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# Child-care Salary 2000

A way to up-grade Child-care work

with assistance from

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Since its publication in April 1998 this study has led to a broad public debate in Germany. The English translation may contribute to this debate on the future of family politics in Europe.

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## Summary

Remodelling the social state is urgently called for today. A new equilibrium must be established between the old and the young, parents and non-parents, men and women, people with and without gainful employment. *Material remuneration of child-care work in the shape of a "child-care salary"* can be a first decisive step towards the necessary reforms.

In recent years and decades, social and economic discrepancies have come into being which urgently need to be redressed. Thus the socio-political resources have been and are being redistributed in favour of the older generation and are thereby taken away from families with children. Thus, with their decision to have children, parents are exposing themselves to a high poverty risk during their working life and in old age. Non-parents on the other hand usually have a much higher per capita income at their disposal during this stage of their life and once retired, profit to a large extent from the child-care achievement of the parents. And it is the child-care work which we can not do without in our community which is still to a large extent being carried out by women at home without payment - without being acknowledged by society and at great economic risk because, as mothers, they have significantly worse prospects on the labour market and can therefore only expect minimal pensions when they retire. At the same time many parents in gainful employment are prevented from working more flexibly and shorter hours particularly for material reasons so that they do not have the opportunity to create more employment possibilities for the unemployed. Our answer to these discrepancies is the concept "Child-care Salary 2000" which effectively upgrades child-care work.

### 1. The concept of a child-care salary

The child-care salary put forward here is to be comparable to an income which can be obtained on the labour market. For all parents it consists of *payment to the amount of DM 2,000 per month for the first child and DM 1,000 per month for all other children until they are 7 years old.*

Due to the high expenditure which would be well above DM 100 billion if introduced across the board for families with pre-school children, we have divided our proposed "Child-care Salary 2000" into several phases. Here we provide a detailed financial calculation for a first phase for families with children from 0 to 3 years old. Our intensive discussions with experts in recent months have clearly shown that there is a wide political consensus in favour of significantly improved material remuneration for the benefit of parents with children of pre-nursery age carrying out child-care work. The child-care salary should be paid out as a full lump-sum in our preferred version, com-

pletely independently of whether the mothers and fathers affected are in gainful employment or not.

For the *second phase* of introduction of the child-care salary I for families with children between 3 and 7 years old (when they start school), we are discussing the possible introduction of a "child-care voucher" which will make it possible to claim a place at nursery and with the monetary value of DM 600 would pay for the actual operating costs incurred by a place at nursery.

The possible splitting of the child-care salary into the two components "child-care voucher" and the correspondingly lower "cash amount" realises the integral consideration of child-care within the home and outside the home. The job of child-care will always be there. With the child-care salary, the parents have all options open to them how to distribute the child-care between themselves and outside services. With the child-care salary they have the financial means at their disposal to finance child-care outside the home as well.

The *child-care salary I* (for families with children from 0 to 7 years old) is examined in two main versions. The first consists of the payment of the child-care salary being completely independent of time in gainful employment. All persons in child-care will receive the full lump-sum. The second consists of the size of the payment of the child-care salary being dependent on the extent of gainful employment carried out at the same time. If couples are both in full-time employment or a single parent is in full-time employment, only a basic amount of 30 - 40% of the highest sum is provided for in this version. Single parents, however, will generally receive an additional 15%. There is also a material incentive for more partnership in the child-care work.

Surprisingly enough, the average annual costs of both models are very similar. A closer examination reveals the reason. It is because the percentage of the means of the child-care salary I which is paid to people who are not in gainful employment amounts to more than 2/3 of the total amount.

The child-care salary documents the equal value of gainful employment and child-care work. Correspondingly it should be treated a normal earned income and be subject to taxation. Due to the fact that our social security system is in a state of flux at the moment and fundamental changes are unavoidable in the future, we do not wish to anticipate these structural solutions and thus pragmatically advocate continuation of the regulations which apply today. If the child-care salary is gradually extended to the age at which children start school, the years credited towards the pension insurance fund should also be increased to 5, 6 and 7 years.

A further part of the concept Child-care Salary 2000 is a *child-care salary II* which is to be paid to families with children between 8 and 18 years old but is dependent on income. As the children get older, the parents' job of bringing up the children decreases. Schools, the church, sports clubs etc. take over an important and supplementary role. Correspondingly, the child-care salary can also be reduced. The income dependent configuration on the one hand provides a minimum economic security for people

in child-care who are exposed to a high risk on the labour market. On the other hand, the special arrangement is not supposed to promote passive tendencies or even so-called "transfer careers". Correspondingly, the measures taken by the government to re-enter the labour market and to qualify are to be given more weight.

A positive side-effect of the income dependency of child-care salary II is, of course, the correspondingly low financial burden placed on the public authorities- (less than 1/12 of the child-care salary I). It would also be plausible for the configuration of child-care salary II to be independent of income but then with lower flat rates for the child-care salary, which, for example, could be set at 50 % of the amount for child-care salary I corresponding to the lower amount of child-care required.

Another possibility for people bringing up children whose youngest child is more than 18 years old exists in the creation of a basic security which would at least prevent exposing them to the risk of sinking into material poverty. After all, it has to be said that those people who spent years dedicating themselves to bringing up their children have taken a great risk of not finding a satisfactory route back into employment. The basic security should be set so low that it will not produce an incentive for people to take it easy permanently "in the social safety net" as said cynically by those taking the economy-friendly side in the neo-liberal political camp.

## 2. Financing the child-care salary

The financial cost of the first phase (0 to 3 years old) amounts to approx. DM 57 billion. Phase 1 and phase 2 then amount to a financial cost of approx. DM 110 to 115 billion. The cost of child-care salary II will be in the region of DM 10.7 billion. The gross outlay for the basic security is lower than that. The marginal tax rate for wage and income tax is approx. 28%. This will be applied to the taxable child-care salary. Thus finance concepts for a net volume of approx. 72% of the gross costs must be found.

The financing strategy for the *first phase* of the child-care salary for families with children between 0 and 3 years old is primarily based of reshuffling which will be made possible through

- automatic savings and
- savings yet to be created by legislative initiatives.

Automatic savings will come about in the parental benefit, in social assistance benefits, unemployment assistance and housing allowance. Apart from that, approx. 50% of the state funds for day nurseries can be reshuffled to finance the child-care salary because of the higher income-dependent receipts from user fees.

Direct remuneration by the child-care salary of the child-care carried out make changes in the tax assessment of married couples possible. The income advantages from

married couple splitting should in future only be granted to families with children (in the first phase) of 3 - 18 years old (in the second phase of 8 to 18 years old) who are not (yet) eligible for a child-care salary. In future all other married couples can claim entitlement to two basic tax-free amounts for the income taxation.

The counter financing provides a remaining deficit of approx. DM 3.7 billion for which two options to provide finance are proposed - (a) cuts in the family supplements in the civil service or (b) a family supplement on wage and income tax of 1 percentage point.

Extending the child-care salary to cover families with children who are more than 3 years old is of course more difficult to finance.

More years of child-care salary naturally means higher savings achieved from social assistance benefits, unemployment assistance, housing allowance and educational allowance. The potential for reshuffling will also increase in the area of nurseries as the financing is moved from being object to subject support. The remaining scope available for income advantages from married couple splitting and for family supplements in the civil service can be reduced further. Options for increasing tax rates in favour of a child-care salary can be seen

- in increased taxation of income in old age, increasing inheritance tax and re-introducing (amended) net worth tax and secondly
- in the creation of "family solidarity contribution" at the start of the new century, a family supplement on wage and income taxation which will replace the solidarity supplement to support former East-Germany which is due to expire.

This would be a contribution towards more social justice in financing a child-care salary. The economic burdens the family has to bear by bringing up children would be more evenly distributed among all income recipients.

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## 1 | Introduction - In support of a child-care salary

The time is ripe for socio-political innovations which rethink the concept of work. The study under consideration takes up the matter of work which is in the shadows of the employment system and without which the system is inconceivable: the work of child-care within a family context. Child-care work at home must be brought out of the shadow of its economical and socio-political disregard. Today, it is a matter of upgrading the work of bringing up children and thus upgrading the work which is still mainly carried out by women. This upgrading should take place in the shape of a "child-care salary" which all parents or guardians with pre-school children (up to the age of approx. 7) should receive. Within the framework of the concept "Child-care Salary 2000", long-term basic security beyond this period of time is being suggested for those who carry out child-care work. The child-care salary should, like all income from gainful employment, provide a secure existence. Child-care work is work within society for a public good, bringing up children. Therefore, it is society's job to reward this work with monetary acknowledgement.

**The basic idea of the concept "Child-care Salary 2000" is: gainful employment and child-care work are of equal value. Child-care work should receive monetary payment, just as gainful employment does. The equal value of gainful employment and child-care work should be the expression of a new social contract.**

If child-care work is work for society, then people bringing up children should be protected from poverty. Until now, social and wage policy have consented to prevent poverty in spite of working ("working poor"). This must also apply to child-care work which has become poverty risk number one. The introduction of a child-care salary would be a fundamental reform. It would react to grave social discrepancies.

### 1.1 Child-care work and child-care compensation

The child-care salary should remunerate an achievement which is functionally equivalent to gainful employment. It is only consistent if the amount is set equivalent to an average employee income which is subject to national insurance. In our concept, this level is reached if you have three pre-school children. With three small children, it is usually out of the question for the person mainly responsible for child-care to carry out a secondary occupation. In this case, the decision for child-care responsibility is connected with the loss of a full income from gainful employment.

The use of the word salary is to emphasise the relevance of the work to society for which this "child-care salary" is paid. It is a matter of monetary payment for work carried out which is increasingly taking on the features of a public good and requires security provided by a suitable framework set up by the government.

We can see that the type of "unpaid" child-care work is becoming increasingly unattractive and this has contributed on the one hand towards the decrease in the birth-rate and on the other hand towards the number of neglected children. A family with two and more children is less and less in a position to compete with other life-styles. This is a matter of a job which is threatening to become extinct out in our society. But society can only do without this work in the coming decades by paying the penalty of severe economic and social crises. The stability of the economy and society depend on us acknowledging and remunerating the equal value of child-care work and gainful employment in the long term. If society does not create economic living space to make child-care work by parents and people responsible for education possible, the birth rate will continue to remain as low as it is today or decrease even further.

Today there is a gap in governmental support for families with children between 0 and 3 years old which is particularly striking for the third year of life. While for some years now the government has been concentrating on implementing the right embodied in the law to a nursery place for children between 3 and 6 years old by increasing the number of nursery places available, it has continued to cut back the support provided to families with young children since the beginning of the 90's. Henceforth the parental benefit is only being paid right from the start to families up to a certain income limit. As the income limits for receiving the parental benefit are extremely low anyway and have not been increased since 1986, fewer and fewer families are receiving the (full) parental benefit. In the third year of life of the child the families receive no compensation what so ever for the child-care work carried out. Some Federal Lands provide support here in the shape of a parental benefit supplied by the Land.

In its first phase, the child-care salary concentrates on families with children for 0 to 3 years old. The families can also use the improved income associated with this to develop the day-nursery area by financing corresponding places. The parents who have brought up their child(ren) at home have been at a great economic disadvantage compared to families who have taken advantage of one of the highly subsidised day-nursery places (which in West Germany are few and far between). The child-care salary will create conditions in which parents can enjoy real freedom of choice with regards to their life-style from an economic point of view as well.

## **1.2 The child-care salary as a crucial contribution towards correcting economic and social discrepancies**

These discrepancies can be seen in four dimensions: In the ratio of young to older generation, in the ratio of people with children and people without children, in the ratio of women to men as well as the ratio of unemployed to employed. We see the child-care salary described here to be a crucial answer in dismantling these discrepancies.

### 1.2.1 Discrepancy 1: Social policy at the cost of the young generation

The child-care salary is a contribution towards correcting the *imbalance of governmental (social) benefits in favour of the older generation there is today*. It serves as the long overdue supplement to the contract between the generations in which the generation of children and young people and their parents are included in the complex inter-generational exchange of giving and taking. In recent years the available socio-political resources have increasingly been redistributed in favour of the older generation and thereby been taken away from families with children. With the instrument of the "generational balance sheet" public finance experts can calculate to what extent this redistribution from young to old will worsen in the long-term (compare among others to Raffelhüschen/Walliser 1997). State pension and employee's pension commitments tie up society in the long term. The resources available for children and family work are continuously decreasing.

Although the perspective of a child-care salary is not to be seen as a children's pension, as Schreiber imagined in the 50's but payment for the child-care work carried out mainly by women to meet the new "competitive" situation where women are tending towards almost continuous gainful employment. Where as in the 50's pensioners and above all women of pensionable age were prime candidates for being dependent on social assistance benefits, today it is known to be mainly families with children. In 1995 on average only 3 in 100 households in Germany received social assistance benefits. In comparison this applied to nearly every fourth single parent and even one in three single parent with 3 and more children (compare to e.g. Engelen-Kefer 1997, p. 333). The dramatic speed at which families with children have become dependent on social assistance benefits since the mid 1980's is alarming.

### 1.2.2 Discrepancy 2: Social policy at the expense of families with children

It is only in recent times that a further economic and social discrepancy has been creeping into awareness in society - that is the one *between people with children and those without* (or households with child-care responsibility and households without child-care responsibility). Childless people profit economically from being released from tasks of child-care work and profit from our system of social security based on gainful employment. They have much higher per capita income at their disposal while of working age *and* have much higher pensions in old age because, as a general rule, they can show that they have been in continuous employment. They profit from the positive external effects of child-care work which they take advantage of while giving hardly anything in return.

### 1.2.3 Discrepancy 3: The devaluation of women's work

The child-care salary is, however, also an answer to the deeply embedded economic *discrepancy in our society between men's and women's work*. Women are the victims of society's devaluation of unpaid work at home. Men profit from their predominate orientation towards paid gainful employment and the defence of their demands in the face of attempts to split gainful employment *and* work within the family more evenly between the sexes. The child-care salary serves to upgrade child-care work and thereby an area of work which today is mainly associated with women. It also reacts to the experience that in times of mass unemployment, the decision for child-care work within the family means taking a great risk. The "payment" for the child-care work carried out serves to economically secure an achievement which poses a double risk to women (new economic burden due to the maintenance costs of the child and due to the loss of gainful employment) and which leads to the risk of not finding a satisfactory role on the labour market after a family career break, a risk which is currently dramatically increasing.

### 1.2.4 Discrepancy 4: People in gainful employment versus the unemployed

Well-paid jobs have become a scarce good. More and more people can't get access to join the labour force, particularly women. At the beginning of 1998 a good 4.8 million people in the Federal Republic of Germany were registered unemployed, thus the unemployment rate on average rose to 12.6%. In the East 21.1% of people interested in gainful employment were registered as unemployed while in the West approximately half that number, that is 10.5% unemployed people are registered. Women are more severely affected by unemployment than men. This particularly applies in former East Germany in which, in 1995, the annual average rate of unemployed men was 10.7% whereas the rate for women was 19.3%.

Despite multifarious assurances by politicians and the pay deal negotiators, the number of unemployed has steadily increased in recent years. A reverse trend is not in sight unless society is jolted into action. The unemployed still don't have a lobby. Pay deals - most recently the pay deal reached in public services in the Spring of 1998 - do not take those excluded from gainful employment into consideration.

In contrast to this is the desire of many people in gainful employment for more flexibility and a reduction of working hours which are only slowly being implemented. Mothers and fathers above all - in East as well as in West Germany - would like shorter working hours and more flexibility to be in a position to reconcile gainful employment with child-care work. If the working hours alone were adjusted to suit the hours desired by the parents, the unemployment rate could be significantly reduced. Social pedagogics and care services are among the few areas of uninterrupted growth in demand for employees. However, so that this demand can become effective, families

require a lot more purchasing power. If you want to combat unemployment, you have to invest in all the services concerning the family.

### 1.2.5 The child-care salary as a constructive alternative

The work carried out mainly by women in the family and in child-care should be upgraded with the introduction of a child-care salary. This upgrading should be carried out through suitable payment. Work is not just gainful employment, even though this is the main implication in the way work is understood today. Child-care work is also work within and for society. So that this realisation enters into public awareness we need to extend the understanding of work. Family and child-care work is not recognised as being a comparable achievement to gainful employment according to current use of the word work. As it is mainly carried out without pay, it is also not included in the calculation of the gross domestic product (GDP). In our society, the only thing valued and recognised as work is that which monetary compensation is received for. As long as the areas of child-care and family work remain excluded from this circle of recognition, it will not be possible to upgrade this work in society, even if its necessity can not be disputed. A child-care salary sets in to this key question by finally providing monetary recognition of the work carried out in family and child-care work and thus newly poses the question about the definition of work.

*"Your children are not your children. They are the daughters and sons of life's desires for itself"* is the great Lebanese teacher of wisdom Khalil Gibran sees it. Parents carry out their child-care work in trust for their children and "life", for the future of mankind. In this extended perspective it becomes clear that the assessment of child-care work has not just become a key question for parents but much more on the position of children in society. By taking up the lively public discussion on a family policy which meets requirements in the future, the concept of a child-care salary has been developed with sponsorship from the "Deutsche Arbeitskreis für Familienhilfe e.V." (German Association for Family Assistance) - the model "Child-care Salary 2000" which is put forward for discussion with this study. It is based on the assumption that gainful employment and child-care work are *of equal value*. The child-care salary is to make a contribution towards *a new social contract* which materially recognises child-care work and promotes *a balance between child-care in the family and gainful employment outside the home*. The aim of the child-care salary is that mothers and fathers have a free choice between both types of work. Furthermore,

- fathers should be given an economic incentive to participate in child-care work,
- the market for qualified care work should be given a boost,
- a contribution towards reducing unemployment should be made
- and people in child-care work should experience long-term security against the risk of poverty.

### **1.3 Child-care work: From a private good to a public good**

The suggestion to organise on government level paying a child-care salary to people who are bringing up children reacts to a pressing problem within society. This has come about by fundamental changes which have taken place in the industrial societies in Western Europe over the last 30 years. Economically this structural change in society can be narrowed down to child-care work changing from being a private good to a public one. A public (or collective) good, however, is only produced and secured in the long-term if society accepts its "production" as being a common task and implements a suitable tax and charges policy to finance it.

#### **1.3.1 Child-care previously: A private matter**

Why did child-care previously tend towards having the features of a private good? A typical characteristic of a private good is that those who bear the costs of its "production" also exclusively or to a large extent have the benefit of the good they have procured. This is the so-called exclusion principle. Those who have not participated in the "production" costs can also be prevented from participating in the benefit provided by the good. If I buy a television I can prevent third parties from watching television with me.

The exclusion of third parties from the benefit of the private good is an important economic incentive to invest in the costs of production. If the exclusion principle were to become invalid, it would mean that one person would pay and another would profit - in our market economy not a good prerequisite for this good being produced at all.

That child-care used to be comparable to a private good can be seen in the fact that people used to refer to their children as their capital. There used to be no state pension and until 1957 - the "historic" date of the introduction of a dynamic pension insurance fund - there was only a state skeleton provision for old age.

Correspondingly the families relied on their children as a "guaranty fund" for their old age. To have children used to mean that the parents had a good economic endowment for their old age.

In comparison the people who were poor were those who had remained single and childless and in the end became a financial burden to the extended family which they felt they belonged to. Thus they were dependent on the "economic power" of the children who had been brought up by their relatives.

#### **1.3.2 Child-care today: A poverty risk and a risk on the labour market**

Today we are experiencing a complete reversal of the constellation as it was then. To have children and bring them up today has become an exposure to the risk of pover-

ty and risk in the future. In comparison, singles and childless couples today are at the top of the per capita income scale and have excellent economic prospects in the future due to high pension expectations and greater savings potential. People who bring up children in the family take on high costs and also high (long-term) forfeits in their standard of living. Whereas children used to be a guarantee for the future - in particular in old age - they now represent a cumulative gap in contribution periods in pension insurance and thus also a higher risk of poverty in old age.

### **1.3.2.1 The divergence between cost and benefit: Child-care becomes a public good**

Child-care has increasingly taken on the character of a collective good in the course of the changes described above. This is characterised particularly by the fact that the exclusion principle

- cannot be applied for reasons proximate to the object
- is not applied under the dominant social, political and legal circumstances.

Classic examples of public goods are defence of the nation, the general sovereignty tasks of a state as well as the representation of the country's interests abroad or basic research financed by the state. An adequate supply of these services does not come about on the market because there is no individual incentive to participate in the costs of producing these services with an individual contribution. And why not? If these services are provided anyway, an individual who has refused to make a contribution to the costs can not be excluded from the use (from "consumption") of these services. Here it is referred to as "joint consumption" (non-rivalry in consumption) of a public good. Thus "free riders" can also participate in the consumption of these services without a detrimental effect to the consumption of others. We all profit from the services of defence of a nation. No fellow citizen can be excluded whether he has made a contribution to the costs or not.

Due to the characteristics of public goods (the exclusion principle not being applicable, joint consumption, incentive to "free-ride"), these have to be carried and secured under state control, that is by levying taxes on part of the income and assets.

### **1.3.2.2 Environmental quality: From a free good to a public good**

Recently we have already experienced the transition of a good to becoming a scarce public good which has to be secured by state control. The quality of the environment which generally used to be taken for granted has become increasingly impaired in recent decades by using the environment to excess. The "free" good environment has on the quiet become a scarce economic good. The state had to recognise the fact that the environment had become a public good which only had a chance of being maintained and conserved within a framework set up by the state (compare to e.g. Leipert 1989). If a particularly committed company invests in expensive equipment for air

purification, it is not only the company and its employees who profit from the decrease in emissions of nitrogen oxide, carbon dioxide, etc. but also the general public. Due to the physical properties of the atmosphere no-one can be excluded from the advantages of improved air quality. Correspondingly the individual incentive or willingness to contribute towards the costs to restore the quality of the environment is killed off by the "free riders" phenomenon who profit from the efforts of others free of charge. The environmental effects of economic activity reveal another structural characteristic of public goods (or public bads) which are described as positive (or negative) external effects of economic activity. If a company saves costs by doing without waste water purification, this company produces a negative external effect, that is on those affected by the water pollution.

When external effects occur in economic activity, there is always the phenomenon of divergence between profit and loss. In the case described above, The company pockets the extra profits from neglecting the environmental requirements. The additional costs and welfare losses caused by environmental pollution have to be borne by others who are not involved.

The opposite is true in the case of positive external effects of economic activity. If a company voluntarily invests in air purification measures, it produces positive external effects advantageous to third parties. The general public profits from the improved quality of the environment, can in certain circumstances reduce costs which had previously been caused by environmental pollution. In contrast, the company alone bears the costs of this improvement in general welfare. Once again we can see a divergence between those who have to bear additional costs and those who enjoy additional benefits.

Due to the importance of external effects of measures which affect the natural environment, a framework needs to be set up by the state (e.g. direct regulation or pricing measures such as environmental charges and ecological taxes) within which the individual citizens and companies are urged (or forced) to maintain and conserve this public good.

### **1.3.2.3 Benefits to society of bringing up children: Positive external effects of family work**

It has also been possible to see the phenomenon of external effects of activity with increasing clarity on families and their achievement in bringing up and caring for their children. For parents, the consensus between costs and benefits of bringing up children has seen an increasing gap appearing which has opened up between the costs and sacrifices made by parents in connection with bringing up their children and the increasing appropriation of the benefits of child-care by society and politics.

It would be suitable to symbolically set the date at which this change in the importance of children in society began as the day of the introduction of the dynamic pen-

sion insurance fund in 1957. Since its introduction, an asymmetry has appeared between the socialisation of provision for old age and the primarily private character of bringing up children. The incentive effects of our pension insurance fund on safeguarding future generations are disastrous.

The "free rider" does not have any children, can thus present a career in gainful employment without gaps and thus acquires significantly higher pension claims than the people occupied with child-care (mainly women), some of who put up with long interruptions in their gainful employment with all the negative consequences for their career path and material future - since 1992 births have been compensated with three child-care years per child (converts to 100 DM per month pension).

#### **1.3.2.4 Who bears the burden?**

Families today create massive positive external effects from which society benefits by bringing up their children without all the beneficiaries contributing towards the costs of the young generation. Childless people and those with only one child are dependent on a sufficiently numerous middle generation as long as we finance our pensions and civil service pensions by apportioning from the productively active generation to the "inactive" generation of old people. A dependence on other people's children also exists if the childless people become frail and need care in old age which, taking the rise in life expectancy into consideration, will become much more likely than it was in the past. As is well known, nursing and the care of those who need care are services which require large numbers of staff.

As a counter argument we often hear that the pension insurance fund is suffering from the increasing rate of unemployment today and not from the demographic changes. But this is nothing other than yet another diagnosis by the predominant short-term thinking. People just don't want to believe that a negative demographic spiral has already begun. After the year 2015 the number of pensioners per person in the population of working age will probably increase at an accelerated rate compared to today. This development which can already be forecast today will dramatically intensify the crisis between the generations.

#### **1.3.2.5 The value of the contribution of families towards the formation of human assets**

It really is just a half-truth when attention is drawn to the fact that childless people and those with only one child are making a significant contribution towards the costs of creating the human assets of the next generation via their higher tax burden. Families also contribute towards the educational expenses of the government. And after all, everyone in society profits from the fruits of the state education system - the vocational qualification of the younger generation on the threshold of working life.

The whole truth only comes to light if a cost calculation is carried out, as was done by Lampert et al for the 5th family report of the expert commission of the Federal Family Ministry (compare to Deutscher Bundestag 1994). The guiding question was: How much does it cost for a (married) couple to bring up two children until they reach maturity ?

The gross calculation results from adding together two cost items, on the one hand the costs for upkeep of the children until they reach 18 and on the other hand the costs of child-care. It was assumed that the mother interrupted her career for the first 6 years of both children's lives (they were born 2 years apart - a total of 8 years). The valuations were intentionally selected to be on the low side. To avoid the reproach of overestimating the value of the achievements of the family right from the start, the value of the child-care work was not determined by the opportunity costs, i.e. the lost earnings of the mother. The calculation was based on the wage rate for a housekeeper, which the Federal Statistical Office also used to calculate the value of unpaid household production. (refer also to chapter 3).

The total value of the upkeep and child-care expense per child which summarises this 18 year long exertion by the parents, amounts to approx. DM 306,000 according to an evaluation variant (net pay) on the low side. If a higher evaluation variant (gross pay) is used, it results in an "average value" of DM 381,000 (Lampert 1996, p. 32ff.).

Part of these expenses are covered by state benefits for the parents. These benefits however only cover a fraction of the actual expenses incurred, not least because the families themselves contribute towards financing these benefits by paying direct and indirect taxes. In an earlier calculation by Lampert this easing of the financial burden only amounts to just over 1/10 (Lampert 1992, p. 135f.). Thus the families still have an extremely high net contribution of their own which the childless are not subject to.

#### **1.3.2.6 Are families helped by the increasing frequency of inheritance involving large sums ?**

If complaints are made about the cumulating of burdens to be shouldered by the younger generation in future, the gigantic amount of financial assets which the (West) Germans have managed to accumulate in 50 years of peace and long enduring prosperity will be pointed out. The indisputable high burdens must be contrasted with the high inheritances which will occur with increasing frequency in the coming years. These facts initially confirm that old people on average have never been so well off as they are now. (The most important exception of course being women who have mainly dedicated themselves towards bringing up children). The section of the total private property belonging to them in this country is continuously increasing. In the year 2002 the over 55's will be able to call more than half of this section their own (Die Zeit, No. 47, 14.11.1997, p.41). The prosperous position of the older people is not bad at all relative to other social groups either. Retired civil servants have an average property income of 7,300 DM per year (1996) which is significantly above that of

employees (5,500 DM) and civil servants (5,400 DM). Pensioners with 4,800 DM are also well ahead of workers who reach 3,200 DM on average (see above, p.42).

For the majority of inheritors, the economic easing of pressure through their inheritance is of course strictly limited. In 44.6% of all inheritance cases, the volume of the inheritance amounts to a maximum of 100,000 DM, a further 22.8% are between 100,000 and 250,000 DM. Furthermore, it is increasingly questionable today whether the current generation of inheritors corresponds to the section of parents of small or school age children. On a closer look we can clearly see the development of a four generation society. The average life expectancy, for women in particular, has increased in recent decades so dramatically again that in the case of parents passing on to their children's generation, the inheriting children are increasingly at a "ripe old age" of 50 to 65 years old. Their children then again who are just about to start their own families only profit by coincidence and not systematically from this inter-generational transfer of assets.

### **1.3.2.7 Change of family forms as the reason for increasing positive external effects of child-care**

Child-care increasingly showing the characteristics of a public good and particularly featuring the production of relevant positive external effects to the advantage of non-paying third parties has been forced by the break in structure caused by the introduction of the state guaranteed pension insurance fund but was not set in motion by it. The actual driving force is surely the change of family forms which has been happening for decades in our advanced industrial societies.

Before the Second World War and still in the 50's, the dominant family prototype was one in which the husband was the sole bread earner and his wife was responsible for bringing up the children in the home. If the wife had been in gainful employment before having the first child, she usually gave up work outside the home for ever after the birth. The employment rate for women was significantly lower until the mid 60's than it was in the 70's and later. Before the birth control pill made family planning possible for all, there were children in almost all families and usually more than one - with the exception of involuntary childlessness.

Thus life with children was the predominant model of family life until well into the 60's - it was particularly graphically described in the pension debate then by Chancellor Adenauer: "People always have children". A uniform model of life in its nature barely has external effects. Everyone more or less contributes towards bringing up the next generation with their efforts. It is only the slow erosion of this uniform model of life through the continuous growth of the group of childless pairs and singles or those with only one child that we have been observing since the 70's that has led the positive external effects of bringing up children become a socially highly-explosive problem.

### 1.3.3 Remuneration of child-care work: A question of performance-oriented justice

If child-care is seen as a public good, then the demand for remuneration from society of this achievement does not grow from social and distributive-political reasons but primarily from allocation political reasons: the economy depends on parents bringing up and educating children and thus investing in the (future) human capital of society. The transformation of child-care to a communal good requires public intervention to correct the allocation failure which exists today. So in the end it is a matter of economic policy as rightly emphasized by Nachtkamp (compare with Nachtkamp 1995), thus the question of how economic policy can contribute towards an improved allocation of economic resources while retaining and increasing prosperity in the long-term, taking the development of new public goods and widespread external effects of individual activities into consideration. This is also the acid test for the "Ordnungsidee"<sup>1</sup> of a social market economy.

The state finds itself faced with a difficult problem here. On the one hand, today's neo-liberal Zeitgeist is pressing for more deregulation, privatisation and "own responsibility". On the other hand, the weight of public goods for the quality of life of the people and the long-term viability of society is continuously growing in the course of fundamental changes in the economy and social order. At a time of penetration of the non-economic areas of the family and the natural environment by economic cost-benefit criteria, allocation and economic policies have the task of counteracting the growing exploitation of ecology and the family and to make sure that scarce care work within the family and scarce environmental resources are no longer acquired by society and the economy as more or less free goods.

Nachtkamp sees the claim parents have for compensation for bringing up and educating their children as provided for in the German constitution (compare with Nachtkamp 1996). The Constitution only recognises two groups in the population which have special obligations: Those liable to do military service and parents. Section 6, sub-section 2 GG (Basic Law) defines: "Bringing up and educating children are the natural rights of the parents and their first priority. The state community will watch over their activity". It is not compatible as such with the equality principle according to section 3 GG that no payment is to be made for a constitutionally required special obligation. Soldiers and people doing alternative national service in contrast are paid. The financial promotion of family work has nothing to do with nationalisation of parenthood. The substantial difference between being a parent and someone carrying out military service is that the obligation of parents is a matter of an obligation in trust directly for the child. This obligation in trust is only indirectly of interest to society which today understands itself as increasingly being the protector of the human rights of the child, the "child's welfare" (compare with Beck 1997). In contrast, military service and the public good of "external security" produced i.a. by soldiers is an obligation directly to society as a whole.

<sup>1</sup> Ordnungspolitik - no conceptual equivalent outside Germany - Economic policy proceeding from, and taking as yardstick of performance, an ideal-type free market-system

The child-care salary is thus not just a question of social and family policy. It is primarily a matter of economic compensation for an achievement which is becoming more scarce and which society as a whole can not do without. *Thus it is a matter of performance-oriented justice. Redistribution is only one instrument to reach this goal.*



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## 2 | Presentation of the concept "Child-care Salary 2000"

The "Child-care Salary 2000" is designed to draw the contours of a social reform in which child-care work is effectively up-graded. The idea is based on society giving monetary acknowledgement to child-care work by means of a child-care salary which is comparable to the income which could be earned on the labour market. Some elements of the concept are presented as alternative versions to stimulate public discussion and not to get prematurely stuck on technical details.

The child-care salary consists of two core elements:

- the "*Child-care salary I*", a monetary payment of DM 2,000 per month for the first and DM 1,000 for all further children until the age of 7 (that is until they go to school, on average until they are 6 1/2 years old); it is to be implemented in two phases: in the *first phase* for child-care providers whose youngest child is between 0 and 3 years old; in the *second phase* step by step for child-care providers with children between 4 and 7 years old. The child-care salary I is examined in two versions: as a child-care salary independent of or dependent on time spent in gainful employment. The possibility of planning a "child-care voucher" for attending child-care facilities outside the home alongside a reduced cash payment from when the children reach nursery school age is also presented. The child-care salary is subject to taxation, although no social security contributions will be charged.
- For the time after both phases of the child-care salary I have been implemented, the "*Child-care salary II*" should be paid as a social policy vision for child-care providers whose youngest child is more than 7 years old. Two versions are examined here: the first an income dependent child-care salary II. Another version open to discussion is an income independent child-care salary II, the level of which is reduced. It would be best possible to realise either version in the context of a reform in the direction of providing general basic security or a basic income.

The introduction of a child-care salary should be a constituent part of restructuring the welfare state which relieves the factor work from making contributions, which distributes the costs of social insurance in solidarity and calls upon the older generation more than before.

### 2.1 General features of the proposed Child-care Salary 2000

Today all emphasis must be placed on getting acknowledgement of child-care work carried out for the time until children start school (approx. at 7 years of age). This means that realisation of the first two phases of the proposed Child-care Salary 2000 has first priority. However, child-care work is still necessary after a child has reached

7 years of age, not least demonstrated clearly by the demand for day-care facilities and all-day schools. Providing the necessity of supporting family work attains more political recognition, we propose the introduction of a "Child-care salary II" as a *third phase* with two options:

- the *1st option*: a child-care salary II dependent on income in the shape of "negative income tax" for child-care providers;
- the *2nd option*: a fixed amount reduced compared to child-care salary I which could also be introduced in several smaller steps if necessary (e.g. 7 to 12, 12 to 16, 16 to 18 being the age of the youngest child). It would also be possible in the shape of a "time account"..

### 2.1.1 Child-care Salary I (children up to the age of 7 or until they start school)

1 to 7 years old or until starting school:

**Basic amount (for one child):** DM 2,000 p.m. (Single parents: DM 2,300)

**Additional amount for every other child:** DM 1,000 p.m. (Single parents: DM 1,150)

The introduction of the child-care salary is to take place in two phases:

**Phase 1:** For child-care providers with children from 0 to 3 years old

**Phase 2:** For child-care providers with children from 4 to 7 (or 6 1/2) years old

*The following versions are examined: a configuration dependent on or independent of time in gainful employment as well as the possible introduction of a "child-care voucher" for child-care outside the home amounting to approx. DM 600 for children between 4 and 7 years old.*

The payment for a child-care provider with three children under 8 years old should reach the average income received in gainful employment (pre-tax after the social security contributions have been subtracted) because as a general rule, it is not possible to enter into gainful employment with three children of this age. With one child, part-time work is possible, with two children it is very difficult, with three children (of this age) it is practically impossible. Thus the opportunity costs increase as the number of children increase.

The size of the payment is calculated as follows: DM 1,000 per child is added to a basic rate of DM 1,000. Simplified, the basic rate corresponds to the basic needs of the child-care provider, the rate per child covers the basic needs of the first child and all further children. (The "first" child of each couple or single parent is always the respective youngest child).

The acknowledgement of the service work must take the needs which arise from

carrying out the service work into consideration as otherwise the service work is not really being acknowledged: the first child as a general rule creates a wave of expenses (cost of living, opportunity costs of giving up gainful employment etc.) which must be taken into consideration when assessing the level of payment for the child-care work. The child-care salary combined with child benefits and housing allowances should ensure a subsistence level i.e. at least correspond to today's level of social assistance benefits. Thus with just one child, a salary is paid which may be low but ensures subsistence, as the (flat rate) child-care service work carried out is decisive for determining the child-care salary.

*Diagram 1: Child-care salary I for children of 0 to 7 years old (until they start school)*

Child-care salary I	Age of the children	1st Child		2nd Child and further children	
	<b>0 to 3 years</b> independent of time in gainful employment <b>PHASE 1</b>	<b>DM 2.000 p.M.</b>		<b>each DM 1.000 p.M.</b>	
	<b>4 to 7 years</b> independent of time in gainful employment <b>PHASE 2</b>	<b>DM 1.400</b> Payment	<b>DM 600</b> possibly child-care voucher	<b>DM 400</b> Payment	<b>DM 600</b> possibly child-care voucher
Single parents receive a supplement of 15% on the amounts for the first child and further children					

The child-care salary should be adapted annually to correspond with the development of the cost of living. As an option for the future, it would be worth considering whether the child-care salary should also participate in the productivity growth of the whole economy. The continual adaptation of the child-care salary to avoid its gradual devaluation gains particular importance when taking the experience of the "parental benefit" into consideration. The parental benefit has nominally remained constant since its introduction in 1986 (DM 600 per month.) Even if just the purchasing power of the time at which it was introduced was restored, today (1998) you would reach an amount of DM 800 per month. (compare to Wingen 1997, p. 217)

It will be necessary to discuss whether the additional amount (for every further child) should have an upper limit. From the individual perspective of ensuring a minimum standard of living, a child-care salary can be seen as an earnings-replacement benefit for the respective service work input. Thus, for example, the "Trier Model" of the Catholic Family Association proposes a child-care salary of DM 3,300 per month for three children but no further increase for further children.

From society's point of view, the positive external effects which result from the respective family could be put in contrast to this (the "output"). The service work of bringing up children and the build-up of human assets associated with this would thus

be remunerated as a public good and in this case 5 children would be more than 3. In practice however this question of "putting a lid" on the additional amount would hardly come into question as long as the period of eligibility per child is limited to 3 or 7 years.

The level of the child-care salary I is also affected by whether it is dependent on gainful employment which is carried out at the same time besides child-care work or not. In this study both versions are examined which have advantages and disadvantages. In the second phase of introduction, the child-care salary for children between 4 and 7 years old could be split into a reduced cash amount (approx. DM 1.400 per month) and a partial amount (approx. DM 600 p.m.) in the shape of a "*child-care voucher*" to be cashed in at recognised educational institutions outside the home.

### **2.1.2 The phases of the introduction of the Child-care Salary 2000**

The model "Child-care Salary 2000" is to be introduced in several phases. In phase 1 the child-care salary I should be paid as a payment which is independent of income for bringing up children from 0 to 3 years old, in phase 2 for children from 4 to 7 years old (until they start school). The child-care salary II for bringing up children who are more than 7 years old should be a payment dependent on income or, if politically desirable, should be taken into consideration in a later phase 3 as a general but reduced payment.

#### **2.1.2.1 1st Phase: Child-care salary I for children from 0 to 3 years old**

There seems to be a social consensus (in West Germany at least) that during the first three years of a child's life and thus during parental leave an actual and economically supported freedom of choice between child-care at home and taking advantage of child-care facilities outside the home must exist. However this also means that a family must not be economically punished for selecting child-care at home during this time.

For this reason, for the first phase in the study, a child-care salary independent of income to secure subsistence for three years has been developed, completely independently of whether the child-care provider(s) is (are) also in gainful employment or not. The first phase of the child-care salary for parents with children under 3 years of age must receive the highest priority. It already calls for a vast amount of political concentration. Substantial financial means must be mobilised. German measures would be the best in Europe with the introduction of a child-care salary for this time period.

#### **2.1.2.2 2nd Phase: Child-care salary I for children from 4 to 7 years old**

It will probably be several years before financial bottlenecks the state has will permit the extension of the child-care salary to beyond three years. Thus it is also still open

for discussion whether the second phase of the child-care salary for the 4th to 7th year of the child's life will be introduced in one step. It would be plausible to reach the goal successively by introducing payment of the child-care salary initially for the 4th, then the 5th year and then extended until the child reaches school age.

### **2.1.3 Configuration independent of and dependent on time spent in gainful employment**

To spark off the public discussion on a partner-like division of the child-care work between men and women, a version of the child-care salary independent of time spent in gainful employment and a version dependent on time spent in gainful employment are described:

1. In the *version independent of time spent in gainful employment*, the entitlement to and level of the child-care salary does not depend on whether the child-care provider is in gainful employment or not. The reason: The child-care work needs to be done whether the person is in gainful employment or not. It has to be carried out by a third party without or against payment unless neglect of the children is intended. Child-care work and services are not leisure pursuits which can be taken up and dropped when in the mood. They are necessary work within society and of equal value to gainful employment.
2. A version dependent on time spent in gainful employment was also examined in which the level of the child-care salary decreases with increased time spent in gainful employment. In this version the gainful employment of both parents is taken into consideration when calculating the level of payment, to remunerate a partner-like division of labour and to provide an incentive to social policy to provide more part-time work.

#### **2.1.3.1 Version a: Child-care salary independent of time spent in gainful employment**

The advantages of a configuration independent of time spent in gainful employment are

- the incentive neutrality, i.e. the guaranteed freedom of choice of the parents between various options in life and thereby neutrality with regards to a possible change-over from gainful employment to child-care work at home. If someone has a preference to have more free time to spend with their own children, this solution is not a hindrance in the step from gainful employment to work at home. Quite the opposite, in many cases this new source of income would open up the possibility in the first place;
- the fact that this would make more cash resources for the external or professional child-care available which would lead to more jobs and
- the express remuneration of respective own child-care work.

Some of these advantages contain complementary disadvantages such as

- incentive neutrality leads to there being no express incentive towards changing over to part-time work and
- the financial costs are slightly higher.

### 2.1.3.2 Version b: Child-care salary dependent of time spent in gainful employment

The level of *child-care salary* I (up to and including 7 year-olds) depends on the participation in gainful employment by the beneficiary in the version dependent on time spent in gainful employment. As of the 6th hour (for single parents; for couples from the 46th hour) of gainful employment outside the home per week, the entitlement to the child-care salary would reduce by 2 percentage points per hour. On this basis either a proportional table or a model showing steps can be developed. For illustration purposes, an example with 5 classes of working-hours deployment have been selected in which the amount of the respective child-care salary is calculated from the respective average value of the classes of the working-hours deployment.

*Diagram 2: Gainful working-hours deployment and level of the child-care salary*

Gainful working-hours deployment in hours/week	Percentage of the basic amount of the child-care salary
0 to less than 6	100
6 to less than 12,5	90
12,5 to less than 20	80
20 to less than 35	56
35 and over	30

The time both parents spend in gainful employment is to be taken into consideration. If both parents are or a single parent is in full-time work, the basic amount will be paid (30%). A minimum amount of 40% could also be justified as the child-care salary is taxable but also because of a possible increase in the contributions paid to nursery schools and day-nurseries. To determine a couple's entitlement to a child-care salary (or two parents living together), first of all the time each spends in gainful employment must be added together. The difference calculated between the actual total amount of time spent in gainful employment to the maximum amount of time allowed can be used to determine the entitlement the couple (or if applicable one parent) has to the child-care salary. The full child-care salary is paid if 50% of the time both parents could possibly spend in gainful employment is reserved for child-care work. So as not to overload the proposal of a child-care salary with too many additional political assumptions on working-hours, we have assumed the actual "normal working hours rate"

which is currently around 40 hours per week (according to information provided by the Federal Employment Agency for 1996, approx. 37.56 hours / week in West Germany and 39.63 hours / week in East Germany).

With a configuration dependent on time spent in gainful employment, a framework would be set up which would make it possible for partners to split the child-care work and build this into the socio-political systems. As based on these assumptions the full child-care salary would be paid whether one parent were in full-time employment and the other not in employment, or both parents were in part-time employment, the version dependent on time spent in gainful employment does not provide any express incentive for partners to share the child-care work and the time spent in gainful employment.

*Diagram 3: Child-care salary dependent on time spent in gainful employment for two parents (examples)*

Time spent in gainful employment (in%, in brackets: in hours) e.g.		Sum of the time spent in gainful employment by the parents	=Portion of time spent in gainful employment for calculation of the child care salary	Entitlement to child-care salary at
Parent 1	Parent 2			
max. 100	max. 100	200%	=100%	30%
0 (0-5 h.)	100 (40 h.)	100%	=0%	100%
50 (20 h.)	50 (20 h.)	100%	=0%	100%

In political discussion, a configuration of the child-care salary dependent on time spent in gainful employment is controversial. For this reason, conceptional priority has been given to the child-care salary as a flat-rate payment purely dependent on the age of the child, which is configured to be independent of income for the first seven years (child-care salary I) and later if applicable dependent on income (child-care salary II). It would be plausible during a model phase of introduction of the child-care salary to examine both versions - dependent on and independent of time spent in gainful employment - to see what effect they have respectively on the fathers participating in the child-care work and the women participating in gainful employment.

### 2.1.4 Who will receive a child-care salary ?

*The parent entitled to claim* is the one who carries out the majority of the child-care work and declares it to the Federal Family Fund. In the *version independent of time spent in gainful employment* the mother receives the child-care salary as a general rule unless the father by reducing the amount of time he spends in gainful employment documents that he is responsible for a comparable amount of the child-care work. *In the version dependent on time spent in gainful employment*, if both parents are in full-

time employment, as a general rule the mother will receive the basic amount (30 or 40%). Beyond that, depending on the respective reduced amount of time spent in gainful employment or with mutual consent from the parents, it is possible to split the child-care salary. As for making it possible to split the child-care salary, these proposals go far beyond the existing possibilities in the law on the parental leave and in the area of the child-care times in the statutory pension insurance scheme.

During *full-time education* (e.g. university) the child-care salary would be paid in full (as the parental benefit is now) to promote the vocational and general qualification of child-care providers. The child-care salary will, however, like income from gainful employment be deducted from other social security and assistance benefits (such as student loans). Even if receiving a child-care salary, entitlement to *payment from the unemployment insurance* may exist as entitlement to a child-care salary and gainful employment do not rule each other out. In the case of a configuration of the child-care salary independent of time spent in gainful employment, full entitlement may exist. As long as the regulations existing today for deducting income from gainful employment from unemployment benefit and assistance continue to exist, they would also be applied to the child-care salary. The level of the child-care salary will only be reached or surpassed by payments from unemployment insurance in the case of a very high previous salary in gainful employment. In practise it would therefore make more sense to suspend entitlement to such payment for the duration of receipt of the child-care salary so that once the child-care salary has expired, undiminished entitlement could be taken up again.

The child-care salary should *not provide incentive for immigration*. Thus a pre-requisite for entitlement should be at least 5 years primary habitual residence and focus of life as well as residence of the children in Germany. If necessary, regulations should be developed with this aim in mind which are compatible with applicable EU law.

### 2.1.5 Version: time account for child-care salary I

It would also be plausible to optionally equip the child-care salary I between the 4th and 7th year (4 years) of the child's life with a time account so that entitlement to the child-care salary independent of income could be stretched over a longer period of time (e.g. until the child is 12 or 16). There is a great demand for this, as current discussion on reform of the Federal Parental Benefit Act (BERzGG) shows. A variety of models of a time account are known from other European countries. This would also make a flexible combination of gainful employment and paid parenting possible in a configuration of the child-care salary independent of time spent in gainful employment. It would also be plausible to combine the first phase of the child-care salary (0 to 3 years) as of the second year with a time account as it may last longer than planned under the prevailing financial bottlenecks.

### 2.1.6 Bonus for quality development in child-care work ?

The introduction of a child-care salary expresses the trust society has in the quality of the child-care work carried out by the parents. At the same time the child-care salary should contribute towards the quality assurance and quality development in child-care work. This requires further supplementary measures apart from the payment.

For example, it could be considered to what extent the child-care salary should include a bonus for attending parenting classes, as was proposed by Klaus Hurrelmann for child benefits (Kindergeld): " The time has come to consider in public how the quality of child-care within the family can be improved. (...) To teach this in courses, to reintroduce parents letters in which families exchange experiences, in brief: to make child-care courses a compulsory version - this discussion should take place now. (...) Of course it is not possible to force parents to attend such courses in a free society. But it is possible to make it in their interest to participate in such courses. For example, if the state were to (...) grant them a regular bonus in addition to child benefits." (Hurrelmann 1998, p.69) - or what would be more obvious, a bonus to a child-care salary.

### 2.1.7 Taxation

Currently a payment dependent on income is being advocated in discussion on social policy, on the one hand to limit the cost of redistribution, on the other hand to meet the political goal of vertical justice in distribution. The idea of a child-care salary is based on acknowledgement of child-care service work and not primarily to fill in gaps in income. For this reason, the child-care salary being subject to taxation as oppose to an income dependent configuration would seem to be the right method. The economic ability of the households is taken into consideration by the child-care salary being subject to taxation. The taxation does not prevent the child-care salary being universal, the value principle is not given up in favour of the need principle. With the exception of the child-care voucher, the child-care salary would then be subject to taxation above the tax-free amount for a minimum level of subsistence.

The second goal of tax policy would be the further development of individual taxation. It would appear sensible to get rid of married couple 'splitting' (special form of taxing spouses) - initially for the recipients of the child-care salary as well as for child-less couples, as the service work of bringing up children is already taken into account with the child-care salary. It is not necessary to provide any further tax benefits to married couples as living together already leads to economic benefits ( co-operation profits). Under the income tax law as it is, both partners in a marriage would be classed in tax group IV which already includes married couples today in which both partners receive a similar salary. Thus a basic tax-free amount is taken into consideration for each parent separately (subsistence level). For single parents, tax class II will apply while receiving the child-care salary.

If the discrimination against the child-care work carried out by women is not to be continued in tax law, the men will have to rethink things; as married partners with a high income will have to pay more taxes than they have so far. For people receiving the child-care salary, tax class V will no longer be applicable (married low-income earner) which until now punished them with initial tax rates which are draconian. Not only does this provide incentive for people who have not been in gainful employment so far to earn their own income, it is also an incentive for highly paid men to reduce their working hours and thus their income and tax burden (reduction in the marginal tax rate).

### 2.1.8 Model calculations for the introduction on a household level

In the following table some typical examples of recipient households of the child-care salary with the effect it has on a household level are shown. The given values for taxes paid are approximations as changes in the tax rates are likely with the introduction of a child-care salary (e.g. a change in the household tax-free amounts).

*Diagram 4: Model calculations of Child-care Salary 2000 on a household level (round amounts)*

Type of income	Household 1: Single parent with 2 children under 7 years	Household 2: Single parent with 2 children under 7 years	Household 3: Married couple with 2 children under 7 years <i>Tax class IV/IV</i>	Household 3a: Married couple with 2 children under 7 years <i>Tax class III/V</i>	Household 4: Married couple with 2 children under 7 years <i>Tax class IV/IV</i>	Household 4a: Married couple with 2 children under 7 years <i>Tax class III/V</i>
<b>Child-care salary 2000</b> <sup>1</sup>	DM 3000	DM 3000	DM 3000	DM 3000	DM 3000	DM 3000
<b>Child benefits</b>	DM 440	DM 440	DM 440	DM 440	DM 440	DM 440
<b>Income from gainful employment, gross</b> (example)	DM 2500	—	DM 5000 of which	DM 5000 of which	DM 8000 of which	DM 8000 of which
<i>Parent 1</i>			—	—	—	—
<i>Parent 2</i>			DM 5000	DM 5000	DM 8000	DM 8000
<b>Gross income</b>	DM 5990	DM 3440	DM 8440	DM 8440	DM 11440	DM 11440
<b>Deductions:</b>						
<b>-Income Tax</b> <sup>2</sup> in total	DM 1042	DM 266	DM 1490	DM 1415	DM 2703	DM 2416
<i>of which from</i>						
<i>Parent 1</i>			DM 412	DM 891	DM 412	DM 891
<i>Parent 2</i>			DM 1078	DM 524	DM 2290	DM 1525
<b>-Social Insurance</b> <sup>3</sup>	DM 525	—	DM 1050	DM 1050	DM 1551	DM 1551
<b>Available household income</b> <sup>4</sup>	DM 4373	DM 3174	DM 5900	DM 5975	DM 7186	DM 7473

- <sup>1</sup> = Without subtracting the "child-care voucher" for children between 4 and 7 years old. The basis for the model calculations is the version of the child-care salary independent of time spent in gainful employment. In the tax calculation the child-care salary is awarded to "parent 1".
- <sup>2</sup> = Income and wages tax, Tax class IV/IV for couples and II for single parents (apart from type 3a/4a: III/V; V is for the spouse who receives a low income or no income at all from gainful employment)
- <sup>3</sup> = Employee's contribution (only charged on income from gainful employment)
- <sup>4</sup> = without possible entitlement to a housing allowance

The model calculations are based on the 'splitting' table as it applies today. The 'splitting' advantage of the combination III/V as oppose to IV/IV becomes significant in higher income groups. Thus with a gross income of DM 20,000 p.m. for the husband and DM 3,000 per month for the wife - e.g. the child-care salary for two children under 7 years old - the 'splitting' advantage as currently applies is DM 1,726 p.m.(!) It also exists however, even if reduced when assessed in classes IV/IV because in the tax assessment the household income is taxed together again. The combination IV/IV leads to a slightly lower tax burden in total for below average income as the solidarity surcharge falls into the lower splitting zones.

### 2.1.9 Child-care salary II (children more than 7 years old) - Basic security for parents

After the child-care salary I has been introduced up to the 7th year of the youngest child's life, a child-care salary II is also to be introduced in a third phase for bringing up children who are more than 7 years old. The child-care salary II is proposed in 2 versions, as an income dependent payment lying above the level of social assistance benefits and as an amount which is independent of income but is significantly reduced in comparison to child-care salary I.

#### Phase 3:

8. to max. 18. year of the youngest child's life, as long as a household or upkeep community exists (taxable children) and then

#### Version 1: a child-care salary II dependent on income

Basic amount (1 child): DM 1.400 p.m.  
 Additional amount for every further child: DM 600 p.m. per child (until they reach 18)

#### Version 2: a child-care salary II independent of income

Basic amount (1 child): DM 1.000 p.m.  
 Additional amount for every further child: DM 500 p.m.

As of the end of the 7th year of the (youngest) child's life, the child-care salary should depend on the available household income (Basis of assessment according to income tax scale; however the income tax scale today only takes one child's tax-free amount into account which is significantly below the average costs of children's upkeep). Children are only taken into consideration within the meaning of the tax law. For children with their own income there is no entitlement to child-care salary II. Income in the sense of the income tax law (income from gainful employment, income from property etc.) is credited at 50% on the entitlement to child-care salary II after subtracting the social insurance contributions. The spouse / partner spending more time in gainful employment will receive a tax-free amount which is the same as the basic amount minus 20% household savings. In this configuration as a negative income tax, participation in the employment system is encouraged (activation) as income earned in addition is not weighed down with massive marginal tax rates which is the case today in social assistance benefits or payments made due to unemployment (compare to Kress 1994).

To determine the child-care salary II which is dependent on income (as of 8 years old) the point of view of need is weighted more heavily, as the aim here above all is material security when taking on a life with children which poses a double risk (Opportunity costs of reducing the amount of time spent in gainful employment as well as upkeep obligations). The portion related to the needs of the child-care provider remains roughly constant (approx. DM 1,000) where as the supplements relating to the children are reduced corresponding to the school and educational system mainly financed by the state.

Until the youngest child reaches 18 years old, the basic amount and additional amounts are paid, depending on the number of children under 18 years old. With several children some of who are younger and some of who are older than 8, entitlement to child-care salary I and income dependent child-care salary II exists. Due to the dependence on income, in these cases, entitlement to child-care salary II will only occur in households with other income which is minimal. Subsequently, a permanent entitlement to the basic amount of DM 1,400 p.m. will then exist until of pensionable age. The configuration with the basic security for parents as negative income tax makes it clear that it is not a matter of passive acceptance of permanent lack of income. The political normative reason for long-term security is about securing an earned safety cushion for child-care providers which at the same time also contributes towards activation. This also requires a labour market policy which through qualification etc. makes it easier for parents to enter into gainful employment again after the family phase.

Diagram 5: Child-care salary II for children more than 8 years old

Child-care salary II	Age of the children	1st child	2nd and further children
	<b>8 to 17 years old</b> income dependent <b>PHASE 3</b>	<b>DM 1.400 p.m.</b>	<b>each DM 600 p.m.</b>
	<b>from 18 years old</b> income dependent <b>BASIC SECURITY</b>	<b>DM 1.400 p.m.</b>	—
Single parents will receive a supplement of 15% on the amounts for the first child and further children			

An alternative version to the income dependent child-care salary II which should be examined is *a child-care salary II which is independent of income* and, for example, consists of payments which are 50% less than those in child-care salary I; it has not yet been decided if this should last until the 12th, 16th or 18th year of the youngest child's life. With payments of this size, the aim of providing a subsistence level with the child-care salary alone would only be met to a limited extent (in connection possibly with housing allowance and the child benefits) which would also be a contribution towards avoiding long-term "welfare mothers". It is not the aim of the child-care salary to drive women in particular to the edge of society. Quite the opposite, active participation of men and women in all areas of society - child-care work as well as gainful employment - should be encouraged.

## 2.2 Fitting in the child-care salary into social policy

To procure independent social security, in the political discussion on women it has so far been demanded that social insurance contributions also be paid in phases of (unpaid) child-care work. The concept "Child-care Salary 2000" is calculated so that the obligation to make social security contributions does not have to exist as fundamental reforms in the statutory health insurance and pension insurance fund in particular are due and these can not be anticipated here. Should social security contributions be introduced, the proposed payments would have to be increased by an amount corresponding to the social insurance portion.

Harmonisation of the law on taxation and the law governing social security and assistance benefits would become necessary, particularly with the introduction of income dependent elements in a child-care salary (Child-care salary II). So far, different limits of the tax and transfer unit have existed (compare to Mitschke 1994, p. 160): whereas the income taxation is based on the principle of the individual, the social welfare and

assistance benefits are based on the collective economic household or family group. Additional income from gainful employment is weighed down with effectively exorbitant initial tax rates which inappropriately discriminates against the gainful employment of child-care providers. To avoid this, all family-related transfer payments and taxable events must be co-ordinated. This is made easier by the fact that the notion of 'income' concerning the parental benefit and child benefits is to a great extent adapted to the law of income taxation. Also, the child-care salary II is technically planned to be in the shape of a "negative income tax" which includes a full integration of the payment child-care salary into the tax-rate table (compare to the problems to be thus solved Mitschke 1994, DIW 1996a, BMF 1996).

### 2.2.1 Statutory pension insurance fund (PIF)

To make child-care work and gainful employment of equal value requires the child-care work to make an effective contribution towards old-age protection. This is not the case today. Taking child-care into consideration has in particular not yet been satisfactorily regulated in the statutory pension insurance fund. Despite the most recent adjustment in payments - 3 year-long period of child-care ("baby years"), from the year 2000 at 100% of the average income - there is still a lot of catching up to do. One possibility would be to extend the "baby years" in parallel to extending the entitlement to a child-care salary to up to 7 years bearing in mind that at the same time technical arrangements would have to be clarified to limit the cost and avoid injustice (in particular regarding the "additive countability" of time in gainful employment ) (compare to Polster 1998).

The new regulation on periods of time spent in child-care based on the judgement by the Federal Constitutional Court in March 1996 (I BVR 609/90 and 692/90; BverGE 94, p. 241ff.) already guarantees the compulsory insurance status for the first three years of the child's life in the statutory pension insurance fund. When a child-care salary is introduced, the periods of time spent in child-care will act as a contribution payment by the Federal Family Fund which will take over the federal subsidy so far paid to the statutory pension insurance fund

Getting rid of the "baby years" would only make sense within the context of a comprehensive pension reform which must in particular lead to adequate consideration of work performed by women in all spheres of work. There is increasing discussion on the extent to which the introduction of a basic pension financed by tax financed payments or payments similar to taxation could dissolve the current fixation of the pension system on gainful employment. If the basic pension is set at the same level as the subsistence level, people who can not present a biography of continuous gainful employment will also be guaranteed a comfortable life in old age (at the moment in particular in the Scandinavian countries, the Netherlands or in Switzerland, compare to Opielka 1998).

### **2.2.2 Statutory health insurance and nursing insurance**

Initially inclusion of the family in these insurances should be continued. An alternative would be individual nursing insurance. For single parents without income from gainful employment, the insurance contribution should be paid by the Federal Family Fund.

### **2.2.3 Unemployment insurance**

Obligation to contribute towards unemployment insurance does not make sense. Unemployment benefit is not necessary for those who return to their previous job after the phase in child-care. For child-care providers not in gainful employment who intend on returning to or entering gainful employment after receiving a child-care salary, entitlement to a retraining or "rehabilitation" assistance should be created. Entitlement to payments from unemployment insurance from the time before receiving the child-care salary is suspended while child-care salary is being received. Legally protected entitlement to further education or training as well as an advisory service provided by the local Labour Office during the parental leave are necessary, as is an extension of the "(re)habilitation" assistance after the child-care phase.

### **2.2.4 Statutory accident insurance**

It would make sense for recipients of the child-care salary to have compulsory insurance in the statutory accident insurance (communal accident insurance or professional associations). This would document the productive (profession-like) working culture and the equivalent value to the gainful employment sector.

### **2.2.5 Other social security and assistance benefits**

The parental benefit as it exists today would disappear, as its function would be taken over by a child-care salary. A series of further payments which recipients of a child-care salary can get such as housing allowance and most other income dependent payments (e.g. unemployment assistance, social assistance benefits) will in most cases be reduced due to the improved income situation. The child benefits as (partial) compensation of economic burden and to reimburse expenses for the upkeep of the children is not supposed to be replaced by the child-care salary, as currently it does not even cover the minimum requirements. In this respect, the child-care salary has to include a portion for the children's upkeep (as all income from gainful employment must).

### 2.3 Single parents

According to time budget studies carried out by the Federal Statistical Office, single parents spend slightly more time carrying out child-care work in a comparison between single mothers and mothers sharing a household with a partner (compare to table 1 in chapter 3). A certain supplement for single parents could thus be justified. Bearing in mind the discussion being carried out in other countries (in particular in the USA and Great Britain) on the problem of so-called "welfare mothers", a perspective of life which keeps mothers passive, in particular single mothers, the following aspects have to be taken into consideration when introducing a child-care salary:

- a child-care salary must not provide an incentive not to marry, i.e. not be an economic incentive for behaviour which otherwise is not intended,
- a supplement for single parents must not provide an incentive to break up marriages and household communities and
- a child-care salary must not encourage the tendency to be passive, a long-term retreat into a biography financed only by social policy.

It could be perceived to be a disadvantage that with the child-care salary, the state partially or completely removes the child-care and maintenance responsibility from divorced husbands. However, a child-care salary does not affect the maintenance obligations of divorced parents. As a large number of single parents had never been married, no maintenance from a spouse is due anyway.

### 2.4 Partnership incentives

The multifarious opposition men in all social circles put up against a partner-like division of work are also a burden on the introduction of a child-care salary. Reforms in social policy must take this into account. They must therefore provide incentives to rethink customary modes of behaviour and change them (compare to Kirner 1994).

So we assume that a version of the child-care salary dependent on time spent in gainful employment (for children less than 7 years old) would create a framework for a partner-like division of work in the family and in careers. The actual circumstances, however, correspond more closely to a version independent of time spent in gainful employment which does not force women to give up gainful employment just to be eligible for the full amount of the child-care salary. Of course a version of the child-care salary independent of time spent in gainful employment would only be an incentive towards a partner-like family if it were set at a high enough level for a relevant time period at least to also be of interest to men who traditionally feel responsible for the economic situation of their family. At the same time, thought should be given here to the creation of qualified part-time work for men in particular, if a partner-like dis-

tribution of both areas of work is to be the target (compare here to Anders 1993 as well).

A further incentive could be to generally reserve part of the entitlement to the child-care salary for the other parent - maybe in the shape of a certain time quantum. In Austria, for example, one parent can only claim "Karenzgeld" (<sup>a</sup> parental benefit) for 18 months after a child is born, the other 6 months are reserved for the other parent and are forfeited if not taken advantage of. Another example is Sweden in which the so-called father's month was introduced on 01.01.1995 which is not transferable. If the father does not take advantage of it, it is forfeited.

As a model, a "partnership supplement" comparable to the amount of the supplement for single parents could be paid (15% on basic and additional amount) if both parents can prove that they have committed themselves to a partner-like division of gainful employment and child-care work. This is the direction organisations such as "Parents for Active Fatherhood" are working in to make more ways available to attain more symmetry in the division of child-care work within the family through innovative models.

According to EU guidelines on parental leave, part of the entitlement to parental leave (at least 3 months) is available to the father and is not transferable (compare to Federal Council Printed Papers 223/96 dated 25.3.1996). In accordance with this, it would make sense for fathers to have to claim a certain time period of entitlement to the child-care salary in the first three years (or seven in phase 2) to get maximum benefit from the entitlement per child.

## 2.5 Gainful employment

The child-care salary makes a complementary or (at times) substitutional relationship between family work and gainful employment possible. Anyone who reduces or gives up their time spent in gainful employment in favour of family work must not suffer any *disadvantages when rejoining the labour market* at a later date. A child-care salary would not cause the current re-employment guarantee which lasts for three years at most according to the law on parental leave to become superfluous. It remains to be considered whether it needs to be extended in future. It is highly desirable that trade unions and employers place much higher emphasis on the question of rejoining the labour market after a partial or complete phase of family work than they have done so far and emphasise the target of improved compatibility between family work and gainful employment by means of new and more demanding part-time models in future *collective agreements*. Expansion of the legal deadlines and specific solutions for small and medium-sized and large companies are conceivable.

A further important step is represented by the simplification of existing working structures which prevent the compatibility of career and family in the sense of a partner-like distribution of the tasks. With regards to current stereotypes, however, according

to which qualified work and a demanding career are only possible in "full time employment", slow changes can be observed. Model projects such as the project "mobilZeit" in which approx. 100 pilot companies have been advised in the implementation of qualified part-time work for specialists and management lead to the hope of more flexible working hours models soon becoming the norm. This also includes an expansion of the legislation on working hours which would make it easier to change over to part-time work above all during and after claiming the child-care salary and would make a return to full-time employment easier and also includes entitlement to company and external qualification measures while receiving the child-care salary.

## **2.6 Child-care outside the home (subject-oriented rather than object-oriented support)**

Gainful employment can only be combined with the task of child-care if sufficient care of the children is guaranteed. This is not the case (everywhere) in former West Germany. In former East Germany, a decrease in the number of child-care facilities can be seen. This can not support the promotion of a partner-like division of work. In parallel it must be possible to retreat from gainful employment for a certain period of time and to care for children at home if we want to make it possible for children to be in the optimal environment for their stage of development. The child-care salary would create this possibility on a subsistence level basis for child-care providers.

Between the 4th and 7th year, part of the child-care salary could be paid in the shape of a tax-free "child-care voucher" amounting to approx. DM 600 per child and month. The cash part of the child-care salary would then be reduced to DM 1,400 for the first child and DM 400 for every further child. The child-care voucher must be sufficient to finance qualified child-care for half a day (5-6 hours per day) (compare to the proposal of a "child-care cheque" by the Austrian Institute for Family Research 1997). Additional costs due to regional differences or specific educational options (e.g. for children with special difficulties) would have to be balanced out by the local community or other payment systems. Child-care vouchers can only be redeemed in recognised child-care facilities or with day-care parents to ensure a certain educational standard (also compare here to the reform proposal "child support voucher" by Spieß / Wagner 1997).

An obligatory child-care voucher could probably only be considered if attending a nursery is compulsory for all children and if there is a nursery school place available for all children. A disadvantage of choosing the optional solution of a child-care voucher would be that certain parents would do without a nursery school place for their child for purely egotistical economic reasons, to have the complete cash amount of the child-care salary - even though the nursery school would be extremely beneficial for the respective children.

Splitting the child-care salary into a cash amount and a child-care voucher for nursery

school care would accommodate the fact that all parties in society are in favour of 4 - 7 year-old children being cared for in a recognised nursery school. The fact that nursery schools are necessary as an educational establishment in addition to the family has general consent (compare to the right to a place at nursery school in the reformed law on child and youth welfare). While in general, mothers and fathers would like to have more time to spend at home with their children and to spend looking after their young children from 0 to 3 years old, they can also see the advantages for the development of their children in (at least) half day care in a nursery school from the 4th year of their child's life. The introduction of a child-care voucher also takes into consideration the fact that parents today already have to pay a supplement to the child-care institutions which for a whole day's care can be up to approx. DM 600 p.m. (compare in more detail to chapter 6).

The child-care salary in combination with the state fully financing the educational options for young children would have to be rejected straight away for financial reasons. In addition, it would give us the problem of excess support for some families (e.g. with 2 people in full-time employment, a full child-care salary and full support of the institutions). Thus, the child-care salary provides an option for a tendency to orient towards subject support. The aim of the changeover from object to subject oriented support by means of a child-care voucher in pre-school age is an integrated approach towards child-care work inside the home and outside the home (Development of the "human assets"), the increase in freedom of choice of the parents and a contribution towards cost transparency.

Of course, due to regional and other reasons the cost variations per nursery school / day-care place which are sometimes quite considerable will at least initially make special regulations necessary.

The child-care salary - in particular in its version independent of time spent in gainful employment - opens up the financial scope for parents to take on direct responsibility for a suitable portion of the costs for professional educational options for children (day-care nurseries, nursery schools, crèches, all day institutions). This will make it possible for the parents to have a greater influence on the educational and time conditions of the various child-care institutions.

## 2.7 Finance

*Financing the gross finance volume* of both pillars of the child-care salary (I and II) will partially be carried out by taxation of the child-care salary, by savings (reshuffling), by expansive effects and should there be a remainder to be financed, by additional tax revenue (compare to chapter 7 in detail)..

Automatic savings will be made as payment claims made until now will be covered by the child-care salary (such as parental benefit, housing allowances, unemployment assistance, Federal Social Security Act and partially student loans). From the state expenditure for child-care institutions for children between 0 and 3 years old, only an

increase in the day nursery fees due to the increase in disposable income can initially be estimated to be savings. Due to the "child-care voucher" (4 to 7 years old), however, institutional subsidies to pre-school establishments (child day-care centres, nursery schools) can be considerably reduced.

Savings for financing the child-care salary in its 1st phase formed by social policy can be created by a decrease in the income advantages from married couple 'splitting'. We also see cut-back possibilities in the family-related local supplements the civil service receive.

The remaining net volume to be financed should be raised by a *family supplement* on income tax, inheritance tax and on all income in old age. The family supplement could replace the solidarity supplement on income tax ("Family solidarity" instead of "Solidarity with the East").

Additional revenue as well as savings and expenses are managed on different levels of the central, regional and local authorities which will require suitable reshuffling in the financial compensation systems between the Federal State, the Lands and the communities.

Part of the new organisation of the contract between the generations is that from the accumulated properties of the older generation, a tax contribution in favour of the younger generation and the family is made in the devolution of an estate of a deceased person (in actual fact a "four-generation -contract"). Derived from the target of reducing the massive discrepancies between the older and the younger generation, it is necessary for the older generation in particular to make a contribution towards financing the child-care salary. The child-care salary writes a progression of the contract between generations in the direction of a "three-generation-contract" which the mothers and fathers of the statutory pension insurance had required. Financial participation of the older generation is possible in several ways. A start would be levying income tax on higher portions of the old-age income than has been done so far.

## 2.8 The "Federal Family Fund" (Bundesfamilienfonds)

The administration of the child-care salary should be managed by a new Bundesfamilienfonds (BFF) which is to be created, an autonomous public corporation. The *Bundesfamilienfonds* is an independent fund with its own administrative bodies in which representatives of family associations are to play an important role. The term "Fonds" shows the aim that public revenues to ensure long-term financial security of families should be promised which are not subject to short-term budget constraints. Financing the child-care salary will also be done by making savings in other payments provided by the state. The resources gained by such means must be allocated to the Bundesfamilienfonds in a similar manner to additional state revenues as a federal grant. An option for the future would also be to accumulate a long-term capital stock, the proceeds of which could be used in future to finance part of the payments of the

child-care salary. This idea would come very close to the "Fonds" concept. The Bundesfamilienfonds is the institution in charge of the administrative implementation of the child-care salary as well as further measures towards creating a balance between payments the family receives and the burdens they have to bear. To do this it makes use of assistance provided by the financial administration (child benefits, "baby years" etc.). The Bundesfamilienfonds would create a lasting lobby for the interests of families. We could learn from the experiences made by equivalent family funds in other EU countries (e.g. the family fund CNAF in France or the "Family burden equalisation fund" (Familienlastenausgleichskasse) in Austria).

## **2.9 The proposed "Child-care Salary 2000" in relationship to other models of a child-care salary**

The concept we have developed here has a precursor model. In 1996 the "German Working Association for Family Assistance" presented a study to the public in which the model of a "child-care salary" was presented and its macro-economic effects examined (Hatzold/Leipert 1995, compare also to Leipert n.d./1994). The model was essentially based on the following assumptions:

- providing the person mainly carrying out the child-care work is not in gainful employment for more than half a day, a taxable child-care salary of DM 1,300 p.m. on which social security contributions are due is to be paid per child until the child reaches its 12th year of life;
- this child-care salary is to be financed by transfer reshuffles and by a contribution amounting to 3.6% of all gross income (including property income) without an upper earnings limit. The administration of the financial means mobilized for the child-care salary should be managed by a family fund which is to be created.

This model of a child-care salary found wide-spread attention in the public interested in family policy and among family experts. (e.g. compare to Heidelberger Büro 1996). There were also critical questions raised, which arose in particular on two items: the effect the proposed child-care salary would have on net income would be too low due to it being taxable and liable for social security contributions, in some cases the sum available would be less than the parental benefit received today. The financial calculations were also viewed critically and in particular the fundamental assumption that a significant number of child-care providers, particularly women, would leave the market for paid labour and would now dedicate themselves to child-care work paid with the child-care salary. The new model has been developed to take these questions into consideration and is now being put forward for discussion.

In the meantime, other associations and institutions have developed proposals for a child-care salary, like the Social and Family Minister Hans Geisler (CDU) - some of

which have been inspired by the above mentioned study (Geisler 1998). With funding provided by the Hans-Böckler Stiftung of the trade unions, a group of social economists headed by Gerd Wagner recently proposed the model of a "child-care voucher" (compare to Kreyenfeld et al 1997). Comparable reform discussions are also taking place abroad. Thus the Austrian Institute for Family Research is examining the model of a "child-care cheque" which combines cash payments and a "voucher" for recognised external part-time child-care for children from nursery school age (compare to ÖIF 1997). In Switzerland a "children's pension" and "Child-care compensation" are being discussed (compare to Bauer et al 1998). Further proposals on a child-care or family salary have been put forward among others by the German Housewives Union (dhg), the Family Federation of German Catholics in Trier and the Catholic Employees Movement (KAB, "Weidener Model").

There is particularly extensive agreement between the proposal by the Social Minister from Saxony and our proposal in the integrative vision of child-care work carried out inside and outside the home, both of which should receive monetary acknowledgement from society. Similar to our concept, the proposal from Saxony also plans a level of child-care salary for three children which corresponds to the average income of an employee.

There is a consensus between the proposals for a "child-care voucher" and our concept on securing the quality of public education options available to pre-school children and increasing the freedom of choice parents have between various options. The Austrian model in particular wants to combine a voucher and cash payments which is also planned in our concept.

Within the framework of this condensed study we will avoid a detailed assessment of this proposal and others. The concepts mentioned are all aimed towards upgrading child-care work. In addition they are also in a state of flux, as is this proposal.

All these discussions are encouraging. They make it clear that upgrading child-care work in social policy is well overdue.

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## 3 | Value added by child-care work

### 3.1 If it doesn't cost anything, it's not worth anything: On the discrimination of family work in society's consciousness

Child-care work is productive work for society which so far has not been paid for providing it has been carried out within the family. Our study builds on the fundamental fact that society can not do without it than it can do without gainful employment which is paid.

Only paid work is included in the gross domestic product (GDP), the most comprehensive economic performance indicator, which is calculated within the framework of National Accounts. Support and housework, education and nursing or care which are mainly carried out within the family free of charge are excluded.

This one-sided view the National Accounts have of productive work within a society has already often been criticised. It conveys a way of thinking in society that work within the family and child-care work are not acknowledged as being real work at all and above all degrades women's work. For this is the exact chain of arguments, whether intentional or not, which discriminates against women all across the world day in and day out. If it doesn't cost anything, it's not worth anything. Thus this work is missing the "dignity" of work within society. Housewives who bring up several children and have plenty of housework to do, have to put up with questions on why they don't "go to work". Paid work in contrast promises acknowledgement from society.

The social disregard for house work and child-care mainly affects women, as to this day they carry out the lion's share of this work. Men in contrast enjoy social prestige and occupy the vital social and political positions of power by laying claim to the majority of paid gainful employment. Thus, the sentence immortalised 150 years ago by Friedrich List: "He who breeds pigs is a productive member of society, he who brings up children is an unproductive member of society", continues to express dominant economic thinking without moderation.

The narrowness of the view-point of academic economic research and the prevalent economic policy described here has reached a peak in recent decades of continued commercialisation and individualisation of society and has led to the serious imbalances in our society which were mentioned earlier. Readjustment of policy is absolutely essential if families are to experience a minimum amount of justice in this society and if society is to find its way back to a social balance between those who have children and those who don't, between men and women and between the generations - young and old.

## 3.2 Upgrading child-care work by the creation of a child-care salary

We are proceeding on the assumption that child-care work today is a precarious and endangered work. The birth rate has sunk particularly low in countries where family support is disgracefully small (such as Italy, Spain and Germany). Child-care work at home - and this means bringing up children - finds itself in direct competition with paid employment. Today it is not just men but also young women, most of whom have vocational training, who tend towards gainful employment and the tendency is growing.

Due to the significance of child-care work for the sustainability of our society in the long-term, we propose the creation of a child-care salary. "Through remuneration of child-care work, we are taking precautions that this work will really be acknowledged economically and will no longer be exploited" (Krebs 1996, p.155). Child-care work generally needs funding, regardless of whether it is carried out within the family or in a public child-care institution outside home. So far, the state has only funded the work of day-care institutions and discriminates against child-care work within the family from a financial point of view. As child-care work has the features of a public good, which has already been discussed previously, it is justified to ask for the state to finance the child-care salary.

The child-care salary proposed by us will probably be confronted with the criticism that it has been set far too high and can therefore not be financed and thus in the end can not be carried out politically. If, however, the proposed payment is compared to the amount of time parents spend providing child-care and with the additional housework caused by the children, then extremely low hourly "wage" rates have to be set out to substantiate criticism of the level of the salary proposed here.

Fortunately we have recently acquired comprehensive quantitative figures on the way the population in Germany spend their time. They are based on a representative time budget study which was carried out in East and West Germany in 1991/92 by the Federal Statistical Office (Blanke et al 1996). To get this, people over the age of 12 documented their daily routine on two consecutive days. The primary aims of the investigation were to find out how much time was spent providing child-care, how compatible career and family are and to calculate the economic value of unpaid work.

### 3.2.1 Which section of work within the family should be paid

Before we get back to this, we should first define more closely what type of work which has been unpaid so far is to be paid with the child-care salary. Or to put it another way: What is the difference between our proposal and demands for a wage for housework ?

We are not talking about making all value-adding work in private households paid. Because this magnitude also includes the work done in households which do not have

any children. But in households with children we are also only talking about the parental service work which deserves monetary acknowledgement as an activity relevant to society.

To define household production in a macro-economic perspective, in empirical investigations in general, the so-called third person criteria is used (Schäfer 1988, p. 311) According to this, all activities or service work which could be carried out by a third person (against payment) are classified as household production. This then excludes personal activities (school, education, training, hobbies, social contacts) and regeneration (eating, sleeping, personal care). Thus housework, child-care and nursing remain as well as the craft and honorary activities and the time it takes to do these is the basis of the calculation of the Federal Statistical Office of the economic value of unpaid household production.

As we are talking about the reasons for work paid for by society which is carried out within families with children, this raises the question of whether the simple third-person criteria is enough on its own. This is not the case. Because otherwise, the child-care salary would really be a "wage" for housework in families with children. So the additional question has to be asked, which of the activities which fulfil the third person criteria should justly be paid for from a state run solidarity fund.

It is the child-care work of the parents for children, which society as a whole can not do without that has become more and more critical in the circumstances we live in today. We would not be able to do without it if the child-care provider at home should drop out. The care and nursing work for the sick and needy should also be put on the same level as this but that is not our subject here. With this service work for third parties which society can not do without, child-care (and nursing care) providers participate in the social exchange of services which justifies the demand for payment (compare here to Krebs 1996 as well).

Domestic services which you provide for yourself, your partner or other adult members of the household are to be differentiated from this. As for the unequal distribution of housework between men and women, the idea of financial material compensation by the state does have any effect here. Providing the women with relief from some of the burden should be sought in the men participating to a greater extent in this work but to reach it is not within the powers of the state.

### **3.2.2 Economic value of household production: Calculation results of the Federal Statistical Office**

What exactly is the relationship between unpaid house and family work and paid employment? We know that the family and work within the family are a constituent part of the regeneration of family members, for reproducing society and for the development and support of human assets of the rising generation, we know that this involves a lot of work, mainly done by women. But today is the first time that we have

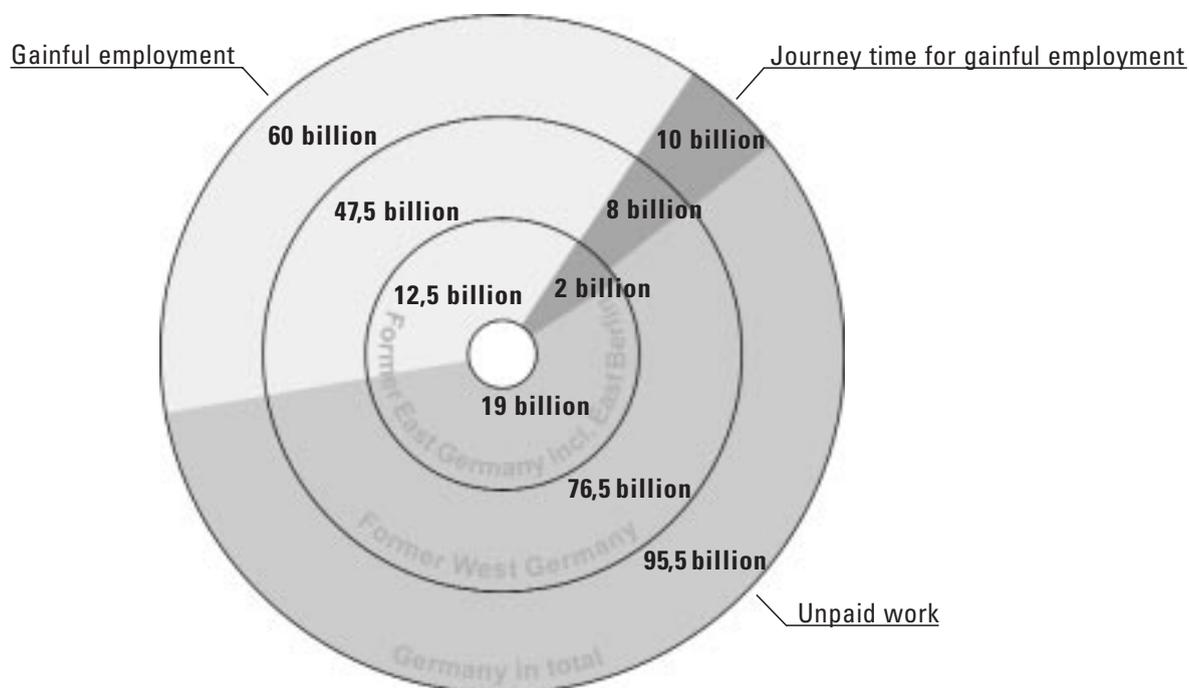
relatively up-to-date and concrete figures from the time budget study mentioned above which was carried out by the Federal Statistical Office.

To record the unpaid productive service work in private households and to assess it in monetary terms, the Federal Statistical Office has drawn up a "satellite system household production" based on the results of the time budget investigation and oriented towards the methods of the System of National Accounts (SNA) (Schäfer/Schwarz 1996). In this, the household production is expressed in quantitative and monetary units, in which, however, the valuation of the household production has so far only been carried out for former West-Germany.

The contents of household production (= unpaid work) can be divided into 4 sections: domestic activities (cooking, washing up, cleaning, care of clothes, shopping, organisation and planning of the household etc.), care and nursing, craftsman's activities (such as redecorating the home or repairing the car) as well as honorary activities and voluntary work in social organisations or clubs.

This unpaid work takes up more time than the paid work. In numbers this means that per week 28 hours of unpaid work and around 22 hours per week paid work are carried out. Unpaid work continues to be women's work: women at 35 hours per week spend much more time doing unpaid work than men who only reach 20 hours. In paid work, the result is almost the reverse. Including journey time, men on average spend 31 hours per week at paid work and women 15 hours. "The total amount of time men and women spend working is therefore almost identical, however most of the work done by women can not be seen in statistics" (Schäfer / Schwarz 1996, p.15). The extent of unpaid work in 1992 is clearly shown in the following comparison: All people above the age of 12 do 95.5 billion hours unpaid work - 76.5 billion hours in former West-Germany and 19 billion hours in former East Germany (compare to diagram 6). That is 59 percent more than the paid gainful employment (60 billion hours). Approximately 2/3 of the unpaid work is done by women.

Diagram 6: Annual volume of paid and unpaid work 1992 by people of 12 years and over in hours



Source: from Sch fer/Schwarz 1996, p. 42

If you want to put a monetary value on housework to include it in an economic performance and welfare figure more extensive than today's GDP, there is no golden rule for the valuation. In the end it is necessary to work with a fictitious valuation concept, as neither the work is paid nor are the services traded on the market. This would be quite different for the section child-care work if a child-care salary were paid. Depending of the target, an input or output oriented valuation approach could be used. On a macro-economic level, for practical reasons only an input-oriented basis of valuation can be selected in the end. The value added by private households has been determined here by adding together the contributions of the production factors involved to value-added. Thus, for the performance of the production factor work, a wage rate would be used. This procedure is really quite sensible. Earlier on we had established the proximity of the public good "child-care work" to a "public service". The value added of the "public service" is also determined by adding up the value-added components, among others the salaries of government employees and civil servants (refer also to chapter 3.4.3).

*Diagram 7: Value of unpaid work according various valuation methods, Former West Germany, all figures in billion DM*

Valuation approach	Valuation procedure		
	Net hourly wages		Wage costs <sup>1</sup>
	without pay for lost time	with pay for lost time	
Based on generalised approach (qualified housekeeper)	897	1125	1912
Based on specialist approach <sup>2</sup>	941	1178	2002
Average wage of all wage and salary earners <sup>3</sup>	1288	1615	2805

<sup>1</sup> Net pay plus income tax and social security contributions of the employer and the employee including pay for lost time.

<sup>2</sup> People who carry out such jobs professionally.

<sup>3</sup> People in full-time employment who are liable for social security contributions.

Source: Sch fer / Schwarz 1996, p. 52

The input evaluation can either be carried out using a generalistic approach (qualified housekeeper) or using a specialistic approach ( people who carry out corresponding jobs against payment such as cooks, nursery teachers, housekeepers etc.) (compare to diagram 7). Using a generalistic approach as the Federal Statistical Office has done is much simpler than using a specialistic approach and makes just as much sense. In this, unpaid work is valued equivalent to the average net hourly wage (including remuneration for paid lost time) of a housekeeper who carries out and organises all work in a household (compare to diagram 8).

*Diagram 8: Net hourly wage and wage costs of a housekeeper in DM per hour (1992).*

<b>Net hourly wages and labour costs of a housekeeper in DM per hour 1992</b>	
Net wage without remuneration for time lost	11,70
+ Payment for time lost (holiday, sick leave, public holidays)	3,00
= Net wage including pay for lost time	14,70
+ wages tax, employee's contributions to social security	5,10
+ employer's contributions to social security	3,10
+ additional pay for time lost <sup>1</sup>	2,10
<b>= labour costs of a housekeeper</b>	<b>25,00</b>

<sup>1</sup> This includes the payment of the employee and employer contributions to social security as well a wages tax for paid lost time.

Source: Sch fer and Schwarz 1996, p.47

If the unpaid work were valued according to the average gross hourly wage including employer's contributions to statutory social security, the value of unpaid work would climb to be 1.7 times of that when calculating it with the net hourly wage of a housekeeper (compare to diagram 8). A valuation with gross hourly rates however would presume entitlements such as becoming eligible to benefits from various branches of the social security which in fact do not exist. For this reason, the Federal Statistical Office prefers the valuation with net wage rates (including payment for lost time) which are paid in gainful employment (Schäfer / Schwarz 1996, p.45).

*Diagram 9: Gross domestic product and gross value added by the household production (1992)*

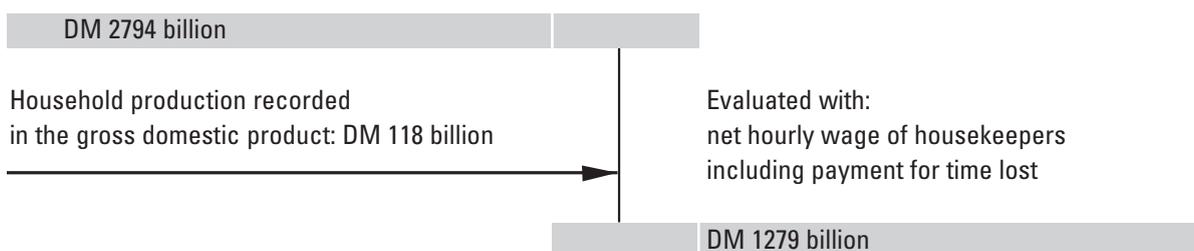
**Gross domestic product and gross value added by the household production 1992**

Former West Germany

Gross domestic product

Household production

at market prices



Percentage of the total value added

DM 3955 billion	
71%	29%
68%	32%

Source: Schäfer and Schwarz 1996, p.62

If you extend the gross domestic product (GDP) by the unpaid household production, it shows that household production makes up a share of 29 percent of the extended GDP (compare to diagram 9). In the GDP today, some services rendered for own account in private households are included. The largest share is the services from owner-occupied housing for which imputed (rent) values are presumed for the calculation of the GDP. In the above valuation approach an absolute minimum value is calculated. Even if you just choose to use a gross hourly wage as a basis - for which there is much to be said, particularly for the use of a uniform valuation standard in gainful employment sector and in the household sector - the share of the household production of the extended GDP would increase to nearly 41 percent. If you were to use a specialist approach as a basis or work quite routinely with an average wage rate,

the share of the household production would be even higher ( up to 47.7%, compare to Lampert 1996, p. 30ff.; for comparison to new calculations in Switzerland see Bauer et al 1998).

Even though there is no such thing as the "right" valuation method, the various calculation results strikingly show the significant economic importance of household production in our society.

### 3.3 Time budget

#### 3.3.1 Time parents spend bringing up children, educating them and looking after them: Empirical figures from the time budget study carried out by the Federal Statistical Office

The time budget study carried out by the Federal Statistical Office in 1991/92 essentially confirms with representative data the state of affairs which is generally presumed in the political discussion on women and family : Child-care when the children are young takes up most time. The time required by the parents continuously decreases as the youngest child gets older. Women invest significantly more time in child-care work and other household work than men. Wives who are not in gainful employment take more time to care for and be with their children than wives in gainful employment. But then again they spend more time working in total than housewives not in gainful employment - adding gainful employment and work at home together. For single parents, whether in gainful employment or not, the time spent looking after the children is only marginally higher than that of wives. Men only spend very little time looking after young children but as the children get older, the amount of time they spend with the children increases relative to that spent by the mother.

Before some concrete quantitative results from the time budget study are shown, some qualifying comments have to be made which refer to the informative value of the figures set out. It came to light that due to the multifariousness of child-care, possibilities for empirical quantification are limited. It was also not possible to account for all the time required for children.

The time that parents spend in connection with their child(ren), is divided into four areas in the study:

- active child-care (primary and secondary activity)
- household activities initiated by children
- time shared with children and
- standby duties.

Active child-care, apart from looking after the children (e.g. putting them to bed, comforting, washing and dressing young children), includes teaching them, playing with them, reading and talking to them and driving them around. Total time shared with children includes time spent actively looking after them as a primary activity and time spent with children while the parent is doing something else (household tasks, eating, watching TV, travelling together, etc.) This time additionally spent actively looking after them with children doing things of mutual interest such as going on outings or watching television is of interest for two reasons: On the one hand it is important for the child's development. It is at such times in particular that children can receive a lot of attention from their parents, for example when having discussions at mealtimes together. On the other hand, it means the time children need from their parents is shown to be more extensive than the time spent in active child-care. Standby time includes the hours in which the mother or father has to be there immediately if required.

Information is available on active child-care as a primary or secondary activity, for the time spent with children as well as for the time spent carrying out all household activities. However, the time budget study did not deliver figures for the standby times of the parents at which the parents are immediately available for the children which without question play an important role in the time allocation of parents with young children.

During some of the time spent with children, domestic activities are carried out (preparing meals, washing up, caring for clothes, cleaning, shopping, etc.). These activities have to be attributed to all members of the household. The total amount of time parents attribute to their children is also to be included in the proportional time spent on domestic activities caused by the children. It is only possible to roughly determine this from the information provided. The average number of children (only including children up to 16) of couples whose youngest child is under 3, under 6 and under 12 is 1.8 children (single parents 1.5 children) (Schwarz 1996, p.107,117). Under the premise that every member of a household creates the same amount of housework, nearly half of the time spent doing domestic activities could be attributed to children.

Unfortunately it was not possible to get quantitative information on the time parents spend looking after children dependent on the respective number of children. The results presented here are sorted according to the age of the youngest child in the family and are thus to be seen as average values across all sizes of family. Apart from the age of the youngest child, the number of children also affects the amount of time spent looking after children (ibidem, p. 104). With an increasing number of children, the demands on women's time increase more than on men's. However, the time budget study does not provide the possibility of determining how the time spent providing child-care is divided between the children. During part of the time looking after children, two or more children have been looked after simultaneously.

Table 1: Average amount of time shared with children per day by couples and single parents according to the age of the youngest child (in hours:minutes)

	Active child-care *	Domestic activities	Time shared with children
<u>with youngest child under 3</u>			
Husband (in gainful employment)	1:11	0:34	4:19
Wife (in gainful employment)	3:01	} 2:34	} 9:48
Wife (not in gainful employment)	4:03		
Single parents - in total	3:30	} 2:20	} 9:35
Single parents - in gainful employment	3:21		
<u>with youngest child 3-6 years old</u>			
Husband (in gainful employment)	0:51	0:28	3:53
Wife (in gainful employment)	1:53	} 2:02	} 7:32
Wife (not in gainful employment)	2:27		
Single parents - in total	2:28	} 1:28	} 6:45
Single parents - in gainful employment	2:12		
<u>with youngest child 6-12 years old</u>			
Husband (in gainful employment)	0:32	0:23	3:34
Wife (in gainful employment)	1:04	} 1:25	} 5:40
Wife (not in gainful employment)	1:47		
Single parents - in total	1:19	} 1:02	} 5:37
Single parents - in gainful employment	1:14		
<u>with youngest child 12-16 years old</u>			
Husband (in gainful employment)	0:10	0:16	2:46
Wife (in gainful employment)	0:20	} 0:59	} 3:47
Wife (not in gainful employment)	0:42		
Single parents - in total	0:28	} 0:42	} 3:36
Single parents - in gainful employment	0:28		

\* as a primary activity

Source: Blanke/Ehling/Schwarz 1996, p.110, 127

Table 1 clearly shows the trend of time required by children. The amount of time wives with the youngest child under 3 years old spend with children is nearly 10 hours on average and decreases step by step to 7 1/2 hours (youngest child 3 - 6), then 5 3/4 hours (youngest child 6 - 12) finally to 3 3/4 hours with a youngest child between 12 - 16 years old. This trend applies to everyone, including husbands and single parents. For married couples the imbalance between men and women decreases as the children get older. When the children are very young, the women spend more than twice as much time (not including standby times (!)) with their children than the men do. When the youngest child is between 12 and 16, the difference shrinks to one hour, i.e. to just under a 1/4. Gainful employment of women has a decisive impact on the amount of time they spend with their children. Wives in gainful employment, even if only part-time, have significantly less time available to look after their children than those not in gainful employment (ibidem, p.111f.). Wives in gainful employment only spend

5 1/2 hours a day with their children in contrast to 8 1/4 hours spent by wives not in gainful employment (ibidem, p. 107f). To complete this comparison it should be added that the portion of women in gainful employment who have their children in supplementary child-care institutions is higher than that of women not in gainful employment.

Do single parents spend more time looking after their children than (e.g.) wives? This comparison makes sense regarding the fact that 85% of single parents are women. A direct comparison is given for the time spent actively looking after the children. Here it can be seen that single mothers spend a bit more time providing child-care for their children than wives in gainful employment. The result is the same in a comparison between single mothers not in gainful employment and wives not in gainful employment, as can be seen indirectly from the information provided on single parents.

The numbers confirm the small amount of participation of fathers providing direct child-care and doing housework. Their time spent actively looking after young children is approx. 1/3 and for housework approx. 1/5 of the amount of time spent by their wives.

### 3.3.2 Model calculations of the monetary value of family child-care and housework

To decide whether the amount we are suggesting in our proposal of a child-care salary makes sense, a model calculation with the conservative figures from the Federal Office on the time parents need for their children could be used. To do this, we calculate with the net wage rate for a housekeeper which the Federal Statistical Office used for its macro-economic calculations (see above). This is intentionally restrictive as the child-care salary is planned to be a gross payment.

Our calculations are based on the core figures of active child-care and child support which make up most of the unpaid work as seen by the Federal Statistical Office. Thus we are talking about times in which child-care represents the primary and main activity of the respective parent. And it also concerns half the domestic activities being attributed to the children (on average 1.8 children per married couple) (compare to table 2).

*Table 2: Average use of time available per day to couples with children less than 6 years old, in hours*

	Age of the youngest child in years			
	under 3 years old		3 - 6 years old	
	Wife	Husband	Wife	Husband
Unpaid work in total *	8:38	3:34	7:01	3:01
of which: Child-care	3:41	1:12	2:11	0:53
Domestic activity	4:38	1:29	4:35	1:27

\* according to the definition of the Federal Statistical Office

Source: Blanke, Ehling and Schwarz 1996, p.109

If the times for men and women are added together, the average amount of time spent adds up to nearly 8 hours a day (3:41, 1:12, 2:20, 0:45). Multiplied by 30 days results in 240 hours per month. Multiplying this with a net wage rate of DM 14.70 then results in a calculated monetary value of child-care work provided by the parents of DM 3,538. The core child-care times and child support times are reduced when the youngest child is between 3 and 6 to 6.2 hours per day (2:11, 0:53, 2:20, 0:45). This results in a monetary value of child-care of DM 2,734 .

Even subject to the most restrictive assumptions on which to base the narrowest concept of time taken to look after children and provide them with support and use of the low net hourly wage rate (status 1992), we reach an order of magnitude of the calculated monetary value of the child-care salary which is not far off our proposed level of payment. We propose DM 3,000 monthly per couple for two children under the age of 7 ( in the version independent of time spent in gainful employment, in the version dependent on time spent in gainful employment with a maximum of 45 hours per week in gainful employment). Thus we remain below the calculated monetary value for a family with a youngest child under 3 years of age.

So far we have only used the core times for our calculations. There are good reasons to include the time shared with children. As we have shown above, even this magnitude does not cover the complete amount of time required by the parents with very young children due to the necessity of being there immediately if required at other times (standby times). If the corresponding amount of time of 9.8 hours per day for wives with a youngest child of less than 3 is used, then the calculated value of child-care work and bringing up children swells to DM 4,321 (9.8 x 30 x 14.7) and that exclusively based on the time required by the mothers.

The result can be summarised as follows: Model calculations of the economic value of child-care and bringing up children point towards a band of values within which the payment amounts proposed by us can be well substantiated. As compensation for child-care work they are not too high by any means. This value (incl. child benefits) also covers the minimum requirements of the main child-care provider plus child(ren) so it is at least a bit higher than the social assistance benefit rate.

### **3.4 Child-care salary as payment for child-care work: Constituent part of the gross domestic product?**

#### **3.4.1 Our gross domestic product today: an extremely one-sided performance indicator**

The gross domestic product (GDP) is the most comprehensive economic performance indicator which is determined within the framework of the SNA. In fact, it is however a very one-sided performance indicator as it only takes paid gainful employment into consideration and thus neglects unpaid household production. Depending on the evaluation concept used however, the value on the unpaid work in private households can make up 29 or 41 percent of the actual economic production which includes paid and unpaid productive services work in the market, the state and private households. This share can turn out to be even higher if other valuation approaches are used, as corresponding calculation results in the literature show (refer to e.g. Schettkat 1985, Lampert 1996).

Leaving household production out of the calculation of the GDP is detrimental to greater acknowledgement in society and in politics of family and child-care work and at the same time is expression of society's indifference to or even disregard for this work. It seems justified to take the opportunity of the introduction of the child-care salary to include all paid child-care work in the calculation of the GDP, i.e. not only that carried out in institutions but also that in private households.

From the Federal Statistical Office's point of view, it is primarily practical reasons which prevent the direct inclusion of household production and thus also child-care work at home in the GDP. According to this "... the monetary valuation of household production (...) is subject to several difficulties pertaining to the method. This would lead to an area of uncertainty in the estimation that is far greater than usual in the national product calculation. Thus, if the household production were included in the national product, due to its quantitative importance and the areas of uncertainty in the estimation, it would lead to fears that the developments over time shown in the SNAs would become unusable for short or medium term consideration" (Schäfer / Schwarz 1996, p. 21).

According to the European System of National Accounts (ESNA) which all EU countries use as a compulsory guide for recording the GDP, household and personal services conducted within a private household for its own account are excluded from the concept of production in the GDP. Among the services rendered for ones own account, it explicitly lists child-care, training and teaching children (Section 3.09 of the ESNA). Excluded from this are only the services carried out by paid household employees.

### 3.4.2 How is the nursing allowance treated in the GDP

To a certain extent, the Federal Statistical Office recently had to solve a test case and that was in connection with the introduction of the nursing insurance. As is well known, since then those in need of care have received a lump-sum every month as nursing allowance. As it is divided into three stages, this payment takes into consideration the required volume of work by the nurse depending on the degree of care required.

This nursing allowance can not really be seen as real remuneration of the nursing care provided. This is already apparent by the different rates for nursing staff at home from within the family and for external staff from professional organisations. The nursing insurance exploits nursing care at home and legislation has consciously accepted this. In the official reasoning in § 37 'Pflegeversicherungsgesetz' (law on nursing insurance) it explicitly states: Nursing allowance is not "remuneration" for the nursing care provided at home but simply "an incentive to retain the willingness of the family to provide nursing care".

Correspondingly, the Federal Statistical Office doesn't treat nursing care within the family as productive work in the context of the SNA. According to the ESNA as well, "care of the sick, frail or elderly by other members of the family" does not belong to production relevant to the GDP. The expenses the nursing insurance has in paying professional nursing organisations on the other hand are included in the GDP. Here, gainful employment is financed by means provided by the state. The payment of nursing allowance to those in need of care therefore does not appear in the so-called "value-added account" of the GDP in which all primary incomes from production factors are recorded, but only in the "redistribution account" from the primary to the disposable income of private households. They are entered as transfer payments from the state to private households and thus treated as secondary, derived income.

The Federal Statistical Office saw justification in this method of entry due to one particular circumstance of the nursing allowance. This is the regulation that the nursing benefit is not paid directly to the nurse but to the person in need of nursing care - naturally only to pay for nursing care. A constellation of this kind is of course not provided for in our proposal. The child-care salary is designed to be a flat rate payment for services provided for the main child-care provider(s). It is not a children's "pension" which was what W. Schreiber had in mind more than 40 years ago in quite different historic circumstances but a payment for services provided by mothers and/or fathers who, in making the decision in favour of providing child-care at home, accept the consequences of losing or reducing their income from gainful employment.

However, the Federal Statistical Office is also well aware of the fact that it is possible to take a different position concerning the question "Nursing benefit to pay for nursing: GDP-relevant payment for services provided or transfer payment by the state". So far there is no summary of information available on how other EU member states handle this question.

### **3.4.3 The structural similarity of child-care services relevant to the public and services provided by the public service**

To conceptionally treat the child-care salary as a state organised transfer payment would be in utter contradiction to its purpose as payment for a service relevant to the public. Services of child-care provided within the family which increasingly show the characteristics of a public good - as explained in more detail previously - are economically more comparable to typical services provided by the state.

In a market economy, monetary income is created by selling goods and services. At the same time portions of the income are appropriated via taxes and fiscal charges or contributions to finance services desired by society or to redistribute primary income. Public infrastructure and carrying out sovereign activities such as internal and external security are fundamental goods to society without which the market could not exist in the long-term and this is exactly the case with child-care work and services provided within the family as well. Thus, there is a mutual dependence between the state organised and financed service areas and the private enterprise sector of the market.

In terms of our problem this means: family child-care work must be secured in the long-term via a finance mechanism provided by society the same way the services by the civil service are and must also receive remuneration suitable for the service provided. This would then ensure that ("primary") work essential to society can be carried out.

How are state services such as services provided by the public education system, which are provided without direct payment by the "consumers", entered in the GDP? As these services provided by the state are not sold at market prices, the value added by them can not be determined as it can in the market sector. The gross value added by the state is determined by adding up the costs of primary inputs: depreciations, gross salaries, employer contributions and production taxes. The gross value added recorded in this manner is the state contribution towards the GDP. The net value added, removing the depreciations and the production taxes, is thus - according to convention of the SNA - the state contribution towards the national income.

These conventions can also be transferred to child-care work within the family. In a first step, it would be possible to dispense with a complete value added calculation and concentrate on remuneration for the child-care and support. This work is not so much dependent on capital input but primarily dependent on the service work provided by individuals. The value-added component "personnel costs" is also dominant in the personnel intensive public services and also in the calculation of its contribution to the GDP. As the child-care salary is actually paid, we can also dispense with an imputed calculation here. The payment of the child-care salary merely extends by a new element the flow of finance which is organised by the state to pay for service work, which leads to a corresponding increase in the state initiated value-added contribution to the GDP.

The fact that the child-care salary is paid as a flat rate is no argument against it theoretically being included as payment for service work. How are salaries determined in the public services, absolutely and in relation to other positions in the public services and to salaries in the private economy? Apart from performance and requirement points of view there is no question that conventional factors (ultimately also historic ones) also play a key role.

Making the child-care salary a flat rate would be nothing more than another convention which probably would be seen to be sensible and justified by most of society. With the exception of the section of single parents, there is no reason to differentiate the level of the child-care salary. A productivity-oriented payment is not possible in the public service or in family child-care, as measurement of the productivity in these cases founders because the output ("production result") can not be measured.

#### **3.4.4 The distortion of intertemporal and international welfare comparisons**

Another argument in favour of including family child-care remuneration in the GDP is the difficulties of welfare comparisons between two or more countries or between two points in time in a country if the GDP figures are used for this purpose. These difficulties result from the fact that, in the course of the industrialisation and urbanisation process as well as the education process in industrial societies, a growing part of the production at home has been transferred step by step to the market economy. The corresponding services from household production, however, do not appear in the GDP until they are provided against payment in the market economy.

The area of child-care also belongs to the described transfer process. The proportion of child-care work which previously had been carried out without payment in the private household and is now being carried out against payment in the gainful employment sector (state, public-benefit and co-operative sector, private sector) increases with time and also varies in a comparison between countries.

In Germany, the portion of child-care work which is being carried out in child-care institutions by paid staff has also increased. The salaries of this personnel are included in the GDP, in contrast the unpaid services of the child-care provider at home are not. To a certain extent therefore, the recorded growth of the GDP is not genuine growth of the value added but is solely due to the transfer of productive service work to the gainful employment sector which had already been provided within the family in the shadow of the money economy. The quality of the national product as a comprehensive indicator of production and welfare would improve if with their monetary value the productive child-care work and services so far unpaid were included in the national product.

The same applies to inter-regional and international national product comparisons. In Sweden and Denmark but also in France, the percentage of child-care provided by paid personnel in institutions outside the home is much higher than in Germany.

Correspondingly, in a comparison between Sweden and Germany, the level and growth rate of the Swedish GDP is positively distorted by this structural factor. Including the monetarily valued (and paid) child-care in an extended magnitude of the GDP, regardless of which sector it is provided in, the international comparison of per capita figures of the GDP and of its growth rates as production and welfare indicators would be significantly improved.



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## 4 | Extension of the understanding of work by child-care work

### 4.1 Child-care work as an element in the future of a working society

Ralf Dahrendorf suspected in the early 80's that society was running out of work. If this statement is applied to the future perspectives of the society in gainful employment, it is probably right. The productivity boosts of modern information and communication technology have not only drastically reduced the need for manpower in industry - despite continuing increases in production. There also seems to be an impending dramatic decrease in the number of jobs in this part of the service sector providing services for industry (banks, insurance companies, administration etc.) which will thus put an end to the dream of the service sector being the answer to the employment crisis. According to a study carried out at the University of Würzburg, 6 million jobs will be lost in the service sector in the next ten years (compare to Rheinischer Merkur no. 41/97).

An area which has managed to escape the rationalisation constraints imposed on the other sectors is the sector of services related to people. In health care, nursing and child-care services we can see an increase in the number of people employed. These activities are in fields of work which require being prepared to pay a lot of attention to people. Correspondingly, the nature of the work does not make it possible to make much or any progress in productivity (in the usual definition of "production per worker or per hour").

The provision of the child-care salary speeds up extending the understanding of the term work and the classic concept of the labour market to include work essential for society beyond the market and the state and is one of the systematic necessary answers to the perpetual recurrence of new heights of unemployment in the Federal Republic of Germany. To expect an answer from the market alone seems to be illusory here.

#### 4.1.1 First step towards an extension of the understanding of work and an extension of the concept of the labour market

The child-care salary presents a new option for paid work which cushions the risks with regards to the labour market and standard of living which people take with parental responsibility. It should be understood, alongside other forms of state supported work, to be a further step towards an extension of the understanding of work which appears to be unavoidable in future.

It appears that it is just not enough to upgrade the home as a place of work normati-

vely but to leave it without pay as is planned in the new report to the Club of Rome "The way we are going to work" (Giarini/Liedke 1998). In this highly regarded study, the home area belongs to the "third layer" of voluntary activities alongside the "second layer" of classic gainful employment and the "first layer" of what today is still honorary commitment. It says this work is important but "too expensive" to make fully paid work out of it. For this reason, in this area the state should provide unemployed people with a salary ("employment benefit") to attain a minimum standard of living for approx. 20 hours of work a week, however on condition of being obliged to accept the work. In this Three-Field-Economy on "new work" there is no room for the "child-care salary". Work within the family is still a blind spot here too.

#### 4.1.2 Up-grading child-care work as an improvement of quality

Recently a series of research projects have proved that child-care work and work within the family lead to competencies which are also of significant use in professional life. For example, Vollmer looked at the "workplace" of the housewife and family woman with the methods of work analysis to determine the requirement criteria of the workplace "household and family". She came to the conclusion that "the time a housewife and family woman (correspondingly also house husband and family man) spends at home managing the housework and taking care of the children, (...) "proves to be "a valuable and important time in which numerous competencies (here: family areas of competence) can be developed" (Vollmer 1997, p.6). Among these areas of competence are complex problem solving, communication and conflict management, educational competence, planning, co-ordination and endurance. In this respect, the workplace family proves to be closely linked to the professional world via the development of abilities. (compare also Költzsch Ruch 1997).

To what extent these abilities actually are developed by family work and on what scale it happens is the subject of further research projects under the conditions of the modern small-family households. The child-care salary initially expresses acknowledgement of this service. This is an important pre-requisite for making people in society conscious of the fact that child-care work within the family itself will be turned into the subject of qualification measures - just the same as professional work is in the sphere of gainful employment. The aim of a child-care salary is an integrated approach to child-care work within the home and (professional) child-care work outside the home. Competence gained while looking after children and working within the family is a direct advantage to the children and also to the development of job-relevant abilities.

If today's requirements for continuous quality assurance and quality development in company structures - right up to certification - are justified, a policy of up-grading child-care work extends the attention to qualities of work assets which have not yet received enough attention.

### 4.1.3 A boost for the market for child-care services through the child-care salary

The thought blockade against including family and child-care work in an extended concept of the labour market must be relinquished. Otherwise we will lose an option of securing the standard of living and securing the service work of bringing up children which is becoming ever more scarce in society, a service we urgently need in times of growing unemployment and increasing poverty and social pauperisation of families. We should see the movements between the home care area and the gainful employment market as being a normal flow of employees between two constituent fields of work in society.

With this as a background, the creation of a child-care salary can give the labour market for child-care work and services an enormous boost. This applies not only to the area of the home but also outside the home. Mothers and fathers who bring up their own children receive a flat-rate payment for services provided and thus also a secured livelihood. For those who wish to be in gainful employment either part-time or full-time, their (possibly reduced) child-care salary represents additional purchasing power. With it they can become significantly more active than before in providing demand in the market for child-care outside the home. Thus among parents in gainful employment who have young children, the demand for day-care mothers and/or crèche vacancies increases. The option of a child-care voucher for children of nursery-school age (compare to chapters 2 & 6) will also stimulate the market for day-nurseries.

In the SPD, the Social-Democratic Party of Germany, as in other parties as well, the concept of "household agencies" has been developed, which when implemented is expected to create several hundreds of thousands of jobs (compare to Friedrich-Ebert Stiftung 1997). In this, work for private households should become the source of massively expanding gainful employment. If this expectation is seen in contrast to the results of representative opinion polls and of the quality interviews of those potentially affected by a child-care salary conducted within the framework of this study (compare to chapter 5), the perspective proves to have conflicting traits. For the results show that there is a great demand to have more time for own children in the family as long as the children are less than three years old or, to a lesser extent, until they are six years old. If the desire to be able to spend more time with their children at home can often not be realised for financial reasons, why not take the obvious course of action and use the scarce public funds initially to acknowledge the parental child-care and open up options for securing a livelihood within the area of family work?

## **4.2 Child-care salary and participation in the labour force by women**

### **4.2.1 Women's fears**

Women in particular are often opposed to the idea of paying a type of salary for child-care work and services. They see the danger in it that the stereotyping of the sexes which they thought they had overcome would be revived by this and hardened. They have the fear that women in times of increasing unemployment will to a certain extent again become the manoeuvrable mass for the labour market. Suspicion is raised that a child-care salary would put great social pressure on women to increasingly take up the option of paid child-care work in the family to reduce the pressure on the labour market, particularly in times of high unemployment. These fears must be taken seriously but the question has to be asked whether they are really justified for the majority of women.

### **4.2.2 There is no question of women beating a full retreat from the labour market**

The fears that committed women's politicians have in particular that a child-care salary would entice women away from the labour market and back to the family seems to us to be in contradiction to the political arguments for women. Because it is those who suspect the child-care salary will have such an effect who emphasise how important it has become for women to be included in gainful employment. We assume that women who are purely oriented towards their career will not be prevented from following their preferred mode of life by the existence of a child-care salary.

The child-care salary merely compensates for an economic disadvantage which is suffered by families in which the mother and/or father look after the children in the family in comparison to those families in which both parents are in full-time employment and profit from the state subsidised child-care facilities on offer. Anyone who has a distinct orientation towards the labour market outside the home will probably retain it, may be with reduced working hours because the economic scope of the family has been improved.

Different studies show that in particular in former East Germany and to a lesser extent in former West Germany, there is no question of a full retreat from the labour market for women. Here, the only people it may affect are women who are in gainful employment primarily for material reasons. In economic theory it is assumed that the labour supply of women is also dependent of the household income apart from the wage that can be obtained on the market (compare to Schwarze 1996). According to findings by the socio-economic panel (SOEP), however, only 1/10 would give up their gainful employment if they were not financially dependent on it (Holst / Schupp 1996).

On the other hand, more recent investigations by the Institute for Employment and Profession Research (IAB) in Nürnberg show that many unemployed women today are in a difficult situation which in part could be alleviated by the introduction of a child-care salary: today unemployment affects mainly unskilled women with a low household income (Engelbrech et al 1997). They are desperately looking for a job to be able to contribute towards a higher household income. In their case it is urgent economic reasons which motivate their job search and to a lesser extent intrinsic motives such as enjoyment of doing their job at their workplace.

Of the unemployed women, nearly 60 percent of the women in former East Germany name economic reasons for looking for a job, despite gainful employment playing a key role in their vision of life, whereas in former West Germany it is only 43 percent (compare *ibidem*, summary 7 on p.156). However, due to their inferior education, they find it particularly difficult to return to gainful employment after a phase of child-care should they wish to do so. Despite the difficulties caused by an interruption due to child-care leave, nearly all East-German women with children between 3 and 6 want to be in gainful employment, the primary motive being financial. (*ibidem*, p.159). This is different in West Germany where every second woman with a child of nursery-school age was neither in gainful employment nor was looking for it.

In such a situation, a child-care salary offers many women whose subsistence is at risk a new option to secure their livelihood in work essential to society.

#### **4.2.3 Enduring mass unemployment is a risk taken by a strategy exclusively oriented towards gainful employment for economic security**

Bearing in mind the wish of today's generation of women who are entering the phase of wanting to start a family and want to combine gainful employment with work within the family, the existential risks of a strategy must not be overlooked which see economic and social security of women only being possible via gainful employment. Because the success of this strategy depends keeping the promise of being able to offer every person willing to work a job which secures an adequate standard of living. It is, however, becoming increasingly impossible to keep this promise. In East Germany 25 percent of all women between the ages of 18 and 60 able to work are looking for a job. The official unemployment rate for women is currently over 20 percent (Engelbrech et al 1997), regionally in part significantly higher.

It is, however, becoming increasingly impossible to keep this promise. In East Germany 25 percent of all women between the ages of 18 and 60 able to work are looking for a job. The official unemployment rate for women is currently over 20 percent (Engelbrech et al 1997), regionally in part significantly higher.

How long are these women going to be condemned to wait until they can be offered a suitable job? As already indicated earlier, it is obviously asking too much of the society of gainful employment to be able to keep its promise of full employment in the foreseeable future.

We need strategies today which partially detach the realisation of an adequate standard of living from the structural uncertainties of the labour market. First candidates for this are the areas of work beyond the market and the state in which work is done which is essential to society, such as bringing up children and taking care of the old and the frail.

#### **4.2.3.1 The negative connection between unemployment among women and the birth rate in Sweden**

The more distinct it becomes that the incentive to secure the rising generation is endangered by the fate of being unemployed, the more highly recommended payment of a child-care salary is. Experience from abroad - and also the reduction in the birth rate in East Germany after the collapse of the German Democratic Republic - point towards a connection between a perspective of a secure economic existence of women and a relatively high birth rate. Until recently Sweden was seen as exemplary in simultaneous success of women's policies, employment and family policy. Until the late 80's there was full employment in Sweden, it had the highest participation rate of women in gainful employment at 86 percent and one of the highest birth rates in Europe at 2.1 children per woman.

This picture has changed radically in little more than 5 years. By 1996 the birth rate had sunk to an average of 1.6 children per woman (compare to Eurostat 1996), i.e. it had fallen by nearly 1/4. Full employment has made way for an unemployment rate of nearly 11 percent.

To date many women in Sweden were in the position to take advantage of the parental benefit for one year after the birth of a child which was very high on a European scale and a wage replacement payment which used to be 90 percent (today 70 percent) of the previous income. But the unemployment rate has risen dramatically among young women as well. Having completed their education, many young women can no longer find a job. As the parental benefit is tied to being included in the labour market, it is only available to those in employment. Correspondingly, many Swedish women are putting off having a family until later in the hope that better times will come.

A successful employment and labour policy is a pre-requisite for the strategy of independent economic and social security of women through their own gainful employment. Today in times of high unemployment and an increasingly obvious discrepancy in the relative weight in numbers of the generations, we represent a double strategy to balance out the risk here. With the acknowledgement of work in the household which has yet been unpaid - as far as child-care is concerned - we are fighting against the degradation of this work by society. By creating this existential option, the realisation of individual combinations of gainful employment and work within the family is made easier - without the economic and time pressure of having to take any job for economic reasons.

#### 4.2.3.2 High tendency towards gainful employment among women: Double burden of job and family

A consequence of the increased participation of women in gainful employment is the double burden they have to bear. The fact that men have not responded to the increased tendency for women to be in gainful employment by participating more strongly in child-care and housework has meant that mothers in gainful employment suffer from the stress typical of today of not having enough time and being overloaded, the demands doing equal justice to a job, children and the partner.

Although women are gainfully employed without question today, they are still the main person responsible for the household, family and child-care. Even before starting a family, among most married couples today, the division of work in the household is traditional, even though the wife is in full employment. Daily routines such as cooking, washing up, keeping the home "tidy" and doing the washing are only (33%) or mainly (30%) done by the woman. The 'Bamberger Ehepaar-Panel' (married couple panel), a repeated opinion poll set up to be carried out over a long period of time interviewing young couples shows that starting a family leads to a fundamental consolidation of the traditional role models (diagram 10).

*Diagram 10: Changes in the division of work in young couples in the household in the first six years of married life depending on the number of children (figures in percent)*

Type of division of work <sup>1</sup>	shortly after being married	after 6 years of married life <sup>2</sup>		
		childless couples	parents with 1 child	parents with 2 children
very traditional	33	37	67	77
more traditional	30	35	22	16
equal	35	25	10	7
exchange of roles	2	3	1	1
n=	828	183	283	332

<sup>1</sup> Index was determined from information provided by the women

<sup>2</sup> The difference between couples with and without children is highly significant ( $p=.00$ ), that between parents with one child or two children slightly significant ( $p=.05$ )

Source Bamberger-Ehepaar-Panel, own calculations

Being permanently overloaded with a job, child-care and household has to have negative consequences on health. It is known that women who shoulder the multiple burden of their job and in the family for their children, their husband and themselves have a lower life expectancy than men, even though women in general have a life expectancy 7 years higher than men.

Women today have to fight for equality in the economy, the state and society under the constraints of substantial inequality in housework and child-care between the sexes. These are unfair starting conditions for women. This is why from our point of view it is necessary at once through the creation of a child-care salary to contribute towards upgrading thus far unpaid and therefore "worthless" child-care work in the economy and society.

Only when material equality exists between thus far unpaid child-care and family work and paid gainful employment, better conditions will exist to overcome the structural disadvantage women are faced with in the labour force. A child-care salary will provide women who bring up children and are looking for gainful employment the privilege of being able to wait: not be forced to accept the first job that comes along or be able to make use of the time "gained" to improve their vocational qualifications while looking after children. In comparison, a child-care salary would provide an economic incentive to many men with young children who are at the beginning of their career and whose income is still in the lower mid-field (as we know from the discussion on parental benefits) to insist upon a reduction of their working hours and to be able to spend more time getting involved with housework in the family and child-care.

### **4.3 Possible employment effects of both versions of the child-care salary**

It is to be expected that reactions and stimuli will proceed from both versions which will relieve the pressure on the labour market. This is purely as a result of the income effect of both versions of a child-care salary. We shall look at them in more detail to clarify the overlaps or potential differences between the two versions.

#### **4.3.1 The version independent of time spent in gainful employment**

This version of the child-care salary does not generate a positive incentive concerning the given preferences for gainful employment. Thus no positive economic incentive is provided in this case to reduce or give up gainful employment. In this version, the child-care salary is always paid unconditionally to the full amount.

The income effect of the child-care salary will cause some mothers and/or fathers to reduce or give up their gainful employment. In other cases, the parents can use the additional income to pay for a place in a day-nursery or pay for child-care at home (e.g. a day-care mother).

Many women are in full or part time employment as well as their husbands because they need a second income from gainful employment to cover the cost of living for their families. In many families there is the desire to have more time at their disposal to spend at home with their child(ren). Those who highly desire more time not in gainful employment now have the necessary second source of income at their dispo-

sal which they need for economic reasons. They can give up their job completely (for a while) or reduce the number of working hours.

More recent econometric studies for the Federal Republic of Germany confirm the suspicion that, providing important factors such as education, age, children leisure preferences, etc. are controlled, the household income plays a role in the labour supply of married women (compare to e.g. Strøm / Wagenhals 1991, Schwarze 1996).

The transfer of purchasing power to a significant extent to families with children less than 3 or 7 years old respectively also significantly changes the future conditions in the sector of professional child-care. The creation of a child-care salary independent of time spent in gainful employment to the amount planned here should, in our opinion, go hand in hand with a transfer of state funds from the object-oriented financing of professional child-care which takes place so far to (primarily) subject-oriented financing in future. The state will no doubt continue to have a say concerning the investment costs in this area and the regional and special need differences in the operating costs.

Parents who receive a child-care salary of DM 2,000 for their youngest child, even if they already have two incomes from gainful employment at their disposal, can be expected to cope with fees which are calculated approximately on the basis of actual operating costs of day- nurseries and nursery schools.

In the version dependent on time spent in gainful employment on the other hand, for children in day-nurseries, fees in close approximation to the operating costs are not acceptable. In families where both parents are in full-time employment, they only get the basic amount of 30% (DM 600 for the youngest child) or 40 % would be better if the means are available. The operating costs per day-nursery place however are between DM 1,100 and 1,800 (compare to chapter 6). For children between 0 and 3 years old, the object-oriented financing predominantly applied today should remain in place. For children of nursery-school age, however, a start can be made to reshuffle object-oriented means of the state to the parents ( in the form of child-care salary payments). A basic amount of DM 600 is enough to pay for the child-care voucher.

The introduction of the version of the child-care salary independent of time spent in gainful employment will particularly dynamically help to create new jobs in the area of looking after children under 3 years old, an area in which there is a great deficit, particularly in former West Germany. Because of insufficient allocation of state funds less than 5% of children are cared for in day-nurseries.

Just similar as in the nursing insurance, the introduction of a child-care salary can let the process of becoming professional (and certification of specialists) in the area of child-care in the home and outside the home take hold.

DM 2,000 gross payment for the child-care service work for 1 child does not yet lead to a dramatic increase in income. There is reason to fear that many families will look for child-care on the black market. Such people will be employed because they are cheaper and not because they are qualified. The black market problem already exists today. In this case general state measures are required to relieve the burden of labour

costs for people on a low income. One possibility would be, for example, that the state would take on the employer portion or even employer and employee portions of social insurance contributions for people on a low income (up to a certain limit) or for person-oriented services (day-care mothers, nursery teachers, nursing staff, etc.). Positive effects on the labour market will also result from the expansive effects of the child-care salary. Families with small children not only have a higher average but also a higher marginal propensity to consume (compare to chapter 7). Childless couples, singles and households where the children left home long ago have a relatively high per capita income at their disposal, but use a smaller portion of their income to consume. The reshuffle of means into the hands of those receiving a child-care salary for this reason alone will lead to an increase in economic domestic demand. This will in the end also result in having a positive effect on the labour market.

Getting rid of tax class V and the introduction of individual taxation would in contrast have the opposite effect on the labour market. Empirical investigations (compare here also to Schwarze 1996) show that a measure of this kind would cause the labour supply of married women to increase. This isn't really surprising because taxation of the usually modest income from gainful employment of the wife who is primarily responsible for child-care in tax class V is a massive deterrent to her even taking up gainful employment under these circumstances in the first place.

### 4.3.2 The version dependent on time spent in gainful employment

In this version of a child-care salary there is an economic incentive to reduce the amount of time spent in gainful employment outside the home or even to end it (for a while). The maximum level of the child-care salary is given to those who are in work max. 5 hours or 12.5% of a full-time job.

If both parents are in full-time employment, they will have to change to 2 part-time jobs to receive the full amount of the child-care salary. This model not only offers the possibility of complementary part-time work in the family and part-time gainful employment but also the option (substitution) of almost full-time employment or almost full-time child-care. This version upgrades the workplace "Family and child-care at home". Here, women and men can find a job financed by the child-care salary which represents one of the many ways to be created to escape from the jobs crisis in our society.

The creation of additional jobs which are economically and socially secure can result from both versions of the model. The critical difference is their political -normative evaluation. The scenario of a sector "Family and child-care work in private households remunerated monetarily" is seen from various sides to be backwards-looking and anti-women. It appears as if also in the age of "reflexive modernisation" (Beck), it is extremely difficult to escape from the stereotype of discrimination and degradation of unpaid (women's) work in the family and the household which was first created with industrialisation.

**Table 3: Full-time employment according to sex and desired working hours in West Germany (1993)**

Type of family and household	Of the men in full employment, those who wanted <sup>1)</sup> to change their weekly working hour...				Of the women in full employment, those who wanted <sup>1)</sup> to change their weekly working hour...			
	reduce by 6 or more hours	reduce by 2 - 5 hours	stay the same <sup>2)</sup>	increase by 2 or more hours	reduce by 6 or more hours	reduce by 2 - 5 hours	stay the same <sup>2)</sup>	increase by 2 or more hours
Single person household	15	16	47	22	21	17	55	7
(Married) couple without child	13	20	48	19	36	23	35	6
(Married) couple with child under 16	10	18	47	25	37	23	37	3
(Married) couple with child of 16 and over	12	18	49	22	23	27	43	8
Single parent	19	3	60	19	19	6	65	10
youngest son/daughter under 3	30	34	32	*	9	29	60	*

\* not listed due to low number of cases (less than 10 cases).

<sup>1)</sup> Question on desired working hours "If you could choose the amount of hours you worked and taking into account that your salary would reduce corresponding to the working hours: How many hours a week would you like to work ?

<sup>2)</sup> If ference between the agreed working hours and the desired working hours is 0 or 1 hour .

Data basis: SOEP, West Germany 1993, Weekly report of the DIW 35/94

Source: DIW 19983

Investigations by the DIW into the potentials of possible employment reactions to the child-care salary show that the extent of possible effects on employment are difficult to estimate. An opinion poll to cover this exact constellation does not exist. However, reference can be made to the results of opinion polls on desired working hours (compare to Holst/Schupp 1994, Endler/Beckmann 1997). These investigations have been assessed by the DIW in combination with the evaluation of the SOEP on the time mothers spend in gainful employment (compare to table 10).

The DIW opinion poll shows that a third of women in full-time employment who live in a (married ) partner constellation with a child under 16 years old want to keep their working hours and in nearly 60% of them would like to reduce their working hours (compare to Holst/Schupp 1994, p. 623 and table 3). From the investigation by the IAB it can be seen (compare to table 4) that in West Germany more than 50% of couples with a child would like the possibility of one partner working full-time and the other part-time. In only 9% of cases is full-time employment for both partners desirable (compare to Endler/Beckmann 1997, p.6).

If you take these figures and the information from table 10 on the time spent in gainful employment by mothers (with children from 0 to 7 years old), then the scope to be able to reduce the time spent in gainful employment is relatively small. A good 9% of the mothers in the opinion poll of the SOEP were working full-time , nearly a quarter were working part-time. Gaps between the actual and the desirable number of

working hours appeared particularly where not being in employment. Even in West Germany only one fifth of cases showed preference for the model where one partner worked full-time and the other not at all (ibidem, p.6). For East Germany only 3% of couples were in favour of this.

*Table 4: Ideal models of time spent in gainful employment by couples with child(ren) of less than 16 or without child (in percent)<sup>1</sup>*

	with child	without child	in total	
both in full-time employment	9	30	19	West Germany
both in part-time employment	15	11	13	
one full-time, the other part-time	55	37	47	
one full-time, the other not at all	21	20	21	
in total	100	100	100	
both in full-time employment	41	59	49	East Germany
both in part-time employment	8	5	7	
one full-time, the other part-time	48	31	40	
one full-time, the other not at all	3	5	4	
in total	100	100	100	

<sup>1</sup> Women between the ages of 18 and 60 with partner, not including those in vocational training, pensioners and free-lancers

Source: IAB-Werkstattebericht, 14/1997 p. 6.

If the desire of women in full-time employment seen in the DIW-study from 1993 is translated in changes in working hours, it results in a maximum work volume of 50,000 full-time people which can be reshuffled to unemployed people.

The employment effects determined by the studies which have been carried out may be disappointingly low. But when interpreting them it must not be forgotten that the desired working hours in these studies were set assuming that the realisation of the wish for a reduction in working hours would be linked with a correspondingly reduced salary. And this is exactly the point which would no longer be applicable to mothers and fathers with the introduction of the child-care salary. This new option is, of course, not included in the empirical material available. However, it can be assumed that the employment effects in our case would be significantly higher.

Then again, socio-cultural factors as well as hard economic facts such as men on average having a higher salary are responsible for it mainly being women today who reduce the time they spend in gainful employment. In our concept, the symmetry bonus should provide an economic incentive for an increased (proportional) number of fathers taking advantage of the child-care salary. It points to the fact that further effort is necessary in politics, in the economy and society to lessen the aversion men have to increased participation in child-care and work within the family.

#### **4.4 Importance of gainful employment for the role women play in society and their self-confidence**

Today women want to have a family and a career, some of them at the same time, some deferred (compare to Engelbrech/Jungkunst 1998). Being in gainful employment today not only represents a financial necessity but is also a source of independence, self-realisation and an ego-boost. It is not just a matter of the lay-out of an individual's life but just as much about the presence of women in public life. This presumes increased participation of women in social decision-making processes which again depends on the extent to which women are represented in leading positions. Structural conditions of a labour market which is still oriented towards "man as the bread-winner" (compare to Ostner 1995) and presumes the free availability of (male) employees, continue to make life difficult for women to attain equal participation and allocate them the problem of co-ordinating family and career - at least as long as they are responsible for child-care and bringing up the children.

In addition, social standards and values have to be taken into consideration as influential factors on women in gainful employment. Thus, for example, in 1996 when questioned about their attitude towards women being in employment when there are not enough jobs, 46% of all men and women in West Germany and 33% in East Germany said that the women should go without gainful employment (if her husband is in a position to maintain the family) (Federal Statistical Office 1997, p. 455). In the assessments of the consequences of mothers with young children being gainfully employed, the disapproval is even more clear, particularly among those asked in West Germany. In response to the question: "Surely a young child suffers if its mother is in gainful employment", 49% of East Germans (1991: 58%) and 76% of West Germans (1991: 76%) answered "I quite agree" or "You're probably right" (ibidem, p. 452).

In contrast to the female socialisation, young men continue to primarily be prepared for their role in the labour market and not their potential role as a father. Overcoming stereotypes is not yet being counteracted at an early age, as is done in Norwegian schools for example, in which the subject "self-support" is taught in single-sex groups. Here, boys and girls not only learn the skills associated with their respective sex but both sexes learn to do things like ironing, cooking but also craftsman's skills as well as developing the attitude of being responsible for providing other people with support (compare to Benard/Schlaffer 1997, p.2).

Kaufmann has drawn attention to further factors in relation to the change which has occurred in the last 20 - 30 years in the context of a woman's life. Thus he points out that the reasons for the changes "to a large extent are due to the state and the economy. The specific interest in women as workers in industry and administration only came to life during the First and Second World Wars and it increased in the long recovery phase of the post-war era" (Kaufmann 1995, p.158f.).

In the course of the change in the role model of the woman, changes came about in the role models in society for partner relationships, sexuality and family. The changes

found expression among other things in the increase in divorce rates as a consequence of the changed expectations of a relationship between partners. The break-up of traditional forms of life which were closely linked to a high level of security made it necessary to secure an adequate standard of living independently. This is no doubt one of the reasons women do not want to give up gainful employment despite having children, even though it is often experienced as overloading and a burden. Beyond this economic necessity, an income of your own makes immaterial autonomy possible as well as material. Being in gainful employment opens up the possibility of making use of skills which have been honed through education and thus to experience recognition in connection with work which again strengthens self-confidence and provides an ego boost as a result.

As long as there are no changes in a hierarchy of values in society which above all sees working in gainful employment as a measure of recognition and the status of a person, while work in the family and household are not really given any acknowledgment at all, it will be very difficult to change anything concerning the unequal distribution of this work.

This is where the need for a child-care salary comes in. It should set a signal for the equality of the two spheres of work in this society which have so far been separated by the degree of recognition they receive. It should make it clear that neither sphere can exist without the other. Both are necessary and both can be divided between the sexes in a partner-like fashion. Continued support must be provided for the process of awareness which has already begun in this respect and not just because women are less and less prepared to cope with this area on their own. The fear which is always mentioned in connection with a child-care salary - that a salary of this kind would lead to women being forced "back to the stove" - has got some justification when measured against reality in society. However, it neglects the importance of child-care and housework as it is linked to the one-sided orientation of acknowledgement through professional work and thus again contributes towards its degradation. Such an argument also ignores the variety of ways to run ones life, as there certainly are women (and men) who are not so oriented towards gainful employment and want to be able to combine the two.

Flexibility which is often required when living with children - just think of the possibility of becoming ill - is not compatible with the requirements of the working world. So it is no wonder that mothers often prefer part-time work, even though they are aware of the fact that this will reduce their chances of promotion or they are over-qualified for the job. In addition it has to be remembered that part-time work in lower grade jobs is not sufficient to maintain a family and endangers provisions for old age. The idea of a child-care salary is therefore to be linked as closely as possible to proposals regarding a more family-friendly organisation of the labour market which can only be mentioned here due to the focal point of this study.

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## 5 | The needs of parents - attitudes adopted by the population

In the following chapter an attempt shall be made to assess the attitude of the population towards the introduction of a child-care salary. In part one an account is given of the extent to which measures relating to family policy introduced so far have been accepted, i.e. "parental benefits" and "parental leave" - which can be regarded as being the forerunners of the recommended child-care salary. In part two the assessment of the proposal of a child-care salary in the public at large is presented by means of a representative opinion poll. In part three the findings of a qualitative study on the possible effects of a child-care salary, which has been carried out as part of the project "Child-care Salary 2000" in co-operation with the Society for Training Research and Occupational Development (GAB), will be presented.

### 5.1 A decade of parental benefits and parental leave - a critical assessment

Both measures relating to family policy, i.e. parental benefits and parental leave, were introduced on 1.1.1986 when the Federal Parental Benefits Act (BERzGG) came into force. "Child-care carried out by mothers and fathers" was to "win recognition" through a parental benefit and parental leave was supposed to "enable either the mother or the father to look after their child" (Ministry of Health, Education and Welfare, BMJFFG, 1986). While the level of parental benefits has remained constant at DM 600 up to the present day, the period during which both measures can be claimed has been extended step by step, as the following overview shows (Diagram 11).

*Diagram 11: Parental benefits and parental leave since 1986*

since 1.1.1986:	12 months` parental leave (PL) and parantal benefits (PB)
from 1.7.1989:	15 months` PL and PB
from 1.7.1990:	18 months` PL and PB
from 1.1.1992:	36 months` PL and 18 months` PB
from 1.1.1993:	36 months` PL and 24 months` PB

In addition to this, individual federal states introduced "regional parental benefits" which extended the period of time again during which parental benefits could be claimed by up to a further year - albeit in very different configurations (Baden-Württemberg, Bayern, Mecklenburg-Vorpommern, Sachsen, Thüringen; and Rheinland-Pfalz as well until March 1998) (compare also to Wingen 1997, p. 216f.).

In the following we investigate what young families think about the "parental benefits" and "parental leave", to what extent they make use of them and how they are assessed by those who claim them. The findings are to help draw conclusions on the acceptance of the child-care salary.

The data basis for the questions raised are essentially supplied by two studies carried out at the University of Bamberg. The first one, the "Bamberg Panel for married couples", is a longitudinal section study representative of the former West German states in which 1,500 young married couples - i.e. both partners - who married in 1988 were interviewed four times during the first six years of married life. The aim was, on the one hand, to carry out a scientific study on young married couples starting up a family; on the other hand, this study served to evaluate the parental benefits and parental leave, measures which were still new at that time (cf. Schneewind et al. 1992). As part of the second study, approx. 1,000 fathers from former West Germany and former East Germany were interviewed in 1996 on the question of "fathers and parental leave". In addition to this, qualitative interviews were carried out with 50 families - which also included their employers (for survey design refer to Rosenkranz et al. 1996).

The findings of the "Bamberg Panel for married couples" indicate that these measures enjoyed a high degree of acceptance amongst young parents right from the start (Schneewind et al. 1992, p. 305f.; Schneewind et al. 1996, p. 146f.). The degree of acceptance is reflected in the actual figures, which are very high: 97% of all the parents on the panel received a parental benefit. However, only less than half the parents judged it to be a great help and one which was much needed, one third were not necessarily dependent on it, 18% had ambivalent thoughts on the question of whether it was an indispensable or a dispensable help to them, and 5% judged a parental benefit to be insignificant, taking their financial situation into consideration. In interpreting these findings it must be borne in mind that the parental benefit has not been adjusted since 1986, i.e. it is worth less in real terms today than when it was introduced, and in addition to this is paid from the time the child is six months old according to one's income, which in many cases leads to a considerable reduction.

The degree of acceptance of parental leave is just as high: almost all mothers entitled to the benefit take advantage of this too. According to an up-to-date study carried out by the Institute for Employment Research, IAB, 55% of mothers claim the total period of entitlement, 33% only claim part of it and 12% stay at home longer than the whole period of parental leave (cf. Engelbrech 1997a). Parental leave includes the option of partners making use of it on a joint basis, but official statistics prove that fathers still only avail themselves of this opportunity in special circumstances. So although the absolute number of men taking parental leave rose from 1,824 in 1987 to 6,841 (the former West German and the newly-formed German states) in 1995. More than 98% of all the people who took parental leave in 1995 are women. The share of fathers amounts to less than two percent.

The consistently low number of fathers taking parental leave is characteristic of the

traditional male-female roles which remain unchanged in the fields of gainful employment and work within the family. On the one hand, this manifests itself in the fact that sharing the housework and looking after the children is mostly optional for the majority of fathers, while mothers bear the main responsibility for work within the family. In the case of married parents housework is first and foremost a mother's job, who in addition to this, also looks after the children for the most part (cf. Schneewind et al. 1996). On the other hand, fathers are frequently confronted with being responsible for supporting the family financially.

On the basis of qualitative studies carried out so far as part of the project "fathers and parental leave", as well as an Austrian study (cf. Deutsch-Stix/Janik 1993), four factors can essentially be established which largely influence the decision partners make to avail of it on a joint basis, and, as a result, to decide in favour of the non-traditional sharing of tasks:

- the family's financial situation
- the job situation and attitude towards one's job,
- the existing sharing of tasks in everyday routine work and
- the husband's attitude to the role of being a father.

A decisive basic prerequisite for the participation of fathers is the income ratio between the sexes: a mother's income which is approximately the same or higher than that of the father's is, according to research carried out so far, a necessary prerequisite - even if not an adequate one - for parents to decide in favour of this. This is also reflected in the reasons fathers state for not taking parental leave: financial reasons are most important of all, i.e. in their opinion parental benefits would not be enough to support a family if they stopped earning (Schneewind et al. 1992, p.313).

In addition to this, the fact that both parents are highly qualified is striking in families with fathers taking parental leave. On attitude level, a high career focus of mothers and the modest professional ambitions of fathers play an important role in making decisions. Another striking characteristic of these families becomes evident in sharing everyday tasks. The respective roles in everyday routine work were mainly organised on a joint basis before the transition to parenthood took place. On the basis of these specific circumstances and motives, one reason for the participation of fathers was particularly decisive in all the families interviewed: the father's wish to be deeply involved in the development of his child right from the start and to establish a close relationship with his child, i.e. "to be able to spend more time with my child than just one hour every evening", as one father representing many others remarked.

Within the family the effects of both partners taking parental leave are mainly positive. Most fathers gain a great deal from this intense phase of looking after and bringing up their child. The effects on a partnership are positive due to the fact that both partners are able to develop more understanding towards each other; almost all the parents are of the same opinion.

In contrast, the reactions of one's social surroundings to the non-traditional male-female roles vary greatly. While those taking parental leave mainly experience positive reactions from their friends, reactions from one's own family, relatives and colleagues at work and employers tend to be negative. Women belonging to one's closest circle of friends in particular respect and acknowledge fathers who take parental leave. Parents and relatives mainly react to this with a lack of understanding which is based on traditional attitudes and the rejection of gender roles which deviate from these.

Research findings so far indicate that parental leave is not adequate enough to make fathers more committed towards work within the family and as a result to reduce an imbalance between the sexes which might still exist. In its present configuration and present involvement in further socio-political structural conditions, it is more likely to result in the reverse effect. A lack of child-care facilities for small children, making it easier for mothers to give up work (temporarily) by means of this measure and the negative attitude of most employers towards fathers who take parental leave are more likely to lead to traditional gender roles being reinforced.

On the part of most fathers understanding for the fact that they, too, are able to take on the role which so far has almost exclusively been performed by women, has to be created; for many people this option is still so unfamiliar that they do not regard it as being one at all. The greatest effort should be undertaken in the world of employment. Here it is a matter of removing any existing state of imbalance in earnings and career prospects of the sexes and to create a better understanding amongst employers for fathers who take parental leave or for men working part-time.

## 5.2 The attitude of the population towards a child-care salary

At the end of 1995 a representative survey was carried out by *infas-Wirtschaftsforschungs GmbH (Economic Research Company, plc)* in co-operation with the Cyclopan Institute by order of the "Deutscher Arbeitskreis für Familienhilfe e.V.", (German Working Group for Family Assistance) to "upgrade child-care work". The objective of this study was to gather information on the attitude of the population towards a "child-care salary" as a measure relating to family policy. For this, 2,039 women and 287 men between the ages of 18 and 50 who were selected at random were questioned nationwide in writing.

Departing from the concept "Child-care Salary 2000", a monthly taxable sum of DM 1,300 - liable to social security contributions - was taken as a starting point for the model at the time, a sum which was payable until the child was 12 years old if gainful employment did not exceed 19 hours per week. This must be taken into account in interpreting the findings. This data can only be indirectly applied to the concept "Child-care Salary 2000".

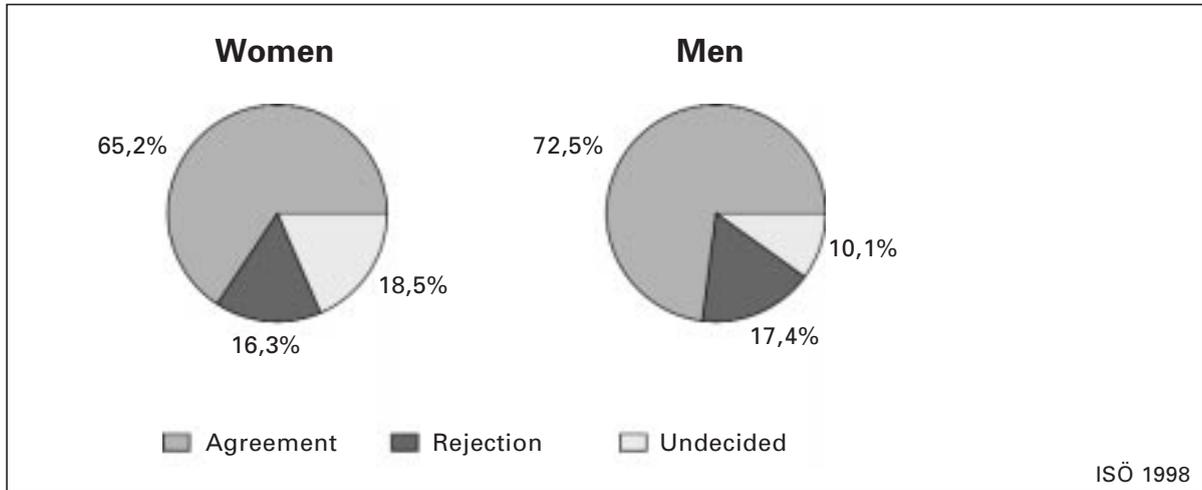
### 5.2.1.1 Degree of acceptance of a child-care salary

First of all it becomes apparent that the vast majority of those interviewed were of the opinion that government policy relating to the family in Germany does not do enough for families at present. Irrespective of sex, 80% regard the present compensation of burdens for families (child allowance, tax exemptions for children, parental benefits, parental leave counting towards pensions etc.) as being inadequate, only 14% maintain that the existing measures are sufficient. Only a small minority (6%) consider children essentially to be a private matter and regard government benefits for them as being rather exaggerated. As a result there are differences between people without children and those interviewed who have children to the effect that families - as expected - are more critical of government benefits relating to family policy than those interviewed who do not have children.

These findings tally with other representative opinion polls. Thus, an opinion poll carried out in the autumn of 1994 by the Public Opinion Research Institute in Allensbach (Institut für Demoskopie Allensbach) established that 77% of the population (even as much as 86% in former East Germany) are of the opinion that government policies urgently need to ease the financial strain on families. Incidentally, all political parties are in agreement on this demand; at most amongst the supporters of the Free Democratic Party 21% of those interviewed oppose an increase in government support. The demand to put housework and child-care on a par with normal gainful employment, to pay for it and to create a claim to social insurance for those involved is something which the majority of the population as a whole (61%), women (69%), and also men (53%) approve of (cf. Public Opinion Research Institute in Allensbach 1994, p. 4f.).

In reply to the question on whether they would give their approval to the introduction of a "child-care salary" in a poll, two thirds of those interviewed (in the infas-survey) state that they are in favour of a child-care salary being introduced, 16% reject such a measure and 18% are undecided; the percentage of men (73%) who approve of this is significantly slightly higher than that of women (65%), and the rejection is somewhat lower, as the following diagram indicates (cf. Diagram 12).

*Diagram 12: Attitudes of the population towards a child-care salary  
(A comparison of women and men)*



ISÖ 1998

Source: infas survey, own calculations

The **existence of children** has a much stronger influence on the way people answered the questions than **sex**. As the following table indicates, mothers view this model in a much more positive light than women without children and surprisingly, the highest rate of acceptance is found among family men: 91% would support it, while men without children most frequently decide against this model (36%).

*Table 5: The population's acceptance of a child-care salary – according to sex and number of children (in percent)*

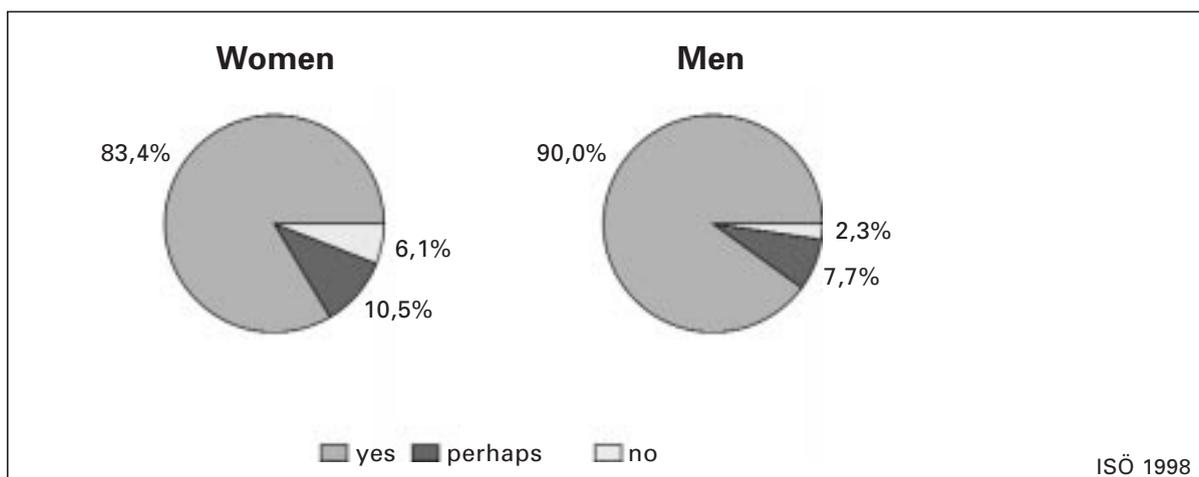
Assessment	Women without children	Mothers	Men without children	Fathers
Agreement	57	73	50	91
Rejection	22	11	36	2
Undecided	21	16	14	7
n=	983	1.056	131	156

Source: infas survey, own calculations

There is a similarly close connection with *marital status*: single people interviewed are more careful in their acceptance of it than those who are married or divorced; this can, however, essentially be put down to the fact that 91% of unmarried people in the spot check do not have children.

An uneven picture emerges if the *ages* of those interviewed are taken into account. In the case of women, there is only a slight correlation to the effect that in the age group of 26 to 30-year-olds acceptance is higher than in the other age groups. Women in the age group, which also represents the average age of women giving birth to their first child at present and who are thus most likely to become parents in the immediate future, support this model to a greater degree than others. In the case of the men who were interviewed a curvilinear correlation is established in contrast: the under 25s and over 40s reject it to a considerably greater extent than the age group in-between. If we differentiate according to *social status* there are hardly any significant differences in assessing the child-care salary. A relevant spread in the way those interviewed gave their answers did not occur either in differentiating according to formal education or according to professional standing. Only household income seems to play a role, although this correlation is not linear either: in the case of those interviewed with a net household income of less than DM 2,000 and those with a monthly net income exceeding DM 5,000 acceptance of a child-care salary was below average. On the question of anticipating claiming a child-care salary, the high rate of acceptance of the model presented in the opinion poll for this particular segment of the population was confirmed: 83% of women and 90% of men are of the opinion that they (as a family) would claim this benefit for future children if they have any, or would have made use of it in the past - in retrospect - for their existing children. All in all, a tenth stated that they were uncertain on this matter and only 5% rejected the idea of claiming the salary. Here, too, a significant difference becomes apparent again ( $p=.01$ ) to the effect that men's acceptance of anticipating claiming the salary is slightly higher (cf. Diagram 13).

*Diagram 13: Anticipation of claiming a child-care salary (A comparison of women and men)*



Source: infas survey, independent calculations

On the question of which parent would claim the benefit, the gender-specific role structure becomes evident again. Even if a child-care salary existed, only a few fathers would be prepared to do their share of the work within the family by opting out of their job for a while or by reducing the number of hours they work in order to look more after the children. 87% of women and 89% of men prefer mothers only to claim the benefit, only 8% of all the families would share the measure on a joint basis, and a mere 5% of those interviewed state that fathers only would claim it.

The vast majority of those interviewed said that if they claimed the benefit they would make use of the total period during which the child-care salary is paid: 90% of women and 96% of men gave their opinion to this effect.

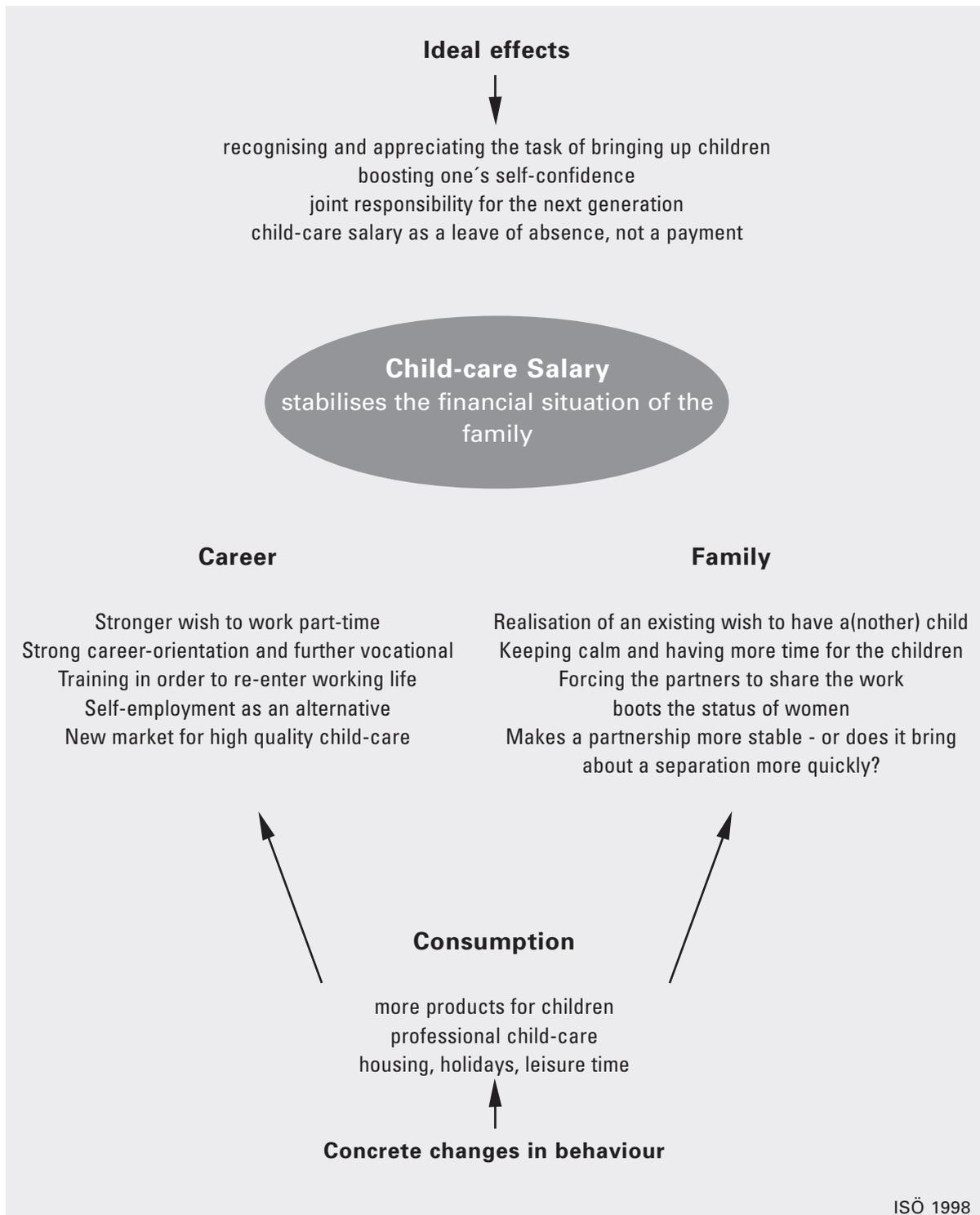
In the case of those who would not claim a child-care salary, the reasons stated relate mainly to work. Only 17% maintained that the money would not be enough to live on.

### **5.3 The qualitative effects of a child-care salary**

In Potsdam, Munich and Bonn intensive workshops with a total of 20 men and women followed by qualitative interviews were carried out in 1997, in which the effects that the introduction of a child-care salary would have on their own behaviour was to be assessed. Qualitative interviews were carried out with a further eight women. Those taking part were aged between 25 and 46; their level of education and family situations varied considerably.

In the workshops, and also prior to the qualitative interviews, the "Child-care Salary 2000" model was presented in detail and applied to the individual situation of each person taking part as it is today, or at the time when their children were younger. All those taking part wrote down their own thoughts to start with, which were then compared and discussed and finally recorded in a detailed interview.

Diagram 14: Effects and changes in behaviour caused by a child-care salary



Those interviewed think the introduction of a child-care salary would have fundamental ideal effects on people's attitudes towards bringing up children, as well as concrete effects on their behaviour within their families and at work.

### **5.3.1 Ideal effects**

#### **5.3.1.1 Recognising and appreciating the task of bringing up children; boosting one's self-confidence**

Those interviewed think a child-care salary would be a (long overdue) recognition by society of the work which is done within the family, and would increase and upgrade not only the positive attitude they all have towards bringing up children but also towards work within the family and household duties. "I think I do a lot of unpaid work for society and I would be upgraded if I received a child-care salary" (a woman in a steady relationship, a doctor with 2 children of school-age, works half-days). Self-confidence would be boosted to a considerable extent and the significance of bringing up children and the work within the family and household duties related to this would also increase in their opinion. "If there had been a child-care salary in the past, it would have helped me quite a bit. It would have boosted my self-confidence quite considerably" (single parent with a son aged 10). Although all those interviewed still regard bringing up children as "an important part of their lives" and as an important and significant task not only for themselves but also for society - regardless of a child-care salary - they do, however, feel that "society" has left them to deal with the problems and restrictions relating to this on their own. In our society esteem is frequently tied up with the equivalent value in money.

#### **5.3.1.2 Joint responsibility for the next generation**

A child-care salary would signalise that a change in approach is taking place and that responsibility for the next generation, which these days is largely in their parents' hands, can be fulfilled to a greater extent by the whole of society and be borne by everyone.

#### **5.3.1.3 The child-care salary as a leave of absence, not a payment**

In reaction to this, a child-care salary for bringing up children would make parents feel a greater responsibility not only towards their own children but also towards society than they have felt so far. The salary is not to be seen as a direct payment for rendering services as is normally the case in one's job. The child-care salary was regarded - not only by women but also by men - as a kind of leave of absence by means of which the general public enables parents to take on the important social task of bringing up their children at leisure and without financial strain.

### **5.3.2 Changes in behaviour within the family**

#### **5.3.2.1 Fulfilment of the wish to have children which has been deferred for financial reasons**

Throughout it has been stated that if a child-care salary could be claimed, the already existing wish to have a first or an additional child would most probably be fulfilled. "The worry of being left all on one's own would be considerably reduced." Apart from the wish to have children, those interviewed did not regard a child-care salary as a reason to have more children than originally planned.

Even in a partnership which was not absolutely steady, women were able to envisage having and bringing up more children even if they had to take sole responsibility. Not having any brothers and sisters has frequently been tolerated with regret as a result of financial insecurity. "You shouldn't have to be rich in order to be able to have children!".

#### **5.3.2.2 Keeping calm and having more time for the children**

According to those interviewed a child-care salary probably does not have an influence on their own values in bringing up children. "Even if I had more money, I wouldn't give my children everything" - but it would prevent many stressful situations occurring which are triggered off by difficult financial circumstances or by the double load of parents having a family and a job. A relaxed atmosphere within the family would generally have a positive effect on bringing up children. "I would have been able to bring up my son the way I really wanted to, according to my own ideals rather than constraints from outside. I would not have shouted at my child so much and all in all, I would have been much calmer" (single mother). "In very trying times it would be a great help, I would be more relaxed" (woman in a steady relationship).

In the cases where a child-care salary enables people to reduce their working hours, they would use the extra time to look after the children with greater awareness or to deal with educational matters more thoroughly. This also includes attending more parent-teacher-meetings or other school events which mothers and fathers cannot see to at present for lack of time. "I would have time for "parents' get-togethers" at school. I would be able to attend parent-teacher-meetings, which would be possible as a result of a reduction in working hours" (single mother).

#### **5.3.2.3 Partners are forced to share the work within the family**

In the case of partners who live together, the woman would as a rule claim the entire child-care salary if the man has very high wages. In the case of families in the average income bracket or those where the man's wages are not substantially higher than

the child-care salary, women above all voiced the opinion that they would like to share the salary since their partners, who up till now have been earning wages, would be able to reduce their working hours without suffering a considerable loss of income. Women would definitely press for a greater awareness in sharing tasks within the family and job-sharing. Several women aim at men reducing their number of working hours to start with - even if he is the sole wage earner - so that he can get more involved in the family; others would like to share the task of bringing up the children and their jobs with their partners on more or less equal terms. The child-care salary would then compensate the woman's wages which are generally lower. The child-care salary would, however, only affect the sharing of tasks in those families in which even today the man lends a hand in bringing up the children and doing the housework, as far as this is possible timewise. In these families the partner is prepared to reduce his working hours in order to be able to have more time to take care of his children.

#### **5.3.2.4 The status of women is boosted by being financially independent**

An extremely important aspect for all the women was the fact that if they had their own salary they would be financially independent of their partner, not only while bringing up their children but also later on in old age through a higher pension claim. This also applies to those women who are now financially well off in their marriage or permanent relationship

Some women stated that their status within the family would be different if they had their own salary, and their self-esteem and freedom of action would not be as restricted as it frequently is at present due to being financially dependent on their partners. This feeling is particularly virulent at times when there are marital problems. One woman described her husband's attitude in the following way: "Why don't you move out of here and get your own flat, I'll stay in our house, I'm the only one who can pay it off anyway". In another case it was very painful on separation for a woman to hear her husband say he of course wanted to keep the car, because "after all, I'm the one who paid for it!"

#### **5.3.2.5 Does it make a partnership more stable or bring about a separation more quickly?**

Several answers given by those interviewed indicate that a child-care salary can have completely different effects on the stability of a partnership. As a rule, those interviewed expect certain crisis situations will not arise in a partnership at all, or will not intensify dramatically if the partners do not continuously have to live in strained financial circumstances or if they have more time for one another (which is also a question of money). This would be made possible, for instance, by the chief breadwinner or both partners increasing by working part-time. But even if it is not possible for the partner

to reduce his working hours, things could become more stable and relaxed for the main breadwinner and for the partnership as a result of this, because the whole livelihood of the family is no longer dependent on his job, nor is it jeopardised if he becomes unable to work or unemployed. If they were financially better off due to the child-care salary, families on a low income would be able to afford professional child-care more often in order to do things together and not drift apart, or to keep up social contacts and not isolate themselves. If their financial situation eased somewhat, several of those interviewed would engage someone to do many jobs around the house and garden and on the car which they are forced to do themselves at present and would look after their family more during this time.

On the other hand, some women who keep up an unsatisfactory relationship because they are financially dependent on their partners can be expected to act more freely and would be prepared to separate more easily if they had a fixed minimum income. Likewise, men would possibly break away from a relationship more easily if they know that their children are well provided for financially.

### **5.3.3 Changes in behaviour at work**

#### **5.3.3.1 Stronger wish to work part-time**

Two thirds of those interviewed, women and men alike, welcome the opportunity of being able to reduce their working hours for a certain period of time or to have a complete break in employment if a child-care salary were introduced. The men interviewed were not prepared to have a complete break in employment for the sake of bringing up their children. On the other hand women with children under the age of three who have to go to work for financial reasons definitely welcome the opportunity of having several years - as a rule until the children reach nursery school age - to concentrate completely on their children if they had a child-care salary. One woman (with three children, and who would like to have more children) is even able to visualise "turning the job of being a mother into a profession", although this does seem to be an exception. There is a clear trend towards sharing the task of bringing up children and being gainfully employed. It is therefore very likely that the introduction of a child-care salary would lead to an increase in demand for part-time jobs.

It became evident that some of the strain can be taken off the labour market by introducing a child-care salary, when there will be an increase in part-time jobs in qualified professions in future and better opportunities for employees starting their career who take a break in employment in favour of work within the family. Women above all regard more flexible working hours - which would allow them to adjust their working hours according to the needs of their children - as a further significant supporting measure.

### **5.3.3.2 Strong career-orientation and further vocational training required for re-entering working life**

The positive attitude towards bringing up children expressed throughout does not compete with the fact that women also wish to go to work. "My children, family, household duties, career and I myself mustn't go short, everything's important!" (married woman with three children under the age of 10 and a full-time job).

Rarely in Western Germany, but mainly in Eastern Germany, people expressed their reservations about the child-care salary possibly being a means for keeping women away from the labour market. The attitude of the women who were interviewed indicated unanimous agreement on the fact that they would not give up their career-orientation if a child-care salary were introduced; they would, however, organise their jobs more freely and dedicate more time to their own children, for example by working part-time, giving up unsatisfactory employment and striving for better qualifications with better pay and more career prospects.

As soon as children reach nursery school age, nearly all women want to take advantage of the financial situation which would ease due to the child-care salary, in order to carry out further vocational training and improve their career prospects. So thanks to the child-care salary, they would be in a position to have the time required for further training, since they would be able to employ high-quality professional child-care with flexible working hours for their children. And the child-care salary would help some women to pay for the extended vocational training they would like to do but which they cannot afford on their present family income.

### **5.3.3.3 Self-employment as an alternative**

Since the family income is raised considerably by introducing a child-care salary, several of those interviewed, men and women alike, also see an opportunity of becoming self-employed or leaving dependent employment to take the plunge and set up their own business. "If a child-care salary had been introduced at the beginning of the year, I would have opened a surgery for midwives and acquired professional status". As a result, their own jobs would become vacant for others, and if they were successful in setting up their own business, one or two jobs could be created in their own business in addition to this.

### **5.3.3.4 New market for high-quality child-care**

In the discussion on more part-time work, those interviewed agreed on the fact that structural conditions in this field should change; but they also thoroughly agreed that adverse conditions, such as inflexible working hours, could also be compensated by being able to afford professional child-care as the need arises with the aid of the child-

care salary. Childminders for young children in particular were mentioned in connection with this. Some people also stated that they would like higher-quality and more flexible nursery schools, or child-care before and after school; the child-care salary could provide a new market for this.

Women above all would make use of professional child-care in order to be able to combine going to work with looking after their children. They also see it as an opportunity of being able to start work earlier and more regularly again, and in some cases of being able to work at different times than they have so far. For financial reasons some women now go to work when their partner is at home and can look after the child, for example in the evening or at weekends, which can cause considerable problems in a relationship. Professional child-care facilities which would see an increase in demand, would range from childminders, day nurseries and nursery schools to homework supervision and babysitters in the evening. When children are ill, there could be a demand for child-care as a further professional service ("mobile child-care services") - in as far as it can substitute parental care - which would make it possible for women to go to work.

Almost all those interviewed expect the demand for professional, flexible child-care to increase considerably, which could lead to more jobs in the field of qualified nursery school teachers, and also to childminders or "mobile nursery school teachers" setting up new businesses.

#### **5.3.4 Changes in consumer habits**

Those interviewed who would make use of the financial security provided by the child-care salary in order to reduce their working hours would not have more money than they have at present if they had a child-care salary, and as a result consumer habits would not change. Those interviewed who expect an increase in income would, apart from additional expenditure on external child-care, demand more "products" for their children. Good quality food and clothing, high-quality toys and tuition (alternative and additional services offered in schools, learning to play an instrument etc.) and expenditure on cultural events were mentioned.

### 5.3.5 Summary

Approx. 90% of those interviewed would welcome the introduction of a child-care salary along the lines of the model presented. Reasons which carry conviction are:

- appreciation of child-care by society and acknowledgement as a fundamental contribution to society,
- increase in self-confidence for the parent who takes on this task,
- financial independence of the most important person bringing up the child and security for the family which is made possible by the child-care salary while bringing up children and in old-age,
- easing of tension in relationships which today are under a heavy financial strain,
- greater social justice related to this.

The child-care salary could bring about the following changes in attitude and behaviour:

- There would be an increase in a personal sense of responsibility towards bringing up children because it is also acknowledged as a contribution towards society. People would feel that society was giving them a "leave of absence" to look after their children.
- The existing wish to have children which cannot be fulfilled at present for financial reasons or because the relationship is unsteady could be fulfilled sooner.
- There would be a more relaxed attitude and greater awareness towards bringing up children; there would be more opportunities - both timewise and financially - for dealing with educational matters.
- Women would have a more important status in the family regarding their wish to share the work in the family and a job with their partner, and they would make use of this status too. Partners who have been active in bringing up their children so far would carry on doing this even more.
- Men and women would demand more part-time jobs.
- The wish to re-enter working life would be delayed in the case of some women, in others it would materialise sooner, because it would be made possible due to professional child-care. All in all, women are distinctly career-oriented. Women would not let themselves be ousted from the labour market by the introduction of a child-care salary. On the contrary: they see the child-care salary as an opportunity to improve their job prospects by being able to carry out extended vocational training purposefully and without detriment to the family.
- The partial financial security for the family would make it considerably easier to set up a business independently, and would make occupational biographies more interesting than they have been so far.
- There would be a considerably greater demand for high-quality, individual and flexible professional child-care than there is today.

- The child-care salary would be used partly to reduce working hours and partly to increase consumption and utilise services in order to have more time for one's children and partner.

In addition to this, educational measures were suggested as a prerequisite for qualifying for a child-care salary; granting a salary should at least be combined with specific information on the intention and purpose of the salary. The findings of the study support our assumption that the introduction of a child-care salary would make *new arrangements for bringing up children in the family and having a job outside the home* possible.



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## 6 | The "Child-care Voucher"

In comparison to most of our European neighbours, Germany invests far too little in the rising generation. Not even the provision of (primary) schools is comprehensive and organised in a family-friendly manner - whereas in most of our neighbouring countries all day school is the norm. Education and above all high quality educational accompaniment are becoming ever more important considering the fundamental changes which our society will have to cope with in future. Socialisation and educational deficits can be balanced out with the aid of institutional child-care and can provide all children with an "equal chance at the start" which in the end will have a positive effect on all of society. From this point of view, the child-care salary and also financing pre-school education are to be seen as part of the investments in the rising generation which society can not afford to treat with indifference.

The introduction of a child-care salary will already have repercussions on financing child-care facilities for pre-school children because the parents will have more disposable income. With unchanged income limits for measuring parental contributions, the portion that parental contributions make up of the total costs of day-care institutions which is approx. 10 - 20% at the moment is not expected to increase insignificantly.

State financing of public child-care facilities for small children shows extreme regional imbalance. Since the right to a nursery school place was created in the reform of the child and youth welfare law, the public child-care facilities on offer in the pre-school area have come into the limelight in social policy. We presume that there are new finance and organisation models on offer. The child-care salary is to serve the explicit purpose of seeing child-care work inside and outside the home in a integrated manner.

The concept "Child-care Salary 2000" is participating in the discussion across Germany on the social and economic importance of pre-school child-care facilities which is just starting and is urgently required. Technically formulated it is about the question as to what extent the *object-oriented support* there has been thus far, i.e. the state financing the institutions directly, should be replaced in part or totally by *subject-oriented support*, i.e. the public purse gives the consumer (here: parents, children) the money or vouchers.

Thus the possibility of entitlement to a "child-care voucher" belongs to the concept "Child-care Salary 2000" which initially is to be limited to nursery school age (4 to 7 years old or until starting school). The child-care voucher should cover the average costs of qualified half-day care (approx. 5 to 6 hours). At nursery school age, part of the child-care salary I would not be paid in cash but in the shape of a child-care voucher. In chapter 2 it has already been explored whether such a voucher should be planned to be obligatory or optional. There are arguments in favour of both solutions. If the option of the child-care voucher was obligatory, it would create the prerequisite

of actually being able to cash in the legal claim to a high quality nursery school place. The introduction of a child-care voucher would also prevent the parents having an economic incentive to do without a nursery school place, as may happen if the parents have the choice between money and payment in kind at the nursery school age. An incentive of this kind could not be advocated at all from the point of view of pre-school education. Today the families are too small and the socialisation deficits too large which many children have to start school with today. In this chapter some information on entitlement to and the cost structure of the public child-care are to be presented and discussed to then be able to come to a conclusion on whether a child-care voucher makes sense.

### 6.1 What does child-care outside the family for pre-school children cost?

Due to the different financial sources and the regulations peculiar to each Land, it is not possible at the moment to get a uniform database on the costs of pre-school education for the whole of Germany. For this reason we are restricting ourselves on the one hand to the data collected by the Federal Statistical Office and on the other hand to the few investigations available which have been presented by charitable associations and the ministries of the Lands. The most up-to-date data is from the youth welfare statistics 1995 by the Federal Statistical Office which again is based on investigations carried out at the end of 1994. In the following we will use the newest progressions which are issued by the Federal Office within the framework of various special assessments.

In 1995, a total of DM 18.3 billion was spent on day-care institutions for children (Federal Statistical Office 1997a, p.14) In early 1998 in a special assessment, it was made known which portion of this amounted to the costs for nursery schools. This is pertinent to the discussion on a child-care voucher because the Federal Statistical Office defined "nursery schools" as being "*day-care institutions for children between the age of 3 and starting school which of a lengthy period of time provide the children with regular educational care at least for half the day*". From this perspective, the net costs for nursery schools for 1995 was calculated to be DM 15.8 billion (Federal Statistical Office 1998, p.59). The costs of care for children at school in day-care are not listed separately but absolutely are relatively low. Thus the remaining amount of approx. DM 2.5 billion is for day-care nurseries and crèches for children under 3 years old.

What meaning do these values have for the introduction of a child-care voucher for nursery-school age?

Providing a complete change-over from object-oriented to subject-oriented support is planned, it can be assumed schematically that the total net costs of nursery schools will in future no longer be transferred to the institutions via regional and local authorities and special purpose associations but be claimed by the institutions directly from the Federal Family Fund in the shape of a child-care voucher. Whereas in

Germany schools and universities are primarily financed by Federal budgetary funds (according to the object-oriented principle), parents are already making a significant contribution of their own towards nursery schools. Thus the income from fees and charges for all day nursery facilities amounts to DM 1.6 billion annually (Federal Statistical Office 1997a, p15). Since 1996, the parental contributions across Germany have been significantly and continuously increased without the parents receiving any (subject-oriented) financial support towards it.

To be able to decide whether and to what extent a child-care voucher covers the costs of nursery school, it is necessary to have information on the actual costs of a place at nursery school. These are not yet available for the whole of Germany, as the statutory basis in the various Lands is different and the harmonisation of data collection required by the reform of the Child and Youth Welfare Law in 1996 has not yet been completed. It is, however, possible to make some statements on the average costs of a nursery school place based on individual Lands. Thus, for example, in Baden-Württemberg in 1994, the operating costs for a nursery school place (normal nursery school) were approx. DM 437 per place and per month (compare to *Table 6*). The investment costs for building new nursery schools in particular are not included. This adds up to an additional 15 - 20% of the operating costs, depending on the Federal Land, the level of supply and therefore requirements for new buildings (compare to Federal Statistical Office 1997a, p. 14f).

*Table 6: Operating costs of day nurseries and parental contributions in Baden-Württemberg (Status 1994)*

	DM per place and year/ per month	DM state/ place/year/ per month	User fees per month (parental contributions)	Cost burden
<b>Day nursery</b> 3 groups of 10 children	20.465/1.705	16.985/1.415	150 - 350 DM. Max. 650 DM, Social graduation	Land 0%, Parents 17% <sup>1</sup> Sponsor/Community 83%
<b>Standard nursery school</b> 3 groups of 20 children	5.243/437	5.243/437	85 - 90 DM. Social graduation according to number of children <sup>2</sup>	Land 18%, Parents 10% Sponsor/Community 72% <sup>3</sup>
<b>All day nursery school</b> 3 groups of 20 children	10.484/874	7.484/624	120 - 300 DM. Max. 650 DM, Social graduation	Land 22%, Parents 29% <sup>4</sup> Sponsor/Community 49%
<b>Day care</b>		—	410 - 675 DM. per care period/age	

<sup>1</sup> with a fee of DM 300/month on average; <sup>2</sup> according to recommendations by the church and communal institutions; <sup>3</sup> according to convention of municipal authorities Baden- Württemberg; <sup>4</sup> with a fee of DM 250/month on average

Source: MFFFWK Baden-Württemberg 1995; own calculations

The operating costs also sometimes vary significantly, depending on the Federal Land, the type of child-care institution, the number of care providers and the length of the opening times (compare to table 3). In a study by the University of Bielefeld which has not yet been published, on the costs of a nursery school place, the costs for 1994, for example, were seen to be higher than in Baden-Württemberg. Timmermann and

Bock calculated the average monthly operating costs for a nursery school place for children between 3 and 6 without lunch supervision (groups of 25 children and 2 nursery teachers) of between DM 520 and DM 533. The most cost-intensive are places in small groups of mixed ages with full-day care (three care providers for 15 children, of which half are less than 3 years old). Here the average monthly operating costs were DM 1,534 per place (compare to Timmermann/Bock 1996, p.4f.).

In this context reference was made to the cost estimate commissioned by the special committee "Schutz des ungeborenen Lebens" (Protection of the unborn) which presumes the following costs: average operating costs for a full-day place DM 750/month, for a normal place an average of DM 440 / month, not including investment costs (compare to BMfFSFJ 1995). In the area of day nurseries the operating costs are significantly higher, a compilation by the Landeswohlfahrtsverband Baden-Württemberg (Welfare institution of the Land Baden-Württemberg) put the costs in 1994 for full-day care with 200 hours of care per month at up to DM 1,800 per place (compare to Zimmermann/Fütterer 1994, p. 461).

The introduction of a legal entitlement to a nursery-school place from the fourth year of a child's life harbours the danger of a reduction in quality in a climate of fiscal restriction. Thus the fact that a uniform standard does not exist across Germany makes it easier to tend towards a reduction in quality with reference to the low costs in other Federal Lands - the child and youth welfare law does not yet contain any detailed quality specification for a nursery school place ( number of staff, educational standard etc.). Thus, individual communities are of the opinion that providing care for 15 hours a week or even less is sufficient (compare to Bock 1997, p.236). The difficult financial situation the communities find themselves in at the moment could lead to savings being made in this area in particular. But a one-side fixation on the costs overlooks the benefits public child-care provides for society.

A child-care voucher with a value of approx. DM 600 per month would definitely cover the full costs of a nursery school place, as is shown by the investigations presented. With this sort of subject-oriented support, the public authorities would meet their obligation for the public good of child-care to guarantee the basic provision in day-care institutions for children as well. At the same time a child-care voucher would give the parents freedom of choice between the various types of institution and thus improve the effectiveness of child-care outside the home.

## 6.2 Equal access to child-care institutions

The serious differences in the availability of nursery school places between the Federal Lands are a reason to use an institutionalised child-care salary and the possible creation of a child-care voucher to make more means available for children and their education. Thus, for example, the results of the microcensus in 1995 for Brandenburg show that 91.4% of children have nursery school places, whereas in Bremen only

51.4% do (compare to table 7). The differences in the number of day nursery places are even greater. Here the differences in the supply situation range from 3.8% in former West Germany and average of 40.1% in former East Germany (compare to table 7, children under 3 years of age).

In Germany in 1994, the last time an investigation was carried out, there were 3.05 million places in day care institutions available for children. Of these, 2.11 million places were in former West Germany but with 0.94 million at least 30.8% in former East Germany (including East Berlin) (compare to Federal Statistical Office 1996, p.805) even though only 18% of children under 8 years old live in former East Germany. The drastic decrease in the number of places in day-care in former East Germany of 23% between 1990/91 and 1994 is primarily due to the even more drastic decrease in the birth rate and thus the lack in demand.

*Table 7: Children in day-care nurseries and nursery schools according to the Land in 1995*

Land	Children under 8 <sup>1</sup>	Children 3 until under 8	Of whom are in day-nurseries or nursery schools					
			together		under 3		3 until under 8	
			1000	%	in 1000	in %	1000	%
Baden-Württemberg	771	424	320	41,5	13	3,6	307	72,5
Bayern	874	494	341	39,1	11	2,9	330	66,9
Berlin (total)	214	124	114	53,5	22	24,2	93	74,7
Berlin-West	141	76	62	43,8	11	16,7	51	66,7
Berlin-Ost	73	48	53	72,0	11	43,0	42	87,6
Brandenburg	139	101	111	79,4	18	47,4	93	91,4
Bremen	40	22	12	29,3	-	-	11	51,4
Hamburg	107	60	44	41,4	6	12,1	38	64,5
Hessen	400	225	176	43,9	8	4,6	167	74,4
Mecklenburg-Vorpommern	99	71	71	72,1	10	34,3	62	87,3
Niedersachsen	561	328	214	38,2	8	3,5	206	62,9
Nordrhein-Westfalen	1222	665	394	32,2	13	2,4	381	57,2
Rheinland-Pfalz	266	152	121	45,5	6	4,8	116	75,9
Saarland	63	36	24	38,1	-	-	24	65,6
Sachsen	247	173	177	71,8	23	31,0	155	89,2
Sachsen-Anhalt	133	91	103	77,2	23	53,4	80	88,2
Schleswig-Holstein	197	113	77	38,9	-	-	74	65,6
Thüringen	126	86	91	72,4	15	38,2	76	88,3
<b>Germany</b>	<b>5458</b>	<b>3164</b>	<b>2390</b>	<b>43,8</b>	<b>178</b>	<b>7,7</b>	<b>2213</b>	<b>69,9</b>
<b>Former West Germany</b>	<b>4641</b>	<b>2594</b>	<b>1784</b>	<b>38,4</b>	<b>78</b>	<b>3,8</b>	<b>1706</b>	<b>65,8</b>
<b>Former East Germany and East Berlin</b>	<b>817</b>	<b>570</b>	<b>606</b>	<b>74,1</b>	<b>99</b>	<b>40,1</b>	<b>507</b>	<b>88,9</b>

<sup>1</sup> = Not including children who are already at school

Source: Federal Statistical Office 1997, Youth welfare statistics 1995, Results of the microcensus

An increase in the availability of places in former West Germany is urgently required if the requirement of comparability of living conditions in the constitution is to be kept to in the Federal Republic. A child-care voucher for children of nursery school age could lead to a significant increase in demand. At the moment it is the case that primarily in former West Germany, numerous children only attend nursery school for one year immediately before starting school. The reason for this essentially is an insufficient number of suitable places. For this reason, it is surprising that, according to official statistics, the 3.05 million available places in day-care nurseries are only taken by 2.39 million children and thus a good 21% of the places are vacant (this aggregated number of empty places is particularly high in former East Germany at nearly 36%). The Federal Statistical Office explains this through the number of available places in the investigation being received from the institutions where as the number of children has been taken from the microcensus and then projected and may therefore be incorrect. This unclear situation with data on the supply and demand for places in day-care institutions makes it necessary to formulate the idea of a "child-care voucher" very openly at the moment. The situation on data in the area of the costs parents have to bear at the moment is also not clear. In table 8 we have put together the information available on parental contributions to places at nursery school.

*Table 8: Costs (parental contributions) of places at nursery school in the Federal Lands*

Federal Land	Monthly max. contribution (in DM)		Regulation
	Half-days	Full-days	
Baden-Württemberg	86	660	No standards set by the government of the Land, recommendation is to cover 15 - 20 % of the costs with parental contributions
Bayern	142	190	User charges can vary depending on income group or number of family members, graduation not compulsory
Berlin (total)	165	560	Graduation dependent on income
Brandenburg	324	432	Supplement towards operating costs from the parents, graduation depending on parent's income, the age and the number of dependent children
Bremen	220 (349) <sup>1</sup>	460 (619)	Graduation of contributions oriented towards income and number of family members
Hamburg	450	750	Graduation of contributions oriented towards income and number of family members
Hessen	182	350	Graduation according to income group and number children possible, no regulation applicable across Land
Mecklenburg-Vorpommern	107	178	Uniform contributions across Land, parents pay a of contribution towards operating costs of max. 30% which can be subsidised depending on income and number of family members
Niedersachsen	216 (330)	433 (550)	Communities are obliged to require graduated contributions from the parents taking income and number of family members into consideration
Nordrhein-Westfalen	290	450	Graduation dependent on income, siblings are free of contributions
Rheinland-Pfalz	96	159	Independent of income but dependent on the number of family members

Saarland	131	237	Parents cover up to 25% of personnel costs
Sachsen	90	180	Uniform contributions across the Land, single parents get a 10% deduction on application
Sachsen-Anhalt	120	250	Flat-rate subsidy from the Land of DM 371.92 per place and from the community/town of 285.96, parents and sponsor share the rest
Schleswig-Holstein	270	430	Individual reduction of contributions is possible
Thüringen	272	340	Social graduation is obligatory, parents have to cover a max. of 50% of the operating costs

<sup>1</sup> = Numbers in brackets the highest amounts for nursery school places from the AWO-Ländersynopse

Sources: Bussenius 1998, p.31; AWO 1997, own calculations

This summary make it clear that it is not possible to talk about uniform living conditions in Germany concerning costs to be borne. But this is not just a matter of an infringement of the constitution which, surprisingly enough, has not become the subject of a debate yet. The significant divergences particularly emphasise the point that nursery school places and the costs involved have not yet become the ground of social policy. The discussion on a child-care voucher as a constituent part of upgrading child-care work will no doubt change all this.

### 6.3 Preference Systems and the benefits of pre-school education

The public discussion on a legal entitlement to a nursery school place has shown that there is a consensus across society on the necessity of this measure. Not only the change in families and their ways of life but also the tendency to have less children which is connected to it make it necessary to give children the opportunity to gain the experience of socialising with other children outside the family context.

Parents on the whole increasingly want to be with their children and spend more time with them while they are less than two or three years old. They are concerned with guaranteeing primary security experience, the committed proximity of one or few adults as being the best possible prerequisite for the child's development.

In view of the increase in one-child families and the change in lifestyles, parents and professionals in education also see that children increasingly need communal fields of experience outside the family. And as well as that, the orientation of the parents towards gainful employment, which in practise is primarily a problem for the mothers, makes it necessary to provide relief at least in part from the job of child-care (compare to Kirner 1990, Engelbrech / Jungkunst 1998). Ways must be found which guarantee the co-ordination of the working and family world for women and men, each with their respective specific requirements.

The proposal "Child-care Salary 2000" makes both possible. In the interests of the children and in the interests of the child-care providers, freedom of choice as large as possible concerning the type of care should be given. As there is no consensus across society to provide public child-care on a large scale for children who are still in their

infancy (less than 3 years old), the child-care salary will place the decision in the hands of the parents. Apart from that, beyond the child-care salary it remains for the political decisions made in the communities and Lands to decide to provide investment and operating funds for day-care nurseries for children under 3. This can be well substantiated from a political and educational point of view in particular for single parents or parents in special needs situations (in education etc.).

A child-care voucher would be based on a generally recognised need for children of nursery-school age. The combination of a child-care voucher and the cash payment of the child-care salary - in the model proposed here approx. DM 600 child-care voucher and DM 1,400 child-care salary for the youngest child - expresses the fact that it should not be a matter of concentrating all public funds on the provision of public child-care facilities.

### 6.3.1 Benefits of public child-care provision

Beyond the necessity to invest in human assets of a society, we are talking about the positive benefits of satisfactory quality child-care as well as the grave social costs of dissatisfactory, low quality child-care for pre-school children. Based on empirical studies in the USA, it can be shown that institutional care of children has positive effects for all of society. Thus in these studies attention is drawn to the children having a low level of dependency on supplementary welfare benefits in later life and a low crime rate (compare to Bock 1997, Kreyenfeld et al 1997).

An additional task of public support of child-care institutions is also "Providing children with an equal start" (compare to Kreyenfeld / Wagner 1997, p.12) so that socialisation and educational deficits can be balanced out. Kreyenfeld and Wagner refer to empirical studies in their contribution which confirm "that institutional care of children from classes in society at a social disadvantage has a positive effect on their development" and "that for children from foreign households, attending nursery school increases their chances of going to the "Realschule" (intermediate secondary school) or "Gymnasium"(academic secondary school)". The aim of integration of foreign fellow citizens can thus be supported by using the 'instrument' of attending nursery school" (ibidem). Diagram 15 provides a summary of the monetary and non-monetary benefits of public child-care.

*Diagramm 15: Benefits to society provided by public child-care facilities*

Beneficiary	Monetary benefit	Non-monetary benefit
<b>The children</b>	No direct or immediate monetary benefit due to the cumulative character of learning, development and education; however improves chances later of a higher income	Protective and indulgent area, supports the cognitive, psycho-social development, socialisation sphere to acquire norms, build friendships, participate in culture, compensate for child-care deficiencies in the family
<b>The siblings</b>	No monetary benefit	Older siblings: peace, more attention from parents; younger siblings: stimulus from nursery school child, more attention from parents
<b>The parents/mothers</b>	Possibility of gainful employment, own/higher income, acquisition of pension entitlement	Peace, satisfaction and self-confidence through gainful employment, relief, time for one's self and own interests
<b>Child-care providers/day-care mothers/baby-sitters/nannies</b>	Job, gainful employment, income	Pleasure, satisfaction, social integration
<b>The supporting organisations/public authorities</b>	State subsidies	Social image, reputation, conveyance of aims in family and social policy
<b>The schools</b>	Indirect due to less children repeating a class, less special needs children	Improved ability to learn, motivated children starting school
<b>Society</b>	Higher level of productivity, higher national product due to gainful employment of mothers and child-care providers as well as later through the children	Stable norms, social climate, political stability, avoided costs (crime abatement)

Source: Bock 1997, p.42

These points make it clear how multifarious the direct and indirect effects of child-care are for a society and how important it is to include the benefits connected to it when discussing the costs. Thus it must be in the interest of every individual that the costs incurred by providing child-care must be borne by the general public.

### 6.3.2 Object-oriented or subject-oriented support?

As the introduction of a tax-free child-care voucher to the value of approx. DM 600 is being considered in this study, the advantages and disadvantages arising in current discussion on subject-oriented or object-oriented support of child-care outside the home should be briefly mentioned. The object-oriented support there has been so far gives the suppliers of child-care facilities the subsidies. The main burden is carried by the communities at the moment. A decisive objection which is brought up against the exi-

sting object-oriented support is that it is not demand-oriented enough. Parents as the demanders only have limited possibilities to influence the quality or quantity (e.g. opening hours) of the facilities. The introduction of a child-care voucher (or a care voucher as demanded by Kreyenfeld et al) should create greater possibilities for the parents to exert influence and more flexibility. Let us first turn to the arguments in favour of a change-over to subject-oriented support of public child-care facilities for pre-school children:

- an integrated approach to child-care inside and outside the home (development of "human assets"),
- an increase in the freedom of choice for parents,
- a contribution towards the truth on costs,
- more flexible opening hours,
- increase in the quality standard and
- probably an increase in the amount of child-care on offer due to more competition (compare to Dettling 1996).

These arguments presume that a "market for child-care services" (compare to Kreyenfeld et al 1997, p.27) can be created by subject-oriented support which orientates itself towards the needs of the demanders, i.e. the parents and their children and thus a significant improvement in the current supply situation could be achieved.

Taking Great Britain as an example, where a *child-care voucher* was introduced under the Conservative government as a trial, it was shown that private suppliers barely managed to gain a foothold in the market. Thus the fears that the introduction of a child-care voucher system would introduce radical privatisation of public child-care facilities is not necessarily justified. The experience gained with voucher systems, however, make it clear that considerable structural tasks must be mastered by the state "if the state leaves the role of public producer and becomes the regulator of the market situation" (Kreyenfeld 1998, p.17). The same experience was made in Stockholm with the introduction of a voucher system in the area of nursery schools (compare to Evers / Leichsenring 1996). The task of achieving a sound mix between different types of control (market, state, non-profit-making support organisations, private households) not only needs to be mastered in the area of public child-care. Very similar problems exist in other fields of social and health services, as has recently been demonstrated by the introduction of the statutory nursing insurance. In the nursing care area as well, service work performed inside and outside the home must receive equal acknowledgement so that the willingness to provide care within the family is supported and not endangered. The current regulations in Germany unfortunately are not very helpful in this respect, as we briefly mentioned in chapter 3.

A changeover to subject-oriented support therefore requires a careful look at possible dangers which may be associated with a change in the system, for example

- problems regarding the definition of quality standards and controlling them,
- failure of the presumed market mechanisms (e.g. through the creation of a monopoly of private suppliers),
- an increase in the actual costs for the parents (should the child-care voucher not cover the costs) or also
- a deterioration in the child-care situation, particularly in East Germany, as is already feared now.

A rapid changeover to subject-oriented support can lead to considerable distortions and to allocation problems with unintended side-effects. Thus bearing the current financial situation in mind, it is to be feared that society will invest even less in child-care and a changeover to subject-oriented support would only be considered from the point of view of possible savings instead of recognising this as a chance for the necessary quality improvement (for East Germany compare to Sturzbecher et al 1997).

The changeover from object to subject-oriented support of public child-care only gives the parents more power as a demander if there are sufficient financial resources and real options exist. Taking the considerable costs of child-care into consideration, a radical changeover from object to subject-oriented support would only be possible now if a consensus in society can be reached on this. In addition, the effects of a changeover would be quite different depending on the version of the child-care salary - whether dependent on time spent in gainful employment or not: in the version independent of time spent in gainful employment a high degree of changeover is indeed possible due to the relatively high flat-rate of the child-care salary. In comparison, in the version dependent on time spent in gainful employment, there are only changeover possibilities for nursery school costs.

If a changeover in the medium term to subject-oriented support really is to attain the advantages connected with it, measures to be taken which take the problems mentioned into account must be discussed in advance in public discourse.



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## 7 | Ways to finance the child-care salary

No matter how convincing the arguments for the introduction of a child-care salary have been so far in substance, it would appear that the acid test on its political usefulness rests on the presentation of a convincing finance concept. Even if all political parties were convinced that the child-care salary represents a suitable instrument to improve the economic standing of the family and upgrade the child-care work necessary in future, it initially has little chance of being realised if its introduction were to lead to a relevant increase in the tax burden of all citizens. A large number of the calculations which are presented here have been carried out by the German Institute for Economic Research (DIW) Berlin (compare to DIW 1998). Within the course of a sub-contract, on the one hand the economic research institute did calculations on the costs of the child-care salary in its two main versions (independent of / dependent on time spent in gainful employment) and on the other hand on the core elements of financing it. These concern the income tax due on the child-care salary, state savings made in the parental allowance, in social assistance benefits, unemployment assistance and housing allowance as well as additional revenue from value-added tax, wages and income tax due to the increase in demand caused by the child-care salary and the expansive effects on the whole economy initiated by this. Further calculations refer to the possible savings in the unemployment insurance due to positive labour market effects and savings potential by abolishing married couple 'splitting' for certain groups. The calculations and estimations on the volume of the child-care salary payments in both versions are based on data from the Socio-Economic Panel (SOEP). The SOEP has been carried out annually by the DIW since 1984 (since 1990 in former East Germany as well) as a representative repeat opinion poll among more than 13,000 adults in private households (compare to Project group Panel 1995). The poll which was carried out in 1996 has been evaluated for this study.

As far as financial aspects are concerned, we presume that the child-care salary will have to be introduced in a concept with several phases. In the first phase a significant improvement on today's status quo should be reached. This would be the case if financing the child-care salary for families with children aged 0 to 3 years old could be ensured. Once this first phase has been realised, all political effort would have to be focused on extending the child-care salary step by step to cover family with children in their 4th, then 5th and then 6th year of life until they reach the age they start school. Only when this has been succeeded with the corresponding political priority for transferring means in favour of families would it be a matter of continuing with the implementation of the concept in the direction child-care salary II, the core of which is subsistence income security for the primary child-care provider. There are various plausible combinations of child-care salary I and II. One option would also be, in the case of extreme financial bottlenecks in future, bringing child-care salary II forward to

parents with children as of their 4th year of life to be able to offer these parents at least temporarily a subsistence level income (dependent on need).

## 7.1 Key data on the structure of private households, on the income situation and orientation towards gainful employment

Table 9 shows the structure of households with children aged from 0 to 18 years old according to the marital status of the child-care providers (married, unmarried and single parent) and the age of the children. In addition, there are the households in which there are no children (any more). Of the 36.2 million private households with women or children, 71.4% don't have any children in the household (any more). Households of single men are not included, as they have not brought up children as a general rule and therefore are not eligible for basic security for child-care providers. Children under 18 only live in less than 30% of the households documented (a total of 16.2 million). In 80% of households the parents are married, in one eighth of the households with children, the child-care provider is a single woman, in less than 1% is the child-care provider a single man.

Table 9: Household structure in 1996 depending on the number of children

Type of household	Projected in 1000 (1)	Percentage of all households in vH (2)	Average number of children up to age 18 in household (3)	Number of children up to age 18 in 1000 (4)	Age of the wo- men when she gave birth to youngest child (5)	Age of the woman (6)
<b>A. Households with children aged 0 to 18</b>	<b>10.375</b>	<b>28,6</b>	<b>1,6</b>	<b>16.187</b>	<b>28,3</b>	<b>36,1</b>
<b>A.1. Married</b>	<b>8.307</b>	<b>22,9</b>	<b>1,6</b>	<b>13.408</b>	<b>28,7</b>	<b>36,4</b>
Only children 0 to 7	3.019	8,3	1,5	4.363	28,2	31,2
Children 0 to 7 and from 8 to 18	1.486	4,1	2,6	3.829	30,5	35,2
Only children from 8 to 18	3.803	10,5	1,4	5.216	28,4	40,9
<b>A.2. Couples living together</b>	<b>657</b>	<b>1,8</b>	<b>1,4</b>	<b>948</b>	<b>25,8</b>	<b>32,2</b>
<b>A.3 Single mothers</b>	<b>1.313</b>	<b>3,6</b>	<b>1,3</b>	<b>1.715</b>	<b>27,4</b>	<b>36,8</b>
Children 0 to 7	363	1,0	1,2	430	23,9	27,7
Children 0 to 7 and from 8 to 18	78	0,2	2,7	208	30,0	34,7
Children 8 to 18	872	2,4	1,2	1.077	28,6	40,8
<b>B. Households without children under 18</b>	<b>25.855</b>	<b>71,4</b>	-	-	<b>29,1</b>	<b>57,7</b>
B.1. Mothers ≤ 60 years old, children over 18	5.794	16,0	-	-	26,3	52,5
B.2. Women without children <sup>1)</sup>	5.160	14,2	-	-	-	34,5
B.3. Women ≥ 60 years old or hh without women	14.901	41,1	-	-	31,0	72,6
<b>Insgesamt</b>	<b>36.230</b>	<b>100,0</b>	<b>1,6</b>	<b>16.187</b>	<b>28,7</b>	<b>50,7</b>

<sup>1)</sup> and woman is 60 or younger

Database: SOEP 1996, own calculations.

Source: DIW 1998

The households with single fathers have not been included in further evaluations as the low number didn't make further consideration possible. The couples living together and the married child-care providers have also been combined due to the small number of cases, as the documentation of the time spent in gainful employment requires a large enough number of cases.

*Table 10: Time spent in gainful employment by mothers*

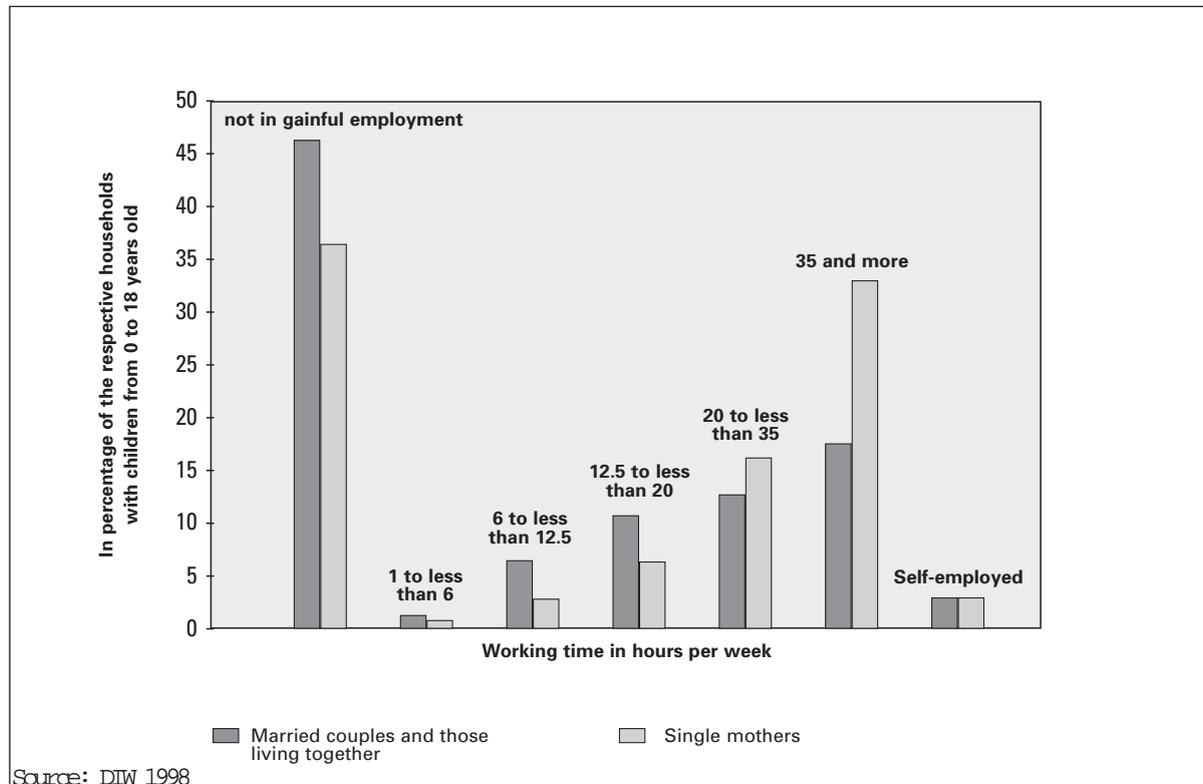
Household type	No. of households in 1000 <sup>2</sup> (1)	Not in gainful employment (2)	Of whom unemployed (3)	Total (4)	Dependent employment <sup>3</sup>					Self-employed (10)
					1 to 6 hours (5)	6 to <12.5 hours (6)	12.5 to < 20 hours (7)	20 to < 35 hours (8)	35 hours and more (9)	
<b>Married and living together</b>						- % -				
Children from 0 to 7	3.327	62,8	6,3	32,5	(0,7)	(3,1)	11,6	7,7	9,5	(4,7)
Children from 0 to 7 and 8 to 18	1.583	51,5	(5,9)	44,6	(2,8)	(8,2)	(8,5)	13,1	12,0	(3,8)
Only children 8 to 18	4.055	30,6	8,3	61,0	(0,6)	7,7	10,9	16,4	25,4	8,4
<b>Single mothers</b>										
Children from 0 to 7	363	(56,4)	(24,0)	43,5	-	(5,5)	(3,5)	(12,0)	(22,5)	-
Children from 0 to 7 and 8 to 18	78	(44,9)	(7,7)	(37,9)	(0,4)	(9,6)	(14,2)	-	(13,7)	(17,2)
Only children 8 to 18	872	26,4	(9,5)	67,0	(0,7)	(1,1)	(6,9)	(19,1)	39,0	(6,6)

<sup>1</sup> Percentages related to the respective households, column (1) <sup>2</sup> Projected <sup>3</sup> Tactual time spent in gainful employment per week ( ) no. of cases less than 30  
Database SOEP 1996, own calculations

Source: DIW 1998

In Table 10 the households with children are listed according to the time spent in gainful employment by the women living in the household. Nearly 45% of women in these households are not in gainful employment, of the men it is only 7%. Of the men and the women respectively, 6 % are self-employed. Nearly 90% of the men are in dependent employment and nearly 50% of the women, whereby the participation in gainful employment of the women is very different than that of the men. Men are primarily in full-time employment, the distribution of the time in gainful employment by women responsible for child-care work can be seen in Table 10. The extent of time spent in gainful employment depends above all on the age of the child(ren) and on whether the mother is living with a partner or if she is a single mother (compare to diagram 16).

*Diagramm 16: Structure of gainful employment of mothers with children aged from 0 to 18 years old*



Documentation of the weekly working hours above six hours in two hour steps was not possible due to the low number of cases. Instead of two hour categories the progression was divided into 5 classes of working hours. Even using this class limitation, the number of cases is sometimes still less than 30.

To calculate child-care salary II, i.e. taking the level of other income into consideration, the income per woman and man in gainful employment and per household were determined for the types of households mentioned above. The income from property and transfer income per household was also listed (compare to Table 11).

*Table 11: Income from gainful employment and transfer income of the households (1996)*

Household type	Gross income from gainful employment		Gross income from property		Transfer income								Net household income
	Wife <sup>1</sup> Average	Husband <sup>1</sup> Average	Household		Household								Average
			Average	Affected	According to Employment Promotion Act	Social assistance benefits	Child benefits	Housing allowance etc.					
	-DM-	-DM-	-DM-	in %	Average	Affected	Average	Affected	Average	Affected	Average	Affected	-DM-
<b>Households w. children from 0-18</b>	2.567	5.458	222	84,3	1.243	4,4	669	3,7	342	94,7	595	17,3	4.440
Married/living together	2.523	5.458	238	87,2	1.272	4,0	728	1,4	349	95,6	579	12,7	4.679
Children from 0 to 7	2.506	5.372	204	87,4	1.399	3,4	(664)	1,4	275	98,6	588	19,4	4.162
0 to 7 and 8 to 18	2.215	5.492	126	86,3	(1.282)	4,2	(730)	3,2	567	96,5	632	16,7	4.888
Only children 8 to 18	2.608	5.512	310	87,3	1.202	4,5	(833)	0,6	331	92,8	490	5,7	5.016
Single mothers	2.824	-	107	64,4	(1.127)	7,1	641	20,1	300	88,9	641	49,2	2.730
Children from 0 to 7	(2116)	-	54	54,3	(1.275)	14,9	(631)	30,9	240	83,1	705	62,2	2.511
0 to 7 and 8 to 18	(1523)	-	(19)	66,3	(532)	7,6	(834)	34,6	(638)	94,2	(1.179)	62,5	(2.780)
Only children 8 to 18	3.105	-	138	68,5	(1.062)	3,7	(609)	14,2	277	90,9	534	42,5	2.831
<b>Households without children under 18</b>	3.424	4.922	242	80,1	1.478	5,3	560	1,4	206	4,1	550	8,8	3.258
Mothers ≤ 60, Children >18 <sup>2</sup>	2.395	5.375	293	86,0	1.651	10,8	(517)	1,0	212	15,0	539	8,4	4.240
Women without children <sup>2</sup>	3.755	5.035	296	81,6	1.285	6,3	(495)	1,2	-	-	644	7,7	3.713
Women ≥ 60 or households without women	(3059)	4.510	204	77,2	1.251	2,8	(589)	1,5	231	1,3	527	9,3	2.705

<sup>1</sup> only people in gainful employment) <sup>2</sup> and woman is aged 60 or younger  
Database SOEP 1996, own calculations.

Source: DIW 1998

## 7.2 Means necessary to pay for the child-care salary

### 7.2.1 Child-care salary I: Version independent of time spent in gainful employment (1st phase)

The means necessary to introduce the first phase of the child-care salary for families with children from 0 to 3 years old amount to approx. DM 57 billion (compare to Table 12).

*Table 12: Gross financial expenditure for child-care salary I, 1st phase for families with children from 0 to 3 years old with successive introduction and when paying out DM 2.000 for the youngest child*

Year	Amount in billion DM (cumulative)
<b>first</b>	<b>10,3</b>
<b>second</b>	<b>29,4</b>
<b>third</b>	<b>48,4</b>
<b>fourth</b>	<b>57,1</b>

Source: DIW 1998

Beneficiaries are 2.14 million households according to calculations by the DIW in which there is a child which has not yet reached its 4th birthday. 1.96 million households consist of married or unmarried parents, in 176,000 households a child is being brought up by a single mother. If these figures for three years are related to one year, then this corresponds with a birth-rate of a good 780,000 births per year.

With successive introduction, i.e. with the introduction only for new-born children from 1.1.2000 for example, the state means necessary to do this increase in several large steps up to the highest sum of DM 57 billion at the beginning of the 4th year after the introduction, providing the birth-rate remains constant. Only as of January of the 4th year, i.e. 36 months after the first payments have started will the child-care salary payments reach their full amount. If introduction is successive, the state's burden is eased, particularly in the first year as e.g. 12 monthly payments are only due for children who were born in January.

For all the children born in one year, the child-care salary payments amount to approx. DM 19 billion. To calculate this, the DIW presumes an average of 780,000 births per year. It based its calculations on a three-year average from 1993-1995. A look at Table 13 shows that the number of births has been increasing again since 1995. The numbers for 1996 and 1997 have only been made available recently and were not available to the DIW at the point in time when they did the calculations.

*Table 13: Births in Germany in the years 1989-1997*

	West Germany	East Germany	All of germany
<b>1989</b>	681 500	198 922	880 422
<b>1990</b>	727 199	178 476	905 675
<b>1991</b>	722 250	107 769	830 019
<b>1992</b>	720 794	88 320	809 114
<b>1993</b>	717 915	80 532	798 447
<b>1994</b>	690 905	78 698	769 603
<b>1995</b>	681 374	83 847	765 221
<b>1996</b>	702 688	93 325	796 013
<b>1997</b>	711 586 <sup>1</sup>	98 485 <sup>1</sup>	810 070 <sup>1</sup>

<sup>1</sup> Preliminary data

Source: DIW 1998, Federal Statistical Office

The slight increase in births is primarily due to a recovery of the number of births in former East Germany which are not very surprising after the dramatic fall after the reunification of Germany. A further slight increase in the number of births can be expected in the next few years due to a continuation of the normalisation tendencies in East Germany.

Per 10,000 births, the annual child-care salary payments amount to DM 240 million in the version being looked at here, without taking possible second children (DM 1,000) and the additional payments to single parents into consideration. If the number of births per year settles at e.g. 820,000 births per year at the beginning of the next century, the presumed increase of 40,000 births will mean that an additional  $\frac{3}{4}$  to nearly DM 1 billion will have to be financed per year.

In the second phase of introducing the child-care salary in the version independent of time spent in gainful employment it should be possible to stretch the eligibility period for a child-care salary in yearly steps to cover up to a family whose youngest child is old enough to start school. It is matter of two yearly steps and a further 1  $\frac{1}{2}$  year step, that is for children age 6 and over until they start school which on average of all children is when they are 6.5 years old.

Expressed in annual sums of the child-care salary payments approx. DM 18-19 billion will have to be found for the first and the second annual step respectively (4th and 5th year of life). For the third step which is actually 1  $\frac{1}{2}$  years, approx. DM 28 billion are estimated. The actual child-care salary payments would definitely be below these schematic estimates. This is because they do not take the fact into consideration that, as the length of time the child-care salary is being paid increases, families will have second or even third children who will only be entitled to the respective additional amount of only DM 1,000. Thus here downward corrections would have to be made.

As a rough calculation, the state expenditure for the child-care salary in the second phase would amount to approx. DM 60 billion. The overall expenditure level for phase 1 and 2 would therefore have to be set in the order of magnitude of approx. DM 115 billion. From a financial point of view, it is very doubtful whether a child-care salary independent of time spent in gainful employment for a period of nearly 7 years should be planned. It appears to us that such relatively high value payments should be used to "go it strong" in the first years of a child's life in which the parents have a decisive impact of the future well-being of their children, when they want to spend more time with and for their children and where they have the greatest demand for state organised benefits ("payment for services rendered") from their income situation which on average is unsatisfactory.

The growing (objective) difficulties to finance the respective additional approx. DM 17 - 19 billion for every further year it runs could prove to be a real obstacle to its implementation. The question would have to be asked if the additional benefits to society gained through this would be able to continue to balance out or even surpass the target losses in other areas of state services which would be expected as a result of the concentration of means on an expansion of the child-care salary. Thus it cannot be ruled out - bearing in mind the background of growing competition for state means which are increasingly scarce - that the first phase of "going it strong" with a general child-care salary set at a relatively high level would run into a further phase in which possibly priority would be given to the thought of a subsistence level income, i.e. a child-care salary dependent on income or a reduced but still universal child-care salary as proposed in the child-care salary proposed by the Family Minister Geisler in Saxony (compare to Geisler 1998).

### **7.2.2 Child-care Salary I: version dependent on time spent in gainful employment (1<sup>st</sup> and 2<sup>nd</sup> phase) - Extent of the gross financial expenditure**

Initially child-care salary I was conceived to be dependent on time spent in gainful employment (compare to Leipert/Opielka 1997, Opielka 1997a). The version independent of time spent in gainful employment was only integrated into the model at a later date, in particular under the impression of several conversations with women and men committed to this matter. Today we see it as being the primary concept of a child-care salary which is better suited to today's problems, particularly in the 1st phase for families with children aged 0 to 3 years old, without dispensing with the version dependent on time spent in gainful employment (refer to the corresponding passages at several points in this study).

In the version dependent on time spent in gainful employment, the gross costs for child-care salary I are measured dependent on the amount of work done by the child-care providers. For households in which there are children in the age-group 0 - 8 years

old and children in the age group 8 - 18 years old, there was no information available on the level of the household income. Correspondingly in this group of households it was not possible to balance the entitlement to child-care salary II dependent on income with the household income increased by child-care salary I. However, to get an indication of the approximate level of entitlement to a child-care salary for this group of households which in terms of numbers is not unimportant (compare to Table 9), the following rough calculation was done: for the children in the age group 8 to under 18 years old, the additional amount for further children corresponding to child-care salary II (DM 600) has been assumed.

This calculation actually overestimates the gross cost of the child-care salary for this household group. Because here every further child over the age of 8 is counted with DM 600. These DM 600 however are only paid dependent on income within the framework of child-care salary II. These payments to married couples with children are extremely rare, as explained in more detail below (compare to DIW 1998, Table 4).

To calculate the gross costs of the complete introduction of child-care salary I for all seven age groups (children from 0 to 7 years old), the DIW used the birth rates of the years 1989 to 1995 which were high on average as a basis (compare to Table 13) which also include the high birth figures of former East Germany.

Based on these assumptions for the status of a complete introduction of the child-care salary I, the resulting total gross cost is DM 123.4 billion for married / unmarried couples and DM 9.5 billion for single parents, thus in total DM 132.9 billion (including the part-group of children aged 8 to 18 mentioned above). *Of this more than 2/3 are due to child-care providers not in gainful employment.* So even in the version dependent on time spent in gainful employment therefore, a high percentage of the child-care providers (above all mothers) would be fully entitled to the child-care salary as they are not in gainful employment. With regards to the annual gross costs for all children born in one year, the child-care salary described here which is dependent on time spent in gainful employment would therefore not be as different as might be expected from the version we favour which is independent of time spent in gainful employment.

The average burden caused by an age group for the version dependent on time spent in gainful employment is also just under DM 19 billion. As the child-care salary I is only supposed to be paid until the child starts school, the seven year calculation results in an overestimation amounting to the sum of half a year. The reduced expenditure amounting to DM 8.5 billion on average stands opposite a slight increase in expenditure compared to the gross costs determined by the DIW for child-care salary II in the case of the introduction of child-care salary II dependent on income. Correspondingly the total expenditure for child-care salary I is reduced when taking into consideration the burden of half a year for the 7th year to DM 123.4 billion.

## **7.2.3 Child-care salary II and the basic security for people who have brought up children**

### **7.2.3.1 Child-care salary II for children aged 8 to 18 years (Phase 3)**

The expenditure for child-care salary II dependent on income for married/unmarried couples amounts to DM 1.1 billion and DM 9.6 billion for single parents, thus a total of DM 10.7 billion (compare to DIW 1998). The child-care salary II dependent on income decidedly serves the purpose of providing basic security to the child-care providers.

Single mothers profit primarily from this, many of whom today are dependent on social assistance benefits as is well known (compare to Table 11). In contrast, the expenditure for couple households only amounts to 1/10 of the gross costs determined for child-care salary II which shows that most of these families are able to cover their minimum income requirement with their own income. Many single parents can now secure a minimum income by being entitled to payment for services rendered "child-care salary" and thus are no longer primarily reliant on "social assistance benefits" which sometimes de-gradingly forces them to disclose details on the way they lead their life and on their financial circumstances..

Child-care salary II will be paid in the form of a "negative income tax" set off against the gross income from gainful employment. The set-off rate is 50%. A gross income of DM 3,500 per month (with one child) already leads to loss of entitlement to the child-care salary due to being set off against the gross income from gainful employment after subtracting the social security contributions (employee's contribution) (compare to DIW 1996a for the set-off technique).

The majority of couple households will not receive child-care salary II with the planned set-off. Only households with one recipient of income from gainful employment which is below average and two or more children will receive a - reduced - child-care salary. The full child-care salary will be given to households which continuously receive support from social assistance benefits. Households with single mothers will receive a child-care salary whether they have one or two children. This is due to the on average low income from gainful employment. Single mothers who are not in gainful employment will as a general rule be eligible for a full child-care salary II.

### **7.2.3.2 Child-care salary II as basic security for child-care providers (as of the 19th year of the youngest child's life)**

The payment of a basic amount of DM 1,400 per month to the child-care provider once the youngest child is over 18 until of pensionable age is thought as a basic security for people who have brought up children. This basic amount is also conceived as negative income tax, i.e. other income is taken into consideration with a set-off rate

(e.g. of 50%). In 1996 there were 5.8 million women who were under 60 years old and whose youngest child was over 18. These women were 26.3 years old on average when their youngest child was born, i.e. they would be eligible for the basic amount as of the age of 44.3. Thus with the presumed average age of eligibility for a pension of 60, this basic amount would have to be paid for just under 16 years.

According to the participation in gainful employment shown in Table 10, 70 % of mothers with children between 8 and 18 participate in gainful employment. It is assumed that women are more likely to increase this ratio of participation when the children have left home, taking the relatively young age at the end of the active phase of child-care into account.

When calculating the level of child-care salary II for children between 8 and 18, it has become apparent that, due to the set-off of the income from gainful employment, married mothers (or those living with a partner) in gainful employment will only benefit from a child-care salary in exceptional cases, as the income of the whole household is taken into consideration in the assessment for eligibility. This will also apply for the long term provision of basic security.

Single mothers (in gainful employment) with children between 8 and 18 on the other hand will almost always receive child-care salary II, even though due to being set-off against income from gainful employment it will often only be a partial amount. As Table 2 shows, the portion of people not in gainful employment in this group at 26.4% is lower than for married mothers (30.6%), the portion of those in full-time employment is even significantly higher (39% as oppose to 25.4%). This indicates that for single mothers with children over 18, the labour force participation rate will be yet higher again than for married mothers, especially as further partner income is not available in the household.

Therefore, as a basic security for child-care providers, single mothers will only receive an average payoff amounting to approx. 25% of the basic amount (the DIW in contrast presumes 50% as it assumes a continuously low participation rate in gainful employment of single mothers with adult children, which in our opinion does not reflect reality). Single parents not in gainful employment will receive the full basic amount, among which are the recipients of social assistance benefits.

Of the married child-care providers who are not in gainful employment, only a small percentage will receive basic security (approx. 10%). Due to the income of the second child-care provider (spouse) or own income, an amount of 50% of the basic amount is assumed for this part group. In total, gross payments amounting to approx. 1.8 billion for single parents and 5.5 billion for married couples, a total of DM 7.3 billion is to be paid under the presumptions decided on here for providing long-term basic security to child-care providers with adult children.

### 7.3 Taxing the child-care salary

The child-care salary is to be subject to taxation. The additional tax burden caused by receiving the child-care salary depends on the level of the gross income from gainful employment and the family status. For households with married couples, the level of income from gainful employment attained is influenced by whether the man, the woman or both partners participate in the labour market.

The duty to subject the child-care salary to taxation results in it being possible to make allowances for aspects of social justice, even for a universal payment. The net effect of the child-care salary now depends only on the level of the total household income received. It decreases as the household income increases.

Taking aspects of social justice into consideration is required today in times of general scarcity of means because it is necessary for measures taken by the state to be accurate in their effect. This criteria is achieved in an elegant fashion without additional bureaucratic control and monitoring expense by the obligation to tax the child-care salary with the side-effect of reducing the net burden of expenditure for the state for this measure by nearly 30%.

The tax burden of the child-care salary results from the marginal tax rate applicable to additional household income. As for the discrimination of the income women have from gainful employment in married couples with a great discrepancy in levels of income between husband and wife through taxation in tax class V, we have said all that is necessary in chapter 2.

The DIW determined 28% as being the average additional tax burden of the child-care salary payments. Households with couples in which only women receive income from gainful employment on average will only be subject to additional taxation amounting to 20% of the child-care salary. The percentage of households of this type is however at most 7% of the households with couples. The additional tax burden of single mothers is on average 28%.

Single mothers who are not in gainful employment can claim the taxable subsistence level (subsistence level free of taxation, approx. DM 12,400 annually) for receiving the child-care salary. As a result of this, they will only have little if any wage and income tax to pay. Thus for approximately 50% of single mothers (or for the basic security for approx. 25%) no tax payment was assumed. For the rest of the payments to single mothers a tax rate of 30% was calculated. For the model of a child-care salary independent of time spent in gainful employment for families with children from 0 to 3 years old, for which we are advocating immediate political implementation here in the sense of it being an important first step on the way to a wider introduction of the child-care salary, on a gross expenditure of DM 57 billion approx. 16 billion wage taxes will be paid. Thus an actual finance concept for 41 billion DM has to be provided (compare to Table 15).

Furthermore, the DIW determined state revenues from wage and income tax with a complete introduction of our original concept "Child-care salary I which is dependent on time spent in gainful employment for families with children from 0 to 7 years old, child-care salary II which is dependent on income for families with children aged 8 to 18 years old and basic security for child-care providers with a youngest child who is over 18" (compare to Leipert/Opielka 1997). With expenditure amounting to nearly DM 133 billion for child-care salary I which is dependent on time spent in gainful employment (incl. the second half of the 7th year of life which does not have to be financed), the wage and income tax payments to be expected amount to DM 37.2 billion. The corresponding figures for child-care salary II and the basic security for child-care providers are each DM 1.7 billion. For the long-term security of child-care providers, net costs of approx. DM 5.6 billion remain after taking the wage and income tax revenue into consideration. The relationship between induced tax revenue and gross receipts of the families is nearly the same in both versions (independent of time spent in gainful employment and 0 to 3 years old as well as dependent on time spent in gainful employment and 0 to 7 years old). They are both approx. 28%.

## 7.4 Financing strategy for the child-care salary

### 7.4.1 Concentration on the 1<sup>st</sup> phase: Families with children from 0 to 3 years old

In the following, a concept on financing the child-care salary is presented. In doing so we have concentrated on a finance concept for a child-care salary independent of time spent in gainful employment which is to be introduced in the 1st step for families with children from 0 to 3 years old (refer to the summary in Table 15 pertaining to this).

When concentrating on the 1st phase of a child-care salary, there are two main points to guide us. Politics essentially takes place incrementally, i.e. the members of parliament, legislators, executive politicians and civil servants in the ministries involved in politics of the day generally reject concepts which intend a new cast of the die or to be utopic changes. The introduction of the 1st phase would be a big step beyond the current regulation of parental benefits but it would still be recognisable as a further (indeed significant) development of what exists today.

The constraints on financial means the state has for new expenditure-effective measures which can be presumed today and in the future are a further incentive for us to concentrate on the 1st step. The circumstance that we have given a high priority to the development of a finance concept is based on experience that politicians today concentrate so much on the scarcity of state means and corresponding debates on cut-backs that they often only seriously look at political measures which may well be overdue if presented with a realistic finance concept.

In chapters 7.5.5 and 7.7 we will also present the calculations by the DIW on the

savings effects of a comprehensive introduction of child-care salaries I and II. Here it can be seen that the employment reactions of the beneficiaries of the child-care salary and the state saving effects caused by this can only analytically be quantified soundly if a comprehensive introduction of the child-care salary is presumed.

#### 7.4.2 Red thread through the financing strategy

Our finance concept is unfolded in *four steps*. Initially we present the savings (or increased revenue) in the state budgets which will occur more or less automatically with the introduction of a child-care salary. These concern parental benefits, social assistance benefits, unemployment assistance, housing allowances, student loans and the user charges for taking advantage of places in child-care facilities.

In the next step we will discuss the positive consequences for state revenue which will occur due to the expansive effects of the increase in domestic demand which will be made possible by the child-care salary. A further finance relevant connected effect concerns the employment reactions of people who are entitled to a child-care salary. These can provide certain relief from the burden on the purse of the Federal Labour Office (BA) as a consequence.

We can not presume complete self-financing of the 1st phase of the child-care salary. This is why we talk about so-called "*created savings*" in the 3rd section and in a further segment of a chapter concern ourselves with tax increases as a further finance option.

Under created savings we mean the mobilisation of state means - here in favour of financing the child-care salary - through *changes in legislation* which lead to a decrease in the transfer of state revenue or tax advantages for certain groups. In this we are thinking of reducing the income advantages from married couple 'splitting' and in the long-term of a reorganisation of the surviving dependant's support which is politically due anyway. In the current finance concept however, we do not plan for any corresponding savings amounts as far as point 2 is concerned. Savings potential furthermore can be updated by shifting the point of focus of finance to the external child-care supplementary to the family from being object-oriented to being subject-oriented. As for the option of "tax increases", for one we are thinking about a higher contribution from old-age income towards financing the (child-care and support) costs of child-care, furthermore of an increase of revenue from inheritance tax by levying a family supplement. The older generation has for some time now accounted for a growing portion of the private property in Germany. This trend will continue in future years. The abolition of property tax was also heavily criticised not only by the SPD, the Green Party and the churches.

A further long-term option ultimately is to levy a family supplement (1,2 or 3%) on wages and income tax. The introduction of a family supplement like this could seamlessly continue on from the expiration of the solidarity supplement in favour of former East Germany.

## 7.5 Automatic savings in the budgets of the state authorities

### 7.5.1 Abolition of parental benefits (Federation and Lands)

Parental benefits will be abolished completely as the child-care salary will logically and substantially take over its intended function. For other income transfers, automatic savings will take effect.

The parental benefit payments in 1996 were around DM 6.95 billion which will now be saved in the state budget by changing over to the child-care salary.

If the child-care salary is introduced successively, i.e. only for families whose child is born after the point it is introduced e.g. 01.01.2000, savings made from the parental benefits would be around 70% of the total amount. Only a good 30% of the parental benefit payments are paid to families with children in their 2nd year of life. The full savings amount from the parental allowance would thus be available at the beginning of the 3rd year after the new legislation coming into force on a child-care salary.

The abolition of the parental benefits has a less positive effect relatively on recipients of social assistance than on other recipients of the child-care salary. Depending on the household income today they already have to do without the parental benefit which is income dependent as of the 7th month or at least accept a reduction from the maximum amount of DM 600. On exchanging the parental benefits for a child-care salary, for recipients of social assistance the amount of the child-care salary will be reduced by the amount of the parental benefits previously received. It must of course not be forgotten that this would only apply for the first 2 years and the relative worsening of the position of recipients of social assistance benefits must be contrasted against an improvement of the position in the third year in comparison to the position today due to the continued payment of the full child-care salary.

To what extent the position of social assistance recipients is really made worse must be examined in more detail. The supplement for single parents of DM 300 for the youngest child already makes up 50% of the parental benefits. To the extent in which it is possible to extend the child-care salary independent of time spent in gainful employment beyond the first phase to the 4th and 5th year, the probability increases of the mothers or fathers being eligible for a child-care salary for further children at the same time for 2 or more children.

A child-care salary of DM 3,450 (with 2 children under the age of 7) even after tax easily exceeds the level of support social assistance benefit recipients can receive today - not to mention the gain in prestige which accompanies the changeover from social assistance to a child-care salary.

Five Federal Lands (as of 31.03.98 also Rheinland-Pfalz) pay out a parental benefit from the Land in the third year of the children's life (compare to Table 14). In our introductory model for the first three years of life (1st phase of the child-care salary),

the parental benefit from the Lands would become superfluous. The expenditure would appear as automatic savings (with successive introduction after the end of the third year). The savings potential amounts to a total of approx. DM 630 million per year.

*Table 14: Parental allowance payments from the Federal Lands*

Land	Amount (in DM)	Time period (in Months)	Expenditure 1997 (in Mio. DM)	Planned amount in Budget 1998 (in Mio. DM)
<b>Baden-Württemberg</b>	400	12	114	123
<b>Bayern</b>	500	12	226	340
<b>Mecklenburg-Vorpommern</b>	600	6	42	29
<b>Sachsen (Saxony)</b>	600	12	85	104
<b>Thüringen</b>	600	6	34	34
<b>Total Expenditure:</b>			<b>501</b>	<b>630</b>

Source: Social Ministry Free State of Saxony

## 7.5.2 Savings in social assistance benefits, unemployment assistance and housing allowances

### 7.5.2.1 Social assistance benefits

Further automatic savings will occur in social and unemployment assistance benefits as well as housing allowances. One of the aims of the child-care salary is to get parents away from being dependent on social assistance benefits and offer them an alternative more highly valued in society by paying them a salary as payment for child-care services provided by them.

In 1995 DM 15.8 billion running payments towards the cost of living were made in compliance with the Federal Social Assistance Act (BSHG) (compare to Federal Statistical Office 1995, FS 13, R. 2, p. 110). For 1996 the expenditure is estimated to be DM 17 billion.

From the total of 1.28 million households which receive running payments from social assistance, 37% is paid to households with children under 18 years old (in addition there are 70,000 need communities with young people under the age of 18 who live without a child-care provider). As the demand rates for households with children are twice as high as those for households without children (ibidem, p. 41) the expenditure portion for households with children under 18 years old is estimated to be 70% of the social assistance expenditure for running assistance. This amounts to DM 11.9 billion.

Of the social assistance recipients recorded on the fixed day who are less than 19 years old, one fifth are aged 0 to 3 years old (ibidem, p.15). One fifth of the savings calculated above amounting to DM 11.9 billion are DM 2.4 billion.

### 7.5.2.2 Unemployment assistance

Unemployment assistance is only paid to unemployed people who can prove their insufficient economic means. It is structurally comparable to social assistance benefits in its dependency on being forced to prove insufficient means. Recipients of unemployment assistance who are bringing up children at the same time can to large extent replace the unemployment assistance received so far by the entitlement to a child-care salary.

In 1996 DM 24.3 billion were paid out as unemployment assistance. According to the statistics provided by the Federal Labour Office (compare to Federal Labour Office 1996) in the West two thirds and in the East half of the benefit recipients get unemployment assistance on the basis of a reduced payment rate, i.e. the unemployed person or his or her spouse do not have a child in the household to be taken into consideration from a taxation point of view. For all of Germany this results in a quota of a good 60%.

Only for the other 40% can a reduction in the level of unemployment assistance be expected due to receiving a child-care salary. If a reduction of 70% is assumed in these cases as well (as for social assistance) then payment of a child-care salary will lead to savings amounting to DM 6.8 billion in unemployment assistance.

To determine the corresponding amount of savings with the introduction of our key concept (1st phase for families with children aged 0 to 3 years old), a quota derived from the social assistance statistics will be taken as there is no better data available. One fifth of the DM 6.8 billion calculated above makes DM 1.4 billion.

### 7.5.2.3 Housing allowance

The income of the families will increase due to the child-care salary which means that their eligibility for housing allowance which is dependent on income will be reduced. In 1996 DM 5.43 billion housing allowance was paid (compare to Federal Statistical Office 1996a, p.254). In approx. 45% of the cases housing allowance is claimed by single people. The amount that these people are entitled to is less than that which families are entitled to. Thus it is presumed that individuals receive 40% of the transfer "housing allowance". Of the remaining 60% of the total housing allowance, savings amounting to 70% are applied, i.e. DM 2.3 billion DM. The high portion of recipient households with a flat-rate housing allowance for households with several members speaks for this high savings rate (compare to Federal Statistical Office 1997/8). These households receive social assistance benefits. This means that additional income in the shape of a child-care salary leads to complete or very significant reduction in the entitlement to housing allowance.

If the child-care salary is only paid to families with children aged 0 to 3 years old, the savings effect on housing allowance is estimated to be DM 0.9 billion. This is derived from the above mentioned portion of households with several members and the portion of flat-rate housing allowance of the total sum of housing allowance. Housing

allowance payments can not be sorted according to the age of the child in the households receiving housing allowance in official statistics. Alternatively reference is made to the age structure of social assistance benefits recipients. With the high proportion of the housing allowance recipients on the flat-rate, the age structure of the housing allowance recipients can be derived from the structure of social assistance recipients. Of the children aged 0-7, 40% falls into the age category 0 to 3 years old (compare to Federal Statistical Office 1997, FS 13, R.2, p.15). If this portion is transferred to the savings calculated above, then savings in housing allowance amounting to DM 0.9 billion are the result.

#### **7.5.2.4 Educational assistance (student loans - Bafög)**

The extent of savings in educational assistance is estimated by the DIW to be small. Educational assistance is mainly provided for students. They have generally already passed the age limit. The effect of the child-care salary would thus only be felt in households with several children (apart from the basic security provided for people with children over 18). Apart from that, the credit modalities for student loans (Bafög - two level allowance) will cushion possible cutbacks. In 1996 only DM 1.7 billion were paid out as educational assistance. Here possible savings of DM 0.2 billion (12%) are applied.

Naturally families with children aged 0 to 3 years old will not receive any educational assistance. Correspondingly there is no room for savings of state expenditure.

#### **7.5.3 Savings made through higher contributions from parents towards child-care institutions**

With the introduction of the child-care salary, the sector of child-care in professional institutions supplementary to the family should also be strengthened and made more dynamic. With the possible integration of a child-care voucher into the concept of the child-care salary, the changeover from object to subject -oriented finance in this area is put into motion. This should give the parents more possibility to influence the configuration of the time and quality framework conditions of external child-care on offer outside the home according to their respective family needs. In the case of a "child-care voucher" (alongside the cash portion of the child-care salary) the parents would pay for child-care services for their children of nursery school age with the child-care voucher.

Earlier on we emphasised that in the case of a model of a child-care salary dependent on time spent in gainful employment in phase 1 which affects children aged 0 to 3 years, a comprehensive changeover from object-oriented to subject-oriented finance can not be considered. Married couples in which both partners are in full-time employment would only receive a basic amount of DM 600 (max. DM 800 at 40%) for the youngest child.

The real operating costs for a place in a day-care nursery however are significantly higher. For this reason we suggest that in this model merely the income dependent increase in receipts from user fees is to be taken into consideration as state savings potential (~ state revenue increase). The child-care salary will lead to an increase in income in families, correspondingly they have to pay higher parental contributions according to the fees table of day-care nurseries.

In the model of the child-care salary independent of time spent in gainful employment which we are bringing to the fore here, the matter looks a little different. The parents will receive in any case DM 2,000 gross for their youngest child. In this concept for the first three years of a child's life, it is justified to start with the changeover from object-oriented to subject-oriented finance immediately. Otherwise ridiculous excess subsidisation of some families would occur which in times of extremely scarce means would not be acceptable under any circumstances. With a child-care salary of DM 2,000 and maintaining the high state subsidies for the day-care nursery area, some parents would be able to take advantage of a highly subsidised day-care nursery place as well as two full salaries and a child-care salary.

A changeover from object-oriented to subject-oriented finance in the day-care nursery area would mainly affect former East-Germany (compare to Chapter 6). Because in former West Germany there is a day-care nursery place available for less than 5% of all children aged 0 to 3 years old. The child-care salary proposal by the Family and Social Minister Geisler in Saxony plans such a changeover for financing the day-care nursery and nursery school area. We suggest the formation of some sort of a round table as soon as possible in which all "parties" involved in this discussion must be represented. This should then develop an acceptable concept for the successive changeover from object-oriented to subject-oriented finance suggested here.

Due to the noticeably higher parental contributions in the day-care nursery area due to the child-care salary we assume that the state expenditure for day-care nursery places can be reduced by up to 50%, providing the number of places is not changed. This will mean savings amounting to approx. DM 1.2 billion. The extent to which the child-care salary will be extended to cover the 4th, 5th and finally 6th year of a child's life would correspond with a large increase in the amount the state would save on day-care nurseries. This does not only apply to the model independent of time spent in gainful employment but also to the model dependent on time spent in gainful employment. A child-care voucher to the amount of DM 600 covers the average costs of a half-day nursery school place. Even parents in full-time employment can finance this child-care voucher with the basic amount of DM 600 (or DM 800).

The changeover of state means from the day-care nursery area will make financing the child-care salary significantly easier. In 1995 the expenditure of state authorities (mainly Lands and communities) for day-care nursery facilities was DM 18.3 billion (compare to Chapter 6). Part of this expenditure the state will continue to have. On the one hand the state is still sought after for investment contributions towards building and

expanding day-care nursery facilities. On the other hand it makes sense if justified additional expenses are borne by the public purse.

#### 7.5.4 Further savings in the state budgets

It does not require prophetic abilities to be able to predict that the child-care salary will have positive effects on the state expenditure in the area of juvenile delinquency, financing finding homes for juveniles and the youth welfare service. The connection between lack of time parents have for their children and the increasing neglect of youngsters is often raised in the discussion which now takes place throughout society on causes and solutions for juvenile delinquency. If parents have more time for their children again and children in return can depend on more social stability in their family, many experts expect a decrease in juvenile delinquency even though here a mono-causal correlation can not be assumed – just look at the influential factor of there not being enough jobs and apprenticeships. As a result the state will see a reduction in the financial burden from the above mentioned areas of responsibility. To put a figure on it however would really be entering the realms of prophesy.

Table 15 shows a summary of the finance calculation for the first phase of introduction of the child-care salary for families with children between 0 and 3 years old.

*Table 15: Finance calculation for a child-care salary independent of time spent in gainful employment – 1st Phase: for families with children aged 0 to 3 years old, DM 2000 for the youngest (in billion DM) (1996)*

<b>Expenditure</b>	Gross costs	57,0
<b>Revenue</b>	Wages and Income tax	16,0
	Changes in tax assessment	22,0
	Taxes based on multiplier processes	1,7
<b>Savings</b>	Parental benefits (State)	7,0
	Parental benefits (Lands)	0,6 <sup>1</sup>
	Social assistance benefits	2,4
	Unemployment assistance	1,4
	Housing allowance	0,9
	Grants towards operating costs of day-care nurseries	1,25 <sup>2</sup>
<b>Net costs</b>		<b>3,7</b>
	Alternative means of financing the net costs	
	(a) Savings in family supplements in public service	3,7
	(b) 1% family supplement on wages and income tax	3,7
<b>Remaining amount to be financed</b>		<b>0</b>
<sup>1</sup> Household plan 1998 <sup>2</sup> Based on higher parental contributions; corresponds to approx. 50 % of the current state subsidies		

Source: DIW 1998 and own calculations

### **7.5.5 Savings potential on expansion of the child-care salary beyond the third year of a child's life**

In years to come the thing to do politically will be to extend the receipt of the child-care salary to the 4th, 5th and 6th year of a child's life until it reaches school age. If this comes into effect, new possibilities for savings in the public purse will open up immediately. In the case of a comprehensive introduction of the child-care salary, the savings amounts in social assistance benefits is around DM 11.9 billion, in unemployment assistance around DM 6.8 billion, in housing allowance around DM 2.3 billion and in the educational grants at approx. DM 0.2 billion (compare to DIW 1998, p. 28). Apart from that, the changeover from object-oriented to subject-oriented finance in the day-care nursery area can be extended to the financially weighty state expenditure for running nursery schools.

## **7.6 Increase in state revenue due to the expansive effects of the child-care salary**

### **7.6.1 Higher propensity to consume by families with children**

Families with children on average spend a larger proportion of their disposable income on consumption than high-earning singles and couples do. This has been proved by the DIW in an investigation for the German Working Association for Family Assistance in 1996 on the basis of SOEP data (Kirner/Schwarze 1996). The average consumption rate of single parents with small children is nearly one. That of married couples with children between 0 and 3 years old and 3-6 years old is only marginally less. In contrast, the average consumption rate of childless people in employment taking the significantly higher per capita income into account is only at approx. 0.8. The demand effect of the increase in income due to the child-care salary will no doubt depend on the marginal consumption rate of the family.

Considering the generally bemoaned low per capita income which families with young children have at their disposal in general today, it can be assumed that the families will to a large extent convert the increase in purchasing power into purchasing. Thus it can be said that there will not only be a high average consumption rate but also a high marginal one in the majority of families who receive the child-care salary.

This increase in demand for goods and services does not lead automatically to additional revenue from value-added tax. Our finance concept for the 1st phase of the child-care salary is essentially based on a transfer of funds which had been expended before and were subject to value-added tax in those applications. Additional revenue from value-added tax will only result through the expansive effects of the increase in demand by families.

### 7.6.2 Expansive effects of the increase in demand

The increase in demand for goods and services will stimulate the whole of the national economic cycle. The expansive effect of a change in a demand aggregate - in this case private consumption - is determined in economic research based on the (consumption) multiplier. Spending the additional purchasing power initiates an expansive process of continuously increasing consumption expenditure.

The expansive effect of additional consumption demand in private households results from the increase in the demand for goods requiring additional production effort in the consumer goods industry and there, according to the employment intensity of additional production, leads to positive employment and income effects. This again makes the purchase of additional consumer goods possible. The expansive effect decreases from round to round. The total effect described by the consumption multiplier however, in total presumes that the original increase in purchasing power is permanently upheld, the child-care salary is not just a five-minute wonder.

The expansive effect of the original increase in consumption described by the consumption multiplier would be further increased if the increase in production resp. the higher capacity utilisation in the consumer goods industry would stimulate additional investments in companies (accelerator effect).

The extent to which jobs newly created by the expansive effects of an increase in demand are filled by people who had thus far been recipients of benefits of unemployment assurance will be reflected in certain savings in this area in the payments of unemployment benefit or assistance. Quantitative information on this can unfortunately not be provided due to the numerous uncertainties.

### 7.6.3 Extent of the expansive effects dependent on the type of financing the increase in demand

The extent of the expansive effects which are initiated by the flood of demand caused by the child-care salary decisively depends on the way the child-care salary is financed. In our opinion it should mainly be financed in the first phase by a transfer of funds within the limits of the Budget. Cutting the income advantages due to married couple 'splitting' in certain groups of households would mean that less disposable income would be available there. Correspondingly, these households which contribute towards the finance would have to reduce their expenditure. This reduction in final demand must be seen in contrast to the additional demand from the recipients of the child-care salary. Possible negative effects for the macroeconomic demand in the national economy can thus be described as contractive effects of a certain type of financing the child-care salary.

A contractive effect of zero would only be the result if financed by a credit from the Bundesbank or through capital import. For any other form of financing possible with-

drawal effects of the selected form of finance would have to be considered apart from the indisputable expansive effects of a increase in purchasing power in the hands of the families, which would lessen the expansive effect of the child-care salary.

Then again, additional employment and /or higher incomes in the favoured branches of consumer goods lead to additional revenue from wage taxes and value-added tax. If the recipient households have a higher consumption rate than the households which have to limit their expenditure due to this method of financing, then this difference in the marginal consumption rates will have an expansive effect. In the case of a difference in the marginal consumption rates of 0.2 which is assumed by the DIW (compare also the earlier study by Kirner /Schwarze 1996), the result is an additional expansive effect with a multiplier of 0.25. The calculation here is carried out using the formula:

$$\text{Level of the consumption multiplier} = \frac{1}{1 - \text{Difference in marginal consumption rates}} = \frac{1}{1 - 0,2} = \frac{1}{0,8} = 1,25$$

The initial increase in demand is less than DM 41 billion (57 – 16 billion DM tax revenue). As contractive magnitudes, the savings amounts from parental allowances , social assistance benefits, unemployment assistance and housing allowance must be offset. To determine the expansive effect, a correspondingly reduced amount has to be multiplied with the multiplier 0.25. To determine the additional tax revenue as a result of the expansion in economic production, the expansive effect has to be multiplied with the average tax rate of 23% (proportion of taxes of the gross domestic product). The DIW puts a figure of DM 1.7 billion on the additional state revenues which are mainly made up of additional wage and value-added tax revenue for our core model (1st phase) (compare to Table 15). If the initiated additional product of a comprehensive introduction of a child-care salary (dependent on time spent in gainful employment) is reckoned with, the additional state revenue due to the expansive effects according to conservative DIW calculations is around DM 4.8 billion. The relatively low values for the additional state revenues point to the fact that the DIW calculated very carefully here so as not to be accused of overestimating the multiplier effects which are often completely disregarded by the supply oriented school dominant in economic theory today. Thus it does not seem to be unjustified to assume that the actual effective expansive stimulation provided by the child-care salary is more likely to be above the minimum values calculated by the DIW.

## 7.7 Employment reaction of the child-care salary: Movements between the family work sector and the labour market

It is obvious that a child-care salary will induce an employment reaction (compare to Chapter 4). With a finance-relevant employment reaction we mean filling a job which has become available due to the new option of a child-care salary with an unemployed person who had been a recipient of unemployment benefits or assistance thus far.

Even if jobs are (temporarily) vacated due to the new (security) option of a child-care salary or the amount of time spent in gainful employment is reduced, this is not necessarily connected to relieving the pressure on the labour market. In the decade of streamlining personnel in companies and continuous rationalisation processes which also affect the service industry sector, many companies today make use of the opportunity provided by a vacant job to dispense with it altogether.

It is almost impossible to put a figure on the amount saved by the employment reaction induced by the child-care salary in our core model with a child-care salary for children aged 0 to 3 years old, independent of time spent in gainful employment. It can be assumed that it will not be very significant. A mass of empirical investigations confirm the findings that a large percentage of women with children aged 0 to 3 years old already stay at home or are only in part-time employment. The percentage of people in full-time employment in this group is very small. Thus the potential for an employment reaction is extremely small.

This may be different if we suppose an immediate introduction of our long-term concept (child-care salary I and II as well as subsequent basic security). In this case, the DIW has carried out investigations on potential employment reactions of people who would be recipients of the child-care salary (compare to Chapter 4.3.2). In this concept there is an economic incentive to reduce the amount of time spent in gainful employment as this would then increase the child-care salary received. This would then make it possible to employ the unemployed instead.

Employment of people who have thus far been unemployed will lead to savings in public transfer payments such as unemployment benefits, unemployment assistance or social assistance benefits, providing the right to such transfer payments had existed. As the new recruitment is not due to an expansion in employment but is replacement recruitment, there will be no increase in the wage and income tax or the social insurance contributions.

If we use the careful results of the DIW as a basis (compare to Chapter 4.3.2) a maximum work volume of 50,000 full-time people result in the course of replacing vacated jobs which can be transferred to the unemployed. If it is assumed that 60% are recipients of payments from the Federal Labour Office, this would then result in savings amounting to DM 850 million on an annual basis. In the case of our core model of a child-care salary independent of time spent in gainful employment for families with children from 0 to 3 years old, the employment effect initiated will not

be very great, as the mothers of children in this age group up to the age of 2 receive parental benefit and in many cases take advantage of the maximum possible parental leave of 3 years.

The calculations on the amount of the costs for child-care salary II point to the fact that the 50% set-off of the income leads to the group of recipients of this child-care salary being relatively small. The set-off of income should prevent a larger number of child-care providers reducing their working hours to then be entitled to receive the child-care salary due to their reduced income. The reduction of income from gainful employment is at least twice the amount of the child-care salary it is possible to get. Based on these considerations, no employment reaction is expected. The same applies to those who would possibly be eligible for the basic security after their youngest child has reached 18.

Significant savings in the payments by the Federal Labour Office as well as additional revenue from taxes and social security contributions could, however, result from the indirect employment effects of a child-care salary. As we discussed in chapter 4, there is a significant employment potential in household services in both the expansion of public childcare facilities as well as privately organised child-care (e.g. day-care providers). This employment potential would be opened up to a great extent indeed with the introduction of a child-care salary. However, within the course of our finance calculation, we have dispensed with a quantification of the effects of such a development on the Budget as it would be speculative at the moment.

Through change-overs and induced additional tax revenue, nearly 2/5 of the net finance required (DM 15.3 billion of DM 41 billion) could be mobilised in our core model of the child-care salary. Despite this, a significant remainder still needs to be financed. Here we initially schedule savings options which depend on legal changes. First of all is our suggestion to cut the income advantages from married couple 'splitting' for certain household groups.

## **7.8 Planned savings: Limitation of income advantages**

### **7.8.1 Limitation of income advantages from married couple 'splitting'**

Married couple 'splitting' finds its origin in a time in which the family model with the husband being the breadwinner and the wife being a housewife and child-care provider for the children was still dominant. The state wants to provide a certain amount of financial compensation with the income advantages from married couple 'splitting', which is particularly significant in families with one (highly paid) breadwinner, in return for the wife exclusively (or primarily) dedicating herself without pay to providing child-care and running the home.

### 7.8.1.1 Extent and economic significance of the 'splitting' advantage

Married couple 'splitting' costs the state a significant amount with calculated reduction in tax revenue. The last precise publication by the Federal Government on this reduction in revenue was in the social report 1993 under "Payments for families". In 1992, the reduced revenue was still at DM 29.7 billion (Social Report 1993, p. 175). This value taken from the social report results mathematically from the difference between the married couple tax assessment according to valid law and a tax assessment which would result if the social and economic matter "marriage" was not taken into consideration in tax assessment. It may be a coincidence that the Federal Government has since declined to publish this "payment", particularly in the intensive discussion on tax reforms in the late '90s. Commendably the Federal Finance Ministry made new model calculations on the reduced tax revenue from married couple "splitting" available in early 1998 for the years 1996 to 2001 which also show the values for the Lands in former East Germany separately (compare to Table 16). The corner values of the splitting advantage were mentioned again in the "Social Report 1997" published at the end of March 1998 however without mentioning the phrase "married couple splitting" and added to other tax relief provided for families which disguised the actual volume (Federal Ministry for Labour and Social Affairs 1998, p. 338f., v.a. Fn 2).

The child-care salary is to be valued as an essential step towards providing independent economic security for women through material recognition of child-care work. Inasmuch as women primarily provide child-care, they will now receive direct economic security for work within the family. The indirect acknowledgement of their work by adding to the breadwinner's income the income advantages of the married couple 'splitting' can then be dispensed with. Married couple 'splitting' as a general rule increases the disposable income of the husband in which the wife only participates indirectly. The direct acknowledgement through the child-care salary makes the women affected more economically independent and changes their economic weight in the family in their favour. Thus married couple 'splitting' becomes superfluous functionally in a certain area, as the economic support of the family it provides is now attained in a better way (and more directly) through the child-care salary.

The means which become free after abolishing married couple 'splitting' are not 100% entirely available to finance the child-care salary. A certain part continues to be needed to finance the tax-exemption of the subsistence level for married couples which had been provided for implicitly through the income advantages of married couple 'splitting'. In addition, married couples may not be put in a worse position financially than divorced couples who can take advantage of the so-called "real splitting" in which maintenance payments (up to DM 27,000 per year) are tax deductible as special expenses and the corresponding income is to be declared by the recipient. This is particularly significant for married couples without children in which the wife is not in gainful employment or only minimally and thus have an income which is below the taxable limit of the subsistence level. As married couples generally have a

double subsistence level which is tax-free, married couples would profit from this regulation from a taxation point of view in which the wife is a housewife.

The income advantages provided by married couple 'splitting' beyond that which are subject to heavy criticism in particular in the group of married couples without children will mainly disappear with the abolition of married couple 'splitting'. Unfortunately, there are no simulation calculations available on the effects of an abolition of the current married couple 'splitting'. It can be assumed that the additional tax revenue would be quite significant. The data shown in Table 8 speaks in favour of this, particularly in the comparison between former West and former East Germany.

*Table 16: Reduced tax revenue from married couple 'splitting' in 1996 to 2001*

	<b>Lands in former West and former East Germany together</b> (in million DM)	<b>Of which are for former East Germany</b> (in million DM)
<b>1994</b>	31.100	-
<b>1995</b>	32.400	1.600
<b>1996</b>	41.100	2.700
<b>1997</b>	41.500	2.700
<b>1998</b>	43.100	2.800
<b>1999</b>	45.900	2.900
<b>2000</b>	47.300	3.000
<b>2001</b>	48.700	3.200

Source: Federal Ministry of Finance 1998

The advantage of the splitting procedure is mainly of benefit to the upper and highest income groups. There is no other way of explaining the rapid growth of the splitting advantage in former West Germany. But above all there is otherwise no way of explaining why the other reduced tax revenue from the family payment compensation (tax exemptions for children and child benefits) in former East Germany amounts to approx. 1/6 of the value of former West Germany whereas the advantages from married couple splitting only amount to 1/16th.

### **7.8.1.2 Savings to finance the child-care salary**

As the limitation of income advantages from married couple splitting makes up a significant proportion of the finance for the child-care salary, the DIW carried out differentiated estimates for the additional revenue. To do this a procedure of several steps was used:

- For the time in which a child-care salary is received, the tax assessment according to the splitting procedure is limited or removed.

- For the time in which the child(ren) is (are) between 3 and 18 years old (or are still in education and are being maintained), the splitting procedure continues to apply (possibly limited to a fixed amount).
- If there are no (longer any) children in the household, then the possibility of tax assessment according to the splitting procedure is limited or removed.

As already mentioned, changing the tax appraisal of income from gainful employment has far-reaching consequences. The participation in the labour force of women above all (possibly also men) will adapt to the change in the net income situation. Because the deterrent effect which is a result of the massive initial tax rates for the second earner in the marriage would disappear with the abolition of the splitting advantage and tax class V for the spouse with the lower income. The increase in tax revenue stated in the following can thus only be understood to be rough estimates.

The model calculations by the DIW on the modification of taxation show an increase in tax revenue of DM 33.3 billion if the tax assessment with the splitting procedure in income tax is abolished. This takes both partners receiving the respective applicable basic amount (tax-free existence minimum) into consideration. The tax-deductible household amount single parents receive has been retained. Abolition of this would increase the tax revenue by an additional DM 1.9 billion.

Of married couples, 45% have children under the age of 18 and four fifths of these couples have children aged 3 to 18 (compare to BMFSFJ 1997, p. 39ff). If the calculated splitting advantage is divided up proportionally between the different types of couples, then only 35% of the splitting advantage will remain. Thus increased tax revenue of nearly DM 22 billion will result which can be used to finance the child-care salary. Married couples with children over the age of 18 who still live in their parent's home will have to pay more taxes to the tune of approx. DM 11 billion; married couples with children over the age of 18 who no longer live in the household will provide approx. DM 7 billion and married couples without children will provide approx. DM 4 billion. The greater burden on parents with grownup children should be taken into consideration in the course of a reform of educational grants. The costs of such a reform would not, however, come near the increased amount of revenue calculated here.

The abolition of the married couple splitting procedure would above all greatly reduce the net gains from all measures connected to the implementation of the child-care salary in the higher income groups, even when taking the child-care salary into consideration. For the highest incomes (more than DM 20,000 per month) it could even mean that the abolition of the splitting advantage and the payment of a child-care salary for one child (DM 2,000) could balance each other out. This effect is positively contrasted by the increased accuracy of the state redistribution and the high self-financing rate of the finance model suggested here.

It would have to be possible to attain a consensus in society to the effect that the significant increase in state revenues from the limitation of married couple splitting in future specifically benefits the families which by providing child-care are endangered in a particular way, the young families with young children.

### 7.8.2 Family supplements in the public service

Within the course of the study it has often been suggested that childless people should participate more strongly in financing the material allowances for families due to the advantages they get from the work done within the families. One possibility would be to reduce and abolish the family supplements in the public service inasmuch as these are paid to married couples without children and use the means which would then become available in favour of the child-care salary.

Further possible savings could be made in the case of married couples who brought up children earlier and today have reached a certain age limit, e.g. 50 or 55 years old. Due to their advanced years, these people have a higher income than young families and could thus often relatively easily do without these family supplements in comparison to those who often have their first child while first starting their career.

The family supplements in the public service in 1995 amounted to DM 13.04 billion (Statistical Annual Report 1997b, p. 464). Due to the statistics on personnel levels from the Federal Statistical Office (FS 16, R 6, 1996, p. 131ff.) an amount of approx. DM 3.75 billion can be ascertained for 1996 for former West Germany alone (the data for former East Germany has not been prepared yet) which is paid as residence allowance 2 merely due to the status "married". In connection with a rededication of the married couple splitting in favour of a child-care salary, these payments are also available.

### 7.8.3 Reform of the provision for surviving dependants

A direct easing of the burden of expenses for widows' and surviving dependants' pensions results from the aim of providing long-term basic security for child-care providers within the framework of the basic security after completing the child-care phase. Further easing of the burden on the purses of the pension insurance and the state must be achieved by reforming the provision for surviving dependants. The traditional family model in which a wife not in gainful employment brought up the children and which led to an (indirect) social security for the wife in old age through the widows' pension is not more prevailing for long. The participation in the labour market by women has increased greatly in the last few decades and will continue to rise in the coming years. The independent economic security of women through gainful employment is increasingly replacing the model of indirect social security via the status of being a (dependant) wife and child-care provider.

The child-care salary will now create independent economic security for child-care providers who are still mainly women who take on the main responsibility for providing child-care and the work within the family it entails. The basic security at least permanently secures a subsistence level for child-care providers. Increasing this sum in old age results from the entitlement to an old age pension which are brought about by being credited for years spent in child-care and entitlements from years spent in

gainful employment. This old age pension increases if the adoption of time spent in child-care in future leads to higher pension entitlements. In our concept we have suggested to successively increase the number of years recognised as being child-care years to the term of the child-care salary I, i.e. to 6 1/2 years.

In Europe many countries are already ahead of Germany in the pending reform here. In Denmark which has a people's pension system financed by taxation, the provision for surviving dependants was already abolished in 1984. Instead of this, men and women from the age of 50 can get an advanced old age pension if it can be justified due to their financial position or their state of health. In Sweden and The Netherlands payments are only made to surviving dependants if they are no longer in a position to earn their own living because of caring for children, their advanced age or because they are unable to take up gainful employment (compare to Handelsblatt, 9.12.97). The reorganisation of the pension for surviving dependants can of course not be included immediately as a plus in the finance sources for a child-care salary. It will only bring about savings in the pension fund in the long-term, as significant changeover periods can be presumed.

## 7.9 Starting points of additional sources of revenue

### 7.9.1 Basic principles

A transfer of funds from married couple 'splitting' to finance the child-care salary to the tune of DM 22 billion covers a large percentage of the remaining amount to be financed. It remains an amount of approx. DM 3.7 billion to be financed. An alternative means of financing the net costs of the child-care salary in phase I we see in savings in the conventional residence allowance of the public service. Here and above all in the case of the extension of the child-care salary beyond phase I, the instrument of increasing taxes will also have to be included to provide the finance. Additional revenues could be raised by increasing the taxes on old age income, increasing inheritance tax, reintroducing property tax as well as levying a family supplement on the wages and income tax.

What are the reasons which have lead to the selection of these levers to raise additional state revenue?

The aim of making state savings by limiting the income advantages from married couple 'splitting' follows the logic of functional superiority of the child-care salary for the child-care provider(s) in the family compared to the effects of married couple 'splitting'. The advantage of the child-care salary is that it provides the (primary) child-care provider with direct economic security. The married couple splitting can – in other words – be abolished in a certain area, as the child-care salary is the superior instrument to reach the goal of providing the child-care provider (who is either not or only to a small extent in gainful employment) with economic security.

The decision for the above mentioned taxes to raise increased state revenue follows the logic of decreasing intergenerational inequities - above all with regards to the unborn generations and of a new distribution of the tax and duties burden between the generations alive today at the expense of the older generation, the bequeathers and the wealthy. *The primary principle of state finance strategies today must be defence against additional (net) tax and duties burdens on future generations by finance decisions made by the state today.*

Generational balance sheets which have only recently been generated show that the unborn generations will have to reckon with a significantly higher (net) tax and duties burden in their lifetime than today's older generation due to the explosive growth of the national debt and the increasing demographic imbalance which can be predicted today (compare in particular to the work done by Raffelhüschen, e.g. Raffelhüschen/Walliser 1997). The aim of decreasing intergenerational inequities with a significantly higher (net) tax burden of individual generations may become the most important aim of future state activity in such a long-term crisis horizon.

The generational balance sheets show that currently every age-group born later will be increasingly burdened with (net) taxes and duties than the age-group born a year earlier respectively. This is confirmed by an opinion which has become increasingly prevalent in politics and in public in recent years : Even between the generations alive today the imbalance has been continuously increasing. While previously elderly people were (prime) candidates for being recipients of social welfare, today it is ever more children, young people, single parents and families with several children. Family poverty is widespread. A large percentage of pensioners in contrast live well and have considerable property at their disposal. The value of this property which will be inherited in the coming years is tremendous.

Financing the child-care salary is also a matter of transferring from the older and wealthy to the families and their children. As we have increasingly become a four-generation society due to the life expectancy which is still growing, it is increasingly rare for parents with young children to profit directly from the approaching wave of inheritances, even though they are the ones who could do with it most. It is their parents who are turning out to be the inheriting generation who often do not profit from an inheritance from their parents until they are in their late 50's.

Economic improvement of the living conditions through the structural measure "child-care salary" will greatly ease life within the family. It would not be surprising if the number of births were to increase slightly again because, as is known today, the desire to have children often can not be realised due to the unfavourable economic situation many families find themselves in, as many opinion polls have shown.

The structural improvement of the economic status of families induced by the child-care salary will ease the existing discrepancy between young and old in several respects. Reaching this goal in our opinion justifies an increased tax burden of old-age income as well as of property and inheritance.

Additional revenue and savings will occur on different levels in state authorities which will require corresponding transfers in the finance balancing systems between the Federation, the Lands and the communities. Here, the willingness of the constitutional bodies of the federal state to co-operate is required. We propose setting up a working group of the Federation, Lands and communities to answer these questions.

### 7.9.2 Increased Taxation of Old-Age Income

Increased taxation of old-age income is aimed at in Bonn not only in the course of the temporarily unsuccessful tax reform concept of the Federal government but also by other political parties such as the Green Party. Here, it is not a matter of reducing the hard earned pensions of the majority of small pensioners – a statement which it would be easy to sell to popular opinion. Quite the opposite, old-age income which to a large extent is significantly higher should be subject to increased taxation. The taxation of a higher portion of the income of the pensioners would also make it possible to tax the other income which is becoming increasingly significant (among other income from capital). However, it would have to be ensured that taxation of old-age income does not lead to an increased burden for lower incomes. Our principle is to decrease the privileges of the older generation provided by politics in the past in favour of increased support of the parents' generation and their children which is necessary for the future.

Today, old-age income to a large extent is not subject to tax. Whereas state pensions are taxed, this only applies to the extent of so-called royalties for other pensions. The difference which is made in the taxation of state pensions and other pensions is generally justified by saying that income should only be taxed once. Whereas a public servant paid no contributions towards their pension from their taxable income, this only partially applies to the contributions paid into the pension insurance.

Calling more strongly on pensions for income taxation takes a step towards the public finance demand for equal treatment of all kinds of income. Today's regulations favour the pensioners from two points of view. Firstly, they profit from the generous age tax-free allowance (providing they are still in gainful employment) and secondly, from tax exemption of large parts of their pension. The applicable high tax-free allowances result in almost all old-age pensioners today being untouched by the local tax office. Thus current actual social pensions up to DM 68,774 for single people and for married couples up to DM 120,492 remain tax-free annually.

The royalties depend on the pensionable age. If someone retires aged 50, he has to pay tax on 42% of his pension, if someone retires aged 65, it is a mere 27%. The rest remains tax-free today. The justification for this, that an income should only be taxed once, can not be upheld. For employees who make up the majority of people in gainful employment, the contribution to the pension insurance is split between the employee and the employer at 50% each. The employer portion has not yet been sub-

ject to taxation. The employer can deduct it from his taxable income as part of the wage costs.

As it is then a matter of untaxed income, the portion of the old-age pension attributable to the employer's contribution should systematically be taxed if taken advantage of in old age. But the employee portion is not fully subject to taxation either, as is well known. A relevant part of the employee's contributions to health and pension insurance can be deducted from taxable income as an allowance within the framework of the special expenses. In an investigation, the Federal Finance Ministry came to the result that the social security contributions from employers and employees are mainly tax-free. For average earners at the moment, approx. 70% are deductible. For employees with a low income and for married single breadwinners according to the report often 100% can be deducted. Thus plans to tax pensions above and beyond royalties would not cause double taxation.

According to proposals by the tax commission of the Federal Finance Ministry in future, half of pensions should be subject to taxation, with a significant reduction of the tax-free allowance. Pensions of DM 2,600 for single people and DM 5,200 for married couples would remain tax-free. Only anyone receiving income above that from housing rents or interest payments would not be exempt. The new principle would be a step towards equal treatment of pensions, state pensions and wage income, the pensions would however remain in a better position.

The 50% limit suggested by the Federal Government is a randomly selected figure. Much more radical and more uncompromising is the proposal in the tax reform concept by the Green Party to tax pensions, earnings-replacement benefits and other social security payments but at the same time also capital gains. In return, provision for old age and other risks up to the upper contribution level for social security assurance which currently is approx. DM 3,000 per month will remain tax-free. For a lengthy changeover period however, it should be taken into consideration that expenditure for an old-age pension has partially been made from taxed income. A changeover of the pension taxation in this direction is also demanded by parts of the SPD.

### **7.9.3 Raising revenue from inheritance tax**

Inheritance tax has just been increased on 01.01.1996. The revenue in recent years only amounted to a mere DM 3.5 billion.

The new regulation should increase the revenue by at least 50% to DM 5.5 billion and more. In our opinion this is not enough. Additional revenue could be obtained through a type of family supplement on top of the inheritance tax.

Inheritance tax per se is an efficient tax. Inheritances have to be declared. There is no incentive to hide the value. It must of course been remembered that the increased revenue can not be reckoned with for several years yet.

### 7.9.4 Reintroduction of property tax

According to a judgement passed by the Federal Constitutional Court a reintroduction of property tax is not prohibited forever. Certain conditions simply have to be fulfilled. A property tax would fit well into a programme of greater (generation) equality concerning taxation. Its reintroduction is also demanded by the SPD and the Green Party. A (solidarity) levy on large property would also be plausible, as is demanded by both parties just mentioned and for years now has been vehemently demanded by the ex-mayor of Munich Kronawitter.

### 7.9.5 Family supplement on wage and income tax

Another option consists of the introduction of a family supplement on wages and income tax. This would mean that generally the more able would (progressively) be called upon to support finance. The solidarity supplement will expire in the coming years. Thus the possibility would be created to seamlessly replace it with a "family solidarity supplement". The solidarity supplement of 7.5% of wages and income tax produced total tax revenue amounting to DM 26.1 billion (status 1996). Thus each percentage point produces approx. DM 3.5 billion. As a transfer of means in favour of families would seem to be necessary in the long-term, a family solidarity supplement should be introduced initially without a time-limit.

## 7.10 Final résumé on financing a child-care salary

The finance calculation for our core model of a child-care salary for families with children aged 0 to 3 years old has shown encouraging results. The gross expenditure can be counter-financed by tax obligations as well as transfers due to automatic and "created" savings effects with the exception of a small residual amount of approx. DM 3.7 billion (compare to Table 15).

This residual amount in our opinion can either be raised by limiting the family supplement in public service for married couples without children (DM 3.7 billion of a total of DM 13.04 billion) or through the introduction of a family supplement on wages and income tax amounting to one percentage point on wages and income tax revenue.

The finance calculation for three age-groups of children has shown that our model stands on solid ground from this point of view in particular, which in the public view plays an oversized if not all important role. The revenue part which is based on tax rate increases is at most 7%.

The disadvantage of the solidity of the finance calculation is the high transfer portion. This means: a relatively high percentage of the child-care salary will be paid for by exactly those parents who profit directly from the child-care salary. However, as alrea-

dy emphasised above, it is a great step forward for the self-confidence of these parents who have so far being depending on social assistance benefits, unemployment assistance and housing allowance and also a great step forward for their assessment by others if, on the basis of compensation payment for their actual work in the family for their children, they now stand on their own two feet economically.

The child-care salary discussion is of course not over with this finance calculation (compare to Table 15). It is then a matter of finding a way in future to find political support and finance methods to extend the child-care salary to the second phase (4th to 7th year of the child's life) and in the more distant future the third phase (child-care salary II). Per age-group, the financial expenses for child-care salary I increases by approx. DM 16 to 18 billion due to the lower level of payment for second and further children (3 1/2 years until children start school). In contrast, the gross financial expenditure for the purely income dependent child-care salary II is surprisingly low. For families with children aged 8 to 18 it is DM 10.7 billion (compare to chapter 7.2.3), net (after tax) it is DM 9 billion. 90% of this amount would under today's circumstances be paid to single parents. A series of finance options for the second (and third) phase of the child-care salary have already been mentioned. With an increasing number of age-groups, the transfer potential from savings in social assistance benefits, unemployment assistance and housing allowance increases. The DIW puts a figure on the total savings in this area at DM 21 billion if the whole model is implemented. The changeover from object-oriented to subject-oriented financing modes in the area of day-care nurseries yields much more financially in the nursery school than it does in the day-care nursery area. State expenditure for nursery schools amounts to approx. DM 15.8 billion yearly (1994), with less than DM 2.5 billion being for the day-care nursery area. Per nursery school place which would be paid for by a child-care voucher, this would result in a transfer amount of DM 7,200 (DM 12 x 600).

As for the area of created savings, we have so far calculated a transfer amount of DM 22 billion by reducing the state payments from married couple 'splitting'. The further the child-care salary can be extended to parents with children who are more than 3 years old, of course the reduction of income advantages from married couple "splitting" can be extended to parents with four, five and six-year-old children. To repeat the emphasis: by directly acknowledging child-care provided with a child-care salary there is no longer a need for additional tax measures which partially balance out the economic burden families have to bear through the child-care work carried out (mainly by women).

As for the finance option "tax rate increases", we have in described the principles which should be used for orientation in our opinion.

Right across all parties (maybe still the least in the SPD) there is an increase in advocating that the revenue sources of increased taxation of old-age income, increased inheritance tax and a reintroduced (changed) property tax should seriously be mobilised in the coming years.

As systematically correct as the intergenerational redistribution from old to young which would thus be initialised would be, as low are of course the absolute dimensions of additional state revenue which could be raised from these three sources. The Federal Finance Ministry calculated it would only receive additional revenue of DM 1.5 billion per year on their proposal of increasing the tax on pensions, albeit modestly, within the course of the proposed tax reform in 1997. More can be mobilised here. But additional revenues in these areas are generally limited.

The annual revenue from inheritance tax was recently DM 3.5 to 4 billion. Doubling income from this source would only raise a maximum of DM 4 billion. The property tax recently raised DM 9 billion for the funds of the Lands. So even using this tool to the best of its ability would not do too much for the child-care salary in future.

Looking for weighty finance sources always leads back to a comparison of value-added tax versus wages and income tax. A percentage point of value-added tax raises DM 15 to 16 billion per year into the public purse. Today, the day on which these lines are being written, value-added tax is being increased from 15% to 16%, a decision made in late 1997. Financing a family allowance through an increase in value-added tax is the worst possible alternative. As is well known, families who are forced to spend nearly all of their in part small income on consumer goods bear the brunt of the value-added tax. Only if it were possible to further differentiate the value-added tax – e.g. the debate on a third value-added tax rate for energy or an extension of (differential) consumer taxes – could it possibly be considered as a finance option for a child-care salary worth investigating.

Our proposal of a family supplement on wages and income tax remains. It would be a tax-like a contribution, which would however profit from the progressive course of wages and income tax. Under social-justice considerations it is thus superior to a proportional contribution or a proportional tax. A constant portion of wages and income tax as a "family solidarity supplement" from society at the start of a new century realises the aim of redistributing from above to below (with the income tax on a progressive course). This means that high-earning married couples and single people will be called on more to support finance. And we know that people without children are over-represented in this group. Thus a "family solidarity supplement" would at the same time serve the purpose of balancing out bearing the costs of the economic burden of child-care from all income recipients.

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## 8 | Political Conclusions

Parents are badly organised politically. The particularly vulnerable small child phase is for a limited time, above all in families with only one child. The organisation of the providers of child-care services has also been precarious so far. Thus the current development of a political issue due to the discussion on a child-care salary as well as to the question of whether to changeover from object-oriented to subject-oriented finance of pre-school child-care in the shape of a child-care voucher is also a contribution towards strengthening the political field of child-care work.

The child-care salary itself will not become self-propelled, even if the general public are ardently in favour of it, as we have shown in chapter 5. Unfortunately it is not enough if the vast majority of the general public in opinion polls are in favour of financially upgrading child-care work in the shape of a child-care salary. Political opinion alone does not make policy. Today's society is a pressure group and media democracy. This is why groups with common interests have to organise themselves and be present in public awareness.

Even if the interests of children and their child-care providers are seen to be general interests and the family child-care work is increasingly being seen as a "public good", this does not mean that its financial security is secure. There are other well organised and powerful pressure groups in opposition: above all the high earning group of people without any child-care responsibility and, unfortunately, also the older generation. Both groups in the meantime make up the majority of voters, as children themselves have no presence in political decision-making. In our voters' democracy they have no say.

Would it therefore be right to see the interests of families in a child-care salary as a special interest of a particular group and present it as such in the political arena? Presumably there is no alternative to this! Because a public good does not represent itself either. Mothers and fathers have to put aside their modesty. The child-care work they carry out deserves effective monetary acknowledgement above and beyond moral acknowledgement. The demand for a child-care salary could develop to become the nucleus of future-oriented policy which does justice to groups interests in the light of the common interest of society.

Families do not yet see the grave economic problems they face today as being problems of a special group which have to be effectively included in the political process. The family pattern of life with children has been so general that it hinders it becoming a political issue in the mind. Many families may still believe that it would only take a significant decrease in the unemployment rate to decisively stabilise the economic position families find themselves in. But this is not the case as our study has shown, even though a decrease in the unemployment rate would greatly benefit the families.

Thus it is necessary that families and their associations are more aggressive in making their presence felt and are more demanding in politics . Because this is where a stand has to be made for political reforms and also constitutional reforms which improve the position of families and their children in the decision-making structures of our parliamentary democracy.

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