# Labour Supply Responses to Recent Fiscal Reforms in Portugal

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# Summary

- **Microsimulation tools:**
  - EUROMOD: "first-order" static income impacts
  - EUROLAB: behavioural labour supply + demand equilibrium
- **Policies implemented:**
  - PIT schedule reform: 7→9 brackets, new middle rate (*regressive* in distributional terms)
  - Raised minimum untaxed income (*progressive*, benefits lower-income households)
  - Enhanced child benefits: floors, higher rates, complementary transfer (*progressive*, targets poorest)
- **Key results:**
  - PIT reform: small positive employment effects
  - Untaxed income reform: negligible net labour change
  - Child benefit reform: modest disincentives for low-income single parents

# Discussion: Main points

1. Are these small behavioural effects economically meaningful given frequent minor fiscal tweaks?
2. How would results change with post-pandemic data?
3. What changes could mitigate disincentives for low-income or single-parent households?
4. Could active labour market policies counterbalance negative effects?
5. Technical issues

# Discussion: Economic Significance of Effects

**Q1. Are these small behavioural effects economically meaningful given frequent minor fiscal tweaks?**

- Cumulative impact of sequential reforms
- Cost–benefit analysis
- The analysis on welfare and efficiency indicators is interesting $\Rightarrow$ I would expand it

# Discussion: Data and Changing Environment

**Q2. How would results change with post-pandemic data?**

- Updated EU-SILC (2022–23) captures pandemic labour shocks
- More generally, amid the cultural shock induced by the pandemic, do these estimates remain valid for more recent years?
- Role of remote work & sectoral shifts on labour supply responses

# Discussion: Policy Refinements for Vulnerable Groups

**Q3. What changes could mitigate disincentives for low-income or single-parent households?**

- You find that the child benefit reform led to a reduction in labour supply, epseically for these groups of HH

**Why?**

- Means-tested supplements conditional on job search
- Integration with childcare support and active labour programs (NRRP)
- Policy Relevant Treatment Effect (**PRTE**; Heckman, Vytlacil, 2005)

# Discussion: Complementary Active Policies

**Q4. Could active labour market policies counterbalance negative effects?**

- "Our findings suggest that income support measures could be complemented with policies that promote employment..."

However, barriers remain, so ALMP may be relevant:

- Training subsidies, wage subsidies, job matching services
- Conditional cash transfers tied to program participation
- Fiscal budget reallocation: ex-ante costs vs long-term employment gains

# Discussion: Technical issues

**Q5. Some aspects deserve a more detailed explanations**

- Did you use weights?
- I expected the labour supply elasticity derived along the lines of a Marginal Treatment Effect (**MTE**; Carneiro and Lee, 2019)
- What is the sensitivity of the results to labour demand elasticity?

# Thank you!

Domenico Depalo

# Implemented Fiscal Measures

- **PIT Schedule Reform (2022–23)**
  - Brackets increased from 7 to 9
  - Middle-income rate lowered, indexation by 5.1
- **Minimum Untaxed Income**
  - Tax-free threshold raised to avoid full taxation around minimum wage
- **Child Benefit Reinforcements**
  - €100/mo floor for extreme poverty
  - Higher rates for first two child brackets
  - Expanded upper-income cutoff
  - Additional €50/child complementary transfer

# Modelling Approach

- **EUROMOD**
  - Static "day-after" impacts on disposable income
  - Data: 2020 Portuguese EU-SILC
- **EUROLAB**
  - Discrete-choice labour supply model
  - Gumbel error $\rightarrow$ logit probabilities
  - Demand-side elasticity (–0.5) for equilibrium

# First-Order Distributional Effects

- PIT reform: gains in upper deciles (regressive)
- Untaxed income lift: benefits deciles 1–7 (neutral)
- Child benefit: targets bottom deciles 1–3 (progressive)
- Combined: slight net progressivity

# Behavioural Labour Supply Results

- PIT reform: +0.18% hours, +0.10% participation
- Untaxed income: 0 net change
- Child benefit: –0.17% hours, –0.20% participation
- Largest impact on lowest quintile single parents

# Equilibrium Employment Effects

- PIT reform $\rightarrow$ +0.16% employment; wage –0.30%
- Child benefit $\rightarrow$ –0.28% employment; wage +0.60%
- Untaxed income $\rightarrow$ negligible change
- Combined $\rightarrow$ –0.09% employment

Assumes labour demand elasticity –0.5