CHAPTER 2: CIS POLICY - RATIONALE AND OBJECTIVES

The aim of this chapter is to establish the broad public policy objectives underlying programmes which deliver income support to families with children. It asks if these objectives remain valid and if they are consistent with overall Government objectives and the objectives in the Statement of Strategy of the Department of Protection. It also asks if the objectives are consistent with other public policy programmes that provide income and other supports to families with children. Finally, it seeks to establish how CIS policy and programmes interact with the broader strategy to reduce child poverty in particular, through ensuring the maintenance or improvement of work incentives.

2.1 Objectives of CIS spending programmes

What are the broad public policy objectives underlying programmes which deliver income support to families with children? We firstly identify objectives at programme level and use this and other sources to draw broader CIS policy objectives (Section 2.2).

2.1.1 CB objectives

Introduction and evolution of children's allowance payment

Although the CB scheme only exists since 1986, an insight into its historical antecedent, the Children's Allowance (CA) payment, introduced in 1944, can be gained from the then Minister's second stage speech: *"the purpose … is to provide means of assisting in the alleviation of want in large families"*.[12] The Minister ruled out a social insurance based payment which would be based on a person's contribution record on the grounds that the scheme would then only cover about half of the population. He also ruled out the introduction of a means test on a number of grounds, which included the need to avoid the stigma of charity that could be associated with such payments, obviating the considerable intrusion in the financial affairs of large numbers of families and minimising an increase in administrative costs which at the time would be very substantial and would, according to the Minister, in effect, be as great as the costs of the payments themselves. The decision to

[12] *Dáil Éireann -Historical Debates, Volume 92,* Children's Allowances Bill, 1943, Second Stage**,** 23 November, 1943, Minister for Industry and Commerce.

introduce a payment which was not means tested was therefore made not on grounds of a commitment to the principle of universality *per se* but to more pragmatic considerations such as the enormous administrative costs of targeting as well as the empirical observation that poverty was more likely to be experienced in larger families. An element of overall targeting was obtained through the operation of an income tax 'clawback', which meant that any person receiving CA in respect of a child resulted in the tax allowance for that child being reduced. This feature was, however, abolished over time. The universality of the payment has remained an important part of the landscape since its introduction.

The CA payment was initially payable in respect of third and subsequent children but this was extended over time to cover all children (second child, 1952; first child 1963). The increase in the coverage of the payment seems to reflect a changing perception of its objectives, particularly during the 1960s. The extension of the payment to the second child in 1952 was explicitly linked with the abolition of food subsidies in that year and *"the compensation that needs be given in necessitous cases",* [13] appearing to confirm the original rationale behind the scheme. On the extension of all CB to all children in 1963, no similar reasoning was provided and an indication that the Government saw the payment as having a much broader role was given by the Minister for Social Welfare in 1965 when he said that: "*Children's allowances are designed … to reduce the disparity in the standard of living … between the man with a family to support and the man with a similar income and no dependent children. The children's allowance scheme is complementary to the provision of tax free allowances under the income tax code. It is a more simple and more sensible thing to do to pay children's allowances without a means test rather than to apply an expensively administered means test and increase tax free allowances for income tax purposes."*[14]

Introduction of child benefit payment

The Children's Allowance payment was replaced in 1986 by Child Benefit (CB). The change also took place in the context of improved payment levels and the abolition of child tax allowances in the income taxation code. The Minister on the second stage of the bill tended to emphasise the continuity with the previous scheme reflecting the fact that the payment was absorbing child tax allowances previously available to tax payers and thereby consolidating income support for children generally into the CB payment as part of a general reform programme. The Minister observed that *"the purpose of the scheme will be to provide as much cash support to mothers as possible in one single payment. However, it will*

[13] *Dáil Éireann -Historical Debates, Volume 130 -,* Financial Statement, Budget 1952, 02 April, 1952, Minister for Finance.
[14] *Dáil Éireann -Historical Debates, Volume 217 -,* Social Welfare Bill 1965, Second Stage, 07 July, 1965, Minister for Social Welfare.

not be possible for administrative and technical reasons to introduce, as originally intended, a fully taxable scheme in 1986. As a first step, therefore, the Government have decided to introduce a non-taxable scheme of child benefit with effect from April 1986….The new scheme replaces the present children's allowance scheme and also involves the abolition of the child tax allowance of £100 per child under the income tax code".[15] The broad structure of the payment has remained largely unchanged since then.

Previous reviews around the universality of child benefit

The issue of the universality of the payment has been considered in the interim on many occasions. A considerable level of attention has been given to the position of Child Benefit within the overall system of child income support particularly since the early 1980s. For instance, the National Economic and Social Council (NESC) published a report entitled "Alternative strategies for Family Income Support" in 1980 in which the Council commented that *"by helping parents with their vital child-rearing tasks, an investment in the future is being made"* but that for the long-term, *"the possibility of undertaking a complete overhaul of the present systems of children's allowances and child tax allowance should be examined with particular emphasis on the need to help low income families while ensuring that the effect would not disproportionately benefit the higher income families".*[16]

The issue of the nature and objectives of CB was also considered by both the original Commission on Taxation (1982 first report) and the Commission on Social Welfare (1986). The Commission on Taxation emphasised the role of CB in providing support to all families with children and therefore did not favour taxing it: *"There is an argument on grounds of horizontal equity for not charging child benefit to tax. This is because it is properly regarded as a means of discriminating at all levels of income between the ability to pay tax of families with children and those without children to support. Implicit in our argument in favour of a unified child benefit is the view that there should be a constant absolute difference in the tax payable by families with children and those with children to support …. This requires that child benefit be untaxed."*

The Report of the Commission on Social Welfare also emphasized this objective stating: *"We regard it as appropriate that the State shares with parents the costs of rearing and maintaining children … that a contribution is made to the income of all families and full*

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[15] *Dáil Éireann -Historical Debates, Volume 364 - ,* Social Welfare Bill 1986, Second Stage,11 March, 1986, Minister for Social Welfare.

[16] Eithne Fitzgerald, *Alternative Strategies for Family Income Support,* National Economic and Social Council, Report No. 47 (Dublin, 1980), p. 16.

provision is made for children in those families without incomes".[17] The possibility that child benefit would be taxed was raised in 1986, when CB was introduced and when the then Minister indicated *"it will not be possible for administrative and technical reasons, to introduce as originally intended a fully taxable scheme in 1986".* Some commentators have favoured a taxable scheme for child benefit (e.g. Callan et al, 2001).

The position of CB was further reviewed in the 1990s. The NESC in its report "A strategy for the nineties" reviewed child income support provisions (defined as CB, CDAs, FIS and child tax additions to the tax exemption limits) and commented that *"an integrated long-term policy in relation to child income support is now necessary for a number of reasons"* . The NESC noted that *"the desired mix of vertical (from high to low income) as against horizontal (from one type of household to another type at any given level of income) redistribution must be elaborated.* The Council argued that CB was completely horizontal in its distributive impact but that *"the total package of child income support contains a mix of vertical (FIS, CDAs) and horizontal (CB and Child related tax exemptions) redistribution"*.[18] The Child Benefit Review Committee (CBRC), established by the Minister for Social Welfare in 1995 to provide advice in relation to the development of the payment, did not wholly share this view in relation to Child Benefit in that it argued that the CB payment *"fulfilled a number of roles, the most important of which are (1) assistance to all households with children in recognition of the higher costs incurred and (2) the alleviation, without contributing to labour market disincentives, of household poverty associated with children".*[19] The CBRC also identified a number of other objectives. It considered that the alleviation of household poverty associated with children, without adding to labour market disincentives, to be one of the most important objectives of child benefit.[20] In addition, the CBRC reprised a point made when the Children's Allowance was introduced , arguing that the CB payment could be used to give weight to alleviation of child poverty because of the higher rates of payment for larger families where poverty was more likely to be experienced. The CBRC said that the CB payment also fulfils a role of recognition for the work involved in the rearing of children and that this may be particularly important for mothers who are not receiving any other direct payments.

With the increase in female participation in the labour force and the associated rise in the demand for childcare, a role for CB in providing support to all families in a way which did not pre-empt how they would use that support was identified particularly from the beginning of

[17] *Commission on Social Welfare,* Department of Social Welfare (Dublin, 1986), p. 293.
[18] *A Strategy for the Nineties: Economic Stability and Structural Change,* National Economic and Social Council (Dublin, 1990), p. 215.
[19] *Child Benefit Review Committee, Report to the Minister for Social Welfare* (Dublin, 1995), p. 4.
[20] *Ibid.,* Executive Summary, p. 6.

the current decade. In the face of calls for targeted support for rapidly rising childcare costs through, *inter alia*, tax credits, the Government opted initially for significant increases in CB payments and subsequently for the introduction of a new scheme for all children under 6 years of age (Early Childcare Supplement) - supports which would not influence the choice of parents between home or paid childcare. In his financial statement on Budget 2001, the Minister for Finance announced that the objective of accommodating parental choice would drive policy in relation to child income support:*" The House will be well aware of the great diversity of views that are held in relation to addressing the childcare issue. The Government's core objective is to provide support which will offer real choice to parents and will benefit all our children. This we can do through Child Benefit."* [21] He introduced a multi-annual programme of increases in CB which was subsequently followed by the introduction of the early childcare supplement. The ECS extended the universal approach of child benefit but targeted the approach more explicitly at childcare by limiting the payment to parents of children of 6 years or under.

More recently, however, this approach has changed with the replacement of the ECS by a system of direct support for the provision of childcare places. In his Budget 2009 speech, the Minister for Finance stated that*:" universal entitlements irrespective of means do not target those in greatest need. I believe in some cases there is a need to differentiate between those who have and those who have not. I am proposing in the Budget this year to initiate action in this direction in some areas and to promote a wider debate in others".* In the supplementary Budget of April 2009, the Minister announced that CB would be taxed or means tested. The Minister also asked the Commission on Taxation to examine the issue of taxation of CB*...... "I fully expect that the Commission on Taxation will examine options relating to the tax treatment of universal child benefit payments. I look forward to giving careful consideration to any progressive proposals that they may make in this area".*

The Special Group on Public Service Numbers and Expenditure was appointed with a mandate to examine all current Exchequer spending across all Departments and agencies to see where expenditure and staff savings might be made. It reported in July 2009 and recommended a range of cost cutting measures including a reduction of 20% in child benefit rates as a means of achieving savings in excess of €500m in Government expenditure. To this end, the Group suggested the introduction of a standard rate of €136.00 a month for all children.[22] Child Benefit was the subject of further focus when the Commission on Taxation (COT) reported in September 2009. The COT report recommended the taxation of child

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[21] *Dáil Éireann Historical Debates, Volume 679,* Supplementary Budget Statement 2009, 07 April, 2009, Minister for Finance.
[22] *Report of the Special Group on Public Service Numbers and Expenditure,* Department of Finance (Dublin, 2009), Vol. 1, p. 69.

benefit but stated that this approach should be benchmarked against alternatives including means-testing. It also recommended that if CB is taxed, a child tax credit should be introduced to offset the additional tax payable in respect of CB for those on lower income.[23] In the event, the Government decided not to tax or means-test the CB payment but to reduce it by around one tenth and to make compensatory increases in QCIs and FIS.

Finding 2-1: The universal nature of Child Benefit can accommodate multiple objectives

The universal nature of the CB (and previously CA) payment allows it to fulfil a number of different roles and has meant that it can accommodate multiple objective. The balance between these objectives can change over time. It has been seen as providing a contribution to the cost of raising children in all families but particularly in large families where poverty rates might be higher. CB has also been identified as a way in which government can provide support to families with children in a neutral way vis-à-vis participation in the labour market. More recently, the role of CB in providing support towards the cost of childcare while leaving the choice between homecare and paid childcare has been emphasised. There is now also a greater focus on value for money and better targeting which again shifts the focus toward the objective of reducing poverty.

2.1.2 Qualified Child Increase objectives

Qualified Child Increase (QCIs)[24] are paid as child-related supplements to most weekly social welfare payments and have long been an integral part of Ireland's contingency-based social welfare system. They are paid in addition to Child Benefit. QCI payments do not of themselves constitute a specific social welfare scheme but, in effect, seek to ensure that the level of targeted income support is linked with the number of dependents in a household. While the role of QCIs in adjusting social welfare payments for family size might now appear self-evident, this was not always the case. There has been a wide variation in payment rates over time. In some instances, in the early stages of the development of the social welfare system, no child-related supplements were paid with particular benefits:

- The limited unemployment benefit scheme introduced in 1911 did not provide for dependants until it was superseded by a wider unemployment scheme in 1921;
- Sickness benefit under the old national health insurance scheme did not provide any allowance for dependants until it was replaced by Disability Benefit in 1952.

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[23] *Commission on Taxation Report 2009* (Dublin, 2009), p. 250.
[24] Previously known as child dependent additions – CDAs.

The White Paper on *Social Security* in 1949 had proposed that Child Dependent Additions (CDAs – forerunner to QCIs) should be standardised for most payments with the allowance being paid in respect of the first two children. [25] CB, at that time, was payable only in respect of the third and subsequent children. This proposal was implemented in 1952 with allowances for adult and child dependents introduced for two children for all schemes except old age pensions. These provisions were later extended to the third and subsequent children in 1960 while pensioners' dependent children were included from 1964. In reviewing the history and trends in the level of CDAs the NESC noted that *"where child dependent additions were payable prior to 1952, there was no discernible pattern – some were flat rate per child, some declined with family size, and those payable with unemployment assistance varied erratically with the number of family members. The definition of dependent child also varied."* [26]

The introduction of new payments over the years did not, however, lead to a convergence in the arrangements for CDAs. In 1986 the Commission on Social Welfare found 36 different rates and recommended a rationalisation. While considerable early progress in implementing this recommendation was made and the numbers of rates were reduced to three by the mid-1990s, it was not until 2006 that QCIs were in fact consolidated into a single rate.[27]

Finding 2-2: Objective of QCIs

The purpose of QCIs is to adjust the purchasing power of primary social welfare payments according to the number of dependent children in a household.

2.1.3 FIS objectives

Three objectives were given for the Family Income Supplement at the time of its introduction in 1984:

[25] Mel Cousins, *Explaining the Irish welfare state : an historical, comparative, and political analysis* (New York, 2005), p. 39.
[26] Eithne Fitzgerald, *Alternative Strategies for Family Income Support,* p. 45.
[27] There are a considerable number of half rate QCIs but these are paid on the basis of family income rather than an underlying concept that the level of support differs across children.

- Firstly, with the abolition of food subsidies in 1984, FIS was viewed as a form of compensation for the potential drop in living standards for low income families;
- Secondly, FIS was designed as an in-work benefit to preserve the incentive to move from welfare to (or remain in) employment in circumstances where the employee might only be marginally better off than if he/she were claiming other social welfare payments;
- Thirdly, FIS was envisaged as a temporary measure pending the introduction of an overall reform of child income support. This reform plan was not pursued at the time and FIS has remained as a targeted child income support for families on low earnings.

Callan *et al.* suggest that the FIS was introduced at a time when out of work compensation was high relative to potential earnings. This was seen as damaging the incentive to take up employment and official statements emphasised the need to combat labour market rigidities by improving the income position of low income families supported by an employee. They quote from Comprehensive Public Expenditure Programmes, 1984 that *"the main objective of the scheme is to maintain the incentive to work by providing cash supports to workers with families who are on low incomes and as a result are only marginally better off than if they were claiming Social Welfare benefits".* [28]

Addressing the disincentive aspect of unemployment payments was viewed as being particularly relevant for those social welfare recipients in receipt of qualified child increases (QCIs) as these would be lost on taking up employment. The Minister on introducing the scheme to Dáil Eireann in 1984 stated that *"this situation arises partly from the structure of the benefit schemes themselves, which take account of family size, whereas earnings are paid regardless of marital or family status. It also arises through the significant real increases that have occurred in recent years in rates of benefit relative to net earnings. Even though workers on low earnings are often exempted from income tax or eligible for marginal relief, the so-called "poverty-trap" can be such as to reduce the incentive to work in some cases … I consider that the family income supplement will provide a significant level of support for a section of the community whose needs could not be catered for adequately within the scope of the existing social welfare system or the taxation system as currently structured".* [29]

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[28] Tim Callan, Mary Keeney, Brian Nolan, and John R. Walsh, *Reforming Tax and Welfare*, Economic and Social Research Institute (Dublin, 2001), p. 38.

[29] *Dáil Éireann Historical Debates, Volume 348,* Social Welfare Bill 1984, 14 March, 1984, Minister for Social Welfare.

In relation to the other two stated objectives of FIS, while the significance of the loss of food subsidies is long gone, the introduction of FIS as a temporary measure pending the introduction of a comprehensive reform of child income supports has remained relevant. While some changes have been made, and a number of reports and recommendations have proposed changes to the scheme, FIS has remained largely intact since its introduction. The Expert Working Group on the Integration of the Tax and Social Welfare Systems[30] having identified the existence of a poverty trap arising from the withdrawal rate of FIS, and a low take-up problem, suggested that an in-work benefit (IWB) scheme would replace FIS and the child tax allowances with a single integrated payment (Child Benefit Supplement). This was also the view of the Commission on Social Welfare. These proposals were not progressed, although changes to the FIS payment have sought to improve its effectiveness. (see Chapter 3 for details). The idea of integrating QCIs and FIS was also considered more recently in a NESC document: *Ireland's Child Income Supports: the Case for targeting*. [31]

Finding 2-3: Objectives of FIS payment

FIS was introduced as an in-work benefit in order to preserve the incentive to move from welfare to (or remain in) employment in circumstances where the employee might be better off than if he/she were claiming other social welfare payments. More recently, the role of FIS as a support to low-wage employment families with children has been emphasised.

2.2 Consolidated objectives of CIS policy

Ireland's main child income support instruments emerged at different times in response to different needs. For much of their early history, it can be argued that they lacked both a coherent architecture in terms of their overall objectives and a precision around basic concepts such as the level of support to be provided and the way in which it was to be provided (as is evident in the fact that up until the 1980s, support to families with children was provided through both the tax and benefit systems).

However, a greater coherence has emerged in the last thirty years, particularly in response to labour market developments. While remaining separate, it is arguable that the three main payments began to be considered as part of a broader child income support strategy. For instance, both universal instruments (tax allowances for children and children's allowance) were consolidated into one Child Benefit payment in 1986; the rates paid for child dependants started to converge from the late 1980s even if a single QCI rate was not

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[30] *Report of the Expert Working Group on the Integration of the Tax and Social Welfare System* (Dublin, 1996), p. 50.
[31] *Ireland's Child Income Supports: The Case for a New Form of Targeting,* National Economic and Social Council, Research Series Paper No. 6 (Dublin, 2007).

achieved until 2006; and significant changes were made to the FIS payment in order to improve its effectiveness as an employment support and as a child income support for low-income families.

Perhaps most importantly, Governments since the mid-1990s deliberately altered the balance between CB and CDA/QCIs in order to target additional resources at families with children but avoiding worsening of employment disincentives. There has been significant growth in the rates of payment (CB) and changes in the rules which underpin these schemes (FIS) over the last number of years. As a result, it can be concluded that there are two primary objectives associated with child income support policy and payments.

Finding 2-4: Two primary objectives of child income support policy

The two primary objectives of child income support policy are to provide, through a range of payments, assistance to all households with children in recognition of the higher costs incurred in child-raising and child care in a way which allows choice to parents in how this is undertaken, and targeted assistance to low-income households with children in a way which minimises labour market disincentives or positively contributes to labour market participation in order to reduce poverty in such households.

2.2.1 Contributing to the cost of child-raising ("horizontal redistribution")

Governments of many developed countries provide child income support to all families with children either directly through cash benefits or indirectly through taxation policies.[32] The specific objectives of each country's CIS policies vary considerably and are reflected in the structure of their payments. However, it is likely that underlying such policies lies a general belief that the raising of children incurs significant additional costs for families and that part of this ought to be shared by society at large. The Commission on Social Welfare (1986) addressed this question in an Irish context and, given that the Commission anticipated many of the issues arising for this review, it is worthwhile quoting their views at some length.

Any views about family income supports implicitly rest on assumptions about the role of the State in relation to the family. It could, of course, be argued that the State has no responsibility to children and that this responsibility lies solely with parents. We do not accept this laissez-faire approach; children are also citizens and have rights and needs to be secured. Moreover, the State has for centuries accepted, even at its most residualist, minimal functions in regard to the health and subsistence of children. Nor do we accept the opposite view that the State is fully responsible for meeting the complete needs of all

[32] See for instance Jonathan Bradshaw and Naomi Finch, *A Comparison of Child Benefit Packages in 22 countries,* Department for Work and Pensions Research Report No 174 (Huddersfield, 2002).

children, including those whose families have ample resources. We regard it as appropriate that the State shares with parents the costs of rearing and maintaining children. This does not imply that child income supports are made in a rigorously selectivist fashion to only a small group of low income families but, rather, that a contribution is made to the income of all families and full provision is made for children in those families without income.[33]

The Commission went on to provide the justification for this approach:

- Child income supports help households in balancing income and consumption over their life-cycle. In effect, they help in the distribution over society as a whole of the cost of bringing up the next generation rather than allowing these to be borne by the minority of adults who are raising children at a particular point in time;
- Given that the reproduction of the population and labour force represent social and economic costs for society as a whole, it is economically advantageous to 'collectivise' the costs of subsistence for workers families;
- The importance attributed by many countries to providing support to family units is reflected in an explicit 'family policy'. In Ireland, the role of the family is recognised in the Constitution and in the broader framework of values and traditions which inform social policy. The CSW concluded that *"these values and traditions would demand an acceptable system of family income support".*[34]

According to the Commission's rationale, child income support policies can provide both economic and social benefits. In economics terms, horizontal redistribution is linked with the concept of market failure or "externalities" insofar that there can be a divergence between the private costs of the family in raising children and the social benefits to the population at large from having children.[35] The provision of assistance to all families therefore distributes income from households without child dependents **to** households with children. Such transfers, in effect, redistribute resources across a person's life cycle thus smoothing out their income and consumption. Hence the economic rationale behind child income supports is that they provide 'horizontal redistribution' and 'life-cycle' redistribution. The social role of horizontal distribution is more likely to be based on society's perception of the role of the family in the maintenance and reproduction of society. If the family is perceived as a basic unit within society, then important social benefits are seen to flow from assisting families through income support and/or services even if the nature of this support might change over time.

[33] *Commission on Social Welfare,* Department of Social Welfare (Dublin, 1986), p. 293.
[34] *Ibid.,* p. 294
[35] Anthony McCashin, *Social Security in Ireland,* First Edition (Dublin, 2004), p. 100.

Finding 2-5: Primary policy objective – assistance with the cost of child-raising

One of the key objectives behind the payment of child income supports is to provide assistance to all households with children in recognition of the higher costs incurred in child-raising in a way which allows choice to parents in how this is undertaken. This objective is often defined in terms of "horizontal distribution" insofar as it does not take account of income. While this has been a consistent objective since the 1940s, the specific way in which it is defined has changed from providing support to certain families to more generalised assistance in respect of all families and all children. The precise level of support to all families has not been specifically defined.

2.2.2 Reducing child poverty ("vertical redistribution")

In some countries, including Ireland, the presence of children in a household is associated with a higher risk of poverty for the household.[36] This happens for two key reasons. The first relates to the direct cost of children in a household in that for any given number of children, a household will require a higher level of income in order to maintain parity of consumption with households with no children. This reflects spending on children for everyday purposes such as food as well as other child-specific items such as education etc. The additional income required to ensure parity of consumption is not usually derived on the basis of 'one for one' (i.e. the cost of an adult does not equate directly to the cost of a child) and instead the concept of *"equivalence scales"* is used in order to calculate income on a comparable basis. These are considered later in the review.

The second poverty channel is more indirect. The presence of children, and the need to care for young children in particular, may have a negative impact on the labour force participation decisions of parents and particularly mothers. This may have a negative impact on income from employment and lead, therefore, to a higher risk of poverty.

The impact of these two channels is reflected in the risk of poverty analysis published by the CSO. In its analysis of the 2007 SILC survey, the CSO found that the presence of 3 or more children in a household almost doubled the likelihood that the household was at risk of

[36] For instance, according to CSO SILC 2008, 18.0% of persons in the 0-17 age group were at risk of poverty (60% equivalised income, including social transfers) which was 3.6 percentage points higher than the rate for all persons (14.4%).

poverty[37] while for lone parents with children under 18 years the risk of poverty was 37.6% or about twice the national average.

The link between the presence of children in a household and higher poverty rates highlights the broader role of the State in addressing poverty and income redistribution. The association of children with higher risks of poverty provides the main "vertical redistribution" objective for child income support. Poverty exists in households without children but if the presence of children is likely to place additional pressures on households and increases the risk of poverty, a clear rationale for intervention exists. Clearly if state interventions are to be effective they must address these channels either directly (e.g. through the provision of income supplements to such families) or indirectly (e.g. by either avoiding employment disincentives or improving financial incentives).

Finding 2-6: Primary policy objective - reducing child poverty

Another primary objective of child income support payments is to provide, through a range of payments, targeted assistance to low-income households with children in a way which minimises labour market disincentives or positively contributes to labour market incentives in order to reduce poverty in such households. This objective is linked to the observation that the presence of children is linked with higher poverty risks directly through the costs of child-raising and indirectly through its effect on labour market incentives.

2.2.3 Other CIS objectives

The payment of child-related benefits has sometimes been justified for reasons other than the two identified above. This has particularly been the case with the Child Benefit payment. Indeed, it could be argued that the very nature of a universal payment makes it more amenable to addressing a multiplicity of objectives. It would not be unusual in international terms for family policy and family income supports to have multiple objectives. According to the OECD[38], support is granted for a number of reasons and both the objectives and the nature of support differ markedly between countries. The objectives include providing support to child care, changing intra-household income distribution by providing an income stream to women, and avoiding parental employment disincentives. One objective – namely to encourage the birth of children – is also discussed but is not regarded as directly relevant to the Irish situation.

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[37] CSO SILC 2007, p. 53.

[38] *Benefits and Wages 2007*, OECD (Paris, 2007). The specific focus of the discussion was in relation to support for parental and non-parental care of children.

Minimising parental employment disincentives

Following on from concerns about the high levels of unemployment in the mid-1990s, there was considerable concern that the main method of delivering child income support was adding to the problem. The Report of the Expert Working Group on the Integration of the Tax and Social Welfare Systems (1996) stated "*In our overview of the current system of (child income support) we identified families with children as particularly exposed to "traps" arising from Child Dependent Allowances (which contribute to unemployment traps) and Family Income Supplement (FIS) (which may create a poverty trap at certain income levels)"*.[39] A combination of low potential earnings, large families and a child income support structure relying on targeted payments could in effect mean that some unemployed persons would lose considerable levels of income support if they took up employment. It also implied that if an individual in receipt of FIS were to improve their income above the FIS thresholds, they would suffer a substantial loss of FIS income resulting in a significant employment trap. The recommendations of the group, informed by research by the ESRI, led to a focus on delivering child income support through CB and freezing the level of QCIs (then CDAs). In summary, therefore, facilitating parental employment is not the main objective of child income support. However, child income support is an important part of the system of delivering support to families in ways that avoids disincentives to parental employment and encourages parental employment.

Providing assistance to parents with the cost of childcare

In recent years, the objective of providing direct assistance to families with paid childcare costs has been advanced as a rationale for increasing the level of child benefit. This occurred at a time of rapidly rising demand for childcare places linked, in turn, with the increase in female labour force participation. Short-term limitations on the supply of childcare places, perhaps exacerbated by the impact of more stringent regulatory requirements for providers, led to a rapid increase in childcare costs. While resources were provided to increase the stock of childcare places both directly (through the Equal Opportunities Childcare Progamme) and indirectly (through preferential tax treatment of workplace childcare arrangements), strong arguments were made that the Government should provide demand side supports, primarily through the medium of tax credits for household expenditure on paid childcare.

[39] *Report of the Expert Working Group on the Integration of the Tax and Social Welfare System,* p. 38.

In response, the Government initially increased the level of Child Benefit and subsequently introduced the Early Childcare Supplement for younger children. By choosing a universal payment directed at children in general rather than a payment or tax credit targeted at paid childcare, the Government provided support for all forms of childcare, whether it was purchased or supplied within the family unit. However, developments since then have applied a more targeted approach (abolition of Early Childcare Supplement in favour of the ECCE) and the arguments for seeing CIS payments as an appropriate mechanism for providing general supports for childcare have consequently weakened in favour of a more direct approach.

To what extent does childcare need to be considered as part of this review? Clearly the review does not seek to comprehensively consider the Government's childcare policy.[40] Such a review would have to take into the account the nature of the market failures observed, specific objectives such as that in the Barcelona declaration on targets for childcare places,[41] the type of interventions in the market (demand side supports, supply side supports, tax expenditures and regulatory control of standards), alternative approaches and indicators. However, the review must be mindful of the fact that child income support payments reflect part of a broader strategy to assist parents with the cost of childcare, which can in turn facilitate parental employment and thereby improve household income. This broader strategy is consistent with the two main objectives identified for child income support. In effect, paid childcare can be regarded as one element of the cost of raising children and the effectiveness of child income support in delivering on this secondary objective can be considered in that context. In terms of any recommendations for improving the effectiveness and efficiency of the payments, the impact on this secondary objective might be considered.

Providing independent income for women

It has been argued in the past that the Child Benefit payment provides an 'independent income to mothers' thereby improving the distribution of income within the family. Up until the early 1970s Children's Allowance was formally paid to the father within the family,

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[40] *Value-for-Money Review of the Equal Opportunities Childcare Programme (EOCP)*, Office of the Minister for Children and Youth Affairs (Dublin, 2007).

[41] As part of the open method of coordination, these targets were agreed by EU governments to ensure suitable childcare provision as "an essential step towards equal opportunities in employment between women and men". In 2002, at the Barcelona Summit, the European Council set the targets of providing childcare by 2010 to at least 90% of children between 3 years old and the mandatory school age and at least 33% of children under 3 years of age. See following link http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/592&format=HTML&aged=0&language=EN&guiLanguage=en

although in many cases it was signed over to the mother.[42] Following a recommendation in the report of the Council on the Status of Women Report (1972), the legislation was changed to pay Children's Allowance by default to women - this applied in particular to new claims. The introduction of CB in 1986 saw the completion of this process particularly given that the value of child tax allowances (generally paid through the male breadwinner) were to be subsumed into the child benefit payment. The perception of CB as a payment to women is still popular. In 2009, an Irish Times / TNS MRBI opinion poll reported that *"asked if they regarded child benefit as a special State payment to women in recognition of their role as mothers, 61 per cent said they did while 31 per cent did not; 66 per cent of women took this view while among men it was 56 per cent."*[43] In presenting the social welfare package in the subsequent Budget 2010, the Minister for Social and Family Affairs clarified the thinking behind the payment: *"for many women, (CB) makes it possible for them to work outside the home by helping with childcare costs. And even for women in high income families, it may be the only money that is paid directly to them. The Government therefore decided against withdrawing Child Benefit completely from any family."*[44]

What relevance, if any, have fertility considerations?

It is sometimes argued that since children provide a means through which societies reproduce themselves and sustain economic growth, it is therefore in a country's interest to encourage births. The review has not found any explicitly natalist objectives for child income support payments and in fact, this policy perspective was excluded on the introduction of the Children's Allowance payment in 1944. None of the subsequent reviews of child income support policy have highlighted this as an objective. It would not seem appropriate, therefore, to include this as an objective against which to evaluate the payments.

However, it is worthwhile addressing this question in a different way. In what way does CIS policy make a contribution to broader family policies and in particular decisions by families to have their "desired" number of children? The impact of child and family income support payments was considered by a recent study by the OECD. The study did not rule out some role for public policy in general and cash transfers for families with children in this area of family policy and concluded as follows: "*While fertility rates have declined dramatically over the past decades in all OECD countries, the pace of this decline — and the levels achieved — differ across countries … At the same time, there is also evidence of an important gap*

[42] Up to 90% of CA payments were made to women .
[43] *The Irish Times* -, September 28, 2009.
[4444] *Dáil Éireann Historical Debates, Volume 698,* Social Welfare and Pensions (No. 2) Bill 2009, 10 December, 2009, Minister for Social and Family Affairs.

between desired and observed fertility rates and of an increase in this gap over time ... These changes in childbearing behaviours are partly explained by shifts in the values of individuals with respect to family and gender roles … Tax credits, cash benefits, and support to help families to meet their childcare costs all reduce the direct cost of children, but their importance varies widely across countries. Childcare availability and leave provisions have also the potential of modifying the opportunity costs associated to motherhood. Cross-country analysis suggests that total fertility rates are higher in OECD countries with wider childcare availability, lower direct costs of children, higher part-time availability and longer leaves … estimates … show that transfers to families with children, as well as provisions that allow mothers to better cope with family and career responsibilities all help in removing obstacles to childbearing." [45]

A link between child related payments and higher levels of fertility has been drawn in certain countries. The possibility of such a link in Ireland was discounted at an early stage in the development of these supports and there is no evidence that it has played a direct role in policy making. Nonetheless, in OECD countries more recent policy orientations in relation to fertility have tended to emphasise the role of official policy in allowing families to reduce the gap between desired and actual family size and the role of family income supports in meeting this objective. Therefore child income supports may play a role within the range of measures directed towards meeting this broader family policy objective.

Finding 2-7: Secondary policy objectives

The review identified a number of secondary objectives of varying significance. The delivery of support to families in a manner which avoids disincentives to parental employment is a significant secondary objective. Child Income Support payments have provided assistance with the costs of childcare alongside other costs associated with child-raising (primary objective). This was particularly relevant when the policy response was focussed on supporting all forms of childcare choices. To the extent that policy on child care is now focussed on more directly providing support, its rationale as a support for childcare is weakened. Nonetheless, CIS policy must be mindful of the implications for childcare objectives. The CB payment has also been identified in the past as a means of providing an independent income for women. While fertility has been explicitly excluded as a direct objective of child income support, the international experience indicates that such supports may play a role within the wide range of measures within broader family policy.

2.2.4 CB – horizontal or vertical support?

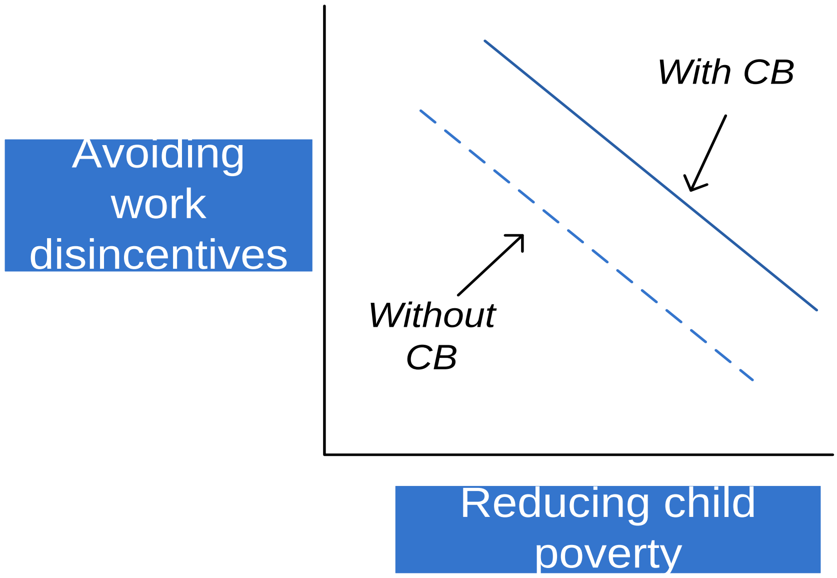
[45] Anna Cristina D'Addio and Marco Mira d'Ercole, *Trends and Determinants of Fertility Rates in OECD Countries: The Role of Policies,* OECD Social, Employment and Migration Working Papers No. 27, OECD (Paris, 2005), pp 4-5.

Clearly, QCIs and FIS play an important role in reducing poverty and thus in vertical redistribution. With the abolition of child tax allowances in the 1980s, it is also clear that CB is the main instrument in horizontal distribution to families with children. It is perhaps tempting to evaluate CB according to its horizontal distribution objective only. This would be inappropriate for two reasons. Firstly, CB payments have a direct impact on the disposable income of all families with children and therefore play a substantial role in bringing up the income of low or no income households in order to reduce the likelihood that they will experience income poverty. While CB payments, viewed in isolation, cannot bring a household with children above the poverty line, they do, in effect, provide an income "platform" on which selective instruments can potentially reach the poverty line; the higher the CB platform, the lower need be the selective instruments.

Secondly, if it is accepted that an essential part of reducing childhood poverty is to ensure that parents can take up employment opportunities, then a CIS payment "package" which is too selective will be counter-productive, though this depends on effective design and implementation. Therefore an important (indirect) role for CB is to deliver support without the disadvantages of selectivity. If these arguments are accepted, it could then be argued that child poverty could be addressed with a CIS package which is purely universal (i.e. through a sufficiently high level of CB) The counter argument is that the universal approach to child income support has considerable "deadweight" costs which must be taken into account (that is, levels of spending which are in excess of what is required to meet stated objectives). In effect, the rate of CB required to reach the poverty line would be considerably higher than any reasonable level of support for wealthier families.

The balance between these arguments shows that as well as having a horizontal redistribution role, CB provides a key ingredient in a mixed package of CIS supports which address the higher risk of poverty in families with children. This is illustrated in Figure 2-1. Higher levels of targeted payments can effectively address poverty objectives but only by worsening work incentives as such payments are withdrawn either on taking up employment or where earnings are high. CB can effectively break this trade-off by providing child income support payments across the work-welfare spectrum albeit with a higher risk of deadweight costs.

Figure 2-1: Illustration of how CB secures better outcomes where there are policy trade-offs



Finding 2-8: Child Benefit payment has a unique role in addressing both primary objectives

As well as providing assistance to all families with children (horizontal distribution role), CB plays a key part in meeting both the cost of child raising and addressing the higher risk of poverty in families with children. CB can effectively reduce the trade-off between equity and efficiency considerations by providing child income support payments across the work-welfare spectrum albeit with a higher risk of deadweight costs.

2.3 Rationale for CIS policy and payments

The evaluation criteria included in the Terms of Reference drawn up according to the VFM and policy review template require an assessment of the **rationale** of child income support or, to put it differently, why a public policy intervention is necessary in a given area. This requires consideration of the public policy objectives of a programme and the reasons for public sector provision or involvement. It is closely linked to the economic concept of market failure. According to the ESRI, market failure can be defined in four ways even though the VfM manual notes that this taxonomy is not exhaustive:

1. **Public Goods:** where a good or service for which it is not possible or convenient to charge all beneficiaries (e.g. the road system). Making it available for one effectively makes it available for many;
2. **Externalities:** where one individual or firm confers a benefit on others but does not reap a reward for providing it;

3. **Redistribution:** where the aim of spending is to deliver what society considers as being a "fair" distribution of wealth and income among its members;
4. **Merit Goods:** these arise if individuals or firms underestimate the personal or private benefits derived from consuming a good or service.

The rationales of most relevance to this review are those associated with redistribution and externalities/merit goods. As might be expected for many income support programmes, the primary rationale lies with the desire to **redistribute** resources across society. This redistribution takes place in a number of ways.

- In the first instance, resources are transferred through the tax system from households without dependent children to those with children. This reflects the fact that households with children require a higher level of income to enjoy a similar standard of living as those without (horizontal redistribution).

- Linked with this channel is the redistribution of income over a person's lifecycle. In effect, a person pays tax at the early stages of their life-cycle (before children) and this is returned in transfers during the period of family formation. Transfers cease after their children have become financially independent.

- The third channel is from well off households to those households with children who are less well off. This is where the rationale for child income support programmes is closest to that for other social transfer programmes. In effect, child income support transfers are used to transfer income from households with higher incomes to those with lower income and in particular to those at risk of poverty (vertical redistribution).

- Finally, Child Benefit represents a transfer to households with children **for the benefit of children in that household** in recognition for the demands involved in child rearing. However because it is made to the mother in most households, in effect it represents an indirect transfer within households (from taxpayer to CB recipient)[46] in the belief that this transfer is in the best interest of children. Given that women are more likely to have lower direct income than men (reflecting inter alia the impact of taking time out of the labour force to care for children) this improves equity in society generally.

[46] It should be noted that the CB recipient can often be a taxpayer in their own right.

The concept of externalities and merit goods also has relevance in any discussion of the economic basis for child income support policies. In the language of public finance, horizontal redistribution is often linked with the concept of market failure or "externalities" insofar as there can be a divergence between the private costs of the family in raising children and the social benefits to the population at large from having children. McCashin states that *"externalities … refer to situations where there is divergence between … private and social costs …. while not always stated in those terms, much of the argument about child income support implicitly invokes this (externality) principle…. There are benefits to society as whole if adults have children, and rear and sustain them. Today's children, according to this logic, are tomorrow's workers, consumers, and producers …. Unless parents are supported with the costs of children the number of children will decline over time, leading to demographic ageing and fewer young people. More generally, it is claimed, societies with declining numbers of young people are likely to be less productive, innovative and dynamic".*[47]

Finding 2-9: Economic rationale for CIS policy – economic redistribution and supporting externalities associated with children

The economic rationale behind CIS is associated with public finance objectives around redistribution and supporting externalities/merit goods. Redistribution takes place in a number of ways: from households without dependent children to those with children; over a person's lifecycle; from well off households to those households with children who are less well off; and an indirect transfer within households (from taxpayer to CB recipient) in the belief that this transfer is in the best interests of children as well as to the woman in that household. Child income supports also provide supports for "externalities" insofar as they address the divergence between the private costs of the family in raising children and the social benefits to the population at large from having children.

2.4 Are CIS policy objectives and rationale still valid?

The evaluation question to be examined in this section is: do these broad public policy objectives underlying programmes which deliver income support to families with children remain valid? Are they consistent with overall government objectives and the objectives in the Statement of Strategy of the Department of Social and Family Affairs? This section will consider whether or not these objectives remain valid by examining if they are consistent with the key Government statements in this area. It will also consider in an overview section

[47] Anthony McCashin, *Social Security in Ireland,* p. 100.

the extent to which Government objectives themselves are likely to remain valid in the light of the current extraordinary economic and fiscal circumstances.

2.4.1 Consistency with broader policy statements

Government policy around child income supports has been articulated in a wide range of documents:

- Government programmes and priorities
- Social partnership agreements
- Departmental mission and strategy statements
- National Strategy on Children
- National Strategy on Social Inclusion

Government programmes and priorities: The Renewed Programme for Government does not directly address the issue of child income supports. The specific commitments in the Government's previous programme are listed in Box 2-1. The programme committed itself to continue the universal approach to providing support to children through increases in Child Benefit (and the Early Childcare Supplement). This broad support for a universalist approach was however combined with a desire to rationalise the system of targeted supports (specifically QCIs and FIS) presumably as a supplement to Child Benefit. The two key objectives identified would appear to be consistent with the Programme for Government.

Box 2-1: Commitments in the Programme for Government 2007-2012 (Child Income Support)

The **Programme for Government 2007-2012** identified a number of commitments in the area of Child Income Support (subject to availability of overall government resources)

"Childcare: Over the next five years we will …. Increase the rate of the Early Childcare Supplement and Child Benefit.

"Tackling Childhood Disadvantage: We will …. increase the rate of the Early Childcare Supplement and Child Benefit, while building on the Qualified Child Allowance.

"Child Income Support: The Government will continue to prioritise the interests of families with children. The Government will .... amalgamate Qualified Child Allowances and Family Income Supplements in order to develop a second tier of income support targeted at the poorest families. Continue to increase Child Benefit."

The revised Programme for Government did not directly address the issue of child income supports.

Social Partnership Agreements: Successive social partnership agreements, in which the Government and the social partners negotiate and agree on issues of economic and social policy, have identified child income support as one of the key areas to be addressed. In this regard each agreement has identified special initiatives to be undertaken over the course of the agreements with the provision of child income support and the ending of child poverty as key priorities.

The Programme for Prosperity of Fairness (PPF) 2000: contained specific commitments in relation to children and stated "*Child Benefit as a key mechanism to reduce levels of child poverty and to provide child income support, will be substantially increased over the period of the PPF, with a priority focus towards €127 per month for the third and subsequent child".*

Sustaining Progress 2003 – 2005: reiterated this commitment in relation to children by setting the objective of reducing and ideally eliminating poverty in Ireland, stating that "*It remains Government policy to meet the target for the lowest SW rates and appropriate child equivalence levels as set out in the revised National Anti Poverty Strategy by 2007.*[48]

Towards 2016, (2006): The (current) Social Partnership Agreement underlined the ongoing commitment in relation to income support for children citing as a priority action "*Progress towards the existing NAPS target for those relying on social welfare payments, which the parties agree remains valid and appropriate – i.e. that the combined value of child income support measures be set at 33% - 35% of the minimum adult social welfare payment rate."*[49]

DSFA's mission and strategy statement: The Department of Social and Family Affair's mission, as contained in its Strategy Statement for 2008 – 2010 is **to** *"promote a caring society through income and other support services, enabling active participation in society, promoting social inclusion and supporting families."*[50] The Statement of Strategy is framed around seven high level goals, the first of which relates to Children and Families: *"to contribute to the well being of children and families through income and other supports and facilitate participation in employment".*[51] The Department pursues this objective through its child income support programmes. Child Income Support is primarily provided by three main social welfare payments Child Benefit (CB), Qualified Child Allowances (QCIs) and the Family Income Supplement (FIS).

Goals 2, and 5 are also relevant (**Goal 2:** To provide income and other supports to people of working age and to facilitate them in taking up employment, training, education or development opportunities; **Goal 5:** To attain better outcomes in tackling poverty and achieve a more inclusive society through the provision of income and other support services

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[48] *Sustaining Progress Social Partnership Agreement 2003 – 2005,* Department of the Taoiseach (Dublin, 2003), pp 65-66.
[49] *Towards 2016 Ten -Year Framework Social Partnership Agreement 2006-2015,* Department of the Taoiseach (Dublin, 2006), p. 45.
[50] *Statement of Strategy, 2008 – 2010,* Department of Social and Family Affairs (Dublin, 2008), p. 6.
[51] *Ibid.,* p. 31.

and co-ordinating implementation of Government strategies for social inclusion). In pursuit of these goals, the following actions contained in Statement of Strategy 2008 – 2010 are particularly relevant:

- Develop and implement appropriate policies to provide a range of income and other supports for children and families,
- Progress towards the achievement of income support targets in the National Action Plan for Social Inclusion,
- Support people on low income with children to take up or remain in employment,
- Extend supports to target disadvantage among school going children.[52]

National Children's Strategy: The National Children's Strategy (2001) includes an objective that "*children will be provided with the financial supports necessary to eliminate child poverty*". The document also acknowledges the significant role played by child benefit in reducing child poverty and supporting the wellbeing of children: *"Child benefit is an important means of reducing child poverty and supporting the welfare of children, given its universal coverage and its neutral relationship to both the employment incentive and decisions regarding family formation".* [53]

National Action Plan for Social Inclusion 2007 – 2016 (NAPS Inclusion): One of the high level goals of the National Action Plan for Social Inclusion is to maintain the combined value of child income support measures at 33-35% of the minimum adult social welfare payment rate over the course of the plan.[54]

2.4.2 Are the stated objectives still valid?

VfM and expenditure reviews seek to examine whether the objectives behind programmes remain valid in the light of a number of Government statements (most notably the Programme for Government, partnership agreements and national anti-poverty strategies). While it is possible to restate these Government statements (as above), the review is faced with a practical difficulty in judging the continued validity of Government statements and therefore in considering whether or not the objectives underlying child income support remain valid. Having reviewed these statements and commitments in the context of the defined objectives underlying child income support policy, two questions are pertinent in considering their validity. Firstly, are the policy objectives consistent with other policy

[52] *Ibid.,* p. 32.
[53] *National Children's Strategy Our Children – Their Lives,* Department of Health and Children (Dublin, 2000), p. 63.
[54] *National Action Plan for Social Inclusion, 2007 – 2016,* p. 33.

statements? Secondly, to what extent do such policy statements need to be interpreted in the light of the current extraordinary economic and fiscal difficulties?

The Programme for Government and other statements would appear to validate broadly the objectives underpinning child income support policy and programmes. These statements support both the provision of supports to all families with children (through CB) as well as the provision of targeted support in order to address child poverty. However a continuing theme running through these documents is the rationalisation of targeted support, possibly through the consolidation of QCIs and FIS in order to secure better outcomes.

The Programme for Government was agreed on the assumption of average growth over the period of the programme of 4.5% per annum.[55] However, according to recent economic projections, GDP is expected to contract markedly. The contraction in output has put a severe strain on the public finances through a collapse in tax revenue and an increase in unemployment related expenses. As a result the Government has announced that measures will be taken over the period of the programme to stabilise the public finances including measures to severely contain spending. This will require reductions in the structural level of public spending, clearly limiting the extent to which some objectives could be achieved. In fact, a number of budgetary measures have already been implemented, particularly related to child income support payments:

- the Government announced the abolition of the ECS payment from 2010 and its replacement with a pre-school Early Childhood and Education Scheme (ECCE) for all children between the ages of 3 years 3 months and 4 years 6 months. A capitation grant will be payable to service providers who provide free pre-school services.
- In Budget 2010, the Government announced reductions in the value of CB alongside compensating increases in QCIs and FIS thresholds.

The review has assumed that, of itself, the severe contraction in the economy and the impact on the public finances does not necessarily undermine the broad objectives underlying CIS policy and programmes although it does suggest that specific commitments need to be reviewed. While the objectives remain valid, in the light of the changing economic environment and the need to curtail expenditure in order to stabilise the public finances, the Government has signalled that the balance between these objectives may have shifted with greater emphasis on the role of targeting resources at reducing child poverty. A specific decision on how this can be accomplished is, however, a matter for the budgetary and estimates processes. The role of the expenditure review process is to consider the structural issues around child income support policy and programmes and how they might

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[55] *Programme for Government, 2007 – 2012* (Dublin, 2007), p. 7.

be reformed to ensure better value for money in achieving their objectives. These are addressed later in the review.

Finding 2-10: Policy statements confirm that both primary objectives remain valid even if emphasis has shifted toward poverty objective

The provision of financial support to families with children is a recurrent theme across a broad range of policy statements. Support is expressed in relation both to support for all families and to support for poorer families. Most policy statements support a mixed strategy towards the provision of benefits (a combination of universal and selective supports) although the precise mix is uncertain given the recent economic and fiscal crisis. Targets which address the adequacy of child income supports emphasise the combined value of universal and targeted payments. The severe economic and fiscal crisis does not of itself, undermine the broad objectives underlying CIS policy and programme. However, it does suggest that specific commitments, especially about the value of universal payments, targets and specific strategies will have to be addressed. While the broad CIS objectives remain valid, the Government has signalled that the balance between these objectives may have shifted with greater emphasis on the role of targeting resources at reducing child poverty.

2.5 CIS policy in a broader public policy context

This section together with Chapter 6, addresses the evaluation questions: are CIS policy objectives consistent with other programmes and how do CIS policy objectives contribute to a broader strategy to reduce child poverty?

2.5.1 Parental employment and disposable incomes

Given the multi-dimensional nature of child poverty, Governments must rely on a wide range of policies and programmes to address it, including policies which are not specifically addressed at children. Income supports (CIS and other) play an important part in this overall strategy given their anti-poverty objective and the significant level of resources allocated to them. In its discussion of reform of CIS, the NESC secretariat noted that *"countries with low child poverty rates tend not to have relied on a 'magic bullet' but on the cumulative* *contributions of a range of policies: good services for children and good adult social welfare payments. They typically achieve low poverty rates for adults as well as children"*.[56]

The conceptualisation and measurement of poverty is addressed in more detail in Chapter 4, so it is sufficient at this point to define as a key outcome measure the "at risk of poverty rate". This indicator is defined by the CSO as *"the share of persons with an equivalised income below a given percentage (usually 60%) of the national median income …. Anyone with an equivalised income of less than (this percentage) is considered at risk of poverty at a 60% level".* Of course, children do not have disposable incomes of their own and the rate of child poverty is determined ultimately by the disposable income of the family unit to which they belong and hence other characteristics, such as income from parental employment and treatment of families by the tax system, are relevant. In effect, children are judged to be in poverty if the family of which they are part is living below the poverty line. Family income is adjusted for family size based on "equivalence scales" so that meaningful comparisons can be made.[57] When it comes to the measurement of poverty, the value of child income support payments is treated the same as other income irrespective of its source.

The gross income of the family is made up of income from employment and other sources as well as social transfers including child-related payments. Net income is what is left as disposable income for the household when direct taxes are taken into account. Even for households in the bottom half of the income distribution, direct income and direct taxes can be significant as can be observed in Table 2-1 which shows the components of disposable income for households with children in the bottom of the income distribution in 2008. In deciles 3, 4 and 5 all of which are crucial for defining the headline poverty count, taxes represented 7%, 11% and 14% respectively of net disposable income.

[56] *Ireland's Child Income Supports: The Case for a New Form of Targeting*, p. 11.
[57] For instance, two households with the same income can only be properly compared if they have broadly similar composition of adults and children and equivalence scales allow for this. In line with international practice, the CSO divides disposable household income *"by the equivalised household size to calculate the equivalised income for each individual, which essentially is an approximate measure of how much of the income can be attributed to each member of the household."* (CSO, SILC, 2008, p. 98)

Table 2-1: Components of disposable income for lower income households, 2008

Decile	1	2	3	4	5	Total
Weekly threshold (€)	<€437.32	<€578.26	<€751.24	<€965.24	<€1138.60	Households with Children
Average Weekly Household Income	€	€	€	€	€	€
Total direct income (see note)	69.42	167.72	352.57	593.79	766.74	1,135.88
Total social transfers	239.25	336.48	308.23	266.73	295.09	235.45
- Child related transfers (see note)	49.62	73.82	92.37	96.40	81.25	77.79
- Other social transfers	189.63	262.66	215.86	170.33	213.84	157.66
Total Gross Income	308.67	504.20	660.80	860.51	1061.83	1,371.33
Total Tax and Social Contributions	-8.90	-13.30	-42.58	-87.97	-130.17	-271.27
Net Disposable Income	299.77	490.90	618.22	772.54	931.65	1,100.06
Percent of net disposable income						
- Total direct income	*23%*	*34%*	*57%*	*77%*	*82%*	*103%*
- Child related transfers (see note)	*17%*	*15%*	*15%*	*12%*	*9%*	*7%*
- Other social transfers	*63%*	*54%*	*35%*	*22%*	*23%*	*14%*
- Total Tax and Social Contributions	*-3%*	*-3%*	*-7%*	*-11%*	*-14%*	*-25%*
Memo items:						
Persons per household	*2.30*	*3.18*	*3.72*	*3.76*	*3.98*	*3.73*
- Children <18	*1.8*	*1.8*	*1.9*	*2.0*	*1.9*	*1.9*
- Adults 18+	*1.2*	*1.7*	*2.1*	*2.1*	*2.4*	*2.2*
Estimated Risk of Poverty Line for average household size in decile	*415.52*	*489.18*	*555.40*	*567.27*	*611.47*	*572.80*

Source: Derived from data provided by CSO using SILC 2008

Notes: Total direct income includes employment, self-employment income, employers social insurance contributions and other income. Child related payments refer to Child Benefit, FIS, back to school allowances.

Transfers from family and child related allowances (mainly child benefit and FIS) accounted for just 19% - 25% of total household income for households with children in the bottom half of the income distribution. This is less than employment income for each of these deciles and considerably less than income from other social transfers. In fact, for households in the fourth decile, child income supports only serve to offset the negative impact of direct taxes and social insurance contributions while the percentage value of such payments on household income is more than offset by the effect of taxes. This is significant, given that child tax allowances were abolished in the 1980s and replaced by an increase in the value of the Child Benefit payment. We can conclude that CIS policy and spending can have a partial impact only on reducing child income poverty. This was the reason that the NESC secretariat concluded that *"ensuring parents can earn without sacrificing their caring responsibilities remains the single best route to keeping children from poverty …. Adult welfare payments* *influence 'children's incomes' as much**, or more**, than child income supports"* (emphasis added).[58]

CIS policy and programmes therefore present only one part of an overall comprehensive strategy for the public finances in addressing child poverty. Such a broader strategy would include a focus on the following:

- Income support arrangements for adults with child-caring responsibilities;
- Direct taxation arrangements given their impact on the incomes of families with children,
- Employment support and activation programmes for parents including measures to ensure that parents can combine work and child-caring responsibilities, especially for low-income families.

A direct examination of these wider questions would go well beyond the scope of the current review, but it suggests that a number of questions outside the immediate scope of the review need to be borne in mind, namely: the role of working age income support payments in addressing poverty in households with children; the interaction of the income support and taxation systems with family incomes especially at lower income levels; and the impact of the income support system on broader socio-economic factors, such as work incentives and childcare, which determine parental employment and incomes.

Finding 2-11: Income support only one part of a strategy to address child poverty

The provision of effective and efficient supports to families with children is only one part of an adequate and comprehensive strategy for addressing child poverty. Reducing child poverty requires a multidimensional approach focussing on parental employment incomes with back-up from appropriate child income supports.

2.5.2 Provision of child-related services

Poverty is a complex and multidimensional problem, in which income poverty is only one, albeit important, dimension. Access to child-related services provides another avenue through which the state can improve the welfare of children in poverty. This issue is a

[58] *Ireland's Child Income Supports: The Case for a New Form of Targeting,* p. 20.

crucial element of an effective strategy to address child poverty and this was a recurrent theme through many of the submissions gathered as part of the consultation process (Chapter 9). A comprehensive assessment of how child poverty is to be addressed should include consideration of those services. Such comprehensiveness is beyond the scope of this review but it may be helpful to put income support outcomes in a broader context of access to services.

An overview of the issues raised in a comparative context is considered in a regular "report card" produced by UNICEF. The report card combines indicators for a large number of OECD and non-OECD countries across a number of aspects of child well-being and monitors it on an regular basis. It was last published in 2007 using data from earlier years. The report gathers data from a range of high-level objectives related to child welfare (material well-being, health and safety, educational well-being, peer and family relationships, behaviours and risks, children's subjective well-being in areas such as health, personal satisfaction and education). Scores are calculated from national data and aggregated to produce a summary report card.[59] Table 2-2 reproduces the overall ranking table published in the report for 2007. It shows that on the aggregate score, Ireland achieves a mid-table ranking amongst 21 developed countries. (The Netherlands was the country with the best ranking while the UK was weakest). These rankings mask a considerable variation across the different dimensions. In fact Ireland achieved relatively high rankings in the dimensions of behaviours and risk (4th), subjective well-being (5th), educational well-being and family and peer-relationships (7th position). However, Ireland was close to bottom in material well-being and health and safety (19th position in both).

[59] UNICEF, *Child Poverty in Perspective: An overview of child well being in rich countries, Innocenti Report Card 7, 2007,* UNICEF Innocenti Research Centre, (Florence, 2007).

Table 2-2: Summary ranking of child well-being indicators in developed countries

	International ranking position for selected indicators						
	Average ranking	Material well-being	Health and safety	Educational well-being	Family and Peer relationship s	Behaviours and risks	Subjective well-being
Netherlands	4.2	10	2	6	3	3	1
Sweden	5.0	1	1	5	15	1	7
Denmark	7.2	4	4	8	9	6	12
Finland	7.5	3	3	4	17	7	11
Spain	8.0	12	6	15	8	5	2
Switzerland	8.3	5	9	14	4	12	6
Norway	8.7	2	8	11	10	13	8
Italy	10.0	14	5	20	1	10	10
Ireland	10.2	19	19	7	7	4	5
Belgium	10.7	7	16	1	5	19	16
Germany	11.2	13	11	10	13	11	9
Canada	11.8	6	13	2	18	17	15
Greece	11.8	15	18	16	11	8	3
Poland	12.3	21	15	3	14	2	19
Czech Rep.	12.5	11	10	9	19	9	7
France	13.0	9	7	18	12	14	18
Portugal	13.7	16	14	21	2	15	14
Austria	13.8	8	20	19	16	16	4
Hungary	14.5	20	17	21	12	20	20
US	18.0	17	21	12	20	20	-
UK	18.2	18	12	17	21	21	20

Note: OECD countries with insufficient data to be included in the overview: Australia, Iceland, Japan, Luxembourg, Mexico, New Zealand, the Slovak Republic, South Korea, Turkey. Average ranking is that for all six dimensions.

Source: UNICEF 2007

Finding 2-12: Meeting CIS objectives requires a whole-of-government perspective

There are complementarities and trade-offs between aggregate spending on income support and spending on child-related services and the final impact on child poverty outcomes. Comparative analysis shows that good quality outcomes in one aspect of child well-being do not necessarily translate across the board. The objectives underlying child income supports would benefit from a whole of government approach to the question of child well-being. The review recommends that the objectives of child income support should be understood within the wider context of improving child well-being by allowing families to secure better outcomes for their dependent children. There are already a number of mechanisms in place to facilitate this, most notably the implementation of the national children's strategy and increased attention to child well-being indicators but greater consideration should be given to how child income support outcomes contribute to child well-being.

2.6 Summary

Chapter 2 sets out to establish the policy objectives and rationale for Child Income Support policy and supporting programmes by identifying the objectives underpinning this policy and by examining the origin of the various child income supports and their development over time. Arising from this examination, the review, acknowledging that the main instruments of child income support emerged at different times in response to different needs, concludes that the following key objectives for the range of these payments are: to provide, through a range of payments assistance to all households with children in recognition of the higher costs incurred in child-raising and childcare in a way which allows choice to parents in how this is undertaken; and targeted assistance to low-income households with children in a way which minimises labour market disincentives or positively contributes to labour market incentives in order to improve potential parental income and reduce poverty in households with children.

In addition the review concludes that there are a number of 'secondary' objectives which include: avoiding disincentives to parental employment; providing direct assistance to families with paid childcare costs; and improving the distribution of income within the family by providing an independent income to mothers and thereby increasing the likelihood that a family's income will be reflected in its children's welfare.

Having identified the broad objectives, their continued relevance is then examined in the context of the policy objectives and commitments of the Government as set out in successive social partnership agreements, national anti-poverty and social inclusion strategies and the policy objectives set out in the Strategy Statement 2008 – 2010 of the Department of Social and Family Affairs, with particular reference to three of its high level goals - providing income support, tackling poverty and promoting social inclusion and providing supports to facilitate people taking up employment. On examination of the above key documents, the review concludes that the broad objectives underpinning child income support policy are valid in so far as these documents advocate both the provision of supports to all families with children as well as the targeting of supports to address child poverty. However, while these objectives remain valid, the review notes that in light of the changing economic environment and the need to curtail expenditure in order to stabilise the public finances, the balance between these objectives may have shifted with greater emphasis being placed on targeting resources at reducing child poverty.

In relation to one of the key child income support policy objectives – the reduction of child poverty - the review notes that as poverty is complex and multidimensional it cannot be addressed through income support alone but requires a combination of accessible child related services and parental supports alongside child income support provision. A detailed assessment of the full range of these complex issues is beyond the scope of this review.