

Supporting fertility: the role of the labour market

Pedro Martins & Enzo Almeida

Nova School of Business and Economic (Nova SBE) / Universidade Nova de Lisboa

Executive Summary

Problem

Fertility has fallen significantly in Portugal (and other advanced economies) over the last decades, raising concerns for long-term growth and the sustainability. What is the role of the labour market and employment relations in the decline of fertility? Can labour and competition policies towards firms revert the current trends?

Main research findings

In Portugal, higher employer concentration (indicating fewer alternatives for workers in terms of jobs in the same region and occupation) is associated with markedly fewer child-bearing-related parental leaves of employees, especially among younger women.

Employer (labour market) concentration is also causally linked to shorter parental-leave durations and larger post-birth wage penalties for those who do have a child.

These patterns are specific to fertility-related absences, as labour concentration does not influence other types of absences (for sickness, accidents, or strikes).

The results are based on a novel variable in a data set covering all employees in Portugal, between 2010 and 2023.

Key policy options

Promote entrepreneurship to increase the number of prospective employers for workers, thus reducing labour market concentration.

Scrutinise firm mergers that reduce local employment options for workers.

Enforce parental rights more tightly where employment options are scarce. Focus inspections and reporting on leave use and complaint channels in high-concentration areas.

Incentivise family-friendly practices in firms. Pilot experience-rating schemes, in which employer social-security contributions can be lowered if their employees exhibit higher fertility levels.

Potential recipients: Ministry of Labour, Solidarity and Social Security (MTSSS), Competition Authority (AdC), PLANAPP, Autoridade para as Condições de Trabalho (ACT), Comissão para a Igualdade no Trabalho e no Emprego.

Introduction

Context. Across the OECD, total fertility fell from 3.3 (1960) to 1.5 (2022) children per woman. Portugal remains below replacement and continues to post low birth numbers. These trends carry long-term economic risks via shrinking workforces and rising dependency ratios. At the same time, many local labour markets are increasingly dominated by a small number of employers, giving those employers greater bargaining and market power over workers.

Policy problem. If a small number of local employers dominate hiring, workers may perceive higher career costs to having children (e.g., re-assignment risk, slower progression,

delayed conversion from fixed-term to open-ended contracts, or wage penalties). Standard family policies (e.g., paid leave, childcare) may under-deliver in such markets because employer power blunts their impact.

Gap. The economics literature has documented large employment, wage and career setbacks after childbirth (“child penalties”) and has linked labour-market institutions to fertility decisions. However, the direct role of employer market power has not been considered. Our study links employer market power to childbearing decisions and post-birth careers.

Analysis and Key Findings

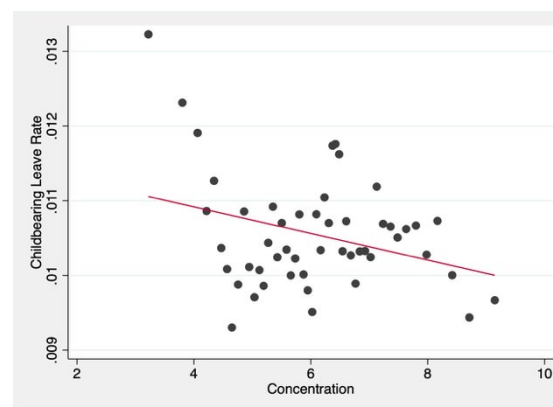
Data and approach. We use *Quadros de Pessoal*, an employer-employee panel data set covering virtually the private sector (2010.2023). This dataset is collected by the Portuguese Ministry of Labour, Solidarity and Social Security, and provides comprehensive information on workers, firms and establishments. Recently, information on unpaid absences and reasons was also made available to researchers, allowing us to identify parental leave uptake.

We measure employer market power using an index (Herfindahl-Hirschman Index) based on firms that hire in each occupation-district-year.

We then compare similar workers within the same firm and local market and use an econometric design to reduce bias from local

shocks affecting both jobs and births and get at causal relationships.

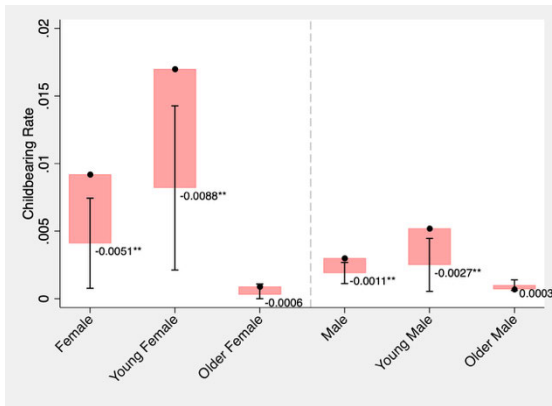
Figure 1. Initial analysis: higher labour market concentration, fewer childbearing leaves (workers under 40 years old)



Core results

- Fewer births occur where and when the market power is higher. Moving from a relatively competitive to a relatively concentrated market is associated with significant reductions in the probability of a birth related leave. The effects are stronger for younger women.

Figure 2. Effects of Labour Concentration on Childbearing Leave across Subgroups



- Shorter leave durations in concentrated markets suggest pressure to return earlier.
- No similar pattern for sickness, accidents, or strike absences, which supports a fertility-specific channel rather than general leave aversion.
- Amplified child penalties. Among those who have a child, post-birth wage trajectories are worse when the market is more concentrated at the time of leave-take-up, dovetailing with international evidence on child penalties.

Policy Alternatives

Family policy and competition policy often exist in separate boxes. Our results suggest that they actually interact. Paid leave and childcare remain central, but they may be less effective where employers hold more market power.

Increase alternatives in labour markets. Lower barriers for new and small firms and scrutinise mergers that shrink local options. It creates more genuine choice for workers, with firms having more substantial incentives to retain parents. On the other hand, it may generate administrative burden and increase the risk of under- or over-enforcement if markets are not properly characterised.

Enforce parental rights more where outside options are scarce. Legal rights help more if

people can use them without fear. Prioritise inspections, simple reporting on leave take-up and returns, and clear complaint channels in highly concentrated local labour markets. This policy alternative may foster behaviour changes and more visible deterrence, but it may require greater local enforcement capacity.

Incentivise family-friendly practices inside firms. Consider experience rating in social security contributions by linking employer contributions to firm-level parental leave outcomes (e.g., retention, promotion). This policy idea provides clear financial incentives for firms, although its design may be complex.

Conclusions

Fertility decline is a long-running challenge and employer market power adds a less visible, but powerful, barrier by raising the perceived career costs of childbearing. Our evidence for Portugal shows fewer births (via parental leave take-up), shorter leaves, and steeper wage penalties in more concentrated markets, especially for younger women. The patterns we document are large, robust across checks (e.g., age, type of contract and wage controls, broader

parental-leave definitions), and most pronounced where biology makes timing especially consequential.

Paid leave and childcare remain central, but they may be less effective where employers hold more market power. Scrutiny of mergers that shrink local hiring options, transparency and enforcement around parental-leave rights, and support for family-friendly practices inside firms. In short, supporting families and their

fertility also requires supporting labour market competition for workers.

Relevant literature

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CONTACT

science4policy@planapp.gov.pt

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