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by

Juan Prieto-Rodríguez and César Rodríguez-Gutiérrez

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PARTICIPATION OF MARRIED WOMEN IN THE LABOUR MARKET AND THE 'ADDED WORKER EFFECT' IN EUROPE[♣]

Juan Prieto-Rodríguez
César Rodríguez-Gutiérrez
Universidad de Oviedo-Spain

ABSTRACT

In this paper, we estimate labour participation equations for married women for eleven European countries, using data from the European Community Household Panel corresponding to the years 1994, 1995 and 1996. The main objective of our study is to test whether the "added worker effect" holds. From our results it can be concluded that the labour market participation of the married woman basically depends on her personal and family characteristics, her non-wage income and her potential earnings. In only a few countries does the participation of married women seem to be related to the work status of the husband. However, the consistently significant and negative effect of the woman's non-wage income (basically the husband's wage) prevents the "added worker effect" from being completely rejected as a hypothesis. It seems, therefore, that female labour market participation continues to have a "secondary" role in the family sphere in some European countries.

JEL classification: J2

Keywords: Female participation, added worker effect.

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Corresponding author.

César Rodríguez-Gutiérrez. Departamento de Economía, Universidad de Oviedo, Avenida. del Cristo, s/n, 33071, Oviedo, Spain; e-mail: crodri@econo.uniovi.es; tel.: 34-985 10 37 69; fax: 34-985 10 48 71.

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I. INTRODUCTION

The labour market participation of married women has a range of special features which justify a separate analysis for this group from that of other collectives. Some of these features, such as the "added worker effect", are common to many countries and have been the object of much research. This effect, well described in the literature, has basically to do with the decision of a married woman, inactive in the labour force, to temporarily participate in the labour market when faced with the loss of her husband's job[1]. This supposes that the woman assumes a "secondary" role as far as the labour supply of the family is concerned[2]. However, the labour market behaviour of women has changed noticeably in recent years[3]. In the majority of European countries, women have gone on to become fully integrated in the labour market on equal conditions with men. The changes have come about at such speed in certain countries (for example, the south of Europe) that there is a need to study the determinants of female labour market participation using recent data bases, in particular those which provide sufficiently rich and varied information on the personal, family and labour characteristics of women. With a view to this, the present study attempts to reveal the determinants of female labour market participation in eleven European countries, using information provided by the European Community Household Panel (ECHP) for the years 1994, 1995 and 1996. In particular, we try to verify whether the "added worker hypothesis" has been fulfilled or not, and thereby reveal whether the husband's labour market situation has any significant influence on the wife's labour market behaviour.

The use of this database provides undoubted advantages. In the first place, the fact that it is a panel means that the longitudinal information on the set of individuals surveyed allows us to deal satisfactorily with the problem of unobservable heterogeneity. Secondly, the methodology of the survey is common to all the countries analysed, making any comparison reliable. Finally, the panel structure of our data set will allow us to observe the "added worker effect" over time more accurately, since this

[1] As Maloney (1991) points out, the origin of this concept can be traced to the 1940s and 1960s in work by authors such as Humphrey (1940), Woytinski (1940), Hansen (1961), Bowen and Finegan (1965) and Cain (1966).

[2] Prieto and Rodríguez (2000), for example, reach this conclusion in the Spanish case, based on information provided by a labour survey carried out in 1991.

[3] In fact, there are many studies which call the added worker hypothesis into question in various countries. See for example, García (1991), Maloney (1991) and Micklewright and Giannelli (1991).

effect can be considered a temporary response of the wife behaviour to changes in her husband labour status.

The rest of this paper is structured as follows. In section 2 we describe the econometric method used to estimate the labour market participation equations of the married woman. In Section 3, the participation equations for those countries for which information is included in the first three waves of the ECHP are estimated, with special attention given to the measurement of the effect of the husband's labour market status on the woman's labour supply. Finally, in Section 4 we give a summary of the conclusions we have reached.

II. THE ECONOMETRIC MODEL

The method we use to analyse the determinants of the labour market participation of the married woman, proposed by Dex *et al.* (1995), consists of estimating the following participation equation:

$$y_{it} = a + X'_{it} b + c \log(\hat{w}_{it}) + S'_{it} d + m_{it} \qquad (1)$$

where

$$\log(w_{it}) = e + Z'_{it} f + u_{it} \qquad (2)$$

Equation (1) is a participation function for married women where the dependent variable, y_{it}, is a dummy variable which takes the value 1 if the woman participates in the labour market (working or seeking work) and 0 if she does not participate.

The decision to participate depends on a vector of exogenous variables, X_{it}, which includes the personal and family characteristics of the woman, her non-wage income and the characteristics of the labour market. Besides these variables, another element that determines participation is the woman's potential wage, $logw_{it}$, which is clearly of an endogenous nature and which basically depends on a set of human capital

variables, Z_{it}. This endogeneity requires use of the instrumental variable technique, and we therefore estimate equation (2) and then introduce the predicted wage values into the participation equation, (1), as one explanatory variable more.

Finally, the model includes a set of variables which show the labour situation of the husband, S_{it}. Their coefficients tell us whether, *ceteris paribus*, this labour situation or status (working, unemployed or inactive) has an influence on the woman's behaviour with respect to the labour market. As a result, these coefficients, together with the non-wage income variable (basically, the husband's wage), will allow us to know whether the woman's labour market behaviour is of a "secondary" character with regard to her husband and whether the "added worker hypothesis" holds or not.

It should be taken into account that the estimation of the wage equation (2) presents, in principle, a difficulty. Given that we only observe the wage of those women who have previously decided to participate in the labour market (that is to say, those women whose reservation wage is below the wage offer that they receive), it is to be expected that there is a self-selection bias in the sample used. To deal with this, following the procedure described by Heckman (1976) we need to estimate, beforehand, a participation model which would allow us to incorporate the Inverse Mills ratio with a view to correcting this self-selection bias. However, the estimations of the wage equations presented in Section 3 do not contain the Inverse Mills ratio due to the fact that this ratio turned out to be significant for hardly any of the countries analysed. We can thus affirm that there is no self-selection bias in the sample analysed[4].

III. THE ESTIMATIONS

The Data

As we have already mentioned, we use the ECHP to analyse the determinants of the married woman's labour market participation. This database contains labour data on individuals belonging to twelve European countries, with three waves available at

[4] The estimations of the wage equations which contain the Inverse Mills ratio are not displayed in this article but are available for consultation. Only in the case of two countries (Spain and France) is this ratio significant, though its sign is negative. Due to this, in these two cases we preferred to use the estimations which were not corrected for bias.

present (1994, 1995 and 1996)[5]. The information is homogenous across the countries which appear in the Panel, as the questionnaire is the same and the elaboration process of the survey is co-ordinated by EUROSTAT. Given the nature of our study, we have used the balanced panel defined by the sub-sample of married women, active as well as inactive, the size of which obviously varies from country to country. For this group we have singled out information on personal characteristics (age, work experience, length of time in the firm and level of studies), wages, labour situation, family income from sources other than the woman, periods of unemployment over recent years, number of small children and, where possible, region of residence. Information on her husband has also been extracted (labour situation, level of studies, whether or not he receives unemployment benefits and whether he contributes to household tasks).

Table 1 contains information on the labour participation rates of men, women and married women according to the ECHP. It can be observed that female participation rates vary noticeably across countries, generally being higher in northern European countries than in southern ones. Moreover, female participation is always lower than that of males. Finally, the participation of married women, except in the cases of Portugal, Belgium and Denmark, is lower than that of women as a whole.

The exact definitions of each of the variables used in the estimation are given in Table 2. Tables A.1.a-f in the Appendix contain the descriptive statistics of the variables corresponding to the samples used to estimate the participation equations, as well as the reduced samples of married women who work which have been used to estimate the wage equations required for the participation equations.

The Estimations

The fact that we are using a panel data set has allowed us to estimate, in the case of the wage equations as well as the participation equation, a random effects model[6].

[5] Estimations for one of the countries which forms part of the ECHP, Luxembourg, are not included due to the small size of the corresponding sample.

[6] Either wage equations and *probit* models present serious problems when they are estimated by a fixed effects approach. Firstly, fixed effects models do not allow to make forecast outside the sample, as we need to do in our case. Secondly, fixed effects models could not be estimated when relevant variables do not change over time (as in the case of the educational level). Finally, "*probit* model does not lend itself well to the fixed effects treatment. There is no feasible way to remove the heterogeneity, and with a large

Hence, the error terms in equations (1) and (2) will have two components: a random disturbance characterising each observation and constant through time (the random effect) and a random disturbance varying through time and individuals. As pointed out in Section 2, we need to calculate the predicted or potential wage of the married woman, equation (2), before estimating the labour participation model, equation (1). The wage equation has only been estimated for the sample of married women who are working, given that they are the only group for which wages are known. The dependent variable is the natural logarithm of hourly wages, LHW, measured in real terms. With regard to the explanatory variables, we have included those which reflect the individual's endowment of human capital. Moreover, a set of regional dummy variables has been included, wherever possible, to control for any singular or particular characteristics that the various labour sub-markets may have[7]. Finally, two dummy variables for the years 1995 and 1996 have been included in order to capture the impact of factors common to all individuals but which vary from year to year, such as the evolution of the rate of aggregate unemployment or the economic cycle.

It is important to point out that though the survey offers information on other variables which could be incorporated into the wage equation (for example, occupational category and sector), this would generate serious biases. The reason is that the necessity, in the participation *probit*, to attribute a potential wage to all the women in the sample means that the set of variables which are candidates for inclusion in the wage equation must satisfy the restriction that there is information on these variables for all observations in the *probit* sample. In the case of occupation, for example, it is not possible to assign a value to this variable for those women who have never worked and hence wage predictions for these women can not be obtained if occupation is included in the wage equation. With regard to length of time in the firm, on the other hand, it is possible to assign a value of zero to those women not presently working.

The following have been included in the first group of variables: level of studies, measured by the dummy variables EDUC1 (university studies) and EDUC2 (secondary

number of cross-sectional units, estimation of the α_i's (fixed effects) is intractable" (Greene, 2000, p. 837).

[7] In the cases of Germany, Denmark and Holland, the survey does not provide information on the region from which the respondent comes. For this reason, we have not been able to incorporate regional dummies in these cases.

school studies); potential experience (present age minus age when started work) and the square of this variable (POTEXP and POTEXP2); length of time in the firm and the square of this (SEN and SEN2); and finally, number of periods of unemployment over the previous five years (UNEMP5). The first two variables capture the impact that investment in formal education has on the individual's wage, and this is expected to take a positive sign in both cases as the reference category is possession of primary level studies or lower. The potential experience tries to measure the effect of investment by the individual in post-schooling training, while the length of time in the company is more a measure of on the job training. The inclusion of the square of both variables allows us to test for a parabolic relationship with wages[8]. Lastly, the number of periods of unemployment over the last five years tries to capture the loss of human capital resulting from lack of activity and its relationship with wages is therefore expected to be negative.

The random effects estimations of the wage equations appear in Tables 3.a-c. These tables display the values of a Lagrange multiplier test for the random effects model, developed by Breusch and Pagan (1980), based on the OLS residuals. Under the null hypothesis (non individual effect) this statistic is distributed as chi-squared with one degree of freedom. The null hypothesis can be rejected for all the countries in our sample. This result suggests that random individual effects cannot be neglected, and that random effects models are more efficient than OLS.

The results show that the possession of university or secondary studies significantly raises the woman's wage in relation to the reference category (primary studies), the effect of university studies being the greatest for all countries. It is noteworthy, however, that the effect of education on wages does not have the same intensity in all cases. The effect is greater – around double – in the southern countries (Portugal, Italy, Spain, Greece and France) and in the UK and Ireland, than in Germany, Denmark, Holland and Belgium. There is much greater variability across countries with regard to the relationship between wages and both the potential experience and length of time in the firm. In the case of potential experience, only in Germany, the UK and Spain

[8] Labour income rises with experience and length of time in the job up to a certain number of years, but then the human capital acquired through experience may depreciate at a faster rate than it accumulates and hence it is possible that wages decrease.

can a (very weak) parabolic relationship be noted. A relationship between wages and the length of time in the company appears only in the cases of Italy and Holland, being weaker in the latter of these. The negative effect on wages of the depreciation of human capital resulting from periods of unemployment appears to be more general, being significant in every country apart from France, Greece, Portugal and Belgium. As far as time effects are concerned, we see that there is a significant increase in real wages during the years 1995 and 1996 with respect to 1994 in all cases except the UK and Portugal in 1995, Greece in 1996 and Italy in 1995 and 1996. This could be as a result of the economic recovery initiated midway through the decade.

From the coefficients of the wage equation we can estimate the predicted values of potential wages for each of the individuals making up the sample. This variable will be included in the participation *probit*, along with the rest of the variables mentioned in Section 2.

Tables 4.a-c show the estimations of the random effects participation model for the different European countries. Note that the parameter *rho* included in the tables shows the correlation between the errors corresponding to the same individual over different periods. It is significant in every case, implying the existence of a random effect of individual character which confirms that the random effects model is appropriate.

The dependent variable, ACTIVE, is a dichotomous variable which takes the value 1 when the married woman is working or looking for work (active) and 0 otherwise. The explanatory variables are grouped into five blocks. The first set of variables is comprised of the total income of the family excluding the woman's wage (that is, the woman's non-wage income), FIEW, the woman's predicted or potential wage estimated from the wage equations, PREW, and a dummy variable which shows whether the husband receives unemployment benefits, BENEFIH. Our estimation shows that the coefficients of the first two variables are significant and have the expected signs. The woman's labour participation increases with her potential wage and decreases when her non-wage income increases. FIEW can include different types of income but the main component is the husband's wage (if he is working) or his unemployment benefit (if he is unemployed). Consequently, the negative sign on FIEW

shows that there is an important income effect in the labour participation decision of the married woman. However, given that the impact of FIEW on the variable ACTIVE is calculated taking as given, among other things, the labour situation of the husband, the most likely thing is that these changes in non-wage income are due to variations in the husband's income which do not arise from changes in his labour situation. In this sense, the strong income effect detected in the participation equations does not constitute a round proof that the "added worker hypothesis" holds but it does reflect the "dependent" character of female labour market participation in so far as it shows that this participation varies with the husband's income.

The variable BENEFIH, which shows if the husband receives unemployment benefits, does not turn out to be significant in the estimations. It is possible that the universality of the benefit system in the majority of European countries makes this effect barely noticeable.

The second set of variables is comprised of personal characteristics, such as age, AGE, the square of this, AGE2, the level of studies of the woman, EDUC1 and EDUC2, and that of her husband, EDUC1H and EDUC2H. The signs on AGE and AGE2 show that the relation between age and female labour market participation takes an inverted-U form in all countries except Portugal, Ireland and Belgium. That is, female participation grows up to a certain age and decreases thereafter, probably due to the need to assume certain family responsibilities. Regarding the variables which represent the level of studies, EDUC1 and EDUC2 are significant and their coefficients have a negative sign in all countries except Spain and Holland. This result could appear to be strange, as labour market participation would be expected to increase with the level of education[9]. However, the fact that the participation equation includes the potential wage of the woman could justify the result obtained. What the equations show, in fact, is that for a given predicted wage (close to the market wage) the probability of participation is smaller when the level of qualifications is greater. This makes sense because the woman's reservation wage rises as the level of studies increases and, for a given predicted wage, it is more likely that the reservation wage is above the wage offer received, thus reducing the probability of participation. On the other hand, the level of

[9] This positive effect has been observed, for example, by Maloney (1991) for the case of the US.

education of the husband, EDUC1H and EDUC2H, seems to be more weakly related to female participation. Thus, in countries such as Denmark, Holland, France, Italy, Belgium and Ireland, female labour market participation increases significantly with the husband's schooling, though this is not the case for Germany, Greece, UK and Spain.

The third block of variables describes the family-related determining factors in the decision to participate. Firstly, a dummy variable, DUMHW, is used to indicate whether the husband works in the home looking after the children or other dependent persons. Secondly, two variables are included to try to capture the influence of family responsibilities on female labour participation. The first, DUMN12, is a dummy variable which takes the value one if the woman has children less than twelve years old. The second, N14, is a numerical variable which indicates the number of children less than fourteen years old. The results obtained show that only in the case of UK, Spain and Ireland does female labour market participation increase noticeably when the husband participates in household tasks. This general lack of significance of DUMHW may be due to its character as a dummy variable in that it does not provide any information about the number of hours that the husband dedicates to taking care of the children, but merely informs us whether the husband participates in household duties or not. Given that the participation of husbands in household tasks verges on the universal in the majority of European countries, this should not be an important determining factor in female participation. As the number of children under fourteen years old rises, female labour market participation decreases, as was to be expected in all countries. The effect of the dummy variable DUMN12 is, however, less clear, perhaps because the variable N14 has robbed it of part of its influence.

Finally, the labour situation of the husband is captured through two dummy variables, UNEMPH and INACTH, and two interaction terms of these variables with age, UNEMPH*AGE and INACTH*AGE. The first variable takes the value 1 when the husband is unemployed, and the second variable when he is inactive[10]. Thus, the coefficients of the variables UNEMPH and INACTH tell us whether or not there is a significant difference in the probability of the woman participating when the husband is unemployed or inactive compared to the case where the husband is working. If these coefficients are positive and significant, then it is more probable that married women

participate when their husbands are unemployed or inactive than when they are working. One could consider that this would confirm the "added worker hypothesis", but it needs to be taken into account that what the coefficients of UNEMPH and INACTH in fact show is the effect of the husband's labour situation on the wife's labour market behaviour given the non-wage income of the wife, FIEW. (Note that this variable is controlled for in the equation). Consequently, in order to check the "added worker hypothesis" we must simultaneously consider the effects of the variables UNEMPH, INACTH and FIEW. The first two show the possible "qualitative" effects of the hypothesis, an example of which would be the consequences for female participation of having more time free from family responsibilities and having lower expectations of having a high family income when the husband is unemployed or inactive. The last shows, as we have already indicated, the existence of an income effect which could be generated by reasons other than a simple change in the labour situation of the husband from being working to becoming unemployed or inactive.

As far as the interaction terms are concerned, we are trying to capture the fact that the younger the woman, the better able she will be to react to changes in her husband's labour position[11].

The results obtained in the estimations seem to indicate that the "added worker effect" is detected for very few countries. Only in Italy does strong evidence of this phenomenon seem to exist. In the cases of Germany, Spain, Portugal and Holland, the husband being inactive appears to stimulate the woman's labour supply but this supply is not affected by her husband being unemployed. Ireland, on the other hand, represents the polar opposite in that the probability of female participation diminishes if the husband is either unemployed or inactive. Moreover, for those countries where the "added worker effect" is detected, albeit weakly, it is observed that the effect diminishes

[10] The reference category is where the husband is working.

[11] To be exact, the marginal effect of UNEMPH on ACTIVE is equal to the coefficient of UNEMPH plus the coefficient of the interaction term UNEMPH*AGE multiplied by AGE. If the first coefficient is positive and the second negative and lower than the first, the stimulating effect on female participation of the husband being unemployed of inactive decreases progressively with age.

with age. As was to be expected, there is evidence that the younger the woman, the greater her reaction capacity[12].

IV. CONCLUSIONS

In this piece of research we have estimated various labour participation equations for married women, using data from the European Community Household Panel corresponding to the years 1994, 1995 and 1996.

Given that one of the most important determining factors in labour market participation is the potential earnings of the woman, we have estimated wage equations which yield us the expected or predicted wage before estimating the participation equations. The inspiration for these equations is the Theory of Human Capital, and the main determinants of wages are considered to be education and work experience. Once the expected wage is found, it is included as an additional explanatory variable in the participation equations.

In these equations it is considered that the woman is participating in the labour market when she is active (working or unemployed). The results of the estimations carried out allow it to be concluded that the woman's labour market participation basically depends on her personal and family characteristics, her non-wage income and her potential earnings. Only in very few countries does the female labour market participation seem to be linked to the labour situation of the husband. However, the negative and significant effect, found for all the countries analysed, of the woman's non-wage income (basically the husband's wage) prevents us from being able to completely reject the "added worker hypothesis". It seems that female labour market participation continues to have something of a "secondary" character in the family set-up given that participation is very dependent on other family earnings.

[12] More specifically, for the countries referred to in the previous paragraph the stimulus provided by the husband being unemployed or inactive decreases gradually until the woman reaches the age of around forty. From there on, it becomes even negative.

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TABLE 1

Participation rates by sex in Europe

(percentages)

	Men	Women	Married women
BELGIUM	77.6	61.5	63.9
DENMARK	85.4	76.2	80.5
FRANCE	71.2	56.6	56.4
GERMANY	80.6	57.5	52.5
UNITED KINGDOM	84.2	56.8	55.2
GREECE	79.9	47.6	44.5
IRELAND	83.2	42.0	33.0
ITALY	76.4	45.4	41.5
HOLLAND	77.7	52.8	49.4
PORTUGAL	80.7	55.4	56.6
SPAIN	74.5	39.5	33.6

Source: ECHP

TABLE 2

Variable definitions

Name	*Definition*
LHW	natural logarithm of the woman's hourly real wage (in Euros)
EDUC1	=1 if the woman has university studies; else=0
EDUC2	=1 if the woman has secondary school studies; else=0
POTEXP	potential experience (present age-age when started work)
POTEXP2	square of potential experience
SEN	seniority (years of experience at the current firm, if the woman is working, or at the last job, if the woman is unemployed. If the woman has never worked, its value is zero)
SEN2	square of seniority
UNEMP5	number of unemployment periods over the previous five years
ACTIVE	=1 if the woman works or is unemployed; else=0
PREW	natural logarithm of the woman's predicted (potential) hourly wage (in Euros)
FIEW	family monthly income excluded the woman's wage (in Euros) (it includes the husband's wage, benefits and property income)
AGE	the woman's age
AGE2	square of the woman's age
EDUC1H	=1 if the husband has university studies; else=0
EDUC2H	=1 if the husband has secondary school studies; else=0
BENEFIH	=1 if the husband receives unemployment benefits; else=0
UNEMPH	=1 if the husband is unemployed; else=0
INACTH	=1 if the husband is inactive; else=0
DUMHW	=1 if the husband works in the home looking after the children or other dependent persons; else=0
N14	number of children younger than 14 years old
DUMN12	=1 if the woman has children less than twelve years old; else=0

TABLE 3.a

Wage equation estimates (Random effects model)

(Dependent variable: LHW)

	BELGIUM		DENMARK		FRANCE		GERMANY	
	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*
Constant	1.6062	37.62**	1.7009	42.81**	1.3786	21.68**	1.5061	26.21**
EDUC1	0.2681	10.01**	0.2222	9.57**	0.5820	14.59**	0.2749	6.94**
EDUC2	0.0902	2.99**	0.1225	5.12**	0.2164	6.64**	0.0532	1.75*
POTEXP	0.0069	1.98**	-0.0005	-0.17	0.0055	1.33	0.0064	1.45
POTEXP2	-0.0001	-0.98	-0.0000	-0.21	-0.0001	-0.58	-0.0002	-2.09**
SEN	-0.0021	-0.35	0.0024	0.48	0.0177	2.16**	0.0021	0.28
SEN2	0.0005	1.57	-0.0000	-0.15	-0.0001	-0.21	0.0005	1.24
UNEMP5	0.0028	0.70	-0.0267	-2.59**	-0.0264	-1.10	-0.0355	-1.80*
REG1	0.0050	0.14			0.0742	1.79*		
REG2	-0.0140	-0.63			-0.1085	-2.54**		
REG3					-0.0813	-1.28		
REG4					-0.0382	-0.82		
REG5					-0.1331	-2.93**		
REG6					-0.0968	-2.07**		
REG7					-0.0694	-1.43		
REG8								
REG9								
REG10								
D1995	0.0174	1.79*	0.0367	4.42**	0.0222	2.03**	0.0448	3.62**
D1996	0.0630	6.05**	0.1133	12.99**	0.0296	2.46**	0.0713	5.53**
R^2	0.2226		0.1838		0.3327		0.1112	
LM Test	690.73		611.09		885.13		905.21	
Observations	1587		1643		1713		2181	

Notes:

-(**) and (*) show a statistical significance at 5 and 10 per cent, respectively.
-LM Test = Lagrange Multiplier Test

TABLE 3.b

Wage equation estimates (Random effects model)

(Dependent variable: LHW)

	UNITED KINGDOM		GREECE		IRELAND		ITALY	
	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*
Constant	1.5623	20.41**	1.0309	15.04**	1.3416	16.94**	1.4100	30.97**
EDUC1	0.4383	12.77**	0.5541	15.63**	0.7691	13.67**	0.6932	21.20**
EDUC2	0.1252	3.97**	0.2425	6.08**	0.2741	5.28**	0.3402	15.17**
POTEXP	0.0067	1.51	0.0112	1.92**	0.0102	1.68*	0.0086	2.47**
POTEXP2	-0.0002	-2.20**	-0.0002	-0.91	-0.0002	-1.21	-0.0001	-1.05
SEN	-0.0041	-0.66	-0.0185	-1.82*	0.0065	0.62	0.0221	3.93**
SEN2	0.0006	1.53	0.0015	2.80**	0.0005	0.90	-0.0008	-2.39**
UNEMP5	-0.0308	-1.80*	-0.0275	-1.04	-0.0384	-1.69*	-0.0534	-4.21**
REG1	-0.0670	-0.92	-0.0021	-0.05	0.0214	0.40	-0.0805	-1.88*
REG2	-0.0314	-0.44	0.0748	1.52			-0.1122	-3.11**
REG3	-0.0110	-0.16	0.0097	0.22			-0.0153	-0.45
REG4	-0.0494	-0.60					-0.0157	-0.37
REG5	0.0865	1.42					-0.0436	-1.14
REG6	-0.1233	-1.84*					-0.0919	-2.28**
REG7	-0.0459	-0.67					-0.1368	-2.90**
REG8	0.0077	0.11					-0.0200	-0.48
REG9	-0.1009	-1.14					-0.0967	-2.47**
REG10	0.0046	0.06					-0.0628	-1.34
D1995	0.0039	0.35	0.0323	2.22**	0.0813	5.30**	-0.0282	-3.38**
D1996	0.0792	6.78**	0.0204	1.31	0.0852	5.22**	-0.0113	-1.20
R^2	0.2902		0.4188		0.4567		0.3833	
LM Test	723.54		411.05		418.24		1400.28	
Observations	1637		1146		840		2760	

Notes:

-(**) and (*) show a statistical significance at 5 and 10 per cent, respectively.
-LM Test = Lagrange Multiplier Test

TABLE 3.c

Wage equation estimates (Random effects model)

(Dependent variable: LHW)

	HOLLAND		PORTUGAL		SPAIN	
	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*
Constant	1.7554	46.42**	0.5821	9.49**	1.3464	16.93**
EDUC1	0.2744	9.41**	1.0762	24.18**	0.6010	15.62**
EDUC2	0.0551	2.09**	0.4693	10.53**	0.2518	5.50**
POTEXP	0.0030	1.06	0.0012	0.302	0.0088	1.97**
POTEXP2	-0.0001	-1.44	-0.0001	-1.75*	-0.0002	-1.59
SEN	-0.0073	-1.56	0.0346	4.66**	0.0006	0.07
SEN2	0.0007	2.66**	-0.0002	-0.48	0.0005	1.00
UNEMP5	-0.0526	-2.46**	-0.0049	-0.51	-0.0738	-3.26**
REG1			0.0654	1.43	-0.0248	-0.38
REG2			-0.0086	-0.18	0.0374	0.63
REG3			0.1228	2.73**	0.1139	1.84*
REG4			0.0970	1.60	-0.0194	-0.27
REG5			0.1109	2.05**	0.0541	0.88
REG6			0.1154	2.33**	0.0626	0.94
REG7						
REG8						
REG9						
REG10						
D1995	0.0467	6.01**	0.0016	0.15	0.0488	4.18**
D1996	0.0876	10.88**	0.0229	1.99**	0.1196	9.20**
R^2	0.2292		0.5539		0.4203	
LM Test	739.39		1093.51		728.72	
Observations	1707		1928		1297	

Notes:

-(**) and (*) show a statistical significance at 5 and 10 per cent, respectively.
-LM Test = Lagrange Multiplier Test

TABLE 4.a

Probit estimates of labour participation (Random effects model)

(*Dependent variable: ACTIVE***)**

	BELGIUM		DENMARK		FRANCE		GERMANY	
	Coefficient	*t*	Coefficient	*t*	Coefficient	*T*	Coefficient	*t*
Constant	-60.9771	-14.11**	-76.3882	-12.21**	-52.5090	-16.14**	-22.9163	-15.56**
PREW	42.1157	15.42**	38.4271	11.42**	38.8843	17.61**	10.7104	24.69**
FIEW	-0.0004	-5.78**	-0.0013	-13.42**	-0.0008	-9.15**	-0.0005	-8.94**
BENEFIH	0.7114	0.89	0.9955	1.56	-0.2057	-0.46	-0.0294	-0.08
AGE	-0.1802	-2.40**	0.8580	8.84**	0.1066	1.47	0.5017	9.00**
AGE2	-0.0013	-1.49	-0.0106	-9.29**	-0.0041	-4.57**	-0.0065	-9.97**
EDUC1	-9.3685	-12.83**	-5.9272	-7.94**	-20.5849	-16.23**	-1.3208	-7.00**
EDUC2	-2.6466	-8.09**	-2.9769	-6.43**	-7.6988	-15.16**	-0.2024	-1.50
EDUC1H	1.0097	3.65**	0.4764	1.68*	0.2085	0.61	-0.0551	-0.31
EDUC2H	0.2043	0.88	0.6033	2.23**	0.4415	2.24**	0.0651	0.39
UNEMPH	-0.4586	-0.21	-0.2118	-0.10	0.1782	0.11	-0.1870	-0.16
INACTH	-3.1808	-2.03**	-2.4401	-1.44	1.4766	1.16	2.6099	3.08**
UNEMPH*AGE	-0.0323	-0.63	-0.0363	-0.73	0.0156	0.37	0.0078	0.32
INACTH*AGE	0.0344	1.13	0.0142	0.47	-0.0429	-1.71*	-0.0648	-4.07**
DUMHW	0.1606	0.77	0.2325	0.84	0.4702	1.30	0.0790	0.50
N14	-0.3362	-3.35**	-0.7441	-5.05**	-0.8124	-7.61**	-0.8326	-11.67**
DUMN12	0.0709	0.34	0.3055	1.15	0.1501	0.86	-0.2272	-1.89*
REG1	0.3819	0.99			-1.7458	-5.08**		
REG2	0.9214	4.53**			4.6272	11.98**		
REG3					3.0375	7.62**		
REG4					2.0492	6.20**		
REG5					4.9477	12.77**		
REG6					3.9044	10.43**		
REG7					2.9229	8.21**		
REG8								
REG9								
REG10								
D1995	-0.9526	-5.02**	-1.4588	-6.17**	-0.7933	-5.11**	-0.2771	-2.96**
D1996	-2.6760	-10.65**	-4.3481	-10.74**	-0.8211	-5.73**	-0.3441	-3.40**
Rho	0.8559	56.99**	0.9034	74.48**	0.8245	45.76**	0.8489	78.21**
LR1	2434.39	(20 d.f.)	1032.32	(18 d.f.)	4236.06	(25 d.f.)	2572.47	(18 d.f.)
LR2	631.26	(1 d.f.)	526.37	(1 d.f.)	612.30	(1 d.f.)	1456.34	(1 d.f.)
Observations	3717		2783		5098		6386	

Notes:

-LR1 = Log likelihood ratio of pooled model.

-LR2 = Log likelihood ratio of random model/pooled model.

-(**) and (*) show a statistical significance at 5 and 10 per cent, respectively.

TABLE 4.b

Probit estimates of labour participation (Random effects model)

(*Dependent variable: ACTIVE***)**

	UNITED KINGDOM		GREECE		IRELAND		ITALY	
	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*
Constant	-22.4976	-9.26**	-12.1436	-14.80**	-21.1124	-11.27**	-11.6166	-12.95**
PREW	10.8554	7.34**	10.2218	21.66**	19.6250	15.39**	5.7920	46.30**
FIEW	-0.0002	-4.58**	-0.0001	-4.72**	-0.0004	-6.45**	-0.0002	-10.87**
BENEFIH	0.4352	1.21	-0.0981	-0.35	0.1198	0.40	0.1072	0.25
AGE	0.4852	7.05**	0.1157	3.59**	-0.2119	-3.17**	0.2204	5.50**
AGE2	-0.0063	-7.79**	-0.0021	-5.81**	0.0008	1.02	-0.0037	-7.91**
EDUC1	-3.1867	-4.79**	-4.0372	-13.12**	-13.0580	-13.68**	-0.9809	-3.53**
EDUC2	-0.4666	-1.75*	-2.2073	-12.60**	-4.9647	-12.84**	-0.3260	-2.62*
EDUC1H	-0.5982	-2.65**	-0.1040	-0.67	1.1441	3.87**	0.3477	1.60
EDUC2H	-0.1367	-0.65	-0.1831	-1.47	0.9849	5.16**	0.3167	2.72**
UNEMPH	-0.7904	-0.65	0.3659	0.59	-1.8671	-1.97**	1.5756	2.60**
INACTH	-0.5033	-0.47	0.6094	0.99	-1.9465	-2.37**	3.6946	5.05**
UNEMPH*AGE	-0.0195	-0.72	-0.0029	-0.19	0.0330	1.52	-0.0268	-1.74**
INACTH*AGE	-0.0335	-1.58	-0.0302	-2.66**	0.0209	1.23	-0.0826	-5.82**
DUMHW	0.3645	1.93*	0.2955	1.53	0.4880	2.78**	0.0436	0.34
N14	-0.9132	-9.46**	-0.1083	-1.94*	-0.5362	-6.89**	-0.4189	-6.83**
DUMN12	0.0478	0.27	-0.1394	-1.68*	-0.0938	-0.64	0.0415	0.41
REG1	0.2061	0.37	-0.0092	-0.07	-0.0929	-0.38	1.0021	4.08**
REG2	0.1304	0.26	-0.3150	-2.20**			1.0935	5.04**
REG3	-0.3510	-0.73	-0.5290	-3.71**			0.5057	2.45**
REG4	-0.4667	-0.88					1.3852	4.90**
REG5	-1.4582	-3.31**					0.8320	3.97**
REG6	2.1864	4.42**					0.9012	3.77**
REG7	0.1338	0.27					1.5194	6.59**
REG8	0.0039	0.01					0.6845	3.23**
REG9	-0.1978	-0.37					0.4664	2.25**
REG10	-0.9721	-2.11**					-0.1767	-0.79
D1995	0.1832	1.25	-0.3726	-5.53**	-1.2074	-7.53**	0.2890	3.57**
D1996	-0.5224	-3.01**	-0.4380	-6.58**	-1.2288	-8.62**	0.1823	2.31**
Rho	0.8659	67.02**	0.7768	64.11**	0.8399	59.02**	0.8641	115.97**
LR1	1357.90	(28 d.f.)	2360.60	(21 d.f.)	1622.71	(19 d.f.)	5175.64	(28 d.f.)
LR2	791.14	(1 d.f.)	1772.48	(1 d.f.)	807.49	(1 d.f.)	2331.98	(1 d.f.)
Observations	3692		8099		3598		10746	

Notes:

-LR1 = Log likelihood ratio of pooled model.

-LR2 = Log likelihood ratio of random model/pooled model.

-(**) and (*) show a statistical significance at 5 and 10 per cent, respectively.

TABLE 4.c
Probit estimates of labour participation (Random effects model)

(*Dependent variable: ACTIVE***)**

	HOLLAND		PORTUGAL		SPAIN	
	Coefficient	*t*	Coefficient	*t*	Coefficient	*t*
Constant	-11.1556	-2.19**	-5.5135	-4.73**	-8.2028	-9.25**
PREW	8.2611	2.99**	17.7985	17.26**	3.6644	13.49**
FIEW	-0.0007	-6.62**	-0.0005	-5.58**	-0.0003	-8.65**
BENEFIH	0.9341	0.83	-0.5523	-1.29	-0.0976	-0.61
AGE	0.2093	2.75**	-0.1628	-3.46**	0.2108	5.32**
AGE2	-0.0048	-5.34**	0.0016	3.00**	-0.0033	-7.21**
EDUC1	0.0096	0.01	-15.6977	-11.84**	0.5813	2.31**
EDUC2	-0.0359	-0.15	-8.3545	-13.17**	0.1151	0.66
EDUC1H	1.5910	4.70**	-0.8035	-1.29	0.1204	0.71
EDUC2H	0.5290	2.03**	0.7190	1.74*	0.0371	0.24
UNEMPH	-2.5035	-0.46	1.8451	1.21	0.6361	1.51
INACTH	3.5525	2.27**	1.8426	1.73*	1.6005	2.82**
UNEMPH*AGE	0.0191	0.15	-0.0269	-0.83	-0.0075	-0.76
INACTH*AGE	-0.0932	-3.09**	-0.0517	-2.74**	-0.0371	-3.35**
DUMHW	0.5271	1.51	0.5382	-1.43	0.2826	2.35**
N14	-0.3639	-3.53**	-0.2062	-2.49**	-0.2119	-3.65**
DUMN12	-0.9952	-5.37**	-0.2818	-2.04**	-0.0502	-0.58
REG1			-1.4246	-4.72**	0.8634	3.95**
REG2			0.3219	1.10	0.4279	1.87**
REG3			-3.1197	-9.71**	-0.0279	-0.12
REG4			-1.9258	-6.00**	-0.2521	-1.14
REG5			-2.5607	-7.70**	0.5092	2.41**
REG6			-4.2946	-14.37**	-0.2332	-1.09
REG7						
REG8						
REG9						
REG10						
D1995	-0.4877	-2.29**	0.6871	6.19**	0.0708	0.94
D1996	-0.4075	-1.44	0.3161	3.09**	-0.3686	-4.52**
Rho	0.9046	95.85**	0.8331	58.92**	0.8074	73.49**
LR1	1657.78	(18 d.f.)	4645.74	(24 d.f.)	2491.70	(24 d.f.)
LR2	1024.37	(1 d.f.)	1037.96	(1 d.f.)	1872.35	(1 d.f.)
Observations	3838		6929		8309	

Notes:
-LR1 = Log likelihood ratio of pooled model.
-LR2 = Log likelihood ratio of random model/pooled model.
-(**) and (*) show a statistical significance at 5 and 10 per cent, respectively.

APPENDIX

TABLE A.1.a

Descriptive statistics

	BELGIUM				DENMARK			
	n=3717		n=1587		n=2783		n=1643	
Variables	Mean	S. D.	Mean	S. D.	Mean	S. D.	Mean	S. D.
LHW			1.912	0.312			1.889	0.245
EDUC1	0.324	0.468	0.499	0.500	0.369	0.483	0.466	0.499
EDUC2	0.284	0.451	0.257	0.437	0.340	0.474	0.340	0.474
POTEXP			14.919	9.737			20.718	11.263
POTEXP2			317.226	346.838			555.998	510.296
SEN			10.328	5.251			9.754	5.115
SEN2			138.240	104.015			128.342	103.197
UNEMP5			0.381	2.639			0.296	0.861
ACTIVE	0.638	0.481			0.784	0.411		
PREW	1.844	0.141			1.853	0.115		
FIEW	1761.419	988.124			1612.742	880.568		
AGE	42.738	11.141			45.401	10.410		
AGE2	1950.669	1005.153			2169.571	955.989		
EDUC1H	0.327	0.469			0.378	0.485		
EDUC2H	0.316	0.465			0.397	0.489		
BENEFIH	0.026	0.158			0.034	0.181		
UNEMPH	0.019	0.135			0.023	0.151		
INACTH	0.196	0.397			0.142	0.349		
DUMHW	0.090	0.287			0.117	0.322		
N14	0.882	1.109			0.707	0.977		
DUMN12	0.301	0.459			0.246	0.431		

TABLE A.1.b

Descriptive statistics

	FRANCE				GERMANY			
	n=5098		n=1713		n=6386		n=2181	
Variables	Mean	S. D.	Mean	S. D.	Mean	S. D.	Mean	S. D.
LHW			1.793	0.435			1.716	0.415
EDUC1	0.147	0.354	0.224	0.417	0.124	0.329	0.184	0.388
EDUC2	0.345	0.475	0.431	0.495	0.523	0.500	0.539	0.499
POTEXP			16.899	11.517			21.082	11.225
POTEXP2			418.148	453.492			570.371	502.127
SEN			9.914	5.191			9.338	5.541
SEN2			127.976	104.187			123.601	107.773
UNEMP5			0.207	0.615			0.216	0.690
ACTIVE	0.542	0.498			0.616	0.486		
PREW	1.638	0.255			1.622	0.147		
FIEW	1541.319	917.550			1831.433	909.437		
AGE	46.037	11.552			45.422	11.158		
AGE2	2252.975	1072.282			2187.618	1019.825		
EDUC1H	0.153	0.360			0.333	0.471		
EDUC2H	0.419	0.493			0.475	0.499		
BENEFIH	0.019	0.138			0.021	0.142		
UNEMPH	0.027	0.161			0.020	0.141		
INACTH	0.312	0.463			0.214	0.410		
DUMHW	0.034	0.180			0.062	0.241		
N14	0.761	1.079			0.612	0.932		
DUMN12	0.245	0.430			0.225	0.418		

TABLE A.1.c

Descriptive statistics

	UNITED KINGDOM				GREECE			
	n=3692		n=1637		n=8099		n=1146	
Variables	Mean	S. D.	Mean	S. D.	Mean	S. D.	Mean	S. D.
LHW			1.790	0.397			1.487	0.425
EDUC1	0.229	0.420	0.291	0.455	0.142	0.349	0.448	0.497
EDUC2	0.353	0.478	0.387	0.487	0.204	0.403	0.251	0.434
POTEXP			22.318	11.168			13.053	8.194
POTEXP2			622.722	526.668			237.463	260.633
SEN			7.649	5.015			10.129	4.978
SEN2			87.841	95.001			130.363	100.164
UNEMP5			0.229	0.774			0.178	0.592
ACTIVE	0.696	0.460			0.460	0.498		
PREW	1.736	0.211			1.295	0.212		
FIEW	1860.081	1983.116			1134.196	937.513		
AGE	44.499	11.217			44.965	11.683		
AGE2	2105.986	1013.998			2158.304	1052.353		
EDUC1H	0.303	0.460			0.167	0.373		
EDUC2H	0.333	0.471			0.232	0.422		
BENEFIH	0.017	0.130			0.007	0.082		
UNEMPH	0.047	0.212			0.026	0.159		
INACTH	0.163	0.369			0.228	0.419		
DUMHW	0.110	0.313			0.027	0.162		
N14	0.730	1.023			0.653	0.899		
DUMN12	0.253	0.435			0.241	0.428		

TABLE A.1.d

Descriptive statistics

	IRELAND				ITALY			
	n=3598		n=840		n=10746		n=2760	
Variables	Mean	S. D.	Mean	S. D.	Mean	S. D.	Mean	S. D.
LHW			1.976	0.472			1.829	0.418
EDUC1	0.112	0.316	0.286	0.452	0.058	0.234	0.137	0.344
EDUC2	0.380	0.486	0.521	0.500	0.277	0.447	0.522	0.500
POTEXP			15.445	9.941			16.589	9.659
POTEXP2			337.260	400.661			368.468	361.131
SEN			9.418	5.087			11.189	5.487
SEN2			119.124	99.976			159.169	106.983
UNEMP5			0.207	0.875			0.233	0.817
ACTIVE	0.425	0.494			0.452	0.498		
PREW	1.723	0.272			1.585	0.301		
FIEW	1575.889	1024.281			1519.538	1707.253		
AGE	45.653	10.803			45.591	10.702		
AGE2	2200.860	986.971			2193.114	977.870		
EDUC1H	0.126	0.332			0.072	0.259		
EDUC2H	0.301	0.459			0.287	0.453		
BENEFIH	0.083	0.275			0.004	0.062		
UNEMPH	0.070	0.255			0.027	0.163		
INACTH	0.211	0.408			0.251	0.434		
DUMHW	0.083	0.275			0.066	0.248		
N14	1.073	1.297			0.575	0.826		
DUMN12	0.297	0.475			0.226	0.418		

TABLE A.1.e

Descriptive statistics

	HOLLAND				PORTUGAL			
	n=3838		n=1707		n=6929		n=1928	
Variables	Mean	S. D.	Mean	S. D.	Mean	S. D.	Mean	S. D.
LHW			1.919	0.437			1.141	0.578
EDUC1	0.167	0.374	0.269	0.442	0.042	0.201	0.123	0.328
EDUC2	0.603	0.489	0.608	0.490	0.059	0.236	0.123	0.328
POTEXP			14.726	10.371			18.492	11.669
POTEXP2			316.579	380.954			478.055	544.398
SEN			8.172	4.976			10.381	5.278
SEN2			95.175	95.543			138.849	107.480
UNEMP5			0.153	0.412			0.322	1.530
ACTIVE	0.683	0.465			0.579	0.494		
PREW	1.882	0.104			0.830	0.371		
FIEW	1612.104	654.317			949.058	659.063		
AGE	44.266	10.753			46.065	11.360		
AGE2	2074.940	979.822			2251.005	1042.608		
EDUC1H	0.233	0.424			0.035	0.184		
EDUC2H	0.631	0.483			0.063	0.243		
BENEFIH	0.006	0.075			0.014	0.117		
UNEMPH	0.011	0.106			0.019	0.137		
INACTH	0.220	0.414			0.186	0.389		
DUMHW	0.069	0.253			0.016	0.124		
N14	0.673	0.986			0.645	0.906		
DUMN12	0.237	0.426			0.237	0.426		

TABLE A.1.f

Descriptive statistics

	SPAIN			
	n=8309		n=1297	
Variables	Mean	S. D.	Mean	S. D.
LHW			1.907	0.467
EDUC1	0.120	0.325	0.463	0.499
EDUC2	0.112	0.315	0.210	0.408
POTEXP			16.461	10.658
POTEXP2			384.481	431.609
SEN			10.779	5.100
SEN2			145.412	103.936
UNEMP5			0.278	0.762
ACTIVE	0.403	0.491		
PREW	1.577	0.253		
FIEW	1404.320	902.335		
AGE	43.117	11.452		
AGE2	2257.952	1054.743		
EDUC1H	0.153	0.360		
EDUC2H	0.130	0.336		
BENEFIH	0.055	0.228		
UNEMPH	0.078	0.269		
INACTH	0.262	0.440		
DUMHW	0.070	0.255		
N14	0.656	0.880		
DUMN12	0.262	0.440		