



# GINI

**IS THE “NEIGHBOUR’S” LAWN GREENER?  
COMPARING FAMILY SUPPORT IN LITHUANIA  
AND FOUR OTHER NMS**

*Lina Salanauskaitė and Gerlinde Verbist*

**GINI DISCUSSION PAPER 25  
DECEMBER 2011**

**GROWING INEQUALITIES' IMPACTS**

## Acknowledgement

The paper is part of the GINI project ([www.gini-research.org](http://www.gini-research.org)) which studies the economic and educational drivers and the social, cultural and political impacts of increasing inequality with novel contributions on the measurement of income, wealth and education inequality.

The results presented here are primarily based on EUROMOD versions F2.38 and F3.0. EUROMOD is maintained, developed and managed by the Institute for Social and Economic Research (ISER) at the University of Essex in collaboration with national teams from the EU member states. We are indebted to the many people who have contributed to the development of EUROMOD and to the European Commission for providing financial support for it. The results and their interpretation are the authors' responsibility.

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## Bibliographic Information

Salanauskaitė, L., and Verbist, G. (2011). Is the “neighbour’s” lawn greener? Comparing family support in Lithuania and four other NMS. Amsterdam, AIAS, GINI Discussion Paper 25

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# Is the “Neighbour’s” Lawn Greener?

Comparing Family Support in  
Lithuania and Four Other NMS

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## Abstract

To what extent can a country's effectiveness in reducing child poverty be attributed to the size of family cash transfers (i.e. both benefits and tax instruments) or to their design? In this paper, we aim at disentangling the importance of each of these two factors, focusing on the family support system in Lithuania and comparing it with four other new member states. Despite increased susceptibility to poverty in Lithuania, single parent families have less state support than large families. This contrasts with other former communist countries, such as Estonia, Hungary, Slovenia or the Czech Republic, who protect both large and single parent families much better. The question is whether their family transfer systems would achieve similar results in Lithuania. We employ the EUROMOD microsimulation tax-benefit model to swap family policies across countries and test whether size or design have greater effects on child poverty reduction in Lithuania.







# 1. Introduction

Child poverty remains a serious problem across the EU, and especially in the new EU member states (NMS), be it with significant variations in extent and intensity. In the EU, especially children in single parent and large families are the subject of policy concern, given that about half of the poor children in the EU live in these two types of households (Commission of the European Communities, 2008). Compared to other EU countries, Lithuania has “below- (EU) average performance in all dimensions of child poverty and well-being, and particularly in terms of risk of poverty” (TARKI, 2010). It is the only country with a consistent “bottom third performance” on all child wellbeing dimensions (Bradshaw and Richardson, 2009). Poverty in Lithuania is especially concentrated among single parent households and households raising three or more children. The Lithuanian family system design is criticised on poverty effectiveness grounds despite numerous past and recent reforms of state provided income support to families with children (Cornelius, 1995; Kabašinskaitė and Bak, 2006; Salanauskaite and Verbist, 2009; TARKI, 2010). Apparently, the implemented policy reforms are not so poverty reduction effective, especially when compared to the achievements of other new EU member states (NMS), such as Estonia, Hungary, the Czech Republic or Slovenia (TARKI, 2010).

Most research on the poverty effectiveness of family support tools has concentrated on Anglo-Saxon countries and ‘old’ EU member states (Kamerman et al., 2003; Levy et al., 2007; Matsaganis et al., 2007). Research within the NMS region is still quite rare, Förster and Tóth (2001) being one of the few examples. The region though is highly interesting not only because of the fast changing socio-economic environment and demographic conditions (e.g. particularly low fertility rates, high migration), but also because of recent reforms in family policy. Actually, (relative) child poverty rates in some of the selected NMS countries are lower than in a number of richer EU member states.

Whereas studies often point to *size* of family transfers as the key factor to reduce child poverty, we hypothesize that also the interaction with the design of policies is a crucial factor. We investigate this by comparing the child tax-benefit packages in five EU NMS. In this paper we study to what extent one country’s success story in achieving low(-er) child poverty rates, and especially among the most vulnerable household types, can be attributed to the size and the design of the transfers, more specifically *child benefits* and *child-related tax instruments*. Our focus is on the Lithuanian system and we compare its effectiveness in combating child poverty to those of Estonia, Hungary, the Czech Republic and Slovenia. These four countries resemble Lithuanian political and socio-economic circumstances in many ways, though there are also important differences. All four countries have better

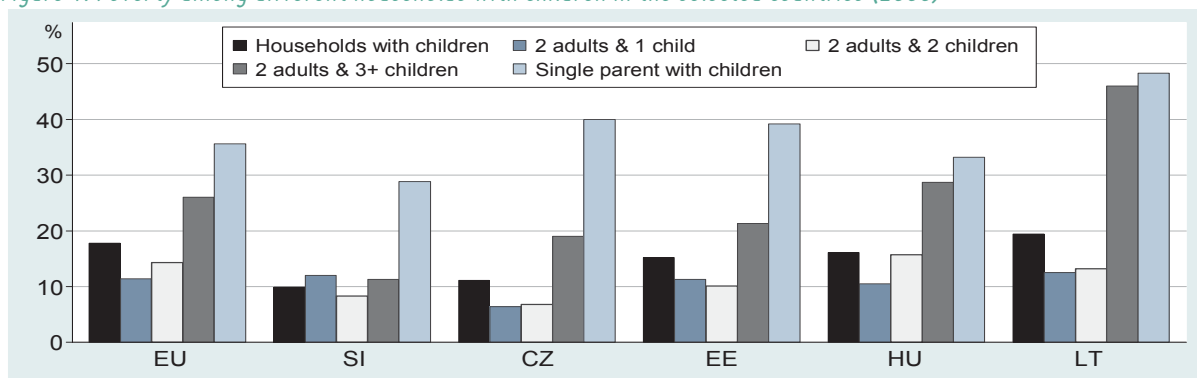
child poverty outcomes and more effective family policy measures (TARKI, 2010). Furthermore, these four new EU member states are modelled in EUROMOD, our tool of analysis. The study is anchored in 2008, the year when a major family benefit reform has been fully implemented in Lithuania (for more details see Salanauskaite and Verbist, 2009).

The paper starts with background information on child poverty in the five NMS. We also review evidence on the poverty effectiveness of family tax-benefit mechanisms. Next, we describe the methodology of policy swapping scenarios within the microsimulation framework of EUROMOD. We then present and analyse the microsimulation results. Finally, we conclude and suggest some policy lessons.

## 2. Child poverty and family support systems: existing evidence

In 2008 the at-risk of child poverty rate (or child poverty) in Lithuania is above the EU and just below the NMS average. However, the at-risk-of-poverty rates (or poverty) of large households and single parent households are with over 45% extremely high (Figure 1), despite the state's recognition of these household categories as major poverty reduction targets (e.g. National Report of Lithuania on Social Protection and Social Inclusion Strategies 2008-2010, 2008). This contrasts with most other EU countries, where at least one of these categories has a better income position. Among our five countries, Slovenia performs best for these two most vulnerable household types. In Hungary, similarly to Lithuania, both household types have increased poverty risks, though at much lower absolute levels. Given these outcomes we pay particular attention in our analysis to the poverty outcomes of these two groups.

Figure 1. Poverty among different households with children in the selected countries (2008)



Notes: Countries are ranked by poverty rates for households with children, except of the EU indicator; Poverty is defined as 60% of median equivalised household disposable income; Children: household members under the age of 18, and between ages 18 and 24 if economically inactive.

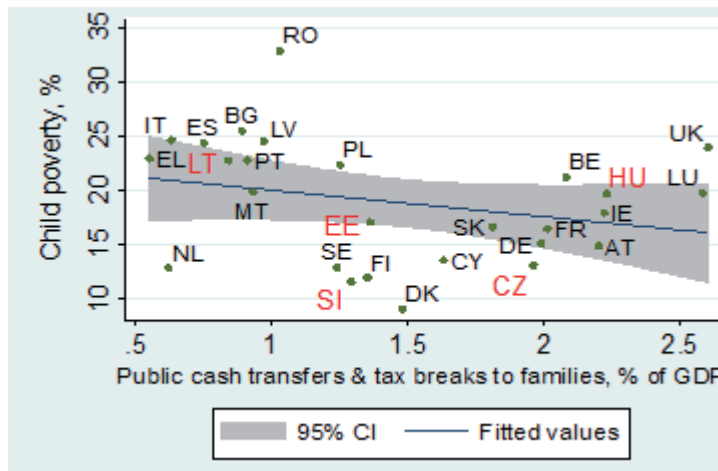
Source: EUROSTAT

Along with socio-demographic characteristics of the child's family, the labour market situation of parents and overall tax-benefit policies are seen as major determinants of child poverty (Commission of the European Communities, 2008; TARKI, 2010). Even though cash family policies in itself are often insufficient and actually not meant to fully eliminate child poverty (Bradbury and Jäntti, 2001; Cantillon and van den Bosch, 2003; Kamerman et al., 2003), their role is of high importance, with size and design as major parameters.

The size of social spending dedicated to families with children is often considered to be the key factor influencing child poverty (e.g. Bradshaw and Finch, 2003; Notten and Gassmann, 2008). Figure 2 confirms that a higher share of GDP spent on tax breaks and transfers to families with children is associated with lower child pov-

erty rates. Among our five countries, Hungary spends the largest share of GDP on families, and Lithuania the least. Child poverty levels in both countries, though, are somewhat higher in comparison to other countries with similar spending levels. The best performance is noted in Slovenia: a relatively low share of GDP spent on transfers corresponds to a very low child poverty risk.

Figure 2. Generosity of family transfers and (child) poverty in the EU, 2007



Notes: Tax breaks primarily refer to tax credits; tax allowances are excluded (data not available for Greece, Italy, Estonia, Slovenia, Finland, Luxembourg, Hungary, Denmark & Iceland); child poverty calculated on EU-SILC 2008.

Source: EUROSTAT, OECD Family Database & Social Observatory data

Not only spending levels vary, also the benefits' design is very diverse. We distinguish between universal, categorical selective and income selective family benefits. A number of countries rely on universal family benefits, but eligibility conditions based on income or household characteristics are prominent too. Support via taxes, such as allowances or credits, is increasingly used as an important family policy tool (Adema et al., 2009; Figari et al., 2011). The policy design of our five countries is discussed in more detail in section 3.2.

The poverty impacts of these diverse combinations of benefits and tax instruments are often not well assessed. Design effects are rarely analysed, especially for the NMS, mainly due to complexities of national policy systems and socio-demographic environments with which such impacts interact. Three studies on NMS are worth mentioning in this respect.

Förster and Tóth (2001) study the evolution of benefit types and their effectiveness in Poland, Hungary and the Czech Republic in the mid of 1990's. They find that large and single parent families became particularly income vulnerable during the economic transitions years, with the most dramatic changes for the latter household type. Most of the benefits' reforms at that time introduced means-testing conditions, which consequently increased poverty reduction effectiveness of the programmes. Nonetheless, a political will for restoration of universal benefits remained and is crystallised in the numerous reforms in economic upturn times (e.g. as of 2004 in Lithuania). Levy,



Morawski, and Myck (2009) evaluate the poverty effectiveness of Polish state support to families by comparing it to systems in France, the UK and Austria using EUROMOD. They find that single parents in Poland would benefit most if the French system (using both universal and means tested benefits) were adopted, whereas families with two parents would similarly benefit either under the universal Austrian or the mean-tested British systems. TARKI (2010) provides the most extensive evaluation of the EU countries' performances in reducing child poverty. It finds low-effectiveness of income support to families with children in Lithuania. The means-tested benefits in the Czech Republic and the universal benefits of Hungary are observed to produce similar child poverty outcomes. Social transfers in Slovenia are seen as often not specifically targeted at children, however, their effectiveness in reducing poverty is noted to be high. As such, the latter two studies do not prioritize poverty effectiveness of either means-tested or universal benefits, but rather highlight their greatly varied impacts under particular national designs and different socio-demographic circumstances.

Building further on the insights of these studies, we want to use EUROMOD to assess impacts of family policy changes. Using microsimulation models can help to highlight the role of family support instruments, be it taxes or benefits, as it allows for interactions with the remaining tax-benefit structures. Similar approaches include Matsaganis et al. (2007) for Southern Europe and Immervoll et al. (2001) for a comparison between the UK and the Netherlands.





## 3. Methodology

### 3.1. EUROMOD

Tax-benefit microsimulation models are the most suitable method for tracing distributional impacts of public policies, mainly because of utilization of micro-level information on households. This method also enables testing hypothetical public policy designs – a usually complex task due to the effects of various counterfactuals (e.g. Matsaganis et al., 2007).

We use the static tax-benefit microsimulation EUROMOD model (versions F3.0 and F2.38). Static means that no behavioural reactions are taken into account. Currently (i.e. 2011), EUROMOD embeds policy designs of 21 EU countries, among them Lithuania, Estonia, Hungary, the Czech Republic and Slovenia<sup>1</sup>. The model was initially designed to cover the 15 “old” EU member states, with the NMS being added progressively. For four countries the policy system of 2008 is included in EUROMOD and used here<sup>2</sup>. As for Slovenia, 2005 is the policy year yet available, we use the annual consumer price index to uprate Slovenian benefits to 2008.

*Table 1. EUROMOD included policies & datasets of the selected countries*

	LITHUANIA	ESTONIA	HUNGARY	CZECH REP.	SLOVENIA
SOURCE DATABASE(S)	EU-SILC + nat. SILC	EU-SILC	EU-SILC	EU-SILC + nat. SILC	SURS : sample of administrative records
INCOME REFERENCE YEAR	2005	2005	2006	2005	2004/2002
# OF HOUSEHOLDS	4660	5623	8737	7483	4777
# OF INDIVIDUALS	12098	15755	22271	17793	13798

Source: EUROMOD country reports

In Table 1, we describe EUROMOD input data. Due to earlier implementation, Slovenian policies are simulated on a sample of administrative records (Čok et al., 2008). Other countries use the EU-SILC as basic input dataset. Lithuanian micro-database for EUROMOD is derived from the EU-SILC (UDB) data with a few imputations on the basis of the national SILC survey (Ivaškaite-Tamošiūnė et al., 2010). In the Czech Republic, the national SILC additional variables are merged with the EU-SILC data (Münich and Pavel, 2010). “Pure” EU-SILC is used for Estonia and Hungary (Hegedűs and Szivós, 2010; Vörk et al., 2010). As income reference dates are “older” than analysed policies, all countries use adjustment factors to update income levels to a respective policy year. This implies that the policy year of 2008 is set on the socio-demographic structure of 2005, but with income

1 More info is available in Sutherland (2001), Lietz and Mantovani (2007) and at <http://www.iser.essex.ac.uk/research/euromod/developing-euro-mod/euromodupdate>

2 June 30 is the reference date for all policy descriptions.

levels updated to 2008. Furthermore, EUROMOD assumes full take-up of benefits and full compliance with taxes and social contributions is assumed<sup>3</sup>.

### 3.2. Family cash policies in EUROMOD

We identify four major types of non-contributory ‘transfers to children’: birth grants, (universal) child benefits, large family allowances (categorical selectivity) and means tested family allowances (income selectivity). Overall, this covers 17 different national benefits in the selected countries. Among them, only one benefit type is not simulated in EUROMOD: an Estonian child benefit supplement for single parents<sup>4</sup>. Benefits are not subject to income taxation. In Hungary, however, the benefit to large families increases the taxable income base. All countries also use either tax credits or tax allowances to support families with children. These measures are simulated in all countries.

The principal design features and state expenses of both benefit and tax support measures are reviewed in Table 2. Countries are ranked from left to the right based on their reliance on means-testing. Lithuania has the most universalistic package, closely followed by Estonia. Hungary uses the most complete package of the transfers, with larger expenditure share going to universal/categorical benefits. Slovenia has a dominant means-tested child benefit, but universal/categorical transfers are also employed, especially when tax advantages for families are taken into account. The Czech Republic exclusively relies on means-tested transfers.

Birth grants are found in all countries, with quite similar benefit rules. The benefit is proportional to multiple births in all countries, except in Hungary. The benefit is particularly high in the Czech Republic.

Universal child benefits are provided in Lithuania, Estonia and Hungary, though the rules are quite different both in terms of eligibility and calculation. In Lithuania, the child benefit is provided to all children up to age 18, and up to age 24, if a child is still in education and belongs to a large family. The benefit is increased for children up to the age three if raised in a large family. As such, these two components of the child benefit could be considered as a quasi large family allowance, which Lithuania does not provide separately, indicating that the demarcation between benefit types is not always straightforward. Estonia applies a lower age threshold for children who are still in (higher) education (i.e. under 20), and provides an extra support to very young children in the form of higher benefit rates to those below age of three compared to those younger than eight. In Hungary, child benefit is

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3 Based on the EUROMOD country reports, full-take up is a plausible assumption for all non-contributory family benefits in the selected countries. Tax revenues is overall well simulated, with the largest deviation (-17%) reported in Hungary and the smallest deviation (+1%) noted in Estonian baseline policies.

4 This benefit cannot be simulated in EUROMOD as ‘single parent’ means strictly no parenthood information on the second parent or as-simulated situations, information which is not collected in the EU-SILC.



not directly linked to a specific age threshold, but depends on the child's enrolment in education. The benefit size does not depend on the child's age and has a regressive schedule for numerous children. Overall, Hungary offers the most generous child benefit's structure.

Table 2. State annual expenses & beneficiaries of 'transfers to children', 2008

		LT	EE	HU	SI[ 1]	CZ
Birth grant	Benefit per recipient, EUR	301.1	317.4	270.4	212.0	544.1[ 2]
Child benefit	Age thresholds	18 (24)	17 (20)	~17 (~20)		
	Size: $\Delta$ with child age		No	No		
	Size: $\Delta$ with # of children					
	Extra1: for single parents	No	Yes	Yes		
	Extra2: for young children	Yes	Yes	No		
	Extra2: age thresholds	3	3 (8)	No		
	Benefit per recipient, EUR[3]	388.1	332.1	1117.6		
Allowance to large families	Age thresholds		17 (20)	17 (25)	18 (26)	
	Eligibility: # of children		$\geq 7$	$\geq 3$	$\geq 3$	
	Benefit per recipient, EUR		277.6	1426.0	334.2	
Means tested allowance	Age thresholds			17(25)	18 (26)	18 (26)
	Income threshold			1.25*OAP	Avg. wage	2.4*MLS
	Size1: $\Delta$ # of children			No	Yes	Yes
	Size2: $\Delta$ other factors			No	income	age
	Benefit per recipient			756.4[4]	1031.9	353.6
Tax support: allowances or credits	Allowance (A)/credit (C)	A	A	C	A	C
	Age thresholds	18	18	17 (25)	18 (26)	18(26)
	Eligibility: # of children	$\geq 1$	$\geq 1$	$\geq 3$	$\geq 1$	$\geq 1$
	Size: $\Delta$ with # of children	Yes	Yes	No	Yes	Yes
	Extra: for single parents	Yes	No	No	No	No
	Means tested	No	No	Yes	No	Yes
	Support per recipient, EUR	48.1	459.0	307.6	738.1	421.1
Country population, mln. people	3.3	1.4	10.1	2.0	10.2	
Expenses on benefits, mln. EUR (B)	150.0	94.0	1866.9	282.7	369.5	
Per capita benefits, EUR	45.5	69.6	185.8	124.2	36.2	
Expenses on tax support, mln. EUR (T)	25.2	79.2	52.9	237.8	594.1	
Per capita tax support, EUR	7.6	58.7	5.3	118.9	58.2	
Total "transfers to children": B+T[5]	175.2	173.2	1919.8	486.1	963.6	
Per capita "transfers to children", EUR	53.1	128.3	191.1	243.1	94.5	
Per capita "transfers to children", PPS	88.5	175.8	285.2	319.8	152.4	

Notes: <sup>[1]</sup> Here and further on, EUROMOD SI data refers to 2005; <sup>[2]</sup> No data available for 2008; estimation based on [benefit amount, 2008] x [# of beneficiaries, 2005]; <sup>[3]</sup> EE supplement to the single parents excluded (~15% of the child benefit expenses). <sup>[4]</sup> No administrative data available; EUROMOD simulated expenses used instead. <sup>[5]</sup> Administrative costs excluded.

Source: EUROMOD Country reports and MISSOC

Categorical selectivity is most explicit in the form of specific allowances for large families in three countries: Estonia, Hungary and Slovenia. The Estonian benefit is targeted towards families raising seven or more children. In Hungary, families with three children or more are entitled, but only if the youngest child is between three and

seven years old. In Slovenia all families with three or more children are eligible. In all three countries, the allowance's size is uniform per eligible family. Hungary offers the most generous support.

Income selectivity is applied in Hungary, Slovenia and the Czech Republic through means-tested child allowances. In the Czech Republic, this is the only benefit type available. Here, the means-tested income threshold is family specific and is set in relation to the state determined minimum living standard (MLS, a parameter that depends on the age and the number of family members). The benefit's size is set per child and increases with age. Hungary has the most simple benefit calculation rules: any family with per capita incomes lower than 125% of the minimum old-age pension (OAP<sup>5</sup>) is entitled to a uniform benefit amount. Slovenian means-tested threshold is much higher than in Hungary. The benefit size depends on per capita family income and is gradually withdrawn to zero, when reaching 99% of the average gross-wage. Due to the use of per capita incomes in benefit size's calculations, larger families receive proportionally bigger benefits.

Lithuania, Estonia and Slovenia have personal income taxation systems, which use tax allowances (i.e. income-independent amounts deductible from taxable income). Allowances are increased for families with children. The rules of family tax allowances are relatively similar, though levels differ. Lithuanian tax allowances differ by family type: the most generous support goes to large families, followed by the support to single parent families and, finally, families with up to two children. Estonian family tax allowance assigns an identical amount per each child. Slovenian family tax allowance increases with each subsequent child. Using EUROMOD to calculate the value of these measures, the Slovenian system appears to be the most generous. Here, the tax support amount is actually the second largest state support to families (after the means tested allowance). The Lithuanian tax allowance is relatively small compared to the state expenses on benefits. In Estonia, expenses on family tax allowance almost reach the level of the state's spending on the family benefits.

Hungary and the Czech Republic have tax credits for families with children (i.e. deductions from tax liabilities). In Hungary, only families with three or more children are entitled to receive a lump-sum family tax credit: around 2% of total population. The amount is income dependent. If tax liability is smaller than the tax credit, nothing is paid. Both small and large families are entitled to an income-dependent tax credit in the Czech Republic. The credit amount is proportional to the number of children and is subject to a maximum yearly amount. If the tax liability is lower than the tax credit, the difference is paid to the taxpayer.

Overall, Hungary has the most extensive support using benefits (see Table 2): about 186 EUR per capita. However, when tax concessions are also taken into account, Slovenia is taking the lead in generosity with 243 EUR per capita. Lithuania has with 53 EUR the lowest spending on transfers to children. Taking into account differences in

<sup>5</sup> OAP is around 15% of gross average wage in 2008.

purchasing power standards (PPS), the per capita transfer to children slightly reduces from 1:4.6 (in EUR) to 1:3.6 (in PPS) across the selected countries. Still, this indicates high disparities in the generosity levels of the identified family benefit systems.

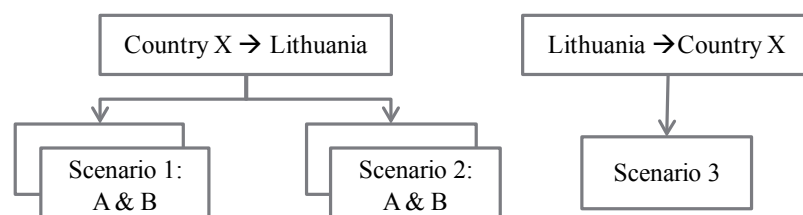
### 3.3. Microsimulation scenarios

Microsimulation models allow testing for distributional impacts of both existing and “what-if” policies. In this article, we exploit both options.

In order to check how effective existing transfers to children are in reducing child poverty, we “eliminate” them within the country’s tax-benefit system. In this setting, the other tax-benefit rules still play a role in further increasing or decreasing household income (e.g. the social assistance safety net may compensate part of abolishing family transfers). By comparing poverty outcomes with and without transfers to children we evaluate the first-order poverty effects of existing arrangements.

Swapping policies means that family benefits of a ‘donor’ country are integrated into the tax-benefit system of a ‘recipient’ country instead of the existing family benefit system. This allows testing the effectiveness of a specific ‘donor’ policy given interactions with the remaining tax-benefit structure and socio-demographic features of the ‘recipient’ country. We analyse three major policy swapping scenarios (see Figure 3), distinguishing between the actual (A) and budget neutral (B) implementation.

Figure 3. Simulation scenarios



Source: own presentation

In all scenarios we rely on national monetary references, such as the (share of) average gross wage, when converting intermediary monetary parameters, such as income brackets, eligibility thresholds, etc. This ensures policy “adaptation” to national circumstances.

In **Scenario 1**, we implement the benefits of the four other countries (as listed in Table 2) in Lithuania. In the *actual* swap of policies (Scenario 1A), the benefit amounts are introduced at the original levels, except of the adjustment for purchasing power standards and currency rates among the analyzed countries. The *budget neutral*

Scenario 1B implies that state expenses are kept at the level of the existing Lithuanian system through linear rescaling.

In **Scenario 2**, we replace both Lithuanian benefits and tax allowances to children with the respective policies of the other countries (see Table 2)<sup>6</sup>. Compared to the previous scenario, this swap shows both the influence of tax support measures and the effect of benefits and tax measures together. *Budget neutrality* (Scenario 2B) implies that both state expenses and income taxation revenue is unchanged in comparison to existing Lithuanian settings. The scaling factors for tax support instruments are estimated using empirical calibration due to non-linearity in income tax calculation.

In **Scenario 3**, we shift Lithuanian transfers and tax instruments for children to the other four countries, while keeping the remaining tax-benefit structure of those countries unchanged. We focus on the budget neutral swapping impacts, using analogous assumptions as already described in the Scenarios 1B and 2B. This scenario shows the extent of Lithuanian policies' effectiveness given different socio-economic and demographic settings, as well as interactions with the remaining tax-benefit system.

### 3.4. Policy effectiveness indicators

We evaluate swapped programmes' effectiveness by their impact on the Foster-Greer-Thorbecke (1984) measures of poverty (i.e. poverty headcount and gap) before and after implementation of a certain scenario. We present these indicators also for children in large and single parent families. The poverty line (60% of the median equivalised income) is recalculated for each scenario. In comparison to the poverty line in existing Lithuanian settings (about 216 EUR), it decreases by maximum 2% (Scenario 3, Estonia) or increases by maximum 5% (Scenario 2A, the Czech Republic) for different scenarios. Disposable income is the annual sum of total household income from labour earnings, plus income from investment and savings, plus all types of simulated or observed contributory and non-contributory benefits, minus simulated social contributions, minus simulated final taxes. Income is equivalised with the EU scale, also called the modified OECD equivalence scale. Standard errors (with a 95% confidence level) of poverty indicators are estimated in STATA using DASP programme<sup>7</sup>.

<sup>6</sup> Other parameters (tax rate, basic allowance, etc.) of the Lithuanian income taxation system remain unchanged.

<sup>7</sup> More details in Araar and Duclos, 2007.



## 4. Simulation results

### 4.1. Poverty impacts of baseline policies

Table 3 shows higher poverty in all countries and for all groups of interest if not for transfers to children. The smallest effect is observed in Lithuania (a 7% reduction in child poverty rate). The largest role is played by the Hungarian system, with a child poverty reduction of around 40%.

*Table 3. Poverty headcount and gap in pre- and post- transfer systems*

	LT-PRE	LT-POST	EE- PRE	EE-POST	HU-PRE	HU-POST	SI-PRE	SI-POST	CZ-PRE	CZ-POST
<b>POVERTY HEADCOUNT, %</b>										
<b>TOTAL</b>	20.8 (0.78)	20.3 (0.78)	18.5 (0.59)	17.5 (0.59)	17.8 (0.52)	13.3 (0.47)	18.3 (0.57)	15.7 (0.54)	9.8 (0.50)	8.5 (0.47)
<b>CHILDREN</b>	28.2 (1.63)	26.2 (1.61)	26.5 (1.22)	20.1 (1.13)	32.6 (1.18)	19.6 (1.02)	23.6 (1.18)	15.0 (0.98)	15.3 (1.07)	10.8 (0.97)
- IN LARGE (3+) FAMILIES	48.0 (6.22)	44.3 (6.27)	40.1 (4.59)	20.2 (3.41)	60.2 (3.48)	30.6 (3.39)	44.9 (5.57)	16.2 (4.17)	31.8 (4.78)	20.5 (4.55)
- IN SINGLE PARENT FAMILIES	49.3 (6.29)	45.1 (6.40)	55.7 (4.48)	45.6 (4.62)	44.5 (3.93)	30.2 (3.54)	39.8 (5.01)	25.6 (4.79)	32.9 (3.50)	27.9 (3.41)
<b>POVERTY GAP, %</b>										
<b>TOTAL</b>	6.3 (0.41)	5.9 (0.39)	5.3 (0.28)	4.9 (0.26)	6.0 (0.29)	3.2 (0.16)	4.7 (0.22)	3.4 (0.15)	1.7 (0.14)	1.5 (0.13)
<b>CHILDREN</b>	8.7 (0.76)	7.5 (0.68)	8.3 (0.57)	6.2 (0.50)	12.0 (0.67)	4.5 (0.30)	6.5 (0.45)	2.5 (0.19)	2.7 (0.28)	1.9 (0.26)
- IN LARGE (3+) FAMILIES	14.8 (2.49)	12.0 (2.19)	10.9 (1.54)	5.2 (0.99)	26.1 (2.17)	6.3 (0.83)	12.3 (2.03)	1.9 (0.55)	6.0 (1.26)	4.3 (1.24)
- IN SINGLE PARENT FAMILIES	13.9 (2.07)	13.1 (2.01)	18.0 (1.89)	14.1 (1.85)	18.2 (2.33)	6.7 (1.14)	11.3 (2.18)	3.1 (0.61)	5.3 (0.73)	3.7 (0.62)

*Note: Here and further on: standard errors in parentheses; shaded cells indicate significant changes.*

*Source: own calculations using EUROMOD*

The Slovenian system is particularly effective for large families, reducing the pre-transfer poverty rate from 45% to 16% (a reduction of more than 60%). Overall, all countries but Lithuania seem to be able to manage poverty risk of this household type with transfers to children: a reduction of around 50% in Estonia and Hungary, and 36% in the Czech Republic. The poverty reduction rate of large families in Lithuania is 8% and not significant (when standard errors are taken into account). The same holds for single parent families. Generally, the latter group has lower income protection in comparison to large families in all countries. The largest reduction is achieved by

Slovenian (36%) and Hungarian systems (32%). The Estonian (18%) and the Czech systems (15%) have a smaller effect.

Slovenia shows a large capacity of cutting poverty depth for large families (by 85%), and for single parent families (by 73%). These achievements bring the poverty gap indicators for these two family types to the lowest levels among our countries. The Hungarian transfers to children are important not only in combating child, but also for overall poverty. The poverty gap among large families is also reduced drastically here (by 75%). In the Czech Republic the pre-transfer poverty gap is already small. Its means-tested system, though, achieves less for large and single parent families compared to the Slovenian system. The Estonian system is able to halve the poverty gap among children in large families. A smaller but significant effect is achieved among the other groups. Results on Lithuania reveal the lowest poverty gap reducing capacities, with small and significant changes observed only for overall child poverty and large families.

## 4.2. “Borrowed” policies in Lithuania

Table 4 gives the poverty outcomes of swapping foreign policies into Lithuania (i.e. Scenarios 1 A&B, 2 A&B). A comparison of the baseline with the actual scenarios gives the effect of implementing the complete foreign system. By adding the budget neutral implementation, we can distinguish a *size* and a *design* effect. The relative importance of these two effects depends on the system, the household type and the poverty index.

Comparing the actual implementation scenarios with the baseline shows that three systems lead to better poverty outcomes than the existing Lithuanian system: the Hungarian, Slovenian and Czech systems all lead to significant lower child poverty rates and poverty gaps. This applies for the swap of benefits, as well as for the combined swap of benefits and tax advantages. In these three countries we find means-tested transfers in the child transfer package. This is in line with intuition, as means-tested benefits should play a substantial role in supporting the most income vulnerable. The Estonian system, which resembles the Lithuanian benefits’ design most closely, does not indicate significant changes either for poverty headcount or for poverty gap. Introduction of the Slovenian system leads to the best results for large families: poverty is halved, both for the benefits-only and the combined benefit-tax advantage scenarios. The Slovenian benefits also achieve a significant reduction in poverty risk for single parents (though with the poverty gap indicator, the systems of all three countries make a difference). The overall results indicate that the effect of the benefits tends to be stronger than that of the tax advantages (comparison of scenario 1A and 2A shows only a small additional effect for tax advantages). Exceptions here are the Hungarian and the Czech systems, where the combination of benefits and tax advantages leads to a significant

reduction in poverty risk for single parents, which was not the case when considering benefits only. Remember that Hungary and the Czech Republic have a tax credit, which tends to be more beneficial to low incomes especially when non-wastable.

A quick glance at Table 4 would tempt the reader to think that transfers' size is the major determinant, as the budget-neutrality does not lead to significant improvements in poverty risks (scenario 1B), with the exception of the Slovenian system. The difference in poverty rates between the budget-neutral and actual scenarios do provide arguments for the dominance of size: e.g. the Czech system of benefits under the budget-neutral scenario leads to a child poverty rate of 24.7% (compared to 26.2% in the baseline - an insignificant result), whereas with the actual scenario a reduction to 18.9% is reached. We however want to make some qualifications to this size-dominance argumentation. Firstly, the Slovenian system's design in itself leads to a significant reduction in child poverty risk. Secondly, when tax advantages are included, also the Hungarian system achieves significant decline in child poverty. The use of indicator matters too: with the poverty gap we measure significant reductions for all three 'successful' systems (HU, SI, CZ), when both benefits and tax advantages are swapped.

We find particularly important design effects for large families. Under the Slovenian system, both the design and the size effects are of equal importance: each achieves around 12 percentage points' reduction from the baseline poverty rate (for the poverty gap indicator the design effect is even stronger). As was discussed in section 3.2 Slovenia pays in its package considerable attention to large families in both the form of the allowance to large families and its means-tested child benefit. The latter benefit has a high threshold for means-testing and the fact that its size is linked to per capita income is also advantageous for large families. Also the Hungarian tax credit has a design that is performing particularly well for large families, as only large families are eligible. Consequently, Hungarian tax and benefit measures together exhibit an equal importance of size and design effects for this category's poverty risk (about 10 percentage points each).

The fact that the budget-neutral swap of the Czech system does not give significant changes in poverty risk (hence the size effect is dominant) may come as a surprise, given the fact that it only has means-tested transfers. This outcome shows that such a design is less suitable for the (Lithuanian) characteristics of the most vulnerable households: it provides means-tested transfers, but their size is not differentiated according to income. Czech tax measures under the actual implementation, though, achieve the best poverty headcount score for the single parent households. This is partly due to the fact that the tax credit is non-wastable, i.e. when the tax credit exceeds tax

liabilities the difference is paid to families. Note that the poverty gap indicator points to significant changes for children in general, but not for large and single parent households.

In general, the situation of children living in single parent households is least affected by the policy swaps. Under the budget-neutral scenario, hardly any system (except the Slovenian) achieves a significant improvement of poverty risk. This is in line with the designs of the system, which hardly have (targeted) provisions for single parent families.

Overall, the size effect reveals to be considerably interlinked with the design of the policies. We find that the systems with the strongest *design* effects (i.e. Slovenia and Hungary) are also able to achieve the strongest *size* effects, particularly for the most vulnerable household types.





Table 4. Poverty headcount and gap under the "borrowed" policies

	LT BASE- LINE	SWAP OF BENEFITS												SWAP OF BENEFITS & TAX ADVANTAGES																			
		BUDGET NEUTRAL						ACTUAL						BUDGET NEUTRAL						ACTUAL													
		EE	HU	SI	CZ	EE	HU	SI	CZ	EE	HU	SI	CZ	EE	HU	SI	CZ	EE	HU	SI	CZ												
<b>POVERTY HEADCOUNT, %</b>																																	
<b>TOTAL</b>	20.3	19.9	18.9	19.4	20.1	18.5	17.6	17.1	20.3	19.6	18.9	19.6	20.0	18.4	18.5	16.9	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)	(0.78)		
	<b>CHILDREN</b>	26.2	25.6	23.1	24.7	25.9	20.4	18.6	18.9	26.8	24.4	23.0	25.4	25.5	19.7	18.6	16.6	(1.62)	(1.60)	(1.57)	(1.62)	(1.61)	(1.52)	(1.49)	(1.53)	(1.62)	(1.60)	(1.46)	(1.47)	(1.50)	(1.50)	(1.50)	
<b>- IN LARGE (3+) FAMILIES</b>	44.3	40.3	32.6	42.9	41.2	24.9	20.4	27.2	42.6	34.4	31.1	45.0	41.2	24.1	19.8	25.3	(6.27)	(6.27)	(6.08)	(6.29)	(6.29)	(5.82)	(5.60)	(5.88)	(6.29)	(6.11)	(5.80)	(5.55)	(5.85)	(5.85)	(5.85)		
<b>- IN SINGLE PARENT FAMILIES</b>	45.1	45.9	45.0	43.6	48.1	39.5	38.0	40.2	45.2	45.3	45.2	44.7	47.8	33.2	39.8	29.2	(6.40)	(6.38)	(6.40)	(6.44)	(6.33)	(6.29)	(6.50)	(6.53)	(6.28)	(6.39)	(6.40)	(6.41)	(6.34)	(5.78)	(6.46)	(6.66)	(6.66)
<b>POVERTY GAP, %</b>																																	
<b>TOTAL</b>	5.9	6.0	5.7	5.4	5.9	4.9	4.8	4.4	6.0	5.6	5.4	5.4	5.9	4.8	5.0	3.9	(0.39)	(0.37)	(0.35)	(0.35)	(0.38)	(0.32)	(0.31)	(0.29)	(0.39)	(0.36)	(0.35)	(0.32)	(0.31)	(0.26)	(0.26)	(0.26)	
	<b>CHILDREN</b>	7.5	7.1	6.2	6.7	7.5	4.9	4.3	4.3	7.9	6.6	6.1	6.6	7.4	4.3	4.4	2.9	(0.68)	(0.65)	(0.56)	(0.62)	(0.67)	(0.48)	(0.43)	(0.46)	(0.69)	(0.59)	(0.56)	(0.42)	(0.45)	(0.32)	(0.32)	(0.32)
<b>- IN LARGE (3+) FAMILIES</b>	12.0	10.7	7.5	10.6	11.1	5.9	3.1	5.7	12.4	8.5	7.2	10.5	10.9	3.8	3.3	3.4	(2.19)	(2.16)	(1.63)	(2.02)	(2.10)	(1.45)	(0.99)	(1.38)	(2.23)	(1.82)	(1.61)	(0.97)	(1.09)	(0.84)	(0.84)	(0.84)	
<b>- IN SINGLE PARENT FAMILIES</b>	13.1	14.3	12.1	11.9	14.7	8.8	9.5	9.0	14.6	11.0	12.1	11.5	14.8	7.8	10.1	4.8	(2.01)	(1.82)	(1.83)	(1.92)	(2.16)	(1.50)	(1.58)	(1.77)	(2.11)	(1.73)	(1.85)	(1.56)	(1.68)	(1.02)	(1.02)	(1.02)	

Source: own calculations using EUROMOD

### 4.3. Lithuanian policies in other countries

Table 5 presents the baselines and Lithuanian policy swaps into the other countries under budget neutral conditions (i.e. Scenario 3). Across all countries, implementation of Lithuanian policies worsens child poverty, though to different degrees.

Surprisingly, the largest deterioration in poverty rates is observed in the Czech Republic, even though the budget neutral Czech policies did not achieve significant poverty changes in Lithuania. Here, all groups would experience significant and large increases in poverty rates. Poverty rates in Hungary and Slovenia would also increase under Lithuanian policies. In both countries, however, the relative position of the single parent families does not change, showing that neither of these countries has a more effective state support package for this group. Estonian budget neutral policies did not bring any significant changes in Lithuania. The reverse swap, though, reveals that children would tend to live at a higher poverty risk under Lithuanian policies, though no significant changes are found for the vulnerable household types.

The trends in poverty gaps point to larger and negative changes for children across all four countries, particularly for large families. The worst performance would occur in Slovenia. The poverty gap would also widen for single parent households, especially in Hungary and Slovenia. This is also a somewhat surprising effect, as a small or no effect was detected when swapping foreign policies into Lithuania.

Table 5. Poverty headcount and gap, swapping Lithuanian policies into four NMS

	EE		HU		SI		CZ	
	POST	LT	POST	LT	POST	LT	POST	LT
<b>POVERTY HEADCOUNT, %</b>								
<b>TOTAL</b>	17.5 (0.59)	17.9 (0.58)	13.3 (0.47)	13.8 (0.50)	15.7 (0.54)	17.5 (0.55)	8.5 (0.47)	10.6 (0.50)
<b>CHILDREN</b>	20.1 (1.13)	21.5 (1.16)	19.6 (1.02)	21.3 (1.06)	15.0 (0.98)	17.8 (1.05)	10.8 (0.97)	15.9 (1.07)
– IN LARGE (3+) FAMILIES	20.2 (3.41)	23.7 (3.67)	30.6 (3.39)	36.8 (3.51)	16.2 (4.17)	23.8 (4.94)	20.5 (4.55)	31.9 (4.74)
– IN SINGLE PARENT FAMILIES	45.6 (4.62)	47.3 (4.60)	30.2 (3.54)	32.2 (3.68)	25.6 (4.79)	26.7 (4.80)	27.9 (3.41)	35.8 (3.55)
<b>POVERTY GAP, %</b>								
<b>TOTAL</b>	4.9 (0.26)	5.1 (0.26)	3.2 (0.16)	3.7 (0.18)	3.4 (0.15)	4.1 (0.18)	4.9 (0.13)	5.1 (0.14)
<b>CHILDREN</b>	6.2 (0.50)	6.9 (0.53)	4.5 (0.30)	5.6 (0.38)	2.5 (0.19)	4.0 (0.29)	6.2 (0.26)	6.9 (0.29)
<b>IN LARGE (3+) FAMILIES</b>	5.2 (0.99)	7.1 (1.27)	6.3 (0.83)	10.0 (1.24)	1.9 (0.55)	5.2 (1.15)	5.2 (1.24)	7.1 (1.29)
<b>IN SINGLE PARENT FAMILIES</b>	14.1 (1.85)	15.2 (1.87)	6.7 (1.14)	9.4 (1.51)	3.1 (0.61)	6.1 (1.29)	14.1 (0.62)	15.2 (0.78)

Source: own calculations using EUROMOD



## 5. Conclusions and policy suggestions

This study is the first attempt in applying a full tax-benefit microsimulation model for testing family transfers' effectiveness within a comparative setting of five NMS. For this task, we employ EUROMOD, the European static tax-benefit model, which allows swapping policies from one country to another. Though a number of limitations are associated with using such a model, the advantage is its comprehensive structure in handling cross-national analysis on distributional policy impacts. The policy systems differ across five countries in terms of size and design of their non-contributory transfers to children: birth grants, universal child benefits, large family allowances (categorical benefit), means tested child allowances and tax advantages to families. An advantage of using EUROMOD is that also the distribution of tax measures can be captured, a factor that is often neglected and which can significantly impact on poverty, as was illustrated by our results from the Czech and Hungarian systems.

Literature usually points to the size of the transfers as the major determinant of child poverty. Our results confirm it is of high importance. Nevertheless, we find the design effect to be of equal significance when swapping Hungarian and Slovenian child transfer packages into Lithuania, especially for large families. The strength of the size and the design effects are highly dependent on the composition of the selected measures (universal, categorical, income selective) and the parametric choices of the policies' inner design (i.e. thresholds, benefit size determination, etc.).

The best poverty score is not necessarily achieved by the most extensive or exclusively means tested transfers. Categorical or universal benefits, sensitive to characteristics of the poor families, can act as highly effective tools. This is the case with the large family allowance in Slovenia or the tax credit to large families in Hungary. The common features of these two transfers are a high reach of large families and a non-age dependent benefit's size calculation. As families with older kids could be as prone to poverty as those with younger kids, the policy design sensitive to the age rather than the number of children seems to be counter-effective. A higher threshold for means-tested benefits also ensures a higher reach of the most vulnerable families. The combination of a generous means-testing threshold with benefit's size dependence on per capita family income seems to be the key behind the Slovenian child benefit's design. This is a major difference with the other means-tested benefits, found in the

Czech Republic or Hungary where the benefit size respectively depends on the child's age or is uniform for all eligible families.

No significant design features are found to reduce child poverty among single parent families of Lithuania, even though we would have expected more positive outcomes under the means-tested conditions of Slovenian or the Czech systems. Furthermore, the analysis of baseline policies also raised expectations for larger effects, as e.g. Slovenia's system reduces the poverty gap for single parents with 73%. Only the Hungarian package managed to make a difference for Lithuanian single parents according to the poverty gap indicator, mainly due to its tax credit. Apparently, only an increase in size is able to improve the situation for single parents in Lithuania, as was illustrated by the outcomes of the actual policy swaps.

Aside benefit's design and size criteria, policy alignment to national characteristics are of high importance. Although Lithuania and Estonia have the most similar non-contributory family benefit and tax measures (universal and/or categorical), Estonia achieves a much better poverty reduction for both large and single parent families. The effect is mainly due to the fact that these policies are tuned to the Estonian socio-demographic circumstances. If implemented in Lithuania, their poverty effectiveness would be negligible. The reverse swap of Lithuanian policies would worsen child poverty in Estonia.

Summarising, we argue that Lithuanian policy makers can indeed learn from foreign experiences, if they want to improve poverty outcomes for Lithuanian children. It is important to keep in mind though that these lessons need to consider the specific socio-demographic characteristics and the wider tax-benefit system of Lithuania.



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- DP 3**     **A New Dataset of Educational Inequality**  
Elena Meschi and Francesco Scervini  
December 2010
- DP 2**     **Are European Social Safety Nets Tight Enough? Coverage and Adequacy of Minimum Income Schemes in 14 EU Countries**  
Francesco Figari, Manos Matsaganis and Holly Sutherland  
June 2011
- DP 1**     **Distributional Consequences of Labor Demand Adjustments to a Downturn. A Model-based Approach with Application to Germany 2008–09**  
Olivier Bargain, Herwig Immervoll, Andreas Peichl and Sebastian Siegloch  
September 2010





# Information on the GINI project

## Aims

The core objective of GINI is to deliver important new answers to questions of great interest to European societies: What are the social, cultural and political impacts that increasing inequalities in income, wealth and education may have? For the answers, GINI combines an interdisciplinary analysis that draws on economics, sociology, political science and health studies, with improved methodologies, uniform measurement, wide country coverage, a clear policy dimension and broad dissemination.

Methodologically, GINI aims to:

- exploit differences between and within 29 countries in inequality levels and trends for understanding the impacts and teasing out implications for policy and institutions,
- elaborate on the effects of both individual distributional positions and aggregate inequalities, and
- allow for feedback from impacts to inequality in a two-way causality approach.

The project operates in a framework of policy-oriented debate and international comparisons across all EU countries (except Cyprus and Malta), the USA, Japan, Canada and Australia.

## Inequality Impacts and Analysis

Social impacts of inequality include educational access and achievement, individual employment opportunities and labour market behaviour, household joblessness, living standards and deprivation, family and household formation/breakdown, housing and intergenerational social mobility, individual health and life expectancy, and social cohesion versus polarisation. Underlying long-term trends, the economic cycle and the current financial and economic crisis will be incorporated. Politico-cultural impacts investigated are: Do increasing income/educational inequalities widen cultural and political 'distances', alienating people from politics, globalisation and European integration? Do they affect individuals' participation and general social trust? Is acceptance of inequality and policies of redistribution affected by inequality itself? What effects do political systems (coalitions/winner-takes-all) have? Finally, it focuses on costs and benefits of policies limiting income inequality and its efficiency for mitigating other inequalities (health, housing, education and opportunity), and addresses the question what contributions policy making itself may have made to the growth of inequalities.

## Support and Activities

The project receives EU research support to the amount of Euro 2.7 million. The work will result in four main reports and a final report, some 70 discussion papers and 29 country reports. The start of the project is 1 February 2010 for a three-year period. Detailed information can be found on the website.

[www.gini-research.org](http://www.gini-research.org)





**GINI** GROWING INEQUALITIES' IMPACTS

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Project funded under the  
Socio-Economic sciences  
and Humanities theme.