



The missing link between financial incentives to work and employment (in Belgium for now)

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Introduction

Some argue that the reduction of social protection in Europe was related to the pre-crisis increase in employment. At the same time, ‘make work pay’ policies generally increased the take-home pay of low-wage workers. These events might have increased participation incentives. In this paper, we study whether those changes affected the likelihood of taking up work.

Model

For now we only present the following first differences logit model:

$$P(U_{it-1} \rightarrow E_{it}) = \gamma \Delta PTR_{it} + \mu_t + \epsilon_{it}$$

The dummy μ_t is added when combining the two available transitions. In the future we aim to control for time-variant characteristics. In the meantime, we complement the results by also studying the effect of Net Replacement Rates (RRs). Net RRs include other household components of financial incentives. We also study some interactions.

Limitations and next steps

As results are preliminary, we limit to say that most of them do not follow previous results which could be due to several factors that we will study (e.g. PTRs driven by observed wages; small variation; narrow sample; missing variables in EU-SILC which we assume 0; etc.). Besides this, we will mainly focus on i) PTRs based on simulated earnings also in the state E, ii) time-variant controls, iii) PTRs variation in other years and iv) one or two other countries based on the previous point and available statistical power.

Methodology

Similarly to Bartels et al. (2016), we study whether changes in Participation Tax Rates (PTRs) had an effect on the likelihood of taking up work. We use longitudinal EU-SILC data (merged with cross-sectional). Due to statistical power, we study transitions over two years (for now between 2005-07). To calculate PTRs we generate ‘longitudinal’ EUROMOD input files.

Assumptions

- Narrow sample (60% of full-year unemployed): couples/singles; max 2 earners; transitioning to > 6 months & 15 weekly hrs. employed; w/o job change at survey time; with simulated benefits.
- Non-observed earnings for PTRs: ‘traditional’ hr wage estimation; 39 hrs. of work assumed for men; women are matched to their highest predicted probability through a logit model using the most common hrs. options.
- For now PTRs in state E are based on observed wages.

Tables and Figures

Figure 1. Transitions to employment and PTRs evolution, BE
Average cross-sectional PTRs of employed and unemployed

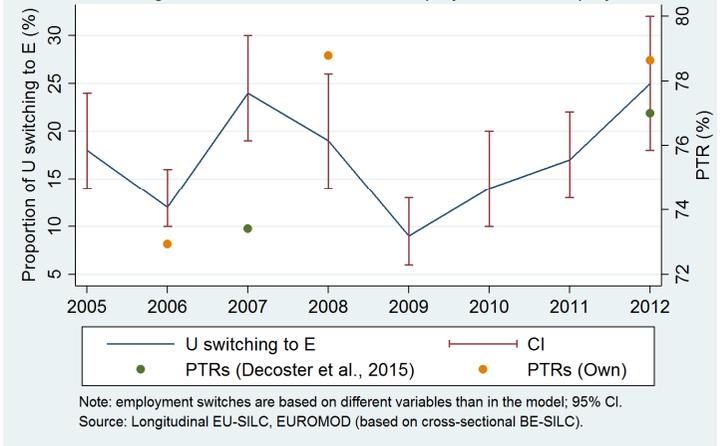


Table 1. AMEs of incentives on transition probs. (in pp)

	2005-06		2006-07		Combined	
	mean abs. variation	γ	mean abs. variation	γ	mean abs. variation	γ
ΔPTR	5.2	0.3	4.7	0.5	5.0	0.4
	[4.1,6.3]	[0.1,0.5]	[3.7,5.7]	[0.1,0.9]	[4.2,5.7]	[0.2,0.6]
ΔPTR * male						0.4
						[0,0.9]
ΔPTR*decades in work						0.2
						[0,0.4]
ΔRR	6.5	0.4	8.4	0.5	7.4	0.4
	[5.6,7.5]	[0.2,0.6]	[5.9,10.9]	[0.2,0.8]	[6.1,8.7]	[0.3,0.6]
ΔRR * dummy 20-30 yrs						0.9
						[0.1,1.6]
n	276		273		549	

Note: AME=average marginal effect; 95% CI; main effects are different in interaction models; year dummy and educ. interaction not s.s.; for now we use simple s.e.