

Economic Analysis

Where are the women?

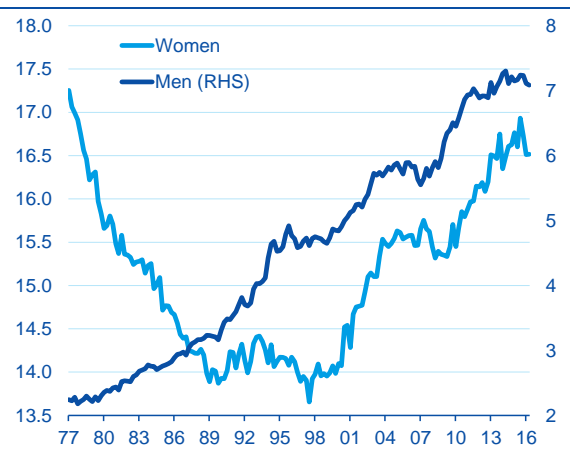
Amanda Augustine / Shushanik Papanyan

- Factors behind the decline in female labor force participation differ for married and unmarried women, with and without children
- Trend could be reversible given flexible work options, wage growth and family-friendly policies
- Reentry of workers will boost GDP growth and impact future price and wage inflation

The labor force participation rate has been on the decline since its peak of 67.3% in 2000, stabilizing at 62.7% in June 2016. Despite the demographic trends of retiring baby boomers,¹ an alarmingly large part of the decline can be attributed to prime working age (25-54 years old) men and women exiting the labor force. In 2016, there were 2.2 million more prime working age women and 2.1 million more men not in the labor force than in 2000.

The economic consequences of working age men and women exiting the work force are vast — lower economic growth, deeper future recessions and slower recoveries.² Our estimates yield that accounting for the lost workers could, on average, increase annual GDP growth by as much as 0.6pp over the next 10 years. In addition to higher economic growth, increasing female labor force participation can also have positive repercussions, such as higher living standards and wider opportunities, for women’s partners and children. For example, women have been shown to be more likely to spend a significant portion of their income on their children’s education than men.

Chart 1
Not in Labor Force, Ages 25-54, Millions



Source: BBVA Research/BLS

Table 1
Not in Labor Force

	Not in Labor Force Ages 25 to 54 By Gender, Thousands		Not In Labor Force 25 to 54 Years Ratio to Civi. NonInst. Population Ages 25-54, By Gender, %	
	Women	Men	Women	Men
1980	15,716	2,382	36.0	5.8
1990	14,027	3,428	26.0	6.6
2000	14,315	4,948	23.3	8.4
2010	15,691	6,660	24.8	10.7
2015	16,758	7,199	26.3	11.7

Sources: BBVA Research/BLS

¹ Scholars agree that as much as half of the decline can be attributed to the demographic changes of the U.S. population (Bullard, 2014). For more analysis on labor supply, please refer to BBVA Research briefs [“Running on fumes: remaining gap in Beveridge Curve a matter of structural forces”](#) (Nash-Stacey, 2016), and [“In Search of Potential GDP”](#) (Chen and Papanyan, 2016)

² Balakrishnan, Dao, Solé, and Zook (2015), Stock and Watson (2012)

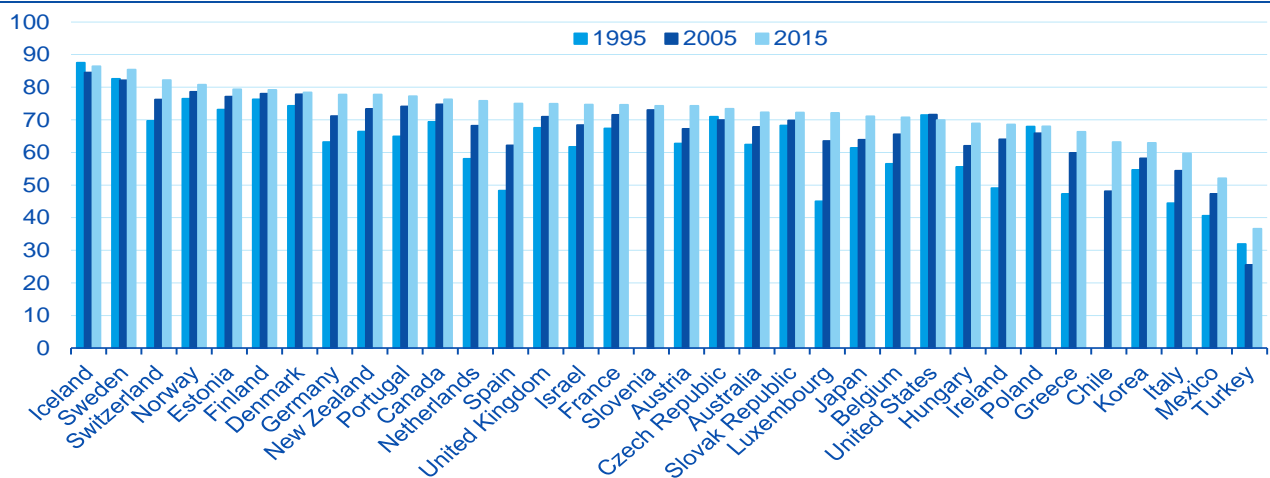
Why women take center stage

Although both prime working age men and women have exited the labor force in alarming numbers, the case for women is more sizable in historical, absolute, and relative terms:

1. The number of 25-54 year old male workers not in the labor force has been on an upward trend since the late 1970s, while the number of female workers not in the labor force was on the decline after the late 1970s due to women gradually entering the workforce. However, the downward trend was reversed in 2000 as the number of female workers not in the labor force started to rise (Chart 1).
2. In 2015, the absolute number of 25-54 year old women not in the labor force was 2.3 times higher than the number of men — 16.8 million women were not in the labor force in comparison to 7.2 million men. The same is true when looking at the ratio of prime age females not in the labor force relative to the prime age female population (25-54 year old) — the number of prime age women not in the labor force is 2.3% higher than that of men in relative terms as well (Table 1).
3. The U.S. is the only OECD country where female labor force participation in 2015 lagged behind 2005 and 1995 levels. The U.S. rank among 34 OECD countries declined from 7th highest for female labor force participation to 12th in 2005 to 25th in 2015 (Chart 2).

Explaining the historic break in the trend and the last 15 years of flows of females leaving the labor force is more complex than explaining the increase in males leaving the labor force. Economists overall agree that labor models can largely explain men leaving the job market due to two factors — declining wage rates and higher non-labor income. In contrast, the rise of women leaving the labor force cannot be examined as a whole. Studies find that the female labor force has to be split into married and unmarried cohorts, and further, that those with children and without children should be examined separately, since each of these groups exhibit different employment patterns and wage change. Furthermore, traditional labor models fail to explain the break in the trend after 2000: *“for women every variable changed in a direction that would increase employment rather than cause it to decline.”*³

Chart 2
OECD Female Labor Force Participation, %



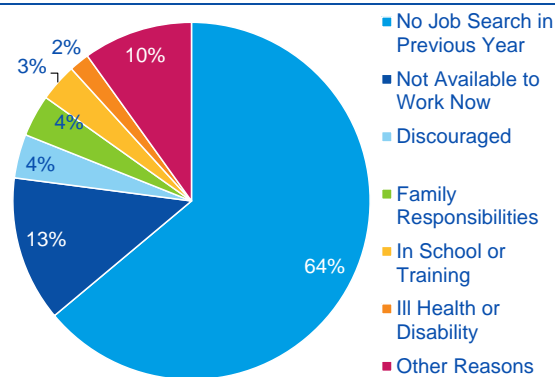
Source: BBVA Research/OECD

³ Moffitt (2012)

Who are these women?

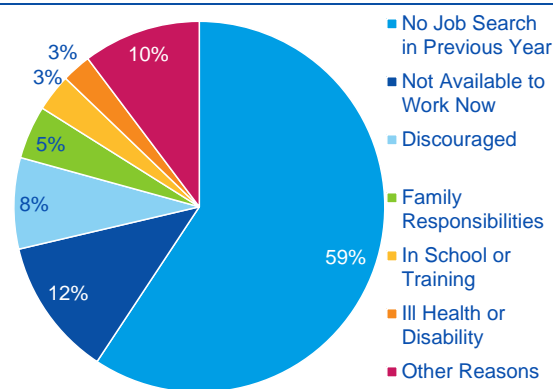
When looking at prime working age women who are not in the labor force as a whole, their total number has increased by 17% since 2000; however, the reasons for their departure from the labor force have only slightly shifted. In both 2000 and 2015, the same share of women claimed education as the reason for their labor force departure, while 1pp more claimed ill health, and 1pp more claimed family responsibilities. At the same time, the number of women claiming that they were not available to work declined by 1pp, and the share of discouraged women doubled. The largest share of women has been out of the labor force long-term, with 59% having no job search within the past year; therefore, we must examine the trend of women in different cohorts in order to shed light on the reasons why they leave the labor force.

Chart 3
Women Wanting a Job but Not in Labor Force by Reason, 2000, %



Source: BBVA Research/Haver Analytics/BLS

Chart 4
Women Wanting a Job but Not in Labor Force by Reason, 2015, %



Sources: BBVA Research/Haver Analytics/BLS

Educational attainment: Back in 2003, media articles claimed that the phenomenon of women leaving the workforce was a choice that well-educated professional women made to attend for their children, which represented the start of the “opt-out revolution” narrative.⁴ However, the “opt-out revolution” women make up a small fraction of the increase in the number of females not in labor force. A Pew Research Center survey found that only 10% of mothers with a master’s degree or higher choose to stay at home to care for their family, and only 4% of all the mothers represent “opt-out” mothers.⁵

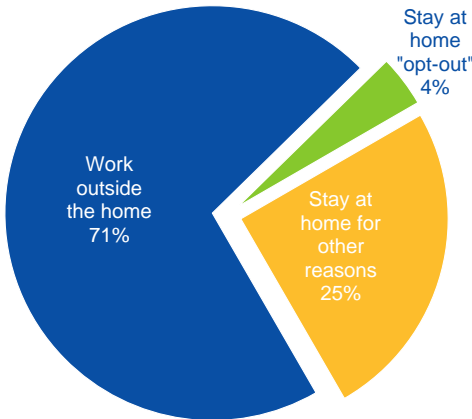
Income: The majority of women who had a birth within the previous year chose to return back to the workforce; nevertheless, the income of mothers can increase or decrease their odds of opting-out of the labor force. Women with annual household income below \$50,000 are the most likely to opt-out, while the odds of opting-out decline for women with household income between \$50,000-\$99,000 and \$100,000-\$199,000. One explanation is that women with family income below \$50,000 have to forego less when exiting the workforce, and when childcare costs and other household expenses are high, they are “unable to afford work.” At the same time, financial resources co-vary with marital status, and can explain why women with family income of above \$200,000 “have the luxury” to and are more likely to opt-out than those with income between \$100,000 and \$199,000.⁶

⁴ Belkin (2003). The “Opt-Out Revolution” was coined in a 2003 *New York Times Magazine* article to refer to highly educated professional women who left the labor force, permanently or temporarily, to provide full-time childcare.

⁵ Cohn, Livingston, and Wang (2014), Livingston (2014)

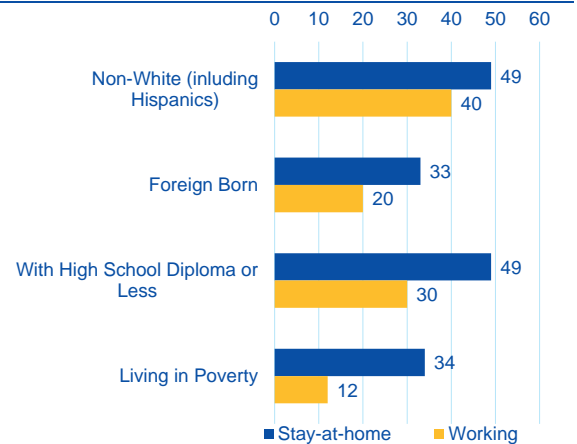
⁶ Day and Downs (2009)

Chart 5
Mothers Ages 18-69 with Own Child(ren), at Least Master's Degree, Working Husband, Minimum Family Incomes of \$75,000, %



Source: BBVA Research/Pew Research Center

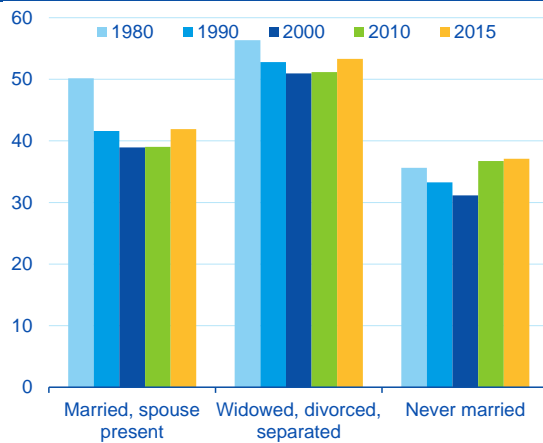
Chart 6
Stay-at-Home and Working Mothers as % of Mothers with Child(ren) Younger than 18, Ages 18 to 69, %



Sources: BBVA Research/Pew Research Center

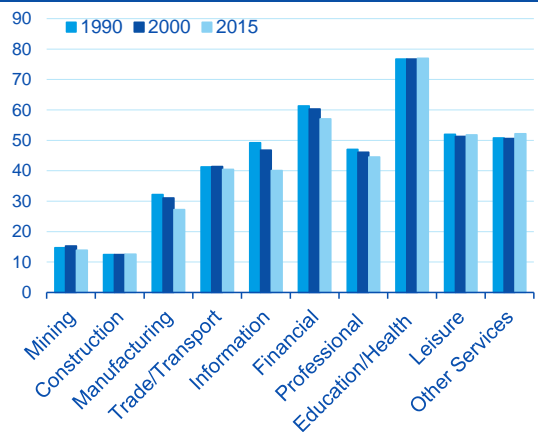
Marital status: The “opt-out revolution” was shown to be a myth at large, and while some women choose to scale down working hours after having children, the majority of the decline in the female labor force is among unmarried women and those without children. For these groups, similar to men, wage decline is a dominant factor in explaining their exit from the workforce, as the modest declines in real wages have yielded large declines in their employment. Additionally, both young and less educated women are more likely to drop out of the workforce than older and more educated women regardless of their marital status.⁷ Although married women and those with more children are more likely to opt-out of the labor force, the share of married women not in the labor force has declined, while the share of those who have never been married has jumped.

Chart 7
Ratio of Women Not in Labor Force to Female Civilian Noninstitutional Population, by Marital Status, Ages 16+, %



Source: BBVA Research/Haver Analytics/BLS

Chart 8
Employment of Women on Nonfarm Payrolls, by Sector, %



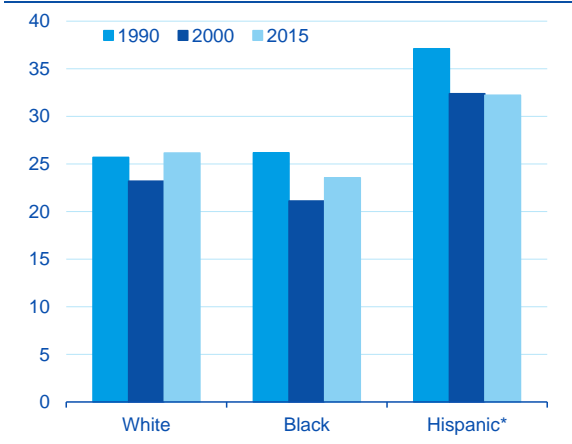
Sources: BBVA Research/Haver Analytics/BLS

⁷ Moffitt (2012), Day and Downs (2009)

Race: Surveys show that the probability of women leaving the labor force after having children varies with regard to racial and ethnic backgrounds and is highly dependent on the mother’s human capital, financial wellbeing and household expenses. Employment flexibility is another important factor in the survey findings on racial and ethnic disparities.

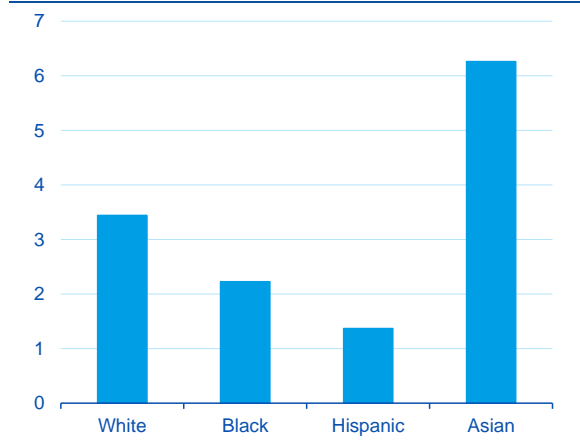
White mothers are disproportionately more likely to scale back on working hours or opt-out when they have preschool children than their counterparts, despite the fact that White women, together with Asian women, have the higher opportunity cost of larger salaries to give up when they scale back or exit. Nevertheless, White women are more likely to be in occupations where they can negotiate reduced hours. White and Asian women are also more likely to be married and able to cut back due to relatively higher family income. Hispanic mothers are less likely to opt-out when they have preschool children than White mothers. The finding is particularly evident for women in managerial and professional occupations. However, overall Hispanic women earn significantly less in comparison to Asian and White women and are more likely to exit labor force. There is no evidence found of a proclivity of Black mothers with preschool children to scale back on working hours. The main characteristics that explain Black women staying in the labor force are that Black women are least likely to be married and have the lowest average family income when compared to the mothers of other races. Additionally, having an elderly person over the age of 65 in the household changes the odds of mothers staying in the labor force — increasing the odds for Asian and Black mothers and reducing them for White mothers.⁸

Chart 9
Ratio of Women Not in Labor Force to Female Civilian Noninstitutional Population, by Race, Ages 25-54, %



Source: BBVA Research/Haver Analytics/BLS
*earliest available data (1995) used for Hispanics

Chart 10
Ratio of Women Not in Labor Force with Advanced Degrees to Female Civilian Noninstitutional Population, Ages 25+, 2015, %



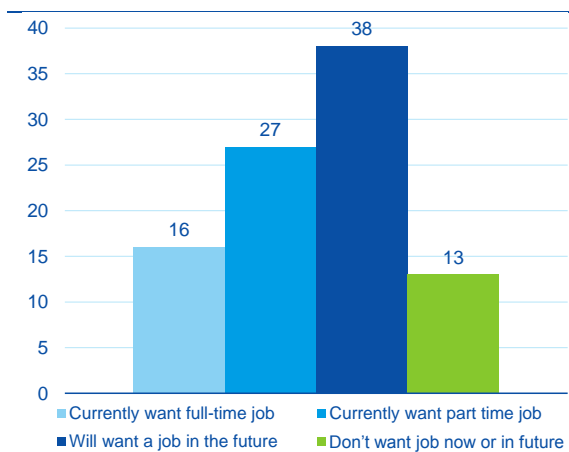
Sources: BBVA Research/Haver Analytics/BLS

Is the trend reversible?

Can we bring women back into the labor force? Recent survey findings have positive implications for the future of female labor force growth. They indicate that as many as 42% of surveyed women who are “homemakers” would currently consider a full-time or a part-time job. Moreover, another 37% of these women would consider a job prospect in the future. However, as the reasons for opting-out diverge depending on income, race, education, marital status and motherhood, the prescription to reverse the female labor force decline is not straightforward.

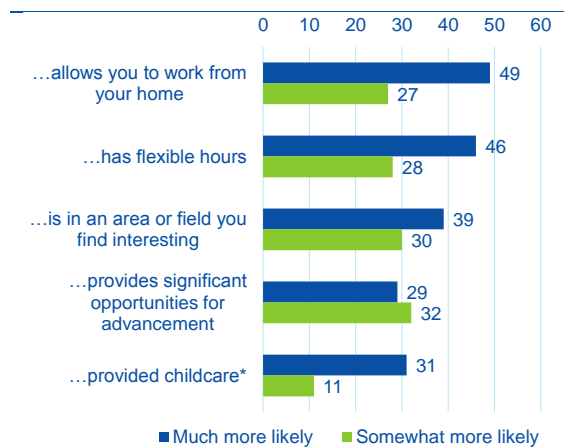
⁸ Landivar, Liana C. 2013

Chart 11
Non-Employed Homemakers, Ages 25-54 (97% of Respondents Female), %



Source: BBVA Research & Kaiser Family Foundation/New York Times/CBS News Non-Employed Poll (November, 2014)

Chart 12
Chance of Returning to Labor Force Given Certain Working Conditions among Non-Employed Homemakers, Ages 25-54, Able to Work, Haven't Looked for Work in Past 12M, %



Sources: BBVA Research & Kaiser Family Foundation/New York Times/CBS News Non-Employed Poll (November, 2014)

Corporate employment conditions: Wage growth, gender wage equality, equal opportunity in promotion tracks and time flexibility play important roles in keeping highly educated, prime working age women in the labor force. These policies will become critical for the profitability of companies as more women attain higher education, changing the proportion of women in the high-skilled labor force. In addition to retaining working mothers, analysis also suggests that such policies are necessary and essential conditions to retain unmarried women at work.⁹ Moreover, “homemaker” women have indicated that they are more likely to return to a job that provides the ability to work from home and/or flexible hours.

Some of the biggest names in the IT sector have pioneered new measures to promote gender equality and retain their female workforce. For example, Netflix provides salaried employees with paid maternity leave for up to a year following a child’s birth or adoption; the company also offers hourly employees four months paid leave. Meanwhile, Facebook offers all new parents \$4,000 in “baby cash” and covers \$20,000 worth of procedures for employees wishing to freeze their eggs.

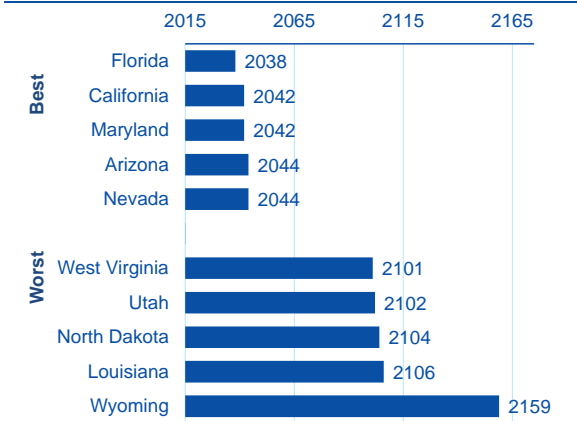
The IT industry is not the only one making these initiatives. Women dominate 75% of healthcare practitioners and technical occupations; therefore, it is unsurprising that the healthcare industry is a leader in successfully attracting and retaining female talent by offering flexible work options and actively promoting women into leadership roles. For example, Children’s Healthcare of Atlanta offers benefits such as compressed workweeks, telecommuting and job sharing; meanwhile, at Meridian Health, 63% of leadership positions are filled by women.

Despite the success of the policies mentioned above, the women-to-men wage ratio is found to be greater for women with an associate’s degree (80%) than those with a college degree (71.4%) or higher (69.1%). Therefore, corporate policies should be more expansive to include less educated workers, who are at greater risk for dropping out of the labor force.¹⁰

⁹ Barsh and Yee (2012), Shellenbarger (2012)

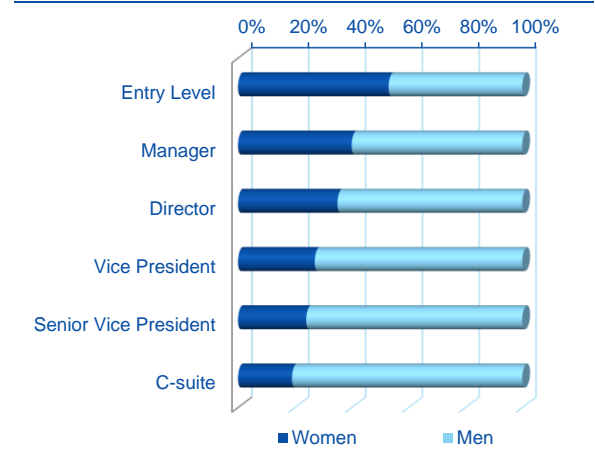
¹⁰ Institute for Women’s Policy Research (2015)

Chart 13
Projected Year for Closing the Gender Wage Gap by State, Best and Worst States



Source: BBVA Research/IWPR/American Community Surveys 2001-2013

Chart 14
Share of Women in Leadership Pipeline, Average Pipeline*, %



Sources: BBVA Research/McKinsey & Company

*Does not include companies that are private partnerships and have fundamentally different business model

Public support and policies: Introducing policies on labor force participation and family-friendly policies can induce higher female labor force participation, as the U.S. ranking among OECD countries on female labor force participation rate has declined largely due to the lack of such policies. Several OECD countries have introduced family benefits policies such as the right to part-time work, equal treatment of the part-time worker, prolonged parental leave and earnings replacement.

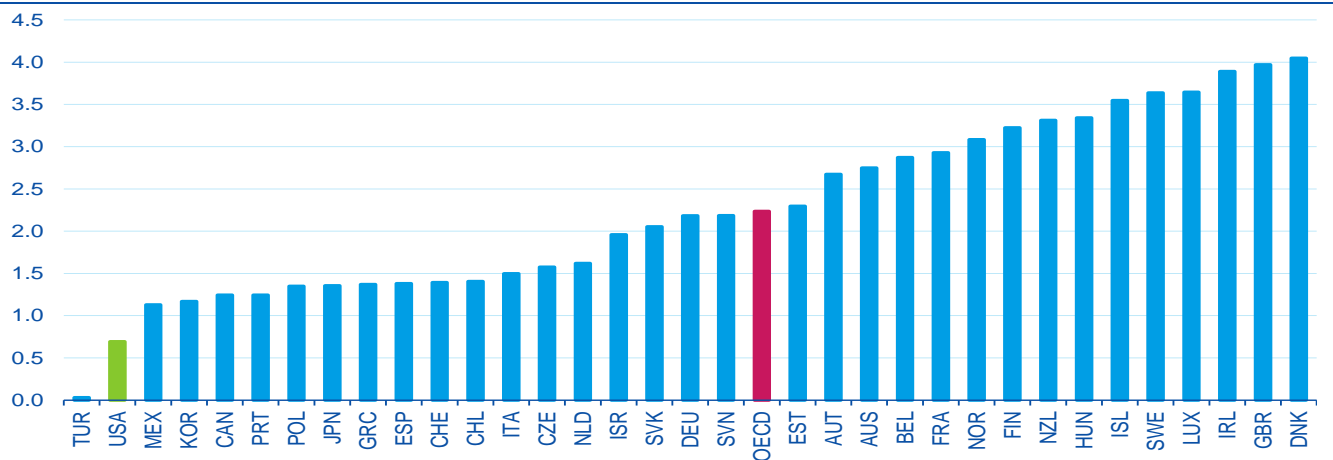
From the examples of Denmark and Sweden — countries that were already consistently ranked the highest among OECD — it can be inferred that one key to developing successful family policies is promoting the equal sharing of childcare responsibilities between parents. For example, in Denmark, children are entitled to formal childcare from six months of age, which is free for those with very low-income and subsidized for others. In addition, parents have a total of 52 weeks of paid parental leave, with the mother entitled to 14 weeks of leave after giving birth and the father entitled to two weeks of leave, with the remainder of the time flexible. In Sweden, free childcare is only guaranteed for children between three and six years of age; however, the country’s policies go further to promote the dual-earner family model, with both the mother and father entitled to up to eight months leave each, to be used entirely up to their discretion. Moreover, in 2008, Sweden introduced a “gender equality bonus” of up to 1,570 euros per child, given to parents who shared the leave equally. The parental leave can be taken until a child turns eight years old, and parents can carry over unused leave if they have more than one child. The impact of policies which encourage equal splitting of childcare responsibilities can be seen in the difference between the countries’ female labor force participation rate, which in 2015, was higher in Sweden (85.2%) than in Denmark (78.4%), likely due to Sweden’s more flexible parental leave policy. Moreover, the apparent increase in Sweden’s female labor force participation from 82.2% in 2005 to 85.4% in 2015 could be attributed to the introduction of the “gender equality bonus.”

OECD countries on average also have higher spending as a share of GDP on public child care in comparison to the U.S. Introduction of policies that promote the dual-earner model, and an increase in public child care expenditures in the U.S. should help to increase female labor force participation across all cohorts, particularly

for women who would prefer a part-time job and for lower income and less educated women who find the cost of child care prohibitive.

On the other hand, the adoption of family-friendly policies and spending on increasing female labor force participation do not necessarily lead to an improvement in women’s upward mobility upon reentering the labor force. Policies of part-time work, equality and extended and paid family leave have generated a trade-off for women in some non-U.S. OECD countries. These women tend to lag behind in upward mobility, while U.S. women have higher odds of obtaining full-time jobs and working as managers and professional.¹¹

Chart 15
OECD Family Benefits Public Spending, 2013 or latest available, % of GDP



Source: BBVA Research/OECD

Bottom line

For many women, the decision to exit the workforce is not permanent, suggesting that the upward trend in women leaving the labor force can be reversed. The reentry of lost women into the labor force will contribute to improving the health of the labor market and facilitate future wage growth and inflation, going so far as having a direct implication for the future of U.S. economic growth and for the long-term projected path of Federal Reserve policy normalization. Additionally, a higher female participation rate can improve overall educational attainment as women tend to transfer a higher portion of their income to their children’s education. In many cases, increasing the number of women in the workforce would raise the number of families with dual income, which has a direct effect on poverty elimination.

Measures to standardize employment conditions across genders and to expand family friendly policies, in addition to promoting equality for part-time and flexible-schedule jobs, can attract both highly educated and less educated women to rejoin the workforce. Successful examples of flexible work options and promotion policies can be found in Silicon Valley and in the healthcare sector, while fellow OECD countries like Denmark and Sweden offer prime examples of successful early education and childcare initiatives. Following these peers’ examples, the U.S. should increase spending on initiatives such as expanded access to preschool education, while providing incentives to companies that implement family-friendly policies, such as generous paid leave for both parents and flexible work options, in order to avoid losing the potential of prime working age women.

¹¹ Blau and Kahn (2013)

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