

## The Value of Housework and the Incentive to Become Employed

Disincentives to work, or incentive traps, faced by unemployed persons were one of the most important policy challenges in Finland following the depression of the early 1990s and the attendant massive rise in unemployment. The government enacted a number of reforms to remove these incentive traps. Most studies examining the effects of these policy changes show that most of the incentive traps have indeed been removed. For this reason, incentive traps have received less attention in recent times.



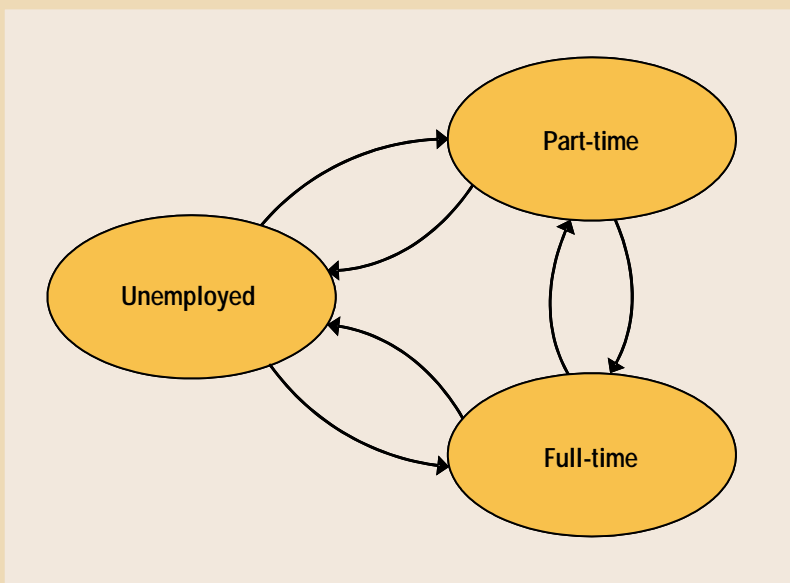
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Studies looking at incentive traps typically evaluated additional monetary benefits of taking a job. However, monetary benefits comprise only one part of an individual's total welfare. Another important component of

welfare is the change in leisure time and the value individuals place on it. When a person becomes employed, their leisure time declines. If a person values this leisure time, for example

### Movements between Unemployment and Employment



the Beckerian household commodities produced by housework, then this reduction in valuable leisure time should be taken into account in these calculations.

The Research Institute of the Finnish Economy has made new calculations on the impact of the value of foregone housework on the decision to become employed. The idea is to compare net income from market work to the unemployment benefits received to include an imputed value of household production. The aim was to determine whether incentive traps could be found using this extended welfare concept.

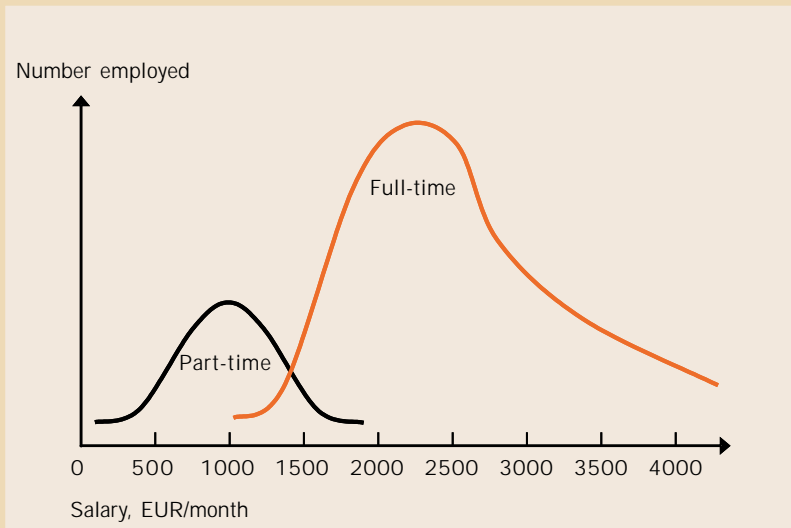
The data came from the recent Finnish Time Use Survey from 1999/2000. The sample included 2,020 full-time workers, 131 part-time workers and 280 unemployed persons between the ages of 18 and 64. The calculations were done for males and females separately. This is because market wage rates for a given work

arrangement differ between males and females as does the amount of housework done. Also two different employment contracts were used, namely, part-time and full-time contracts. This made it possible to look at the gradual changes in time-use patterns.

When an unemployed male obtains a part-time job, his leisure, excluding housework, diminishes by three hours a day. The decline in leisure is only one and half hours for females. When moving from part-time to full-time employment, males see an additional reduction in leisure time of 1.5 hours, while females experience an additional decline of 45 minutes per day.

Also, the time spent performing housework diminishes. Males do one hour and 15 minutes less housework per weekday when employed part-time and one hour and 45 minutes when in a full-time job. In the case of women, both types of employment reduce housework performed by an hour and twenty minutes per day.

### The Salary Distribution of Part-time and Full-time Workers



These changes were valued at the net wage rate of a domestic cleaner, which was about six euros per hour in 2002.

The calculations show that the policy changes implemented during the 1990s in the eligibility, duration and level of benefits have virtually

eliminated incentive traps in Finland even when accounting for the foregone value of household production. However, there are some cases where incentives to become employed are still low or the only viable work arrangement is part-time work. This is usually the case with single mothers.