Economic Impact of a Minimum Income Guarantee: Analysis of economic theory and policy evidence

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Economic Impact of a Minimum Income Guarantee: Analysis of economic theory and policy evidence

A WPI Economics report for the Scottish Government and Minimum Income Guarantee Expert Group

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Executive summary

The Scottish Government is ambitious in looking at innovative ways to tackle poverty and inequality and so has established an independent Expert Group to consider how a Minimum Income Guarantee – an income level under which people could not fall – could be delivered in Scotland.

The overarching policy aim of a Minimum Income Guarantee is to tackle poverty, inequality and financial insecurity and ensure a socially acceptable standard of living that promotes dignity and a decent quality of life. The independent Expert Group have been tasked with defining a Minimum Income Guarantee and producing a final report in 2024 with a series of recommendations to the Scottish Government. On that basis, we have worked closely with them on this project to understand their current policy understanding as their recommendations develop. The Expert Group expect that the implementation of a Minimum Income Guarantee in Scotland will be a longer term change with an initial goal (i.e. over an initial 10-15 year period) of achieving, as far as possible, 75% of the Minimum Income Standard (MIS) for everyone in Scotland.[1] The final goal over the longer term is 100% of the MIS – dependent upon further devolved powers and financial constraints.

There are three mutually supportive areas under consideration that would form the basis of an approach to creating a Minimum Income Guarantee in Scotland:

- Reform of the social security system so that it provides a guarantee of a dignified quality of life;
- Improving the fairness of the labour market, in particular to boost quality and security of work and promote labour market access; and
- An expansion of free and/or affordable services and the potential regulation of costs of essentials, with a prioritisation of addressing the services and costs that promote labour market access, e.g. childcare and transport.

This report provides an overview of the expected economic and social impacts of a Minimum Income Guarantee, based upon both theoretical literature and also existing policy implementation of Minimum Income Guarantee-type policies across Europe. The evidence provided in the report supports ongoing work of the Scottish Government and the Minimum Income Guarantee Expert Group in designing the most effective Minimum Income Guarantee for Scotland.

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[1] The Minimum Income Standard is based on research undertaken by Loughborough University with members of the public to understand the items that the general public think need to be included in a minimum household budget. The results show what different households need in a weekly budget and how much they are required to earn to achieve this. See: https://www.lboro.ac.uk/research/crsp/minimum-income-standard/

Findings from economic theory

Our review of the economic literature focused on six areas:

- **Market and policy 'failures' a Minimum Income Guarantee could address:** Poverty in Scotland (and the UK) has been stubbornly high for the last two decades. Despite some progress in reductions in child and pensioner poverty, working-age poverty has increased over the period. This rise in working-age poverty is linked to a range of economic circumstances and policy choices. These include reductions and freezes applied to core working-age benefits since 2010, the increasing insecurity and precarity of jobs at the lower end of the labour market, and an approach to employment support and requirements placed on jobseekers that prioritises 'any job' over tailoring job search and placements to an individual's existing skills and circumstances. Moreover, there has been a sharp increase in the cost of essential goods and services in the wake of the ongoing cost-of-living crisis that already insufficient incomes are unable to meet.

- **Groups who would most benefit:** Low-income households who are currently below the Minimum Income Guarantee level would be most likely to benefit from a Minimum Income Guarantee. Within this, specific demographic groups that are most likely to benefit would depend on the policy design – but are likely to include long-term unemployed people, lone parents, disabled people, retirees, and minority ethnic groups with lower labour market outcomes (especially those with Pakistani and Bangladeshi ethnicity).

- **Microeconomic impacts:** A Minimum Income Guarantee will affect labour supply through its impact on the incentive to work, and there is concern that a Minimum Income Guarantee set too high may create a poverty or benefit 'trap'. However, the precise impact of a Minimum Income Guarantee on this is dependent upon policy design and associated policy responses and business choices. For example, an increase in out-of-work incomes could incentivise employers to raise wages and improve the fairness of the labour market in order to secure necessary labour. Conditionality of the Minimum Income Guarantee may also influence its effect on work incentives, but empirical evidence suggests its impact is generally small and varies among different groups. More generally, there is also some evidence that more generous welfare systems may improve job matching quality and reduce the likelihood of people withdrawing from the labour market in the long term. This can potentially enhance productivity, especially in countries with flexible labour markets.

- **Macroeconomic impacts:** Expected economic benefits include lower unemployment and higher tax revenue in the long term. Initial fiscal burden may be higher due to increased social security spending and investment in employment support as the system beds in, but this could reverse over time as more people find and retain employment. Impacts might also be expected on the demand side, with overall effects driven by the extent to which tax increases are needed to support higher transfer payments and the positive effect on lower-income households' consumption. On the supply side, a Minimum Income Guarantee funded through increased taxation may lead to a reduction in employment due to higher tax rates.

- **Wellbeing impacts:** A Minimum Income Guarantee may improve household income levels and stability, leading to better health outcomes and reduced spending on healthcare and social care. Improved educational outcomes for children in recipient households may enhance the occupational outcomes of households across generations, improving earnings, reducing inequality, and boosting social mobility.

- **Impacts on a Just Transition:** A Minimum Income Guarantee could help mitigate the distributional effects of transitioning to a low-carbon economy by providing an income buffer for affected workers and linking a Minimum Income Guarantee to broader skills retraining efforts. Limited economic literature exists on the distributional consequences of a Just Transition, with most focusing on employment level shifts, which show a small but positive impact.

These findings from the economic theory can be brought together into an economic framework, showing the interconnection of various policy mechanisms and expected effects that should lead to the following outcomes:

- Reduced poverty;
- Improved labour market participation & work incentivisation;
- Higher & more certain incomes for low-income households;
- Improvements to health and wellbeing; and
- Increased consumption.

However, as our framework shows, the shape of the outcomes we expect to see and the certainty of seeing these outcomes will depend upon the exact policy design of a Minimum Income Guarantee and how the various levers interact with each other. Moreover, the framework shows that attempting to achieve the Minimum Income Guarantee through one of the policy levers is unlikely to have the desired outcomes – and could lead to considerable unforeseen consequences. These could be offset by taking a mixed approach to achieving a Minimum Income Guarantee, and our assessment highlights the importance of ensuring that a more generous social security offering is underpinned by robust work incentives and labour market improvements and targeted by sustained action on important household costs and services.

Findings from policy evaluations

Many EU countries have some form of 'Minimum Income Guarantee-type' scheme in place, but these differ in terms of generosity, eligibility, conditionality, coverage, and purpose. These differences can be grouped together into four broad categories:

- **Restrictive Minimum Income Guarantee-type schemes:** Restrictive Minimum Income Guarantee-type schemes are focused almost exclusively on tackling deep or extreme poverty. The focus on deep poverty means that these schemes typically have relatively low generosity and coverage and, as a result, they miss a large proportion of people who are in – or at risk of – being in poverty. Restrictive schemes often have a strict time limit for how long someone can receive the support, with an accompanying focus on labour market reintegration.

- **Protective Minimum Income Guarantee-type schemes:** Protective Minimum Income Guarantee-type schemes set a 'socially acceptable' income level that all citizens should be entitled to. A specified subsistence payment is then administered to plug the gap between current income and the set income level. Additional payments are usually made depending on the household composition, ensuring a high level of coverage across different groups. There is often job search conditionality, either informally or formally, within a protective Minimum Income Guarantee-type scheme.

- **Enabling Minimum Income Guarantee-type schemes:** Enabling Minimum Income Guarantee-type schemes usually couple a generous income replacement rate with a broad range of active labour market and inclusion services. While labour market reintegration is the primary and long-term ambition of enabling Minimum Income Guarantee-type schemes, there is also a clear focus on enabling broader social participation and addressing other social/economic issues alongside labour market activation.

- **Targeted Minimum Income Guarantee-type schemes:** Targeted Minimum Income Guarantee-type schemes are policies directed at specific population groups, often because they have been identified as having high 'at risk of poverty rates'. These targeted schemes often combine cash transfers with wider support services and unique conditions that are not widely applied. It is often the case that targeted elements are more generous than the wider social security offering.

Within these typologies, we assess eight case study countries in detail – Spain, the Netherlands, Italy, France, Belgium, Sweden, Malta, and Poland – and from these assessments draw together the common policy lessons that emerge:

- **Effectiveness in tackling poverty:** Minimum Income Guarantee schemes have successfully reduced extreme or deep poverty, but they face challenges in addressing more shallow forms of poverty. This is largely a result of design challenges, including setting appropriate payment levels, applying conditionality regimes, and supporting access to the labour market.

- **Work incentives:** Lack of sufficient work incentives can limit the impact of Minimum Income Guarantee schemes on overall poverty reduction. Inadequate work incentives may lead to benefits traps or distortions in the labour market, which fail to cater to the needs of those who should be the primary beneficiaries of a Minimum Income Guarantee.

- **Activation and social inclusion:** Activation within Minimum Income Guarantee schemes should not only focus on labour market integration but also on broader social inclusion. Some countries emphasise social integration as a vital policy goal alongside labour market activation.

- **Role of local institutions:** While national governments set policy direction, local institutions play a significant role in delivering and administering Minimum Income Guarantee schemes. Localised delivery allows for tailored support and fosters trust between individuals and support services. Underdeveloped local networks administered by an overly centralised system can lead to policy failure – even in theoretically well-designed systems like France.

- **Targeting and effectiveness:** Effective targeting of Minimum Income Guarantee programs is crucial for success. Even if a Minimum Income Guarantee is intended as a more universal policy open to most people, it is still imperative that specific at-risk populations are kept in mind as the policy is designed. Pre-implementation assessments can help identify at-risk populations and optimise the rollout.

- **Take-up rates:** The impact of Minimum Income Guarantee schemes depends upon the rate of take-up. While strict eligibility and conditionality criteria can play a role in lowering take-up, it was also evident that a lack of strict requirements to individuals accessing support is also not a guarantee of high levels of take-up. Administrative barriers can affect take-up rates, requiring continual reform and adjustment to address these.

- **Economic climate:** The wider economic conditions influence the effectiveness of Minimum Income Guarantee schemes. Favourable economic conditions can reinforce the work-incentivising effects of Minimum Income Guarantees, while weak economic conditions may hinder their impact. Implementing a Minimum Income Guarantee should factor in how it can respond to the economic climate around implementation.

Recommendations

Bringing together the findings from economic theory with the policy lessons from evaluations of Minimum Income Guarantee-type policies, there are several overarching areas for the design of a Minimum Income Guarantee in Scotland to consider:

- Implementing a Minimum Income Guarantee should align with the objectives of the Child Poverty Act. However, there should be a consideration that while a Minimum Income Guarantee can help alleviate poverty, the impact on overall poverty rates may be limited. Existing Minimum Income Guarantee-type policies have had the most pronounced impact on reducing levels of deep poverty. Monitoring the impact of a Minimum Income Guarantee should involve targets aligned with the Child Poverty Act and additional objectives focusing on deep poverty and broader improvements in people's lived experiences, even if they remain in poverty.

- Implementing a Minimum Income Guarantee should bring together multiple policy reforms, not just social security. This approach helps avoid unintended consequences and ensures the policy's sustainability. A multifaceted approach can provide greater policy certainty and reduce the risk of politicisation, ensuring the Minimum Income Guarantee's long-term viability. A multifaceted approach also allows policymakers to monitor and evaluate which policy areas significantly impact meeting the Minimum Income Guarantee level. It can signal where future reforms and adaptations are necessary in a more focused manner.

- A degree of conditionality focused on labour market (re)integration for those who can work should be present in the Minimum Income Guarantee's design, but strict conditionality may have negative consequences. A flexible approach is necessary, where the initial focus of the conditionality regime should be to understand and address an individual's wider social circumstances by providing non-labour market-related support in the first instance. Work search conditions should be applied only if wider social circumstances are deemed sufficiently well-supported. This ensures that individuals are supported in their job search activities while also fostering social inclusion as an initial and important step on an individual’s activation journey.

- The Minimum Income Guarantee should provide better financial support to individuals undertaking roles that provide social and public good, such as unpaid care and single parenting. These roles are mostly carried out by women, and the economic value of these works has frequently been undervalued – for example, not being captured in key economic indicators such as GDP. The introduction of a Minimum Income Guarantee would, therefore, recognise the economic value of these roles with adequate financial remunerations. In addition, these target groups may benefit from no conditionality to acknowledge the demands of these roles and ensure that the purpose of the Minimum Income Guarantee is to provide more adequate and secure financial support for individuals undertaking these roles.

- A Minimum Income Guarantee can play a key role in acting as a corrective to existing fragilities within the labour market, but at the same time, it should recognise the limiting potential fragile labour markets may have on a Minimum Income Guarantee’s success. In addition, while favourable macroeconomic conditions can accelerate the impact of Minimum Income Guarantee-type policies, this is by no means a guarantee of success if macroeconomic conditions mask underlying issues such as limited growth in high-quality or sustainable jobs.

Introduction

A wide range of stakeholders – including the Work and Pensions Select Committee and the Poverty Strategy Commission – have raised concerns that the UK social security system provides insufficient adequacy and security for claimants.[2] The UK's overall income replacement rates are some of the lowest among OECD countries. In recent times, the need for a £20 per week uplift to the Universal Credit standard allowance during the Covid-19 Pandemic and the increasing pressures the cost-of-living crisis is placing on household budgets – especially low-income households – has highlighted the gaps and limitations of current social security provision.

These concerns with the social security system have led to growing interest in social security reforms that would provide a Minimum Income Guarantee (Minimum Income Guarantee) – an income level under which people could not fall – and ensure that adequacy and security are firmly at the heart of the social security system. In the UK context, the Joseph Rowntree Foundation and Trussell Trust's 'Essentials Guarantee' is an initial attempt to move towards a social security system that has improved security and adequacy at its heart.[3]

Within Scotland, calls for a Minimum Income Guarantee followed the publication of a 2021 report by the Institute for Public Policy Research Scotland. This report proposed that Scotland should have a Minimum Income Guarantee by 2030 with monthly payments benchmarked to the Minimum Income Standard (MIS) of £792 for a single person and £1,244 for a couple (2022/23), with additional payments for households with extra childcare and disability costs.[4] The Minimum Income Guarantee Steering Group was established with cross-party support as part of a commitment to begin work on a Minimum Income Guarantee within the Scottish Government's 2021-22 Programme for Government. The Steering Group is made up of a cross-party Strategy Group and an independent Expert Group with representation from academia, trade unions, poverty and equality organisations. The Expert Group, who are currently responsible for the policy development, has also commissioned an Experts by Experience panel of people who have experienced financial insecurity to help shape the work to consider how a Minimum

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[2] Poverty Strategy Commission, A New Framework for Tackling Poverty: The interim report of the Poverty Strategy Commission, September 2023. See: https://povertystrategycommission.org.uk/wp-content/uploads/2023/09/PSC-Framework-Report-230831-Web-FINAL-revised.pdf

[3] Joseph Rowntree Foundation & The Trussell Trust, An Essentials Guarantee: Reforming Universal Credit to ensure we can all afford the essentials in hard times, February 2023. See: https://www.jrf.org.uk/social-security/guarantee-our-essentials-reforming-universal-credit-to-ensure-we-can-all-afford-the

[4] Institute for Public Policy Research Scotland, Securing a Living Income in Scotland: Towards a Minimum Income Guarantee, March 2021. See: https://www.financialfairness.org.uk/docs?editionId=7f2108e4-220e-4841-a957-a56613939d5f

Income Guarantee could be delivered in Scotland.[5] The overarching policy aim of a Minimum Income Guarantee is to tackle poverty, inequality and financial insecurity and ensure a socially acceptable standard of living that promotes dignity and a decent quality of life. The first step is determining what this socially acceptable standard of living is. The Minimum Income Guarantee Expert Group's interim report has suggested any Minimum Income Guarantee should be set between a relative poverty line and the MIS.[6] It is expected that the interim goal of introducing a Minimum Income Guarantee (i.e. over an initial 10-15 year period) is achieving 75% of the Minimum Income Standard for everyone in Scotland as far as possible. The final goal over longer timescales is 100% of the Minimum Income Standard – dependent upon further devolved powers and financial constraints.

There are three mutually supportive areas under consideration that would form the basis of an approach to creating a Minimum Income Guarantee in Scotland:

- Reform to the social security system so that it provides the mechanism needed to provide a Minimum Income Guarantee;
- Improvements to the labour market, in particular, to boost quality and security of work and promote labour market access; and
- An expansion of free and/or affordable services and the potential regulation of costs of essentials, with a prioritisation on addressing the services and costs that promote labour market access, e.g. childcare and transport.

In addition, a Minimum Income Guarantee will recognise the distinct needs of certain individual/family circumstances, in particular, those with a disability or those who are unpaid carers and in receipt of means-tested benefits may require premium payments to be made in order to reach the level a Minimum Income Guarantee is set at. The Expert Group's interim report states that non-means tested disability benefits, such as Adult Disability Payment, Child Disability Payment and Carer's Allowance, would not be considered as income for the purposes of calculating the Minimum Income Guarantee level for a household.

A key part of making these decisions is to understand the potential scale and scope of the economic and social impacts a Minimum Income Guarantee could deliver in Scotland. In support of this, this report will provide an evidence base to inform and support the ongoing work of the independent Expert Group in determining the appropriate level to set the Minimum Income Guarantee, and how to achieve this through a mixture of work, services and social security, and the specific groups to target.

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[5] Scottish Government, Minimum Income Guarantee Steering Group: remit, September 2021. See: https://www.gov.scot/publications/minimum-income-guarantee-steering-group-remit/

[6] Scottish Government, Minimum Income Guarantee Expert Group Interim Report, March 2023. See: https://www.gov.scot/publications/minimum-income-guarantee-expert-group-interim-report/documents/

This report will provide:

- An analysis of the key areas of economic theory relevant to a Minimum Income Guarantee and the mechanisms through which it would expect a Minimum Income Guarantee to impact the economy;
- An application of the findings from economic theory to a scenario based upon the Minimum Income Guarantee Expert Group's current approach to a Minimum Income Guarantee design to explore the expected economic impacts and outcomes in detail;
- A summary of existing Minimum Income Guarantee-type policies implemented in a selection of other countries with a focus on an analysis and evidence of their social and economic impact and evaluations;
- An overview of key policy lessons that emerge from the case study assessments; and
- A concluding section that provides an overview of the considerations for delivering a Minimum Income Guarantee policy in Scotland, bringing together economic theory and existing policy evidence.

Methodology and approach

The primary research method for analysing the economic theory and the existing policy evidence was a desk-based review of existing literature.

In order to locate all the necessary sources to complete the evidence review, we took a systematic review approach to accessible published sources, prioritising: more recent publications; reports authored or commissioned by governments or international organisations; academic reports published by leading experts in the field and in major journals; robust quantitative evaluations; and high-quality qualitative assessments. We also used bibliographies from the most relevant sources as a reference point for other additional sources.

Taking this approach to the evidence review had the benefit of allowing us to have sight of a large number of initial sources that met a pre-set search criteria, while our assessment criteria ensured we only reviewed the most relevant and highest-quality evidence, mitigating the risks of both a potential oversized and poor sample.

Once sources were located, they were reviewed to identify the presence of key words, themes and concepts within the sources in line with the following research questions:

- What does economic theory tell us about the expected economic impacts of a Minimum Income Guarantee policy (e.g. on economic performance metrics at the micro or macro level)?
- What types of Minimum Income Guarantee policy have been implemented elsewhere?
- What forms of Market Failure (e.g. to reduce inequality) have similar types of policies implemented in practice elsewhere sought to address?
- Who did these policies target, over what time frame and scale of delivery?
- To what extent have these policies been successful in addressing their aims?
- What evidence is available of measures that demonstrate this success?
- What economic impacts were observed at a macro level (e.g. on overall unemployment, inflation, GDP, etc.)?
- What evidence is available of unintended negative consequences on individuals or the economy from these types of policies? Including assessment of mistakes made/lessons learned from previous policies.
- Have these types of policies delivered value for money to taxpayers?
- Have these policies proved sustainable over time? Do they have a limited shelf life or evidence of diminishing impact?

Using this assessment of economic theory and evaluations of similar policies, combined with the potential design of a Minimum Income Guarantee delivery in Scotland, have the implications for Scotland's economy on delivery of a Minimum Income Guarantee been considered? Summaries of key findings in line with these key research questions were systematically captured in a reading matrix.

Approach to economic theory

For the economic theory literature, we assessed around 30 sources that included evidence from academics, research consultancies, third-sector organisations and international organisations. What became apparent in our process of locating sources is that much of the theoretical literature is more heavily focused on assessing the impacts of introducing a Universal Basic Income-style income guarantee. As a result, we have had to infer where there is similarity and comparability to a Minimum Income Guarantee-type policy.

In our assessment of the sources, we recorded findings in six key areas:

- Market/policy ‘failures’;
- Groups targeted;
- Expected microeconomic impacts;
- Expected macroeconomic impacts;
- Expected wellbeing impacts; and
- Expected impacts on a Just Transition to Net Zero.

Approach to reviewing existing policy implementation

For the reviews of existing policy, we first reviewed how academic research and international organisations had categorised and grouped Minimum Income Guarantee-type policies in order to create our own typology model based on shared characteristics and common country groupings. From this, we selected a series of countries that are exemplar or novel approaches within a Minimum Income Guarantee typology grouping to conduct a deep-dive case study analysis.

The assessment of each case study is based upon two complementing methods:

- A desk-based review of accessible (English language) evaluations of the Minimum Income Guarantee-type scheme. We primarily consulted evaluations conducted by the Government department responsible for administering the policy, other public bodies, government-commissioned independent studies, and academic assessments. These sources were assessed for: 1) key policy design and implementation considerations (including cost and funding); 2) the social and economic impact of the scheme; and 3) evaluations of the scheme in terms of success against aims, anticipated/unexpected consequences and lessons learned.

- Semi-structured interviews with civil servants in six of the eight case study countries.[7] These short interviews focused on understanding issues around the design, implementation and monitoring, and evaluation of these policies that may not have been formally reported in published documents. They also discussed any major policy developments not captured within the literature we reviewed, as well as prospective future reforms. A thematic analysis of the interview notes was carried out, drawing out the key insights that supplement the desk-based policy evaluations.

[7] We were unable to secure interviews for the France or Italy case study.

The economic theory of a Minimum Income Guarantee

In this chapter, we provide an overview of existing literature on the expected economic impacts of a Minimum Income Guarantee. The literature review presents the expected impacts that are most likely to be seen from the implementation of a Minimum Income Guarantee. In this chapter, we present these impacts in a theoretical but accessible manner. However, this chapter does not make any assumptions about these impacts. Instead, we explore important assumptions that can be made in the following chapter when we consider the economic theory within the context of the Minimum Income Guarantee Expert Group's current approach to a Minimum Income Guarantee.

Summary of key findings from economic theory

Market and policy ‘failures’: Need to address issues of rising poverty, current inadequacy of the social security system, changes in the labour market and current work incentives, and high – and rising – household costs.

Groups impacted: The effects of Minimum Income Guarantee-type policies can be very different between groups and sometimes entirely reversed. For example, Minimum Income Guarantee-type policies may make women more likely than men to exit the labour market, which underscores the importance of a Minimum Income Guarantee combining social security reform with tackling barriers to labour market access, such as childcare.

Expected microeconomic impacts: Change in work incentives caused by changes to effective marginal tax rate and participation tax rate lead to labour market effects; distributional effects can be big but depend on policy details and group dynamics. However, there is also some evidence that more generous welfare systems may improve job matching quality and reduce the likelihood of people withdrawing from the labour market in the long-term. This can potentially enhance productivity.

Expected macroeconomic impacts: Increased consumption/changed pattern of consumption/potential tax increases and the associated income redistribution may lead to a change in GDP; as these effects oppose one another, the direction of change is uncertain. Short-term fiscal costs can potentially be offset in the long-term as more people find and retain employment, which reduces spending on social security and increases government revenue through taxes.

Wellbeing impacts: There is a good evidence base that income security leads to reduced stress and improved health outcomes. Well-being effects are likely to compound over time, but these effects may not be immediately evident – in particular, the impact of a Minimum Income Guarantee on the educational attainment of children in households who benefit from a Minimum Income Guarantee.

Just Transition impacts: A Minimum Income Guarantee can help manage the economic and social consequences of transitioning to Net Zero. Particular focus has been placed on the value of a Minimum Income Guarantee to support retraining. However, evidence is limited on potential impact.

Market and policy ‘failures’ a Minimum Income Guarantee addresses

Interest in the need for a Minimum Income Guarantee to be introduced is driven by a series of perceived shortcomings within the Scottish (and UK) economy and the limited impact of existing policy in dealing with these shortcomings. Within the literature, there are five major ‘failures’ – in both market, economic and policy terms – that a Minimum Income Guarantee is seen to address.

Stubbornly high poverty rates: As the Poverty Strategy Commission has outlined, poverty in the UK has sat between 21% and 24% since the early 2000s – although some groups have seen reductions at points over the last two decades (child poverty, pension-age adults and lone parent families).[8] According to Scottish Government National Statistics, it is estimated that 21% of Scotland's population were living in relative poverty after housing costs in 2019-22. While child poverty and pension poverty in Scotland have reduced sizably across the 21st century, working-age poverty has seen a small increase over this period.[9]

Inadequate financial support via the social security system: Since 2010, UK government welfare reform has seen reductions and freezes applied to core benefits, leaving a social safety net that has been characterised by some as unfit for purpose.[10] The Scottish Government has recognised these UK-wide challenges, and has sought to mitigate some of the impacts through targeted supported for the most vulnerable groups, such as through the Scottish Child Payment for low-income families with children[11] or the Carer's Allowance Supplement for unpaid carers.[12]

Labour market changes and barriers: The structure of the UK labour market has seen significant changes in recent years with an increase in wage polarity and employment, especially at the lower end of the labour market, which is increasingly insecure and precarious. Moreover, there is also concern for the potential of unemployment due to technological change and automation and the effects of this on the distribution of income, consumption and potentially a loss of GDP.[13]

Failure to maximise work incentives within the UK social security system: The existing UK-wide social security system is not well-suited to support work. The current social security system fails to maximise work incentives, as benefit withdrawal rates deter individuals from seeking or increasing employment. Within the UK context, a major issue is the 'any job' approach of employment support,

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[8] Poverty Strategy Commission, A New Framework for Tackling Poverty: The interim report of the Poverty Strategy Commission, September 2023. See: https://povertystrategycommission.org.uk/wp-content/uploads/2023/09/PSC-Framework-Report-230831-Web-FINAL-revised.pdf

[9] Scottish Government, Poverty and Income Inequality in Scotland 2020-23, March 2024. See: https://data.gov.scot/poverty/

[10] Institute for Public Policy Research Scotland, Securing a Living Income in Scotland: Towards a Minimum Income Guarantee, March 2021. See: https://www.financialfairness.org.uk/docs?editionId=7f2108e4-220e-4841-a957-a56613939d5f

[11] Scottish Government, Scottish Child Payment, November 2022. See: https://www.mygov.scot/scottish-child-payment

[12] Scottish Government, Carer's Allowance Supplement, April 2022. See: https://www.mygov.scot/carers-allowance-supplement

[13] University of Bath Institute for Policy Research, Assessing the Case for a Universal Basic Income in the UK, September 2017. See: https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/attachments/ipr-assessing-the-case-for-a-universal-basic-income-in-the-uk.pdf

which has failed to provide adequate or long-term employment for jobseekers and exacerbated other issues a Minimum Income Guarantee is seeking to address.[14]

Rising cost of essential household goods and services: A lack of sufficient financial support from the Universal Credit system has led to an increased reliance on food banks and a significant portion of low-income households unable to afford essentials and falling into arrears with multiple bills.[15]

Groups impacted by the introduction of a Minimum Income Guarantee

The introduction of a Minimum Income Guarantee, setting a minimum income level under which no one can fall, would provide societal-wide benefits. However, there are six groups whose current circumstances would most benefit from the introduction of a Minimum Income Guarantee:

Low-income households: Individuals who work but earn low wages are often in a precarious financial situation and struggle to make ends meet. A Minimum Income Guarantee can provide them with additional financial support, supplementing their incomes and helping them meet basic needs – especially if the Minimum Income Guarantee provides support with household costs, accessing essential services and reforming employment.

Unemployed individuals: Those who are unemployed or unable to find stable employment may face financial hardship and insecurity. The current standard allowance of Universal Credit is widely recognised as insufficient to meet basic needs. A Minimum Income Guarantee can serve, therefore, to boost the safety net afforded to unemployed individuals, providing them with a secure floor that means they have access to a minimum level of income to cover essential expenses while they search for work or participate in labour market access schemes.

Minority ethnic individuals: Minority ethnic individuals often face significant issues in the labour market and economic outcomes when compared to white workers. Latest published estimates show that Scotland's ethnicity pay gap was estimated to be 10.3%, while the ethnicity employment rate gap was estimated to be 11.7 percentage points.[16] In addition, the employment rate gap for minority

[14] Institute for Public Policy Research, Working Together: Towards a new employment service, September 2023. See: https://www.ippr.org/articles/working-together

[15] Joseph Rowntree Foundation & The Trussell Trust, An Essentials Guarantee: Reforming Universal Credit to ensure we can all afford the essentials in hard times, February 2023. See: https://www.jrf.org.uk/social-security/guarantee-our-essentials-reforming-universal-credit-to-ensure-we-can-all-afford-the

[16] Scottish Government, Analysis of Labour Market Outcomes of Scotland's Minority Ethnic Population, December 2022. See: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2022/12/fairer-scotland-anti-racist-employment-strategy2/documents/analysis-labour-market-outcomes-scotlands-minority-ethnic-population/analysis-labour-market-outcomes-scotlands-minority-ethnic-population/govscot%3Adocument/analysis-labour-market-outcomes-scotlands-minority-ethnic-population.pdf

ethnic women is consistently much larger than this gap for men and is especially striking amongst Pakistani and Bangladeshi women. A Minimum Income Guarantee can therefore function not only to help bridge the ethnicity gap in incomes, but could also be specifically targeted at ensuring ethnic minorities are better supported into work where appropriate.

Single parents: Single parents with dependent children often face financial challenges due to the additional expenses and responsibilities associated with raising a family on a single income – as well as challenges accessing the labour market. The majority of single parents are women and the introduction of a Minimum Income Guarantee could help reduce gender inequalities by alleviating some of the financial strain singe parents experience. Moreover, a Minimum Income Guarantee provides more realistic work expectations and support, while also rethinking the value of parenting as a social and public good that should be appropriately financially remunerated.

People with disabilities: Individuals with disabilities encounter barriers to employment and may require additional support to meet their financial needs. Currently, the level of support provided by extra cost benefits for disabled people is inadequate to meet their needs and tackle the extra costs that they face.[17] A Minimum Income Guarantee can provide disabled people with greater financial independence and access to essential services and resources, as well as better tailored support to support those disabled people who can enter the workforce.

Retirees: Retirees living on fixed incomes may struggle to afford basic necessities, particularly if they do not have sufficient savings or pension benefits. A Minimum Income Guarantee can help supplement their retirement income to enable people to live with dignity in old age. The UK has seen a significant decline in pensioner poverty, and the UK does currently have a policy targeted at helping bring the weekly income of low-income pensioners up to a minimum amount in the form of Pension Credit. While not explicitly a Minimum Income Guarantee-type policy, issues with the low take-up of Pension Credit signal some of the potential challenges with the design of a Minimum Income Guarantee-type policy and its effectiveness.[18]

Expected microeconomic impacts of a Minimum Income Guarantee

There is an ongoing debate about the impact of a Minimum Income Guarantee on financial work incentives and the expansion or contraction of labour, which is influenced by factors like the Participation Tax Rate (PTR), Marginal Effective Tax

[17] WPI Economics, Disabled people’s extra burden of essentials, February 2024. See: https://wpieconomics.com/site/wp-content/uploads/2024/02/WPI-Economics-Scope-FINAL.pdf

[18] UK Government, Income-related benefits: estimates of take-up: financial year ending 2022, January 2024. See: https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-ending-2022/income-related-benefits-estimates-of-take-up-financial-year-ending-2022#pension-credit-2

Rate (METR), and Replacement Rate (RR).[19] Definitions of these terms are provided **below**.

Marginal Effective Tax Rate (METR): The proportion of gross earnings subtracted through tax and withdrawn from benefits for a given increase in income. This signals the motivation to increase earnings.

Participation Tax Rate (PTR): The proportion of gross income subtracted through tax and withdrawn from benefits after moving into work. This signals the motivation to work.

Replacement Rate (RR): The ratio of net income between an individual being out of and in work. This signals the motivation to work.

In practice, the impact of a Minimum Income Guarantee on PTR, METR, and RR will be dependent on the overall policy formation and, in particular, how and whether the benefits of a Minimum Income Guarantee are withdrawn as earnings increase. A Minimum Income Guarantee might also increase reservation wages (the minimum rate of pay at which individuals are willing to take a job), which could act as a disincentive to enter the labour market or take jobs that might be available but are not paid well enough.[20] Again, the impact of this will depend on the precise specification of the policy.

One important consideration with the theoretical literature is that high METR and PTR can create 'poverty traps' through the social security system and an increase in reservation wages.[21] However, academic research exploring the effect of generous welfare benefits on unemployment has suggested that while welfare systems with higher benefit payments do raise reservation wages, which reduce the rate of transition out of unemployment, increasing unemployment rates overall, there may also be a "job search subsidy" which improves the quality of job-matches and, in the long-term, reduces separation rates and potentially improves productivity.[22] Evidence suggest that both effects are in play, but institutional considerations determine which dominates. In countries with flexible, accessible and transparent labour markets, there can be value in longer job searches. In countries with inflexible and inaccessible labour markets, individuals may become

[19] University of Bath Institute for Policy Research, Assessing the Case for a Universal Basic Income in the UK, September 2017. See: https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/attachments/ipr-assessing-the-case-for-a-universal-basic-income-in-the-uk.pdf

[20] International Monetary Fund, Guaranteed Minimum Income Schemes in Europe: Landscape and Design, July 2021. See: https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341

[21] European Parliament, Strengthening minimum income protection in the EU, March 2021. See: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/662900/IPOL_BRI(2021)662900_EN.pdf

[22] Thomas Biegert, Welfare Benefits and Unemployment in Affluent Democracies: The Moderating Role of the Institutional Insider/Outsider Divide, *American Sociological Review,* October 2017. See: https://journals.sagepub.com/doi/abs/10.1177/0003122417727095

disengaged and discouraged, with the disincentive effect dominating and long-term employment and productivity scarring becoming an issue.[23]

In addition, the introduction of a Minimum Income Guarantee could lead to various responses from employers and the functionings of the labour market. The New Economic Foundation has suggested that a Minimum Income Guarantee could reduce the risk of a 'poverty trap' for low-income households by improving incentives to work by putting pressure on employers to raise pay.[24] Moreover, a Minimum Income Guarantee may open up vacancies for those who may currently be struggling to find work. A Minimum Income Guarantee could allow some workers to reduce their hours to undertake other valuable activities, such as caring responsibility, which opens up employment opportunities for others through a 're-shuffle effect' within the labour market.[25]

To some extent, any disincentive effects created by a Minimum Income Guarantee could be (and, as we show later, have been) ameliorated by policies that enforce "conditionality" (requirements around work search activity, for example). While there is mixed evidence on the efficacy of such approaches, particularly in supporting people into long-term and well-paid employment, this is another factor to consider when assessing the overall impact of a Minimum Income Guarantee on the labour market.[26]

Overall, while there are a range of theoretical implications for labour supply, empirical evidence suggests that effects are generally small.[27] However, they do vary between different groups. For example, an OECD assessment of replacing existing cash benefits with a basic income-style social security policy would severely weaken work incentives for second earners and be especially pronounced for childless couples.[28] Research from the Fraser of Allander Institute on the introduction of a Citizen's Basic Income further supports this suggesting the labour market impacts are most pronounced for second earners, both younger and older

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[23] Thomas Biegert, Welfare Benefits and Unemployment in Affluent Democracies: The Moderating Role of the Institutional Insider/Outsider Divide, *American Sociological Review,* October 2017. See: https://journals.sagepub.com/doi/abs/10.1177/0003122417727095

[24] New Economic Foundation, The National Living Income: Guaranteeing a decent minimum income for all, December 2022. See: https://neweconomics.org/2022/12/the-national-living-income

[25] University of Bath Institute for Policy Research, Assessing the Case for a Universal Basic Income in the UK, September 2017. See: https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/attachments/ipr-assessing-the-case-for-a-universal-basic-income-in-the-uk.pdf

[26] UK Government, Understanding the impact of Universal Credit on the labour market, June 2018. See: https://www.gov.uk/government/publications/universal-credit-understanding-its-impact-on-the-labour-market/understanding-the-impact-of-universal-credit-on-the-labour-market

[27] David Card et al., What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations, *Journal of the European Economic Association*, June 2018. See: https://academic.oup.com/jeea/article-abstract/16/3/894/4430618

[28] OECD, Basic Income as a Policy Option: Technical Background Note Illustrating Costs and Distributional Implications for Selected Countries, May 2017. See: https://www.oecd.org/els/soc/Basic-Income-Policy-Option-2017-Brackground-Technical-Note.pdf

workers, as well as those with lower levels of educational attainment.[29] The IMF has explained that adjustments to benefit withdrawal rates could incentivise work for certain household types – in particular, lone parents and single-earner couple households – preventing them from falling into poverty and potentially lifting them further above the poverty line over time.[30] This means that the distributional and equalities implications of a Minimum Income Guarantee need to be considered.

Looking beyond work incentives and labour supply, implementing a fiscally neutral Minimum Income Guarantee could redistribute income to consumers with higher marginal propensities to consume – most commonly those at the bottom end of the income distribution.[31] Distributional effects show that while the poorest decile would gain substantially, certain income groups might lose out, highlighting the complexity of designing effective poverty reduction policies.[32]

Depending on the design of the policy, one of the ways in which the cost of implementing a Minimum Income Guarantee could be met is through a potentially significant increase in tax rates. Modelling suggests changes in employment due to these policies would vary across income groups, with higher earners experiencing the most significant increases in tax burden. However, adverse employment effects could result for every income group due to higher taxes needed for fiscal sustainability.[33] However, it is important to stress that increasing taxes – and exactly which taxes to increase – is just one option that policymakers would need to consider when deciding on how to fund and implement a Minimum Income Guarantee.

Expected macroeconomic impacts of a Minimum Income Guarantee

The section above highlights that the theoretical effects on labour supply are ambiguous, with debates surrounding the degree and likelihood of expansion or contraction in labour supply. If the effects were positive, depending on policy implementation design, a Minimum Income Guarantee could reduce social security spending, with more people entering the labour force and staying in work. The

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[29] Fraser of Allander Institute, Modelling the Economic Impact of a Citizen's Basic Income in Scotland, May 2020. See: https://fraserofallander.org/modelling-the-economic-impact-of-a-citizens-basic-income-in-scotland-a-guide-to-the-report-released-today

[30] International Monetary Fund, Guaranteed Minimum Income Schemes in Europe: Landscape and Design, July 2021. See: https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341

[31] Cambridge Trust for New Thinking in Economics & Cambridge Econometrics, Macroeconomic implications of a basic income, August 2022. See: https://www.camecon.com/wp-content/uploads/2022/09/CTNTE_Macroeconomics-basic-income_Final-paper.pdf

[32] OECD, Basic Income as a Policy Option: Technical Background Note Illustrating Costs and Distributional Implications for Selected Countries, May 2017. See: https://www.oecd.org/els/soc/Basic-Income-Policy-Option-2017-Brackground-Technical-Note.pdf

[33] Fraser of Allander Institute, Modelling the Economic Impact of a Citizen's Basic Income in Scotland, May 2020. See: https://fraserofallander.org/modelling-the-economic-impact-of-a-citizens-basic-income-in-scotland-a-guide-to-the-report-released-today

expected economic and fiscal benefits of this include lower unemployment and higher tax revenue. Increasing in-work support through a Minimum Income Guarantee will likely result in a higher immediate fiscal burden. Yet, in the long-term, this should be reversed as more people are incentivised to find and stay in work.[34] In contrast, a negative labour supply impact of a Minimum Income Guarantee could lead to the opposite effects.

Research from the Fraser of Allander Institute on the introduction of a Citizen's Basic Income explored the expected demand- and supply-side impacts of introducing this policy.[35] The research found that:

- On the demand side, the overall impact of a Minimum Income Guarantee can be modest, with tax increases offsetting higher transfer payments. There is a positive effect due to a shift in demand toward lower-income households, who generally have a higher marginal propensity to consume. However, this is offset by changes in the composition of consumption, which involves an increase in the capital and value-added intensity of consumption. Moreover, the analysis found that increasing government spending by the same amount as the cost of implementing a Citizen's Basic Income would have more of an impact on overall demand in the economy.

- On the supply side, with the assumption that a Minimum Income Guarantee is funded through increased taxation, the impact of a Minimum Income Guarantee is primarily seen in a reduction in employment in response to increased tax rates. The scale of the reduction in supply is determined by the bargaining behaviour of workers. The reduction in GDP varies from 8.8% (under conventional bargaining) to 1.7% (under bargaining adjusted for family CBI income). In models with migration, larger reductions are possible: one gives a reduction in GDP of 15.2%. Some mitigating channels exist – higher productivity and improved job matching through longer search times, but these channels have a weaker evidence base.

Research by the Cambridge Trust for New Thinking in Economics has sought to explore the macroeconomic effects of a tax-funded UBI compared to a Debt-Free Sovereign Money-funded UBI, which provides some useful insight into how differently funded Minimum Income Guarantees may function at the macroeconomic level.[36] This research found:

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[34] International Monetary Fund, Guaranteed Minimum Income Schemes in Europe: Landscape and Design, July 2021. See: https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341

[35] Fraser of Allander Institute, Modelling the Economic Impact of a Citizen's Basic Income in Scotland, May 2020. See: https://fraserofallander.org/modelling-the-economic-impact-of-a-citizens-basic-income-in-scotland-a-guide-to-the-report-released-today

[36] Cambridge Trust for New Thinking in Economics & Cambridge Econometrics, Macroeconomic implications of a basic income, August 2022. See: https://www.camecon.com/wp-content/uploads/2022/09/CTNTE_Macroeconomics-basic-income_Final-paper.pdf

- Basic income variants may influence employment protection and labour market regulation, impacting pay and working conditions.

- Both basic income variants have a small positive GDP impact, with increased consumption being a significant driver.

- Tax-funded UBI leads to gains for bottom income deciles while top deciles lose.

- While UBI initially reduces work incentives, higher economic activity eventually leads to overall higher employment.

- DFSM-funded UBI can offset the negative effects of automation on disposable incomes and improve income distribution.

- Automation scenarios also have positive impacts on public finances.

Expected wellbeing impacts of a Minimum Income Guarantee

As a result of improvements to both the amount and stability of household income, a Minimum Income Guarantee may improve health outcomes, reduce spending on health and social care, and improve educational outcomes of children in recipient households, which in turn may improve the occupational outcomes of households across generations, as well as improving the earning potential earning's mobility, reducing inequality.[37]

An academic assessment of the health impacts of income guarantee trials suggests that the impact on health might grow more positive over time. In the longer-lasting trials, improved health outcomes were sustained over the entire two-year duration. These improved health outcomes included better life satisfaction, better diet, and investment in healthy behaviours. There is also an improvement to mental wellbeing, with reduced mental strain, depression and loneliness. There were also improvements in the health of children – from birth through to the transition into adulthood. This included better birth weights, reduction in minor illness and injury, improved mental health and reduced substance abuse in children.[38]

This same assessment highlighted that a common concern with the introduction of Minimum Income Guarantee-type policies is that they incentivise behaviour conducive to ill health, not least due to concerns over the disincentive this may have on work and the relationship between economic inactivity and ill health as well as increased cash transfers encouraging 'bingeing' activity of alcohol or drugs (from some evidence in Alaska and Portugal). However, the assessment suggested that what evidence exists points to an overall improvement on health outcomes but

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[37] Fraser of Allander Institute, Evaluation of the Commission on Social Security's Plan: Cost, funding, and wider impact, April 2023. See: https://fraserofallander.org/publications/evaluation-of-the-commission-on-social-securitys-plan/

[38] Matthew Johnson et al., Designing trials of Universal Basic Income for health impact: identifying interdisciplinary questions to address, *Journal of Public Health,* June 2022. See: https://academic.oup.com/jpubhealth/article/44/2/408/6095845

suggested that the seriousness of concerns around the potential negative health impacts warranted further population-level studies.

Expected impacts of a Minimum Income Guarantee on a Just Transition to Net Zero

One of the significant challenges in achieving a Just Transition to Net Zero – in the case of the Scottish Government, a legally binding climate target of Net Zero emissions by 2045 – is economically supporting those workers and communities who will ‘lose out’. It is important that a Just Transition away from carbon-intensive industries needs to be managed in a way that recognises not only its potential effects on employment and income but also people’s communities and social relations.[39]

In this regard, a form of a guaranteed income has been considered as a possible policy tool to mitigate any adverse distributional and social effects that may result from the transition.[40] In particular, there are significant advantages of an income guarantee to not only providing a financial buffer, but that linking this payment to the retraining and reskilling that would be needed in order to be able to take advantage of new opportunities with green jobs.[41]

An evaluation conducted by the Fraser of Allender Institute found that, at present, there is little consideration within the Scottish Government’s current strategies of the impact of a Just Transition upon low-paid jobs – both directly and indirectly – and the necessary support people need to manage this.[42]

A systematic review of the economic literature on Just Transitions and the employment and income impacts of this found that there is a scarcity of work devoted to the distributional consequences of the transition, with most work focusing on shifts in employment level – where there is a positive, yet relatively small, impact.[43] As such, this makes it difficult to explore the role of an income guarantee in supporting this transition.

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[39] The Royal Society of Edinburgh, Just Transition Commission Interim Report, June 2020. See: https://rse.org.uk/wp-content/uploads/2022/04/RSE-AP-Just-Transition-Commission-Final-Published-Version-2020.pdf

[40] University of Bath Institute for Policy Research, Assessing the Case for a Universal Basic Income in the UK, September 2017. See: https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/attachments/ipr-assessing-the-case-for-a-universal-basic-income-in-the-uk.pdf

[41] International Labour Organisation, Just Transition Policy Brief, January 2023. See: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_867426.pdf

[42] Fraser of Allander Institute, Understanding the impact of the transition to net zero on low paid jobs, September 2023. See:https://fraserofallander.org/publications/understanding-the-impact-of-the-transition-to-net-zero-on-low-paid-jobs/

[43] Pablo Garcia-Garcia et al., Just energy transitions to low carbon economies: A review of the concept and its effects on labour and income, *Energy Research & Social Science,* December 2020. See: https://www.sciencedirect.com/science/article/abs/pii/S2214629620302395

Applying economic theory to the Scottish Government's current Minimum Income Guarantee policy design

The previous chapter provided an overview assessment of some of the potential impacts we would expect to see from economic theory following the introduction of a Minimum Income Guarantee.

In this chapter, we bring together the findings from the economic theory to develop a Theory of Change (**Figure 1)** that can be applied to understand the potential impacts of a Minimum Income Guarantee in Scotland.

The "Inputs" into the Theory of Change model reflect the market and policy 'failures' that a Minimum Income Guarantee is seeking to address, which we outlined in further detail in the previous chapter.

The introduction of a Minimum Income Guarantee as the "Intervention" to address these "Inputs" will combine social security reform, changes to the world of work and tackling the cost and access to essential services.

However, the exact policy design of the Minimum Income Guarantee in terms of targeting and the composition and interaction of the various levers seeking to achieve the Minimum Income Guarantee will determine the exact nature and scale of the impacts. To demonstrate this, we have constructed a Theory of Change that presents one scenario for how the Minimum Income Guarantee could be implemented based upon the current internal thinking of the Minimum Income Guarantee Expert Group. As such, we have made the following assumptions, which are based on the long-term ambition of the Minimum Income Guarantee outlined in the report's introduction:

Reform to the social security system will impact both the functionality and generosity of welfare payments. While means-testing will remain, the conditionality regime will be loosening with no sanctions and potentially a time-limited conditionality applied to those who are able to work. Payments will be at the individual level, and take-up will be automated if possible. This is captured in our "policy mechanism", and the impacts are reflected in the "effects" and "demographic effects".

Major reform in the functioning of Scotland's economic model and labour market would enable a majority of people to reach the Minimum Income Guarantee through work. This would require a model that brings together employers, employees, and government to establish a social partnership approach to economic development. Overall, we expect the economy would benefit from sectoral agreements, higher minimum wages, minimum hours, skills investment, and a shift away from 'low-quality work'. This is captured in our "policy mechanism", and the impacts are reflected in the "effects" and "demographic effects".

Supporting the increase in incomes through work and social security would be a focus on reducing the cost of essential services – particularly those that enable workplace access such as childcare and transport. It is expected that these services will be free at the point of use, or at least highly subsidised, and would move towards a universal approach modelled on other public services. This is captured in our "policy mechanism" and the impacts are reflected in the "effects" and "demographic effects".

The "outcomes" within the Theory of Change are those that we are likely to expect from the introduction of a Minimum Income Guarantee. The Theory of Change we outline is just one scenario to help understand the interconnectedness of policy choices and impacts on these outcomes. The shape of the outcomes we expect to see will look different depending on the exact policy design of a Minimum Income Guarantee, and how the various levers interact with each other.

Figure 1: Theory of Change for the introduction of a Minimum Income Guarantee

Inputs: market and policy failures to address				
Stubbornly high poverty rates	Labour market inefficiencies and barriers	Inadequate financial support via the social security system	Failure to maximise work incentives	Rising cost of essential household goods & services

Intervention: Introduce a Minimum Income Guarantee		
Social Security reform	**Labour market and work**	**Essential services and household costs**
Policy mechanism		
A simplified and more generous safety net More predictable income with changes to conditionality regime	Social partnership approach to economy bringing together employers, workers and government Reduction in precarious employment and 'low quality' work	Improved access to essential services, in particular transport and childcare Increased government spending to provide free / subsidised services
Effects		

Change in reservation wage (the minimum rate of pay at which individuals are willing to take a job) Longer job searches, but with potentially better long-term job matching Change in labour supply Increased risk-taking and entrepreneurship	Improved incentive to work as employers pressured to increase wages Improved job retention, job fulfilment and less labour market decoupling Change in hours worked and wages earned	Reduction in household costs Improved ability to participate in the labour market Improved ability to participate in the economy Improved child development and opportunities
Demographic effects		
Work incentives potentially weakened for young people, women (second earners) and households without children Lone parents and single households likely to be incentivised most	Gendered impact on labour market participation Potential for lower overall employment with 'good work' focus – but more workers in high-skilled roles	Increased labour market involvement of parents with young children – particularly women Better ability of rural and other isolated population to access the labour market

Outputs				
Reduction in poverty	Change in labour supply, work incentives and labour market composition	Higher and more certain incomes for low-income households	Increased consumption (poorer households have a higher propensity to consume)	Better health and wellbeing

To further understand the scale and certainty of the impacts of different policy levers and how these may need to be offset, we have put together a RAG rating table (**Table 3**) to outline how each policy lever **on its own terms** impacts upon the outcomes presented in the Theory of Change. In addition, we also assess the expected household impacts in terms of targeting and the upfront fiscal cost of each policy level.

The scoring of the RAG rating system is based on the following criteria, as well as being accompanied by a brief explanatory note.

Green: Overall likely positive impact on meeting the outcomes on its own terms.

Amber: Likely – but uncertain – to have a positive impact unless supported by another lever.

Red: Likely negative outcomes that need to be offset by another lever.

Table 3: RAG rating assessing impacts of expected outcomes of introducing a Minimum Income Guarantee across policy levers

	Reduced poverty	Labour market participation and work incentive	Higher and more certain incomes	Improvements to health and wellbeing	Increased consumption	Household impacts	Fiscal cost
Improved social security	**Green:** Increased income will reduce poverty, especially deep poverty.	**Red:** Limited conditionality may act as a disincentive to work, especially for certain groups.	**Green:** Social security payments will increase in value, and limited conditionality increases certainty.	**Green:** Reduced stress from navigated complex system.	**Green:** Increased income amongst low-income households will boost consumption.	**Amber:** Universally applied to all individuals/families, with some uncertainty on the benefits for all of these.	**Red:** Significant upfront cost of increasing social security spending to the Minimum Income Guarantee level.
Minimum Income Guarantee 'top up'	**Green:** Targeted at ensuring certain groups	**Red:** Distinctive on seeking work for those groups who may benefit	**Amber:** 'Top up' payment could be withdrawn if	**Amber:** Likely to improve wellbeing for groups with poor health outcomes (e.g.	**Green:** Increased income amongst low-income households	**Green:** Well-targeted at household groups who would fall below the Minimum	**Amber:** Additional cost on top of social security reform, but

	meet the Minimum Income Guarantee level.	from the ‘top up’.	other income increases.	carers, disabled people).	will boost consumption.	Income Guarantee level.	more targeted.
Reduced household costs/increased access to essential services	**Amber:** Reduced household costs, but full poverty impact dependent upon income levels.	**Green:** Improved access to transport and childcare will especially increase labour market participation of currently excluded groups.	**Amber:** Higher incomes as less cost-based spending, but not specifically targeted at income side.	**Green:** Improved health from a better connection to work provided by increased service access.	**Amber:** Higher incomes from less cost-based spending make this likely, but not certain.	**Green:** Well targeted at women (childcare) and those in rural areas (transport).	**Red:** Significant cost to government via subsidy or free provision.
Labour market and work reforms	**Amber:** Likely an increase in wages will reduce poverty, but it requires improved fairness in	**Green:** Significant boost to labour market participation.	**Amber:** Dependent upon employers taking a ‘Good Work’ approach across a	**Amber:** Dependent upon the type of work and workplace health policies in place to keep people better	**Green:** Increased income amongst low-income households will boost consumption.	**Amber:** Dependent upon policy design and employer response to how well targeted this is at excluded groups.	**Green:** Limited fiscal cost. Most cost will fall on business in higher wages.

	labour market access.		number of sectors.	connected to workplace.			

Below, we provide further detail on the assumptions underpinning our RAG ratings for each of the expected outcomes.

Improving social security: More generous social security payments, with limited conditionality, will have positive impacts on poverty reduction and, through this, increased consumption and financial certainty of low-income households. However, we expect this will have a significant fiscal cost (paid via increased taxation) and loosening conditionality will act as a disincentive to labour market participation.

A Minimum Income Guarantee ‘top up’: The Minimum Income Guarantee ‘top up’ would be effectively targeted at groups/demographics who fall short of the Minimum Income Guarantee through other levers, and through this ‘top up’ would ensure these groups reach the adequate level. However, there is a concern that knowledge of this payment may act as a disincentive to these groups’ labour market participation. The exact design of how the ‘top up’ is administered and assessed will determine the certainty of this income.

Reducing cost and improving essential services: The services that are focused on in our assumptions are childcare and transport, as these are two of the services that will have the most impact on supporting labour market access**.** While reducing the costs of these services will have, in theory, a universal benefit, they will have a targeted impact on important groups who are currently facing high costs that act as a barrier to economic participation, for example, women and those living in more rural areas. While improving access to services through cost reduction will increase incomes by decreasing the spending of individuals on these services, it is important that cost-based reforms are coupled with policy reform that is focused on improving the adequacy and stability of incomes. The major challenge is the fiscal cost of reduction of essential costs – both subsidising or universalising will require significant investment from government.

Labour market and work reforms: Improved labour market access will necessarily come with improved work incentives and a positive impact on consumption. The major uncertainties on the other outcomes (represented by Amber) will be determined by whether this labour market access takes the form of, on the whole, ‘good work’ and how well this improved work access is supported by improved services / reduced costs. This would make the overall costs of a Minimum Income Guarantee lower (as greater numbers reach the Minimum Income Guarantee through work) and also counters some of the potentially negative labour market implications of social security reform.

Ultimately, any one lever is unlikely to meet all of the outcomes on its own, and the RAG-rating assessment highlights the importance of ensuring that a more generous social security offering is underpinned by robust work incentives and labour market improvements and targeted by sustained action on important household costs and services.

Existing Minimum Income Guarantee-type policies

Chapters 2 and 3 have highlighted that, ultimately, the overall microeconomic and macroeconomic impacts of delivering a Minimum Income Guarantee in Scotland will hinge on the specific policy design and implementation. To help to inform this, this chapter reviews the experiences of other countries who have adopted or tried to adopt similar policy agendas.

We will begin this chapter by outlining a typology for how different approaches to a Minimum Income Guarantee can be grouped and categorised. From these typologies, the chapter provides an overview and evaluation of a select sample of case studies from eight EU countries – Spain, the Netherlands, Italy, France, Belgium, Sweden, Malta and Poland – who are indicative or novel cases within these typologies. These case studies will provide an overview of the policy design and implementation, an assessment of the social and economic impact and an evaluation of the policy.

A typology of Minimum Income Guarantee-type policies

Before conducting a case study analysis, it was first important to categorise different 'Minimum Income Guarantee-type' schemes according to their common shared characteristics.

Referring to these policies as 'Minimum Income Guarantee-type' is significant as one of the important challenges in exploring existing Minimum Income Guarantee policies is the very definition and understanding of a Minimum Income Guarantee. While what constitutes a Minimum Income Guarantee is well understood within the UK social policy context, the term is not readily used in Europe. Rather, most European countries use the term 'Minimum Income Schemes', which refers to last-resort cash payments available to both working and non-working households who have insufficient financial means and are not entitled to contributory social insurance. While different to the understanding of a Minimum Income Guarantee in the Scottish and UK context, these schemes are comparable in so far as they are designed to ensure citizens can meet minimum income standards – especially in the context of the rising cost of living – and to support people who are either temporarily unable to work, who need time to learn new skills or whose wages are insufficient to cover costs.

Most EU countries have some form of 'Minimum Income Guarantee-type' scheme in place. Although there is growing interest in moving towards a common, binding standard for adequate minimum incomes, existing schemes differ in terms of generosity, eligibility, conditionality, coverage and purpose.

Based upon other comparative studies of 'Minimum Income Guarantee-type' schemes undertaken by academics and international organisations,[44] we have identified four broad categories of 'Minimum Income Guarantee-type' policies that exist within the EU:

- Restrictive Minimum Income Guarantee-type schemes
- Protective Minimum Income Guarantee-type schemes
- Enabling Minimum Income Guarantee-type schemes
- Targeted Minimum Income Guarantee-type schemes

We present these four typologies in **Table 4**, which outline common characteristics and a selection of countries that sit within typologies.

From these typology groupings, we have identified eight countries within the protective, enabling or targeted typologies, which we explore in more detail in the rest of the chapter.[45] These case studies have been selected as indicative of either exemplar or novel schemes within the relevant typology model. A summary overview of the case study countries is outlined in **Table 5** below.

[44] Marcello Natili, Worlds of last-resort safety nets? A proposed typology of minimum income schemes in Europe, *Journal of International and Comparative Social Policy*, March 2020. See: https://www.cambridge.org/core/journals/journal-of-international-and-comparative-social-policy/article/abs/worlds-of-lastresort-safety-nets-a-proposed-typology-of-minimum-income-schemes-in-europe/D5F1C011DC4CA3DDD3239AAEDE95B317

[45] It is important to note that we have not explored any restrictive Minimum Income Guarantee-type schemes as the design, implementation and aim of these schemes does not align with the Scottish Government's policy goals for a Minimum Income Guarantee.

Table 4: A typology model of Minimum Income Guarantee-type policies – characteristics and exemplar countries

Typology	Common characteristics	Example countries
Restrictive Minimum Income Guarantee-type schemes	Restrictive Minimum Income Guarantee-type schemes are focused almost exclusively on tackling deep or extreme poverty. With the focus on deep poverty, these schemes have relatively low generosity and coverage and, as a result, they miss a large proportion of people who are in – or at risk of – being in poverty. Restrictive schemes often have a strict time-limit attached to them for how long someone can be in receipt of the support, and supporting this time-limit is an intense focus labour market reintegration.	Greece, Portugal and Croatia.
Protective Minimum Income Guarantee-type schemes	Protective Minimum Income Guarantee-type schemes set a 'socially acceptable' income level that all citizens should be entitled to. A specified subsistence payment is then administered to plug the gap between current income and the set income level. Additional payments are usually made depending on the household composition meaning that there is a high level of coverage across different groups. There is often a job-search conditionality, either informally or formally, within a protective Minimum Income Guarantee-type scheme.	The Netherlands, Italy, Spain, Germany, Slovakia.
Enabling Minimum Income Guarantee-type schemes	Enabling Minimum Income Guarantee-type schemes usually combine a generous income replacement rate with a broad range of active labour market and inclusion services. While labour-market reintegration is the primary and long-term ambition of enabling Minimum Income Guarantee-type schemes, there is also a clear focus on enabling broader social participation and addressing other social / economic issues alongside labour-market activation.	France, Belgium and most Nordic countries.

Targeted Minimum Income Guarantee-type schemes	Targeted Minimum Income Guarantee-type schemes are policies that are directed at specific population groups, often because they have been identified as having high ‘at risk of poverty rates’. These targeted schemes often combine cash transfers with wider support services and unique conditions that are not widely applied. It is often the case that targeted elements are more generous than the wider social security offering.	Malta, Poland, Hungary, UK (pensioners).

Table 5: Summary of Minimum Income Guarantee-type case studies

Spain – National Minimum Income (Ingreso Mínimo Vital, IMV)
Typology: Protective Annual cost: €3bn Key findings: The IMV, compared to other Minimum Income Guarantee-type policies, has a lack of strict conditionality to recognise that the policy is designed to support people in deep poverty who need a 'cash-first' approach to addressing challenges without additional requirements. The scheme has been highly successful in reducing deep poverty as a result. However, despite this lack of conditionality, uptake has been an issue and there are challenges monitoring the very limited conditions.
Netherlands - Social Assistance under the Participation Act (Participatiewet)
Typology: Protective Annual cost: €12.7bn Key findings: The Participation Act is one of Europe's most generous Minimum Income Guarantee-type policies, but suffers from significantly low up-take – especially amongst people who fall just under the threshold which has limited its poverty reduction potential. The Participation Act has a high degree of devolution (with municipalities given control over the level of conditionality) and assessments suggest these different approaches have not had radical impacts on outcomes.
Italy - Citizens' Income (Reddito di cittadinanza, RdC)
Typology: Protective Annual cost: €8.5 billion Key findings: The RdC proved to be a generally effective tool tackling deep poverty as well as supporting recipients into work through the introduction of a 'navigator' system, which provided a designated professional to support and monitor job-seekers. However, the RdC was concluded after only three years, with its strict conditionality meaning it did not meet its stated ambitious objective to address poverty, leaving it open to political challenge.
France - Earned Income Supplement (Revenu de Solidarité Active, RSA)
Typology: Enabling

Annual cost: €15 billion Key findings: The RSA is, in theory, a well-designed scheme for poverty reduction, placing a strong emphasis on incentivising labour market participation. However, in practice the scheme mostly rewards part-time work and there is concern that this has created a ‘part-time trap’ in which RSA recipients are constrained to living at the edges of the poverty line. As such, the scheme has not led to the reductions in poverty that initial evaluations anticipated.
Belgium - Integration Income (revenu d’intégration / leefloon)
Typology: Enabling Annual cost: €1.1 billion Key findings: The Integration Income has a strong focus on activation and understands that although this should primarily take the form of labour market activation, it should also tackle wider issues of social inclusion as a prerequisite to labour market reintegration. Experience from the pandemic suggests Belgium’s system is well-designed to respond to major social and economic shocks.
Malta - Tapering of Benefits (ToB) scheme (as part of a wider ‘Make Work Pay’ package)
Typology: Targeted Annual cost: €22-25 million (total ‘Make Work Pay’ cost) Key findings: Malta takes a relatively unique approach to tapering – rather than being solely income-based, there is a time-limited taper to support long-term unemployed into work. This has been very successful in securing long-term employment opportunities, particularly for lone parents. Much of this success is due to an effective scoping phase identifying key target groups, being implemented in a way that maximised work incentives (best PTRs in EU) and is part of a broader package of ‘Make Work Pay’ reforms.
Poland - Family 500+ child allowance
Typology: Targeted Annual cost: €9.5bn Key findings: A universal, non-means testing child allowance for all families with children. The policy led to a rapid and sharp decline in child poverty rates, which helped allowed Poland’s social assistance to be targeted on other demographics. However, the implementation of the policy has been costly to achieve this end –

both on the public finances but also on having a negative impact of female labour market participation, especially amongst low-income women.

Protective Minimum Income Guarantee-type schemes

Spain: Minimum Vital Income

Policy overview

The Spanish Government introduced a Minimum Vital Income (IMV) in June 2020 in response to the Covid-19 pandemic and as part of the Government's 2019-23 National Strategy for Preventing and Fighting Poverty and Social Exclusion. The IMV provided a nationwide social minimum income that unified previously existing regional schemes, which had differences in design and coverage.

The IMV functions as a last-resort cash transfer that guarantees a minimum level of income for working-age individuals and families living in extreme poverty. The minimum income level is variable in that it is based on the composition and size of the household; in particular, lone parent households are entitled to a more generous minimum income standard. Claimants receive the difference between any earnings (from work or benefits) and the minimum income level.

In 2023, an adult without children had a guaranteed income of €6,784.44 per year (or €565.37 per month); for a couple without children, the amount is €8,819.88 per year (or €734.99 per month); for a couple with two children, the amount is 12,890.52 per year; and for a single parent with one child, the amount is €10,312.44 per year.[46]

The IMV is available to both working and workless households and is not conditional on any work status or job-seeking requirements. It is, however, conditional on asset value and requires at least one member of the household to be of working age.

Assuming full take-up, the IMV is designed to cover 850,000 families living at risk of poverty with an annual cost of €3bn.[47]

Policy impacts

[46] OECD, Boosting Social Inclusion in Spain, September 2023. See: https://www.oecd-ilibrary.org/social-issues-migration-health/boosting-social-inclusion-in-spain_56b604a0-en

[47] ISEAK, Alleviating Poverty in Spain: Evidences from the Minimum Income Scheme, May 2021. See: https://iseak.eu/wp-content/uploads/2021/07/alleviating-poverty-in-spain-evidences-from-the-minimum-income-scheme-2022-09-27-alleviating-poverty-in-spain-evidences-from-the-minimum-income-scheme.pdf

The IMV has proven to be highly effective in alleviating – and nearly eliminating – extreme poverty. Based on microsimulation using EUROMOD, an academic study found that[48]:

- Average household income among the poorest 20% has increased by more than €300;
- The incidence of extreme poverty in Spain (75% below median income) has fallen from 29.8% to 2.7%;
- There has been a substantial increase in perceived financial wellbeing, with a 20%-point fall in the number of people who feel pessimistic about their financial situation.

The impact of the IMV on poverty overall is less clear, with a quasi-experimental study comparing the IMV to a synthetic non-IMV version of Spain (modelled on 11 similar EU countries) finding that:[49]

- Mean household income has risen by around €125, leading to a reduction in the poverty gap (the difference between median income and the poverty threshold) of 5.2%-points;
- However, several microsimulation analyses indicate that the incidence of poverty has only fallen by around 2%-points, with poverty incidence increasing in some areas due to IMV providing a less generous income standard than existing regional benefits;
- A limited take-up rate of around 65% and lack of work incentives are key reasons why the IMV has struggled to effectively alleviate overall poverty.

Policy evaluation

Overall, the IMV has been highly successful in its initial primary aim of drastically reducing the number of people living in extreme poverty by guaranteeing all working families a reasonable minimum income standard. It has also resulted in a small but still important reduction in poverty overall. Nevertheless, there is some agreement that the poverty impact of the IMV could have been (and could still be) far more significant.

Two key implementation factors seem to have limited its effectiveness:

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[48] Institute for Social and Economic Research, The New "Minimum Vital Income" in Spain: Distributional and Poverty Effects in the Presence and Absence of Regional Minimum Income Schemes, December 2020. See: https://www.iser.essex.ac.uk/wp-content/uploads/files/working-papers/euromod/em22-20.pdf

[49] LSE Department of Social Policy, Perceptions Matter: Quasi-Experimental Evidence on the Effects of Spain's New Minimum Income on Households' Financial Wellbeing, July 2023. See: https://www.lse.ac.uk/social-policy/Assets/Documents/PDF/working-paper-series/WPS-02-23-Eugenia-Bilbao-Goyoaga.pdf

The first limiting factor is that the IMV lacked a work incentive, and so may have unintentionally disincentivised employment. That the policy was introduced during a period of limited labour market access seems to have further disincentivised work, culminating in the advertent creation of a poverty trap in which beneficiaries were not encouraged or supported to earn more than the minimum income standard.[50]

The second is the low levels of take-up. Estimates based on survey and administrative data indicate that only 42% of eligible individuals received the IMV by the end of 2022, although just under two-thirds (62%) of households had benefited from the IMV since its introduction.[51] Take-up rates are thought to have been high amongst families living in extreme poverty, but lower for those families living in shallower forms of poverty. Qualitative studies have revealed that several factors limited take-up, including that potential beneficiaries[52]:

Were not sufficiently informed about the existence of the policy;

Believed that they would not qualify;

Were put off by the complexity of the application process;

Did not consider their entitlement worth applying, especially when in receipt of other support payments; and

Were disincentivised from signing on given extended processing periods (40% of applications took more than three months to be resolved due to limited administration capacity).

The IMV also suffers from ongoing issues with eligibility – by the end of 2022, there was a high rate of rejected applications (69%).[53] A compounding factor here is that the IMV assessment is based upon income data and household composition from the year prior, which presents challenges for how well the IMV is targeted.[54]

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[50] LSE Department of Social Policy, Perceptions Matter: Quasi-Experimental Evidence on the Effects of Spain's New Minimum Income on Households' Financial Wellbeing, July 2023. See: https://www.lse.ac.uk/social-policy/Assets/Documents/PDF/working-paper-series/WPS-02-23-Eugenia-Bilbao-Goyoaga.pdf

[51] OECD, Boosting Social Inclusion in Spain, September 2023. See: https://www.oecd-ilibrary.org/social-issues-migration-health/boosting-social-inclusion-in-spain_56b604a0-en

[52] LSE Department of Social Policy, Perceptions Matter: Quasi-Experimental Evidence on the Effects of Spain's New Minimum Income on Households' Financial Wellbeing, July 2023. See: https://www.lse.ac.uk/social-policy/Assets/Documents/PDF/working-paper-series/WPS-02-23-Eugenia-Bilbao-Goyoaga.pdf

[53] OECD, Boosting Social Inclusion in Spain, September 2023. See: https://www.oecd-ilibrary.org/social-issues-migration-health/boosting-social-inclusion-in-spain_56b604a0-en

[54] ISEAK, Alleviating Poverty in Spain: Evidences from the Minimum Income Scheme, May 2021. See: https://iseak.eu/wp-content/uploads/2021/07/alleviating-poverty-in-spain-evidences-from-the-minimum-income-scheme-2022-09-27-alleviating-poverty-in-spain-evidences-from-the-minimum-income-scheme.pdf

Finally, by providing a national, unifying minimum, the IMV has had the unintended consequence of leading to some regional increases in poverty and the depth of poverty as a result of IMV replacing more generous regional schemes, such as the Basque Country.[55] In general, regional differences in median incomes mean that in some (poorer) regions, MIS is more effective than in other (richer) regions.[56]

Interview findings

During our conversation with civil servants in Spain, the following key points were stressed:

It was explained that several key additions have been made to the IMV that aimed to address the issue of a 'poverty trap':

1. Since January 2023, it has been possible to make the IMV compatible with income from work and can make up to 60% of the guaranteed income before an incremental taper is introduced. These adjustments are automatically calculated and activated when the MIS is reviewed. The introduction of employment incentives in January 2023 aims to encourage beneficiaries to seek and maintain employment. However, the impact of these incentives has not been evaluated yet.

2. A Social Inclusion Seal (SIS) has been implemented, an initiative that seeks to promote public-private collaboration to contribute to the goal of social inclusion. There is an incentive granted to public and private companies that contribute to the SIS scheme. The SIS can be obtained under the following actions: access to goods and services, support for children and adolescents, social and labour insertion, and digitalisation. 32 Pilots are currently in operation and are being evaluated, with the expectation that a majority will be adopted as best practice.

The annual cost of the scheme has most likely exceeded the initial estimates of €3bn, partly due to the increased generosity of the scheme since 2020. However, take-up rates are affected by the complexity of the system, the reluctance of target groups to engage with public administration, and limitations in digital access for those target groups. In addition, a significant challenge lies in determining eligibility based on cohabitation units, which can be complex due to changing circumstances. Verification of cohabitation units is especially difficult in cases of homelessness or

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[55] Institute for Social and Economic Research, The New "Minimum Vital Income" in Spain: Distributional and Poverty Effects in the Presence and Absence of Regional Minimum Income Schemes, December 2020. See: https://www.iser.essex.ac.uk/wp-content/uploads/files/working-papers/euromod/em22-20.pdf

[56] ISEAK, Alleviating Poverty in Spain: Evidences from the Minimum Income Scheme, May 2021. See: https://iseak.eu/wp-content/uploads/2021/07/alleviating-poverty-in-spain-evidences-from-the-minimum-income-scheme-2022-09-27-alleviating-poverty-in-spain-evidences-from-the-minimum-income-scheme.pdf

shared living arrangements, which explains the high number of rejected applications.

A major focus of the conversation was to explain the philosophy behind the Spanish approach to the IMV, which is characterised by its lack of strict conditionality. Recipients of the IMV are not subject to stringent requirements related to job search activities, education, or behavioural expectations to receive the IMV – obligations primarily relate to declarations and updates on household circumstances, which, it was explained, are difficult enough to monitor and enforce. The decision to adopt a non-conditional approach to IMV reflects a philosophical stance that strict conditionality may not be effective or appropriate for all recipients. It was explained that the scheme seeks to recognise the challenges faced by individuals experiencing extreme poverty and to provide them with stable support without imposing burdensome requirements.

Netherlands: Participation Act

Policy overview

The Netherlands' Participation Act was established in 2015 to reactivate labour participation among welfare recipients. It combined several previous social benefits, such as the Social Security Act, Work and Employment Support for Disabled Young Persons Act, and the Work and Social Assistance Act.

Most recipients of the Participation Act were subject to a recent loss of employment, declining health, or are refugees seeking asylum. Each of these life circumstances typically creates a difficult financial situation for the individual. As such, the Participation Act guarantees an income for those who have "insufficient means" to maintain themselves – defined as an income lower than a "social assistance norm" based on the minimum wage. The "social assistance norm" depends upon family composition and age: the benefit for couples over 21 is set at 100% of the minimum wage, a single person over 21 is set at 70% of the minimum wage (single parents can receive an additional child budget), whereas 18-21-year-olds receive an allowance derived from child benefit. The Participation Act imposes obligations for the beneficiaries, which include actively seeking work and applying for jobs in exchange for temporary financial assistance. All adults within the household require these obligations – not just the claimant.

The Participation Act is financed by the municipalities themselves and funded using the Ministry of Social Affairs and Employment's budget, which also calculates the necessary amount to be distributed to each municipality based on estimated household needs within the municipality. As the law is decentralised which grants municipalities some control over how the law is enacted and how the benefit is distributed, although the central government outlines specific requirements for implementation that municipalities must follow. Due to the decentralisation of the

Act, the central government made substantial budget cuts, which the municipalities largely opposed.[57]

Policy impacts

The Participation Act is designed to set a level of income that provides a sufficient level of protection. According to a survey by the United Nations University, "nearly all respondents reported that the benefits were sufficient to provide for all basic necessities such as rent or food, yet did not cover any extras or unexpected expenses, let alone savings." A trend recognised by this study is that recipients who had a more stable financial past were more likely to be more financially stable when in receipt of the Participation Act benefit, whereas people who have more consistently had financial struggles were more likely to report that the benefit was less sufficient.[58]

One of the major goals of the implementation of the Participation Act was a reduction in poverty. In relative terms, the Participation Act provides one of the most generous replacement rates in the EU –set at 99% of the poverty threshold and 74% of the income of a low-wage earner for a single household. However, there has been little shift in the poverty rate since its introduction, with modelling by the International Microsimulation Association finding that from 2017 to 2021, the poverty rate is estimated to have decreased by a 5.4% to 5.0%. This modelling has forecast that the poverty rate in the coming years will rise, further indicating that in its current design, the obligations under the Participation Act may be ineffective in sustainably reducing poverty.[59] This analysis concluded that while a more generous minimum income scheme would exclusively help the lowest incomes and therefore achieves a larger poverty reduction when compared to a comparable investment in other existing tax and benefit policies, the trade-off is that additional resources above the increase in the benefit level would be needed to accommodate the new inflow of benefit recipients as well as concerns about the cost of lost labour market participation.[60]

The introduction of the Participation Act coincided with a halving of the unemployment rate. From 2014 to 2019, unemployment fell from 8.3% to 4.4%, with the implementation of the Participation Act taking place in 2015.[61] However,

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[57] Femke Roosma, A Struggle for Framing and Interpretation: The Impact of the 'Basic Income Experiments' on Social Policy Reform in the Netherlands, *European Journal of Social Security,* September 2022. See: https://journals.sagepub.com/doi/epub/10.1177/13882627221109846

[58] United Nations University, Limits of Freedom? Experiences with the Participation Act, September 2016. See: https://www.merit.unu.edu/publications/uploads/1475762550.pdf

[59] The Netherlands Institute for Social Research, Tax and Benefit Policies to Reduce Poverty in the Netherlands: A Microsimulation Analysis, April 2023. See: https://microsimulation.pub/articles/00277

[60] The Netherlands Institute for Social Research, Tax and Benefit Policies to Reduce Poverty in the Netherlands: A Microsimulation Analysis, April 2023. See: https://microsimulation.pub/articles/00277

[61] The Netherlands Institute for Social Research, Tax and Benefit Policies to Reduce Poverty in the Netherlands: A Microsimulation Analysis, April 2023. See: https://microsimulation.pub/articles/00277

alongside labour market reactivation, one of the Participation Act's goals was to improve well-being, participation, self-management, and the quality of service provision. The European Commission evaluated the success of the Act in 2020 and claimed that it had done little to meet these aims. This is mostly because of the lack of growth in high-quality and sustainable job opportunities. In addition, the Act has not increased overall employment for beneficiaries as many were found to be unable to work despite the assistance and obligation in place under the Act. Because job opportunities have not expanded in the expected way, self-sufficiency and other aspects of personal life have not yet improved.[62]

Policy evaluation

Among both the public and municipalities, there are three major concerns with the Participation Act[63]:

Firstly, once people have received refugee or subsidiary protection and become status holders, they are granted the same rights to the Participation Act and all other social benefits as Dutch citizens. Whether this is an unfair use of resources is contested among the public.

Secondly, some Dutch municipalities regard social assistance as an "unconditional right"; however, the Participation Act poses a condition in which the welfare recipient is required to participate.

Finally, part of the Participation Act requires that employers provide jobs for disabled people. In practice, this is difficult to achieve since only a small proportion of current jobs are appropriate for people with disabilities.

Additionally, there is a major concern about the lack of social assistance in the Netherlands. According to an analysis conducted at the start of 2018, over a third (35%) of eligible households were not in receipt of support, with the lowest levels of take-up amongst those just below the threshold, the self-employed with only one income source, younger people (under 26) living with parents and migrants from European countries. Of particular concern is that a third of those who have not taken up the benefit have been eligible for at least a year.[64] This issue with take-up may go some way to explaining why, despite the generous level of the Participation Act, the impact on poverty rates has been limited.

An evaluation by the European Commission completed in 2020 claimed that the Participation Act had yet to be successful in achieving its targets of reactivating

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[62] European Commission, Dutch Participation Act not (yet) a success, January 2020. See: https://ec.europa.eu/social/BlobServlet?docId=22284&langId=en#:~:text=In%20the%20press%20release%20on,social%20assistance%20benefit%20claimants%2C%20as

[63] ETHOS Project, Coping with the Participation Act: Welfare experiences in the Netherlands, August 2019. See: https://www.ethos-europe.eu/sites/default/files/5.5_netherlands_2.pdf

[64] European Commission, The 2022 Minimum Income Report – Volume II: Country Profiles, October 2022. See: https://ec.europa.eu/social/BlobServlet?docId=26196&langId=en

people in the labour market and social participation. This evaluation raised two primary concerns[65]:

The Government assumed that "people targeted by the Act would be able and willing to perform paid work, possibly with certain adaptations." However, the European Commission's Evaluation reveals (and municipalities confirm) that this is often not the case and that most beneficiaries have health issues that inhibit their ability to work.

In addition, the implementation of the Act expected employers to be willing to enact programs aligned with the Act; however, most employers see these as an administrative burden or are unaware of these programs completely, so the supply and demand of the labour market do not match the Government's targets. There are still a number of accommodations and arrangements for beneficiaries that fall on employers, which makes them less willing to hire them. From this analysis, the European Commission concludes that these assumptions must be addressed in order to make the Dutch Participation Act more successful in reaching its targets.

A major point of criticism of the Participation Act is that it imposes sanctions on people who do not meet the requirements in seeking employment. This has been deemed by one academic assessment a "negative incentive" within the Dutch system, which does not appropriately motivate people to reciprocate and cooperate, and that the receipt of favours rather than negative incentives leads to more optimal outcomes.[66] In recognition of this issue with sanctions, six municipalities – Deventer, Groningen, Nijmegen, Tilburg, Utrecht and Wageningen – were given freedoms to experiment with: a) granting an exemption from the labour and reintegration obligations in social assistance; b) more intensive guidance to work or c) a higher release for additional earnings next to social assistance. An evaluation of these experiments by the Netherlands Bureau for Economic Policy found that:[67]

Exemption from obligations in social assistance had no statistically significant negative effect on the job search rate when compared to the initial situation in all municipalities.

More intensive job searches also had no effect on the outflow to full-time work for all municipalities. However, a positive effect on the outflow to part-time work was

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[65] European Commission, Dutch Participation Act not (yet) a success, January 2020. See: https://ec.europa.eu/social/BlobServlet?docId=22284&langId=en#:~:text=In%20the%20press%20release%20on,social%20assistance%20benefit%20claimants%2C%20as

[66] Femke Roosma, A Struggle for Framing and Interpretation: The Impact of the 'Basic Income Experiments' on Social Policy Reform in the Netherlands, *European Journal of Social Security,* September 2022. See: https://journals.sagepub.com/doi/epub/10.1177/13882627221109846

[67] Netherlands Bureau for Economic Policy Analysis, Evaluation experiments for social assistance benefit recipients: Effects on the job finding rate, May 2020. See: https://www.cpb.nl/sites/default/files/omnidownload/CPB-Summary-Evaluation-experiments-for-social-assistance-benefit-recipients-may2020.pdf

seen in Utrecht, where 16 months after the experience, 20% of the experimentation group worked more than 12 hours a week, compared to 12% of the control group.

For all municipalities, there was no effect of a higher release of additional earnings in social assistance benefits on the outflow to full-time work. This effect was expected as participants were not allowed to earn more than €200 euros net per month in addition to their benefit.

The evaluation concluded that there was a high level of uncertainty around the result, and it was difficult to attribute the effects as directly the sole outcome of the experimental interventions. It was concluded that any future experiments on conditionality would benefit from limiting the number of different interventions to be able to make more precise conclusions.

Interview findings

During our conversation with civil servants in the Netherlands, the following key points were stressed:

- The Dutch system is relatively generous by European standards, and the evaluation of the social minimum income occurs twice a year – which is relatively frequent by European standards – and allows the system to respond effectively to changes rapidly.
- The Dutch system grants a high level of autonomy to municipalities, who through this, have taken varying approaches to administering the Participation Act, which, a wide array of levels support policies and approaches to conditionality across the Netherlands. In part, this has been to recognise that there is a policy dilemma between incentivising work and providing adequate support. It is not clear what the correct approach is – as the 2020 experience uncovered – but also in making the caseload of social workers more management so they are dealing with the most at risk groups.
- A particularly difficult challenge revolved around long-term unemployment. It was explained that, in particular, individuals over 45 who had been unemployed for five years or more were a demographic who were particularly challenging to get into work. This then throws up what was deemed a "paradox" whereby these individuals would benefit from less conditionality and higher support payments to reduce the poverty and inequality they face. A critical issue here is ensuring that social solidarity is at the heart of the scheme and balancing the correct level of support with maintaining solidarity within the population. This needed nuances for different groups that may not be fully understood or appreciated by the wider population.

Italy: Citizens' Income

Policy overview

The Italian government introduced the Reddito di Cittadinanza (RdC), or Citizens' Income, in April 2019. Despite its name and characterisation as the cornerstone of a national strategy to fight poverty, the RdC is, in practice, a protective and highly conditional Minimum Income Guarantee-type scheme designed to reduce the incidence and intensity of extreme poverty through a combination of income support and work activation. It is the only general non-contributory benefit available to low-income households in Italy, providing the Italian case with a unique contextual dimension that brings into sharp relief wider political considerations about how a Minimum Income Guarantee-type scheme is branded and, in turn, received.

Income support under the RdC is comprised of two monthly monetary payments. The first is provided as a top-up to household disposable income, with a maximum value of €500 per month for a single adult household. The second is a rent subsidy, with a maximum value of €280 per month for a single adult household. The value of both the income top-up and rent subsidy is determined against a household equivalence scale, which, in absolute terms, provides for a higher rate of payment to larger households. Both benefits are paid for a maximum of 18 months, with the possibility of renewal following reassessment of a household's eligibility. [68]

Eligibility for income support under the RdC is conditioned on strict means-testing. To be eligible for RdC, households must have an ISEE (an indicator used by the Italian government to capture the equivalised value of income, assets, and real estate) of less than €9360. Other means-related conditions also render ineligible households that: a) have an annual total equivalised income of more than €6,000, even when total ISEE is below the threshold of €9,360; b) own more than one property; and c) include a resident family member that has last year bought a car or motorbike above a certain engine specification.

Aside from the various means-related requirements, RdC eligibility is also conditioned on citizenship status, with the primary household recipient required to have legally resided in Italy for at least ten years. Non-EU citizens are additionally required to provide documentation detailing their immigration and economic status issued by the governmental authority of their home country.[69]

For households who meet these eligibility requirements, payment of both the monthly income top-up and rent subsidy is further conditioned on a set of work and social inclusion obligations that are designed to support recipients into employment and thus mitigate potential negative effects on labour supply.

In the first instance, all eligible members (not employed, not in education or training, not retired, under the age of 65 and not disabled) from recipient households are required to register with PES, Italy's work support centres. Following an initial meeting with their PES advisor, recipients who are deemed 'closer to work' on the

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[68] Giovanni Tonutti, Disaggregation of poverty indicators by small area methods for assessing the targeting of the "Reddito di Cittadinanza" national policy in Italy, *Socio-Economic Planning Sciences,* August 2022. See: https://www.sciencedirect.com/science/article/abs/pii/S0038012122001161
[69] Institute for International Political Economy Berlin, The Italian "Reddito di Cittadinanza" one year later, July 2020. See: https://www.ipe-berlin.org/fileadmin/institut-ipe/Dokumente/Working_Papers/ipe_working_paper_146.pdf

basis of employment history and psychometric testing are additionally required to sign an 'Agreement for work'. In broad terms, this agreement requires recipients to do the following: a) actively seek employment opportunities; b) register on a designated digital job platform; c) participate in designated training courses; and d) accept at least one of three 'suitable job offers'. More specific details on the type of training and work and the relevant steps required are determined by a so-called 'navigator', a new work support role created specifically to support PES advisors in developing and monitoring work pathways for RdC beneficiaries.[70]
As a work activation scheme, the RdC is further bolstered by both positive and negative reinforcement outcomes. In terms of negative reinforcement, RdC recipients who do not fulfil their obligations are subject to sanctions that consist 'in a monthly cut of the income benefit at the first infringement to a complete revocation in case of repeated infringements'.[71] In terms of positive reinforcement, the RdC provides for a temporary withdrawal rate during the first six months of new employment activity of 80%, meaning that RdC beneficiaries entering work keep 80% of their RdC entitlement for the first six months. RdC beneficiaries who increase their working hours, typically from part-time to full-time work, keep 100% of their RdC entitlement during the same six-month period.[72]

Policy impacts

Official government statistics show that in 2020, RdC was granted to 982,000 households (2.2 million people), providing monthly average benefits of €482 at a total annual cost of around €8 billion. Consistent with the low-income targeting of the scheme, families benefiting from RDC are concentrated among the families with the lowest ISEE value [with] 30.6% of beneficiary households [having] an ISEE of €0. 45% of recipient household members over the age of 15 have never worked as formal employees, and only 10% of the entire group are currently employed.[73]

Compared to Italy's resident population, women, children, and single-resident households are over-represented among individuals receiving RdC. 28% of RdC recipient households are single-parent households, compared to 11% of resident households. A further 60% of RdC recipient households are single resident households, compared to around 30% of the resident population. Conversely, couple households with and without children are under-represented, with the latter making up just 1.5% of all recipient households. Larger households of six or more

[70] Maria Luisa Maitino et al., Employment effects of Reddito di cittadinanza, before and during the Covid-19 pandemic, *IRPET Working Paper,* May 2022. See: http://www.irpet.it/wp-content/uploads/2022/05/working-paper-6_2022-maggio-ravagli-et-al-1.pdf

[71] Maria Luisa Maitino et al., Employment effects of Reddito di cittadinanza, before and during the Covid-19 pandemic, *IRPET Working Paper,* May 2022. See: http://www.irpet.it/wp-content/uploads/2022/05/working-paper-6_2022-maggio-ravagli-et-al-1.pdf

[72] Banca D'Italia, Anti-poverty measures in Italy: a microsimulation analysis, September 2020. See: https://www.bancaditalia.it/pubblicazioni/temi-discussione/2020/2020-1298/en_Tema_1298.pdf?language_id=1

[73] Ministry of Labour and Social Policies, Citizen's income, a crucial tool to help families in difficulty, November 2020. See: https://www.lavoro.gov.it/priorita/pagine/catalfo-reddito-di-cittadinanza-strumento-cruciale-per-aiutare-le-famiglie-in-difficolta

persons make up a similar share. However, this group is over-represented compared to the resident population. Finally, disabled people are also over-represented at around 9% of all recipients, compared to 5% of the resident population.[74]

The overall rate of take-up of RdC is unclear given the absence of both an official government figure and take-up estimation modelling. On the one hand, economic theory would expect take-up of the RdC to be lower than other less conditional Minimum Income Guarantee-type schemes since the prospect of strict conditionality requirements tends to increase perceived opportunity costs. On the other hand, the Italian government has published figures showing that around a third of all RdC applications are rejected, suggesting instead that the RdC's strict conditionality requirements function more like a barrier to entry rather than a deterrent.[75] While other Minimum Income Guarantee type schemes, such as the French RSA, are also conditioned on strict income requirements, the barrier to entry in the Italian case is particularly salient given that in Italy the RdC is the only general non-contributory benefit available to low-income households.

Given the salience of the potential exclusionary effects of the RdC's eligibility conditions, it is especially important to consider poverty impact in relation to both the recipient group and the wider group of households at risk of poverty.
With respect to the former, the RdC appears to have been effective in reducing levels of poverty and deep poverty. The Italian government estimates that the RdC has achieved a 13% reduction in the number of households at risk of poverty, with 250,000 of a total of 1.9 million at-risk households lifted out of poverty between April 2019 and June 2020.[76] Given that around 1.4 million households received at least one RdC payment across this period, it can be estimated that around 18% of recipient households were lifted out of poverty and at least double (likely closer to three or more times) this share were lifted out of deep poverty. The ameliorating effects of the RdC are not, however, distributed equally within the recipient group.

The equivalence scale is used to adjust the monetary award of the RdC benefit according to household size and need. This is particularly problematic given that of all household types, larger families have the highest incidence of poverty in Italy. The Italian government does not publish data of sufficient granularity to quantitively examine the poverty impact of the RdC on different household types. However, given the choice of equivalence scale, analysts are in uniform agreement that larger

[74] Ministry of Labour and Social Policies, Citizen's income, a crucial tool to help families in difficulty, November 2020. See: https://www.lavoro.gov.it/priorita/pagine/catalfo-reddito-di-cittadinanza-strumento-cruciale-per-aiutare-le-famiglie-in-difficolta

[75] Elena Anna Grasso, The Italian reddito di cittadinanza in search of identity: a comparative perspective, *Revue de droit comparé du travail et de la sécurité sociale*, 2020. See: https://journals.openedition.org/rdctss/775?lang=es

[76] Ministry of Labour and Social Policies, Citizen's income, a crucial tool to help families in difficulty, November 2020. See: https://www.lavoro.gov.it/priorita/pagine/catalfo-reddito-di-cittadinanza-strumento-cruciale-per-aiutare-le-famiglie-in-difficolta

families are under-represented in the group of RdC recipients who have exited poverty.[77]

In analysing the poverty impact of the RdC in relation to all households at risk of poverty, it is first significant that the annual number of RdC recipient households makes up around only 60% of households that are at risk of poverty.[78] While a significant share of the remaining 40% of at-risk households may in fact be eligible for RdC but, for various reasons, have not taken it up, there is still a substantially sized group of at-risk households that do not qualify for RdC and so are left without recourse to income support. Studies focused on this group indicate that it is comprised mostly of low-income working households and households located in urban centres, where wages and the cost of living are higher. One study using Tuscan administrative data finds that the at-risk of poverty rate in urban low-income areas is, on average, 30%, while the average RdC coverage rate of the same is only 17%.[79]

Counterfactual analysis has also shown that indexing the RdC income threshold to the regional cost of living would lead to a 7% increase in the RdC coverage rate in such areas, effectively closing the gap between poverty and RdC coverage by nearly 50%.[80] It is also worth noting that these demographic characteristics are somewhat typical of single non-EU migrant households, who would still be excluded from receiving RdC support even if the income threshold was increased. The upshot is that the 'current eligibility design of the RdC leaves some […] demographic groups at a higher risk of poverty and social exclusion from the support framework of the measure, thus undermining the scheme in achieving its objectives'.[81]

Regarding the efficacy of the RdC involving work activation, the picture is somewhat unclear, given that most studies are limited to the first year of rollout. The problem is that the 'navigators' did not start working until late 2019 at the

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[77] Giovanni Tonutti, Disaggregation of poverty indicators by small area methods for assessing the targeting of the "Reddito di Cittadinanza" national policy in Italy, *Socio-Economic Planning Sciences,* August 2022. See: https://www.sciencedirect.com/science/article/abs/pii/S0038012122001161

[78] Institute for International Political Economy Berlin, The Italian "Reddito di Cittadinanza" one year later, July 2020. See: https://www.ipe-berlin.org/fileadmin/institut-ipe/Dokumente/Working_Papers/ipe_working_paper_146.pdf

[79] Giovanni Tonutti, Disaggregation of poverty indicators by small area methods for assessing the targeting of the "Reddito di Cittadinanza" national policy in Italy, *Socio-Economic Planning Sciences,* August 2022. See: https://www.sciencedirect.com/science/article/abs/pii/S0038012122001161

[80] Banca D'Italia, Anti-poverty measures in Italy: a microsimulation analysis, September 2020. See: https://www.bancaditalia.it/pubblicazioni/temi-discussione/2020/2020-1298/en_Tema_1298.pdf?language_id=1

[81] Giovanni Tonutti, Disaggregation of poverty indicators by small area methods for assessing the targeting of the "Reddito di Cittadinanza" national policy in Italy, *Socio-Economic Planning Sciences,* August 2022. See: https://www.sciencedirect.com/science/article/abs/pii/S0038012122001161

earliest, while PES employment centres were initially overwhelmed by a huge uptick in caseload. As a result, at the end of 2019, only 1.9% of all recipients had signed an 'Agreement to Work' contract.[82] The Italian case service reinforces the importance of sufficient preparation to avoid administrative failure.

Nevertheless, the available evidence indicates that after the initial rollout, the RdC achieved some moderate successes in supporting particular types of people into, but more so back into, work. On studying using difference-in-difference analysis on Tuscan administration finds a positive and statistically significant difference between the work intensity of RdC recipients and non-recipients of around 3% in the period between November 2019 and December 2019; the effect was negative across the preceding six months. The effect in the latter period was greatest for young adult males who had previous work experience, with RdC recipients working on average 1.1 days more than comparable non-recipients. The study also found a positive effect on women under 50 years old. Even so, these relatively modest gains in working days are clearly not sufficient to alter the incidence of poverty at a population level.[83] These gains are, however, notable compared to other case studies, with the one major difference being the introduction of specialist support workers, the 'navigators'. It is conceivable that more significant gains could be achieved by further improving capacity and support provision in PES employment centres.

Policy evaluation

Overall, the RdC proved to be a generally effective tool in tackling both poverty and deep poverty in Italy. It also appears to have been somewhat effective in supporting recipients into work – in particular, the introduction of the 'navigator' as a specially designated professional to support and monitor jobseekers provides a potentially useful model for effective implementation of work activation paths under a Minimum Income Guarantee type scheme.

However, given both the initial characterisation of the RdC as a universal tool for poverty reduction and the absence of other general income support schemes, the imposition of an extremely narrow conditionality regime brought into particularly sharp relief the effective exclusion of millions of vulnerable low-income households from Italy's social security system, culminating in the closure of the scheme just three years after its introduction.

To that end, the central takeaway from the Italian case study is that a Minimum Income Guarantee-type scheme should, from the outset, be explicit in terms of its

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[82] Lombardia Sociale, From REI to RdC: experiences of integration between social and work, February 2019. See: https://lombardiasociale.it/2019/02/26/dal-rei-al-rdc-esperienze-di-integrazione-tra-sociale-e-lavoro/

[83] Maria Luisa Maitino et al., Employment effects of Reddito di cittadinanza, before and during the Covid-19 pandemic, *IRPET Working Paper,* May 2022. See: http://www.irpet.it/wp-content/uploads/2022/05/working-paper-6_2022-maggio-ravagli-et-al-1.pdf

scope and aims, as well as designed to complement and fill gaps in the existing social security apparatus. It is conceivable that were the RdC introduced in a country with a more robust social security system and framed in terms of a protective Minimum Income Guarantee-type scheme with enabling elements, reception to the scheme would have been far more positive, providing scope to instead reform some of the more restrictive elements.

Enabling Minimum Income Guarantee-type schemes

France: Active Solidarity Income

Policy overview

The Active Solidarity Income (RSA) is a means-tested minimum income benefit awarded to people who are unemployed, economically inactive or in low-paid work. As the main instrument for tackling poverty in France, RSA payments are awarded to nearly two million households at an annual cost of around 15 billion EU.[84] Beyond earnings, the main eligibility condition of RSA is that it is only awarded to working-age adults over the age of 24, reflecting the 'principle that the family bears responsibility until this age'.[85]

The RSA was introduced in 2009 as a replacement for the Revenu Minimum d'Insertion (RMI). The basic payment rate follows the RMI at around 50% of median equivalised earnings. Given that the deep poverty line in France is set at 60% of median earnings, the basic RSA alone is not sufficient to lift someone out of deep poverty. This is reflected in the incidence rate of deep poverty for RSA beneficiaries who are in poverty, which at 15% is roughly equal to the incidence rate among deep poverty for people who do not receive RSA.[86] The RSA is, however, an incredibly effective tool for reducing the intensity of deep poverty, which is twice as high for people for who do not receive RSA.[87] As with the RMI, entitlement to the basic rate of payment is not withdrawn or tapered over time, meaning that this minimum income standard is guaranteed for as long as a person requires it.

The RSA also provides a higher 'active' rate for recipients who enter or return to work. Under the higher 'active' rate, recipients received 100% of their basic RMI rate during their first three months of employment and then 50% across the next nine months. After working for 12 months, this 50% working rate was then fully withdrawn, resulting in the effective loss of RMI entitlement. In contrast, the working rate is built into the structure of the RSA and, crucially, is not tapered or withdrawn over time. Instead, the RSA working rate is paid at 62% of the RSA basic rate for as long as a person is earning below the RSA exit point, which is around 1.05 times the equivalised minimum wage.[88] A single adult with a part-time job and earnings equivalent to 50% of the minimum wage is therefore substantially better off under

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[84] The Conversation France, The French RSA benefit: lack of access a far greater problem than fraud, July 2022. See: https://reflexscience.univ-gustave-eiffel.fr/en/read/articles/the-french-rsa-benefit-lack-of-access-a-far-greater-problem-than-fraud

[85] Court of Audit, The Active Solidarity Income: Evaluation of a Public Policy, January 2022. See: https://www.ccomptes.fr/sites/default/files/2022-03/20220113-summary-Active-solidarity-income.pdf

[86] The European Anti-Poverty Network, National Poverty Report 2021 – France, October 2021. See: https://www.eapn.eu/wp-content/uploads/2021/10/eapn-EAPN-France_National-Poverty-Watch-Report-2021-ENG-5261.pdf

[87] Court of Audit, The Active Solidarity Income: Evaluation of a Public Policy, January 2022. See: https://www.ccomptes.fr/sites/default/files/2022-03/20220113-summary-Active-solidarity-income.pdf

[88] Institute for Labor Studies and Public Policies, The French "Earned Income Supplement" (RSA) and back-to-work incentives, January 2011. See: https://shs.hal.science/halshs-00812109

the RSA for all but the first three months of their employment[89]: in the 3rd-12th month, RSA provides an additional 60 EU per month compared to RMI, rising to an additional 260 EU per month thereafter.[90]

Policy evaluation

The RSA's higher and more stable working rate is designed to 'make work the main safeguard against poverty', eliminating the benefits trap by ensuring that labour market participation does not lead to a loss of income and making permanent the temporary work incentive introduced under the RMI.[91] In the absence of a minimum hours requirement, the RSA's working rate is intended to function as a particularly strong incentive for people to choose part-time work over benefit dependency. Even before accounting for the value of other available benefits, the additional income awarded under the working RSA is sufficient to lift most part-time working recipients above the poverty line.

To that end, analysts are generally in strong agreement that the RSA is a well-designed tool for poverty amelioration, particularly because it achieves this goal through the provision of enabling labour market incentives. Nevertheless, some analysts have expressed concern that the generous levels of support afforded to individuals working part-time may act as a disincentive to full-time work, resulting in the advertent creation of a 'part-time trap' in which RSA recipients are constrained to living at the edges of the poverty line. On the one hand, it is true that the standard of living afforded to most working RSA recipients is, in many ways, limiting. However, what this criticism fails to fully appreciate is that the working RSA rate represents a materially substantive improvement in the living standards of someone who, unable or unwilling to work full time, would otherwise receive only the basic RSA rate. Furthermore, there seems to be very little risk – and moreover, no existing evidence – of full-time workers deliberately choosing to reduce their hours in order to qualify for working RSA. This is because the French social security system also provides for a higher rate of benefit entitlement for those in full-time work under the PPE.[92]

While the structure of the RSA provides an effective model for making work the main safeguard against poverty, its implementation has, however, failed to yield the sort of drastic reduction in poverty that the French government initially projected. An early evaluation study conducted in 2011 found that the 'poverty rate would be 0.3 percentage points higher without the implementation of RSA, which corresponds to

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[89] It is important to note that although the marginal tax rate of 38% is constant until the point that earnings exceed the RSA exit point, some recipients will still experience a drop in income prior to this as a result of losing eligibility or receiving a reduced rate from other conditional benefits.

[90] Luciano Canova et al., An ex ante evaluation of the Revenu de Solidarité Active by micro–macro simulation techniques, *Journal of European Labour Studies,* June 2015. See: https://izajoels.springeropen.com/articles/10.1186/s40174-015-0040-3

[91] The French RSA and back to work incentives show that the marginal tax rate of 38% is close to the maximum possible with respect to producing a monetary incentive for returning to work.

[92] The French government have indicated that the PPE will soon be subsumed within the RMI, which will then provide three separate rates, namely, basic, part-time working, and full-time working.

135,000 people out of poverty in contrast with the French government's projection of 700,000'.[93]

A more recent study, which further captures the increased levels of take-up of RSA between 2010 and 2020, indicates that 65% of all beneficiaries have fallen below the poverty line while in receipt of RSA. Given that by design, the basic RSA rate is not sufficient to lift a person out of poverty, it is evident that the large majority of the 65% of RSA beneficiaries who are in poverty receive only the basic RSA rate.[94] This is confirmed by longitudinal studies, which show that 'after seven years from first receipt, only 34% have left RSA and are in work; 24% have left RSA without work; and 42% are still in receipt of RSA'.[95]

Other studies examine further the experiences of RSA beneficiaries who cannot find long-term employment. These studies indicate that a considerable proportion of RSA recipients move between the basic and working RSA rates, with around 35% of RSA recipients finding temporary employment that is terminated within 12 months. A similar number of beneficiaries are unable to find even temporary employment and so remain on the basic RSA rate for the long-term, with some moving from RSA to more targeted benefits - for example, those awarded to disabled people who are unable to work.[96]

Without a doubt, the composition of the labour market is a significant barrier to long-term employment for many RSA beneficiaries. Reflecting a wider trend across Europe over the last ten years, France has seen a huge rise in the prevalence of temporary and zero-hour work contracts, particularly in low-skilled occupations. Within this sphere of insecure work, hours and working patterns are fluid and seldom guaranteed, which can present difficulties for those who have children and caring commitments, thus potentially affecting around a third of RSA recipients. Research has also shown that the rate of voluntary and involuntary termination is significantly higher among people in insecure work, which provides some further explanation for why so many RSA recipients exit the labour market within 12 months.[97]

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[93] Comitè National de Evaluation du RSA, Rapport final, December 2011. See: https://dares.travail-emploi.gouv.fr/publication/rapport-final-du-comite-national-devaluation-du-revenu-de-solidarite-active-rsa

[94] Court of Audit, The Active Solidarity Income: Evaluation of a Public Policy, January 2022. See: https://www.ccomptes.fr/sites/default/files/2022-03/20220113-summary-Active-solidarity-income.pdf

[95] Court of Audit, The Active Solidarity Income: Evaluation of a Public Policy, January 2022. See: https://www.ccomptes.fr/sites/default/files/2022-03/20220113-summary-Active-solidarity-income.pdf

[96] Luciano Canova et al., An ex ante evaluation of the Revenu de Solidarité Active by micro–macro simulation techniques, *Journal of European Labour Studies,* June 2015. See: https://izajoels.springeropen.com/articles/10.1186/s40174-015-0040-3

[97] Isabelle Niedhammer et al., Exploring the employment determinants of job insecurity in the French working population: Evidence from national survey data, *PloS ONE,* June 2023. See: https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0287229

Yet even in the most protective labour market, moving people from inactivity into long-term employment requires more than the incentive of increased earnings. The French government recognised this and so built into the RSA a contractual obligation between beneficiaries and support providers to ensure that both parties would do all that they could to find and maintain employment. Once again, analysts are in strong agreement that this reciprocal contract represents an effective model of support provision, ensuring action and accountability from both the jobseeker and support provider. The issue, though, is that these contracts have not been properly implemented, enforced and monitored. It is estimated that only seven in 10 RSA beneficiaries are subject to a support contract, meaning that nearly a third of recipients have no recourse to any type of support at all. Further, even among those who have a support contract, studies indicate that around 75% do not contain any commitments or action toward obtaining employment.[98]

Analysts agree that the ineffective implementation of these contractual agreements is a direct consequence of the RSA's complex institutional and administrative structure. The legal and regulatory framework is designed and administered by central government, which allocates public funds to a diverse and regionally varying network of social allowance funds, social action centres and local service providers, who in turn are supported by the Employment Agency in processing and monitoring applications. The upshot of this highly convoluted pipeline is that applicants often do not receive the level of support that they require, whether because they are not referred to a support provider in the first place or because there is no homogenous and regulated standard of support due to the sheer numbers of operators across the country. This amorphous structure of operators and support providers is also thought to have limited take-up of RSA, which is estimated to cover only 70% of the target population.[99]

Overall, the RSA provides a well-designed model for poverty amelioration, making work the primary safeguard against poverty while ensuring that those who do not work do not live in deep poverty. The RSA has helped millions of people into long-term employment; however, millions more remain in poverty largely because of a failure to provide these people with the level of guidance and support they require. To that end, this case highlights the vital importance of effectively implementing a standardised and closely regulated support system to help people obtain and maintain stable, long-term employment.

Belgium: Integration Income

Policy overview

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[98] Court of Audit, The Active Solidarity Income: Evaluation of a Public Policy, January 2022. See: https://www.ccomptes.fr/sites/default/files/2022-03/20220113-summary-Active-solidarity-income.pdf

[99] Court of Audit, The Active Solidarity Income: Evaluation of a Public Policy, January 2022. See: https://www.ccomptes.fr/sites/default/files/2022-03/20220113-summary-Active-solidarity-income.pdf

The Integration Income benefit in Belgium is a type of means-tested minimum income scheme and is intended to be a benefit of last resort. The income test includes an evaluation of a household's resources, earnings, and annual net income. Receipt of the benefit requires that the individual is 18 years of age or older; meets the nationality and residence requirements; is willing to work (unless otherwise unable to do so due to health or disability conditions); has exhausted their rights to all other benefits; and has insufficient means to a decent life.

The Integration Income is distributed at the local level by the Public Centre for Social Work (PCSW), although it is a federally established benefit. Therefore, the local PCSWs and federal state have shared funding for the policy. Although the legislation and implementation of the benefit occur at the federal level, the local municipalities are entirely responsible for the distribution of the benefit as the income is largely dependent on individual, locally assessed circumstances.

The benefit is automatically adjusted as cost-of-living increases. These adjustments are calculated by linking amounts of integration income set out in legislation and the consumer price index. There is a maximum amount which can be awarded each month, with your circumstances and corresponding payment falling under three categories:

If an individual lives with whom they share the household expenses, they are regarded as cohabiting and receive €809.42 per month;

- If an individual lives alone, they receive €1,214.13 per month; and
  If an individual has at least one child living with them, they are deemed as having a dependent family and receive €1,640.83 per month.

- In addition to the income support, Belgium's Integration Income scheme aims to provide and encourage labour market participation and social inclusion activities. One of the particularly significant benefits of the Belgian approach to social integration is that access to services and measures available is not made based on an income basis but on an assessment of needs. In practice, social workers and PCSW have some discretionary room in evaluating the willingness to work requirements of claimants. Usually, it is assessed on the basis of the likelihood that the claimant will be able to make the necessary personal effort to find work. In other words, there is an assessment of whether other circumstances may prevent them from effectively searching for work and becoming employed. In addition, the PCSW's perspective on the value of the job offer or training course for the individual may be taken into account.[100]

[100] Belgium Research Action through Interdisciplinary Networks, Reducing poverty through improving take up of social policies, December 2022. See: https://www.belspo.be/belspo/brain-be/projects/FinalReports/TAKE_FinRep.pdf

Policy impacts

Belgium's Integration Income has successfully boosted job retention and poverty reduction, particularly during the COVID-19 pandemic. Belgium successfully prevented increases in poverty, social exclusion, and income inequality with income support generally sufficient in replacing potentially lost income. According to 2021 data, social transfers reduced the number of employees at risk of poverty by 73%, with 119,000 fewer people at risk of poverty.[101] In addition, the Integration Income scheme was part of a broader policy response that helped to stabilise employment levels and limited the impact that the pandemic had on the labour market. After an economic contraction of 5.7% in 2020, the Belgian economy quickly grew again, and GDP increased by 6.1% in 2021. The employment rate only fell 0.5% from 2019 to 2020, and the employment level rose back to a higher level than on record in 2021 at 70.6%.[102]

Belgium's overall social assistance scheme targets higher social inclusion and professional integration, which supports individuals who may be unable to work. Ensuring that all people have access to a stable and secure income allows people to bolster their social skills and participation.[103] However, Belgium continues to have one of the highest long-term unemployment rates in comparison with the rest of the EU. For most individuals in Belgium, it is more optimal for them to stay unemployed because if they were to re-enter the labour market, their wages would often not exceed the amount they can be paid through the Integration Income.[104] As a result, there has been a steady rise in Integration Income beneficiaries across the 21st century. That said, the percentage of the population who benefit from the scheme is small – rising from 0.7% of the population in 2003 to 1.3% of the population in 2022.[105]

Policy evaluation

Although concerns exist that the relatively generous level of the Integration Income can have negative unintended consequences by decreasing incentives to join the labour market, Belgium places particular emphasis on the importance of social activation and participation as important policy goals in their own right. While social

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[101] Federal Public Service – Social Security, The evolution of the social situation and social protection in Belgium 2021, December 2022. See: https://socialsecurity.belgium.be/sites/default/files/content/docs/en/publications/silc/silc-analysis-social-situation-and-protection-belgium-2021-en.pdf

[102] Federal Public Service – Social Security, The evolution of the social situation and social protection in Belgium 2021, December 2022. See: https://socialsecurity.belgium.be/sites/default/files/content/docs/en/publications/silc/silc-analysis-social-situation-and-protection-belgium-2021-en.pdf

[103] European Commission, Peer Review on "Social Activation and Participation", February 2021. See: https://ec.europa.eu/social/main.jsp?langId=en&catId=1024&furtherNews=yes&newsId=9892

[104] EUROMOD Working Paper Series, Financial work incentives and the long-term unemployed: the case of Belgium, January 2018. See: https://www.econstor.eu/bitstream/10419/197568/1/1025281357.pdf

[105] https://www.indicators.be/en/i/G01_GMI/Guaranteed_minimum_income_beneficiaries_%28i04%29

activation is typically part of a wider set of labour market activation policies, it is distinct from labour market activation in that it first seeks to support the social inclusion of people who are not (yet) able to work. For those individuals who may be very far from the labour market, stabilisation of the life situation (i.e. preventing further exclusion and isolation) should therefore be viewed as a success, and a secure income is important to securing this stabilisation as it allows people to take part in activities that are meaningful and help to develop their social skills and allow them to enter the labour market at the appropriate opportunity.[106]

There are issues with evaluating the success of Belgium's labour market policies as, in most cases, no specific data on the participation of integration income beneficiaries in active labour market policies are collected. However, an evaluation has shown that in 60% of cases, there is a positive outcome associated with the integration plans, but that success depends on the objectives agreed in the plans. Moreover, there is a great variety in the way plans are implemented by PCSWs and practices differ considerably.[107]

Uptake of the Integration income at 88% is well above the EU average. However, there is still a desire to boost take-up further. Research by the Federal Public Service (Social Security) has suggested that "proactive allocation" is one suggested way to limit non-take-up. Proactive allocation occurs when "the right to welfare support is opened fully automatically without any prior request from the potential beneficiary." Belgium currently employs proactive allocation for several derived benefits, but the research suggested that proactive allocation may not be effective for non-derivative means-tested benefits.[108]

In order to increase take-up of the benefit, Belgium plans to use the 'CPAS online' tool in 2024, which will be an online platform where individuals can submit requests for integrated income. This makes it easier for people to be informed about their benefit qualifications and creates easier access when applying.[109]

Interview findings

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[106] European Commission, Peer Review on "Social Activation and Participation", February 2021. See: https://ec.europa.eu/social/main.jsp?langId=en&catId=1024&furtherNews=yes&newsId=9892

[107] European Commission, The 2022 Minimum Income Report – Volume II: Country Profiles, October 2022. See: https://ec.europa.eu/social/BlobServlet?docId=26196&langId=en

[108] Federal Public Service – Social Security, The non-take-up of social assistance in Belgium: policy proposals, June 2022. See: https://socialsecurity.belgium.be/sites/default/files/content/docs/en/belmod/eindrapport_belmod_en.pdf

[109] Belgian Presidency: Council of the European Union, Minimum income: EU member states consider the future of European social protection, January 2024. See: https://belgian-presidency.consilium.europa.eu/en/news/minimum-income-eu-member-states-consider-the-future-of-european-social-protection/#:~:text=Member%20states%20explored%20actions%20to,for%20all%20those%20in%20need.

During our conversation with civil servants in Belgium, the following key points were stressed:

- Belgium Integration Income is effective, separate to the formal social security system that functions on a broadly social-insurance model. While this does simplify the administration of the scheme, it can lead to confusion when interacting with other areas of social security – especially as there are specific minimum incomes for disabled people and low-income pensioners within the 'formal' social security system.
- The minimum income scheme is administered at the local level. One of the major benefits of the decentralised approach is that it allows for more personalised assistance and integration into local communities with a continuous relationship built with one social worker. While the primary purpose is labour market reintegration, personalised assistance is also recognised where there may be major barriers to work, and the Integration Income scheme seeks to address these by offering integration programs beyond financial assistance and active labour market policies, such as housing support, addiction support, mental health counselling, and language courses for refugees.
- A major challenge of these initiatives is that they are typically set to last for a year, and individuals who are deemed 'lower risk' may not be placed onto schemes as it is not seen as viable to place them onto a course that they will not complete – even if that support would be beneficial. This is mostly a problem in larger local areas, where the nature of individualised support tends to focus on those with the most prominent integration issues. There was a recognition of the opportunity cost of this and why those deemed lower risk may more quickly be able to be integrated into the labour market. The lack of associated integration could lead to issues recurring.
- A major challenge of the integration income has been the societal stigma attached to it, partly because of its separation from the formal social security system. Social security benefits are often viewed as entitlements earned through work and contributions to the system. At the same time, recipients of minimum income support may face stigma or negative stereotypes regarding their financial situation or willingness to work.
- The scheme is frequently evaluated thematically. Evaluations often focus on specific aspects or themes within the scheme, such as the integration of students, support for refugees, or the effectiveness of activation programs. These evaluations delve deeper into particular areas of interest, providing insights into program effectiveness and areas for improvement. Evaluation priorities may be influenced by the preferences and priorities of the responsible minister overseeing the scheme. For example, if there are recent policy changes or emerging issues, evaluations may be directed towards assessing the impact of these changes. However, robust evaluation of the scheme was a major challenge due to limited resources for comprehensive evaluations, bureaucratic hurdles, and the complexity of measuring social outcomes. Additionally, assessing long-term impacts, such as improved socio-economic outcomes for beneficiaries, may require longitudinal studies and data linkage with other social and economic indicators.

- In recognition of some of the challenges with the system, it was explained that two key areas of future reform would be taken forward:
  1. One major issue is that of a “cliff edge” within the system, where individuals lose all support once they earn above a certain threshold. In effect, it is only possible to work one day a week before support is lost. There's a recognition that this system can create disincentives to work, and that reform is needed to ensure that people are not penalised for transitioning out of the system through the introduction of a taper.
  2. There's a push to simplify administrative procedures for both beneficiaries and social workers. The aim is to reduce bureaucratic burdens and make access to the integration income more straightforward, for example, by allowing applications to be online, not just in person. In addition, initiatives like the “only once principle” are to be implemented where individuals are not asked for information already held by the Government, and efforts to minimise unnecessary documentation requirements. There's an acknowledgement of the administrative burden faced by social workers and a desire to make their jobs easier. Simplifying processes not only benefits beneficiaries but also improves efficiency within the social welfare system.

Sweden: Social Assistance

Policy overview

Sweden’s social assistance (SA) – ekonomiskt bistand – operates as a benefit of last resort for low-income families and individuals. Eligibility for the benefit requires that applicants have no other way to support themselves and have exhausted all other benefit options. The SA supports individuals with insufficient access to work income as well as those who lack contributory social insurance benefits. Anyone who has the right to stay in the country is eligible for the benefit, including refugees and asylum-seekers.

In 2020, about 374,000 people (3.6% of the Swedish population / 5.6% of the working-age population in Sweden) received SA.[110] The Swedish SA cost 11.6 billion SEK in 2021.[111]

SA is means-tested and based on the previous month’s household income including assets, with local authorities ultimately responsible for determining the eligibility based on an assessment of social workers. Applicants are required to submit their application each month. People are eligible to receive SA long-term as there is no limit on the duration in which an individual can receive SA.

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[110] European Commission, The 2022 Minimum Income Report – Volume II: Country Profiles, October 2022. See: https://ec.europa.eu/social/BlobServlet?docId=26196&langId=en

[111] Ake Bergmark and Hugo Stranz, A safety net for all? – Vignette-based assessments of Swedish social assistance over three decades, *Journal of Social Policy,* March 2023. See: https://www.cambridge.org/core/journals/journal-of-social-policy/article/safety-net-for-all-vignettebased-assessments-of-swedish-social-assistance-over-three-decades/59D4D5CE34BF069DCB666607CDD7BF6A

Eligibility is assessed at the household level on the basis of a “nuclear family” – parents and their children. The level of SA which the household receives is based on the number of people in the household, the age of the children and whether the adults are single or co-habiting. Housing costs tend to be completely covered by SA. Municipalities will additionally step in to decide on and distribute additional support including for accommodation, electricity, work travel, home insurance, trade union membership, and unemployment insurance fund membership costs.

Swedish municipalities are responsible for the financing, assessments of eligibility, and distribution of the benefit. However, national institutions also play an important role. In particular, the Swedish Consumer Agency has a key role in calculating the “reasonable living costs” which are then used to assess the benefit level and set a minimum standard under which no one should be able to drop below. The “reasonable living costs” is automatically indexed but adjusted annually according to changes in consumer prices.

Policy evaluation

Originally, SA was aimed at preventing poverty. However, this aim has shifted over time to now include programs which activate and reintegrate people within the labour market. There is a strong emphasis on labour market attachment, however determining whether an application should be considerate able to work and should participate in a labour market activation programme is done on a discretionary basis. There is a recommendation that SA claimants receive a wider and more detailed screening of the underlying circumstances for claiming SA to identify appropriate support measures at an early stage and to set adequate requirements on the people concerned. However, there is no overarching regulation of the individual needs assessment, but a multidimensional perspective is recommended by the National Board of Health and Welfare, particularly if dependency is considered to be long-lasting. Similarly, there is no legal obligation on social services to establish an individual action plan based on these assessments, but such plans are used in many municipalities and individual action plans are often established within three months.[112]

For those who are able to work, there is a requirement to actively look for work, be registered with the public employment service, accept available job offers, and participate in national labour market programmes or other municipal activation measures. A high degree of autonomy granted to municipalities to take different approach to local labour market activation. For example, some do not take a wholly ‘job first’ approach and instead focus on measures aimed at preparing recipients to participate in the active labour market policy programmes of the public employment services. Other municipalities have established ‘one-stop-shops’ focusing on specific user groups to offer tailored support, such as budget and debt counselling and language courses and bringing other public and social services into one place.

[112] European Commission, European Social Policy Network (ESPN) Thematic Report on minimum income schemes: Sweden, October 2015. See: https://ec.europa.eu/social/BlobServlet?docId=15169&langId=fi

Evaluations of such local programmes are scarce, but generally report weak effects on employability and self-sufficiency.[113]

Sweden's approach to labour market activation could be categorised as both a 'carrot and stick' approach. The 'carrot' takes the form of SA claimant qualifying for activity grants, and receive SA as a top-up to ensure the still meet the "reasonable living costs". In addition, individual's that have received SA for a period of six consecutive months are entitled to have 25% of their earnings from employment exempted (for a period of up to two years). The 'stick' takes the form of failure to comply with these work-related requirements resulting in the complete withdrawal of, or a temporary reduction in, benefits.[114]

A major shortcoming in assessing Sweden's SA and activation system is the lack of data, largely as a result of the municipal variation. A European Commission assessment found three areas where data collection would be important to improve evaluation:[115]

- Evaluations of national active labour market policies do not make a distinction between recipients of SA and recipients of unemployment benefits. As a result, no data is available on the number of SA recipients who participate in active labour market policy programmes.
- There is no data on the number of SA recipients receiving an individual action plan.
- No data is available on the number of recipients using such personalised services provided to SA recipients.

Despite this lack of data, Sweden established dedicated Institute for Evaluation of Labour Market and Education Policy (IFAU) in 1997 with the aim to improve Swedish active labour market policy by publishing research and policy proposals based on administrative data. The Swedish authorities also work with IFAU researchers to embed evaluations into the design of programmes they are piloting. For example, there is currently a trial different payment schemes for outside providers in a pilot programme of contracted-out employment services.[116]

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113 European Commission, European Social Policy Network (ESPN) Thematic Report on integrated support for the long-term unemployed: Sweden, May 2015. See: https://ec.europa.eu/social/BlobServlet?docId=14282&langId=en#:~:text=The%20most%20common%20benefit%20for,(~%20%E2%82%AC34)%20per%20day.

114 European Commission & OECD, Note on options to strengthen employment services and activation programmes in Sweden, January 2022. See: https://www.oecd.org/els/emp/Options%20to%20strengthen%20employment%20services%20and%20activation%20programmes%20in%20Sweden.pdf

115 European Commission, The 2022 Minimum Income Report – Volume II: Country Profiles, October 2022. See: https://ec.europa.eu/social/BlobServlet?docId=26196&langId=en

116 OECD, The role of Public Employment Services and active labour market policies during the COVID-19 crisis and recovery, March 2023. See: https://www.oecd-ilibrary.org/sites/eace3061-en/index.html?itemId=/content/component/eace3061-en#back-endnotedee52e7eec6

Sweden's SA take-up rate is 93%, one of the highest in the EU. Sweden's high take-up rate can be attributed to a few good practices which Sweden has integrated in its SA scheme. Firstly, social workers must help people in the application process and most municipalities have special application forms which can either be submitted in-person or digitally. Secondly, it typically takes less than two weeks for a claimant's application to be processed and for them to receive an interview with a social worker.[117]

The non-take-up rate in Sweden is potentially raised because of the individual assessment for eligibility and high sanctions if one does not uphold the eligibility requirements which can deter people from taking up the benefit. Take-up of SA in Sweden mostly occurs among young adults or migrants which are both typically in transition periods with regard to the labour market. This is largely due to the nature of SA as a temporary benefit of last resort. The most typical characteristics of beneficiaries include "lower educational qualifications, long-term unemployment, living alone and lone parenthood".[118] As a result, SA is not seen in the same terms as contributory elements of the Swedish welfare system, with SA associated with high stigma and comparatively less popular support than the Swedish welfare system at large.[119]

Though there is a high take-up rate amongst those who are eligible for the benefit, Sweden still has high eligibility barriers. An academic study has found that over 25% of applications for SA are declined. In addition, many of those in receipt of SA get significantly less than what they applied for. This same report suggests that the demand for SA has only grown over recent years with increased unemployment, increased poverty, and decreased generosity among other benefits.[120]

Sweden also compares differential to other 'Nordic Model' welfare systems. A comparative analysis between the social assistance schemes of Sweden and Finland found that although Finland showed much higher receipt rates than Sweden, the Swedish income and population structure produced higher eligibility rates and higher average benefits. This was explained by lower income levels at the bottom of Sweden's income distribution and SA often the main income for

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[117] European Commission, The 2022 Minimum Income Report – Volume II: Country Profiles, October 2022. See: https://ec.europa.eu/social/BlobServlet?docId=26196&langId=en

[118] Jussi Tervola et al., Smaller net or just fewer to catch? Disentangling the causes for the varying sizes of minimum income scheme, *International Journal of Social Welfare*, August 2022. See: https://onlinelibrary.wiley.com/doi/full/10.1111/ijsw.12553

[119] Ake Bergmark and Hugo Stranz, A safety net for all? – Vignette-based assessments of Swedish social assistance over three decades, *Journal of Social Policy,* March 2023. See: https://www.cambridge.org/core/journals/journal-of-social-policy/article/safety-net-for-all-vignettebased-assessments-of-swedish-social-assistance-over-three-decades/59D4D5CE34BF069DCB666607CDD7BF6A

[120] Ake Bergmark and Hugo Stranz, A safety net for all? – Vignette-based assessments of Swedish social assistance over three decades, *Journal of Social Policy,* March 2023. See: https://www.cambridge.org/core/journals/journal-of-social-policy/article/safety-net-for-all-vignettebased-assessments-of-swedish-social-assistance-over-three-decades/59D4D5CE34BF069DCB666607CDD7BF6A

recipient households. In Finland, however, the average amount paid in social assistance benefits in Finland was comparatively low because other concurrent benefits increased recipients income.[121]

Interview findings

During our conversation with civil servants in Sweden, the following key points were stressed:

- On average, individuals receive SA for approximately 7.3 months. However, a significant portion of recipients, around 43%, are on long-term assistance (ten months or more), which poses challenges for both individuals and society, particularly in households with children.

- This long-term dependency on SA is often linked with significant personal or families circumstances, such as substance abuse, health problems, and low educational attainment. Efforts are being made to address these challenges, including providing support for rehabilitation and addressing health issues to facilitate reintegration into the workforce. However, there is a lack of consistency in how municipalities provide this support.

- The strong incentive to move individuals into work is drive not only to improve their economic position through work, but also to ensure they better protected in the future. Other welfare benefits, such as insurance-based unemployment benefits received, often provide higher levels of support compared to SA.

- There is also a social stigma associated with receiving SA. In particular there is a strongly embedded cultural perception that benefits tied to personal contributions are more socially acceptable than those provided as SA. This often has a negative impact on the self-esteem and motivation of those on SA.

- There are plans to reform the SA system in the future, in particular to address the issue of long-term dependency. This involved a reassessment of the annual national standards and exploring the concept of a benefit ceiling – in particular to cap the support provided to larger families. Moreover, there is a desire for a greater robustness in ensuring receipt of SA is better aligned with reintegration programmes that are preventative in nature to reduce long-term dependency and individuals have access to staff with specialist training. Here, there was a recognition of the importance of consistency in service providers to build relationships and provide effective support, though challenges exist in achieving this consistently across different municipalities.

[121] Jussi Tervola et al., Smaller net or just fewer to catch? Disentangling the causes for the varying sizes of minimum income scheme, *International Journal of Social Welfare*, August 2022. See: https://onlinelibrary.wiley.com/doi/full/10.1111/ijsw.12553

Targeted Minimum Income Guarantee-type schemes

Malta: Tapering of Benefits scheme

Policy overview

In 2014, the Maltese Government introduced a series of active labour market policies as part of a 'Making Work Pay' initiative.[122] One of these initiatives was a Tapering of Benefits (TOB) scheme applied to Malta's three main unemployment benefits – Unemployment Assistance (UA), Social Assistance (SA) and Social Assistance for Single Unmarried Parents (SUP).

The TOB scheme is targeted at individuals who are mid- to long-term unemployed and are able to work but lack the incentive to do so given low pay in entry-level roles and/or the insufficiency of employment earnings in the cost of raising children.

Under the TOB scheme, the payment of unemployment benefits to working beneficiaries is tapered over time rather than on the basis of earnings. Upon finding full-time employment, an individual who has benefitted from one of the three main unemployment benefits (SA, UA, SUP) for at least 24 months in the last 36 months is entitled to receive a non-taxable percentage of their last benefit rate paid in arrears every four weeks according to the following time-based taper:

- 75% of last benefit rate for the first year;
- 55% of last benefit rate for the second year; and
- 35% of last benefit rate for the third year.

The TOB scheme was designed with a time-based taper to prevent a 'benefit trap' by incentivising and supporting their entry/re-entry into the workplace – especially in entry-level jobs – as well as supplementing the earned income of families and individuals at risk of poverty.

This design reflected that entry-level jobs are often relatively low paying and insufficient on their own to incentivise those who are mid- or long-term unemployed to enter the workforce. Therefore, the Tapering of Benefits scheme was designed to address this market failure by providing a top-up that functions as an incentive for people to take up an entry-level job and then progress from there.

Policy impacts

The TOB scheme's primary aim was to help people avoid a 'benefit trap' by supporting and incentivising their entry/re-entry into the workplace. When assessed against this aim, the scheme has proven highly successful in helping people who are able to work get back into work.

[122] Maltese Government, National Strategic Policy for poverty reduction & social inclusion: Implementation & Evaluation Report 2014 – 2016, November 2017. See: https://familja.gov.mt/wp-content/uploads/2023/04/Implementation-and-Evaluation-Report-2014-2016.pdf

Five years after the scheme's introduction, the number of employment benefit recipients fell dramatically: SA claimants fell from 10,784 to 6,840, and UA claimants fell from 4,330 to 766. Almost half of the reduction in unemployment benefit recipients is captured in the year-on-year increase in the number of TOB scheme claimants – from 0 to 1,958 – and in-work benefit claimants (introduced alongside the TOB scheme), which increased from 0 to 4,514.[123]

The TOB scheme has also had a positive impact on increasing female labour market participation – with two-thirds of those benefiting from the TOB scheme being women – and long-term unemployment also fell much more strongly than short-term unemployment, indicating that the TOB scheme was effectively implemented in a way that avoided a 'benefit trap'.[124]

Results from a formal household survey survival analysis conducted by the Bank of Malta sheds further light on the impact of the TOB scheme of employment:[125]

- The TOB doubles the probability of finding a job among those eligible for the scheme.
- The TOB was most successful in incentivising lone parents to enter the workforce, with the rate of job-finding more than doubling following the introduction of the TOB.
- Among those claiming the most basic type of benefit (SA), the effect is less at 1.68, indicating that the TOB alone cannot address specific medical and health issues that function as barriers to labour participation for some individuals (though important to note that this group was not a main target of the policy).

Policy evaluation

Overall, Malta's TOB scheme has proven to be highly effective in incentivising people, especially female lone parents, into or back into work; two-thirds of those benefiting from the TOB scheme are women.[126]

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[123] European Commission, Peer Review on "Ensuring adequate assistance for those most in need (Minimum Income)" – Malta, February 2019. See: https://ec.europa.eu/social/BlobServlet?docId=20755&langId=en

[124] Bank of Malta, The characteristics associated with the short and long-term unemployed in the Maltese labour market, August 2021. See: https://www.centralbankmalta.org/site/Publications/Economic%20Research/2021/policy-note-unemployment-duration.pdf?revcount=8434

[125] Bank of Malta, The Impact Of Malta's Tapering Of Benefits Scheme On Employment, December 2023. See: https://www.centralbankmalta.org/site/Reports-Articles/2023/WP-07-2023.pdf?revcount=3500

[126] European Commission, Peer Review on "Ensuring adequate assistance for those most in need (Minimum Income)" – Malta, February 2019. See: https://ec.europa.eu/social/BlobServlet?docId=20755&langId=en

A major factor in the success of this targeting was the importance the Maltese Government placed on ensuring a thorough scoping and profiling exercise was carried out to identify those individuals and families who would benefit most from the scheme ahead of its introduction as well as directly involving social partners to support the development, promotion and implementation of the scheme.[127] Through this scoping exercise, the main beneficiaries were found to be those people already on social assistance and unemployed, single parents, especially women with children under 16 years of age. In line with the design of the TOB, take-up rates were particularly high among single parents – especially women with children under the age of 16.

While no formal cost-benefit analysis has been conducted of the TOB scheme, an independent evaluation commissioned by the Maltese Ministry for Social Policy and Children's Rights found that the TOB scheme has:[128]

- Played a key role in ensuring that there is a strong financial incentive to take up full-time employment, with Malta having an effective participation tax rate of 45% – the best PTRs in the EU. This particularly explains why Malta has seen a reduction in overall unemployment and the number of unemployment benefit claimants since the introduction of the TOB scheme.

- Proven to be an effective scheme in keeping beneficiaries attached to the labour market, with a very high percentage of these beneficiaries – 87% – remaining in employment after exhausting the three-year period of the scheme. This indicates that the TOB's work incentive extends into the medium-term by supporting people to improve their earnings.

The TOB scheme was designed in part to help incentivise longer term unemployed individuals into entry-level roles, which were considered too often to be low-paid, low-skill roles. However, the Bank of Malta's assessment found that the impact of the TOB on finding and sustaining employment was strongest for individuals entering professional and skilled roles, who were twice as likely to flow into employment when compared to those entering low-paid and low-skill roles. The TOB could be seen, therefore, as encouraging people to find 'good' work and that a 'skills premium' is at play in how the scheme incentivises labour market reintegration. The Bank of Malta assessment concluded that this could be further supported by policymakers focusing on long-term strategies to improve educational outcomes and labour market quality.[129]

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[127] European Commission, Peer Review on "Ensuring adequate assistance for those most in need (Minimum Income)" – Malta, February 2019. See: https://ec.europa.eu/social/BlobServlet?docId=20755&langId=en

[128] Seed Consultancy, National study on the adequacy of Unemployment Benefits in Malta, November 2022. See: https://socialsecurity.gov.mt/wp-content/uploads/2022/12/Adequacy-of-Unemployment-Benefits-Final-Report.pdf

[129] Bank of Malta, The Impact Of Malta's Tapering Of Benefits Scheme On Employment, December 2023. See: https://www.centralbankmalta.org/site/Reports-Articles/2023/WP-07-2023.pdf?revcount=3500

Evaluating the TOB scheme comes with two important caveats:

1. Firstly, the TOB was introduced as part of a broader package of measures as part of the 'Make Work Pay' initiative. These included free childcare for working parents, Breakfast Clubs, tax incentives for those entering work and an in-work benefit. As a result, it makes it difficult to fully disentangle the impact of the TOB from other policies and it's likely there are dynamic and supporting impacts at play. However, Malta's complete package is important for understanding how social security reform, labour market activation and the provision of essential services / reducing household costs interact with one another.

2. Secondly, implementing the TOB scheme (and other 'Make Work Pay' initiatives) occurred during a period of strong economic growth in Malta, which created many new labour market opportunities. A Maltese peer review of the TOB scheme for the European Commission concluded that an understanding of general economic conditions was critical when assessing the transferability of Malta's schemes. This review suggested that in less favourable economic climates, there is a significant risk of a possible yo-yo effect whereby beneficiaries return to benefit dependency after the expiry of the tapering period.[130]

Interview findings

During our conversation with Maltese civil servants, the following key points were stressed:

- As part of the Tapering of Benefits scheme, it was outlined that employers also benefit from the scheme – in the form of a payment equivalent to 25% of the social assistance. This involvement of employers was seen as crucial, as they play a vital role in facilitating the transition to employment and helping manage any associated risk of taking on individuals who have been long-term unemployed. This engagement was seen as being relatively smooth, although it was noted that Malta did receive some criticism from the European Union for engaging employers so closely in matters of social policy. However, it was explained that this was a nationally funded scheme and ultimately up to the Maltese Government to determine the best policy design to support successful outcomes. In the opinion of the Maltese civil servants, for the scheme to have positive outcomes, engagement with employers was crucial, in particular, to help beneficiaries who may be low-skilled when they enter employment be upskilled by the employer they join.
- While the success of the Tapering of Benefits scheme could be seen through the high number of beneficiaries who remain employed after the three-year tapering period (around 80%), it was stressed that introducing

[130] European Commission, Peer Review on "Ensuring adequate assistance for those most in need (Minimum Income)" – Malta, February 2019. See: https://ec.europa.eu/social/BlobServlet?docId=20755&langId=en

benefit changes alone in achieving a Minimum Income Guarantee would not lead to optimal outcomes. The importance of introducing the Tapering of Benefits scheme alongside other 'Make Work Pay' policies that addressed costs and access to services was stressed.

- Prior to the 2014 reform, there was limited inter-ministerial interaction. The introduction of these reforms led to radical reform in how Malta approaches social policy reform through a more joined-up approach that brought together various ministries and non-government stakeholders who are critical to the delivery of the policies. There are now monthly meetings of relevant ministries and departments who administer the schemes to assess development and isolate any key issues. Here, an important observation was made that 'good governance' lies at the heart of delivering widespread reform that was, initially, not well received. Increasing the effectiveness of their delivery and joining up various objectives and goals has bolstered the efficiency of the schemes and public support for them.
- Part of the success of the Maltese Tapering of Benefits has been the use of technology to simply the system. This was especially important given the time and resource constraints on civil servants, so simplified systems not only benefit recipients but those responsible for delivering the system. Despite some initial challenges, Malta was able to fully automate the system of locating eligible individuals and administering the TOP scheme automatically in 2022. It was, however, stressed that Malta was able to speed up the automation process due to the small number of social security claimants, both in terms of number of individual cases and relative to the overall population – which itself is relatively small compared to other European countries. Overall, what was important, where automation may not be possible, was leveraging technology to manage resources efficiently and maintain the integrity of the social security system.

Poland: 'Family 500+' child allowance

Policy overview

Poland's 'Family 500+' child allowance was introduced in 2016 as the centrepiece of a package of policies designed to increase fertility rates and eliminate child poverty. At its introduction, the 'Family 500+' benefit provides a non-taxable cash transfer of 500 PLN (around £100) for each second and subsequent child in the family and the same amount for the first child in families with incomes under 800 PLN per family member. At the time of the introduction of the 'Family 500+', the benefit has very wide coverage, supporting 2.74 million families, compared to 1.04 million families for standard means-tested benefits.[131]

[131] Institute for Structural Research, The "Family 500+" child allowance and female labour supply in Poland, March 2018. See: https://ibs.org.pl/app/uploads/2018/03/IBS_Working_Paper_01_2018.pdf

The level the benefit was set at is relatively generous – at around a third of Poland's minimum wage.[132] However, despite evidence that child-rearing is most costly for lone parents and that the cost of child-rearing increases with a child's age, the structure of the 'Family 500+' benefit does not provide for a higher rate of pay for lone parents, and nor does it scale with age.

Since its introduction, the benefit has undergone two important changes:

In July 2019, this income condition was removed, making the benefit fully universal for households with children. Since July 2019, 'Family 500+' has effectively functioned as a non-means tested, unconditional Minimum Income Guarantee for families with children.

From January 2024, the payment level increased from 500 PLN to 800 PLN (an increase from around £100 to £160) – with the policy subsequently rebranded as 'Family 800+'.

Policy impacts

The rollout of the 'Family 500+' benefit has been highly successful in targeting and eliminating child poverty. An analysis conducted by the LIS Cross-National Data Centre found that within just one year of the introduction of the 'Family 500+', Poland saw[133]:

- A sharp decline in overall poverty rates from 14% in 2015 to under 5% in 2017.
- A very large fall in poverty rates for lone parents with 2+ children of around 20 percentage points.
- The near-elimination of extreme child poverty.

Formal difference-in-difference analysis by the LIS Cross-National Data Centre further indicates that:

- Poverty risk (both in terms of objective poverty measurement and subjective financial wellbeing) is 14 percentage points less for households that received the 'Family 500+' benefit compared to those that did not.
- Among low-educated households with children, the poverty risk was 20 percentage points lower for those receiving 'Family 500+' compared to those who were not.

[132] Institute for Structural Research, The "Family 500+" child allowance and female labour supply in Poland, March 2018. See: https://ibs.org.pl/app/uploads/2018/03/IBS_Working_Paper_01_2018.pdf

[133] Luxembourg Income Study, Inequality, poverty and child benefits: Evidence from a natural experiment, July 2020. See: https://www.econstor.eu/bitstream/10419/228350/1/1726183076.pdf

Although the poverty impact of the policy is substantial, the rollout of the ‘Family 500+’ led to concerns that would-be beneficiaries would reduce their working hours to ensure that their earnings were below the initial income threshold for one-child households. While these concerns appear to have motivated the removal of the one-child income threshold in 2019, formal retrospective analysis indicates that this was not a significant issue.[134]

However, research by the Institute for Structural Research found that the ‘Family 500+’ has had a significant adverse effect on labour market participation rates among women with children. Difference-in-difference analysis indicates that the introduction of the policy resulted in a 2.4% decrease in labour market participation among women with children, with a particularly strong effect on women with lower education levels and those living in more rural areas.[135]

Policy evaluation

Overall, the ‘Family 500+’ benefit has been successful in achieving its aim of drastically reducing child poverty in Poland. Not only has it led to the near-elimination of extreme child poverty, but it has also resulted in a substantial reduction in overall child poverty and, therefore, poverty at the population level. However, the programme has proven to be poor value for money with respect to achieving this aim, with one study estimating that extreme child poverty could be eliminated with just 12% of the total funds allocated to the ‘Family 500+’.[136]

The reduction in child poverty has come at considerable cost to both Poland’s labour market and public finances:

In terms of labour market participation, the lack of work incentive and income threshold has led to around 100,000 women exiting the labour market in the first half of 2017 alone. It has been estimated that the labour force participation and employment of eligible mothers would have been between 2.5 and 3% higher by mid-2017 in the absence of the programme. This stands to negatively impact Poland’s economy and increase the cost of the ‘Family 500+’ programme in the longer term, given lower tax revenues and social security contributions.[137] However, this reduction in female labour market participation should be understood in the context of increasing fertility rates being a stated aim and thus this outcome was

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[134] Luxembourg Income Study, Inequality, poverty and child benefits: Evidence from a natural experiment, July 2020. See: https://www.econstor.eu/bitstream/10419/228350/1/1726183076.pdf

[135] Institute for Structural Research, The “Family 500+” child allowance and female labour supply in Poland, March 2018. See: https://ibs.org.pl/app/uploads/2018/03/IBS_Working_Paper_01_2018.pdf

[136] Civic Development Forum, "Family 500+" - program evaluation and proposed changes, May 2019. See: https://for.org.pl/en/publications/for-reports/report-family-500-program-evaluation-and-proposed-changes

[137] Institute for Structural Research, The “Family 500+” Child Allowance and female labour supply in Poland, March 2018. See: https://ibs.org.pl/app/uploads/2018/03/IBS_Working_Paper_01_2018.pdf

anticipated by the Polish Government, with the policy designed to provide adequate support for mothers to ensure their children did not live in child poverty.

In terms of public finances, Before the 2019 removal of the one-child income thresholds, 'Family 500+' cost around 22 billion PLN (approximately 1.1% of GDP) per year. The 2019 extension of the programme is nearly twice as expensive, with an additional cost of 18.3 billion PLN per year. 'Family 500+' therefore now accounts for about 2% of GDP.[138] By April 2023, 223 billion PLN has been spent on the programme since its introduction.[139]

In addition, there are issues with the universalism of the scheme. It has been estimated that the bottom quintile of households accounts for 42% of the programme's spending, meaning that the bulk of the money spent on a poverty reduction scheme is given to households who are not at risk of poverty.[140] To this end, the 'Family 500+' may inadvertently increase inequality in the long-term, since higher earning recipients are likely to invest this child benefit in higher quality school and extracurricular education.

There are also additional administrative costs and complications for recipients that result from the creation of a second benefit system that is entirely separate from the main means-tested structure. An early academic assessment of 'Family 500+' suggested that there was a case for combining elements of the 'Family 500+' programme with pre-existing family benefits into an integrated family benefit as a way to improve the efficiency of the system for both recipients and administrators.[141]

Interview findings

During our conversation with Polish civil servants, the following key points were stressed:

- The Family 500+ was introduced as Poland lacked a targeted policy to address child poverty and support the Government's desire to increase the birth rate. It was stressed that although the scheme was not a Minimum Income Scheme in that it was not a last resort benefit, it did provide a minimum level to families with children. On those terms, the policy has been successful in reducing child poverty.
- While academic assessments raised the administrative complications of the 'Family 500+' scheme and the effective creation of a two-tier benefit system,

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[138] Centre for Economic Analysis, From Partial to Full Universality: The Family 500+ Programme in Poland and its Labor Supply Implications, October 2019. See: https://www.ifo.de/DocDL/dice-report-2019-3-myck-trzci%C5%84ski-october_0.pdf

[139] https://www.gov.pl/web/family/poland-of-happy-and-safe-families-7-years-with-the-family-500-programme

[140] Centre for Economic Analysis, The impact of the "Family 500+" programme on household incomes, poverty and inequality, 2017. See: https://ideas.repec.org/p/osf/socarx/vkr6h.html

[141] Centre for Economic Analysis, The impact of the "Family 500+" programme on household incomes, poverty and inequality, 2017. See: https://ideas.repec.org/p/osf/socarx/vkr6h.html

civil servants did not recognise this as the case. They stressed that the 'Family 500+' has led to a decrease in the number of families with children accessing the Polish social assistance scheme. As a result, the Polish social assistance scheme allows it to more effectively target other demographic groups who are in need. The 'heavy lifting' for low-income families with children is now being done via the Family 500+ policy.

- It was acknowledged there has been an impact on women's participation in the labour market, but despite this a decision has been taken to increase the value of the allowance largely in response to inflation and general economic conditions. This increase ensures that the policy continues to maintain the progress of reducing child poverty, and ultimately, this decision to increase the generosity of the scheme came down to a matter of policy prioritisation.

Lessons from existing Minimum Income Guarantee-type policies

This chapter brings together the evaluations of the case studies from the previous chapter into common policy lessons to consider before introducing a Minimum Income Guarantee. We have identified seven key policy lessons to consider that are observable across different countries and typologies of Minimum Income Guarantee-type policies. These are summarised in **Table 6** as well as explored in greater detail below.

Table 6: Summary of key policy lessons from case study analysis

Policy lesson	Analysis	Key supporting case study
Minimum Income Guarantee schemes are effective at tackling deep poverty, but challenges exist around the impact on 'shallower' forms of poverty	Many of the Minimum Income Guarantee-type policies have been largely successful in eliminating – or dramatically reducing – extreme or deep poverty. However, policy design challenges mean that Minimum Income Guarantee-type policies have often not made significant headway in reducing 'shallower' forms of poverty.	Spain Italy Poland
Work incentives for those who can work are important	The lack of sufficient work incentives can inadvertently result in the creation of a benefits-trap, or can lead to labour market distortions that undermines the impact of a Minimum Income Guarantee. Getting the work incentives aspect of a Minimum Income Guarantee right is important for ensuring people who can work are moved into sustainable, well-paid employment.	France Sweden Malta (for unique approach to tapering) Spain (for lack of conditionality)
Activation within a Minimum Income Guarantee should be understood as not just about labour market activation but broader social inclusion	A Minimum Income Guarantee that takes primarily a 'job first' approach to activation can be detrimental and can overlook addressing important barriers that may prevent an individual entering the work place. A key goal of activation should be a focus upon of 'social inclusion', that ensure people have the right language skills and support for personal / social problems.	Belgium Sweden Netherlands
Allowing a significant role for local institutions can	A successful Minimum Income Guarantee will be have overall	Netherlands

improve the effectiveness of the Minimum Income Guarantee	direction and policy development of a set a national level, with the delivery and administration was largely done on a localised basis to allow support to better meet local need and be tailored accordingly. There are tensions within this trade-off, however. Granting a high-level of autonomy to local actors can lead to very different approaches being taken, but often with similar outcomes and challenges.	Sweden France (for policy failure)
Ensuring the Minimum Income Guarantee is effectively targeted can make a difference to success against aims	Understanding of the target population of a Minimum Income Guarantee is critical to its success, even if a Minimum Income Guarantee policy is intended to be universal it is still imperative that specific at-risk populations are kept in mind as the policy is designed. During the policy development phase, conducting a thorough scoping and evidence review ahead of implementation can help identify important groups.	Spain Malta Poland (for issues with universalism within a target demographic)
Success is contingent on the level of take-up	The impact of Minimum Income Guarantee schemes depends on the rate of take-up. While strict eligibility and conditionality criteria can play a role in lowering take-up, a lack of strict conditionality is not a guarantee of high levels of take-up. Administrative barriers can affect take-up rates, requiring continual reform and adjustment to address these.	Sweden Netherlands Spain Poland
The economic climate a Minimum Income Guarantee is operating in should be considered	Favourable economic conditions can reinforce the labour market activation of Minimum Income	Malta Spain Netherlands

	Guarantees, while weak economic conditions may hinder their impact. A Minimum Income Guarantee can mitigate the wider economic climate at implementation, but should be designed robustly enough to mitigate any future economic shocks without negative impacts.	Belgium

Minimum Income Guarantee schemes are effective at tackling deep poverty, but challenges exist around the impact on 'shallower' forms of poverty: Minimum Income Guarantee-type policies have been largely successful in eliminating – or dramatically reducing – extreme or deep poverty. The impact of this should not be downplayed, and significant reductions to deep poverty would be a highly desirable policy outcome that would improve the lived experience for those living in deep poverty. However, there are challenges around how effective Minimum Income Guarantee-type policies have been in tackling 'shallower' forms of poverty, especially when these are a stated policy objective. Largely this is a design challenge, both in terms of the level at which social security payments are set, the conditionality regime applied to these, and how well supported people are to access the labour market where it is required of them to enter employment.

Work incentives for those who can work are important: The lack of sufficient work incentives for those who are able and expected to work limits and undermines the impact of the Minimum Income Guarantee on overall poverty. In the absence of work incentives such as job-finding conditions or – in the case of Malta – time-tapered in-work benefits, the introduction of a Minimum Income Guarantee programme can inadvertently result in the creation of a benefits-trap, or can lead to labour market distortions. This is clear to see in the case of Poland and the adverse impact of female labour market participation, but also in France, where the design of the system has created a 'part-time trap'. Getting the work incentives aspect of a Minimum Income Guarantee right is important for determining the impact of the policy on groups who should benefit the most from a Minimum Income Guarantee, especially in terms of moving people into sustainable, well-paid employment. Importantly, none of the case studies we explored have got this aspect 'right', and different approaches have been taken, even within a particular country, to operating work incentives. Many of the future areas of work discussed with civil servants focused on thinking more firmly on how to reform elements of the Minimum Income Guarantee-type scheme that are designed to incentivise work.

Activation within a Minimum Income Guarantee should be understood as not just about labour market activation but broader social inclusion: Across most Minimum Income Guarantee-type policies, the primary purpose is labour market activation, which explains why getting the work incentives of a Minimum Income Guarantee is so important. However, what was also stressed is that taking *only* an approach to activation that considers labour market reintegration can be detrimental and can overlook addressing important barriers that may prevent an individual entering the workplace. It was clear that a number of countries, mostly within the enabling Minimum Income Guarantee-type schemes but increasingly within other Minimum Income Guarantee typologies, were focusing on the importance of 'social inclusion' as a key goal of activation. Indeed, in the case of Belgium – where there are noted challenges around long-term unemployment – social integration was seen as a vital policy goal in its own terms. Moreover, in Spain, where the conditions are the most limited in the countries we surveyed, a policy choice was made to provide a decent minimum level that enabled the most vulnerable in society to integrate without additional burdens. There is clearly a balance to be struck, but combining labour market access with wider, tailored support allows for a Minimum Income Guarantee to address a number of issues in tandem.

Allowing a significant role for local institutions can improve the effectiveness of the Minimum Income Guarantee: The majority of interviews outlined that, while overall direction and policy development of a Minimum Income Guarantee-type policy is done at a national level, the delivery and administration was largely done on a localised basis. This speaks to a wider point around the greater policy role granted to regional and municipal governments across Europe compared to the UK. In particular, this approach allowed for activation and support services to better reflect the needs of the local population and, through this, allow individually tailored support. The Netherlands and Sweden show that granting a high level of autonomy to local actors can lead to very different approaches being taken, but with similar outcomes and challenges. In addition, most of the locally delivered Minimum Income Guarantee-type policies operated a system of building relationships between individuals and one social worker in order to place trust at the heart of the system. In some countries, this was administratively reflected in a reciprocal agreement between the individual and the support services – even in regimes with a high level of conditionality, this still ensured that cooperation and mutual agreement were paramount. Here, the importance is around fostering good governance and wider public support for Minimum Income Guarantee schemes. However, there is an important trade-off in that while decentralised approaches are more effective in delivering services, control over budgets is often still a national-level competence. The case of France's RSA is a telling example of how leaving local networks underdeveloped by adopting a too rigid, centrally controlled-type system can lead to policy failure on a Minimum Income Guarantee.

Ensuring the Minimum Income Guarantee is effectively targeted can make a difference to success against aims: It is critical that a Minimum Income Guarantee programme is appropriately and effectively targeted. Even if a Minimum Income Guarantee is not specifically categorised as a 'targeted Minimum Income Guarantee-type policy', it is still imperative that specific at-risk populations are kept in mind as the policy is designed. Part of getting this right is the importance of conducting a thorough scoping and evidence review ahead of implementation. In the case of Malta, a pre-implementation assessment was carried out to identify the groups who would benefit most from the TOB scheme, leading to an effective and cost-efficient rollout that resulted in a large increase in employment – and a corresponding reduction in poverty – among the targeted populations of long-term unemployed people and single parents. By contrast, Poland's 'Family 500+' programme has proven to be a highly inefficient tool for achieving its stated objective of eliminating child poverty. Although it is important to emphasise that the 'Family 500+' scheme has had substantial positive effects beyond this stated target, the disconnect between the scheme's target and its implementation has resulted in a perception of wastefulness and inefficiency among both academics and Poland's voting population.

Success is contingent on the level of take-up: All case studies show that the poverty impact of a Minimum Income Guarantee is also contingent on the rate of take-up. This was especially pronounced in the Dutch case, where the Minimum Income Guarantee-type policy's generosity did not cut through to a significant reduction in poverty due to a lack of take-up amongst those groups closest to the poverty line. The Spanish case indicates that take-up rates among families in extreme poverty are not likely to be an issue since their level of need is so great that these people are highly motivated to ensure their access to the scheme. However, the Spanish case also indicates that the existence (real or perceived) of administrative barriers to entry is likely to have a substantial effect on families living in non-extreme poverty and shows how even limited conditionality is not a 'silver bullet' to high levels of take-up if eligibility criteria are complicated to administer. Therefore, for a Minimum Income Guarantee to achieve maximum impact, it is vital that the state provides support to help people navigate potential barriers to entry and that the state has sufficient administrative capacity in place prior to rollout. By contrast, both the Maltese and Polish cases exemplify the large potential returns of securing high take-up rates. In both cases, a very large proportion of the population signed up for these respective schemes, contributing to a more substantial impact on the overall poverty rate than the Spanish IMV.

The economic climate a Minimum Income Guarantee is operating in should be considered: The role of wider economic conditions in determining the effectiveness of a Minimum Income Guarantee programme cannot be understated. In the case of Malta, experts broadly agree that the efficacy of the TOB scheme was bolstered by the favourable economic conditions that existed during its implementation period. The work-incentivising effect of the TOB was supported and reinforced by the incentivising effects of a buoyant labour market and wage growth. By contrast, the implementation of the Spanish IMV appears to have been hindered by a weak labour market and stagnating wages, further reinforcing the lack of work incentives within the IMV. This is not to say that a Minimum Income Guarantee cannot be implemented within less favourable conditions but to recognise the importance of how a Minimum Income Guarantee, through its implementation phase, can mitigate some of these challenging conditions. Moreover, the case of France and the Netherlands highlights the importance of ensuring that any scheme with a keen focus on supporting labour market access for those who are able to work must be matched with a simultaneous focus on reforming the type of work people have access to.

Conclusions and recommendations

In this final section, we bring together the findings from our review of both the economic theory and existing policy implementation to make five broad recommendations that form the key areas that it will be important for the Scottish Government to consider where these lessons need to be considered as a Minimum Income Guarantee is designed, rolled out and evaluated.

Setting appropriate targets to monitor the Minimum Income Guarantee's performance: The overarching policy aim of a Minimum Income Guarantee is to tackle poverty, inequality and financial insecurity and ensure a socially acceptable standard of living that promotes dignity and a decent quality of life. As such, introducing a Minimum Income Guarantee will play a critical role in supporting the Child Poverty Act, which sets out targets to reduce the number of children experiencing the effects of poverty by 2030. Here, it will be vital to ensure, however the Minimum Income Guarantee is designed, a consideration of the impact any changes to the social security system have on the potential to create 'poverty traps' as outlined in the economic literature and a concern raised through evaluations of some existing Minimum Income Guarantee-type schemes.

Moreover, it is important to be realistic about the potential impact of the Minimum Income Guarantee on poverty reduction. Even in countries with relatively generous Minimum Income Guarantee-type policies, there have been issues with the ability of a Minimum Income Guarantee to make significant dents in overall poverty rates – with the clearest impact upon rates of deep poverty. However, the importance of this as a policy objective should not be minimised.

It would be prudent, then, that when setting targets to monitor the impact of the Minimum Income Guarantee against, these should include those targets set out in the Child Poverty Act. However, the Minimum Income Guarantee would benefit from its own objectives that are focused clearly on deep poverty, but also around the broader impacts on people's lived experiences that may improve with the introduction of a Minimum Income Guarantee but may not be captured in overall rates of poverty in Scotland reducing.

The importance of a multifaceted approach to delivering a Minimum Income Guarantee: In addition, as outlined in our Theory of Change and RAG-rating system, there is a high degree of uncertainty around whether a Minimum Income Guarantee that only makes use of a single policy will lead to the desired outcomes. This was also seen in practice, with most countries' approaches to implementing Minimum Income Guarantee-type policies focusing largely on providing a social security floor coupled with activation policies that have often led to unintended consequences or for the policy to fall short of its desired outcomes. The case of Malta clearly demonstrates that while one aspect of a Minimum Income Guarantee can have a high level of impact, this impact cannot be disentangled from other reforms. Moreover, such an approach can provide strong policy certainty for the Minimum Income Guarantee and make the policy less open to being politicised, which may jeopardise the future of the Minimum Income Guarantee – as in the case of Italy's RDC.

Finally, taking a multifaceted approach to implementing a Minimum Income Guarantee allows for the Minimum Income Guarantee to be monitored and evaluated in terms of what various policy areas are having the most impact on meeting the Minimum Income Guarantee level. This will enable policymakers to focus more accurately on future reform and adapt to the Minimum Income Guarantee as necessary.

Placing a flexible approach to conditionality at the heart of the Minimum Income Guarantee: For those who can work, it is important that a degree of conditionality and work incentive is present within the Minimum Income Guarantee's design. However, as a number of countries have shown, labour market activation and strict conditionality as the primary design function of a Minimum Income Guarantee can have negative consequences by taking a 'work first' approach to individuals who need wider social support to allow them to effectively access the labour market. As such, a flexible approach should be taken to conditionality that only applies to work search conditions following a thorough assessment of an indiviual's wider social circumstances and prioritises addressing these before job search activity is required. Here, this follows a similar approach to how other countries have placed social inclusion as a key pillar of the Minimum Income Guarantee's activation – the key difference being that social inclusion activation and labour market activation are more tightly integrated as a matter of policy design.

Ensuring the Minimum Income Guarantee recognises and financially supports groups that are currently disadvantaged: A Minimum Income Guarantee has the important role of supporting people to undertake roles that provide social and public good and more accurately compensates people for providing this role, for example, unpaid care. These roles are mostly carried out by women, and the economic value of this work has frequently been undervalued – for example not being captured in key economic indicators such as GDP. The introduction of a Minimum Income Guarantee would therefore recognise the economic value of these roles with adequate financial renumerations.

Here, certain target groups would benefit from no conditionality – in recognition of the demands of the role they provide and that a Minimum Income Guarantee better supports these individuals in undertaking that role than attempting to move them into the 'formal' labour market. In this regard, a Minimum Income Guarantee would seek to recognise the economic and social value the Spanish IMV has taken this approach to those living in deep poverty, but given the Scottish Minimum Income Guarantee will be implemented with a higher threshold, this same approach can be applied in a more targeted way to specifically disadvantaged groups, such as carers and lone parents.

Considering the broader economic climate as a Minimum Income Guarantee is introduced: The economic climate when a Minimum Income Guarantee is introduced, reformed or functioning plays a significant role in determining its success. The latest economic insights from the Scottish Government suggest that there is fragility and downside risks in Scotland's labour market in terms of permanent job demand, staff shortages and growth in earnings.[142] A Minimum Income Guarantee can play a key role in acting as a corrective to these concerns, but at the same time should be conscious of the limiting impact fragility within the labour market can have on a Minimum Income Guarantee's success. However, it should also be cautioned that while favourable macroeconomic conditions can accelerate the impact of Minimum Income Guarantee-type policies (such as in Malta), this is by no means a guarantee of success. The Netherlands may have seen a halving of the unemployment rate since the introduction of the Participation Act, but this has masked the lack of growth in high-quality and sustainable job opportunities – which the Scottish Minimum Income Guarantee is keen to support. Ultimately, it will be difficult for a Minimum Income Guarantee to support people in work if there are limited opportunities.

[142] Scottish Government, Scottish economic insights, November 2023. See: https://www.gov.scot/publications/scottish-economic-insights-november-2023/pages/3/

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