

Female Labour Force Participation: Past Trends and Main Determinants in OECD Countries

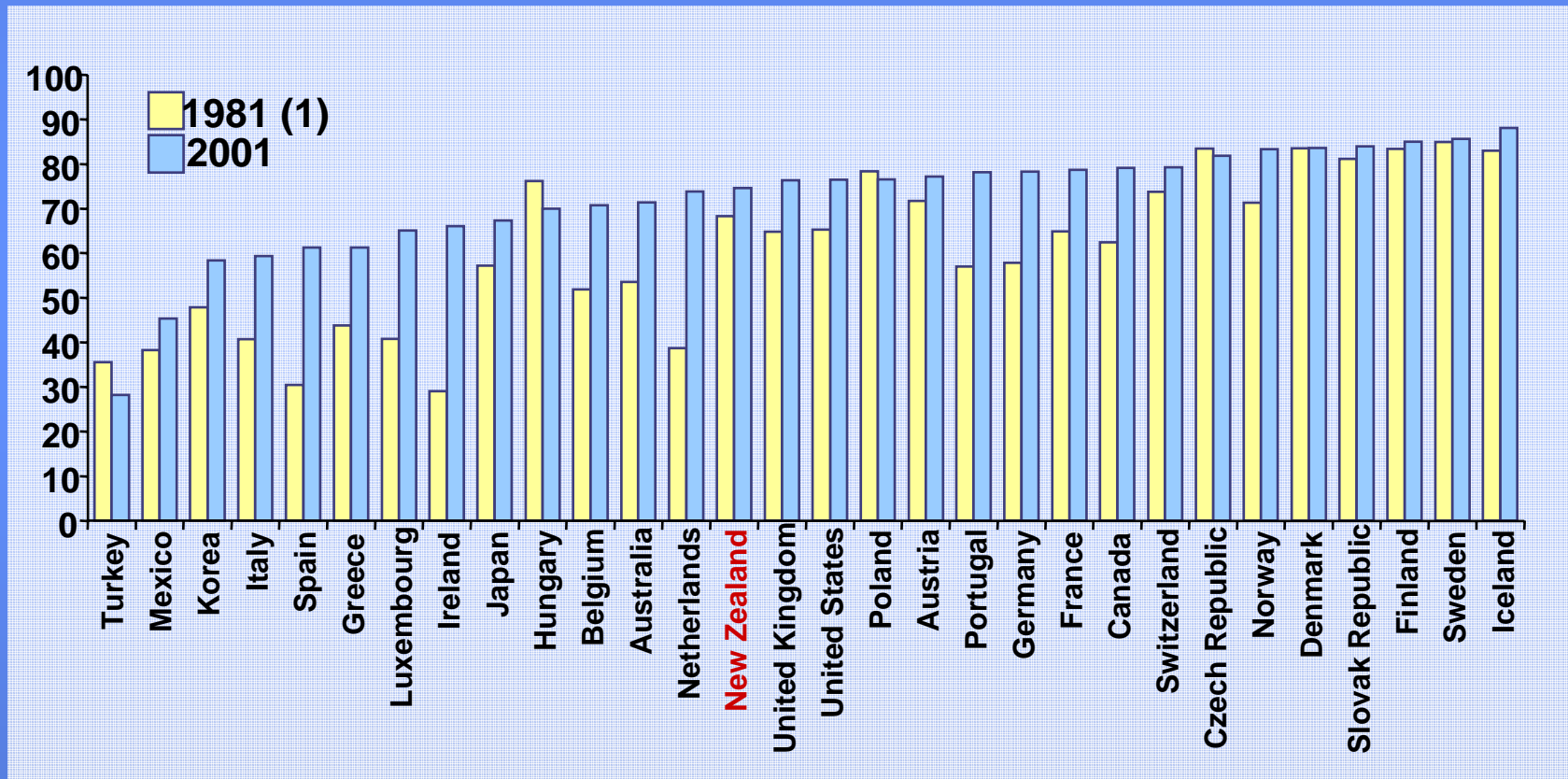
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Large cross-country differences persist in the rate of female participation

Figure 1.
Labour force participation rates of prime-age women (aged 25-54), 1981 and 2001



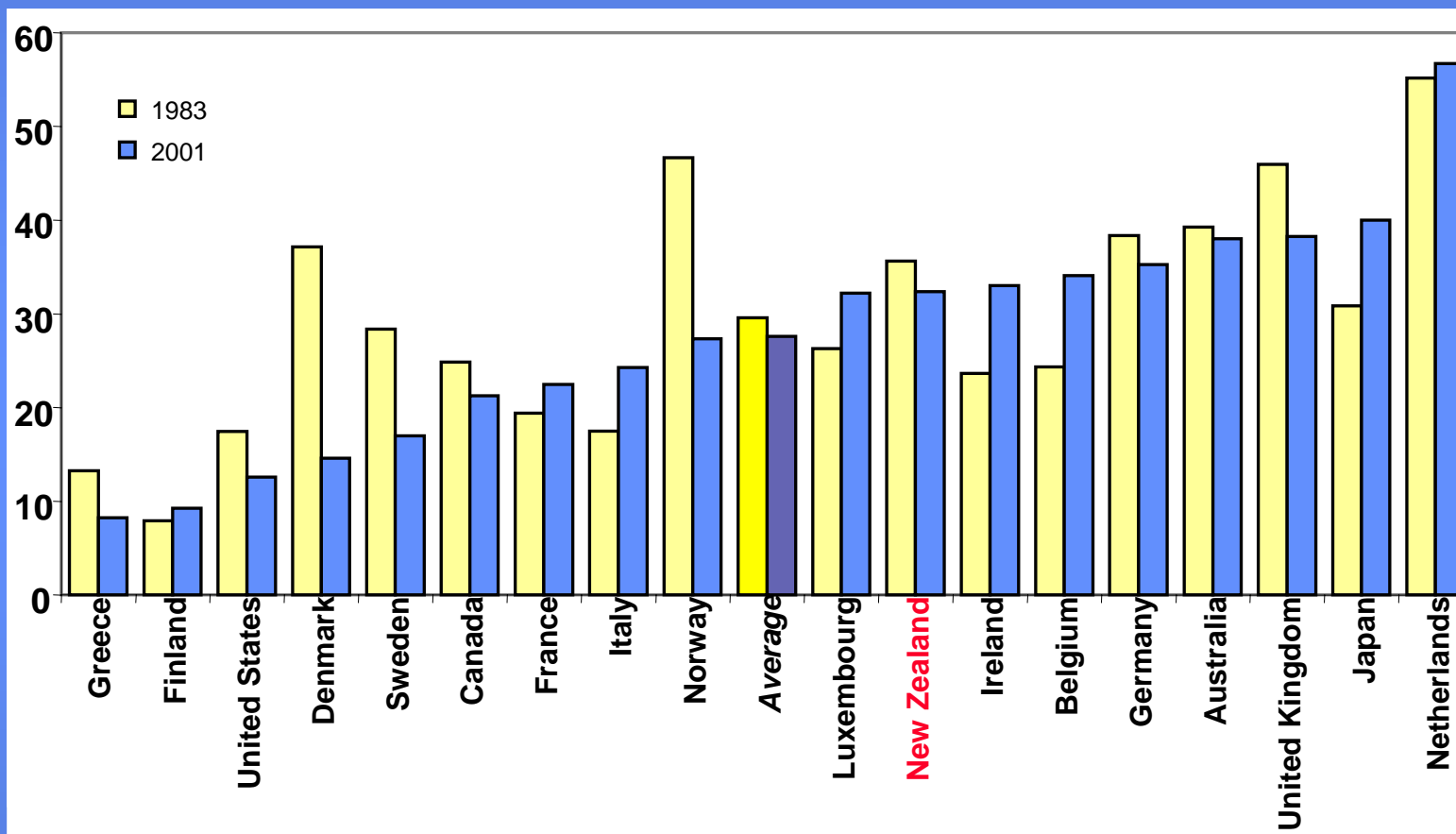
1. 1983 for Greece and Luxembourg, 1986 for New Zealand, 1988 for Turkey, 1991 for Switzerland, Iceland, and Mexico, 1992 for Hungary and Poland, 1993 for the Czech Republic, 1994 for Austria and the Slovak Republic.

Source: OECD Labour Market Statistics.

But also in the relative incidence of female part-time and full-time work

Figure 2. **Evolution of female part-time incidence, 1983-2001**

Proportion of employed women aged 25-54 who are in part-time jobs^{1,2}



1. Part-time employment refers to persons who usually work less than 30 hrs/week in their main job. Data include only persons declaring usual hours

For Australia, part-time data are based on actual hours worked, and include hours worked at all jobs.

For Japan, part-time data are based on actual hours worked and defined as less than 35 hours per week.

For the USA, the share of part-time in employment is for wage and salary workers only.

2. 1986 instead of 1983 for New Zealand.

Sources: OECD Labour Market Statistics.

Is higher female participation desirable?

- There is some indication that actual participation rates remain below desired levels in many countries
 - EU survey, 1998: the traditional male-only breadwinner model is preferred only by 1 in 10 couples with small children but applies to 4 in 10
 - EU labour force survey, 2001: 12 per cent of inactive women would like to work (21 per cent of inactive women with family responsibilities)
- Preferences with respect to the mix of part time and full time vary a lot across countries and are broadly in line with the actual incidence of part time and full time
 - Are the preferences shaped by the policy environment?
- Focus of this paper: remedy market failures and policy distortions which maintain female participation below desired levels

Other arguments in favour of higher female participation

- ❑ Increase labour supply, production and standards of living
 - Total production (including home production) could increase thanks to a more efficient allocation of women's skills and scale economies in the care of children
 - Could help alleviate problems caused by population ageing, at least in the medium run
- ❑ Risk of deterioration of female human capital when they withdraw from the labour force
- ❑ Gender equity

Is higher female participation detrimental to children's welfare?

The debate is open but...

- ❑ Higher female participation is found to reduce poverty among women and children (e.g. in case of marital separation)
- ❑ There is also evidence that formal day care can have beneficial effects on the child's development, at least from age 3
 - Negative effects more commonly found for children less than one year old

Focus of this paper

- ❑ Identify policy distortions and market failures which maintain female participation at a sub-optimal level
- ❑ Estimate of impact on female participation
- ❑ Simulate the effects of policy reform

Empirical analysis of the determinants of female participation

- ❑ Panel data for 17 OECD countries (including NZL), 1985-1999
- ❑ Focus on prime-age women (25-54 years old)
- ❑ Policy determinants:
 - Flexibility of working-time arrangements
 - Taxation of second earners (relative to single earners)
 - Family support: childcare subsidies, child benefits and paid parental leave
- ❑ Other determinants:
 - Female education level
 - Proportion of married women
 - Number of children
 - Overall labour market conditions
- ❑ Distinction between determinants of full-time versus part-time participation

Flexibility of working-time arrangements

- The possibility to work part time helps women to combine market work with family responsibilities
- The empirical analysis shows that countries with a higher share of part time in female employment tend to have higher female participation, after controlling for other factors
 - However, the magnitude of the effect is likely to depend on women's preferences for such work

Importance of maintaining integrated labour markets

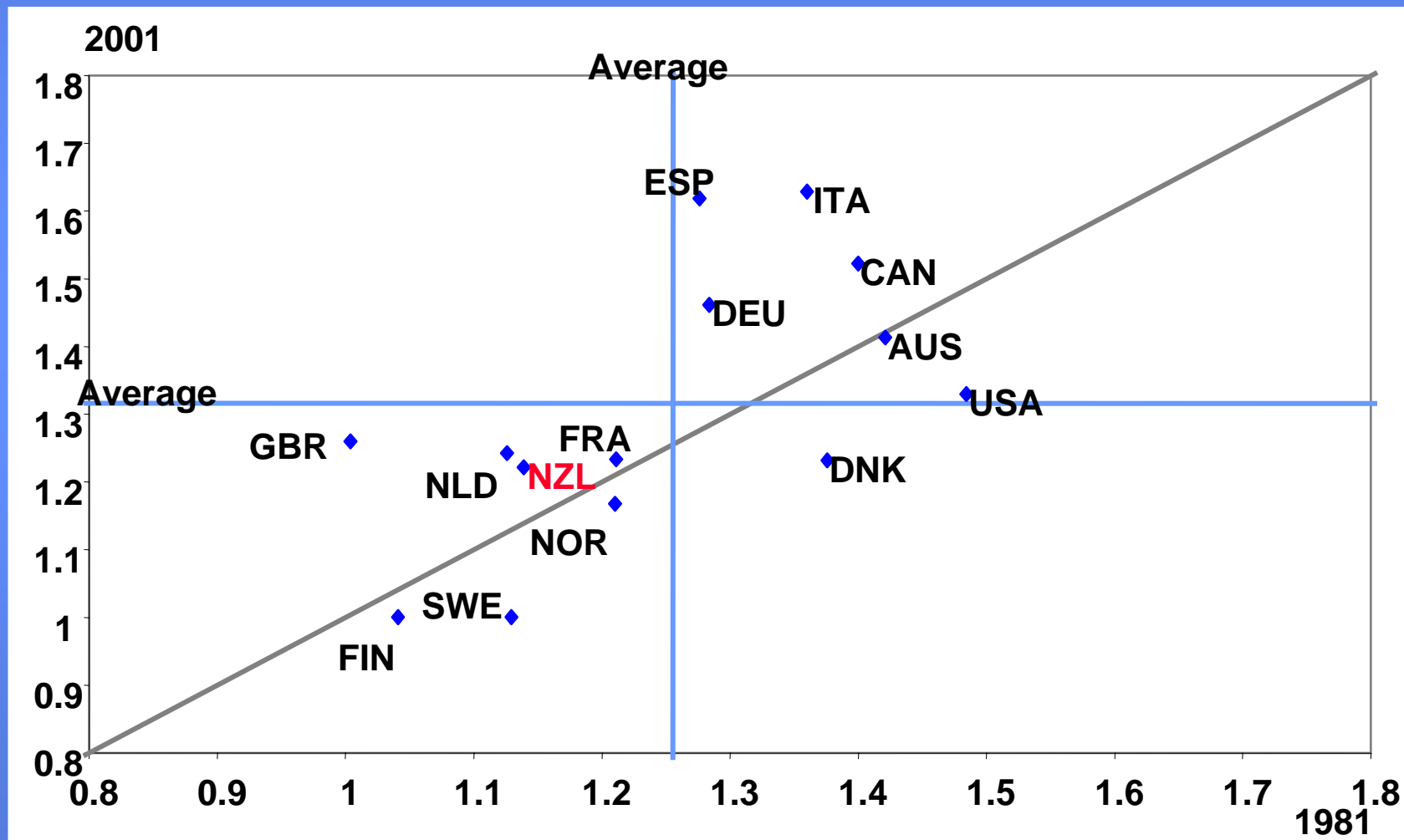
- ❑ The empirical analysis also finds that more part-time opportunities may arise in countries with higher employment protection legislation, to the extent that part-time may be exempted from it
- ❑ This points to a risk of creating segmented labour markets and marginalising women in the labour market
 - Other issues associated with part-time jobs: social security coverage, training, promotion prospects
- ❑ Possible solutions:
 - Give parents greater rights to change hours
 - Help women turn to full-time jobs, for example through more generous family support

Family taxation: relative taxation of second earners

- ❑ Women are more sensitive to reductions in their net wage because they have the option of “home production” which is not taxed
- ❑ Optimal taxation principle: tax married women less than men and single women
- ❑ In facts: married women are effectively taxed more heavily than single individuals in most OECD countries, providing scope for a move to neutrality
 - Despite move towards separate taxation in most countries
 - Due to dependent spouse allowance and family-based tax measures

Evolution of the relative tax rate of second earners and single persons

Figure 3. Evolution of the relative tax rate of second earners and single persons (for earnings of 67% of APW), 1981-2001



1. 1995 instead of 1981 for New Zealand.

Source: OECD database "Taxing Wages"; "The OECD jobs study: Taxation, Employment, and Unemployment" (OECD, 1995).

Family taxation: tax incentives to share market work between spouses

- Measured by the increase in household disposable income when a wife takes on a part-time job (33% of APW) to substitute for part of her husband's earnings (from 133 to 100% of APW)
 - In 1999, this was about 3% on average in OECD countries, with maximum of 10% in Finland and the UK (5% in New Zealand)

Empirical evidence on the effects of family taxation

- Countries with a high tax wedge between second earners and single individuals tend to have lower female participation rates
- Higher tax incentives to share market work between spouses increase the female supply of part-time labour

Support to maintenance and care of children: paid parental leaves

- ❑ Help mothers reconcile work and family life, and strengthen labour market attachment (job guarantee)
- ❑ The empirical analysis shows a positive effect of paid parental leaves on female participation (in line with Ruhm, 1998)
- ❑ However, too long parental leaves may reduce female participation (loss of labour market skills, damage to future career paths and earnings)
 - Negative marginal effect of increases in paid parental leave beyond the equivalent of 20 weeks of full pay

Support to maintenance and care of children: childcare subsidies

- Stimulate female participation by raising the return of market work relative to “home production”
- Economic justifications for childcare subsidies
 - Reduce tax-induced distortions to the participation of mothers
 - Offset unduly high childcare cost when the wage structure is highly compressed
 - Help low-income mothers break away from welfare dependence

Empirical evidence on the effect of childcare subsidies

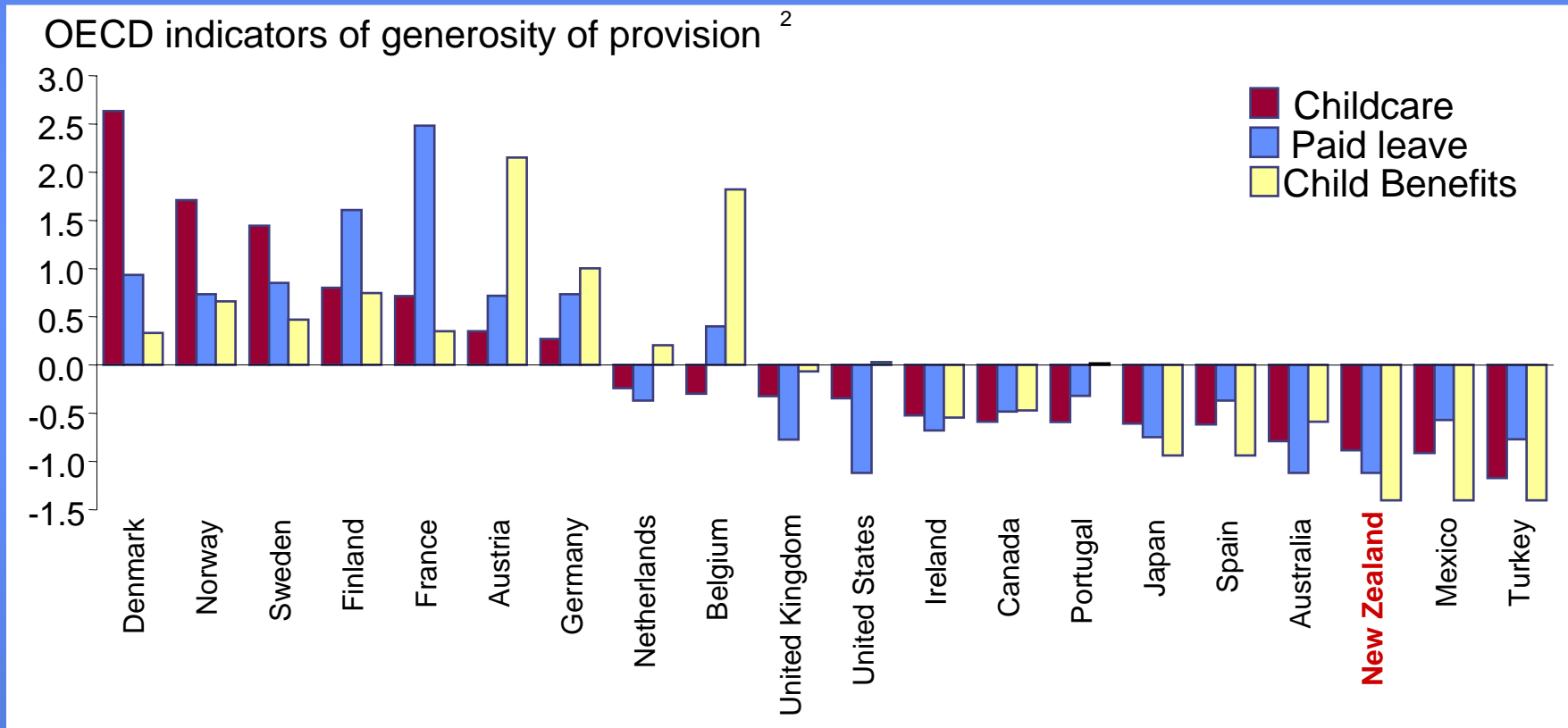
- More generous childcare subsidies are accompanied by higher female participation
 - Mostly true for formal day care subsidies (for infants)
 - More generous childcare subsidies and paid parental leaves translate mostly into higher full-time participation of women, and not into higher part-time participation (see also Powell, 1998)

Support to maintenance and care of children: child benefits

- ❑ They are essentially transfers for the maintenance of children, aimed to promote equity between different family types and reduce child poverty
- ❑ However, the increase in income may lower the incentives to work and hence female participation
 - Childcare subsidies, in contrast, have both an income and a relative price effect
- ❑ OECD study finds a depressing effect of child benefits on part-time female participation
- ❑ Childcare subsidies thus appear preferable to child benefits from the point of view of raising female participation

The generosity of family support varies across countries

Figure 4. Government support to families with young children, 1999¹



1. For countries for which data was not available for 1999, the closest available year was used.

2. Each indicator is calculated as the deviation from its OECD mean and is expressed in multiple of its OECD standard deviation.

Sources: OECD education database; OECD social expenditures database; OECD database "Taxing Wages"; Eurostat; and Bortnik (2001); "Social Security Programs Throughout the World" from the US Social Security Administration.

Stylised facts for family support: cross-country comparison

- ❑ Positive correlation in the provision of the different forms of family support (no substitution)
- ❑ High family support: most Nordic countries, France, Austria, Germany (and Belgium)
- ❑ Low family support: English-speaking countries, Japan, Mexico, Portugal, Spain, and Turkey

Stylised facts for family support: evolution 1985-1999

- General increase in childcare subsidies per child but cross-country dispersion widened
 - The Scandinavian countries which started with more generous subsidies recorded much larger increases
- General increase in paid parental leave but, again, cross-country dispersion widened
- Mixed evolution of child benefits across countries, with small increase in average level

Other policies

- Product market regulations tend to reduce female participation (see also Pissarides et al., 2003)
 - Hinders the development of the service sector which is the main employer of women
 - Restricts the supply and drives up the prices of home services (including childcare)
- OECD study also finds evidence that female education and overall labour market conditions can have a strong impact on female participation

Characterisation of the environment for female participation

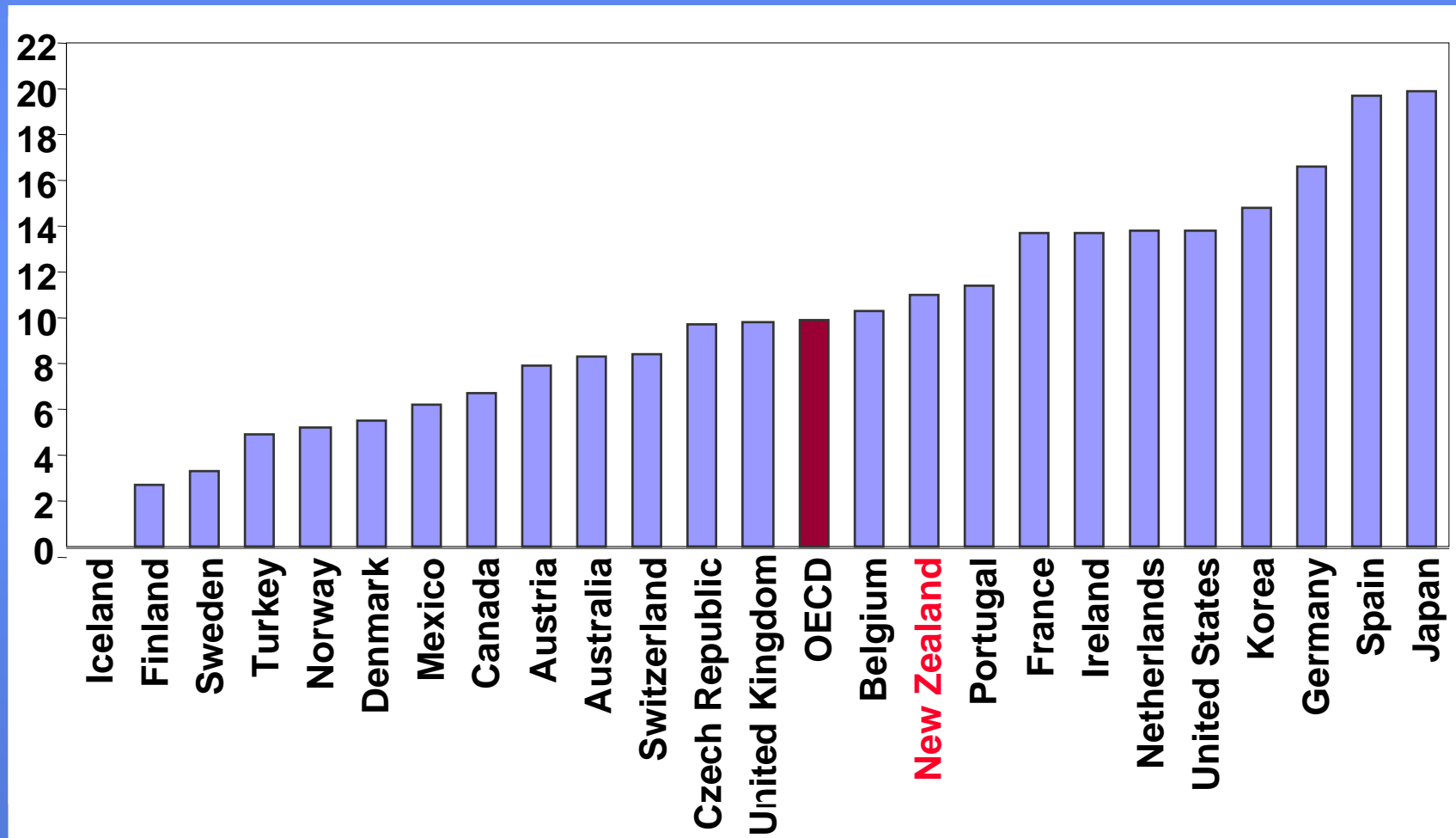
- High childcare subsidies, low part-time incidence, and favourable taxation: most Nordic countries, France and, to a lesser extent, Austria
=> Very high participation
- Low childcare subsidies, high part-time incidence, average tax treatment: most other Northern European countries and Pacific countries
=> Average to high participation
- Low childcare subsidies, low part-time incidence, varying tax treatment: Canada, USA, lower-income OECD countries
Participation rates fluctuate widely in this category, from very low to high

Potential for reforms to increase female participation

- Illustrative scenario (see Burniaux et al., 2003)
 - Neutral tax treatment of second earners
 - Maximum observed tax incentives to share market work between spouses
 - Increase in public childcare spending per child to highest observed level in OECD
 - Constraint: female participation rate can not exceed male participation rate
- The prime-age female participation rate would increase on average by 10 percentage points across OECD countries
- The scope for reforms differs across countries depending on their current policies (11 percentage points in New Zealand)

Policy reforms could increase female participation

Figure 5. **Constrained cumulative scenario**
(only for countries for which all simulations could be made)



Additional policy considerations: managing the trade-offs

- ❑ Increases in childcare subsidies and cuts in tax rates will impose a net budgetary cost (although they are partly self-financing)
- ❑ Costs can be kept down and reforms can be made more efficient by
 - Conditioning the receipt of childcare subsidies on employment of the mother or at least active job search
 - Targeting tax cuts and childcare subsidies to low-income mothers whose labour supply is more responsive to the net wage
 - This needs careful design to avoid increasing substantially the EMTR for second earners which would imply ambiguous results for participation.
 - Increasing the responsiveness of the supply of childcare by less restrictive product market regulation and immigration policies
- ❑ Policies which promote female participation may imply a cost in terms of reduced equity
 - A greater neutrality of the tax treatment of the second earner may imply less equity between families of different types
 - Child benefits lower incentives for female participation but increase equity across different family types and reduce child poverty.

Conclusions

- ❑ Policy distortions and market failures seem to maintain female participation at sub-optimal levels in many countries
- ❑ Reforms of family taxation and family support (towards more childcare subsidies and some parental leave) can go a long way to raise the participation of women
- ❑ A careful design of policy is needed to keep the cost of reforms low, limit other negative participation effects, and preserve equity between different family types.