

How to Improve Economic Opportunity for Women in the U.S.

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The American Enterprise Institute

Prepared for the 54th NAWRS Annual Workshop

August 2014

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Order of discussion

- Overview of women's economic opportunity
- Specific challenges women face
- Current policies
- Proposed reforms

*Sources for this presentation and further discussion can be found at:
Mathur, A. & McCloskey, A. (2014). How to Improve Economic Opportunity for Women.
AEI Research Paper.
www.aei.org*

Overview

Women have made significant economic progress

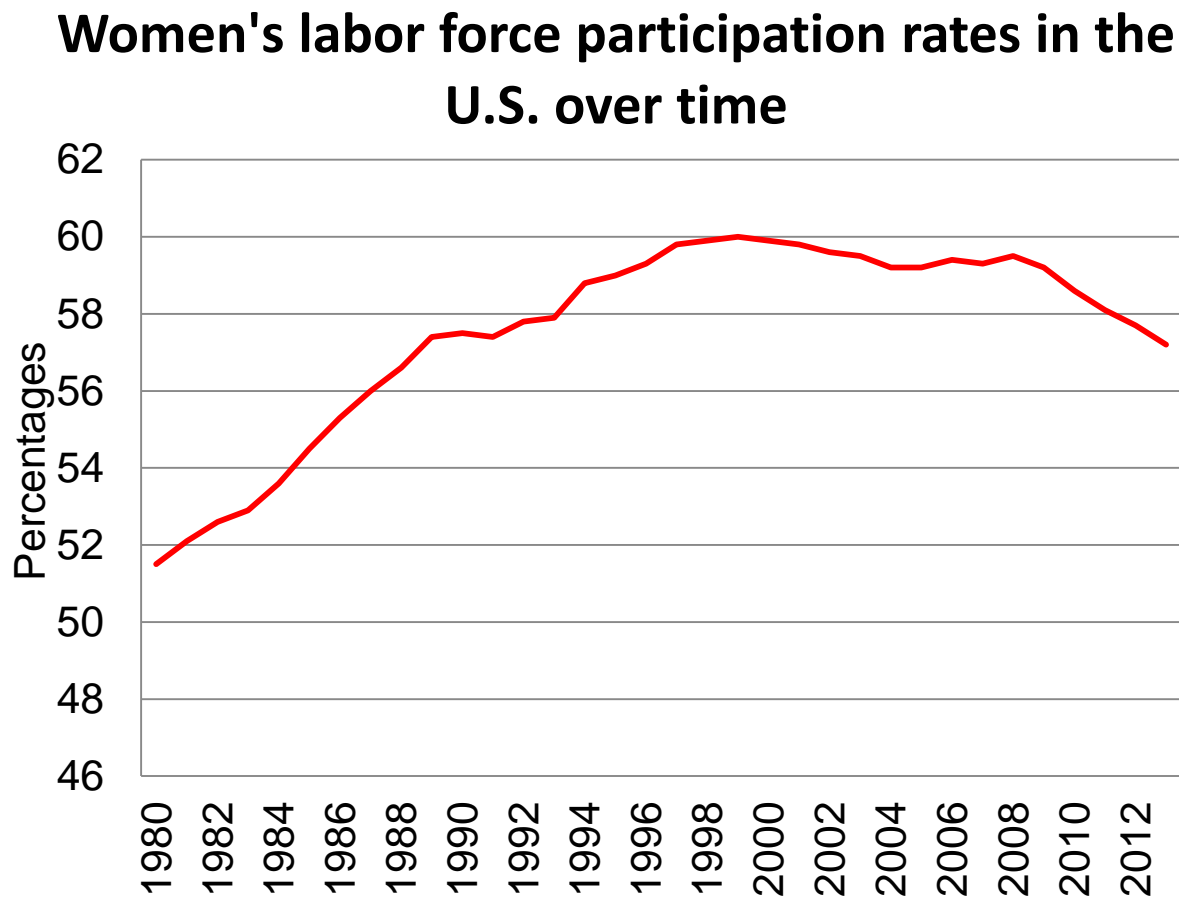
- From 1950 to 2011, women's labor force participation nearly doubled—from 33.9% to 58.1%
- Women's median wages today are 50% higher than their mothers' wages
- On average, women earned 82% of what men earned in 2011, up from 62% in 1979
- Women now outpace men in educational attainment at every level—bachelors, masters, and doctorates

Overview

But millions of women are still struggling

- Women comprise 64% of minimum wage workers
- Women have a higher likelihood of being downwardly mobile than men in nearly every income quintile
- The average income for families headed up by a single mother is \$23,000; approximately half the national median income
- In June 2014, women's labor force participation dropped to a 25 year low of 56.9%
- 55 million women are out of the workforce completely for personal reasons or because of the economic incentives in place

Overview



Source: Federal Reserve Bank of St. Louis

Economic challenges

Economic challenges that keep women out of the labor force or that limit their upward mobility include:

1. High childcare costs
2. High effective marginal tax rates
3. Low wages
4. Single motherhood

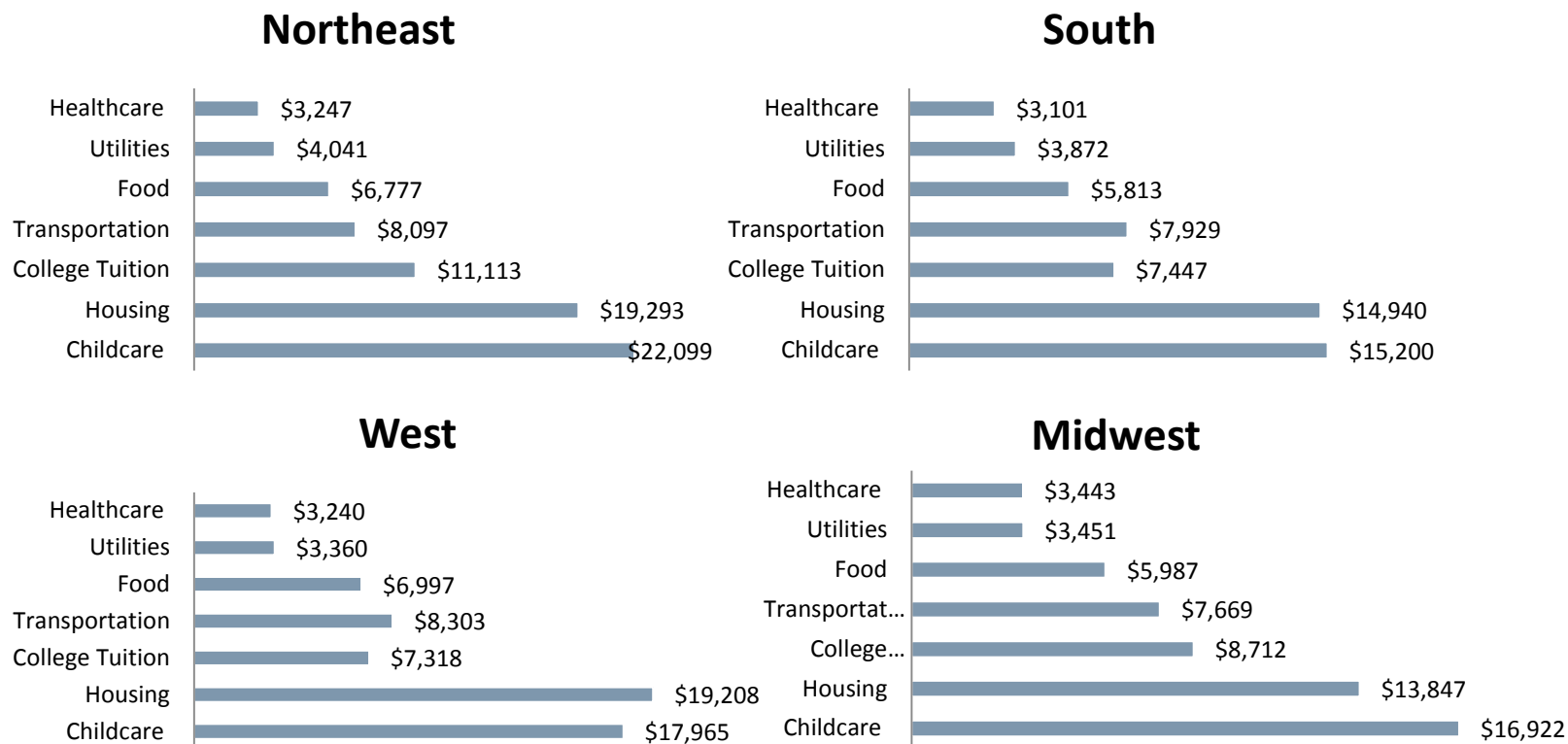
Economic challenges

1. High childcare costs

- In 2011, 61% of children under 6 years old were in some form of childcare arrangement
- The average family spent \$143 per week on childcare; 70% more than in 1995 in constant 2011 dollars
- Approximately 7% of family income is spent on childcare
- For families in poverty, 30% or more of income is spent on childcare
- Growth in childcare costs is outpacing growth in college tuition and in housing prices for many parts of the country

Economic challenges

Putting childcare costs for two children into perspective



Source: *Parents and the High Cost of Child Care: 2013 Report*, Child Care Aware of America

Economic challenges

A large literature shows that high childcare costs discourage work:

- Berger & Black (1992): \$46 subsidy, low-income KY single mothers, waiting list, employment +8.4% to +25.3%
- Blau & Tekin (2003): Child Care Development Fund, single mothers on welfare, employment +13%
- Baker, Gruber, & Milligan (2008): Quebec universal childcare, married women, elasticity of labor supply +0.23
- Compton & Pollack (2011): Proximity to mothers, married women, employment +4 to +10%
- Kimmel (1995): Review of literature, elasticity -0.74 to -0.2

Economic challenges

2. High marginal tax rates, especially for married women

- Fichtner & Feldman (2012) reported that the tax code subsidizes singles earning \$60,000 but taxes two-earners earning \$60,000
- Dickert-Conlin (1999) found that most low-income couples are eligible for higher welfare benefits if they are separated rather than married
- Kearney & Turner (2013) found that a family headed by a primary earner making \$25,000 a year, will take home less than 30% of the spouse's earnings
- Biggs et al. (2010) estimated that married women pay 12.4% of earnings into the system but get the same benefits regardless of if they choose to stay home or work
- If you tax something, you get less of it

Economic challenges

But even the same tax rates impact women more

- Economists have found that women generally tend to have a higher labor supply elasticity than men, meaning that their labor supply is more responsive to changes in tax rates or wages
- Mulligan (2013) estimated that the effective marginal tax rate from the ACA could reach 50% when combined with other taxes
- CBO (2012) reported that some low-income households face marginal tax rates of 100% because of the phase-out of benefits

Economic challenges

3. Low wages

- Women comprise the majority of low-wage workers; wages for low-skilled workers have been depressed from globalization, technological change
- Women also make different professional choices that lead to lower earnings during their lifetimes, such as supplying childcare themselves
- O'Neill (2012) found that 85% of the gender wage gap is attributable to women spending more time out of the labor force, choosing more flexible work hours, and accumulating less on-the-job training

Economic challenges

4. Single motherhood

- Since the 1980s, the number of families headed by a single mother has doubled
- Hoynes et al. (2006) claimed that single motherhood may entirely explain the increase in poverty from the 1980s to 2004
- Chetty et al. (2014) found that single motherhood is the strongest correlate of low upward mobility, more so than education, segregation, income inequality, or any other tested variables

Economic challenges

For many women, single motherhood begins early

- Despite a 40% drop over the past two decades, the U.S. still has the highest rate of teen pregnancy in the developed world
- Teenage pregnancy is correlated with reduced high school graduation rates school of 5-10%, reduced income, and increased government assistance
- Cause or effect? Kearney and Levine (2012) found that poor economic environments can lead to teenage pregnancy
- Freiger, Schoeni, and Danziger (2009) used Panel Study of Income Dynamics data from 2003 and found that 49% of women in poverty gave birth before 20 compared to 24% of women generally

Current policies

1. Childcare

Current support programs are insufficient; many low-income women do not receive help even when they qualify for it

- *Child Care and Development Fund:*
 - Block grants to the states, administered by HHS, totaled \$5.3 billion in FY 2014
 - Families on welfare are usually given priority for the funds
 - Mezey, Schumacher, and Greenberg (2002) found that fewer than 30% of those leaving welfare were receiving a childcare subsidy
 - HHS (2006) reported that only 16% of eligible families received subsidies

Current policies

1. Childcare, cont.

- *Child and dependent care credit:*
 - Covers 20% to 35% of eligible childcare costs
 - \$3,000 for one child, \$6,000 for two or more children
 - The credit is not refundable
 - According to the Tax Policy Center, only 8% of benefits went to households with incomes of less than \$30,000 in 2006

Current policies

1. Childcare, cont.

- *Other forms of childcare support:*
 - Employer-based child care tax exclusion
 - Indirect support
 - Child tax credit: Largest beneficiaries are those with incomes between \$75,000 and \$100,000.

Current policies

2. Low wages

The Earned Income Tax Credit provides significant support to women

- EITC serves as the largest cash payment to low-income families aside from food stamps
- In 2014, the max credit is \$5,460 for families with two children, \$3,305 for families with one child, and \$496 for childless families
- Eissa & Hoynes (2006) review the literature and find that the EITC increases labor force participation for single mothers
- The EITC is also associated with higher earnings potential, improvements in children's outcomes, and less gov. assistance

Current policies

2. Low wages, cont.

But the EITC has significant downsides that need to be addressed

- The IRS reports that approximately 25% of EITC payments are made in error
- The payments come in one annual lump sum, making it difficult for people living paycheck to paycheck
- Because the EITC is based on family structure, married women and childless women receive fewer benefits compared to a single woman with children

Current policies

2. Low wages, cont.

In addition to the EITC, some have proposed raising the minimum wage, but this could hurt low-skilled workers

- Neumark and Wascher (2007) found overwhelming evidence of reduced employment for low-skilled workers
- The Congressional Budget Office (2014) estimated that raising the minimum wage to \$10.10 would most likely result in 500,000 lost full-time job equivalents
- Burkhauser and Sabia (2012) found that only 11% of minimum wage workers live in poor households

Policy implications

To help improve economic opportunity for women, policymakers should:

- Streamline and expand childcare subsidies to promote work
- Reduce the effective marginal tax rates for women
- Expand the EITC and make it more family-neutral
- Invest early in women's education to improve upward mobility

Proposed reforms

1. Streamline and expand childcare subsidies

- Increase the amount of the childcare tax credit to make it commensurate with current childcare costs and make it refundable
- This would reduce the need for other childcare programs and provide support for low-income women who are currently left out of federal childcare support programs
- Policymakers should consider supporting childcare expenses for educational attainment, assuming education does not become a substitute for work

Proposed reforms

2. Reduce effective marginal tax rates

- Benefits and taxes should be made more neutral with respect to family structure
- Kearney and Turner (2013) recommend a larger secondary earner deduction for low-income families
- Lower rates in general would boost women's labor supply
- Some means-tested welfare programs could be combined into a single program to increase the transparency of marginal tax rates

Proposed reforms

3. Boost the EITC payment

- Holtzblatt and Rebelein (2000) recommend adding a second-earner deduction to the EITC to make it more family-neutral
- Policymakers could boost the size of the payment to increase women's employment
- The expansion could be partially paid for through increased taxes and reduced welfare dependency

Proposed reforms

4. Invest early

- Information campaigns about teenage pregnancy are promising, Kearney and Levine (2014)
- Investing in human capital for more economic opportunity
 - Deming, Hastings, Kane, and Staiger (2011) studied school choice in North Carolina's Charlotte-Mecklenburg district and found that girls who attended their first-choice school were 15 percentage points more likely to complete college
 - Policymakers should consider making school attendance for dependents an eligibility requirement for welfare programs. Currently, 15 states do not have such requirements

Q&A

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