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Estimating the poverty reduction effect of tax and benefit policies in Finland 1993-2013 using a microsimulation method

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Abstract

The poverty risk rate increased in Finland from 7 to 14 per cent between 1993 and 2010. We have estimated the counterfactual poverty rates for the year 2010 in order to evaluate the impact of changes in tax and benefit systems on the increase of the poverty risk rate. Household disposable incomes are simulated by using the same households of the year 2010 data, but varying the annual taxation and benefit legislation covering the years 1993-2013. The method used is inspired by the Shorrocks-Shapley decomposition method. The benefit cuts after the 1990s depression had a rather modest impact on poverty risk rates and the impact was nullified during 2000s by series of benefit raises. Changes in taxation had a considerably larger impact on the poverty risk rate. The poverty risk rate would be 2.5 percentage points lower if the tax legislation were the same in 2010 as it was in 1993. Furthermore, the level of benefits has decreased compared to the average income level. If the level of benefits would have remained at the same level compared to the average earnings in 2010 as in 1993, the poverty risk rate would be four percentage points lower in 2010. The policy of non-action with social transfers can have a major impact on the relative adequacy and on the poverty reduction effect of social transfers in the long-run.

Keywords: tax-benefit policy, social policy, poverty, microsimulation, counterfactual, decomposition

JEL codes: C81, D3, I3 H2, H31

1 Introduction

When evaluating the policy reforms aimed at poverty reduction, information about the level and incidence of poverty, as well as information about the impact of policy reform, is needed. Poverty is a complex societal phenomenon, and there are always multiple interconnected factors determining its development. To be able to evaluate the impact of a policy reform, it is necessary to isolate and measure its impact from all the other factors, as for instance, the development of unemployment. From all the factors having impact on the poverty rate, benefits and taxation are the few of them that policy makers have direct influence on.

The simplest and probably the most common method for estimating the poverty reduction effect of tax and benefit policies is to use two definitions of household income, namely the market income and disposable income. For example, Eurostat (2012) publishes statistics on the population at-risk-of-poverty before and after social transfers. The difference between the two poverty risk rates calculated using these two income definitions is perceived consequently as the redistributive impact of social transfers. Hence, the poverty risk rate before social transfers is assumed to measure a counterfactual situation where social transfers are absent. A more general method for estimating the impact of social transfers on income inequality is the decomposition of income inequality measures (Riihelä et al. 2002). The decomposition method is based on the idea that there are three factors shaping the income distribution: factors effecting the population, factors affecting the incomes and factors affecting both the population and incomes. There are limitations with the decomposition method when evaluating a re-distributive impact of pursued social policies, and the shortfalls of the method are recognized (Atkinson et al. 1995; Jäntti & Danziger 1998).

The tax-benefit microsimulation models give a more detailed and substantial instrument for decomposing and evaluating the impact of policy reforms, for instance in order to assess the poverty reduction impact of different policy alternatives (Callan et al. 2011; Matsaganis et al. 2007). With microsimulation models we can expand the counterfactual poverty rate approach to both ex-ante and ex-post evaluations for redistributive policies. In addition, microsimulation models can be used to bridge the two-three years delay concerning poverty statistics by using the so-called “nowcasting” method (Navicke et al. 2013; Bourguignon & Spadaro 2006). “Nowcasting” means that the poverty rate of the current year is predicted by using income data relating to 2-3 years back, the current tax and benefit legislation, and employment statistics that usually date 2-3 months back.

In the work in hand, we estimate the counterfactual poverty rates in Finland for the year 2010 by using the static SISU microsimulation model of Statistics Finland (2013). We have simulated the household disposable income using the household data of 2010 but applying the tax and benefit legislation of the years 1993-2013. The method for simulating the counterfactual income distributions is similar to the Shorrocks-Shapley decomposition method, presented by Bargain and Callan (2010). The results are interpreted in the larger economic and policy context in Finland during the period. The restructuring of Finnish policies was greatly accelerated by the severe economic recession Finland experienced in the early 1990s. It was an accumulative process that started in the end of 1980s with governmental initiatives aiming to integrate the country in to EU. A definite pattern can be discovered showing following stages: Integration with adjustment to the global market economy; restructuration policy aiming to reduce the public spending; flexibilization of labour markets; and finally, individualization implying that the conduct of people depending on social

benefits is examined and controlled more closely (Hänninen 1998). After the crisis, income inequality and relative poverty increased in Finland the starkest among the OECD countries (OECD 2008). The relative poverty risk rate increased from 7 to 14 per cent between 1993 and 2010. During the same period, benefits and income taxes were reduced considerably in order to promote the economic growth.

Our ambition is to give some insight in the incidence of poverty and the increase of relative poverty risk rate in Finland since the economic recession of the 1990s. We have attempted to differentiate the impact of the changes made in the benefits from the impact of the changes in taxation assuming that they are one of the main factors contributing to the increase of poverty risk rate. The behavioural effects are left aside in order to eliminate the impact of demographic variation. This study complements two other ImPRovE papers regarding the distributive impact of tax and benefit reforms in the 2000s (Hills et al., 2014) and the distributive effects of the crisis and the austerity measures taken (Matsaganis and Leventi, 2014). A more elaborate discussion of the methodological issues at stake and results for other EU countries can be found in the latter two papers.

2 Poverty rate and threshold in Finland 1993-2012

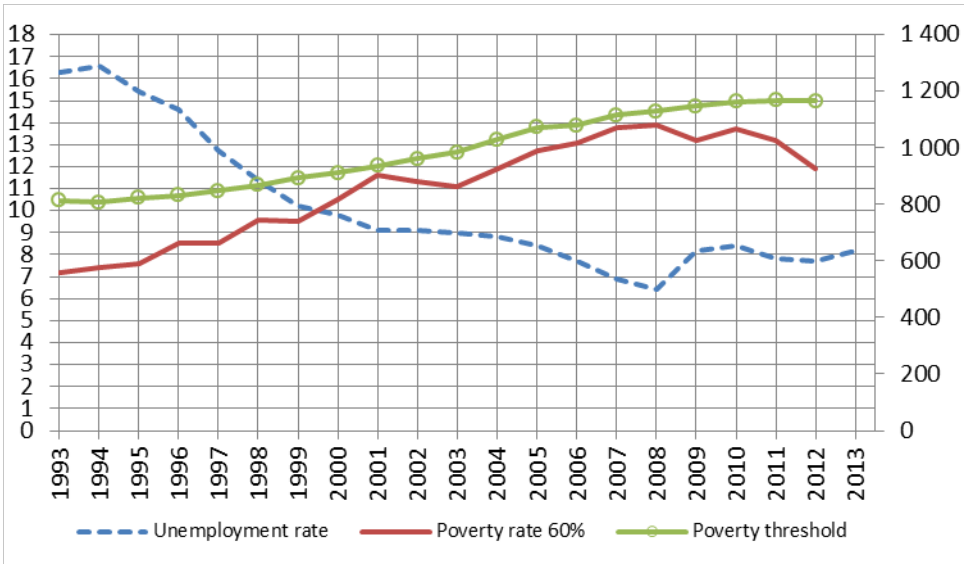
In Finland, there is no official poverty threshold but the at-risk-of-poverty measure of Eurostat has become a semi-official poverty threshold, like in many other EU countries. Those living in households having their equivalised disposable income below 60 % of the national median, are considered as being at risk of poverty (Eurostat 2012). The at-risk-of-poverty rate describes the proportion of population living below the poverty risk threshold. For a single adult household, the threshold was circa 1200 Euros per month in Finland in 2012. The poverty risk threshold increases by 50 per cent for each additional person aged 14 and over, and by 30 per cent for each child in the household, in accordance with the modified OECD equivalence scale (OECD 2013). Since the threshold is set as 60% of median disposable income, the poverty threshold follows to an important extent changes in average earnings since households with an income close to the median consist mostly of employees with average wages.

Figure 1 presents the unemployment rate, the at-risk-of-poverty rate and the at-risk-of-poverty threshold in Finland 1993-2012. By the mid-1990s, Finland was coming out of an exceptional deep economic crisis, and in 1994 unemployment peaked at almost 17 per cent. As the economy recovered, the unemployment rate decreased to 9 per cent by the end of the 1990s, and in the 2000s the unemployment rate decreased further to 6 per cent - until the 2008 financial crisis began. Between 2008 and 2013 unemployment increased to 8 per cent. The poverty risk rate showed the opposite trend, reflecting more the trend in income inequality than the trends in employment or the trend in absolute poverty (OECD 2011). The relative poverty risk rate increased sharply in the latter half of 1990s but the increase slowed down after the millennium, and ceased completely in 2008, and finally, dropped sharply after 2010. The poverty risk was 7.2 per cent in 1993, and it almost doubled to 13.7 per cent by the year 2010. Between 2010 and 2012 the poverty risk rate dropped two percentage points, from 13.7 to 11.9 per cent.

The poverty risk threshold has also increased since 1993. For a single adult household, the poverty risk threshold was 1166 Euros per month in 2012, compared to 815 Euros per month in 1993 (in 2012 monetary terms). The poverty risk threshold has increased by 43 per cent in real terms between

1993 and 2012, which also means that the median (equivalised) disposable income has increased by 43 per cent.

Figure 1. Unemployment rate, 60% of median poverty rate (left scale) and poverty risk threshold (right scale)* in Finland 1993-2012 (2013)



Source: Statistics Finland.

*for a single person household, euros per month in 2012 monetary values

3 Benefits and taxation in Finland 1993-2013

In Finland, most important decisions regarding taxation are made yearly by the Parliament (tax scale and mandatory contributions), and by municipal councils (local taxes) (SK 731/1997 81§ & 121§). Earned gross income is taxed with a progressive state tax and proportional communal taxes paid to municipalities. The tax-like mandatory social insurance fees are withheld directly from the wages, and fully credited from the income taxes. In addition, there is an earned income deduction for local taxes that is not applied in the taxation on pensions or taxable social benefits. However, households with a national pension as the only source of income do not pay income taxes due to the pension income tax deduction. Neither the last-resort social assistance nor the housing allowance are taxable income (SK 731/1997).

Changes in taxation are difficult to assess. There might be no legislative changes concerning the taxation, and the regulation applied can be that of the previous year (e.g. the same tax brackets), and still the real taxation outcomes change. In general, the objective is to keep the tax rate schedule and the real taxation on earned income unchanged, and consequently, the parameters in tax code are adjusted automatically for inflation. However, earnings and other taxable incomes generally increase annually in real terms. When studying the real alteration in taxation there are three alternative procedures that the decision-maker (Parliament) can apply. Firstly, not make any legislative changes concerning taxation and apply the regulation of the previous year. The actual structure of taxation remains but the immanent impacts of the taxation system, together with potential changes in the behaviour of the taxpayers, might change the real taxation outcome. Secondly, the tax-like mandatory contributions are regulated according to the assumed or observed rate of inflation. This is

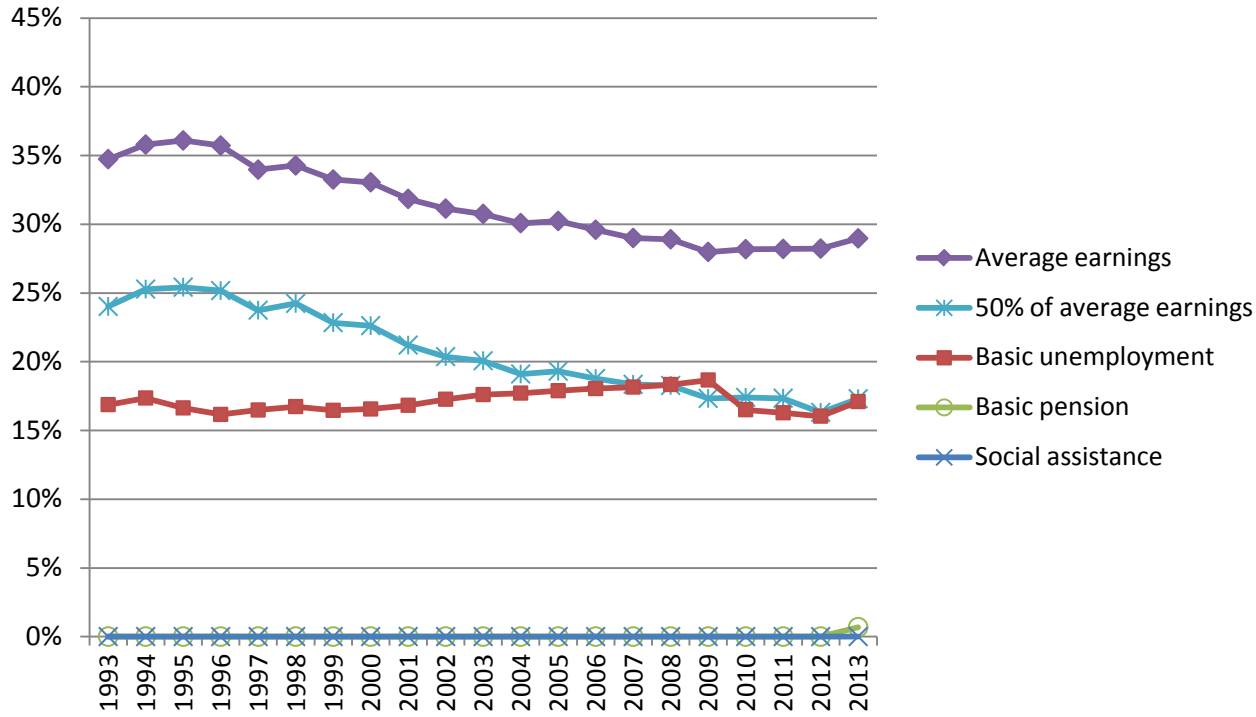
usually the case only when government, employer and employee organizations reach a general agreement on income and tax policies for coming period. In this case, the objective is to keep the tax rate schedule and the real taxation on earned income unchanged. The third alternative is to change the tax rate scale more than the assumed inflation rate, and make real changes in the earned income taxation. (Turkkila 2011, 21-23.)

In the 1990s, both benefits and income taxes were cut in order to promote economic growth after the severe depression of the early 1990s. Between 1993 and 2000 several reductions were made in the personal income tax system. In 1993, the progressive state tax on capital revenue was changed to a flat rate tax. Simultaneously, the income tax scales were made less progressive, and earned income tax deduction was introduced, and expanded in 1997 while the taxation of benefits remained high in comparison with taxes on market income. Due to the expansion of earned income tax deduction, taxation of earned income became lighter benefitting especially the households with low or average earnings. Meanwhile, the relative tax burden on benefits augmented since the tax deduction for the basic benefits was not revised against inflation (THL 2011).

Figure 2 presents the development of tax rates for a single person having a basic benefit, low earnings or average earnings in Finland during 1993-2013. As mentioned earlier, in contrast to unemployment benefits, social assistance is not taxable, and if the national pension is the only income sources it falls below the tax threshold due to the pension-income deduction). The tax rate for unemployment benefit has remained almost at the same level, except for a slight raise from 17 to 19 percent in 2009, and a decrease again in 2010 due to an increase in the basic income deduction effectuated for the first time in almost 20 years. The tax rate for average earnings has, on the contrary, decreased from 36 to 28 per cent between 1995 and 2010. For a person with low earnings, the tax rate has decreased from 25 to 17 per cent between 1995 and 2010.

Basic benefits were cut or their eligibility tightened in the 1990s. For example, the compensation rate was lowered in sickness allowances; the early retirement age was raised; and child benefits were cut. The unemployment benefit system was reformed in 1994, and an activation policy was introduced in 1996-1998. Consequently, the unemployment benefits system was tightened, and in the beginning of 2000s, activation incentives were introduced in the system. Several benefits such as housing allowances and social assistance were reduced by skipping several index raises in the latter half of the 1990s. (THL 2011.) By the end of the millennium, the economy recovered, and several benefits were raised during the 2000s in order to “compensate for the cuts during the depression”. The unemployment benefit was tied to the consumer price index already in 1999; the sickness and family allowances received their index coverage in 2010; child benefit in 2011, and student benefit in 2014 (Lehtelä et al. 2014). Currently, all the basic benefits are protected against inflation by legislated indexation on the basis of changes in the consumer price index. However, despite the index coverage and several raises during the 2000s, the level of basic benefits has declined compared with the average earnings and the average income level of households. The level of basic benefits has decreased relative to average wages in the past 20 years (THL 2011).

Figure 2. Effective tax rates of basic benefits and average earnings in Finland 1993-2013

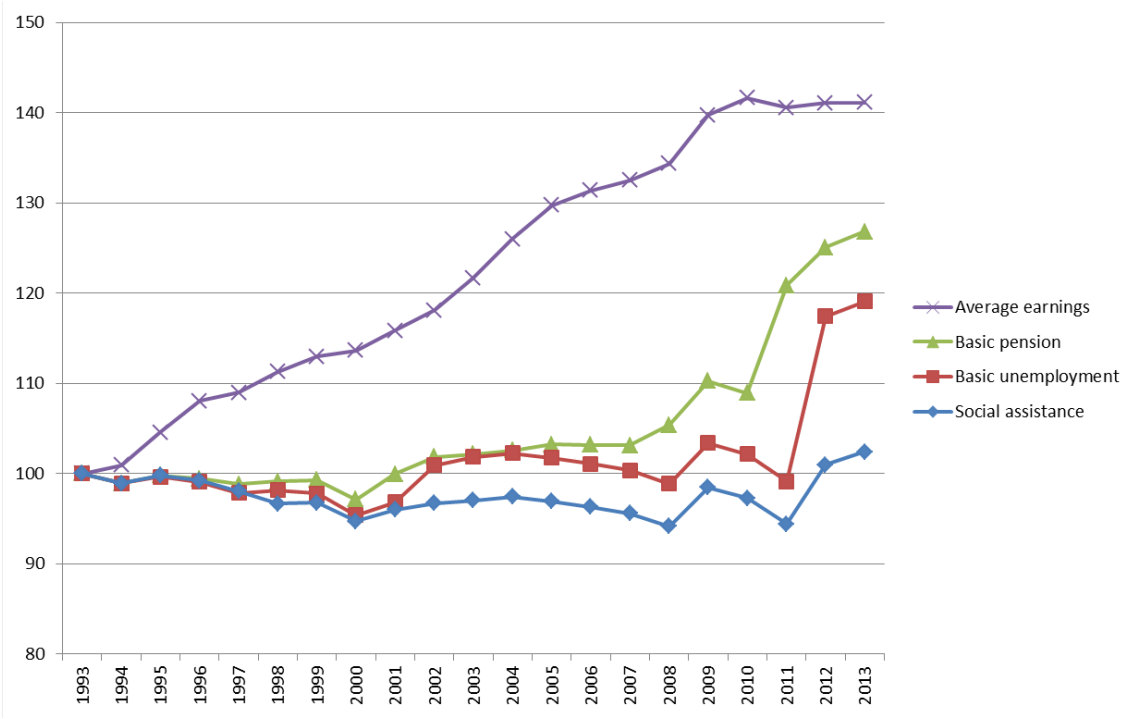


Source: SISU model, own calculations.

*Single person, no children, no other incomes

Figure 3 presents the development of the main basic benefits and average earnings in Finland during 1993-2013. The basic amount of social assistance decreased 6 per cent in real terms between 1993 and 2011 until the raise in 2012 that was the first one effectuated in two decades. The raise brought the basic amount of social assistance at the same level in real terms as it was in 1993. It is important to note that other apparent changes in the figure are largely due to the way benefits are indexed to inflation: given that indexation is based on inflation in the preceding year, in periods of accelerated inflation, benefits may temporarily decline in real terms. Similarly, in times of decelerating inflation, or sudden drops in inflation as in 2009, benefits may temporary increase in real terms. The basic unemployment benefit was also raised in 2012, bringing it at almost 20 per cent higher level in real terms than in 1993. The national pension was raised several times during the 2000s; the most considerable raise was effectuated in 2010 when the guarantee pension was introduced. The guarantee pension and the other raises during the 2000s increased the level of basic pension by 25 per cent in real terms compared to the level in 1993. The majority of the pensioners (94 % in 2013) receive an earnings-related pension that is covered by the earnings-related pension index which follows consumption prices by 80 per cent and earnings by 20 per cent. Prior to 1996, the earnings-related pensions were covered by the "half-half" index that followed prices by 50 per cent and earnings by 50per cent. Earnings have increased by 40 per cent in real terms between 1993 and 2010. Hence, the average wages have increased considerably more compared with the basic benefits during the last two decades.

Figure 3. Basic benefits and average earnings in Finland 1993-2013, adjusted with consumer price index (1993=100)



Source: SISU model, own calculations.

*Note: The index covered benefits increased annually according to the inflation of the previous year. If the inflation rate is decelerating, it appears in the figure as if the level of benefits increases in real terms, and *vice versa*.

4 Simulating counterfactual poverty rates with the legislation of 1993-2013

Statistics Finland has developed together with the Social Insurance Institution of Finland a new static microsimulation model SISU (2013). The model includes mathematical functions for income tax and benefit transfer legislation on 31st December for each year from 1993 onwards. There are some limitations in the model: for instance, it has procedures for simulating the national and guaranteed pension, but the earnings-related pensions have to be obtained from the actual data. The data we used in the counterfactual calculations represents a cross section of the Finnish population, the size of the sample being 23 000 Finnish persons. The input data is a combination of household interview data and register based data, both including several hundreds of variables.

We simulated the household disposable income using the household information of the year 2010, and varied the taxation and benefit legislation covering the years 1993-2013. The counterfactual income distributions are then used to estimate the counterfactual poverty rates in Finland. First, we simulated the counterfactual poverty rates by varying solely the taxation legislation. Secondly, we varied the entire system of taxation and benefit legislation for each year covered by the SISU model. The counterfactual poverty rates representing the changes of benefit legislation were calculated simply as the difference between the counterfactual poverty rates produced by the taxation legislation, and the counterfactual poverty rates produced by both the tax and benefit legislation. We fixed the poverty rate of year 2010 as a checkpoint, and calculated the difference between that

year's rate and each other simulated rate. Furthermore, we added the obtained values to the actual poverty rate of 2010. The counterfactual poverty rate should be the same (2010 poverty rate) applying each year's legislation if the poverty reduction effect of social transfers has remained the same over the entire period (1993-2013). In other words, we simulate what the poverty rate in 2010 would have been if the tax and benefit legislation of the years between 1993 and 2013 would be implemented, assuming there are no behavioural effects when implementing the tax benefit rules of other years.

Since the data represent the household incomes in 2010 monetary terms, it was necessary to adjust the monetary parameters in the past (and future) tax and benefit legislation to represent household incomes in 2010 monetary terms. The benefits and income thresholds in the tax and benefit legislation were adjusted for inflation and converted to the 2010 money value with the consumer price index. However, adjusting monetary parameters in legislation with the consumer price index does not take into account the fact that in the course of time, wages and household incomes rises in real terms. In figure 1 we saw that the median disposable incomes have increased 40 per cent in real terms since 1993. For instance, the nominal value of basic unemployment benefit has almost doubled since 1990, and in real-terms its value has increased by circa 20 per cent. Yet, it has decreased by 20 per cent compared to average earnings (see Figure 3). In 1990, the disposable income of a single adult household on basic unemployment benefit was 47 per cent of a single adult household on the average salary; in 2012 the percentage corresponded to 40 per cent (THL 2011; Moisio & Sallila 2012).

However, there is no definite answer whether we should inflate the monetary parameters in legislation with the average earnings index or consumer price index. If we adjust monetary parameters for benefits and taxation with the average earnings index we obtain counterfactual poverty rates representing poverty rate in a simulated world where the level of benefits and thresholds in taxation have followed the average earnings level. Adjusting the monetary parameters both with the development of prices and earnings will also amend the weakness of our analysis caused by the fact that we do not have the data for both the initial and final years (see Bargain and Callan 2010).

Our analysis is inspired by the Shorrocks–Shapley decomposition method for the construction of counterfactual distributions, presented by Bargain and Callan (2010). The change in the relative poverty rate is decomposed into the change in tax-benefit legislation, change in the monetary parameters and change in the population. We attempt to estimate the policy effect by holding the population constant, and by adjusting the monetary parameters both with the consumer price index and average earnings index. Our method will exclude the interaction of policy changes and the changes in population. It is a clear weakness in our analyses since the political changes made in the tax and benefits systems aim in general to modify incentive structures. In addition, taking into consideration the long follow-up period we have, the assumption of constant population is somewhat unrealistic, as shown in Honkanen and Tervola (2013). We will return to the issue in the next section.

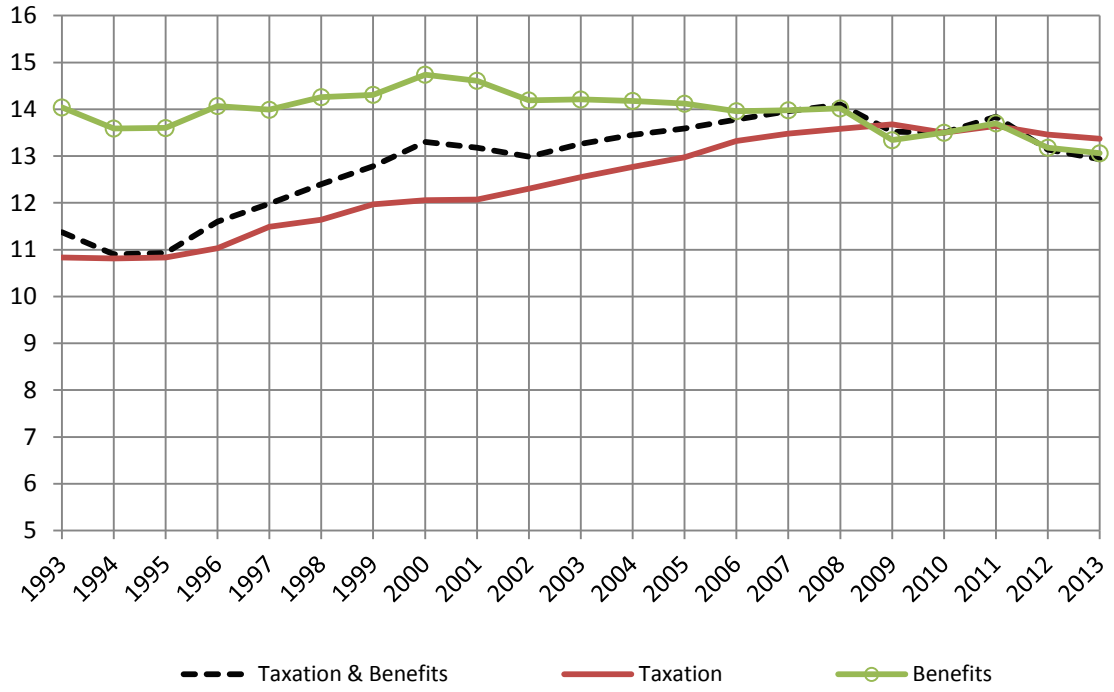
Figure 4 presents the counterfactual poverty rates when estimating the household disposable incomes of the same (2010) population using annual tax and benefit legislation of the years 1993-2013. The monetary parameters of tax and benefit legislation is adjusted in line with changes in the consumer price index. If the legislative changes in benefits or tax code during 1993-2013 had no

impact on the disposable income of households, the poverty rate should be the same for each scenario. The year 2010 is the benchmark since the base data is from that year. The poverty risk rate of 13.5 per cent is the actual poverty rate in that year (with 2010 population and legislation). If the poverty risk rate is higher with the legislation of a certain year than the year of benchmark it means that the poverty reduction effect of the tax and benefit legislation of that year is minor than with the 2010 legislation, and *vice versa*.

When observing the counterfactual poverty rates in the Figure 4, we can notice that the reductions in the levels of benefits during 1995-2000 seem to increase the contrafactual poverty risk rate by one percentage point. Nevertheless, the raises of benefits during 2000s seem to have a decreasing effect on the poverty risk rate by the same amount. Accordingly, the benefit cuts effectuated in 1990s seem to have a rather insignificant impact on poverty risk rates, and the impact was nullified during 2000s by series of raises. Changes in taxation during the 1990s had a larger impact on the poverty risk rate than the benefit cuts. In the Figure 4 we can observe that with the taxation legislation of 1994 or 1995, the poverty risk rate would be 2.5 percentage points lower compared to the present day taxation. Changes in the tax scale have increased the poverty risk rate between 1996 and 2009, after which the changes in taxation have decreased poverty risk rate slightly. The taxation of earned incomes was reduced in the 1990s increasing the disposable incomes of median income households, and thereby the poverty risk threshold. Concurrently, the taxation of benefits tightened, which explains the large impact of the changes in taxation had on the poverty risk rate.

In 2012, the basic amount of social assistance was raised by 6 per cent. In addition, the unemployment benefit was raised by 17 per cent, and the income brackets in the housing allowance were raised accordingly. In Figure 4 we estimate that the raises, together with some other smaller reforms (see Moisio & Sallila 2012) decreased the poverty risk rate by 0.5 percentage points. Riihelä and Viitamäki (2011) settled on a considerably smaller estimation of the impact of the 2012 basic benefits reform: they estimated that the raises in basic benefits decreased poverty risk rate by 0.1 percentage points. The estimation was based on the simulation by TUJA microsimulation model using the data of 2009 nowcasted to be representative for the households of 2012. According to the official statistics, presented in Figure 1, the observed poverty risk rate decreased 1.3 percentage points in 2012.

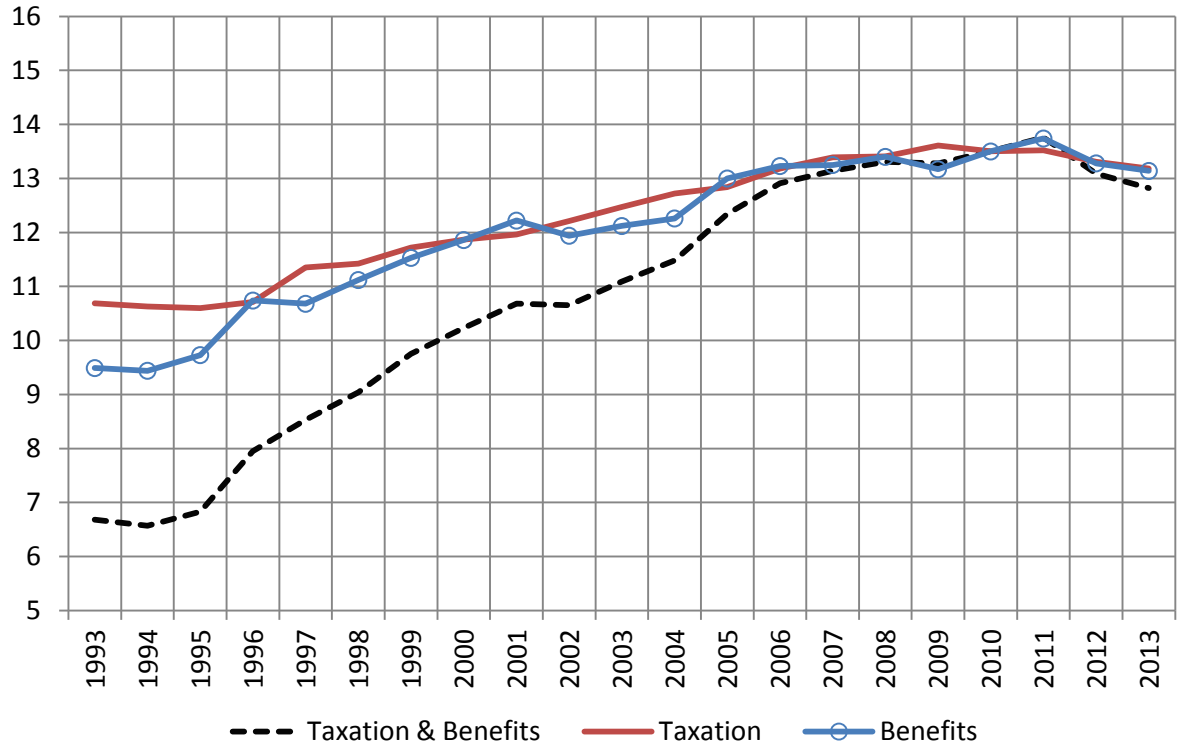
Figure 4. Counterfactual poverty rates when estimating the household disposable incomes of the same (2010) population using annual tax and benefit legislation 1993-2013, adjusted with consumer price index



Source: SISU model, own calculations.

However, the level of benefits has decreased compared to the average income level, as was shown in Figure 3. Accordingly, in Figure 5 we present the same counterfactual poverty rates, only now the benefits and taxes are adjusted by the average earnings index. If the gap between benefits and average earnings in 2010 was the same as it was in 1993 or 1994, the poverty risk rate would be four percentage points lower. The actual poverty rate increased from 7 to 14 per cent during 1993-2010. The decreasing benefit level compared to the average earnings seems to explain over half of the increase in poverty risk rate in 1993-2010. In other words, if the level of benefits had followed the average earnings during 1993-2010, the relative poverty risk rate would be half of the current one.

Figure 5. Counterfactual poverty rates when estimating the household disposable incomes of the same (2010) population using annual tax and benefit legislation 1993-2013, adjusted with average earnings index



Source: SISU model, own calculations.

5 Summary and discussion

Both benefits and income taxes were reduced in order to promote economic growth after the severe depression in Finland in the early 1990s. The relative poverty risk rate increased from 7 to 14 per cent between 1993 and 2010. Assuming a scenario of standard price indexation, the benefit cuts effectuated in the late 1990s had a rather modest impact on the poverty risk rates, and the impact was nullified during 2000s by a series of benefit raises. Changes in taxation during 1990s had a larger impact on the poverty reduction effect than benefit cuts. The counterfactual poverty rates indicate that the poverty rate would be 2.5 percentage points lower if the tax legislation were the same in 2010 as it was in 1994 or 1995. Between 1993 and 2000 several reductions were made in the personal income tax system. The tax scales were made less progressive and earned income tax deductions were introduced while the taxation of benefits remained tight in relation to market income. It has probably increased the poverty risk rate by augmenting the median disposable income and, consequently, the poverty risk threshold.

The economic recovery from the 2008 financial crisis and 2010 euro crisis has been surprisingly slow and difficult in Finland. This has to do with the simultaneous structural changes in Finland, namely decline of the Nokia and forest industry. However, no major reductions in benefits have been effectuated as was the case after the recession of 1990s in Finland, or today in several other European countries (Matsaganis and Leventi 2013). On the contrary, after the 2008 crisis, several and

substantial benefit increases have taken place. The guarantee pension was implemented in March 2011. The social assistance and unemployment benefit levels were increased considerably for the first time in two decades in 2012, and taxation of the unemployment benefit was lowered. Altogether, the poverty reduction effect of social transfers has increased during the 2010s. We estimate that the 2012 basic benefit reform decreased poverty risk rate by 0.5 percentage points. This is a higher estimate than the previous estimate of 0.1 percentage point decrease, done by Riihelä and Viitamäki (2011) when using a different microsimulation model. According to Statistics Finland (2014), the poverty risk rate decreased 1.3 percentage points in 2012, while the poverty risk threshold and the unemployment rate remained practically the same. However, the prolonged recession has evoked demands for a reduction of the welfare state and the level of benefits.

Changes in benefit legislation have not had a larger impact on the poverty reduction effect of social transfers in Finland. One explanation for this is that practically all social benefits are protected against inflation by indexation. However, despite indexation the level of benefits has decreased compared to the level of average earnings. In the course of time, i.e. during the past 20 years, the poverty reduction effect of the Finnish benefit system has diminished considerably due to the relative decline of benefit levels compared to the level of earnings. If the gap between benefits and average earnings in 2010 were the same as in 1993 or 1994, the poverty risk rate would be four percentage points lower. This seems to suggest that the decreasing benefits level compared to average earnings explains over half of the increase in poverty risk rate in Finland 1993-2010. These results are similar to the studies of Honkanen and Tervola (2013). The social policy with non-action concerning the social transfers might have a large impact on the relative adequacy of social benefits and on the poverty reduction effect of social transfers in the course of time – even when benefits are protected against inflation with indexation.

Hence, the long-term relative decrease of benefits compared to the average earnings has obviously decreased the poverty reduction effect of benefits. Precisely, it is caused by the absence of raises on benefits, not by the changes in benefit legislation. Nevertheless, the fact that the level of benefits has not kept up with the rising earnings has caused a decrease in their poverty reduction effect during the past twenty years in Finland. The development in Finland resembles the one Clark and Leicester (2004) discovered in UK during the 1980s and 1990s. The question concerning whether to inflate the monetary parameters of tax and benefit legislation with consumer price index or average earnings index pertains to one of the major questions in social policy: Should the level of benefits follow the long-term increase in earnings and living condition of the active population? There is no definite answer due to the political nature of the question and policy makers have been reluctant to put it on agenda. The political choices made concerning this core social policy question can be described as a “decisionless decision” situation whit absence of clear-cut decisions. In political sciences the phenomenon is called incrementalism, meaning sequence of steps that effect a small change at the margin (Bacharah and Baratz 1970). Incrementalism can produce a major, and sometimes undesirable, policy change over the years, as we have discovered.

The 2010 population is the only base data we have at the moment, and we are not able to simulate counterfactual poverty rates using an earlier population from the 1990s with the current tax and benefit legislation. It would have given us another set of counterfactual poverty rates, and further insight how the changes in the socio-economic structure of population have influenced changes in poverty levels (see Bargain and Callan 2010). Given the extended time period observed, the changes in population structure are substantial. Taking the population effect into consideration would

definitely give us a more nuanced picture of the development regarding the poverty reduction effect of the Finnish tax and benefit system during the last two decades. We are leaving this to be addressed in our studies to come.

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ImPRovE: Poverty Reduction in Europe. Social Policy and Innovation

Poverty Reduction in Europe: Social Policy and Innovation (ImPRovE) is an international research project that brings together ten outstanding research institutes and a broad network of researchers in a concerted effort to study poverty, social policy and social innovation in Europe. The ImPRovE project aims to improve the basis for evidence-based policy making in Europe, both in the short and in the long term. In the short term, this is done by carrying out research that is directly relevant for policymakers. At the same time however, ImPRovE invests in improving the long-term capacity for evidence-based policy making by upgrading the available research infrastructure, by combining both applied and fundamental research, and by optimising the information flow of research results to relevant policy makers and the civil society at large.

The two central questions driving the ImPRovE project are:

> How can social cohesion be achieved in Europe?
>
> How can social innovation complement, reinforce and modify macro-level policies and vice versa?

The project runs from March 2012 till February 2016 and receives EU research support to the amount of Euro 2.7 million under the 7th Framework Programme. The output of ImPRovE will include over 55 research papers, about 16 policy briefs and at least 3 scientific books. The ImPRovE Consortium will organise two international conferences (Spring 2014 and Winter 2015). In addition, ImPRovE will develop a new database of local projects of social innovation in Europe, cross-national comparable reference budgets for 6 countries (Belgium, Finland, Greece, Hungary, Italy and Spain) and will strongly expand the available policy scenarios in the European microsimulation model EUROMOD.

More detailed information is available on the website http://improve-research.eu.

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