Policy Forum: Public Investment in Disadvantaged Children

Welfare and Children's Well-Being

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Abstract

This article discusses economic theories that arise from a household production model about the production of children's well-being and explores how those theories inform features of income redistribution policy. Economic needs within families with children, concerns about interactions between the needs of parents and children, reasons for conditioning benefits or providing benefits directly to children, and the role of social services are each examined and discussed in the context of the Australian Family Tax Benefit program and recent proposals to reform Australian welfare programs.

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1. Introduction

Concerns for children's well-being are a fundamental motivation for government transfer and income redistribution programs. Many aspects of these programs are contentious because of perceptions that adult recipients may be on them deliberately rather than through circumstance. However, there is much less debate regarding the genuine need of children in recipient families, whose disadvantaged circumstances are beyond their control. Yet even as children's well-being motivates welfare policy, relatively little attention is paid to how policies actually promote well-being.

This article discusses economic theories about the production of children's well-being and their implications for the design of welfare programs. Several considerations arise from the theoretical analysis, including how children increase economic needs within families, how the needs of parents and children interact, how differences between social and private incentives might motivate assistance to be provided with conditions on the parents' behaviour or directly to children bypassing parents, and how other social services can complement government payments. Following Haveman and Wolfe (1994), the theory shows that family and government resources are important to children's development. The article then examines how these considerations play out in the largest Australian transfer program for households with children, the Family Tax Benefit (FTB), and other Australian programs. It also discusses how the

considerations align with the welfare reform objectives advanced by the McClure Report (Department of Social Services 2015).

2. Theoretical Considerations about Children's Well-Being

We begin by considering a simple economic model of household behaviour, adapting the household production framework of Gronau (1977). Suppose that the household consists of a parent and her M children. We assume that the parent makes all the decisions for the household and that the children are dependent on her and not able to make decisions. Suppose further that the parent has preferences regarding her own consumption of goods and services, C_P , her time spent outside the labour market and not caring for her children, L , and the well-being of each of her children, Z_i for $i = 1, M$, such that each of those things increases her utility. A distinctive feature of Gronau's household production approach is that the well-being of each child is produced with inputs of goods and services for that specific child, C_i , and time from the parent, T , through a production function, $g_i(C_i, T)$, which may depend on the age and other characteristics of the child and on the abilities of the parent. The parent's budget is constrained such that her expenditures on goods and services for the family, $C_P + C_1 + \dots + C_M$, cannot exceed the sum of her earnings, WH (her hourly wage times her hours of market work), and her unearned income, N . The parent's total available time, K , can be split between time in market labour, H , child care and parenting, T , and other non-market activities, L . The parent chooses allocations of her time and all household members' consumption to maximise her utility subject

to well-being production, budget and time constraints. Formally, her problem is

$$\begin{aligned}
 & \max_{H, P, L, C_P, C_1, \dots, C_M} U(C_P, L, Z_1, \dots, Z_M) \\
 & \text{subject to: } Z_i = g_i(C_i, T) \text{ for } i = 1, M \\
 & C_P + C_1 + \dots + C_M \leq WH + N \\
 & H + T + L \leq K
 \end{aligned}$$

It is straightforward to show that the parent's optimal choices of time and expenditures will depend on her wage and non-wage economic resources, her productivity in converting inputs of time, goods and services into child well-being, her preferences, and other factors.

The model does not explicitly incorporate any government programs; however, these can be easily added. The household's unearned income could be redefined to include private and public resources, and the budget constraint could be further modified to include direct provision of goods and services for the parent and children. Government programs could alter other aspects of the model, such as the well-being production function.

Need. From the model, we immediately see that children's well-being is affected by the financial resources available to the household. If unearned income increases, the parent can purchase more goods and services for the children and spend less time in paid labour but more time in child care. These changes should result in the production of more well-being for the children. Conversely, the children's well-being will be put at risk if the parent lacks financial resources. These relationships will motivate a society that cares about children's well-being to transfer resources to economically disadvantaged families who need more resources to produce

adequate levels of well-being for their children.

The model also shows us that given a particular level of financial resources, the production of child well-being will be harder for families with more children or with children with greater needs for consumption goods or parental time. For example, older children may require more food, clothing or schooling costs than younger children (Phillips et al. 2015), but younger children may require more time and attention from parents or other caregivers. If society wants to achieve a level of well-being for children through government payments, it may need to adjust those payments to reflect the size of the household and the other needs of the children.

Household interactions. The model also points to important interactions among the household members. Suppose that a household's unearned income consists of M equal-sized government payments issued on behalf of each of its children, and further suppose that the parent is confronted with a cut in those payments. How would she react? As the payments are a form of unearned income, our earlier discussion tells us that the mother would lower the expenditures on goods and services for the children, which would reduce their well-being. However, the children would not bear the full brunt of the payment cut. The model also indicates that the parent would reduce expenditures for herself and would likely work more to increase the resources coming into the household. Through these actions, the parent will protect her children from some of the consequences of negative shocks.

While some interactions among household members can be beneficial to children, others can be negative. If the government were to cut the payment to one child, the parent might not only reduce her own consumption but will also reduce expenditures for the other children. Similarly, if the parent's own income were to fall, the model predicts that some of this loss

would be passed on to the children. In the other direction, an increase in payments to the children would result in some rise in the parent's consumption. If payments to children differ because of their ages, parents might shift resources from older children with high payments to younger children with low payments. More generally, to the extent that financial resources can be distributed within a household, a one-dollar change in payments made on behalf of one member will change the household's allocation of expenditures to that member by less than one dollar. Also, changes in payments to any one member will affect the well-being of all the household members.

Conditioning and direct provision. The model assumes that the parent has beneficent preferences in the sense that her children's well-being adds to her utility. However, it does not tell us about the strength of those preferences relative to her preferences for her own consumption or her other non-market time. We also do not know how much weight society places on the parent's well-being relative to the children's. The parent's effort on behalf of her children is generally not observable. Other characteristics of the parent, children and household that affect how inputs of expenditures and time might translate into children's well-being are also hard to observe. Just as differences in preferences and the inability to observe household behaviour can undermine child support settlements between divorced parents (Weiss and Willis 1985), they can also undermine public incentives to transfer money to families.

Two seemingly attractive mechanisms for addressing these issues are to condition assistance on the parent undertaking specific actions on behalf of the children and to transfer goods and services directly to the children, bypassing the parent. These approaches are appealing because they guarantee that some specified actions or resources that are aligned with social

objectives will reach the children (Bruce and Waldman 1991). However, these approaches might not make much of a difference in the children's well-being if the parent can adjust her behaviour in other dimensions. For example, if a parent is required to undertake an action on behalf of her children as a condition of government assistance, she might reduce the time she devotes to other beneficial activities. Similarly, if a child directly receives a good or service, the parent might reduce expenditures she would otherwise make for the same type of good or service—a school-provided lunch might just replace a lunch that would have been sent from home. In general, if a parent is already undertaking actions or expenditures on behalf of her children, she has scope for reducing those efforts if the government mandates or directly provides help.

Social services. Another dimension where social policy can help children is in improving parents' abilities to produce child well-being from a given set of resources. As we discussed, the production functions in the model, $g_i(\cdot, \cdot)$, may differ with the parents' skills and abilities. Some parents may have less ability or knowledge than others and may only be able to produce a small amount of well-being from the resources under their control. Social services, such as parenting classes and home-health visits, may complement other assistance policies by helping parents to be more productive.

Although the model assumes that parents have beneficent preferences, this might not be the case for every parent. It is possible that the government could intervene through a set of child protective services if parents have harmful preferences or if they are fundamentally incapable of producing child well-being.

The next sections of this article examine considerations of need, household interactions, conditioning, direct provision of assistance and social services in the context of Australian

government payment policies for households with children.

3. Assistance Programs in Australia

The principal cash payment program in Australia for assisting households with children and improving children's well-being is the Family Tax Benefit (FTB) (Department of Human Services 2017). The FTB has two payment components: Part A (FTB-A) and Part B (FTB-B). Both components are means-tested. FTB-A is intended to assist families with the direct expenses of children. In 2016–2017, the program's regular component paid families up to \$183 per fortnight for each of their children aged 0–12 years and up to \$238 per fortnight for each child aged 13–19 years. Depending on the household's income and other conditions the program could also include a general annual supplemental payment of up to \$726 per child; supplemental payments for energy expenses, rent and newborn children; and a special card to defray health care expenses.

FTB-B is more narrowly targeted at lone-parent families, non-parental caregivers and some households with a single income earner. It is intended to assist households with the indirect costs of raising children, namely the earnings that caregivers forego when they spend time at home with their children. FTB-B payments do not vary with the number of children. In 2016–2017, the program paid eligible families up to \$156 fortnightly if their youngest child was 12 years old or younger and up to \$109 fortnightly if their youngest child was 13 to 18 years old. FTB-B also has a general annual supplement and an energy supplement.

Australia also has several smaller payment programs for families with children. Parenting Payments are available to low-income parents of young children (aged 8 if single or aged 6 if a member of a couple); the payments do not vary with the number of children. Australia also offers Parental Leave Pay of up to \$673 weekly for a maximum of 18 weeks to new mothers with a substantial history of work, and Dad and Partner Pay for a maximum of two weeks to new fathers. The Commonwealth Government also has Child Care Benefit and Rebate programs to assist households with non-parental child care expenses.

Young Australians who are 16 to 24 years old are also eligible for a means-tested Youth Allowance program. Single youths who are 16 to 17 years old, still dependent on their parents, and with no dependents of their own can receive \$240 fortnightly, while single youths who are 18 to 24 years old under similar circumstances can receive \$288 fortnightly. Higher payments are available for youths who live independently, are members of a couple, have dependent children or are receiving long-term income support payments. Youth Allowance is paid to the parents of dependent youths who are younger than 18 years and is paid directly to older and independent youths.

Needs. The FTB and the other assistance programs recognise household financial needs in two fundamental ways. First, the programs consider each household's available resources and give more help to households that are less able to provide for children on their own. Overall eligibility for the programs is means-tested, with payments only being available to households with incomes below given thresholds. These eligibility standards restrict the availability of the FTB and several other types of assistance to low- and moderate-income households. In addition, payment amounts are means-tested, with the payments being reduced as household incomes rise.

Thus, the poorest Australian households generally get the most financial help. In his presentation to the February 2017 Childhood, Education and Welfare: Research and Policy Insights Workshop at the Melbourne Institute of Applied Economic and Social Research, Whiteford (2017) showed that total Australian family benefit payments to households in the bottom income quintile were 11 times greater than payments to households in the top quintile; this ratio was higher than any other OECD country and showed an extraordinary level of benefit targeting.

Second, the programs consider the number and ages of children in the household and deliver more benefits to households with more children or children with higher expenses. For FTB-A and Youth Allowance these cost considerations are part of the benefit formula itself, which makes payments on a per-child basis and sets higher maximum payments for older children than younger children. FTB-B, Parenting Payments and several other programs do not explicitly adjust payments through their benefit formulas; however, they (and FTB-A) incorporate family-size considerations into their eligibility thresholds, which leads to indirect adjustments of payment amounts depending on the composition of the household.

A critical issue in considering household needs is whether the payments are adequate for children in disadvantaged households to achieve a reasonable level of well-being. Whiteford (2017) reported that Australia devoted about 2 per cent of its gross domestic product to family cash benefits, an amount that was slightly higher than the OECD average and considerably higher than the United States. However, his analysis did not address household needs. One useful, though admittedly imperfect, way to assess needs is to look at what households typically spend on children. Phillips, Li and Taylor (2013) estimated Australians' child-directed expenditures in December 2012 by children's ages and households' income position. Adjusting

their figures to March 2017 equivalents using the Australian Consumer Price Index (Australian Bureau of Statistics 2017), households in the lowest income quintile directly spend an average of \$186 fortnightly for each 0- to 4-year-old, \$286 for each 5- to 9-year-old, \$332 for each 10- to 14-year-old and \$618 for each 15- to 17-year-old. By this standard, current FTB-A payments, which are supposed to help with such direct expenses, may be adequate for the youngest children but inadequate for older children. The maximum fortnightly FTB-A payment of \$238 for older children is far below what low-income parents typically spend.

Conditioning. FTB contains both incentives and penalties that condition payments on particular actions on behalf of children. The positive incentives come in the form of the supplemental annual payments for FTB-A and FTB-B, which are only paid if the children are up-to-date on their immunisations ('no jab, no pay') and health checks.¹ Both programs also have effective penalties for older recipient children, because payments on behalf of the children will not be made unless the children attend school full-time. In principle, positive and negative incentives can be constructed to be equivalent. A problem, however, with all-or-nothing negative penalties, like the FTB school attendance requirement, is that they can leave non-compliant households without assistance for their children. Given the behavioural interactions among household members, the strict penalties that are applied to some children in a household can harm the welfare of other children in the same household. Similar negative well-being implications apply to welfare program conditions on adult behaviours that are not related to parenting, including the work and work-readiness requirements of several Australian transfer programs. The positive incentives of the FTB supplemental payments, which add to a baseline of support, appear to be a more humane way to incorporate incentives.

In-kind assistance. The Australian system provides several programs and supplemental payments to pay directly for services on behalf of children. The most noteworthy are the Child Care Benefit and Rebate programs, which subsidise parental payments for child care services and are clearly conditioned on the receipt of those services. The child care services, in turn, increase children's well-being by directly promoting their intellectual and behavioural development. Another form of in-kind assistance is the Health Care Card, which gives low-income FTB-A recipients access to discounted medicines for themselves and their children. Supplemental payments for energy and rent are also valuable forms of in-kind assistance, though they benefit households generally rather than children specifically. Again, the behavioural interactions that are predicted by the theoretical model indicate that these general forms of assistance will improve children's well-being, even if they are not directly targeted that way.

A more controversial form of in-kind assistance is Australia's Income Management scheme. The scheme operates in selected, mostly remote, communities. Income management involves having a portion of a household's government payment either allocated directly towards food, housing, clothing, utilities and other living expenses, or be placed on a 'BasicsCard' that can only be used at authorised retailers for selected purchases. In communities with Income Management programs, households can voluntarily enrol. However, households that a caseworker has identified as being 'vulnerable', households referred by child protection authorities and households in some other circumstances can be compelled to participate. The programs are controversial because they are perceived as being demeaning, stigmatising and disproportionately targeted at Indigenous Australians; they are also more expensive to administer than standard cash payment programs. Worse, the programs might not have much effect on

people's total spending, because of the reallocation possibilities that we discussed earlier (see, for example, Bray et al. 2014).

Social services. In general, Australian states and territories carry more responsibility for providing social services than the Commonwealth Government. Where Commonwealth support is provided, it is usually done through grants to community organisations rather than through direct government provision. One area where the Commonwealth Government has been active recently is in funding organisations to help disadvantaged families build financial capability and knowledge. These support activities have been coordinated with payment programs at some of the income management sites. Mallett's (2017) presentation to the Childhood, Education and Welfare: Research and Policy Insights Workshop discussed how state, territorial and community services need to be more systematically and universally coordinated with the welfare system.

4. McClure Reforms

In 2013, the Australian Government commissioned a review of its welfare programs, with a focus on the system's financial stability, efficiency, coherence and work incentives. The resulting McClure Report (Department of Social Services 2014), which is guiding many current changes in welfare policy, proposed reforms around four 'pillars':

- Simpler and sustainable income support system
- Strengthening individual and family capability

- Engaging with employers
- Building community capacity

[Department of Social Services 2014, p. 9]

As these pillars suggest, the report's proposals focus more on promoting self-sufficiency (through work) among current and potential welfare recipients, cutting long-term costs in the welfare system and simplifying the welfare system. There is much less direct concern about children.

The report assumes that greater employment and self-sufficiency will lead to better outcomes for children and reduce the intergenerational transmission of welfare use.

Many of the benefits of employment are passed on from parents to children. Children who grow up in households where one or more people are employed have better outcomes in terms of social, emotional, physical development and learning ... By contrast, extended exposure to income support dependence is associated with poorer outcomes for children. Children living in households where parents are not working are more likely to not work in the future

[Department of Social Services 2017, p. 61]

The theoretical model suggests that children might benefit if their parents' employment brings more resources into the household. Employment might improve children's outcomes through role modelling effects and increased networking opportunities. However, employment could reduce children's well-being if it reduces the time that parents can devote to caring for their children.

The report recommends other modest changes that are explicitly targeted at children. These include increasing FTB payments as children age, combining the FTB and Youth Allowance programs so that child payments are made from a single program until children are 22 years old, strengthening child care supports, conditioning more payments on immunisations and school participation, and providing better services for family functioning.

5. Conclusion

Concerns about children's well-being are a key motivation behind public efforts to redistribute resources to disadvantaged families through welfare payments. Cash assistance programs help children's outcomes primarily by increasing the resources that families can devote to child-related expenditures. However, as this article has discussed, there are other aspects of the programs that are important, including how the programs adjust their benefits to differences in families' needs, how they account for interactions in household members' behaviours, how they might prompt parents to undertake specific actions on behalf of children, and how they might be coordinated with support services that increase parents' effectiveness within the household.

Features of Australian cash assistance programs, most notably FTB-A, address each of these issues—at least to some degree. The programs could do more, however, to help children. Although the payment amounts for very young children seem consistent with estimates of families' expenditure needs, benefits for older children fall short. The general supplemental payments for FTB-A and FTB-B, which are conditioned on children being immunised and

undergoing health checks, provide positive and helpful incentives to undertake these actions. Other types of conditioning, including the all-or-nothing conditioning of FTB payments on older children's school attendance, may harm some children and families. The even more stringent conditioning of the Income Management scheme is demeaning and of questionable effectiveness. Social services may be a valuable device for building parenting and household management capacity, but these services mostly stand apart from the cash assistance system and need to be more effectively coordinated with payment programs.

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Endnote

¹ Child Care Benefits and Rebates are also subject to 'no job, no pay' conditions.

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