

Optimal taxation of lone mothers and single women - Empirical evidence for Germany

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Abstract

In a recent paper, Blundell, Brewer, Haan and Shephard, apply the theoretical framework of optimal taxation suggested by Saez (2002) to empirically analyze the optimal transfer schedule for the sub-group of lone mothers in the UK and in Germany. Depending of the welfare function they show that US-style in-work support with negative marginal tax rates is optimal in both countries.

In this paper, I extend the previous work by analyzing the optimal transfer schedule not only for lone mothers but for all single women in Germany. For this analysis, I assume that the welfare function of a society is not only depending on gross earnings but as well on the number and age of children. This is crucial, since a society might have a higher value for lone mothers with young children to stay home than for single women without children.

I apply the theory of optimal taxation with both a country-specific tax and benefit microsimulation model (STSM) and a structural model of labor supply. Thus, it is possible to recognize fully the complexity and heterogeneity in the tax and transfer system in Germany. Furthermore, the method provides the possibility to estimate, rather than calibrate, the key behavioral inputs in the expression for optimal tax rates, the labor supply elasticities. Hence, the extension of the employed method implies that the heterogeneity in household behavior is accounted for which is according to Saez (2002) crucial for the analysis of the optimal tax