

Low-wage employment and the reform of the Austrian welfare system

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Recent reform discussion of the Austrian welfare system

- Integration of
 - means-tested unemployment assistance (*Notstandshilfe*) and
 - basic income support (*Bedarfsorientierte Mindestsicherung*)
- Increasing the income-replacement rate of the unemployment benefit (*Arbeitslosengeld*) for the short-term unemployed and reducing it for the long-term unemployed
- Details of reform are still under discussion, but one aim seems to be to reduce long-term unemployment by making it financially less attractive

What is missing from the reform discussion?

- How can financial incentives for low-wage workers to take up full-time work be improved?
- How can child benefits consistently be integrated in the means-tested basic income support?
- What are the likely employment effects of the reform, and
- Who are the likely winners and losers?

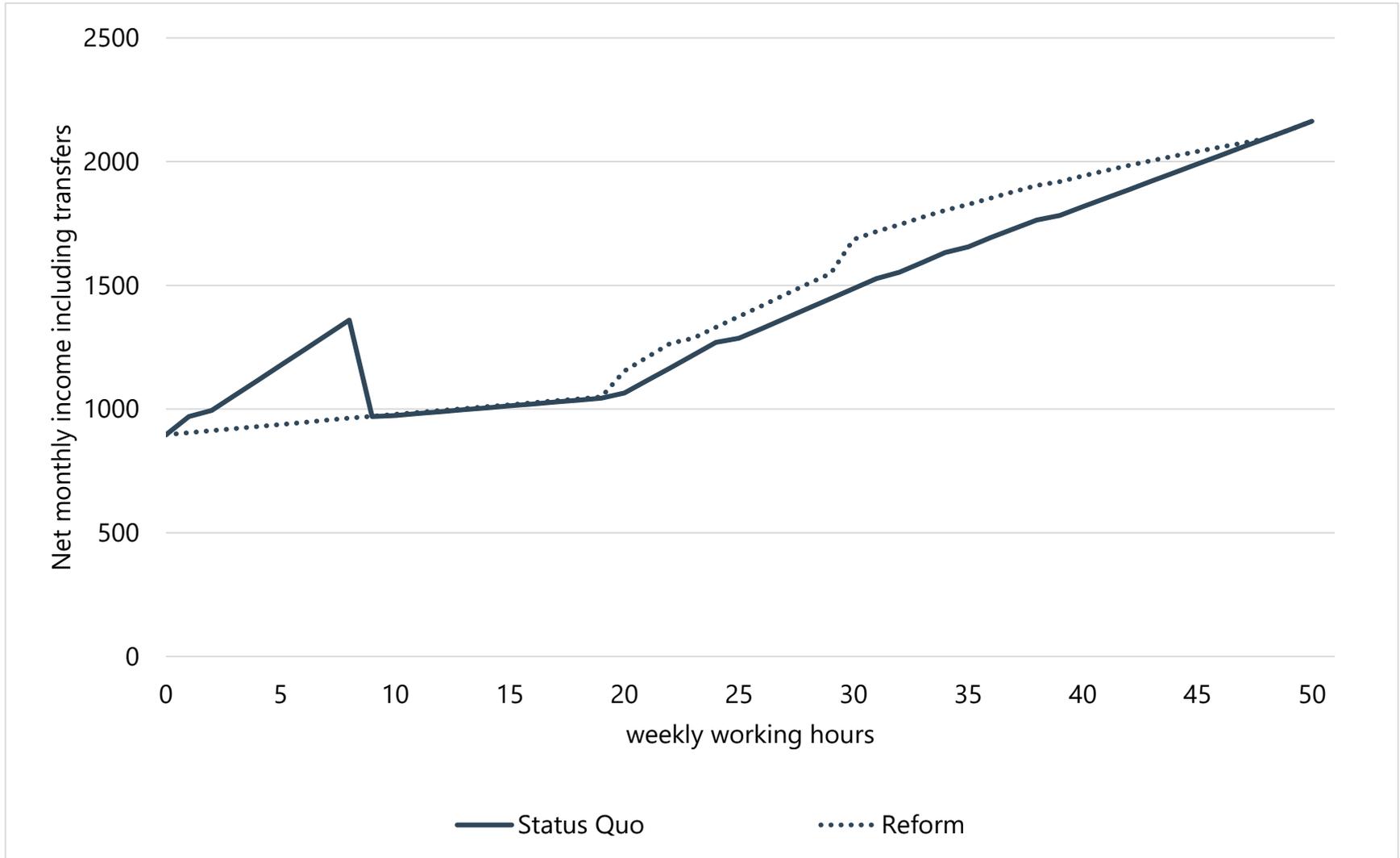
We analyze employment and distributional effects of a reform that

- integrates means-tested unemployment assistance and basic income support at the level of the latter
- abolishes the exemption of (employee) social security contributions for marginally employed workers (*Geringfügige Beschäftigung*)
- improves work incentives for people receiving basic income support by extending the threshold of monthly earnings with a uniform transfer-withdrawal rate of 85 % up to
1,300 € for singles,
1,300 € + 650 € for couples, and
+ 400 € / + 200 € for the first / each additional child

- introduces an individual wage subsidy of 50 % (100 %) for low-wage workers who work at least 20 (30) hours per week (linearly withdrawn with increasing gross earnings between 1500 and 2500 € / month (14 times per year))
- integrates an increased child benefit of 400 € / month and child and the basic income for dependent children; the special allowance for lone parents is increased to 200 € / month and child
- the child benefit is taxed at the personal income tax rate and withdrawn at the reduced benefit withdrawal rate
- the newly introduced family tax credit (*Familienbonus*) is abolished
- is budgetary neutral after accounting for potential employment effects of the reform

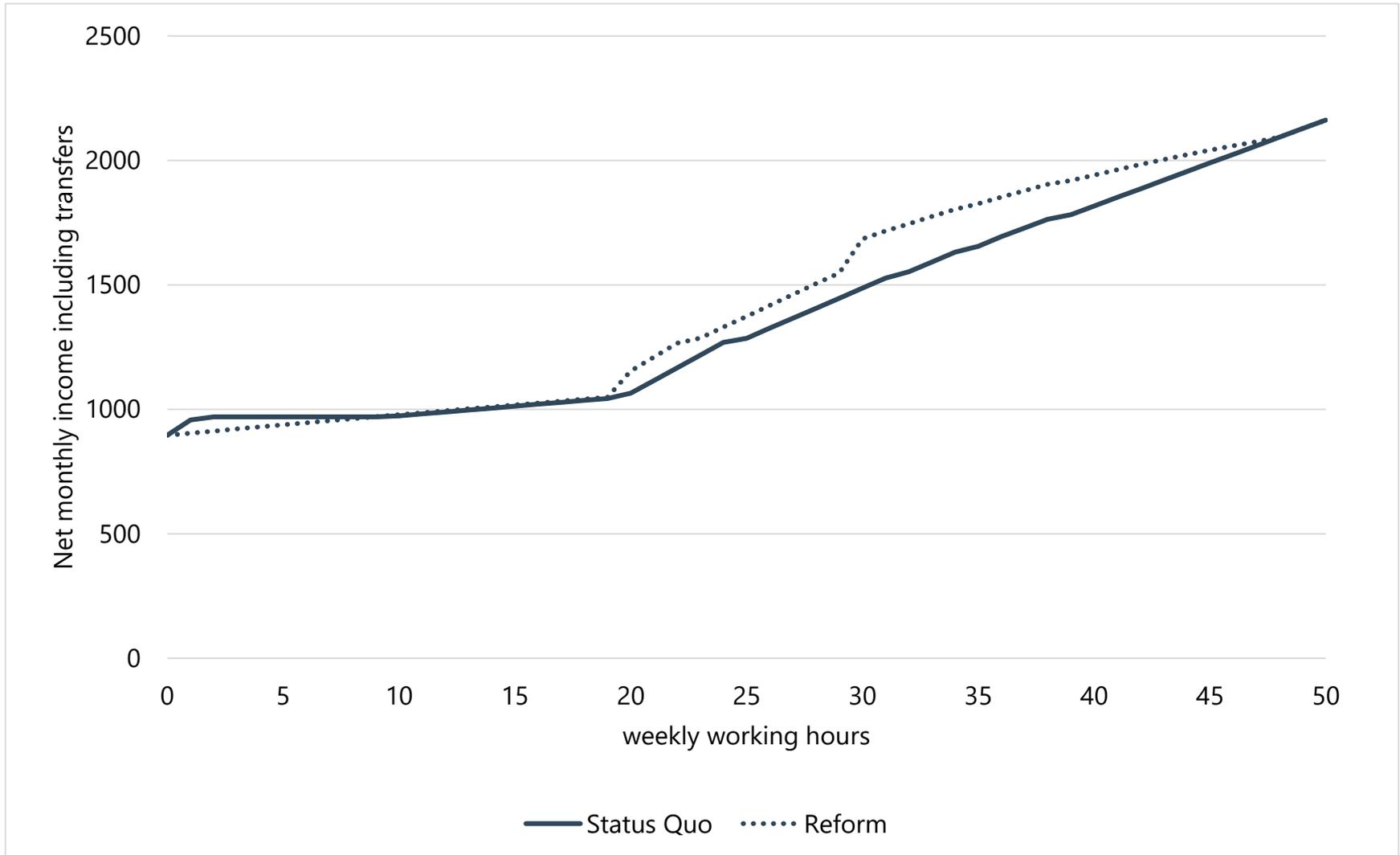
Budget Constraints under Status quo and Reform I

Single woman, no children, hourly wage 14.5 € (p25), entitled to Unemployment Assistance (NH)



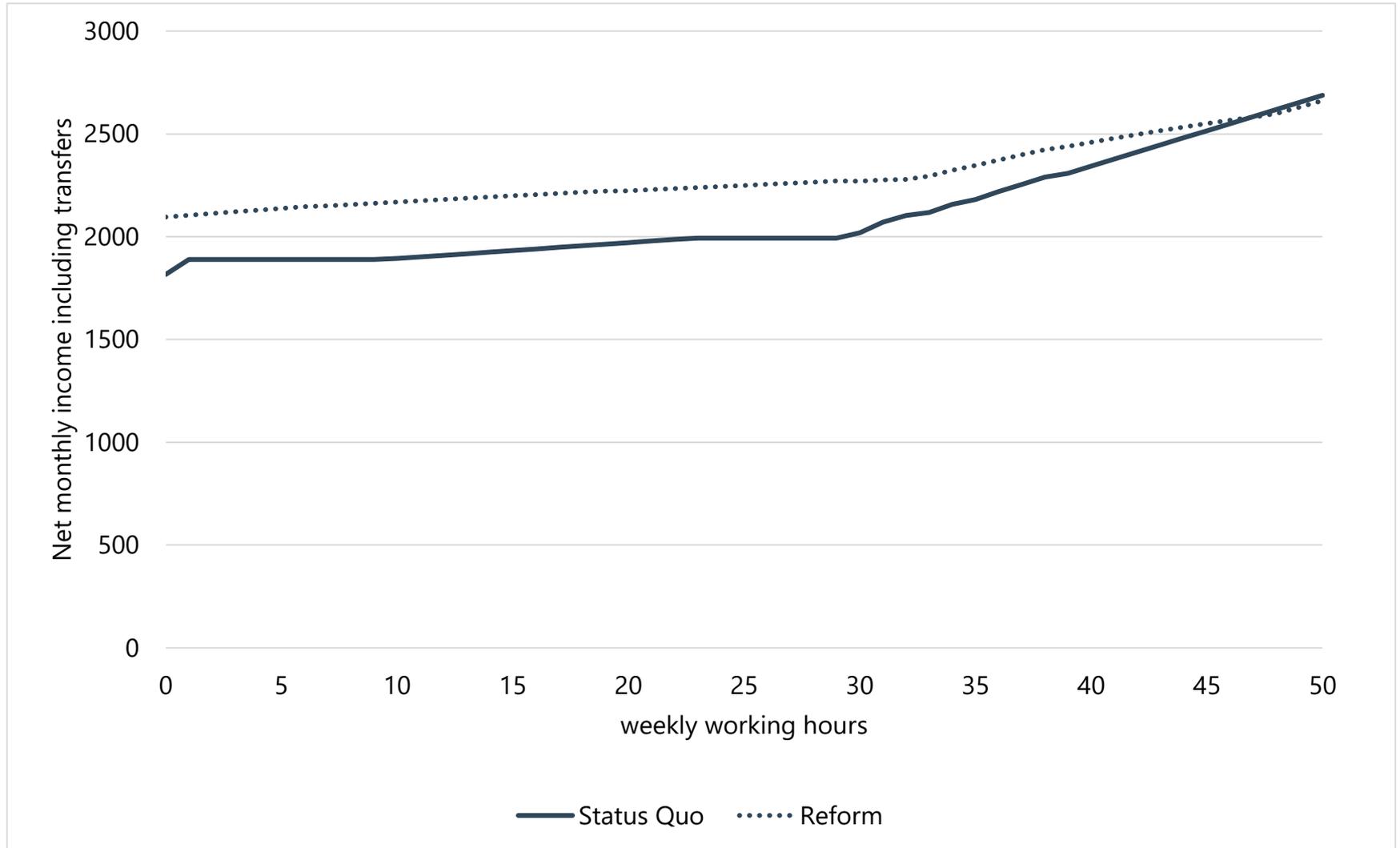
Budget Constraints under Status quo and Reform II

Single woman, no children, hourly wage 14.5 €, entitled to Basic Income Support (BMS)



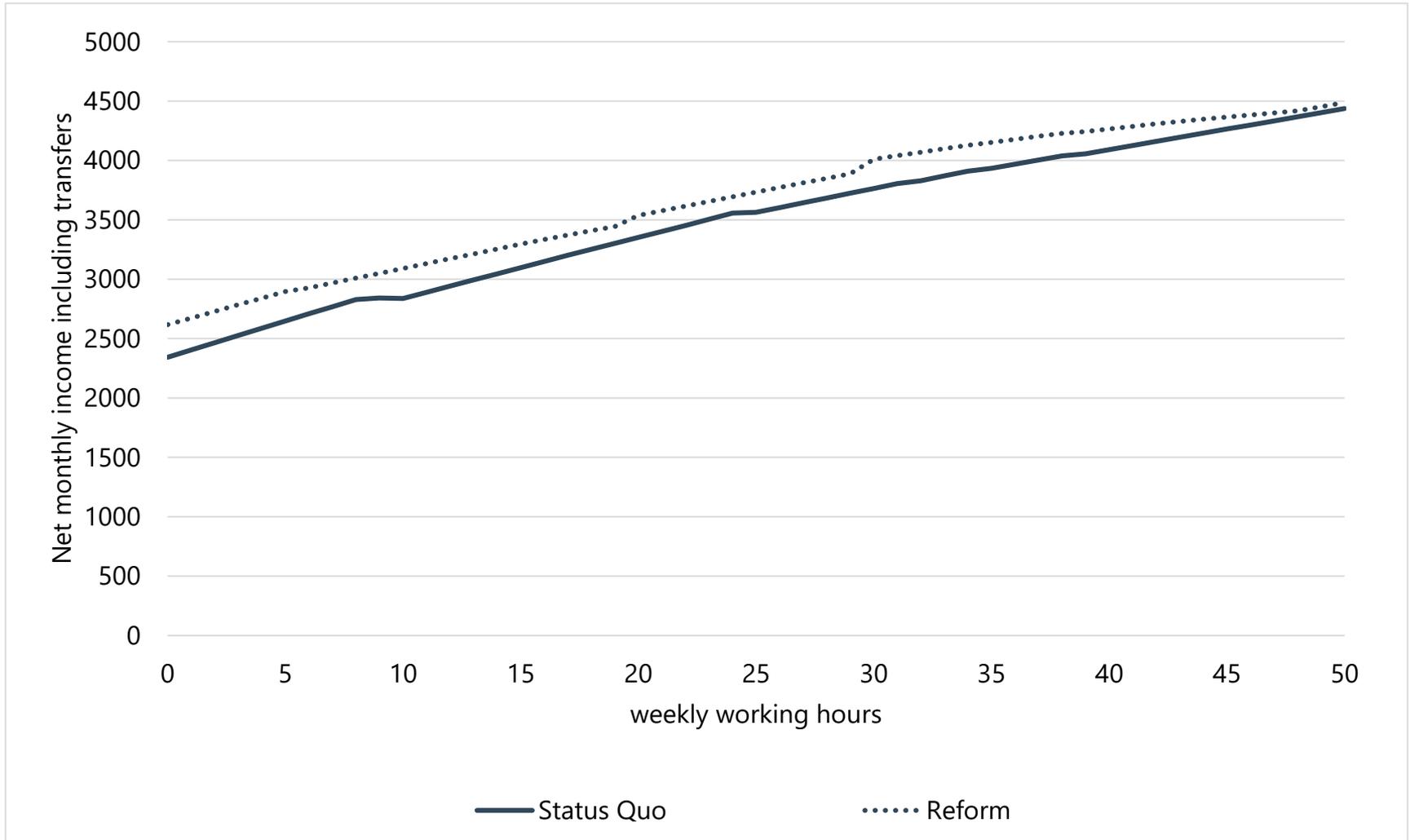
Budget Constraints under Status quo and Reform III

Single woman, two children (5/9 yrs.), hourly wage 14.5 €, entitled to Basic Income Support (BMS)



Budget Constraints under Status quo and Reform IV

Couple, two children (5/9 yrs.), hourly wage wife 14.5 €, hourly wage husband 14.5 €, one spouse works 40 hours per week



ATTM Austrian Tax Transfer Model

- **Tax-benefit calculator**

Wage and personal income tax, social security contributions, child and family benefits, unemployment benefit and assistance (*Notstandshilfe*), basic income support (*BMS*), etc.

Status quo 2020: Family tax credit (*Familienbonus*), reduction of SSC rate and changes in basic income support included

- **EU-SILC, Wave 2017**

(income) data refer to 2015; updated to 2020 using common inflation factors from official projections (WIFO); tax schedule not indexed to inflation

ATTM Austrian Tax Transfer Model

- **Labour market module**
 - structural (discrete-choice) labour supply model (6 hours categories for women, 4 hours categories for men)
 - selectivity-corrected wage equations
 - empirical rationing probabilities to account for demand-side constraints on the labour market

Simulation Results: Employment Effects

		Women		Men		
		Couples	Singles	Couples	Singles	Total
Change of ...relative to status quo						
Working hours (in %)	with children	0.2%	0.8%	0.3%	-0.4%	0.3%
	without children	1.9%	1.4%	1.1%	1.7%	1.6%
	Total	1.0%	1.2%	0.7%	1.6%	1.0%
Employment rate (in percentage points)	with children	0.2%	0.4%	0.1%	-0.1%	0.2%
	without children	0.3%	0.1%	0.1%	0.1%	0.1%
	Total	0.2%	0.1%	0.1%	0.1%	0.1%
Employment (full-time equivalents)	with children	416	512	1,645	-25	2,547
	without children	6,097	4,053	4,186	8,229	22,565
	Total	6,513	4,565	5,831	8,203	25,112

Simulation Results: Distributional Effects I

Decile (NEI)	Status quo 2020	With employment effects		Without employment effects	
	NEI (€ / year)	Diff € / year	%	Diff € / year	%
1st decile	10,592	232	2.2%	194	1.8%
2nd decile	15,568	426	2.7%	354	2.3%
3rd decile	19,042	169	0.9%	92	0.5%
4th decile	21,461	158	0.7%	133	0.6%
5th decile	23,878	101	0.4%	54	0.2%
6th decile	26,608	178	0.7%	115	0.4%
7th decile	29,798	123	0.4%	64	0.2%
8th decile	33,440	218	0.7%	165	0.5%
9th decile	39,122	140	0.4%	98	0.3%
10th decile	60,121	-3	0.0%	-26	0.0%
Total	28,275	173	0.6%	123	0.4%

Simulation Results: Distributional Effects III – Winners and Losers

NEI-Class	more income		less income	
	#	average gain (€ / year)	#	average loss (€ / year)
< 50%	467,856	663	252,782	-490
50 – 100%	3,124,723	871	1,284,418	-1,433
100 - 150%	1,781,717	668	757,878	-1,012
> 150%	596,461	310	324,334	-571
Total	5,970,758	738	2,619,412	-1,114

Simulation Results: Distributional Effects IV

employment status	Status quo 2020		Reform	
	NEI (€ / year)		Diff (€ / year)	%
dependently employed	31,577		519	1.6%
self-employed	32,833		105	0.3%
long-term unemployed	20,689		-3,088	-14.9%
short-term unemployed	24,517		370	1.5%
total unemployed	21,352		-2,489	-11.7%
retired	27,131		18	0.1%
out-of-labor-force	22,333		189	0.8%
in education / military service	25,183		113	0.4%
Total	28,275		173	0.6%

Simulation Results: Distributional Effects V

household type	Status quo 2020	Reform		
	NEI (€ / year)	Diff € / year	%	
Singles	26,582	20	0.1%	
without children	26,805	21	0.1%	
with children	23,058	64	0.3%	
Couples	29,005	240	0.8%	
without children	31,960	297	0.9%	
with children	26,929	202	0.8%	
Total	28,275	173	0.6%	

Our simulation results of a budgetary-neutral reform of the Austrian welfare system that integrates means-tested income support for the unemployed and child benefits, and improves incentives to increase working hours show:

- modest positive employment effects
- the number of people who would gain from the reform by far exceeds the number of people who lose
- people at the bottom of the income distribution would gain most in both absolute and relative terms, those at the top the least
- the main losers are the long-term unemployed who do not find/ take up a job
- the short-term unemployed, employed people, and working families with children would gain.

Thank you for your attention!

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