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The family gap in pay in Europe: A cross-country study^{☆,☆☆}

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Abstract

In this paper we present estimates of the penalty in pay associated with motherhood for 11 European countries. Firstly, analysis of the European Community Household Panel Survey (ECHP) reveals that significant penalties in pay exist within Germany, Denmark, the United Kingdom, Ireland, Spain and Portugal. Analysis for Germany (using the German Socio-Economic Panel) and the UK (using the British Household Panel Survey) reveals that career breaks contribute towards lower earnings growth. While periods of family formation are associated with lower earnings growth in Germany, in the UK completed spells of family formation are associated with a recovery in earnings growth.

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1. Introduction

Across the European Union there has been a significant increase in the participation of women in paid employment and a decline in fertility rates. For a variety of reasons, including the decline in heavy manufacturing, the growth of service sector employment, the rise in educational participation and equal opportunity policies, women have postponed family formation plans, opting instead for continued full-time employment. However, at the same time, women's primary responsibility for children and the home have remained unchanged (Blossfeld and Drobnic, 2001). In terms of the economic well-being of families with children, it is important to understand whether there is a penalty in pay associated with motherhood. The aim of this paper is to provide estimates for the penalty in pay associated with motherhood in Europe and give insight into the reasons behind these penalties in pay.

Among recent studies that attempt to estimate the effect of children upon earnings after having controlled for both observed and unobserved characteristics; Waldfogel (1997) estimates a penalty in pay of 6% for 1 child and 13% for 2 or more children; Lundberg and Rose (2000) estimate a penalty in pay of 5% associated with a woman's first birth; Budig and England (2001) estimate a penalty in pay of 3% for 1 child, 9% for 2 children and 12% for 3 or more children; and Anderson et al. (2003) estimate a 4% penalty in pay associated with each child. However, these studies generally focus upon the United Kingdom or the United States, with relatively few studies providing evidence for Scandinavian and continental European countries (examples include Albrecht et al., 1999 for Sweden and Mertens et al., 1999 for the Netherlands).

Country specific studies are also difficult to compare because of the differences in data sources and methodologies used. Harkness and Waldfogel (1999) undertake the most comprehensive cross-country analysis available to date utilising data from the Luxembourg Income Study (LIS). They analyse the size of the family gap in pay in Australia, Canada, the United Kingdom, the United States, Germany, Finland and Sweden. They find that after controlling for differences in earnings-related characteristics, the effect of children on women's pay is largest in the United Kingdom, followed by the other Anglo-American countries and Germany, and smallest in the Nordic countries.

This paper considers three main issues. Firstly, do family status related pay differentials exist among women in Europe? Secondly, can these penalties in pay associated with motherhood be explained by differences in the personal characteristics of mothers compared to women without children or does some residual element remain? Thirdly, what are the dynamics of earnings growth associated with periods of family formation? In conducting these analyses, we use three sources of longitudinal data. Firstly, the European Community Household Panel Survey (ECHP) is used to provide comparable estimates of the family gap in pay for 11 European Countries. Then, further analysis is conducted for Germany and the United Kingdom based upon the German Socio-Economic Panel and the British Household Panel Survey.

The remainder of the paper is as follows. Section 2 presents a descriptive analysis of the earnings of mothers based upon ECHP data and outlines some of the main hypotheses cited to explain the presence of a penalty in pay associated with motherhood. Section 3 presents our general empirical strategy. The results of the analysis using data from the ECHP are in Section 4. Section 5 provides further evidence regarding two of the countries

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