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**Low income households in European welfare states ‘after the male breadwinner’ – A challenge for politics and for comparative welfare state research**

**1. Introduction**

The male breadwinner model has not only lost its normative appeal but also its economic prerequisites: The rise of unemployment and low wage work in many European countries leaves more and more couple households without a single (male) wage covering the needs of a family; and the increasing number of lone parents cannot rely on a male breadwinner anyway. How do European welfare states cope with this economically triggered erosion of the male breadwinner model? To what extent do their institutions support a stronger economic activity of women at the lower end of the pay hierarchy?

The paper focuses on the impact of the national tax and benefit systems which are among the institutional features that have played an important role in comparative feminist literature on welfare states: National tax and benefit systems are assumed to impact strongly on the extent and structure of women’s labour market participation in each country. Cross-country comparisons have revealed substantial national variation in terms of the degree to which the principles governing taxation and social policies reflect the ‘male breadwinner’ model (Lewis 1992; Sainsbury 1996). Financial disincentives to take up paid work – arising from high marginal tax rates for the second earner – have been identified as one of the key obstacles to a more egalitarian distribution of paid and unpaid work between the sexes. The higher the marginal tax rate, the more a tax system is conceived of as privileging the one-earner family, as it reduces the financial incentives for the secondary earner – generally the women – to enter the labour market or extend his/her working hours. Countries with joint taxation systems like Germany are the usual suspects known to fail in this respect while countries with individualised tax systems like the Scandinavian countries but also the U.K, are known to perform better.

However, empirical evidence is most often based on data relating to average earnings or even higher earnings. For instance, a recent comparison of eight countries from Daly and Rake (2003) confirms research results from previous studies indicating that Germany is among the countries where one-earner families with children are most privileged by the tax-benefit system, whereas

the UK is less generous to this family-type (cf. Daly/Rake 2003: 87f.). This is shown by a comparison of the net income of one-earner families with gross earnings corresponding to the average wage of a full-time employee in manufacturing (100% of APW) and two-earner families earning twice this amount (200% APW). Not surprisingly, the usual suspect Germany displays the smallest difference in the take-home pay of the two couples, hence a relatively high tax rate for the second earner. However, it remains unclear to what extent these findings also apply to households at the lower band of the income range which have recently been at the focus of labour market policy reforms aiming at ‘making work pay’.

The paper seeks to fill this gap by analysing and comparing the financial (dis-)incentives at the lower income band in four European countries (Portugal, Denmark, Great Britain, Germany) and the U.S.A. The country sample is limited but nevertheless represents a broad range of institutional settings and patterns of female employment. To what extent and how do their national tax and benefit systems support second earners to take up paid work or extend her (or his) working hours in order to compensate for temporary or permanent income losses of the ‘primary earner’? Have the recent ‘making work pay reforms’ added or removed financial disincentives, i.e. have they also made work pay for the second earner? And at what price do these incentives come – is cutting down out-of work benefits the only way of increasing financial incentives?

## **2. Incentive structures at lower earnings levels and ‘making work pay’ reforms from a gender perspective**

As mentioned above, welfare state typologies and country rankings based on data for average or high earnings are not necessarily valid for the whole earnings distribution. This is because they do not properly account for elements of tax/benefit systems which have a specific impact on lower earnings levels:

- For example, a bias in the tax system in favour of the one-earner family, as it is built in e.g. the German system of joint taxation, only has an effect to the degree that taxes are paid at all and therefore is of lower importance at lower income levels. Moreover, most countries with individualised tax systems have preserved elements of joint taxation, like basic tax allowances that are transferable to the other spouse (e.g. Denmark, cf. Tiraferri 2006: 35f.). This is presumably not only a legacy from the past but also follows socio-political reasons, as a means to adapt tax rates to the ability to pay. Only in a small number of countries, among them the United Kingdom, the tax schedule completely disregards the income situation of the household.
- On the other hand, additional disincentives might result from welfare state benefits that are solely directed to households at the lower earnings levels (means-tested benefits like

social assistance, housing benefits) or make up for a higher proportion of the net income than in households with higher earnings (universal benefits, e.g. universal family benefits). In most countries means-tested benefits phase out at earnings levels below the average wage and therefore do not impact on higher earnings levels. Means-tested benefits tend to increase the marginal tax rate (for both the primary and the secondary earner) as additional gross earnings are not only diminished by taxes, but also by the withdrawal of these benefits. The effect of universal benefits is less predictable: they do not increase the marginal tax rate because they are not reduced with higher incomes. But they increase financial resources for the non-employed and thereby reduce financial pressures on low-income households to generate additional earnings, therefore they might act as an incentive for one or both spouses to stay at home. Hence, even in countries with strictly individualised tax systems like the UK, means-tested benefits, or ‘negative taxes’, may increase the marginal tax rate for second earners as they are usually granted depending on the household income, not on the individual income, and thereby exert a similar effect on the marginal tax rate for the second earner as joint taxation elements.

To sum up, at the lower end of the earnings distribution the shape and level of welfare state benefits are at least as important for the incentive structure as the taxation system (see also Rubery 2002).

In all the countries of our sample, benefits in particular have been at the focus of a series of reforms during the last decade. Throughout Europe, labour market policy reforms were frequently targeted particularly at low-income groups and have sought to remove ‘unemployment traps’ or ‘poverty traps’ which prevent unemployed from taking up low-waged jobs. One of the central features of these reforms is to ‘make work pay’ – through either introducing or extending in-work benefits topping up low earnings or through cutting down out-of work benefits or both. Instead of an exhaustive description of these reforms in all countries I’d like to single out three types of measures which are of particular importance under a gender perspective.

### ***Reductions in the duration and level of unemployment benefits and/or social assistance***

In addition to stricter eligibility rules (e.g. longer employment records prior to the application) and tighter conditions for benefit receipt (e.g. job search requirements), reductions in the maximum duration and wage replacement rates of unemployment benefits have particularly occurred in those countries with previously relatively generous levels, like Denmark in particular, but also Germany and France. Only Portugal seem to have escaped this move and has even reduced the eligibility criteria to a 270 day employment record in the last 12 months, while retaining a relatively long benefit duration (from 12 months for those aged < 30 to 30 months for those aged > 45). The differences between the countries remain substantial - ranging from

Denmark, where unemployed over the age of 25 are entitled to unemployment benefits replacing 90% of the previous wage for 4 years to the United Kingdom and the U.S.A. where unemployment benefits are granted only up to a period of 6 months. However, the second pillar of the benefit system in case of unemployment, the means-tested social assistance, which originally was often established as a 'last resort' form of financial assistance has gained importance also in those countries that traditionally had a strong first pillar (unemployment benefit). In Germany, as a result of the recent reform abolishing the former unemployment allowance, the number of unemployed relying on the newly introduced means-tested basic allowance for job seekers (ALG II) widely exceeds the number of unemployed receiving the contributions based unemployment benefit. And in Denmark as well, the percentage of the working age population receiving support from the social assistance is not much smaller than the group of those receiving unemployment benefits (4% compared to 5% of the working age population, see Anderson/Pedersen 2007:18). At the same time, the generosity of these means-tested benefits have also been reduced in both countries.

This shift from the first to the second pillar of the financial support in case of unemployment is not only a contestable reduction of welfare levels, but also problematic from a gender perspective. For on the one hand, under the given gendered labour division, unemployed women are more likely to lose their benefit entitlement if the latter is dependent on the household income as they more often have a partner with earnings that moves the household above the threshold for the means-tested benefit. And secondly, and more importantly in our context, if a previously inactive woman takes up paid work in order to compensate for income losses of her partner, his individualised unemployment benefits would not be reduced; but means-tested, household based benefits will, therefore taking up paid work for the secondary earner (which then becomes a primary earner) pays much less in the case of the 'second pillar' regime.

### ***In-work benefits***

Secondly, in-work benefits or 'negative taxes' topping up earnings from low paid jobs have become quite standard elements in almost all tax and benefit systems in European countries, although they might not necessarily be called 'in-work benefits'. The prototype of the in-work benefit is the 'Earned Income Tax Credit' (EITC) in the U.S.A. that was introduced as early as the 1970s, but its scope and amount was strongly extended under the Clinton Administration in the 1990s (up to a maximum amount of \$ 367 for a couple with 2 children (2004)). At the same time the United Kingdom strongly increased their own in-work benefit ('Working Tax Credit' – WTC) as part of a broader program aimed at reducing both in work and out-of work poverty (up to a maximum of £ 323 for a couple with two children (2004)) (see Jaehrling/Weinkopf 2006: 34ff). And Denmark (2004) as well as France (2000) have also introduced their own in-work benefits in recent years, although they are much less generous (DK: 2,5 % of the wage up to a

maximum of 100€ see Westergaard-Nielsen 2008: 99). This is not surprising, as Denmark in particular has a much more generous system of out-of work benefits. Public budget restraints as well as the fact that in-work benefits would additionally increase the already high marginal tax rate probably account for the modest level of this supplement. Both Germany and Portugal have introduced or widened earnings disregards in order to ‘make work pay’, which can be considered as a functional equivalent to in-work benefits. In Germany, the merger of the systems of unemployment and social assistance in 2005 have included the extension of an individualised earnings disregard (the first 100 € per month per spouse, 10-20% of earnings above this level), which can be considered as a functional equivalent to in-work benefits. Likewise, in Portugal, if a someone starts a new job during the receipt of the social assistance, only 50% of that job income is considered for the calculation of the benefit amount. Moreover, a reform of the unemployment insurance in 2003 has made it more rewarding to combine part-time employment with the unemployment benefit<sup>1</sup>. (see OECD 2008b).

From a gender perspective, in-work benefits are ambiguous: While they are designed to encourage entry or return to employment by lone-parents and couples in households where no-one works, they also run the risk of producing the adverse effect, particularly with regard to the labour supply of the second earner (see also Fagan / Hebson 2005). The reason is that in-work benefits, as all benefits, reduce the financial pressure on households to gain additional income and thereby can work as a disincentive for both earners to extend working hours. Under the established gender division of labour this effect is expected to impact negatively particularly on the labour supply of the spouse, and particularly if in-work benefits are based on the household income, as his or her earnings will frequently move the household income into the phasing-out zone where the marginal effective tax rates are additionally increased by a withdrawal of the in-work benefit. The negative impact may be attenuated when eligibility requirements are individually based (cf. OECD 2003: 119). In the UK, the introduction of an earnings disregard for the second earner (the first 2500 £ per year) in the *Working Tax Credit* (WTC) was a response to this problem and corresponded to claims of feminist associations (cf. Fagan/Hebson 58ff). In Germany as well, the individualised earnings disregard in the new basic allowance for job seekers implies stronger incentives for two-earner households than for one-earner households – although this was quasi not noticed in the public debate<sup>2</sup>. On the other hand, individualisation of benefits may conflict with restricted public budgets and the goal to direct in-work-benefits closely to low-income

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<sup>1</sup> For insured persons, who work between 20 and 75 % of the normal work week and whose income is lower than the value of the unemployment benefit, the benefit is equal to the difference between 1.35 times the unemployment benefit and the value of part-time work earnings. Prior to the reform in 2003 the multiplier was 1.25.

<sup>2</sup> For example, in a two-earner household with both spouses earning €400 the earnings disregard amounts to 2x €160= €320, whereas in a one-earner household with €800 gross earnings the disregard amounts to only €240.

households, particularly if the in-work benefit or earnings disregard tops up relatively generous levels of minimum income.<sup>3</sup> Alternatively, the in-work-benefits can be made conditional on a minimum of hours of work of one or both spouses in order to prevent them from settling for short part-time jobs. This is the case e.g. in the UK, where a 16 hours threshold (parents) and a 30 hours threshold (persons without children) is a precondition for eligibility of the WTC. In Germany, by contrast, there is no minimum hours threshold and the withdrawal rate is high (80-90%) at additional earnings exceeding the first 100 € per month, which makes very short part-time jobs disproportionately more rewarding than longer part-time jobs.

These examples should have made clear that while in-work benefits in different countries might appear similar at first sight, their effective impact depends very much on the overall financial incentive structure in which they are embedded. Not only the level of out-of work benefits might play a role but also other elements of the tax and benefit system (and, of course, other, non-financial, institutional settings). This underlines the importance of analysing the cumulative effect of such reforms before drawing conclusions on ‘best practices’ that can be transferred to other countries.

### ***Tax and social security exemptions for low-paid jobs***

Thirdly, exemptions from tax and social security contributions for low-paid jobs were introduced or extended in several countries. While in Denmark, the fix-sum contributions to the (voluntary) unemployment insurance funds are to be paid from all employees (even though with reduced contributions for part-timers)<sup>4</sup>, both in Germany and in the UK exemptions from taxes and social security contributions exist for jobs paid below a certain earnings threshold and these exemptions have been extended during the term of the New Labour / social-democratic governments in both countries a few years ago (Germany: 400 € per month, UK: £ 90 (= €137) per week).

This kind of incentives have been subject to critique as particularly short part-time jobs do not grant financial independence to the second earner<sup>5</sup> and contribute to preserve the traditional labour division between men and women – although be it in a somewhat modernised form with

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<sup>3</sup> Germany is among the countries with the highest levels of the out-of work minimum income (in relation to median household incomes), according to a study of the OECD (2004). As the extension of the earnings disregard has widened the group of households entitled to the new basic allowance for job seekers (ALG II) and as the earnings disregards are still considered to be too low an incentive to encourage households on benefits to take up jobs with higher working hours, many proposals in the current debate favour cuts in the level of minimum income in combination with higher in-work benefits. These proposals have so far not gained support of a political majority, one reason being that the level of social assistance according to many charities is at a historical low.

<sup>4</sup> If the employee is insured part-time, he or she pays two thirds of the unemployment and early retirement insurance contributions. The individual employee decides how much s/he wants to be insured – full-time or part-time. (see OECD 2008c)

<sup>5</sup> Employees in such jobs are not eligible for unemployment benefits. Furthermore, in Germany the exemption from social security contributions implies that employees are not entitled to a pension of their own and are not medically insured by their own but only via their husband.

the women holding a side job in addition to her family responsibilities. However, the incentives resulting from these exemptions might as well be levelled out by other benefits: As seen above, in the UK, for example, the in-work benefit WTC is only paid from a minimum hourly threshold of 16 hours for lone parents and 30 hours for couples.

This again emphasizes the importance to take a look at the cumulative effects of the tax-benefit system. This will be done in the next section.

### **3. Cumulative effects of of the tax-benefit systems**

#### **3.1 Method and data**

Taken together, how do these singular reforms modify the overall national incentive structure; how do they interact with the established tax and benefit systems? Internationally comparable data that allow for such cross-country comparisons of the cumulative effects of the tax and benefit systems is not abundant. The OECD calculations on 'Benefits and Wages' for the year 2005 (OECD 2008a) at least provide the basis to compare a one-earner couple with two children, earning 67% of the 'average worker wage' (AW), with a two-earner couples, where one spouse is earning 67% of AW and the second earner from 1 to 67% of AW, hence up to twice the earnings of the one earner couple. It has to be emphasized that the wage level of 67% of the AW is not identical to the low-wage threshold, which is most commonly defined as 2/3 of the median wage, but is considerably higher in all countries except for Denmark<sup>6</sup>. However, the earnings level of 67% of AW is the lowest wage level that is included in the country-specific information provided by the OECD.

Furthermore, the analyses focuses on recipients of the social assistance and not on persons eligible for unemployment benefits. This is for two reasons: Firstly, as we have seen above, an increasing number of people have to rely on this second pillar of financial assistance in case of unemployment already after relatively short period of unemployment. And secondly, this is particularly true for women who were inactive prior to searching for a job. However, an interpretation of the results needs to bear in mind that there are more generous and more individualised benefits that will change the picture with respect to the incentive structure for women (and men), particularly in Denmark with its long duration of unemployment benefit.

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<sup>6</sup> In 2005, according to OECD calculations, 67% of AW corresponded to monthly gross earnings of €748 in Portugal, €2328 in Germany, \$1736 in the United States, £1639 in the United Kingdom and DKK 17.883 in Denmark. In Portugal, the U.K. and the U.S., this level is almost twice as high as the national minimum wage, and in Germany as well, the sum of 2328 € considerably exceed the low wage threshold (according to OECD Definition: two third of median wage, see Bosch/Kalina 2008). Only in Denmark the 67% AW is only slightly higher than the low wage threshold (see Westergaard-Nielsen 2008).

The following analyses first takes a look at the incentive structures for the secondary earner (3.2. and 3.3.) and then moves on to the incentive structures for lone parents and women becoming the primary earner (3.4).

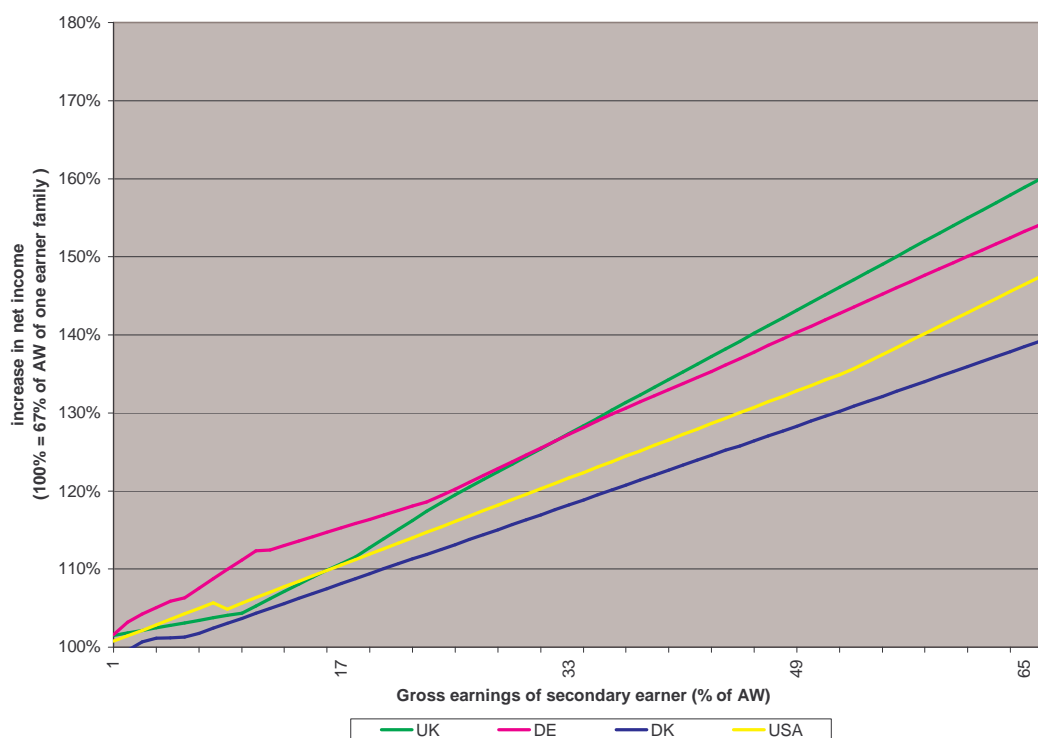
### **3.2 *Part-time traps? What part-time?***

As noted above, ‘making work pay’ reforms might increase disincentives particularly for the secondary earner to extend his or her working hours and thereby create or strengthen a ‘part-time trap’. This is the first aspect we will examine in more detail. Instead of only comparing the increase in net income that can be gained by a second full-time wage (as the example of Daly/Rake), we include the range from 1 to 67% of AW for the second earner – or from 0 to 40 hours of a low(er) waged job. This enables us to assess *what type* of two-earner models are encouraged by the tax-benefit system; or put differently: if and to what extent the tax-benefit system sets incentives for the second earner to take up a part-time job instead of a full-time job, or short part-time job instead of a long part-time job.

As we can see in Figure 1, there are considerable differences in the treatment of part-time work between Germany on the one hand and Denmark and the UK on the other hand. In Germany, the net income of the household increases relatively strongly right from the first percent of additional earnings gained by the second earner. The curve flattens a little at additional 10% of AW earned by the second earner (corresponding to slightly below €400 €). Hence, the tax and social security exemptions for marginal part-time earners make themselves felt also at this lower earnings level.



**Figure 1 Increase in net monthly income of two-earner families\* with 2 children, 2004**



\* two-earner family: one spouse with 67% of AW, second spouse with 0 to 67% of AW

Source: Data: OECD calculations on 'Benefits and Wages' ( OECD 2008); own figure

By contrast in the UK additional earnings of the second earner begin to make a sizeable difference only at additional 10% of AW (corresponding to £ 171). Below that level most of the additional income is taxed away. The exemptions from taxes and social security contributions for marginal part-timers are thus partly overcompensated by a phasing out of other benefits that are conditional on the net income - mainly housing benefits and means-tested family benefits, while the in-work benefit doesn't play a role at this income level. Likewise, the reduction of means-tested benefits (housing benefits) is part of the reason why the curve is the flattest in Denmark. And in the U.S.A, it is the in-work benefit (EITC) who contributes to flattening the curve up until an additional 50% of AW. In Germany, by contrast, no means-tested benefits are available at this earnings levels, which additionally contributes to a relatively low marginal tax rate compared to Denmark.

With increasing gross earnings the gap between the UK and Germany on the one hand and Denmark on the other hand widens. At gross earnings twice the earnings of the one-earner family (additional 67% of APW) the net income of the two-earner household has increased by 61% in the UK, by 55% in Germany, and by only 40% in Denmark.

To sum up, if we compare these results to the usual comparisons at higher earnings levels, we see that, at the lower earnings level considered here, the country order with respect to financial

incentives for the second earner has changed: in Denmark, additional earnings by the second earner are overall less rewarding than in Germany, hence there are stronger financial disincentives in Denmark. On the other hand, the relatively strong privileges for short part-time jobs in Germany might incite second earners to settle for this option, whereas in Denmark as well as in the UK the relatively high marginal tax rate on earnings from short part-time jobs can *either* act as disincentive to take up paid work at all *or* as an incentive to take up long part-time or full-time jobs. .

### **3.3 Him or her? Horizontal comparison between one-earner and two-earner families**

The analysis of the ‘male-breadwinner-centeredness’ of the tax-benefit systems would remain incomplete if it were restricted to a *vertical* comparison of different family types, i.e. a comparison of one-earner families with two-earner families earning *higher* wages. This approach is based on assumptions that might not apply to all or not even most families. To be more specific, there are two underlying assumptions associated with this approach, one relating to the current distribution of paid and unpaid work among them – i.e. the male partner is working full time – , and the other relating to the preferences of the couple – i.e. the adult couple shares a rather strong preference for the male-breadwinner-model and this preference can only be counterbalanced by strong financial incentives, hence low marginal tax rates on additional earnings.

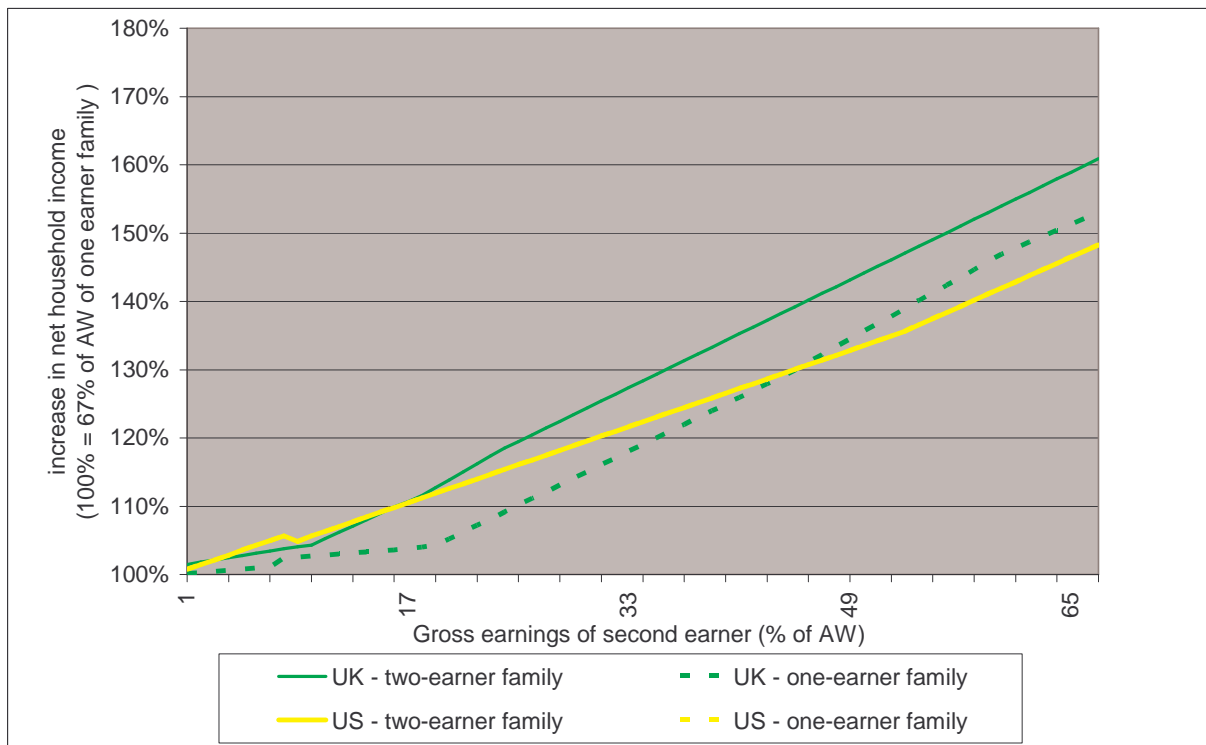
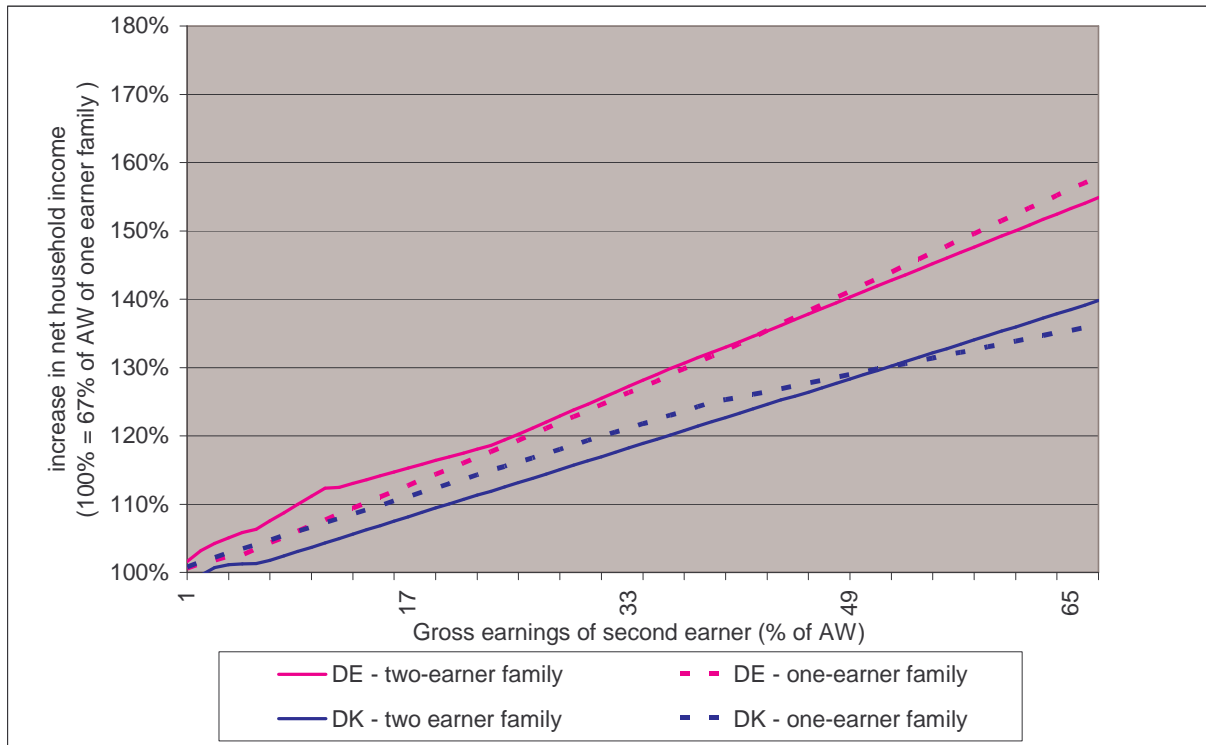
However, if we instead assume that

- *either* the male partner doesn’t work full time, hence the couple doesn’t practise the male-breadwinner model (due to unemployment / involuntary part-time, incapacity, other reasons)
- *or* that the couple doesn’t share strong preferences for the male-breadwinner-model
- *or* that the preferences of the couple for additional earnings outweighs their preferences for the male-breadwinner model,

the question arises if the tax-benefit systems sets financial incentives to distribute the paid work unevenly among the couple even despite these more egalitarian attitudes and practised models of labour division. Put differently: If couples have the choice between the male partner extending his working hours or the previously inactive female partner taking up paid work, what option is privileged by the incentive structure? In order to investigate this question it is necessary to compare the net incomes of one-earner and two-earner families of the *same earnings level*, hence to conduct a *horizontal* comparison of households.

In Figure 2 we therefore added a curve indicating the increase in net income for the one-earner family.

**Figure 2: Net monthly income of one-earner and two-earner families\* with 2 children, 2005**



\* two-earner family: one spouse with 67% of AW, second spouse with 0 to 67% of AW

Source: Data: OECD calculations on 'Benefits and Wages' (OECD 2008); own calculations and figure

As we can learn from this figure, the countries represent three different settings: The first setting that can be found in the UK and to a smaller extent in Germany ‘privileges’ the two-earner family in the sense that their take-home pay is higher than that of the one-earner family with the same gross earnings<sup>7</sup>. The privilege is most marked in the UK where the strict principle of individual taxation (see above) produces this privilege. At additional earnings of half those of the primary earner (+33% of AW) the ‘privilege’ corresponds to about £ 150 per month and roughly stays at this level. In Germany, by contrast, the privilege is restricted to lower additional earnings, due to lower tax rates and exemptions from social security contributions, while at higher additional earnings levels the principle of joint taxation approaches the net income of the one-earner family to that of the two-earner family and even exceeds it. The second setting can be found in the US, where the take home pay of both family types is identical. This is due to a strictly household based taxation and granting of benefits, that is indifferent towards the question who gains additional income. The third setting, somewhat surprisingly, can be found in Denmark, where two earner families up to a relatively high level of additional income (+53% AW, which corresponds to roughly 80% of the low(er) wage full-time job). Only at income levels above this, the two earner family fares better.<sup>8</sup> The reason for this is that - as mentioned above - there are fix-sum contributions to the (voluntary) unemployment insurance funds which are to be paid from all employees (even though with slightly reduced contributions for part-timers) and therefore imply higher social security contribution for two employees than for a single employee. Again, this finding contradicts the well established country order with respect to the dis/incentives for women to take up paid work.

### **3.4. When women become primary earners: Cumulative effects of the incentive structure for lone parents and workless households**

So far the analysis has been restricted to secondary earners whose earnings top up the wage of a primary earner that might not be sufficient for a whole family of four. However, what if there is no primary earner because it is a lone parent household or because both adults are unemployed? How does the incentive structure look like in these cases?

One aspect that distinguishes these situations from the situation of the second earner discussed is the stronger impact of means-tested benefits. So far, the focus has been on still relatively high

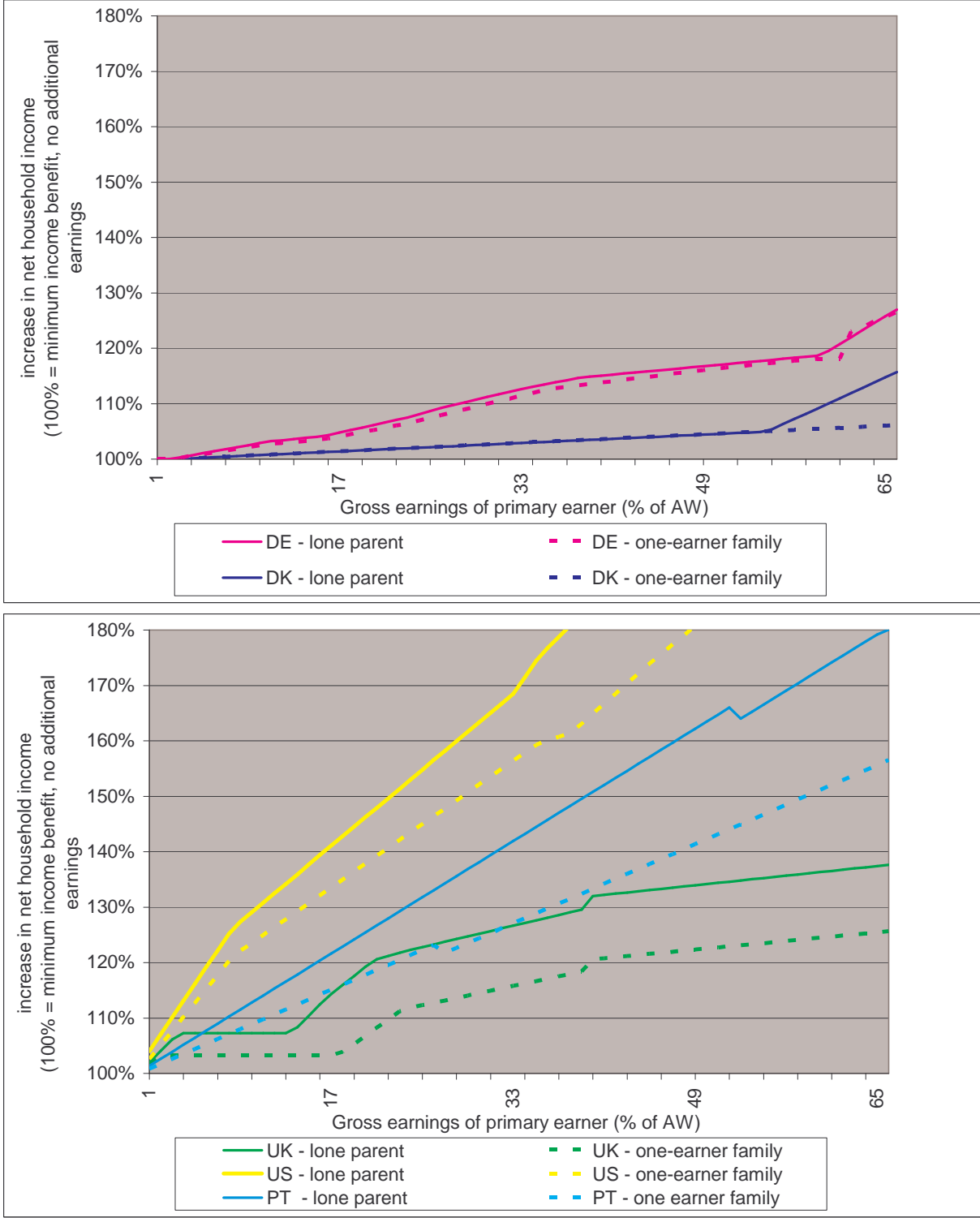
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<sup>7</sup> This type seems to be the dominant type in the OECD countries, according to the results of Tiraferri (2005) who also bases her analyses on the tax treatment of one-earner versus two-earner households for all OECD countries. She resumes that „tax systems tend to favour households where both spouses are gainfully employed (...). In general, the tax advantage for two-earner households tends to increase with earnings levels.“ (Tiraferri 2005: 58).

<sup>8</sup> The same finding applies to Portugal which has been left out from the analysis so far, because it displays a particularity – at least according to OECD calculations – which is hard to explain and which in fact is not properly explained by the accompanying country information (see OECD 2008b): The net income of the two-earner couple considerably drops below the level of the one-earner family with gross earnings corresponding to 67% AW even though its gross earnings are higher (see Figure 3 in the Annex). This particularity needs closer examination on the basis of additional literature and calculations.

earnings levels, seeing that the earnings of the secondary earners were adding to a wage of 67% of the AW. As we have seen, at this earnings levels means-tested benefits have already phased out in some countries and therefore the effect of these means-tested benefits as well as of the recent reforms modifying their design (e.g. higher earnings disregards, in-work benefits) did not fully become visible. As Figure 5 shows, their effect results in strong country differences.

**Figure 5: Increase in net monthly income of lone parents and one-earner families with 2 children, 2005**



Source: Data: OECD calculations on 'Benefits and Wages' (OECD 2008); own calculations and figure

The strong differences between Denmark and Germany on the one hand with their relatively modest increases and Portugal and the U.S.A. in particular with their strong increases is partly down to the different benefit structure – with higher level of out-of-work benefits in Denmark and Germany and by contrast very low out-of-work benefits combined with high in-work benefits in the U.S.A. But the higher social security contributions in Denmark and Germany play an even more important role to explain the relatively high marginal tax rate. Hence, the making work pay reforms in both countries have only modified their overall incentive structure only to a limited extent.

Hence, the findings for Germany, Denmark and to a lesser extent for the UK partly confirm the results of another comparative assessment of the situation in 23 OECD-countries which finds that, as a consequence of specific income-related benefits available to lone parents in many countries, low-wage work tends to pay less for lone parents than for second earners married to an average earner (cf. Immervoll/Barber 2005: 27), and the same is true for female primary earner compared to female secondary earners. However, it is not only the benefit level that accounts for this but also the relatively higher social security contributions on low earnings levels. On the other hand, this assessment by the OECD study tends to neglect that even minor additional net income might be of higher use and more precious at the lower earnings levels of the lone parent family than at the higher earnings level of the two earner family. Put differently: at very low earnings levels, one Euro, Dollar or British Pound might be valued higher which can also offset the effect of relatively high marginal tax rates.

## **Conclusions**

Firstly, there are some methodological conclusions that can be derived from this analysis:

- The findings point at the limited validity of welfare state comparisons and typologies that are centered on average or even higher earnings levels and underline the importance of comparisons that take into account the institutional settings impacting on the *whole* earnings distribution.
- The analysis illustrates (once again) that instead of comparing singular reforms across different countries, like e.g. the different elements of the making work pay reforms described above, and deriving conclusions about ‘best practices’ to be transferred to other countries, a proper assessment has to consider the cumulative effects of these reforms and take into account how they are embedded in the wider institutional setting. For instance, we have seen that the effects of the exemptions from tax and social security contributions for short part-time jobs in the UK can be offset by other rules and incentives like the 16hours threshold for the in-work benefit.

- The analysis underlines that a comprehensive consideration needs to include both horizontal and vertical comparison of one-earner versus two-earner families, because it captures more accurately the wider set of options that families have, given the current erosion of the economic bases for male breadwinner families at lower earnings levels: The economic and social situation of households are no longer leaving them the choice between the female partner taking or not taking up paid work in addition to the full-time job of her partner, but also between him or her to extend working hours, or between her becoming a primary earner or not..

Apart from these methodological issues, what can be learnt from this assessment concerning the incentives structures of the welfare states under study?

- Firstly, the analyses challenges the well-known clear-cut country rankings and makes it more difficult to derive hypotheses concerning the impact of the tax-benefit system on the female labour supply. For instance, while the *vertical* comparison of one-earner versus two-earner families has shown that taking up paid work for the second earner pays less in Denmark and the UK than in Germany, at least at lower additional earnings, the *horizontal* comparison shows that it is nonetheless the most rational option to choose in the UK, if the couple is interested in disposing of a higher net income. Extending instead the working hours of the primary earner (if he/she is not already working full-time) is clearly less rewarding, because the tax/benefit system privileges the two-earner family. Put more generally, incentives can not only result from low marginal tax rates in absolute terms, but also from *relatively* lower marginal tax rates for two-earner families compared to one-earner families at the same earnings levels. The question remains, however, if the relatively low increase in net income is sufficient at all to outweigh traditional preferences or to compensate for fixed costs of work (not included in the calculations) and for opportunity costs such as lost “leisure time” or time for assuming care responsibilities.
- Lowering the marginal tax rate for the second earner is not the only and not necessarily the best possibility to eliminate financial disincentives for the second earner. Rather, they can contribute to promote just a slightly modernised version of the male-breadwinner model, as the example of Germany shows. Here, the vertical comparison has shown that even though the marginal tax rate might be higher than in countries like Denmark, it is particularly rewarding for the second earner to take up a short part-time job. By contrast, the high marginal tax rates at very low additional earnings like those in the UK and Denmark can either encourage women to stay at home or to take up longer part-time or full-time jobs.
- The latter aspect points at the fact that there are tax-benefit systems whose incentive structures might work *either way*, depending on the preferences of the couples, but also on



other factors such as work-related fix costs. And in fact, as the very different levels of (short) part-time work in Denmark and the UK shows, their incentive structure indeed seem to produce quite different results that can not be explained by the tax benefit system.

Overall, therefore, the assessment cast doubts about the importance of the tax benefit system and might contribute to attenuate the importance policy makers and particularly the OECD attribute to taxes and benefits. Rather, there seem to be other important aspects of the institutional settings that can account for the persisting country differences in terms of female employment patterns. One of them is, of course, the availability of non-parental child care. While the fix costs associated with it and the related subsidies available for this purpose might in a near future be computed in the calculations of the OECD (see their effort in the current volume on Benefits and Wages (OECD 2008)), this would not account for non-financial obstacles, i.e. the problem of the availability of child care that is much more pressing in Germany than the financial aspects.

But in addition to institutions impacting on the supply side, it is also demand-side factors and the interplay of both which define the scope of choice left to women. For instance, the high part-time rate in Germany and the UK can also be the outcome of long-standing traditions in the organisation of labour within the firm which limits the offer of full-time jobs in both countries. This might also explain at least part of the success story of the minijobs: the long-standing tradition of female part-time work in Germany might also have promoted a 'part-time culture' in female dominated occupations which is nowadays supported by firms for economic reasons, independently of the actual working time preferences of their employees. Hence, firms strategies, as well as welfare state institutions (see Pfau-Effinger 2004) can well lag behind the actual employment orientations of women.

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ANNEX

Figure 3: Increase in net monthly income of families with 2 children, Portugal, 2005

