Care and Income Redistributive Cycles in the Lives of Europeans

NEWSLETTER #2 | June 2018

ABOUT THE PROJECT

The aim of CIRCLE is to provide new empirical evidence of the impact of the interaction between the economic and demographic changes and the welfare systems on the distribution of the resources, rights and responsibilities between generations. In many EU countries, welfare provisions addressed to older people are pay as you go financed and fast population ageing boosts redistribution from the young to the old. However, compensatory mechanisms redistributing resources from the old to the young are often implemented at intra-household level, mainly through inter-vivos transfers and informal care provisions.

The analysis considers both redistributive flows and covers a variety of EU welfare state models, giving a strong base for generalizing the results and deriving useful policy implications.

The team

Leading partner: Center for Research on Pensions and Welfare Policies (CeRP) - Collegio Carlo Alberto (Italy).

Partners:
Centre for Social Policy – University of Antwerp (Belgium)

University of Alcalá (Spain)

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OUTPUT

Task 2.3 Grandmothers' labor force participation and daughters' working choices

Paper: **"The uneven impact of women's retirement on their daughters' employment"**

Author: Ainhoa Aparicio Fenoll (Collegio Carlo Alberto)

Abstract

Family support is stronger in countries with weak family policies. In this paper, I test whether the impact of women's retirement on their daughters' employment differs between countries with strong and weak family policies. Using SHARE and self-collected historical data on early and full retirement ages in 20 European countries, I find that women's retirement leads to an increase in their daughters' employment in countries with low family benefits, while the opposite is true in high family-benefits countries. The positive effect found in low family-benefits countries can be explained by a decrease in monetary transfers and an increase in grandchild care following retirement. Instead, the reduction in help with practical matters and contact with daughters can explain the negative effect in high family-benefits countries.

The full paper is available at http://circle-cerp.carloalberto.org/output/

The paper has been presented at: Conference on "Demographics, Immigration, and the Labor Market" in Nuremberg; 2nd Society of Economics of the Household conference in Paris.

WORK IN PROGRESS

Task 1.3: Revenue and distributive effects of pension tax expenditures.

Paper: **"Size and distributional pattern of pension-related tax expenditures in European countries"**

Authors: Salvador Barrios, Flavia Coda Moscarola, Francesco Figari, Luca Gandullia

Abstract

Policy discussions on pension systems generally focus on their sustainability and design, including retirement age, income reference and contributory period, with relatively little attention devoted to the tax treatment of pension contributions and pension benefits. However, tax expenditures—defined as deviations from an agreed benchmark tax system—are widely used in EU Member States, and little is known about their fiscal and distributional impact. This paper quantifies the fiscal and distributional impact of tax expenditures related to public and private contributory pension schemes, affecting both contributions and pension benefits, in 28 European countries using EUROMOD, the EU-wide microsimulation model. We find that pension-related tax expenditures can have a sizeable impact on revenue and strong effects on inequality and poverty. Tax expenditures tend to be progressive on two levels: first, among pensioners, by favoring those with lower incomes, mainly as a result of the preferential treatment given to pension incomes; and, second, among people of working age, through a partial or no deduction of pension contributions, draining resources from those at the top of the income distribution. Moreover, embracing a lifetime perspective, tax expenditures tend to redistribute resources in favor of women and low educated individuals.

Presented at: IMA Conference (June 2017), Workshop "Household Finance and Retirement Savings", October 2017, workshop: "Cost-Benefit Analysis of Tax Expenditures and other Revenue Measures", Center of Excellence in Finance Ljubljana, Slovenia, 20th Workshop on Public Finance, Bank of Italy, JRC Fiscal Policy analysis seminars (June 2018)

Task 2.1: The changing patterns of income mobility by age cohorts in EU countries

Paper: **"A simple subgroup decomposable measure of upward and downward income mobility"**

Authors: Elena Bárcena, Olga Cantó

Abstract

Recent evidence on the impact of the crisis on the European Union shows that changes in income inequality and poverty have been relatively small despite the macroeconomic heterogeneity of the recession across different economies (Jenkins et al., 2013). However, for a complete evaluation of individual well-being it is also crucial to analyse if there have been significant

changes in the chances to scale up or lose ground in the income ladder. Evidence for the US in the last two decades (Hacker et al. 2010; Dynan et al., 2012) shows that the prevalence of income losses grew significantly already before the crisis. In the European context, Ayala and Sastre (2008) analyze income mobility in five EU countries in the second half of the nineties. They find that mobility was significantly different by age cohorts, so that young household heads (together with individuals in single-parent households) experienced the greatest income fluctuations, even if the intensity of this instability varied greatly across countries. More recently, Van Kerm and Pi Alperin (2013) and Cantó and Ruiz (2015) underline that for some EU countries disposable incomes are particularly volatile. In the case of Spain, for instance, a very large part of the population lost more than 25% of their income from one year to the next, most than anywhere else in the EU. Moreover, one of the main determinants of the probability of suffering income losses, both in the US and Spain, was the individual's age cohort. The young and middle-aged cohorts are more likely to lose incomes compared to individuals from older cohorts. Finally, Aristei and Perugini (2015) have concluded that the levels and determinants of short-term mobility differ remarkably in the various institutional models across Europe, particularly regarding household composition, demographic attributes, education levels and job positions. In this setting, there is a clear need to analyze the nature of income mobility using some simple subgroup decomposable measure that clearly identifies the direction of the income change and takes into consideration its dimension. In this paper, we propose a class of mobility measures that has clear advantages. First, its simple structure facilitates comprehension and eases communication with policy makers without leaving any axiomatic properties aside. Secondly, its properties allow researchers to evaluate mobility across population subgroups in a coherent way. Thirdly, it is consistent with a simple but complete graphical device. As a first empirical illustration of the proposed class of mobility measures we present an analysis of income mobility for different age cohorts in various EU countries during a decade. We use the EUSILC 4-year longitudinal microdata from 2004 up to 2015. Our preliminary results reveal that our class of measures is particularly useful to show (both cardinally and in a graph) how remarkably the level and dimension of upward and downward income mobility differ between age cohorts in the same country and for the same cohort across countries.

To be presented at the International Association for Research in Income and Wealth Conference (Copenhagen) in August 2018

Task 2.2b: Old age support for children? Combating child poverty through pension benefits in extended families

Paper: **'Solidarity between generations in extended families. Direction, size and intensity'.**

Authors: Gerlinde Verbist, Ron Diris, Frank Vandenbroucke

Abstract

Extended families, where three or more generations cohabit within the same household, are a relatively common household form in Southern Europe and, especially, Eastern Europe. There can be different reasons or motivations behind the formation of such families, ranging from individual voluntary choices to the external socio-economic or cultural context imposing this form of cohabitation. In previous work, researchers have generally focused on the impact of extended families on labour supply and time spent on informal and formal care. However, one

important implication of the formation of extended families is often left out. Elderly may bring pension income into the household, which is often of substantial size. This is particularly relevant given that extended families especially form in poor countries where social protection from cash transfers is generally low but pensions are relatively high. Moreover, extended families are especially common among poor families that cannot rely on market income alone. As such, financial distress or poverty risks can be a main driver behind the formation of extended families. In any way, they are a very relevant aspect of cohabiting because they automatically change the income position of the household, and often substantially so. We investigate in this paper to what extent the sharing of income within multigeneration households is beneficial for different generations. We focus then on the contribution of income from the elderly and how it affects child poverty in extended families. Moreover, multi-generational households also provide economies of scale as more people live together. This affects the equivalence scale compared to as situation of separate households. The analysis continues to what extent sharing assumptions differ across household types and how this may affect the equivalence scale traditionally used in empirical analysis. We will then test several scenarios under different sharing assumptions and their impact on child poverty. The analysis covers the EU countries, with special attention to those countries with the highest prevalence of multigeneration households.

Presented at the 25th International Research Seminar on Issues in Social Security, FISS, Sigtuna, Sweden, June 6-8; to be presented at the ESPAnet conference, Vilnius, September 2018

CIRCLE POLICY BRIEF

N. 1: "Ensuring adequate economic support to older mothers", April 2018

The CIRCLE research shows that long work interruptions and a failure to return to work have a large impact on women's long-term economic wellbeing. Thus, it is necessary to ensure adequate economic support to older mothers in later life through a correct calibration of family and pension policies. To prevent future mothers' poverty and income inequalities, welfare state should support the decommodification of citizens by expanding family policies – in particular child care and paid parental leave - and increasing flexibility in the pension system.

http://circle-cerp.carloalberto.org/circle-policy-brief-n-1/

EVENTS

JPI MYBL Conference and Networking meeting

13th February 2018, Brussels

The event gathered representative of the projects funded through the JPI calls, to display the results and discuss the policy impact of the projects. It was meant as an occasion to build partnership between the participating institutions.

Gerlinde Verblist (Antwerp University) represented the CIRCLE consortium at the event.

The agenda can be found at http://www.jp-demographic.eu/news/jpi-mybl-2018-brussels-conference/conference-program-brussels-2018/