

Convergence of minimum income schemes in 8 European countries

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Outline

- Motivation and Aim
- Methodology
 - Targets
- Results
- Conclusions, caveats, and next steps

Motivation and Aim

Minimum income (MI) schemes - last-resort safety nets

- Low adequacy & coverage:
 - ✓ levels of MI are not sufficient to lift beneficiaries out of poverty (Frazer and Marlier, 2009; Figari et al., 2013)
 - ✓ Many poor individuals are ineligible for MI (Figari et al., 2013)
- How to improve the effectiveness of social safety nets by:
 - ✓ setting “harmonized” targets at the EU-level
 - ✓ and taking into account country-specific context
- Aim:
 - ✓ Explore implications of reforms that move national MI schemes towards common benchmarks
 - ✓ Inform EU policy agenda for greater upward convergence of minimum income

Methodology (1)

- We use EUROMOD to simulate alternative MI reforms
- 8 countries: BG, EE, EL, HR, LV, PL, PT, and SK
 - ✓ Countries with less developed / generous MI schemes
 - ✓ MI reforms are a matter of current policy debate (e.g. EL & LV)
 - ✓ EI doesn't have MI; we build on a pilot scheme (2014)
- Data: SILC 2012 (with 2011 income)
- Target year: 2015 tax-benefit system
- Reform only the **main** MI benefit
 - ✓ As defined in the report of the European Minimum Income Network
 - ✓ Supplementary benefits (e.g. heating benefit in BG) remain as they are
- Assume full take-up
 - full “de jure” effect; upper bound

Methodology (2)

Reforms 1 to 4:

- ✓ MI amount for a single adult increases by: **25%, 50%, 75%, 100%**
- ✓ Other MI amounts increase proportionally (e.g. higher rates for children, pensioners, etc.)

Reform 5:

- ✓ MI benefit increases by the amount necessary to: **raise disposable income of a single person** (no earnings, no children) **to the target**
- ✓ **Target:** disposable income of a low-wage earner
- ✓ **Low-wage earner:** a single person earning 40% of average wage
- ✓ **Average wage:** OECD AW for 2013 updated to 2015

Targets: Reform 5

1. Create a hypothetical household: single male, no children, 35 years old, employee, **earning 40% of average wage** in 2015



2. Calculate disposable income of such person (**the target**)

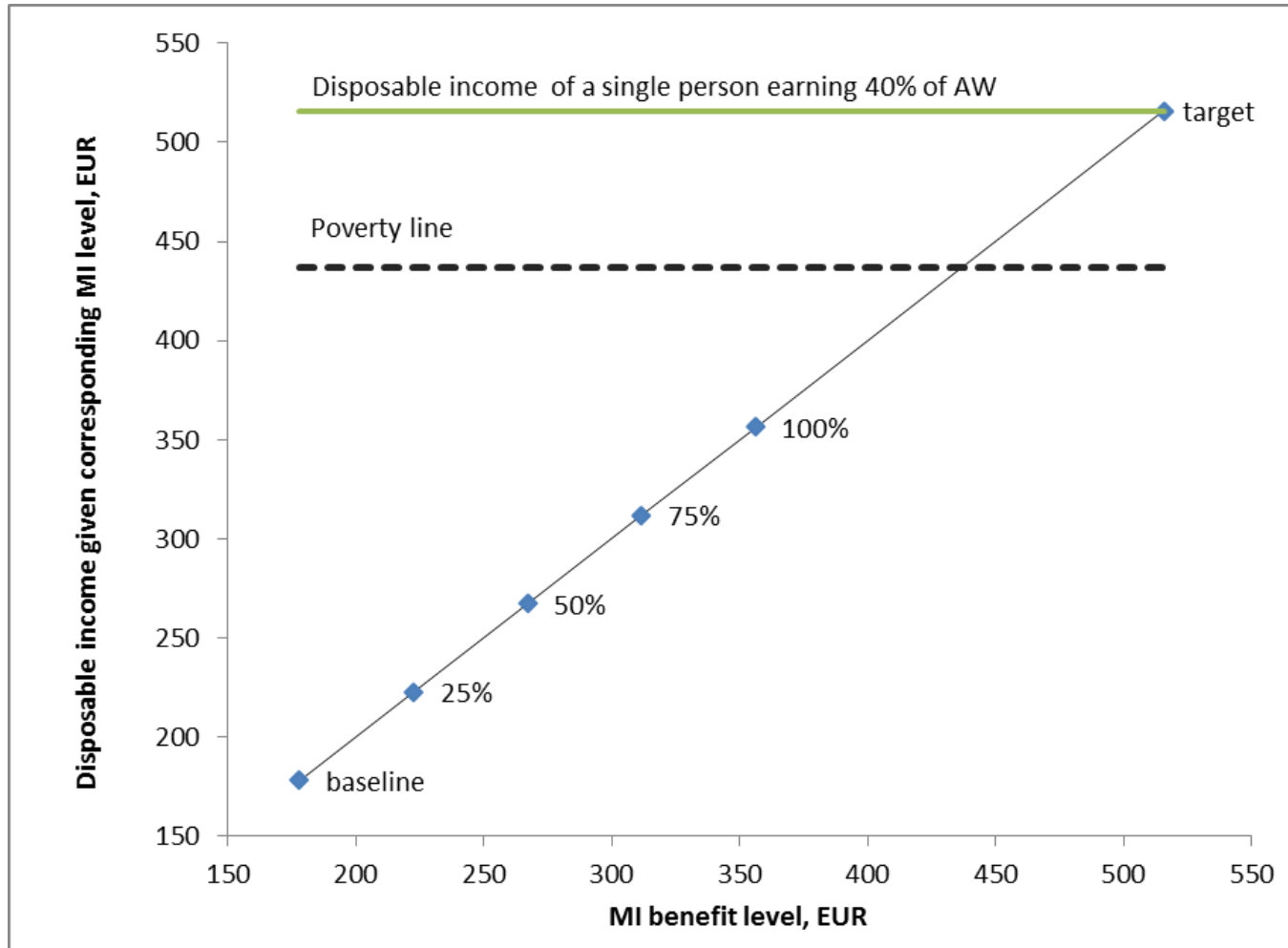


3. Create the same hypothetical individual but with **zero earnings**

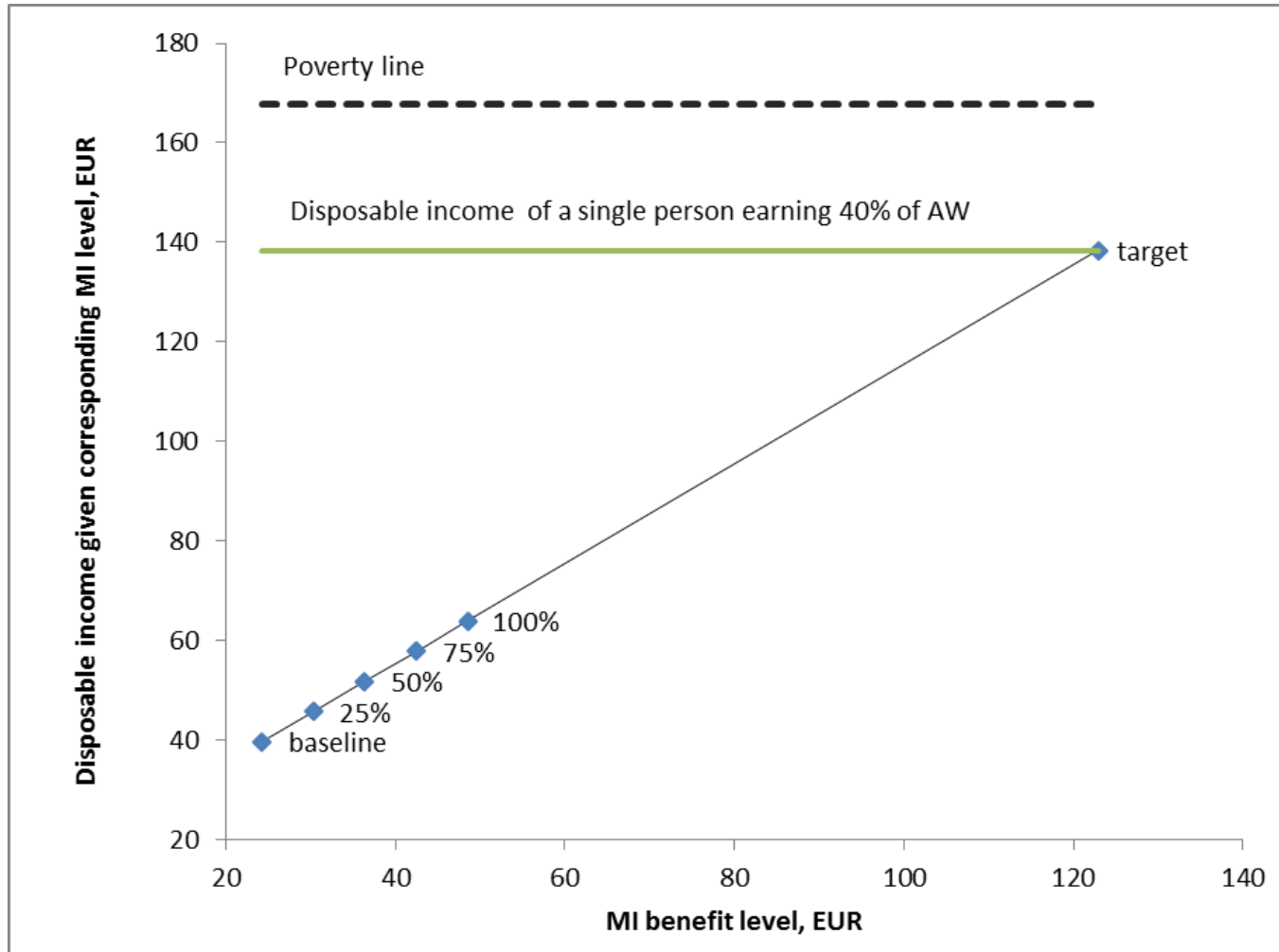


4. **Calculate the MI benefit** necessary to raise the disposable income of that person to the target

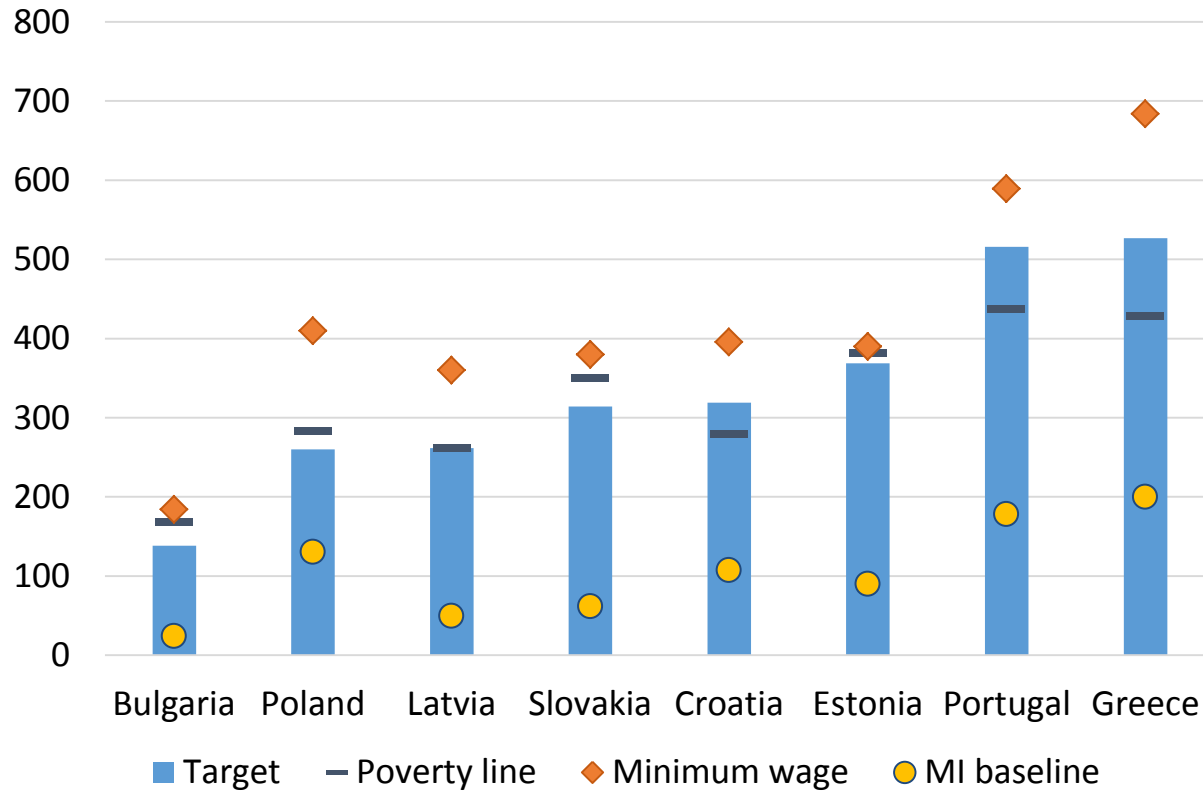
Single person: Portugal



Single person: Bulgaria



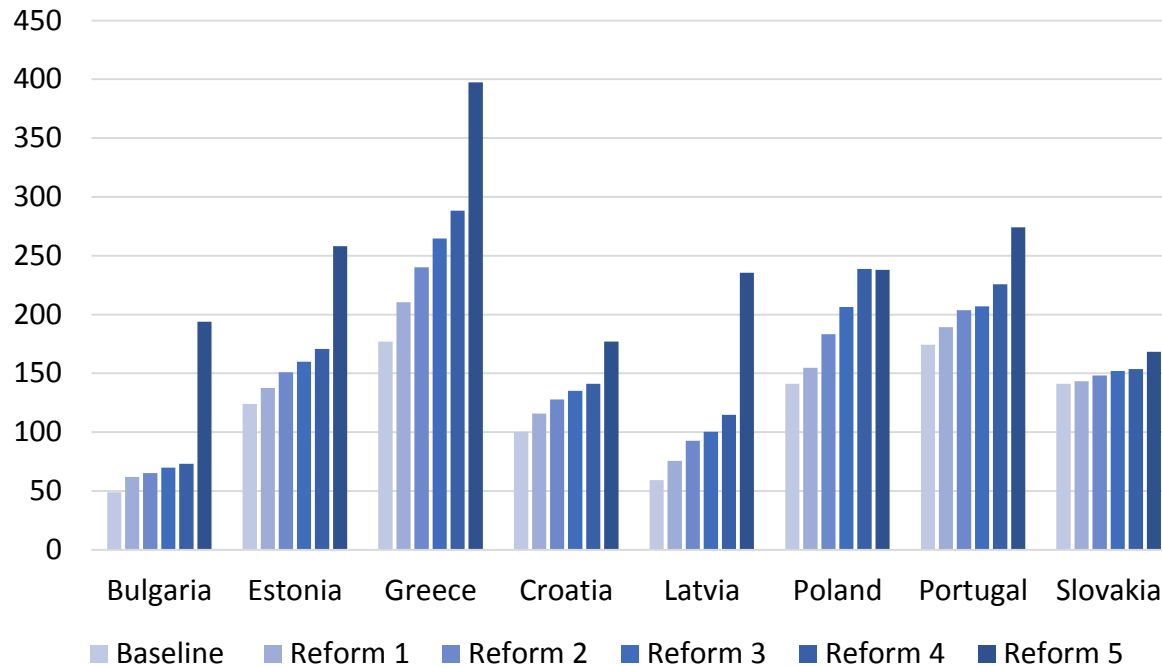
Targets (EUR/month): Reform 5



Results

Results (1): Average entitlement

Average MI benefit per household (EUR per month)



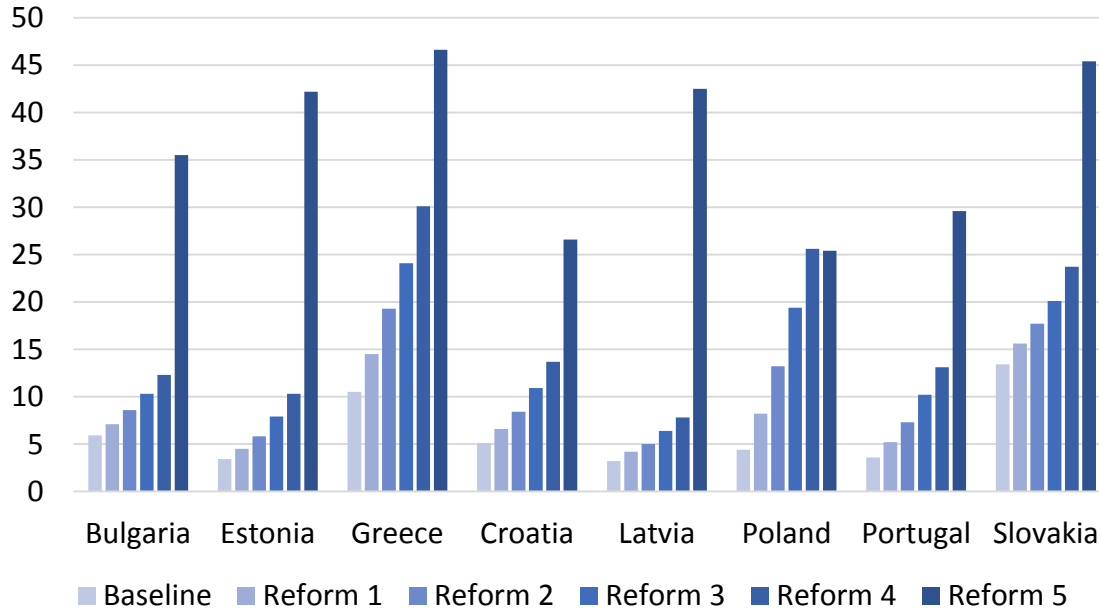
Reform 5:

- ✓ in SK increase by 19%
- ✓ in BG & LV by almost 300%

Reform 5	Bulgaria	Estonia	Greece	Croatia	Latvia	Poland	Portugal	Slovakia
Increase (%)	297	108	124	76	297	69	57	19

Results (2): Number of beneficiaries

Beneficiaries of MI benefits (as % of population)



Reform 5:

- ✓ Coverage increases substantially
- ✓ Reaches 25% of population in Poland; 47% in Greece

Reform 5:	Bulgaria	Estonia	Greece	Croatia	Latvia	Poland	Portugal	Slovakia
Coverage (%)	36	42	47	27	43	25	30	45

Results (3): Poverty

Poverty rate (60% of the median), MI beneficiaries

	Baseline	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
Bulgaria	67	67	68	68	67	8
Estonia	100	100	94	78	66	9
Greece	80	74	69	52	34	1
Croatia	93	91	89	84	73	19
Latvia	97	95	94	85	82	5
Poland	91	76	43	19	11	12
Portugal	98	97	95	90	82	1
Slovakia	49	49	45	40	32	6

Reform 5:

- ✓ Substantial reduction in poverty
- ✓ In HR and PL still more than 10% are below the poverty line

Results (4): Poverty by age group

Poverty rate (60% of the median), Reform 5

	All	Children (0-18)	Working-age (19-64)	Elderly (65+)
Bulgaria	5.2	2.1	6.9	2.3
Estonia	4.4	0	2.8	15.7
Greece	1.2	1.1	1.3	1.1
Croatia	5.6	4.8	4.7	9.2
Latvia	3.1	0.3	2	9.5
Poland	6.0	4.1	5.8	9.6
Portugal	0.2	0.1	0.2	0.2
Slovakia	2.7	5.2	2.5	0.2

MI effective in reducing poverty for:

- ✓ Children: EE, LV
- ✓ Elderly: SK
- ✓ Children and elderly: BG
- ✓ All population: PT, EL

Results (5): Budgetary cost

Spending on MI benefits (as % of GDP)

	Baseline	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
	Total cost	Extra cost with respect to the baseline				
Bulgaria	0.16	0.09	0.21	0.35	0.53	5.35
Estonia	0.17	0.07	0.15	0.27	0.42	3.81
Greece	0.46	0.29	0.68	1.17	1.80	4.51
Croatia	0.21	0.11	0.24	0.41	0.62	1.87
Latvia	0.09	0.05	0.10	0.17	0.26	3.89
Poland	0.19	0.19	0.51	1.00	1.67	1.65
Portugal	0.14	0.08	0.19	0.36	0.58	2.06
Slovakia	0.46	0.09	0.21	0.34	0.49	1.75

Reform 5:

- ✓ Highest cost: BG, EL
- ✓ Relatively low: HR, PL, SK

Interactions:

- ✓ Extra spending on other benefits: EE, LV
- ✓ Small reduction in health SIC in SK

Conclusions

- Reform 5 leads to substantial reductions in poverty
 - ...but raises population coverage to very high levels (25-50%) and is costly
- Intermediate reforms can still lead to important reductions in poverty (especially poverty gap)
 - more feasible in the medium run
- Implicit equivalence scales of MI benefits (e.g. high rates for children) reflect current country priorities
 - ... but may need to be reconsidered once MI increases substantially

Caveats

- Some rules cannot be simulated
 - e.g. asset test, compliance with job search conditions
- Full take-up assumption
- No behavioural responses
- No discussion of how the reforms are financed

Next steps

- Extend analysis to other EU countries
- Learn from countries with good MI examples
- Consider alternative benchmarks (any suggestions?)
- Consider revenue-neutral scenarios
- Assess work incentives

Thank you!



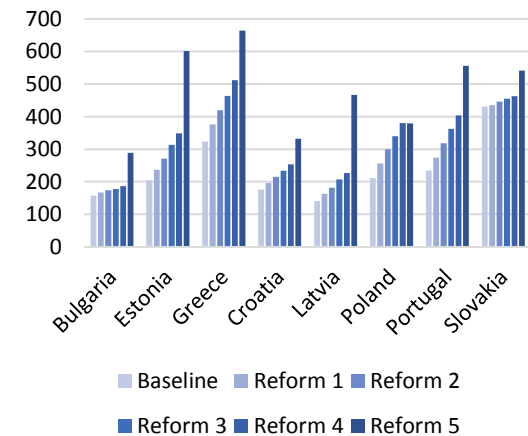
Annex

Average eq. household disposable income

Increase (%) with respect to baseline

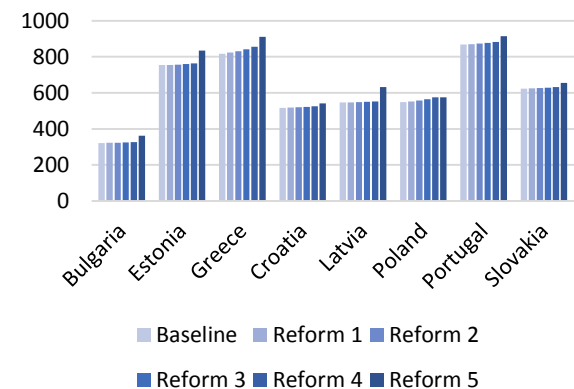
(a) MI beneficiaries

	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
Bulgaria	6	10	13	19	84
Estonia	16	33	53	71	194
Greece	17	30	44	59	106
Croatia	12	22	33	44	89
Latvia	16	30	48	62	233
Poland	21	42	61	80	79
Portugal	17	36	55	73	138
Slovakia	1	4	6	7	26



(b) Total population

	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
Bulgaria	0.2	0.6	0.9	1.4	12.7
Estonia	0.2	0.4	0.7	1.2	10.7
Greece	0.7	1.7	3.0	4.6	11.5
Croatia	0.3	0.6	1.1	1.6	4.7
Latvia	0.2	0.5	0.8	1.2	15.6
Poland	0.6	1.5	3.0	5.0	4.9
Portugal	0.2	0.5	0.9	1.5	5.3
Slovakia	0.3	0.7	1.1	1.6	5.4



Poverty thresholds (60% of the median)

Increase (%) with respect to baseline

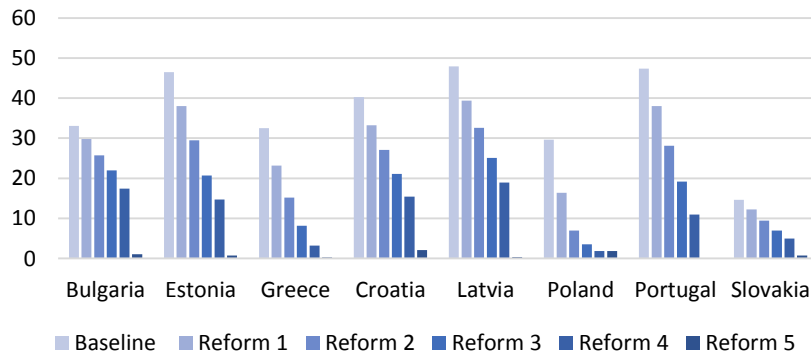
	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
Bulgaria	0.1	0.3	0.3	0.9	11.2
Estonia	0.0	0.0	0.0	0.0	13.5
Greece	0.3	0.8	1.0	1.6	7.3
Croatia	0.1	0.2	0.2	0.2	0.8
Latvia	0.1	0.2	0.2	0.3	20.3
Poland	0.1	0.1	0.5	1.7	1.7
Portugal	0.0	0.0	0.0	0.2	0.8
Slovakia	0.2	0.3	0.4	0.7	3.0

Poverty gap (vs. poverty rate)

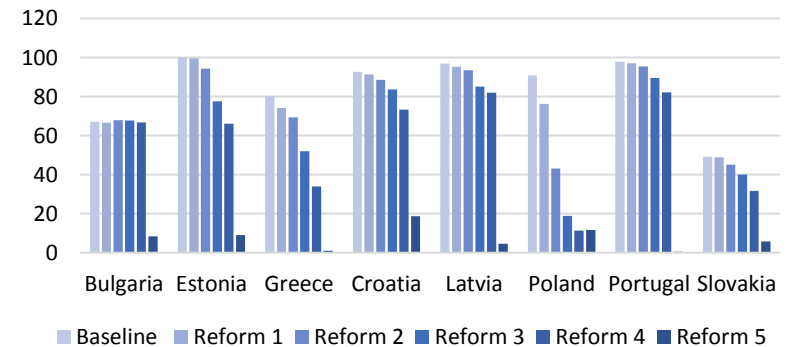
Poverty gap, MI beneficiaries

	Baseline	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
Bulgaria	33.1	29.8	25.7	22.0	17.4	1.0
Estonia	46.5	38.0	29.5	20.7	14.7	0.7
Greece	32.5	23.2	15.2	8.1	3.2	0.2
Croatia	40.3	33.2	27.1	21.1	15.4	2.1
Latvia	47.9	39.4	32.6	25.1	18.9	0.3
Poland	29.6	16.4	6.9	3.5	1.8	1.8
Portugal	47.4	38.0	28.1	19.2	10.9	0.0
Slovakia	14.6	12.2	9.4	6.9	4.9	0.7

Poverty gap



Poverty rate



Budgetary cost

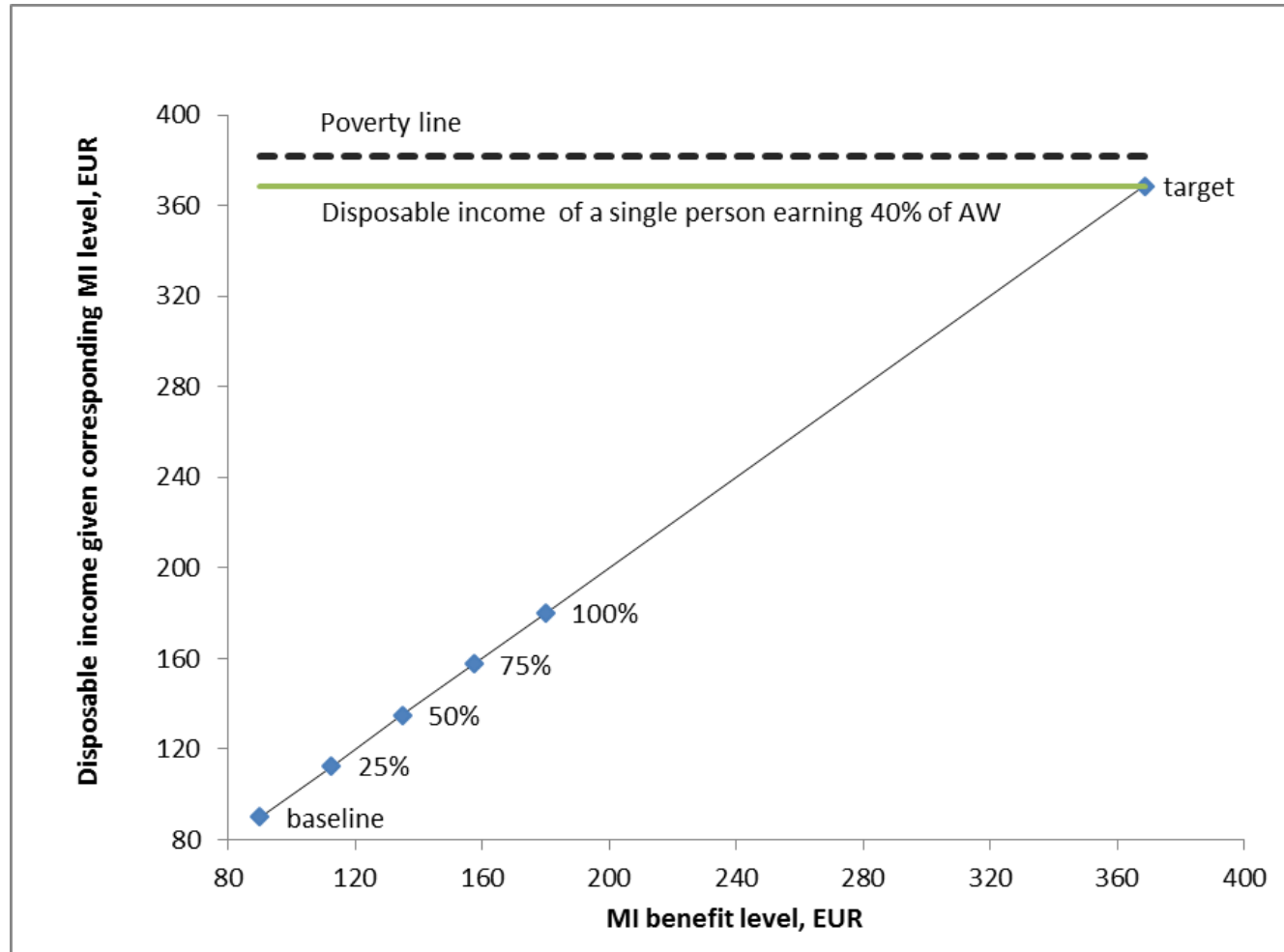
Extra spending (as % of GDP), Reform 5

	MI benefits	All social benefits	
	gross	gross	net
Bulgaria	5.35	5.28	5.28
Estonia	3.81	4.04	4.04
Greece	4.51	4.51	4.51
Croatia	1.87	1.87	1.87
Latvia	3.89	5.39	5.39
Poland	1.65	1.65	1.65
Portugal	2.06	2.06	2.06
Slovakia	1.75	1.75	1.78

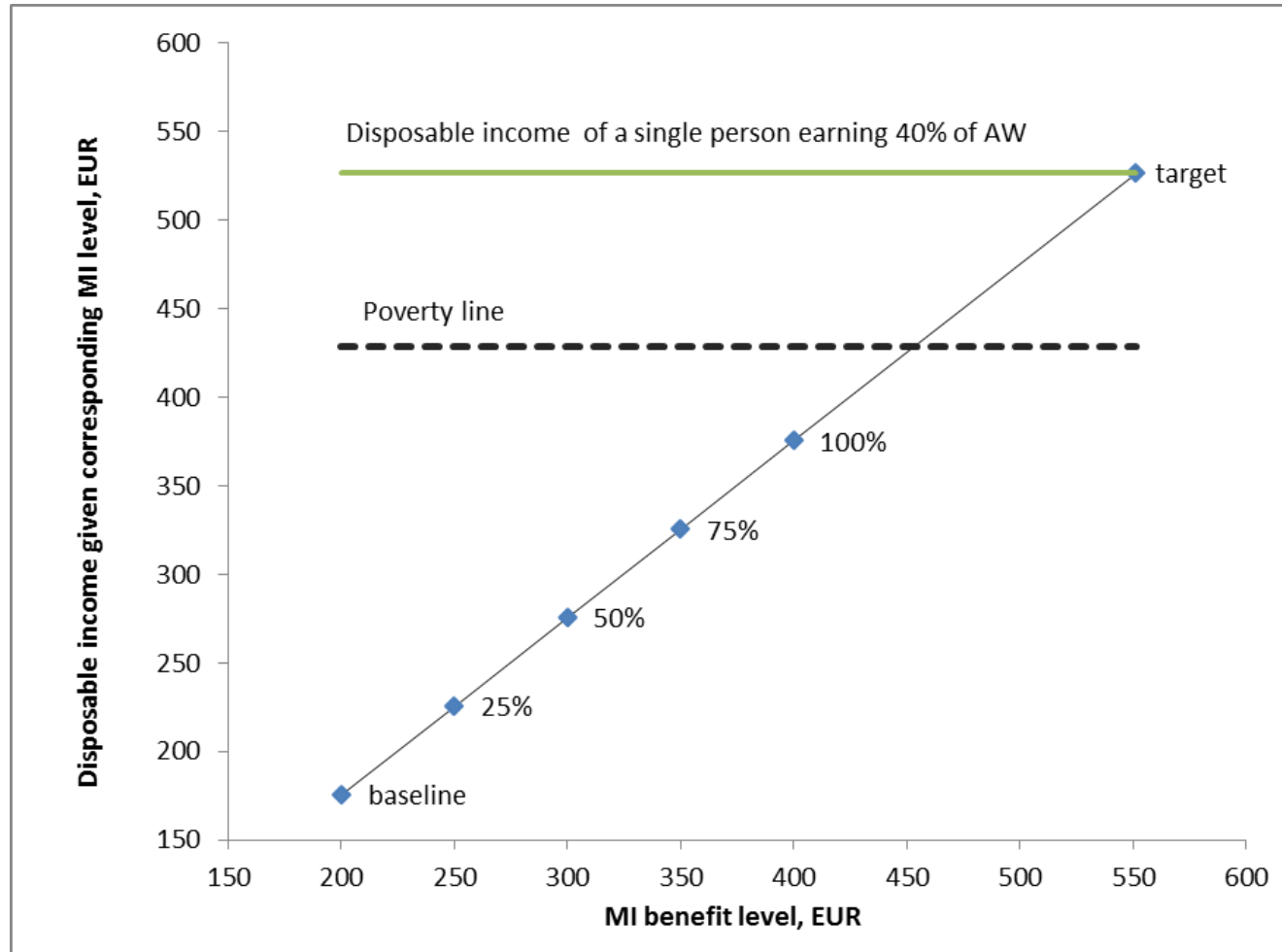
Interactions:

- ✓ Extra spending on benefits: EE, LV
- ✓ Small reduction in benefits: BG
- ✓ Small reduction in health SIC: SK

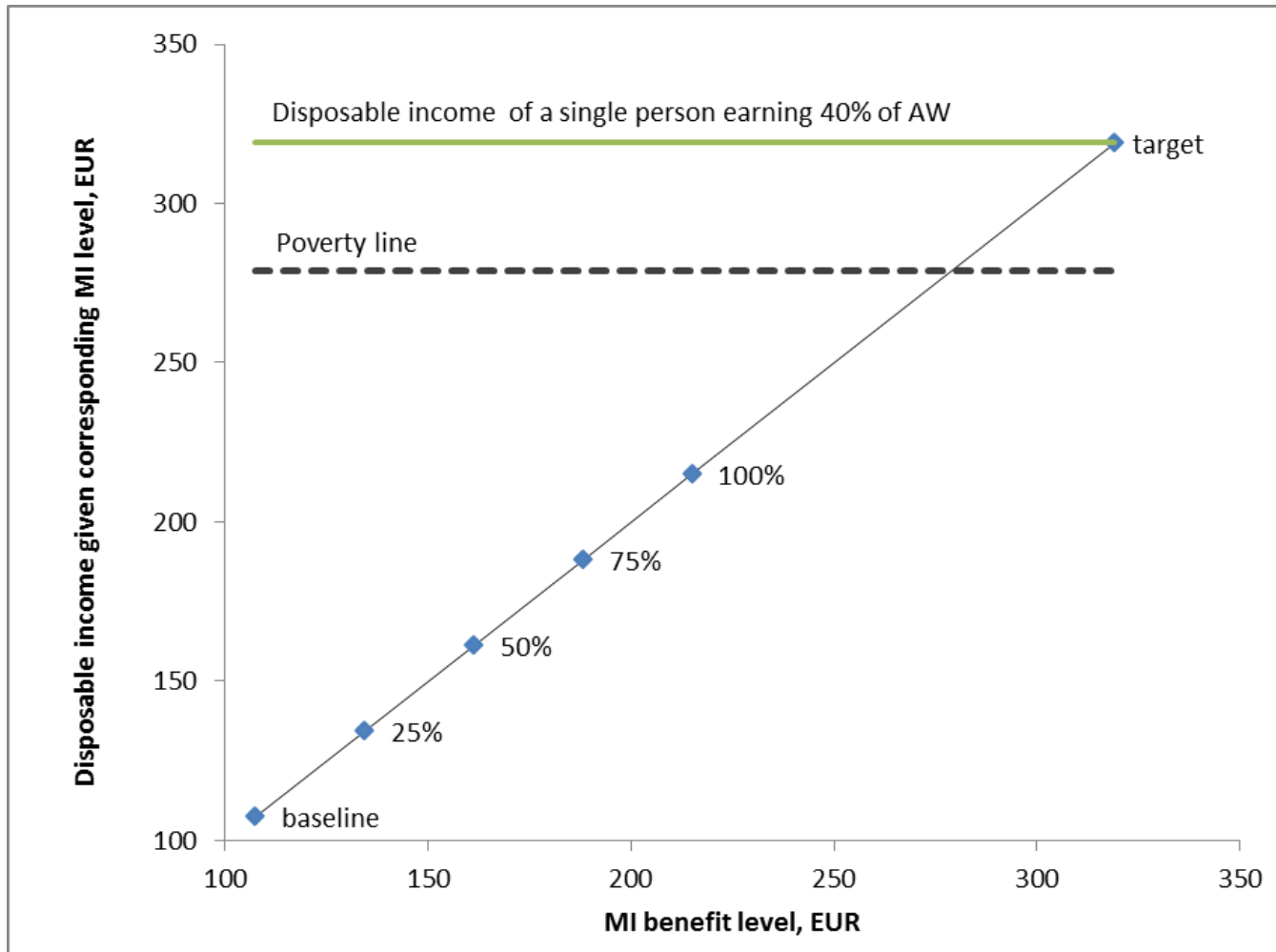
Single person: Estonia



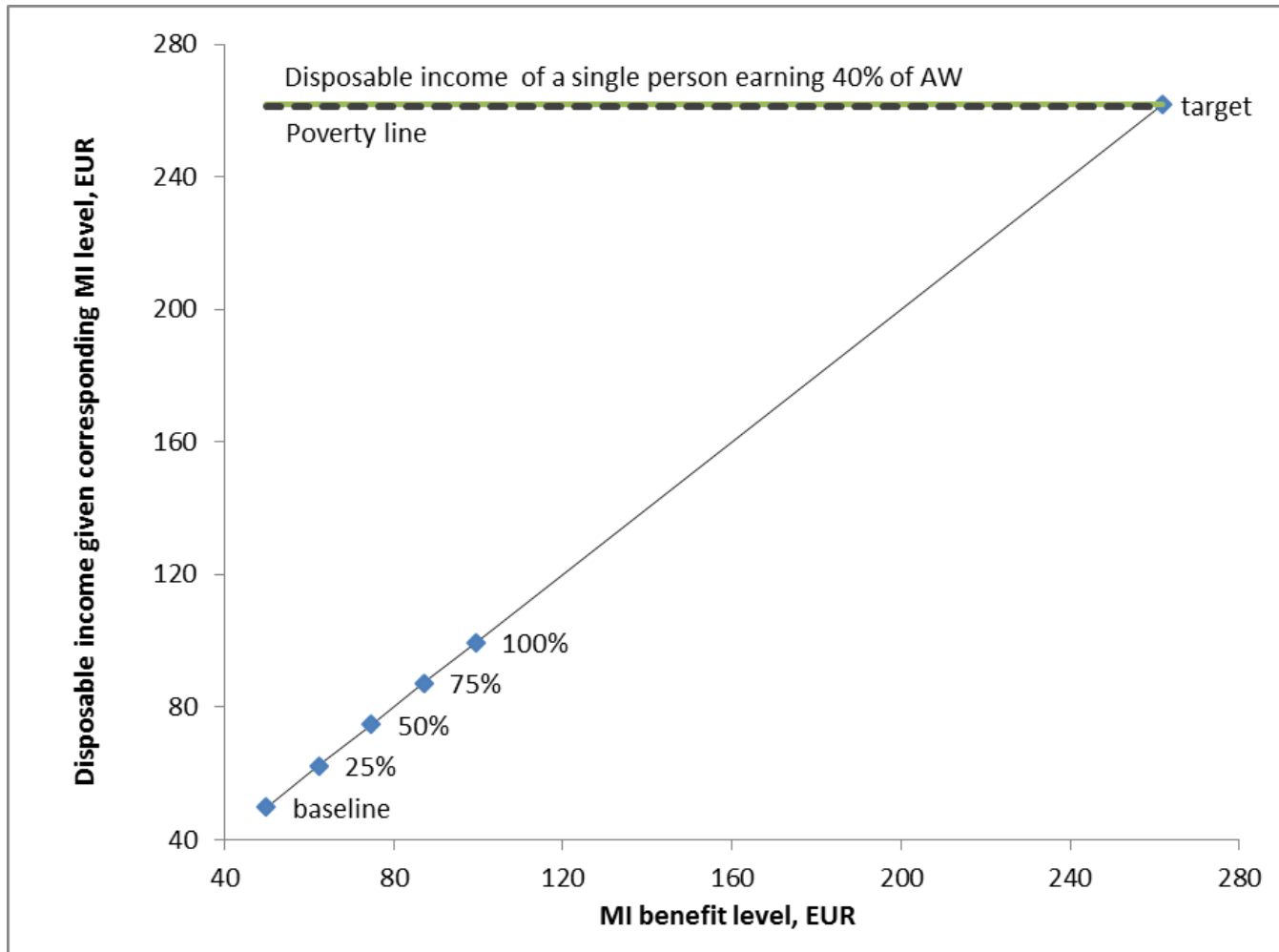
Single person: Greece



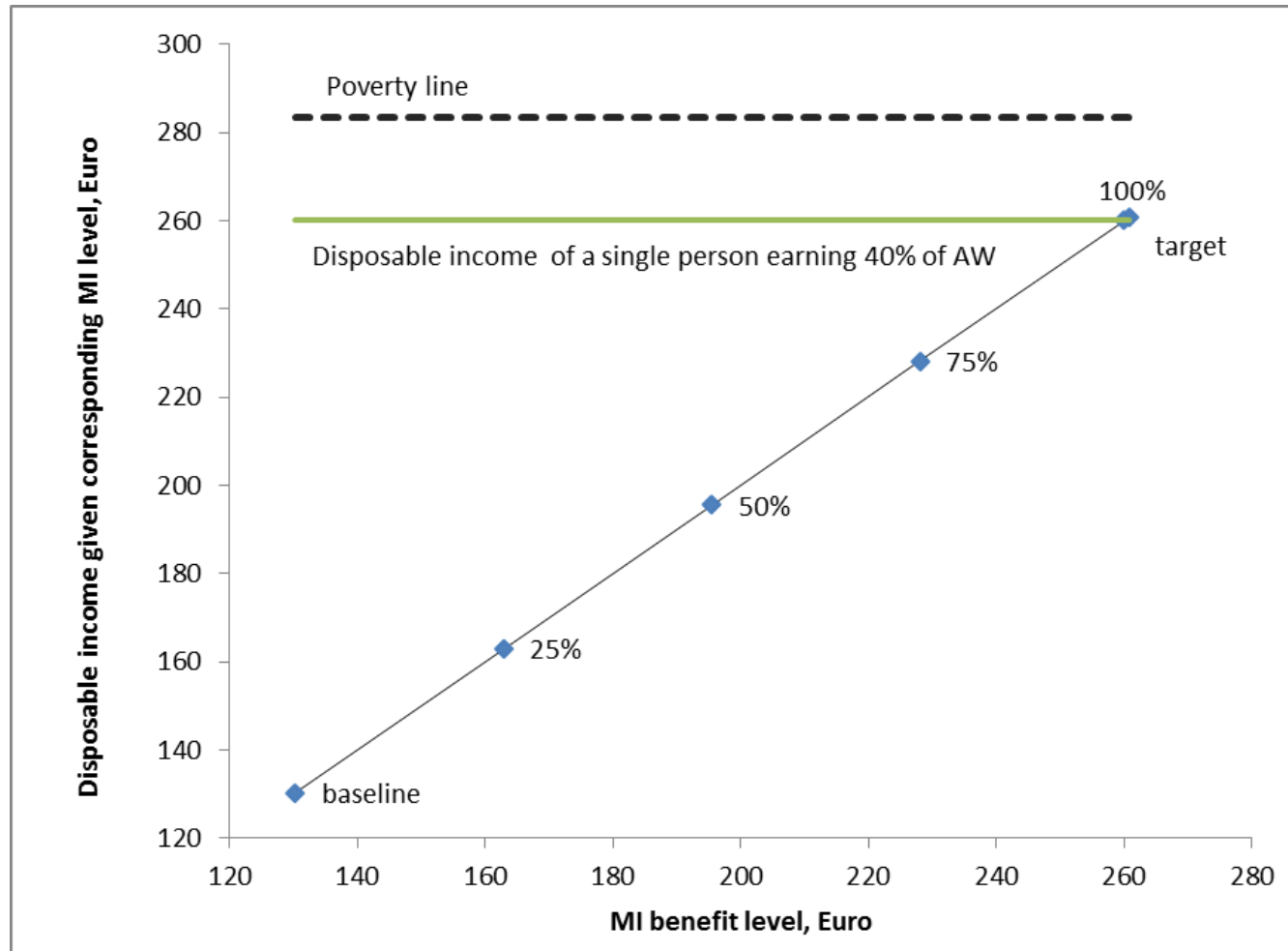
Single person: Croatia



Single person: Latvia



Single person: Poland



Single person: Slovakia

