

Simulation of a Basic Income Reform for Austria

IMA Congress, Vienna, 8-10 January 2024

Viktor Steiner, Florian Wakolbinger
Gesellschaft für Angewandte Wirtschaftsforschung KG
Sparkassenplatz 2/1/115
6020 Innsbruck

Why a Basic Income Reform for Austria?

Inconsistent combination of low-income support and taxation of low earnings at the federal and states levels implying:

- marginal benefit-withdrawal rates close to 100 % (varying across states) for earnings of social assistant recipients;
- a benefit-withdrawal rate of zero below the „marginal employment“ threshold (currently about 500 Euro/month) for earnings of people receiving unemployment benefits or assistance, exceeding 100% at the margin of this threshold 100% above the threshold;
- different means-tests regarding earnings of partners for social assistance and unemployment assistance;

Why a Basic Income Reform for Austria?

- significantly higher income support for children of recipients of social assistance than of those with the same household incomes but not receiving unemployment or social assistance.

In general, the current system

- subsidizes unemployment and marginal employment while receiving unemployment compensation, possibly without time-limit;
- implies strong negative incentives for full-time employment for people with low hourly wages, in particular for people receiving unemployment assistance living in couples with an employed partner,
- and is not well targeted at unemployed people and children living in poor households.

The Reform Proposal

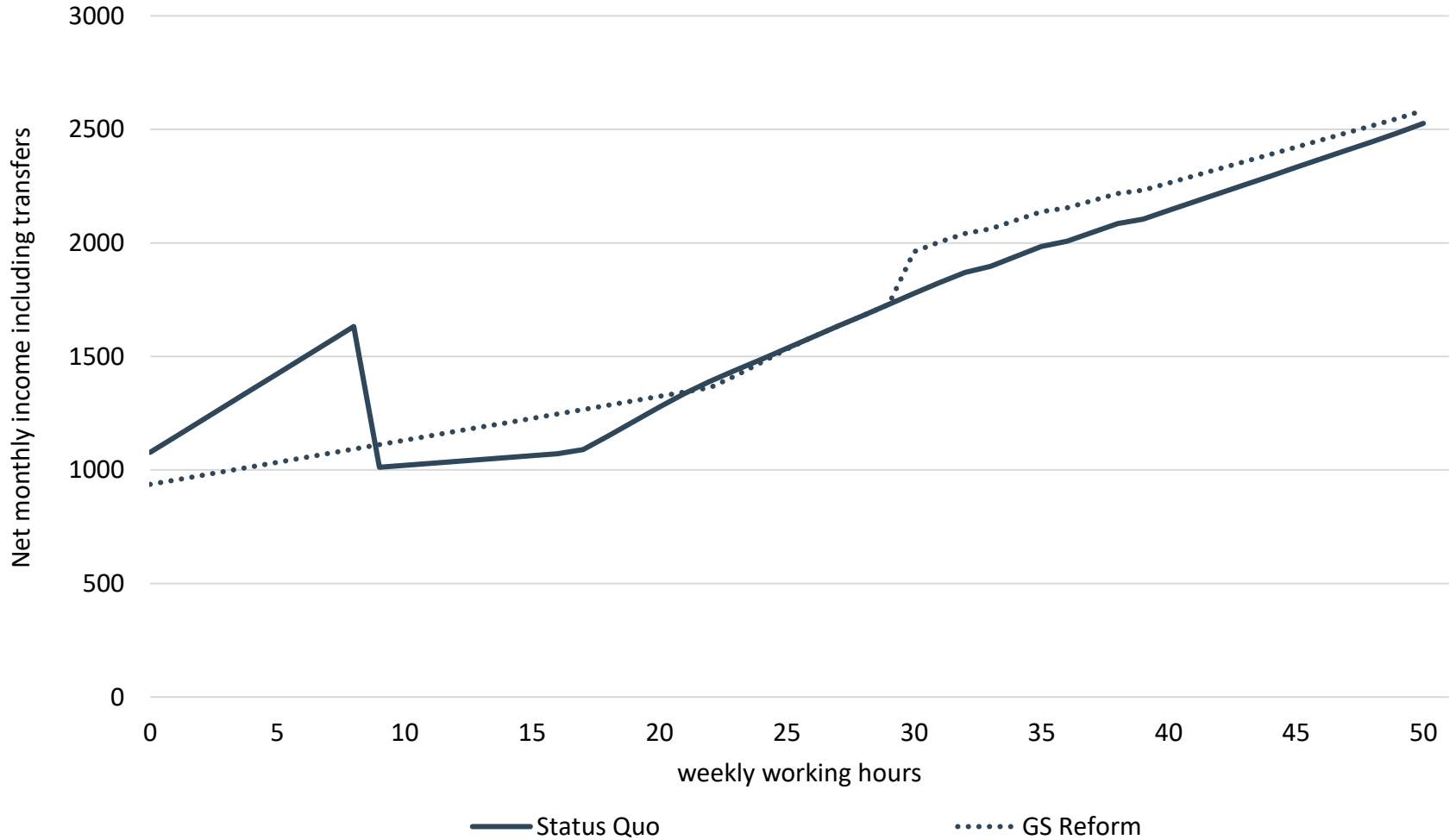
- integrates means-tested unemployment assistance and basic income support and re-introduces Basic Income Support at the federal level;
- re-introduces the means test regarding partner's income for recipients of unemployment assistance;
- abolishes the exemption of (employee) social security contributions for marginally employed workers;
- improves work incentives for people receiving basic income support by reducing the transfer-withdrawal rates to a uniform rate of $\frac{2}{3}$;

- introduces a social security allowance of 250 € for low-wage workers who work at least 30 hours per week, which is linearly withdrawn for monthly gross earnings between 1500 and 3500 €;
- introduces a basic income scheme for dependent children which replaces the existing family tax credit (*Familienbonus*) and transfers to children receiving social assistance, and which amounts to 430 € per month and child, is taxed at the personal income tax rate and withdrawn at the reduced benefit withdrawal rate.

The reform parameters are set so that the reform is budgetary neutral after accounting for potential employment effects.

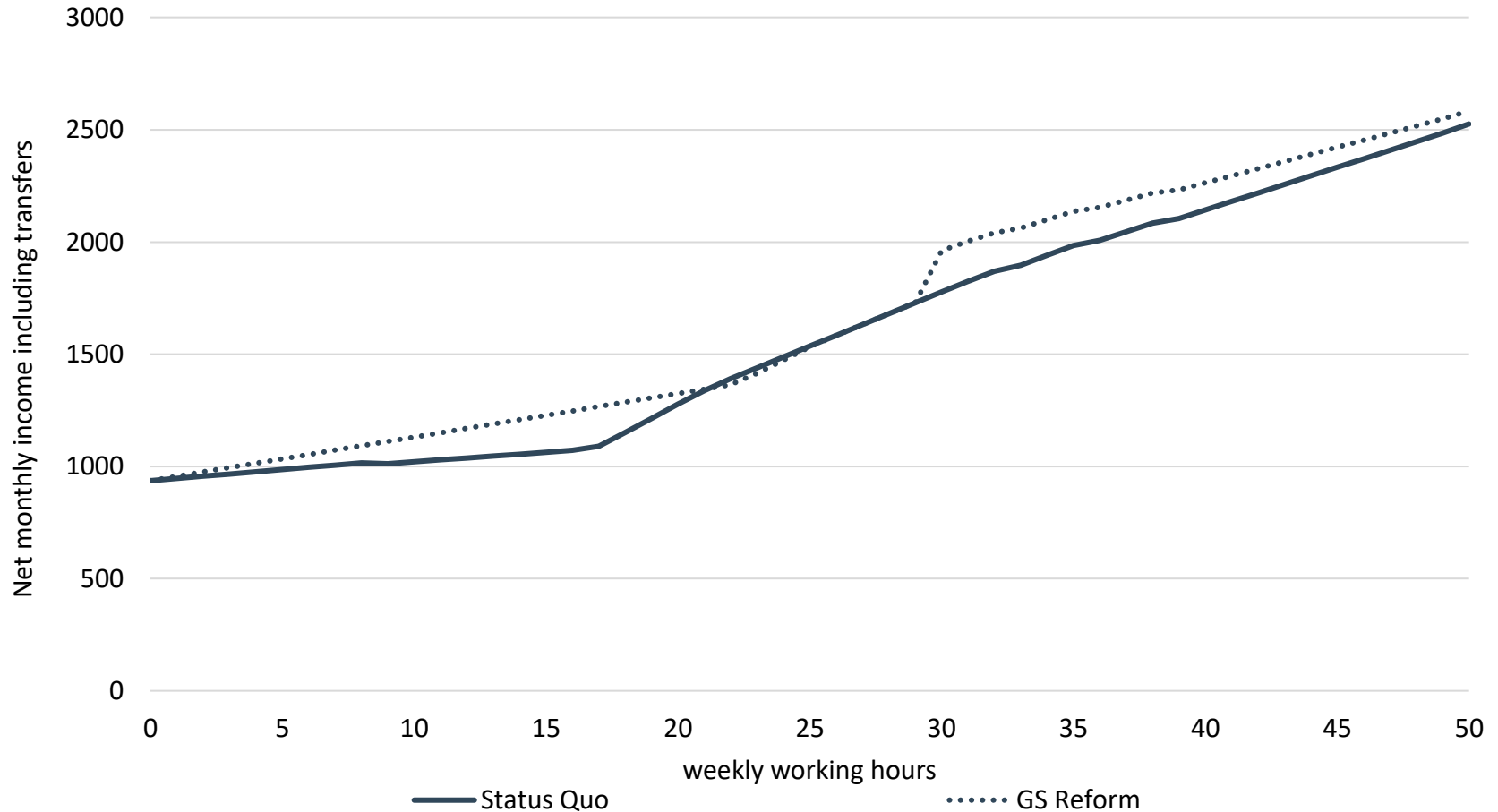
Budget Constraints under Status quo and Reform I

Single woman, no children, hourly wage 15.9 € (p25), entitled to Unemployment Assistance



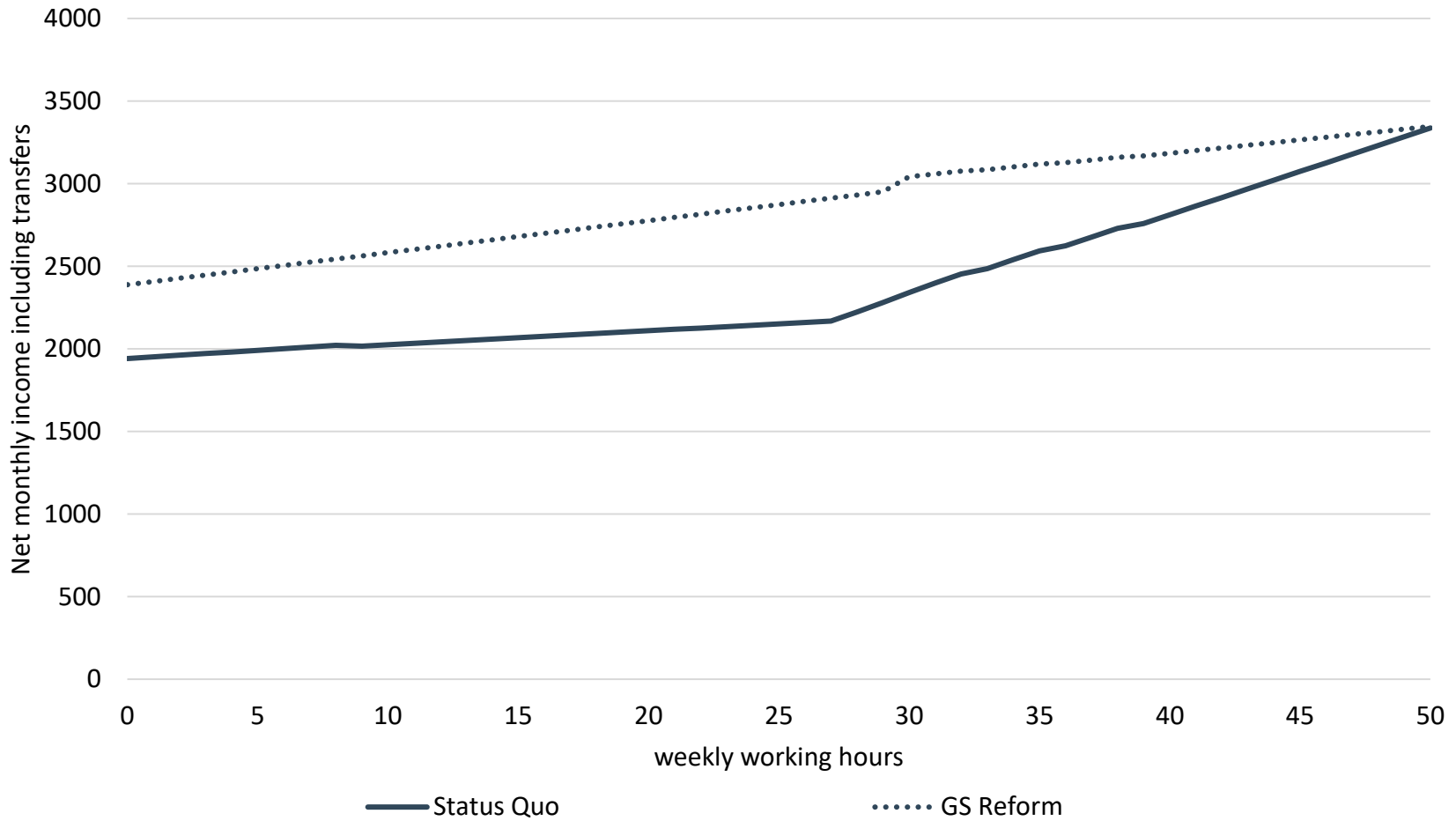
Budget Constraints under Status quo and Reform II

Single woman, no children, hourly wage 15.9 €, entitled to Social Assistance/ Basic Income Support



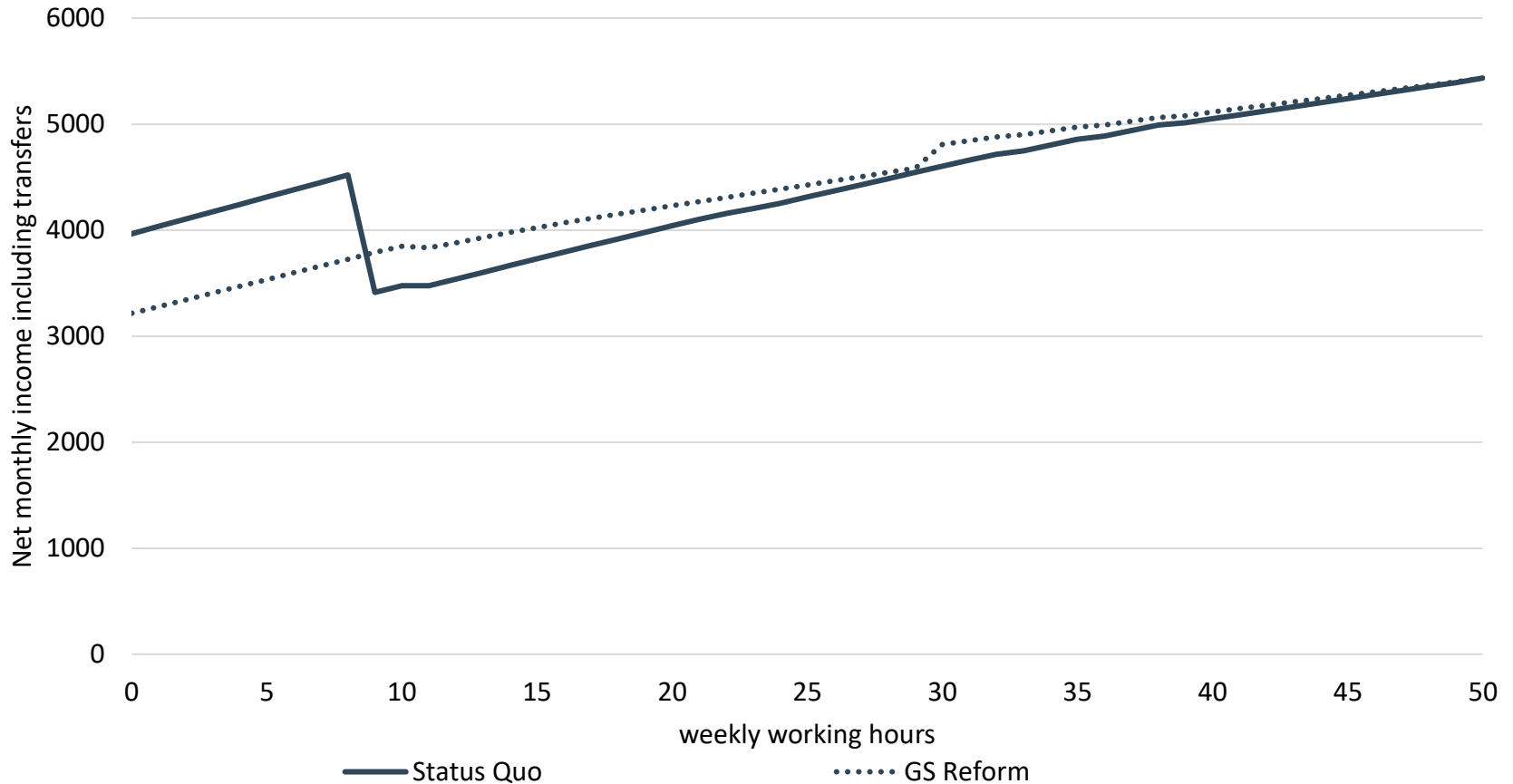
Budget Constraints under Status quo and Reform III

Single woman, two children (5/9 yrs.), hourly wage 15.9 €, entitled to Social Assistance



Budget Constraints under Status quo and Reform IV

Couple, two children (5/9 yrs.), hourly wage wife 15.9 €, hourly wage husband 15.9 €, one spouse works 40 hours per week



The Austrian Tax Transfer Model (ATTM)

Documentation downloadable under:

https://www.gaw.institute/attm_doku_2023.pdf

- **Tax-benefit calculator**

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

Status quo 2024: basis income support regulations as implemented at the level of the nine federal states (Bundesländer)

- **EU-SILC, Wave 2022**

(income) data refer to 2021; updated to 2024 using common inflation factors from official projections (WIFO); tax schedule partially indexed to inflation as legislated

- **Labour market module**

- structural (discrete-choice) labour supply model (6 hours categories for women, 4 hours categories for men);
- categories of desired hours categories adjusted by empirical rationing probabilities to account for demand-side constraints on the labour market:
 - * *zero-hours category* split up between „involuntary“ unemployment and out-of-the-labour force
 - * *positive-hours categories* allocated by the availability of full-time jobs

first-step estimation of rationing probabilities based on info on the an individual's work availability and reason for holding a part-time job available in EU-SILC;

- estimated child-care costs by working hours category are deducted from net household incomes.

Simulation Results: Employment Effects

working hours (in %)	women with children	1.7%
	women without children	2.4%
	women total	2.2%
	men total	0.9%
	women and men total	1.5%
Employment rate (in percentage points)	women with children	1.6%
	women without children	1.9%
	women total	1.7%
	men total	0.7%
	women and men total	1.3%
Employment (full-time equivalents)	women with children	9,332
	women without children	22,261
	women total	31,593
	men total	17,876
	women and men total	49,469
Employment (persons)	women with children	15,025
	women without children	21,066
	women total	36,091
	men total	14,380
	women and men total	50,471

Simulation Results: Distributional Effects I

Decile (NEI)	Status quo 2024	With employment effects		Without employment effects	
	NEI (€ / year)	Diff € / year	%	Diff € / year	%
1st quintile	18,576	568	3.1%	538	2.9%
2nd quintile	26,757	-29	-0.1%	-15	-0.1%
3rd quintile	33,039	-109	-0.3%	-94	-0.3%
4th quintile	41,005	-77	-0.2%	-100	-0.2%
5th quintile	62,572	-152	-0.2%	-157	-0.3%
Total	36,600	32	0.1%	26	0.1%

Simulation Results: Distributional Effects II – Winners and Losers

NEI-Class	more income		less income	
	#	average gain (€ / year)	#	average loss (€ / year)
< 50%	426,008	2,223	181,178	-1,679
50 – 100%	2,640,553	1,108	2,029,296	-1,413
100 - 150%	1,621,363	642	1,092,390	-1,212
> 150%	608,747	252	283,203	-1,018
Total	5,296,671	957	3,586,067	-1,334

Simulation Results: Distributional Effects III

employment status	Status quo 2024	Reform	
	NEI (€ / year)	Diff (€ / year)	%
dependently employed	40,728	271	0.7%
self-employed	41,701	424	1.0%
long-term unemployed	29,072	-2,910	-10.0%
short-term unemployed	37,145	-44	-0.1%
total unemployed	30,095	-2,547	-8.5%
Retired/out-of-labor force/ in education	33,034	-32	-0.1%
without children	38,686	-50	-0.1%
with children	33,531	153	0.5%
Total	36,600	32	0.1%

Simulation results of the Basic Income Reform proposal show

- substantial positive employment effects reducing the current level of unemployment by between 20 and 25 percent (about 50.000 people);
- almost 2/3 of expected employment effects would fall on women, almost half on women without children;
- income gains of about 3 % for the bottom 20 % of the NEI distribution, modest losses of between 0.1 and .3 % for those above
- the number of people who would gain from the reform by far exceeds the number of people who lose, with average gains of poor people substantially exceeding average losses;
- 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!

Viktor Steiner, Florian Wakolbinger
Gesellschaft für Angewandte Wirtschaftsforschung
Sparkassenplatz 2/1/115
6020 Innsbruck

Contact: viktor.steiner@fu-berlin.de