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May 2021

Five Years in Operation: the Polish Universal Child Benefit

Over the last five years, Polish families with children have been entitled to a relatively generous benefit of approximately €110 per month and child. Initially granted for every second and subsequent child in the family regardless of income and for the first child for low-income families, the benefit was made fully universal in 2019. With the total costs amounting to as much as 1.7% of Poland's GDP, the benefit reaches the parents of 6.7 million children and significantly affects these families' position in the income distribution. Its introduction has led to a substantial reduction in the number of children living in poverty. However, since families with children are more likely to be among households in the upper half of the income distribution, out of the total cost of the benefit, a proportionally greater share ends up in the wallets of high-income families. While the implementation of the benefit has significantly changed the scope of public support to families in Poland, there are many lessons to be learnt and some important revisions to be undertaken to achieve an effective and comprehensive support system.

One of the principal commitments in the 2015 Polish parliamentary elections of the then-main opposition party – *Law and Justice (Prawo i Sprawiedliwość, PiS)*, was introducing a generous child benefit. The purpose of this benefit was to support families and encourage higher fertility, which had been one of the lowest in the European Union for a long time. Following *PiS's* electoral victory, the new government introduced a semi-universal child benefit of approximately €110 per month (exactly 500 PLN per month, thus the Polish nickname of "the 500+ benefit") in April 2016. Initially, the benefit was granted for every second and subsequent child in the family regardless of income and for the first child in low-income families. Since July 2019 (*nota bene* three months before the next parliamentary elections), it was made universal - all parents with children under the age of 18 are entitled to 500PLN per month for every child. The benefit is relatively generous (for comparison, it accounts for 17.9% of the minimum wage in Poland in 2021), and universal coverage implies substantial costs for the government budget, totalling about 41bn PLN per year (1.7% of the Polish GDP).

Over the last five years, a number of analyses of the consequences of the benefit's introduction have been conducted. These have encompassed a variety of socio-economic outcomes for Polish families with children - from a comprehensive assessment of these consequences (Magda et al. 2019) to analyses focused on specific effects of the benefit, such as the impact on women's economic activity (Magda et al. 2018, Myck 2016, Myck and Trzeciński 2019) or poverty (Brzeziński and Najsztub 2017, Szarfenberg 2017). The fifth anniversary of the benefit's implementation seems to be a good opportunity for a summary and update of previous evaluations of the distributional consequences and financial gains for households resulting from this policy (an overview of all the previous CenEA analyses of the child benefit can be found in CenEA 2021). The results presented in this brief are based on analyses conducted using the Polish

microsimulation model SIMPL on data from the 2019 CSO Household Budget Survey (more details in Myck et al. 2021). It should be noted that the analyses do not account for the impact of the Covid-19 pandemic on the material situation of households, as the data was collected before the outbreak. As previous studies suggest, the consequences for households of the pandemic and the series of resulting lockdowns varied greatly depending on various factors, such as the sources of income, sector, and form of employment, thus making it impossible to estimate precisely (Myck et al. 2020a).

The Child Benefit on Household Incomes

Due to its universal character, the distributional consequences of the child benefit payments are directly related to the position of households with children aged 0-17 in the income distribution relative to those without. As households with children are more likely to be in the upper half of the distribution (taking into account the demographic structure of households through income equivalisation), out of the total budget expenditure on the benefit, a proportionally greater share goes to high-income families (Table 1). Families with children in the two highest income decile groups (i.e., belonging to the 20% of households with the highest income) currently receive almost 25% of the total annual expenditure on the child benefit. On the other hand, among the 20% of households with the lowest incomes, families with children receive only 11.7% of the total annual cost of the benefit.



Table 1. Household gains resulting from the child benefit by income decile groups

	Total annual gains from the benefit (%)	Average gains per HH (in proportion to disposable income)	
		All HH	HH with children 0-17
1	5.05%	5.24%	26.91%
2	6.66%	4.67%	18.85%
3	9.03%	5.57%	16.36%
4	10.19%	5.63%	14.91%
5	10.62%	5.25%	13.33%
6	11.01%	4.92%	11.47%
7	11.41%	4.58%	10.15%
8	11.44%	4.01%	8.78%
9	12.18%	3.56%	7.48%
10	12.43%	1.92%	4.06%
Total	100%	4.54%	13.23%

Source: Myck et al. 2021.

Notes: Income decile groups - ten groups each covering 10% of the population, from households (HH) with the lowest disposable income to the most affluent households, calculated on the basis of equivalised incomes.

Compared to the poorest 10% of households, families with children in the highest income decile receive 2.5 times more of the total funds allocated to the benefit.

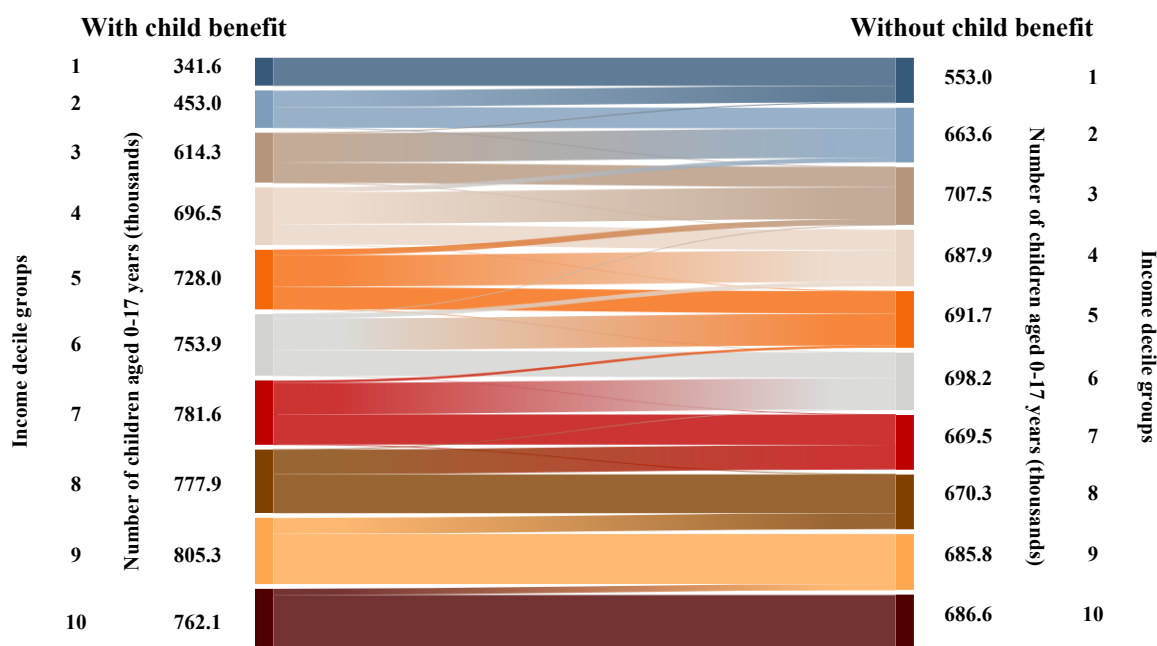
It is also worth noting that the proportion of benefit in the disposable income is relatively evenly distributed if one considers all households in a given decile (with and without children). The proportional benefits in the first nine income deciles are in the range of 3.4% and 5.3% and only fall to 1.9% in the highest income group. A significant differentiation of the benefit in proportional terms can only be seen when accounting solely for households with children within each income decile. The benefit amounts to as much as 26.9% of the disposable income of households with children in the first decile, and the effect falls in subsequent groups - from 18.9% and 16.4% in the second and third deciles, to only 4.1% in the top decile.

The Child Benefit and the Position of Families With Children in the Income Distribution

Taking into account the magnitude of the policy, the position of families with children in the income distribution relative to other households may, to some extent, be the result of receiving the benefit itself. It is, therefore, reasonable to ask what role the benefit plays in shaping this relative position in the income distribution. Figure 1 presents the number of children under 18 in households by income decile groups when the benefit is included in total household income (left panel) and in a hypothetical scenario when the child benefit payment is withdrawn (right panel). As we can see, the withdrawal of the benefit would cause a substantial change in the relative position of families with children in the income distribution, significantly increasing the number of children in the lowest income groups. While in the current system, the poorest 10% of households include 342 thousand children aged 0-17, this number would be 553 thousand in a system without the benefit. However, the benefit also changes the relative position of high-income households with children. In the current system, the richest 10% of households include 762 thousand children. Subtracting the benefit from their household income would reduce this number to 687 thousand.



Figure 1. The child benefit and its impact on the position of families with children in the income distribution



Source: Myck et al. 2021.

Thus, even when taking into account the income distribution without the benefit, the number of children among the richest 10% of households is almost 25% higher than the number of children in the poorest 10% of households. Looking at the income distribution after including the benefit, there are more than twice as many children in the richest 10% of households than among the poorest 10%. This, in turn, inevitably means that, out of the total cost of the benefit, over twice as much money is transferred to households belonging to the richest deciles as compared to the funds transferred to families belonging to the poorest 10% of households.

Discussion

With the total costs amounting to 1.7% of Poland's GDP, the child benefit introduced in April 2016 substantially raised the level of direct financial support for families with children. As shown in this brief, the benefit reaches the parents of 6.7 million children aged 0-17 and significantly affects the position of these families in the income distribution. While, on the one hand, a large proportion of families with children have incomes high enough to be in the highest income groups

even without this support, the lowest decile group would include over 200 thousand more children in the absence of the benefit. This confirms that the child benefit alone contributes to a significant improvement in the material conditions of families with children and to a significant reduction in poverty (cf. Brzezinski and Najsztub, 2017; Szarfenberg, 2017). However, the scale of this reduction is modest given the size of the resources involved. This is not surprising given that the bulk of the total costs of the benefit comes from the 2019 program extension to cover all children regardless of family incomes, which largely ended up in the wallets of higher-income families (Myck et al. 2020b). One of the key goals of the benefit upon introduction was to increase the number of births in Poland by easing the material conditions of families with children. Yet despite a radical increase in the level of support, the number of births in Poland over the period 2017-2020 has essentially remained the same as that forecasted by the Central Statistical Office in its long-term population projection of 2014 (Myck et al. 2021). It is thus difficult to consider the benefit a success in terms of this major objective. Moreover, the withdrawal of the income threshold has largely



eliminated the negative disincentive effects of the benefit with regard to employment (Myck and Trzcinski 2019). However, it is unclear whether the post-pandemic economic situation will allow for an increase in female labour force participation, which declined following the introduction of the benefit in 2016 (Magda et al., 2018).

The effects of every socio-economic programme should be assessed by comparing cost-equivalent alternatives. Despite all gains the “500+” child benefit has brought to millions of families in Poland over the last five years, the flagship programme of the ruling *Law and Justice* party does not fare well in this perspective. The need for change seems much broader than the reform of the benefit alone. The benefit was introduced on top of two other financial support mechanisms focused on families with children, namely family allowances and child tax credits, and the three elements have been operating in parallel since 2016. A number of suggestions on creating a streamlined, comprehensive system have been made a long time ago (e.g., Myck et al. 2016). However, a major restructuring of the entire support system with clearly defined socio-economic policy goals in mind seems all the more justified now, when many families may require additional assistance due to the difficult financial situation related to the Covid-19 pandemic.

Acknowledgements

This Policy Brief draws on the CenEA Commentary published on 31.03.2021 (Myck et al. 2021). It has been prepared under the FROGEE project, with financial support from the Swedish International Development Cooperation Agency (Sida). The views presented in the Policy Brief reflect the opinions of the Authors and do not necessarily overlap with the position of the FREE Network or Sida.

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