

THE NORDIC GENDER PAY GAP BALANCING ACT

by

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Thank you to my parents for providing me with this excellent education, hopefully I have a long career with a high rate of return to education.

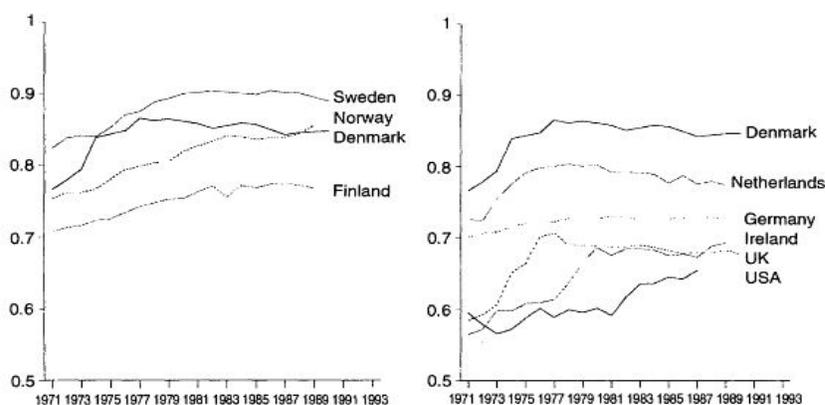
## INTRODUCTION

In his well-known essay, “The Subjection of Women” (1869), John Stuart Mill argues that gender equality is both an ethical imperative and a wellspring of economic growth and development. The social norm of educating only men was economically limiting, Mill claimed, as society was thereby deprived of the competition and innovations that would result if men and women enjoyed equal educational opportunities. As a modern economist, we appreciate Mill’s reasoning: greater levels of human capital yield greater productivity, income, and living standards. The same logic pertains to labor force opportunities. Enabling women and men to participate equally in labor markets is ultimately advantageous for all. But if the economic benefits of gender equality are obvious, efforts to realize these benefits via social and legal reforms are notoriously complex. Gender inequality is sustained by an interlocking array of historical, political, cultural, and economic factors. The impacts of government policies designed to reduce these inequities are therefore generally smaller and more confounding than their architects can foresee.

In this paper, I examine the puzzling persistence of gender pay gaps in the Nordic countries despite long-standing efforts to mitigate them through gender-sensitive family leave policies. The gender pay gap (GPG), in its simplest form is the difference in annual earnings between the average full-time working man and woman (Hirsch et al. 412). This contrasts with the adjusted gender pay gap, defined as the residual gap between the average annual incomes of full-time male and female workers after controlling for presumably voluntary dimensions of the pay differential. The role of human capital

differences in the Nordic case and the influence of social norms on the education and employment choices of Nordic men and women are discussed below.

At the end of the 1970s, GPGs in the Nordic countries were among the lowest in the world (Asplund 1996, 57; OECD 2012). The governments of Norway, Sweden, Finland and others sought to promote gender equality in labor markets by providing free or subsidized child-care and extensive parental leave insurance (Gupta, Smith, and Verner 2008, 66-67). Yet GPGs in these countries today are comparable to those of the late 1970s or early 1980s (Asplund 1996, 57; Edin and Richardson 2002, 49; Gupta, Oaxaca, and Smith 2006, 243-244; Rosholm and Smith 1996, 255 ;OECD 2012). By contrast, the GPG in the United States has fallen steadily and significantly since the 1970s, despite a “...relatively free-market, laissez faire” (Gupta, Oaxaca, and Smith 2006, 243; Rosholm and Smith 1996, 255) approach to gender labor market legislation. Though briefly acknowledged by Gupta, Oaxaca, and Smith (2006, 243), and Gupta, Smith, and Verner (2008, 66), these paradoxical trends have yet to receive sustained scholarly attention.



Above, graphs from Rosholm and Smith (1996, 255) showing the female/male wage ratio for manual workers in the private sector from 1971 - 1993.  
Sources: ILO, 'Yearbook of Labour Statistics', different years.

To illuminate possible causes of the enduring Nordic GPGs, I turn to the related literatures on gendered occupation segregation and family leave policies. Two broad findings from these literatures are that raises and promotions are frequently withheld from people who take leave (Akgunduz and Plantenga 2013), and people are more likely to take leave if they are given extra leave time (Schoenberg and Ludsteck 2007). Applying these lessons to the case at hand, I argue that the observed stagnation of the Nordic countries' GPGs is due in part to the unforeseen repercussions of government policies that have promoted female labor participation very effectively while unintentionally creating a “soft cap” on the GPG that is bound by social gender institutions.

In the following discussion, I first examine major economic contributors to gender pay gaps (in general and in the Nordic context), namely horizontal and vertical gender segregation, and gendered differences in human capital accumulation. I then explore how government policies, specifically family leave policies, both attenuate and contribute to GPGs. In conclusion, I consider how the insights gleaned from this preliminary investigation might inform the design or reform of family leave policies in the U.S.

#### CONTRIBUTORS TO THE GENDER PAY GAP

In this section I examine the two basic forms of gender segregation in the work force, both of which contribute to GPGs. Because the labor market is not gender homogenous across industries nor along the hierarchies within the industries, we can say that there is gender segregation. Horizontal gender segregation is, in theory, the voluntary

sorting of workers into fields by gender, while vertical segregation is the involuntary sorting of positions along a firm's hierarchical structure by gender.

### *Horizontal Gender Segregation*

Horizontal gender segregation is the gender segregation of jobs by industry or job type; for example in all of the Nordic countries women are more likely to work in the public sector. Vertical gender segregation where jobs is gender segregated by seniority or rank, such as senior management being mostly male (Asplund 1996, 63).

Horizontal gender segregation is self-selected segregation, meaning that there is no organizing body that allocates jobs based on gender. It is important to note that cultural norms regarding gender and occupation exist and influence career selection (Melkas and Anker 1997, 350).

Investigations into horizontal occupation segregation in the Nordic countries have found some interesting results. The findings show that the Nordic countries not only have strong horizontal gender segregation but also that they seem to follow gender stereotypes. Melkas and Anker (1997) found that despite low GPG, the Nordic countries have high levels of significant horizontal gender segregation "...both in an absolute sense and relative to the levels found in other industrialized countries." (360).

Melkas and Anker (1997) find that the many of the female dominated fields in each Nordic countries tend to involve stereotypical female roles such as caring and nurturing; for example in each Nordic country the most female dominated field is private housekeepers with 99% of the Finish housekeepers being female (354). The authors also find that there has been a decrease in the horizontal segregation of Nordic countries in

recent years because women are entering the lower levels of previously male-dominated fields (361).

It is important to note that the authors find that women in Nordic countries do not work in positions of equal status and are much less likely to receive long-term contracts (Melkas and Anker 1997, 361). This is due to the conceptualization of women in the Nordic countries as outside the “core workers” i.e. men, and thus are considered more fleeting in their place in the workforce (Melkas and Anker 1997, 361).

### *Vertical Gender Segregation*

A common economic explanation for vertical gender segregation is that women drop out of the work force more often than men and therefore are less prevalent in the upper echelons of the corporate world due to having less job experience, hence less human capital. Additionally as job responsibilities rise it is more expensive for the company if the person has to leave their job unexpectedly – such as to deliver and care for a baby. Employers therefore seek to avert unnecessary risk by promoting a person with less chance of having to take unexpected leaves, additionally firms would be less likely to invest in firm specific human capital (SHC). Firms are less likely to invest in women's SHC if they believe they will not have the same ability to recoup on their investments. Inasmuch as employers are legally able to do so in their hiring and promotion decisions, they will rationally take account of cultural norms that push parenting responsibilities onto the mother, making female workers more likely to experience leave-inducing life events (Polachek 2004).

Both of these explanations – human capital and motherhood responsibilities –

have empirically testable elements. The adjusted gender pay gap is the GPG when relevant variables such as education and experience are controlled for. If vertical segregation can largely be explained by differences in human capital then there should be a much smaller adjusted gender pay gap than unadjusted. Asplund (1993) controlled experience, education, tenure, part-time/full-time, cohabitation, temporary contract, immigration status, health, province, number of children, occupation, and occupation sector in Denmark, Finland, Norway, and Sweden. Respective to those countries, the amount of the GPG that was explained by the controlled characteristics were 28%, 10%, 34%, and 49% . It should be noted that when compared to cases where other more complicated statistical techniques are used, more of the GPG is accounted for meaning while this study was vast it may also be understating how much of the GPG is explainable.

The rest of the GPG that is not explained by these variables is typically referred to as statistical discrimination, however this may underestimate the discrimination element because gender plays an important role in human capital accumulation – i.e. how many years of education, and experience one attains.

The reason for this is because gender still plays a role in human capital accumulation. In the Nordic countries women are more likely than men to have tertiary education. This brings up an interesting question: why is there a difference in human capital accumulation between genders? To answer this, it is important to understand why people choose to acquire human capital, and if there are external forces that prevent them.

People typically acquire human capital early in their life in order to use that

human capital while working. For example, a rational person would be significantly less likely to acquire a master's degree if they plan on retiring the next year compared to someone who plans on working an additional 40 years. Therefore if there is a difference in years expected to work then there would be a difference in human capital causing a difference in wages. And because gender norms place fewer expected years of work on women than on men, we should see a difference in education accumulation – and also years in the labor force. (Polechek 2004)

Using data collected from 2008-2010, we can see that women in Nordic countries are significantly more likely to have tertiary education. At the low extreme 54% of Finish tertiary school students are female, while at the high end of the spectrum 60.5% of all tertiary school students in Norway are female (Nordic Key Data 2012, 21). Because of the modern differences in education accumulation, all else equal there should be narrowing pressure on the GPG. However, this assumes that the returns to education is equal between men and women, an issue that is unclear (Johansson and Katz 2007).

The motherhood aspect of vertical gender segregation is more complicated. A reduction in wages is noticed from having children; this effect is called the motherhood penalty. Formally, the motherhood penalty is the difference between the average earnings of women who have not had children and those that have. When possible, this is measured controlling for relevant factors such as education and job experience.

There are several reasons why the motherhood penalty exists. Women may feel it necessary to hold jobs that substitute wages with schedule flexibility, there may be a “real or perceived” change in productivity due to working a “second shift” of household

responsibilities, and finally there may be self-selection. Women who would earn lower wages may self-select to have children because they are giving up less absolute income than a person who has higher wage potential. Similarly women who plan on raising children may choose to invest less in human capital – training or education (Sigle-Rushton and Waldfogel 2007, 6-7). There is strong evidence of self-selection when looking at the high rates of childlessness among women of high education (Sigle-Rushton and Waldfogel 2007, 44).

Sigle-Rushton and Waldfogel (2007) looked at the motherhood penalty across Western countries and found they clustered into three major geographic areas: Anglo-America countries, Continental European, and Nordic countries. The lowest motherhood penalty was found in the Nordic cluster where the total earnings of mother by age 45 are 82-89% of what non-mothers have earned by then (30). It is important to note the potential limitation of their conclusions because they controlled for level of education but not experience nor tenure due to data limitations (11-12).

The authors take an effort to point out that several of the potential mechanisms of the motherhood gap are dependent on cultural norms affecting gendered parenting responsibilities. Because of this, “If we moved Finland's policy regime to Germany, we would not likely get Finnish-like participation rates amongst German mothers, at least in the short-term.” (32).

In summary vertical gender segregation can be explained to some degree by seemingly voluntary choices such as human capital accumulation, career choice, years in the work force, etc., but that is not the whole picture. Gender affects some of those

choices such as human capital accumulation. Additionally there are penalties placed on women for becoming a mother that stem from cultural norms and expectations regarding what the employer predicts will happen to the employee's work.

### NORDIC FAMILY-FRIENDLY POLICIES AND THEIR EFFECTS

To combat the issues outlined above, many countries have turned to labor market policies. In this section I will examine the Nordic countries' 'family-friendly' policies and how they contribute to the GPG. The two main policies I will cover are family leave and universal childcare. I will explain the theoretical reasoning behind these policies, their theoretical costs, and their actual implementation. I approach this from a cost/benefit standpoint in order to objectively understand the how these policies interact with the pressures on the GPG. Most of these policies are used universally but are used in different countries to different degrees.

#### *Parental Leave as a Response to Vertical Segregation*

Understanding that vertical segregation is not voluntary, and in an effort to encourage women to pursue higher positions, many governments have introduced parental leave policies. Parental leave policies are policies in which parents - including adoptive parents - are given time off work in order to care for their newborn child. In countries other than the US this includes receiving some portion of the forgone income; this can be either paid for by the employer or through a program akin to public insurance. Most policies are through a public fund that functions like any other form of insurance, employees and employers pay small amounts into it and then retrieve (for a short time) a large amount out of it (Salmi and Lammi-Taskula 2013; Brandth and Kvande 2012;

Duvander 2013).

### *Theoretical Benefits of Parental Leave Mandates*

Parental leave policies provide some benefits to the overall population. It eases the decision for women to have children by reducing the cost of having the child (the otherwise forgone income during the period she is unable or unwilling to work). This would increase the birth-rate, especially if people are considered myopic agents whose value for the parental leave is exaggerated due to its temporal distance. And because many industrialized countries are facing the potential problem of low birth-rates, this policy looks especially attractive to policymakers in countries that heavily rely on a large working population to support the social programs (Gupta, Smith, Verner 2008, 66).

Another benefit that this policy provides is that it makes it easier for women to enter more demanding fields by ensuring that they will have a job after they return. Without any parental leave policy, women are incentivized to pursue careers with more flexible schedules; this precludes them from higher paying jobs that require schedule availability (Sigle-Rushton and Waldfogel 2007, 7).

Additionally, longer parental leave policies could increase the amount of women who return to the workforce. For example, if a woman's policy was to expire two months after her child is born and she did not feel ready to return, then she would be faced with the choice of leaving her child too soon or quitting. If that same woman were given more time then she would be able to wait until she feels ready instead of quitting. This would increase the labor participation rate for the time after they return (Ruhm 1998).

Summers (1989) lays out the Summers Model, explaining the economic effects of

mandated benefit such as employer-provided health insurance on labor market outcomes. Some of the lessons from his paper are applicable to understanding the theoretical effects of parental leave benefits. Just like any other employee benefit, employees place value on parental leave. This means that it could increase the amount of labor supplied by people who value it. Those who value the benefit more will supply more. If the person values the benefit more than what their wages would be reduced in order to offset the costs of the benefit, then they will be more willing to enter the labor market. This is because their income, including all benefits, is effectively increased higher than it would otherwise be. Therefore the overall participation in the labor market increases.

However, because different people value employee benefits differently, this may not create a net increase in people willing to enter the labor market. Consider maternal benefits and the employment decision of women. Young women generally value maternal leave more than older women who have had their families completed. So if an older woman was offered \$1000 in wages versus \$1000 in maternal benefits, she should choose the higher wages. If the cost to the company is \$1000 to provide this benefit and they make up the cost by providing lower wages or smaller wage increases, and a person values the benefit less than \$1000, then the person's overall income falls and they would be less willing to enter the labor market. The demand for labor could also fall from the labor getting more expensive leading to an ambiguous effect on employment and a certain wage decrease. (Summers 1989).

The Summers Model also suggests that the people who value the benefit more will be more willing to enter the labor supply. This is because young women that will

eventually chose to have children will value the benefit more than the reduction in wages and therefore will have a higher total income – wages plus benefits. This higher income makes them more willing to enter the market and thus will have an increasing influence on labor participation but a decreasing effect on wages (Summers 1989).

And finally, there could be a benefit to the children in their upbringing outcomes – education performance, crime rate, etc. This would result from both parents having a more child-centric focus in their lives if the parental leave policy incentivized both parents taking leave. However this could theoretically also cut the other way as there is some – but limited – evidence that mother's work out of the home have been found to have harmful effects on their children's cognitive development (Ruhm 2004).

#### *Theoretical Costs of Parental Leave Mandates*

The most obvious cost is the costs to firms due to having to pay higher taxes in the social insurance program to cover the benefit. The firm's employment costs are further compounded by the cost of having to replace the employees for the duration of their absence or the complications to their operations that come with missing the person on leave. Additionally the benefit is paid for by the firm directly and also through higher taxes (Salmi and Lammi-Taskula 2013; Duvander 2013; Brandth and Kvande 2012). These costs are what a firm would consider when deciding to reduce the wages of the person taking time off.

Taking time off can act as a signal to employers that the employee is not entirely dedicated to their work, or that they can be distracted. If an employee takes more time off from work than what the employer considers within the norm, then the employee

could be punished when returning to work. This could be seen through not receiving a promotion, a lowered bonus, or decreased salary growth. The reason why employers would do this would be to reward the employees who have not taken time off and to punish those who have not been as committed to their work.

Combined, these costs lead to a decrease in demand for labor for females, generating both lower employment and lower wages among women. If an employer expects that an employee will need time off in the future, they may reduce their salary or salary growth before even taking time off. This could influence GPG directly if women are expected to take time off and men are not. However if the policy and social expectations were that both genders are equally likely to take off time, then the costs could be cost-shifted onto the entire employee population during those child-bearing years.

Parental leave policies can reduce the supply of labor for the duration of the policy. This is a simple reaction that would come from people using a benefit that removes them temporarily from the labor supply. However, for women who are the primary takers of parental benefits, these policies have large implications for subsequent employment and wages, both of which could worsen the GPG.

#### *Where Are There Parental Leave Mandates?*

All of the Nordic countries have had maternal-only leave policies since 1964 when Finland was the last to provide the benefit. Between the 1970s and the 1980s the countries then extended the benefit to both parents. And finally, between the 1990s and the 2000s they created the “father's quota,” a policy to incentivize both parents taking

time off to raise the newborn. The policy dictates that the mother receives a set amount of time, a “mother's quota”, then the father receives a set amount of time, and if they both complete their allotted time then they receive a third bundle of time that they can allocate as they see fit (Weng 2007, 34-35).

To stand as a contrast, in the US the federal parental leave policy is 12 weeks unpaid to those who qualify since the Family and Medical Leave Act of 1993. However certain states and territories such as California, Hawaii, New Jersey, New York, Puerto Rico, Washington, and Washington DC have their own laws that augment the federal standard with some degree of reimbursement (Fass 2009, 6-8).

	Parental Leave Time	Maternal Time	Paternal Time	Percentage of Income
Denmark	52 Weeks	18 Weeks	2 Weeks	100.00%
Finland	54 Weeks	20 Weeks	2 Weeks	70.00%
Norway	52 Weeks	9 Weeks	4 Weeks	80.00%
Sweden	64 Weeks	4 Weeks	8 Weeks	80.00%
United States		12 Weeks		0.00%

Source: (Duvander and Lammi-Taskula 2011, 8)

### *Who takes leave?*

Without incentivizing the fathers to take leave, they have historically taken little time off. As discussed above, if women take leave more than men then there would be widening pressure on the GPG. Without encouraging otherwise, parental leave incentivizes women to take off more time than their husbands because women typically have a lower income and so they have less wages to lose for policies that do not provide 100% of their normal wages. For example, if a country's policy was to pay women 50%

of their normal wages for the duration of their leave and they make \$2,000 less in wages than their husband for the duration of their leave then they will save \$1,000 by taking the leave instead of their husband– not including losses to future raises. Because of this, policymakers have created incentive schemes to boost male participation.

Each Nordic country understood the problem that an imbalance in who takes the time off would produce widening pressures on the GPG and so legislated “father's quota's.” For example on April 1<sup>st</sup> 1993 Denmark initiated a policy of 42 weeks of parental leave in which the family loses their benefit if the father does not take at least 4 of the weeks off. Between January 1993 and January 1994 the percentage of fathers who took leave jumped from 4% to 39% (Cools et al. 7).

*What are the demonstrable effects of parental leave policies?*

This section discusses the empirical findings of the literature on parental leave policies. Consistent with theoretical models, the literature finds that women take a longer time to return to the job market once these policies are enacted, however participation rates increase. Also the findings suggest that parental leaves are linked to lower wages among women, especially if leave is prolonged.

Schoenberg and Ludsteck (2007) compared German women who gave birth one month before and after several parental leave reforms and found that the time women took to return to work increased as they were allowed more time, and that their total earnings eight years later were reduced.

Nordic countries have long and generous parental leave coverage compared to other Organisation for Economic Co-operation and Development (OECD 2012)

countries. Akgunduz and Plantenga (2013) found that the parental leave policies have had positive effects on the female labor participation rate. However, as predicted this came at the cost of wages, most dramatically among high-skilled workers (859-860).

Concerning the motherhood gap specifically, Sigle-Rushton and Waldfogel's mention that due to the limitations of their study, they can not causally conclude whether the Nordic countries' generous parental leave benefits the motherhood gap (32).

Additionally, Ruhm (1998) found that parental leaves of three months or less increase the female participation rate while having little effect on wages. Parental leave periods lasting nine months or more were found to decrease hourly earnings by around 3%. However the author notes that there is a possibility that the effects on female labor participation are overstated because other policies such as subsidized childcare were sometimes bundled with parental leave legislation and implemented at the same time.

If we allow this to be compared to maternal healthcare coverage mandates, Jonathan Gruber's (1994) study found that mandated maternity coverage had group specific effects on wages. Namely that women who received the more benefits earned less by up to 5%. The reason this is an apt comparison is because it is a mandated benefit, paid partially by the employer – albeit potentially to a lesser degree – and affects employees based upon gender.

#### *Childcare Policies and Their Effects on Horizontal Gender Segregation*

One of the welfare policies of the Nordic countries is the use of daycare to promote women's participation in the workforce. The reasoning is similar to parental leave in that by providing daycare services, women would be encouraged to have more

kids and also freed to continue working. However as mentioned in regards to parental leave policies, daycare is expensive and this cost takes place in the form of the resources needed to provide care to young children, namely labor.

While the cost of labor is always weighed into the cost of a policy in terms of the dollar amount assigned to the wages, the unintended effects to the entire labor market are seldom considered. By having a universal childcare policy, the governments create a massive demand for care-giving laborers. Because historical Western social norms dictate that care-giver jobs are gendered female, the supply of care-giving laborers are overwhelmingly female. The overall effect is that the public sector is the biggest employer of women in the Nordic countries, and in the case of all but Finland it employs over 50% of all women (Alspund 1996, 63). Keeping in mind that care-giving jobs often are low-paying relative to non-public sector jobs (Melkas and Anker 1997, 358), this policy applies widening pressure on the GPG.

An important term to note is the “pink ghetto.” The pink ghetto is the idea that female-gendered jobs – occupations, subfields, and industries that have been labeled as 'for women' by cultural norms – create an earning ceiling because they are typically jobs that do not lead to high-level positions within their firms. This term is relevant because policies such as public childcare and eldercare extend the pink ghetto due to the new demand for pink-collared workers.

## IMPLICATIONS

### *Implications for Nordic Countries*

Empirically these policies have been successful at increasing women's

participation rates, however this comes at the price of lowered average pay for women (Ruhm 1998; Jaumotte 2004). The same policies that seek to and do empower women also paradoxically create pressure for gender inequality. Because social norms both influence and are influenced by statistical realities, the benefit of more financially self-sufficient women comes at the cost of decreasing their self-sufficiency.

Because so many of these components of the GPG in the Nordic countries are rooted in social structures and norms and because the policies discussed above reinforce these social norms – albeit to varying degrees – the overall effect on the GPG is a 'soft cap.' This means that the GPG will be bound by the social norms. As long as the labor force in the childcare and elder programs are disproportionately women, and that parental leave disproportionately acts as a signal against women, these programs will exert some widening GPG pressures until the point where social norms allow it to close.

#### *Considerations for American policy implementations*

While I believe that the negative externalities of these policies are often overlooked, this does not mean that policymakers should disregard the policies entirely. However, it means that there are perhaps other policy objectives that need to be considered, such as trying to “maximize the choices available [to families with young children]” (Washbrook et al.2011, 26) so that families can try to make their utility maximizing decisions. However the most overlooked policy objective is trying to change cultural norms as opposed to reinforcing them, and thus hindering gender equality, by focusing too narrowly on the GPG or female labor participation. The GPG and the gender labor participation gap are heavily influenced by cultural institutions, therefore

they can be thought of as symptomatic of gendered cultural norms.

*Potential Lessons from the Nordic Countries*

It is important to take lessons from the Nordic countries when considering policies geared at promoting gender equality. The structure of parental leave that the Nordic countries use is specifically designed to reduce the employer's cost by forming it as a public insurance, therefore evening out the costs over time. Similarly by having the policy encourage both parents to take off time, the employer's costs are cost-shifted onto the entire working population.

Regarding daycare policy, we can also learn from their successes. Because the US market has yet to produce any daycare firms large enough to hold significant market share, this may be seen as evidence that the daycare industry does not benefit greatly from economies of scale. And if there are only limited if any economies of scale for the daycare market, we can assume that the Nordic policy design of subsidies or credits would allow for more efficient market outcomes than publicly run daycare while also producing better child outcomes.

Even though the Nordic parental leave policy design minimizes the individual wage cost while maintaining the benefits by cost-shifting onto significantly more people, it can also be seen as a failure because it increases the time people take off (Schoenberg and Ludsteck 2007), increasing the cost to the employer, and causing them to cost-shift more onto people who may choose to not have children. When American policymakers consider parental leave policies, they need to remember that this plays into America's long-held value of individualism.

As with many issues, these policies have consequences regarding individualism and they should be considered through both the lenses of positive and negative liberty (Berlin, 1969). The argument for individualism through the lens of positive liberty is that for a person to truly be an individual they need to have a certain number of choices and opportunities to fulfill their unique potential. Conversely the argument from negative liberty is that an individual should be free from restrictions from outside influences as much as possible and thus should be free from cost-shifts for a benefit they may choose to not use. However, negative liberty can also be used to argue that market discrimination that occurs without intervention can be a restriction on negative liberty.

This divide applies similarly to the childcare policies discussed above. The revenue needed for subsidies pushes the cost onto individuals who may choose to not partake. Conversely, not providing it can be said to prevent individuals who would choose to partake in benefiting from future opportunities and thus taking away from their individualism.

The result of these considerations is the need for a careful balance given the unique cultural environment of the U.S. Not only are these policy considerations a balancing act between women's labor participation rates and their wage rates, but also between the enabling and restricting forces of implementing or not implementing these policies.

Because the Nordic countries have provided many decades of data and lessons from their attempts to move the GPG, we have strong understandings of what policy designs are most efficient at achieving the policy goals. Additionally we need to

remember that the root cause is the social institutions and changing them should be a policy goal. However, unlike the Nordic countries we have a different culture that places further value on individualism. Therefore any policies concerning gender equality need to consider the consequences on the social value of individualism, both the liberty to be an enabled individual and the freedom of making a choice as an individual.

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## ABSTRACT

The purpose of this paper is to examine the literature surrounding a perplexing phenomenon in the Nordic countries. The gender pay gap has been mostly stagnant since the 1970s and 1980s in the Nordic countries despite many family-friendly labor market policies such as mandated parental leave benefits and subsidized childcare. I find that the social structures that cause many gender labor market outcome differences are inadvertently reinforced by these policies. The overall effect is an increase in female labor participation but at the cost of widening pressures on the gender pay gap.