Boosting Italy's female labor participation

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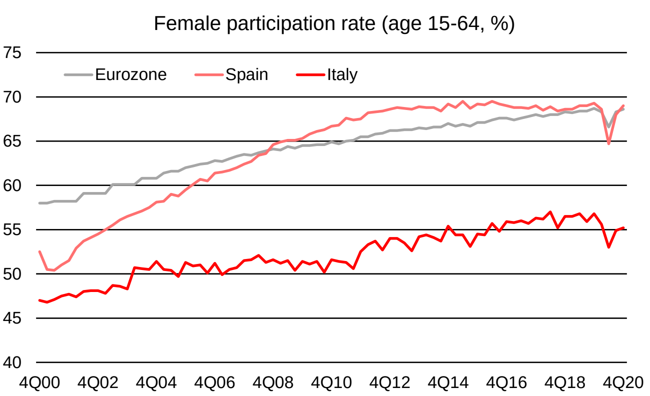
- Among advanced economies, Italy has the lowest female participation rate (55%). Boosting it is not just a matter of social fairness, it is necessary to offset the negative growth spillover from a shrinking and aging workforce.
- For both cultural and economic reasons, Spain is the natural eurozone comparison for Italy when it comes to boosting female labor participation. Starting in 2000, in less than ten years Spain managed to catch up with the eurozone average.
- A less-pronounced gender pay gap for highly educated female workers and a homogenous rise in the participation rate across regions is what sets Spain apart from Italy. In terms of family-friendly policies, the difference between the two countries is not substantial.
- Both Italy and Spain need to look at the Nordic experience to find the right balance between family-friendly tax systems and in-kind transfers, which appear to be an effective means of supporting female labor participation in these countries.

Mario Draghi's mandate as Italy's prime minister is clear. Besides weathering the pandemic, his government has to manage Italy's Recovery and Resilience Plan (RRP). Priority is being given to an extensive list of investment projects to reach strategic goals, with the green and digital transitions being the key pillars[1]. However, Mr. Draghi's broader reform agenda, which will also include substantial tax reform, aims to mitigate the gender, intergenerational and regional disparities that are still significant in the country. Particular attention will be devoted to boosting female participation in the labor market, which, besides being a matter of social fairness, is necessary to offset the negative growth spillover from a shrinking and aging workforce.

According to population projections from Istat, the decline in Italy's working-age population, which started in the last decade, is likely to persist over the coming decade. Italy needs to boost its labor force participation rate to compensate for unfavorable demographic trends. The bar is not too high considering that Italy has the lowest participation rate of all OECD countries: at 65%, it is closer to the participation rates in emerging economies than advanced economies. This low rate has mostly to do with a very low female participation rate (55%), which the government reforms are intended to lift substantially (the male participation rate is around 75%). Furthermore, boosting participation will generate stronger growth. Assuming that Italy's total participation rate moves to the eurozone average of 73% by 2030, even if only half those joining the labor force finds a job during this period, this would contribute about 0.5pp, on average, to annual GDP growth over the next decade.

Within the eurozone, for both economic and cultural reasons, Spain is the natural comparison when it comes to boosting female labor participation. In 2000, both countries had very low participation rates for women aged 15-64, with Spain's at around 53% and Italy's at 47% – well below the eurozone average of almost 60% (Chart 1). Since then, Spanish women have joined the labor force en masse. Their participation rate jumped to 64% before the outbreak of the great financial crisis, when it surpassed the eurozone average, and continued to rise, reaching almost 70% in 2016, before stabilizing at around 68% – roughly in line with the eurozone average. Italy, on the other hand, has seen its female participation rate rising slowly over the last two decades, stabilizing at around 55%.

CHART 1: WIDENING GAP



Source: Eurostat, UniCredit Research

In this piece, we analyze different dimensions of the issue, such as differences in family-friendly policies, gross earnings dynamics, age structure and regional divergences in the female labor force in order to understand what is behind the diverging paths of the two countries. We conclude that the gap has primarily to do with two factors. First, at the national level, there is wide scope for a substantial reduction in the gender pay gap in Italy, especially for highly educated female workers. Second, unlike in Spain, where the female labor force participation rate is quite homogenous across regions, in Italy, the regional divergence is huge, with the female participation rate in the south of the country far lower than in the north for a number of structural reasons. Hence, any

[1] For a discussion, see Italy's recovery plan: The challenge starts, UniCredit Economics Flash, 3 May.

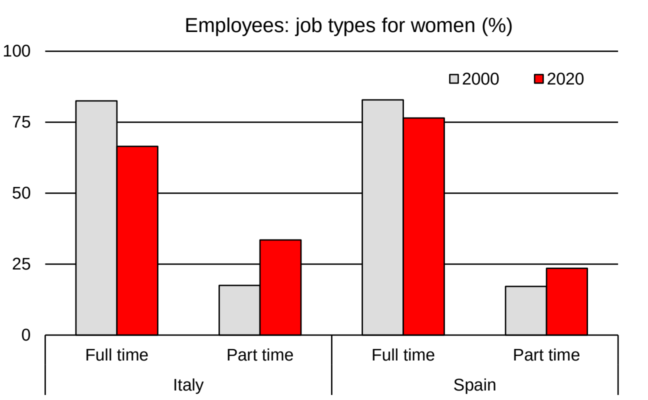
policy attempting to increase female labor force participation in Italy needs to address several dimensions of a multifaceted problem. The good news is that there is a growing consensus on the need to act.

Family-friendly policies do not explain the gap

Traditional economic theory, dating back to pioneering work of Nobel laureate Gary Becker, assumes that women arbitrate between labor (supplied in the market in order to buy goods and services), home production of goods and services (including caring for children and the elderly) and leisure. Supplying labor to the market and earning a wage is advisable if the earnings can purchase more goods and services than are required to make up for lost production at home (and possibly some loss of leisure). Traditionally, and especially in Mediterranean countries, home production is often regarded as a better alternative to market production for women than for men. For this reason, the elasticity of female labor supply to the market wage, including taxation, is higher, in particular for married women. Children further increase the elasticity of female labor supply to the market wage, as they provide more opportunities for home production. On the other hand, education increases the opportunity cost of not working, by pushing up women's potential earnings. Accordingly, better-educated, better-paid and better-supported women tend to be more active in the labor market. Looking at the different policies that affect female labor supply can shed some light on the different dynamics in Spain and Italy.

Part-time employment is usually seen as a means of boosting female participation, attaining a better work-life balance and reconciling employment with family duties – although sometimes this might come at the cost of lower-quality jobs with lower remuneration. In 2000, the proportion of part-time jobs in Italy and Spain was relatively small, at around 17% of total jobs (Chart 2).

CHART 2: PART-TIME MORE COMMON IN ITALY



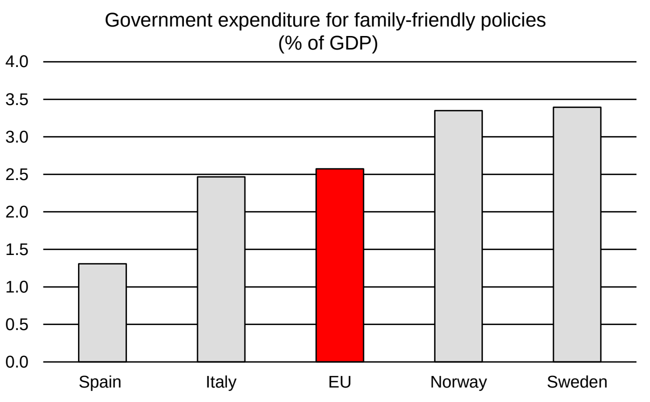
Source: Eurostat, UniCredit Research

Since then, the percentage has risen substantially in both countries, but more so in Italy, where it now stands at around 35%, compared to about 25% in Spain. This implies that the availability of this kind of flexibility in terms of work arrangements cannot explain the low participation of Italian women in the labor market, compared to their Spanish counterparts. Still, most Nordic countries boast shares of female part-time employment that are substantially higher, with more than 70% of the female workforce in the Netherlands, for example, taking advantage of such flexible working-time arrangements.

An oft-heard explanation for Italy's low female participation rate is that its welfare system is not generous enough towards families and children, preventing mothers from reconciling work and family responsibilities. The Italian welfare system belongs to the group of conservative regimes characteristically shaped by "traditional family values" that tend to encourage family-based assistance dynamics[2]. In this model, public intervention when family support is high is rather limited. While this argument holds true when comparing Italy with the Nordic countries, where the state tends to be more active, it looks weaker when the comparison is Spain – where the welfare system and traditional mindset are similar.

Chart 3 shows this pattern clearly. In Italy, the government spends around 2.5% of GDP on family-friendly policies (such as childcare support and paid parental leave for both mothers and fathers), roughly in line with the EU average. Spain ranks poorly, with only 1.3% of its annual national income allocated to such policies. Norway, by comparison, devotes 3.3% of its GDP to these kinds of programs.

CHART 3: ITALY IS CLOSE TO THE EU AVERAGE



Source: OECD, UniCredit Research

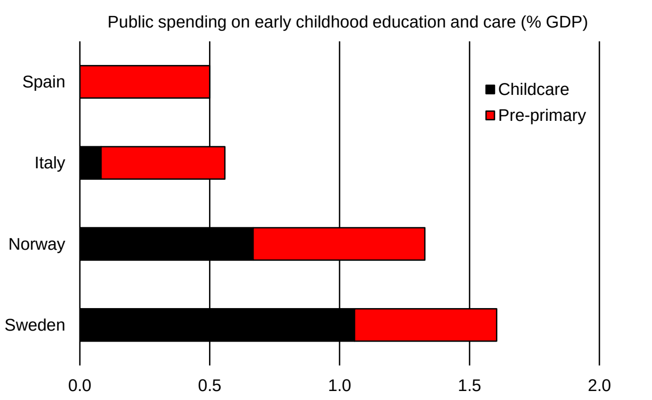
Not only are Scandinavian countries more attentive to the needs of families, allocating larger shares of their GDP to them than both Spain and Italy do, the way they design certain family-friendly policies appears also to be more

[2] See Carta (2019).

effective. In Nordic countries, family and child support is usually provided through services rather than monetary transfers or tax breaks, as is usually the case in Italy and Spain. In-kind transfers (like the provision of public childcare) compel recipients' behavior, while cash transfers might not be necessarily tied to specific spending purposes[3].

When it comes to specific types of public spending at national level, the most relevant for female workers is the availability of educational services for their younger children so that they can more easily reconcile their professional and family life. Both Italy and Spain spend about 0.6% of GDP on early childhood education and care – almost 1pp less than Norway (Chart 4). When looking at absolute numbers the difference is rather striking. For each child aged 0-5, Norway spends an average of USD 11,400 annually (in PPP terms), while Italy devotes just USD 3,900 and Spain USD 2,900. Moreover, in both Spain and Italy, publicly funded childcare (for children below the age of two) is almost non-existent. Not surprisingly, the enrollment of children (0- to 2-year-olds) in private and public childcare is around 30% in Spain and Italy as opposed to more than 50% in Scandinavian countries. By contrast, according to OECD data, enrollment in nursery school education (for three to five-year-olds) is well above 90% in Spain and Italy, more or less in line with other advanced economies.

CHART 4: SPAIN AND ITALY NOT SPENDING ENOUGH ON EARLY CHILDHOOD EDUCATION



Source: OECD, UniCredit Research

The lack of childcare support represents probably the greatest obstacle for female workers returning to work when their maternity leave ends. For them, the only solution is to rely on private childcare (which is usually extremely expensive) or family support. When neither option is available, they often have to quit their jobs altogether. Nursery school often arrives too late for women interested in their careers, who cannot afford to wait for two years without sufficient support before continuing on their professional path.

Parental leave is another key factor in determining the ability and willingness of women to continue working once they have children. The impact of leave policies on maternal labor supply depends mainly on the characteristics of the policy, including the length of leave, the replacement-wage rate paid and the degree of job protection. Italian mothers, regardless of the type of contract, enjoy a reasonably long employment-protected maternity leave (22 weeks) – that is even more generous than that of their French, Spanish, German, Swedish and Norwegian counterparts (Table 1). During this period, they receive an allowance that is equal to 80% of their salary, whereas Spanish women are guaranteed 100% – only Swedish women receive less (78%). When it comes to paternity leave, the gap between Italy and Spain and the rest of Europe appears more striking – particularly in terms of length of leave available for fathers (Table 1)[4]. According to the latest available OECD data, Italian and Spanish fathers can take up to one or four weeks, respectively, as opposed to 14 in Sweden and 28 in France.

TABLE 1: PAID LEAVE IN SELECTED COUNTRIES

	Maternity leave		Total leave for fathers	
	Length (weeks)	Average payment rate (%)	Length (weeks)	Average payment rate (%)
France	16	90	28	19
Germany	14	100	9	65
Italy	22	80	1	100
Norway	13	94	10	94
Spain	16	100	4	100
Sweden	13	78	14	76

Source: OECD, UniCredit Research

From this first part of the analysis, it emerges that differences in family-friendly policies cannot explain the sizable difference in the female participation rates between Italy and Spain. We now turn to other dimensions of the problem, in particular at the gender pay gap and tax burden.

The gender pay gap and the tax burden

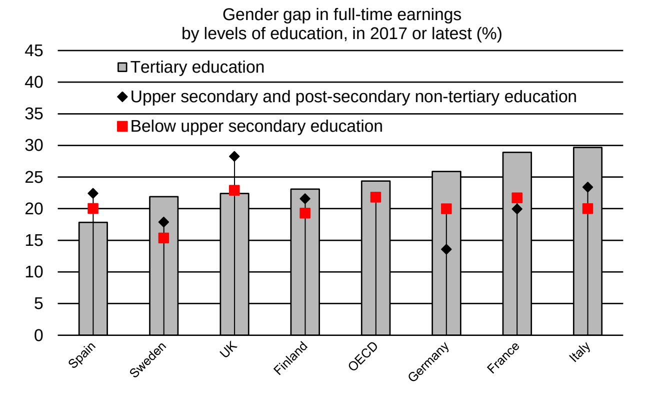
One of the key factors that sets the two countries apart is the gender pay gap, particularly for highly educated women. Chart 5 reports a comparison of the gender pay gap by level of education, released by the OECD, and shows that Italian women with at least a college degree receive compensation that is 30% lower than male colleagues with similar qualifications. This gap is higher than the OECD average. Spain, by contrast, has the lowest gender pay gap of the

[3] See Carta (2019).

[4] For the sake of discussion, we focus only on maternity leave, i.e. employment-protected leave of absence for employed women directly around the time of childbirth. This is the most relevant measure for female workers. When it comes to leave for fathers, we consider total paid leave. This includes paternity leave, parental leave and home-care leave. The reason for this is that there is a huge discrepancy between countries in this regard. Some countries, such as Norway, have generous parental leave for men but no paternity leave. Other countries, on the other hand, such as Spain and Italy, have paternity leave but no parental leave for fathers. For more details, see: http://www.oecd.org/els/soc/PF2_1_Parental_leave_systems.pdf

largest advanced economies, at 18%. Differences in the features of the gender pay gap between Spain and Italy might then have affected (and continue to affect) incentives for Italian women to participate in the labor market.

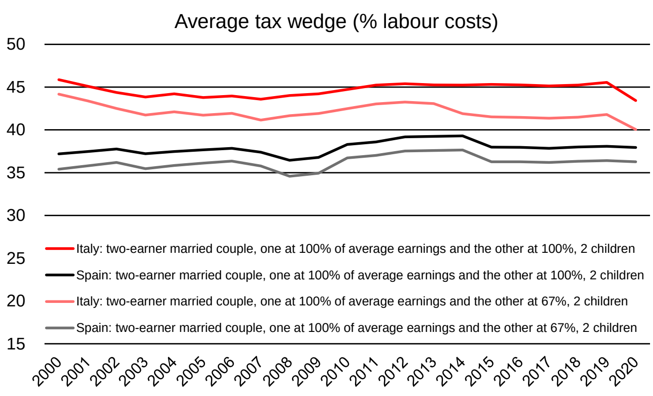
CHART 5: LARGE GENDER PAY GAP[5]



Source: OECD, UniCredit Research

In the determination of labor supply, taxes also play a role. Households in Spain benefit from more favorable tax treatment than their Italian counterparts. Chart 6 shows that the average labor tax wedge for a married couple in Spain is 7pp lower on average than in Italy. This disparity has begun to reduce over the last decade, given the ongoing effort by successive governments in Italy to lower the labor tax wedge, especially for low-income earners (those earning less than 67% of the average). Even in this case, however, the difference for two-earner households in Italy and Spain remains substantial (still about 4pp in 2020, see Chart 6) and might have affected the incentive for Italian women to participate in the labor market.

CHART 6: ITALY HAS A HIGHER TAX BURDEN ON LABOR



Source: OECD, UniCredit Research

Moreover, the Italian tax system, despite being centered around individuals rather than households, includes cash transfers and tax credits for dependent children, which might have generated disincentives to female participation particularly for low-skilled, low-paid jobs. For example, family-related tax incentives decrease or even disappear in the presence of a second income-earner, thus discouraging women from joining the labor force if they expect to earn low salaries. While the government has been moving towards a rationalization of tax relief for families, a comprehensive reassessment of Italy's high tax burden is an imperative to encourage labor force participation for both men and women alike.

Age dynamics and regional disparities

A higher gender pay gap for highly educated women and differences in the tax burden might explain part of the difference in female participation between Spain and Italy. Two possible explanations of the remaining difference are the age composition of the labor forces in the two countries and diverging regional patterns.

As for age composition, Chart 7 shows the female participation rate divided by age group in 2000 and in 2020, and compares it with those in the eurozone. There are three trends that emerge from the age breakdown.

Firstly, the acceleration in the female participation rate in Spain, compared to Italy, was stronger for women aged 25-49, with the improvement in this age group in Spain reflecting the trend observed for the total participation rate. The participation rate of women aged 25-49 also rose in Italy (see Chart 7), but the gap to the eurozone has remained broadly unchanged at around 12pp over the last 20 years. Italy has to start to make up the difference in the coming decade and the Spanish experience is certainly encouraging.

The second trend worth highlighting is related to young women. Both countries show a decline in the participation rates of women aged 15-24, which is more pronounced than in the eurozone, likely because a comparatively higher number of Italian and Spanish women have entered the labor market after receiving higher education.

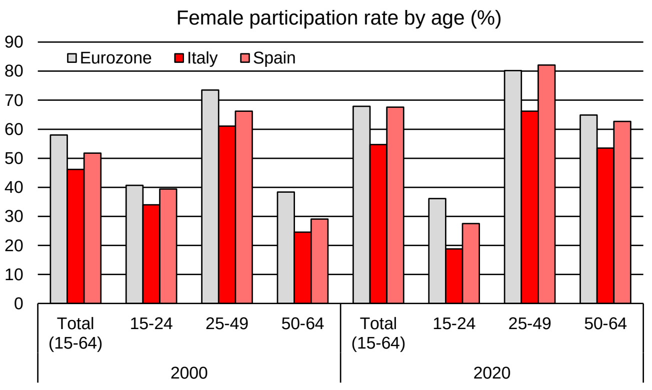
The last indication from Chart 7 is the strong increase in the participation rate of the oldest part of the working-age population (50-64 years) in both Spain and Italy, which, among other things, is likely to reflect the increase in the retirement age. For Italy, this is the only age group that showed a reduction in the gap of the female participation rate to the eurozone. The gap began to narrow more rapidly following the approval of the 2011 Fornero pension reform[6].

All in all, Italy lags behind Spain for all the major age groups, but the gap is especially pronounced for women aged 25-49, which represent the bulk of the labor force.

[5] Estimates of earnings used in the calculations refer to gross earnings.

[6] See a recent Bank of Italy's paper: Carta and de Philippis (2021).

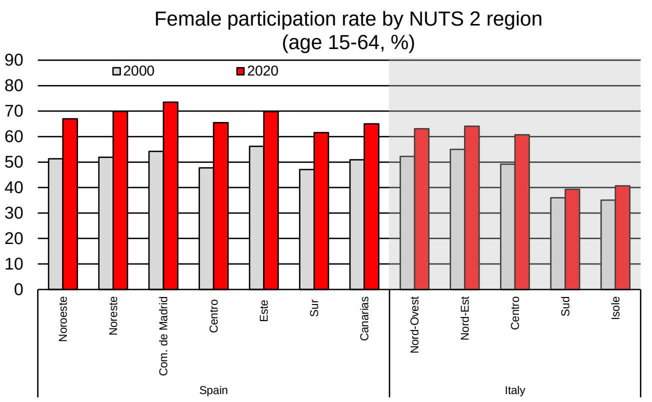
CHART 7: AGE PROFILE OF FEMALE PARTICIPATION RATE



Source: Eurostat, UniCredit Research

Finally, we explore the difference in the evolution of female participation in Italy and Spain by region (Chart 8). The main pattern that emerges is that regional differences, relatively speaking, have been low in Spain and high in Italy. In Spain, where the regional heterogeneity of the labor force was already low twenty years ago, almost all the regions have witnessed a similar pace of increase in the female participation rate over the last two decades and the current rate of well over 60% is similar across regions.

CHART 8: THE REGIONAL DIVIDE



Source: Eurostat, UniCredit Research

In contrast, in Italy, the regions of the *Mezzogiorno* (including the South [Sud] and Islands [Isole] regions) are characterized by very low female participation rates of about 40%, 15pp below the female participation rate in the country as a whole.

Over the last two decades, the increase in the participation rate of women in Central Italy and the northern regions has been double that of the southern regions (10pp, on average, vs. 5pp) and the increase in the latter has been only about a quarter of that in Spanish regions, on average. Subdued progress in the *Mezzogiorno* then explains the slow improvement in the female participation rate in the country as a whole since 2000.

There are several structural reasons for the underperformance of the regions in the south of Italy. Among others, one that looks to be particularly important is related to the opportunity cost associated with childcare, which, for example, also supported the increase in Spain's female labor force participation rate since the beginning of the 2000s, when high immigration provided access to alternative, cheap childcare services[7]. In this respect, according to Istat, in Italy, the percentage of pre-school coverage (available places) for resident children up to two years of age was 25.5% in 2019[8]. This is well below the 33% target set at the beginning of the last decade by the EU to support family and work-life balance and to promote greater participation of women in the labor market. However, a clear regional divide emerges: the Northeast and Central regions are slightly above the EU target (33.6% and 33.3%, respectively) and the Northwest is close to it (29.9%), while the South (13.3%) and the Islands (13.8%) are far from the target. Such low numbers suggest there is an urgent need for harmonization of the availability of quality childcare across Italian regions and a step-up more generally in terms of provision at the national level, even above the EU target.

Lastly, we acknowledge that informal employment may also play a role in the low female participation rate in the labor market. According to Istat estimates, the size of the shadow economy in Italy, despite declining in recent years, is still estimated at 10.8% of GDP in 2018 (from 12.0% in 2014) and a large part of it is represented by non-visible employment (around 4.5% of GDP). Moreover, behind this average rate, there are much higher rates in individual sectors such as agriculture, construction, trade, transport, and especially the personal services sector. Given the higher relevance of these sectors of economic activity for the southern regions, a large proportion of informal employment is likely to be concentrated there[9]. On a related point, it is important to highlight that temporary female employment follows a different pattern in Spain, where it accounts (nationally) for 27% of total female employment, and Italy, where it accounts for just 17%. This seems to suggest that a significant fraction of female workers (mainly in agriculture, tourism, retail or household services) that may have been employed on a temporary basis in Spain might remain in the informal economy in Italy.

Suggestions for the reform agenda

Our analysis has shown that Italy has lagged behind Spain in terms of female participation in the labor force over the past

[7] See Osuna (2018).
[8] See the latest available report https://www.istat.it/it/files//2020/10/REPORT_ASILI-NIDO-2018-19.pdf
[9] See also https://www.istat.it/it/files/2018/09/Articolo-5.pdf

two decades and differences in family-friendly policies do not appear able to explain the wide and increasing gap in female participation rates between the two countries. One major difference pertains the gender pay gap for skilled workers and the tax burden. The divergent participation trend between the two countries can also be explained by regional factors. Spain has managed to increase its female participation rate uniformly across the country. In Italy, on the other hand, the southern regions have been unable to keep pace with their northern counterparts. A very high regional disparity in the coverage of early childhood education and care in Italy represents one of the most critical causes of it. In addition, unlike in Spain, a large proportion of temporary employment in Italy is probably not formalized in proper contracts.

More generally, the roots of low female participation in Italy's labor market look to be multi-faceted and require a strong focus on a comprehensive strategy. The demographic challenges ahead call for urgent action. The good news is that the decade ahead might be the right time for Italy to catch up, given the opportunity offered by the RRP (which also includes a specific clause aimed at promoting the hiring of women and young workers) and by the government's commitment to a broad reform of taxation, which should also take into account the steps already taken to reform the existing family policy.

As the government already stated in its RRP, investment in early childcare should be spread nationally, therefore the government must make sure it properly targets the necessary resources, especially in the south, where these services are lacking. Moreover, the RRP has to be seen as an opportunity to put extra effort into encouraging job creation, especially for women, improving human capital and reducing informal employment, also considering that the RRP is expected to contribute to effectively addressing challenges identified in the EC's Country Specific Recommendations, which also include undeclared work.

Moreover, a key recommendation is to undertake a properly designed revision of tax rates and to determine a tax base that reduce disincentives for women to work. In particular, since the gender pay gap is intolerably high in Italy, especially for highly skilled workers, and pay negotiations within firms are outside the control of the government, the government might make a further step by reducing the taxation on the second earner, usually female, compared to that of the first earner. At the same time, there is still scope for a reduction of social security contributions paid by firms. Importantly, this kind of measure aimed at reducing the tax burden for female labor should not be short-lived – as activating a virtuous circle that brings more women into the labor market will take several years, as shown by the decade-long experience of Spain. Furthermore, continuous monitoring and tracking of how the situation is evolving will be necessary.

While the Spanish experience is a reminder to Italy that significantly boosting female participation is possible in a reasonable amount of time, it does not provide an example of a clear set of policy measures for getting there. Many of the flaws of the Italian labor market are also present in Spain. Nordic countries remain the model to replicate for both, in particular when it comes to paternity leave, childcare and the benefits coming from the provision of in-kind services. Finally, both Italy and Spain should boost the participation of the younger members of the labor force with better-targeted bachelor's degrees, more effective vocational training and well-targeted tax incentives for employers. Also in this case, Italy's RRP might offer an opportunity to mark a change compared to the two past decades.

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