

# WIFO

TEL. (+43 1) 798 26 01-0

FAX (+43 1) 798 93 86

 ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG  
AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH

1030 WIEN, ARSENAL, OBJEKT 20 • <http://www.wifo.ac.at>

A-1030 VIENNA – AUSTRIA, ARSENAL, OBJEKT 20

## **Getting a Lot out of a Little Bit of Work? The Effects of Marginal Employment during Unemployment**

**Presentation at the Fifth International Conference on Precarious Work and  
Vulnerable Workers (London, 13-14 June 2016)**

**Rainer Eppel, Helmut Mahringer**

- **“Marginal employment” (ME):** gross salary below an annually adjusted ceiling (2015: € 406 per month)
  - No social security contributions for employee
  - No income tax (as long as  $\leq$  € 11,000 per year)
- ME offers option to top up unemployment benefits (UB) with earnings from employment up to the ME-ceiling (€ 406 per month)
  - No benefit reduction
  - Both, during unemployment benefit (first 20-52 weeks) and unemployment assistance receipt (after expiry of UB)
- **Sharp discontinuity at the threshold:** UB fully withdrawn, earnings liable to social security contributions and possibly to income tax
  - High implicit tax rate on additional income

## Stepping stone

- Work experience
- Avoidance of human capital depreciation
- Remaining familiar with regular working environment
- Contact with hiring firms
- Signalling readiness to work and motivation
- Screening device for employers

## Dead end

- Irrelevant work experience
- Labour market segment with low wages, poor learning, training and career opportunities
- Lock-in effects
- Lower incentive to regular work

- **Post-unemployment job match quality:** option to wait longer for better job?

- 
- Role and implications of Marginal Employment during unemployment
    - In particular: “Stepping stone” to regular employment or “dead end” ?
  - Effects on labour market integration and earnings
    - Duration of unemployment
    - Time to next regular job
    - Employment integration over 3-year follow-up period
    - Monthly earnings in first regular job (job match quality)
  - Effect heterogeneity
    - Sex, age, education level, previous unemployment experience

- 
- **Data:** two merged sources of administrative micro-data
    - Austrian Social Security Database (ASSD)
    - Austrian Unemployment Register (AUR)
  - **Sample:** unemployment inflows of 25-55-year-olds 2008-2010
    - No marginal job in 2 years prior to unemployment entry
    - No initial hiring commitment from employer
    - 995,904 observations (11.5% with ME)
  - **Descriptive findings:**
    - Many women and especially mothers among marginally-employed
    - Services (tourism, trade, business services) rather than manufacturing
    - ME typically already at an early stage of unemployment

---

## ■ Counterfactual situation

- **Treatment group**: strategy of marginal job take-up during unemployment
- **Control group**: no marginal employment during unemployment

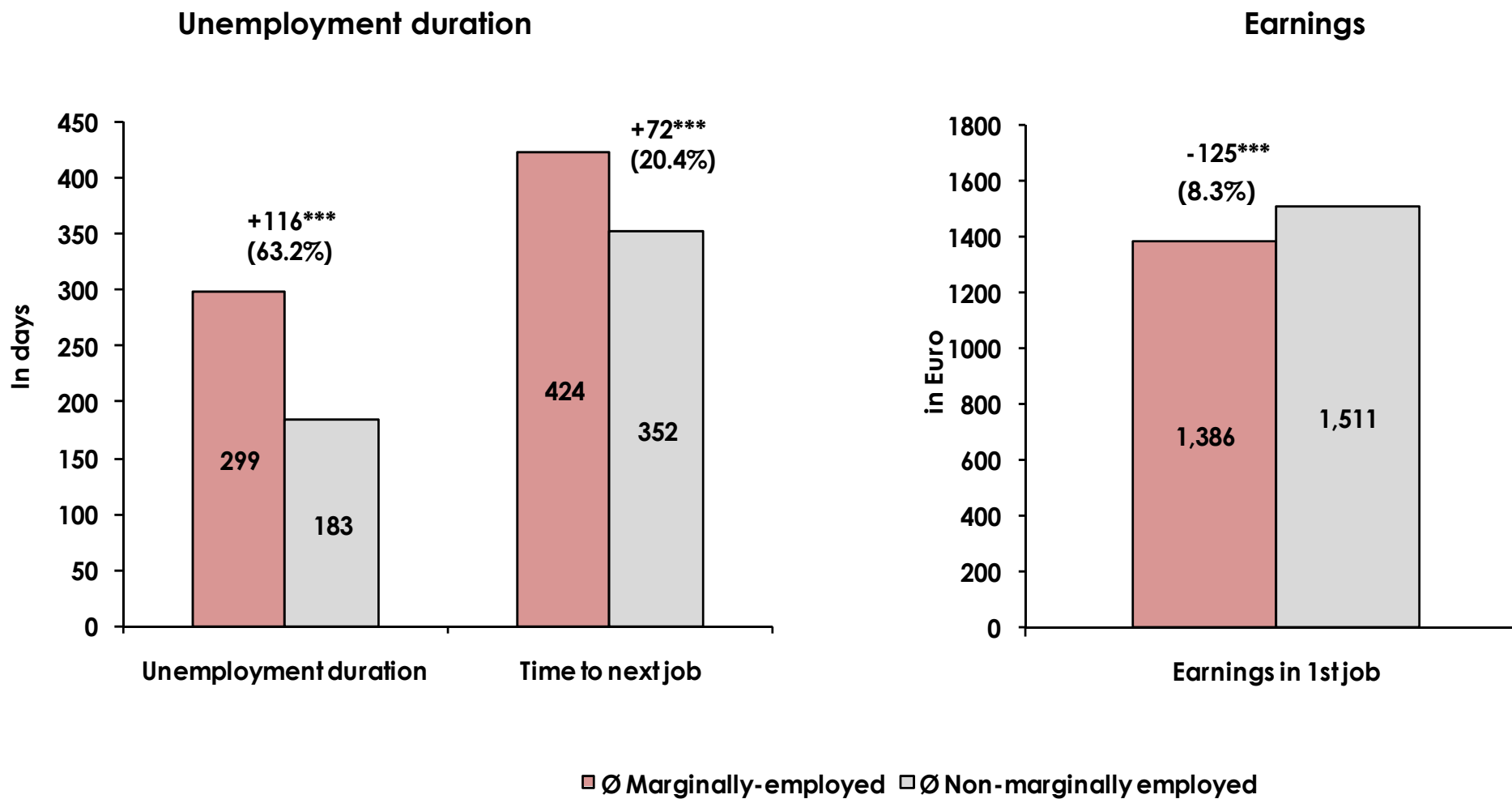
## ■ Propensity score matching

- **Parameter of interest**: average treatment effect on the treated (ATT)

## ■ Rich set of observables to avoid selection bias

- Socio-demographics (sex, age, education, family status, children, nationality, health, etc.)
- Characteristics of last job
- Detailed labour market histories (15 years)
- Unemployment benefit receipt
- Contact to PES and participation in labour market programs
- Local labour market conditions

# Average effects of marginal employment on unemployment duration and earnings



Sources: ASSD and AUR data. In parentheses: ATT in relative terms.

# Average effects of marginal employment on labour market integration in 3-year follow-up period



Sources: ASSD and AUR data. In parentheses: ATT in relative terms. All effects significant on the 1-percent level.



- 
- Increasing incidence of ME during unemployment
  - Feature of UI-design: option to top-up UB with earnings from ME results in high implicit tax rate at threshold (sharp discontinuity)
  - Unfavourable effects of ME on labour market integration of the unemployed
    - Longer unemployment duration
    - Delayed take-up of regular employment
    - Less regular employment within a three year period
    - Lower earnings
  - Only short run (1-2 years) negative effects on regular employment, but long run effects on earnings
  - Hence, no indication of a dominant stepping stone function

- 
- **Larger (negative) effects for groups with better re-employment prospects (higher educated, less unemployment experience)**
    - Work-experience in ME seems to be irrelevant
    - Prolonged search for regular work (lower search effort and/or lower incentive to take-up regular work)?
  - **Smaller effects for persons with poorer employment prospects**
    - Lower return to job search effort?
    - Less opportunity to deny a job offer (due to more binding obligation for accepting job offers)?
  - **ME option for the unemployed can cause a precarity-trap**
    - In view of high implicit tax rates, effects are moderate
    - Obligation to take up jobs, threat of sanctions, intrinsic motivation, counselling, placement-services may counteract disincentive effects