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AN OVERVIEW: WHAT DO WE KNOW ABOUT POLICIES TO MAKE WORK PAY?

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TABLE OF CONTENTS

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INTRODUCTION

Several countries have introduced policies aimed at enhancing the employment opportunities for groups at the margins of the labour market – those with little work experience and/or low skills (henceforth referred to as the low-skilled for simplicity) – while at the same time maintaining socially acceptable wage rates and income distributions. These policies to "make work pay" are implemented either through employment-conditional benefits and tax credits or through employment subsidies and payroll tax rebates given to employers. Since these policies cut across traditional boundaries between government departments and economic disciplines it is not surprising that the different institutions and approaches involved have not converged on one set of objectives against which policies could be assessed, and (unsurprisingly) emphasis on the various dimensions of policy differs. At the OECD workshop, which is the basis for this issue of OECD *Economic Studies*, two broad motivations for such policies were identified:

- *Economic inclusion*. Policies that increase the incentives to hire or to accept work may increase employment. Of itself, employment is a prime form of inclusion; it may well also have much broader returns through reducing social problems, such as criminality and ill health.
- *Redistribution*. Spending public funds on making work pay may increase the financial resources of a part of the population which otherwise would be near the bottom of the income distribution.

DOES MAKING WORK PAY INCREASE EMPLOYMENT?

Edmund Phelps in his paper offers the most ambitious objective for a policy to make work pay: "to promote wide access to a career and a livelihood in society's mainstream economic activity…". In these terms, inclusion does not exclusively mean providing jobs but also jobs that are in some sense "economically" rewarding. The economic rationale for this policy lies in the potential benefits of reduced outlays on benefits and increased economic output (and therefore tax revenue). However, Phelps argues that there are potentially important social and economic externalities associated with having a full-time job. First, a job is often good for individuals in terms of physical and mental health, raising self-esteem and well-being by making them feel more included in society. Second, bringing hitherto marginalised groups in society, including those who have been working in the underground economy, into mainstream economic activities may generate beneficial outcomes for society as a whole, for example through the amelioration of some social problems such as crime, drug abuse and social destitution.

Unfortunately the quantitative importance of such externalities is hard to interpret. However, as the subsequent papers in this volume show, there is much better evidence available on the impacts of existing MWP policies on employment of target groups:

– There is evidence that the Earned Income Tax Credit in the United States (EITC, see Box 1 for details), which subsidises those workers who accept employment but who have low family incomes, promotes employment (see the paper by Hotz and Scholz). However, the increase in employment, whilst significant, is not substantial.

– The United Kingdom has just substantially increased the generosity of its main MWP policy (now called the Working Families Tax Credit – WFTC, see Box 1 for details). Simulations suggest that the expansion of the programme will promote employment, with estimates ranging from 10 000-100 000 people finding work (see the paper by Dilnot and McCrae).

– Canada has been experimenting with earnings supplements (the Earnings Supplement Programme and the Self-Sufficiency Project).[1] The paper by Greenwood and Voyer reports that results vary with the details of programme design, from having little discernible impact, to having an effect on employment so large that the consequent savings in benefit spending were sufficient to finance the employment subsidy.

– Employment growth in France has accelerated since 1994, partly as a result of a change in the structure of employers' social security contributions that lowered the average tax rate on those with earnings at or just above the minimum wage level (see the paper by Fitoussi and Box 1).[2] Much of this growth has been in the service sector. More detailed quantitative evidence for France was provided by the Malinvaud Commission on the financing of social security, which argued strongly that restructuring the payroll tax system would promote employment of the low skilled.

The evidence suggests that some people already in the labour market reduce their hours worked as a result of MWP policies that are not tied to hourly wages. This is because reductions in earnings due to fewer hours worked are partly offset by higher in-work benefit payments. However, the message of the papers in this volume is that, even after taking account of such effects, most estimates suggest that MWP policies have a positive impact on the number of people working and, albeit smaller, on aggregate hours worked.

Box 1. **Selected examples of policies to make work pay**

The Earned-Income Tax Credit (EITC) scheme in the United States

The EITC has existed since 1975. For much of the subsequent period, it was kept at a relatively low level, but in the 1990s it has expanded enormously in importance. In 1999, taxpayers benefit from the credit if they have earned income of less than $30 095 if they have more than one child, $26 473 if they have one child, and $10 030 if they have no children. The maximum subsidy for a two-child couple is $3 756, and is received when income is between $9 930 and $12 260. The credit for such a tax unit is phased in at a rate of 40 per cent below that level (*i.e.* overall marginal tax rates are negative) and phased out at a rate of just over 21 per cent (details vary for other tax unit types). Taken together with taxes, marginal effective tax rates can reach 50 per cent. Total cost in 1999 was $26.3 billion – about a third of a percentage point of GDP. Final entitlement to the credit is based on annual income. Most American taxpayers chose to claim their credit at the end of the year as a lump sum, although they do in principle have the option of claiming it on a monthly basis with an annual reconciliation of any over- or under-payment.

The Working Families Tax Credit (WFTC) in the United Kingdom

The WFTC replaced the previous in-work benefit (Family Credit) in October 1999. The payment is made to all low-income families with children who have at least one adult working for 16 hours per week or more (a similar programme covers disabled persons). The payments are set at a level that guarantees families a minimum income of £200 ($333) per week, with additional payments for larger families. Furthermore, 70 per cent of all child-care costs (up to £150-$240) will be covered. A small additional payment is made if more than 30 hours are worked. When earnings exceed £90 ($150), the credit is reduced by 55 per cent of any additional earnings. However, this adjustment is only made at six-monthly periods, so marginal increases in hours worked are not discouraged, at least in the short term. This “taper rate” is in addition to income tax and social insurance contributions. Furthermore, other in-work benefits, such as housing benefit and council tax benefit, are also withdrawn as earnings rise, giving a theoretical maximum withdrawal rate of over 90 per cent of marginal earnings. However, in practice very few people face such high rates. The credit is paid through wage packets every month, unless recipients opt otherwise. The WFTC is predicted to cover 1.5 million recipients (compared with a total of around 20 million households, and a workforce of around 30 million). The WFTC will cost over £5 billion per year – about two-thirds of a percentage point of GDP.

Payroll tax reduction for the low paid in France

In October 1996, an exemption from family contributions and a reduction of social security contributions for the low paid were merged into a single degressive rebate. The latter was amended in 1998: the rebate is proportional to the number of hours worked (so as not to unduly favour part-time work) and applicable for up to 1.3 times the minimum wage (SMIC). The rebate reduces the cost of labour by 12.6 per cent at the level of the SMIC. In 1997, it covered 5.1 million employees, of whom 3.6 million were full-time, and its cost amounted to FF 46.7 billion (roughly 0.6 per cent of GDP) out of a total FF 82.7 billion in social contribution relief. Other tax exemptions are targeted to specific groups, including “*contrats emploi-solidarité*”; relief for part-time work; exemptions for first-time hires (it applies only to the first 50 jobs created); exemptions for youth employment; and exemptions related to skill training contracts and apprentices. Many of these tax advantages can be cumulated with one another.

This conclusion is based on studies that, for the most part, take account of the short-run employment effects of MWP policies. However, MWP policies often involve sufficiently large amounts of financial resources to have a series of knock-on effects throughout the economy. For example, policies that reduce the cost of low-skilled work lead to reductions in the prices charged by the employers of low-skilled labour for their output. Consumer demand for such goods and services could then rise in comparison with those produced with more highly-skilled labour and the increased demand may give a further boost to demand for (and the wages paid to) low-skilled work.

There are also other important general equilibrium effects that could reduce the overall employment effects of MWP policies. As noted at the Workshop – and taken into account in some of the quantifications cited above – large employment subsidies or reductions in payroll taxes must be financed by increased taxes elsewhere and/or cuts in public spending, which themselves might have negative effects on employment.[3] However, these negative effects may be mitigated if the shift towards a more progressive tax system alters wage-setting behaviour.[4]

The success of make work pay schemes in raising employment also depends on the design and packaging of the schemes. For example, there may be practical difficulties in financing reductions in payroll taxes for low-paid workers by shifting the tax base. Such a change may be resisted in some countries, on the grounds that this would break the contributory principle that lies behind social insurance systems. Moreover, tax bases that do not depend on labour may be too narrow to permit a large increase in revenues in order to finance a MWP policy.

The targeting of make work pay schemes is another important factor in determining their impact on employment. Payroll tax reductions are generally quite expensive insofar as they do not target specific groups but are available to all those with earnings below a given threshold. The costs of in-work benefit schemes in the United States and the United Kingdom (the EITC and the WFTC, respectively) are contained by a close targeting of beneficiaries. In-work schemes are aimed only at a part of the low-skilled population – families with children (other than a small tax credit for single people in the United States). Because authorities are reluctant to see children grow up in poverty, out-of-work benefits are usually higher for families with children. Targeting in-work benefits at families with children therefore both directly increases the well-being of children in some low-income households, and ensures that their parents have an incentive to work which otherwise would be lacking. In addition, as with other MWP policies, both the EITC and WFTC are withdrawn as earnings rise.

Such targeting is effective in keeping overall costs down, permitting large subsidies to be focussed on those who do benefit from the programmes. But there are unfortunate consequences: as stressed above (see also Dilnot and McCrae and

Hotz and Scholz), some of those already working face an incentive to reduce their hours worked or even (if they are in a couple where both partners are working and are earning relatively little) for one member of a couple to withdraw completely from the labour market. In the United States, Hotz and Scholz argue that initial tax rates are low enough for the additional marginal effective tax rate (METR) increase of the EITC to be imposed on earned income without major damaging effects. In the United Kingdom, the issue of high METRs has greater prominence, reflecting the fact that several benefits other than the employment-conditional benefit are withdrawn as earnings rise (see Box 1). However, Dilnot and McCrae argue that high METRs do not reduce labour supply of those in work to such an extent as to offset the increase in hours worked from those entering employment, a conclusion with which Hotz and Scholz concur from studying the US experience.

Hence, the overall message from these studies is fairly optimistic. Make work pay policies promote employment of the target group of those who might otherwise be trapped in joblessness. As a result of MWP policies, there is some reduction in hours worked or employment by those already working, even though such negative effects can be mitigated by judicious design of the schemes. More generally, however, the effects on employment and income distribution strongly depend on the initial wage distribution and the tax and benefit system. In countries with a narrow distribution of earnings and high levels of taxes and out-of-work benefits, the financing of make work pay policies are likely to lead to strong negative effects on hours worked of those who finance the schemes (see below).

DOES MAKING WORK PAY IMPROVE THE DISTRIBUTION OF INCOME?

The other main objective of MWP policies is to redistribute income towards low-income individuals or households. Indeed, some experts at the Workshop argued that the primary objective of MWP policies is to increase the incomes of those near the bottom of the income distribution. Their view was that the greater is the proportion of expenditure that goes to households in the bottom deciles of the income distribution, the better. Expenditure which goes to supporting those with low earnings but who are in households with high incomes is not well spent.

In this respect, the papers by Hotz and Scholz, Dilnot and McCrae and Gregg show that MWP policies of the United States and the United Kingdom significantly increase the income of poor households. Relatively little goes to high-income households. Of course, the very poorest in society do not usually have any earnings. Hence, if they are not able to take advantage of the expanded job opportunities provided by MWP policies, they do not see a rise in their resources. Moreover, the EITC scheme in the United States is phased in as earnings rise up to a threshold – so, those with a higher wage rate may benefit *more* from the programme than those with a lower wage rate. The group which benefits most from existing schemes is lone-parent households for whom the rewards to working have been low in the past and who form a significant subset of those in poverty.[5]

However, the focus of in-work benefits on household income is inefficient to the extent that it does not distinguish between those who have low income because of low effort in the labour market rather than disadvantage. In the United Kingdom, beneficiaries have to work a minimum of 16 hours per week in order to qualify for the benefit, but this still leaves the possibility of those who have higher wage rates but who choose to work less receiving a greater tax credit than those with lower skills and wage rates who put in greater work effort. In contrast, employment subsidy programmes, *e.g.* the payroll tax reductions in France and the Netherlands, are tailored to the wage *rate*, not total earnings. Those who work more do not receive reduced subsidies. Furthermore, such measures are aimed at *individual* disadvantage, rather than low family income (see Fitoussi in this volume). Whether the fact that the subsidies support low-skilled members of high-income households should be viewed as a problem with the policy or not depends on the underlying objective of policy.

In summary, the Workshop identified a trade-off. Whilst all MWP policies seek both to promote low-paid employment and to increase the incomes of those near the bottom of the income distribution, they vary in the stress they give to each of these two objectives. The fact that different objectives are being pursued implies that the assessment and comparison of such schemes should be made on a number of criteria. For example, it is inappropriate to judge in-work benefits that have a strongly re-distributive element solely in terms of their impact on the labour market through criteria such as changes in participation rates or aggregate hours worked; instead, one needs to augment these criteria by adding others such as the effects of the measures on household income and poverty.

FRAMEWORK CONDITIONS

If, on balance, it is possible to assess positively the experiences of some countries in using MWP policies, it is reasonable that other countries should seek to emulate them by adopting similar strategies. The papers in this issue suggest that the effectiveness of MWP policies strongly depends upon a number of framework conditions that in turn affect labour demand and supply responses to policy (see the paper by Bertola for an overview). Most obviously, favourable macroeconomic conditions make it easier to find jobs for those drawn into looking for work by MWP policies. Aside from the general condition of the economy, the eventual success of MWP policies depends on their interaction with a number of social, tax and labour market policies and institutions.

The minimum wage and the tax/benefit system

Statutory and negotiated minimum wages are often considered as surrogates or complements for MWP policies. A minimum wage raises the wage rates of some, so increasing the returns to work in the same manner as an earnings supplement. But the downside is that a too-high minimum wage will harm employment prospects for low-productivity workers. The paper by Gregg summarises evidence on whether minimum wages affect employment, and looks at the distributional effects of such policies. It concludes that, if set at a reasonably low level, there are unlikely to be large negative effects on aggregate employment. However, the effects of the policy will almost certainly be different for different labour market groups: established workers may benefit, but the employment prospects of young people are likely to be harmed, especially if minimum wages are not graduated by age. Increased minimum wages may also have unfocussed distributional effects: insofar as young people living with their parents or second earners with wealthy spouses benefit from a boost to their wage income, the increases in household income arising from an increase in minimum wages are scattered across the income distribution, and are not tightly targeted on low-income households. The empirical evidence reveals that the minimum wage is a relatively ineffective anti-poverty tool compared with in-work benefits.

Minimum wages also closely interact with other MWP policies. As noted by Bertola, minimum wages and non-employment benefits set a floor to wages that compresses the distribution of wages. The extent to which this occurs is very important in determining the viability of MWP schemes. The higher is the wage floor, the greater the proportion of workers who will be covered by a subsidy of a given size and thus the higher the cost of such a subsidy. A relatively high level of the minimum wage also means that any increase in METRs occurring in the withdrawal region of an in-work benefit (or a targeted wage subsidy) affects a large proportion of workers. Hence, the trade-off between promoting the labour supply of those who are without work and damaging labour market incentives of those already working becomes more stark in the presence of a minimum wage set at an inappropriately high level.

The overall level of taxation is similarly important for MWP policies. The higher are existing marginal tax rates, the more difficult does it become to withdraw in-work benefits or targeted wage subsidies rapidly. Tax rates accumulate, sometimes leading to METRs approaching 100 per cent or more, at which point there is no financial incentive to increase hours worked or human capital.

As Hotz and Scholz note, the United States has relatively low minimum wages, low social benefits and low tax rates. Also, the earnings distribution is relatively wide. This makes it possible to have large employment-conditional tax credits, which can be withdrawn gradually. METRs can be kept low, yet the credit does not penetrate a particularly dense part of the earnings distribution. Trade-offs in the

United Kingdom are rather more difficult. Although low in comparison to many countries, transfer levels are higher than in the United States. In order to avoid the Family Credit benefits being paid to an inappropriately large part of the population, the withdrawal rate was historically set at a high rate – 70 per cent of net income which, combined with other taxes and in-work benefits, meant that METRs could exceed 90 per cent for a small number of families. In introducing the WFTC the United Kingdom has reduced the withdrawal rate to 55 per cent. But as Dilnot and McCrae note, although very high METRs are reduced for a few, this means that quite high METRs are extended to many, as workers with earnings close to the median level become eligible for the new, more generous, benefit.

Taxes and wage floors may also have a combined effect that influences the effectiveness of MWP policies. For example, minimum wages might limit the possibility that employers "capture" part of in-work benefits by reducing wage rates. Indeed, in the presence of high METRs, reductions in wage rates no longer result in much change in net household income. Potentially, this could create a situation whereby public funds designed to support low-wage workers are instead passed through to employers in the form of reductions in wage rates and without inducing them to hire more labour.

To sum up, a number of framework conditions influence the relative merits of in-work benefits over wage subsidies and *vice versa*. Assuming that the MWP scheme aims to meet both inclusion and re-distributive objectives, it seems that countries perhaps fall into two camps. In those with a low tax-benefit environment and relatively low minimum wages, the essential problem is to encourage labour supply and to provide higher incomes for those in poorly paid jobs. In these circumstances, it seems preferable to place greater stress on in-work benefits. By contrast, in countries with high levels of taxes and benefits and relatively high wage floors, making work pay schemes are likely to have high fiscal costs and risk reinforcing disincentive effects related to higher METRs. As a result, policy interventions in the second group of countries should probably focus on wage subsidies, as the essential problem is one of increasing labour demand for the low-skilled or inexperienced workers. There may also be advantages to a sequencing of policy reforms, with a reduction in labour costs via exemptions from pay-roll taxes for the low paid in order to stimulate growth of a part of the economy based on low-skilled employment, followed by reforms to increase incentives to take up such jobs. Finally, in some countries it is possible that earnings distributions are so narrow, or initial tax rates so high, or other framework conditions are such that policies to make work pay cannot be introduced without having overall adverse effects.

Mobilising labour supply

Only if people are actively searching for work and are able to accept work if they find it, will policies that increase the return to work be effective. This was emphasised particularly in the paper by Greenwood and Voyer, which shows that the greatest labour market impact of the Self-Sufficiency Program (SSP) in Canada was when the earnings supplement was combined with other services designed to promote effective labour supply. Help with job-search and family-care arrangements on the one hand, and increasing the returns to work on the other, turn out to be mutually-reinforcing approaches to help people to find a job (although evidence suggested that such services did not significantly increase the proportion of the target population which *keep* a job once found – see below).

The paper by Grubb examines one neglected area of policy that may contribute to "Making Work Pay" – the requirements put on those receiving unemployment benefits to search for work and accept suitable job offers, and how tightly such conditions are enforced. As he notes, these requirements tend to offset the disincentive effects of unemployment benefits and if job search or related requirements associated with benefit receipt are very strong (so that the disutility of unemployment with benefits is almost as great as the disutility of unemployment without benefits), the result could be more intensive job search (and lower unemployment durations) than if there were no benefit system at all. Strict availability conditions can both put those who are without jobs into contact with work subsidised through MWP policies more often, and can push them to accept lower-paid jobs (which attract the MWP subsidy).

As Grubb describes, there are substantial differences across countries. Relative strictness in one area of eligibility conditions is often balanced by relative laxity in another. Furthermore, very strict eligibility requirements and sanction provisions in some countries run the risk of discouraging officials from seeking to apply them fully, whereas somewhat milder provisions may provide a better framework for systematic application. Although the relationships between benefit eligibility conditions, enforcement mechanisms, and strategies aiming more broadly at "activation" of the unemployed are complex, Grubb cites some evidence that differences in eligibility criteria and their enforcement can have a real impact on work incentives and employment outcomes.

A second aspect of mobilising labour supply is emphasised in the paper by Dilnot and McCrae. Finding appropriate and affordable childcare is often identified as a big barrier to work, particularly for lone parents who are, as noted above, one of the major target groups of existing employment-conditional tax credits or benefits. The WFTC in the United Kingdom now has a very substantial supplement to cover (most) childcare costs for those eligible for the credit. The risk is that existing informal care provision (by friends or relatives) will be brought into the market in order to qualify for the subsidy, implying large dead-weight costs. Although there might be gains from a formalisation of care arrangements (for example, making it easier to monitor and improve the quality of care), Dilnot and McCrae argue that targeting the funds directly to suppliers might have been more effective in expanding child care provision.

POLICY DESIGN

However elegant and desirable MWP policies may look in outline, their effectiveness depends crucially on their detailed administration. Many pitfalls have been encountered in countries that have already introduced these policies.[6] Paying the in-work supplement as a benefit, as in the United Kingdom (and several other countries), has the problem, as with many means-tested benefits, that take-up is often low. Ignorance, stigma and heavy application procedures all discourage workers from applying for benefit. Many years of intensive publicity campaigns in the United Kingdom have been necessary to reach the point where take-up covers around 70 per cent of all those eligible.

The alternative approach, followed in the United States and to which the new WFTC scheme in the United Kingdom now adheres, is to pay the supplement as a refundable tax credit. The tax unit needs to be similar to the income unit used for targeting. In the United States, the tax unit is the married couple, so targeting the tax credit on family income should be straightforward. Even so, there has been a problem with payments being made to ineligible households. Countries where the tax unit is the individual face a more complex task if they wish to use the tax system to pay benefits based on family income.

The period of assessment for benefit must match that used in the tax return. Income tax is calculated on annual income. Although in principle people may claim the EITC in the United States on the basis on a short period of earned income, final entitlement depends on annual earned income. Hence, most people claim on an annual basis. This means that the supplement is received as an end of year "lump sum", rather than as an ongoing supplement clearly linked to work. Evidence is lacking, but it would not be surprising if this restricts the labour supply impact of the programme.

If the income tax system is to be used to deliver an earnings supplement, it must cover a large proportion of the eligible population. This is the case in the United States, for a variety of reasons. In contrast, until recently the policy of the United Kingdom was to limit the number of people who had to complete annual tax-assessment forms. As the United Kingdom has found, attempting to use the tax system to deliver MWP schemes in such circumstances is administratively cumbersome and costly.

Administrative difficulties in applying payroll tax reductions for all those with low earnings are often of a lesser order than those arising from the application of in-work benefits.[7] Other administrative issues are general to tax credits, employment-conditional benefits, employment subsidies and payroll tax reductions. For example, schemes are sometimes designed to limit the in-work benefit or wage subsidy to full-time workers (such as the Canadian Self-Sufficiency Project and Earnings Supplement Project) in order to prevent workers with high hourly earnings from becoming eligible if they work only a few hours per week or on a part-year basis. Such criteria can be difficult to administer. Nevertheless, some countries have succeeded in collecting detailed information on actual hours worked to assess eligibility and levels of employment subsidies.

Finally, several papers stress that the "marketing" of the scheme seems important for its success. The Canadian SSP experiment reported by Greenwood and Voyer found the very phrase "making work pay" to be effective in selling the programme. The introduction of the WFTC in the United Kingdom has been accompanied by an extensive marketing campaign.

LIMITATIONS OF POLICIES TO MAKE WORK PAY

There is some evidence that workers who re-enter employment after a period of joblessness with the aid of a tax credit or in-work benefit do so at a wage below that which they had prior to losing their job. This is to be expected: prior job-specific human capital may be lost, as are any rents attached to a prior job. But some governments stress that MWP policies are not supposed to be *permanent* supports to individuals. Instead, the belief is that once employed, workers will acquire skills and move up the earnings' ladder and will no longer require public support. Yet in practice, very little is known about how workers acquire skills on-the-job. Furthermore, as the Canadian evidence shows, some of those who re-enter employment do so only *temporarily*, being trapped in a cycle of joblessness and low-paid work.

Unfortunately, one inevitable consequence of increasing support for those with low skills is that the incentive to increase those skills is reduced. There is a risk that human capital investment might be reduced. The underlying policy objective of permanently promoting the self-sufficiency of low-skilled workers can therefore only be met partially by MWP policies. Complementary policies that help the low-skilled to retain jobs once they find them and to promote skill-acquisition so as to find better jobs are also required.

Drawing attention to such limitations of policy to make work pay is important. However, the existence of policy tradeoffs and the practical difficulties of implementing the schemes should not be allowed to obscure a rather positive message arising from analysis of MWP policies. The studies presented in this issue do not suggest that policies to make work pay "solve" the problem of low employment and low wages of those with low skills. Indeed, unless certain framework conditions are met (for example, including the earnings distribution, the tax system and the minimum wage), it is even possible for MWP policies to be counterproductive. Furthermore, there is growing evidence that there is no single measure which, of itself, will have a major impact on employment. Hence, MWP policies have to be seen as an element of a comprehensive policy strategy, *e.g.* the ten broad policy guidelines of the OECD Jobs Strategy. But any policy that has empirical evidence supporting claims that, in certain circumstances, it could promote *both* efficiency *and* equity by fostering employment and decent levels of family income deserves to be considered in countries facing such problems.

NOTES

1. The evaluations of these programmes are particularly significant, as the design of the experiment allows for the effects of the programmes to be determined with far greater accuracy than with the simulation exercises upon which evaluations in other countries must rely.
2. Austria and the United Kingdom, and especially Belgium and the Netherlands, have also lowered payroll taxes for low-paid workers. See OECD (1999).
3. OECD (1997) makes an attempt to simulate the effects of different types of MWP policies. A more recent paper (Bassanini, Rasmussen and Scarpetta, 1999) simulates the potential overall employment effects of a simple EITC-type scheme in four OECD countries (United States, Germany, United Kingdom and Sweden) using a Computable General Equilibrium (CGE) model.
4. When wages in any particular firm are increased, labour costs are raised and, potentially, employment reduced. Higher marginal tax rates mean that the after-tax gain to employees from a wage increase is reduced. Hence a more progressive tax system alters the balance between risk and return in wage negotiations, possibly promoting wage moderation.
5. Available estimates suggest that lone parents form a third to a half of those benefiting from the WFTC in the United Kingdom and the EITC in the United States.
6. In this respect, Hotz and Scholz consider difficulties in administering the EITC to be its greatest drawback.
7. However, attempts to impose conditionality (for example, requiring employers to have a net increase in employment in order to qualify for the tax reduction) or using an hourly definition for the rebates sharply increase administrative difficulties of payroll tax reductions.

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