



Universalism - the preferred and most effective option

by Brian Harvey

October 2014

Introduction

As Ireland emerges from the economic and social crisis, attention will turn to the future society that the country will build for its citizens, including its children. From the 1930s, European countries have struggled with what is the best way to help children, the most favoured being supports provided for *all* children, called *universalism*.¹ In recent years, especially at times of financial difficulty, arguments have been presented that state supports should be more narrowly focussed on targeted groups of children (*targeting*, sometimes also called *selection*).

Evidence finds that not only do alternatives to universalism present serious, costly practical problems, but that targeting leads to worse results, lower levels of benefits for poor households and reinforces inequality. There is compelling evidence that universalism - in both supports and services - works best. Countries with the lowest rates of child poverty are those which have invested most in both cash benefits and public services for children. It is far more efficient to address the 'richer people benefitting needlessly' argument by increasing income tax - for the tax system is already designed to be and is effective at redistributing wealth. Universalism is also the most effective way to reinforce the rights of *all* children.

Universal services for children

Following the example of continental European countries in the 1930s, Ireland introduced what were called 'children's allowances', a flat-rate payment (1944). The minister at the time wanted to recognise the costs faced by all families in raising children and pragmatically took the view that to administer a means test would impose costs greater than the scheme itself. From 1973, the payment was made to the mother. Children's allowances were re-named 'child benefit' in 1986 and the rate now stands at €130 monthly per child. There are presently 1.16m children who benefit in 611,000 families.

Child benefit is not the only way in which the Irish state has helped children with universal systems. The principal way is primary and secondary education, where the state meets the cost of fees. In recent years, the government introduced the free pre-school year (2010) (cost €175m, 68,000 beneficiaries); and will roll out free GP care for all children under six (announced 2013, cost €37m, predicted 420,000 beneficiaries). Children may also access free outpatient and inpatient health care through the public health system. These are the key components of universalism for children in Ireland. The state has also provided two important, targeted financial supports to help poorer families with children. The first is the Family Income Supplement (FIS) (1984), which provides financial help to families on low pay, the level being calculated according to the number of children (2014 cost, €282m; 44,000 families benefit). The second is a targeted payment to help families in receipt of social welfare payments, the Qualified Child Increase (QCI), a supplement to the basic payment (currently €29.80 weekly full rate, annual cost €674m, recipients 162,650).² Investment in other targeted services include Delivering Equality of opportunity In Schools (DEIS) which provides additional funding to schools which are designated disadvantaged. There are also some subsidised childcare places targeted at parents reliant on social welfare or those

¹ Term originally defined in Titmuss, Richard: *Universal and selective social services*, from Brian Abel-Smith (ed) *Richard M Titmuss' commitment to welfare*. London: George Allen & Unwin, 1967.

² Cost figure: Nevin Economic Research Institute (NERI). The department does not in its annual statistical report publish an overall figure of recipients: the number was extracted from returns under separate claim headings. The number of qualified children was calculated at 369,932 (full-rate) and 132,482 (half-rate) (2013).

moving from welfare into training and employment schemes through a range of initiatives which have tight eligibility criteria. These include the Childcare Employment and Training Support Scheme, the Community Childcare Subvention Scheme, Afterschool Childcare Programme and the Community Employment Childcare Programme.

Ireland in comparative international perspective

Despite these schemes, Irish rates of child poverty have been much higher than our continental European neighbours. Analysts put forward two main explanations. First, the level of Irish cash support for children was historically low by international comparison. Second, child benefit cash payments were the principal support in Ireland, with very few other supports. Other continental European countries developed a much wider range of supports, normally free or at low-cost, such as childcare for 0-3s; pre-school (e.g. *kindergarten* in Germany); school costs; a universal health service free at point of use; social and community-based services. In contrast, Irish childcare costs are, due to lack of or low subsidization, among the highest for parents in the European Union.³ Although Ireland had a universal payment in the form of child benefit, it did not have the universal services to match them. This preference for a cash payment rather than investing in universal services has continued to influence policy for the past 30 years. The Commission on Social Welfare (1986) recommended child benefit be improved to reflect the cost of rearing children.⁴ With continuing high rates of child poverty, the government took the decision to raise the rates of child benefit. From a base of €20 per child in 1990, child benefit rose to €53.98 in 2000, doubling again to €117.60 in 2002, reaching €166 in 2008. Such an investment was rewarded with a modest fall in the level of child poverty (chart 1).⁵

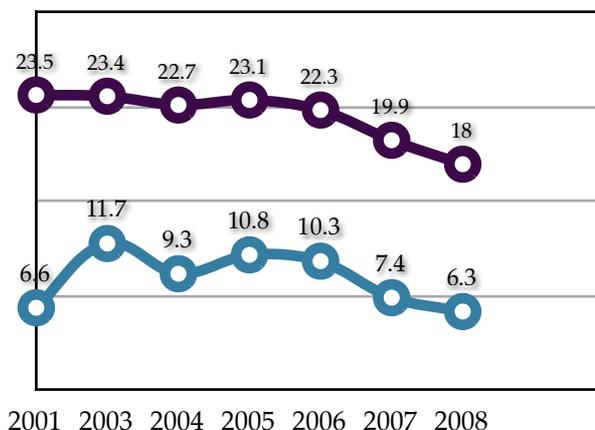
³ Daly, Mary & Clavero, Sara: *Contemporary family policy - a comparative review of Ireland, France, Germany, Sweden and the UK*. Dublin, Institute of Public Administration, 2002. For a further discussion on the role of universalism in European social policy, see Øverbye, Einar: *Deconstructing universalism*. Oslo and Akershus University College, 2012. For the most recent assessment of childcare costs, see RAND Europe: *Use of childcare in the EU member state and progress toward the Barcelona targets*. European Union, 2014; and Eurydice/EUROSTAT: *Key data on early childhood education and care in Europe*. Luxembourg, author, 2014.

⁴ Department of Social Welfare: *Commission on Social Welfare*. Dublin, author, 1986.

⁵ 'Risk of poverty' is defined at households with children whose equivalised income is below 60% of the median, the standard European 'poverty line'; 'consistent poverty' is defined as not only below the poverty line but lacking at least two key household items that indicate deprivation.

Chart 1: Child poverty 2001-8 %

○ Risk of poverty % ○ Consistent poverty %



Two comments on the reduction of child poverty

Child income support payments...lift the income level in all income deciles but particularly those at the bottom and middle of the income distribution. The result is a reduction in the number of households below the poverty line.

- *Value for Money Review*, 2009, p131.

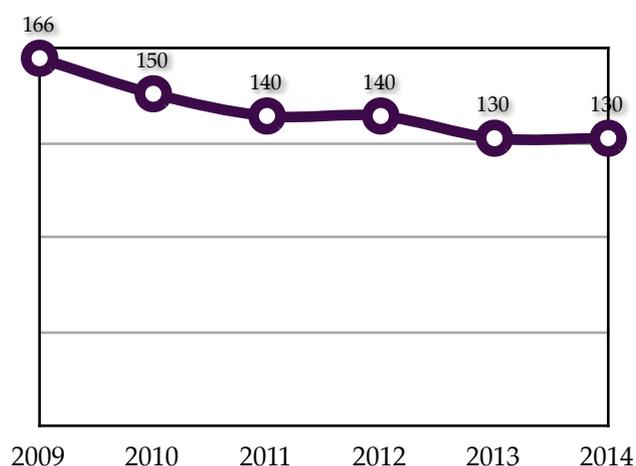
Downward trends in child poverty suggest that the commitment to address child poverty through child benefit increases and increased benefits for adult social welfare recipients did have an impact in reducing income poverty and consistent poverty among children.

- Russell, Helen; Maitre, Bertrand; Nolan, Brian: *Monitoring poverty trends in Ireland 2004-2007 - key issues for children, people of working age and older people*. Dublin, ESRI, Research Series S17, 2010, p116 (minor editing for space).

Child benefit 2008-2014

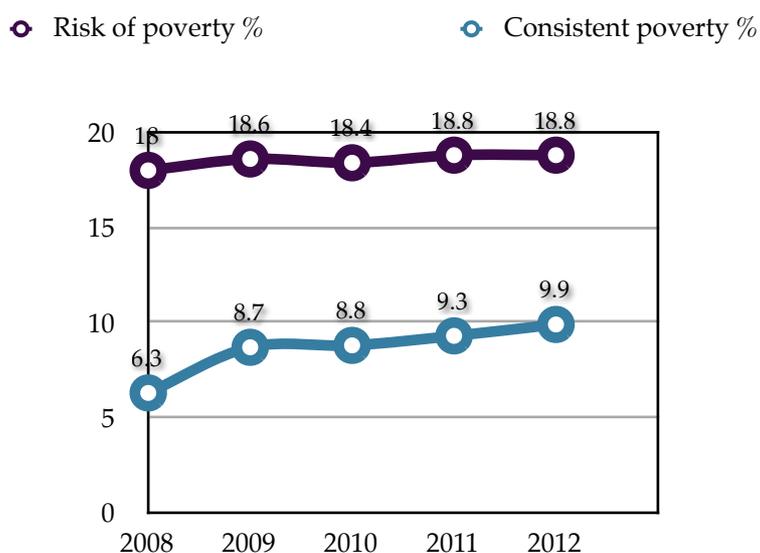
The outbreak of the economic and social crisis in 2008 and the subsequent threat to the public finances meant that all aspects of government spending came under review, including child benefit. From 2010, the government reduced the child benefit rate in successive budgets and standardised the amount, reducing the higher amounts payable to larger families (chart 2).

Chart 2: Child benefit 2009-2014 €



State spending on child benefit fell from €2.5bn in 2008 to €1.9bn in 2014 (-22%). Ireland has a youthful population profile, so the effects across families generally were all the more significant and were disproportionately felt by low income families. Just as investment in child benefit had contributed to a reduction in child poverty, conversely child poverty began to rise again (chart 3).

Chart 3: Child poverty, 2008-2011 %



The government still has a target of reducing consistent child poverty by two thirds by 2020, but with the present trend, this may prove to be elusive. ⁶

National Economic and Social Council on the fall in child benefit

Families with someone in employment experienced a 9% to 12% loss in their income. The losses for earning couples with children are the highest at over 11%, reflecting the cuts in child benefit.

- National Economic and Social Council: *The social dimensions of the crisis - the evidence and its implications*. Dublin, author, 2013, §134, p56.

Alternatives?

The economic and social crisis prompted a reconsideration of the value, approach and performance of universal services generally and child benefit in particular. This was driven by two concerns. First, child benefit comprises a substantial part of the social welfare budget, €1.9bn out of €19.65bn, 9.6% (2014). Second, several experts took the view that at a time of scarce resources, child benefit should be targeted on the more needy (*targeting*) and that well-off homes could manage without. These debates were not new and historically matched those in continental Europe in the 1980s. They re-opened the wider social, political and philosophical debate of *universalism vs targeting*. It led to many reviews of the child benefit system, each tasked with examining options to reform the system. These reviews included:

- The National Economic and Social Council (2007) recommended a basic payment with a second tier payment for those in more need.⁷
- The Commission on Taxation (2009) recommended it be taxable.⁸
- The Report on Public Service Numbers (2009) proposed a reduction to €136.⁹
- The Minister for Finance in his April 2009 supplementary budget announced that child benefit would henceforth be means-tested or taxable from 2010.
- The Department of Social Protection Value for Money (VFM) review (2010) recommended a universal payment and selective supplement.¹⁰
- The Advisory Group on Tax and Social Welfare (2012) recommended child benefit be taxable with a two-tier payment.¹¹

⁶ Department of Social Protection: *Ireland - national social report*. Dublin, author, 2014.

⁷ National Economic & Social Council: *Ireland's child income supports - the case for a new form of targeting*. Dublin, author, 2007, research series paper §6.

⁸ *Commission on Taxation*. Dublin, the Stationery Office, 2009.

⁹ Department of Finance: *Report of the special group on public service numbers and expenditure*. Dublin, author, 2009.

¹⁰ Government of Ireland: *Policy and value for money review of child income support and associated spending programmes*, 2010.

¹¹ Advisory Group on Tax and Social Welfare: *First report - child and family income support*. Dublin, Department of Social Protection, 2012. There were a number of other reviews which are not included here for reasons of space

In sum, four modifications or alternatives to universal child benefit were proposed, not all being mutually exclusive:

- Reduce the rate for all.
- Tax child benefit (either at source or through subsequent re-adjustment of tax liabilities, called 'coding in')
- Means-test child benefit, with either a reduced rate or none at all for higher income earners and probably a tapering rate in between;
- Divide child benefit: a basic payment for all children, with a second-tier payment for needy families. A variation was for the second-tier payment to absorb or replace the Family Income Supplement (FIS) and the Qualified Child Increase (QCI).

The first, an overall reduction in the rate, has been the approach followed by successive governments (chart 2). Fast and simple, it was criticised by the Advisory Group for being grossly inequitable as it has an adverse effect on low-income families without offering any reform. In effect, it is an approach of *reduced universalism without targeting*.

Problems with the alternatives

These alternative approaches, although they have superficial attractions, present many practical problems.

Too late: Targeting has the disadvantage that it targets people only *after* they are in poverty, whereas universal schemes will generally prevent their becoming poor in the first place.

They create poverty traps: Granted the effort taken by governments to eliminate poverty traps in recent years, fresh ones make little sense. The key question is: where does one set the cut-off point for entitlement? If it is set high (e.g. annual household income €100,000), then the proportion of people not receiving the benefit will be small (15% of earning households), outweighing the cost of administering means-testing or taxation. If it is set low (e.g. less than €40,000 per household), then all families with a household income above the €40,000 mark will not get child benefit, 80% of earning households.¹² This would create a sharp poverty trap for families at €40,000 upward into the middle income range. Following the VFM review, the Department of Social Protection proposed a universal child benefit of €100 per child per month (the then rate was €140). Households below a household income of €25,000 would receive a full second-tier payment of €152, but it would taper off in 20% steps above this level (e.g. cut off for a two-parent, two-child household point: €44,870).¹³ This would create a less sharp, but nonetheless real, trap for low to middle incomes. None of the reports made a detailed estimate of the effect of poverty traps and their likely consequences for those just above the entitlement level, but some did say that particular households would be worse off. The advisory group did acknowledge that the taxation of child benefit would lead to a general increase in poverty and disincentive labour market effects for a likely tax gain of €300m.

¹² Figures from Commission on Taxation, *op cit*, p248.

¹³ Advisory group, *op cit*, p22.

Who to tax - mother or father? Taxation presents significant problems at household level: although the payment is made to the mother, it is unclear how the taxation could be collected, granted that the principal taxpayer identified in each household is likely to be the father. These problems will be even more complicated in non-traditional households.

Take-up. Means-tested schemes have much lower take-up than universal schemes. The one means-tested family support scheme, Family Income Supplement, is well known for its low take-up (range 20% to 45%, now 33%) due to its complexity of application (which has 55 questions, requires substantial documentation and involves employer cooperation) and calculation.¹⁴

Administrative costs. There is no detailed costing of the systems for screening, administration, policing, control, appeals, surveillance and enforcement. The Value for Money Review quoted a figure of 500 extra staff required purely to means-test child benefit - at a time when government is committed to reducing public service numbers. There is no prediction or appreciation of the likely rates or consequences of error, inappropriate disqualification and the distress and hardship that might be caused.

The Value for Money review was aware of some of these considerations and accepted that neither taxing nor means-testing child benefit would have a significant effect on child poverty (p260, 262). The review concluded that 'universal approaches are...at least as good as selective instruments in reducing child poverty' (p150).

International comparison

International comparisons are instructive. As noted earlier, universal public services for children in Ireland are much more limited than in continental European countries, so any reduction in Irish cash benefits must be seen in the context of the lack of other supports. Irish spending on family benefit services (e.g. childcare and early childhood education) is estimated around €300m, or 0.3% of Gross Domestic Product (GDP), less than half the average of the Organisation for Economic Cooperation (OECD) countries (0.8%) and far behind Scandinavian countries (1.6%).¹⁵ Ireland's spending on education, 9.7% of GDP, is already significantly below the OECD average of 13%.¹⁶ Scandinavian cash supports for children are actually in the middle range: their low child poverty rates are not so much an investment in cash supports as in early education and child care services.¹⁷

The international experience is that targeting is less effective than universalism. The theory of targeting is that *more* is available for the poor, but the evidence suggests that in practice *less* is actually spent.¹⁸ Whilst this may be counter-intuitive, the evidence comes from the Luxembourg Income Study. This found that the more states targeted welfare, the less they actually spent on welfare. The principal explanation was that better-off taxpayers became less generous about spending on others from which they themselves derived no benefit.

¹⁴ Callan, T; Walsh, J; Coleman, K: *Work, incentives and poverty in Ireland*. Dublin, Economic and Social Research Institute, 2006, Policy Research Series §60, p12; Daly & Clavero, *op cit*.

¹⁵ Value for Money review, *op cit*, 226, 232; see also Department of Children & Youth Affairs: *Right from the start - report on the expert advisory group on the early years strategy*. Dublin, author, 2013, p7.

¹⁶ Department of Education & Skills: *Education at a glance, 2013 OECD indicators*. Dublin, author, 2013.

¹⁷ Callan, T; Walsh, J; Coleman, K: *Work, incentives and poverty in Ireland*. Dublin, Economic and Social Research Institute, 2006, Policy Research Series §60, p45.

¹⁸ Harrop, Andrew: *The coalition and universalism - cuts, targeting and the future of welfare*. London, the Fabian Society, 2012.

Targeted schemes tend to be less generous than universal schemes, making them less effective. In a detailed study in 18 developed countries, analysts compared rates of child poverty against universal or targeted services. There was a double outcome: first, states with universal services delivered the lowest rates of child poverty and second, those states with the most targeted supports for those categories most at risk of poverty had the highest rates of child poverty. Targeted approaches were, certainly for lone parents, notably ineffective.¹⁹

No other European countries have means-tested child benefit and Japan abandoned means-tested child benefit for a universal system in 2005. Nowadays, means-tested child benefit systems are limited to sub-Saharan Africa and Latin America, so in following such a route Ireland would be a European outlier.²⁰ In continental Europe, welfare state systems constructed on universalism, early childhood investment and help to parents score highest on child health, welfare and education as well as most equally across socio-economic groups.²¹

Universalism vs targeting: the international experience

For a set of 26 countries, we find that targeting towards lower incomes is associated with higher instead of lower levels of poverty.

- Van Lancker, Wim & Van Mechelen, Natascha: *Universalism under siege? Exploring the association between targeting, child benefits and child poverty across 26 countries*. Antwerp, Herman Deleeck Centre for Social Policy, 2014.

Countries with low child poverty rates tend to rely on the cumulative contributions of a range of policies: good services for children *and* good child income supports.

- National Economic & Social Council: *Ireland's child income supports - the case for a new form of targeting*. Dublin, author, 2007, Research Series Paper §6.

¹⁹ Brady, David & Burroway, Rebekah: *Targeting, universalism and single-mother poverty: a multilevel analysis across 18 affluent democracies*. *Demography*, vol 49, 2012, 719-746.

²⁰ Ferrarini, Tommy; Nelson, Kenneth & Höög, Helena: *The fiscalization of child benefits in OECD countries*. Amsterdam, GINI, 2012.

²¹ WAVE: *Conception to age 2 - the age of opportunity*; Croydon, author, 2013 (2nd edition) and *The economics of early investment* (appendix 4); C4EO: *Grasping the nettle - early intervention for children, families and communities*; Field, Frank: *The foundation years - preventing poor children from becoming poor adults*. London, HM Government, 2010.

Universalism vs targeting: conclusions

With the 2016 election only 18 months away, this is an important time for government and political parties to reflect on their commitments to children. International evidence is compelling in showing that universal benefits, alongside a broad range of universal services, deliver the best supports for all the children of the nation. The Advisory Group's comments on the value of a universal child benefit are worth citing:

- Child benefit makes a strong societal statement of the value of all children;
- It is easy to understand and administer;
- Child benefit is stigma-free and has a high take-up level;
- No one has ever identified any labour market disincentive effects or poverty traps;
- The level is stable throughout the year, which enables families to budget;
- Being payable to the mother, it has an important role within the household budget.

Voluntary and community organisations bring the perspective, ground truth and knowledge of those working closest with children and should be given weight. Here, universalism is the approach favoured by those organisations most familiar with the situation of children, such as Barnardos and the Children's Rights Alliance. It was the approach most recommended to the advisory group during its period of consultation.

The introduction and expansion of the free pre-school year and GP cover for under sixes are likely, in time, to yield a substantial dividend for children. The GP cover will help end the poverty trap whereby working families on low and middle incomes avoid visits to doctors to have their children treated because they cannot afford it. Overall, Barnardos believes that the evidence speaks for itself: investment in universal supports and services not only has a greater impact on the child directly but also reduces child poverty rates. Notwithstanding, Barnardos recognises that some children, by virtue of their needs and experience of poverty, will always need extra supports on top of universal provision of basic supports and services and such investment is also necessary. This is progressive universalism and has the power to eradicate structural inequalities by creating a level playing field for all children. Many children were left behind by the Celtic Tiger and many more were pushed into poverty for the first time by the crash in 2008. We need to make sure that we do not repeat the mistakes of the past but put in place a comprehensive infrastructure of services and supports to meet all children's needs. We have a good foundation: now is the time to start building on it.

An expert view

Child benefit is the most direct and effective means of assisting all low-income families with children. Unlike most other proposed approaches, it should not entail significant adverse effects on the incentive to work and therefore acts to reduce rather than increase dependency

- Nolan, Brian & Farrell, Brian: *Child poverty in Ireland*. Dublin, Combat Poverty Agency, 1990, p102.