THE OUTCOMES OF THE CRISIS FOR PENSIONERS AND CHILDREN

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INTRODUCTION

When the final review is written on the impact of the global financial crisis that began in 2007 it will conclude that the main beneficiaries were pensioners and the main victims have been children. That final review is still some way off: economic growth is still tentative; most European Union countries are mired in deficit; austerity (or in the words preferred by the European Commission "fiscal consolidation") rules.

We are not the first to point to this phenomenon. A study of the short-term impact of the Great Recession (up to 2011) on household incomes by Jenkins et al (2013) using six country case studies (Germany, Ireland, Italy, Sweden, the UK and the USA) found greater increases or slower declines in poverty among children than among the elderly. Hills et al. (2014) analysed the distributional impact of tax and benefit reforms over the period 2001-2011 in seven diverse EU countries: (Hills et al., 2014). The study showed that, on the whole, policy changes tended to be more favourable to pensioners than children.

But it is worth pointing out that very little attention has been paid to this evident unfairness. Analysts of social policy seem reluctant to trade the interest of children against the interest of pensioners. After all, they might argue, both groups are vulnerable and may take the view that more important than horizontal equity is vertical equity – inequality has also been increasing. Even NGOs with interests in children and child poverty seem reluctant to draw the contrast. An honourable exception was the UNICEF (2014) Innocenti Report Card 12 which compared changes in the under 18 and 65-plus anchored poverty rates 2008-2012 and found that the difference in difference had moved in favour of pensioners in every country of the EU except Poland, Switzerland and Germany. We shall repeat and update that analysis. It is particularly surprising that the European Commission has not paid more attention to this trend given its emphasis on social investment. Protecting pensioners more than children seems the reverse of what one might expect from a social investment strategy, especially given the proven costs of child poverty (Hirsch 2014).

1. METHODS

The paper is mainly based on a comparative review of publicly available data. It uses internationally comparable data including micro data derived from the European Union Statistics on Income and living Conditions (EU-SILC) and the European System of Integrated Social Protection Statistics (ESSPROSS) data on social expenditure patterns. However it starts with an analysis of UK data, partly because that is where the authors come from and partly because there in an unfortunate break in the series in EU-SILC data for the UK (and Spain, Austria, Cyprus and Croatia).

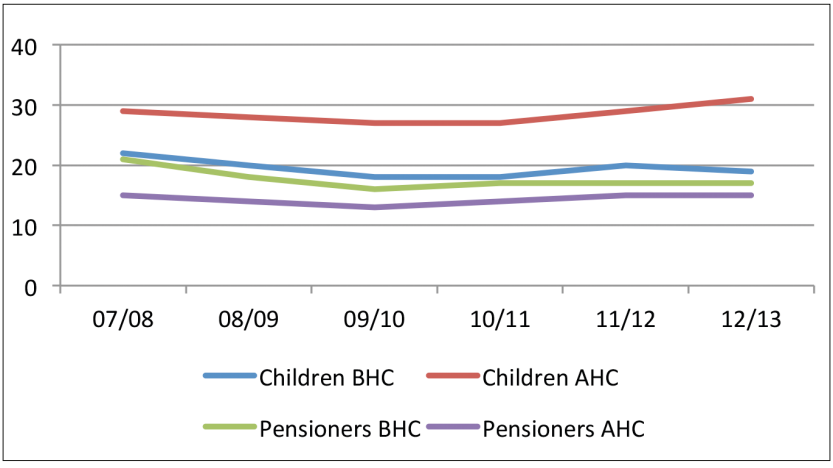
2. THE CASE OF THE UNITED KINGDOM

There have been a number of attempts to trace the distributional consequences of the austerity measures in the UK. The most recent and authoritative is by Reed and Portes (2014) for the Equality and Human Rights Commission. It showed that couples with children, lone-parents and those with the lowest incomes had experienced the biggest percentage reduction in their net disposable incomes. The reason for this pattern is that the real living standards of families with children have fallen as price inflation has exceeded income growth in every year for the last six years. This is partly the result of the freeze in child benefit and the uprating of working age benefits and tax credits by only 1% over the last three years (offset in part by real increases in the personal tax allowance). In contrast, since 2010 pensioner incomes have been protected by the triple lock, increasing by the highest of earnings, prices or 2.5%. The analysis also showed that if services cuts were added it was still couples with children, lone-parents and the single elderly who had experienced the biggest cuts. In another study of the more recent UK policy reforms, de Agostini et al (2014) found that children lost out on average between 2010 and 2014, especially those in lone-parent and large families.

These developments have produced a major shift in the ratio of the average equivalent disposable income of retired households to that of households with children (Bradshaw and Holmes 2013). With the ratio at 65% in 1979, the latest data for 2012/13 shows that it has risen to 83%. It will have risen further since then.

These developments have resulted in changes in the pattern of poverty. The relative at risk of poverty threshold has fallen since 2010, due to a fall in median income; so a better indicator of trends is arguably the at-risk-of-poverty rate held constant in 2010/11 prices. Figure 1 shows that the child poverty rate has risen both before and after housing costs since 2009/10 and the pensioner poverty rate has fallen before housing costs or remained stable after housing costs.

FIGURE 1: CHILD AND PENSIONER POVERTY RATES (2010/11 MEDIAN INCOME THRESHOLD HELD CONSTANT IN REAL TERMS)



Source: https://www.gov.uk/government/statistics/households-below-average-income-hbai-199495-to-201213.

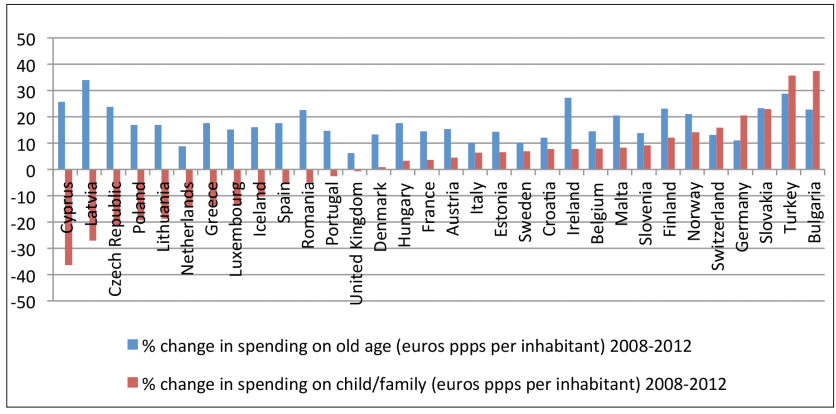
3. COMPARATIVE ANALYSIS

3.1. SPENDING

One source of comparative evidence is expenditure data. The OECD has expenditure data only up to 2011 but Eurostat data is available for the EU countries up to 2012. Figure 2 shows changes in spending on families with children and older people between 2008 and 2012. Spending on family-related benefits in euros purchasing power parity per inhabitant has fallen between 2008 and 2012 in 13 European countries out of 32 for which comparable data are available from Eurostat. Spending on pensioners increased more than spending on children in every country except Switzerland, Germany, Turkey and Bulgaria. In all the countries where spending on children fell, spending on pensioners increased, so choices were made in favour of pensioners at the expense of children. There were no countries where spending on both pensioners and children fell. Very similar results were found using spending on families and children as a percentage of total social protection spending.[1]

(1) See http://katchzhen.com/2014/12/09/spending-on-children-falls-while-old-age-spending-goes-up-in-the-eu/.

FIGURE 2: CHANGES IN SPENDING ON OLD AND FAMILIES WITH CHILDREN 2008-2012 (EUROS PURCHASING POWER PARITY PER INHABITANT)



Eurostat data base http://ec.europa.eu/eurostat/data/database accessed 5 January 2015.

3.2. POVERTY

In the next part of the analysis we use as the poverty indicators an anchored poverty rate with the threshold of 60% of the median fixed at 2008 and adjusted for inflation. The reason is that over the course of the crisis the at-risk-of-poverty threshold based on the contemporary 60% median threshold has changed at different rates in different countries and in a number of countries it has fallen between 2008 and 2013 (including Ireland, Greece, Croatia (since 2010), Cyprus, Latvia, UK and Iceland). It is thus very difficult to discern between the consequences of the recession and the change in the threshold.[2] A falling poverty rate using the floating relative threshold could be achieved by enhanced social protection over the crisis or reduced social protection with a falling threshold. Using the anchored threshold overcomes this problem and is also better for capturing income losses at the bottom of the distribution during the crisis (OECD, 2014).

Figure 3 compares the over 65 and under 18 child poverty rates for the European countries with countries ranked by the percentage difference on the right hand axis. In 2013 the child poverty rate was much higher than the pensioner poverty rate in most of the 31 European countries. Switzerland is an outlying exception with the highest pensioner poverty rate and a middling child poverty rate. But in 21 other countries the child poverty rate was higher and in eleven countries it was more than

(2) For an illustration using data for Greece, see http://katchzhen.com/2014/11/24/why-is-anchoring-the-best-way-to-monitor-child-poverty-during-an-economic-crisis/.

double the pensioner poverty rate. Belgium is one of the exceptions with the child poverty rate slightly lower than the pensioner poverty rate.

FIGURE 3: OVER 65 AND UNDER 18 ANCHORED POVERTY RATES RANKED BY PERCENTAGE DIFFERENCE 2013

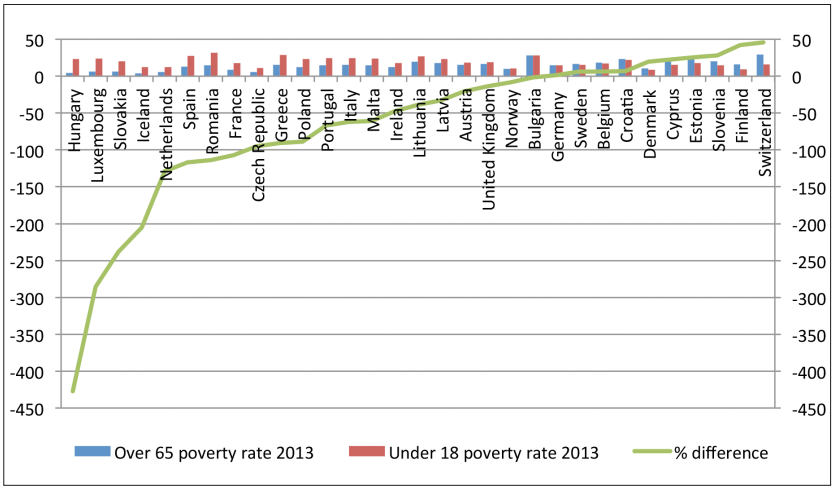
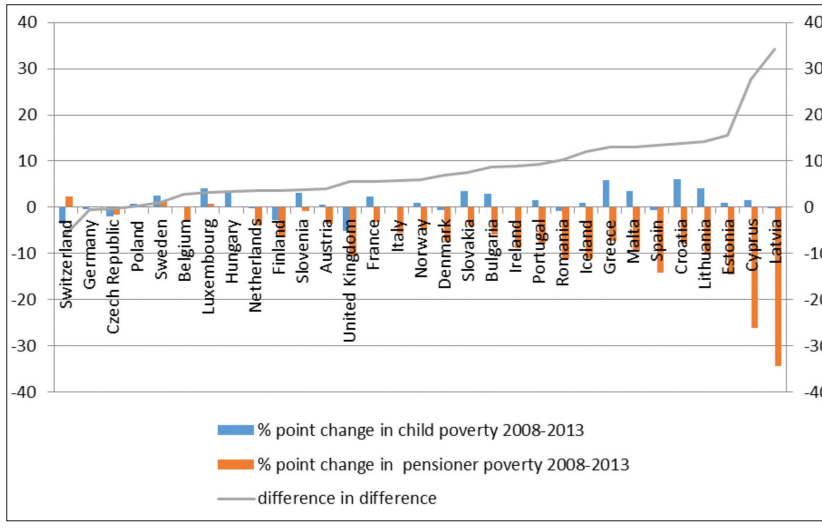


Figure 4 shows the percentage point change in pensioner and child poverty between 2008 and 2013, with countries ranked on the right-hand axis by the percentage point difference in difference. In Switzerland, for example, child poverty fell slightly and pensioner poverty increased slightly and the difference between child and pensioner poverty grew by 5.9 percentage points in favour of children. In contrast in Latvia child poverty hardly changed but pensioner poverty fell sharply and the difference in the poverty rates grew by more than 34 percentage points. In every country except Switzerland, Germany and the Czech Republic the difference in difference moved in favour of pensioners – that is, the relative risk of poverty increased for children. In Belgium pensioner poverty fell but child poverty hardly changed so the gap increased.

FIGURE 4: PERCENTAGE POINT CHANGE IN CHILD AND PENSIONER POVERTY AND PERCENTAGE POINT DIFFERENCE IN DIFFERENCES 2008-2013



3.3. TRANSFERS

Child poverty rates in any country may change over time as a consequence of three main factors: demographic change – for example changes in the proportion of lone-parent families or large families; labour market factors – for example changes in unemployment or under-employment or low pay; and policy factors such as changes in the effectiveness of social protection policies for families with children. Demographic factors are unlikely to have been important over the six years covered here. However we know that the recession was associated with increased unemployment, shorter hours working and pay restrictions in many countries. There is also evidence (Chzhen et al 2014) that many countries chose to reduce their deficits by cutting or not uprating their cash benefits for families with children.

For pensioners the recession might also have restricted their opportunities to work part-time and countries may have sought to reduce their deficits by cutting or not uprating pensions.

One way we can get a handle on this is to compare poverty rates before and after transfers. Here we revert to the relative at-risk-of-poverty rate based on the floating poverty threshold because there is no publicly available data on pre-transfers anchored poverty rates. First, in Figure 5a and 5b we show the child poverty rate

before and after transfers with countries ranked by the percentage reduction in pre-transfer poverty achieved by transfers. There are two versions of this figure because there is a debate about whether pensions should be treated as transfers or included in pre-transfer income.

Figure 5a shows that there is very considerable variation in the effectiveness of transfer systems in European countries. All countries reduce their pre-transfer poverty rates through transfers, but the percentage reduction varies from 27% in Greece to 78% in Finland. Belgium starts with a middling to low pre-transfer child poverty rate and its transfers reduce child poverty by 48%.

The picture is very similar in Figure 5b – there are some re-rankings of countries. For example, when pensions are included in pre-transfer incomes Poland moves down the transfer effectiveness league table because many children are lifted out of poverty by pensioners living with them in multi-unit households. With a lower prevalence of multi-generational households, Belgium largely maintains its ranking in the middle of the league table.

FIGURE 5A: PRE- AND POST-TRANSFER CHILD POVERTY RATES 2013, PENSIONS EXCLUDED

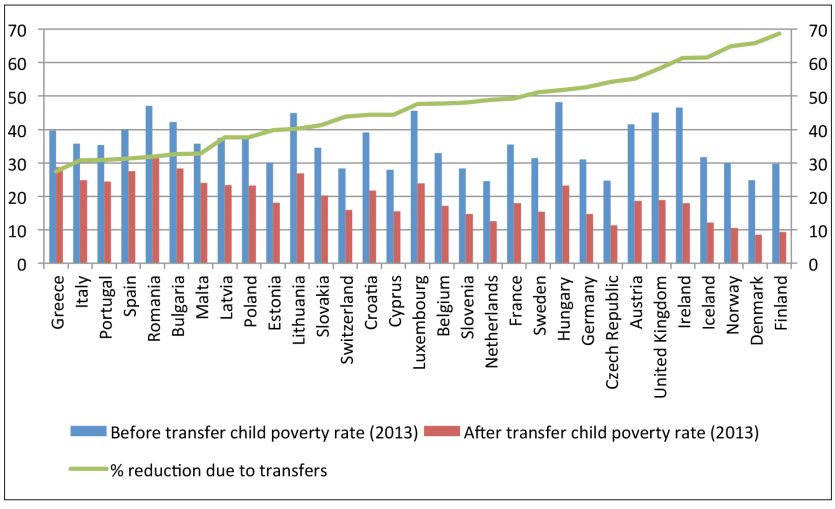
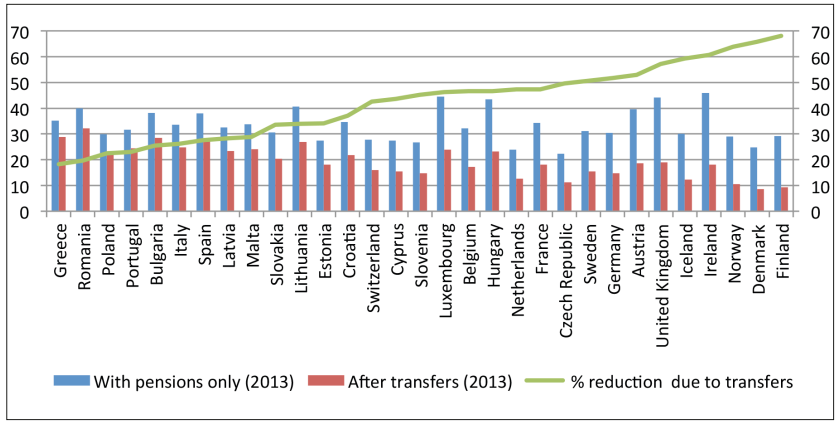


FIGURE 5B: PRE- AND POST-TRANSFER CHILD POVERTY RATES 2013, PENSIONS INCLUDED



The same analysis can be done for pensioner poverty. In Figure 6a it can be seen that when pensions are excluded from pre-transfer income pensioner poverty rates are very high in all countries and transfers are very effective, with reductions in pre transfer poverty varying from 64% in Bulgaria to 95% in Hungary. Figure 6b is picking up the impact of transfers other than pensions, showing poverty reduction varies from 7% in Germany to 51% in Norway. Belgium has one of the highest pre transfer pensioner poverty rates – indicating low participation in the labour market.

FIGURE 6A: PRE- AND POST-TRANSFER PENSIONER POVERTY RATES 2013, PENSIONS EXCLUDED

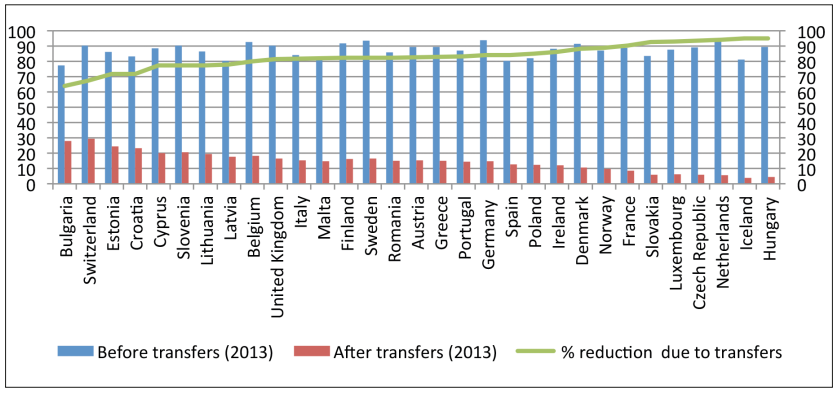
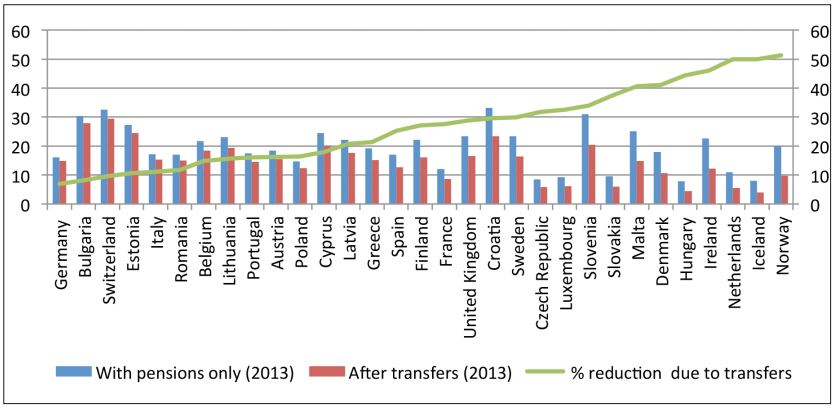


FIGURE 6B: PRE- AND POST-TRANSFER ANCHORED PENSIONER POVERTY RATES 2013, PENSIONS INCLUDED



We now turn to the key questions for this paper - how has the effectiveness of transfers changed over the crisis and is there any evidence that transfers for children have become relatively less effective than transfers for pensioners? Have countries been protecting their pensioners at the expense of their children?

Figure 7 shows the change in the effectiveness of social transfers in reducing child poverty. Note that there was a break in series in for UK, Spain, Austria, Cyprus and Croatia, so the results for these countries have to be interpreted with caution. The countries to the right of the figure and above the horizontal axis had seen increases in the child poverty reducing capacity of their transfers. Note that this may be because there was increased child poverty to be reduced, not necessarily because the transfer system improved. The countries to the left of the figure are the ones where, possibly in the face of rising child poverty, but possibly because of cuts in benefits, the transfer system became less effective. Belgium improved its child poverty reduction by 3 percentage points.

FIGURE 7: CHANGE IN THE EFFECTIVENESS OF SOCIAL TRANSFERS IN REDUCING CHILD POVERTY, PPT (2008-2013)

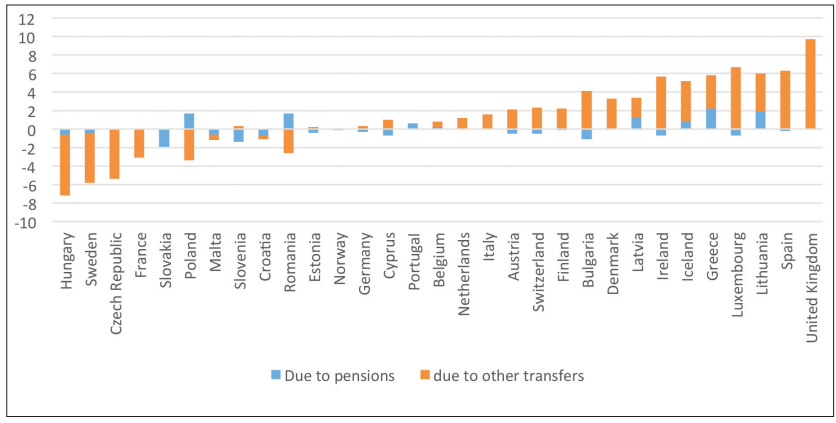
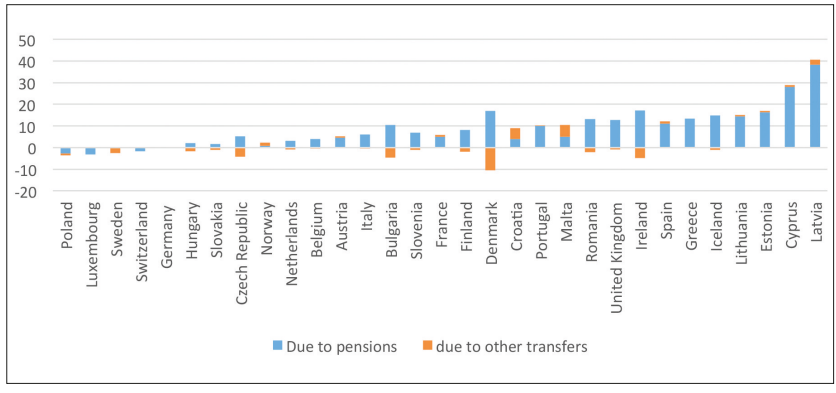


Figure 8 presents the same analysis for pensioners. Over this period pensions became more effective in reducing poverty in the majority of countries. Only Poland, Luxembourg, Sweden and Switzerland had a reduction, albeit a negligible one, in the poverty-reducing effectiveness of transfers to pensioners. In Cyprus it improved by 29 percentage points and by 41 percentage points in Latvia. In Belgium it improved by 4 percentage points.

FIGURE 8: CHANGE IN THE EFFECTIVENESS OF SOCIAL TRANSFERS IN REDUCING PENSIONER POVERTY, PPT (2008-2013)



So transfers became more effective in more countries in reducing pensioner poverty than in reducing child poverty. This contrast is shown in Figure 9 and summarised in Figure 10. There were only three European countries where the poverty-reducing power of transfers improved more for children than it did for pensioners: Poland, Switzerland and Luxembourg. Nevertheless in Poland and Luxembourg child poverty still increased after transfers between 2008 and 2013 (see Figure 4).

FIGURE 9: CHILDREN VS. PENSIONERS: CHANGE IN THE EFFECTIVENESS OF SOCIAL TRANSFERS IN REDUCING POVERTY, PPT (2008-2013)

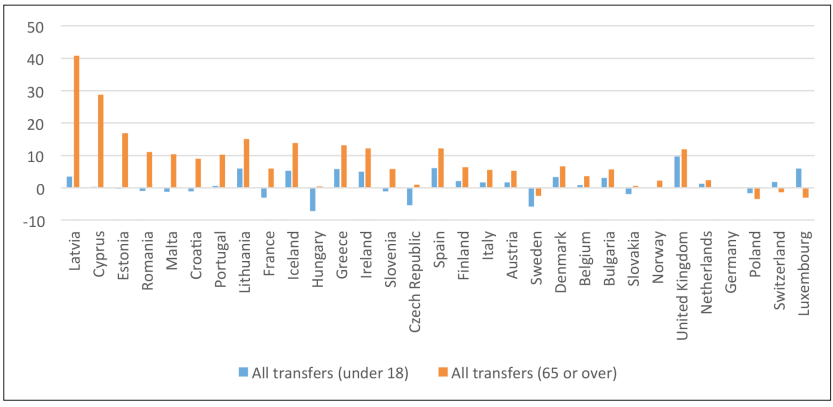
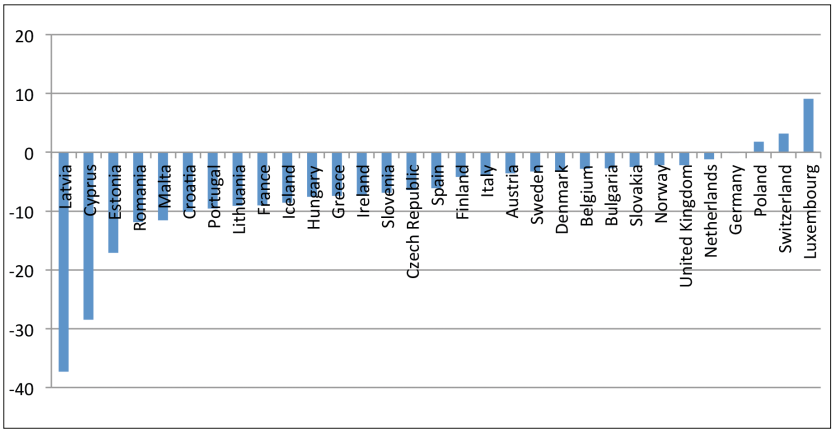


FIGURE 10: DIFFERENCE IN DIFFERENCE. PERCENTAGE POINT CHANGE IN POVERTY-REDUCING EFFECTIVENESS OF TRANSFERS TO CHILDREN COMPARED TO THE POVERTY REDUCING EFFECTIVENESS OF TRANSFERS TO PENSIONERS, 2008-2013



CONCLUSION

It is clear from national evidence that austerity policies in the UK have hit low income families with children most. These have suffered the biggest reductions in their incomes and deficit reduction measures have fallen heavily on them. As a result, the anchored child poverty rates have risen, while the pensioner poverty rates have been stable or fallen.

In European countries spending on the old has risen in all countries since 2008 but spending on children has fallen in more than a third of countries. Moreover, spending on the old has risen more than spending on children in all countries except Switzerland, Germany, Turkey and Bulgaria.

The result of this is that child poverty, already higher than pensioner poverty in the majority of European countries, increased in 19 of the 31 countries and increased more than pensioner poverty in all countries but three – Switzerland, Germany and the Czech Republic.

Transfers play a critical role in reducing pre-transfer market-derived poverty rates for both pensioners and children. The effectiveness of transfers are more variable in the case of children. Transfers became less effective in reducing child poverty in about half of all countries between 2008 and 2013 while transfers to pensioners became more effective in the majority of countries. In only three countries did transfers to children become more effective than transfers to pensioners over this period.

The European Commission's Social Investment Package (SIP) has since 2013 enjoined countries to focus on social investment. We understand social investment policies as those designed to improve human capital and support people's participation in economic and social life, as well as preventative policies to confront new social risks and poverty. Social investment implies policies with a return on investment over the life-cycle. Thus one might expect that children would and should be given priority. The fiscal consolidation, which the European Commission has also urged on countries, has resulted in a move in the opposite direction. European countries have been investing in the elderly and failing to invest in children and as result child poverty has been rising with long term social and economic consequences.

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