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Polachek, Solomon W.

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Equal pay legislation and the gender wage gap

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SOLOMON W. POLACHEK
State University of New York at Binghamton, USA, Liverpool Hope University, UK, and IZA, Germany

I Z A
World of Labor
Evidence-based policy making

Equal pay legislation and the gender wage gap

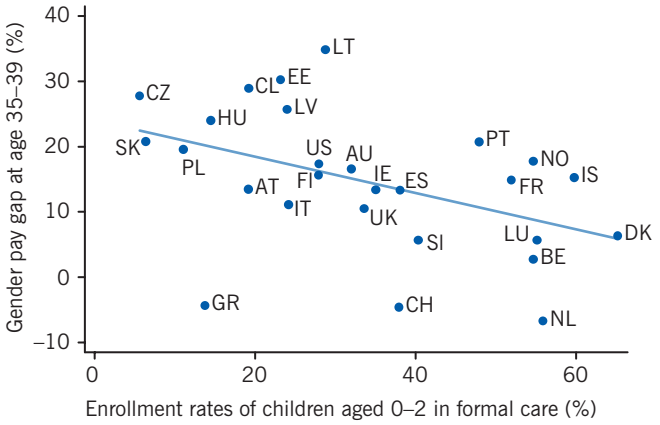
Despite major efforts at equal pay legislation, gender pay inequality still exists—how can this be put right?

Keywords: gender, wage inequality, human capital

ELEVATOR PITCH

Despite equal pay legislation dating back 50 years, American women still earn 18% less than their male counterparts. In the UK, with its Equal Pay Act of 1970, and France, which legislated in 1972, the gap is 17% and 10% respectively, and in Australia it remains around 14%. Interestingly, the gender pay gap is relatively small for the young but increases as men and women grow older. Similarly, it is large when comparing married men and women, but smaller for singles. Just what can explain these wage patterns? And what can governments do to speed up wage convergence to close the gender pay gap? Clearly, the gender pay gap continues to be an important policy issue.

Gender pay gap and childcare enrollment, 2017



Source: Author's compilation calculated from OECD data. Online at: https://data.oecd.org/

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KEY FINDINGS

Pros

- Policies promoting greater daycare utilization reduce the gender wage gap.
- Policies aimed at increasing women's lifetime work can reduce the gender wage gap.
- The gender wage gap is smallest between single men and single women.
- The gender wage gap is decreasing in most countries.

Cons

- Audit studies designed to "catch" employers in the act find little evidence of gender discrimination.
- Impact studies of the effects of anti-discrimination policies find little effect on reducing the gender wage gap.
- The gender wage gap is largest (typically around 25%) between married (or cohabitating) men and women with children.
- Equal pay legislation has not been effective in eliminating the gender pay gap.

AUTHOR'S MAIN MESSAGE

Equal pay policies based on wage outcomes have had little effect on the gender wage gap, while policies reducing women's labor force participation, such as marriage taxes, even increase the gender wage gap. Strong evidence supports the idea that accumulated human capital narrows the gender wage gap. In addition, the gender gap is already decreasing in most countries because changing demographics have led to women's increased lifetime labor force participation. Nevertheless, effective policies, especially those that promote even greater lifetime work for women, can successfully reduce the gender wage gap further.

MOTIVATION

Some employees earn more than others. As such, pay variation between workers is the norm rather than the exception. While valid economic arguments can explain some of this variation, accounting for why certain demographic groups consistently earn less than the norm is problematic. This is particularly true for women.

If the pattern of lower female wages arises because of discrimination, then the economy is inadequately remunerating a large group of valuable employees. On the other hand, if unequal economic outcomes result from differing individual choices (despite equal opportunity), then government intervention could lead to a distorted allocation of resources. Such misallocations could result in inefficiencies within the economy so that the whole economy suffers; and in the long term, women are not helped. Thus, understanding the source of earnings differences is important.

DISCUSSION OF PROS AND CONS

The various evidence on gender pay gaps

The first known gender gap estimate is biblical. Leviticus Chapter 27 pegs the monetary difference between prime-age male and female Israelite slaves at 40%. In the US, from 1960 to 1980, women earned 59 cents compared with every dollar earned by men, implying a comparable 41% wage gap. Over time, this wage gap has been more or less declining. It was approximately 70% in 1815, around 40% from about 1950 to 1980, and currently it is about 18%.

Interestingly, the gender wage gap is not the same for all segments of the population. Even within a country, demographic factors influence this gap. Take the US: Figure 1 indicates the female-to-male earnings ratio by age. For 16 to 24-year-olds, the earnings gap is 5.1%; yet, for 55 to 64-year-olds, it rises to a whopping 26.3%. In short, the gender pay gap is relatively small for the young, but systematically increases as men and women age, and it is five times larger for older men and women than younger men and women.

Differential pay patterns also emerge when marital and cohabitation status are observed. Single, non-partnered men earn about 11% more than single non-partnered women. However, between currently partnered men and women with children the wage gap is around 47%, over four times as great.

Figure 1. US earnings ratios according to age in 2016

Age	*Female median usual weekly earnings compared to males who are full-time wage and salary workers*
16–24	94.9
25–34	88.8
35–44	83.3
45–54	77.8
55–64	73.7
65+	75.5

Source: US Bureau of Labor Statistics. "Women's and men's earnings by age in 2016." Online at:https://www.bls.gov/opub/ted/2017/womens-and-mens-earnings-by-age-in-2016.htm

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Children also exacerbate the gap. Each extra child increases earnings differences by between 2% and 10%. Furthermore, children's detrimental effect on women's wages relative to men's is bigger when children are spaced widely apart [1].

The effects of age, partnering arrangements, and children hold up not just in the US, but across most countries for which there are data. Figure 2 presents measures for selected countries. Again, the percentage wage gap for cohabitating men and women is also typically about four times the gap for single childless workers. In addition, as in the US, the earnings gap is far wider among couples with children.

Discrimination is not the explanation

Discrimination does not explain these wage patterns. The *Oxford English Dictionary* defines discrimination as "the unjust or prejudicial treatment of different categories of people, especially on the grounds of race, age, or sex." Paying women less than men obviously seems to fit this definition. But, according to Figure 1 and Figure 2, the story is more complicated. Not all groups of women are paid significantly less. The gender wage gap for single non-cohabitating men and women is relatively small compared with the almost 50% for cohabitating men and women with children. The gender wage gap for young workers is about 5%, but over 25% for 55 to 64-year-old men and women. If gender discrimination were the issue, the reason why businesses pay single men and single women relatively comparable salaries would need to be explained. The same applies to young men and young women. Why businesses discriminate against older women but not against younger women would need to be explained. If corporations discriminate by gender, why are these employers paying *any* groups of men and women roughly equal pay? Why is there *no* discrimination against young single women, but large amounts of discrimination against older married women, especially those with children?

Clearly, gender alone cannot be the explanation; otherwise a large wage gap between single as well as young men and women would be observed, but this is not what the data show. A theory of *differential* discrimination (why discrimination varies by age, by marital/cohabitation status, and by number of children) would be required. Also, a theory would be needed for why these patterns are universal given that they pervade similarly in virtually all countries for which there are data.

To date, there is no reasonable theory of differential discrimination. But there is another explanation: the "life cycle human capital framework" explains why age, marital status, and children affect men's and women's wages so differently, and why these patterns appear universal across so many countries. It reveals why cohabitating or getting married and having children widen the gender wage gap, and why single and young men and women have comparable wages. It also explains the long-term trend that the gender wage gap is decreasing.

The life cycle human capital framework explains the gender wage gap patterns

Men and women work different amounts. In 1970 the US married men's labor force participation rate (the proportion of men at work or actively looking for work) was 86.1%; married women's was 40.5%. This 45.6 percentage point difference implies that more than twice as many married men were working or were actively looking for work than

Figure 2. Female annual earnings compared to male annual earnings, individuals aged 20–54 with positive earnings

Country	*Year*	*Partner status*		
		Partner/with children <18 (%)	*Partner/no children <18 (%)*	*No partner/no children <18 (%)*
Australia	2004	59	75	95
Austria	2004	46	66	89
Belgium	2000	59	70	84
Brazil	2007	66	75	100
Canada	2004	56	68	86
Columbia	2004	90	88	115
Czech Republic	2004	64	85	85
Denmark	2004	71	79	86
Estonia	2004	59	76	80
Finland	2004	77	84	94
France	2000	65	71	96
Germany	2004	38	74	88
Greece	2004	75	79	108
Guatemala	2004	43	40	62
Hungary	2004	71	97	NA
Ireland	2000	61	76	NA
Israel	2004	68	79	77
Italy	2004	84	85	89
Luxembourg	2004	50	60	85
Mexico	2004	58	62	80
Netherlands	2004	45	60	82
Norway	2004	58	73	90
Peru	2004	29	45	50
Poland	2004	74	86	139
Russia	2000	52	65	101
Slovenia	2004	89	96	109
South Korea	2004	42	42	67
Spain	2004	70	81	101
Sweden	2004	62	74	91
Taiwan	2004	66	65	97
UK	2004	56	75	89
Uruguay	2004	69	77	105
US	2004	53	68	89

Source: Author's compilation calculated from the Luxembourg Income Study (LIS). Online at: http://www.lisproject.org/

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women. Even in 2017, the difference remained stark. For married men, the labor force participation rate was 72.9%, whereas for married women it was 58.2%. For singles, these differences are much smaller. The labor force participation rate was 65.5% for single men and 56.8% for single women in 1970, and 67.4% for single men and 64.3% for single women in 2017.

Gender differences in work also differ dramatically by age and marital status. Columns 4, 7, 10, and 13 of Figure 3 give the difference in labor force participation between men and women. Single men's and single women's labor force participation rates are relatively similar and follow comparable patterns over the life cycle. Married male and female labor force participation deviate widely from each other. In short, single men and women accumulate work experience at roughly similar rates, but married women accumulate far less labor market experience than married men. Whereas these figures represent average "cross-sectional" data (i.e. taking a snapshot at one point in time), the same results hold up when "longitudinal" data that follow men and women over their lives are used.

Figure 3. The US civilian labor force as a percentage of the civilian non-institutional population

	Single						*Married*					
	1970			*2018*			*1970*			*2018*		
Age	*Men*	*Women*	*M-F difference*	*Men*	*Women*	*M-F difference*	*Men*	*Women*	*M-F difference*	*Men*	*Women*	*M-F difference*
16–19	54.6	44.7	9.9				92.3	37.8	54.5			
18–24				64.4	63.8	0.6				91.5	60.9	30.6
20–24	73.8	73.0	0.8				94.7	47.9	46.8			
25–34	87.9	81.4	6.5	85.4	81.3	4.1	98	38.8	59.2	94.5	68.8	25.7
35–44	86.2	78.6	7.6	83.7	78.2	5.3	98.1	46.8	51.3	94.0	73.0	21.0
45–64	75.7	73.0	2.7	65.9	67.3	–1.4	91.2	44.0	47.2	83.6	67.4	16.4

Source: Author's own compilation calculated from CPS data. Online at: https://www.bls.gov/cps/lfcharacteristics.htm

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The experience individuals accumulate over their working lives determines their earnings. The logical reason for this is *human capital acquisition*. In this framework, people invest in education and on-the-job training to acquire skills which enhance their future earnings. The more years a person expects to work, the greater the payoff from these investments. Thus, those who expect to work more tend to enroll in more job-related schooling and then take jobs requiring more continued training. Overall this leads to a somewhat different occupational structure for men and women, sometimes called occupational segregation [2]. Those who expect to drop out of work (perhaps to spend time raising a family, which is less prevalent currently than in previous decades) tend to choose jobs that require less training. These jobs become less obsolete than other jobs during work absences, but have lower wages. The same holds true for jobs with flexible hours, also more desired among women with children [3].

Single women, who have lifetime work expectations equal to those of single men, invest similarly, and so these two groups earn comparable wages. Whereas women starting out in their careers earn wages almost comparable to those of men, they fall behind over time since they accumulate less experience and training than their male counterparts. There is something of a rebound upon re-entry to the labor force after childbearing and child-rearing [4]. A response to this phenomenon is to advocate policies that induce women to work more continuously throughout their lives. Getting rid of marriage taxes and supporting low-cost daycare for children are policies consistent with this approach.

Further evidence

The academic literature gives a number of other more specific reasons for the gender wage gap. One set of reasons relates to discrimination, alluded to above. These include unfair hiring, pay, and promotion practices. Another set entails biological and psychological differences between the genders. The latter argues men and women are wired differently.

Discrimination

Outright corporate discrimination is the motivation in several theories. Of these, one is corporate monopsony power, given that there are far fewer employers (buyers of labor) than employees (sellers of labor). Another is employer misperceptions regarding women's relative productivity (statistical discrimination). Another is male employees' distaste for working with female fellow employees. Finally, another is consumer distaste for purchasing products made or sold by women. While each of these discrimination theories ring true in some way, they are all inconsistent with the evidence.

Take each in turn. Paying higher wages to men for the same job (outright corporate discrimination) is incompatible with profit maximization: profits sink when a firm pays men more, rather than hiring less expensive female employees. Stereotyping based on statistical discrimination is possible in the short term, but surely not in the longer term. Firms cannot sustain long-term losses in a competitive environment either by paying men more or by promoting less qualified men over more qualified women, or simply by misjudging women's abilities. A male distaste for female co-workers is possible, but if so this distaste should result in gender-segregated work environments, not gender wage differences within the company. Consumer distaste for products made and sold by women is also possible, but all too often consumers are not aware who actually makes a product. Relative wages for females in sales roles, an occupation with direct consumer contact, are no different from those in other occupations. Women earn less than men in (almost) all of the most common occupations, including sales. Recent evidence on Uber driver data, where wages are based solely on productivity, also confirms lower female wages.

Each type of possible discrimination is inconsistent with negligible wage differences among single non-cohabitating childless and younger employees compared with the large gap among married or cohabitating men and women (especially those with children, and even more so for those who space children widely apart). Again, why would companies discriminate against married women, and even more so against married women with children, but not against younger women, or singles? If employers discriminate based on misperceptions of worker productivity or male employee (offensive or derogatory) feelings about working with women, then why do they discriminate against married

women, but not single women? Why should children (especially widely spaced children) exacerbate the level of discrimination?

Psychological differences

Additionally, some recent research contends innate psychological factors that differentiate men and women serve as a possible explanation. These studies encompass attitudinal differences toward risk, competition, and negotiation prowess. Mostly based on laboratory studies, they argue women are more risk averse, dislike competition, and are reluctant to negotiate job promotions and pay raises. However, at least with respect to risk, some allege many of the lab experiments overstate these effects because publication bias leads journals to accept more studies finding gender differences than not [5]. Nevertheless, even if true, for policy purposes it must be established whether these gender differences are innate, perhaps biological in that men and women are "hardwired" differently, or whether these differences in traits are motivated by environmental sociological considerations. But in any case these studies do not concentrate on age or marital status differences, so even if true, they too cannot explain why marriage (cohabitation) and children are associated with a large gender pay gap while being single is associated with a small pay gap. Nor do these psychological factors explain the age-related patterns or the secular convergence in male and female wages over the last century.

Physiological differences

One biological factor relates to the marital wage gap as well as the observed long-term secular wage convergence. Human capital theory argues that men and women invest differently in training based on expected lifetime work. Division of labor in the home typically leads husbands to specialize in paid work, whereas wives do not. Time budget studies confirm married men spend less time in household activities and more time at work than their wives. One reason for this division of labor is husbands are generally older and often more educated than their wives. This husband age advantage instigates division of labor because husbands' earnings potential exceeds their wives' earnings potential, even at the outset of marriage.

But why are men generally older than their wives? An important underlying factor in marriage is the demand for children. In that light, as far as fecundity is concerned, the biological clock runs out more quickly for women than men. It is therefore understandable that younger wives are more valuable for procreation. Men, however, have the biological advantage of being able to procreate whether they are younger or older. As seen in the US and Canada, where over time the demand for children has diminished, the husband–wife age gap has narrowed, and the gender wage gap has declined [6].

Audit and correspondence studies

Few studies estimate discrimination directly. However, audit studies represent one approach that attempts to catch firms in the act. Early studies of this type sent pairs of trained auditors, matched in all respects except the variable being tested (typically gender or race), to rent an apartment, purchase a house, or get a loan. This method has also been used to explore labor markets. Now called correspondence studies because rather than trained auditors, matched resumes are submitted in response to job advertisements for pairs of job-seekers, again presumably equal in all respects except race or gender.

In this case, gender discrimination arises if resumes containing male names get more callbacks than female resumes.

One often-cited study focuses on race, but by sending out resumes with both (white and African-American) male and female names the research also sheds light on gender [7]. This study finds no evidence in the US that firms call women back for interviews less frequently than men. Indeed, it appears women are called back about 12% more than men once a job application is submitted. An audit study of restaurant hiring finds no gender effects in job offers or interviews in low- and medium-price establishments, although there are significant differences in favor of men for high-price venues.

With respect to other countries, a correspondence study in Chile finds no significant differences in callback rates across groups based on equivalent resumes varying only in gender, name and surname, and place of residence. On the other hand, a study using data derived from an Australian experiment finds that female candidates are more likely to receive a callback, with the difference being largest in occupations that are more female-dominated. A comparable study in Sweden finds women get 15% more callbacks than men. Similarly, a correspondence study in China taking account of facial attractiveness as well as gender finds women have a 10% higher callback rate than men. Thus studies attempting to estimate discrimination directly do not find strong gender differences in the hiring process.

Affirmative action

Because of difficulties in evaluating government legislation, there are only a few impact studies on equal pay legislation and on more general affirmative action policies, and they yield mixed results. An early analysis based on US data indicates that, despite the introduction of the 1963 Equal Pay Act and Title VII of the 1964 Civil Rights Act, between 1967 and 1974 the male–female earnings differential remained virtually unchanged at 0.68. However, the analysis explains part of this result as possibly being due to the rapid rise in young women's labor force participation (therefore commanding lower wages because of oversupply), rather than the ineffectiveness of the laws.

With regard to racial employment and wages, studies find that most wage gains occurred prior to the establishment of an effective monitoring structure for affirmative action, leading to skepticism about the effects of the law. Other studies find virtually no effect arising from affirmative action during the 1980s. Reinforcing this, a recent field experiment finds relatively fewer minorities applied to job advertisements that included an Equal Employment Opportunity (EEO) statement, essentially to avoid the stigma of being a token hire [8].

A study based on California's Proposition 209, which ended the state's affirmative action programs in education, public employment, and government contracting, concludes that the affirmative action program was either inefficient or failed to change employers' attitudes [9]. Another study analyzing state laws that target pay discrimination finds strong evidence that such laws actually decrease relative female employment mostly because they make female labor relatively more expensive. To be fair, advocates of affirmative action legislation argue that the laws do not go far enough: they endorse more comprehensive legislation, including comparable worth, in which men and women are paid based on skill levels rather than on specific jobs.

The weak effects of affirmative action are also observed outside the US. A survey of six countries from 2003 concludes that "there is no universal panacea or prescription for

resolving the employment problems of disadvantaged groups," since current legislation has "achieved mixed success" [10], p. 214.

Such sentiment is echoed in other country-specific studies. For example, one study finds the Canadian 1989 Ontario Pay Equity Act, said to be one of the most extensive pieces of equal pay legislation, did not reduce the gender pay gap. Another study has shown that since Japan's Equal Employment Opportunity Law (EEOL) was implemented in 1986, the labor force participation rate for women aged 20–59 years rose from 57.7% in 1980 to 68.5% by 2007. However, women's participation was increasing anyway because of a number of demographic trends (such as women tending to marry later, or not at all, after graduating from university). The evidence that labor force participation increased because of the legislation was thus not proved. Similarly, although a study based on an examination of equal opportunity progress reports filed in the Australian transport industry finds an increased number of women employees in some areas, there are limited increases in the number of women in management.

Importance of human capital accumulation

Strong evidence supports the idea of accumulated human capital as a reason for the gender wage gap. A series of research studies (beginning with [4]) develop a technique to assess the importance of human capital. The technique estimates the amount of human capital a person accumulates based on expected lifetime work. It then determines how well these estimates predict actual earnings. When applied to gender wage differences, it explains between 85% and 100% of the earnings gap. The technique has also been applied within gender to explain marital status differences in earnings (i.e. why single men earn *less* than married men, but why single women earn *more* than married women). In the latter case, discrimination is not an issue, since wages are examined solely for men and solely for women. Here, between 75% and 87% of the marital status differences in earnings are explained by human capital.

Other predictions of the human capital framework are also upheld. The gender earnings gap has consistently declined over the last two centuries in the US from approximately 70% in the early 1800s to the current 18%. Concomitant with this secular decline in the gender earnings gap, female lifetime work has increased dramatically, while male lifetime work has declined moderately. These gender shifts in lifetime work imply relatively more female than male human capital investment. As a result, human capital theory predicts women's earnings should have increased relative to men's, and this is precisely what is observed. Newer research attributes this to a long-term declining trend in the demand for children which has led to smaller age and schooling differences between husbands and wives (and male and female cohabitating partners), and not EEO legislation [6].

Equal pay legislation

There are two issues governing the legal aspects of anti-discrimination policy. One has to do with opportunity, the other with outcome. Equal opportunity implies that such characteristics as race, gender, and religion cannot be used to exclude a person from any job. However, almost always, *not* allowing individuals to get jobs for which they qualify is economically inefficient. It results in lower profits. For this reason, long-

term competitive forces, arising independent of any government action, tend to drive out business enterprises engaging in such discrimination.

Enterprises such as the government, public institutions, and regulated monopolies do not compete in the marketplace. As such, they are not motivated by profits, and they do not have to minimize costs. For this reason, government agencies, non-profit organizations, or overly regulated businesses are capable of discrimination, and hence are more likely to be guilty of *unequal* opportunity. Past studies corroborate this point for regulated monopolies [11]. Since non-competitive forces are the prime cause of unequal opportunity, the promotion of economic competition is an important weapon to prevent discrimination in opportunity.

Equal pay legislation, and particularly "comparable worth" legislation, deals with outcome rather than opportunity. Equal outcomes entail defining discriminated-against groups simply by the pay that members of these groups receive. Some allege that the lower pay that women on average receive is, ostensibly, evidence of discrimination. However, unequal economic *outcomes* need not arise from unequal *opportunity*. As has been implied, unequal outcomes can result from personal choice. At least in the past, getting married and having children meant one thing for men and another thing for women. Because women typically bear the brunt of child-rearing, married men with children work more over their lives than married women. This division of labor is exacerbated by the extent to which married women are, on average, younger and less educated than their husbands [1].

Division of labor also explains why single women work more over their lives than married or cohabitating women with children. In contrast, the absence of division of labor is why single men and single women, as well as young men and young women, have comparable work histories. It is also for this reason that only a small wage gap between single men and single women (as well as between young men and young women) is observed, while large gaps are seen especially between married men and women with children.

Whereas it is not up to governments to determine how much time families spend raising children, the state often sets the costs. High marginal tax rates on wives' earnings decrease incentives to work. The unavailability of low-cost daycare does the same. Nevertheless, some countries provide better opportunities than others. One policy gaining strength in the US is paid family leave. This policy provides time off from work to care for newborn children. Young women of childbearing age are the most likely demographic to utilize this type of leave, and indeed their young children appear to have benefitted. For example, studies indicate that on-time vaccination rates have increased as a result of the extra time mothers have to care for their newborns. However, on the negative side, the unemployment rate of such women, at least in some areas, has increased because employers are often reluctant to hire employees prone to taking leave [12]. In an analysis by the OECD, the gender wage gap is larger in countries with greater paid family leave. On the other hand, the gender wage gap is significantly smaller in countries with more daycare, an institution which promotes more continuous labor force participation of women.

LIMITATIONS AND GAPS

Women who spend more time in the labor force generally spend less time at home with their families. Thus advocating a policy to increase women's lifetime work could

have deleterious effects, particularly on children's cognitive and social development. At present, there is a large number of studies on these effects, but the conclusions are not definitive. They depend on the socio-economic background of the family, the age of the children, parental attitudes, the gender of the children, and more.

For example, one study indicates that children exhibit significantly more behavioral problems early in life when full-time maternal employment begins before the child is three months old. Another illustrates that the children of mothers who work full-time in the first year of that child's birth have modestly lower cognitive scores relative to mothers who do not work. On the other hand, a third study shows that in low socio-economic families, child cognitive scores are higher when mothers work. Yet another study finds daughters of employed mothers exhibit higher academic achievement and greater career success.

SUMMARY AND POLICY ADVICE

The conclusion is best described by the US Department of Labor's Charles James in his summary of a CONSAD Research Corporation study: "the raw wage gap should not be used as the basis to justify corrective action. Indeed, there may be nothing to correct. The differences in raw wages may be almost entirely the result of the individual choices being made by both male and female workers." This is supported by the almost negligible wage gap data for young men and young women, as well as the relatively small wage gap data for single men and single women. This conclusion is consistent with the human capital approach.

Given changing demographics (in particular, declining fertility rates) and greater female labor force participation, the gender wage gap is already decreasing in most countries. However, effective policies to speed up wage convergence should involve government actions to stimulate a further rise in women's lifetime work, such as eradicating taxes that decrease wives' incentives to work. Repealing marriage taxes would increase women's incentives to invest in education and training, and better enable women to climb the corporate job ladder. Promoting high-quality daycare would do the same.

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Competing interests

The IZA World of Labor project is committed to the IZA Code of Conduct. The author declares to have observed the principles outlined in the code.

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