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OECD SOCIAL, EMPLOYMENT AND MIGRATION WORKING PAPERS No. 150

**Redistribution Policy in Europe and the United States:  
Is the Great Recession a 'Game Changer' for Working-age Families?**

**Herwig Immervoll and Linda Richardson**

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## ABSTRACT

Working-age individuals and their families have experienced increases in relative income poverty before the Great Recession (GR), and they have also seen significant income losses since the beginning of the downturn in 2007/8. This paper examines the effects of benefit and tax reforms on the distribution of incomes of non-elderly individuals in Europe and in the United States both before and after the GR. We aim to place recent policy responses in context of both the broader trends in redistribution patterns observed since the 1980s, and the immediate crisis-related challenges, including a much greater need for government support, and large and rapidly growing government debt. Analysis of historical household income data confirms the common finding that redistribution reduces income inequalities by much less in the US than in much of Europe. Since more redistributive tax-transfer systems tend to be more effective as a backstop to widening earnings gaps, redistribution in the US was also less effective at offsetting the substantial increase in the market-income inequality in the 2-3 decades leading up to the GR. Focussing on more recent policy changes, we then calculate income gains and losses that can be attributed to reforms shortly before and after the GR at different points in the earnings spectrum. The results show that a combination of discretionary and automatic policy changes in the US have significantly narrowed the pre-GR gap between the equalising capacities of US and European redistribution measures, and between their abilities to cushion the effects of economic shocks on household income. We argue, however, that this is unlikely to signify any longer-term convergence, and that Europe/US comparisons need to go beyond the common focus on differences in redistribution levels. In our view, an equally important question is how well redistribution measures respond and adapt to evolving social and fiscal challenges at different points in the economic cycle.

## RÉSUMÉ

Les individus d'âge actif et leurs familles ont été exposés à une aggravation de la pauvreté relative avant la Grande Récession et ont également essuyé des pertes de revenu non négligeables depuis le début de la récession de 2007-08. Le présent document a pour objet d'examiner les effets des réformes des prestations et des prélèvements fiscaux sur la distribution des revenus des individus non âgés en Europe et aux États-Unis, tant avant qu'après la Grande Récession. Nous nous donnons pour objectif de replacer les mesures gouvernementales prises récemment face à la récession dans le contexte des grandes tendances se dégageant des schémas de redistribution observés depuis les années 80 et des difficultés immédiates liées à la crise, dont la nécessité devenue beaucoup plus aigüe d'un soutien des pouvoirs publics et un endettement élevé des États qui tend à se creuser rapidement. L'analyse des données historiques relatives aux revenus des ménages confirme l'idée communément admise selon laquelle la redistribution réduit beaucoup moins les inégalités de revenus aux États-Unis que dans la plus grande partie de l'Europe. Les systèmes de prélèvements et de prestations plus redistributifs étant généralement plus efficaces pour enrayer le creusement des écarts de revenus, la redistribution a également été une arme moins efficace aux États-Unis pour contrebalancer l'aggravation notable des inégalités de revenu marchand constatée pendant les vingt à trente années ayant précédé la Grande Récession. Revenant aux réorientations plus récentes de l'action publique, nous calculons ensuite les gains et pertes de revenu imputables aux réformes mises en œuvre peu avant et peu après la Grande Récession en différents points du spectre des gains. Les résultats obtenus montrent qu'aux États-Unis, les effets conjugués des inflexions de l'action publique à caractère automatique ou discrétionnaire ont sensiblement réduit l'écart qui existait avant la Grande Récession entre la capacité de nivellement des revenus du système américain et celle résultant des mesures de redistribution en vigueur en Europe ainsi qu'entre les capacités respectives des systèmes américain et européen à atténuer les effets des crises économiques sur le revenu des ménages. Selon nous, il n'est toutefois guère probable que cela annonce une convergence à long terme et il faut s'affranchir, dans les comparaisons entre Europe et États-Unis, de la tendance à se polariser sur les différences entre les niveaux de redistribution. De notre point de vue, il est tout aussi important de se demander jusqu'à quel point les mesures de redistribution répondent et sont adaptées à des défis sociaux et budgétaires en constante évolution à différents moments du cycle économique.

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## 1. INTRODUCTION

1. Following the so-called Golden Age of the Welfare State, cost containment has been identified as one of the major forces shaping the rescaling or reconfiguration of social welfare policies since the 1980s (Pierson, 2002). During this period, social welfare and tax-related measures in both Europe and the United States have had a central role in the well documented trend towards greater inequality – either as a contributing factor, or as the government’s most direct policy instrument for countering it. In fact, recent findings, summarised below, indicate that taxes and transfers have frequently become less successful at stemming widening income gaps between the mid-1980s and the mid-2000s, and that social and fiscal policy reforms were sometimes the main source of widening household-income gaps (OECD, 2011c).

2. The Great Recession (GR, henceforth) has produced far-reaching shifts in the context in which redistribution policies, and welfare state reforms more generally, are formulated. It has brought new urgency to the search for expenditure reductions, with austerity now a significantly more prominent, pressing, and immediate concern of policymaking across OECD countries. At the same time, income losses, greater job insecurity and much higher rates of joblessness in many countries go hand in hand with greatly elevated needs for income supplements and other types of government support. In combination with the sharp post-recession falls in government revenues, the resulting tension has fuelled an intense debate about the relative roles of expenditure and tax measures in bolstering public finances, and about spreading the economic costs of the downturn in a socially and politically acceptable way.

3. This paper examines the combined effects of benefit and tax reforms on the distribution of household incomes, both before and after the onset of the downturn. The aim is to place countries’ recent policy responses in the context of both the immediate crisis-related challenges, and the broader trends in redistribution patterns observed since the 1980s. Clearly, with only a few data points currently available for assessing post-crisis policy reforms, a comparison with pre-crisis trends is necessarily preliminary. Indeed, in view of the scale of social, economic and fiscal challenges resulting from the GR, its consequences for redistribution policy will continue to play out over an extended period of time. However, because the crisis has led to a spike in reform activity, an assessment of the associated distributional consequences thus far is both interesting and important. The paper is an early attempt at shedding light on policy changes that the GR has already brought about, and how these compare with policy trends prior to the downturn.<sup>1</sup>

4. In line with most cross-country studies of income inequality, we focus on *interpersonal* redistribution (between income groups), rather than *intertemporally* (over the life cycle). Importantly, we limit the analysis to the “non-elderly” population, for three main reasons. First, longer-term trends towards a greater incidence of very low incomes, such as headcount measures of relative poverty, have largely concerned working-age individuals and their children (OECD, 2008a). Second, working-age individuals

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1. To keep the discussion focussed, the paper is limited to able-bodied prime-age workers. In particular, sickness, disability and early retirement benefits are beyond its scope; they are, e.g., discussed in the OECD series *Sickness, Disability and Work* (see [www.oecd.org/els/disability](http://www.oecd.org/els/disability)) and in in-depth country reviews on the situation of older workers ([www.oecd.org/olderworkersforum](http://www.oecd.org/olderworkersforum)).



and their families are also likely to bear the brunt of crisis-related earnings and income losses since the onset of the downturn. Third, with growing pressure on public budgets due to ageing populations, an important question is whether welfare-state provisions benefiting the working-age population are being restrained in order to finance support for the elderly.

5. The paper covers the United States as well as selected European Union countries. It proceeds in three parts. Section 2 examines the challenges facing redistribution policies in the post-crisis period. This is done by considering some of the major initial consequences of the economic downturn on households, and on government budgets. In Section 3, we summarise redistribution trends between the mid-1980s and the mid-2000s, and discuss whether taxes and transfers have become more or less effective at reducing income inequality among non-elderly individuals. In Section 4, we summarise more recent policy changes during the period 2002 to 2010. We then use a modelling approach to isolate the effect of policy changes before (2002-2007) and since (2007-2010) the GR on low, middle and higher-income households. The results allow identifying some of the “gainers” and “losers” of reforms.

6. In the concluding section, we discuss possible consequences of policy challenges resulting from the economic downturn, and from earlier policy choices, for future reform trends in the United States and in Europe. We argue that Europe/US comparisons should go beyond the common focus on differences in the *levels* of redistribution. In our view, an equally important question is how well redistribution measures *respond* and *adapt* to evolving social and fiscal challenges at different points in the economic cycle. Given reduced revenues and heightened demand for support during a downturn, this is a relevant question regardless of the starting point in terms of redistribution levels.

## 2. REDISTRIBUTION POLICIES: CHALLENGES IN THE POST-CRISIS PERIOD

### Widening income gaps

7. A number of studies during the early stages of the recent downturn has documented that recessions trigger large losses for some of the poorest income groups (Jenkins *et al.*, 2012; Immervoll *et al.*, 2011). This is of particular concern as the recent recession follows a well-documented medium-term trend toward a more unequal income distribution and, often, increasing rates of relative income poverty. More recent work suggests that, before accounting for redistribution, the GR has indeed further widened the gaps between rich and poor. Europe saw accelerating wage and employment polarisation after 2007 through a “collapse” of middle-ranking jobs (notably manufacturing and construction) and a continued demand for jobs in the upper part of the wage distribution, such as knowledge-intensive services in both the public and private sectors (Eurofound, 2013; Hurley and Storey, 2011). A recent update of the income tabulations available from the OECD Income Distribution Database indicates that, between the onset of the GR and 2010, market incomes at the bottom of the distribution in Spain, Hungary and Greece have dropped at an annualised rate of around 20%. Market-income losses in the top decile were also significant in these countries, but much smaller, at 6% or less per year (these results relate to working-age households in the bottom and top decile groups using household disposable income).

8. In the United States, all income groups saw losses and median family income fell by 6 percent in real terms during 2007-2010 (DeNavas-Walt *et al.*, 2011). As in Europe, low-income earners have, however, experienced the biggest – and higher-income groups the smallest – drops in pre-tax incomes (Fisher *et al.*, 2013). Hoynes *et al.* (2012) show that, similar to earlier recessions, those who experience weaker labour market outcomes even in good times are, again, the main losers in the GR. They summarise their findings by arguing that, in terms of the distribution of jobs and earnings losses, “the Great Recession is different from [earlier] business cycles [...] in size and length, but not in type” (p. 22).

9. Detailed data on market incomes covering the full period of the GR are not yet available for all countries. Yet, information from earlier downturns can give important clues on the distributional mechanics that may be at work in the aftermath of the GR. Figure 1 shows changes in market incomes (i.e., before redistribution) across earlier economic cycles for households in different income groups, using data from the Luxembourg Income Study (LIS). Importantly, the figure shows *relative* income changes for different income groups; Starting points are very different across countries, with the United States, United Kingdom and Poland recording much higher levels of market-income inequality than other European countries (see Section 3):

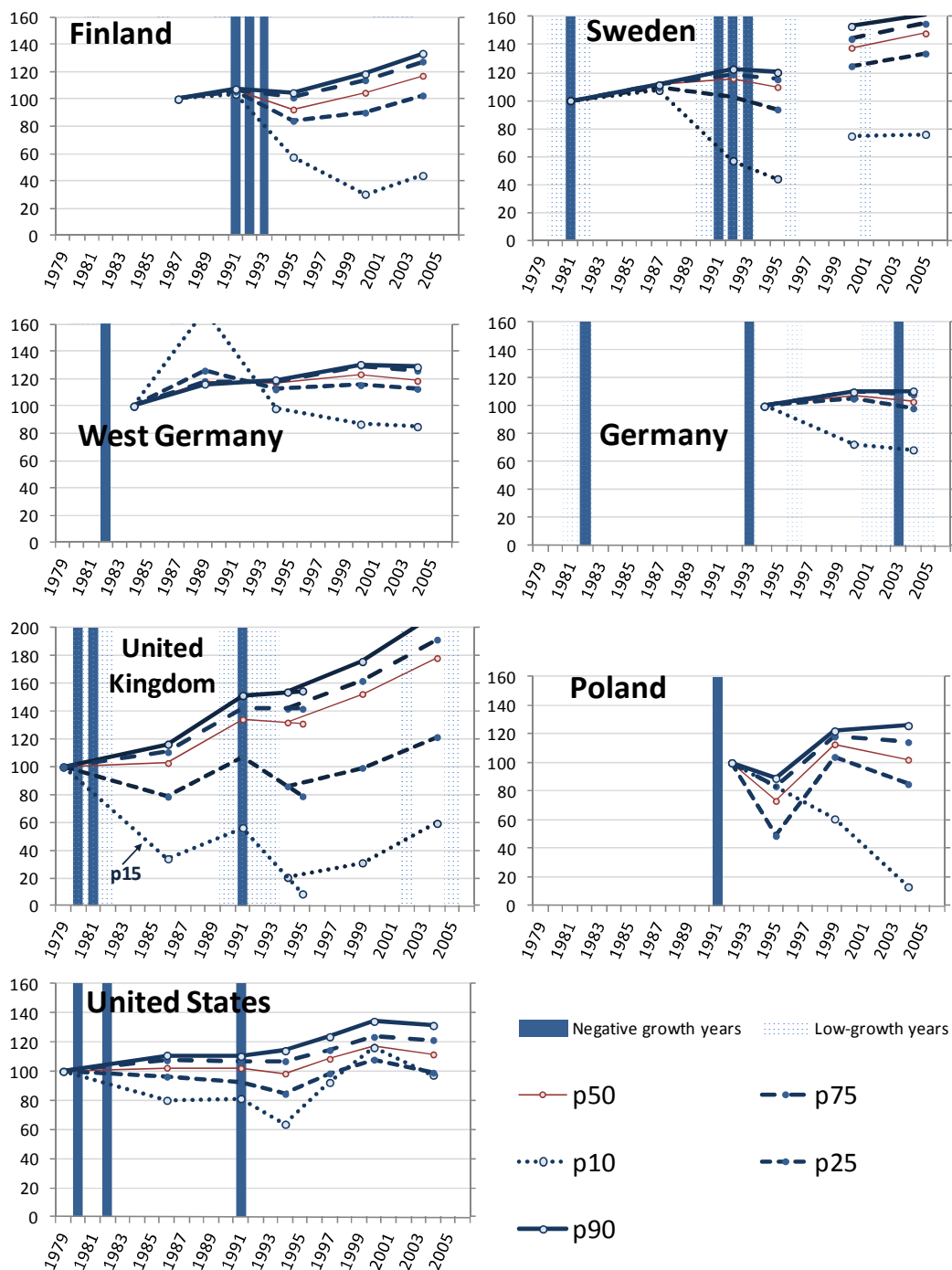
- Any disruptions in the upwards trends for high-income groups during the downturns of the early 1980s and 1990s appeared to be short-lived.
- At the bottom, joblessness can take market incomes to very low levels, and to zero if all family members are without work; when ten percent of the population or more live in such households, the 10<sup>th</sup> percentile point will be close to zero. This can be seen during periods of rapidly rising unemployment or withdrawal from the labour force, especially if job losses result in large

numbers of workless households, as in Finland and United Kingdom during the mid-1990s recessions, and in Poland later on.

- In most countries, however, market income inequality appeared to widen during both downturns and upswings. When incomes at the bottom fall rapidly during and after recessions, incomes in the upper part of the distribution have often continued to rise at a reduced pace. This pattern is notably evident for the United States. Where downturns do result in longer-lasting income losses for higher-income groups (as in Finland, Poland), they nevertheless tend to be significantly smaller than for low-income earners.
- In general, any episodes of narrowing income differentials have rarely lasted long enough to close the gap between high and low incomes that had opened up previously. In some cases, market-income gaps stagnated or continued to widen even as low incomes recovered from deep or prolonged labour-market downturns (Finland, United Kingdom).

**Figure 1. Widening gaps: Market incomes at different points in the distribution**

Household market incomes for “working-age” households, in constant prices. Earliest available data point=100.



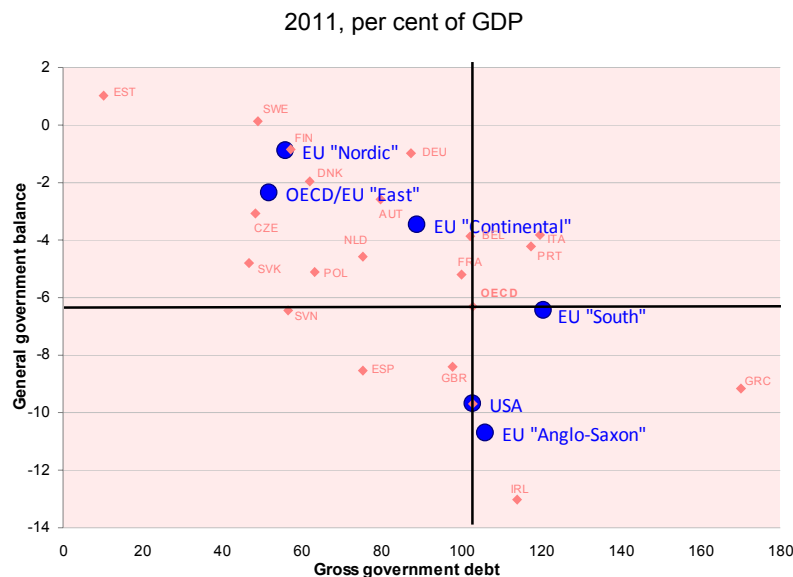
Notes: Households headed by a working-age individual (ages 15-64, except in Sweden where we chose 25 as the age cut-off to minimise the impact of a new household definition adopted in the mid-90s). p10, p25, p50, p75, p90: refer to percentiles of the distribution of household market incomes. Equivalised household incomes using the square-root scale. Separate series indicate a change in underlying data sources. Growth data are based on annual GDP. “Low” growth periods are the bottom-third in terms of annual growth during 1979-2005 in each country.

Source: Sources: Authors' calculations using data from the Luxembourg Income Study and OECD Economic Outlook (growth data).

## Growing fiscal pressures

10. These historical patterns are informative for considering the challenges facing redistribution systems today, when most OECD countries are emerging from a deep recession with their public finances under severe strain. The data underline the importance of adequate and well-targeted government transfers during economic slumps, as well as during the recovery. At the same time, both the United States and the majority of countries in Europe face substantial fiscal challenges, with spending cuts reducing the scope for transfers and other forms of social expenditure to cushion income losses (Figure 2). Based on recent fiscal data, the need for, and urgency of, short-term consolidation is greatest in the United States as well as in Southern and English-speaking EU countries. Importantly, however, the greater part of recent deficits is believed to be “structural” rather than “cyclical”. Countries will therefore still be spending more than they receive in revenues when the recovery is well entrenched. For instance, OECD (2010) expected cyclically adjusted deficits to account for more than three quarters of 2012 deficits in the OECD on average. To address structural challenges, all countries need to seek ways to maximise the value for money that public services and transfers provide.

**Figure 2. Government debt and fiscal balances**



Notes: Financial balances include one-off factors and are on a national accounts basis. "OECD" is the total (or weighted average) of all 34 OECD countries. EU Nordic (Denmark, Finland, Sweden), EU/OECD East (Czech Republic, Estonia, Hungary, Poland, Slovak Republic, Slovenia), EU Continental (Austria, Belgium, France, Germany, Netherlands), EU South (Greece, Italy, Portugal, Spain) and EU Anglo-Saxon (Ireland, United Kingdom) are unweighted country averages.

Source: OECD (2012), Economic Outlook, No. 91. See [www.oecd.org/eco/sources-and-methods](http://www.oecd.org/eco/sources-and-methods).

11. But the fiscal or budget crisis is not just a spending crisis. Recessions cause a slump in a range of important revenue sources, and are often followed by periods of sluggish revenue growth. Figure 3 looks at the aggregate picture, confirming that reduced government revenues have often had a greater impact on the budget balance than higher benefit expenditures.<sup>2</sup> For instance, panel (a) indicates that if 2009

2. The data relate to cash transfers only as similar information on service and other in-kind spending is not available. Cash transfers should however capture most of the variability of total social expenditures in a downturn as cyclical changes in services spending (especially health, the largest component) tend to be relatively small, delayed and short-lived (Scherer and Devaux, 2010).

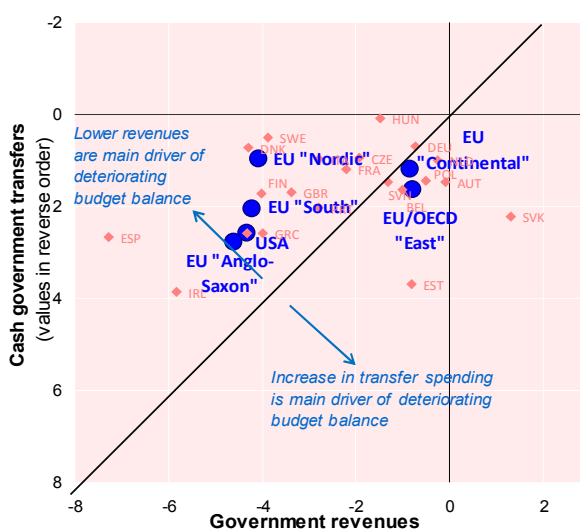
revenues in Spain had been the same in real terms as in 2007, this would have reduced the budget deficit by more than 7 percentage points. Returning to 2007 benefit expenditure levels would have reduced the deficit as well, but by much less (less than 3 percentage points). The United States once again shows a similar pattern as Southern and English-speaking EU countries: revenue shortfalls are a significantly bigger driver of deficits in the early phases of the downturn than are higher benefit expenditures. (Declining revenues were also the main factor behind deficits in Nordic countries but deficits there were comparatively small.) In contrast, in several Continental and Eastern EU countries, higher public spending on transfers was a more important driver of the initial deterioration of public finances than the decline of all sources of revenue combined.

12. In subsequent years, revenues in both the United States and Europe have recovered, while benefit spending has remained markedly higher than before the GR. This can be seen in panel (b), which shows the scatter plot shifting horizontally to the right in 2010 and 2011. Government revenues in the United States and in the English-speaking EU have recovered only slowly, however, and remain far below pre-GR levels. This is in contrast to most Continental and Eastern EU countries, where 2011 revenue-to-GDP ratios were already higher than before the recession and, hence, helped to finance higher benefit expenditures. In the Southern EU, where GDP growth was very low or negative, government revenues recovered only very little.

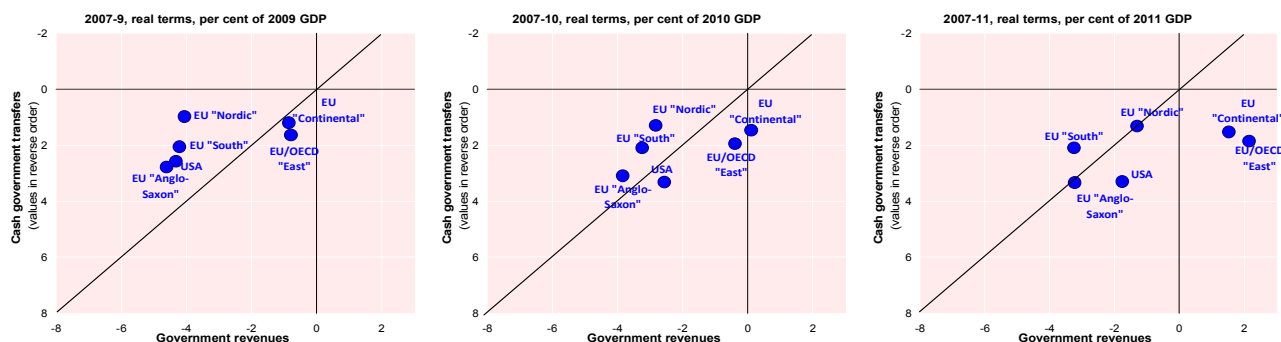
13. These patterns have implications for both redistribution policy and for fiscal consolidation strategies. Reversing the recent growth in social protection spending would be a big step towards mitigating fiscal problems. And, realistically, necessary social policy reforms in many countries will indeed need to find ways to “do more with less”. But reducing social spending is not sufficient to restore health to the public finances. For example, in a majority of countries, a return to 2007 levels of transfer spending would have closed less than a third of the budget gap in 2010. Moreover, no OECD country has been able to achieve cuts of this scale in the context of weak growth and elevated unemployment. In the United States as well as the Southern and English-speaking EU, the size of current budget deficits makes it clear that determined measures on both the expenditure and the revenue side would be required to return to fiscal sustainability. While fiscal reforms can reduce fiscal pressures, employment and earnings growth is essential everywhere both for reducing benefit spending, and for shoring up government revenues now and in the longer term. This is illustrated by the lasting difficulties that some countries are having in moving revenues and benefit spending towards pre-crisis levels – notably in Southern Europe, which saw major austerity measures while continuing to record rising unemployment and declining or stagnating GDP.

Figure 3. Budget deficits: changes in public transfers and government revenues

a. Changes in benefit expenditure and revenues 2007-9, per cent of 2009 GDP



b. Changes in benefit expenditure and revenues, 2007-11



Notes: Changes in both transfers and revenues are measured in real terms, e.g., in 2009 currency when measuring changes over the 2007-9 period. The vertical axis is inverted (a positive number indicates an increase in social benefit expenditure and, hence, a deteriorating budget balance). Government transfers: all cash social benefits paid by government. Government revenues: total tax and non-tax receipts of the general government sector (central and sub-central, plus social security contributions). Country groupings are in Figure 2.

Source: Calculations based on OECD (2012), Economic Outlook, No. 91. See [www.oecd.org/eco/sources-and-methods](http://www.oecd.org/eco/sources-and-methods).

### 3. REDISTRIBUTION TRENDS PRIOR TO THE GREAT RECESSION

#### Pre-crisis inequality trends

14. The concept of redistribution as *reduction in household income inequality* can be applied straightforwardly in different years, and this provides the basis for this section's comparison of redistribution trends. Yet, for policy-analysis purposes, looking at redistribution indicators alone is arguably not sufficient, as the perceived *need* for redistribution is unlikely to remain constant over time. This can be because inequalities before redistribution have changed, or because social attitudes towards inequality have become more or less egalitarian. For instance, with unchanged social attitudes towards inequality, a less equal distribution of market incomes would make a given extent of redistribution less costly in social-welfare terms, and more redistribution would be desirable in this case. The opposite holds if market-income disparities were to decline, or if social preferences became less egalitarian. Over longer time periods, one would expect to see changes in both social preferences and the distribution of market incomes.

15. Figure 1 above shows that, in the two decades prior to the GR, the dispersion of market incomes has in fact changed considerably.

- In the United States and two of the EU countries shown (Finland, West Germany), median market incomes at the household level rose by between 10 and 20 percent over (roughly) a 20-year period. On average, real GDP per capita roughly doubled during this period, so “middle-class” households participated only very partially in overall economic growth. Median incomes rose more strongly in other Western European countries (Sweden and, especially, in the United Kingdom), while they fluctuated without a clear trend in Poland, essentially stagnating over the period as a whole.
- Before accounting for taxes and transfers, income distributions widened substantially. The initial period used for these comparisons is dictated by data availability and clearly matters. But even with different starting periods, market-income gaps grew in all of the countries shown.
- Considering the well documented upwards trend in employment/population ratios for most countries, one might expect rising market-income shares at the bottom of the distribution. Yet, in the United States, market incomes at the 10<sup>th</sup> percentile fell until the mid-1990s (by 20% between 1986-94, and by 36% between 1979-94). Real incomes subsequently grew strongly until 2000 but then fell back and stagnated over the period as a whole. Strikingly, income levels at the bottom of the distribution have developed even less favourably in EU countries with the 10<sup>th</sup> percentile points *lower* in the mid-2000s than they were at the beginning of available data series. Possible reasons include employment polarisation between “work-rich” and “work-poor” households (e.g., Gregg *et al.*, 2004).
- Households at the 75<sup>th</sup> and 90<sup>th</sup> percentiles have seen greater real-term increases than other income groups. Other recent work documents very large gains at the very top for the United States (and, to a lesser extent, in other English-speaking countries, see OECD, 2011c); For



instance, Atkinson *et al.* (2011) show that the highest-earning 1% (families with taxable income above about USD 360 000) accounted for as much as two-thirds of all income growth during the 2002-2007 boom period. It is therefore interesting that market incomes at the 75<sup>th</sup> and 90<sup>th</sup> percentiles have grown less strongly in the United States than in many EU countries. Gains in this income range appear very large in Sweden and, particularly, the United Kingdom. Since the mid-90s, higher incomes also rose quickly in Finland and Poland.

### Pre-crisis redistribution trends

16. Taxes and cash benefits are the most direct policy levers for governments to influence distributional outcomes. Their quantitative importance for household economic well-being prior to the GR is summarised in Figure 4. Unlike most earlier comparative work on redistribution, it focuses explicitly on working-age individuals and their families.<sup>3</sup>

17. Income taxes and social contributions paid by working-age households amounted to more than 25% of earned market incomes when averaged across OECD countries (panel a). In line with common perception, these synthetic “tax rates”, which do not include indirect taxes, vary from around 35% in Nordic countries to around 20% in the United States and English-speaking EU countries. Average cash benefits were significantly smaller than average direct-tax burdens. Put differently, even without counting indirect taxes, working-age households were net taxpayers on average. While the group as a whole recoups a considerable portion of their direct tax payments in the form of cash benefits, the rest goes towards financing other public expenditures, such as publicly provided services, current transfers to the elderly and own future pension entitlements.

18. Accounting for cash benefits changes the country ranking: *Net* tax burdens were largest in Nordic countries while the corresponding rate in the United States was, perhaps unexpectedly, only slightly behind the Nordic average. Continental and Southern EU countries had net tax burdens similar to the English-speaking EU, while OECD members in the eastern EU showed the smallest net burdens.

19. The extent of interpersonal redistribution is evident from looking at how much is paid and received by different income groups (panels b and c). The poorest 20% were net benefit recipients everywhere, with cash transfers adding up to around two thirds of market income on average. The United States is the only country where cash benefits (which include the Earned Income Tax Credit, as well as Food Stamps, a near-cash “last-resort” benefit) were less than 40% of market incomes, while they amounted to between 45 and 110% of market incomes in the EU groups of countries. However, in terms of net benefits, the bottom quintile in the United States were only slightly below Southern EU countries.

20. For the richest 20%, benefits represented no more than 6% of market incomes on average across countries, but they were still important in the Southern, Eastern, and Continental EU. As one would expect, the rich face higher tax burdens, and these are also substantially higher than benefits received. The richest 20% of US “working-age” households faced higher direct tax burdens than those in the eastern and English-speaking EU. Because of much smaller cash benefits, net tax burdens of the top quintile in the US were also higher than in the Southern and Continental EU clusters; only the Nordic countries showed higher net tax burdens among the richest 20%. (It should be stressed that these tax ratios do not account for indirect taxes, which are much higher in the EU).

21. Clearly, cash benefits differ much more across (market-) income groups than do taxes. This is especially the case in Nordic and eastern EU countries (where income tax schedules are flat) and in

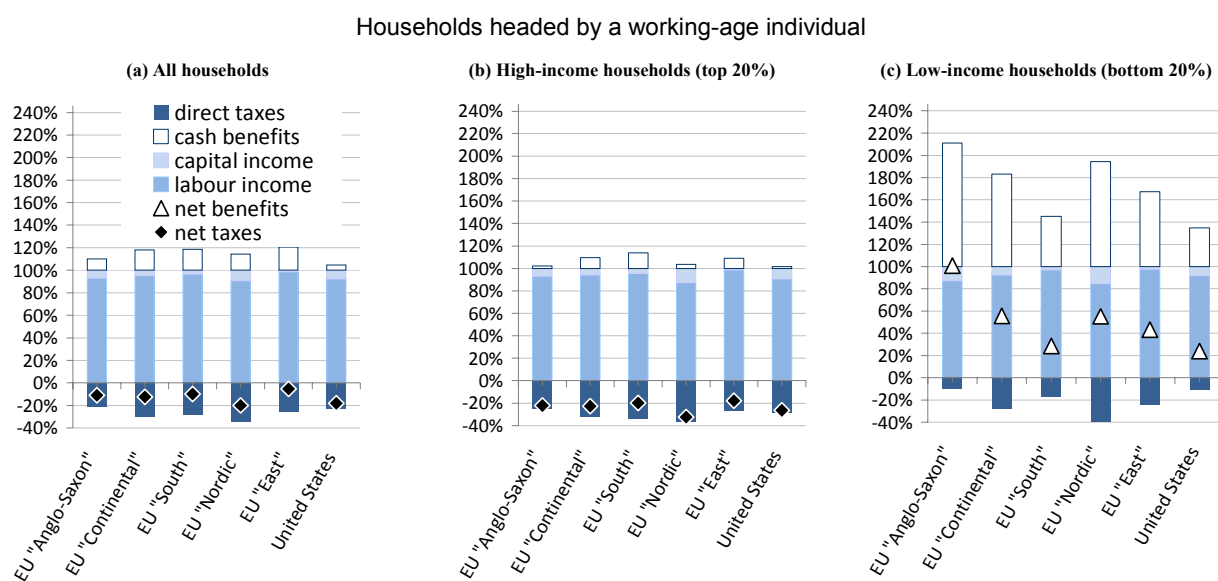
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3. Other work comparing aspects of redistribution for households headed by non-elderly individuals includes Fritzell (1993), Bradley *et al.* (2003) and Mahler and Jesuit (2006).

Continental countries (where social contributions, which can be regressive, are sizeable). Measured in this way, and even though taxes serve a crucial redistributive role by financing transfers, benefits are therefore clearly the main drivers of redistribution from rich to poor. As a result, countries with smaller benefit programmes, such as the United States and Southern EU countries, tend to be those with less powerful redistribution overall.

22. The Luxembourg Income Study (LIS) is a rich data source for looking at redistribution trends in more detail. It does not provide consistent tax and benefit breakdowns for as many OECD countries as the OECD database used for the results in Figure 4. But unlike in the OECD database, which largely records tabulations of grouped data, the micro-data are available directly. Table 1 uses these microdata to calculate inequality and redistribution measures that capture income differences across the entire distribution. Broadly consistent with the widening gaps between specific points in the income spectrum shown earlier in Figure 1, the results in Table 1 show a trend towards greater market-income inequality. Among the countries shown, the United States, Poland, the United Kingdom recorded the highest market-income  $G_m$ . Market incomes in “working-age” households have become more unequally distributed everywhere and this trend was mostly stronger in the first half of the mid-80s to mid-2000s period. In addition, countries with data going back further, including the United Kingdom and United States, have seen significant increases in market-income  $G_m$  before the mid-80s.

**Figure 4. Overall amounts of taxes paid and benefits received in the mid-2000s.**



Note: Selected OECD countries. “Anglo-Saxon”: Ireland, United Kingdom; “Continental”: Austria, Belgium, France, Germany, Netherlands; “South”: Italy, Portugal; “Nordic”: Denmark, Finland, Sweden; “East”: Czech Republic, Estonia, Poland, Slovak Republic, Slovenia. Cash benefits for the United States include the Earned Income Tax Credit as well as a near-cash benefit (Food Stamps).

Source: OECD income distribution database.

23. As the periods covered by the data vary across countries, it is informative to relate observed changes to a common time interval. Using the data reported in Table 1 (column 2), averaging across years, and extrapolating trends for countries where available data cover only a short period, it can be shown that the Gini coefficient for market income has, on average, increased by about 15% over a ten-year period across the countries shown. To put this into perspective, and as shown below, 15% is the same order of magnitude as the reduction in inequality among the non-elderly population that is achieved by the entire tax-benefit system in the United States.

24. On average, market-income inequality was therefore very clearly the main driver of changes in income inequality after taxes and transfers ( $G_d$ , market incomes plus cash benefits minus income taxes, column 3) and, as a result, inequality increased both before and after taxes and transfers. Put differently, on average across the countries shown, the increase in market-income inequality was so large that redistributive policies could slow, but not prevent, income inequality from rising. In Table 1, the redistributive – or equalising – effect of taxes and transfers can be measured by the difference between the  $G_m$  and  $G_d$  (column 4).

25. Indeed, when market-income inequalities change substantially, full compensation through redistribution is often unrealistic and probably not a useful benchmark for redistribution policies. On the other hand, one would expect a positive link between market-income inequality and redistribution even in the absence of any conscious policy effort to counter inequality trends (Musgrave and Thin, 1948; Dardoni and Lambert, 2002): with progressivity built into tax-transfer systems, a more dispersed market-income distribution (*e.g.*, due to higher unemployment, see Bradley *et al.*, 2003), automatically creates more redistribution and strengthens the equalising effect even of an unchanged policy configuration. For instance, it is interesting to note the very strong increase in the redistribution indicator during the first Thatcher government in the United Kingdom, which cannot be explained by policy reforms.

26. In the United States, where the Gini of market incomes rose by more than a fifth between 1979 and 2004, redistribution systems compensated only 9% of this sizeable increase in inequality (column 7). By contrast, whether as a result of discretionary policy reforms, or because of the automatic “break” that progressive tax-benefit systems put on inequality trends, results for other countries show that it is possible for tax-benefit systems to be quite effective at slowing down inequality increases, even during periods of rapidly growing market-income disparities. Redistribution policies in European countries tended to be very effective in this regard up until the mid-1990s. In countries with longer time series, redistribution systems compensated between a third (Germany, United Kingdom) and more than 80% (Nordic countries) of the increase in market-income inequality up until the mid-90s. In Denmark, inequality fell, as the redistributive power of the tax-benefit system grew more quickly than inequality before taxes and transfers.

27. Redistribution trends differ more markedly between countries in the decade between the mid-90s and the mid-2000s. In most of the countries shown, the upward trend in market-income inequality appears to have either slowed (United States, Finland), stopped (Denmark) or reversed (Sweden, United Kingdom) after the mid-90s. Yet, in the United Kingdom and in the Nordic countries, inequality of household disposable income nevertheless kept rising as governments redistributed less (column 4 shows that redistribution weakened in absolute terms between the mid-90s and the mid-2000s). By contrast, tax-benefit systems in Germany and in the two Eastern EU countries became more redistributive during this decade.

28. By the mid-2000s, tax and transfer systems in the Nordic and eastern EU countries achieved the greatest reduction in inequality, lowering the Gini value by 13 points or more (column 4). This corresponds to about 40% of the market-income Gini in the three Nordic countries and about a third in eastern EU members (column 5). Taxes and benefits in Continental EU countries also reduce the Gini by about a third. The smallest redistributive effect is seen in the United States (8.1 or 18%), followed by the United Kingdom (10.6, 23%). Since LIS does not record information on income taxes and social contributions for most Southern European countries, they are not represented in these redistribution measures. Other results show, however, that taxes and transfers in Southern Europe are among the least progressive in Europe. For instance, ignoring the tax side, we found that transfers lower the Gini by about 5 points in Italy (Immervoll and Richardson, 2011). This is much less than the redistributive effect of transfers in other EU-15 countries, and only somewhat higher than in the United States (4 points).

Table 1. Redistribution trends up until the mid-2000s

Inequality before and after taxes and transfers, selected OECD countries

		market income		disposable	redistribution			
		G <sub>m</sub>	change, % of base period	income G <sub>d</sub>	G <sub>m</sub> -G <sub>d</sub>	% of G <sub>m</sub> [4] / [1]	change, % of base-period G <sub>m</sub>	[6] / [2]
<b>Czech Republic</b>	1992	33.7		20.3	13.4	40	0	
	1996	36.4	8	25.7	10.8	30	-8	-94
	2004	40.7	21	27.1	13.6	33	1	3
<b>Denmark</b>	1987	33.0		23.2	9.9	30		
	1992	36.5	11	22.3	14.3	39	13	126
	1995	36.0	9	20.3	15.7	44	18	195
	2000	35.2	7	21.0	14.2	40	13	197
	2004	36.0	9	21.6	14.4	40	14	151
<b>Finland</b>	1987	29.9		19.8	10.1	34		
	1991	30.5	2	19.8	10.7	35	2	95
	1995	36.9	23	21.2	15.8	43	19	80
	2000	39.2	31	23.9	15.3	39	17	56
	2004	39.3	31	24.5	14.8	38	16	50
<b>Germany</b>	1994	36.9		27.0	9.9	27		
	2000	38.3	4	26.5	11.8	31	5	139
	2004	40.2	9	27.7	12.4	31	7	78
<b>West Germany</b>	1981(1)	30.3		23.3	7.0	23		
	1984(2)	35.5	17	25.9	9.6	27	9	50
	1989(2)	33.6	11	25.1	8.6	26	5	48
	1994(2)	36.1	19	27.3	8.8	24	6	32
	2000(2)	37.3	23	26.7	10.6	29	12	52
	2004(2)	38.8	28	27.6	11.2	29	14	50
<b>Poland</b>	1999	42.0		29.2	12.8	31		
	2004	46.9	12	33.1	13.8	29	2	19
<b>Sweden</b>	1981(1)	30.4		18.7	11.7	38		
	1987(1)	31.3	3	19.1	12.2	39	2	54
	1992(1)	35.1	16	20.1	15.0	43	11	70
	1995(1)	37.4	23	19.6	17.8	48	20	87
	2000(2)	37.5	24	23.6	13.9	37	7	30
	2005(2)	36.9	21	22.2	14.7	40	10	46
<b>United Kingdom (GB only)</b>	1979(1)	33.5		25.7	7.8	23		
	1986(1)	42.9	28	30.2	12.7	30	15	52
	1991(1)	43.2	29	32.9	10.3	24	7	26
	1994(2)	46.3	38	34.0	12.3	27	13	35
	1995(1)	46.4	39	34.6	11.8	25	12	31
	1999(2)	46.0	37	34.8	11.3	24	10	28
	2004(2)	45.2	35	34.6	10.6	23	8	24
<b>United States</b>	1979	37.5		30.1	7.4	20		
	1986	40.8	9	33.6	7.2	18	-1	-7
	1991	41.0	9	33.6	7.3	18	0	-3
	1994	44.8	20	36.8	8.1	18	2	9
	1997	44.9	20	37.4	7.5	17	0	1
	2000	44.4	18	36.8	7.6	17	1	3
	2004	45.4	21	37.3	8.1	18	2	9

Notes: See notes to Figure 1. Superscripts next to the year denote different data sources and indicate statistical breaks in the series. . Gini values (G) are shown in percent and based on equivalised household income using the square-root equivalence scale and weighting each household by its size. Market income *m* includes private transfers. Disposable income *d* is *m* plus cash government transfers minus income taxes minus social security contributions paid by households. Common LIS practice was followed for top-coding (10 times the non-equivalised median) and bottom-coding (1% of the equivalised median) household incomes.

Source: Authors' calculations based on the Luxembourg Income Study (LIS, see [www.lisproject.org](http://www.lisproject.org)).

#### 4. COMPARING RECENT POLICY REFORMS “PRE” AND “POST” CRISIS

##### Major policy changes in selected countries

29. Below and in Annex Tables A1 and A2, we summarise some of the main policy changes in eight OECD countries for a “pre-crisis” (2002-2007) and “post-crisis” (2007-2010) period. The summary focuses on government transfers including, where relevant, tax credits, such as the US Earned Income Tax Credit, that are akin to cash transfers. Other tax-related policy changes are not described in detail, although the later section on gainers and losers below does account for reforms on both the benefit and the tax sides.

##### *Unemployment insurance benefits*

30. The largest number of policy changes after in the 2000s concerned unemployment insurance benefits (UI, Annex Table A1). After the onset of the GR, US/Europe differences in overall generosity narrowed markedly as benefit durations were extended in the United States.

- In several European countries, initial eligibility conditions (sometimes referred to as “entitlement” conditions) for unemployment insurance benefits have become more demanding during the 1980s and 1990s (OECD, 2011c). The trend toward stricter entitlement requirements has, however, mostly stopped in the 2000s. Instead, reforms have tended to make it somewhat easier for people with shorter employment records to qualify for UI (Finland, France, United Kingdom). In the United State, entitlement conditions have remained unchanged.
- European governments have, however, tended to reduce benefit generosity (amounts or duration) since the early 2000s. In contrast, benefit durations in the United States were extended very markedly from 6 months to almost 2 years in many US States (Rothstein, 2011 includes a useful summary of differences across States).
- While UI is earnings related in most countries, benefit floors and ceilings are important policy parameters for targeting specific groups and/or controlling programme expenditures; higher benefit floors, and lower benefit ceilings, tend to make unemployment support more pro-poor. Prior to the GR, the value of benefit ceilings had increased in France, Germany and the United States and had fallen in Spain and Italy. After the crisis, benefit ceilings were reduced in each of these five countries, which is in line with governments attempting to reduce spending and refocus support towards lower-income groups. However, in European countries where benefit floors were in place, they mostly declined in value both before and after 2007, meaning that job losers on very low earnings now receive lower benefits. This did not happen in the United States, where minimum benefit amounts increased both in absolute terms, and relative to average wages following the onset of the GR.

***Unemployment assistance benefits***

31. In the aftermath of labour-market downturns, countries with less developed “lower-tier” benefit programmes are likely to be under more pressure to relax eligibility criteria for “first-tier” UI, or to extend their duration. The existence of unemployment assistance (UA, Annex Table A2) in many European countries, may partly explain why during 2007-2010, UI provisions there saw less of a change during 2007-2010. Where they exist, UA programmes are the main form of income support for jobseekers not qualifying for insurance benefits. As unemployment support, UA is formally restricted to those who are available and actively looking for work. Eligibility is sometimes also conditional on previous employment. Benefit durations may be limited, but more often are not. Benefit amounts provided by assistance programmes tend to be both lower and, because they are means-tested on family income, more targeted to low-income families. In some countries, UA are, however, only available as follow-up support once insurance benefits expire (France and, up until 2005, Germany). This makes them quite different from UA in other countries, where they can also be payable to jobseekers who do not qualify for insurance benefits in the first place (e.g., Finland, United Kingdom).

32. Compared with UI, changes to unemployment assistance rules were fewer and smaller. A major exception is Germany, where unemployment and social assistance for jobseekers were merged into one single programme in 2005 (the Unemployment Benefit II). For long-term unemployed with relatively high previous earnings, this resulted in substantially lower benefit amounts.

***Guaranteed minimum-income benefits***

33. Last-resort guaranteed minimum-income programmes (GMI), such as SNAP (Supplemental Nutrition Assistance Program, formerly food stamps) or TANF (Temporary Assistance for Needy Families) in the United States, and “Social Assistance” benefits in most European countries, have seen relatively few explicit changes in benefit amounts, although benefit levels have frequently not kept up with earnings growth so that GMI recipients are likely to have slipped further down the income distribution (notably Finland, Poland and Spain). After 2007, benefit erosion continued but tended to be less rapid, mainly because average wages growth was slower. The United States was an exception to this pattern, with a moderate post-GR increase in SNAP benefit levels relative to average wages.

34. Although social policy debates in OECD countries have increasingly emphasised the need for “active” and “activating” support since the 1990s, the period since the early 2000s has seen few explicit changes in basic eligibility rules, such as income thresholds or earnings disregards, to the main GMI benefits.<sup>4</sup> But programmes are often administered at a regional or local level and regional or local authorities may provide supplementary programmes on top of those which are nationally co-ordinated (e.g., General Assistance in US States, see Gallagher *et al.*, 1999). Even for national programmes, benefit offices and caseworkers tend to have considerable room for discretion (e.g., by awarding support in special circumstances). These factors produce considerable variation in the way policies are implemented “on the ground”. Budgetary pressure is one factor that can drive variations in access to GMI that are not apparent from an inspection of formal eligibility rules. Not all programmes have an entitlement character, and some recipients may be excluded despite being formally eligible. Even where there are legal entitlements, budgetary pressures can make access more difficult in practice and, hence, depress effective take-up rates (e.g., if administrative staff are unable to provide timely service when faced with a steep increase in the number of claims).

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4. Activation policies are the subject of ongoing OECD policy reviews and other analytical work (see [www.oecd.org/els/employment/almip](http://www.oecd.org/els/employment/almip)), while an overview of activation requirements for recipients of minimum-income benefits is given in Immervoll (2010).

35. Discretion and budgetary pressures are likely factors explaining the quite different GMI reciprocity trends following the GR between countries and programmes. In the United States, the 2009 American Recovery and Reinvestment Act (ARRA) provided additional funding for Temporary Assistance for Needy Families (TANF), a GMI benefit targeted mostly at lone parents. This additional funding has, however, failed to translate into a significant increase in caseloads, probably due to a combination of funding shortages at the State level, and financial incentives for States to reduce caseloads (Trisi and Pavetti, 2012). By contrast, SNAP participation rose by 77%, from 26.3 million in 2007 to 46.6 million in 2012 (USDA, 2012). Documented changes in GMI caseloads were significantly smaller in much of Europe, e.g., minus 10% in Poland, plus 20% in Finland, and 50% in France (SPC, 2013).

### ***Employment-conditional benefits***

36. Employment-conditional, or “in-work” benefits have expanded substantially since the 1980s in some countries. The Earned Income Tax Credit (EITC) in the US and the Family Credit (later Working Families Tax Credit and now Working Credit), both targeted to families with children, are the prime examples. UK in-work benefits were significantly more generous than the EITC, with per-family expenditures on average about four times as high in the early 2000s. While many other OECD countries have introduced some form of in-work benefit in recent years, their sizes and their redistributive impact are currently small (see Immervoll and Pearson, 2009).

37. Since 2002, the values of in-work benefits became more generous in Finland and France, but declined relative to average wages in both the United Kingdom and the United States. After the onset of the GR, benefit levels increased in all these countries (in France, a new form of in-work benefit was introduced as a central element in a broadly reformed GMI programme).

38. Short-term working schemes (SWS) or “partial” unemployment benefits, are a particular type of in-work support that subsidise working-hours reductions and, hence, facilitate adjustments of firms’ wage bills during a downturn, while limiting the number of job losses. By aiming to preserve existing jobs, SWS differ significantly from in-work benefits that seek to support people when entering new employment. SWS are not included in the summary table as they are described in detail elsewhere (e.g., Hijzen and Martin, 2013). During the early phase of the GR, these types of programmes were used heavily in some European countries, notably in Belgium and Germany, where programme participation peaked at or above 5% of dependent employment. An analysis of the distributional consequences of such programmes suggests that they can work well during the early phase of a downturn (Bargain *et al.*, 2011).

### **Consequences of reforms for the generosity of out-of-work support**

39. Net replacement rates (NRR) are a useful way of quantifying the net effects of a range of policy changes. By expressing net incomes of unemployed people relative to those in work, this indicator of relative income maintenance accounts for changes in both in-work and out-of-work incomes; for instance a drop in NRRs points to incomes of the unemployed falling behind relative to those in work. It is therefore well-suited for an assessment of how policy changes may have impacted on income inequality as commonly measured.

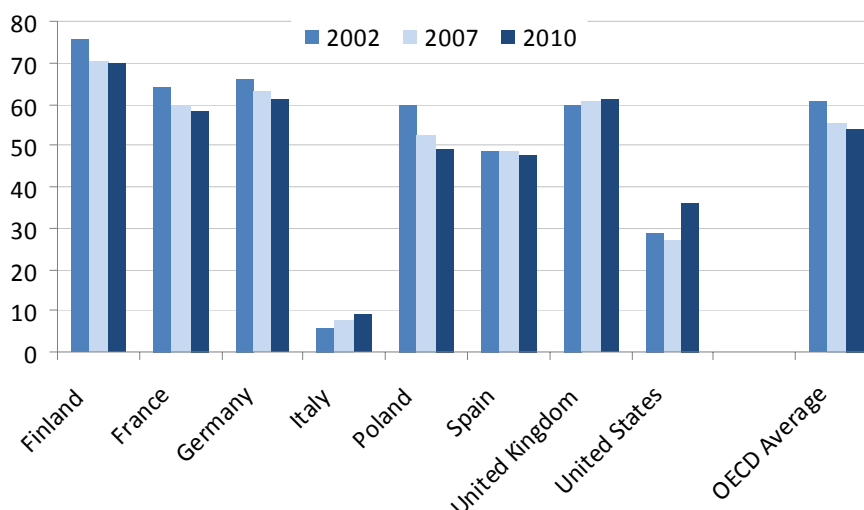
40. Figure 5 presents “synthetic” NRR that are calculated as an unweighted average of NRRs in each month of a ‘long’ unemployment spell (60 months), at two levels of previous earnings (67% and 100% of average full-time wages; due to benefit ceilings, NRR are lower for individuals with above-average earnings) and for four stylised family types (single persons, lone parents, one-earner couples with and without children). Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. In addition to unemployment benefits,

minimum-income transfers and or housing-related benefits are available as income top-ups as applicable. Where benefit eligibility is subject to behavioural requirements (such as active job-search or being available for work), these requirements are assumed to be met. Net replacement rates are evaluated for a prime-age worker (aged 40) with a “long” and uninterrupted employment record.

41. The results in Figure 5 provide a strong indication of declining cash support for the unemployed prior to the crisis. Six of the eight countries recorded falling NRRs (as did the OECD area as a whole). The largest drops are shown in countries where the generosity of more than one type of benefit was reduced: Finland (UI, UA and GMI), Poland (UI, GMI), followed by Germany (GMI and merging of UA and GMI) and France (UI and UA). The moderate increases in NRRs in the United Kingdom (both before and after the crisis) are largely the consequence of lower *in-work* incomes (e.g., because of higher taxes) that occurred at the relevant earnings levels. Unlike the European countries, the United States displays a clear reversal of trends, with average NRR falling prior to the crisis but rising after. The post crisis increase was largely the consequence of the increase in the maximum duration of benefit receipt but also captures moderate increases in SNAP rates, which were raised by some 14% (ARRA has also increased maximum benefit amounts by USD 25 per week but this is not accounted for in the net replacement rate simulations as it was discontinued prior to the reference date used for the 2010 calculations).

**Figure 5. Generosity of support for the unemployed: Net replacement rates**

Average over a long unemployment spell (60 months of unemployment), in percent



Notes: Indicators for the United States refer to policy parameters in Michigan. See OECD (2007) for full details.

Source: Authors calculations from OECD tax-benefit models ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)).

42. Changes for the unemployed tended to be less damaging (or, sometimes, more beneficial) for families with children. This is shown in Table 2 panel (a) in the case of Italy, Poland and the United Kingdom, where reductions in NRRs are smaller, or increases larger, for the family types with children than for those without. In most other European countries at least some families with children (either lone parents or couples) fared better. Spain and the United States are the only countries where the relative incomes of out-of-work families with children have developed less favourably. In the United States this is largely explained by the failure of Temporary Assistance for Needy Families (TANF) to keep pace with inflation and earnings. However, a second reason for lower NRRs among this group is that increased in-work support in the form of the EITC has largely benefited families with children.



43. The largest relative income drops were generally faced by long-term unemployed jobseekers relying on unemployment assistance or social assistance for income support (Table 2, panel b). Exceptions are Italy (where the long-term unemployed already had little or no cash support in the baseline year), and the United Kingdom (where families without any other incomes receive effectively the same support under UI and UA). For the United States, those no longer entitled to UI have seen net replacement rates drop by 2 percentage points between 2002 and 2007. The SNAP increases in 2009 have compensated some of this loss, but net replacement rates for those on GMI nevertheless declined over the 2002-2010 period as a whole. Importantly, the results shown for long-term unemployed can also be seen as a good approximation for the situation of non-standard workers and others with limited or interrupted employment records and no access to unemployment insurance. Unemployment benefit coverage rates typically fall significantly during later stages of a downturn as average unemployment durations get longer and more people exhaust their UI entitlements. Minimum-income support for those with no or little other income is then likely to become a significantly more central driver of family incomes and of observed trends in inequality and redistribution.

**Table 2. Net replacement rates in different circumstances**

(a) changes by family type, over a 'long' unemployment spell, in percent

	Single			Couple, no children			Couple, two children			Average		
	'02 to '07	'07 to '10	total	'02 to '07	'07 to '10	total	'02 to '07	'07 to '10	total	'02 to '07	'07 to '10	total
Finland	-7.9	-0.1	-7.9	-4.1	-2.0	-6.1	-4.2	-0.6	-4.8	-5.2	-0.9	-6.1
France	-5.5	1.1	-4.4	-4.7	-0.3	-4.9	-2.9	-4.8	-7.7	-4.4	-1.4	-5.8
Germany	-8.7	-1.6	-10.3	-4.4	-1.8	-6.2	1.1	-2.0	-0.8	-3.1	-2.0	-5.1
Italy	2.0	1.4	3.4	1.9	1.6	3.5	1.7	1.7	3.4	1.9	1.6	3.5
Poland	-7.2	-3.1	-10.4	-11.9	-4.7	-16.6	-4.5	-6.1	-10.6	-7.2	-3.5	-10.7
Spain	-0.2	-0.2	-0.4	0.6	-0.7	-0.2	-1.6	-1.2	-2.8	-0.4	-0.8	-1.2
United Kingdom	-1.0	-2.6	-3.6	-1.9	-2.2	-4.1	1.9	3.5	5.4	0.6	0.5	1.1
United States	-0.3	13.6	13.3	-0.7	12.7	12.0	-4.0	4.9	1.0	-2.0	9.4	7.3
OECD Median	-4.5	-1.7	-6.2	-5.1	-2.6	-7.6	-5.3	-2.2	-7.5	-5.2	-0.7	-5.9

(b) changes by unemployment duration, in percent

	First year			Second and third year			Fourth and fifth year			Average		
	'02 to '07	'07 to '10	total	'02 to '07	'07 to '10	total	'02 to '07	'07 to '10	total	'02 to '07	'07 to '10	total
Finland	-5.8	-0.5	-6.2	-5.3	-0.9	-6.2	-4.9	-1.0	-5.9	-5.2	-0.9	-6.1
France	-1.5	-1.3	-2.9	-7.3	-0.9	-8.2	-2.9	-2.0	-4.9	-4.4	-1.4	-5.8
Germany	-1.5	-1.1	-2.6	-1.9	-1.9	-3.8	-5.2	-2.5	-7.6	-3.1	-2.0	-5.1
Italy	9.7	8.0	17.6	0.0	0.0	0.0	0.0	0.0	0.0	1.9	1.6	3.5
Poland	-2.2	2.1	-0.1	-7.9	-4.9	-12.9	-8.9	-4.8	-13.7	-7.2	-3.5	-10.7
Spain	-0.1	-0.4	-0.5	-0.4	-0.6	-1.0	-0.6	-1.1	-1.7	-0.4	-0.8	-1.2
United Kingdom	0.6	0.5	1.1	0.6	0.5	1.1	0.6	0.5	1.1	0.6	0.5	1.1
United States	-1.6	15.0	13.4	-2.1	14.8	12.7	-2.1	1.1	-1.0	-2.0	9.4	7.3
OECD Median	-2.8	1.8	-1.0	-4.2	0.1	-4.1	-6.7	-1.5	-8.2	-5.2	-0.7	-5.9

Notes: see text and Figure 5 for calculation details and sources.

### Gainers and losers across the earnings spectrum

44. This section uses the policy information summarised above to identify the effects of reforms over the 2002-2010 period for individual families at different points in the income distribution. The best way to do this would be to use tax-benefit microsimulation models that can calculate tax burdens and benefit entitlements for representative samples of households for different periods. In Bargain *et al.*, 2013 and OECD, 2011c, Box 7.2, we illustrate such an approach using data for the United States, finding that the effects of reforms are in line with popular perceptions regarding the political cycle – with disequalising (equalising) effects observed for policy changes enacted during Republican (Democrat) administrations. Unfortunately, a comparative analysis using this method for a larger number of countries is currently not

feasible as the required tax-benefit models are not readily available, or do not cover the time-period of interest.

45. We therefore use a less data-intensive approach, which calculates the effect of policy changes on different *model families*. The calculations rely on the same tax-benefit models that were used to calculate the net replacement rates shown earlier. While this method does not account for differences in population structure and earnings inequality across countries or over time, it can isolate the effect of policy reforms for selected families and earnings levels. It is therefore a useful complement for the earlier analysis of household income data (which necessarily mixes the effects on redistribution of policy and “other” changes, such as changes in unemployment). One advantage of the simulation is that it can hold “everything else” constant (unemployment levels, market-income inequality, household composition, etc.), and focus on the role of policy changes alone. For instance, it can show whether a given family at the bottom, middle and top of the income distribution is now better or worse off than they it have been with *unchanged* policies. By comparing the mechanical income effects of redistribution systems between different periods, it is possible to identify family and earnings situations that are better or worse off as a result of policy reforms. For simplicity, we refer to these families, respectively, as “gainers” and “losers”. Results are shown for the same 8 OECD countries that were included in the above summary of policy changes.

46. For each family, changes in tax burdens and benefit entitlements do not only result from policy action; they can also occur if policies are *not* adjusted. As noted earlier, when nominal earnings go up, a progressive tax-benefit system produces smaller net transfers (transfers minus taxes) unless all relevant policy parameters (tax-band limits, benefit amounts, income limits, etc.) are adjusted for income growth. If no policy action is taken, this mechanism can be expected to lead to “automatic” changes in redistribution. Our results capture changes in tax burdens and benefit entitlements that are due to either *legislative* policy initiatives, or to the impact of changing earning levels (“fiscal drag” or “benefit erosion”). For instance, in the calculations, a family on an out-of-work benefit that remains fixed in nominal terms is shown as experiencing an income loss.

47. Figure 6 uses a graphical format to summarise changes in net transfers between 2002 and 2007, and between 2007 and 2010. For each period, changes are shown as a percentage of household net (or disposable) income, and at six different earnings levels. At the bottom of the earnings distribution, and subject to relevant income limits, families are assumed to be receiving means-tested assistance benefits (i.e., unlike in the earlier replacement-rate results, the calculations now relate to families who do not, or no longer, receive any unemployment benefits that depend on a previous employment history). The income values shown at zero earnings are therefore mostly driven by the value of GMI benefit, as well as by other transfers (for children or housing) that may be available.

48. A zero change means that net transfers (and, hence, net income) at this earnings level moved in parallel with the average wage. In other words, with nominal wage levels going up, a constant nominal amount of taxes and benefits is indicated as an income loss. A policy reform that increases, or decreases, everyone’s net income by the same proportion has no impact on the income distribution. In the figure this shows up as similarly sized bars at all earnings levels. Downwards (upwards) sloping changes are indicative of progressive (regressive) changes and would tend to cause a narrowing (widening) of the income distribution.

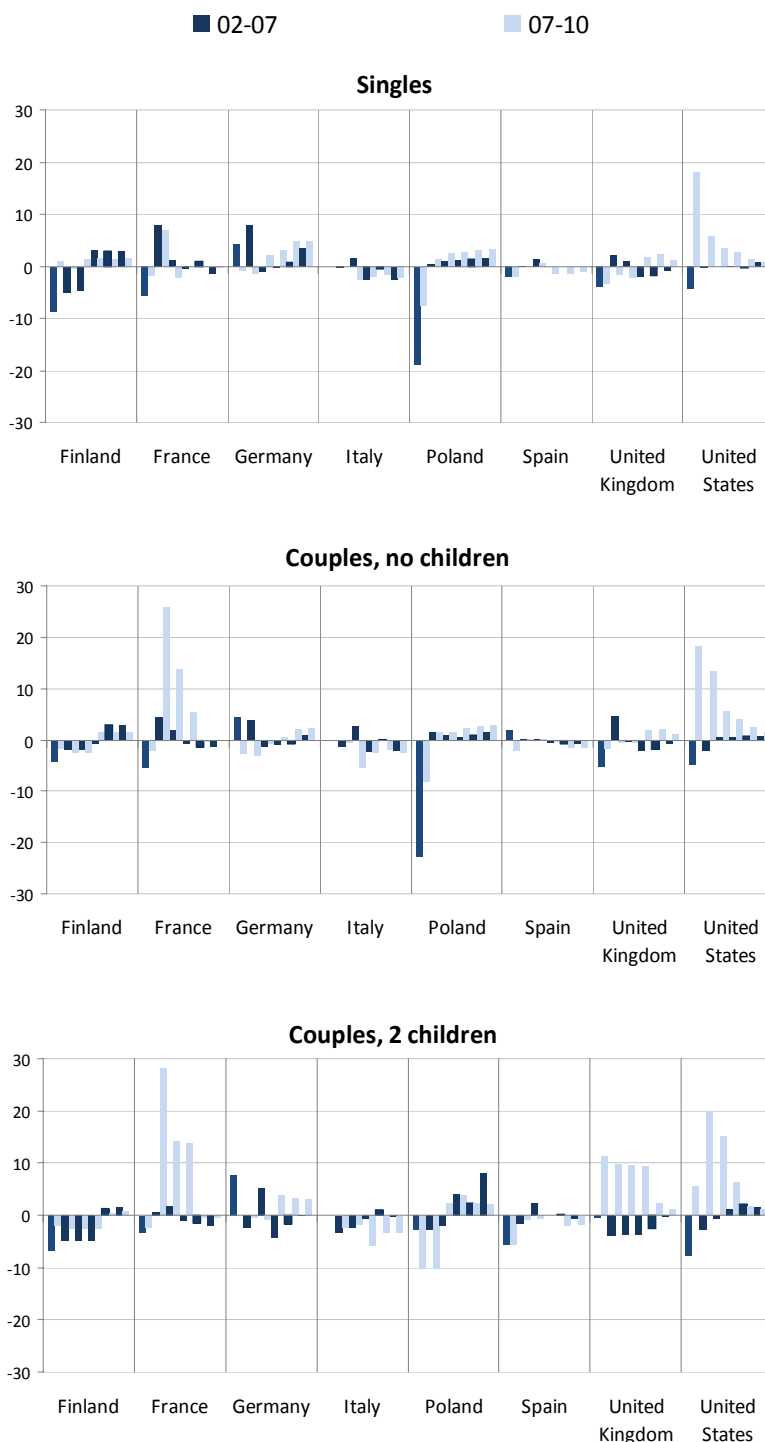
49. Before the GR, the biggest changes in net transfers are generally observed at low earnings levels, particular among those with no earnings (dark bars). Last-resort benefits have tended to fall behind earnings growth in the United States, as well as in most European countries, notably in Poland (there was no change in Italy as there is no general benefit entitlement for those without any earnings). The principal driver of this “regressive” effect was a lack of regular GMI adjustments. At higher earnings levels, the net

effect of tax and transfer changes in Europe was very small during this period. The same is true in the United States: the beneficial effect of some of the “Bush-era” tax cuts on higher-income earners was mainly felt at incomes above the range shown in the graph.

50. Trends are very different after the GR (light bars). The main message from the graph is one of highly progressive redistribution changes in the United States, and flat or regressive changes in most European countries. The only exception is France, where low-earning families with children (but, unlike in the United States, not those with zero earnings) benefited substantially from an “employment-friendly” reform of the GMI benefit, which, among other things, incentivised low-income families to combine work with benefit receipt by reducing benefit withdrawal rates. In the United Kingdom, families with children saw benefits grow more quickly than average wages, as benefits are indexed to inflation, and prices grew more quickly than earnings growth during 2007-10. However, substantial budget austerity measures were enacted subsequently and these are projected to lead to significant income reductions mostly after the 2007-2010 period considered here, especially among families with children (Browne, 2012).

**Figure 6. Gainers and losers across the earnings spectrum**

Changes in net transfers at different earnings levels, in percent of family disposable income



Notes: Changes in net transfers are relative to counterfactual of a fully earnings-indexed tax-transfer system. The 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> bars show the change in net transfers for someone earning, respectively, zero, 33, 50, 67, 100 and 150 percent of the Average Wage (AW).

Source: Authors calculations from OECD tax-benefit models ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)).

## 5. DISCUSSION: A ‘CONVERGENCE’ BETWEEN THE UNITED STATES AND EUROPE?

51. A number of earlier studies document that direct taxes and social transfers in the United States reduce income inequalities by much less than they do in much of Europe (e.g., Brandolini and Smeeding, 2009; Smeeding, 2005). Updating and extending the comparative work by Bradley *et al.* (2003), our results confirm that the gap remains large when restricting attention to non-elderly individuals. In the mid-2000s, taxes and transfers combined reduced the Gini index by 18% in the United States, 23% in the United Kingdom, around 30% in Germany and Poland, and around 40% in Nordic countries. More redistributive tax-transfer systems also tend to be more effective as a backstop to widening earnings gaps. As shown in Table 1, redistribution in the United States offset only 9% of the increase in the market-income Gini between the early 1980s and the mid-2000s, while the ratio was about 24% in the United Kingdom and as much as 50% in West Germany and Sweden.

52. More recently, the GR has significantly reshaped the context in which redistribution is taking place:

- Widening income gaps and declining incomes at the bottom of the distribution have created much greater need for government support.
- Significant fiscal gaps have opened up on both the tax and the expenditure sides. The United States, as well as Anglo-Saxon and Southern EU countries continue to face the most daunting budgetary challenges, while public finances in Continental, Nordic and Eastern EU countries – while also strained – are in better shape.
- The persistence of elevated benefit spending several years after the start of the recession highlights the difficulties of limiting spending while continuing to provide support to those who need it most. Redistribution strategies based on government transfers alone are unlikely to be either effective or financially sustainable. In restoring incomes at the bottom, a key challenge for social and labour-market policy is to facilitate employment and earnings growth that benefits low-income groups in particular.
- A significant shift in the relative “tax capacity” of lower and higher-earning groups in the aftermath of steep downturns indicates a need to critically review whether existing tax provisions should be adapted in light of equity considerations and current revenue requirements - in particular where those with high or very high incomes have benefited from declining overall tax burdens in the past (*e.g.*, because of non-compliance, because tax expenditures mainly benefit high-income groups, or because of lower property and wealth taxes).

53. With this changing context, it is interesting to ask whether the earlier US/Europe differences in the effectiveness of redistribution have persisted after 2007.

54. The results in this paper suggest that this is unlikely. Those European countries where transfers and taxes had a stronger redistributive role prior to the GR were initially better equipped to limit income

losses of households affected by unemployment. There was little need to adjust benefit provisions, as existing unemployment benefits and labour taxes in much of Europe acted as powerful automatic stabilisers as job losses mounted in the early phase of the GR (Dolls *et al.*, 2012). However, since 2007, a number of factors can be expected to have narrowed US/Europe differences in the extent of redistribution and income cushioning.

55. First, a set of discretionary policy measures in the United States, in the form of the 2009 ARRA, and associated measures, have substantially strengthened support systems for jobless people and low-earning families.

- A much extended UI benefit duration made out-of-work support more generous and more readily available for the increasing number of long-term unemployed. This has contributed to a doubling of UI benefit reciprocity rates between 2007 and 2009 among families working less than half of the year (Nichols and Zedlewski, 2011). In most European countries, benefit durations, though already longer than in the United States, were largely left unchanged.
- Both State and federal governments made asset limits, work requirements, and time limits governing SNAP, the main nation-wide GMI program, less stringent. The changes made access easier and supported a strong and continued rise in recipient numbers since 2007. Eligibility requirements for minimum-income benefits in much of Europe were not adjusted after the GR.
- UI and SNAP maximum benefit amounts were increased. Unemployment benefits in several European countries became less generous, while GMI benefits remained unchanged.
- ARRA also extended support through two important tax provisions. The child tax credit was increased and became easier to claim for families on very low earnings. And the EITC, the largest US anti-poverty programme, was further extended by raising benefit ceilings, especially for larger families. Since EITC eligibility is assessed in relation to annual earnings, it is an important support measure for families whose part-year earnings remain below relevant amounts as a result of becoming unemployed (or getting back into work) during the fiscal year.

56. Second, important US provisions governing UI and a number of “safety-net” benefits automatically make transfers more generous, or more easily accessible, once state-level unemployment rates exceed a pre-defined threshold (e.g., Vroman *et al.*, 2003; USDA, 2012). The most important of these automatisms (extended UI benefit durations, known as Extended Benefits) started being put in place already in 1970. Since job losses during the GR have surpassed numbers seen in earlier recessions, the relevant provisions were triggered in most States. Such rule-based policy adjustments can help to maintain strong work incentives during upswings while providing improved income protection during downturns. They are, however, uncommon in Europe (and this is sometimes ignored in Europe/US comparisons that focus on the more traditional forms of automatic stabilisers see e.g., Dolls *et al.*, 2012).

57. Third, European countries with the least redistributive tax-transfer systems, notably in Southern Europe, have faced particularly severe labour-market problems following the GR, while some of those with stronger redistribution measures have fared better. In other words, in the absence of a “social equivalent” to the EU’s fiscal compact, the asymmetry of these shocks has meant that support is not targeted to the parts of Europe where it is needed most urgently. The cushioning effect of redistribution systems for the EU as a whole was therefore weaker than a look at redistribution indicators for individual countries may suggest.

58. How significant are these changes for a comparative assessment of redistribution in the United States and Europe? Even before the GR, cash support for these groups was, in several respects, already stronger than in parts of the Southern and Eastern EU, where (a) in-work benefits such as the EITC either do not exist or are modest, (b) there are no generally applicable GMI benefits for working-age households (Greece and Italy), or (c) unemployment benefit coverage is very low (Italy, Slovak Republic, Poland, Greece, Estonia). Nonetheless, the net-replacement-rate indicators shown above demonstrate that out-of-work benefits were much more generous in most European countries. Indeed, before the GR, the United States (2.2% of GDP) spent less than half the EU average (around 5%) on cash transfers for working-age individuals (Immervoll and Richardson, 2011, Table A1). Although discretionary and automatic policy changes did significantly improve support for jobless and low-earning individuals in the United States, the redistributive capacity of tax-transfer systems in the EU as a whole will remain much bigger despite recent policy developments.

### **Narrowing US/Europe gaps in redistribution levels: A trend or an episode?**

59. There are arguments both for and against a convergence of welfare states following a deep economic downturn (respectively, e.g., Starke *et al.*, 2013 and Heise and Lierse, 2012). Based on the available evidence, we do not interpret the recent narrowing of gaps between income support systems in the US and some European countries as the beginning of a longer-term convergence towards more similar redistribution levels. Instead, we see it as a symptom of redistribution systems being in flux in all countries affected by the consequences of the 2007/8 financial crisis and the resulting deep labour-market downturn. A much increased need for support, paired with severe cyclical and structural fiscal pressures, can be expected to produce protracted periods of significant reforms, and a continued search for a new balance between alleviating inequality, and achieving fiscal sustainability. In addition, the dynamics of the income distribution produced by the GR – and the boom years that preceded it – can build up further pressure for policy adjustments. For instance, changing perceptions of what constitutes “fair” and “unfair” gaps between low and high-income earners may reshape social preferences and trigger periods of repeated policy adjustments Alesina *et al.*, 2012).

60. These evolving tensions render stable policy equilibria unlikely, and could open up the possibility of successive periods of switching strategies or policy reversals. Arguably, such a pattern can already be observed in the United States and in the most-affected European countries, where the GR made it difficult to maintain a consistent and counter-cyclical social and fiscal policy framework.

61. In Europe, policy responses to the GR are commonly seen as having proceeded in three distinct stages (e.g., Hemerijck and Vandembroucke, 2012); (i) “Keynesian” measures combined with full operation of automatic stabilisers in 2008 and 2009, (ii) austerity measures following the sovereign debt crises that started in Greece and then spread to further EU countries in late 2009 and 2010, and (iii) a “fiscal compact” to deal with systemic risks to the Euro starting in 2011 (OECD, 2012, gives a useful summary of the elements of the resulting agreements). At the same time, there has been an intensifying debate over the roles of steep budget cuts in triggering double-dip recessions. The worsening social situation has also, after some delay, produced much-needed initiatives in the most-affected countries to bolster support measures for those at the very bottom of the income spectrum. Examples are discussions in Greece of introducing a GMI-type benefit in 2014 (SPC, 2013), as well as growing interest in the role of public works programmes as an emergency measure that can provide targeted and timely help in a severe downturn on a temporary basis (see, e.g., Mutual Learning Programme, 2012).

62. In the United States, increasing public debt and escalating budgetary uncertainty have heightened concerns over untimely reversals of counter-cyclical support measures, at a time of high poverty and record-low labour-force participation rates. Some of the income-support measures provided by the EITC were temporary and were allowed to expire despite a labour-market downturn that was both deeper and

longer than expected at the time ARRA was enacted. ARRA top-up funding for the TANF programme has ended already in 2010, and this can be expected to aggravate existing problems with making TANF benefits responsive to increasing poverty risks. During the GR, the TANF programme, which was the centre-piece of the welfare-reform debate and legislation in the mid-1990s (Anderson *et al.*, 2011), has failed to provide support to a large majority of poor families with children. At 27%, the proportion of these families receiving TANF cash support remains at its lowest level since the programme was enacted in 1996 (Trisi and Pavetti, 2012). Perhaps most critically, state unemployment insurance funds have failed to build up sufficient reserves during the boom years, and have accumulated enormous debt since the beginning of the GR. As a consequence, States with above-average unemployment rates and durations, have already moved to cut benefit durations, even while the federal extensions still remain in place. More are likely to follow suit (Vroman, 2011, 2012; McKenna and Wentworth, 2011; Evangelist, 2013).

63. While significant, the recent narrowing of differences between the extent of redistribution between the United States and much of Europe is arguably best seen as an episode, rather than a trend. On a technical level, this is simply because the number of post-GR data points is still too small to credibly establish any longer-term movements. More substantively, however, the GR produced shifts in the principal social and fiscal drivers and constraints of redistribution policy that are likely to result in prolonged periods of policy evolution.

#### **Looking beyond redistribution levels: Towards more responsive redistribution policy?**

64. The dynamics of recent policy developments and challenges point to cyclical responsiveness as a crucial parameter of redistribution policies. US/Europe comparisons commonly focus on the extent or the type of redistribution taking place. In our view, an equally important dimension is how well redistribution measures *respond* and *adapt* to evolving social and fiscal challenges at different points in the economic cycle. In view of both reduced revenues and heightened demand for support during a downturn, this is a relevant question regardless of the starting point in terms of redistribution levels. In both Europe and the United States, weaknesses in the counter-cyclical properties of redistribution policies compromise the ability to provide effective support during a severe downturn. While we do not wish to suggest that this common challenge needs to result in a convergence in terms of policy solutions, we believe that both Europe and the United States can improve the responsiveness of existing policies by considering each others' experiences during the GR.

65. In the most affected countries in Southern Europe, poorly targeted and expensive benefit systems are arguably one of the factors behind the deep fiscal crisis. Income support measures there also did not respond quickly to lengthening unemployment spells or the increasing poverty risk of job losers with little or fragmented work experience. In these countries, a significant reconfiguration of welfare states, with much better targeting, is needed in order to provide effective and affordable protection of the poorest population groups (e.g., Matsaganis, 2011). Benefit systems could be made more cost-effective, and more responsive to cyclical changes, if elements of automatic policy adjustment, such as Extended Benefits in the United States, were adopted. If well designed, this would enable better targeting while credibly reducing expenditures in line with the recovery, once the labour market picks up. Beyond technical adjustments of benefit entitlements, a re-orientation towards more active social policies is needed. Activation policies, including both rights and responsibilities for benefit recipients, are one way of making transfers more responsive to labour-market conditions: they ensure that benefit expenditures decline when labour demand picks up, and they provide a means for making benefits more easily accessible when job prospects are poor (e.g., by tailoring job-search requirements and other eligibility criteria to labour-market conditions). Activation policies also contribute to better targeting (e.g., by making support conditional on job-search efforts; Immervoll, 2010). If well designed, such targeting can, in turn, create the necessary fiscal space, and possibly the political support, that is needed to ensure adequate support for individuals and families who need it most.



66. More fundamentally, however, the highly asymmetric nature of the GR, and its consequences, across Europe have highlighted the incompleteness of redistribution in the EU, where social policy is formulated nationally, and without a mechanism for ensuring that spending patterns account for differences in poverty and unemployment risks across countries. There are major political barriers to moving social policy responsibilities from nation states to the European level. But some strengthening of redistribution across countries could also be achieved in the context of the current system, e.g., by extending the scope of anti-poverty support channelled through the European Social Fund. The United States experience with decentralising aspects of social policy to the state level, while retaining varying degrees of centralised policy and funding authority, holds important lessons for a European debate over a more “unified social policy concept” (we borrow this term from Hemerijck and Vandenbroucke, 2012).

67. In the United States, income transfers are targeted much more tightly on low-earning, but working, families, while support for workless individuals is relatively modest. There are marked social risks of such a policy configuration when increasing numbers of people remain without a job for long periods. These risks can be addressed by a combination of automatic and swift discretionary policy measures that strengthen unemployment insurance and safety-net benefits during a downturn. Arguably, this is precisely the strategy that was followed at the onset of the GR. Yet, a credible commitment to counter-cyclical redistribution rests on consistency between transfer systems and the revenues that finance them. The boom years have seen a budgetary, and perhaps a political, “marginalisation” of both first-tier (unemployment insurance) and second-tier (TANF) transfers for jobseekers. The erosion of revenue sources (notably of state unemployment insurance funds) by pro-cyclical tax reductions, has led both to specific benefit reductions, and to across-the-board budget cuts at a time when the recovery is still weak and poverty remains high. The debate on restoring and maintaining an appropriate funding base for income support measures could usefully draw on experiences in those European countries where earmarking revenue streams for social purposes is more common (Lienert and Jung, 2004; Penner and Weisner, 2001), or where unemployment insurance financing is less pro-cyclical than in the United States (Burda and Weder, 2012).

68. Has the GR been a “Game Changer” for redistribution policy? Based on the information presented in this paper, our answer is an unequivocal “yes”. Redistribution policies in both Europe and the United States continue to face sizable structural challenges, including the questions whether existing support measures for the non-elderly are socially and fiscally sustainable in the long term, and whether income protection for the most vulnerable groups, such as for youth or people with partial or intermittent working careers, is adequate. The GR has certainly made these structural challenges more pressing and more difficult. But while a considerable number of reforms were enacted, the urgency of continually evolving fiscal and social short-term priorities has meant that neither the United States nor Europe have engaged in a broad debate of what redistribution systems for non-elderly people should look like in the future. An important part of this debate, and an interesting topic for continued US/Europe comparative work, concerns the cyclical properties of redistribution policies. Out-of-work income support provisions in the most-affected European countries were not very responsive to changing labour-market conditions, resulting in high and sometimes poorly targeted spending already before the GR, and pressures for far-reaching benefit cuts now when support is most needed. With less generous income support measures in place before the GR, policies in the United States responded more readily to the heightened demand for support after 2007. But largely pro-cyclical tax reductions during the boom years have eroded the capacity for maintaining credible and adequate income support throughout the economic cycle.

**ANNEX A. MAIN POLICY CHANGES IN SELECTED COUNTRIES:  
PRE-CRISIS (2002-2007) AND POST-CRISIS (2007-2010)**

**Table A1. Unemployment Insurance Benefits**  
40-year-old with “long” and uninterrupted work history

		Employment (E) and contribution (C) conditions	Insurance is voluntary (V) or compulsory (C) for employees	Waiting period (days)	Maximum duration (months)	Payment rate (% of earnings base)		Earnings base(2)	Minimum benefit (1)		Maximum benefit (1)		Permitted employment and disregards	Additions for dependent family members	
						initial	at end of legal entitlement period		National currency	% of AW	National currency	% of AW			
Finland	2002	E: 43 weeks in 2 years, C: 10 months.	V	7	23	Basic benefit (19.9% of AW) plus up to 45% of earnings exceeding basic benefit to 83% of AW then 20%.		Gross (excluding additional holiday pay) less SSC.	--	--	None		Working hours <75% of full time. Benefit reduced by 50% of gross income. Benefit plus income <90% of reference earnings.	Supplements: 3.8, 5.5, 7.1% of the AW for 1, 2 and 3 or more children respectively.	
	2007	E: 43 weeks in 28 months, C: 10 months.				Basic benefit (17.3% of AW) plus up to 45% of earnings exceeding basic benefit to 73% of AW then 20%.					Supplements: 3.3, 4.8, 6.2% of the AW for 1, 2 and 3 or more children respectively.				
	2010	E: 34 weeks in 28 months, C: 10 months.				Basic benefit (16.8% of AW) plus 45% of earnings exceeding basic benefit to 82% of AW then 20%.						Supplements: 3.2, 4.7, 6.0% of the AW for 1, 2 and 3 or more children respectively.			
France	2002	C: 4 months in 18.	C	8	30			Gross	8,848	31	64,802		230.0	Income <70% of reference earnings, hours worked/month <136 and duration <18 months. Benefit reduced depending on income ratio to reference earnings.	
	2007	C: 6 months in 22.			23	57-75	9,494		29.3	76,402	235.7	Income <70% of reference earnings, hours worked/month <110 and duration <15 months. Benefit reduced depending on income ratio to reference earnings.			
	2010	C: 4 months in 28 months.			7	24	9,829		28.1	79,488	227.5		Income <70% of reference earnings, hours worked/month <110 and duration <15 months. Benefit reduced depending on income ratio to reference earnings.		
Germany	2002	E: 12 months, C: 12 months in 3 years.	C	0	12	60		Net	--	--	33,840	93.0	Hours worked <15/week, income <EUR 400/month. Total loss above limits, no reduction.	Rate increases by 7 percentage points if children.	
	2007										37,800	93.8			Total loss if working more than 15 hours/week.
	2010	E: 12 months, C: 12 months in 2 years.									38,880	91.7			
Italy (3)	2002		C	7	6	40	--	Average gross earnings in previous 3 months.	--	--	11,194	49.4	No benefits if receiving earnings from employment except for CIG scheme.	--	
	2007	C: 52 weeks in 2 years.			7	50	40 (after 6 months)				12,174	47.2			
	2010				8	60	50 after 6 months				12,879	45.6			

Table A1. (continued)

		Employment (E) and contribution (C) conditions	Insurance is voluntary (V) or compulsory (C) for employees	Waiting period (days)	Maximum duration (months)	Payment rate (% of earnings base)		Earnings base(2)	Minimum benefit (1)		Maximum benefit (1)		Permitted employment and disregards	Additions for dependent family members
						initial	at end of legal entitlement period		National currency	% of AW	National currency	% of AW		
Poland	2002	E+C: 365 days in 18 months and earnings > 1/2 minimum wage.	C	7	18	Fixed amount (27.1% of AW),(6)		--	--	--	--	--	Gross income disregard of up to PLN 4560 (half the minimum pay), 18.0% of AW.	--
	2007				12	Fixed amount (24% of AW),(6)							Gross income disregard of up to PLN 5616 (half the minimum pay), 17.4% of AW.	
	2010	12			Fixed amount 29.6% of AW.(6)	Fixed amount 23.2% of AW (after 3 months),(6)	Gross income disregard of up to PLN 7902 (half the minimum pay), 21.9% of AW.							
Spain	2002	C: 360 days in 6 years.	C	0	24	70	60 (after 6 months)	Gross	4,643	25	10,524	56.6	Benefits are reduced in proportion to hours worked.	Increased minima and maxima if children.
	2007								5,591	25.4	12,230	55.6		
	2010								5,964	24.1	13,046	52.6		
United Kingdom	2002	C: 2 years.	C	3	6	Fixed amount (10.5% of AW).		--	--	--	--	--	Income > GBP 260 (520 for couples) reduces benefit by same amount.	--
	2007	C: 12 months in 2 years.				Fixed amount (9.3% of AW).							Income > GBP 260 (520 for couples) reduces benefit by same amount.	
	2010					Fixed amount (9.9% of AW).							Income > GBP 260 (520 for couples) reduces benefit by same amount. (real-term reduction of income threshold)	
United States (10)	2002	E: 20 weeks (plus minimum earnings requirement).	C	0	6	53	Gross	4,212	12	15,600	44.5	Earnings smaller than gross benefit are deducted at a 50% rate; 100% reduction with that part of earnings which exceeds gross benefit.	USD 312 for each dependant.	
	2007							4,212	10.0	18,824	44.8	Earnings less than gross benefit are deducted at 50% rate; Earnings exceeding gross benefit are subtracted from 1.5 times the gross benefit amount.	USD 312 for each dependant (real-term reduction).	
	2010							6,084	13.3	18,824	41.2	Individuals earning more than 1.5 times their gross benefit amount are ineligible.		

Notes: 'AW' is the average wage of a full-time worker. Black background means less generous than in earlier period, grey background means more generous than in earlier period.

1. All benefit amounts are shown on an annualised basis. "--" indicates that no information is available or not applicable.

2. Gross = gross employment income; SSC = (employee) social security contributions; Net = Gross minus income taxes minus SSC.

3. For employees with a temporary reduction of working hours there is also the CIG scheme which pays benefits of 80% of average gross earnings for non-worked hours.

6. Basic benefit amount is adjusted with the length of the employment record: 80% for under 5 years, 100% for 5-20 years and 120% for over 20 years.

10. Information refers to the unemployment benefit scheme in Michigan.

**Table A2. Unemployment Assistance Benefits**  
40-year-old with “long” and uninterrupted work history

		Employment record in months(2)	Waiting period (days)	Duration (months)	Payment rate	Maximum benefit		Tests on		Permitted employment and disregards	Additions for dependent family members
						National currency	% of AW	Assets	Income		
Finland	2002					5,915	20.1			Limits can be suppressed under certain conditions. Spouse's income excluded if less than EUR 2832 (9.6%AW). Disregards of EUR 3036, 10176 and 1272 (10.3, 34.5 and 4.1% of AW) for single, couple and dependent child respectively. UA reduced (by 75% for a single, 50% for a couple) for gross earnings exceeding disregard; also reduced for earnings from part-time work.	EUR 1112, 1633 and 2105 (3.8, 5.7 and 7.3% of AW) for 1, 2 and 3+ children respectively.
	2007	--	5	No limit	Fixed amount	6,169	17.3	--	Family	Limits can be suppressed under certain conditions. Spouse's income excluded if less than EUR 6432 (19.6%AW). Disregards of EUR 3036 for single, 10176 for couple or lone-parent and addition of EUR 1272 for each dependent child (9.2, 31.4 and 3.8% of AW). UA reduced (by 75% for a single, 50% for a couple) for gross earnings exceeding disregard; also reduced for earnings from part-time work.	EUR 1169, 1716 and 2214 (3.5, 5.1 and 6.5% of AW) for 1, 2 and 3+ children respectively.
	2010					6,613	16.8			(real-term decline in relevant thresholds which remained unchanged in nominal terms).	(real-term decline in relevant amounts which remained unchanged in nominal terms).
France	2002					4,810	17.1			Disregard for earnings less than EUR 6413 then 1/1 reduction up to EUR 11222 (22.8 - 39.8% or AW); for couple limits are EUR 12826 and 17635 (45.5 - 62.6% or AW).	Some for older workers depending on age and employment record.
	2007	UI or 60 in last 120	--	6 months (renewable)	Fixed amount	5,224	16.1	--	Family	Disregard for earnings less than EUR 6960 then 1/1 reduction up to EUR 12188 (21.5 - 37.6% or AW); for couple limits are EUR 13920 and 19153 (42.9 - 59.1% or AW).	
	2010					5,450	15.6			Disregard for earnings less than EUR 7267 then 1/1 reduction up to EUR 12718 (20.8 - 36.4% or AW); for couple limits are EUR 14532 and 19985 (41.6 - 57.2% or AW).	
Germany	2002	UI			53% of net earnings	28,620	78.6	--		Spouse's income disregard is equal to the UA benefit they would receive if unemployed.	If children, rate raised by 4 percentage points.
	2007(3)		--	No limit	Fixed amount	4,140	10.3	Yes	Family	Disregards of EUR 1200, then the withdrawal rate of UB II is 80% up to gross income of EUR 9600 and 90% in a range between EUR 9600 and EUR 14400 (EUR 18000 if children).	Additions for each child depending on age.
	2010(3)	--				4,308	10.2				

Table A2. (continued)

		Employment record in months(2)	Waiting period (days)	Duration (months)	Payment rate	Maximum benefit		Tests on		Permitted employment and disregards	Additions for dependent family members	
						National currency	% of AW	Assets	Income			
Spain	2002	UI or 3-6		18	Fixed amount	3,980	21.4			Income less than EUR 3980/person (21.4% of AW). No disregards.	Older workers with dependants : maximum EUR 2653 for 6 months following UI exhaustion.	
	2007	--	--			4,792	21.8	--	Family		Income less than EUR 5135/person (23.4% of AW). No disregards.	Older workers with dependants: vary from EUR 2396 to a maximum of EUR 3984 for 6 months following UI exhaustion.
	2010	UA only paid to people with dependents, unless aged over 45. Maximum benefit of 20.6% of AW, paid for up to 30 months.										
United Kingdom	2002	--	--	No limit	Fixed amount	2,805	10.5			Earnings disregards are GBP 260, 520 and 1040 for single persons, couples and special groups (e.g. lone parents) respectively. Other forms of income reduce benefits on a 1/1 basis.	GBP 1596 (5.9% of AW) for spouse, GBP 1924 for child under age 16, plus various premiums.	
	2007		3			3,076	9.3	Yes	Family		(real-term decline in relevant thresholds which remained unchanged in nominal terms).	GBP 1750 (5.3% of AW) for spouse, plus various premiums.
	2010		3			3,403	9.9					GBP 1940 (5.7% of AW) for spouse, plus various premiums.

Notes: 'AW' is the average wage of a full-time worker. **Black background means less generous** than in earlier period, **grey background means more generous** than in earlier period.

2. UI = after exhausting UI benefits.

3. As of 1st January 2005, unemployment assistance and social assistance for persons who are able to work were combined into one benefit, the basic jobseekers allowance (unemployment benefit II).

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