

# The Labor Market Effects of the Working Family Tax Credit on Single Mothers in the UK.

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## Bibliographic note

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## Abstract

The Working Family Tax Credit (WFTC) was introduced in the UK in 1999. This policy provided financial incentives for work to low-income parents with children (primarily single mothers). The parents received full credit if they worked 16 hours/week and the credit decreases with more hours of work. The credit increased marginally when the parent worked 30 hours/week to stimulate full-time work. The WFTC unambiguously made work attractive; however, the effect on labor hours for parents employed in pre-WFTC is unclear. In this thesis, I investigate the effect of the WFTC on single mothers' paid labor hours. I apply the quantile difference-in-difference approach and estimate the quantile treatment effects. This approach allows me to find the effect of the WFTC given the single mothers' paid labor hours in pre-WFTC. My results highlight the existence of treatment heterogeneity. The QTE suggests that the effect of the WFTC was significantly positive for single mothers in the bottom quantiles, while for the upper quantiles there was either no effect (unconditional QTE) or a negative effect (conditional QTE). My findings are consistent with a labor supply model where single mothers in the bottom quantiles work more because of the substitution effect, while those in the upper quantiles substitute labor for leisure because of the income effect. The income effect could potentially be explained by the withdrawal rate and the interaction of the WFTC with other social benefits. Overall, my findings suggest that the WFTC shifted more single mothers into part-time employment (16 hours/week), but not into full-time employment (30 hours/week). Nevertheless, I cannot confidently say that my effects do not pick up the effect of other policies that were introduced shortly before the WFTC.

**Key words:** labor hours, WFTC, single mothers, quantile, income effect, substitution effect.