

# EUROMOD NEWS

## The tax-benefit microsimulation model for the European Union

EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

As well as calculating the effects of actual policies it is also used to evaluate the effects of tax-benefit policy reforms and other changes on poverty, inequality, incentives and government budgets.

EUROMOD is a unique resource for cross-national research, designed to produce results that are comparable across countries and meaningful when aggregated to the EU level.

EUROMOD is managed, maintained, developed and updated by the **Microsimulation Unit**, a team of researchers in ISER. This is done in collaboration with national experts.

The current version of EUROMOD represents the accumulation of technical developments and expertise over a number years and involving a large team of people. For more information on the design and development of EUROMOD click here.

[www.iser.essex.ac.uk/euromod](http://www.iser.essex.ac.uk/euromod)



## New EU27 statistics from EUROMOD available to download from our website

**EUROMOD statistics on the distribution and decomposition of disposable income are now ready to download, including information for the first time on each of the 27 EU Member States.**

The statistics which can be downloaded as a PDF here provide estimates of income components (taxes and benefits) by household income decile group as well as inequality and poverty indicators before and after taxes and benefits for all 27 EU countries.



PLAMEN AGOV

## A case for means-tested benefits reform in Bulgaria?

**More than 60 per cent of the intended recipients of social assistance and benefits for young children are not receiving the state support they need as the poverty gap in Bulgaria increases.**

New research by economist Iva Valentinova Tasheva at the Institute for Social and Economic Research looks at whether the policy objectives of Bulgaria's benefits system are being achieved and through use of EUROMOD, simulates the impact of perfect implementation and full take-up to show how this would still fail to reduce poverty significantly. You can read more about the research here.

## Would you like to learn how to use EUROMOD with our training course?

The next training course providing a hands-on introduction to the use of EUROMOD will be held in ISER on 16-18 April 2013.

The aim of the course is to introduce new users to EUROMOD. The course will cover the following topics: structure, concepts, input data, documentation and applications of EUROMOD. It will combine lectures and demonstrations with hands-on exercises using the model. If you are interested in attending or would like more information, please click here. ● Closing date is 15 March –application slots fill up very quickly and places are awarded on a first come first served basis.

## Conference on Microsimulation for Policymaking in Times of Crisis

Organised by the European Commission (DG-EMPL), this conference took place on 21 November 2012 in Brussels.

Micro-simulation models can be powerful tools for policy-makers to understand the effects of policies, particularly taxes and benefits, and reforms to them. They can also help to understand the cost and effectiveness of policies and income distribution.

The conference provided a showcase for some recent policy-relevant analysis using EUROMOD and other microsimulation models. Click here ● for information, presentations and papers.



**FLEMOSI**  
FLEMish MODEls of SIMulation

## Projects using EUROMOD

In each newsletter we highlight a research project that uses EUROMOD. This month, we look at the Flemish-led project FLEMOSI.

In the FLEMOSI (FLEMish MODEls of SIMulation) project, five international partners have joined forces, led by the Center for Economic Studies at KULeuven, to build a toolbox of state-of-the-art models to evaluate *ex ante* policy changes in Flanders.

The starting point is EUROMOD which is being extended to cover specific Flemish competences. These models are aimed at three different stakeholder groups:

- **policy makers** will be able to assess the budgetary impact of policy measures as they are designed and get an immediate view

on the estimated effects on poverty and welfare;

- **civil society and the general public** can use slimmed-down versions of the models online. In this way the public debate can be fostered and enriched; and
- the up-to-date FLEMOSI-models will allow **the academic community** to integrate the often complex Flemish tax-benefit system in advanced theoretical and empirical models.

Click here ● for more information about the FLEMOSI project.

## EUROMOD in the news

### The other side of success in Latvia

Latvian media coverage of new research using EUROMOD by Anna Zasova, Research Fellow at the Baltic International Centre for Economic Policy Studies (BICEPS) – 'The other side of success in Latvia' has attracted widespread media attention in Latvia ● as well as recognition by the IMF.

## Finding a minimum income in Greece

With poverty at record levels, economists from the Policy Analysis Research Unit at the Athens University of Economics and Business have used EUROMOD to forecast the impact of introducing a minimum guaranteed income to Greece's poorest households.

Simulating a guaranteed minimum income for Greece by Manos Matsaganis and Chrysa Leventi describes how Greece is one of the last EU countries to introduce a broad-based social assistance programme of last resort (acting as guaranteed minimum income). The latest Spending Review 2013-2014 provides some funding (€20m) for a pilot programme to be implemented in two areas of the country in the year 2014.

"We use EUROMOD in order to estimate the fiscal and distributional impact of such a scheme. We hypothesise two versions of guaranteed minimum income (GMI): the base scenario assumes that the income guarantee for one person is set at the level of unemployment insurance benefit (€360 per month); in the alternative scenario, that amount is linked to the unemployment assistance benefit (€200 per month); housing allowances would also be payable.

We find that the introduction across the country of a GMI along the lines of our base scenario would eliminate extreme poverty, and drastically reduce relative poverty, at a cost of over 1% of GDP. A less generous GMI, like our alternative scenario, would only cost 0.35% of GDP (less than 2% of total expenditure

on social protection) but would perform less strongly in terms of poverty reduction."

The Policy Analysis Research Unit is an informal group of staff and students at the Athens University of Economics and Business, co-ordinated by Manos Matsaganis. The NewsLetter series is produced by Kritiki Publishers and is supported by the EUROMODupdate2 project (which is funded by the European Commission). For more information click here (link in Greek) or, to email the Policy Analysis Research Unit, click here.

## Extreme poverty in Greece now at 8.5% of the population

**Poverty amidst the crisis in Greece, by Manos Matsagnis, Chrysa Leventi and Eleni Kanavista, found that applying a fixed poverty threshold (60 per cent of the 2009 median in real terms) meant a rise in those considered to be poor before the recession to 35 per cent of the population.**

Setting an extreme poverty threshold, equal to the cost of a basket of basic necessities, the researchers found that this meant 8.5 per cent of the population would not be able to afford this since the recession began. Poverty rates were significantly higher for children and dramatically higher for the unemployed – less than 17 per cent of these receive any unemployment benefits.

Using the European tax-benefit microsimulation model, EUROMOD, based at ISER, researchers from the Policy Analysis Research Unit at the Athens University of Economics and Business, have found the deep and prolonged recession in Greece is having a dramatic impact on income distribution. The study used EUROMOD to monitor how income distribution in Greece has changed in recent years, in the absence of timely official statistics.



## Working papers

**Evaluating the performance of means-tested benefits in Bulgaria EUROMOD Working Paper Series: EM8/12**

**Author** Iva Valentinova Tasseva

Little is known about the effectiveness of means-tested benefits in Bulgaria. Using individual and household level data, I analyse the performance of two social assistance and two means-tested child benefits. I find that the programmes reach a very small proportion of the households with incomes below a relative poverty line. Furthermore, the transfers are characterised with very high non-take up and inclusion of non-entitled or non-poor recipients. Poverty rates decrease by a small degree among benefit clients and yet, the impact is insufficient to affect overall poverty, or for the benefits to achieve their ultimate goals.

**Publication date** 28 September 2012

**● PAPER DOWNLOAD**

**The fiscal and distributional impact of possible tax reforms in the Netherlands EUROMOD Working Paper Series: EM9/12**

**Author** Klaas de Vos

**Abstract** This paper uses the tax-benefit microsimulation model EUROMOD to assess how three types of tax reform would affect the state budget and the income distribution in the Netherlands. After briefly introducing the Dutch tax system and the case for and against these reforms, we investigate the effects of (1) introducing a flat income tax rate, (2) reducing the mortgage interest deduction and (3) shifting the state pension contribution to income tax, and of combining these reforms. Notably, the analysis does not include possible effects of these reforms on, e.g., the labour market and/or the housing market, but assesses the *ceteris paribus* effects of the reforms on the state budget and on poverty and inequality. Depending on the choice of the various parameters of the reforms both the budgetary and the distributional effects may vary widely. We show that the budget deficit may increase or decrease in combination with both increases and decreases in inequality and poverty. So, an optimal tax reform could be chosen depending on the preferences with respect to the budget and the income distribution.

**Publication date** 18 December 2012

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**Economic well-being and distributional effects of housing-related policies in three European countries EUROMOD Working Paper Series: EM10/12**

**Author** Virginia Maestri

**Abstract** This paper evaluates the redistributive effect of a comprehensive set of housing-related policies, taking into account the housing advantage of homeowners and social tenants. We use the EUROMOD microsimulation model to simulate housing policies in Estonia, Italy and the United Kingdom. Disentangling the contribution to inequality and poverty of each housing-related policy, we find that the current design of property taxes is not progressive and that other housing policies have a limited impact on inequality in Estonia and on both inequality and relative poverty in Italy. In all three countries, housing-related policies favour the elderly.

**Publication date** 19 December 2012

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**Improving Work Incentives: Evaluation of Tax Policy Reform Using SRMOD EUROMOD Working Paper Series: EM11/12**

**Authors** Saša Rančelović  
Jelena Žarković Rakić

**Abstract** Inactivity and unemployment rates as well as informal employment rates in Serbia are particularly high among low-paid labor. Labour tax wedge is average at higher wage levels, but high at lower wage levels. The relatively high labour tax burden for low-paid employees is due to several reasons. The most important one is the existence of mandatory minimum base for social security contribution (SSC). This paper uses the tax and benefit microsimulation model for Serbia (SRMOD), which is based upon EUROMOD platform, in order to evaluate the effects of the abolishment of mandatory minimum SSC base on labour supply incentives. We found that this policy reform would reduce effective average tax rates by more than it would reduce marginal tax rates implying a larger participation response than hours-of-work response. A decrease in both tax rates is most pronounced for lower income groups.

**Publication date** 20 December 2012

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**Effects of Income Tax on Personal Savings:  
Econometric Evidence from Serbia EUROMOD  
Working Paper Series: EM1/13**

**Author** ● Sasa Randjelovic

**Abstract** Due to limited access to foreign savings after the 2008 crisis, transition economies are forced to rely more on domestic savings in financing their growth. In that respect, it is often argued that the government should use tax policy to encourage domestic savings. Since the personal income tax reform is a burning issue in Serbia, the aim of this paper is to provide empirical evidence on the expected effects of each of the three income tax reform scenarios (flat, dual and comprehensive income tax scheme) on personal savings in Serbia, by taking into account both capital income tax effects and labour income tax effects. Taylor's theoretical model suggests that the personal saving is a function of personal income and the rate of return to savings. This is one of the seminal papers, in which the savings effects of tax policy reform are empirically estimated for a transition economy by taking into account both transmission channels. By combining Engle-Granger cointegration methods based on monthly macro data from 2004 to 2009, with the tax-benefit microsimulation model based on cross section micro data for 2007, it has been estimated that changes of capital income tax rate effects prevail over the effects of labour income tax changes, in terms of savings response. The results suggest that introduction of dual income tax in Serbia would boost personal savings in the long run, by 0.20%, while the flat tax and comprehensive income tax would lead to its decline by 2.15% and 3.64% respectively.

**Publication date** 22 January 2013

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**The distributional effects of fiscal consolidation in nine EU countries  
EUROMOD Working Paper Series: EM2/13**

**Authors** ● Silvia Avram  
● Francesco Figari  
● Chrysa Leventi  
● Horacio Levy  
● Jekaterina Navicke  
● Manos Matsaganis  
● Eva Militaru  
● Alari Paulus  
● Olga Rastrigina  
● Holly Sutherland

**Abstract** We compare the distributional effects of policy changes presented as fiscal consolidation measures in nine EU countries that experienced large budget deficits following the financial crisis of the late 2000s and subsequent economic downturn, using the EU microsimulation model EUROMOD. The nine countries, Estonia, Greece, Spain, Italy, Latvia, Lithuania, Portugal, Romania and the

UK, chose different policy mixes to achieve varying degrees of fiscal consolidation. We find that the burden of fiscal consolidation brought about through the first round effects of increases in personal taxes, cuts in spending on cash benefits and reductions in public sector pay is shared differently across the income distribution in the nine countries. In Greece, Spain, Italy, Latvia, Romania and the UK the better off lose a higher proportion of their incomes than the poor. At the other extreme, in Estonia, the poor lose a higher proportion than the rich. In Lithuania and Portugal the burden of fiscal consolidation falls more heavily on the poor and the rich than it does on those with middle incomes. Including increases in VAT alters the comparative picture by making the policy packages appear more regressive, to varying extents.

**Publication date** 1 February 2013

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