

## Why a structural tax reform can boost growth and employment

*Karl Aiginger*

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National economies face new challenges these days, being globalisation, migration, ageing, climate change and last not least the financial crisis and the economic downturn following. Given that governments „diverts“ about 40% of total value added by raising taxes and social security contributions it is evident that, if this part is levied in a sub-optimal way - for example taxing wages heavily and environmental damages lightly - additional regulations and interventions have then to be implemented, in order to foster employment, growth, a fair distribution or a clean environment.

Public revenues are rather high in Austria; the tax structure is one of the least growth and employment friendly among industrial countries. Environmental taxes are low, as are taxes on property and on „baddies“ (like alcohol, tobacco etc). Therefore a tax reform is recommended which lowers tax rates by more than that amount by which inflation has blown up taxes implicitly. And a tax reform which lowers the burden on wages and small firms would boost economic growth and employment. It would also lower the burden of more interventionist measures like regulations, norms, and public employment programs. A tax reform which is restricted to a gross volume of three billion € however, does little more than give money back accrued by government via inflation. Marginal tax rates on labour remain about 45% at very low incomes, in fact for all full-time incomes. A tax wedge about 40% even for very low part-time incomes will continue to prevent legal, flexible employment.

## Tax reform system in Austria 2010

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Austria's government announced a personal income tax reform for the year 2010. Up to now details are left unspecified except the tax relief of € 3 billion. The paper starts with an analysis of the present income tax system completed by a brief summary of recent changes. Marginal tax rates in Austria are rather high. The basic exemption can be regarded as the largest strength of the tax schedule. As in most other OECD countries recent tax cuts were relatively small for mid sized incomes. Keeping this analysis in mind two reform proposals for Austria's personal income tax schedule are drawn up. In the first one the full predefined relief is used to lower the tax rates for all incomes. In the second one € 0.5 billion are left to achieve other objectives. This could be a special relief for mid sized companies or families as mentioned in the announcements of the reform

## Reforming Taxation for Small and Medium Enterprises

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The tax treatment of small and medium enterprises (SME) is analysed and reform measures are proposed. The tax burden for Austrian SMEs is high compared to other countries. Tax reliefs for Austrian SMEs are low in international comparison. The tax

treatment of SMEs can be improved as follows: a general reduction of the tax rate similar to the personal income taxation of employees, improved tax treatment of debt and equity capital and investment and finally the reduction of administrative burdens in tax law.

## **Conditions and impediments for tax reforms in Germany**

*Johanna Hey*

**JEL-No: K34**

This paper examines reasons for the absence of fundamental tax reforms in Germany. It distinguishes amendments of the tax statutes from reforms and shows that most changes of the tax statutes do not reach the quality of a reform because they lack guiding principles. The few examples of a real reform can be traced back to decisions of the German constitutional court, the European Court of Justice or the pressure of the international tax competition. Apart from this there is only very little genuine political motivation to improve fairness and feasibility of the tax system. Reasons can be found in the economics of the democratic process, in budget restrictions as well as in the structure of the federal system of public finance in Germany.

## **Wage and Personal Income Tax Proposals in Austria – A microsimulation analysis of their fiscal and distribution effects**

*Viktor Steiner/Florian Wakolbinger*

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This paper analyzes the income and distributional effects of recent wage and personal income tax proposals in Austria. In addition to two recent reform proposals that aim at redistributing income, we analyze a „distributionally neutral” reform proposal in the sense that tax reductions are proportional to the tax burden under the status quo across the income distribution. This latter proposal also includes a more substantial reduction of marginal tax rates at the bottom and in the middle part of the income distribution accompanied by a broadening of the income tax base. In addition to the income and distributional effects of the three proposals, which are analyzed on the basis of a microsimulation model, we also discuss potential „self financing“-effects of the tax reform proposals.

## **Regulation, Wealth and Employment – An Empirical Analysis for 22 OECD-countries**

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Regulations and bureaucracy hinder economic development in many OECD countries. On the basis of a comprehensive international regulatory index the consequences for employment and wealth can be analysed empirically. The correlation between prosperity indicators (growth and employment) and the various regulatory indicators are very strong, significant and robust, even if control variables are included. The explained variance by regulatory density lies between 45% (wealth) and 70% (employment). A more sophisticated analysis of the impact of regulation shows the significant negative effects on employment and long-term unemployment. The theory of deregulation, that more economic freedom creates wealth and employment, is supported by our data.

## **Austrian medical device companies and their economic importance**

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Austrian medical device companies are a foundation pillar of the modern medical field and a vital drive for medical progress. Their organisational structure and macroeconomic significance as well as their needs and the challenges they face are analyzed within a study conducted by the Institute for Industrial Research. Therein it shows that the companies examined are an important economic as well as job market factor. However, in Austria too they are forced to operate in a market that is highly regulated through the health-care system which moreover has been changing considerably for a few years now. One of the biggest challenges of the industry is particularly the increasing internationalisation as well as the sustainable transformation of the supply markets caused by the rise in purchasing cooperatives. Nevertheless, due to demographical changes, growing medical standards in diagnostic investigation and therapy as well as booming health awareness, the market for medical device is expected to develop lastingly beneficially. Owing to the changing concern for health and the continuing health trend, its chances lie especially in the wider market which at the interface to spare time, wellness and sports also offers market opportunities off the state-controlled markets.

## **Path Dependency and Lock-ins in the economy – the Peak of Example**

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**JEL-No: O13, Q32, Q38**

This article examines path dependency and lock-ins as tools of analysis for the study of economic processes. Their effectiveness is demonstrated by the example of the peak oil-hypothesis. The insights gained will be utilized to draw conclusions for the employment of path dependency and lock-ins in economic analysis and for the treatment of peak oil from a process logic point of view. Peak oil describes aggregated process of oil production by volume. Based on this hypothesis the amount of oil produced from a reservoir over time takes the shape of a bell curve. Current studies predict the peaking of global production for the present or near future. Considering the current dependency of most economies on oil the imminent importance of this prediction becomes obvious. Based on the logic of path dependency our analysis shows how the aforementioned reliance on oil emerged and why it cannot be simply unmade.