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The universal child benefit program and the allocation of labor supply within a household: an evidence from a quasi-experiment.

We study the effect of a universal child benefit program on the labor supply of household members in Poland. This large scale program (cost of app. 2% of GDP per year) provides non-equivalent benefit of roughly 20% of net average wage to each family with two children, and another 20% of net average wage for each third and next child. Empirically, non-equivalent income support discourages employment, unless this autonomous transfer expands the choice set in the directions that were previously constrained and thus unobserved (e.g. choice set neither continuous nor concave in income). Insufficient means to cover the costs of alternative care arrangements, given the potential earnings of the second earner, are one of possible explanations for such outcomes. Therefore, we separate effects of the program on the breadwinner and the second earner as the benefit exogenously expands the choice set for households in a way independent of earned income. Additionally, since the second earner in Poland is typically a woman, we will also compare the labor supply reaction of married women and single earner households with woman as a head of the household.

The universal character of the program makes it difficult to construct appropriate control groups that would approximate counterfactual outcomes. Hence, we develop a new econometric device to quantify the effect of child support instrument on the labor supply of men and women. It combines moment conditions from Abadie's (2005) semiparametric difference-in-difference (DID) estimator with moment conditions used by Imai and Ratkovic (2014) while estimating propensity score that automatically balances conditional distribution of covariates (CBPS). The strategy based on DID exploits the quasi-natural experiment character of the program, which is a valid approach since no anticipation effects might have occurred. Furthermore, the weighting scheme based on CBPS assures proper adjustment of the control group to the treated subpopulation. Utilizing data for



Poland (labor force survey and household budget survey) we estimate a range of local treatment effects to provide reliable boundaries for the total effect.