TITLE: FAMILY SAFETY NETS AND ECONOMIC TRANSITION IN EASTERN EUROPE: Summary of Findings from a Case Study of Worker Households in Poland

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FAMILY SAFETY NETS AND ECONOMIC TRANSITION IN EASTERN EUROPE:
Summary of Findings from a Case Study of Worker Households in Poland

Donald Cox, Emmanuel Jimenez, and Wlodek Okrasa

Abstract
Can Polish families most severely impoverished during the transition to capitalism rely on private family safety nets? This question is likely critical for the transition's success, but little is known about family networks in Eastern Europe. We analyze newly available Polish household surveys, conducted both before and after Poland's economic transition, which measure private inter-household transfers. Such transfers are large and widespread in Poland, and in many ways they appear to function like means-tested public transfers. They flow from high to low-income households and are targeted to young couples, large families and those experiencing illness. Private transfer patterns also suggest that they are responsive to liquidity constraints. Our results from 1987 data indicate that private transfers could fill a non-trivial portion of the income gap left by unemployment. But we also find evidence from 1992 data that family networks weakened somewhat after the transition.

Can Polish families who are most severely impoverished during the transition from socialism to capitalism rely on private family safety nets for support? Consider, for example, the plight of a family whose primary earner has just been laid off from a liquidated state enterprise or a family farm rendered insolvent because of the elimination of government subsidies. Do these families have more fortunate relatives or friends who can assist with cash, in-kind help, gifts or shared housing? Conversely, which are the households that cannot rely on such support?

These questions are critical for evaluating the likelihood of successful economic transition in the Eastern bloc. On the one hand, an effective social safety net must be preserved—the rise in unemployment and widening of the income distribution could derail popular support for a quick transition to capitalism. On the other hand, governments are facing fiscal constraints which render the previous regime's universal public transfer system unsustainable.

One answer is to target public transfers to the truly needy more effectively. But reforming institutions to accomplish more effective targeting is difficult and takes time. Are there other

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1The work leading to this report was supported in part from funds provided by the National Council for Soviet and East European Research (NCSEER), which is not responsible for its contents. The views expressed here are the authors' own and should not be attributed to the Government of Poland, NCSEER, or the World Bank.
options? Fortunately, public transfers are not the only means of shuffling resources from one
group to another. Family networks can also achieve substantial income redistribution, privately
and with no apparent coercion. Information about the size and flows of these private transfers
would be extremely useful in determining the public funds needed to round out an adequate safety
net. Private transfer information is also useful for identifying households who lack private safety
nets. Targeting these families can be critical since the public sector may be their only source of
insurance.

Prior information suggests that private transfers are likely to figure prominently in the
Polish system of safety nets and poverty alleviation. First, existing studies, conducted by both
ourselves and others, indicate that private transfers are often large and responsive to economic
and demographic variables. For example, private transfers flow from rich to poor, just as in
public tax-and-transfer systems. And increases in recipient pre-transfer income often prompt
reductions in private transfers, mirroring what happens in the public sector with means-tested
social insurance programs. Further, private transfers are usually targeted to vulnerable groups
such as the young, the elderly, female-headed households, and those stricken by illness,
unemployment or those facing income instability.

Another reason to believe that private safety nets are especially important in Poland has to
do with the country’s turbulent history. War, occupation and partitions are likely to have raised
the value of family ties as coping mechanisms. And there is emerging evidence that the
formation of habits and traditions are important elements in family interaction, so that a history
of hardship may have strengthened the cultural norms that facilitate private transfers. Poland’s
homogeneity of religious beliefs probably encouraged close family networks as well.

Further, Poland’s chronic shortages prior to economic transition—felt most dramatically
during the period of martial law (1981-84)—may have spurred the development of informal
trading networks, which in turn strengthen the bonds needed to facilitate inter-household risk-
sharing. Shortages likely encourage inter-household trade. If one household cannot obtain soap
and another is short of meat, the two might be able to improve their lot by trading. Trading
experience could help forge the bonds of altruism and trust necessary for households to engage
in risk-sharing behavior by making financial transfers.

Data Sources

The data used in the analysis come from the nationwide Household Budget Survey (HBS),
conducted annually by Poland’s Central Statistical Office (GUS) since 1957. The HBS provides,

See, for example, Donald Cox and Emmanuel Jimenez, “Social Objectives Through Private Transfers:
for various population groups, information on living conditions, measured by indicators such as income and expenditures, food consumption, durables, housing conditions and demographic conditions of households. In this report, we summarize results from the 1987 and 1992 rounds of the HBS.

Knowing the value of household income is critical for finding out the responsiveness for private transfers to household resources, and household income is measured most accurately in the HBS for the sub-sample of households who are headed by someone employed in a state-owned enterprise. Consequently, we restrict our analysis to this group. The size of our sample of households in the 1987 round of the HBS was 12,896. Because the HBS sample was drastically reduced in 1992, for that year we used a sample of 4,210 worker households.

Private transfers received and given were constructed from detailed questions about income and expenditures. Cash receipts are reported directly in the income section of the questionnaire that summarizes information registered in the household's "budget-notebook," or diary. Non-monetary receipts are reported in the expenditure section of the same questionnaire. The quantity and value of each item is specified—the latter is estimated by both the interviewer and household, at current market prices. Thus, the category "gifts received" encompasses money, goods and services. Receipts also include bequests, dowry payments, and the value of goods received from persons living abroad. In addition, support from private non-familial sources such as charity income is included in private transfer receipts. Total transfers given equal money and the value of goods given to persons outside the household, including relatives separated from the family for at least three months.

**Empirical Work**

How widespread are private transfers? How large? We found that, among the sample of worker households that we use, private transfers were extensive and significant. Since some households both gave and received, we characterize households as net donors, or net recipients, according to whether outflows of private transfers exceed or fall short of inflows. Forty-four percent of the households were net recipients and about 19 percent were net givers. (There are more net recipients than givers because transfer measures include inflows, but not outflows, of bequests, transfers from abroad and dowry income.) We designate those whose net transfer is zero as "others." The exact figures for net transfers are presented below:

<table>
<thead>
<tr>
<th>Percentage of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Transfer Donors</td>
</tr>
<tr>
<td>Net Transfer Recipients</td>
</tr>
<tr>
<td>Net Transfer Equals Zero ('Others')</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number</th>
<th>Percentage of Sample</th>
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<tbody>
<tr>
<td>2,410</td>
<td>18.7</td>
</tr>
<tr>
<td>5,710</td>
<td>44.3</td>
</tr>
<tr>
<td>4,776</td>
<td>37.0</td>
</tr>
</tbody>
</table>

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How do net donors differ from net recipients? We measured variety of household characteristics according to whether households received, gave or did neither. Overall, gross private transfers received comprise 4.2 percent of income from all sources (including private transfers). Among net transfer recipients, net transfers account for 9 percent of total household income. Net gifts among givers amount to 3 percent of their total household income. To put these figures in perspective, the volume of comparable transfers in the United States, as a fraction of income, is about the same as that of Poland.

Private transfers appear to flow from high- to low-income households. Givers earned on average 17 percent more than recipients, and those not involved with private transfers had earnings almost exactly in-between recipients and givers. Recipients also had lower average social-transfer income than givers. Those involved with private transfers were better educated than those who are not. Over 12 percent of net recipients and 13 percent of net givers attended a university, for example, compared to less than 10 percent of "others." Recipients were younger, and givers older, than the sample average. Over 19 percent of recipient households were headed by someone under 30, compared to 10 percent of giver households. Further, the elderly (those aged 60 and over) were under-represented among recipients and over-represented among givers. (Though, in this sample of employees, they are a small minority overall.) Similarly, there were relatively fewer pensioners among recipients compared to givers. So it appears that transfers flow from old to young among these non-farm, employed households. (We stress, however, that our results pertain to the sample of households headed by those employed in the state sector, rather than the overall household population.) Recipients had slightly more frequent illness or injury requiring hospitalization during the 3-month period of the survey, compared to the whole sample.

We performed multivariate analyses of transfer behavior. Specifically, we expressed transfer receipts as a function of (1) household resources (wages and salaries, social security income and income from other social support), (2) demographic characteristics (age and sex of the household head, marital status and family size), (3) other variables (health status variables, and variables indicating whether the household had a telephone or car). We performed analyses of both the incidence of transfers (who gets and who gives?) and the amount of transfers.

The empirical work that we performed indicates that private transfers are responsive to the economic and demographic status of households. They flow from high to low-income households, and tend to go to the well-educated and households headed by a young couple. Transfers are also targeted to large families and those experiencing recent illness or injury. Transfers fall with the age of the household head, which suggests that they might be given in
response to possible liquidity constraints, since younger households are less likely to have established their reputations in formal credit markets.

To gain some understanding of the potential role of private safety nets during Poland's economic transition (which began January 1, 1990), we used our multivariate analysis to simulate the impact of earnings loss on private transfers. We posed the following question: How much would our multivariate analysis predict that private transfer receipts would rise if the household head lost his or her job? Using the 1987 data, we found that, in the face of these lost earnings, predicted receipts would more than double. This boost would fill 11 percent of the income void left by lost earnings of the household head. For single-earner households, the corresponding figure is larger—22 percent.

But there are several reasons to think that the post-transition impact could differ from that predicted from the 1987 results. On the other hand, the actual onset of unemployment could galvanize households and increase transfer activity. On the other hand, the specter of unemployment could weaken private networks if households become increasingly concerned with their own problems. And changes in public transfer income could have affected private transfers as well.

The HBS data set for 1992 helps to shed light on these issues. Though the percentage of households involved with transfers, and the patterns of these transfers, was the same in 1992 as in 1987, amounts received (adjusted for inflation) declined significantly. For example, the 1992 value of net transfer receipts, among recipients, was only two-thirds of what it was in 1987. And the replication of the private-transfer impact of earnings loss using the 1992 data indicated a much smaller response. So private transfer networks appear to have weakened after the transition.5

5This paper, as well as its companion piece Family Safety Nets and Economic Transition in Eastern Europe: Summary of Findings from a Study of Inter-Household Transfers in Russia, distributed by the Council on May 31, 1996, are abridged versions. Far more detailed descriptions of the work they describe are available, under the same titles, from the National Council upon request by mail or Telephone (202) 387-0168.