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**Research Visit at the Institute for Social and Economic Research (ISER),
University of Essex**

REPORT

Visit period: 24 September – 23 November 2018 (2 months)

I was a visitor at the ISER in autumn 2018, working on my PhD research. Following my visit plan, I was investigating the effectiveness of family policies from different welfare regimes in reducing child poverty in Croatia and the impact of the Croatian tax-benefit system on income inequality within couples. The essential tool for my analyses was EUROMOD – an EU-wide microsimulation model of taxes and benefits. Since the model was developed (and it is maintained) at ISER – there was no better place to do my research than in Essex. Apart from the methodological expertise at ISER, the biggest value of my visit was the opportunity to discuss my research with renowned professors and researchers as well as to experience the working atmosphere at one of the best UK research institutes (awarded with the Queen's Anniversary Prize).

After an initial meeting with my host Dr Chrysa Leventi, where we discussed my plan, I had an opportunity to present my research ideas to a wider audience at the 'Policy, Income and Welfare Research Group'. The participants of the meeting, led by Prof. Mike Brewer, gave their constructive feedback and provided me with additional literature related to my research. All of this led to an improvement of my research plan and more focus and priority on the topic of family policies and child poverty.

I conducted a cross-country comparative analysis of support for households with children followed by imports of family policies (child allowances, tax reductions for children and other child-centred family policies) from other countries to Croatia. The countries (welfare regimes) chosen in the analysis are the following: UK (Liberal), Germany (Conservative), Sweden (Social democratic), Greece (Latin rim) and Slovakia (Post-communist); see Aidukaite (2009) and Bambra (2007). Each of the countries have their specific policies design. Instead of focusing only on children aged below 18 (the usual approach in literature), I extended the definition of a dependent child to include also young adults (aged below 26). From the methodological point of view I used the child contingent payments approach similar to Figari et al. (2011a) to capture the support for households with children from family policies and social benefits. I conducted the poverty analysis using standard poverty measures of Foster et al. (1984).

The comparative analysis revealed three distinctive distribution patterns across income decile groups with a common characteristic of higher (or highest) support to lowest income

households coming from both family policies and social assistance benefits. The three patterns are: even support across incomes in the systems that use universal benefits (Slovakia and Sweden); support decreasing with income as a result of means-tested benefits (Greece and UK); and convex shaped distribution (Croatia and Germany to a lesser extent) – increasing support for higher incomes due to tax allowances for dependent children (a very pronounced issue in Croatia; see Urban, 2014; World Bank, 2014). Child poverty levels are highest in Greece and lowest in Germany, while cash child benefits achieve the highest poverty reduction in all countries. The use of a broader definition of a dependent child revealed higher poverty levels compared to only minors. The analysis also revealed the highest budget expenditure in Croatia on young adults compared to other countries generated by generous tax allowances.

Imports of other countries family policies to Croatia prove to be very successful, i.e. all imported systems achieve better poverty reduction results and more even distribution of support across income decile groups, without additional costs (budget neutral reforms). Policy imports show that results are very similar to the original country, meaning that the composition of the population plays a minor role, while policy rules play a major role. The introduction of any of the other systems would decrease the support from tax allowances and increase transparency of the Croatian personal income tax system. There are two distinct options: I) tackling child poverty levels - means-tested system such as the British and Greek would achieve highest poverty reduction and provide highest support to lowest incomes; or II) providing even support across incomes – with universal systems similar to Sweden, Slovakia and Germany.

Compensation indices, a useful tool to quantify how much of estimated child-rearing costs is covered with support for families (similar to Verbist and Van Lancker, 2016), demonstrate that imported systems perform to a certain extent better in Croatia than in their countries (on average, excluding Germany), driven by very high cost coverage for lowest income households (already highly covered with social assistance policies).

A potential policy recommendation might be the following. Taking into account the effectiveness of imported policies in poverty reduction, coverage of child-rearing costs and not a huge decline of support for higher income households, I would recommend an introduction of policy similar to the universal benefit in Sweden or Germany (either in a form of a universal child benefit or a refundable tax credit). The tax allowance should be ideally abolished and young dependent adults should be clearly defined, with a fixed age threshold, which would also increase the transparency of the tax-benefit system.

I will continue my work in the future, investigating the effectiveness of family benefits: exploring the use of equivalence scales in child-rearing cost estimations; estimating the child premium dependent on the number of children; potentially refining the definition of a dependent child (and young adult); and assessing family policies impact across different age groups.

On the topic of inequality within couples I have performed some basic calculations for Croatia. The analysis provides additional insights in the overall tax-benefit system and its distributional impact from the individual's perspective, unlike the usual analyses done at household level.

The approach I used was based on the research of Figari et al. (2011b). The results reveal differences in the distributional effects based on gender: in households where females have higher earnings the system achieves greater income equalisation between spouses compared to households where males are higher earners. The means-tested benefits followed by non-means tested benefits achieve the highest income equalisation, not surprisingly, having the most impact in lowest income quintiles. The analysis at this point only provides basic insights and I will continue my research by comparing it with other welfare systems and exploring the effects of different sharing of family benefits between spouses.

During my visit at ISER, I participated in various weekly seminars and had an opportunity to listen about research done by guest lecturers, ISER researchers, PhD students and others. I was also invited to a weekly EUROMOD team meeting and heard about the future use and developments of the model. In addition to my PhD research, I was also able to work on a paper that is co-authored with my supervisor in Croatia (Ivica Urban) and my ISER host Chrysa Leventi. We will finalise the paper in the following weeks and submit it to a journal.

I am grateful to the British Scholarship Trust, Croatian Ministry of Education and Croatian Agency for mobility and EU Programmes for the awarded scholarship for my research visit. I am also grateful to Chrysa Leventi who really went above and beyond her host duties and found the time every week to discuss my progress, check my calculations and provide valuable suggestions. I would also like to thank the entire EUROMOD team for all the help during my visit and making me feel like a part of the team.

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