

Fertility, Labour Market Participation of Women and the Well-Being of children:

the Effect of Social Policies

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ABSTRACT

In all European countries, the growth in female labour market participation has been accompanied by a marked decline in fertility. This has both positive and negative implications for the ability to meet various social and economic targets, set either at the national level or by the European Union. With regards to the pension system, for example, higher female participation increases the number of workers who pay pension obligations to current retirees and this obviously helps maintaining the system. On the other hand, however, low fertility rates necessarily generate a decline in population levels and, thus, carry negative implications for the future sustainability of European pension systems, as they are currently designed.

In this report we analyse female participation *and* fertility jointly and we evaluate the impact of different combinations of social and labour market policies (e.g., part-time employment opportunities, subsidised child care provision, parental leave) designed to reconcile work and child rearing (especially in the crucial age 0-3 years). These policies necessarily impact work and fertility decisions simultaneously. European countries have adopted different combinations of such policies and this allows us to compare similar families that are subject to different policy environments. This comparison across countries shows that there are important trade-offs in terms of wage differentials, career perspectives, labour market attachment, and children's welfare. If policies are to be evaluated in terms of the resulting levels of female participation and fertility, our results indicate that the "best option" is a combination of part-time employment, child care, and parental leave immediately following the birth of the child (a combination offered in Denmark, Sweden, and Norway, where, in fact, both fertility and female employment are high). This solution allows women to continue

working during their childbearing years, enabling them to remain attached to the labour market, while directly taking care of their children, at least part-time. It must be recognized, however, that even this “first best” combination of part-time work and part-time motherhood can have a negative impact on career perspectives and wages of young mothers, but empirical tests suggest that this impact is limited.

Alternatively, some countries have adopted a long optional paternal leave period, that allows women to take care of their children full-time during the first three years after birth (like Germany and France). This solution allows women not to lose their jobs, but the costs in terms of career and human capital loss is certainly great. As a consequence, in these countries wage differentials are high and participation rates low, but there can be potential beneficial effects on children’s welfare.

Finally, the policy mix chosen by other countries makes it more difficult to combine work and childrearing. When full-time jobs are the only available entry into the labour market, fewer women choose to participate in the labour force, even if they typically enjoy rather stable careers and high earnings. However, this comes at the cost of lower fertility and lower participation rates, especially in the absence of affordable childcare (which is the case of Italy and Spain). Here, cultural attitudes need to be considered, too: it is a fact that a significant proportion of households still prefer informal child care (grandparents and/or other relatives), even when formal services are available and affordable.

The growth in female labour market participation has many beneficial effects on women’s bargaining position within the household as well as on the distribution of income both between and within households. On the other hand, however, mothers’ employment during childhood appears to have both short-term and long-term consequences on children’s well-being. Empirical results indicate that increased early maternal employment is associated with lower levels of socio-emotional adjustment and cognitive outcomes among younger children. Moreover, in the long-term, children whose mothers worked during their early childhood appear to achieve lower educational attainment in their late teen-age and early twenties. The effects of paternal employment seem to be more modest.

Thus, growing up in a two-earner family appears to have some adverse consequences on children’s welfare, suggesting the existence of a negative effect of the loss of the mother’s

child-care time. On the other hand, there is evidence that children in low-income households tend to have worse educational and labour market outcomes than children from more affluent families. Therefore, if women's work is characterized by strong labour market attachment and continuity, this may imply higher family income, so that, overall, children's lifetime opportunities may be unaffected, or even positively affected, by the decision of both parents to work. Studies that analyse the effects of mother's and father's income separately, find that higher mother's earnings induce higher expenditure on the children (health, education, etc.) as well as a more even distribution of resources between boys and girls.

For the analysis of the participation and labour supply decisions of husbands and wives, the relevant decision-making unit is the household. On the basis of this assumption, the comparison of household taxation policies in different welfare systems indicates that women living in low and average-income households play a crucial role. These women are in fact very responsive to economic incentives. Moreover, at low income levels, partners' earnings seem to be complements rather than substitutes, thus reducing the negative labour supply effect potentially induced by higher earnings of the partner. The above results lead to some very important conclusions when evaluating alternative tax-transfer reforms. We report a series of simulations, based on Italian data, that allow to assess the impact of two widely debated proposals: a reduction in the progressivity of marginal tax rates and the introduction of a universal minimum income scheme. Results indicate that flattening the profile of marginal tax rates can generate significant efficiency gains, which, however, come from a rather unconventional direction: namely, the bigger pie would be mostly due to higher labour supply of women living in low- and average-income households (not of high-income household members, as the common wisdom would suggest). The implication is that a profitable direction for reform might consist in lowering marginal tax rates, specifically on low and middle incomes. As far as minimum income schemes are concerned, our results indicate that, thanks to the structure of own- and cross- income-elasticities of partners, introducing a universal income support, such as a Negative Income Tax or a "Work- Fare" programme, does not lead to any significant reduction in labour supply at low-income levels. It seems, therefore, that there is scope for redesigning the tax-transfer regime in order to have more efficiency and more equality at the same time.

To conclude, our report suggests that in countries where female labour force participation is low, like Italy, reaching the Lisbon target of 60% female employment by 2010, requires a

policy mix that lowers the costs of labour market participation, especially for those women whose returns to work are also lower, i.e. the poorer and the less educated. Social and labour market policy should be aimed at facilitating the use of flexible work arrangements and improving both the quantity and the quality of childcare services. Fiscal systems, on the other hand, should be modified in the direction of lower marginal tax rates for low and average income levels, and also the introduction of a minimum income scheme should be given serious consideration in those countries that haven't adopted one yet. This combination of policies would allow poorer families, now excluded from the labour market, to pay for the costs of labour market participation of women with children.

