

# Ethical Family Income: For Uprooting Poverty

**The Ethical Family Income may, potentially, uproot extreme poverty in the short-term. An important contribution of this program is its design, aiming at encouraging conducts which favor a definitive poverty uprooting and the fact of not becoming an implicit tax on effort. The bonus granted by this program should constitute a significant increase in the incomes of low-income families.**

As the government authorities indicated, the Ethical Family Income does not pretend to “give the fish”, but rather to “teach people to fish”. This analogy explains how this program seeks to give the poorest families of the country resources and tools which allow them to overcome their poverty condition permanently, with no need to go on depending on welfare programs.

The Ethical Family Income bill (IEF, in Spanish) was signed this week, and it is based on two components: Certainties and Opportunities. The first ones consist in money transfers to the people by the sole fact of living in extreme poverty conditions

and they are unconditional, in other words, they do not depend on the fact of fulfilling certain commitments. On the other hand, the second component, Opportunities, is based on fostering capabilities which will allow families to overcome by themselves their poverty condition, in a permanent way.

Women play a key role in the IEF program, because she is the one who is going to receive these transfers, and their integration into the labor market will be rewarded. This is derived from social policy experiences, which show that resources actually get to the families when are given to women.

In its first year since its entry into force, the Ethical Family Income program will reach 170 thousand families, who shall receive these

transfers during a 24-month period. Each family will obtain a different amount according to the number of members, children, fulfillment or not fulfillment of duties, and if they accomplish the following conditions.

Thus, the money transfers are divided in three pillars:

**Dignity Transfers:** these are given to the families by the sole fact of living in extreme poverty situation, with no need to comply with additional conditions. They consist of CLP\$13,000 monthly per family and CLP\$6,000 monthly per person.

**Duty Transfers:** they shall be allocated to families living in extreme poverty conditions, who also fulfill the following duties: take their small children to the local health center (healthy child check-up) and then to school, where they have to comply with a specific class attendance percentage (90% in primary education and 85% in secondary education). It consists of CLP\$8,000 monthly per child.

**Achievement Transfers:** they will be granted to families who achieve certain goals aiming at overcoming their poverty condition. For families among the poorest 30%, whose children show good school performance, CLP\$50,000 per year will be granted if the student is among the top 15% of his/her generation, and CLP\$30,000 if he/she is among the top 15% and 30%. If an adult over 25 years old completes his/her secondary education and finishes the 12<sup>th</sup> grade, he/she will be granted a one-time bonus of CLP\$50,000. In order to emphasize the importance of work as a tool for uprooting poverty through a fixed salary, women pertaining to the poorest 30% of the country, who get a regular job and make contributions to pension funds for the first time in 24 months, will receive a bonus equivalent to 15% of her monthly salary according to a scale, which will amount to CLP\$25,000 per month on average. Likewise, family members who find a regular job before two years have elapsed since they subscribed to the IEF, and demonstrate a minimum 6-month stay at their jobs, will be awarded CLP\$190,000.

### **Other Benefits**

Families who wish to take part in the Ethical Family Income program shall sign a Family Action Plan, and in this way they shall be able to decide in favor of receiving the above described transfers. They will also receive the already existing drinking water subsidy (CLP\$9,900 monthly), and integrate a social and labor qualification system, which

aims at supporting families in the skills development, and in areas such as health, education and microcredit.

### What does it specifically mean?

In order to illustrate the scope of this program, we shall take the example of a reference family composed of father, mother, and two children who go to school. This family should receive a bonus of CLP\$53,000, broken down as follows: a floor of CLP\$13,000 per family, a floor of CLP\$6,000 per person (total CLP\$24,000), CLP\$8,000 per child if they comply with the health and school attendance duties (total CLP\$16,000). This amount may increase if they also reach the goals concerning school performance and labor integration.

Although for the upper middle class these figures may seem low, they are actually very relevant increases for people living under poverty conditions. Table 1 shows the average per capita incomes of the families under poverty and extreme poverty conditions. We can appreciate that a referential contribution of CLP\$53,000 is a tremendous help, considering their actual situation.

Table 1

#### AVERAGE PER CAPITA INCOME

Household Type	Income (in CLP\$, 2011)	Household %
Family living in extreme poverty condition	12,317	3.4%
Poor family not living under extreme poverty condition	46,405	9.3%

Source: Prepared by LyD with data from the CASEN Survey 2009.

It is important to highlight that this policy seeks to help families, but the idea is that an increasing proportion of the families' total income is generated by the family and not by State allowances, thus reducing dependence and avoid perpetuating vulnerability.

### The Importance of Encouraging Employment

A general criticism to focalized aid programs is their risk of discouraging autonomous income generation, because it perpetuates a vulnerability condition. As families generate more incomes, the

State gives them less subsidies, thus creating an implicit income tax rate for the poorest. As far back as the 1960's, Milton Friedman<sup>i</sup> already argued that aid programs in the United States implied a 100% income tax to their beneficiaries. That is, for each additional dollar that people earned on its own, the State took one subsidy dollar away, strongly discouraging employment. Later estimations yielded lower figures than those proposed by Friedman, but they were still high.

One of the main factors considered in the design of poverty-mitigating policies is to minimize employment disincentive and efforts in general. In order to illustrate the importance of labor participation in the situation of low income families, Table 2 shows the percentage of employed people between 25 and 60 years old, by income decile. We see a dramatic difference regarding labor participation, especially the feminine one, in the low income deciles. Although the low labor participation in the lower deciles may have different explanations, even a significant selection problem (a vulnerable family with a member who loses his/her job will probably fall into a lower decile), it is very important not to create additional work disincentives. On the contrary, we should expect that employment encouragement for less qualified people improves considerably in relation to quality of life of low income families and an important progress in inequality matters.

Table 2

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### EMPLOYED PEOPLE BETWEEN 25 AND 60 YEARS OLD

Decile	Total	Men	Women
i	31.5%	45.6%	21.7%
ii	52.4%	77.6%	32.1%
iii	58.6%	82.6%	38.7%
iv	64.8%	86.7%	46.3%
v	70.0%	89.4%	52.6%
vi	73.7%	90.2%	58.4%
vii	77.1%	91.2%	63.6%
viii	79.3%	92.7%	66.2%
ix	83.2%	94.6%	71.9%
x	85.8%	95.9%	75.3%

Source: Prepared by L&D with data from the Casen Survey 2009.

### **Conclusion**

The Ethical Family Income may, potentially, uproot extreme poverty in the short-term. An important contribution of this program is its design, aiming at encouraging conducts which favor a definitive poverty uprooting and the fact of not becoming an implicit tax on effort. The bonus granted by this program should constitute a significant increase in the incomes of low-income families.

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<sup>i</sup> Friedman, Milton. *Capitalism and Freedom*, University of Chicago Press, 1962.