How EUROMOD works and what it can achieve:

Introducing Participation Income in the UK

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Outline

- What is EUROMOD?

- What can EUROMOD achieve:
  - Designing a Participation Income for the UK
  - Analysing its distributional effects
    (Atkinson, Leventi, Nolan, Sutherland & Tasseva, 2017)
What is EUROMOD? (1/4)

- The tax-benefit microsimulation model for the EU-28
  - It simulates:
    - cash benefit entitlements for unemployment, family/children, social assistance
    - direct taxes and national insurance contributions
  - Period of simulated policies: from 2005/07 to 2017

- Used to assess the distributional effects of actual and hypothetical policy changes in a meaningful and consistent cross-country way
What is EUROMOD? (2/4)

- Country- & year-specific tax-benefit rules are applied on household micro-data – from the Family Resources Survey for the UK. EUROMOD calculates:
  1. **who** in the data is entitled to a benefit / liable to pay taxes/NI
  2. **how much** is the benefit entitlement and tax/NI liability
  3. households’ **net income** = reported earned income + simulated benefits – simulated taxes/NI

- Flexible – the user can implement any policy reform
  - The only restriction is the availability of information in the household survey data
  - Interactions between tax and benefit policies taken into account
What is EUROMOD? (3/4)

- Includes tools to facilitate the understanding of how reforms affect household incomes and work incentives:
  
  - Hypothetical Household Tool (HHOT):
    - Generates hypothetical households based on user-defined characteristics
    - Abstracts from complexities of real data - focus on specific household types
  
  - Policy Effects Tool (PET):
    - Calculates % change in mean household net income due to policy reforms
    - Income changes decomposed by tax-benefit policy and decile groups
  
  - Marginal Effective Tax Rates (METR) tool:
    - Calculates work incentives at the intensive margin
    - Measures how attractive it is to work longer hours
  
  - Net Replacement Rates (NRR) tool (in progress):
    - Calculates work incentives at the extensive margin
    - Measures how attractive it is to work vs not to work
What is EUROMOD? (4/4)

- Publicly available
  - Visit our website www.euromod.ac.uk
  - Email euromod@essex.ac.uk for access to the model and data
  - Regular free training courses
  - EUROMOD Working Paper series
What can EUROMOD achieve? (1/3)


- Motivation:
  - Reduce inequality and poverty through redistribution
  - Address a structural problem in the transfer system, using the UK as a case study
    - i.e. increased reliance on means-testing → poverty trap as well as unmet needs and diminished social justice due to non-take-up

- Refine and assess the proposals outlined in Atkinson (2015)
  - Implemented with EUROMOD and the Family Resources Survey
  - Experimented with specific options and variations (aided by HHOT)
What can EUROMOD achieve? (2/3)

- **Simulation of Participation Income (PI):**
  - A form of partial Basic Income – integrated into the existing system; only partly replacing it
  - Assumed all adults meet participation condition

- **Included in existing means-tests:**
  - Reduce reliance on means-testing – lift some families out of it entirely
  - Full PI receipt for those not taking up their means-tested entitlements

- **Other changes to existing policies:**
  - More progressive income tax structure
    - more bands and higher top rates
    - earned income tax discount for low earners
  - Increase in NI contributions for high earners
  - Large increase to universal Child Benefit

- **Revenue-neutral (first round) – PI level set at £75 per week (43% of poverty line)**
What can EUROMOD achieve? (3/3)

- Main results (i.e. first-order distributional effects):
  - Substantial reduction in inequality: drop in Gini by 5.7ppts or 18%
  - Substantial reduction in the poverty headcount (5.8ppts or 38%) and poverty gap (2.6ppts or 58%)
  - Majority of gainers at the bottom and middle of the income distribution
  - Losers concentrated in the richest three decile groups
  - Drop in means-tested benefits expenditure
  - Incentives to work vs not to work improve
Thank you!

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