

FROGEE POLICY BRIEF 2

Insights from Latvia

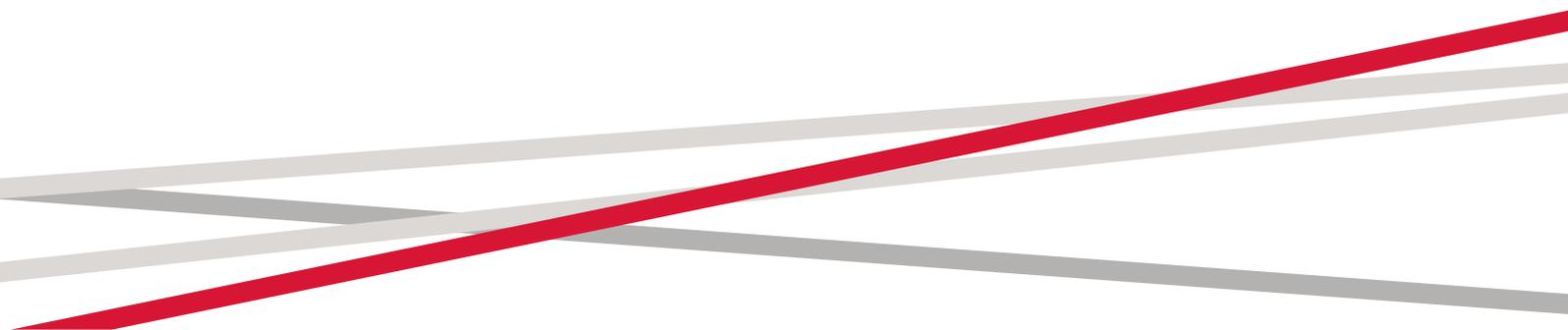
October, 2020

Transition and beyond: women on the labour market in the context of changing social norms

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Gender earnings differences in Latvia during transition

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Abstract

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As countries brace themselves for a severe economic slowdown in response to the COVID-19 pandemic, earlier crises, such as that which followed the political transformation of Central and Eastern Europe and the former Soviet Union in the 1990s, may serve as important points of reference. While of course different in many ways, the changes that accompanied the transition affected society as a whole, but also had heterogeneous effects across different groups. One particular dimension – also discussed in relation to the current COVID-19 crises – is that of relative costs and benefits for men and women respectively. In this brief we re-examine one specific element of this, namely the developments of gender gaps in the labour market and social norms related to labour market activity. The starting point is the fact that, at least nominally, women had a relatively strong position before the onset of transition, especially conditioning on the level of economic development of transition countries (see e.g. Campa et al. 2018). This background gives rise to several possible mechanisms and potential developments in the transition period and beyond. On the one hand, the legacy of relative gender equality creates conditions for path-dependency toward further gender equality, and the high levels of education should favour women in more competitive labour markets. On the other hand, the “centrally imposed” gender equality under state-socialism was not accompanied by actual changes of patriarchal values with respect to obligations for the household and children, and women remained responsible for these. The end of central planning could thus mean a setback for most common gender equality indicators, especially in countries with traditional divisions of family roles. In this brief we give a quick overview of what has happened in some of these dimensions over time and across countries, starting in the years before transition. The brief gives a short background for the specific country reviews that follow this introduction. It seems clear that the COVID-19 pandemic and its aftermath may also differently affect the lives of women and men. The experience of the post-communist transition of the 1990s shows that adopted policies may prevent the gender gaps in various dimensions from growing as a consequence.

Gender earnings differences in Latvia during transition

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After a short overview of women’s position on the labour market, this brief presents a simple exercise focusing on the top of the earnings distribution, which illustrates the development of gender earnings differences in Latvia since 1996. The results suggest that Latvian women are well-represented among top earners: the share of women in the top earnings percentile is about 30%. This share was growing until mid-2000s, but since then it has been gradually declining. The gender gap in median earnings is the largest at the top end of the distribution. We also show that older workers faced the largest gender earnings gap in 1996, but it has been steadily declining since then.



Transition and beyond: women on the labour market in the context of changing social norms

Expectations and starting conditions around 1990

It is a well-established fact that the socialist economies of Central and Eastern Europe and the Soviet Union had much higher rates of female labour force participation than the OECD in the decades before the 1990s. Many reasons for this have been considered, ranging from the near political obligation to have a job, to the economic necessity for a family to have two wage earners, to the relatively well-developed support structures, such as child-care, for enabling female economic activities (e.g. Atkinson and Mickelwright, 1992). It is also the case that women were well-represented in higher education earlier than in the OECD.

In the very beginning of transition arguments in favour of women playing a central role in economic development were put forward based on their favourable starting position. As Fong, 1993 (p. 31) put it for the case of Russia: *“Women in Russia have the capacity to play a positive role in the economic reform process, notwithstanding the tradition of concessions to women as the weaker half of the population. Women are the majority of the labor force and of the voting population. The female labor force is more highly educated than the male labor force; retraining women can take less time and be more cost-effective. Women are under-represented in declining heavy industries, and are concentrated in sectors of potential growth – commerce and trade,*

banking, and social services. [...] In many ways, women have a clear potential of becoming leading elements in reform and a pro-active stance on women in social policy reform is called for.”

At the same time there was awareness early on that some of the consequences of transition could be particularly negative for women unless counter measures were taken. For example, it was feared that radical cuts in the bureaucracy’s support staff, consisting almost entirely of women, would especially increase female unemployment, and also that an increased profit-motive would put higher demands on longer working hours making it particularly difficult for women to work (Moghadam, 1990, p. 29). That women’s status would be additionally affected by cutbacks in family related policies (state-provided or subsidized childcare, long maternity leaves, guaranteed return to work after maternity, and other systems that made it possible to re-concile women’s roles as workers and mothers) was also very clear; the following passage from Fong (1993), p. 31 illustrates this point: *“The near-exclusive dependence on women’s domestic labor for maintaining the material well-being and comfort of the household, means that much of the cost of social protection of the young, the old and the disabled is borne by women in the context of the family, through a system of labor market concessions. The transformation to a market economy has made these labor market concessions incompatible with the efficient operation of the enterprise, and necessitates a re-examination of family policy in the interest of the free movement of labor.”* In short, in some dimensions women were clearly in a favourable position, at least when compared to most OECD countries. They had been active and comparatively well represented in the



labour market, often in sectors that were viewed as growing; they also had comparatively high levels of education.

So what happened?

The economic turmoil in the first half of the 1990s has been well documented and it has been well known that the economic recovery and further development in the region has been very uneven across countries (see, e.g. Svejnar 2002; Campos and Coricelli, 2002, special issue of *Economics of Transition*, Vol 26:4). This heterogeneity has also been reflected in the pattern of relative changes in socio-economic outcomes for men and women (see e.g. Brainerd 2000, Fong 1996, Razzu 2015, and UNICEF 1999). The female/male labour force participation (LFP) rates have in many cases dropped relative to the early 1990s, but the changes in most countries have not been as dramatic as some expected. In many countries relative female participation rates over 25 years after the start of the transition are higher or similar to those in the early 1990s (see Figure 1A). Looking at the country rates in 2017 and comparing them to the – growing – relative average OECD values it must be noted that it is generally the developed Western countries which in terms of the relative employment rates have been catching up with those of the “Eastern block”. Such a trend has also been noted in the comparison between the former East and West Germany – with the female/male participation ratio falling in the East from 61.2% in 1991 to 54.3% in 2010, at a time when the ratio in the former Western regions of the country grew from 45.4% to 52.0% (Statistisches Bundesamt, 2019).

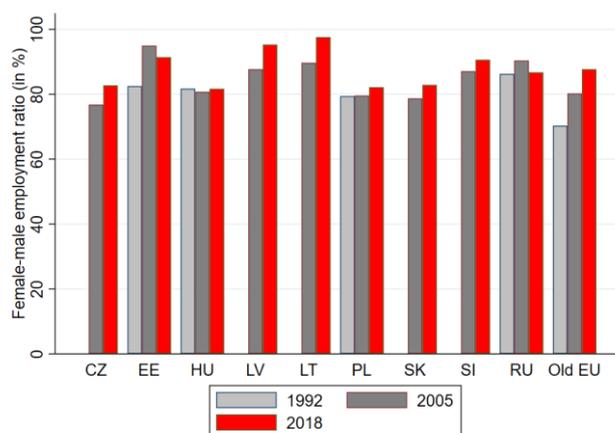
Data on childcare suggests that the negative scenario of significant reductions in enrolment in nurseries and kindergartens did not universally materialise in the region. Although reductions in nursery enrolment were substantial in countries where the rates were high prior to transition (esp. in the countries of the former Soviet Union), drops in nursery enrolment in the countries of Central Europe, in which they in any case were lower prior to 1990s, were modest. Comparing rates of kindergarten enrollment in 1989 and 1997 in countries such as Poland, Bulgaria or Hungary, shows that they remained essentially unchanged, while they dropped from 78% to 65% in Russia (data from UNICEF 1999). From this point of view, transition brought more substantial changes in this regard in countries further to the East with kindergarten enrolment falling from 44% to 19% in Georgia and from 52% to 12% in Kazakhstan. Thus, while certainly not uniform across the region, the withdrawal of the state from the provision of care services in several countries certainly played a role in changing the relative position of women on the labour market. The implications of these developments may have been further corroborated by the fact that it is in these countries where social norms have been strongly skewed towards the home and family rather than professional life as the key responsibilities of women.

With regard to the relative dynamics of wages in Figure 1B we show a long-term series of averages of the female-male wage ratio for a subset of “old” EU members and some “new” post-transition EU countries. These are set against the ratios from the US, Russia and Ukraine. One clearly needs to be cautious concerning the possible effect of labour



market selection which can affect these averages, but the overall picture for the years available is rather positive for the group of the Soviet-block countries which joined the EU.

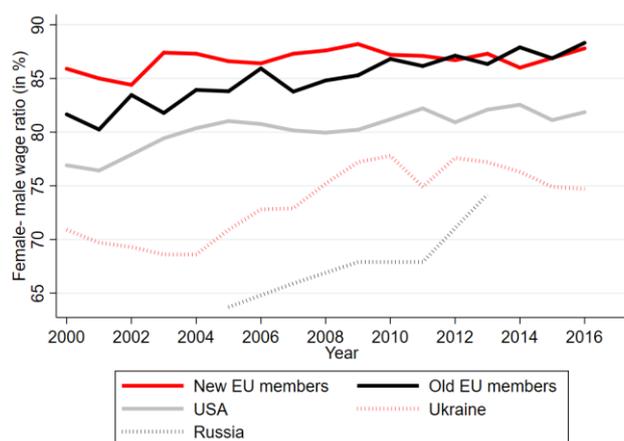
Figure 1A. Female-male labour force participation



Source: OECD database, 2019.

Notes: Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Poland (PL), Slovak Republic (SK), Slovenia (SI), Russian Federation (RU). "Old EU" includes the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

Figure 1B. Female-male wage ratios



Source: OECD database, 2019.

Notes: Due to data availability grouped countries include: "New EU" members: Estonia, Hungary, Lithuania, Slovak Republic, Slovenia, Poland (even years only), Czech Republic (except for 2000); "Old EU" members: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy,

Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

The EU group averages show a generally growing trend in relative wages, but for a significant part of the analysed period the "new" EU countries have outperformed the "old" EU average, while both groups have had significantly higher rates than the US. In the years after 2010 it looks like the ratio in the "old" and "new" EU countries have converged. The figures show, however, that in countries further to the East, such as Russia and Ukraine, significant challenges remain with regard to wage inequality despite the very high participation of women.

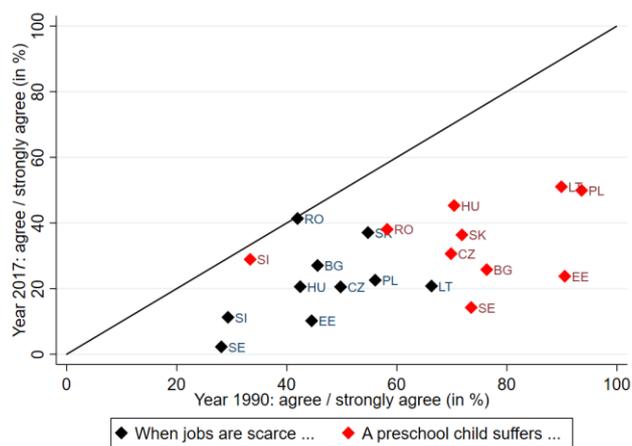
The changing context of social norms

While labour demand conditions as well as the available pay offer and labour market constraints are crucial determinants of relative labour market participation rates and the gender pay gap, the prevailing social norms create the context for all of these forces, determine the supply of labour and play a significant role in determining the relative importance of constraints such as childcare for men and women. As data from the European Values Survey suggests, social norms in the region have been changing along many dimensions, and by 2017 attitudes regarding female labour market participation have become significantly less traditional. For example (see Figure 2A) while in Hungary, Czech Republic, Poland and Lithuania the range of people agreeing with the statement that "When jobs are scarce men should be given priority" was between 42.4% and 66.3% in 1990, by 2017 it dropped to less than 23% in all four countries. In 1990, in Estonia, Lithuania and Poland over 90% of individuals believed that "A preschool child suffers if his/her mother works".



By 2017 this ratio fell to around 50% in Lithuania and Poland and to ca. 24% in Estonia. The numbers are still very high in comparison to Sweden - considered as one of the champions of gender equality - where in 2017 only 14.2% of individuals agreed with the first statement and only 2.3% agreed with the second, yet changes towards a less traditional division of responsibilities regarding home and market are evident across nearly the entire region.

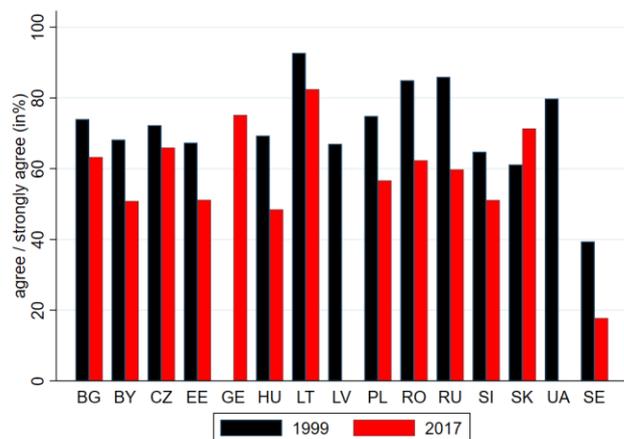
Figure 2A. Social norms: women at work, 1990-2017



Source: European Values Survey.

Notes: Full statements were: "When jobs are scarce men should be given priority"; "A preschool child is likely to suffer if his/her mother works".

Figure 2B. Social norms: what most women really want: 1999-2017



Source: European Values Survey.

Notes: Full statement was: "A job is alright but what most women really want is a home and children."

Social norms have also been changing with regard to the perception of women's aspirations. In this dimension, again, the countries of Central and Eastern Europe still remain behind Sweden, but recognition of women's professional aspirations is apparent in nearly all countries. While in 1999 85.9% of Russians believed that "A job is alright but what most women really want is a home and children", the number dropped to 59.8% by 2017. In Poland, the proportions dropped from 74.9% to 56.7% while in Lithuania, which appears to be the most conservative country along this dimension, from 92.7% to 82.5%. Taking Sweden as the yardstick - with only 17.8% agreeing with this statement in 2017 - the countries of the region are still some distance away from recognizing the role of female professional aspirations, but the direction of changes in social norms is clearly towards a more balanced perception of women's role on the labour market.

Prospects for the future and the role for policy

At the onset of transition many of the countries in the region were doing relatively well in terms of gender gaps in a number of dimensions. The developments thereafter show great diversity, with some front-runners as well as some laggards. This is true both in terms of overall economic development, as well as for the relative developments on the labour market for men and women. Gender gaps in employment and wages in the countries of Central Europe which have joined the European Union have generally been low, and conditions for women in many of these countries did not worsen to a greater extent than



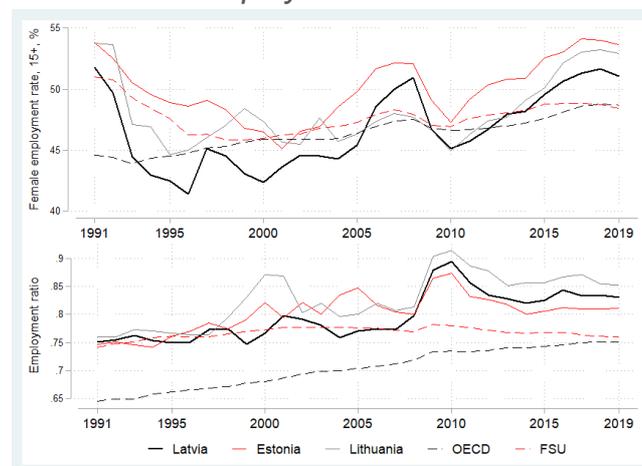
they did for men, and they have been improving for both in recent years. The situation seems much more challenging in the republics of the former Soviet Union which remain outside of the EU. Despite high female employment levels in countries such as Russia or Ukraine, female wages continue to be much lower than those of men, and labour market constraints tend to concern women much more than men. Social norms with regard to female labour market participation and women's aspirations may hamper the continued progress of women on the labour market in many countries of the region.

Several broad policy areas could be helpful in assisting the change towards more inclusive and equal labour markets. Governments should take a more active role in reducing constraints related to care – both for the youngest children and for older people, and policies should put further emphasis on enforcing equal pay between men and women. Rebalancing of family responsibilities through care policies can directly influence female employment and can have an indirect effect through changes in social norms (Unterhofer and Wrohlich 2017). Governments could also support dual-earner families through tax and benefit policies. As countries in the region prepare to address the challenges of the COVID-19 pandemic and its aftermath, the implemented policies should seriously consider their relative implications for men and women in order to use the expected wave of reforms to support greater equality of opportunities as well as of social and economic outcomes.

Gender earnings differences in Latvia during transition

Latvia, like many post-transition countries, performs fairly well on many measures of gender equality in the labor market. Unemployment was essentially illegal in the Soviet Union and most former Soviet Union (FSU) countries started the transition with a very high female employment rate. Latvia was no exception: in 1991, more than 50% of women above the age of 15 were employed. This was slightly below the rate observed in the other two Baltic countries, but much above the OECD average rate at that time (see Figure 1, upper graph).

Figure 1. Female employment rate (15+) and female/male employment rate ratio



Source: World Bank, author's calculations.

Note: employment ratio in the bottom panel shows the ratio of female employment rate to male employment rate.

The early stage of transition was accompanied by a sharp fall in the female employment rate, but it was a consequence of a deep economic recession and was not gender-specific, as the ratio of female/male employment rates was stable in the early transition phase. During the recession of 2008-2010, the fall in male employment rate



outpaced that for women and the employment ratio rapidly increased from about 77% in 2007 to just below 90% in 2010 and after 2016 stabilized at about 83% (Figure 1, lower panel).

Another specific feature of most transition countries is a low share of part-time employment among women. This, like the high employment rate, can be viewed as a legacy of the Soviet system, in which women normally worked as many hours as men. In Latvia, according to the World Bank data, about 20-25% of working women work part-time, which is about half of the OECD average, and this share has not changed much since the beginning of transition. This is partly explained by habits and a shortage of part time job offers, but it also reflects generally low wages which implies that full-time dual-earner couples have remained most common throughout the economic transition and beyond.

Women's strong attachment to the labor market does not necessarily imply that women earn as much as men. Most available estimates suggest that the gender pay gap is relatively high in Latvia (OECD, Eurostat). At around the EU average, it is higher than in Lithuania, but lower than in Estonia. Also, most available evidence suggests that the recession of 2008-2009 was a turning point: the gap was gradually declining until 2009, but has been growing since then. Results in Boll & Lagemann (2018) suggest that currently the wage gap in Latvia can be explained to a large extent by women being concentrated in low-paying industries (such as education and healthcare).

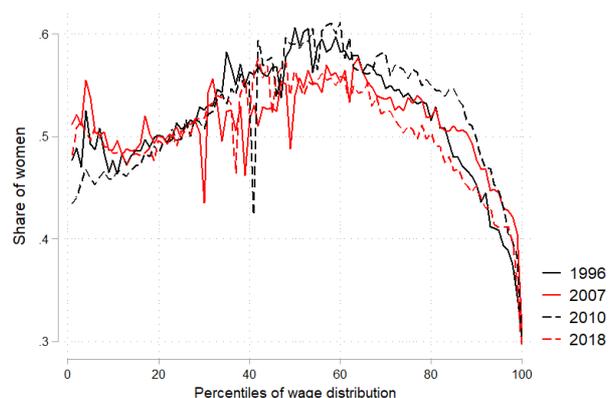
The structural changes that the Latvian economy went through during the transition are very likely to be reflected in changes in the relative wages. In

what follows we present a simple exercise that illustrates the development of gender earnings differences in Latvia since 1996. It exploits the Latvian register data that covers wages of the entire working population from 1996 to 2018.

Women in Latvia are well-represented among top earners

Figure 2 shows the share of women across percentiles of earnings distribution in 1996, 2007, 2010 and 2018. Three remarks are in place. First, the share of women is the highest in the middle of the earnings distribution and then declines with income. Second, the share of women among top earners (top centile) is about 30%, which puts Latvia in a high position in the international context (see Boschini and Roine (2020), Roine and Hauser (2020)).

Figure 2. Share of women by percentiles of earnings distribution



Source: author's calculations based on social security data on wages.

Note: Here and below: percentiles of earnings distribution and median earnings are calculated on the basis of total wage income received during a year, without controlling for differences in hours or months worked.

Third, in contrast to "western" countries, there is no clear trend in representation of women in top income groups in the last 20 years. After an initial

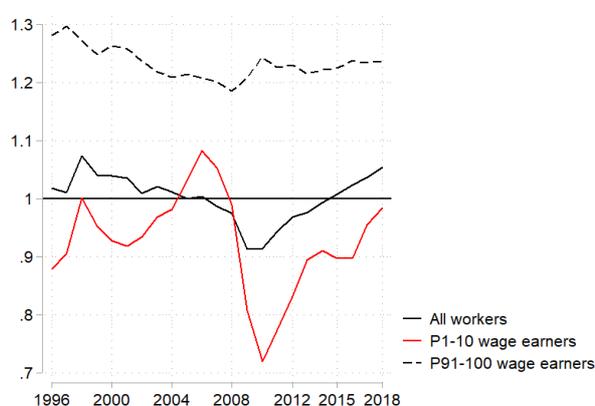


rise until the mid-2000s, the share of women among top earners has been gradually declining. A similar time pattern is shown to exist in some other post-transition countries (Roine and Hauser (2020)), e.g. Estonia, Poland and Slovakia.

Gender earnings gap

Next we turn to the ratio of men-to-women median earnings and its development over time. The main point revealed by Figure 3 is that the positive gender gap in median earnings comes from the top end of the distribution: high-paid men earn a lot more than high-paid women. The gap has been steadily shrinking until the crisis, it increased substantially during the crisis, and remained at about 1.25 in recent years. It is likely that public sector pay cuts during the economic crisis contributed to the widening of the gap in the upper tail of the earnings distribution. In the bottom tail of the distribution, median earnings of women are close to or above the earnings of men, and the gap has closely followed the economic cycle with a sharp decline after 2007 and a subsequent rebound in recent years.

Figure 3. Ratio of men-to-women median earnings by percentiles

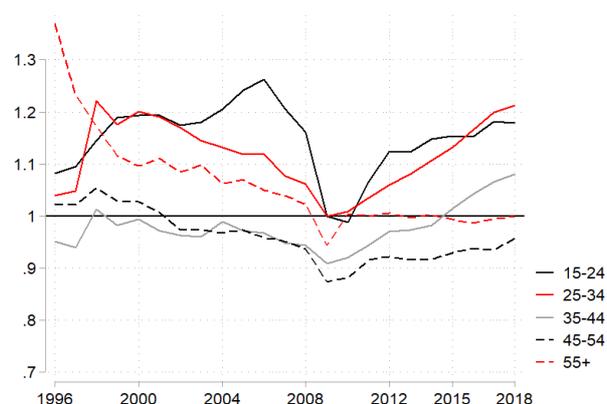


Source: author's calculations based on social security data on wages.

Note: percentiles of earnings distribution are computed separately for men and women.

Finally, there are substantial differences in gender earnings gaps by age groups (see Figure 4). In the early phase of the transition, older workers (aged 55+) faced by far the largest earnings differences, but this gap has been steadily shrinking during transition. The wide gap in the beginning of transition mainly came from those older than 65, and was much larger in the private sector. As these people were leaving the labor market, the gap gradually diminished. The wage differences for the youngest age group (15-24) does not exhibit a stable time trend, and seems to be cycle-sensitive: male median earnings were growing more in the boom years (the gap is increasing) and fell more in the recession. An important role was played by the construction sector: this is a male-dominated sector where wages were growing very fast during the boom years, and which attracted many young male workers. After the crisis, the share of young workers employed in construction quickly fell and returned to the pre-boom level.

Figure 4. Ratio of men-to-women median earnings by age groups



Source: author's calculations based on social security data on wages.

Note: percentiles of earnings distribution are computed separately for men and women.



Summary of findings

The female employment rate in Latvia remained high throughout the transition and afterwards, with the female/male employment rate ratio gradually increasing. Part-time employment among women, as in many countries of the region, remains relatively low. Latvian women are comparatively well-represented among top earners: the share of women in the top percentile of the earnings distribution is about 30%, which is high by international standards. This share was growing until mid-2000s, but since then it has been gradually declining. The gender gap in median earnings is explained by earnings differences in the top end of the distribution, while low-paid female workers earn at least as much as low-paid male workers. At the beginning of the transition, older workers faced the largest gender wage gap, but it has been steadily declining since 1996. Currently, the gender wage gap is highest for young and middle-age workers.

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The Forum for Research on Eastern Europe and Emerging Economies (FREE) is a network of academic experts on economic issues in Eastern Europe and the former Soviet Union at BEROG (Minsk), BICEPS (Riga), CEFIR/NES (Moscow), CenEA (Szczecin), ISET (Tbilisi), KSE (Kiev) and SITE (Stockholm). In 2019 the FREE Network, with financial support of the Swedish International Development Cooperation Agency (Sida) initiated the Forum for Research on Gender Economics (FROGEE). Publications under the FROGEE initiative contribute to the discussion on gender inequality in the region of Central and Eastern Europe. Opinions expressed in all FREE Network publications are those of the authors; they do not necessarily reflect those of the FREE Network, its research institutes or Sida.

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Acknowledgement

The authors would like to thank Pamela Campa for useful comments and editing, and Kajetan Trzciński for careful proof-reading.