

# A job guarantee for the long-term unemployed in Austria

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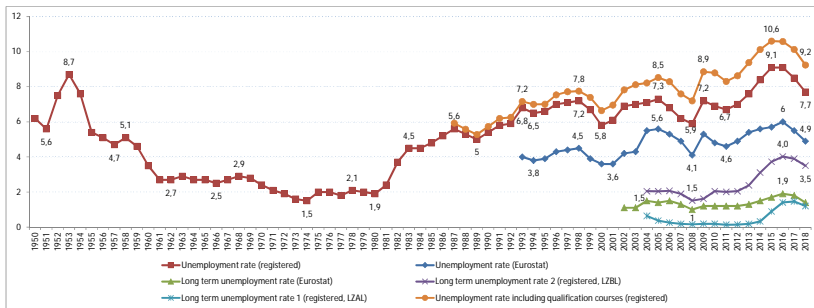
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# Current discussion on the job guarantee and public employment programs

- Europe: Several countries have introduced direct employment programs for a part of the long-term unemployed (AUT, GER, HUN, LUX, GRC)
- USA: Job Guarantee (also called Employer of Last Resort) is becoming economic mainstream among Democrats:
  - Press articles in NYT, The Nation, Bloomberg, etc..
  - Senate Bill for pilot project (Senators Booker, Gillibrand, Warren, etc..)
  - Several democratic presidential candidates for 2020 have advocated for a job guarantee
- JG beginning to be discussed in Austria, but not in Germany

# Unemployment rates in Austria

Strong increase since 2008, long-term unemployment (LZBL) since 2013



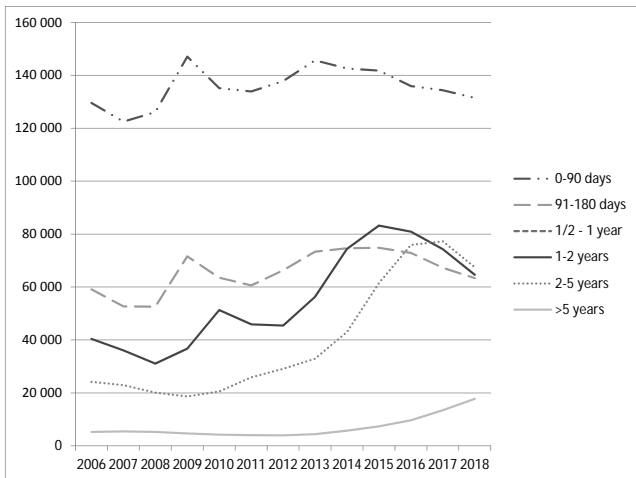
# A few facts on the distribution of long-term unemployment

Strong segmentation of the labor market: A large group is almost permanently shut out.

Studies by Eppel et al. (2012,2013,2014) look at period 2000-2010:

- 1 5% with most days in unemployment (diu) were statistically unemployed almost every second day, other 95% only 2,5% of the time
- 2 5,8% of people have accumulated 50% of diu, the next 9,3% of people 30% of diu
- 3 A majority of employees was never unemployed
- 4 30% of young predominantly unemployed (16-44 yo) are still predominantly unemployed 10 years later immer (without exit into retirement)
- 5 So-called Typ 7 unemployed person (2009-2013): Unemployed for 3/4 of the time during five years

# Duration of unemployment, Public employment agency

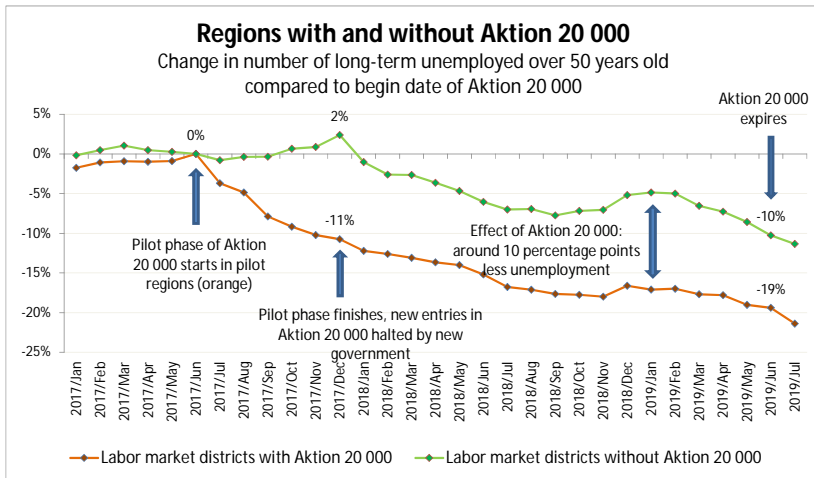


# Policy response to long-term unemployment

- Active labor market policies: Reintegration subsidy (EB), Socio-economic enterprises (SÖB), not-for-profit employment projects (GBP)
- good, but cannot solve the problem
- Revival of an innovative solution: Aktion 20.000 for roughly every seventh person that is long-term unemployed
  - Method: direct employment creation, Public jobs for long-term unemployed aged 50+
  - Aim: Halve long-term unemployment for people over 50 years old

- Started under Minister of Labor Alois Stöger (SPÖ) on July 1, 2017
  - Pilot phase of 6 months in pilot labor market districts
  - Planned official launch for all of Austria on January 1, 2018
  - Duration until June 30, 2019
  - 20.000 jobs
- Pilot phase is exceptional success (Report by Ministry for Social Affairs)
- Paused (stopped) by new Minister of Labor Hartinger-Klein (FPÖ)
  - right before official launch
  - evaluation study held back
  - the program stops at 3800 jobs created

# Effect of Aktion 20.000





# Long-term unemployment of people over 50

## Change compared to July 1, 2017

Date		31.12.2017	30.4.2018	30.9.2018
State		Pilot ends	Hiring ends	Successive development
Austria (w/o Vienna)	A20	-10%	-13%	-19%
	No A20	2%	-4%	-11%
Styria	A20	-41%	-39%	-35%
	Voitsberg	-57%	-57%	-62%
	Deutschlandsberg	-28%	-26%	-14%
	No A20	-2%	-11%	-17%
	No A20 w/o Graz	2%	-6%	-16%

# For how many people has the labor market stopped functioning?

- around 150.000 long-term unemployed in Austria on average at a given day (Notstandshilfe, LZBL, WIFO studies)
- Some hidden without entitlement to unemployment benefits. Not much dynamic (entries and exits comparatively small)
- Aktion 20.000 would only have eliminated unemployment for one seventh of this group, but for almost one half of 50+ out of this group
- Do we need a bigger program than the Aktion 20.000?

# The proposal for a job guarantee I

- Two goals: Employment goal and and improving social inclusion
- A right for every long-term unemployed person to an offer for a publicly financed job
- requires around 150.000 publicly financed jobs (at maximum usage, which is unlikely)
- 50% of necessary funds financed by *Passive-active transfer*:  
Instead of paying the long-term unemployed their unemployment benefits, can use the money to finance a public job

# Is a job guarantee affordable?

Cost factor: Level of gross wage. How much could it be?

- 1 Minimum wage 1500 Euro (14 times year)
- 2 Minimum wage 1700 Euro
- 3 Collective bargaining contract wage (Aktion 20.000 B)

Key behavioral issues:

- If jobs are available: Incentive to work instead of staying on unemployment benefits
- Job change incentives from JG into the private sector

# Different models

Gross wage scheme	Monthly gross wage of JG job	Monthly salaries	Monthly cost of long-term unemployment	Monthly net additional cost (14x) after passive-active transfer
	in Euro	Number	in Euro	in Euro
Minimum wage 1500 A	1500	12	767,43	290,72
Minimum wage 1500 B	1500	14	767,43	423,34
Minimum wage 1700	1700	14	767,43	529,13
Aktion 20.000 A	1812	14	767,43	588,37
Aktion 20.000 B	1928	14	767,43	637,63

# Different models, total cost

Gross wage scheme	PAT-ratio (self-financing percentage)	Yearly net wage increase for un- employed person	Yearly cost for 150.000 jobs	Yearly cost for 150.000 jobs
	in %	in %	in bio. Euro	in % of GDP
Minimum wage 1500 A	65,72	54,13	0,61	0,17
Minimum wage 1500 B	56,83	78,23	0,89	0,24
Minimum wage 1700	51,30	97,46	1,11	0,30
Aktion 20.000 A	48,64	108,23	1,24	0,33
Aktion 20.000 B	46,64	117,18	1,34	0,36

# Maximum cost of job guarantee at 150.000 jobs in relation to relevant quantities

in % of GDP	0,36
in % of government spending (total government)	0,73
in % der government revenue (total government)	0,75
in % of central government budget	1,72
in % of social spending (total government)	4,83
in % of social spending on labor expenses	21,86
in % of gov. expenditure for active and activating labor market policy	52,90

# Future research & open questions

- Precise entry and exit dynamics into stock of long-term unemployment (research ongoing)
- Incentives to exit JG jobs into private and regular public sector jobs once economy improves
- Can meaningful (and non-rivaling, strictly additional) jobs be created in the quantity needed? What is the best way to create them?



- Article available on <http://oliverpicek.com/>
- Comments, ideas and constructive criticism: [oliver.picek AT gmail.com](mailto:oliver.picek@gmail.com)
- Thank you for your attention!