The extent and distribution of cash support for children in Spain for over a decade

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Cash support for children serving, among other purposes, to promote vertical equity:

- Strong redistributive effects of family benefits; most progressive transfer in many OECD countries (Jourmad et al., 2013)

- Pro-child targeting proves high effectivity to reduce poverty in the EU (Bárcena-Martín et al., 2018; Leventi et al., 2019), considering large presence of children in low-income deciles

Spain as an intriguing case study in the EU:

- From a socioeconomic viewpoint: high child poverty [AROP rate = 27.8% vs EU avg = 19.3%]; high inequality [Gini = 0.32 vs EU avg = 0.29], low fertility [1.18 live births vs EU avg of 1.52]

- From a policy design viewpoint: targeted system (Van Lancker & Van Mechelen, 2015); structured on tax reliefs (Matsaganis et al., 2006); erratic evolution over time (Bianculli & Jordana, 2013)

In this paper

We assess the extent, composition and distribution of Spain´s cash support for children

- Using tax-ben microsimulation modelling for comprehensively measuring Child-Contingent Payments, including benefits and tax reliefs (Corak et al., 2005; Figari et al., 2011; Pezer, 2022)

We examine its redistributive effects, exploring the contribution of different Child-Contingent Payments

- Via *à la* Kakwani decomposition that allows us exploring the underlying levers of redistribution: the degree of progressivity and average transfer rate

We undertake this exercise over a relatively long period [2005-2022] of relevant policy and socioeconomic changes

- Assessing changes under the scope of automatic stabilization and discrete policy changes

Computing Child-Contingent Payments [CCP]

- **Child-Contingent Payments [CCP]** defined as all tax-ben elements dependent upon having children, including:

  - **Child-related benefits [CB]**: only for families w/ children, at childbirth or until child reaches a specific age

  - **Non-child-related benefits [NCB]**: complementary amounts for children in unemployment, housing or SA

  - **Child-related tax reliefs [TR]**: tax allowances or credits decreasing families' tax burden

  - [NCB] & [TR] typically not available in a disaggregated manner in survey income microdata

- Tax-ben microsimulation allows for a comprehensive measurement of CCP via its simulation as in legislation

  - Using EUROMOD, the EU static tax-ben microsimulation, we build alternative scenarios as if there were no children, thus deactivating the simulation of CCP, and compare against the status quo (Corak et al., 2005; Figari et al., 2011):

    - $y_i^F = f(p^F, z_i)$ disposable income of household i, including CCP
    - $y_i^I = f(p^I, z_i)$ disposable income of household i, excluding CCP

$$y_i^F - y_i^I = CB_i + NCB_i + TR_i$$

Spain´s CCP in the EU context

Spain's CCP are among the lowest in the EU, featuring low proportions of [CB] as opposed to [TR]
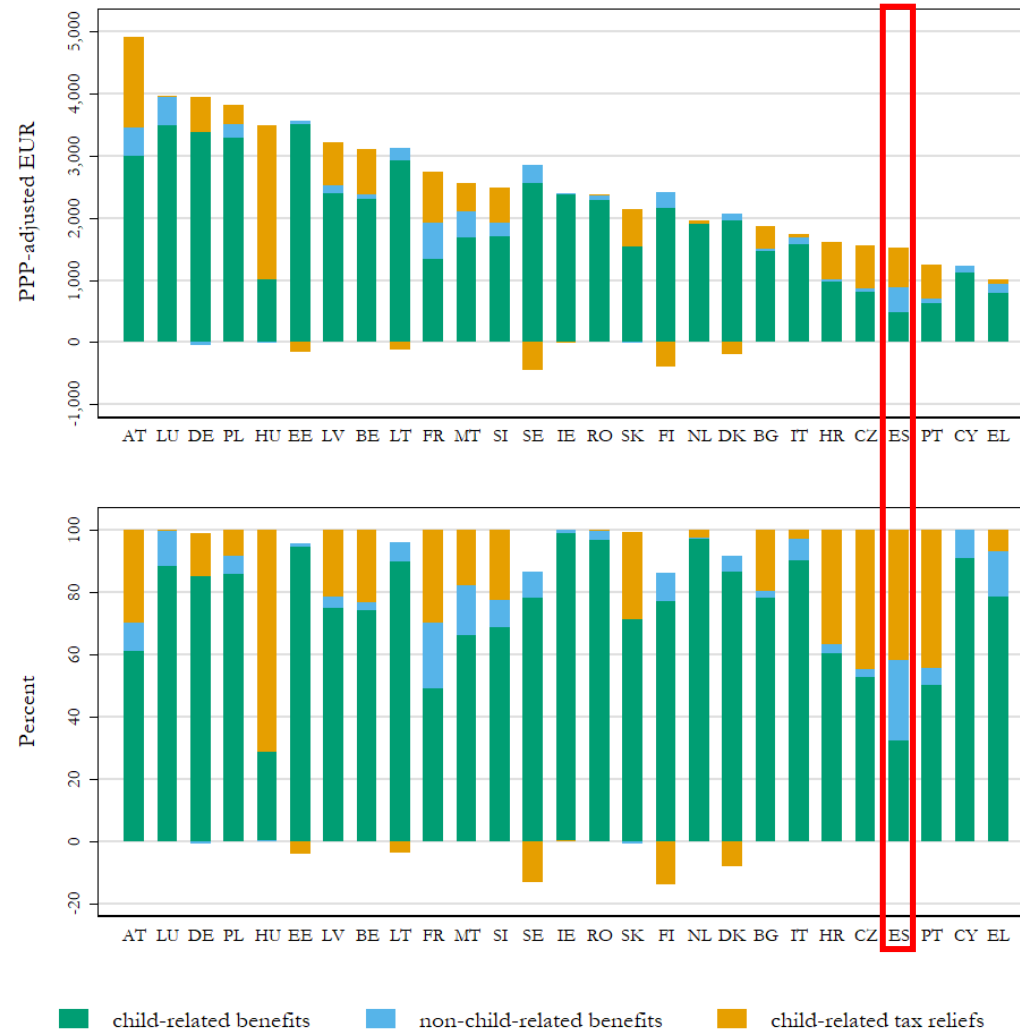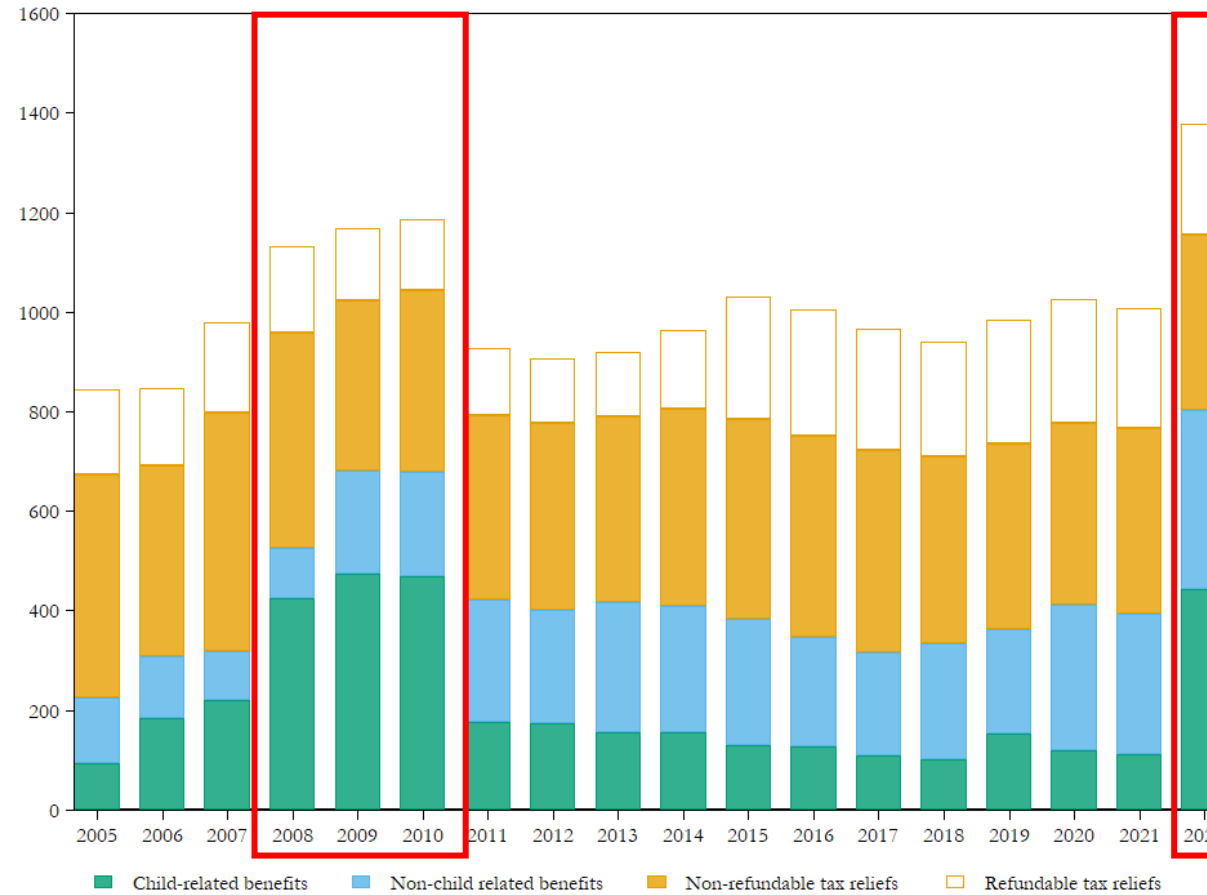

Fig 1. Annual CCP (in PPP-adjusted EUR) per child in the EU, 2022

Spain´s CCP over a decade – level

Spain's CCP maintained relative stability over time, with two exceptions: 2008-10 (temporary childbirth benefit) and 2022 (new child benefit)

Fig 2. Spain's annual CCP (in real terms) per child over time, 2005-2022

Spain´s CCP over a decade - distribution

Spain's CCP traditional pro-rich design (through non-refundable tax reliefs) is gradually shifting towards a pro-poor design
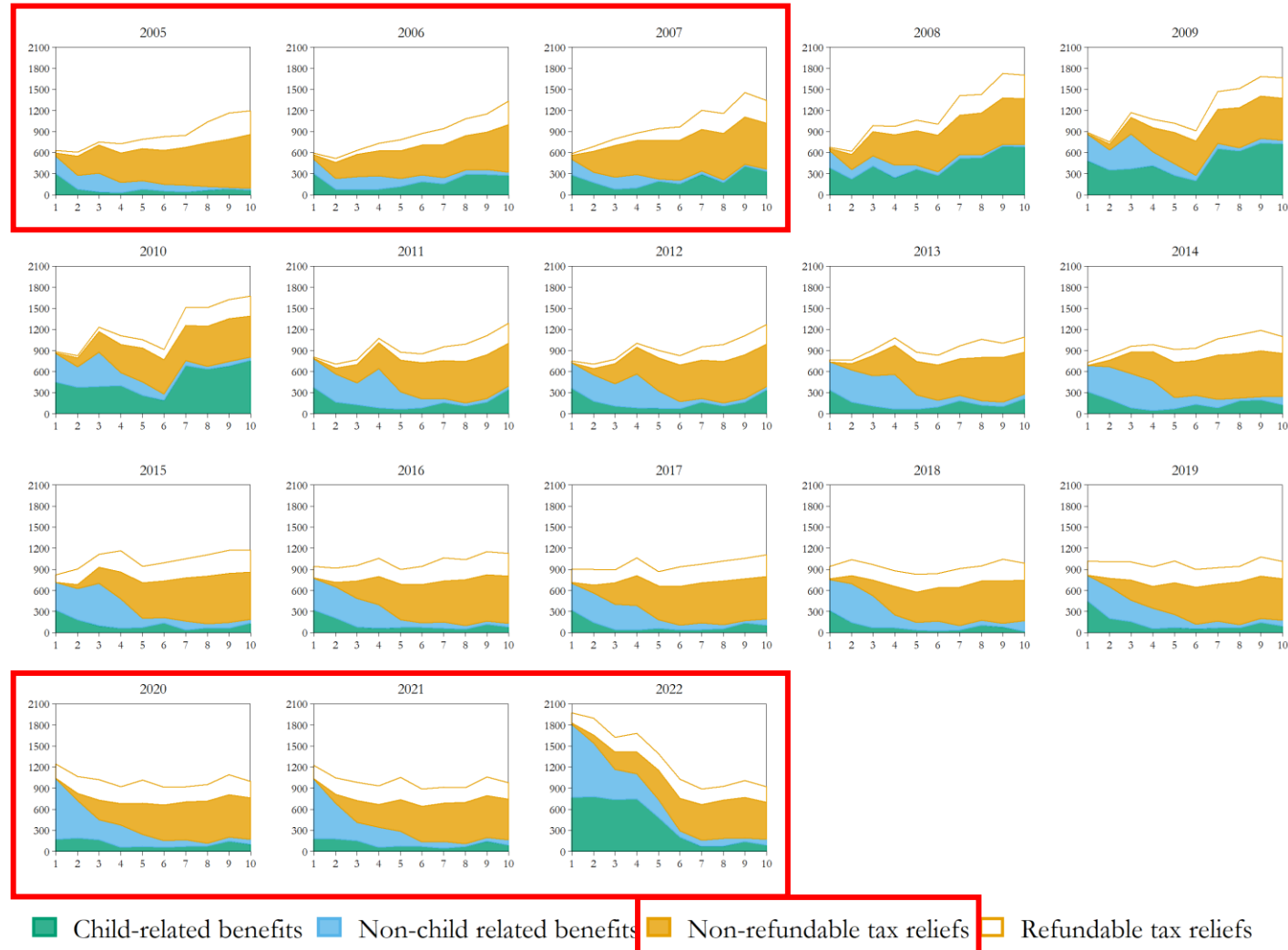

Fig 3. Spain's annual CCP (in real terms) per child by income deciles, 2005-2022

So far visual representation of Spain's CCP. We formalize this further into a single indicator of their (relative) redistributive impact

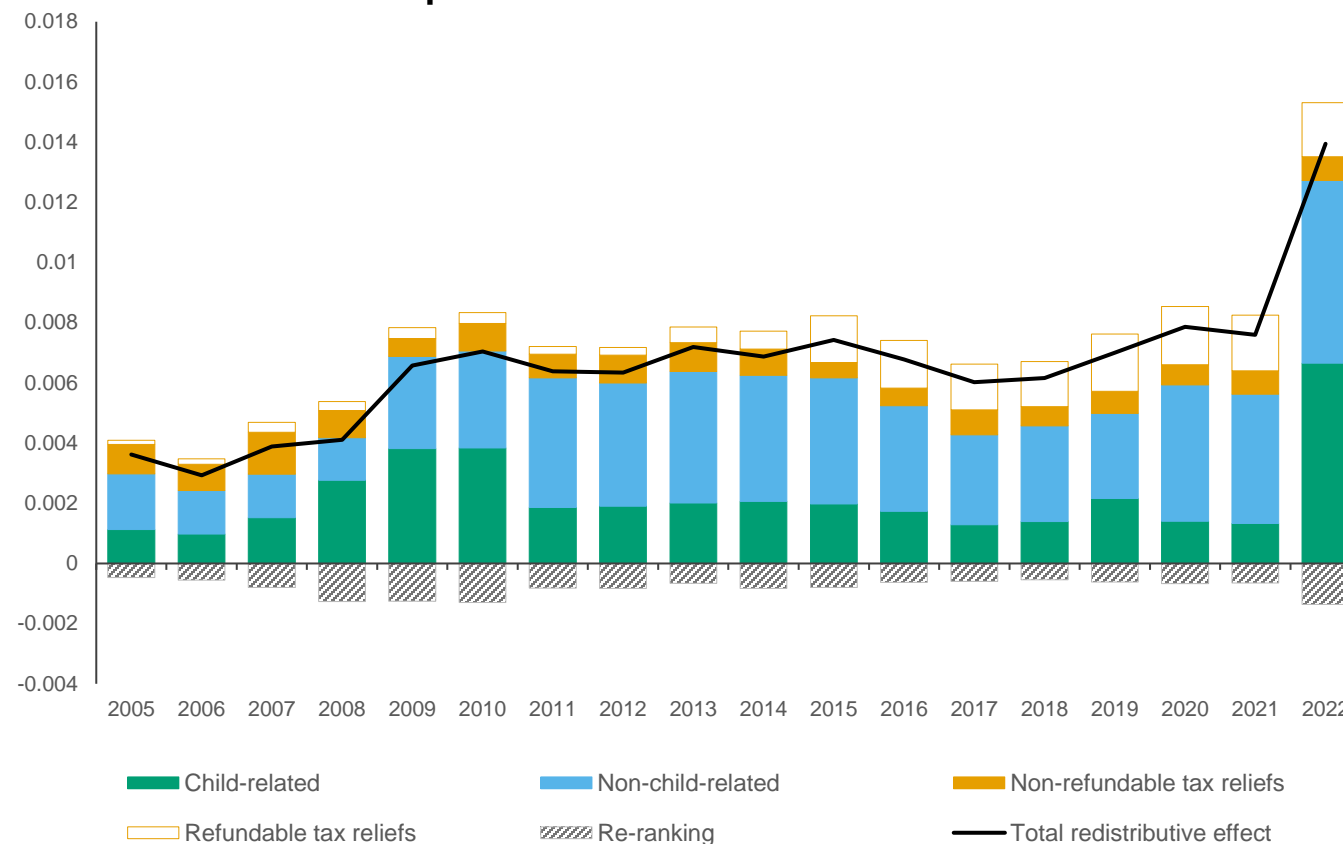**Relative Redistributive Effect (RRE)**

$$RRE = G_I - G_F$$

$$RRE = G_I - G_F = -\sum_{i=1}^{m} \underbrace{\frac{\overline{C_i}}{\overline{Y_F}}}_{\text{Avg. transfer rate}} \underbrace{\Pi_{Y_I, Y_I + C_i}^{K}}_{\text{Progressivity}} - R$$

- 0 if CCP are distributed <u>proportionally</u> to initial incomes

- > 0 (< 0) if low-income (high-income) households receive a higher proportion of CCP as compared to high-income (low-income) households
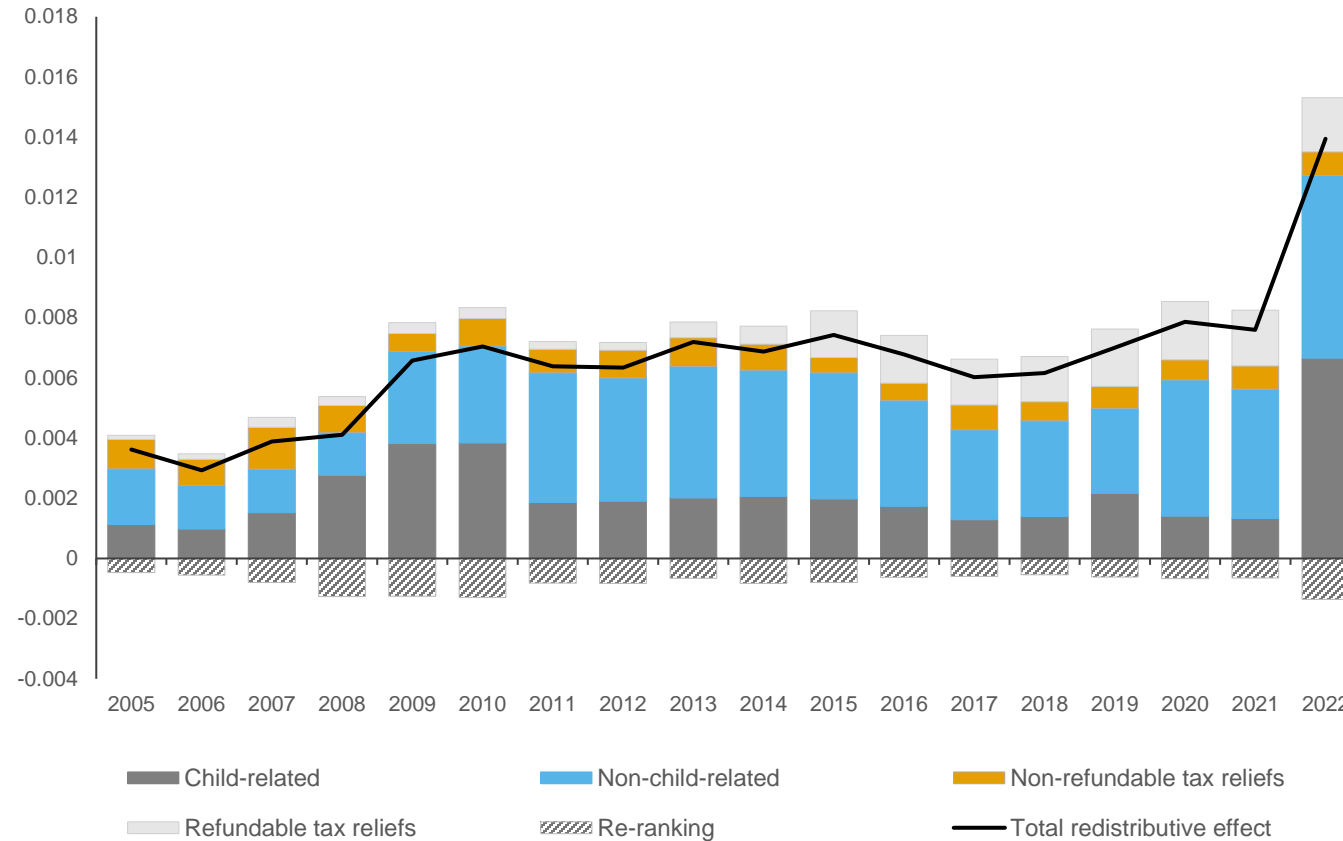
Spain´s CCP (relative) redistributive effects (I)

Spain's CCP are redistributive in relative terms, showing a modest positive trend over time, with a pronounced increase in 2022

Fig 4. Spain's CCP relative redistributive effects, 2005-2022

Spain´s CCP (relative) redistributive effects (II)

Most of the redistributive effect over the 2005-2022 period is driven by complements for children in UB & SA, as opposed to tax reliefs, especially non-refundable ones

Legend:
- Child-related
- Non-child-related
- Non-refundable tax reliefs
- Refundable tax reliefs
- Re-ranking
- Total redistributive effect

Fig 4. Spain's CCP relative redistributive effects, 2005-2022

Spain´s CCP (relative) redistributive effects (III)

Spain's child-contingent benefits (tax reliefs) are typically characterized by high (low) progressivity but modest (high) levels
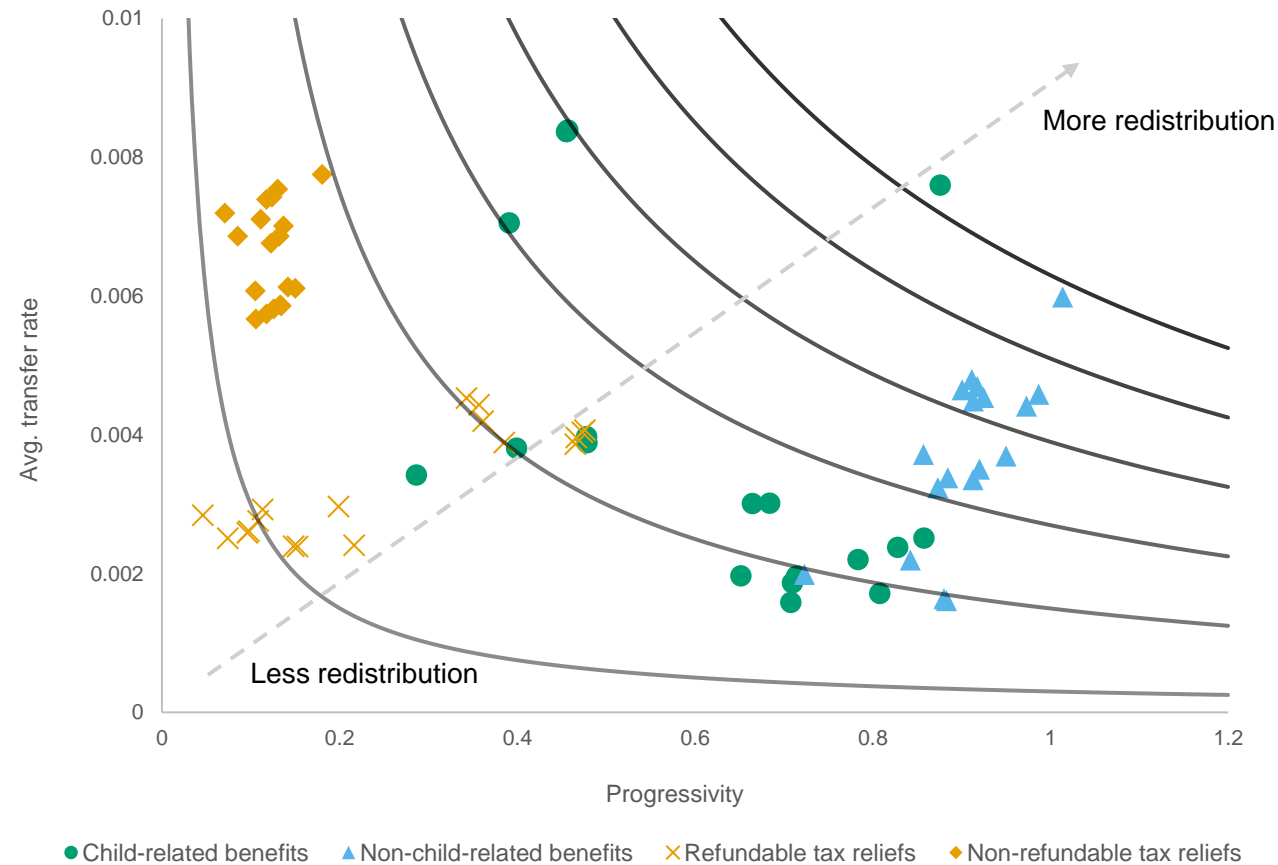

Fig 5. Spain's CCP progressivity and average transfer rates, 2005-2022
Each curve represents combinations of progressivity and avg. transfer rates leading to the same redistributive effect

Spain's CCP are deemed redistributive in relative terms:

- Mostly driven by complements for children in UB & SA, which show high progressivity although modest average transfer rates;
- As opposed to (non-refundable) tax reliefs, which show low progressivity but high average transfer rates
- The redistributive outcomes modestly increased since 2005, with a marked increase in 2022

Are changes over time due to discrete policy changes or attributable to other factors (e.g., changes in unemployment -> automatic stabilization)?

- Bargain & Callan (2010) decomposition of Spain´s CCP relative redistributive effect. Assuming linear homogeneity of tax-ben systems, time changes in relative inequality indexes can be decomposed as:

$$\Delta RRE = RRE[d_1(p^1, y^1)] - RRE[d_0(p^0, y^0)] = \{RRE[d_1(p^1, y^1)] - RRE[d_0(\alpha^1 p^0, y^1)]\} + \{RRE[d_0(\alpha^1 p^0, y^1)] - RRE[d_0(p^0, y^0)]\}$$

Policy effect   **Other effects**

Redistribution driven by automatic stabilization or discrete policy changes?

Fig 6. Decomposition of Spain's CCP redistributive effects, 2005-2022
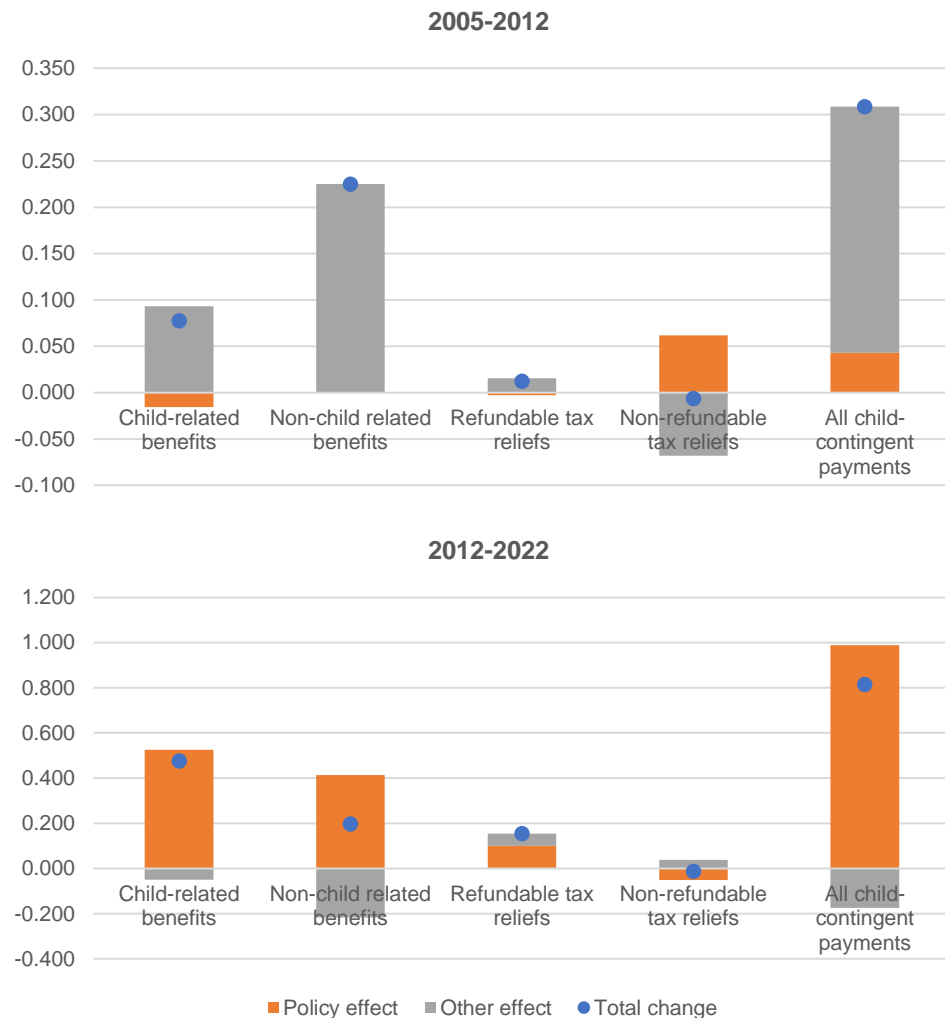
- In absence of significant policy changes, the 2012 rise in unemployment triggered the automatic stabilization features of Spain's CCP (especially through child complements in UB and SA)

- On the contrary, the redistributive impact of Spain's CCP in 2022, when compared to 2012, is predominantly influenced by discrete policy changes, particularly the introduction of a new child benefit in 2022

Conclusions

Spain's CCP are modest, as compared to other EU countries, and traditionally benefited high-income households via non-refundable tax reliefs

Their evolution for over more than a decade is characterized by:

- Relative stability in the extent of support since 2005, with two exceptions: 2008-10 and 2022
- Slightly increasing (relative) redistributive outcomes, mainly driven by complements for children in UB and SA
- The influence of both automatic stabilization (e.g., 2005-2012), as well as discrete policy changes (e.g., 2012-2022)

Some limitations/future work:

- Partial assessment not considering in-kind support (early childhood education, healthcare & others)
- Redistributive effects measured only in relative terms, yet redistribution might be evaluated (leading to different conclusions) under other normative considerations of inequality (Urban, 2019)

Thank you

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