



## Do workers need a universal in-work benefit when facing unemployment?

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### 1.- Introduction

- The trade-off between universal and means-tested transfers from the welfare state has been an issue for the policy makers. During the last decades the governments seem to have moved from universal to means-tested benefits (Leventi *et al.*, 2016)
- Some benefits have evolved according to the business-cycle and budget restrictions.
- In 2008, due to the incipient crisis, the Spanish government adopted several economic measures. One of the most costly policies was the 400 annual euro tax credit (*deducción de 400 euros para trabajadores*) for those on the labour market, that was universal until 2010, when the government turned it into a means-tested benefit. In 2015 this payment was finally abolished (Beato, 2009 and 2010 and AEAT, 2008)

### 2.- Research questions

- What are the distributive effects of the 400 euros deduction in 2008 in the following scenarios?
  - Baseline: 2008 policies
  - Scenario I: substitute the 400 euros policy, from universal to means tested definition
  - Scenario II: abolish the policy
- Would the distributive effects have been the same (as in scenario I) when applying the means tested policy on the 2010 population (reality)?
- Should special care be taken when designing means-tested policies if the policy is so much linked to the labour market as in the case of an in-work benefit?

### 3.- Data and methodology

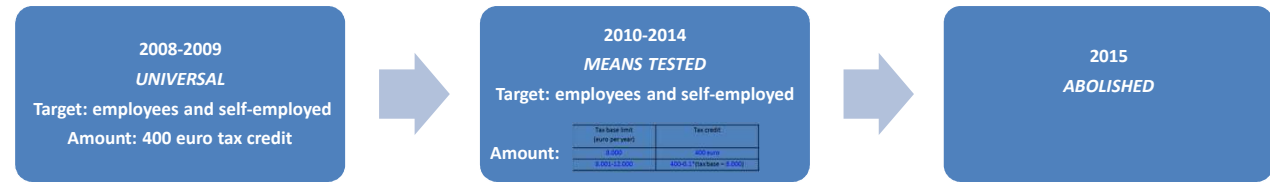
- Data:** Two underlying micro-data are drawn from the National Living Conditions Survey (ECV) :
- **2008:** for the first research question (comparison between baseline and the two scenarios)
  - **2010:** for the counterfactual (second research question). **Methodology:** "What if?" approach following Adam and Browne (2010)

### 5.- Conclusions, limitations and extensions

#### Conclusions:

- As expected from previous findings, designing a MT - IWB is more redistributive than being UNIVERSAL
- However, special care must be taken with IWB. They aim at "making work pay" and their effects in terms of efficiency and equity could differ from the originally desired due to this benefits being so dependent on the labour market.

### 1.- Introduction (cont.) – policy description and main labour market figures

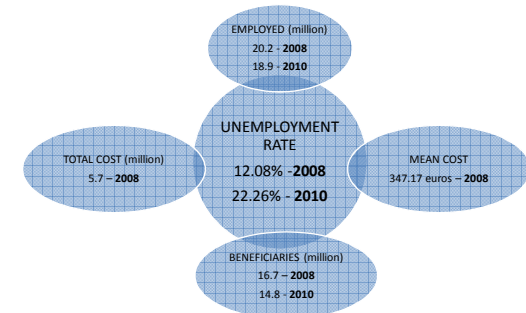
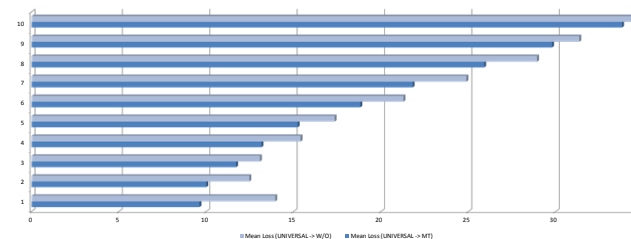


### 4.- Main results (1)

Table 1. Simulation of main changes on income inequality, poverty and losers

	Baseline (UNIVERSAL)	Scenario I: MEANS TESTED	Scenario II: ABOLISH
Gini	0.2905175	0.2887907	0.2890329
Atkinson(2)	0.71566	0.7132	0.71297
p90/p10	4.071	4.017	4.019
p90/p50	1.882	1.872	1.876
p50/p10	2.165	2.146	2.141
At-risk-of-poverty rate (threshold = 690,04)	18.92	18.98	19.06
Mean income	1,276.09	1,262.03	1,260.29
Losers		27,400,000	28,700,000
Mean loss		23.03	24.7626

Figure 1. Mean loss by decile in Scenarios I and II



### 4.- Main results (2)

Table 2. "What if" the real distributive figures would have been assessed with 2008 labour market situation (Scenario I)

	2010 (REALITY)	2008 (MT - COUNTERFACTUAL)
Gini	0.3127632	0.2887
Atkinson(2)	0.60938	0.7132
p90/p10	4.552	4.017
p90/p50	1.915	1.872
p50/p10	2.375	2.146
Mean income	1,207.82	1,262.00

### References

- [1] Adam, S. and Browne, J. (2010)
- [2] AEAT (2008)
- [3] Beato, M. D. (2009)
- [4] Beato, M. D. (2010)
- [5] Leventi, C.; Rastrigina, O. and Sutherland, H. (2016)

#### Limitations:

- There is not available information for 2015 input data base to have the population at the three moments where the policy design has changed.
- Labour supply analysis is incomplete due to the high restrictions within the demand side in this period .

#### Extensions:

- Use of micro-macro models combination to assess the policy impact taking into consideration the business cycle .