Child poverty and child-well being in the European Union

Policy overview and policy impact analysis

A case study: Finland

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1 The nature of child poverty and the underlying factors

1.1 The children affected and their characteristics[1]

Overall poverty

In 2007 the overall at-risk of poverty rate (henceforth "poverty rate") of children in Finland was 11%, well below the EU average of 19%. A comparison of the poverty rate of children with that of the total population is affected by the definition adopted, probably most importantly by the equivalence scale used and the poverty cut off point. With this caveat in mind, the poverty rate of Finnish children is lower than that of the overall population, whose poverty rate is 13%, while in the EU as a whole, it is higher (around 3 percentage points higher).

A somewhat surprising fact is that the youngest (under 3) and oldest (12-17) children have the highest poverty rates – 13% and 14.5% respectively. The poverty rate of 6-11 year olds is the lowest at 8%. This U-shaped pattern is partly due to use of the modified OECD scale, which assigns children aged 14 and over the same weight (and implicitly assumes the same income needs) as adults. For example the income needs of a lone mother and a 15-year old child are rated as high as those of a childless couple despite the fact there is only one potential earner in the former case and so a lower overall level of income. Interestingly, the EU average increases as the child's age increases. The higher poverty rate of Finnish children under 3 is likely to be accounted for in part by their younger than average parents and the strong inclination of mothers of young children not to work (see below).

The lower poverty risk of children compared to the total population in Finland is not solely due to where the poverty line is fixed. The poverty rate is also lower at 40%, 50% and 70 % of the median as well as at 60% (the difference being 0.7, 1.4, 2.1 and 1.7 percentage points). The poverty gap of children is also lower than that of the total population and has the same U-shaped pattern as the poverty risk.

Intergenerational persistence

Studies of intergenerational persistence in Finland suggest that, compared to non-Nordic countries, Finland has relatively low persistence of income between generations. A fairly typical measure of this is the intergenerational elasticity (IGE), which measures the expected percentage difference from a given percentage difference in the income of fathers. For instance, if the IGE is 0.5, this means that 10% higher parental income is expected to be associated with income of children. In a recent survey of the literature, Björklund & Jäntti (2009) suggest the intergenerational elasticity of father-son pairs in Finland is around 0.27, which can be compared to about 0.45 in the United States (see also Solon, 1999; Corak, 2006).

The difference between the Nordic countries, Finland included, and the United States, is particularly pronounced among sons of the most disadvantaged fathers. Jäntti et al. (2006) estimate the likelihood of sons of the poorest fifth of fathers ending up in the lowest fifth and in the richest fifth of the population. About 28% remain in the lowest fifth in Finland, compared to 42% in the US, and 11 % rose to the richest fifth, compared to 8 % in the US.

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1 This study draws on a recent publication, Lammi-Taskula et al. (2009), contains several research chapters that examine the well-being of households with children in Finland. Salmi et al. (2009) examines the economic well-being of all children and Pylkkänen (2009) looks at lone parent households. Statistics Finland has also recently published a compilation of statistics relating to children, including information about their households' income and consumption levels (Tilastokeskus, 2007). EAP-FIN (2007) is a well-argued set of propositions by NGOs to combat child poverty, none of which are likely to be implemented as policy.

These differences are measured for sons born in the early 1960s. However, there is some information about both how intergenerational persistence has changed and why. In particular, Pekkarinen et al. (2009) examine the IGE for men born before the implementation of comprehensive school reform – which increased the length of compulsory schooling by one year and postponed the "tracking" of children into academic and non-academic streams from 11 to 16. They find that the IGE was reduced (depending slightly on the exact details) from 0.296 to 0.230. This decline of 0.066 is comparable to the country differences that are reported among developed nations. Only those born in 1966 and after had the advantage of the reformed nationwide comprehensive school system and we do not know how intergenerational persistence has developed for those born in the 1970s and later.

Studying intergenerational persistence among women is complicated as the institutional factors that affect the labour market behaviour of women are very different and have changed differentially in different countries. One study, Raaum et al. (2007), finds that once family circumstances are taken into account, Nordic women tend to exhibit less intergenerational persistence than women in either the UK or the US. In particular, the earnings of their husbands or partners affect women's involvement in the labour market less in the Nordic countries, which lessens the extent to which women's earnings depend on those of their parents.

The evidence, therefore, suggests that while there is some intergenerational income persistence in Finland, it is small compared to that in other developed countries and that education policy has further mitigated that dependence.

Determinants of child poverty

As noted above, poverty among children in Finland is more common among those under 3 and 12-17. Child poverty is likely to decrease as the age of the father increases and follow the same U-shaped pattern with regards to the age of the mother . However, having a parent below 30 increases the risk of child poverty significantly (by 35% for a father under 30 and 45% for a mother), as in other countries across the EU.

Family structure is an important determinant of the risk of poverty. Children in lone-parent households have close to twice the poverty risk of all children, which mirrors the EU average. In Finland like other EU countries there is also a greater risk among children in families with 3 or more children..

In Finland, the employment of parents w is a strong determinant of child poverty. The relative poverty risk of children with parents who were not employed at all during the year was close to 5 times that of all children, where as those of parents who worked a full year had a relative poverty risk of only 0.32. This gradient is steeper than the EU average but in Finland fewer children have parents who are not in employment or work relatively little than in other countries.

The relative poverty risk of Finnish children decreases strongly with parental education. The risk of a child with a father with tertiary education is only 40% of the average for children while for a child with a father with a low level of education, it is 39%. When both parents have low education, the poverty risk is more than twice (2.2 times) that of children on average whereas if both have high education it is close to half that risk - 0.53.

There is no substantial difference between the risk of poverty in urban and rural areas, which is also the case in the rest of the EU. While there is an increased risk of poverty for children whose parents suffer from a long-standing illness or condition this does not appear to be an important determinant of child poverty as a whole.

Accordingly, children living with parents with a low education level have a much higher risk of poverty than average in Finland. Living with a lone parent is also a major determinant of child poverty (see Gornick & Jäntti, 2009).

1.2 Trends

Estimates of child poverty trends in Finland stem from the Income Distribution Survey (IDS) conducted annually by Statistics Finland since 1987. The IDS has been the underlying source for both the Finnish ECHP and EU-SILC. While the exact definitions of disposable income in the IDS, ECHP and EU-SILC data vary; the trend data reported here rely on the IDS definition that has change little since the early 1990s. It is also reasonably close to both the ECHP and EU-SILC definitions.

While the poverty of children in Finland is lower than in many other countries, child poverty has increased rapidly since the mid-1990s. The government noted in its mid-term assessment that child poverty has increased from about 5% to 12.3 percent between 1995 and 2005 (Valtioneuvosto, 2009). A later assessment using 2007 national data suggests a further increase to 14% (Salmi et al., 2009).

The increase in poverty among children is ascribed to an increase in overall inequality. However, that increase in overall inequality is in turn partly due to political decisions taken to reduce income transfer programmes in the wake of the 1990s economic depression Kosunen (1997) and of the movement to increase work incentives later on Kannustinloukkutyöryhmä (1996). The impact of political decisions on the distribution of income, in particular for the worst off, has been dramatic. Honkanen et al. (2007) examine a widely used decomposition of overall inequality (the ratio of the natural logarithm of the 9th decile to the first), which measures income distribution differences at the top compared to the bottom. They find that of the overall increase between 1995 and 2004 in inequality, about seven-tenths could be accounted for by changes in legislation on taxes and transfers (Honkanen et al., 2007). In other words, the bulk of the relative decline in the income of those in the bottom decile is accounted for by legislative decisions rather than changes in underlying circumstances. While these estimates relate to the overall population rather than being specifically targeted at families with children , the nature of the Finnish welfare system suggests that this relative decline is widely shared by children too.

The link between child poverty and lone parent families is well established. Children with lone parents had roughly twice the risk of poverty of all children – 10% – in 1995. By 2007, the proportion at risk was 25% (Valtioneuvosto, 2009, p 88).

1.3 Absolute poverty

Material deprivation

Although there are no estimates of the relative number of children in absolute poverty in Finland, data from the EU-SILC on material deprivation provide some, if limited, indication of this. The material deprivation of children, as measured by the proportion of households in which they live that are unable to afford three of more items of a list of 9 basic goods and services in common use is 9.8%, marginally above the average for all households (9.4%) .. Around 4% of children have both income below the poverty threshold and are materially deprived on this measure., around half the average in the EU as a whole.

1.4 Persistent poverty

Longitudinal data from the EU-SILC for the 4 years 2003-3006 give an insight into the extent of persistent poverty among children. These show that around 64% if children who were at risk of poverty in 2006, in the sense of having income below 60% of the median, also had income this low in at least two of the preceding three years (the measure of persistent poverty used as indicator of this at EU level), This is around the average for the 10 countries for which these data are available and implies a persistent poverty rate of some 6.7% among children, slightly higher than in Sweden in which the proportion of children at risk in 2006 is around 1 percentage point higher).

2 Impact and effectiveness of policies in place

Policy impact of transfers

Income transfers are frequently targeted at families with children, even when not considered part of family or child-related benefits. For instance, households with children receive 1.6 times more overall social transfers (excluding pensions) than their share of population share. This “excess share” of social transfers is partly due to child-related conditions attached to general social transfers (i.e. the presence of children result in larger payments)and partly because households with children are more often in a vulnerable position. The Finnish “excess share” of social transfers is less pronounced than the EU average, which reflects the fact that even if children are taken into account when the size of the transfers is determined, often children do not affect eligibility.

Households with children aged under 6 are overrepresented as recipients of both types of transfer, in the sense that they receive more than their share of total children, and more so than the EU average. Interestingly, lone-parent households receive slightly *less* child-related transfers than their share of population while they receive slightly *more* social transfers overall, in both cases much less than the EU averages. Transfers in Finland are very much geared towards families with three or more children, who receive a much larger share of payments than their share of population, though the extent to which this is the case is till less than the EU average.

Transfers in Finland are by contrast relatively well targeted on children in households at risk of poverty, which receive more than their share of population and more so than in the rest of the EU on average. On the other hand, transfers go less to children in households with low work intensity than the EU average, though still more than their share in the population. Overall, total transfers go more to children in migrant families than their share of population and more so than the EU average.

Transfers are an important part of household income in Finland, especially for families with children (Panel B). While general social transfers account for 20 of income of all household, family benefits add a further 12% to the income of households with children, bringing the overall share of transfers to one third, larger higher than the EU average (a quarter).. (It should be noted, however, that most social transfers in Finland are treated as taxable income, so part of their large share is due to measuring them in gross rather than net terms).

Both child-related and other transfers are important components of income in households with low work intensity. Jobless households with children, in particular, receive 87% of their income from social transfers. The share of transfers in household income declines very rapidly and is less than 10% once parents are in full-time employment. Transfers are especially important for households where both parents are born outside of the EU, reflecting the disadvantageous employment position of those born outside the EU.

In terms of the poverty-reducing effect of transfers, both child-related and overall social transfers appear relatively effective (Panel C and C ibis), with a considerably larger effect in Finland than in the EU on average.. The effect in reducing the risk of poverty is reasonably similar for children in different household types (the exception being the “other” category).

The effect of transfers in reducing the risk of poverty for children in households with different levels of work intensity decline markedly as work intensity decreases, reflecting the fact that households with higher work intensity tend to have income closer to the poverty threshold.. The effect of transfers in reducing the risk of poverty among children with migrant parents is, however, strikingly in both absolute terms and relative to the EU average.

2.1 Overall policy approach

The Finnish policy approach to child poverty reduction is outlined quite concisely in Jalava (2007) and in Hiilamo (2008), which discusses the approaches taken in all Nordic countries. Child poverty in Finland is discussed in a wider international context in Gornick & Jäntti (2009).

Finland has an extensive set of income transfer programmes, some of which are directed towards supporting families with children in general and some, while contingent on other factors, such as unemployment or low income, are larger if children are present, as noted above. The levels of many transfers were cut in the wake of the severe economic recession in the early 1990s and have not been raised back to their earlier levels in real terms. Further cuts were made to many benefits in 1996 as part of an effort to increase work incentives. Some benefits have since been raised somewhat, especially those targeted at low income families with children. Major changes in transfer programmes are likely to follow from the ongoing broad-based exercise of reforming the whole system of basic social transfers, the so-called SATA-committee[2], which is expected to complete its work in late 2009.

Main features of policy

A reduction in child poverty is one of the goals of the current Finnish government (Valtioneuvosto, 2007b, p 55). The government strategy document (*Valtioneuvosto*, 2007a, pp 44-45), which outlines in greater detail how the government programme is to be implemented, notes that the risk of child poverty, as measured by the EU, has increased from 4.9% in 1990 to 12.3% in 2004. It further notes that there is a greater risk of child poverty in lone-parent households, and in households with young as well as many children. The increased reliance of lone-parent families on social assistance is also noted. Neither government document attaches any specific quantitative targets to the reduction in child poverty. The Government's Child and Youth Policy Programme (Ministry of Education, 2008, p 50) also notes the need to pay particular attention to low-income families with children. While no specific targets are listed, the programme includes the need for income support of children in low income households within the general framework of making sure that all children have equal access to societal goods and services.

The policies listed as combating child poverty include an increase in the lone-parent supplement to child allowances and the raising of the minimum levels of parental benefits to that of unemployment assistance (*työmarkkinatuki*). The mid-term assessment of the government *Valtioneuvosto* programme (2009, p 101) notes that, in addition to from the increase in the lone-parent supplement, child benefits to families with 3 or more children were also increased. The home-care allowance, i.e., income support to those taking care of small children at home (*kotihoidontuen hoitoraha*) was increased and public alimony payments were also raised.

It is probably fair to say that, while a substantial part of income transfers are not specifically targeted at low-income families with children, many different types of transfer programme contribute to reducing child poverty. Such programmes include unemployment insurance and assistance schemes, parental leave, housing allowances, social assistance and sick leave.

The thrust of government policy in the past decade or so has been to increase participation in paid work, which has included the provision of childcare for the parents of young children. This general tendency has in part been counteracted by home-care support, which pays for the care of small children outside of the formal day care system. While in principle this is flexible, in practice, it is a subsidy that is contingent on the mother staying at home and strongly discourages mothers from working.

[2] The committee consists of one central committee and several sub-committees and involves close to 100 politicians, civil servants and members of both employers' and employees' organisations.

Clarity of objectives and targets

As mentioned above, the objectives relating to child poverty are quite vague, the aim simply being to bring about a reduction. The main thrust of the current government's policy has been to increase the support to children of lone mothers through increased child allowance supplements and increased and more effectively distributed public alimony, plus a rise in child allowances to large families. As these groups are particularly at risk of poverty, these measures t are likely to be effective in reducing the overall number of children at risk. There are no estimates as yet, however, of their effects.

2.2 Income support

Income support is provided through a wide range of programmes in Finland. Very few of them are specifically targeted at families with children, but all of them recognise the presence of children as grounds for reduced means tests and/or increased generosity of benefits. Moreover, many programmes explicitly make lone parenthood a criterion for increased support.

2.3 Access to the labour market and income from employment

Main programmes

The main ways to support access to employment for parents is through parental leave legislation, public support for childcare and unemployment benefits. An important element in all of these is to provide income for parents who cannot earn enough to support themselves, but also to maintain an attachment to the labour market in the event of having children or becoming unemployed.

Parental leave: The purpose of parental leave schemes is to allow parents to retain an attachment to the labour market – or their employer – when they have a child.

Maternity allowance/leave: of 105 days (excluding Sundays and other holidays), which must start between 50 and 30 days before the expected date of the birth of the child. Collective agreements in most cases require the employer to pay a full salary during maternity leave, in which case the allowance is paid to the employer concerned.

Paternity allowance/leave: consists of up to 18 days of leave, to be taken immediately following the birth of the child. During leave, the employee receives no salary and the allowance is paid to the father.

Extended paternity leave: a father is eligible to an additional full month's leave if he has taken at least 12 days of paternity leave.

Parental allowance/leave: of 158 days, which can be taken by either parent, or both on a part-time basis, following maternity leave. In the case of multiple births, the allowance is extended by 60 days for each additional child.

Subsidised parental leave in one form or another lasts up until the child is 9 or 10 months old, depending on whether the extended paternity leave is taken up or not. Parents are also entitled to take care leave without pay (but with a guarantee to be able to return to their job) up until the child is 3 years old. Parents can also be granted a subsidy for working part time if this can be shown to be for caring for a child at home.

Childcare: The care of children under 6 (after parental leave) consists of several alternative and partly overlapping programmes. Children under 3 have a so-called subjective right to public childcare, in that everyone that asks for a place in a publicly provided, or publicly subsidised, childcare facility is entitled to receive it.

Childcare is provided or supported in three main ways. Parents may place their child in a municipal childcare centre or in a private, but municipally regulated, care facility, in which case they receive an allowance towards the costs. In both cases, the public sector subsidises childcare, the size of the subsidy depending on family income. They may also choose instead to take up the child home care allowance. The likelihood that a child receives childcare increases greatly as they get older. In 2007, one in four (27%) of children under 3 received some form of childcare. Detailed data for 2005 (Tilastokeskus 2007) shows that the proportion is around 2% for those under 1, 33% for those age 1-2 and 49% for those aged 2-3. About 80% of children aged 3-5 receive formal care. Children in households at risk of poverty are less likely to receive such care – only 12% of those under 3 and 70% of 3 to 5 year olds.

Around one half of all children under 6 in two-parent families have both parents working, and 90% if they receive formal day care. One half of all children under 6 in lone-parent families have a working parent and three quarters if they receive formal day care (Tilastokeskus 2007, pp. 8-9). The home care subsidy, and the associated possibility for leave of absence until the child is 3, is widely believed to reduce the employment of women with young children. Once the youngest child is over 3, the m employment rate of women tends to increase markedly.

Access to the labour market

Public childcare in Finland is geared towards supporting the employment of parents. The policy, however, could be better coordinated with that of reducing child poverty,. For instance, the cost of childcare is related to income. If family income is less than EYR 1,500 e a month, no childcare cost is charged. The income limit is not coordinated with the risk of poverty threshold. A two-parent family with two children under 14 has a poverty threshold of EUR 2,943 a month and a lone parent with two young children, one of EUR 1,743 a month, so many children in households at risk of poverty will be charged for their day care (see Salmi et al., 2009, p 79). Moreover, the increase in childcare costs with income means that on moving from unemployment to employment, the marginal effective tax rate of a household may well be pushed up by the increase in childcare costs.

With one major exception, social policy in Finland has since 1996 been strongly geared to strengthening the incentives to work (see Honkanen et al., 2007). While there are still many cases of marginal effective tax rates for someone moving into employment "that exceed 100 percent as a result of the withdrawal of public transfers and increase in direct taxes as earnings rise so that net disposable income actually *decreases* as someone becomes employed. Both the average rate and the incidence of very high marginal effective tax rates have been brought down in recent years. An important element in this has been to increase allowances against tax on earnings but not on transfer income (*ansiotulovähennys*).

The work incentive problem has to a large extent affected families with children, since these are also the main recipients of multiple income transfers. In this sense the efforts to increase work incentives can be said to have been targeted at families with children. However, as discussed above, this also means that policy has specifically and intentionally increased income differences at the low end of the distribution scale and has so contributed significantly to increasing child poverty.

Ensuring adequate income from work

There is no legislated minimum wage in Finland. Collective agreements cover the majority of workers and these agreements generally set the level of minimum wages. As a consequence, the lowest wage levels vary across industries. Full-time work at even the lowest wages is in general enough to lift families with children above the poverty threshold when combined with universal child allowances and means-tested benefits. The risk of poverty among those in work is, therefore, chiefly concentrated on parents in less than full-time employment.

2.4 Access to other enabling services

Housing and the environment

In Finland housing costs are subsidised in two ways. Housing allowances are transfers that support low-income households and can be given to both those renting accommodation and homeowners. The allowance is larger if children are present. Interest paid on housing debt can be deducted up to a maximum amount from taxable income, which subsidises owner occupation for middle and upper income households. This subsidy is of course by its nature not well targeted on low-income households. Housing allowances, by contrast, are a major reason for high marginal effective tax rates for those moving into employment and are a likely target if further reductions in perceived work disincentives are to be achieved (Honkanen et al., 2007).

2.4.1 Other policy areas

Government policy measures that affect children and young people are combined in the p programme mentioned above (Ministry of Education, 2008). The programme covers a wide range of policy areas and objectives, including IT, community participation, welfare, juvenile delinquency, access to education and employment, social services, access to health and health equity and the economic well-being of families. Several Ministers are responsible for the programme at government level. The programme was first adopted in 2007 and it is too early to assess its effects.

Conclusions

The risk of poverty children in Finland is low by international standards but high by historical standards, having almost trebled in the past 15 years.

While transfers are relatively effective in reducing the risk of poverty, they are far lower than in the early 1990s. The increase in the risk among children can, therefore, at least in part be attributed to lower government transfers. Reductions in their real were motivated by fiscal reasons as well as by the aim of increasing work incentives.

Clearly, an increase in the value of transfers will lead to lower child poverty. Given the substantial budget deficits which are likely to result from the current recession, it is unlikely that such increases will be forthcoming. The consensus among economic forecasters is also that unemployment is likely to continue to increase for quite some time even if the economy were to pick up soon. Increased unemployment is almost inevitably accompanied by withdrawal from the labour force – i.e. by increased rates of inactivity. As many of those concerned will be parents, this is likely to further increase the risk of child poverty. While policy is relatively effective at reducing this risk, it has been far less so for households with very low work intensity. In consequence, educing the child poverty that results from labour force withdrawal and long-term unemployment is likely to be a major challenge for policy in the next few years.

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