

Tackling child poverty in Romania by learning from other countries' experiences

A Comparative Microsimulation Analysis

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Outline

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- Methodology
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- Conclusions

Motivation

- Why focusing on child poverty in Romania?

over 30% of the children were at risk of poverty during the last 5 years in Romania, compared to the EU27 average of approximately 20%.

- Can child poverty in Romania be reduced by changing the family benefits, for example by borrowing the family benefits of an other country?

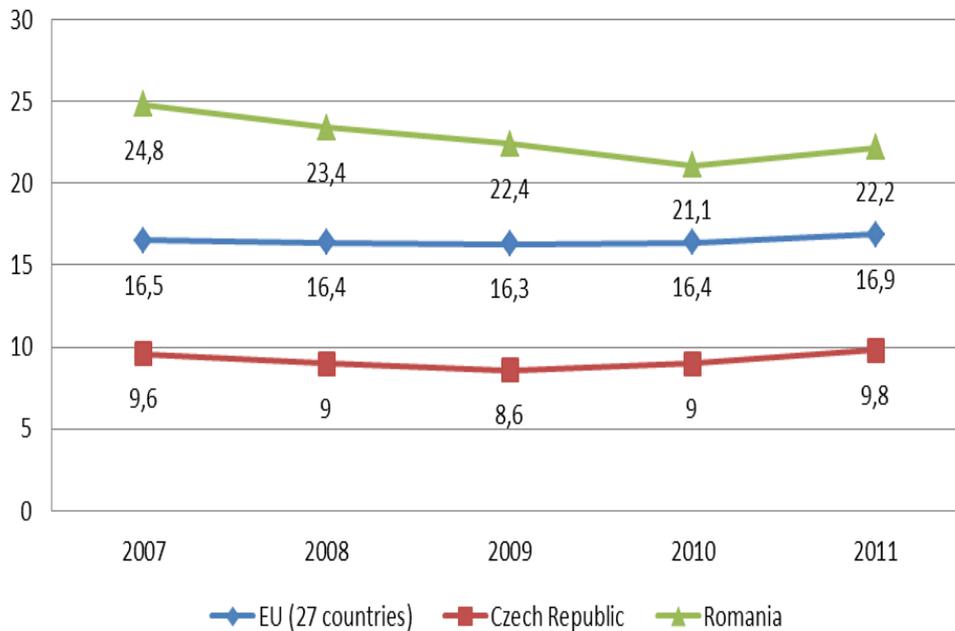
Eg.: The Czech Republic, because it has among the lowest child poverty rates in EU, but also because its family benefit system is somehow similar, but also different from the Romanian one.

- What would be the effects of implementing the Romanian family benefits in the Czech Republic?
- Is it policy design or socio-economic background that make a policy more effective in one country or an other?

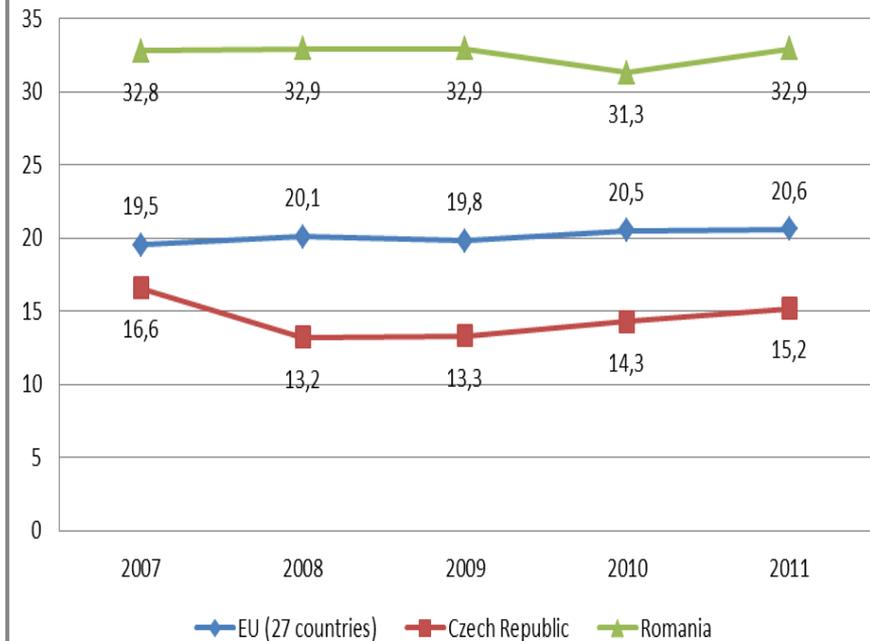
Child poverty

Romania, Czech Republic, EU

At-risk-of-poverty rate



At-risk-of-poverty rate by age group - Less than 18 years



Source: Eurostat, SILC data, data estimated for EU27, for years 2007 and 2011

Introduction

- 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
- 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)

Introduction

- The focus on the 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
- Overall social transfers (including family benefits) contribute to a reduction by 8 percentage points of the poverty risk among children in Romania (TARKI, 2011)

Methodology

- 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/ policies between countries means that the family benefits of one country are replaced with that of another country.

- EUROMOD: tax-benefit microsimulation model
- Compare the effects of implementing the Czech family policies in Romania and vice versa
- Evaluate poverty effects on disposable income (i.e. at risk of poverty rate, poverty gap, severity of poverty, overall and for groups) before and after the implementation of the swapping scenario

Methodology

Swapping scenario:

- 3 non-contributory family benefits in each country
- the conversion of monetary parameters (i.e: income thresholds, benefit amounts, etc.) with respect to the poverty line.
- we change definitions and tax units accordingly.

The rest of the tax-benefit system remains unchanged, thus the interaction of the set of three policies with the rest of the tax-benefit system is preserved.

Family benefits

	Income test	Family size	Number of children	Child age	Single parent
ROMANIA					
State allowance for children	no	no	no	yes	no
Means tested family allowance	yes	yes	yes	no	yes
Allowance for newborn children and Outfit for newborn children	no	no	no	yes	no
CZECH REPUBLIC					
Child allowance	yes	no	yes	yes	no
Social allowance	yes	yes	yes	yes	yes
Birth grant	no	no	no	yes	no

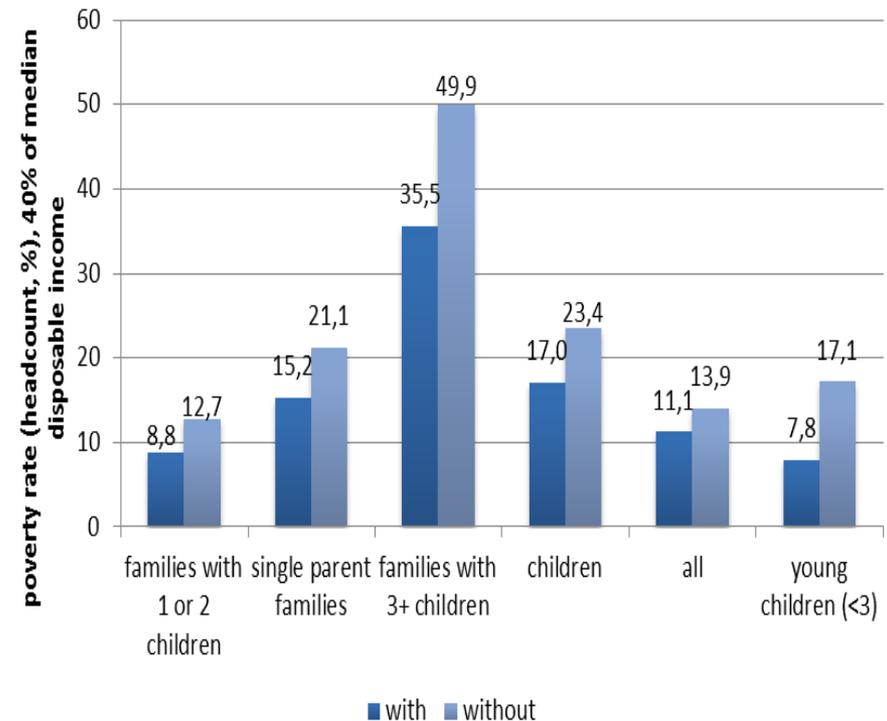
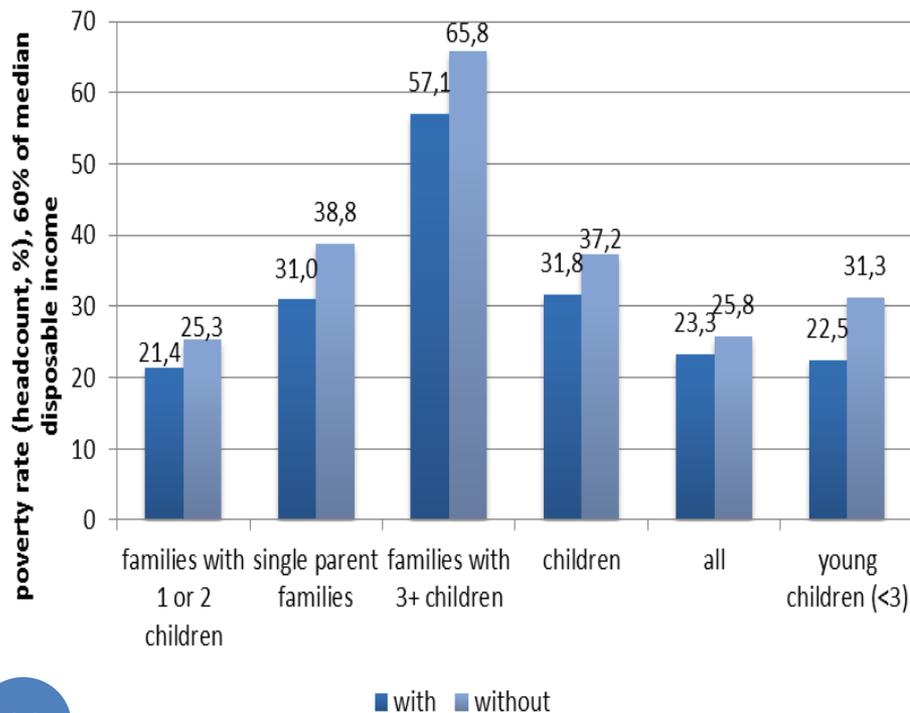
Data

- 2007 tax-benefit systems, Ro and Cz
- EU-SILC 2008 with 2007 income

EUROMOD database	RO_2008_a1	CZ_2008_a_CZ
Original name	UDB_c08_ver_2008_2_from_01-08-10_RO	EU-SILC and Životní podmínky (SILC) 2008
Provider	Eurostat	Eurostat and Czech Statistical office
Year of collection	2008	2008
Period of collection	Feb – March, 2008	Feb 23 – Apr 27, 2008
Income reference period	Year 2007	Year 2007
Sampling	Two-stage probability sampling	Two stage random sampling
Unit of assessment	Household	Household
Sample size	7805 households 19131 individuals	11294 households 26884 individuals
Response rate	95,4%	83,1%

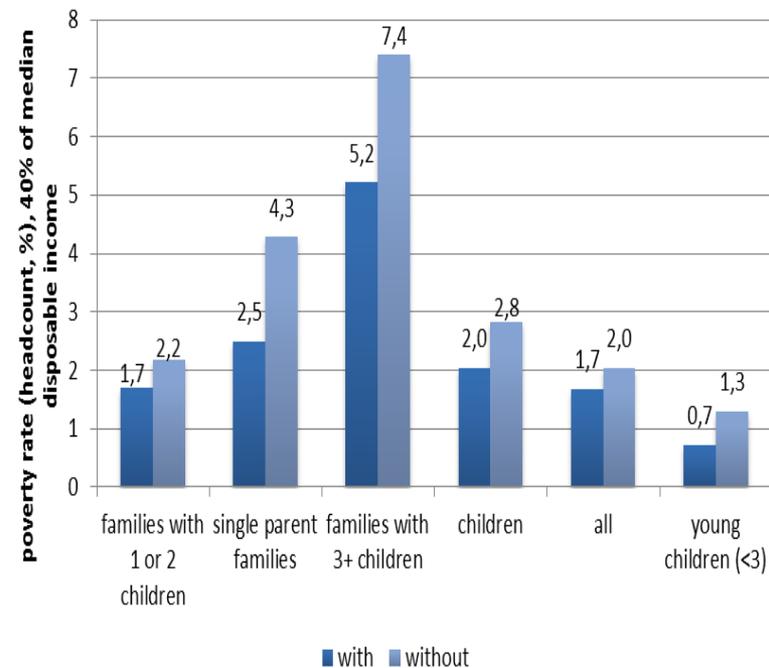
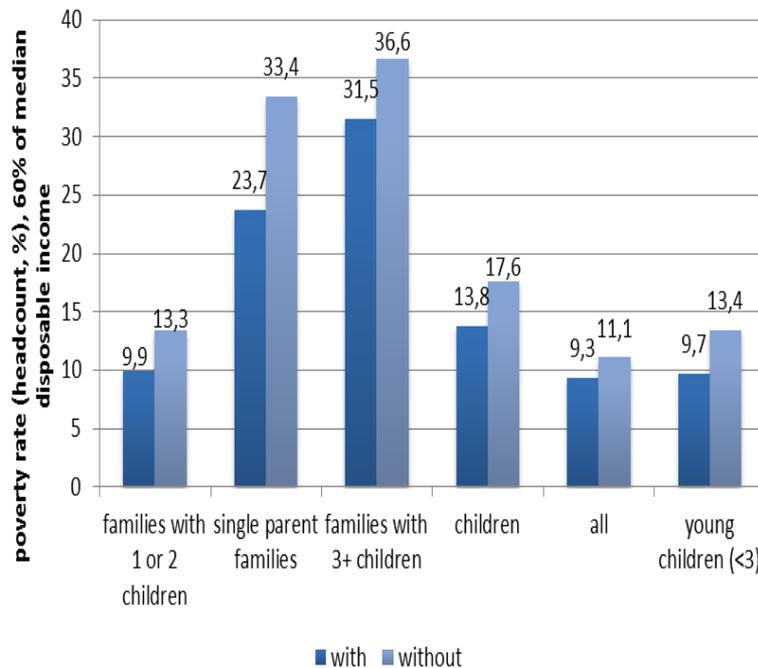
Poverty reduction effects

- existing Family benefits, **Ro**
- the RO system is especially effective at protecting families with very young children (under 3), presumably due to the very generous child allowance for children under 2
- large families are better protected from severe poverty (40% of the median disposable income)



Poverty reduction effects

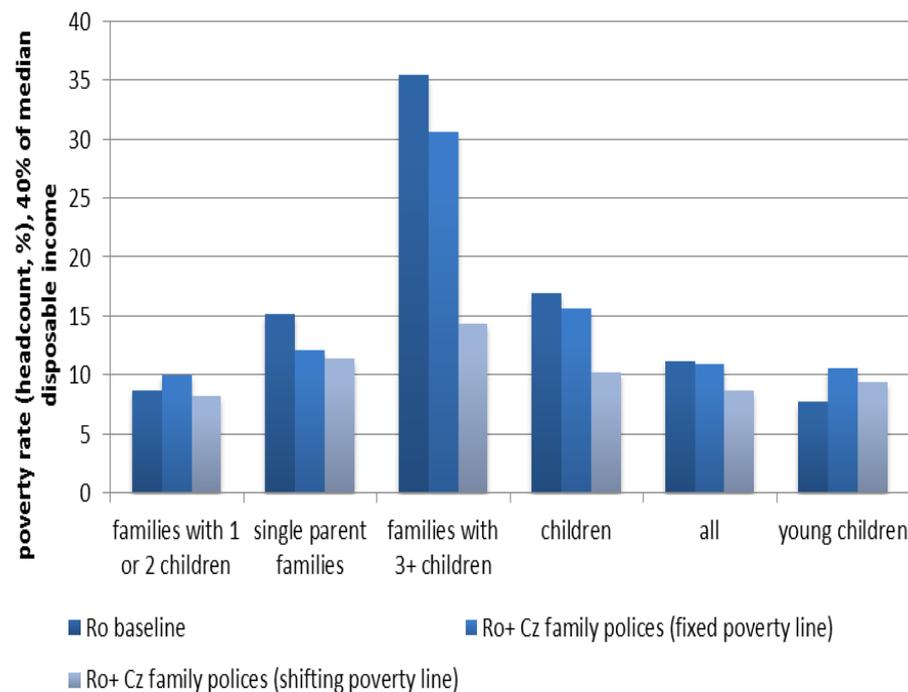
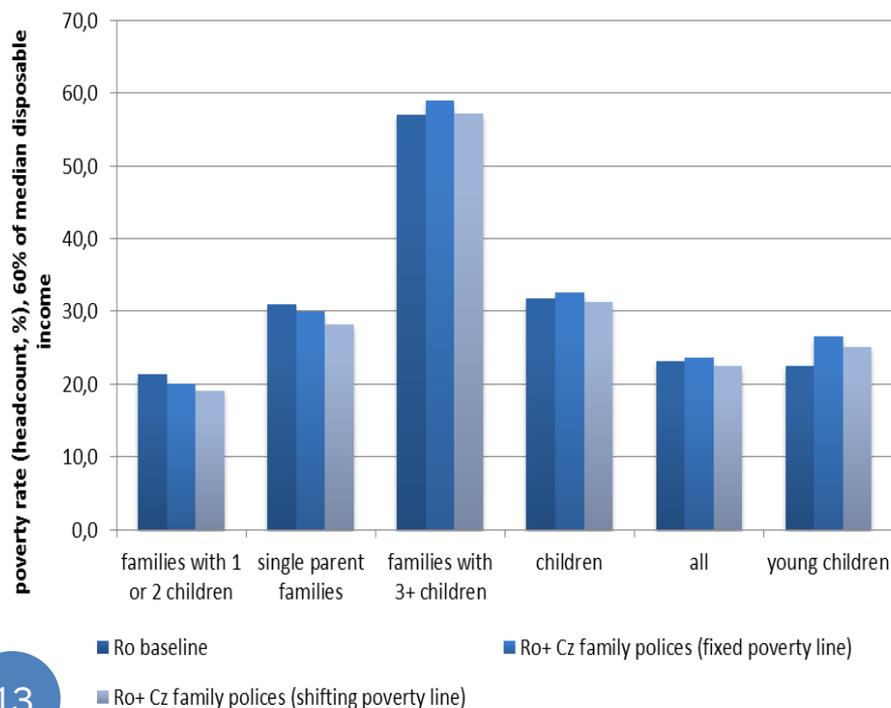
- existing Family benefits, *Cz*
- single parent families better protected under the Cz system, possibly due to the social allowance treating lone parents on more generous terms



Poverty reduction effects

Poverty headcount

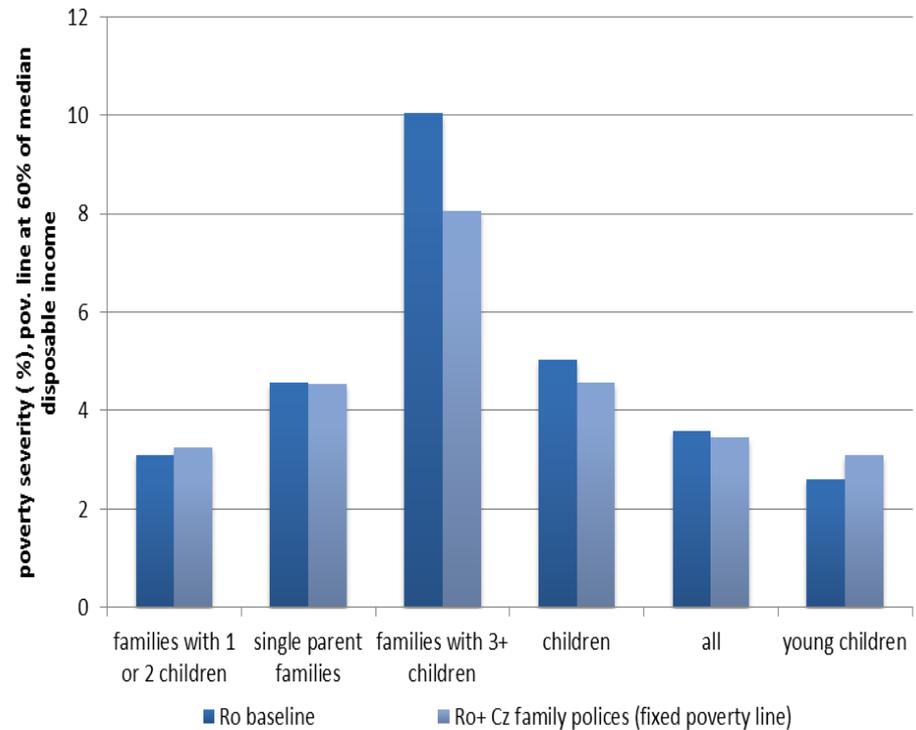
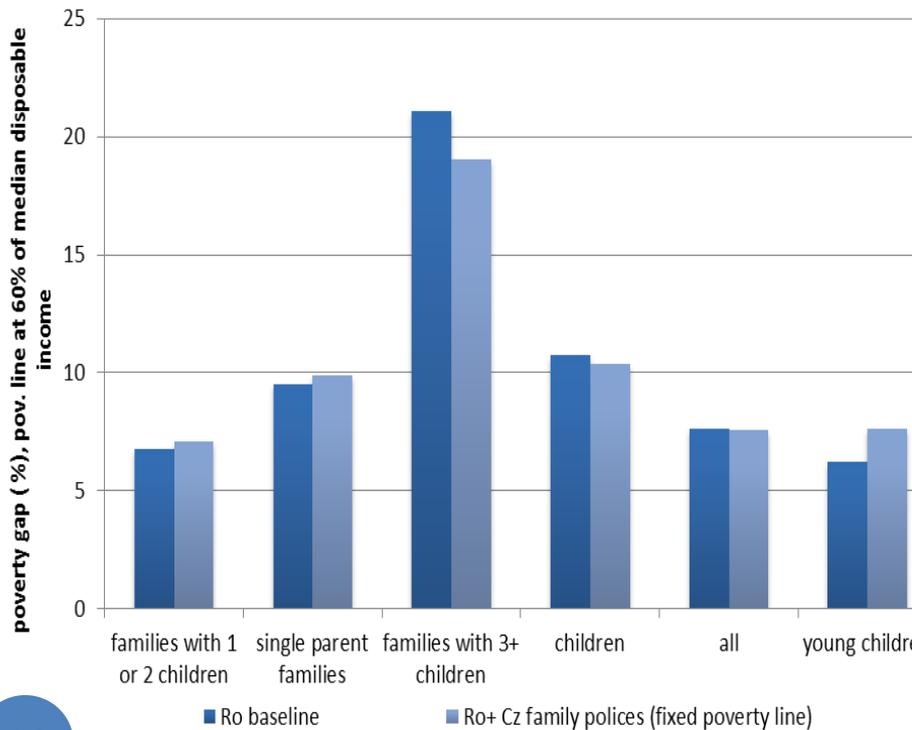
- “borrowed” policies, Ro
- slight increase of poverty with the fixed line but decrease of poverty line and decrease of poverty with a shifting line
- Cz policies make the bottom part of the income distribution more equal, but worse off in absolute terms
- children and large families –with more than 3 children- better protected against severe poverty (40% poverty line) under the Cz system



Poverty reduction effects

Poverty gap, Poverty severity

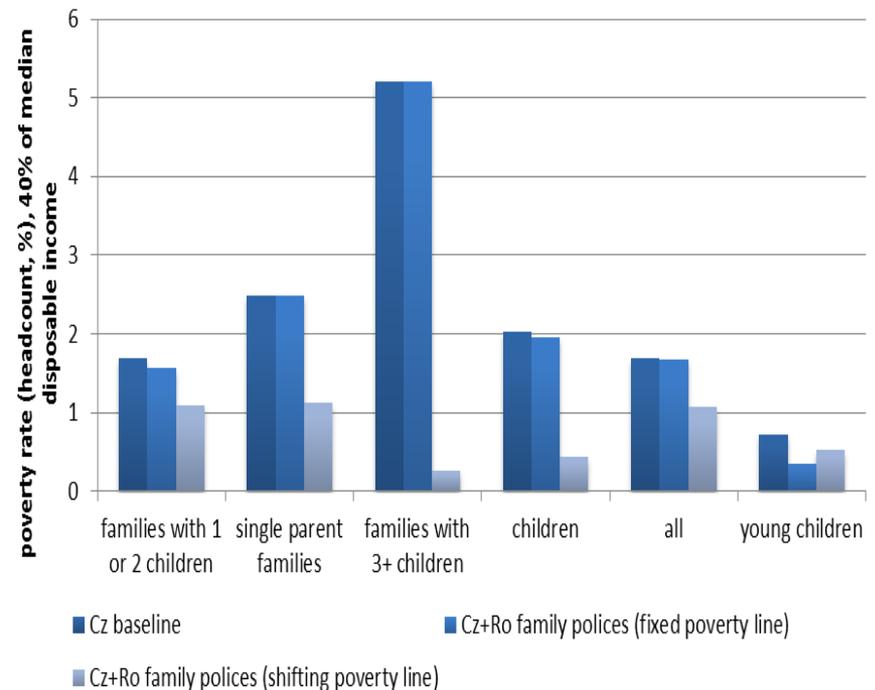
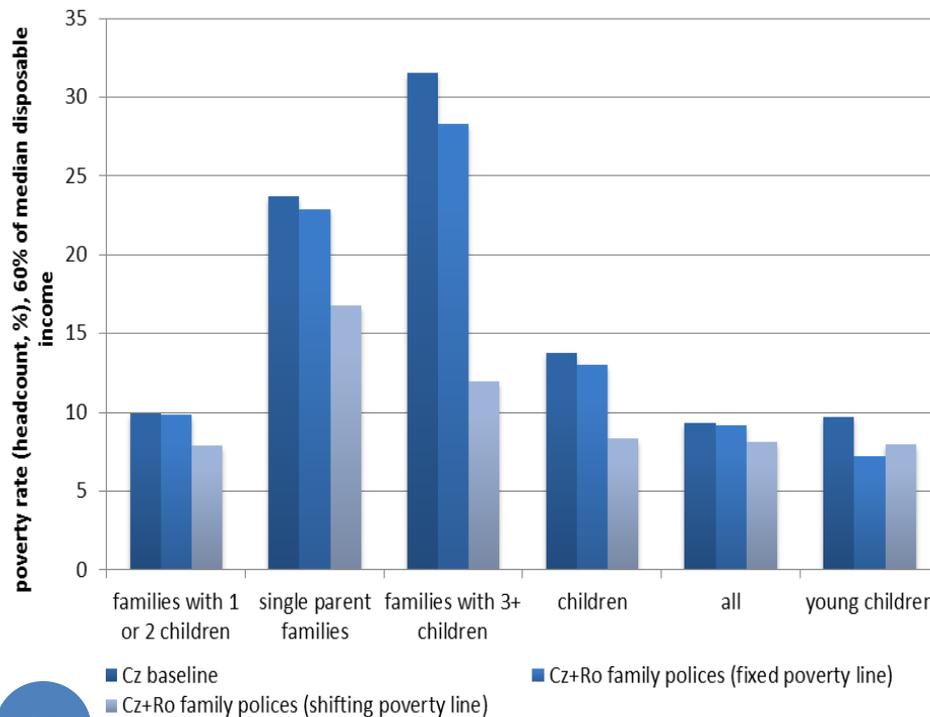
- “borrowed” policies, Ro
- poverty gap and poverty severity decrease when using the Cz policies, which seem to do better at filling in the poverty gap and bringing the poor closer to the poverty line, but not actually lifting them across the 60% line



Poverty reduction effects

Poverty headcount

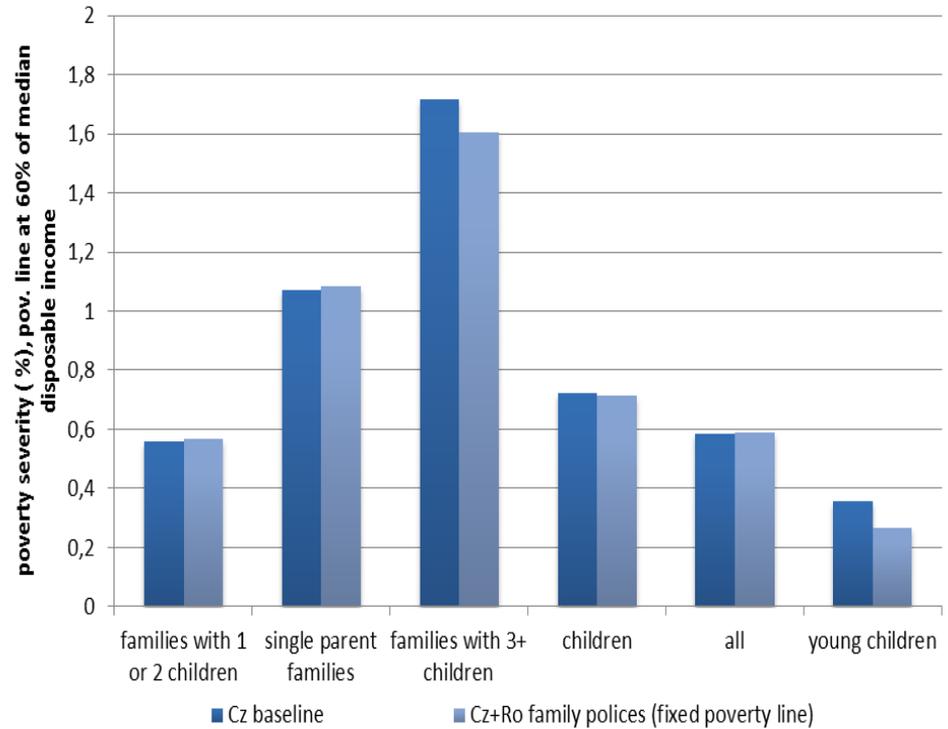
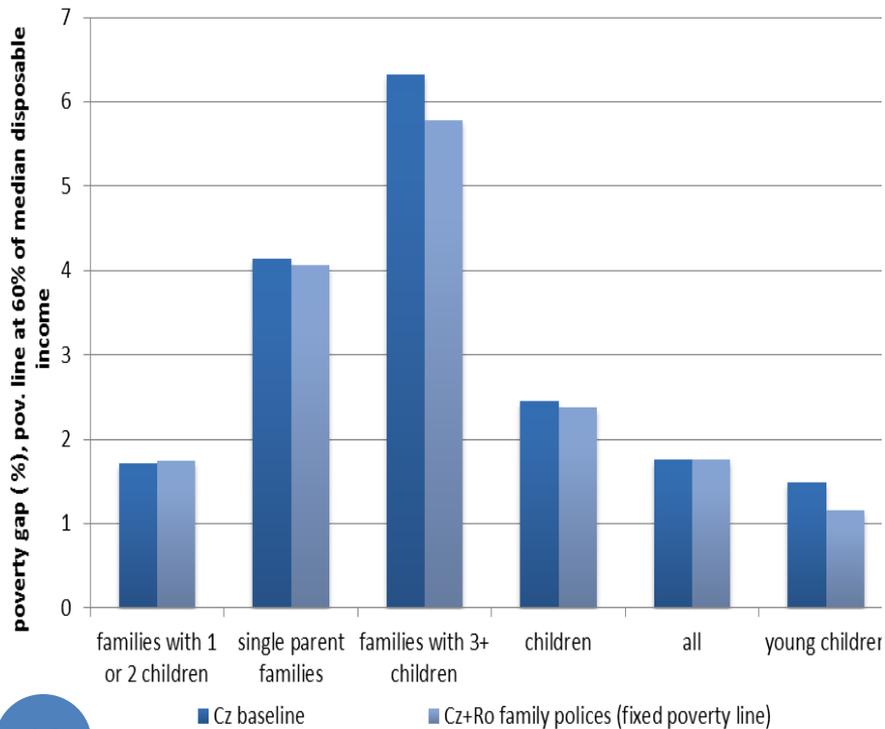
- “borrowed” policies, Cz
- Ro policies in Cz – more effective compared to Cz policies, both at the 40% and the 60 % line
- especially for young children (aged<3), Ro policies strikingly more effective than Cz policies in reducing poverty



Poverty reduction effects

Poverty gap, Poverty severity

- “borrowed” policies, Cz
- poverty gap and poverty severity slightly decrease when using the Ro policies for large families and young children



Conclusions

- Czech family policies in Romania would be more effective for some family sub-groups:
 - families with 1 or 2 children (poverty rate decrease from 21,4% to 20,2%)
 - single parent families (poverty rate decrease from 31,0% to 30,0%)
- and less effective for other sub-groups:
 - families with young children (under 3 years old)
- Children and large families – with more than 3 children - better protected against severe poverty (40% poverty line) under the Cz family policy system
- Romanian family policies in the Czech Republic are more effective compared to the Czech policies, both at the 40% and the 60 % poverty line
- The Czech family policies make the bottom part of the income distribution more equal, but worse off in absolute terms

Conclusions

- Family policies effectiveness for poverty reduction depend on:
 - The entire tax and benefit system and the interactions between policies
 - Family policy design
 - Socio-demographic background
- The Czech population is much more equal than the Romanian population (Gini index: Cz 25,2; Ro 33,2 in 2011, source Eurostat)
- Less targeted, but slightly more generous benefits (as the Romanian system has) would be more effective than in Romania where the structure of the population is much more unequal
- Targeting the bottom of the income distribution as the Czech family policies do is more effective in relieving severe poverty (but not the one based on the higher threshold)
- Budgetary effects should be analyzed

Thank you!
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