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THE WELFARE STATE, THE LABOR MARKET, AND THE STABILITY OF HOUSEHOLD INCOME: A COMPARISON OF THE U.S. AND GERMANY

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Abstract

The stability of an individual's economic status depends on that individual's job changes, but also on household dynamics. Events like family formation, union dissolution,

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and partner's job shifts can produce potentially large shifts in household income and living standards. A comparison of the U.S. and Germany shows that household income tends to be more stable in Germany than in the U.S. This disparity is partly due to greater turbulence in labor earnings in the U.S. and partly due to the more effective public social insurance system in Germany. The source of the greater income stability in Germany than in the U.S. appears to vary depending on location in the income distribution. At the top the protection stems primarily from institutional forces that reduce the rate of negative events relative to the U.S. At the bottom this protection is reinforced by policies that limit the negative impact of these events on income loss.

Key Words: welfare state, labor market, household income, income distribution, cross-national inequality

I. Introduction

Since the demise of modernization theory, social scientists have sought to explain persisting differences in the stratification structure of advanced industrialized societies. Research into this question has naturally focused on major institutional features of advanced industrial societies: the educational system, the labor market, the tax system, the character of social welfare benefits, and the size and character of public employment. Substantial evidence suggests that cross-national variation in these institutions is associated with cross-national variation in inequality, and that change in the institutional structure of a society is associated with change in its structure of stratification.

In addition to their effects on the distribution of social rewards, these institutions also affect the stability of socio-economic position over time. In recent years the pace of technological change and the globalization of markets has forced firms to adapt quickly or face decline. The impact of these changes on the careers of individual workers has depended on the institutional context; in some countries firms and/or the state have facilitated the process of worker adjustment and minimized negative effects, while in other countries the absence of institutional protection has led to extensive dislocation. The implications of career dislocation on the economic fortune of workers and their families in turn depends on the characteristics of private-sector severance packages, on state-provided unemployment compensation, and on related social welfare benefits.

Clearly, the level of turbulence in the life situations of workers and their families depends in complex ways on both labor market institutions and on the structure of the welfare state. Many scholars have examined the impact of these institutions on a society's structure of opportunity and inequality (*e.g.*, Danziger and Gottschalk 1993). Many studies, especially in recent years, have also focused on the relationship between macro structure or trend and individual-level change in job, class, earnings, or income. Scholars have explored several aspects of this problem, including career occupational and class dynamics (DiPrete and Grusky 1990; Schettkat 1992; DiPrete 1993; Blossfeld, Giannelli and Mayer 1993; Jacobs 1993), the dynamics of household income around the poverty line (Gottschalk, McLanahan, and Sandefur 1994), earnings instability for national populations of wage-earnings (Moffitt and Gottschalk 1994; DiPrete and McManus 1996), rates of entry and exit into various social welfare programs such as AFDC or unemployment compensation (Harris 1994; Gottschalk, McLanahan, and Sandefur 1994), or job displacement and the process of worker adjustment via retraining, reemployment or early retirement (Seitchik and Zornitsky 1989; Naschold and de Vroom 1993). An increasing proportion of these studies take a comparative perspective on the relationship between structure and individual-level outcomes.

To date, however, one important dynamic issue has received little attention. Surprisingly little work has examined the dynamics of *household income* as opposed to individual earnings. In particular, little is known about the relative importance of labor market institutions, welfare state policies, and changes in family composition in creating or damping turbulence in the financial situation of families, largely because of the tendency in the existing literature to study these sources in partial isolation from each other. The literature on neo-corporatism repeatedly draws comparisons between the decentralized, dualist, market-based wage-setting mechanisms found in the United States and the more centralized wage-setting institutions in many European countries (Goldthorpe 1984). The literature on work careers repeatedly draws comparisons between the highly structured occupation-based labor markets of central Europe or the highly structured firm-based labor markets of Japan and the more loosely structured hybrid markets of the United States (Kalleberg 1988). The literature on the welfare state makes contrasts between the "social democratic" and "conservative" highly developed welfare states of Europe and the weaker "liberal" welfare states of the United States, Canada, Australia or England (Esping-Andersen 1990). In all three respects, the United States is at one pole of a taxonomy of institutional arrangements. As a consequence, job mobility in the U.S. is higher, inequality is higher, and the safety net is weaker. However, comparative analysis of the relative importance of these institutional differences has for the most part not been attempted.

These separate literatures lay the groundwork for an investigation of the following questions: (1) how does the level of stability in household income vary cross-nationally in the industrialized world, (2) to what extent do the various public and private sources of income constitute stabilizing or destabilizing forces, and (3) to what extent does the mix of income components and their role in stabilizing or destabilizing household income vary cross-nationally in response to cross-national differences in labor market institutions, welfare state institutions, and the stability of family structure? In this paper, we specialize these questions to focus on stability and turbulence in household income in the United States and Germany.

There are several mechanisms that create change (*i.e.* temporal variation) in a household's financial situation over time. Market-based mechanisms – specifically labor and capital markets – are a primarily source of mobility. In addition, the tax and welfare state plays a central role in the stratification structure of contemporary industrialized societies via (a) tax policies, (b) public transfers, and (c) public-sector employment and other job-creation programs. States can create collective mobility through redistributive tax systems, or through the undoing of these systems. Public transfers also have the potential for alleviating poverty and for redistributing income (Sawyer 1982; Smeeding 1992; Danziger, Sandefur and Weinberg 1994). However, as Esping-Andersen (1994) noted, studies that search for simple relationships between the size and the redistributive effect of welfare states (often with puzzling results) overlook the fact that welfare states in Continental Europe were originally intended not to produce equality, but to provide social insurance against privation due to misfortune or old age (Köhler and Zacher 1982; Ritter 1986; Baldwin 1990, Esping-Andersen 1990, 1994).

Finally, social insurance can be arranged through private sources, through conventional insurance policies, through private arrangements available as fringe benefits for certain jobs (*e.g.*, private pensions, private disability benefits), through liquidation of assets, or through private transfers from relatives or friends. These various sources have sometimes been referred to as "private" welfare, to distinguish them from public transfer payments (Rein and Rainwater 1986; Esping-Andersen

1994).

The distinct components just listed clearly do not vary independently of each other. Households have a certain amount of control over these income streams and can sometimes raise one income stream in response to declines in another stream. For example, eligibility for social welfare transfers is often a function of other household income streams. Also, individuals and households will often adjust their labor and asset income in response to public and private transfers (*e.g.*, Danziger, Haveman and Plotnick 1981; Lazear 1986; Zimmer- man 1993; Atkinson and Mogensen 1993; Naschold and de Vroom 1993). Finally, a change in the size of a particular income stream will often have tax consequences. The goal of our study is not to simulate the independent effects of these different mechanisms. Rather, it is to understand how the *mix* of mechanisms varies cross-nationally to produce different levels of stability or turbulence in the distinct streams, and in overall household income. The focus of our empirical investigation is a comparison between the U.S. and Germany.

In other papers (DiPrete and McManus 1997; DiPrete and McManus 1999; DiPrete and McManus 2000; McManus and DiPrete 2000), we have addressed different specific aspects of this question. The goal of the current paper, which is a non-technical synthesis of this earlier work, is to compare the level and sources of income stability in the two countries, to show how the tax and welfare systems of the two countries mitigate the consequences of major household income-changing events such as job loss or union dissolution, and to determine the relative importance of labor market events, changes in household composition, and welfare state effects on household income dynamics. The data sources for this research consist of the Panel Study of Income Dynamics (PSID), the German Socioeconomic Panel (GSOEP), and the PSID-GSOEP Equivalent Data File (EDF) (Wagner, Burkhauser, and Behringer 1993). Both surveys collect data from sample members on an annual basis. We used data from the 1981-1993 waves of the PSID and the 1984-1996 waves of the western Germany sample in the GSOEP (available panels for East Germans are still relatively short). Our sample includes observations on men and women who were either sole heads of household or partners in couple-headed households between the ages of 25 and 50 at the time of the initial income observation.

II. U.S. vs. Germany: Institutional Differences

The U.S. and Germany provide an attractive contrast because of their well-documented differences in labor market structure, rates of co-residential union formation and dissolution, and in the coverage and size of social welfare programs. These structural differences can have potentially important consequences for household stratification, and also for the dynamics of household life chances. These differences can be summarized as follows:

A. Labor Market Differences between the U.S. and Germany

In the two respects of wage determination and job mobility, Germany is quite different from the U.S. and both of these mechanisms will generally affect earnings fluctuations. Germany has a highly structured system of wage determination.

The IG Metall union has played a leadership role in setting a benchmark for other collective bargaining agreements (Soskice and Schettkat 1993). Employers who are members of the main employer association (the BDA) apply these agreements to their nonunion as well as union members, and the federal or state German labor minister can further extend the agreements to cover firms that are not members of the BDA. These collective bargaining agreements specify minimum rates of pay: individual works councils may participate in informal negotiations over the level of the "wage drift" that separates the effective wage from the minimum that is guaranteed in collective bargaining agreements (Swenson 1989; Thelen 1991; Abraham and Houseman 1993).

In contrast, the U.S. has a "free-market" system of wage determination. For many workers, particularly those in the internal labor markets of "core" firms, the U.S. system has meant steady or rising wages. In recent years, however, with first negotiated pay cuts, then increased use of temporary or "contingent" workers, and most recently the explosion of "variable-pay" plans, U.S. workers have faced earnings instability even when they remain in the same job (DiPrete and McManus 1996).

Germany also differs from the U.S. in its lower rates of job mobility. Germany has well developed occupational internal labor markets with tight linkages between educational or training credentials and occupation (Haller 1987; Blossfeld and Meyer 1988; Marsden 1990). This system contrasts strongly with the United States, where relatively pure occupational labor markets are limited to construction crafts and certain professions. Largely because of these tight linkages between training and job, Germany has low rates of occupational mobility and job mobility (Carroll and Mayer 1986; König and Müller 1986; Blossfeld, Giannelli, and Mayer 1993; DiPrete *et al*. 1997). Germany's low rates of job mobility also derive from the strong legal mechanisms in place to reduce involuntary job mobility that derives from economic conditions (Bosch and Sengenberger 1989; Abraham and Houseman 1993; Büchtemann 1993).

The U.S., in contrast, has higher rates of job mobility, particularly at the start of the career, and particularly for those in the secondary labor market. In recent years, the restructuring of corporate America has raised the rate of involuntary job mobility even from primary-sector jobs, and these moves have been coupled with earnings interruptions and with earnings decline in the new job (Ruhm 1991; Jacobson, LaLonde, and Sullivan 1993). Thus, both by virtue of its interconnected system of wage determination and its system of occupational labor markets, the German labor market provides greater levels of earnings stability than does the American labor market.

B. Tax and Social Welfare Differences between the U.S. and Germany

In principal, multiple mechanisms are available to stabilize potential turbulence in one's standard of living, which include social insurance as well as various private strategies such as private insurance, changes in labor supply by household members, or the spending of savings or borrowed money as a way to maintain consumption at a target level. Esping-

Andersen's taxonomy of welfare states suggests a clear contrast in the relative importance of "public" mechanisms in this mix of income-stabilizing strategies in the U.S. as opposed to Germany . The American welfare state is an example of a "liberal" welfare state, whose guiding principle is means-tested assistance, although the American welfare state has also developed a large public-sector "social insurance" component (consisting largely of Medicare and Social Security – see *e.g.*, Burtless 1994). The German "conservative" welfare state follows "in the Bismarkian tradition of insurance-based protection against risks incurred in working life" (Markovits and Halfmann 1988, p. 110)." The German system adopts a policy that has been called "*Status-sichering*" (status-maintenance) by Alber and "corporative status equity" (Esping-Andersen 1994). It is an "exclusionary and particularistic" system that is based on financial contributions and disbursements within delimited occupational strata (Esping-Andersen 1994, p. 719).

While the traditional German system emphasizes social insurance, the American system relies heavily on "private" insurance. Private pensions, for example, constitute a relatively high –20% – share of total pensions, and health insurance is also largely private. The American system is also an insurance system in another, more informal sense, namely that individuals are often forced to rely on market activity of others in their personal network (and changes in market activity, *e.g.*, increased labor supply by a spouse) to offset job loss or disability. Finally, the incentive structure is designed to maintain work incentives in the low-wage environment that distinguishes the United States and contrasts with Germany.

Neither the conservative welfare state nor the liberal welfare state rests on the principle of "universal rights of citizenship, regardless of degree of need or extent of work performance", which characterizes the social-democratic welfare state found in Scandinavia (Esping-Andersen 1990, p. 48). Perhaps for this reason, scholars have found that neither the U.S. nor the German welfare states have large redistribution effects, at least not in comparison to the Scandinavian countries (Esping-Andersen 1994). However, the gap between the social insurance (*i.e.* household income stabilizing) effects of the German and American systems may be larger than the gap between the redistributive effects.

C. Differences in Family Structure between the U.S. and Germany

Change in family structure is also a major source of change in household income. Marriage or cohabitation, union dissolution, and the entrance or exit of adult children change the number of earners in a family and therefore change household income. Births and the aging of children affect female labor supply though less so than in the recent past (Zimmerman 1993; Hayge and Bianchi 1994). Furthermore, changes in family structure can have important effects on a household's eligibility for transfer payments. It is therefore essential to take the dynamics of family structure into account, particularly in light of evidence that family structure is more unstable in the U.S. than in Germany (*e.g.*, *Eurostat Yearbook '95*).

III. Cross-National Differences in Household Income Dynamics

In our analyses of household income dynamics, we use two different types of measures. Our first type is year-to-year measures of change in annual earnings or income over time, where income is measured in multiple ways as described in Table 1. We focus on the consequences of what might be termed “trigger” events (Dannefer and Snell 1988) involving either labor market or family transitions, because these events have the potential to “trigger” a change in a household’s future income trajectory. We measure the immediate and longer term impact of trigger events using the convention of comparing annual income for the calendar year preceding the event to annual income two, three, five and seven years later. We used several measures of income in our analysis in order to distinguish the impact of trigger events on household income as opposed to individual earnings. We separately analyzed the impact of trigger events on household private income (before taking taxes and income from public transfers into account), and total income (after taking taxes and transfers into account) in order to assess how state policies buffered the consequences of trigger events for household income. We then created measures of household income that were adjusted for household size (household equivalent income, using ELES weights [Merz *et al*. 1993]), so that we could distinguish the consequences of trigger events on income from their effects on household living standards.

We regressed the difference in the log of our set of earnings and income measures on a set of change variables.

Table 1. Definitions of Income Concepts Used in the Analyses

Nominal Income Measures (unadjusted for Household Size)	
1. Individual Labor Earnings.	This individual's wages and salary from all employment including self-employment (farming, business, market gardening, and roomers and boarders), professional practice or trade, and bonuses, overtime and commissions.
2. Total Private Household Income.	Calculated as the sum of Individual Labor Earnings for all household members, plus the combined income received from assets, the imputed rental value of owner-occupied housing, alimony, child support and other private transfers, before taxes and government transfers.
3. Post-Government Household Income.	Calculated as Total Private Household Income plus public cash transfers and the face value of food stamps received by all household members, less payroll and income taxes (including state income taxes in the U.S.).
4. Post-Out-Transfer Household Income.	Calculated as Post-Government Household Income less private cash transfers made to support persons not living in the household, including alimony, mandatory child support, and voluntary out-transfers to others including parents, adult children, and non-family members.
Standard of Living/ "Equivalent Income" Measures (adjusted for Household Size)	
2E. Equivalence-Adjusted Total Private Household Income.	Calculated as Total Private Household Income adjusted for household size using ELES weights.
3E. Equivalence-Adjusted Post-Government Household Income.	Calculated as Post-Government Household Income adjusted for household size.
4E. Equivalence-Adjusted Post-Out-Transfer Household Income.	Calculated as Post-Out-Transfer Household Income adjusted for household size.

As independent variables, we use a set of household and employment related trigger events that can constitute either positive or negative shocks on household income: (1) changes in the number of children, (2) adding, losing, or changing a domestic partner, (3) changes in employment and job status, and (4) changes in the employment and job status of partner, if present. In addition, we control for the effects of changes in job tenure with the employer. Further details on the measures and statistical models can be found in DiPrete and McManus, 2000 and in the web-appendix to that paper (http://www.soc.duke.edu/papers/ASR0600).

A. The Level of Stability in Individual Earnings

Table 2 shows the yearly rate of job and partner change for Americans and Germans. The rate of employment exit, of employment entry, of job change with the same employer, of employer change, and of entry into self-employment are all higher in the U.S. than in Germany. Table 3 shows the distribution of one-year differences in individual labor earnings, household private income, and post-government household income in the U.S. and in Germany for respondents at the 10%, 25%, 50%, 75% and 90% point of the earnings or income one-year change distribution. Although the median year-to-year income fluctuation is similar in each country, there are notable differences in the variance. At the top of the distribution, American labor earnings rise more than do comparable Germans. At the bottom of the distribution, American labor earnings fall more than they do in Germany. This pattern is true for both men and women.

Table 2. Annual Rate of Income-Triggering Events
Household Head & Partners, 26-51 Years Old

	Men		Women	
	U.S.	Germany	U.S.	Germany
N (Person-Years)	18568	17218	23928	18246
1. Own Labor Force Status				
No Change since Last Survey	76.9%	87.0%	73.0%	82.6%
Employment->Non-Employment	3.4%	2.2%	6.4%	5.6%
Changed Job w/same Employer	6.9%	2.8%	4.9%	1.2%
Changed Employer	8.7%	4.9%	7.9%	3.3%
Change to Self-Employment	1.5%	1.2%	1.9%	1.5%
Non-Employment->Employment	2.7%	1.9%	5.9%	5.9%
2. Partner Status				
No Change in Partner	93.9%	96.7%	94.4%	97.0%
Added a Partner	3.0%	1.7%	2.6%	1.2%
Lost a Partner	2.5%	1.5%	2.5%	1.7%
Changed Partner	0.6%	0.2%	0.5%	0.1%
3. Partner's Labor Force Status				
No Change/No partner/New partner	79.4%	86.0%	84.8%	91.2%
Employment->Non-Employment	5.3%	5.0%	3.4%	1.7%
Changed Job w/same Employer	3.0%	0.8%	3.8%	2.0%
Changed Employer	5.6%	2.3%	5.0%	3.1%
Change to Self-Employment	1.8%	1.1%	1.1%	0.7%
Non-Employment->Employment	4.9%	4.9%	1.8%	1.3%

Table 3. Distribution of One-Year Earnings/Income Change for U.S. and Germany Household Heads and Partners, 25-50 Years Old

		Percentile Points of the One-Year Earnings/Income Change Distribution				
		10%	25%	50%	75%	90%
Men	U.S. (N=18568 Person-Years)					
	Individual Labor Earnings	-32%	-9%	1%	16%	53%
	Household Private Income	-30%	-10%	3%	19%	52%
	Household Post-Government Income	-25%	-8%	3%	17%	43%
	Germany (N=17218 Person-Years)					
	Individual Labor Earnings	-21%	-5%	2%	12%	36%
	Household Private Income	-24%	-7%	3%	17%	43%
	Household Post-Government Income	-21%	-7%	3%	16%	38%
Women						
	U.S. (N=23928 Person-Years)					
	Individual Labor Earnings	-52%	-8%	0%	21%	157%
	Household Private Income	-35%	-10%	2%	19%	64%
	Household Post-Government Income	-28%	-9%	3%	17%	46%
	Germany (N=18246 Person-Years)					
	Individual Labor Earnings	-43%	-3%	0%	10%	112%
	Household Private Income	-27%	-8%	3%	18%	46%
	Household Post-Government Income	-23%	-7%	3%	16%	38%

Table 4

Household Income Change over Eight Years in the U.S. and Germany

Income Components	Mean CV	Median CV	Percent Reduction (Mean)	Percent Reduction (Median)	Mean CV	Median CV	Percent Reduction (Mean)	Percent Reduction (Median)
Male Heads & Partners in Couple-Headed Households, 25-50 years old in the first year								
	Germany, N=1551				U.S., N=1589			
Individual Labor	0.263	0.143			0.332	0.210		
Total Labor	0.243	0.193	7.7%	-35.7%	0.321	0.233	3.3%	-10.9%
Total Private HH Income	0.261	0.199	0.6%	-39.9%	0.291	0.225	12.4%	-6.9%
Female Heads, 25-50 years old in the first year								
	Germany, N=215				U.S., N=772			
Individual Labor	0.439	0.216			0.526	0.300		
(Individ. Labor|CV>0)	0.481	0.278	(N=195)		0.550	0.330	(N=718)	
Total Labor	0.365	0.303	17.0%	-40.2%	0.550	0.411	-4.5%	-37.2%
Total Private HH Income	0.409	0.322	7.0%	-48.6%	0.409	0.362	22.3%	-20.9%
Female Partners in Couple-Headed Households, 25-50 years old in the first year								
	Germany, N=1427				U.S., N=1339			
Individual Labor	0.685	0.333			0.653	0.425		
(Individ. Labor|CV>0)	0.878	0.622	(N=1115)		0.702	0.462	(N=1244)	
Total Labor	0.263	0.204	61.6%	38.8%	0.340	0.258	48.0%	39.3%
Total Private HH Income	0.276	0.210	59.7%	36.8%	0.295	0.230	54.8%	45.8%

To obtain measures of income stability in the two countries, we used the coefficient of variation (CV) of inflation-adjusted annual income streams, defined as the standard deviation divided by the mean. For each individual, we computed a distinct household-level CV, which measures the fluctuations in income for that individual's household over time. This approach gives a distribution of CV's for each country, and it is the similarity or difference of these distributions that becomes the focus of attention. For these longer-run CV calculations, we restricted the sample to individuals who were respondents in all survey years and heads of household or partners in couple-headed households in all survey years for the period between 1983-1991 in the U.S., and for the 1984-1992 period in Germany. These results are presented in Table 4. Further information about these analyses can be found in McManus and DiPrete (2000).[1]

Table 4 shows that the more stable one-year fluctuations in German labor earnings correspond to greater stability over longer periods of time as well. At the median, a male household head in Germany experienced labor income fluctuations amounting to only 14% of his average earnings over this eight-year period, as compared to 21% for a male household head in the U.S. The cross-national difference in earnings instability is much narrower at the mean than at the median, which suggests that the institutional mechanisms in the German labor market are most effective at stabilizing the

[1] Our sample restriction was necessary in order to compute the CV over this period of time. McManus and DiPrete (forthcoming) discuss sensitivity analyses of the impact of this sample restriction on estimated coefficients.

earnings of the "typical" male worker with continuous attachment to the labor force. At both the mean and the median, however, labor income was significantly more stable in Germany than in the U.S.

Not surprisingly, women in both countries experience greater earnings instability than men. Women in Germany who were sole household heads at the time of the initial observation enjoyed somewhat more stable earnings than their counterparts in the U.S., but these differences were not significant. However, cross-national differences in labor force participation among married women are clearly evident in the statistics for women in couple-headed households. When the calculated CV is based on all partnered women, German women experienced significantly lower levels of earnings instability than did partnered women in the U.S. However, among partnered women with any labor income during the study period, the coefficient of variation was significantly higher in Germany than in the U.S.[2] For better or for worse, married women in the U.S. enjoy greater stability in earnings from their jobs than do married women in Germany.

B. Level of Stability of Family Structure

Table 2 shows that partnerships, like jobs, are less stable in the U.S. than in Germany. Our data show that American men and women add partners at roughly twice the rate of Germans.

[2] Women who never work for pay experience no fluctuations in earnings, so when non-participating women are included in the distribution the calculated CV can be much lower than when these observations are excluded. This is the case in these data.

They also lose partners at roughly twice the rate of Germans. Because the rate of adding and losing partners in the United States is relatively high, a non-trivial fraction of the population manage to change partners (*i.e.* both lose and add a partner) between successive surveys. Such behavior is much less common in Germany.

C. Consequences of Family and Employment Change for Private Household Income

Figures 1, 2, and 3 plot selected coefficient estimates from our two-year change models (see DiPrete and McManus 2000 for complete model results). These results show the specific consequences of changes in employment change and in family structure on earnings over a two year period of time.[3]

Overall, the specific events are more destabilizing for German women than for American women, and for German men than for American men. As Figure 1 shows, German men who exited employment soon after they were hired experienced estimated reductions in labor earnings of 59%, and reductions in private household income of 42%. In the U.S., exiting employment results in an estimated reduction of 50% in labor

[3] Because estimated coefficients are always subject to statistical fluctuations, we avoid interpreting small changes or changes in poorly measured estimates in this paper. To increase confidence on our interpretation, we computed additional statistics that allowed us to measure and test the statistical significance of the changes in coefficient values before and after welfare state taxes and transfers were taken into account. We also conducted a set of hypothesis tests for the cross-national and cross-gender comparisons reported in this paper. See DiPrete and McManus (2000) for a full presentation of these statistical results.

Figure 1: Percent Change in Earnings/Income Work->No Work (2 yr change, 0 yrs tenure)

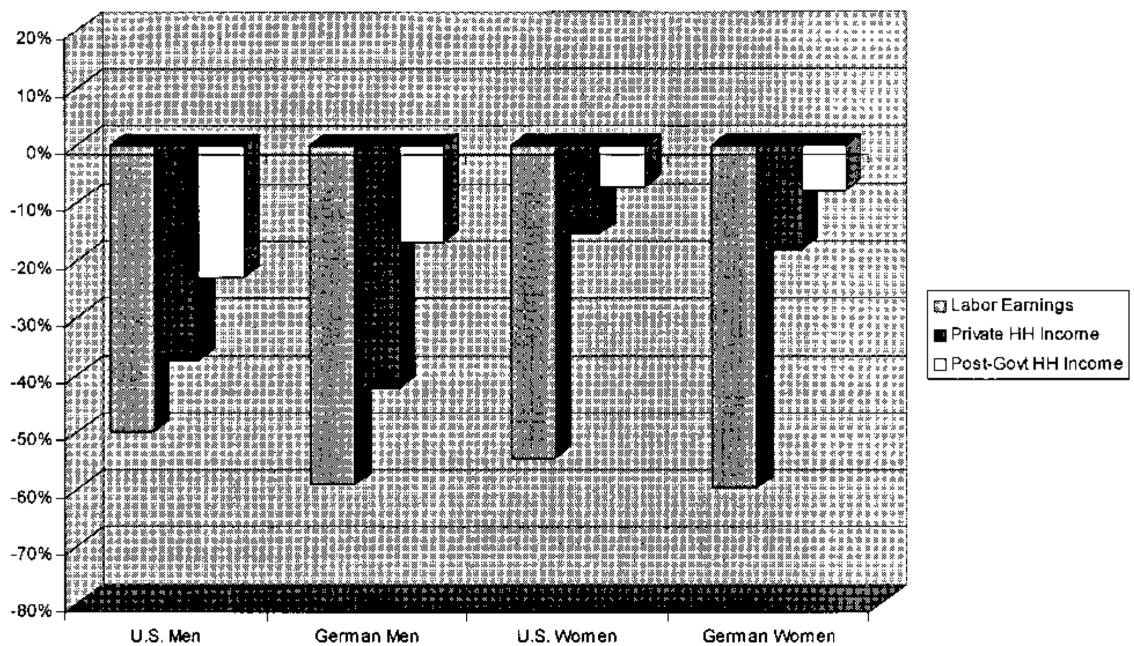


Figure 2: Percent Change in Earnings/Income
Union Formation (2 yr. change)

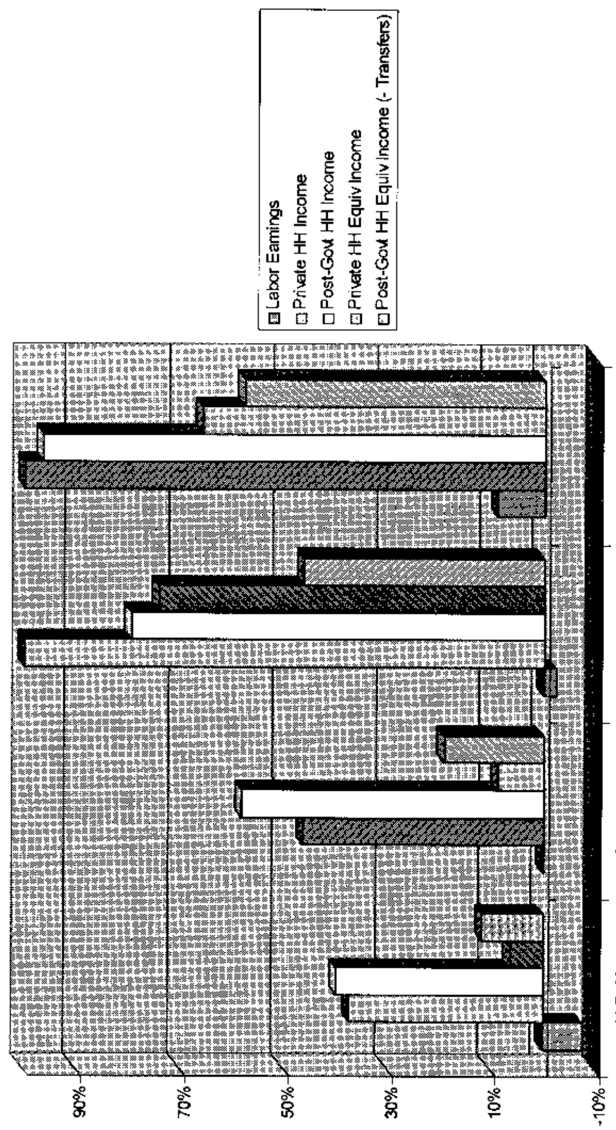
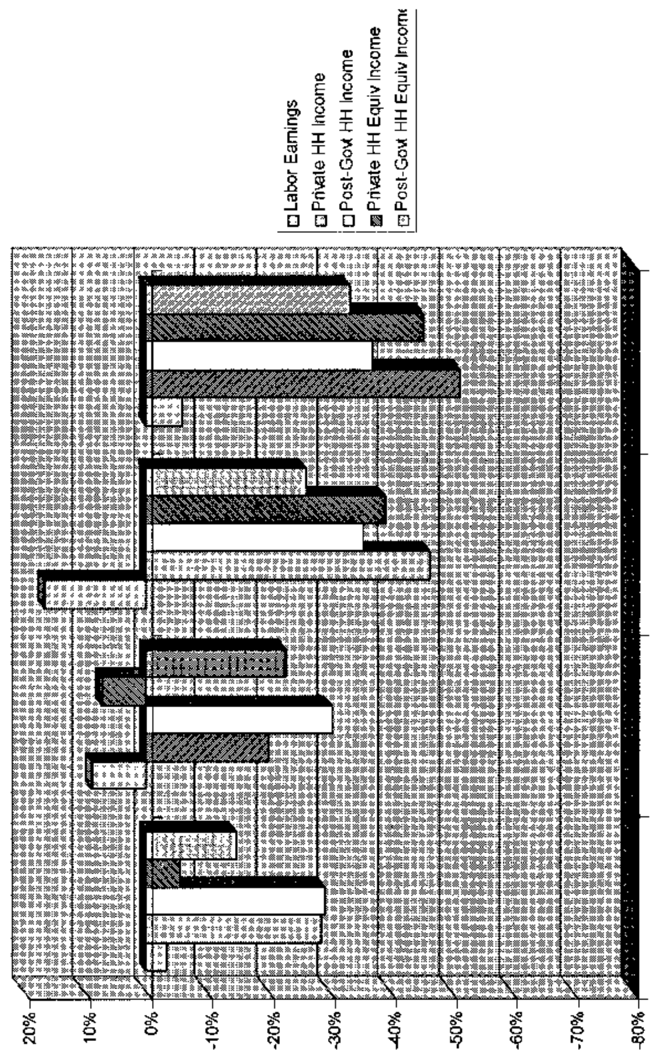


Figure 3: Percent Change in Earnings/Income Union Dissolution (2 yr. change)



earnings as compared to a 37% reduction in private household income.[4] Women, like men, experienced earnings and income reductions from employment exit, which are large in the case of labor earnings, and smaller though still apparent for private household income. Not surprisingly, the average negative effects of women's employment exit on household income in the two countries are much smaller than the corresponding effects for men.

Tables 2 and 3 show that changes in partnership structure have substantial effects on private household income for both women and men, with the effects being considerably larger for women. American women's private household income rose by an estimated 103% when a partner was added, compared with 37% for American men, with a large gap existing also in Germany. Similarly and consonant with other studies, (*e.g.*, Hoffman and Duncan 1988; Burkhauser *et al*. 1991) we find that the average negative effect of losing a partner on private household income is greater for a woman than for a man (-46% for American women vs. -29% for American men, and -51% for German women vs. -20% for German men).

The joint impact of cross-national differences in the rate of various income-changing events and in cross-national differences in the consequences of these events is to produce more stable private household income in Germany than in the U.S. Table 3 shows that one-year changes in household private income are more likely to be large in the U.S. than in Germany.

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[4] These estimates are calculated at zero years of employment tenure. At higher levels of tenure, the effects are greater. See DiPrete and McManus (2000) for details.

Table 4 shows that the private income of German households is more stable over time at both the mean and the median of the income-stability distribution than is true in the United States.

D. The Role of the Welfare State in Stabilizing Household Income

Figures 1, 2, and 3 show the extent to which welfare state tax and transfer policies mitigate the consequences of employment and family structure change on household income. German social welfare policies do a much better job of buffering the impact of employment loss than do American policies. For German men, the estimated 42% reduction in private household income from employment exit becomes only 17% once government taxes and transfers are factored in. U.S. tax and transfer policies also buffer the negative effects of employment exit, but, as Figure 1 shows, their impact is smaller. The contrast in welfare-state effects is similar for the case of German and American women.

Interestingly, tax and welfare policies in the U.S. and Germany magnify both the nominal household income gain from union formation and the household income loss from union dissolution for men. However, the effects of the welfare state are small in the U.S. and substantial in Germany. In Germany, the estimated gain from union formation increases from 46% to 58%, while the estimated loss following union dissolution increases from 20% to 30% when post-government income is substituted for household private income as the dependent variable. State policy in the U.S. does little to buffer men's household incomes against union dissolution, and the family-friendly policies of the German welfare state magnify both the positive and the negative consequences of family change for men.

Before state taxes and transfers are factored in, the gender gap in the impact of partner loss is notably bigger in Germany than in the U.S. State tax and welfare policies blunt the large negative impact of partner loss for women, with the reduction being about the same magnitude in the two countries. Moreover, state taxes and transfers substantially reduce the gender gap in the effect of partner loss on nominal household income in both countries as well.

Because nominal income is only an imperfect predictor of household living standards, we also analyzed the mitigating effects of the welfare state on household standard of living (as measured by household equivalent income). Men in both countries improved their short-term standard of living following union formation (see Figure 2). The situation of German men differs from that of their U.S. counterparts in that much of their gain in standard of living appears attributable to German social welfare policies. The gains in living standards experienced by women are different in two respects from the gains by men. First, the gains for women are much greater than the gains for men. Second, the gains for women stem from increases in private income, not from increases attributable to welfare state policies. Indeed, whereas state policies enhance the gain from union formation for men, they reduce the gain for women.

In terms of household equivalent income, women lose much more from union dissolution than do men. Figure 3 shows that women in the U.S. experience an estimated 39% drop in pre-government household equivalent income, while women in Germany experience a 45% decline. Tax and social welfare policies reduce this effect in both countries, to an estimated 26% decline for U.S. women and a 28% decline for German women. These policies have the effect of reducing the gender gap in both countries. The gender gap is further reduced when out-transfers are factored in, but (unlike for the case of nominal income) the gender gap is not eliminated by the combination of public and private transfers (see Figures 2 and 3). American men lost an estimated 15% in equivalence adjusted post-government income after taking out-transfers into account, but American women lost 26%. Similarly, German men lose less than do German women (23% for German men vs. 33% for German women). The relatively large loss for German men and especially for German women underscores the extent to which employment events and union dissolution are treated differently by the German welfare system, both in the way that public and private resources are mixed to mitigate the negative event and in the extent to which the transfers buffer the negative consequences of the event.

E. Variation Across the Income Distribution in the Effects of the Welfare State

The results discussed above are averages across all levels of the income distribution. However, the impact of labor market and family change generally varies with income level. In order to investigate this issue, we estimated a second model that included interactions between our change measures and position in the nation's household income distribution in calendar year t-2. We estimated this second set of models over a three-year period of time in order to provide information about the medium-term consequences of the labor market and family-structure events included in the model. Table 5 shows the predicted impact of selected changes on private household income and on post-government household income for men in the U.S. and Germany at different points in the income distribution, based on the coefficients in our model. Table 6 shows comparable results for women. In our three year models, all references to income concern income adjusted for household size using ELES weights (Merz *et al*. 1993), and this should be kept in mind when interpreting the results (further information on these statistical models can be found in DiPrete and McManus, 1999).

As shown in Tables 5 and 6, the effect of job changing, partner's job changing, or the addition of a partner is considerably larger in the lower quintiles than it is in the upper quintiles. Change from one job to another generally has a considerable positive effect on income change for the lower quintile of the income distribution, while the effects of job change are generally negative for those at the top of the distribution. Similarly, adding a partner has a much more positive effect on income for those at the bottom of the distribution than for those at the top (where the effect is actually negative, which suggests that the increment in family size on household living standards is offsetting any increment in nominal household income from the addition of a partner). This pattern is found for both men and women, and for both Americans and Germans.

Negative events show a similar pattern. At the bottom of the income distribution, the negative effect of employment exit

Table 5

Selected Effects of Job and Partner Changing at Different Income Quintiles, Males 5-50 Years Old

	Household Private Equivalent Income									
	U.S.					Germany				
Own Labor Force Change	Low 20%	2nd 20%	Mid 20%	4th 20%	Top 20%	Low 20%	2nd 20%	Mid 20%	4th 20%	Top 20%
Employment Exit	-20%	-26%	-31%	-35%	-40%	-21%	-23%	-25%	-27%	-29%
Internal Job Change	19%	12%	5%	-1%	-7%	18%	13%	8%	3%	-1%
Change Employer	22%	10%	-1%	-11%	-19%	9%	5%	0%	-4%	-8%
Change to Self-Employment	25%	7%	-8%	-21%	-32%	59%	31%	8%	-11%	-27%
Employment Entry	33%	14%	-3%	-18%	-30%	104%	56%	19%	-9%	-31%
Add Partner	23%	12%	1%	-8%	-17%	31%	15%	1%	-12%	-22%
Lose Partner	3%	-1%	-5%	-9%	-13%	76%	44%	17%	-4%	-22%
Change Partner	19%	4%	-9%	-21%	-31%	57%	33%	13%	-4%	-19%
Partner's Labor Force Change										
Employment Exit	2%	-5%	-11%	-17%	-22%	-8%	-12%	-16%	-20%	-23%
Internal Job Change	19%	13%	7%	2%	-3%	-1%	-2%	-4%	-5%	-6%
Change Employer	21%	12%	4%	-3%	-10%	36%	23%	12%	1%	-8%
Change to Self-Employment	18%	8%	- 2%	-11%	-19%	40%	29%	20%	11%	2%
Employment Entry	26%	15%	5%	-4%	-12%	49%	30%	13%	-1%	-14%

(to be continued)

Own Labor Force Change	Household Post-Government Equivalent									
Employment Exit	-9%	-16%	-22%	-27%	-32%	-7%	-9%	-11%	-14%	-16%
Internal Job Change	12%	8%	3%	-1%	-5%	19%	14%	9%	4%	-1%
Change Employer	17%	7%	-2%	-10%	-17%	10%	5%	0%	-5%	-10%
Change to Self-Employment	7%	-4%	-14%	-22%	-30%	47%	25%	6%	-10%	-23%
Employment Entry	19%	7%	-4%	-13%	-22%	30%	16%	4%	-7%	-17%
Add Partner	21%	11%	1%	-8%	-16%	27%	16%	6%	-3%	-11%
Lose Partner	6%	1%	-5%	-10%	-14%	25%	14%	4%	-6%	-14%
Change Partner	-4%	-9%	-14%	-19%	-23%	66%	38%	15%	-4%	-20%
Partner's Labor Force Change										
Employment Exit	2%	-4%	-9%	-14%	-19%	4%	-2%	-7%	-12%	-17%
Internal Job Change	17%	11%	6%	1%	-4%	10%	5%	0%	-5%	-10%
Change Employer	14%	8%	3%	-3%	-8%	22%	14%	7%	0%	-7%
Change to Self-Employment	15%	7%	-1%	-8%	-15%	40%	29%	20%	11%	2%
Employment Entry	18%	10%	3%	-4%	-10%	36%	23%	11%	0%	-10%
Note: All Changes Computed at 0 yrs. tenure										

Table 6

Selected Effects of Job and Partner Changing at Different Income Quintiles, Females 25-50 Years Old

	Household Private Equivalent Income									
	U.S.					Germany				
Own Labor Force Change	Low 20%	2nd 20%	Mid 20%	4th 20%	Top 20%	Low 20%	2nd 20%	Mid 20%	4th 20%	Top 20%
Employment Exit	-6%	-10%	-13%	-17%	-20%	-2%	-8%	-13%	-18%	-23%
Internal Job Change	24%	14%	4%	-5%	-13%	21%	13%	6%	0%	-6%
Change Employer	45%	26%	10%	-4%	-16%	63%	40%	20%	3%	-11%
Change to Self-Employment	12%	5%	-2%	-8%	-14%	66%	41%	19%	1%	-15%
Employment Entry	51%	28%	9%	-8%	-22%	88%	51%	21%	-3%	-22%
Add Partner	91%	56%	27%	4%	-15%	69%	28%	-3%	-27%	-44%
Lose Partner	-25%	-31%	-36%	-41%	-46%	-24%	-34%	-42%	-50%	-56%
Change Partner	6%	-16%	-33%	-47%	-58%	52%	21%	-4%	-23%	-39%
Partner's Labor Force Change										
Employment Exit	-7%	-14%	-20%	-25%	-31%	-11%	-20%	-28%	-36%	-42%
Internal Job Change	8%	5%	2%	-1%	-3%	4%	2%	0%	-2%	-3%
Change Employer	11%	3%	-5%	-13%	-20%	32%	16%	2%	-11%	22%
Change to Self-Employment	31%	12%	-5%	-19%	-31%	4%	-1%	-7%	-12%	-17%
Employment Entry	28%	11%	-4%	-17%	-28%	54%	29%	7%	-10%	-25%

(to be continued)

Own Labor Force Change	Household Post-Government Equivalent									
Employment Exit	-2%	-5%	-9%	-12%	-15%	6%	0%	-7%	-12%	-18%
Internal Job Change	21%	12%	4%	-4%	-11%	15%	9%	4%	-1%	-5%
Change Employer	33%	20%	9%	-2%	-11%	41%	26%	12%	0%	-11%
Change to Self-Employment	6%	1%	-3%	-7%	-10%	58%	37%	19%	4%	-10%
Employment Entry	27%	15%	3%	-7%	-16%	44%	26%	11%	-3%	-15%
Add Partner	58%	38%	19%	4%	-10%	39%	18%	1%	-14%	-27%
Lose Partner	-3%	-14%	-24%	-32%	-40%	-12%	-22%	-31%	-40%	-47%
Change Partner	-3%	-16%	-28%	-37%	-46%	49%	20%	-4%	-23%	-38%
Partner's Labor Force Change										
Employment Exit	3%	-5%	-13%	-20%	-26%	-11%	-12%	-13%	-14%	-14%
Internal Job Change	6%	4%	2%	0%	-2%	6%	4%	2%	0%	-2%
Change Employer	10%	3%	-3%	-9%	-15%	13%	5%	-2%	-9%	-16%
Change to Self-Employment	13%	2%	-8%	-17%	-25%	-14%	-12%	-10%	-9%	-7%
Employment Entry	14%	4%	-5%	-13%	-20%	9%	4%	-1%	-6%	-11%

Note: All Changes Computed at 0 yrs. tenure on post-government household income is relatively modest, while at the top of the distribution, the effect is rather substantial. The German and the American pattern in this regard is similar.

The effects of employment exit, of employment exit by the woman's partner, or the effects of union dissolution for women all become less negative when comparing post-government household income to private household income. In all these cases, the mitigation is greater at the bottom of the income distribution than at the top.

IV. Summary

Using the U.S. and Germany as important examples, this paper has addressed the linkage between household income dynamics, the labor market, the welfare state, and the stability of family structure. The nature of this linkage has important implications for a country's stratification structure, and in particular for the empirical validity of class-analytic perspectives on this structure (Sørensen 1991). As recent authors have pointed out, a class system must possess some degree of social closure for it to be meaningful (Parkin 1979; Goldthorpe 1987; Esping-Andersen 1993), and increased turbulence in labor markets has called into question the amount of social closure that exists in contemporary advanced industrialized societies. The response of some scholars to this situation has been to take an explicitly dynamic approach to the question of class in order to determine the extent of social closure (*e.g.*, Esping-Andersen 1993; Blossfeld, Gianelli, and Mayer 1993; Jacobs 1993). But, while appropriate for understanding the occupational foundations of life chances, this focus misses important dynamic considerations arising from family change and from the welfare state and therefore provides only a partial understanding of the problem of social closure.

As we have shown in this paper, changes in household composition and changes in the labor market situations of household members can trigger potentially large shifts in household income and material well-being. The impact of these trigger events is affected both by offsetting private actions by household members and by public tax and welfare policies that may buffer or even enhance the impact of the original event.

In comparisons of the stability of income in the U.S. and the states of the former west Germany, we found that household income tends to be more stable in Germany than in the U.S. This disparity is partly due to greater turbulence in labor earnings in the U.S. and partly due to the more effective public social insurance system in Germany. Our results show that Germans are relatively sheltered from the negative consequences of employment events and union dissolution in two important respects. First, rates of partner loss and of employment exit are lower in Germany than they are in the U.S. Second, the short-term impact of these events on disposable household income is lower in Germany than in the U.S. Women in both countries are more dependent upon partner income than are men; they gain more from union formation and lose more from union dissolution than men do. However, the loss from union dissolution for women is mitigated substantially by tax policies and by private and public transfers in both countries.

Generally speaking, the impact of negative work and family events is greater at higher levels of the income distribution. Tax and welfare policies in both countries reduce these impacts, but their effect is clearly larger at the lower end of the income distribution in both countries. In consequence, the source of the greater income stability in Germany than in the U.S. appears to vary depending on location in the income distribution. At the top of the income distribution, the protection stems primarily from institutional forces that reduce the rate of negative events relative to the U.S. At the bottom of the income distribution, this protection is reinforced by policies that limit the negative impact of these events on income loss.

Our analyses show how household income mobility depends on the national rate of trigger events, their direct impact on income, the extent of mitigation of these events that is provided by private actions and public policies, and the extent to which these direct and mitigating effects depend upon location in the income distribution. We were limited in our study to just two cases, though they are important ones. It is to be hoped that future research can broaden the comparison to better assess the structure of cross-national variation in these effects in the industrialized world.

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福利國、勞動市場，及家庭收入的穩定性：美國與德國的比較

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摘　要

個人的經濟地位穩定性，不單取決於職業的異動，也受制於家庭動態的改變。家庭形成，家庭成員分離及配偶職業改變等事件都可能會對家庭收入及生活水準有重大影響。在德國，家庭收入的穩定性比美國高。這樣的差異可歸因於美國勞動薪資的不穩定及德國較有效率的國家社會保險制度。德國之所以有較高家庭收入穩定性，對高收入者及低收入者來說，其原因有所不同。對高收入者來說，較高家庭收入穩定性是因為社會制度減少負面家庭事件的發生率。對低收入者來說，較高家庭收入穩定性來自於政策性的保護，減少負面事件發生後的收入損失。

關鍵詞： 福利國、勞動市場、家庭收入、收入分配、跨國社會階層比較