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From Partial to Full Universality: The Family 500+ Programme in Poland and Its Labour Supply Implications

The implementation of the ‘Family 500+’ programme in April 2016 represented a significant shift in public support for families with children in Poland. The programme guaranteed 500 PLN/month (approx. 120 euros) for each second and subsequent child in the family and the same amount for the first child in families with incomes below a specified threshold. As of July 2019, the benefit has been made fully universal for all children aged 0-17, an extension which nearly doubled its total cost and benefited primarily middle and higher income households. We examine the labour market implications of both the initial design and its recent fully universal version. Using the discrete choice labour supply model, we show that the initial Family 500+ benefits generated strong labour supply disincentives and were expected to result in the withdrawal of between 160-200 thousand women from the labour market. The recent removal of the means test is likely to nullify this negative effect, leading to an approximately neutral impact on labour supply. We argue that when spending over 4% of GDP on families with children, it should be possible to design a more comprehensive system of support, which would be more effective in reaching the joint objectives of low child poverty and high female employment combined with higher fertility rates.

Introduction

Following the 2015 parliamentary elections in Poland the ruling Law and Justice Party was quick to fulfil their campaign promise of implementing a generous quasi-universal family support programme. In April 2016, all families began receiving PLN 500 (approx. 120 euros) per month for each second and subsequent child, while households that passed an income means test were granted the same amount for their first or only child. At a cost of nearly PLN 22 billion (5.2 billion euros, approx. 1.1% of GDP) per year, the Family 500+ benefit became the flagship reform of the Law and Justice government's first term.

With new elections approaching in October this year, the government announced a significant expansion of the programme in May, which made it fully universal. The extended programme is nearly twice as expensive with an additional cost of PLN 18.3 billion (4.3 billion euros) per year, valuing the whole package at over 2% of GDP. This takes the total value of financial support for families with children, including family benefits and child-related tax breaks, to 4% of GDP and it means that as far as family support is concerned, the ruling party has brought Poland from one of the lowest-spending countries in the EU to one of the highest over the course of 4 years.

The initial design of the benefit had a significant impact on childhood poverty in Poland, with an absolute and relative decrease from 9.0 to 4.7 percent and 20.6 to 15.3 percent respectively between 2015 and 2017 (GUS, 2017). While a more targeted design could have made a far greater impact, these changes still reflect a significant improvement in the material situation of families with children. The policy may have also had a modest upward effect on fertility rates in the first years following its implementation, although this is difficult to assess given the parallel roll out of several other fertility-oriented policies and other changes which could have played a role in family decisions. Simultaneously, as argued in the ex-ante analysis by Myck (2016) and ex-post analysis

by Magda et al. (2018), these positive outcomes came at the cost of reduced female labour market participation. This reduction primarily affected women with both lower levels of education and living outside of large urban areas (Myck and Trzeciński, 2019).

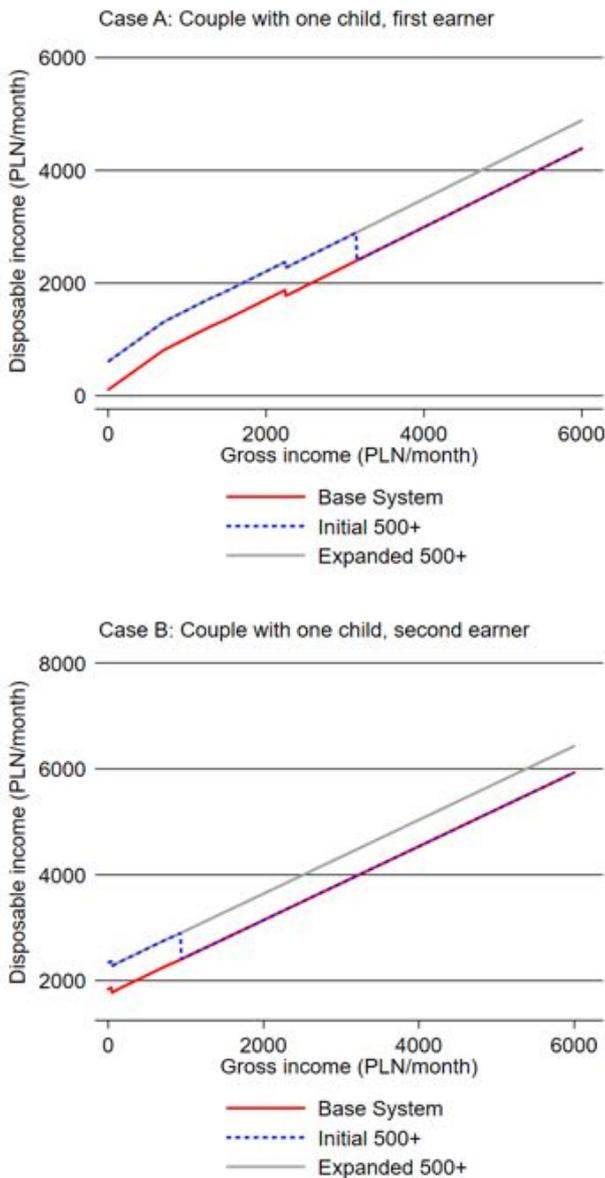
The Family 500+ Reform: Design and Distributional Implications

The initial Family 500+ programme directed funds to 2.7 million families in addition to any already existing financial support and has been excluded from other means-tested support instruments. Since families that had a net income of less than PLN 800 per month per person could receive the benefit for the first or only child, the policy had a distinct redistributive element and meant that the bottom half of the income distribution received nearly 60% of the funds. However, the design was characterised by clear labour market disincentive effects, which were particularly strong for second earners and single parents.

In a one-child household (53.3 percent of families with children, GUS, 2016) with the first earner bringing in an income equivalent to 125% of the national minimum wage, the second earner needed only to earn PLN 940 per month in order for the family to cross the means test threshold and stop receiving the Family 500+ benefits. The benefit design is presented in Figure 1 in the form of budget constraints for the first earner (Case A) and the second earner (Case B) in a couple with one child. In the latter case the first earner is assumed to receive earnings equivalent to 125% of the minimum wage. The disincentive effects of the means test are clear in both cases and we can see that for the second earner, the benefit withdrawal comes at a very low income level - far below the national minimum wage of PLN 2100 per month. The "point withdrawal" of the benefit implied that it was enough for the family to marginally exceed the means test threshold for it to completely lose eligibility for the Family 500+ support for the first child.



Figure 1: Family budget constraints for the first and second earner



Source: Authors' calculations using the SIMPL microsimulation model.

The expansion of the Family 500+ programme, which came into effect in July 2019, eliminated the means-tested threshold thus making the policy fully universal. It came, however, at the cost of the redistributive character of the programme. Over 32% of the additional expenditure resulting from the universal character of the policy has been passed on to the top quintile of the income distribution and in its new version, the bottom half of households only receive 45 percent of all spending. The expansion of the programme is thus

unlikely to further reduce child poverty significantly and – since its beneficiaries are mainly families with middle and high incomes – it is not expected to bring noticeable changes in fertility levels.

Partial and Full Universality of the Family 500+ Programme and the Implications on Female Labour Supply

With the use of modelling tools to simulate the labour market response to changes in financial incentives to work, we have updated the initial simulations of Myck (2016) using the latest pre-reform data and examined the simulated labour supply decisions to the expanded fully universal programme, as if it were implemented instead of the initial version of the benefit. The analysis was conducted with data from the 2015 Polish Household Budget Survey, a detailed incomes and expenditure survey conducted annually by the Polish Central Statistical Office.

Table 1: Effects of the initial and the expanded Family 500+ programme on female labour supply

| | Initial 500+ | | Expanded 500+ | |
|-------------------|--------------------------------|--------------------------------|------------------------------|-------------------------------|
| Single women: | -24,500 (2,052) | | -3,000 (741) | |
| Women in couples: | Model A -133,100 (7,344) | Model B -179,000 (7,359) | Model A 18,000 (4,683) | Model B -17,800 (3,318) |
| Total: | -157,600 | -203,500 | 15,000 | -20,800 |

Source: Authors' calculations based on 2015 PHBS data. Standard errors in parentheses.

Results of the simulations are presented in Table 1. Simulations were conducted separately for single women, and under two scenarios for women in couples assuming that both partners adjust their behaviour (Model A) and that the labour market position of the male partner is unchanged (Model



B). The simulated labour supply response to the initial reform confirms the magnitude of earlier results and suggests an equilibrium effect of 160-200 thousand women leaving the labour force. This is also consistent with results presented by Magda et al. (2018), who found that female labour market participation decreased by approx. 100 thousand women after the policy had been in place for one year.

However, as we can see in the right-hand part of Table 1, the response to a fully universal design – modelled as if it was introduced in 2016 instead of the means-tested version – is essentially neutral. For single mothers the reduction is only about 3000, while for women in couples, the model suggests a small positive reaction under the Model A specification and a small negative one under Model B. In total, the universal design of Family 500+ benefits can be described as labour supply neutral. Since the reaction has been modelled on pre-reform data, and because some women have already withdrawn from the labour market after the introduction of the initial benefit design in 2016, the remaining uncertainty is whether the new set of incentives will motivate these mothers sufficiently to return to work.

Conclusion

The introduction and subsequent expansion, of the Family 500+ programme has substantially increased financial resources of families with children in Poland. The policy rollout of the initial, partially universal programme has seen substantial changes in the level of child poverty in Poland and may have contributed to a modest increase in fertility in the initial years following the introduction of the reform. The means-tested design of the benefit, however, incentivised a significant number of women to leave the labour market. One year after the introduction of the policy approximately 100,000 women were estimated to have left the labour market (Magda et al. 2018), while the equilibrium effect of the policy suggested long-run implications of over 200,000 (Myck, 2016). The updated simulation results

using the latest available data suggest slightly lower, though still substantial equilibrium implications of the initial partially universal design of the Family 500+ programme in the range of between 160,000-200,000. However, as we show in our latest analysis, these labour market consequences could be reversed after the expansion of the programme to a fully universal set-up. The simulated effects of the universal design of the programme, which has been in place in Poland since July 2019, modelled as if it was implemented instead of the initial means-tested version, are broadly neutral for female labour supply. The only question is how likely the mothers who left employment in response to the initial policy will return to work given the new set of financial incentives. Considering these positive implications of the fully universal programme, one has to bear in mind that the extended programme, which will cost over PLN 40 bn per year (approx. 2% of GDP), is unlikely to contribute to the other key objectives set by the government, namely reducing child poverty and increasing fertility. Including the Family 500+ programme, the Polish government currently spends about 4% of GDP on direct financial support for families with children. Given the design of the policies which make up this family package, it seems that the joint objectives of higher fertility, reduced poverty and higher female employment could be achieved more effectively under a reformed structure of support that would be better targeted at poorer households, include specific employment incentives, and incorporate support for childcare, early education and long-term care.

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