

# Health insurance and female labor supply in Taiwan

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## Abstract

We examine whether the availability of subsidized health insurance to the non-working population in Taiwan affected the labor force participation of married women. Our empirical identification exploits the fact that such insurance was first made available to wives of government employees, before being made universally available in Taiwan in 1995. We find that the availability of insurance for non-workers was associated with a 4 percentage point decline in labor force participation among married women, with larger declines among women from low income households. Countries considering universal health insurance as in Taiwan should anticipate similar declines in labor force participation. © 2001 Elsevier Science B.V. All rights reserved.

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## 1. Introduction

This paper provides an empirical examination of how the expansion of subsidized health insurance to the non-working population in Taiwan affected the labor supply of married women. We estimate reduced form labor force participation models for married women using a series of cross-sectional surveys, the Survey of Family Income and Expenditure, collected annually in Taiwan from 1969 to the present. Our empirical work identifies the effect of this insurance expansion on labor force participation by exploiting the fact that this insurance was only made available to wives of government employees beginning in 1982, before being made universally available in 1995. We find that the availability of subsidized health

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insurance for non-working women was associated with a roughly 4 percentage point decline in labor force participation among married women, with larger declines among women whose husbands have low earnings potential (as measured by their educational attainment). Both of these results are best explained by a simple static model of labor supply with incomplete health insurance markets, in which health insurance for non-working women is valued above its expected financial value due to a combination of risk aversion, highly variable health care expenses, and the lack of a market for private health insurance in Taiwan.

There is a large empirical literature, almost exclusively based on the US experience, that investigates the impact of health insurance on individual labor supply behavior (see Currie and Madrian, 1998 and Gruber, 1998 for recent surveys). The work most closely related to this paper falls into four categories. (1) Spouse insurance coverage and female labor force participation, (2) medicare and retirement, (3) employer provided health insurance and “job-lock” and (4) medicaid and the labor supply of single mothers. The common thread connecting our results to the recent papers in these four categories is that the link between employment and health insurance is found to have significant impacts on labor supply behavior which are larger than one would anticipate based on the expected dollar value of this insurance alone. However, if there is market failure in the private insurance market (say, due to adverse selection), then one would expect such large effects of health insurance on labor supply: risk averse individuals who cannot obtain insurance otherwise will value employer-provided health insurance above its expected dollar value. Thus, our paper adds to the evidence that employer-provided health insurance is an important determinant of labor supply behavior in the presence of incomplete insurance markets.

Section 2 provides some background on the key features of health insurance in Taiwan that provide the basis for our empirical work. Until recently, health insurance in Taiwan has only been available to working adults with no coverage of spouses or dependents. In 1982, the health insurance plan for government employees was amended to provide coverage of spouses, allowing government employees’ wives to withdraw from the labor market and still maintain health insurance coverage. In 1995, National Health Insurance was implemented in Taiwan and provided coverage to spouses of all workers. These changes provide the basis for our empirical work, as we compare the labor force participation of government employees’ wives to that of other married women in the years just before and after these changes in coverage.

Section 3 develops a simple static labor supply model as a guide for interpreting the empirical results. This model suggests that the impact of these insurance expansions should be largest on the labor force participation of women whose husbands have low earnings, which we proxy for in the empirical work with husband’s education. Such women would face low levels of consumption if they chose not to work and as a result are more concerned about both the level and the uncertainty of health expenses in the absence of insurance. The model also implies that the impact of these insurance expansions on labor force participation should be considerably larger than one would anticipate based on the expected value of the health insurance subsidy being provided (which is on the order of 1–3% of a women’s earnings).

The remaining sections of the paper present the data, empirical strategy and estimation results. All of our analysis relies on the Survey of Family Income and Expenditure, a cross-section survey of approximately 15,000 households collected annually in Taiwan since 1969. We use the surveys from 1979 to 1985 to analyze the 1982 change in insurance

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