Social policy and redistribution:
taxes, social transfers and public services

Polityka społeczna Polityka społeczna w ujęciu dystrybucyjnym:
podatki, transfery i usługi publiczne

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Economic aspects of social policy: funding and redistribution
Ekonomiczne aspekty polityki społecznej: finansowanie i dystrybucja

Social policy and redistribution

- Broad approach to „social policy": social policy as a way to direct public support towards selected groups of the society:

  - based on specific conditions (health, disability, family situation)
  - based on lack of resources (anti-poverty support)
  - based on potential „return" or externalities for the society (e.g. healthcare or education)
  - based on the insurance principle:
    - „replacement income" systems: pensions, unemployment, maternity/paternity benefits
    - $\Rightarrow$ insuring inability to work

- All these policies:
  - have important distributional implications
  - need to be financed from current (or future) revenues (principally taxes)
  - $\Rightarrow$ … and taxes also have distributional implications

Social policy and redistribution

- The system of support should be „effective" along several dimensions:

    - it should direct support to those who have been classified as eligible (and not to those who are ineligible)
    - it should direct support to all those classified as eligible
    - conditional on the provision of support to the eligible it should minimize economic efficiency losses
    $\Rightarrow$ the system should preserve incentives to work, to save, to invest, etc.
    - it should be efficient in delivery of support from the perspective of its cost

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		Receives support	
		YES	NO
Eligible for support	YES	√	✗
	NO	✗	√

- Eligibility and support receipt:
- $\Rightarrow$ Advantages and disadvantages of universal and means-tested benefits

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- The system should also be perceived as „fair" – different aspects of fairness, some easier to agree on than others, e.g.: should incomes from different sources be treated in the same way?
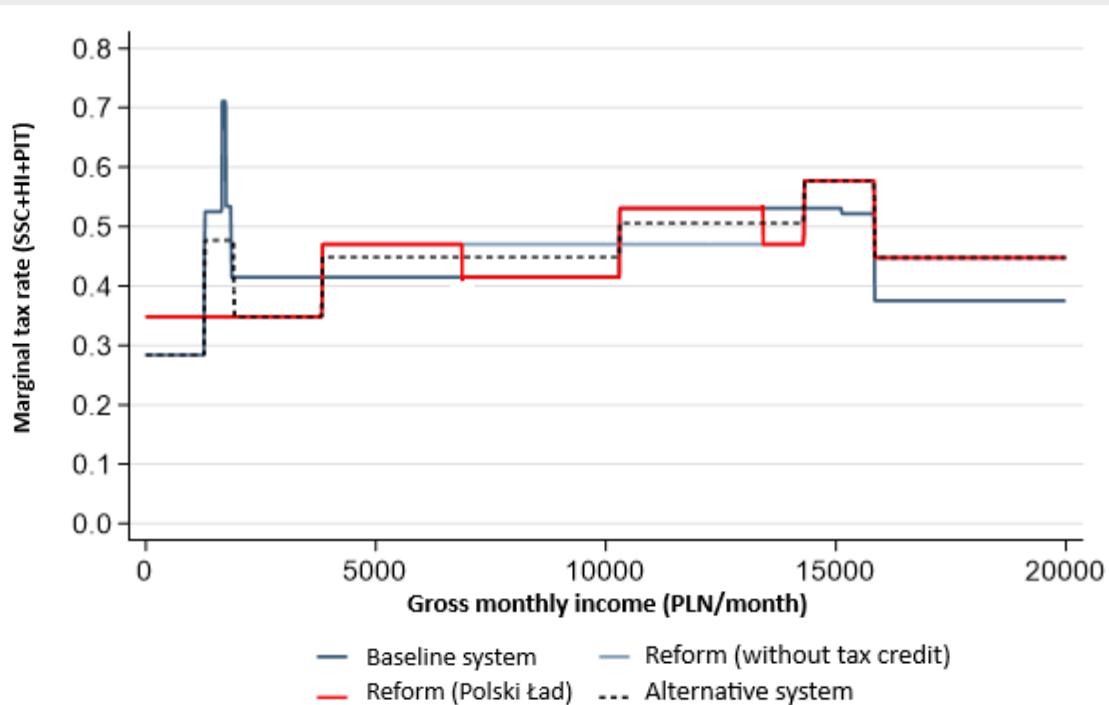
Social policy and redistribution

- How can we evaluate the support system?

  - The micro and macro perspectives: important role of microsimulation models

    - **SIMPL** – CenEA's Polish microsimulation model: developed since 2005, based on the Polish Household Budget Surveys (Badanie Budżetów Gospodarstw Domowych), annual surveys of about 35-40 thousand households (80-100 thousand individuals)
    - **EUROMOD** – the European microsimulation model operating for all 27 EU countries (and more), based on the EU-SILC data (Survey on Income and Living Conditions)

  - The models apply the system rules for household tax and benefit systems to the conditions of all households in representative datasets
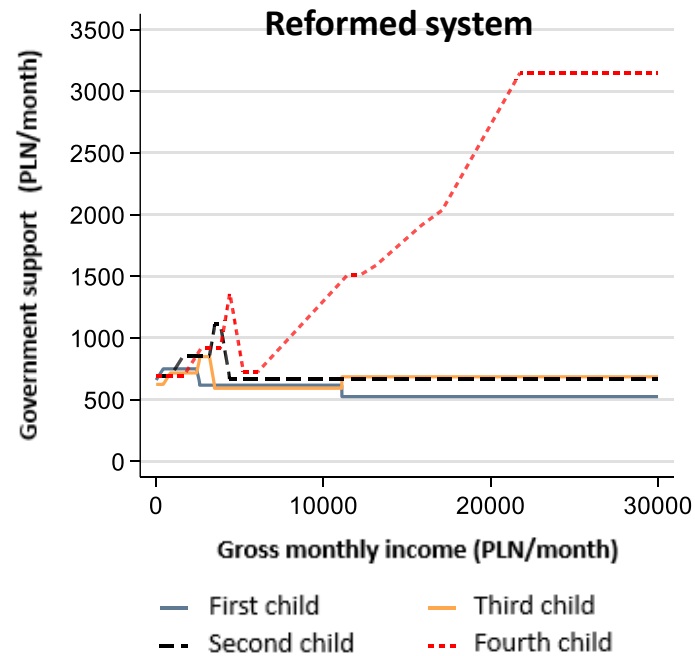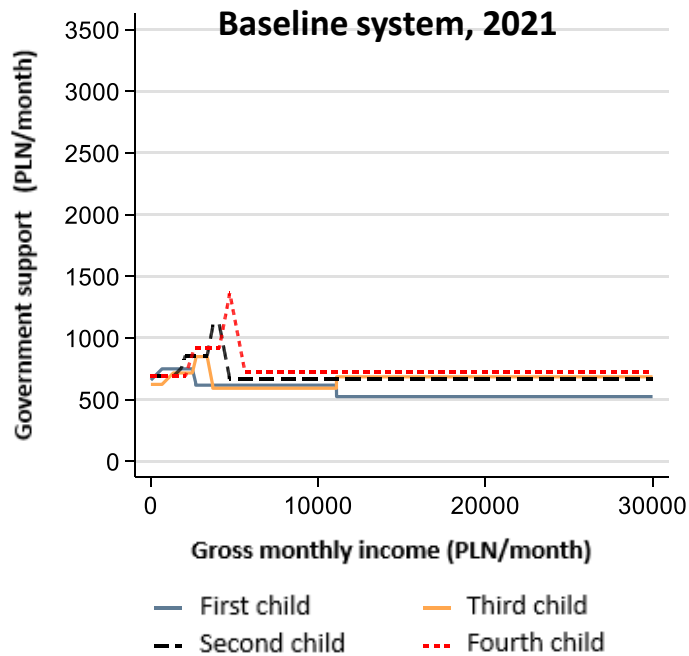
Social policy and redistribution

- The system from a micro perspective
  - How to design the tax system: progressivity, tax credits, etc.
  - $\Rightarrow$ Examples from the analysis of the Polish Deal: „Polski Ład"

Baseline system — Reform (without tax credit)
Reform (Polski Ład) ··· Alternative system

- Marginal rates of tax (including social security, health insurance and PIT) in:
  - baseline system (2021)
  - reform system without special tax credit
  - reform system with special tax credit (the Polish Deal 2022 system)
  - alternative system (a simpler system proposed in May 2021 with similar distributional consequences)

Social policy and redistribution

- The system from a micro perspective
  - How much support directed to specific households conditional on the level of their income
  - ⇒ Examples from the analysis of the Polish Deal: „Polski Ład"

Baseline system, 2021

Reformed system

- Overall public support towards families with children: tax advantages, family benefits, 500+ benefits

- Support for first, second, third and fourth child, in:
  - baseline system (2021)
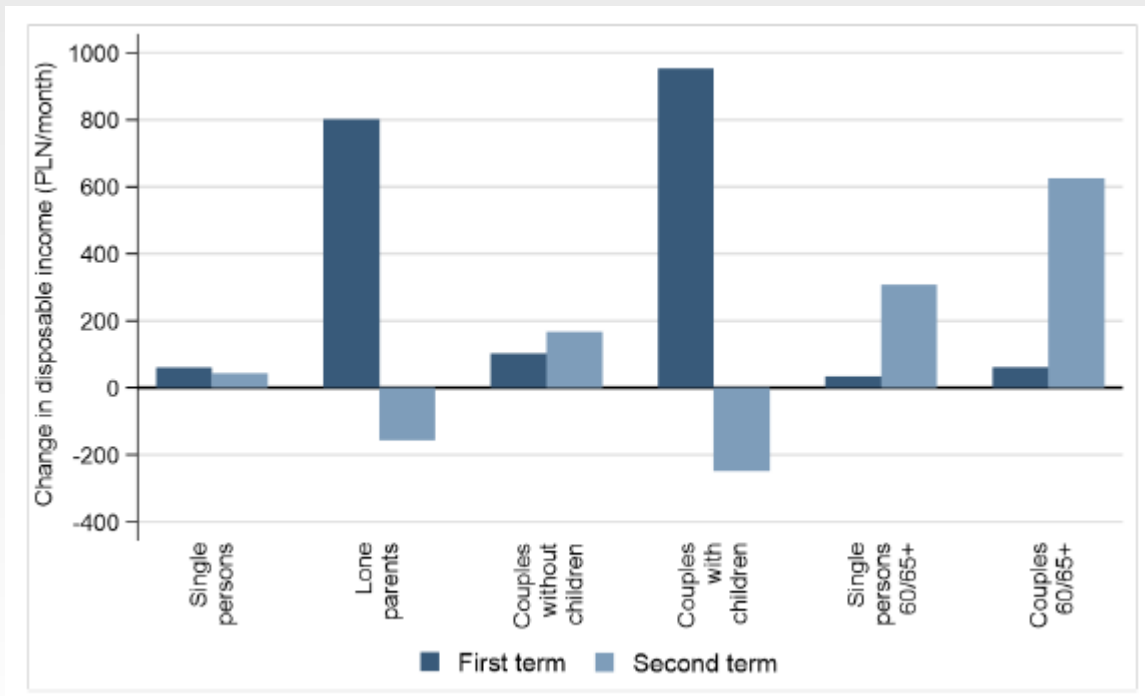 - reformed system (the Polish Deal)

Social policy and redistribution

- From micro to macro – from individuals and households to analysis of the full population:

  - Calculations conducted on individual households:
    - including individual incomes, tax rules, joint assessment, benefit rules, etc.
    - taking into account individual and household characteristics

  - Then incomes on household level aggregated to population groups and the entire population:
    - defining groups (family types, household types, household groups)
    - aggregating to population totals (using population weights/grossing up factors)

  - Most common groups:
    - income deciles/quartiles: usually defined on the basis of household (equivalized) disposable income
    - ⇒ equivalization taking into account household size and age composition

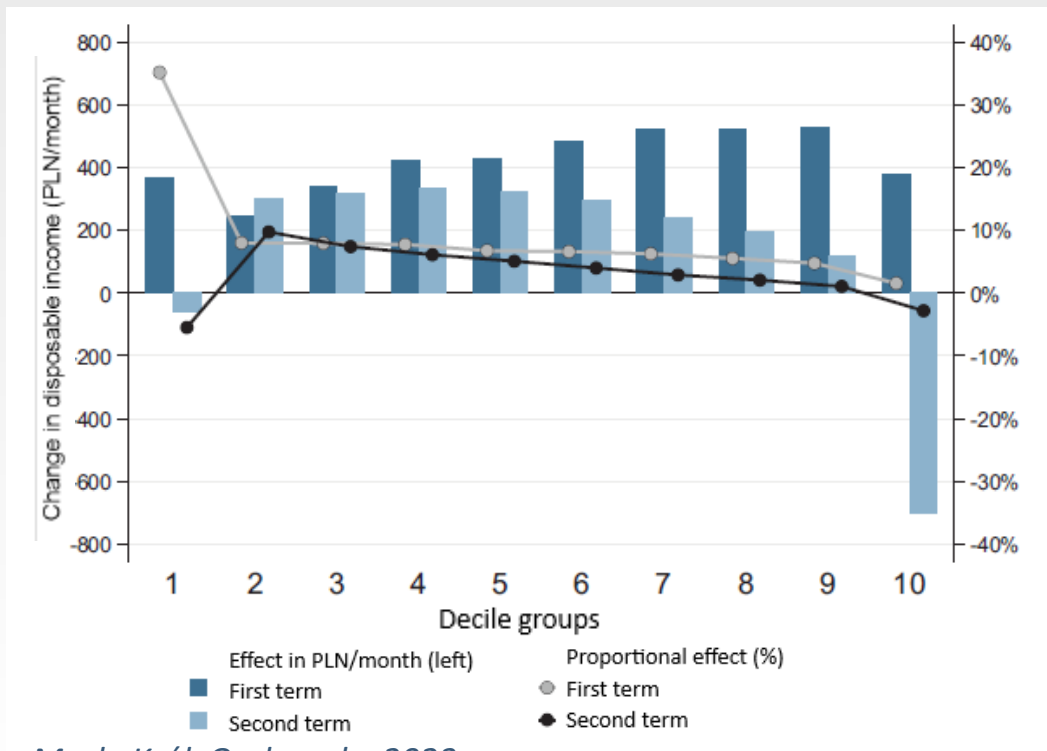# Social policy and redistribution

- From micro to macro – from individuals and households to analysis of the full population:

  - Analysis of distributional implications of specific elements of the system (taxes, benefits, etc.) or reform packages – by family type:

- Implications of tax and benefit reforms across two terms of government of United Right (Zjednoczona Prawica) by family type:
  - First term: 2015-2019
  - Second term: 2019-2023

Source: Myck, Król, Oczkowska 2023

Social policy and redistribution

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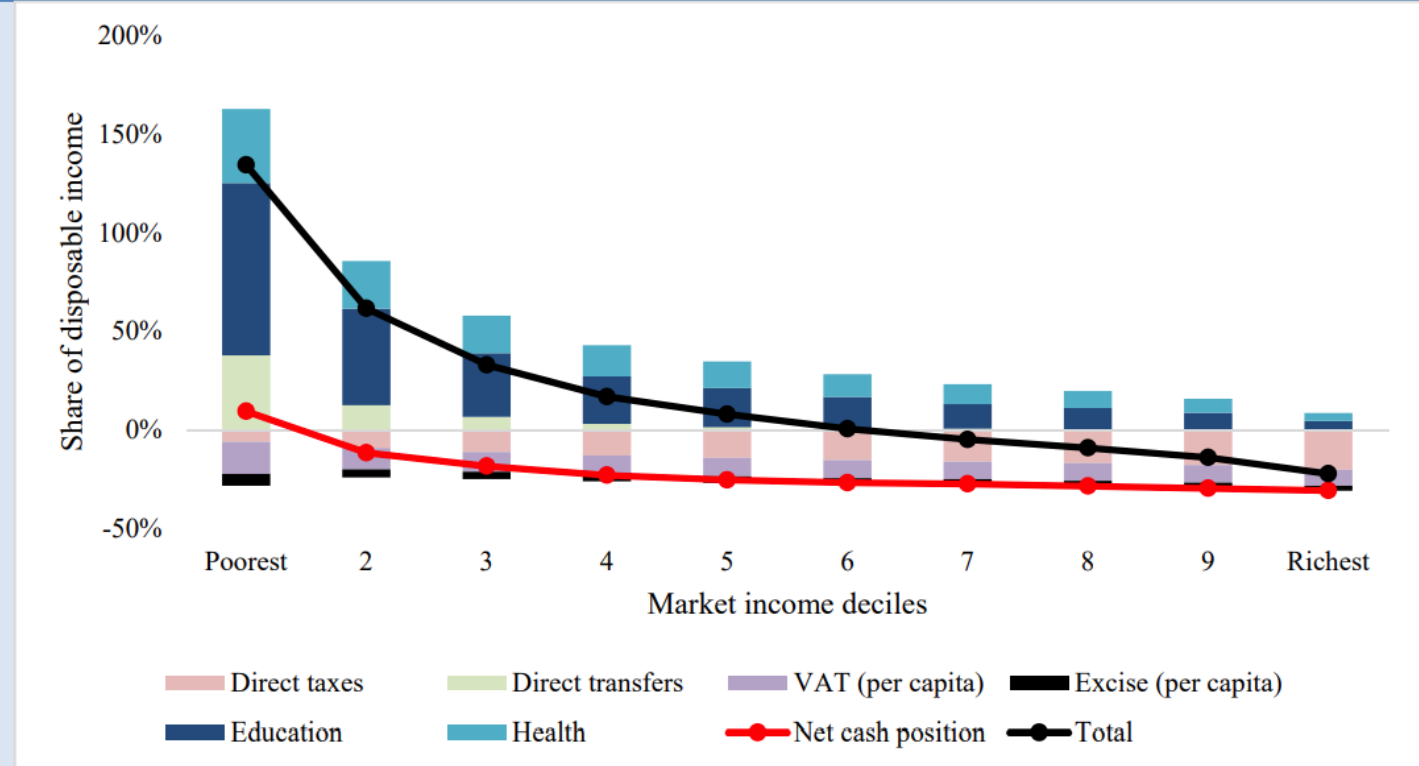*Source: Myck, Król, Oczkowska 2023*

Social policy and redistribution

- From micro to macro – from individuals and households to analysis of the full population:

  - **Commitment to Equity (CEQ)** initiative: a complete comprehensive picture of the system through the lens of redistribution:

    $\Rightarrow$ mapping direct taxes, indirect taxes, subsidies, transfers and benefits, as well as main public services (education and health) along the income dimension

Social policy and redistribution

- From micro to macro – from individuals and households to analysis of the full population:

Figure 4. Poland. Distributional Impact of the Tax and Benefit System in 2014

Source: Own estimates based on the 2014 HBS.

- CEQ analysis for Poland: direct taxes, direct transfers, indirect taxes and public services (health and education)

Source: World Bank, Goraus & Inchauste 2016

Social policy and redistribution

- Conclusions:

  - Design of effective social policy needs to take into account a number of dimensions:
    - the level of needs and the level of resources of households/individuals
    - complexity of interactions between the tax and benefit side of the system as well as the role of public services
    - overall costs of the policy instruments and broad consequences for the economy

  - We have tools and instruments to examine the policy design and use them to improve it
  - Most distributional analysis conducted on the level of the household
    - more work is necessary to better understand within household distribution of resources, shedding more light on access to resources by age group and gender inequalities

Social policy and redistribution: taxes, social transfers and public services

Dziękuję/Thank you!

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