# Tackling Child Poverty in Romania by Learning from other Country's Experiences - Comparative Microsimulation Analysis

Authors: Eva Militaru*, Silvia Avram**, Silvia Cojanu*, Cristina Stroe*

Child poverty has long been an issue of concern at international level. Literature shows that this particular vulnerable group should gain the full attention of policy makers, especially due to the fact that poverty affects negatively the crucial early physical and mental development of a child, leaves a mark on his state of health, on his possibilities of accessing adequate education, with negative consequences on later employment opportunities and on his chances of escaping the poverty trap. Thus poverty is a self-propagating phenomenon and child poverty sets a negative mark on the life of future generations.

Studies show that children from large families or children with lone parents are the most vulnerable to poverty. An important cause of child poverty seems to be the lack of employment of parents, or parents' employment in low income jobs, in connection also with the low educational level of the parents. Another factor that increases vulnerability seems to be the migrant background, as children with parents born abroad their country of residence face a much higher poverty risk than the risk faced by children whose parents are born in the country of residence, according to a 2012 SPC Report to the European Commission.

Romania is particularly vulnerable to poverty, with a poverty rate of 22.2% in 2011. Child poverty is a marked phenomenon in Romania, with 32.9% of children (people with ages below 18) being at risk of poverty in 2011, according to Eurostat. This places Romania in the most disadvantageous position out of the 22 countries for which Eurostat has available data. This position has not changed over the last years, with over 30% of children being at risk of poverty in the last 5 years, compared to the EU27 average of approximately 20%.

It has been acknowledged at the European level that the governmental policies translated into support towards the vulnerable groups play an important role in alleviating child poverty. It seems most countries developed a mix of policies combining universal support for all children, but also offering directed support to the most vulnerable families. Nevertheless, policies meant to support parents participation on the labour market, including child care services and measures targeted to labour market reintegration after parental leave are very important.

The role of public spending and in particular the importance of family policies (i.e. policies that are targeted to families with children) in combating child poverty is widely recognized. It is not only the size of the benefits, but the policy design as well that contributes to the effectiveness of a family policy to child poverty reduction.

While a substantial range of studies estimating the effects of family policies on child poverty concentrate on developed European countries (Immervoll et al., 2001; Oxley et al., 2001; Corak et al., 2005; Bradshaw et al., 2006, Matsaganis et al., 2006; Levy et al., 2007), the focus on Eastern European countries is more recent and not so extensive (Forster and Toth, 2001; Levy et al, 2009, TARKI, 2011). However, few things are known about the effectiveness of the Romanian family benefit system in

tackling child poverty; we have an estimation from TARKI (2011) which states that overall social transfers (including family benefits) contribute to a reduction by 8 percentage points of the poverty risk among children.

Thus, our paper focuses on the analysis of the effectiveness of the Romanian family policy system in reducing child poverty and attempts to find out to what extent the policy design itself and the size of the benefits contribute to child poverty reduction in Romania. In order to do so we employ a comparative analysis framework, the idea behind being that of "swapping" family benefits between Romania and another Eastern European country (i.e. Czech Republic). "Swapping" benefits between countries means that the benefit system of one country is replaced with that of another country. By doing this exercise we can compare the two family policy systems of the two countries and see what would have been the effects of implementing the Czech family policies in Romania and vice versa. We shall look at the effects of policy changes on the child poverty rates. The results will show whether the interaction between the family policy system and the socio-demographic characteristics of the country is actually reinforcing policy effectiveness in tackling child poverty. We choose the Czech Republic because it is contrasting with Romania in many aspects related to our theme. First, it seems that the Czech Republic performs better than Romania regarding the effect of social transfers on child poverty reduction. Then, Czech Republic has among the lowest child poverty rates in EU. While the Romanian family benefit system combines both universal and means-tested transfers, the Czech system relies solely on means-tested benefits, this explaining its excellent targeting of the poor.

Technically, the policy swapping will be done using the EUROMOD (version F6.0) micro simulation tool which is a tax-benefit model that allows us to estimate the impact of certain policy changes on poverty and income distribution. The data bases used in EUROMOD are the EU-SILC 2008 (with 2007 income data) for Romania and the Czech Republic and the 2010 policies. The EUROMOD model is a static one, thus no behavioral and socio-demographic changes are simulated. When implementing the policy changes in the two countries, at scaling the benefits, we shall take into account the relationship between the levels and thresholds (intervals) of benefits and relevant socio-economic indicators (i.e. average wage, social reference indicators). We shall analyze the outcomes in the case of two scenarios: real scenario and budget neutral scenario (i.e. meaning that the total public spending of the country shall remain the same and the benefits' size shall be rescaled accordingly). Thus, we shall find out if it would be possible to enhance not only the effectiveness of family policies in child poverty reduction, but the efficiency of public spending as well. We shall assume that only the family policies change, the rest of the social benefit and tax policies will remain the same.

*National Research Institute for Labour and Social Protection, Bucharest, Romania
**Institute for Social and Economic Research, University of Essex, UK