Gender Complementarities in the Labor Market☆

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Abstract

In this paper we provide estimates of the short-run elasticity of substitution between male and female workers, using data from Italian provinces for the period 1993-2006. We adopt a production function approach similar to Card and Lemieux (2001a) and Acemoglu, Autor, and Lyle (2004). Our identification strategy relies on a natural experiment. In 2000, the Italian parliament passed a law to abolish compulsory military service. The reform was implemented through a gradual reduction in the number of draftees; compulsory drafting was eventually terminated in 2004. We use data on the (planned) maximum number of draftees at the national level (as stated in the annual budgetary law), interacted with sex-ratios at births at the provincial level, as instruments for (relative) female labor supply. Our results suggest that young males and females (who are those mainly affected by the reform) are imperfect substitutes, with an implied elasticity of substitution ranging between 1.0 and 1.4. Our results have important implications for the evaluation of policies aimed at increasing female labor market participation.

Keywords: Elasticity of substitution, Employment, Wages

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1. Introduction

Italy has amongst the lowest levels of female participation in the labor market across European countries. In 2010, women's employment rate was as low as 46.1%, 21.6 percentage points below the corresponding rate for men, with ample differences within the country (from 30.5% in the South to 54.8% in the Centre-North; Banca d'Italia, 2011). Gender wage gaps are, on the other hand, lower than in other OECD countries, at around 6%; after controlling for selection, Olivetti and Petrongolo (2008) estimate median wage gaps to be between 10% and 20% during the 1994-2001 period (still below the US, where the estimated gap is above 30%); more recently, Zizza (2013) estimated gender wage gaps at around 13% in 2008. There is ample consensus, both among policymakers and academics, that female participation is "too low" and that effort must be exerted to increase employment rates.[1] Many different solutions have been proposed to achieve such goal, from gender-based taxation (Alesina, Ichino, and Karabarbounis, 2011) to increased provision of childcare facilities (Del Boca, Locatelli, and Vuri, 2005; Del Boca and Vuri, 2007; Arpino, Pronzato, and Tavares, 2010; Brilli, Del Boca, and Pronzato, 2011) and the extension of parental leaves (Pronzato, 2009; Kluve and Tamm, 2013), from gender quotas (Beaman, Chattopadhyay, Duflo, Pande, and Topalova, 2009; De Paola, Scoppa, and Lombardo, 2010) to targeted training programs. These policies are often justified both on equity (the current allocation being deemed "unfair") and on efficiency grounds; according to this last argument, either gender diversity in the workplace would be productivity-enhancing, and/or the specific skills possesed by women are sub-optimally represented in the economy.

There is actually ample evidence (often experimental) that men and women posses different skills (which may be complementary). For instance, men were documented to perform better in competitive environments (Gneezy, Niederle, and Rustichini, 2003; Gneezy and Rustichini, 2004; Paserman, 2010), although Lavy (2013) recently challenged this view. Women also appear to be less able to foster cooperation among men (Gagliarducci and Paserman, 2012), more altruistic (Eckel and Grossman, 1998; Andreoni and Vesterlund, 2001) and more risk-averse (Borghans, Golsteyn, Heckman, and Meijers, 2009). In a recent article surveying a number of experimental studies, Croson and Gneezy (2009)

[1] In 2001 the Lisbon Agenda set the explicit goal of a 60% female employment rate to be reached by 2010. More recently, the new Europe 2020 Strategy redefined this goal, aiming to an overall employment rate of 75%. The achievement of this new target will necessarily require a large increase in female participation.

identify robust differences in risk preferences, social preferences and competitive preferences, although Abrevaya and Hamermesh (2012) find no significant differences in actual behavior.

In order to be able to properly evaluate the overall impact of policies aimed at increasing female labor supply, an important question to ask is whether men and women are actually complements or substitutes in the production process, and how large the elasticity of substitution between these two types of "labor inputs" is.

Starting with the seminal contribution by Katz and Murphy (1992), the literature has mainly focused on estimating the elastiticity of substitution between skilled and unskilled workers (Angrist, 1995; Card and Lemieux, 2001a; Leuven, Oosterbeek, and van Ophem, 2004; Ciccone and Peri, 2005; Caselli and Coleman, 2006) or between natives and immigrants workers (Card, 2001; Borjas, 2003; Ottaviano and Peri, 2006; Borjas, Grogger, and Hanson, 2008; Borjas, 2009; D'Amuri, Ottaviano, and Peri, 2010; Barone and Mocetti, 2011; Ottaviano and Peri, 2012; Peri and Sparber, 2009).

To the best of our knowledge, Acemoglu, Autor, and Lyle (2004) is the only recent paper that provides estimates of the long-run elasticity of substitution between male and female workers, exploiting the US World War II mobilization as a "natural experiment" that drew a large number of women into the labor market[2]. In their paper, cross-state variation in mobilization rates is used as an instrument for (relative) female labor supply. One drawback of this approach is that *actual* mobilization rates are used, which may be correlated with (unobserved) local labor market conditions; this cast some doubts on the validity of the instrument. We take into account the possible endogeneity of (relative) female labor supply by instrumenting it with sex ratios at birth and by exploiting a similar natural experiment, i.e. the abolition of compulsory military service (passed by the Italian Parliament in 2000). The abolition was not sudden, and was implemented through a gradual reduction in the yearly intake of draftees. From the yearly budgetary law we derive information on the maximum number of draftees the military *planned* to enroll in each year (at the national level). These two variables (interacted with each other) should provide a valid instrument, to the extent that they both generate exogenous variation in the relative supply of female workers at the year-province level. Although coefficients estimates are often characterized by large standard errors, and the instrument does not appear to be particularly strong, we do find converging evidence of imper-

[2]The impact of World War II mobilization on shor- and long-run female labor supply has been recently reassessed by Goldin and Olivetti (2013)

fect substitutability between young men and women (those mainly affected by the reform), with an implied elasticity of substitution ranging between 1.0 and 1.4, depending on the specification.

The rest of the paper is organized as follows. In section 2 we present the theoretical framework at the basis of our empirical application. In section 3 we present the data used in this study and we discuss the validity of our identification strategy. In section 4 we present our empirical results. Section 5 concludes.

2. Theoretical framework

The starting point of our analysis is a standard Cobb-Douglas production function, featuring constant returns to scale and heterogeneus labor inputs:

$$Y_{jt} = A_{jt} K_{jt}^{\alpha} L_{jt}^{1-\alpha} \tag{1}$$

where labor input L_{jt} is a constant elasticity of substitution (CES) aggregate of male and female workers (Acemoglu, Autor, and Lyle, 2004):

$$L_{jt} = [(B(f)_{jt} F_{jt})^{\rho} + (B(m)_{jt} M_{jt})^{\rho}]^{\frac{1}{\rho}} \tag{2}$$

In equations 1 and 2, Y_{jt} and K_{jt} are, respectively, total output and capital stock in province j at time t, M_{jt} and F_{jt} represent the supply of, respectively, male and female workers, A is a neutral productivity term and the Bs are productivity parameters allowed to be gender-dependent and normalized so that they sum to one. The elasticity of substitution between male and female workers is defined as the percentage change in the relative demand for female (male) workers following a percentage change in the relative price of male (female) workers, and can be expressed as

$$\sigma \equiv \frac{1}{1-\rho}, \qquad \rho \in (-\infty, 1)$$

Male and female workers are gross substitutes if $\sigma > 1$ ($\rho > 0$), and gross complements if $\sigma < 1$ ($\rho < 0$).

Now let assume a competitive labor market, where inputs are paid their marginal product. The first-order conditions for the firm's problem equate the derivatives of (1) with respect to male and female labor to male and female wages, respectively:

$$\frac{\partial Y_{jt}}{\partial F_{jt}} = w_{jt}^{F} = (1-\alpha)\, K_{jt}^{\alpha} A_{jt} B(f)_{jt}^{\rho} F_{jt}^{(\rho-1)} L_{jt}^{\frac{1-\alpha-\rho}{\rho}} \tag{3}$$

$$\frac{\partial Y_{jt}}{\partial M_{jt}} = w_{jt}^{M} = (1-\alpha)\, K_{jt}^{\alpha} A_{jt} B(m)_{jt}^{\rho} M_{jt}^{(\rho-1)} L_{jt}^{\frac{1-\alpha-\rho}{\rho}} \tag{4}$$

Dividing equation 3 by equation 4 and taking logarithms we obtain:

$$\ln\left(\frac{w_{jt}^{F}}{w_{jt}^{M}}\right) = \rho \ln\left(\frac{B(f)_{jt}}{B(m)_{jt}}\right) + (\rho-1)\ln\left(\frac{F_{jt}}{M_{jt}}\right)$$

which can be more conveniently expressed as:

$$\ln\left(\frac{w_{jt}^{F}}{w_{jt}^{M}}\right) = \frac{\sigma-1}{\sigma} \ln\left(\frac{B(f)_{jt}}{B(m)_{jt}}\right) - \frac{1}{\sigma}\ln\left(\frac{F_{jt}}{M_{jt}}\right) \tag{5}$$

Equation 5 can be directly estimated using data on average male and female wages and average male and female labor supply by province-year. Year and province fixed effects would control for unobserved productivity differences $B(f)_{jt}/B(m)_{jt}$[3].

One of the reasons behind the popularity of the CES framework is its extreme flexibility. Workers can differ in many different dimensions other than gender, and the model can be easily adapted to accomodate such further complications. For the purpose of the present study, a relevant dimension to look at is workers' age, since our identification strategy will rely on the reform of compulsory military service, that arguably affected only young workers.[4] Following Card and Lemieux (2001a) and Ottaviano and Peri (2012), we allow for a nested CES production function, in which the two groups of male and female workers are nested into age groups[5]. This model assumes a constant elasticity of substitution between any pair of age groups, allowing for a different parameter characterizing substitutability across gender. Now, omitting time and province subscripts for notational convenience, the labor aggregate L can be redefined as

$$L = \left[\sum_{x=1}^{X} \theta_x L_x^{\rho_X}\right]^{\frac{1}{\rho_X}} \tag{6}$$

where L_x is the number of workers in age class x, θ_x is the relative produc-

[3]We will return to this specification in section 4

[4]Before the reform, young men were called to serve in the army when they turned 18. Enrollement could be postponed for a few years for various reasons (the most common of which was enrollement in higher education). We will return to these issues in section 3.

[5]In our framework, age can be thought of as a proxy of labor market experience.

tivity parameter of that group and ρ_X is a parameter such that $\rho \equiv 1 - 1/\sigma_X$, where σ_X is the elasticity of substitution between any two age class. Gender differences are then easily nested in this framework by letting

$$L_x = [(B(f)_{jt}F_{jt})^{\rho} + (B(m)_{jt}M_{jt})^{\rho}]^{\frac{1}{\rho}} \tag{7}$$

as in equation 2. Following the same steps taken for the basic non-nested model, it is easy to derive an expression equivalent to equation 5, with a further subscript x indexing age classes.

3. Data and institutional details

The main data source for our study are microdata from the archives of the National Institute for Social Security (INPS). INPS has released an archive containing information on all individuals born on the 10th of March, June, September and December that have opened at least one position at INPS. Data are currently available for the 1985-2004 period. For 2005-06 we use aggregate data (at the year-province level) made available on the INPS website. We collected informations on wages and paid weeks, from which we derive measures of weekly wages and of weeks worked. For part-timers, weeks worked are adjusted to make them "full-time equivalent". For each year and each italian province[6] we compute average relative (female/male) wages and relative labor supply, defined as the ratio between the total number of weeks worked by females and the total number of weeks worked by males. In table 1 we present basic descriptive statistics for our main variables.[7]

The raw gender wage gap is around 13% for the sample of all workers; it decreases substantially for younger workers, being null for people in the 15-19 age class. The gap in labor supply is much higher, especially when we look at weeks and hours worked. The gap is smaller for employment levels, probably due to the fact that part-time jobs are relatively more common among women.

[6] There are currently 110 provinces in Italy; however, some of them were created in recent years, which is why in this paper we work with 94 provinces, aggregating up some of the newly establised provinces.

[7] Alternative measures of labor supply could be computed using microdata from the National Statistical Institute (Istat) Labor force surveys (LFS), namely relative employment levels and relative hours worked. However, they would not be perfectly consistent with wage data, so we will stick using weeks as our main labor supply variable. Results using employment levels and hours worked from LFS as measures of labor supply are available from the authors upon request.

Table 1: Descriptive statistics

	Full sample	15-19 years old	20-24 years old
Avg. w^F/w^M	0.877	1.041	0.971
(between SD)	(0.120)	(0.218)	(0.106)
(within SD)	(0.325)	(0.734)	(0.319)
Avg. F/M - weeks worked	0.514	0.506	0.701
(between SD)	(0.126)	(0.251)	(0.147)
(within SD)	(0.050)	(0.544)	(0.166)
Avg. F/M - employment	0.656	0.640	0.756
(between SD)	(0.150)	(0.212)	(0.195)
(within SD)	(0.073)	(0.517)	(0.202)
Avg. F/M - hours worked	0.540	0.607	0.692
(between SD)	(0.132)	(0.190)	(0.181)
(within SD)	(0.056)	(0.492)	(0.198)

Data on (weekly) wages and weeks worked are from INPS archives; data on employment and hours worked are from the Labor Force Survey.
Between standard deviation across 94 provinces; within standard deviation across 14 years (1992-2006).

3.1. Instrumental variables

Given that (relative) labor supply is likely to be correlated with shifts in relative labor demand, an instrumental-variable strategy is preferable to OLS when estimating equation 5. To construct instruments for relative labor supply we use two sources. The first is a natural experiment, i.e. the abolition of compulsory military service that took place during the 2000's. Military service in Italy used to be compulsory for all males as they turned 18 years old.[8] Enrollement could be waived under exceptional circumstances: the most common cases for a waiver were physical deficiencies, or the need to work in order to sustain the family (eg. in the case of orphans). Deferments were more common, and were related to continuing education: individuals enrolled in tertiary education could defer the service, provided they had a regular academic record. Once people turned 26, no further postponement was allowed. The length of service used to vary according to the sector of the military (army, navy or air force), but it was gradually reduced

[8]People were also allowed to opt out of military service and serve in civilian organizations such as NGO's.

until convergence to a period of 12 months for all sectors. In 2000 a reform set the framework for the gradual abolition of compulsory military service and for a transition toward a regime of professional and volunteer soldiers. The end of compulsory service was set to 2007 (meaning that the cohort of individuals born in 1985 would be the first to be totally exempted from service), the length of service was further reduced to 10 months and a gradual reduction in the size of the military was decided. As a consequence, during the transition phase, less and less individuals were called to service. In 2004 a new law anticipated the end of the transition period, and after 2005 nobody was called to serve. In the yearly budgetary law (so called *Legge Finanziaria*) the competent Minister defined the maximum number of graduate individuals that were to be called in the next year.[9] In figure 1 we plot the yearly number of (planned) draftees; the clear downward trend is consistent with the transition toward the new system based on professionals and volunteers.

Our instrument is based on the idea that the variation in figure 1 has generated exogenous variation in (relative) labor supply: as less and less young men were called to serve, they had the possibility to enter the labor market.[10] In figure 2 we plot the evolution of relative labor supply (defined as the log of the ratio of weeks worked by females over weeks worked by males) for three age classes: 15-19 years old, 20-24 years old, and the entire (active) population.

Figures 1 and 2 nicely illustrate how our instrument is supposed to work: as the number of draftees decrease over time, so does relative labor supply of young female workers, as more men are pushed into the labor force. Not surprisingly, we do not see any effect of this kind for aggregate labor supply (the dashed line in figure 2). Notice that we don't want to use as instrument the number of people who *actually* served in the military (or in NGO's), since that number is also likely to be endogenous to local labor market conditions (in particular due to the norms that regulated deferment of service). The *planned* number of draftees at the national level should be a better instrument, with the drawback that it does not display geographical variation across regions or provinces.[11] In principle,

[9] Graduati di leva aiuto specialisti: these were people with a high-school degree, and were thus allowed to specialize in some tasks during the service. This is a subset of the total number of individuals called to serve, but should be a good proxy for the total size of the cohort of draftees.

[10] The abolition of compulsory military service could have many effects, not only on labor market participation, but also on educational choices (Card and Lemieux, 2001b; Di Pietro, 2013; Cipollone and Rosolia, 2007). We abstract from these issues and only look (empirically) at the relationship between the number of people called to serve and relative labor supply.

[11] In spite of repeated contacts with the military administration, we were not able to get precise

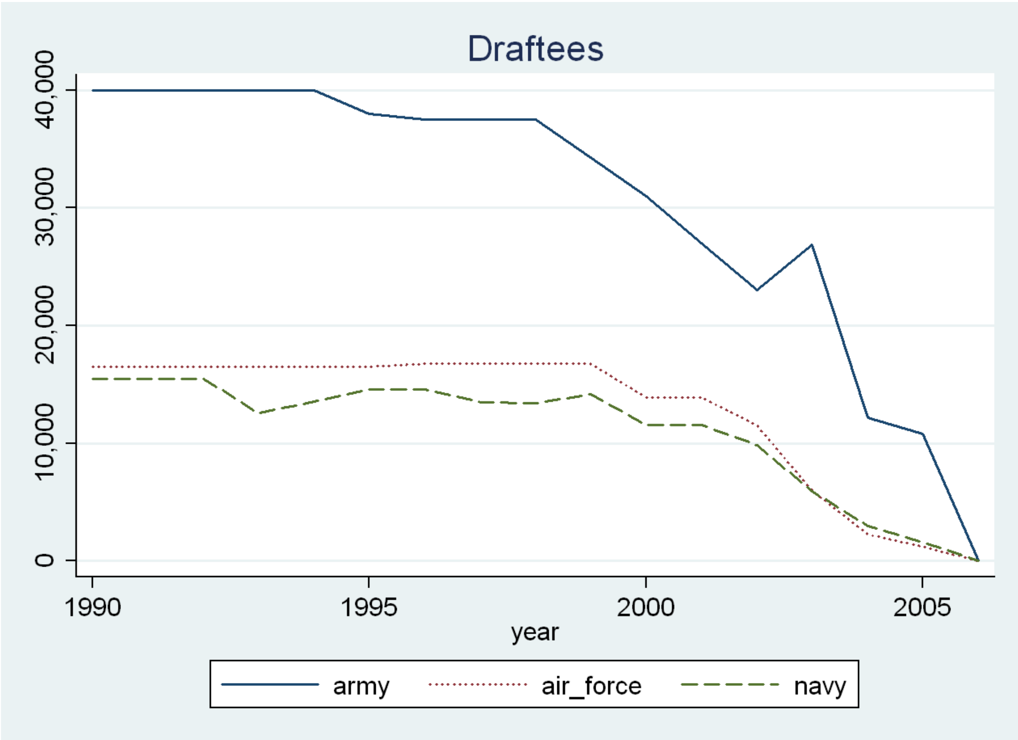

Figure 1: Maximum number of draftees

service was a duty for everyone. Each municipality had to compile a list of all eligible individuals, randomly ordered, which was then to be used by the military administration. The theoretical incidence of drafting in each single province (assuming away differences in the propensity to getting deferrals or exemptions) was therefore roughly proprtional to population shares. For this reason, we get cross-province variation by interacting the number of draftees with sex-ratios at birth, computed using historical population data from the National Statistical Institute (Istat). We construct sex-ratios at birth for individuals in a given cohort by taking the past number of newborn boys and girls in that province. The sex-ratio at birth for the cohort of individuals aged 15-19 years old in year x in province j is thus defined as the ratio between female and male children born $x-19$ to $x-15$ years before in province j. Given that our historical population data only starts in 1970, we compute sex-ratios at birth for two age classes (15-19 and 20-24 years old). The focus on younger cohorts is also motivated by the fact

informations concerning the criteria that were used to select draftees according to their residence.

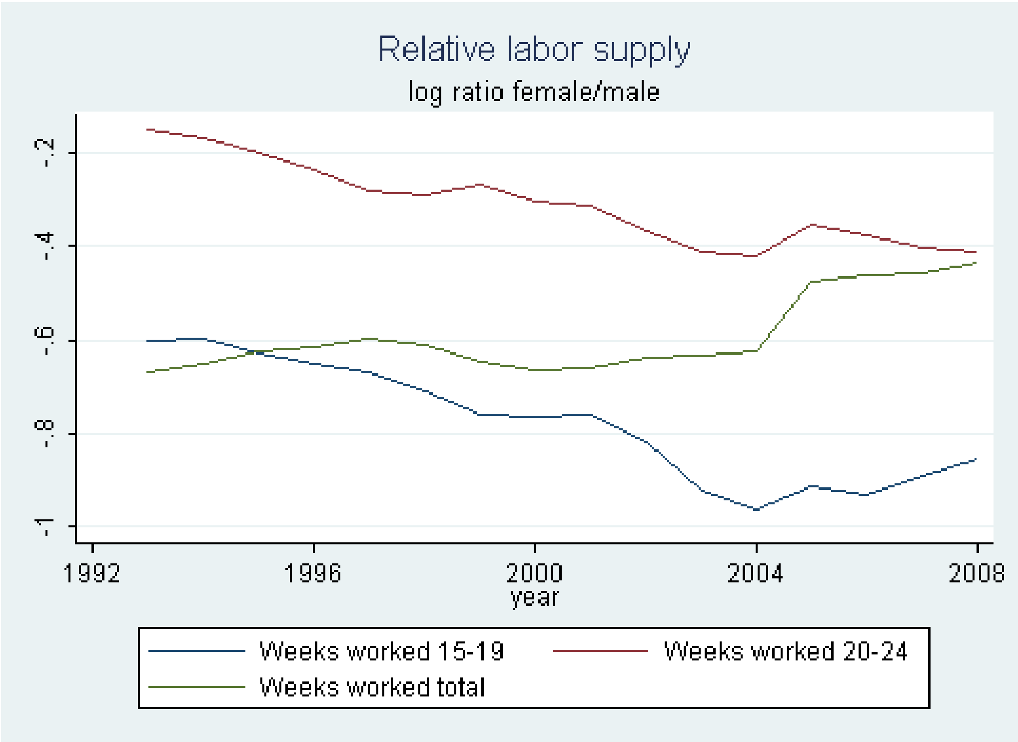

Figure 2: Relative labor supply

that they are the most affected by the reform of the military service. In figure 3 we plot sex-ratios at birth for the age class 15-19 for a number of selected provinces. The figure displays a good amount of both cross sectional and time variation in the data, with smaller provinces showing more erratic paths than larger ones.

In section 4 we will therefore use, as an instrument for relative labor supply, the interaction between sex-ratios at birth and the yearly number of draftees.

4. Estimates of the elasticity of substitution

The starting point of our empirical exercise is equation 5. In particular, we run the following regression:

$$\ln\left(\frac{w_{jt}^F}{w_{jt}^M}\right) = \alpha + \phi_j + \phi_t - \frac{1}{\sigma}\ln\left(\frac{F_{jt}}{M_{jt}}\right) + \epsilon_{jt} \tag{8}$$

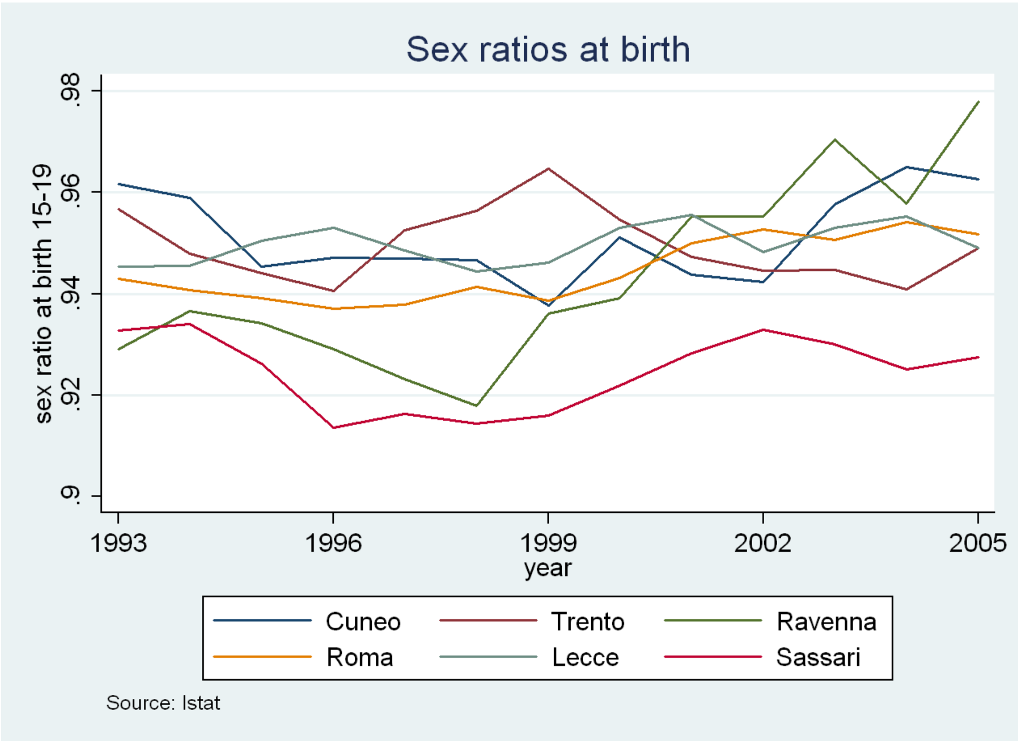

Figure 3: Sex-ratios at birth

Table 2: Estimates of $-1/\sigma$ in the non-nested CES model

Estimation method	15-19 years old		20-24 years old	
OLS	0.021	0.038	0.154***	0.219***
	(0.023)	(0.024)	(0.034)	(0.040)
2SLS	0.169	0.185	1.471	1.737
	(0.215)	(0.202)	(0.965)	(1.476)
AR C.I.	[-0.4,1.0]	[-0.4,1.0]	[0.1,5.2]	[0.2,7.5]
F-LIML (F=1)	0.158	0.175	1.308*	1.468
	(0.197)	(0.189)	(0.781)	(1.066)
AR C.I.	[-0.4,0.9]	[-0.4,0.9]	[0.1,4.4]	[0.2,5.6]
F-LIML (F=4)	0.132	0.153	0.995**	1.035*
	(0.159)	(0.157)	(0.490)	(0.552)
AR C.I.	[-0.4,0.7]	[-0.4,0.8]	[0.9,2.9]	[0.9,3.2]
First stage F-stat	9.06	11.80	3.14	1.61
Region FE	YES	NO	YES	NO
Province FE	NO	YES	NO	YES
Observations	1,290	1,290	1,315	1,315

*$p < 0.1$, **$p < 0.05$, ***$p < 0.01$. Clustered standard errors in parentheses. Weighted regression by the number of individual observations in each cell. All regressions control for year fixed effects.

where ϕ_j and ϕ_t are, respectively, province and year fixed effects, that control for unobserved productivity differences, relative supply is measured by (relative) weeks worked, and ϵ_{jt} is an error term. We weight each observations by the number of individuals (in the INPS microdata archive) used to construct each province-year cell. In the first row of table 2 we report results from OLS estimation of equation 8. In odd columns we use region fixed effects, while in even columns we use province fixed effects. In the second and third columns we restrict the sample to individuals aged 15-19 years old, and in the last two columns we restrict the sample to individuals aged 20-24 years old.

The estimated OLS coefficients imply large values of σ. The coefficient is not significantly different from zero for younger individuals, implying an infinite elasticity of substitution. Restricting the sample to individuals aged 20-24 years, the implied estimated elasticity is in the 4.5-6.6 range.

We then present instrumental variables estimates. The IV strategy is supposed to work better with younger individuals, who are most affected by the reform of the military service[12]. In particular, the instrument seems to work reasonably well for individuals in the 15-19 age bracket (columns 2 and 3 of tables 2 and 3). The estimated coefficients do not change much if we use province or region fixed effects, but estimates are quite imprecise and are never statistically different from zero, implying that male and female workers in that age class are perfect substitutes.

Table 3: First-stage and reduced-form regressions

	PANEL A: Non-nested CES model			
	15-19 years old		20-24 years old	
First-stage coefficient	3.028***	3.312***	1.290***	1.034**
	(1.006)	(0.928)	(0.729)	(0.786)
Reduced-form coefficient	-0.512	-0.612	-1.898***	-1.796**
	(0.618)	(0.668)	(0.703)	(0.693)
Year FE	YES	YES	YES	YES
Region FE	YES	NO	YES	NO
Province FE	NO	YES	NO	YES
Angrist-Pischke F-stat	9.06	11.80	3.14	1.61
	Panel B - Nested CES model			
First-stage coefficient	1.711***		1.382***	
	(0.651)		(0.656)	
Reduced-form coefficient	-1.471***		-1.393***	
	(0.450)		(0.490)	
Year FE	YES		YES	
Region FE	YES		NO	
Province FE	NO		YES	
Angrist-Pischke F-stat	6.91		4.60	

Clustered standard errors in parentheses. Observations are weighted by the number of individuals in each cell. In panel B we also control for age-class dummies (15-19 and 20-24). The labor supply measure is the total number of weeks worked. $*p < 0.1$, $**p < 0.05$, $***p < 0.01$.

When we turn to individuals aged 20-24 years (columns 4 and 5) the instru-

[12]The majority of individuals actually serving in the army is 19 years old.

ment looses strenght, with a first-stage F-stat below 5[13]. For this reason we estimate coefficients using Fuller-Limited Information Maximum Likelihood, with Fuller parameter set to 1 (which yields the most unbiased estimator) and 4 (to minimize the mean-squared error of the estimator; Fuller, 1977). Parameters estimated using Fuller-LIML are actually quite different from 2SLS. The Anderson-Rubin test provides weak-instrument robust inference, confirming that the estimated parameters are statistically different from zero. Taking Fuller-LIML with parameter 4 as our preferred specification would imply an elasticity of substitution close to 1 (meaning that the CES production function is actually a Cobb-Douglas). This value is much smaller than the ones proposed by Acemoglu, Autor, and Lyle (2004), who estimated an implied (long-run) elasticity of substitution between 2 and 3 for their entire sample, and about 5 for a subsample of individuals aged 25-34. Notice that the 2SLS estimates would suggest an even smaller elasticity of substitution (between .57 and .68, implying that male and female are actually gross complements). Given the weakness of the instrument, however, these estimates should be taken with extreme caution.

To lend strenght to our empirical strategy, it may be helpful to have a closer look at first-stage and reduced-form estimates, presented in table 3. As expected, the first-stage coefficient is positive and statistically significant: both higher sex-ratios at birth (which imply there should be more women relative to men) and a higher number of draftees (which imply there are less men available to work) should increase relative female labor supply. The reduced-form coefficient is not statistically significant for individuals aged 15-19, thus confirming the finding of perfect substitutability, while it is statistically significant for older workers.

Taking into account imperfect substitutability between workers of different ages, we can use the nested CES model presented in equations 6 and 7 and estimate the following equation:

$$\ln\left(\frac{w^F_{jtx}}{w^M_{jtx}}\right) = \alpha + \phi_j + \phi_t + \phi_x - \frac{1}{\sigma}\ln\left(\frac{F_{jtx}}{M_{jtx}}\right) + \epsilon_{jtx} \tag{9}$$

constructing relative wages and relative labor supply at the province-year-age class level, and adding fixed effects for age class.

Results are presented in table 4 (and in panel B of table 3).

Least squares estimates are estimated more precisely, with an implied elas-

[13]One possible reason is the fact that sex-ratios at birth are less powerful in predicting actual population shares for these individuals, that are presumably more geographically mobile than younger individuals.

Table 4: Estimates of $-1/\sigma$ in the nested CES model

Estimation method	Region FE	Province FE
OLS	0.069***	0.102***
	(0.020)	(0.023)
2SLS	0.860**	1.000*
	(0.422)	(0.607)
AR C.I.	[0.1,2.5]	[0.1,2.7]
F-LIML (F=1)	0.808**	0.904*
	(0.381)	(0.511)
AR C.I.	[0.1,2.3]	[0.1,2.7]
F-LIML (F=4)	0.688**	0.709**
	(0.296)	(0.343)
AR C.I.	[0.1,1.8]	[0.1,2.0]
First stage F-stat	6.91	4.60
Year FE	YES	YES
Age class FE	YES	YES
Observations	2,605	2,605

Clustered standard errors in parentheses. Observations are weighted by the number of individuals in each cell. The labor supply measure is the number of weeks worked.
$*p < 0.1$, $**p < 0.05$, $***p < 0.01$.

ticity of substitution of about 10. Results change substantially when we turn to instrumental-variable estimation. The implied elasticity of substitution for the sample of younger workers is in the range 1.0-1.4, closer to the values estimated by Acemoglu, Autor, and Lyle (2004) and to commonly accepted values of the elasticity of substitution between skilled and unskilled workers.[14] The instrument is still not as strong as we would like. However, both Fuller-LIML estimation and the Anderson-Rubin test (more robust to weak instruments) provide evidence in favor of statistically significant coefficients. Furthermore, with weak instruments coefficients are generally biased towards OLS. If this were indeed case, the elasticity of substitution between males and females could be even smaller than what we find.

5. Conclusions

In this paper we provide estimates of the elasticity of substitution between male and female workers. We exploit a natural experiment (the abolition of compulsory military service that took place in Italy in the early 2000s) and we use sex-ratios at birth to construct instruments for relative labor supply. We focus our attention on young workers (aged 15-24), given that they are the ones most directly affected by the reform and those for whom we were able to compute sex-ratios at birth. We are not able to reject the hypothesis that men and women in the 15-19 years age class are perfect substitutes, although parameters are not estimated very precisely. On the other hand, for workers aged 20-24 we find evidence of imperfect substitutability, with an elasticity of substitution between 0.6 and 1. When we take into account imperfect substitutability between workers of different age, our estimates of the elasticity of substitution ranges between 1.0 and 1.4 for workers in the 15-24 age interval. Such estimates are smaller than what previously found in the literature (Acemoglu, Autor, and Lyle, 2004) and are close to commonly accepted values of the elasticity of substitution between high-skilled and low-skilled workers.

[14] As a robustness check, we performed the same analysis using alternative measures of labor supply, namely employment levels and hours worked. Both measures are constructed using microdata from the Labor Force Survey. Overall, the results are broadly consistent with what we found using weeks worked. In the non-nested model, we still find that men and women are perfect substitutes in the 15-19 age bracket; for workers aged 20-24, the instrument appears to be too weak and we don't get meaningful parameter estimates. The nested CES model seems to work better. The implied elasticity of substitution ranges between 0.7 and 1.6 when using employment levels and between 0.8 and 1.6 when using hours worked. Results are available from the authors upon request.

Our results have important implications for the evaluation of policies aimed at increasing female labor force participation. The small degree of substitutability between male and female workers would imply small effects of increased female participation on male wages and employment levels; males would actually benefit from increased female participation if the true elasticity were below 1 (i.e. if male and female workers were complements). Given that the estimated elasticity of substitution decreases a lot when we focus on 20-24 years old individuals compared to 15-19 years old, it would be reasonable to expect smaller degrees of substitutability between older workers. Furthermore, given that our instrument is not particularly strong, our estimates could be biased towards OLS, implying an even smaller elasticity of substitution. One possible explanation for such a small degree of substitutability is possibly related to gender segregation: males and females are likely to self-select in different occupations (either for cultural or historical reasons, or beacuse they are endowed with different sets of skills), and so each gender would generally face little competition from increasing supply of workers of the opposite gender[15].

Our parameter estimates could be fruitfully employed in the calibration of richer models that take into account the response of the capital stock or other dimensions of heterogeneity in labor inputs (e.g. race or education), with the purpose of simulating the effects of different labor supply shocks (as in D'Amuri, Ottaviano, and Peri, 2010 and Ottaviano and Peri, 2012).

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