

# Can More Equal Leave Lead to More Equal Pay?

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# Overview

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The Gender Wage Gap: Some Facts and Figures

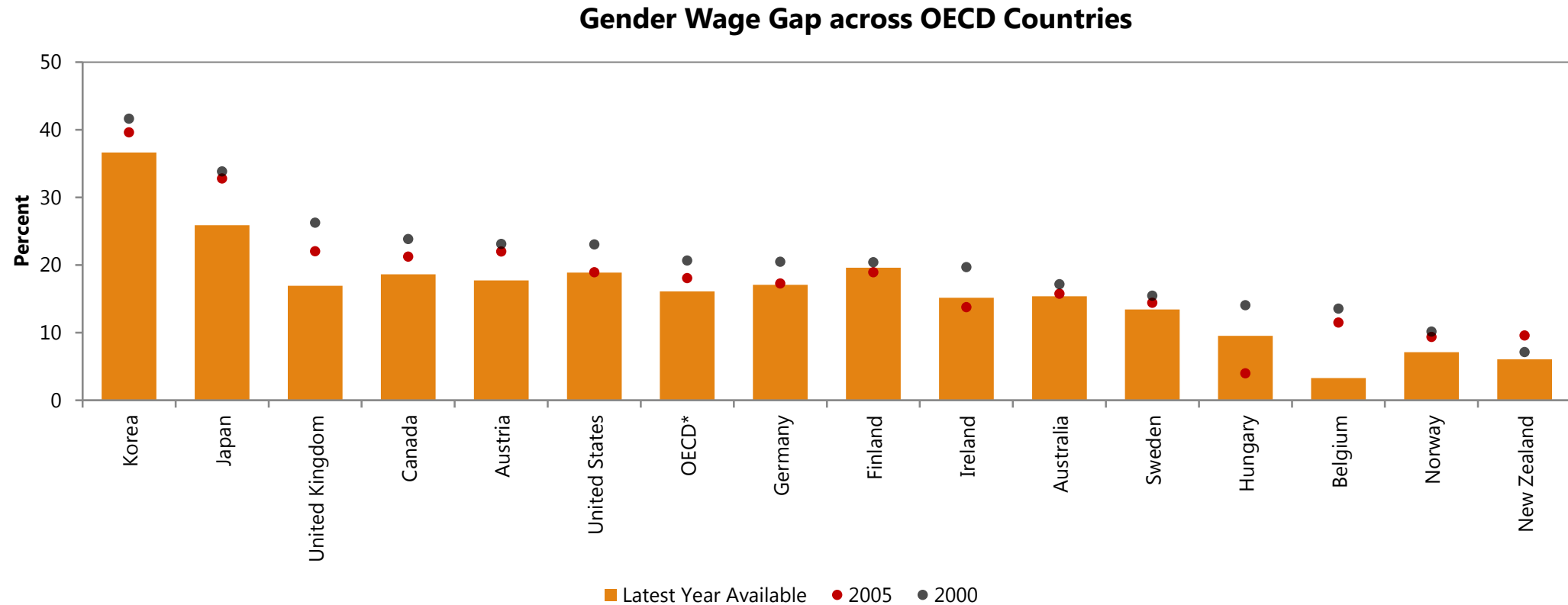
Our Hypothesis: *Could the design of parental leave policies matter?*

Our Approach: Data and Methodology

Our Results: *Gender-neutrality of leave policies appears to matter, and so does what happens at home...*

Conclusion and Policy Implications

# Gender wage gaps persist throughout the OECD



Source: OECD

# Common explanations

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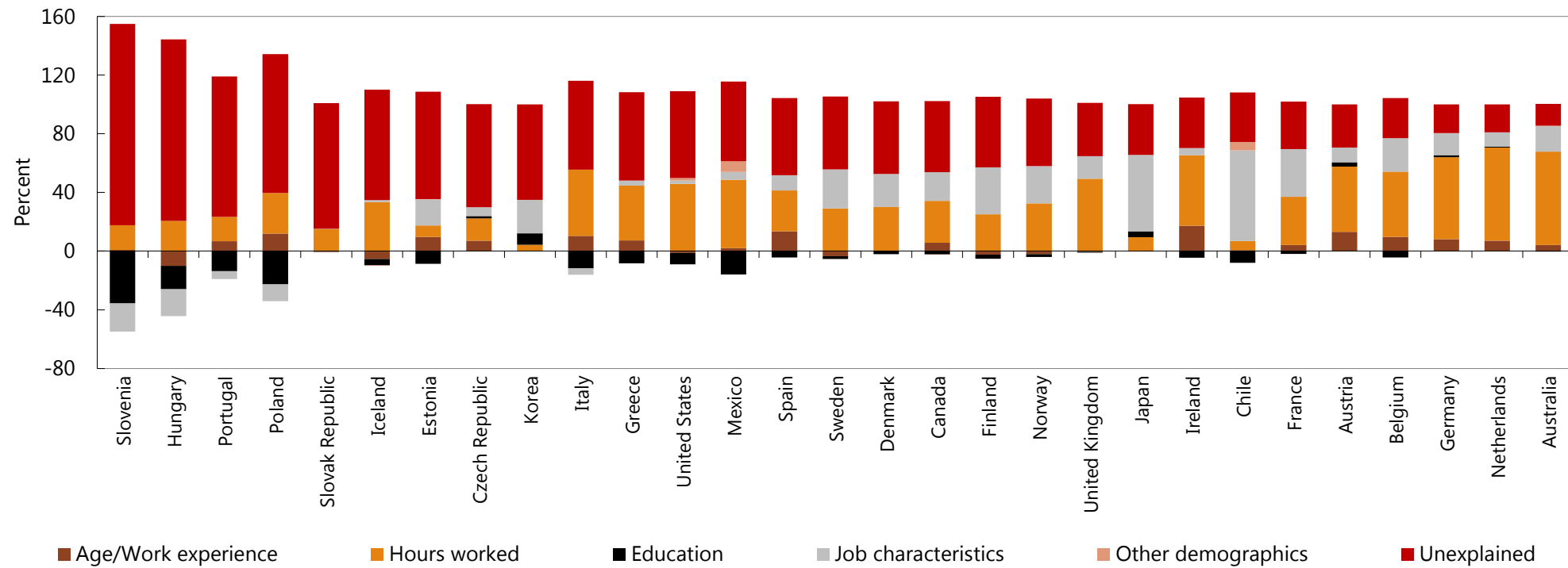
Horizontal labor market segregation into “female” and “male” occupations and industries

Differences in hours worked/the incidence of part-time work and continuous work experience

Differences in education (which tend to work in women’s favor in most advanced economies)

# The “unexplained component” is significant

Decomposition of the Gender Wage Gap



Source: OECD

# Potential drivers

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General labor market characteristics (wage inequality; sticky wage floors)

“Psychological factors” (including differences in personality traits, risk-aversion and propensity to negotiate)

Discrimination

Specific labor market characteristics (disproportional rewards for working long and inflexible hours)

Some evidence of a “motherhood penalty”

# Our hypothesis

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**Basic premises:** (1) Workers are all equally productive, but employers cannot observe productivity ex-ante; and (2) Taking parental leave carries a productivity penalty and cost for employers.

**Formal Model:** Assuming that employers pay workers their expected annual output  $y$ , our model stipulates that the ex-ante wage offered by employers would equal

$$w = y - p (\text{parental leave}) C (\text{parental leave}) \quad (1)$$

*where  $w$  is the annualized wage;  $y$  is the worker's annualized output while working;  $p (\text{parental leave})$  is the probability of the worker taking parental leave; and  $C (\text{parental leave})$  denotes the annualized cost of workers taking parental leave.*

# Our hypothesis

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**Hypothesis (1):** If employers expect  $p$  (*parental leave*) to differ for female and male workers, this could lead to statistical discrimination (a wage penalty for female hires).

**Hypothesis (2):** The wage penalty could be exacerbated if employers also expect women to be more likely to be “distracted” by unpaid work should they become parents:

$$w = y - p(\text{parental leave}) C(\text{parental leave}) - p(\text{distraction}) E [C(\text{distraction})] \quad (2)$$

where  $p(\text{distraction})$  is the probability of the worker being “distracted” by child-care responsibilities; and  $E [C(\text{distraction})]$  denotes the expected annualized cost of workers’ taking on unpaid child-care responsibilities



# Our approach

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The principal cross-country equation we estimate is:

$$UWG = \alpha + \beta_1 EQ + \beta_2 GB + \varepsilon \quad (3)$$

*where UWG is the unexplained gender wage gap; EQ is a measure of wage inequality; and GB is a measure of gender balance in parental leave policies and/or care outcomes.*

OECD data for 29 advanced and middle-income economies

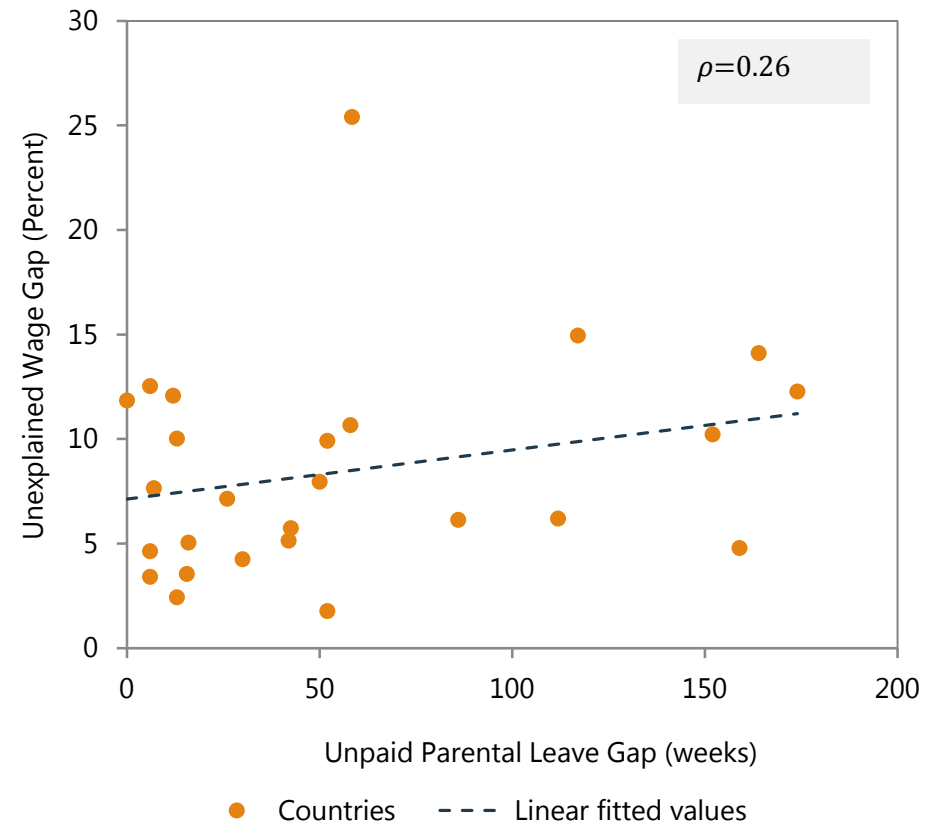
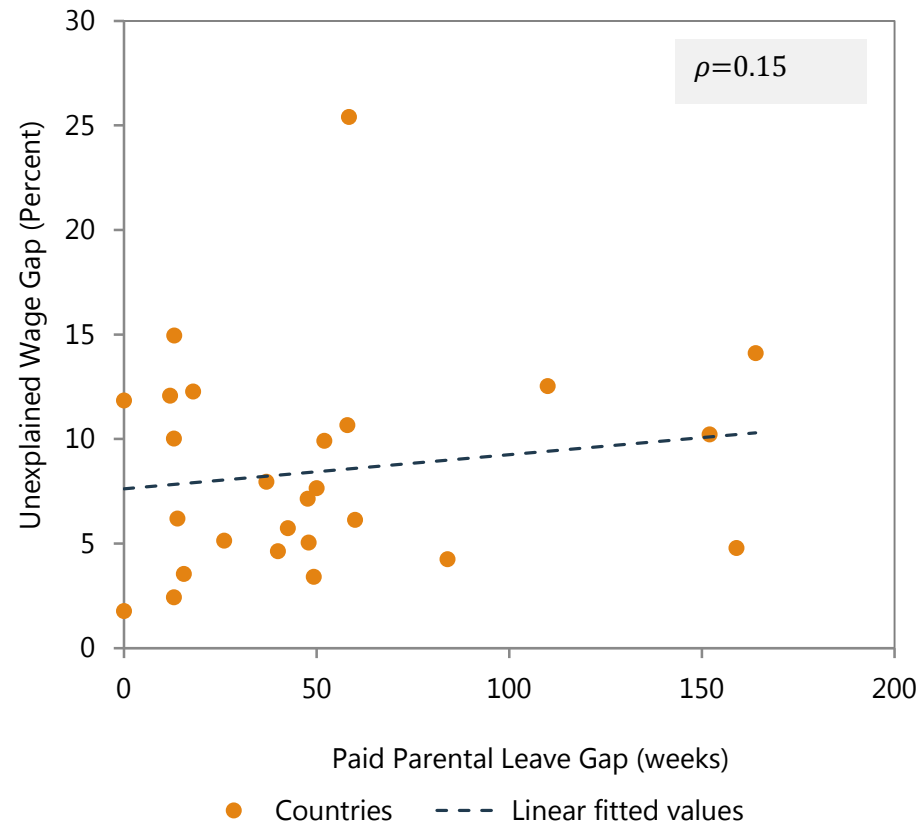
Main caveats: small panel size; some mismatches for time-use survey data; inability to control for other unobservable factors (culture) or country-specific differences

# Our results

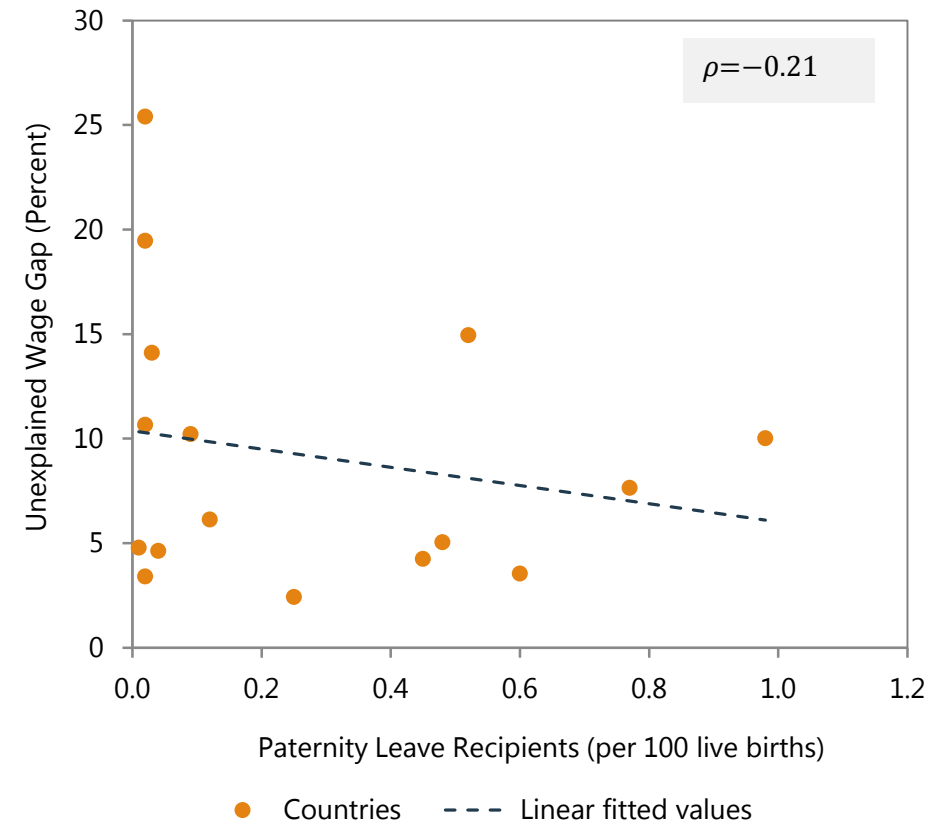
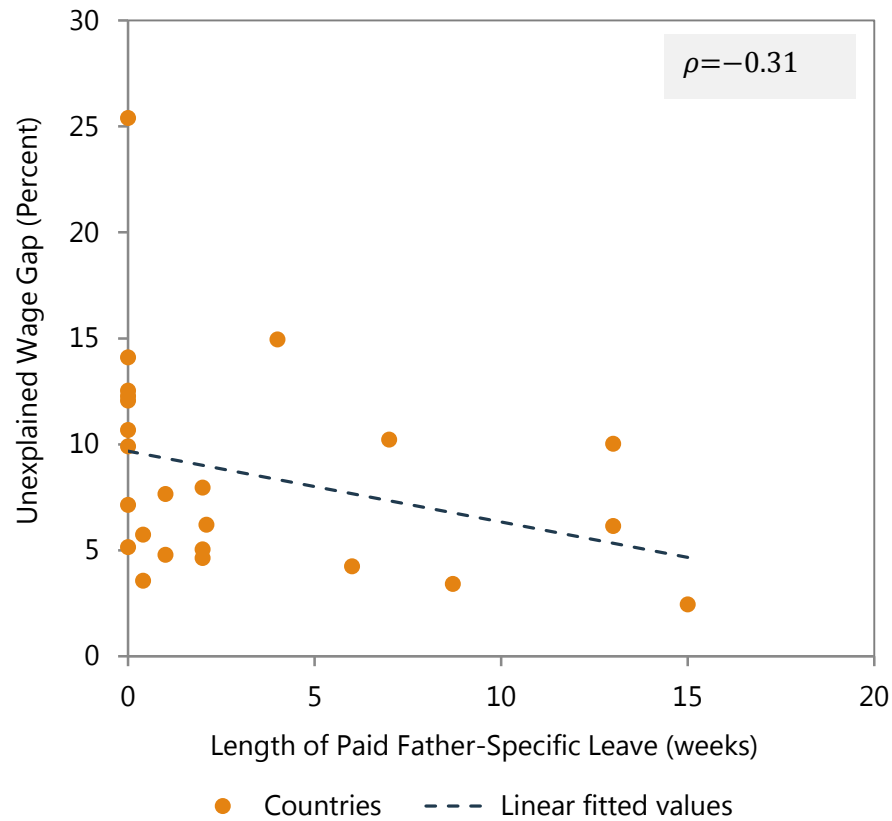
Variable	Unexplained Gender Wage Gap					
	(1)	(2)	(3)	(4)	(5)	(6)
Parental leave gap (paid)	0.05**					
Parental leave gap (unpaid)		0.03*				
Length of paid father specific leave			-0.27			
Parental leave male share of recipients				-4.16		
Childcare (working mothers/working fathers)					2.27	
Total work (mothers/fathers)						47.44***
Wage inequality	1.86**	1.45**	0.96	2.91**	1.58	0.99**
N	25	25	24	16	19	19
R – adjusted	0.19	0.20	0.10	0.21	0.18	0.48
F test	3.86**	4.05**	2.32	2.98*	1.71	9.25***

Note: \*\*\*, \*\*, and \* denote significance at the 1%, 5% and 10%.

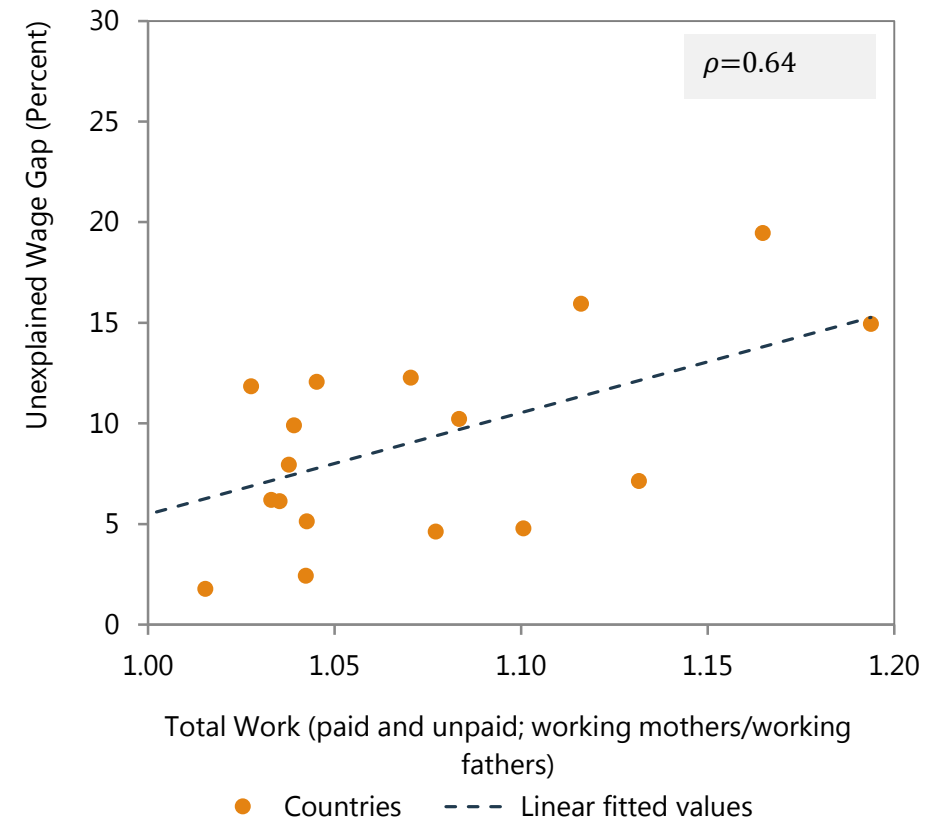
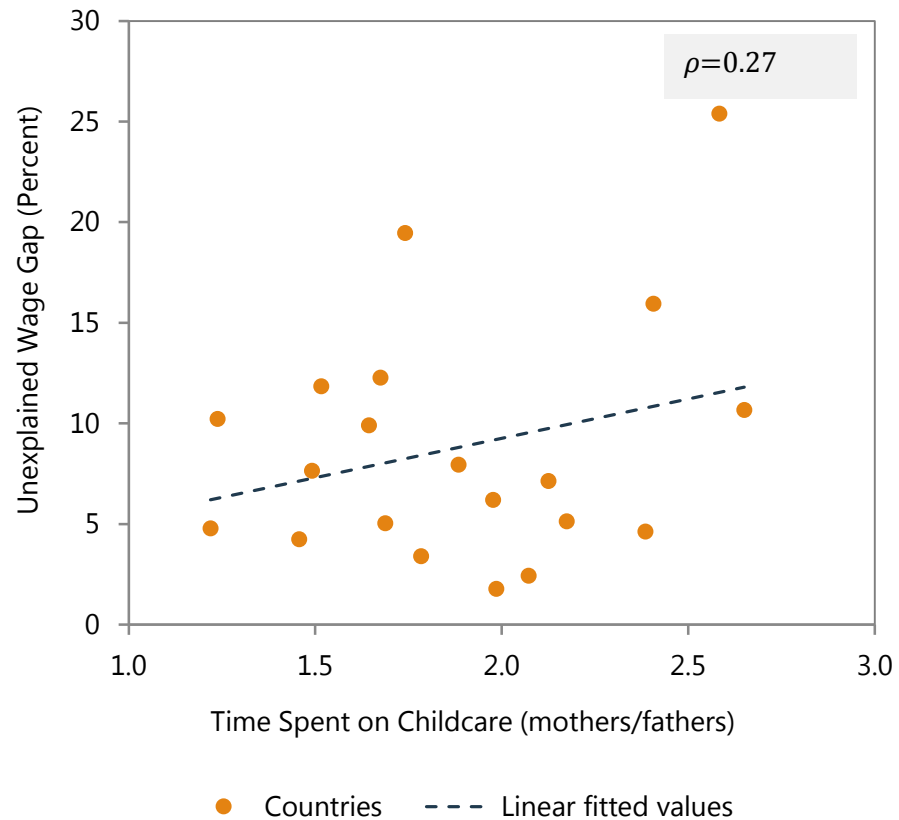
# Gaps in leave entitlements



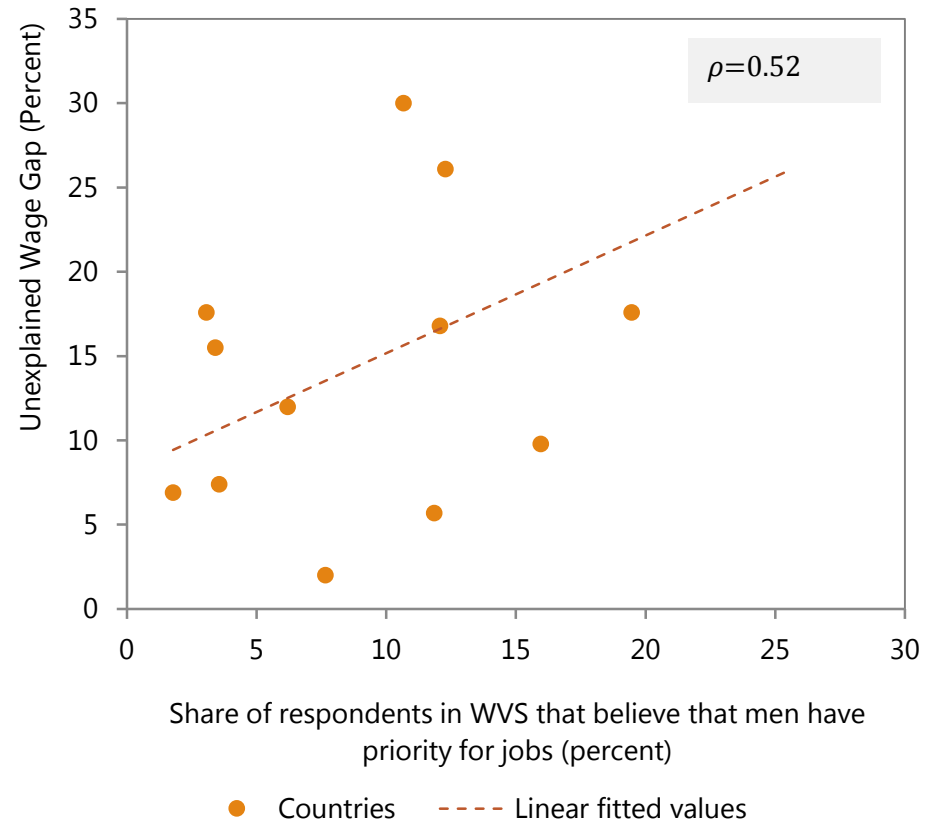
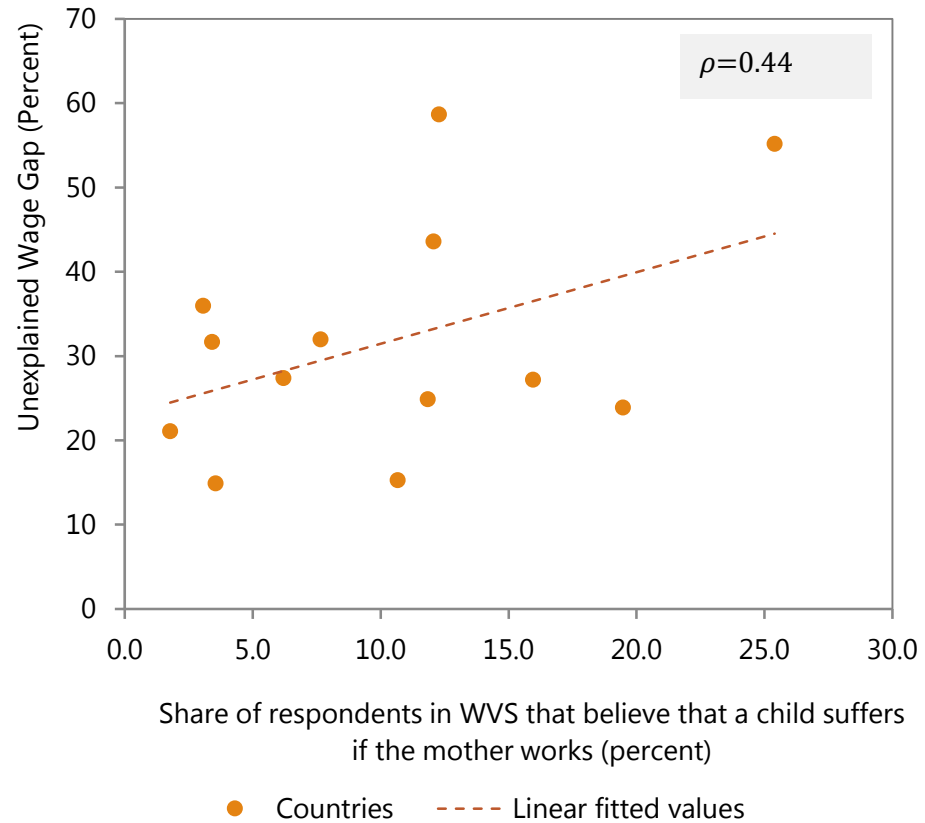
# The length and take-up of paternity leave



# Total time spent caring for children and working, paid and unpaid



# Cultural attitudes



# What to take away?

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Some indication that the gender-neutrality of the design of leave policies may matter; so does the unequal distribution of unpaid work.

General guiding principles for the design of parental leave policies include:

- Maximize flexibility and gender-neutrality
- Include father-specific incentives for leave-taking
- Shorter paid leave is preferable to longer, unpaid leave entitlements

# What to take away?

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BUT:

Any policy guidance needs to be based on careful analysis of country-specific obstacles to gender and pay equality.

Leave policies will have to be complemented by other policies to reduce wage disparities and support female labor force participation, including:

- Greater pay transparency
- Availability of affordable child-care
- Promotion of family-friendly work practices