

Why Child Poverty in Cyprus is so Low

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Abstract

This paper shows that the low overall child poverty in Cyprus can be attributed to four reasons: the generosity of the child benefit system to large families, the high labour market participation among parents, the high poverty risk among pensioners and the small proportion of lone mothers in the population. Child poverty is likely to increase in the future as the maturing of the state pension system raises the incomes of retirees above the poverty line and the number of single parent families continues to increase over time. In order to maintain child poverty to its current low levels, the Cyprus government needs to raise the level of child support throughout the benefit system and change the eligibility criteria of the supplementary child benefit to improve targeting.

Keywords: Child poverty, benefit system, Cyprus.

1. Introduction

Child poverty is an issue of major concern to all societies. In the EU context, the importance of combating child poverty is highlighted by the political priority given to this objective by the Social Protection and Social Inclusion Process. As a consequence, studies outlining the problem of child poverty and proposing measures to tackle it have been carried out in all member states. The main results, conclusions and policy recommendations of these studies are synthesized in Frazer and Marlier (2007).

From the above studies and the comparative analysis of Bradshaw *et al.* (2006) child poverty appears to be a less frequent phenomenon in Cyprus compared to other EU countries. For instance, in 2003, the latest year for which detailed data are available, only 11% of children were living in households below the poverty line. This is well below the EU average (20%) and the overall poverty rate in Cyprus (15%).

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This paper examines the reasons for the low child poverty in Cyprus, with a view to understanding how far this phenomenon can be attributed to child support policies followed by the Cyprus government or to other factors. Interest in answering this question is motivated by the need to maintain and, if possible, improve further on this record by sustaining and strengthening the factors combating child poverty. Furthermore, to the extent that the success of Cyprus in containing child poverty is the outcome of particular social policy measures, our investigation can help other countries reduce child poverty by adopting similar policy measures.

A large number of factors are identified in the literature as determinants of child poverty. These factors include non-participation in the labour market and unemployment among adults within families with children, single parenthood, low paid employment and more importantly, inadequacies in the state child support system. The importance of social policy in combating child poverty is highlighted in many studies. For instance, Bradshaw (2005) assesses the overall impact of the child benefit system by comparing the before and after cash benefits and transfers child poverty rates; while Sutherland and Piachaud (2001), investigate the impact of benefit reform using micro-simulation techniques. Other studies assess child benefit support through inter-country comparison, e.g. Dickens and Ellwood (2003) compare social policies in the UK and the US, Jarvis and Redmond (1997) do likewise for Hungary and the UK, while Forster and Toth (2001) compare social policy reforms among Central and Eastern European countries. Furthermore, several studies focus on particular aspects of child support programs, e.g. Ridge (2005) and Blow, Walker and Zhu (2005) examine whether child benefit is spent in children's best interest, while Matsaganis *et al.* (2006) highlight the meagreness of child benefit support in the Mediterranean countries of the EU. Results from some of these studies are further discussed and compared with our own in the last section of the paper.

The next section draws on Family Expenditure Survey data to construct simple descriptive statistics and estimate regressions parameters highlighting demographic and other characteristics associated with the child poverty risk in Cyprus. Section 3 details the features of the Cyprus child benefit system and shows how its generosity towards large families reduces the child poverty risk. Section 4 discusses the results obtained in the paper vis-à-vis related findings in the literature and considers their policy implications.

2. Child poverty and household characteristics

The poverty line is defined as suggested by the EU, i.e. equivalent income equal to 60% of the median. Child poverty is then calculated as the proportion of children¹ in families below the poverty line.

Table 1 gives an overview of child poverty in Cyprus. As shown in this table, the percentage of children in households below the poverty line differs by the age of the child. Children in the 12-17 age group face the highest incidence of poverty, nearly 13% in 2003. The lowest child poverty rates are those in the youngest age group, which are calculated at below 9% in 2003. The rising child poverty with the age of children may reflect the fact that households with young children are themselves in younger cohorts than those with fewer children and higher incomes. From the figures in Table 1 one can also note an upward trend in child poverty for all age groups over the period 1996 and 2003. Some of the factors contributing to this upward trend will be discussed later in this paper.

TABLE 1
Child poverty rates by the age of the child

Age group	1996	2003
1- 5 years	7.7%	8.9%
6- 11 years	10.4%	10.6%
12-17 years	12.3%	12.8%
ALL	10.3%	11.0%

Source: Family Expenditure Survey, 1996 and 2003, Statistical Service.

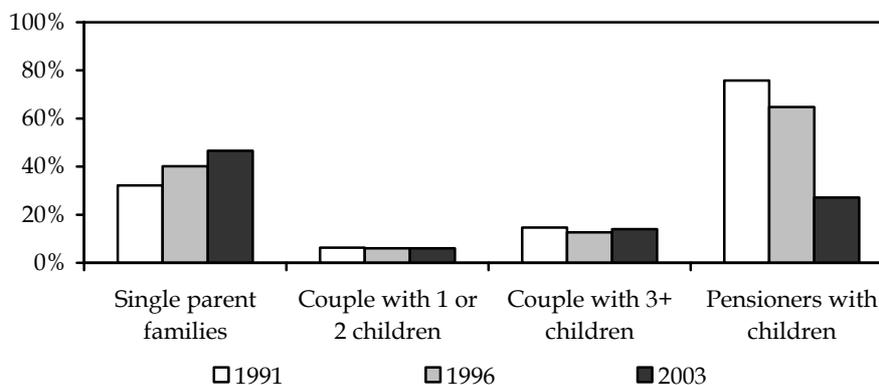
Figure 1 shows how child poverty varies with certain demographic characteristics of the family. The highest child poverty rates are observed among single-parents and among households headed by pensioners. This is a consequence of the fact that these two groups of households face the highest poverty incidence in Cyprus (Pashardes *et al.* 2007). Therefore, children living in these households are also at high poverty risk. Furthermore, child poverty increases among single parents (from 32% in 1991 to 47% in 2003) and decreases among pensioners (from 76% in 1991 to 27% in 2003) thus reflecting similar poverty trends among these household

¹ We follow the Laeken definition of "children", i.e. persons up to 17 years old.

groups.² The lowest child poverty (around 6%) appears to occur in couples with one or two children; whereas child poverty among households with 3 or more children is around 14%.

FIGURE 1

Child poverty rates by family structure, 1991-2003



Source: Family Expenditure Survey 1991, 1996, and 2003, Statistical Service.

The figures in Figure 1 illustrate one reason behind the low child poverty in Cyprus, i.e. that fact that the highest poverty risk occurs mostly among households that contain a very small proportion of child population in the country. Notably, the highest percentage of children, 57%, exists in families with 1 or 2 children. These families face the lowest poverty risk in the population: 38% of children live in households with 3 or more children, facing a poverty risk around the population mean, while the proportion of children living in single parent and pensioner headed households is only 5%. The small proportion of children living in the last two household groups explains why the high incidence of child poverty among them does not impact on the overall child poverty.

Unemployment and non-participation in the labour market are considered to add substantially to child poverty in most European countries (Hugh Frazer and Marlier, 2007). Cyprus is no exception in this respect. As shown in Figure 2 the child poverty rates are very high among workless

² The declining poverty among pensioners is due to the fact that the state pension system in Cyprus started in 1980 so that the cohorts entering the system (new retirees) have higher pensions than those exiting it (the deceased).

households, reaching 52% and 30.6% among households whose head is inactive and unemployed, respectively. Again, these categories of households represent a relatively small proportion of the child bearing population in Cyprus. More precisely, among families with children, only 2% are headed by a person not participating in the labour market; and among those participating in the labour market, only 2% are headed by an unemployed person.

FIGURE 2

Child poverty rates by the economic status of the household head



Source: Family Expenditure Survey 1991, 1996, and 2003, Statistical Service.

The demographics of the family and the economic activity of its members are not, of course, the only household characteristics affecting child poverty. Other variables of policy interest, like the education level of adults in the family, the gender and age of the household head and the presence of disabled persons in the family can also affect child poverty.

A comprehensive picture of the extent to which the various household characteristics relate to child poverty is given in Table 2. The second column in Table 2 shows the change in the probability of child poverty associated with a change in the household characteristic given in the first column, assuming all other household characteristics are held constant. The change in probability is calculated using the parameter estimates obtained from a Probit regression.

As regards family composition, the novel feature arising from the Probit analysis is the large increase in the probability of child poverty associated with a female household headship. This suggests that while children living

in a single-mother household face a substantially higher child poverty risk than children living in other families, the same cannot be said about children living in single-father households. The rest of the results relating to family composition confirm the increase in the probability of child poverty with the number of children in the family.

TABLE 2

Effect of household characteristics on the probability of child poverty

Family composition:	Probability change
Couple with: <i>one child</i>	-
two children	13.7*
three children	27.0*
four or more children	41.3*
Single parent	-10.0
Female head	42.1*
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Education:	
Head: <i>up to primary</i>	-
secondary	-15.9*
college	-24.9*
university	-33.3*
Spouse: up to primary	26.7*
secondary	18.1
college	5.2
university	-4.0
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Age of head:	
<i>Up to 30</i>	-
31 - 45	-1.2
46 - 60	-9.4
Over 60	-8.7
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Economic position:	
<i>Employed head</i>	-
Unemployed head	22.1*
Pensioner head	16.5*
Additional working adult	-24.5*
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Other characteristics:	
Disabled head	37.0*
Urban areas	-0.7

Note: An asterisk indicates statistical significance at 0.05 confidence level.

Source: Family Expenditure Survey 2003 and author's estimations.

As one would expect parental educational achievement (especially that of the household head) reduces the risk of child poverty. Furthermore, the risk of child poverty declines with the age of the household head, even though the parameters corresponding to this result are subject to a wide margin of error (statistically insignificant). In contrast, the effects of the economic position of the head are very precise and confirm (i) the increased poverty risk among children living in households with a pensioner or an unemployed head and (ii) the substantial reduction in the risk of child poverty in families where more adults participate in the labour market.

Regarding other household characteristics, there appears to be a large increase (by 37 percentage points) of the risk of poverty for children in families with a disabled head; whereas the location of the household (in urban versus rural areas) does not appear to have an impact on the child poverty risk.

3. The child benefit system

The state support of children is universally accepted as a desirable feature of social policy. However, the measures taken to effect this support can differ between countries, reflecting differences in objectives and/or customs. In the context of economic analysis, child support by the state is generally considered as means to reduce income inequality between households (equalise the welfare of families with different size and, hence, needs) and provide income for the benefit of children.³

The child benefit system in Cyprus changed from an in-work (based on tax allowances for children) to a cash benefit system as a result of the 2003-04 tax-benefit reform. The cash benefit paid to families with children consists of a universal *basic* part and a *supplementary* means-tested part.

- The basic part is paid to all families permanently residing in Cyprus for each child that lives under the same household and meet the provisions of the Law.⁴

³ Child support arguments based on fertility can also have economic meaning in the context of growth analysis and the analysis of other economic problems involving intergenerational transfers (e.g. pension systems).

⁴ According to the Law in Cyprus, families receive a child benefit if they have unmarried children who are (a) under the age of 18 or between 18-23 years in full time education, (b)

- The supplementary part is payable only to families with annual gross income below C£18000 (€30755).⁵

An interesting feature of the child benefit system in Cyprus is the increasing amount of money paid per child for additional children in the family.

- The annual basic child benefit is C£213 (€364) for one child, C£426 (€728) for two children, C£1278 (€2184) for three children and C£639 (€1092) for each additional child in the family.
- The annual supplementary child benefit (a) for families with annual gross income less than C£9000 (€15377), is C£53 (€91) for one child, C£213 (€364) for two children, C£479 (€818) for three children and C£213 (€364) for each additional child; and for families with annual gross income between C£9000 (€15377) and C£18000 (€30755), the child benefit is C£27 (€46) for one child, C£160 (€273) for two children, C£399 (€682) for three children and C£133 (€277) for each additional child.

This generosity of the benefit system to large families is unusual and defies economic logic (supported by empirical studies, e.g. Pashardes 1995) according to which the cost per child declines with the number of children in the household, due to economies of scale in the family. Nevertheless, the fact that in Cyprus large families face a higher poverty risk than small families enables this feature of the child benefit system to contribute towards lowering the overall child poverty. In order to illustrate this point, we use the Tax-Benefit model of the Economics Research Centre of the University of Cyprus and data drawn from the Family Expenditure Survey for 2003⁶ to simulate the child poverty rate under three hypothetical scenarios:

Scenario 1: 'universal flat benefit', where all children receive an equal amount of benefit.

Scenario 2: 'means-tested benefit', where child benefit is paid only to households below a certain level of income; the three income

between 18-25 years serving in the National Guard or between 23-25 in full time education, and (c) permanently incapable of self-support, irrespective of age.

⁵ C£1=1.7086 Euro.

⁶ This is the latest household expenditure survey available in Cyprus. For the purposes of our analysis all the monetary figures (income, child benefit etc) are adjusted for inflation and growth to the year 2006.

(not equivalent) thresholds are C£10000 (€17086), C£15000 (€25629) and C£20000 (€34172).

Scenario 3: ‘poverty-tested benefit’, where households are eligible for child benefit if their income falls below the poverty line.

We compare the child poverty rates obtained from the above simulations for various family groups with the poverty rates corresponding to the current child benefit regime. In all scenarios we maintain ‘benefit neutrality’, i.e. the total government expenditure for child benefit is kept constant.

Table 3 presents the changes in child poverty rates (from the current system) corresponding to the three scenarios described above.

- Under the ‘universal flat benefit’ scenario, the overall child poverty increases by 1.9 percentage points. The largest increase in child poverty occurs among single parents and, as one would expect, among households with three or more children.
- Under the three ‘means-tested’ scenarios, the child poverty rate decreases. The largest reduction (4.5 percentage points) occurs when eligibility for child benefit occurs within households with annual gross income below C£15000 Cyprus pounds (around 26000 Euro); whereas, when eligibility for child benefit is annual gross household income below C£10000 (around 17000 Euro), or below C£20000 (around 34000 Euro), the reduction in child benefit is only 1.5 and 1.7 percentage points, respectively.
- Under the ‘poverty-tested’ scenario the overall child poverty rate is reduced by 6.9 percentage points with the largest reduction occurring among children at high risk of poverty (i.e. children in single parent or pensioner headed households and in families with three or more children).

The figures in Table 3 demonstrate that increasing the benefit per child with the number of children in the family can be an effective measure for the reduction in child poverty in Cyprus and of course in other countries, where the risk of poverty increases with the number of children in the family. However, the same results also illustrate that making the child benefit available to families below a particular level of income may not help achieve a substantial reduction in child poverty. This can happen when the income defining eligibility is set either too low, in which case many large families below the poverty are excluded, or too high, in which case many households above the poverty are included. The supplementary child benefit in Cyprus appears to make both these mistakes: the low annual gross income level required for eligibility (C£9000 or €15377) to the

large part of this benefit leaves out many families below the poverty line; whereas, the high annual gross income level set for eligibility to the same part of the same benefit (C£18000 or €30755) includes a large number of families above the poverty line.

TABLE 3

Change in child poverty under various scenarios (percentage points)

Household type:	Universal flat	Means-tested (C£)			Poverty- tested
		<10000 (<€17000)	<15000 (<€26000)	<20000 (<€34000)	
Single-parent households	5.2	-31.7	-22.3	-5.5	-34.8
Couple with 1 or 2 children	-0.1	-4.3	-3.8	-2.3	-4.8
Couple with 3+ children	4.4	6.6	-3.8	-0.6	-6.7
Pensioners with children	0.0	-27.2	0.0	0.0	-27.2
Total	1.9	-1.5	-4.5	-1.7	-6.9

Note: the thresholds in Euro are rounded to the nearest thousand.

Source: Family Expenditure Survey 2003, Statistical Service and author's calculations.

4. Discussion

The relatively low overall child poverty in Cyprus can be attributed to four factors: the high poverty risk among pensioners, the small proportion of single mothers in the population, the high labour market participation among parents and the generosity of the child benefit system to large families. The first two of these factors are expected to change with time resulting in higher child poverty figures in the future.

As regards pensioners, the reduction in their poverty risk will come from the fact that the average pension in Cyprus will increase as the contributory pension system (introduced in 1980) matures and the cohorts entering the system due to retirement have higher pensions than those exiting it, due to death. As more pensioners move above the poverty line, other households, more likely to have children, will take their place resulting in higher child poverty. According to our calculations, if all the retirees today were receiving a full pension, then child poverty would be higher by around two percentage points.

The number of households that are headed by women is still low in Cyprus and the expectation is that their proportion in the population will increase over time, and so will child poverty. This phenomenon has been observed in western countries since the 1960s and 1970s. Blessi (1988) examining the increase in the number of households headed by women in the US, finds that while in 1959 women were 23% more likely to be poorer

than men, by 1985 this figure rose to 51%. At the same time child poverty skyrocketed: while children were 53% more likely to be poorer than men in 1959, by 1985 they were 121% more likely to be so. The 'feminization of poverty' has become a label for describing the disproportionate percentage of poverty that is borne by women living alone or with children. The author analyses the forces behind these changes and finds that women's wage rates and hours of work play a significant twofold role: they affect poverty directly but also indirectly, through their effect on marital status.

The effect of the increasing number of lone mothers on child poverty has also been highlighted in other studies, including Chilman (1975), Forster and Toth (2001), Dickens and Ellwood (2003) and Bradshaw (2005). The Dickens and Ellwood (2003) study suggests that incentives inducing single mothers into work and the end to the growth in single parent families have contributed to the reduction of child poverty in the US. Furthermore, Ridge (2005) in his article exploring child support policies from the standpoint of children's best interest, argues for reforms that strengthen the support of children in lone-mother households.

The argument in this paper that high labour market participation and employment among parents contributes to the low child poverty in Cyprus, is an argument also found elsewhere in the literature, with many authors encouraging governments to take action to help parents combine work with family life. According to Dickens and Ellwood (2003), making work pay for poor households with children is at the centre of UK and US policy reforms and are effected through measures such as the introduction of minimum wage and deals to encourage individuals into work in the UK; and work incentives, increases in income tax credits and expanded medical protection for children of working parents in the US.

Jarvis and Redmond (1997) emphasise the importance of combining paid work and child rearing through comparison of the incidence of child poverty in the UK and in Hungary. They argue that Hungary has a child poverty advantage relative to the UK because the Hungarian benefit system encourages women to retain labour market participation while bringing up children. Sutherland and Piachaud (2001) examine the principal measures taken by the UK government to reduce child poverty and consider the extent to which changes in tax and benefit policies have made it more worthwhile to move off benefit and into work. Using results obtained from micro-simulation analysis of the policy changes announced up to April 2000, they make optimistic predictions about the future child poverty in the UK.

The generosity to large families akin to the child benefit system in Cyprus is, perhaps, a less widespread feature of social policy, although many

authors recognise the importance of the overall generosity of the child benefit system in fighting child poverty. Bradshaw (2005) in reviewing the comparative evidence on child poverty finds that child poverty is a function of policy and illustrates this by comparing child poverty before and after cash benefits and transfers to families with children. Although he finds the generosity of the child benefit system to be a common feature of countries with low child poverty, he does not consider the implications of favouring large families.

Forster and Toth (2001) show the role of family policies in poverty alleviation by comparing the effects of family cash transfers on child poverty in the Czech Republic, Hungary and Poland. An interesting finding in their study is that the introduction of means testing in these countries has little impact on child poverty because it served to exclude the highest income earners rather than target the lowest income groups. This relates to our own argument that setting the eligibility to supplementary child benefit in Cyprus too low, excludes a large number of families with children below the poverty line. Kenworthy (1999), also points to the need for thoughtful targeting of social welfare benefits, by comparing data from 15 countries. He finds that while social welfare policies do help to reduce poverty, this is by no means equally effective in all countries. For instance, the American child benefit system is less effective than the Canadian one because it excludes families with nonworking parents. Furthermore, child benefit policies need to pay attention to intrafamily aspects of child poverty. As indicated by Blow, Walker and Zhu (2005) the sums paid to families for the benefit of children are often spent on adult goods (e.g. alcohol and adult clothing) while Sorensen and Clark (1994) argue that many children in single parent families are below the poverty line because they do not receive income from their non-custodial parent.

The findings emerging from the empirical analysis in this paper and related findings in the literature suggest that success in keeping child poverty low in Cyprus may depend on how successfully the government can face challenges coming from: (a) the need to balance the expected reduction in the incidence of poverty among families without children (i.e. pensioners) with measures reducing poverty also among families with children; and (b) pressures on the benefit system due to the increase in the proportion of families with children at high risk of poverty (e.g. single mothers).

To fence off the trend towards higher child poverty, the government needs to take counteracting measures encouraging higher labour market participation and employment. Furthermore it needs to reform the supplementary part of the child benefit system so as to increase payments to families below the poverty line and reduce payment to families above

this line. This can be achieved by replacing the existing two (lower and higher) income criteria for eligibility to supplementary child benefit with one such criterion: a level of annual gross household income around C£15000 (approximately €26000).

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