

## POVERTY AND SOCIAL TRANSFERS IN CROATIA

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Article\*  
UDC 364.65(497.5)  
JEL I32

### *Abstract*

*Various aspects of poverty in Croatia are still insufficiently well researched. Not only is there no knowledge about how long Croatian citizens remain poor, but there are also some disagreements about the actual number of the poor and the choice of the national poverty line. Nor has there been any precise evaluation of the effects of the individual anti-poverty policy measures. The objective of this paper was to analyse the basic indicators of the scope and distribution of poverty, the risk groups and the structure of the population of the poor and to investigate the role of social transfers in the reduction of poverty. The paper consists of four parts and an introduction. In Part 1 there is an analysis of the trends in the numbers of the poor in Croatia at the beginning of the millennium and the profile of poverty. The second part deals with the policy for the reduction or elimination of poverty, while in Part 3 the author deals with the problem of selecting the official poverty line and the role of the minimum income in Croatia. Part 4 contains the conclusions. Using the official EU poverty line, a comparative analysis shows that the rates of relative poverty in Croatia do not deviate greatly from the EU mean, although Croatia does have a somewhat higher rate of poverty than most of the countries in the Union. Most at risk of falling below the poverty line are the elderly, the retired and the unemployed, single-person households, single-parent families and families with three or more children. The total system of social transfers is not less effective than the transfer systems of most of the countries of the EU. If we exclude old age and survivor pensions from the social transfers, in fact, Croatia has the most effective social transfers of any of the countries observed. However, on the other hand, the poverty rate reduction due to old age and survivor pensions is one of the lowest in the countries compared.*

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\* Received: November 12, 2004  
Accepted: January 11, 2005

*Key words: poverty, official poverty line, poverty rate reduction, anti-poverty policy, social transfers, pensions*

## **Introduction**

Today's research into poverty in the advanced countries has really little to offer in the shape of new insights into poverty or anti-poverty policies. Almost all aspects of the life of the poor have been subject to meticulous examination (Becker, 1997). However, this can hardly be said for poverty research in Croatia, which only started a few years ago. It is glaringly obvious that the dynamics of poverty in Croatia have been insufficiently researched. There is no knowledge about how long Croatian families remain poor and what strategies they use in their endeavours to escape the poverty trap. Apart from that, there is even a certain amount of disagreement about how widespread poverty is in Croatia. There are still dilemmas about which lines and equivalence scales to use during research into poverty because no national or official poverty line has been adopted. It should be said that the selection of the poverty line or equivalence scale has a considerable effect on the number of the poor, while the profile of poverty (the composition of those who are poor) is more stable and less dependent on the poverty line or equivalence scales used (Tsakloglou, 1998).

Partly as a result of research into poverty in Croatia being late in comparison with the developed and some of the transition countries (in which poverty research started in the eighties or the beginning of the nineties), official policy against poverty has not been completely defined. Although two years ago the Programme for Combating Poverty and Social Exclusion was adopted (Vlada RH, 2002), to date the effects of given measures of this Programme have not been evaluated with any degree of thoroughness. It should be said that the instruments in the fight against poverty are fairly well known, and the countries differ from each other according to which group of measures they lay greater stress upon and which less. Our attention in this paper will be directed towards social transfers, one of the essential elements in the anti-poverty policy. Social transfers (various benefits in the social security system) have an important role in all countries in the prevention and reduction of poverty. From the point of view of poverty reduction, the most important social transfers are pensions, unemployment benefits, family benefits, and welfare benefits. The effectiveness of these benefits can most simply be evaluated according to the number of households that are in receipt of such benefits, and according to the amount of the benefit. The number of beneficiaries of given social transfers will depend in each country on the demographic and socio-economic structure of the population and the institutional organisation of the social security system (Deleeck, Van den Bosch and De Lathouwer, 1995). For example, it is known that in the Nordic countries almost all households with children receive family benefits, unlike the countries in Southern Europe, in which family support programmes are poorly developed. From the standpoint of poverty, a key question is how much social transfers are aimed at the poor, that is, the extent to which the poor participate in given social programmes.

Although Croatia has relatively high social expenditures (about 26% of GDP), many are of the opinion that they are not sufficiently effective in the reduction of inequality and poverty (World Bank, 2000). The first analyses have shown that expen-

ditures inside the large programmes (pensions) are less strongly oriented towards the poor, while those programmes on which fewer financial resources are spent (welfare benefits) are directed more strongly to the impoverished. But a better insight into 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 developed and transitional countries.

### 1. Poverty in Croatia at the turn of the millennium: basic indicators

Unlike many developed countries in which there is a long tradition of the academic tracking of poverty (longer than a century in some countries) it was only at the end of the 20<sup>th</sup> century that Croatia started to address the issue of poverty in a methodologically appropriate manner. For the pre-1998 period there are no relevant indicators of poverty in Croatia capable of serving comparative purposes. It is well known that poverty as research topic in the socialist period was neglected, was not, in fact, admitted to be a serious social problem (Šučur, 2001; 2003). The socialist system was, after all, founded on the ideology of radical egalitarianism. Apart from that, all the way to the 1980s Croatia had a relatively high rate of economic growth and low unemployment rates (but high rates of hidden unemployment). Although social protection was guaranteed only to the employed, since the unemployment rates were very low, the social protection system was indeed universal and comprehensive. Thanks to the governmental subsidies given to the basic necessities and services, the costs of living were maintained at a very low level, the result being that very few individuals lived below the threshold of physiological existence. It was considered at the time that poverty was not a significant social problem. When the concept of full employment was jeopardised, poverty became much more widespread. In addition, in the 1990s, the war and the occupation of part of the country delayed academic research into the problem of poverty.

*Table 1 Poverty rates in Croatia (2001-2003) in %*

Poverty line as % of the median national income	2001		2002		2003	
	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income
40	5.8	10.7	6.3	9.8	5.2	6.8
50	10.5	15.3	11.7	15.4	10.2	12.1
60	17.2	20.5	18.2	21.9	16.9	18.9
70	24.1	27.5	26.0	29.7	24.6	25.7

*Note: During the calculation of the poverty rate, the modified OECD equivalence scale was used (head of the household = 1; other adults in the household=0.5; children younger than 14 = 0.3).*

*Source: DZS, 2004.*

In fact, it is only in the last few years that it has been possible to follow trends in poverty according to a uniform criterion. In order to be able to monitor poverty during

a given period, it is important to have a representative sample, to use the same poverty line and the same equivalence scales and to have identical questionnaires to gather information about the well-being of individuals and households. These conditions were met only in the 2001-2003 period, although the first representative research into poverty was carried out as far back as 1998 (World Bank, 2000). The main shortcoming of this study was that the sample did not cover the whole of the population of Croatia, because the occupied areas of Eastern Slavonia and Dalmatinska Zagora remained outside the sample. Apart from that, the poverty rates and other indicators from the research were based on consumption and not income. Since Eurostat prefers income in all its calculations about poverty (because of the simpler gathering of information and calculation of the poverty indicators involved), the Croatian Bureau of Statistics (CBS/DZS) started, for the sake of international comparability, to use income as indicator of well-being. The move from consumption to income as resource base brought about changes in the selection of the poverty line as well. Instead of an absolute poverty line, a relative poverty line is now used. As can be seen from Table 1, poverty rates in the 2001-2003 period obtained according to the official EU poverty line (60% of the equivalent of the median national income) ranged between 17 and 18% (if we include in income both monetary and in-kind income). The concept of income in kind includes all the household "receipts" in some non-monetary form (e.g., food produced on the household's own land, gifts in the form of material goods, the performance of work in exchange for food or material goods and the like).

If we compare the poverty rates with respect to the 40, 50, 60 and 70% of the median national income, we can see the scattering of individuals or households around the poverty threshold (60% of the median). If we take into account total income (monetary and in-kind), if we raise the poverty line from 40 to 50% of the median income, the poverty rates rise by about 5%. Above 50% of the median the poverty rates rise with a faster tempo (from 7-8%). On the other hand, tabular figures also tell us of the importance of income in kind for the life of a rather considerable number of individuals (Table 2).

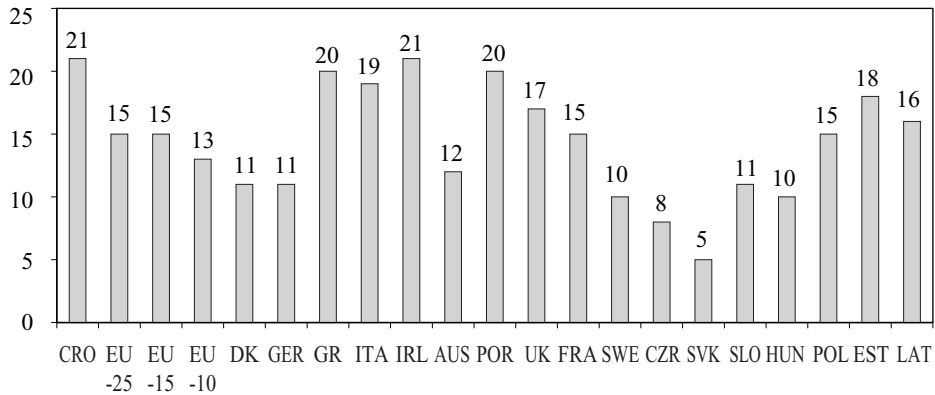
*Table 2 The impact of income in kind on rates of poverty reduction in Croatia (2001-2003) in %*

Poverty line as % of the median national income	Poverty rate reduction due to income in kind		
	2001	2002	2003
40	4.9	3.5	1.6
50	4.8	3.7	1.9
60	3.3	3.7	2.0
70	3.4	3.7	1.1

Thanks to income in kind, the poverty rates in 2001 were 3.5-5% lower, depending on the poverty line adopted. But it is clear that year by year income in kind is being reduced as a percentage of total income (in 2003 the rate of poverty reduction due to income in kind comes to 1-2%, depending on the poverty line).

In addition, figures from Table 1 show a certain dynamics in poverty. It can be seen that poverty rates, irrespective of the poverty line, rose in 2002 about 1%, while in 2003 a fall in the poverty rate was recorded, that is a return to the 2001 level. If we restrict ourselves only to the relative poverty line defined as 60% of the median national income, then in 1999 and 2000, according to unofficial estimates (Kaliterna-Lipovčan et al., 2003), the poverty rates came to 17.1 and 16.2%, while in 1998 there were 19.4% poor<sup>1</sup>, but measured according to the poverty line of 66% of the median of consumption (Luttmer, 2000). This means that the poverty rates in the 1998-2003 period oscillated between 1 and 2%. It appears that, according to the indicators educed, it is possible to talk of a stagnant character of poverty in Croatia. There are no marked reductions or rises in poverty rates in the country.

Figure 1 Poverty rates in Croatia and selected EU countries (2001) in %



Note: The poverty line is defined as 60% of the median national income. Poverty indicators refer to the monetary income and not to in-kind income. EU 10 covers the 10 countries that joined on May 1, 2004. The reference year for Lithuania and Slovenia is 2000, and for Slovakia 2003.

Source: DZS, 2004.

In comparison with most EU countries, Croatia has a somewhat higher rate of poverty (Fig. 1). Still, in some countries in the EU (Greece, Italy, Ireland, Portugal and Spain) the poverty rates are almost identical to that in Croatia. But Denmark, Germany, the Netherlands, Finland, Sweden and Slovenia have practically half the poverty rate of Croatia.

<sup>1</sup> This poverty rate refers to the sample in which the areas of Eastern Slavonia and Dalmatinska Zagora were not included. According to estimates, if these areas were involved in the sample, the poverty rate would be increased by about one fifth.

### 1.1 The composition of the poor and groups with above-average poverty risks

Poverty is as a rule linked with certain social and demographic features (for example, sex, age, education, household structure, economic activity and the like), although the profile of poverty in the developed countries differs from the structure of the poor in less developed or undeveloped countries. Tables 3 and 4 show the differences in the poverty rates in Croatia taking into consideration sex, age and economic activity.

Table 3 Poverty rates in Croatia according to age and sex

(Poverty line = 60% of the median national income)

Age and sex groups	2001		2002		2003	
	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income
0-15	15.9	21.3	16.7	21.7	15.2	16.6
M	13.9	20.3	17.9	22.9	15.6	16.4
F	18.0	22.5	15.4	20.3	14.7	16.7
16-24	15.2	18.3	16.4	20.4	15.4	17.2
M	16.9	19.3	19.0	24.4	16.2	17.0
F	13.6	17.3	13.5	16.1	14.6	17.3
25-49	13.3	17.5	13.9	17.6	12.5	14.2
M	12.6	17.3	14.0	17.4	12.4	14.0
F	14.0	17.8	13.7	17.8	12.7	14.3
50-64	14.7	17.0	17.6	21.3	15.5	16.7
M	13.8	15.9	16.9	21.2	15.4	16.7
F	15.5	18.0	18.3	21.4	15.5	16.6
65 and over	28.5	29.7	29.0	31.6	27.9	32.2
M	23.5	24.9	25.6	27.8	23.6	28.6
F	31.8	32.9	31.2	34.0	30.6	34.4
Total						
M	15.4	19.1	17.7	21.6	15.8	17.7
F	18.7	21.8	18.6	22.2	17.9	20.1

Source: DZS, 2004.

Some groups have higher poverty rates, and hence a greater relative poverty risk. The relative poverty risk tells about what the likelihood is of the members of some group being poor as compared with the average poverty risk in the whole society. This risk is defined as the ratio of the poverty rate of the given group and the overall poverty rate in society. For example, a group the relative poverty risk of which is 1 has an average poverty risk; members of a group with a poverty risk of 1.6 have a 60% greater chance of becoming poor than the average, while members of a group with a relative poverty risk of 0.5 have a 50% lower chance than average of becoming impoverished. The relative poverty risk is not always an indicator of the composition of the poor. Thus a group that has the greatest relative poverty risk does not have to be the most numerous among the poor (this is often characteristic of the unemployed). In order to be able to calculate a certain group as a percentage of the poor population, we have to multiply the relative poverty risk by the percentage of the total population represented by this group.

Tables 3 and 4 show that the greatest poverty risk, with respect to age and economic activity, is present among the elderly, the retired and the unemployed. The category of old persons includes all persons older than 64. There is an important overlap between retired persons and older persons (retirees are the most numerous group among the elderly). However, not all old persons are retirees, and not all pensioners are over 64. It is interesting nevertheless to point out that all categories according to economic activity, apart from the employed, have an above-average relative poverty risk (the self-employed, unemployed, pensioners and other economically inactive people) (Table 4). Self-employed persons have poverty rates only a little lower than retirees and economically inactive persons. In addition, it has been shown that some types of household are more at risk of poverty: primarily, these are single-person households, one-parent families and couples with three or more children (Table 5).

*Table 4 Poverty rates in Croatia according to economic activity*

(Poverty line = 60% of the median national income)

Groups according to type of economic activity	2001		2002		2003	
	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income
employed	5.2	5.5	5.8	6.5	5.2	5.6
self-employed	20.1	38.0	19.0	37.6	18.4	25.5
unemployed	32.2	32.6	35.0	38.1	32.4	34.1
retirees	21.3	19.8	23.2	24.0	20.7	22.4
other economically inactive	20.0	25.5	21.3	26.1	20.3	22.6

Source: DZS, 2004.

*Table 5 Poverty rates in the Republic of Croatia according to type of household*

(Poverty line = 60% of the median national income)

Type of household	2001		2002		2003	
	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income	Monetary income and income in kind	Only monetary income
single-person						
two adults without dependent children, both younger than 65	33.3	31.1	35.1	38.3	34.7	37.3
two adults without dependent children; both younger than 65	11.9	14.8	16.3	21.0	11.8	13.3
two adults without dependent children; at least one is older than 64	27.5	27.3	30.1	32.8	26.1	30.4
single parent households with one or more dependent children	28.9	27.1	27.7	36.6	29.1 *	31.8 *
two adults with one child	13.0	14.3	11.2	14.5	14.9	14.7
two adults with two children	14.9	19.3	12.8	16.8	13.7	15.2
two adults with three or more children	15.9	30.0	24.9	32.1	19.1	21.6

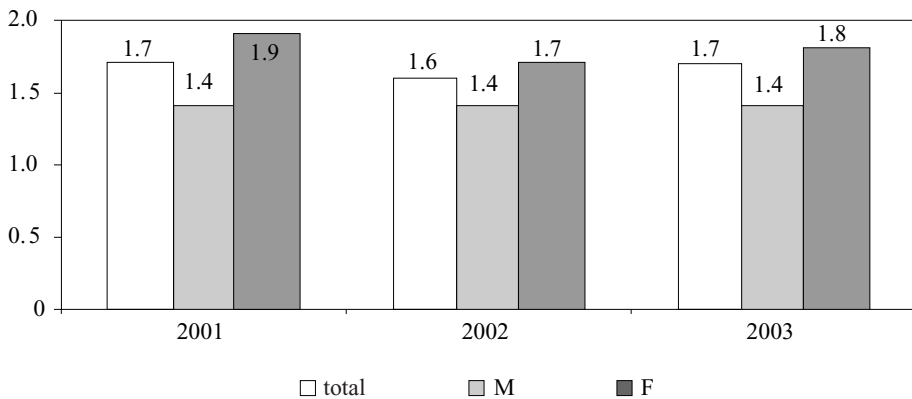
\* *Insufficiently reliable estimate.*

Source: DZS, 2004.

From Table 3 we can see that women in general have a somewhat higher poverty rate than men.

Nevertheless, when the rates for male and female poverty in certain phases of the life cycle are compared, then it is clear that differences in sexually defined rates of poverty appear only in old age. In 2003 the poverty rate for older women was 7% higher than the poverty rate for older men (in 2001 this difference was actually in excess of 8%). In all the other age categories there are no important differences between the poverty of men and the poverty of women. It appears then that the poverty rates of persons over 64 are practically twice the poverty rates of other age groups. Older persons have a 70% greater chance of being poor than the average Croatian citizen (Fig. 2).

Figure 2 Relative poverty risk for persons over 64 (average = 1)



Note: Income includes monetary and in-kind income. Poverty line = 60% of the median national income.

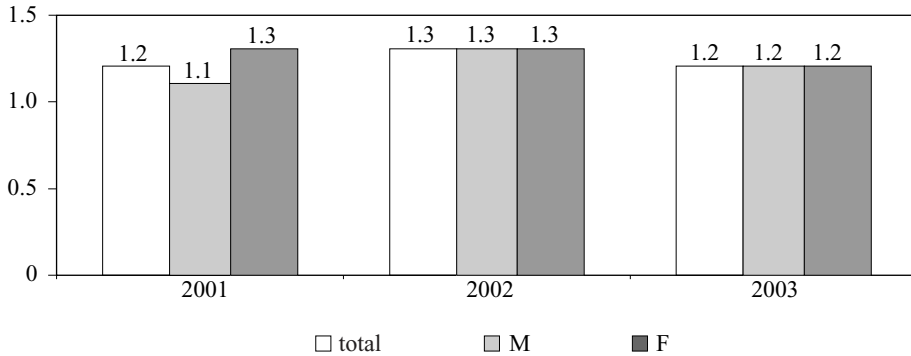
### Retirees

Retirees have a 6-8% lower rate of poverty than the older population in general (Tables 3 and 4). The reason for this is that some of the older persons do not have any pension receipts. The relative poverty risk of pensioners is greater than the average in all three reference years (Fig. 3).

In 2003 the financial position of retired persons improved markedly (a fall in the poverty rate of 2.5%) but the relative poverty risk still remained above the average, for the overall poverty rate was reduced by 1.3% (Table 1). It seems that a certain rise in pensions in 2003 did not essentially modify the overall material position of retired persons. They are still one of the most numerous groups of the poor. It is interesting that the difference in the poverty rates between male and female pensioners in 2003 was less than 1%, while in 2002 there were even more poor male pensioners than female.



Figure 3 Relative poverty risk for retired persons (average = 1)

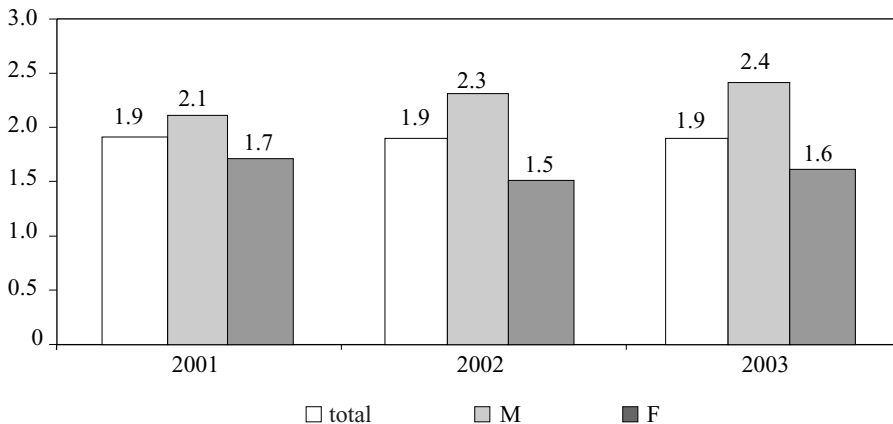


Note: Income includes monetary and in-kind income. Poverty line = 60% of the median national income.

#### The unemployed

The figures confirm the well-known fact that the unemployed as a rule have the greatest relative poverty risk of all groups (almost twice the average) (Figure 4). Of course, not all groups of the unemployed are in the same position. It can thus be assumed that the positions, at least over the short-term, of those unemployed who receive unemployment benefit (however small and short in duration) and those who do not receive any such benefit are different.

Figure 4 The relative poverty risk for the unemployed (average = 1)



Note: Income includes monetary and in-kind income. Poverty line = 60% of the median national income.

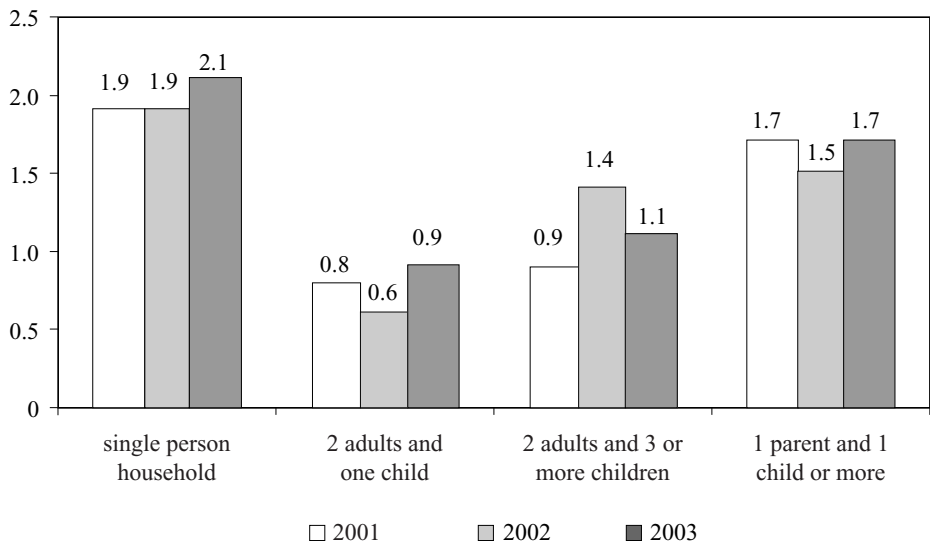
As with other groups, the poverty rate of the unemployed rose in 2002, and then in 2003 dropped back to the 2001 level (Table 4). However, it seems that unemployment has a more negative effect on the material status of men than of women. Only in this group do men have a much greater relative poverty risk than women. Apart from that, this risk is increasing year by year, while the risk for unemployed women has actually fallen (although not considerably). Probably when they are unemployed women are able to rely more on the financial support of their spouses or other members of the family (incomes of men are considerably larger on average than those of women).

#### Single person and one-parent family households

In Croatia single person households have a higher poverty risk than households with a larger number of members (Fig. 5). In 2003 the relative poverty risk for single person households was more than twice the average (Tables 1 and 5). Those single-person households in which elderly women live are particularly at risk.

A larger number of children in a household in which two adults live is not such an important risk as some other traits. The poverty risk for a couple with three or more children is approximately average, except in 2002. But single-parenthood is very much linked with life in poverty (which is in accord with all foreign research). We can see that in 2001 and 2003 the relative poverty risk for single-parent families with one or more children was 70% higher than the average. Clearly, in the future more attention has to be devoted to this kind of family in which there are children, for the number of one-parent families is on the rise (although the number is not as great as it is in the most developed countries).

Figure 5 Relative poverty risk for certain types of households (average = 1)



Note: Income includes monetary and in-kind income. Poverty line = 60% of the median national income.

## 2. Anti-poverty policy

Dealing with poverty is principally aimed at finding ways for the reduction or elimination of it. Anti-poverty policy includes institutions, measures and programmes aimed at the alleviation or eradication of poverty. Via these programmes the living conditions of people who live in poverty, it is hoped, can be improved and the conditions be created for the elimination of extreme and absolute poverty. In the achievement of these objectives countries have used and still use various packages of measures. Most countries shape their own strategies for the reduction and prevention of poverty. Similarly some countries or groups of countries have various views about individual anti-poverty policies, depending on their traditions and dominant political ideologies.

In general there are four basic pillars in the policy against poverty: 1. economic growth and the improvement of the chances of getting employed, 2. investment in the development of human capital, 3. progressive tax policy (fiscal welfare) and 4. social transfers (income support).

Economic growth is necessary in the battle against poverty but it will not necessarily by itself cancel out poverty (which can be widespread even in countries that have high rates of growth and employment). Certainly, the influence of economic growth on the reduction of poverty is the result of a set of factors, among which dynamics of employment, wage policy and redistribution mechanisms must be picked out.

Public expenditures in the human capital of the poor constitute an important instrument in the reduction and prevention of poverty over the long term. Good education and health care help the poor to have a more productive life. Empirical studies have found a very close correlation between the level of education and poverty. Education affects the level of productivity, because it provides individuals with the necessary knowledge and skills. If greater productivity in the workplace is reflected in higher income and participation in the labour market, then there is no doubt that education is the chief channel of social mobility. In brief, higher levels of human capital are linked with higher levels of income, and if people can earn higher incomes, there is less of a likelihood that they will live in poverty. Anti-poverty policy in the area of education in the developed countries is more linked with enabling access to tertiary education. Measures aimed at providing greater educational chances to the poor can include government loans and scholarships, subsidising the costs of housing, food and so on. Apart from regular education, the role of further training, i.e., the acquisition of specific kinds of knowledge and skills outside the regular school system is also important for the attainment of advantageous market and income positions. But it is clear that the problem of poverty cannot be solved only by educational reform and higher educational aspirations. Higher educational achievements are not enough to compensate for an inadequate supply of jobs or the high competitiveness of the contemporary (globalised) labour market. A person's educational attainments, what is more, can be cancelled out by employer discrimination against them because of age or sex. For this reason educational attainments have to be followed up by other factors that affect employment, salary policies and so on.

Tax and other redistributive mechanisms also determine how much individuals or groups will benefit from economic growth. An anti-poverty policy certainly cannot be

primarily run via the taxation system (which has other functions) but it is true that the type of tax system can powerfully affect the level of poverty and inequality (a progressive tax system will in principle reduce inequality and poverty). The direct impact of taxation policy on poverty is brought about via tax allowances for families that annually earn less than a certain level of income. In addition, certain social transfers can be exempted from taxation (child benefits, disability benefits and so on). Nevertheless, taxation policy has only a limited effect on poverty, for families with low incomes often are unable to make use of the tax concessions available to other taxpayers (simply because they do not pay income tax).<sup>2</sup>

Our analysis of anti-poverty policy will be restricted to a consideration of the role of social transfers. Experience shows that the only efficient policy in the fight against poverty is the one which combines the provision of employment with appropriate income support. For this reason, in addition to the stimulation of economic growth, it is essential to develop the social safety net which will provide security for individuals exposed to certain risks or hit by reforms and structural adjustments. We can distinguish between the first-tier and the second-tier social safety net. Along with some universal programmes (child and family benefits), the first-tier safety net relates mainly to the programmes of social security that enable the replacement of lost income in precisely determined circumstances such as retirement, sickness, accidents at work, maternity, death of a breadwinner and so on. Social security programmes are not immediately aimed at the alleviation of poverty; rather it is their role to make up for lost income from work that individuals have lost through no fault of their own. These programmes are not means-tested, but depend on contributions records, which means that such benefits can be obtained by all who meet the conditions (age, continuity of employment in a given period and so on), irrespective of the level of their income. The social security system is not an adequate defence against poverty, because a considerable number of people are not covered by these programmes, particularly in situations of falling employment. If the social safety net is inadequate or contains holes, it is possible to expect greater problems in the fight against poverty. The inadequacy of social security from the point of view of the anti-poverty policy can be seen in insufficiently developed programmes, low level of benefits and difficulties in accessing various services. Croatia is currently faced with the problem of low benefits and difficulties of access to the social services.

Another important mechanism for income support for the poor is welfare assistance, a basic social transfer in the context of the second-tier safety net. This involves programmes meant for or aimed exclusively at the poor and that include an obligatory means test. The main objective of welfare assistance or means-tested transfers is to prevent extreme impoverishment and social exclusion (Heikkilä and Kuivalainen, 2002). Contemporary anti-poverty programmes privilege targeting over universality in a situation in which there are pressures upon welfare expenditures.

Anti-poverty policies mainly encompass measures and programmes that are financed and put through by the Government or the state. However, international and national strategies in the fight against poverty increasingly insist that the anti-poverty

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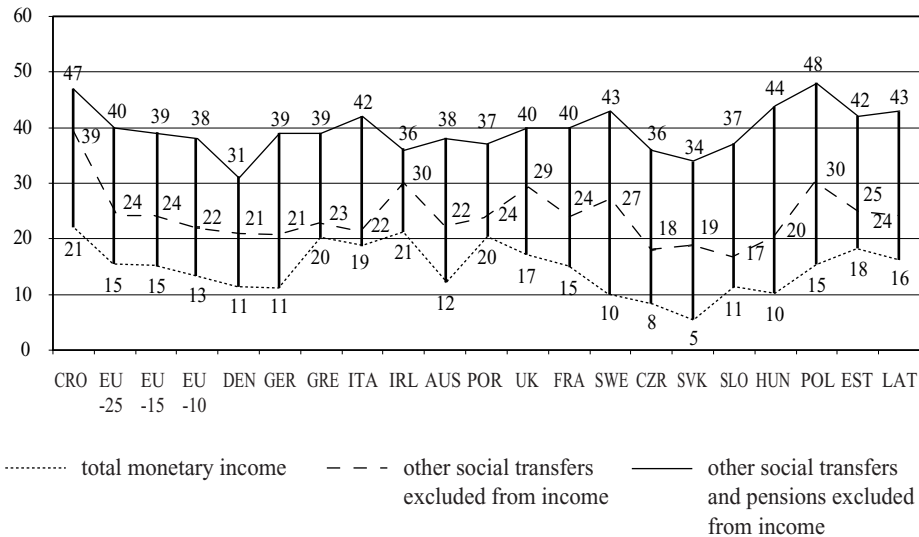
<sup>2</sup> There are ways in which low-income families can make use of their tax concessions, for example, if tax concessions in the income allowances were replaced by concessions in the form of tax concessions or tax credits.

policy should be comprehensive, particularly in view of the largely accepted view that poverty cannot be reduced to the mere absence of material or financial resources (poverty as a multi-dimensional phenomenon). This means that in the shaping and implementation of anti-poverty policy measures various stakeholders need to act in coordination: institutions of the central government, local communities and organisations of civil society and the clients themselves.

2.1. *The role of pensions and other social transfers in the reduction and alleviation of poverty*

In order to determine to what extent social transfers in total or individually affect the poverty reduction rates, it is simplest to compare so-called pre-transfer income with post-transfer income (Deleeck and Van den Bosch, 1992; Deleeck, Van den Bosch and De Lathouwer, 1995). Pre-transfer income implies current income from which all or certain social transfers are excluded, while post-transfer income relates to total available income from all sources (wages, social transfers, profits and so on). First, the number of poor people is ascertained, so that transfers are excluded from income, and then an analysis is made of how much social transfers, when they are included in total income, contribute to the reduction in the number of the poor. In this manner it is possible to ascertain which social transfers are more and which are less effective from the viewpoint of the reduction of poverty.

Figure 6 Poverty rates with respect to income structure (2001 in %)



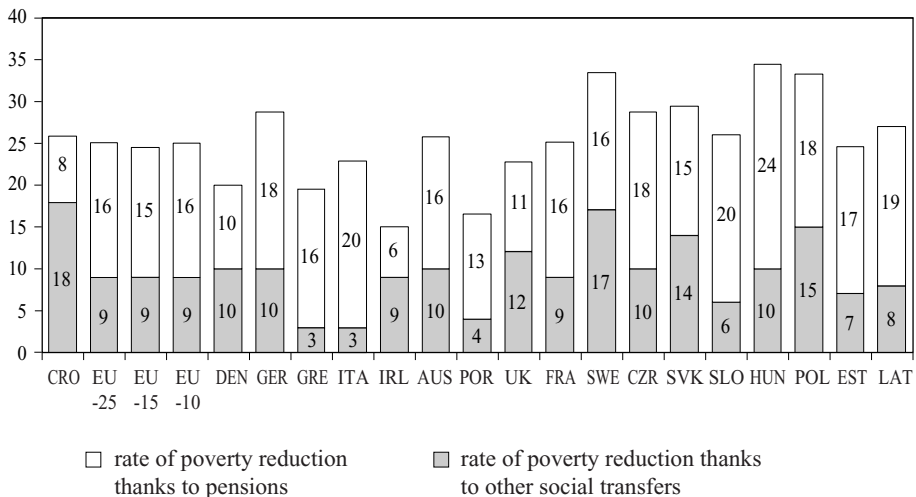
Note: The poverty line is defined as 60% of the median national income. Indicators of poverty relate only to monetary income (without income in kind). The EU 10 includes the 10 countries that entered the EU on May 1, 2004. The reference year for Lithuania and Slovenia is 2000, and for Slovakia 2003.

Source: DZS, 2004.

Figure 6 shows differences in poverty rates depending on whether pensions and other social transfers are included or not. It should be pointed out that the concept of pensions relates only to old-age and survivor pensions and not to disability pensions. On the other hand, the concept of “other social transfers” includes benefits or receipts related to unemployment, child benefits, maternity benefits, layette benefits, sick leave benefits (over 42 days), welfare assistance, benefits for physical impairments and other people’s care, benefits for rehabilitation or employment of disabled persons, scholarships and receipts for education and receipts from other persons for housing. This distinction between “other social transfers” on the one hand and old-age and survivor pensions on the other is done according to the Eurostat methodology, for the sake of comparability with EU countries.

If we analyse the effectiveness of pensions and other social transfers together, it will appear that Croatia has a relatively effective transfer system as compared with other countries (Figures 6 and 7). Thanks to pensions and other social transfers, the poverty rate reduction in Croatia is greater than the EU average (the 15 and the 10 taken together or separately). In fact, countries can be classified into four groups with respect to the degree to which poverty is reduced: countries in which the rate of poverty reduction is greater than 30% (Sweden, Hungary and Poland), countries in which the rate of poverty reduction ranges between 25 and 30% (Croatia, France, German, Austria, Czech R, Slovakia, Slovenia and Lithuania), countries with a poverty reduction rate between 20 and 25% (Denmark, Italy, UK and Estonia) and countries with a poverty reduction rate lower than 20% (Greece, Ireland and Portugal).

Figure 7 The impact of pensions and other social transfers on poverty reduction rates, (2001 in %)



Note: The poverty line is defined as 60% of the median national income. Indicators of poverty relate only to monetary income (without income in kind). The EU 10 includes the 10 countries that entered the EU on May 1 2004. The reference year for Lithuania and Slovenia is 2000, and for Slovakia 2003.

Source: DS, 2004.

However, the poverty rate reduction is not also an indicator of the effectiveness of welfare expenditures because two countries can achieve the same poverty rate reduction, but with essentially different social expenditures. For this reason we have calculated indicators of relative effectiveness of total transfers, by dividing the poverty rate reduction by the costs of social security as percentage of GDP (Column 5 in Table 6). According to this indicator, the most effective social security systems are in the new EU members (Slovakia, Hungary and Slovenia) and of the old members, in Sweden and Ireland. The Croatian social security system is almost identically as effective as the systems of these countries. An interesting example is Ireland, which has the lowest costs of social security, and yet these costs, it would appear, are relatively well targeted at the poor.

*Table 6 Costs of social security and rates of poverty reduction (2001)*

	Poverty rate reduction (pensions and transfers)	Costs of social security (% of GDP)	Costs for old-age and survivor pensions (% of GDP)	Poverty rate reduction / costs (%) of social security
Croatia	26	26.0	10.9	1.00
EU-25	25	—	—	—
EU-15	24	27.5	12.7	0.87
EU-10	25	—	—	—
Denmark	20	29.5	11.2	0.68
Germany	28	29.8	12.6	0.94
Greece	19	27.2	14.0	0.70
Italy	23	25.6	15.9	0.90
Ireland	15	14.6	3.6	1.03
Austria	26	28.4	14.1	0.92
Portugal	17	23.9	10.9	0.71
UK	23	27.2	12.6	0.85
France	25	30.0	13.1	0.83
Sweden	28	31.3	12.2	1.05
Czech R	28	—	—	—
Slovakia	29	19.1	7.6	1.52
Slovenia	26	25.6	11.6	1.02
Hungary	34	19.9	8.5	1.71
Poland	33	—	—	—
Estonia	24	—	—	—
Lithuania	27	—	—	—

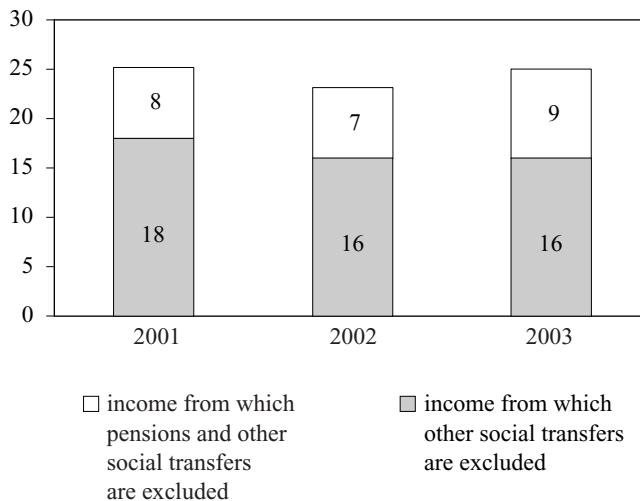
*Note: The concept of social security in the EU countries, according to ESPROS methodology, includes expenditure for health care, pensions, family and child benefits, unemployment benefits, disability benefits, housing assistance and welfare assistance. In Croatia social security costs relate to pensions, health care, unemployment benefits, welfare, child allowances and benefits for war veterans, war invalids and victims of the war.*

*Source: for EU countries, Eurostat (2004); for Croatia, Šučur (2003); HZMO (2004).*

However, if we compare rates of poverty reduction only in connection with other social transfers, then Croatia has the most effective “other social transfers” (along with Sweden and Poland). Only these three countries, and the UK and Slovakia have rates of poverty reduction deriving from other social transfers in excess of 10% (Figs. 6 and 7). Since the category of “other social transfers” includes various types of benefits, we cannot answer the question of what types of social transfers contribute most to the reduction of poverty.

On the other hand, together with Ireland, Croatia has the lowest rate of reduction of poverty as a result of old-age and survivor pensions, of 8% (Fig. 7). This is considerably less than in most EU countries, in which the poverty rate reduction ranges between 15 and 20% (with Hungary is the record holder with a 24% rate). The effect of pensions on the poverty rate reduction depends primarily on the amount of the pensions and on how much the elderly population is covered by the old-age pension system. According to World Bank estimates (2000), about 20% of persons older than 60 in Croatia do not have any pensions receipts. It is well known that pensions in the 1990s fell sharply in comparison with average wages, although pensions expenditure calculated as a percentage of GDP is equal to that in EU countries (Table 6). In the last fifteen years, the average pension fell from 78% of the average wage in 1987 to only 44% in 2002. For the sake of illustration, in Slovenia the average old-age pension in the 1993-1999 period

Figure 8 The effect of pensions and other social transfers on poverty reduction in the Republic of Croatia in the 2001-2003 period (in %).



was 75-77% of the average wage (Stropanik and Stanovnik, 2002). In connection with these low pensions, it is important to state which income strata are more in receipt of pensions. According to the World Bank study (2002), pension recipients in Croatia are equally distributed among all income classes. For this reason some would conclude that



pensions in Croatia are not well targeted at the poor. Of course retirement insurance is nominally not primarily meant for the poor, but for all those who have paid contributions. However, it is quite legitimate to require a pension system to have a strong effect on the reduction of poverty in a situation when a considerable amount of the funds necessary for the functioning of the pension system derives from the national budget and from tax revenues. At current, the budget finances about 40% of total pension expenditures (Bagarić and Marušić, 2004:52).

The poverty rate reduction in Croatia fell by 3% in 2002 as against 2001, because of the reduced effect of pensions and other social transfers (Fig. 8). The increase in the reduction of poverty in 2003 of 2% over 2002 should be ascribed exclusively to pensions.

### **3. Dilemmas concerning the official poverty line and the role of the minimum income**

In Croatia at this moment there is no official poverty line. An official or national poverty line is the poverty line that the government considers as appropriate for the social conditions of this country, and so the trends and distribution of poverty are measured with respect to this line. Apart from that, the amounts of some benefits in the social security system can be set according to this poverty line. It is most often used as a criterion during the claim to some welfare assistance rights (all those whose incomes are below that line or below a certain percentage of the line have the right to seek some form of welfare assistance). It would be desirable for an official poverty line to be based on some objective poverty line (absolute or relative), which is the practice in a large number of countries.

There is no disputing that Croatia needs an official poverty line. This is, above all, useful for government and the general public to be able in a simple manner to track and understand poverty indicators. When data concerning poverty based on different lines and equivalence scales (which give very different poverty rates) are published, it can be confusing to the public because at the same time various poverty indicators are used that the public is not capable of interpreting correctly. For the sake of simplicity, it is necessary over the long term to monitor poverty indicators according to a uniform and single criterion, that is, according to the same poverty line. Nor is this requirement (to have a single poverty line) in dispute, but the choice of official poverty line is contested. The choice of official poverty line depends on the opinions of experts and the viewpoints of political authorities that have to undertake certain social intervention vis-?-vis poor members of the society.

The Croatian Bureau of Statistics, which administers questionnaires concerning household income and spending, has started to publish poverty indicators according to the relative poverty line (the poverty line defined as a certain percentage of the median national income). Actually, the official poverty line in Croatia in a certain sense has been taken to be the official EU poverty line (60% of median national income). There is no doubt that Croatia, for the sake of comparison with or future accession to the EU, should start publishing poverty indicators harmonised with this line. However, it is dis-

putable whether this line should be used as the only or primary standard by which welfare assistance or some other universal benefits should be meted out. In other words, the question arises as to whether Croatia does not perhaps need some absolute poverty line as standard for welfare assistance benefits.

We think that Croatia does need an absolute poverty line, for a number of reasons. First of all, the drawbacks of statistically relative poverty lines are well known (Šućur, 2001). For example, it is a key question what these lines measure: poverty, or income inequality? There are many views that these lines are a rough measure of income inequality, and not of poverty. Since they are a reflection of macro-statistical indicators (average wages, decile/quintile distributions of income), they are distant from the real life of the poor. They do not tell us anything about how the poor live. For example, if the poverty line is accepted as being 60% of median income, we will still have no information about what needs can be met at this level of income, or what kind of life-style it is possible to lead at this poverty threshold. Apart from that, it is not even necessary to mention the arbitrariness involved in deciding at what level of macro-indicators the line has to be set (50, 60 or 70% of the median).

On the other hand, one should draw attention to some of the reasons why the EU and Eurostat prefer relative poverty lines. Some politicians and authors even show a desire to negate any absolute poverty. It is said that the social systems in the western countries have raised the living standard so much and thus eliminated the kind of poverty that existed in the first half of the 20<sup>th</sup> century. In addition, the trend towards the rejection of the concept of poverty in the EU is linked with the great popularity of the concept of social exclusion. We should say that the EU, from the mid-1970s to the mid-1990s financed three programmes of the fight against poverty (Commins, 1995). The fourth programme, although conceived, was not put into practice, since the governments of some countries (mainly the UK and Germany) expressed their reserves about the use of the term poverty in developed European societies.

Whether we want to accept only relative standards as indicators of poverty must depend on our understanding of a welfare state. Is it enough for a welfare state to have an impact on income inequalities, or does dealing with poverty come among the obligations of the welfare state? When the poverty line is set against the distribution of income, which says nothing about real poverty and deprivation, then the question of poverty only comes down to one of inequality. In fact, families that are below a poverty line set according to income distribution cannot be called poor families any more, only low income families. And so it is not surprising that Eurostat no longer uses the expression "poverty rate", but only the "at risk of poverty rate".

Furthermore one has to say that the statistical office of the EU – Eurostat – has considered the possibility of introducing absolute poverty lines alongside relative lines (Eurostat, 2001). The main problem in the acceptance of such a line for the EU countries must be the problem of defining absolute poverty in a single and uniform manner, capable of being equally relevant to all the countries of the Union. But still, when an absolute poverty line is defined or selected for one country only, the problem is far smaller.

The inappropriateness of linking welfare assistance only to a relative line is indicated by the fact that the objective of welfare assistance is to provide “the satisfaction of basic necessities of life” or “the social and cultural minimum”. The relative poverty line does not say what these needs are and to what extent they can be met at that level of income. Veit-Wilson (2000) claims that a state that does not provide welfare for all, including the poor, is not a welfare state. Esping-Andersen (1990) thinks that a state can be classified as a welfare state if the government provides “some basic modicum of welfare for its citizens”. All modern states offer a certain minimum to some of their citizens, but some states do not provide this to their most impoverished citizens. For Veit-Wilson (1994; 1998) a welfare state must guarantee a minimum income for all, and the minimum income for all is put into practice via welfare assistance (Stropnik, 2001). Thus a government can link the minimum income to some statistical parameter, but in itself this is not enough and cannot be a substitute for an empirical determination of the minimum for life because it is not founded on some level of the realistic standard of living. A government has to define concretely the guaranteed level of the satisfaction of needs, in accordance with the prevailing standard of living. Even P. Townsend, a vehement critic of absolute poverty, states that the “subsistence standard” in spite of its drawbacks “gave coherence to social security and historical legitimacy to the formulation of citizens’ rights and a basic income sufficient to meet needs” (Townsend and Gordon, 1991:42).

Finally, poverty in Croatia is often conceived as the inability to meet the basic requirements of life of an individual or a family, and actually it is this kind of understanding of poverty that is at the pith and marrow of the definition of the line of absolute poverty. Apart from that, there is a certain degree of experience with the definition of an absolute poverty line in Croatia (for example, the World Bank line based on expenditures for minimum dietary requirements or the so-called trade-union shopping-basket).

#### **4. Conclusion**

A comparative analysis shows that the rates of relative poverty in Croatia do not deviate essentially from the EU average, although there are higher rates of poverty in Croatia than in most EU countries. On the other hand, a partial insight into the dynamics of poverty in the last six years draws attention to the stagnant nature of poverty in Croatia (on the whole there have been no essential changes in the scope of poverty) although it is too early to make any hard and fast conclusions, because this aspect of poverty has still not been adequately researched.

From the structure of the poor population it can be seen that it is the elderly, the retired and the unemployed that are at the greatest risk of poverty. It has also been seen that single-person households, one-parent families and families with three or more children have an above-average risk of poverty.

Because in this paper our interest has been directed to the role of social transfers, it should be pointed out that the total transfer system is not less effective than the transfer systems of most EU countries. The Croatian social transfer system is in fact even more

effective than the average transfer system in the EU (measured according to the poverty rate reduction). Only Sweden, Poland and Hungary have much more effective social transfer systems. In fact, if we restrict ourselves only to social transfers and do not include old-age and survivor pensions, then this social security sector is more effective in Croatia than in any other country. This means that it is necessary to take with caution the often-expressed off-the-cuff opinion that our transfer system is ineffective, although it is necessary additionally to check the information about the high effectiveness of social transfers not including old-age and survivor pensions (we should mention only the low level of social assistance benefits or unemployment benefits). In order to arrive at a more precise and objective estimate of the role of given transfers and answers to the question what types of social transfers contribute most to a reduction in poverty, in future research it will be necessary to study the effectiveness of each transfer programme by itself.

Nevertheless, the relatively high efficiency of the total transfer system is overshadowed by the very ineffective old-age and survivor pension system, which should be particularly stressed, for this system is the largest transfer system, accounting for more than 40% of the expenditures for social security. The poverty rate reduction that can be attributed to old-age and survivor pensions is one of the lowest in the countries compared (on average it is only half the reduction achieved in other countries). Our analysis has shown that poverty is concentrated among the elderly and pensioners. Pension receipts are very dependent on the state of the economy, trends in unemployment, regular payments of pension contributions. This means that important instruments in the fight against poverty lie outside the system of social transfers, or in the creation of new jobs and the development of human capital. Bearing in mind, though, the likely rates of unemployment and economic growth, social transfers will continue to have a key role in the alleviation of poverty. Hence there is the necessity to reform the main social security systems. For several years now Croatia has been carrying out a pension reform that is supposed to be able to obviate poverty among those included in the pensions system. For the moment it is hard to say how much the effect of this pension reform will be consistent with the forecasts derived from simulations. Apart from that, pension reform will not settle the question of poverty among the elderly population, for at least 20% of persons over 60 will not be covered by pension insurance. For this reason targeted programmes of welfare assistance need to be provided for this section of the elderly population, because in the foreseeable future it is hard to expect the introduction of any kind of basic pension. Assuredly, the future policy with respect to poverty in Croatia will be powerfully affected by the success, or lack of it, of the pension (and health care) reform.

Speaking of other social transfers, a special problem is the inadequate protection of the unemployed (Šošić, 2003). A relatively small number of the unemployed are covered by unemployment benefit (in the last 12 years between 10 and 20% of the unemployed have received this benefit). There is still the problem of the lack of appropriate protection for the long-term unemployed (unemployed for longer than one year), and they constitute almost 50% of all unemployed.

Welfare benefits are low and do not ensure the coverage of the basic necessities (Šućur, 2004). Since welfare benefits are meant exclusively for the poor, it would be necessary to increase the expenditures on benefits, to define the minimum income in a more objective way and to adjust the amount of the welfare benefit in line with the rise in the costs of living (Šućur, 2000; 2004). But real manoeuvring space for the increase in the amount of welfare benefits is fairly restricted because of the low level of benefits in the other social security sectors.

Understanding of the connections between social transfers and poverty is a key element in the formation of an effective welfare policy. However, it should also be understood that the system of social transfers has got its limits in the endeavours to alleviate or reduce poverty (perhaps long-term). In some cases, social transfers can only inconsiderably reduce poverty, which means that important instruments for the reduction of poverty or economic inequalities are outside the scope of social policy (in wage policy, for example).

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