

Summary

Spain has one of the highest child poverty rates of all European countries. The two main characteristics of its system of benefits and taxes are the considerable redistributive weight of pensions and the lack of budgetary weight of fiscal deductions and benefits designed with families in mind. In other European countries, there are all kinds of policies that promote social cohesion and reduce the risk of poverty for families with dependent minors. An example of this is that the universal child benefit is today in force in 17 of the 28 countries of the European Union. Using economic evaluation methods, we measure the efficacy, efficiency and the budgetary cost of setting up different public policies that could help to reduce child poverty. The results point towards improvements in the current policy up to a sum of, at least, some 100 euros per month or the introduction of a universal benefit of a similar amount would be very effective for reducing the risk of child poverty.

Main ideas

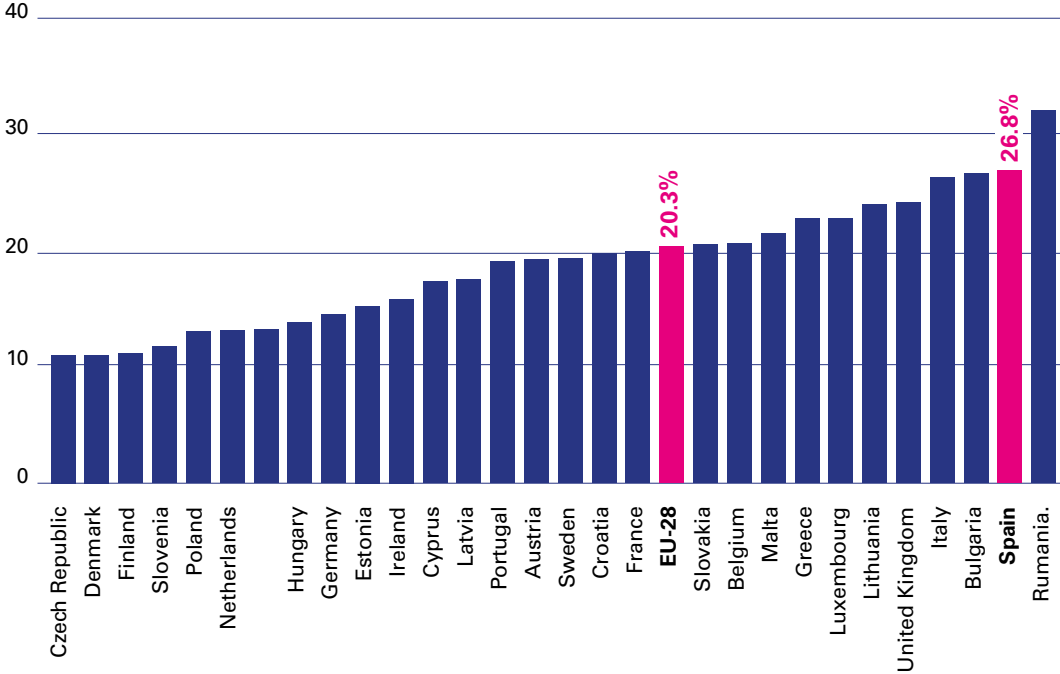
- // In 2017, nearly one in every three minors in Spain was at risk of poverty, which would situate it among the countries of the European Union most affected by this problem, together with Rumania, Bulgaria, Italy and the United Kingdom.
- // The majority of countries with high levels of child poverty in the European Union are also those that make a smaller budgetary effort in public family benefits.
- // The increase in child poverty during the economic recession is linked to the lack of a stable and powerful network of public policies that enable families to maintain minimum income levels when unemployment and labour precarity grow.
- // Spain has a level of spending on family policies that is a long way behind the European average and is less than half of the spending allocated by countries with lower child poverty risk rates.
- // Child benefits based on low incomes are very effective for reducing child poverty, providing that the amount is high, and that the income threshold is medium-high.
- // Both an improvement in the low-income-based benefit policy with a sum of at least 100 euros per month, and the introduction of a universal policy of a similar amount, would be effective for reducing the number of poor minors as well as the intensity of their poverty. However, for the same level of effectiveness, the universal policy would have a greater budgetary cost.

One in every three minors lives in a household at risk of poverty

In the last two decades, important demographic, labour and socioeconomic changes have taken place in the richer countries and the consequence has been a notable increase in the social vulnerability of children and growth in income inequality between families with dependent minors. In turn this has boosted the upwards tendency of child poverty risk rates. The arrival of the Great Recession in 2008 only served to exacerbate that tendency.

In Spain, where child poverty rates were already higher than in many countries in the European Union (EU) prior to the crisis, the increase in economic difficulties for families in the last decade has been considerable. If we set the threshold of sufficient income for avoiding poverty at its 2008 value, the number of minors whose homes can no longer access that threshold in 2014 would have risen from 27% to 39%, which represents an increase of 45% in just 7 years. As a consequence, and despite the reduction in the unemployment rate from 2014 to date, Spain continues to figure in the group with the highest child poverty rates in the whole of the EU-28: practically one in every 4 minors (26.8%) lives below the poverty threshold (figure 1).

Figure 1. Percentage of minors below the poverty threshold in 28 countries of the EU (threshold = 60% of median income), 2018



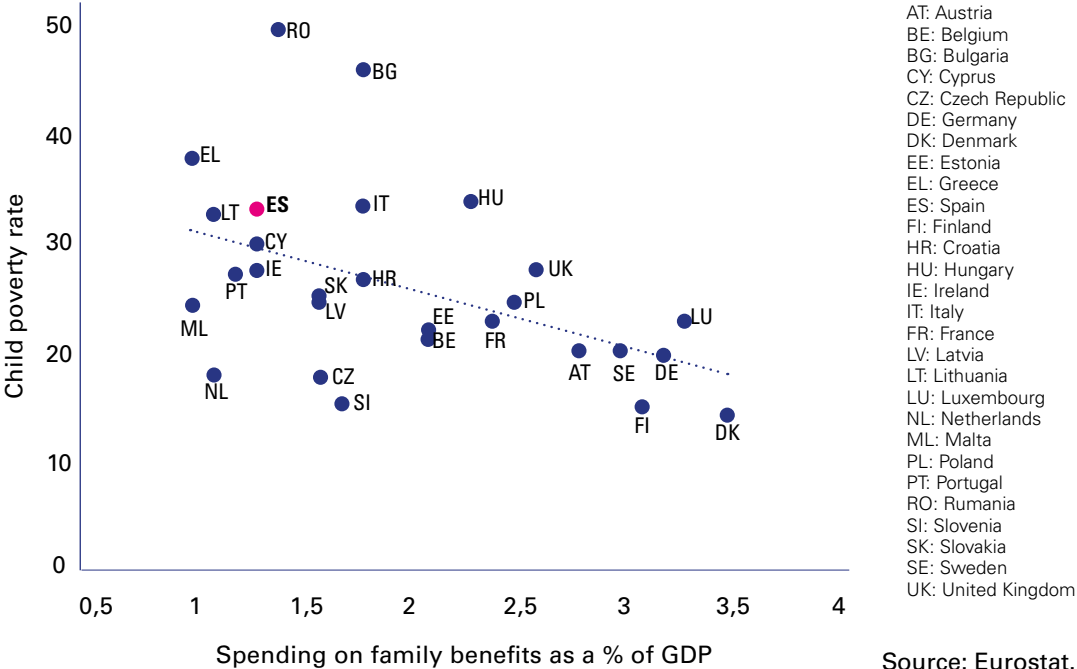
Source: Eurostat.

There is a positive relationship between the level of child poverty risk rate and the public economic effort in relation to family benefits

The majority of countries in the European Union with high levels of child poverty are also those that make less of a budgetary effort with regard to family benefits. Figure 2 reflects how a country such as Denmark, with a high level of spending on family benefits (3.5% of GDP), manages to achieve the lowest child poverty rate of the whole continent whereas Spain, with less than half that level of spending (1.3% of GDP) and far from the European average, is supporting one of the highest rates of child poverty together with Rumania, Bulgaria, Greece and Italy.

In addition to the weight of family policies, childhood poverty is closely linked with the redistributive capacity of the entire system of benefits and taxes by household types. From a comparative perspective, the global redistributive capacity of the Spanish system for households with minors is very limited and lower than that of other European systems such as the German, French, British and even the Italian systems. The United Kingdom has managed to reduce income inequality between families with dependent minors by nearly 40%, France and Germany by somewhat more than 30%, and Spain by only 23%. If we do not take into account the role of contributory pensions, we would be even further behind the United Kingdom, France and Germany, which indicates that, beyond contributory pensions, Spain's system of benefits and taxes redistributes little towards young families with dependent minors.

Figure 2. Percentage of minors below the poverty threshold and spending on family benefits as a % of GDP in countries of the EU, 2016



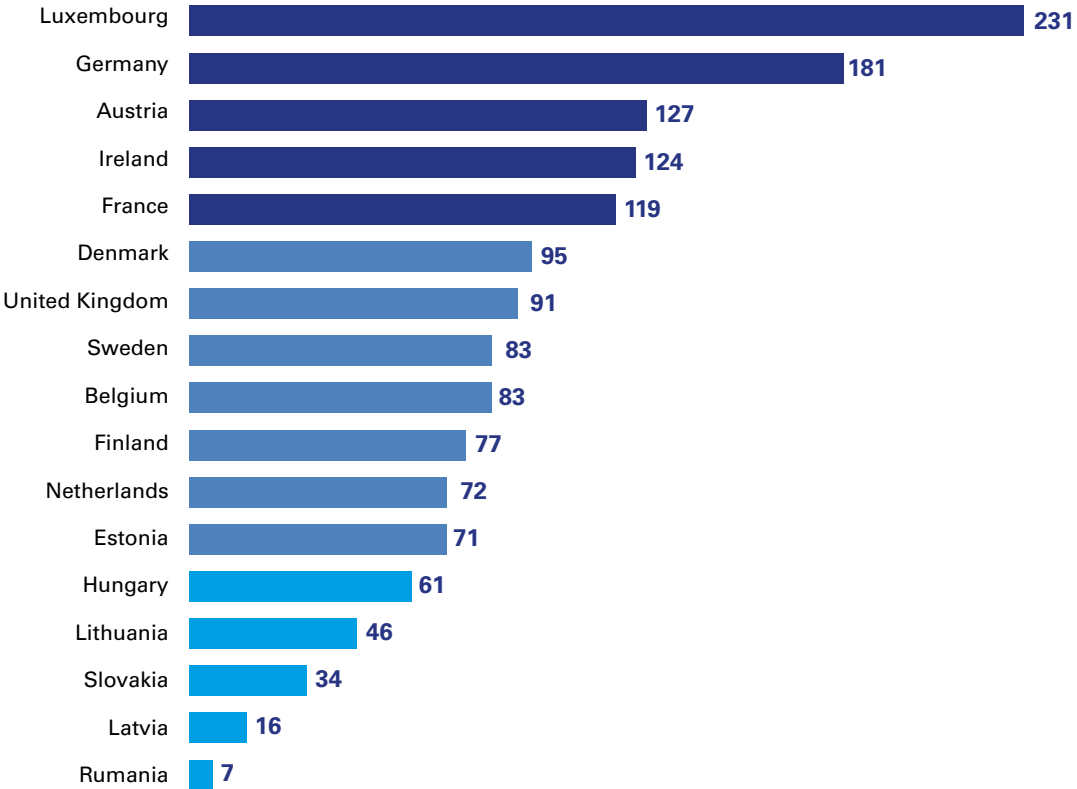
Source: Eurostat.

Spain’s expenditure on family policies falls a long way behind the European average

The weakness of public policies aimed at families is one of the main causes of the fragility of the safety net that is our welfare state. This fragility has been compensated, as occurs in other countries in Southern Europe, by the family network: the first, and often the only network for many households during the economic crisis.

As opposed to the situation in Spain, one of the most generalised public family policies in the countries of the EU is a universal benefit per dependent minor, funded with general taxes or with social security contributions. This policy, which is variable in value and complemented with benefits aimed at the poorest, or fiscal deductions linked to families, is not in place in all 28 European Community countries. There are eleven countries that do not have it. It is precisely these eleven countries which register the highest rates of child poverty on the continent.

Figure 3a. Monthly amount of universal benefit per child in purchasing power parity (PPP), 2017. In euros.
Spain does not have this universal benefit.



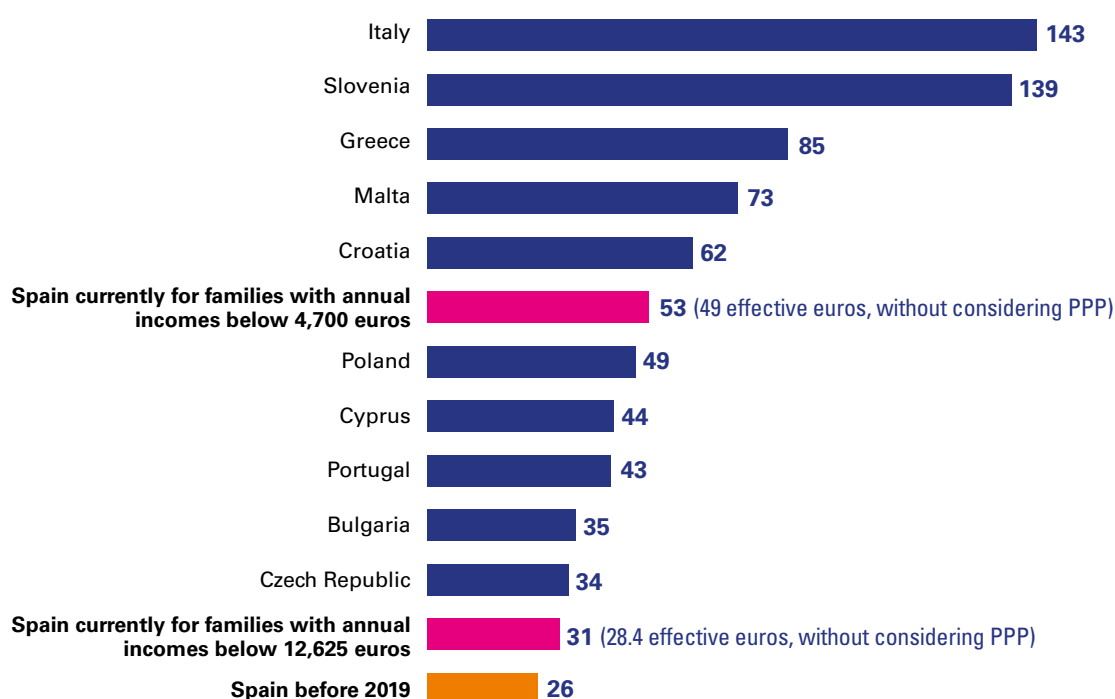
Note. Calculated as the maximum benefit to be received for households with a single minor. In France, the benefit is that which corresponds to households with two minors. In Malta and Cyprus, although universal, the benefit is graduated by income level.

Source: MISSOC and EUROMOD Country Reports H 1.0+.

Based on the amount of the universal benefit in purchasing power parity, it is possible to make three major groupings of countries (figure 3a). The first would include the five with the highest benefits, above 110 euros per month: Luxembourg, Germany, Austria, Ireland and France; in the second is the largest group of seven countries with between 95 and 70 euros per month: Denmark, United Kingdom, Sweden, Belgium, Finland, the Netherlands and Estonia; and, finally, the five countries with the smallest benefits, mainly in Eastern Europe, which do not reach 70 euros each: Hungary, Lithuania, Slovakia, Latvia and Rumania. In some of the countries, the universal benefit is combined with various benefits conditioned by income as additional support for families with fewer resources.

The other eleven EU countries base their monetary benefits for children on income-based transfers: Italy, Slovenia, Greece, Malta, Croatia, Poland, Cyprus, Portugal, Bulgaria, Czech Republic and Spain (figure 3b). It is important to underline that, if these benefits have a high income threshold, they have similar redistribution effects as a universal benefit and are very effective in the fight against poverty. In contrast, if they have a low threshold, their effectiveness may be low despite the amount being high. Furthermore, some countries do not have a single income threshold, but rather have several, and they reduce the amount of the benefit as family income increases.

Figure 3b. Monthly amount of income-based benefit per dependent minor in purchasing power parity, 2017 (in euros)



Note. In Slovenia we are including the amount that a household at approximately the median of the distribution, fifth decile, receives. The last two deciles (9 and 10) do not receive any benefit. In Spain, the benefit following the reform of 2019 has reached 49 euros per month (588 euros per year) for minors who live in households in a situation of severe poverty, which in the case of dependent minors are those with family incomes below 4,700 euros per year.

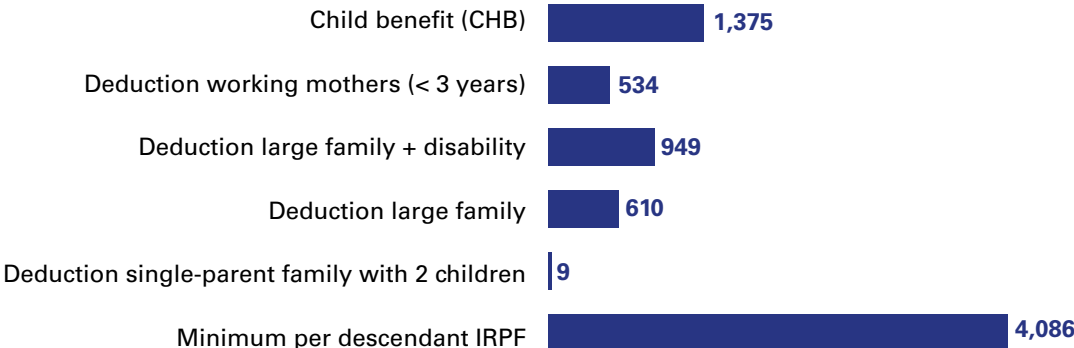
Source: MISSOC and EUROMOD Country Reports H 1.0+.

Spain has income tax deductions that do not benefit poor families and child benefit that is a very small sum and offers little coverage

In Spain, fiscal deductions, on a state-wide and autonomous community level alike, are an important part of the child benefits system. From the instruments of a state-wide nature, the minimum per descendant applied in IRPF (income tax) is the most important in terms of beneficiaries and spending, because in 2017 it was received by over 7 million contributors, and thus became the fundamental axis of the Spanish system of monetary benefits for families. This deduction is not received by the majority of households living below the poverty threshold are exempt from paying income tax, therefore such deductions have practically no impact on child poverty risk. The rest of the income tax deductions have a much lower budgetary importance, as they only represent 9 million euros in the case of deductions for single-parent families, or 949 million in that of deductions for large-sized families.

Child benefit (CHB) is the only transfer to families with dependent minors. Its budgetary weight was around 1,375 million euros in 2017, before the reform that took place in 2019, and less than a third of the fiscal spending in fiscal deductions per child, which represented between approximately 4 and 5 billion euros (figure 4). In 2019, following the reform, the budgetary weight of child benefit has reached some 1.8 billion euros, of which nearly 500 million are allocated to minors without disabilities. The current amount of the benefit is 28.4 euros per month per child for families with low annual incomes, i.e., less than around 12,700 euros per year (if there is only one dependent child in the household), and 49 euros per month for families with very low incomes, i.e. around 4,700 euros per year (if there is only one dependent child in the household).

Figure 4. Spending on child benefit and fiscal costs in state-wide family tax deductions, 2017 (in millions of euros)



Note. The fiscal cost of the minimum per descendant is an approximation based on data from the Tax Agency applying the minimum charge type to the average deduction of those tax declarations that meet requirements.

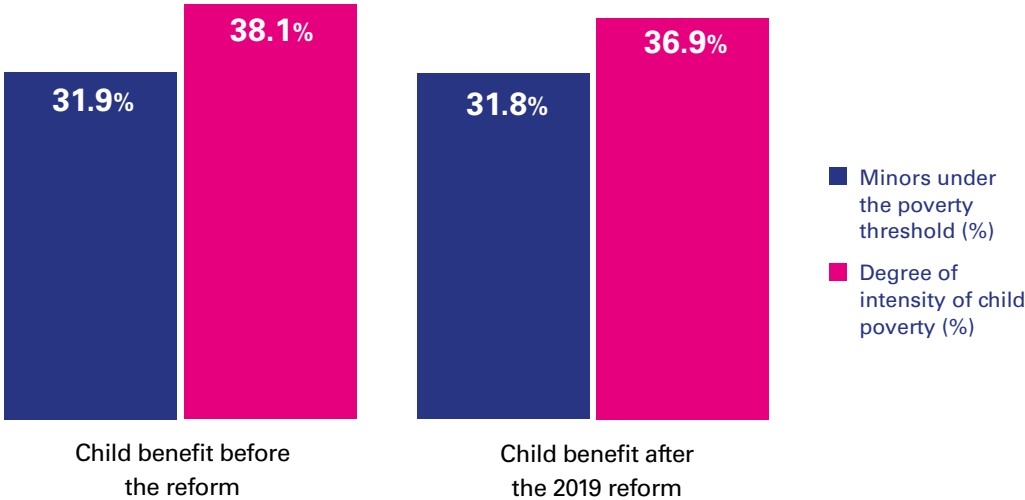
Source: Tax Agency and Ministry of Employment, Migration and Social Security.

The 2019 child benefit reform was a step in the right direction, but insufficient

The governmental reform of child benefit which was carried out in 2019 has represented an increase in the benefit amount of 17% (from 24.2 to 28.4 euros per month per minor) for households with low incomes and of 100% for those with very low incomes (from 24.2 to 49 euros per minor), which raises the number of recipient households by 5% and spending on the benefit by 66%.

This policy is a step in the right direction, but to reduce child poverty it remains limited, as indicated in figure 5, since the percentage of minors living below the poverty threshold practically does not change: from 31.9% it fell to 31.8% after the reform. In any event, the reform has further reduced, although still by very little, the gap between the income of minors and the poverty threshold (poverty intensity), which has fallen from 38.1% to 36.9%.

Figure 5. Minors under the poverty threshold and degree of child poverty intensity before and after the child benefit reform of 2019



Note. The poverty threshold is defined following EUROSTAT methodology, i.e. 60% of median disposable income adjusted according to household size. Poverty intensity is obtained by measuring the distance between poor people's income and the poverty threshold, such that if all poor minors lacked income, the intensity of the poverty would be maximum and the percentage would reach 100%.

Source: compiled by the author based on EUROMOD H 1.0+.

Reforms that improve child benefit amount and cover, or introduce a new universal benefit, manage to reduce the percentage of minors under the poverty threshold and poverty intensity. The most effective options are those that bring the benefit amount closer to the EU average and increase the income threshold for receiving it.

As a guide for designing more effective family benefits than those that currently exist, and with an acceptable budgetary cost, we have performed a simulation exercise which consists of evaluating the efficacy and efficiency of various reforms, which improve the child benefit amount and cover and consider a new universal child benefit of an average amount within the context of the European Union.

Table 1. Policy until 2018, current policy and different simulations of hypothetical policies

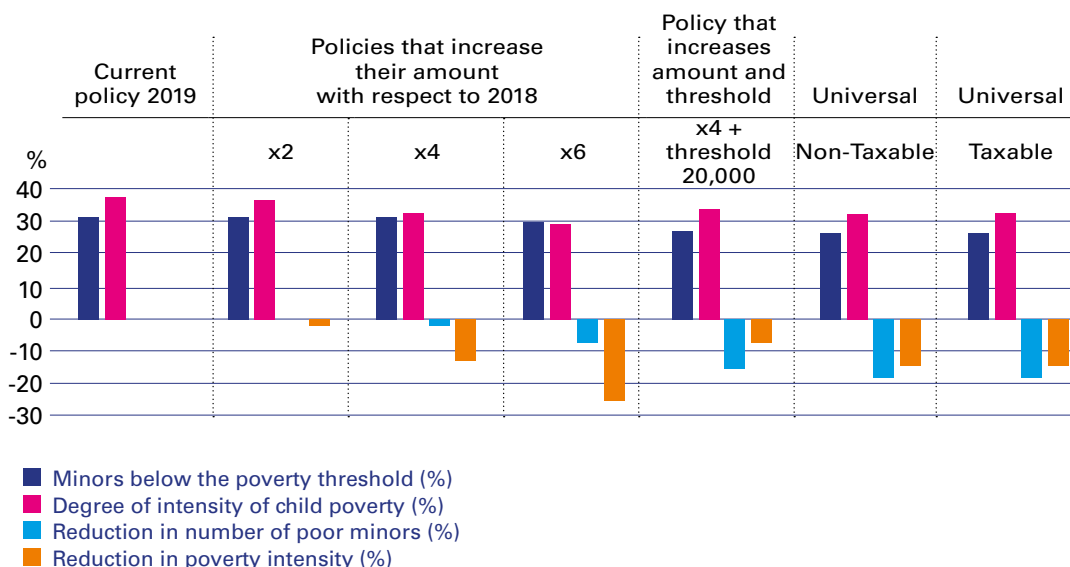
	Policy 2018	Current policy 2019	Policies that increase their amount with respect to 2018			Policy that increases amount and threshold	Universal	Universal
			x2	x4	x6	x4 + threshold	Non-taxable	Taxable
Monthly amount per child (€)	24.2	28.4 (49)*	48.5	97	145.5	97	100	100
Maximum access threshold (€)	11,868	12,700 (4,700)*	12,158	12,740	13,322	20,000	-	-

Note. The maximum access threshold is defined as the amount of income for a household with a dependent minor that enables it to receive the complete annual benefit. The maximum threshold increases slightly with the benefit amount, because the design of the latter envisages an increase in the annual benefit amount.

* Indicates the amount and the threshold for households suffering severe poverty.

Two of the policies consist of reforming child benefit while maintaining income conditions. One increases the amount of the benefit up to 145.5 euros per month (the policy that multiplies the amount by six) and the other up to 97 euros per month (the policy that multiplies the amount by four), with an increase in cover when raising the income threshold to 20,000 euros. The third is an additional universal policy (taxable or not) of a similar amount.

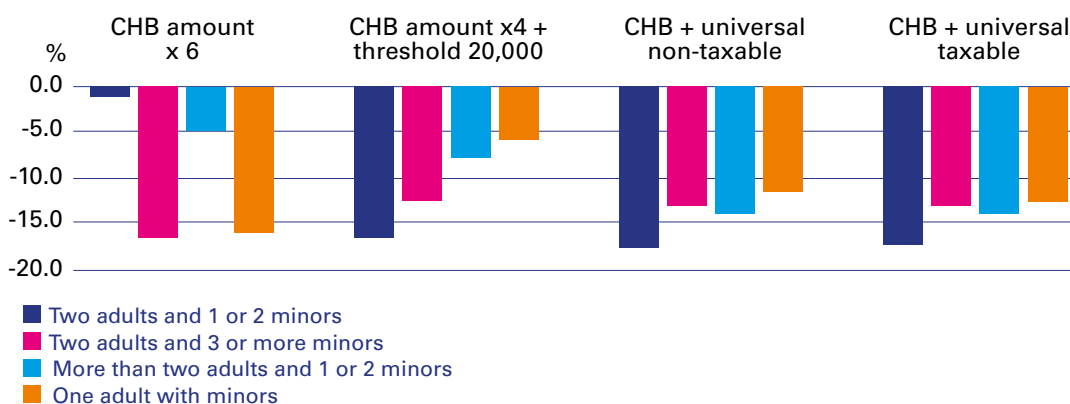
Figure 6. Minors under the poverty threshold, degree of intensity of child poverty and its reduction after applying each of the policies (in %)



Source: compiled by the author based on EUROMOD H 1.0+.

The results of figure 6 indicate that there are various policies that have a high level of efficacy: CHB x6 and CHB x4. The height of the blue bars tells us that these policies manage to reduce the number of poor minors from the current 31.8% to somewhat less than 30%. CHB x6 is the one that reduces this percentage least, but in contrast it reduces poverty intensity most: from 37% to 26.4% (orange bars). This means, as shown by the grey bars, that if these policies were implemented, the number of minors in households with incomes below the poverty threshold would be reduced by between 7% and 19%, while the intensity of child poverty would be reduced by between 8% and 25%.

Figure 7. Percentage reduction of the number of minors under the poverty threshold by types of household after introducing each of the policies (with respect to the current situation), 2017



Source: compilation by the author based on EUROMOD H 1.0+.

Each policy reduces, to a different degree, the percentage of minors below the poverty threshold, according to the age and type of family.

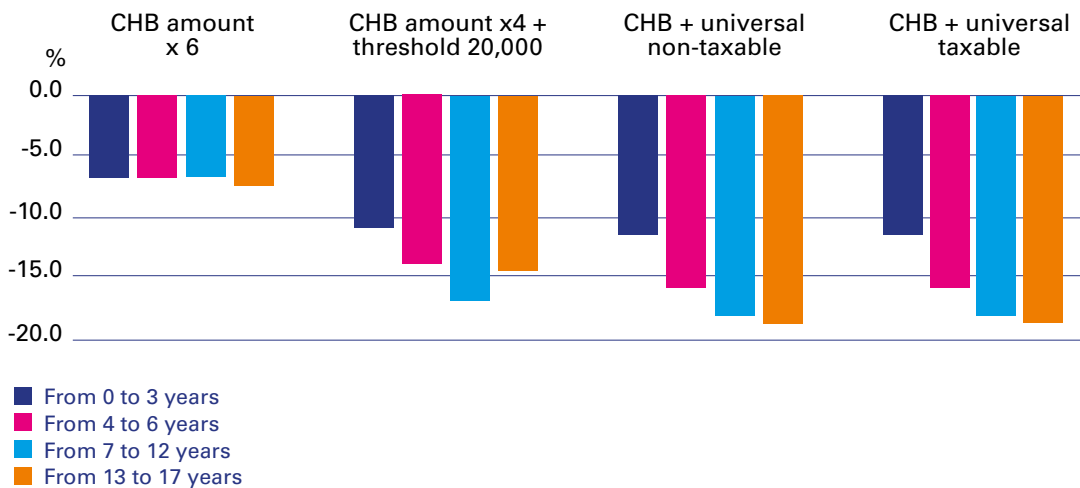
The results of figure 7 indicate that a policy that increases child benefit amount but not so much its cover (CHB x6) would reduce poverty more in single-parent homes and large families than the rest of the policies. In contrast, the other policies would reduce something more than child poverty in households with two or several adults and one or two minors.

The results from graph 8 confirm that a policy that increases the amount and not so much the cover (CHB x6) would reduce the poverty of minors of all ages practically equally (some 6-7%). In contrast, the other three policies would more greatly reduce the poverty rate among children aged over 6 years. Universal policies would be more effective for reducing the number of poor minors who have reached adolescence with ages between 13 and 17 years.

Figures 9 and 10 show that a policy that increases the amount and not so much the coverage (CHB x6) is particularly effective for reducing the intensity of poverty among families with two adults and minors, whereas policies that increase coverage, such as CHB x4 and universals, further reduce the intensity of households with 3 or more minors and of single-parent families.

Finally, CHB x6 considerably reduces the intensity of poverty among all children aged below 12 years; while policies that increase cover manage to reduce intensity more among those of a lower age (0-3) and somewhat less the intensity suffered by other minors.

Figure 8. Percentage reduction of the number of minors below the poverty threshold by age after introducing each of the policies (with respect to the current situation), 2017



Source: compiled by the author based on EUROMOD H 1.0+.

Figure 9. Percentage reduction of poverty intensity by types of household after introducing each of the policies (with respect to the current situation), 2017

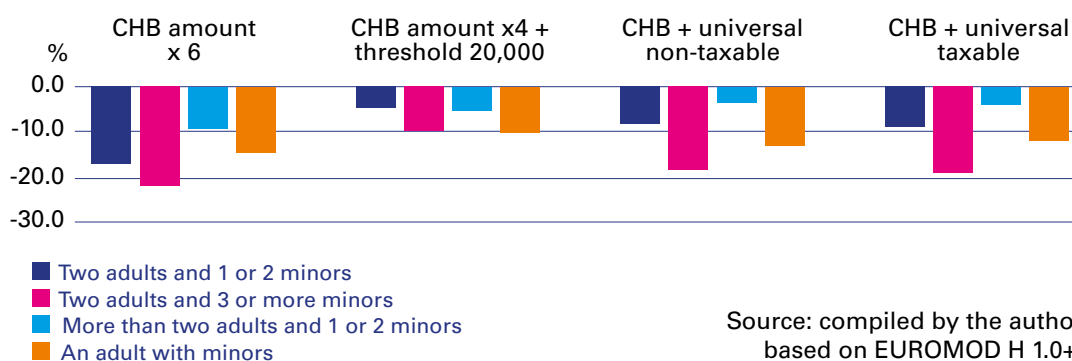
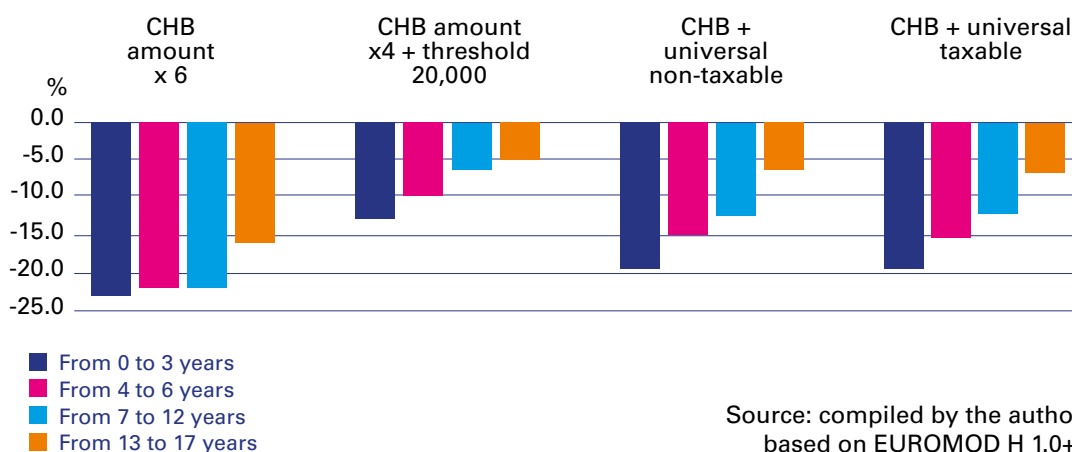


Figure 10. Percentage reduction of poverty intensity by age after implementing each of the policies (with respect to the current situation), 2017

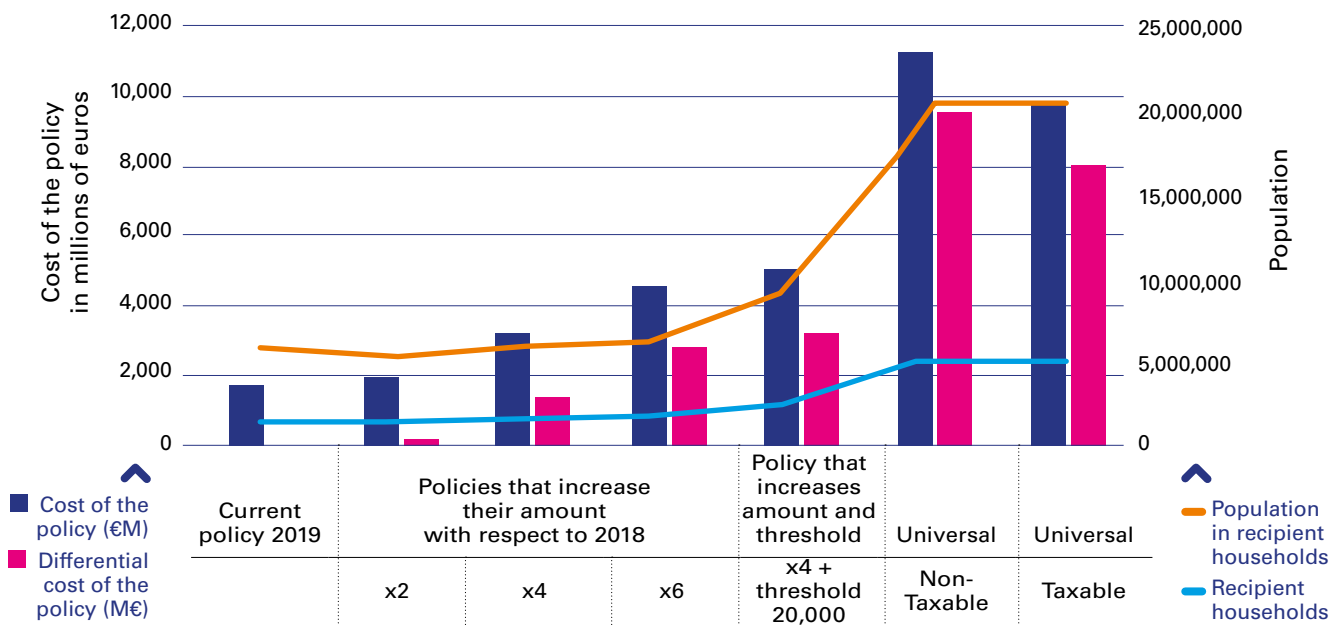


The number of recipients and the cost of reforms increases as we increase the benefit amount and its coverage. Income-based benefits are more efficient, while universal benefits compensate all families for the cost of childrearing, which could increase fertility rates in the medium term.

As we increase the number of recipients of child benefit, the cost of each reform increases, which is why universal policies are significantly more costly than the rest. In any case, to adequately evaluate the costs of introduction of each of them it would be necessary to calculate all the potential costs of control and administration, together with the potential dimension of the fraud when declaring income and an estimate of higher or lower access due to practical difficulties in applying for them.

In outline, as we can appreciate in figure 11, the most expensive policy is the universal benefit of 100 euros per month that would be received by all households with children who are minors, a total of 5.3 million households, and that would represent an extra expense of some 9.5 billion on top of the current CHB (1.75 billion euros). If this universal benefit were taxable in income tax, its cost would be somewhat lower, around 8 billion euros. Both universal policies are the most appropriate if, as well as reducing child poverty and its intensity, the aim is to compensate all families due to the cost of raising their children which, in the medium term, could result in a generalised increase in fertility rates.

Figure 11. Recipients (number of households and people) and annual potential spending on each policy (millions of euros), 2017



Source: compiled by the author based on EUROMOD H 1.0+.

If our aim is to reduce the number of minors below the poverty threshold, the income-based benefit (20,000 euros) of an amount of 97 euros per month turns out to be the most efficient in terms of cost and efficacy. This policy would have a moderate budgetary cost (increase by another 3.2 billion euros on expenditure on family policies) and for every billion euros of expenditure, the percentage of poor minors would be reduced by 1.3 percentage points and the intensity of their poverty by 1%. This benefit would be received by 2.5 million households lived in by 9.5 million people.

If our main objective is to reduce the intensity of poverty rather than the number of poor minors, the most efficient policy in terms of cost and efficacy would be the income-based benefit of some 145 euros per month per child (CHB x6). This policy could have a budgetary cost of some 2.8 billion euros, and for every billion euros of spending, it would reduce the percentage of poor minors by 0.8 percentage points and the intensity of their poverty by 2.6%. This benefit would be received by 1.6 million households lived in by 6.3 million people.

Conclusions

- // Despite the reduction in the unemployment rate, our country continues among those that have the highest child poverty rates in the entire EU-28: over one in every 4 minors (31.8 %) lives below the poverty threshold.
- // The weakness of public policies aimed at families is one of the main causes of the fragile safety network of our welfare state. In contrast, one of the most generalised family policies in the EU is a universal benefit per dependent minor.
- // Income-based child benefit (CHB) is the only monetary transfer for poor families with dependent minors in Spain. Due to its low amount, some 28.4 euros per month per child (or 49 if the household is suffering from severe poverty), its impact on the disposable income of families is very limited.
- // Tax deductions such as the minimum per descendant in income tax are an important part of the system for child benefits in Spain. This deduction is not reimbursable for households situated below the poverty threshold, because they are exempt of taxation, therefore it barely influences the risk of child poverty.
- // The child benefit reform carried out in 2019 has meant an increase in the amount of the benefit, above all for households with minors in severe poverty. In any case, its impact on the number of poor and the intensity of the poverty has been small, therefore this reform is clearly insufficient.
- // Increases in the amount of child benefit up to 97 or 145 euros per month would be effective for reducing child poverty and, especially, its intensity. These policies would even further reduce the poverty of minors who live in single-parent households and in large-sized families. If we increased the income threshold for receiving it, this would improve its coverage and we would manage to reduce somewhat further the number of poor minors, above all impacting on those who live in households with two or more adults.
- // A benefit of 97 euros conditioned to having an income below 20,000 euros is more efficient for reducing the percentage of poor minors: maximum efficacy in relation with its cost. For every billion euros of spending the percentage of poor minors would be reduced by some 1.3% (and poverty intensity by 1%).
- // A benefit of 145 euros per month per child, conditioned by income, is the most efficient policy for reducing the poverty intensity of minors: maximum efficacy in relation to its cost. For every billion euros of expenditure, poverty intensity would be reduced by 2.6% (and the percentage of poor minors by 0.8%).
- // As we increase the coverage of child benefit, raising the value of the income condition increases the cost of each reform, which makes universal policies more costly than the rest. These policies are very appropriate if, in addition to reducing child poverty and its intensity, it is aimed to compensate all families for the cost of childrearing which, in the medium term, could result in a generalised increase in fertility rates.