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# **Luxembourg Income Study Working Paper Series**

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**A Cross-national Analysis of Economic Gender Equity  
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**Vicky Lovell**

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**A cross-national analysis of economic gender equity  
and welfare state development**

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**ABSTRACT**

Economic gender equity exists when women and men equitably share economic activity, both within and outside markets, and economic compensation, although they may combine labor market and domestic work differently and receive compensation from different sources. This analysis uses an Index of Economic Gender Equity to compare women's and men's relative economic well-being in eleven industrialized democracies. Equity increases when leftist and women's political representation is stronger and under conditions of higher labor demand and rising labor costs. Women's educational achievement does not influence women's relative economic standing, but the ratio of women's to men's levels of education does. Although each country's cultural environment flavors its gender relations, political, economic and social institutions can be effective in advancing the gender equity of economic relations.

Welfare state development theorists are interested in why and how governments take on responsibility for providing social welfare programs that bolster the economic security of particular groups of citizens -- programs that redistribute economic resources from one set of citizens to another. They typically analyze policies such as unemployment compensation and old-age pensions that are designed to protect individuals with typical male work patterns. Theorists concerned with gender equity and women's economic security add a different focus. Do women benefit from these states' emancipatory programs in the same way that men do? Do welfare states acknowledge the economic vulnerabilities that stem from women's roles as caregivers and offer the same level of program generosity to women as to men?

This work explores these questions by examining a set of hypotheses about the circumstances under which state programs and policies strengthen women's economic autonomy. Governments are assumed to be a major determinant of gendered labor market outcomes, as well as of social policies that boost women's status. Even in countries such as the U.S. that advocate unregulated markets, the parameters of labor market activity and macroeconomic policy are set by the government. Thus, individuals' overall economic experiences are seen as the outcome of a set of government policies, whether the specific quality of those experiences is shaped deliberately in pursuit of clearly defined goals, such as equality or economic security, or emerges as a by-product of other policy interests.

## **Methodology**

This analysis focuses on economic relationships in eleven industrialized democracies. It begins by describing an Index of Economic Gender Equity ("Index") that measures the level of parity between women's and men's economic outcomes. Separate bivariate regressions examine the relationship between the Index and sixteen

factors that may cause states to increase women's economic security. Hypotheses both from the general welfare state development literature and from literature specifically concerned with gender equality are explored.

### **Index of economic gender equity**

The Index of Economic Gender Equity was developed in the larger research project of which this paper is a part (Loveil 1998). It reflects Nelson's expansive definition of economics: "the study of how humans, in interaction with each other and the environment, provide for their own survival and health" (1993, 34). This definition includes economic activity both within and outside markets. Evaluation of the equity of the overall division of labor and compensation between women and men acknowledges the constraints placed on labor market activity by responsibility for the essential tasks of child-rearing and caring for members of the labor force. Government payments in the form of family benefits that compensate for this work of social reproduction are also considered, as is the equity of the overall income distribution.

The Index is a composite scale with five items:

1. the ratio of women's to men's labor force participation rates, for individuals aged 15 through 64;
2. the ratio of women's to men's mean annual earnings, for all individuals aged 15 to 64 with earnings;
3. the ratio of men's to women's unemployment rates;
4. the ratio of state payments to women for the work of social reproduction, for households containing only one adult, to mean male earnings; and
5. the ratio of the proportion of men to the proportion of women in the bottom quintile of the income distribution.

Scores on the items are standardized to prevent the components with higher variance and wider scales from disproportionately influencing the summed Index score.

The Index values were calculated for Australia, Belgium, Canada, Denmark, Finland, Germany, the Netherlands, Norway, Sweden, the U.K. and the U.S. Data are for the year closest to 1990 for which all necessary data are available and come from the Luxembourg Income Study (LIS), the U.S. Census Bureau's Current Population Reports and OECD publications (1995, 1996a).<sup>1</sup>

These eleven countries fall into three groups on the basis of their Index scores (Table 1). The Scandinavian countries Sweden, Finland and Denmark show the highest levels of economic gender equity. Norway, Belgium, Canada, the U.S. and the U.K. form a group with moderate economic gender equity. Germany, Australia and the Netherlands follow, with the lowest economic gender equity.

Table 1:  
Index of Economic Gender Equity

	Country	Index score
Highest economic gender equity	Sweden	5.39
	Finland	4.10
	Denmark	2.51
Moderate economic gender equity	Norway	.20
	Belgium	-.16
	Canada	-.34
	U.S.	-.40
	U.K.	-.84
Lowest economic gender equity	Germany	-2.59
	Australia	-3.15
	Netherlands	-4.73

### Hypotheses regarding development of welfare programs

<sup>1</sup> Use of U.K. data requires the following acknowledgment: "Material from the LIS is Crown Copyright; has been made available by the Office for National Statistics through the ESRC Data Archive; and has been used by permission. Neither the Office of National Statistics nor the ESRC Data Archive bear any responsibility for the analysis or the interpretation of the data reported here."

General economic health. A country's level of economic affluence may determine its welfare policies simply by providing a surplus that can be distributed (Myles 1984). Economic growth may act separately to inspire social policies, if "an expanding economy allows the capitalist class greater flexibility in responding to working-class movements" (Brenner and Ramas 1984, 63). Whatever the specific mechanism connecting women's well-being and economic expansion, Galor and Weil conclude that "an increase in women's relative wages seems to be part of the process of economic development" (1996, 375).

Economic affluence is measured in real GDP per capita in purchasing power parity, which makes each country's GDP scale comparable to all the others in terms of the standard of living it provides to its citizens. Economic growth is represented by the mean percent change in real GDP per capita over the twenty-year period culminating with the Index score calculation.

Levels of economic development and rates of economic growth do not explain women's economic standing (Table 2). The three countries with the highest GDP per capita -- the U.S., Canada and Norway -- all fall in the moderate range of Index scores. Sweden, with the highest Index value, had the lowest GDP growth (1.38 percent), while Finland, with the second highest Index score, had the second highest growth rate (2.56 percent). Women's relative economic status does not increase as a natural consequence of economic expansion or development.

Table 2:  
General economic health and economic gender equity

	r	t <sup>2</sup>
GDP per capita	-.10	0.31
Change in GDP per capita	-.07	0.21

Sources: Real GDP: Penn World Tables (Huber et al. 1997); change in GDP: OECD 1982, 1996b.

<sup>2</sup> T-values are given in absolute values.

Social cohesiveness. It makes intuitive sense that cultural homogeneity might provide a stronger foundation for social welfare policies than a fractious mix of hostile or competitive ethnic populations. Koblik (1975) identifies Sweden's cultural homogeneity before WWII as an important factor in its welfare state development. Alva Myrdal called on Swedes to reflect their "vital sense of identification with the interests of others" in new pronatalist policies (1945, 102). However, Hero and Tolbert found that blacks in the U.S. have better educational and health outcomes in states with larger minority populations, perhaps because "in the heterogeneous environment, core values themselves are more open to debate because the stakes are more pronounced racially and ethnically" (1996, 868).

Measuring cultural homogeneity as the ratio of foreign to native population, this work finds no evidence that women benefit or suffer from any particular level of social homogeneity (Table 3).

Table 3:  
Social cohesiveness and economic gender equity

	r	t
Ratio of foreign to native population	-.43	1.43

Note: Data for Australia, Canada and the U.S. is foreign-born.  
Source: SOPEMI 1997.

Threats to state security. Citizens may be able to demand economic benefits from the state if the state needs citizens' support for a high level of military preparedness, for either offensive or defensive postures (Andreski 1968), or to ward off internal threats such as economic depression (Adams 1982). Adding a gender focus to these hypotheses suggests that the state might augment women's economic status when it supports expensive war machinery, since policies increasing women's well-being might make them more loyal to the state. Melman (1997) argues to the contrary, noting that large military complexes drain a country's economic assets,



leaving inadequate resources for such social policies as day care and anti-poverty programs -- programs that particularly benefit women.

States' military build-up as measured by the ratio of military expenditures to GDP does not affect Index scores (Table 4).

Table 4:  
Threats to state security and economic gender equity

	r	t
Military expenditures as percent of GDP	-.16	.48

Source: Stockholm International Peace Research Institute, Yearbook World Armaments and Disarmaments, various years; International Institute for Peace and Conflict Resolution, World Armaments and Disarmaments: SIPRI, various years (Huber et al. 1997).

Political mobilization. The influence of working-class political parties on welfare state effort is one of the major hypotheses tested by welfare state analysis. Myles' (1984) examination of pension coverage finds a correlation between leftist rule and the amount of income replacement offered to retired workers. Esping-Andersen (1990) concludes that left-party power affects the distributional structures of social support, but not the level of support. If left parties are effective in strengthening the economic position of low-income individuals, women should benefit, whether their interests are an explicit goal or not.

Left-party strength can be measured as the presence of left parties in government or by union power. Studies of union influence show that centralized wage-setting increases wage equality overall (Perrons 1995) and gender wage equality specifically (Blau and Kahn 1995), although union density does not improve women's labor market outcomes (Whitehouse 1992). Other research supports the impact of wage bargaining structures rather than union density and bargaining coverage on wage equality (OECD 1997).

Women's political mobilization may have a separate effect and focus from leftist parties and unions. Walby (1990) contends that women were a significant factor in creating welfare state programs through organized political action, and Lovenduski (1990) attributes the Nordic policy emphasis on women's concerns in the 1970s to women's sophisticated political activism. However, Hernes (1984) argues that Swedish women have not won representation in the corporatist structures where real political power is wielded.

In this work, left-party political power is represented by a cumulative score, from 1946 to the Index year, of the percentage of all parliamentary seats held by government parties that are left-party seats. Wage-setting institutions are proxied by scores evaluating the degree of centralization and coordination of wage-bargaining structures and the sum of these two variables. Women's political strength is measured as the percent of lower-chamber or unicameral parliamentary seats held by women.

Left-party strength and women's share of parliamentary seats both have large and significant effects on countries' Index scores (Table 5). The measures of the centralization and coordination of wage-setting structures have no effect.

Table 5:  
Political mobilization and economic gender equity

	r	t
Left cabinet shares	.75**	3.03
Centralization	.18	0.53
Coordination	.06	0.17
Centralization and coordination	.11	0.34
Women's political representation	.68**	2.78

Note: Data unavailability excludes Canada and the U.S. from the left cabinet shares analysis.

Sources: Cabinet shares: Huber et al. 1997; wage-setting: OECD 1997; women representatives: United Nations 1994.

\*\* p < .05

The strong effect of both the significant variables is driven by the experiences of Nordic women. Sweden, Norway, Denmark and Finland have scores of 38.6, 33.9, 25.4 and 19.3, respectively, on the left-party variable, while the remaining countries all have scores below 15. Haas (1992) attributes the generosity of parental leave programs in Sweden to the long rule of the Social Democrats, who pursued Socialist goals of equality and women's liberation. Women also hold at least one-third of lower-chamber seats in Sweden, Denmark, Finland and Norway, which is a much higher percentage than the next highest country (the Netherlands, with 21.3%).

Labor demand. Women's economic standing may be affected by a country's overall labor demand. When demographic change or economic expansion creates a labor shortage, firms or states may recruit immigrant labor or enact policies to draw new groups of workers, such as mothers, into the labor market. The choice between these two groups may be very deliberate, as was Sweden's turn from immigrant to female labor in the 1960s (Haas 1992), or it may occur tacitly under long-standing traditions of manipulating the immigrant labor supply, as in the U.S.

Rising labor costs may lead to policies that encourage women's labor force participation, if demand shifts away from native males to immigrant and female groups -- groups more likely to accept low wages because of their weak economic and political position.

Labor demand, proxied by the standardized unemployment rate, has a strong effect on economic gender equity (Table 6), indicating that women are likely to benefit from tight labor markets. Rising labor costs also increase women's relative economic standing. The rate of increase in total employment and the presence of immigrant workers (measured as foreign labor's share of the labor force) have no effect.

Table 6:  
Labor demand and economic gender equity

	r	t
Unemployment rate	-.58*	2.16

Rate of increase in total employment	- .30	0.94
Labor cost	.58*	1.99
Foreign labor as percent of total labor force	- .27	0.80

Note: Australia is excluded from the labor cost analysis because of lack of data. Foreign labor data for Australia, Canada and the U.S. is foreign-born.

Sources: Unemployment rate: OECD Employment Outlook, various years; employment increase, labor cost: OECD 1982, 1996b; foreign labor: SOPEMI 1997.

\* p < .10

Women's economic options. Increased educational achievement is often interpreted as a sign of greater gender equality, since it shows women's access to resources that may strengthen their autonomy. Higher levels of education may also introduce women to value-challenging concepts that encourage them to resist gender inequality (Galor and Weil 1996). However, Greenhalgh (1985) notes that women's educational efforts may be designed to strengthen their bargaining position in the market for marriage, which would not increase women's economic independence. Wolchik (1981) points out that high levels of educational specialization by sex may support occupational sex segregation, which depresses women's wages.

Low fertility rates can contribute to economic gender equity directly, by making women's labor force participation easier. Maternalist policies inspired by concern about declining population can also keep women in the labor force while they're tending new children, thereby increasing their earnings, or add family allowance transfers to their income.

Women's level of educational achievement itself, represented by the third-level enrollment ratio, is not associated with Index values, but the ratio of women's to men's enrollment ratios has a strong and significant effect (Table 7). Fertility has a large effect, but it is not statistically significant and it works in the opposite direction than anticipated: higher fertility is associated with greater economic gender equity. This shows changes in fertility since maternalist policies were implemented. For

instance, Sweden's low birth rate provoked its original maternity leave program, but now, sixty-one years later, Sweden has a high fertility rate.

Table 7:  
Women's economic options and economic gender equity

	r	t
Female enrollment ratio	.15	0.46
Ratio, female to male enrollment ratios	.59*	2.17
Fertility rate	.50	1.75

Sources: Enrollment data: UNESCO; fertility rate: United Nations.

\*  $p < .10$

### Discussion and policy implications

This work seeks to uncover the most important factors in establishing overall economic outcomes that are in fact influenced by many disparate elements in a country's policy configuration. Macroeconomic objectives, labor market regulation, social policy concerns, norms about gender equality, and cultural acceptance of governmental intervention in markets and families all affect economic gender equity. Social policies that support maternity and anti-poverty programs have a large impact on women's economic status, but they may reflect different social goals and norms than policies working toward equality in the labor market.

Several salient points arise from this work. One is that centralized wage-setting institutions are not a factor in increasing economic gender equity, despite their clearly established role in achieving overall wage equality. However, other measures of political influence -- left-party presence and women's political representation -- are strongly associated with economic gender equity. Although a change in government can reverse the beneficial policy focus of leftist parties and women may be excluded from corporatist power structures, political representation is effective in advancing economic gender equity.

Women's educational achievement does not increase economic gender equity, but the ratio of women's to men's does. As with economic growth and development,

women's relative status does not automatically rise with more education. It is the relative emphasis on women's and men's education that affects economic gender equity.

Although low fertility rates prompted many maternalist policies, current levels of fertility are not related to economic gender equity. Sweden may be an example of a successful pronatalist policy campaign: it has gone from having a "population crisis" in the inter-war period to having the highest fertility rate of this group of countries. Once instituted, family benefit programs are rarely abolished (Wennemo 1992), and Sweden's original concerns for maternity and children's standards of living may have been subsumed by widespread interest in equality. Ironically, Germany, with its strong emphasis on women's roles as mothers and homemakers, now has the lowest fertility rate of all the countries in this study.

Two measures of labor demand significantly influence economic gender equity: unemployment and labor cost. This suggests that women's economic status rises relative to men's when employers turn to new groups of workers either because unemployment is low or because other workers are increasingly expensive.

Is this set of significant factors enough to explain the variation in economic gender equity among this set of countries? Or are other, more idiosyncratic and cultural aspects of each country's policy environment more important? A review of one case from each level of measured economic gender equity certainly reveals strong ideological stances that could inspire the differences in economic gender equity. For example, Sweden, the country with the highest Index score, took a deliberate and marked turn toward embracing the goal of gender equality in the 1960s. Cultural norms advocating a proactive government and collective solutions to problems of disadvantage provide a strong framework for economic policies that increase women's autonomy. The variables that help explain Sweden's high economic gender equity, such as women's political representation and the educational sex ratio, may be

artifacts of the same cultural milieu as the economic indicators, rather than forces driving economic outcomes.

In the U.S., equality is widely characterized as a fundamental goal of public policy and an essential feature of public institutions. This goal is pursued mainly through equality legislation such as equal employment opportunity laws, which, Whitehouse (1992) observes, is ineffective in increasing women's labor force participation or the gender earnings ratio. There is only very occasional public debate presenting women as a unitary group in the polity with legitimate demands for policy attention. Here, a moderate level of economic gender equity is achieved through the efforts of individual women who are neither assisted much by social policies nor held back overall by cultural exhortation of women's domestic role.

Germany's low score on the Index reflects traditional cultural views about what women's appropriate roles are and the lack of social and labor market policies that would allow women to achieve economic autonomy. Women's labor market activity is discouraged, yet women do not receive income from the state for their work in the domestic sphere.

Analysis of economic gender equity presents a comprehensive view of the relative economic well-being of women and men, in terms of labor market outcomes and the effects of social policies. Equity is partially a consequence of cultural views; as Lane (1992) points out, states affect gender relations both with specific policies and by shaping the environment in which individuals are socialized to certain gender roles. Within these cultural environments, specific structures matter. Comparing economic gender equity across countries highlights the importance of political, economic and social institutions that can be effective in achieving a more equitable economic status for women.

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