

Poverty and poverty reduction (among children) by T/B-systems across countries

best-practices and mutual learning



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Amersfoort

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Introduction

Koen Caminada, professor Empirical analysis of social and tax policy, Leiden University

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Vice-Dean Faculty Governance & Global Affairs (The Hague)

Topics

- Distribution tax-benefits social security and pensions
- Tax policy
- Reforming social and tax regulations
- Poverty reduction EU and OECD / Lisbon Agenda / Europe 2020



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Empirics: global research team & data



Kees Goudswaard Leiden	Marike Knoef Leiden	Olaf van Vliet Leiden	Jim Been Leiden	Jinxian Wang Beijing	Chen Wang Shanghai	Stefan Thewissen Oxford	Koen Caminada Leiden
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Assembled Datasets (URL: www.economie.leidenuniv.nl)

- [Budget Incidence Fiscal Redistribution Dataset on Income Inequality](#) (2017)
- [Idem, on Relative Income Poverty Rates](#) (2019)
- [Social Assistance and Replacement Rates Dataset](#)
- [Unemployment Replacement Rates Dataset](#)
- [Sectoral Income Inequality Dataset](#)

Luxembourg Income Study
World Wealth & Income Database
ECHP-EU-Silc
Dutch Income Statistics



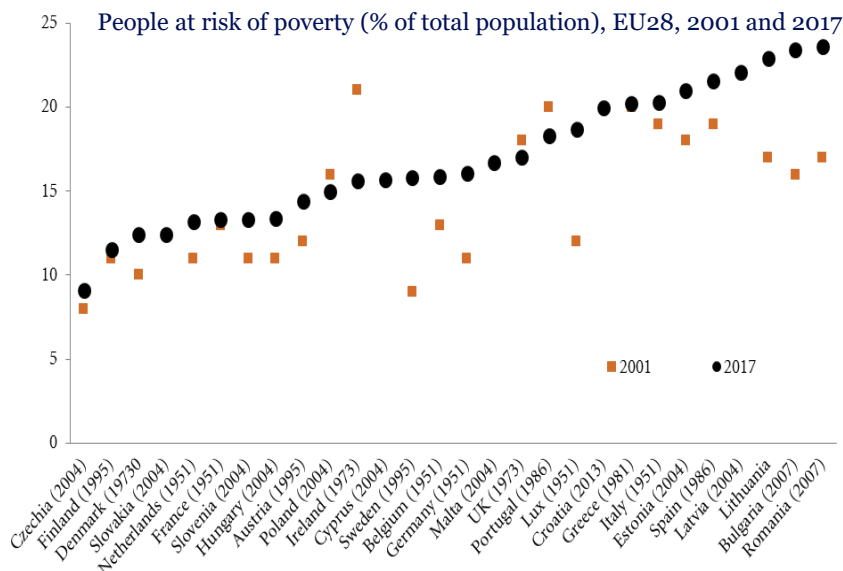
Megan
Martin
USA



Ferry
Koster
EUR

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Poverty in the European Union on the rise (definition EU = PL60)



- Year joining EU within brackets
- Poverty rose in most countries (= 19 out 23)
- On average: 2.3%-points
- Disappointing: combating poverty is an explicit EU objective (= part Lisbon Agenda & Europe 2020 strategy)

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Source: Eurostat ECHP/EU-SILC (2019)

Agenda: Evidence for policy



- I. Setting the scene: why income inequality and poverty matters?
- II. Effectiveness of poverty alleviation by T/B-systems: *best-practices* across countries (OMC).
And the winner is ...?
- III. Familiar claim income transfer policy:
Social expenditure goes along with lower poverty levels and higher antipoverty effects across countries. **True or false?**

However: Target social spending at immigrant kids!
- IV. Tax Allowances: Targeting or Universalism?
- V. Concluding remarks – policy recommendations

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Part I: Why inequality and poverty rise?

Many possible factors, including:

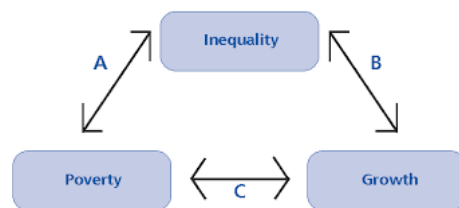
- Technological progress and a resulting rise in the skill premium for labor
- Globalization: highly educated workers profit, low skilled labor not (as much)
- Good education may not be reachable for lower income groups
- Demographic factors: ageing (more pensioners who have relatively low incomes)
- Several institutional factors, which vary from country to country, are important. E.g. for China the urban-rural gap is important.
- Developments at the sectoral level
- **Government redistribution - became T/B-systems less redistributive?**



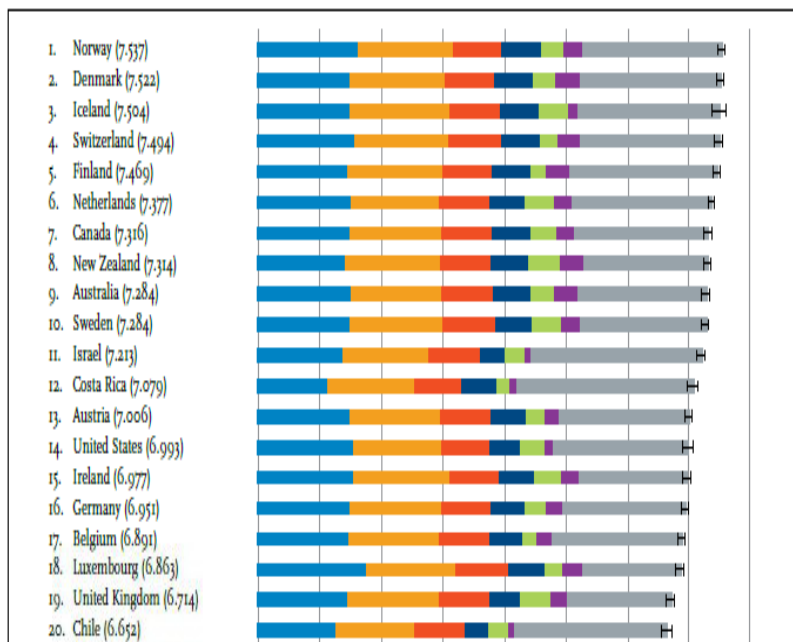
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Why inequality and poverty matter?

- A perfectly equal society is not desirable (no incentives). However, high inequality may undermine social stability.
- It deprives people of educational opportunities, human and physical capital accumulation.
- OECD (2014): Rising inequality is estimated to have knocked down growth since 1990 by 9 points in the UK and by 6-7 points in the US, Italy and Sweden.
- IMF (2015): if the income share of the top 20 percent increases by 1 percentage point, GDP growth is 0.08 percentage points lower. A 1 percentage point increase in the share of the bottom 20 percent is associated with 0.38 percentage point higher growth.



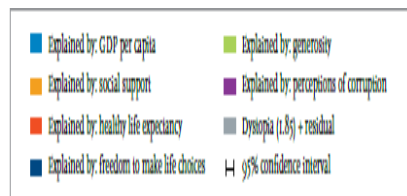
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WORLD HAPPINESS REPORT 2017

Explained by social support

→ tax/benefit-systems and fiscal redistribution



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... while superrich (income & wealth)



Superrich

Donald Trump

Jack Ma (Ma Yun)

John de Mol

Bill Gates

Similarities

Top incomes

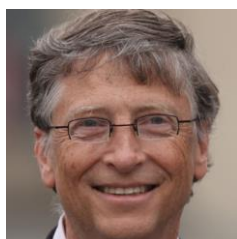
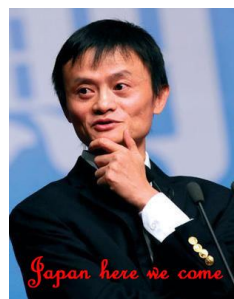
Male (gender)

Family (inheritance)

Mediocratic

Political power?

Influence tax policy?



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The tax/benefit-system and fiscal redistribution

Income components

Labor income + capital income + private transfers =
Market income

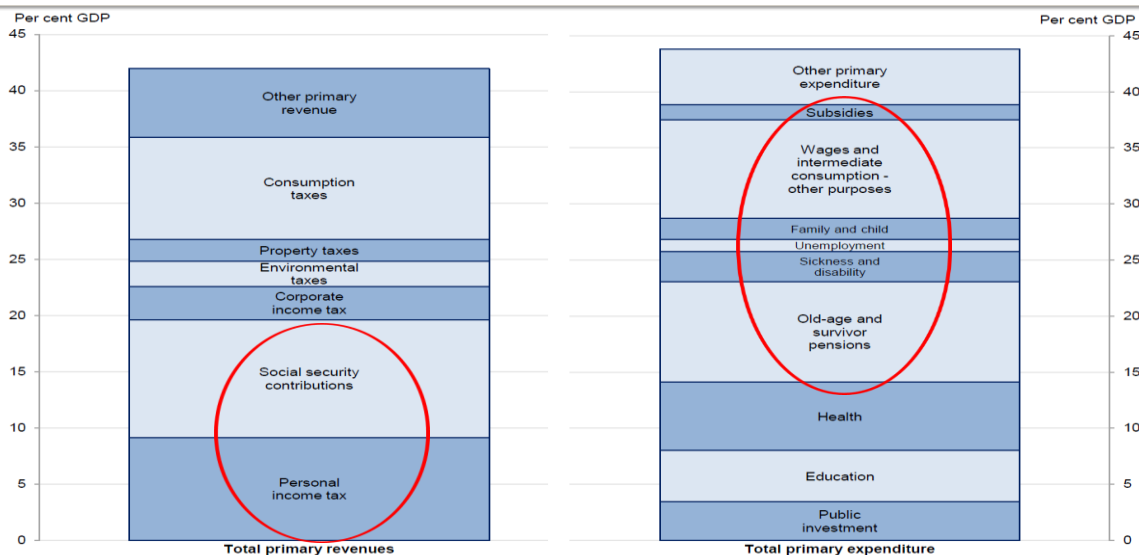
+ Social benefits and transfers
 = **Gross income**

-/- Income taxes and social security contributions
 = **Disposable income**



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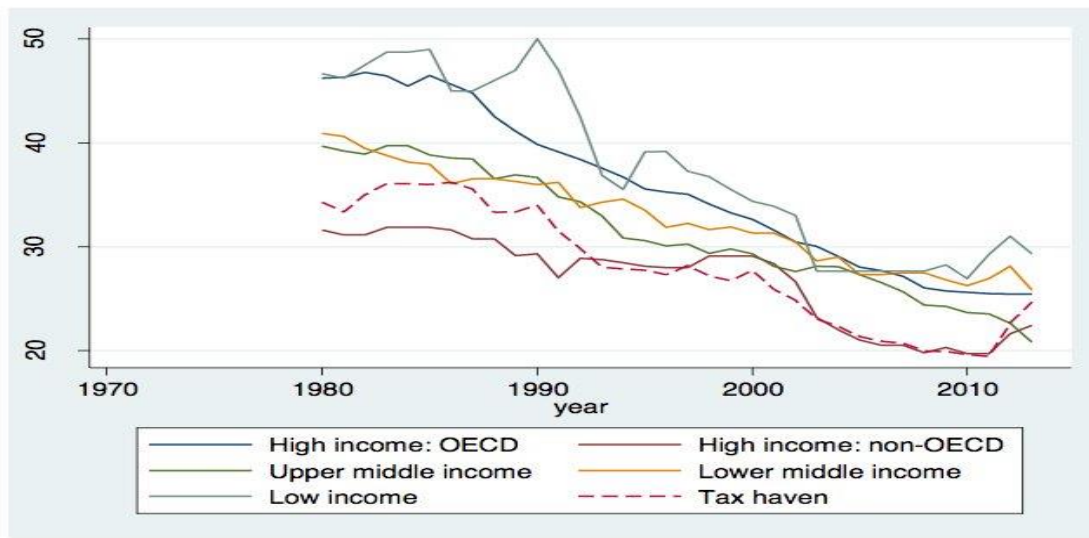
Snapshot of OECD-wide spending and revenue composition



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Tax race to the bottom: CIT rates over time across the globe

Figure 2: Corporate income tax rates, 1980–2013



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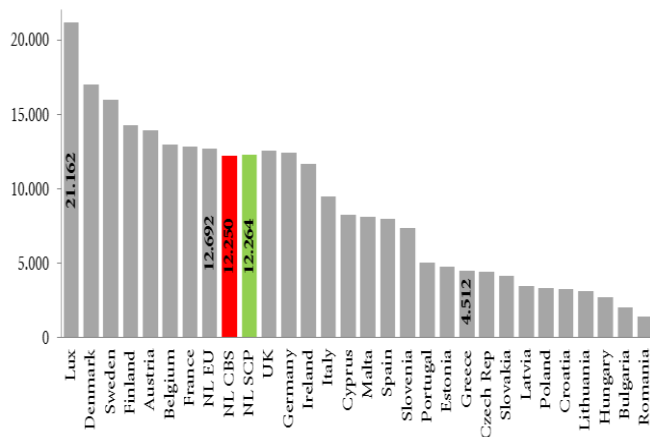
Poverty: international perspective

Monetary poverty in an international setting : no agreed-upon definition

- World Bank: \$ 1 dollar a day (\$1.90)
- USA: Absolute – Orshansky (basket)
- EU: Relative → poverty line (PL) 60 percent of median income (AROP)

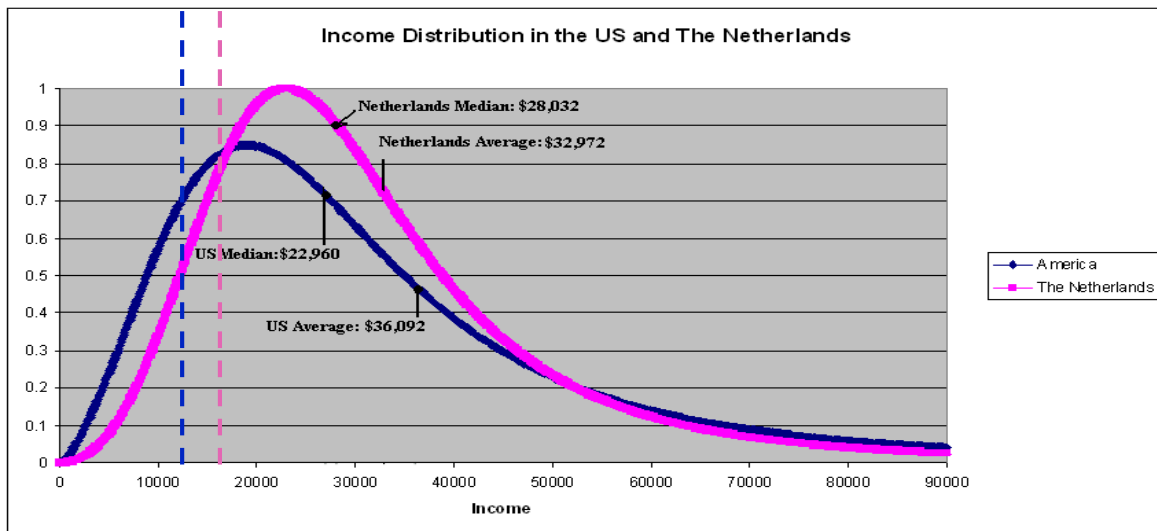
Thresholds single person (PPS) 2015

- CBS: lage inkomensgrens → € 12.250
- SCP: budgetgrens → € 12.264
- EU: 60 % median income → € 12.629



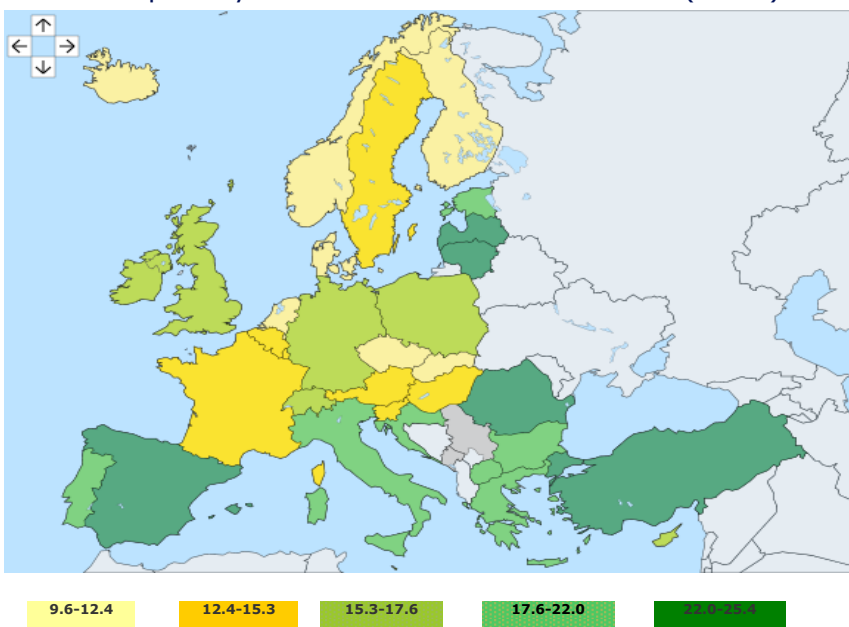
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AROP: below 60% of median income



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At-risk-of-poverty rate after social transfers 2015 (PL 60)



Poverty rate EU28:

PL 40 = 6

PL 50 = 11

PL 60 = 17

PL EU60 = 23

Poverty line:

PL EU = 60

PL USA = 30

PL China = ??

Poverty rate USA 2013 (LIS):

PL 40 = 11

PL 50 = 17

PL 60 = 24

China PL60 = 27

Source: Eurostat, ICP, PL60 = 30

Part II - Antipoverty effectiveness of T/B-system

Standard budget incidence approach:

- Market income versus disposable income
- Antipoverty effect social transfers and taxes = **people lifted out of poverty** =
 (a) pre-tax-transfer poverty -/
 (b) post-tax-transfer poverty
- **Public policy indicator on targeting** = targeting effect = antipoverty effectiveness: poverty reduction per percentage point social spending GDP
 = $[(a) - (b)] / \text{social spending \% GDP}$

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Leiden LIS Budget Incidence Fiscal Redistribution Dataset

– data & methods on Gini's and relative income poverty rates

- **Poverty rates** {
 - AROP market income = Pov (mi)
 - AROP Disposable income = Pov (dhi)

- **Redistribution = % of people lifted out of poverty**
 - Overall redistribution = Pov (mi) – Pov (dhi)
 - Decomposition: social benefits vs income taxes
 - Further decomposition by social programs (13)

- **Target groups:** total population, working-age population, children & elderly

- **Countries:** 49

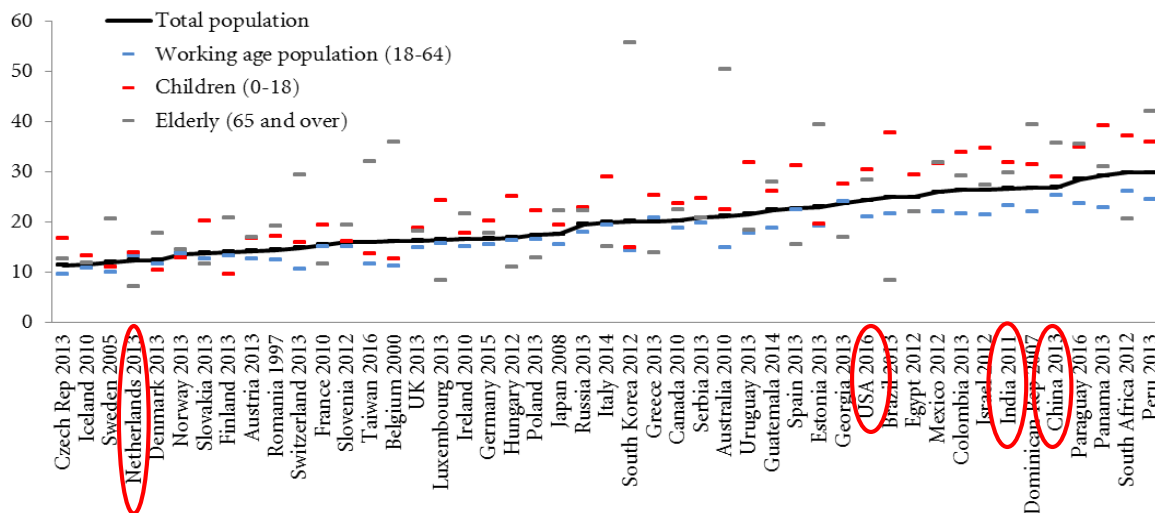
- **Time-series:** 1967-2016

We provide data and codebooks



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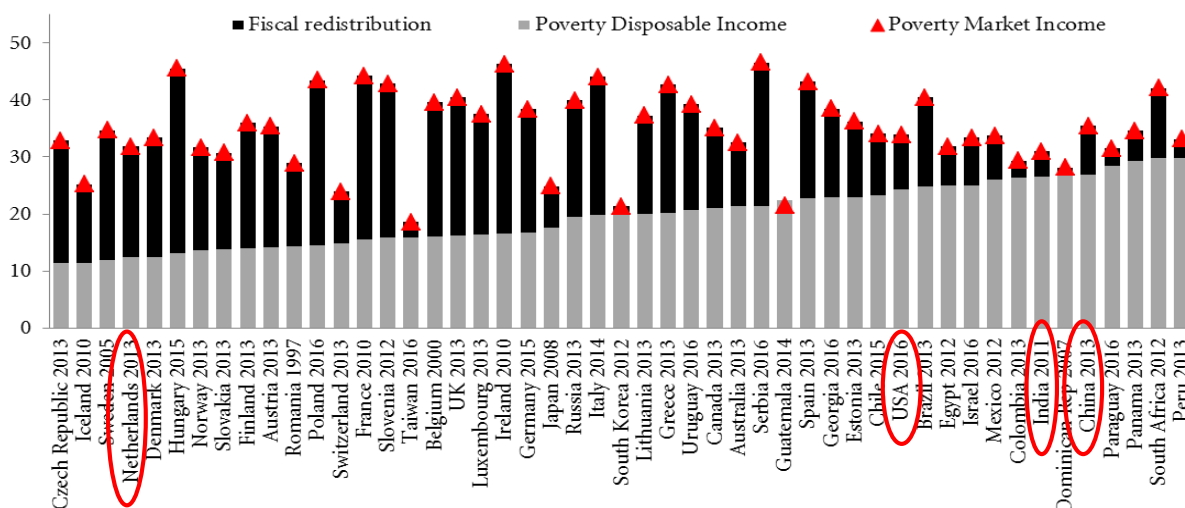
Disposable income poverty (PL60) across countries among different age groups (most recent data year)



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Source: Caminada & Wang (2019)

Disposable and market income poverty rates (PL60) across LIS countries (most recent data year)



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Source: Caminada & Wang (2019)

Poverty alleviation in LIS countries (PL6o)

Deeltijd
zfp

Lift out of poverty = Poverty market income -/- Poverty disposable income

= Fiscal redistribution social benefits and income taxes = Lift out of poverty by T/B-system

	China 2013	India 2011	USA 2016	Netherlands 2013	Mean 49 countries
Poverty mi	36%	31%	34%	32%	33%
Poverty dpi	27%	27%	24%	12%	18%
Reduction	9%-p	4%-p	10%-p	20%-p	15%-p
<i>Partial effects</i>					
Social benefits	-	4	13	26	17
Income taxes	-	-	-3	-6	-2

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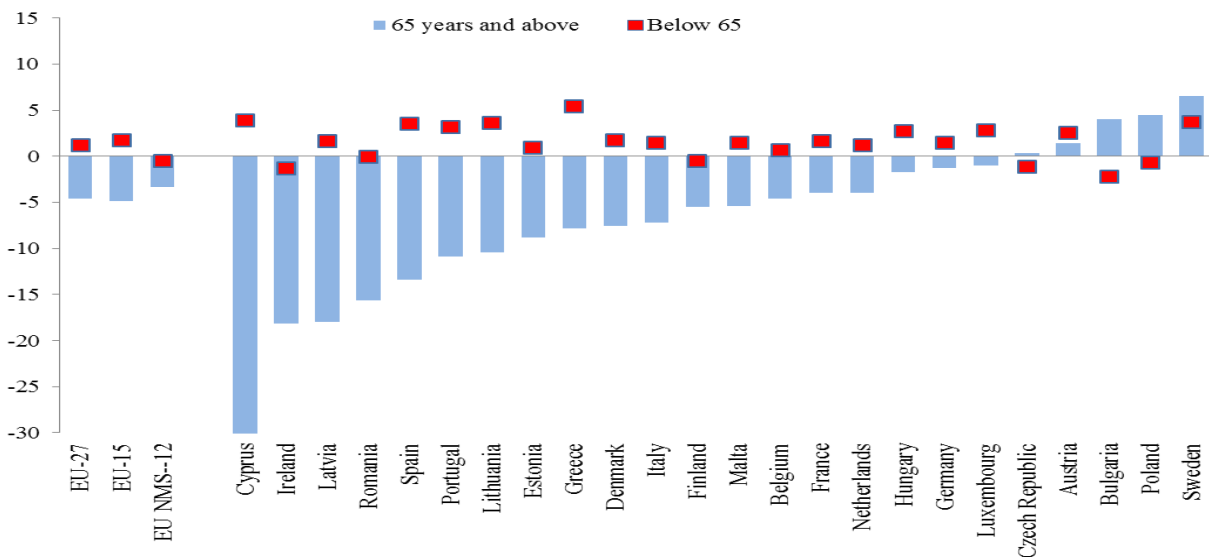
Poverty alleviation in LIS countries

Lift out of poverty by T/B-system

	China 2013	India 2011	USA 2016	Netherlands 2013	Mean 49 countries
Total population	9%	4%	10%	20%	15%
WA population	7%	4%	4%	9%	9%
Children	5%	4%	4%	1%	9%
Elderly	31%	8%	39%	84%	48%

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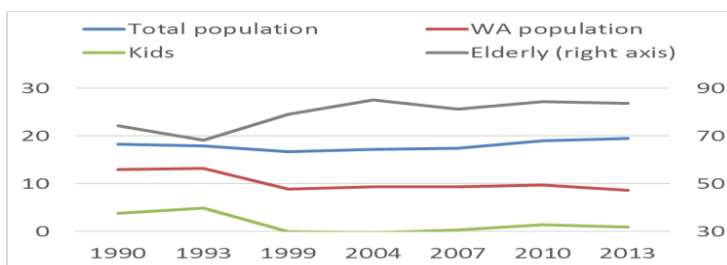
Great Recession: At risk of poverty shifted from elderly to the young (change AROP 2007-2013)



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The Netherlands: poverty of market income and disposable income and fiscal redistribution since 1990

	Total population			Working-age			Children			Elderly		
	1990	2013	change	1990	2013	change	1990	2013	change	1990	2013	change
Poverty mi	30	32	1	23	22	-1	18	15	-3	94	90	-3
Poverty dpi	12	12	0	10	13	+3	14	14	0	19	7	-12
<i>Lifted out of poverty</i>	18	19	1	13	9	-4	4	1	-3	74	84	9



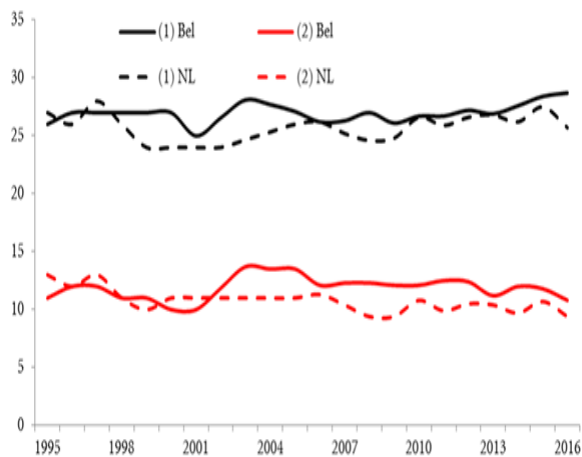
- Policy focus:
- Working age
 - Kids
 - Elderly

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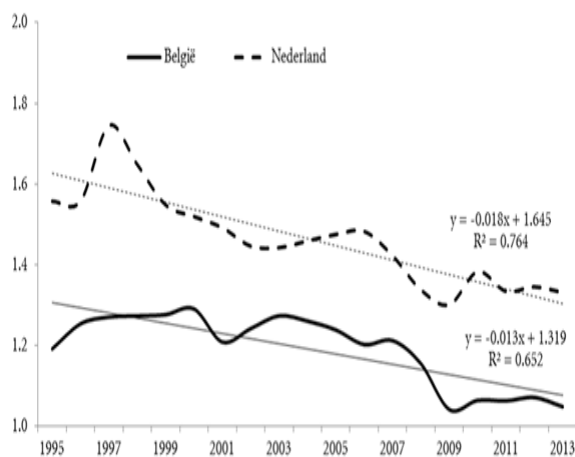
Source: Caminada (not be quoted)

Trend The Netherlands and Belgium: Increasing net social expenditures as % GDP, however

Armoedereductie door sociale uitkeringen en directe belastingen



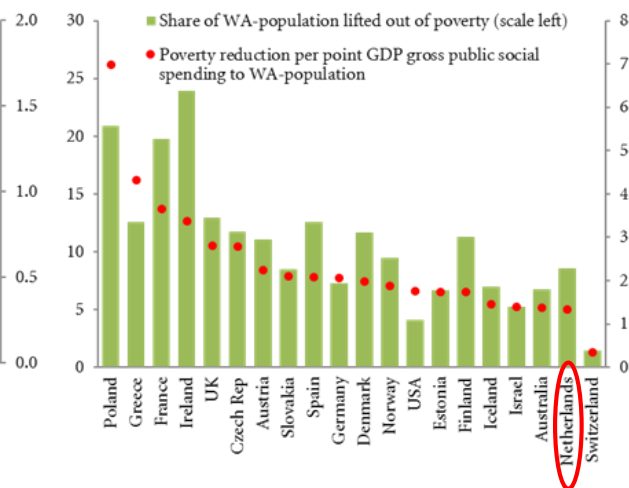
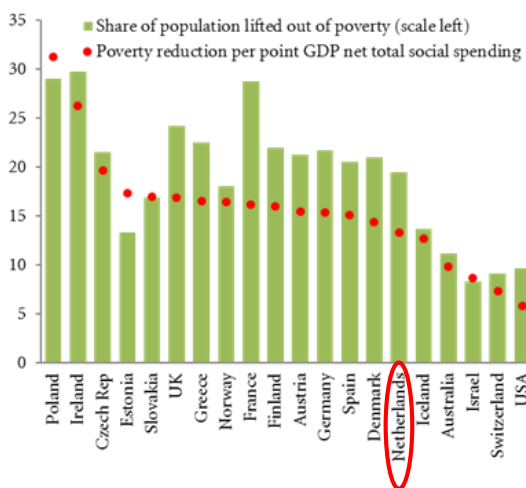
Armoedereductie door sociale uitkeringen en directe belastingen per 1-% bbp netto sociale uitgaven, 1995-2013



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Source: Caminada, Goudswaard, Van Vliet & Bakker (2018)

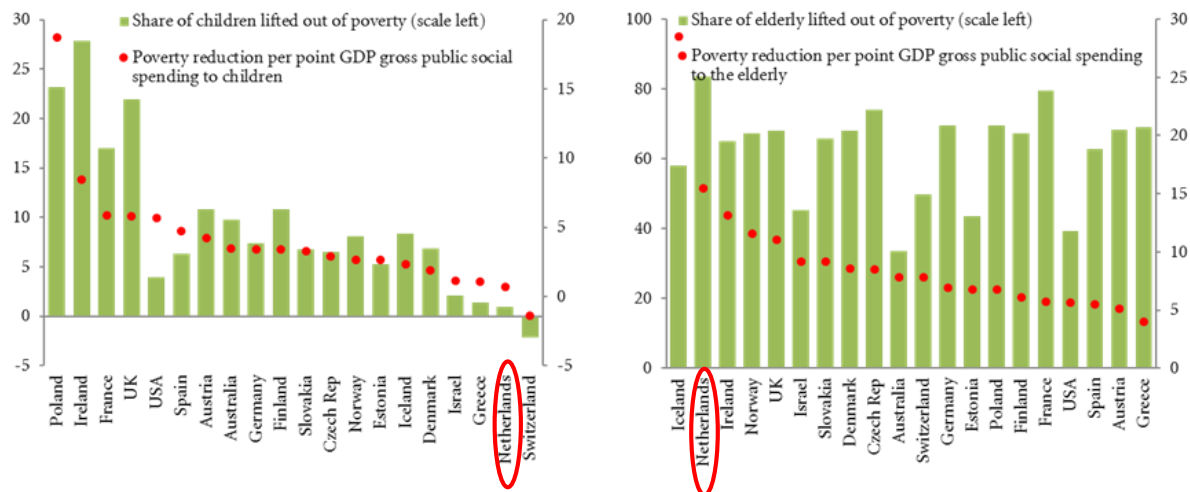
Public policy indicator on targeting Poverty alleviation via T/B-systems and social spending across 20 LIS/OECD-countries (most recent data year)



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Source: Caminada (unpublished work)

Public policy indicator on targeting Poverty alleviation via T/B-systems and social spending across 21 LIS/OECD-countries (most recent data year)

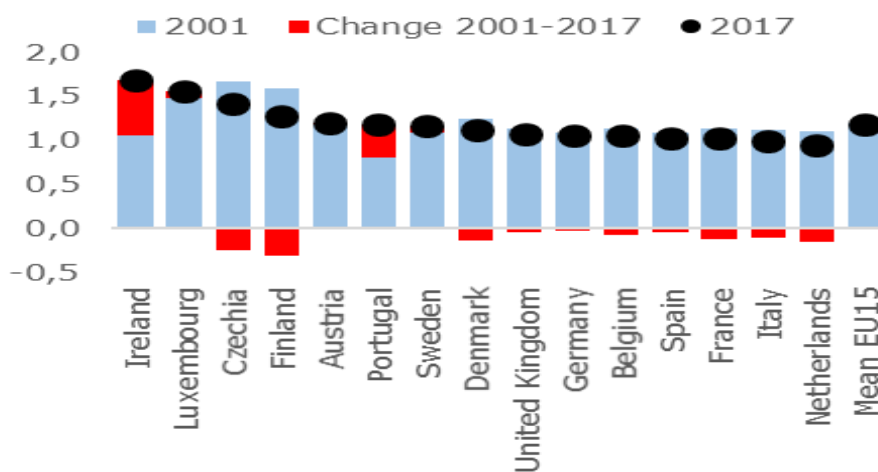


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Source: Caminada (unpublished work)

Targeting of net social expenditure on poverty reduction in the EU15 over time

Pensions are excluded from social transfers



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Lesson 1: OMC – best-practices

- Each point GDP net social spending alleviates poverty in EU15 on average by 1.2 point.

Best practice	Low score
Ireland	Italy
Luxembourg	Netherlands

- OMC: Mutual learning and policy exchanges ...
- Over time → Dutch system: less targeting → universalism

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Part III - Effectiveness of income transfer policies in alleviating poverty

- Vast literature claims “strong negative relationship at country level between the level of social spending and the incidence of poverty” – “arguably one of the most robust findings in comparative poverty research”
- Behrendt (2002), European Commission (2009), Smeeding (2005, 2006), Nolan & Marx (2009), Kenworthy (1999), Kangas & Palme (2000), Kim (2000), Sainsbury & Morissens (2002), Cantillon et al (2003), Förster & Pearson (2002), Brady (2004), Scruggs & Allen (2005), Förster & Mira d’Ercole (2005), Pestieau (2006), OECD (2008, 2011, 2014).
- **However, (Caminada et al)**

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Exception: poverty among kids immigrants

Poverty (PL50) among Immigrant Children across Countries

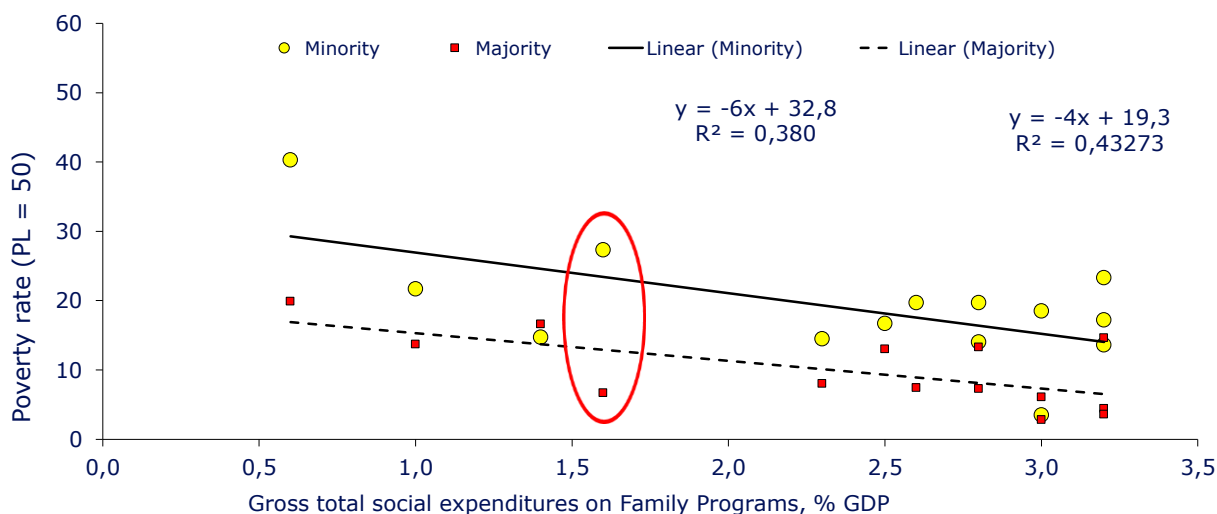
	% Immigrants Households	All	Majority	Minority	Index
Australia	27	15	13	20	1,5
Austria	17	9	7	14	1,9
Belgium	13	10	7	20	2,7
Canada	21	15	14	22	1,6
Denmark	6	6	4	17	3,9
Finland	6	3	3	4	1,3
France	8	8	6	19	3,0
Germany	8	9	8	15	1,8
Ireland	13	14	13	17	1,3
Italy	2	17	17	15	0,9
Netherlands	6,7	8,5	6,7	27,3	4,1
Sweden	4	4	4	14	3,8
UK	13	16	15	23	1,6
USA	13	22	20	40	2,0
Average	11	11	10	19	1,9

Foei

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Source: Smeeding et al (2009)

Targeting social expenditure of family programs on (immigrants) children



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Lesson 2: Social spending and poverty

- ❑ Familiar claim (*higher social expenditures goes along with lower poverty levels*) must at least be toned down.
- ❑ Universal social benefits are less effective compared to targeting at vulnerable / high at-risk-of-poverty groups.
- ❑ Targeting especially via social expenditures of family programs at (immigrants) children.

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Part IV: Targeting at Dutch low income families

Tax credits + allowances : 55 billion euro

Tax revenue + SSC: 92 billion euro



Instrumental tax policy → stop just pumping money around and simplify the tax code and allowances → less complex financial relationship households – treasury

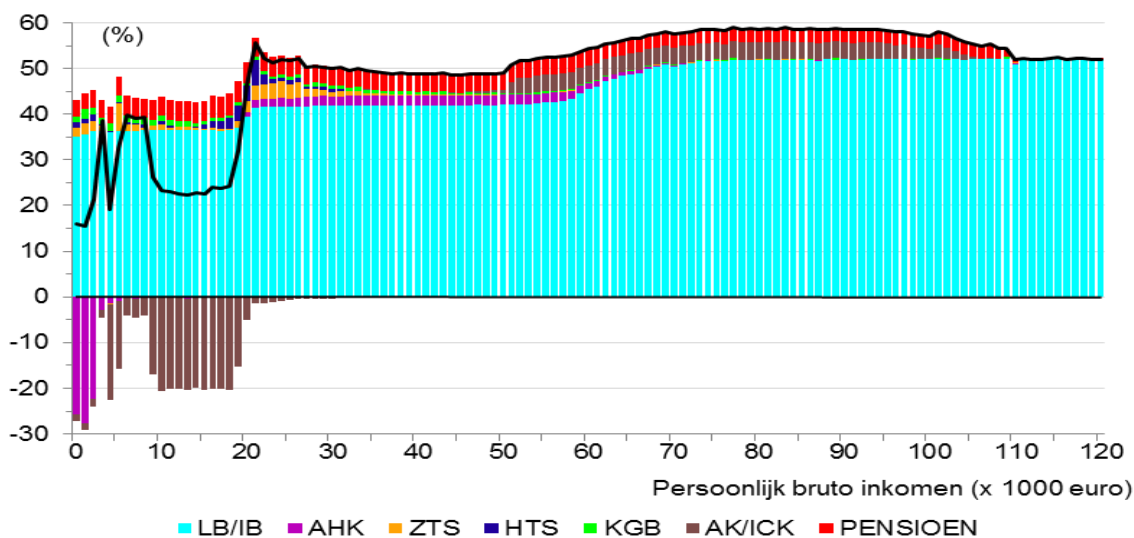
PIT rates almost double as high as they reasonably could be → shortening tax balance

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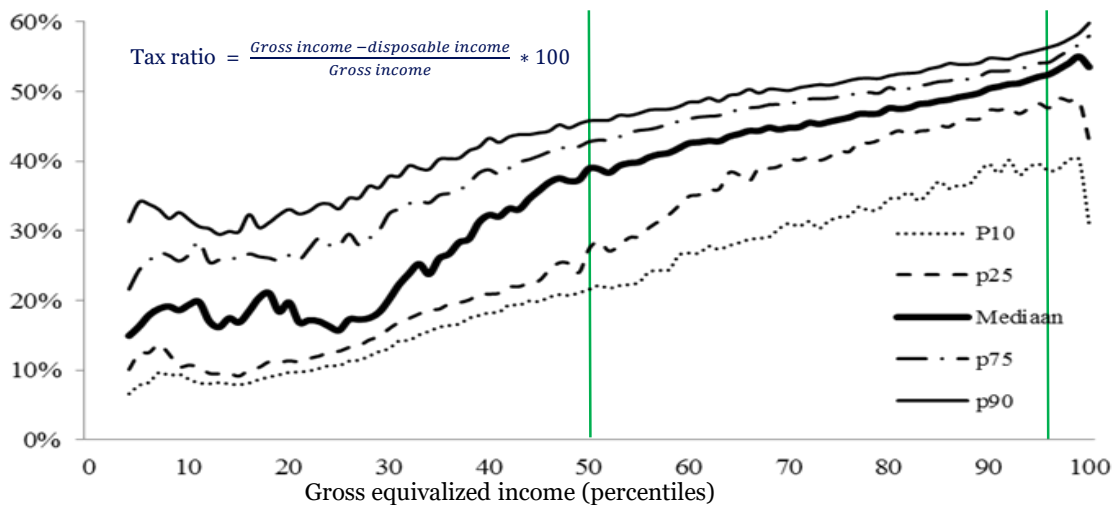
Cleaning: too much anomalies, 2016

	x billion	Per household
A: Tax expenditures (78)	18.9	2,444
- Indirect taxes (40)	9.6	
- Direct taxes (38)	9.3	
B: Tax credits (11)	42.3	5,483
C: Allowances (4)	12.4	1,600
D: Other	24.4	3,160
- Housing (mortgage interest)	8.1	
- Pensions (box 1 - box 3)	13.3	
- Lower rate PIT seniors	3.0	
E: Other (15)	17.2	
Correction for doubles	-3.2	
Total: 110 anomalies	112.0	14,502

Samenstelling marginale belastingdruk 2015



Heterogeneity tax ratios = results fiscal discrimination



Policy: To what extent will society take differences in income and other factors into account by determining tax ratios?

€ 33.551 →
 P10=22%
 P50=39%
 P90= 50%

€ 88.865 →
 P10=39%
 P50=52%
 P90= 56%

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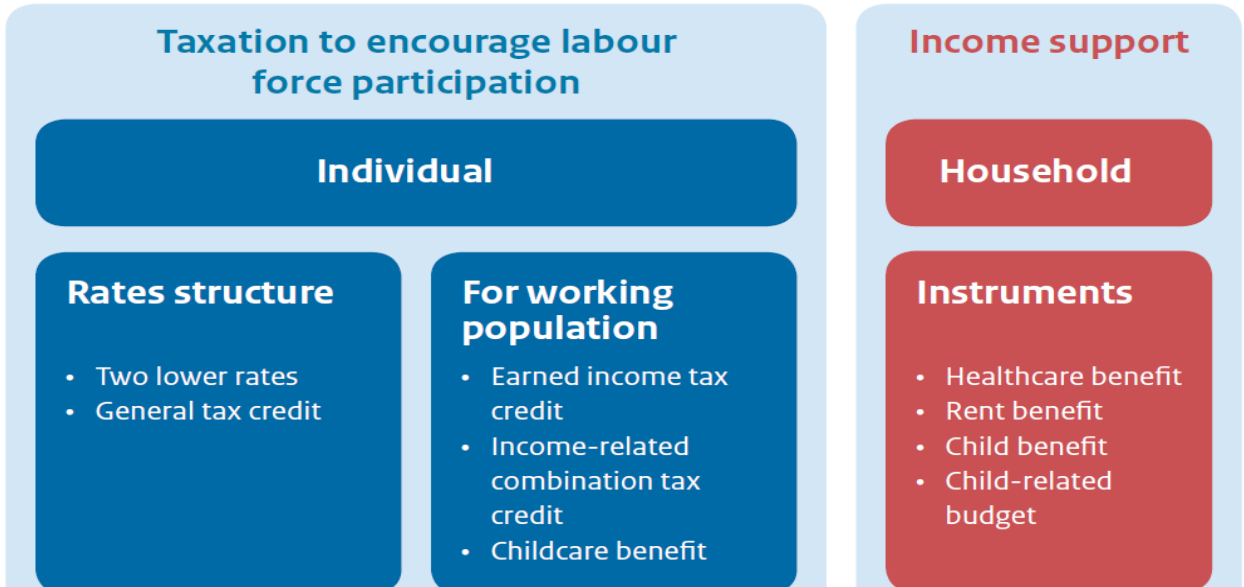
Source: Caminada, Goudswaard & Knoef (2018)

Rethinking Allowances: Targeting at low incomes or Universalism?

	Budget (billion euro)	# Households (x 1,000)	Share of households
Housing rent	2.774	1,107	15%
Kids	1.047	824	11%
Healthcare	4.855	3,628	48%
Total	8.676	6,316	
(# households with allowances)		(4,589)	(61%)
Tax Committee (Family Allowance)		3,651	49%
Idem, compulsory pay-out via health insurances		1,405	19%

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Clear distinction: (individual) taxation and (family) income support



Concluding remarks - policy

Objective: Poverty reduction (kids). How?

- ✓ Requirement: rethinking anti-poverty policy - out of the box (system).
- ✓ Target instruments to vulnerable groups → kids of immigrants, working poor (self-employed); *not* elderly.
- ✓ Current social benefits, T/B-system and Allowances are less well suited to target (too many beneficiaries) → Target Family Allowance.
- ✓ Status quo T/B-system: social cost **225,000** jobs



Related work – downloads via

www.economie.leidenuniv.nl

1. Caminada & Goudswaard (2020), Combating poverty in the European Union, in: Ellian (eds.) *Reflections on democracy in the European Union*, Eleven International Publishing, forthcoming.
2. Vliet Van, Caminada, Goudswaard & Wang (2019), Poverty reduction among older people through pensions: a comparative analysis, in: Bent Greve (eds.), *Handbook of Poverty* (forthcoming).
3. Caminada, Goudswaard, Wang & Wang (2019), Has the redistributive effect of social transfers and taxes changed over time across countries?, *Int. Social Security Review* 72(1): 3-31.
4. Caminada, Wang, Goudswaard & Wang (2019), Relative income poverty rates and poverty alleviation via tax/benefit systems in 49 LIS-countries, 1967-2016, *LIS WP Series # 761*.
5. Caminada, Goudswaard, Wang & Wang (2019), Income inequality and fiscal redistribution in 31 countries after the crisis, *Comparative Economic Studies*: 1-30.
6. Caminada, Wang, Goudswaard & Wang (2017), Income inequality and fiscal redistribution in 47 LIS-countries, 1967-2014, *LIS WP Series #724*.
7. Been, Caminada, Goudswaard & Van Vliet (2017), Public/private pension mix, income inequality, and poverty among the elderly in Europe: an empirical analysis using new and revised OECD data, *Social Policy & Administration* 51(7).
8. Caminada & Martin (2016), A cross-Atlantic descriptive policy analysis of differences in anti-poverty approaches in Europe and the United States, in: MJ Skidmore (red.), *Poverty in America*, Westphalia Press: 278-297.
9. Caminada (2015), How strong are Pikettys trends?, *Leiden Law Blog*, 12 January 2015.
10. Caminada, Goudswaard & Koster (2012), Social income transfers and poverty: A cross-country analysis for OECD countries, *International Journal of Social Welfare* 21(2): 115-126.

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Related papers – downloads via

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1. Caminada & Goudswaard (2019), Fiscaal beleid leidt tot grote verschillen in lastendruk: oorzaken, maatvoering én ontwikkeling van fiscale discriminatie in Nederland, bijdrage voorbereid voor 2019 *Crossen Forum: Tax by Design for the Netherlands*, te verschijnen
2. Caminada, Goudswaard & Knoef (2018), Toenemende spreiding in de drukverdeling van inkomensheffingen, *Weekblad Fiscaal Recht* (7256), 4 oktober 2018.
3. Caminada, Goudswaard, Van Vliet & Bakker (2018), Verschillen in niveau en ontwikkeling van de inkomensongelijkheid, -herverdeling en -armoede in Nederland en België, *Department of Economics Research Memorandum* 2018.02, Universiteit Leiden.
4. Caminada & Stevens (2017), Instrumenteel fiscaal beleid: oorzaak van complexiteit en scheefgroei, *Weekblad Fiscaal Recht* (7181), 2 maart 2017.
5. Caminada & Stevens (2017), Blauwdruk voor belastinghervorming, *Weekblad Fiscaal Recht* (7191), 11 mei 2017.
6. Caminada (2015), Keuzes voor een beter belastingstelsel 2.0, *Tijdschrift voor Openbare Financiën* 47(1).
7. Caminada (2015), De tragiek van gefaalde ambities en gemiste kansen rond belastinghervorming, *Me Judice*, 23 september 2015.

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Databases & codebooks

1. [Leiden LIS Budget Incidence Fiscal Redistribution Dataset on Income Inequality](#) (2017)
2. [Idem, on Relative Income Poverty Rates](#) (2019)
3. [Social Assistance and Minimum Income Levels and Replacement Rates Dataset](#)
4. [Unemployment Replacement Rates Dataset](#)
5. [Sectoral Income Inequality Dataset](#)

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