FISR2

STRUCTURAL REFORMS BETTER INTEGRATED WITHIN FISCAL FRAMEWORKS

Analysis supporting the decision making of labor market reforms

The case of Slovenia

Gonzalo Caprirolo

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Outline

1. Relevance of evidence-based policy making
2. The analytical unit: purpose, data and tools
3. Monitoring and policy assessment in the labor market
4. The role of the Analytical Unit on ongoing structural reforms and key policy measures

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Evidence-based Policy-Making

1. Policy-making against the backdrop of the factual evidence and statistical data

2. Evidence has a critical role to play in improving transparency, the quality, suitability, sustainability, effectiveness of policy making

3. Reliable and systematically collection of data and its analysis is a key building block to make political decisions understandable, assessable and sustainable

4. Deliver good and targeted outcomes based on transparent evidence that is systematically and effectively used

5. Evidence based policy making often requires organizational change, solid institutional arrangements and commitment from higher management

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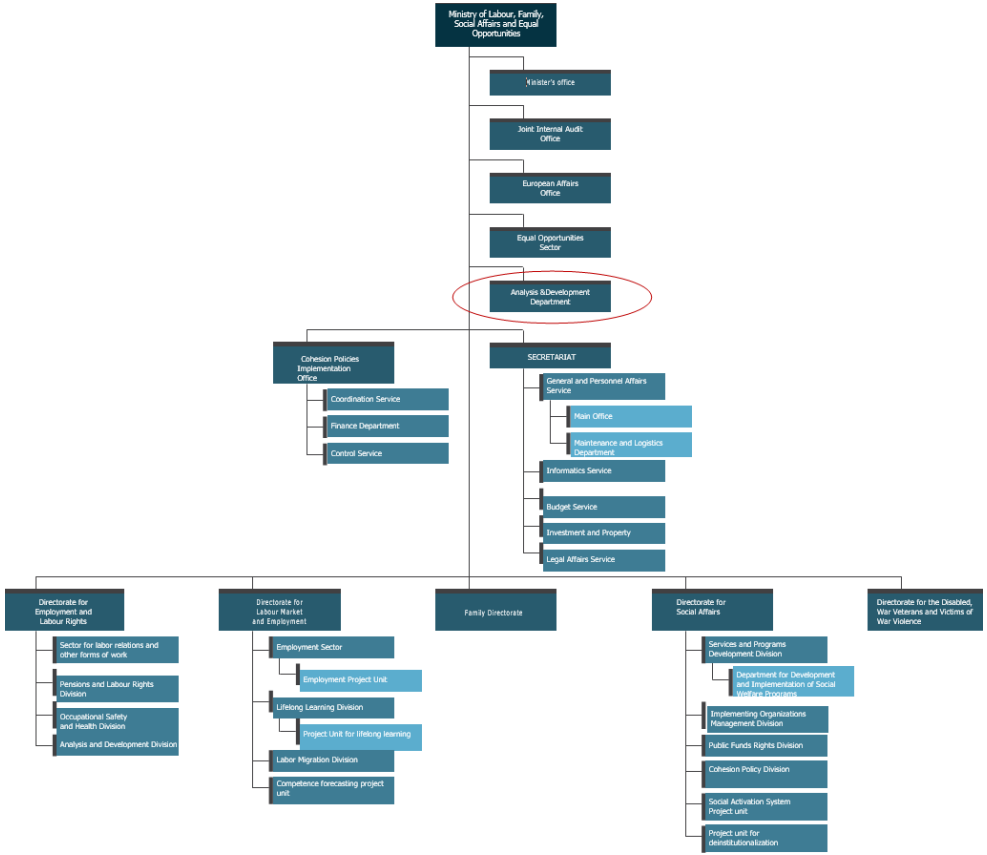
The Analytical Unit within the Organigram of the MoLFSAEO



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Tasks and tools of the Analytical Unit

1. Tasks

   - Monitoring trends in the fields of labor and social conditions

   - Conducting policy-oriented analysis to support evidence-based policy making and identifying policy reform options;

   - Conducting policy impact assessment

2. Monitoring tools

   - Dash-board indicators (social transfers, social-pillar, wellbeing, labor market, unemployed)

   - Reports public and internal

3. Analytical tools (TaxBen model, General equilibrium model)

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Monitoring and policy assessment in the labor market

1. Labor incentives (interaction between tax and benefit systems)
   - Extensive margin
   - Intensive margin

2. Assessing policy interaction of incentives and wages

3. Labor monitoring
   - Labor market framework indicators
   - Internal reports

4. Assessment of structural reforms also beyond standard metrics

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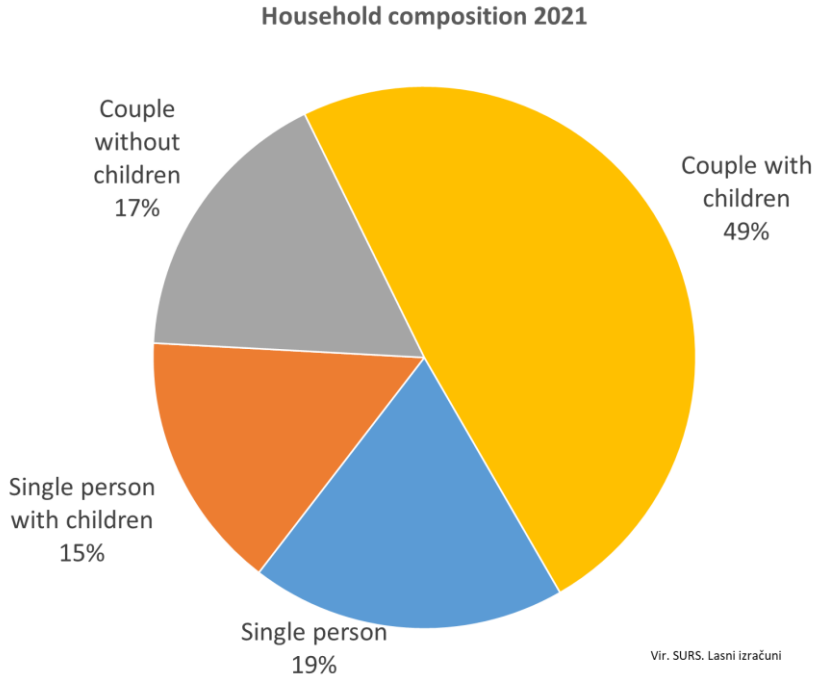
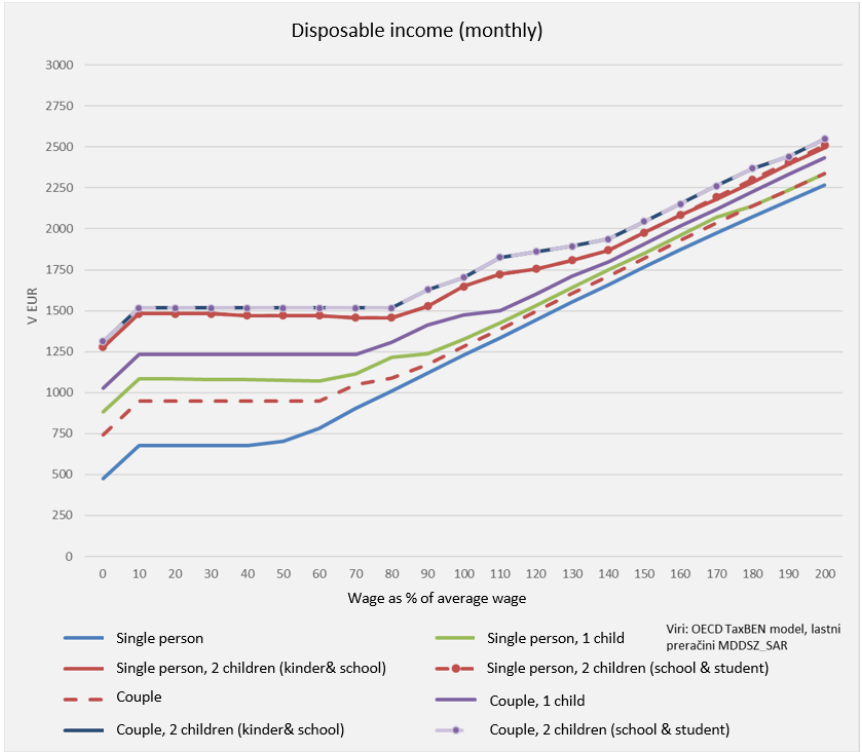
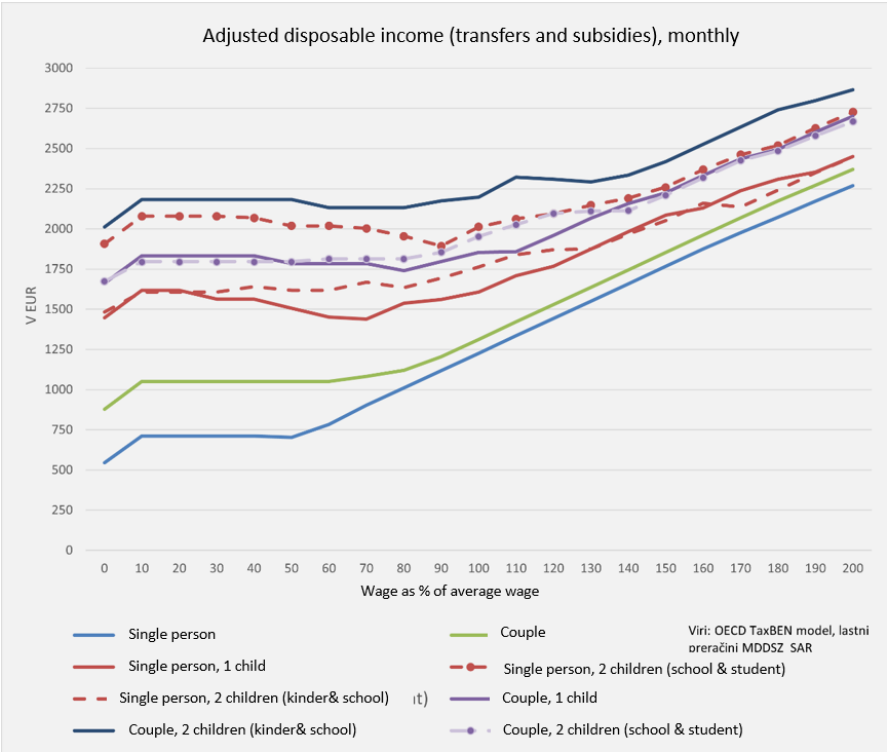
Interaction of tax and benefit systems on income and labor incentives



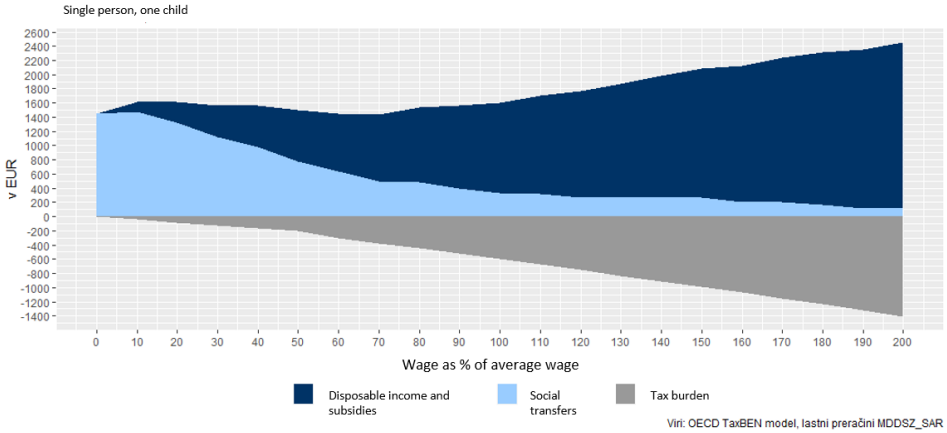
Vir. SURS. Lasni izračuni

Interaction between tax and benefit (cash and in-kind) on disposable and adjusted disposable income for various family types

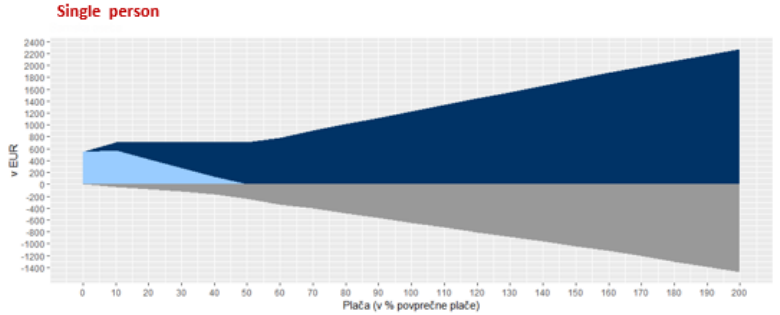


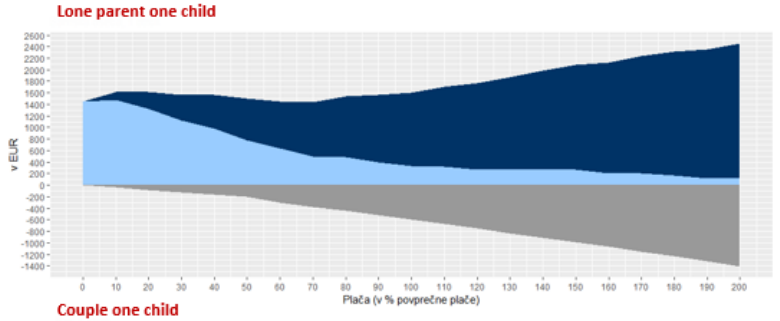


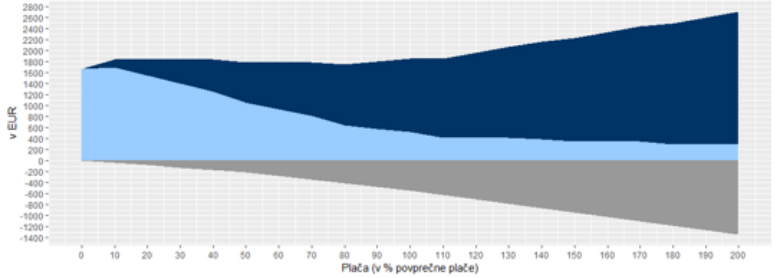
Interaction between tax, benefit (cash and in-kind) and wages for various family types



Viri: OECD TaxBEN model, lastni preračini MDDSZ_SAR







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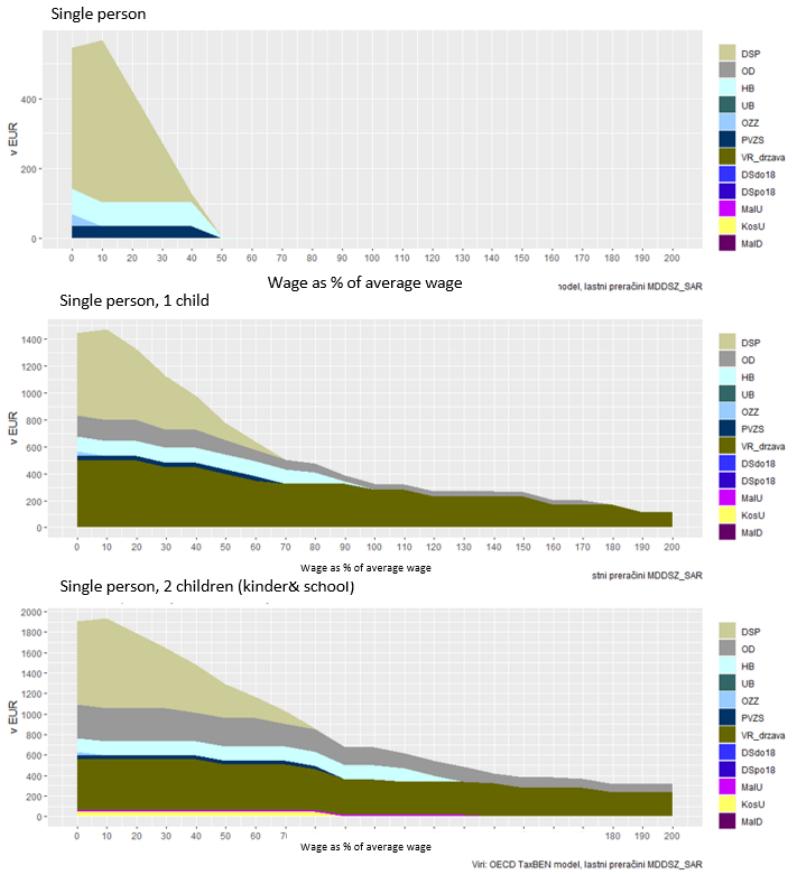
Detailed account of transfers for different family types



DSP: cash social assistance
HB: Housing subsidy
UB: unemployment benefit
OD: Child allowance
VR: Kindergarten subsidy
MalU: lunch subsidy for pupils
KosU: lunch subsidy for pupils
MalD: lunch subsidy for students
DSdo18: state scholarship for a beneficiary under the age of 18
DSpo18: state scholarship for a beneficiary over 18 years of age
PVZS: coverage of the difference up to the full value of medical services
OZZ: payment of contribution for compulsory health insurance

Entitlements to social transfers according to wage level

Lone parent with two children (kindergarten and student primary), euros

Wage (% average wage)	SocTr	DSP	OD	HB	NB	VR	DSdo18	DSpo18	PVZS	OZZ	MalU	KosU	MalD
0	1.907	814	328	135	0	498	0	0	35	34	16	48	0
10	1.933	873	328	135	0	498	0	0	35	0	16	48	0
20	1.787	727	328	135	0	498	0	0	35	0	16	48	0
30	1.641	581	328	135	0	498	0	0	35	0	16	48	0
40	1.484	471	282	135	0	498	0	0	35	0	16	48	0
50	1.289	325	282	135	0	448	0	0	35	0	16	48	0
60	1.168	204	282	135	0	448	0	0	35	0	16	48	0
70	1.031	131	218	135	0	448	0	0	35	0	16	48	0
80	859	8	218	135	0	398	0	0	35	0	16	48	0
90	675	0	176	135	0	348	0	0	0	0	16	0	0
100	675	0	176	135	0	348	0	0	0	0	16	0	0
110	617	0	147	131	0	323	0	0	0	0	16	0	0
120	542	0	147	56	0	323	0	0	0	0	16	0	0
130	486	0	147	0	0	323	0	0	0	0	16	0	0
140	423	0	100	0	0	323	0	0	0	0	0	0	0
150	383	0	100	0	0	284	0	0	0	0	0	0	0
160	383	0	100	0	0	284	0	0	0	0	0	0	0
170	368	0	84	0	0	284	0	0	0	0	0	0	0
180	318	0	84	0	0	234	0	0	0	0	0	0	0
190	318	0	84	0	0	234	0	0	0	0	0	0	0
200	318	0	84	0	0	234	0	0	0	0	0	0	0

https://www.gov.si/drzavni-organi/ministrstva/ministrstvo-za-delo-druzino-socialne-zadeve-in-enake-moznosti/o-ministrstvu/sluzba-za-analize-in-razvoj/

Disposable income and labor costs

Couple with two children, student secondary and tertiary education (in EUR)

Wage (% average wage)	Disposable income and in-kind benefis	Social transfers	Net wage	Gross wage	Social security contributions employer	Labor cost
0	1.673	1.673	0	0	0	0
10	1.796	1.650	146	187	384	571
20	1.796	1.504	292	375	343	717
30	1.796	1.358	438	562	301	863
40	1.796	1.212	584	750	260	1.009
50	1.796	1.066	730	937	218	1.155
60	1.813	937	876	1.124	181	1.305
70	1.813	808	1.005	1.312	211	1.523
80	1.813	685	1.128	1.499	241	1.740
90	1.855	604	1.250	1.686	272	1.958
100	1.952	579	1.373	1.874	302	2.175
110	2.027	531	1.496	2.061	332	2.393
120	2.095	490	1.606	2.249	362	2.611
130	2.111	397	1.714	2.436	392	2.828
140	2.114	292	1.822	2.623	422	3.046
150	2.210	280	1.930	2.811	453	3.263
160	2.318	280	2.038	2.998	483	3.481
170	2.426	280	2.146	3.185	513	3.698
180	2.486	232	2.254	3.373	543	3.916
190	2.579	217	2.362	3.560	573	4.133
200	2.668	198	2.470	3.748	603	4.351

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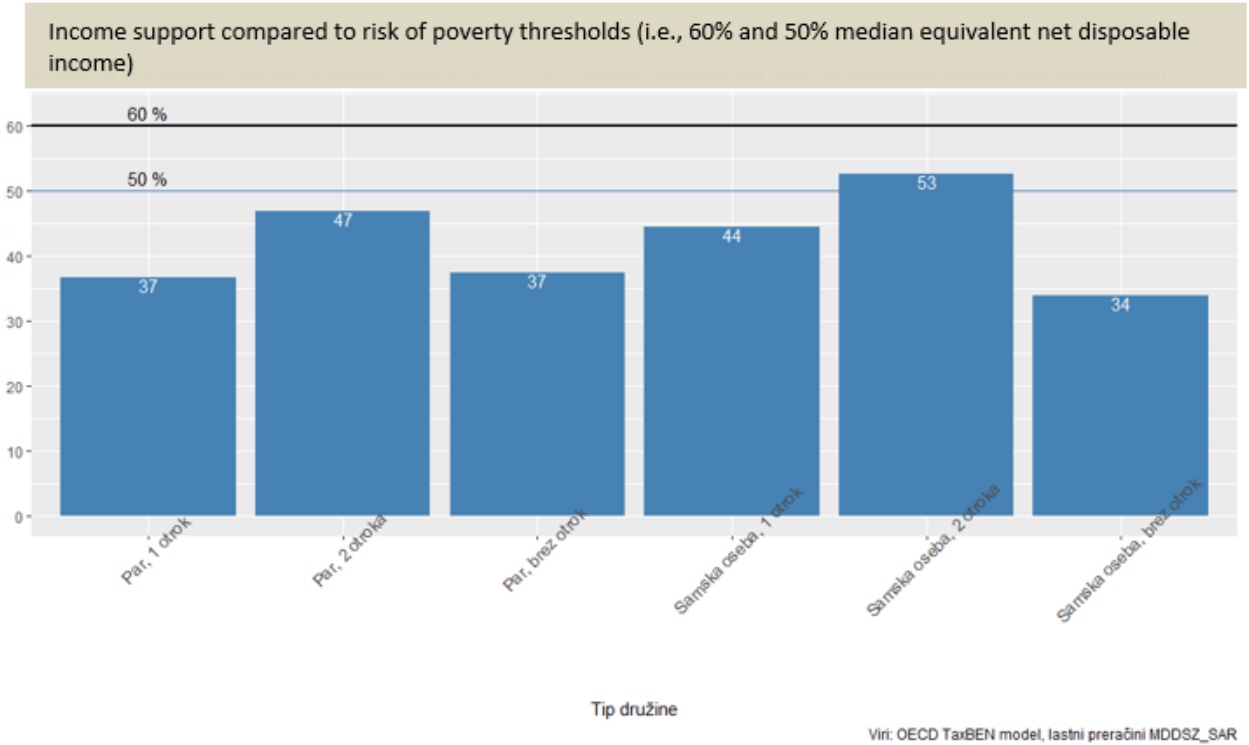
Adequacy of minimum income levels for different family types



Viri: OECD TaxBEN model, lastni preračini MDDSZ_SAR

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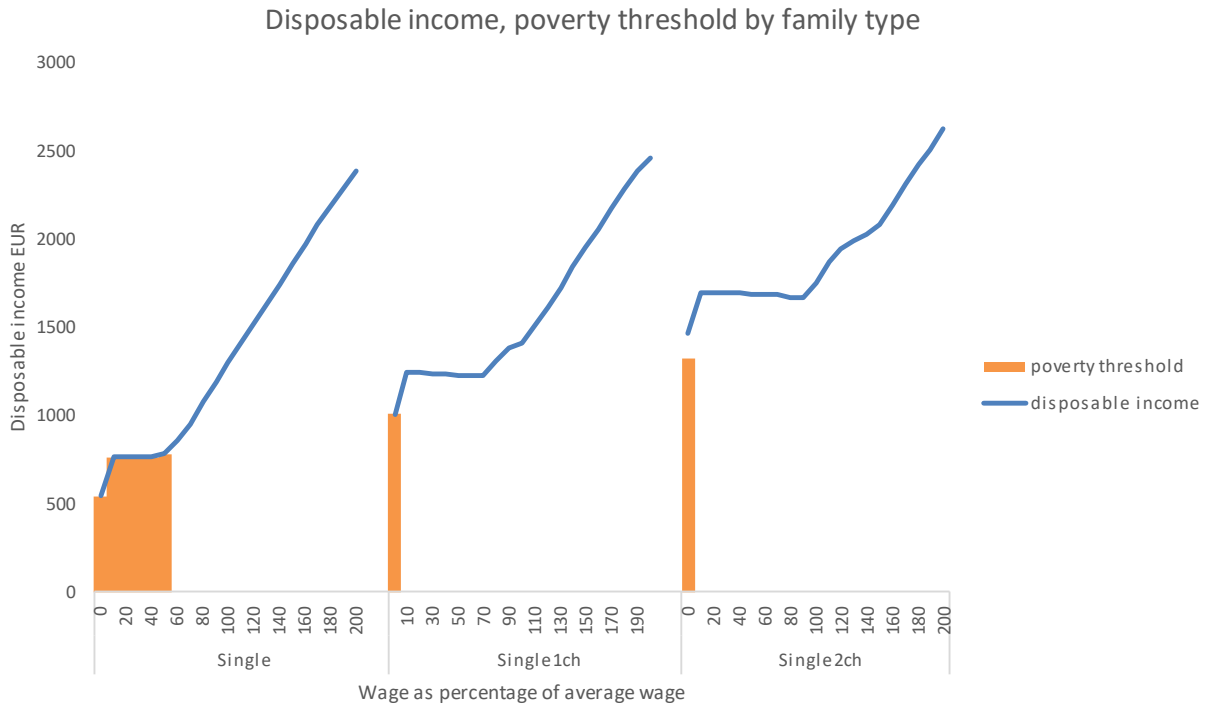
Impact of transfers in mitigating poverty



Participation Tax Rate (PTR)

The Effective Tax Rate by family type: foregone income when entering the labor market

Wage as % average wage	Single person	Lone parent 1 child	Lone parent 2 children	Couple	Couple 1 child	Couple 2 children
20	49	44	45	45	45	45
30	66	64	64	64	64	64
40	75	73	74	73	73	73
50	79	79	79	78	78	78
60	84	83	83	82	82	82
70	83	82	85	77	84	84
80	79	80	87	81	81	86
90	75	81	84	78	77	81
100	72	78	80	75	76	79
110	69	75	78	72	77	75
120	67	72	78	69	74	76
130	65	70	78	67	72	76
140	63	68	77	65	71	76
150	62	66	75	64	69	74
160	61	65	73	63	67	72
170	60	64	71	61	66	70
180	59	63	70	60	64	69
190	59	63	68	60	63	68
200	58	62	67	59	62	67

The Effective Tax Rate measures the fraction of additional gross earnings lost to either higher taxes or lower benefits

https://www.gov.si/drzavni-organi/ministrstva/ministrstvo-za-delo-druzino-socialne-zadeve-in-enake-moznosti/o-ministrstvu/sluzba-za-analize-in-razvoj/

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Marginal Effective Tax Rate (METR)

METR according to different salary increases and family type

	From minimum wage to 75 % average wage	From 75 % of average wage to the average wage	From average wage to 150 % average wage
Single person	42	42	42
Single person, 1 child	72	69	44
Single person, 2 children	104	59	65
Couple	68	55	42
Couple, one employed person, 1 child	96	52	54
Couple, one employed person, 2 children	100	61	63

https://www.gov.si/drzavni-organi/ministrstva/ministrstvo-za-delo-druzino-socialne-zadeve-in-enake-moznosti/o-ministrstvu/sluzba-za-analize-in-razvoj/

The share of lost income when wage increases (METR) is measured by the share of additional earnings lost as a result of higher taxes or lower social transfers when a person's salary rises.

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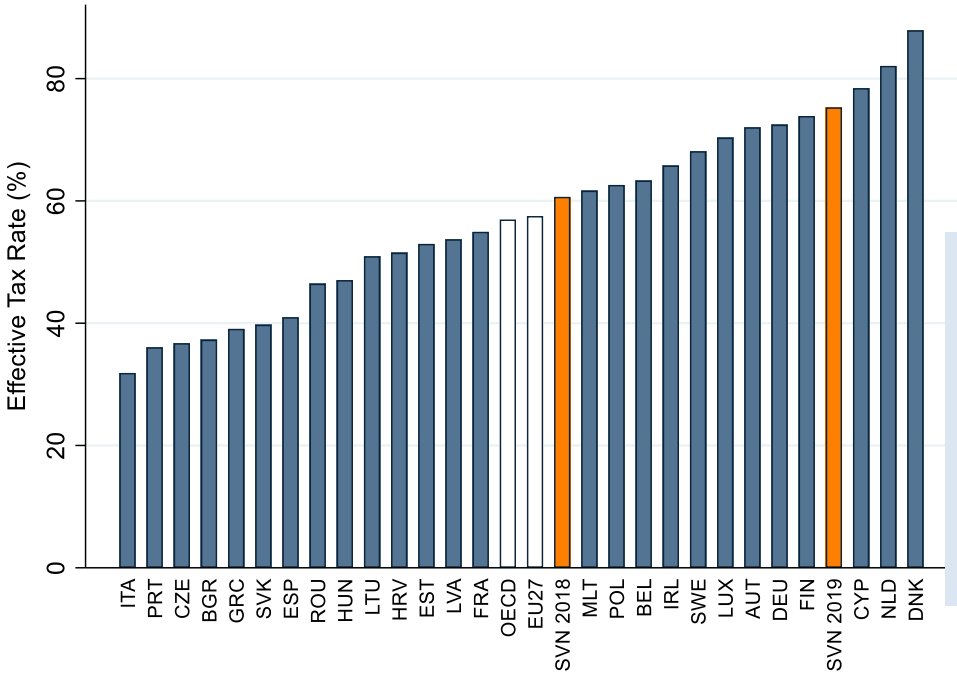
Impact of higher social assistance on incentives to join the labor market

Effective tax rate on entering employment, 2019

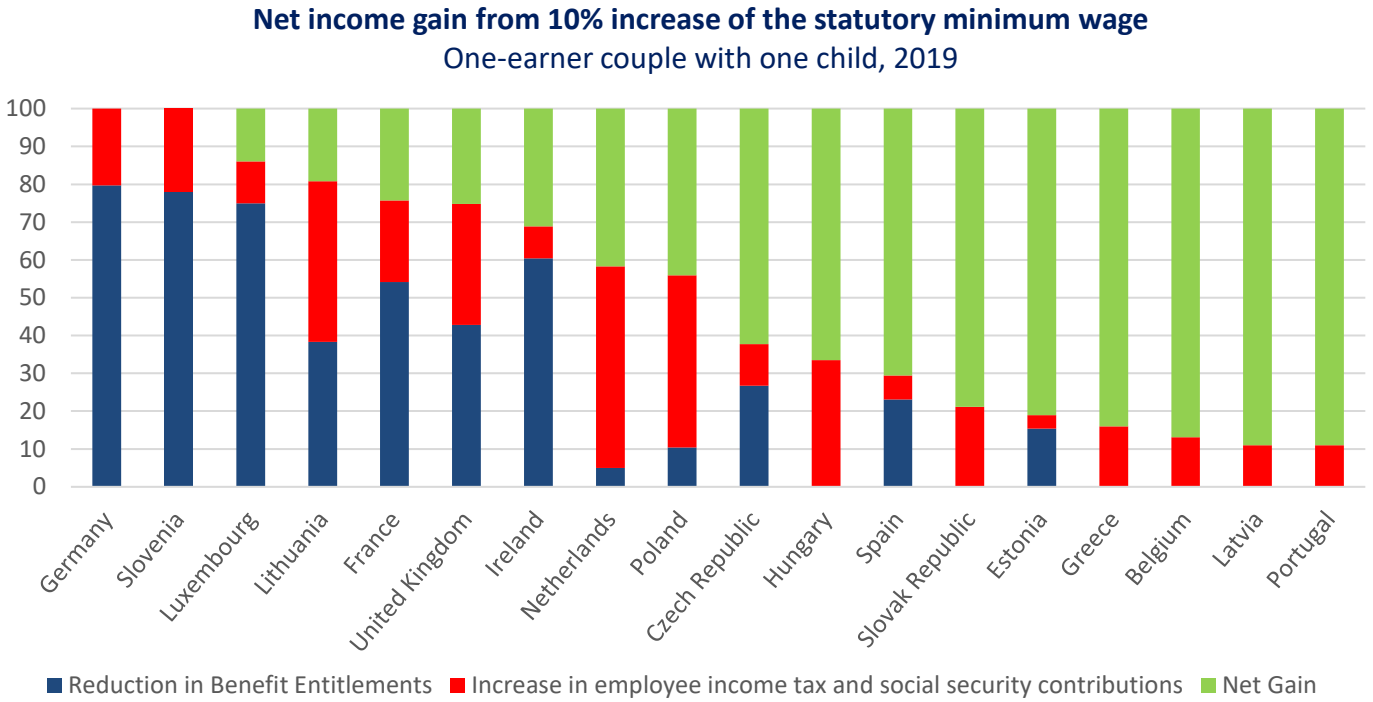
Single person without children, starts working at P10 wage



Slovenia 2018 >> 2019:

- Social assistance and housing benefit are more generous
- Higher withdrawal of benefits once a person starts working

Impact of increase in minimum wage on disposable income



Framework of indicators for monitoring labor market trends

Set of indicators organized according to the three broad conceptual pillars of the OECD Jobs Strategy

1. The *Job Quantity* pillar includes indicators on jobless individuals and the workforce more broadly

2. The *Job Quality* pillar examines the components of a good job: earnings, work environment, and job security

3. The *Inclusiveness* pillar examines income disparities as well as factors that may affect access to jobs and the inequality of opportunity

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Framework of indicators for monitoring labor market trends

Level	Reporting structure		
1	Labour market snapshot		
	Job Quantity	Job Quality	Inclusiveness
	Synthesis Indicator	Synthesis Indicator	Synthesis Indicator
2	Core indicators		
	Job Quantity	Job Quality	Inclusiveness
	JS indicators	JS indicators	JS indicators
3	Extended indicators		
	Job Quantity	Job Quality	Inclusiveness
	11 additional indicators	8 additional indicators	10 additional indicators
	Context		
	23 related indicators		
4	Disaggregation by sub-group		
	Job Quantity	Job Quality	Inclusiveness
	Context		
	Sex	Age	Education
	Work type	Sector	Region
	Occupation	Foreign-born status	[Other groups]

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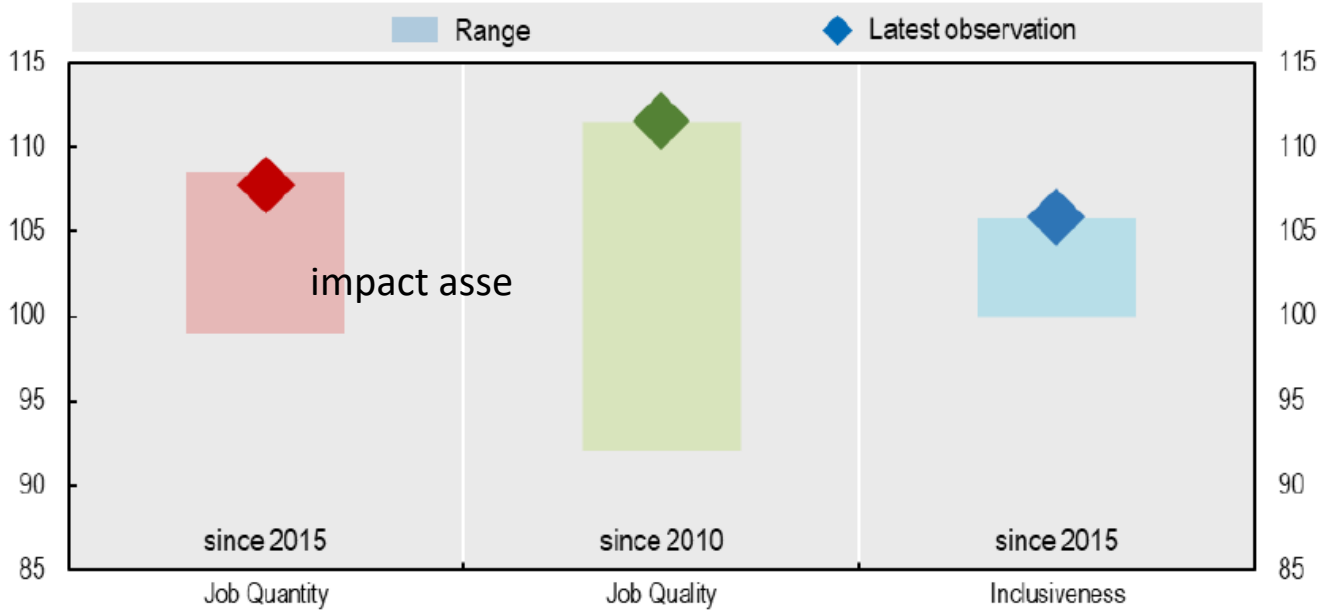
Overview of labor market performance

Synthesis indicators of job quantity, job quality, and inclusiveness. Latest year and historical range.



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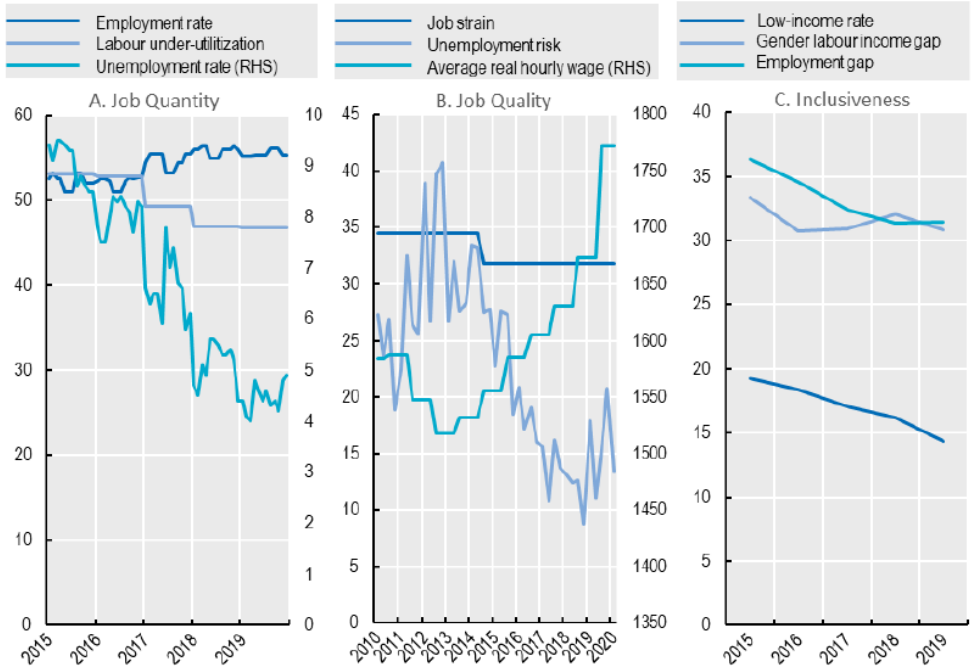
Core framework indicators

Input indicators for the synthesis indicators, 2010 or 2015 to latest available period. Various units (refer to the notes)



Note: The employment rate, labour under-utilization rate, and low-income rate is presented as a share of the working age population. The unemployment rate is presented as a share of the labour force. Job strain is reported as a share of workers, the average real hourly wage is reported in Euros, the unemployment rise is the monthly unemployment inflow probability times the expected average duration of unemployment spells.The gender labour income gap and the employment gaps are presented as a share of the reference group.
Source: OECD calculations based on data from EUROSTAT, OECD.stat, and the Slovenian Statistican Agency.

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Using the framework for monitoring challenges in the labor market

1. Job quality
2. Population ageing
3. Skills and technological change
4. Inward and outward migration
5. Jobless individuals

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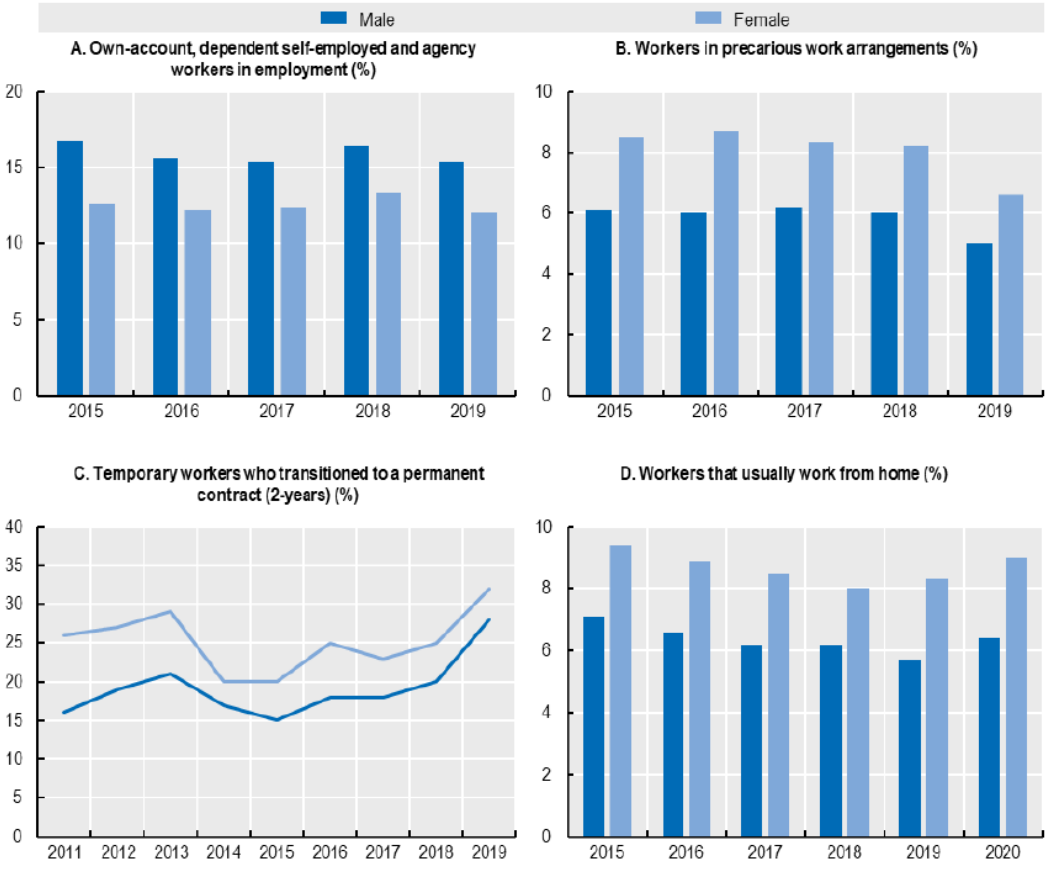
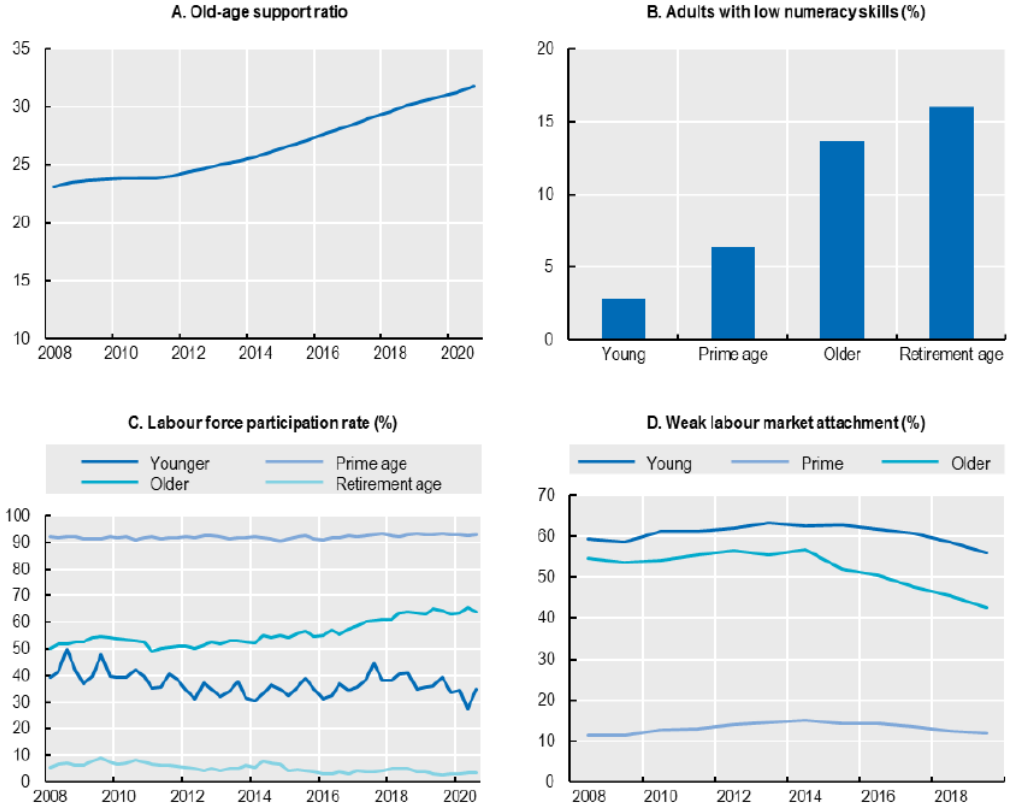
Job quality across gender



Older workers' labor force participation



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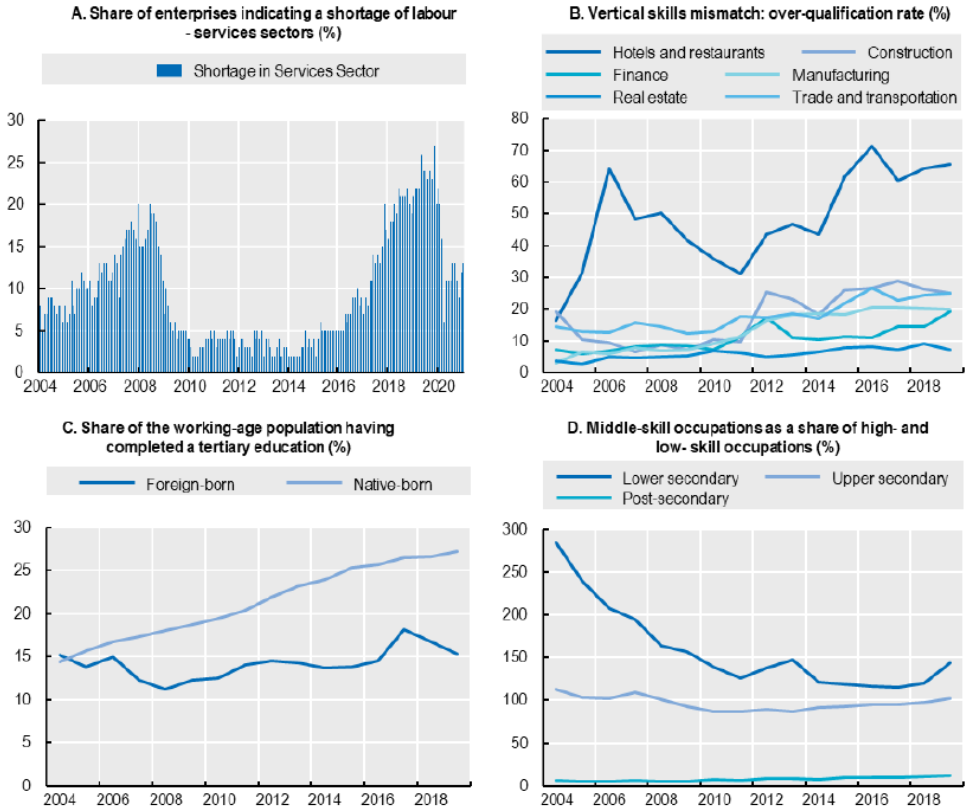
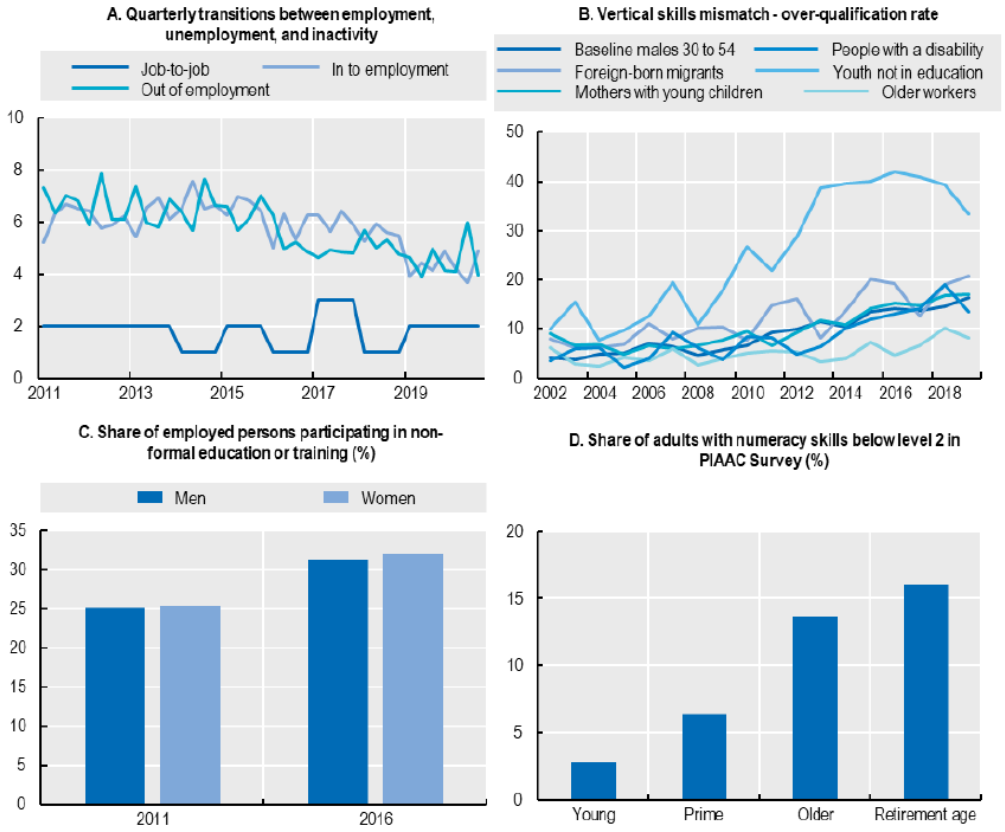
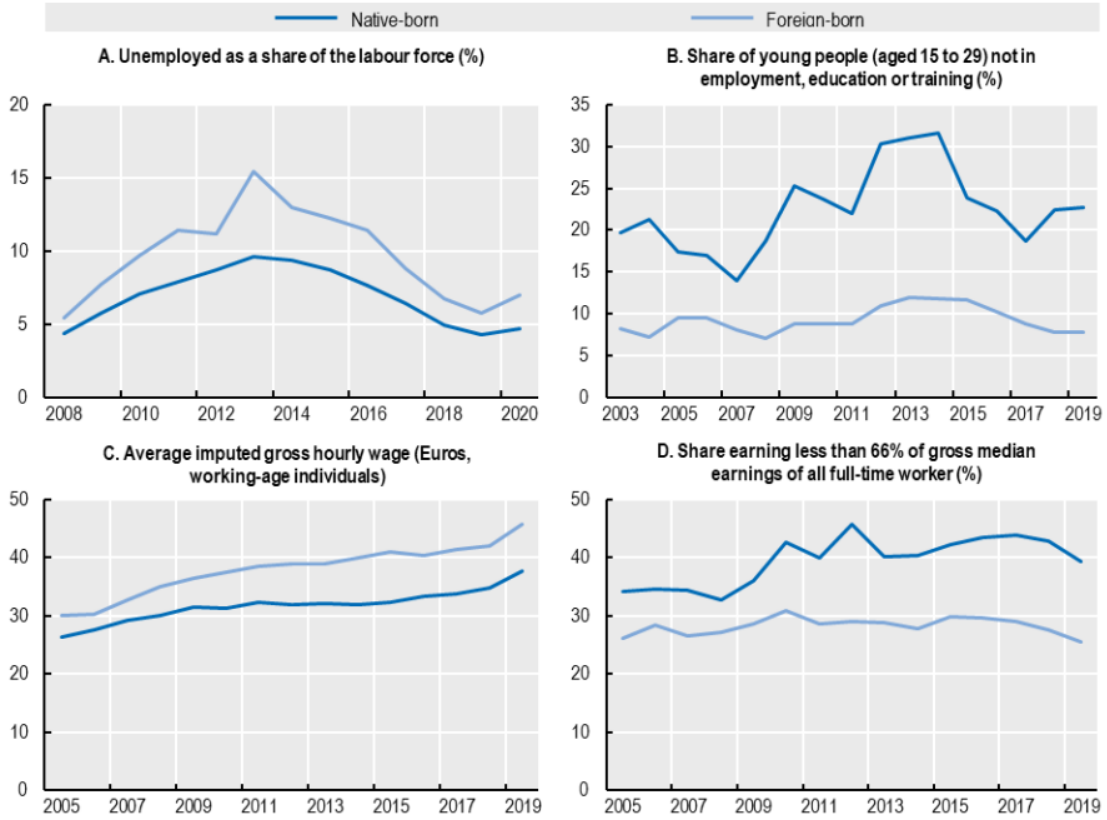
Skills mismatches



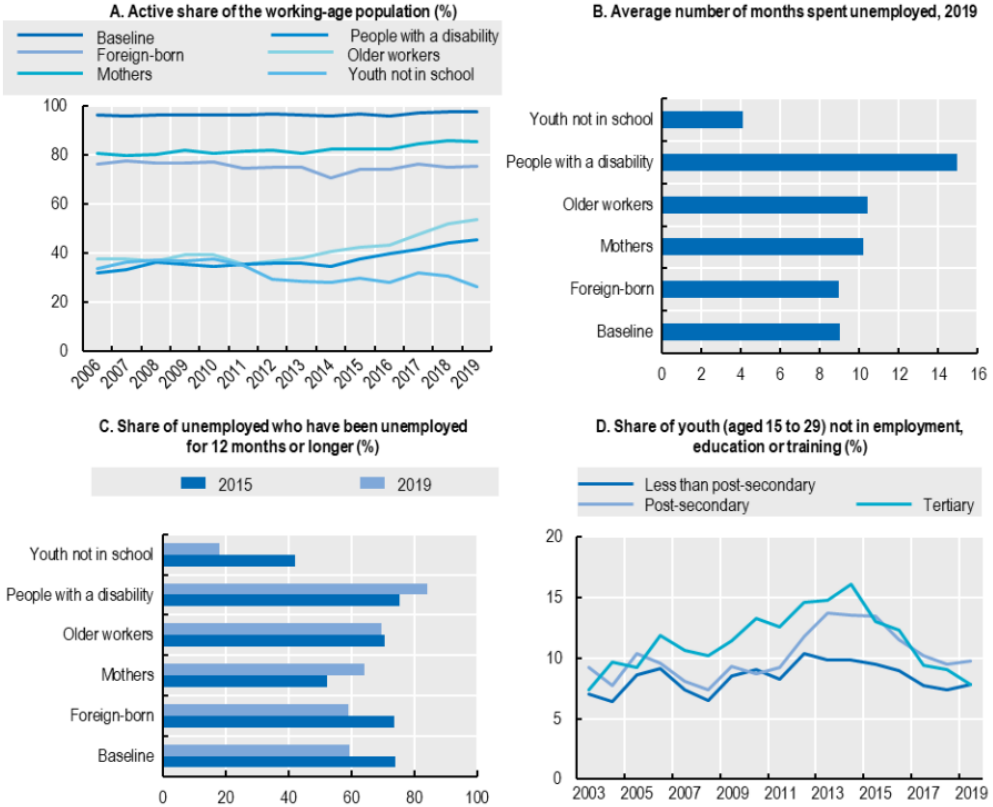
Skills and technological change



Inward and outward migration



Jobless individuals



Internal reports

Internal reports (e.g.,)

Labor market: Follow the link

Unemployed: Follow the link

Assessing labor market and structural reforms also beyond standard metrics

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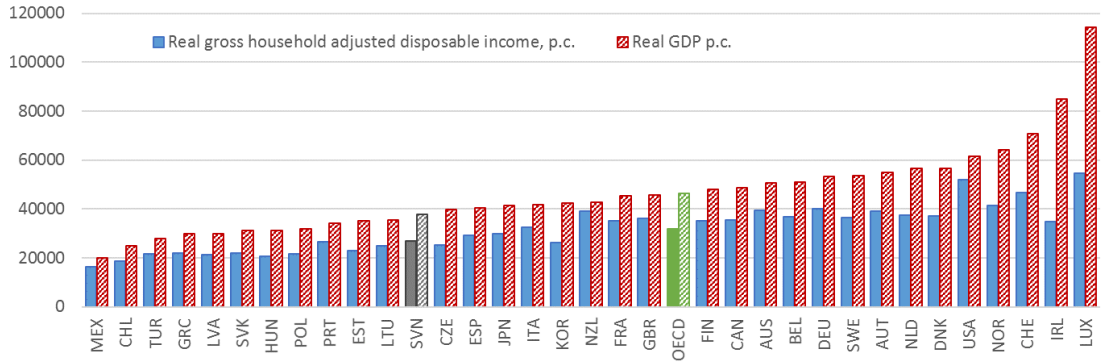
Impact of structural reforms on disposable income rather than GDP per capita

Slovenia's gap to OECD's top 3 performers in GDP per capita is 58%, and 47% in terms of household gross adjusted disposable income per capita

Real gross household adjusted disposable income and real GDP levels in 2018 (Per capita, in constant 2017 PPP USD)



Source: OECD 2021

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Impact of policies on GDP and household adjusted income (ADI) per capita

1. Policies, that operate mainly through the multi-factor productivity or capital intensity channels, have larger effects on GDP than ADI

2. Policies, that operate through the employment channel, boost ADI more than GDP

Long-term effects of policies

Policy	Size of typical reform:	Total long-term effect on: GDP	ADI from eq(1)	ADI from eq(2)
Policies primarily acting through MFP and capital channels				
Energy, Communication and Transport Regulation (ECTR) indicator (0-6, 6 is strictest)	-0.307	2.33%	2.33%	1.57%
Business R&D by private sector, % of GDP	0.097	0.40%	**0.25%**	**0.14%**
Trade openness, adjusted for country size, % of GDP	4.007	2.80%	2.80%	1.89%
Corporate income tax revenues, % of GDP	-0.980	1.06%	**-0.21%**	**-0.66%**
Policies primarily acting through the employment channel				
Employment Protection Legislation (EPL) indicator, permanent contracts (0-6, 6 is strictest)	-0.295	0.72%	0.72%	0.48%
ALMP spending (per unemployed, % of GDP per capita)	3.180	1.59%	1.59%	1.07%
Average tax wedge (single earner couple with 2 children; percentage points)	-2.282	0.46%	**0.69%**	**0.54%**
Minimum to median wage (%)	-2.479	0.59%	0.59%	0.40%
Unemployment benefit replacement rate (% of previous gross earnings)	-1.417	0.41%	**0.56%**	**0.42%**
Excess coverage (%)	-1.890	0.14%	0.14%	0.09%
Total in-kind benefits, % of GDP	0.109	0.22%	**0.44%**	**0.38%**
Maternity leave (weeks)	4.829	0.54%	0.54%	0.36%

Source: OECD 2021

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Using the shadow price of employment can be used routinely for policy evaluation with the help of this

The shadow price of 1 percentage point (ppt) of employment is on average equal to 3% of household income across OECD countries

The shadow price of employment can be used routinely for policy evaluation with the help of this table

country	Total 15-64	Total 15-24	Females 25-54	Males 25-54	Total 55-64
AUS	3.3	0.5	2.3	2.2	0.9
AUT	3.2	0.4	2.5	2.1	0.7
BEL	2.6	0.3	2.3	2.0	0.7
CAN	3.3	0.5	2.4	2.0	0.9
CHE	4.1	0.5	2.6	2.5	1.0
CHL	2.6	0.2	1.8	1.9	0.7
CZE	3.0	0.3	2.4	2.5	0.8
DEU	3.4	0.4	2.5	2.3	0.9
DNK	3.3	0.5	2.5	2.1	0.9
ESP	2.4	0.2	1.9	1.6	0.7
EST	3.2	0.4	2.5	2.2	0.9
FIN	3.1	0.5	2.6	2.2	1.0
FRA	2.7	0.3	2.4	2.1	0.7
GBR	3.1	0.4	2.3	2.1	0.8
GRC	2.1	0.3	1.8	1.8	0.7
HUN	2.6	0.4	2.3	2.2	0.8
IRL	2.7	0.3	2.0	1.8	0.7
ISL	4.7	0.5	2.7	2.2	1.0
ISR	2.6	0.1	2.0	1.6	0.7
ITA	2.3	0.3	1.8	1.9	0.7
JPN	3.6	0.4	2.1	2.6	1.0
KOR	2.7	0.3	1.9	2.2	0.9
LUX	2.8	0.3	2.4	2.3	0.7
MEX	2.3	0.0	1.5	1.9	0.5
NLD	3.5	0.5	2.5	2.2	0.9
NOR	3.5	0.5	2.7	2.2	1.1
NZL	2.8	0.5	2.4	2.3	1.1
POL	2.6	0.3	2.3	2.0	0.7
PRT	2.7	0.2	2.3	1.8	0.7
SVK	2.6	0.3	2.2	2.0	0.8
SVN	2.8	0.4	2.7	2.1	0.7
SWE	3.6	0.4	2.7	2.2	1.0
TUR	1.9	0.1	1.3	1.7	0.5
USA	3.0	0.5	2.2	2.0	0.9
Average	3.0	0.4	2.3	2.1	0.8

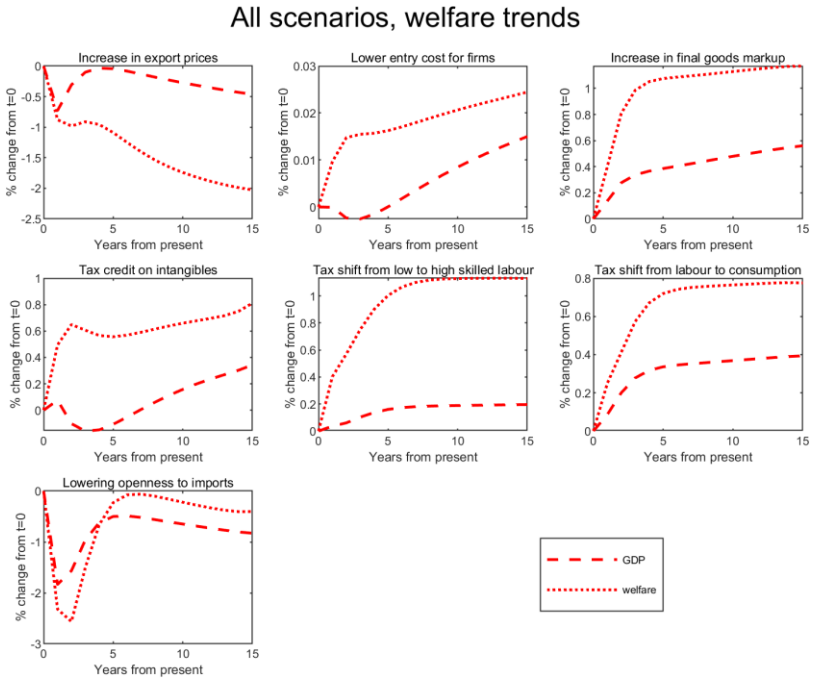
Wellbeing impact of policy changes on the employment rate and household average income

1. **Largest welfare impacts arise from employment**, then from income through GDP
2. **No policy trade-off** across the two dimensions
3. **Large gains from reforms of ETCR, ALMPs, hh tax wedge**

Policies	Scenario	Typical policy change	Impact on employment rate		Impact on average household income			Impact on welfare (SWB)	
					Direct effect	Indirect effect via GDP	Total effect		
		Change in percentage points	Change in percentage points	Monetised impact (in %, comparable to income growth)	Change in percent	Change in percent	Change in percent	Change in percent	% due to employment
Business R&D by private sector %GDP	increase	0.097	0.00	**0.00**	-0.13	0.27	**0.14**	**0.14**	0
Corporate income tax revenues %GDP	cut	-0.980	0.00	**0.00**	-1.37	0.62	**-0.76**	**-0.76**	0
Average tax wedge, single earner couple with 2 children	cut	-2.282	0.39	**1.09**	0.23	0.31	**0.54**	**1.63**	67
Unemployment benefit replacement rate	cut	-1.417	0.31	**0.88**	0.14	0.32	**0.46**	**1.33**	66
Total in-kind benefits %GDP	increase	0.109	0.16	**0.45**	0.24	0.16	**0.40**	**0.85**	53
ETCR indicator - overall	cut	-0.307	0.142	**0.40**	0	1.50	**1.50**	**1.90**	21
EPL - permanent contracts	cut	-0.295	0.253	**0.71**	0	0.48	**0.48**	**1.18**	60
ALMP spending	increase	3.180	0.225	**0.63**	0	1.08	**1.08**	**1.71**	37
Minimum wage	cut	-2.479	0.407	**1.14**	0	0.41	**0.41**	**1.55**	73
Excess coverage	cut	-1.890	0.103	**0.29**	0	0.10	**0.10**	**0.39**	73
Tax wedge - single earners	cut	-1.385	0.120	**0.34**	0	0.12	**0.12**	**0.46**	73
Maternity leave weeks	increase	4.829	0.403	**1.13**	0	0.41	**0.41**	**1.54**	73
Legal retirement age	increase	0.566	0.129	**0.36**	0	0.13	**0.13**	**0.49**	73
Total				**7.4**	**-0.9**	**5.9**	**5.0**	**12.4**	

Impact of structural reforms or shocks on welfare in Slovenia using QUEST DSGE model

Reform scenarios against a welfare measure that goes beyond GDP taking into account inequality in income and in unemployment by skill level



Source: Bonnet-Glazar-Murtin, 2023

Reforms policies under Slovenia's recovery and resilience plan

1. Preparation of the analytical and legislative basis for the establishment of a permanent short-time working scheme

   - The unit prepared the underlying analysis
   https://www.gov.si/assets/ministrstva/MDDSZ/Analiticna-podlaga-za-vzpostavitev-stalne-sheme-SDC.docx

2. Review and update of the implementation documents of the Guidelines for the implementation of active labor market policy 2021-2025

   - The unit is participating in a project to assess the impact of active labor market policies