

*The social impacts of the economic downturn and "stress testing"
European welfare systems*

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The social impact of the current economic downturn is not easy to anticipate because it depends on the interaction between many factors. The focus of this paper is on the effectiveness of the welfare state in providing protection and the capacity of the tax and benefit systems to absorb macro-economic shocks. Will those who lose their jobs be cushioned against a catastrophic loss of income? How far will pensioners find that public support makes up for the loss of savings income?

In order to understand how the social protection systems are likely to withstand the pressures that have been widely predicted we will "stress test" a selection of European welfare states to examine the impact of different scenarios related to the loss of employment and loss of income on the living standards of the individuals and on the total cost to the government. This is not a forecasting exercise but instead an illustration of the variation in social impact of potential scenarios across countries and social protection systems. The aim of such a "stress test" is not to predict what will happen, but to test the resilience of the welfare state and to identify who is the most vulnerable and in what circumstances.

We will use EUROMOD, the tax-benefit microsimulation model of the European Union based on micro-data from the European Union Statistics on Income and Living Conditions (EU-SILC) to explore the implications of a range of scenarios in a selection of countries (provisionally, Belgium, the Czech Republic, Estonia, Greece, Hungary, Italy, Lithuania, Spain and the UK). Under each scenario we consider the protection offered in the a) short term (for some) by unemployment insurance benefits and in the b) longer-term by housing benefits, social assistance and in-work benefits.

In each scenario we analyse the increase in financial poverty, the characteristics of the most vulnerable families and the interactions between different tax-benefit instruments. We examine the revenue consequences of reduced taxes and contributions and the cost of additional support through social assistance and unemployment benefits, focusing on the institutional differences across countries.

Finally, we reflect on the implications for our cross-national comparisons of data limitations and test the robustness of the assumptions used in constructing the scenarios.