

# Resolution Foundation

## *The Missing Million*

*The potential for female employment  
to raise living standards in low to  
middle income Britain*

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## *Introduction*

One of the main influences on living standards in the past forty years has been the rise of female employment. Of all the income growth low-to-middle income (LMI) households saw from 1968 to 2008/09, more than a quarter came from women's work (compared to less than a tenth from men's).<sup>1</sup> The importance of this factor was second only to the tax-benefit system, which provided 34 percent of all growth. A direct implication of this prominent role for women's work is that, in the past 40 years, the gender composition of LMI household income has been transformed. In 1968, women's work made up only 11 percent of income in average LMI household and men's work made up 71 percent. Today, women's work makes up 24 percent and men's work makes up 40 percent.<sup>2</sup>

An inescapable consequence of these trends is that the prospects for LMI household income now rest heavily on what happens next to female employment. Recent trends are not promising. Although today's employment rates remain depressed as the result of an economic downturn, longer term trends in female economic activity rates, which respond less to the economic cycle, have also flat-lined. After rising 7.4 percentage points in the 1980s, the UK female participation rate rose just 0.9 and 1.4 percentage points in the 1990s and 2000s respectively. With much of the growth in female employment having come from women who are either second earners or lone parents, the ongoing obstacles to maternal employment in the UK are likely to make further gains harder still.

One of the aims of the Resolution Foundation is to better understand where future gains in living standards for low to middle income households will come from. As part of this work, it is important that we have a clearer sense of the relative contributions from different factors in lifting standards in the decades ahead. To this end, this note draws together some of the key evidence on female employment with a particular focus on maternal employment. In particular, it (a) quantifies the size of the prize that lies in raising female employment to the level of international benchmarks, (b) diagnoses the UK's underperformance on female employment against other countries and (c) looks at what the best performing countries do differently from the UK in terms of family policy to support maternal employment.

The paper focuses consciously on the role of government. Although public policy is only part of the picture it is key in shaping the environment faced by families and employers. Alongside this report the Resolution Foundation is undertaking a wider programme of work on long-term reform of the UK childcare market, with a particular focus on the roles and responsibilities of service providers and employers.<sup>3</sup>

The report is structured in three sections. Section 1 sets out data on long-term trends in UK female employment and on how the UK measures up internationally. Section 2 drills down into the international data to better diagnose the UK's specific performance issues on female employment with a particular focus on maternal employment. Section 3 describes what countries with better female employment rates do differently from the UK in terms of public spending on family policy. The note concludes by sketching out some general and high-level strategic implications.

## Section 1 – Prospects for further growth in female employment

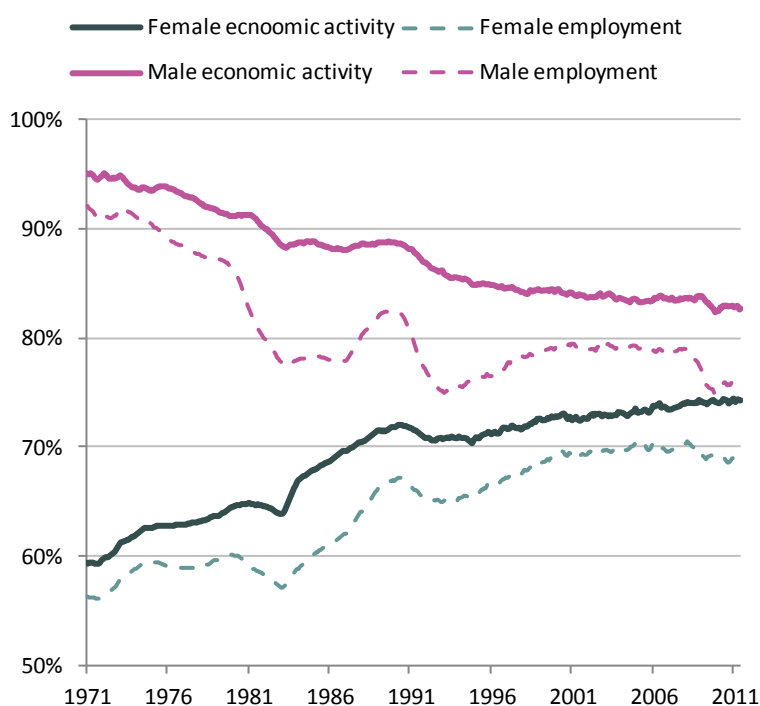
### Summary

The UK saw very strong growth in female employment in the 1970s and 1980s but very little growth in the 1990s and 2000s. This slowdown has taken place across the developed world but the UK has plateaued at a lower level than better performing countries. Overall UK female employment today ranks 15th in the OECD, an average of 4.3 percentage points behind better performers and 8.3 percentage points behind the top five performers. If the UK raised its female employment performance to that of better performing countries by 2020, 700,000 additional women would move into work. If the UK performed even better and managed to raise rates to their average among the top five performing countries, 1.4 million additional women would move into work. In other words, compared to reasonable benchmarks somewhere around 1 million women are missing from the UK workplace.

Two main measures can be used to describe women's relationship with the labour market. The employment rate refers to the percentage of the female working age population who are in work. The participation rate (or economic activity rate) refers to the percentage of women in the working-age population who are economically active, that is, who are either in work or looking for work.

The UK has seen very significant growth in both measures in the past forty years. From 1971 to 2011, the economic activity rate among women rose from 59 percent to 74 percent while the female employment rate rose from 56 to 69 percent. In the same period, the economic activity rate among men fell from 95 percent to 83 percent in 2010 and the employment rate fell from 92 to 75 percent. When viewed in terms of the UK industrial structure, this shift can be fairly characterised as a decline in male-dominated sectors such as manufacturing and a corresponding rise in female-dominated sectors such as personal services. The vast majority of both changes took place in the 1970s and 1980s. The UK female participation rate rose 7.4 percentage points in the 1980s and only 1.4 percentage points in the 2000s.

**Figure 1: Trends in employment and economic participation by gender**  
Percentage rate, 1971-2011



Source: Resolution Foundation analysis, ONS

The rise in female employment can be seen directly in household income data. In the period 1968 to 2008/09, paid work done by women added £3,500 to the average household income of LMI households.<sup>4</sup> £1,000 of this income growth came from increased female employment and hours and £2,500 came from higher hourly wages. By contrast, men's work added £1,000 in the entire period, with increased wages largely cancelled out by reductions in male employment and hours worked. Today, the differences that persist between male and female employment have very significant consequences for household income and its distribution. Such is the scale of the disparity between UK male and female employment that closing the female to male employment gap would have a larger effect on household income and household income inequality than closing the female to male hourly pay gap.<sup>5</sup> Of course, this does nothing to demote the importance of the gender pay gap as a key measure of equity.

### How the UK measures up internationally on female employment

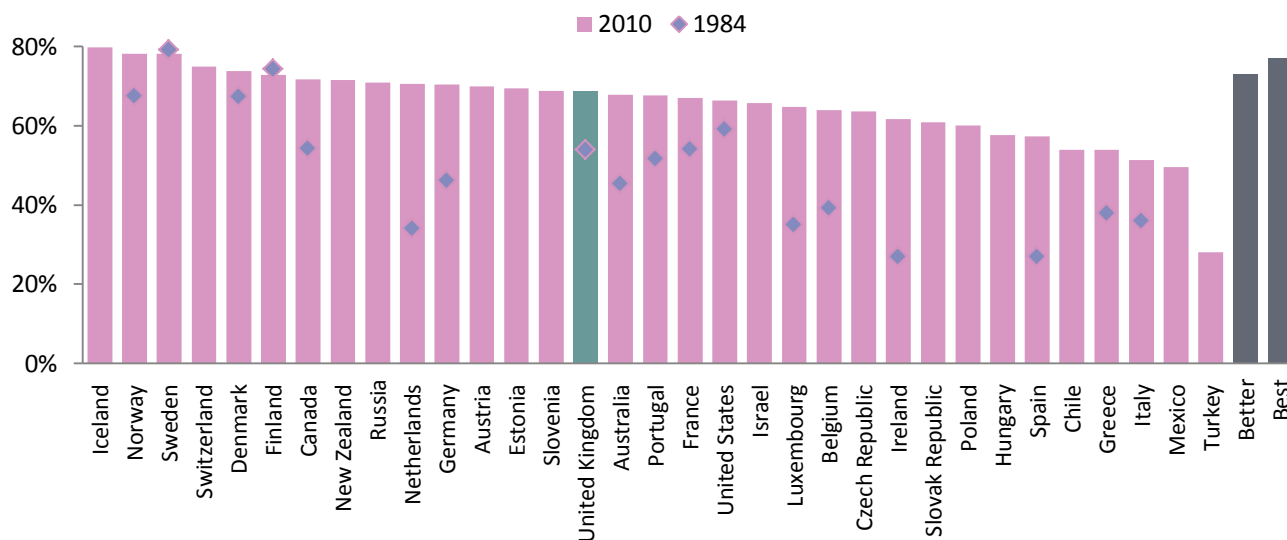
Today the UK ranks 15<sup>th</sup> in the OECD on the employment rate among women aged 25-64. Figure 2 shows international performance on female employment in this age group in 2010 and, where data is available, 1984. The two bars to the right of the chart display the average rate of female economic activity in two sets of countries:

- **'Better' performing countries** – the 14 countries that outrank the UK on female employment. This group contains 11 countries which are structurally similar to the UK economy (in descending order of female employment rates): Iceland, Norway, Sweden, Switzerland, Denmark, Finland, Canada, New Zealand, the Netherlands, Germany, Austria; and three more dissimilar economies: Russia, Estonia and Slovenia.
- **'Best' performing countries** – the countries that rank in the top five on female employment within the OECD. They are: Iceland, Norway, Sweden, Switzerland and Denmark,

The average female employment rate in the group of better performing countries is 73 percent, or 4.3 percentage points higher than the UK performance. These countries have a wide range of social, political and economic systems and are not what might be called the usual suspects. Among the best performing countries, the average employment rate is 77 percent, 8.3 percentage points higher than the UK. This group will be more familiar to those interested in family policy. It is largely made up of the Scandinavian economies, though Switzerland also performs well.

These international comparisons provide one benchmark for the scale of the potential in raising UK female employment. At 2010 rates of female employment around 11 million women aged 25 to 64 will be employed in the UK in 2020. If the UK were to raise its female participation rate to the average of better performing countries by that year, 700,000 additional women would be in work. If the UK were to do even better and emulate the performance of the top five countries (those we have identified as the best performing) that would mean an additional 1.4 million women in work.

**Figure 2: Female employment rate by country**  
 Percentage of women in employment, 1984 and 2010



Source: Resolution Foundation analysis, OECD family database. 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).

This comparison of headline employment rates does not take into account the proportion of female employees working part-time. 39 percent of all employed women in the UK are in part-time work compared to an OECD average of 24 percent, the 3<sup>rd</sup> highest rate of the 34 countries in the OECD, behind only the Netherlands and Switzerland. When overall employment rates are adjusted for the scale of part-time work to provide a measure of full-time equivalent employment (FTE), the UK falls from 15<sup>th</sup> in the OECD to 24<sup>th</sup>.

It is important to be careful in interpreting the scale of female part-time work. Clearly part-time female employment does not lift LMI household income as much as full-time work (and does less to reduce household income inequality). The high level of female part-time work in the UK therefore means that an unusually large portion of the prize of higher UK female employment income lies in the potential for working women to increase their hours.<sup>6</sup> For example, reducing the UK's female part-time employment rate to the OECD average (while holding the employment rate constant) would raise the UK FTE female employment rate by nearly 10 percentage points, a bigger impact than raising the overall employment rate to the level of better performing countries.

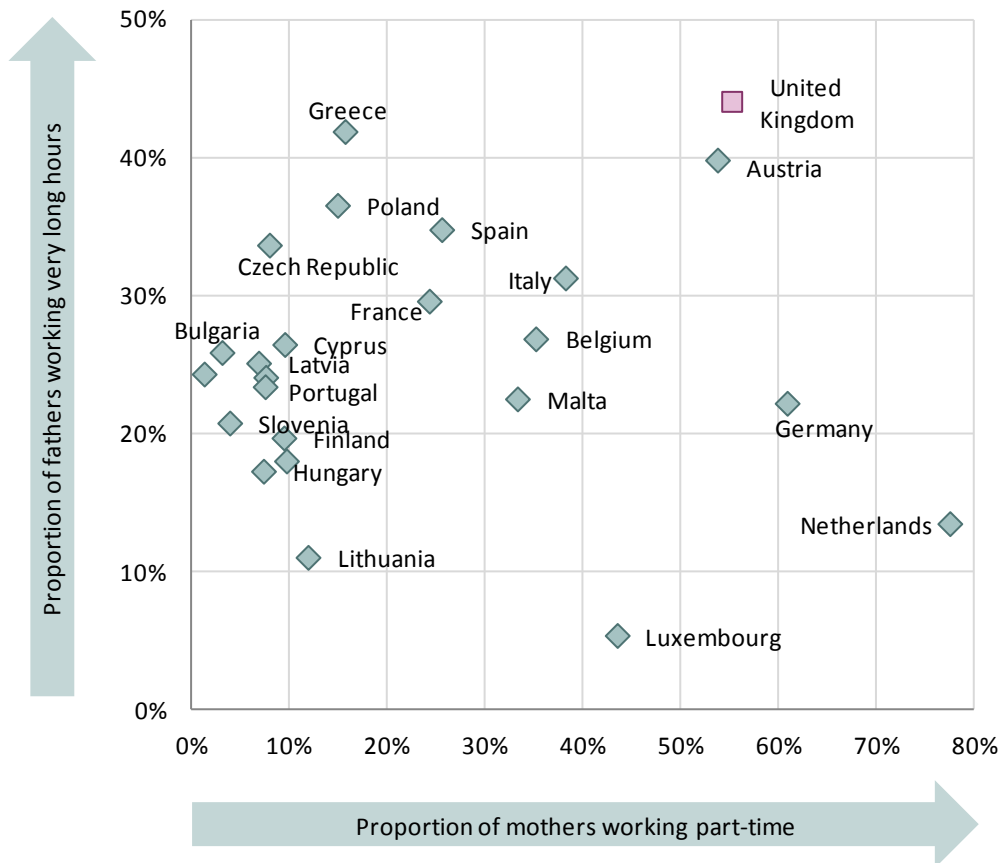
Yet part-time work also has important upsides. Part-time roles are favoured over full-time roles among majorities of women in some demographics, notably those with young children. A number of countries, in particular the Netherlands and Switzerland, appear to have achieved high overall female employment partly *because* part-time work rates are high, allowing a balance between work and family life. Part-time work can also smooth the transition back into full-time employment after a period out of the labour market, including breaks linked to childbirth.

The overall level of part-time work is therefore a less useful metric for policymakers than three other labour market characteristics. First, the quality of part-time roles; in the UK, part-time work is of relatively low quality and continues to carry significant penalties in terms of both earnings and earnings mobility.<sup>7</sup> Second, the pattern of working hours by gender, which in the UK is unusually unequal. While 55 percent of UK mothers in couple families work part-time (the third highest rate in the OECD), 44 percent of fathers in

couple families work very long hours (the second highest rate in the OECD).<sup>8</sup> As Figure 3 shows, this combination of mothers working short hours and fathers working very long hours is more pronounced in the UK than in any other country in the OECD. Third, the role of caring responsibilities as a constraint preventing full-time work; mothers in the UK are six times more likely than men to say they are working part-time because of caring responsibilities, the highest ratio in the OECD.

**Figure 3: Mothers' and fathers' working hours in OECD countries, 2007**

*Proportion of mothers working part-time versus proportion of fathers working very long hours*



Source and notes: OECD family database. Part-time work defined as fewer than 30 hours a week. Very long hours defined as more than 45 hours a week. Data covers women and men with children under the age of 15. Some country labels have been removed for legibility.

## Section 2: Diagnosing the UK performance gap

### Summary

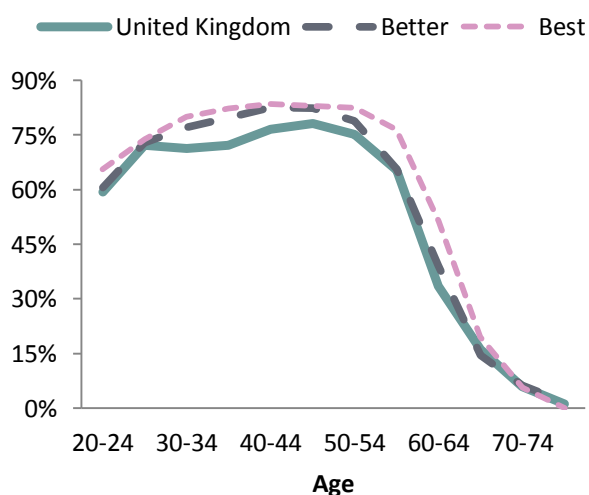
The UK female employment 'performance gap' with better performing countries is almost twice as large among women in their mid to late 30s and around 1.5 times as large among women in the 60-64 year old age group as it is among the female population overall. The UK lags countries with higher female employment rates far more significantly when women have children (and in particular when women have more than one child and/or young children). There is also a very significant performance gap among women with low education. In this sense, the key question the UK faces on female employment is how to raise levels of employment among mothers and women with low levels of education.

### The UK 'performance gap' by age

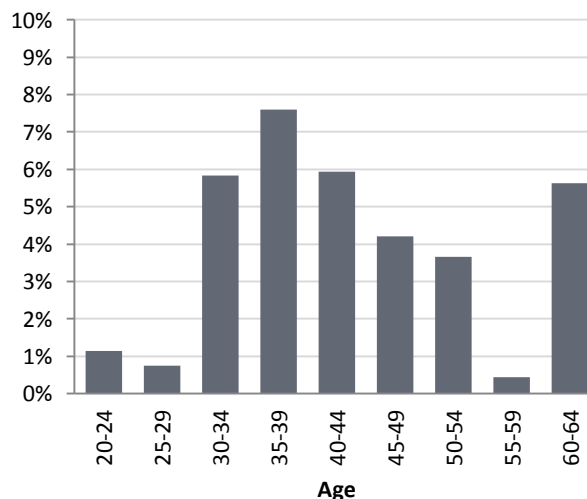
This section looks at more granular data to provide a clearer diagnosis of UK underperformance on female employment. It starts by looking at age. Figure 4 plots the female employment rate for women of different ages in the UK and, as an average rate, in the two groups of countries identified in section 1: the better and the best performers. As would be expected, female employment is roughly n-shaped, increasing from low levels in the early 20s, peaking in middle age and tailing off in the early 60s. Two distinct features of the UK employment pattern are notable. First, UK female employment is more m-shaped than the pattern seen in better (and in the best) performing countries, with a noticeable relative worsening in UK performance among women in their 30s. Second, UK employment rates among older women tail off around five years earlier than they do in the best performing countries.

**Figure 4: UK female employment rate by age in comparison with other countries, 2010**

Female employment rate by age



Gap between UK rate and the rate of better performing countries



Source and notes: Resolution Foundation analysis, OECD family database. 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).

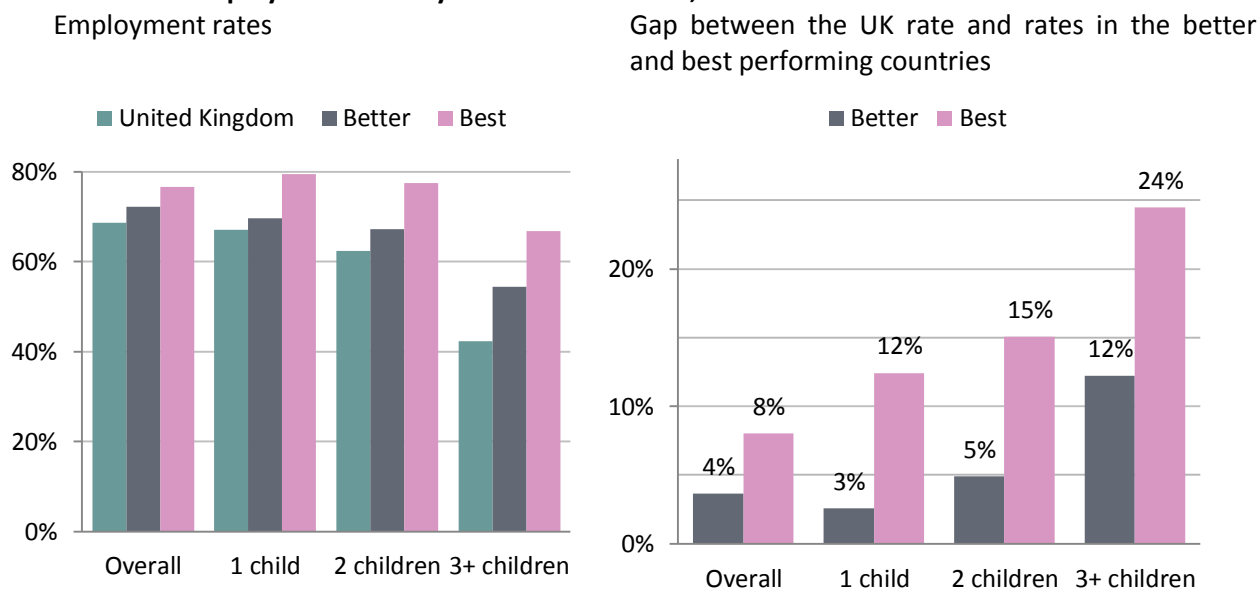
The chart on the right shows more clearly the size of the gap between the lines in the chart on the left (between the UK and better performing countries). In other words, it shows the UK's female employment performance gap by age. The chart confirms that the scale of variation between ages is very significant. For example, the UK lags better performing countries twice as much among women in the 35-39 year old age group (by 8 percentage points) than it does overall. It is important to be clear that this gap shows the *relative*

performance of the UK labour market. It might be expected that women of child bearing age or those over 60 have lower economic participation rates. This chart shows that the effect of being in these groups is far more significant in the UK than in other countries.<sup>9</sup>

### The UK performance gap for mothers

In the coming months, the Resolution Foundation will be carrying out further work on employment rates among older workers. The remainder of this note focuses specifically on the question of employment rates among women of peak child-bearing age. What drives UK performance for women in this age group? Figure 5 suggests that the difference is child-related. As above, the chart on the left sets out employment rates in the UK and the better and best performing countries, this time among mothers by number of children, while the chart on the right quantifies the size of the employment gap. The data shows that the UK performance gap increases steeply for mothers with more children, rising to around three times its overall rate. Again, it is important to be clear that this data concerns the *relative* UK performance; in all countries with higher female employment rates than the UK, employment rates are lower for women with more children. In the UK, this maternal employment gap is dramatically bigger still. It is also worth noting that the same pattern holds for hours of work; in the UK, women are far more likely to switch to part-time roles as they have children than they are on average in other OECD countries.<sup>10</sup>

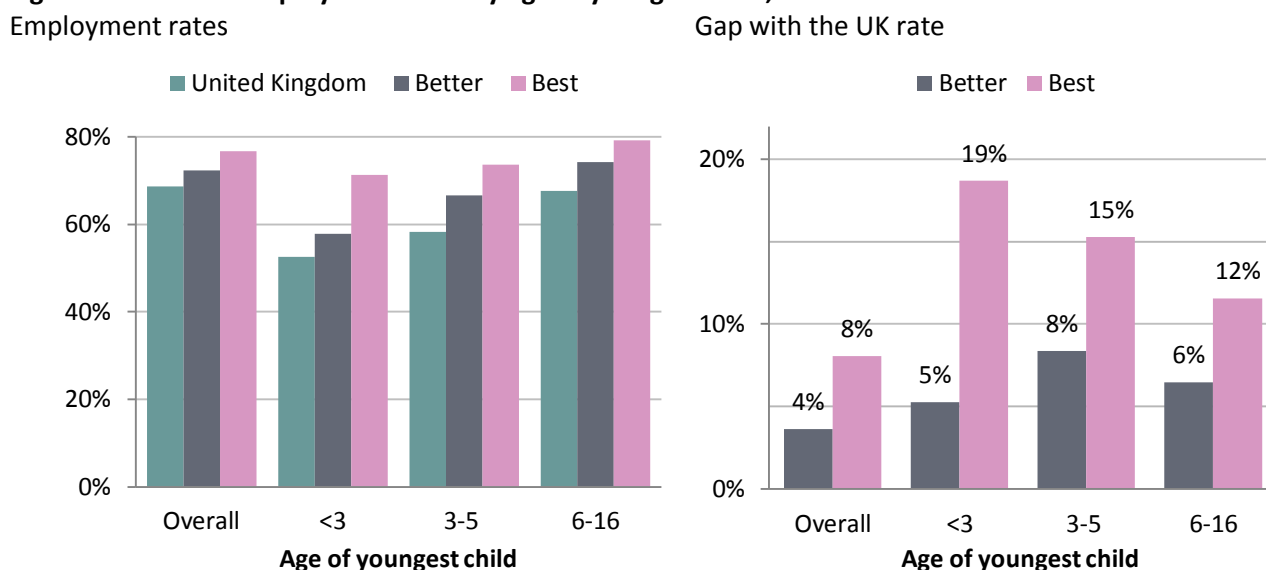
**Figure 5: Maternal employment rates by number of children, 2007**



Source: Resolution Foundation analysis, OECD family database. 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).

Figure 6 carries out the same analysis of maternal employment with a focus on the age of the youngest child. UK maternal employment rates are particularly low relative to other countries among women with young children. The best performing countries perform markedly better among this demographic. But UK performance is also surprisingly poor among mothers whose youngest child is of school age. This performance gap might be explained, in part, by the scarring effects of low participation among women with young children, but it should also caution us not to assume that debates about childcare concern only children of pre-school age. The implications are discussed in more detail in the conclusion.

**Figure 6: Maternal employment rates by age of youngest child, 2007**



Source: Resolution Foundation analysis, OECD family database. 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).

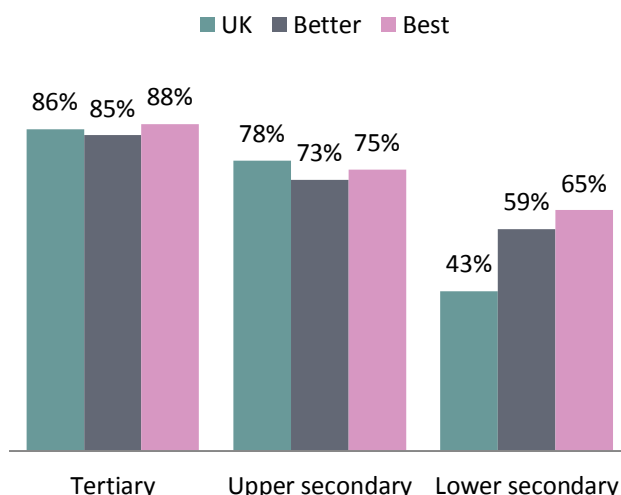
One interesting implication of these overall performance figures for mothers is that there is now more variation between the labour market behaviour of mothers and childless women in the UK labour market than there is between childless men and childless women – even controlling for education and income.<sup>11</sup> Of course, it is important that discussions about female employment are not reduced wholesale to discussions about maternal employment, but as these figures make clear, when it comes to underperformance against international benchmarks, UK maternal employment is a priority area.

### The UK performance gap by education level

Before looking at questions of policy, it is important to note one other priority area: educational inequalities. The UK has very low employment rates among women of low educational attainment. The UK employment rate among women who left school prior to completing A Level education is 43 percent, compared to 86 percent for women who complete tertiary education. The gap between these two rates – at 43 percent – is the 5<sup>th</sup> highest in the OECD, behind only Slovakia, Poland, Turkey and Chile. UK educational employment inequalities are starkly higher than in the better and best groups of countries identified above. In fact, as Figure 7 shows, among women with tertiary education UK female employment rates are comparable to the highest performing countries in the world. The difference lies among women with lower levels of education.<sup>12</sup>

**Figure 7: Female employment rate by highest level of education, 2008**

*Percentage in employment*



*Source: Resolution Foundation analysis, OECD family database*

## Women's preferences for work

How does the UK's current female employment behaviour relate to women's preferences for work – do women work more or less than they would like to?<sup>13</sup> Measuring preferences for work in isolation from the economic and policy environment is notoriously difficult. Evidence suggests that preferences for work are heavily shaped by opportunities and constraints. For example, women report lower preferences for work when childcare is less easily available, suggesting that the ease of working is partly factored into preferences.<sup>14</sup> It is also difficult to test work preferences under realistic financial constraints. It is common for surveys, for example, to ask respondents about their preferences for work 'if financial constraints were not an obstacle'. Understandably, large proportions of respondents of both genders say that, if money were no obstacle, they would prefer not to work at all. This has prompted some authors to understate women's work preferences.

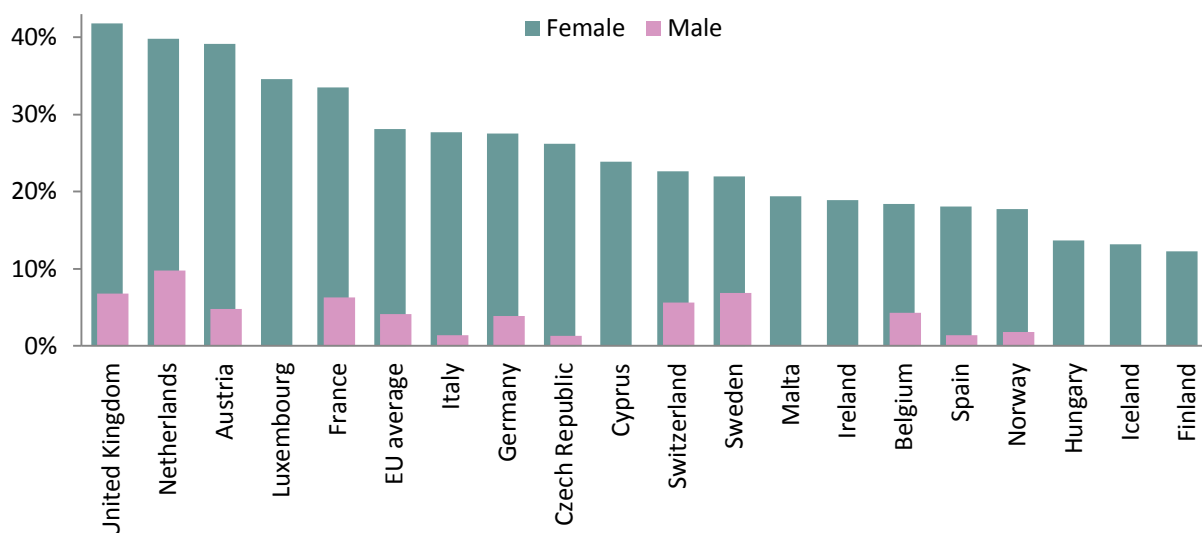
Even with these caveats, data on preferences for work tell us a lot about the relative preferences of men and women, mothers and fathers, and parents with children of different ages. Interpreted in this way, survey data tell us three things. Overall, there is little reason to believe that women have lower preferences for work than men. Recent survey evidence suggests that around one third of both men and women would prefer not to work at all, with no variation between genders. But within those who want to work, there is variation between men and women's preferred working hours. Roughly 22 percent of men say they would prefer to work full-time and 46 percent part-time.<sup>15</sup> For women the figures are 12 percent and 56 percent respectively. Finally, among women with children, preferences for work vary significantly by the age of the youngest child. Survey data suggests that a large majority of women prefer to stop work in the period immediately after childbirth and prefer to work part-time while their children are young.<sup>16</sup>

How do these preferences relate to actual working behaviour? The biggest differences between preferences and actual behaviour lie in the way that work is shared between men and women, which continues to be far more unequal than preferences. Caring responsibilities appear to be a major factor in this underperformance. Among mothers with 12-18 month old children, for example, of those who have not yet returned to work around 22 percent said this was a positive choice, unconstrained by barriers, while 23 percent blamed a lack of childcare and 35 percent a lack of family friendly policies.<sup>17</sup> Among women in the UK who work part-time,

42 percent say they are doing so because of caring responsibilities, the highest proportion in the OECD, while, among men, the equivalent figure is 7 percent.<sup>18</sup> In the UK, the proportion of women who work part-time because of caring responsibilities is around six times the male rate while in the Netherlands that ratio is around four.

**Figure 8: Percentage working part-time due to caring responsibilities**

European Labour Force Survey, 2011



Source: Resolution Foundation analysis, European Labour Force Survey, 2011

In line with these findings on caring, there is strong evidence that roles are not shared within the household in a way that either men or women would choose in an unconstrained environment. Around 13 percent of UK couples with a child under six say that, if they had complete freedom of choice, they would opt for a traditional breadwinner model (of male full-time work and female economic inactivity).<sup>19</sup> Yet 33 percent of couples with a child under six say they actually adopt this model. Finally, the gap between preferences and actual behaviours is significant among women with older children, where preferences for work appear to be comparable to those of women without children and yet an employment penalty for motherhood persists. Overall, this evidence suggests that there is a particular opportunity for public policy to raise female employment by freeing couples to share roles within the home, by raising the quality of part-time work, and by making it easier for women to work when they have older children, when preferences for work are strong.

## Section 3: What does the UK do differently from the top performing countries?

### Summary

*There is strong evidence that public policy can boost female employment. In comparing policy choices between countries, the most relevant areas are: the extent of publically funded childcare; the length and generosity of maternity, paternity and parental leave; the extent and design of cash benefits; and the level of effective marginal tax rates on second earners.*

*Of the money the UK spends on family policy a bigger proportion is spent on cash benefits than in other countries. This is largely because the UK supports families by topping up their incomes with tax credits rather than reducing their taxes by recognising couples or children in the income tax system. The corollary of higher spend on cash benefits is that the UK spends proportionately less than top performing countries on family services like childcare. In practical terms, the UK measures up well on overall childcare enrolment rates but enrolled children use fewer hours than those in other countries. UK childcare is 'broad but shallow'; it supports child development but falls short of supporting full time female employment for those who want it.*

*The UK approach to children of different ages is also quite different from top performing countries. UK cash benefits are relatively less 'front-loaded' on the young and correspondingly more generous for older children. Again, tax credits account for this difference. By contrast, UK services like childcare stop abruptly when children start school, while top performing countries fade out such spend far more slowly.*

In the past generation, governments across the developed world have adopted policies to reconcile work and family life. International evidence shows that these policies have done much to facilitate the rise of female employment described in Section 1, most directly by boosting the employment rates of women with children. Broadly speaking, they have changed the terms of the trade-off between childbirth and participation in the workplace. Prior to the 1980s, countries that achieved high female employment rates did so essentially by having lower fertility rates. Today, the international relationship between fertility and female work is positive, with the route to higher female employment being effective family policy.<sup>20</sup> The result is that international variations in female employment performance are now explained more by differences in policy than by cultural or environmental factors.<sup>21</sup>

Three policies in particular are found to have a significant impact on female employment:<sup>22</sup>

- *Publically funded childcare* has, in general, been shown to have a small but significant positive impact on fertility and large significant positive effects on female employment, though more recent studies have suggested declining marginal returns in countries with very high levels of provision.<sup>23</sup> Affordable childcare has also been shown to have larger effects for mothers with low education, thereby having an equalising impact on the distribution of employment and income.<sup>24</sup> Public childcare subsidies have also been shown to have positive impacts on women's share of earnings within the household and long-term positive effects on post-childbirth earning potential.<sup>25</sup>
- *Maternity and parental leave* show more mixed results.<sup>26</sup> There is a strong correlation between more generous leave entitlements and female participation but the impact of leave policies depends on their length.<sup>27</sup> Very short periods of maternity leave increase the likelihood that women will drop out of the labour market altogether, an effect that is stronger for women with low levels of education.<sup>28</sup> Yet very long periods of leave also have a detrimental effect on employment and earning potential. Long absence from the labour market can lead to detachment, reducing the

chance of returning to work (or delaying a return) and reducing the earning prospects of those who do. Estimates of the optimum length of maternity leave (in terms of employment effects alone) vary from 3 to 6 months.<sup>29</sup> Long maternity leave is more detrimental when paternity leave is very short by comparison, entrenching a division of care- and work-responsibilities within the household.<sup>30</sup>

- *Cash benefits for families* vary in their impact. Transfers that are not work-related, like Child Benefit (CB), have been shown to increase fertility and reduce female employment.<sup>31</sup> Generally speaking, countries that have both high fertility rates *and* high female employment have a policy mix that leans away from such transfers and towards services like childcare (though, importantly, in many such cases both are generous).<sup>32</sup> Importantly, though, design makes a difference. Work-related cash transfers like the US Earned Income Tax Credit (EITC) have been shown to boost participation by non-married women but reduce participation among married women.<sup>33</sup> In the UK, the impact of tax credits, like the system itself, is complicated. Very broadly speaking, the Working Tax Credit has a positive effect on female (and male) employment and the Child Tax Credit has a counterbalancing negative effect (as might be expected from their design).<sup>34</sup>
- Finally, *the tax treatment of second earners* is a key determinant of household-level employment behaviour. Higher marginal tax rates on second earners (most of whom are women) impact negatively on female employment.<sup>35</sup> The marginal tax rate faced by second earners is determined by several policy choices, mostly significantly: the way couples and families are treated in the income tax system; the extent and design of means-tested cash benefit support; and, importantly, hourly childcare costs net of government support, which in practice have the effect of an additional tax on second earners.<sup>36</sup> In countries where these choices, together, result in higher tax rates for women, fewer women work and those who do work shorter hours.

Finally, although much of the literature focuses on employment rates, it is important to note that job *quality* is an area of increasing concern. A growing number of economists now argue that countries with the highest female employment rates (in particular the Nordic economies) have accepted a trade-off between the quantity and quality of women's work. Some claim that the policy mix adopted by these countries has achieved higher female employment rates by creating a sheltered area in the labour market (in which work and family life are reconciled) but at the cost of women's access to higher quality portions of the labour market (particularly in top private sector jobs).<sup>37</sup> This is important because, as we saw above, a key challenge in the UK is improving the quality of jobs available to women, particularly part-time roles.<sup>38</sup>

## How does the UK policy approach compare?

This section overlays this short review of the evidence with a comparison of the strategic choices that a number of countries have made on family policy. In many cases, of course, decisions on family policy are made for reasons other than raising female employment, not least supporting child development and reducing income poverty or inequality. The goal here is to focus on the implications for female employment so that they can be better weighed up with these other goals. The data should be treated with caution. Countries classify their social programs differently and it is easy to misinterpret these definitional differences as substantive differences in policy.<sup>39</sup>

## Comparing the UK approach by policy area

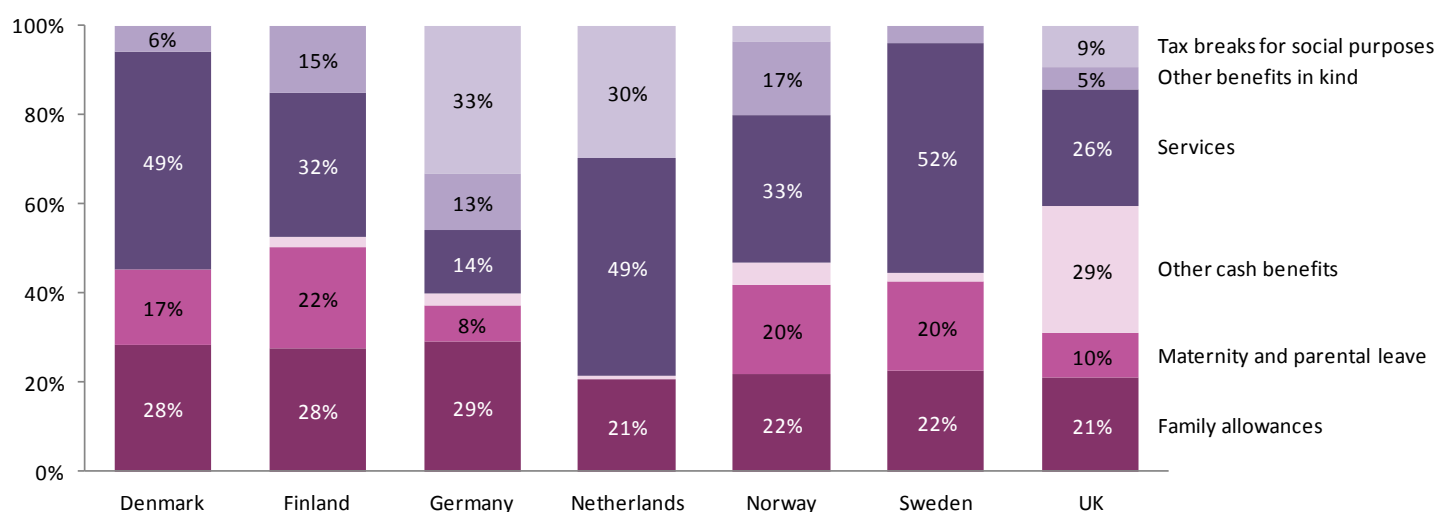
At a headline level, UK spend on family policy is high by comparison to other affluent nations. The UK spends 3.6 percent of GDP on family policy, ranking second only to France in the OECD.<sup>40</sup> It is important not to draw the wrong conclusion from this headline figure. It says little about the overall generosity of UK family policy and a lot about the particular mechanisms that UK policymakers have chosen to use to support families and female employment. Figure 9 starts to illustrate this fact by breaking down family policy spend by policy area in a number of top performing countries for which data could be obtained.<sup>41</sup> Two broad conclusions stand out.

First, the UK government spends more of its family policy budget on cash benefits than governments in countries with the highest female employment rates. This fact is explained in large part by a decision to support families through cash transfers (which appear in the below chart) rather than by giving families preferential treatment in the tax system (the spending implications of which do not appear in the below chart). The UK has an individual model of income taxation which treats the members of a couple as discrete individuals while, by contrast, it is common in other countries for families to be recognised in the tax system either through tax allowances that can be transferred between partners (or spouses) or through additional tax allowances for children. Recognising families in this way (or, importantly, families headed by couples) reduces their tax liabilities relative to single (or, in some cases, unmarried) people.

Instead of adopting such approaches, the UK boosts the final income of families by providing substantial family-related cash benefits. Figure 9 shows that tax credits, rather than Child Benefit, are the specific policy that explains this difference. It includes a breakdown of the spend on different types of cash support. Two main mechanisms are used. ‘Family allowances’ are overwhelmingly made up of Child Benefit, which all countries covered here provide and which, generally speaking, take a similar form – universal or near-universal, regular, per child payments running up to young adulthood.<sup>42</sup> (If anything, the UK spends less on this type of cash benefit than the norm.) Instead, another category, ‘Other cash benefits’, explains the UK’s higher levels of spend. It is mostly made up of supplemental, more heavily income-targeted cash transfers and includes UK spend on tax credits. It is a small category in all countries shown in the chart except the UK where it constitutes nearly 30 percent of family policy spend.<sup>43</sup> It is this comprehensive system of income-linked cash transfers, in addition to Child Benefit, that makes the UK approach distinct.<sup>44</sup>

**Figure 9: Spend on different categories of family policy in some leading countries, 2007**

*Percentage of total spend on family policy*



*Source and notes: Resolution Foundation analysis, OECD SOCX database. 'Family allowances' consist largely of spend on Child Benefit, which in most countries take the form of a regular, universal or near-universal, per child cash payment from birth until young adulthood. 'Other cash benefits' refer generally to additional cash transfers which are more generally income-targeted (and in the UK includes family- or child-related tax credits). 'Services' refers to spend on both day-care and home help services and is largely made up of spend on childcare. 'Tax breaks for social purposes' includes state tax relief for family-related costs like childcare but does not include the value of additional family or spousal tax allowances in the personal taxation system.*

What is the impact on female employment of this approach to supporting families? Two main effects are worth noting. On the one hand, it means that UK support is more tightly targeted at low income households and so does more to reduce household income inequality (which is higher in the UK than in all other countries covered). This approach particularly raises the income of certain household types, most of all lone parents with children. On the other hand, means-tested cash transfers raise marginal tax rates, including those on second earners (as opposed to preferential treatment in the tax system, which has the potential to lower them).<sup>45</sup> It is typical for low income working families in the UK to face an effective marginal tax rate of 73 percent on their earnings, more than half of which is made up of the effect of tax credits being withdrawn as earnings rise.<sup>46</sup> For some family types (notably lone parents with children), withdrawal rates are higher in the UK than in any other OECD country.<sup>47</sup> This trade-off – between the policy goals of targeting income support through means-testing and incentivising self-sufficiency through higher employment income – is not new. But it falls into sharp relief in the case of female employment and family policy.

The second important difference that emerges from Figure 9, and a corollary of the above, is that the UK government spends proportionately less of its family policy budget on services, in particular childcare.<sup>48</sup> Even aside from the proportion of family policy money spent on tax credits, this point stands.<sup>49</sup> This is reflected less in low pre-school childcare enrolment rates, which are relatively high in the UK, and more in the fact that pre-school children enrolled in UK childcare use relatively few hours of care each week. The result is that the UK performs far better in international comparisons on the basis of preschool enrolment rates than it does on the basis of full-time equivalent enrolment rates.<sup>50</sup> In this sense, compared to the top performing countries, UK childcare is broad but shallow.

The specific policy choice that explains these numbers is the Labour government's decision to fund, on the one hand, 15 hours of care for three year olds, four year olds and some disadvantaged two year olds (with the latter now extended by the coalition) through a free supply-side offer and, on the other hand, to part-

fund additional hours through a demand-side subsidy.<sup>51</sup> Putting to one side the strong debate between proponents of supply- and demand-side childcare systems (both of which have their merits), supply-side approaches have been shown to force the more rapid expansion of provision. As Waldfogel has pointed out, enrolment rates within the UK's 15 hour offer have risen far faster than they have above this offer (ie, in the mixed market, only part-funded, demand-side system).<sup>52</sup> The result is that UK childcare, like much of UK female employment, is part-time. By contrast, all countries with high full-time female employment rates provide some form of full-time, supply-side care for three and four year olds, and spend is correspondingly higher.<sup>53</sup>

This fact has two interesting implications. The first is that there is reason to believe that the UK's spend on childcare is yet to deliver its full potential upside in terms of female employment (and tax revenues). In this sense, the Labour government invested heavily in childcare but did not reach the tipping point at which the full economic gains from that investment would be reached.<sup>54</sup> This fact is pertinent when seeking sensible public investments or reprioritisations in today's constrained spending environment. Second, in light of the very high unit cost of childcare in the UK, a relatively ungenerous government subsidy means that UK second earner effective marginal tax rates are even higher than they appear on the basis of tax rates and withdrawal rates. Once hourly childcare costs are factored in, it is typical for low income women in the UK to face effective marginal tax rates of 88 percent (the second highest rate in the OECD), meaning they take home only 12 pence of every additional pound earned.<sup>55</sup> The academic literature would lead us to expect a significant negative impact on hours worked by women.

### How does UK policy differ for children at different ages?

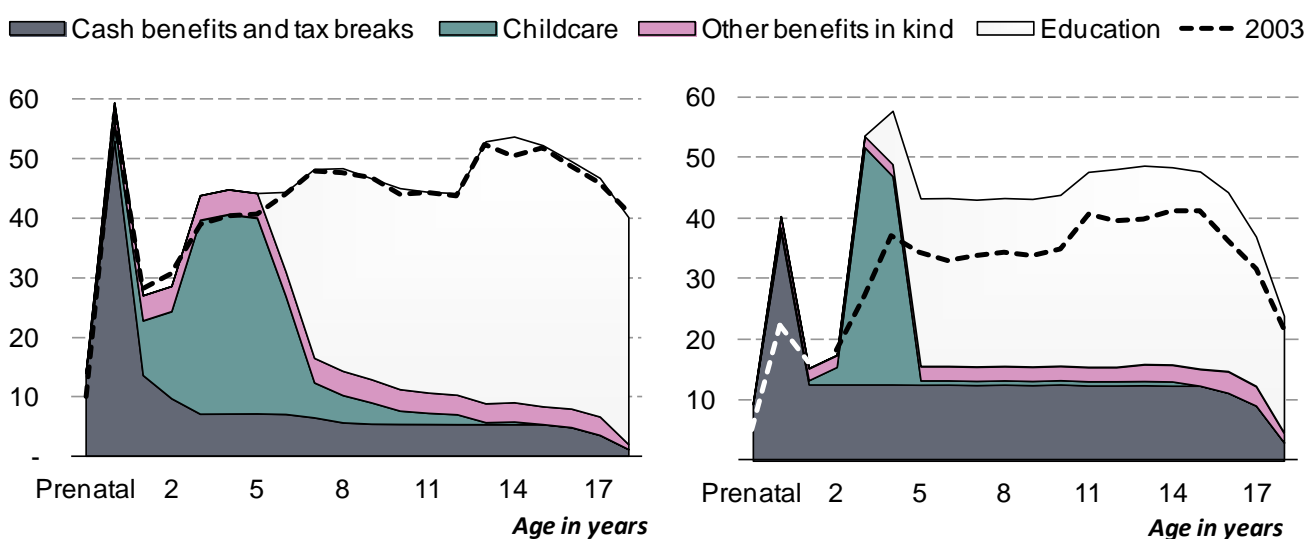
Having looked at differences in spending on different types of policy, Figure 10 looks at the generosity of UK support for children of different ages. It again splits out different types of support and compares the UK to a group of top performing countries for which data could be obtained. Two main aspects of the UK approach are notable. First, in relative terms, cash benefit support in the UK is far flatter across children of different age groups. This is not to say the UK government doesn't frontload cash benefits on younger children – it does, and does so far more than it used to, following reforms introduced in the past ten years (as the dotted line demonstrates). But even after these increases, UK cash benefits remain significantly less frontloaded on parents of newborn and very young children than in countries with the highest female employment rates and, conversely, continue at a relatively high level for older children.

Ostensibly, we might think that the UK's relatively high and flat cash payments to older children stem from the system of Child Benefit. But as Figure 9 highlighted, most advanced countries spend more than the UK on Child Benefit (and also do not frontload that spend on young children). Instead, the difference again stems from two other areas of policy. On the one hand, the UK's substantial system of tax credits does relatively little to target by age. Although small elements of the Child Tax Credit were targeted at younger children, the main bulk of funds run through the Child Element which is set at the same rate regardless of age. The age-blindness of the tax credit system has been strengthened in the past year by the coalition government's decision to abolish the main age-targeted elements of tax credits while increasing spend on the Child Element, effectively shifting support away from younger children towards older children.

On the other hand, the UK's relatively ungenerous support for very young children is mainly explained by the low level of UK maternity pay. This reflects a similar pattern to that seen in childcare, where we have found that provision is broad but shallow. As Figure 9 made clear, the level of UK spend on maternity, paternity and parental leave ranks towards the bottom of the set of top performing countries. Although, at 52 weeks,

mothers in the UK enjoy one of the longest maternity leaves in the OECD, UK maternity pay is very low relative to other countries.<sup>56</sup> Expressed in terms of full-time equivalent pay, UK maternity leave falls from 52 weeks to just 9 weeks. The current paternity leave offer is even less generous at 2 weeks in total; when expressed as an FTE rate UK paternity leave is just four hours long. This dramatically gender-unequal approach is worrying in light of the evidence that long maternity leave can have negative effects on female employment and earning potential when coupled with relatively ungenerous paternity leave. Given this, the fact that the coalition government has expressed its intention to extend paternity leave and to allow couples to take leave more flexibly should be welcomed.

**Figure 10: Average state spending by age of child as a proportion of median household income, 2007**  
 Best performing countries United Kingdom



Source: Resolution Foundation analysis, OECD family database

The second lesson that emerges from Figure 10 is that, when it comes to spend on services (rather than cash benefits), UK support stops very abruptly at the age of five when children enter the formal education system. In countries with higher female employment rates (and, importantly, higher full-time female employment rates), publically funded childcare blends out more slowly, continuing at a significant scale into the years of formal education and, at some scale, until children are effectively independent of close supervision. Although children start school slightly later in these other countries, the data adjusts for this fact. This is notable in light of strong preferences for work among women with school-age children.

## *Conclusion – Strategic implications for policy*

The rise of female employment has been a central chapter of the story of living standards in the past 40 years. From 1968 to 2008, women's work drove more than a quarter of all income growth in LMI households.<sup>57</sup> In more recent years, it has become even more important, counterbalancing flat wages and falls in male employment income to help protect LMI households from real income declines. Yet even while reliance on women's work has grown, the absolute pace of growth has faltered. After rising 7.4 percentage points in the 1980s, the UK female participation rate rose just 1.4 percentage points in the 2000s. This slowdown is not a sign that the UK is reaching the limits of either female employment or women's preferences for work. The UK ranks only 15<sup>th</sup> in the OECD on female employment and just 24<sup>th</sup> on a full-time equivalent basis. Compared to the better and best performing countries, somewhere around 1 million women could be considered missing from the UK workplace. Survey data suggests continuing and substantial unmet demand for work among women.

The result is that further gains in female employment present a rare opportunity to boost living standards in the years ahead. This section sketches out some lessons from the evidence about how family policy could help to achieve this goal. Given the current fiscal climate it focuses on priorities for *reweighting* spend over the long-term. This point on timing is important; with household disposable incomes currently falling at their sharpest rate for at least 30 years, now is not the time to be cutting support for families – even in the name of a long-term ambition of higher female employment. On the contrary, in the short-term, there is a case for arguing that spend should be switched *into* family policy to boost direct financial support for low income families. In the medium-term, though, once steady disposable income growth has resumed, there will be a stronger case for carefully reweighting spend within the family policy budget.

The first lesson on prioritisation that emerges from the evidence is that there is a case for shifting the emphasis of future spend away from some cash benefits and towards services like childcare. This would bring the UK closer into line with the academic evidence base and with the policy choices made by the top performing countries in a number of ways. It would reduce the effective marginal tax rates on second earners (both by reducing withdrawal rates and by reducing net hourly childcare costs), a key variable that we know boosts female employment. It would particularly help mothers who move from part-time to full-time to retain more of their earnings. And it would reduce the extent to which caring responsibilities prevent women from fulfilling their aspirations for work.

Second, within the UK's spend on family-related cash benefits there is a case for doing more to frontload support on young children. In the past ten years, the UK has moved strongly in this direction, although progress has slowed in the past year, with choices made by the coalition pulling in different directions.<sup>58</sup> Evidence shows that the period immediately after childbirth has a powerful and enduring impact on gender roles within the household and thereby on women's relationship with the workplace. It is no coincidence that countries with high female employment rates have, over time, provided more flexible and gender-balanced support to new parents, rather than simply increasing maternity leave so that the balance of support is ever more skewed toward mothers. In doing so, they have helped to ensure that the transition to parenthood does not also become a transition to a highly unequal and entrenched distribution of work- and caring-responsibilities, in which women become detached from the jobs market over the longer term while men remain consistently employed.

As well as supporting the reweighting of spend in these two general ways – from cash to services and, within cash benefits, towards younger children – the evidence also points to a few more specific priorities. When it

comes to the balance between cash benefits and services, one reasonable first step would be to expand services for children of primary school age (for example, through a universal guarantee of full day supervision in primary schools). As the evidence has shown, UK female employment performance is surprisingly weak among mothers with school-age children despite this group's relatively strong preferences for work, while part-time employment rates are high. Meanwhile, the unit cost of provision for older children is low relative to preschool care. There is a fairly strong argument that long term investments in this area should be a higher priority than additional cash benefits for those with older teenage children. Given the existing amount of spend and infrastructure invested in supervising children *almost* full-time through the school system, it is reasonable to think that going the extra mile could be a cost-effective way of supporting full-time female employment (and reaping the resultant tax revenues).

In the case of frontloading cash support, one recent suggestion is that Child Benefit spend should be targeted at younger children. This would not be unprecedented (Iceland, for example, provides a Child Benefit supplement for children under seven). But it is not common internationally for Child Benefit to be used as a way of supporting new parents. More importantly, because UK Child Benefit for post-16 year olds is linked to participation in education, abolishing or reducing these payments would raise big concerns about incentives, particularly given other reductions in 16-18 support. Instead, a better approach might be to think again about the future balance between tax credit support for older children and parental leave, in particular paternity leave. It is welcome that the current government has announced an intention to introduce a longer and more flexible period of paternity leave. This commitment should be protected as a priority and, over the longer term, should be built on.<sup>59</sup> As the evidence has shown, couples in the UK continue to adopt unusually unequal caring- and working-roles within the household and would prefer to adopt more equal roles. The challenge will be to move to a more balanced leave policy in a way that is as progressive as possible.

The third general lesson that emerges from the evidence is more specific to the current political context. If the current government's goal of raising the personal tax allowance is to be continued, it would be worth thinking more seriously about the way the UK tax system recognises (or does not recognise) families. The major downside of the coalition's choice to support families through a personal allowance policy is that it has a regressive impact on the distribution of household income and is therefore an inefficient way of raising the final incomes of poorer households. One reason (though not the only reason) for this regressivity is that the UK tax system is indifferent to families.<sup>60</sup> This effect is accentuated when increases in the allowance run alongside (and so are to some degree funded by) substantial cuts to tax credits, which are targeted at families. Put simply, the current government is shifting money away from spend that is targeted at families towards spend that is not. It is worth noting that the government's plans for Universal Credit do not change this central conclusion. Although it will increase work incentives for some and decrease incentives for others, the Universal Credit is unlikely to substantially alter the overall prospects for female employment.

Given the government's stated intention to continue the strategy of raising the personal allowance, there is a case for moderating its downsides by considering approaches that would recognise families with children in the tax system. Recognising couples (especially married couples) in the tax system would be highly regressive. Recognising children, perhaps through a modest additional personal tax allowance for parents, might be more attractive, though would clearly raise major challenges of delivery and design.

For some, these debates about family policy may seem a distraction from the immediate challenge of easing the squeeze facing LMI households. On the contrary, they are absolutely central, and even more so to the long-term recovery of living standards. The reality is that there are few answers to the question: 'where will future growth in living standards come from – even once economic growth returns?' If we accept that

medium-term prospects for the public finances rule out significant increases in spend, and if we are realistic about the prospects for strong (and progressive) growth in hourly wages, there is good reason to be concerned about the prospects for future growth in disposable income among LMI households. As this note shows, the possibility of future gains in female employment income is one ray of light. Yet although such gains are achievable, they will not come easily. They will only be won through a concerted effort to apply the lessons from the academic evidence and from the best performing countries around the world.

## Endnotes

<sup>1</sup> All figures in this paragraph are from Mike Brewer and Liam Wren-Lewis, *Why did Britain's households get richer? Decomposing UK household income growth between 1968 and 2008-09* (IFS analysis for the Resolution Foundation), 2011. 'Low to middle income households' are defined here as households between the 10<sup>th</sup> to 50<sup>th</sup> percentiles of the equivalised working-age household income distribution receiving less than 50 percent of their gross income from benefits and tax credits.

<sup>2</sup> These figures do not sum to 100 percent because of other sources of income including income from the tax-benefit system and investments.

<sup>3</sup> See Vidhya Alakeson, *Childcare: failing to meet the needs of working parents*, Resolution Foundation, 2011

<sup>4</sup> All figures in this paragraph are from Mike Brewer and Liam Wren-Lewis, *Why did Britain's households get richer? Decomposing UK household income growth between 1968 and 2008-09* (IFS analysis for the Resolution Foundation), 2011

<sup>5</sup> Susan Harkness, *The contribution of women's employment and earnings to household income inequality: a cross-country analysis*, Working Paper. Luxembourg: Luxembourg Income Survey Working Paper Series, (531)., 2010

<sup>6</sup> Many of the most significant increases in female earning power in recent years internationally have come from just this kind of shift from part-time to full-time work among women. In particular, Scandinavian countries with the higher overall employment rates have seen very significant shifts from part-time to full-time work among women in the same period in which they saw very strong growth in overall employment.

<sup>7</sup> See Alan Manning and Barbara Petrongolo, *The Part-time pay penalty for women in Britain*, IZA discussion paper 2419, 2006; and Lee Savage, *Snakes and ladders: who climbs the rungs of the earnings ladder*, Resolution Foundation, 2011

<sup>8</sup> 'Very long hours' are defined here as more than 45 hours a week.

<sup>9</sup> There are not obvious demographic causes for these differences. The average age of first childbirth is 30 in the UK and only marginally lower in better performing countries. The average fertility rate in these better performing countries is 1.8, little different from the UK rate of 1.9. Among the top 5 best performing countries the mean age of first childbirth is also 28 and the fertility rate is 1.9 – see Margarita Estévez-Abe and Tanja Hethey, *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, 2008

<sup>10</sup> In the UK, the proportion of women in couple families working part-time rises from 27 percent among those with no children to 45 percent among those with one child and to 61 percent among those with two children. Across the OECD on average, the equivalent figures are 19, 25 and 32 percent, much lower overall and showing a much less steep increase for those with children.

<sup>11</sup> Joya Misra, Michelle J. Budig, Irene Boeckmann, *A Cross-National Perspective on Gender, Parenthood, and Employment*, University of Massachusetts Draft, 2009

<sup>12</sup> UK female employment performance is also notably poor among lone parents at 48 percent, ranking 29<sup>th</sup> in the OECD, a full 28 percentage points behind the average performance of the 14 countries with higher female employment rates. See for example, Massimiliano Bratti, "Labour Force Participation and Marital Fertility of Italian Women: The Role of Education", *Journal of Population Economics*, Volume 16, Number 3, 2003 and Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department, 2004

<sup>13</sup> Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376, 2003 On the difficulties of divorcing preferences from real restrictions see Brigid van Wanrooy, "Adapting to the Lifecourse? Evaluating Men and Women's Working-Time Preferences", *Australian Journal of Labour Economics*, vol. 8 no.2, 2005

<sup>14</sup> Brigid van Wanrooy, "Adapting to the Lifecourse? Evaluating Men and Women's Working-Time Preferences", *Australian Journal of Labour Economics*, vol. 8 no.2, 2005 p.160

<sup>15</sup> Unless otherwise stated, figures in this paragraph are from YouGov for the Centre for Policy Studies (2009). The full question is phrased as follows: '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.'

<sup>16</sup> Sarah M.C. Kelley and Claire G. E. Kelley, *Women's Work Preferences: The Importance of Home-Based Work*, International Survey Center Working Paper Series, 2009

<sup>17</sup> Ivana La Valle, Elizabeth Clery and Mari Carmen Huerta, *Maternity rights and mothers' employment decisions*, Department for Work and Pensions Research Report No 496, 2008

<sup>18</sup> This figure for men is also high by OECD standards (where data is available), implying a general lack of caring support for families.

<sup>19</sup> Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376, 2003 from Employment Options for the Future Survey.

<sup>20</sup> Namkee Ahn & Pedro Mira, "A note on the changing relationship between fertility and female employment rates in developed countries", *Journal of Population Economics*, vol. 15(4), 2002 AND P.2, Apps and Rees (2003)

<sup>21</sup> Daniela Del Boca, Silvia Pasqua & Chiara Pronzato, *Motherhood and market work decisions in institutional context: a European perspective*, Oxford Economic Papers, vol. 61, 2009 For accounts of other factors see: Kremer (2007) looks at the role of culture, Budig et al reinforce the point that a culture of full-time employment for mothers is an important independent variable.

- <sup>22</sup> For the literature on models of welfare states and family policies see Esping-Andersen (1990, 1999), Meulders and D'Orchan (2008) and Gauthier (1996).
- <sup>23</sup> Chevalier and Viitanen find that, in the UK, women's employment followed increases in childcare but that the relationship does not hold the other way around – see Arnaud Chevalier and Tarja K. Viitanen, *The Causality Between Female Labour Force Participation and the Availability of Childcare*, Working Paper 2001
- <sup>24</sup> See Blau, 2001 and see Kögel, who questions the significance in the change in relationship. Tomas Kögel, "Did the association between fertility and female employment within OECD countries really change its sign?", *Journal of Population Economics*, vol. 17(1), 2004 and Daniela Del Boca & Silvia Pasqua, *Social Policies and Employment of Married Women in Europe*, CHILD Working Papers wp19\_05, 2005 and Daniela Del Boca, Silvia Pasqua and Chiara Pronzato, *Motherhood and market work decisions in institutional context: A European perspective*, Dondena Working Paper No. 11, 2008
- <sup>25</sup> Margarita Estévez-Abe and Tanja Hethy, *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, 2008 Even when controlling at the national level for public sector size, income inequality, and maternal employment see Joya Misra, Michelle J. Budig, Irene Boeckmann, *A Cross-National Perspective on Gender, Parenthood, and Employment*, University of Massachusetts Draft, 2009
- <sup>26</sup> Esping-Anderson, 2009
- <sup>27</sup> Pronato, 2007; Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376, 2003; De Henau, Meulders and O'Dorchai 2007). Chiara Daniela Pronzato, Return to work after childbirth: Does parental leave matter in Europe?, Dondena Working Paper No.14
- <sup>28</sup> Daniela Del Boca, Silvia Pasqua and Chiara Pronzato, *Motherhood and market work decisions in institutional context: A European perspective*, Dondena Working Paper No. 11, 2008
- <sup>29</sup> See for example Bertrand, Goldin and Katz 2009). Budig et al reinforce this finding – that short or long leave has a detrimental effect on the wage penalty of motherhood after controlling for female employment; the same is not true for paternity leave, which has positive impacts on women's wages. Budig (2010)
- <sup>30</sup> See Del Boca's coefficients on p.19 for quantification of the effect in Daniela Del Boca, Silvia Pasqua and Chiara Pronzato, *Motherhood and market work decisions in institutional context: A European perspective*, Dondena Working Paper No. 11, 2008, Sundstrom, 2002, see Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376, 2003) and Nabanita Datta Gupta, Nina Smith & Mette Verner, *Child Care and Parental Leave in the Nordic Countries: A Model to Aspire to?* IZA Discussion Papers 2014, 2006
- <sup>31</sup> Laroqu and Salanie (2008), Miligan (2004); Cohen, Dehejia, et al, (2007) Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376, 2003 and Daniela Del Boca, Silvia Pasqua and Chiara Pronzato, *Motherhood and market work decisions in institutional context: A European perspective*, Dondena Working Paper No. 11, 2008
- <sup>32</sup> Patricia Apps & Ray Rees, "Fertility, Taxation and Family Policy," *Scandinavian Journal of Economics*, vol. 106(4), 2004
- <sup>33</sup> Michael P. Keane and Kenneth I. Wolpin, "The Role of Labor and Marriage Markets, Preference Heterogeneity, and the Welfare System in the Life Cycle Decisions of Black, Hispanic, and White Women", *International Economic Review*, Vol. 51, No. 3, 2010
- <sup>34</sup> Yekaterina Chzhen and Sue Middleton, "The impact of tax credits on mothers' employment", *Joseph Rowntree Foundation*, 2007
- <sup>35</sup> Florence Jaumotte, *Female labour force participation: past trends and main determinants in OECD countries*, OECD Economics Department Working Papers, No. 376, 2003
- <sup>36</sup> Even where childcare costs are shared between a couple this effect holds at the household level. In practice, since childcare costs are borne when a second earner or single parent enters the workforce, and because women make up the great majority of second earners and lone parents, childcare costs have the effect of a household-level tax on the proceeds of women's work.
- <sup>37</sup> Authors such as Mandel (2009) and Semyonov (2005, 2006). Misra et al call this a trade-off between "inclusive labor markets (which engage a larger number of mothers, but do not reward them) and exclusive labor markets (which engage fewer mothers, perhaps those with higher levels of human capital, but reward them for their participation)". See Joya Misra, Michelle J. Budig, Irene Boeckmann, *A Cross-National Perspective on Gender, Parenthood, and Employment*, University of Massachusetts Draft, 2009 P.18, Mandel (2009) and Semyonov (2005, 2006) make a similar distinction has been made between social-democratic models and liberal models. See also Pettit and Hook (2009). See Hadas Mandel and Moshe Semyonov, *A Welfare State Paradox: State Interventions and Women's Employment Opportunities in 22 Countries*, Working Paper 2005
- <sup>38</sup> Joya Misra, Michelle Budig and Irene Böckmann, Work-Family Policies and the Effects of Children on Women's Employment and Earnings , Luxembourg Income Study Working Paper No. 543, 2010
- <sup>39</sup> This is a particular problem in Switzerland and Canada, where national data underreports true spend due to the significance of state- or canton-level investments.
- <sup>40</sup> OECD Family Policy database
- <sup>41</sup> Canada is excluded due to data reliability issues (because non-federal spend is difficult to discern in national figures).
- <sup>42</sup> See further details in Annex A.

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<sup>43</sup> Spend on this category is also large in the US due to the Earned Income Tax Credit, the income transfer system on which UK tax credits were modelled.

<sup>44</sup> It is important to note that, in some countries, such as Canada and Germany, Child Benefit (or significant parts of it) is targeted at low income households. In this sense, it plays a role similar to the UK tax credit system. In Finland and Sweden, the generosity of child benefit increases for additional children, again serving somewhat to target spend at larger (and poorer) households. The key point is not that the UK is alone in having an income-targeted cash transfer systems. The key is point that the UK is peculiar in investing heavily in both a Child Benefit system of cash transfers (which, from January 2013, will itself be effectively means-tested) and a large tax credit system of cash transfers aimed more explicitly at low income households.

<sup>45</sup> A withdrawal rate is the percentage of income that is taken away when earnings rise.

<sup>46</sup> This figure is accounted for by income tax (20 percent), National Insurance (12 percent) and withdrawn tax credits (41 percent). It is forecasts to 76 percent for similar households under the Universal Credit. It is far higher once childcare costs are included.

<sup>47</sup> The Taxation of Families, 2009/10

<sup>48</sup> Data on services is influenced by differences in classifications, in particular in terms of the grey area between education spend and family policy.

<sup>49</sup> The data include both supply- and demand- side spending (for example, they include UK spend on the childcare element of the Working Tax Credit), so this is not a function of the funding mechanism used to provide childcare.

<sup>50</sup> Female employment rates are also far lower among those who only use the part-time, supply-side funded free offer. See Waldfogel (2009)

<sup>51</sup> This decision had its root in evidence on child development showing the significant child development benefits of part-time provision are large.

<sup>52</sup> As the experience of Quebec has shown, an ill-designed supply-side system can have substantial downsides. See, for example, Lefebvre et al, 2011 and International Policies toward Parental Leave and Child Care Jane Waldfogel, *The Future of Children* Vol. 11, No. 1, Caring for Infants and Toddlers (Spring - Summer, 2001), pp. 98-111 As the Resolution Foundation has noted, provision at atypical hours has been particularly unresponsive to demand see Vidhya Alakeson, *Childcare: failing to meet the needs of working parents*, Resolution Foundation, 2011

<sup>53</sup> It is important to note that the childcare element of the Working Tax Credit is classified by the OECD alongside childcare spend, under the heading 'Day-care / Home help services'

<sup>54</sup> Particularly since, for much of its life, the 15 hour offer was provided in small chunks that were essentially incompatible with maternal employment

<sup>55</sup> Doing better for families, OECD (2010)

<sup>56</sup> This is complicated by the fact that many countries provide far longer lengths of parental leave, which can be taken after maternity leave.

<sup>57</sup> Mike Brewer and Liam Wren-Lewis, *Why did Britain's households get richer? Decomposing UK household income growth between 1968 and 2008-09* (IFS analysis for the Resolution Foundation), 2011

<sup>58</sup> While some moves, like the intention to reform parental leave, have sought to target new parents, others, like the abolition of age-targeted elements of tax credits, have reduced support for those with very young children.

<sup>59</sup> The government has proposed an extension of paternity leave and greater flexibility for couples in how they allocate parental leave.

<sup>60</sup> The other main reason for this regressivity is that a higher proportion of rich households contain two earners and so receive twice the benefit of a higher personal tax allowance.

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