

The Trend in Female Labour Force Participation; Consequences for the Fiscal Sustainability in an Ageing Society

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Abstract

During the 1980s and 1990s, the Netherlands experienced a strong increase in the labour force participation of women. In this study, we investigate what has driven this increase over the successive generations. Furthermore, we provide an educated projection for the future participation rates, together with a simple calculation of the implied contribution to the fiscal sustainability of the Dutch welfare state. We estimate a binary model for the participation of women born between 1925 and 1986 on the basis of the Dutch Labour Force Survey 1992-2004. First, our results confirm that educational attainment and the number of children are important determinants of participation. Second, generations born before 1955 show a strongly increasing pattern in participation that cannot be explained fully by observed factors. This indicates evolving social norms and an increasing orientation of women towards paid employment, independent of the developments in the level of education and the number of children. Third, the increasing participation rates of the generations born after 1955 can be explained almost entirely by observed factors. Fourth, it is likely that female labour force participation will increase at a much lower rate in the upcoming decades than it has done before. The reason is that the unobserved cohort effects are fading out for the younger generations, while at the same time the degree of education among women will rise at a much lower pace than it has done in the past. Fifth, we observe that future participation growth importantly depends on the evolvement of attitudes towards the combination of paid work and children. We have therefore constructed two scenarios for the future, the first with constant norms with respect to this factor, and the second with a further evolvement. Making use of projections for all the underlying variables, together with our estimation results, we conclude that participation might grow by another 5-8%-points, depending on the scenario. Finally, we estimate that the rising participation rate of females in the coming decades may compensate for about 25-35% of the structural fiscal deficit caused by population ageing in the Netherlands.