



Encuentros sobre Centenario

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Economic Downturns, Endogenous Government Policy and Welfare Caseloads

LUIS AYALA

Universidad Rey Juan Carlos, EQUALITAS

Abstract

Governments can soften the impact of the business cycle on welfare spending. Depending on the political costs and the extent of unemployment, they might choose between a decrease in the proportion of accepted applications, a decrease in the level of benefits, or some combination of the two. This paper is motivated by this concern, weaving together the intensive literature on the determinants of welfare caseloads and the fundamentals of public choice theory applied to the design of welfare programs. The paper is based on data from the minimum income program of Catalonia's government (PIRMI). We use autoregressive distributed lag models to find that the generosity of the program is clearly predictive of the receipt of benefits even in contexts of high and growing unemployment rates. We also find a fairly strong correlation between unemployment growth and the proportion of rejected applications and a trade-off between the level of benefits and rejections.

Keywords: welfare caseloads, endogenous policy, ADL models.