

What effects did changes in tax and benefit policy have on inequality and poverty in seven member states in the ‘Lisbon decade’?

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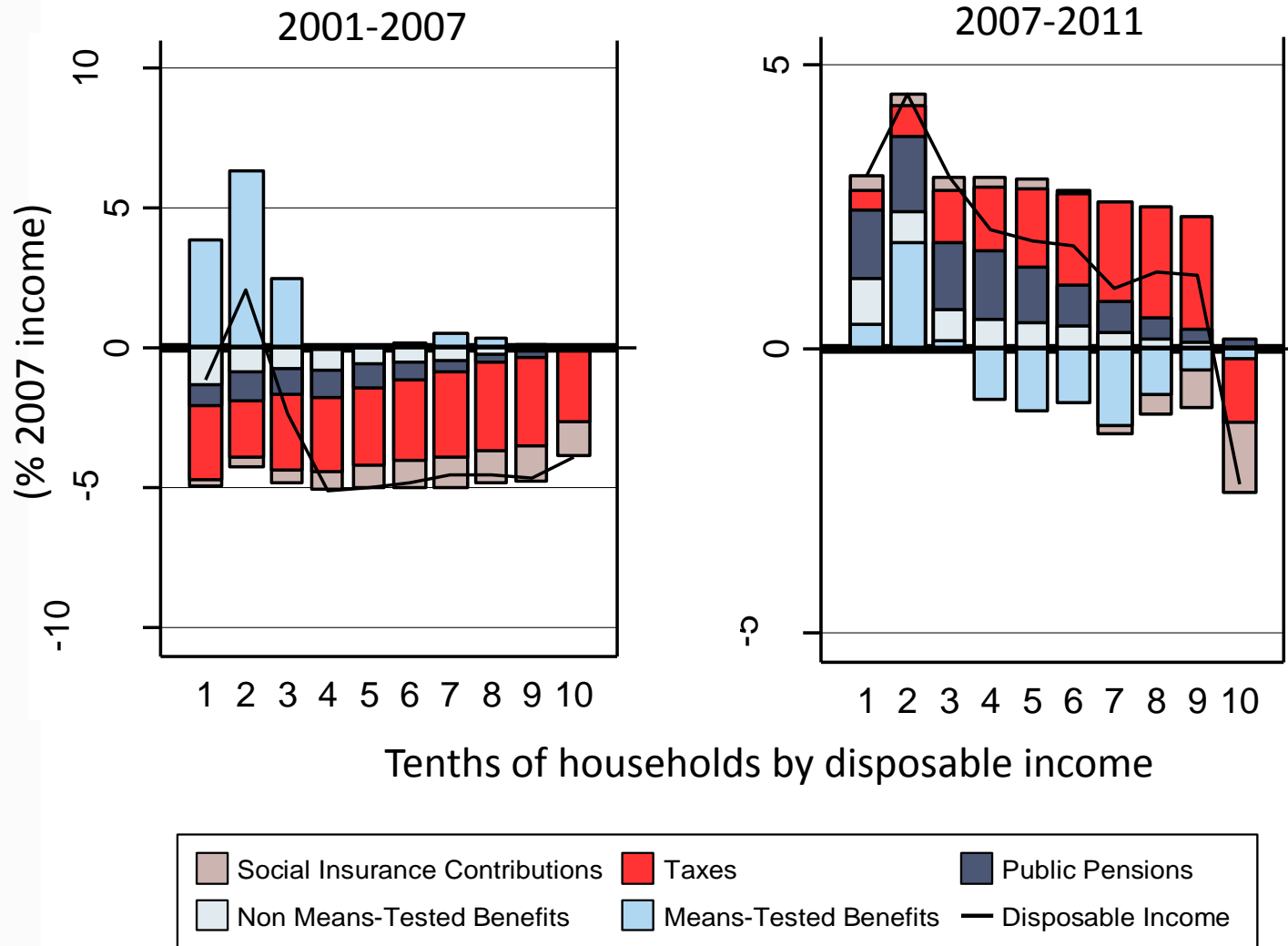
Brussels, 9 October 2014



Introduction

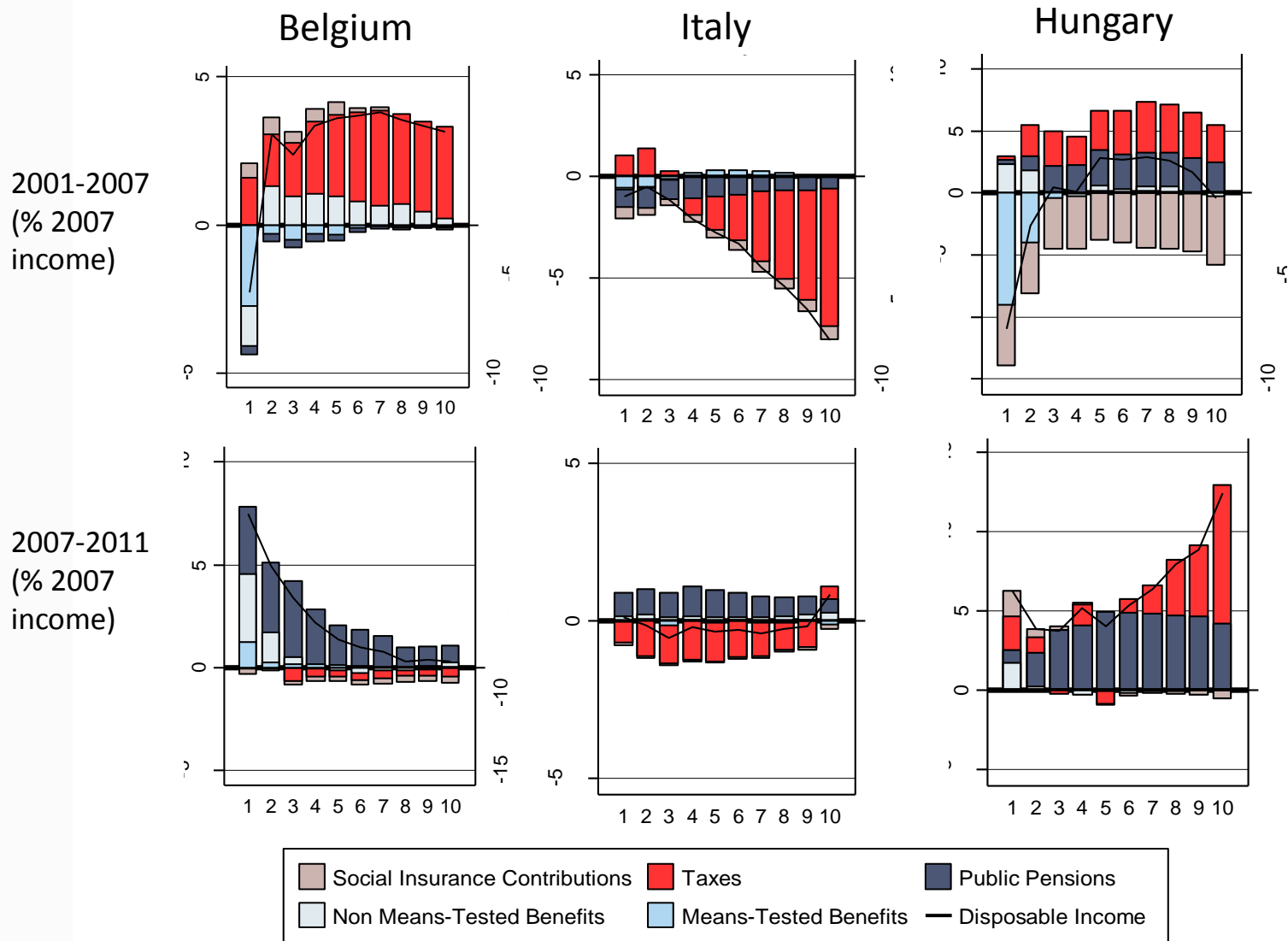
- Many factors affect poverty and inequality. This analysis isolates direct effects of changes in governments' (direct) tax and benefit policy on household disposable income
- We do this by comparing the systems in place in 2001, 2007, 2011 (but using constant populations, as in 2007), so we can contrast pre- and post-crisis changes
- The results come from the simulation model EUROMOD, and cover 7 countries: Belgium, Bulgaria, Estonia, Greece, Hungary, Italy and the UK
- A critical issue is what unchanged policy would look like? Presentation shows effects if benefits, etc were linked to average market incomes in 'unchanged' comparator
- We look at both structural reforms and indexation effects

Distributional effects of tax and benefit changes in the UK (compared to income-uprated system)



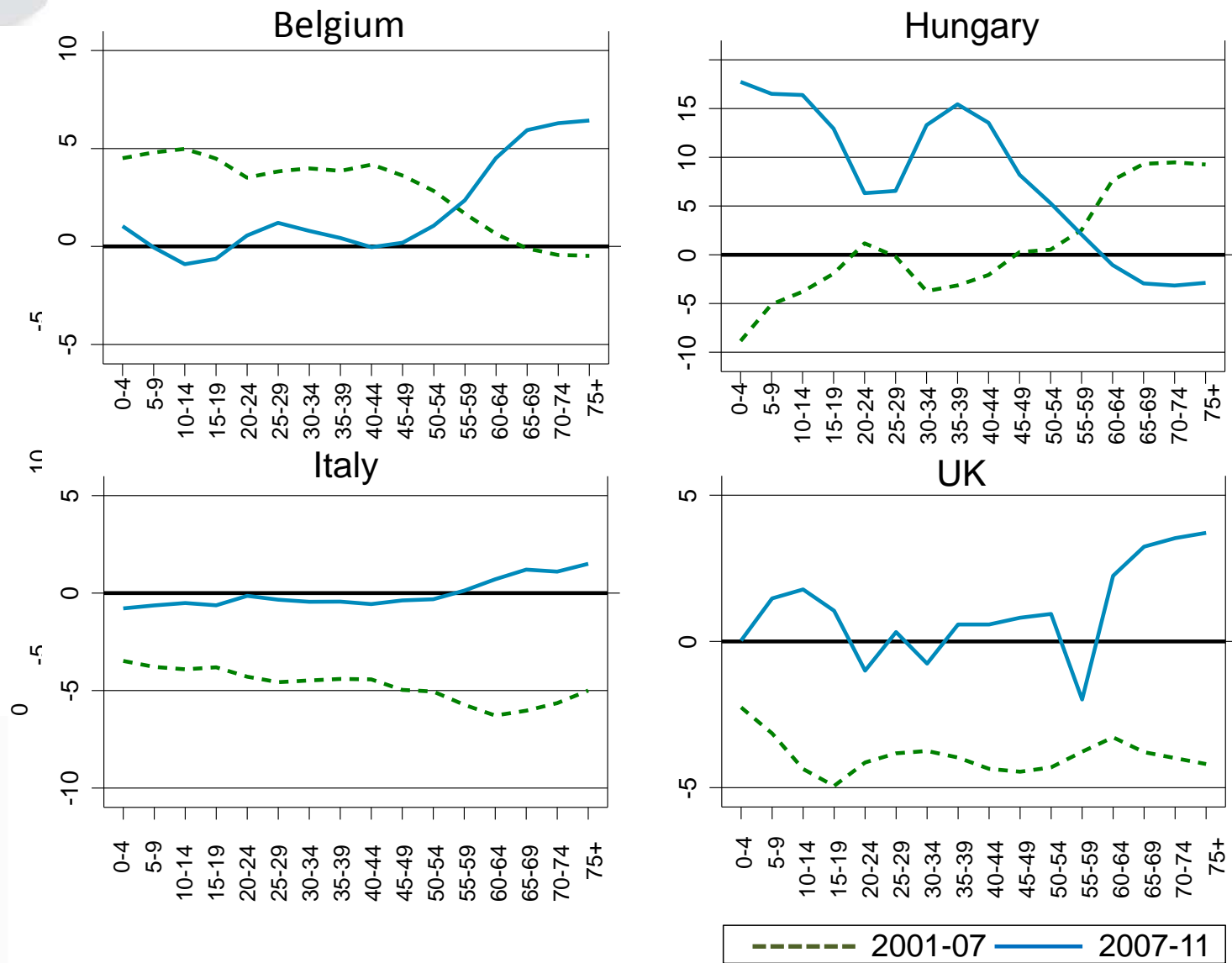
Source: Hills, Paulus, Sutherland and Tasseva (2014) figures 21 and 22

Distributional effects of tax and benefit changes in Belgium, Italy and Hungary



Source: Hills, Paulus, Sutherland and Tasseva (2014) figures 21 and 22

Effects of tax and benefit reforms compared to income-adjusted systems by age group

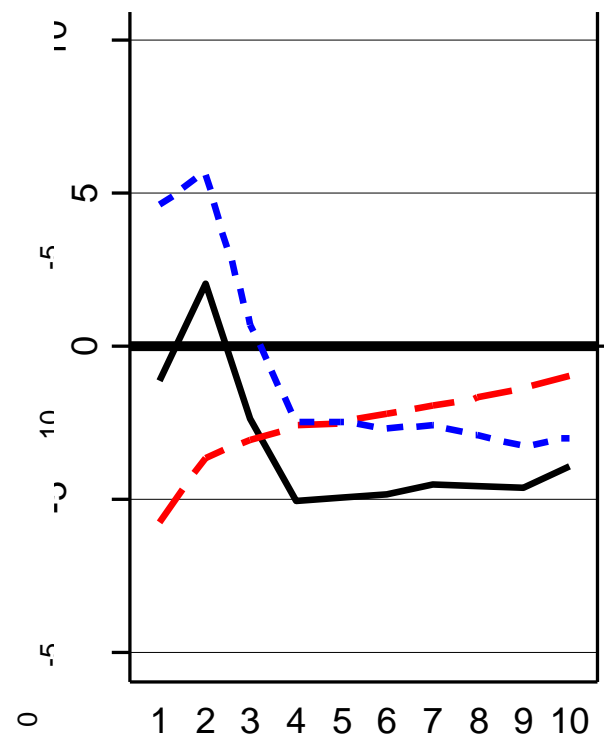


Source: Hills, Paulus, Sutherland and Tasseva (2014) figures 17 and 18.

Structural changes and the indexation effect

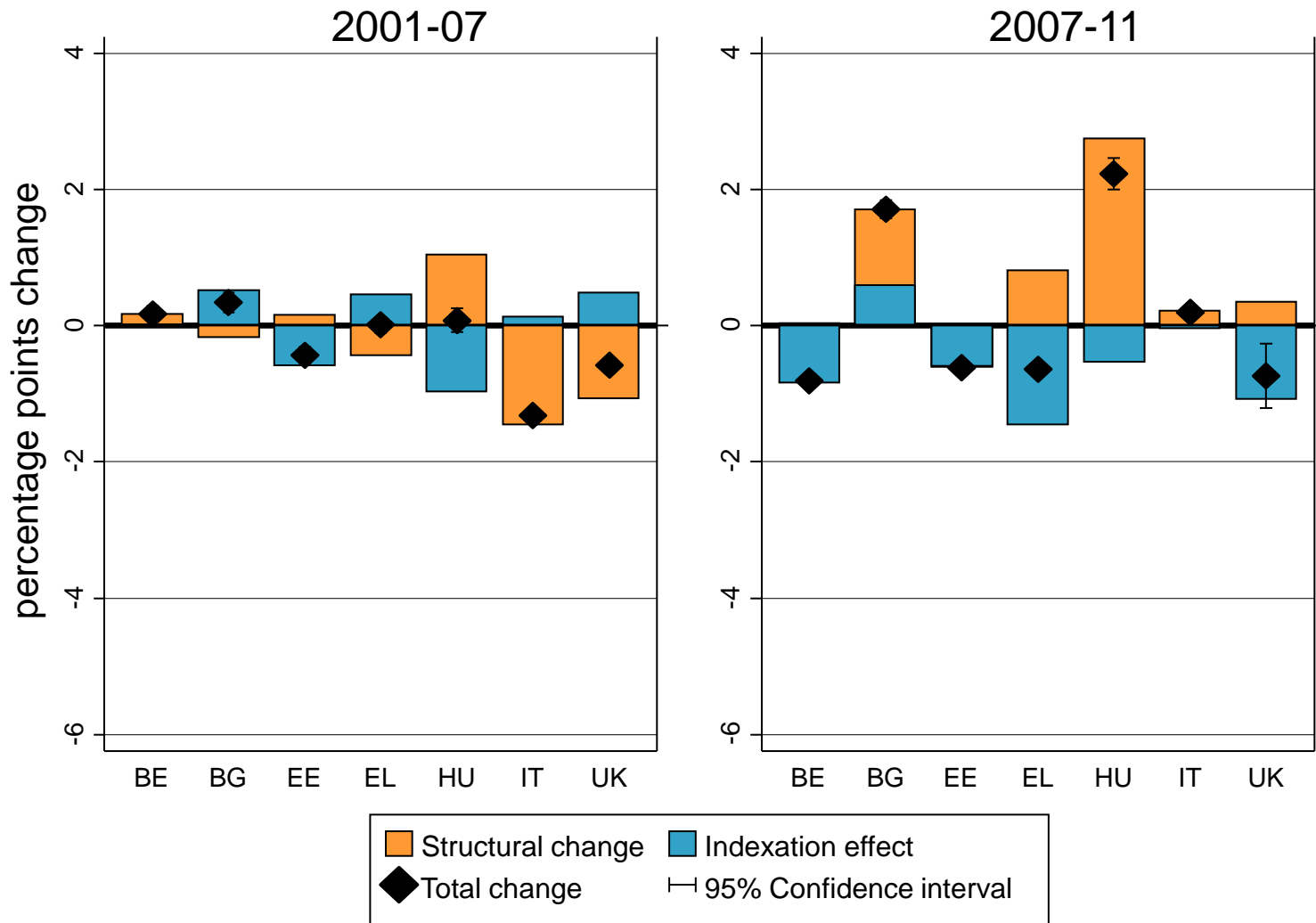
- We separate two components of policy change:
 - Indexation effect – due to changes (or not) in levels of benefit payments, tax thresholds etc which we might expect to keep pace with the evolution of economic variables; includes both “silent” regular indexation and more visible ad hoc increases.
 - Structural changes – major reforms to the structure of the system or to changes in e.g. tax/withdrawal rates

UK, 2001-2007 (vs income-indexed base)



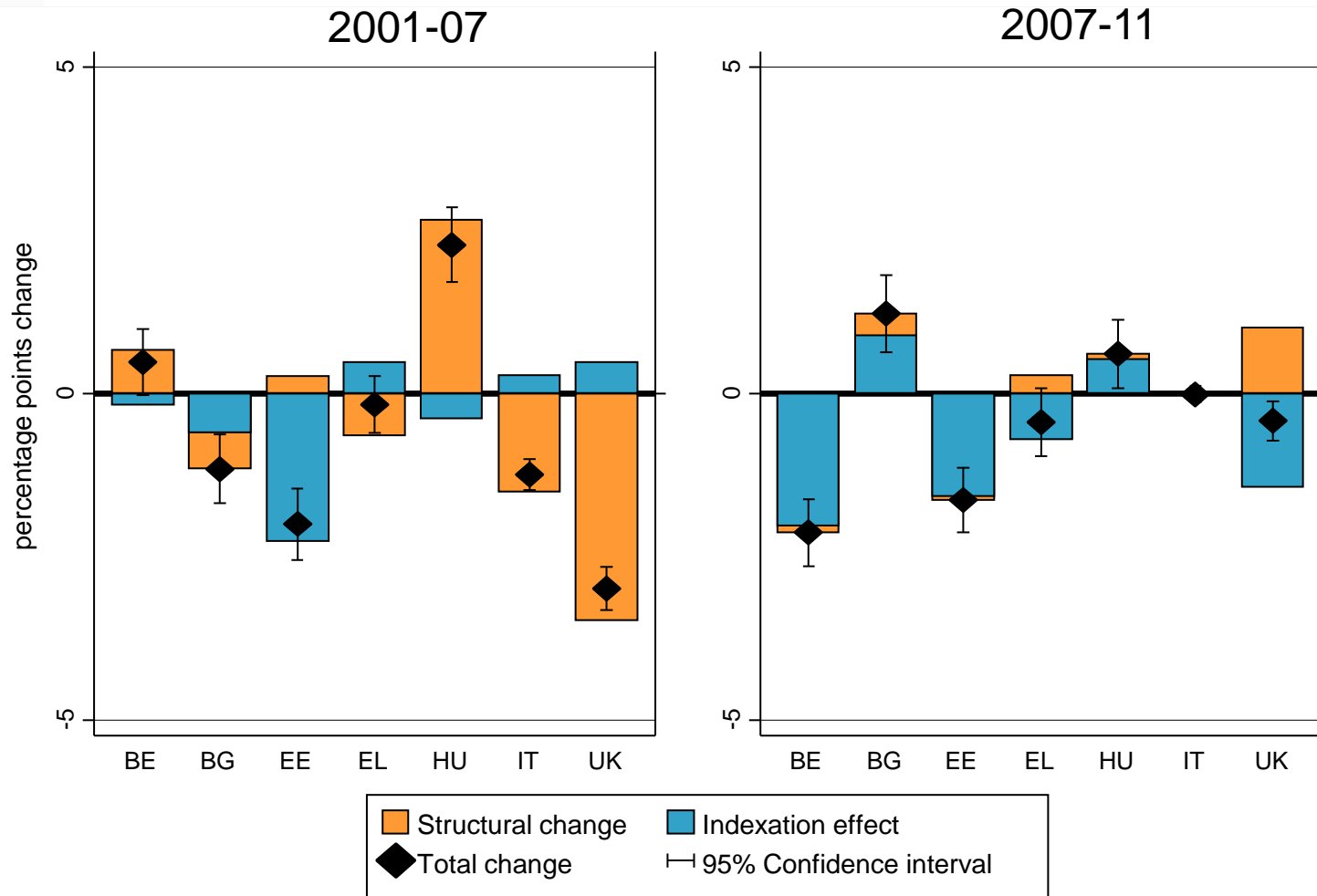
— Total policy effect — Indexation effect - - Structural change

Effect of policy changes relative to income indexation on income inequality (Gini coefficient)



Source: Hills, Paulus, Sutherland and Tasseva (2014) figure 9.

Effects of tax and benefit changes compared to income indexation on risk of poverty rates



Source: Hills, Paulus, Sutherland and Tasseva (2014), figure 6.



Lessons for 2020 and beyond

- 2001-11 was not an entirely “lost decade” for poverty reduction for the countries considered: in six of them, tax and benefit policy changes were poverty-reducing
- But more was achieved in most (but not all) countries in the ‘good times’ before 2007 than immediately after the crisis
- Some countries (eg UK, 2001-2007) made policy changes that both reduced poverty and raised net revenue (compared with the income-linked base)
- Governments often make changes to parts of the system with opposite effects: they need to be seen together
- How money values of benefits and tax thresholds are adjusted (indexed) each year can have larger effects than structural reforms. If they do not keep up, other types of poverty-reducing policy will have to work much harder.



Further reading

- Hills J., A. Paulus, H. Sutherland and I. Tasseva “A lost decade? Decomposing the effect of 2001-11 tax-benefit policy changes on the income distribution in EU countries”, *ImPRovE Discussion Paper 14/03*, June 2014
http://improve-research.eu/?page_id=37
- See also: De Agostini P., A. Paulus, H. Sutherland and I. Tasseva, “The effect of tax-benefit changes on income distribution in EU countries since the beginning of the economic crisis” *Social Situation Monitor RN2/2013*
<http://ec.europa.eu/social/main.jsp?catId=501>