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# *Why invest in children? The role of social investment in reducing child poverty in Europe*

Kāpēc ir vērts ieguldīt bērnos? Sociālo investīciju nozīme bērnu nabadzības mazināšanai Eiropā

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# Outline

- Why invest in children?
  - Right on its own
  - Interdependency and complementarity of skill formation
  - Life-cycle
- Mechanisms behind inequality in opportunities
  - Intergenerational transmission of poverty and aspirations
- Policy response: social investment
  - "Stock": raising the quality of human capital and capabilities
  - "Flow": improving/easing (gender-equal) access to the labour-market
  - "Buffer": fostering a strong minimum-income universal safety net
- Factors associated with child poverty
  - Access to labour market
  - Single breadwinner families
  - Access to daycare
  - Access to family-friendly workplace arrangements
  - Access to family benefits
- The impact of the economic crisis & social policies



# Why invest in children? (1)

## (1) Right on its own

Convention on the Rights of the Child (General Assembly Resolution, 1989):

Article 6.2: “States Parties shall ensure to the maximum extent possible the survival and development of the child.”

Article 26.1: “States Parties shall recognize for every child the right to benefit from social security, including social insurance, ...”

Article 27: “States Parties recognize the right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development.”

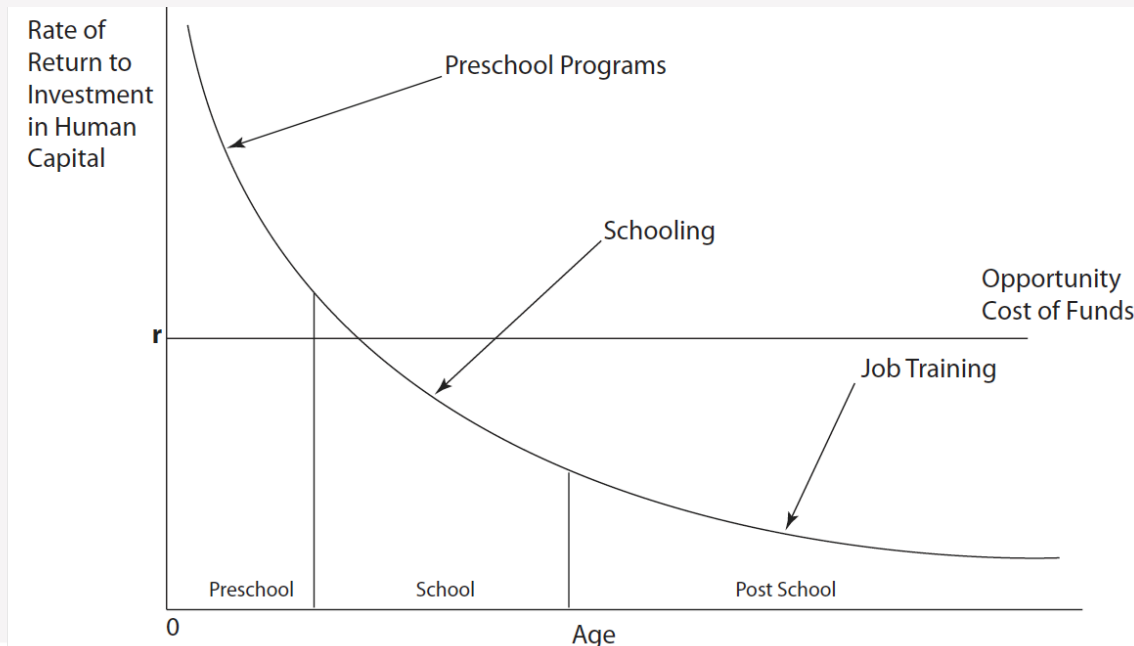
Article 28.1: “States Parties recognize the right of the child to education ...”



# Why invest in children? (2)

## (2) Interdependency and complementarity of skill formation:

- Cognitive and non-cognitive skills that are needed for **productivity** are **formed early** in life
- Influences accumulate: a person's ability and productivity are determined during childhood
- Highest return to investment at an early age: early investments increase returns of later investments
- Investments at a later stage to compensate for neglect in the early years is expensive



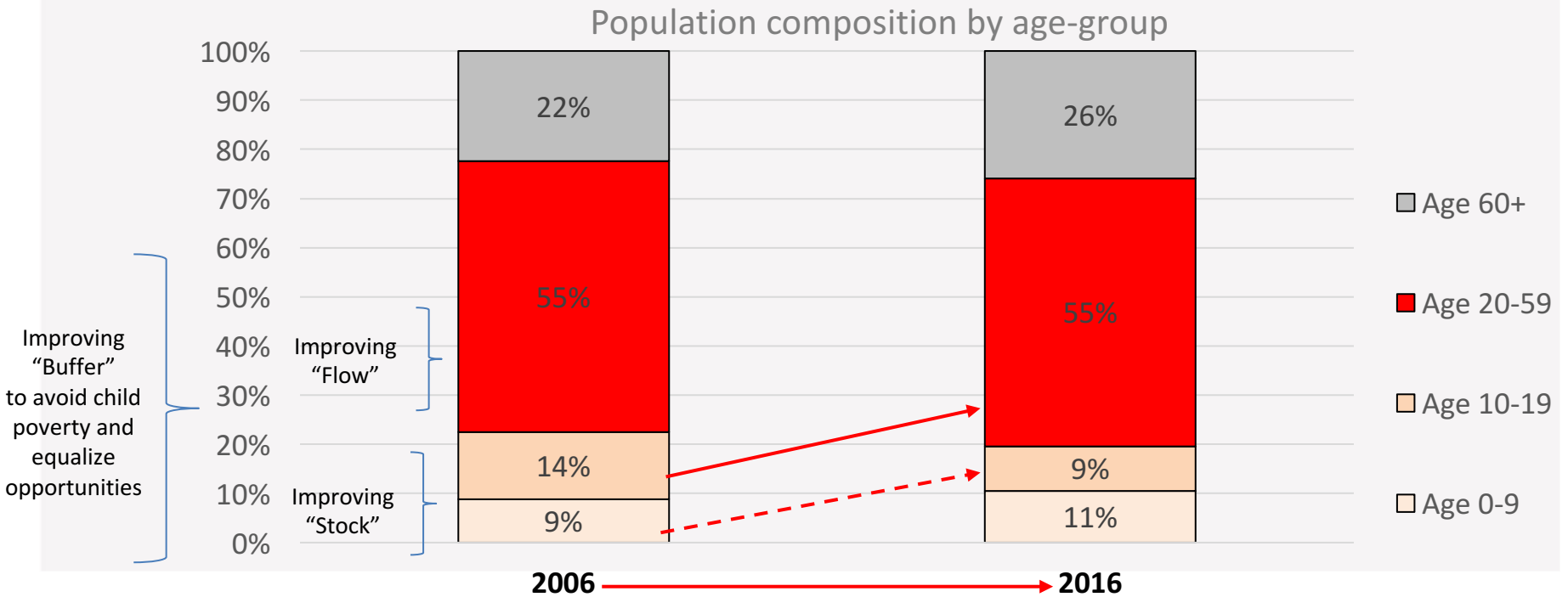
Rates of Return to Human Capital Investment Initially Setting Investment to be Equal Across all Ages



# Why invest in children? (3)

## (3) Life-cycle:

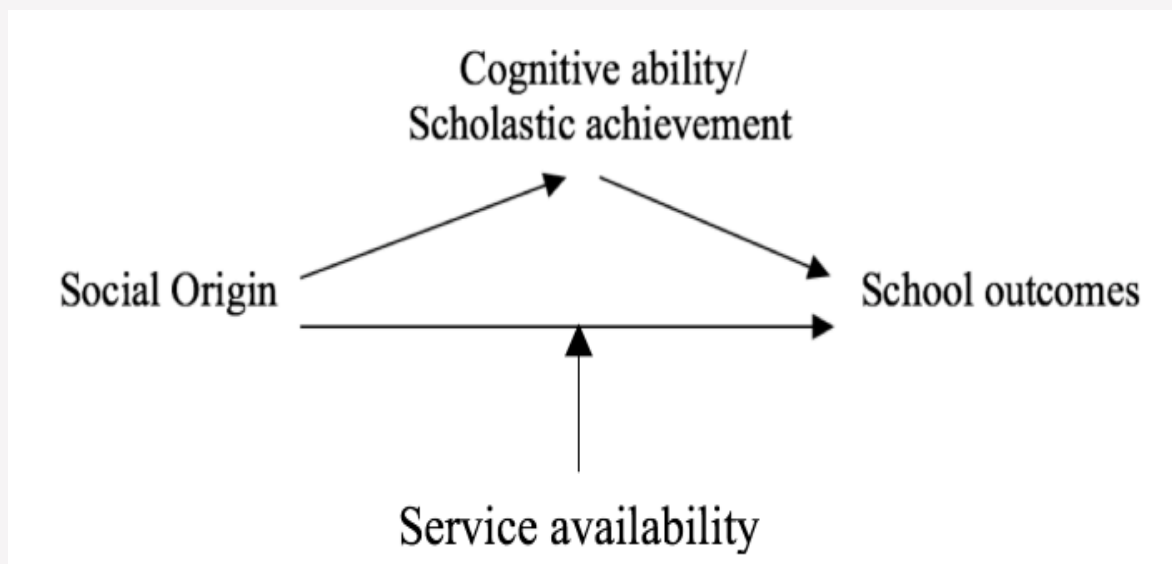
- Tax base of the working-age population (in red) depends not only on the working-age population size, but also on: employment rate, salary size, share of skilled/unskilled (by gender)
- Life-cycle perspective: investments in cognitive and skill development made at age 0-19 affect employment quantity, employment quantity, and wages at age 20-59





# Mechanisms behind inequality of opportunity (1)

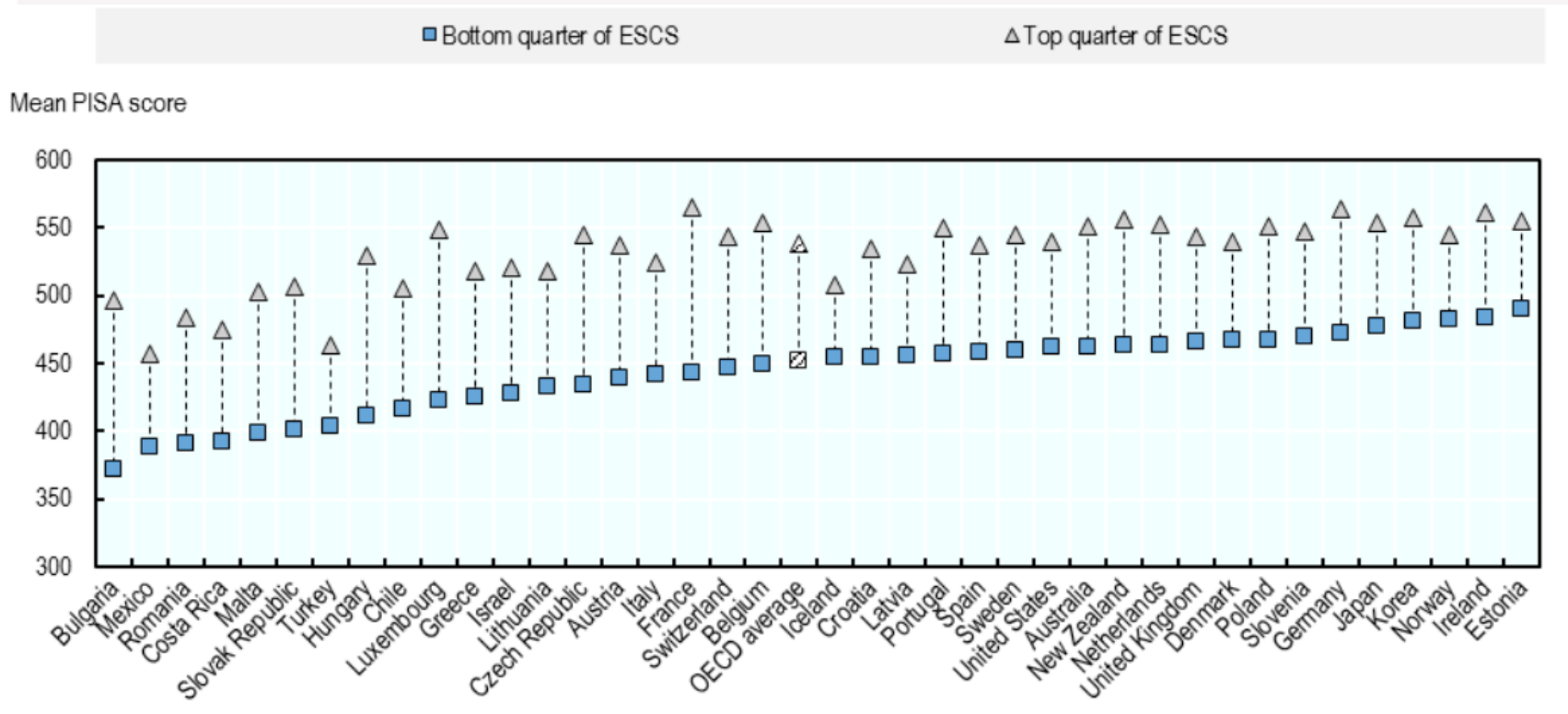
- Primary effects: Inadequate scholastic achievement  
*(due to unequal cognitive and behavioral stimulus in early childhood)*
- Secondary effects: Inadequate educational choices  
*(due to unequal access to information and services)*





# Mechanisms behind inequality of opportunity (2)

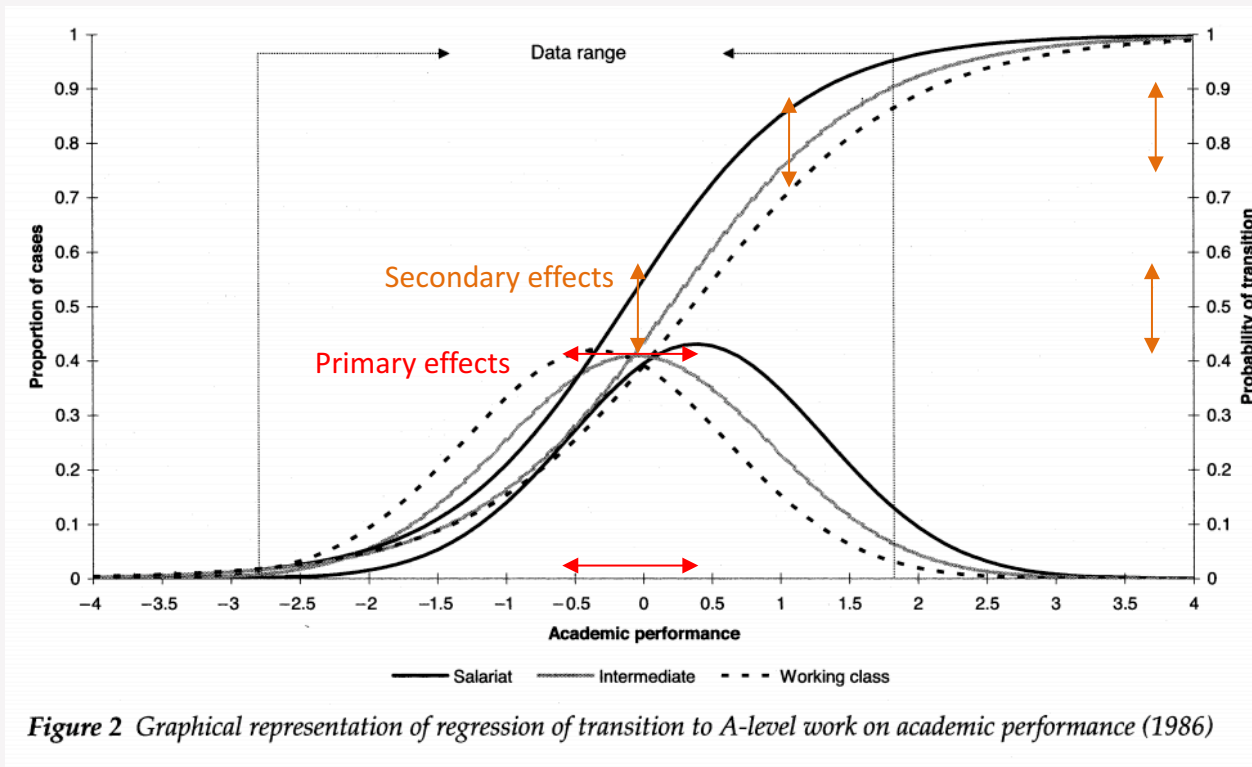
PRIMARY EFFECTS: Student educational performance by parents' socio-economic status (2015):



→ PISA test score gap between better-off and worse-off families (OECD average): 86 points (Equal to roughly 2.4 years of schooling)

# Mechanisms behind inequality of opportunity (3)

## SECONDARY EFFECTS: choices made



→ Given the same level of academic performance (e.g. 0 on the x-axis), working class children are less likely to transit to higher educational levels than children from upper class (probability of transition: 40% vs. 60%)





# Mechanisms behind inequality of opportunity (4)

	Percentage of students who expect to complete a university degree		Difference in the percentage of children of white-collar workers and children of blue-collar workers <sup>2</sup> who expect to complete a university degree (white - blue)
	%	% dif.	
OECD average	44.2	25.5	
OECD	Australia	54.2	25.7
	Austria	27.1	25.8
	Belgium <sup>3</sup>	32.9	22.8
	Canada	63.5	27.4
	Chile	66.6	27.2
	Czech Republic	55.6	36.3
	Denmark	37.2	20.4
	Estonia	42.8	32.8
	Finland	27.1	24.1
	France	32.0	27.8
	Germany	17.8	17.2
	Greece	66.3	32.0
	Hungary	35.5	39.5
	Iceland	38.9	18.8
	Ireland	46.3	24.2
	Israel	57.0	27.7
	Italy	38.3	27.0
	Japan	58.7	28.5
	Korea	75.3	19.8
	Latvia	24.7	22.5
	Luxembourg	41.4	34.6
	Mexico	58.4	21.2
	Netherlands	17.4	16.4
	New Zealand	45.2	21.5
	Norway	24.1	11.3
	Poland	48.0	35.0
	Portugal	39.9	32.8
	Slovak Republic	m	m
	Slovenia	25.8	23.8
	Spain	51.0	33.7
	Sweden	38.7	25.5
	Switzerland	27.0	23.6
	Turkey	70.6	15.4
United Kingdom	41.8	22.5	
United States	76.0	20.7	



# Policy response: social investment

## Policy interventions:

- Improving “**Stock**”: Raising the quality of human capital and capabilities **early**  
*Aim: equalize opportunities by developing cognitive and social skills (focus on the first years of life)*  
*Policies: daycare, preschool, parental counselling, information dissemination.*
- Increasing “**Flow**”: Improving/easing (gender-equal) access to the labour-market  
*Aim: career continuation without interruptions for women with small children;  
equalize work-life balance to allow a dual earner model to avoid risk of poverty & exclusion*  
*Policies: universal/subsidized daycare; flexible parental leave; flexible working hours*
- Safeguarding “**Buffer**”: Fostering a strong minimum-income universal safety net  
*Aim: reduce risk of poverty for all family types; compensate for child-related opportunity costs*  
*Policies: child benefits and social assistance, by family type (no ‘one-size-fits-all’)*

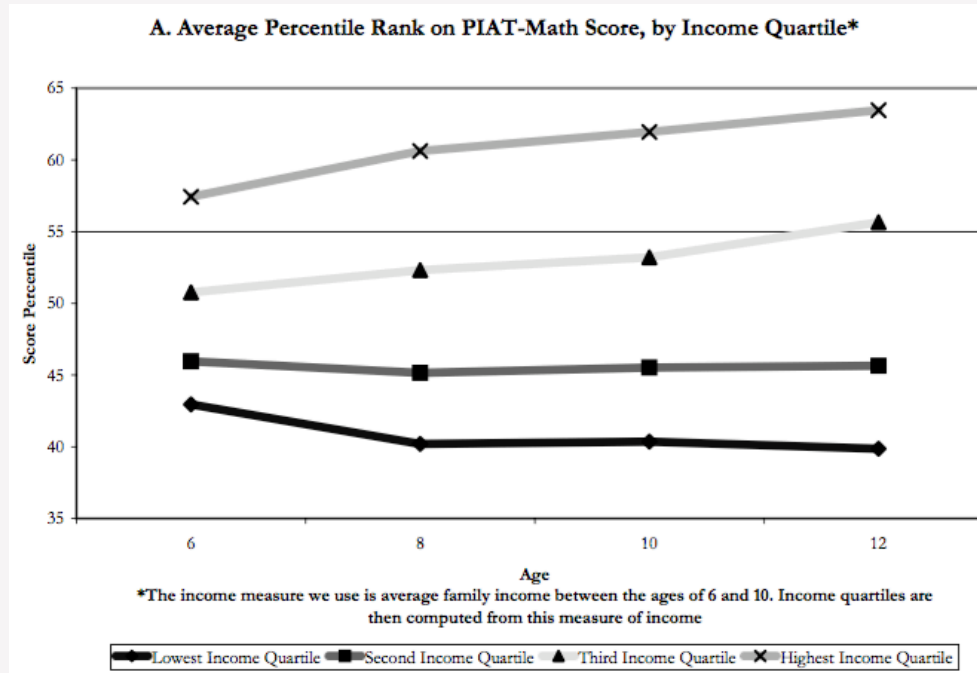
[Source: Hemerijck, 2017]



# “Stock”: quality of human capital

Differences in cognitive skills emerge early (at age 0-3), and are strengthened with age (in school)

Example: USA



## Policy response:

- Child poverty reduction (equalizing living conditions)
- High-quality pre-school provision at an early age (**already at age 0-3**)
- Organized after-school activities and summer-school activities to compensate for lack of cognitive stimulation



# “Flow”: Easing access to labour-market

“Empirical evidence shows that (gendered) employment opportunities are key to effective poverty mitigation”

*(Esping-Andersen et al., 2002)*

Emphasis on:

- Avoiding career interruption for women with small children
- Promoting dual “parental leave” model
- Promoting dual earner model (already for families with children of age 0-2)



## “Buffer”: safety net

- A strong minimum-income universal safety net to help reduce child poverty and facilitate access to services (e.g., housing, day-care, health-care)
- Support the most vulnerable families (e.g., lone parents, single mothers, low-income families with children)
- Offset opportunity costs of having children (e.g., less time to work, childcare and daycare expenses; high opportunity costs to take-up employment, especially among lower-educated, lower-skilled adults; ‘regressive tax of day-care’)
- Focus not only on large families with 3+ children, but also families with 1-2 children; Families with 1-2 children at-risk-of-poverty as parents are generally younger and at the beginning of their careers, requiring support for family-work life reconciliation



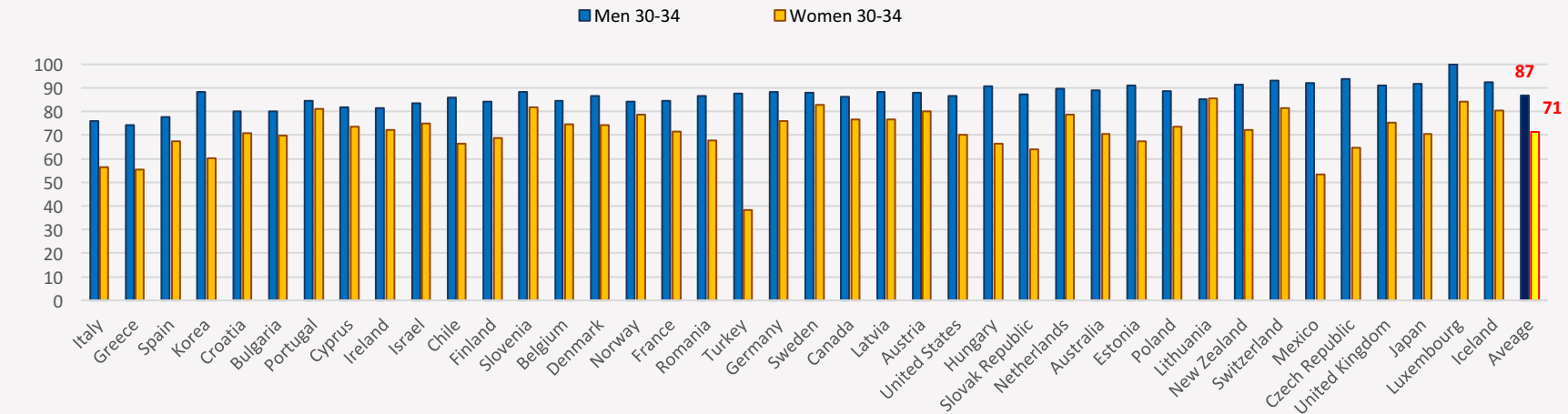
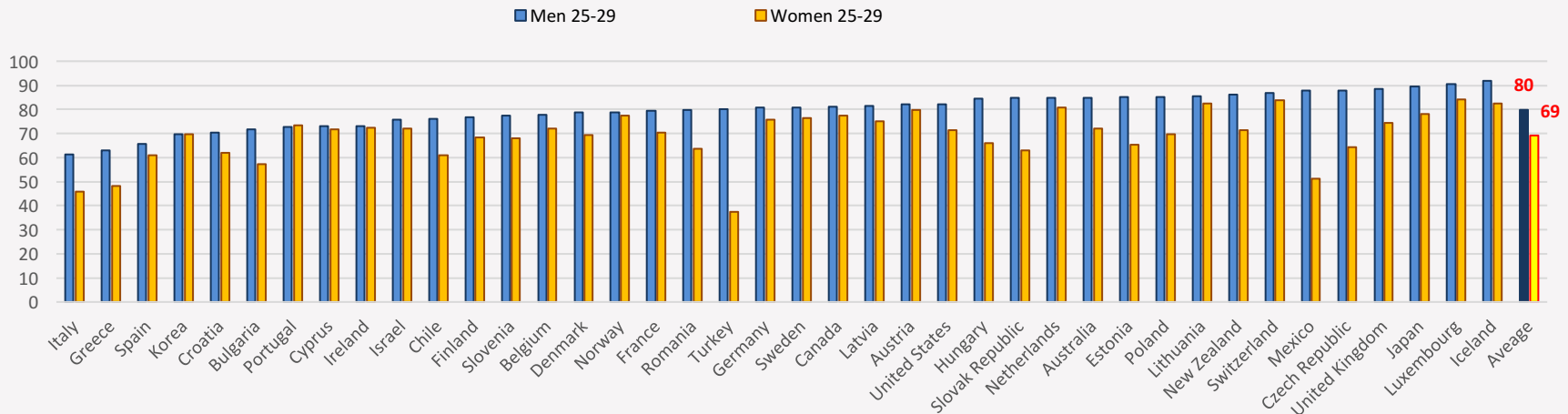
# Factors associated with child poverty

- Single breadwinner families (importance of male & female access to labour market)
- Access to daycare
- Access to family-friendly workplace arrangements
- Access to family benefits



# Access to labour market

## Employment rates by gender and age-group (2016)

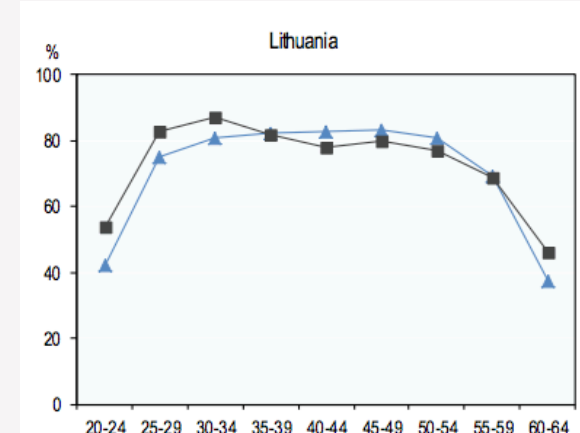
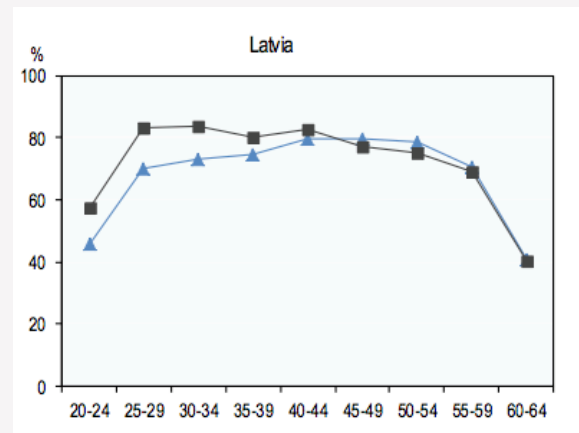
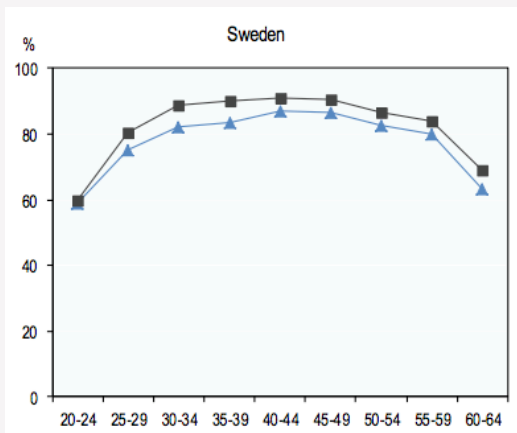


- Employment gap increases from 11 to 16 pp between age 25-29 & 30-34
- Critical time for both, family formation & first career to gain financial stability



# Access to labour market

- *Male employment rates by age*
- ▲ *Female employment rates by age*



Source: OECD, 2016

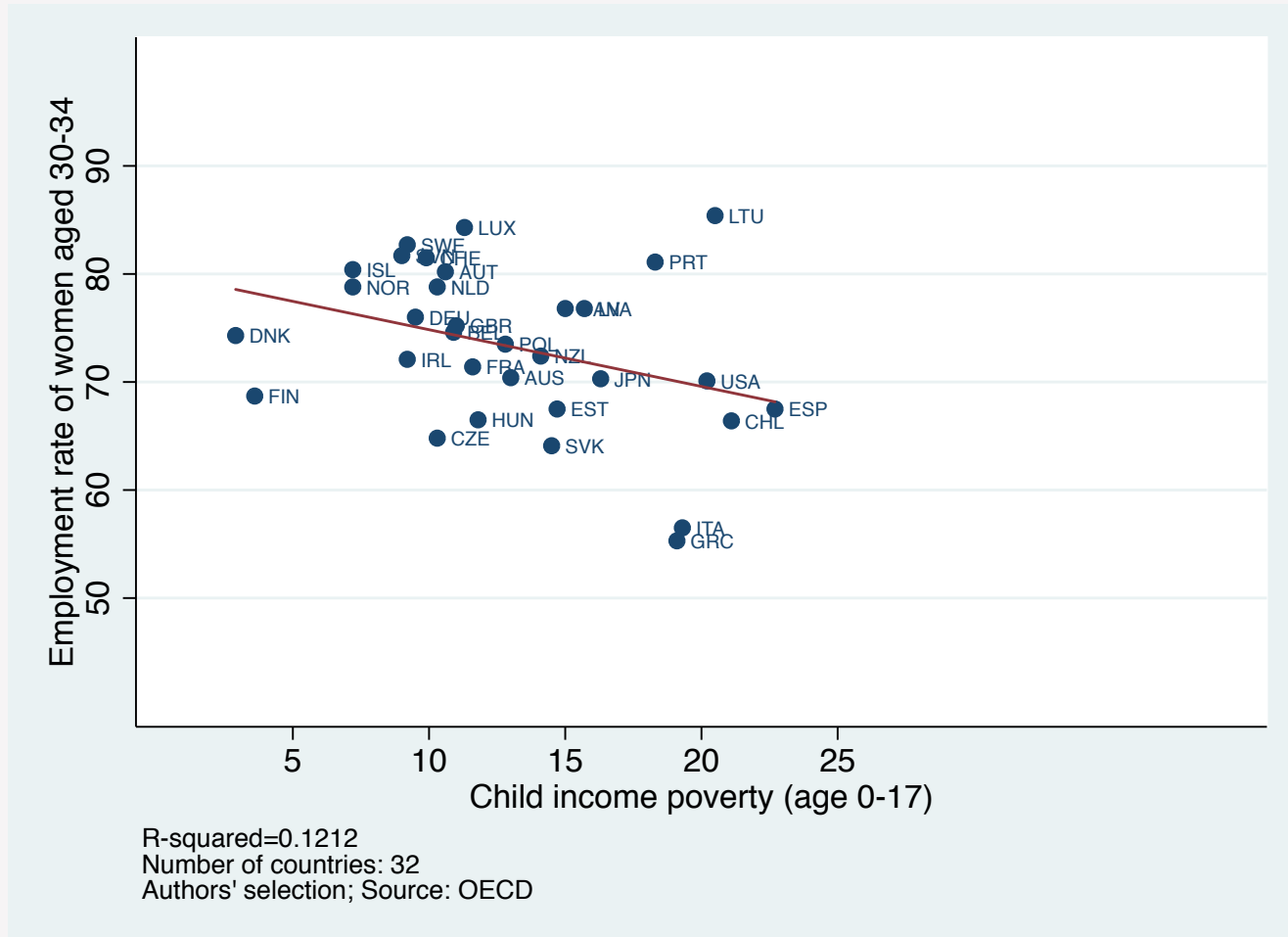
- Gender gap in employment rates similar across all age-groups for some countries (e.g. Sweden), and different by age-group in other countries (e.g., Latvia where gender gap is large among adults aged 25-34)
- Age 25-34 critical for both, family formation & first career to gain financial stability;
- Gender gap in employment at age 25-34 can have negative long-term consequences for families' future income: career interruption and loss of qualification can have negative effects on future earnings and thus increased risk of poverty at household level





# Access to labour market & child poverty

Association between female employment at age 30-34 and child poverty (2014-2016)

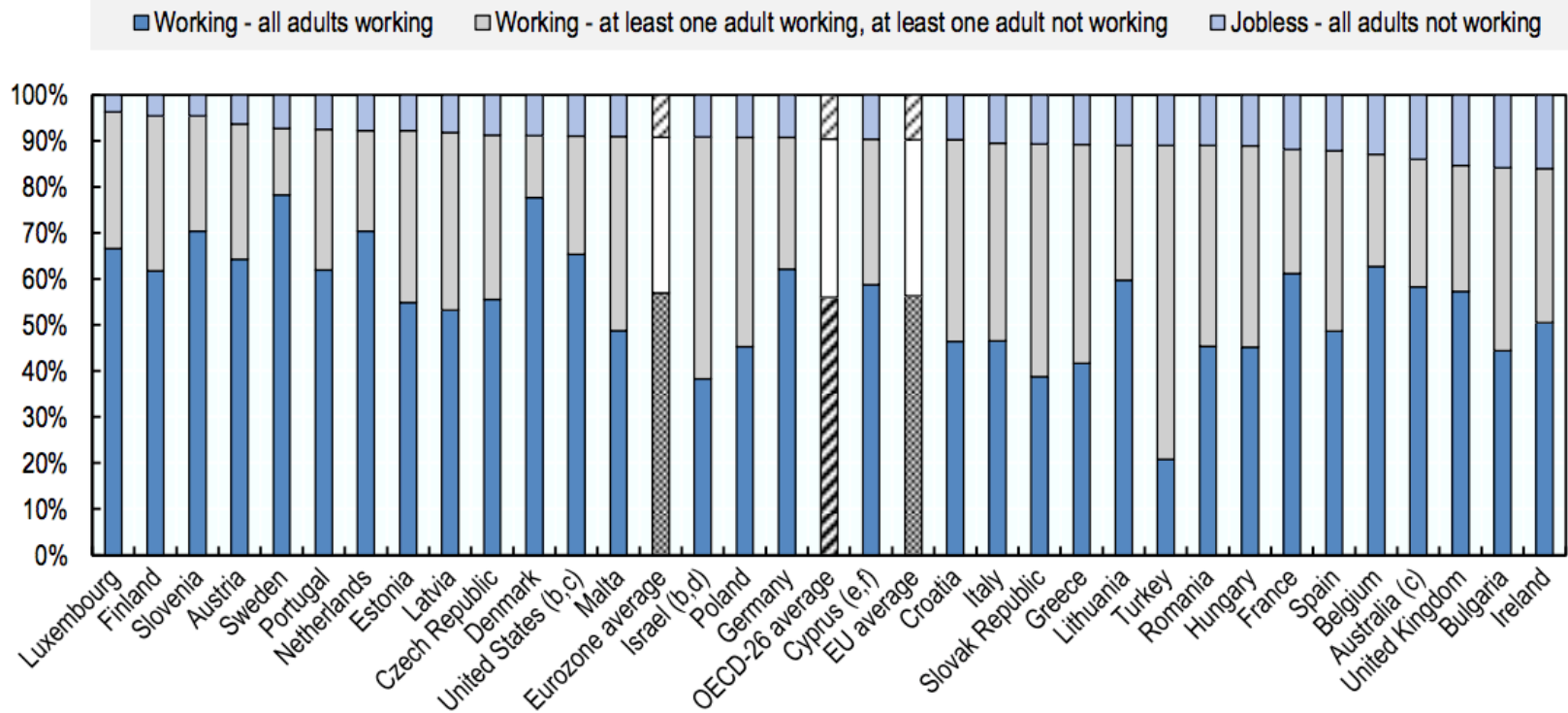


→ Lower female employment at age 30-34 associated with higher child poverty



# Single breadwinner families

Distribution of children aged 0-14 by the employment status of adults in the household (2014)



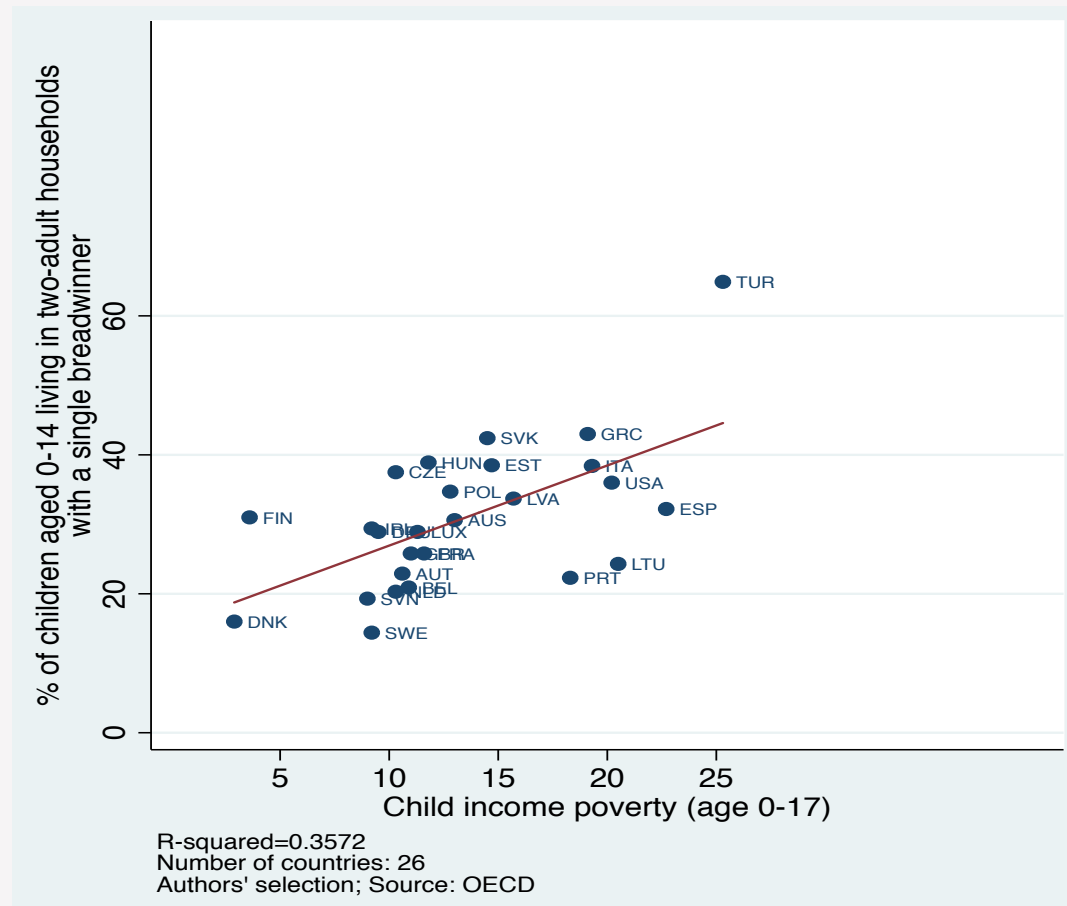
→ A high proportion of children live in single-breadwinner families (families with 1 working adult and at least 1 adult not working): EU average: 29%. Latvia: 34%

→ Countries with high % of children living in single-breadwinner families (1 adult working, at least 1 adult not working) have high % of child poverty rates (see next slide)



# Single breadwinner families & child poverty

Association between children living in single breadwinner families (2014) and child poverty (2016)

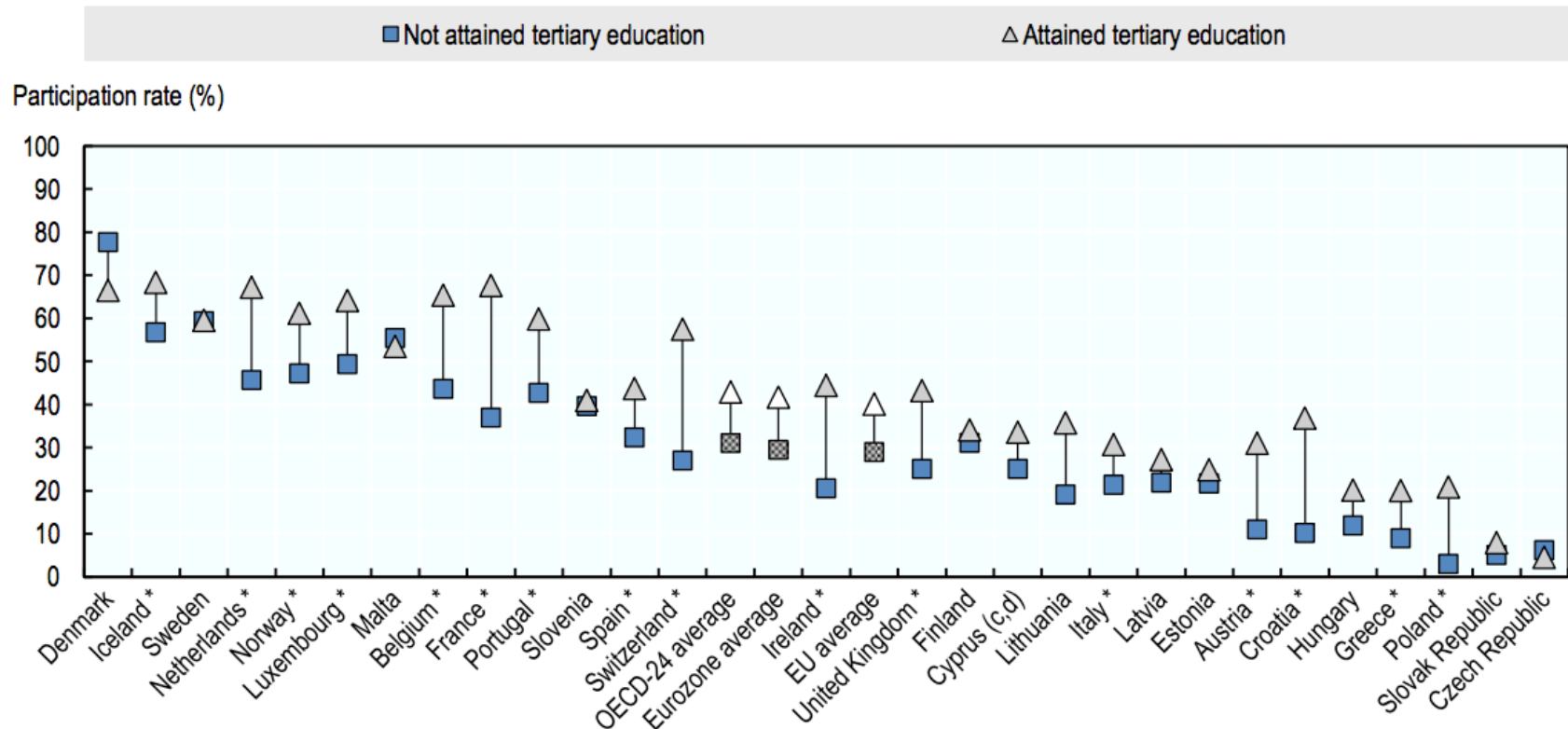


→ The higher the share of children living in single breadwinner families, the higher child poverty rates



# Access to daycare

Share of 0-to-2-year-olds in formal childcare/pre-school services, by mother's education (2014)



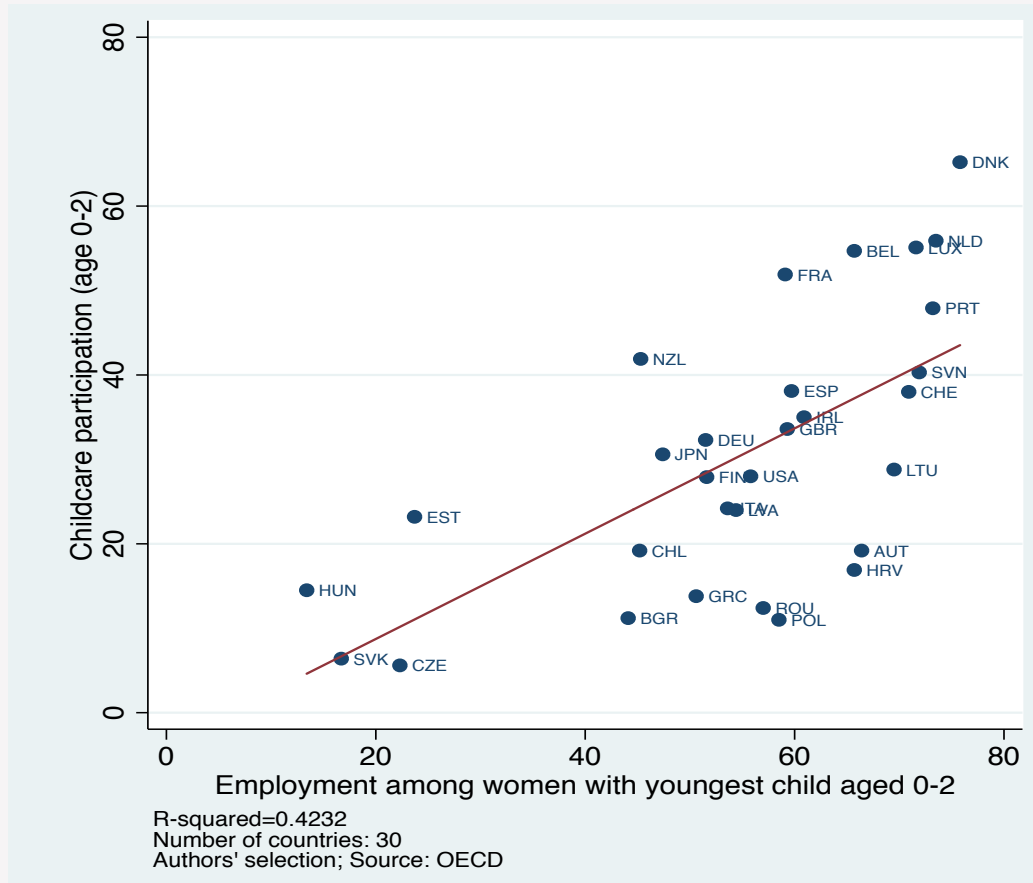
Access to daycare at age 0-2 important for:

- Child's cognitive development
- Family-Work reconciliation and avoiding career interruption



# Access to daycare & mothers' employment

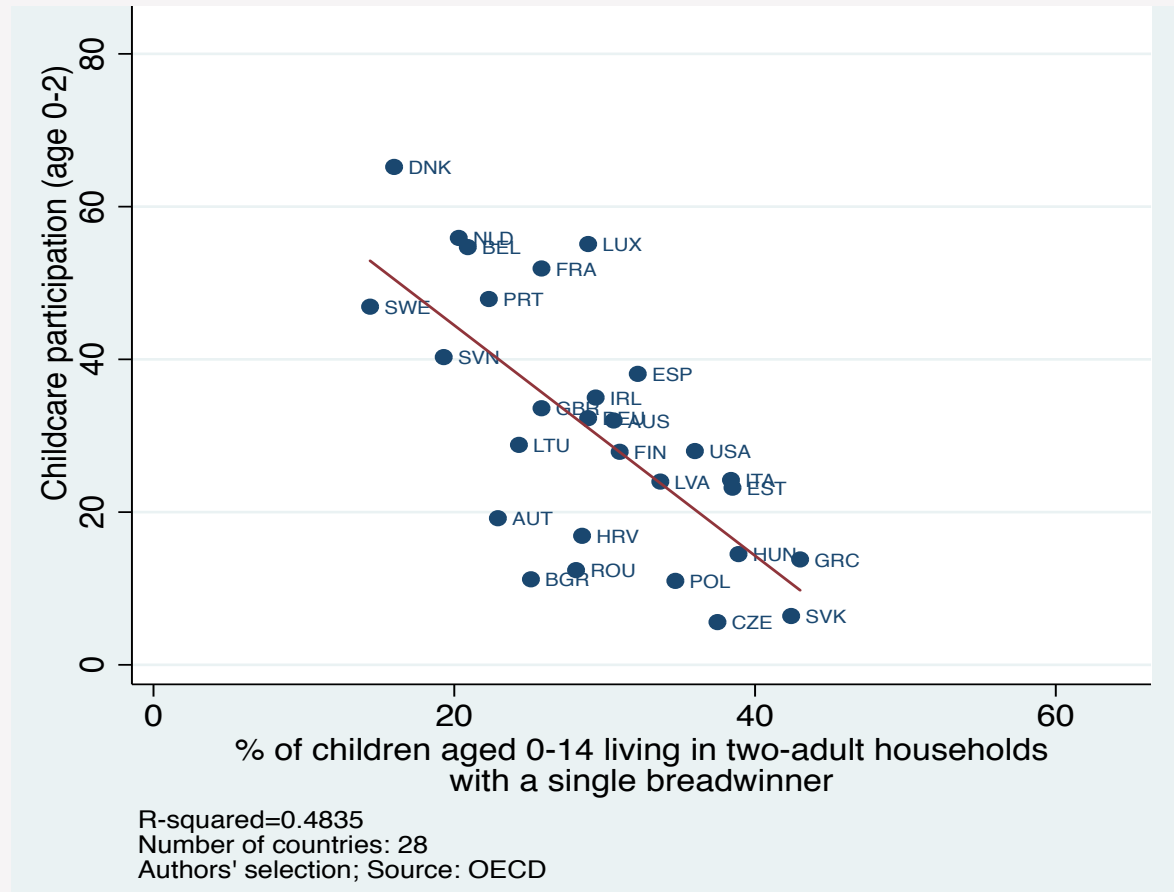
Association between childcare participation and employment of females with small children



→ The higher the childcare participation the higher the employment of females with small children



# Access to daycare & single-breadwinner families



- The lower the childcare participation, the higher the share of children living in single-breadwinner families (i.e., families where 1 adult works & at least 1 adult does not work)
- Higher share of single-breadwinner families associated with higher child poverty

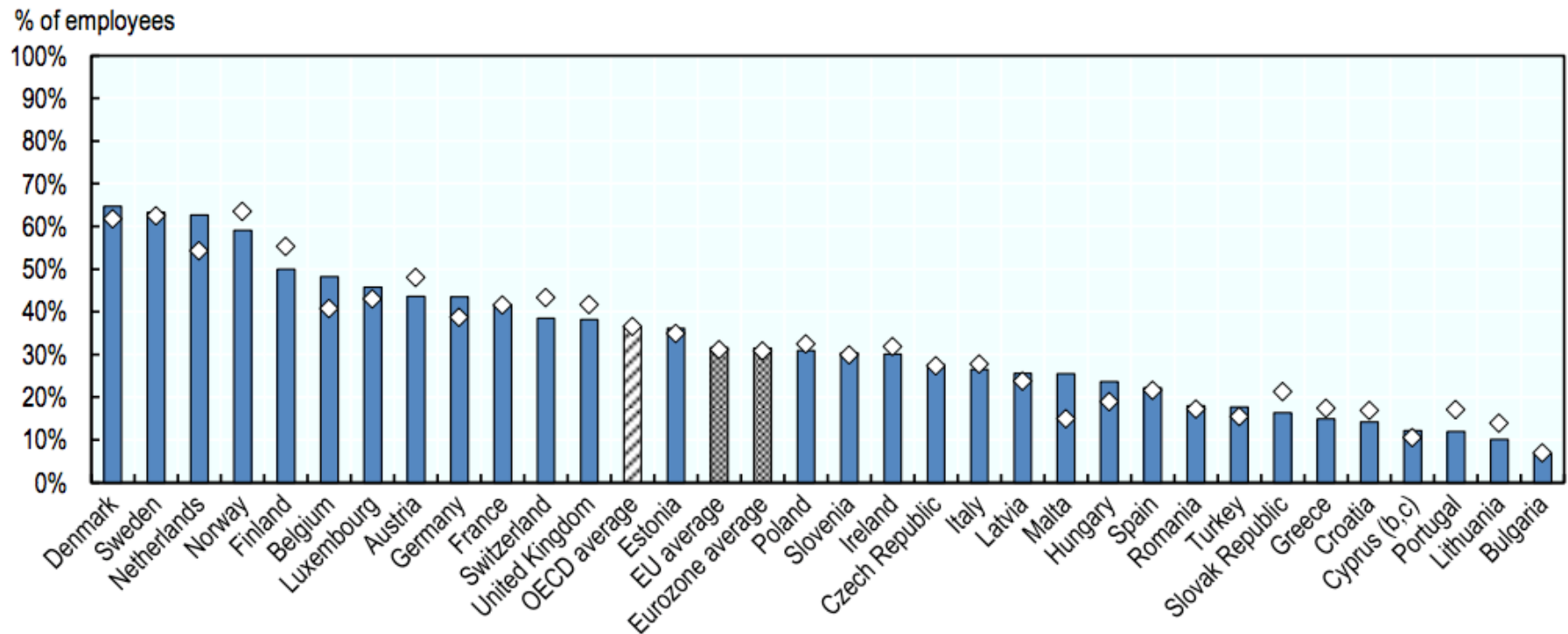


# Access to family-friendly workplace arrangements

Ability of employees to set their own working time arrangements, 2015

■ Female employees

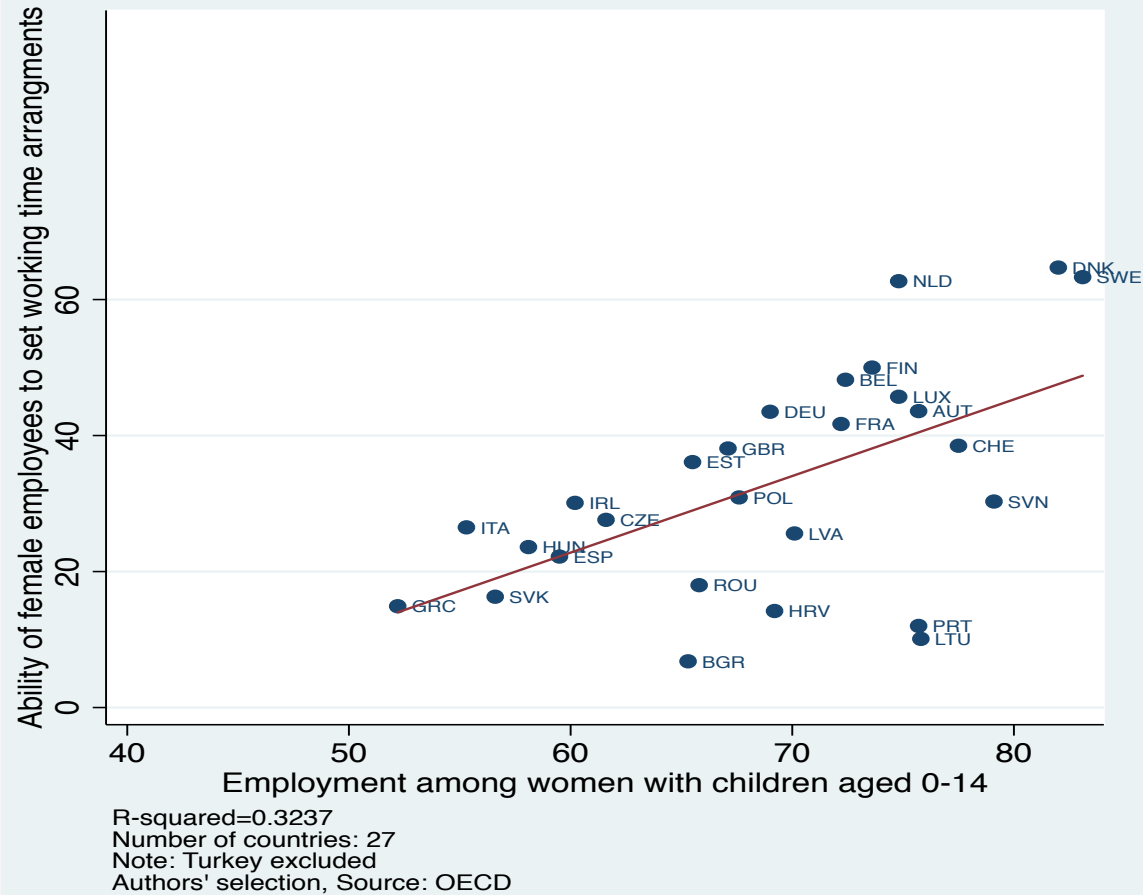
◇ Male employees



→ Flexible working time arrangements important for family-work life reconciliation



# Access to family-friendly workplace arrangements & mothers' employment



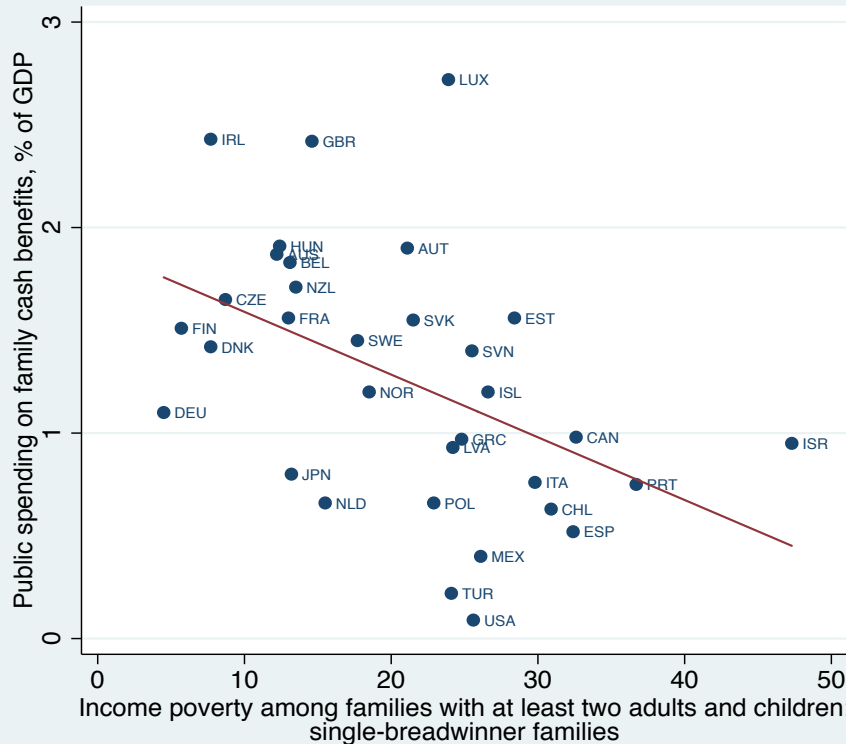
→ The higher the access to flexible working time arrangements, the higher the employment rate for females with children



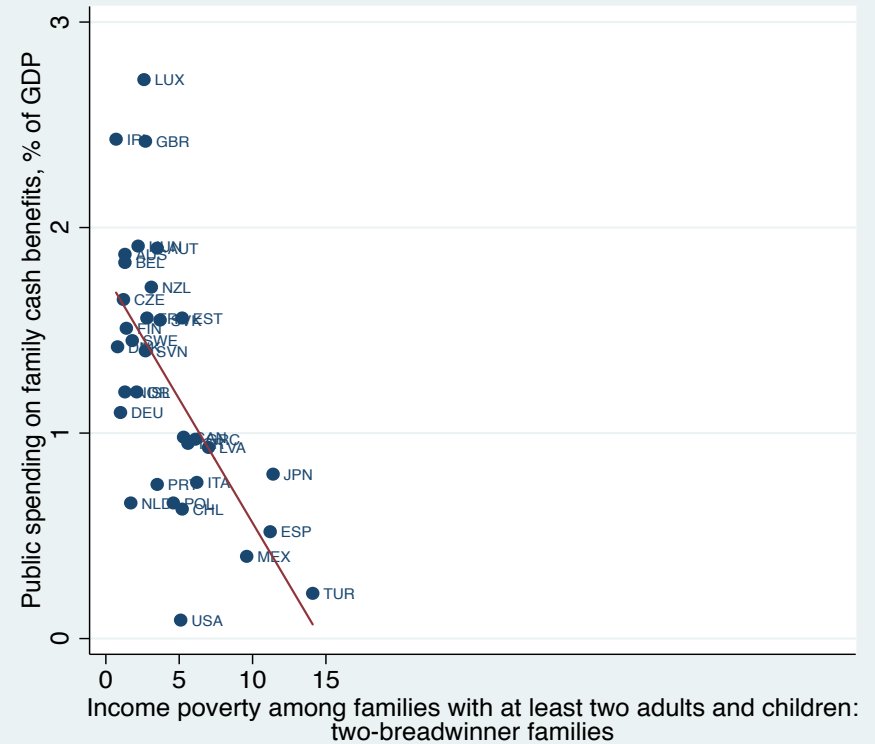


# Access to family benefits & child poverty

## Association between public spending on family benefits and poverty among families with children



R-squared=0.2181  
Number of countries: 33  
Authors' selection, Source: OECD

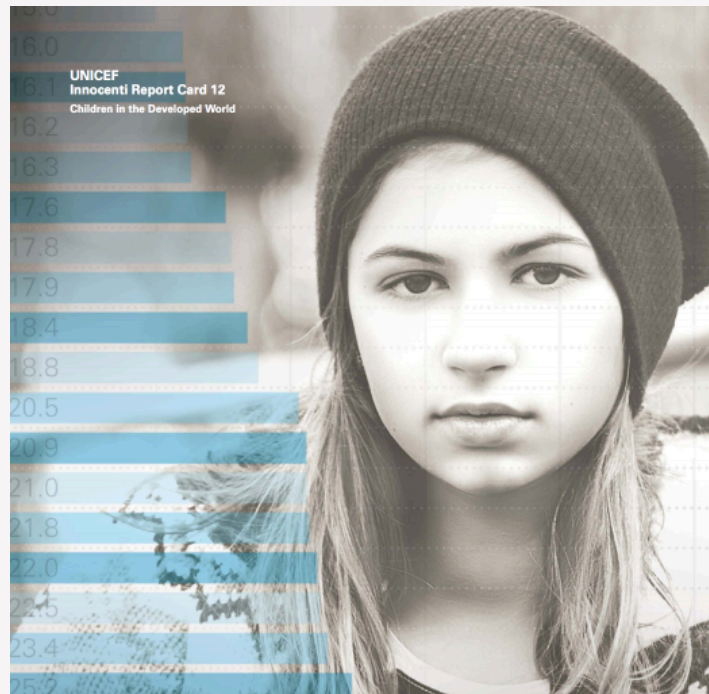


R-squared=0.3958  
Number of countries: 33  
Authors' selection, Source: OECD

- The lower the public spending on family benefits, the higher the poverty rates for families with children
- Spending on family benefits does not fully compensate for lack of family income, especially among single-breadwinner families



# The impact of the economic crisis & social policies



## Children of the Recession

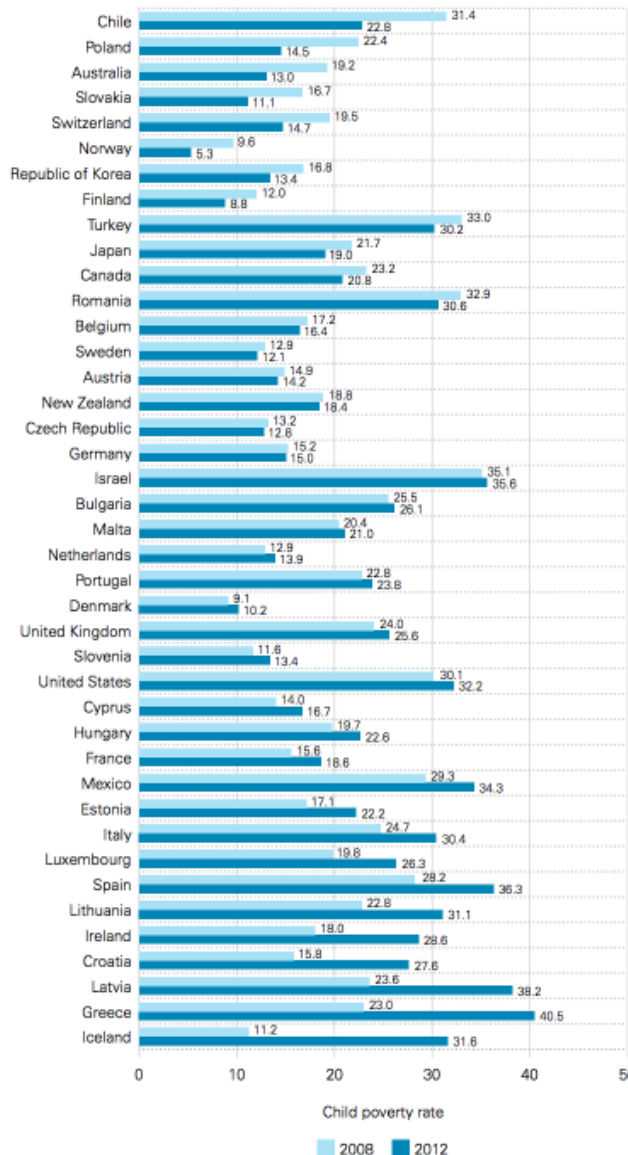
The impact of the economic crisis on child well-being in rich countries



# Change in child poverty 2008-2012

(anchored in 2008)

Rank	Country	Change (2008-2012)
1	Chile	-8.67
2	Poland	-7.90
3	Australia	-6.27
4	Slovakia	-5.60
5	Switzerland	-4.80
6	Norway	-4.30
7	Republic of Korea	-3.40
8	Finland	-3.20
9	Turkey	-2.76
10	Japan	-2.70
11	Canada	-2.44
12	Romania	-2.30
13	Belgium	-0.80
13	Sweden	-0.80
15	Austria	-0.70
16	New Zealand	-0.40
17	Czech Republic	-0.40
18	Germany	-0.20
19	Israel	0.55
20	Bulgaria	0.60
20	Malta	0.60
22	Netherlands	1.00
22	Portugal	1.00
24	Denmark	1.10
25	United Kingdom	1.60
26	Slovenia	1.80
27	United States	2.06
28	Cyprus	2.70
29	Hungary	2.90
30	France	3.00
31	Mexico	5.00
32	Estonia	5.10
33	Italy	5.70
34	Luxembourg	6.50
35	Spain	8.10
36	Lithuania	8.30
37	Ireland	10.60
38	Croatia	11.80
39	Latvia	14.60
40	Greece	17.50
41	Iceland	20.40



Many countries have managed to limit/reduce child poverty (countries on top on the list in the figure), while others have witnessed substantial increase of child poverty (countries on the bottom of the list) between 2008-2012. E.g., in Latvia, child poverty (anchored in 2008) increased from 24% in 2008 to 38% in 2012.

For each country, the extent and character of the crisis impact on children has been shaped by:

- the depth of the recession
- pre-existing economic conditions
- **the strength of the social safety net, and**
- **policy responses**

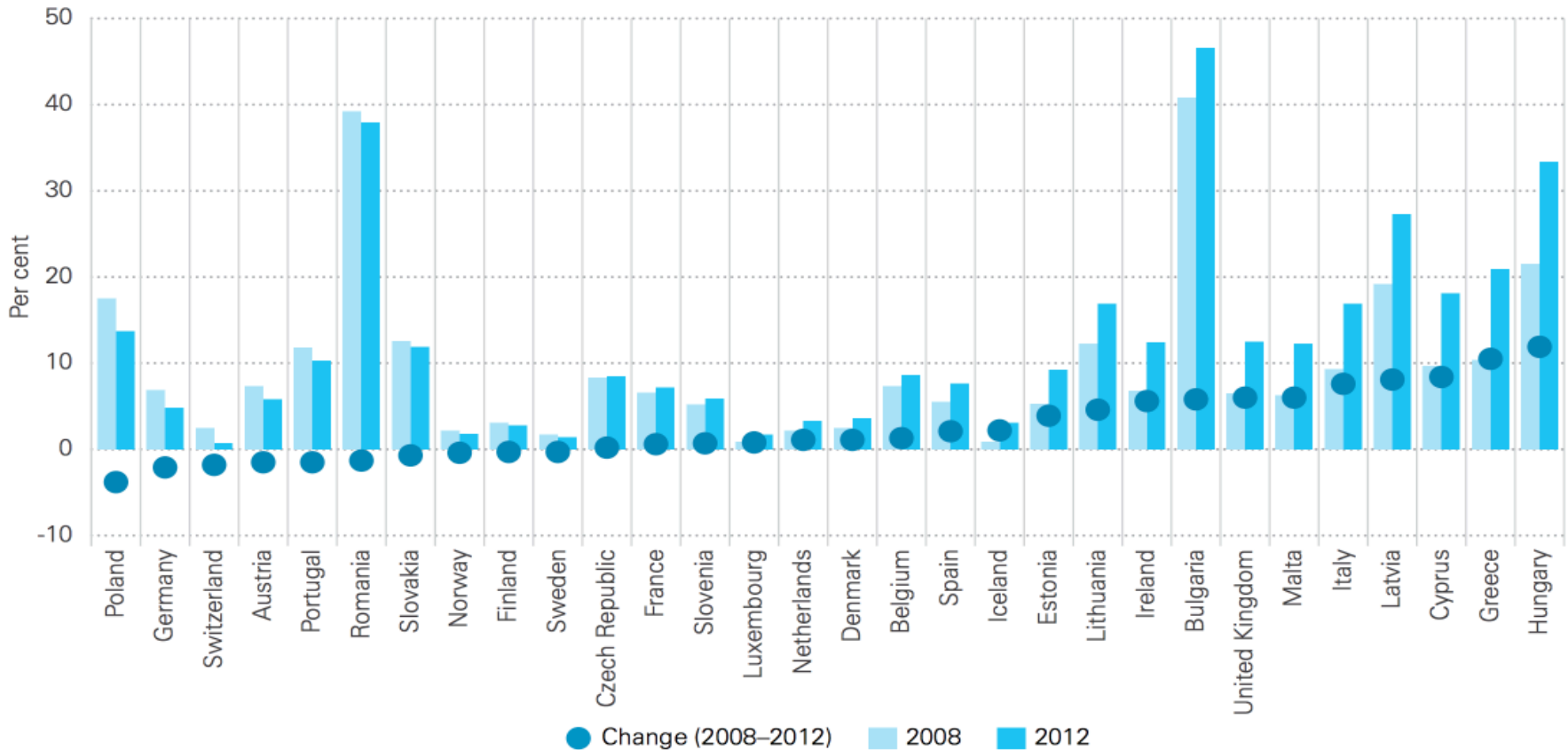
Governments that bolstered existing public institutions and programmes helped to buffer countless children from the crisis

Social protection responses work as automatic stabilizers (e.g. unemployment insurance, minimum income, cash transfers)

Targeting cash payments at the poorest families with children help to protect vulnerable families and boost the economy



# Change in child material deprivation 2008-2012



Source: Eurostat.

Material deprivation = unmet material fundamental needs (food, shelter, nurture) that are important for child's well-being.

Children (0-17) are considered to be severely materially deprived when the household in which they live cannot afford at least 4 of the following 9 items: 1) to pay rent, mortgage or utilities; 2) to keep the home adequately warm; 3) to face unexpected expenses; 4) to eat meat or proteins regularly; 5) to take a holiday; 6) to have a television; 7) to have a washing machine; 8) to have a car; 9) to have a telephone.



# Conclusions and policy implications

- Early years of an individual's life are crucial for cognitive development and future productivity
- Investment in early years (childhood) can help reduce intergenerational transmission of poverty
- Rate of return to investment highest at early age, costly at later stage
- Child poverty associated with single breadwinner families, low mothers' employment rates, and low family benefits
- Access to daycare allows for dual earner model and helps avoid career interruptions
- Flexible working hours at work important for home-work reconciliation
- Social assistance for families with small children necessary to reduce risk of poverty and to off-set the opportunity costs linked to having children
- Low-income families & lone-parent families more at risk, requiring different policy responses



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Thank you!  
Paldies!



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