Effects of the measure “100 Euros for each adult citizen” on inequality and poverty
Comment of the study of the International Labour Organization and the European Bank for Reconstruction and Development

The study of the International Labour Organization (ILO) and European Bank for Reconstruction and Development (EBRD) arrives at the erroneous conclusion that the program of paying 100 Euros to each adult citizen in Serbia has had “a remarkably strong effect” on reducing inequality and poverty in Serbia. [1] This incorrect conclusion of the ILO/EBRD study is the consequence of fundamental errors and omissions in its analysis. Correct analysis, on the other hand, shows that the payment of 100 euros to all adult citizens is a poor social policy measure which has not provided either a lasting, or a significant inequality and poverty decrease. The main errors in the ILO/EBRD study are as follows:

1) It is not appropriate to measure the effect of a one-time measure on inequality and poverty decrease, as no lasting improvement of these long-term social problems can be achieved in this manner. On the contrary, a large debt incurred by the government for this purpose (over 70 bn dinars) to pay everyone 100 Euros will decrease the ability of the budget to assist the citizens at risk and thus potentially increase poverty in the future.
2) In addition to the fact that ILO and EBRD’s simulations make no methodological sense, they have also been calculated incorrectly to overestimate, by a factor of 3.5, the one-time (temporary) poverty reduction effect in 2020.
3) Contrary to good research practice, the ILO/EBRD study fails to consider alternative policies with the same, or smaller, budget costs that could have had a significantly larger effect on inequality and poverty reduction, had they been aimed at vulnerable households affected by the crisis, instead of being non-selectively distributed to all adult citizens.

A simplified example

Even though the public at large may find the analyses of ILO, EBRD or the Fiscal Council seemingly complicated, these are actually trivial calculations to analyse the effects on poverty and inequality reduction.

If we take a simplified example, where Mark makes 200 Euros and John 800 Euros, the inequality between their incomes is 4:1. After the one-time payment of 100 euros to everyone, Mark’s total income amounts to 300 Euros and John’s to 900 Euros, which temporarily decreases the inequality to 3:1.

This simple example shows not only the trivial nature of the conclusion that the payment of 100 euros (temporarily) decreases inequality, but also imposes far more rational alternative policies for inequality and poverty reduction.

If the payments had only been made to vulnerable citizens, only Mark would have received 100 Euros, the fiscal cost would have been halved and inequality reduction would have been larger, amounting to 2.7:1 (Mark’s 300 Euros to John’s 800).

We will use the logic from this simplified example in the text below, to show far more efficient programs for inequality and poverty reduction that could have been implemented.

[1] *COVID-19 and the World of Work - Rapid Assessment of the Employment Impacts and Policy Responses SERBIA, ILO and EBRD, 1 September 2020*

ILO/EBRD study incorrectly calculates and overestimates the effects of the payment of 100 Euros on *inequality* reduction. Researchers from ILO and EBRD used the data from the SILC Survey of the National Office for Statistics, comprising representative data on individuals and households in the Republic of Serbia. Simulations were run by adding 11,750 dinars of income to each adult individual, which decreased the Gini inequality index from 35.6 to 34.2, i.e. by 1.4 p.p. Use of the SILC Survey for such simulations is an absolutely justified approach in this case, but ILO/EBRD researchers have, unjustifiably, omitted the correction for the time value of money - as the SILC Survey data pertains to 2017, while the actual payments were made in 2020. Economists and citizens alike know very well that the same amount of money from 2017 is worth less in 2020. In fact, the average income growth from salaries, pensions, and other sources of income in the period from mid-2017 to mid-2020 amounted to 18%. Once this corrective factor is taken into consideration, we arrive at the realistic (one-time) decrease of inequality of 1.1 p.p. and not 1.4 p.p. as stated in the study.

ILO/EBRD study overestimates the real effects on the reduction of *poverty* three and a half times. The so-called “relative poverty” is monitored in Europe under the term “poverty”, which represents the percentage of citizens making less than 60% of the median equivalent income per household member. This is why we see quite high poverty rates in some developed EU countries - since the poverty line in these countries is set rather high, in line with their incomes. Measurement of relative poverty is the principle applied by the ILO/EBRD study as well. However, the concept of relative poverty by definition means that, the more a country develops and the citizens’ incomes grow, the higher the limit for relative poverty. The ILO/EBRD study makes a trivial error by overlooking the fact that the payment of 100 Euros to each adult citizen has increased the total income of the population by about 70 bn dinars - meaning that the median income has increased and, with it, the relative poverty threshold. This means that the effect of the payment of 100 Euros on the reduction of poverty has been overestimated multi-fold: it actually amounts to 0.8 percent points and not 2.8 percent points as claimed in the study.

Contrary to good research practice, ILO/EBRD study does not analyse alternative targeted policies which could have achieved the same inequality and poverty reduction with far lower budget costs. The point of analysing the effects of public policy on inequality and poverty is to identify the most efficient policies targeting those households that are truly at risk. However, ILO/EBRD study has no ambition to perform analyses aimed at improving public policies, except for a general and a priori obvious remark that the underage children have been unjustifiably excluded from the program of payment of 100 Euros. To demonstrate more efficient policy options, the Fiscal Council identified two illustrative examples that provide identical effects on inequality and poverty, with the inclusion of children - at far lower budget costs.

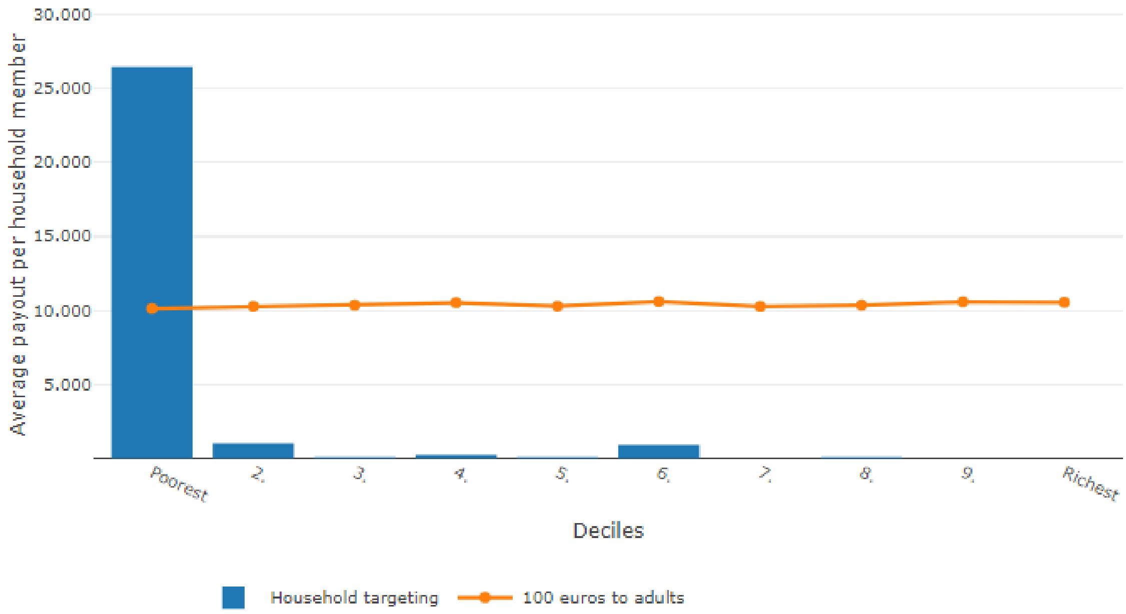
An ideal social transfer program would comprise targeting budget funds based on total household income. This system, known to the general public under the colloquial term "social maps", would encompass all registered income of each household and then "compensate" the most impoverished households to a certain minimum income level. Specifically, compensation of the registered household income to the level of 82,600 dinars of (equivalent) annual income per household member would achieve the same inequality reduction of 1.1 Gini points, but would cost the budget only a quarter of the funds that were used for the payment of 100 Euros to all adult citizens.[2] Graph 1 shows that this approach would almost ideally target the poorest 10% of citizens. Unfortunately, as we know, the elaboration of "social maps" has been delayed for over a decade, and the price of this delay is very high as it prevents a more efficient implementation of measures against inequality and poverty.

Targeting at the individual level (which was possible) would have achieved the same effects on inequality and poverty, with the inclusion of children, with over 20 bn dinars of budget savings. Even though it was practically impossible to target payments at household level, there was an option of targeting the measures at the level of individual citizens. For instance, all adult citizens with registered income less than the minimum wage would receive the full compensation of 11,800 dinars, with this amount then gradually decreasing to zero for citizens with registered income in the amount of average salary. In addition, each underage child would grant one of the parents the right to a 50% increase in this compensation. Finally, the population over 65 would have received an amount of 7,000 dinars, gradually decreasing for those whose pensions are higher than the minimal pensions, finally to be abolished for those whose pensions are average or above-average.[3] As we can see from graph 2, this program would allow for a progressive distribution based on the material status of the households, it would include children and would be by about 30% cheaper than the program of payment of 100 euros to all citizens of age.

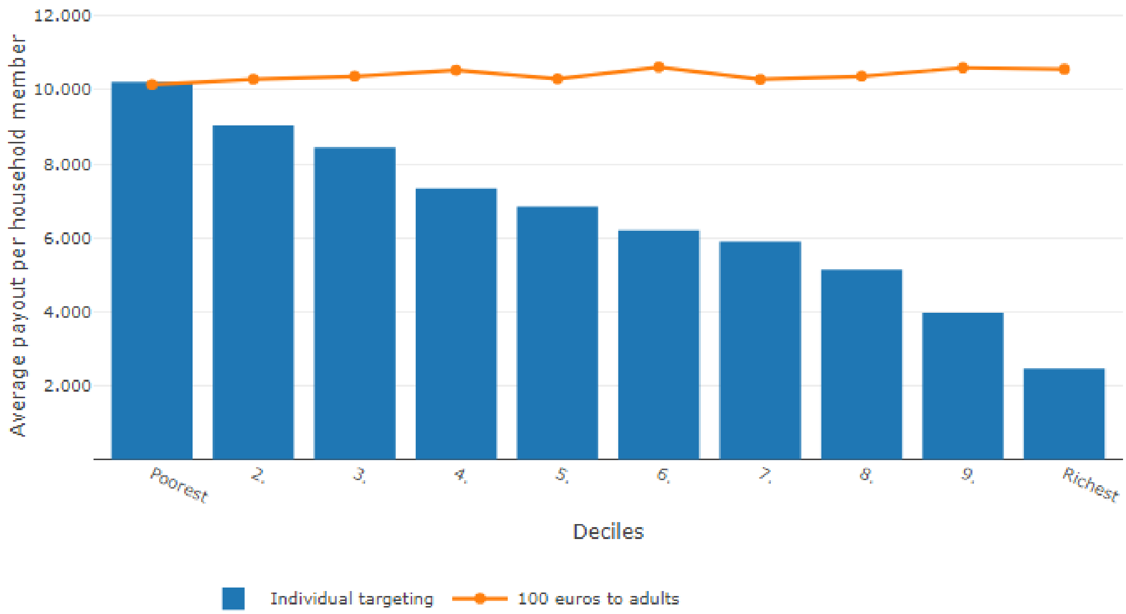
[2] This measure would achieve equal results on inequality reduction, but not on the reduction of relative poverty, as the 10% of the most at-risk citizens are far below the relative poverty line.

[3] The amount of compensation for pensioners was set at 60% of the amount paid to working-age population, which has higher costs of living due to work-related expenses.

Graph 1. Social transfer distribution targeted at the household level



Graph 2. Social transfer distribution targeted at the individual level



Payment of 100 euros to (all) adult citizens is an irresponsible fiscal policy that will impede the implementation of systemic measures for inequality and poverty reduction in the future. The program of paying all adult citizens 100 Euros requires huge budget funds, exceeding 70 bn dinars. The Republic of Serbia had to secure these funds by taking out loans on the international capital market, which means that the costs of this debt will be borne by all taxpayers in the years to come. Hence, the effect on inequality and poverty reduction will not just be a one-off limited effect in 2020, but repayment of the increased public debt will decrease the budget space for support to citizens at risk in the upcoming years, which actually hinders the establishment of an institutional, system framework for inequality and poverty reduction in the future. For this reason, such programs are generally seen as poor public policy, both from the fiscal and from the social viewpoint. Contrary to good research practice, this aspect was completely ignored in the ILO/EBRD study, while the affirming assessments expressed in the study represent a (strange) exception in the field of academic public policy analysis.