THE ROLE OF SOCIAL BENEFITS IN REDUCING CHILD POVERTY

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OUTLINE

• Overview over child related benefits
• Benefit strategy: Benefit level and take up
• Work strategy: Labour market participation and work incentives
• Outlook
OVERVIEW: CHILD-RELATED BENEFITS IN GERMANY

• Universal child benefit
  – Child tax allowance (Kinderfreibetrag)
  – Non-means-tested benefit (Kindergeld)

• Child benefits for low-income households
  – Enhanced child benefit (ECB, Kinderzuschlag)
  – Child benefits granted within the basic income system (Unemployment Benefit II (UBII))

• In a broad definition, the tax and benefit system redistributes income towards families in various ways
  – Family-specific regulations
  – Household composition matters for entitlements to various other benefits
## MEANS-TESTED BENEFITS

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<th><strong>Unemployment Benefit II (UB II)</strong></th>
<th><strong>Enhanced Child Benefit (ECB)</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Target group</strong></td>
<td>Low-income families with income below the minimum income</td>
<td>Low-income families close to the minimum income (+additional housing benefits)</td>
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<tr>
<td><strong>Benefit level</strong></td>
<td>Covers the minimum income of all family members (living and housing costs), age-dependent child benefits (283 EUR and 373 EUR)</td>
<td>205 EUR per child</td>
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<td><strong>Income/Wealth test</strong></td>
<td>Comparable/identical regulations, almost all kinds of income and wealth are considered</td>
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<td><strong>Recipients (children &lt; 25 years, 12/2019)</strong></td>
<td>2,060 Thousand</td>
<td>300 Thousand</td>
</tr>
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CONNECTION BETWEEN UB II AND ECB

The Role of Social Benefits

Source: IAB-MSM.
Share of children (<15 years) living in households with income below 60% of the national equivalised disposable median income

BENEFIT NON-TAKE-UP

- Simulated benefit non-take-up rates (share of entitled households not receiving the benefit)

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<td>Data</td>
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<td>Non-Take-Up Rate</td>
<td>35%-40%</td>
<td>42%-71%</td>
<td>52%-70%</td>
<td>34%-43%</td>
<td>33%-68%</td>
<td>42%-58%</td>
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• “Benefit gap”: A large share of non-take-up households with small entitlements
  – median entitlements take-up/non-take-up: 722 € versus 425 € per month (Bruckmeier et al. 2020)

• Factors positively associated with high rates of non-take-up
  – Small entitlements, younger age, higher education, home ownership, no young children living in the household, couple households

• Further evidence from surveys: Non-take-up often ascribed to complexity of means-test and stigmatisation of UB II recipients
Employment status of the mother and income position over 5 years

Share within employment cluster (in percent)

- Stable full-time employment, couple household
- Stable full-time employment, single parent
- Stable not working, couple household
- Stable not working, single parent

WORK STATUS OF EMPLOYABLE BENEFIT RECIPIENTS IN HOUSEHOLDS WITH CHILDREN

Source: Statistik der Bundesagentur für Arbeit, Tabellen, Erwerbstätige erwerbsfähige Leistungsberechtigte (Monats- und Jahreszahlen) Nürnberg, März 2021
UB II AND ACTIVATION PRINCIPLE

• “Broad concept of unemployment” (Clasen and Clegg 2012): Hidden unemployed are subject to the activation regime and their benefit receipt depends on job search activities and the acceptance of job offers

• Work-focus of UBII: Link income support and labour market policies
  – Income support
  – Active labour market policies
  – Social Services

• ECB: Pure benefit strategy

• Gender issues within UB II
  – Who is activated within couple households
  – Differences between mothers living with and without a partner
  – Exit routes of female recipients
  – Rules for parents with small children
  – Labour market segmentation
LABOUR SUPPLY INCENTIVES: HIGH MARGINAL TAX RATES FOR BENEFIT RECIPIENTS

Source: IAB-MSM.
Evaluation of proposals to increase work incentives for UB II recipients (Bruckmeier et al. 2018) shows that increasing work incentives for UB II recipients …
- could increase labour supply and reduce poverty
- negative labour supply effects on second-earner living in middle income households (above second income decile)
- number of benefit recipients could also increase significantly
- generate additional fiscal expenditure even with increased employment
OUTLOOK

• UB II level without additional earned income below poverty line

• Complex and partially non-harmonized benefit system
  – High non-take-up rates of means-tested benefits
  – High effective marginal tax rates
  – Stigmatisation of recipients

• Several political parties are announcing the introduction of a basic child benefit in their election programmes
  – Ensure minimum income of children by child benefits outside of UB II
  – Increase universal as well as means-tested child benefit (ECB)
CONTACT

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LITERATURE

EFFECTIVENESS OF BENEFITS IN REDUCING CHILD POVERTY

At-risk-of-poverty rate 2010-2019

Source: Statistisches Bundesamt, Mikrozensus.
THE ROLE OF MEANS-TESTED BENEFITS FOR INCOME STABILISATION IN 2020

ECB (Kinderzuschlag)