



Working Paper Series
Department of Economics
University of Verona

Family Friendly Welfare at the National and Local Level: What Does the State Do for the Family and the Family For the State?

Paola De Agostini, Martina Menon, Federico Perali

WP Number: 23

June 2015

ISSN: 2036-2919 (paper), 2036-4679 (online)

FAMILY FRIENDLY WELFARE

AT THE NATIONAL AND LOCAL LEVEL:

WHAT DOES THE STATE DO FOR THE FAMILY AND THE FAMILY FOR THE STATE?

A PROBLEM-ORIENTED PROPOSAL FOR A HARMONIZED WELFARE REFORM IN EUROPE

Paola De Agostini, Martina Menon and Federico Perali¹

May 2015

Abstract: The rising unemployment and poverty following the Great Recession have highlighted the importance of families as primary caregivers and actors of social protection as well as shown weaknesses and limitation of the existing welfare network in place across Europe. There is therefore a revitalized interest on evaluating how well national and local welfare systems support families, how they can be improved by revisiting what the State does for the family and what families do for the State and how these exchanges vary across Europe. In Portugal, Spain, Italy and Greece the size of welfare transfers to families is negligible as compared to the other European countries characterized by either a Bismarck or Beveridge style welfare systems because of a relatively weaker bargaining position of Mediterranean families in the social contract with the State. We discuss the relevance for the European policy to move toward a more harmonized social security system by devoting the first part of our study to the State transfers to families at the national and local level. The second part examines what families do for the State by describing how to value family time and household production activities placing special emphasis on the cost of raising children. The measurement difficulties explain why societies and governments know so little about family contributions. We show that these questions are of crucial importance to frame a harmonized proposal for a novel design of European welfare systems oriented to solve specific social problems while respecting budgetary constraints and fiscal consolidation policies.

JEL: I3, D13, J18.

Keywords: welfare reform, means testing, family support, valuing time, participation income

¹ Paola De Agostini, Institute of Social and Economic Research (ISER), University of Essex; Martina Menon, Department of Economics, University of Verona; Federico Perali, Department of Economics, University of Verona and CHILD.

1. INTRODUCTION

The rising unemployment and poverty that follow the recent economic and financial crisis started in 2008 have highlighted the critical importance of families as primary caregivers and actors of social protection as well as shown weaknesses and limitation of the existing welfare network in place across Europe. This explains why there is a revitalized interest on evaluating how well national and local welfare systems support families and how they can be improved.

The family is the heart of our society. People live in families most of their lives: as children, they are taken care of by their parents; as adults they try to balance their time between work and caring for their dependent children and older parents. As the main objective of a welfare system is the prosperity and wellbeing of its people, the main aim of the family is the wellbeing of its members.

Over the life-cycle, families may find themselves in periods when balancing their budgets and time constraints is not easy and the weakest ones may fall into poverty. The strength of a welfare system is to be able to provide a safety net in times of crisis and to help families to regain economic self-independency by working toward sustaining economic growth, improving employment, supporting families and young people, developing a strong social security, retirement, and health systems.

Across Europe we may find very different situations in terms of quantity and quality of family support policies, social protection initiatives and administrative efficiency, which result in unequal treatments of equal European citizens. For example, when comparing welfare systems in terms of transfers from the State to the family, leaving pensions, health, education, security and the provision of other public goods aside, the Mediterranean countries pop themselves out for putting a larger burden of the social well-being on the family (Caritas Europa 2012). In Portugal, Spain, Italy and Greece the size of welfare transfers to families is negligible as compared to the other European countries characterized by either a Bismarck or Beveridge style welfare systems (Esping-Andersen 1990). This evidence reveals that for the Mediterranean governments welfare transfers to families are expenditures rather than investments providing economic and social returns to both actual and future generations. As it is often the case, a public vacuum becomes a private (shadow) cost that is not socially recognized. This is the expression of a relatively weaker bargaining position of Mediterranean families in the social contract with the State. This is why it has become important for the European policy to move toward a more harmonised social security system.

It is in times of crisis, such as the recent economic and financial recession, when both the State and families are more fragile, that the terms of trade at the basis of the service exchange between households and the State may seriously deteriorate. Many European States have committed to fiscal consolidation at the expenses of both the quantity and quality of public services and family support policies both at the national and local level (Jenkins *et al.* 2012). Families have to rapidly adjust to these restrictions often accompanied to greater job insecurity and wage freeze by substituting previously publicly provided welfare support with private market and non-market services. This is why it is socially compelling to revisit what the State does for the family and what families do for the State.

We intend to pursue this objective conscious of the limitations to restrict such an ambitious project to the space of an essay, hoping to provide a useful frame for public debate. We devote the first part of this essay to the State transfers to families at the national and local level neglecting the value of publicly provided services such as health and education. The second part examines what families do for the State by describing how to value family time and household production activities placing special emphasis on the cost of raising children. The measurement

difficulties explain why societies and governments know so little about family contributions. These questions are important to frame a harmonized proposal for a novel design of European welfare systems oriented to solve specific social problems. The harmonized scheme is presented in the final section.

2. WHAT DOES THE STATE DO FOR THE FAMILY?

2.1 WHAT DO WE MEAN BY FAMILY-FRIENDLY TAXATION: VALUE FOR MONEY AND WHY IS IT IMPORTANT

Although the main aim of tax collection is the funding of public spending, in today's modern economies the taxation may also fulfil a social role through its redistributive function.

The vast majority of developed countries have welfare systems that acknowledge family responsibilities toward children and dependent adults. However, how and in what measures each country supports families through the tax and benefit system varies. Evaluating whether a tax system is family-friendly means to examine how effective it is in addressing families' needs and in removing disparities of treatment across family types and among family's members.

2.1.1 WHAT DO FAMILIES NEED AND WHY IS IT A SOCIAL ISSUE?

In order to evaluate whether a welfare state system is properly supporting families, we should start by identifying which are the specific needs and basic demands of today's families that the State is trying to address.

The main concern of each family is the well-being of its members. To succeed in guaranteeing this objective, working-age active family members need to allocate their time between two main activities: working in the labour market and caring for dependent members of the family. However, in many developed countries, families' difficulties in reconciling home and work commitments have resulted in delay fertility choices, low birth rates and decrease in number of children, which in combination with the increase in longevity achieved through improvement of quality of life and health care, have resulted in public concerns about the future sustainability of public spending for pensions, health and care services.

On the other hand, economic and social consequences of families' inability of balancing work and home commitments also raise public concerns related to childcare and education, roles definition and inequalities within couples, women's participation in the labour market (reduced working hours) and their career development, reduced family income as well as elderlies and disables' care. Taking all of the above into account, welfare policies that support families during critical life and economic times helping toward finding a work-home equilibrium have become of central interest. They include providing instrumental aid through cash transfers, goods and services provision. Therefore the remaining of this chapter examines those public solutions that have been put in place toward the achievement of this goal.

2.1.2 HOW TO SUPPORT FAMILIES THROUGH THE TAX-BENEFIT SYSTEM

In general, the welfare state uses the tax and benefit system to fulfil its redistributive function in cash terms by collecting money from the better off and distributing it to the worse off based on the principle of addressing needs. Financial support toward families is usually channelled through

tax-benefit instruments that take into account families' characteristics such as presence of children, family composition and size, employment status and family members' income.

In order to use the tax and benefit system to target financial support to specific part of the population, policy makers can work through the elements that characterise each fiscal instrument: a) identification of an appropriate assessment unit, b) definition of taxable income and benefit amount, and c) choice of the tax² and benefit³ structure.

The smallest assessment unit is the single individual while the largest comprises the whole household. In general, policy instruments targeted at families require something in between such as a definition of who counts as family or fiscal partner. The most common financial support for families is related to the presence of dependent children and it can be provided either by targeting cash transfers to families with children and/or reducing tax burden for families with children. Cash transfers include child allowances, child benefits that in some countries may vary with children's age, support for parental leave, support for lone parents, support for childcare costs. On the other hand, targeting families through tax reduction requires the definition of which earnings counts as taxable income, which are tax exempted, amounts of tax allowances and tax credits.

In order to account for differences deriving from family size and demographic composition, support for families can take explicitly into account the fact that larger families need a higher income to reach the same standard of living of an equivalent single person, simply because they face higher costs. Incorporating equivalence scales within the calculation of family support allows the policy maker to improve horizontal equity⁴ by translating households of different compositions into equivalent individuals. Examples of some European countries where equivalence scales are explicitly included within the taxation system are Belgium, France, Germany, Ireland and Portugal, while an example of countries where equivalised income is used as a base for income-tested benefits is Hungary or Italy. In other countries where this is not explicitly accounted for, families of different composition might be technically treated in the same way by the tax and benefit system resulting in paying the same amount of taxes or receiving the same amount of benefits.

Across the European Union, countries may choose different combinations of fiscal instruments to address specific population groups' needs. Therefore, support provided to families varies across countries depending on how various financial tools treat families' characteristics. Figari *et al.* (2011) compare net support to families due to the presence of children across 15 EU countries. Distinguishing between child contingent benefits (yellow bars) and child contingent taxes (dark bars) in Figure 1, they show the average net cash transfer linked to the presence of children in each decile group measured as a proportion of per capita disposable income in each country. Inspection of Figure 1 reveals that there is a clear demarcation in terms of the size of transfers between the Mediterranean (Portugal, Spain, Italy and Greece) and non-Mediterranean countries. Another interesting pattern typical of the Beveridge style welfare systems of UK and Ireland is the absence of child contingent taxes, a feature shared by Austria as well. It is also interesting to note that in countries such as Belgium, Greece, Spain, France, Italy, Luxemburg, Hungary, Portugal and Slovenia in correspondence of a higher number of children (signalled by the empty dot line), often associated with lower income families, taxes are smaller.

² Based on tax rates, taxes can be proportional (flat when rates do not vary with increasing taxable base), regressive (rates decreases with higher taxable base) or progressive (rates increase with taxable base).

³ Based on benefit unit, benefits can be universal or means-tested.

⁴ Equivalent individuals are treated in the same way by the tax and benefit system.

It is clear from this picture that:

- 1) depending on the tools used, the amount of financial support and how precisely it meets families' needs may contribute to the general redistribution function of the welfare state as well as may affect poverty and inequality indicators in each country as we will discuss in the following session;
- 2) when financial support is provided through tax reductions, it reduces public cash revenue and increase families' disposable income instead of explicitly reflecting into public spending;
- 3) when family composition is taken into account within the income test at the basis of some means-tested benefit's entitlement, it affects public spending because the larger the family, the higher the benefit amount paid.

As mentioned at the beginning of this session, financial support for families can be distinguished between aids aiming at helping families caring for children and those supporting participation in the labour market. Apart from the presence of children, families may also be targeted because of their economic and employment characteristics. Support for low-income families or families with one or both unemployed parents are available in many European countries and they aim at providing a safety net in times of economic difficulties (i.e. Austria, Germany and France) against poverty.

Technically speaking, tax-benefit systems may help low income families through setting a national minimum wage, by taxing low and high earnings at different rates, setting income tax allowances and tax credits, by providing entitlement to certain benefits on the base of an income-test. As for children support, the variety and combinations of instruments that can be observed across Europe are very large. To better understand how the tax-benefit systems support different types of families in relation to their employment status and/or their income level, researchers usually compare how the design of fiscal instruments affects couples versus singles (marriage/couple penalty) and one versus two-earner families.

Through the definition of the assessment unit, the policy maker can identify the person or group of people to which a particular fiscal instrument applies. For example, countries may choose to apply an individual or a joint taxation of couples. Under individual taxation labour and capital income of one partner is accounted separately from his/her spouse's incomes. Under joint taxation, the total couple's income is considered all together. However this is not often a strict choice and there are individual tax systems where couples may opt for a joint taxation as well as joint tax systems where they may opt for an individual taxation. As a result, many systems in Europe exhibit joint elements of the two basic models. However, how taxation interacts with the rest of the tax-benefit system is also important in order to understand the effect of policy changes and in designing policy reforms.

For example, at the beginning of the 90s, the UK passed from a joint taxation system to an individual taxation system. The choice was driven by the attempt of addressing relevant social issues (Green Paper, 1986), such as making the taxation system more family-friendly by assuring more privacy and independency in tax matters to married women (by treating husband and wife in the same way), and reducing discrimination against marriage and the family⁵. At the same time, in order to prevent couple penalty⁶ and reducing the poverty trap risk for low income one-earner families, the government raised the tax thresholds which was bringing people into tax at low level of income (Draper and Beighton, 2013) and complemented the individual taxation system with

⁵ Under joint taxation, a couple that is pooling their income may end up paying higher rates than if their incomes were treated individually.

⁶ The risk that married couples pay more tax than if they were not married.

Married Couple Allowances and the Additional Personal Allowance, which reduced taxable income for married couples and single parents. However, with time, fiscal drag reduced the allowances' real value and the government withdrawn them in 2000. The low tax threshold was not regularly updated with the consequence that the real tax burden value of some families remained very similar to the tax burden they paid in 1990. Similarly, the higher tax threshold has also not been updated in line with inflation, and many one-earner families may be paying higher rate tax even if their per person equivalent disposable income may be considered low. This kind of unfairness could be compensated in different ways. Tax credits, for example, may be introduced to compensate for the failure of the income tax system to take account of family responsibilities and counterbalance the risk of child poverty, although it may fail this task if families are not entitled to it and it may create disincentives to work.

An alternative choice would be taking family composition directly into account within the tax calculation. In France, for example, the family is considered as one single taxpayer where the partners' incomes are joint and extra costs due to family responsibilities, such as presence of dependent children and dependent adults, are taken into account by the "quotient familial" which weights each person in the tax group. The family ratio is applied to the total income of the family before it is subject to the tax schedule.

2.2 FAMILY FRIENDLY WELFARE AT THE NATIONAL LEVEL

One of the main aims of the welfare system is to protect families and children from uncertainty of unforeseen circumstances (i.e. wage, family composition shocks). In order to evaluate how and in what measure a country achieves this goal, it is important to understand where families fit within the income distribution, how they are affected by welfare policy changes and whether and why some demographic groups are affected differently than others. Typically this kind of analysis accounts for the whole distribution effect of welfare systems where income tax calculation combines with special tax allowances or tax credits, and extra costs due to family obligations may be taken into account not only directly within the taxation of income, but also recognised through special tax bands or some elements of the benefit system.

From a policy maker point of view it is also important to quantify the role of existing policies on income inequality and poverty, evaluating potential alternatives and their outcomes as well as assessing the approximate impact of new policies on work incentives and the national budget. In this session we explore the important questions that should be answered when assessing policy reforms, indicating which analytical techniques and indicators are usually applied to address them.

2.2.1 EUROPEAN FISCAL GOVERNANCE: IMPACT ON FAMILY AND CHILD POVERTY, ON

WELFARE REDISTRIBUTION, LINKS WITH OTHER INCENTIVES, EFFICIENCY (INCOME AND VAT)

Analyses evaluating how policy changes affect national income distribution usually take into account both families' income and its composition by calculating the household equivalent income to a reference household by assigning different weights to each family member⁷. This is because in order to enjoy the same standard of living, a family with two children will need a higher income than a single person. Based on their net equivalised income, families are then

⁷ The most common equivalence scale used gives weight of one to the head of household, 0.5 to other adults (age 14+) and 0.3 to each dependent child age under 14 as the OECD scale does.

ranked along the income distribution and the analyst can evaluate how their positions are affected by policy reforms

From an empirical point of view, a crucial issue is about what data should be used for this kind of analysis. The most representative micro datasets would be the obvious answer. However, because of economic and practical reasons, only recently micro data collected in survey or administrative records can be used. In general, access to administrative records is very limited because of confidentiality and security issues. On the other hand survey records may suffer from various drawbacks such as misreporting, measurement errors, missing information, inconsistency of collected data and some information on tax and benefits may be recorded at a different level than the effective assessment unit (i.e. household rather than individual unit).

Overall, with the development of microsimulation techniques that simulate changes in state or behaviour (Figari *et al.*, 2014), it is possible to carry out analysis of the redistributive effect of taxes and benefits only using survey information (Mahler and Jesuit, 2006; Wang *et al.*, 2012). These models apply fiscal rules to individual units observed in a micro dataset and calculate their disposable income and its detailed components in different scenarios. Therefore they allow overcoming many survey data limits enabling analysts to make speedy calculations and quick changes on assumptions about population evolution and adjustment of monetary values over time. One advantage of using microsimulation methods is that they can be applied both on observed and projected data, allowing the analyst to infer the effect of policy changes both at current time and in the future allowing comparisons of alternative reforms even if not yet in place in reality. They also allow evaluation of policy reforms impact on social indicators such as poverty, inequality, work incentives and others behavioural effects with some integration with other econometric tools. European social and research funds should favour the formation of independent research centres that can implement advanced microsimulation models to empower families and their associations with comparable analytical capabilities as governments do.

2.2.2 Redistributive impact

Policy changes impact on redistribution can be evaluated both within country at different points in time or at the same time cross-countries. Cross-countries comparisons usually adopt a static perspective based on cross-sectional data and show distributional effects of policy changes across countries in a certain period. The Social Situation Monitor Research Note 2/2013 “The effect of tax-benefit changes on income distribution in EU countries since the beginning of the economic crisis” of the European Commission provides this kind of analysis for the period 2008-2013 comparing twelve European countries that chose different policy mixes to achieve varying degrees of fiscal consolidation or expansion and explores the implications of the policy changes on the income distribution by type of households as well as it measures changes of risk of poverty by age.

Figure 2 below shows the distributional impact of policy changes between 2008 and 2013 by type of household in Germany, Estonia, Ireland, Greece, Spain, France, Italy, Latvia, Lithuania, Portugal, Romania and the United Kingdom. It compares proportional changes in disposable income by decile group for the whole population with that for people in households with children⁸ and people in households with elderly⁹. It shows that, apart from Germany, in all countries (although in different measures) policy changes between 2008 and 2013 have not

⁸ Children are defined as aged under 18.

⁹ Elderly are defined as aged over 64.

particularly favoured household with children across the income distribution. In this sense, Germany seems to be the only “generative” society in Europe interpreting transfers as investments rather than expenditures. France and the UK, on the other hand, can be seen as generation neutral, while Mediterranean countries clearly favour the older generation at the expenses of the young one.¹⁰

2.2.3 Incentives to work

Microsimulation analysis may also be used to assess the impact of policy changes on incentives to work and automatic adjustment mechanisms built into fiscal systems. Incentives to work are measured by the marginal effective tax rate (METR) for working individual, participation tax rate (PTR) and replacement rate (RR) for non-working individuals. The METR is important to evaluate the financial incentive to work for workers as it measures by how much the tax and benefit system discourages increases in hours worked or efforts to seek a better-paid job. High levels of METR are an indicator of low incentives to increase labour supply or to seek a better paid job since a high proportion of the extra earnings would be taxed away because of extra tax and national insurance contributions or because of benefit and tax credit withdrawals. The participation tax rate (PTR) measures what fraction of gross earnings is lost to withdrawn benefit or tax credit entitlement and higher tax and national insurance liability when entering the labour market. High PTRs represent weak incentives to be in work. Replacement rates (RR) complement participation tax rates showing the level of out of work income relative to in-work disposable income. High replacement rates also indicate low financial incentive to become employed.

As it is the case for income distribution, incentives to work vary across the European Union. Jara and Tumino (2013) provide a recent cross-country analysis reproduced in Figure 3. It is not surprising to find low incentives to work (high marginal effective tax rates) in countries with low levels of unemployment and high incentives to work (low rates) where unemployment is high as in the Mediterranean countries. Italy is an interesting exception because both unemployment and marginal tax rates are high. With Greece, Italy is the only European country not implementing a guaranteed minimum income partly covering losses in case of unemployment but providing effective incentives to look for another job. Although Italy has a special program (*cassa integrazione*) recognizing 80 per cent of the salary earned when employed to help firms in difficulty recovering from temporary crisis, its system induces inefficient behaviours from both firms and workers and allocates huge public resources away from poor people and young generations.

2.2.4 Family and Child poverty

Depending on how they affect the median income, tax-benefit policy changes may have implications on the measure of those at risk of poverty. If policy changes increase incomes at the bottom of the distribution by more than the median then the number of households with

¹⁰ It is important to notice that this kind of analysis assesses a base system as compared to a counterfactual scenario that is indexed so that it can be compared at the same year price level. Which indexation is applied may affect the conclusions. For example, if public pensions in a country are uprated with CPI and the counterfactual scenario is also indexed with CPI, the policy changes analysis will not show any difference between initial and final period. Thus it is important to consider the relationship between the particular indexation used and the uprating of each component of disposable income applied in each country during the period under analysis.

equivalised disposable income below the national poverty threshold would be expected to decrease. On the contrary, if incomes at the bottom of the distribution do not keep pace with the median then the number of households with equivalised disposable income below the poverty rate will rise.

Jara and Leventi (2014) provide relevant evidence about how the tax-benefit systems in place across Europe in 2012 affected children poverty rates. Their findings are shown in Figure 4. The effect due to taxes and benefits in 2012 is generally positive with the only exception of Greece, where children risk of poverty has raised. Integrating the findings in Figure 4 with the evidence in Figure 1 (but bearing in mind that the two figures refer to different time periods, hence conclusions drawn from this comparison should be taken with some caution and interpreted only as a general tendency), the UK and Belgium seem to effectively reduce child poverty through the benefit (yellow bar from Figure 1) rather than the tax system (brown bar). Countries adopting a joint taxation system such as France, Ireland, Germany, Portugal and Spain are also quite effective in producing welfare gains in families with children. Italy and Greece have an individual based tax system offering negligible child protection because of the exiguity of child contingent taxes and benefits (See Figure 1).

Microsimulation is especially designed to address this kind of analysis which may be particularly interesting in relation to questions about potential future reforms, what would happen if a certain reform was implemented within a certain period of time or what kind of policy and which magnitude should be adopted in order to meet certain targets. For an example of the effect of policy changes from 2008 to 2013 on poverty rates by age groups across twelve European countries see De Agostini et al. (2014).

2.3 FAMILY FRIENDLY WELFARE AT THE LOCAL LEVEL: TOWARDS A EUROPEAN MEANS

TESTING TOOL

In order to effectively implement social inclusion and protection policies advocated by the Europe 2020 strategy, European member States are committed to modernize and harmonize their welfare systems and the quality of family friendly means testing tools (MISSOC 2013). An efficient means testing tool aims at correctly identifying the poor and vulnerable families that should be the actual beneficiaries of welfare programs. Because of the great recession and scarce public resources, defending existing social security entitlements favouring the older generations of an ageing society at the expense of young families and children may be the wrong strategic choice in the long-run. In times of austerity, it is increasingly more difficult to maintain fiscal credibility while preserving poverty reduction policies aiming at protecting the most vulnerable. The unfair degree of control of political power upheld by older generations and the demographic fact that young generations are strict minorities in most electoral competitions across Europe may perpetuate the welfare status quo and widen the social divide across Member States, thus making harmonization of welfare systems and co-ordination of national social policy reforms in fields such as employment and social exclusion an objective that may lose urgency.

2.3.1 A unified means testing tool for Europe

The harmonization of welfare systems across Europe may fail also because of implementation problems due to the lack of a unified means testing tool. The goal of reaching efficiency in targeting social programs to the desired individual beneficiaries is a pressing priority in the economic and administrative context of an enlarged Europe, where, in these times of economic and social recession, public resources to be redistributed are limited and fiscal consolidation is

likely to be accompanied by losses in equity. The achievement of this goal requires knowledge, both at national and local administrative levels, of the demographic profiles of those who lose and gain from the financial crisis and those who are effectively in need. The Mutual Information System on Social Protection for the 28 EU Member States plus Iceland, Liechtenstein, Norway and Switzerland reports (MISSOC 2013) that not all European countries have the same perception of the part to be played by means-testing policies within a social protection system. We argue that this task is made even more difficult if means testing tools and identifying information vary widely across countries.

The rationale that explains government choices about combining universal and means-tested social transfers is not always clear and coherent through times leading to major welfare consequences. In the present context, the means-tested allocation criterion is only intended to deliver welfare services and aid to those effectively in need in order to help these people to permanently escape the poverty trap.

The multidimensional indicator of well-being adopted in means-testing tools should be designed so that it can admit theoretically sound inter-household welfare comparisons, and, at the same time, should be effective in identifying those in real need. Efficient targeting critically depends on selecting an appropriate information set on which to base interpersonal comparisons. Though we may be willing to accept that both labor and non-labor incomes are recorded with precision, means testing may turn out to be a method with much higher leakage and inefficiency than traditionally believed if equivalence scales are not used properly, for example, by recognizing a weight to differences in family composition while disregarding other relevant information such as family and health status.

Means-testing is traditionally used for determining eligibility to welfare programs and implementing flexicurity systems for proactive job markets based on universal credit schemes or guaranteed minimum income programs. The indicator of well-being adopted to test a household's means is equivalised income. This money metric can be used to measure poverty, or asset-based poverty when wealth is taken into account, and for taxation purposes as for the French quotient system. In general, efficient targeting, that is the correct identification of who is eligible, requires minimizing both the type I error of excluding individuals who should be included (exclusion error) and the type II error (inclusion error) associated with leakages due to the inclusion of individuals who should be excluded.

2.3.2 Income insufficiency to identify who is in need

Eurostat defines means-tested benefits as those social benefits that are explicitly or implicitly conditional on the beneficiary's income and/or wealth falling below a specified level (MISSOC Secretariat 2013).¹¹ Asset ownership among low-income families has been increasingly

¹¹ The standard of living of the potential targets is traditionally estimated from income or consumption data that sometimes may include information about assets. Proxy means testing, on the other hand, aims at reducing administrative costs and discouraging incentives to lie by distributing benefits on the basis of a ranking established by using short household-level questionnaires with moderate screening costs to report information that correlates with welfare indicators and can proxy for equivalent incomes. Under categorical targeting, generally implemented in accordance to conditionality rules without a formal verification of the means test, benefits are distributed to all the individuals living in a geographical area or belonging to a vulnerable group, selected on the basis of a threshold eligibility level. A targeting tool can be designed either to reach households or individuals, but rarely individuals within households that requires knowledge about the distribution of resources within the household.

recognized as an important dimension of economic wellbeing. Assets such as savings and homeownership are important for measuring material wellbeing, program eligibility and social inclusion in general and represent a vital component of a family's economic security, along with income, human and social capital. In times of crisis, individuals can rely on savings and ownerships to cope with persistent difficulties and unexpected events. Further, income is only one of the dimensions of wellbeing, and, in general, is not sufficient. It is intuitively difficult to compare the standard of living of a high-income person with no wealth with an income poor but wealthy person. When a person living alone loses a job and is poor both in the income and in the asset dimension, the unemployment condition becomes deeply critical.

Assets, in general, play a crucial role as a form of private insurance and are a direct determinant of permanent incomes. For poor families, asset ownership has the potential to relieve poverty and to enhance resilience and the hope for a better future. If children in families owning some assets fare better than children without wealth, then helping poor families to have access to asset accumulation would be an effective strategy for programs having both the present and the future generation in mind.

A family may be poor in the income or in the asset dimension or both. It may be poor in income terms but rich in health and resilience thanks to a wider opportunity space to react to crisis because of the presence of both parents. These observations imply interpersonal comparisons trying to rank in terms of wellbeing, for example, an unhealthy person living in a rich family or a healthy person living in a poor one.

If two workers with same income, cumulated savings and family size living in intact households enjoying a comparable health status lose their job, but one does not have a rent to pay because she/he owns a house and may have a chance to decrease accumulated wealth or can borrow, the renter is relatively poorer. To cope with daily needs and unexpected events individuals resort to real and financial assets. Assets and liabilities help smoothing consumption when income is uncertain or there is a shock. If we are willing to assume that it is normal to be in good health, then the wealth dimension is the most relevant poverty dimension to be considered jointly with income. Income can be above the poverty threshold, yet a family can feel vulnerable because it lacks financial resources to face adverse income shocks. Ownership of tangible and intangible assets is a major determinant of life projects. The drop of current consumption below the poverty line has a structural nature when also permanent income falls below the poverty line or asset holdings below a critical threshold. These are important determinants explaining why people are poor and whether they persist in poverty. Opportunities to avoid or exit poverty are also significantly affected by material endowments and imperfections in the capital and labor markets. From the perspective of the effective implementation of social policy, assets may critically condition eligibility to means-tested public benefits.

2.3.3 The proposed means testing tool: a multidimensional indicator of well-being

In general, an individual receives income Y from labor, pensions, and other transfers and may hold a certain level of net worth or wealth W . Net worth, obtained as total income minus total liabilities of an individual, is thus an indicator of long-run economic security, while access to liquid assets is an indicator of the ability to cope with unanticipated emergencies. Total current income CY is then defined as the sum of labor income Y and property income rW , where r is the average rate of

return on assets $CY=Y + rW$. Current income is an important determinant of the "economic position" of an individual that depends on the flow of services over which it has command (Brandolini, Magri and Smeeding 2010). In Europe most countries include wealth in the definition of the adopted means testing tool recognizing the relevance of asset information in the identification of those in real need.

In order to construct a means testing tool, current incomes, which accurately summarize information about both income and wealth, are divided by equivalence scales that depend on demographic characteristics and circumstances described by relevant dimensions of well-being such as health, education, employment or marital status. Equivalence scales are conversion factors used to adjust for the different cost of living, as captured by current incomes in the present proposal, of households heterogeneous in terms of sizes, composition and living situations. This makes households' income and wealth information comparable by accounting for the economies of scale of larger households as well as needs differing by demographic characteristics, such as the number of children in the household differentiated by age, the presence of other adults in the family, being a single mother or a single in general. The implementation of theoretical admissible and practically implementable comparisons thus requires a multidimensional approach to means testing. These scales are derived from econometric estimates using available consumption data, but other weights related, for example, to the cost of disabilities (not often available from objective measures derived from data), the costs associated with having twins, of an unanticipated job loss, a critical living condition, and other aspects can be determined from normative judgments evaluating how society trade-offs such relevant dimensions. The combination of equivalence scales estimated from observed consumption behaviour with scales incorporating normative judgments significantly increases the targeting efficiency in identifying those in real need. Household equivalent current income $CY^*=Y/S$, where S denotes the household equivalent scale, is the level of current income that would make a comparison household indifferent between its current situation and the hypothetical reference situation where it would be at the reference values for all non-income dimensions of life. An individual is income poor or eligible for a welfare program when equivalent current income CY^* is less than a threshold Z . If the program eligibility threshold also corresponds to the asset based poverty line, then the proportion of the population living in households with current income per equivalent adult less than the poverty line gives both the poverty headcount index and the proportion of the population who are included in the welfare program.

2.3.4 A administrative implementable and efficient tool

Means testing, used mainly to deliver cash transfers or allowances on the cost of welfare services, is the most administratively expensive method, but assures the lowest inclusion or exclusion errors if verified and professionally implemented. Nowadays reliable wealth data become increasingly more available across Europe and modern informatics technologies are decisive to drastically reduce administrative costs. A means testing tool that can be proposed as a common model across Europe should be a multidimensional indicator of wellbeing based on equivalent current incomes that composes the relevant dimensions of exclusion such as income, financial and non-financial wealth, health status and differences in family structure.

If a public administration does not properly accounts for these relevant dimensions of wellbeing, it will run the real risk of performing approximate comparisons across households and make gross targeting mistakes that are perceived as unjust allocations of public resources. Inefficient targeting make the delivery of local welfare services highly family unfriendly. The

efficient use of detailed asset and demographic information in the design of the means-testing tool would be highly desirable in order to make comparisons that are fair in applying the eligibility criteria. Only a unified means testing tool would pave the road towards harmonized welfare policies across European countries

3. SUPPORT FOR FAMILY CARE: RECOGNIZING CARE AT HOME AS VALUABLE WORK. WHAT DOES THE FAMILY DO FOR THE STATE?

3.1 WHY IS IT IMPORTANT TO RECOGNIZE CARE AT HOME AS VALUABLE WORK?

In the recent decades there have been major changes about how households behave in response to cultural and technological changes as well as changes in the quantity and quality of publicly provided services. For example, many of the non-market goods and services that were produced within the household in the past are now purchased on the market. This shift has important consequences for living standards because wellbeing depends both on the command households have over economic resources, such as income and wealth, and over non-economic aspects of life affecting what households would like to do and what they can actually do.

The measurement of the costs and benefits associated with changes in life-styles requires detailed information on how people spend their time and how the non-marketable product of the household activities is valued. This knowledge is also crucial in understanding “what households do for the State,” that is how households compensate either the lack or the under-provision of public services.

The assessment of households’ time investment on unpaid but valuable domestic work is relevant not only to know the total amount of household services produced and who provides them within the household (Caiumi and Perali 2014) but also can inform about how households can make more efficient allocations between time invested in market and non-market activities depending on external factors, often affected by public decisions, such as wage rates, the price of child care, taxes, benefits and child care subsidies (Apps et al. 2014).

Consider a two-parent household with two children and a yearly income of 60,000 euros where one parent works full-time and the other specializes in home production and child-care. This household organization opts for purchasing at a shadow price the services that it would otherwise acquire outside the family at market prices. Now think at a two-parent household with two children living in the same place earning same income where both parents are employed full-time. Clearly, these parents cannot specialize in home production or child-care (Pollak 2011, 2013) and must contract all these services on the market using their budget. As a result, the available income net of expenses for services purchased on the market for the second household is lower thus also affecting standards of living.

Suppose further that the two families live in different regions and that one of the regions even with similar public budgets has a higher propensity to invest in the provision of family-oriented public goods so that it offers:

- A larger supply of nurseries and kindergartens at lower costs;
- A public school system with extended hours in the afternoon devoted to supervised study, sport activities, music and other group activities and continuing summer educational programs;
- Local enterprise-union agreements guaranteeing greater hours flexibility and targeted

support for women;

- Lower housing costs both in terms of rents and mortgage for young families;
- Student loans;
- Subsidized health care and specialized assistance for the elderly and less abled people;
- Cost efficient public transportation and less congested roads;
- Safer environments.

It is self-evident that the family living in the more publicly concerned region is better off because the family can more easily reconcile work with family duties and can save both time and money that can reinvest, for example, in the quality of its children, or in buying extra services on the market or to decide to have another child. For example, a more efficient housing market keeping mortgage rates at competitive levels and the availability of sustainable student loans, both expressions of effective public policies in the housing and tertiary education sectors, may facilitate the transition to adulthood and the abandonment of the family nest. If the State is latent, then households have to internalize the costs of maintaining their often unjustly termed “baby boys” for many years after diploma. Barriers to enter the housing market also partly explain the trend, common to all Europe, to marry at a later age than in the past. Another example is traffic of overly congested cities when it is the result of ineffective public administrations. The time spent on traffic lines when commuting to work or taking children to sport or complementary educational activities could be reinvested in household production or relational activities within the family.

Further, how time is used by families affect health outcomes of both household members and the relatives they care for. The time parents spend with their children affects school performances. Similarly, the time and money spent to make children practise sports affect children’s stock of non-cognitive abilities. Attributing changes in health or education status exclusively to hospitals or schools may give a false impression of what families do for the State. These examples are hidden costs borne by families that are often not accounted for. As such, not only it is difficult to know how families cope with declining supplies of publicly provided services and family support programs, but also who are the families that actually cannot cope with the changes exposing them to sharp reductions in their quality of life and to greater risk of poverty.

As advocated by Fitoussi, Sen and Stiglitz (2009), a complete measure of well-being, and we argue a thorough understanding of the service transfers from the family to the State, should emphasize a household perspective to measure income, wealth and consumption broadening such measures to non-market activities. These authors estimate that household production in the period 1995-2006 amounted to about 35% of conventionally-measured GDP in France, about 40% in Finland and 30% in the United States.

We now see how this measurement can be implemented proposing the evidence reported in the 2009 Family Report conducted by the International Centre for Family Studies (CISF) in Italy as an example.

3.2 TIME USE IN ITALIAN FAMILIES

A major transformation in the organization of European households that took place in recent decades relates to the increase in the number of households where both partners are employed and the consequent increase in the female employment rate. The Belgian Scientific Institute for Public Health (ISP, 2015) recently calculated that about 860.000 people in Belgium are involved in informal care.

The number of hours they spend on represents more than 150.000 full time jobs. About 18% of women aged 55-64 are informal careers and represents the largest group¹².

The CISF questionnaire investigates how parents invest their time in caring activities. In Italy, 3 women out of 10 married couples are employed. Women with children spend an average of 5 hours per day on household chores if they have a low level of education and are not employed. This time is halved if women own a university degree and are employed. Mothers devote about 4 hours for child-care independently from their employment status, level of education or whether they live in the North or South of Italy. The distinction between home and child-care must be taken with caution because often these activities are undertaken jointly. The presence of a child requires at least 3 hours of caring, 4 if the children are 2 and 5 in case of three and more children thus showing the presence of significant economies of scale in the time used for childcare. Considering that nowadays families maintain ties with several generational layers, as a consequence of longer lives, mothers are also often involved in the care of the elderly with an engagement that varies depending on their employment status, the stage of the family life-cycle and the health of the elderly. In general, women invest 65.3% of their time in household chores, 28,6% in childcare and 5,4% in elderly care (Table 1). The working woman, on the other hand, invest in home duties about 1 hour less as compared to non working women, but cares relatively more about children and less about the house.

On the other hand, men invest about 1 hour of their time in household chores independently of their working condition, region of residence and family size. They devote about 1,7 hours of their time in childcare that increase to about 3 hours in presence of two or more children. As the number of children increase, fathers spend relatively more time working at the expenses of direct care. The married man spends slightly more time in childcare relatively to the care of the house. In households where both parents work, the father dedicates to children about one hour more as compared to households where the father is the sole breadwinner and the mother fills the domestic sphere in a more integral fashion. This evidence of a relatively higher presence of fathers in double-earners households in order to favour the conciliation of family and work duties is common to all European families. In general, the contribution of fathers to the care of household chores and the elderly is marginal. About 30% of husbands do not devote time to household chores. However, fathers supply about 38,8% of the demand for childcare probably devoting less time to leisure considering that fathers' labor supply is significantly more rigid than the one of working mothers. In total, husbands contribute 31,8% of total family labor. This picture shows that there exists coordination between the members of a couple to facilitate access of women to the labor market independently of the availability of a family network willing to provide assistance.

Despite the decline in fertility rate, the woman is committed to several family obligations at the same time and faces difficulties in harmonizing work and family responsibilities. The paid work is rarely a part-time job because of the insufficient flexibility of the labor contracts. Unpaid activities done within the domestic walls are marginally assisted both by the husband, with the exception of childcare especially when both parents work, and by the informal family networks under stress due to the economic crisis and they are inadequately substituted by the public services for children.

3.3 THE VALUE OF THE PRODUCTION OF HOUSEHOLD SERVICES

The value of time invested in childcare is a fundamental element of the total cost of raising a child especially to understand the family's fertility choices. In general, the value of childcare depends on

¹² <https://www.wiv-isp.be/news/Pages/L'aideinformellereprésentepusde150000emploisenBelgique.aspx>

the quantity of time spent with the children and the household technology, i.e. the parenthood ability in transferring human capital to children. If the labor market is competitive, when a mother is working the value of her time is given by her wage. When she does not work, then the shadow value of her time exceeds the market value (otherwise, if jobs were available in the market, she would opt to work in the marketplace).

Under competitive conditions, an individual is indifferent between market or domestic activities. The measurement problem is due to the fact that the household product is not marketable. It is therefore difficult to know the value of the marginal product generated within the family enterprise. Therefore, the value of time devoted to paid market or unpaid domestic activities differ.

Household production is a non-market activity whose value can be measured by its opportunity or market cost. The cost-opportunity approach attributes to the domestic activities the wage that the individual would earn if she/he was employed in the labor market. The opportunity-based evaluation may introduce a significant bias when comparing, for example, the value of time spent at home by a manager or a clerk.

The market approach suggests measuring the value of household production by attributing to each domestic activity the value that a household would pay to acquire the service on the market. The market-based evaluation is the most commonly used because it does not embed the potential distortions implied by the opportunity cost method.

A reasonable practice is to evaluate the time devoted to children at the market value assuming that the value corresponds to the wage at which families would pay the person that would substitute the parents' care. It should be remarked that this is an approximation that does not account for the fact that the quality of time invested by the parent is in general higher than the time dedicated by a person external to the family or a nursery service. The effects on both the cognitive and non-cognitive abilities, especially in the first five years of age (Heckman and Cunha 2004), of - what is often believed as - an imperfect substitute for family-provided care still needs to be closely investigated.

The market approach can also be applied, with caution, to the evaluation of leisure time. If we compare two households consuming the same bundle of goods and services working the same amount of hours, but one investing all the remaining time in household production with little time left for leisure, the latter likely enjoys a lower standard of living. Adding to current income the value of time invested in household production and the evaluation of leisure gives a measure of full income that provides a more comprehensive picture of the distribution of standards of living and of the relative contribution of each income component. This imply that It is fundamental to estimates the full cost of raising children and to understand how these costs, known to the family but little known to the researcher, affect various families' choices such as fertility.

3.4 THE COST OF MAINTAINING AND RAISING CHILDREN

Raising children is a burdensome enterprise because the cost is associated both with the cost of necessities and less essentials goods for children and with the time investment for childcare. The value of time has a shadow evaluation that varies from family to family according to the different commitments towards children.

To fully describe the different components of the cost of children it is important to distinguish:

- the *cost of maintaining* a child or equivalence scale: it corresponds to the amount of income that is necessary for a family with children to enjoy the same level of material well-being of a childless couple. These estimates are used to account for differences in

- needs across families in the design and implementation of fiscal systems and the delivery of welfare programs. Equivalence scales are also used to measure poverty and inequality;
- the *cost of raising* children: it encompasses the cost of maintaining a child, the expenses for non necessary goods and the value of time devoted by parents to child care.

The full cost of a child significantly affects the fertility choices of the family.

Estimating the cost of maintaining a child requires the analysis of consumption micro data. Here we propose for illustrative purposes approximations of both the cost of maintaining and raising a child using stated data from the Cifs 2009 survey. The cost of maintaining a child is approximated by the observed expenditures for children including food, education, pocket money, nursery or kindergarten and other direct expenses for the care of children.

The *cost of raising* a child is obtained summing the cost of maintaining a child expressed in monetary terms and all other expenditures for non necessary goods given the knowledge of the sharing rule describing how household resources are divided between adults and children. This information can be either estimated (Caiumi and Perali, 2014) or directly asked to households as in the Cifs survey. In Italy the proportion of total household expenditure is on average about 25.4% (Table 2) and does not vary significantly across the income distribution. In other words, the propensity to invest on children does not depend on income. Differently from the cost of maintaining a child, the cost of raising a child is positively correlated with income because the cost of raising a child also includes expenses for non-necessary goods. The cost of raising a child is also negatively related to family size. This evidence explains why the cost of raising children can contribute to explain fertility choices. On average, in Italy the cost of raising a child is about 738 Euros per month. Well-off families spend on average about 83% more than poor households do.

To construct the *full cost of raising* a child we need to add the value of time invested in home production as illustrated in Table 2. We adopt the market approach to determine a wage for domestic work of 7 Euro per hour as established in the national collective contract that is the same for all families. The estimated average monthly value of childcare is 451 Euro per month. The resulting full cost of raising children is on average about 1250 Euros per month.

Table 3 shows the decomposition of the total cost of raising a child distinguished by income quintile. Inspection of the table reveals that, on average, the full cost of raising children is composed by the cost of maintaining a child for 25.4%, by non-necessary goods for 38.5% and by the value of time for the remaining 36.1%. Interestingly, while the maintenance component is almost constant along the income distribution, the time component contributes to about 57% of the full cost of raising a child in the poorest quintile and to about 19% in the richest quintile.

It is important to emphasize that these figures are not showing the relative importance of household public goods such as housing in determining the cost of a child. A young couple that has signed a long-term commitment to repay a house mortgage has to trade off this commitment with the choice of having the desired number of children. Housing costs, especially in countries where housing and credit markets are not efficient, represent a heavy cost component that may contribute to explain why the actual number of children is often lower than the actual number of children and the family size is smaller than in the past. This is an area of research that may deserve greater attention on behalf of both researchers and social institutions.

Further, if we consider that the Italian State is recognizing an annual tax deduction per child that is about 5 times less with respect to the cost of maintaining a child expressed in monetary terms, then the normative equivalence scale implicitly adopted by the government for fiscal use is less than 0,1 and is recognized only to less affluent families. This may be contrasted with France where the quotient based fiscal system universally recognizes a weight per child of 0.5.

3.5 THE COST OF RAISING CHILDREN AND FERTILITY CHOICES

Italy has one of the lowest fertility rates in Europe: 1,2 children in the North and 1,3 children in the South of Italy per woman in childbearing age. This demographic trend is associated with a high average age for the first birth at about 28 years old and is determining a family model more and more centred on the “single child.” The fertility rate in Italy is much lower than the minimum rate necessary to maintain the demographic equilibrium of 2.1 children per woman.

The procreative choice depends mainly on sharing a long-term family project and the couple stability, but also on economic aspects such as availability of physical and time resources, job insecurity, housing costs, and presence of child services and family support. The notion of cost of children, therefore, helps explaining what are the most favourable circumstances for a free procreative choice. It is also important to evaluate the best policies that can guarantee all families to have similar opportunities to have a number of children conforming to an ideal family size. It is self-evident that an average full cost of a child of 1250 Euro that accounts also for the value of the time investment of the family and corresponds to an entry salary of a graduate worker may significantly affect fertility choices. This nexus should be object of a renewed research effort.

Interestingly, the administrative cost per child in an Italian nursery or a child-care centre is about the same amount, while in Germany is about 1800 Euros. The Italian family contributes about one third by disbursing on average about 400 Euros. The mother that decides to stay at home to care for her family’s children would not have to directly disburse the nursery cost and the family budget loses her potential income. The State, on the other hand, would save about 800 Euros corresponding to the cost of a child in a public nursery of about 1200 Euro net of the family contribution plus the loss of the tax transfer from the salary of the employed woman. These State savings generated by the mother’s choice to self-employ herself in household production can be used to finance a “participation income” program (Atkinson 1996, 2015) that recognizes the mothers’ indirect contribution to the State.

From the Cif survey, the average desired number of children equals the population substitution rate of 2,1 but the actual number of children is on average 1,7. Comparing this evidence with OECD family statistics¹³ reveals that the Italian case is representative of a general preference across OECD member states. However, averages conceal interesting differences. In Italy, the actual number of children in full-time single earners families is about 2, while in two-earners families is 1.5. Only 62% of families reveal that their desired level of maternity is fulfilled.

In the present economic prospect, where the cost of children raises as a consequence of increased prices of good and services while wages are frozen and jobs are highly insecure, families are demanding more horizontal equity and family support from the State. According to the Cif survey, in Italy 90% of the families have either a low or very low level of satisfaction about the support that the State is effectively delivering to the families.

The evidence presented so far shows that the Italian family is a micro-society where the woman is not fully realized as a mother. The number of children today is no longer a free choice because they are a luxury that not all households can afford. This fact justifies the public request that the European Union and member States be jointly committed to create the conditions so that

¹³ <http://www.oecd.org/els/family/database.htm>

European families can actually afford at least two children by redistributing more equally resources from the old to the young generations.

Accounting for time in the evaluation of the cost of children is a formidable task that should be pursued across Europe with a common methodology to provide decision makers with the appropriate information to dose a family-friendly fiscal action and local welfare aiming at providing families across Europe with similar opportunities to pursue each family's generative, affective and educational objectives.

3.6 EU-WIDE PARTICIPATION INCOME COMPLEMENTING EXISTING SOCIAL PROTECTION

In the second part of the study, we emphasized the importance of valuing time to understand how families contribute indirectly to the State by providing care services to their infant children and elderly in need of assistance at a lower cost and better quality than if they were offered by the public sector. Accounting for how families use their time also allows recognizing how they can contribute directly by getting involved in active job search, retraining, continuing education, or by regular voluntary work in a recognized association.

Globalization and the high level of automation of modern economies expose workers to global volatility and systemic risks associated with job insecurity. The highly specialized job market makes retraining less effective as compared to the recent past, though workers can generally be trained in the short run for jobs available in the emerging fourth sector complementing social, community or environmental services.

These considerations are at the basis of the interesting proposal of offering at the EU level a benefit to be paid, not on the basis of citizenship, but of "participation" (Atkinson 1996, 2015). Participation is broadly defined as a social contribution. It can be indirect as in the case of mothers caring for infant children or frail elderly people,¹⁴ or direct as in the case of voluntary work in the fourth sector. This program may prove effective in reducing child poverty by transferring resources from the old to the young generation and to mothers, and in controlling public expenses for the care of the elderly.

The participation income complements existing social protection. It is implementable in the short run because it would overcome the problem of funding a universal basic income program through an increase or adjustment of the tax schedule. Participation income would also have the virtue to make the terms of the family-State reciprocity contract clearer.

4. HARMONIZED FAMILY-FRIENDLY WELFARE SYSTEMS: A FEASIBLE PROBLEM-ORIENTED PROPOSAL

This study examined the terms of trade between State and families and how these are affected by their relative bargaining position. Nowadays, European States face several simultaneous challenges. Governments have to effectively respond to

- rising demand for **horizontal equity** due to the economic recession,
- greater **job insecurity** as a result of rising unemployment and an increasingly automated mode of economic production,
- eradication of chronic **poverty**,

¹⁴ When recognized to mothers, they may be asked to report about their activities as if they were in teleworking.

- greater recognition of the **value of time and services** contributed by families.

A modern welfare system should be oriented to solve these problems in a harmonized fashion within the system and across Europe.

Horizontal equity

Europe is demanding more measures of universal benefits (Atkinson, 2015) in the forms of basic incomes or child benefits for families with children with the notable exception of Germany, France and Denmark that implemented generative welfare policies. UK and Ireland, applying more liberal Beveridge style policies, obtained mixed results. The Mediterranean countries, on the other hand, reveal that they see welfare programs targeting families and the young generations as expenditures rather than investments. Interestingly, a means to implement universal programs is to adopt a joint taxation system based on the family quotient. Most European taxation systems first tax, then recognize differences in needs across households through tax deductions and/or benefits that are negligible. As compared to the implicit transfer recognized through the quotient, deductions and benefits are not universal, and are eroded by the fiscal drag. The move towards a family-based taxation is especially important in countries such as Greece and Italy where the bargaining position of families is weak. The implementation of the quotient system should be as expensive as a universal basic income program, but with the additional virtue of correctly implementing horizontal equity by applying the appropriate transfer recognizing real differences in family needs. In theory, individual and family based fiscal systems, if applied correctly, should be equivalent and cost the same.

Job insecurity

Programs guaranteeing a minimum income are generally adopted across Europe with different incentives schemes favoring the active search for a job. Italy, Greece and Hungary should be able to implement mature support programs taking advantage of lessons learned from other EU-member States. Harmonization would require that guaranteed minimum income should not be coupled to other forms of income support intended to protect from job losses.

Out of Poverty Trap

Efficient means testing should be seen mainly as a tool to include the excluded and to eradicate poverty. It can be implemented at the local level as a means to free families from the poverty trap subsidizing access to nursery and kindergarten, school transport, meal allowances, income subsidies using efficient means testing tools that correctly identifies those effectively in need and at the margin of society. A key ingredient for success of family-friendly support policies is the investment in a modern social administration at the pace of technological evolution in the informatics field. An efficient-means testing tool should be part of an advanced integrated system for the management of welfare services. If social support were properly dosed in relation to the real needs and stock of abilities of families thanks to an appropriate use of family-specific information, then means-tested transfers would be much more effective than they are now in freeing people from poverty traps.

Valuing time and services contributed by families

The value of time and services contributed by families can be recognized by offering a benefit to be paid, not on the basis of citizenship, but of participation broadly defined as a social contribution. Participation income would have the virtue to make the terms of the family-State reciprocity contract clear and can be seen as a complementary measure of social protection.

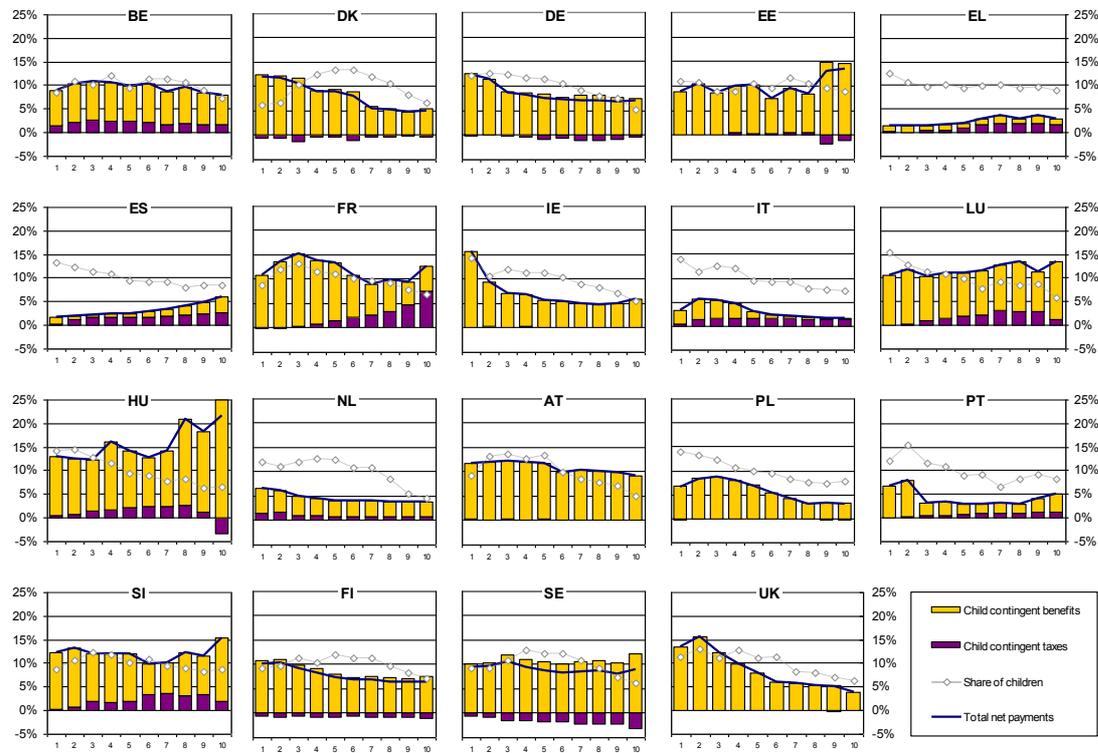
Participation can be indirect, as in the case of mothers caring for infant children or frail elderly people, or direct, as in the case of voluntary work in the fourth sector. This program may prove effective in reducing child poverty by transferring resources from the old to the young generation and to mothers, and in controlling public expenses for the care of the elderly.

The implementation of this new form of EU-wide social security would be an opportunity to make progress on social security harmonization and to pave the road towards a unified welfare policy coordinated across Europe.

REFERENCES

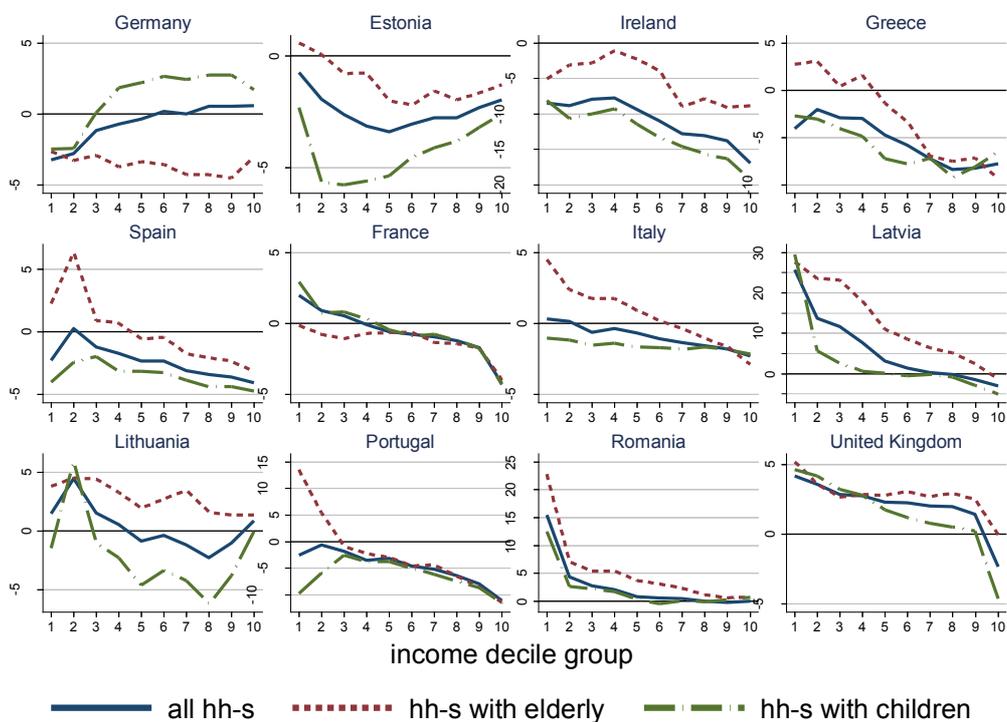
- Apps P., J. Kabátek, R. Rees, and A. van Soest (2014): “Labor Supply Heterogeneity and Demand for Child Care of Mothers with Young Children,” IZA Discussion Paper No. 7007.
- Atkinson, A. B. (1996): “The Case for a Participation Income,” *The Political Quarterly*, vol. 67-1:67-70.
- Atkinson, A. B. (2015): “Inequality. What can be done?”, Harvard University Press.
- Brandolini, A., S. Magri and T. Smeeding (2010): “Asset-based Measurement of Poverty,” Working Paper No. 775, Nank of Italy, Rome, Italy.
- Caiumi, A. and F. Perali (2014): “Who bears the full cost of children? Evidence from a collective demand system,” *Empirical Economics*: 1-22.
- CARITAS Europa (2012): “The Future of the Welfare State. A comparative Study in EU-countries” Urbé, R (Ed.), Lambertus-Verlag, Freiburg im Breisgau.
- Cunha, F. and J. Heckman (2010): “Investing on our young people,” NBER Working Paper 16201.
- De Agostini P., Paulus A., Sutherland H. and Tasseva I. (2013): “The effect of tax-benefit changes on the income distribution in EU countries since the beginning of the economic crisis” Social Situation Monitor Research Note 2/2013 of the European Commission.
- Esping-Andersen, G. (1990): *The Three Worlds of Welfare Capitalism*, Cambridge University Press.
- Figari F., Paulus A. and Sutherland H. (2009): “Measuring the size and impact of public cash support for children in cross-national perspective” working paper 024, "Carlo F. Dondeña" Centre for Research on Social Dynamics (DONDENA), Università Commerciale Luigi Bocconi.
- Figari, F., Paulus, A. and Sutherland, H. (2015) “Microsimulation and policy analysis” in *Handbook of Income Distribution*, edited by in Atkinson, A.B. and Bourgignon, F.
- Fleurbaey, M. and D. Blanchet, (2013): *Beyond GDP: Measuring Welfare and Assessing Sustainability*, Oxford University Press Inc.
- Fitoussi, J., A. Sen and J. Stiglitz (2011): Report by the Commission on the Measurement of Economic Performance and Social Progress.
- Jara, H.X. and Leventi, C. (2014) A note on EU27 child poverty rates: research note prepared for Child Poverty Action Group.
- Jara, H.X. and Tumino, A. (2013) “Tax-benefit systems, income distribution and work incentives in the European Union” *International Journal of Microsimulation*.
- Jenkins, S., A. Brandolini, J. Micklewrigth and B. Nolan (2012): “The Great Recession and the Distribution of Household Income,” Oxford University Press, London.
- Menon, M. and F. Perali (2010): “Il costo di accrescimento dei figli” in “Il Costo dei Figli. Quale welfare per le famiglie italiane?” ed. Pier Paolo Donati, Rapporto Famiglia Cif 2009, Franco Angeli, Milano.
- MISSOC Secretariat (2013): “Overview of Means Testing in MISSOC Countries,” MISSOC Analysis 2013/1. European Commission, DG Employment, Social Affairs and Inclusion.
- Pollak, R. (2011): “Allocating Time: Individuals' Technologies, Household Technology, Perfect Substitutes, and Specialization,” NBER Working Paper No. 17529.
- Pollak, R. (2013): “Allocating Household Time: When Does Efficiency Imply Specialization,” NBER Working Paper No. 19178.
- Sutherland, S. and Figari, F. (2013) “EUROMOD: the European Union tax-benefit microsimulation model” *International Journal of Microsimulation*, vol. 1(6), pages 4-26.

Figure 1: Child contingent payments per child by income decile (% per capita of disposable income)



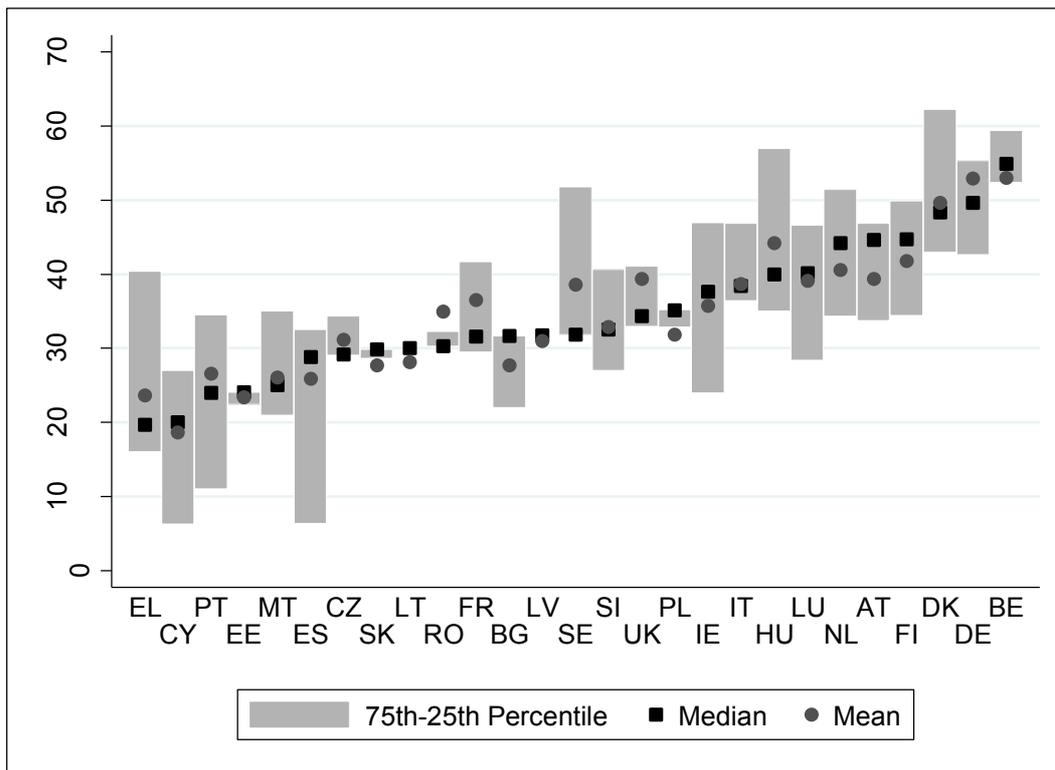
Notes: Bars show components of spending per child as a proportion of overall average per capita disposable income, by decile group. Deciles have been constructed on the basis of equivalised household disposable income of the entire population, using the OECD equivalence scale. Estimates relate to policy years 2001, 2003 or 2005. Source: Figari et al. (2009) simulations with EUROMOD version D24.

Figure 2: Percentage change in household disposable income due to policy changes 2008-2013: by type of household and household income decile group (FNI counterfactual indexation assumption)



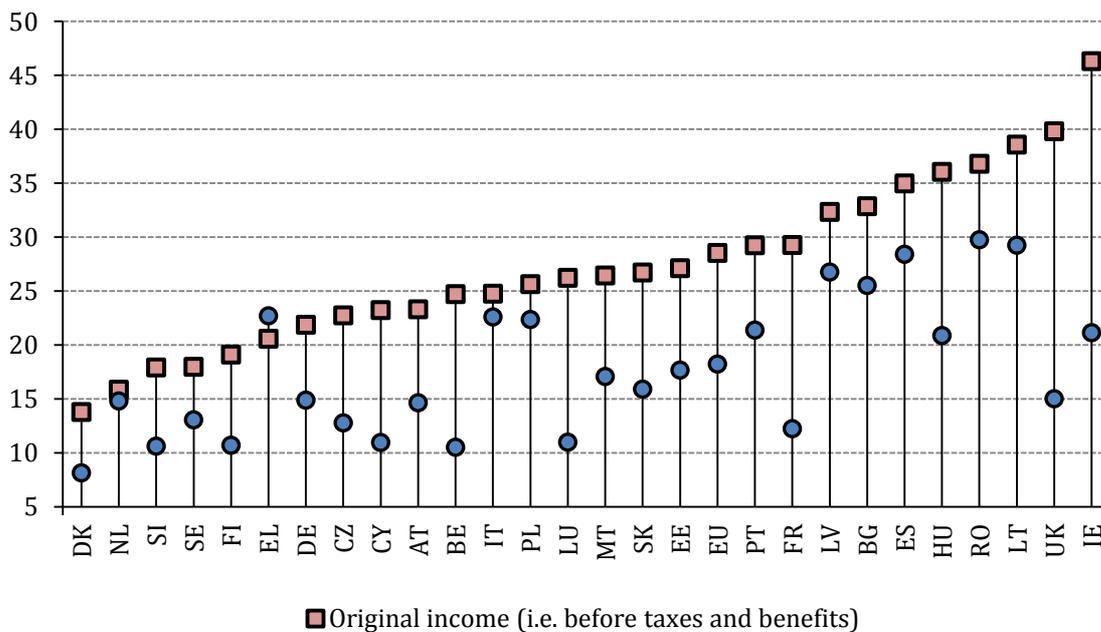
Notes: Deciles are based on equivalised household disposable income in 2013 with 2008 policies in place, indexed by market income change (FNI) and are constructed using the modified OECD equivalence scale to adjust incomes for household size. Children are defined as those aged under 18 and “elderly people” as those aged 65 or more. The charts are drawn to different scales, but the interval between gridlines on each of them is the same. Source: European Commission Social Situation Monitor - De Agostini et al. (2014) simulations with EUROMOD version G1.4.

Figure 3: Marginal effective tax rates across the EU, 2007 (%)



Notes: Countries are ranked by median METR. Source: Jara and Tumino (2013) using EUROMOD.

Figure 4: Child poverty rates before and after taxes and benefits across the European Union in 2012



Notes: Countries are ordered according to child poverty rates before taxes and benefits are taken into account. EU refers to the EU27 average. Source: Jara and Leventi (2014) using EUROMOD.

Table 1. Average time shares for home, child, and elderly care of wife and husband by single and double earner households

Family type	Wife			Husband		
	Home	Child	Elderly	Home	Child	Elderly
Single earner						
1730 obs.	71.2	22.3	5.63	45.1	31.3	6.11
Double earner						
724 obs.	51.4	43.6	4.63	33.2	53.9	4.23
Total						
2454 obs.	65.3	28.6	5.34	41.6	37.9	5.55

Table 2. Cost of raising a child and full cost of raising a child by income quintile in Italy

	I (457 obs.)	II (236 obs.)	III (405 obs.)	IV (249 obs.)	V (223 obs.)	Total (1570 obs.)
A. Cost of maintaining a child (Euro/month)	164,9	238,9	313,3	408,8	504,1	317,5
B. Proportion devoted to children (%)	23,9	24,4	25,2	27,7	28	25,4
C. Cost of living of a couple with a child	1.290	1.966	2.634	3.593	6.647	3.014
D. Cost of raising a child (BxC)	308	480	664	995	1.861	798
E. Value of child care	406	439	464	497	441	451
F. Full cost of raising a child (D+E)	714	919	1.127	1.492	2.302	1.250

Source: Menon, M. and F. Perali "The cost of raising children," in Cif Family Report 2009 using Cif Data, Istat Consumption Survey 2008 and Istat Time Use 2003.

Table 3. Decomposition of the full cost of raising a child by income quintile in Italy.

	I (457 obs.)	II (236 obs.)	III (405 obs.)	IV (249 obs.)	V (223 obs.)	Total (1570 obs.)
Maintaining/Full Raising	23.1	26.0	27.8	27.4	21.9	25.4
Non necessity goods/Full raising	20	26,2	31	39,3	58,9	38,5
Value of child care/Full Raising	56,9	47,8	41,2	33,3	19,2	36,1

Source: Menon, M. and F. Perali "The cost of raising children," in Cif Family Report 2009 using Cif Data, Istat Consumption Survey 2008 and Istat Time Use 2003.