Ex ante poverty and fiscal evaluation of a guaranteed minimum income programme in Greece

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Outline

- Guaranteed minimum income: general idea

- Guaranteed minimum income in Greece
  - The programme
  - Participation and fiscal costs
  - Anti-poverty effects
  - Work incentives

- Conclusions and future prospects

General idea

- Ultimate safety net
- Covers basic needs in situations of extreme poverty
- Tops up income if below a certain threshold
- More than just a benefit: usually requires accompanying actions

- Means-tested
- Funded out of general taxation

- Aims at reducing extreme poverty
- May not influence relative poverty
- Reduces poverty gap

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Political support and prevalence in Europe

- Not a politically contested issue

- Supported by:
  - ✓ British liberals
  - ✓ Nordic social democrats
  - ✓ German Christian democrats
  - ✓ French socialists

- Existing in all EU-28 countries apart from Greece
  - Italy, Spain: at the local level

Guaranteed minimum income in Greece

- On the spotlight since the beginning of the crisis

- IMF favoured and actively promoted the idea
    - *Country Report No. 12/57 (2012)*
    - *Country Report No. 14/151 (2014)*

- Pilot programme launched on 15 November 2014 in thirteen municipal areas of the country

- World Bank: supported the scheme's design, pilot preparation and implementation

The pilot programme (1/2)

- Income test
  - Single-person household disposable income < €2,400 per year, increased by €1,200 (€600) per year for each additional adult (child)
  - Higher threshold for single-parent families
  - All social benefits apart from disability benefits included in means-testing
  - 20% earnings disregard

- Asset test
  - Immovable property, cars, bank deposits, luxury goods

- Benefit rate: difference between a recipient unit's assessed income and the eligibility income threshold

The pilot programme

	max amount per month (€)
single person	200
single parent + one child	300
couple	300
couple + 1 child	350
additional amount for any extra adult	100
additional amount for any extra child	50

- Example of benefit calculation: couple with 2 children

	€ per month
household income	
from employment	250
from social benefits	100
reference income*	300
guaranteed income	400
transfer	100

20% of employment income is not taken into account

GMI simulation: key assumptions

- EUROMOD used to simulate its distributional effects at the country level, assuming full benefit take-up

- Data: EU-SILC 2010
  - Adjusted for labour market changes (nowcasting methodology)
  - Market incomes and tax-benefit policies in the year 2013

- Incomes adjusted for under-reporting, assuming:
  - 5% under-reporting for employment income
  - 35% for self-employment income
  - 80% for farming income

  (sensitivity check: full tax compliance)

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Results: participation and fiscal cost

		2013
Participation		
	no. of recipients	1,211,181
	% of population	10.95%
Fiscal cost		
	€ million	980.1
	% of GDP	0.54%

Notes: The number of recipients is the total number of persons who are members of recipient units. Population: 11,062,508 inhabitants. GDP: €181.1 billion.

Assuming full-tax compliance results in significantly lower beneficiaries and costs: 754 thousand persons (6.82% of population) and €681 million (0.38% of GDP) respectively.

Source: EUROMOD (version G2.0); Eurostat (population); ElStat (GDP).

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Results: anti-poverty impact

	baseline	with GMI
Change in poverty rates (in ppts)		
60% of median	22.7	-0.6
40% of median	11.5	-1.0
Change in poverty gaps (in ppts)		
60% of median	33.6	-2.3
40% of median	46.2	-16.2

Notes: The poverty rate is the proportion of population living in households with income below the poverty line (at 60% or 40% of the baseline median). The poverty gap is the difference between the poverty line and the median income of those below it, expressed as a percentage of the former.

Source: EUROMOD (version G2.0).

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Results: poverty rates at 40% of median

	baseline	with GMI
all	11.5	10.5
men	11.8	10.6
women	11.3	10.4
age		
0-17	13.9	13.0
18-29	13.7	12.1
30-44	12.9	11.7
45-64	13.5	12.2
65+	3.2	3.1
area		
Athens	12.2	11.8
other cities	8.8	8.0
rural/semi-rural areas	12.0	10.6
tenure		
rent or mortgage	13.6	12.8
no housing costs	10.4	9.2

Source: EUROMOD (version G2.0).

Results: poverty gaps at 40% of median

	baseline	with GMI
all	46.2	30.0
men	46.2	30.0
women	46.2	30.0
age		
0-17	44.7	30.0
18-29	59.7	30.0
30-44	46.2	30.0
45-64	56.1	30.0
65+	25.8	22.9
area		
Athens	75.7	30.0
other cities	39.5	21.6
rural/semi-rural areas	43.4	30.0
tenure		
rent or mortgage	54.5	30.0
no housing costs	45.3	30.0

Results: marginal effective tax rates

	baseline	with GMI
average	30.0	35.9
median	26.6	31.6
Proportion of working-age population facing METR…		
below 20%	28.1	25.6
20% - 40%	61.1	55.9
40% - 60%	8.2	8.2
60% - 80%	1.6	2.5
over 80%	1.1	7.8

Notes: Marginal effective tax rates show the percentage of a 3% increase in gross labour income that is lost to extra taxes and social insurance contributions, as well as to reductions in entitlements to social benefits. Estimates are for individuals of working age (15-64), not just GMI recipients, with more than €1 of monthly earnings. The distribution of marginal effective tax rates is truncated at the lowest percentile (if negative).

Source: EUROMOD (version G2.0).

Conclusions and future prospects (1/2)

- Implementation of pilot GMI: frozen since Feb 2015
- Scheme currently under revision

- Pilot programme: unique opportunity

- Issues:
  - ✓ Administrative preparedness
  - ✓ Systematic monitoring
  - ✓ Ex post evaluation

Conclusions and future prospects

- Anti-poverty effects of the programme: modest but not negligible
  - Substantial impact on poverty gap

- Reasons why estimates might differ from actually observed outcomes:
  - Changes in market incomes and tax-benefit rules between 2013 and implementation year
  - Different income under-reporting patterns than the ones hypothesised
  - Asset tests not fully simulated due to lack of data

- Microsimulation estimates can be useful to decision makers interested in evidence-based policy

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Thank you!

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