

**{Section 2}**  
**The long view: Tracking  
the long term drivers of  
living standards**

Chapter 5  
**Faltering  
economic  
participation**

## Chapter summary

- The UK labour market was transformed in the second half of the 20th century. Female employment rose, male employment declined and, more recently, the over 50s have come to make up a bigger share of the workforce.
- Women's work has driven more than a quarter of all income growth in low to middle income households since 1968 but now female employment growth has faltered, rising by only 1 percentage point in each of the last two decades.
- The UK ranks 15th in the OECD for female employment, with huge gaps for women in their early 30s and those over 50. Compared to better performing countries more than 1 million women are missing from UK workplaces.
- Among older workers the UK underperforms particularly badly among men, lagging better performing countries by 8 percentage points among 60–64 year olds.
- Both problems owe much to policy; for women, expensive and inflexible childcare and for older workers a lack of a reliable social care and weak financial incentives are barriers to work.

### 5a Long-run trends in employment and participation

If hourly wages tell us only half the story, the other half is employment and participation. In the long term, rising participation and a higher employment to population ratio are key to higher living standards. In the late 20th century substantial growth in work among women was a key driver of rising living standards. More recently, employment among older workers has become central. These trends are the focus of this chapter. Stepping back, the UK's failure to adapt to a labour market that has transformed in terms of its mix by gender and age has left us underperforming on some key fronts.

### 5b The rise of female employment

The rise of female employment has transformed and expanded the UK workforce

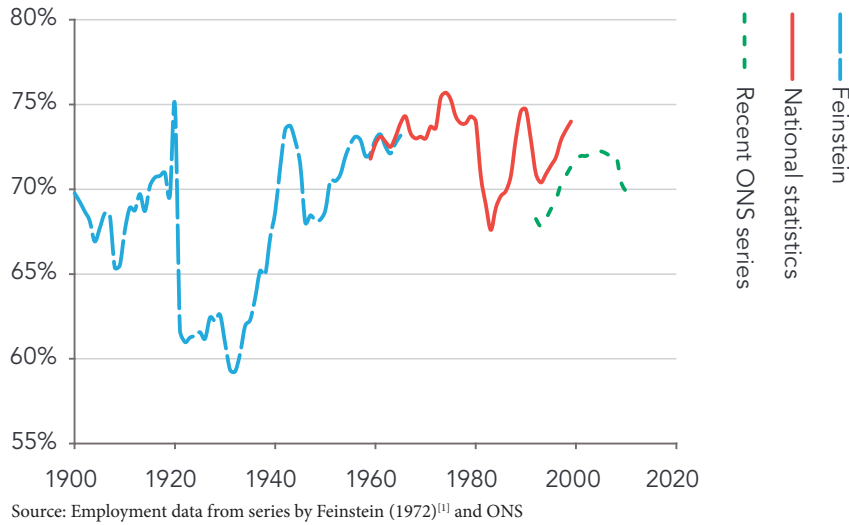
The defining trend in the UK labour market since the Second World War is the growth in female employment. Between 1951 and 1981 the proportion of women active in the UK labour market rose 18 percentage points. As a result of this surge in women's work, behind deep cyclical fluctuations, employment rose steadily, by the late 1970s reaching levels that had only previously occurred during the earlier fully mobilised war economy (Figure 5.1).

From the 1970s, rising female employment was accompanied by a steady decline in the male employment rate (Figure 5.2). This was focused among older male workers as employment shifted from manufacturing

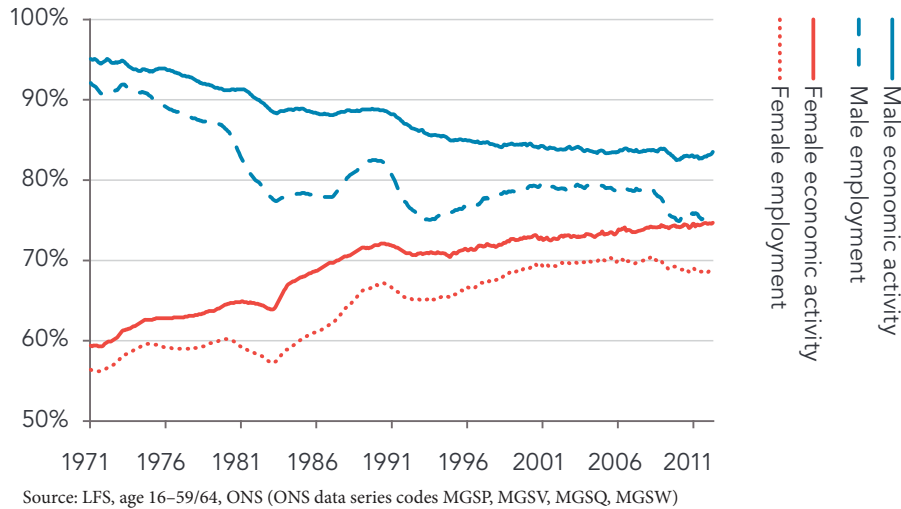
to services. Female employment itself then slowed markedly in the 1990s and 2000s. For the first time in decades its positive force was struggling to outweigh declining work among men. Even so, the transformation in the gender make-up of the jobs market has been profound. In 1968, 86 per cent of employment income in low to middle income households came from men and 14 per cent from women; by 2008, these shares were 63 per cent and 37 per cent.

More recently, rising female employment has been accompanied by falling male employment, and as a result of female earnings now account for a much larger share of household income.

**Figure 5.1: Employment to population ratio, UK, 1900–2000**



**Figure 5.2: Employment rates for working-age individuals by gender**



**B**ehind changes in the gender make-up of our labour market lie big changes in the way that people work: 27 per cent of workers now work part time, up from 23 per cent 20 years ago. While the proportion of women in part-time roles has fallen marginally to around 44 per cent, the proportion of men working part time has nearly doubled from 7 per cent to 13 per cent, a trend only hastened by the 2008-09 recession. Even so, the dominance of women in part-time work remains a key explanation for the size of the gender pay gap.<sup>[2]</sup>

[1] Feinstein, C. H., (1972), "National Income, Expenditure and Output of the United Kingdom 1855-1965", Cambridge University Press, Cambridge. [2] The full-time pay gap is now around 10 per cent. Full-time median gross hourly earnings excluding overtime in 2011 were £13.11 an hour for full-time men and £11.91 an hour for full-time women.

## 5c How the UK measures up on female employment

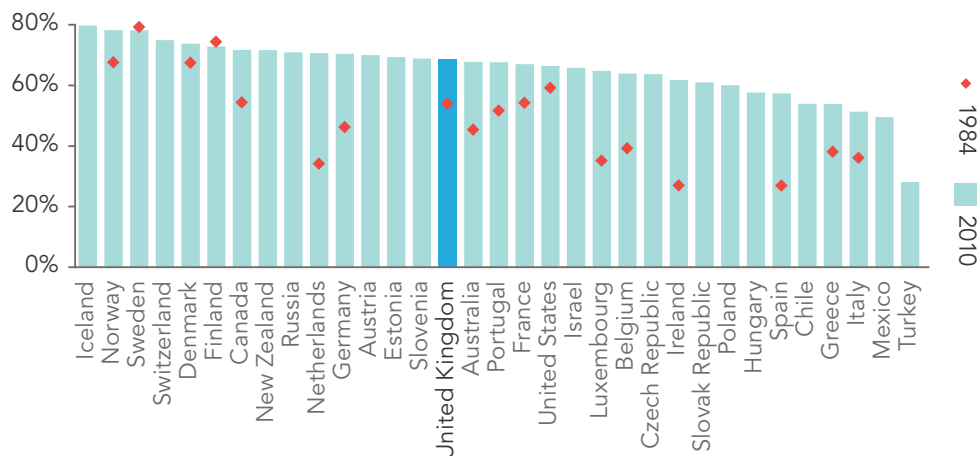
Broad-based wage growth has declined across the OECD

**W**omen’s work and part-time work are now central to living standards. How does the UK measure up? While the gender employment gap is now far lower than it once was, UK female employment remains a full 10.5 percentage points lower than male employment.<sup>[3]</sup> Even these statistics understate the full gap because the distribution of part-time employment remains highly unequal. The UK’s male–female employment gap rises from just over 10 to 27 percentage points for full-time equivalent work.<sup>[4]</sup>

Moreover, UK female employment remains at a significantly lower level than many other advanced economies (Figure 5.3). The UK ranks 15th in the

OECD for employment among women aged 25–64. When adjusted for the scale of part-time work, this position falls to 24th. The scale of this underperformance is substantial; the average female employment rate among better performing countries is 73 per cent, or 4.3 percentage points higher than the UK. Among the five best performing countries it is 77 per cent, or 8.3 percentage points above the UK. Closing these gaps would result in between 700,000 and 1.4 million women moving into work.<sup>[5]</sup> Survey evidence gives little reason to believe that women want to work less than men, though women are more likely to report a preference for part-time work, more so if they have young children.<sup>[6]</sup>

**Figure 5.3: Female employment rate by country, 1984 and 2010**



Note: Best performing countries are those ranked in the top five on female employment rates among 25–64-year-old women in the OECD in 2010; better performing countries are those ranked above the UK (in the top 14). Source: Resolution Foundation analysis, OECD family database

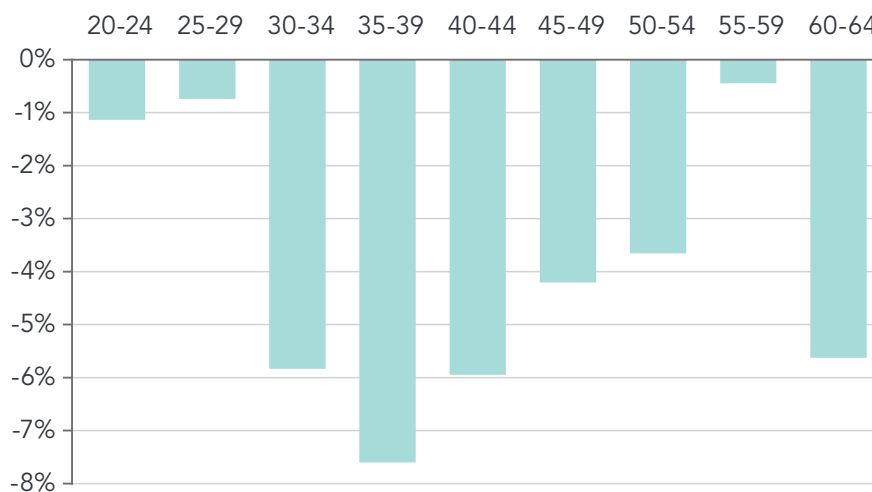
### This underperformance is likely to reflect, in part, the UK policy environment

There is good reason to believe that policy plays a central role in this underperformance. The UK’s performance gap varies substantially by age and is far larger among two groups: women in their 30s and those over 55

(Figure 5.4). The gap also opens up wider for mothers than non-mothers and is even wider for those with more than one child. Perhaps surprisingly, it is wider for those with older children, with women in the UK less likely to re-enter the labour market than in better performing countries once their children start school.

[3] Employment rate among all aged 16–64, April–June 2012, ONS, *Labour Force Survey* (August 2012). [4] OECD, *Employment Outlook*, 2010. [5] Plunkett, J., (2011), *The Missing Million: The potential for female employment to raise living standards in low to middle income Britain*, Resolution Foundation, London. [6] Around one-third of men and women would prefer not to work at all, with no variation between genders. Roughly 22 per cent of men say they would prefer to work full time and 46 per cent part time. For women the figures are 12 per cent and 56 per cent (YouGov for the Centre for Policy Studies, 2009). The full question was: “If it is/ were not essential for you to work for financial reasons would you... (a) work full-time, (b) work part-time, (c) not work at all, (d) don’t know.” For more details on working preferences see Jaumotte, F., (2003), *Female Labour Force Participation: Past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376. On the difficulties of divorcing preferences from real restrictions see van Wanrooy, B. (2005), “Adapting to the Lifecourse? Evaluating men and women’s working-time preferences”, *Australian Journal of Labour Economics*, 8 (2); Kelley, S. M. C. and Kelley, C. G. E. (2009), *Women’s Work Preferences: The importance of home-based work*, International Survey Center Working Paper.

**Figure 5.4: Percentage point gap between UK female employment rate and rate in better performing countries, by age group, 2010**



Notes: Better performing countries are those ranked above the UK (in the top 14) on overall female employment rates among 25–64-year-old women in the OECD in 2010. Source: Resolution Foundation analysis, OECD family database

These international variations in the level of female employment reflect a complex mix of cultural, social and economic factors. In any case, it is important not to see employment as an end in itself; what matters is freedom of choice. But evidence suggests that the UK policy environment constrains parents' employment choices in a number of ways. Comparative studies point to several key policy areas for mothers in particular.

### The importance of childcare

The key barrier to female employment seems to be the affordability and availability of childcare. Evidence shows that affordable and readily available childcare boosts female employment, particularly for mothers with low education, narrowing the gap between low and high income households.<sup>[8]</sup> Public childcare subsidies have also been shown to increase women's share of pay within the household and to boost earnings over the long term by reducing the scarring effects of taking long career breaks to raise children.<sup>[9]</sup>

In the past 15 years there has been a big expansion of childcare provision in the UK, driven by significant increases in direct subsidies from government. This was principally delivered through the introduction of 15 hours of free early education for all three and four year olds (extended by the current government to the most deprived 40 per cent of two year olds from September 2014)<sup>[10]</sup> and through the intro-

duction of the childcare element of Working Tax Credits. This reimburses low income parents for 70 per cent of their childcare costs (down from 80 per cent since April 2011) up to a threshold. The latest plans for Universal Credit now look likely to maintain a roughly similar level of support, though increasing support for parents working under 16 hours week.<sup>[11]</sup>

Yet childcare remains more expensive, less flexible, and less widely available in the UK than in countries with higher female employment rates. Full-time childcare costs for two young children, after state support, are among the highest in the OECD for a dual earning family earning 167 per cent of average earnings between them.

New analysis for the Commission shows that these impacts, along with their implications for work incentives, vary substantially by income (see In depth 5.1 for more detail).<sup>[12]</sup> The largest barriers are faced by households on incomes that are modest but too high to qualify for substantial support through tax credits. To give one example, under today's system of childcare support, a second earner in a median income household who takes up a full-time job at £10 an hour takes home just £1,060 a year after tax, lost benefits and childcare costs – equivalent to £20 a week for 37.5 hours work.<sup>[13]</sup> This is just 5 per cent of her pre-tax salary (£19,550) and does not account for other work-related costs like transport.<sup>[14]</sup> Work simply does not pay.

[8] Chevalier and Viitanen find that in the UK women's employment followed increases in childcare but the relationship does not hold the other way around – see Chevalier, A. and Viitanen, T., (2002), "The Causality Between Female Labour Force Participation and the Availability of Childcare", in *Applied Economics Letters*, Vol. 9, pp. 915-918. See also Kögel, who questions the significance in the change in relationship: Kögel, T., (2004) "Did the Association Between Fertility and Female Employment within OECD Countries Really Change its Sign?", *Journal of Population Economics*, 17 (1). See also Del Boca, D. and Pasqua, S., (2005), *Social Policies and Employment of Married Women in Europe*, Child Working Papers wp19\_05; Del Boca, D., Pasqua, S. and Pronzato, C., (2008), *Motherhood and Market Work Decisions in Institutional Context: A European perspective*, Dondena Working Paper No. 11. [9] Estévez-Abe, M. and Hethey, T., (2008), *How Policies Affect Women's Economic Position within the Family: Labor market institutions and wives' contribution to household income*, Luxembourg Income Study Working Paper Series see Misra, J., Budig, M. J. and Boeckmann, I., (2009), "A Cross-National Perspective on Gender, Parenthood, and Employment", University of Massachusetts, draft. [10] Department for Education, (2012), "Early Education for Two-year-olds", [www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/delivery/Free%20Entitlement%20to%20Early%20Education/b0070114/eefortwoyearolds](http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/delivery/Free%20Entitlement%20to%20Early%20Education/b0070114/eefortwoyearolds) (accessed 23 August 2012). [11] This is after the government made an additional £300 million available for childcare under Universal Credit in order to avoid planned reductions in support. [12] Resolution Foundation, (forthcoming), *Childcare Costs*. [13] Based on a couple in which the main earner works full time, earning £18.82 per hour (a salary of £705 per week or £36,700 per year) and the second earner earns £9.41 per hour and enters full-time work at 35 hours a week. [14] Based on a couple in which the main earner works full time, earning £18.82 per hour (a salary of £705 per week or £36,700 per year) and the second earner earns £9.41 per hour and enters full-time work at 35 hours a week. The £600 net income gain is rounded up from £573.

## In depth 5.1: Who pays the price for high childcare costs?

Childcare is a major and rising cost for parents in the UK.<sup>[15]</sup> New Resolution Foundation analysis shows that a middle income dual earner family, earning 167 per cent of the average wage between them, with two young children in full-time childcare, would spend more than one-fifth (23 per cent) of their net household income on childcare in 2012. This represents a significant fall since 2004, the most recent date for which the OECD has published complete comparative data on childcare costs (Figure 5.5), reflecting increased government support over this period. In 2004, a similar family would have spent one-third of their income on childcare – a fall of 30 per cent. Nonetheless, this still leaves the UK with some of the highest childcare costs in the OECD.<sup>[16]</sup>

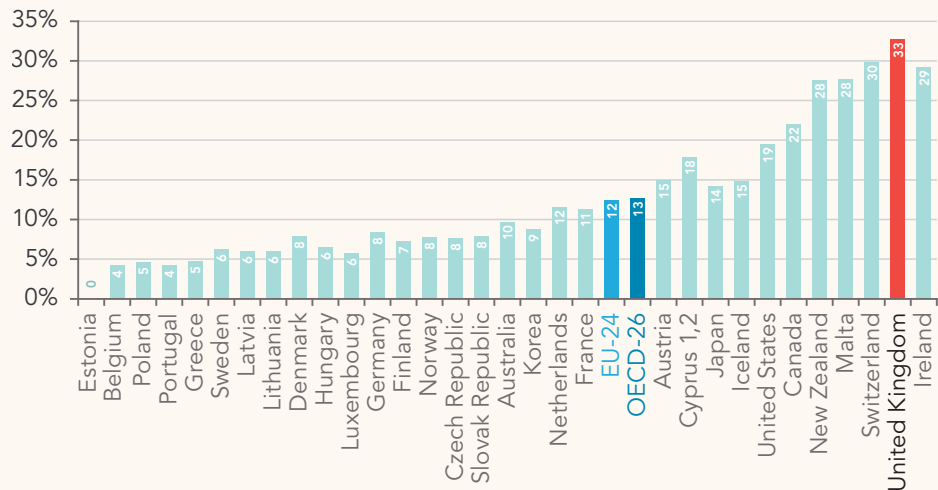
These figures hide substantial variation in the amount of support that different households receive. UK childcare support is highly targeted, so low income families fare better when measuring costs as a proportion of their income.

Resolution Foundation analysis has shown that while net out of pocket childcare costs (after state support for childcare) are 23 per cent of net income for a middle income family, for a low income household, receiving more support through tax credits, this figure is reduced to 7 per cent. Figure 5.6 illustrates the impact of this targeted support on three typical working households on low income (two earners on the minimum wage), middle income (at the median) and high income (around the 80th percentile) with two children before and after childcare costs, taxes and benefits. The middle income family starts with a gross income 87 per cent higher than the low income family, but finishes up with a final income only 17 per cent higher. Childcare costs all but erase their higher earnings.

The effects of these costs on work incentives are stark, particularly for second earners. Figure 5.7 focuses on a middle income couple with two children and shows how net household income increases as the second earner takes on more hours of work and pays for childcare. The incentive to work an extra hour is weak up to around 15 hours a week (when free public childcare is available) and negative after this point. The overall result is that the family's income is only £1,060 higher a year after the second earner works 37.5 hours a week.

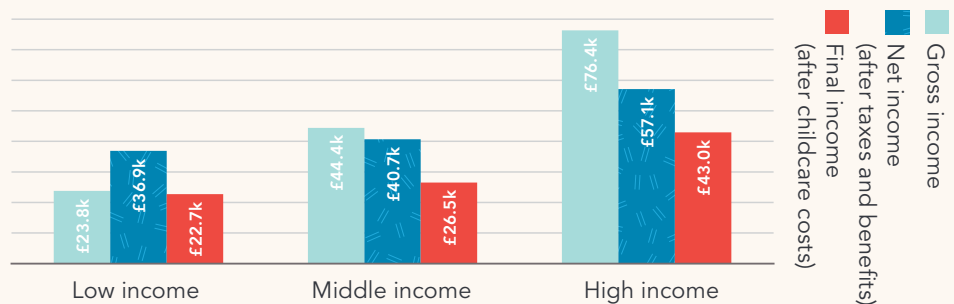
Incentives to work an extra hour are also weak for lower income families, despite receiving more support with the costs of childcare, because of the withdrawal of tax credits.

**Figure 5.5: Net childcare costs for a dual earner family with full-time arrangements earning 167 per cent of the average wage, 2004, as percentage of net family income**



Source: OECD Family Database

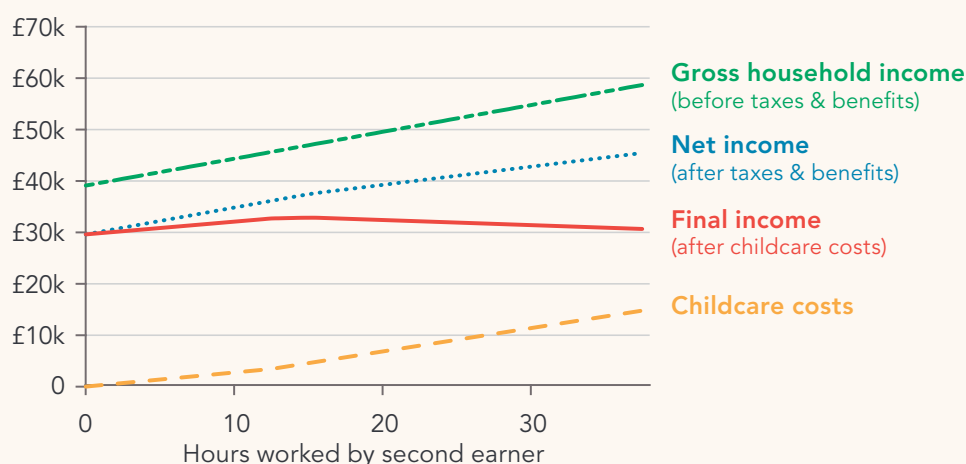
**Figure 5.6: Gross, net and final income after childcare costs for three stylised families with two children in the UK, 2012**



Notes: Low income family has two parents working full time at the 2012 minimum wage; middle income family has two parents working full time, one earning 100 per cent of average wage and the other earning 67 per cent of average wage; high income family has two parents working full time, one earning 172 per cent of the average wage and the other earning 115 per cent of the average wage. All families have two children: a two-year-old and a three-year-old. Source: Resolution Foundation Childcare Model.

[15] Daycare Trust, (2012), *Childcare Costs Survey 2012*, Daycare Trust, London. [16] OECD, Family Database, [www.oecd.org/els/social/family/database](http://www.oecd.org/els/social/family/database) (accessed 10 October 2012). While the OECD Family Database (see PF3.4 Childcare support) refers to data from 2004, the OECD has published a provisional update using data from 2008 in OECD, (2011), *Doing Better for Families*, OECD, Paris. This data confirms our key finding that net childcare costs in the UK have fallen significantly but remain amongst the highest in the OECD.

**Figure 5.7: Annual household income and childcare costs for a typical middle income couple in the UK with two young children as second earner moves towards full-time work**



Notes: Figures are for a couple with two children aged one and four years old around median income. The first earner works 37.5 hours a week and earns £20 per hour, earning £750 per week (£39.1k per year). The second earner earns half this rate, £10 per hour. The couple represent a typical middle income household in that, if the second earner works 10 hours a week, gross household income is £44.3, near to the median of the equivalised household income distribution. The model outlines the change in household income as the second earner enters work and moves towards full-time work. Source: Resolution Foundation Childcare Model.

### Low quality part-time work in the UK holds back female earnings and employment

The heavy cost of childcare is one reason for the high level of part-time work among women in the UK. Many parents find that part-time work is an attractive way to balance their work and caring responsibilities. Yet the quality of part-time work in the UK is lower than in other advanced economies, with part-time workers paying a high penalty in pay, career progression and earnings mobility.<sup>[17]</sup> Women in the UK are also more likely to work part time than in other countries, helping to explain the persistent gender pay gap.<sup>[18]</sup> The two-fifths (39 per cent) of all employed women in the UK who work part time compares with less than one-quarter (24 per cent) across the OECD as a whole. In addition, the low quality of part-time work in the UK may deter some women from working at all.

We saw in Chapter 4 that the UK has the highest part-time pay penalty in the EU. This has severe implications for women's work, with many having to downgrade their roles and pay when they switch from full- to part-time employment after having children. The part-time pay penalty has also grown worse over time: hourly earnings of part-time women workers were about 10 per cent

below those of full-time women workers in 1975, falling to between 25 per cent and 30 per cent below in the 2000s.<sup>[19]</sup> In some other countries, most notably the Netherlands, high levels of part-time work and female employment have worked together in a more virtuous circle, with high quality, flexible part-time work in part responsible for high female employment rates.

Unequal divisions of work between gender are key to these gaps. There is also evidence that the current system of maternity and paternity rights may entrench these gaps (not least because men, including fathers, are also more likely in the UK than elsewhere to work very long hours). Internationally, more generous leave entitlements are associated with higher female participation. But very long periods of leave – particularly if they are split very unequally between genders, as in the UK – have been shown to have a detrimental effect on the employment and earnings potential of mothers.<sup>[20]</sup> Government plans to allow parental leave to be shared between parents would help to address this.

Taken together, these factors have limited the growth in female employment income in the UK by limiting overall participation levels and hours worked and by constraining women's hourly earnings potential.

[17] Savage, L., (2011), "Snakes and Ladders: Who climbs the rungs of the earnings ladder", Resolution Foundation, London; Manning, A. and Petrongolo, B., (2005), *The Part-time Pay Penalty*, CEP Discussion Paper No. 679, Centre for Economic Performance, London School of Economics. [18] While 55 per cent of UK mothers in couple families work fewer than 30 hours a week (the third highest rate in the OECD), 44 per cent of fathers couple families work more than 45 hours a week (the second highest rate in the OECD). See Plunkett, *The Missing Million*, p. 8. [19] Ibid. [20] Del Boca, D. et al., (2008), "Motherhood and Market Work Decisions in Institutional Context: A European perspective", Dondena Working Paper No. 11; Pronzato, C. D., (2007), "Return to Work After Childbirth: Does parental leave matter in Europe?", Dondena Working Paper No. 14.



## 5d Prospects for older workers

The defining employment trend of the next century will be the rise of older workers

**A**longside the central role of female employment, the age profile of the labour force has also been transformed. As life expectancy increases, this will take centre stage as one of the most important trends for living standards. In the UK there have been increases in the employment rate among the over 50s since the end of the last recession in 1993: the overall employment rate for the over 50s rose 10 percentage points in this period (somewhat more for women than for men) to 65 per cent.<sup>[21]</sup> This partially reverses a steep decline in older employment in the 1980s, particularly for men.

The combination of demographics and a rising employment rate means that the number of older people in employment in the UK increased from 5 million in 1992 to 7.5 million in 2012 – a rise of 50 per cent.<sup>[22]</sup> With one in four people in the low to middle group already over 50, this is a strategically important trend for living standards. Earning potential late in life is even more important in light of low pension savings.

With two-thirds (65 per cent) of adults in low to middle income households in the UK not saving into a personal pension, the group faces a pension crisis.<sup>[23]</sup>

### The UK lags behind other advanced economies in employing older workers

Recent improvements in employment for the over 50s should not make us complacent. There is evidence to suggest that the UK could perform better still. The UK is a middling performer in its employment of older workers compared with other countries. Among men in the 60–64-year-old age group, for example, the UK lags the employment rate among better performing countries by nearly 8 percentage points (and far more after UK State Pension Age) (Figure 5.8). There is a similar scale of underperformance among women. Many older workers feel excluded from the labour market, as a result of specific barriers which we discuss in more detail below.

### In depth 5.2: Won't older workers just displace younger ones?

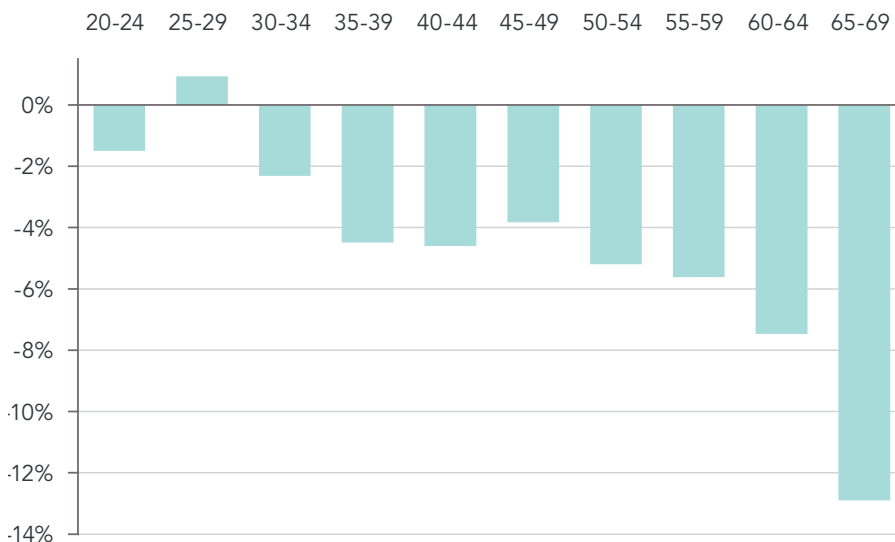
It is commonly believed that boosting employment among one group of workers, for example women or those over 50, reduces the employment of other groups. In the long run this doesn't hold, being based on the false assumption that there is a specific and finite amount of work to be done in an economy, when in reality modern labour markets like the UK's are complex, open and dynamic.

Employment is not "one in, one out". Expanding employment boosts demand by raising people's incomes, having a positive knock-on effect for overall employment. Among those in lower income households, who have a high propensity to spend, the positive effects for the wider economy are likely to be strong.

It is also important to remember that modern labour markets like the UK have large and diverse traded sectors. As we saw in our discussion of immigration, introducing new groups into the labour market is more likely to affect the kinds of goods and services produced than simply to displace other workers.

In the short term it is harder to know the extent of displacement effects. Immediate incentives, for example to hire one type of worker rather than another, may benefit some groups at the expense of others. However, fuller and broader employment are compatible medium- and long-term goals.

**Figure 5.8: Percentage point gap between UK male employment rate and rate in better performing countries, by age group, 2010**



Notes: Better performing countries are those ranked above the UK on overall male employment rates among 25–64-year-old men in the OECD in 2010. Source: Resolution Foundation analysis, OECD family database

[21] Resolution Foundation analysis, ONS. [22] Cory, G., (2012), *Unfinished Business: Barriers and opportunities for older workers*, Resolution Foundation, London. [23] Resolution Foundation analysis of DWP, *Family Resources Survey*, 2009-10.



**This is likely to reflect discouragement rather than positive decisions to retire**

The UK's poor performance among those over 55 is largely an effect of inactivity rather than unemployment, with unemployment among 55–64-year-olds only around 5 per cent.<sup>[24]</sup> Evidence suggests this is because a significant proportion of older workers move into inactivity despite wanting to work.<sup>[25]</sup> The reasons for this vary substantially. Among more affluent workers, economic inactivity is often to be celebrated, reflecting high disposable income and early retirement.<sup>[26]</sup> Among those over the age of 55, particularly women, the need to care for elderly relatives is a key factor, while among men in this age group, poor health or injury is a common obstacle to work.<sup>[27]</sup> Age discrimination remains commonplace.<sup>[28]</sup>

**International evidence suggests that the policy environment can play an important role**

The policy environment is critical to how a country performs in each of these areas. Caring responsibilities

restrict employment and hours of work, suggesting that an accessible system of social care for the elderly can boost employment among those in their 50s or 60s, who may need to care for a partner or elderly relative.<sup>[29]</sup> Other studies show the importance of well-designed active labour market policies, investment in training, industry-specific programmes and partnerships with unions.<sup>[30]</sup>

A particularly important factor is financial incentives and specifically the balance between in-work support and out of work benefits, including pensions. This balance matters for all workers, but evidence shows that it has an even greater effect when the decision to work becomes more marginal. This applies to older workers who become more responsive to financial incentives as they near retirement.<sup>[31]</sup> While those in their 30s and 40s are likely to work anyway if they are able, small changes to incentives can make all the difference for those over 55. This suggests that it is worth thinking about the design of the tax system for the over 50s.

## 5e Conclusion

**I**n the short to medium term, achieving the macro-economic conditions for full employment is perhaps the most important route to higher living standards. Longer term, the UK's stark performance gap among women and older workers suggests that we face problems well beyond the immediate challenge of a lack of demand. The UK has not reached a limit on employment rates among these groups that is common

to advanced economies; we have hit our own glass ceiling. This owes something to culture and demography but much to the policy environment. Other countries do a better job of reconciling motherhood and older age with employment. As employment amongst these groups continues to grow in importance, the costs of this underperformance for living standards will only become harder to bear.

[24] OECD statistics database. [25] Humphrey, A., Costigan, P., Pickering, K., Stratford, N. and Barnes, M., (2003), *Factors Affecting the Labour Market Participation of Older Workers*, National Centre for Social Research with Institute for Fiscal Studies. [26] Lissenburgh, S. and Smeaton, D., (2003), *Employment Transitions of Older Workers: The role of flexible employment in maintaining labour market participation and promoting job quality*, Joseph Rowntree Foundation, York. [27] Cory, *Unfinished Business*. On the prominence of ill health and injury as obstacle to work among older men see Humphrey et al., *Factors Affecting the Labour Market Participation of Older Workers*. [28] DWP, (2012), *Attitudes to Age in Britain 2010/11*, Department for Work and Pensions, London. [29] OECD, (2011), *Help Wanted? Providing and Paying for Long-Term Care*, Organisation for Economic Co-operation and Development, Paris. [30] See for example, DWP, (2007), *What Works for Whom? A review of evidence and meta-analysis for the Department for Work and Pensions*, Department for Work and Pensions, London; Welsh Assembly Government Department for Children, Education, Lifelong Learning and Skills, (2008), *Evaluation of ReAct: Final report*; Winkelmann-Gleed, A. (2011), *Demographic Change and Implications for Workforce Ageing in Europe: Raising awareness and improving practice*. [31] IFS, (2010), *Dimensions of Tax Design*, Mirrlees Review, Institute for Fiscal Studies, London.