child taking CDAs and Child Benefit together, has been between about 33% and 60% in

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[18] These figures take into account the slight differences in the size of the income groups referred to in Table 2.

[19] Once again, because of the way CDAs have been restructured over the period the increase varies considerably from scheme to scheme and by family size, with the largest increases seen for short-term UA and Supplementary Welfare Allowance.

nominal terms, or about 5-25% in real terms. (Such families will obviously also have benefitted from the increases in the rates for adult recipients, which in some cases were higher.) The number of families "at risk", relying on social welfare, has risen, principally because unemployment has remained so high. While contributing to the alleviation of poverty by reducing the "poverty gaps" of those below the income lines applied in 1987, the increases in child income support levels would not in themselves have been sufficient to reduce the number of families below those lines substantially. It is also necessary to note that average incomes for those not relying on social welfare have also risen over the period, with average incomes from employment rising by about 50% in nominal terms. If the poverty line applied is raised in line with average incomes in the economy, then, it is only the lowest rates of support in 1986-87 which have been raised significantly vis-a-vis such a "relative" standard. (The new survey data for 1994 which is currently being gathered by the ESRI, with support from the EU, the Department of Social Welfare and the Combat Poverty Agency, will be enormously helpful in providing an up-to-date picture of the extent of child poverty and the effectiveness of child income support as currently constituted).

Of course, one would like to be able to directly assess child income support levels against some generally accepted standard of adequacy. The difficulty, in Ireland as elsewhere, is in arriving at such a standard at a particular point in time, and then deciding how it should be adjusted over time as prices and other incomes change. Again as commonly found elsewhere, payment levels have not generally been explicitly linked to a standard of adequacy, being set and increased from year to year in an ad hoc fashion. The Commission on Social Welfare did address the issue of adequacy in its 1986 Report, which has had a considerable influence on subsequent policy. The Commission advanced evidence from various sources to support its view that the rates of support paid in the mid-1980s were inadequate, in the sense that the standard of living of many recipients "falls seriously below what may be regarded as normal in Irish society". [20] It applied a number of methods, each having problems but taken together having some force, to arrive at a minimum income for an adult. The results were all in the range £51-£59 per week in 1985 prices, underpinning the core recommendation of the Commission that the payment should be of the order of £50-£60 per week, bringing the

[20] Commission on social Welfare Report (1986) p. 132.

lowest rates up to £45 per week identified as a priority. Up-rated for the increase in prices since 1985 this priority rate in 1994 would be £58 and the minimally adequate level for a single adult would be £65-78. With the lowest adult rate now £58.90 for short-term Unemployment Assistance/Supplementary Welfare Allowance and other schemes paying £61 or higher, the target of bringing all rates up to the priority level has been met but most still fall below what the Commission saw as minimally adequate.

Here however our concern is with child income support, where the Commission did not in fact identify a minimum adequate level of payment.[21] Instead, it recommended that the real value of children's allowance/Child Benefit be maintained and improved, that an age supplement for children over 12 and a supplement for large families be introduced in that scheme, and that CDAs be rationalised. The Commission stated that the State should share with parents the cost of rearing and maintaining children, but that those depending on social welfare should, as far as possible, receive a level of support approximating to the full cost of rearing children (p. 12). No attempt was made to estimate what these costs might be, the need for research on this topic being highlighted.

Subsequently, the "costs of children" has been the subject of Conniffe and Keogh's (1988) study analysing household expenditure patterns in the CSO's Household Budget Survey, and of the recent report for the Combat Poverty Agency by Carney *et al* (1994) using the budget standard method. The latter involves selecting and costing a basket of goods and services, reflecting actual expenditure patterns, and presents estimates of the cost of what is termed a "basic minimum budget" per child. The basic minimum standard was found to be considerably higher for older than younger children, and exceeded income support paid through Child Benefit and CDAs in 1992 and 1993 by a considerable margin except for the youngest age group (0-6 years). Conniffe and Keogh's results also suggested that costs were significantly higher for older than younger children, but found substantial economies of scale as family size increased from one to two children (larger families were not covered). As a result, their estimated costs (uprated for price changes) would exceed current support rates for families with one young child or one or two older children, but not for two young children.

[21] Such a minimum per adult dependant, at 0.6 times the personal rate, was specified.

The argument that child income support rates are inadequate for older children, advanced by the Commission on Social Welfare, has thus been a feature of subsequent research, and a higher level of Child Benefit for older children has been identified as a very high priority by the Combat Poverty Agency.[22] A cautionary note needs to be sounded here: these studies neglect the fact that it is younger children who have the greatest impact on the labour force participation of married women, so the indirect costs, in terms of earnings forgone, will tend to be higher than for older children (see Callan and Farrell (1991) for Irish evidence, and Ditch, Pickles and Whiteford (1992) for the UK). Indeed it has been argued in the UK that "If it is particularly desired to help families where one parent stays at home to look after the children then money would be better directed by increasing child benefit for younger children" rather than by making a higher payment for the first child, the structure introduced there in 1991 (Dilnot, Johnson and Stark (1991, p. 29). Given the complex interactions between family size and children's ages and the direct and indirect costs of children, in our view the case for deviating from a flat-rate structure for Child Benefit remains to be made. (On the Commissions's other recommendations, the higher rate of Child Benefit for larger families has been progressively extended and is now payable for the third and subsequent children, while CDAs have been rationalised as seen above).

Moving on from poverty alleviation to the broader aim of providing support to all families with children, Child Benefit is clearly the central instrument (with the abolition of child tax allowances) but evaluation is hampered by the lack of clarity about the nature of that objective: what would constitute success? If the objective is to achieve a sharing between parents and the community of the cost of maintaining children, as the Commission on Social Welfare put it, (which was also the official aim in the UK in implementing the Beveridge Report, reiterated in the mid-1980s reforms there), then what constitutes a "fair share" for each? If the objective is to allow families to spread the costs of child-rearing over the life-cycle, is that to mean a full or only partial smoothing? If full horizontal equity between those with and without children is the aim, questions remain about precisely how equity is then to be defined.

[22] See for example CPA Annual Report 1993 p. 7.

In evaluating the Irish system in these terms, it is thus possible only to look to some pointers, for example how the level of support compares with that provided elsewhere and how it has changed over time. We do not wish to spend long on the Irish system in comparative international perspective since that is the subject of another paper. However it is worth noting that Irish rates of Child Benefit are currently only about half those being paid in the UK, whereas average incomes in Ireland are about 70% of the UK. Further, the UK is not among the more generous EU countries in this respect - particularly for larger families - having regularly failed to up-rate Child Benefit in line with inflation in the 1980s.[23] As far as changes in support levels over time are concerned, we have seen that Child Benefit has risen since 1990 and is now higher in real terms than at the time of its introduction in 1986. However, as McCashin (1988) and Kennedy (1989) have documented, the value of child income support provided through children's allowances and child tax allowances declined sharply from the early 1970s up to the abolition of child tax allowances in 1986, as the value of the latter fell steadily.[24] For middle and upper-income families, the level of support provided currently through Child Benefit falls well short of that available in the early 1970s through the combination of children's allowances and tax relief. (Couples with children will however have been among the beneficiaries of the more favourable income tax treatment of married couples following the 1980 Murphy case, as a result of which both allowances and bands for married couples were made twice those for a single person). This reflects the shift in family income support away from generalised support to poverty alleviation already noted, attributable primarily to the demands on the system to provide support for the increasing numbers relying on social welfare, particularly as unemployment soared.

The possible impact of income support on work incentives have always caused concern among policy-makers, so it is also necessary to evaluate the current Irish system against the implicit objective of minimising such effects. Much has been written on this topic in recent years, in Ireland as elsewhere, but it remains a highly contentious one. The ways in which unemployment and poverty "traps" could be created by the interaction between social welfare benefits, means-tested entitlements such as free health care and reduced rent, and the income

[23] See for example Roll (1991).

[24] See McCashin (1988) Table A1, p. 48, Kennedy (1989) Chapter 5.

tax and PRSI contributions systems, have been highlighted, for example in a series of reports by the NESC. Concern about these effects gave rise to the setting up of a Expert Working Group on Integration of the Tax and Social Welfare Systems last year, which has already produced an Interim Report. It is not possible to do justice to this complex topic in the space we can devote to it here, but a number of findings of recent research merit emphasis.

In the context of this conference, it is worth highlighting the key role which child dependant additions can play in producing a situation where someone can be "better off on the dole". Since wages do not take someone's family responsibilities into account but social welfare programmes do, the "replacement ratio" - the ratio of income out of work to that in work - is most likely to be a barrier to taking up employment where there are children. The recent study of basic income schemes by Callan *et al* (1994), commissioned by the Working Group, includes an analysis of replacement rates for the unemployed in the 1987 ESRI household survey, comparing social welfare cash receipts when unemployed with after-tax (predicted) earnings. This showed that about 10% of the unemployed had replacement rates of between 80% and 99%, and 0.6% had rates of 100% or over. The unemployed who were married with children had the highest replacement rates: one-quarter had replacement rates of 80% or higher, compared with 11% of those married without children and hardly any single persons.[25] The proportion of the unemployed with such high replacement ratios is likely to have fallen since 1987, but those with families are still most likely to have high rates. As Callan *et al* discuss, improvements in FIS and reductions or exemptions in income tax for low-income employees with children have tended to improve the in-work income of those with potentially high replacement rates, but the special increases in the rates of social welfare paid to the long-term unemployed will have worked in the other direction: the extent to which the unemployment trap has been ameliorated depends crucially on how fully FIS entitlements are taken up.

FIS is explicitly designed to promote the incentive to take up or stay in work for those with dependent children, in effect offsetting the loss of CDAs by supplementing the earnings of those in low-paid employment. The effectiveness of FIS, as the instrument which is intended

[25] Callan et al (1994) Table 5.3, p. 56.

directly to promote work incentives, is however compromised by the difficulty of ensuring that those entitled to the benefit take it up, and the high tax plus benefit withdrawal rates facing those who do claim. Callan *et al* show that if one could assume full take-up of FIS, the proportion of the unemployed facing replacement rates of 80% or higher would have declined sharply, to about 4%, by 1993/94. However, the available evidence (Callan and O'Neill 1994) suggests that the rate of take-up for the scheme remains low, despite the increase in expenditure and numbers in receipt since 1987. A more realistic assumption, based on Irish and international evidence, appears to be that only perhaps one-third of those entitled to FIS are in receipt. On that basis there has still been some improvement since 1987, but high replacement rates for the unemployed have not been eliminated. Further, the amelioration of the unemployment trap has been accompanied by a worsening of the "poverty trap", as more of those in work face marginal tax plus benefit withdrawal rates of 80% or more.[26]

Currently someone with four dependent children (and dependent spouse) who moves from Unemployment Benefit or Assistance into a job "loses" £53 per week in CDAs, as well as their individual payment and the adult dependant addition, while retaining about £21 in Child Benefit. For those on social welfare, the composition of child income support in terms of these two elements has not changed since 1986, with CDAs accounting for about 72%.[27] Recognition that reliance on the means-tested element exacerbates unemployment traps has so far led only to the introduction of another means-tested scheme, FIS, which faces the difficulties already described. In addition, the loss of entitlement to non-cash benefits, including the medical card for free General Practitioner care and prescription medicines, may be particularly serious for those with children. The impact may be more on who is unemployed than on the overall numbers unemployed, but is still of great concern given the consequences for children of their parents being trapped in unemployment.

The child additions to the income tax exemption limits, introduced in 1989, are effective in

[26] See Callan *et al* (1994) Table 6.3, p. 67.

[27] A recipient of long-term UA with 2 dependant children received 72% of their child income support from CDAs and 28% from Child Benefit, compared with 74%/26% in 1994; for someone with 4 children the 1986 figures were 71% for CDAs and 29% for Child Benefit, compared with 72%/28% in 1994.

boosting low incomes and "increasing the reward for work". However this is achieved at the cost of increased marginal tax rates once one does come into the net, now persisting over a very wide range and affecting many tax-payers, due to the operation of "marginal relief". The exemption limits for those with children are now much higher than their personal tax allowances, and those coming into the tax net have to pay tax on income in excess of the allowances, not the amount in excess of the exemption limit, so they face an initial marginal relief rate considerably higher than the standard rate. Until recently this rate was 48%: it was reduced in the 1994 Budget to 40%, but with the implication that it would be payable over a much wider range of income. This illustrates the way in which changes intended to promote work incentives often have the effect of shifting high effective tax rates from one part of the income distribution to another, rather than eliminating them. Similarly the recent change in PRSI contributions for the low paid, whereby earnings below £173 per week were exempt from the employee contribution, had the effect of creating a "kink", whereby someone whose gross earnings rise from just below to just above the exemption cut-off will be worse off in net terms because they now have to pay PRSI on their *full* earnings.

Finally, we come to the impact of child income support on the distribution of income within the family and the position of women. Child Benefit is the only direct payment made by the social welfare system to most women working in the home, and is the only independent income for many of these women. (The relatively generous income tax treatment of married couples, already noted, does not directly affect the resources available to women who are not themselves earning). Child Benefit, although it has increased in real terms in the 1990s, remains low relative to that paid in a number of other EU countries. There is scope for confusion about the role of Child Benefit in the context of the position of women, however. Child Benefit is paid to mothers, but with the clear intention is that it be spent on children. Indeed it is often argued that Child Benefit is especially effective in improving the situation of children because it is in fact generally devoted to them, and that payment to the mother helps to ensure that this is the case. (The evidence for Ireland presented in Rottman (1994) lends some support to that view, though it suggests that Child Benefit is often spent on general household expenses such as groceries, from which the children are likely to benefit, as much as on specifically child-related items such as clothing.) Channelling Child Benefit through the mother can be seen as an important recognition of the role of women as mothers:

it was not intended to increase women's access to resources in their own right and on their own behalf. If one's aim is to provide women without an independent source of income with such an income, then that is a separate task best tackled on its own merits and in its own way. Nonetheless, the fact that it is paid to the mother distinguishes Child Benefit from other forms of child income support such as tax "breaks" and FIS, strengthening the position within the family of mothers without other sources of income.

6. Policy Options

Our analysis to date has given a picture of the performance of the Irish child income support system in meeting the often-conflicting objectives discussed earlier. In this section we briefly consider the advantages and disadvantages of a number of different options for reforming the system, and consider in more detail two options which would fundamentally restructure child income support around a higher level of Child Benefit.

Reintroducing child tax allowances would promote horizontal equity between taxpayers with and without children, but does nothing to help those not paying tax. As far as incentives are concerned, it would reduce the tax burden on those with children who take up employment, but the effects are unlikely to be substantial. It is also regressive in the sense that those paying tax at the higher rates gain most, and will not directly benefit women not working outside the home (since it is the tax bill of the husband which will be reduced). (The degree of regressivity would be less if a tax credit structure was adopted, whereby all taxpayers receive relief at the standard rate).

Increasing child dependant additions to social welfare payments (CDAs) would be effective in directing resources to those on low incomes, though only those not in work (even the non-means tested social welfare schemes are effective in these terms, it should be noted); it would not assist those in work on low incomes, and would worsen unemployment traps in that a higher payment would be forgone on taking up work; it would not contribute significantly to horizontal equity throughout the distribution; it would directly benefit only those women who are in receipt of (full or half rate) CDAs.

Increasing child additions to the income tax exemption limits assists only those just in the tax net at present, and can worsen poverty traps in that those who become exempt may face high tax rates on any additional earnings which brought them into the tax net (due to the operation of marginal relief); it would not contribute significantly to horizontal equity throughout the distribution, and would not directly benefit women in the home.

Improving and extending Family Income Supplement affects only those at work on low earnings, and can produce high marginal tax and benefit withdrawal rates and thus poverty traps; given the apparent extent of non-take-up of entitlements, it may not be effective in reaching even the limited group at which it is aimed; it does nothing for "the poorest", little for horizontal equity throughout the distribution, and nothing for women in the home.

A system of Earned Income Tax Credits (EITC), like the recently extended US system, is sometimes seen as an alternative to FIS. Recent changes to the US system have greatly increased its complexity, but the essential elements are a payment which rises with earnings up to a certain limit, and a reduction in that payment for earnings above another limit. A key point is that the level of income support provided by the EITC is well below that provided by FIS. This makes it possible to have a lower rate of benefit withdrawal - about 20 per cent under EITC as against 60 per cent under FIS. But a lower rate of income support to families in low income employment would tend to worsen the "unemployment trap" phenomenon.

Increasing Child Benefit meets the objectives of assisting the poor and helping those with children throughout the distribution, and does not add to disincentives to take up work or to earn more (since it will be paid whether someone is in or out of work, and irrespective of the level of earnings if in work); it also directly helps mothers of dependent children (whether working outside the home or not) since the payment is generally made to the mother rather than the father; it is not particularly well-targeted in terms of concentrating resources on the poor, though, and a substantial increase in the payment rate would be costly, precisely because the payment covers all children.

While there may be some scope for policy improvements at the level of individual schemes, a more integrated, structural approach to reform may offer greater improvements. Here we discuss two structural reforms along these lines. The first option is a consolidation of all child income supports into an increased Child Benefit, at a level sufficient to compensate for the abolition of child dependant additions, child additions to the income tax exemption limits. This can also be seen as a "basic income for children". This option would involve an increase in the rate of child benefit from the current levels to between £75 and £80 per month; abolition of CDAs and child additions to the income tax exemption limits; and the reduction of FIS to a very minor, residual role for those with earnings under about £150 per week. While the abolition of CDAs would provide substantial resources for this change, a net increase in the volume of resources for child income support would be needed. Analysis using the ESRI tax-benefit model suggests that it could be financed by an increase in the standard tax rate from 27 per cent to 34 per cent (Callan, O'Donoghue and O'Neill, 1994). This would involve substantial redistribution from individuals and families without children to those with children; some, but not all, of this redistribution would be from individuals at one stage of the life-cycle to those at another stage.

An alternative way of restructuring the child income support system would seek to recoup some of the cost of this change by including Child Benefit as part of taxable income. We refer to this as an *integrated child benefit*. It is important to be clear what this would and would not mean. First of all, the full increased benefit - at a rate of about £18 per child per week - would continue to be paid without deduction of tax to the main carer - often women working in the home. Second, since it could be financed by an increase of about three and a half percentage points in the standard tax rate this option would limit the extent of the redistribution from childless people to those with children. Third, relative to a "basic income for children" this policy would restrict the gains of high-rate taxpayers with children.

Either of these options would all but eliminate the low income poverty trap because of the virtual elimination of FIS. Each would also have favourable effects on the balance between income in work and income when unemployed for families with children, as shown by analysis using the ESRI tax-benefit model (Callan, O'Donoghue and O'Neill, 1994, Chapter 6). Because the increase in Child Benefit is offset by the abolition of CDAs they would not increase total child income support to those relying on social welfare. As a consequence of

Ireland's declining birth rate the number of children is set to fall in the coming years, which would give some scope for increased payment levels without an increase in total expenditure, and economic growth should in any case provide more room for budgetary manoeuvre. In that context one could envisage the role of CDAs being reduced over time while total support for children dependent on social welfare was increasing.

7. Conclusions

Having examined the way in which family income policy was formulated in Ireland from the introduction of children's allowances in 1944 to 1988, McCashin concluded that

> "Successive Governments have made policy decisions without an overall strategy and without coherent responses to the reports and studies available to them" (1988, p. 24).

Focusing on the period since the Commission on Social Welfare reported in 1986, an evaluation of child income support policy would have to amend this judgement to take into account the fact that the Commission's recommendation have been influential and have provided some strategic basis for policy from one year to the next. However, this has primarily been reflected in the rationalisation of the myriad rates of child support paid by various schemes in the mid-1980s. While undoubtedly welcome, this cannot be seen as a coherent strategy for developing the structure as a whole. From one year to the next the emphasis has shifted from Child Benefit to CDAs and back again, child additions to the income tax exemption limits have been introduced and increased, and FIS expanded, apparently without a clear and consistent picture of an underlying structure towards which the system is being developed.

We have in this paper assessed the extent to which the current structure of child income support meets (what we take to be) its objectives. The scale of the demands currently being made on the system need to be emphasised and its effectiveness assessed in that light. Nonetheless, the substantial risk of poverty for children, the unemployment and poverty traps associated with the current transfer and tax systems, and the quite limited contribution the state currently makes to sharing with parents the costs of children, suggest that another look at the structure is required. It may not be possible with the resources available to meet each of the objectives, in which case policy needs to be based on an acknowledgement of the trade-offs and on choices as to the balance to be struck. Some room for manouevre will be provided over the next few years by the declining number of children in the population and the fruits of economic growth. Some options for comprehensive restructuring of child income support have been put forward here revolving around a greatly enhanced role for Child Benefit. Making *ad hoc* adjustments to the system, such as marginal increases in Child Benefit, rather than deciding what the structure of child income support should be and working towards that over time, will represent another wasted opportunity.

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