



How EUROMOD works and
what it can achieve:

Introducing Participation Income in the UK

Iva Tasseva

Institute for Social and Economic Research (ISER), University of Essex

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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
 - Household survey data for 2008, 2010, 2012, 2015 (some variation across countries)
- 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)

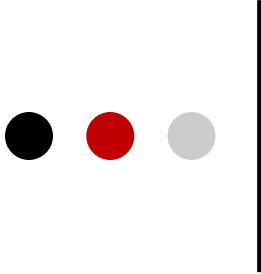
- **Includes tools to facilitate the understanding** of how reforms affect household incomes and work incentives:
 - Hypothetical Household Tool (HHOT):
 - Generates hypothetical households based on user-defined characteristics
 - Abstracts from complexities of real data - focus on specific household 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)

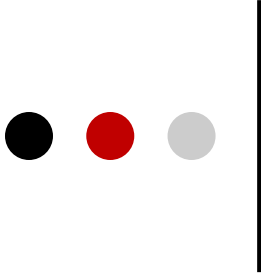
- Publicly available

- 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



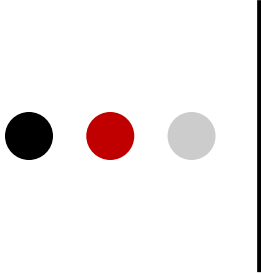
What can EUROMOD achieve? (1/3)

- T. Atkinson, C. Leventi, B. Nolan, H. Sutherland & I. Tasseva (2017) *Reducing poverty and inequality through tax-benefit reform and the minimum wage: the UK as a case-study*, Journal of Economic Inequality
- 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)



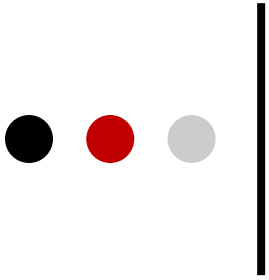
What can EUROMOD achieve? (2/3)

- **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!

itasseva@essex.ac.uk

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