



POLICIES TO INCREASE LABOUR-FORCE PARTICIPATION OF WOMEN AND OLDER WORKERS

HIGHLIGHTS OF TWO JUST-RELEASED OECD STUDIES

A. Overview

The public finance effects of ageing, a development all OECD countries are facing, will be tempered if a higher proportion of the working-age population actually works. People cannot – and indeed should not – be obliged to choose work over leisure. However, just-released OECD studies show that government policies are keeping out of the labour force people who are capable of working, and often willing to do so – in particular women and older workers.

The studies quantify the effects of policy reform; even allowing for the margins of uncertainty implicit in such analysis, it is clear that governments have it within their ability to boost significantly the participation in the labour force of both types of workers.

The nature of the dissuasion from working differs in the two cases:

- Female participation is significantly affected by the flexibility of working-time arrangements, taxation systems and support to families with young children. Inadequate policies under these headings discourage a significant body of women who might otherwise seek work.
- For older workers, marked distortions in pension and social transfer programmes make it financially uninteresting for a large number of older workers to remain in the labour force until, say, age 65.

B. Some Elaboration: Women

Female participation has been rising in recent decades. Cross-country differences have narrowed somewhat, but remain important: ranging from 60 per cent of the labour force, or below, to well above 80 per cent (Figure 1).

Some of the factors affecting female participation (like level of female education, overall labour market conditions or cultural attitudes) cannot rapidly be affected by policy reform. Others, however, can:

- Flexible working-time arrangements: policies that remove distortions against part-time work will boost female participation (although care has to be taken not to allow this to create a segmented labour market).

- Taxation: in most OECD countries second earners in married couples (typically women) are taxed more heavily than single individuals, discouraging participation. Tax systems can also affect work-sharing decisions among couples; usually working against greater balance.
- Support to families with young children, in particular in the form of parental leaves (up to a duration of 20 weeks) and childcare subsidies are also identified as raising female participation. Longer parental leaves and child benefits, on the other hand, could depress it.
- Other policies that impact positively on female participation are: avoiding regulations that impede the growth of service sectors; immigration policies (because they impact on the relative cost of child care); and welfare delivered through make-work-pay schemes.

These findings are hardly surprising in general, qualitative terms. The OECD study, however, has gone further and **quantified** the impact of the key policy and non-policy factors affecting female participation using relatively sophisticated empirical techniques (see F. Jaumotte (2004), “Female Labour Force Participation: Past Trends and Main Determinants in OECD Countries”, *OECD Economics Department Working Papers*, No. 376). These empirical results were then used to assess the effects on female participation if every OECD country adopted the policies of the best performing country in respect of taxes and childcare. The results, shown in Figure 2 (attached) are striking: on average female participation would be some 10 percentage points higher than would otherwise be the case.

C. Some Elaboration: Older Workers

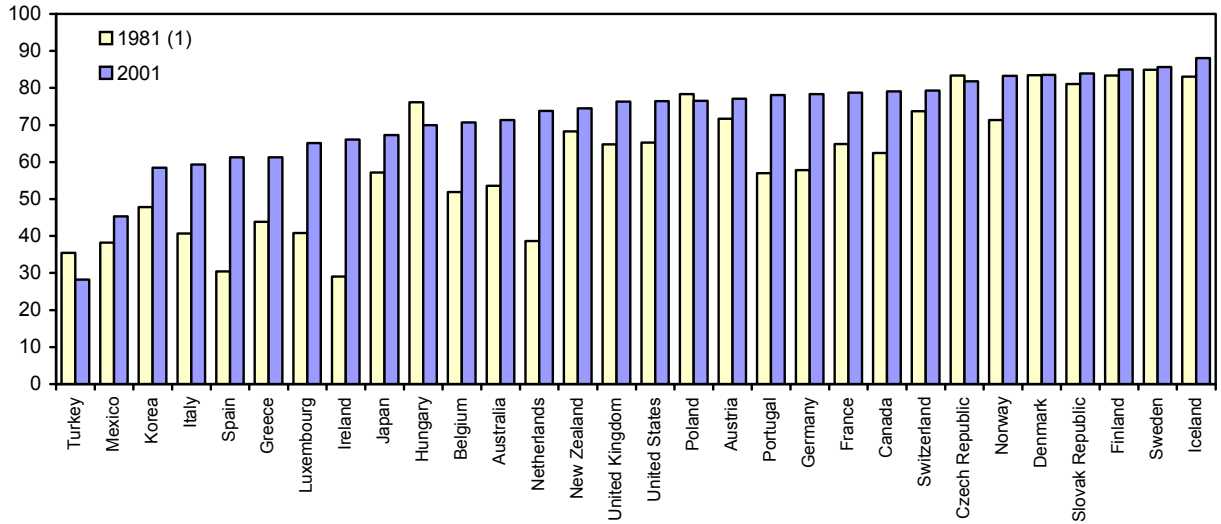
Workers usually retire voluntarily only when they can afford to, which typically means waiting until they reach the age or situation in which they can begin to draw retirement benefits. However, even on reaching minimum retirement age, workers may choose to continue in activity if the cost of doing so (in terms of foregone pensions and additional contributions) is offset by the increase in future pension benefits: a situation described as “actuarially neutral”. If this offset is not complete, and often it is not, the effective result is an implicit tax on continuing in work:

- In ordinary pension schemes, the implicit tax is not high (5 per cent on average) at age 55, but by age 60 it has risen to 30 per cent on average with striking differences across countries (Figure 3, top panel) -- a situation that is not that different at age 65.
- A large number of people retire before they qualify for ordinary pensions through various pathways into retirement created by social transfer programmes such as invalidity, unemployment and early retirement schemes. These programmes create implicit taxes averaging 30 per cent already at the age of 55, again with marked cross-country differences (Figure 3, bottom panel).

Implicit taxes strongly affect labour market participation of older workers. Multivariate OECD analysis reported in R. Duval (2003), “The Retirement Effects of Old-Age Pension Systems and Other Social Transfer Programmes in OECD Countries”, *OECD Economics Department Working Papers*, No. 370, concludes that a 10 percentage point fall in the implicit taxes would slow the decline of older-worker participation by 3-4 points. The bilateral relationship between the two variables (Figure 4, top panel) would suggest even stronger effects.

The bottom panel of Figure 4 presents likely effects on participation rates of older workers by 2025 of total suppression of current policy distortions (making for implicit taxes) compared with a scenario that takes account only of currently-legislated policy reforms. Again, the effects differ across countries, but in some cases are very striking.

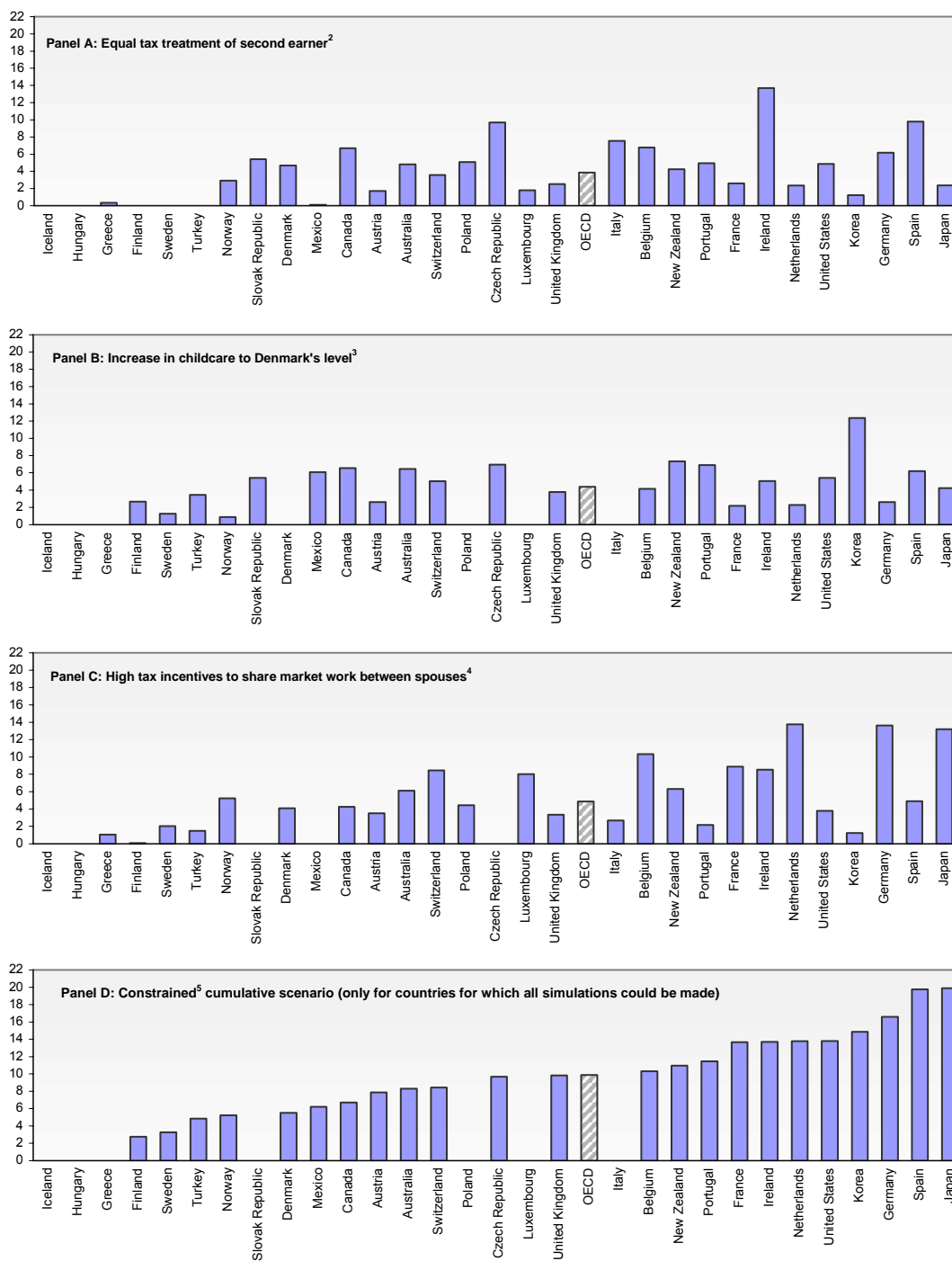
Figure 1. Labour force participation rates of prime-age women (aged 25-54), 1981 and 2001



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.

Figure 2. Simulations of policy measures to increase female participation¹
Increase in the participation rate of prime-age women (percentage points)

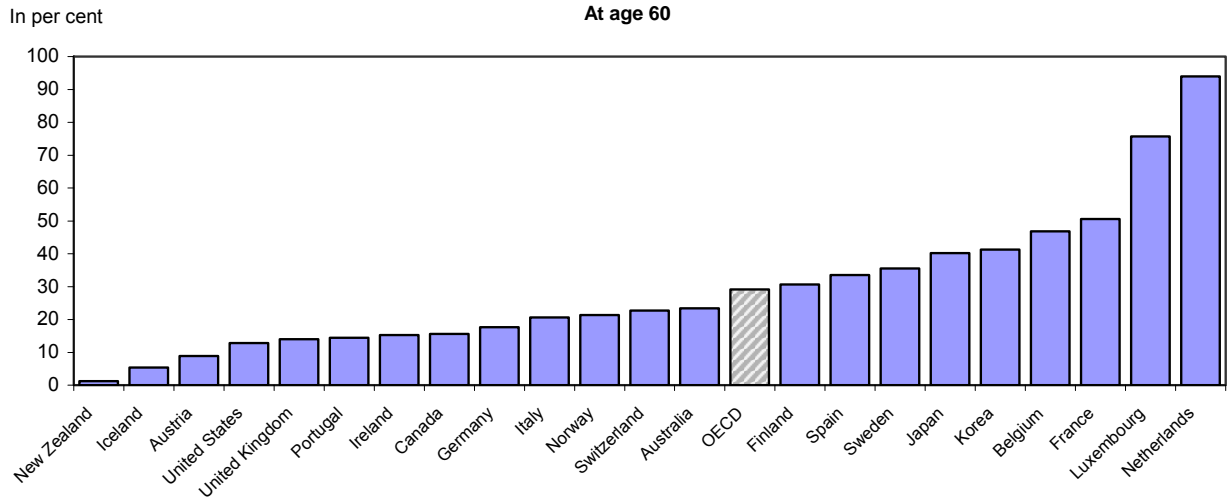


1. The baseline participation rates are the projected female participation rates for 2025 based on cohort effects and are taken from Burniaux et al. (2003); OECD refers to the unweighted OECD average.
 2. Panel A assumes an equal tax treatment of second earners and single individuals (at 67 percent of in APW), as is already the case in Finland, Sweden, Hungary, Mexico, and Turkey.
 3. Panel B assumes that public childcare spending per child converges in all countries to the OECD maximum of US\$8009 observed in Denmark. No simulation could be made for Greece, Hungary, Italy, Luxembourg, and Poland due to lack of data on public childcare spending in these countries.
 4. Panel C assumes that the increase in household disposable income between a situation where husband and wife share market work (100 per cent and 33 per cent of APW respectively) and a situation where the husband earns all the market income (133 per cent of APW) is 11 per cent, i.e. the maximum value observed in Finland and Mexico. No simulation could be made for the Slovak Republic, due to lack of data.
 5. The constrained cumulative scenario combines the policy measures simulated in Panels A to C, under the constraint that the resulting female participation rate can not exceed the male participation rate projected for 2025 in the baseline. This constraint is also applied to Panels A to C, though to a lesser extent. The constrained cumulative scenario was only calculated for countries for which all individual policy measures could be simulated. It is thus not calculated for Greece, Hungary, Italy, Luxembourg, Poland, and the Slovak Republic.

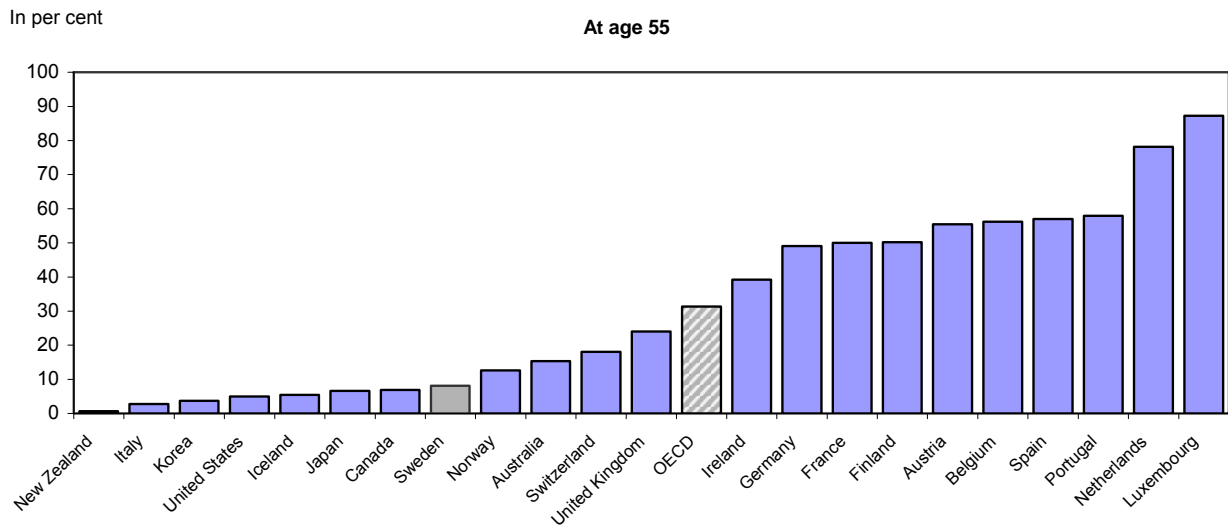
Source: OECD estimates.

Figure 3

Implicit tax rates on continued work over next 5 years in current old-age pension systems¹



Implicit tax rates² on continued work over next 5 years in current social transfer programmes¹



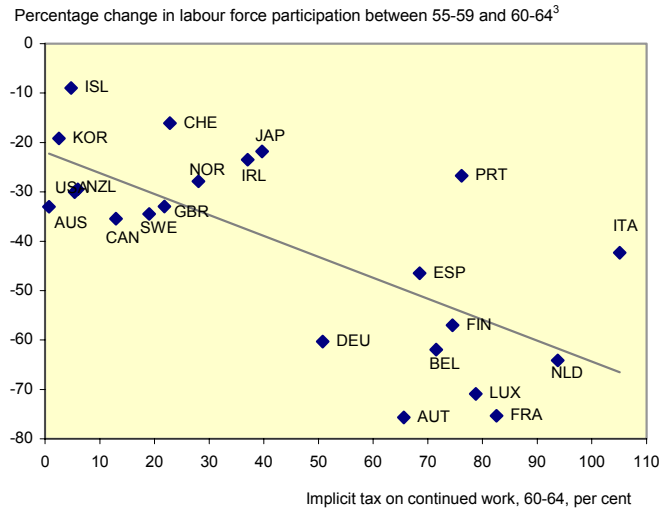
1. Single worker with average earnings.

2. The implicit tax rate on continued work refers to an "early retirement route". The latter is modelled as the unemployment benefits / assistance pathway into retirement with the exception of Ireland, where the modelling refers to the pre-retirement allowance, and Luxembourg, where disability benefits were considered given their widespread incidence among pensioners. In those countries where it is considered that no early retirement scheme can be widely used to withdraw from the labour market before the minimum pensionable age (Australia, Canada, Iceland, Italy, Japan, Korea, New Zealand, Norway, Sweden, Switzerland and United States) the retirement scheme considered in the chart is simply the "regular" old-age pension system. Similarly, at those ages when people are entitled to an old-age pension (e.g in France at 60), the retirement scheme considered in the chart is the "regular" old-age pension system rather than an early retirement scheme.

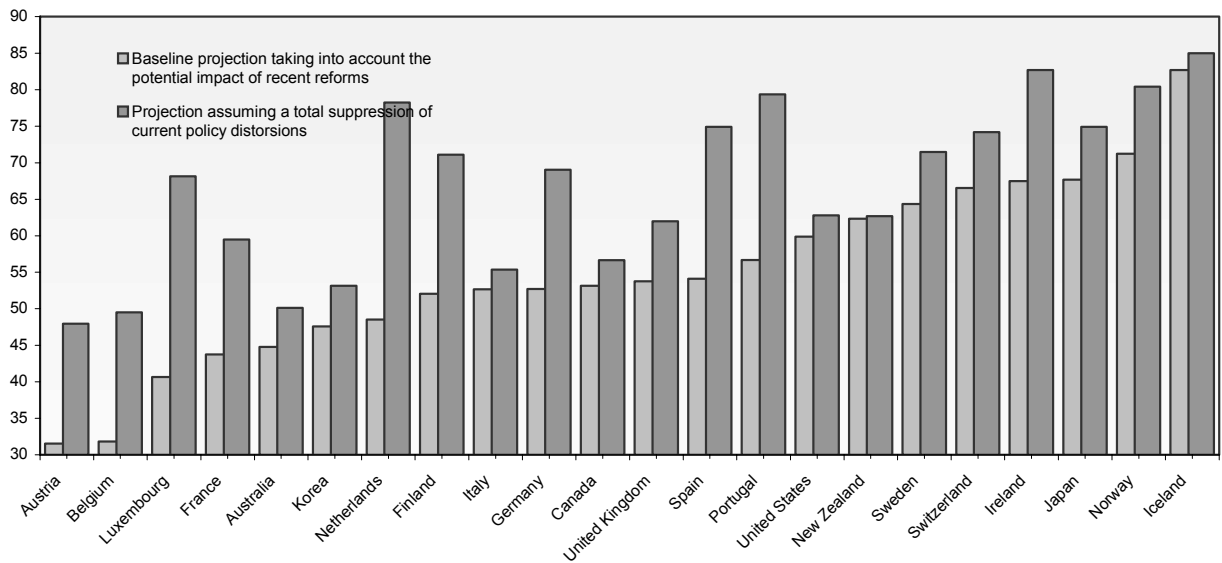
Source: OECD.

Figure 4

Fall in male labour force participation between two consecutive age groups and implicit tax rates on continued work, 1999¹



Potential impact of pension reforms on labour force participation of older workers (projected labour force participation rates of the 55-64 age group in 2025 under different scenarios)



1. Implicit tax rates are calculated for a single worker with average earnings in 1999. In some cases, the results differ from those presented in Figure 4, which refer to currently legislated systems. These differences reflect either policy changes that took place after 1999 (e.g. Finland, France) or the future implementation of measures that were already legislated but had not yet come into effect in 1999 (e.g. the future maturation of the Superannuation Guarantee Scheme in Australia, the transition from the "old" to the "new" pension system in Italy).

2. $(Pr_{55-59} - Pr_{50-54}) / Pr_{50-54}$, per cent.

3. $(Pr_{60-64} - Pr_{55-59}) / Pr_{55-59}$, per cent.

Source: OECD.