

## ABSTRACT

### **Automatic Stabilizers, Economic Crisis and Income Distribution in Europe<sup>\*</sup>**

This paper investigates to what extent the tax and transfer systems in Europe protect households at different income levels against losses in current income caused by economic downturns like the present financial crisis. We use a multi country micro simulation model to analyse how shocks on market income and employment are mitigated by taxes and transfers. We find that the aggregate redistributive effect of the tax and transfer systems increases in response to the shocks. But the extent to which households are protected differs across income levels and countries. In particular, there is little stabilization of disposable income for low income groups in Eastern and Southern European countries.

JEL Classification: E32, E63, H2, H31

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<sup>\*</sup> This paper uses EUROMOD version D21. EUROMOD is continually being improved and updated and the results presented here represent the best available at the time of writing. EUROMOD relies on micro-data from 17 different sources for 19 countries. These are the ECHP and EU-SILC by Eurostat, the Austrian version of the ECHP by Statistik Austria; the PSBH by the University of Liège and the University of Antwerp; the Estonian HBS by Statistics Estonia; the Income Distribution Survey by Statistics Finland; the EBF by INSEE; the GSOEP by DIW Berlin; the Greek HBS by the National Statistical Service of Greece; the Living in Ireland Survey by the Economic and Social Research Institute; the SHIW by the Bank of Italy; the PSELL-2 by CEPS/INSTEAD; the SEP by Statistics Netherlands; the Polish HBS by Warsaw University; the Slovenian HBS and Personal Income Tax database by the Statistical Office of Slovenia; the Income Distribution Survey by Statistics Sweden; and the FES by the UK Office for National Statistics (ONS) through the Data Archive. Material from the FES is Crown Copyright and is used by permission. Neither the ONS nor the Data Archive bears any responsibility for the analysis or interpretation of the data reported here. An equivalent disclaimer applies for all other data sources and their respective providers.

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