



Independent Authority
for Fiscal Responsibility

Minimum Income Scheme – Work Plan

The mission of AIReF, the Independent Authority for Fiscal Responsibility, is to ensure strict compliance with the principles of budgetary stability and financial sustainability contained in article 135 of the Spanish Constitution.

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1. Introduction

In February 2017, the Spanish Parliament considered a Popular Legislative Initiative (PLI) from the trade unions CC.OO and UGT for the establishment of a minimum income scheme of 426 euros for low income families at risk of poverty, and began the parliamentary process while opening an amendment period. Therefore, the political debate began about the minimum income guarantee programmes and the level of social protection for families in situations of social exclusion.

In November last year, the President of AIReF, José Luis Escrivá, appeared in the Congress' Employment and Social Security Committee, which deals with this proposed law, to assess the possible application of a new minimum income scheme in Spain.

The President highlighted, among other things, the relevance of performing a comprehensive analysis of the proposal that would include a revision of the international evidence, an analysis of the current national and regional programs and a prospective estimation of the proposed law and some of its amendments.

Following its appearance, the Ministry of Employment and Social Security **entrusted AIReF to carry out a holistic study including a comprehensive analysis of existing programmes and aid, at the state, regional and local levels, also including a comparative analysis of similar systems that exist in neighbour countries and, in particular, the European Union.**



2. Lessons learned

What do we know about minimum income?

There are already several papers that describe the “tangle” that the minimum income system has become in our country, and that emphasise its complexity, rendering an analysis and evaluation of its effects very difficult.

Studies on the effectiveness of these measures are insufficient, although the effects on poverty and income inequality, the main target, have been examined the most. Some aspects, such as possible disincentives to participating in the labour market, have not been assessed in most of the programmes.

Other factors, such as the “take up”¹ and the cycle, and the relationship between them, must be considered to understand the budgetary impact of these sorts of measures and their short and medium-term effects.

The framework of references presented at the end of this report provides some information in regard to the design, cost, beneficiaries and effects of minimum income schemes in Spain.

Ayala et al. (2016) discusses the contextualisation, the definition of the patchwork of programmes, both in the General State Administration and in the Autonomous Regions, the historical data on beneficiaries and the associated expenditure, the effects on poverty reduction and some recommendations to improve the current system.

Ayala and Rodríguez (2006) evaluated the effects of a labour market insertion programme in Madrid using econometric methods and found that participants in this programme tend to be increasingly self-sufficient and depend less on public support. On the other hand, Casado and Blasco (2009) evaluated a minimum income programme in Catalonia and concluded that participation in these programmes had little success in regard to access to the labour market.

In a more recent study, De la Rica and Gorjón (2017) evaluated the impact of the minimum income programme in Basque Country. Looking at their results, it does not seem that the programme delayed entry into the labour market. Moreover, the active employment policies associated with this income, mainly those related to training courses, had a very positive impact on finding new work.

Rodríguez (2009) studied the incentive to work provided by minimum income programmes based on the employment activation and income requirements demanded of those who receive it (the characterisation of the individual with certain variables is used as a proxy indicator of entry into the labour market). Thus, if analysed in terms of contributory social protection, the requirements to receive the benefit are greater when we distance ourselves from the benefit. If the analysis is based on age, the requirement is at a maximum when the recipient is under 45 years old, very low when they are over 52 years old, and relative when between these two age limits. On the other hand, a significant number of minimum income

¹ The measure of the individuals entitled to receive a benefit who end up requesting it.



recipients have social disabilities (illiteracy or failure to complete schooling) that structurally limit access to employment and protected employment is the only viable alternative.

Some studies have looked at the relationship between the cycle and the number of recipients. Ayala and Triguero (2015) used an autoregressive model and administrative data to analyse how the design of the minimum income programme in Catalonia affected the number of beneficiaries (increasing the amount of the benefit and also the requirements to receive it).

On the other hand, Ayala and Pérez (2015) also studied the macroeconomic factors that affect the number of beneficiaries in the Madrid programme.

To see the microeconomic factors that influence requests for this type of benefit from potential recipients, we can use the conclusions of Bargain et al. (2012), who studied the “non take-up” in Finland, using both surveys and administrative records. The authors found that being home owners and being self-employed discouraged requests for these benefits. On the other hand, the incentive to request the benefits is much greater with expected long-term unemployment or with higher benefit amounts.

One of the main recommendations of the existing studies is the simplification and homogenization of the administrative procedures and access requirements, better targeting of potential beneficiaries, increasing the amounts (generosity of the benefit), reinforcement for households with children (or other dependents), etc.

On the one hand, one of the key lines of the AIRcF Spending Review (SR) is the evaluation of Active Labour Policies (ALP) and, on the other hand, one of the recommendations that have been made in the evaluations of the minimum income schemes is to link them to the ALP. Therefore, it seems reasonable to make the recommendations for both projects coincide over time. For this reason, the schedule presented in point 6 makes AIRcF's work on minimum income coincide with the ALP evaluation project, which is part of the SR. However, although this would be desirable, **work on minimum income can not start until the necessary data are available (see point 4).**



3. Study proposal

The comprehensive study of the Spanish minimum income system includes the following sections:

3.1. Status of the minimum income

Based on the work carried out to date and the current legislation (Ministry of Employment and Social Security , European Parliament), AIReF's research would start by describing the current income schemes in Spain, paying special attention to the less-analysed aspects, such as budgetary cost and the role of Local Governments in social policies.

3.2. Literature review: lessons learned

In order to carry out this study, it is appropriate to review the papers already completed by public institutions and research centres to perform a holistic evaluation of the minimum income policies in Spain. Some of these studies have made several recommendations that could be compared and contrasted with the proposal presented before Congress.

3.3. Extensions of the previous analysis

AIReF considers it necessary to add more evidence and analyse minimum income from two perspectives: by performing a case study of some of the regional minimum income schemes using quasi-experimental methods and administrative data and performing a comparative analysis with the rest of the EU countries.

3.3.1. Quasi-experimental analysis

Since we want to know the effects of these policies have worked and there is little empirical evidence of their success (or lack thereof) so far, we would propose two counterfactual impact evaluations of two regional minimum income schemes. Participation in the labour market is one of the outcome variables for which we wish to assess the effects. We could choose two autonomous regions with different unemployment rates, for example, Madrid and Extremadura.

When choosing the regions, in addition to considering criteria such as the above, we must also ensure that we have available all the data needed to perform the analysis.

The Regions have administrative records, but we have to ensure that we have access to such records, that we have information on the outcome variables (or lacking this, that use of Social Security data will be allowed) and, finally, that we can construct a credible control group to apply these evaluation techniques.



3.3.2. EU benchmarking

In addition to learning how these policies have worked in Spain, we need a European comparison that ranks Spain with respect to the rest of the EU and allows us to identify areas for improvement (in design, coverage, targeting, policy management and governance between the State, Regions and LCs).

AIReF will perform benchmarking to compare the situation of the minimum income programmes in Spain with other countries, mainly in the European Union.

Additionally, we propose a possible collaboration with European experts on this matter. In this sense, a European project is being started, led by the Joint Research Center of the European Commission, located in Seville, in order to analyse guaranteed income policies throughout the EU. Although it is not yet possible to discuss possible collaborations, the analysis would be retrospective and could use EUROMOD², the European microsimulation model to evaluate the effectiveness and equity of these types of policies.

3.4. In-depth analysis of a proposal

AIReF intends to perform an ex ante analysis of a minimum income programme proposal in line with the PLI, alongside some of the most relevant amendments and carry out the following tasks:

3.4.1. Statistical analysis of its coverage (including non take-up) and its fiscal cost

This task would provide an estimate of the number of beneficiaries of the new PLI, as well as its associated fiscal cost from a static point of view, that is, assuming that the possible beneficiaries are those in the database used that meet the requirements of the minimum income scheme, without initially assuming any change in their behaviour.

It would also assess the extent to which individuals who are entitled to the benefit would finally request it (take-up).

² EUROMOD is currently the only micro-simulator of benefits and taxes for all the countries of the European Union. It calculates the taxes for individuals and households, as well as the eligibility to certain benefits in accordance with the rules of the tax and benefit policies of each Member State. It can be used to evaluate the effects of tax and benefit policies on total public expenditure and revenue, income inequality, poverty and social exclusion. Therefore, it can measure the cost of hypothetical reforms, analyse their distributive effects, the number of beneficiaries and the winners and losers, among others. The database used for the majority of the countries is the European version of the ECV (*Encuesta de Condiciones de Vida*): EU-SILC (European Statistics on Income and Living Conditions)



3.4.2.Ex ante analysis of the redistributive effects and possible disincentives in the labour market (equity and efficiency)

This task would perform a micro-simulation analysis to assess the change in the individuals' income (and their respective households) as a result of the new minimum income programme (and the amendments considered). This change in household income would have effects on poverty and income distribution.

In addition, it would evaluate the dynamics of entry to and exit from the labour market, and any possible disincentives that can be attributed to these types of measures.

The analysis of the dynamics would also cover the new fiscal cost, taking into account individual transitions into the labour market.

Both the efficiency and equity analysis would place special emphasis on more vulnerable groups, such as households with all members unemployed and lone-parent households, among others.

3.4.3.Analysis of the measure's sustainability

Finally, a study would be conducted to examine possible medium-term budgetary imbalances resulting from both the proposed new design and possible amendments, with the relevant breakdowns by sub-sectors. This task would also analyse the impact that the economic cycle would have on the number of beneficiaries and, therefore, on the fiscal cost of the measure.



4. Information sources

To carry out the proposed tasks, it is imperative that AIReF has access to adequate sources of information. The data and the institutions responsible for these information databases are detailed below:

4.1. Ministry of Employment and Social Security

As this agency is responsible for the minimum income policies of the Central Administration, the Ministry of Employment and Social Security must provide information regarding the cost and coverage of the policies it is responsible for (PREPARA – Professional Retraining Programme, PAE – employment activation programme, etc.)

On the other hand, the retrospective analysis of the possible impact of minimum income in the labour market would require the identification of the characteristics corresponding to the participants in these policies. It is possible that much of this information is not available in the records of beneficiaries of the minimum income programmes and it will therefore be necessary to compile this information by merging records from Social Security.

4.2. Departments responsible for minimum income data in the Autonomous Regions

The Autonomous Regions, responsible for their own minimum income schemes, must provide information on the cost and coverage of the minimum income policies for which they are responsible.

4.3. Ministry of Health and Social Services

The Ministry of Health and Social Services, specifically the General Directorate of Services for Family and Children, is responsible for collecting and disseminating the annual results of these social benefits and for publishing, among other analyses, the Annual Insertion Minimum Income Report, gathering information on the management of the Insertion Minimum Income (IMI) benefits in the Regions and in the cities of Ceuta and Melilla.

Therefore, the information from the Ministry would help us complete our analysis.

4.4. Ministry of Finance and Public Function

As the agency responsible for the implementation and coordination of the Budgets of the various public administrations, the participation of the Ministry of Finance and Public Function would be needed if the proper analysis of the budgetary situation of the minimum income programmes so requires it.



4.5. National Statistics Institute

The prospective study of the effects of a new programme, in line with the PLI (as well as any of the main amendments), would involve the National Statistics Institute's ECV.

The microdata of this survey are freely accessible to users, but it would be desirable to be able to count on the collaboration of the INE for specific consultations on the study.

4.6. Others

Finally, although the previous sources provide crucial and highly valuable information, the analysis could be completed with more subjective research.

Minimum income schemes are designed to combat social exclusion among the most disadvantaged individuals. Learning about the effects of these programmes on the labour market is relevant, but in some cases having certain groups within the labour market is complicated, and the success of the programme does not solely rest on the characteristics related to employment activity.

Exclusion is a complex and multidimensional aspect that, in many cases, requires a qualitative analysis to assess the success of the initiative.

It might be best to directly survey a group of beneficiaries, or the city councils as the agencies closest to the public and with competencies in social welfare programmes.



5. Human and material resources

The proper performance of these tasks requires suitable resources. Resolution 10/16 of the President of AIReF, which establishes the public prices for the performance of studies by this Authority sets a public price of 75.71 euros per hour of work by AIReF's technical staff, not including VAT.

Taking into account the schedule presented and the purpose of the study, AIReF estimates that 1,600 hours of work will be required by AIReF technical staff to complete the study, which amounts to a total of 121,136 euros excluding VAT. Including VAT, the amount rises to 146,574.56 euros.

In accordance with Article 4 of its Organic Statute, AIReF can enter into service contracts to carry out the material, technical or service activities necessary for conducting the study.

For this reason, AIReF presents the Ministry of Employment and Social Security with the following **budget**:

- 1,600 hours of technical personnel (public price: 75.71 €/hour)
- Total Budget excluding VAT: 121,136 euros
- Total Budget including VAT: 146,574.56 euros

The Ministry of Employment and Social Security may discontinue the study with prior notification, settling and paying the amounts corresponding to work units already performed, as well as 10 percent of the remaining amount.



6. Schedule

This study will take approximately 6 months to complete, starting from when the information defined in the above sections is available.

The study will be conducted in the following phases with the approximate durations indicated below:

ACTIVITIES	SUBACTIVITY	MONTH					
		1	2	3	4	5	6
Study of the minimum income schemes and lessons learned	Literature review	■	■				
Extension of the previous analysis	Case studies using impact assessments on regional data		■	■	■	■	■
	European benchmarking				■	■	■
In-depth analysis of a proposal	Description of the proposal	■					
	Static analysis of coverage (including non take-up) and fiscal cost		■	■			
	Ex ante evaluation in terms of efficiency and equity			■	■	■	■
	Sustainability analysis						■

7. References

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