

The Lisbon Process and European Women at Work

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Introduction

If there is a stylized fact characterizing postwar OECD labor markets, it is the womenization of the labor force. Wherever you go, whatever statistics you look at, a marked decline in the gender employment gap is noticeable — the difference in employment rates between men and women. The gap has not yet been eliminated anywhere, although some countries, notably the Nordics, get very close to a one-to-one female to male employment rate.

More women at work do not necessarily imply a more egalitarian distribution of pay between men and women. In fact, wage differentials between men and women are wider in countries with the largest female employment rates. For instance, the United States displays a significantly larger gender wage gap than Europe does, but has a female employment rate up to 10 percentage points higher than the EU average. Similarly, within the European Union, countries with the greatest labor market participation of women display the greatest differentials in average pay between men and women.

How can it be that the employment gap is narrowing down just as the wage gap is expanding? Or, at least, it is not contracting, in spite of equal opportunity legislation and ongoing changes in social norms which recognize a greater role for women in the world of work. A key explanation is that a greater spread in wages contributes to the increase in the participation of women, by allowing more job creation in services, and enabling the startup of many low-skill self-employment activities. Thus, greater wage differentials, including relatively large gender pay gaps, are often the outcome of the same processes that reduce the gender employment gap.

It is important to eliminate discrimination between men and women in the labor market, but eliminating discrimination does not necessarily mean average equal pay between men and women. On average, men have more work experience, and experience is rewarded with higher pay. At least initially, when female employment rates rise, it may be

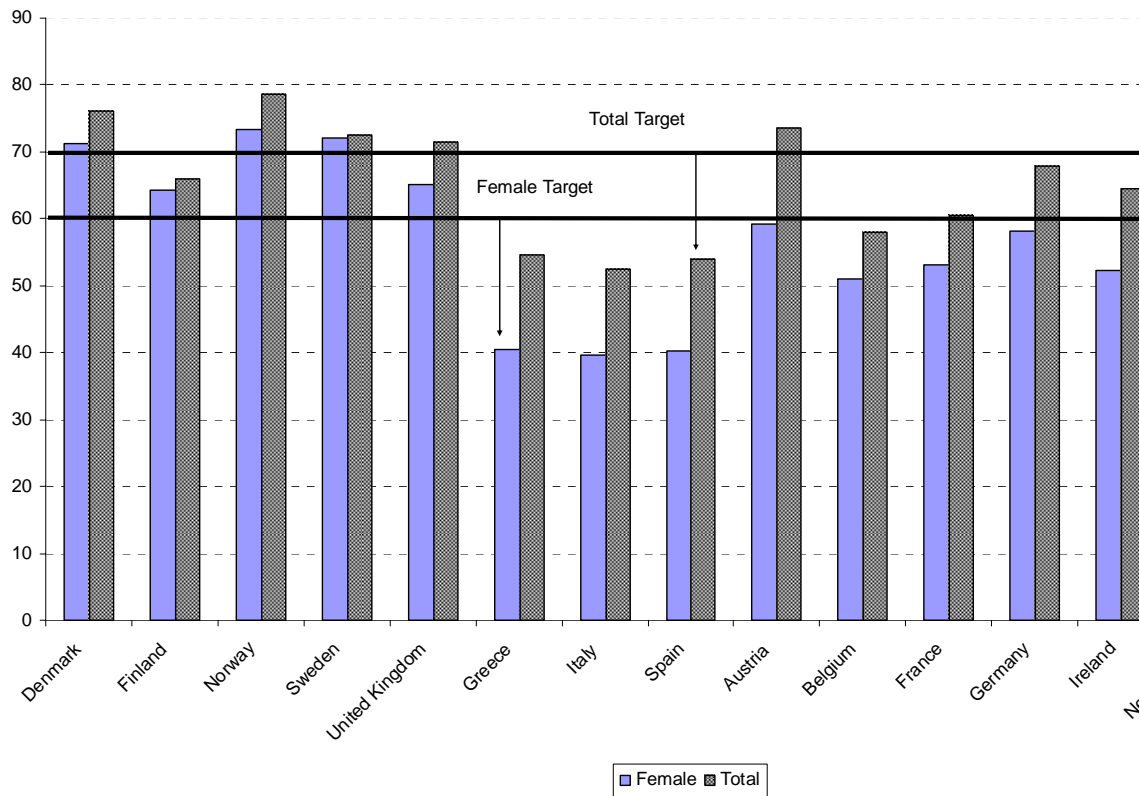
necessary to accept greater differentials in pay as unavoidable. Wage differentials between men and women should decline later on, when women move up the occupational ladder and acquire more work experience. If there is a sequencing in the closure of the gender gaps, it involves closing the employment gap first, and only later the wage gap, through the occupational promotion of women.

This is indeed the sequence envisaged for the EU in Lisbon. In this paper, I will briefly discuss the progress made towards reaching these targets and then focus on the potential and actual impediments facing higher participation of women notably in Southern Europe. I will then conclude discussing the policy tradeoffs involved by the removal of these impediments.

Lisbon and Beyond

In Lisbon in March 2000, the Heads of Governments of the European Union subscribed to the very ambitious goal of raising the employment rate of both men and women by almost 10 percentage points in less than ten years. This goal can only be achieved by the greater participation of women. Indeed, the EU leaders defined a specific, and even more ambitious, target for women: their employment rate should rise to 60 per cent from 54 per cent in less than ten years, by 2010. This involves a marked acceleration of the trend in the number of women at work when compared with previous decades. Figure 1 shows that Lisbon Target is far from being achieved. The Mediterranean countries in particular, are a long way behind.

Figure 1 – The Distance from Lisbon: Male and Female Employment Rates 2000



The Lisbon target is still far from being accomplished also because accelerating job creation for the benefit of women requires the relaxation of institutional, which are compressing wages from below. Many women indeed typically enter the labor market in low skill occupations, which can survive only if they can pay relatively low wages. The reason for the low pay is not necessarily discrimination. Women who are outside the labor force, like young workers, are often inexperienced, and sometimes have received only basic education and have not undergone training in marketable skills. When wage structures are compressed from below, the number of jobs that can be created at the low end of the productivity spectrum are limited, restricting an important stepping stone for women into better and more rewarding jobs.

One year after Lisbon, in 2001, the Spring EU Council in Stockholm implicitly acknowledged the risk that, in fact, a fast track to Lisbon could increase the gender wage gap, when it added a strong equal opportunities content to the Lisbon strategy. But gender wage gaps do not disappear simply by stating that men and women should be treated equally, especially at a time of the acceleration of women's entry into the labor market. Also, it is necessary for women to spend longer time in their jobs and acquire skills and experience.

Longer lives: and working lives?

Women employment rate have a marked age-cohort pattern. The gender employment gap is much smaller among relatively young age groups. In principle, it is possible to attain the Lisbon target in Southern Europe by 2010 simply by freezing all jobs currently held by women until they reach the age of 65. This, however, does not appear to be feasible at present. Longitudinal data suggest that employment rates are strongly declining with age also within the same cohort: women at work typically retire at ages 50 and 55 in these countries, driven mainly by the generous pension benefits that are available to them at this age.

Surprisingly enough, the literature on the participation of women to the labour market has overlooked the interactions between generosity of pension systems and labour supply decisions of women. This is unfortunate as women' labour supply is highly responsive to changes in the internal rates of returns of pensions systems. The income elasticity of labour supply of women is generally higher than that of men and women have longer life expectancies than men, hence are more likely to experience large variations in incomes as a result of changes in rules concerning their own pensions, widower pensions and retirement provisions for their husbands.

Thus, if we are to reach the Lisbon goals, something has to be done to reform pension systems. Otherwise incentives to retire early will be particularly strong, notably for women.

Potential crowding-out effects

Many Europeans believe in the lump-of labour fallacy, that is, the idea that there is a fixed number of jobs. According to this popular wisdom, more women at work would crowd-out other workers, potentially males as many jobs can be done by both men and women,. It is easy to document that there is not such a thing like a lump of labour: the countries experiencing higher participation of women also display the highest employment rates in Europe.

Yet, in the short term, an acceleration of the womenization of the workforce may also involve, at least temporarily, some crowding out of groups with a weak attachment to the labor market. The most likely groups to be affected are youths, who, like women, are new entrants to the labor market, with low occupational experience. This has partly occurred in countries that have experienced a relatively fast and sizeable increase in female employment rates. But over time, as women at work acquire more job-related experience, they no longer compete for jobs with young people. Female employment eventually complements male (and youth) employment, encouraging the creation of new jobs.

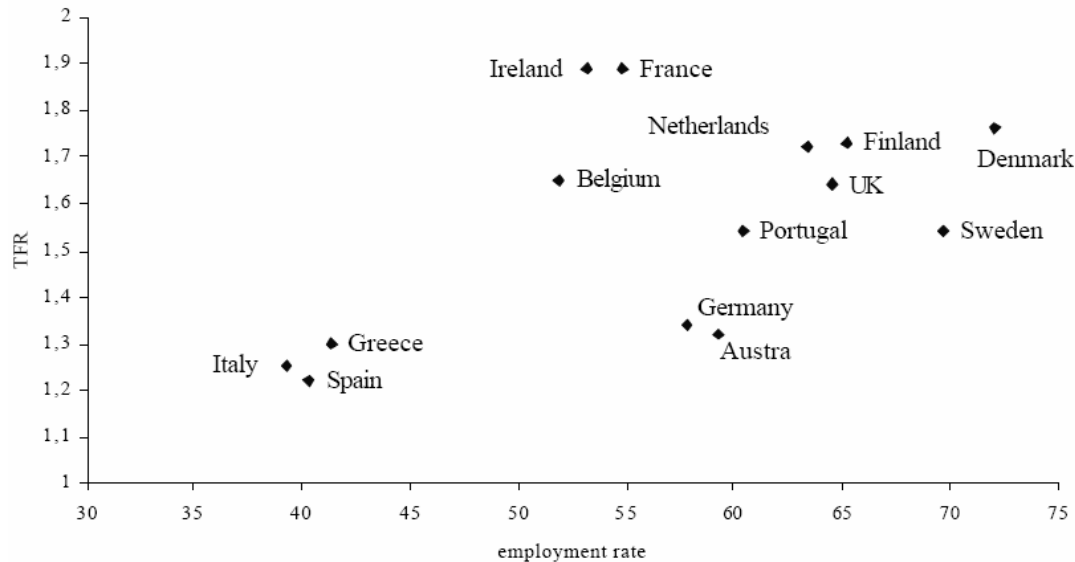
Although in the short run, a steep increase in women's employment rates may create some distributional tensions, more women at work sooner or later contribute to more job creation to everyone's benefit.

Women participation and fertility: is there a trade-off?

More women at work may also negatively affect fertility rates in a Continent where the population is rapidly ageing and therefore is in desperate need of more children. 'Old Europe' may get even older, while 'New Europe' disappointingly, is not rejuvenating the European population: the new member countries of the European Union are ageing almost as rapidly as the rest of Europe, although many EU Members could learn from the experience of the Scandinavian countries. The same goes for the new members of the European Union which experienced a sharp drop in female employment rates in their transition from central planning to a market economy. The way in which the state treats women with children at work, in terms of childcare facilities or tax benefits available, are keys to this concern. The welfare of children may also be badly affected insofar as their mothers devote less time to childcare. This is more likely to happen when jobs available to mothers are full-time, the child is young and there is no second parent (father). Or, if there is one, because of social norms and career concerns, he does not substitute for the working mother when she has young children.

If these risks could be considered likely to occur, data don't confirm them. Despite what is written above, Figure 2 describes a positive correlation between female employment rate and fertility rate.

Figure 2 – Women’s employment rates and fertility in Europe.



Source: Eurostat (2001).

The countries that currently experience the lowest levels of fertility (Spain, Italy and Greece) are those with relatively low levels of female labour force participation while the countries with higher fertility rates (Denmark, France) display relatively high female labour force participation rates.

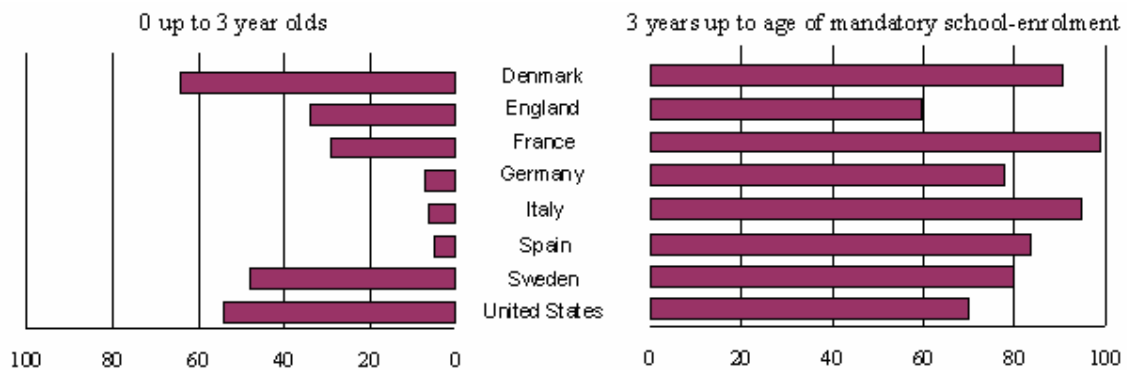
The interpretation of this relationship between participation and fertility has mainly been found in the changes in social norms towards working mothers and in the effects of policies that diminish incompatibilities between childbearing and female employment: more generous parental leave, greater availability of childcare, and greater opportunities for flexible hours and part-time employment. Again, a key to avoid the unfavorable outcomes would be a new set of policy instruments that enables more flexibility in the types of jobs that women with children can get, without putting at risk their job security and promotion prospects.

In fact social policies directed at reducing the costs that children incur by increasing the availability, quality and affordability of childcare may positively affect both fertility and participation rate. Figure 3 and Figure 4 show that the increasing availability of childcare

can be an explanation for the change in fertility over time and for the observed changes in the correlation between women's participation and fertility.

Figure 3 shows the availability of child care in several countries (proportion of children under 3 and from 3 up to the mandatory school-enrolment, who benefit from formal childcare arrangement). For children under 3, the supply of childcare varies across countries considerably. Nordic countries have the highest proportion (40%) while in Southern Europe it is much lower (5-6%). For older children the coverage tends to be much higher and tends to be more uniformly distributed across countries.

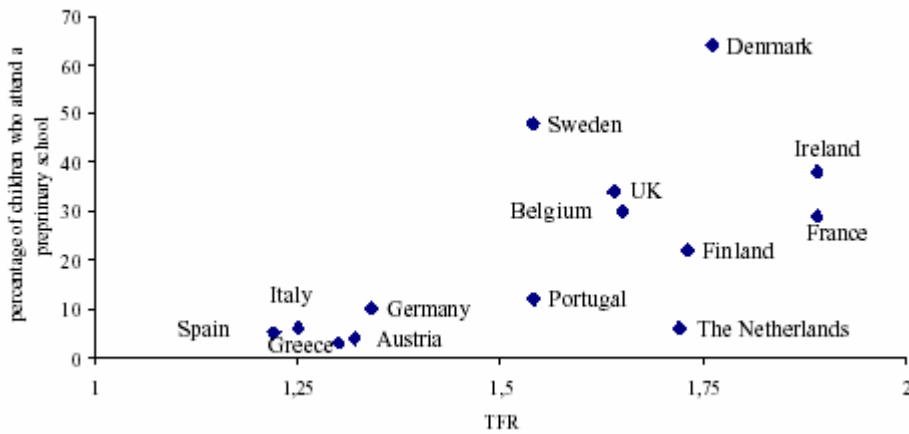
Figure 3 – Proportion of children using childcare.



Source: OECD (2001).

Figure 4 confirms that in most of the high fertility countries childcare availability is relative large, whereas in Southern European countries childcare availability and fertility are low.

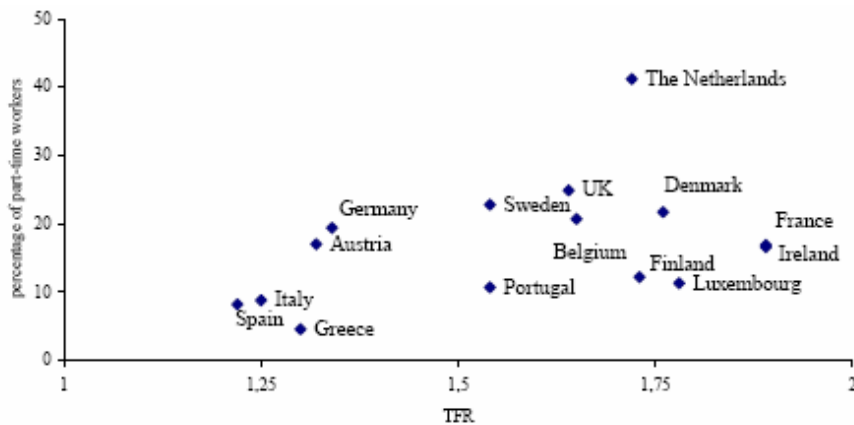
Figure 4 – Childcare availability and fertility.



Source: Eurostat (2001).

Finally, Figure 5 shows that in the countries where part-time jobs opportunities are higher, fertility rates are also higher.

Figure 6 – Part-time and fertility.



Source: Eurostat (2001).

The policy trade-offs

The discussion above suggests that a faster womenization of the workforce may involve, at least temporarily, some policy trade-offs, which need to be carefully addressed with pragmatism to avoid further obstacles on the way to achieving the Lisbon targets.

To give an example, the deregulation of labor markets should be accompanied by measures ‘greasing the wheels’ of flows from temporary to permanent employment. This is because women often tend to concentrate on the many flexible contractual types created by the partial labor market reforms carried out in Europe in the last decade. If women feel stuck in such temporary jobs, they may decide either not to have children, because they do not have the secure income required to raise a family: or, they may abandon work altogether and focus on the family if they do not have financial needs. If women are to combine family with work, it is important to make sure that labor market reforms do not increase gender segregation. For example, one might envisage tax-deductions or other incentives for the conversion of temporary into permanent contracts for women. Longer-term contractual arrangements for women should also encourage investment in job-specific human capital, reducing the likelihood of women competing for jobs with young workers.

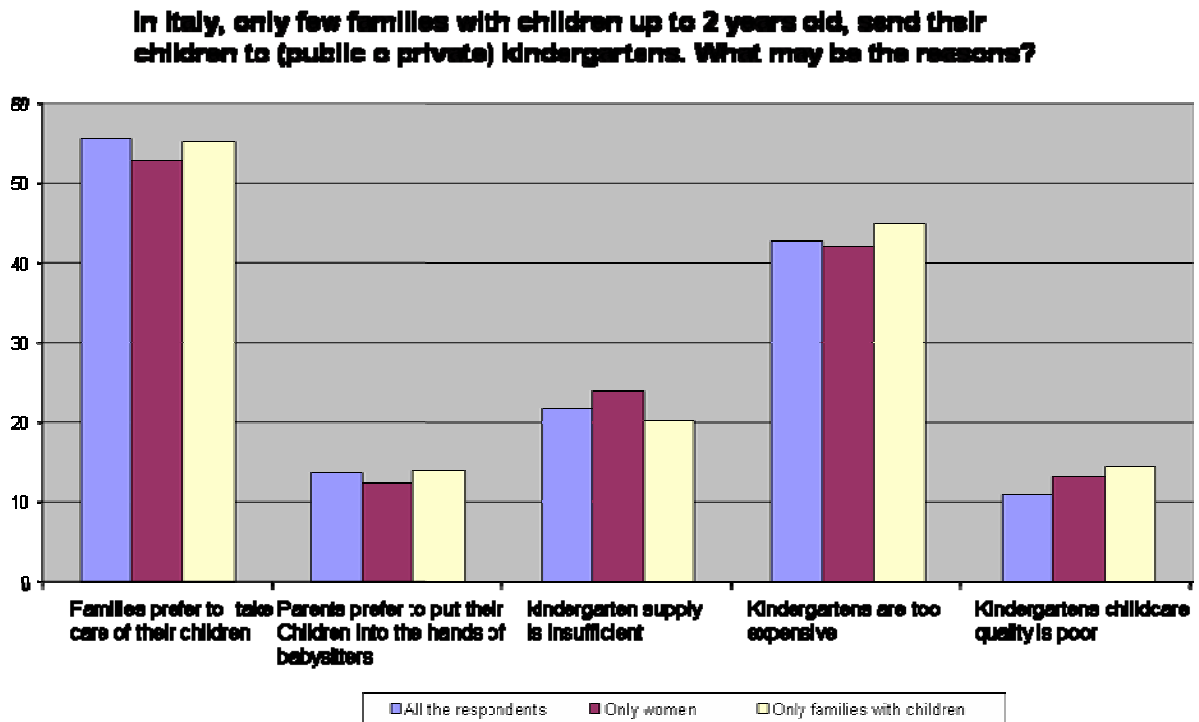
The European condition, seems to be characterized by two equilibria: one includes the Southern countries, which display low participation of women and low fertility; the other is dominated by the Nordic countries, which have very high participation rates, and fertility rates above the EU average. Within the first group of countries, those countries that have higher female participation rates have lower fertility rates, but within the second group of countries, countries with higher female participation rates also have higher fertility rates. Why? There are probably several self-fulfilling mechanisms at work. Some of these mechanisms may be tax-related: having fewer women at work means having a narrower tax base; this prevents the financing of family-friendly policies which could attenuate, or even reverse, the family-employment trade-off. A second explanation for the presence of two equilibria is related to inertia in social norms which traditionally assign a

greater role to men in the labor market. Insofar as such values change only when the children of working mothers start their own families, a vicious circle is set in motion whereby countries with few mothers at work tend to oppose policies and childcare infrastructures that might support more employment for women with children. This leads to the conclusion that cultural change is needed alongside economic incentives to increase women's participation. Otherwise, Southern countries will struggle to move to the high-high equilibrium of northern Europe: it may take more than one generation reaching retirement age before norms can be changed from within.

The role of Social Customs

A survey carried out by Fondazione Rodolfo De Benedetti in May 2003 confirms the impression that this type of mechanism is indeed at work in Southern European countries. The sample was composed by Italian population aged 18-79. A thousand of individuals, of which 51% women, 19% who has children in family and 35% female working has been interviewed. From answers it results that a very small fraction of children aged 0 to 3 are in kindergartens in Italy. Asked whether this limited use of formal childcare facilities was due to a lack of affordable kindergartens, or to a preference of families for informal childcare by grandmothers and relatives, a majority of Italian families opted for the second explanation. (Figure 6).

Figure 6 – Use of formal childcare facilities in Italy.



This means that policies encouraging formal childcare, which are often carried out in the Nordic countries, may be quite ineffective in Southern countries, where more neutral (with respect to the choice between formal and informal childcare) policies to encourage fertility, together with employment, should possibly be devised. A ‘convex combination’ of work and motherhood, could be more appropriate for Southern Europe. The model should combine part-time employment, childcare and parental leave following the birth of a child with limited effects on career prospects.

However, this requires a richer welfare state, which may not yet be affordable in countries with a relatively narrow tax base due to a flourishing shadow economy, like Italy, Spain and Portugal.

Moreover, in light of the higher wage elasticity of labor supply that characterizes women and individuals at low and average income levels, marginal tax reductions for low wage earners would have the potential to achieve two goals simultaneously. On the one hand,

they would contribute to reducing gender inequalities in the distribution of income after tax. On the other hand, they would increase rewards from participation in the labor market of women, thereby accelerating the convergence of male and female employment rates.

Under these conditions, minimum guaranteed income schemes, a negative income tax or workfare systems, if well designed may actually contribute to increasing female labor supply. This is so because there is evidence that if a way is found to increase two incomes from work, more women will want to come into the labor market and seek employment. Therefore such policy instruments might also simultaneously contribute to a higher female employment, a lower gender gap and a more equal income distribution, partly offsetting the persistently large gender wage gaps.