



Reducing child poverty in Serbia: Benefit or Employment strategy?

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Introduction

- Data show that 30% of children are at-risk-of-poverty in Serbia compared to 19% in EU countries with poverty rates being considerably higher in families with unemployed or inactive parents.
- Objective of this research is to analyze how redesign of two major welfare programs, child allowance and monetary social assistance, can increase their capacity to reduce child poverty
- Benefit strategy comes in the form of more generous child allowance. In the times of austerity measures, this can be achieved only by better inspection of informal income that could save already limited welfare expenditures on child allowance, thus, allowing increase of benefit amounts to those that need them the most.

- Second reform proposal, so called employment strategy, aimed at increasing the labour participation of parents, allows monetary social assistance (MSA) beneficiaries to work and continue receiving part of the benefit, which currently is not the case.
- We use a multi-sector discrete choice labor supply model, that allows individuals to choose both hours of work and the sector, formal and informal one, and tax and benefit micro-simulation model for Serbia based on 2013 SILC data.
- Results show that due to inclusion of informal income in the means-test for the child allowance, both coverage and targeting of the benefit is improved (Figure 1)

Results

If budgetary resources saved in that respect are to be spent on higher benefit amounts, this would reduce child poverty rate from 1.2 to 2 p.p., depending on the ability of the administration to estimate the size of an income from informal economy. More generous allowance has a negative but quite small effects on labour supply. For singles, the likelihood of non-participation increases by 0.22% and by 0.19%, when total informal income and 70% of the informal income is estimated and imputed in the means test, respectively. Results for couples follow the same pattern of changes in the labour market statuses, although at much smaller magnitude. These behavioural effects are very small given that increase in the disposable income due to child allowance reform is not large, and thus, have no effect on the reduction of child poverty in the longer run.

Main Results

Employment strategy, that allows benefit recipients to work and keep higher part of the benefit, increases the probability of participation in the formal sector for 0.03% and 0.18% when benefit withdrawal rate is reduced to 0.5 and 0.25, respectively. Child poverty rates are reduced by 0.2 and 0.3 percentage points but there is significant increase in the budgetary expenditures - 12% for the 0.5, and even twofold for the 0.25 benefit withdrawal rate (Table 1). The reason why we observe such a small increase in formal employment options after the reform is probably due to high coefficient for non-participation variable reflecting troubled labour market situation in Serbia characterised by high unemployment rate. This policy reform would mostly tackle low-paid and less skilled individuals and it seems that even in the situation when there is an incentive in the form of higher disposable income, those willing to have a job in the formal sector cannot have one.

Conclusions

- Child allowance reform is revenue neutral, reduces child poverty in the short run and, with small negative effects on the parental labour supply, do not produce adverse effects on the child poverty in the longer term. However, one should bear in mind that better inspection of informal income would require additional expenditures, at least in the short run. For instance, if the administration of the benefit is moved from municipalities to social workers in the Social Welfare Centres that would increase their workload and some new people would probably have to be employed. There are claims that these one off costs imposed on Social Welfare Centres would be compensated by the savings on the programme later on.
- Troubled labour market situation seems to be preventing larger labour supply responses even though in some instances we observe non-negligible increase in disposable income due to reduction of monetary social assistance withdrawal rate.
- With all these caveats in mind we believe that, for the time being, until the situation in the labour market in Serbia improves, benefit strategy rather than an employment strategy should be considered as a better policy solution to reduce child poverty.

Figure 1 Coverage of the child allowance

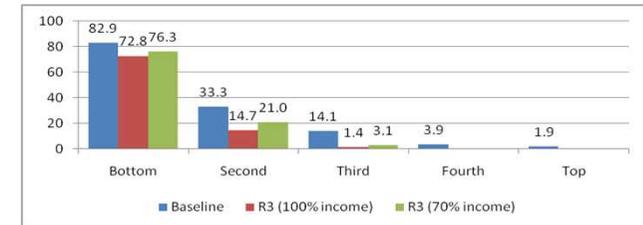


Figure 2 Targeting of the child allowance



Table 1. Poverty effects of monetary social assistance reform

	Poverty rate	Number of poor children	Poverty gap
Baseline	11.7%	165,453	4.62%
R4: withdrawal rate 50%	11.5%	163,729	4.60%
R5: withdrawal rate 25%	11.4%	161,145	4.58%

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