Tax Simulations using FIDELIO, a Multi-Regional Econometric IO Model

Topic: International Linked Systems of Models
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Austria is a small, open economy which is very much dependent on exports for maintaining its high level of income. High labour costs are often lamented as a prime obstacle to remaining â€œcompetitiveâ€• against lower-income countries. As Austrian enterprises also face some of the highest payroll taxes (as share of total labour costs) in the world, a reduction of these costs (the largest part of which is made up by social security contributions) would, by removing some cost pressure, arguably go some way towards more â€œcompetitivenessâ€• of the Austrian export sector. The flip side, of course, is a budgetary shortfall, which might only to a (maybe small) part be compensated by faster growth (and higher employment).
Combining FIDELIO, an econometric IO model of the EU member states plus 6 further countries (which was developed for and with the IPTS in Sevilla), with a detailed description of the Austrian tax regime (distinguishing between various instances of consumption taxes, income taxes and corporate taxes as well as social security contributions, both by employers and employees), this paper explores the possibilities of using such a model to investigate the effects of reductions in payroll taxes, on economic performance and structure as well as on the public budget. To compensate for budgetary shortfalls, we discuss various versions of tax reform, for example, the expansion of â€œgreen taxesâ€•.