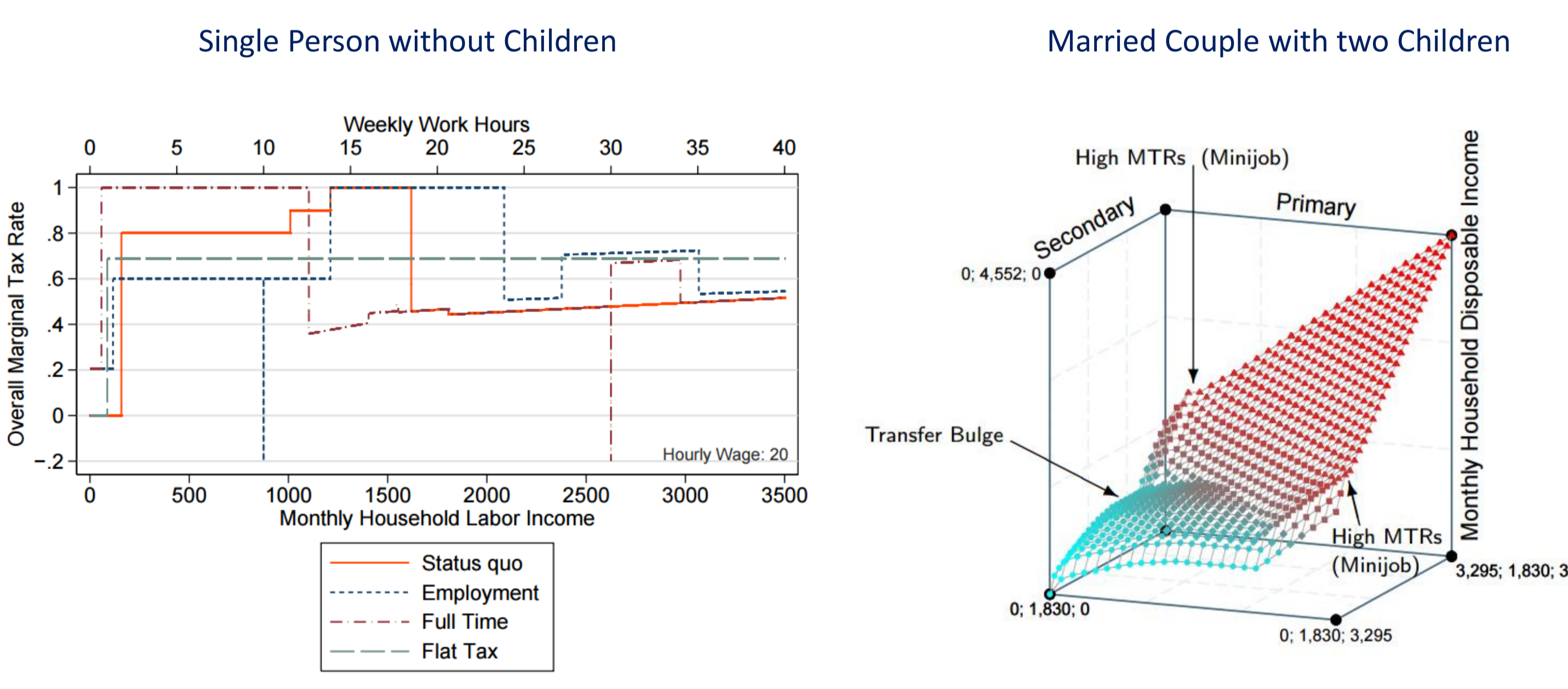


# Getting the Poor to Work:

## Three Welfare Increasing Reforms for a Busy Germany (FU Berlin Discussion Paper No. 2015/22)

Three Reform Scenarios			Labor Supply Effects									
<b>Employment</b>	<b>Full-Time</b>	<b>Basic Income/Flat Tax</b>	<b>Employment</b>			<b>Full-Time</b>			<b>Basic Income/Flat Tax</b>			
No Change	No Change	-	Women	Men	Total	Women	Men	Total	Women	Men	Total	
increasing MTR from 0.21	No Change	-	<b>Changes in Hours Worked (in Percent)</b>									
increasing MTR from 0.245	No Change	-	<i>Deciles of Net Equivalence Income</i>									
From 13,470			1st	-0.0	0.8	0.3	-0.7	3.8	0.9	-0.1	4.1	1.4
No Change	No Change	MTR of 0.6885	2nd	-0.4	-0.2	-0.3	-0.1	0.0	-0.0	-2.5	-0.1	-1.5
No Change	No Change	-	3rd	-1.1	-0.7	-0.9	-0.8	0.1	-0.4	-7.2	-0.7	-1.4
No Change	No Change	Basic income of 800 Euro/month	4th	-3.2	-0.1	-1.7	0.1	0.0	0.1	-3.2	-0.9	-2.0
No Change	No Change	380 Euro/month for children	5th	-1.7	-0.2	-0.9	-0.2	-0.1	-0.0	-7.2	-2.3	-4.7
MWR of 0.6 up to income of 1,200 Euro (1,500 Euro with children in household)		MWR of 0.6885	6th	-4.8	-0.2	-2.4	-0.2	0.0	-0.1	-9.2	-4.0	-6.5
MWR of 1 afterwards	MWR of 1	(All other transfers for people under 65 are abolished)	7th	-2.3	-0.9	-1.6	0.5	-0.1	0.2	-10.0	-1.6	-5.6
Subsidy of 1,560 Euro/year	Subsidy of 1,560 Euro/year	-	8th	-0.7	-0.6	-0.7	0.0	0.0	0.0	-13.4	-3.0	-8.1
for people working at least 10 h/week	for people working at least 10 h/week		9th	-0.6	-0.1	-0.3	-0.1	-0.1	-0.1	-9.1	-2.6	-5.4
Withdrawn at rate of 0.19	Withdrawn at rate of 0.19	Note: MWR – Marginal Withdrawal Rate	10th	-1.7	-0.2	-0.8	-0.0	0.0	-0.0	-12.0	-5.1	-8.0
from 28,250 Euro/year	from 28,250 Euro/year	MTR – Marginal Tax Rate	All Households	-1.7	-0.3	-1.0	-0.1	0.2	0.0	-7.7	-2.2	-4.9
Incentives and Budget Constraints			Income and Welfare Effects									
			<b>Employment</b>			<b>Full-Time</b>			<b>Basic Income/Flat Tax</b>			
			Income Change	Comp. Variation	Income Change	Comp. Variation	Income Change	Comp. Variation	Income Change	Comp. Variation		
			<i>Deciles of Net Equivalence Income</i>									
			1st	1,943	1,920	229	98	4,296	4,210			
			2nd	1,558	1,600	515	511	4,065	4,078			
			3rd	941	992	741	747	2,941	3,330			
			4th	389	613	750	805	2,178	2,561			
			5th	-73	134	613	696	1,067	1,830			
			6th	-852	-294	459	543	-48	1,165			
			7th	-928	-498	424	463	-948	48			
			8th	-1,137	-885	348	375	-2,822	-998			
			9th	-1,418	-1,215	242	264	-4,531	-2,827			
			10th	-2,209	-1,515	117	228	-10,387	-6,715			
			All Households	-182	81	444	473	-423	662			
Structural Labor Supply Model			Conclusions									
<p>A discrete choice model of weekly working hours (van Soest 1995)</p> <ul style="list-style-type: none"> <li>Data from the Socioeconomic Panel (SOEP)</li> <li>Wages from a wage regression with selection correction (Heckman 1979)</li> <li>Net incomes from the microsimulation model STSM (Steiner et al. 2012)</li> <li>Couples maximize joint utility in leisure and consumption by choosing hours category (e.g., wife works in a mini-job, husband works full-time):</li> </ul> $\max_{L_{fij}, L_{mij}} V_{ij} = U(C_{ij}, L_{fij}, L_{mij}, X_i) + \varepsilon_{ij}$ <p>with: <math>L_{fij}</math> leisure of the female partner in household <math>i</math> in hours category <math>j</math>, <math>L_{mij}</math> leisure of the male partner, <math>C_{ij}</math> consumption, <math>\varepsilon_{ij}</math> iid random disturbance from the Gumbel distribution, <math>X_i</math> individual and household characteristics</p> <ul style="list-style-type: none"> <li>Probability that household <math>i</math> chooses hours category <math>k</math> (McFadden 1974)</li> </ul> $P_{ik} = \Pr(V_{ik} > V_{ij}, \forall j = 1 \dots J) = \frac{\exp(U_{ik})}{\sum_{j=1}^J \exp(U_{ij})}, k \in J$ <ul style="list-style-type: none"> <li>Estimation of extensive (employment) and intensive (working hours) elasticities which are used to simulate labor market effects of reforms</li> </ul>			<ol style="list-style-type: none"> <li>A basic income that covers the socio-cultural subsistence level is fundable</li> <li>People in the bottom decile increase working hours, while all others increase leisure</li> <li>Women would reduce labor supply substantially under basic income</li> <li>Accounting for hours reductions, budgetary balance is achieved with a flat tax of about 70% (including social security contributions)</li> <li>Introducing an hours subsidy of 1,560 Euro per year at 10 hours per week increases working hours for the first and second decile and overall welfare</li> <li>Introducing an hours subsidy of 1,560 Euro per year at 30 hours per week increases overall working hours (including strong effect for the first decile) and overall welfare</li> <li>Compared to reforms that involve subsidies at specific working hours, the basic income reform increases welfare the most.</li> </ol>									
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