

The stabilising effect of tax-benefit systems on gender earnings inequality in Europe

Karina Doorley

Economic and Social Research Institute, Trinity College Dublin & IZA

Claire Keane

Economic and Social Research Institute, Trinity College Dublin

Recent research suggests that the wages of men and women are converging in many countries. This is largely due to the fact that women are catching up with men in terms of education and skills. However, a sizable gap in wages remains which can be attributed, among other factors, to occupational segregation, work-force interruptions and discrimination (Blau & Kahn, 2017; Redmond & McGuinness, 2017). Gender differences in participation in the labour market are also large and the extent of these differences varies across countries (Olivetti & Petrongolo, 2008). Women are less likely to work and working women tend to work fewer hours, on average, than working men. The result of the gender wage and gender work gap combined is an earnings gap between men and women that is unlikely to close in the immediate future. This gap has knock-on effects on the career trajectories of men and women with implications for equality and poverty both during working life and into retirement.

Factors such as equal pay legislation, collective bargaining and minimum wages have all been shown to close the gender wage gap. Additionally, policies such as the individual taxation of spouses, parental leave for both parents and childcare subsidies have contributed to increasing the labour force participation of women in many countries. A small literature has begun to examine how the tax-benefit system as a whole contributes to closing gender income gaps by redistributing between men and women. Figari et al (2011) show that the tax-benefit systems of a selection of European countries decrease income inequality between members of a couple. Focussing on Germany, Gallego-Granados and Geyer (2015) go a little further and map how the gross gender pay gap is transformed into the net gender wage gap, showing that the design of the German tax-benefit system reduces gender income inequality.

In this paper, we build on this literature and study the effect of policy on gender differences in income by evaluating the capacity for tax-benefit systems in the EU-28 to cushion the gender earnings gap. Although tax-benefit policies are not typically targeted at either gender, the fact that they are usually progressive means that women pay less tax, on average, than men and benefit relatively more from the welfare system. The degree to which the gender earnings gap is affected by the tax-benefit system depends on the size and source of the gender earnings gap and the nature of the tax-benefit system. For example, in countries with low female labour force participation, the gender earnings gap will be cushioned if there is a strong welfare component to the tax-benefit system. In countries with large gender wage gaps, the gender earnings gap will be cushioned more if the taxation system is progressive.

We use the harmonised EU microsimulation model, Euromod, linked to EU-SILC survey data to estimate raw and adjusted gender earnings gaps for each country in the EU-28. We then estimate

the gender gap in disposable income for each country and decompose the difference between the gender gap in earnings and the gender gap in disposable income into the relative contribution of taxes and benefits in each country. Finally, we simulate an increase in the gender earnings gap (which could be brought about, for example, by an inflow of lower skilled women to the labour force through increased participation rates or by a divergence in the average hours worked between men and women). We show how each tax-benefit system "stabilises" gender earnings inequality in the wake of such a shock. Conclusions are drawn about the redistributive nature of each EU country's tax-benefit system from a gender perspective.

References

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