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Does gender equality increase economic inequality? Evidence from five countries

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ABSTRACT

Men and women have become increasingly similar in their education, employment and earnings over recent decades. It has been argued that these changes have implications for economic inequality, not least because couples tend to be formed by persons with similar traits. Given the family's role in pooling and redistributing resources, increased equality within households may lead to the accumulation of either favorable or unfavorable situations. This has been expected to increase *in*equality between households. We investigate the extent to which the increased similarity in partners' employment participation and earnings can account for changes in income inequality.

We use LIS data for Denmark, Germany, Italy, the UK and the US from the mid-1980s to the mid-2000s and employ decomposition techniques of the Theil index. We enrich the existing literature by providing internationally comparative evidence for a long time period up to more recent dates, and propose an innovative method to account for effects of employment and earnings similarity independently from changes in the overall earnings distribution.

In contrast to the expectations, we show that an increased similarity among partners does not augment inequality to a relevant degree, and that the inflow of women in employment contributed to reducing inequality among households rather than augmenting it. Observed increases in inequality are instead driven by the increased polarization between high- and low-income families and by changes in the income dispersion within family types, suggesting that important social stratifiers are at work other than gender. Despite key institutional differences, this holds true for all five countries.

1. Introduction

Recent decades saw men and women becoming increasingly similar with regard to their education, employment and earnings – prevalently, due to changes in women's behavior (Esping-Andersen, 2009). These changes have been argued to come with important implications for the inequality structure of societies, not least because couples tend to be formed by persons with rather similar traits, usually referred to as assortative mating (Mare, 1991 Schwartz & Mare, 2005). In fact, inequality is the result of the resource allocation to individuals and their sorting in households (Breen & Salazar, 2011). Changes in the association of partner's earnings have therefore been expected to lead to changes in inequality (Esping-Andersen, 2007; Schwartz, 2010): increasing equality within households, i.e. the accumulation of (un)favorable situation, may result in increasing *in*equality between households. In order to fully understand economic inequality it is thus necessary to enlarge the focus on the distribution of earnings among individuals to the way incomes are pooled and (re-)distributed within and across households (McCall & Percheski, 2010).

Economic inequality is also central from a sociological perspective because of its far-reaching (negative) societal consequences, affecting, among other things, life-expectancy, educational attainment, fertility, and social cohesion (ILO, 2008; Van de Werfhorst & Salverda, 2012; Wilkinson & Pickett, 2009). The inequality in one generation contributes to determining the prospects of future generations reproducing in this way a society's stratification system (Solon, 1999; Voitchovsky, 2009). Economic inequality is a rather broad concept which refers to inequalities in the distribution of income and other (economic) resources such as wealth, employment, and even human capital. However, the distribution of income still accounts for the lion's share of economic inequality (Salverda, Nolan, & Smeeding, 2009). Following these considerations, we focus on income inequality, and in particular on equivalent disposable household income as the income concept that best approaches individuals' and households' standards of living (DiPrete, 2003).

At present, as other authors have recognized (Breen & Salazar, 2011; McCall & Percheski, 2010; McLanahan & Percheski, 2008),

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empirical findings on the implications of changes in families/households, the similarity of partners' employment and earnings, for economic inequality are still inconclusive. Some authors attribute a relevant role to changes in partners' similarity for inequality (among others Reed & Cancian, 2012), while others recognize at most a very minor contribution (Larrimore, 2014). In this paper, we investigate the extent to which the increased similarity in partners' labor supply and earnings account for changes in income inequality between households. We provide internationally comparative evidence for a long period up to more recent dates, and propose an innovative method to account for effects of employment and earnings similarity independently from changes in the overall earnings distribution.

Few studies have focused on the similarities between partners and the consequences for inequality. Previous research mainly studied the correlation between partners' earnings (sometimes including zero earnings) and thus either mix effects of employment decisions and earnings similarities or concentrate on dual income couples only. We add to this literature, explicitly taking into account employment and non-employment in couples. This is relevant for various reasons: non-employment, which means zero earnings, strongly affects the income distribution and still remains a widespread option in some (but not all) European countries. Moreover, the most relevant changes probably occurred in (women's) employment participation and to a lesser extent with regard to earnings. Finally, the dynamics behind employment decisions and earnings are different, and their separation is thus important for an understanding of household related drivers of inequality. The former refers to which men and women participate to the labor market and how this is stratified by macro-contextual and personal characteristics; the latter addresses the collocation in the earnings distribution of employed persons. Even in the hypothetical case that employment participation had not changed, there might be changes in inequality due to increased similarity of men and women (e.g. no more or even reversed educational gender gap) and changes in how partnerships are formed.[1]

Furthermore, while almost all existing studies focused on the US and examined the phenomenon up to the 1990s, we address the question in an international comparison of different institutional settings for four European countries (Denmark, Germany, Italy, and the UK) and the United States. Second, we include more recent developments, focusing on two decades from the mid-1980s up to the mid-2000s. Third, differently from the vast majority of studies that use the decomposition of the squared coefficient of variation (CV^2), we use a subgroup decomposition technique and measure earnings similarity in *relative* terms, which makes it possible to isolate the effect imputable to sorting from changes in the absolute earnings distribution.

In contrast to expectations and a common reading in the literature (Blossfeld & Timm, 2003; Esping-Andersen, 2007) we show that greater similarity between partners does not increase inequality to a relevant degree, and that increased female employment decreases inequality rather than adding to it.

The next section summarizes the main findings in the literature and addresses the reasons for an international comparison. We then present data, methods and definitions. Descriptive trends of female employment, partners' earnings similarity and inequality are presented before analyzing whether and to what extent changes in partners' employment behavior and their earnings similarity affected inequality.

[1] Note that this paper does not investigate the "drivers", but focusses on the consequences of given changes for income inequality.

2. Partners' similarity and income inequality

Economic inequality (i.e. the distribution of income within and between households) is largely determined, firstly, by the allocation of resources to individuals, which mainly depends on their earnings and thus on employment, and secondly, by the way in which individuals with different endowments are grouped in households (Breen & Salazar, 2011).[2] Households pool and redistribute incomes of their members, generate economies of scale, and protect members, to some extent, from temporary income losses or other shocks (Lam, 1997; Western et al., 2012). However, according to their (economic) composition, households face very different economic situations and have different capacities (Biewen & Juhasz, 2012). It has been argued that changes in the economic composition of households have come with consequences for the inequality structure of societies (Esping-Andersen, 2009), but the empirical support for this idea is inconclusive. Our main aim here is to test whether and to what extent this expectation is supported by empirical evidence.

2.1. Resource pooling in households, recent trends and potential consequences for inequality

The distribution of household incomes differs considerably from that of individual level incomes, which is due to resource pooling within households altering disposable income. A positive correlation in earnings between household members, i.e. partners in first place, will lead to greater inequality, and potentially to a polarization between high-earnings households and low-earnings households. A negative correlation of earnings among partners, in accordance with Becker's (1991) idea of economic specialization of partners,[3] would imply lower inequality (Breen & Salazar, 2010; Esping-Andersen, 2009; Lam, 1997; Mincer, 1962).

Many countries have witnessed some relevant transformations over recent decades which may influence inequality: men and women in general, and partners in a couple in particular, are becoming increasingly similar in their labor market participation and earnings (Harkness, 2013; Mastekaasa & Birkelund, 2011) and specialization within the couple thus became less important. The increased similarity comes in two forms: more similar employment patterns and, net of employment decisions, more affinity in earning profiles.

Several studies deal with the **consequences of rising female labor market participation** on economic inequality (cf. Harkness, 2013 for an overview). Women's 'new role' in the labor market made their earnings increasingly relevant, also when accounting for the level of income inequality. However, whether the increase in female labor market participation reduces inequality or increases it depends on the characteristics of those women who increased their participation, namely whether they belong to low- rather than to high-income households (Esping-Andersen, 2009). Some recent evidence suggests that increasing female employment reduces inequality (Harkness, 2013; Mastekaasa & Birkelund, 2011; Reed & Cancian, 2001), but contrasting findings also emerge from the literature (Albertini, 2008; DelBoca & Pasqua, 2003; Esping-Andersen, 2007; and cf. Breen & Salazar, 2010).

Findings are also mixed among studies focusing on the **consequences of increased earnings similarity of partners**. Some

[2] The assumption we make, together with most authors in the literature, is that individuals pool their resources within the household.

[3] Lam (1988) argues that when the gains to marriage derive from a joint consumption of household public goods, Becker's prediction may not hold and a positive assortative mating on wages is possible – even when characteristics including education, experience and age are controlled for. Lam (1997) underlines the implication of partners similarity for the distribution of household income.