Evaluating the impact of the French tax credit on the employment rate of women

Elena G.F. Stancanelli

CNRS, GREDEG, University of Nice and OFCE, Sciences-Po, Paris, France

ARTICLE INFO

Article history:
Received 8 February 2006
Received in revised form 18 February 2008
Accepted 20 February 2008
Available online 4 March 2008

JEL classification:
C34
I38
J21

Keywords:
Policy evaluation
Difference-in-differences estimator
Labour supply

ABSTRACT

This paper investigates the employment impact of a new tax-credit programme that was put in place in France in 2001. According to the theoretical labour supply model, tax credits will have a positive effect on individual labour market participation as they increase the rewards from work. However, tax credits may discourage married women’s participation mainly due to income effects. We analyse the introduction of the French measure by adopting a non-experimental evaluation method. Various treatment and control groups are defined. The first specification adopted relies on the policy eligibility rules for the construction of the control and treatment groups. The others hinge, respectively, on marital status, for women in couple-households, and on the presence of children, for single women. We find evidence of a negative employment effect for married women, with a reduction of about three percentage points in the employment rate after the introduction of the policy. In particular, it seems to be the conditioning on total household resources that discourages married women’s labour market participation. On the contrary, the employment impact of the measure is positive for cohabiting women and twice as large. The policy effect is very small and statistically not significant for single women. The net impact of the introduction of the tax credit on the total employment of women is very marginal, amounting to the creation of about two thousand new jobs.

© 2008 Published by Elsevier B.V.

JEL classification:
C34
I38
J21

Keywords:
Policy evaluation
Difference-in-differences estimator
Labour supply

1. Introduction

The French tax credit, called the “Prime Pour l’Emploi”, that is the “work premium”, was launched by the Socialist government of Prime Minister Lionel Jospin in the Spring of 2001, and later amended by ensuing Conservative governments. According to fiscal administrative records (see for example, Barnau and Bescon, 2006), 8.7 million households received some tax credit in 2001, representing approximately 25% of French households. Total government expenditure on the tax credit amounted to 2.5 billion Euros and the average tax credit per household was 290 Euros per year, varying between a minimum of 30 Euros and a maximum of over 500 Euros. In Anglo-Saxon countries, tax credits cover a smaller proportion of the population but the payments involved are much larger. In the UK over the period we consider, about one million households were beneficiaries of the Working Family

☆ Earlier versions of this paper were presented at the “Association Française de Sciences Economiques” in September 2004, at the IZA Transatlantic Meeting of Labour Economists in June 2005, and at invited lectures given in 2004–05 at LEO (University of Orléans), TEAM (University of Paris 1), PSE (Paris), and the Econometrics Department of the University of Tilburg. I thank the seminar and conference participants for useful comments. In particular, I am grateful to Hans Bloemen, Andrew Clark, Gael Dupont, Bertrand Lhommeau, Bruce Meyer and Thomas Piketty for helpful comments. I owe many thanks to two anonymous referees and a journal editor for providing me with constructive remarks. All errors are mine.

* OFCE 69 Quay d’Orsay, 75007 Paris, France.
E-mail address: Elena.stancanelli@free.fr.

1 In 2005, the number of beneficiaries increased to 9.2 million, representing about 26% of the population, and the average payment was 295 Euros.

2 The larger number of tax-credit beneficiaries in France partly results from poor targeting – although some households only receive payments of 30 Euros per year – and partly from the fact that the distribution of earnings in France is very compressed around the minimum wage.

0047-2227/$ – see front matter © 2008 Published by Elsevier B.V.
doi:10.1016/j.jpubeco.2008.02.007
Tax Credit, with an average yearly expenditure of over 2500 Euros per household. In the USA, there were nearly 20 million recipients of the EITC, with an average expenditure of almost 700 Euros per household.

According to the theoretical labour supply model, tax credits will have a positive effect on the participation decision of (unmarried) individuals as they increase the rewards from work. For individuals already working, the effect on hours is ambiguous and, in particular, it depends on the relevant portion of the credit schedule – individuals in the phase-in of the measure, where the tax credit payable increase with earnings, will be induced to increase their working hours, while individuals in the phase-out, where payments decrease with earnings, will have opposite incentives – and on the size of substitution and income effects. For married persons, eligibility to the tax credit is conditional on total household income (as opposed to individual income). For primary earners, the effects of the tax credit will be the same as for unmarried persons. For secondary earners, often the wives, both the decision to participate and the hours worked will depend on the relevant portion of the credit schedule as well as on substitution and income effects. In particular, married women, who are most often the secondary earner in the household, may opt to reduce hours or not participate at all in the labour market in order to make their husband eligible for the credit and/or to maximize the amount of credit payable (Apps, 2007). The literature shows that secondary earners’ labour supply is particularly sensitive to tax incentives (Triest, 1990; Bourguignon and Magnac, 1990) and that tax credits discourage secondary earners’ participation and hours (Apps, 2007). The Earned Income Tax Credit (EITC) has been shown to increase work incentives for lone parents in the United States (see, for example, Meyer and Rosebaun, 2001) but to significantly reduce married women’s participation rates and hours of work (Dickert et al., 1995; Ellwood, 2000; Eissa and Williamson Hoynes, 2004; Eissa and Hoynes, 2004). Heim (2005) appeals to a structural model of married couples’ labour supply to conclude that while participation effects are small, there are negative effects of the EITC on the hours of work of both husbands and wives.

Here, we investigate the employment effects of the French tax credit for married and unmarried women. French women have been previously found to be more responsive than men to policy incentives in the French taxation literature (see, for example, Piketty, 1998; Bourguignon and Magnac, 1990). To our knowledge, this is the first evaluation of the employment effects of the French tax credit using non-experimental methods. Previous micro-simulation studies, prior to the introduction of the policy, predicted a small positive employment effect for French women, amounting to at most a few thousand new jobs for women in the age range 25–49 according to the most reliable estimations (see Stancanelli and Sterdyniak, 2004, for a review of this literature). In our analysis, we distinguish women further by their marital status to disentangle the differential incentive effects for married and unmarried women. Cohabiting women faced similar tax-credit incentives to single women, as joint taxation and means-testing on total household income only applied to formally married women in France at the time covered by the analysis. Various treatment and control groups are defined. The first specification adopted relies on the policy eligibility rules for the construction of the control and the treatment groups. The others hinge, respectively, on marital status, for women in couple-households, and on the presence of children, for single women.

We analyse the impact of the initial policy. We may a priori not expect to find particularly large effects of the French tax credit on employment, given the relatively small amounts of money at stake. Although “announcement” effects might magnify the economic effects of the policy (see for example, Blundell et al., 2004), it may take quite some time for individuals to learn about the new tax credit and to react to the policy. Therefore, we may not be able to capture here the full policy effects.

Our estimation results suggest a negative employment effect for married women. In particular, it seems to be the conditioning on total household resources that discourages married women’s labour market participation. The marginal effect of the policy is estimated to be roughly 3 percentage points for this group, suggesting the destruction of some 120 thousand jobs since the introduction of the tax credit. We find evidence of a positive employment effect for cohabiting women. This effect is twice as large, in absolute terms, as that for married women. The estimates of the impact of the tax credit are very small and not significant for single women. The net impact of the introduction of the tax credit on the total employment of women is very marginal, amounting to the creation of about two thousand new jobs.

The structure of the paper is as follows. The next section describes the French tax credit, and the evaluation model is presented in Section 3. The data and the selection of the sample for analysis are described in Section 4. The results of estimation are presented in Section 5, and Section 6 concludes.

2. The workings of the French tax credit

Tax credits belong to the family of “in-work benefits” and as such have two main policy objectives. The first is to fight poverty amongst low-skilled workers by redistributing income towards the “working poor”. The second is to reduce “unemployment traps”, and thereby increase incentives to work, by increasing the income from work relative to unemployment. In most countries, in-work benefits have been targeted at workers from households with dependent children, as the risk of poverty is greater and unemployment traps are more severe for this group.

3 See, for example, Nelissen et al., (2005), and Nelissen and Van Soest, (2003), for a simulation of the impact of in-work benefits on employment in the Dutch labour market.

4 Overall wage growth was small in the 2000s in France – partly due to working-time reductions which were negotiated against wage moderation starting in 1999, partly because of slow economic growth. This could potentially make small increases in income from work more valuable to workers (see Blundell and Hoynes, 2003, for a discussion of the effects of tax credits in different economic contexts).

5 For example, Maag (2005) shows that, in the United States, years after the introduction of the EITC many individuals, and especially low-educated parents, were still unaware of the existence of the programme.

6 When in-work benefits are administered by Tax Offices rather than by the Social Security Administration, they are called “tax credits.”
دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات