Excessive Social Imbalances and the Performance of Welfare States in the EU

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Child poverty in the Eurozone, SILC 2008

The diagram illustrates the child poverty rates in various Eurozone countries for the year 2008. The countries are ranked from highest to lowest poverty rates, with the following abbreviations:

- IT: Italy
- ES: Spain
- GR: Greece
- PT: Portugal
- LU: Luxembourg
- MT: Malta
- IE: Ireland
- BE: Belgium
- EE: Estonia
- SK: Slovakia
- FR: France
- DE: Germany
- AT: Austria
- CY: Cyprus
- NL: Netherlands
- FI: Finland
- SI: Slovenia

The data is presented as a bar chart, with the x-axis representing the countries and the y-axis indicating the percentage of child poverty. The chart is labeled 'AROP 2008' for reference.
Child poverty in the Eurozone, SILC 2008-2011
threshold 2008

AROP 2008  AROP 2011 anchored
Disparity in child poverty

- Disparity in poverty rates is high, and is not decreasing

- What can explain why countries perform so differently?
  - Size of spending?
  - Targeting of spending?
  - Employment levels?
  - Human capital?

- Do disparities reduce when we control for any of these factors?
Data

• Explanatory variables:
  o Social spending on cash transfers and pensions
  o Household work intensity (two measures)
  o Pro-poorness of transfer and pension benefits
  o Social investment and human capital indicators
  o Demographic dependency and GDP

• Data from EU SILC 2005-2010
• 29 country observations: EU27 + Iceland and Norway
Social spending

- Separate measures for transfer and pension spending, based on EU SILC

- Measured as share of household income
  - Allows us to calculate spending wrt subpopulations
  - Accounts for differences in taxation

- Two different reference groups
  - Non-elderly population (0-59) for transfers
  - Child population (0-17) for pensions

- Using SILC and including pensions changes the traditional picture about low and high spenders
Transfers and pensions as % of eq. disposable income in SILC 2008; age [0-17] versus ESSPROS data (working-age cash benefits, % GDP; 2007)

- Transfers SILC 2008
- Pensions SILC 2008
- Working Age Cash Benefits ESSPROS 2007
Household work intensity

• Focus on two population subgroups:
  o *Work poverty* = share of individuals in households with work intensity lower than 55%
  o *Severe work poverty* = share of individuals in households with work intensity lower than 20%

• We apply two controls for work intensity of the household (best fit):
  o *Work poverty*
  o *Relative severity of work poverty*
    = severe work poverty / work poverty
Pro-poorness of spending

• We control for the size of spending, but also for how benefits are targeted *ex post*

• We apply a measure of pro-poorness, similar to Korpi and Palme (1998): calculates how income components are distributed, irrespective of their size

• Where K-P find that this is negatively related to the size of spending (mid 1980s), our findings are different
  o Positive correlation between pro-poorness of transfers and size of transfers
  o No correlation between pro-poorness of pensions and size of pensions
Estimation method

- We employ a GLS model with time and country fixed effects

- Including country fixed effects: controls for structural indicators
  - Controls for large share of unobserved heterogeneity
  - We cannot test the influence of time-constant factors

- Model proves to be more robust than model without fixed effects
  - Especially with regard to the effect of pensions
Results

- Both transfers and pensions are negatively related to poverty, with roughly similar impacts
  - 1.0 pp increase leads to around 0.25 pp reduction in poverty

- Statistically significant effects of work intensity and pro-poorness of pensions
  - Work intensity at the bottom of the distribution matters most
  - Pro-poorness matters for pensions but not for transfers

- Both size and pro-poorness of transfers matter much more for poverty reduction
  - Do they reduce incentives to be self-dependent?
Results

• However, they explain only very little of the disparity in poverty rates across Europe
  o Magnitudes of effects is modest
  o No country performs universally ‘bad’ or ‘good’ on all these indicators

• No additional explanatory power of human capital, social investment, GDP or dependency
  o Social investment only as ‘static’ indicator
Results: efficiency scoreboard

North: -6
New Central: -4
Old Central: -2
UK+IE: 0
South: 2
East: 6
Results: limitations

- Patterns of household employment, level and architecture of spending are significant, but leave large disparity in performance unexplained

- What does this remaining part consist of?
  - Unknown country characteristics
    - Qualitative dimensions of social policy
  - Better measures of known characteristics?
    - Human capital
  - Measurement error?
Conclusion

• The underlying reasons for disparities in poverty rates are complex, not simple

• Including pension spending in analysis of child poverty changes conclusions in important dimensions

• Both employment creation and distribution of jobs over households matter

• Pro-poorness and size of transfers are now positively correlated

• The heterogeneous influence of the current crisis could be related to these very same structural indicators
Transfers in SILC and transfers according to ESSPROS

Esspros 2007 & SILC2008; transfers

45° axis
Linear (Esspros 2007 & SILC2008; transfers)