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Vierteljahrshefte zur Wirtschaftsforschung

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: DiPrete, Thomas A.; McManus, Patricia A. (1999) : The Sensitivity of Family Income to Changes in Family Structures and Job Change in the United States and Germany, Vierteljahrshefte zur Wirtschaftsforschung, ISSN 0340-1707, Duncker & Humblot, Berlin, Vol. 68, Iss. 2, pp. 171-176

This Version is available at:

<https://hdl.handle.net/10419/141234>

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The Sensitivity of Family Income to Changes in Family Structure and Job Change in the United States and Germany*

By Thomas A. DiPrete** and Patricia A. McManus***

Summary

Changes in labor market activity and in family composition produce considerable change in household income. But Germans are more sheltered from the negative consequences of employment loss than are American workers. For men in both the United States and in Germany, the positive impact of gaining a household partner, through marriage or cohabitation, on post-government household income is substantial, while the negative effects of losing a household partner are small. The effects of gaining or losing a household partner are much bigger for women. Tax and social welfare policies reduce but do not eliminate this gender gap. The positive effects of changes in labor market position or from gaining a household partner are greatest at the lower levels of the income distribution. It is there also that state tax and transfer policies most strongly mitigate the effects of negative events on household living standards.

1. Introduction

Since the demise of convergence theory, social scientists have sought to explain persistent 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. Many scholars have examined the impact of these institutions on the structure of inequality in a society, and on individual's intergenerational and career mobility. However, much less is known about the effects of changes in individual labor market situations, changes in family composition, and social welfare policies in creating or damping turbulence in the financial situation of families.

In this paper, we measure the change of household income in response to changes in the labor market situation of family members and changes in family composition. In addition, by comparing the impact of these events on private household income and post-government income, we are able to assess the role of the welfare system in enhancing or mitigating the effects of these events. We conduct this analysis using data for two countries whose labor markets and social welfare systems are quite different, namely the United States and Germany.

2. Methods and Data

Data for our analyses came from the 1981-1993 waves of the Panel Study of Income Dynamics (PSID) and from the 1984-1996 waves of the German Socio-Economic Panel (GSOEP). The sample was restricted to those aged 25 to 50 in the survey year. Some of our measures (notably the income measures) were taken from the PSID-GSOEP Equivalent File that has been constructed at the Center for Policy Research of Syracuse University (Burkhauser, Butrica, and Daly forthcoming).

We analyze changes with respect to the following measures of income:

- *Household Private Income:* This is the combined income received by all family members from labor, assets, and private transfers (including alimony and child support) before taxes and government transfers.
- *Post-Government Household Income:* This is the sum of household income after taxes and public transfers, as defined in the PSID-GSOEP Equivalent File.

We adjusted income for household size using the country-specific consumption-based scales developed by Merz et al. (1993) to obtain Expanded Linear Extension System (ELES) weighted income.

Our dependent variables are measures of annual income. Earnings and income of various sorts are obtained in each survey for the previous calendar year through interviews with the current head (typically the male) and partner, if any. Thus, earnings for year t are obtained in survey $t + 1$. If a job-related event occurs in calendar year t , it will have a partial effect on the income report for calendar year t depending upon the month in which it occurs. The full effect will not be felt until the following calendar year, though this effect will also generally dissipate with the passing of time, and thus the effect on next year's income will be smaller than would be the effect on the first 12 months of income following the event.

The short-term effects of changes in family composition on income differ between the PSID and GSOEP because of different methods of measurement. In the PSID, reports of household income for the previous calendar year include the labor income and other forms of income attributable to the current head and current partner, if that partner is either a spouse or has been cohabiting with the head for more than one year. The entire previous year income of the head

* This research has been supported in part by National Science Foundation grant NSF-SBR-96-31944. We would like to thank Karen Segar for help with data preparation for the analyses conducted for this paper. We wish to thank the German Institute for Economic Research (DIW) and the Center for Demography and Economics of Aging at Syracuse University for providing access to the German Socio-Economic Panel.

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and spouse are counted toward household income even if the current household head or partner was not present in the entire previous calendar year. The incomes of other family members are prorated for the amount of time they were present in the household. In contrast, GSOEP measures of annual income are not prorated for individuals who enter the household during the year, and no income is reported for former household members who are no longer present as of the interview date. To make the results for the two countries comparable in the presence of these measurement differences, we estimated models for income change between calendar year $t + 1$ and $t-2$ (these models are referred to as the *three-year change model* below), where year t is the reference year.

The independent variables in our three-year change model are defined as follows:

- *Tenure*: Change in length of employment with most recent employer, in years, as reported in the calendar years of the initial observation on income and two years later. Employer tenure was smoothed and filled to be consistent with reported employer change. Thus, if no employer change is reported, tenure is redefined as previous tenure plus one year.
- *Number of Children*: Change in the number of children in the household between the calendar year of the initial observation on income and two years later.
- *Partnership Changes*: (1) Add Partner — respondent had no partner in the calendar year following the initial income report, but gained a partner through marriage or cohabitation by the time of the following interview. (2) Lose Partner — respondent had a partner in the calendar year following the initial income report, but had no partner by the time of the following interview. (3) Change Partner — respondent has a partner in both years, but not the same partner.
- *Changes in Employment Status*: (1) Work/No Work — respondent was working in the calendar year following the initial income report and not working at the time of the following interview. (2) Employer Change — respondent changed employer between the survey in the calendar year following the initial income report and the survey one year later. (3) Internal Change — respondent changed jobs but not employer between the survey in the calendar year following the initial income report and the following interview. (4) Self-employed — respondent entered self-employment between the survey in the calendar year following the initial income report and the following interview. (5) No Work/ Work — respondent was not working at the time of the survey in the calendar year following the initial income report, but had a job by the time of the following interview.

Changes in Partner's Employment Status (if the same partner as last year) were defined similarly.

We estimated first-difference models for change in household private income and in post-government

household income on changes in employer tenure, changes in number of children, and the changes in labor market position and in household composition defined above for male household heads and female heads and partners for the United States and for Germany. We used White's correction for heteroskedasticity in order to obtain consistent standard errors. To take account of correlation in the error arising from individual specific, we corrected estimated standard errors for clustering.

3. Results

Table 1 contains the estimates of three-year income change models for German and United States men and women. In each panel the first column reports estimates for change in private household income. The second column reports estimates for change in post-government household income. All references to income concern income adjusted for household size using ELES weights, and this should be kept in mind when interpreting the results; T -values are reported in parentheses.

Exiting employment has by far the biggest effect on change in household private income for both United States and German men, and is quite significant even though the event occurred a full calendar year or more before the second income measurement. The effect, however, becomes smaller for both Germany and the United States when one uses post-government household income as the dependent variable. The reduction appears to be greater in Germany than in the United States. Even after taxes and transfers are taken into account, the living standard of United States men drops 16 percent, while in Germany the drop is only 8 percent and is not significant.

Perhaps not surprisingly, the biggest positive effect for both German and United States men comes from entry into employment. In both countries, the effect on private household income is bigger than the effect on post-government household income. In Germany, the difference between the two effects is much larger than in the United States.

While the effect of labor market events on post-government income is generally smaller in magnitude than are the effects on private household income, the reverse is true with respect to adding a household partner, particularly in Germany. In both the United States and in Germany, the positive impact of adding a partner on post-government income is at least as beneficial as any of the labor market effects. In contrast, the effects of losing a partner on household income are slight or nonexistent for men in both countries.

Both United States and German men are affected by changes in their partner's labor market activity. Their households lose about 10 percent of equivalent post-government household income when a partner exits employment. In the United States, men gain about 4 per-

Table 1

Coefficients from Fixed-Effects Model for Three-Year Change in Private and Post-Government Household Income, Men and Women, Aged 25 to 50 in the Base Year
(ELES adjusted for family size)

	Men Household Income				Women Household Income			
	United States (N = 16,143)		Germany (N = 14,868)		United States (N = 20,969)		Germany (N = 15,753)	
	Private	Post-Government	Private	Post-Government	Private	Post-Government	Private	Post-Government
Intercept	0.065 (9.74) ^{a)}	0.084 (15.68)	0.073 (8.04)	0.07 (10.96)	0.065 (8.52)	0.068 (12.85)	0.044 (5.38)	0.055 (9.04)
Tenure	0.007 (4.59)	0.004 (3.36)	0.008 (2.58)	0.003 (1.70)	0.011 (5.76)	0.008 (5.33)	0.010 (4.48)	0.007 (3.53)
Number of children	-0.085 (-9.00)	-0.070 (-9.00)	-0.095 (-5.47)	-0.070 (-6.86)	-0.078 (-7.25)	-0.050 (-6.04)	-0.093 (-5.62)	-0.054 (-4.71)
	Employment Changes							
Work/no work	-0.275 (-6.50)	-0.160 (-4.94)	-0.235 (-2.90)	-0.077 (-1.36)	-0.121 (-4.38)	-0.075 (-3.67)	-0.132 (-3.78)	-0.062 (-2.43)
Internal job change	0.037 (2.43)	0.025 (2.05)	0.067 (2.08)	0.079 (2.91)	0.046 (2.32)	0.045 (2.79)	0.066 (1.46)	0.055 (1.52)
Employer change	0.066 (2.84)	0.041 (2.18)	0.040 (0.44)	0.028 (0.82)	0.145 (5.99)	0.123 (6.30)	0.237 (5.09)	0.154 (3.94)
Change to self-employment	-0.002 (-0.03)	-0.097 (-1.96)	0.080 (0.89)	0.062 (0.85)	0.013 (0.27)	-0.004 (-0.10)	0.180 (3.12)	0.154 (3.33)
No work/work	0.210 (4.49)	0.119 (3.45)	0.518 (4.04)	0.167 (2.83)	0.157 (5.26)	0.079 (3.67)	0.274 (6.62)	0.137 (5.40)
	Partnership Changes							
Add partner	0.098 (2.72)	0.106 (3.49)	0.116 (2.32)	0.167 (4.20)	0.548 (12.83)	0.398 (11.90)	0.434 (4.62)	0.324 (4.53)
Lose partner	-0.049 (-1.16)	-0.046 (-1.40)	0.131 (0.85)	0.015 (0.26)	-0.451 (-10.41)	-0.275 (-8.50)	-0.525 (-6.28)	-0.357 (-6.18)
Change partner	-0.040 (-0.38)	-0.122 (-1.43)	0.120 (1.16)	0.120 (1.39)	-0.206 (-1.42)	-0.206 (-2.08)	-0.073 (-0.36)	-0.015 (-0.09)
	Partner's Job Changes, if Partner Present							
Work/no work	-0.115 (-5.63)	-0.096 (-5.76)	-0.189 (-6.08)	-0.095 (-5.18)	-0.242 (-7.61)	-0.164 (-6.93)	-0.289 (-3.21)	-0.122 (-3.04)
Internal job change	0.029 (1.36)	0.020 (1.13)	-0.042 (-0.91)	-0.031 (-0.74)	-0.027 (-1.62)	-0.015 (-1.10)	-0.010 (-0.22)	0.005 (0.12)
Employer change	0.034 (1.65)	0.016 (0.87)	0.073 (2.62)	0.039 (1.79)	-0.099 (-3.96)	-0.069 (-3.56)	0.014 (0.34)	-0.025 (-0.76)
Change to self-employment	0.003 (0.07)	0.001 (0.04)	0.149 (3.98)	0.135 (3.83)	-0.091 (-1.60)	-0.109 (-2.46)	-0.12 (-1.16)	-0.117 (-1.66)
No work/work	0.069 (3.03)	0.040 (2.12)	0.158 (5.11)	0.108 (5.25)	0.013 (0.31)	-0.024 (-0.80)	0.257 (3.55)	0.033 (0.48)

a) T-values are in parentheses.

Source: Author's calculations using 1981-1993 waves of the PSID and 1984-1996 waves of the GSOEP (western Germany only).

cent from partner entry into employment, while in Germany the estimated benefit is larger (about 11 percent).

The effects of job change on earnings and income change depend upon the type of change. Employer change has a positive effect at low levels of tenure in the United States, but the effects are more negative the more tenure a worker had accumulated on the job prior to leaving. In both the United States and Germany, men gain income from internal job changes, while changes to self-employment on average have more ambiguous effects.

The basic pattern of labor market effects is similar for German and United States women. Women experience reductions in private household income from employment exit, but these effects are smaller than for men. Effects of exit are smaller on post-government income than on private household income. For German women, as for German men, the effects of exit on post-government income are rather small; German men and women, along with United States women, thus stand apart from United States men in experiencing rather small effects of leaving employ-

Table 2

Selected Effects of Job and Partner Changing at Different Income Quintiles: Males, Aged 25 to 50^{a)}

	United States					Germany				
	Low 20 Percent	Second 20 Percent	Mid-20 Percent	Fourth 20 Percent	Top 20 Percent	Low 20 Percent	Second 20 Percent	Mid-20 Percent	Fourth 20 Percent	Top 20 Percent
Household Private ELES Income										
Own Labor Force Change										
Employment exit	-20.0	-26.0	-31.0	-35.0	-40.0	-21.0	-23.0	-25.0	-27.0	-29.0
Internal job change	19.0	12.0	5.0	-1.0	-7.0	18.0	13.0	8.0	3.0	-1.0
Change employer	22.0	10.0	-1.0	-11.0	-19.0	9.0	5.0	0.0	-4.0	-8.0
Change to self-employment	25.0	7.0	-8.0	-21.0	-32.0	59.0	31.0	8.0	-11.0	-27.0
Employment entry	33.0	14.0	-3.0	-18.0	-30.0	104.0	56.0	19.0	-9.0	-31.0
Add partner	23.0	12.0	1.0	-8.0	-17.0	31.0	15.0	1.0	-12.0	-22.0
Lose partner	3.0	-1.0	-5.0	-9.0	-13.0	76.0	44.0	17.0	-4.0	-22.0
Change partner	19.0	4.0	-9.0	-21.0	-31.0	57.0	33.0	13.0	-4.0	-19.0
Partner's Labor Force Change										
Employment exit	2.0	-5.0	-11.0	-17.0	-22.0	-8.0	-12.0	-16.0	-20.0	-23.0
Internal job change	19.0	13.0	7.0	2.0	-3.0	-1.0	-2.0	-4.0	-5.0	-6.0
Change employer	21.0	12.0	4.0	-3.0	-10.0	36.0	23.0	12.0	1.0	-8.0
Change to self-employment	18.0	8.0	-2.0	-11.0	-19.0	40.0	29.0	20.0	11.0	2.0
Employment entry	26.0	15.0	5.0	-4.0	-12.0	49.0	30.0	13.0	-1.0	-14.0
Net Household Disposable ELES Income										
Own Labor Force Change										
Employment exit	-9.0	-16.0	-22.0	-27.0	-32.0	-7.0	-9.0	-11.0	-14.0	-16.0
Internal job change	12.0	8.0	3.0	-1.0	-5.0	19.0	14.0	9.0	4.0	-1.0
Change employer	17.0	7.0	-2.0	-10.0	-17.0	10.0	5.0	0.0	-5.0	-10.0
Change to self-employment	7.0	-4.0	-14.0	-22.0	-30.0	47.0	25.0	6.0	-10.0	-23.0
Employment entry	19.0	7.0	-4.0	-13.0	-22.0	30.0	16.0	4.0	-7.0	-17.0
Add partner	21.0	11.0	1.0	-8.0	-16.0	27.0	16.0	6.0	-3.0	-11.0
Lose partner	6.0	1.0	-5.0	-10.0	-14.0	25.0	14.0	4.0	-6.0	-14.0
Change partner	-4.0	-9.0	-14.0	-19.0	-23.0	66.0	38.0	15.0	-4.0	-20.0
Partner's Labor Force Change										
Employment exit	2.0	-4.0	-9.0	-14.0	-19.0	4.0	-2.0	-7.0	-12.0	-17.0
Internal job change	17.0	11.0	6.0	1.0	-4.0	10.0	5.0	0.0	-5.0	-10.0
Change employer	14.0	8.0	3.0	-3.0	-8.0	22.0	14.0	7.0	0.0	-7.0
Change to self-employment	15.0	7.0	-1.0	-8.0	-15.0	40.0	29.0	20.0	11.0	2.0
Employment entry	18.0	10.0	3.0	-4.0	-10.0	36.0	23.0	11.0	0.0	-10.0

^{a)} All changes computed at 0 years tenure.

Source: Author's calculations using 1981-1993 waves of the PSID and 1984-1996 waves of the GSOEP (western Germany only).

ment on living standards in the three-year analyses. Both German and United States women improve their living standards through entry into employment, through job changes, and (for German women) through entry into self-employment. All four groups experience reductions in private household income from the addition of new children, but these effects are reduced somewhat (though not eliminated) when post-government household income becomes the dependent variable.

The biggest difference between women and men concerns the consequences of gaining or losing a household partner for household income. Both German and United States women experience bigger increases in private household income than do men. Interestingly, whereas government taxes and transfers increase the positive impact of gaining a partner for German men, they decrease the positive consequences for German women, so that the gender difference from gaining a partner on post-govern-

Table 3

Selected Effects of Job and Partner Changing at Different Income Quintiles: Females, Aged 25 to 50^{a)}

	United States					Germany				
	Low 20 Percent	Second 20 Percent	Mid-20 Percent	Fourth 20 Percent	Top 20 Percent	Low 20 Percent	Second 20 Percent	Mid-20 Percent	Fourth 20 Percent	Top 20 Percent
Household Private ELES Income										
Own Labor Force Change										
Employment exit	-6.0	-10.0	-13.0	-17.0	-20.0	-2.0	-8.0	-13.0	-18.0	-23.0
Internal job change	24.0	14.0	4.0	-5.0	-13.0	21.0	13.0	6.0	0.0	-6.0
Change employer	45.0	26.0	10.0	-4.0	-16.0	63.0	40.0	20.0	3.0	-11.0
Change to self-employment	12.0	5.0	-2.0	-8.0	-14.0	66.0	41.0	19.0	1.0	-15.0
Employment entry	51.0	28.0	9.0	-8.0	-22.0	88.0	51.0	21.0	-3.0	-22.0
Add partner	91.0	56.0	27.0	4.0	-15.0	69.0	28.0	-3.0	-27.0	-44.0
Lose partner	-25.0	-31.0	-36.0	-41.0	-46.0	-24.0	-34.0	-42.0	-50.0	-56.0
Change partner	6.0	-16.0	-33.0	-47.0	-58.0	52.0	21.0	-4.0	-23.0	-39.0
Partner's Labor Force Change										
Employment exit	-7.0	-14.0	-20.0	-25.0	-31.0	-11.0	-20.0	-28.0	-36.0	-42.0
Internal job change	8.0	5.0	2.0	-1.0	-3.0	4.0	2.0	0.0	-2.0	-3.0
Change employer	11.0	3.0	-5.0	-13.0	-20.0	32.0	16.0	2.0	-11.0	-22.0
Change to self-employment	31.0	12.0	-5.0	-19.0	-31.0	4.0	-1.0	-7.0	-12.0	-17.0
Employment entry	28.0	11.0	-4.0	-17.0	-28.0	54.0	29.0	7.0	-10.0	-25.0
Net Household Disposable ELES Income										
Own Labor Force Change										
Employment exit	-2.0	-5.0	-9.0	-12.0	-15.0	6.0	0.0	-7.0	-12.0	-18.0
Internal job change	21.0	12.0	4.0	-4.0	-11.0	15.0	9.0	4.0	-1.0	-5.0
Change employer	33.0	20.0	9.0	-2.0	-11.0	41.0	26.0	12.0	0.0	-11.0
Change to self-employment	6.0	1.0	-3.0	-7.0	-10.0	58.0	37.0	19.0	4.0	-10.0
Employment entry	27.0	15.0	3.0	-7.0	-16.0	44.0	26.0	11.0	-3.0	-15.0
Add partner	58.0	38.0	19.0	4.0	-10.0	39.0	18.0	1.0	-14.0	-27.0
Lose partner	-3.0	-14.0	-24.0	-32.0	-40.0	-12.0	-22.0	-31.0	-40.0	-47.0
Change partner	-3.0	-16.0	-28.0	-37.0	-46.0	49.0	20.0	-4.0	-23.0	-38.0
Partner's Labor Force Change										
Employment exit	3.0	-5.0	-13.0	-20.0	-26.0	-11.0	-12.0	-13.0	-14.0	-14.0
Internal job change	6.0	4.0	2.0	0.0	-2.0	6.0	4.0	2.0	0.0	-2.0
Change employer	10.0	3.0	-3.0	-9.0	-15.0	13.0	5.0	-2.0	-9.0	-16.0
Change to self-employment	13.0	2.0	-8.0	-17.0	-25.0	-14.0	-12.0	-10.0	-9.0	-7.0
Employment entry	14.0	4.0	-5.0	-13.0	-20.0	9.0	4.0	-1.0	-6.0	-11.0

^{a)} All changes computed at 0 years tenure.

Source: Author's calculations using 1981-1993 waves of the PSID and 1984-1996 waves of the GSOEP (western Germany only).

ment living standards is rather similar for German men and German women. In contrast, the gender gap is much larger (in favor of women) in the United States.

Concerning losing a partner, the negative effects for women are much larger than for men in both the United States and Germany. This time, the effects of state taxes and transfers decrease these negative effects for women. Thus, with respect to both gaining and losing a partner, the welfare system operates to equalize the consequences of these events for men and women. The negative consequences of losing a partner remain much larger for women than for men however, even after state taxes and transfers are taken into account. (In other work-DiPrete and McManus 1998-we show that the gap is further reduced, though not eliminated, when private transfers between ex-spouses are taken into account.)

The results discussed above are averages across all levels of the income distribution. However, the impact of labor market and family change may depend upon income level. In order to investigate this issue, we re-estimated the first model, but included interactions between our change measures and the individual's position in the household private income and post-government household income distribution in calendar year $t-2$, depending upon the dependent variable in question. Table 2 shows the estimated impact of selected changes on private household income and on post-government household income for men in the United States and Germany. Table 3 shows comparable results for women.

Tables 2 and 3 show that the effect of job changing, partner's job changing, or the addition of a partner is considerably larger in the lower quintiles than 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 effect of an increase in family size on household living standards offsets any increase in nominal family income from the addition of a partner). This pattern is found for men and women in both countries.

Negative events show a similar pattern. At the bottom of the income distribution, the negative effect of employment exit on post-government household income is relatively modest, while at the top of the distribution, the effect is rather substantial. The pattern in this regard is similar in both countries.

The effects of employment exit, of employment exit by the woman's partner, or the effects of losing a partner 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.

4. Discussion

Changes in labor market activity and in family composition produce considerable changes in household income in both the United States and in Germany. But Germans are relatively sheltered from the negative consequences of these events in two important respects. First, rates of partner loss and of employment exit are lower in Germany than they are in the United States. Second, social welfare and tax policies do a better job of mitigating the effects of employment exit in Germany than they do in the United States. Generally speaking, the impact of negative work and family events is greater at the higher levels of the earnings 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 reasons for the greater income stability in Germany than in the United States appear to vary among households depending on their location in the income distribution. At the top the protection stems primarily from institutional forces that reduce the rate of negative events in Germany relative to the United States. At the bottom this protection is reinforced by policies that limit the negative impact of these events on income loss.

Particularly with respect to gaining or losing a household partner, the gender gap is bigger than the cross-national gap. Relative to men, both German and United States women gain more from gaining a partner and lose more from losing a partner. Tax and welfare policies in both countries tend to reduce the gender gap, but they do not eliminate it.

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