

Fiscal policy for an inclusive and fair labour market

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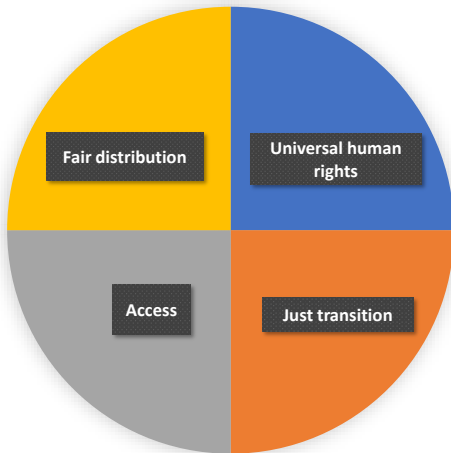
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Introduction

- **Background:** The COVID pandemic triggered renewed interest in the use of fiscal policy to protect the most vulnerable groups (e.g. women, youth, ...)
- **Motivations:** Need to have a deeper understanding of labour market effects of fiscal instruments
- **Gap:** The literature mostly focuses on *quantitative* effects of fiscal policy
- **Our contribution:** We focus on *qualitative* effects of fiscal policy: fairness and inclusiveness (access)

Motivations

The four pillars of social justice



Outline

① Spending

- Direct job creation
- ALMPs
 - Public employment services
 - Training
 - Employment subsidies
 - In-work benefits
- Social protection
 - Family care policies
 - Disability benefits
 - Old-age pensions (not discussed today)
 - Unemployment insurance (not discussed today)

② Tax reforms (still work in progress)

Caveat: We do not discuss labour market institutions

Questions

- Which are the most successful policy tools/strategies?
- Are there trade-off between equality/inclusiveness and efficiency?
- Which are the causes of inefficiency? Country-specific setting? Policy-design? Duration? Links with other policies? Short-run vs long-run effects?

SPENDINGS

1- Direct job creation

● Definition

- In period of economic slack, governments may expand public sector employment (e.g. COVID)
- In emerging economies, governments act as employer of last resort and create temporary employment at base wage to fight poverty (Subarao et al., 2012)

● Main concern: displacement of private jobs (Algan et al., 2002)

- Minor degree in developing countries (Behar and Mok, 2019)
- Only if high public wage premium and high substitution between private and public sector (Stepanyan and Leigh, 2015)
- Only in normal times, while in recession public employment crowds in private sector employment (Lamo et al., 2016)

● Which are the effects on job quality?

- Low informality
- In emerging economies, low-paid and dead-end jobs may be a trap for vulnerable workers

Direct job creation: some concrete examples

- Mahatma Gandhi National Rural Employment Guarantee Schemes since 2006
 - Requirement: one-third of recipients should be women & equal pay → Positive effects on female participation and wages (Azam, 2012)
- Construyendo Perú → higher employment
- Empleos en Acción in Colombia → higher female earnings
- Trabajo por Uruguay & Ingreso Ciudadanos was unsuccessful in terms of labour market outcomes and reducing poverty (Amarante et al., 2011; Escudero, 2020). Short duration?
- Plan Jefes in Argentina offered too low paid to participants → benefits only those at the bottom of the socio-economic ladder & more empowerment for women (Tcherneva, 2005; Garzón de la Roza, 2006; Pastoret and Tepepa, 2006)

To sum up: the effects depend on modality of implementation (duration, paid offered, etc...)

2- Active Labour market Policies

What are ALMPs? Programmes that intervene in the labour market to help the unemployed find work, but also for the underemployed and employees looking for better jobs.

Aims:

- Creating employment and improving employability
- Enhancing matching and hence job quality

Possible negative effects:

- Deadweight loss: the policy benefits individuals who would likely have benefited also in its absence
- Displacement effects: The increase in employment generated by the intervention might displace the employment of non-participants, so that there is no net job creation

ALMPs

ALMPs

Training and job-search
assistance

- Increase employability (inclusiveness)
- Improve earnings (equity)

Employment
subsidies to firms

- STW limit job losses and erosion of skills
- Wage and hiring subsidies improve inclusiveness (if targeted)

In-work benefits to
workers

- Create work incentives for vulnerables (inclusiveness)
- Provide income support (inequality)

ALMPs for women

- ① Bergemann and van den Berg (2008) provide a survey on the effects of ALMPs, men vs women
 - Training: 13 studies over 15 find positive effects on women (any duration)
 - Job-search assistance: if female participation is relatively low, 5 studies over 7 find stronger effects for women (Austria, France, Switzerland, West Germany). However, no effect if female participation is high
- ② Brewer et al. (2006) use UK and US data on in-work income benefits
 - Creating work incentives, especially for lone mothers → more inclusiveness
 - Discouraging participation of married women, if eligibility is based on household income → low inclusiveness

ALMPs for youth (ILO-World Bank, 2022)

Data and methodology

- ALMPs targeted at young people (15-35 years old) between 1990-2022
- Instruments: training, entrepreneurship promotion, employment services, wage subsidies, public work programmes
- Measures of performance: employment and wage
- Methodology: estimate the effects of intervention using an experimental and quasi-experimental evaluation to identify counterfactual outcomes in the absence of the intervention

Results

- The most effective instruments are entrepreneurship interventions (LIC & MIC) and training (HIC)
- ALMPs targeted at youth are effective, more in low- and middle-income countries where youth face more challenges (Betcherman et al., 2007; Kluge et al., 2017, 2019)
- More successful if duration > 4 months
- Higher impact on more vulnerable groups (women and < 25 years)

ALMPs for youth

- Caliendo and Schmidl (2016): only job search assistance has positive effects. Training can reduce take up of formal education
- Martin and Grubb (2001) only wage subsidies are effective
- Heckman et al. (1999): none of the programs is effective
- Kluve et al. (2002), Kluve (2010), Card et al. (2010) ALMPs are less effective for youth than for adults
- Positive effects in LAC (Escudero et al., 2017)
- Blundell et al. (2004) analyse the New Deal for the Young Unemployed in the UK: job-search assistance + wage subsidies paid to employers + training
Transition to employment increased by 5 pp, of which one-fifth is due to job-search assistance

ALMPs - other vulnerable groups

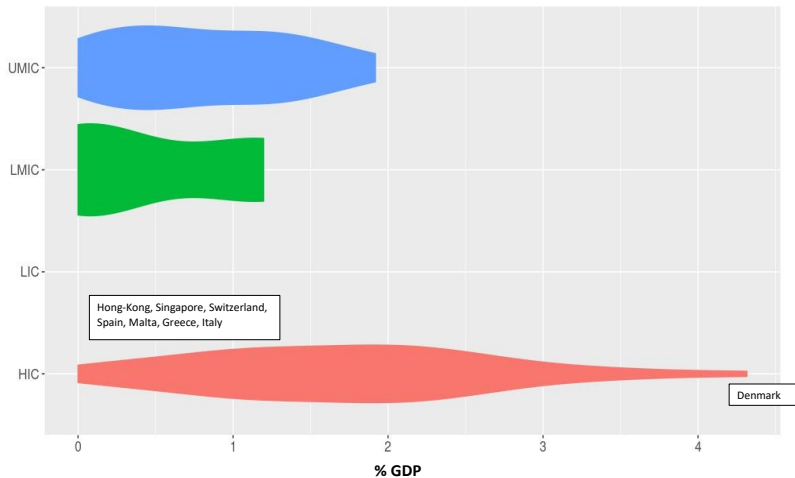
- Old workers - no effects (Brookmann, 2015; Huttunen et al., 2013 for Finland)
- People with disabilities - no effects (Jiménez-Martín et al., 2019 for Spain; Baert, 2016 for Belgium)
- In Austria, integration in the unsubsidised employment, especially on women and people with disabilities, if implemented with training and mentoring (Eppel, Horvath and Mahringer, 2014; Hausegger et al., 2010)

To sum up: measures alone might be not effective, better if implemented as a package

3.1- Social Protection care policy measures

- **Definition:** Public policies allocating resources to care-givers in the form of money, services or time (childcare grants, early childhood services, parental leave, teleworking & flexitime, etc...)
- **Background/Rationale:** women devote 1-3 hours more a day to housework (unpaid care) than men
→ implications for gender equality and labour inclusiveness (Sepúlveda Carmona, 2013)

Spending on family and children, 2018 (% GDP)



How effective different care policies are?

- In OECD countries, *in-kind* family benefits (e.g. subsidized childcare services) help women to return to work and are more effective than *in-cash* benefits child allowances (Gal and Teising, 2015)
- In OECD countries, subsidies childcare services correlates positively with full-time female employment and facilitate women's transition from *part-time* to *full-time* work (Thévenon, 2013), but specific welfare regime matters
- In EU countries, flexible work increases participation of women with children, regardless of their *educational attainment*, while child care, family benefits and parental leave increase labour market attachment mostly for medium and high-educated women (Cipollone et al., 2014)
- In HIC, parental leave are beneficial for female employment only up to 50 weeks. Wage gaps increase with longer leave entitlements for high-skilled women, but not for low-skilled (Olivetti and Petrangolo, 2017)
- In Chile, after-school care increases female participation by 7% and employment by 5% (Martínez and Perticará, 2017)

To sum up: Results depend on individual characteristics

3.2- Social protection disability benefits

- **Definition:** Publicly financed income support offering assistance in cash and/or in kind to those individuals with functional disabilities and severe health problems
- **Background/Rationale:** Employment gaps and discrimination (Jones, 2021).
 - Other instruments (e.g. quotas) are not effective without a non-compliance penalty (Barnay et al., 2019 for France vs Lalive et al., 2013 for Austria)
- **Side effects (-):** Disincentives to participate in the labour market
 - Reforms relaxing eligibility criteria reduce labour force participation of individuals with disabilities and *low education* (Autor and Duggan, 2003 for the US)
 - Probability of working is 5% lower for those receiving disability benefits. Disincentives are higher for those with *minor disabilities* (Frutos and Castello, 2015 for Spain)
 - Both studies suggest that a simple binary indicator is misleading

TAX REFORMS

Reducing payroll taxes

Rationale: Payroll tax reductions are intended to increase formal employment (change in status) or to increase employment for specific (vulnerable) groups → job quality & inclusiveness

Four cases:

- 1 Colombia (2012): Payroll taxes from 29.5% to 16% of wages & 9% corporate profit tax → revenue-neutral shift from labour to corporate taxes
 - Kugler et al. (2017): lower informality especially for women and in small firms. Similar results in Bernal et al. (2017)
 - Fernandez and Villar (2017): lower informality but mostly for young men and low-educated workers
- 2 Brazil (1996, 2006): reduction & simplified tax collection/payment for small firms (Simples and Supersimples)
 - Fajnzylber et al. (2011): formality rate increase by 11 pp
 - Langot et al. (2019) find a minor role
 - Hsieh and Olken (2014): incentives for firms to remain small

Reducing payroll taxes (cont'ed)

- ③ Argentina Monotributo (1998) was beneficial especially for women (Duran Valverde et al., 2014)
- ④ Sweden (2007, 2009): youth preferential payroll tax relief, revoked in 2015
 - Egebark and Kaunitz (2018): in the *short-run*, high cost, modest effect, insignificant for foreign-born workers
 - However, Saez et al. (2021) find that in the *long-run* effects are three as large as in the short-run

Other tax reforms (work in progress)

① Environmental taxes

- Without compensatory measures, higher efficiency, but regressive effects since low-income agents use a higher fraction of their expenditures for energy (Grainger and Kolstad, 2010; Douenne, 2018)
- A revenue-neutral carbon tax affects especially low-educated since it increases unemployment and because of these job losses, some engage in temporary and part-time jobs, and, eventually, some, being discouraged workers, leave the labour force (Chi Man Yip, 2018)

② Flat tax: regressive effect but higher participation (maybe from women?)

A word cloud featuring the phrase "thank you" in multiple languages and scripts. The words are arranged in a roughly circular shape, with "thank" and "you" being the largest and most prominent. Other words include "suksema", "danke", "gracias", "obrigada", "obrigado", "teşekkür ederim", "tack så mycket", "tusind tak", "謝謝", "dakujem vám", "ありがとう", "ngiyabonga", "dziękuję", "merci", "baie dankie", "धन्यवाद", "molte grazie", "takk", "gràcies", "tänan", "dank u", "teşekkür edire", and "mahalo".

suksema
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