

3 WOMEN'S LABOUR MARKET PERFORMANCE IN THE EU AND IN HUNGARY

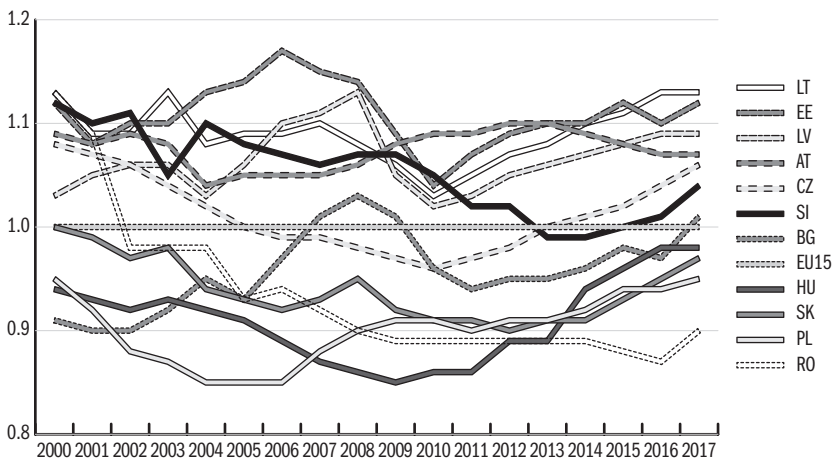
3.1 FEMALE EMPLOYMENT IN POST-SOCIALIST EU MEMBER STATES¹

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In the early 2000s, the post-socialist EU Member States still had a distinct advantage in female employment compared to the old Member States. They had lost this advantage before the outbreak of the global financial crisis but regained it to some extent during and after the recession (*Csillag et al. 2013*). This chapter examines the role of demographic and policy factors driving these changes.

Before the transition in 1989, Central and Eastern European countries were characterised by high overall employment and a small gender employment gap. Cross country dispersion in the Soviet bloc was also smaller than within the EU15, where female employment varied considerably between high levels in the Nordic countries and low levels in the South. Female employment dropped as a result of the transitional shock in most CEE countries, and the recovery proved to be slow. Despite the steady rise of female employment in the New Member States (NMS) since 2000, the employment rates have come close to the EU15 average only recently (*Figure 3.1.1*).²

Figure 3.1.1: Relative female employment rate in post socialist EU countries, EU15 = 1



Note: Share of 20–59 years old population. The Hungarian data include the participants of public works as well (which significantly raises the employment rate after 2009).

Country abbreviations: AT: Austria, BG: Bulgaria, CZ: Czech Republic, EE: Estonia, HU: Hungary, LT: Lithuania, LV: Latvia, PL: Poland, RO: Romania, SI: Slovenia, SK: Slovakia.

Source: Eurostat (lfsa_ergan).

¹ The research leading to the results reported in this paper has received funding from the European Union's Seventh Framework Programme (FP7/2007–2013) under grant agreement 'Growth-Innovation-Competitiveness: Fostering Cohesion in Central and Eastern Europe' (GRINCOH).

² Bulgaria is an exception as female employment increased compared to the EU15 until 2008 (most likely due to the high emigration rate, which reduced labour supply). Romania stands out at the other extreme, where the female employment rate declined in absolute terms as well.

Female unemployment was above the EU15 average in several NMS in the 2000's but it has steadily declined since the financial crisis, falling below the EU15 average throughout the region. In some countries, this reflects genuine improvement in labour market opportunities, while for example in Romania and Poland it was coupled with a rise in inactivity (compared to the EU15).

The cross-country variation in female employment in the CEE region has received little attention so far. Earlier studies focused only on Western Europe (e.g. *Cipollone et al.* 2014) or tended to focus on explaining differences in the overall decline in employment (e.g. *Munich and Svejnar*, 2009). Research on the impact of attitudes or policies on female employment in the CEE (e.g. *Fodor*, 2005) usually ignores variations *within* the female labour force.

This chapter presents the evolution of female employment in selected CEE countries and describes the role of 1) demographic trends (such as ageing, increasing educational attainment or declining fertility that affect the composition of the female labour force), 2) differential increases in employment across subgroups that may be related to policy changes, and 3) general labour market processes that affect employment equally in all subgroups.

We use a *Smith and Welch* (1989) type dynamic decomposition. We compare selected CEE countries to Austria as a benchmark country, where female employment is somewhat higher, but the main trends are very similar to the EU15 average.³

The decomposition method

The procedure is to first estimate a regression model of the determinants of employment separately for two regions in both the beginning and the end of the period under consideration, and then to use the estimated coefficients and the distribution of explanatory variables to account for the changes in the difference between the employment rates across the countries. We estimated the impact of major demographic variables on employment in linear probability models using individual-level data of the EU-LFS for the period 2001–2016 (women aged 20–64). *Csillag et al.* (2013) provides a more detailed description of the method, while *Samu et al.* (2017) presents the results in more detail.

Factors influencing female employment

Female employment is influenced by long term demographic processes, slowly changing attitudes, societal expectations, also by regulations and incentives that can be influenced by government policies in the short term. In this paper we examine only the factors that have a differential impact on the employment of particular subgroups of women (or mothers) clustered by age and education.

An increase in fertility rates lowers female employment unless it is accompanied by a strong improvement of day-care provision. We measure the role of fertility trends in the decomposition by the decline of female employment

³ We use a single country as a benchmark as the average of the EU15 covers widely differing countries. We chose Austria in particular as its Continental welfare system is similar to the system of most CEE countries.

attributed to the growing share of mothers in the female population. Population ageing also reduces female employment rates because in older generations less people work due to declining health, increasing leisure time and the disincentive effect of the pension system. We capture the role of ageing by the growing share of older generations. The increase in levels of education tends to raise female employment: we capture this by the changing share of those with a high level of education and those with a low level – within the population.⁴

The expansion of day-care services and their free or subsidized provision may raise female employment rates. The contribution of day-care services can be measured by the changing employment rate of mothers with small children. The role of pension regulations is reflected in the changing employment rate of older women. Raising the statutory retirement age may increase the female employment rate, while relaxing the rules of minimum service years may decrease employment. Raising the guaranteed minimum wage may reduce the employment rate of less educated women.⁵ The contribution of demand stimulating wage subsidies can be captured only if they targeted certain age or education groups (by examining the changes in the employment of these subgroups).

There are other factors such as economic development that normally increase overall labour demand, or a decline in gender discrimination which improves chances for all women to access the labour market. The contribution of these factors cannot be separated in the decomposition.

What factors have influenced the rate of female employment in Hungary?

In Austria female employment rose steadily from 65% to 74% between 2001 and 2016, while the other countries showed larger fluctuations especially during the financial crisis. The growth of female employment was rapid before the crisis in Bulgaria and in Estonia, while in Poland the growth rate was high after the crisis as well. In Hungary the female employment rate was 61% in 2001, and it increased rather slowly afterwards until the end of the crisis when it grew at a higher pace to reach 70% by 2016.

The age distribution of the labour force was rather similar in the selected countries, and ageing affected all the countries though at a different pace. In Poland and in Estonia the pace of ageing was higher (share of age group of 55–59 years grew from 9–11% to 15%) than in Austria (from 12% to 14%), while in Bulgaria and in Hungary a slower increase was observed (from 13–14 to 14–15%).

The educational composition of the female labour force varied widely between the selected countries. At the start of the period in 2001, in Austria, Bulgaria and Hungary a quarter of the female labour force had low levels of education, while in Poland and Estonia the share of those with low levels of education reached 20 and 10% respectively. By the end of the period the coun-

⁴ Effective policy measures may change the educational attainment level of particular social groups such as unemployed youth, that can generate an increase of employment in the short term.

⁵ The large-scale extension of public works would cause a significant rise of employment in this group, but we control for this in the Hungarian data. (See methodology and rationale in *Scharle*, 2016.)

tries which lagged behind at the start improved their relative position. The share of the highly educated labour force was the largest in Bulgaria and in Estonia at the start of the period. Although the share of the highly educated increased in all selected countries, the improvement was much more rapid in Austria and in Poland. At the end of the period this indicator was the lowest in Hungary among all selected countries (in Austria it grew from 12.5% to 32.2% within 16 years, while in Hungary it increased from 15.1% to 28.8%).

Overall, Hungary was not significantly disadvantaged in 2001 compared to Austria regarding the composition of the female labour force. Yet before the crisis the pace of employment growth was slower in Hungary. Decomposing the total change in employment, we find that the slower pace was mainly due to general factors and the contribution of some specific factors was in fact positive in Hungary. The share of the labour force with low levels of education dropped significantly, which lifted the female employment rate by 1.6 percentage points (pp). Employment opportunities for women with small children did not worsen as much as in Austria, which contributed to a further 1.5 pp of relative improvement. However, these positive effects were offset by the large negative contribution of general (−4.5 pp) and demographic factors (−1.5 pp).

During the crisis the improvement of female employment continued in Austria, while it stalled in Hungary. The difference between the two countries can be explained mainly by general factors (6.5 pp). Demographic factors widened the gap between the two countries: Hungary was characterized by a more rapidly accelerating ageing process (−0.6 pp), a slower reduction in that part of the labour force with low levels of education (−0.5 pp) and improving fertility (−0.6 pp). The implemented policy measures were mainly on the positive side in Hungary: restriction of retirement regulations (0.8 pp) and promoting labour market inclusion of mothers (0.6 pp) supported female employment but could not fully compensate for the significant negative contribution of general factors.

After the crisis the improvement of female employment slowed down in Austria but commenced a more rapid growth in Hungary, mainly due to general factors (6.3 pp), since the contribution of demographic trends and policy changes was small. The share of 55–59 years olds grew faster in Austria and more gradually in Hungary (0.8 pp). However, the share of the high-educated in the labour force rose also more rapidly in Austria (−1.6 pp). Policy measures tended to widen the gap between Austria and Hungary. The employment rate of 55–59 years old (−0.8 pp), high-educated (−0.9 pp) and mothers with small children (−0.6 pp) increased faster in Austria than in Hungary.

The general factors were dominant in the rapidly growing Eastern-European countries as well. Female employment grew faster in Estonia and in Bulgaria than in Hungary mainly because of general economic factors (5.6 pp and 7.7 pp).⁶ The widening performance gap of Poland can be explained mainly by

6 In Bulgaria the rapid employment growth of population aged 55–59 was likely driven also by the ambitious pension reform (1.4 pp), in Estonia the improving employment rates of mothers with small children (1.2 pp) and highly educated women (0.9 pp) were added to the general economic driving factors.

the accelerating ageing process in the period before the financial crisis. The share of the older (55–59 years old) age group grew faster in the Polish working age population than in Hungary (or in Austria) and the employment rate of women in this age group decreased. During the crisis the negative demographic factors were no longer present, while general factors were more favourable (the Polish economy weathered the crisis much more robustly than the Hungarian economy). This was the main reason why Poland was able to catch up by the end of the period.⁷

It appears therefore, that the changes in female employment were driven mainly by general economic factors between 2001 and 2016 in the countries examined, but the contribution of demographic and policy related factors was not negligible. By the end of the period Hungary caught up to the European average but barely narrowed the employment gap with Austria: the improving trend after the crisis was restrained by unfavourable policy measures implemented.

⁷ After the crisis a smaller increase of female employment was recorded again in Poland than in Hungary, mainly due to general economic factors.

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