

Public Minimum Income Support Schemes and Processes of Asset Accumulation in Central and Eastern Europe

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Abstract:

Social policies have long constituted the main tool through which public intervention affected the income distribution. Their role in shaping patterns of wealth buildup has been less visible, albeit not necessarily less important. Especially in Europe, where vigorous public provision has circumscribed the role assets in insuring and consumption smoothing, little attention has been paid to asset as opposed to income dynamics. This paper sets out to investigate the impact that minimum income support schemes have on asset accumulation among the poor. Social assistance programs are designed as a last resort safeguard against destitution. As such, they cannot be expected to significantly boost wealth among the poor. However, by providing an income floor and by imposing asset tests when establishing eligibility, they might discourage saving among low-income households. Using the EU-SILC database, eight Central European countries are analyzed. Although SILC has not been designed with an eye to collecting data on wealth, it nonetheless provides a few crude indicators of asset ownership (consumer durables, debt, and income from capital and investment). The study uses information on policy rules to simulate a maximum income floor for each household observation in the panel. Subsequently, it builds a three level hierarchical model in which cross-national as well as temporal variation in the maximum guaranteed income benefit is exploited to estimate policy effects. Contrary to US evidence, results do not support the hypothesis that income floors present in minimum income schemes depress assets, of any type. On the contrary, higher income floors appear to support consumer durable accumulation while they cannot be shown to have any effects on other types of assets.