

DIW Applied Micro Seminar

Labor force participation elasticities of low income couples. Theory and evidence from a Swedish housing allowance reform

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Abstract:

In this paper we estimate participation elasticities using unique tax variation created by a Swedish housing allowance reform in 1997. Before 1997 the housing allowance was means-tested based on family income. After the reform the system was individualized so that the housing allowance was phased out if the income of either spouse in the household exceeded a certain limit. This reform had consequences for work incentives for low-income households with children, whereas ineligible households were left unaffected. We calculate participation tax rates using the micro-simulation model FASIT for different demographic groups the years surrounding the reform. We exploit population wide registers to estimate the labor supply response and the implied participation elasticity. We have made the following preliminary findings: We find that employment increases by 1.3 percentage points 1996-2001 in the treatment group (low income households with children) from a base of 89 percent owing to the reform. This estimate translates into a participation elasticity of 0.12. The response grows monotonically in each post-reform year included in the analysis and is the largest for 2001. With some qualifications, placebo tests in the pre-reform period and placebo comparisons for high income households with and without children support the conclusion that the employment growth is indeed a causal effect of the HA reform.