Public assistance & accumulation among low-income households in CEE

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OECD/IARIW, Paris, 22-23 Nov 2011
Outline

• Theoretical overview:
  – Asset accumulation among low-income households
  – Means tested income support and asset accumulation

• Data and research design

• Results

• Concluding points
Assets of low income households

- Low income households: saving to income ratio $< \text{predictions from the standard life-cycle accumulation model}$

- Possible explanations:
  - Subsistence threshold
  - Irregularities in the income flow $\rightarrow$ not able to plan
  - Unobserved psychological characteristics of low-income persons (ex: lack of self-control, high time discount)
  - Lack of access to saving enhancing strategies
  - Socio-economic institutions (ex: tax system, access to credit)
Means-tested support & asset accrual

• poor relief-focus on cash & labour market position
• 2 impact channels on asset accumulation:
  – Income floor $\rightarrow$ possible reduction of precautionary saving
  – Asset test $\rightarrow$ direct disincentive to accumulate

• Insurance effect-too low benefits $\rightarrow$ inability to invest in long-term insurance instruments
Data

• Household data:
  – EU-SILC 2007 longitudinal database
  – 8 CEE countries:
    • CZ, EE, HU, LV, LT, PL, SI, SK

• Country data on policy rules:
  – MISSOC Database
Data

• Asset variables:
  – Index of consumer durables (5 items-ITR)
  – Index of debts (3 items-ITR)
  – Asset income
  – Capacity to face unexpected expenses/ savings

• Income floor
  – maximum benefit a household may be entitled to given its characteristics
  – assume no income

• Presence of asset test
Model specification

• 3 level hierarchical models
  – Household observations ➔ household ➔ country

• 2 low-income subsamples:
  – low education: maximum household education< postsecondary
  – low income: in the bottom 40% of the income distribution in 3 out of 3/4 years
### Results-Durables Index

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R Slope | 0.0007*** | 0.0005*** |

N | 83994 | 83994 | 83994 | 20319 | 20319 | 20319 |

Source: Calculations based on EU-SILC 2007-longitudinal
## Results - Debt Index

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Source: Calculations based on EU-SILC 2007-longitudinal
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Source: Calculations based on EU-SILC 2007-longitudinal
## Results- Asset Income

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Source: Calculations based on EU-SILC 2007-longitudinal
Results-summary

• Durables:
  – Positive & substantial effect
  – Lower impact for single parents & families with young children
  – Effect decreases with income

• Arrears:
  – Positive & significant effect
  – Increasing with income
Results-Summary

• Asset income:
  – No effect

• Capacity to face unexpected expenses /savings:
  – No effect

• Overall- evidence on income floor effects on saving mixed:
  – Effect may be different for different types of assets
  – Effect may depend on other macro (institutional) variables
Conclusions

• Positive effects on durables accumulation
  → durables: consumption goods rather than assets

• Negative income floor effects only for debt accumulation