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## Working Paper

# Going regional: The effectiveness of different tax-benefit policies in combating child poverty in Spain

EUROMOD Working Paper, No. EM2/12

### Provided in Cooperation with:

Institute for Social and Economic Research (ISER), University of Essex

*Suggested Citation:* Cantó, Olga; Adiego, Marta; Ayala, Luis; Levy, Horacio; Paniagua, Milagros (2012) : Going regional: The effectiveness of different tax-benefit policies in combating child poverty in Spain, EUROMOD Working Paper, No. EM2/12, University of Essex, Institute for Social and Economic Research (ISER), Colchester

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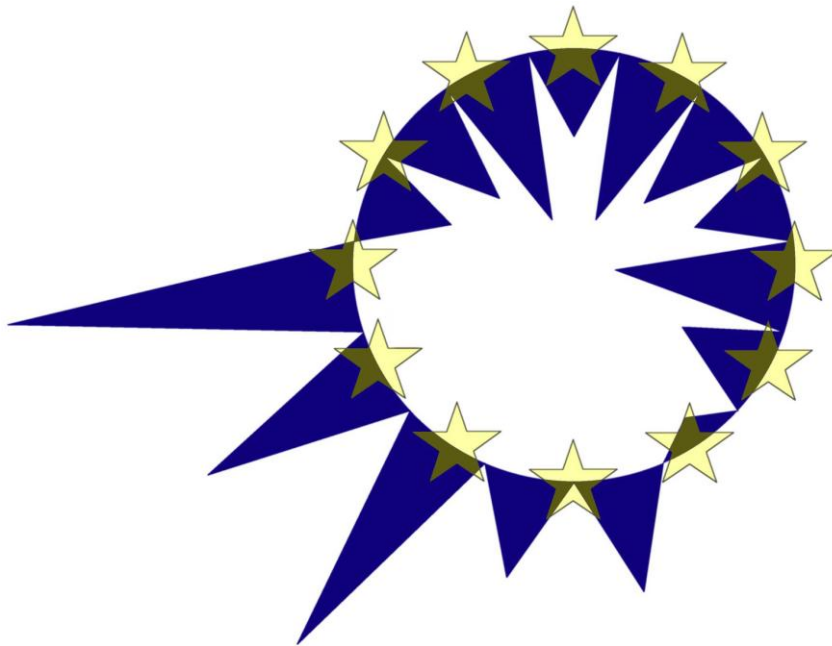
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# **EUROMOD**

## **WORKING PAPER SERIES**



EUROMOD Working Paper No. EM 2/2012

**GOING REGIONAL. THE EFFECTIVENESS OF DIFFERENT  
TAX-BENEFIT POLICIES IN COMBATING CHILD  
POVERTY IN SPAIN**

Olga Cantó, Marta Adiego , Luis Ayala, Horacio Levy,  
Milagros Paniagua

March 2012

# Going regional. The effectiveness of different tax-benefit policies in combating child poverty in Spain<sup>Ψ</sup>

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## Abstract

In recent years, child-related policies in Spain have experienced relevant changes at different government levels. The central government implemented a new universal child benefit at birth and reformed some of the most relevant policies for children living in low income households. Also, many regional governments (*Comunidades Autónomas*) have implemented their own policies to support families with children with different schemes in terms of design and generosity. All these policies have increased social protection expenditure aimed at families and children in Spain as a whole along the last decade (one of the lowest in the EU). So far, however, little is known about their impact on child poverty in Spain. Making use of the tax-benefit microsimulation model for the European Union – EUROMOD – this paper simulates the eligibility and receipt of most of the existing monetary child-related policies at all government levels and assesses their real (for central government policies) or potential (for regional policies) effect on the reduction of child poverty in Spain. Our results underline that, even after the introduction of a universal lump-sum benefit for newborns at the central government level in 2007, in aggregate terms, central government tax credits are the main child-related policy in Spain. Results also underline that central government policies have a considerably larger role in reducing poverty risk even if policies in some regions perform best than others. In general, our simulations suggest that regional benefits and tax credits reinforce and complement the focus of central government policies on younger children, who, on the other hand, seem to be less vulnerable to poverty than older children in Spain.

**Keywords:** child benefits, child poverty, regional policies, microsimulation, Spain.

**JEL Classification:** D1, D31, I32.

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<sup>Ψ</sup> This paper uses EUROMOD version 5.9. This was developed with financial support from the European Commission. EUROMOD is continually being improved and updated and the results presented here represent the best available at the time of writing. Any remaining errors, results produced, interpretations or views presented are the authors' responsibility. This paper uses data from the *Encuesta de Condiciones de Vida* for 2007 conducted by the Spanish *Instituto Nacional de Estadística* (INE). Marta Adiego, Luis Ayala and Milagros Paniagua acknowledge financial support from the *Ministerio de Ciencia e Innovación* (ECO2010-21668-C03-01/ECON). Olga Cantó acknowledges financial support both from the *Ministerio de Ciencia e Innovación* (ECO2010-21668-C03-03/ECON) and from *Xunta de Galicia* (10SEC300023PR).

## Introduction

According to a large amount of empirical evidence, the consequences of experiencing poverty in childhood are likely to persist for long given that employment, educational, health and social outcomes for children growing up in poor families are found more likely to be worse than those for better-off children. The level and evolution of child poverty has become an important concern for social policy in many rich countries in the last decade, particularly since UNICEF (2005) published a report where many developed OECD countries registered an increasingly high rate of child deprivation. In Europe, in particular, there is a large concern that national policies should aim to reduce child poverty risk and promote equality of opportunity in order to facilitate parents working careers and the achievement of employment objectives within the European Union (EU) 2020 strategy as noted in European Commission (2008). As Corak *et al.* (2005) and Figari *et al.* (2009) conclude, there is considerable cross-country variation in the EU in the fraction of the additional household needs arising from having children which is supported from government transfers. In general, they find that, in the European context, countries with the lowest child poverty rates are those in which children benefit a good deal from transfers (not necessarily directed to them) such as public support to working mothers and fathers or, also, those countries with a broader tax-transfer system.

Spain is one of the EU countries where the level of child poverty has been highest during the last decade. Child poverty rates in Spain have been consistently over 23 percent since 1994 while adult poverty rates, even if at high levels too, did not go beyond a 19 percent. The tax-transfer system in Spain is found to be quite narrow. In fact, effective marginal tax rates are found to be one of the lowest of the EU27 together with Greece and Portugal. Regarding public support towards working mothers and fathers Spain also stands out as a country with a relatively low percentage of social expenditure dedicated to the family and children function. However, during the last ten years a variety of national and regional policies in Spain have extended the level of expenditure on families with children pushing expenditure on cash family benefits as a percentage of total social expenditure from 4.6 percent in 2001 to 6.6 percent in 2008. This increase seems to be related both to the creation a new Spanish central government universal child birth benefit in 2007, but also by the appearance of a large list of new regional governments' tax and benefit policies. So far, little is known about the impact

of these new child-related policies on child poverty in Spain. One of the reasons for this is that they have not yet fully been reported in household surveys such as the EU-SILC but also because, being quite different in terms of design and generosity in each region, there is a general lack of nation-wide institutional information on them. Making use of the tax-benefit model for the European Union – EUROMOD – this paper simulates the eligibility and receipt of central government policies (both tax deductions and benefits) and assesses their impact on child poverty. Further, we also simulate what would have been the impact of each regional child-related policy if they had been implemented in the whole country. In this sense we aim to point out the main characteristics of the policies that have a higher potential in order to reduce child poverty in Spain.

The structure of the paper is the following. The next section describes the political economy of family policy decentralization in Spain in a general context of social policy design and details the different national and regional cash transfers to families with children active in 2008. Section 2 presents the actual evolution of child poverty rates in Spain since 1994 and describes monetary child policies in Spain since the mid-nineties. Section 3 presents the details of our methodology while section 4 includes the analysis of the effects of these policies on child poverty. The last section concludes.

## **1. Family policies and decentralization**

Among the different issues related to the optimal design of policies aimed at improving child well-being one outstanding question is the balance between central and local government responsibilities. The question of whether social benefits should depend on local or central governments has attracted great attention from researchers and policymakers. The potential effects of decentralization raise numerous interesting questions and will without doubt be a major focus of policy research for years to come. In most OECD countries there has been a continued emphasis on decentralization and greater local responsibilities in the area of social protection and cash benefits. In the European Union, many countries have transferred decision-making power to regional or local governments in the field of targeted cash benefits. In the US one of the changes introduced by the mid-nineties reform of welfare policies was to

give more responsibility to the States in the design of these policies. In many low or middle-income countries decentralization of key redistributive programs has been a corner-stone in the new definition of social protection (Ravallion, 1998).

Decentralization, however, has different fundamentals in each case and a variety of ideologies revolve around these processes. Standard economic theory provides reasons related to efficiency and social preferences justifying some kind of decentralization in this field. From a very different side, decentralization of these programs is also viewed as an opportunity to strengthen democratic development and to mobilize social capital (Klugman, 1997, De Mello, 2011). Nevertheless, these contributions might not be enough to offset objections that usually come to light. In the case of child benefits, decentralization might produce a mosaic of highly varied schemes, with a striking disparity of regulations and results. Above all, a certain widening of the differences low-income households with children experience regarding rights and access to resources might take place.

The controversy over the relative merits of decentralization of social benefits for achieving higher levels of households' well-being is indeed a frequent topic in the assessment of alternative designs for redistributive policies. Fiscal federalism theories set as their main purpose the analysis of the relationship between central and sub-central government, and its impact on efficiency, equity and macroeconomic stability. In the specific case of redistributive policies, the "mainline" theory of fiscal federalism stresses that central governments must assume the key role in the provision of redistribution. As stated by Oates (2005), there is clearly some modest scope for decentralized government to play a supporting role in redistributive and macroeconomic policy, but the primary responsibility according to the standard theory rests with central government. Therefore, central governments must take the lead in macroeconomic stabilization policy, introduce basic measures for income redistribution, and provide efficient levels of output of national public goods.

The main issue lying behind this statement is the possibility of increasing inequalities when income transfers policies are transferred to territorial governments. A redistributive scheme based only on initiatives coming from regional or local governments might produce horizontal inequalities. Due to different budgetary constraints, benefits might differ largely across territories, being higher in those regions where poor households with children are only

a small fraction of total population. A second motivation for justifying centralized redistribution schemes is possible inefficiencies arising from geographical mobility. Low-income households with children could move to those jurisdictions where benefits are higher while the richest households could move to those places where the necessary taxes are lower. Regional governments might implement reforms aimed at retaining high-income taxpayers or pushing low-income households out of their jurisdictions through lower benefits for families with children. A well-known process of a “race to the bottom” could take place. As a result, final benefits could be clearly lower than the necessary standards to provide adequate economic security.

Over the last years, however, general criticisms of decentralization as a sub-optimal design of social policy have been increasingly replaced by more positive assessments of this issue. New lines of analysis have intensively examined the contribution of decentralization to households’ wellbeing. This is the case of approaches considering decentralization as a local public good or those emphasizing efficiency and adequacy effects of decentralized schemes of guaranteed income. In practice, as abovementioned, decentralization of child benefits is a common trait in most of the current designs of social protection in OECD countries.

An indirect advantage of a framework with different tax-and-transfer schemes in the same country is the possibility of identifying a set of ‘good practices’. Regional experiences may be assessed as a laboratory for the monitoring and evaluation of redistributive policies. In terms of microsimulation analysis a key question might be how poverty or inequality results would change if most regions put into action those developments identified as optimal among the variety of regional experiences.

In this paper do not try to evaluate the impact of the decentralization of policies towards families and children in Spain. Instead, our aim is to take advantage of the existence of a variety of regional policies to fight child poverty in this territory in order to learn about the potentially most effective policy, given that most other institutional factors are largely similar in the different regions of the country.

Child-related policies in Spain at the central government level in the year we undertake all our simulations include tax credits for children increasing in quantity from first to third and



higher if below 3 years of age and a lone-parent allowance. Regarding central government benefits, the main transfer is the universal birth benefit of 2,500 euro paid as a lump-sum to parents which was received by 480,000 families in 2008 and summed 1,200 million euro of expenditures to the family-children function in Spain, which is approximately a 9% of all expenditures of this kind in the country.<sup>1</sup> Other benefits are a means-tested benefit for low income households plus a means-tested lump-sum benefits for large households and lone-parents. The first of these is received by a million individuals (children and disabled siblings of a higher age) with a cost of 930 million euro in 2008.

Child-related policies at the regional level include a large list of tax credits specified in Table 3 that are applicable to households living in the different regions. These tax credits are related to lone-parenthood, new births, child care or work-life balance. Benefits at the regional level in 2008 are significantly different by regions as we indicate in Table 4. Cataluña, Extremadura, Navarra and País Vasco have universal child benefits for children of different ages, a large group of regions have means-tested benefits while others have universal payments at birth or means-tested benefits at birth. Some regions like Galicia, Navarra and País Vasco have more than one type of child benefit payable to families in 2008.

## **2. Child poverty and the evolution of child support in Spain: 1998-2008**

Despite the real household per capita disposable income increase between the early seventies and the early nineties and the rise in public expenditure on social protection reflecting the consolidation of the Spanish welfare state, the relative position of children in the income and expenditure distribution did not improve in comparison with that of adults. The evidence presented by Ayala *et al.* (2006) and Ayala and Cantó (2009) on the evolution of child poverty rates since 1994 show that child poverty estimates base on household microdata suggest that children in Spain have been generally over-represented among the poor.

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<sup>1</sup> Out of total expenditure on the family and children function in Spain in 2008, monetary expenditure is approximately a 43% while the rest (57%) is in-kind expenditure. See the Statistics from *Ministerio de Trabajo e Inmigración, Cuentas integradas de protección social en términos SEEPROS, CPS-8, gastos por función y tipo de prestación.*

In Figure 1 we depict the evolution of poverty in Spain for individuals of different ages since 1994 using data from the ECHP and the EU-SILC.

In Figure 2 we depict the evolution of child poverty rates in Spain in comparison with the group of countries within the Euro Area using data from the ECHP and the EU-SILC. It is easy to see in that child poverty in Spain is well over adult poverty since 1994 until 2009 and it is also well over the Euro Area countries child poverty average. In any case, some convergence in child poverty between Spain and the Euro Area is observable since 2008 if recent provisional results of the Spanish Statistical Office for 2009 are confirmed.

However, Figure 3 shows that there are large differences in child poverty rates in the different Spanish regions. Some regions like Andalucía, Canarias, Castilla-La Mancha, Extremadura, La Rioja or Murcia are significantly over the national Spanish child poverty rates while other regions like Navarra or País Vasco are well below it. Using a regional threshold La Rioja, Madrid and Murcia stand out as those regions where children are significantly worse off than adults.

As UNICEF (2005) concludes, there are basically three elements that determine the economic well-being of children: social trends, labour market conditions and public intervention. Regarding social trends, Spain has experienced a large period of a changes in social and cultural values since the beginning of democracy. Indeed, during the 1970s, Spain underwent major political and socioeconomic changes which, as pointed out by Cantó and Mercader-Prats (2002), improved children's school enrolment and significantly decreased under 5 child mortality rates. These have cohabited with a decreasing fertility rate, an increasing number of non traditional households, a strongly increasing parents' educational attainment and a slow but consistent growth in lone-parenthood. Regarding labour market conditions, Spain registers relatively low female labour market participation rates and a particularly high labour market instability in the EU15 context. Interestingly the number of jobless households is not particularly high even if, in contrast, the percentage of working poor households is one of the highest of the EU15 countries.

Regarding the development of public intervention towards families with children in Spain, as Cantó and Mercader-Prats (2002) pointed out, at the beginning of the nineties only a

negligible share of social expenditures went to family support even if some cash transfers such as unemployment assistance, included a family dimension. Family policies in Spain were largely developed during the authoritarian period (1939-1975) due to the prominent place assigned by the regime to the role of the family in society. Family allowances and bonuses for families with children were introduced in 1938 and 1945, respectively, and, at the time, implied an important increase in head of household wages.<sup>2</sup> Payments were, in general, indexed to prices even if generally universal. There were several reforms to the system as Cantó and Mercader-Prats (2002) recall but the main point was that the new democracy, even if maintaining benefits, never revised them so that the high level of inflation during the seventies made payments almost negligible.

Child support policies in Spain during the eighties and nineties were a central government matter. In 1990 a means-tested child benefit for under 18 was introduced as income support for families in need as a compensation for low income families who do not benefit from the new family tax credits that were introduced within national income tax reform at the time. In fact, as Levy *et al.* (2005) underline, the structure of the Spanish system to support families up to the most recent reforms in national and, most importantly, in regional benefits gave a particular emphasis to tax concessions. As we detail in Table 1, in 1998 the main income tax policies towards the family in Spain was a non refundable tax credit that increased with the number of children<sup>3</sup>.

In terms of benefit policies directly focused on children, in 1998 the only available monetary transfer was a means-tested child benefit available for low income households with children (*Prestación por hijo a cargo*), received by 16.2% of children in the population in 2000 (see Gaitán, 2011). During the beginning of the 21st century, some central government policies towards the family have been reformed and some new elements have appeared. Further, as detailed in Table 2 to Table 4, regional governments have developed an important group of tax and benefit policies towards children and the family in the last ten years.

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<sup>2</sup> See Valiente (1996) for a good review of family policies in Spain before the end of the first half of the 1990s.

<sup>3</sup> Note that there was also a lone parent joint taxation allowance that made tax schedule brackets larger for these households and provided also larger exemption limits.

The main changes to central government tax policies related to children in the last decade in Spain was the child tax allowance of the 1999 income tax reform which after the 2007 income tax reform was replaced by a child tax credit. Lone-parents' different tax schedule was substituted by a lone-parent tax allowance available since 1999. Further, in 2002 a new working mother refundable tax credit was introduced in the income tax as a tax credit for working women with children below 3 years of age. Regarding monetary benefits, the means-tested child benefit was increased over inflation a couple of times before 2006 and in 2008 there was a significant increase in the value of the means-test limit. Also, in 2007 one of the central government benefits at birth for low income households with three or more children was made available for lone-parents and disabled mothers. Further, in that same year, the central government made available for all families a new universal benefit at birth of 2,500 euro.

As it is observable from Table 2, since the beginning of the 21st century, regions have also put forward a large list of policies of a varied monetary weight in order to improve the financial situation of households with children. These consist in child related income tax credits (see Table 3) and child related monetary transfers to families in the form of either universal transfers, universal lump-sum benefits at birth, means-tested benefits and means-tested lump-sum benefits at birth. The differences in policy design and economic relevance of these benefits is large as can be easily understood from the main details of each of them in Table 2.

### **3. Methodology: EU-SILC data and, EUROMOD model, data, simulations and measurement**

### 3.1. Model

This paper makes use of EUROMOD - a tax-benefit microsimulation model for the European Union.<sup>4</sup> This model has been designed to be flexible enough to take into account the particularities of different national policies but also to provide a common framework for the implementation of policies and the production of comparable results across countries.<sup>5</sup> EUROMOD is unique for a wide range of analysis for international comparative research on the effects of policies and policy reform on income, welfare, poverty, inequality and social inclusion.

Because of its flexible structure, EUROMOD is also a suitable tool for within-country cross-region studies. In the case of Spain, as most benefits and elements of the income tax administered by regional governments are simulated by the model, these policies can be compared and analysed in the same way as EUROMOD is used for cross-country analysis.

### 3.2. Data

The database used by EUROMOD in the case of Spain is drawn from the 2007 national version of the Survey on Statistics on Income and Living Conditions (EU-SILC), known in Spain as *Encuesta de Condiciones de Vida* (ECV), provided by the Spanish Statistics Institute (INE). EU-SILC is a European project of comparative statistics of income distribution and social exclusion. The first aim of EU-SILC is to provide timely and comparable cross-sectional annual data with variables on income, poverty, social exclusion and other living conditions of the households and their members, it also provides longitudinal data with information about individual-level changes over a four year period. The sample size of the ECV survey for Spain is about 13,000 households and 30,000 individuals. Besides, the Instituto Nacional de Estadística de España (INE) has provided EUROMOD with an special

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<sup>4</sup> See Sutherland (2001).

<sup>5</sup> See Lietz and Mantovani (2007) for technical information on EUROMOD framework.

breakdown of some particular benefits related to unemployment, old age, survivor, disability and family benefits, this has turned very useful for the simulations.

The Spanish ECV survey sample is representative at the regional level and regions of residence are identified at NUTS 2 level. The database we use in our analysis is ECV 2007 where household characteristics and incomes reflect those of 2006. In fact, children born in 2007 (96 observations) were excluded from the sample. However the weights were not scaled up to reflect this exclusion. As a result, the sample used in the model is of 12,315 households (34,490 individuals) projecting a population of 44,200,084 individuals instead of 44,339,161, which would include children born in 2007. In the ECV 2007, income variables are available gross of taxes. Such variables were imputed by the Spanish Statistical Institute based on reported net income. For more information on the net to gross imputation see Paniagua and Méndez (2008). Finally, in order to construct incomes for the years following the baseline (2006) we use the Consumer Price Index, the increase in labour costs and a detailed list of nominal increases of benefits in time.

In general, the data from the ECV entering EUROMOD are plausible in terms of labour market and income information for 2006. However, it is important to note some details in the macrovalidation of the different income sources and transfers from particular benefits. Regarding national and regional child benefits, Adiego *et al.* (2011) report that these benefits are particularly well captured in EUROMOD given that the model provides an excellent estimation of the number of recipients and the quantity of expenditure on them.

### 3.3. *Simulation*

Different tax credits and benefits to support families with children (henceforth, referred as “child-related policies”) are simulated with EUROMOD. Although the Spanish EUROMOD database is representative at the regional level, its sample size is not sufficient for the analysis of most analysed policies, which are targeted at very specific and rather small population groups. In order to deal with that problem, all regional benefits are simulated as if they

applied to the entire Spanish population. Hence, each regional policy is analysed using a sample of 12,329 households instead of an average of some 725 households.

This approach requires a different interpretation of results. Simulations do not measure the “real” impact of regional policies but the “potential” impact they would have if implemented at the national level. One interesting feature of this approach is that it allows one to compare the effect of different policies on a similar population, therefore making the interpretation of results straightforward. On the other hand, given socio-economic and demographic variations across Spanish regions, results produced by these simulations cannot be interpreted as reflecting how these policies effectively work “in reality”.

The impact of policies was measured using a child-contingent approach.<sup>6</sup> This consists on contrasting simulation results produced using two different databases: one including the full sample and a second using the same sample except for children – which are excluded. Child-targeted policies are measured as the difference in amounts produced by these alternative simulations. Basically, it measures changes in policy amounts due to the presence of children. This approach has some interesting advantages with respect to the standard measurement of the “face” amount of a policy. First it allows one to measure the impact of policies on a particular population group, irrespective of who the benefit is targeted to (one can measure the impact of child benefits on families with children up to the age of 17 even if these benefits are paid to families up to the age of, say, 20). Second, it produces accurate measures of policies that are not observed directly (child tax credits are, usually, not observed directly but by their impact on final income tax liability). Third, it accounts for policy interactions (for example, changes in child benefits may be compensated with changes in the amount of social assistance).

Finally, it must be noticed that this analysis is based on simulations assuming that all legal rules apply and are fully claimed and complied. Thus, issues such as non take up of social benefits and tax evasion are not controlled for. This can result in the over-estimation of taxes

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<sup>6</sup> As Levy *et al.* (2006) indicate, child contingent income is obtained by using EUROMOD to re-calculate household incomes while disregarding children in the calculation of benefits and taxes received by the household. For more detailed information on these calculations see Corak *et al.* (2005).

and benefits. In addition, the analysis doesn't account for changes in individual behaviour such as labour supply or family formation.

### *3.4. Measurement*

Following the United Nations Convention on the Rights of the Child, children are defined as people aged under 18 (i.e. aged 0-17). Generally it is assumed that income is shared within the household such that household disposable income can be used to indicate the economic well-being of each individual within the household ('within household' incidence is not considered).

Household disposable income is defined as original income plus private transfers and social benefits minus taxes and social contributions, aggregated at the household level. Non-cash benefits are not included. Household disposable incomes are equivalised using the modified OECD equivalence scale.<sup>7</sup>

Poverty is measured following the Laeken at-risk-of-poverty approach defined as those living in households with equivalised household disposable income below 60 per cent of the median. The at-risk-of-poverty threshold, based on the EUROMOD ('baseline') simulation for the Spanish 2008 tax-benefit system is €7935 per year per equivalent adult. This threshold is maintained fixed in the assessment of all simulation scenarios.

## **4. Results**

EUROMOD simulation results depicted in Figure 5 and Figure 6 show that in aggregate terms central government tax credits are the main child-related policies in Spain. These policies cover more than 95% of Spanish children and are by far the largest source of expenditure – amounting, in average, to more than 700 euro per child under 18 per year.

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<sup>7</sup> This assumes single person=1; additional people aged 14+ = 0.5; additional people aged under 14 = 0.3.



Central government benefits are considerably lower, covering about 20 percent of children and spending about 200 euro per child.

There is considerable variation with respect to policies administered by regional governments. However, in general benefits have a larger role than tax credits. If implemented at the national level<sup>8</sup>, about one in four children would be covered by benefits from Cantabria and Catalonia and tax credits from Cantabria and Galicia. As for overall expenditure, Cantabrian and Extremaduran policies amount for more than 200 euro per child (hence more than central government benefits). Policies from Navarra, Catalonia and Galicia also spend, on average, more than 100 euro per child.

Table 5 shows the breakdown of benefit spending between means-tested and universal and between children and birth benefits. Means-tested benefits are particularly important in Cantabria, Navarra and, to a lower extent, Castilla Leon and Galicia. Expenditure on universal benefits is higher in the systems of Extremadura, Catalonia and the Basque Country.

As for the central government, the introduction of the universal lump-sum benefit for birth or adoption (*Prestación por nacimiento o adopción de hijos*), in 2008, represents a change not only in the level of expenditure but also on its composition, shifting the focus from periodic, means-tested benefits to children of all ages to lump-sum, unconditional benefits to newborns.<sup>9</sup>

The focus on newborn and young children is also present in most regional policies. Figure 7 shows that, on average, spending is considerably larger for children under the age of 3. Out of the 17, in 9 regions the average expenditure per newborn child exceeds 500 euro per year (in Cantabria it exceeds 1,000 euro and in Extremadura 2,500 euro). In . Children aged 1 and 2 also receive in average more than 500 euro per year in in Cantabria, Navarra, Catalonia and

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<sup>8</sup> See explanation about EUROMOD simulations in section 4.

<sup>9</sup> It should be noted that this benefit was eliminated in 2011 as part of the austerity measures to reduce the public deficit. For an analysis of the distributive impact of austerity measures in Spain, Greece, Estonia and the UK, using EUROMOD, see Leventi *et al.* (2010).

Galicia. In no region the average expenditure per child exceeds 100 euro per year for children children aged 6 or more.

In general, the average spending per child increases with income. Figure 8 shows that, for example, while in the bottom quintile the average benefit in Extremadura amounts to less than 50 euro per child, in the top quintile the amount is more than 400 euro. Due to relatively large income limits (“affluence tests”), also in Cantabria and Navarra, which make use of means-testing, average spending increases with income up to the fourth quintile.

This regressive distribution is not due to policies designed specifically to target higher income households with children but because of the distribution of child age groups by income. Figure 9 clearly shows how younger children tend to be concentrated in higher income quintiles while older children are concentrated at bottom part of the income distribution. While only 8% of newborn children are in the first income quintile, 29% are in the top one.<sup>10</sup> Therefore, since young children tend to live in relative higher income households and child-related policies are focused on young children and lightly or not means-tested, on average spending tends to benefit better off children.

Regarding child poverty, on the whole, central government policies have a considerably larger role reducing the poverty risk. According to Table 6, central government policies reduce child poverty by 4 percentage points (from 26 to 22 percent), while the best performing regions achieve around 1 percentage point reduction. However, the impact of some regional policies is considerably stronger for some particular age groups. Policies from Catalonia, Cantabria and, especially, Extremadura reduce the poverty risk of newborn children by more than 2

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<sup>10</sup> We have checked that the distribution of children by age in our database is similar to that of other sources for Spain for the same year. In particular, using the Household Budget Survey (*Encuesta de Presupuestos Familiares, EPF*) for 2008 we also obtain that newborn children tend to be concentrated in higher income quintiles and older children are more concentrated at the bottom of the income distribution. We should only note that the actual distribution of children of different ages within the distribution of income in the EPF is slightly less polarized regarding newborns than in the ECV: 44 percent of newborn children in the EPF belong to the two highest equivalent income quintiles while in the ECV this percentage is somewhat higher (57 percent). The rest of the distribution is most similar between both data sources, for example, approximately 50 percent of children between 12 and 17 years of age in the EPF are in the two lowest deciles while this percentage is 46 percent in the ECV).

percentage points. Similarly, policies from Cantabria reduce poverty of children aged 1 and 2 by more than 2 percentage points.

Results in Table 6 also show that poverty risk increases with children age and that central government policies also have a stronger impact reducing poverty among younger children. Therefore, our simulations suggest that regional benefits and tax-credits reinforce and complement the focus of central government policies on younger children, which, on the other hand, seem to be less vulnerable to poverty than their older counterparts.

## **Conclusions**

The level and evolution of child poverty has become an important concern for social policy in many rich countries in recent times given the negative evolution of indicators. Spain is one of the European Union (EU) countries where the level of child poverty has been highest during the last decade and where the level of expenditure on family and children function has been around the lowest. Further, the political process in Spain in recent years has resulted in a strong decentralization of many social policies, including those towards families and children. Therefore, in a favorable economic growth context during the period 2003-2007, a variety of national and regional child-related policies have been implemented extending the level of expenditure on families with children and pushing expenditure on cash family benefits as a percentage of total social expenditure. This increase appeared to be related both to central and regional government policies but, so far, little was known about the impact of these new child-related policies on child poverty in Spain.

Making use of the tax-benefit model for the European Union – EUROMOD – this paper simulates the eligibility and receipt of these benefits and assesses their impact on child poverty. Since these benefits are quite different in terms of design and generosity, we simulate what would have been the impact of the child benefits of each region had they been implemented in the whole country.

Our results underline that in aggregate terms central government tax credits are the main child-related policy in Spain. Regarding regional policies, benefits have a larger role than tax credits. The introduction of an universal lump-sum benefit for birth at the central government level in 2007 changed the composition of expenditure towards unconditional benefits to newborns. In fact, newborns and young children are the focus of most national and regional benefits. In general, the average spending per child increases with income even in means-tested benefits given that the means-test is relatively large. This regressive distribution of benefits is not only due to the policy design but to the fact that is due to the distribution of child age groups by household income: younger children tend to be concentrated in higher income quintiles. Regarding child poverty reduction, central government policies have a considerably larger role in reducing poverty risk. However some regions perform best than others. Policies from Castilla Leon, Basque Country, Navarra, Cantabria and, most especially, Extremadura (8%) reduce the poverty risk of newborn children by more than 1 percent. In general, our simulations suggest that regional benefits and tax credits reinforce and complement the focus of central government policies on younger children, who, on the other hand, seem to be less vulnerable to poverty than older children in Spain.

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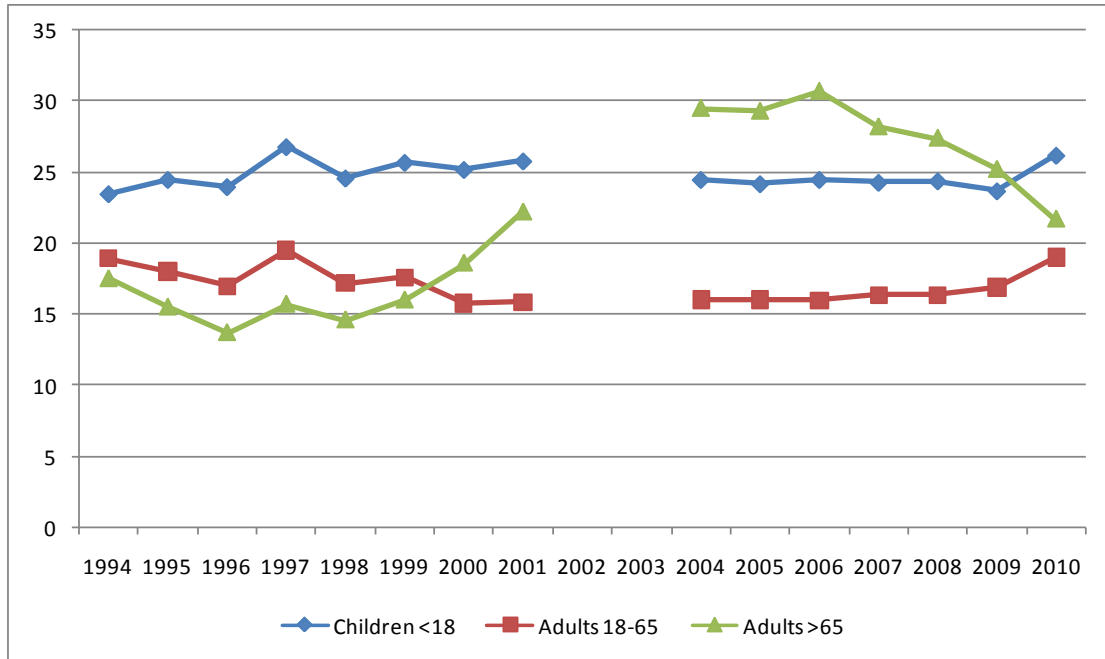
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TABLES AND FIGURES

Figure 1. Poverty Headcounts in Spain: 1994-2010



Source: Instituto Nacional de Estadística (INE). Data come from European Community Household Panel (ECHP) and EU-SILC.

Figure 2. Poverty Headcounts in Spain and the EU27 for children and adults 18-65: 2004-2010

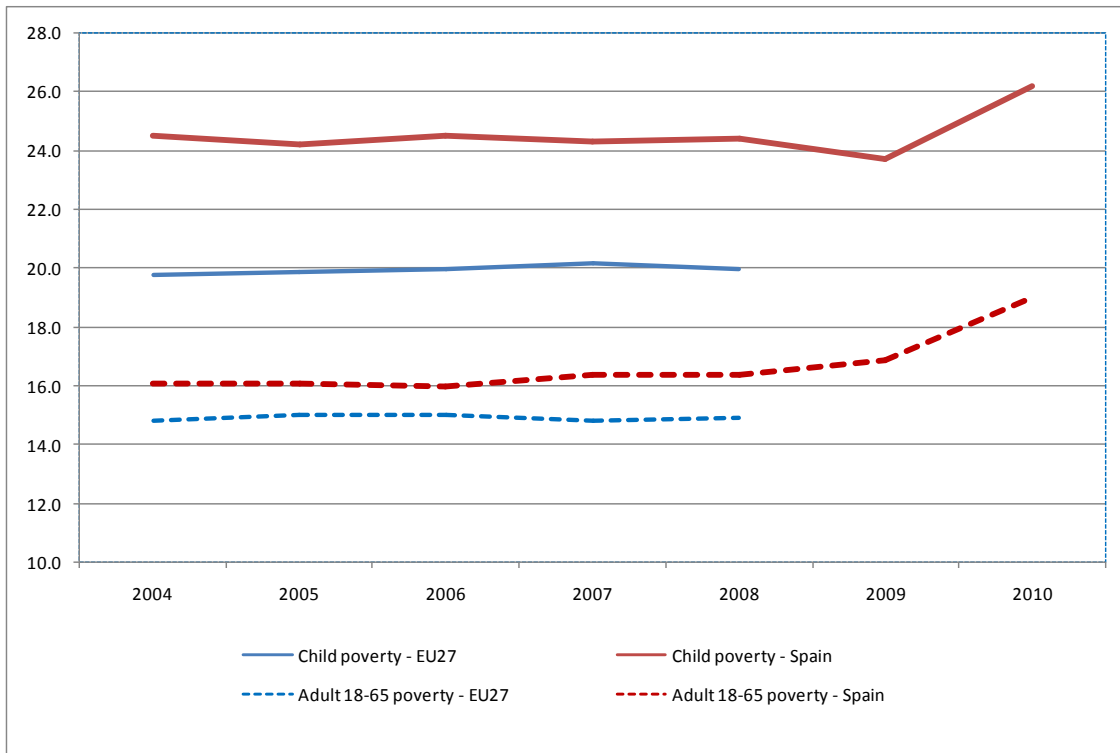
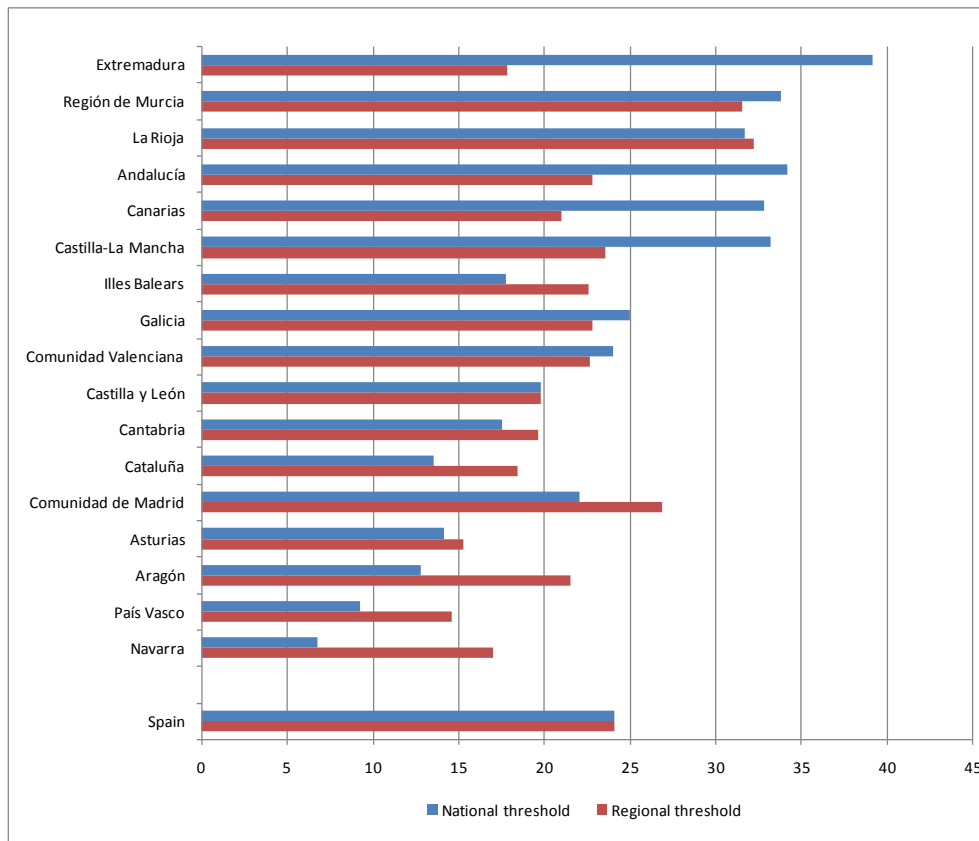


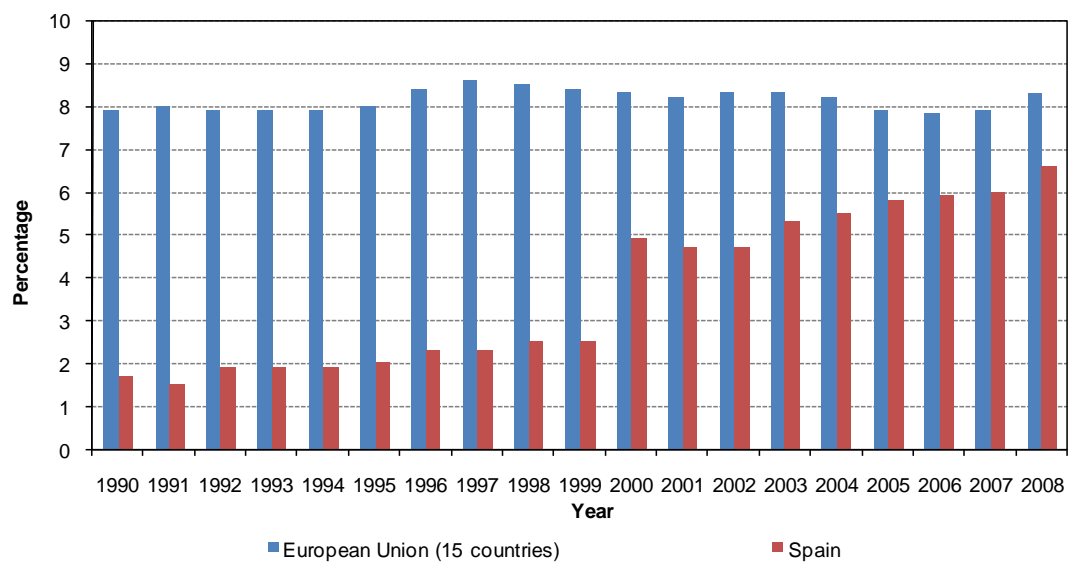


Figure 3. Child Poverty Headcount in Spanish regions using a national and a regional threshold: 2008



Source: Own construction using EU-SILC data for Spain, 2008 (INE).

Figure 4. Expenditure in family and children in proportion of Total Expenditure on Social Protection in Spain vs EU15: 1990-2008



Source: Own construction using SEEPROS data. EUROSTAT.

Table 1. Central Government Child-related policies in Spain: 1998-2008

<b>Tax policies</b>	<b>1998</b>	<b>2003</b>	<b>2008</b>	<b>Characteristics 2008</b>
Child tax credit	non refundable tax credit	replaced by child tax allowance	replaced by non refundable tax credit	Base quantities to calculate tax credit (using tax schedule): €1,863 first child, €2,040 second child, €3,672 third, + €2,244 for each child below 3 Children are cohabiting individuals below 25 years, not married and with incomes below €8,000/year
Lone parent joint taxation allowance	tax schedule brackets are larger and also exemption limits	tax schedule differences are replaced by tax allowance		Tax allowance of €2,150 for lone-parent households with children
Working mother refundable tax credit		refundable tax credit for working women with children under 3		€1,200 year tax credit for full-time working women (proportional to contributions) with dependants below 3 (refundable as a €100 / month benefit)
<b>Benefit policies</b>	<b>1998</b>	<b>2003</b>	<b>2008</b>	<b>Characteristics 2008</b>
Means-tested child benefit	child benefit for low income families	amount updated (once) above inflation	amount updated once above inflation (in 2006), relevant increase of means-test (2008)	Benefit €500/year for hh. With children <18 or €1,000/year if disabled, hh. Income below €11,000/year + 15% for each child (€16,555.7 if large household)
Lump-sum means-tested benefit for large households, lone-parents and disabled mothers			large lone-parent, disabled mother	Benefit €1.000 lump-sum at birth, if hh. Income below €11,000/year (€16,555.7 if large household) + €1,650 x number of children. Not compatible with other benefits.
Lump-sum benefit for multiple birth		lump-sum benefit if birth of two or more children		4 times SMI (minimum wage) for double births, 8 for triple and 12 for more
Universal newborn lump-sum benefit (or refundable tax credit)			lump-sum payment at birth	Benefit of €2,500 payed at child's birth

Source: Levy, Lietz and Sutherland (2005) and Adiego *et al.* (2011).

Table 2. Regional child-related Benefit policies in Spain: 2003-2008

Universal child benefits	2003	2005	2008
Universal child benefit (CAT)		Child benefit for children under 3 (under 6 if large families or lone-parents)	
Universal child benefit (EXT)			Child benefit for children under 3
Universal child benefit (NAV)		Child benefit for under 1 if two children or under 3 if third child or more	
Universal benefit for children under 3 with working mothers (NAV)		Benefit to mothers of under 3 contributing to Social security	Converted into a means-tested benefit
Universal child benefit for second and more children (PV)			Universal benefit for families with a newborn child if second or more
Universal child benefits - lump-sum	2003	2005	2008
Newborn lump-sum benefit (AST)			Universal benefit for families with a newborn child
Newborn lump-sum benefit (MAD)			Universal benefit for families with a newborn child
Lump-sum benefit for multiple birth (CLM)			Universal benefit for families with two or more newborn children
Lump-sum benefit for under 3 if parents reduce working time (GAL)			Universal benefit for fathers reducing working time
Lump-sum benefit newborn third child (NAV)		Universal benefit for birth of third child or multiple birth	
Lump-sum benefit for under 8 if parents reduce working time (NAV)			Benefit for full-time working parents who reduce > 50 percent working time
Lump-sum benefit for under 3 if parents reduce working time (PV)			Benefit for workers with children under 3 if work leave and under 6 if reduction of working time
Means-tested child benefits	2003	2005	2008
Means-tested benefit for third child if all under 3 (AND)		Benefit during three years for third child born when other two under 3	
Means-tested benefit for children under 3 (under 6 if large families) (CAN)			
Means-tested benefit for children under 18 in large families (CLM)			
Means-tested benefit for children under 18 in families of four children or more (NAV)		Large-families benefit for under 18	
Means-tested child benefits - lump-sum	2003	2005	2008
Lump-sum one-off means-tested newborn benefit (CYL)		Means tested benefit for newborn and multiple birth	
Lump-sum one-off means-tested newborn benefit (GAL)			Means tested benefit for children under 3
Lump-sum one-off means-tested newborn benefit (PV)			Means tested benefit for newborn
Lump-sum one-off means-tested multiple birth benefit (PV)			Means tested benefit for multiple birth

Source: Adiego *et al.* (2011).

Table 3. Regional Child-related Tax policies in Spain: 2003-2008

Regional Child-related Tax policies	AND	ARA	CANA	CAN	CLM	CYL	CAT	GAL	MAD	MUR	RIO	VAL
Family-related benefits tax credits	x											
Lone-parent tax credit	x											
Newborn third child tax credit		x										
Newborn tax credit			x		x	x	x	x	x		x	x
Child care tax credit			x	x								
Large families tax credit			x			x	x	x				x
Child care tax credit	x							x		x		x
Housework tax credit												x
Work-life balance tax credit												x

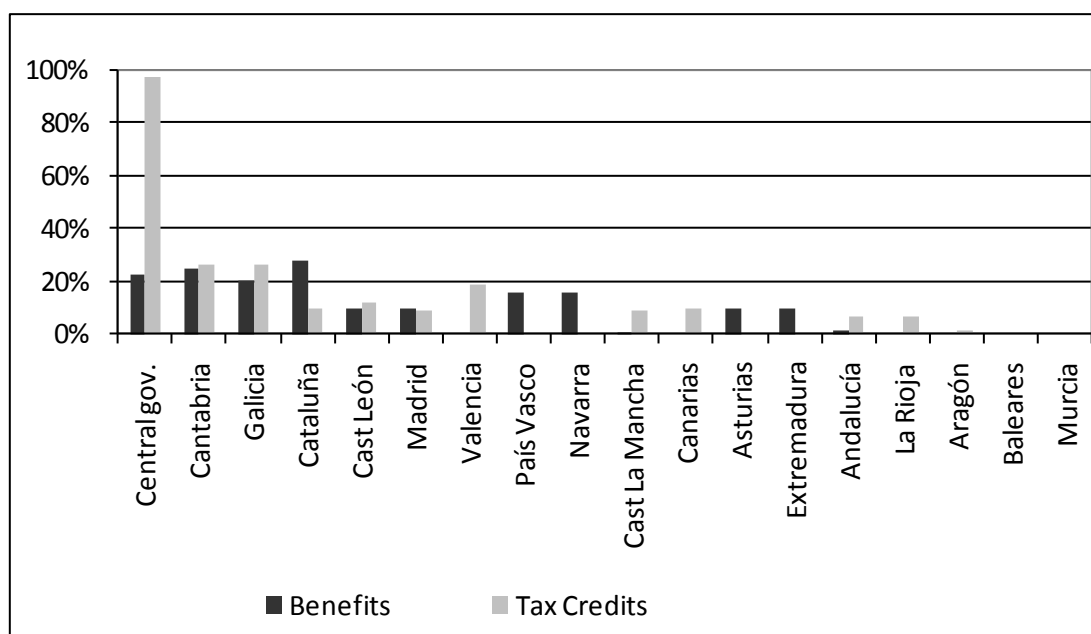
Source: Adiego *et al.* (2010).

Table 4. Regional Child-related Monetary Transfer policies in Spain: 2003-2008

	Universal	Universal - Lump-sum	Means-tested	Means-tested - Lump-sum
Andalucía			x	
Asturias		x		
Cantabria			x	
C La Mancha		x	x	
C y León				x
Cataluña	x (0-3-6)			
Extremadura	x (0-3)			
Galicia		x		x
Madrid		x		
Navarra	x (0-1)	x	x	
Pais Vasco	x (2º hijo)	x		x

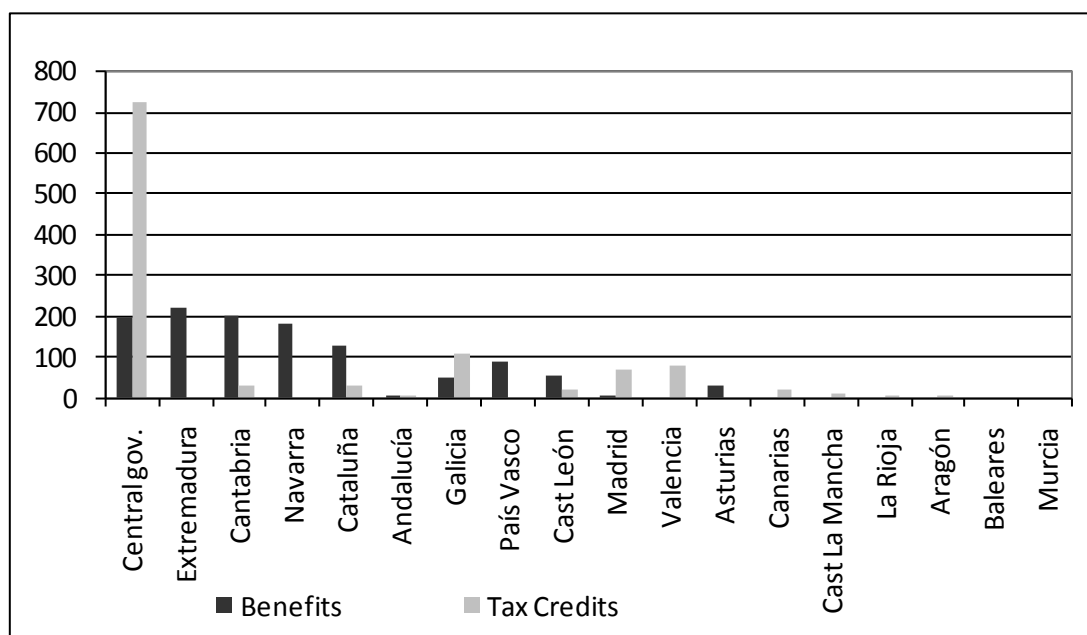
Source: Adiego *et al.* (2010).

Figure 5. Overall coverage of child-related policies in Spain



Note: % of children under 18 in households receiving child-related benefits and/or tax credits.  
 Source: EUROMOD.

Figure 6. Average expenditure per child in child-related policies in Spain



Note: total expenditure on child-related benefits and tax credits divided by the number of children under 18 (irrespective of whether the child, her family, receives a benefit). Amounts in euro per year.  
 Source: EUROMOD

Table 5. Average expenditure per child, by type of benefit

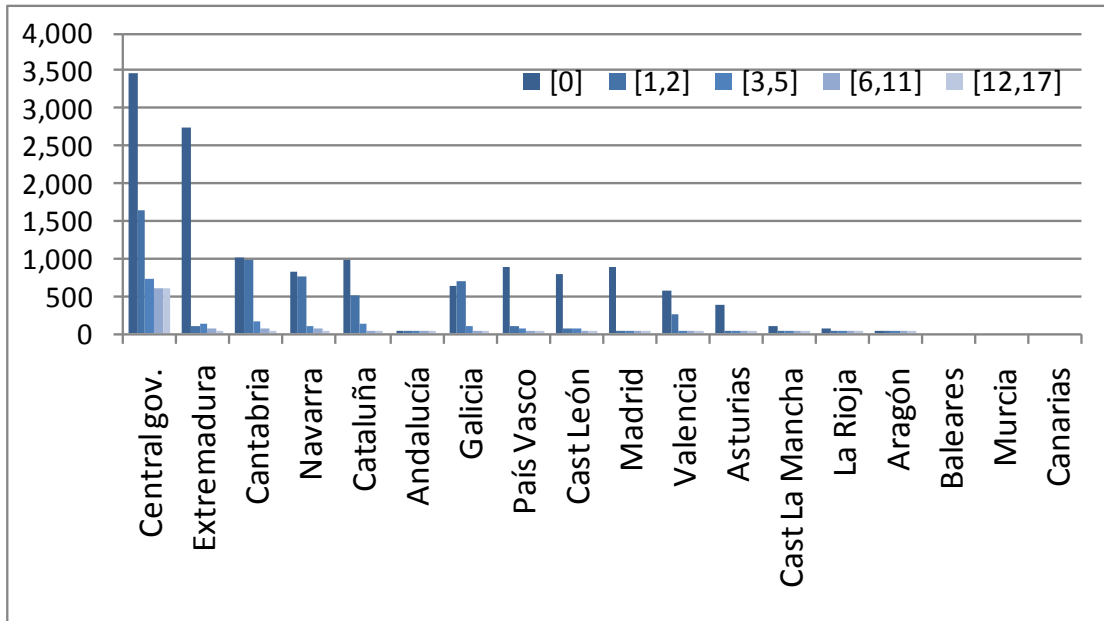
	Means-tested		Universal	
	Child	Birth	Child	Birth
Central gov.	43	2	0	152
Extremadura	0	0	0	223
Cantabria	200	0	0	0
Navarra	169	0	0	11
Cataluña	0	4	124	1
Andalucía	0	5	0	0
País Vasco		35	56	0
Cast León	0	57	0	0
Galicia	49	0	0	0
Asturias	0	0	0	31
Madrid	0	0	0	6
La Rioja	0	0	0	0
Aragón	0	0	0	0
Valencia	0	0	0	0
Baleares	0	0	0	0
Murcia	0	0	0	0
Canarias	0	0	0	0
Cast La Mancha	0	0	0	0

Note: total expenditure on means-tested and universal child and birth benefits divided by the number of children under 18 (irrespective of whether the child, her family, receives a benefit). 'Birth benefits' are defined as target at newborn children, remaining benefits are defined as 'child benefits'. Amounts in euro per year.

Source: EUROMOD



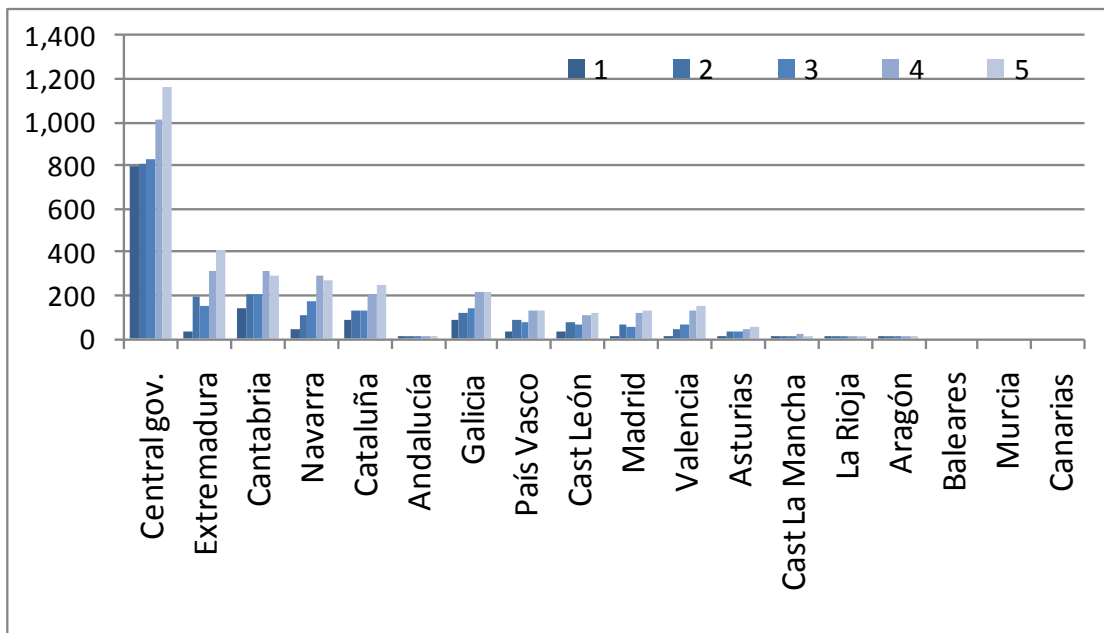
Figure 7. Average expenditure per child, by age groups



Note: total expenditure on child-related benefits and tax credits (irrespective of whether the child, her family, receives a benefit). Amounts in euro per year.

Source: EUROMOD

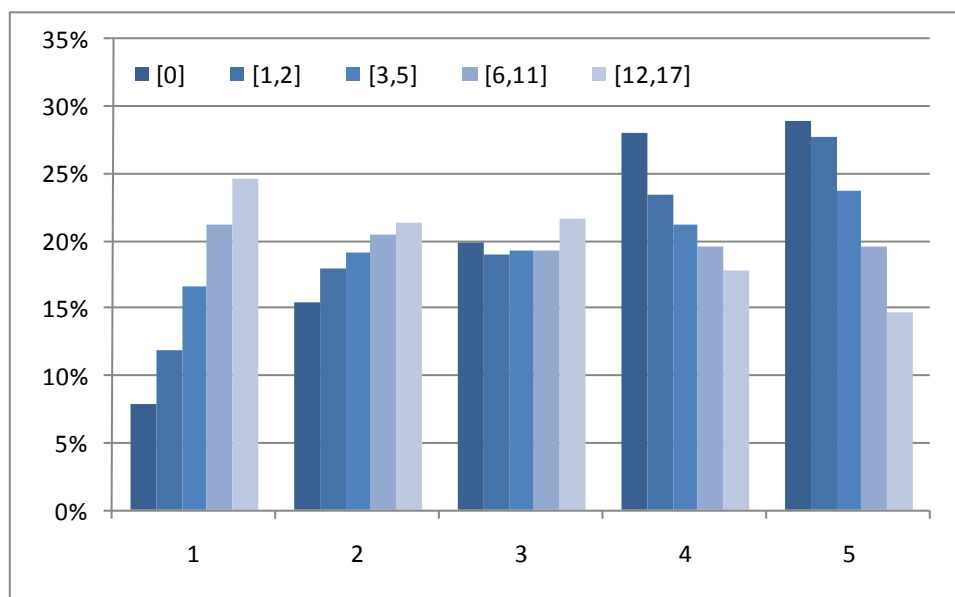
Figure 8. Average expenditure per child, by income quintiles



Note: total expenditure on child-related benefits and tax credits divided by the number of children under 18 (irrespective of whether the child, her family, receives a benefit). Amounts in euro per year. Quintiles computed only for children (i.e., each quintile includes one fifth of children) using household equivalised disposable income.

Source: EUROMOD

Figure 9. Distribution of child age groups by income quintiles



Note: distribution of children from particular age groups by income quintiles. Quintiles computed only for children (i.e., each quintile includes one fifth of children) using household equivalised disposable income.

Source: EUROMOD

Table 6. Child poverty risk and reduction

		[0]	[1,2]	[3,5]	[6,11]	[12,17]	total
Poverty before policies	all	21%	24%	22%	25%	29%	26%
Poverty reduction							
Central gov.		13%	5%	3%	4%	2%	4%
Extremadura		11%	0%	1%	1%	0%	1%
Cantabria		3%	4%	1%	1%	0%	1%
Navarra		2%	1%	0%	0%	0%	0%
Cataluña		3%	1%	0%	0%	0%	1%
Andalucía		0%	0%	0%	0%	0%	0%
Galicia		2%	1%	0%	0%	0%	0%
País Vasco		2%	0%	0%	0%	0%	0%
Cast León		2%	0%	0%	0%	0%	0%
Madrid		2%	0%	0%	0%	0%	0%
Valencia		1%	0%	0%	0%	0%	0%
Asturias		1%	0%	0%	0%	0%	0%
Canarias		1%	0%	0%	0%	0%	0%
Cast La Mancha		1%	0%	0%	0%	0%	0%
La Rioja		1%	0%	0%	0%	0%	0%
Aragón		0%	0%	0%	0%	0%	0%
Murcia		0%	0%	0%	0%	0%	0%
Baleares		0%	0%	0%	0%	0%	0%

Note: Child poverty risk: share of children living in households with equivalised disposable income below 60 percent of the population median (poverty line). Poverty reduction: share of children whose equivalised household disposable income reaches or exceeds the poverty line after child-related policies.

Source: EUROMOD

