Monthly Labor Review

March 2019

Want more workers? Improve parental leave policies

Eleni X. Karageorge

According to a recent study, "Why aren't U.S. workers working?" (*Economic Letter*, Federal Reserve Bank of San Francisco, November 13, 2018), labor force participation among key demographics is on the decline in the United States. Economists Mary C. Daly, Joseph H. Pedtke, Nicolas Petrosky-Nadeau, and Annemarie Schweinert argue that labor force participation is declining among men and women between the prime ages of 25 and 54. They show that this prime segment of the population has been on a downward trend for the past two decades.

To determine the labor force participation rate in America, the researchers identify the working-age population (age 16 and over) who are either working or actively looking for work. They point out many different factors at play regarding these rates; age is one of the biggest.

The authors also analyzed Canada's track record of a rising participation rate, comparing it with the rate of the United States. They found a major difference between the rates and attributed most of the difference to policies such as childcare subsidies and parental leave policies that allow Canadian women to remain more easily in the workforce after they have children.

Beginning in 1985, the participation for these prime ages for both men and women (between 25 and 54) rose steadily in both the United States and Canada until 1991. This growth was closely related to the number of prime-age women entering the labor force in both countries. Since then, the trajectories diverged in the two countries. In 2017, the prime-age participation rate for both men and women in Canada was 87 percent, while it was about 81 percent in the United States.

Data indicate that the overall men's participation rates for the two countries mirrored each other until the Great Recession. The rates for men in the United States declined more sharply since the recession and have been more sluggish in recovering. In 2017, a 2.5 percentage point gap between prime-age male workers still existed in the two countries.

Data show that three-fourths of the disparity in labor force participation rates of prime-age workers between the United States and Canada can be attributed to the gap in the participation rates of women. Participation rates of U.S. prime-age women began dropping in the mid-1990s, well before the Great Recession. In addition, over the same period, the participation levels among women in the two countries has consistently moved in opposite directions. By 2017, the rate was 83 percent in Canada and only 75 percent in the United States.

In addition to gender, other factors such as education can affect participation rates. If a worker obtains a college degree, he or she is more likely to work than someone who only obtains a high school diploma. Similarly, those with a high school diploma are more likely to work than those without one. This finding is particularly true for women.

Compared with the United States labor market, the Canada labor market has seen an increase in participation among prime-age workers. What explains the stark difference in participation rates between the United States and Canada? Most of the difference can be attributed to policies like childcare subsidies and parental leave policies that allow Canadian women to remain in the workforce after they have children.

In Canada, a 1988 tax reform reduced the marginal tax rate for second earners in every household. This reduction in the tax rate helped boost the number of married women working part time. In the late 1990s, women began to enter the labor force in droves when Canada introduced subsidized childcare costs and parental leave.

If the United States were to encourage women to stay in the labor force by enacting more generous policies for mothers, the labor force participation rate could grow at a considerable rate. We would probably see the type of growth that has eluded the labor market for the past couple decades. According to the researchers, the U.S. economy could add as many as 5 million workers to its labor force by offering better incentives for women to remain in the workforce.