

# Economic crisis and the importance of social transfers in reducing poverty in Croatia, with attention to women

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TOWARD A NEW EUROPE: ECONOMIC CRISIS AND CRISIS OF  
DEMOCRACY

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# Three quotes about poverty

- A proper care for the poor is the true test of civilisation. (Samuel Johnson)
- In general, the art of government consists of taking as much money as possible from one class of citizen and giving it to another. (Voltaire)
- The distribution was made according to the need of each man (Old Testament, Acts 4:35)

# Introduction

- Although Croatia has relatively high social expenditures (about 26% of GDP), they are not sufficiently effective in the reduction of inequality and poverty.
- The analyses have shown that expenditures inside the large programmes (pensions) are less strongly oriented towards the poor, while welfare benefits programmes are directed more strongly to the impoverished.
- The effectiveness of transfers will be given by a comparative analysis, through which we can compare the effectiveness of the Croatian transfer system with the transfer systems of other countries.

# Theoretical framework (1)

- Scientific and political discussions in the world often quarrel about the efficiency of welfare programmes realised primarily through social transfers because it is stated that the welfare system - like many other expressions of human intention - contains a seed of corruption.
- Often, it is stated that excessive and long-term unemployment benefits or significant rights in the welfare system encourage the unemployed and poor to a longer and more selective job search, as well as to lower work efforts and earlier withdrawal from employment.

## Theoretical framework (2)

- Social transfers are organized through various social security schemes.
- These schemes can be classified in two major groups, according to their financing mechanisms: *contributory schemes* and *non-contributory schemes*.
- In Croatia like in any given country, several schemes of different types generally co-exist and may provide benefits for similar contingencies to different population groups.

# Why is poverty a threat to economic growth?

- Crises related to external shocks increase and conflicts of rich and poor concerning redistribution of income can threaten the functioning of – particularly – new democracies.
- Greater inequality can lead to more violent crime because of the relatively greater benefit accruing from it to the poor.
- Inequality results in the degradation of the anyway very small social capital and a lower participation of citizens in social and political life, which in turn reduces the ability of the poor to affect the decision making

# Poverty - multidimensional

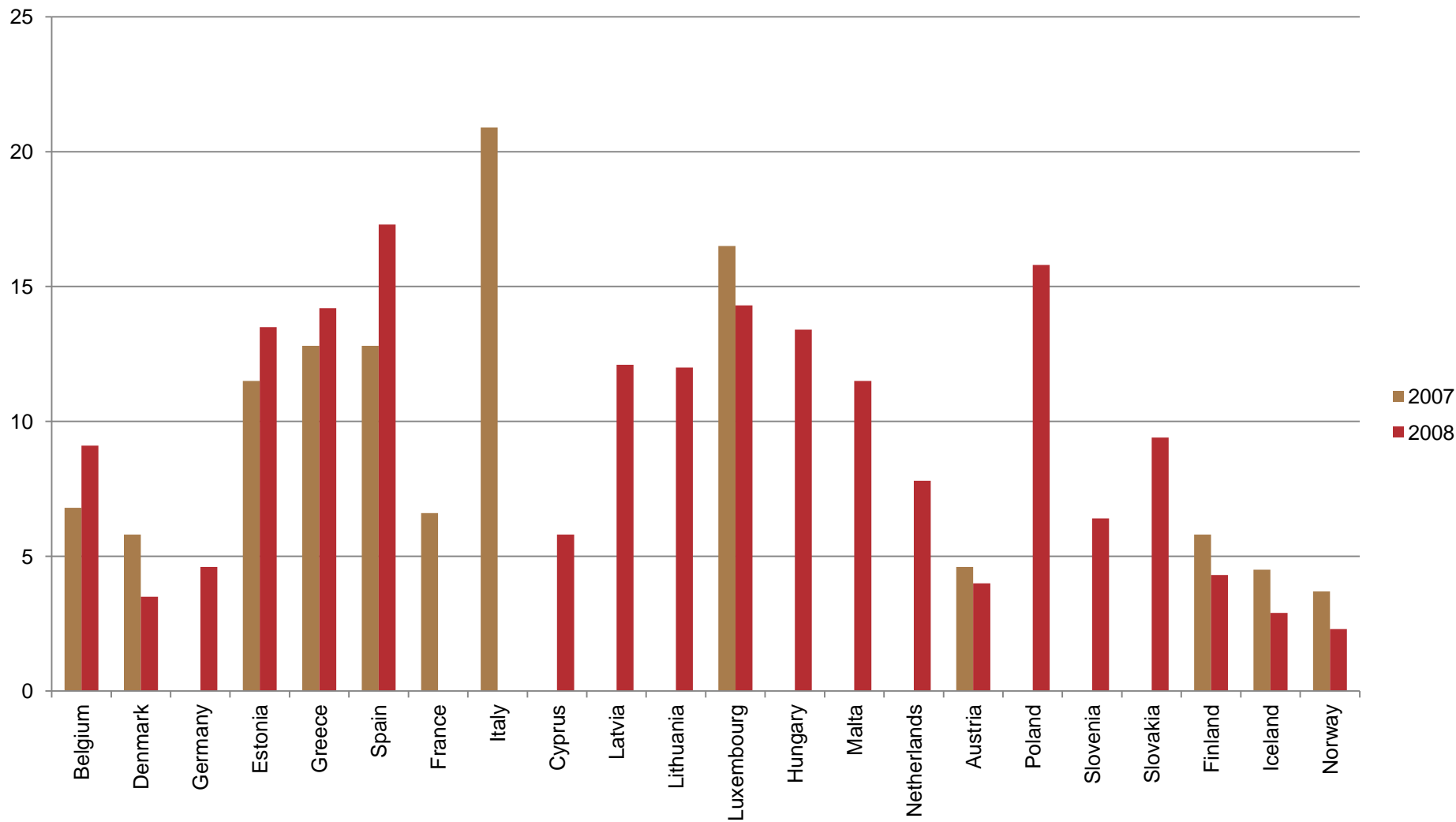
- It can be – absolute (referring to the minimum for existence), relative (as against the distribution of income and the total environment) and it can be subjective (the subjective perception of poverty)
- It is dynamic and complex, defined with existing institutions, and is conditioned by gender and geography
- Conditions and forms of poverty differ according to social groups, time, place and country
- Poverty can differ according to gender, ethnicity, age, place (town and country) and source of income
- **Households of women and children only are more exposed to poverty than those where men is included.**



# How can we measure poverty?

- Calculation of the number of people **below the poverty line**, which is the set level of real income considered enough to ensure the minimum decent standard of living.
- A related conception is the **poverty gap**, which sets the amount of money required to bring the level of income of all the poor households up to the poverty line.

# Persistent-at-risk-of-poverty rate in %, less than 18 years



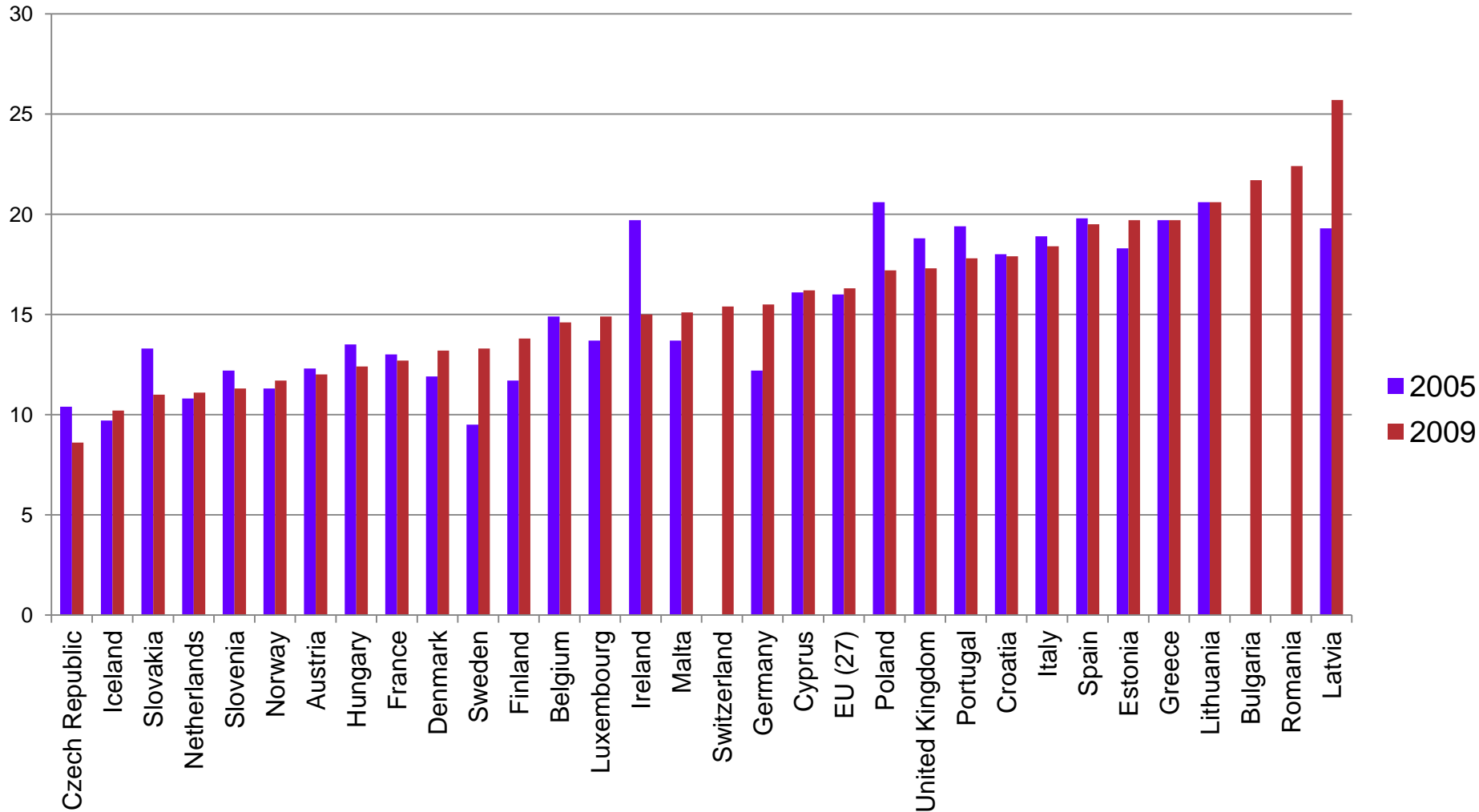
Source: Eurostat, 2011.

# At-risk-of-poverty rate

The indicator is defined as:

- the share of persons with an equivalised disposable income below the risk-of-poverty threshold,
- which is set at 60% of the national median equivalised disposable income (after social transfers)

# At-risk-of-poverty rate, in EU and non EU



Source: Eurostat, 2011.

## Methodological difficulties

- Census data concerning income relate only to cash incomes in the family and ignore in-kind receipts
- All data about income refer to pre-tax income
- Official figures don't include transfers in kind that are given by the government
- Income is calculated per annum
- There are difficulties in defining the unit of observation
- Change of values, habits, attitudes (what was once a luxury is today considered an essential)

# A welfare system

- In palliating poverty, a welfare system can help, with its programme of aid to the poor
- Formally large outlays for welfare are no guarantee that they will be effectively targeted and used

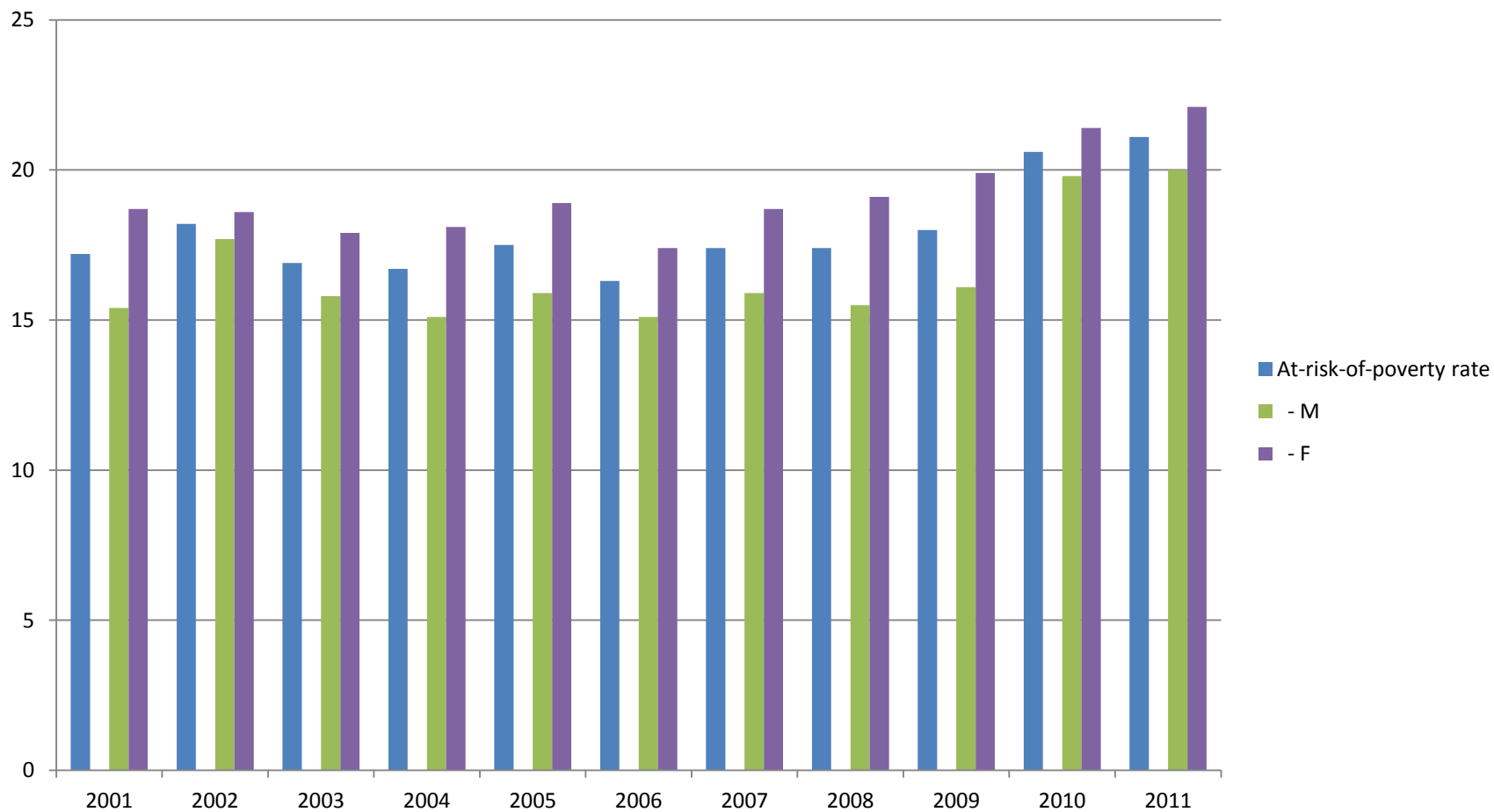
# Economic growth and poverty indicators: the case of Croatia

- The (un)employment status in Croatia significantly determines the economic situation of individual person and members of his or her family.

TABLE 1 BASIC ECONOMIC INDICATORS FOR 2007– 2011 (GROWTH RATES IN %)

	2007	2008	2009	2010	2011
GDP	5.1	2.2	-6.0	-1.2	0
Real net wages	2.2	0.8	0.2	-0.5	-0.4
Total employment according to administrative sources	3.3	2.5	-3.6	- 4.4	-2.5
Total unemployment	-9.3	-10.5	11.2	15.4	1,0
Registered unemployment rate	14.8	13.2	14.9	17.4	17.9
LFS unemployment rate	9.6	8.4	9.1	11.8	12.2

# At-risk-of-poverty rates in the Republic of Croatia 2001-2011





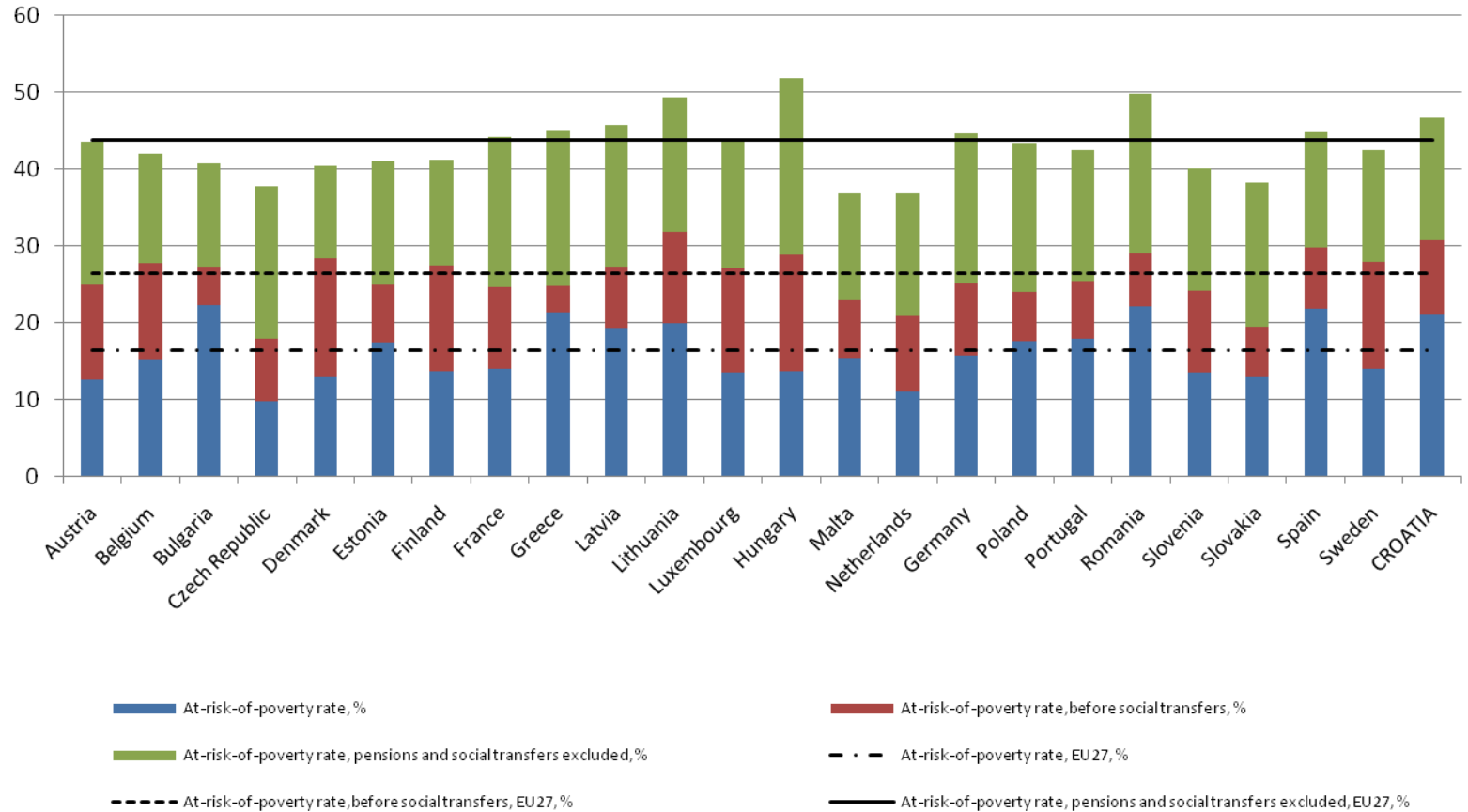
# Total social costs in Croatia

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total costs	22.8	21.7	20.5	20.1	19.2	18.5	18.8	18.9	20.6	20.8	20.3
Healthcare jobs and services	6.2	5.8	5.6	5.7	5.1	5.1	5.5	5.6	6.1	6.2	6.0
Social insurance jobs and services	14.5	13.9	12.0	11.7	11.4	11.0	10.7	10.9	11.9	12.3	12.1
Social welfare jobs and services	1.7	1.5	2.4	2.2	2.3	2.1	2.1	2.0	2.1	1.8	1.8
Other costs of social insurance and social welfare	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.4

# International comparisons and analysis of social transfer efficiency in Croatia (1)

- The at-risk-of-poverty rate began to rise at the beginning of the economic crisis: 18% in 2009 in relation to 17.4% in 2008.
- In 2010, the at-risk-of-poverty rate was 20.6%, which is considerably higher than the EU27 average (16.4%).
- Only Latvia and Romania had a higher at-risk-of-poverty rate than Croatia, while Bulgaria and Spain had approximately the same at-risk-of-poverty rate as Croatia.

# POVERTY RATES AND POVERTY RATE REDUCTION IN 2011



## International comparisons and analysis of social transfer efficiency in Croatia (2)

- If both social transfers and pensions were excluded from the income, the at-risk-of-poverty rate reached 46.7%.
- Croatia has a relatively ineffective transfer system as compared with other countries.
- Thanks to pensions and other social transfers, the poverty rate reduction in Croatia of 25.6 percentage points is smaller than the EU27 average 27.3 percentage points.

# Conclusion and recommendations (1)

- Market forces alone can never be relied on to produce a fair or equitable society.
- The state must be committed to the reduction of poverty and inequality, and in order to do so, it must maintain a transparent and equitable system of social protection that relies on a foundation of universal coverage and non-discrimination.
- Social transfers are, in their essential nature, a public responsibility, and are typically provided through public institutions.

# Conclusion and recommendations (2)

- It is necessary to strengthen the social safety net through improved targeting and monitoring of social welfare programmes, empowering civil society in the provision of social services, decentralisation of some social services and better design of employment policy measures.
- As a crucial measure that would improve the efficiency of social protection spending there is a need to improve the targeting of benefits.
- The measures of social policy and reducing the impact of the crisis on the most endangered citizens are necessary in order to prevent the living standards of the poorest citizens from dropping even lower.

# The last to do with employment but not the least important

- It's crucial constantly to assess the effects and influences of various measures on the labour market. This includes establishing improvements in possibilities of employing those who have taken part in training programmes
- It's also important to keep an eye on the costs of achieving the results, or the cost-effectiveness of given programmes

**THANK YOU FOR THE ATTENTION**