

# Family Policy in Slovakia Needs Goals



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**F**amily policy has become a universal content of election programs of all parties. In this area, the parties unanimously offer increases in public spending, regardless of the added value of the increase. However, over the last year, family policy spending has increased by almost half, putting undue pressure on the budget deficit. In the following text, we present an analytical model that allows us to reassess the generosity of family policy.

There are three traditional narratives in the political discussion on family policy in Slovakia. Most of the political spectrum can identify with at least one of them:

1. We have to increase the fertility rate and bring it back to a nation sustaining level of 2.1 children per woman.
2. We have to promote family as a traditional, core value, it will secure a moral and just society.
3. We have to support women and promote their employment to decrease their payment and pension gap<sup>1</sup>.

All three of these narratives are emotionally loaded, as they stem from specific assumptions about the proper wellbeing of a society. These assumptions can be roughly identified as nationalistic, conservative (religious), and progressive. The first group may also include a 'fiscal' group of politicians who pursue sustainability of the pension system.

This framing is necessary for understanding the incentives of politicians, and the differences in policy tools applied in the area of family policy. Nevertheless, what these politicians often have in common is the unwill-

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## PURSUING 'PROPER' FAMILY VALUES OPENS THE DOOR FOR A WIDE RANGE OF POLICIES WITHOUT LIMITS

ingness to quantify the goals of their policies. Specifically, nationalistic and progressive narratives could be easily quantified. One could raise the objection that the real effect of selected policies could often be observed after several years, and the period may extend well beyond the election period. But even with this argument, it makes sense to guide family policies on the basis of existing historical data.

For instance, fertility rate development or employment of mothers (or their payment gaps) are often a subject of rigorous analysis. The conservative (religious) narrative poses a special problem, which does not have an easily quantifiable goal. Pursuing 'proper' family values opens the door for a wide range of policies without limits. The last 'family package' adopted in Slovakia in 2022 perfectly illustrates this situation. A package of various, mostly financial, incentives was aimed to support only the 'traditional' family. There are no goals specified, thus rendering any attempt for evaluation futile. The proponents argued that the costs of living increased, and so the financial support of the family must rise as well. Needless to say, there was no discussion about which families have

<sup>1</sup> Institute of Financial Policy of the Ministry of Finance SR (2018) *Bariéry zamestnanosti žien – matiek. Ako na ne?.* Available [online]: [https://www.mfsr.sk/files/archiv/priloha-stranky/17328/16/Sramkova\\_Bariery\\_zamestnanosti\\_zien\\_matiek\\_20180626.pdf](https://www.mfsr.sk/files/archiv/priloha-stranky/17328/16/Sramkova_Bariery_zamestnanosti_zien_matiek_20180626.pdf) [in Slovak]

Table 1: Types of families in selected countries

	Share of two children families on households with two parents	Share of single adults with children on households with dependent children
Bulgaria	40%	9%
Czechia	48%	14%
Hungary	39%	9%
Poland	48%	8%
Slovakia	46%	5%
Slovenia	47%	3%
EU 27	45%	13%

Source: Eurostat

financial problems and how big these issues are in monetary terms.

The solution for the abovementioned (un) identified problem was framed as ‘200 euro for a family’. However, where this number is coming from if no prior analysis was made is unclear. Basically, it is the result of an equation which contains an acceptable increase in taxes and acceptable increase in public deficit. The final ‘EUR 200’ is obviously a result of intensive communication analysis – how to sell an increase.

Unsurprisingly, this approach is far from optimal. There is no way to evaluate the impact or respective goals if the goals are not specified. Nevertheless, there are data options economists have in their hands. One of them is to properly define actual public costs of family policies. For this reason, the INESS has created a model family with two children and counted all the benefits and transfers that this family would receive in

five years. This makes it possible to define the ‘price tag’ of a family.

Therefore, let us describe the details of the model, its results, and implications. Different goals of social policies materialized in family policy shall thus be used to illustrate various aspects of the model mentioned.

## THE MODEL

There are various ways of how to create a model which would allow us to stick a price tag on family policy. The model can cover the whole life of children supported by family policy, but this approach faces natural limits of long-term projections of key macro and micro economic variables. Therefore, we, at the INESS, have decided to model the crucial period of family life. Those are the years when the income of the family is constrained due to mother’s, father’s or parental leave. In this period, one can argue, the lost income compensation plays the most important role.



## FROM AN ECONOMIC POINT OF VIEW, RAISING CHILDREN BRINGS NOT ONLY COSTS, BUT ALSO ENORMOUS BENEFITS

What kind of family should we model? A couple with two kids is still the most frequent type of family in CEE and average EU 27 family – except of Hungary, where 46% of couples have a single child<sup>2</sup>. One parent households with a child are still a rare thing in CEE, except in Czechia<sup>3</sup> [See: Table 1].

We have decided to model the ‘traditional’ family of two children and looked at the financial balance sheet of a family who had two children in the first five years and the parents had taken advantage of all the options that the benefits system provides today. ‘The ‘financial story’ of this fictional family therefore begins in 2022 with the first pregnancy, and ends in 2027 when the first kid celebrates their 5<sup>th</sup> birthday. This length period allows us to reliably model the income of family and the macro-variables needed for the necessary indexation of salary and benefits provided.

<sup>2</sup> Eurostat data, see: [https://ec.europa.eu/eurostat/databrowser/view/LFST\\_HHNHTYCH\\_\\_custom\\_4993824/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFST_HHNHTYCH__custom_4993824/default/table)

<sup>3</sup> Ibid.

### **ASSUMPTIONS OF THE MODEL**

To put this comparison in a realistic context, we analyzed family income in a family where both parents received the average wage at the beginning, and their wage will continuously rise at the pace of average wage growth till the end of 2027. In the model, we set the following conditions for benefits:

1. Prior to the first pregnancy, the expectant mother had met the condition of 270 days of paid social insurance.
2. The father continues to work while receiving maternity benefits with the first child, as the mother is at home on maternity leave with the second child at the same time. The father does not work while receiving the maternity benefit with the second child.
3. In the last year, both partners are working, day care is provided institutionally, and the parents receive a childcare allowance.
4. For modeling future income, we have used projections from the Institute of Financial Policy at the Ministry of Finance for years 2023-2026. For the 2027, we assume 3% growth of nominal average wage.
5. The conditions for benefits will not change throughout the modeled period, with one exemption of Tax bonus, which was increased to EUR 140 for two years. Afterwards, it should decline back to EUR 100, but for good political reasons, as we assume no political party will be willing to cut this benefit. Therefore, since 2025, we have indexed the bonus same way as other benefits.

These assumptions are necessary to model the actual behavior of families, who understandably seek to optimize their behavior in order to obtain the highest possible financial benefit. The system is designed in such a way that the middle class can get the most out of

it. This can be seen in the example of the maternity benefit drawn by the father, which is typically drawn by a man with an above-average income who also works while receiving it<sup>4</sup>.

### WHICH BENEFITS?

During this period, the family became entitled to a wide range of paid benefits. The Slovakian social system currently provides the following cash paid benefit to our modeled family (values in 2023):

- **pregnancy benefit** – paid from 85<sup>th</sup> day of pregnancy till the delivery, app. EUR 230 monthly
- **maternity benefit** – paid for 34 weeks and represents 75% of gross salary in previous year (100% cash replacement)<sup>5</sup>,
- **maternity benefit for the father** – paid for 28 weeks and represents 75% of gross salary in previous year<sup>6</sup>. Father and mother cannot receive this benefit at the same time for the same child,
- **parental allowance** – for previously employed mother (father) it is paid since the end of maternity benefit claim, EUR 413 monthly (annually indexed) till the third birthday of a child<sup>7</sup>,
- **care support** – EUR 280 monthly paid until the third birthday of each child, if the child is visiting institutional care (family cannot receive both parental allowance and care support)<sup>8</sup>,

<sup>4</sup> Average benefit of EUR 1,075 was paid to men in 2022, representing 115% of average salary. Source: Sociálna poisťovňa.

<sup>5</sup> Tax burden of gross average salary of a person with no kids is 25%, hence net cash is 75%.

<sup>6</sup> The mother and the father cannot receive this benefit at the same time, the father has to pick the period before the child's age of three.

<sup>7</sup> The mother or the father are allowed to work during receiving parental allowance.

<sup>8</sup> Act on Child Care Support and on Amendments to Certain Acts 561/2008. See: <https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2008/561/20090101.html> [in Slovak]



## FROM AN ECONOMIC POINT OF VIEW, RAISING CHILDREN BRINGS NOT ONLY COSTS, BUT ALSO ENORMOUS BENEFITS

- **birth allowance** – one-off payment of EUR 830 paid for delivering a new potential taxpayer<sup>9</sup>,
- **child benefit** – EUR 60 paid monthly for every child till the end of continual education (max 25 years) without any specific conditions<sup>10</sup>.

To make the overview complete, we have also looked at the transfers which may not be provided in cash form, but either as a tax cut or as insurance premiums paid by the government for the non-working parent:

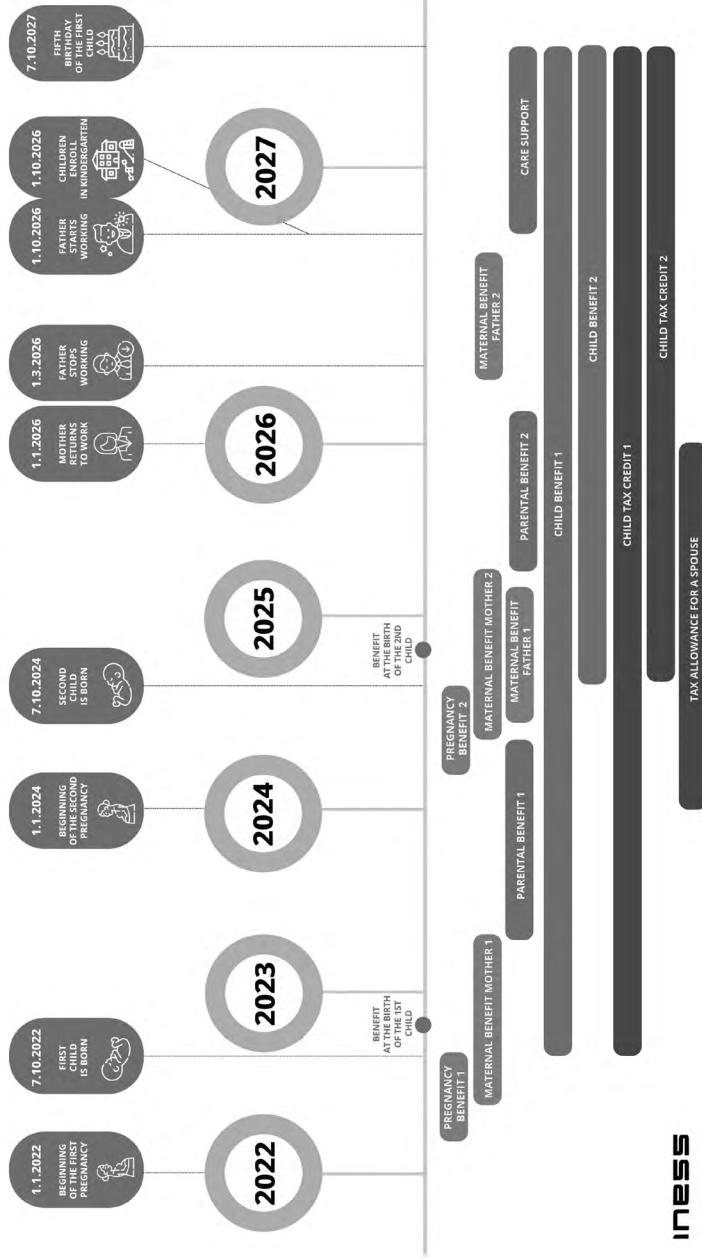
- **child Tax Credit** – tax credit per child increased to EUR 140 for children under age 18 and EUR 50 for children over 18. Tax credit is a form of negative income tax, which means, that if the payable personal income tax is lower than credit, the government will pay the difference in direct cash payment. Nevertheless, the calculation of tax credit became quite

<sup>9</sup> Benefit paid for the fourth and following children is only EUR 151.

<sup>10</sup> Act on Child Benefit 600/2003. See: [https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2003/600/vyhlasene\\_znenie.html](https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2003/600/vyhlasene_znenie.html)

Figure 1: Benefits paid to modeled family in Slovakia over time

# FIRST FIVE YEARS IN THE LIFE OF A FAMILY WITH 2 CHILDREN



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Source: Iness

Table 2: Benefits and social premiums paid in the first five years of the first child.

	2022	2023	2024	2025	2026	2027	Total
Benefits and allowances paid	6,394	9,446	17,762	15,839	16,642	11,841	<b>77,924</b>
Insurance premiums	759	3 260	3,502	3,702	2 245	0	<b>13,469</b>
Total in EUR	7,154	12,706	21,263	19,541	18,887	11,841	<b>91,392</b>

Source: Own calculations

complicated because it implements the meritorious rule. Taxpayers with lower income will receive lower tax credit than a person with average wage, the calculation is also influenced by the number of children<sup>11</sup>. For example, a worker making minimum wage with two kids receives tax credit EUR 163, while a worker with an average wage receives for two kids tax credit of EUR 280. For the period 2025-2027, we assume continuous indexation of the credit at current level,

- **non-taxable part of the tax base for the wife/husband** – The husband or wife could decrease their tax base for a partner if they had no income or had an annual income lower than EUR 4,922. Maximum tax cut can reach EUR935 annually,
- **health insurance paid** – during the maternity or paternal leave, the government covers healthcare insurance of a parent with a monthly EUR 46 cash transfer to health insurance companies,
- **pension insurance paid** – Each parent earns retirement rights for the period of childcare at the same rate as an employed person with an income of 60% of average wages. If the parent were to finance this pension entitlement themselves,



## KIDS ARE ALLOWED OR EXPECTED TO BE NON-PRODUCTIVE UNTIL AS LATE AS 25 YEARS IN SLOVAKIA

they would have to contribute EUR 206 per month to the Social Insurance Institution. This amount is paid by the Ministry of Labor and Family Affairs into the Social Insurance Institution's budget on behalf of the non-working parent. Through these two in-kind transfers, the non-working parent receives in 2023 an additional EUR 272 per month in support.

Figure 1 illustrates the time progression of each benefit. It distinguishes in color the benefits that are drawn from the Social Insurance Institution (blue), the benefits of the Ministry of Labor and Social Affairs (orange), and tax benefits (green).

<sup>11</sup> The tax bonus for two 15 years old kids for a tax payer with expected average wage EUR 1,446 in 2023 would be EUR 280, for a person with salary EUR 1,000, EUR 234, and for a person with minimum wage EUR 700 – only EUR 163.

Figure 2: Total benefits paid in Slovakia over five years over time



The conversion applies to a family in which both parents earn average wage at the beginning. Man's salary increases according to Slovak Institute for Financial Policy's forecasts and state benefits increase according to the living wage growth forecast.

**INESS**

Source: Own calculations

## RESULTS

A family in which the parents earn the average wage will receive EUR 91,392 in the first five years<sup>12</sup> through various benefits and allowances. This amounts to a monthly total of EUR 1,523 in cash (benefits) and non-cash transfers (allowances, insurance premiums) [See: Table 2].

The value of the benefits and premiums received doesn't tell us much on its own, so it's good to put it in a context that is ideally timeless. We consider such an indicator to be an index that compares the income lost with the compensation the family receives. The government refers to family spending by the program 'Family Support', so we assume that benefits are intended to replace income that could not be earned because of childcare.

<sup>12</sup> During the period of the first pregnancy, the family is supported for additional six months, so the total length is 5.5 years.

This view is, of course, simplistic in as much as it pushes the assumption that the cost



Table 3: Calculation of Index of lost income compensation

Benefits and insurance premiums for 5 years	EUR 91,392
Lost net cash of average monthly wage during 5 years*	EUR 55
Index of compensation of lost cash	165%
Index of compensation of lost gross salary	125%

\*1<sup>st</sup> year 4 months; 2,3,4<sup>th</sup> year 12 months, 5<sup>th</sup> year 7 months

Source: Own calculations

of parenting is a ‘problem’, something the couple did not count on, and the state is supposed to help them. In fact, it is through this mystification that populist politicians justify their ‘welfare packages’, which they use to try to get the attention of the electorate under the guise of doing good. Nevertheless, we are in the world of monetary calculations, and we will accept this rhetoric to show the extension of state support.

There are two options to compare received benefits. One compares received money to the amount of cash that an otherwise working mother or father would bring home. In other words, we are trying to calculate ‘sacrificed’ money for caring for a child. There can be a methodological debate over (not)inclusion of insurance premium in this comparison, but there are good arguments to include it. Any parent (especially) mother would opt for voluntary healthcare insurance (should it not be covered by government), which would decrease her cash availability. Of course, many people would probably not think about purchasing pension insurance (problem of well-known myopic thinking), but in the case of a family with an average salary (app. 66% of income ladder), we assume responsible behavior.

Nevertheless, there is also comparison with the gross salary lost, which includes employee’s contributions paid [See: Table 3].

If we take the “government has to replace the lost cash” approach, currently the family on an average wage receives 165% compensation during the period until the 5<sup>th</sup> birthday of their first child. In other words, the family has at its disposal 65% more cash than it would have had no children.

If we compare it with lost gross salary, the compensation is over 125%. Just two years ago, this compensation was only 106%. This significant increase is a result of substantial changes in the government programs adopted by a parliament in 2022. The following table illustrates the massive increase in spending 47% growth in one year<sup>13</sup>.

## DISCUSSION

Raising a child is clearly expensive, no doubt about it. But before thinking about how much it is, one needs to answer a basic question: Who should bear these costs?

<sup>13</sup> There are also other programs of government family policy, which are not applicable for modeled family.

Table 4: Government spending on family policy (in million euro)

	2022 budget	2023 budget
Maternity benefit*	348	363
Pregnancy benefit*	62	50
Child benefit	355 r	536
Parental benefit	618	649
Care support*	11	0,7
Benefit at birth	44	45
Tax credit for mortgage for young family	26	14
Child tax credit	370	1,095
Tax allowance for spouse	68	40
<b>Total</b>	<b>1,902</b>	<b>2,793</b>
<b>GDP share</b>	<b>(1.8%)</b>	<b>(2.4%)</b>

\* Maternity and Pregnancy benefit for 2023 are estimates based on real spending in 2022, indexed by average wage growth in 2022, Care support is estimated on the 2021 value

Source: Slovak public budget (2022-2023)

From an economic point of view, raising children brings not only costs, but also enormous benefits. Simply put, most women and families have children<sup>14</sup>, from this fact an outside observer must conclude that the benefits of having children outweigh the costs. And probably significantly so, as evidenced by the fact that families with lower incomes are willing to pay for bringing up more children. As a matter of fact, having another child is not so much a question of financial costs, but the question of opportu-

nity costs (career achievements, travel, hobbies, leisure in general).

One can look at the benefits from several perspectives. Who receives the benefits? It is the parents, the extended family, the community, the state. Most of the benefits are understandably experienced by parents for whom children are a fulfilment of life's mission, a daily experience of happiness, but also help in the home, shared interests, and economic relationships in the future, and – last but not least – security. The family is the closest social network, providing security as a ride to the doctor, but also security during old age. To this, one can add the positive status perception of parenthood – i.e., the status parents are trying to achieve within the community.

<sup>14</sup> Childlessness rate as a share of childless women older than 44 years is globally between 10-25%. See, for example: BBC (2017) Soaring Childlessness among Southern European Women – report. Available [online]: <https://www.bbc.com/news/world-europe-38582100>. See also: <https://ifstudies.org/blog/the-rise-of-childless-america>



## THE AMOUNT AND PAYMENT OF MONTHLY PREGNANCY AND MATERNITY BENEFITS ARE MOST CLOSELY LINKED TO THE INSURED PERSON'S CONTRIBUTIONS TO THE SOCIAL INSURANCE INSTITUTION'S FUNDS

All these benefits are private, belonging only to the parents. The benefits of the extended family arise primarily from network effects – the value of contacts, possible help, and security, but these are already lower. Community benefits are less clear-cut, so we omit them. From the state's perspective, children are an asset that is initially subsidized, only to become a taxpayer that subsequently finances the state's costs. But let us return to the family.

Most of the benefits of raising a child are private, belonging to the parent, and this raises the question of who should fund the costs of raising the child. Historically, one might say naturally, it has been primarily the family

itself. Until a few centuries ago, survival for an individual was relatively expensive, so child-rearing was relatively short, and children inevitably had to start contributing to the family budget as early as possible. The current situation is radically different. Kids are allowed or expected to be non-productive until as late as 25 years in Slovakia. This obviously increases the costs of parenthood, but on the other hand, the chances of benefits in later age are much higher. So, the question remains – if benefits are primarily private, and the benefits exceed costs, why should the state bother?

Of course, there are families in need (low-income families, single parents), who really struggle, so financing the costs of parenthood and the external support makes sense. But should families with relatively high income receive this kind of support? The modern welfare state often says 'yes'. It is not easy to find the answer, or explanation, but mostly it is based on the 'hard-to-be-discussed' argument – it is the right of a child, and all children have the same rights.

However, this does not mean that the recipient of the funds is not also the payer. The amount and payment of monthly pregnancy and maternity benefits are most closely linked to the insured person's contributions to the Social Insurance Institution's funds. Although these life situations cannot be covered by insurance (pregnancy is usually planned, not an accidental event)<sup>16</sup>, in terms of financial

<sup>15</sup> Tax Income Act. See: <https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2003/595/> [in Slovak]

<sup>16</sup> According to the study, 35% of pregnancies were considered unintended in Europe and Northern America, which of about half was ended by abortion (therefore, more than 80% of children born were planned, or wanted). See: Bearak, J. (2020) "Unintended Pregnancy and Abortion by Income, Region, and the Legal Status of Abortion: Estimates from a Comprehensive Model for 1990–2019", [in]: *The Lancet*. Available [online]: [https://www.thelancet.com/journals/langlo/article/PIIS2214-109X\(20\)30315-6/fulltext](https://www.thelancet.com/journals/langlo/article/PIIS2214-109X(20)30315-6/fulltext)

Table 5: Evolution of child tax credit in Slovakia

January – June 2022	July – December 2022	2023
EUR 47,14 for a child under 6 years	EUR 70 for a child under 15 years	EUR 140 for a child under 18 years old
EUR 43,6 for a child between 6-15 years	EUR 40 for a child over 15 years	EUR 50 for a child over 18 years
EUR 23,57 for a child above 15 years		

Source: Slovak Tax income act<sup>15</sup>

benefits we can talk about insurance<sup>17</sup>, not savings. Indeed, it would take 19.5 years for a woman to pay the amount she collects from sickness insurance benefits. And she could not have been sick even once in those two decades – she could not have received other sickness benefits. Pregnancy and maternity benefits for both the mother and the father account for 41% of the cash benefits and 35% of all the benefits the family receives in the first five years.

The other benefits are paid directly or indirectly from the general budget. They do not depend on the level of income, except of child tax credit. During the five years, the family contributes to the public budget mainly through value added tax and excise duties, which it pays out of consumption. The amount paid is difficult to estimate in this case (variability of family budgets).

The situation is different in the case of personal income tax, which should also serve as an important source of state tax revenues. Between the birth of the first child and the child's fifth birthday, the family does not pay a single euro in personal income tax. In fact, thanks to the generous tax credit, it receives a subsidy of EUR 1424 from public funds

<sup>17</sup> Slovaks are usually insured for situations, where potential costs (or compensation) far exceed their monthly income, or insurance premium paid.

during these five years in a form of negative income tax.

Changes in the tax credit that have significantly shifted the resulting balance of income for the family from the handout policy. The tax credit has become a toy in the hands of politicians, which has changed quite frequently in recent years [See: Table 5].

The tax credit is granted to families until the child is 25 years old. On top of this negative tax (the parent gets the full benefit even though their tax liability is lower), a child benefit is paid to also increase the family's net income. Its amount has risen to EUR 60 in 2023. If we look at the family over the horizon of the first five years, the family receives EUR 200 net for each child (as long as the parents are employed)<sup>18</sup>. By comparison, an adult who is in need, but who also has to finance their own accommodation, receives a benefit of EUR 210 from the state (the condition for this level of benefit is the performance of activation work).

<sup>18</sup> Except of these two payments, there are various different transfers provided to family: 1) EUR 110 payment at the first year of primary school; 2) Woman employed before pregnancy, has a right for paid holidays for a period of maternity leave; 3) Parents, previously employed, have a right for 55% compensation of their vacation costs in Slovakia (max EUR 275). Furthermore, the Labor code guarantees additional week of holidays for parents below 33 years (after the 33<sup>rd</sup> birthday, everyone has one week more).

A family with two kids in which both parents earn the average wage has an effective income tax rate of EUR 40 monthly. The effective tax rate ( $\text{EUR } 40 / (2 * \text{€}1446)$ ) is therefore 1.4%. A family in which both parents earn the minimum wage pays a negative tax – they get EUR 89 from the state budget. However, the real manifestation of “inefficiency” of the tax credit is the example of a family in which both parents earn twice the average wage. If this couple had no children, their net income would be EUR 4,148, app. 98 percentile of household’s income distribution. The tax bonus will increase this family’s net income by 7%. And on top of it, the family will receive, just like low-income family, additional EUR 120 on child benefits.

The effective tax rate for this family will be 10%. A generous tax credit effectively eliminates the personal income tax, transferring the tax burden on childless households, and creating pressure on sustaining high VAT rate.

The results of the model show that the Slovak state not only compensates families for the loss of income due to long-term childcare, but also pays families significantly more in the first five years. It is based on the assumption that raising a child should not be a cost to a family, the family should not change its spending habits. Thus, the policy strongly supports the above mentioned thesis that the cost of raising a child should be publicly financed. However, since there are no models of the costs of raising a child for logical reasons (there are huge differences between families), this gives politicians enormous scope for endless *tweaking* – that is, increasing the benefits. Clearly, the family policy is not focused on supporting families which need it, but rather supporting everyone – regardless of whether they need it or not.

There is one more item that should be included in the calculation of costs and benefits. It is related to the pension system and

the formula for calculating the pension. Raising a child means not working, not paying high contributions to social funds. During the parental leave, the government pays contributions for a parent at the level of 60% of average wage. This means that for mothers (fathers) with their previous salary at an average level, the final pension will be 3% lower.

There was a large discussion in Slovakia about this parameter, and many analysts argue<sup>19</sup> that it is not in line with the constitution, and that the mother should gain equal pension rights, as if she was a full-time worker. But the 3% pension decrease is based on the assumption that a woman can return to her job for the indexed average wage. This is a rare case. In most cases, a woman returns to the job market with their previous salary prior to their pregnancy, not the indexed salary (obviously, she misses the experience and knowledge for last 3-4 years), and her pension rights decrease even more – up to 87% of a childless woman earning whole life average wage.

Nevertheless, in line with the argument above, one can consider this decrease in pension as a part of parental investment into raising a child, generating benefits for both parents. These costs should be seen as part of ‘family’ calculation, which considers future revenues of a couple, not a single person. The father continues in his career, receiving a higher salary. Therefore, it would make sense to change the pension payout rules – as they are in Switzerland, for example, where pensions are calculated per a couple, not per a single person.

<sup>19</sup> Admittedly, if you want to retire early, the pension will be low. You had better work. See: <https://ekonomika.pravda.sk/ludia/clanok/623396-expert-z-planu-ob-novy-sebo-krajniakov-rodicovsky-bonus-ide-daleko-do-vztahov-rodiny-ma-vela-nezamyslaných-dosledkov/strana-2/> [in Slovak]



A GENEROUS TAX  
CREDIT EFFECTIVELY  
ELIMINATES  
THE PERSONAL  
INCOME TAX,  
TRANSFERRING  
THE TAX BURDEN  
ON CHILDLESS  
HOUSEHOLDS,  
AND CREATING  
PRESSURE  
ON SUSTAINING  
HIGH VAT RATE

Meanwhile, in October 2022, an additional government benefit was approved by parliament, which significantly diminishes the costs of pensions. The so-called 'parental pension' is paid only to those pensioners who have raised a taxpayer, working, and paying contributions in Slovakia. Based on the contributions of their children, both the mother and the father can receive currently up to EUR 22 monthly for each employed child.

### FERTILITY

As mentioned at the beginning, governments desire to increase women's fertility as another motivation for increased spending in family policies. This approach views family policy as a tool to ensure sufficient reproduction, and

thus to ensure the reproduction of the nation, or to ensure fiscal stability through sufficient taxpayers.

There is a large body of research on the effectiveness of financial instruments of family policy<sup>20</sup>, a review of which is beyond the scope of this analysis. The results of these studies are inconclusive, and statistical analysis quite often fails to take into account cultural (and quite often religious) differences between countries. However, the most frequently repeated conclusion is that it is not direct financial compensation, but rather the availability of services that make it easy to combine parenthood and work that increases the willingness of young people to have children<sup>21</sup>. But let us look at the current state of total fertility – separately in the Central European countries and in the developed EU countries. Total fertility is defined as the number of children per woman in reproductive age (15-49 years) [See: Figure 3].

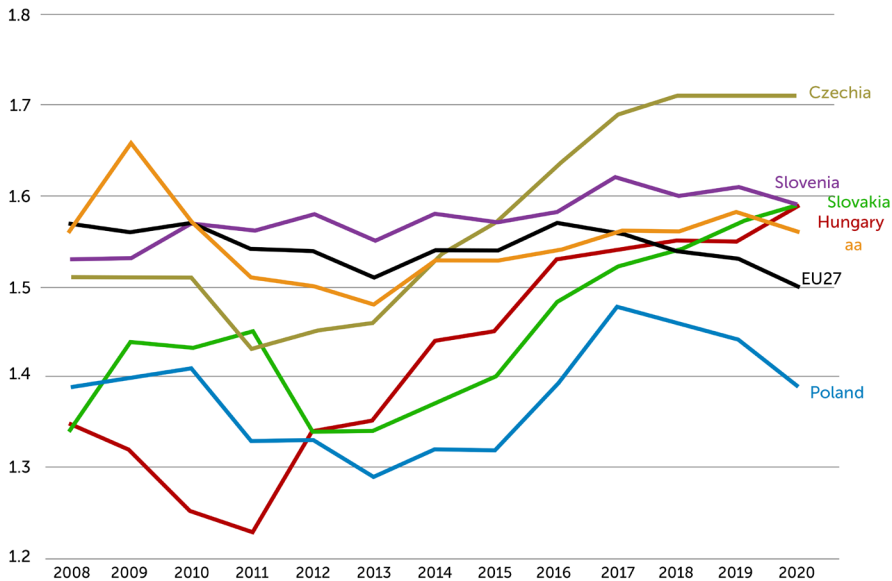
Between 2008 and 2020, fertility increased mostly in Hungary, Slovakia, and the Czech Republic<sup>22</sup>. From this perspective, the development in Poland is surprising,

<sup>20</sup> For further reading, see: Riphahn, R.T. and F. Wiyneck (2017) "Fertility Effects of Child Benefits", [in]: *Journal of Popular Economics*, Vol. 30, pp. 1135–1184. Available [online]: <https://koreauniv.pure.elsevier.com/en/publications/has-social-security-influenced-family-formation-and-fertility-in->; and González, L. (2011) "The Effects of a Universal Child Benefit", [in]: Barcelona GSE Working Paper Series, No. 574. Available [online]: <https://www.oecd.org/els/emp/49115482.pdf>

<sup>21</sup> "The results give more weight to the argument that family policies supporting the combination of work and parenthood for both partners, earner-carer support, might increase fertility in low-fertility countries, probably partly mediated via female labor force participation". See: Wesolowski, K. and T. Ferrarini (2017) *Family Policies and Fertility – Examining the Link between Family Policy Institutions and Fertility Rates in 33 Countries 1995-2011*, SPaDE Working Paper No. 8. Available [online]: [https://www.su.se/polopoly\\_fs/1.365888.1515500641/menu/standard/file/WP\\_2017\\_08.pdf](https://www.su.se/polopoly_fs/1.365888.1515500641/menu/standard/file/WP_2017_08.pdf)

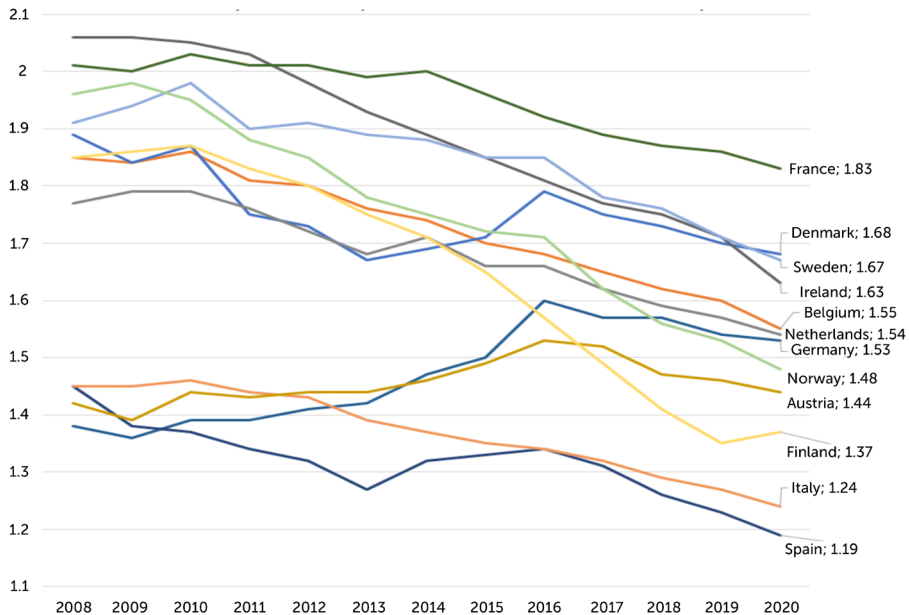
<sup>22</sup> Total Fertility Rate statistics. See: [https://ec.europa.eu/eurostat/databrowser/view/DEMO\\_FIND\\_cus-tom\\_4994705/default/table](https://ec.europa.eu/eurostat/databrowser/view/DEMO_FIND_cus-tom_4994705/default/table)

Figure 3: Total fertility rate in central European countries



Source: Eurostat

Figure 4: Total fertility rates in developed countries of EU and Norway



Source: Eurostat



## IN 2022, THE SLOVAK GOVERNMENT PUSHED THROUGH A RADICAL INCREASE IN FAMILY POLICY SPENDING

where a breakthrough occurred in 2017 and since then fertility has been declining. The Czechia has the highest fertility in this selection of countries, and also has the third highest level in the EU. This is a rather paradoxical result, as it was the Czech family policy that underwent reforms after the financial crisis in 2010 that reduced its generosity and strengthened benefit testing, meaning that, for example, child benefit is granted to less than half of existing families. Anyway, this graph suggests that fertility levels in the 1.6-1.7 band appear to be a ceiling that countries are unlikely to overcome. This can be seen in the developed EU countries, where, on the contrary, fertility has been declining almost synchronously over this period [See: Figure 4].

In terms of absolute fertility rates (and thus potential future fiscal sustainability issues), Spain and Italy are the worst off, continuously approaching the one child per mother figure. At present, no EU country is currently projecting fertility above 2.1 – a level that guarantees the maintenance of population size.

The presented data also shakes up the hypothesis that reconciling work and family life promotes fertility. Scandinavian countries in particular are known for this flexibility, as

evidenced by the UNICEF ranking<sup>23</sup> (the last time the ranking was compiled was in 2016, but we do not foresee major policy changes) [See: Table 6].

Nordic countries are known for their high flexibility in drawdown, the involvement of fathers in family care, availability of care services, and high employment rates of mothers, which reach 70-80% of women employed with the youngest child aged 0-2 years<sup>24</sup>. The decrease in fertility rates in developed countries, which have a long tradition of the welfare state, forces us to search for other explanations and refuting the hypothesis that more money injected will equate to sustainable, higher fertility.

On the other hand, there are also unintended consequences of these policies – especially the income effect, which means substituting paid work for paid parental leave. A recent study from the Czechia confirmed 6 percentage points lower labor participation of women after a significant (+36%) increase in parental benefit. The highest decrease in participation was recorded in a group of university educated women, whilst no change in their fertility was observed.<sup>25</sup> On the other hand, high school educated women slightly increased their fertility, but did not change their labor behavior. This is another case indicating that family policies fail to recognize different patterns of decisions of different groups of women.

<sup>23</sup> [https://www.unicef-irc.org/publications/pdf/Family-Friendly-Policies-Research\\_UNICEF\\_%202019.pdf](https://www.unicef-irc.org/publications/pdf/Family-Friendly-Policies-Research_UNICEF_%202019.pdf)

<sup>24</sup> Employment rates for women with children aged 0-2, by maternity/parental leave status, 2019 or latest available year. See: [https://www.oecd.org/els/family/LMF1\\_2\\_Maternal\\_Employment.pdf](https://www.oecd.org/els/family/LMF1_2_Maternal_Employment.pdf)

<sup>25</sup> Grossman, J. et al. (2023) "Parental Allowance Increase and Labour Supply: Evidence from a Czech Reform", [in]: *SSRN*. Available [online]: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4358032](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4358032)



Table 6: Ranking of countries by family policies and their fertility evolution

	Ranking Family friendly policies UNICEF (2016)	Fertility change - the difference between 2020 and avg. Fertility rate in period 2008-2020	Total fertility rate 2020
Sweden	1	-0.18	1.67
Norway	2	-0.27	1.48
Iceland	3	-0.19	1.72
Estonia	4	-0.04	1.58
Portugal	5	0.06	1.41
Germany	6	0.06	1.53
Denmark	7	-0.07	1.68
Slovenia	8	0.02	1.59
Luxembourg	9	0.17	1.59
France	10	-0.12	1.83
Bulgaria	20	0.01	1.56
Slovakia	26	0.14	1.59
Czechia	24	0.14	1.71
Poland	23	0.01	1.39
Hungary	16	0.17	1.59

Source: Eurostat, UNICEF

## CULTURAL VALUES

Today's society provides unprecedented space for self-fulfillment – both leisure and work. Most people do not decide against having children because their workplace lacks a nursery next door to the office and

father does not have paternity leave. The majority do not have children because they want to go to restaurants and bars in the evenings, to the gym, to the Tatras and Alps at weekends, to ski abroad three times a year and to take two big holidays during the summer, ideally in Latin America. At the same time, most people pursue high quality jobs, fulfilling careers, and self-development. Pursuing personal goals and achievements are clearly seen from the late age of the first delivery, av-

<sup>26</sup> See, for example: [https://www.unicef-irc.org/publications/pdf/Family-Friendly-Policies-Research-UNICEF\\_%202019.pdf](https://www.unicef-irc.org/publications/pdf/Family-Friendly-Policies-Research-UNICEF_%202019.pdf); or Eurostat Fertility: [https://ec.europa.eu/eurostat/databrowser/view/DEMO\\_FIND\\_\\_custom\\_4994705/default/table](https://ec.europa.eu/eurostat/databrowser/view/DEMO_FIND__custom_4994705/default/table)

eraging at 30 years.

Currently, over 20% of women born in developed countries are childless, compared to average 10% for women born in 1940<sup>27</sup>. There is a strong positive correlation in developed countries between the level of education and childlessness<sup>28</sup>. And, of course, there are environmental and health factors that biologically influence fertility, while technological innovations in assisted reproduction are probably not sufficient to compensate these factors. It must be clear that there are far stronger drivers in society that influence the decision to bring up a child than availability of generous benefits or options of smooth work-family balance.

## CONCLUSIONS

In 2022, the Slovak government pushed through a radical increase in family policy spending. This move was not supported analytically, nor did it define measurable objectives to be achieved by this change. The increase in benefits has meant that a family in which each of the couple earns an average wage will receive 165% compensation for the first five years of the first child's life for the income lost due to temporary absence from the labor market. The radical increase in the tax credit means that the tax liability of this family with two children falls to 1.4% even after the mother returns to the job market. Such a policy is costly – the change alone will increase government spending by 0.6% of GDP.

<sup>27</sup> See: Bearak, J. et al. () "Childlessness in Europe: Reconstructing Long-Term Trends Among Women Born in 1900–1972", [in]: *The Lancet*. Available [online]: [https://www.thelancet.com/journals/langlo/article/PIIS2214-109X\(20\)30315-6/fulltext](https://www.thelancet.com/journals/langlo/article/PIIS2214-109X(20)30315-6/fulltext) According to the authors, childlessness among women is virtually permanent by age 46, and that, with a small degree of uncertainty, the final number can be established among women by age 42, when 99% of first births have been realized.

<sup>28</sup> Miettinen, A. et al (2015) "Increasing Childlessness in Europe: Time Trends and Country Differences", [in]: *Families and Societies*, No. 33. Available [online]: [WP-33MiettinenEtAl2015.pdf](http://WP-33MiettinenEtAl2015.pdf) (familiesandsocieties.eu)

Although politicians do not say this openly, as it would be easily verifiable numerically, they are trying to encourage in particular female fertility with their policies. However, the decision of women or families to have or not to have a child is certainly not reducible to the question of the generosity of government compensation for loss of income. Fertility trends in developed countries show that even an ideal work-family balance cannot prevent wider cultural and social factors leading to declining fertility.

Governments should take note of this fact and abandon the *helicopter approach* of showering families with money, and they should especially avoid social packages created before the elections. A minimum requirement for a responsible family policy is a recognition of the different economic circumstances of those receiving benefits, promoting means-tested over universal benefits. This means making the direct payment of benefits conditional on the economic situation of families and creating the conditions for work-family harmony for families (availability of services) for those who have sufficient resources of their own to bring up their children. This is a necessary step for developing and implementation of measurable goals of family policies, which could help curtail ever growing expenses on untargeted policies.



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