



Investing in the Future: The Role of Child Cash Support in Mitigating Child Poverty

HIGHLIGHTS

Cash support per child ranges from 3.2% to 12% of GDP per capita across the 27 countries of the European Union. Different policy instruments are used through the tax and benefit systems to achieve family support objectives.

Child cash support is a powerful tool in the fight against child poverty: some EU countries achieve reductions in child at-risk-of-poverty (AROP) rate by as much as 16 percentage points thanks to child cash support.

Universal benefits ensure broad coverage, while means-tested benefits are better targeted. However, existing means-tested benefits alone do not provide sufficient support to lift families with children above the poverty line.

A combination of universal and means-tested benefits would ensure coverage, while also directing additional resources to those most in need.

Introduction

In 2022, 24.7% (almost 20 million) of the children (aged less than 18 years) in the EU were at risk of poverty or social exclusion. Children in the EU continue to face a higher risk of poverty than the rest of the population, with notable disparities across Member States (from 41.5% in Romania to 13.8% in Denmark). One of the key targets of the European Pillar of Social Rights Action Plan is reducing the number of children at risk of poverty or social exclusion in the EU by at least 5 million by 2030.

Investment in children's welfare is a key socioeconomic issue, helping combat child poverty, thereby promoting long-run equity and equal opportunities. Child-centered policies have a profound impact on children's development, including educational and health outcomes. For European OECD countries in 2019, the costs of childhood disadvantages are estimated at 3.4% of GDP annually [1].

This policy brief examines **child-contingent cash support through the tax and benefit systems** of all EU Member States, assessing in particular the **impact of monetary instruments on child poverty alleviation**. The findings provide policy relevant insights to support initiatives aimed at reducing child poverty and promoting social inclusion in the EU.

Child Cash Support in the EU-27

How much? The level of child-contingent cash support per child covering child benefits, other benefits and tax reliefs displays high heterogeneity across EU countries (see Fig. 1), from around 4% of GDP per capita in Spain, Greece and Ireland, to above 10% in Austria, Poland and Latvia.

What type of child cash support? Most child-contingent cash support consist of child benefits, while child-contingent tax reliefs stand out in some countries (e.g. Hungary) and 'other benefits' are generally the less generous of the three components (see Quick Guide for definitions).

QUICK METHODOLOGICAL GUIDE

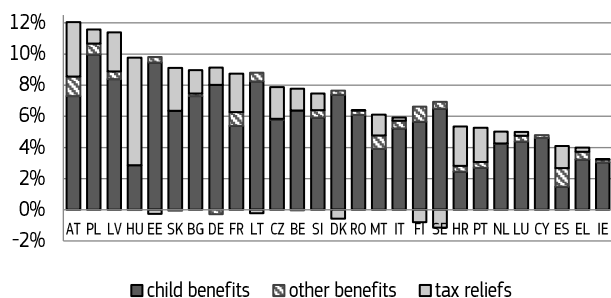
We use EUROMOD, a tax-benefit microsimulation model for all EU countries, to calculate the main tax liabilities and cash benefit entitlements. We rely on EU-SILC data, which provides information on individuals' and households' sociodemographic and income characteristics. To calculate child-contingent cash support, we follow the approach suggested in [2] and [3]. While we abstract from analysing in-kind support in this brief, the comparison of cash and in-kind child support can be found in [4].

We categorize child-contingent cash support into three groups: child benefits, other benefits, and tax reliefs. Child benefits are exclusively available for families with children. 'Other benefits' are supplementary payments to the unemployment, housing, or social assistance benefits that often offer additional amounts for families with children. Lastly, tax reliefs are tax mechanisms designed to reduce taxes imposed on parents.

We compute the poverty alleviation effects of child-contingent cash support using at-risk-of-poverty (AROP) rates by comparing their values before and after adding this support to disposable income. We break down the poverty-reducing effects across the groups comprising the total child-contingent cash support using the Shapley decomposition as in [5].

More methodological details are available in [4].

Figure 1 Child-contingent Cash Support in EU-27, 2022 (average per child, as share of GDP per capita)



Note: negative values may arise when child benefits are taxable and/or are included in means-tests for other benefits. Source: Own elaboration using EUROMOD.

Who benefits from child cash support? Child benefits tend to be equally distributed across income deciles, highlighting their quasi-universal character. However, they can be pro-poor if they are means-tested, or when families with children are concentrated in the lower deciles of the income distribution. Child benefits could also be significant for higher income deciles when they come from contributory parental leave benefits. The 'other benefits' concentrate in lower income deciles as they are often means-tested. Tax reliefs are often higher for households in top income deciles, also because the lower deciles have insufficient tax liabilities to apply the (non-refundable)

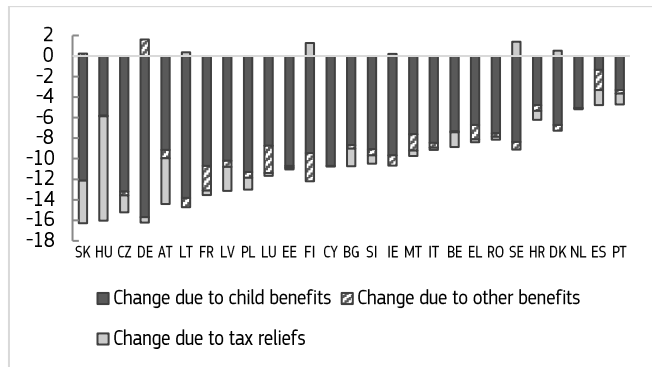
tax credits. See more on regressive nature of tax credits in [6].

Child poverty reduction effect of child-contingent cash support

How effective is child-contingent cash support in reducing children poverty in the EU? Some countries like Slovakia, Hungary and Czechia achieve significant reductions in the percentage of children at risk of poverty (AROP), over 15 p.p. (see Fig. 2), thanks to child-contingent cash support. Others like Netherlands, Spain and Portugal only manage to bring improvements of around 5 p.p. in the share of children at-risk-of poverty. Generally, countries with higher level of child-contingent cash support per child perform better in reducing child poverty, but other factors may also drive their impact on poverty reduction (see discussion on Fig. 4 below).

Child-contingent cash support varies greatly by age. In most EU countries, the group of 0-2 years old is the major target of child-contingent cash support (see more in [4]). As children grow older, cash support generally decreases, resulting in households with adolescents receiving less financial assistance.

Figure 2 Change (p.p.) in children at-risk-of-poverty rates due to child-contingent cash support, EU-27, 2022



Note: positive values (increase in children AROP rate) may arise when access to child benefits increases taxation or extinguishes access to other means-tested benefits.

Source: Own elaboration using EUROMOD.

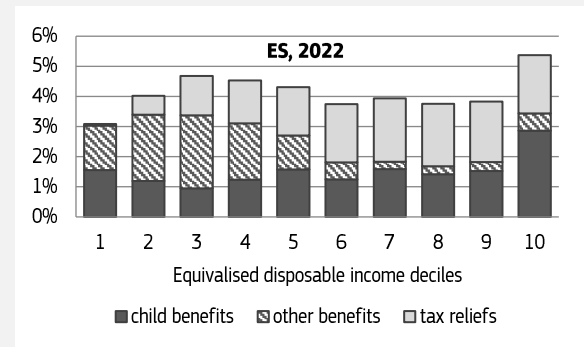
In accordance with their relative significance, child benefits play the leading role in reducing children risk of poverty in most countries. Again, we see some exceptions like Hungary, where tax reliefs dominate, and Spain, where both ‘other benefits’ and tax reliefs are at least as impactful as child benefits. In general, the impact of tax reliefs on reducing children AROP rate is smaller than their relative importance in the total child-contingent cash support, reflecting the fact that tax reliefs are typically not targeting the population at risk of poverty.

What drives the poverty reduction impact of child-contingent cash support? Fig. 4 suggests that countries with high child AROP rates before child-contingent cash support are, on average, more successful in reducing it, but there is much variation. Countries like Hungary and Slovakia achieve large reductions in child poverty, having both rather high level of child-contingent cash support per child (Fig 1) and high pre-support children AROP rates. Countries like Denmark or the Netherlands have relatively low levels of children AROP rates before child-contingent cash support, which explains the low impact of cash support on children poverty reduction in p.p. terms. Countries located well below the trend line, like Romania or Spain, despite having high pre-support AROP rates, only manage to achieve moderate or low poverty reduction with child-contingent cash support.

Distribution of child-contingent cash support in Spain, 2022

While Spain provides relatively small amounts of average child-contingent cash support, it relies on all three components of support, which makes it an interesting country case to explore the distributional properties of each component.

Figure 3 Child-contingent cash support by income decile, Spain, 2022 (average per child, as share of GDP per capita)



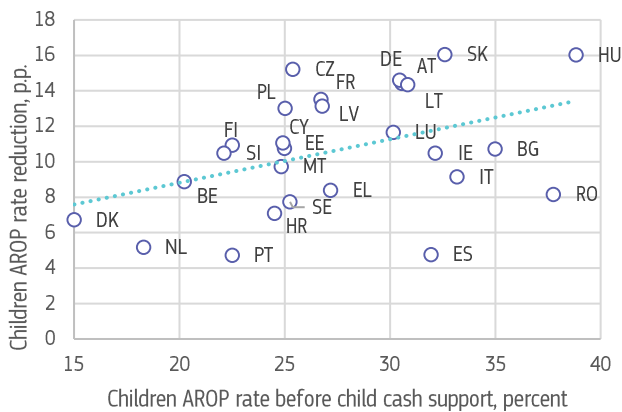
Source: Own elaboration using EUROMOD.

Child benefits in Spain comprise several national and regional means-tested benefits aimed at different families, lacking a universal child benefit at national level, and parental leave benefits (EUROMOD Country Reports, 2023). Overall child benefits do not depict a pro-poor pattern, as contributory parental leave benefits depend on income and increase for the higher deciles.

‘Other benefits’, which include child-contingent components in minimum income schemes and unemployment benefits, are more concentrated in bottom-to-middle income deciles.

Tax reliefs bring higher benefits to higher income deciles as increases in income allow accessing fuller amounts of tax credits offered. Spain generally lacks refundable mechanisms to make tax reliefs available for all families with children. Overall, the lack of tax reliefs for the first decile and rather large average amount of child benefits at the top decile, driven by parental leave benefits, generate a rather pro-rich distribution of child-contingent cash support (see more in [7]).

Figure 4 - Children AROP rate reduction due to child-contingent cash support *versus* child AROP rate before child-contingent cash support, EU-27, 2022



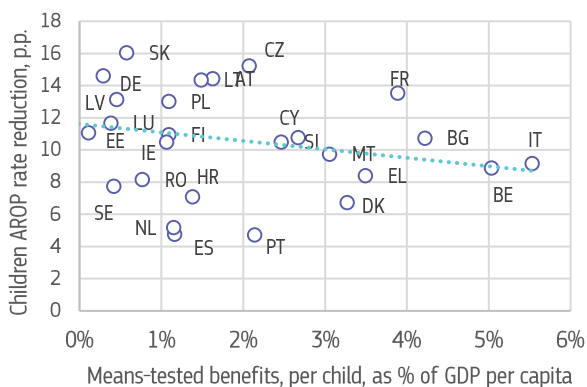
Source: Own elaboration using EUROMOD.

Means-testing of child-contingent benefits

Means-tested benefits are on average a small share of total child cash support (only in four countries they represent over half of average cash support: Belgium, Italy, Cyprus and Greece (see [4]).

In general, **means-tested benefits are more efficient in reducing poverty**. For example, means-tested benefits deliver over half of total child poverty reduction in Spain, even if they represent less than a third of total child-contingent cash support. The higher efficiency of spending on means-tested benefits stems from better targeting.

Figure 5 - Children AROP rate reduction due to child-contingent cash support *versus* means-tested benefits per child (% of GDP pc), EU-27, 2022

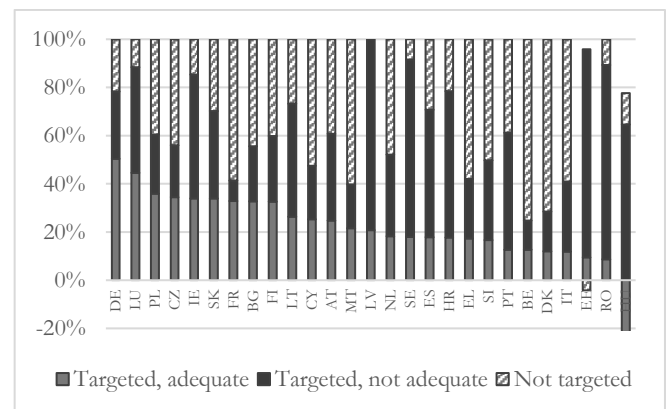


Source: Own elaboration using EUROMOD.

While less than 50% of total child-contingent cash support in each country of EU-27 goes to children in impoverished households, in the large majority of EU countries (19), more than 50% of means-tested child-contingent benefits goes to impoverished households (see [4]). However, as shown in Fig. 5, larger spending on means-tested benefits does not necessarily result in a higher reduction of child poverty at the country level. Conversely, those who lead in AROP reduction do not necessarily spend a lot on means-tested policies.

One of the possible explanations for this is that our analysis has not accounted for adequacy of the support: although means-tested benefits may reach children at risk of poverty, they may not provide enough support to lift them out of poverty. This may be also linked to the lack of adequacy of minimum income schemes in Europe, as noted in [8].

Figure 6 - Targeting and adequacy of means-tested benefits in child-contingent cash support, spending shares, EU-27, 2022



Source: Own elaboration using EUROMOD. Countries are ranked by share of targeted spending in means-tested benefits

Notes: *Targeted* – means-tested benefits addressed to a child that before the receipt was at risk of poverty. *Adequate* – enough to lift the child above the poverty line.

Negative values arise from losing eligibility to some other benefits after receiving child-contingent support.

Child-contingent cash support can be classified as targeted if its recipient is a child that before the receipt was at risk of poverty. If the support is targeted, it can be either adequate, meaning it is enough to lift the child above the poverty line, thus eliminating the risk of poverty, or non-adequate in the opposite case. Fig. 6 shows that **even when means-tested benefits are directed to households at risk of poverty, they often lack adequacy** (not enough to remove that risk). For example in Germany, only 50% of spending on means-tested benefits is both targeted and adequate to lift families out of poverty, while the other

half lacks adequacy in provided amounts or is not targeted to the poor. For the rest of the countries, the share of means-tested benefits that are enough to lift families out of poverty is even lower, and for 13 countries it is below 20% (see Fig. 6).

Policy implications

Child-contingent cash support is an important policy to reduce child poverty in the EU. Our analysis shows that countries within the EU employ various mechanisms of cash support to address child poverty, yielding diverse results. On average, child-contingent cash support helps more children at-risk-of-poverty where it is most needed. However, in some cases, child-contingent cash support is low and/or its effectiveness in reducing child poverty is limited, even if child poverty is high. This calls for a thorough review of current policies, and the implementation of targeted interventions to address these issues.

Various mechanisms of cash support perform differently. Means-tested benefits are, on average, more efficient for reaching impoverished families with children, yet an appropriate design is crucial to be really effective in reducing child poverty. In particular, these benefits are often not adequate to lift people out of poverty, and their outreach might be limited due to non-take-up. Tax reliefs can also help lifting families with children out of poverty, yet they are less efficient for the poverty-reduction target, as they often end up benefitting higher income families relatively more. Yet countries might want to use this instrument to achieve other goals, such as incentivizing labour supply [6].

A mix of different policies seems to be behind the performance of countries that achieve significant results in decreasing children AROP rates through child-contingent cash support. In these countries, universal child benefits and contributory parental leave are often complemented by means-tested policies.

It should be taken into account that the analysis here does not account for in-kind benefits (e.g. childcare education, healthcare...), which complement public spending on families in all countries and that have been found to be even more efficient for curbing child poverty than spending on cash benefits [9]. In future work, similar methodology as the one used here can be extended to analyse the impact of in-kind benefits in children poverty reduction in the EU.

Related work

The results presented in this policy brief draw on a research project undertaken by JRC.B.2 in cooperation with the Directorate-General for Employment, Social Affairs and Inclusion. The full report on the results can be found in Bornukova, Hernández and Picos (2024).

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¹ A benefit is means-tested if eligibility criteria include income or wealth conditions.

