

Marginal Employment and Unemployment Duration: The Role of Income Constraints

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Abstract

This paper investigates the relations between the uptake of marginal employment (ME), its connection to income constraints, and the duration of unemployment spells in Austria. As the number of unemployed soared due to the COVID-19 crisis, Austrian policy makers discussed multiple transformations of labor market policies; among them abolishing earnings exemptions during unemployment. So far, unemployed workers are allowed to take up ME, with salaries capped at €475.86 a month, while receiving full unemployment benefits. Even though this large earnings exemption might distort job search incentives, ME could be a central tool for consumption smoothing during unemployment spells as well as a stepping stone into the regular labor market. If this is the case, ME should have differential outcomes for individuals with and without income constraints.

To test the hypothesis empirically, I use administrative data from the Austrian Unemployment Register (AUR), connected with social security data, which contains information on each unemployed individual that received unemployment benefits, their labor market history, and demographic variables from the early 2000s to today. In order to account for unobserved differences between the unemployed who are in ME and those who are not, I estimate a mixed proportional hazard model that allows for individual heterogeneity. I find that ME significantly reduces the risk of finding a job. However, for individuals whose unemployment benefits are below the median, ME increases the probability of finding a job. For individuals who are unemployed over one year, has no statistically significant effect.