
6 Conclusions

Using the first six waves of the Household, Income and Labour Dynamics in Australia (HILDA) survey, this study examined the labour supply behaviour of married Australian women. The focus of the study was on whether, and to what extent, state dependence occurred in the labour supply of married Australian women.

As in other countries, inter-temporal persistence of labour supply for married Australian women was observed in the HILDA data. This persistence was found to be present after controlling for a range of factors that influence labour supply, including individual-specific unobserved factors (unobserved heterogeneity).

However, when the analysis was expanded to assess the effects of potential transitory (but unobserved) shocks to labour supply, no evidence was found to support state dependence in labour supply. Put another way, the inter-temporal persistence of labour supply of married Australian women in the HILDA survey can be explained by observed and unobserved heterogeneity and unobserved transitory shocks to labour supply decisions, and not state dependence. These unobserved shocks reflect the limits of the data sets available for analysis, rather than an inability to observe these factors in the population, presenting a challenge to developing data sets to better identify these factors.

In the absence of state dependence in labour supply, a period out of the labour market – for example, to care for a young child – does not in itself affect later labour force participation. Consequently, the lack of evidence supporting true state dependence of married Australian women has some important implications for the design of policies that aim to increase the labour force participation of this group.

The results from this study also suggest that individual characteristics of married women (observed and unobserved heterogeneity) are key drivers of labour supply. This suggests that ‘one-size-fits-all’ policies aimed at increasing labour supply of all married women may be less effective than tailored policies that take account of individual characteristics and circumstances.

Wages were found to be important drivers of the labour supply of Australian women. Improvements in their own permanent wages (when wages were treated as exogenous), increased their labour supply.

The wage of a woman's spouse, however, had the inverse effect on her labour supply. The higher the wage of her partner, the less labour supplied. Despite this, there was also evidence to suggest that the labour supply of a woman was complementary to that of her partner when working hours were examined. Increased hours worked by a woman's partner were also likely to increase her labour supply. However, these results rely on the assumption that wages for both are exogenous.

A range of other factors were also found to influence labour supply. Permanent non-labour income, education, health, and the number and age of young children were all found to have significant effects on the labour supply of married women. Labour supply decreased with permanent non-labour income, deterioration of health, and the number of young children, but increased with education. It was also found that labour supply in general decreased with a woman's age; and women who migrated from a non-English speaking country tended to supply less labour compared with their counterparts born in Australia or who had migrated from an English-speaking country.

The importance of education and health provide supportive evidence for the reforms proposed as part of the human capital stream of COAG's National Reform Agenda (2006). The reform agenda has proposed improvements to health promotion and disease prevention, along with improving education and training, in order to increase labour force participation and productivity and in turn meet the challenges of population ageing. The estimates on health and education obtained by this study are useful inputs into models to assess the relative effects of programs aimed at promoting health and education outcomes.

This study, as with others, found that the presence of young children had a significant effect on the workforce engagement of married Australian women. Engagement is likely to be tied to a mother's preferences, but also may be linked to the availability, affordability and quality of childcare.

Importantly, this study tested various assumptions typically made when estimating labour supply, through the use of four models. The results indicate that assumptions made about the presence and influence of unobserved individual factors, both static and dynamic, can significantly influence the estimates obtained and therefore the policy implications. In this study, it was found that a model with the least restrictive assumptions — which allowed for correlated random effects and unobserved

transitory shocks — provided the most robust estimates of drivers of labour supply. Thus, when using such models to inform policy, it is important to test the validity of the assumptions made or, at least, highlight them and their potential effects on the inferences drawn.

Finally, the results in this paper point to directions for future research. For example, the lower labour supply of married women from non-English speaking background may result from cultural differences, particularly attitudes towards working women, but may also be caused by deficiencies in English language skills or discrimination in workplaces. To identify policies that may be effective in narrowing the labour supply gap between women from different language and cultural backgrounds requires identification of the specific causes. Similarly, the result that labour supply of partners is complementary could usefully be investigated further.