

Child Poverty in OECD Countries: Lessons for Developing Countries

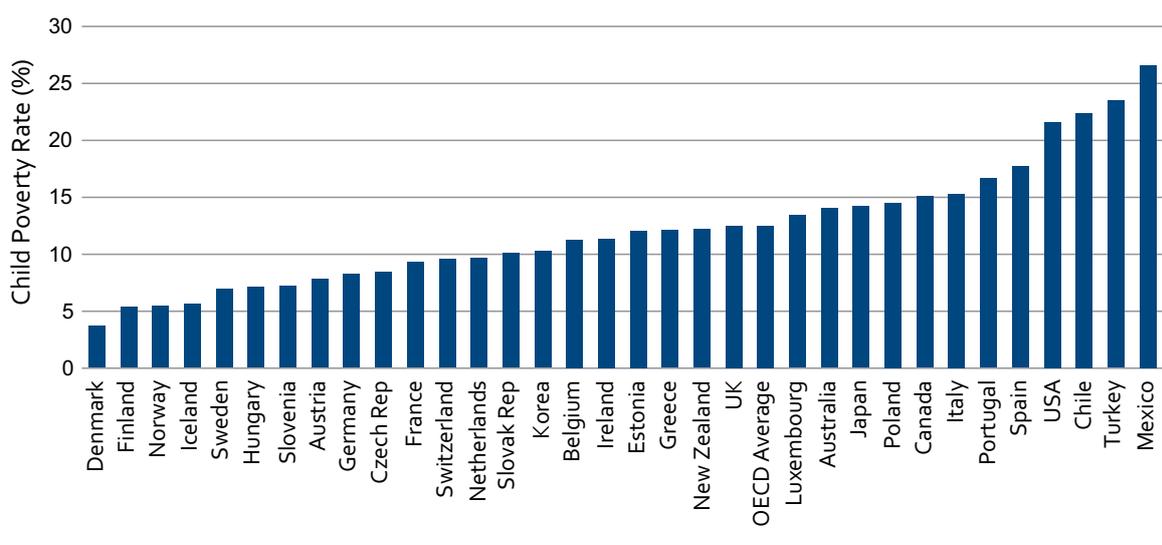
Stephen Kidd

In recent years, debate has been growing on how best to tackle child poverty in developing countries. Much of this debate has focused on whether to integrate “conditions” into family benefits, despite the absence of evidence to justify their use. Strangely enough, there has been little interest in looking to the experience of OECD countries in tackling child poverty, to see what lessons can be learnt.

This short note will examine how developed countries have addressed child poverty to learn from their successes and failures. It will focus on child benefits – both child grants and in-kind transfers such as childcare – and discuss how effective they have been in reducing child poverty. The note will examine broad trends across countries, rather than delving into the specifics of any particular country. Those who are interested in reading further on the topic are directed to papers such as Whiteford and Adema (2007) and OECD (2011a).

Developed countries have had variable success in tackling child poverty. In some countries – in particular the Nordic countries – child poverty rates are very low, reaching 3.7% in Denmark. However, in others, there has been much less success; the United States for example, has a child poverty rate of 21.6% - an especially poor record – and finds itself in the company of much poorer countries such as Chile, Israel, Mexico and Turkey. Figure 1 shows the child poverty rates in OECD countries in 2008.

Figure 1: Child poverty rates in OECD countries¹



¹Source: OECD (2011b).

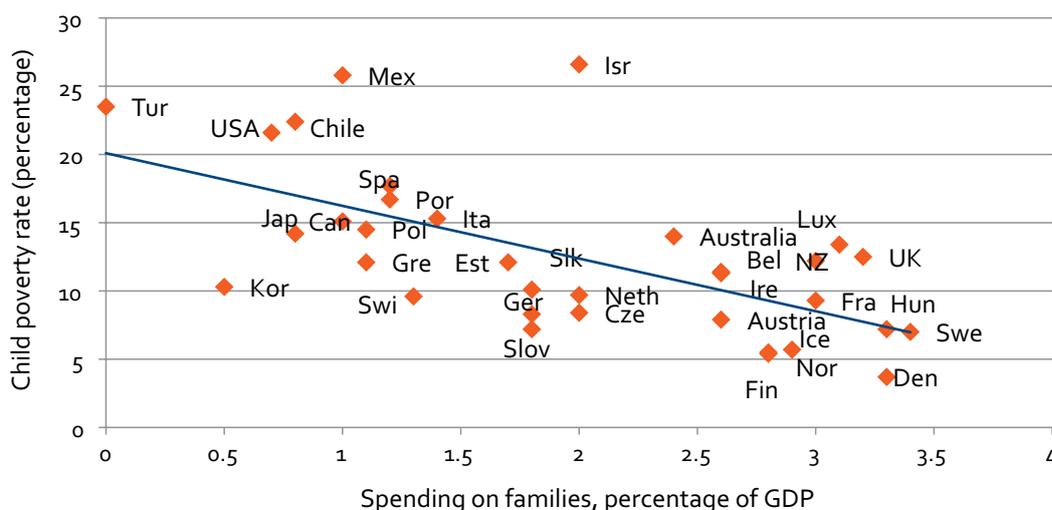
So, how can the very different degrees of success that OECD countries have had in tackling poverty be explained? Evidently, the fact that the United States has one of the highest rates of child poverty indicates that the answer is not as simple as greater wealth translating into less poverty.

The most obvious explanation for success in tackling child poverty rates is that **higher spending on child benefits results in lower child poverty**. As Figure 2 indicates, the countries with the lowest levels of child poverty tend to spend more on child benefits as a percentage of GDP. The Nordic countries – plus others such as Hungary and France – are committed to high levels of spending and, as a result, benefit from low levels of child poverty. In contrast, countries spending very little – such as the United States, Canada, Japan, Turkey, Chile and Mexico – unsurprisingly have higher child poverty.

Nonetheless, there are some interesting anomalies. In particular, countries such as the United Kingdom, New Zealand and Australia are committed to relatively high spending on child benefits, yet still have higher child poverty rates. What might be the reasons for this?

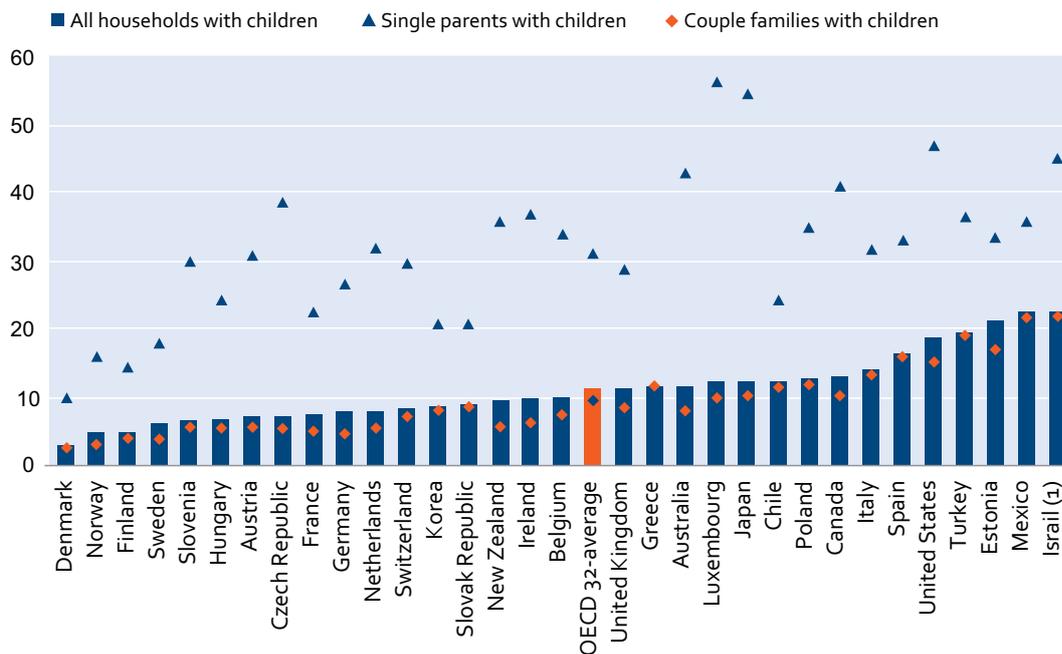
One explanation can be found in the types of families that are poor in OECD countries. Figure 3 indicates that, in most countries, the highest levels of poverty are found in single parent households, while those households containing a couple have lower rates of poverty. Indeed, in households with at least two adults working, child poverty rates are much lower than the overall child poverty rates in all OECD countries. For example, in the United States, child poverty rates in such households drop to only 6.6%, in the United Kingdom they are 1.4% and even in Chile they are only 2.1%.²

Figure 2: Relationship between child poverty rates and levels of spending on child benefits



²Source: OECD (2011b)

Figure 3: Poverty rates by household type with children³



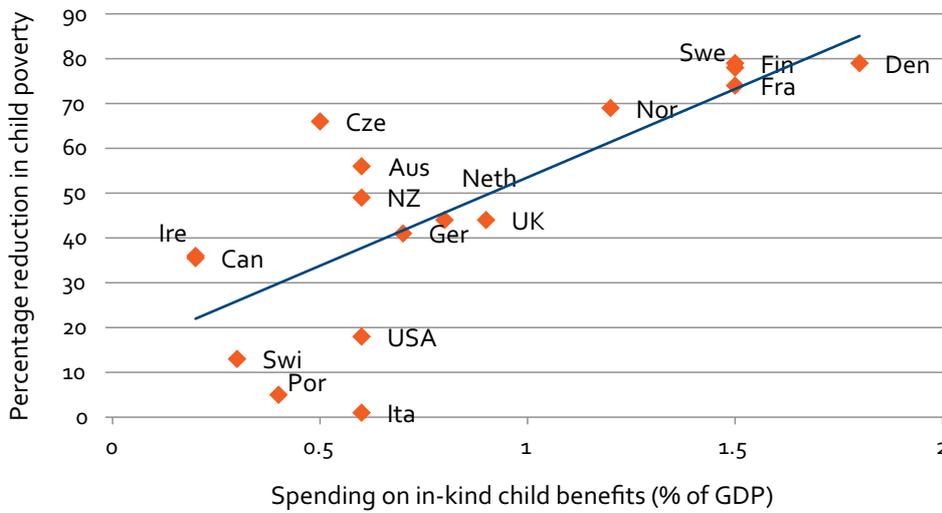
It is evident that the ability of families to engage in the labour market is critical to reducing child poverty. Single headed households in which the head of the household does not work have very high levels of poverty, even in Nordic countries. For example, poverty in such households in Finland is 49%, in Norway 42.5% and in Sweden 54.5% (OECD 2011b). It appears that relying only on child benefits to reduce poverty is insufficient.

In fact, the evidence seems to indicate that it is those countries that enable poor families – in particular single headed households – to enter the labour market that have the most success in tackling child poverty. Two key policies could help to achieve this: the provision of subsidised childcare and getting the targeting of child benefits right.

Figure 4 indicates that *countries spending more on childcare for mothers of young children have the greatest success in tackling child poverty*. Using data from 2000, it demonstrates that the highest reductions in poverty resulting from child benefits are in those countries that spend the most on childcare. In effect, these countries – in particular the Nordic countries and France – provide mothers with free or highly subsidised childcare, meaning that it is much easier for them to enter the labour market. This is particularly important for single parents, a key reason why the poverty levels of such households are relatively low in the Nordic countries and France (see Figure 3).

³This table has been extracted from OECD (2011b)

Figure 4: Relationship between poverty reduction and childcare (in-kind benefits)⁴

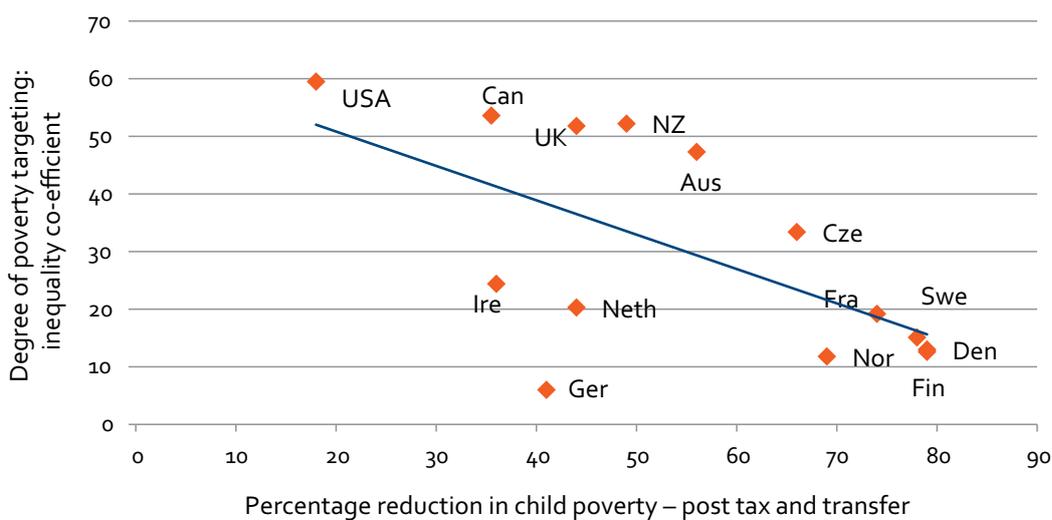


In countries providing lower subsidies, the costs of childcare can act as a major disincentive for poor parents – in particular for single parents – to enter the labour force. Alternatively, parents have to spend a significant proportion of their income on childcare, which reduces family consumption and has negative impacts on child wellbeing, even among middle-class families.

In addition to the level of spending on childcare, the nature of targeting also appears to impact on

poverty in OECD countries. Figure 5 indicates that the countries with the greatest success in reducing poverty tend to be more committed to universal targeting. The “targeting inequality co-efficient” in Figure 5 indicates the distribution of benefits across the population, with a higher number indicating a greater concentration of benefits among the poor. It is measured against the success of countries in reducing child poverty (ie. the percentage that child poverty is reduced as a result of transfers and taxes).

Figure 5: The relationship between poverty targeting and poverty reduction among children⁵



⁴Source: Whiteford and Adema (2007) and OECD.StatsExtract at http://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG. The Y Axis shows the proportion that poverty is reduced as a result of child benefits and taxation.

⁵Source: Whiteford and Adema (2007)

Figure 5 indicates a higher commitment to poverty targeting among Anglo-Saxon countries, which is associated with a lower impact on child poverty. In contrast, the Nordic countries and France are more committed to providing child benefits to everyone and have greater success in reducing poverty. While Germany seems to be an anomaly, it should be noted that, when compared to the Anglo-Saxon countries, overall child poverty in Germany was low, at 10.9% in 2000, which continues to suggest that low rates of child poverty are related to universal provision.

The fact that a greater commitment to poverty targeting is associated with higher child poverty is counter-intuitive for many people. Many people presume that poverty targeting must be more “progressive,” but this is not consistent with the evidence. In reality, it would appear that the more that countries are committed to universal provision of social benefits, the more progressive their social policy.

There are three reasons for this. The first is related to the political economy of targeting. There is strong evidence that social programmes targeted to everyone generate higher budgets when compared with programmes targeted at the poor. As Pritchett (2005) points out, programmes building alliances between the poor and middle class are more likely to be popular and, as a result, receive higher budgets. The middle class is more willing to pay higher taxes since they will also be

beneficiaries of these programmes. In contrast, the Washington Consensus, with its neo-liberal commitment to a small state and low taxes, is closely associated with poverty targeting, since giving benefits only to the poor is an easy way to reduce social budgets.⁶

Furthermore, the higher budgets generated by universal targeting are also likely to translate into higher benefits for individual poor families, which further increases the poverty reduction impacts of universal programmes (Pritchett 2005).

The second unfortunate impact of poverty targeting relates to disincentives to enter the labour market. If only poor families receive benefits – and, in effect, are punished by having benefits removed if they take a job (in other words, high marginal rates of taxation) – then powerful disincentives to work will come into play, unless wages are well above the level of benefits that are lost. As a result, poverty traps are created by poverty targeting, with families unintentionally encouraged by the state to remain poor. In contrast, in countries where universal provision of child benefits is prevalent, families are not discouraged to enter the labour market and can gain higher earnings without facing punitive marginal rates of taxation. Consequently, they will be much better off leading to greater impacts on poverty, when compared with countries that insist on targeting the poor. (See Box 1 for a simple example)

Box 1: Understanding the disincentives inherent in poverty targeting

Imagine a family receives \$10,000 a year in social benefits. If these benefits are withdrawn when families receive an income from employment of \$12,000, the effective salary gained is only \$2,000. This can act as a significant disincentive to enter employment or to gain a salary above \$12,000. So, a family with an income from work of \$13,000 in a country with this type of poverty targeting will remain with an income of only \$13,000.

In contrast, in a country providing universal benefits of \$10,000 a year, a family earning \$13,000 will end up with an overall income from both work and benefits of \$23,000. Their poverty will be significantly reduced when compared with a similar family in a country committed to poverty targeting.

⁶Cf. Mkandawire (2005)

The final challenge with poverty targeting in developed countries is that it can stigmatise people. As a result, many people refuse to accept benefits that are designed for the “poor.” A recent study in the UK indicates that there are as many as 3.6 million households that scorn poverty targeted “welfare” – which they regard as demeaning handouts – and have put their faith in their own labour to pull themselves out of poverty.⁷ Yet, many of these proud families are poor and even the smallest crisis – such as a broken refrigerator – can cause them tremendous financial difficulties. In contrast, such families are much more likely to accept social benefits that are universal and regarded as entitlements.

Therefore, the *design* of child benefits is an important factor in reducing child poverty in OECD countries; it is not only down to the amount invested. In fact, employment should be regarded as the main tool with which to address child poverty. So, it is critical that child benefits are designed in such a way as to encourage and enable parents – in particular single headed households – to enter the labour market and to accept benefits when they are needed, without feeling stigmatised. This means a greater commitment both to free childcare – rather than only cash transfers – and to universal targeting.

Unfortunately, ideology can be the enemy of good social policy. A recent study in the UK indicates that establishing free childcare for all families would easily pay for itself as a result of the greater tax income that would be generated (Ben-Galim 2011). Yet, despite the evidence from Nordic countries of the benefits for children of such a policy, free childcare for all has not yet been accepted in the UK.

What, therefore, are the lessons for social policy in developing countries? The analysis above suggests that there are two key lessons for developing countries. The first is that tackling child poverty requires a high level of investment and cannot be done on the cheap. Secondly, child benefits should be designed to encourage labour market participation and reduce stigmatisation. The next paragraphs look at each of these lessons in further detail.

Current levels of investment in child benefits in developing countries are low, especially when compared to developed countries (and, in many countries, they are non-existent). Indeed, even in OECD countries like Chile and Mexico, overall spending on child benefits – both cash transfers and in-kind benefits – is only 0.8% and 1% of GDP, respectively.⁸ In fact, well-known child focused programmes such as Oportunidades in Mexico, Bolsa Familia in Brazil and the Child Support Grant in South Africa cost as little as 0.4-0.5% of GDP.⁹ These low levels of spending are unlikely to have significant impacts on child poverty and it is unsurprising that child poverty remains at 22.4% in Chile and 25.8% in Mexico. As we have seen, this is similar to child poverty rates in the United States where spending on child benefits is only 0.7% of GDP.

The low levels of spending on child benefits in developing countries are a likely result of their being targeted at the poor. Since the majority of children – and families – miss out, there are low levels of political support for higher spending. The low spending on poverty targeted child grants compares unfavourably with the spending on universal pensions in developing countries – which tends to be above 1% of GDP in most countries with such schemes – despite a much lower proportion of older people.¹⁰ The universality of these pension programmes appears to be a key explanation for their greater political support and higher levels of spending.

There is little evidence that poverty targeting in developing countries creates disincentives to enter the labour market. Interestingly, this is almost certainly a result of the poor quality of targeting in developing countries. Most poverty-targeted transfers in developing countries have very high exclusion errors. For example, in Brazil, 59% of intended beneficiaries miss out on Bolsa Familia, and in Mexico’s Oportunidades the proportion is around 70% (Veras et al. 2007). The popular proxy means test targeting methodology – which is strongly promoted by targeting advocates – is also unlikely to have exclusion errors below 50%, even if perfectly implemented (Kidd and Wylde 2011).

⁷Butler (2012)

⁸Source: OECD (2011b)

⁹Source: Brazil and Mexico budget figures are from Fiszbain and Schady (2009) while the South Africa budget has been calculated from administrative data by the author.

¹⁰Source: Pension Watch at: www.pension-watch.net/pensions/about-social-pensions/about-social-pensions/social-pensions-database/

So, given that most beneficiaries should not be on poverty targeted programmes in developing countries anyway because they are too well-off, such programmes are unlikely to create significant work disincentives. Furthermore, re-targeting is often very infrequent. For example, in Oportunidades, in many areas re-certification only took place after 9 years (Zoletto 2011). When combined with the inaccuracy of targeting, this is further likely to diminish any disincentive to enter the workforce. However, as targeting improves, disincentives to enter the labour force are likely to increase.

The threat of being stigmatised by poverty targeting is, however, a challenge in developing countries, as evidenced in countries as diverse as Nepal, Malawi and Mexico.¹¹ As in developed countries, many poor people are proud and do not want to live on “handouts,” even though many have no choice but to accept them. Unfortunately,

the demeaning character of poverty targeting is not regarded as a concern by many policy makers or international development agencies. Indeed, stigmatisation is often used as a targeting tool, for example when lists of potential beneficiaries are posted on walls to enable community members to verify selection. Yet, moving towards a culture of entitlements within social security provision is likely to result in both a greater impact on poverty and strengthened self-respect.

There may be strong arguments for investing more in free childcare in developing countries, in particular in urban areas. Such initiatives could be linked to the extension of Early Childhood Education and could enable more young mothers to enter the labour force and gain additional income. In rural areas, the best form of childcare may be to establish universal pension schemes, so that grandparents can take care of their grandchildren, while mothers go out to work.

Conclusion

There are signs that lessons are being learnt on how best to tackle poverty in developing countries through social security. In a recent article, a former Minister of Planning in Chile appears to recognise that the Michelle Bachelet government of 2006 to 2010 was mistaken in focusing its attention mainly on the poor and should have also included the middle class in their social benefit programs (Hardy 2011). It seems to have made the classic mistake of believing that targeting the poor was progressive. It is, therefore, unsurprising that overall levels of social spending in Chile have remained low while inequality remains stubbornly high. Mexico is beginning to introduce more universal social protection, even if its current focus is old age pensions rather than extending Oportunidades. And, for many years, Brazil has provided almost universal pension coverage, with the result that the highest poverty reduction in Brazil is among households with older people, with Bolsa Familia being less effective in reducing poverty than the much more generous pension system (Barbieri 2010).

Child poverty is a complex problem to tackle, and child benefits should be seen as only part of a broader social policy package. Yet the experience from developed countries shows that child benefits can play an important role, providing they are designed well. Experience in developed countries suggests that developing countries should focus on two issues: they should consider providing more universal benefits, to build political support, increase budgets, avoid stigmatising the poor and reduce unacceptably high exclusion errors (while, potentially, reducing work disincentives in the future); and, they should examine how best to provide women with childcare so that they can comfortably enter the labour market, without worrying about their children’s well-being. If politicians are willing to be ambitious, effective measures to tackle child poverty in developing countries may become a reality.

¹¹Jha et al. (2009), Miller et al. (2008) and Adato et al. (2000)

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About The Author

Stephen Kidd is a Senior Social Policy Specialist at Development Pathways and has worked on social protection for many years. He believes that we can learn many lessons from the history of social policy in developed countries and apply them to developing countries.

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