PREPARE VERSUS REPAIR? COMBINING PARENTAL LEAVE AND FAMILY ALLOWANCES FOR SOCIAL INVESTMENT AGAINST SINGLE-PARENT POVERTY

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1. SOCIAL INVESTMENT AND SINGLE PARENTS

Social investment is an emerging paradigm for European welfare states, often described as an abandonment of tax-benefit systems with generous income 'transfers' in favour of 'in-kind' policies and services (Giddens, 1998, but see Vandenbroucke and Vleminckx, 2011). In 2013, the European Commission adopted the Social Investment Package as a means to guide EU Member States in using their social budgets more efficiently and effectively. Facing budget constraints, countries developed new strategies to combat poverty, initially influenced by neo-liberal ideas to encourage employment more by sticks than carrots, as exemplified by the Third Way in Britain. Gradually, however, new perspectives emphasising peoples' skills and capacities to perform on labour markets emerged, culminating in social investment as a central strategy in European policy making for better social inclusion outcomes (Cantillon et al, 2014). Poverty is here thought to be best combatted by public services preparing individuals for economic independence through employment, meanwhile reducing cash benefit expenditure for repairing economic hardships (Morel, Palier and Palme, 2012).

In addition to facing budget constraints, the social investment strategy aims to address new social risks (Bonoli, 2005). These new social risks include, but are not limited to, the challenges of combining work and family, as well as single parenthood (ibid., Morel et al., 2012). Single-parent families across several European countries have both high employment rates and high poverty rates (Casey and Maldonado, 2012). Single-parent families, as compared to two-parent families, are typically disadvantaged with respect to education, (young) age, employment opportunities, and more. In addition, single-parent families lack a second potential earner in the household and, importantly, the opportunity to efficiently distribute tasks between partners. In short, single-parent families lack money, time, and flexibility, and the complexities add up (cf. Cohen, 2014).

The position of single-parent families directly relates to one of the major critiques of the social investment strategy. Despite efforts to improve employment and make work pay to prevent poverty, European welfare states have witnessed disappointing trends in poverty (Vandenbroucke and Vleminckx, 2011). Cantillon (2011) argued that social investment policies are better suited for work-rich households than work-poor households at the bottom of the income distribution. This critique begs the empirical question of whether a transition to 'in kind' social investment policies can be sufficiently effective in improving employment to protect households against poverty, and if reducing transfers has rendered tax-benefit systems inadequate (cf. Nelson, 2011). We examine this below, focusing on family policies. Specifically, we assess whether social investment (reconciliation policies) is a more effective strategy than social protection (family allowances) for single-parent families.

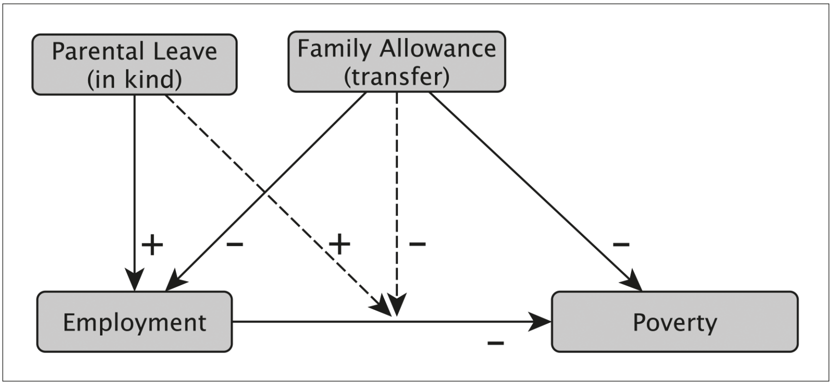
2. FAMILY POLICIES AS SOCIAL INVESTMENT

Family policies play an important role in the social investment strategy, and are called upon to achieve a wide range of outcomes (Morgan, 2012). If early childhood conditions are so important in determining outcomes later in life, as argued by both Esping-Andersen and Buysschaert in this issue, family policies offer a huge potential for investment by improving the living conditions of families and children at the very start of their life-course. Reconciliation policies such as parental leave and public childcare services facilitate higher rates of (mainly) maternal employment (Nieuwenhuis, Need and Van der Kolk, 2012), which in turn works towards the social investment goal of reducing (childhood) poverty. Childcare services, if the quality is assured, also contribute to human capital development through early childhood education.

Financial support policies such as family allowances are another measure to reduce childhood poverty, and particularly so among single-parent families (Gornick and Jäntti, 2012). However, in the social investment literature it is often overlooked that family allowances not only represent a transfer of income to the household, but were also found to be a disincentive for maternal employment (Nieuwenhuis et al., 2012; 2014; Schwarz, 2012).

The key difference between how 'in kind' reconciliation policies and 'transfer' policies affect poverty pertains to employment. This is schematised in Figure 1. Employment is negatively associated with poverty, which is shown at the bottom. 'In-kind' policies do not directly affect poverty, but do so indirectly by facilitating employment. 'Transfer' policies, alternatively, directly reduce poverty, but also negatively affect employment. Finally, both policy types show how employment strongly reduces poverty (dashed lines): 'in-kind' policies improve how employment protects against poverty, while 'transfers' reduce the protective quality of employment (e.g. stimulate part-time employment). So, while parental leave may have reduced poverty by facilitating maternal employment, family allowances may have operated in a more complex way by suppressing maternal employment on the one hand but also reducing poverty as a result of the direct transfers.

FIGURE 1: FRAMEWORK FOR SOCIAL INVESTMENT MECHANISMS ON EMPLOYMENT AND POVERTY



3. FAMILY POLICIES AND SINGLE-PARENT POVERTY

In this section we present empirical results regarding a selection[1] of the hypotheses shown in Figure 1 that focus on how parental leave and family allowances affect poverty among single- and two-parent families. We do so by summarising empirical results presented elsewhere (Maldonado and Nieuwenhuis, 2014), based on analyses that originated to test hypotheses not primarily addressing the social investment strategy. Nevertheless, the selection of the results summarised here is relevant to the current note on social investment. We first describe the design of that study, after which we highlight three empirical findings related to social investment and single-parent poverty.

The study summarised here was based on data from the Luxembourg Income Study Database (LIS), combined with family policy indicators from the Comparative Family Policy Database (Gauthier, 2010). In total 514,019 households with children

(1) We do not address the dashed arrows in Figure 1.

were included in the analyses that covered 18 OECD countries from 1978 to 2008. Poverty was measured as a household having an (equivalised) income below 50% of the national median income. The data were analysed using logistic regression with cluster-corrected standard errors to account for the nesting structure in the data of households within countries, and using a pre-post comparison of the impact of family allowances that were measured in LIS at the level of the household (e.g. Sainsbury and Morissens, 2002). Our research design observed family policies at the country-level and family allowances additionally at the level of the household, accounting for household-level characteristics such as single parenthood and employment.

The findings suggest, first of all, that single-parent families have a substantially higher risk of poverty than two-parent families. This is not a new finding, but it is relevant to note that the absolute difference in poverty rates between single- and two-parent families was relatively large in the UK, small in the Nordic countries, increasing over time in Finland and France, and decreasing in Ireland and Austria. Moreover, although part of the difference in poverty between single- and two-parent families could be explained based on differences in their (average) age, level of education, employment status and employment hours, after accounting for these household-level characteristics single parents still faced a higher risk of poverty.

Secondly, the 'in kind' parental leave was found to be associated with a lower poverty risk among all families with children, and more so among single-parent families. Further analyses demonstrated that parental leave was more strongly associated with less poverty among single-parent families because it facilitated them in their employment, which is a goal of social investment strategy. It should be noted, however, that parental leave was not protecting households against poverty when a large share of the total duration of leave was unpaid.

Thirdly, the 'transfer' income of family allowances was also found to be associated with a lower poverty risk among all families with children. This finding held up after accounting of the countries parental leave duration, the extent to which the leave was paid, and after accounting for household labour force participation and other demographics. For this research note, we additionally tested the impact of family allowances suppressing the labour supply of households.[2] We found that the poverty reduction associated with family allowances was 29% stronger after removing the impact of some households reducing their labour supply. In statistical terms this is a suppression effect, suggesting that the poverty-reducing effect of family allowances was partially diminished by its 'disincentivizing' (cf. Schwarz, 2012) effect on

(2) These findings were not reported in the manuscript on which the empirical part of this research note is based, but are available upon request.

employment. We did not find statistically significant evidence that this suppression effect of family allowances differed between single-parent and two-parent families.

Further analyses, based on a comparison of the disposable household income with and without the inclusion of family allowances, showed that family allowances reduced poverty among two-parent families by about 3 percentage points in Luxembourg and Austria, while family allowances were associated with a reduction of as much as 8 to 10 percentage points in poverty among single-parent families in Belgium and the Nordic countries. See Bradshaw and Chzhen, and Vandenbroucke and Vink (both papers in this issue), for more analyses of the impact of transfer income on poverty in Belgium and other European countries, including a focus on child poverty instead of the focus on single-parent families presented here.

CONCLUSION

Against the background of disparities in resources between single-parent and two-parent families, we return to the question whether they will be sufficiently protected against poverty by 'in-kind' policies, even if 'transfer' policies are reduced. Indeed, we found that 'in kind' parental leave facilitated employment among single-parent families, in turn reducing their poverty. Nevertheless, the poverty risk for single-parent families was higher than that of two-parent families. The 'transfers' of family allowances were associated with a substantial reduction in poverty, particularly so among single-parent families, even in addition to the income these households earned from employment. This suggests that even if 'in kind' social investment policies are effective in being able to facilitate employment, this may not be enough for single-parent families and other such households with fewer resources to avoid poverty.

In this research note, we presented a framework for analysing social investment mechanisms, which served as a set of hypotheses on how 'in kind' and 'transfer' policies affect the extent to which employment protects against poverty. Our findings demonstrated that (paid) parental leave affected poverty most strongly among single-parent families because it facilitated their employment most. While the direct 'transfers' of family allowances, on the other hand, were found to reduce poverty, part of this effect was diminished by family allowances suppressing employment. The utility of this framework thus allows for analysing the total impact of 'in kind' and 'transfer' policies, but also for disentangling the mechanisms through which they operate.

Our results were limited as we did not test whether parental leave and family allowances affected the association between employment and poverty itself. The dashed lines in Figure 1 represent these interaction hypotheses, which we leave for future research. Additionally, our research is limited to poverty reduction, whereas the social investment strategy pertains to a wider set of goals, including human capital development through early childhood education and life-long learning to prepare individuals for participation in the knowledge society, social inclusion, the creation of quality employment, improving female labour force participation, and more (Morel et al., 2012). Future empirical studies can expand upon evaluating these goals.

With respect to the above-mentioned goals of the social investment strategy, the outcomes of family allowances present an ambiguity. On the one hand, family allowances are at odds with the strategy to 'prepare' individuals rather than 'repair' adverse outcomes, and the goal to improve female labour force participation. Family allowances were argued to be a disincentive for women's employment (Schwarz, 2012), and indeed were found to reduce maternal employment (Nieuwenhuis et al., 2012) and reduce the share specifically of women's earnings within households (Nieuwenhuis, Need and Van der Kolk, 2013). On the other hand, it was shown here that family allowances play an important role in working towards the goal of reducing poverty, particularly among single-parent families. These reduce poverty among children, which was found to harm their "education, health and social skill formation" (Richardson and Bradshaw, 2012, p. 82).

Social investment, by facilitating employment, can be a beneficial strategy to reduce poverty among single-parent families but we argue that this strategy alone is not sufficient. Family allowances, too, reduce poverty. Therefore, in order for welfare states to genuinely invest in single-parent families, we recommend combining strategies that prepare and repair.

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