

# **Indicators and policies to make work pay**

Proceedings of the workshop organised  
by the European Commission  
(Economic and Financial Affairs DG)

**Edited by** Giuseppe Carone and Aino Salomäki

## **Disclaimer**

The views expressed in the chapters of this volume, whether by staff of the European Commission or by external contributors, are the authors' alone and should not be attributed to the European Commission.

# Contents

<b>Introduction and overview</b> .....	<b>1</b>
1. Introduction .....	3
<i>Servaas Deroose</i>	
2. Overview of the proceedings .....	9
<i>Giuseppe Carone and Aino Salomäki</i>	
<b>Part I: Indicators of financial incentives to work</b> .....	<b>17</b>
3. A joint OECD–EC project to calculate the tax burden on labour and incentives to work .....	19
<i>Christopher Heady</i>	
4. Indicators of unemployment and low-wage traps .....	28
<i>Giuseppe Carone and Aino Salomäki</i>	
5. Euromod: An integrated European tax-benefit model and indicators of work incentives .....	50
<i>Herwig Immervoll and Holly Sutherland</i>	
6. Indicators of financial incentives to work: discussion .....	65
<i>Mário Centeno</i>	
<b>Part II: Labour supply and policies to make work pay</b> .....	<b>69</b>
7. In-work benefits and labour supply .....	71
<i>Mike Brewer and Andrew Shephard</i>	
8. Unemployment traps — marginal groups in the Danish labour market .....	83
<i>Peder J. Pedersen</i>	
9. Labour supply and policies to make work pay: discussion .....	96
<i>Tito Boeri</i>	
<b>Part III: Eligibility criteria, enforcement and labour market regimes</b> .....	<b>99</b>
10. How can incentives in unemployment insurance be improved? Theory and evidence .....	101
<i>Peter Fredriksson and Bertil Holmlund</i>	
11. Changes in benefit entitlement and job finding: the Slovenian experiment .....	120
<i>Jan C. van Ours and Milan Vodopivec</i>	
12. Evaluating labour market reforms in Europe in the 1990s .....	131
<i>Claus Houmann Frederiksen, Søren Gaard and Anne Katrine Bagge Thorball</i>	
13. Eligibility criteria, enforcement and labour market regimes: discussion .....	153
<i>Bruno Van der Linden</i>	
<b>Part IV: Lessons from national labour market reforms</b> .....	<b>159</b>
14. Indicators and policies to make work pay: an Italian perspective .....	161
<i>Paolo Sestito</i>	

15.	How to make public policies supportive to employment in practice — lessons from Germany . . . . .	170
	<i>Friederike Hesse</i>	
16.	Does work pay? Incidence of unemployment and inactivity traps in the Czech Republic . . . . .	179
	<i>Kamil Galuščák and Jan Pavel</i>	
17.	Indicators and policies to make work pay: coordination of policies and progress of reforms. . . . .	193
	<i>Aino Salomäki</i>	

## Figures

3.1.	Personal taxes by single individuals and families, 2003 . . . . .	25
5.1.	Net replacement rates for the initial 12 months of unemployment, 1998 (% of working-age employees (excluding civil servants)) . . . . .	55
5.2.	Marginal effective tax rates faced by working population, 1998. . . . .	56
5.3.	The distribution of marginal effective tax rates faced by working population, 1998 . . . . .	57
5.4.	Adults in paid work with high (> 50 %) marginal effective tax rates, 1998 . . . . .	60
5.5.	Median METR by gender; men and women in the same earnings decile group, 1998 . . . . .	60
5.6.	Average participation tax rates, including employer contributions and indirect taxes; by earnings decile, 1998. . . . .	62
6.1.	Unemployment duration elasticity and METR (unemployment). . . . .	66
6.2.	Participation rate and METR (unemployment) . . . . .	67
7.1.	Budget constraints for a lone parent in 1997 and the changes to in-work support in real terms in 2000 and 2004. . . . .	72
7.2.	Budget constraints for a lone parent in nominal terms in 1997, 2000 and 2004 . . . . .	73
7.3.	Budget constraints for a second earner in a couple with children in 1997, 2000 and 2004. . . . .	74
7.4.	Employment rates of parents, 1994–2004 . . . . .	78
7.5.	Worklessness rates for households with dependent children, and the proportion of children living in workless households, 1997–2004 . . . . .	78
8.1.	Average net compensation rates by intervals of hourly earnings in 2001. . . . .	86
8.2.	Total costs of CVT courses as a percentage of total labour costs in 1999; all enterprises. . . . .	93
11.1.	Survival in unemployment, before and after the change of law, distinguished by entitlement group . . . . .	127
11.2.	Monthly exit rates from unemployment, before and after the change of law; distinguished by entitlement group . . . . .	128
11.3.	Monthly job finding rates, before and after the change of law, distinguished by entitlement group . . . . .	129
12.1a.	Standardised unemployment, 1980–2003 . . . . .	132
12.1b.	Structural unemployment, 1980–2003. . . . .	132
12.2a.	Actual and structural unemployment, 2003 . . . . .	133
12.2b.	Change in actual unemployment, 1994–2003, by unemployment in 1994 . . . . .	133
12.3a.	Unemployment and ratio of expenditures in ALMP per unemployed to GDP per person in labour force, 1999 . . . . .	139
12.3b.	Employment protection, 1998, and change in unemployment, EU countries, 1994–2003 . . . . .	139
12.3c.	Structural unemployment and employment protection in EU countries, 2003 . . . . .	139
12.3d.	Employment protection and product market regulation, 1998. . . . .	139