



Wilfried
Martens Centre
for European Studies

#middleclass

Women in a Man's World

Labour Market Equality Driving
Economic Growth

Ronald Bachmann and Peggy Bechara



Policy Brief

October 2018

Gender equality is one of the core principles of the EU. This is set forth in, for example, Article 2 of the Treaty of the European Union. Equality between men and women includes equality in the labour market. However, this equality is far from having been achieved. Building on our forthcoming research for the Martens Centre, we explore in detail four factors that may explain the gender gap in labour force participation across countries. These factors are education, taxation, the provision of childcare, and cultural and historic norms. In discussing these factors, we focus on case-study countries which represent different regions and feature diverse institutional characteristics: Germany, Italy, Poland and Sweden. Through this analysis we propose four policy actions designed to place gender equality in the labour market at the heart of a growing European economy. These are (1) the promotion of better work-life balance (2) embedding equality in national tax systems (3) tackling gender stereotypes through education and (4) understanding the benefits of long term investments for long term gains in terms of equality policies. To conclude, we acknowledge that it is preferable to implement policies that are tailored towards the institutional and cultural settings in each country and to specific groups of workers. Thus it is important that gender policies should be established at the national level. Rather than seeking to expand its competencies in the areas of education, taxation or social policy, the EU should focus on setting overall objectives.

Keywords labour market participation, middle class, gender inequality, gender gap, labour market policies, European Union



Does Gender Equality in the Labour Market actually matter?

Reducing the gender gap in the labour market ranks high on the political agenda because solving it would have a number of positive consequences:

1. At the individual level, it would have a positive affect for those women who would like to participate more in the labour market but have previously been unable to do so.
2. Women's financial independence would increase, and this, in turn, would lower the risk of poverty and social exclusion. The latter, in particular, may occur as a result of reduced pension entitlements due to adverse working conditions during one's years of employment: lower pay, occupational gender segregation, part-time employment and career interruptions due to childcare.¹
3. At an aggregate level, a larger labour force generally implies higher employment, which is beneficial to the productive capacity of the economy. This means that narrowing the participation gap between men and women—that is, increasing the Labour Market Participation Rate (LMPR) of women—could increase growth rates in the EU and boost its long-term competitiveness. For example, the Nordic countries benefited in terms of economic growth when more women joined the workforce.² This is all the more important in the light of the ongoing demographic change: the workforce is shrinking as the population ages. Given that significant shortages of skilled labour may emerge in the future because of ongoing technological progress, activating the work potential of women by ensuring gender equality appears to be a promising way to enable sustainable growth.
4. Lower female employment rates imply higher costs because of missed public revenues. This is particularly the case when one looks at education. One can observe high enrolment rates for women which do not fully translate into beneficial labour market outcomes. Higher costs and lost revenues also

¹ European Commission, *2018 Report on Equality between Women and Men in the EU*, 2018.

² Organisation for Economic Co-operation and Development (OECD), *Is the Last Mile the Longest? Economic Gains from Gender Equality in Nordic Countries*, 2018.



arise because of lower contributions to the social security system and public expenditures on, for example, transfer payments and social benefits.

5. Promoting labour market equality could contribute to the economic convergence of member states and thus to a more cohesive EU.

What Factors can Explain International Disparities in Labour Market Inequality?

Childcare

The findings indicate that there is a positive relationship between the provision of childcare facilities and maternal labour market outcomes. The country with the most generous provisions in this context is Sweden. This country is characterised by high public expenditures on family benefits and a relatively high coverage of inexpensive, mainly full-time childcare as well as generous parental leave with periods earmarked for fathers. As a result, the labour market position of mothers tends to be better and thus the level of gender equality higher than in other countries.³ As such policies are expensive, it is important to realise that part of the costs is offset by the additional tax revenues and reduced transfer payments that are associated with an increase of women's labour market participation.

The overall results also suggest that high participation rates in formal childcare alone are not a prerequisite for high levels of maternal labour market participation. Rather, what decreases the barriers to supplying labour and encourages mothers to actively participate in the labour market is the combination of certain family-friendly policies. These policies include improving the accessibility, affordability and flexibility of childcare and legislating properly designed parental leave schemes. Furthermore, the example of Germany suggests that it can take time before the introduction of worker-friendly policies on childcare has a positive impact on the (full-time) employment of mothers.

³ For the Irish case, it has been shown that mothers who face high childcare costs work fewer hours (Russell, H., F. McGinnity, E. Fahey, Oona Kenny, *Maternal employment and the cost of childcare in Ireland*, Economic and Social Research Institute (ESRI) Research Series 73, 2018).



Tax system

Although the tax system is gender-neutral across the EU, its structure may lead to significant inequalities between men and women since it shapes their work incentives differently. As women often earn less than their spouses and are the secondary earners in the household, their tax burden under a joint taxation system with progressive tax rates is considerably larger than that of the primary earner. As a result, women's financial incentive to enter employment or increase their working hours is weakened. This secondary earner trap—which is particularly large in Germany—works against the achievement of gender equality in the labour market. By contrast, an individual taxation system, where the incomes of both spouses are taxed separately, favours dual-earner couples and incentivises women to participate in the labour market. However, even in countries with an individualised tax system, certain elements may pertain to both spouses—for example, tax allowances that can be transferred between partners or benefits provided against the family income. These elements may also affect the secondary earner's decisions about whether to enter work or whether to work more hours.

Education

Education is a crucial determinant of labour market success and of gender equality. European women who have not attained higher levels of education have much worse labour market outcomes than women who have. Furthermore, gender equality in labour market participation is much lower among the lower educated. It is encouraging that younger women have been attaining higher levels of education than their older counterparts. On average they are currently even more successful than men in completing school education and going on to higher education.

However, in many countries these successes in education do not directly translate into high labour market participation. One important factor in this context is the transition from the education system to the labour market. At this point disparities between men and women already become apparent, especially for individuals with low levels of education. Vocational training can facilitate the school-to-work transition. However, in many countries it is mainly men who take vocational training, and this can even increase gender inequalities in the labour market.



Cultural norms and societal conventions

Across Europe there are substantial differences in cultural norms and societal conventions with respect to women, and especially mothers, participating in the labour market. They have been shown to play an important role for gender equality in the labour market. Sometimes that effect is direct, as when gender norms partly determine the division of work between couples. Where more traditional norms hold sway, women do more unpaid work in the household, which reduces their participation in the labour market.

Education also matters in this context. In particular, there is a strong link between the differences in spouses' educational levels and the division of paid and unpaid work. The greater the educational differences, the more unpaid work women do in the household and the less they participate in the labour market. The increase in women's education levels has therefore contributed significantly to gender equality in the labour market.

Finally, cultural norms also have an indirect effect on labour market inequality. This can be observed where countries with norms that favour the participation of women in the labour market also tend to implement policies and establish institutions which increase this participation.

Proposed actions

In the EU member states, both the public and the private sector have already taken a number of important steps to improve women's labour market position and combat gender inequality. These include passing legislation aimed at providing employment-protected parental leave, implementing family-friendly policies and developing educational programmes to tackle the promotion of stereotypes.⁴ Besides country-specific policies, there are a series of EU policies aimed to equalise employment opportunities for men and women across the whole of Europe. An example for such an initiative is the proposed Work Life Balance Directive currently being debated in the European Parliament. This directive sets out a comprehensive package of complementary legal and policy measures, and addresses the modernisation of the existing EU legal framework for family-related leaves and flexible working arrangements. However, significant

⁴ Organisation for Economic Co-operation and Development (OECD), *OECD Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship*, 2017.



gender disparities still exist. Our research indicates that the level of inequality varies considerably across countries and certain socio-demographic groups. To further equalise employment opportunities for women and men, a series of key actions seems appropriate.

Promotion of a better work–life balance

The promotion of family-friendly policies enabling parents to reconcile their work and family responsibilities appears to be a promising way to enhance gender equality in the labour market. This issue is addressed by the proposed Work Life Balance Directive mentioned above. It aims to enable parents to balance their work and family lives better and to encourage a better sharing of care responsibilities between women and men. Further expanding the availability of affordable good-quality childcare is an important cornerstone when it comes to removing obstacles to entering into or staying in employment—particularly for women with little children. The provision of long-term childcare with flexible schedules gives mothers a real choice when it comes to care arrangements and—in combination with flexible working schemes provided by the employer—hours of work. In addition, properly designed paid parental leave allows women to take care of their children while being employment-protected, and thus to be able to return to the labour market soon.

Policies with the aim of reconciling work and family should explicitly include male workers. Incentivising fathers to make use of flexible work entitlements may result in a more equal sharing of paid and unpaid work between men and women and thus may help to reduce the motherhood penalty. To be more precise, reserving part of the parental leave entitlement for the exclusive and non-transferable use of fathers may encourage them to take care leave and increasingly share parental responsibilities in childcare. Combining such family-friendly policies has a strong potential to enhance women’s labour market attachment and to ensure gender equality.

Embedding equality in national tax systems

If the primary objective is to remove women’s disincentives to seeking employment, a careful reassessment of the advantages and disadvantages of joint and individual taxation systems is needed. This reappraisal should focus on gender equality. Designing a tax system which generates broadly similar financial incentives for both spouses to work may lead to a more equal distribution of paid and unpaid work within households. At the same time,



policy measures should not exert undue financial pressure on a parent who chooses to stay at home to take care of the children. In this context the system of additional benefits that determine the taxable income of spouses jointly rather than individually also needs to be re-examined. As individuals belonging to different socio-demographic groups can be expected to react differently, tax policies that aim at lowering the tax burden and systematically reducing conflicting work incentives appear to be more promising if they are targeted at groups of workers who react more strongly in terms of labour-market participation than others (e.g. married women, single mothers and individuals with lower levels of educational attainment).

Education and tackling gender stereotypes

Given that gender inequalities in terms of labour market participation fall as the level of educational attainment rises, the educational level of women in the EU should be fostered. Furthermore, to improve the transition of individuals between the education system and the labour market, and thus to reduce the first appearance of a gender gap at labour market entry, more intensive use of vocational training is likely to help. However, this will be effective only if the participation rate of women in vocational training rises above current levels. To achieve this aim, two pathways are imaginable: to increase the number of women enrolled in vocational training in areas traditionally dominated by men and to strengthen vocational training in areas generally associated with women.

As cultural norms play an important role in connection with gender equality in the labour market, positive perceptions of gender equality need to be promoted through the education system, for example, in schools. Furthermore, increasing the educational level of women also helps to reduce gender inequality in the labour market. This seems all the more important as attitudes towards working women are likely to strongly determine the effectiveness of policies aimed at increasing the participation of women in the labour market.

Financing: Long Term Investments for Long Term Gains

As with any investment, policies designed to increase women's opportunities to participate in the labour market—such as childcare provision and education—lead to costs, but also to economic returns. In the short run, the increased labour market participation of women can lead to an increase in tax revenues. For example, a more generous parental leave benefit scheme with a clear time limit on the payment of parental leave benefits can provide appropriate incentives for women to return to



the labour market after a period of childcare. In this context, RWI – Leibniz Institute for Economic Research (2015) shows that about one fourth of the expenditure on introducing a new parental leave scheme in Germany was financed through the additional tax revenues from women who—as a result of the reform—re-entered the labour market or increased their working hours. But as research has shown for Norway, one cannot assume that the costs of implementing new policies will always be financed in these ways. Rather, this will depend on the pre-existing situation and the details of the new policy.⁵

In the long run, it seems likely that increased gender equality through the increased labour force participation of women will also lead to increased tax revenues. This will probably be brought about by women being able to work in jobs that involve greater responsibility and productivity at the individual level, which will raise the productivity of the aggregate economy and thus also the growth rate of the economy.

Education plays a particular role when it comes to financing new policies. This is especially true when education occurs early in life because there is a double dividend from providing high-quality childcare. On the one hand, an increase in female labour market participation resulting from higher childcare availability may increase tax revenues immediately. On the other hand, high-quality childcare may also have positive returns for the taxpayer in the long run by boosting the education of children. For example, a pre-school education programme for disadvantaged children in the US has been shown to yield social benefits in the range of between 7% and 10%.⁶ These benefits include faster advancement in the education system, higher earnings and thus tax receipts, lower welfare payments and lower costs of crime. Better health and healthier behaviour have been noted as well, which in turn are likely to reduce costs of health care systems. Overall, this points to the importance of investing in education early in life as, in the words of the distinguished economist James Heckman ‘skills beget skills’.

⁵ Dahl, G., K.V. Loken, M. Mogstad and K. Salvanes, ‘What is the Case for Paid Maternity Leave?’ *Review of Economics and Statistics*, 98 (2016), 655-670.

⁶ Heckman, J.J., S-H Moon, R. Pinto, P.A. Savelyev and A. Yavitz, ‘The Rate of Return to the HighScope Perry Preschool Program’, *Journal of Public Economics*, 94 (2010), 114-128.



Building real personal choice and responsibility

To enhance women's position in the labour market and to combat gender inequalities, a comprehensive approach is needed that takes into account various policy fields. Expanding the availability and securing access to affordable good-quality childcare, designing a tax system that generates similar financial incentives for both spouses to work and ensuring greater gender equality in education—all of these measures will expand the range of personal choices and allow families to develop a work–life balance that reflects their personal preferences and circumstances. Addressing only one field would not yield the desired effects as policies may conflict with one another. For example, in Germany, the participation of mothers in (full-time) employment is rather low despite generous family policies, a situation that can to a great extent be explained by the disincentive effects of the tax system and the low provision of full-time childcare facilities.

Finally, rather than a general approach that is applied in the same way to all European countries, it is preferable to implement policies that are tailored towards the institutional and cultural settings in each country and to specific groups of workers. Thus it is important that gender policies should be established at the national level. Rather than seeking to expand its competencies in the areas of education, taxation or social policy, the EU should focus on setting overall objectives.



About the author

Ronald Bachmann is head of the research unit “Labour Markets, Education, Population” at RWI - Leibniz Institute for Economic Research in Essen, Germany, and professor of labour economics at the Düsseldorf Institute for Competition Economics (DICE) at Heinrich-Heine-Universität Düsseldorf. His research focuses on labour economics, with a particular emphasis on labour market dynamics, the evaluation of labour market policies, and European labour markets.

Peggy Bechara is a researcher in the “Labor Markets, Education, Population” research division of RWI. In her work she particularly focuses on the empirical analysis of labour market dynamics and the microsimulation of individual labour supply.



Credits

Wilfried Martens Centre for European Studies
Rue du Commerce 20
Brussels, BE 1000

The Wilfried Martens Centre for European Studies is the political foundation and think tank of the European People's Party (EPP), dedicated to the promotion of Christian Democrat, conservative and like-minded political values.

For more information please visit: www.martenscentre.eu

Editor: Eoin Drea, Senior Research Officer, Martens Centre
External Editor: Communicative English
Typesetting: Victoria Agency
Printed in Belgium by Drukkerij Jo Vandenbulcke

This publication receives funding from the European Parliament.
2018 © Wilfried Martens Centre for European Studies

The European Parliament and the Wilfried Martens Centre for European Studies assume no responsibility for facts or opinions expressed in this publication or their subsequent use.

Sole responsibility lies with the author of this publication.